

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2004

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

All figures in these statements which are less than 1 million yen have been rounded down.

(English translation)

May 17, 2004

CITIZEN WATCH CO., LTD.

Code No.:	7762 (URL http://www.citizen.co.jp)
Stock exchange listings:	Tokyo
Location of Head Office:	Tokyo, Japan
Tel:	+81 - 424 - 66 -1235
Executive position of legal representative:	Makoto Umehara
Board of Directors' Meeting on the Settlement of Accounts:	May 17, 2004
Parent Company Name (Code No.):	-
Percentage of Stock Ownership Held by the Company in the Parent Company:	-
U.S. Accounting Standards:	No

1. Results for Fiscal 2003 (April 1, 2003 to March 31, 2004)

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2004	375,715	12.5	35,506	80.4	35,392	68.1
March 31, 2003	333,988	2.0	19,680	173.1	21,049	107.0

	Net income		Earnings per share	Fully diluted earnings per share	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	(Millions of yen)	%	(Yen)	(Yen)	%	%	%
March 31, 2004	19,465	234.5	63.31	58.03	9.1	9.3	9.4
March 31, 2003	5,818	-	18.38	17.68	2.8	5.7	6.3

(Notes)

1. Equity in earnings of unconsolidated subsidiaries and affiliates:
 March 2004 term: Not applicable March 2003 term: Not applicable
2. Average number of outstanding shares during term (consolidated):
 March 2004 term: 303,801,328 shares March 2003 term: 307,581,188 shares
3. Changes in accounting methods: None
4. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

(2) Consolidated financial position

	Total assets (Millions of yen)	Shareholders' equity (Millions of yen)	Shareholders' equity ratio %	Shareholders' equity per share (Yen)
March 31, 2004	391,526	224,855	57.4	739.45
March 31, 2003	367,386	204,433	55.7	674.57

(Note) Total number of shares outstanding at the end of the fiscal term (consolidated):

March 2004 term: 303,768,304 shares March 2003 term: 302,814,458 shares

(3) Consolidated cash flows

	Cash flows from operating activities (Millions of yen)	Cash flows from investing activities (Millions of yen)	Cash flows from financing activities (Millions of yen)	Cash and cash equivalents at end of term (Millions of yen)
March 31, 2004	41,761	(13,203)	(7,460)	112,451
March 31, 2003	36,946	(11,576)	(10,902)	94,022

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 58

Number of nonconsolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 0

(5) Changes in the scope of consolidation and application of the equity method

Consolidation (Newly added): 2; (eliminated): 7

Equity method (Newly added): none; (eliminated): none

2. Projected Results for Fiscal 2004 (April 1, 2004 to March 31, 2005)

	Net sales (Millions of yen)	Operating income (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)
Interim term	190,000	18,000	19,000	9,000
Full term	400,000	41,000	43,000	20,000

Reference: Estimated earnings per share (full term): 65.07 yen

The above forecasts are based on the information available and using assumptions made regarding the variable effects of future business results as of the date of the announcement of these financial results. Actual results could differ significantly depending on a variety of factors hereafter. Please refer to page 13 for assumptions underlying the above forecasts and precautions regarding their use.

Corporate Group

The Citizen Group (Citizen Watch Co., Ltd. [“the Company”] and its subsidiaries and affiliates) consists of the Company and its 106 subsidiaries and 11 affiliates. The Group companies are mainly engaged in production and sales in four business segments: wristwatches and clocks; information and electronic equipment; industrial machinery; and other products.

The major Group companies in the respective business segments are as follows:

Segment	Major products	Major production companies	Major marketing companies
Wristwatches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts and components of wristwatches, various kinds of clocks	CITIZEN WATCH CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. KAWAGUCHIKO SEIMITSU CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN IWATE CO., LTD. CITIZEN ELECTRONICS CO., LTD. AGEO SEIMITSU MFG. CO., LTD. CIMEO PRECISION CO., LTD. FUNEHIKI SEIMITSU CO., LTD. HAIMEKA CO., LTD. YUBARI SEIMITSU CO., LTD. CITIZEN YOSHIMI CO., LTD. SUNCITI MANUFACTURERS LTD. (Hong Kong, China) CITIZEN PRECISION OF KOREA CO., LTD. (Korea) PREMIER PRECISION LTD. (Hong Kong, China) MOST CROWN INDUSTRIES LTD. (Hong Kong, China) ASTAR PRECISION CO., LTD. (Hong Kong, China) FARBEST INDUSTRIES LTD. (Hong Kong, China) GOODRINGTON CO., LTD. (Hong Kong, China) WALOP LTD. (Hong Kong, China) ROYAL TIME CITI CO., LTD. (Thailand) CITIZEN DE MEXICO, S.A. DE C.V. (Mexico) T.I.C.-CITIZEN CO., LTD.	CITIZEN WATCH CO., LTD. CITIZEN TRADING CO., LTD. JAPAN CBM CORPORATION CITIZEN WATCHES (H.K.) LTD. (Hong Kong, China) CITIZEN WATCH CO. OF AMERICA, INC. (U.S.A.) CITIZEN WATCH EUROPE G.M.B.H. (Germany) CITIZEN LATIN AMERICA CORP. (Panama) CITIZEN WATCH ITALY S.P.A. (Italy) CITIZEN WATCHES AUSTRALIA PTY LTD. (Australia) CITIZEN WATCH ESPAÑA S.A. (Spain) SAKAE SHOKAI CO., LTD. T.I.C.-CITIZEN CO., LTD. CITIZEN WATCHES U.K., LTD. (U.K.) CITIZEN (SHANGHAI) TRADING CO., LTD. (China)

CITIZEN WATCH

Segment	Major products	Major production companies	Major marketing companies
Information and electronic equipment	Chip LEDs, backlight units, LC displays, various kinds of printers, quartz oscillators, floppy disk drives, electronic clinical thermometers, electronic viewfinders, electric calculators	CITIZEN WATCH CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. CITIZEN IWATE CO., LTD. CITIZEN ELECTRONICS CO., LTD. CIMEO PRECISION CO., LTD. CITIZEN L.C. TEC CO., LTD. FUNEHKI PRECISION CO., LTD. FIRSTCOME ELECTRONICS LTD. (Hong Kong, China) SHIANG PAO PRECISION CO., LTD. (Taiwan) PREMIER PRECISION LTD. (Hong Kong, China) XUNKE ELECTRONICS LTD. (China) CROWN YOUNG INDUSTRIES LTD. (Hong Kong, China) C-E (SUZHOU) LTD. (China)	CITIZEN WATCH CO., LTD. JAPAN CBM CORPORATION CITIZEN AMERICA CORP. (U.S.A.) CBM AMERICA CORP. (U.S.A.) CROWN YOUNG INDUSTRIES LTD. (Hong Kong, China) C-E (SINGAPORE) PTE. LTD. (Singapore) C-E (H.K.) LTD. (Hong Kong, China) CECOL, INC. (U.S.A.) XUNKE ELECTRONICS LTD. (China) C-E (SUZHOU) LTD. (China)
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments	CITIZEN PRECISION MACHINERY CO., LTD. CITIZEN MECHATRONICS CO., LTD. SAYAMA PRECISION CO., LTD. CITIZEN MACHINERY & BOLEY G.M.B.H. (Germany)	CITIZEN WATCH CO., LTD. CITIZEN MACHINERY & BOLEY G.M.B.H. (Germany)
Other products	Jewelry, <i>pachinko</i> related products, eyewear, jigs and tools	CITIZEN WATCH CO., LTD. SAYAMA PRECISION CO., LTD. KAWAGUCHIKO PRECISION CO., LTD. MIYOTA CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. AGEO PRECISION MFG. CO., LTD.	CITIZEN WATCH CO., LTD. CITIZEN TRADING CO., LTD. GRACE CO., LTD. CITIZEN JEWELRY CO., LTD SILVER DENKEN CO., LTD. CITIZEN KOHATSU CO., LTD. TOKYO BIJUTSU CO., LTD. SILVER KIKAKU CO., LTD.

As seen in the above table, in the wristwatches and clocks segment, the Company and several of its subsidiaries and affiliates engage in production. The Citizen Group has three major marketing channels: the Company, Citizen Trading Co., Ltd., and Japan CBM Corporation.

In the information and electronic equipment segment, the Company and some of its subsidiaries and affiliates engage in production. Sales activities are executed by the Company in the form of direct sales and sales through Japan CBM Corporation and other subsidiaries.

Industrial machinery are produced by some of subsidiaries. Sales activities are executed by the Company in the form of direct sales and sales through its subsidiaries.

Jewelry-related purchases and sales in the other products segment are handled by Citizen Trading Co., Ltd., and its regional sales companies.

