

February 21, 2005

## Consolidated Financial Statements for the Nine Months Ended December 31, 2004

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

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

### CITIZEN WATCH CO., LTD.

(URL <http://www.citizen.co.jp/>)

Code No.: 7762 Tokyo Stock Exchange

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### 1. Matters concerning preparation for consolidated financial results for the nine months ended December 31, 2004

- (1) Change in the accounting policies from the method applied for the most recent fiscal year:  
Yes, simplified procedures are used for standard for stating income taxes and recognition of provisions and reserves.
- (2) Scope of consolidation and application of the equity method  
Number of consolidated subsidiaries: 56  
Number of non-consolidated subsidiaries accounted for by the equity method: 0  
Number of affiliates accounted for the equity method: 0
- (3) Change in scope of consolidation and application of the equity method:  
(compared to the year ended March 31, 2004)  
Consolidation (Newly added): 1; (Eliminated): 3  
Equity method (Newly added): 0; (Eliminated): 0

### 2. Results for the nine months ended December 31, 2004

#### (1) Consolidated operating results

	Net sales		Operating income		Ordinary income	
	(Millions of yen)		(Millions of yen)		(Millions of yen)	
Nine months ended December 31, 2004	277,059	(3.0)%	31,881	7.2%	33,826	14.2%
Nine months ended December 31, 2003	285,727	-	29,748	-	29,619	-
Year ended 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
	(Millions of yen)		(Yen)	(Yen)
Nine months ended December 31, 2004	18,078	18.3%	59.58	54.60
Nine months ended December 31, 2003	15,284	-	50.31	46.12
Year ended March 31, 2004	19,465	234.5%	63.31	58.03

Millions of yen	Nine months ended December 31, 2004		Nine months ended December 31, 2003	
	Net sales	Operating income	Net sales	Operating income
Watches and clocks	93,130	14,988	97,805	16,390
Information and electronic equipment	126,503	17,163	138,312	15,141
Industrial machinery	26,041	3,454	19,880	2,107
Other products	31,383	2,062	29,727	1,306
Eliminations or general corporate	-	(5,787)	-	(5,197)
Consolidated totals	277,059	31,881	285,727	29,748

Consolidated net sales for the nine months decreased by 3.0% from the same period of last year to 277.0 billion yen and consolidated operating income increased by 7.2% to 31.8 billion yen.

#### Watches and clocks business

Citizen brand, which is the core product, enjoyed increased sales in the Japanese market due to the continuing strong sales of full-metal Eco-Drive radio-controlled watches. However, despite healthy sales in some areas such as Italy and India, overseas market overall struggled with the yen's appreciation. Regarding movement, decline in volume in order to maintain the unit price resulted in decrease in sales. Consequently, sales of watches and clocks business overall decreased by 4.8% from the same period of last year to 93.1 billion yen, and operating income decreased by 8.6% to 14.9 billion yen.

#### Information and electronic equipment business

In opto-devices, sales decreased due to sales decline to a major overseas cell phone manufacturer and the stagnation in the Japanese cell phone market. However, profit increased due to rationalization and improvement of product mix in LED to high-intensity LED. Liquid crystal devices also dropped its sales due to the influence of excess inventory of cell phone in China. Crystal devices saw an improvement in profit due to rationalization by concentration to Miyota Co., Ltd., in addition to the sales increase of TCXO in the first half of the term. Consequently, sales of information and electronic equipment business overall decreased by 8.5% from the same period of last year to 126.5 billion yen though operating income increased by 13.4% to 17.1 billion yen.

#### Industrial machinery business

In the Japanese market, the main CNC automatic lathes had a high level of orders from digital-related industries in addition to the stable automobile industry. Orders were steady in Asia, especially China, Europe and the U.S. as well. As a result, sales of the industrial machinery business overall increased by 31.0% from the same period of last year to 26.0 billion yen, and operating income increased by 63.9% to 3.4 billion yen.

