

For the Six Months Ended February 29, 2012

Annual Select[®] 2012

**1st
half**

Watts Co., Ltd.

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(Securities Code: 2735)

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Corporate Profile

The Watts Group (the Group) is comprised of the following: Watts Co., Ltd. (Watts), four sales companies (three consolidated subsidiaries and one equity-method affiliate) and two import/wholesale companies (consolidated subsidiaries). The Group's primary business is the retail sale of daily-use items at a fixed price of 100 yen. The retail shops, which operate under the names of "meets." and "Silk" and are either directly managed shops or franchised shops, are deployed throughout Japan. Since the end of the previous fiscal year, the number of directly managed 100-Yen shops rose 42 to 726 shops, while franchised shops declined 60 to 62 shops. As a result, the total number of 100-Yen shops as of February 29, 2012 was 814 shops. Other shops operated by the Group include 15 retail shops selling nature-based comfortable goods, seven retail shops selling fixed-price merchandise in Bangkok, Thailand, one shop operating in collaboration with a food supermarket, and three standing bars.

The 100-Yen shop industry grew rapidly in the mid-nineties against a backdrop of a deflationary economy. Then, for a certain period, the market appeared to be saturated. Recently, however, experiencing a favorable operating environment amid strengthening future uncertainty towards the global economy and a tendency among consumers to stick to tight household budgets, all 100-Yen shops are experiencing growth in their operating results. Under such an environment, the Group, aiming to differentiate itself from other companies, operates a vast network of directly managed small- and medium-sized shops that provide merchandise line-ups focused on practical-use household items. Our management strategy is to realize a retail system whereby better quality products that seem exceptional value for money can continue to be sold at low prices to customers. By accumulating profit through low-cost opening and closing of shops and low-cost operations, and investing that profit in product development for the Group's private brand "WATTS SELECT" and shop development, the Group aims to expand its scale of operations. A merit of scale can be thus achieved whereby procurement costs can be constrained. Such cost constraint provides a further base upon which low-cost operation can again be realized to generate further profit, thereby achieving a cycle of reinvestment. Looking ahead, the Group aims to advance this cycle to new levels.

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* While every best effort has been made to provide a translation meeting the quality standards required of professionals, the Company does not guarantee it is 100% accurate.

* This Annual Select contains forward-looking statements regarding the future plans, strategies and performance of the Company. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on assumptions and beliefs derived from the information currently available to the Company. Accordingly, actual results may differ from those projected in this presentation.

I. Summary of Selected Financial Data (Consolidated)

	First six months of 17th term From September 1, 2010 to February 28, 2011	First six months of 18th term From September 1, 2011 to February 29, 2012	17th term From September 1, 2010 to August 31, 2011
Net sales (Thousands of yen)	18,408,324	20,268,411	38,188,015
Ordinary income (Thousands of yen)	950,989	1,062,168	1,985,799
Net income (Thousands of yen)	471,937	602,016	1,018,413
Comprehensive income (Thousands of yen)	475,928	594,602	1,015,358
Net assets (Thousands of yen)	4,230,363	5,240,045	4,791,833
Total assets (Thousands of yen)	12,836,103	14,051,894	13,476,344
Net income per share (Yen)	75.93	95.60	163.68
Diluted net income per share (Yen)	74.72	95.32	161.65
Equity ratio (%)	32.9	37.3	35.5
Net cash provided by (used in) operating activities (Thousands of yen)	642,483	1,055,229	1,514,716
Net cash provided by (used in) investing activities (Thousands of yen)	(416,648)	(437,844)	(560,203)
Net cash provided by (used in) financing activities (Thousands of yen)	302,203	(321,108)	50,346
Cash and cash equivalents at end of period (Thousands of yen)	2,565,037	3,332,736	3,039,110

- Notes:
1. Because Watts prepares quarterly consolidated financial statements, non-consolidated summary of selected financial data is omitted.
 2. Net sales do not include consumption taxes.
 3. As a result of the application of the "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, June 30, 2010), comprehensive income for a second-quarter (six-month) period has been calculated from this 18th term. Accordingly, retrospective accounting is applied.

II. Message From Management

おかげさまの心

With a Spirit of Appreciation



Fumio Hiraoka
President and CEO

Management Philosophy

It is thanks to everyone that we succeed in our work.

We place importance on the spirit of appreciation. Aiming to grow together with everyone, our mission is to contribute to society and help everyone who has helped us.

