Customer-Focused Initiatives: Rapport and Reach

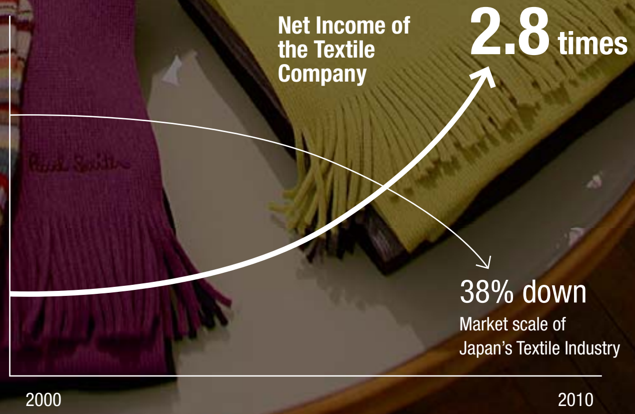
—Creating New Businesses in the Textile Area

Ongoing Commitment to Our Founding Business

From fiscal 2000 to fiscal 2010, the Textile Company recorded growth in net income attributable to ITOCHU of 2.8 times, while over the same period Japan's textile industry suffered a 38% contraction in market scale. (Yano Research Institute, Textile White Paper)

Hollowing out, old economy...

As Japan's industrial structure has changed, the domestic textile industry has developed an image as a sector in decline. Nonetheless, ITOCHU's Textile Company has continued to meet the needs of the times by adding value to products and services, and as a result we have recorded ongoing growth in global markets. While other large trading companies have almost given up on textiles, ITOCHU has maintained an unwavering commitment to its founding business. The starting point of that commitment is our rigorous customer focus. While the words "customer focus" might seem to be overused in today's business world, they are the starting point of our textile business.



01 Customer Focus: The Starting Point of Business Creation

In the 1970s, the textile industries in emerging countries began to grow, and the structure of Japan's textile industry shifted from a reliance on exports to a growing focus on domestic demand. Under such circumstances, there was an exhibition of fabric for tailor-made menswear which eventually led to the success of ITOCHU's textile business.

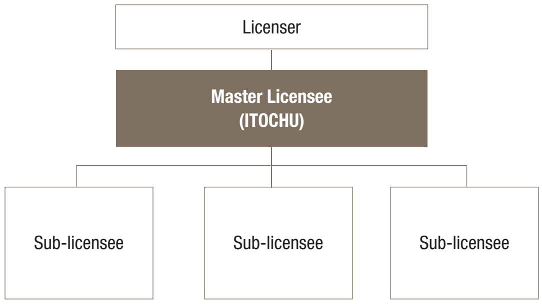
At the time, British woolen fabric was the classic example of a high-quality product. A large number of manufacturers of this fabric were relatively inflexible and set in their ways, and there was an abundance of plain fabrics that had no patterns and lacked individuality. The reason was the general preconception that it was men who were choosing the fabric. One day at the exhibition, a member of ITOCHU's sales staff, who also had the same preconception, casually watched the visitors. What he saw was a man sitting down while his wife and daughter selected fabrics, which they then showed to the man. He realized that in fact it was the women who were making the decisions even in choosing menswear fabrics, and he thought that "we can increase sales if we develop and launch menswear fabrics with brands that appeal to women." At that point, YSL (Yves Saint-Laurent) was already highly evaluated by Japanese women, and ITOCHU began contract negotiations with YSL. ITOCHU then began to import menswear fabrics under the YSL brand, which ITOCHU and YSL had jointly developed, and that brand became a major success. This was the starting point of our customer focus, which subsequently became the foundation for every step of the textile business. The salesman, who at the time was working in the Import Textiles department, is Mr. Okafuji, the current President & CEO of ITOCHU.

02 Market Expansion for Premium Goods

We continued to create new business models with a front-line focus.

