

## Nonconsolidated 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
Board of Directors Meeting on the Settlement of Accounts:	May 15, 2006
Date of ordinary general meeting of shareholders:	June 28, 2006
Scheduled dividend payment date:	June 29, 2006
Interim Dividend System:	Yes
Application of unit trading system:	Yes (100 shares per unit)

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

### (1) Nonconsolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2006	158,320	1.7	9,164	43.6	14,233	43.1
March 31, 2005	155,650	1.4	6,382	13.2	9,946	36.6

	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	8,773	34.2	25.25	23.36	5.5	6.6	9.0
March 31, 2005	6,538	19.5	21.37	19.59	4.4	5.0	6.4

(Notes)

1. Average number of outstanding shares during term:  
     March 2006 term: 344,486,788 shares  
     March 2005 term: 302,849,253 shares
2. Changes in accounting methods: Yes
3. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

**(2) Dividends**

	Dividends per share			Total dividends paid (annual)	Pay-out ratio	Dividends to shareholders equity
	(Yen)	Interim (Yen)	Year-end (Yen)			
March 31, 2006	15.00	7.50	7.50	(Millions of yen) 5,100	% 59.4	% 3.0
March 31, 2005	11.00	5.50	5.50	3,326	51.5	2.2

**(3) Nonconsolidated financial position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2005	230,890	169,348	73.3	446.54
March 31, 2005	202,512	149,177	73.7	495.28

(Notes)

- Total number of shares outstanding at the end of the fiscal term:  
March 2006 term: 379,075,837 shares      March 2005 term: 301,065,226 shares
- Total number of treasury stock at the end of the fiscal term:  
March 2006 term: 1,277,972 shares      March 2005 term: 10,437,824 shares

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

	Net sales	Operating income	Ordinary income	Net income	Dividends per share		
					Interim	Year-end	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)	(Yen)
Interim term	86,000	3,200	6,700	5,100	7.50	-	-
Full term	177,000	8,300	14,700	10,500	-	7.50	15.00

Reference: Estimated earnings per share (full term): 27.70 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.*

## Nonconsolidated Balance Sheet

Millions of yen	March 31, 2005	%	March 31, 2006	%	Year-on-year change
<b>Current assets</b>					
Cash and cash equivalents	39,179		31,852		(7,327)
Notes receivable	1,480		1,088		(391)
Accounts receivable	27,582		25,400		(2,182)
Marketable securities	10,598		12,497		1,898
Finished goods	4,908		6,357		1,449
Materials	504		266		(237)
Goods in process	6,125		4,522		(1,603)
Accrued consumption tax	647		743		96
Short-term loans	20		21		0
Other accounts receivable	5,752		6,768		1,015
Deposits	6,270		1,958		(4,311)
Deferred tax assets	3,165		1,894		(1,271)
Other current assets	1,759		2,578		818
Allowance for doubtful accounts	(946)		(153)		792
	107,048	52.9	95,794	41.5	(11,254)
<b>Fixed assets</b>					
<b>Property, plant and equipment</b>					
Buildings and structures	14,244		15,684		1,439
Machinery and equipment	11,789		10,334		(1,454)
Vehicles and carriers	5		4		(0)
Tools, furniture and fixtures	3,058		2,896		(161)
Land	3,733		3,733		-
Construction in progress	1,146		783		(362)
	33,977	16.8	33,436	14.5	(540)
<b>Intangible fixed assets</b>					
Software	554		535		(18)
Other intangible fixed assets	168		163		(5)
	722	0.3	699	0.3	(23)
<b>Investments and other assets</b>					
Investment in subsidiaries and affiliates	28,828		65,456		36,628
Investment securities	27,851		36,349		8,498
Long-term loans	383		361		(21)
Long-term prepaid expenses	156		67		(88)
Deferred tax assets	4,088		-		(4,088)
Other	928		843		(85)
Allowance for doubtful accounts	(128)		(87)		41
Allowance for valuation loss on investments	(1,344)		(2,032)		(688)
	60,763	30.0	100,959	43.7	40,196
	95,463	47.1	135,095	58.5	39,631
<b>Total assets</b>	202,512	100.0	230,890	100.0	28,377

