

## Consolidated Financial Statements for the Year Ended March 31, 2006

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

All figures in these statements which are less than 1 million yen have been rounded down.

(English translation)

May 15, 2006

### CITIZEN WATCH CO., LTD.

Code No.:	7762 (URL <a href="http://www.citizen.co.jp">http://www.citizen.co.jp</a> )
Stock exchange listings:	Tokyo
Location of Head Office:	Tokyo, Japan
Tel:	+81 - 42 - 468 -4934
Executive position of legal representative:	Makoto Umehara
Contact:	Osamu Yamada, Managing Director
Board of Directors' Meeting on the Settlement of Accounts:	May 15, 2006
U.S. Accounting Standards:	No

### 1. Results for the Year ended March 31, 2006

#### (1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2006	335,940	(6.0)	30,516	(17.7)	34,634	(13.7)
March 31, 2005	357,288	(4.9)	37,092	4.5	40,118	13.4

	Net income		Earnings per share	Fully diluted earnings per share	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
March 31, 2006	18,594	(8.1)	53.23	49.24	7.2	8.7	10.3
March 31, 2005	20,233	3.9	65.97	60.45	8.7	10.3	11.2

(Notes)

1. Equity in earnings of unconsolidated subsidiaries and affiliates:  
 March 2006 term: Not applicable                      March 2005 term: Not applicable
2. Average number of outstanding shares during term (consolidated):  
 March 2006 term: 344,088,879 shares                      March 2005 term: 302,849,253 shares
3. Changes in accounting methods: Yes
4. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

**(2) Consolidated financial position**

	Total assets (Millions of yen)	Shareholders' equity (Millions of yen)	Shareholders' equity ratio %	Shareholders' equity per share (Yen)
March 31, 2006	402,497	276,411	68.7	728.43
March 31, 2005	390,565	240,888	61.7	799.28

(Note) Total number of shares outstanding at the end of the fiscal term (consolidated):

March 2006 term: 379,075,837 shares      March 2005 term: 301,065,226 shares

**(3) Consolidated cash flows**

	Cash flows from operating activities (Millions of yen)	Cash flows from investing activities (Millions of yen)	Cash flows from financing activities (Millions of yen)	Cash and cash equivalents at end of term (Millions of yen)
March 31, 2006	39,533	(19,141)	(24,173)	121,127
March 31, 2005	40,393	(21,183)	(9,307)	122,869

**(4) Scope of consolidation and application of the equity method**

Number of consolidated subsidiaries: 57

Number of nonconsolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 0

**(5) Changes in the scope of consolidation and application of the equity method**

Consolidation (Newly added): 3; (eliminated): 2; (decreased due to merger): 1

Equity method (Newly added): 0; (eliminated): 0

**2. Projected Results for the Year ending March 31, 2007**

	Net sales (Millions of yen)	Operating income (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)
Interim term	172,000	13,000	14,000	8,000
Full term	367,000	31,000	33,000	19,000

Reference: Estimated earnings per share (full term): 50.12 yen

*The above forecasts are based on the information available and using assumptions made regarding the variable effects of future business results as of the date of the announcement of these financial results. Actual results could differ significantly depending on a variety of factors hereafter. Please refer to page 10 for assumptions underlying the above forecasts and precautions regarding their use.*

## Corporate Group

The Citizen Group (Citizen Watch Co., Ltd. [“the Company”] and its subsidiaries and affiliates) consists of the Company and its 106 subsidiaries and 8 affiliates. The Group companies are mainly engaged in production and sales in four business segments: watches and clocks, electronic devices, electronic products, and industrial machinery.

The major Group companies in the respective business segments are as follows:

Segment	Major production companies	Major marketing companies
Watches and clocks	CITIZEN TOHOKU CO., LTD. CITIZEN SAITAMA CO., LTD. CITIZEN HEIWA WATCH CO., LTD. CITIZEN ELECTRONICS CO., LTD. CITIZEN FINE TECH CO., LTD. CITIZEN MIYOTA CO., LTD. CITIZEN SEIMITSU CO., LTD. CITIZEN SEIMITSU KAGOSHIMA CO., LTD. CITIZEN ELECTRONICS FUNEHIKI CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN YUBARI CO., LTD. CITIZEN PRECISION OF KOREA CO., LTD. SUNCITI MANUFACTURERS LTD. ASTAR PRECISION CO., LTD. CITIZEN DE MEXICO, S.A. DE C.V. ROYAL TIME CITI CO., LTD. FARBEST INDUSTRIES LTD. GOODRINGTON CO., LTD., etc.	JAPAN CBM CORPORATION CITIZEN WATCHES (H.K.) LTD CITIZEN WATCH COMPANY OF AMERICA, INC. CITIZEN WATCH UNITED KINGDOM, LTD. CITIZEN WATCHES AUSTRALIA PTY LTD. CITIZEN WATCH EUROPE GmbH CITIZEN WATCH ITALY S.P.A. CITIZEN LATIN AMERICA CORP. CITIZEN WATCH ESPAÑA S.A. CITIZEN DE MEXICO, S.A. DE C.V. CITIZEN T.I.C. CO., LTD. CITIZEN WATCH (CHINA) CO., LTD.*1, etc.
Electronic devices	CITIZEN ELECTRONICS CO., LTD. CITIZEN MIYOTA CO., LTD. CITIZEN FINE TECH CO., LTD. CITIZEN DISPLAYS CO., LTD. CITIZEN SEIMITSU CO., LTD. CITIZEN ELECTRONICS FUNEHIKI CO., LTD. FIRST COME ELECTRONICS LTD. MOST CROWN INDUSTRIES LTD. C-E (SUZHOU) LTD., etc.	C-E (H.K.) LTD. C-E (SINGAPORE) PTE. LTD., etc.
Electronic products	CITIZEN SEIMITSU CO., LTD. CITIZEN HEIWA WATCH CO., LTD. CROWN YOUNG INDUSTRIES LTD., etc.	CITIZEN SYSTEMS JAPAN CO., LTD. CITIZEN SYSTEMS AMERICA CORPORATION CITIZEN SYSTEMS EUROPE GmbH, etc.
Industrial machinery	CITIZEN MACHINERY CO., LTD. CITIZEN MECHATRONICS CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN MACHINERY ASIA CO., LTD.*1, etc.	CITIZEN MACHINERY & BOLEY GmbH. MARUBENI CITIZEN-CINCOM INC.*2, etc.
Other products	CITIZEN SEIMITSU CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN HEIWA WATCH CO., LTD., etc.	CITIZEN PLAZA CO., LTD. SILVER DENKEN CO., LTD. TOKYO BIJUTSU CO., LTD. CITIZEN JEWELRY CO., LTD., etc.

No mark: consolidated subsidiaries

\*1: nonconsolidated subsidiaries not accounted for by the equity method

\*2: affiliate not accounted for by the equity method

## Management Policy

### 1. Fundamental Management Policy

The Citizen group's management policy is based on the philosophy that gave us our name: 'Creating products that are close to the hearts of citizens everywhere.' We aim to contribute to the society through ongoing activities that are in harmony not only with the local community but also with the global environment. Our mission is to utilize the precision manufacturing and mounting technology that we have developed through our watch-making businesses to offer products that satisfy customers and contribute to the lives of people around the world.

