

**For the Fiscal Year Ended August 31, 2011**

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**Annual Select<sup>®</sup> 2011**

**Watts Co., Ltd.**

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**5F, Sumitomo Seimei OBP Plaza Bldg.**

**4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, Osaka**

**(Securities Code: 2735)**

**+81-6-4792-3280**

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## **Corporate Profile**

The Watts Group (the Group) is comprised of the following: Watts Co., Ltd. (Watts), five sales companies (four 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 or franchised, are deployed throughout Japan. Since the end of the previous fiscal year, the number of directly managed 100-Yen shops rose 57 to 684 shops, while franchised shops declined 42 to 122 shops. As a result, the total number of 100-Yen shops as of August 31, 2011 was 806 shops. Other shops operated by the Group include 13 retail shops selling nature-based comfortable goods, six 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)

	13th term From September 1, 2006 to August 31, 2007	14th term From September 1, 2007 to August 31, 2008	15th term From September 1, 2008 to August 31, 2009	16th term From September 1, 2009 to August 31, 2010	17th term From September 1, 2010 to August 31, 2011
Net sales (Thousands of yen)	25,623,612	33,141,354	33,074,737	34,634,784	38,188,015
Ordinary income (Thousands of yen)	751,434	987,195	911,611	1,542,635	1,985,799
Net income (Thousands of yen)	326,408	412,030	564,870	726,873	1,018,413
Comprehensive income (Thousands of yen)	—	—	—	—	1,015,358
Net assets (Thousands of yen)	2,762,397	2,735,659	3,251,263	3,916,924	4,791,833
Total assets (Thousands of yen)	11,203,368	11,243,726	11,284,218	11,962,809	13,476,344
Net assets per share (Yen)	76,155.76	88,255.62	104,679.31	629.43	762.77
Net income per share (Yen)	9,740.05	11,532.75	18,223.38	117.25	163.68
Diluted net income per share (Yen)	9,698.61	—	18,095.63	114.81	161.65
Equity ratio (%)	24.7	24.3	28.8	32.6	35.5
Return on equity (ROE) (%)	13.8	15.0	18.9	20.3	23.4
Price earnings ratio (PER) (Times)	8.1	6.1	4.6	4.3	4.9
Net cash provided by (used in) operating activities (Thousands of yen)	399,530	246,151	387,613	1,471,023	1,514,716
Net cash provided by (used in) investing activities (Thousands of yen)	853,665	(216,555)	(319,061)	(418,848)	(560,203)
Net cash provided by (used in) financing activities (Thousands of yen)	(1,164,631)	(226,765)	(256,663)	(348,380)	50,346
Cash and cash equivalents at end of period (Thousands of yen)	1,719,912	1,521,426	1,336,369	2,037,909	3,039,110
Number of employees [Separately, average number of temporary employees] (Persons)	218 [1,284]	213 [1,571]	230 [1,674]	254 [1,846]	311 [1,974]

- Notes: 1. Net sales do not include consumption taxes.  
2. Diluted net income per share for the 14th term is not presented because there were no potential shares.  
3. Treasury stock of 1,836 shares was retired on November 4, 2008.  
4. A share split of 200-for-1 was conducted on January 1, 2010.

## II. Message From Management

おかげさまで

*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 invest to strengthen our power to create new products and expand the Group’s scale.

“Firstly, invest in the development of with 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

During the fiscal year under review, the Japanese economy, while showing weak recovery in the first half of the period, slumped sharply because of the occurrence of the Great East Japan Earthquake and the accident at the Fukushima Nuclear Power Plant at the start of the second half. In the months following, while signs of recovery were observed as the restoration and recovery accelerated, fears of slowdown in the global economy were generated by simultaneous share price drops in stock markets around the globe as financial problems in the US and Europe were reignited, which, together with the strong yen at near record levels, continued to fuel uncertainties towards the future of the Japanese economy. With no improvement expected in either in the employment or income environments, consumers in Japan are expected to remain inclined towards lower-priced items.

In this difficult environment, Watts will continue to proactively provide best value-for-money practical-use household items in order to satisfy the needs of our customers.

In the fiscal year under review, as a result of shop opening and closing based on Watts' policy of placing importance on shop profitability, the directly managed 100-Yen shops opened 99 shops and closed 42 shops, with an end result of 684 shops, while the franchise/other 100-Yen shops opened one shop and closed 43 shops, with an end result of 122 shops.

