

February 9, 2007

Consolidated Financial Statements for the Nine Months Ended December 31, 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 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, 2006

(1) Usage of simplified procedures in the accounting method:

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: No

(3) Change in scope of consolidation and application of the equity method: Yes

(in comparison to the year ended March 31, 2006)

Consolidation: (Newly added): 9; (Eliminated): 0

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

2. Results for the nine months ended December 31, 2006

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Nine months ended December 31, 2006	255,261	0.3%	19,296	-19.9%	21,912	-19.2%
Nine months ended December 31, 2005	254,585	-8.1%	24,096	-24.4%	27,120	-19.8%
Year ended March 31, 2006	335,940	-6.0%	30,516	-17.7%	34,634	-13.7%

	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, 2006	10,022	-27.6%	26.81	24.96
Nine months ended December 31, 2005	13,838	-23.5%	41.76	38.54
Year ended March 31, 2006	18,594	-8.1%	53.23	49.24

Breakdown of Sales by Business Segment

Millions of yen	Nine months ended December 31, 2006	Nine months ended December 31, 2005	Change	
			Amount	%
Watches and clocks	101,186	94,686	6,500	6.9
Electronic devices	75,607	86,464	-10,856	-12.6
Electronic products	20,744	18,201	2,543	14.0
Industrial machinery	32,606	27,153	5,452	20.1
Other products	25,115	28,079	-2,964	-10.6
Consolidated totals	255,261	254,585	675	0.3

Breakdown of Operating Income by Business Segment

Millions of yen	Nine months ended		Change	
	December 31, 2006	December 31, 2005	Amount	%
Watches and clocks	17,436	16,849	586	3.5
Electronic devices	1,029	7,010	-5,981	-85.3
Electronic products	2,470	1,564	905	57.9
Industrial machinery	4,756	3,746	1,009	26.9
Other products	1,289	1,144	144	12.7
Eliminations or general corporate	(7,685)	(6,219)	-1,466	-
Consolidated totals	19,296	24,096	-4,800	-19.9

Consolidated net sales for the nine months ended December 31, 2006 increased by 0.3% from the same period of last year to 255.2 billion yen while consolidated operating income declined by 19.9% to 19.2 billion yen. Although sales and operating income increased in watches and clocks, electronic products and industrial machinery businesses, operating result was poor in electronic devices 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 North America, Europe and Asia not only because average selling price rose due to high-value added strategy, but also because yen weakened. On the other hand, although focus has been shifting to 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 6.9% from the same period of last year to 101.1 billion yen, and operating income increased by 3.5% to 17.4 billion yen.

Electronic devices business

Global cell phone market on which Opto-devices segment heavily depends continued to see volume increase, especially in low-end handsets. However, in addition to intensifying competition against Taiwanese, Korean and Chinese manufacturers, electronic parts such as LED are in a situation where the market growth is faster than the rate of price decline and reduction of the number of composition parts used in one handset. Citizen Group has put effort not only in flash LED for camera phones, which are still expected to grow, but also in introduction and expansion of new products such as thin back light units. Moreover, the Company challenged to develop a new market including general lighting and amusement. Despite our efforts, it was not sufficient to compensate the decline of LED and back light units for cell phones. As a result, sales declined in opto devices segment. Sales of liquid crystal devices segment were flat despite the recovery in European and American customers in the first half. Sales increased dramatically in quartz devices segment, owing to the recovery in cell phone market. As a consequence, sales of electronic devices business decreased by 12.6% from the same period of last year to 75.6 billion yen, and operating income decreased by 85.3% to 1.0 billion yen.

Electronic products business

In addition to the steady sales of small printers in Japan and Europe, large printers for China significantly increased its sales. Our new photo printer also contributed to sales increase. With regard to healthcare equipment, although competition was intense in Japan, sales for overseas market remained steady. However, orders of calculators for Western Europe were not well. Consequently, sales of electronic products business increased by 14.0% from the same period of last year to 20.7 billion yen, and operating income also increased by 57.9% to 2.4 billion yen.

Industrial machinery business

The main CNC automatic lathes had healthy sales in the Japanese market as demand was strong in various industries including auto, medical and precision. In addition, the market was steady in America, Asia and Europe. Consequently, sales of industrial machinery business overall increased by 20.1% from the same period of last year to 32.6 billion yen, and operating income increased by 26.9% to 4.7 billion yen.

Other products business

Jewelry market remained weak due to the rising prices of gold and platinum. In pachinko-related products, many pachinko stores replaced the gaming machines significantly, resulting in low demand of peripheral equipments and sales decline. Consequently, sales of other products business declined by 10.6% from the same period of last year to 25.1 billion yen, and the operating income increased by 12.7% to 1.2 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, 2006	401,513	265,987	65.8	739.01
As of December 31, 2005	413,332	279,600	67.6	720.84
As of March 31, 2006	402,497	276,411	68.7	728.43

Total assets as of December 31, 2006 decreased 0.9 billion yen from that of March 31, 2006 to 401.5 billion yen. Cash and cash equivalents and marketable securities decreased 8.9 billion yen and 15.9 billion yen, respectively, due to purchase of its own stock. Shareholders' equity decreased 10.4 billion yen mainly as a result of share buyback.

3. Consolidated Forecast for the Year ending March 31, 2007

Regarding the consolidated forecast for the year ending March 31, 2007, there is no change from the forecast announced on November 14, 2006. The exchange rate assumptions for the fiscal year ending May 31, 2007 is 1US\$ = ¥117 and 1EURO = ¥149. (Exchange rate for the nine months was 1US\$ = ¥116 and 1EURO = ¥147.)

