

August 9, 2006

Consolidated Financial Statements for the Three Months Ended June 30, 2006

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 which are less than 1 million yen have been rounded down.

CITIZEN WATCH CO., LTD.

(URL <http://www.citizen.co.jp/>)

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1. Matters concerning preparation for consolidated financial results for the three months ended June 30, 2006

- (1) Usage of simplified procedures in the accounting method:
Yes, simplified procedures are partially used for standard for stating income taxes and provisions.
- (2) Change in the accounting policies from the method applied for the most recent fiscal year: No.
- (3) Change in scope of consolidation and application of the equity method:
(in comparison to the year ended March 31, 2006)
Consolidation (Newly added): 5; (Eliminated): 0
Equity method (Newly added): 0; (Eliminated): 0

2. Results for the three months ended June 30, 2006

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Three months ended June 30, 2006	77,243	-0.2%	4,941	-5.1%	5,543	-4.5%
Three months ended June 30, 2005	77,408	-15.0%	5,209	-52.3%	5,806	-51.7%
Year ended March 31, 2006	335,940	-6.0%	30,516	-17.7%	34,634	-13.7%

	Net income		Earnings per share		Fully diluted earnings per share	
	(Millions of yen)		(Yen)		(Yen)	
Three months ended June 30, 2006	2,650	-22.4%	6.99		6.49	
Three months ended June 30, 2005	3,417	-43.4%	11.35		10.40	
Year ended March 31, 2006	18,594	-8.1%	53.23		49.24	

Breakdown of Sales by Business Segment

Millions of yen	Three months ended June 30, 2006	Three months ended June 30, 2005	Change Amount	%
Watches and clocks	29,972	27,401	2,571	9.4%
Electronic devices	23,939	27,897	-3,957	-14.2%
Electronic products	6,170	5,272	897	17.0%
Industrial machinery	9,339	8,596	742	8.6%
Other products	7,821	8,240	-418	-5.1%
Consolidated totals	77,243	77,408	-165	-0.2%

Breakdown of Operating Income by Business Segment

Millions of yen	Three months ended June 30, 2006	Three months ended June 30, 2005	Change Amount	%
Watches and clocks	4,674	3,546	1,127	31.8%
Electronic devices	239	1,902	-1,662	-87.4%
Electronic products	708	516	192	37.2%
Industrial machinery	1,383	1,043	339	32.5%
Other products	440	200	239	119.3%
Eliminations or general corporate	(2,504)	(2,001)	-503	-
Consolidated totals	4,941	5,209	-267	-5.1%

Consolidated net sales for the first quarter decreased by 0.2% from the same period of last year to 77.2 billion yen and consolidated operating income declined by 5.1% to 4.9 billion yen. Although watches and clocks business, electronic products business and industrial machinery business performed well, it was not sufficient to cover the low performance in electronic devices business, which depends heavily on mobile phone market.

Watches and clocks business

Sales of Citizen brand watches increased both in Japan and overseas due to strong sales of high-value added products and weaker yen. In the Japanese market, in addition to the continuing brisk sales of full-metal Eco-Drive radio-controlled watches, VAGARY and licensed brand watches also had steady sales. In North America and Europe, sales increased especially in Eco-Drive watches, and in Asia, the recovery in Chinese market contributed to sales increase. Central and South America recorded the same level of sales as last year despite a tough time. OEM products especially for North America and Spain also had strong sales. However, sales of the mid-priced Q&Q brand declined due to the poor performance in Europe. With regard to the movement business, under a market condition of declining demand and prices, the Company focused on maintaining the price and thus, reduced the volume, which resulted in sales decline.

Consequently, sales of watches and clocks business increased by 9.4% from the same period of last year to 29.9 billion yen, and operating income increased by 31.8% to 4.6 billion yen.