In the other shops category, Buona Vita, which sells nature-based comfortable goods, opened one shop and closed two shops, with an end result of 13 shops. Value 100, the fresh-foods supermarket collaboration, continues with one shop. Komonoya, a fixed-price shop in Bangkok, Thailand, opened two shops, with an end result of six shops. The standing bar Horoyoi-tou continues with three shops. Hanamatsuri, which sells live flowers was transferred to a third party in February 2011 because the business was not expected to generate profitability.

Comparing results against the previous fiscal year, net sales from directly managed existing 100-Yen shops rose 1.1% for the first half and 4.4% for the second half, resulting in a rise of 2.8% for the full year. As a result, net sales for the fiscal year under review was 38,188 million yen (up 10.3% year on year).

The gross profit to sales ratio was 38.0% (up 0.7% year on year). Factors contributing to this result were rises in the components of net sales of directly managed shop sales and practical-use household item sales. The selling, general and administrative expenses to sales ratio was 33.3% (down 0.2% year on year) and the operating income to sales ratio was 4.8% (up 1.0% year on year). Operating income was 1,817 million yen (up 37.1% year on year), ordinary income was 1,985 million yen (up 28.7% year on year) and net income was 1,018 million yen (up 40.1% year on year).

(Millions of yen)

	Fiscal year ended August 31, 2010		Fiscal year ended August 31, 2011		
		Ratio to net sales		Ratio to net sales	Year-on-year change
Net sales	34,634	100.0%	38,188	100.0%	10.3%
Gross profit	12,919	37.3%	14,519	38.0%	12.4%
Selling, general and administrative expenses	11,594	33.5%	12,701	33.3%	9.6%
Operating income	1,325	3.8%	1,817	4.8%	37.1%
Ordinary income	1,542	4.5%	1,985	5.2%	28.7%
Net income	726	2.1%	1,018	2.7%	40.1%
Annual dividend per share (Yen)	20		25		—

## (2) Forecasts for the Next Fiscal Year

In the next fiscal year, the Japanese economy is not expected to make any significant improvement and the frugal mindset that consumers currently hold towards spending is unlikely to change. Under these circumstances, the Group will use profit accumulated by low-cost operations to invest in the development of better value-for-money products and fulfill Watt's mission of providing products worth more than their 100-yen price tag. Next year and beyond, Watts will make full-scale business expansion efforts in overseas markets expected to grow significantly.

Based on the above, Watts expects the following consolidated operating results in the next fiscal year: net sales of 40,500 million yen (up 6.1% year on year), operating income of 2,100 million yen (up 15.5% year on year), ordinary income of 2,050 million yen (up 3.2% year on year) and net income of 1,050 million yen (up 3.1% year on year).

(Millions of yen)

	Fiscal year ended August 31, 2011		Fiscal year ending August 31, 2012 (Forecast)		
		Ratio to net sales		Ratio to net sales	Year-on- year change
Net sales	38,188	100.0%	40,500	100.0%	6.1%
Directly managed	30,448	79.7%	32,805	81.0%	7.7%
Wholesale	5,470	14.3%	5,224	12.9%	-4.5%
New business	2,268	5.9%	2,470	6.1%	8.9%
Gross profit	14,519	38.0%	15,600	38.5%	7.4%
Selling, general and administrative expenses	12,701	33.3%	13,500	33.3%	6.3%
Operating income	1,817	4.8%	2,100	5.2%	15.5%
Ordinary income	1,985	5.2%	2,050	5.1%	3.2%
(Ordinary income excluding special factors)	1,784	4.7%	2,050	5.1%	14.9%
Net income	1,018	2.7%	1,050	2.6%	3.1%
Net income per share (Yen)	163.68		168.75		
Annual dividend per share (Yen)	25.00		25.00		

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

# IV. Management Strategy and Medium-Term Management Plan

**Japan**

- Overall demand is stagnant with birthrate declining and population aging
- Concern towards future with reform of tax and social security at standstill
- Deeper concern towards hollowing of industry with the ongoing strong yen (Although the strong yen benefits imports)
- Economic growth strategies have not been translated into reality

↓

Personal income is not expected to grow

↓

Favorable conditions continue for discount businesses




**Overseas**

- Economy in the US and Europe is stagnant and low growth continues
- Economic growth in China and other Asian countries continues (Although there is a risk that current high growth levels will weaken)

↓

Opportunity to expand into regions where middle-class income population is increasing