In the 1980s, as a result of the rapid appreciation of the yen following the 1985 Plaza Accord, Japan's textile and apparel industries began to shift production sites to Asia and other regions. Consequently, the domestic textile industry gradually hollowed out. On the other hand, as the Japanese consumer market boomed, the market for luxury brands expanded. To meet growing needs for both quality and quantity, ITOCHU entered the licensing business. We acquired master licenses of brands and made alliances with companies that excelled in the products in each category, such as leading domestic manufacturers of apparel products, fashion goods, and accessories. In this way, we expanded our sources of earnings. It was at this point that we expanded into licensed brands and sports brands for mass merchandisers. We also moved forward aggressively with the introduction of major import brands, such as GIORGIO ARMANI, BVLGARI, and HUNTING WORLD.

License Model



03 More than Just Investors

Our business model continued to evolve, leading to the strong growth that was seen in the 2000s, as described above.

In the brand business, there is always a risk that contracts will be cancelled or terms will be modified by the ownership change of the brand, or by the brand holder's decision to establish independent operations in license management and other domestic activities. Cancellation of master-licensee contracts also adversely affects sub-licensee management. Accordingly, since about 1999 ITOCHU has taken steps to ensure stable commercial rights over the long term. We have acquired trademark rights, invested directly in domestic and overseas companies that hold brands, and concluded contracts that cover longer periods of time.

ITOCHU acquired a number of brands, such as HUNTING WORLD and CONVERSE. We took steps to increase brand value and maximize earnings while managing the increasing risk accompanied by these investments.

For example, when selecting a brand, we used our network all over the world, to make detailed research in the market, and introduced only marketable brands in Japan that have already gained a certain position in the market. As a result, we were able to reduce risk.

CONVERSE

Paul Smith

mila schön

LeSportsac

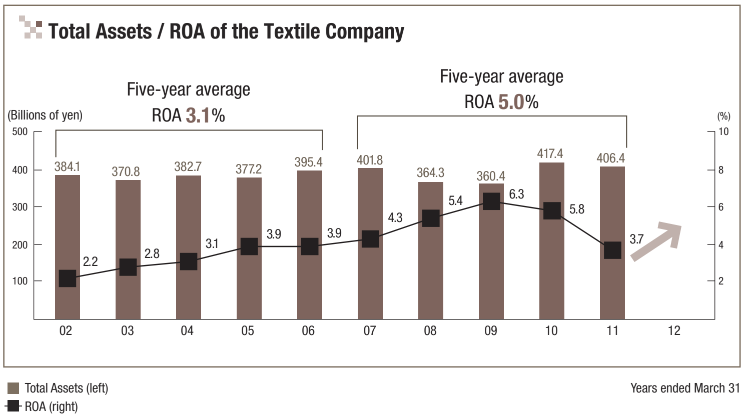
In brand management, first it is important to have an accurate understanding of each brand's positioning (consumer needs for each brand). Then, we comprehensively manage the entire merchandising function, including sales channels, product development, and promotions, in the most-appropriate approach suitable for each brand's positioning to establish the product market presence, and work to achieve sustainable growth in brand value. For example, with LeSportsac, we rigorously implement pricing and merchandising that match the brand positioning—a light, highly functional, energizing design. In the licensing business, we conduct integrated control of sales channels and brand image in order to prevent any damage to the brand value. Moreover, when introducing brands from overseas, we work together with the brand holder, customize the brand, if necessary, to meet the preferences of Japanese consumers, and build relationships that effectively mix high-prestige import products and licensed products. LANVIN and mila schön are good examples of this process.

To date, we have introduced more than 150 brands and increased their value through the above initiatives. In 2005, we took an equity position in Paul Smith, a British menswear brand. We steadily expanded its sales, and even in 2009, when the apparel industry was adversely impacted by the economic crisis, the brand recorded higher sales. This is a clear demonstration of the brand's strength. In addition, we acquired LeSportsac in 2006. Over the subsequent five years, its sales rose 1.7 times. These results of raising the value of brands that we have introduced generate a favorable cycle in which it is easier for us to attract new brands.

In this way, the Textile Company is not simply an investor. We are a merchandising company with operations that are based on a rigorous customer focus.