Electronic devices business

Despite bright news such as mass production of LED for general lighting, operating conditions were extremely tough especially in opto-devices segment, which depends heavily on mobile phone market. Mobile phone market is estimated to continue growing at a certain rate this year on volume basis. However, most of the growth is expected to be dominated by low-end handsets for BRIC. Big global mobile phone manufacturers are focusing on these low-end models which have a huge potential to increase, and thus, are taking strategies to cut the cost and maintain the volume. Mass production of the low-end handsets triggered the decline in price and the number of LED used in one handset, and further resulted in significant price decline in small backlight unit. In addition, flash LED was planned to be installed in the middle to high-end models, but as strong customers adjusted production in April and May due to over stock, the Company could not achieve the original plan.

Although results did not reach the initial plan, sales of LCD increased compared to the same period of last year as devices for handsets recovered in some areas and active aberration compensation element for DVD had steady sales. Quartz devices also recorded increased sales due to steady sales in both TCXO and oscillators for tuners and watches. In other parts, although glass substrate performed as planned, operating results remained poor partially due to the low performance in acoustic products.

As a consequence, sales of electronic devices business decreased by 14.2% from the same period of last year to 23.9 billion yen, and operating income declined by 87.4% to 0.2 billion yen.

Electronic products business

Dot matrix printers for China and mini-printers for Europe and America reported healthy sales, and the new business of digital photo printers also expanded sales. In addition, healthcare products for overseas sold well. Consequently, sales of electronic products business increased by 17.0% from the same period of last year to 6.1 billion yen, and operating income increased by 37.2% to 0.7 billion yen.

Industrial machinery business

The CNC automatic lathes had an excellent performance overall both in orders and sales. In Japan, brisk inquiry continued from various industries, such as cars, electronic products and medical. In addition, strong demand in HDD-related continued in ASEAN and no change was seen in expansion of Chinese market despite some instability. Demand especially in medical remained strong in America, and sales were steady in Europe despite a little stagnation in some countries. As a result, sales of industrial machinery business overall increased by 8.6% from the same period of last year to 9.3 billion yen, and operating income increased by 32.5% to 1.3 billion yen.

Other products business

Consumer demand remained low in the jewelry segment and pachinko-related products also had lower sales. Consequently, sales of other products business declined by 5.1% from the same period of last year to 7.8 billion yen, while operating income increased by 119.3% to 0.4 billion yen.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
Three months ended June 30, 2006	407,963	279,474	68.0	732.00
Three months ended June 30, 2005	390,588	243,997	62.5	810.45
Year ended March 31, 2006	402,497	276,411	68.7	728.43

Total assets as of June 30, 2006 totaled to 407.9 billion yen with an increase of 5.4 billion yen from March 31, 2006. In the assets, due to the seasonality and the increase in consolidating companies, inventories increased 6.7 billion yen. Investments and other assets increased 2.0 billion yen as investment securities increased due to market value evaluation. Liabilities increased 4.4 billion yen to 128.4 billion yen as other current liabilities increased. Net assets totaled to 279.4 billion yen due to making subsidiaries wholly-owned in October 2005 and increase in net unrealized gain/loss on other marketable securities.

3. Consolidated Projected Results for the Year ending March 31, 2007

Considering the results for the three months ended June 30, 2006, and the current situation, the consolidated projected results for the six months ending September 30, 2006 and the year ending March 31, 2007 are revised as below from the previous announcement.

The exchange rate for the fiscal year ending May 31, 2007 is assumed as 1US\$ = ¥113 and 1EURO = ¥137. (Exchange rate for the first quarter was 1US\$ = ¥115 and 1EURO = ¥143.)