## Reference

Millions of yen	March 31, 2005	March 31, 2006	Year-on-year change
Capital expenditures	7,143	7,259	116
Depreciation expenses	8,009	6,096	(1,912)
R&D expenditures	5,293	5,828	535

## CITIZEN WATCH

Millions of yen	March 31, 2005	%	March 31, 2006	%	Year-on-year change
<b>Current liabilities</b>					
Notes payable	1,785		2,000		214
Accounts payable	16,843		19,061		2,217
Short-term bank loans payable	0		0		(0)
Other accounts payable	4,142		4,796		654
Income taxes payable	225		155		(70)
Accrued expenses	2,419		1,937		(481)
Reserve for bonuses to employees	1,278		1,335		57
Notes payable for equipment	633		858		225
Other current liabilities	477		469		(8)
	<u>27,807</u>	13.7	<u>30,615</u>	13.3	<u>2,807</u>
<b>Long-term liabilities</b>					
Convertible bonds	23,000		23,000		-
Long-term loans payable	2		2		(0)
	-		5,697		5,697
Reserve for defined retirement benefits	1,896		1,831		(64)
Reserve for retirement bonuses to directors	248		-		(248)
Long-term unearned income	72		59		(12)
Other long-term liabilities	308		335		27
	<u>25,528</u>	12.6	<u>30,926</u>	13.4	<u>5,398</u>
<b>Total liabilities</b>	<u>53,335</u>	26.3	<u>61,541</u>	26.7	<u>8,206</u>
<b>Shareholders' equity</b>					
Common stock	32,648	16.1	32,648	14.1	-
Additional paid-in capital					
Capital surplus	41,166		66,029		24,863
Gain on sales of treasury stock	1,269		-		(1,269)
	<u>42,435</u>	21.0	<u>66,029</u>	28.6	<u>23,594</u>
Retained earnings					
Legal reserve	7,789		7,789		-
Special reserves	46,500		46,500		-
Special amortization reserve	15		11		(3)
Unappropriated retained profits	20,641		1,874		(18,767)
Net unrealized gain/loss on other marketable securities	7,160	3.5	15,756	6.8	8,595
	<u>74,946</u>	37.0	<u>56,175</u>	24.3	<u>(18,771)</u>
Treasury stock	(8,014)	(3.9)	(1,261)	(0.5)	6,752
<b>Total shareholders' equity</b>	<u>149,177</u>	73.7	<u>169,348</u>	73.3	<u>20,171</u>
<b>Total liabilities and shareholders' equity</b>	<u>202,512</u>	100.0	<u>230,890</u>	100.0	<u>28,377</u>

