

Right-on.

Right-on®
Report

RIGHT ON Co., Ltd.
1-11-1 Azuma, Tsukuba-shi, Ibaraki 305-8503, Japan
Tel: +81-29-858-0321 Fax: +81-29-858-0331
URL: <http://right-on.co.jp/english/>

To Our Shareholders



Tatsuharu Yokouchi
President and Representative Director

First of all, I would like to thank our shareholders for the support we received from you throughout the year. It is my pleasure to present the Right-on Report for the 35th fiscal term (August 21, 2013–August 20, 2014).

Review of Operations for the 35th Fiscal Term

● Business environment

During the fiscal term under review, the Japanese economy continued to shift gradually toward recovery supported by a number of government policies, but the recovery was weakened by the rise in the consumption tax and concerns over the impact of an ongoing downturn in overseas economies. As a result, conditions continued to make the outlook uncertain.

● Review of operations

Against this backdrop, we conducted initiatives to establish branding based on the concept of customer satisfaction as the essence of branding.

In terms of merchandise, which is centered on jeans, our core product, we offered a variety of popular national brand products. We also developed attractive and highly functional private-brand products including “MOCO MOCO JEANS” (soft and warm bottoms with a shaggy fleece lining) and “AQUA DENIM” (bottoms featuring material with excellent perspiration-absorbing properties that maintain a refreshing feel).

In our sales promotion activities, we enhanced customer convenience with the launch of “RIGHT!” a website unifying multiple membership organizations such as club memberships and email magazine

MISSION

To give people more fun and choice in life by delivering jeans with lasting appeal that transcends the generations.

POLICY

1. We aim to be a company that makes customers happy by taking a Customer First approach.
2. We aim to be a company that is trusted by the public for its honesty and fairness.
3. We aim to be a company where staff can grow, use their skills to the full, and feel motivated in their work.

recipients. We also strove to make shopping more fun while providing premiums for customers through Kids Snap photography events and other participatory projects.

With regard to store development, which centered on private-brand BACK NUMBER as a new type of business, we developed BACK NUMBER lifestyle stores offering apparel and accessories, opening 34 locations including the BACK NUMBER Canal City Hakata Store. To maintain efficiency, we closed 22 stores. As a result, the number of stores at the end of the 35th fiscal term stood at 490.

● Financial results for the 35th fiscal term

As an overview of the fiscal term under review, customer numbers declined significantly due to a mismatch between merchandise policies and customer needs. Products were skewed toward the youth segment, and there was insufficient development of products at the price ranges

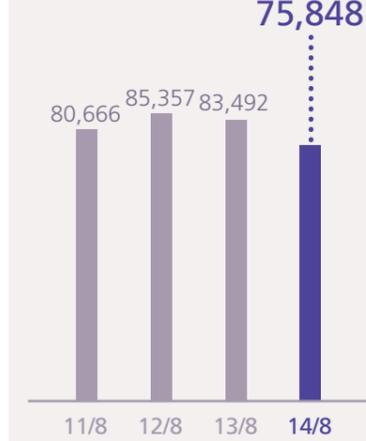
demand. In addition, sales suffered as a result of lingering summer heat and extreme weather conditions. As a result, net sales for the fiscal term under review decreased 9.2% year on year to 75,848 million yen.

By product sector, net sales declined 6.9% to 26,043 million yen for bottomwear, decreased 11.2% to 19,069 million yen for cut-and-sewn and knit wear, and dropped 8.6% to 15,237 million yen for shirts and outerwear.

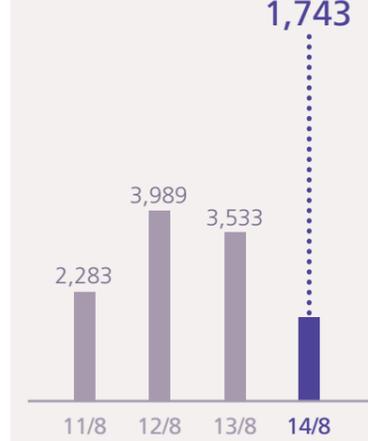
Reflecting sluggish sales, despite efforts to reduce selling, general and administrative expenses, operating income declined 50.7% to 1,743 million yen and ordinary income decreased 51.7% to 1,652 million yen. After recording extraordinary losses, including losses on retirement of fixed assets due to store renovation work, losses on store closures, and impairment losses, we posted net income of 421 million yen, down 75.0% from the previous fiscal term.

