



## Consolidated Financial Statements for the Year Ended March 31, 2010

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 11, 2010

### CITIZEN HOLDINGS CO., LTD.

Code No.: 7762 (URL <http://www.citizen.co.jp>)

Listings: First section of Tokyo Stock Exchange

Representative: Mitsuyuki Kanamori, President and CEO

Contact: Osamu Yamada, Managing Director

Tel: +81 -42 -468 -4934

Scheduled ordinary general meeting of shareholders: June 25, 2010

Scheduled start of dividend payment: June 28, 2010

Scheduled release of fiscal 2009 Business Report: June 29, 2010

### 1. Results for the Year ended March 31, 2010

(1) Consolidated operating results (Percentages represent changes over the previous fiscal year)

|                | Net sales         |       | Operating income  |       | Ordinary income   |       | Net income        |   |
|----------------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|---|
|                | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | % |
| March 31, 2010 | 252,502           | △14.9 | 7,229             | 416.9 | 7,976             | 965.3 | 3,527             | - |
| March 31, 2009 | 296,857           | △11.8 | 1,398             | △94.2 | 748               | △97.0 | △25,806           | - |

|                | Earnings per share | Fully diluted earnings per share | Return on equity | Ratio of ordinary income to total assets | Ratio of operating income to net sales |
|----------------|--------------------|----------------------------------|------------------|--|--|
|                | (Yen)              | (Yen)                            | %                | %  | %                                      |
| March 31, 2010 | 11.01              | -                                | 2.0              | 2.2                                      | 2.9                                    |
| March 31, 2009 | △77.32             | -                                | △12.3            | 0.2                                      | 0.5                                    |

Equity in earnings of unconsolidated subsidiaries and affiliates: March 2010 term: △¥10 million March 2009 term: △¥278 million

(2) Consolidated financial position

|                | Total assets      | Net assets        | Equity ratio | Net assets per share |
|----------------|-------------------|-------------------|--------------|----------------------|
|                | (Millions of yen) | (Millions of yen) | %            | (Yen)                |
| March 31, 2010 | 352,462           | 186,362           | 51.8         | 570.06               |
| March 31, 2009 | 374,239           | 184,229           | 47.9         | 559.34               |

Reference: Shareholders' Equity: As of March 31, 2010: ¥182,562 million As of March 31, 2009: ¥179,134million

(3) Consolidated cash flows

|                | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of term |
|----------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|                | (Millions of yen)                    | (Millions of yen)                    | (Millions of yen)                    | (Millions of yen)                        |
| March 31, 2010 | 33,428                               | △6,437                               | △23,689                              | 90,877                                   |
| March 31, 2009 | 14,647                               | △30,697                              | 34,607                               | 87,649                                   |

### 2. Dividends

|                    | Dividends per share |                         |               |                   |                    | Total dividends paid (annual)<br>(Millions of yen) | Pay-out ratio (Consoli)<br>% | Dividends to consolidated net assets<br>% |
|--------------------|---------------------|-------------------------|---------------|-------------------|--------------------|--|------------------------------|---|
|                    | First quarter       | Second quarter<br>(Yen) | Third quarter | Year-end<br>(Yen) | Full year<br>(Yen) |  |                              |   |
| March 31, 2009     | -                   | 7.50                    | -             | 2.50              | 10.00              | 3,317  | -                            | 1.6                                       |
| March 31, 2010     | -                   | 3.50                    | -             | 3.50              | 7.00               | 2,241  | 63.6                         | -   |
| March 31, 2011 (E) | -                   | 3.50                    | -             | 3.50              | 7.00               |  | 34.5                         |   |

**3. Projected Consolidated Results for the Year ending March 31, 2011**

(Percentages represent changes over the corresponding period of the previous fiscal year)

|              | Net sales         |      | Operating income  |       | Ordinary income   |      | Net income        |      | Earnings per share |
|--------------|-------------------|------|-------------------|-------|-------------------|------|-------------------|------|--------------------|
|              | (Millions of yen) | %    | (Millions of yen) | %     | (Millions of yen) | %    | (Millions of yen) | %    | (yen)              |
| Interim term | 132,500           | 10.7 | 5,000             | 189.4 | 4,000             | 82.8 | 2,000             | 81.1 | 6.25               |
| Full term    | 275,000           | 8.9  | 14,000            | 93.6  | 12,500            | 56.7 | 6,500             | 84.3 | 20.30              |

**4. Others**

- (1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): None
- (2) Changes in principles, procedures and classifications of accounting standards associated with the preparation of consolidated financial statements.
- (i) Changes associated with revised accounting standards: Yes
- (ii) Changes other than those in (i) above: None
- Note: Described in page 27, "Changes in Basis of Presenting the Consolidated Financial Statement"
- (3) Number of shares issued and outstanding (common stock)

| (shares)  | March 2010  | March 2009  |
|---|-------------|-------------|
| Number of shares issued and outstanding at the end of term (including treasury stock) | 350,353,809 | 380,353,809 |
| Number of treasury stock at the end of term   | 30,099,812  | 60,093,553  |

Note: For details regarding the number of shares forming the basis for calculating net income per share, refer to page 37, "Per share information".

(Reference) Overview of Nonconsolidated Financial Results

**1. Nonconsolidated Results for the Year ended March 31, 2010**

- (1) Nonconsolidated operating results (The percentages represent year-on-year changes.)

|                | Net sales         |       | Operating income  |       | Ordinary income   |       | Net income        |   |
|----------------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|---|
|                | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | % |
| March 31, 2010 | 11,962            | △8.0  | 6,048             | 30.3  | 5,415             | 1.0   | 6,157             | - |
| March 31, 2009 | 13,001            | △20.9 | 4,642             | △27.4 | 5,360             | △25.0 | △9,324            | - |

|                | Earnings per share | Fully diluted earnings per |
|----------------|--------------------|----------------------------|
|                | (Yen)              | (Yen)                      |
| March 31, 2010 | 19.23              | -                          |
| March 31, 2009 | △27.94             | -                          |

- (2) Nonconsolidated financial position

|                | Total assets      | Net assets        | Equity ratio | Net assets per share |
|----------------|-------------------|-------------------|--------------|----------------------|
|                | (Millions of yen) | (Millions of yen) | %            | (Yen)                |
| March 31, 2010 | 162,216           | 99,141            | 61.1         | 309.57               |
| March 31, 2009 | 183,492           | 91,653            | 49.9         | 286.18               |

Reference: Shareholders' Equity: As of March 31, 2010: ¥ 99,141 million As of March 31, 2009: ¥ 91,653million

**2. Projected Nonconsolidated Results for the Year ending March 31, 2011**

|              | Net sales         |       | Operating income  |       | Ordinary income   |       | Net income        |       | Earnings per share |
|--------------|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|--------------------|
|              | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | %     | (Millions of yen) | %     | (yen)              |
| Interim term | -                 | -     | -                 | -     | -                 | -     | -                 | -     | -                  |
| Full term    | 8,500             | △28.9 | 2,500             | △58.7 | 2,000             | △63.1 | 1,500             | △75.6 | 4.68               |

**\* Explanation about the proper use of financial forecasts and other important notes**

Statements above relating to financial forecasts are based on information available to the Company and certain assumptions the Company considers reasonable as of the date of the announcement of these statements. Actual results may differ materially from these forecasts, depending on a variety of factors.

Please refer to page 3 for assumptions underlying the above forecasts and precautions regarding their use.

## 1. Review of Operations

### (1) Analysis of Operating Results

#### (i) Fiscal Year End Operating Results

| Millions of yen  | Year ended March 31, |         | Year-on-year change | %     |
|------------------|----------------------|---------|---------------------|-------|
|                  | 2009                 | 2010    |                     |       |
| Net sales        | 296,857              | 252,502 | △44,355             | △14.9 |
| Operating income | 1,398                | 7,229   | 5,831               | 416.9 |
| Ordinary income  | 748                  | 7,976   | 7,227               | 965.3 |
| Net income       | △25,806              | 3,527   | 29,334              | -     |

#### Breakdown of sales by segment

| Millions of yen      | Year ended March 31, |         | Year-on-year change | %     |
|----------------------|----------------------|---------|---------------------|-------|
|                      | 2009                 | 2010    |                     |       |
| Watches and clocks   | 132,514              | 123,613 | △8,900              | △6.7  |
| Electronic devices   | 81,260               | 62,071  | △19,188             | △23.6 |
| Electronic products  | 21,016               | 20,580  | △435                | △2.1  |
| Industrial machinery | 33,227               | 21,335  | △11,891             | △35.8 |
| Other products       | 28,838               | 24,900  | △3,938              | △13.7 |
| Total net sales      | 296,857              | 252,502 | △44,355             | △14.9 |

#### Breakdown of operating income by segment

| Millions of yen                   | Year ended March 31, |         | Year-on-year change | %     |
|-----------------------------------|----------------------|---------|---------------------|-------|
|                                   | 2009                 | 2010    |                     |       |
| Watches and clocks                | 9,106                | 9,751   | 645                 | 7.1   |
| Electronic devices                | △3,101               | 3,534   | 6,636               | -     |
| Electronic products               | 1,012                | 854     | △158                | △15.6 |
| Industrial machinery              | 180                  | △4,364  | △4,545              | -     |
| Other products                    | △777                 | 468     | 1,245               | -     |
| Eliminations or general corporate | (5,021)              | (3,014) | △2,007              | -     |
| Total operating income            | 1,398                | 7,229   | 5,831               | 416.9 |

### Summary of Operating Results

During the consolidated fiscal year under review, Asian countries, led by China, began to recover from the global economic crisis. On the whole, however, difficult economic conditions continued amid weak personal consumption and a strong yen.

Within that context, the Citizen Group moved forward with structural reforms aimed at enhancing our organization. These reforms focused on optimizing productivity, exiting unprofitable businesses, and significantly reducing expenses and inventories. Our best efforts, however, left us short of our objectives. The watches and clocks business reported lower sales as lackluster consumption posed a severe obstacle for sales of premium-priced products through the third quarter. The electronic devices business saw higher sales of general lighting LEDs as that market grew, but overall sales declined with orders for mainstay mobile phone LEDs hurt by market saturation and intensifying competition. In the electronic products business, sales of health care equipment increased, while sales of printers and calculators declined amid persistently strong impacts of the economic downturn. Sales of the industrial machinery business began the year in very weak condition and embarked on a recovery in the second half, but the slow pace of the market recovery and customer pressure for lower prices resulted in significantly lower sales. Lastly, in the other products business, weak personal consumption of jewelry and difficult business conditions for pachinko parlors resulted in overall lower sales, despite the eco-car tax deduction spurring higher sales of automotive parts.

As a result of the conditions summarized above, the Citizen Group's full-year consolidated results included net sales of 252.5 billion yen (down 14.9% year-on-year), operating income of 7.2 billion yen (up 416.9% YoY), ordinary income of 7.9 billion yen (up 965.3% YoY) and net income of 3.5 billion yen.

### Watches and Clocks

Regarding CITIZEN brand watches in the domestic market, radio-controlled "ATTESA Direct Flight" for men showed a strong performance, and the "xC" and other branded watches for women increased its share in the market. Among affordable-priced products, the "Wicca," "Independent," and other brands also performed well, helping to push overall domestic sales past the year-ago mark for the fourth quarter. That said, however, the slow recovery in consumption and other factors under prevailing economic conditions

made for an exceedingly difficult sales environment especially for premium-priced products through the first three quarters of the year, and a sales decline for the year as a whole. Overseas, sales for Asia, and China in particular, were strong and far surpassed last year's performance. In the North American market, the largest for this business, difficult conditions continued through the first half, but gave way to a faster-than-expected market recovery in the second half and sales growth for "Eco-Drive" and other high-value-added products. Signs of consumption recoveries in Central and South America have also been seen, but expectations are that a real recovery will require more time. In Europe, economic recovery speeds differed by area, but overall results approximated those of last year. As a whole, overseas markets, though showing signs of recovery, were hurt by a strong yen, which resulted in a year-on-year sales decline.