With all employees sharing the same goals, the Citizen group is focused on becoming a 'quality corporation' that is both profitable and responsive to changes.

### 2. Fundamental Policy Regarding the Distribution of Profits

The Citizen group had a basic policy to pay a regular, stable dividend while implementing appropriate dividend policies in light of the group's performance, strengthening the group's overall financial standing by maintaining sufficient internal reserves, and purchasing its own stock. On this occasion, the Company has revised the basic policy regarding the distribution of profits in order to enhance the shareholder value. Consequently, the total amount of dividends and share buyback divided by consolidated net income will be stated as "ratio of return to shareholders" and the Company has decided to make the average ratio of the 3 to 5 year period to over 30%. Dividend will be decided taking into consideration of the balance of consolidated results and stability of dividend. Regarding the share buyback, the Company will aim to improve the capital efficiency as well as the return to shareholders by raising the earnings per share.

### 3. Policy Regarding a Reduction of the Trading Unit

We regard a reduction of the number of shares in one unit of stock as an effective means to increase liquidity of its shares and to encourage broader classes of investors to acquire equity in the company. Taking into consideration of the Company's stock price in the market and the request from individual investors, the Company has modified its unit of exchange at the Tokyo Stock Exchange from 1,000 shares to 100 shares as of September 1, 2004.

### 4. Medium-Term Management Strategy

The Company developed 2006 Medium-Term Management Plan aiming to transform the corporation into a group that creates high added value. Based on the fundamental policy listed below, the Company carries forward the reform to improve profitability and to realize a management structure that is capable of responding appropriately to environmental changes.

- (1) Growth strategy by strengthening R&D
- (2) Growth strategy with Devices Business at the center
- (3) Further reinforcement of stable and profitable structure and expansion in watches, industrial machinery and electronic products business
- (4) Strengthening the head office function

### Issues Facing the Company

*Stronger cooperation within the Group*

- (1) Maximize the Group value and strengthen corporate governance by the "Group Strategy Center", with a goal to achieve the Group growth strategy.

*Maintaining Stable Earnings and Expanding the business of Watches and Clocks*

- (1) Fulfill its role as a world leader of finished watch manufacturers by strengthening the Citizen Brand with high value-added products and by taking multi-brand strategy.
- (2) Expand the business by new market development
- (3) Strengthen R&D and investment in both finished watches and movements.

*Strengthening Business's Ability to Grow*

- (1) For the non-watch divisions, based on the income-oriented idea, improve its profit by faster decision making and efficient management utilizing the stronger cooperation
- (2) Consider the theme of R&D and investment as a Group
- (3) Strengthen and centralize intra-group functions in order to improve management efficiency by making more effective use of the group's financial resources and various assets.

**5. Other Important Management Issues**

In response to rising concern about the global environment, the Company is focusing on development of environmentally friendly products such as products that contribute to energy conservation by using only minimal electricity. Throughout its own operations, the Company is working to conserve resources and energy and reduce the use of toxic substances and waste. These efforts are based on ISO 14001 certifications acquired by the Tanashi Factory and Tokorozawa Works under the Environmental Policy that defines a key social responsibility for the Company.

In addition to the Company, 25 group companies have obtained ISO14001 certification. Citizen will continue to implement environmental initiatives among all group companies.

## Review of Operations

### 1. Overview of the Year ended March 31, 2006

Millions of yen	Year ended March 31,		Year-on-year change	%
	2005	2006		
Net sales	357,288	335,940	(21,348)	(6.0)
Operating income	37,092	30,516	(6,576)	(17.7)
Ordinary income	40,118	34,634	(5,484)	(13.7)
Net income	20,233	18,594	(1,638)	(8.1)

#### Breakdown of sales by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2005	2006		
Wristwatches and clocks	121,582	125,038	3,455	2.8
Electronic devices	133,841	111,112	(22,729)	(17.0)
Electronic products	26,442	25,098	(1,343)	(5.1)
Industrial machinery	35,460	37,176	1,716	4.8
Other products	39,962	37,514	(2,448)	(6.1)
Total net sales	357,288	335,940	(21,348)	(6.0)

#### Breakdown of operating income by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2005	2005		
Wristwatches and clocks	17,791	20,538	2,747	15.4
Electronic devices	17,848	8,061	(9,787)	(54.8)
Electronic products	2,657	2,174	(483)	(18.2)
Industrial machinery	4,951	5,485	533	10.8
Other products	1,748	2,739	990	56.7
Eliminations or general corporate	[7,903]	[8,481]	(578)	-
Total operating income	37,092	30,516	(6,576)	(17.7)

### Summary of Operating Results

During the fiscal year under review, although the Japanese economy gradually recovered, with improved corporate earnings, an improvement in employment and a rise in capital investment, uncertain factors remained including the rising price of crude oil.

Under these conditions, the Citizen Group strengthened the function of Group Strategy Center and tried its best to become a Group that creates high added value. In October 2005, as a part of establishing a structure that can promptly and accurately respond to the market needs, the Company made 5 subsidiaries, including Citizen Electronics Co., Ltd., Citizen Miyota Co., Ltd. and Citizen Fine Tech Co., Ltd., wholly-owned by share exchange. In addition, for more efficient financing, the Company cancelled 19 million shares of its own stock in February 2006. Moreover, the Company has aggressively conducted CSR activities including environmental activities.

As a result, consolidated net sales for the year ended March 31, 2006 declined by 6.0% from the previous fiscal year to 335.9 billion yen. Operating income, ordinary income and net income also decreased by 17.7% to 30.5 billion yen, 13.7% to 34.6 billion yen and 8.1% to 18.5 billion yen, respectively.

### ***Watches and Clocks***

Sales of watches increased, largely driven by Citizen Brand. In Japan, sales of Citizen Brand increased due to aggressive development and introduction of new products of radio-controlled watches, including the launch of ladies' radio-controlled watches. In addition, the new product line called "VAGARY," which was introduced last October as an approach to young casual zone, also contributed to sales increase.

In the overseas market, as a result of the high value products strategy, both average unit price and sales increased. In the US market, the effort of selling Eco Drive resulted in a huge sales increase. In Germany, despite the weak sales due to the sluggish economy, it has slowly recovered driven by the successful advertisement in the second half. In Italy, aggressive marketing activities of high value-added products were well received and boosted sales. In Central and South America, effort to expand Eco Drive contributed to sales increase. Sales increased by the steady economy in Hong Kong, Singapore and Taiwan, and by the expansion of Eco Drive and development of new market in Middle East and India.

Although the units of Q&Q brand sold decreased due to the weak sales in Europe, sales were almost flat compared with the same period of last year as a result of weaker yen, launch of new models of radio-controlled watches in Japan and the increase of products for overseas.

Despite the sluggish economy in Europe, sales of OEM also increased resulting from the successful sales effort of high-end products.

In the movement market, Chinese low-end movements have emerged and the market price continued to decline. Under this circumstance, the Company took a strategy to put priority on the maintenance of the market price, which resulted in a sales decline.