For the continuous satisfaction of our customers

At Watts, we are doubling our efforts towards “the creation of a system to sell good products at cheaper prices.” To continue offering practical-use household items worth more than 100 yen at a price of 100 yen, we find all possible ways to reduce the expenses related to shop operations; we secure profits by opening a large number of shops that can make a profit even on small sales, and we reinvest that profit to strengthen our power to create new products and expand the Group’s scale.

“Firstly, invest in the development of best value-for-money products that meet customers’ satisfaction. Then by selling such products, raise attractiveness of shops. With this enhanced attractiveness, increase the number of shops and generate new M&A opportunities, increasing the Group’s scale. Take advantage of this merit of scale as a purchaser to strengthen profitability. Use this profit to make further investment.”

At Watts, we believe that if we continue to repeat the above cycle, we shall achieve “the creation of a system to sell good products at cheaper prices,” and we are working daily at this task.

III. Operating Results

(1) Analysis of Operating Results

In the six months ended February 29, 2012, the Japanese economy showed signs of getting back on track toward a mild recovery following the difficult period after the Great East Japan Earthquake. However, the future outlook of the economy remained unclear due to economic unrest mainly in Europe and the prolonged period of the strong yen. Because of these circumstances, the retail industry continued to encounter a reluctance to buy and a preference for lower priced items among consumers.

Operating in this environment, Watts appealed to customers by developing best value-for-money products, mostly practical-use household items, under its private brand “WATTS SELECT.” Also, in its shop operations, Watts continued to practice low-cost opening and closing of shops and low-cost operations, and it strove to boost customer satisfaction while, at the same time, securing shop revenues.

In the six months ended February 29, 2012, the number of 100-Yen shops opened included 62 directly managed shops and five franchised/other shops, while the number of 100-Yen shops closed included 20 directly managed shops and 62 franchised/other shops, on account of the discontinuation of contracts because of a change in shop operation policy of 100-Yen shops operated by franchisees. As of the end of the six month period, the number of shops belonging to the Group was 814, which includes shops other than 100-Yen shops.

As a result, net sales for the six month period were 20,268 million yen (up 10.1% year on year), operating income was 1,058 million yen (up 36.5% year on year), ordinary income was 1,062 million yen (up 11.7% year on year) and net income was 602 million yen (up 27.6% year on year).

(Millions of yen)

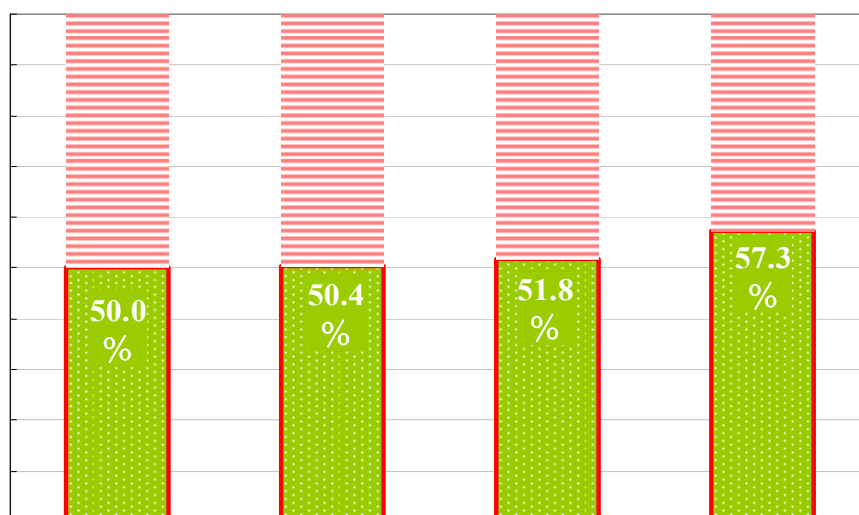
	2Q ended February 28, 2011		2Q ended February 29, 2012			2Q Forecast	
		Ratio to net sales		Ratio to net sales	Year-on-year change		Change from forecast
Net sales	18,408	–	20,268	–	10.1%	19,900	368
Gross profit	6,967	37.8%	7,752	38.3%	11.3%	–	–
Selling, general and administrative expenses	6,191	33.6%	6,694	33.0%	8.1%	–	–
Operating income	775	4.2%	1,058	5.2%	36.5%	940	118
Ordinary income	950	5.2%	1,062	5.2%	11.7%	910	152
Net income	471	2.6%	602	3.0%	27.6%	470	132
Net income per share (Yen)	75.93		95.60		–	–	–

Note: 2Q Forecast figures are from the forecasts for the fiscal year ending August 31, 2012 that was announced on October 12, 2011.

