

Summary of Business Results for the Second Quarter Ended February 28, 2015 [Japan GAAP] (Consolidated)

April 10, 2015

Company **Watts Co., Ltd.** Listed on the TSE
 Stock Code 2735 URL: <http://www.watts-jp.com/>
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 Expected date of filing of quarterly report: April 10, 2015 Expected starting date of dividend payment: -
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: Yes (for institutional investors)

(Rounded down to million yen)

1. Consolidated business results for the six months ended February 2015

(September 1, 2014 through February 28, 2015)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Sales		Operating profit		Recurring profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 2015	22,011	2.2	799	-11.8	800	-11.6	493	2.5
Six months ended Feb. 2014	21,545	5.1	906	-25.5	905	-25.5	480	-33.6

(Note) Comprehensive income

Six months ended February 2015: 573 million yen (13.8%)

Six months ended February 2014: 503 million yen (-33.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 2015	36.40	-
Six months ended Feb. 2014	35.50	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2015	19,053	8,762	46.0
As of Aug. 2014	18,977	8,420	44.4

(Reference) Shareholders' equity:

As of February 2015: 8,762 million yen

As of August 2014: 8,420 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Aug. 2014	-	0.00	-	17.00	17.00
Year ending Aug. 2015	-	0.00	-	-	-
Year ending Aug. 2015 (forecast)	-	-	-	15.00	15.00

(Note) Revisions to dividend forecast for the current quarter: None

Dividend of 2 yen is included in the year-end dividend for the fiscal year ended August 2014 to commemorate change in listing market to the 1st section of the Tokyo Stock Exchange.

3. Forecast of consolidated business results for the fiscal year ending August 2015

(September 1, 2014 through August 31, 2015)

(% change from the previous corresponding period)

	Sales		Operating profit		Recurring Profit		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending Aug. 2015	45,300	4.0	1,790	0.3	1,800	0.0	1,040	9.7	76.76

(Note) Revisions to business forecast for the current quarter: None

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements:
None

(3) Changes in accounting policies, accounting estimates and restatement

Changes in accounting policies associated with revision of accounting standards:	: None
Changes in accounting policies other than	: None
Changes in accounting estimates	: None
Restatement	: None

(4) Shares outstanding (common stock)

Number of shares outstanding at the end of period (treasury stock included)

As of February 2015 13,958,800 shares

As of August 2014 13,958,800 shares

Treasury stock at the end of period

As of February 2015 410,825 shares

As of August 2014 410,825 shares

Average number of stock during period (quarterly cumulative period)

Six months ended February 2015 13,547,975 shares

Six months ended February 2014 13,548,006 shares

***Implementation status of quarterly review procedures**

At the time of disclosure of this report, the procedures for review of consolidated financial statements pursuant to the Financial Instruments and Exchange Act have been completed.

*** Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution concerning forward-looking statements)

The forward-looking statements regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Therefore, the company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

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1. Results of Operations

(1) Analysis of operating results

During the six months ended February 2015, there was a small upturn in the Japanese economy. The balance of trade improved because of the weaker yen and sharp drop in the cost of crude oil, and there was an increase in demand associated with capital expenditures. In addition, stock prices are in a growing trend and the yen are stable with about 120 yen to dollar due to higher earnings, mainly at exporting companies, expectations for upgrades to corporate governance and other reasons. Overseas, the U.S. economy is gaining strength but there are still concerns about deflation in Europe despite the start of quantitative easing, mainly because of the risk of slower economic growth in Russia. In China, structural reforms are under way to achieve a soft landing as the pace of economic growth declines. In the ASEAN region, the economy is improving overall amid differences in the strength of economies of individual countries. But there are still sources of instability associated with geopolitical risks in Eastern Europe, the Middle East, Asia and other regions.

In Japan's retail industry, although the Japanese government is fostering an atmosphere to support wage increases, real income growth is still not keeping up with the rate of inflation. Therefore, household purchasing power is not increasing and the improvement in consumer spending is limited.

Given this environment, the WATTS Group, which operates the 'meets.', 'silk' and other 100-yen shops, started restructuring its business model in the current consolidated fiscal year.

The Group has fostered know-how for achieving both greater customer satisfaction and higher earnings at shop by developing and selling ranges of private brand items under the 'WATTS SELECT' brand consisting of reasonably priced, best value for money products, mostly daily-use household items, and carrying out low-cost opening and closing of shops and low-cost shop operations. Restructuring its business model means that the Group is to carry out a complete revision of both its hardware side through development of shop packages and merchandise and the introduction of POS systems, and of its software side, which covers shop management and operations and employee training etc, for creating new brand value to meet diversifying customer needs with use of the fostered know-how.

