

Consolidated Financial Statements for the Year Ended March 31, 2005

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 16, 2005

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 - 68 -4934
Executive position of legal representative:	Makoto Umehara
Board of Directors' Meeting on the Settlement of Accounts:	May 16, 2005
U.S. Accounting Standards:	No

1. Results for Year ended March 31, 2005

(1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2005	357,288	(4.9)	37,092	4.5	40,118	13.4
March 31, 2004	375,715	12.5	35,506	80.4	35,392	68.1

	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, 2005	20,233	3.9	65.97	60.45	8.7	10.3	11.2
March 31, 2004	19,465	234.5	63.31	58.03	9.1	9.3	9.4

(Notes)

1. Equity in earnings of unconsolidated subsidiaries and affiliates:
 March 2005 term: Not applicable March 2004 term: Not applicable
2. Average number of outstanding shares during term (consolidated):
 March 2005 term: 302,849,253 shares March 2004 term: 303,801,328 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, 2005	390,565	240,888	61.7	799.28
March 31, 2004	391,526	224,855	57.4	739.45

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

March 2005 term: 301,065,226 shares March 2004 term: 303,768,304 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, 2005	40,393	(21,183)	(9,307)	122,869
March 31, 2004	41,761	(13,203)	(7,460)	112,451

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

Number of consolidated subsidiaries: 57

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): 3

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

2. Projected Results for the Year ending March 31, 2006

	Net sales (Millions of yen)	Operating income (Millions of yen)	Ordinary income (Millions of yen)	Net income (Millions of yen)
Interim term	175,500	16,000	17,000	7,500
Full term	371,000	39,000	41,000	21,500

Reference: Estimated earnings per share (full term): 61.41 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 16 and 17 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 107 subsidiaries and 9 affiliates. The Group companies are mainly engaged in production and sales in three business segments: watches and clocks; information and electronic equipment; and industrial machinery.

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

Segment	Major products	Major production companies	Major marketing companies
Watches 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. 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 WATCHES MALAYSIA SDN. BHD. (Malaysia)

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, electronic thermometers, electronic viewfinders, 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) CITIZEN AMERICA DOT COM, INC. (U.S.A.)
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, eyeglasses, jigs and tools	CITIZEN WATCH CO., LTD. SAYAMA PRECISION CO., LTD. KAWAGUCHIKO PRECISION CO., LTD. HEIWA TOKEI MANUFACTURING CO., LTD. AGEO PRECISION MFG. CO., LTD.	CITIZEN WATCH CO., LTD. CITIZEN JEWELRY CO., LTD. SILVER DENKEN CO., LTD. CITIZEN PLAZA CO., LTD. TOKYO BIJUTSU CO., LTD. SILVER KIKAKU CO., LTD.

As seen in the above table, in the watches and clocks segment, the Company and its subsidiaries and affiliates engage in production. Citizen brand watches are sold by the Company and sales companies overseas, while Q&Q is sold through Japan CBM Corporation.

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

Industrial machinery is produced by 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 Jewelry Co., Ltd.

Sales of Citizen brand watches for Japanese market used to be held by Citizen Trading Co., Ltd., but after the merger with Citizen Trading Co., Ltd. on October 1, 2004, sales activities are held by the Company in the form of direct sales.

Subsidiaries and Affiliates

Consolidated subsidiaries:

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
KAWAGUCHIKO SEIMITSU CO., LTD.	Minamitsuru-gun, Yamanashi	346	Watches 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	Watches 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	Watches and clocks Information and electronic equipment Other products	100.0	Parts production company Leases machinery equipment Directors serve concurrently
JAPAN CBM CORPORATION	Nakano-ku, Tokyo	2,356	Watches and clocks Information and electronic equipment	100.0	Sales company Directors serve concurrently
MIYOTA CO., LTD.	Kitasaku-gun, Nagano	1,753	Watches and clocks Information and electronic equipment	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	Watches 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	Watches and clocks Information and electronic equipment Other products	66.6 [0.8]	Assembly and parts production company Leases machinery equipment Directors serve concurrently
CIMEO PRECISION CO., LTD.	Kitasaku-gun, Nagano	1,758	Watches and clocks Information and electronic equipment Other products	65.4 [2.4]	Parts production company Leases machinery equipment and land Directors serve concurrently
CITIZEN IWATE CO., LTD.	Morioka-shi, Iwate	45	Watches and clocks Information and electronic equipment Other products	100.0	Parts production company Leases machinery equipment Directors serve concurrently
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 WATCH

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
CITIZEN MECHATRONICS CO., LTD.	Tokorozawa-shi, Saitama	50	Industrial machinery	100.0	Assembly, and parts production company Leases land, building and machinery equipment Directors serve concurrently
CITIZEN YOSHIMI CO., LTD.	Hiki-gun, Saitama	30	Watches and clocks Information and electronic equipment	100.0	Assembly and parts production company Leases land, building and machinery equipment Directors serve concurrently
CITIZEN PLAZA 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]	Directors serve concurrently
SAKAE SHOKAI CO., LTD.	Taito-ku, Tokyo	80	Other products	100.0	Directors serve concurrently
TOKYO BIJUTSU CO., LTD.	Toshima-ku, Tokyo	35	Other products	61.3	Directors serve concurrently
FUNEHIKI SEIMITSU CO., LTD.	Tamura-shi, Fukushima	40	Watches and clocks Information and electronic equipment Other products	100.0 [100.0]	Parts production Company Directors serve concurrently
YUBARI SEIMITSU CO., LTD.	Yubari-shi, Hokkaido	20	Watches and clocks Other products	100.0 [80.0]	Parts production company Directors serve concurrently
HAIMEKA CO., LTD.	Hioki-shi, Kagoshima	50	Watches 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
T.I.C. –CITIZEN CO., LTD.	Koganei-shi, Tokyo	100	Watches and clocks	61.2	Directors serve concurrently
CITIZEN FINANCIAL SERVICE CO., LTD.	Nishitokyo-shi, Tokyo	50	Other products	100.0	Directors serve concurrently
CITIZEN JEWELRY CO., LTD.	Chiyoda-ku, Tokyo	300	Other products	100.0	Directors serve concurrently
SUNCITI MANUFACTURERS LTD.	Hong Kong, China	HK\$9,680 thousand	Watches and clocks	100.0	Assembly company Leases machinery equipment Directors serve concurrently
CITIZEN WATCHES (H.K.) LTD.	Hong Kong, China	HK\$10,000 thousand	Watches and clocks	100.0	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