(2) Forecasts for the Full Year

Looking at the operating results up until the end of the six month period, net sales has been strong as a result of sales growth from existing shops and the opening of new shops. For the first six months, sales from existing shops grew 2.7% (the forecast assumed a negative growth rate of -0.6%).

The following has contributed to these strong sales. Thanks to continued efforts since the 16th term, the number of our best value-for-money private-brand “WATTS SELECT” products has increased to 141. Also, during the six months, we opened 42 shops, which is a far greater pace than the 26 shop openings expected for this period. With respect to profit, although the expense ratio rose, this was offset by a rise in the gross profit to sales ratio, resulting in operating income, ordinary income and net income all exceeding the forecast plan.



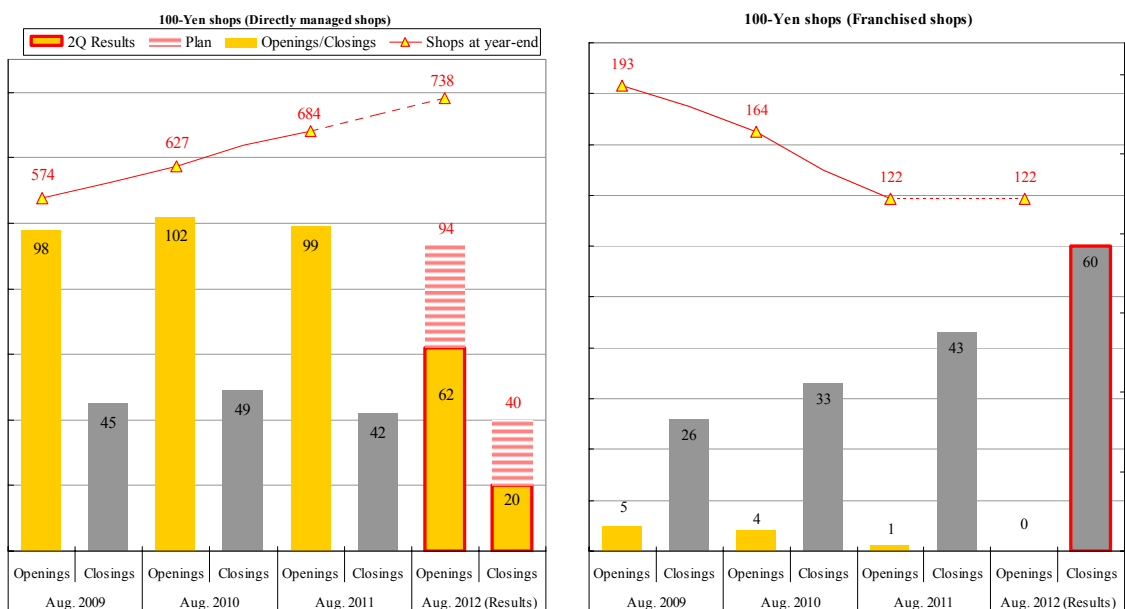
(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Fiscal year ending August 31, 2012 (Forecast)	40,500	2,100	2,050	1,050
Result for the six months ended February 29, 2012	20,268	1,058	1,062	602
Rate of progress	50.0%	50.4%	51.8%	57.3%

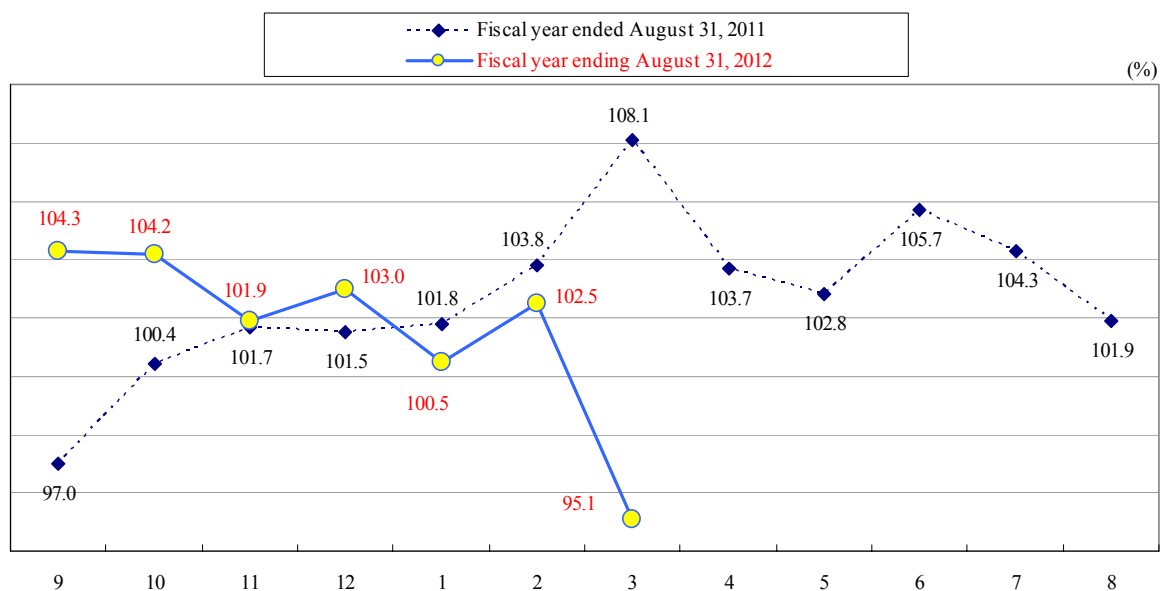
IV. Changes of Shop Numbers and Year-on-Year Trend of Net Sales of Existing 100-Yen Shops

