

## Nonconsolidated 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 <a href="http://www.citizen.co.jp">http://www.citizen.co.jp</a> )
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
Date of regular general meeting of shareholders:	June 29, 2004
Interim Dividend System:	Yes
Application of unit trading system:	Yes (1,000 shares per unit)

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

#### (1) Nonconsolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2004	153,433	3.1	5,640	14.5	7,279	(20.3)
March 31, 2003	148,824	1.3	4,926	-	9,134	-

	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	5,473	82.3	17.83	16.52	3.9	3.7	4.7
March 31, 2003	3,001	-	9.60	9.23	2.2	5.0	6.1

(Notes)

1. Average number of outstanding shares during term:  
     March 2004 term: 303,801,328 shares  
     March 2003 term: 307,581,188 shares
2. Changes in accounting methods: None
3. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

**(2) Dividends**

	Dividends per share			Total dividends paid (annual)	Pay-out ratio	Dividends to shareholders equity
	(Yen)	Interim (Yen)	Year-end (Yen)			
March 31, 2004	10.00	4.50	5.50	(Millions of yen) 3,037	% 56.1	% 2.1
March 31, 2003	9.00	4.50	4.50	2,749	91.6	2.0

**(3) Nonconsolidated financial position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2004	199,065	146,610	73.6	482.52
March 31, 2003	192,129	135,975	70.8	448.87

(Notes)

- Total number of shares outstanding at the end of the fiscal term:  
March 2004 term: 303,768,304 shares      March 2003 term: 302,814,458 shares
- Total number of treasury stock at the end of the fiscal term:  
March 2004 term: 7,734,746 shares      March 2003 term: 8,688,592 shares

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

	Net sales	Operating income	Ordinary income	Net income	Dividends per share		
					Interim	Year-end	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Yen)	(Yen)	(Yen)
Interim term	79,400	3,100	4,500	2,800	5.50	-	-
Full term	168,500	8,000	10,800	6,700	-	5.50	11.00

Reference: Estimated earnings per share (full term): 21.87 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.*

## Nonconsolidated Balance Sheet

Millions of yen	March 31, 2003	%	March 31, 2004	%	Year-on-year change
<b>Current assets</b>					
Cash and cash equivalents	25,118		31,547		6,428
Notes receivable	2,599		1,023		(1,575)
Accounts receivable	32,645		33,226		581
Marketable securities	6,503		13,508		7,004
Finished goods	3,357		3,311		(45)
Materials	642		610		(32)
Goods in process	8,100		7,925		(174)
Accrued consumption tax	1,061		980		(81)
Short-term loans	1,581		1		(1,579)
Other accounts receivable	6,549		6,119		(429)
Deposits	11,951		5,097		(6,853)
Deferred tax assets	4,243		3,060		(1,182)
Other current assets	1,282		1,892		610
Allowance for doubtful accounts	(654)		(663)		(9)
	104,982	54.6	107,643	54.1	2,660
<b>Fixed assets</b>					
<b>Property, plant and equipment</b>					
Buildings and structures	15,776		14,937		(838)
Machinery and equipment	15,072		13,538		(1,534)
Vehicles and carriers	11		6		(4)
Tools, furniture and fixtures	3,374		3,162		(211)
Land	3,698		3,705		7
Construction in progress	671		359		(312)
	38,604	20.1	35,709	17.9	(2,894)
<b>Intangible fixed assets</b>					
Software	692		686		(5)
Other intangible fixed assets	147		126		(21)
	840	0.5	812	0.4	(27)
<b>Investments and other assets</b>					
Investment in subsidiaries and affiliates	19,476		22,758		3,281
Investment securities	17,775		26,272		8,496
Long-term loans	10		4		(5)
Long-term prepaid expenses	141		109		(31)
Deferred tax assets	10,639		5,421		(5,217)
Other	1,008		757		(250)
Allowance for valuation loss on investments	(1,145)		(401)		744
Allowance for doubtful accounts	(204)		(23)		181
	47,702	24.8	54,899	27.6	7,197
	87,146	45.4	91,422	45.9	4,275
<b>Total assets</b>	192,129	100.0	199,065	100.0	6,935

