

February 10, 2006

Consolidated Financial Statements for the Nine Months Ended December 31, 2005

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

All figures in these statements are rounded down to the nearest million.

CITIZEN WATCH CO., LTD.

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1. Matters concerning preparation for consolidated financial results for the nine months ended December 31, 2005

- (1) Difference in the accounting policies from the method applied for the most recent fiscal year:
Yes, simplified procedures are used for standards such as stating income taxes and recognition of reserves.
- (2) Change in the accounting policies from the method applied for the most recent fiscal year:
Yes, accounting for the impairment of fixed assets is used.
- (3) Scope of consolidation and application of the equity method:
Number of consolidated subsidiaries: 57
Number of non-consolidated subsidiaries accounted for by the equity method: 0
Number of affiliates accounted for the equity method: 0
- (4) Change in scope of consolidation and application of the equity method:
(compared to the year ended March 31, 2005)
Consolidation: 3 additions; 3 eliminations
Equity method: No change

2. Results for the nine months ended December 31, 2005

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Nine months ended December 31, 2005	254,585	-8.1%	24,096	-24.4%	27,120	-19.8%
Nine months ended December 31, 2004	277,059	-3.0%	31,881	7.2%	33,826	14.2%
Year ended March 31, 2005	357,288	-4.9%	37,092	4.5%	40,118	13.4%

	Net income (9 months)		Earnings per share (9 months)	Fully diluted earnings per share (9 months)
	(Millions of yen)		(Yen)	(Yen)
Nine months ended December 31, 2005	13,838	-23.5%	41.76	38.54
Nine months ended December 31, 2004	18,078	18.3%	59.58	54.60
Year ended March 31, 2005	20,233	3.9%	65.97	60.45

Breakdown of Sales by Business Segment

Millions of yen	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Change	
			Amount	%
Watches and clocks	94,686	93,130	1,555	1.7
Electronic devices	86,464	106,518	-20,053	-18.8
Electronic products	18,201	19,985	-1,784	-8.9
Industrial machinery	27,153	26,041	1,112	4.3
Other products	28,079	31,383	-3,303	-10.5
Consolidated totals	254,585	277,059	-22,473	-8.1

Breakdown of Operating Income by Business Segment

Millions of yen	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Change Amount	%
Watches and clocks	16,849	14,988	1,860	12.4
Electronic devices	7,010	15,254	-8,243	-54.0
Electronic products	1,564	1,909	-344	-18.0
Industrial machinery	3,746	3,454	291	8.5
Other products	1,144	2,062	-918	-44.5
Eliminations or general corporate	(6,219)	(5,787)	-431	-
Consolidated totals	24,096	31,881	-7,784	-24.4

Note: From this year, information and electronic equipment business is disclosed in 2 segments; electronic devices and electronic products. Electronic devices business includes opto devices, liquid crystal devices, quartz devices, and other parts. Electronic products business includes printers and calculators, and healthcare equipment.

Consolidated net sales for the nine months ended December 31, 2005 decreased by 8.1% from the same period of last year to 254.5 billion yen and consolidated operating income also declined by 24.4% to 24.0 billion yen. Although sales and profit increased in watches and clocks business and industrial machinery business, operating results were poor in electronic devices business and electronic products business.

Watches and clocks business

Sales of Citizen brand watches increased both in Japan and overseas. In the Japanese market, full metal radio-controlled watches continued to sell well, contributing to sales increase. In the overseas market, sales increased in all areas, North America, Europe, Asia and Central and South America, not only because average selling price rose due to high-value added strategy, but also because yen weakened. On the other hand, although focus is being shifted to high-value added models, sales of movement declined as volume dropped by taking price maintenance strategy in standard model. Consequently, sales of watches and clocks business increased by 1.7% from the same period of last year to 94.6 billion yen, and operating income increased by 12.4% to 16.8 billion yen.