○ 100-Yen shops

(Numbers of directly managed and franchised shops)

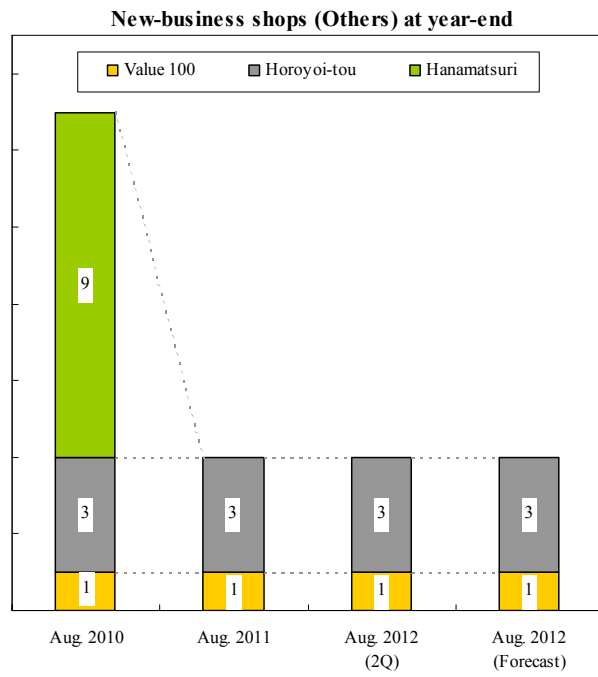
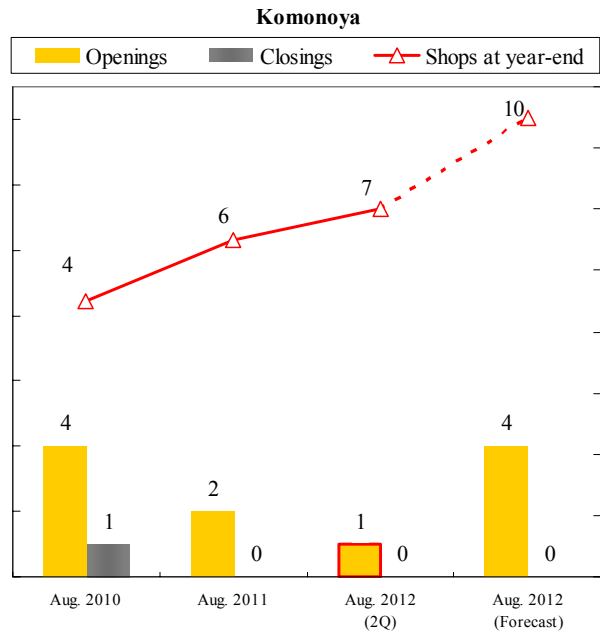
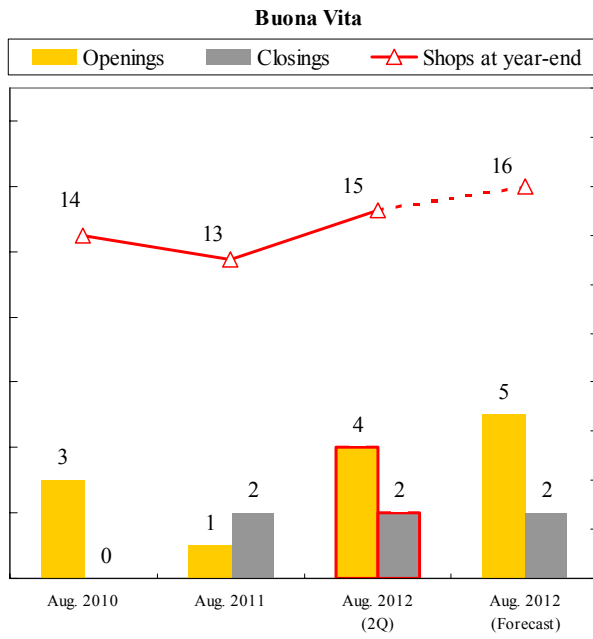