The Q&Q brand benefited from higher domestic retail prices, supported by the popularity of radio-control and other features, and posted higher sales in that market. Overseas sales also rose from a year ago, as a recovery in demand in the affordable-price range outweighed the persistent negative effects of a strong yen.

Sales of movements benefited from rising demand for finished watches in North America and China in the second half, beating the forecast. Concentrated efforts to sell high-value-added movements paid off with higher sales of these products, as well.

Sales of BULOVA brand products, meanwhile, were held back by a distribution reorganization and other negative impacts in the key North American market through the first half. Better sales results were posted in the second half year-on-year due to increased sales of mechanical watches and other differentiated products, but were not enough to prevent a sales decline for the entire year.

For the year, the watches and clocks business reported net sales of 123.6 billion yen (down 6.7% YoY) and operating income of 9.7 billion yen (up 7.1% YoY).

### **Electronic Devices**

In opto-devices, conditions remained difficult as market saturation and intensifying competition in the mainstay mobile phone LED market resulted in lower orders. For premium-priced Flash LEDs, flexible and rapid responses to customer demands paid off to a certain degree, but were not enough to overcome demands for lower prices, or prevent a sales decline. Production of key-lighting LEDs began to recover, but were overwhelmed by the relentless decline in prices, which resulted in lower sales. Sales of general lighting LEDs, which are seen as a promising growth market, benefited from an expanding market and customer development efforts, and grew significantly for the year. Back-light units saw steady performance for automobile-related products, but suffered a significant drop in overall sales as attention focused on profitable orders for mobile phone products. Sales of light sensors fell due to mobile phone market adjustments and a decline in phones using mainstay IrDA modules. Switches finished the year with a relatively small sales decline due to the fact that Korean manufacturers, which have fared relatively well, account for a large proportion of orders.

In the area of crystal devices, tuning-fork-type crystal oscillators continued to enjoy a stable level of orders from Korean customers seeking SMD products for use in mobile phones. Demand for other crystal devices gradually began to recover in the second half. However, with the lingering effects of first-half inventory adjustments, overall crystal device sales ended the year lower.

Turning to other component products, orders for camera LCDs rebounded from the effects of last year's second-half inventory adjustments and combined with orders for new small-size electronic paper modules to push sales above the year-ago level for these products. HDD glass substrates, meanwhile, saw a rapid recovery from the production suspension forced by inventory adjustments through the first quarter and ended the year with higher sales.

For the year, the electronic devices business reported net sales of 62.0 billion yen (down 23.6% year on year) and operating income of 3.5 billion yen.

### **Electronic Products**

Market conditions for mainstay small-sized printers varied by area, with slight overall declines in Europe and the US, and growth in China and other parts of Asia. Increased inquiries began to show signs of an upward trend in the domestic and Eastern European markets, but the lingering impacts of the recession resulted in the cancellation or postponement of new business, and a decline in demand. On the positive side, however, large-sized dot impact printers, the main market for which is China, enjoyed a recovery in demand by Chinese government agencies. This, together with higher shipments of passbook printers introduced during the year under review, resulted in higher sales of these products. Photo printers, too, enjoyed higher sales on rising installations of both photo kiosk terminals and new products introduced in the second half of the previous fiscal year.

Calculator sales continued to decline as the key Russian market has yet to show any sign of an economic recovery.

Meanwhile, healthcare equipment sales rose once again. Influenza concerns led to high demand and sales for electronic thermometers in both domestic and overseas markets, sales channel expansion in the domestic market in response to the growing interest in health management boosted sales of digital pocket pedometers, and the introduction of an electronic slim wrist blood pressure monitor, together with sales channel expansion, increased sales of these products both at home and abroad.

For the year, the electronic products business reported net sales of 20.5 billion yen (down 2.1% YoY) and operating income of 0.8 billion yen (down 15.6% YoY).

### Industrial Machinery

Sales of CNC lathes began the year in very weak condition, but began to show signs of a recovery as sales in China and other parts of Asia picked up in the second half. However, sales remained weak in general for the year, coming in significantly below the previous year's level.

In the domestic market, a mild recovery continued, but orders remained at low levels, holding sales well below the previous year's level here, as well.

Among overseas markets, Asia showed a good performance in the automobile, medical, and OA sectors in the second half, but these were accompanied by growing downward pressure on prices, causing sales in this market to decline for the year as a whole. In the meantime, the European and US markets were characterized by strong orders in the medical sector, lackluster performance in the mainstay automotive sector, and an overall slow market recovery resulting in significantly lower sales.

Miyano Machinery, Inc. attempted to spark demand with measures including special pricing and new product introductions in the second half, but in general continued to wrestle with difficult circumstances.

For the year, the industrial machinery business reported net sales of 21.3 billion yen (down 35.8% year-on-year) and operating income of  $\Delta$ 4.3 billion yen.

### Other Products

Jewelry sales declined due to the impact from mergers of department stores and closings of unprofitable ones on sales of premium-priced goods, and to falling retail prices and weak personal consumption.

Sales of pachinko-related products also ended the year lower as unfavorable business conditions for pachinko parlors in the second half put an end to what had been an upward trend in sales of labor-saving devices.

Sales of automotive parts, in contrast, rose in response to factors like the eco-car tax deduction and other factors that sparked consumer interest and turned the tide on the impacts of sudden and severe inventory adjustments, which continued through the first half.

For the year, the other products business reported net sales of 24.9 billion yen (down 13.7% YoY) and operating income of 0.4 billion yen.

#### (ii) Prospects for the Year ending March 31, 2011

| Millions of yen  | Year ended March 31, |         | Year-on-year change | %    |
|------------------|----------------------|---------|---------------------|------|
|                  | 2010                 | 2011    |                     |      |
| Net sales        | 252,502              | 275,000 | 22,497              | 8.9  |
| Operating income | 7,229                | 14,000  | 6,770               | 93.6 |
| Ordinary income  | 7,976                | 12,500  | 4,523               | 56.7 |
| Net income       | 3,527                | 6,500   | 2,972               | 84.3 |

#### Breakdown of sales by segment

| Millions of yen      | Year ended March 31, |         | Year-on-year change | %    |
|----------------------|----------------------|---------|---------------------|------|
|                      | 2010                 | 2011    |                     |      |
| Watches and clocks   | 123,613              | 129,000 | 5,386               | 4.4  |
| Electronic devices   | 62,071               | 66,000  | 3,928               | 6.3  |
| Electronic products  | 20,580               | 21,500  | 919                 | 4.5  |
| Industrial machinery | 21,335               | 32,000  | 10,664              | 50.0 |
| Other products       | 24,900               | 26,500  | 1,599               | 6.4  |
| Total net sales      | 252,502              | 275,000 | 22,497              | 8.9  |

#### Breakdown of operating income by segment

| Millions of yen | Year ended March 31, |      | Year-on-year change | % |
|-----------------|----------------------|------|---------------------|---|
|                 | 2010                 | 2011 |                     |   |

C I T I Z E N   H O L D I N G S

|                                   |              |               |              |             |
|-----------------------------------|--------------|---------------|--------------|-------------|
| Watches and clocks                | 9,751        | 11,000        | 1,248        | 12.8        |
| Electronic devices                | 3,534        | 3,000         | △534         | △15.1       |
| Electronic products               | 854          | 1,300         | 445          | 52.2        |
| Industrial machinery              | △4,364       | 1,300         | 5,664        | -           |
| Other products                    | 468          | 900           | 431          | 92.2        |
| Eliminations or general corporate | (3,014)      | (3,500)       | △485         | -           |
| <b>Total operating income</b>     | <b>7,229</b> | <b>14,000</b> | <b>6,770</b> | <b>93.6</b> |

As to the economic outlook, steady improvement can be expected for China and other emerging markets, but it is anticipated that difficulties will continue for management because of the ongoing uncertainties regarding capital expenditures and personal consumption in the leading industrialized nations, despite of their recovery trends, and the future course of exchange rates. The Citizen Group, will continue to focus on “being a corporate group that goes back to its roots in micro precision technologies and reliable quality, to create new value and achieve continuous growth.” In so doing, we will redouble our efforts in critical areas including advancing a medium- to long-term business strategy; strengthening our marketing capabilities, cost competitiveness, development functions and new product creation; and human resource development and skill application.

For the coming consolidated fiscal year, our performance forecasts include net sales of 275.0 billion yen (8.9% year-on-year increase), operating income of 14.0 billion yen (93.6% increase), ordinary income of 12.5 billion yen (56.7% increase), and net income of 6.5 billion yen (84.3% increase).

These forecasts are based on an exchange rate assumption for the year of 90 yen/US dollar and 120 yen/euro.

The exchange rate for the year ended March 2010 was 93 yen/US dollar and 131 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.*

## (2) Financial Position

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

As of the end of the consolidated fiscal year under review, total assets had declined by 21.7 billion yen year-on-year, to 352.4 billion yen. Among current assets, cash and cash equivalents increased by 4.0 billion yen and notes and accounts receivable increased by 2.9 billion yen. Inventory assets, however, declined by 13.9 billion yen, bringing total current assets down by 11.2 million yen. Fixed assets declined by 10.5 billion yen. Here, investment security market valuations increased investments in other asset categories, notably machinery, equipment and carriers, which fell by 3.8 billion yen, and deferred tax assets, which fell by 2.2 billion yen, brought the total down. Liabilities declined by 23.9 billion yen year-on-year, to 166.0 billion yen, due to the redemption of bonds with subscription warrants. Net assets increased by 2.1 billion yen, to 186.3 billion yen, due to an increase of 3.3 billion yen in the valuation difference for other investment securities.

### (ii) Cash Flows

For the consolidated fiscal year under review, cash and cash equivalents (“cash flows”) increased by 3.2 billion yen, to 90.8 billion yen at the end of the some year .

#### Cash flows from operating activities

Net cash provided by operating activities came to 33.4 billion yen. Key contributing factors included 7.8 billion yen in income before income taxes, 14.9 billion yen in depreciation, and a 13.8 billion yen decrease in inventory.

#### Cash flows from investing activities

Net cash used in investing activities came to 6.4 billion yen. Key contributing factors included outlays for purchases of property, plant and equipment and increase in time deposits.

Cash flows for financing activities

Net cash used in financing activities came to 23.6 billion yen. The key contributing factor here was the redemption of bonds.

(3) Fundamental Policy Regarding the Distribution of Profits

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 its performance 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.

The Company is planning to set the year-end dividend for the fiscal year under review at 3.50 yen per share. As for the dividend forecast for the fiscal year ending March 2011 is expected to be 7.0 yen.

#### (4) Risks

The following factors may affect the Citizen Group's operating results, financial position, stock price and other figures.

##### (i) Risks regarding our businesses

The Citizen Group's main business is to manufacture and sell watches, electronic devices, electronic products and industrial machinery. The Group operates its business all over the world, and our customers include both individuals and various manufacturers. Therefore, our operating results are influenced by various factors, some of which are listed below.

##### Watches and clocks

Competition in the watch market is intensifying not only against Japanese brands, but also against high-end Swiss brands and low-end Chinese manufacturers along with alternative products such as mobile phones with watch functions. With regard to movement business, despite our high market share, volume growth is slowing down and low demand due to the rise of Chinese manufacturers may trigger price decline.

##### Electronic devices

In electronic devices, results for optical, crystal, and other devices will probably remain largely dependent on developments among mobile phone manufacturers. In addition, due to factors including rapid In addition, due to factors including rapid technology innovation and intense competition, sales price decline and delay in development may affect operating results. Furthermore, in case any patent alliance is dissolved, our business may be influenced.