C I T I Z E N W A T C H

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent 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	Watches 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 Directors serve concurrently
CITIZEN LATIN AMERICA CORP.	Colón, Panama	US\$3,550 thousand	Watches and clocks	100.0	Sales company Directors serve concurrently
CITIZEN WATCH CO., OF AMERICA, INC.	California, U.S.A.	US\$12,500 thousand	Watches and clocks	100.0	Sales company Directors serve concurrently
CITIZEN WATCH EUROPE G.M.B.H.	Hamburg, Germany	EUR10,225 thousand	Watches and clocks	100.0	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	Watches and clocks	100.0	Sales company Directors serve concurrently
CITIZEN WATCHES AUSTRALIA PTY LTD.	Sydney, Australia	A\$100 thousand	Watches and clocks	100.0	Sales company Directors serve concurrently
CITIZEN WATCH ESPAÑA S.A.	Barcelona, Spain	EUR1,803 thousand	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
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]	Directors serve concurrently
C-E (SINGAPORE) PTE. LTD.	Summerset Road, Singapore	S\$400 thousand	Information and electronic equipment	100.0 [100.0]	Directors serve concurrently
C-E (H.K.) LTD.	Hong Kong, China	HK\$2,000 thousand	Information and electronic equipment	100.0 [100.0]	Directors serve concurrently
GOODRINGTON CO., LTD.	Hong Kong, China	HK\$3,000 thousand	Watches and clocks	100.0 [100.0]	Assembly and production company
MOST CROWN INDUSTRIES LTD.	Hong Kong, China	HK\$53,000 thousand	Watches and clocks Information and electronic equipment	100.0 [75.7]	Assembly and production company Leases machinery equipment Directors serve concurrently
ASTAR PRECISION CO., LTD.	Hong Kong, China	HK\$8,100 thousand	Watches 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	Watches and clocks	100.0 [100.0]	Assembly and production Company

CITIZEN WATCH

Company name	Address	Capital (Millions of yen)	Major business lines	Ownership of voting stocks [%]	Relationship to parent company
WALOP LTD.	Hong Kong, China	HK\$24,000 thousand	Watches 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	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.	Bangkok, Thailand	B60,000 thousand	Watches and clocks	80.0 [70.0]	Production company Directors serve concurrently
CITIZEN DE MEXICO, S.A. DE C.V.	Mexico City, Mexico	N\$7,774 thousand	Watches 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]	Directors serve concurrently
CITIZEN WATCHES U.K., LTD.	Wokingham, U.K.	STG£700 thousand	Watches and clocks	100.0 [100.0]	Sales company Directors serve concurrently
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]	Directors serve concurrently
CITIZEN (SHANGHAI) TRADING CO., LTD.	Shanghai, China	US\$200 thousand	Watches and clocks	100.0 [100.0]	Sales company
CITIZEN AMERICA DOT COM, INC.	California, U.S.A.	US\$5 thousand	Information and electronic equipment	100.0 [100.0]	Sales company
CITIZEN Watches (MALAYSIA) SDN.BHD.	Kuala Lumpur, Malaysia	M\$250 thousand	Watches 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. The Company absorbed CITIZEN TRADING CO., LTD. on October 1, 2004.
5. Based on the joint separation plan that was written with Japan CBM Corporation and Citizen L.C. Tec Co., Ltd., which are both wholly-owned subsidiaries of the Company, respectively on January 27, 2005, the Company established Citizen Systems Japan Co., Ltd. and Citizen Displays Co., Ltd. on April 1, 2005.

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 had a basic policy 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. On this occasion, the Company has revised the basic policy regarding the distribution of profits after the year ending March 31, 2006 in order to enhance the shareholder value. Consequently, the total amount of dividends and share buyback divided by consolidated net income will be stated as "ratio of return to shareholders" and the Company has decided to make the average ratio of the 3 to 5 year period to over 30%. Dividend will be decided taking into consideration of the balance of consolidated results and stability of dividend. Regarding the share buyback, the Company will aim to improve the capital efficiency as well as the return to shareholders by raising the earnings per share.

For fiscal year ended March 31, 2005, the Company raised its year-end dividends per share by 1 yen, which raises the full-year dividends per share to 11 yen.

For fiscal year ending March 31, 2006, the Company schedules to raise its full-year dividends per share to 15 yen based on the new policy mentioned above. For the year ended March 31, 2005, the Company has done share buyback in the amount of 26.7 million yen for 2.7 million shares. As a result, as of March 31, 2005, the Company holds 10.4 million shares of its own stock.

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 consideration of the Company's stock price in the market and the request from individual investors, the Company has modified its unit of exchange at the Tokyo Stock Exchange from 1,000 shares to 100 shares as of September 1, 2004.

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

Stronger cooperation within the Group

- (1) As a new growth strategy, in order to maximize the Group value and strengthen corporate governance, the Group established "Group Strategy Center" last October and will make 5 major subsidiaries wholly-owned subsidiaries this fall.

Maintaining Stable Earnings by Restructuring Watch Operations

- (1) In the watches and clocks segment, strengthen brands, especially the Citizen brand, to ensure that this business remains a key contributor to profits.
- (2) Fulfill its role as a world leader of finished watch manufacturer by taking multi-brand strategy.
- (3) Maintain the strength of the module business as the foundation of the watches 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, the Company intends to promote stronger cooperation from making the subsidiaries wholly-owned, and intends to expand its profit by faster decision making and efficient management.
- (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 13 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 become a 'corporation of good quality' through the above types of initiatives.