(Year-on-year net sales growth ratio of existing directly managed shops)

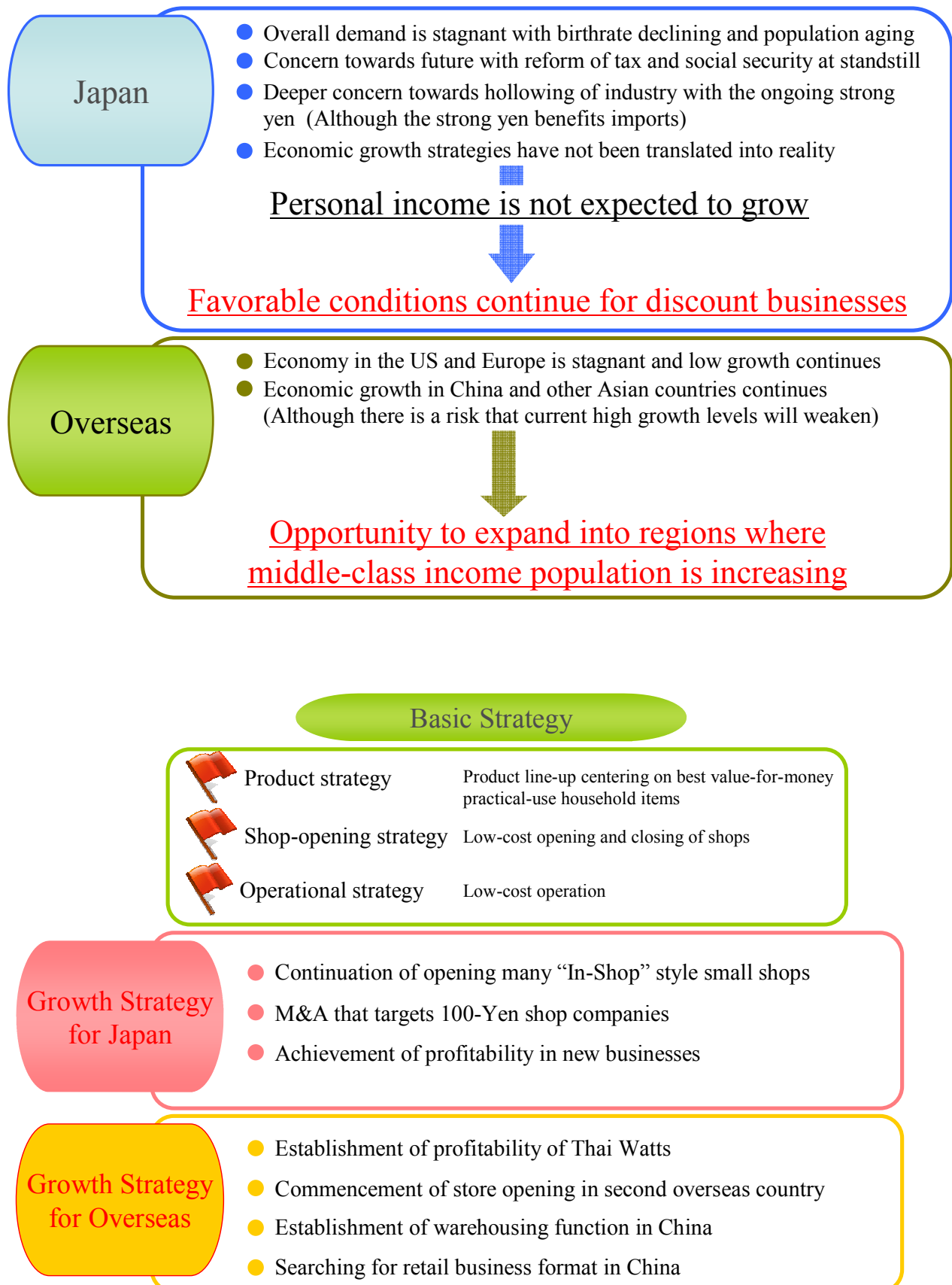


	First half	Second half	Full year
Fiscal year ended August 31, 2011	101.1%	104.4%	102.8%
Fiscal year ending August 31, 2012	102.7%	-	-