Sales of clocks declined due to the lower demand of special order products.

Consequently, total sales of watches and clocks increased by 2.8% from the previous fiscal year to 125.0 billion yen, and operating income increased by 15.4% to 20.5 billion yen.

### ***Electronic Devices***

In opto-devices, which depend largely on mobile phone industry, the introduction of new products and aggressive market development of general lighting and amusement were not able to cover the low sales of key-sheet LED and back light unit. In chip LED, originally, sales were planned to boost primarily by the flash LED for high-end camera-equipped mobile phones. However, due to the delay in customers to produce camera-equipped mobile phones, the sales delayed in the first half and fell below the original forecast in full year, despite the volume increase in the second half. Sales of other LED lamps also declined dramatically as a result of the decline in number of parts used in one handset and the price. As for back light unit for mobile phones, high-luminous, thin product was planned to expand sales, originally. However, increase of low-end handsets and intense price competition resulted in weak sales. Sales of optic sensors decreased overall despite steady sales of IrDA.

In liquid crystal devices, although our unique active aberration compensation element had steady sales, sales of devices for mobile phones declined due to the low performance of our customers in China and Europe.

In quartz devices, TCXO for mobile phones, low frequency and high frequency quartz devices for digital cameras, tuners and watches all struggled and ended in sales decline. In the second half, inventory adjustment ended and number of mobile phones increased more than expected, largely in BRICs. In addition, increase in number of quartz devices used in digital home appliances and automobile contributed to sales recovery. However, the selling price continued to drop, and was unable to cover the slump of the first half.

Sales of other parts increased. The Korean market and new products contributed to sales of small switches. In acoustic products, although the new flat speaker for mobile phones contributed to sales, multi-function buzzers and other products got weaker in the second half, and as a result, sales declined if the newly consolidated Authentic Ltd. is excluded. Although CRT viewfinders maintained steady sales, FLCD viewfinders had weak sales.

Overall, sales in electronic devices declined by 17.0% to 111.1 billion yen, and operating income

decreased by 54.8% to 8.0 billion yen.

### ***Electronic Products***

Sales declined despite the effort to seek management efficiency by integrating the business to Citizen Systems Japan Co., Ltd. Although dot matrix printers for China and mini printers for Europe had steady sales, and barcode printers sold well in Europe and U.S., sales of products for Asia were low. OEM healthcare equipment for overseas struggled in a competition with Taiwanese low-end products. Electronic equipment such as calculators had sales lower than the previous year, as a result of inventory adjustment in Western Europe.

Overall, sales in electronic products declined by 5.1% to 25.0 billion yen, and operating income decreased by 18.2% to 2.1 billion yen.

### ***Industrial Machinery***

CNC automatic lathes enjoyed improved sales driven by steady demand. Geographically, in Japan, despite the continuing healthy sales for automobiles, sales declined for the whole year due to the demand fluctuation for electronic and precision machinery. On the other hand, sales increased in all of the overseas market. In Southeast Asia, sales increased dramatically primarily in HDD-related industry. Despite the concerns of revaluation of Chinese Yuan and tight monetary policy, machine tools demand in China continued to expand, and sales increased due to sales effort of increasing sales stores. Although North America had concerns of economy slowing down by two hurricanes, healthy sales for medical equipment and well-received new product contributed to sales increase. In Europe, despite geographical differences, orders for high-end products increased, resulting in sales increase.

Other machinery recorded increased sales in measuring machinery by steady orders of OEM on the back of strong automobile industry, and in assembling machinery, on the back of strong automobile and amusement industries.

As a result, sales of industrial machinery increased by 4.8% from the previous year to 37.1 billion yen and operating income by 10.8% to 5.4 billion yen.

### ***Other Products***

The jewelry business was again beset by severe market conditions and high price of platinum and gold. In pachinko related products, new products could not cover the previous year's sales due to issuance of new paper bill. Consequently, sales of other products decreased by 6.1% from the previous year to 37.5 billion yen and operating income increased by 56.7% to 2.7 billion yen.

## (2) Financial Position

### (a) Assets Outstanding at Fiscal Year End

Total assets at the fiscal year end increased 11.9 billion yen from the previous fiscal year end to 402.4 billion yen. Notes and accounts receivable decreased 4.4 billion yen due to sales decline, and investment securities increased 12.2 billion yen due to market value evaluation of holding stocks. Cash and cash equivalents decreased 1.7 billion yen. Total Liabilities increased 4.0 billion yen to 124.0 billion yen. In shareholders' equity, total of 35.5 billion yen increased from the end of last fiscal year to 276.4 billion yen as a result of cancellation of its own shares and transfer from minority interest to capital reserves due to making 5 subsidiaries wholly-owned.

### (b) Cash Flows

On a consolidated basis, cash and cash equivalents at the fiscal year end decreased 1.7 billion yen from the end of the previous fiscal year, to 121.1 billion yen.

#### **Cash flows from operating activities**

Cash flows from operating activities yielded a cash flow revenue of 39.5 billion yen. The main factors were 33.8 billion yen of income before income taxes, 16.2 billion yen of depreciation, an increase of 7.5 billion yen due to decrease in receivables (trade), a decrease of 3.9 billion yen in payables (trade) and 11.0 billion yen of income taxes payment.

#### **Cash flows from investing activities**

Cash flows from investment activities ran a deficit of 19.1 billion yen. The main factors were payments of 20.8 billion yen for the purchase of property, plant and equipment and payment of 3.9 billion yen from purchase of investment securities.

#### **Cash flows for financing activities**

Cash flows from financing activities ran a deficit of 24.1 billion yen. There were payments of 2.4 billion yen for borrowings, 3.9 billion yen for dividends, and 17.1 billion yen for share buyback.

#### **Cash flow indicators**

Percent	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006
Equity ratio	56.1	55.7	57.4	61.7	68.7
Equity ratio at market value	67.8	52.3	80.1	79.3	104.6
Debt repayment period (years)	1.6	1.0	0.8	0.7	0.7
Interest coverage ratio	35.4	110.0	154.7	204.7	1416.5

Equity ratio: Shareholders' equity/total assets

Equity ratio at market value: Market capitalization/total assets

Debt repayment period: Interest-bearing debt/operating cash flows

Interest coverage ratio: Operating cash flows/interest paid

- \* These ratios are all calculated from consolidated financial statements
- \* Market capitalization is calculated by multiplying the closing stock price at fiscal-year end by the number of outstanding stocks (after subtracting treasury stock)
- \* For cash flow, operating cash flows is used. Interest-bearing debt refers to all liabilities shown in the balance sheet on which interest is payable. For interest paid, interest payments shown in the consolidated statement of cash flow are used.