##### Electronic products

Electronic products are vulnerable to capital expenditure and personal consumption declines resulting from an economic pullback and, therefore, could experience sales declines depending on economic conditions. In addition, with intense competition, not only from domestic players, but also electronics manufacturers in China and other countries, and the rapid pace of technological innovation, results may be hurt by falling sales prices, development delays, and other factors.

##### Industrial machinery

Industrial machinery results are likely to remain highly dependent on a demand recovery from the global recession that began last year.

##### (ii) Overseas sales

As it is mentioned under segment section, overseas sales ratio of the Group is high. As our products are sold worldwide, the economy and the consumer trend, political and economic factors in each area may affect the operating results.

##### (iii) Foreign currency fluctuation risk

As mentioned in (ii), as our overseas sales ratio is high, we take foreign currency contracts, currency options, etc. as risk hedge. Although we are strengthening overseas production, our operating results are affected by the currency fluctuation.

##### (iv) Manufacturing in China

About 40% of the Group's products are manufactured overseas, and China is the main production base. Therefore, interruption in production owing to problems occurring in China, execution of any new regulations that may interfere with the production, appreciation of the Chinese yuan or other factors may influence our operating results.

##### (v) Impairment loss

In case the market value of our assets declined significantly or the profitability of a business worsens, impairment loss will be recorded, affecting our operating results and financial positions.

##### (vi) Patent and intangible property

The Citizen Group uses various intangible properties in R&D and production process. If any disputes occurs, it may affect the Group's operating results.

##### (vii) Risk related to natural disaster such as earthquakes

The Citizen Group establishes a risk management system through simulation activities to avoid any human suffering or facility damages. However, if any earthquakes larger than expected occurs, it may have an impact on the production activities or product supply. It may also have a significant effect on the operating results and financial positions.

(viii) Risk related to borrowings

The Citizen Group's borrowings include syndicated loan and commitment line agreements it has entered into with financial institutions. Violations of the financial covenants of these agreements could result in demands for the accelerated repayment of the related borrowings and impact the Group's financial condition.

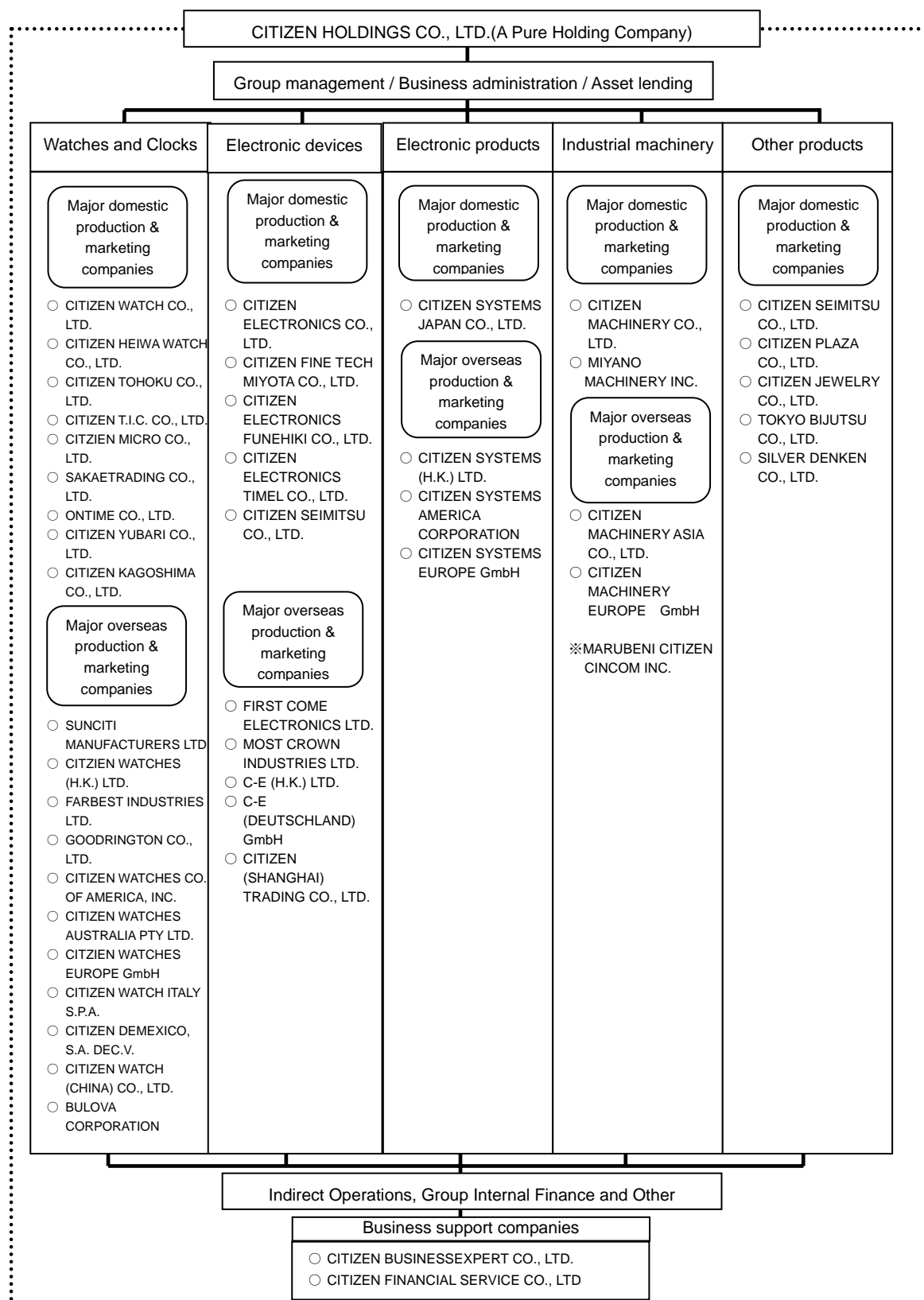
(ix) Other risks

The Group's operating results are influenced from various factors, such as changes of infrastructure and competition, changes of our financial and managerial situations, trading regulations in major markets and substantial changes in stock market and bond market.

## 2. Corporate Group

The Citizen Group (“the Company” and its subsidiaries and affiliates) consists of the Company and its 127 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:



○ : consolidated subsidiaries ※ : affiliate not accounted for by the equity method

### 3. Management Policy

#### (1) Fundamental Management Policy

Starting this fiscal year, our group vision is "being a corporate group that goes back to its roots in micro-precision technologies and reliable quality, to create new value and achieve continuous growth." Rather than aim for rapid expansion, we will aim for steady, sustainable growth. We will create value that can meet the new needs of a new world, continuously strengthening the organization's structure while at the same time striving for future growth.

#### (2) Medium- to Long-Term Management Strategy and Issues Facing the Company

The group has learned the lesson of the worldwide recession of fiscal 2008. We recognize that our most important challenges for improving our corporate value and enhancing our mid- to long-term earning capability are to rebuild an organization capable of responding to any change in our business conditions, and to strengthen our structure.

Our business-specific strategies are as follows.

- 1) We have positioned the watches and clocks business as a high-profit core business. In this business, we will pursue a differentiation strategy that makes the most of our strength as a general watch and clock manufacturer.
- 2) In the electronic devices business, we will build a growth strategy as we continue to consolidate and focus attention on core operations. Regarding opto-devices in particular, we will shift our focus to new fields including lighting applications.
- 3) In the electronic products business, we will go forward with value-added initiatives, including solutions operations, and develop new markets for finished products.
- 4) In the industrial machinery business, we will rebuild our business organization to respond to changes to new production systems, while quickly returning to a profitable structure.

To implement the business strategies mentioned above, we will focus our attention on addressing the following five medium-term issues.

#### 1) Implementing Medium- to Long- Term Business Strategies

In order to achieve steady growth, we will implement measures to take advantage of the strengths of each business, while overcoming their weaknesses. We will also create and prepare to implement business models for a new era, and quickly develop products, services, manufacturing capabilities, and sales systems for emerging markets, as our challenges for new growth. Our new key challenge will be to focus management on our balance sheet, reviewing our assets and shedding any that are unnecessary in order to boost our asset efficiency.

#### 2) Enhancing Marketing Capabilities

We will pursue strategies appropriate for individual business segments. In particular, we will reorganize and restructure sales offices in China, and develop human resources, with the understanding that that market is key and requires a proactive approach.

#### 3) Enhancing Cost Competitiveness

We will rebuild our manufacturing capabilities as we develop optimal domestic and overseas production systems, ensure the passing on of skills and enhance production technologies, and promote production innovation.

#### 4) Enhancing Development Functions and Creating New Products

We will move forward with value-added product development by restructuring our development system.

#### 5) Human Resource Development and Application of Skills

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Here, we will create systems that facilitate human resource development, focusing in particular on promoting job rotations aimed at developing future managers, strengthening management of operating companies, and reinvigorating our operations and workforce.

In achieving the above, we will further strengthen our group organization and prepare ourselves to rise to new growth challenges.

#### 4. Consolidated Financial Statements

##### (1) Consolidated Balance Sheet

| Millions of yen                             | March 31, 2009 | March 31, 2010 |
|---|----------------|----------------|
| <b>Current assets</b>                       |                |                |
| Cash and cash equivalents                   | 91,194         | 95,213         |
| Notes and accounts receivable               | 53,497         | 56,487         |
| Marketable Securities                       | 0              | -              |
| Commodity and Finished products             | 39,520         | 26,715         |
| Raw materials                               | 8,448          | 9,425          |
| Work in process                             | 18,740         | 16,635         |
| Deferred tax assets                         | 11,498         | 9,227          |
| Accrued consumption tax                     | 2,599          | 670            |
| Other current assets                        | 8,424          | 8,288          |
| Allowance for doubtful accounts             | △1,551         | △1,504         |
|   | 232,372        | 221,158        |
| <b>Fixed assets</b>                         |                |                |
| <b>Property, plant and equipment</b>        |                |                |
| Buildings and structures                    | 32,772         | 32,531         |
| Machinery, equipment and carriers           | 21,852         | 18,002         |
| Tools, furniture and fixtures               | 4,753          | 3,656          |
| Land  | 12,267         | 12,106         |
| Lease                                       | 105            | 138            |
| Construction in progress                    | 4,503          | 1,746          |
|   | *1 76,256      | 68,182         |
| <b>Intangible fixed assets</b>              |                |                |
| Goodwill                                    | 9,270          | 8,206          |
| Software                                    | 1,930          | 1,868          |
| Lease                                       | 74             | 73             |
| Other intangible fixed assets               | 2,259          | 1,867          |
|   | 13,534         | 12,017         |
| <b>Investments and other assets</b>         |                |                |
| Investment securities                       | 33,202         | 35,936         |
| Long-term loans                             | 1,149          | 944            |
| Deferred tax assets                         | 14,247         | 12,040         |
| Other intangible fixed assets               | 5,798          | 4,923          |
| Allowance for doubtful accounts             | △192           | △977           |
| Allowance for valuation loss on investments | △2,130         | △1,764         |
|   | 52,075         | 51,103         |
|   | 141,866        | 131,303        |
| <b>Total assets</b>                         | <b>374,239</b> | <b>352,462</b> |