Subsidiaries and Affiliates

Consolidated subsidiaries:

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN TRADING CO., LTD.	Nakano-ku, Tokyo	450	Wristwatches and clocks Other products	100.0	Sales company Leases building and machinery equipment Directors serve concurrently
KAWAGUCHIKO SEIMITSU CO., LTD.	Minamitsuru-gun, Yamanashi	346	Wristwatches and clocks Information and electronic equipment Industrial machinery Other products	71.3	Parts production company Leases machinery equipment and land Directors serve concurrently
SAYAMA PRECISION CO., LTD.	Sayama-shi, Saitama	198	Wristwatches and clocks Industrial machinery Other products	86.7	Parts production company Leases machinery equipment Directors serve concurrently
AGEO SEIMITSU MFG. CO., LTD.	Kitakami-shi, Iwate	45	Wristwatches and clocks Information and electronic equipment Other products	99.3	Parts production company Leases machinery equipment Directors serve concurrently
JAPAN CBM CORPORATION	Nakano-ku, Tokyo	2,356	Wristwatches and clocks Information and electronic equipment	100.0	Sales company Directors serve concurrently
MIYOTA CO., LTD.	Kitasaku-gun, Nagano	1,753	Wristwatches and clocks Information and electronic equipment Other products	64.0 [1.1]	Assembly and parts production company Leases machinery equipment and land Directors serve concurrently
HEIWA TOKEI MANUFACTURING CO., LTD.	Iida-shi, Nagano	80	Wristwatches and clocks Information and electronic equipment Industrial machinery Other products	100.0	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CITIZEN ELECTRONICS CO., LTD.	Fujiyoshida-shi, Yamanashi	1,988	Wristwatches and clocks Information and electronic equipment Other products	66.4 [0.8]	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CIMEO PRECISION CO., LTD.	Kitasaku-gun, Nagano	1,758	Wristwatches and clocks Information and electronic equipment Other products	65.3 [2.4]	Parts production company Leases machinery equipment and land Directors serve concurrently
CITIZEN IWATE CO., LTD.	Morioka-shi, Iwate	45	Wristwatches and clocks Information and electronic equipment Other products	100.0	Parts production company Leases machinery equipment Directors serve concurrently

CITIZEN WATCH

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN PRECISION MACHINERY CO., LTD.	Kitasaku-gun, Nagano	498	Industrial machinery	100.0	Assembly and parts production company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN MECHATRONICS CO., LTD.	Tokorozawa-shi, Saitama	50	Industrial machinery	100.0	Assembly, parts production and sales company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN YOSHIMI CO., LTD.	Hiki-gun, Saitama	30	Wristwatches and clocks Information and electronic equipment	100.0	Assembly and parts production company Leases land and machinery equipment Directors serve concurrently
CITIZEN KOHATSU CO., LTD.	Shinjuku-ku, Tokyo	35	Other products	100.0	Leases land and building Directors serve concurrently
SILVER DENKEN CO. LTD.	Suginami-ku, Tokyo	180	Other products	100.0 [85.7]	Directors serve concurrently
SILVER KIKAKU CO., LTD.	Nagoya-shi, Aichi	30	Other products	100.0 [100.0]	
SAKAE SHOKAI CO., LTD.	Taito-ku, Tokyo	80	Other products	100.0 [100.0]	
GRACE CO., LTD.	Sendai-shi, Miyagi	100	Other products	100.0 [100.0]	
TOKYO BIJUTSU CO., LTD.	Toshima-ku, Tokyo	35	Other products	53.4 [53.4]	
FUNEHIKI SEIMITSU CO., LTD.	Tamura-gun, Fukushima	40	Wristwatches and clocks Information and electronic equipment Other products	100.0 [100.0]	Parts production company
YUBARI SEIMITSU CO., LTD.	Yubari-shi, Hokkaido	20	Wristwatches and clocks Other products	100.0 [80.0]	Parts production company Directors serve concurrently
HAIMEKA CO., LTD.	Hioki-gun, Kagoshima	50	Wristwatches and clocks	100.0 [100.0]	Parts production company
CITIZEN L.C. TEC CO., LTD.	Hachinohe-shi, Aomori	50	Information and electronic equipment	100.0	Parts production company Leases land, building, and machinery equipment Directors serve concurrently
CITIZEN TECHNO CO., LTD.	Kitakami-shi, Iwate	50	Information and electronic equipment	100.0	Directors serve concurrently
T.I.C. –CITIZEN CO., LTD.	Koganei-shi, Tokyo	100	Wristwatches and clocks	59.3	Directors serve concurrently
CITIZEN FINANCIAL SERVICE CO., LTD.	Nishitokyo-shi, Tokyo	50	Other products	100.0	Directors serve concurrently

CITIZEN WATCH

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN JEWELRY CO., LTD.	Taito-ku, Tokyo	300	Other products	100.0 [100.0]	
SUNCITI MANUFACTURERS LTD.	Hong Kong, China	HK\$9,680 thousand	Wristwatches and clocks	90.9 [18.2]	Assembly company Leases machinery equipment Directors serve concurrently
CITIZEN WATCHES (H.K.) LTD.	Hong Kong, China	HK\$10,000 thousand	Wristwatches and clocks	100.0 [51.0]	Sales company Directors serve concurrently
CITIZEN MACHINERY & BOLEY G.M.B.H.	Esslingen, Germany	EUR8,180 thousand	Industrial machinery	100.0	Sales and production company
PREMIER PRECISION LTD.	Hong Kong, China	HK\$7,500 thousand	Information and electronic equipment	100.0 [51.0]	Assembly and parts production company Directors serve concurrently
CITIZEN PRECISION OF KOREA CO., LTD.	Changwon, Korea	₩4,400,000 thousand	Wristwatches and clocks	100.0	Assembly and parts production company
CBM AMERICA CORP.	California, U.S.A.	US\$64 thousand	Information and electronic equipment	100.0 [100.0]	Sales company
CITIZEN LATIN AMERICA CORP.	Colón, Panama	US\$3,550 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CITIZEN WATCH CO., OF AMERICA, INC.	California, U.S.A.	US\$12,500 thousand	Wristwatches and clocks	100.0 [60.0]	Sales company Directors serve concurrently
CITIZEN WATCH EUROPE G.M.B.H.	Hamburg, Germany	EUR10,225 thousand	Wristwatches and clocks	100.0 [80.0]	Sales company Directors serve concurrently
CITIZEN AMERICA CORP.	California, U.S.A.	US\$21,000 thousand	Information and electronic equipment	100.0	Sales company Directors serve concurrently
CITIZEN WATCH ITALY S.P.A.	Milan, Italy	EUR3,567 thousand	Wristwatches and clocks	100.0 [51.0]	Sales company
CITIZEN WATCHES AUSTRALIA PTY LTD.	Sydney, Australia	A\$100 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CITIZEN WATCH ESPAÑA S.A.	Barcelona, Spain	EUR1,803 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
CROWN YOUNG INDUSTRIES LTD.	Hong Kong, China	HK\$42,000 thousand	Information and electronic equipment	100.0	Sales and production company Leases machinery equipment Directors serve concurrently
FIRSTCOME ELECTRONICS LTD.	Hong Kong, China	HK\$11,500 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (SINGAPORE) PTE. LTD.	Summerset Road, Singapore	S\$400 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (H.K.) LTD.	Hong Kong, China	HK\$2,000 thousand	Information and electronic equipment	100.0 [100.0]	
GOODRINGTON CO., LTD.	Hong Kong, China	HK\$3,000 thousand	Wristwatches and clocks	100.0 [100.0]	Assembly and production company

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Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
MOST CROWN INDUSTRIES LTD.	Hong Kong, China	HK\$13,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [51.0]	Assembly and production company Leases machinery equipment Directors serve concurrently
ASTAR PRECISION CO., LTD.	Hong Kong, China	HK\$8,100 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [56.8]	Parts production Company Directors serve concurrently
FARBEST INDUSTRIES LTD.	Hong Kong, China	HK\$20,000 thousand	Wristwatches and clocks	100.0 [100.0]	Assembly and production Company
WALOP LTD.	Hong Kong, China	HK\$24,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [51.0]	Parts production company Directors serve concurrently
HARVESTINE CO.,LTD	Hong Kong, China	HK\$2,000 thousand	Wristwatches and clocks Information and electronic equipment	100.0 [100.0]	
SHIANG PAO PRECISION CO., LTD.	Taichung, Taiwan	NT\$25,000 thousand	Information and electronic equipment	100.0 [100.0]	Parts production company Directors serve concurrently
ROYAL TIME CITI CO., LTD.	Ayutthaya, Thailand	B60,000 thousand	Wristwatches and clocks Information and electronic equipment Other products	80.0 [75.0]	Production company
CITIZEN DE MEXICO, S.A. DE C.V.	Mexico City, Mexico	N\$7,774 thousand	Wristwatches and clocks	69.1	Production and sales company Directors serve concurrently
CECOL, INC.	Illinois, U.S.A.	US\$500 thousand	Information and electronic equipment	100.0 [100.0]	
CITIZEN WATCHES U.K., LTD.	Wokingham, U.K.	STG£700 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company
XUNKE ELECTRONICS LTD.	Guangdong, China	HK\$2,000 thousand	Information and electronic equipment	100.0 [100.0]	
C-E (SUZHOU) LTD.	Suzhou, China	US\$4,500 thousand	Information and electronic equipment	100.0 [100.0]	
CITIZEN (SHANGHAI) TRADING CO., LTD.	Shanghai, China	US\$200 thousand	Wristwatches and clocks	100.0 [100.0]	Sales company

(Notes)

1. "Major business lines" indicates the classification of the business segments.
2. Figures in parentheses in the "Ownership of voting stocks" indicate the percentage of indirect ownership.
3. Of the companies above, MIYOTA CO., LTD., CITIZEN ELECTRONICS CO., LTD., and CIMEO PRECISION CO., LTD. are registered on the JASDAQ market.
4. On August 1, 2003, Citizen Machinery Europe G.M.B.H. absorbed Boley G.M.B.H. and changed the company name to Citizen Machinery & Boley G.M.B.H.
5. The merger agreement was concluded on January 29, 2004 that the Company will absorb CITIZEN TRADING CO., LTD. on October 1, 2004.