**3. Prospects for the Year ending March 31, 2007**

Millions of yen	Year ended March 31, 2006	Year ending March 31, 2007	Year-on-year change	%
Net sales	335,940	367,000	31,059	9.2
Operating income	30,516	31,000	483	1.6
Ordinary income	34,634	33,000	(1,634)	(4.7)
Net income	18,594	19,000	405	2.2

**Breakdown of sales by segment**

Millions of yen	Year ended March 31, 2006	Year ending March 31, 2007	Year-on-year change	%
Watches and clocks	125,038	131,000	5,961	4.8
Electronic devices	111,112	132,000	20,887	18.8
Electronic products	25,098	27,500	2,401	9.6
Industrial machinery	37,176	40,500	3,323	8.9
Other products	37,514	36,000	(1,514)	(4.0)
Total net sales	335,940	367,000	31,059	9.2

**Breakdown of operating income by segment**

Millions of yen	Year ended March 31, 2006	Year ending March 31, 2007	Year-on-year change	%
Watches and clocks	20,538	20,500	(38)	(0.2)
Electronic devices	8,061	10,000	1,938	24.0
Electronic products	2,174	2,500	325	15.0
Industrial machinery	5,485	6,000	514	9.4
Other products	2,739	1,500	(1,239)	(45.2)
Eliminations or general corporate	[8,481]	[9,500]	(1,018)	-
Total operating income	30,516	31,000	483	1.6

Although the business outlook is estimated to improve gradually, surging prices of raw materials including crude oil, trade friction between the U.S. and China, and the instability in the Middle East and the Korean Peninsula make the operating environment for the Citizen Group uncertain.

Under these circumstances, Citizen Group will aim to establish a group that creates high added value by effective Group management and also aim to achieve the Group growth strategy. Independence of each company will continue to be respected and the Group will pursue to expand the synergy effect.

For the fiscal year ending March 2007, we are forecasting consolidated sales of 367.0 billion yen (a 9.2 % increase), operating income of 31.0 billion yen (a 1.6% increase), ordinary income of 33.0 billion yen (a 4.7% decrease), and net income of 19.0 billion yen (a 2.2% increase).

These forecasts are based on an exchange rate assumption for the year of 110 yen/US dollar and 130 yen/Euro.

The exchange rate for the year ended March 2006 was 112 yen/US dollar and 138 yen/EURO.

(Note)

*This report includes forward-looking statements about Citizen's forecasts and prospects that are not historical facts. They reflect assumptions and beliefs adopted in light of information currently available. Citizen cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.*

## Consolidated Balance Sheet

Millions of yen	March 31, 2005	%	March 31, 2006	%	Year-on-year change
<b>Current assets</b>					
Cash and cash equivalents	113,577		107,881		(5,696)
Notes and accounts receivable	78,229		73,796		(4,432)
Marketable Securities	14,093		15,984		1,891
Inventories	50,469		52,416		1,946
Deferred tax assets	10,018		9,094		(924)
Accrued consumption tax	2,488		2,438		(50)
Other current assets	6,058		7,444		1,385
Allowance for doubtful accounts	(1,808)		(1,133)		674
	273,126	69.9	267,921	66.6	(5,205)
<b>Fixed assets</b>					
<b>Property, plant and equipment</b>					
Buildings and structures	31,124		32,802		1,677
Machinery, equipment and carriers	28,391		28,429		37
Tools, furniture and fixtures	6,157		6,317		160
Land	9,504		9,634		129
Construction in progress	1,751		3,839		2,087
	76,929	19.7	81,022	20.1	4,093
<b>Intangible fixed assets</b>					
Software	681		671		(9)
Other intangible fixed assets	417		390		(26)
	1,099	0.3	1,062	0.3	(36)
<b>Investments and other assets</b>					
Investment securities	33,770		46,006		12,235
Long-term loans	872		1,245		373
Deferred tax assets	2,817		591		(2,226)
Other intangible fixed assets	3,218		5,579		2,360
Allowance for doubtful accounts	(474)		(260)		213
Allowance for valuation loss on investments	(795)		(672)		122
	39,410	10.1	52,490	13.0	13,080
	117,438	30.1	134,575	33.4	17,137
<b>Total assets</b>	390,565	100.0	402,497	100.0	11,932

	March 31, 2005	March 31, 2006
1. Accumulated depreciation of property, plant and equipment	233,137	238,479
2. Export bill discounted	1,003	669
3. Endorsed trade notes receivable	162	152
4. Loans guaranteed	328	689
5. R&D expenditures	10,217	11,070
6. Capital expenditures	19,161	21,353
7. Depreciation	16,820	16,220

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Millions of yen	March 31, 2005	%	March 31, 2006	%	Year-on-year change
<b>Current liabilities</b>					
Notes and accounts payable	36,845		34,855		(1,989)
Short-term bank loans payable	6,559		4,233		(2,325)
Income taxes payable	6,513		4,993		(1,520)
Accrued expenses	8,637		9,074		436
Reserve for bonuses to employees	4,349		4,575		226
Reserve for product warranties	889		974		85
Notes payable for equipment	1,360		3,236		1,876
Other current liabilities	17,665		17,406		(259)
	<u>82,820</u>	21.2	<u>79,351</u>	19.7	<u>(3,469)</u>
<b>Long-term liabilities</b>					
Bonds with subscription right for new shares	23,000		23,000		-
Long-term loans payable	2		2		(0)
Deferred tax liabilities	342		7,516		7,173
Reserve for defined retirement benefits	10,156		9,933		(223)
Reserve for retirement bonuses to directors	883		502		(381)
Consolidation adjustments	2,067		2,848		781
Other long-term liabilities	642		860		218
	<u>37,095</u>	9.5	<u>44,663</u>	11.1	<u>7,567</u>
<b>Total liabilities</b>	<u>119,916</u>	30.7	<u>124,015</u>	30.8	<u>4,098</u>
<b>Minority interests</b>	29,760	7.6	2,070	0.5	(27,689)
<b>Shareholders' equity</b>					
Common stock	32,648	8.4	32,648	8.1	-
Additional paid-in capital	39,027	10.0	63,890	15.9	24,863
Retained earnings	173,173	44.3	165,246	41.0	(7,927)
Net unrealized gain/loss on other marketable securities	7,357	1.9	16,064	4.0	8,707
Foreign currency translation adjustments	(3,185)	(0.8)	(176)	(0.0)	3,008
Treasury stock	(8,133)	(2.1)	(1,261)	(0.3)	6,871
Total shareholders' equity	<u>240,888</u>	61.7	<u>276,411</u>	68.7	<u>35,522</u>
<b>Total liabilities, minority interest and shareholders' equity</b>	<u>390,565</u>	100.0	<u>402,497</u>	100.0	<u>11,932</u>