○ **New-business shops**



V. Management Strategy and Medium-Term Management Plan





(Millions of yen)

	Fiscal year ended August 31, 2011			Fiscal year ending August 31, 2012 (Forecast)			Fiscal year ending August 31, 2013 (Forecast)			Fiscal year ending August 31, 2014 (Forecast)		
		Ratio to net sales	Year-on-year change		Ratio to net sales	Year-on-year change		Ratio to net sales	Year-on-year change		Ratio to net sales	Year-on-year change
Net sales	38,188	—	10.3%	40,500	—	6.1%	42,700	—	5.4%	45,300	—	6.1%
Gross profit	14,519	38.0%	12.4%	15,600	38.5%	7.4%	16,500	38.6%	5.8%	17,550	38.7%	6.4%
Operating income	1,817	4.8%	37.1%	2,100	5.2%	15.5%	2,300	5.4%	9.5%	2,500	5.5%	8.7%
Ordinary income	1,985	5.2%	28.7%	2,050	5.1%	3.2%	2,250	5.3%	9.8%	2,450	5.4%	8.9%
Net income	1,018	2.7%	40.1%	1,050	2.6%	3.1%	1,150	2.7%	9.5%	1,250	2.8%	8.7%
ROE	23.4%		3.1%	20.0%		-3.4%	18.7%		-1.3%	17.5%		-1.2%
Plan assumptions												
100-Yen shop total at year-end (Shops)	806		15	860		54	919		59	965		46
100-Yen shop existing-shop growth rate	102.8%		3.6%	99.4%		-3.4%	100.0%		0.6%	99.7%		-0.3%
Overseas business total at year-end (Shops)	6		2	10		4	26		16	49		23
Overseas business sales share	0.4%		0.4%	0.8%		0.4%	1.3%		0.5%	2.3%		1.0%
New business total at year-end (Shops)	17		-7	20		3	23		3	24		1
New business sales share	5.5%		2.0%	6.2%		0.7%	6.5%		0.3%	6.6%		0.1%

VI. Watts' Expanding Business

Watts is also actively developing other new businesses.



Both shops have an extensive product line-up for every-day living convenience. We aim for “at-home” community-based atmosphere akin to traditional shopping arcades.



Aiming to “offer fun lifestyles with comfortable-to-use quality Japanese items to people in Asian countries,” the shop’s line-up consists entirely of items produced by Japanese, mostly with a Japanese flavor.



Buona Vita is Italian for “good life.” The shop provides a product line-up with the theme “healing space” for spending a comfortable time.



A food discounter/100-Yen shop collaboration. The small-scale (about 825m²) supermarkets sell competitively priced food at variable prices and practical-use household items at a fixed 100-yen price.



AMANO’s mission is to deliver in a timely fashion a diverse range of lifestyle goods that truly satisfy our customers’ contemporary needs such as the provision of affluence and comfort, naturalness and person friendliness along with “dreaming heart.”

We quickly catch the latest trends, and manufacture, import, and sell attractive new products and private-brand products perfectly suited for today’s lifestyles.



The bar, opened under the concept “a standing bar for drinkers, by drinkers, for drinking,” has easy-on-your-wallet low prices, friendly service and lively atmosphere.



VII. Examples of Products

The “WATTS SELECT” brand is being developed from the wish to “provide our customers with best value-for-money products.”

As of the end of February 2012, we had 141 products.

value that satisfies you

WATTS
SELECT



Choice selection of 100-Yen shop products

Plastic wrap
22cm×60m, 30cm×60m



Aluminum foil
25cm×25m



Dry sheets for floor cleaning
(pack of 40 sheets)



Wet sheets for floor cleaning
(pack of 30 sheets)



Wax sheets for floor cleaning
(pack of 12 sheets)