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| Millions of yen                                | March 31, 2009 | March 31, 2010 |
|--|----------------|----------------|
| <b>Current liabilities</b>                     |                |                |
| Notes and accounts payable                     | 17,012         | 19,622         |
| Short-term bank loans payable                  | 7,052          | 31,541         |
| Bonds to be redeemed within a year             | 400            | 500            |
| Bonds with subscription warrant to be redeemed | 22,500         | -              |
| Income taxes payable                           | 1,333          | 1,060          |
| Deferred tax liabilities                       | 0              | 4              |
| Accrued expenses                               | 12,193         | 11,043         |
| Reserve for bonuses to employees               | 4,284          | 4,417          |
| Reserve for bonuses to directors               | 158            | 199            |
| Reserve for product warranties                 | 905            | 830            |
| Notes payable for equipment                    | 747            | 311            |
| Reserve for business restructuring losses      | 7,018          | 3,656          |
| Other current liabilities                      | 11,737         | 12,070         |
|  | 85,342         | 85,257         |
| <b>Long-term liabilities</b>                   |                |                |
| Bonds with subscription right for new shares   | 1,600          | 1,550          |
| Long-term loans payable                        | 90,800         | 66,875         |
| Deferred tax liabilities                       | 331            | 761            |
| Reserve for defined retirement benefits        | 9,975          | 10,202         |
| Reserve for environmental measures             | 39             | 39             |
| Consolidation adjustments                      | 711            | 232            |
| Other long-term liabilities                    | 1,208          | 1,179          |
|  | 104,667        | 80,841         |
| <b>Total liabilities</b>                       | 190,009        | 166,099        |
| <b>Shareholders' equity</b>                    |                |                |
| Paid-in capital                                | 32,648         | 32,648         |
| Additional paid-in capital                     | 63,883         | 38,468         |
| Retained earnings                              | 141,379        | 143,158        |
| Treasury stock                                 | △50,910        | △25,498        |
| Total shareholder's equity                     | 187,002        | 188,776        |
| <b>Valuation and translation adjustments</b>   |                |                |
| Net unrealized gain/loss on other securities   | 404            | 3,773          |
| Foreign currency translation adjustments       | △8,271         | △9,987         |
| Total Valuation and translation adjustments    | △7,867         | △6,214         |
| <b>Minority interest</b>                       | 5,095          | 3,799          |
| <b>Total net assets</b>                        | 184,229        | 186,362        |
| <b>Total liabilities and net assets</b>        | 374,239        | 352,462        |

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(2) Consolidated Statement of Income

| Millions of yen                                       | March 31, 2009 | March 31, 2010 |
|---|----------------|----------------|
| <b>Net sales</b>                                      | 296,857        | 252,502        |
| <b>Cost of sales</b>                                  | 205,005        | 169,959        |
| <b>Gross profit</b>                                   | 91,852         | 82,542         |
| <b>Selling, general and administrative expenses</b>   | *1 90,453      | 75,313         |
| Operating income                                      | 1,398          | 7,229          |
| <b>Nonoperating income</b>                            |                |                |
| Interest income                                       | 778            | 348            |
| Dividend income                                       | 1,419          | 561            |
| Subcontractor rental income                           | 250            | 224            |
| Amortization of consolidation adjustments             | 540            | 504            |
| Subsidies   | -              | 610            |
| Other   | 2,271          | 1,394          |
|   | 5,259          | 3,644          |
| <b>Nonoperating expenses</b>                          |                |                |
| Interest charges                                      | 597            | 1,605          |
| Loss on sales of bills                                | 289            | 108            |
| Depreciation expenses for lent properties             | 108            | 56             |
| Investment loss from the application of equity method | 278            | 10             |
| Foreign currency exchange loss                        | 3,014          | 290            |
| Other   | 1,621          | 827            |
|   | 5,909          | 2,898          |
| Ordinary income                                       | 748            | 7,976          |
| <b>Extraordinary gains</b>                            |                |                |
| Gain on sales of investment securities                | 3,140          | 1,541          |
| Gain on sales of fixed assets                         | 7              | 160            |
| Reversal of allowance for doubtful accounts           | 144            | -              |
| Reversal of reserve for investment losses             | -              | 366            |
| Other   | 715            | 399            |
|   | 4,009          | 2,467          |
| <b>Extraordinary losses</b>                           |                |                |
| Loss on sales of properties                           | 2              | 77             |
| Loss on disposal of properties                        | 855            | 450            |
| Loss on impairment                                    | *2 14,183      | 669            |
| Loss on disposal of inventory assets                  | 592            | -              |
| Reorganization costs                                  | 9,448          | 342            |
| Valuation loss on investment securities               | 3,384          | 11             |
| Loss on retirement pension system change              | 405            | -              |
| Provision of allowance for doubtful accounts          | -              | 648            |
| Provision for investment losses                       | 705            | -              |
| Amortization of goodwill                              | 5,511          | -              |
| Other   | 735            | 396            |
|   | 35,825         | 2,596          |
| Income before income taxes                            | △31,067        | 7,847          |
| Income, residential and enterprise taxes              | 3,720          | 2,102          |
| Corporate tax adjustment                              | △8,686         | 3,505          |
| Total Corporate tax                                   | △4,965         | 5,608          |
| Minority interests                                    | △294           | △1,288         |
| <b>Net income</b>                                     | △25,806        | 3,527          |

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(3) Changes in Shareholder's Equity

| Millions of yen   | March 31, 2009 | March 31, 2010 |
|---|----------------|----------------|
| <b>Shareholders' equity</b>   |                |                |
| Paid-in capital   |                |                |
| Balance at beginning of year  | 32,648         | 32,648         |
| Changes during the year   |                |                |
| Total changes   | -              | -              |
| Balance at end of year  | 32,648         | 32,648         |
| Additional paid-in capital  |                |                |
| Balance at beginning of year  | 63,885         | 63,883         |
| Changes during the year   |                |                |
| Cancellation of treasury stocks   | △1             | △0             |
| Treasury stock cancellations  | -              | △25,415        |
| Total changes   | △1             | △25,415        |
| Balance at end of year  | 63,883         | 38,468         |
| Retained earnings   |                |                |
| Balance at beginning of year  | 174,397        | 141,379        |
| Changes during the year   |                |                |
| Cash dividends  | △7,721         | △1,921         |
| Net income  | △25,806        | 3,527          |
| Changes in scope of consolidation   | 353            | 172            |
| Decrease due to changes in non-controlling interests                                      | △0             | -              |
| Increase in retained earnings due to a change in closing dates by equity-method companies | 157            | -              |
| Total changes   | △33,017        | 1,778          |
| Balance at end of year  | 141,379        | 143,158        |
| Treasury stocks   |                |                |
| Balance at beginning of year  | △30,893        | △50,910        |
| Changes during the year   |                |                |
| Repurchase of treasury stocks   | △20,022        | △3             |
| Cancellation of treasury stocks   | 5              | 0              |
| Total changes   | △20,017        | 25,411         |
| Balance at end of year  | △50,910        | △25,498        |
| Total shareholders' equity  |                |                |
| Balance at beginning of year  | 240,038        | 187,002        |
| Changes during the year   |                |                |
| Cash dividends  | △7,721         | △1,921         |
| Net income  | △25,806        | 3,527          |
| Repurchase of treasury stocks   | △20,022        | △3             |
| Cancellation of treasury stocks   | 3              | 0              |
| Changes in scope of consolidation   | 353            | 172            |
| Decrease due to changes in non-controlling interests                                      | △0             | -              |
| Increase in retained earnings due to a change in closing dates by equity-method companies | 157            | -              |
| Total changes   | △53,036        | 1,774          |
| Balance at end of year  | 187,002        | 188,776        |
| Valuation and translation adjustments   |                |                |
| Net unrealized gain/loss on other securities  |                |                |
| Balance at beginning of year  | 6,436          | 404            |
| Changes during the year   |                |                |
| Changes except in shareholders' equity  | △6,032         | 3,369          |
| Total changes   | △6,032         | 3,369          |
| Balance at end of year  | 404            | 3,773          |

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| Millions of yen   | March 31, 2009 | March 31, 2010 |
|---|----------------|----------------|
| Foreign currency translation adjustments  |                |                |
| Balance at beginning of year  | △4,331         | △8,271         |
| Changes during the year   |                |                |
| Changes except in shareholders' equity  | △3,940         | △1,716         |
| Total changes   | △3,940         | △1,716         |
| Balance at end of year  | △8,271         | △9,987         |
| Total Valuation and translation adjustments   |                |                |
| Balance at beginning of year  | 2,104          | △7,867         |
| Changes during the year   |                |                |
| Changes except in shareholders' equity  | △9,972         | 1,653          |
| Total changes   | △9,972         | 1,653          |
| Balance at end of year  | △7,867         | △6,214         |
| Minority interest   |                |                |
| Balance at beginning of year  | 1,687          | 5,095          |
| Changes during the year   |                |                |
| Changes except in shareholders' equity  | 3,407          | △1,295         |
| Total changes   | 3,407          | △1,295         |
| Balance at end of year  | 5,095          | 3,799          |
| Total net assets  |                |                |
| Balance at beginning of year  | 243,830        | 184,229        |
| Changes during the year   |                |                |
| Cash dividends  | △7,721         | △1,921         |
| Net income  | △25,806        | 3,527          |
| Repurchase of treasury stocks   | △20,022        | △3             |
| Cancellation of treasury stocks   | 3              | 0              |
| Changes in scope of consolidation   | 353            | 172            |
| Decrease due to changes in non-controlling interests                                      | △0             | -              |
| Increase in retained earnings due to a change in closing dates by equity-method companies | 157            | -              |
| Changes except in shareholders' equity  | △6,565         | 357            |
| Total changes   | △59,601        | 2,132          |
| Balance at end of year  | 184,229        | 186,362        |

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## (4) Consolidated Statement of Cash Flow

| Millions of yen  | Year ended<br>March 31, 2009 | Year ended<br>March 31, 2010 |
|--|------------------------------|------------------------------|
| <b>Cash flows from operating activities</b>  |                              |                              |
| Income before income taxes   | △31,067                      | 7,847                        |
| Depreciation   | 20,122                       | 14,992                       |
| Increase/decrease in reserve for business restructuring losses                       | 7,018                        | △3,362                       |
| Increase/decrease in reserve for defined retirement benefits                         | △241                         | 306                          |
| Increase/decrease in allowance for doubtful accounts                                 | △586                         | 522                          |
| Amortization of goodwill   | *1 6,869                     | 558                          |
| Interest and dividends income  | △2,197                       | △909                         |
| Interest charges   | 597                          | 1,605                        |
| Loss on sales of investment securities   | △3,140                       | △1,537                       |
| Loss on Valuation of investment securities   | 3,384                        | 11                           |
| Loss on sales of fixed assets  | △438                         | △83                          |
| Loss on disposal of fixed assets   | 814                          | 450                          |
| Increase/decrease in receivables - trade   | 22,152                       | △3,251                       |
| Increase/decrease in inventories   | 3,563                        | 13,833                       |
| Increase/decrease in payables - trade  | △18,487                      | 3,930                        |
| Loss on impairment   | 14,183                       | 669                          |
| Other  | △3,669                       | 936                          |
| Sub total  | 18,878                       | 36,519                       |
| Interest and dividends received  | 2,185                        | 906                          |
| Interest payments  | △538                         | △1,576                       |
| Income taxes   | △5,878                       | △2,421                       |
| Net cash provided by operating activities  | 14,647                       | 33,428                       |
| <b>Cash flows from investing activities</b>  |                              |                              |
| Payments for the purchase of investment securities                                   | △7,964                       | △752                         |
| Proceeds from the sale of investment securities                                      | 4,929                        | 3,384                        |
| Payments for the purchase of property, plant and equipment                           | △18,683                      | △9,708                       |
| Proceeds from the sale of property, plant and equipment                              | 1,259                        | 1,048                        |
| Payments for Intangible fixed assets   | △1,138                       | △535                         |
| Payments for loans receivable  | △1,366                       | △324                         |
| Proceeds from the recovery of loans receivable                                       | 183                          | 664                          |
| Payments for purchase of related-company shares                                      | △1,449                       | △3                           |
| Payments for purchase of subsidiary shares following a change in consolidation scope | △4,449                       | -                            |
| Other  | △2,018                       | △210                         |
| Net cash used in investing activities  | △30,697                      | △6,437                       |
| <b>Cash flows from financing activities</b>  |                              |                              |
| Net increase/decrease in borrowings  | △32                          | △1,158                       |
| Increase/decrease in Long-term loans payable   | 61,000                       | 1,900                        |
| Repayment of long-term loans payable   | △0                           | △0                           |
| Proceeds from issuance of bonds  | 2,000                        | 500                          |
| Redemption of bonds  | -                            | △22,950                      |
| Payments for bond retirement   | △490                         | -                            |
| Dividends paid   | △7,721                       | △1,921                       |
| Dividends paid to the minority stockholders  | △120                         | △8                           |
| Payments for purchase of treasury stock  | △20,022                      | △3                           |
| Proceeds from sale of treasury stock   | 3                            | 0                            |
| Other  | △9                           | △47                          |