(Directors' remuneration)

The amounts paid for the year ended March 31, 2005 are shown below.

Directors	97 million yen
Corporate auditors	45 million yen

(notes)

1. The remuneration paid to directors who resigned during the fiscal year 2004 is included.
2. Severance payments and bonuses to directors based on resolutions at the General Meeting of Shareholders held on June 29, 2004 is as below.

Remuneration to resigning directors	26 million yen
Bonuses to directors	56 million yen
3. Salaries in the amount of 59 million yen was paid to employee doubling as director.

(Independent auditors' remuneration)

Fees paid to Nihombashi Corporation is shown below.

Fees paid for audit certification services	25 million yen
--	----------------

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 the Year ended March 31, 2005

Millions of yen	Year ended March 31,		Year-on-year change	%
	2004	2005		
Net sales	375,715	357,288	(18,426)	(4.9)
Operating income	35,506	37,092	1,586	4.5
Ordinary income	35,392	40,118	4,726	13.4
Net income	19,465	20,233	767	3.9

Breakdown of sales by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2004	2005		
Wristwatches and clocks	127,188	121,582	(5,606)	(4.4)
Information and electronic equipment	181,625	160,283	(21,341)	(11.8)
Industrial machinery	27,967	35,460	7,492	26.8
Other products	38,933	39,962	1,029	2.6
	375,715	357,288	(18,426)	(4.9)

Breakdown of operating income by segment

Millions of yen	Year ended March 31,		Year-on-year change	%
	2004	2005		
Wristwatches and clocks	18,584	17,791	(793)	(4.3)
Information and electronic equipment	19,710	20,505	795	4.0
Industrial machinery	2,992	4,951	1,958	65.4
Other products	1,417	1,748	330	23.4
Eliminations or general corporate	[7,197]	[7,903]	(705)	-
	35,506	37,092	1,586	4.5

Summary of Operating Results

During the fiscal year under review, the first half of the Japanese economy steadily improved on the back of the strong economy in USA and China. However, due to the rising prices of crude oil, production adjustment in IT related industries, and appreciation of yen, the economy slowed down in the second half.

Under these conditions, the Citizen Group continued to carry out the structural reforms, aiming to enhance the corporate value and to become a company that creates high added value products by integrating LCD operations and Information & Communication Products operations, respectively.

As a result, consolidated net sales for the fiscal year 2004 declined by 4.9% from the previous fiscal year to 357.2 billion yen. However, operating income, ordinary income and net income increased by 4.5% to 37.0 billion yen, 13.4% to 40.1 billion yen and 3.9% to 20.2 billion yen, respectively. The result marked a new record high for the Company in all of the profit.

Watches and Clocks

Regarding Citizen Brand, sales increased both in Japan and overseas. In Japan, radio-controlled watches, which were in huge demand, contributed to rise in sales and ASPs of Citizen Brand sold in Japan, by increasing sales of products with higher ASPs, such as "Exceed." Watches other than radio-controlled were sold well as well.

In the overseas market, due to successful high value products strategy, both sales and profit rose on local currency basis. In particular, Eco Drive and radio-controlled watches became pulling products, resulting in a rise in the selling prices worldwide. The largest US market enjoyed both sales and profit growth by product mix. In the European market, the main German market remained flat due to economic stagnation and the rise of fashion brands. In the Italian market, function and design of radio-controlled watches and marketing was well-received. In Asia, high value-added watches, such as Eco Drive and "Promaster" were also well-received and contributed to sales.

Although sales volume increased in "Q&Q" brand year-on-year due to expansion of new models, sales declined because of the yen's appreciation.

OEM maintained the same level of sales and profit as last year despite the slugging European economy.

Regarding movements, in addition to the acceleration of low-end Chinese movements, market price declined after the third quarter and market environment changed dramatically. Due to limiting sales volume under the policy to maintain the selling prices, year-on-year sales declined.

Sales of clocks declined due to the lower demand of special order products.

Consequently, total sales of watches and clocks decreased by 4.4% from the previous fiscal year to 121.5 billion yen, and operating income declined by 4.3% to 17.7 billion yen.

Information and Electronic Equipment

The main products of opto-devices are chip LEDs and back light units for color cell phones, and cell phone is the main market. Originally, global cell phone market was expected to become more multi-functioned, such as an increase in cell phones with color displays or cameras, in addition to the increase in production volume, resulting in sales growth in LED for flashes or back light unit. However, sales of chip LED declined dramatically not only due to the fall of prices and reduction of parts from intensifying competition, but also due to the delay of delivery of flash LED to overseas market. Moreover, back light also struggled from intensifying competition by increasing competitors and customers producing in-house.

In LCD, color STN for cell phone is the main product and Citizen Watch holds top global market share. Although it was well until May, after June, sales declined due to the cell phone inventory problem in China. On the other hand, our unique active aberration compensation element sold well.

In Quartz devices, although sales of TCXO were strong in the first half, in the latter half, sales declined due to the inventory adjustment in Chinese cell phone market and unbalance of supply and demand. Inventory adjustment took place in digital home appliances, and especially, downturn of tuners and movements triggered the sales decline for consumer use. However, profit improved year-on-year, due to the integration effect with Miyota Co., Ltd.

Healthcare equipment, such as electronic thermometers and blood pressure monitors, enjoyed sales increase by expanding universal design products to the market.

In printers and calculators, large dot printers had steady sales by aggressive sales activities in China. In addition, mini printers to Asia expanded its sales. On the other hand, electronic products for consumers, such as calculators, declined in its sales due to the competitive environment overseas.

In other parts, view finders as well as new products for digital camera started well, resulting in a huge improvement in sales and profit. CCD/CMOS image sensors lost its sales due to the effect of inventory adjustment in Chinese cell phone market. Sensors such as IrDA and small switches maintained similar sales as last year, while multi-functioned buzzers expanded sales.