## Basic Strategy

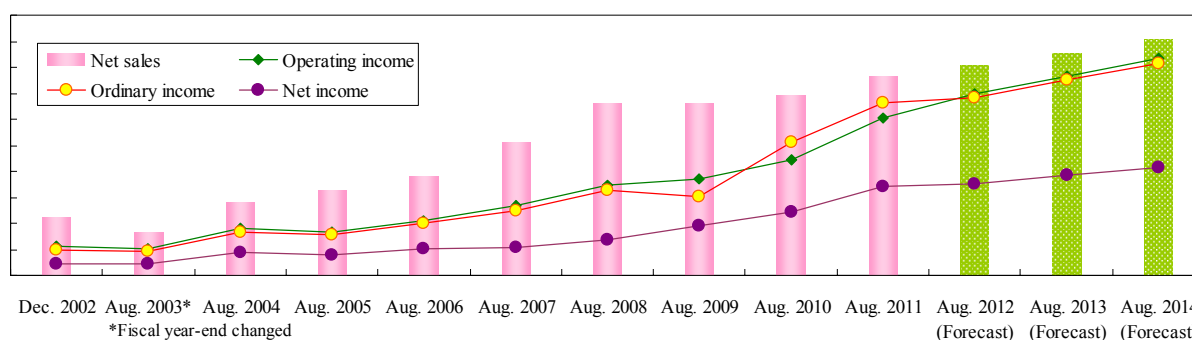
 Product strategy	Product line-up centering on best value-for-money practical-use household items
 Shop-opening strategy	Low-cost opening and closing of shops
 Operational strategy	Low-cost operation

**Growth Strategy for Japan**

- Continuation of opening many “In-Shop” style small shops
- Opening of many shops in regions of business expansion (Hokkaido)
- M&A that targets 100-Yen shop companies
- Achievement of profitability in new businesses

**Growth Strategy for Overseas**

- Establishment of profitability of Thai Watts
- Commencement of store opening in second overseas country
- Establishment of warehousing function in China
- Searching for retail business format in China



(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%
<b>Plan assumptions</b>												
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%

## V. Examples of Products

value that satisfies you

**WATTS**  
SELECT



### Plastic wrap

22cm×60m, 30cm×60m  
Increased length by 40m.



### Aluminum foil

25cm×20m  
Increased length by 4m. The foil cutter is made from paper, so the package can be directly recycled without separating the cutter.



### Side-dish cups (three types)

The cups are microwave oven friendly. Now with about 50% extra volume for extra bargain. New design for greater enjoyment when making lunch boxes.



### Food packs (L, M, S, SS)

Made exclusively in Japan. Packs come in four sizes to suit various different uses.



### Wet tissues

(pack of 120) (refill pack of 160)  
The wet-tissue's material has reduced lint and it is a non-alcohol, kinder-on-the-skin type. The refill pack contains 160 sheets for extra bargain.



### Flushable pocket tissues

(pack of 16)  
Made from recycled milk cartons, these tissues are a flushable, environmentally friendly product.



### Flushable toilet cleaner sheets (pack of 45)

Increased alcohol content by 3%, boosting anti-bacterial action. The sheet's size (16cm x 25cm) means one sheet can be used to clean around toilet.

### Kitchen cleaner sheets for oily grime (pack of 45)

Increased alcohol content by 3%, boosting anti-bacterial action. Now better bargain with three extra sheets.

### Multi-purpose cleaner sheets (pack of 12)

Just one thick-and-large sheet (20cm x 30cm) can be used to wipe furniture to floors. Now better bargain with two extra sheets.



### Wax sheets for floor cleaning (pack of 12)

Contain Ag (silver ions). Effective wiping function due to large, mesh-type sheet (20cm x 30cm). The wet and wax sheets contain Ag (silver ions), which have an anti-bacterial anti-microbial effect. The dry sheets contain an absorptive agent making them effective for collecting dust off floors. Now better bargain with two extra sheets.

### Dry sheets for floor cleaning (pack of 40)

### Wet sheets for floor cleaning (pack of 30)



## VI. Overview of Shops

### A wide variety of new businesses managed by Watts



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 are entirely 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 825m<sup>2</sup>) supermarkets sell competitively priced food at variable prices and practical-use household items at a fixed 100-yen price.



Joined the Group on December 1, 2010.

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 or private-brand products perfectly suited for today’s lifestyles.