## Consolidated Statement of Income

Millions of yen	Year ended March 31, 2005		Year ended March 31, 2006		Year-on-year change	
		%		%		%
<b>Net sales</b>	357,288	100.0	335,940	100.0	(21,348)	(6.0)
<b>Cost of sales</b>	247,075	69.2	229,826	68.4	(17,249)	(7.0)
<b>Gross profit</b>	110,212	30.8	106,113	31.6	(4,099)	(3.7)
<b>Selling, general and administrative expenses</b>	73,120	20.4	75,596	22.5	2,476	3.4
Operating income	37,092	10.4	30,516	9.1	(6,576)	(17.7)
<b>Nonoperating income</b>						
Interest and dividend income	1,072		1,263		191	
Rent received	578		460		(118)	
Foreign currency exchange gain	622		1,374		751	
Amortization of consolidation adjustments	973		988		15	
Other	1,011		1,043		31	
	4,257	1.2	5,130	1.5	872	20.5
<b>Nonoperating expenses</b>						
Interest charges	194		33		(161)	
Depreciation expenses for lent properties	311		289		(21)	
Other	726		689		(36)	
	1,231	0.4	1,012	0.3	(219)	(17.8)
Ordinary income	40,118	11.2	34,634	10.3	(5,484)	(13.7)
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	18		-		(18)	
Gain on sales of investment securities	0		3		3	
Reversal of allowance for doubtful accounts	196		771		575	
Gain on transition of retirement pension plan	-		515		515	
Difference arising from change in retirement benefit accounting standards	26		-		(26)	
Other	637		213		(424)	
	879	0.3	1,504	0.5	624	71.0
<b>Extraordinary losses</b>						
Loss on disposal of properties	2,159		805		(1,353)	
Loss on impairment	-		309		309	
Reorganization costs	-		709		709	
Valuation loss on investment securities	302		2		(299)	
Other	484		460		(23)	
	2,946	0.8	2,288	0.7	(657)	(22.3)
Income before income taxes	38,051	10.7	33,849	10.1	(4,202)	(11.0)
Income taxes						
Current	11,094	3.1	9,493	2.8	(1,601)	(14.4)
Deferred	2,501	0.7	4,417	1.3	1,915	76.6
Minority interests	4,221	1.2	1,345	0.5	(2,876)	(68.1)
Net income	20,233	5.7	18,594	5.5	(1,638)	(8.1)

## Consolidated Statement of Retained Earnings

Millions of yen	Year ended March 31,	
	2005	2006
<b>Capital reserves</b>		
Capital reserves, beginning of term	39,023	39,027
Increase in capital reserves		
Increase resulting from share exchange	-	24,863
Gain on disposal of treasury stock	3	-
	3	24,863
Capital reserves, end of term	39,027	63,890
<b>Retained earnings</b>		
Retained earnings, beginning of term	156,517	173,173
Increase in retained earnings		
Net income	20,233	18,594
Increase due to change in scope of consolidation	2	-
Increase due to merger	-	46
	20,235	18,640
Decrease in retained earnings		
Cash dividends	3,341	3,913
Bonuses to directors	237	251
Loss on disposal of treasury stock	-	5,856
Cancellation of treasury stock	-	16,547
	3,578	26,568
Retained earnings, end of term	173,173	165,246

## Consolidated Statement of Cash Flow

Millions of yen	Year ended March 31,	
	2005	2006
<b>Cash flows from operating activities</b>		
Income before income taxes	38,051	33,849
Depreciation	16,820	16,220
Increase/decrease in reserve for defined retirement benefits	(1,233)	(287)
Increase/decrease in allowance for doubtful accounts	292	(1,190)
Interest and dividends income	(1,072)	(1,263)
Interest charges	194	33
Loss on marketable securities sold	(11)	2
Loss on investment securities sold	(0)	219
Loss on properties sold	(128)	(115)
Loss on disposal of properties	2,159	805
Payment of bonuses to directors	(270)	(292)
Increase/decrease in receivables - trade	9,645	7,588
Increase/decrease in inventories	1,093	(514)
Increase/decrease in notes and accounts payable - trade	(14,908)	(3,956)
Consolidation adjustments	(973)	(988)
Loss on impairment	-	309
Other	1,820	(1,040)
Subtotal	51,480	49,378
Interest and dividends received	1,066	1,261
Interest payments	(197)	(27)
Income taxes	(11,955)	(11,079)
Net cash provided by operating activities	40,393	39,533
<b>Cash flows from investing activities</b>		
Payments for the purchase of marketable securities	(2,698)	-
Proceeds from the sale of marketable securities	4,622	1,144
Payments for the purchase of investment securities	(2,410)	(3,923)
Proceeds from the sale of investment securities	672	6,083
Payments for the purchase of property, plant and equipment	(19,221)	(20,878)
Proceeds from the purchase of property, plant and equipment	866	727
Increase/decrease in loans	(445)	(277)
Other	(2,569)	(2,016)
Net cash used in investing activities	(21,183)	(19,141)
<b>Cash flows from financing activities</b>		
Net increase/decrease in borrowings	(2,656)	(2,489)
Dividends paid by parent company	(3,341)	(3,913)
Dividends paid to the minority stockholders	(510)	(654)
Payments for purchase of treasury stock	(2,678)	(17,189)
Proceeds from the sale of treasury stock	10	7
Other	(130)	66
Net cash used in financing activities	(9,307)	(24,173)
Effect of exchange rate changes on cash and cash equivalents	558	1,740
Net increase in cash and cash equivalents	10,461	(2,041)
Cash and cash equivalents at beginning of term	112,451	122,869
Increase/decrease in cash and cash equivalents due to change in scope of consolidation	(43)	196
Increase in cash and cash equivalents due to merger	-	103
Cash and cash equivalents at end of term	122,869	121,127

## Basis of Presenting the Consolidated Financial Statements

Item	Basis of Presenting the Consolidated Financial Statements
1. Consolidation policy	<p>(1) Consolidated subsidiaries (57 companies)            Significant consolidated subsidiaries:            Japan CBM Corporation, Citizen Miyota Co., Ltd., Citizen Electronics Co., Ltd., Citizen Fine Tech Co., Ltd., Sunciti Manufacturers Ltd., Citizen Watches (H.K.) Ltd., Citizen de Mexico, S.A. de C.V., Crown Young Industries Ltd., Citizen Watch Company of America, Inc.</p> <p>During the year, 2 consolidated subsidiaries, Ageo Seimitsu MFG. Co., Ltd. and Citizen Iwate Co., Ltd., have merged and changed its name to Citizen Tohoku Co., Ltd. In addition, 3 companies are included in the Company's consolidated subsidiaries from the current year which ended on March 31, 2006; 2 newly established companies, Citizen Systems Japan Co., Ltd. and Citizen Displays Co., Ltd. and Authentic Ltd. due to its significance.</p> <p>On the other hand, Citizen L.C. Tec Co., Ltd. and Citizen America Corp. have been excluded from the Company's consolidated subsidiaries due to liquidation. Silver Denken Co., Ltd. merged with a nonconsolidated subsidiary.</p> <p>The combined assets, net sales, net income and retained earnings of the nonconsolidated subsidiaries are not significant in the related consolidated totals.</p> <p>(2) Nonconsolidated subsidiaries (49 companies)</p>
2. Application of the equity method	The Company's nonconsolidated subsidiaries and affiliates, for which net profit or loss and retained earnings have little effect on consolidated financial statements and are not significant, have been excluded from application of the equity method.
3. Fiscal year-end of consolidated subsidiaries	<p>SAKAE SHOKAI CO., LTD., TOKYO BIJUTSU CO., LTD., CITIZEN WATCH COMPANY OF AMERICA INC. and thirty four other overseas subsidiaries have different fiscal closing dates from the group consolidated closing date.</p> <p>The fiscal closing date of overseas subsidiaries is December 31, while that of SAKAE SHOKAI CO., LTD. and TOKYO BIJUTSU CO., LTD. is the last date of February. In preparing consolidated financial statements, when the difference between a domestic subsidiary's fiscal closing date and the group consolidated closing date is three months or less, the financial statements of the subsidiary for the relevant fiscal year are used and an adjustment is made in the consolidated statements for any material discrepancies in accounting records related to transactions between consolidated subsidiaries arising from the difference between a subsidiary's fiscal closing date and the group consolidated closing date. Overseas subsidiaries adopt accounting necessary to prepare financial statements that form the consolidated financial statements on the consolidated closing date.</p>
4. Accounting standards	<p>(1) Valuation standards and methods for major assets</p> <p>{1} Marketable securities</p> <p>i. Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.</p> <p>ii. Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.</p> <p>iii. Other marketable securities:            If the market value is determinable, other marketable securities are valued at market based on their market value on the consolidated fiscal closing date. (Net unrealized gain/loss on other marketable securities is recognized directly in the shareholders' equity section. Selling cost is computed by the moving-average method.)            If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p> <p>{2} Derivative instruments            Derivative instruments are valued at market.</p> <p>{3} Inventories            Inventories are primarily valued on a weight-average cost basis, which does not exceed cost or market.</p> <p>(2) Depreciation of fixed assets</p> <p>{1} Property, plant and equipment: declining-balance method            Years of useful life for principal assets; Buildings and structures: 3 - 50 years            Machinery and equipment: 2 - 10 years</p> <p>{2} Intangible fixed assets: straight-line method</p>