## Reference

Millions of yen	March 31, 2003	March 31, 2004	Year-on-year change
Capital expenditures	6,900	5,612	(1,288)
Depreciation	8,534	7,926	(607)
R&D expenditures	5,058	5,133	74

## CITIZEN WATCH

Millions of yen	March 31, 2003	%	March 31, 2004	%	Year-on-year change
<b>Current liabilities</b>					
Notes payable	3,890		1,232		(2,658)
Accounts payable	18,515		20,496		1,980
Short-term bank loans payable	1		1		0
Other accounts payable	2,934		2,930		(4)
Income taxes payable	10		8		(2)
Accrued expenses	942		1,466		523
Reserve for bonuses to employees	1,063		1,115		52
Notes payable for equipment	955		311		(643)
Other current liabilities	568		402		(165)
	<u>28,882</u>	15.0	<u>27,964</u>	14.1	<u>(917)</u>
<b>Long-term liabilities</b>					
Convertible bonds	23,000		23,000		-
Long-term loans payable	5		3		(1)
Reserve for defined retirement benefits	3,865		974		(2,891)
Reserve for retirement bonuses to directors	243		238		(5)
Long-term unearned income	79		79		0
Other long-term liabilities	77		194		117
	<u>27,271</u>	14.2	<u>24,490</u>	12.3	<u>(2,781)</u>
<b>Total liabilities</b>	<u>56,153</u>	29.2	<u>52,454</u>	26.4	<u>(3,699)</u>
<b>Shareholders' equity</b>					
Common stock	32,648	17.0	32,648	16.4	-
Capital reserves					
Capital surplus	40,053		40,053		-
Excess arising from retirement of treasury stock	-		1,265		1,265
	<u>40,053</u>	20.8	<u>41,318</u>	20.7	<u>1,265</u>
Retained earnings					
Legal reserve	7,789		7,789		-
Special reserves	46,500		46,500		-
Special amortization reserve	23		19		(3)
Unappropriated retained profits	14,798		17,495		2,697
Net unrealized gain/loss on other marketable securities	148	0.1	6,180	3.1	6,032
	<u>69,111</u>	36.0	<u>71,804</u>	36.1	<u>2,693</u>
Treasury stock	(5,986)	(3.1)	(5,342)	(2.7)	643
<b>Total shareholders' equity</b>	<u>135,975</u>	70.8	<u>146,610</u>	73.6	<u>10,635</u>
<b>Total liabilities and shareholders' equity</b>	<u>192,129</u>	100.0	<u>199,065</u>	100.0	<u>6,935</u>

## Nonconsolidated Statement of Income

Millions of yen	Year ended March 31, 2003		Year ended March 31, 2004		Year-on-year change	
		%		%		%
<b>Net sales</b>	148,824	100.0	153,433	100.0	4,609	3.1
<b>Cost of sales</b>	129,360		132,348		2,988	
<b>Selling, general and administrative expenses</b>	14,537		15,444		907	
Operating income	4,926	3.3	5,640	3.7	713	14.5
<b>Nonoperating income</b>						
Interest and dividend income	4,991		2,162		(2,829)	
Rents receivable	2,745		2,949		204	
Other	140		164		24	
	<u>7,876</u>	5.3	<u>5,276</u>	3.4	<u>(2,599)</u>	(33.0)
<b>Nonoperating expenses</b>						
Interest charges	4		0		(3)	
Depreciation expenses for lent properties	2,241		2,326		84	
Foreign exchange loss	1,183		1,203		19	
Bond issuance expenses	95		-		(95)	
Other	144		107		(36)	
	<u>3,669</u>	2.5	<u>3,637</u>	2.4	<u>(31)</u>	(0.9)
Ordinary income	<u>9,134</u>	6.1	<u>7,279</u>	4.7	<u>(1,854)</u>	(20.3)
<b>Extraordinary gains</b>						
Gain on sales of fixed assets	885		200		(685)	
Reversal of allowance for valuation loss on investments	-		766		766	
Reversal of allowance for doubtful accounts	241		72		(169)	
Gain on sales of investment securities	0		229		229	
Other	8		6		(1)	
	<u>1,135</u>	0.8	<u>1,274</u>	0.9	<u>139</u>	12.2
<b>Extraordinary losses</b>						
Valuation loss on investment securities	3,267		5		(3,262)	
Loss on liquidation of affiliates	2,345		-		(2,345)	
Provision for valuation loss on investments	1,145		22		(1,123)	
Special severance indemnities	-		114		114	
Loss on disposal of properties	564		629		64	
Other	2		3		1	
	<u>7,325</u>	4.9	<u>774</u>	0.5	<u>(6,550)</u>	(89.4)
Income before income taxes	2,944	2.0	7,779	5.1	4,835	164.2
Income, inhabitant and enterprise taxes	10		45		35	
Income taxes refunds	(100)		-		100	
Income taxes adjustment	32		2,261		2,228	
Net income	<u>3,001</u>	2.0	<u>5,473</u>	3.6	<u>2,471</u>	82.3
Balance brought forward	13,183		13,389		206	
Interim dividends paid	1,386		1,367		(19)	
Unappropriated profits	14,798		17,495		2,697	

