

CSR Report 2005





Contributing to and Striving to be Respected by the Citizens of the World.

Citizen makes a significant contribution to the lives of people throughout the world.

Editorial Policy

Starting in 2000, Citizen has published yearly reports on our initiatives to support our environment and society. Initially entitled the *Environmental Report*, the title of the report was later changed to the *Environmental and Social Report*. This year we have renamed it again to the *CSR Report* as part of our efforts to better communicate economic, environmental, and social aspects of our CSR.

In drafting this report, we have described our various CSR initiatives without adornment so as to present a true picture of where we currently stand. It is our hope that communication with our stakeholders will help us to further improve our CSR efforts as we move ahead.

Scope

Financial Data: Citizen Watch Co., Ltd., and 56 other Group companies in Japan and overseas

Environmental Data: Citizen Watch Co., Ltd., 18 other Group companies in Japan, and 5 bases overseas

Social Data: Citizen Watch Co., Ltd.

Others: Citizen Watch Co., Ltd., and 56 other Group companies in Japan and overseas

Note: As Citizen Watch Co. and Citizen Trading Co. were merged in October 2004, the fiscal 2004 data for Citizen Trading has been incorporated into the data for Citizen Watch.

Period of Report

This report covers fiscal 2004 (April 1, 2004 to March 31, 2005), and includes some information about activities being carried out in fiscal 2005.



Relevant Guidelines

- Environmental Reporting Guidelines 2003
(Ministry of the Environment)
- Sustainability Reporting Guidelines 2002
(Global Reporting Initiative)
- Environmental Accounting Guidelines 2002
(Ministry of the Environment)

Related Reports

- Financial Report
- Annual Report
- Citizen website:

<http://www.citizen.co.jp/english/>

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Commitment from the Top

Continuously Earning the Trust of Society

Seventy-five years ago, we began with the name that embodies our most important commitment: Being a good corporate citizen. Today we recommit ourselves to the task of meeting our social responsibilities in the years ahead.



President and CEO, Citizen Watch Co., Ltd.
Makoto Umehara

梅原誠

After serving as manager of sales, service, and production at a German subsidiary, Makoto Umehara was appointed director of Citizen's Precision Machinery Division in 1993. He became an Executive Director in 1998 and the manager of the company's Tokorazawa Works in 2000. He assumed his current position in 2002.

A Good "Citizen"

Our company name is an expression of our business philosophy, which is "to contribute to and strive to be respected by the citizens of the world." Day by day we work in good faith to achieve this goal, as we strive to serve both our stakeholders and the public at large. Our name invokes the nature of our existence: supported by our society, contributing to our society, and living as a member of our society.

Our 75th year in operation marks a fine opportunity to look both back at the road we have taken, and forward to where we wish to proceed. We recognize, of course, that profitable operations are necessary for our

company's success. But to achieve a meaningful, long-lasting existence, we must also actively fulfill our corporate social responsibilities (CSR). We must contribute to our society, and we must earn its trust.

From time immemorial, people have referred to the angels or spirits that watch over everything we do. The CSR concept is simply a continuation of this basic feeling of responsibility that good people and good organizations have always lived by. In this context, I must say that I have been deeply saddened to witness the various corporate scandals of recent years. We have seen again how trustworthy reputations built up over a century of operations can be lost overnight. But we see

■ Basic Principles and Management Policies



also that if the people at such company did a right thing then such freefalls would be unthinkable. As I look around, I am more convinced than ever that our company must never stray from remaining economically and socially sound, secure, and sustainable. This is why our entire Citizen Group is actively promoting the concept of CSR.

CSR Commitment Continues Following Group Reorganization

We are now in our third year of explicitly promoting the CSR concept. In the meantime, we have also undergone some significant Group-wide structural reform. On October 1, 2004, Citizen Watch Co., Ltd. and Citizen Trading Co., Ltd. merged into the new Citizen Watch Co., Ltd. And then in April 2005 we moved our electronic device operations into Citizen Systems Japan Co., Ltd., and our LCD operations into Citizen Displays Co., Ltd., as we converted our major affiliates into full subsidiaries.

But these changes have in no way altered our commitment to CSR. The entire Citizen Group recognizes the significance and importance of the CSR approach.

As I see it, the fundamental unit of CSR is the individual. At Citizen, CSR means that each person must be faithful and credible both to oneself as well as to others. Self-understanding and belief in oneself are crucial if we are also to understand and trust those with whom we interact. Mutual trust, in my view, eliminates the possibility of scandal and impropriety. At the same time, we also need some type of reference that we can consult when faced with difficult changes and decisions, to ensure that we always act appropriately. At Citizen, we use our "Citizen's Code of Conduct" as our basic guide.

For any issue or decision of significance, if there is a YES side then there must also be a NO side. Debate between these two sides can often lead to a new and even better solution. Our CSR committee understands this. Our thought is that it is necessary to stress the importance of arguments among employees and CSR activities following those communications in order to prevent impracticable CSR, while we also acknowledge the necessity of the top-down approach in allowing for effective CSR.

All employees working together toward CSR solutions—this is the spirit that unites our Group in common purpose.

From Dreams to Reality

I often encourage our employees to "have dreams." Now that we are three years into our CSR initiative, it is becoming time to turn our dreams into realities. Rather than thinking just about how to become a bigger company, we need to focus also on our dreams and on

how to proceed as a worthwhile enterprise with true social value.

For this reason, we are actively setting up venues where can learn the needs of all of our stakeholders, so that we can incorporate these needs into our management practices. The times continue to change rapidly, and needs become ever more high level and diverse. Nonetheless, I remain confident that we shall continue to fulfill our social responsibilities and maintain true sustainability. If asked why I am so confident, I would respond that our company has "watchmaker's DNA" in its blood. We have the technologies, the expertise, and the sensibilities necessary to unleash the unlimited possibilities of small-sized things. These possibilities represent our new challenge. We are not a caretaker of the past, but rather a proactive and responsible corporate citizen.

This "CSR Report" is a continuation, under a new name, of the "Environmental and Social Report" that we issued last year. We have further expanded our CSR activities this year, and I believe the results are evident from the report. I am confident that you will find the report to be worthwhile reading. In closing, I would like to extend my deepest thanks, on behalf of the Citizen Group, for your continued understanding and support.



Watchmaker's DNA

Our watchmaker's DNA affords us capabilities that extend beyond watches into a variety of products, enabling us to recognize and act on many

Technologies that enable us to build high precision and originality in micro-sized environments. Inspiration to create products that offer the true usability envisioned in our company's principles. Well before the advent of terms such as "universal design," Citizen had worked faithfully to produce truly usable, people-friendly products.

■ Light-Emitting Diodes (LEDs)



We come to this field via the technologies we use for fabricating integrated circuits for quartz watches. Our watchmaker's techniques and expertise give us the ability to efficiently create high-precision products, enabling us to stand out from more typical LED makers. Our LEDs are used as light sources for digital cameras, for mobile phones, and for general-purpose lights, as our LED technologies allow us to branch out into manufacture of a wide variety of new products.

■ Liquid Crystal Devices



Our work in this area has roots in the digital watch technologies that we have been developing since the 1970s. While most manufacturers are working toward ever larger LC devices, at Citizen we are focusing on small-size applications. At present we have high expectations for memory-type LC devices—which offer many potential applications—and for proprietary LC optical elements. Our previous work in plating technologies also gives us some advantages in this area: we have long been working on plating techniques that give watch casings both beauty and strength, and the advanced dry-plate technology that we developed for this purpose is also suitable for producing high-strength environmentally friendly LC panels.

■ Quartz Devices



The quartz crystal at the heart of quartz watches is also used in the various quartz devices that serve as essential components in today's multimedia products. Quartz resonators and high-performance quartz oscillators are taking the place of more conventional quartz units in mobile phones and other such products, with the oscillator packages becoming smaller and smaller as the technology advances. As watchmakers skilled in small technology, we are ideally suited to meet the challenge of crystal device development.

◆ To Discover New Needs: Stand in the Customer's Shoes

Wristwatches are one of the few industrial products that stay in direct contact with the owner's skin. We can think of our product as *humanware*, and the careful attention we give to our watches embodies our philosophy of contributing to and striving to be respected by the citizens of the world. For example: we use metals in our watchcases and watchbands, but we are also aware that metals can cause allergic reactions in some people. And so we worked with medical institutions and determined that titanium was non-allergenic, and in 1972 we were the world's first to develop watches with titanium exteriors. While titanium is easy on the skin, it is also rather gray in appearance, and so we had to work on how best to process it to improve its design-ability. And since it is softer than stainless steel, we also had to overcome the complexities of processing its reflective surface. Our technologies cleared these hurdles, enabling us to create extremely attractive titanium-cased products.

We did not stop there, of course, as we continued to work on people-friendly innovations. These include our solar-powered Eco-Drive system that eliminates the need to replace batteries, and our double push-button deployant clasps for easy removal of metal watch bands.

We have also worked on improving precision, as we developed watches that are accurate to within 5 seconds a year, as well as watches that maintain accuracy by regulating themselves against domestically broadcast atomic-time reference signals (accurate to within 1 second per 100,000 years).

These are just some examples of our focus on the development of watch-making technologies that can provide long-lasting beauty, usability, precision, and ease of maintenance.

ilities and opportunities of new categories, new possibilities.



◆“Micro HumanTech”: Citizen’s Concept for the 21st Century

Wristwatch production technology is *microtechnology*, where component dimensions are typically measured in thousandths of millimeters. It is in this micro world that we have worked to achieve ever better performance, functionality, and beauty; and it is in this world that we have become strong. As we use this strength to extend our business into information equipment, electronic equipment, industrial machinery, and other such areas, we reveal our capabilities and our identity in a new light.

Accordingly, we have chosen “*Micro HumanTech*” as our key phrase for our approach to the 21st century. *Micro* refers to our watchmaker’s incentive to respond to needs for small size and precision. *Human* denotes the development of technologies that bring humans and environment into harmony, and suggests our commitment to manufacturing products that serve and earn the respect of people throughout the world. *Tech* refers to the fusion of Citizen’s special technologies with simple but sophisticated designing toward the creation of useful and attractive products. Under the banner of *Micro HumanTech*, Citizen shall move forward to create more reliable products and services.

Development of 20-Year Oil ▶▶ P.25
Winner of Nikkan Kogyo Shimbun’s Grand Prize for Products (March 2005)

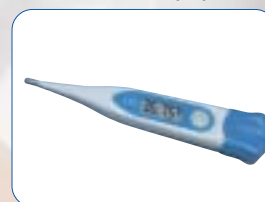
While our Eco-Drive wristwatch eliminates the need to replace batteries, true freedom from maintenance also requires long-lasting lubrication. Over years of use, oils tend to either dry out or absorb water and harden, so that they then need to be replaced. This is reason we developed our AO series of oils, which can lubricate for 20 years without replacement. These oils are a large step forward toward the grail of complete maintenance-freedom.

■ Industrial Machinery



Our watch technologies have focused on precision since our very first days in business. Based on these core technologies, we have also developed technologies for precision industrial processing and for rapid, precise assembly of complex components. Our automatic CNC (computer numerically controlled) lathes offer high-functionality and high productivity, ultra-miniaturization, and ultra-precision machining, and are widely in use both in Japan and abroad. Since precision rests on measurement, we have also been active in developing gauges and other measuring devices, including linear encoders.

■ Information Products and Health Care Equipment



Our miniature printers—the fruit of efforts to develop miniature precision technologies for watch manufacturing—find use in many POS systems and calculators, while our high-reliability large printers are used in tax collection systems in China. By merging our technologies in temperature compensation sensors and oscillator motors, we have developed medical thermometers that issue vibrating signals for users who cannot hear conventional beep sounds. Miniature, precision, low-power, and more: these are the bywords as we continue to deliver highly reliable products.

Fiscal 2004 Activity Topics



UN Letter Accepting Citizen's
Announcement to Participate



Participation in the Global Compact

Addressing the World Economic Forum in January 1999, Secretary-General Kofi Annan of the United Nations proposed an international compact under which participating businesses would commit to taking initiative in working as members of civil society to support human rights, labor standards, and the environment. In 2004, support for anti-corruption was also added to this list. As Citizen entered the third year of our commitment to corporate social responsibility, we felt it was time for us to participate in the compact. We declared our participation, and were accepted as participants by the UN in April 2005.

The Ten Principles of the Global Compact

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labor Standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labor;
5. the effective abolition of child labor; and
6. the elimination of discrimination in respect to employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

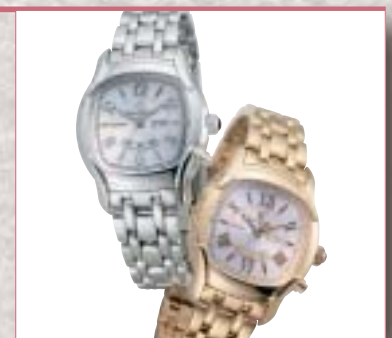
10. Businesses should work against all forms of corruption, including extortion and bribery.

Group Strategy Center >>> P.11

On October 1, 2004, we established a Group Strategy Center to be headed by the President of the Citizen Watch Co., Ltd. Current categories are: financial strategy, development strategy, intellectual property and branding strategy, and human resources strategy. More categories may be added in the future. The head of the Center appoints appropriate Group employees to be in charge of and responsible for these various categories.

Success With Radio-Controlled Watches for Women >>> P.14

Whereas earlier radio-controlled watches required plastic casings, Citizen has overcome numerous technological hurdles and now offers full metal casings together with other features that meet sophisticated customer needs. It took us three years to develop and commercialize the women's watches shown in the photo by further reducing sizes.



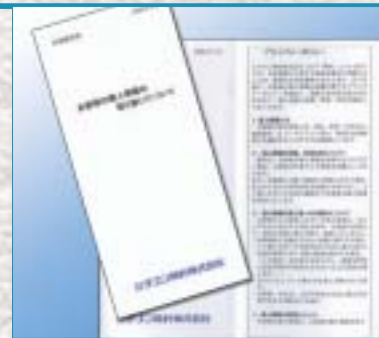


“Super 2035” Eco-Friendly Analog Watch Movement >>> P.25

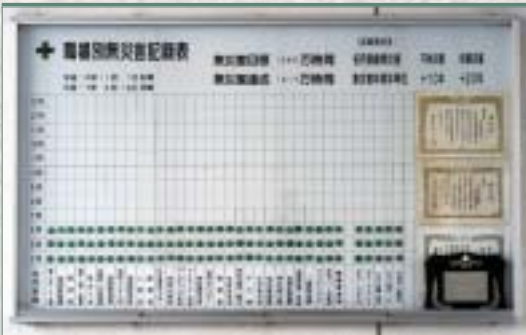
The current worldwide leader among analog watch movements, in terms of market share, is the Caliber 2035. The Super 2035 movement is an improvement designed to be particularly friendly to the environment. Incorporating a number of Citizen’s high-level technologies, the Super 2035 offers low power consumption and is the first movement on the watch market to utilize a mercury-free battery.

Toward Protection of Personal Data >>> P.30

The “Protection of Personal Information Law” was enacted in April 2005. Before the law came into effect, Citizen had established a Committee on Protection of Personal Information on October 1, 2004, and subsequently enacted our own Privacy Policy. We shall maintain full compliance by notifying customers and training all employees.



“Proper Handling of Customers’ Personal Information”



Logging Up Accident-Free Hours >>> P.34

Our Tokyo Works achieved the target set by the Type 2 Accident-Free Registry set up by the Ministry of Health, Labor, and Welfare. As of August 15, 2005, we have logged 12,723,275 hours of accident-free operation, the result of our prudent, good-faith work practices.

Fiscal 2004 Citizen of the Year >>> P.35

Our fifteenth annual Citizen of the Year Awards went to the following individuals.