Financial Highlights

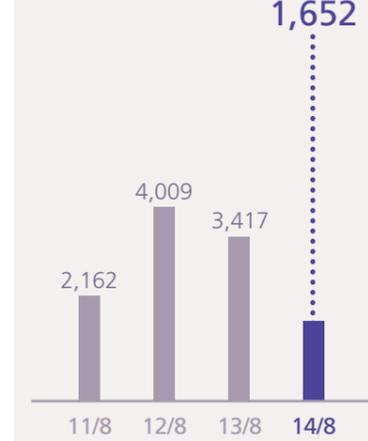
Net Sales
(millions of yen)



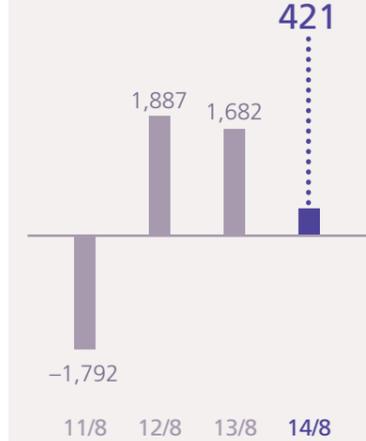
Operating Income
(millions of yen)



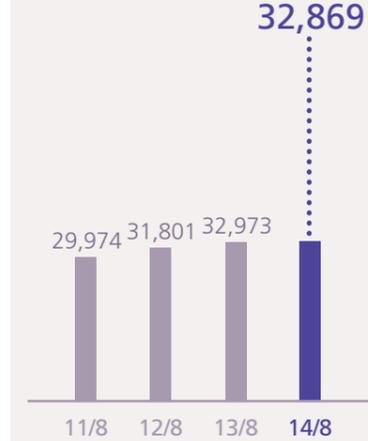
Ordinary Income
(millions of yen)



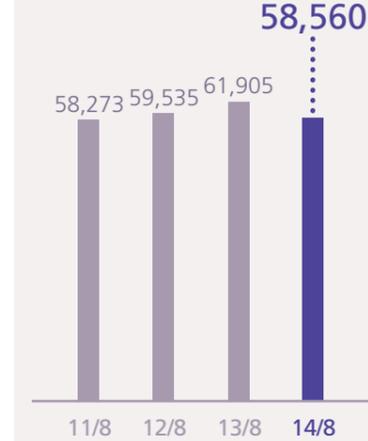
Net Income (Loss)
(millions of yen)



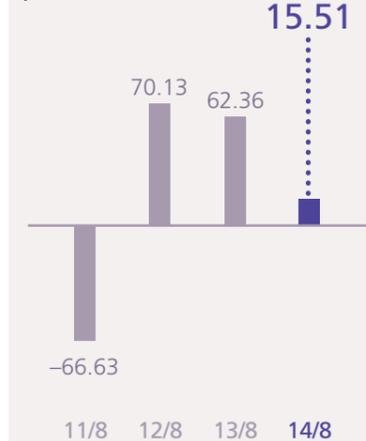
Net Assets
(millions of yen)



Total Assets
(millions of yen)

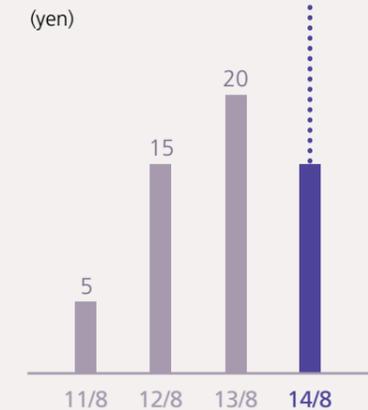


Net Income (Loss) per Share
(yen)



Dividends per Share

We provided a year-end dividend for the 35th fiscal term of 5 yen per share. This resulted in a full-year dividend of 15 yen per share (an interim dividend of 10 yen and a year-end dividend of 5 yen).



Medium-Term Business Strategy

- 1 — Evolve into cool, stylish stores.
- 2 — Nail down a distinctive, characteristic, RIGHT ON feel.
- 3 — Establish a system of accelerated rollout and early closeout, characteristic of RIGHT ON.
- 4 — Establish cool, stylish advertising.
- 5 — Establish cool, stylish visual merchandising and store spaces.
- 6 — Establish customer service with a good reputation.