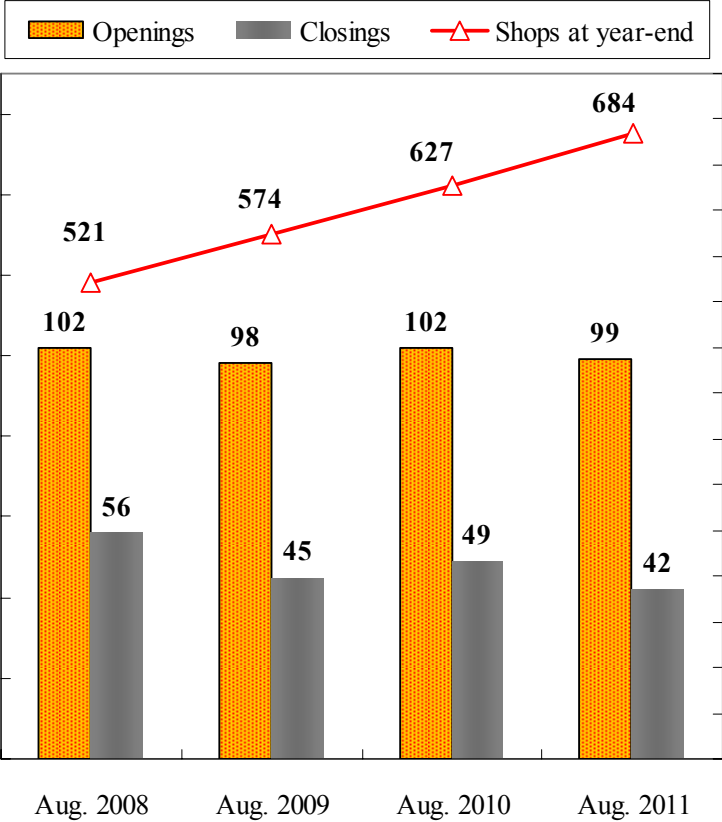


The bar, opened under the concept “a standing bar for drinkers, by drinkers, for drinking,” has easy-on-your-wallet low prices, friendly service and lively atmosphere.