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| <b>Millions of yen</b>   | <b>Year ended<br/>March 31, 2009</b> | <b>Year ended<br/>March 31, 2010</b> |
|--|--------------------------------------|--------------------------------------|
| Net cash used in financing activities  | 34,607                               | △23,689                              |
| Effect of exchange rate changes on cash and cash equivalents   | △2,086                               | △221                                 |
| Net increase in cash and cash equivalents  | 16,470                               | 3,080                                |
| Cash and cash equivalents at beginning of term   | *2 70,480                            | 87,649                               |
| Net increase in cash and cash equivalents associated with newly consolidated subsidiaries                | 698                                  | 143                                  |
| Net increase in cash and cash equivalents associated with provisional account settlement of subsidiaries | -                                    | 3                                    |
| Cash and cash equivalents at end of term   | *2 87,649                            | 90,877                               |

**Material Uncertainties Related to Events or Conditions That May Cast Doubt on the Entity's Ability to Continue as a Going Concern**

Not applicable

**Basis of Presenting the Consolidated Financial Statements**

|                           | Year ended March 31, 2009  | Year ended March 31, 2010   |
|---------------------------|--|---|
| 1. Scope of consolidation | <p>(1) Consolidated subsidiaries (84 companies)<br/>The names of the main subsidiaries<br/>Citizen Watch Co., Ltd., Citizen Machinery Co., Ltd., Citizen Systems Japan Co., Ltd., Citizen Electronics Co., Ltd., Citizen Finetech Miyota Co., Ltd., Citizen Seimitsu Co., Ltd., Sayama Precision Co., Ltd.<br/>Newly added (13 companies)<br/>Beginning with the consolidated fiscal year under review, Citizen Watch Company of Canada Ltd., Citizen Watch Do Brasil S.A. and Citizen Watches (India) Pvt. Ltd., in consideration of their importance, and 10 other companies including Miyano Machinery Inc., have been added as consolidated subsidiaries since Miyano Machinery Inc. has been made into a consolidated subsidiary.<br/>Excluded (2 companies)<br/>Citizen Precision Korea Co., Ltd., because of the sale of all of its shares, and Premier Precision Ltd., because of its dissolution, have been excluded from the scope of consolidation.</p> <p>Citizen Holdings Co., Ltd. and Citizen Technology Center Co., Ltd. have merged, as have Citizen Miyota Co., Ltd. and Citizen Fine Tech Co., Ltd.</p> | <p>(1) Consolidated subsidiaries (81 companies)<br/>The names of the main subsidiaries<br/>Citizen Watch Co., Ltd., Citizen Machinery Co., Ltd., Citizen Systems Japan Co., Ltd., Citizen Electronics Co., Ltd., Citizen Finetech Miyota Co., Ltd., Citizen Seimitsu Co., Ltd.,<br/>Newly added (2 companies)<br/>Beginning with the consolidated fiscal year under review, Citizen Systems (Jiangmen) Co. Ltd. and Citizen Machinery UK Ltd., in consideration of their importance, have been included in the scope of consolidation.<br/>Excluded (2 companies)<br/>Bulova Watch Company, Inc., in consideration of its lack of importance to the consolidated group, and Art of Time, Inc. and HARVESTINE COMPANY LIMITED, because of their dissolution, have been excluded from the scope of consolidation.</p> <p>Citizen CBM Corporation, Citizen Sayama Co. Ltd., and Citizen Saitama Co., Ltd. were all merged with Citizen Watch Co., Ltd.</p> |
|                           | <p>(2) Major nonconsolidated subsidiaries<br/>(50 companies)<br/>Citizen Machinery UK Ltd.<br/>Citizen Systems (Jiangmen) Co., Ltd.<br/>(Reasons for Exclusion from the Scope of Consolidation)<br/>The total assets, net sales, net income (equivalent portion for equity holdings), and retained earnings (equivalent portion for equity holdings) of each nonconsolidated subsidiary excluded from the scope of consolidation were individually immaterial in comparison to net assets, net sales, net income, and retained earnings, as reported on the consolidated financial statements, and also would not materially impact the consolidated financial statements taken together.</p>  | <p>(2) Major nonconsolidated subsidiaries<br/>(46 companies)<br/>Master Crown Electronics (WUZHOU) LTD.<br/>Citizen Micro Devices (SUZHOU) CO., LTD.<br/>(Reasons for Exclusion from the Scope of Consolidation)<br/>see left.</p>  |

C I T I Z E N   H O L D I N G S

|   | Year ended March 31, 2009   | Year ended March 31, 2010   |
|---|---|---|
| 2. Application of the equity method             | <p>(1) Equity method affiliate company: 2 companies Miyano Machinery Inc. has been made into a consolidated subsidiary and is no longer considered an equity method affiliate. Two other companies have been added as equity method affiliates.</p> <p>(2) Non-consolidated subsidiaries to which the equity method is not applied (Citizen Machinery · UK LTD. And CITIZEN SYSTEMS (JIANGMEN) CO., LTD., and a key related company (Marubeni Citizen Cincom Inc.) have been excluded from equity method application. This decision was based on the immateriality of the individual impacts of their net income, retained earnings, and other financial measures (equivalent portions for equity holdings) on the consolidated financial statements, and based on the overall lack of importance of each of these companies to the consolidated group.</p> | <p>(1) Equity method affiliate company: 1 companies. Shanghai Takisawa Miyano Machinery Co., LTD. due to the dissolution of a joint venture during the fiscal year under review, is no longer considered an equity method affiliate.</p> <p>(2) Non-consolidated subsidiaries to which the equity method is not applied Master Crown Electronics (WUZHOU) LTD. and Citizen Micro Devices (SUZHOU) CO., LTD. and a key related company (Marubeni Citizen Cincom Inc.) have been excluded from equity method application. This decision was based on the immateriality of the individual impacts of their net income, retained earnings, and other financial measures (equivalent portions for equity holdings) on the consolidated financial statements, and based on the overall lack of importance of each of these companies to the consolidated group.</p> |
| 3. Fiscal year-end of consolidated subsidiaries | <p>Miyano Machinery Inc., its 9 consolidated subsidiaries and other 46 overseas consolidated subsidiaries have a closing date that is different from the closing date for the consolidated financial statements.</p> <p>Miyano Machinery Inc., its 9 consolidated subsidiaries and other 46 overseas consolidated subsidiaries close their books on December 31, but perform account closings as of the consolidated financial statement closing date for financial statements used in preparing the consolidated financial statements, so that the latter can be prepared.</p>   | <p>53 overseas consolidated subsidiaries have a closing date that is different from the closing date for the consolidated financial statements. These overseas consolidated subsidiaries close their books on December 31, but perform account closings as of the consolidated financial statement closing date for financial statements used in preparing the consolidated financial statements, so that the latter can be prepared.</p>   |

|   |  |   |
|---|--|---|
| <p>4. Accounting standards<br/>(1) Valuation standards and methods for major assets</p> | <p>The accounting standards applied by the consolidated subsidiaries are, in principle, consistent with those applied by the Company and there are no differences to note. The key accounting standards applied by the Company and its consolidated subsidiaries are described below.</p> <p>(1)Marketable and investment securities</p> <p>a). Bonds held to maturity<br/>Amortized cost method (Straight-line)<br/>Market value method based on market price as of the consolidated closing date<br/>(Unrealized gains (losses) are reported as components of net assets and the cost of products sold are calculated based on the moving average approach.)</p> <p>b).Derivatives<br/>Market value method.</p> <p>c). Inventory assets<br/>Inventories are primarily valued at cost method based on the gross average approach (with balance sheet values reflecting write downs for decreased profitability)</p> <p>(Additional information)<br/>In the past, the Group has treated other marketable securities with determinable market value as loss on impairment when their market value dropped by over 30%, considering that the securities' market value was unrecoverable. However, we have altered our process from this consolidated fiscal year to first determine the recovery potential of each individual marketable security once its market value fell by between 30% to about 50%, and then deciding whether to register it as loss on impairment. This is because the recent drop in the market value of securities owes more to the decline in the entire stock market as it faces changes in wider surrounding factors, rather than to the inherent features of the marketable security itself. Another reason of the alteration is its increased financial importance. The Group has decided we must make more rational decisions regarding the recovering potential of marketable securities. As a result of the new process, income before taxes and other adjustments has increased by 1,612 million yen than would have been the case with the previous method.</p> <p>Derivative financial instruments are valued at market.</p> <p>Inventories<br/>Inventories are primarily valued at cost basis on the gross average approach (with balance sheet values reflecting write downs for decreased profitability).</p> | <p>See left.</p> <p>(1)Marketable and investment securities</p> <p>a). Bonds held to maturity<br/>see left.</p> <p>b). Derivatives<br/>see left.</p> <p>c). Inventory assets<br/>Inventories are primarily valued at cost method based on the gross average approach (with balance sheet values reflecting write downs for decreased profitability)</p> |
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|  | <p>(Change in Accounting Policy)</p> <p>In the past, inventories held for sale in the ordinary course of business were valued primarily at lower of cost or market using the gross average approach. However, in accordance with the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 5, 2006), which took effect beginning with the fiscal year under review, these inventories are being valued primarily at cost basis on the gross average approach (with balance sheet values reflecting write downs for decreased profitability).</p> <p>The income impact of this change is immaterial.</p> |  |
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| <p>(2) Depreciation of fixed assets</p> | <p>(i) Property, plant and equipment t(excluding leased assets)<br/> Mainly calculated using a declining balance basis.<br/> Primary useful life figures are as follows.<br/> Buildings and other structures 2 to 60 yrs.<br/> Machinery and equipment 2 to 10 yrs.<br/> (Additional information)<br/> Beginning with the consolidated fiscal year under review, the useful lives of property, plant and equipment at some domestic subsidiaries have been revised in connection with the fiscal 2008 tax code revision. The income impact of this change is immaterial.</p> <p>(ii) Intangible fixed asset(excluding leased assets)<br/> Calculated using a straight line basis.</p> <p>(iii) Leased assets<br/> Leased assets related to finance lease transactions that do not transfer ownership of the leased assets to the lessee are depreciated using the straight-line method with useful lives equal to lease terms and zero residual values. For finance lease transactions that do not transfer ownership of the leased assets to the lessee and began on or before march 31,2008, accounting treatment complying with the method applied for ordinary lease transactions is being continued.</p> <p style="text-align: center;">-</p> | <p>(i) Property, plant and equipment(excluding leased assets)<br/> see left.</p> <p>(ii) Intangible fixed asset (excluding leased assets)<br/> see left.</p> <p>(iii) Leased assets<br/> see left.</p> |
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| <p>(3) Recognition basis of provisions and reserves</p> | <p>(i) Allowance for doubtful accounts<br/>In setting aside an allowance for possible losses related to trade receivables, loans, etc. for the Company and its domestic consolidated subsidiaries, individual ordinary receivables regarded as doubtful are evaluated for collectibility and an amount equivalent to the portion judged to be uncollectible is recorded based on the lone loss ratio.<br/>For overseas consolidated subsidiaries, individual receivables are evaluated for collectibility and required loss estimates are recorded.</p> <p>(ii) Reserve for valuation loss on investments<br/>To provide for possible losses due to extreme devaluation in the stocks of non-consolidated 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>(iii) Reserve for bonuses to employees<br/>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>(iv) Reserve for bonuses to directors<br/>To provide for the payment of bonuses to directors, the Company and some of its consolidated subsidiaries record an allowance based on the estimated forthcoming payments.</p> <p>(v) Reserve for product warranties<br/>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>(vi) Reserve for business restructuring losses<br/>To provide for expenses and losses related to business restructurings, an allowance is set aside in an amount equal to the estimated forthcoming payments.</p> <p>(vii) Provision for environmental measures<br/>To provide for expenses related to future environmental measures, an allowance is set aside in an amount based on a reasonable estimate.</p> <p>(viii) Reserve for retirement benefits<br/>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. Any differences arising as a result of changes in accounting standards are, as a rule, treated as an extraordinary loss for the year in which the difference arises. However, the straight-line</p> | <p>(i) Allowance for doubtful accounts<br/>see left.</p> <p>(ii) Reserve for valuation loss on investments<br/>see left.</p> <p>(iii) Reserve for bonuses to employees<br/>see left.</p> <p>(iv) Reserve for bonuses to directors<br/>See left.</p> <p>(v) Reserve for product warranties<br/>see left.</p> <p>(vi) Reserve for business restructuring losses<br/>see left.</p> <p>(vii) Provision for environmental measures<br/>See left.</p> <p>(viii) Reserve for retirement benefits<br/>See left.</p> |
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|  | <p>method is applied over a period of 5 to 10 years at certain consolidated subsidiaries. In addition, prior 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 the employee's remaining years of service when they occur (in principle, by applying the fixed-percentage method over 5 years). Prior 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 year following the year in which they occur.</p> <p>(Additional information)</p> <p>The Citizen Group provides a tax-qualified pension plan and a termination allowance plan as our defined benefit system. However, some of the consolidated subsidiaries have changed a part of their retirement benefit system from a tax-qualified pension plan to a defined contribution plan. Upon transition, "Accounting related to transition of retirement benefit scheme" (Application Guideline No. 1 of the Business Accounting Principles) has been applied.</p> <p>As the result of the transition, we have posted 405 million yen as an extraordinary loss.</p> | <p>(Change in accounting policy)</p> <p>Beginning with the consolidated fiscal year under review, Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008) is being applied.</p> <p>The impact of this change on operating profit, ordinary profit, and net income before taxes is immaterial.</p> |
| <p>(4) Translation of foreign currency assets or liabilities</p> | <p>Foreign currency amounts are translated into Japanese yen at the rate prevailing on the balance sheet 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 date of the balance sheet, whereas revenues and expenses are translated into Japanese yen using the weighted-average rate.</p> <p>The differences arising from translation are included in foreign currency translation adjustments and minority interest in the net assets section.</p>  | <p>see left.</p>  |
| <p>(5) Lease contracts</p>                                       | <p>-</p>   |   |
| <p>(6) Hedge accounting method</p>                               | <p>(i) Hedge accounting method<br/>When the conditions are met, the special treatment is applied to interest-rate swaps.</p> <p>(ii) Hedging method and target</p>   | <p>(i) Hedge accounting method<br/>See left.</p> <p>(ii) Hedging method and target</p>  |