The first step was the complete remodeling of the 100-yen shop 'meets.' Harborland shop (Kobe-shi, Chuo-ku). The new shop, which was rebranded as the 100-yen Shop 'Watts' Harborland shop, opened on February 22, 2015, the 20th anniversary of the establishment of Watts. From now on, the Watts brand will be used for new certain large shops. Existing shops will be rebranded as they are remodeled.

The Group will continue to improve its shop format that will attract more customers.

In the core 100-yen shop business in Japan, Watts opened 66 shops during the six months ended February 2015 with the full-year plan of opening 90 shops although there were many shops with relatively low sales. There were 32 shop closings, including certain unprofitable shops and unpredictable closing of stores where the company's shops were located in. As a result, the total number of 100-yen shops at the end of the six month ended February 2015 was 993, which includes 943 directly managed shops (net increase of 35), and 50 franchised/other shops (net decrease of 1).

As for the number of the other shops as of the end of the six month ended February 2015, 'Buona Vita,' which sells natural taste lifestyle goods, opened 2 shops and closed 1 directly managed shop and 1 franchise shop, with an end result of 28 shops. 'Value-100,' the fresh-foods supermarket collaboration, continues with 1 shop. Moreover, in November 2014, the Group opened the first 'threege', a three price shop in Narimasu, Itabashi-ku, Tokyo, as new challenge of the lifestyle products business. Merchandise is divided into three prices: 100 yen, 300 yen and 500

yen. Customers can purchase kitchen ware, lunch goods, home decoration items, socks, accessories, and other stylish and colorful items.

Regarding the Group's overseas operation, Watts operates 'KOMONOYA', a fixed-price shop. At the end of the six months ended February 2015, 'KOMONOYA' opened 1 shop and closed 1 shop in Thailand, with an end result of 15 shops. In Malaysia, 'KOMONOYA' opened 1 shop, with an end result of 4 shops. In Vietnam, one 'KOMONOYA' shop, which was operated by using the Group's expertise and products, became a franchised shop operated by a local retailer. In China, there are two '小物家園' shops as one unprofitable shop was closed and one shop was opened through an agent contract base in Suzhou. Furthermore, several limited period sales events at some Japanese department stores started and are currently performing well. In Peru, where Watts Peru S.A.C. was established in August 2014, no shops were opened during the six month but the first 'KOMONOYA' shop opened in March 2015.

Due to these activities, sales for the six months ended February 2015 was 22,011 million yen (up 2.2% year on year), operating profit was 799 million yen (down 11.8% year-on-year), recurring profit was 800 million yen (down 11.6% year-on-year), and net income was 493 million yen (up 2.5% year on year).

Since the Group operates under a single segment consisting of the operation of 100-Yen shops associated business, segment information is omitted.

(2) Analysis of financial position

a. Assets, liabilities and net assets

(Assets)

As of the end of the current second quarter of the consolidated fiscal year, current assets stood at 14,787 million yen, a decrease of 75 million yen compared with the end of the previous consolidated fiscal year. This is mainly because merchandise and finished goods increased 407 million yen. While notes and accounts receivable-trade decreased 329 million yen and cash and deposits decreased 105 million yen. Cash and cash equivalents at the end of the previous fiscal year and the end of the six month ended February 2015 were higher than normal. The reason was a postponement to the next month in payments because these two fiscal periods ended on a banking holiday.

Noncurrent assets stood at 4,226 million yen, an increase of 151 million yen compared with the end of the previous consolidated fiscal year.

This is mainly because buildings and structures increased 26 million yen, tools, furniture and fixtures increased 10 million yen and guarantee deposits increased 26 million yen due to new store openings. Furthermore, investment securities increased 39 million yen and deferred tax assets increased 34 million yen.

As a result, total assets stood at 19,053 million yen, an increase of 76 million yen compared with the end of the previous consolidated fiscal year.

(Liabilities)

As of the end of the current second quarter of the consolidated fiscal year, current liabilities stood at 9,284 million yen, a decrease of 360 million yen compared with the end of the previous consolidated fiscal year.

This is mainly because income taxes payable increased 26 million yen. While current portion of long-term loans payable decreased 52 million yen and accrued consumption taxes decreased 43 million yen. Furthermore, notes and accounts payable-trade remained at higher level than usual due to the same reason as cash and deposits described above. Noncurrent liabilities stood at 1,006 million yen, an increase of 93 million yen compared with the end of the previous consolidated fiscal year. This is mainly because long-term loans payable increased 92 million yen.