Consolidated Forecast for the Six Months ending September 30, 2006

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (May 15,2006)	172,000	13,000	14,000	8,000
Current projection	167,000	11,000	12,000	6,000
Amount of change	-5,000	-2,000	-2,000	-2,000
% of change	-2.9%	-15.4%	-14.3%	-25.0%
Six months ended September 30, 2005	161,922	12,883	14,621	7,605

(Ref.) EPS (for the six months ending September 30, 2006): 15.83 yen

Forecast of Sales by Business Segment

Millions of yen	Current projection	Previous projection (May 15, 2006)	Change Amount	%
Watches and clocks	63,500	62,000	1,500	2.4%
Electronic devices	53,000	59,500	-6,500	-10.9%
Electronic products	14,000	13,500	500	3.7%
Industrial machinery	20,500	20,500	0	0.0%
Other products	16,000	16,500	-500	-3.0%
Consolidated totals	167,000	172,000	-5,000	-2.9%

Forecast of Operating Income by Business Segment

Millions of yen	Current projection	Previous projection (May 15, 2006)	Change Amount	%
Watches and clocks	10,000	9,000	1,000	11.1%
Electronic devices	1,500	4,000	-2,500	-62.5%
Electronic products	1,500	1,300	200	15.4%
Industrial machinery	3,000	3,000	0	0.0%
Other products	500	500	0	0.0%
Eliminations or general corporate	(5,500)	(4,800)	-700	-
Consolidated totals	11,000	13,000	-2,000	-15.4%

Consolidated Forecast for the Year ending March 31, 2007

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (May 15, 2006)	367,000	31,000	33,000	19,000
Current projection	347,000	25,000	27,000	14,000
Amount of change	-20,000	-6,000	-6,000	-5,000
% of change	-5.4%	-19.4%	-18.2%	-26.3%
The year ended March 31, 2006	335,940	30,516	34,634	18,594

(Ref.) EPS (for the year ending March 31, 2007): 36.93 yen

Forecast of Sales by Business Segment

Millions of yen	Current projection	Previous projection (May 15, 2006)	Change Amount	%
Watches and clocks	133,000	131,000	2,000	1.5%
Electronic devices	111,000	132,000	-21,000	-15.9%
Electronic products	28,500	27,500	1,000	3.6%
Industrial machinery	40,500	40,500	0	0.0%
Other products	34,000	36,000	-2,000	-5.6%
Consolidated totals	347,000	367,000	-20,000	-5.4%

Forecast of Operating Income by Business Segment

Millions of yen	Current projection	Previous projection (May 15, 2006)	Change Amount	%
Watches and clocks	21,500	20,500	1,000	4.9%
Electronic devices	3,000	10,000	-7,000	-70.0%
Electronic products	3,000	2,500	500	20.0%
Industrial machinery	6,000	6,000	0	0.0%
Other products	1,500	1,500	0	0.0%
Eliminations or general corporate	(10,000)	(9,500)	-500	-
Consolidated totals	25,000	31,000	-6,000	-19.4%

Among the largely revised electronic devices business, in the mobile phone market on which opto-devices segment highly depends, the ratio of low-end handsets to the total handsets is increasing and the cost per handset is declining significantly. This trend of increasing low-end handsets is expanding much faster than it was initially expected. The effect of this trend is prominent in LED lamp and backlight unit and sales and profit of both products remained low, resulting in a huge downward revision.

Although our unique active aberration compensation element for DVD is recording steady sales, forecast of LCD in electronic devices business has also been revised down as handset devices especially for Korea is selling short of the initial plan.

On the other hand, watches and clocks segment was revised upward due to the successful high-value added strategy of radio-controlled watches and Eco-Drive watches and the weaker yen compared to the original assumption.

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.