Item	Basis of Presenting the Consolidated Financial Statements
	<p>(3) Recognition basis of provisions and reserves</p> <p>{1} Allowance for doubtful accounts In order to prepare for loss of receivables (trade) and loans, as for the Company and domestic consolidated subsidiaries and affiliates, an allowance for doubtful accounts is based on the recoverability of each amount, using (1) the write-off ratio for ordinary accounts receivable and (2) the specific amount for certain accounts receivable, such as highly doubtful accounts. As for the overseas consolidated subsidiaries and affiliates, an allowance for doubtful accounts is estimates based on the recoverability of each amount.</p> <p>{2} Allowance for valuation loss on investments To provide for possible losses due to extreme devaluation in the stocks of nonconsolidated subsidiaries (excluding stocks subject to impairment accounting), an allowance for valuation loss on investments is provided for an amount considering the actual stock prices on the balance sheet date.</p> <p>{3} Reserve for bonuses to employees The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments at consolidated companies other than overseas subsidiaries.</p> <p>{4} Reserve for product warranties At several overseas sales subsidiaries, certain rates of net sales are provided as an allowance for the possible expenses required for after-sales services of products sold.</p> <p>{5} Reserve for defined retirement benefits At the Company and its consolidated domestic subsidiaries, the reserve for defined retirement benefits is stated as the amount deemed to be correct on the balance sheet. The amount is based on estimated accounts of defined retirement benefit liabilities and pension assets on the date of the year-end balance sheet. The amount of difference resulting from the change of accounting standards is treated as an extraordinary loss for the consolidated fiscal year in which it occurred. However, the straight-line method is applied over a period 5 to 10 years at certain consolidated subsidiaries. In addition, past service liabilities and differences arising from mathematical calculations will be accounted for using a fixed number of years that is no more than the average of employees' remaining years of service when they occur (in principle, by applying the fixed percentage method over 5 years). Past service liabilities will be accounted for from the year in which they occur, and differences arising from mathematical calculations will be accounted for from the following year in which they occurred. In addition, the Company and some of the consolidated subsidiaries changed a part of their retirement benefit system from tax-qualified pension plan to defined contribution plan on January 1, 2006. Those who are already recipients have changed to closed tax-qualified pension plan.</p> <p>{6} Reserve for retirement bonuses to directors In several domestic consolidated subsidiaries, the reserve for retirement bonuses to directors is provided for an amount deemed necessary based on the internal regulations of the Company.</p> <p>(4) Translation of foreign currency assets or liabilities Foreign currency amounts are translated into Japanese yen at the rate prevailing on the consolidated fiscal closing date for accounts receivable and accounts payable. The translation adjustments are stated as profit/loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot rate on the consolidated fiscal closing date, whereas revenues and expenses are translated into Japanese yen using the weighted-average rate. The difference arising from translation is stated as foreign currency translation adjustments in the minority interests and shareholders' equity section.</p> <p>(5) Lease contracts Finance lease transactions, other than those that deem to transfer ownership of the leased assets to the lessee, are accounted for as operating lease transactions.</p> <p>(6) Consumption tax The consumption taxes are accounted for by the tax excluded method.</p>

<b>Item</b>	<b>Basis of Presenting the Consolidated Financial Statements</b>
5. Valuation of assets and liabilities of consolidated subsidiaries	All assets and liabilities of consolidated subsidiaries are valued at market.
6. Amortization of consolidation adjustments	Consolidation adjustments are amortized using the straight-line method over 5 years. When the difference to be eliminated is negligible, it may be fully accounted for during the term in which such difference originates.
7. Profit appropriation policy	Consolidated statement of retained earnings is based on the profit appropriated during the consolidated fiscal year.
8. Cash in consolidated statement of cash flows	Cash and cash equivalents in the consolidated statement of cash flows comprise cash on hand, demand deposits in banks, and highly liquid, short-term investments with low risk in value fluctuations for which the maturity expires within three months.

## (Additional information)

For the Company and some of its domestic consolidated subsidiaries, reserve for retirement bonuses to directors was provided for necessary amounts based on internal regulations. However, the Company abolished its system of retirement bonuses to directors in June 2005. The equivalent value of the reserve for retirement bonuses to directors has been transferred to other accounts payable and other long-term liabilities.

Changes in accounting policies

## (Accounting standards pertaining to the impairment of fixed assets)

Accounting standards pertaining to the impairment of fixed assets-The "Written Opinion Concerning the Establishment of Accounting Standards Pertaining to the Impairment of Fixed Assets" (Corporate Accounting Commission, August 9, 2002), and "Guidelines for the Application of Accounting Standards Pertaining to the Impairment of Fixed Assets" (Corporate Accounting Standards Application Guidelines, Issue 6, October 31, 2003), were applied.

As a result, income before income taxes declined by 104 million yen.