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| (7) Other important matters regarding the preparation of consolidated financial statements | <p>Interest-rate swaps are used in regard to the interest rates for certain borrowings.</p> <p>(iii) Hedge policy<br/>Hedging is used to address interest-rate risk for certain borrowings.</p> <p>(iv) Method for evaluating hedge effectiveness<br/>Evaluations of effectiveness are omitted because the special treatment is applied to interest-rate swaps.</p> <p>(i) Accounting method for consumption tax<br/>Consumption tax is calculated using a tax exclusion method.</p> <p>(ii) Application of Consolidated taxation system<br/>Application of Consolidated taxation system<br/>Consolidated taxation system is applied</p> | <p>See left.</p> <p>(iii) Hedge policy<br/>See left.</p> <p>(iv) Method for evaluating hedge effectiveness<br/>See left.</p> <p>(i) Application of Consolidated taxation system<br/>See left.</p> <p>(ii) Application of Consolidated taxation system<br/>See left.</p> |
| 5. Property of consolidated subsidiary and matter concerning evaluation of debt            | The overall mark-to-market valuation approach is used for the valuation of the assets and liabilities of consolidated subsidiaries.  | See left.   |
| 6. Matter concerning redemption of shop curtain and negative shop curtain                  | <p>Goodwill is amortized evenly over the period (up to 20 years from the time of recording) for which its effect can be anticipated.</p> <p>When the total amount of goodwill is immaterial, it is expensed in the period during which it arose.</p>   | See left.   |
| 7. Scope of funds covered by the consolidated statement of cash flow                       | The scope of funds covered by the consolidated statement of cash flow includes cash on hand, demand deposits, and short-term investments that mature within three months of acquisition and are highly liquid, easily convertible to cash, and bear very little price risk.  | See left.   |

**Changes in Basis of Presenting the Consolidated Financial Statement**

| Year ended March 31, 2009  | Year ended March 31, 2010 |
|--|---------------------------|
| <p>(Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)<br/>Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Solution No. 18 released by the Accounting Standards Board of Japan on May 17, 2006) was applied, and necessary revisions were made to consolidated earnings.<br/>These changes had only a minor impact on operating income, ordinary income, and net income before taxes for the consolidated fiscal year under review.</p> <p>(Application of accounting standards for lease transactions)<br/>The accounting method of finance lease transactions that do not transfer ownership of the leased assets to the lessee have traditionally been complied with that of lease transactions, but beginning with the consolidated fiscal year under review, Accounting Standards for Lease Transactions (Corporate Accounting Standard No. 13 released by the First Subcommittee of the Business Accounting Council on June 17, 1993, and revised on March, 30, 2007) and Implementation Guidance on Accounting Standard for Lease Transactions (Corporate Accounting Standard No. 16 (released by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994, and revised March 30, 2007) ) were applied, and are now complied with ordinary purchase transactions.</p> | -                         |

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| <p>For finance lease transactions that do not transfer ownership of the leased assets to the lessee and began prior to the fiscal year in which this policy was adopted, accounting treatment complying with the method applied for ordinary lease transactions is being continued</p> <p>The income impact of this change is immaterial.</p> |  |
|---|--|

**Changes in Presentation Method**

| Year ended March 31, 2009   | Year ended March 31, 2010  |
|---|--|
| <p>(Balance Sheet)</p> <p>Following the application of the Cabinet Office Ordinance Revising Items such as Category and Regulations related to Terms, Form, and Method for Creating Documents such as Financial Statements (Cabinet Office Ordinance No. 50 released August 7, 2008), “finished products”, “raw materials”, and “work in process”, which had been included in “inventories” through the previous consolidated fiscal year, are listed separately beginning with the consolidated fiscal year under review. For the previous consolidated fiscal year “products”, “materials”, and “work in process” included in “inventories” were 35,049 million yen, 10,408 million yen, and the 19,346 million yen, respectively.</p>  | -  |
| -   | <p>(Consolidated Statement of Income)</p> <p>“Reversal of reserve for investment losses” is shown as a distinct item under extraordinary gains because the amount exceeds 10% of the total amount of extraordinary gains for the consolidated fiscal year under review. In the past, reversals of reserves for investment losses were included under the category “other.” In the prior consolidated fiscal year, the reversal of reserve for investment losses, which was included in “other,” came to 58 million yen.</p> <p>“Provision of allowance for doubtful accounts” is shown as a distinct item under extraordinary losses because the amount exceeds 10% of the total amount of extraordinary losses for the consolidated fiscal year under review. In the past, provision of allowance for doubtful accounts was included under the category “other.” In the prior consolidated fiscal year, the provision of allowance for doubtful accounts, which was included in “other,” came to 5 million yen.</p> |
| <p>(Consolidated statement of cash flow)</p> <p>1. For the previous consolidated fiscal years, “Amortization expense of negative goodwill” was listed separately under cash flows from operating activities, but beginning with the consolidated fiscal year under review it is included in “Amortization of goodwill” due to its financial insignificance. Details of “Amortization of goodwill” for the consolidated fiscal year under review are given in “Notes (Consolidated statement of cash flow).”</p> <p>2. Under cash flows from investing activities, “payments for intangible fixed assets” was included in “other” for the previous fiscal year but is listed separately beginning with the consolidated fiscal year under review. For the previous consolidated fiscal year, “payments for intangible fixed assets” were 649 million yen respectively.</p> | -  |

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3. For the previous consolidated fiscal year, "increase/decrease in loans" was listed under cash flows from investment activities, but this was separated into "Payments for loans receivable" and "Proceeds from the recovery of loans receivable" beginning with the consolidated fiscal year under review in order to increase the comparability of financial statements with the introduction of XBRL for EDINET. For the previous consolidated fiscal year, "Payments for loans receivable" and "Proceeds from the recovery of loans receivable" were 903 million yen and 453 million yen respectively.

**Notes**

**(Consolidated balance sheet)**

| Year ended March 31, 2009   | Year ended March 31, 2010  |
|---|--|
| *1. Accumulated depreciation on property, plant and equipment<br>249,366million yen | *1. Accumulated depreciation on property, plant and equipment<br>244,556 million yen |
| *2. Secured debt 507 million yen  | *2 Secured debt 232 million yen.<br>*3. Export bill discounts 4 million yen.         |

**(Consolidated statement of income)**

| Year ended March 31, 2009   |                   | Year ended March 31, 2010  |                   |
|---|-------------------|--|-------------------|
| 1. Major items in selling, general and administrative expenses  |                   | *1. Major items in selling, general and administrative expenses  |                   |
|   | (Millions of yen) |  | (Millions of yen) |
| Depreciation expenses   | 3,611             | Depreciation expenses  | 2,983             |
| Allowance for doubtful accounts   | 232               | Allowance for doubtful accounts  | 41                |
| Reserve for bonuses to employees  | 1,915             | Reserve for bonuses to employees   | 1,900             |
| Reserve for bonuses to directors  | 121               | Reserve for bonuses to directors   | 204               |
| Retirement benefit expenses   | 911               | Retirement benefit expenses  | 1,116             |
| Personnel cost  | 26,408            | Personnel cost   | 23,115            |
| Advertisement expenses  | 15,440            | Advertisement expenses   | 11,901            |
| Reserve for product warranties  | 144               | Reserve for product warranties   | 62                |
| R&D expenditures  | 10,527            | R&D expenditures   | 8,488             |
| *2. Impairment Loss   |                   | *2 Impairment Loss   |                   |
| <p>The Group, in principle, considers department unit based on management accounting as the minimum unit that generates cash flow. Some of the consolidated subsidiaries are classified based on company unit due to its business size. In addition, assets that are not clearly related to certain business, such as head office, are categorized as common assets.</p> <p>During the consolidated fiscal year under review, the global economy experienced a sudden, sweeping recession triggered by a financial crisis. The Japanese economy, as well, experienced rapid declines in orders across the board, but especially in the manufacturing sector, and fell into a recession the seriousness of which exceeded all expectations. Under such conditions, the Citizen Group's business environment also took a rapid turn for the worse., The Citizen Group wrote down fixed assets impaired as a result and recorded an extraordinary loss (14,183 million yen).</p> |                   | <p>The Group, in principle, considers department unit based on management accounting as the minimum unit that generates cash flow. Some of the consolidated subsidiaries are classified based on company unit due to its business size. In addition, assets that are not clearly related to certain business, such as head office, are categorized as common assets.</p> <p>For the consolidated fiscal year under review, impairment losses were recorded for idle facilities and land for which no future uses are anticipated, and for assets used in businesses with diminished profitability. These losses, which totaled 669 million yen including 475 million yen for machinery and equipment and 133 million yen for land, were recorded under extraordinary losses.</p> |                   |