## Proposed Appropriation of Retained Earnings

Millions of yen	Year ended March 31,		Year-on-year change
	2003	2004	
Unappropriated retained earnings	14,798	17,495	2,697
Transfer from reserve for special depreciation	3	4	0
	14,802	17,500	2,697
Dividends paid	1,362	1,670	308
	(¥4.50 per share)	(¥5.50 per share)	308
Bonuses to directors	50	56	6
	1,412	1,726	314
Unappropriated retained earnings carried forward to the next year	13,389	15,773	2,383

## Basis of Presenting the Nonconsolidated Financial Statements

Item	Basis of Presenting the Nonconsolidated Financial Statements
1. Basis and method of valuation of marketable securities	<p>(1) Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis.</p> <p>(2) Stocks of subsidiaries and affiliates are valued at cost using the moving-average method.</p> <p>(3) Other marketable securities</p> <p style="padding-left: 20px;">i. If the market value is determinable, other marketable securities are valued at market based on their market value on the date of the interim balance sheet. (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.)</p> <p style="padding-left: 20px;">ii. If the market value is not determinable, other marketable securities are valued at cost using the moving-average method.</p>
2. Basis and method of valuation of inventories	Inventories are primarily valued on a weighted average cost basis, which does not exceed cost nor market.
3. Derivative instruments	Derivative instruments are valued at market.
4. Depreciation methods for fixed assets	<p>(1) Tangible fixed assets: declining-balance method</p> <p style="padding-left: 20px;">Years of useful life for principal assets</p> <p style="padding-left: 20px;">Buildings and structures: 3 - 50 years</p> <p style="padding-left: 20px;">Machinery and equipment: 5 - 11 years</p> <p>(2) Intangible fixed assets: straight-line method</p> <p>(3) Long-term prepaid expenses: straight-line method</p> <p style="padding-left: 20px;">However, for liquid crystal devices and other mechanical devices, a shorter estimate of useful life has been used taking into account the economic life of the items. For software, an intangible asset, the estimated useful life is based on the potential utilization period. Some leased assets are subject to accelerated depreciation.</p>
5. Accounting for lease transactions	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.
6. Basis of accounting for reserves	<p>(1) Allowance for doubtful accounts</p> <p style="padding-left: 20px;">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.</p> <p>(2) Allowance for valuation loss on investments</p> <p style="padding-left: 20px;">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</p> <p style="padding-left: 20px;">The reserve for bonuses to employees is stated at an amount based on the estimated forthcoming payments.</p> <p>(4) Reserve for defined retirement benefits</p> <p style="padding-left: 20px;">To provide for future payments of defined retirement benefits to employees, the reserve for defined retirement benefits is stated at an amount deemed to be correct on the date of the year-end 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. Obligations for prior service and actuarial differences are written off as an expense using the fixed percentage method over a fixed number of years (5) that does not exceed the average remaining years of service of employees in which they occur. Prior service obligations are written off as expenses from the year in which they occur, and actuarial differences are written off as expenses from the fiscal year following the term in which they occur.</p> <p>(5) Reserve for retirement bonuses to directors</p> <p style="padding-left: 20px;">The reserve for retirement bonuses to directors is provided for an amount deemed necessary based on the internal regulations of the Company.</p>

<b>Item</b>	<b>Basis of Presenting the Nonconsolidated Financial Statements</b>
7. Consumption tax	Consumption tax is excluded from the amounts of income and expenses.