Management Policy

1. Fundamental Management Policy

The Citizen group's management policy is based on the philosophy that gave us our name: 'Creating products that are close to the hearts of citizens everywhere.' We aim to contribute to society through ongoing activities that are in harmony not only with the local community but with the global environment. Our mission is to utilize the precision manufacturing and assembly technologies that we have developed from our watch-making businesses to offer products that satisfy customers and contribute to the lives of people around the world.

With all employees sharing the same goals, the Citizen group is focused on becoming a 'quality corporation' that is both profitable and responsive to change.

2. Fundamental Policy Regarding the Distribution of Profits

The Citizen group considers returns to shareholders a matter of the highest priority and is focused on improving its operating results and strengthening its financial standing. Our basic philosophy is to pay a regular, stable dividend while at the same time implementing appropriate dividend policies in light of the group's performance and the goal of strengthening the group's overall financial standing through the maintenance of sufficient internal reserves and purchase of treasury stock.

For fiscal year 2003, the Company raised its year-end dividends per share by 1 yen, which raises the full-year dividends per share to 10 yen.

For fiscal year 2004, the Company schedules to raise its interim and year-end dividends per share by 1 yen, respectively, raising the full-year dividends per share to 11 yen.

3. Policy Regarding a Reduction of the Trading Unit

We regard a reduction of the number of shares in one unit of stock as an effective means to increase liquidity of its shares and to encourage broader classes of investors to acquire equity in the company. Taking into account the Company's current stock price, liquidity situation and the likely cost effectiveness, we do not believe that the right conditions exist currently for a reduction. However, we regard this as an important issue and will continue to review the matter to determine if and when it should be carried out.

4. Medium-Term Management Strategy

The Company developed 2003 Medium-Term Management Plan last year aiming to transform the corporation into one focused on creation of added value. Based on the fundamental policy listed below, The Company carries forward the reform to improve profitability and to realize a management structure that is capable of responding appropriately to environmental changes.

- (1) Vertical integration focused on the overall performance of the consolidated group
- (2) Strengthening sales and product-development capabilities to ensure that the company is customer-driven
- (3) Reformulation of brand strategies to increase brand value
- (4) Implementation of policies aimed at developing human resources to reinvigorate the corporate culture

Issues Facing the Company

Maintaining Stable Earnings Growth by Restructuring Watch Operations

- (1) In the wristwatches and clocks category, strengthen brands, especially the Citizen brand, to ensure that this business remains a key contributor to profits.
- (2) For market sectors where use of the Citizen brand is not appropriate, utilize the Q&Q brand, other brands and OEM sales to generate sales and enable the corporation to fulfill its role as a world leader in the market for finished watch and clock products.

- (3) Maintain the strength of the module business as the foundation of the wristwatches and clocks business and secure stable profits.
- (4) Increase the value of the Citizen brand in clocks business and strengthen operation structure through “selection and focus”.

Strengthening Business’s Ability to Grow

- (1) Throughout the non-watch divisions, Citizen will intensify efforts to achieve group integration through a ‘selection and focus’ strategy centered on improving profits. Faster decision making and efficient management are also critical to achieving higher profits.
- (2) In R&D, the principle of ‘selection and focus’ will be applied to revamp short-term and medium-term priorities with a focus on businesses of a certain minimum size to ensure that R&D activities are profit driven.
- (3) Strengthen and centralize intra-group functions in order to improve management efficiency by making more effective use of the group’s financial resources and other assets.

5. Fundamental Attitudes towards Corporate Governance and Actions Taken

Based on the fundamental management policy mentioned above, the Company aims to grow and develop continuously focusing on long-term shareholder profit. In order to achieve this, the Board of Directors consisting of 12 members who are well-informed of the Company’s business makes decisions regarding execution of operations and we are intent on improving the management structure more efficient. The Company’s board of corporate auditors consists of four members, two of whom are outside corporate auditors. In accordance with the board of corporate auditors’ auditing policies and their assigned duties, the members attend board, and various business management meetings, listen to business reports from the directors and others, carefully examine documents related to important decisions, and conduct strict audits of the company’s business and its assets.

We shall not only comply with all related laws, but shall also recognize the importance of taking actions with social good sense and uphold corporate ethics and prevent corporate misconduct. The Company makes much of corporate social responsibility and based on the recognition that business operation is possible upon confidence and good faith, have approached to CSR with strong action taken by the President himself. As a result, Citizen Code of Conduct was instituted at the board of directors in October 2003 and became effective in January 2004.

The operation organization appoints the President as the CSR chief control officer and is composed of ‘CSR Committee’ and ‘CSR Promotion Committee’ as standing committees. The functions of CSR Committee are planning of CSR strategies, arrangement and enrichment of the Charter, maintenance of regulations, educating and training, examination of complaints and monitoring, while that of the CSR Promotion Committee is to execute and to promote the CSR activity in each department.

To date, we have regularly provided information concerning the financial position of the group to our shareholders and to investors on a half-yearly basis through briefings and through our corporate Website. We will continue to provide information timely and fairly.

Not only the management but also the employees feel a strong sense of mission and an ethical imperative to operate business fairly and to strive to realize the ‘quality corporation’ through the above types of initiatives.

6. Other Important Management Issues

In response to rising concern about the global environment, the Company is focusing on development of environmentally friendly products such as products that contribute to energy conservation by using only minimal electricity. Throughout its own operations, the Company is working to conserve resources and energy and reduce the use of toxic substances and waste. These efforts are based on ISO 14001 certification acquired by the Tanashi Factory and Tokorozawa Works under the Environmental Policy that defines a key social responsibility for the Company.

In addition to the Company, eight group companies have obtained ISO14001 certification. Citizen will continue to implement environmental initiatives among all group companies.

Review of Operations

1. Overview of Fiscal Year 2003 Term Results

Millions of yen	Year ended March 31,		Year-on-year change	%
	2003	2004		
Net sales	333,988	375,715	41,726	12.5%
Operating income	19,680	35,506	15,826	80.4%
Ordinary income	21,049	35,392	14,342	68.1%
Net income	5,818	19,465	13,647	234.5%

Breakdown of sales by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2003	2004		
Wristwatches and clocks	133,503	127,188	(6,314)	(4.7)%
Information and electronic equipment	136,866	181,625	44,758	32.7%
Industrial machinery	21,653	27,967	6,313	29.2%
Other products	41,964	38,933	(3,031)	(7.2)%
	333,988	375,715	41,726	12.5%

Breakdown of operating income by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2003	2004		
Wristwatches and clocks	15,323	18,584	3,261	21.3%
Information and electronic equipment	8,430	19,710	11,279	133.8%
Industrial machinery	1,066	2,992	1,926	180.7%
Other products	1,263	1,417	154	12.2%
Eliminations or general corporate	[6,402]	[7,197]	(795)	-
	19,680	35,506	15,826	80.4%

Summary of Operating Results

During the fiscal year under review, recovery of the economy expanded due to the high stock prices in addition to the signs of a gradual upturn in the business climate which resulted from the brisk market of digital-related equipment and growing exports. However, the employment and income conditions were severe and the economy remained unsustainable.

Under these conditions, the Citizen Group continued to operate the management reforms, aiming to maximize profits and realize stable growth through strenuous efforts of its individual businesses. As a result, consolidated net sales for the fiscal year 2003 rose 12.5% from the previous fiscal year to 375.7 billion yen. Operating income, ordinary income and net income increased by 80.4% to 35.5 billion yen, 68.1% to 35.3 billion yen and 234.5% to 19.4 billion yen, respectively. The result marked a new record high for the Company in net income.