**(Consolidated statement of retained earnings)**

The year ended March 31, 2009

## 1. Type and number of issued stocks and treasury stocks

| Shares         | Beginning of the period | Increase during this interim period | Decrease during this interim period | End of the period |
|----------------|-------------------------|-------------------------------------|-------------------------------------|-------------------|
| Issued shares  |                         |                                     |                                     |                   |
| Common stock   | 380,353,809             | -                                   | -                                   | 380,353,809       |
| Total          | 380,353,809             | -                                   | -                                   | 380,353,809       |
| Treasury stock |                         |                                     |                                     |                   |
| Common stock*  | 33,348,673              | 26,750,553                          | 5,673                               | 60,093,553        |
| Total          | 33,348,673              | 26,750,553                          | 5,673                               | 60,093,553        |

Notes (\*)

- The breakdown of 26,750,553 shares of common stock increased in treasury stock
  - Increase due to purchase from the market 26,720,300 shares
  - Increase due to repurchase of stocks less than one unit 30,253 shares
- The breakdown of 5,673 shares of common stock decreased in treasury stock
  - Decrease due to purchase of stocks less than one unit 5,673shares

## 2. Cash dividends

## (1) Cash dividends

| (Resolution)   | Type         | Total amount of dividends | Dividend per share | Record date    | Effective date |
|--|--------------|---------------------------|--------------------|----------------|----------------|
| Ordinary general meeting of shareholders (June 25, 2008) | Common stock | 5,205 million yen         | 15.00 yen          | March 31, 2008 | June 26, 2008  |
| Board of Directors (Nov.10, 2008)                        | Common stock | 2,516 million yen         | 7.50 yen           | Sep. 30, 2008  | Dec. 4, 2008   |

## (2) Of the cash dividends with record date during this period, those with effective date after this period

Resolution is scheduled as follows.

| (Resolution)   | Type         | Total amount of dividends | Source           | Dividend per share | Record date    | Effective date |
|--|--------------|---------------------------|------------------|--------------------|----------------|----------------|
| Ordinary general meeting of shareholders (June 25, 2009) | Common stock | 800 million yen           | Earnings reserve | 2.50 yen           | March 31, 2009 | June 26, 2009  |

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The year ended March 31, 2010

1. Type and number of issued stocks and treasury stocks

| Shares         | Beginning of the period | Increase during this interim period | Decrease during this interim period | End of the period |
|----------------|-------------------------|-------------------------------------|-------------------------------------|-------------------|
| Issued shares  |                         |                                     |                                     |                   |
| Common stock   | 380,353,809             | -                                   | 30,000,000                          | 350,353,809       |
| Total          | 380,353,809             | -                                   | 30,000,000                          | 350,353,809       |
| Treasury stock |                         |                                     |                                     |                   |
| Common stock*  | 60,093,553              | 6,442                               | 30,000,183                          | 30,099,812        |
| Total          | 60,093,553              | 6,442                               | 30,000,183                          | 30,099,812        |

Notes (\*)

1. The decrease in issued shares resulted from the cancellation of treasury stock.
2. The 6,442 share increase in treasury stock resulted from the purchase of shares less than one unit from shareholders.
3. The 30,000,183 share decrease in treasury stock resulted from the cancellation of 30,000,000 shares and the sale of 183 shares to shareholders originally acquired as shares less than one unit.

2. Cash dividends

(1) Cash dividends

| (Resolution)   | Type         | Total amount of dividends | Dividend per share | Record date    | Effective date |
|--|--------------|---------------------------|--------------------|----------------|----------------|
| Ordinary general meeting of shareholders (June 25, 2009) | Common stock | 800 million yen           | 2.50 yen           | March 31, 2009 | June 26, 2009  |
| Board of Directors (Nov.10, 2009)                        | Common stock | 1,120 million yen         | 3.50 yen           | Sep. 30, 2009  | Dec. 2, 2009   |

(2) Of the cash dividends with record date during this period, those with effective date after this period

Resolution is scheduled as follows.

| (Resolution)   | Type         | Total amount of dividends | Source           | Dividend per share | Record date    | Effective date |
|--|--------------|---------------------------|------------------|--------------------|----------------|----------------|
| Ordinary general meeting of shareholders (June 25, 2010) | Common stock | 1,120million yen          | Earnings reserve | 3.50 yen           | March 31, 2010 | June 28, 2010  |

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**(Consolidated statement of cash flow)**

| <b>Year ended March 31, 2009</b>   | <b>Year ended March 31, 2010</b>                   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
|--|--|--------|--------------------------|-------|---|--------|---|--|---------------------------|--------------------------|--|---|--|-----------------------|------------------------------|---|---------------------------|---|-------------|---------------------------|--|-------|--------------|
| <p>*1. The breakdown of Amortization of goodwill is as follows.</p> <p style="text-align: right;">(Millions of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Amortization of goodwill for Miyano Machinery Inc.</td> <td style="text-align: right;">5,511</td> </tr> <tr> <td>Amortization of goodwill</td> <td style="text-align: right;">1,897</td> </tr> <tr> <td>Amortization expense of negative goodwill</td> <td style="text-align: right;">△540</td> </tr> </table>  | Amortization of goodwill for Miyano Machinery Inc. | 5,511  | Amortization of goodwill | 1,897 | Amortization expense of negative goodwill                     | △540   | <p>*1. The breakdown of Amortization of goodwill is as follows.</p> <p style="text-align: right;">(Millions of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Amortization of goodwill for Miyano Machinery Inc.</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Amortization of goodwill</td> <td style="text-align: right;">1,063</td> </tr> <tr> <td>Amortization expense of negative goodwill</td> <td style="text-align: right;">△504</td> </tr> </table> | Amortization of goodwill for Miyano Machinery Inc. | -                         | Amortization of goodwill | 1,063  | Amortization expense of negative goodwill | △504   |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization of goodwill for Miyano Machinery Inc.   | 5,511  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization of goodwill   | 1,897  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization expense of negative goodwill  | △540   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization of goodwill for Miyano Machinery Inc.   | -  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization of goodwill   | 1,063  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Amortization expense of negative goodwill  | △504   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| <p>*2. Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets</p> <p style="text-align: right;">(Millions of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash</td> <td style="text-align: right;">91,194</td> </tr> <tr> <td>Marketable securities</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Time deposits with a deposit period greater than three months</td> <td style="text-align: right;">△3,545</td> </tr> <tr> <td>Shares and bonds with a redemption period greater than three months</td> <td style="text-align: right;">△0</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents</td> <td style="text-align: right; border-top: 1px solid black;">87,649</td> </tr> </table>  | Cash   | 91,194 | Marketable securities    | 0     | Time deposits with a deposit period greater than three months | △3,545 | Shares and bonds with a redemption period greater than three months   | △0   | Cash and cash equivalents | 87,649                   | <p>*2. Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets</p> <p style="text-align: right;">(Millions of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash</td> <td style="text-align: right;">95,213</td> </tr> <tr> <td>Marketable securities</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Time deposits with a deposit period greater than three months</td> <td style="text-align: right;">△4,335</td> </tr> <tr> <td>Shares and bonds with a redemption period greater than three months</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents</td> <td style="text-align: right; border-top: 1px solid black;">90,877</td> </tr> </table> | Cash                                      | 95,213   | Marketable securities | -                            | Time deposits with a deposit period greater than three months | △4,335                    | Shares and bonds with a redemption period greater than three months | -           | Cash and cash equivalents | 90,877   |       |              |
| Cash   | 91,194   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Marketable securities  | 0  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Time deposits with a deposit period greater than three months  | △3,545   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Shares and bonds with a redemption period greater than three months  | △0   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Cash and cash equivalents  | 87,649   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Cash   | 95,213   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Marketable securities  | -  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Time deposits with a deposit period greater than three months  | △4,335   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Shares and bonds with a redemption period greater than three months  | -  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Cash and cash equivalents  | 90,877   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| <p>*3. Primary assets and liabilities of consolidated subsidiaries newly added through share purchases<br/>Miyano Machinery Inc. and its subsidiaries became consolidated subsidiaries as a result of an additional share purchase from the consolidated fiscal year under review. The primary assets and liabilities of these companies, together with values and net outlays to acquire them, are shown below.</p> <p style="text-align: right;">(Millions of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Current assets</td> <td style="text-align: right;">15,481</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">6,841</td> </tr> <tr> <td>Goodwill</td> <td style="text-align: right;">5,801</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">△8,804</td> </tr> <tr> <td>Long-term liabilities</td> <td style="text-align: right;">△1,671</td> </tr> <tr> <td>Minority interests</td> <td style="text-align: right;">△4,090</td> </tr> <tr> <td>Value of shares on consolidated balance sheet, as defined for equity method purposes, through the time when control was acquired</td> <td style="text-align: right;">△7,240</td> </tr> <tr> <td style="border-top: 1px solid black;">Outlay for additional shares</td> <td style="text-align: right; border-top: 1px solid black;">6,317</td> </tr> <tr> <td style="border-top: 1px solid black;">Cash and cash equivalents</td> <td style="text-align: right; border-top: 1px solid black;">△1,867</td> </tr> <tr> <td>Difference:</td> <td></td> </tr> <tr> <td>Outlay for purchase during the consolidated fiscal year under review</td> <td style="text-align: right;">4,449</td> </tr> </table> | Current assets                                     | 15,481 | Fixed assets             | 6,841 | Goodwill  | 5,801  | Current liabilities   | △8,804   | Long-term liabilities     | △1,671                   | Minority interests   | △4,090                                    | Value of shares on consolidated balance sheet, as defined for equity method purposes, through the time when control was acquired | △7,240                | Outlay for additional shares | 6,317   | Cash and cash equivalents | △1,867  | Difference: |                           | Outlay for purchase during the consolidated fiscal year under review | 4,449 | <p>*3. -</p> |
| Current assets   | 15,481   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Fixed assets   | 6,841  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Goodwill   | 5,801  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Current liabilities  | △8,804   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Long-term liabilities  | △1,671   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Minority interests   | △4,090   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Value of shares on consolidated balance sheet, as defined for equity method purposes, through the time when control was acquired   | △7,240   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Outlay for additional shares   | 6,317  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Cash and cash equivalents  | △1,867   |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Difference:  |  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |
| Outlay for purchase during the consolidated fiscal year under review   | 4,449  |        |                          |       |   |        |   |  |                           |                          |  |   |  |                       |                              |   |                           |   |             |                           |  |       |              |

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

Year ended March 31, 2009

| Millions of yen               | Watches and clocks | Electronic devices | Electronic Products | Industrial machinery | Other products | Segment totals | Eliminations or general corporate | Consolidated totals |
|-------------------------------|--------------------|--------------------|---------------------|----------------------|----------------|----------------|-----------------------------------|---------------------|
| Net sales                     |                    |                    |                     |                      |                |                |                                   |                     |
| Customers                     | 132,514            | 81,260             | 21,016              | 33,227               | 28,838         | 296,857        | -                                 | 296,857             |
| Inter-segment                 | 156                | 63                 | 137                 | 9                    | 725            | 1,092          | (1,092)                           | -                   |
| Total                         | 132,670            | 81,323             | 21,153              | 33,237               | 29,564         | 297,949        | (1,092)                           | 296,857             |
| Operating expenses            | 123,564            | 84,425             | 20,141              | 33,056               | 30,341         | 291,529        | 3,929                             | 295,458             |
| Operating income              | 9,106              | △3,101             | 1,012               | 180                  | △777           | 6,420          | (5,021)                           | 1,398               |
| Assets                        | 150,103            | 85,694             | 19,424              | 47,924               | 24,123         | 327,270        | 46,969                            | 374,239             |
| Depreciation and amortization | 7,642              | 7,860              | 646                 | 1,454                | 1,381          | 18,984         | 1,138                             | 20,122              |
| Impairment loss               | 5,313              | 7,519              | 12                  | 194                  | 944            | 13,985         | 197                               | 14,183              |
| Capital expenditures          | 7,990              | 5,497              | 385                 | 3,228                | 1,834          | 18,936         | 590                               | 19,527              |

## 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   |
|----------------------|--|
| Watches 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, quartz oscillators, electronic viewfinders, etc.  |
| Electronic products  | Various kinds of printers, electronic thermometers, calculators, etc.  |
| Industrial machinery | CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.                        |
| Other products       | Jewelry, pachinko related products, Automotive Components, jigs and tools, etc.  |

3. "Eliminations or general corporate" includes 5,211 million yen in unclassifiable operating expenses consisting of expenses for the Company's head office management unit and basic research.

