

Translation

April 12, 2013

Consolidated Financial Results
for the Six Months Ended February 28, 2013
<under Japanese GAAP>

Company name: **Watts Co., Ltd.**
Listing: JASDAQ, Osaka Securities Exchange
Securities code: 2735
URL: <http://www.watts-jp.com/>
Representative: Fumio Hiraoka, President and CEO
Inquiries: Hiroshi Fukumitsu, Board member and General Manager of Administration Department
TEL: +81-6-4792-3280 (from overseas)

Scheduled date to submit Quarterly Securities Report: April 12, 2013
Scheduled date to commence dividend payments: -
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors)

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the six months ended February 28, 2013
(from September 1, 2012 to February 28, 2013)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended February 28, 2013	20,500	1.1	1,215	14.9	1,215	14.4	724	20.4
February 29, 2012	20,268	10.1	1,058	36.5	1,062	11.7	602	27.6

(Note) Comprehensive income:

Six months ended February 28, 2013: 754 million yen [26.9%]
Six months ended February 29, 2012: 594 million yen [24.9%]

	Net income per share	Diluted net income per share
Six months ended February 28, 2013	Yen 57.27	Yen -
February 29, 2012	47.80	47.66

(Note) The Company carried out a stock split of 2-for-1 on common shares with the effective date of March 1, 2013. Consequently, the amounts provided in net income per share and diluted net income per share have been retrospectively adjusted by calculating them on the assumption that the stock split was carried out at the beginning of the fiscal year ended August 31, 2012.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
February 28, 2013	14,830	6,381	43.0
August 31, 2012	14,805	5,816	39.3

(Reference) Equity:

As of February 28, 2013: 6,381 million yen
As of August 31, 2012: 5,816 million yen

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended August 31, 2012	Yen -	Yen 0.00	Yen -	Yen 30.00	Yen 30.00
Fiscal year ending August 31, 2013	-	0.00			
Fiscal year ending August 31, 2013 (Forecasts)			-	15.00	15.00

(Note) Revisions to the forecasts of cash dividends most recently announced: None

The Company carried out a stock split of 2-for-1 on common shares with the effective date of March 1, 2013. Consequently, the amounts provided in the forecast of cash dividends for the fiscal year ending August 31, 2013 have been calculated based on the number of shares following the stock split.

3. Consolidated earnings forecasts for the fiscal year ending August 31, 2013 (from September 1, 2012 to August 31, 2013)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending August 31, 2013	42,200	3.5	2,300	11.9	2,250	9.5	1,290	9.6	102.25

(Note) Revisions to the consolidated earnings forecasts most recently announced: None

The Company carried out a stock split of 2-for-1 on common shares with the effective date of March 1, 2013, and net income per share has been adjusted as a result. However, this has not had a material effect on the earnings forecasts announced on October 12, 2012.

* Notes

(1) Changes in significant subsidiaries during the six months under review (Changes in specified subsidiaries resulting in changes in the scope of consolidation): None

(2) Application of specific accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: Yes

d. Restatement of prior period financial statements after error corrections: None

(4) Number of shares issued (common stock)

a. Total number of shares issued at the end of the period (including treasury stock)

As of February 28, 2013	13,958,800 shares
As of August 31, 2012	13,958,800 shares

b. Number of treasury shares at the end of the period

As of February 28, 2013	1,306,794 shares
As of August 31, 2012	1,306,794 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended February 28, 2013	12,652,006 shares
Six months ended February 29, 2012	12,593,894 shares

(Note) The Company carried out a stock split of 2-for-1 on common shares with the effective date of March 1, 2013. Consequently, the numbers of shares provided have been retrospectively adjusted by calculating them on the assumption that the stock split was carried out at the beginning of the fiscal year ended August 31, 2012.

* Indication regarding execution of quarterly review procedures

At the time of disclosure of this quarterly financial results report, the review procedures for quarterly consolidated financial statements in accordance with the Financial Instruments and Exchange Act are in progress.

* Proper use of earnings forecasts, and other special matters

(Caution concerning forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable.

Therefore, they do not constitute a guarantee that they will be realized. Actual business and other results may differ substantially due to various factors. Please refer to the section of “(3) Qualitative information regarding consolidated earnings forecasts” of “1. Qualitative information regarding settlement of accounts for the six months ended February 28, 2013” on page 5 for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.

1. Qualitative information regarding settlement of accounts for the six months ended February 28, 2013

(1) Qualitative information regarding consolidated operating results

In the six months ended February 28, 2013, the Japanese economy was subject to a number of uncertainties including the debt problem in Europe and economic slowdown overseas. Nevertheless, demand related to reconstruction following the Great East Japan Earthquake continued to support the economy and some bright signs began to emerge, including a rally in stock prices caused by expectations regarding economic measures by the government. In the retail industry, although there were signs of recovery such as improvements in consumer confidence indices, consumers continued to show a reluctance to buy, a preference for lower priced items and a frugal mindset, reflecting concerns about the future prospects for an increase in consumption tax and other matters. As a result, conditions for the industry remained difficult.