Electronic devices business

Sales in Opto-devices segment declined although global cell phone market on which Citizen heavily depends saw volume increase in handsets produced. Strong demand in low-end handsets resulted in price decline and reduction of number of composition parts used in one handset. In addition, performance in medium to high-end handsets was poor not only from intensifying competition among competitors, but also from emerging new technologies such as organic and inorganic EL. Volume has been increasing in flash LED for camera-equipped cell phones but could not compensate for the poor performance of other products. Sales of liquid crystal devices segment also decreased due to the reduction of production for customers in Europe and America. Although the market condition is showing a recovery in quartz devices segment, sales decreased, owing to the poor performance in the first half. As a consequence, sales of electronic devices business decreased by 18.8% from the same period of last year to 86.4 billion yen, and operating income decreased by 54.0% to 7.0 billion yen.

Electronic products business

While sales of large dot matrix printers for China was steady, sales of POS printers declined due to decline of large orders. In addition, healthcare equipment saw a slowdown, owing to the influence of low-end products such as Taiwanese. Moreover, orders of calculators were not well worldwide. Consequently, sales of electronic products business decreased by 8.9% from the same period of last year to 18.2 billion yen, and operating income decreased by 18.0% to 1.5 billion yen.

Industrial machinery business

The main CNC automatic lathes were steady not only in Japan, which was supported by the automobile industry, but also in overseas market. Consequently, sales of the industrial machinery business overall increased by 4.3% from the same period of last year to 27.1 billion yen, and operating income increased by 8.5% to 3.7 billion yen.

Other products business

In addition to the continuing weak Japanese market in the jewelry segment, pachinko-related products also had lower sales due to an inability to compensate for the previous year's strong demand from issuance of new paper bills. Consequently, sales of other products business declined by 10.5% from the same period of last year to 28.0 billion yen, and the operating income by 44.5% to 1.1 billion yen.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
As of December 31, 2005	413,332	279,600	67.6	720.84
As of December 31, 2004	398,459	236,976	59.5	787.11
As of March 31, 2005	390,565	240,888	61.7	799.28

Total assets as of December 31, 2005 increased 22.7 billion yen from that of March 31, 2005 to 413.3 billion yen. Cash and cash equivalents decreased 3.7 billion yen due to purchase of its own stock. Minority interest declined substantially and capital reserves increased as a result of making 5 subsidiaries wholly-owned on October 1, 2005.

3. Consolidated Forecast for the Year ending March 31, 2006

Regarding the consolidated forecast for the year ending March 31, 2006, there is no change from the forecast announced on November 15, 2005. The exchange rate assumptions for the fiscal year ending May 31, 2006 is 1US\$ = ¥112 and 1EURO = ¥136. (Exchange rate for the nine months was 1US\$ = ¥111 and 1EURO = ¥137.)

Consolidated Forecast for the Year ending March 31, 2006

Net sales	Operating income	Ordinary income	Net income
(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
339,000	28,500	30,500	16,000

Breakdown of Sales by Business Segment

Millions of yen	Year ending	Year ended	Change	
	March 31, 2006	March 31, 2005	Amount	%
Watches and clocks	125,500	121,582	3,917	3.2
Electronic devices	113,000	133,841	-20,841	-15.6
Electronic products	27,500	26,442	1,057	4.0
Industrial machinery	37,000	35,460	1,539	4.3
Other products	36,000	39,962	-3,962	-9.9
Consolidated totals	339,000	357,288	-18,288	-5.1

Breakdown of Operating Income by Business Segment

Millions of yen	Year ending	Year ended	Change	
	March 31, 2006	March 31, 2005	Amount	%
Watches and clocks	20,500	17,791	2,708	15.2
Electronic devices	8,100	17,848	-9,748	-54.6
Electronic products	2,200	2,657	-457	-17.2
Industrial machinery	5,500	4,951	548	11.1
Other products	500	1,748	-1,248	-71.4
Eliminations or general corporate	(8,300)	(7,903)	-396	-
Consolidated totals	28,500	37,092	-8,592	-23.2

Cautionary statements:

This material contains forward-looking statements that are based on information available to the management at the time of the announcement. Actual results could differ materially from those projected depending on a variety of factors hereafter.