**(Related to consolidated statement of cash flows)**

Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets

<b>Millions of yen</b>	<b>March 31, 2005</b>	<b>March 31, 2006</b>
Cash	113,577	107,881
Marketable securities	14,093	15,984
Time deposits with a deposit period greater than three months	(3,631)	(2,717)
Shares and bonds with a redemption period greater than three months	(1,169)	(21)
Cash and cash equivalents	122,869	121,127

**(Segment information)****1. Business segment**

Millions of yen	Watches and clocks	Electronic devices	Electronic Products	Industrial machinery	Other products	Segment totals	Eliminations or general corporate	Consolidated totals
<b>Year ended March 31, 2005</b>								
Net sales								
Customers	121,582	133,841	26,442	35,460	39,962	357,288	-	357,288
Inter-segment	-	2,071	-	-	-	2,071	[2,071]	-
Total	121,582	135,913	26,442	35,460	39,962	359,360	[2,071]	357,288
Operating expenses	103,791	118,064	23,784	30,508	38,213	314,364	5,831	320,196
Operating income	17,791	17,848	2,657	4,951	1,748	44,996	[7,903]	37,092
Assets								
Assets	104,196	110,698	30,802	27,464	32,112	305,273	85,292	390,565
Depreciation and amortization	6,577	6,377	634	1,196	1,342	16,129	690	16,820
Capital expenditures	6,911	7,711	569	1,659	1,593	18,445	716	19,161
<b>Year ended March 31, 2006</b>								
Net sales								
Customers	125,038	111,112	25,098	37,176	37,514	335,940	-	335,940
Inter-segment	-	2,078	-	-	-	2,078	[2,078]	-
Total	125,038	113,191	25,098	37,176	37,514	338,019	[2,078]	335,940
Operating expenses	104,499	105,129	22,924	31,691	34,774	299,020	6,403	305,423
Operating income	20,538	8,061	2,174	5,485	2,739	38,998	[8,481]	30,516
Assets								
Assets	128,411	111,116	15,732	29,036	28,582	312,878	89,618	402,497
Depreciation and amortization	6,287	6,297	458	1,142	1,269	15,456	764	16,220
Impairment loss	58	232	-	-	18	309	-	309
Capital expenditures	5,908	9,593	483	1,395	1,668	19,048	2,305	21,353

(Notes)

## 1. Business segments

The following business segments are classified based on the type, nature and manufacturing methods of products and the similarity of markets.

## 2. Major products by business segment

Segment	Major products
Wristwatches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts of wristwatches, various kinds of clocks, etc.
Electronic devices	Chip LEDs, back light units, liquid crystal displays, quartz oscillators, electronic viewfinders, etc.
Electronic products	Various kinds of printers, floppy disk drives, electronic thermometers, calculators, etc.
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.
Other products	Jewelry, pachinko related products, eyewear, jigs and tools, etc.

## 3. Change in business segment

There were 4 business segments; Watches and clocks, Information and electronic equipment, Industrial machinery, and Other products. However, from the year ended March 31, 2006, the Company changed the business segments to 5; Watches and clocks, electronic devices, electronic products, industrial machinery and other products.

As electronic devices, which was included in Information and electronic equipment, has grown dramatically, information and electronic equipment has been divided into electronic devices and electronic products in order to disclose the business performance in more details, and to enhance the value of the segment data.

In addition, business segments for the year ended March 31, 2005 is shown in new 5 categories.

## 4. During consolidated fiscal 2004, operating expenses that could not be allocated were costs associated with the parent company's administrative expenses and basic research. Such expenses amounted to 7,903 million yen and were included in the "eliminations or general corporate" account.

During consolidated fiscal 2005, operating expenses that could not be allocated were costs associated with the parent company's administrative expenses and basic research. Such expenses amounted to 8,481 million yen and were included in the "eliminations or general corporate" account.

5. Among assets, general corporate assets included in the "eliminations and general corporate" account amounted to 89,821 million yen for consolidated fiscal 2005 and 85,483 million yen for consolidated fiscal 2004. They consisted mainly of surplus funds for investment (e.g., cash, marketable securities) and funds for long-term investment (e.g., investment securities) in the parent company.

## 2. Geographic segment

Millions of yen	Japan	Asia	Americas	Europe	Other	Segment total	Eliminations or general corporate	Consolidated totals
<b>Year ended March 31, 2005</b>								
Net sales								
Customers	275,156	36,227	28,036	16,085	1,782	357,288	-	357,288
Inter-segment	51,218	53,169	247	99	-	104,735	[104,735]	-
Total	326,375	89,397	28,284	16,185	1,782	462,024	[104,735]	357,288
Operating expenses	284,905	88,253	27,043	15,476	1,855	417,534	[97,338]	320,196
Operating income	41,470	1,143	1,240	708	(73)	44,489	[7,396]	37,092
Assets	262,944	38,214	17,474	12,067	1,170	331,871	58,693	390,565
<b>Year ended March 31, 2006</b>								
Net sales								
Customers	259,329	25,489	31,331	17,974	1,816	335,940	-	335,940
Inter-segment	43,516	58,786	1,197	101	-	103,602	[103,602]	-
Total	302,845	84,276	32,528	18,076	1,816	439,543	[103,602]	335,940
Operating expenses	270,757	83,651	29,755	17,326	1,792	403,283	[97,859]	305,423
Operating income	32,087	625	2,773	750	23	36,260	[5,743]	30,516
Assets	264,223	38,625	22,608	13,814	1,298	340,569	61,927	402,497

(Notes)

- Nations or regions are classified according to geographic proximity.
- Major nations or regions in the respective categories:
  - Asia: China/Hong Kong, South Korea, Taiwan, Singapore, Thailand and Malaysia
  - Americas: United States, Panama and Mexico
  - Europe: Germany, United Kingdom, France, Italy and Spain
  - Other: Australia

## 3. Overseas sales

Overseas sales, consolidated net sales, and percentage of overseas sales to consolidated net sales are as follows:

Millions of yen	Year ended March 31, 2005		Year ended March 31, 2006	
	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales
Asia	119,259	33.4	101,963	30.3
Americas	39,592	11.1	45,627	13.6
Europe	43,307	12.1	43,038	12.8
Other	5,876	1.6	4,283	1.3
Total	208,036	58.2	194,912	58.0
Consolidated sales	357,288	100.0	335,940	100.0

(Notes)

- Overseas sales are exports of the Company and its consolidated domestic subsidiaries, and sales (other than exports to Japan) of overseas subsidiaries.
- Nations or regions are classified according to geographic proximity.
- Major nations or regions in the respective categories:
  - Asia: China/Hong Kong, South Korea, Taiwan, Singapore, Thailand, etc.
  - Americas: United States, Canada, Panama, Brazil, Mexico, etc.
  - Europe: Germany, United Kingdom, France, Italy, Spain, etc.
  - Other: Oceania and Africa

**(Income taxes)**

Millions of yen	March 31, 2005	March 31, 2006
1. Major components of deferred tax assets and liabilities		
(Deferred tax assets)		
Depreciation in excess of the depreciation limit	4,932	4,284
Devaluation and unrealized profits on inventory	5,165	5,062
Reserve for retirement benefits in excess of contribution limits	5,750	5,143
Amount in excess of deductible allowance for doubtful accounts	622	494
Amount in excess of deductible reserves for bonus payments	1,772	1,792
Loss carried forward	2,917	252
Valuation loss on investment securities	4,073	3,526
Other	4,930	4,609
Subtotal of deferred assets	30,166	25,167
Valuation allowance	(6,079)	(5,077)
Total deferred tax assets	24,086	20,090
(Deferred tax liabilities)		
Revaluation gain/loss on other marketable securities	(5,067)	(11,047)
Undistributed income of overseas affiliates	(6,373)	(6,777)
Special depreciation reserve	(129)	(80)
Other	(22)	(14)
Total deferred tax liabilities	(11,592)	(17,920)
Net deferred tax assets	12,493	2,169
<i>Note) The net amount of deferred tax assets for the fiscal year and previous fiscal year are included in the following items in the consolidated balance sheet.</i>		
Current assets - Deferred tax assets	10,018	9,094
Fixed assets - Deferred tax assets	2,817	591
Long-term liabilities - Deferred tax liabilities	342	7,516
2. Major differences between the statutory effective tax rate and the actual effective tax rate after tax effect accounting		
Statutory effective tax rate	40.7%: For the year ended March	
(Adjustments)	! 31, 2006, as there were no	
Expenses not deducted for tax purposes	0.4 significant differences	
Dividend and income exclusion	(0.1) between the statutory	
Increase/decrease in valuation allowance	(5.7) effective tax rate (40.7%)	
Other	0.4 and the actual effective tax	
Income tax rate after deferred tax accounting	35.7 rate after tax effect	
	accounting (41.1%), this	
	part is omitted.	