4. "Eliminations or general corporate" includes 147,241 million yen in entire-company assets consisting mainly of excess working capital (cash, deposits, and marketable securities) and long-term investments (investment and marketable securities) at the Company.

CITIZEN HOLDINGS

Year ended March 31, 2010

| Millions of yen               | Watches and clocks | Electronic devices | Electronic Products | Industrial machinery | Other products | Segment totals | Eliminations or general corporate | Consolidated totals |
|-------------------------------|--------------------|--------------------|---------------------|----------------------|----------------|----------------|-----------------------------------|---------------------|
| Net sales                     |                    |                    |                     |                      |                |                |                                   |                     |
| Customers                     | 123,613            | 62,071             | 20,580              | 21,335               | 24,900         | 252,502        | -                                 | 252,502             |
| Inter-segment                 | 100                | 7                  | 976                 | 0                    | 395            | 1,478          | (1,478)                           | -                   |
| Total                         | 123,714            | 62,078             | 21,556              | 21,335               | 25,296         | 253,981        | (1,478)                           | 252,502             |
| Operating expenses            |                    |                    |                     |                      |                |                |                                   |                     |
| Operating income              | 113,962            | 58,543             | 20,702              | 25,700               | 24,827         | 243,737        | 1,535                             | 245,272             |
| Operating income              | 9,751              | 3,534              | 854                 | △4,364               | 468            | 10,244         | (3,014)                           | 7,229               |
| Assets                        |                    |                    |                     |                      |                |                |                                   |                     |
| Assets                        | 138,342            | 83,621             | 17,503              | 37,215               | 24,066         | 300,748        | 51,713                            | 352,462             |
| Depreciation and amortization | 7,243              | 4,145              | 455                 | 1,262                | 1,180          | 14,287         | 705                               | 14,992              |
| Impairment loss               | 434                | 56                 | 0                   | 124                  | 53             | 669            | -                                 | 669                 |
| Capital expenditures          | 3,677              | 3,292              | 338                 | 697                  | 592            | 8,597          | 176                               | 8,774               |

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   |
|----------------------|--|
| Watches and clocks   | Analog, digital and analog/digital combination watches, internal and facing parts of wristwatches, various kinds of clocks, etc. |
| Electronic devices   | Chip LEDs, quartz oscillators, Display device, etc.  |
| Electronic products  | Various kinds of printers, electronic thermometers, calculators, etc.  |
| Industrial machinery | CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.                        |
| Other products       | Jewelry, pachinko related products, Automotive Components, jigs and tools, etc.  |

3. "Eliminations or general corporate" includes 2,932 million yen in unclassifiable operating expenses consisting of expenses for the Company's head office management unit and basic research.
4. "Eliminations or general corporate" includes 117,565 million yen in entire-company assets consisting mainly of excess working capital (cash, deposits, and marketable securities) and long-term investments (investment and marketable securities) at the Company.

**b. Geographic segment**

Year ended March 31, 2009

| Millions of yen    | Japan   | Asia    | Americas | Europe | Other | Segment total | Eliminations or general corporate | Consolidated totals |
|--------------------|---------|---------|----------|--------|-------|---------------|-----------------------------------|---------------------|
| Net sales          |         |         |          |        |       |               |                                   |                     |
| Customers          | 203,484 | 252,292 | 44,227   | 22,140 | 1,712 | 296,857       | -                                 | 296,857             |
| Inter-segment      | 49,418  | 66,508  | 591      | 128    | -     | 116,646       | (116,646)                         | -                   |
| Total              | 252,903 | 91,800  | 44,819   | 22,268 | 1,712 | 413,504       | (116,646)                         | 296,857             |
| Operating expenses | 251,423 | 89,924  | 43,282   | 21,465 | 1,831 | 407,927       | (112,468)                         | 295,458             |
| Operating income   | 1,480   | 1,875   | 1,537    | 803    | △118  | 5,577         | (4,178)                           | 1,398               |
| Assets             | 255,393 | 37,686  | 39,606   | 19,146 | 1,015 | 352,849       | △21,390                           | 374,239             |

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, Malaysia and India
  - Americas: United States, Panama, Mexico, Canada and Brazil
  - Europe: Germany, United Kingdom, Italy and Spain
  - Other: Australia
- "Eliminations or general corporate" includes 5,211 million yen in unclassifiable operating expenses consisting of expenses for the Company's head office management unit and basic research.
- "Eliminations or general corporate" includes 147,241 million yen in entire-company assets consisting mainly of excess working capital (cash, deposits, and marketable securities) and long-term investments (investment and marketable securities) at the Company.

Year ended March 31, 2010

| Millions of yen    | Japan   | Asia   | Americas | Europe | Other | Segment total | Eliminations or general corporate | Consolidated totals |
|--------------------|---------|--------|----------|--------|-------|---------------|-----------------------------------|---------------------|
| Net sales          |         |        |          |        |       |               |                                   |                     |
| Customers          | 170,157 | 22,164 | 40,436   | 18,169 | 1,574 | 252,502       | -                                 | 252,502             |
| Inter-segment      | 32,914  | 54,655 | 290      | 69     | -     | 87,930        | (87,930)                          | -                   |
| Total              | 203,071 | 76,820 | 40,727   | 18,239 | 1,574 | 340,433       | (87,930)                          | 252,502             |
| Operating expenses | 202,418 | 74,088 | 37,829   | 17,467 | 1,473 | 333,278       | (88,006)                          | 245,272             |
| Operating income   | 653     | 2,731  | 2,897    | 771    | 100   | 7,154         | 75                                | 7,229               |
| Assets             | 231,587 | 42,145 | 39,862   | 17,128 | 1,160 | 331,883       | 20,578                            | 352,462             |

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, Malaysia and India
  - Americas: United States, Panama, Mexico, Canada and Brazil
  - Europe: Germany, United Kingdom, Italy and Spain
  - Other: Australia
- "Eliminations or general corporate" includes 2,932 million yen in unclassifiable operating expenses consisting of expenses for the Company's head office management unit and basic research.
- "Eliminations or general corporate" includes 117,565 million yen in entire-company assets consisting mainly of excess working capital (cash, deposits, and marketable securities) and long-term investments (investment and marketable securities) at the Company.

C I T I Z E N   H O L D I N G S

**c. Overseas sales**

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

Year ended March 31, 2009

| (Millions of yen)                   | Asia   | Americas | Europe | Other | Total   |
|-------------------------------------|--------|----------|--------|-------|---------|
| I. Overseas sales                   | 86,392 | 47,300   | 37,581 | 4,441 | 175,716 |
| II. Consolidated sales              |        |          |        |       | 296,857 |
| III. As % of consolidated net sales | 29.1   | 15.9     | 12.7   | 1.5   | 59.2    |

Year ended March 31, 2010

| (Millions of yen)                   | Asia   | Americas | Europe | Other | Total   |
|-------------------------------------|--------|----------|--------|-------|---------|
| I. Overseas sales                   | 74,538 | 44,445   | 27,569 | 4,817 | 151,370 |
| II. Consolidated sales              |        |          |        |       | 252,502 |
| III. As % of consolidated net sales | 29.5   | 17.6     | 10.9   | 1.9   | 59.9    |

Notes:

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

C I T I Z E N   H O L D I N G S

**(Per Share Information)**

|                              | Year ended March 31, 2009   | Year ended March 31, 2010 |
|------------------------------|---|---------------------------|
| Net asset per share          | 559.34yen   | 570.06yen                 |
| Basic net income per share   | △77.32yen   | 11.01yen                  |
| Diluted net income per share | Diluted net income per share is not reported, despite the existence of dilutive shares, because a net loss per share was reported for the year. |                           |

The basis of calculation of basic net income per share information is as follows:

|   | Year ended March 31, 2009 | Year ended March 31, 2010 |
|---|---------------------------|---------------------------|
| Basic net income per share                              |                           |                           |
| Net income (millions of yen)                            | △25,806                   | 3,527                     |
| Amount not attributed to common stock (millions of yen) | -                         | -                         |
| Net income on common stock (millions of yen)            | △25,806                   | 3,527                     |
| Average number of common stocks (thousand shares)       | 320,260                   | 320,257                   |

|   | Year ended March 31, 2009   | Year ended March 31, 2010  |
|---|---|--|
| Diluted net income per share  |   |  |
| Adjustments to net income (millions of yen)   | -   | -  |
| Number of common stock increased (thousand shares)  | -   | -  |
| (convertible bonds)   | (-)   | (-)  |
| (stock options)   | (-)   | (-)  |
| Summary of residual securities not included in diluted net income per share as it has no dilution effect. | 1. Yen-denominated convertible bonds with warrants maturing in 2009<br><br>2. Stock options (approved in a June 29, 2005 board resolution for 7,246 shares) | 1. Warrants issued by the Company (Warrants for 7,246 shares)<br><br>2. Warrants issued by the consolidated subsidiary, Miyano Machinery, Inc. (Warrants for 820 shares) |

The basis of calculation of net asset per share information is as follows:

|  | Year ended March 31, 2009 | Year ended March 31, 2010 |
|--|---------------------------|---------------------------|
| Net assets per share                                     |                           |                           |
| Net assets (millions of yen)                             | 184,229                   | 186,362                   |
| Amount deducted from total net assets (millions of yen)  | 5,095                     | 3,799                     |
| (Minority interest)                                      | (5,095)                   | (3,799)                   |
| Net assets on common stock (millions of yen)             | 179,134                   | 182,562                   |
| Number of common stocks at end of term (thousand shares) | 320,260                   | 320,253                   |

**(Subsequent Events)**

| Year ended March 31, 2009 | Year ended March 31, 2010 |
|---------------------------|---------------------------|
| -                         | -                         |

(Disclosure omitted)

Subsequent events concerning lease transactions, related party transactions, tax-effect accounting, marketable securities, derivative transactions, retirement pensions, stock options, business mergers, and other matters were judged to be of too little significance to disclose in this report and were omitted.

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

(1) Retiring directors (tentative)

Osamu Yamada (Currently Managing Director of Citizen Holdings Co., Ltd.)

Tsuneo Nagai (Currently Director of Citizen Holdings Co., Ltd.)

Katsuhiko Noguchi (Currently Director of Citizen Holdings Co., Ltd.)

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

Toshio Tokura

[Scheduled to be appointed to Managing Director.]

Mikio Unno

[Scheduled to be appointed to Director.]

Katsushige Osano

[Scheduled to be appointed to Director.]