04 Another Key Factor Supporting Our Steady Advance

In addition to rapid growth in the brand business, there was another key factor behind the steady advance of ITOCHU's textile business in the 2000s. That was the strategic shift in our business portfolio toward downstream areas, by an early withdrawal from unprofitable and inefficient upstream and midstream businesses and by focused investment in downstream businesses. Through our long history in the textile business, we acquired spinning, weaving, and sewing plants in Japan and overseas. However, as certain business roles of those plants tapered off, we withdrew from production and replaced those assets with assets in the consumer-related sector in Japan and overseas, such as the brand business. In recent years, we have taken equity positions in companies with which we can generate synergies, such as womenswear companies LEILIAN CO., LTD., and JAVA HOLDINGS CO., LTD., as well as a garment accessories company, SANKEI CO., LTD.



The Textile Company's average total assets were ¥382.2 billion over the five years from March 31, 2001, to March 31, 2006, and were about the same, ¥391.0 billion, over the following five-year period from March 31, 2006, to March 31, 2011. However, as a result of the aggressive shift of managerial resources to downstream areas, its ROA improved significantly, rising from 3.1% to 5.0%.

05 Transcending the Boundaries of Textiles

With a focus on what the customer wants, we leveraged our brand business know-how and knowledge in the textile industry, in order to expand our business areas from apparel products to the entire area of lifestyle categories.

In 2003, for example, we invested in DEAN & DELUCA, a premium gourmet store in New York. We concluded a strategic alliance agreement with that company, and now we are backing up the overseas strategy of the DEAN & DELUCA brand. In 2010, we acquired a master license in Japan for Le Pain Quotidien, a premium bakery-restaurant from Belgium that is being developed globally. In this business, we are conducting store development that combines the know-how of our partners in such areas as product lineup and store presentation with our own know-how in brand management which we acquired through the brand business, such as in total image control and marketing control including store development.

In industrial textiles, we have positioned the Life & Healthcare business area as a new strategic area, which is expected to grow with Japan's aging population. In 2009, Watakyu Seimoa Corporation, which has a substantial share in the medical and welfare related services industry, became an equity-method affiliate. That company has 40 affiliates and is developing businesses in a wide range of areas, such as linen supply for hospitals and meal services for medical and welfare facilities. We are expanding our business with the company in a cross-divisional manner.

DEAN & DELUCA

Le Pain Quotidien

06 Focus on China

In 2008, China's retail apparel market surpassed Japan's to become the second largest in the world. For the textile business, China is positioned as the most important market. In particular, with a focus on its future potential as a consumer market, we are strengthening our downstream businesses, which operate close to the consumers. The development of our business activities in China is centered on the alliance with Shanshan Group Co., Ltd., which is the parent company of the NINGBO SHANSHAN Group, a leading company in apparel and brand retailing. Since 1993, we have established a long track record with the Shanshan Group, and since 2000 we have strengthened our relationship with the company through brand business development. In 2009, we strategically participated in their management by acquiring their shares, and since then we are improving their corporate value through the injection of our managerial resources. We are implementing cross-sectional cooperative initiatives in a wide range of areas, including apparel products and brand business area such as store development for StompStamp high-end children's wear stores and apparel brand ELLE. Moving ahead, we will continue to tie-up with China's leading companies.

In addition, we will expand sales channels. In 2010, we made an investment in TV home shopping major LuckyPai Ltd., thereby establishing a channel in China's TV home shopping market, which is rapidly growing at a rate of 30% a year. Also, we made a capital tie-up with Fortune Link (Global) Holdings Ltd., a Hong Kong e-commerce company, thereby entering the e-commerce market for brand products in China.

StompStamp

07 Rapport and Reach

ITOCHU has spelled out a new strategic direction for the textile business, which is expanding its operations around the world. We will transcend previous organizational boundaries and seamlessly combine the resources that we have accumulated through our operations in textile materials & fabrics, apparel products, and the brand business. At the same time, we will build a new business model in integrated trade flows and take steps to achieve wide-ranging, multifaceted expansion of our business activities. Under the above new strategy "Rapport and Reach," the starting point remains unchanged—customer focus.