Condensed Consolidated Balance Sheet

Millions of yen	As of June 30, 2005	%	As of June 30, 2006	%	As of March 31, 2006	%
Current assets						
Cash and cash equivalents	113,711		106,490		107,881	
Notes and accounts receivable	76,697		70,766		73,796	
Marketable Securities	14,004		13,983		15,984	
Inventories	52,755		59,210		52,416	
Other current assets	17,726		16,855		17,842	
Total current assets	274,896	70.4	267,306	65.5	267,921	66.6
Fixed assets						
Property, plant and equipment	77,805	19.9	84,941	20.8	81,022	20.1
Intangible fixed assets	1,103	0.3	1,220	0.3	1,062	0.3
Investments and other assets	36,783	9.4	54,495	13.4	52,490	13.0
Total fixed assets	115,692	29.6	140,657	34.5	134,575	33.4
Total assets	390,588	100.0	407,963	100.0	402,497	100.0
Current liabilities						
Notes and accounts payable	36,973		34,222		34,855	
Short-term bank loans payable	4,438		4,509		4,233	
Other	38,903		44,702		40,261	
Total current liabilities	80,315	20.5	83,433	20.5	79,351	19.7
Long-term liabilities						
Bonds with subscription right for new shares	23,000		23,000		23,000	
Long-term loans payable	2		6		2	
Reserve for defined retirement benefits	10,274		10,316		9,933	
Other	2,909		11,731		11,727	
Total long-term liabilities	36,186	9.3	45,055	11.0	44,663	11.1
Total liabilities	116,501	29.8	128,489	31.5	124,015	30.8
Minority interests	30,089	7.7	-	-	2,070	0.5
Shareholders' equity						
Common stock	32,648	8.4	-	-	32,648	8.1
Additional paid-in capital	39,027	10.0	-	-	63,890	15.9
Retained earnings	174,707	44.7	-	-	165,246	41.0
Net unrealized gain/loss on other marketable securities	8,298	2.1	-	-	16,064	4.0
Foreign currency translation adjustments	(2,549)	(0.6)	-	-	(176)	(0.0)
Treasury stock	(8,135)	(2.1)	-	-	(1,261)	(0.3)
Total shareholders' equity	243,997	62.5	-	-	276,411	68.7
Total liabilities, minority interest and shareholders' equity	390,588	100.0	-	-	402,497	100.0
Shareholders' equity						
Common stock	-	-	32,648	8.0	-	-
Additional paid-in capital	-	-	63,890	15.6	-	-
Retained earnings	-	-	165,580	40.6	-	-
Treasury stock	-	-	(1,208)	(0.3)	-	-
Total shareholders' equity	-	-	260,911	63.9	-	-
Valuation and translation adjustments						
Net unrealized gain/loss on other marketable securities	-	-	17,161	4.2	-	-
Foreign currency translation adjustments	-	-	(550)	(0.1)	-	-
Total valuation and translation adjustments	-	-	16,611	4.1	-	-
Minority interests	-	-	1,951	0.5	-	-
Total net assets	-	-	279,474	68.5	-	-
Total liabilities and net assets	-	-	407,963	100.0	-	-

Condensed Consolidated Statement of Income

Millions of yen	Three months ended		Three months ended		Year ended	
	June 30, 2005	%	June 30, 2006	%	March 31, 2006	%
Net sales	77,408	100.0	77,243	100.0	335,940	100.0
Cost of sales	54,340	70.2	52,671	68.2	229,826	68.4
Gross profit	23,067	29.8	24,571	31.8	106,113	31.6
Selling, general and administrative expenses	17,858	23.1	19,629	25.4	75,596	22.5
Operating income	5,209	6.7	4,941	6.4	30,516	9.1
Nonoperating income						
Interest and dividend income	332		461		1,263	
Foreign currency exchange gain	41		-		1,374	
Other	488		640		2,491	
Total nonoperating income	861	1.1	1,101	1.4	5,130	1.5
Nonoperating expenses						
Interest charges	16		6		33	
Foreign currency exchange loss	-		197		-	
Other	247		295		979	
Total nonoperating expenses	264	0.3	500	0.6	1,012	0.3
Ordinary income	5,806	7.5	5,543	7.2	34,634	10.3
Extraordinary gains	44	0.1	67	0.1	1,504	0.5
Extraordinary losses	146	0.2	363	0.5	2,288	0.7
Income before income taxes	5,703	7.4	5,246	6.8	33,849	10.1
Income taxes	1,805	2.4	2,644	3.4	13,910	4.1
Minority interests	480	0.6	-48	-0.0	1,345	0.5
Net income	3,417	4.4	2,650	3.4	18,594	5.5