We are committed to establishing branding by carrying out initiatives aimed at achieving the above themes, based on the concept that customer satisfaction is the essence of branding, and to establishing a business model aimed at future growth.

Outlook for the 36th Fiscal Term

Looking ahead to the 36th fiscal term, it is expected that the economy will continue to improve gradually, but the future remains uncertain due to factors such as the continued impact of the consumption tax hike and the risk of a downturn in the Japanese economy caused by struggling overseas economies.

In this situation, we will aim to maximize sales and profits by implementing a range of measures and meeting customer expectations, based on the concept that customer satisfaction is the essence of branding.

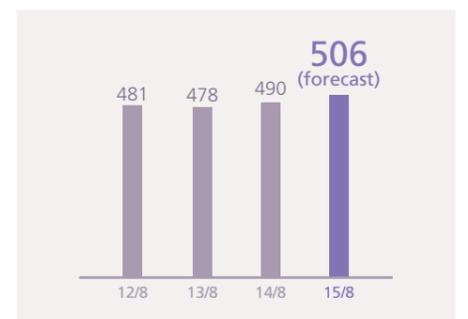
As for our forecast for business performance in the next fiscal term, we forecast net sales of 78,000 million yen, operating income of 2,500 million yen, ordinary income of 2,400 million yen, and net income of 1,000 million yen.

Forecast for the 36th term

	Amount (millions of yen)	Y-o-y change
Net sales	78,000	+2.8%
Operating income	2,500	+43.4%
Ordinary income	2,400	+45.3%
Net income	1,000	+137.4%

Number of stores

(stores)





Merchandise Strategy

We will attempt to make a transition from a "product-out" to a "market-in" approach. To achieve success with the same quality and price competitiveness using a market-in approach, we will create a structure that can adapt to changes amid intense fluctuations in the market.

In terms of merchandise strategy, we will strive to set ourselves apart from other companies by responding to the diverse preferences of our customers and boosting the competitiveness of our stores to enhance our strength in American casual products (national brands), including military and outdoor fashion.

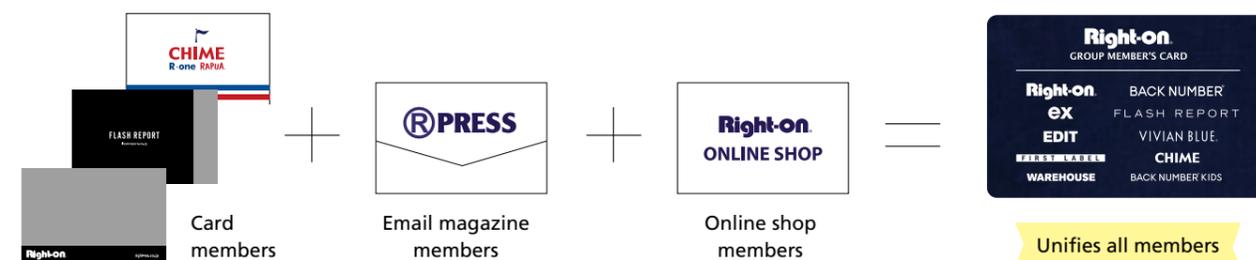
Promotion Strategy

In our sales promotion strategy, we will seek to cultivate new customers by establishing in-store, image and member sales promotions. In-store sales promotions involve in-store activities that link merchandise, promotions and store spaces. Image sales promotions involve image construction of American casual and surfing related concepts, as well as placing advertisements in magazines that correspond to our product image. Member sales promotions involve the dissemination of information on events tailored to individual customers and the introduction of new products, including point and segment promotions.



About New Membership Organizations

The era in which companies simply disseminate information is over. From now on, a wide range of communication strategies incorporating a variety of media, companies and on occasion even customers will be needed to expand the synergistic effects of corporate value. Having unified existing membership organizations and launched a new membership website, RIGHT ON has created a communication environment that offers even more convenience. Going forward, we will strive to create mutually beneficial relationships with customers by proactively introducing new projects and policies.