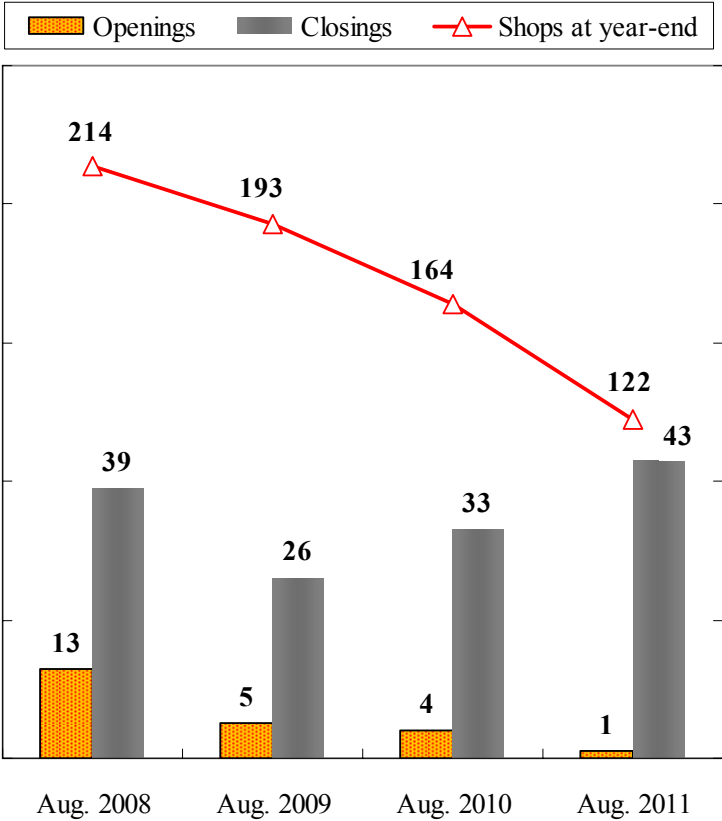


## VII. Trend of Shop Numbers

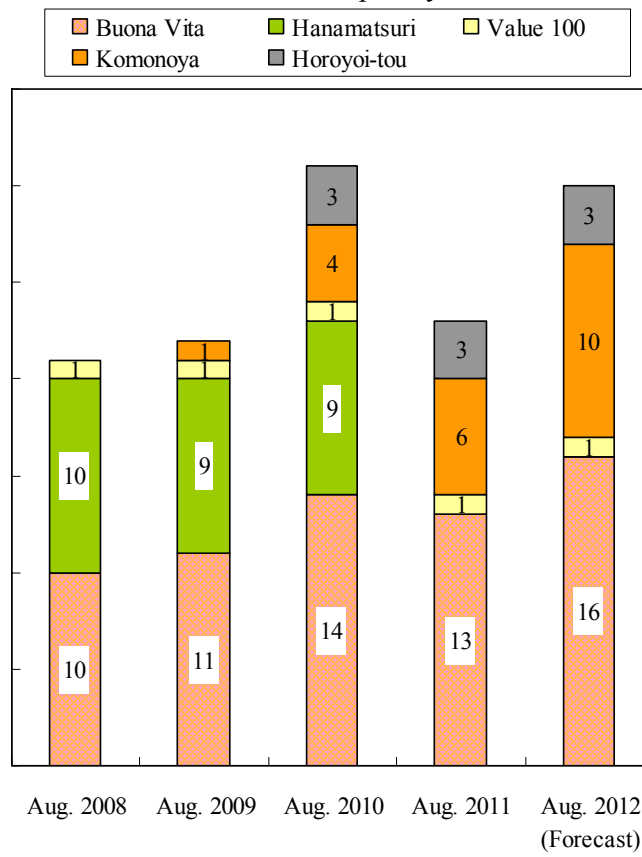
100-Yen shops (Directly managed shops)



100-Yen shops (Franchise shops)

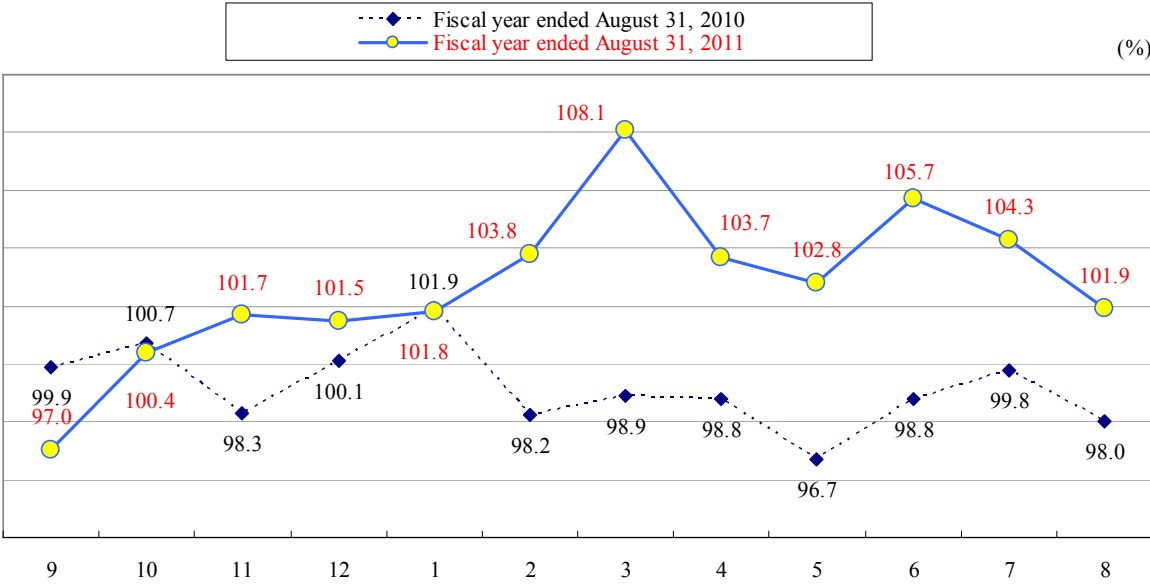


### New-business shops at year-end



Note: Hanamatsuri business shops was transferred to other company in February 2011.

### VIII. Year-on-Year Trend of Net Sales of Existing Shops\*



	First half	Second half	Full year
Fiscal year ended August 31, 2009	98.0%	99.4%	98.7%
Fiscal year ended August 31, 2010	99.9%	98.5%	99.2%
Fiscal year ended August 31, 2011	101.1%	104.4%	102.8%

(\*) Existing shops are shops operating more than 13 months including the opening month.