## Nonconsolidated Statement of Income

Millions of yen	Year ended March 31, 2005		Year ended March 31, 2006		Year-on-year change	
		%		%		%
<b>Net sales</b>	155,650	100.0	158,320	100.0	2,670	1.7
<b>Cost of sales</b>	128,409		123,244		(5,164)	
<b>Selling, general and administrative expenses</b>	20,858		25,911		5,053	
Operating income	6,382	4.1	9,164	5.8	2,781	43.6
<b>Nonoperating income</b>						
Interest and dividend income	3,046		4,543		1,497	
Rents receivable	2,783		1,908		(875)	
Foreign currency exchange gain	80		431		351	
Other	172		140		(31)	
	6,082	3.9	7,023	4.4	940	15.5
<b>Nonoperating expenses</b>						
Interest charges	0		0		(0)	
Loss on sales of notes	97		247		150	
Depreciation expenses for lent properties	2,363		1,608		(755)	
Other	58		97		39	
	2,519	1.6	1,954	1.2	(565)	(22.4)
Ordinary income	9,946	6.4	14,233	9.0	4,286	43.1
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	18		-		(18)	
Reversal of allowance for doubtful accounts	7		151		144	
Reversal of allowance for valuation loss on investments	101		47		(54)	
Gain on transition of retirement pension plan	-		910		910	
Other	31		10		(20)	
	157	0.1	1,120	0.7	962	609.1
<b>Extraordinary losses</b>						
Loss on disposal of properties	1,489		377		(1,112)	
Special severance indemnities	-		104		104	
Provision for valuation loss on investments	-		740		740	
Valuation loss on investment securities	-		620		620	
Other	6		9		3	
	1,496	1.0	1,852	1.2	356	23.8
Income before income taxes	8,607	5.5	13,500	8.5	4,893	56.8
Income taxes						
Current	50		40		(10)	
Deferred	2,019		4,687		2,667	
Net income	6,538	4.2	8,773	5.5	2,235	34.2
Balance brought forward	15,773		18,924		3,151	
Interim dividends paid	1,670		2,257		587	
Cancellation of treasury stock	-		18,978		18,978	
Loss on disposal of treasury stock	-		4,587		4,587	
Unappropriated profits	20,641		1,874		(18,767)	

## Proposed Appropriation of Retained Earnings

Millions of yen	Year ended March 31,		Year-on-year change
	2005	2006	
Unappropriated retained earnings	20,641	1,874	(18,767)
Reversal of reserve for special depreciation	3	3	-
Reversal of contingent reserve	-	16,500	16,500
	20,645	18,378	(2,267)
Dividends paid	1,655	2,843	1,187
	(¥5.50 per share)	(¥7.50 per share)	
Bonuses to directors	65	75	10
	1,720	2,918	1,197
Unappropriated retained earnings carried forward to the next year	18,924	15,460	(3,464)

## Basis of Presenting the Nonconsolidated Financial Statements

Item	Basis of Presenting the Nonconsolidated Financial Statements
1. Basis and method of valuation of marketable securities	(1) Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis. (2) Stocks of subsidiaries and affiliates are valued at cost using the moving-average method. (3) Other marketable securities i. If the market value is determinable, other marketable securities are valued at market based on their market value on the date of the fiscal closing date. (Net unrealized gain/loss is recognized directly in the shareholders' equity section. Selling cost is computed by the moving-average method.) ii. If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.
2. Basis and method of valuation of inventories	Inventories are primarily valued on a weighted average cost basis, which does not exceed cost or market.
3. Derivative instruments	Derivative instruments are valued at market.
4. Depreciation methods for fixed assets	(1) Property, plant and equipment: declining-balance method Years of useful life for principal assets Buildings and structures: 3 - 50 years Machinery and equipment: 5 - 10 years (2) Intangible fixed assets: straight-line method (3) Long-term prepaid expenses: straight-line method
5. Accounting for lease transactions	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.
6. Basis of accounting for reserves	(1) Allowance for doubtful accounts 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. (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. (3) Reserve for bonuses to employees The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments. (4) Reserve for defined retirement benefits To provide for future payments of defined retirement benefits to employees, the reserve for defined retirement benefits is stated at an amount deemed to be correct on the date of the year-end 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. Obligations for prior service and actuarial differences are written off as an expense using the declining-balance method over a fixed number of years (5) that does not exceed the average remaining years of service of employees in which they occur. Prior service obligations are written off as expenses from the year in which they occur, and actuarial differences are written off as expenses from the fiscal year following the term in which they occur. In addition, the Company changed a part of its retirement benefits plan from tax-qualified defined benefit plan to defined contribution plan on January 1, 2006. As a result, gain on transition of retirement benefit plan of 910 million yen was recorded in extraordinary gains.
7. Consumption tax	Consumption taxes are accounted for by the tax excluded method.

**(Additional information)**

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 on 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 Assts" (Corporate Accounting Standards Application Guidelines, Issue 6, October 31, 2003), were applied.