- Sayoko and Toshio Nagai, for acting as foster parents for more than 60 youths over 30 years.
- Members of the Toyooka Chapter of the League of Hyogo Pensioned Retirees, who, when their tour bus was engulfed by typhoon-induced flooding, broke through the windows, helped one another onto the roof, and aided and comforted one another.
- The Shingu Yamabiko Group, for their successful 20-year effort to maintain the Omine-Okugake mountain road, an important pass within the Kii Mountain Range’s “Holy Sites and Pilgrimage Trails” listed as a World Heritage Area.



CSR at Citizen

We are firmly committed to CSR activities that reflect our business philosophy and code of conduct, as we work toward contributing to sustainable development of society and attaining recognition as a “good company.”

Business Philosophy

Citizen’s business philosophy is “to contribute to and strive to be respected by the citizens of the world.” We make our contribution by creating products that are useful and appreciated by people all over the globe. This philosophy is in harmony with the CSR concept, and by undertaking CSR activities we also furthering our corporate mission.

CSR at Citizen

To fulfill our philosophy, we must conduct our business in good faith so as to win the acceptance and trust of society. This in turn means that we must be seen as a “good company” in every aspect of our business activities. Citizen, our Group companies, and our suppliers must all proactively support the CSR concept. We must all operate in line with high ethical standards, as we strive to build a transparent, free, and open-minded business culture. And we must devote ourselves to carrying out the good corporate citizen’s responsibilities toward environmental protection and mutually beneficial coexistence with society.

At Citizen, we shall continue striving to be a company that earns the trust and respect of people throughout the world, and that contributes to sustainable development of society.

“Citizen Code of Conduct” is the backbone of our CSR activity. The code also serves as a common ground for understanding how we wish to exist as a company, and how we may proceed to develop our brands.

Citizen Code of Conduct

Under the corporate philosophy which states that Citizen contributes to and strives to be respected by the citizens of the world, we will:

1. Provide products and services which satisfy quality expectations and consider the safety and well being of our customers.
2. Perform fair, transparent, and open competition in business transactions, and maintain healthy relationships with our suppliers and government regulatory authorities.
3. Publish corporate information positively and fairly under our own initiative, and manage relevant information appropriately.
4. Value the global environment, and act according to the environmental policy.
5. Value symbiosis with the regional society as a good corporate citizen, and strive to make a social contribution.
6. Ensure a safe and good work environment, encourage the development of our employees’ abilities and energies while respecting their character and individuality.
7. Respond to anti-social and corruptive behaviour in a decisive manner.
8. Value and respect different culture and custom in foreign countries, and contribute to the development of the locale.

To observe this code of conduct, the company and employees will make ceaseless efforts. When any situation which contradicts this code of conduct occurs, the company will undertake a problem solving and an own recurrence prevention, and does an appropriate report to the society. Moreover, the company will make strict disposal upon clarifying the authorities and responsibilities.

(Instituted October 23, 2003)



We distribute pamphlets and wallet-size cards to all Citizen Watch employees, as an aid to raising our CSR consciousness.



Relations with Stakeholders

As we carry out business, it is essential to maintain good and trusting relationships with all of our various stakeholders. We see these stakeholders as our supporters, and we understand that our business relies on their trust and good

will. Consequently, we work to maintain a correct orientation with respect to all stakeholders, and to proceed honestly and in good faith and with due consideration.

■ Stakeholder Relationships



CSR Department

General Manager **Yasuo Nakashima**

Citizen Expands CSR Throughout the Group

Citizen Watch implemented our Citizen Code of Conduct on the first day of 2004, as part of our effort to pursue CSR proactively and seriously. During fiscal 2005, all Group companies shall establish their

own Codes of Conduct. These local Codes, while based on the Citizen's Code, also take into account each company's individual business characteristics, corporate culture, history, locale, and customs. This approach expands CSR throughout the Group.

In order for us to fully implement the CSR concept, all of our employees must be enthusiastic about CSR and take steps to implement the concept in daily operation. Fortunately, Citizen's culture is characterized by honesty and straightforwardness, and therefore has something in common with the CSR approach.

If we feel pride and satisfaction in our work, and make efforts to educate and improve ourselves as we strive to exist as a "good company," then it becomes possible through our daily operations to realize the Citizen philosophy of contributing to and striving to be respected by the citizens of the world. As we move in this direction, we open up new opportunities for each individual to make changes that enhance the company's value. This is the true significance of the CSR approach.

Organization and teamwork are also crucial. Good teamwork engenders a positive corporate culture which allows workers to freely exchange opinions. People from different worksites can interact well and check that one another's operations are proceeding correctly, and this in turn leads to a shared concern with compliance. And in any case, it is certainly true that consideration, respect, and good faith are essential starting points for true CSR.

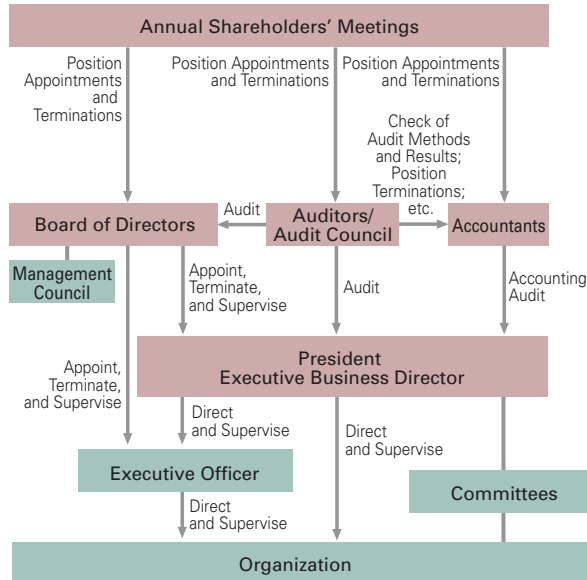
Corporate Governance

Our corporate governance approach aims to make the best and most efficient use of our management resources. The approach stresses transparency in leadership and improving supervisory and management functions. We are also taking important steps to enhance the unity and internal synergy of the Group.

Governance Organization

At Citizen Watch Co., Ltd., board of directors is responsible for major decision-making and for director oversight, as it works toward maintaining efficient and sound management. We also maintain a 4-member board of auditors (including two outside auditors) which strictly audits directors' operations in accordance with established auditing policies and plans.

■ Corporate Governance at Citizen Watch Co., Ltd.



- Governed by commercial law
- As of end of June, 2005;
- Number of board members: 10
- Number of auditors: 4 (3 full-time, 2 from outside)

Reorganization of Group and Reorientation of Subsidiaries

Once told by its predecessors, we are committed to their saying "Be a great collective of small-and-medium-sized companies" with each group company holding a strong sense of individual identity. This corporate culture has long been inherited and shared among group companies. But today's marketplace is undergoing extreme change, and for this reason we have taken numerous steps to strengthen our identity and solidarity as a Group. In fiscal 2002 we consolidated our industrial machinery operations, and in fiscal 2004 we did the same for our quartz devices operations. Citizen Watch and Citizen Trading merged, also in fiscal 2004, and in April 2005 our liquid-crystal devices operations and information equipment operations were respectively integrated. Our new vertical orientation helps to clarify the responsibilities and scope of authority at each of

our operations, allowing for more rapid judgments and stronger management in each area.

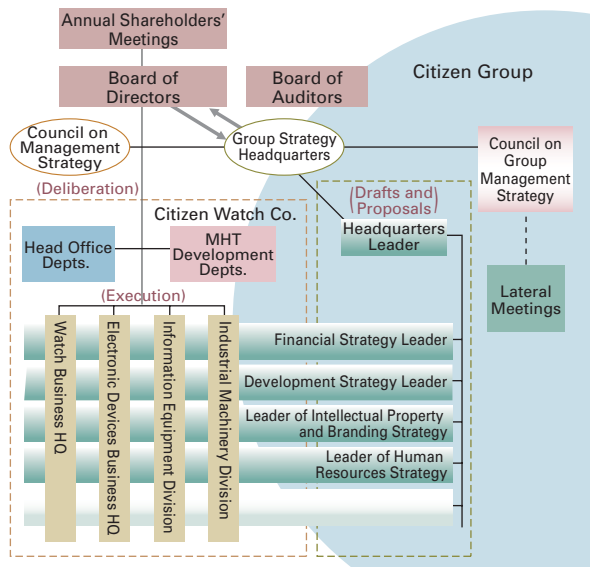
Another change we have made is to convert our major affiliated subsidiaries (Citizen Electronics, Citizen Miyota, Citizen Fine Tech, Citizen Seimitsu, and Sayama Precision Industries) into wholly owned subsidiaries, as a means of further strengthening corporate governance and maximizing the business value of the Group as a whole.

Group Strategy Headquarters

The Citizen Group is working to carry out management in a way that makes effective use of the Group's synergies. Such synergies, for example, can enable more efficient financial management and stronger R&D, and can offer the benefits of shared knowledge, common brand strategies, and optimal distribution of human resources. But to achieve these synergies, the Group must coordinate appropriately among Group members. And while our new vertical orientation allows for more efficient management, there is also some concern that it could weaken the ties among our various operations and within the Group.

In view of these considerations, we have established a Group Strategy Headquarters under the leadership of the President of Citizen Watch. The Headquarters, started on October 1, 2004, consist of leaders appointed by the President to take responsibility for the following Group-wide strategies: financial strategy, development strategy, intellectual property and branding strategy, and human resources strategy. Additional strategies may be added to the Group's purview in future, as needed.

■ Orientation of Group Strategy Headquarters



CSR Framework

At Citizen, our CSR approach focuses on bringing increasing benefits to all of our stakeholders. To this end, we have implemented CSR systems and CSR training to promote CSR from the grass roots up. In fiscal 2004, the second year of our explicit recognition of CSR, we moved to further strengthen our CSR framework.

Promoting CSR with a PDCA Approach

At Citizen, our CSR Committee meets every month to consider a wide variety of issues. Because we are very serious about raising CSR consciousness, we conduct CSR training both for regular employees and for temporary staff, and our monthly in-house journal "Citizen Life" carries a CSR article in each issue. Each April we have our employees fill out a CSR-related questionnaire, and our most recent results show that interest and positive feelings about the CSR approach improved in fiscal 2005 relative to fiscal 2004.

Each Citizen department is implementing department-specific CSR targets in accordance with the Citizen Code of Conduct. In fiscal 2004, each department carried out its own risk assessment and then set up targets accordingly. At the end of that year (in March, 2005) each department evaluated their own results, sending the evaluations to the CSR Committee for consolidation. In fiscal 2005, we are working toward somewhat more concrete and quantitative targets and toward a more aggressive identification of CSR issues. We are also setting up targets for company-wide CSR initiatives, and pursuing these with a PCDA (Plan→Do→Check→Act) approach.

To plan and maintain common CSR principles through the Group, we hold a twice-yearly Citizen Group Liaison Conference that is attended by the head of CSR from each Group company. While each company's CSR approach is founded on the Citizen Code of Conduct, it also includes original ideas and initiatives based on each company's own business culture, operating characteristics, and locale.

Compliance

Compliance is one of the main pillars of CSR, and we carry out activities to train and enlighten employees about all relevant aspects of compliance—with respect to laws, societal norms, business ethics, and company rules. To help prevent breaches of compliance, we have also established an internal reporting system, which is explained to employees as follows:

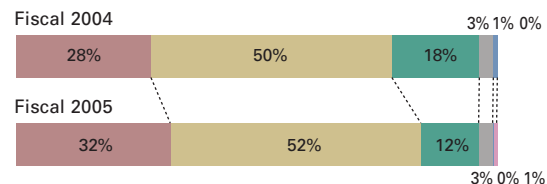
If you have noticed conduct that is in violation of law, of company regulations, or of the Citizen Code of Conduct, please contact a superior immediately. If you do not feel free to talk to a superior about the matter, then please report the incident using the "business ethics" hotline. The hotline staff shall convene a meeting of the CSR committee, shall investigate the matter, and, where necessary, shall notify appropriate high-level management to take appropriate action. The Company guarantees that it shall protect the identities of those who make such reports, and shall take no punitive actions against them.

(From explanation of "Citizen Code of Conduct" Operation Structure)

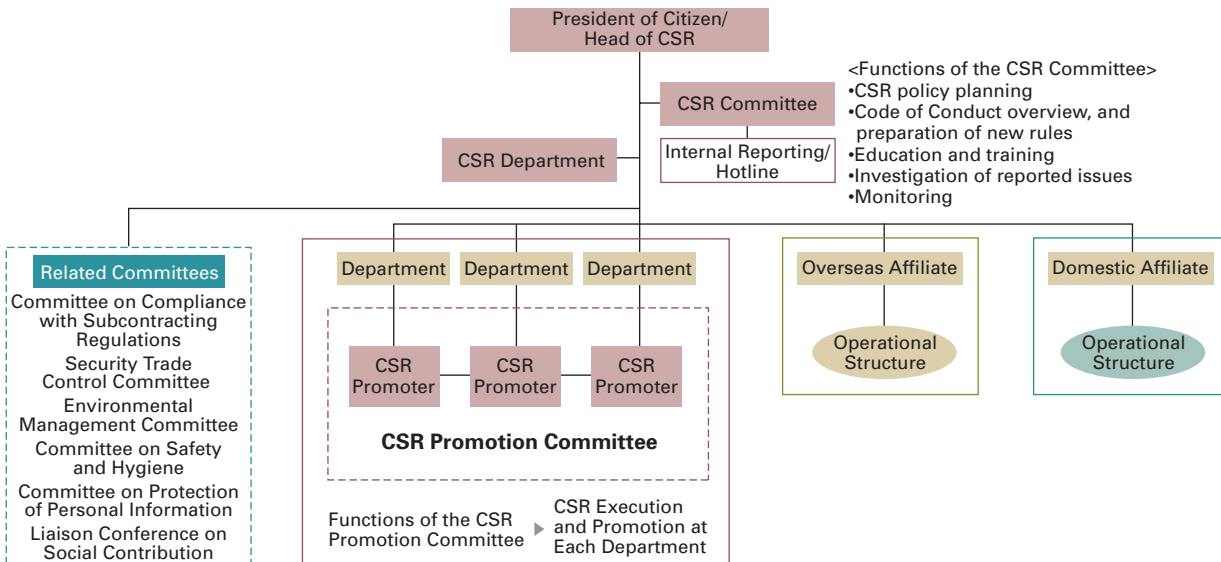
■ Results of CSR Questionnaire for Citizen Watch Employees (abstract)

Q. Will a CSR-focused initiative make the company better?

■ Yes, without doubt ■ Probably ■ Don't know ■ No difference
■ Worse ■ No response



■ Citizen CSR Structure



Environmental and Social Vision

At Citizen, we are working to identify the actions we can take to help protect the environment and contribute to a sustainable society. We established our Vision for Environment and Society in 2025 as a guide to fulfilling our social responsibilities and working toward a sustainable future.

Citizen's Vision for the Environment and Society in 2025

Based on our corporate philosophy of making products that are close to the hearts of people everywhere, we contribute to a citizen-based sustainable society in which people can enjoy life with a sense of security and fulfillment. Citizen offers products that are always close at hand and are good for people and the world.

Enacted July 20, 2004

About Our 2025 Vision

At Citizen, we work to serve citizens—and we understand “citizens” to include everyone: customers, shareholders, employees, and our entire global society. We shall continue to offer products that are accessible, helpful, friendly, and respectful. Working in accordance with our Micro HumanTech concepts, we shall conduct research and development, procurement, production, sales, and other business activities in a manner that fulfills our social mission and contributes to the wellbeing of people throughout the world.

We also acknowledge the importance of environmental issues and their implications with respect to our corporate existence and activities, and shall pursue a proactive and vigorous approach in our environmental efforts. It is our target that within 20 years all of our products will be environmentally friendly and all of our production plants worldwide will zero waste.

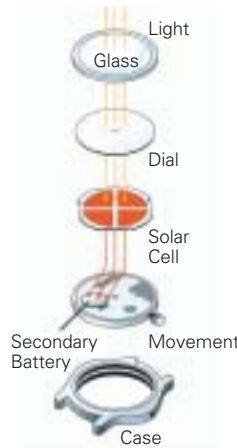
Citizen shall continue working to fulfill our responsibilities as a member of a sustainable society.