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)
341,000	23,000	25,000	11,000

Breakdown of Sales by Business Segment

Millions of yen	Year ending	Year ended	Change	
	March 31, 2007	March 31, 2006	Amount	%
Watches and clocks	133,000	125,038	7,961	6.4
Electronic devices	103,000	111,112	-8,112	-7.3
Electronic products	27,500	25,098	2,401	9.6
Industrial machinery	43,000	37,176	5,823	15.7
Other products	34,500	37,514	-3,014	-8.0
Consolidated totals	341,000	335,940	5,059	1.5

Breakdown of Operating Income by Business Segment

Millions of yen	Year ending	Year ended	Change	
	March 31, 2007	March 31, 2006	Amount	%
Watches and clocks	21,500	20,538	961	4.7
Electronic devices	1,500	8,061	-6,561	-81.4
Electronic products	3,000	2,174	825	38.0
Industrial machinery	6,500	5,485	1,014	18.5
Other products	1,500	2,739	-1,239	-45.2
Eliminations or general corporate	(11,000)	(8,481)	-2,518	-
Consolidated totals	23,000	30,516	-7,516	-24.6

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,			
	2005	%	2006	%	2006	%
Current assets						
Cash and cash equivalents	109,796		98,953		107,881	
Notes and accounts receivable	85,251		80,088		73,796	
Marketable Securities	16,282		0		15,984	
Inventories	54,610		60,518		52,416	
Other current assets	17,786		17,832		17,842	
	283,728	68.6	257,392	64.1	267,921	66.6
Fixed assets						
Tangible fixed assets	79,661	19.3	89,503	22.3	81,022	20.1
Intangible fixed assets	1,007	0.3	1,613	0.4	1,062	0.3
Investments and other assets	48,935	11.8	53,002	13.2	52,490	13.0
	129,604	31.4	144,120	35.9	134,575	33.4
Total assets	413,332	100.0	401,513	100.0	402,497	100.0
Current liabilities						
Notes and accounts payable	38,862		37,276		34,855	
Short-term bank loans payable	6,131		6,294		4,233	
Other	42,467		44,844		40,261	
	87,460	21.2	88,415	22.0	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		4		2	
Reserve for defined retirement benefits	10,173		10,095		9,933	
Other	11,081		14,010		11,727	
	44,256	10.7	47,110	11.8	44,663	11.1
Total liabilities	131,717	31.9	135,526	33.8	124,015	30.8
Minority interests	2,014	0.5	-	-	2,070	0.5
Shareholders' equity						
Paid-in capital	32,648	7.9	-	-	32,648	8.1
Additional paid-in capital	63,886	15.4	-	-	63,890	15.9
Retained earnings	176,939	42.8	-	-	165,246	41.0
Net unrealized gain/loss on other securities	15,468	3.7	-	-	16,064	4.0
Foreign currency translation adjustments	(114)	(0.0)	-	-	(176)	(0.0)
Treasury stock	(9,228)	(2.2)	-	-	(1,261)	(0.3)
Total shareholders' equity	279,600	67.6	-	-	276,411	68.7
Total liabilities, minority interest and shareholders' equity	413,332	100.0	-	-	402,497	100.0
Shareholders' equity						
Paid-in capital	-	-	32,648	8.2	-	-
Additional paid-in capital	-	-	63,890	15.9	-	-
Retained earnings	-	-	170,364	42.4	-	-
Treasury stock	-	-	(20,874)	(5.2)	-	-
Total shareholders' equity	-	-	246,029	61.3	-	-
Valuation and translation adjustments						
Net unrealized gain/loss on other securities	-	-	16,138	4.0	-	-
Foreign currency translation adjustments	-	-	1,938	0.5	-	-
Total valuation and translation adjustments	-	-	18,077	4.5	-	-
Minority interest	-	-	1,880	0.4	-	-
Total net assets	-	-	265,987	66.2	-	-
Total liabilities and net assets	-	-	401,513	100.0	-	-

Consolidated Statement of Income

Millions of yen	Nine months ended December 31, 2005		Nine months ended December 31, 2006		Year ended March 31, 2006	
		%		%		%
Net sales	254,585	100.0	255,261	100.0	335,940	100.0
Cost of sales	174,319	68.5	173,479	68.0	229,826	68.4
Gross profit	80,266	31.5	81,782	32.0	106,113	31.6
Selling, general and administrative expenses	56,169	22.0	62,486	24.4	75,596	22.5
Operating income	24,096	9.5	19,296	7.6	30,516	9.1
Nonoperating income						
Interest and dividend income	836		1,171		1,263	
Foreign exchange gain	1,242		162		1,374	
Other	1,681		2,067		2,491	
	3,761	1.5	3,400	1.3	5,130	1.5
Nonoperating expenses						
Interest charges	26		9		33	
Other	710		775		979	
	737	0.3	784	0.3	1,012	0.3
Ordinary income	27,120	10.7	21,912	8.6	34,634	10.3
Extraordinary gains	466	0.2	555	0.2	1,504	0.5
Extraordinary losses	1,104	0.5	3,978	1.6	2,288	0.7
Income before income taxes	26,482	10.4	18,489	7.2	33,849	10.1
Income taxes	11,386	4.5	8,543	3.3	13,910	4.1
Minority interests	1,257	0.5	(76)	(0.0)	1,345	0.5
Net income	13,838	5.4	10,022	3.9	18,594	5.5