Member Perks

P Points

Points are earned for every 100 yen spent (excluding tax) and can be used as one point = one yen. Points are earned when shopping in-store or online, and can be used for shopping in both channels. In-store use starts from 100 points, online shopping use starts from one point, and use of each is possible in one-point increments.

My Page Members Website



We will attempt a range of communications to make shopping more fun and providing premiums for customers. The website is packed with noteworthy content, including members-only campaigns and events that feature giveaway items. Members can also use the website to keep track of points and purchase amounts.

About Member Rankings

Members are ranked according to the amount they purchase throughout the year. Rankings are updated monthly.



Providing Special Information to Meet Customer Needs

We provide customers with special information about sales and other announcements ahead of time by email.



► Our email magazine delivers information on campaigns featuring labels that customers favor and introduces new products.

Store Management Strategy

In our store management strategy, we will continue our commitment to providing “services that make customers happy.” We will work to raise the level of stores’ collective strength by robustly upgrading overall store management capabilities in addition to improving customer service skills.



Area Manager
East Saitama Area, Saitama/Gunma Block

Tomomi Iwano

Cherishing Our Once-in-a-Lifetime Encounter with Customers by Providing Unsurpassed Service

By “providing customers with enjoyable shopping” as our motto, our aim is focused continually on store management policies, which call for providing bright smiles, prompt service and sincere advice. We also aim to improve our customer service skills on a daily basis through activities such as role playing aimed at developing service from the customer’s perspective.

In addition, we strive to provide unsurpassed service and cherish the time spent interacting with each and every customer.

Teaching staff at stores in my area of responsibility what I have learned from working on the sales floor has boosted the opportunities to hear words of gratitude and “thank yous” from customers,



and so I feel that more of our staff have been able to provide service from the heart.

As a result, according to customer satisfaction surveys, the stores in my area were selected as the stores where customers would “definitely shop there again,” the highest rating in the survey.

Going forward, we will make every effort to attract customers by providing unsurpassed service so that customers choose RIGHT ON over other retailers.

Store-Opening Strategy

With regard to our store-opening strategy, we will aim to expand our sales share by seeking to improve the accuracy of our market research, by continuing to open stores in locations with good geographical and other conditions, and by seeking to bolster the efficiency of our stores through the continuation of our “scrap and build” program. To keep our sales floors fresh and attractive, we will not only undertake an active program of renovation, but also reorganize sales floors to take advantage of the distinctive features of each store as part of measures to reinvigorate existing stores.

National total: **490** stores

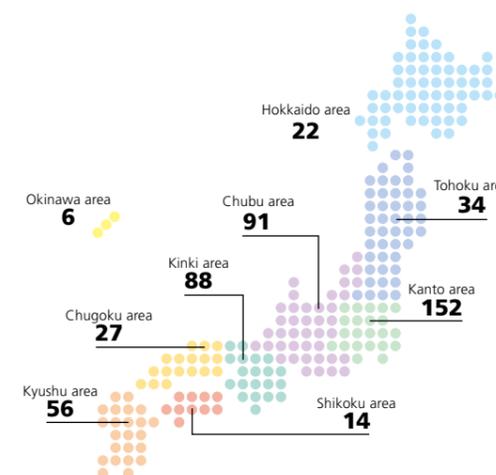
(as of August 20, 2014)

Number of stores according to business type

(as of the end of the term)

Right-on	457
FLASH REPORT	12
CHIME	16
BACK NUMBER	4
BACK NUMBER KIDS	1
Total	490

Number of stores by area at the end of the term



RIGHT ON Business Types

Right-on.



FLASH REPORT



BACK NUMBER®



CHIME



BACK NUMBER® KIDS



Balance Sheets (Summary)

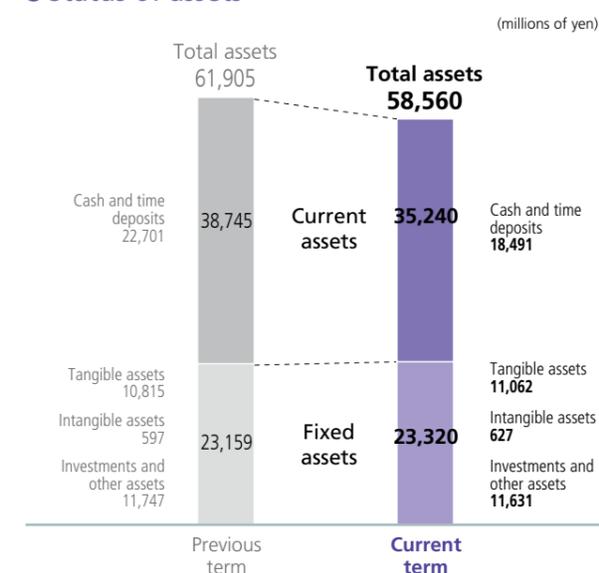
(millions of yen)