Our Eco-Drive Watch Embodies Our Environmental & Social Vision

In the past, users of quartz watches could not avoid worrying about battery depletion and could not escape the need to change their watch batteries. Citizen solved these problems with its Eco-Drive. The Eco-Drive incorporates a solar cell that converts incident light into electrical power, which is then stored in a secondary battery that drives the watch movement.

In 1996, the Eco-Drive became the first watch to earn the Eco Mark label. The watch is a core Citizen brand, and was a result of considerable efforts to enhance solar-cell mounting technologies and to provide better power savings.

Because the Eco-Drive can operate for a long time with no battery change, it helps us fulfill our task of contributing to a sustainable society. It is a product that we are very proud of.



A solar cell is built into the underside of the dial. When light strikes the cell, the cell generates electricity and the resulting energy is then stored in the secondary battery. The secondary battery provides the power that drives the watch movement.

The solar cell responds not only to sunlight but also to fluorescent lamps and other weak light sources. This means that the watch should continue running normally so long as the dial is exposed to natural lighting conditions.

Citizen's Approach to Production

As we transition from an era of mass consumption to a new age that focuses more on quality of life, our values are being challenged. At Citizen, we have a long history of responding to new production challenges, and the skills we have developed stand ready to serve the new needs of the future.

Succession of Craft

■The "Meister" System

In a similar way that master craftsmen of earlier ages passed their art to their disciples, Citizen has been passing its skills down to those who follow. We have established a technical evaluation system that ranks the skills of each person, and we provide training and testing so that each person can steadily raise those skills. This helps us to assess individual abilities while providing incentives for improvement. At the highest rank is the "watch assembly meister"—a true master craftsman. In addition to fashioning top-level products, these meisters also serve as instructors at watch school, teaching their craft to the next generation of watchmakers.



Watch Assembly Meister

■Watch School

To date, employee training has been carried out separately at each operating division. Currently, however, we are implementing a "Watch School" as the means to achieve more centralized training and a stronger education system. The school serves employees both at our company and at affiliated subsidiaries. In 2005 we shall begin serious activities through this school, which we shall then develop further as we move ahead. The school shall offer an original curriculum, original texts, robust company-internal examinations, and technical examinations, and shall encourage students to also obtain outside public accreditation. The benefits of the school, when combined with those of on-the-job training, will enable employees to hone multiple skills and will support the passing down of valuable craftsmanship. The system will also help to pass along Citizen's special "watchmaker's DNA."

The Challenge of New Technologies

■Radio-Controlled Watches

A radio-controlled watch receives time information signals sent from time broadcasting stations, and synchronizes its setting accordingly. For this reason, these watches are virtually error free, with a precision of 1 second per 100,000 years. In 1993, Citizen became the first watchmaker in Japan to successfully launch the watch.

But subsequent development was quite difficult, as robust infrastructure for receiving such signals was not yet in place. Reception was better with external antennas, but many customers wanted internal antennas. And while reception was best when using a plastic or ceramic case, some customers wanted thinner and higher-class case

designs. In response, we began to develop appropriate technologies and devoted ourselves to providing better appearance and higher functionality. Today we offer radio-controlled watches with solar cells (so no battery replacement is required) and with attractively designed all-metal cases that are only 7.1-mm thick.

And while miniaturization of antennas and receiver circuitry posed a technical hurdle, we have now overcome that obstacle too, so that we are now offering attractive radio-controlled watches for women.

■The Challenges of the Future

Our development system works to gauge customer satisfaction and discover new needs, as it devotes itself to developing products that reach forward into the next generation. Our NW Promotion Department has focused on the theme of "the watch of the future," and in 2001 we participated in a joint development effort with IBM leading to trial production of the "Watchpad" wristwatch-style computer, opening up new possibilities for the wristwatch design. At present, we are working on new hybrids that combine watch functions with mobile phones and other functionalities. We are also incorporating ideas provided by students at Tokyo Zokei University, and in general making a concentrated effort to pioneer new applications and approaches.

Challenge to Micro-Assembly-line

"Why do we need such big machines to make such small things?" This simple question has encouraged us to break through conventional wisdom and begin to work on the development of a new "micro-assembly-line" approach.



Under this approach, we miniaturize and modularize each device in the line, allowing for easy and rapid line setup and revision. Since each process is small and modular, the entire line fits in a relatively small space. The modularity makes it possible to quickly rearrange the line as desired so as to create products to better suit customer needs. We internally call this new product line as "Micro Line."

At Citizen, we are currently working to make the miniaturized line a reality. While the initial idea was to use it to manufacture products, it is not too farfetched to imagine that eventually we could also use it for components manufacturing.

Company Profile and Financial Information

Citizen's continued development and growth rest on a base of sound finances and a stable profit structure.

Profile

Name:	Citizen Watch Co., Ltd.	Head Office:	6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan
Foundation:	May 28, 1930		Tel: +81-424-66-1231
Representative:	Makoto Umehara, President and CEO		Fax: +81-424-66-1280
Capitalization:	32,649 million yen (as of March 31, 2005)	Tokyo Works:	6-1-12 Tanashi-cho, Nishitokyo, Tokyo 188-8511, Japan
Listing:	Tokyo Stock Exchange, 1st section		Tel: +81-424-61-1211
Business Areas:	Watches and clocks, information/electronic equipment, industrial machinery, other products		Fax: +81-424-68-4756
Floor Space:	89,071 m ²	Tokorozawa Works:	840 Shimotomi, Tokorozawa-shi, Saitama 359-8511, Japan
Site Area:	63,931 m ²		Tel: +81-4-2942-6271
Employees:	1,621 (as of March 31, 2005)		Fax: +81-4-2942-6241
Website:	www.citizen.co.jp/english/	Tokyo Business Center:	Harmony Tower (Floors 12 and 13), 1-32-2 Honmachi, Nakano-ku, Tokyo 164-8726, Japan
			Tel: +81-3-5354-1900
			Fax: +81-3-5354-1919

Current Conditions

With market conditions remaining severe, consolidated sales for fiscal 2004, were down 4.9% year-on-year to 357.2 billion yen. But operating income rose 4.5% to 37.0 billion yen, ordinary income were up 13.4% to 40.1 billion yen, and net income for the year were up 3.9% to 20.2 billion yen, with all three values reaching record levels.

In our watch operations, sales of high-value-added products such as radio-controlled watches and the Eco-Drive watch were strong, both in Japan and abroad. But changes in the environment for movements resulted in a drop in both revenue and profit. In our information/electronic device operations, sales of optical devices—which sell principally to the mobile phone market—were adversely impacted by intense competition (caused by new entrants and other factors) in that market, resulting in fewer parts sold, lower prices, and a drop in sales. Sales of liquid crystal devices fell significantly as a result of surplus stock of mobile phones in China. Revenue from quartz devices—which sell mainly to digital home appliance makers—fell as result of inventory adjustments by those and other manufacturers, although profit rose owing to the effect of business integration with Citizen Miyota. Our industrial machinery operations showed both increased revenue and increased profit, supported by continuing strong sales in automobile-related applications.

Middle- and Long-Term Developments

With the aim of optimizing Group-wide management resources and enhancing the efficiency of management, Citizen Watch carried out share exchanges so as to convert our five major affiliated subsidiaries into wholly owned

subsidiaries. As we move ahead, we shall continue to utilize the vitality of individual operations while at the same time harnessing the power of the entire Group, as we work toward maximizing the business value of the Group as a whole.

For the same purpose, in October 10, 2004 we established a Group Strategy Headquarters headed by Citizen Watch's President. The Headquarters shall work to strengthen group strategies in the areas of finance, knowledge, branding, human resources, and R&D.

These policies shall help us achieve synergy effects and accelerate our management response speed, supporting our efforts to create new technologies, products and markets. Our targets for the March 2009 period are for sales above 500 billion yen, operating margin of at least 12%, and ROE of at least 10%, as we also aim to shift toward a greater emphasis on the creation of added value.

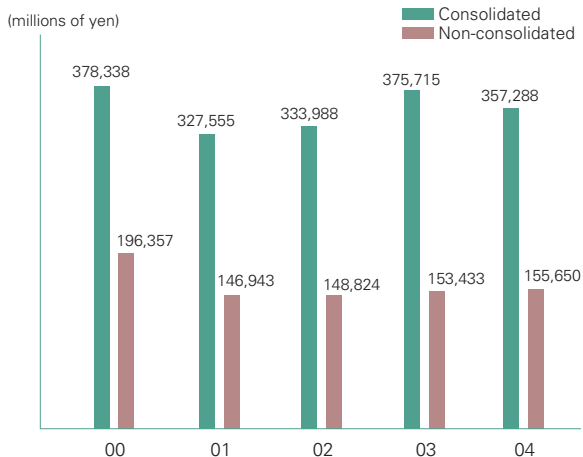
Ethibel Sustainability Index

Ethibel is a Belgian-based organization that offers guidance on socially responsible investment. We are pleased that Ethibel has recognized our CSR efforts and selected us for inclusion in the Ethibel Investment Register. We have also been included in the Ethibel Sustainability Indexes, a set of stock indexes which are aimed at institutional investors and which include companies that are recognized as superior from the point of view of sustainability.

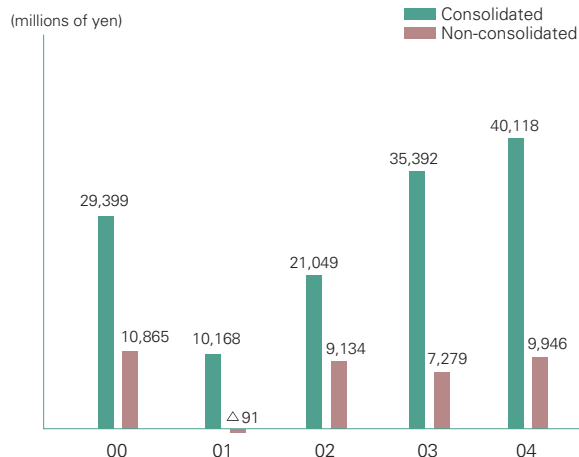




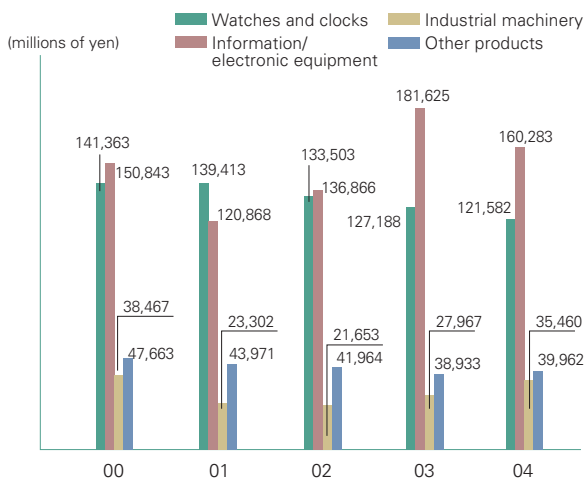
Sales



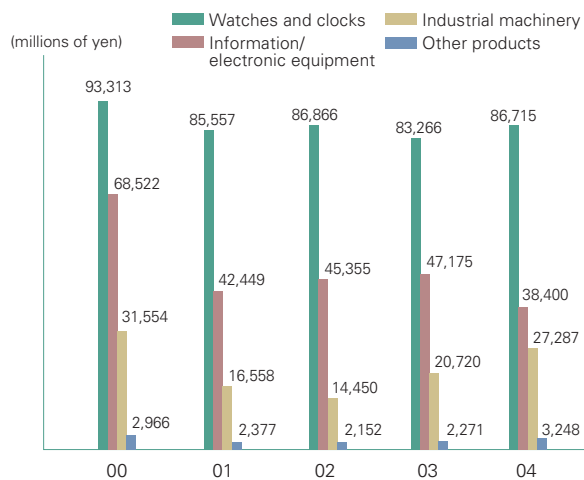
Ordinary Income



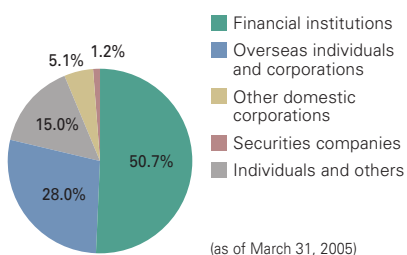
Sales by Business Category (Consolidated)



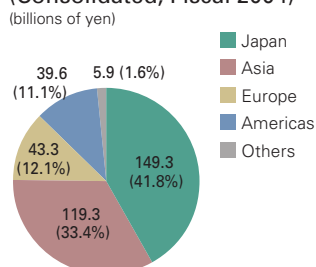
Sales by Business Category (Non-consolidated)



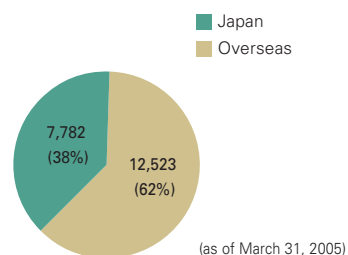
Distribution of Shares by Type of Owner



Sales by Region (Consolidated; Fiscal 2004)



Employees by Region (Consolidated)



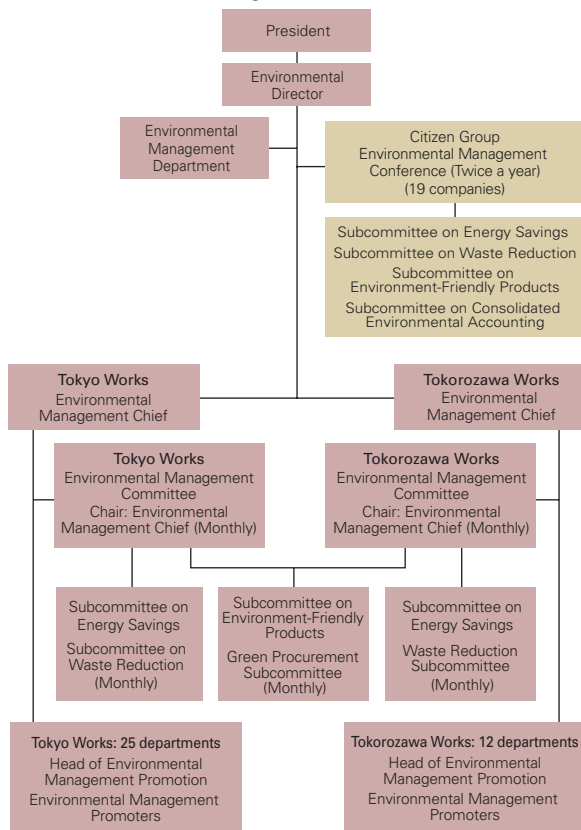
Environmental Management

Citizen has established a Group-wide environmental management structure that is strengthening our environmental efforts and enhancing their efficiency.

Group-Wide Environmental Management

Our Group holds twice a year environmental management conferences to ensure that we are maintaining effective environmental management. The conference works out environmental policies for the year, considers pertinent issues, assesses the environmental activity status at each participating Group company, and sets up Group-wide subcommittees to further investigate relevant topics. With two production companies added to this effort in 2004, our Group-wide environmental structure now incorporates the participation of 19 companies in Japan and five bases overseas; while we are working toward introducing environmental management systems into other Group companies that do not yet participate. One significant issue for us is the reduction and elimination of various hazardous chemicals; to this end, we have established common targets that apply not only within Japan but also for our production facilities abroad.

■ Environmental Management Structure



Environmental Policy

Basic Policy

In accordance with our policy of creating products that are useful and appreciated by people all over the globe, we are mindful to carry out our production activities in an environmentally friendly way—as we do our part toward contributing to a healthy and sustainable civil society.