Overall, information and electronic equipment declined in its sales by 11.8% to 160.2 billion yen, and

increased in its operating income by 4.0% to 20.5 billion yen.

Industrial Machinery

CNC automatic lathes received strong orders in the Japanese market from digital home appliances, office appliances, and automobile industries until the first half. However, in the second half, orders remained flat. Throughout the year, sales increased in Japanese market on the back of strong automobile industry.

In ASEAN, recovery of HDD related delayed, but at the end of the year, it came back, and Japanese related industry moved steadily. In Chinese market, aggressive introduction of low-end products and sales activities resulted in sales increase. In North America, sales bases were strengthened and received steady orders, especially from healthcare industry. In Europe, increasing orders especially in high-end products contributed to the sales increase.

Other machinery recorded increased sales and profit by steady orders from automobile and bearing industries in measuring machinery, and from automobile and amusement industry in assembling machinery.

As a result, sales of industrial machinery increased by 26.8% from the previous year to 35.4 billion yen and operating income by 65.4% to 4.9 billion yen.

Other Products

The jewelry business was again beset by severe market conditions and rise in platinum and decrease in marriage couples.

In the market for pachinko related products, our products of paper-bill conveyance equipment increased in sales due to issuance of new paper bill.

As for eyewear, although the high-end products, such as 18K, sold well, middle range products did not grow, resulting in sales decline.

Consequently, sales of other products increased by 2.6% from the previous year to 39.9 billion yen and operating income by 23.4% to 1.7 billion yen.

(2) Financial Position

(a) Assets Outstanding at Fiscal Year End

Total assets at the fiscal-year end decreased by 0.9 billion yen compared with the previous fiscal year-end to 390.5 billion yen. Notes and accounts receivable decreased by 9.0 billion yen due to sales decline, and investment securities increased by 2.9 billion yen due to market value evaluation of holding stocks. Cash and cash equivalents increased by 10.4 billion yen. Total Liabilities decreased by 20.0 billion yen to 119.9 billion yen compared to last year. As a result of sales decline, notes and accounts payable declined sharply. In addition, due to CMS (Cash Management System), short-term loans payable declined by 2.4 billion yen. In shareholders' equity, total of 16.0 billion yen increased from the end of last fiscal year to 240.8 billion yen as a result of retained earnings increase of 16.6 billion yen and net unrealized gain/loss on other marketable securities from market value evaluation of 1.0 billion yen.

(b) Cash Flows

On a consolidated basis, cash and cash equivalents outstanding at the fiscal year end increased by 10.4 billion yen from the end of the previous fiscal year, to 122.8 billion yen.

Cash flow from operating activities

Cash flow from operating activities yielded a cash flow revenue of 40.3 billion yen. The main factors were 38.0 billion yen of income before taxes, 16.8 billion yen of depreciation expenses, an increase of 9.6 billion yen due to decrease in receivables (trade), a decrease of 14.9 billion yen in notes and accounts payable (trade) and 11.9 billion yen of income taxes payment.

Cash flow from investing activities

Cash flow from investment activities ran a deficit of 21.1 billion yen. The main factors were payments of 19.2 billion yen for the purchase of property, plant and equipment and payment of 2.6 billion yen from purchase of marketable securities.

Cash flow for financing activities

Cash flow from financing activities ran a deficit of 9.3 billion yen. There were payments of 2.6 billion yen for borrowings, 3.8 billion yen for dividends, and 2.6 billion yen for share buyback.

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

Percent	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005
Equity ratio	52.9	56.1	55.7	57.4	61.7
Equity ratio at market value	67.8	67.8	52.3	80.1	79.3
Debt repayment period (years)	3.6	1.6	1.0	0.8	0.7
Interest coverage ratio	13.1	35.4	110.0	154.7	204.7

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 Year ending March 31, 2006

Millions of yen	Year ended March 31, 2005	Year ending March 31, 2006	Year-on-year change	%
Net sales	357,288	371,000	13,711	3.8
Operating income	37,092	39,000	1,907	5.1
Ordinary income	40,118	41,000	882	2.2
Net income	20,233	21,500	1,266	6.3

Breakdown of sales by segment

Millions of yen	Year ended March 31, 2005	Year ending March 31, 2006	Year-on-year change	%
Watches and clocks	121,582	123,500	1,917	1.6
Information and electronic equipment	160,283	172,500	12,216	7.6
Industrial machinery	35,460	37,000	1,539	4.3
Other products	39,962	38,000	(1,962)	(4.9)
	357,288	371,000	13,711	3.8

Breakdown of operating income by segment

Millions of yen	Year ended March 31, 2005	Year ending March 31, 2006	Year-on-year change	%
Watches and clocks	17,791	19,000	1,208	6.8
Information and electronic equipment	20,505	21,500	994	4.8
Industrial machinery	4,951	5,500	548	11.1
Other products	1,748	1,500	(248)	(14.2)
Eliminations or general corporate	[7,903]	[8,500]	(596)	-
	37,092	39,000	1,907	5.1

Although the business outlook is currently seeing a downturn, it is estimated to recover gradually from the latter half of this fiscal year. However, instability of international situation in the Middle East, the Korean Peninsula and China makes the operating environment for the Citizen group uncertain.

Under these circumstances, Citizen Group will continue structural reform and aims to enhance the Group corporate value and transform into a high-value added Group by making major subsidiaries into wholly-owned subsidiaries. By Group realignment, independence of each company will continue to be respected and will pursue synergy effect from Group optimum.

1. In watches and clocks, Citizen Brand will expand by high value-added products. With the concept of "Fusion of technology and beauty", ladies' Eco Drive radio-controlled watches will be released this June. In addition, by merging with Citizen Trading Co., Ltd. last October, the Group will strive for products close to customers.
2. In information and electronic equipment, operations are held at Miyota Co., Ltd., which is engaged in quartz devices, at the center. The Group has transferred Information & Communication Products Division and LCD Division to a new company, respectively, by company separation in order to operate the business with management more suitable to each industry.
3. In opto devices, we will expand the applications not only to cell phones, but also to general lighting and large screen back light. Moreover, we will pursue to introduce complex devices as a result of Group synergy.
4. In industrial machinery, reconstruction of strategies in overseas has begun, and will focus on development of Asian market, which is the production sight in the world.
5. In other products, we will endeavor in product development, marketing, capital efficiency, etc.