Wristwatches and Clocks

In the Japanese market, where gradual signs of a turnaround in personal consumption could be seen, Citizen brand business took an upturn driven by radio-controlled watches, stemming the decline in sales. Looking at the trends by products, full metal Eco-Drive radio-controlled watches enjoyed robust sales growth, driven by Attesa which is the key product. Top-of-the-line Campanola also contributed to sales. The high-end Exceed brand, sports-type Promaster and ladies' brand xC have also continued to record strong sales during the term by launching radio-controlled watches. In addition, young ladies' brand Wicca had also showed steady improvement. However, some of the mid-ranged brands, such as Forma and Cretia, struggled in severe conditions. Among the properly priced products, ladies' products and standard products continued to enjoy solid sales, while sales of casual products were negatively impacted.

Despite the continuing downward trend in license brands, Paul Smith, Trans Continents and Ver Dense, which are popular among the young generation, were well-received, contributing to sales.

In the overseas markets, sales decreased effected by the war with Iraq and SARS in Southeast Asia in the former half, and by the yen's appreciation against the dollar in the latter half of the year. However, average unit price rose, reflecting efforts to grow sales primarily of Eco-Drive, thus, contributing to profit. The most important North American market managed to keep the decline in sales to a minimum, despite the sluggish demand of fashion brands in large department stores. Substantially growing China recovered from the SARS at an early stage, in addition to the great contribution of newly founded sales base in Shanghai to sales. Amid severe market conditions primarily in Central and Northern Europe, profit increased significantly, effected by the Euro's appreciation and by the efforts to efficient management. The Central and South America and the Middle East market put efforts to expanding Eco-Drive products in the sluggish markets.

For Q&Q brand, both sales and profit decreased largely due to the poor performance effected by the war with Iraq and SARS despite the recovery in sales in the latter half of the year.

Sales of Buyers' brand decreased due to the prolonged sluggish demand in the European market, while the profit increased as a result of the structural reforms.

Sales, as well as profit, of modules increased, reflecting the success of maintaining reasonable market prices throughout the year by minimizing the inventory in the markets despite sudden yen's appreciation in the latter half of the year.

Sales of clocks decreased effected by cancellation of license clocks.

As a consequence, total sales of wristwatches and clocks in fiscal year 2003 decreased by 4.7% from the previous fiscal year to 127.1 billion yen. However, operating income increased by 21.3% to 18.5 billion yen due to an improvement in the product mix of radio-controlled watches and Eco-Drive products.

Information and Electronic Equipment

In opto-devices, white LEDs and backlight units for color-screen cellular phones, used as light sources of buttons in cellular phones, auxiliary light sources in camera-equipped cellular phones and for cellular phones overseas where color screens have strong demand, enjoyed robust sales. In addition, demand in China, Russia, and India increased. Moreover, connectors used in fiber-optic communications increased its sales due to the recovering market.

Liquid-crystal devices also increased sales due to the strong demand of color screen cellular phones. The Citizen group has top-class share in color STN liquid-crystal displays, which are the mainstream in overseas cellular phones. Sales of TFT liquid-crystal displays, developed from micro-precision mounting technology, has been reinforced. Our unique active aberration compensation element was sold well, contributing to increased sales.

In crystal devices, TCXO (temperature compensated crystal oscillator) contributed to sales on the back of the strong demand for cellular phones. On the other hand, despite the growth in unit sales due to the demand recovery in IT-related products and an upturn demand in electrical household goods, sales slightly decreased from the previous fiscal year as a result of the decline in unit prices.

In healthcare equipment, electronic thermometers and blood pressure monitors enjoyed strong sales,

contributed by new products of universal design. In addition, due to reduction of fixed costs by structural reforms of transferring product development to China profit increased as well.

Among other products, although dot-matrix printers had increased sales over the past few years, the weak market in the latter half of the year resulted in low sales. On the other hand, label printers, developed toward the automatic market, enjoyed solid sales in Europe. In addition, photo-printers, developed from our unique liquid-crystal technology looking at cellular phone penetration, contributed to sales. Sales of mini-printers were down from the previous year due to the period of change, while continuing to record strong orders. Overall, sales decreased from the previous year, but profit increased due to the cost down effect.

Among other parts, sales of liquid-crystal viewfinders fitted with a ferroelectric liquid crystal device increased steadily, in addition to the steady sales of CRT viewfinders. LCD backlight promoted sales for AV products, resulting in a significant increase in sales mainly in digital camera markets. As for CCD/CMOS image sensors, although sales fell short of the initial plan, sales increased due to the expansion of camera-equipped cellular phones. Ferroelectric liquid crystal devices not only contributed to sales, but also managed to achieve profit of the initial plan due to increase in unit sales of viewfinders for video cameras and new products launched in the market for video cameras. Not only small tact switches for cellular phones and IrDA modules continued to record steady sales, but also new products, such as multi-function sound sources, contributed to sales.

As a result, sales of information and electronic equipment increased by 32.7% from the previous year to 181.6 billion yen and operating income by 133.8% to 19.7 billion yen.

Industrial Machinery

The main Cincom product line of CNC automatic lathes in the Japanese market enjoyed robust sales, due to continuing aggressive sales campaign targeted at the car industry from the previous fiscal year in the former half of the year and the recovery in various industries primarily in electronic equipment.

In the overseas market, the Southeast Asian market enjoyed steady sales due to the good performance of the Japanese firms related to HDD business. In the Chinese market, despite SARS, both sales and profit increased due to the continuing demand for machine tools. The North American market also recovered from the long weak economy and increased sales by aggressive sales campaign. The European market, where recovery was slow, had increased in sales due to the economy recovery and sales strategy.

Measuring equipment also enjoyed strong sales due to the recovery in the Japanese economy and the launch of new products.

As a result, sales of industrial machinery increased by 29.2% from the previous year to 27.9 billion yen and operating income by 180.7% to 2.9 billion yen.

Other Products

The jewelry business was again beset by severe market conditions. Marriage rings slightly lost its share due to the decline in marriage couples and intensified competition among multi-brand. In addition, withdrawal from the market due to expiration of contract with Burberry, resulting in weak results for this fiscal year.

In the market for pachinko related products, the trends of growing number of large stores, closing of small stores, decrease of pachinko stores and increase of pachinko-slot stores are all the more remarkable. Amid these conditions, our products of paper-bill conveyance equipment decreased in sales due to intensified competition.

As for eyewear, the market is still suffering from poor performance, resulting in decline in all types of channel. However, 'Hanai Yukiko' and 'Louis Feraud' increased its sales from the previous year.

Consequently, sales of other products decreased by 7.2% from the previous year to 38.9 billion yen and operating income by 12.2% to 1.4 billion yen.

(2) Financial Position

(a) Assets Outstanding at Fiscal Year End

Total assets at the fiscal-year end increased by 24.1 billion yen to 391.5 billion yen. Receivables (trade) increased by 3.6 billion yen as a result of growth in sales, and investment securities increased by 9.1 billion yen due to market value evaluation of holding stocks. Cash and cash equivalents increased by 18.4 billion yen as listed below. Liabilities increased by 3.1 billion yen over the previous year, to 139.9 billion yen. Short-term bank loans declined by 4.1 billion yen due to the promotion of CMS, but notes and accounts payable (trade) increased as a result of sales growth. Shareholders' equity increased by 20.4 billion yen to 224.8 billion yen due to increases of 16.5 billion yen and 6.1 billion yen in retained earnings and net unrealized gain/loss on other marketable securities, respectively.

(b) Cash Flows

On a consolidated basis, cash and cash equivalents outstanding at the fiscal year end increased by 18.4 billion yen from the end of the previous fiscal year, to 1,124 billion yen.

Cash flow from operating activities

Cash flow from operating activities yielded a cash flow revenue of 41.7 billion yen. The main factor was an increase of 2.3 billion yen in receivables (trade) and notes and accounts payable (trade) in addition to 34.5 billion yen of income before taxes and 16.6 billion yen of depreciation expenses. However, reserve for defined retirement benefits declined by 2.7 billion yen and 8.7 billion yen of income taxes were paid.

Cash flow from investing activities

Cash flow from investment activities ran a deficit of 13.2 billion yen. The main factors were payments of 15.9 billion yen for the purchase of property, plant and equipment and proceeds of 2.0 billion yen from purchase-sales of marketable securities.

Cash flow for financing activities

Cash flow from financing activities ran a deficit of 7.4 billion yen. There were payments of 3.8 billion yen and 3.1 billion yen for borrowings and dividends, respectively.

Trends in cash flow indicators for the consolidated group are as follows.