## IX. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Thousands of yen)

	As of August 31, 2010	As of August 31, 2011
<b>Assets</b>		
Current assets		
Cash and deposits	2,037,909	3,039,110
Notes and accounts receivable-trade	869,912	1,951,689
Sales money on deposit	824,231	–
Merchandise and finished goods	4,032,362	4,363,406
Raw materials and supplies	9,222	10,228
Deferred tax assets	347,539	254,866
Consumption taxes receivable	8,254	3,284
Other	322,612	331,020
Allowance for doubtful accounts	(25,094)	(23,002)
Total current assets	8,426,950	9,930,604
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	682,676	714,632
Accumulated depreciation and impairment loss	(478,417)	(472,159)
Buildings and structures, net	204,258	242,472
Vehicles	6,427	13,134
Accumulated depreciation and impairment loss	(3,812)	(11,260)
Vehicles, net	2,615	1,873
Tools, furniture and fixtures	1,865,610	2,043,168
Accumulated depreciation and impairment loss	(1,408,557)	(1,574,431)
Tools, furniture and fixtures, net	457,052	468,737
Land	80,600	80,600
Total property, plant and equipment	744,527	793,683
Intangible assets		
Goodwill	234,157	78,052
Other	29,033	33,818
Total intangible assets	263,190	111,871
Investments and other assets		
Investment securities	65,128	76,130
Deferred tax assets	22,047	44,768
Guarantee deposits	2,366,007	2,441,741
Other	104,809	110,203
Allowance for doubtful accounts	(29,851)	(32,659)
Total investments and other assets	2,528,141	2,640,185
Total noncurrent assets	3,535,859	3,545,740
Total assets	11,962,809	13,476,344

(Thousands of yen)

	As of August 31, 2010	As of August 31, 2011
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	3,870,641	4,225,060
Short-term loans payable	140,000	140,000
Current portion of bonds	180,000	–
Current portion of long-term loans payable	1,160,189	1,318,901
Income taxes payable	759,187	402,741
Accrued consumption taxes	25,834	91,260
Provision for bonuses	108,950	129,516
Provision for directors' bonuses	–	11,800
Other	581,686	684,932
Total current liabilities	6,826,489	7,004,213
Noncurrent liabilities		
Long-term loans payable	873,739	1,243,454
Provision for retirement benefits	74,546	89,852
Provision for directors' retirement benefits	68,553	89,294
Asset retirement obligations	–	79,305
Other	202,556	178,391
Total noncurrent liabilities	1,219,394	1,680,297
Total liabilities	8,045,884	8,684,510
<b>Net assets</b>		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	876,066	876,066
Retained earnings	2,879,995	3,765,581
Treasury stock	(291,374)	(287,026)
Total shareholders' equity	3,904,985	4,794,918
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(4,907)	(796)
Foreign currency translation adjustment	1,932	(5,234)
Total accumulated other comprehensive income	(2,975)	(6,030)
Subscription rights to shares	14,914	2,945
Total net assets	3,916,924	4,791,833
Total liabilities and net assets	11,962,809	13,476,344

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

### Consolidated Statements of Income

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
Net sales	34,634,784	38,188,015
Cost of sales	21,715,050	23,668,540
Gross profit	12,919,733	14,519,474
Selling, general and administrative expenses	11,594,198	12,701,970
Operating income	1,325,535	1,817,504
Non-operating income		
Interest income	4,612	2,664
Dividends income	1,214	1,347
Rent income	25,001	20,484
Amortization of negative goodwill	6,043	–
Equity in earnings of affiliates	5,202	–
Gain on consumption taxes exemption	236,122	–
Refunded consumption taxes	–	201,013
Other	21,574	4,183
Total non-operating income	299,770	229,692
Non-operating expenses		
Interest expenses	35,255	28,122
Early-withdrawal penalty	29,994	7,125
Cost of lease revenue	13,403	11,108
Equity in losses of affiliates	–	10,223
Other	4,016	4,817
Total non-operating expenses	82,670	61,397
Ordinary income	1,542,635	1,985,799
Extraordinary income		
Surrender value of insurance	273	841
Gain on sales of investment securities	–	8,243
Compensation income	3,000	4,192
Reversal of allowance for doubtful accounts	4,185	5,046
Gain on sales of noncurrent assets	474	571
Other	–	4,743
Total extraordinary income	7,933	23,638
Extraordinary loss		
Loss on retirement of noncurrent assets	3,925	3,271
Loss on sales of noncurrent assets	3,541	–
Impairment loss	54,606	9,778
Loss on adjustment for changes of accounting standard for asset retirement obligations	–	46,994
Loss on disaster	–	11,013
Other	–	1,938
Total extraordinary losses	62,072	72,994
Income before income taxes and minority interests	1,488,496	1,936,443
Income taxes-current	914,550	850,566
Income taxes-deferred	(152,927)	67,463
Total income taxes	761,623	918,029
Income before minority interests	–	1,018,413
Net income	726,873	1,018,413

## Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
Income before minority interests	–	1,018,413
Other comprehensive income		
Valuation difference on available-for-sale securities	–	4,111
Foreign currency translation adjustment	–	(7,167)
Total other comprehensive income	–	(3,055)
Comprehensive income	–	1,015,358
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	–	1,015,358
Comprehensive income attributable to minority interests	–	–



### (3) Consolidated Statements of Changes in Net Assets

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
<b>Shareholders' equity</b>		
Capital stock		
Balance at the end of previous period	440,297	440,297
Changes of items during the period		
Total changes of items during the period	–	–
Balance at the end of current period	440,297	440,297
Capital surplus		
Balance at the end of previous period	876,066	876,066
Changes of items during the period		
Disposal of treasury stock	–	(8,842)
Transfer of loss on disposal of treasury stock	–	8,842
Total changes of items during the period	–	–
Balance at the end of current period	876,066	876,066
Retained earnings		
Balance at the end of previous period	2,215,116	2,879,995
Changes of items during the period		
Dividends from surplus	(61,994)	(123,986)
Transfer of loss on disposal of treasury stock	–	(8,842)
Net income	726,873	1,018,413
Total changes of items during the period	664,879	885,585
Balance at the end of current period	2,879,995	3,765,581
Treasury stock		
Balance at the end of previous period	(291,319)	(291,374)
Changes of items during the period		
Purchase of treasury stock	(54)	(86,046)
Disposal of treasury stock	–	90,394
Total changes of items during the period	(54)	4,347
Balance at the end of current period	(291,374)	(287,026)
Total shareholders' equity		
Balance at the end of previous period	3,240,160	3,904,985
Changes of items during the period		
Dividends from surplus	(61,994)	(123,986)
Net income	726,873	1,018,413
Purchase of treasury stock	(54)	(86,046)
Disposal of treasury stock	–	81,551
Transfer of loss on disposal of treasury stock	–	–
Total changes of items during the period	664,824	889,933
Balance at the end of current period	3,904,985	4,794,918

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	1,360	(4,907)
Changes of items during the period		
Net changes of items other than shareholders' equity	(6,268)	4,111
Total changes of items during the period	(6,268)	4,111
Balance at the end of current period	(4,907)	(796)
Foreign currency translation adjustment		
Balance at the end of previous period	3,223	1,932
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,290)	(7,167)
Total changes of items during the period	(1,290)	(7,167)
Balance at the end of current period	1,932	(5,234)
Total accumulated other comprehensive income		
Balance at the end of previous period	4,583	(2,975)
Changes of items during the period		
Net changes of items other than shareholders' equity	(7,558)	(3,055)
Total changes of items during the period	(7,558)	(3,055)
Balance at the end of current period	(2,975)	(6,030)
Subscription rights to shares		
Balance at the end of previous period	6,519	14,914
Changes of items during the period		
Net changes of items other than shareholders' equity	8,395	(11,968)
Total changes of items during the period	8,395	(11,968)
Balance at the end of current period	14,914	2,945
Total net assets		
Balance at the end of previous period	3,251,263	3,916,924
Changes of items during the period		
Dividends from surplus	(61,994)	(123,986)
Net income	726,873	1,018,413
Purchase of treasury stock	(54)	(86,046)
Disposal of treasury stock	–	81,551
Transfer of loss on disposal of treasury stock	–	–
Net changes of items other than shareholders' equity	836	(15,024)
Total changes of items during the period	665,661	874,908
Balance at the end of current period	3,916,924	4,791,833