By taking measures listed above, we will strengthen the earning power. Moreover, under the corporate philosophy of "For the citizen-loved by the people, and contribute to the people", the company will aggressively perform CSR activities, and operate business that is harmonized with earth environment

and community.

For the fiscal year ending March 2006, we are forecasting consolidated sales of 371.0 billion yen (a 3.8 % increase), operating income of 39.0 billion yen (a 5.1% increase), ordinary income of 41.0 billion yen (a 2.2% increase), and net income of 21.5 billion yen (a 6.3% 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 100 yen/US dollar and 130 yen/Euro.

The exchange rate for the year ended March 2005 was 108 yen/US dollar and 135 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, 2004	%	March 31, 2005	%	Year-on-year change
Current assets					
Cash and cash equivalents	100,880		113,577		12,697
Notes and accounts receivable	87,247		78,229		(9,017)
Marketable Securities	17,145		14,093		(3,052)
Inventories	50,977		50,469		(508)
Deferred tax assets	10,776		10,018		(757)
Accrued consumption tax	2,665		2,488		(176)
Other current assets	7,413		6,058		(1,354)
Allowance for doubtful accounts	(1,540)		(1,808)		(267)
	275,565	70.4	273,126	69.9	(2,438)
Fixed assets					
Property, plant and equipment					
Buildings and structures	30,275		31,124		848
Machinery, equipment and carriers	29,127		28,391		(735)
Tools, furniture and fixtures	6,055		6,157		101
Land	9,709		9,504		(205)
Construction in progress	1,792		1,751		(41)
	76,960	19.6	76,929	19.7	(31)
Intangible fixed assets					
Software	839		681		(157)
Other intangible fixed assets	297		417		119
	1,136	0.3	1,099	0.3	(37)
Investments and other assets					
Investment securities	30,791		33,770		2,978
Long-term loans	163		872		708
Deferred tax assets	5,123		2,817		(2,306)
Other intangible fixed assets	2,797		3,218		421
Allowance for doubtful accounts	(394)		(474)		(79)
Allowance for valuation loss on investments	(619)		(795)		(176)
	37,862	9.7	39,410	10.1	1,547
	115,960	29.6	117,438	30.1	1,478
Total assets	391,526	100.0	390,565	100.0	(960)

	March 31, 2004	March 31, 2005
1. Accumulated depreciation of property, plant and equipment	232,488	233,137
2. Export bill discounted	1,019	1,003
3. Discounted trade notes receivable	230	-
4. Endorsed trade notes receivable	-	162
5. Loans guaranteed	651	328
6. R&D expenditures	9,465	10,217
7. Capital expenditures	17,276	19,161
8. Depreciation expenses	16,607	16,820

CITIZEN WATCH

Millions of yen	March 31, 2004	%	March 31, 2005	%	Year-on-year change
Current liabilities					
Notes and accounts payable	47,240		36,845		(10,395)
Short-term bank loans payable	9,027		6,559		(2,468)
Income taxes payable	7,444		6,513		(930)
Deferred tax liabilities	9		-		(9)
Accrued expenses	8,240		8,637		397
Reserve for bonuses to employees	4,516		4,349		(166)
Reserve for product warranties	856		889		33
Notes payable for equipment	2,614		1,360		(1,254)
Other current liabilities	21,031		17,665		(3,366)
	100,981	25.8	82,820	21.2	(18,161)
Long-term liabilities					
Bonds with subscription right for new shares	23,000		23,000		-
Long-term loans payable	72		2		(69)
Deferred tax liabilities	184		342		158
Reserve for defined retirement benefits	11,358		10,156		(1,201)
Reserve for retirement bonuses to directors	929		883		(46)
Consolidation adjustments	2,944		2,067		(876)
Other	450		642		192
	38,939	10.0	37,095	9.5	(1,843)
Total liabilities	139,921	35.8	119,916	30.7	(20,004)
Minority interests	26,749	6.8	29,760	7.6	3,010
Shareholders' equity					
Common stock	32,648	8.3	32,648	8.4	-
Additional paid-in capital	39,023	10.0	39,027	10.0	3
Retained earnings	156,517	40.0	173,173	44.3	16,656
Net unrealized gain/loss on other marketable securities	6,329	1.6	7,357	1.9	1,027
Foreign currency translation adjustments	(4,202)	(1.1)	(3,185)	(0.8)	1,017
Treasury stock	(5,461)	(1.4)	(8,133)	(2.1)	(2,671)
Total shareholders' equity	224,855	57.4	240,888	61.7	16,033
Total liabilities, minority interest and shareholders' equity	391,526	100.0	390,565	100.0	(960)