In this environment, the Group operating 100-Yen shops “meets.” and “Silk” developed and sold best value-for-money products lines, mostly practical-use household items, under its private brand “WATTS SELECT,” and continued to carry out low-cost opening and closing of shops and low-cost shop operations. Through these activities, Watts continued its efforts to boost customer satisfaction while at the same time securing shop revenues.

In the six months ended February 28, 2013, the number of 100-Yen shops opened included 47 directly managed shops and no franchised/other shops, while the number of 100-Yen shops closed included 18 directly managed shops and four franchised/other shops. As a result, the number of 100-Yen shops as of the end of the six month period was 847, which includes 794 directly managed shops and 53 franchised/other shops.

As for the number of the other shops as of the end of the six month period, Buona Vita, which sells nature-based lifestyle goods, opened three shops and closed two shops, with an end result of 14 shops. Value 100, the fresh-foods supermarket collaboration, continues with one shop. The standing bar Horoyoi-tou also continues with two shops. Komonoya, a fixed-price shop in Bangkok, Thailand, opened two shops and closed one shop, with an end result of nine shops.

As a result, net sales for the six month period were 20,500 million yen (up 1.1% year on year), operating income was 1,215 million yen (up 14.9% year on year), ordinary income was 1,215 million yen (up 14.4% year on year) and net income was 724 million yen (up 20.4% year on year).

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

(2) Qualitative information regarding consolidated financial position

a. Assets, liabilities and net assets

(Assets)

As of the end of the second quarter period, current assets stood at 11,241 million yen, a decrease of 6 million yen compared with the end of the previous fiscal year. This is mainly due to a decrease of 103 million yen in notes and accounts receivable-trade, which offset increases of 168 million yen in merchandise and finished goods and 64 million yen in cash and deposits. Noncurrent assets were 3,589 million yen, an increase of 31 million yen compared with the end of the previous fiscal year. This is mainly due to an increase of 37 million yen in investments and other assets attributable to an increase in guarantee deposits for opening new shops.

As a result, total assets stood at 14,830 million yen, an increase of 25 million yen compared with the end of the previous fiscal year.

(Liabilities)

As of the end of the second quarter period, current liabilities stood at 7,100 million yen, a decrease of 337 million yen compared with the end of the previous fiscal year. This is mainly due to decreases of 117 million yen in current portion of long-term loans payable due to repayment and 184 million yen in accrued consumption taxes, which offset an increase of 117 million yen in notes and accounts payable-trade. Noncurrent liabilities were 1,348 million yen, a decrease of 202 million yen compared with the end of the previous fiscal year. This is mainly due to a decrease of 201 million yen in long-term loans

payable due to repayment.

As a result, total liabilities stood at 8,449 million yen, a decrease of 539 million yen compared with the end of the previous fiscal year.

(Net assets)

As of the end of the second quarter period, total net assets stood at 6,381 million yen, an increase of 564 million yen compared with the end of the previous fiscal year. This is mainly due to an increase of 534 million yen in retained earnings.

As a result, equity ratio became 43.0 % (39.3 % as of the end of the previous fiscal year).

b. Cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of the end of the six month period amounted to 4,151 million yen, an increase of 64 million yen compared with the end of the previous fiscal year.

Details and main reasons for increases and decreases of each cash flow in the six month period are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was 670 million yen (1,055 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly by income before income taxes and minority interests of 1,228 million yen, increase in notes and accounts payable-trade of 203 million yen, depreciation and amortization of 108 million yen and decrease in notes and accounts receivable-trade of 104 million yen, while cash was used mainly for income taxes paid of 520 million yen, a decrease in accrued consumption taxes of 175 million yen and an increase in inventories of 162 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 101 million yen (437 million yen was used in the same period of the previous fiscal year). The main factors for this were purchase of property, plant and equipment of 123 million yen, payments for lease and guarantee deposits of 105 million yen for opening new shops, and proceeds from collection of lease and guarantee deposits of 124 million yen for closing shops.

(Cash flows from financing activities)

Net cash used in financing activities was 507 million yen (321 million yen was used in the same period of the previous fiscal year). The main factors for this were repayment of long-term loans payable of 719 million yen, cash dividends paid of 188 million yen and proceeds from long-term loans payable of 400 million yen.