**(Marketable securities)****1. Marketable securities classified as available-for-sale**

None.

**2. Debentures with market value classified as held-to-maturity**

Millions of yen	March 31, 2005			March 31, 2006
	Amount on consolidated balance sheet	Market value	Valuation gain/loss	
Other debentures	1,000	1,082	82	None.

**3. Other marketable securities with market value**

Millions of yen	March 31, 2005			March 31, 2006		
	Acquisition cost	Amount on consolidated balance sheet	Difference	Acquisition cost	Amount on consolidated balance sheet	Difference
<b>Other marketable securities whose value reported on the consolidated balance sheet exceeds the acquisition cost</b>						
Stocks	8,741	21,201	12,459	8,740	35,905	27,165
Bonds	5,000	5,004	4	-	-	-
	13,741	26,206	12,464	8,740	35,905	27,165
<b>Other marketable securities whose value reported on the consolidated balance sheet does not exceed the acquisition cost</b>						
Stocks	-	-	-	29	23	(5)
Bonds	74	69	(5)	23	21	(2)
	74	69	(5)	53	45	(8)

**4. Other marketable securities sold during the year ended March 31, 2005 and 2006**

Millions of yen	March 31, 2005	March 31, 2006
Proceeds from sale	1,030	544
Gain on sale (aggregate)	11	0
Loss on sale (aggregate)	-	3

**5. Major classification of marketable securities with no market value and their amounts on consolidated balance sheet**

Millions of yen	March 31, 2005	March 31, 2006
Bonds being held to maturity		
Unlisted bonds	9,098	11,497
Other marketable securities		
Unlisted stocks (excluding over-the-counter stocks)	1,116	1,416
Investment trust	4,924	4,466

## 6. Redemption schedules and amounts of other marketable securities with maturities and bonds classified as held-to-maturity

Millions of yen	Other bonds	Others	Total
<b>March 31, 2005</b>			
Up to 1 year	9,098	5,004	14,103
Greater than 1 and up to 5 years	1,000	-	1,000
Greater than 5 and up to 10 years	-	-	-
Greater than 10 years	-	-	-
<b>March 31, 2006</b>			
Up to 1 year	11,497	-	11,497
Greater than 1 and up to 5 years	-	-	-
Greater than 5 and up to 10 years	-	-	-
Greater than 10 years	-	-	-

### (Retirement benefits)

#### 1. Outline of retirement benefit program

Citizen Watch Co., Ltd. and its consolidated subsidiaries have established the following defined retirement benefit plans: a tax-qualified pension plan and a retirement lump-sum plan. During the year ended March 31, 2006, the Company and some domestic subsidiaries changed a part of their retirement benefit plans from tax-qualified pension plan to defined contribution pension plan and for those who have already retired, have changed to a closed tax-qualified pension plan. In addition, trust accounts for retirement benefits are established at contributing company.

#### 2. Matters related to retirement benefit liabilities

Millions of yen	March 31, 2005	March 31, 2006
(1) Retirement benefit liabilities	(44,459)	(27,694)
(2) Pension assets	27,933	12,884
(3) Pension trust	5,023	3,860
(4) Unfunded pension liabilities (1)+(2)+(3)	(11,502)	(10,948)
(5) Undisposed gain/loss associated with changes in accounting treatment	(83)	(63)
(6) Unrecognized gain and loss	2,244	188
(7) Unrecognized prior service liabilities	(816)	890
(8) Net balance reported in consolidated balance sheet (4)+(5)+(6)+(7)	(10,156)	(9,933)
(9) Prepaid pension cost	-	-
(10) Accrued retirement benefit cost (8)-(9)	(10,156)	(9,933)

(Note)

1. Some consolidated subsidiaries use simplified procedures for the computation of retirement benefit liabilities.

2. (For the year ended March 31, 2006)

Effect of change from tax-qualified pension plan to defined contribution plan is as follows;

Decrease in retirement benefit liabilities	18,777
Decrease in pension assets	(16,567)
Return from pension trust	(786)
Contribution due to termination of the system	(390)
Unrecognized gain and loss	(926)
Unrecognized prior service liabilities	(370)
Decrease in accrued retirement benefit cost	(264)

Amount transferred to defined contribution plan and distribution amount to closed tax-qualified pension plan amounted 16,958 million yen and is planned to transfer over 4 years. 321 million yen of the amount not transferred as of March 31, 2006 is recorded in other current liabilities, and other long-term liabilities.

**3. Details of retirement benefit costs**

Millions of yen	March 31, 2005	March 31, 2006
Service cost	2,101	2,298
Interest cost	988	730
Anticipated return on pension funds	(582)	(475)
Disposed gain/loss associated with the change in accounting treatment	(26)	(17)
Amount of liabilities for past service costs recognized as expense	(420)	(119)
Expensing of differences based on actuarial calculations	476	609
Retirement benefit cost	2,535	3,025

(Notes)

1. The retirement benefit costs of consolidated subsidiaries using simplified procedures are included in the service cost account above.

2. Costs contributed to defined contribution pension in consolidated subsidiaries adopting defined contribution plan are included in the service cost account above.

3. (For the year ended March 31, 2006)

Besides the above retirement benefit costs, 515 million yen was recorded in extraordinary gain as gain on transition of retirement benefit plan.

**4. Matters related to assumptions used for the computation of retirement benefit liabilities et al.**

	March 31, 2005	March 31, 2006
Attribution of anticipated retirement benefits	Straight-line method	
Discount rate	Beginning Generally 2.5%	Generally 2.0%
	End Generally 2.0%	
Anticipated rate of return on pension funds	Generally 2.0%	Generally 2.0%
Period required to write off prior service cost	5 years (general rule)	5 years (general rule)
Period required to dispose gain/loss	5 years (general rule)	5 years (general rule)
Period required to dispose gain/loss incurred at the time of changes in accounting treatment	As a general rule, such events are subject to full and immediate accounting treatment, although some subsidiaries spread the cost over a period usually consisting of five years.	As a general rule, such events are subject to full and immediate accounting treatment, although some subsidiaries spread the cost over a period usually consisting of five years.

**(Subsequent Events)**

None.