Environmental Principles

- 1) We shall work to make effective use of resources, and to protect the environment, through all phases of business activities—through research, development, design, materials procurement, production and marketing of our watches, industrial equipment, information and electronic devices, and components—to ensure that we provide environmentally friendly products and services.
- 2) We shall strictly observe all environmental ordinances and agreements, and shall carry out proactive efforts to further reduce our environmental footprint and to prevent pollution.
- 3) We shall continuously strive to reduce use of resources and energy, and to achieve zero waste, so as to realize both better economies and better environmental effectiveness.
- 4) We shall establish environmental objectives and targets, and review and adjust them as appropriate, so as to maintain continuous improvement.
- 5) We shall distribute copies of this environmental policy so that all of our employees, and others who work with us, are aware of our commitment.
- 6) We shall post the policy at our website and include it in our environmental report, so that it can easily be accessed by the general public.

Instituted December 8, 1998 Revised March 15, 2005

■ ISO14001-Certified Companies in the Citizen Group

Company	Date of Certification
Citizen Heiwa Watch Co., Ltd.	10/1998
Citizen Watch Co., Ltd.	8/1999
Citizen Machinery Co., Ltd.	9/1999
Citizen Miyota Co., Ltd.	10/1999
Citizen Fine Tech Co., Ltd.	11/1999
Citizen Electronics Co., Ltd.	12/1999
Citizen Mechatronics Co., Ltd.	4/2001
Citizen Displays Co., Ltd.	4/2002
Citizen Electronics Funehiki Co., Ltd.	5/2003
Citizen Saitama Co., Ltd.	2/2004
Citizen Seimitsu Co., Ltd.	6/2004
Sayama Precision Industries Co., Ltd.	9/2004
Citizen Tohoku Co., Ltd.	10/2004
Citizen T.I.C. Co., Ltd.	12/2004
Crown Young Industries, Ltd., FDD Plant	10/2003
Crown Young Industries, Ltd., MP Plant	10/2004
Citizen De Mexico S.A. DE C.V.	1/2005
Crown Young Industries, Ltd., LCD Plant	2/2005



Risk Management

■ Mitigation Measures for Soil Contamination

When it came time to tear down the building housing our discontinued plating facility at our Tokyo Works, we carried out soil evaluations in accordance with local statutes. Results indicated that chemicals used at the plant had caused some soil contamination. Specifically, fluorine levels at two locations and the lead level at one location exceeded environmental standard values by 80%. To correct the problem, we called in a special contractor to dig out all three areas (a total of 77.5 square meters) to a depth of about one meter and carried out appropriate purification processing. We also reported this issue on our website.

At one time we also faced some complaints from local residents about vibrations emanating from our dismantling operations. Residents responded favorably when we promptly took measures both to explain the situation to them and to improve our processing.

■ Conformance with Environmental Ordinances

With the exception of the soil contamination instance mentioned above, we are in full compliance with environmental regulations and have not been subject to any fines or other such sanctions.

Promotion of Environmental Education

Citizen Watch conducts various types of training aimed at educating all employees about the importance of environmental activities.

This educational effort is built into our company's overall training system, and includes training for new employees as well as training for top and middle management. In addition, our Environmental Management Department carries out annual training for environmental managers in each department, as well as annual training for development of in-house ISO14001 auditors.

Any department that handles toxic or hazardous substances also carries out its own drills covering potential emergencies.

We maintain a company-internal licensing support system that encourages employees to obtain public accreditation as anti-pollution managers, energy managers, and other such environment specialists.

CITIZEN DE MEXICO, S.A. DE C.V.

Citizen De Mexico (CDM) is one of our first overseas plants. The site, established in 1968, handles manufacture of watch cases and watch assembly, and received ISO14001 certification in January 2005.

As part of its environmental efforts, the plant has initiated sorting of wastes, and has also requested employees to repair and maintain their automobiles so as to reduce pollution.

Although the plant has not sorted its waste, it now sorts carefully into multiple categories, including metals, plastics, glass, paper, batteries, ink cartridges, and raw waste.

It was also noted that employee cars were leaking oil in the parking area. Accordingly, management requested that leakages be repaired, and began to restrain those cars with oil leaks from entering the site.

The plant is also planning to eliminate the use of chlorinated organic solvents by December 2005, and to this end is currently establishing alternative technologies and introducing new equipment.

The plant is now pursuing a CSR approach. It has enacted a CSR code of conduct, and is taking steps to raise CSR consciousness among all employees.



CDM



Sorted Waste

Medium- and Long-Term Plans

In our effort to move toward our Vision for Environment and Society in 2025 (“2025 Vision”), we have enacted a long-term environment plan designed to achieve results by fiscal 2010. We also have year-by-year targets. Below, we show the long-term objectives, our medium-term targets for fiscal 2005, and the results of our efforts to meet our intermediate goals for 2004. Our plans place emphasis on environmentally friendly products, and are an essential of our ongoing effort to promote effective environmental management.

Long-Term Environmental Plan (by Fiscal 2010)

■ Promotion of Environmental Management¹

- 1) Proactively respond to global environmental laws and regulations and trends.
- 2) Communicate with stakeholders, and incorporate results into management practices.
- 3) Develop environment management throughout the Group.
- 4) When evaluating each department, include evaluation of the department’s environmental efforts and results.

■ Promotion of Environmentally Friendly Products

- 1) Reduce the product’s environmental footprint
 - ① During planning and development
 - Promote smaller products
 - Enhance commonality of components and uniformity of materials
 - Develop long-lasting products
 - Promote Life Cycle Assessment (LCA)²
 - ② During use
 - Promote development of products that use low energy
 - Enhance development of portable products that do not require battery change
 - ③ At time of disposal
 - Promote product recovery and recycling
 - ④ At time of packaging
 - Promote reuse of packaging materials
 - Promote material recycling of packaging waste³
 - Reduce the amount of packaging
- 2) Publish information about product’s environmental footprint

■ Promotion of Environmental Management at Factories

- 1) Make effective use of resources
 - ① Use resources efficiently
 - ② Promote zero waste
 - ③ Enhance efforts to reduce chemical emissions
- 2) Reduce greenhouse-gas emissions
 - ① Reduce CO₂ emissions (to 80% of fiscal 2000 levels)
 - ② Implement high-efficiency energy systems
- 3) Strengthen supply-chain management⁴
 - ① Implement supply-chain management that takes account of environmental and societal concerns
- 4) Develop environmental technologies
 - ① Develop leading-edge technologies to meet global environmental regulations
- 5) Implement more ecologically-oriented offices
 - ① Expand green space
 - ② Conserve water resources

■ Promote ecologically aware, ecologically sustainable lifestyles (Contribute to sustainable society)

- 1) Disseminate and publicize environmentally friendly products
- 2) Cultivate human resources
 - ① Implement employee training systems
- 3) Promote communication with local societies
 - ① Promote communication with local authorities and societies
 - ② Promote employee participation in local events

1: Business management that considers environmental issues as a vital part of the management scope.

2: Quantitative evaluation of a product’s overall effect on the environment, derived by calculating the resources used, the energy used, and the emissions generated over the product’s entire life cycle, starting with resource extraction, and continuing through manufacturing, distribution, usage, recycling, and disposal.

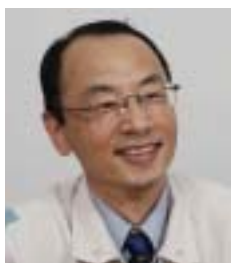
3: Reuse of waste as raw materials. To this end, products are required that are easy to recycle.

4: Comprehensive management that covers transactions with other companies and transactions among departments. The objective is to achieve optimal management of resources, product costs, delivery schedules, and other such factors. A recent trend is to require one’s suppliers to implement the CSR approach.

Medium-Term Environmental Plan: Fiscal 2004 Results and Fiscal 2005 Plan

○ Fully Achieved ▲ Almost achieved ✕ Not achieved

Fiscal 2004 Intermediate Plan		Revised Fiscal 2005 Plan	
Fiscal 2004 Target (Relative to Fiscal 1999)	Fiscal 2004 Result (Relative to Fiscal 1999): Evaluation	Fiscal 2005 Target (Relative to Fiscal 1999)	
1. Environmentally Friendly Products Fiscal 2004 • Implemented eco-product assessment • Introduced LCA to product assessment Fiscal 2005 • Share of new eco-friendly products among all new products: 50% • Citizen eco-labeling • Publication of product footprint information	• Each division has set up product assessment standards, made preliminary attempts to incorporate these into quality systems, and proceeded to revise systems accordingly. ○ • LCA was at the trial stage, with base technologies in place. Implementation had not been reached. ✕	1. Environmentally Friendly Products Fiscal 2005 • Share of new eco-friendly products among all new products: 50% • Citizen eco-labeling • Introduction of product LCA • Publication of information (including LCA data) about product's environmental footprint Fiscal 2008 • Share of eco-friendly products among all new products: 100%	
2. Green Procurement • Expand green procurement. • Allow for design for environmentally friendly products by establishing a green procurement information system.	• We had received almost all requested written guarantee (99%) certifying the non-use of specified substances. Each department was in the process of carrying out plans for meeting the RoHS regulations calling for total banning of certain hazardous substances. ○ • Establishment of a green procurement system was completed. ○	2. Green Procurement • Apply green procurement system. • Further improve environmental activities conducted by suppliers • Completely eliminate substances specified under RoHS Directive. • Establish methods for inspecting procured goods.	
3. Environmentally Friendly Business Activities • Action in at least one focus area	Tokyo: ○ • Implemented 57 focus areas in 25 departments Tokorozawa: ○ • Implemented 11 focus areas in 8 departments	3. Environmentally Friendly Business Activities • Action in at least one focus area	
4. Promotion of energy savings (Tokyo) Reduce power consumption 27.57 million kWh (▲39%) (Tokyo) Reduce gas consumption 2,285,000 m ³ (▲30%) (Tokorozawa) Reduce CO ₂ emissions (gas and heavy oil) 2,974 t-CO ₂ (▲8%)	27.19 million kWh (▲40%) ○ 2,340,000 m ³ (▲28%) ✕ 2,919 t-CO ₂ (▲10%) ○	4. Promotion of GHG reduction 1) (Tokyo) Reduce power consumption 27.20 million kWh (▲40%) (Tokyo) Reduce gas consumption 2,343,000 m ³ (▲28%) (Tokorozawa) Reduce CO ₂ (power and gas) 10,043t-CO ₂ (▲17%) 2) Reduce CO ₂ emissions through more efficient distribution Evaluate current conditions and set appropriate targets	
5. Promotion of waste reduction (Tokyo) Reduce industrial waste 192.8t (▲65%) (Tokorozawa) Reduce industrial waste 136t (▲20%)	196.3t (▲64%) ▲ 70.8t (▲58%) ○	Maintain Maintain	



Environmental Management Department
 General Manager **Shigeru Saito**

Toward Optimal Group-Wide Environmental Management

Our Vision for Environment and Society in 2025 ("2025 Vision", enacted in July 2004) is aimed at establishing our fundamental position in support of creating a sustainable, environmentally sound society. As part of our effort to

achieve this vision, we have enacted a long-term environmental plan (with targets set for fiscal 2010) and have undertaken environmental activities in support of this plan.

Our most important goal is to "make our contribution by creating products that are useful and appreciated by people all over the globe." Accordingly, we have established standards for manufacture of environmentally friendly products, standards for management of chemical substances, and various other relevant standards. We have also set up an

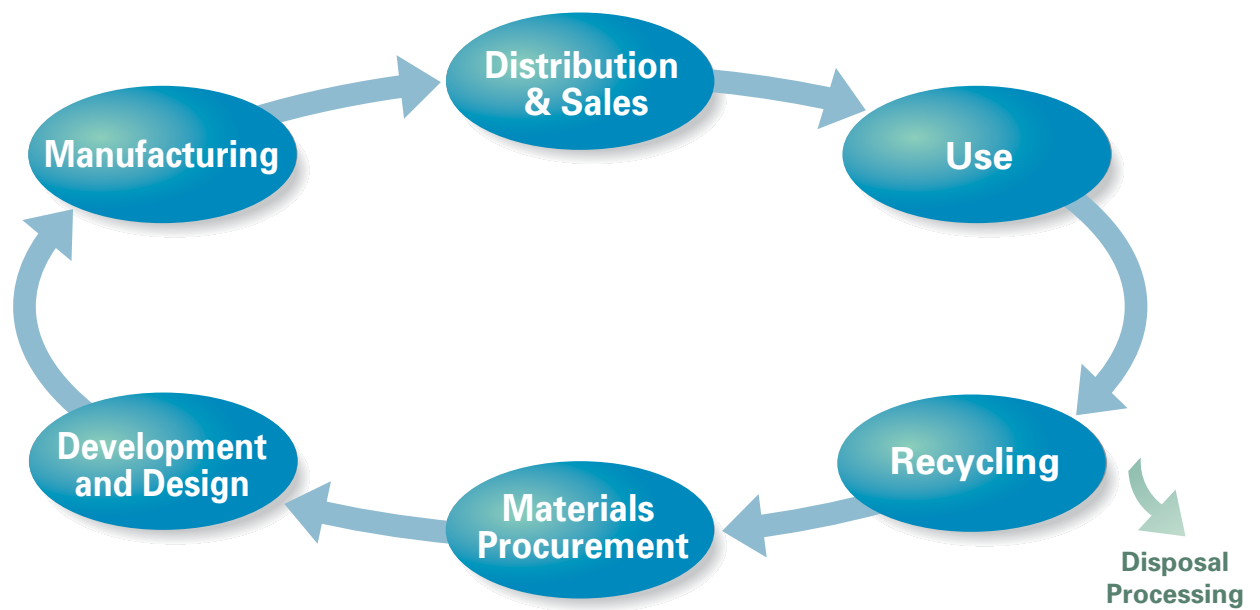
environment assessment framework in each of our divisions. For fiscal 2005, we are determined to achieve the target that environmentally friendly products comprise 50% of our newly introduced products.

We have therefore strengthened our green procurement stance so as to eliminate hazardous materials from our inputs, and we have set up targets for achieving CO₂ reductions through improvements in the efficiency in internal and external distribution.

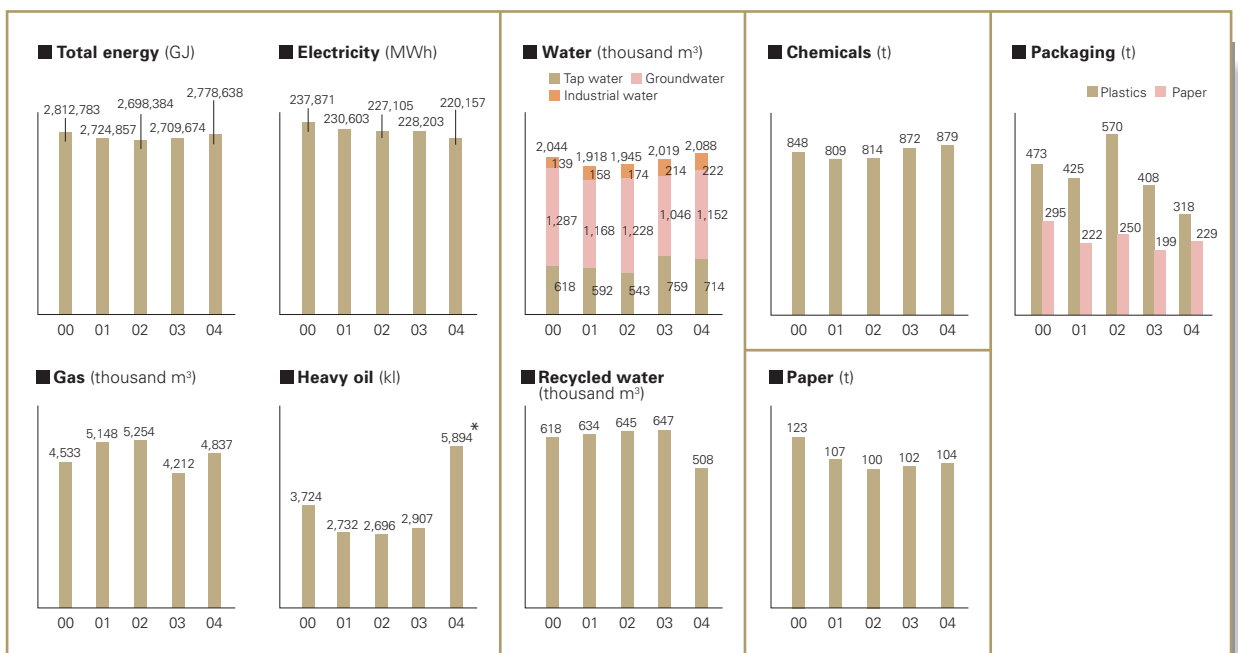
We understand that for the achievement of our 2025 Vision we require cooperation not just from our subsidiaries but also from all of the companies in the Citizen Group. Our Group's commitment to CSR rests on the three pillars of economy, society, and the environment, and on this basis we are working to implement optimal environmental initiatives throughout the entire Group.