Item	Previous term (as of August 20, 2013)	Current term (as of August 20, 2014)
Assets		
Current assets	38,745	35,240
Cash and time deposits	22,701	18,491
Accounts receivable—trade	1,201	1,230
Merchandise	11,969	13,464
Advance payments—trade	601	90
Prepaid expenses	164	132
Deferred tax assets	496	450
Accrued income	1,594	1,365
Other	16	13
Fixed assets	23,159	23,320
Tangible assets	10,815	11,062
Buildings	7,526	7,579
Structures	172	142
Tools, furniture and fixtures	1,155	1,394
Land	1,903	1,903
Lease assets	18	14
Construction in progress	38	26
Intangible assets	597	627
Investments and other assets	11,747	11,631
Investment securities	255	264
Investments in capital	0	0
Long-term prepaid expenses	37	62
Prepaid pension cost	78	36
Deferred tax assets	491	448
Guarantee and rental deposits	10,988	10,899
Other	40	51
Allowance for doubtful accounts	(145)	(133)
Total assets	61,905	58,560

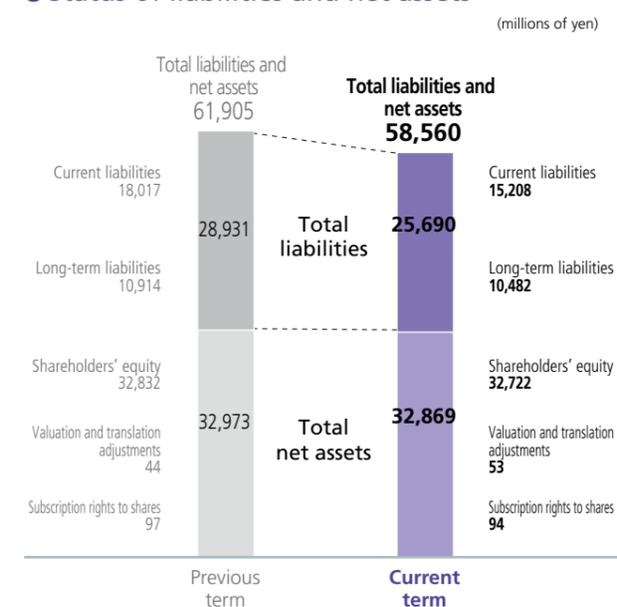
(millions of yen)

Item	Previous term (as of August 20, 2013)	Current term (as of August 20, 2014)
Liabilities		
Current liabilities	18,017	15,208
Trust payable	9,094	7,009
Accounts payable—trade	1,722	2,469
Current portion of long-term loans payable	3,070	2,535
Current portion of bonds	700	350
Lease obligations	3	3
Accounts payable—other	1,100	1,002
Accrued expenses	970	994
Income taxes payable	535	52
Accrued consumption taxes	132	109
Advances received	3	2
Deposits received	204	210
Reserve for bonuses	438	437
Asset retirement obligations	26	30
Other	14	—
Long-term liabilities	10,914	10,482
Bonds payable	350	—
Long-term debt	7,955	7,920
Lease obligations	15	11
Asset retirement obligations	2,422	2,401
Other	171	149
Total liabilities	28,931	25,690
Net assets		
Shareholders' equity	32,832	32,722
Capital stock	6,195	6,195
Capital surplus	6,481	6,481
Capital reserve	6,481	6,481
Retained earnings	23,328	23,190
Legal reserve	78	78
Other retained earnings	23,250	23,111
Special reserve	4,000	4,000
Retained earnings carried forward	19,250	19,111
Treasury stock	(3,173)	(3,145)
Valuation and translation adjustments	44	53
Unrealized gains or losses on marketable securities	43	49
Deferred gains or losses on hedges	1	3
Subscription rights to shares	97	94
Total net assets	32,973	32,869
Total liabilities and net assets	61,905	58,560

● Status of assets



● Status of liabilities and net assets



Assets

Total assets as of the end of the term came to 58,560 million yen, a decrease of 3,344 million yen year on year.