Percent	March 31, 2000	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
Equity ratio	52.2	52.9	56.1	55.7	57.4
Equity ratio at market value	66.3	67.8	67.8	52.3	80.1
Debt repayment period (years)	1.7	3.6	1.6	1.0	0.8
Interest coverage ratio	18.3	13.1	35.4	110.0	154.7

Equity ratio: Shareholders' equity/total assets

Equity ratio at market value: Market capitalization/total assets

Debt repayment period: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest paid

- * These ratios are all calculated from consolidated financial statements
- * Market capitalization is calculated by multiplying the closing stock price at fiscal-year end by the number of outstanding stocks (after subtracting treasury stock)
- * For cash flow, operating cash flow is used. Interest-bearing debt refers to all liabilities shown in the balance sheet on which interest is payable. For interest paid, interest payments shown in the consolidated statement of cash flow are used.

3. Prospects for the Next Fiscal Year

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Year-on-year change	%
Net sales	375,715	400,000	24,284	6.5
Operating income	35,506	41,000	5,493	15.5
Ordinary income	35,392	43,000	7,607	21.5
Net income	19,465	20,000	534	2.7

Breakdown of sales by segment

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Year-on-year change	%
Wristwatches and clocks	127,188	128,000	811	0.6
Information and electronic equipment	181,625	203,000	21,374	11.8
Industrial machinery	27,967	30,500	2,532	9.1
Other products	38,933	38,500	(433)	(1.1)
	375,715	400,000	24,284	6.5

Breakdown of operating income by segment

Millions of yen	Year ended March 31, 2004	Year ending March 31, 2005	Year-on-year change	%
Wristwatches and clocks	18,584	19,000	415	2.2
Information and electronic equipment	19,710	25,000	5,289	26.8
Industrial machinery	2,992	3,300	307	10.3
Other products	1,417	1,400	(17)	(1.2)
Eliminations or general corporate	(7,197)	(7,700)	(502)	-
	35,506	41,000	5,493	15.5

The business outlook is estimated to see an upturn with improvement of companies' earnings. However, a persistent deflationary trend, a downturn in consumer spending and the change in consumer's taste continue as before. Moreover, instability of exchange rate and international situation in the Middle East and the Korean Peninsula makes the operating environment for the Citizen group severe. The group is aware of an urgent need to bolster its operating base.

The current fiscal year saw an expansion in sales and profits, reflecting success of structural reform continued from the previous year and an increase in demand of cellular phones-related products. However, to cope with an anticipated deterioration in business conditions going forward, the Company will strengthen marketing and product development focused on meeting the needs of customers.

Moreover, the Company will continue to build a business operation structure as the Citizen group, aiming to strengthen the corporate value and to transform the corporation into one focused on creation of added value. In order to strengthen the group, we will reorganize our manufacturing and sales operations both in Japan and overseas and review the roles and responsibilities of each group company, while striving to maintain the identities of the individual companies. The purpose of these efforts will be to improve the efficiency of the group as a whole and to optimize physical and commercial distribution.

For the fiscal year ending in March 2005, we are forecasting consolidated sales of 400.0 billion yen (a 6.5 % increase), operating income of 41.0 billion yen (a 15.5% increase), ordinary income of 43.0 billion yen (a 21.5% increase), and net income of 20.0 billion yen (a 2.7% increase). We are estimating to achieve the highest profit in the record.

These forecasts are based on an exchange rate assumption for the year of 105 yen/US dollar and 130 yen/Euro.

(Note)

This report includes forward-looking statements about Citizen's forecasts and prospects that are not historical facts. They reflect assumptions and beliefs adopted in light of information currently available. Citizen cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Consolidated Balance Sheet

Millions of yen	March 31, 2003	%	March 31, 2004	%	Year-on-year change
Current assets					
Cash and cash equivalents	89,564		100,880		11,315
Notes and accounts receivable	83,622		87,247		3,625
Marketable Securities	10,954		17,145		6,191
Inventories	52,612		50,977		(1,634)
Deferred tax assets	10,451		10,776		325
Accrued consumption tax	2,046		2,665		618
Other current assets	6,539		7,413		874
Allowance for doubtful accounts	(3,037)		(1,540)		1,496
	252,753	68.8	275,565	70.4	22,812
Fixed assets					
Property, plant and equipment					
Buildings and structures	31,310		30,275		(1,034)
Machinery, equipment and carriers	30,782		29,127		(1,655)
Tools, furniture and fixtures	6,237		6,055		(182)
Land	9,739		9,709		(30)
Construction in progress	803		1,792		989
	78,873	21.5	76,960	19.6	(1,913)
Intangible fixed assets					
Software	836		839		2
Other intangible fixed assets	363		297		(65)
	1,199	0.3	1,136	0.3	(62)
Investments and other assets					
Investment securities	21,665		30,791		9,126
Long-term loans	295		163		(132)
Deferred tax assets	9,962		5,123		(4,838)
Other intangible fixed assets	4,007		2,797		(1,209)
Allowance for doubtful accounts	(798)		(394)		403
Allowance for valuation loss on investments	(573)		(619)		(46)
	34,560	9.4	37,862	9.7	3,302
	114,633	31.2	115,960	29.6	1,327
Total assets	367,386	100.0	391,526	100.0	24,139

	March 31, 2003	March 31, 2004
1. Accumulated depreciation of property, plant and equipment	231,076	232,488
2. Outstanding balance of export bill of exchange	1,129	1,019
3. Bill of exchange discounted	942	230
4. Loans guaranteed	544	651
5. R&D expenditures	8,409	9,465
6. Capital expenditures	13,310	17,276
7. Depreciation expenses	18,240	16,607

CITIZEN WATCH

Millions of yen	March 31, 2003	%	March 31, 2004	%	Year-on-year change
Current liabilities					
Notes and accounts payable	44,765		47,240		2,475
Short-term bank loans payable	13,186		9,027		(4,158)
Income taxes payable	5,160		7,444		2,283
Deferred tax liabilities	38		9		(28)
Accrued expenses	8,099		8,240		140
Reserve for bonuses to employees	3,960		4,516		556
Reserve for product warranties	860		856		(4)
Notes payable for equipment	2,111		2,614		503
Other current liabilities	16,809		21,031		4,222
	<u>94,991</u>	25.9	<u>100,981</u>	25.8	5,990
Long-term liabilities					
Bonds with subscription right for new shares	23,000		23,000		-
Long-term loans payable	326		72		(254)
Deferred tax liabilities	226		184		(42)
Reserve for defined retirement benefits	14,132		11,358		(2,774)
Reserve for retirement bonuses to directors	1,003		929		(73)
Consolidation adjustments	2,758		2,944		185
Other	326		450		123
	<u>41,774</u>	11.3	<u>38,939</u>	10.0	(2,835)
Total liabilities	<u>136,766</u>	37.2	<u>139,921</u>	35.8	3,154
Minority interests	26,186	7.1	26,749	6.8	562
Shareholders' equity					
Common stock	32,648	8.9	32,648	8.3	-
Capital reserves	39,023	10.6	39,023	10.0	-
Retained earnings	140,007	38.1	156,517	40.0	16,509
Net unrealized gain/loss on other marketable securities	152	0.1	6,329	1.6	6,176
Foreign currency translation adjustments	(1,293)	(0.3)	(4,202)	(1.1)	(2,908)
Treasury stock	(6,104)	(1.7)	(5,461)	(1.4)	643
Total shareholders' equity	<u>204,433</u>	55.7	<u>224,855</u>	57.4	20,421
Total liabilities, minority interest and shareholders' equity	<u>367,386</u>	100.0	<u>391,526</u>	100.0	24,139

Consolidated Statement of Income

Millions of yen	Year ended March 31, 2003		Year ended March 31, 2003		Year-on-year change	
		%		%		%
Net sales	333,988	100.0	375,715	100.0	41,726	12.5
Cost of sales	242,226	72.5	267,109	71.1	24,882	10.3
Gross profit	91,762	27.5	108,605	28.9	16,843	18.4
Selling, general and administrative expenses	72,081	21.6	73,098	19.4	1,016	1.4
Operating income	19,680	5.9	35,506	9.5	15,826	80.4
Nonoperating income						
Interest and dividend income	1,049		554		(494)	
Rent received	553		304		(249)	
Gain on sale of marketable securities	-		20		20	
Amortization of consolidation adjustments	881		1,116		235	
Other	1,335		946		(388)	
	<u>3,819</u>	1.1	<u>2,942</u>	0.7	<u>(876)</u>	(23.0)
Nonoperating expenses						
Interest charges	336		269		(67)	
Depreciation expenses for lent properties	153		165		11	
Loss on sales of securities	63		-		(63)	
Foreign exchange loss	1,005		2,088		1,083	
Loss on sales of notes	206		-		(206)	
Other	684		533		(150)	
	<u>2,450</u>	0.7	<u>3,057</u>	0.8	<u>607</u>	24.8
Ordinary income	21,049	6.3	35,392	9.4	14,342	68.1
Extraordinary gains						
Gain on sales of fixed assets	2,219		413		(1,806)	
Gain on sales of investment securities	0		257		257	
Reversal of allowance for doubtful accounts	304		570		265	
Difference arising from change in retirement benefit accounting standards	192		152		(39)	
Other	360		558		198	
	<u>3,076</u>	0.9	<u>1,952</u>	0.5	<u>(1,124)</u>	(36.5)
Extraordinary losses						
Loss on disposal of properties	1,963		1,413		(550)	
Valuation loss on investment securities	3,367		99		(3,267)	
Loss on liquidation of affiliates	2,113		-		(2,113)	
Special severance indemnities	417		443		25	
Loss on restructuring	1,756		-		(1,756)	
Other	866		846		(19)	
	<u>10,485</u>	3.1	<u>2,803</u>	0.7	<u>(7,681)</u>	(73.3)
Income before income taxes	13,641	4.1	34,541	9.2	20,899	153.2
Income, inhabitant and enterprise taxes	7,091	2.1	11,134	3.0	4,043	57.0
Income tax adjustment	(1,379)	(0.4)	142	0.0	1,521	-
Minority interests	2,110	0.6	3,798	1.0	1,688	80.0
Net income	5,818	1.8	19,465	5.2	13,647	234.5