VIII. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Thousands of yen)	
	As of February 29, 2012	As of August 31, 2011 (Summary)
Assets		
Current assets		
Cash and deposits	3,332,736	3,039,110
Notes and accounts receivable-trade	1,741,552	1,951,689
Merchandise and finished goods	4,703,173	4,363,406
Raw materials and supplies	3,590	10,228
Deferred tax assets	260,557	254,866
Other	335,372	334,305
Allowance for doubtful accounts	(20,063)	(23,002)
Total current assets	10,356,920	9,930,604
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	786,074	714,632
Accumulated depreciation and impairment loss	(520,514)	(472,159)
Buildings and structures, net	265,559	242,472
Vehicles	13,110	13,134
Accumulated depreciation and impairment loss	(11,676)	(11,260)
Vehicles, net	1,434	1,873
Tools, furniture and fixtures	2,161,104	2,043,168
Accumulated depreciation and impairment loss	(1,663,104)	(1,574,431)
Tools, furniture and fixtures, net	497,999	468,737
Land	80,600	80,600
Total property, plant and equipment	845,594	793,683
Intangible assets		
Goodwill	49,911	78,052
Other	30,773	33,818
Total intangible assets	80,685	111,871
Investments and other assets		
Investment securities	80,977	76,130
Deferred tax assets	54,538	44,768
Guarantee deposits	2,556,120	2,441,741
Other	108,207	110,203
Allowance for doubtful accounts	(31,149)	(32,659)
Total investments and other assets	2,768,694	2,640,185
Total noncurrent assets	3,694,974	3,545,740
Total assets	14,051,894	13,476,344

(Thousands of yen)

	As of February 29, 2012	As of August 31, 2011 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,512,885	4,225,060
Short-term loans payable	140,000	140,000
Current portion of long-term loans payable	1,240,038	1,318,901
Income taxes payable	475,329	402,741
Accrued consumption taxes	127,464	91,260
Provision for bonuses	146,406	129,516
Provision for directors' bonuses	-	11,800
Other	577,088	684,932
Total current liabilities	7,219,214	7,004,213
Noncurrent liabilities		
Long-term loans payable	1,146,471	1,243,454
Provision for retirement benefits	95,796	89,852
Provision for directors' retirement benefits	91,966	89,294
Asset retirement obligations	80,927	79,305
Other	177,474	178,391
Total noncurrent liabilities	1,592,635	1,680,297
Total liabilities	8,811,849	8,684,510
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	876,066	876,066
Retained earnings	4,208,490	3,765,581
Treasury stock	(272,044)	(287,026)
Total shareholders' equity	5,252,810	4,794,918
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(294)	(796)
Foreign currency translation adjustment	(13,150)	(5,234)
Total accumulated other comprehensive income	(13,444)	(6,030)
Subscription rights to shares	678	2,945
Total net assets	5,240,045	4,791,833
Total liabilities and net assets	14,051,894	13,476,344

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Thousands of yen)

	Six months ended February 28, 2011	Six months ended February 29, 2012
Net sales	18,408,324	20,268,411
Cost of sales	11,441,188	12,515,634
Gross profit	6,967,136	7,752,777
Selling, general and administrative expenses	6,191,738	6,694,321
Operating income	775,397	1,058,455
Non-operating income		
Rent income	10,131	9,679
Equity in earnings of affiliates	–	4,011
Refunded consumption taxes	201,013	–
Reversal of allowance for doubtful accounts	–	5,634
Other	5,092	2,957
Total non-operating income	216,237	22,282
Non-operating expenses		
Interest expenses	14,730	10,343
Early withdrawal penalty	4,133	–
Cost of lease revenue	5,693	4,962
Equity in losses of affiliates	13,215	–
Other	2,872	3,263
Total non-operating expenses	40,645	18,569
Ordinary income	950,989	1,062,168
Extraordinary income		
Gain on sales of investment securities	8,243	–
Reversal of allowance for doubtful accounts	6,747	–
Compensation income	2,013	18,059
Other	5,572	2,026
Total extraordinary income	22,577	20,086
Extraordinary loss		
Loss on retirement of noncurrent assets	871	1,164
Impairment loss	6,933	22,046
Loss on adjustment for changes of accounting standard for asset retirement obligations	46,994	–
Other	312	–
Total extraordinary losses	55,111	23,211
Income before income taxes and minority interests	918,455	1,059,044
Income taxes-current	362,257	472,433
Income taxes-deferred	84,260	(15,404)
Total income taxes	446,517	457,028
Income before minority interests	471,937	602,016
Net income	471,937	602,016

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Six months ended February 28, 2011	Six months ended February 29, 2012
Income before minority interests	471,937	602,016
Other comprehensive income		
Valuation difference on available-for-sale securities	5,326	501
Foreign currency translation adjustment	(1,335)	(7,915)
Total other comprehensive income	3,990	(7,413)
Comprehensive income	475,928	594,602
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	475,928	594,602