Consolidated Statement of Income

Millions of yen	Year ended March 31, 2004		Year ended March 31, 2005		Year-on-year change	
		%		%		%
Net sales	375,715	100.0	357,288	100.0	(18,426)	(4.9)
Cost of sales	267,109	71.1	247,075	69.2	(20,033)	(7.5)
Gross profit	108,605	28.9	110,212	30.8	1,607	1.5
Selling, general and administrative expenses	73,098	19.4	73,120	20.4	21	0.0
Operating income	35,506	9.5	37,092	10.4	1,586	4.5
Nonoperating income						
Interest and dividend income	554		1,072		517	
Rent received	304		578		274	
Gain on sale of marketable securities	20		11		(8)	
Foreign currency exchange gain	-		622		622	
Amortization of consolidation adjustments	1,116		973		(143)	
Other	946		999		52	
	2,942	0.7	4,257	1.2	1,314	44.7
Nonoperating expenses						
Interest charges	269		194		(75)	
Depreciation expenses for lent properties	165		311		146	
Foreign currency exchange loss	2,088		-		(2,088)	
Other	533		726		192	
	3,057	0.8	1,231	0.4	(1,825)	(59.7)
Ordinary income	35,392	9.4	40,118	11.2	4,726	13.4
Extraordinary gains						
Gain on sales of fixed assets	413		18		(394)	
Gain on sales of investment securities	257		0		(257)	
Reversal of allowance for doubtful accounts	570		196		(373)	
Difference arising from change in retirement benefit accounting standards	152		26		(125)	
Other	558		637		78	
	1,952	0.5	879	0.3	(1,072)	(54.9)
Extraordinary losses						
Loss on disposal of properties	1,413		2,159		746	
Valuation loss on investment securities	99		302		202	
Special severance indemnities	443		-		(443)	
Other	847		484		(362)	
	2,803	0.7	2,946	0.8	142	5.1
Income before income taxes	34,541	9.2	38,051	10.7	3,510	10.2
Income taxes						
Current	11,134	3.0	11,094	3.1	(39)	(0.4)
Deferred	142	0.0	2,501	0.7	2,359	1657.5
Minority interests	3,798	1.0	4,221	1.2	423	11.1
Net income	19,465	5.2	20,233	5.7	767	3.9

Consolidated Statement of Retained Earnings

Millions of yen	Year ended March 31,	
	2004	2005
Capital reserves		
Capital reserves, beginning of term	39,023	39,023
Capital reserves, beginning of term	-	3
Increase in capital reserves		
Increase resulting from exchange of shares	-	3
Capital reserves, end of term	39,023	39,027
Retained earnings		
Retained earnings, beginning of term	140,007	156,517
Net income	19,465	20,233
Increase due to change in scope of consolidation	-	2
	19,465	20,235
Decrease in retained earnings		
Cash dividends declared	2,729	3,341
Bonuses to directors	172	237
Other	54	-
	2,956	3,578
Retained earnings, end of term	156,517	173,173

Consolidated Statement of Cash Flow

Millions of yen	Year ended March 31,	
	2004	2005
Cash flows from operating activities		
Income before income taxes	34,541	38,051
Depreciation	16,607	16,820
Increase/decrease in reserve for defined retirement benefits	(2,715)	(1,233)
Increase/decrease in allowance for doubtful accounts	80	292
Interest and dividends income	(554)	(1,072)
Interest charges	269	194
Loss on marketable securities sold	(20)	(11)
Loss on investment securities sold	(158)	0
Loss on properties sold	(542)	(128)
Loss on disposal of properties	1,413	2,159
Payment of bonuses to directors	(201)	(270)
Increase/decrease in receivables - trade	(6,446)	9,645
Increase/decrease in inventories	(172)	1,093
Increase/decrease in notes and accounts payable - trade	8,845	(14,908)
Consolidation adjustments	(1,116)	(973)
Other	434	1,820
Subtotal	50,263	51,480
Interest and dividends received	556	1,066
Interest payments	(270)	(197)
Income taxes	(8,788)	(11,955)
Net cash provided by operating activities	41,761	40,393
Cash flows from investing activities		
Payments for the purchase of marketable securities	(8,986)	(2,698)
Proceeds from the sale of marketable securities	11,023	4,622
Payments for the purchase of investment securities	(758)	(2,410)
Proceeds from the sale of investment securities	2,141	672
Payments for the purchase of property, plant and equipment	(15,972)	(19,221)
Proceeds from the purchase of property, plant and equipment	1,010	866
Increase/decrease in loans	(345)	(445)
Other	(1,315)	(2,569)
Net cash used in investing activities	(13,203)	(21,183)

CITIZEN WATCH

Millions of yen	Year ended March 31,	
	2004	2005
Cash flows from financing activities		
Net increase/decrease in borrowings	(3,842)	(2,656)
Dividends paid by parent company	(2,729)	(3,341)
Dividends paid to the minority stockholders	(389)	(510)
Payments for purchase of treasury stock	(76)	(2,678)
Proceeds from the sale of treasury stock	16	10
Other	(438)	(130)
Net cash used in financing activities	(7,460)	(9,307)
Effect of exchange rate changes on cash and cash equivalents	(2,138)	558
Net increase in cash and cash equivalents	18,958	10,461
Cash and cash equivalents at beginning of term	94,022	112,451
Increase/decrease in cash and cash equivalents due to change in scope of consolidation	(529)	(43)
Cash and cash equivalents at end of term	112,451	122,869

Basis of Presenting the Consolidated Financial Statements

Item	Basis of Presenting the Consolidated Financial Statements
1. Consolidation policy	<p>(1) Consolidated subsidiaries (57 companies) The significant consolidated subsidiaries are already listed under 'Subsidiaries and Affiliates.' Newly established CITIZEN WATCHES (MALAYSIA) SDN. BHD. and CITIZEN AMERICA DOT COM INC. are included in the Company's consolidated subsidiaries from this consolidated fiscal year which ended March 31, 2005. On the other hand, GRACE CO., LTD. has been excluded from the Company's consolidated subsidiaries as the company has finished liquidation. CITIZEN TECHNO CO., LTD. has also been excluded from the Company's consolidated subsidiaries as it has ended its operation and total assets and retained earnings are not significant in the related consolidated totals. The Company merged with CITIZEN TRADING CO., LTD. on October 1, 2004. 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 (50 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 five 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.</p>
4. Accounting standards	<p>(1) Valuation standards and methods for major assets</p> <ul style="list-style-type: none"> {1} Marketable and investment securities <ul style="list-style-type: none"> i. Debentures classified as held-to-maturity are valued on an amortized cost (straight-line) basis. ii. Stocks of subsidiaries and affiliates are valued at cost using the moving-average method. iii. Other marketable securities: <ul style="list-style-type: none"> 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. {2} Derivative instruments <ul style="list-style-type: none"> Derivative instruments are valued at market. {3} Inventories <ul style="list-style-type: none"> Inventories are primarily valued on a weight-average cost basis, which does not exceed cost nor market. <p>(2) Depreciation of fixed assets</p> <ul style="list-style-type: none"> {1} Tangible fixed assets: declining-balance method <ul style="list-style-type: none"> Years of useful life for principal assets Buildings and structures: 3 - 50 years Machinery and equipment: 5 - 11 years {2} Intangible fixed assets: straight-line method

Item	Basis of Presenting the Consolidated Financial Statements
	<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> <p>(6) Consumption tax The consumption tax is excluded from the amounts of income and expenses.</p>
5. Valuation of assets and liabilities of consolidated subsidiaries	All assets and liabilities of subsidiaries are valued at market.