As a result, total liabilities stood at 10,290 million yen, a decrease of 266 million yen compared with the end of the previous consolidated fiscal year.

(Net assets)

As of the end of the current second quarter of the consolidated fiscal year, net assets stood at 8,762 million yen, an increase of 342 million yen compared with the end of previous consolidated fiscal year. This is mainly because retained earnings increased 262 million yen.

As a result, shareholders' equity ratio was 46.0% (44.4% at the end of the previous consolidated fiscal year).

b. Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter of the current consolidated fiscal year amounted to 6,609 million yen, a decrease of 105 million yen compared with the previous consolidated fiscal year.

Details and main reasons for increases and decreases of each cash flow in the current consolidated fiscal year are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 301 million yen (421 million yen was used in the previous fiscal year). Cash was provided mainly for income before income taxes of 768 million yen and decrease in accounts receivable-trade of 331 million yen and depreciation and amortization of 127 million yen. Cash was used mainly for increase in inventory assets of 393 million yen and income taxes paid of 290 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 244 million yen (400 million yen was used in the previous fiscal year). Cash was used mainly for property, plant and equipment of 207 million yen for opening of new shops, payments for lease and guarantee deposits of 89 million yen and proceeds from collection of lease and guarantee deposits of 66 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 189 million yen (814 million yen was used in the previous fiscal year). Cash was used mainly for proceeds from long-term loans payable of 500 million yen, repayment of long-term loans payable of 459 million yen and dividend paid of 229 million yen.

(3) Future forecast information including consolidated business forecasts

Watts made no revisions to its full-year consolidated business forecasts announced in the summary of financial results on October 10, 2014.

2. Notes

(1) Changes in significant subsidiaries during the period

None

(2) Accounting methods specific to preparation of quarterly consolidated financial statements

None

(3) Changes in accounting principles and estimates, retrospective restatements

None

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2014)	Current second quarter (February 28, 2015)
Assets		
Current assets		
Cash and deposits	6,714,266	6,609,251
Notes and accounts receivable-trade	2,318,842	1,989,398
Merchandise and finished goods	5,225,992	5,633,002
Raw materials and supplies	8,591	8,261
Deferred tax assets	238,186	240,604
Consumption taxes receivable	6,922	682
Other	374,647	328,913
Allowance for doubtful accounts	-24,686	-22,966
Total current assets	14,862,762	14,787,148
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	944,176	993,156
Accumulated depreciation and impairment loss	-596,556	-619,128
Buildings and structures, net	347,620	374,027
Vehicles	8,690	6,723
Accumulated depreciation and impairment loss	-7,518	-5,950
Vehicles, net	1,172	773
Tools, furniture and fixtures	2,579,972	2,660,661
Accumulated depreciation and impairment loss	-2,066,379	-2,137,005
Tools, furniture and fixtures, net	513,593	523,655
Land	257,800	257,800
Total property, plant and equipment	1,120,186	1,156,256
Intangible assets		
Other	33,254	37,856
Total intangible assets	33,254	37,856
Investments and other assets		
Investment securities	245,643	285,178
Deferred tax assets	98,281	133,072
Guarantee deposits	2,536,515	2,562,932
Other	110,691	120,252
Allowance for doubtful accounts	-29,497	-28,849
Total investments and other assets	2,961,634	3,072,586
Total noncurrent assets	4,115,075	4,266,700
Total assets	18,977,838	19,053,848

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2014)	Current second quarter (February 28, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	7,170,185	7,165,332
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	679,491	627,177
Income taxes payable	294,209	320,308
Accrued consumption taxes	154,680	111,349
Provision for bonuses	139,659	145,729
Other	1,106,975	814,808
Total current liabilities	9,645,201	9,284,705
Noncurrent liabilities		
Long-term loans payable	403,783	496,462
Liabilities relating to retirement benefits	140,719	148,235
Provision for directors' retirement benefits	102,751	100,208
Asset retirement obligations	75,691	68,469
Other	189,445	192,788
Total noncurrent liabilities	912,391	1,006,164
Total liabilities	10,557,592	10,290,869
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,583,816	1,583,816
Retained earnings	6,434,626	6,697,430
Treasury stock	-84,123	-84,123
Total shareholders' equity	8,374,618	8,637,421
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,196	15,695
Foreign currency translation adjustment	33,430	109,861
Total accumulated other comprehensive income	45,627	125,557
Total net assets	8,420,245	8,762,978
Total liabilities and net assets	18,977,838	19,053,848