(3) Qualitative information regarding consolidated earnings forecasts

In the consolidated earnings forecasts, net income per share has been adjusted as a result of a stock split with the effective date of March 1, 2013. However, this has not had a material effect on the full-year consolidated earnings forecasts announced in the Consolidated Financial Results of October 12, 2012.

2. Matters regarding summary information (notes)

(1) Changes in significant subsidiaries during the six months under review

No items to report

(2) Application of specific accounting for preparing quarterly consolidated financial statements

No items to report

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

Following the revision of the Corporation Tax Act, Watts and its domestic consolidated subsidiaries applied the depreciation method in compliance with the revised Corporation Tax Act to property, plant and equipment acquired on or after September 1, 2012, from the first quarter ended November 30, 2012. The impact of this change on operating income, ordinary income, and income before income taxes and minority interests for the six months under review was immaterial.

3. Quarterly Consolidated Financial Statements

(1) Consolidated balance sheets

(Thousands of yen)

	As of August 31, 2012	As of February 28, 2013
Assets		
Current assets		
Cash and deposits	4,086,621	4,151,220
Notes and accounts receivable-trade	1,812,109	1,708,920
Merchandise and finished goods	4,633,002	4,801,163
Raw materials and supplies	9,491	10,795
Deferred tax assets	272,905	290,276
Consumption taxes receivable	10,963	1,312
Other	443,799	296,206
Allowance for doubtful accounts	(21,189)	(18,835)
Total current assets	11,247,704	11,241,059
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	773,811	755,268
Accumulated depreciation and impairment loss	(528,668)	(507,770)
Buildings and structures, net	245,142	247,497
Vehicles	8,963	10,266
Accumulated depreciation and impairment loss	(6,623)	(7,170)
Vehicles, net	2,339	3,095
Tools, furniture and fixtures	2,200,752	2,252,907
Accumulated depreciation and impairment loss	(1,751,493)	(1,810,434)
Tools, furniture and fixtures, net	449,258	442,473
Land	80,600	80,600
Total property, plant and equipment	777,341	773,665
Intangible assets		
Goodwill	44,366	38,820
Other	28,115	31,837
Total intangible assets	72,481	70,657
Investments and other assets		
Investment securities	84,892	95,619
Deferred tax assets	93,032	87,821
Guarantee deposits	2,450,896	2,477,161
Other	109,720	114,514
Allowance for doubtful accounts	(30,565)	(29,989)
Total investments and other assets	2,707,976	2,745,127
Total noncurrent assets	3,557,799	3,589,451
Total assets	14,805,503	14,830,510

	(Thousands of yen)	
	As of August 31, 2012	As of February 28, 2013
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,433,866	4,551,727
Short-term loans payable	140,000	140,000
Current portion of long-term loans payable	1,267,834	1,150,021
Income taxes payable	528,284	522,145
Accrued consumption taxes	254,451	69,486
Provision for bonuses	136,852	143,180
Provision for directors' bonuses	9,700	-
Other	667,349	524,306
Total current liabilities	7,438,338	7,100,866
Noncurrent liabilities		
Long-term loans payable	1,102,087	900,751
Provision for retirement benefits	104,218	108,727
Provision for directors' retirement benefits	97,902	103,888
Asset retirement obligations	76,683	69,938
Other	169,717	165,062
Total noncurrent liabilities	1,550,608	1,348,367
Total liabilities	8,988,947	8,449,234
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	876,066	876,066
Retained earnings	4,783,057	5,317,856
Treasury stock	(267,504)	(267,504)
Total shareholders' equity	5,831,917	6,366,716
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2,189)	10,206
Foreign currency translation adjustment	(13,171)	4,353
Total accumulated other comprehensive income	(15,361)	14,559
Total net assets	5,816,555	6,381,276
Total liabilities and net assets	14,805,503	14,830,510

(2) Consolidated statements of income and consolidated statements of comprehensive income**Consolidated statements of income
(Six month period)**

	(Thousands of yen)	
	Six months ended February 29, 2012	Six months ended February 28, 2013
Net sales	20,268,411	20,500,255
Cost of sales	12,515,634	12,589,437
Gross profit	7,752,777	7,910,818
Selling, general and administrative expenses	6,694,321	6,695,038
Operating income	1,058,455	1,215,780
Non-operating income		
Rent income	9,679	9,637
Equity in earnings of affiliates	4,011	3,973
Reversal of allowance for doubtful accounts	5,634	3,229
Other	2,957	8,555
Total non-operating income	22,282	25,397
Non-operating expenses		
Interest expenses	10,343	7,196
Early withdrawal penalty	-	11,600
Cost of lease revenue	4,962	4,962
Other	3,263	2,141
Total non-operating expenses	18,569	25,900
Ordinary income	1,062,168	1,215,277
Extraordinary income		
Gain on sales of investment securities	-	730
Compensation income	18,059	23,198
Other	2,026	-
Total extraordinary income	20,086	23,928
Extraordinary loss		
Loss on retirement of noncurrent assets	1,164	4,777
Impairment loss	22,046	6,059
Total extraordinary losses	23,211	10,837
Income before income taxes and minority interests	1,059,044	1,228,368
Income taxes-current	472,433	523,633
Income taxes-deferred	(15,404)	(19,843)
Total income taxes	457,028	503,789
Income before minority interests	602,016	724,579
Net income	602,016	724,579