Current assets declined by 3,505 million yen compared to the end of the previous term to 35,240 million yen. This mainly reflected an increase of 1,495 million yen in merchandise and a decrease of 4,209 million yen in cash and time deposits.

Fixed assets increased by 161 million yen compared to the end of the previous term to 23,320 million yen. This primarily reflected an increase of 247 million yen in tangible assets and a decrease of 115 million in investments and other assets.

Liabilities

Total liabilities as of the end of the term came to 25,690 million yen, a decrease of 3,240 million yen compared to the end of the previous term.

Current liabilities decreased by 2,809 million yen, compared to the end of the previous term, to 15,208 million yen. This was mainly due to an increase of 747 million yen in trade accounts payable despite decreases of 2,085 million yen in trust payables, 482 million yen in income taxes payable, and 535 million yen in the current portion of long-term loans payable.

Long-term liabilities decreased by 431 million yen, compared to the end of the previous term, to 10,482 million yen. This was mainly because of a decrease in bonds payable (down 350 million yen).

Net assets

Total net assets as of the end of the term came to 32,869 million yen, a decrease of 103 million yen compared to the end of the previous term. This was mainly due to a decrease in retained earnings (down 138 million yen year on year). The equity ratio as a percentage of total assets stood at 56.0%.

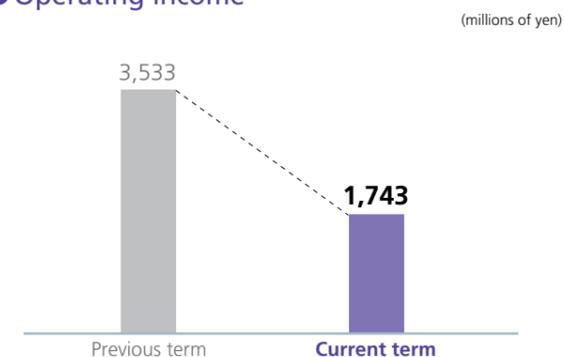
Statements of Income (Summary)

Item	Previous term (year ended August 20, 2013)		Current term (year ended August 20, 2014)		Y-o-y change
		% of total		% of total	
Net sales	83,492	100.0%	75,848	100.0%	90.8%
Cost of sales	43,582	52.2%	39,134	51.6%	89.8%
Gross profit on sales	39,910	47.8%	36,713	48.4%	92.0%
Selling, general and administrative expenses	36,376	43.6%	34,970	46.1%	96.1%
Operating income	3,533	4.2%	1,743	2.3%	49.3%
Non-operating income	227		159		
Non-operating expenses	343		250		
Ordinary income	3,417	4.1%	1,652	2.2%	48.3%
Extraordinary income	29		2		
Extraordinary losses	456		559		
Income before income taxes	2,990	3.6%	1,095	1.4%	36.6%
Income taxes					
Current:	1,271		590		
Deferred:	36		83		
Net income	1,682	2.0%	421	0.6%	25.0%

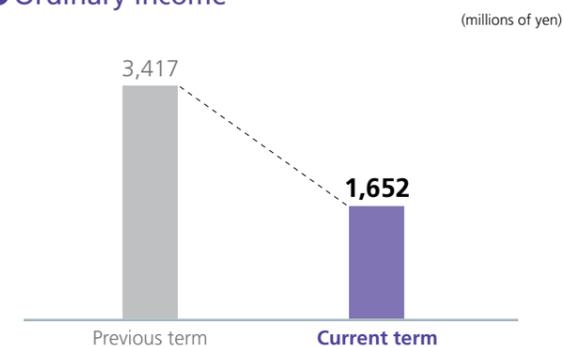
Statements of Cash Flows (Summary)

Item	Previous term	Current term
	(year ended August 20, 2013)	(year ended August 20, 2014)
Cash flows from operating activities	3,263	148
Cash flows from investing activities	(789)	(2,552)
Cash flows from financing activities	1,162	(1,806)
Net increase (decrease) in cash and cash equivalents	3,637	(4,209)
Cash and cash equivalents at beginning of the term	19,063	22,701
Cash and cash equivalents at end of the term	22,701	18,491

