



Meeting on Management Policy

Restructuring the Group Management Strategy to
Maximize Corporate Value

March 23, 2007

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This material contains forward-looking statements that are based on the information available to the management at the time of the announcement. Actual results may differ materially depending on a variety of factors.
All figures in this material are rounded down to the nearest million.



1. Recognizing the problems of the current
medium-term management plan

2. New medium-term management policy

3. Business strategies

What we aimed in the current medium-term management plan

- To achieve Group growth strategy with Electronic Devices Business as the driver
- Quantitative target
FY08 ¥500b net sales, ¥58b OP

Current situations

- Watches and Clocks, Electronic Products and Industrial Machinery
Continue operations according to the current medium-term plan
- Electronic Devices
Substantially below the plan from the first year, and revision of medium-term management plan was urgent

3

Recognizing the Problems

- Growth strategy with overemphasis on allocating resource on Electronic Devices
- Urgency of selecting and concentrating in Electronic Devices
- Speedy decision-making in regard to market condition changes and competitive environment
- Weak business monitoring and weak governance structure
- Financial inefficiency



Take advantage of becoming a pure holding company system and
Restructure Group Management Strategy

4

Revise business portfolio strategy

- Aggressive investment in profitable businesses and investment in selected businesses in Electronic Devices

Strengthen governance

- Adoption of outside Directors
- Strict implementation of rules to begin a new business and rules to withdraw from a business
- Defined business responsibility structure and stronger monitoring (especially Electronic Devices)

Restructure financial strategy

- Improvement of financial efficiency

1. Recognizing the problems of the current medium-term management plan

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Corporate philosophy
 "to contribute and strive to be respected by the citizens of the world"

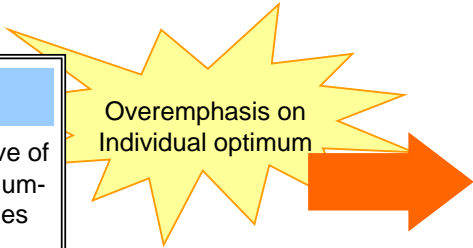
What we aim to become

- Profitable company with good portfolio balance of stable profitable businesses utilizing precision technology and growth businesses

Immediate target

- Achieve more than 10% OP margin constantly

To date
 A great collective of small- and medium-sized companies



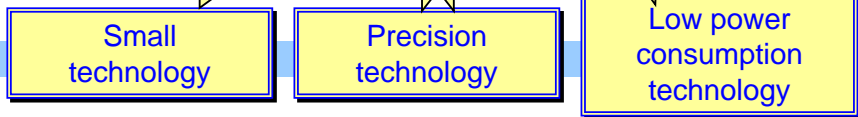
Pure holding company
Group optimum management

- Detailed control of business companies
- Optimum distribution of resources

Micro Human Tech

Precision manufacturing which developed from the DNA in watch production

Core competence



Businesses leading the market

Exercise strengths
 Deepen fields

- Analog watch movement - Global share 30%
- Sliding headstock type automatic lathes - Global share 40%
- Chip LED for mobile phones - Global share over 30%
- Cylinder-type quartz oscillator - Global share 30%
- Active aberration compensation element for Blue laser DVD - Share 90%

1. Emphasize investment on profitable businesses with competitive advantage

Make profitable businesses more profitable

- Strengthen the core Watches, Industrial Machinery and Electronic Products Businesses
- Select and emphasize R&D areas based on core competence
- More aggressive M&A and business alliance (utilize outer resources)

2. Select and concentrate in Electronic Devices

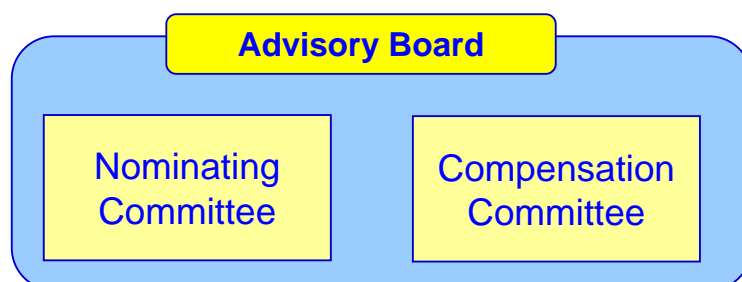
- Withdrawal from unprofitable businesses (CMOS camera module, Color STN, TFT-LCD, FDD)
- Maintain high profitability of **Chip LED** by expanding application
- Nurture and strengthen **key sheet module business** which has a high potential for growth
- Aggressive operation in Quartz and Auto parts

9

Strengthen Governance

1. Adoption of outside Directors

- Strengthen control of holding company by adopting 2 outside Directors (scheduled June 2007)
- Establishment of Nominating Committee and Compensation Committee



10

2. Strict implementation of rules to begin a new business and rules to exit from a business

■ Beginning a new business

- Based on the assumption that the business utilizes the Company's core competence.

1. Initial investment collection standard

2. OP margin standard

} Both requirements must be met and NPV must be positive.