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2013 to February 28, 2014)	Current second quarter (from September 1, 2014 to February 28, 2015)
Sales	21,545,071	22,011,280
Cost of sales	13,358,680	13,650,608
Gross profit	8,186,390	8,360,671
Selling, general and administrative expenses	7,280,131	7,561,113
Operating profit	906,258	799,558
Non-operating revenues		
Rent income	12,227	11,653
Equity in earnings of affiliates	7,262	10,892
Reversal of allowance for doubtful accounts	6,802	3,574
Other	6,879	7,466
Total non-operating income	33,172	33,587
Non-operating expenses		
Interest expenses	3,819	2,988
Early-withdrawal penalty	10,243	20,361
Cost of lease revenue	5,436	5,403
Exchange loss	7,881	-
Other	6,434	3,446
Total non-operating expenses	33,815	32,199
Recurring profit	905,615	800,945
Extraordinary income		
Gain on sales of noncurrent assets	1,826	223
Surrender value of insurance	6,284	229
Compensation income	-	336
Total extraordinary income	8,110	789
Extraordinary loss		
Loss on retirement of noncurrent assets	2,851	18,501
Impairment loss	8,641	14,746
Total extraordinary losses	11,493	33,248
Income before income taxes and minority interests	902,232	768,486
Income taxes-current	436,629	316,272
Income taxes-deferred	-15,285	-40,904
Total income taxes	421,344	275,368
Income before minority interests	480,888	493,118
Net income	480,888	493,118

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2013 to February 28, 2014)	Current second quarter (from September 1, 2014 to February 28, 2015)
Income before minority interests	480,888	493,118
Other comprehensive income		
Valuation difference on available-for-sale securities	7,558	3,498
Foreign currency translation adjustment	20,380	51,622
Share of other comprehensive income of associates accounted for using equity method	-5,164	24,808
Total other comprehensive income	22,773	79,929
Comprehensive income	503,662	573,048
(Breakdown)		
Comprehensive income attributable to parent company shareholders	503,662	573,048

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2013 to February 28, 2014)	Current second quarter (from September 1, 2014 to February 28, 2015)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	902,232	768,486
Depreciation and amortization	115,320	127,351
Impairment loss	8,641	14,746
Increase (decrease) in allowance for doubtful accounts	-4,059	-2,368
Increase (decrease) in provision for bonuses	5,810	6,070
Increase (decrease) in provision for retirement benefits	4,693	-
Increase (decrease) in liabilities relating to retirement benefits	-	7,515
Increase (decrease) in provision for directors' retirement benefits	5,555	-2,543
Interest and dividends income	-1,201	-1,614
Interest expenses	3,819	2,988
Loss on retirement of noncurrent assets	2,851	18,501
Decrease (increase) in accounts receivable-trade	495,121	331,456
Decrease (increase) in inventories	-253,474	-393,204
Increase (decrease) in notes and accounts payable-trade	-1,109,700	17,765
Increase (decrease) in accrued consumption taxes	-6,260	-36,599
Other	-409,785	-265,437
Subtotal	-240,434	593,115
Interest and dividends income received	1,053	1,553
Interest expenses paid	-3,666	-2,966
Income taxes paid	-178,186	-290,258
Net cash provided by (used in) operating activities	-421,233	301,443
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-275,473	-207,214
Proceeds from sales of property, plant and equipment	2,379	360
Payments for lease and guarantee deposits	-119,203	-89,653
Proceeds from collection of lease and guarantee deposits	51,546	66,588
Payments for asset retirement obligations	-	-5,575
Other	-59,668	-9,308
Net cash provided by (used in) investing activities	-400,419	-244,803
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans	-40,000	-
Proceeds from long-term loans payable	-	500,000
Repayment of long-term loans payable	-545,468	-459,635
Cash dividends paid	-229,170	-229,580
Net cash provided by (used in) financing activities	-814,638	-189,215
Effect of exchange rate change on cash and cash equivalents	13,859	27,560
Net increase (decrease) in cash and cash equivalents	-1,622,431	-105,014
Cash and cash equivalents at beginning of period	6,280,114	6,714,266
Cash and cash equivalents at end of period	4,657,683	6,609,251

(4) Notes to consolidated financial statements

(Notes on going concern assumption)

None

(Notes if there is a significant change in the amount of shareholders' equity)

None