Consolidated Statement of Retained Earnings

Millions of yen	Year ended March 31,	
	2003	2004
Capital reserves		
Capital reserves, beginning of term	-	39,023
Capital reserves, beginning of term	32,773	-
Increase in capital reserves		
Increase resulting from exchange of shares	6,250	-
Capital reserves, end of term	39,023	39,023
Retained earnings		
Retained earnings, beginning of term	-	140,007
Consolidated retained earnings, beginning of term	135,831	-
Increase in retained earnings		
Net income	5,818	19,465
Increase due to change in scope of consolidation	221	-
Increase in retained earnings related to provisional settlement of accounts of consolidated subsidiaries	978	-
	7,018	19,465
Decrease in retained earnings		
Cash dividends declared	2,753	2,729
Bonuses to directors	88	172
Other	-	54
	2,842	2,956
Retained earnings, end of term	140,007	156,517

Consolidated Statement of Cash Flow

Millions of yen	Year ended March 31,	
	2003	2004
Cash flows from operating activities		
Income before income taxes	13,641	34,541
Depreciation	18,240	16,607
Increase/decrease in reserve for defined retirement benefits	(2,277)	(2,715)
Increase/decrease in allowance for doubtful accounts	(31)	80
Interest and dividends income	(1,049)	(554)
Interest charges	336	269
Loss on marketable securities sold	61	(20)
Loss on investment securities sold	3,400	(158)
Loss on properties sold	(1,229)	(542)
Loss on disposal of properties	1,963	1,413
Payment of bonuses to directors	(117)	(201)
Increase/decrease in receivables - trade	(9,695)	(6,446)
Increase/decrease in inventories	14	(172)
Increase/decrease in notes and accounts payable - trade	15,553	8,845
Consolidation adjustments	(881)	(1,116)
Other	2,903	434
Subtotal	40,834	50,263
Interest and dividends received	1,049	556
Interest payments	(336)	(270)
Income taxes	(4,602)	(8,788)
Net cash provided by operating activities	36,946	41,761
Cash flows from investing activities		
Payments for the purchase of marketable securities	(5,003)	(8,986)
Proceeds from the sale of marketable securities	4,633	11,023
Payments for the purchase of investment securities	(2,134)	(758)
Proceeds from the sale of investment securities	70	2,141
Payments for the purchase of property, plant and equipment	(13,032)	(15,972)
Proceeds from the purchase of property, plant and equipment	2,842	1,010
Increase/decrease in loans	429	(345)
Other	618	(1,315)
Net cash used in investing activities	(11,576)	(13,203)

CITIZEN WATCH

Millions of yen	Year ended March 31,	
	2003	2004
Cash flows from financing activities		
Net increase/decrease in borrowings	(18,642)	(3,842)
Payments for redemption of commercial paper	(14,000)	-
Proceeds from issuance of commercial paper	7,999	-
Proceeds from issuing of corporate bonds	23,000	-
Dividends paid by parent company	(2,753)	(2,729)
Dividends paid to the minority stockholders	(726)	(389)
Payments for purchase of treasury stock	(5,779)	(76)
Proceeds from the sale of treasury stock	-	16
Other	-	(438)
Net cash used in financing activities	(10,902)	(7,460)
Effect of exchange rate changes on cash and cash equivalents	(1,280)	(2,138)
Net increase in cash and cash equivalents	13,187	18,958
Cash and cash equivalents at beginning of term	80,623	94,022
Increase/decrease in cash and cash equivalents due to change in scope of consolidation	(47)	(529)
Increase in cash and cash equivalents related to provisional settlement of accounts of consolidated subsidiaries	259	-
Cash and cash equivalents at end of term	94,022	112,451

Basis of Presenting the Consolidated Financial Statements

Item	Basis of Presenting the Consolidated Financial Statements
1. Consolidation policy	<p>(1) Consolidated subsidiaries (58 companies) The significant consolidated subsidiaries are already listed under 'Subsidiaries and Affiliates.' C-E (SUZHOU) LTD. and CITIZEN (SHANGHAI) TRADING CO., LTD. are included in the Company's consolidated subsidiaries from this consolidated fiscal year which ended on March 31, 2004 due to its significance. CITIZEN UHRENFABRIK G.M.B.H. has been excluded from the Company's consolidated subsidiaries as the company will go into liquidation. KANSAI CITIZEN CORPORATION, KYUSHU CITIZEN CORPORATION, TOKYO CITIZEN CORPORATION, TOHOKU CITIZEN CORPORATION, CHUBU CITIZEN CORPORATION, and HOKKAIDO CITIZEN CORPORATION have also been excluded from the Company's consolidated subsidiaries as they have liquidated during this current consolidated fiscal year. On August 1, 2003, CITIEN MACHINERY EUROPE G.M.B.H. absorbed BOLEY G.M.B.H. and changed the company name to CITIZEN MACHINERY & BOLEY G.M.B.H. The accompanying consolidated financial statements comprise the accounts of Citizen Watch Co., Ltd. (the Company) and its significant subsidiaries. The combined assets, net sales, net income and retained earnings of the remaining nonconsolidated subsidiaries are not significant in the related consolidated totals.</p> <p>(2) Nonconsolidated subsidiaries (48 companies)</p>
2. Application of the equity method	<p>The Company's nonconsolidated subsidiaries and affiliates, for which net profit or loss and retained earnings have little effect on consolidated financial statements and are not significant, have been excluded from application of the equity method.</p>
3. Fiscal year-end of consolidated subsidiaries	<p>SAKAE SHOKAI CO., LTD., TOKYO BIJUTSU CO., LTD., CITIZEN WATCH COMPANY OF AMERICA INC. and thirty three other overseas subsidiaries have different fiscal closing dates from the group consolidated closing date. The fiscal closing date of overseas subsidiaries is December 31, while that of SAKAE SHOKAI CO., LTD. and TOKYO BIJUTSU CO., LTD. is the last date of February. In preparing consolidated financial statements, when the difference between a domestic subsidiary's fiscal closing date and that of the group consolidated closing date is three months or less, the financial statements of the subsidiary for the relevant fiscal year are used and an adjustment is made in the consolidated statements for any material discrepancies in accounting records related to transactions between consolidated subsidiaries arising from the difference between a subsidiary's fiscal closing date and the group consolidated closing date. As for overseas subsidiaries, an accounting of expenditures and revenues is made for the subsidiary in question as of the date of the consolidated closing in order to prepare the financial statements that form the basis of the consolidated financial statements. In the case of overseas subsidiaries, until now, the practice has been to apply the same rule as for domestic subsidiaries where the difference in closing dates is three months or less. However, from the previous consolidated fiscal year, the procedure described above will be applied, i.e., the necessary provisional settlement of accounts will be made as of the date of the consolidated fiscal closing date.</p>
4. Accounting standards	<p>(1) Valuation standards and methods for major assets</p> <p>{1} Marketable and investment securities</p> <p>i. Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.</p> <p>ii. Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.</p> <p>iii. Other marketable securities: If the market value is determinable, other marketable securities are valued at market based on their market value on the consolidated fiscal closing date. (Net unrealized gain/loss on other marketable securities is recognized directly in the shareholders' equity section. Selling cost is computed by the moving-average method.) If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p> <p>{2} Derivative instruments Derivative instruments are valued at market.</p>