Business Operations and Environmental Footprints

At the Citizen Group, we assess our actions over the product life cycle. We work continuously to reduce our environmental footprint, one step at a time.

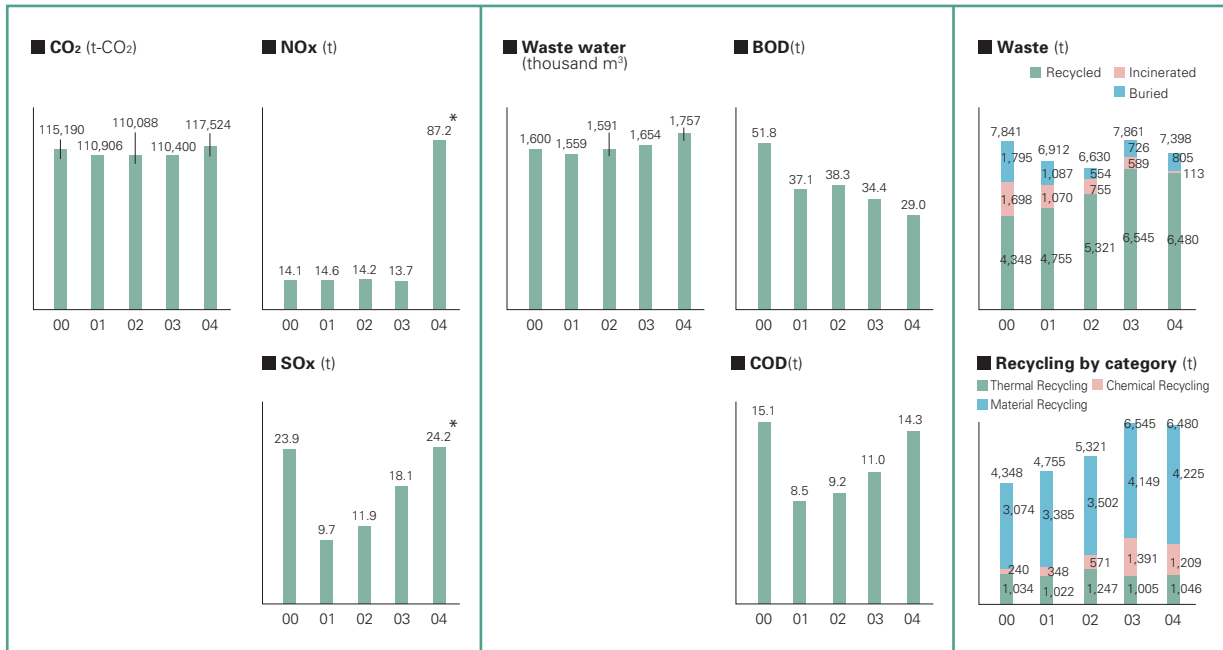


INPUT



*The amount of SOx and NOx discharged increased along with introduction of cogeneration facilities and the increased use of heavily oil.

OUTPUT



Total figure from 19 companies: Citizen Watch Co., Ltd.; Sayama Precision Industries Co., Ltd.; Citizen Saitama Co., Ltd.; Citizen Systems Japan Co., Ltd.; Japan CBM Corporation; Citizen Seimitsu Co., Ltd.; Citizen Seimitsu Kagoshima Co., Ltd.; Citizen T.I.C. Co., Ltd.; Citizen Displays Co., Ltd.; Citizen Electronics Co., Ltd.; Citizen Electronics Funehiki Co., Ltd.; Citizen Tohoku Co., Ltd.; Citizen Fine Tech Co., Ltd.; Citizen Plaza Co., Ltd.; Citizen Heiwa Watch Co., Ltd.; Citizen Machinery Co., Ltd.; Citizen Miyota Co., Ltd.; Citizen Mechatronics Co., Ltd.; Citizen Yubari Co., Ltd.

Inputs and Outputs at Overseas Plants (Fiscal 2004)

		Item	Units	
INPUT	Energy	Electricity	MWh	8,621
		Gas	kg	33,583
		Light Oil	kl	426
		Total Energy	GJ	102,693
	Water	Tap	m ³	227,772
		Ground	m ³	99,561
	Chemicals	Chemical Use	t	971
	Paper	Paper	t	73
	Packaging	Paper	t	333
		Plastics	t	63
OUTPUT	Emissions into Atmosphere	CO ₂ (from energy use)	t-CO ₂	4,300
		NO _x	t	0
		SO _x	t	2
	Waste Water	Waste Water	m ³	229,371
		BOD	t	31
		COD	t	57
	Waste	Incinerated	kg	9,862
		Buried	kg	65,937
		Thermal Recycling	kg	16,191
Chemical Recycling		kg	35,183	
Material Recycling		kg	195,447	
Subtotal (Total Amount of Waste)		kg	322,620	

Total figures from five sites: Crown Young Industries, Ltd.'s FDD plant, MP plant, and LCD plant; Citizen De Mexico S.A., DE C.V.; and Royal Time Citi Co., Ltd.

Example of Reduced Environmental Footprint

Implementation of a revolutionary "zero-waste-water processing system"

Citizen Seimitsu Kagoshima Co., Ltd. (in Higashi-Ichiki, Kagoshima) has implemented a zero-waste-water system that internally processes all of the waste water generated by the plant's watch-component manufacturing processes to eliminate the environmental footprint that was previously produced by water drainage. The company has also reduced its use of groundwater.

At the plant, liquids discharged from the barrel plating process are stored, by type, into various holding tanks. Reusable waste water from these tanks then goes through precipitation and filtration processing to remove solids, then moves through an ion-exchange process and is funneled back for reuse as wash water in the plating process. Other waste water is purified to a higher degree—using ultraviolet sterilization and ion-exchange resins—and utilized as replenishment fluid and final processing fluid.

Chemically processed fluids, following use, move through a CD dryer and filter press to extract water, with the remaining chemical solids recycled for reuse.



CD dryer

Products and Environment

We are working to reduce our environmental impact not only during manufacturing but also through the life of the product, from distribution to usage to recycling and disposal. We strictly adhere to all ordinances related to hazardous materials, and we carefully consider environmental impact during development and design so that products will be environmentally friendly.

Environmentally Friendly Products

We have enacted "standards for manufacture of environmentally friendly products" and "standards for management of chemical substances." Accordingly, our quality control systems at each division are now carrying out environmental assessments of each new product.

At our watch operations, for example, these efforts can be clearly seen in our production of watch movements. Specifically, we have set up energy conservation checks, recycling checks, use and environment safety checks, and usage-lifetime checks. These various checks are carried out at each stage: at time of initial proposal, at time of production proposal, and at time of shipping or new-product approval. We have also set up checks related to packaging materials and to the distribution of environmental information.

We also support use of an eco-label to identify products that are environmentally friendly. Our Environmental Management Committee review each product based on our eco-label standards so as to determine whether the product can be labeled as environmentally friendly. For fiscal 2005, our target is to have 50% of our new products evaluated as environmentally friendly, with the share rising to 100% by fiscal 2008. Evaluation standards are in place both for watches and for other products.



Citizen's Eco-Label

The Citizen Group manufactures a wide variety of products. Accordingly, we have set up Group-wide subcommittees on environmentally friendly production, as we work to promote a Group-wide advance on environmental issues. In particular, we are making efforts to create common standards, to enhance green procurement, and to set up Group-wide targets.

Life-Cycle Assessment (LCA)

Life-cycle assessment refers to the quantitative evaluation of a product's effect on the environment, derived by calculating the resources used, the energy used, and the emissions generated over the product's entire life cycle, starting with resource procurement, and continuing through manufacturing, distribution, usage, recycling, and disposal. At Citizen, we use LCA data during product planning and when implementing design changes and processing improvements. The LCA approach allows us to take appropriate actions to reduce each product's environmental impacts.

Life-Cycle Assessment of Eco-Drive Watches

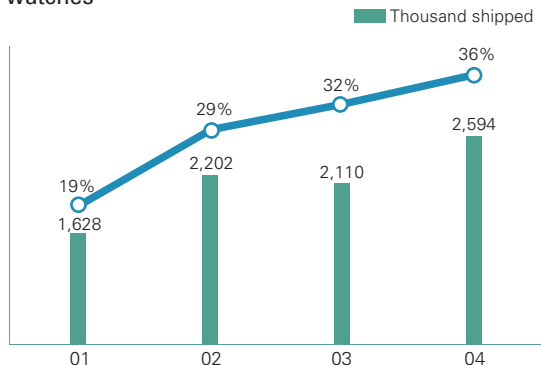
We used a preliminary LCA approach to consider the difference between stainless steel and titanium watch exteriors. In this case, we considered the differences starting from the materials production stage and ending at the product manufacturing stage. (Note that the "exterior" consists of the casing, the display, and the band, whereas the "interior" consists only of the movement.)

The graphs below show the impact data of a single watch on global warming, acidification, and energy use.

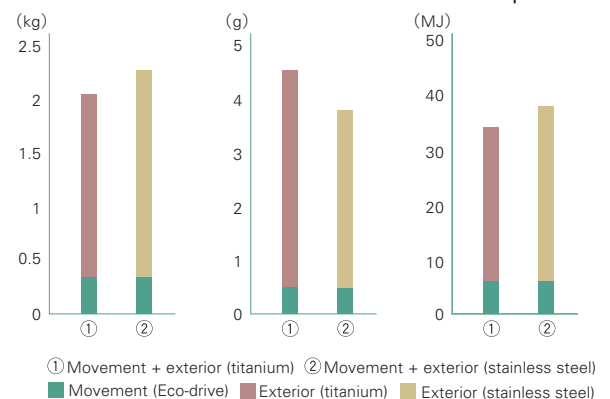
As we move ahead we shall expand our LCA to include product usage, recycling, and disposal stages, as we work to cover the entire life cycle.



■ Share of Eco-Drive watches among all Citizen-brand watches



■ Global warming: CO₂ conversion (kg) ■ Acidification: SO₂ conversion (g) ■ Energy consumption (MJ)



Green Procurement

Citizen attempts to obtain environmentally friendly products from suppliers who are actively pursuing environmental management activities. To this end, we are working to help about 450 suppliers deepen their understanding of environmental management activities, and supporting their efforts to implement appropriate systems. Because we are now purchasing fairly heavily from China, we held green-procurement explanatory presentations for our Asian suppliers in September and November 2004, in Hong Kong and in Dong Guan. We have drawn up our green procurement standards in three languages: Japanese, English, and Chinese. We currently use four categories for managing environment-threatening chemical substances: (a) substances that are banned, (b) substances that must be entirely abolished, (c) substances whose concentrations must be investigated; and (d) substances prohibited for use within manufacturing processes.

We request that our suppliers submit guarantees that they are not using banned substances, as we also receive from them reports indicating the current state of their environment-related activities. Based on this input, we give each a supplier a ranking between 1 and 4, and we encourage lower-ranking suppliers to make efforts to improve their ranking.

Further, each company within the Group is working to create its own framework for meeting green procurement standards via the supply chain.

It is also necessary to test the supplies to ensure that they meet the requirements.



Explanatory Presentation on Green Procurement (China)

Accordingly, we have set up fluorescent X-ray analyzers at sites in both Japan and China. We use these analyzers to detect the presence or lack of banned and managed substances.

We are also working to entirely abolish from manufacturing processes, by the end of 2005, the use of chlorinated organic solvents (which cause soil pollution) and the use of chlorofluorocarbon alternatives (which can contribute to global warming and ozone depletion).

Toward Abolition of Substances Covered by the RoHS Directive

The European Union's RoHS Directive* on hazardous substances call for a ban, effective from July 2006, on sales of products containing lead, cadmium, or any of four other substances. Consequently, Citizen is targeting complete abolition of these substances by the end of 2005.

We have already completed our transition to the use of lead-free solder in our watch production processes, and we have established the necessary lead-free technology to replace the lead-based solder bump fabrication currently used for mounting of IC chips.

Citizen has also introduced a green procurement system to effectively manage the chemical substances contained in products and components from our suppliers. In particular, we can now use the chemical content data provided by our suppliers to control the chemical substance content in the components for each of our products. Since design leaders can now look at data indicating the chemical content of each component, we are in a better position to manage product content and to ensure that regulated substances are properly controlled and excluded.

*Directive on the Restriction of the Use of Certain Hazardous Substances



Movement Design Group / Watch Design Division
Watch Development Headquarters

Tateo Muto

Independent Product Assessment Includes Check of Environmental Friendliness

We began to design our product assessment approach in the fall of 2003. After completing various trials, we have now started to carry out assessment of new products. The

assessment covers the interior, the exterior, and the packaging. I am in charge of the environmental assessment of watch movements, where we maintain progress charts that include various checks for low energy consumption, power-save functionality, and safety and environmental protection. These checks start at the design stage and continue through function tests, trial mass production, and preliminary mass production. Our

Environmental Management Committee uses assessment results as the basis for approving our products. We are also considering ways to send products back to earlier stages in the event that assessment results indicate problems.

We are maintaining our fiscal 2005 target of certifying 50% of all new models as environmentally friendly products with the objective of attaining 100% by fiscal 2008. This applies to all products, not just watches. We are currently working to incorporate application-based light-powered Eco-Drive into quartz movements, and taking various other such steps, as we actively move toward achievement of 100% environmental friendliness by fiscal 2008.

Environmentally Friendly Products

“The end of one development is the beginning of another.” Our challenges never end. Our watchmaker’s DNA interacts with our environmental concern, as we work to create new environmentally friendly products that operate on low energy, conserve resources, eliminate designated hazardous substances, and meet other important environmental needs.

Lead-Free Forked Crystal Oscillators

Citizen’s tuning-fork-type crystal oscillators, developed for quartz watches, have earned the trust of the marketplace over a relatively long history. These oscillators are not only used for 32-kHz watch functions, but are also incorporated into home appliances, audio equipment, PCs, and many other products.

In particular, we have proceeded to develop a miniaturized version of the oscillator for use with mobile phones and compact mobile equipment. We employ our original sealing technologies and ceramic packaging to implement this component as an entirely lead-free surface-mount ceramic package.



High-Performance Chemical Products: AO Oils and AK Adhesives

At Citizen, we manufacture various chemical products for use with our watches and precision machinery. We are currently working to develop new products that provide the same performance while producing less environmental impact. Two such product lines are our AO oil series and our AK adhesive series.

Our high-performance AO oils are designed to meet the needs of the coming generation: they work well at low temperatures and can be used for prolonged periods without degrading. Because they reduce the rate at which miniature watch motors become more power-hungry over time, these oils contribute to longer battery life and, therefore, a better environment.

Our high-performance AK adhesives cure completely within seconds. They also conserve energy: where typical photo-cured adhesives consume about 4 kW of energy, AK adhesives consume 0.2 kW and can bind in under 1 second. The adhesive material itself is energy-conserving (reduced CO₂).

As an additional environmental benefit, the adhesive often eliminates the needs for screws and other such hardware.



“Super 2035” Environmentally Friendly Analog Watch Movement

The current worldwide leader among analog watch movements, in terms of market share, is the Caliber 2035. The Super 2035 movement is an improvement designed to be particularly friendly to the environment. The new movement complies with the European Union’s RoHS (restriction of hazardous substances) Directive, and is the first movement on the watch market to utilize a mercury-free battery. The Super 2035 incorporates low-power-consumption technologies that allow the battery to run for 4 years without replacement. And because it is made of metal parts, the movement can be disassembled and repaired—reducing the rate of disposal and therefore conserving resources and protecting environment. The movement is accurate to within ± 15 seconds a month.