Consolidated statements of comprehensive income
(Six month period)

	(Thousands of yen)	
	Six months ended February 29, 2012	Six months ended February 28, 2013
Income before minority interests	602,016	724,579
Other comprehensive income		
Valuation difference on available-for-sale securities	501	12,396
Foreign currency translation adjustment	(7,915)	17,525
Total other comprehensive income	(7,413)	29,921
Comprehensive income	594,602	754,500
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	594,602	754,500

(3) Consolidated statements of cash flows

(Thousands of yen)

	Six months ended February 29, 2012	Six months ended February 28, 2013
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,059,044	1,228,368
Depreciation and amortization	133,120	108,110
Impairment loss	22,046	6,059
Amortization of goodwill	83,598	5,545
Increase (decrease) in allowance for doubtful accounts	(4,448)	(2,930)
Increase (decrease) in provision for bonuses	16,890	6,327
Increase (decrease) in provision for directors' bonuses	(11,800)	(9,700)
Increase (decrease) in provision for retirement benefits	5,944	4,508
Increase (decrease) in provision for directors' retirement benefits	2,671	5,985
Interest and dividends income	(1,319)	(1,145)
Interest expenses	10,343	7,196
Loss (gain) on sales of investment securities	-	(730)
Loss on retirement of noncurrent assets	1,164	4,777
Decrease (increase) in notes and accounts receivable-trade	210,137	104,765
Decrease (increase) in inventories	(271,111)	(162,665)
Increase (decrease) in notes and accounts payable-trade	302,305	203,273
Increase (decrease) in accrued consumption taxes	29,462	(175,210)
Other, net	(123,757)	(135,395)
Subtotal	1,464,293	1,197,141
Interest and dividends income received	1,280	1,077
Interest expenses paid	(9,944)	(7,056)
Income taxes paid	(400,400)	(520,611)
Net cash provided by (used in) operating activities	1,055,229	670,551
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(152,084)	(123,381)
Proceeds from sales of property, plant and equipment	291	875
Payments for lease and guarantee deposits	(155,278)	(105,842)
Proceeds from collection of lease and guarantee deposits	64,032	124,758
Payments for execution of assets retirement obligations	(1,308)	(4,100)
Proceeds from sales of investment securities	-	13,097
Payments for transfer of business	(193,195)	-
Other, net	(302)	(7,172)
Net cash provided by (used in) investing activities	(437,844)	(101,764)

	(Thousands of yen)	
	Six months ended February 29, 2012	Six months ended February 28, 2013
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	650,000	400,000
Repayment of long-term loans payable	(825,846)	(719,149)
Proceeds from sales of treasury stock	10,614	-
Cash dividends paid	(155,876)	(188,793)
Net cash provided by (used in) financing activities	<u>(321,108)</u>	<u>(507,942)</u>
Effect of exchange rate change on cash and cash equivalents	<u>(2,649)</u>	<u>3,753</u>
Net increase (decrease) in cash and cash equivalents	<u>293,626</u>	<u>64,598</u>
Cash and cash equivalents at beginning of period	<u>3,039,110</u>	<u>4,086,621</u>
Cash and cash equivalents at end of period	<u>3,332,736</u>	<u>4,151,220</u>

(4) Notes on going concern assumption

No items to report

(5) Notes on significant changes in the amount of shareholders' equity

No items to report

(6) Important subsequent events

(Stock split)

The Company decided by resolution of a meeting of the Board of Directors held on February 4, 2013 to carry out a stock split and, in relation to this, to make a partial amendment to the Articles of Incorporation and revise the forecasts of cash dividends for the fiscal year-end.

For the details, please refer to the news release titled "Notice regarding stock split, partial amendment to the Articles of Incorporation and revision to the forecasts of cash dividends for the fiscal year-end" announced on the same day as the resolution (February 4, 2013) (The announcement was made in the Japanese language only.).

(Establishment of significant subsidiary)

The Company decided by resolution of a meeting of the Board of Directors held on April 12, 2013 to establish a locally incorporated company in China (consolidated subsidiary).

For the details, please refer to the news release titled "Notice regarding establishment of locally incorporated company in China (consolidated subsidiary)" announced today (April 12, 2013) (The announcement was made in the Japanese language only.).