Item	Basis of Presenting the Consolidated Financial Statements
	<p>{3} Inventories Inventories are primarily valued on a weight-average cost basis, which does not exceed cost nor market.</p> <p>(2) Depreciation of fixed assets The depreciation of property, plant and equipment is computed on a declining-balance basis, whereas the amortization of intangible fixed assets is computed on a straight-line basis.</p> <p>(3) Recognition basis of provisions and reserves</p> <p>{1} Allowance for doubtful accounts In order to prepare for loss of receivables (trade) and loans, as for the Company and domestic consolidated subsidiaries and affiliates, an allowance for doubtful accounts is based on the recoverability of each amount, using (1) the write-off ratio for ordinary accounts receivable and (2) the specific amount for certain accounts receivable, such as highly doubtful accounts. As for the overseas consolidated subsidiaries and affiliates, an allowance for doubtful accounts is estimates based on the recoverability of each amount.</p> <p>{2} Allowance for valuation loss on investments To provide for possible losses due to extreme devaluation in the stocks of nonconsolidated subsidiaries (excluding stocks subject to impairment accounting), an allowance for valuation loss on investments is provided for an amount considering the actual stock prices on the balance sheet date.</p> <p>{3} Reserve for bonuses to employees The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments at consolidated companies other than overseas subsidiaries.</p> <p>{4} Reserve for product warranties At several overseas sales subsidiaries, certain rates of net sales are provided as an allowance for the possible expenses required for after-sales services of products sold.</p> <p>{5} Reserve for defined retirement benefits At the Company and its consolidated domestic subsidiaries, the reserve for defined retirement benefits is stated as the amount deemed to be correct on the balance sheet. The amount is based on estimated accounts of defined retirement benefit liabilities and pension assets on the date of the year-end balance sheet. The amount of difference resulting from the change of accounting standards is treated as an extraordinary loss for the previous consolidated fiscal year. However, the straight-line method is applied over a period 5 to 10 years at certain consolidated subsidiaries. In addition, past service liabilities and differences arising from mathematical calculations will be accounted for using a fixed number of years that is no more than the average of employees' remaining years of service when they occur (in principle, by applying the fixed percentage method over 5 years). Past service liabilities will be accounted for from the year in which they occur, and differences arising from mathematical calculations will be accounted for from the year following that in which they occur.</p> <p>{6} Reserve for retirement bonuses to directors The reserve for retirement bonuses to directors is provided for an amount deemed necessary based on the internal regulations of the Company and several domestic consolidated subsidiaries.</p> <p>(4) Translation of foreign currency assets or liabilities Foreign currency amounts are translated into Japanese yen at the rate prevailing on the consolidated fiscal closing date for accounts receivable and accounts payable. The translation adjustments are stated as profit/loss. Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot rate on the consolidated fiscal closing date, whereas revenues and expenses are translated into Japanese yen using the weighted-average rate. The difference arising from translation are stated as foreign currency translation adjustments in the minority interests and shareholders' equity section.</p> <p>(5) Lease contracts Finance lease transactions, other than those that deem to transfer ownership of the leased assets to the lessee, are accounted for as operating lease transactions.</p>

Item	Basis of Presenting the Consolidated Financial Statements
	(6) Consumption tax The consumption tax is excluded from the amounts of income and expenses.
5. Valuation of assets and liabilities of consolidated subsidiaries	All assets and liabilities of subsidiaries are valued at market.
6. Depreciation of consolidation goodwill	Consolidation goodwill is amortized using the straight-line method over 5 years. When the difference to be eliminated is negligible, it may be fully accounted for during the term in which such difference originates.
7. Profit appropriation policy	The consolidated statement of retained earnings is prepared based on the profit appropriated during the consolidated fiscal year.
8. Cash in the statements of consolidated cash flows	Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits in banks, and highly liquid, short-term investments with low risk in value fluctuations for which the maturity expires within three months.

Change in indications

(Consolidated Income Statement)

Loss on sale of notes was listed under nonoperating expenses in the previous fiscal year. However, for this fiscal year, because loss on sale of notes became less than 10 over 100 of nonoperating expenses, it is included in the "other" account under nonoperating expenses. The amount included in the "Other" account under nonoperating expenses for this fiscal year is 42 million yen.

(Related to consolidated statement of cash flows)

Relationship between the ending balance of cash and cash equivalents and account items listed in the consolidated balance sheets

Millions of yen	March 31, 2003	March 31, 2004
Cash	89,564	100,880
Marketable securities	10,954	17,145
Time deposits with a deposit period greater than three months	(1,422)	(2,492)
Shares and bonds with a redeemable period greater than three months	(5,074)	(3,081)
Cash and cash equivalents	94,022	112,451

(Segment information)**1. Business segment**

Millions of yen	Wristwatches and clocks	Information and electronic equipment	Industrial machinery	Other products	Segment totals	Eliminations or general corporate	Consolidated totals
Year ended March 31, 2003							
Net sales and operating income/loss							
Net sales							
Unaffiliated customers	133,503	136,866	21,653	41,964	333,988	-	333,988
Intersegment	1	2,216	-	-	2,218	[2,218]	-
Total	133,504	139,083	21,653	41,964	336,207	[2,218]	333,988
Operating expenses	118,181	130,653	20,587	40,701	310,124	4,184	314,308
Operating income	15,323	8,430	1,066	1,263	26,082	[6,402]	19,680
Assets, depreciation and capital expenditures							
Assets	115,481	134,222	23,305	37,639	310,648	56,737	367,386
Depreciation and amortization	7,984	7,575	930	1,195	17,685	555	18,240
Capital expenditures	6,365	4,898	289	1,409	12,963	346	13,310
Year ended March 31, 2004							
Net sales and operating income/loss							
Net sales							
Unaffiliated customers	127,188	181,625	27,967	38,933	375,715	-	375,715
Intersegment	-	2,270	-	-	2,270	[2,270]	-
Total	127,188	183,895	27,967	38,933	377,985	[2,270]	375,715
Operating expenses	108,604	164,185	24,974	37,515	335,280	4,927	340,208
Operating income	18,584	19,710	2,992	1,417	42,704	[7,197]	35,506
Assets, depreciation and capital expenditures							
Assets	110,558	147,140	23,785	32,376	313,861	77,664	391,526
Depreciation and amortization	6,913	6,879	892	1,236	15,922	684	16,607
Capital expenditures	5,363	8,620	862	1,550	16,395	880	17,276

(Notes)

1. Business segments

The following business segments are classified based on the type, nature and manufacturing methods of products and the similarity of markets.

2. Major products by business segment

Segment	Major products
Wristwatches and clocks	Analog, digital and analog/digital combination watches, internal and facing parts and components of wristwatches, various kinds of clocks, etc.
Information and electronic equipment	Chip LEDs, back light units, LC displays, various kinds of printers, quartz oscillators, floppy disk drives, electronic clinical thermometers, electronic viewfinders, electric calculators, etc.
Industrial machinery	Small CNC automatic lathes, various types of robots, general-purpose machine tools, measuring instruments, etc.
Other products	Jewelry, pachinko related products, eyewear, jigs and tools, etc.

3. During consolidated fiscal 2002, operating expenses that could not be allocated were costs associated with the parent company's administrative expenses and basic research. Such expenses amounted to 6,402 million yen and were included in the "eliminations or general corporate" account.

During consolidated fiscal 2003, operating expenses that could not be allocated were costs associated with the parent company's administrative expenses and basic research. Such expenses amounted to 7,197 million yen and were included in the "eliminations or general corporate" account.

4. Among assets, general corporate assets included in the "eliminations and general corporate" account amounted to 77,873 million yen for consolidated fiscal 2003 and 56,931 million yen for consolidated fiscal 2002. They consisted mainly of surplus funds for investment (e.g., cash, marketable securities) and funds for long-term investment (e.g., investment securities) to be used at the parent company.

2. Geographic segment

Millions of yen	Japan	Asia	Americas	Europe	Other	Segment total	Eliminations or general corporate	Consolidated totals
Year ended March 31, 2003								
Net sales and operating income/loss								
Net sales								
Unaffiliated customers	261,898	22,309	33,554	14,397	1,828	333,988	-	333,988
Intersegment	47,096	52,467	167	421	-	100,154	[100,154]	-
Total	308,995	74,776	33,722	14,819	1,828	434,143	[100,154]	333,988
Operating expenses	286,762	73,306	32,174	15,002	1,789	409,035	[94,727]	314,308
Operating income	22,232	1,470	1,547	(183)	39	25,107	[5,427]	19,680
Assets	268,418	37,924	21,539	10,335	884	339,102	28,284	367,386
Year ended March 31, 2004								
Net sales and operating income/loss								
Net sales								
Unaffiliated customers	291,151	38,080	30,280	14,232	1,969	375,715	-	375,715
Intersegment	53,126	52,049	229	114	-	105,518	[105,518]	-
Total	344,277	90,129	30,509	14,347	1,969	481,234	[105,518]	375,715
Operating expenses	305,500	87,902	30,163	13,714	1,944	439,226	[99,018]	340,208
Operating income	38,777	2,226	345	632	24	42,007	[6,500]	35,506
Assets	272,124	38,660	18,369	10,664	1,005	340,824	50,701	391,526

(Notes)