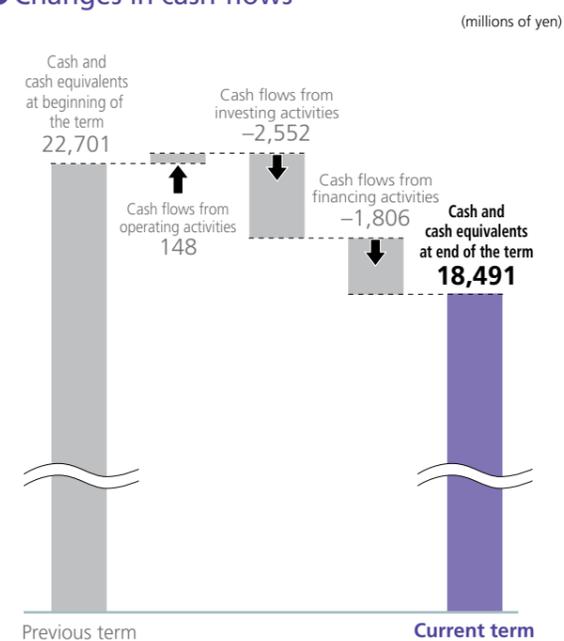
Operating income



Ordinary income



Changes in cash flows



Income

During the first half of the fiscal term under review, fall products struggled due to high temperatures that persisted until the end of November. Although some winter products such as heat-retaining and heat-generating bottoms performed well as the temperature fell, sales were sluggish overall. In the second half of the fiscal term under review, despite the promotion of a number of policies to boost sales, a lack of products that met customer needs and extreme weather conditions adversely affected sales. As a result, net sales for the fiscal term under review decreased 9.2% year on year to 75,848 million yen.

Reflecting sluggish sales, despite efforts to reduce selling, general and administrative expenses, operating income declined 50.7% to 1,743 million yen and ordinary income decreased 51.7% to 1,652 million yen. After recording extraordinary losses, including losses on retirement of fixed assets due to store renovation work, losses on store closures, and impairment losses, we posted net income of 421 million yen, down 75.0% from the previous fiscal term.

Cash flows

Cash and cash equivalents at the end of the fiscal term under review totaled 18,491 million yen, 4,209 million yen lower than at the end of the previous fiscal term, a decrease of 18.5%. Factors influencing this result included 1,095 million yen in income before income taxes, 1,568 million yen in depreciation, and 2,500 million yen in proceeds from long-term debt. This was offset by an increase of 1,495 million in inventory and a decrease of 1,159 million yen in accounts payable, a payment of 1,842 million yen for the purchase of tangible assets as part of new store openings and store renovations, a payment of 269 million yen for the purchase of intangible assets, repayment of long-term debt of 3,070 million yen, and other factors.

Corporate Data (as of August 20, 2014)

Company name:	RIGHT ON Co., Ltd.
Headquarters:	1-11-1 Azuma, Tsukuba-shi, Ibaraki 305-8503, Japan Tel: +81-29-858-0321
Corporate website:	http://right-on.co.jp/
Establishment:	April 1, 1980
Capital stock:	6,195 million yen
Representative:	Tatsuharu Yokouchi, President and Representative Director
Number of employees:	941
Business contents:	<ul style="list-style-type: none"> ● A casualwear specialty store with jeans as the mainstay item ● A nationwide chain store operation with different types of stores for different locations, such as shops located in shopping centers, power centers and station buildings, urban street stores and suburban roadside stores

Directors and Corporate Auditors (as of November 18, 2014)

Masahiro Fujiwara	Chairman and Representative Director
Tatsuharu Yokouchi	President and Representative Director
Yusuke Fujiwara	Director
Noriyuki Miura	Director
Satoshi Nakano	Director
Junichi Ishida	Director
Hatsuo Nishikawa	Standing Corporate Auditor
Kazushi Orita	Standing Corporate Auditor
Toshihiro Nagai	Corporate Auditor
Shinichi Hiraide	Corporate Auditor

Note:
Corporate Auditors Toshihiro Nagai and Shinichi Hiraide are both outside corporate auditors.