(3) Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended February 28, 2011	Six months ended February 29, 2012
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	918,455	1,059,044
Depreciation and amortization	107,760	133,120
Impairment loss	6,933	22,046
Amortization of goodwill	104,019	83,598
Increase (decrease) in allowance for doubtful accounts	(7,003)	(4,448)
Increase (decrease) in provision for bonuses	8,824	16,890
Increase (decrease) in provision for directors' bonuses	–	(11,800)
Increase (decrease) in provision for retirement benefits	6,417	5,944
Increase (decrease) in provision for directors' retirement benefits	329	2,671
Interest and dividends income	(1,983)	(1,319)
Interest expenses	14,730	10,343
Loss on adjustment for changes of accounting standard for asset retirement obligations	46,994	–
Loss (gain) on sales of investment securities	(8,243)	–
Loss on retirement of noncurrent assets	871	1,164
Decrease (increase) in notes and accounts receivable-trade	218,283	210,137
Decrease (increase) in inventories	(58,396)	(271,111)
Increase (decrease) in notes and accounts payable-trade	202,277	302,305
Increase (decrease) in accrued consumption taxes	(81,723)	29,462
Other, net	(68,300)	(123,757)
Subtotal	1,410,248	1,464,293
Interest and dividends income received	1,695	1,280
Interest expenses paid	(15,099)	(9,944)
Income taxes paid	(754,360)	(400,400)
Net cash provided by (used in) operating activities	642,483	1,055,229
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(126,480)	(152,084)
Proceeds from sales of property, plant and equipment	13,759	291
Payments for lease and guarantee deposits	(106,331)	(155,278)
Proceeds from collection of lease and guarantee deposits	174,341	64,032
Payments for execution of assets retirement obligations	–	(1,308)
Proceeds from sales of investment securities	11,243	–
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(381,276)	–
Payments for transfer of business	–	(193,195)
Other, net	(1,905)	(302)
Net cash provided by (used in) investing activities	(416,648)	(437,844)

(Thousands of yen)

	Six months ended February 28, 2011	Six months ended February 29, 2012
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(150,000)	–
Proceeds from long-term loans payable	1,500,000	650,000
Repayment of long-term loans payable	(743,178)	(825,846)
Redemption of bonds	(140,000)	–
Proceeds from sales of treasury stock	45,414	10,614
Purchase of treasury stock	(86,046)	–
Cash dividends paid	(123,986)	(155,876)
Net cash provided by (used in) financing activities	302,203	(321,108)
Effect of exchange rate change on cash and cash equivalents	(910)	(2,649)
Net increase (decrease) in cash and cash equivalents	527,127	293,626
Cash and cash equivalents at beginning of period	2,037,909	3,039,110
Cash and cash equivalents at end of period	2,565,037	3,332,736

IX. Company Information / Stock Information (as of February 29, 2012)

Company Information

Trade name:	Watts Co., Ltd.
Date of establishment:	February 22, 1995
Listing date:	May 24, 2002
Accounting period:	18th term (from September 1, 2011 to August 31, 2012)
Paid-in capital:	440 million yen
Number of employees:	2,454 (including part-time workers) (consolidated)
Head office:	Sumitomo Seimei OBP Plaza Bldg. 4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, Osaka +81-6-4792-3280
Telephone:	
Group companies:	
○ Subsidiaries	Watts Ohthree Co., Ltd. Watts Ohthree Hokkaido Co., Ltd. (wholly owned subsidiary of Watts Ohthree Co., Ltd.) CMK Trading Co., Ltd. Thai Watts Co., Ltd. AMANO Co., Ltd.
○ Affiliates	Value 100 Co., Ltd.

Directors and Auditors

President and CEO	Fumio Hiraoka
Vice-president	Masanao Ochi
Vice-president	Atsuo Kinugasa
Board member	Hiroshi Fukumitsu
Board member	Haruo Kobayashi
Standing Corporate Auditor	Eiji Fujita
Auditor	Yoshihiro Sawamura
Auditor	Yoshihiro Sakatani

Stock Status

Total number of authorized shares:	18,000,000 shares
Total number of shares issued:	6,979,400 shares
Number of shareholders:	1,172

Major shareholders (Top 10)

Shareholder name	Number of shares held (Thousands of shares)	Share-holding ratio (%)
Watts Co., Ltd.	664	9.52
Torio Inc.	627	9.00
BBH FOR FIDELITY LOW-PRICED STOCK FUND	477	6.84
Fumio Hiraoka	458	6.58
Mitsuko Hiraoka	385	5.52
Atsuo Kinugasa	360	5.17
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	324	4.64
Akari Inc.	281	4.03
Watts Employees Stocks Ownership Plan	215	3.09
Japan Trustee Services Bank, Ltd. (Trust Account)	208	2.98