CCM-XUA Series of CMOS Auto-Focus Camera Modules for Mobile Phones

The CMOS (complementary metal-oxide semiconductor) camera module utilizes an actuator consisting of a newly developed stepping motor for wristwatch movements. The module significantly cuts power consumed during auto-focus standby, offering a full 90% power savings relative to the conventional implementation with a piezoelectric motor. Specifically, the CMOS photoreceptor elements are smaller than conventional CCD elements, and can therefore operate on 1/5th to 1/10th the power. As the module consists of relatively few parts, it is relatively inexpensive to produce and is less likely to fail.



Global Warming Prevention

The Citizen Group understands that global warming prevention is a major worldwide concern. Accordingly, we are undertaking activities to reduce CO₂ emissions at all of our plants, and these activities include improving distribution efficiency.

Group's Energy Reduction Targets and Achievements

The Citizen Group was targeting a 1.0% reduction in CO₂ emissions in fiscal 2004 (relative to fiscal 2003), but figures indicate that emissions rose by 6.5% (with 4.5 percentage points of this rise attributable to consolidation of plants and increase in production, and 2.0 points attributable to the addition of three plants).

For fiscal 2005, the target is to reduce emissions by 1.5% relative to fiscal 2004.

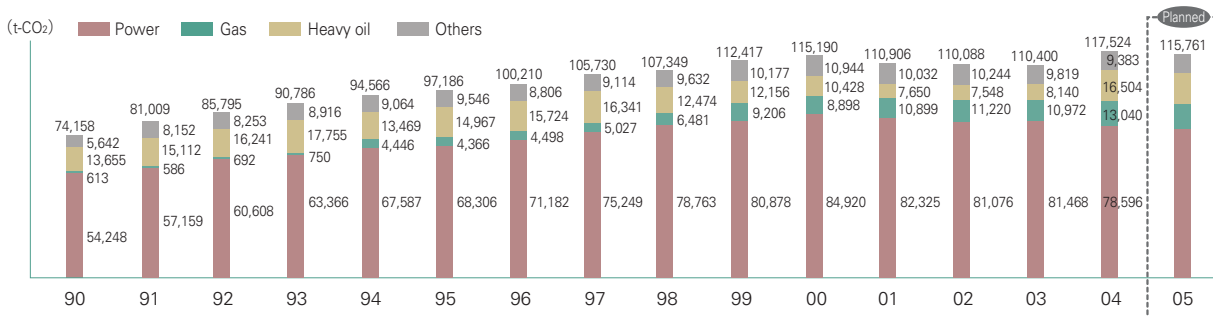
Citizen Machinery has installed a cogeneration system that supplies about 80% of the company's power requirements. The system is also effective as a backup that

prevents important equipment from shutting down during transient power problems. Specifically, the system can switch away from municipal power in the event of a power failure, and utilizes high-speed breakers as direct couplings between the generators and the major power loads.



Cogeneration Equipment at Citizen Machinery

CO₂ Emissions by the Citizen Group



Toward More Efficient Distribution

The distribution centers for the Group's major domestic production sites were previously located in the Cities of West Tokyo and Iida, but in July 2004 we consolidated these into a single center in Narita. This increased our distribution efficiency, and it reduced CO₂ emissions from our distribution transports by 14%, with a particularly significant reduction in the Koshin region.

As we move ahead, we shall work to achieve additional efficiencies and CO₂ reductions in other distribution transports between domestic Group companies.

Previous Distribution

Distribution from Iida and West Tokyo Centers

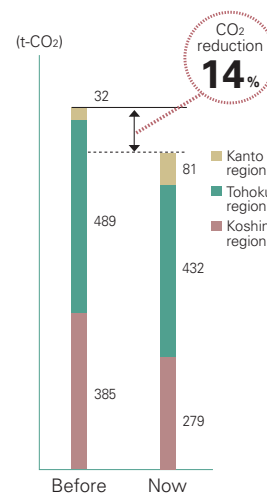


Current Distribution

Distribution from Narita Centers



CO₂ Reduction (Annual)



Recycling of Waste, and Reduction of Hazardous Chemicals

The Citizen Group puts a top priority on efficient, low-waste production, while we also take active measures to promote recycling. These efforts help enhance our resource efficiency. We are also continuously working to reduce usage of hazardous chemicals within our products and processes.

Reduction of Wastes

At the Citizen Group, the managers in charge of waste handling hold semiannual subcommittee meetings as part of our effort to further reduce wastes. Our target for fiscal 2004 was to reduce waste quantity by 7%, while the actual result for the year was a reduction of 9%.

Main efforts included reducing sludge output by installing an organic sludge dehydrator (at Citizen Displays) and a sludge dryer (at Citizen Fine Tech). Our target for fiscal 2005 is to reduce group-wide waste by an additional 2%.

Improved Recycling of Resources

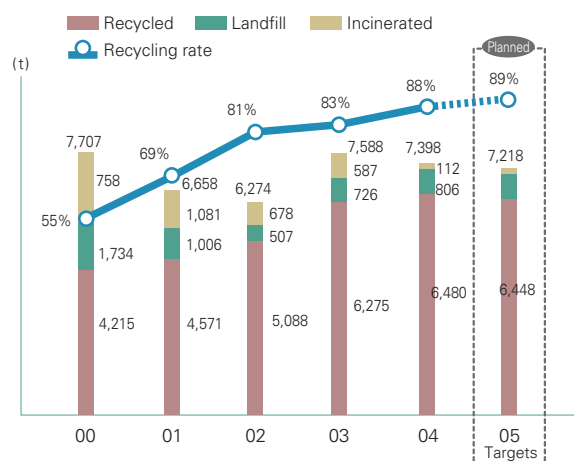
The key to this effort is appropriate selection of resource-recycling contractors. To this end, the Group companies meet so that we share expertise, processing costs, and implementation measures.

Our target for fiscal 2004 was to achieve a group-wide resource recycling rate of 86%, while our actual achievement was 87%.

Furthermore, five of our companies* achieved zero waste production (resource recycling rates higher than 99%). Our target for fiscal 2005 is a Group-wide rate of 89%.

Note that the graph below includes data for two companies added to the Group.

Group's Annual Waste Quantities and Recycling Rates

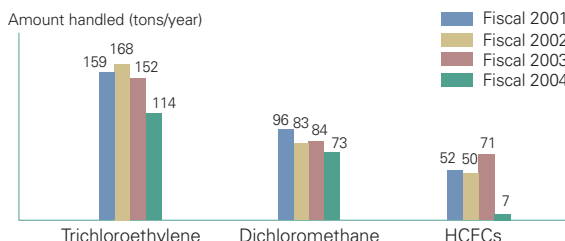


*Citizen Watch, Citizen Saitama, Citizen Displays, Citizen Electronics, Citizen Tohoku (Morioka)

Reduction of Hazardous Chemicals

The Citizen Group is working to entirely eliminate, by the end of 2005, the use of trichloroethylene and dichloromethane (organic chloride compounds that cause soil pollution) and the use of HCFCs (which cause ozone depletion). These compounds have been used in post-process washing and drying of a wide variety of components, but we are now switching to the use of hydrocarbon solvents and water washes and installing the relevant equipment at production plants both in Japan and overseas. As a result, we have already reduced overall use of these compounds by 37% compared to fiscal 2001, with particular effectiveness in reducing HCFCs.

Group-Wide Reduction in Hazardous Chemical Handling



Adherence to the PRTR (Pollutant Release and Transfer Registry) Law

The figures we reported for fiscal 2004 are shown below. While the number of PRTR substances increased from 14 to 17, emission amount was down to 342 tons from 378 of last fiscal year.

Group's Chemical Releases and Transfers

Chemical	Handled	Discharged			Transferred	
		Discharged into atmosphere	Discharged into water	Discharged into soil	Transferred to sewage system	Transferred offsite
Trichloroethylene	112.8	44.9	0.0	0.0	0.0	57.7
Dichloromethane	73.0	59.3	0.0	0.0	0.0	13.5
Xylene	34.3	2.4	0.0	0.0	0.0	8.2
Antimony and its compounds	26.4	0.0	0.0	0.0	0.0	19.6
Manganese and its compounds	22.5	0.0	0.0	0.0	0.0	13.9
Nickel compounds	15.2	0.0	0.5	0.0	0.0	13.6
2-aminoethanol	13.3	0.0	0.1	0.0	0.0	6.4
Hydrogen fluoride and its water-soluble salts	8.9	0.0	2.4	0.0	0.0	6.4
Polyoxyethylene nonylphenyl ether	8.5	0.0	0.0	0.0	0.0	8.5
Bisphenol-A epoxy resin	5.3	0.0	0.0	0.0	0.0	1.6
Toluene	4.8	3.7	0.0	0.0	0.0	1.1
N-N dimethyl formamide	4.7	3.7	0.0	0.0	0.0	1.0
HCFC-141b	4.6	1.6	0.0	0.0	0.0	2.9
Silver and its water-soluble compounds	3.7	0.0	0.0	0.0	0.0	1.0
Inorganic cyanide compounds	1.5	0.0	0.0	0.0	0.0	0.0
Lead and its compounds	1.1	0.0	0.0	0.0	0.0	0.1
Cobalt and its compounds	1.1	0.0	0.0	0.0	0.0	0.3
Total	341.5	115.7	3.1	0.0	0.0	147.1

Environmental Accounting

At the Citizen Group we quantitatively assess our various environment-related costs and benefits so as to effectively evaluate the results of our environmental management activities.

Accounting Overview

Period: Fiscal 2004 (April 1, 2004 to March 31, 2005)

Our fiscal 2004 environment account is a consolidated accounting covering 19 Group companies (up from 17 the previous year).

The results show that energy use, water use, chemical use, and CO₂ emissions were up for the year, while total waste and use of plastic packaging were down.

The drop in waste quantity also led to a drop in the quantity of recycled raw materials, although the recycling rate has been increasing (see page 27).

The accounting of economic costs and benefits considers only the actual results, and does not take into consideration the various benefits of risk avoidance. Total investment for the period was 16.667 billion yen, with total R&D cost at 10.266 billion yen.

Accounting procedures conform to the 2002 environmental accounting guidelines published by the Ministry of the Environment.

■ Figures are totals from the following 19 companies: Citizen Watch; Sayama Precision Industries; Citizen Saitama; Citizen Systems Japan; Japan CBM; Citizen Seimitsu; Citizen Seimitsu Kagoshima; Citizen T.I.C.; Citizen Displays; Citizen Electronics; Citizen Electronics Funehiki; Citizen Tohoku; Citizen Fine Tech; Citizen Plaza; Citizen Heiwa Watch; Citizen Machinery; Citizen Miyota; Citizen Mechatronics; Citizen Yubari

Environment Conservation Cost

(millions of yen)

Environmental Conservation Cost				
Category		Key Activity and the Outcome	Investment	Cost
1) Business area costs			1,353	1,185
Breakdown	① Pollution prevention	Air, water, and sound	1,088	736
	② Global environmental conservation	Energy conservation	242	154
	③ Resource circulation	Reduction and recycling of wastes; effective use of water	23	295
2) Upstream/downstream costs		Recycling of packaging; use of eco-mark	20	18
3) Administration cost		Environmental education; operation of environmental management systems; tree planting and beautification at company facilities	19	311
4) R&D cost		Solar-powered watches; R&D into basic watch technologies	126	268
5) Social activity cost		Social contribution activities	0	2
6) Environmental remediation cost			0	0
Total			1,518	1,783

Economic Benefit

(millions of yen)

Economic Benefit Associated with Environmental Conservation Activities (Actual Benefits)		
Details of Benefit		Amount
Revenue	Operating revenue from the sale of recycled waste products and used products produced through key business activities	112
Cost reduction	Reductions in energy costs through energy conservation	215
	Reductions in waste disposal costs through resources	11
	Savings on waste processing realized through resource conservation and recycling	14
	Other reductions	65
Total		417

Environmental Conservation Benefits

Environmental Conservation Benefits						
Breakdown		Indices of Environmental Protection Effectiveness				
		Category	Units	2003	2004	Change
1) Benefits corresponding to worksite costs	① Benefits related to resources input into business activities	Energy use	GJ	2,709,674	2,778,638	68,964
		Water use	m ³	2,018,936	2,088,753	69,817
		Chemical use	t	872	879	7
	② Benefits related to environmental loads and wastes generated by business activities	CO ₂ emissions	t-CO ₂	110,400	117,524	7,124
		Wastewater	m ³	1,654,406	1,756,977	102,571
		Total waste	t	7,861	7,398	△463
		Amount recycled	t	6,545	6,480	△65
2) Benefits related to upstream and downstream costs	③ Benefits related to goods and services produced by business activities	Plastics for packaging	t	408	318	△90
		Paper for packaging	t	199	229	30

Environmental Efficiency Index

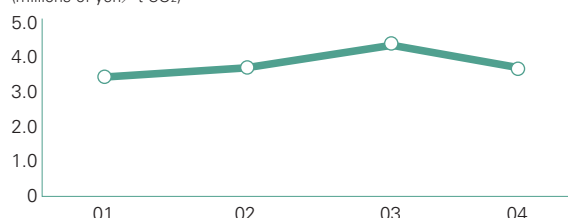
The index value tracks sales relative to environmental load. We regret to report that the value was somewhat lower this year than last, and we are currently considering approaches to improve it.

● Index value = total sales / environmental footprint (CO₂)*

* Environmental load is defined here as the quantity of environment-impacting CO₂ emissions.

Environmental Efficiency Index

(millions of yen / t-CO₂)



Customers

Citizen is proud to serve a wide variety of customers—from consumers who purchase our watches to businesses that utilize our industrial machinery and information and electronic devices. We recognize that customer satisfaction is key to the trustworthiness of the Citizen brand.

The Citizen

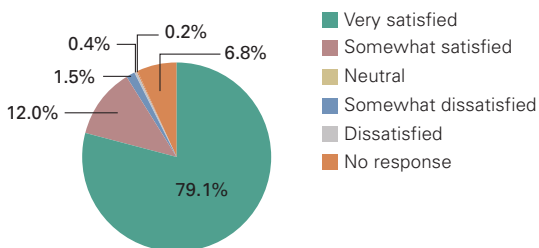
The watch we call “The Citizen,” released in 1995, is intended to be serviceable for a lifetime. In developing this product, our developers were tasked to come up with the following:

- A solid, well-built watch from a trustworthy manufacturer
- A watch whose quality and design offer maximum ease of use
- A watch that can be worn “as part of oneself” for a lifetime
- A watch for which the manufacturer shall bear a sense of responsibility over the very long term



Accordingly, The Citizen comes with a 10-year warranty and three free maintenance checks over the first ten years. Citizen shall continue to offer service even after the warranty expires, so that users can continue wearing the watch for a lifetime.

Questionnaire Result: User Satisfaction with Periodic Maintenance Checks



Customer Card

A customer card is included in various high-priced and specialty products. The card allows effective management of customer data, and can be used to quickly obtain relevant information whenever the product requires maintenance or repair.



Customer Help Desk

In July 2000 we initiated our watch help desk to respond to questions from our customers. At present the help desk is handling about 40,000 phone queries and 10,000 email queries each year. In most cases the staffers can answer

immediately, and if not then they promptly forward the problem to the appropriate office for resolution. We also pick up some of this customer input and publish it on the Customer Correspondence pages of our bimonthly in-house journal, so that all employees have a chance to hear what customers are saying.

Since the help desk is our closest link to our customer, we have set up a system under which staffers can check our watches from customers’ viewpoint, and we then feed this information back so that we can take steps to enhance customer satisfaction. To this end, in October 2004 we implemented a Product-Shipping Approval Office within our Customer Satisfaction Center.