#### (4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes and minority interests	1,488,496	1,936,443
Depreciation and amortization	215,920	233,112
Impairment loss	54,606	9,778
Amortization of negative goodwill	(6,043)	–
Amortization of goodwill	156,105	182,071
Increase (decrease) in allowance for doubtful accounts	(8,536)	(3,834)
Increase (decrease) in provision for bonuses	(2,287)	217
Increase (decrease) in provision for directors' bonuses	–	11,800
Increase (decrease) in provision for retirement benefits	24,243	15,305
Increase (decrease) in provision for directors' retirement benefits	9,136	6,241
Interest and dividends income	(5,826)	(4,011)
Interest expenses	35,255	28,122
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	3,925	3,271
Decrease (increase) in notes and accounts receivable-trade	55,976	21,555
Decrease (increase) in inventories	(455,750)	(160,397)
Increase (decrease) in notes and accounts payable-trade	143,301	320,658
Increase (decrease) in accrued consumption taxes	(50,178)	61,566
Other, net	88,489	84,846
Subtotal	1,746,833	2,785,499
Interest and dividends income received	5,907	3,811
Interest expenses paid	(35,800)	(28,120)
Income taxes paid	(245,917)	(1,246,473)
Net cash provided by (used in) operating activities	1,471,023	1,514,716
<b>Net cash provided by (used in) investing activities</b>		
Purchase of property, plant and equipment	(317,335)	(234,299)
Proceeds from sales of property, plant and equipment	112,238	14,036
Payments for lease and guarantee deposits	(289,410)	(237,634)
Proceeds from collection of lease and guarantee deposits	98,445	275,392
Purchase of investment securities	(4,500)	–
Proceeds from sales of investment securities	–	11,243
Purchase of investments in subsidiaries resulting in change in scope of consolidation	–	(381,276)
Other, net	(18,285)	(7,664)
Net cash provided by (used in) investing activities	(418,848)	(560,203)

(Thousands of yen)

	Fiscal year ended August 31, 2010	Fiscal year ended August 31, 2011
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	–	(150,000)
Proceeds from long-term loans payable	1,050,000	2,100,000
Repayment of long-term loans payable	(1,256,332)	(1,577,075)
Redemption of bonds	(80,000)	(180,000)
Proceeds from sales of treasury stock	–	67,454
Purchase of treasury stock	(54)	(86,046)
Cash dividends paid	(61,994)	(123,986)
Net cash provided by (used in) financing activities	(348,380)	50,346
Effect of exchange rate change on cash and cash equivalents	(2,253)	(3,659)
Net increase (decrease) in cash and cash equivalents	701,540	1,001,200
Cash and cash equivalents at beginning of period	1,336,369	2,037,909
Cash and cash equivalents at end of period	2,037,909	3,039,110

## **X. Company Information / Stock Information (as of August 31, 2011)**

### **Company Information**

Trade name:	Watts Co., Ltd.
Date of establishment:	February 22, 1995
Listing date:	May 24, 2002
Accounting period:	17th term (from September 1, 2010 to August 31, 2011)
Paid-in capital:	440 million yen
Number of employees:	2,285 (including part-time workers) (consolidated)
Head office:	Sumitomo Seimei OBP Plaza Bldg. 4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, Osaka
Telephone:	+81-6-4792-3280
Group companies:	Watts Ohthree Co., Ltd. Watts Ohthree Hokkaido Co., Ltd. CMK Trading Co., Ltd. Value 100 Co., Ltd. Watts Planning Co., Ltd. Thai Watts Co., Ltd. AMANO Co., Ltd.

Note: On December 1, 2010, Watts acquired 100% of the shares of AMANO Co., Ltd., making it a subsidiary.

On May 16, 2011, Watts Ohthree Hokkaido Co., Ltd. was established.

On September 1, 2011, consolidated subsidiary Watts Planning Co., Ltd. was merged into Watts (the surviving company) by absorption-type merger.

### **Directors and Auditors**

President and CEO	Fumio Hiraoka
Vice-president	Masanao Ochi
Vice-president	Atsuo Kinugasa
Board member	Hiroshi Fukumitsu
Board member	Haruo Kobayashi
Board member	Kiichiro Yamamoto
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:	1,156

**Major shareholders (Top 10)**

Shareholder name	Number of shares held (Thousands of shares)	Share-holding ratio (%)
Watts Co., Ltd.	701	10.05
Torio Inc.	627	9.00
Fumio Hiraoka	458	6.58
Mitsuko Hiraoka	385	5.52
Atsuo Kinugasa	360	5.17
BBH FOR FIDELITY LOW-PRICED STOCK FUND	327	4.69
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	324	4.64
Akari Inc.	281	4.03
ONTSU Co., Ltd.	242	3.47
Watts Employees Stocks Ownership Plan	225	3.24