■ Downsizing / withdrawal from a business

- When OP margin is below the standard for 2 consecutive years (2 half terms for Device Business)

↓
Goes under special control and create reconstruction plan

↓
When plan is not approved or

When plan was not achieved in specified periods

↓
Downsize / Withdrawal from the business

Begins from 1H06 (9/06)

11

3. Defined business responsibility structure and stronger monitoring

- Management integration of Citizen Machinery Co., Ltd. and Citizen Mechatronics Co., Ltd. (scheduled to merge in April 2007)

■ Centralization of management in Electronic Devices

■ Vertical integration of Quartz Devices

Citizen Fine Tech Co., Ltd. and Citizen Miyota Co., Ltd.

■ Integrated business operation of Citizen Electronics Co., Ltd. and Citizen Displays Co., Ltd.

Efficient use of management resources and stronger new product development by combining technologies

12

Improvement of financial efficiency

More aggressive in investing in businesses

- Set strategic investment frame (¥50b)
 - Become more aggressive in M&A and capital/business alliance (utilize outside resources)
- Optimum capital structure
 - Utilize financial leverage with consideration to rating and cost of capital
- Return to shareholders
 - Maintain the ratio of return to shareholders of more than 30% (3-5 year average)
 - Put priority in business investment and use excess cash for share buyback, etc.

13

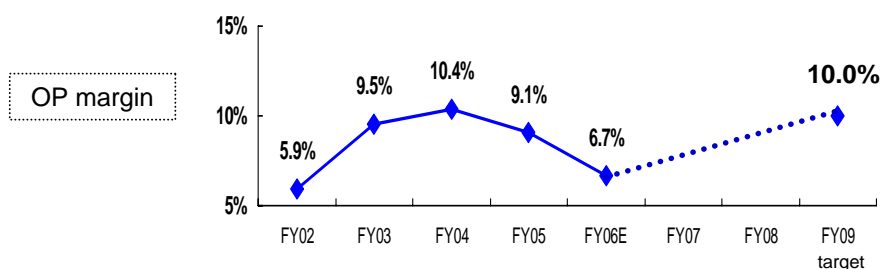
New Medium-term Management Target

FY2007

- Intensively implement measures to improve revenue base
- Restrengthen management base and construct the foundation to achieve the new medium-term management target

FY2009 Target

10% OP margin



14

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3. **Business strategies**

15

Business Strategy/Electronic Devices

Select and concentrate by controlling risk & return

Review unprofitable businesses and establish absolute competitive leadership in selected fields

■ Business to withdraw from

- CMOS camera module: withdraw in 2007

■ Businesses to change directions

- LCD
 - In principle, withdraw from small liquid crystal displays (color STN and TFT)
 - Specialize in parts which utilizes our unique technology (active aberration compensation element, etc.)
- Acoustic products: review unprofitable products and nurture small microphone as the core of the business

■ Business to refine and focus

- Back light business
 - Improve profitability by refining with focus on profitability
 - Strengthen medium-sized market (car navigation system and notebook PC)

16

Businesses to nurture and strengthen

- Maintain and strengthen profitability of Chip LED business
 - Expand sales of general lighting LED
 - Strengthen response to lower cost

- Aggressive operation in Quartz and Auto parts

- Nurture and strengthen Key sheet module business
 - Expand thin light source unit business which combines our unique optical technology, small technology and LED technology

17

Business Strategy / Watches

Continuously promote high value-added strategy

- Citizen Brand Business
 - Promote Eco-Drive products
 - Achieve Eco-Drive ratio of 80% by FY08 (3/09) (70% as of 12/06)
 - Expand sales of radio-controlled watches in Japan
- Movement Business
 - Shift to high value-added types of movement (multi-hand type, mechanical, etc.)

Further growth strategy

- Citizen Brand Business
 - Introduce radio-controlled watches overseas
(currently) only in Europe (Future) Europe, China (investment in radio tower), U.S.A.
 - Expand sales in growing market such as China and India
- Multi-brand Strategy
 - Nurture Company-held brand (VAGARY)
 - Strengthen licensed brands (FURLA)
 - Acquire a brand by M&A

18

Scale expansion and profitability improvement in small NC automatic lathes

- Promote comprehensive and partial alliance within the industry
 - Capital and business alliance with MiyanoMarket expansion, profitability improvement and entrance to new areas by comprehensive alliance
 - Promote cooperation with other companies in purchasing, production and sales
- Development
 - Concentrate resources to strong fields by allocation with Miyano
 - Promote product development to enter a new business (chucker machines)
- Production
 - Improve productivity and lower costConcentrate production of electric box and peripheral equipments in China (cooperate with other companies)
OEM business to Miyano and commissioned production of key parts
 - Expand production in Asia Expand production volume in Thailand and Vietnam, development of production sites in China
- Sales
 - Reorganize sales structure in Europe by M&A
 - Strengthen sales in U.S.A. by alliance
 - Strengthen sales in developing countries Utilize sales bases in India and Brazil

19

Business Strategy/Electronic Products

1. Expand sales in Chinese market

- Information equipment
 - large printers: strengthen current alliance
 - small printers for business: full-scale development
- Healthcare equipment
 - Establish sales bases full-scale launch in China in FY07



2. Expand sales of photo printers

- Differentiate by pursuing high speed & high quality printing
- Expand the value by introduction of system products



3. Expand sales of small printers for business

- Expand sales to BRIC (mainly for tax collection and kiosk)



4. Develop healthcare products to health management network

- Offer health management equipment and peripheral software



5. Select and concentrate

- Withdraw from FDD business and concentrate on the aforesaid 1 – 4.

20

CITIZEN

Micro HumanTech

Thank you