Customer-Responsive Development

Our Customer Satisfaction Center gathers opinions from customers and feeds this information back into our development and production departments. Customers have a wide variety of needs and desires, and in trying to act on these we are also strengthening our product planning and improvement operations. Someone with a disabled arm requests an easier-to-use winding knob; someone else asks that we use sapphire crystal so that the watch face won’t scratch; and another says that silver watch hands are glary and hard to read. We treat all of this input as vital information that merits our attention and response.

B-to-B Customer Support

Product maintenance is especially important part of product performance when our customers are other business organizations. This gives us even greater opportunity to work toward customer satisfaction. If a business customer is expanding overseas, for example, we are motivated to set up in the place that we can provide rapid maintenance as needed. Our own expansion around the globe allows us to respond quickly and fully to customer needs. We must also take steps to ensure uniform service and sharing of expertise. For this reason, we hold Global Engineering Meetings at which we share technical information from each country.

Field information and customer needs are fed back monthly from all of our locations and incorporated into our ongoing business development.

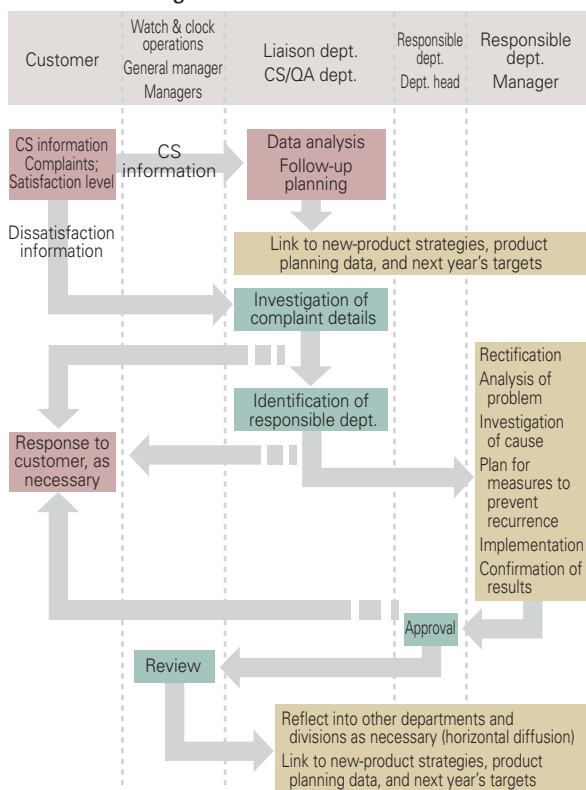


In striving for high quality and high customer satisfaction, we must never be satisfied. We can always do better. And the passage of time always brings up new needs and new quality issues. At all of our departments and in all of our processes, we are constantly devising new ways to increase customer satisfaction.

Customer-Satisfaction Evaluation System

Our customer-satisfaction evaluation system sorts and analyzes information about customer satisfaction and dissatisfaction, and disseminates the relevant information to our planning, development, manufacturing, marketing, and other departments as appropriate.

Flow Diagram: Communicating with Customers and Evaluating Customer Satisfaction

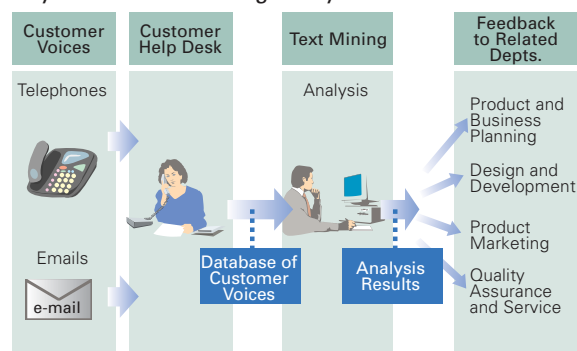


Text Mining

Our text mining system allows us to carry out flexible searching of the various documentation indicating customer opinions. The system helps us use customer input to improve product development, product planning, quality, and service. These efforts, in turn, enable us to raise the level of customer satisfaction.

The system is essential to our goal of producing goods that are appreciated by society at large. We realize, of course, that customer opinions are always changing, and for this reason we are proceeding with upgrades of the system.

System of Text-Mining Analysis



Universal Design

The Universal Design approach calls for products that are usable by all, including the elderly and the disabled. At the Citizen Group, we are currently expanding our use of Universal Design concepts and methods as we work to incorporate universal usability into a wide range of products, from wristwatches to health devices. We speak with customers to assess their needs, and then reflect this information back into our development processes so as to provide universally usable products.

Website User Support

Our website includes watch usage instructions and other types of useful customer support. In fact, we are the first watchmaker in Japan to include interactive and animated help information on our site. Our popular animated displays allow viewers to get a feel for a watch's operation—for example, by pushing the animated watch buttons and observing the results.



Protection of Personal Information

Japan's "Protection of Personal Information Law" was enforced in April 2005. In anticipation of this law, Citizen established a Committee on the Protection of Personal Information on October 1, 2004, and enacted our own Privacy Policy. This policy has been posted on our website and printed in leaflets, so that it is easily accessible by our customers. We are also conducting training to raise the consciousness of our employees with respect to customer confidentiality.

Suppliers, Subcontractors, and Shareholders

At Citizen, we strive to build mutually beneficial relationships with our suppliers and business associates, while our investor relations activities present the true face of our company to our shareholders.

Fair and Sound Trade

■Warning about Subcontracting Practices

We regret to report that in October 2004 we were admonished by the Fair Trade Commission about two aspects of our subcontracting practices. Specifically, the Commission cited "Violation of Obligation to Submit Order Form" (issuing of orders with undetermined prices) and "Violation of Document Retention Rules" (when reprinting orders, the system dated the reprint with the date of printing, so that actual retention time was unclear). Our Committee on Sound Subcontracting Practices responded by investigating and implementing corrections. With the respect to the first issue, we reissued correct order forms; with respect to the second issue, we corrected the system.

■Committee on Compliance with Subcontracting Regulations (Former Committee on Sound Subcontracting Practices)

Our Committee on Sound Subcontracting Practices started in 1999 for the purpose of promoting correct subcontracting management. Its work included monitoring of the subcontracting practices of each department, and the holding of relevant seminars and lectures. In fiscal 2005 we strengthened the role of the Committee and renamed it to Committee on Compliance with Subcontracting Regulations as we work seriously to revise our operations and act in full compliance with the relevant subcontracting regulations.



Internal lecture on subcontracting regulations

■Security Trade Control

With the aim of maintaining worldwide peace and safety, many countries—including Japan—have implemented trade controls, in accordance with relevant treaties and agreements, for the purpose of regulating trade in goods and technologies that may be used as, or applied in, general weaponry or weapons of mass destruction. At Citizen, we do not export or transfer any products or technologies covered by these controls. To ensure that we are in compliance, we have instituted a Compliance Program (CP) and registered it with the Ministry of Economics, Trade, and Industry. Under this program, the President of the Citizen has ultimate responsibility for compliance, and a Security Trade Control Committee has been set up that is directly answerable to the President. None of Citizen's products and technologies is related to weaponry, and to ensure that they are never used in such applications we carefully control our

exports and check our purchasers and prospective users. Accordingly, we carefully control our exports and carefully check purchasers and prospective uses.

Supply Chain

In the past, individual departments issued their purchase orders independently. We are now working to standardize ordering work among all departments, increase ordering efficiency, reduce costs, and utilize supply chain activities. Our materials department is currently revising the criteria used to evaluate suppliers, so as to incorporate green procurement and CSR concepts.

Investor Relations

At Citizen, we would like all of our investors and potential investors to understand who we are and what we are about, and to get a true picture of all of our activities—not least among them, our CSR activities. Based on our CSR approach, we avoid unilateral pronouncements and carry out IR activities that stress communication that enables us to reflect relevant opinions and data in our management.



IR Department
General Manager
Masatoshi Sunaga

Enhancing Company Value by Bringing the Voice of the Market into the Company

The IR Department currently consists of three full-time staffers and contributes to raising the value of our business. Our main operations include financial results announcements and analyst meetings, tours of Japanese and overseas plants, company explanation meetings held mainly for individual investors, one-on-one meetings with institutional investors in Japan and overseas, and the creation of various IR tools to support these endeavors. Importance of IR grows greater each year; in the five years I have been here the number of financial results announcements doubled from two to four a year, and the number of one-on-one meetings more than doubled, to over 240. As we are now moving into an environment where the shareholder structure is changing and where company laws are being revised, I think that importance of IR will continue to grow and that it will be necessary to further extend the scope of our operations. I hope that we can continue to enhance company value by remaining sensitive to the voices in the marketplace and by using these voices to aid our enterprise.

Employees

We believe that it is important to provide a workplace that enables each employee to find meaning in work and enjoy a meaningful life, and to this end we have undertaken various initiatives and reforms. We continue to set up a training system that covers numerous topics at various levels, for use not only with skilled workers (who can be quantitatively evaluated based on their skills) but with general employees as well.

Creating a Work-Friendly Workplace

■ Performance Evaluations

We are currently revising and systematizing our performance evaluation approach so as to further enhance fairness and promote greater employee motivation.

■ Education

Citizen develops the abilities of employees through three types of education: the "company college" (company-wide training), "business colleges" (training required to meet business objectives), and "open colleges" (which support general self-improvement). In future, we plan to start a women-oriented open college so as to promote a more friendly work environment for our female employees.

■ Awards for Acquisition Business and Professional Licenses

In fiscal 2003 Citizen introduced a commendation system that offers monetary rewards to employees who receive any of 43 different types of outside licensing. Seventy-five persons received such awards in fiscal 2005, with two people receiving the highest commendation ("Professional SSS") for their qualification as "small/medium enterprise management consultants."



Awarding Ceremony

■ Retirement Allowance and Pension Scheme

In fiscal 2005 we introduced a defined contribution pension plan so as to promote labor mobility and support the diverse life plans of our employees. We continue working to design systems that provide employees ample choice and flexibility.

■ Employee Welfare

In March 2004 we closed our Kugenuma resort facility and joined Misawa Resort's "Life Support Club" (the "Petit Cafeteria Plan"). In the first year total 1,692 employees stayed at the club resort facilities, indicating that the plan has been very favorably received.

Employees also appreciate our yearly summer festival event, which attracted close to more than 3,000 participants (counting local residents).

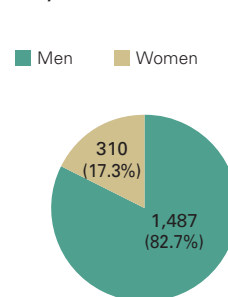


Summer Festival

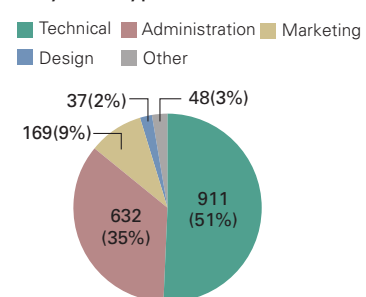
Employee Statistics

Number of employees: 1,797 (as of April 1, 2005. Includes contract employees)

■ By Gender



■ By Job Type



■ Years at Company (Average)

Gender	Years
Men	21.7
Women	16.5
Total	20.8

■ Average Age

Gender	Average Age
Men	45.3
Women	39.4
Total	44.3

■ Gender Standard Monthly Salary

Gender	Standard Wage (thousands of yen)
Men	395
Women	263
Total	377

■ Employees with Disabilities

Employees	(%)
1.80	

Employees

The mind and body are the foundations of good work and happy home life. Citizen undertakes various efforts to support sound mind and body.

Worklife Balance

At Citizen we maintain a “plan to support the coming generations,” and in 1992 we instituted our child-care leave program. To date, 75 employees have utilized this program, and 92% have returned to work. To facilitate leave-taking and return, our program stipulates that returnees shall be able to resume the jobs they had before. We are also offering a service that allows those on leave to access company information from home via the company’s intranet. As we move ahead, we shall also work to promote use of child-care leaves by fathers.

Health Management

■Mental Health

Mental health has become an open issue in today’s society, and the Ministry of Health, Labor, and Welfare has requested companies to act in accordance with guidelines they have established on the promotion of employee mental wellbeing. Accordingly, we have initiated steps to promote mental wellbeing. In particular, we have established an overall plan under which we are now building an employee wellbeing support system. In fiscal 2004, we held three classes for managers on the topic of mental health.

■Remodeling of Health Clinic

In February 2004 we remodeled the health clinic at our Tokyo Works. We introduced a new Health Consultation Room where employees can seek advice about mental and physical health.

■Helping Employees to Stop Smoking

In addition to our steps to protect employees from second-hand smoke, we also carry out “Stop Smoking” campaigns twice a year to help smokers quit. The campaign is run by industrial physicians and nurses, and makes use of nicotine patches. Our target is to have a 30% successful quit rate after one year.

■Power Walking

As a means of promoting employees’ exercise, Citizen holds power walking events each year. We held two such events in fiscal 2004, with a total of 265 participants.



Personnel Division
Norie Odate
Returning from
Child-Care Leave

I was worried at first when I needed to take child-care leave, as it may place burden on my colleagues, and I was uncertain about whether I really could come back. But my boss reassured me, telling that “of course you could return and your job would be held for you.” So I felt better about taking the leave; and when it was finished I was able to return without problem. Currently my days are extremely busy, as I juggle child-raising with my job at Citizen. Sometimes I get a bit unnerved when I am unable to do my work well because my child is sick or there is some other problem going on at home. But my family, my colleagues at Citizen, and the people at the nursery are very supportive, and with their help I think I will be able to carry out both roles pretty well. The company has given me the opportunity to have a worthwhile life and job, and I feel fulfillment to balance motherhood and my career



Health Consultation Room
Health Outreach Worker
Motoko Shibuya
Mental Health
Support

We are now in our second year of actively promoting mental health support. The help we provide falls into four categories: (1) stress checkups, to alert individuals about what they should be careful of; (2) education along life’s way, provided to new employees, 30-year olds, and managers; (3) mental health consultations with industrial health staff; and (4) information about work-related and general mental health care, distributed through our in-house magazine and our intranet. Through these activities, our industrial health staff actively work to bring employees to the understanding that stress and mental strife can occur in anyone, and to encourage each individual to look for signs of such problems. We also work to provide a welcoming environment at our health consulting room—to make it an oasis where employees feel free to come for consultation.

Even if our society becomes increasingly high-tech, corporate development rests on people. At Citizen, we are careful to provide safe and hygienic workplaces, and to implement accident-prevention measures. As a result of these efforts, our Tokyo Works has maintained an accident-free record.

Managing Safety and Hygiene

Our safety and hygiene initiatives focus on worksites, equipment, and rapid and appropriate response. We implement a yearly plan under which we carry out alternating patrols by on-site and related departments, as well as periodic patrols by industrial physicians, hygiene managers, work environment assessors, and other such specialists. These efforts are aimed not only at maintaining worksite safety and hygiene but also at raising the consciousness of employees with respect to these issues. Our Committee on Safety and Hygiene conducts systematic activities to further these aims, while our intranet includes advice on safety and health.

On August 24, 2004, our Tokyo Works achieved No. 2 accident-free status as defined by the Ministry of Health, Labor, and Welfare, and to date (as of 8/15/2005) has recorded 12,723,275 continuous worker hours free of (non-personal) accidents. As part of our effort to eliminate such closings, we consider safety very carefully when introducing machinery or equipment that might cause or contribute to a problem. Specifically, our Equipment Safety Screening Panel leads a four-stage inspection process that takes into account safety planning, safe ordering, pre-installation inspection of the delivered equipment, and safe installation at the site.

This is an important indicator with respect to our goal of zero accident-related plant closings.