## Notes

### (Related to balance sheet)

<b>Millions of yen</b>	<b>March 31, 2003</b>	<b>March 31, 2004</b>
1. Accumulated depreciation of property, plant and equipment	119,894	120,891
2. Amount of discounted export notes	10	0
3. Loan guarantees	2,018	4,576
4. Number of Treasury certificates	8,688,592 shares	7,734,746 shares

### (Securities)

#### Stocks of subsidiaries and affiliates with determinable market value

<b>Millions of yen</b>	<b>March 31, 2003</b>	<b>March 31, 2004</b>
Stocks of subsidiaries		
Amounts on balance sheet	975	975
Market value	92,377	195,187
Difference	91,402	194,211

**(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	2,048	2,044
Decline in valuation of inventory	1,358	1,106
Amount in excess of deductible allowance for doubtful accounts	307	261
Amount in excess of deductible reserves for bonus payments	389	453
Accrued severance indemnities reserve cost excess of the inclusion limit	2,703	2,340
Valuation loss on investment securities	6,346	5,615
Disallowance of investment valuation reserve	463	163
Deduction for foreign tax carried forward	-	340
Loss carried forward	2,998	1,392
Other	1,378	1,520
	17,996	15,238
Valuation allowance	(2,998)	(2,505)
Total deferred tax assets	14,997	12,733
(Deferred tax liabilities)		
Revaluation gain/loss on other marketable securities	(101)	(4,240)
Special depreciation reserve	(13)	(10)
Total deferred tax liabilities	(114)	(4,251)
Net deferred tax balance	14,882	8,481
2. Major differences between the statutory effective tax rate and the actual effective tax rate after tax effect accounting		
Statutory effective tax rate	42.1%	42.1%
(Adjustments)		
Expenses not deducted for tax purposes	1.2%	0.6%
Dividend and income exclusion	(8.9)%	(5.1)%
Effect of deduction for net loss carried forward in this term	(54.6)%	(19.9)%
Increase/decrease in valuation allowance	-	10.1%
Effect of changes in tax rate related to introduction of pro forma standard tax on businesses	14.1%	0.2%
Other	4.2%	1.8%
Income tax rate after deferred tax accounting	(2.0)%	29.7%

## 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 409 million yen. Corporate tax adjustments recorded as expenses have increased by 413 million yen and differences on revaluation of marketable securities have increased by 3 million yen.

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

(already announced on April 27, 2004)

**(1) Retiring directors (tentative)**

Scheduled to retire at the Ordinary General Meeting of Shareholders scheduled on June 29, 2004

**Hiroyuki Harasaki** (Currently General Manager of Personnel Division and Tokyo Works, In charge of Environment Management Department and Works Affairs Division)

**Shiro Hisada** (Currently President and CEO of KAWAGUCHIKO SEIMITSU CO., LTD.)

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

Scheduled to be appointed at the Ordinary General Meeting of Shareholders scheduled on June 29, 2004

**Managing Director Toshio Koga**  
(Currently President and CEO of CITIZEN TRADING CO., LTD.)

**Director Akihiko Suzuki**  
(Currently Director of CITIZEN TRADING CO., LTD., Senior General Manager of Overseas Trade Division)

**Director Takashi Masuzawa**  
(Currently President and CEO of CITIZEN ELECTRONICS Co., LTD.)

**(3) Changes in position**

**Senior Managing Director Tsuneo Nagai**  
(Currently Managing Director of CITIZEN WATCH CO., LTD., Senior General Manager of Watch Business Center, In charge of Watch Division)

**Senior Managing Director Mitsuyuki Kanamori**  
(Currently Managing Director of CITIZEN WATCH CO., LTD., General Manager of Corporate Planning Division, In charge of Information System Department and Purchasing Department)

**Managing Director Osamu Yamada**  
(Currently Director of C CITIZEN WATCH CO., LTD., General Manager of General Affairs Division and Accounting Division)

**(4) Candidate for Corporate Auditor**

**Substitute Corporate Auditor Yoshiyuki Iijima**  
(Currently Corporate Auditor of CITIZEN TRADING CO., LTD.)