Condensed Consolidated Balance Sheet

Millions of yen	As of December 31,		As of March 31,			
	2004	%	2005	%	2005	%
Current assets						
Cash and cash equivalents	107,254		109,796		113,577	
Notes and accounts receivable	89,497		85,251		78,229	
Marketable Securities	13,076		16,282		14,093	
Inventories	54,428		54,610		50,469	
Other current assets	18,202		17,786		16,757	
	<u>282,459</u>	70.9	<u>283,728</u>	68.6	<u>273,126</u>	69.9
Fixed assets						
Tangible fixed assets	77,852	19.5	79,661	19.3	76,929	19.7
Intangible fixed assets	988	0.3	1,007	0.3	1,099	0.3
Investments and other assets	37,158	9.3	48,935	11.8	39,410	10.1
	<u>115,999</u>	29.1	<u>129,604</u>	31.4	<u>117,438</u>	30.1
Total assets	<u>398,459</u>	100.0	<u>413,332</u>	100.0	<u>390,565</u>	100.0

Millions of yen	As of December 31,		As of March 31,			
	2004	%	2005	%	2005	%
Current liabilities						
Notes and accounts payable	43,751		38,862		36,845	
Short-term bank loans payable	8,970		6,131		6,559	
Other	41,859		42,467		39,416	
	<u>94,581</u>	23.7	<u>87,460</u>	21.2	<u>82,820</u>	21.2
Long-term liabilities						
Bonds with subscription right for new shares	23,000		23,000		23,000	
Long-term loans payable	58		2		2	
Reserve for defined retirement benefits	10,501		10,173		10,156	
Other	4,085		11,081		3,935	
	<u>37,644</u>	9.5	<u>44,256</u>	10.7	<u>37,095</u>	9.5
Total liabilities	<u>132,225</u>	33.2	<u>131,717</u>	31.9	<u>119,916</u>	30.7
Minority interests	29,257	7.3	2,014	0.5	29,760	7.6
Shareholders' equity						
Common stock	32,648	8.2	32,648	7.9	32,648	8.4
Capital reserves	39,027	9.8	63,886	15.4	39,027	10.0
Retained earnings	171,021	42.9	176,939	42.8	173,173	44.3
Net unrealized gain/loss on other marketable securities	6,390	1.6	15,468	3.7	7,357	1.9
Foreign currency translation adjustments	(3,983)	(1.0)	(114)	(0.0)	(3,185)	(0.8)
Treasury stock	(8,128)	(2.0)	(9,228)	(2.2)	(8,133)	(2.1)
Total shareholders' equity	<u>236,976</u>	59.5	<u>279,600</u>	67.6	<u>240,888</u>	61.7
Total liabilities and shareholders' equity	<u>398,459</u>	100.0	<u>413,332</u>	100.0	<u>390,565</u>	100.0

Consolidated Statement of Income

Millions of yen	Nine months ended December 31, 2004		Nine months ended December 31, 2005		Year ended March 31, 2005	
		%		%		%
Net sales	277,059	100.0	254,585	100.0	357,288	100.0
Cost of sales	190,190	68.6	174,319	68.5	247,075	69.2
Gross profit	86,868	31.4	80,266	31.5	110,212	30.8
Selling, general and administrative expenses	54,986	19.9	56,169	22.0	73,120	20.4
Operating income	31,881	11.5	24,096	9.5	37,092	10.4
Nonoperating income						
Interest and dividend income	788		836		1,072	
Foreign exchange gain	225		1,242		622	
Other	1,903		1,681		2,562	
	2,918	1.1	3,761	1.5	4,257	1.2
Nonoperating expenses						
Interest charges	163		26		194	
Other	810		710		1,037	
	973	0.4	737	0.3	1,231	0.4
Ordinary income	33,826	12.2	27,120	10.7	40,118	11.2
Extraordinary gains	411	0.2	466	0.2	879	0.3
Extraordinary losses	1,129	0.4	1,104	0.5	2,946	0.8
Income before income taxes	33,109	12.0	26,482	10.4	38,051	10.7
Income taxes	11,747	4.2	11,386	4.5	13,596	3.8
Minority interests	3,282	1.2	1,257	0.5	4,221	1.2
Net income	18,078	6.5	13,838	5.4	20,233	5.7