Item	Basis of Presenting the Consolidated Financial Statements
6. Amortization of consolidation adjustments	Consolidation adjustments 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.

(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, 2004	March 31, 2005
Cash	100,880	113,577
Marketable securities	17,145	14,093
Time deposits with a deposit period greater than three months	(2,492)	(3,631)
Shares and bonds with a redeemable period greater than three months	(3,081)	(1,169)
Cash and cash equivalents	112,451	122,869

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

Millions of yen	Watches and clocks	Information and electronic equipment	Industrial machinery	Other products	Segment totals	Eliminations or general corporate	Consolidated totals
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
Year ended March 31, 2005							
Net sales and operating income/loss							
Net sales							
Unaffiliated customers	121,582	160,283	35,460	39,962	357,288	-	357,288
Intersegment	-	2,071	-	-	2,071	[2,071]	-
Total	121,582	162,355	35,460	39,962	359,360	[2,071]	357,288
Operating expenses	103,791	141,849	30,508	38,213	314,364	5,831	320,196
Operating income	17,791	20,505	4,951	1,748	44,996	[7,903]	37,092
Assets, depreciation and capital expenditures							
Assets	104,196	141,500	27,464	32,112	305,273	85,292	390,565
Depreciation and amortization	6,577	7,012	1,196	1,342	16,129	690	16,820
Capital expenditures	6,911	8,281	1,659	1,593	18,445	716	19,161

(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 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.

During consolidated fiscal 2004, operating expenses that could not be allocated were costs associated with the parent company's administrative expenses and basic research. Such expenses amounted to 7,903 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 85,483 million yen for consolidated fiscal 2004 and 77,873 million yen for consolidated fiscal 2003. 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, 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
Year ended March 31, 2005								
Net sales and operating income/loss								
Net sales								
Unaffiliated customers	275,156	36,227	28,036	16,085	1,782	357,288	-	357,288
Intersegment	51,218	53,169	247	99	-	104,735	[104,735]	-
Total	326,375	89,397	28,284	16,185	1,782	462,024	[104,735]	357,288
Operating expenses	284,905	88,253	27,043	15,476	1,855	417,534	[97,338]	320,196
Operating income	41,470	1,143	1,240	708	(73)	44,489	[7,396]	37,092
Assets	262,944	38,214	17,474	12,067	1,170	331,871	58,693	390,565

(Notes)

1. Nations or regions are classified according to geographic proximity.

2. Major nations or regions in the respective categories:

(1) Asia: China/Hong Kong, South Korea, Taiwan, Singapore, Thailand and Malaysia

(2) Americas: United States, Panama and Mexico

(3) Europe: Germany, United Kingdom, France, Italy and Spain

(4) Other: Australia

3. 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, 2004		Year ended March 31, 2005	
	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales
Asia	135,725	36.1	119,259	33.4
Americas	42,899	11.4	39,592	11.1
Europe	48,769	13.0	43,307	12.1
Other	6,298	1.7	5,876	1.6
Total	233,693	62.2	208,036	58.2
Consolidated sales	375,715	100.0	357,288	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, 2004	March 31, 2005
1. Major components of deferred tax assets and liabilities		
(Deferred tax assets)		
Depreciation in excess of the depreciation limit	4,760	4,932
Devaluation and unrealized profits on inventory	6,090	5,165
Reserve for retirement benefits in excess of contribution limits	6,079	5,750
Amount in excess of deductible allowance for doubtful accounts	698	622
Amount in excess of deductible reserves for bonus payments	1,792	1,772
Loss carried forward	5,171	2,917
Valuation loss on investment securities	4,864	4,073
Other	5,183	4,930
Subtotal of deferred assets	34,641	30,166
Valuation allowance	(8,353)	(6,079)
Total deferred tax assets	26,288	24,086
(Deferred tax liabilities)		
Revaluation gain/loss on other marketable securities	(4,341)	(5,067)
Undistributed income of overseas affiliates	(6,036)	(6,373)
Special depreciation reserve	(169)	(129)
Other	(34)	(22)
Total deferred tax liabilities	(10,582)	(11,592)
Net deferred tax assets	15,706	12,493
<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	10,776	10,018
Fixed assets - Deferred tax assets	5,123	2,817
Current liabilities - Deferred tax liabilities	9	-
Long-term liabilities - Deferred tax liabilities	184	342
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%	40.7%
(Adjustments)		
Expenses not deducted for tax purposes	0.4%	0.4
Dividend and income exclusion	(1.2)%	(0.1)
Effect of deduction for net loss carried forward in this term	(7.0)%	-
Increase/decrease in valuation allowance	(3.3)%	(5.7)
Effect of changes in tax rate related to introduction of pro forma standard tax on business	0.4%	-
Other	1.3%	1.3
Income tax rate after deferred tax accounting	32.7%	35.7

(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, 2004			March 31, 2005		
	Amount on consolidated balance sheet	Market value	Valuation gain/loss	Amount on consolidated balance sheet	Market value	Valuation gain/loss
Other debentures	1,000	965	(34)	1,000	1,082	82