#### Other products business

Due to the special procurement of bank note conveyance devices and pachinko ball dispensers associated with the issuance of new paper bills, sales of other products business increased by 5.6% from the same period of last year to 31.3 billion yen, and the operating income increased by 57.9% to 2.0 billion yen,

## (2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
As of December 31, 2004	398,459	236,976	59.5	787.11
As of December 31, 2003	393,942	218,590	55.5	719.55
As of March 31, 2004	391,526	224,855	57.4	739.45

Total assets as of December 31, 2004 increased 6.9 billion yen from March 31, 2004 to 398.4 billion yen. Cash and cash equivalents increased 6.3 billion yen due to increase in net income and sales of marketable securities. Notes and accounts payable decreased 3.4 billion yen due to the change in payment method as one of the reasons. Retained earnings increased as net income was recorded. In addition, the Company purchased its own stock in the amount of 2.5 billion yen.

### 3. Consolidated Projected Results for the Year ending March 31, 2005

Considering the results for the nine months ended December 31, 2004 and recent circumstances, the consolidated projected results for the fiscal year ending March 31, 2005 are revised as below from the previous announcement.

The exchange rate for the fiscal year ending March 31, 2005 is assumed as 1US\$ = ¥108 and 1EURO = ¥135. (Exchange rate for the nine months was 1US\$ = ¥109 and 1EURO = ¥134.)

#### Consolidated Projected Results for the Year ending March 31, 2005

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Previous projection (November 16, 2004)	371,000	41,000	43,000	21,500
Current projection	357,000	36,500	38,000	19,500
Amount of change	-14,000	-4,500	-5,000	-2,000
% of change	-3.8%	-11.0%	-11.6%	-9.3%
Year ended March 31, 2004	375,715	35,506	35,392	19,465

#### Breakdown of Sales by Business Segment

Millions of yen	Current projection	Previous projection (November 16, 2004)	Amount of change	% of change
Watches and clocks	122,000	124,200	-2,200	-1.8
Information and electronic equipment	160,000	174,400	-14,400	-8.3
Industrial machinery	35,500	34,900	600	1.7
Other products	39,500	37,500	2,000	5.3
Consolidated totals	357,000	371,000	-14,000	-3.8

#### Breakdown of Operating Income by Business Segment

Millions of yen	Current projection	Previous projection (November 16, 2004)	Amount of change	% of change
Watches and clocks	17,500	19,000	-1,500	-7.9
Information and electronic equipment	20,000	24,000	-4,000	-16.7
Industrial machinery	5,200	5,000	200	4.0
Other products	1,800	1,000	800	80.0
Eliminations or general corporate	(8,000)	(8,000)	0	-
Consolidated totals	36,500	41,000	-4,500	-11.0

*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.*



## Consolidated Statement of Income

Millions of yen	Nine months ended		Nine months ended		Year ended	
	December 31, 2003	%	December 31, 2004	%	March 31, 2004	%
<b>Net sales</b>	285,727	100.0	277,059	100.0	375,715	100.0
<b>Cost of sales</b>	202,868	71.0	190,190	68.6	267,109	71.1
Gross profit	82,858	29.0	86,868	31.4	108,605	28.9
<b>Selling, general and administrative expenses</b>	53,109	18.6	54,986	19.9	73,098	19.4
Operating income	29,748	10.4	31,881	11.5	35,506	9.5
<b>Nonoperating income</b>						
Interest and dividend income	464		788		554	
Foreign exchange gain	-		225		-	
Other	2,062		1,903		2,387	
	2,526	0.9	2,918	1.1	2,942	0.7
<b>Nonoperating expenses</b>						
Interest charges	216		163		269	
Foreign exchange loss	1,967		-		2,088	
Other	471		810		699	
	2,655	0.9	973	0.4	3,057	0.8
Ordinary income	29,619	10.4	33,826	12.2	35,392	9.4
<b>Extraordinary gains</b>	953	0.3	411	0.2	1,952	0.5
<b>Extraordinary losses</b>	1,292	0.5	1,129	0.4	2,803	0.7
Income before income taxes	29,280	10.2	33,109	12.0	34,541	9.2
Income taxes	11,091	3.9	11,747	4.2	11,277	3.0
Minority interests	2,904	1.0	3,282	1.2	3,798	1.0
Net income	15,284	5.3	18,078	6.5	19,465	5.2