2. Nations or regions are classified according to geographic proximity.
3. Major nations or regions in the respective categories:
4. Asia: China/Hong Kong, South Korea, Taiwan, Singapore and Thailand
(2) Americas: United States, Panama and Mexico
(3) Europe: Germany, United Kingdom, France, Italy and Spain
5. Other: Australia

6. Overseas sales

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

Millions of yen	Year ended March 31, 2003		Year ended March 31, 2004	
	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales
Asia	120,110	36.0	135,725	36.1
Americas	48,482	14.5	42,899	11.4
Europe	44,555	13.3	48,769	13.0
Other	6,353	1.9	6,298	1.7
Total	219,501	65.7	233,693	62.2
Consolidated sales	333,988	100.0	375,715	100.0

(Notes)

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

(Deferred taxes)

Millions of yen	March 31, 2003	March 31, 2004
1. Major components of deferred tax assets and liabilities		
(Deferred tax assets)		
Depreciation in excess of the depreciation limit	4,978	4,760
Devaluation and unrealized profits on inventory	5,933	6,090
Reserve for retirement benefits in excess of contribution limits	6,615	6,079
Amount in excess of deductible allowance for doubtful accounts	1,656	698
Amount in excess of deductible reserves for bonus payments	1,371	1,792
Loss carried forward	7,199	5,171
Valuation loss on investment securities	5,740	4,864
Other	4,296	5,183
Subtotal of deferred assets	37,791	34,641
Valuation allowance	(12,260)	(8,353)
Total deferred tax assets	25,530	26,288
(Deferred tax liabilities)		
Revaluation gain/loss on other marketable securities	(96)	(4,341)
Undistributed income of overseas affiliates	(5,008)	(6,036)
Special depreciation reserve	(243)	(169)
Other	(32)	(34)
Total deferred tax liabilities	(5,381)	(10,582)
Net deferred tax assets	20,149	15,706
<i>Note) The net amount of deferred tax assets for the fiscal year and previous fiscal year are included in the following items in the consolidated balance sheet.</i>		
Current assets - Deferred tax assets	10,451	10,776
Fixed assets - Deferred tax assets	9,962	5,123
Current liabilities - Deferred tax liabilities	38	9
Long-term liabilities - Deferred tax liabilities	226	184
2. Major differences between the statutory effective tax rate and the actual effective tax rate after tax effect accounting		
(March 31, 2003)		
As the difference in the rate of corporate tax, etc., between the statutory effective tax rate (42.1%) and the rate applicable after tax-effect accounting (41.9%) is not significant, it has been not shown.		
(March 31, 2004)		
Statutory effective tax rate	-	42.1%
(Adjustments)		
Expenses not deducted for tax purposes	-	0.4%
Dividend and income exclusion	-	(1.2)%
Effect of deduction for net loss carried forward in this term	-	(7.0)%
Increase/decrease in valuation allowance	-	(3.3)%
Effect of changes in tax rate related to introduction of pro forma standard tax on business	-	0.4%
Other	-	1.3%
Income tax rate after deferred tax accounting	-	32.7%
3. (March 31, 2003)		
The statutory effective tax rates used in calculating deferred income taxes and deferred tax liabilities are as follows. Following revisions to the Local Tax Law (pro forma standard tax will be applied for fiscal years beginning on or after April 1, 2004), one-time differences that should be resolved by the end of March 2004 will be subject to the tax rate applicable prior to the revision (generally 42.1%), while those that are likely to be resolved after April 1, 2004 will be subject to the tax rate applicable after the revisions come into effect (generally 40.5%).		
Based on these changes in taxation rates, deferred tax assets as at the end of the current term (i.e., the amount remaining after subtracting deferred tax liabilities) have decreased by 495 million yen. Corporate tax adjustments recorded as expenses have increased by 499 million yen and differences on revaluation of marketable securities have increased by 3 million yen.		

(Marketable securities)**1. Marketable securities classified as available-for-sale**

There is no item that meets these conditions.

2. Debentures with market value classified as held-to-maturity

Millions of yen	March 31, 2003			March 31, 2004		
	Amount on consolidated balance sheet	Market value	Valuation gain/loss	Amount on consolidated balance sheet	Market value	Valuation gain/loss
Other debentures	1,000	938	(61)	1,000	965	(34)

3. Other marketable securities with market value

Millions of yen	March 31, 2003			March 31, 2004		
	Acquisition cost	Amount on consolidated balance sheet	Difference	Acquisition cost	Amount on consolidated balance sheet	Difference
Other marketable securities whose value reported on the consolidated balance sheet exceeds the acquisition cost						
Stocks	1,795	2,583	788	8,735	19,397	10,662
Bonds	1,028	1,039	11	6,289	6,319	29
	2,824	3,623	799	15,024	25,716	10,692
Other marketable securities whose value reported on the consolidated balance sheet does not exceed the acquisition cost						
Stocks	7,714	7,247	(466)	-	-	-
Bonds	6,305	6,226	(78)	75	72	(2)
	14,019	13,474	(544)	75	72	(2)

4. Other marketable securities sold during the year ended March 31, 2003 and 2004

Millions of yen	March 31, 2003	March 31, 2004
Proceeds from sale	11,633	2,977
Gain on sale (aggregate)	-	278
Loss on sale (aggregate)	63	0

5. Major classification of marketable securities with no market value and their amounts on consolidated balance sheet

Millions of yen	March 31, 2003	March 31, 2004
Stocks of subsidiaries and affiliates	3,507	3,969
Bonds being held to maturity		
Unlisted bonds	-	6,998
Other	3,999	3,999
Other marketable securities		
Unlisted stocks (excluding over-the-counter stocks)	1,237	1,217
Investment trust	5,779	5,064
Other	100	3

6. Redemption schedules and amounts of other marketable securities with maturities and bonds classified as held-to-maturity

Millions of yen	Unlisted bonds	Other bonds	Others	Total
March 31, 2003				
Up to 1 year	-	3,999	-	3,999
Greater than 1 and up to 5 years	-	-	300	300
Greater than 5 and up to 10 years	-	1,000	5,890	6,890
Greater than 10 years	-	-	-	-
March 31, 2004				
Up to 1 year	6,998	3,999	300	11,297
Greater than 1 and up to 5 years	-	1,000	-	1,000
Greater than 5 and up to 10 years	-	-	5,008	5,008
Greater than 10 years	-	-	-	-

(Matters related to retirement benefits)

1. Outline of retirement benefit program

Citizen Watch Co., Ltd. and its consolidated subsidiaries have established the following defined retirement benefit plans: a tax-qualified pension plan and a retirement lump-sum plan. In addition, trust accounts for retirement benefits are established at contributing companies.

2. Matters related to retirement benefit liabilities

Millions of yen	March 31, 2003	March 31, 2004
Retirement benefit liabilities	(49,022)	(46,811)
Pension assets	26,658	30,114
Pension trust	2,669	5,131
Unfunded pension liabilities	(19,693)	(11,565)
Undisposed gain/loss associated with changes in accounting treatment	(367)	(114)
Unrecognized gain and loss	6,612	1,935
Unrecognized prior service liabilities	(594)	(1,236)
Net balance reported in consolidated balance sheet	(14,042)	(10,981)
Prepaid pension cost	89	376
Accrued retirement benefit cost	(14,132)	(11,358)

(Note) Some consolidated subsidiaries use simplified procedures for the computation of retirement benefit liabilities.

3. Details of retirement benefit costs

Millions of yen	March 31, 2003	March 31, 2004
Service cost	2,338	2,111
Interest cost	1,359	1,122
Anticipated return on pension funds	(720)	(495)
Disposed gain/loss associated with the change in accounting treatment	(192)	(151)
Amount of liabilities for past service costs recognized as expense	(267)	(261)
Expensing of differences based on actuarial calculations	1,147	1,829
Retirement benefit cost	3,664	4,155

(Notes)

The retirement benefit costs of consolidated subsidiaries using simplified procedures are included in the service cost account above.

March 31, 2004: In addition to the expenses listed above, at the Company and some domestic subsidiaries, special severance indemnities due to retirement was recorded as an extraordinary loss in the amount of 443 million yen.

4. Matters related to assumptions used for the computation of retirement benefit liabilities et al.

	March 31, 2003	March 31, 2004
Attribution of anticipated retirement benefits	Straight-line method	Straight-line method
Discount rate	Beginning of term: generally 3.0% End of term: generally 2.5%	Generally 2.5%
Anticipated rate of return on pension funds	Generally 2.5%	Generally 1.5%
Period required to write off prior service cost	5 years (general rule)	5 years (general rule)
Period required to dispose gain/loss	5 years (general rule)	5 years (general rule)
Period required to dispose gain/loss incurred at the time of changes in accounting treatment	As a general rule, such events are subject to full and immediate accounting treatment, although some subsidiaries spread the cost over a period usually consisting of five years.	As a general rule, such events are subject to full and immediate accounting treatment, although some subsidiaries spread the cost over a period usually consisting of five years.