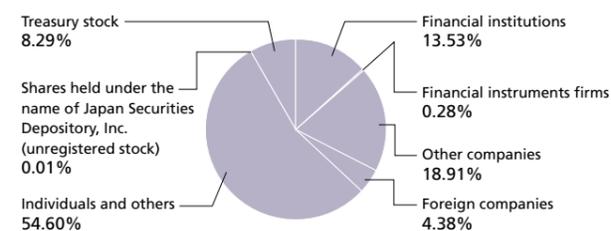
Stock Information (as of August 20, 2014)

Total number of shares authorized	60,000,000
Total number of shares issued and outstanding	29,631,500
Number of shareholders	33,928

Major shareholders

Name	Number of shares held (thousands of shares)	Ratio of shares held (%)
Masahiro Fujiwara	5,221	17.62
Fujiwara Kosan Inc.	4,873	16.44
RIGHT ON Co., Ltd.	2,457	8.29
Yusuke Fujiwara	1,735	5.85
Eiko Fujiwara	674	2.27
Nippon Life Insurance Company	635	2.14
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	627	2.11
Joyo Bank, Ltd.	528	1.78
Ryosei Fujiwara	462	1.55
Japan Trustee Services Bank, Ltd. (Trust Account 4)	413	1.39

Status of Stock by Type of Shareholder



Sharing Profits with Our Shareholders

Dividends

Our dividend policy is to sustain a stable payment of dividends and distribute profits to shareholders backed by our business performance, while building the internal reserves necessary to strengthen our financial profile and enable us to operate our business in the future.

Based on this policy, we plan to pay an annual dividend of 20 yen per share (an interim dividend of 10 yen and a year-end dividend of 10 yen) for the 36th fiscal term.

Special Benefit Plan for Shareholders

We present discount coupons available at all of our stores (excluding our online shop) as a gift to shareholders recorded or registered on the final list of shareholders on August 20.

The gift is as follows:

Number of Shares Held	Value of Discount Coupon
100-499	3,000 yen (1,000 yen coupon × 3)
500-999	5,000 yen (1,000 yen coupon × 5)
1,000-	7,000 yen (1,000 yen coupon × 7)

The expiration date of the discount coupons is August 20 of the year after the coupons are presented.

Website Information

Information about RIGHT ON is available at the following URLs:

● IR site:

<http://right-on.co.jp/ir/>

Note: On the IR site, settlement information is available, including data on monthly sales with year-on-year changes and financial results.

● Corporate site:

<http://right-on.co.jp/>
<http://right-on.co.jp/english/>

● Online shop:

<http://e.right-on.co.jp/>

● RIGHT ON Group Members Website "RIGHT!":

<https://members.right-on.co.jp/>

IR Information

Business Year: August 21 to August 20 of the following year

Date of General Meeting of Shareholders:
November

Record Date for Dividend Payments:
Year-end Dividend: August 20
Interim Dividend: February 20

Handling Office of Administrator of Shareholders' Register:
Mitsubishi UFJ Trust and Banking Corporation

Contact Details: Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation
7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081, Japan
Tel: 0120-232-711 (toll free)

Account Managing Agency for Special Accounts:
Mizuho Trust & Banking Co., Ltd.

Address: Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd.
8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-8507, Japan
Tel: 0120-288-324 (toll free)

Listing: Tokyo Stock Exchange

Public Notice: The Company makes public notices electronically. URL for the website where the notices will be published: <http://www.right-on.co.jp/biz>
However, if the Company is unable to give an electronic public notice because of an unavoidable reason, public notices may be given in the *Nihon Keizai Shimbun*.

(Notes)

- As part of the dematerialization of stock certificates, in principle administrative operations such as changes of registered address and requests to purchase shares shall be handled by the account managing agencies (securities companies) with whom the shareholder has an account. Make inquiries with the securities company where you have an account. Note that these administrative operations cannot be handled by the Handling Office of Administrator of Shareholders' Register.
- For administrative operations relating to shares recorded in special accounts, the account managing agency is Mizuho Trust & Banking Co., Ltd. Note that these administrative operations cannot be handled by the Handling Office of Administrator of Shareholders' Register (Mitsubishi UFJ Trust and Banking Corporation).
- Dividends receivable are paid by the main and branch offices of Mitsubishi UFJ Trust and Banking Corporation.