3. Other marketable securities with market value

Millions of yen	March 31, 2004			March 31, 2005		
	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	8,735	19,397	10,662	8,741	21,201	12,459
Bonds	6,289	6,319	29	5,000	5,004	4
	15,024	25,716	10,692	13,741	26,206	12,464
Other marketable securities whose value reported on the consolidated balance sheet does not exceed the acquisition cost						
Stocks	-	-	-	-	-	-
Bonds	75	72	(2)	74	69	(5)
	75	72	(2)	74	69	(5)

4. Other marketable securities sold during the year ended March 31, 2004 and 2005

Millions of yen	March 31, 2004	March 31, 2005
Proceeds from sale	2,977	1,030
Gain on sale (aggregate)	278	11
Loss on sale (aggregate)	0	-

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

Millions of yen	March 31, 2004	March 31, 2005
Bonds being held to maturity		
Unlisted bonds	10,977	9,098
Other marketable securities		
Unlisted stocks (excluding over-the-counter stocks)	1,217	1,116
Investment trust	5,064	4,924

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

Millions of yen	Other bonds	Others	Total
March 31, 2004			
Up to 1 year	10,997	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	-	-	-
March 31, 2005			
Up to 1 year	9,098	5,004	14,103
Greater than 1 and up to 5 years	1,000	-	1,000
Greater than 5 and up to 10 years	-	-	-
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. During the year ended March 31, 2005, some domestic subsidiaries changed a part of their retirement benefit plans from tax-qualified pension plan to defined contribution pension 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, 2004	March 31, 2005
Retirement benefit liabilities	(46,811)	(44,459)
Pension assets	30,114	27,933
Pension trust	5,131	5,023
Unfunded pension liabilities	(11,565)	(11,502)
Undisposed gain/loss associated with changes in accounting treatment	(114)	(83)
Unrecognized gain and loss	1,935	2,244
Unrecognized prior service liabilities	(1,236)	(816)
Net balance reported in consolidated balance sheet	(10,981)	(10,156)
Prepaid pension cost	376	-
Accrued retirement benefit cost	(11,358)	(10,156)

(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, 2004	March 31, 2005
Service cost	2,111	2,101
Interest cost	1,122	988
Anticipated return on pension funds	(495)	(582)
Disposed gain/loss associated with the change in accounting treatment	(151)	(26)
Amount of liabilities for past service costs recognized as expense	(261)	(420)
Expensing of differences based on actuarial calculations	1,829	476
Retirement benefit cost	4,155	2,535

(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.

March 31, 2005: Costs contributed to defined contribution pension in consolidated subsidiaries adopting defined contribution plan are included in the service cost account above.

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

	March 31, 2004	March 31, 2005
Attribution of anticipated retirement benefits	Straight-line method	Straight-line method
Discount rate	Generally 2.5%	Beginning Generally 2.5% End Generally 2.5%
Anticipated rate of return on pension funds	Generally 1.5%	Generally 2.0%
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.

(Subsequent Events)

The Company has decided and signed at the board of directors held on May 16, 2005, an agreement for share exchange whereby the five subsidiaries, which are Citizen Electronics Co., Ltd., Miyota Co., Ltd., Cimeo Precision Co., Ltd., Sayama Precision Co., Ltd., and Kawaguchiko Seimitsu Co., Ltd., will become wholly-owned subsidiaries of Citizen Watch. Details are listed under subsequent events of consolidated financial statements.

(1) Purpose of share exchange

The group's policy up to now had the main objective of respecting the autonomy of each group company, and took the approach that new businesses should be pursued and domestic and international competitiveness should be enhanced through group companies' independent planning and friendly rivalry. On this occasion, for the purpose of further improvement of the going concern value of the entire group with a view to optimizing the use of business resources and increasing business efficiency of the entire group, we have decided to perform stock-for-stock exchange transactions by means of which the Five Group Companies will be made wholly-owned subsidiaries of Citizen Watch. We intend to maintain and enhance our global competitiveness by concentrating on the group's all-around capabilities.

(2) Schedule of Stock-for-Stock Exchange

- May 16, 2005: Each company's board of directors meeting to approve each of the stock-for-stock exchange agreements.
Execution of each of the stock-for-stock exchange agreements.
- June 20, 2005: Kawaguchiko's Shareholders Meeting to approve its stock-for-stock exchange agreement (as planned).
- June 22, 2005: Sayama's Shareholders Meeting to approve its stock-for-stock exchange agreement (as planned).
- June 24, 2005: Cimeo's Shareholders Meeting to approve its stock-for-stock exchange agreement (as planned).
- June 28, 2005: Citizen Electronics' and Miyota's Shareholders Meetings to approve each of their stock-for-stock exchange agreements (as planned).
- June 29, 2005: Citizen Watch's Shareholders Meeting to approve each of the stock-for-stock exchange agreements (as planned).
- October 1, 2005: Effective Date of the Stock-for-Stock Exchange (as planned).

(3) Share exchange ratio

Citizen Watch asked Nikko Citigroup Limited. ("Nikko Citigroup"), and the Five Group Companies asked Mizuho Securities Co., Ltd. ("Mizuho Securities"), for calculations of the stock-for-stock exchange ratios. In reference to the results of such calculations, the companies have discussed and agreed as follows:

Company	Stock-for-stock exchange Ratios
Citizen Watch	1
Citizen Electronics	5.77
Miyota	2.18
Cimeo	0.97
Sayama	27.30
Kawaguchiko	7.77

(Notes)

1. Share Allotment Ratio

Shares of Citizen Watch common stock will be allotted for each one (1) share of the Five Group Companies' respective common stocks owned by such shareholders in accordance with the stock-for-stock exchange ratios mentioned above. However, no share allotment will be made with respect to the Five Group Companies' common stocks owned by Citizen Watch.

2. Number of Shares of Citizen Watch Allotted and Delivered upon Stock-for-Stock Exchange

Upon the stock-for-stock exchange, Citizen Watch will newly issue 88,077,759 shares of common stock and allot and deliver such new shares together with 10,000,000 shares of common stock that it itself holds to the shareholders of the Five Group Companies (excluding Citizen Watch).