As a result, income before income taxes declined by 104 million yen. Accumulated impairment loss is deducted from respective assets.

**Notes****(Related to balance sheet)**

<b>Millions of yen</b>	<b>March 31, 2005</b>	<b>March 31, 2006</b>
1. Accumulated depreciation of property, plant and equipment	117,724	109,569
2. Amount of discounted export notes	3,994	4,886
3. Loan guarantees	3,634	278
4. Number of Treasury certificates	10,437,824 shares	1,277,972 shares

**(Securities)****Stocks of subsidiaries and affiliates with determinable market value**

<b>Millions of yen</b>	<b>March 31, 2005</b>	<b>March 31, 2006</b>
Stocks of subsidiaries		
Amounts on balance sheet	975	-
Market value	161,813	-
Difference	160,837	-

Citizen Electronics Co., Ltd., Citizen Miyota Co., Ltd. and Citizen Fine Tech Co., Ltd. have become the Company's wholly-owned subsidiaries as of October 1, 2005 by share exchange. No stocks of subsidiaries or that of affiliated companies had market value.

**(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	2,114	1,655
Decline in valuation of inventory	1,300	708
Amount in excess of deductible allowance for doubtful accounts	182	9
Amount in excess of deductible reserves for bonus payments	520	543
Accrued severance indemnities reserve cost excess of the inclusion limit	2,821	2,171
Valuation loss on investment securities	4,707	4,078
Disallowance of investment valuation reserve	546	826
Deduction for foreign tax carried forward	526	570
Loss carried forward	2,384	48
Other	1,696	851
	16,800	11,464
Valuation allowance	(4,625)	(4,452)
Total deferred tax assets	12,175	7,012
(Deferred tax liabilities)		
Revaluation gain/loss on other marketable securities	(4,912)	(10,810)
Special depreciation reserve	(8)	(5)
Total deferred tax liabilities	(4,920)	(10,815)
Net deferred tax balance	7,254	(3,803)
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%	40.7%
(Adjustments)		
Expenses not deducted for tax purposes	0.5%	0.3%
Dividend and income exclusion	(9.7)%	(9.6)%
Increase/decrease in valuation allowance	(8.7)%	2.2%
Other	1.2%	1.4%
Income tax rate after deferred tax accounting	24.0%	35.0%

**(Subsequent Events)**

None.

**(Changes in the Board of Directors)**

(Scheduled on June 28, 2006)

**(1) Retiring directors (tentative)**

**Mikiroh Ueda** (Currently Managing Director)  
[Scheduled to be appointed to President and CEO of Citizen Miyota Co., Ltd.]  
**Yuzo Shirasaki** (Currently Director)  
[Scheduled to be appointed to President and CEO of Citizen Tohoku Co., Ltd.]

**(2) Candidate for appointment to Board of Directors**

**Takao Suzuki** (Currently Executive Officer, Personnel Division)  
[Scheduled to be appointed to Director.]

**(3) Retiring corporate auditors**

**Takeo Kuriyama** (Currently full-time corporate auditor)  
**Terumichi Imai** (Currently full-time corporate auditor)

**(4) Candidate for Corporate Auditor**

**Full-time Corporate Auditor Yoshiyuki Iijima**  
(Currently advisor of Citizen Watch Co., Ltd.)  
**Full-time Corporate Auditor Takeshi Hayasaka**  
(Currently President and CEO of Mizuho Factors, Limited)  
(Mr. Takeshi Hayasaka is a candidate for outside Corporate Auditor.)

**(Reference)**

The Company adopts executive officer system and, the following changes are scheduled on June 28, 2006.

**(1) Retiring Executive Officer**

**Executive officer Takao Suzuki**  
(Scheduled to be appointed to Director of Citizen Watch Co., Ltd.)

**(2) New Executive Officer**

**Executive officer Katsuhiko Noguchi**  
(Currently Senior Managing Director of Citizen Electronics Co., Ltd.)