Safety check of a press machine (Equipment Safety Screening Panel)

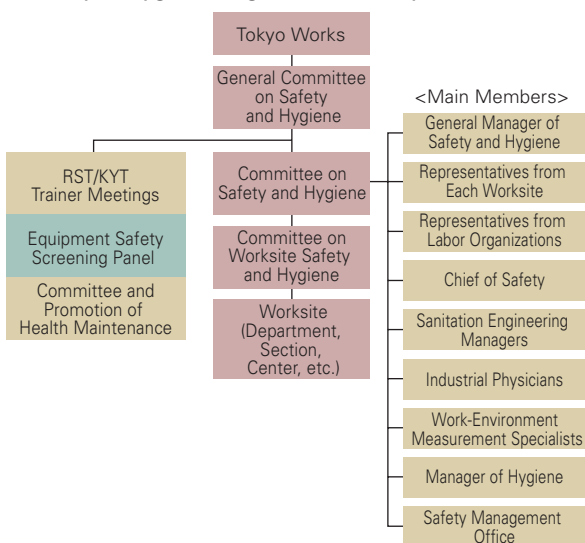


operations. Previously, each department has been responsible for managing its own operations to prevent fires and reduce risks from hazardous objects, high-pressure gas, and so on. The new approach allows us to centralize management and responsiveness. It is another facet of our overall CSR approach, and helps to ensure our full compliance with the relevant laws and ordinances.

Work-Stopping Accidents (Relative Frequency and Intensity)

	00	01	02	03	04
Frequency	0.88	0	0	0	0
(Industry-wide)	(0.67)	(0.58)	(0.50)	(0.55)	(0.54)
Intensity	0.04	0	0	0	0
(Industry-wide)	(0.02)	(0.05)	(0.05)	(0.01)	(0.05)

Safety & Hygiene Organization (Tokyo Works)



Centralized Accident-Prevention Control

To strengthen our risk management, we have set up a new center to take responsibility for accident prevention

Recognition of Excellence in Employment of Women (Citizen Precision of Korea)

Women have long faced the problem of managing both work life and home life, and their ability to succeed at this rests in no small part on the understanding and support of the employer. At Citizen Precision of Korea (CPK), over 60% of the work force is female (110 out of 180). On July 5, 2004, Mayor Park of Changwon City presented the company with an award recognizing its excellence in their employment of women. The award was given on the occasion of the ninth anniversary of Korean "Women's Week." The award takes into account the equal treatment

of women, the maintaining of a work environment that allows women to effectively manage both home and work life, and efforts to increase the number of female employees. As the company is based in Changwon, the employees were particularly pleased. As we move ahead, Citizen shall continue working to provide fair and friendly workplaces for all of our employees.



Community

The name Citizen reminds us of the importance of interacting constructively with community, and recognizing it as an important stakeholder. To this end, we continue to undertake activities that bring us closer to local fire departments, police departments, Chambers of Commerce, neighborhood associations, local

Sophisticated Timing at Sporting Events

We are pleased to act as official timers and cosponsors of marathons, long-distance relays, and other such sporting events. We are particularly pleased when we can usefully employ specialized technologies for this purpose. One example of such technology is our “automatic measurement system.” The system operates through IC sensor chips that are worn on runners’ jersey and that interact with the GPS (satellite-based global positioning system) to track the runners’ locations. Each chip identifies a runner, and interaction with the GPS makes it possible to accurately record the times when that runner passes specified points along the way. The information can be used by TV broadcasters to accurately give information about times and positions while the race is in progress.



Automatic Measurement System



Sensor Chip

Local Interaction by Citizen Heiwa Watch

At “Youth Science Workshops” sponsored by the city of Iida (in Nagano), Citizen Heiwa Watch takes charge of the FM radio building class, and provides opportunities for participating kids to get hands-on experience in building a radio. Employees also go to local schools, where they offer high school students technical guidance in how to handle watch components and on-hands practice in simple watch assemble; they also have students come to the company for two weeks of on-site training and observation. Employees and their families are active participants in the Tenryu River Environmental Picnic, the Tenryu River Health Check, and other of the various activities aimed at protecting the local Tenryu River system.



Youth Science Workshops

Table-Tennis Club Interacts with Communities

Interest in table tennis is a longstanding tradition at Citizen. Our team participates in many tournaments and has achieved an impressive record. In fiscal 2004 we held a table-tennis workshop in West Tokyo, with our top-class competitors serving as instructors. We were pleased that 170 people participated. Our table-tennis players also speak on local FM radio and carry out other such activities, as they help promote communication between our company and our community.



Citizen of the Year

We began our “Citizen of the Year” commendations in 1990, in commemoration of the sixtieth anniversary of the founding of the Citizen Watch Company. The commendation is given to individuals who have made a noteworthy contribution to society during the year. The program is now an established Citizen tradition, and in its fifteenth year awards were given to three groups. We publish a book describing the activities of the winners for those years, and the third book covering 11th to 15th awards (2000–2004) is already available. We also donated the book to over 1,800 public libraries throughout Japan.



schools, and other such institutions. In short, we behave as a good corporate citizen and build a trusting relationship with the communities in which we work.

Local Cleanup and Beautification by Group Companies

Three Group companies—Citizen Fine Tech, Citizen Machinery, and Citizen Miyota—join with other volunteers in the Miyota, Nagano area on thrice-yearly local cleanups, removing litter from the streets and the areas near company grounds as a way of contributing to environmental beautification. Similarly, Citizen Seimitsu participates in the yearly Lake Kawaguchi & Lake Sai Clean-Up Campaign sponsored by local authorities in the Fujikawaguchiko area, while Citizen Electronics participates in the Mount Fuji Cleanup Initiative sponsored by the Society for a Clean Mount Fuji.



Lake Kawaguchi & Lake Sai Clean-Up Campaign

Protecting Butterflies

When Citizen Miyota heard from business associates that the Oruri-shijimi butterfly was on the edge of extinction in the Kitamimaki area, the company responded by working with others in the region to protect the butterfly. Citizen Miyota joined the Society to Protect the Oruri-shijimi, and promoted parent/child field observations in the site and various other initiatives.



Building a School in Sao Paulo

A watch retailer has asked each watch manufacturer to donate, at the end of each year, an amount equal to 1% of the value of the retailer's annual purchase of that manufacturer's brands. The money goes to *Congregacao das Irmãs de Caridade do Japão* (Japan Congregation of Sisters of Charity), which uses it to fund charity schools in various locations so that poor youths have an opportunity to receive an education. Citizen Watch do Brazil S.A. is one of the store's suppliers, and is pleased to participate in this yearly initiative.

Race of Solar-Powered Carts (in Hong Kong)

The fifth solar cart race was held on January 16, 2005 at soccer fields and other venues in Hong Kong, with 27 teams participating. Each team builds and races its own cart. The purpose of the event is to promote the use of clean and non-depletable energy, to increase awareness of atmospheric pollution and climate change, and in general to encourage people to think more about our environment. Citizen Watches (H.K.) Ltd., which handles Eco-Drive products, fully supports the goals behind the race. The year, for the first time, the company served as the official timer for the event. The company expects to continue its participation in the years ahead.



Third-Party Comments



Riyako Godai

Critic
Chair of the Citizens of the
Year Screening
Committee

Trust and credibility are not created overnight. It takes years to build up a reputation with society at large. And that reputation, once achieved, can be lost in a few moments of reckless inattention.

Citizen has already earned a high reputation under the philosophy of “contributing to and striving to be respected by the citizens of the world.” Last year’s “Environment and Social Report 2004” explained how the company, while maintaining its output of high-quality products, was also working at ways to reduce the environmental footprint at every stage of production and product life, and was setting up and adjusting numerical targets for this effort. The company also commits itself to transparency through straightforward disclosure of negative as well as positive information. And Citizen’s “10 Principles of Usability” is another important message to its customers.

This year’s CSR report goes even further. It explains the effort to clarify business principles and codes of conduct as these relate to the entire Group. It shows how Citizen is working to promote better production along the lines of its “2025 Vision,” as exemplified by its radio-controlled Eco-Drive watch. It indicates that Citizen has a positive and open corporate culture and good teamwork, and that Citizen cultivates a spirit of challenge. All of this reveals a good-faith desire to pursue and maintain CSR. At the same time, Citizen’s commitment to trustworthiness is evident in its department-level efforts in planning and checking, and in compliance activities that make increasing use of on-site deliberation and resolution.

Its Citizen of the Year Award, now moving into its 16th year, has called attention to the good efforts of otherwise anonymous citizens, and has served as an instructive and heartwarming example for many people. This effort, too, is yet another indication of Citizen Group’s commitment to being a good citizen and contributing to the citizenry.



Iwao Taka

Professor at
the International School
of Economics and
Business Administration,
Reitaku University

This report, to me, strongly suggests that Citizen truly lives up to its name and that Citizen fully recognizes its responsibility to be a good corporate citizen. The report also shows how its past actions and achievements (such as its development of environmentally friendly watches) back up that commitment.

It is only recently, I think, that Citizen has started using the term “CSR” to refer to various activities that Citizen carries out. It seems that even before Citizen adopted the CSR terminology, however, it was performing many of the supportive activities—but without calling attention to them. But now the world is changing. Citizen’s operations are becoming increasingly global, it has an increasing number and variety of stakeholders, and the values of its stakeholders are diverse and in flux. For these reasons, I think, Citizen is now at a point where it becomes necessary not only to act but also to explain.

Thus, I think it is very significant that Citizen is issuing this CSR report as way to describe all of the activities it carries out as a corporate citizen. And I am impressed by the fact that it doesn’t just give the good news, but Citizen also describes some of the problems it’s had—problems with soil contamination and wash processing, local complaints about vibrations (and its response to these complaints), and warnings about its subcontracting practices. Citizen’s willingness to share bad news as well as good news, I think, will have a large impact on other companies.

I was impressed by the words of President Umehara to the effect that he wants this to be more than just a report, but rather a document that is read and understood. If, in this spirit, I were to offer a suggestion about where the report could be improved, I would focus on the “society” aspects of the report. Where the report covers environmental activities, it is clear how these activities emerge out of the surrounding flow of operations. But Citizen’s society-related activities do not seem to be integrated into operations in the same way. Perhaps in the future Citizen shall consider improvements that tie societal initiatives more directly into its operations.

To finish, let me express my hope that this report serves its purpose and helps consumers and citizens understand and appreciate the positive steps and activities that Citizen has made and continues to make.

Company History

● Management ● Technology Development ● Community ● Environmental Activities

- 1918 Mar. ● Founding of Shokosha Watch Research Institute, forerunner of Citizen Watch.
- 1924 Dec. ● Manufacture first pocket watch.
- 1930 May ● Found the Citizen Watch Co., Ltd.
- 1931 Jun. ● Citizen manufactures its first wristwatch.
- 1936 May ● Tanashi Factory is built.
- 1949 Jun. ● Start of Citizen Trading Co., Ltd.
- 1956 Apr. ● Release the Parashock, Japan's first shock-resistant watch, and begin product drop testing.
- 1959 Jul. ● Release the Parawater, Japan's first waterproof watch.
- 1960 Dec. ● Release the Citizen Shine, Japan's first wristwatch for the visually impaired, and make an associated donation to the Nagoya School for the Blind.
- 1963 Jun. ● Parawater across-the-Pacific test.
- 1964 Aug. ● Start of technical research laboratory.
- 1966 Mar. ● Release the X-8, Japan's first electronic watch.
- 1970 Dec. ● Develop the "Cincom" CNC lathe.
- 1971 Jun. ● Start our precision machinery operations.
- 1973 Aug. ● Release the Citizen Quartz watch.
- 1974 Nov. ● Jumbo Digital Clock Tower erected in Shinjuku, Tokyo.
- 1976 Mar. ● Start manufacture of quartz units.
- 1976 Aug. ● Release the Solar Cell, the world's first solar-powered analog watch.
- 1978 May ● Break the "1-mm barrier" by developing the Exceed Gold, the world's first quartz with a movement thinner than 1-mm.
- 1978 Nov. ● Release the DigiAna, Japan's first digital-analog combination watch.
- 1980 Feb. ● Official timer of the Ome Marathon.
- 1982 Aug. ● Develop the Professional Diver, waterproof to a depth of 1300 meters.
- 1982 Oct. ● Develop the Boardpecker electronic-parts mouter.
- 1983 Mar. ● Release chip-type LEDs.
- 1983 Apr. ● Launch the Chemicals Management Committee (at our Tokorozawa Works).
- 1983 May ● Begin sales of electronic thermometers.
- 1984 Jun. ● Release the world's first 1-inch-thick 3.5" floppy disk drive.
- 1986 Apr. ● First time to exhibit at the Basel Fair (world's largest watch and jewelry fair), in Basel, Switzerland.
- 1986 Dec. ● Become world leader in annual production of wristwatches (based on number of movements produced).
- 1987 Jan. ● Launch the Pollution Prevention Council (at our Tokyo Works).
- 1987 Jun. ● Start sales of the Attesa titanium watch.
- 1990 Jan. ● Start our "Citizen of the Year" program.
- 1991 Dec. ● Launch the Environmental Protection Committee, and subcommittees on waste, energy and resource conservation, consciousness-raising, and PVCs (at our Tokyo Works).
- 1992 Feb. ● Acquire the German machine tool firm Boley GMBH.
- 1992 May ● Begin role as official timer for the America's Cup.
- 1993 May ● Begin sales of world's first multi-zone radio controlled watch.
- 1993 Jul. ● Abolish use of some CFCs.
- 1993 Nov. ● Abolish use of 1,1,1-trichloroethane.
- 1995 May ● Begin sales of The Citizen, offering a 10-year warranty and a lifetime service program.
- 1995 Nov. ● Start sales of light-powered Eco-Drive watch.
- 1996 Apr. ● Light-powered Eco-Drive watch receives our first Eco Mark label.
- 1997 Sep. ● Launch the Hazardous Substances Management Committee at our Tokyo Works.
- 1998 Oct. ● Begin sales of the DataSlim, the world's small and lightest PC-card-type PDA.
- 1998 Dec. ● Publish our Environmental Policy.
- 1998 Dec. ● Start sales of the Promaster Eco-Drive Duo, the world's first watch to get power both from light and from the motion of the wearer.
- 1999 Aug. ● Receive ISO-14001 certification.
- 1999 Sep. ● Establish our Environmental Management Department.
- 1999 Oct. ● Launch the Environmental Management Committee, and subcommittees on energy savings, resource savings, industrial waste, and hazardous chemicals.
- 2000 May ● Begin sales of DataSlim2 name-card size PDA.
- 2000 Jul. ● Start our Customer Help Desk.
- 2000 Nov. ● Start sales of the Campanola Collection of top-of-the-line watches.
- 2000 Dec. ● Publish our 2000 Environmental Report.
- 2001 Mar. ● Head office moves to West Tokyo.
- 2001 Apr. ● Start sales of the MU, a watch built according to the concepts of universal design.
- 2001 May ● Inaugurate our Semiannual Environmental Management Conference, and start subcommittees on energy savings, waste reduction, and hazardous materials.
- 2002 Apr. ● Launch our Lead-Free Committee.
- 2002 Dec. ● Introduce automatic IC-chip measurement for marathons and long-distance relays.
- 2003 Apr. ● Launch subcommittees on Environmental-Friendly Products and Green Procurement.
- 2003 Jun. ● Start sales of world's first radio-controlled watch combining metal-only casing with an internal antenna.
- 2003 Sep. ● **Launch the CSR Committee and the CSR Promotion Committee.**
- 2004 Jan. ● **Enact our Citizen's Code of Conduct.**
- 2004 Jun. ● Develop the world's slimmest radio-controlled watches.
- 2004 Jul. ● **Establish our CSR Department.**
- 2004 Oct. ● Citizen Trading Co. merges into Citizen Watch Co. to form Citizen Co., Ltd.
- 2005 Mar. ● Cosponsor the UN Pavilion at Aichi World Expo 2005.
- 2005 Apr. ● **Participation in the UN Global Compact.**

Postscript

We began our CSR initiative in 2003, and we here acknowledge the kind support of the many people without which this report could not have been written. Special thanks also go to Riyako Godai and Iwao Taka for their very useful opinions and input.

Citizen's CSR activity grows naturally out of our corporate culture. Our basic aim is to be a good and respected company, and this in turn means that we recognize the need for compliance

and for a deep and growing commitment to environmental protection and mutually beneficial interaction with our global society. We still have much work left to do, of course, but we are pleased if this report brings you some understanding of our corporate culture and goals.

CITIZEN WATCH CO., LTD.

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