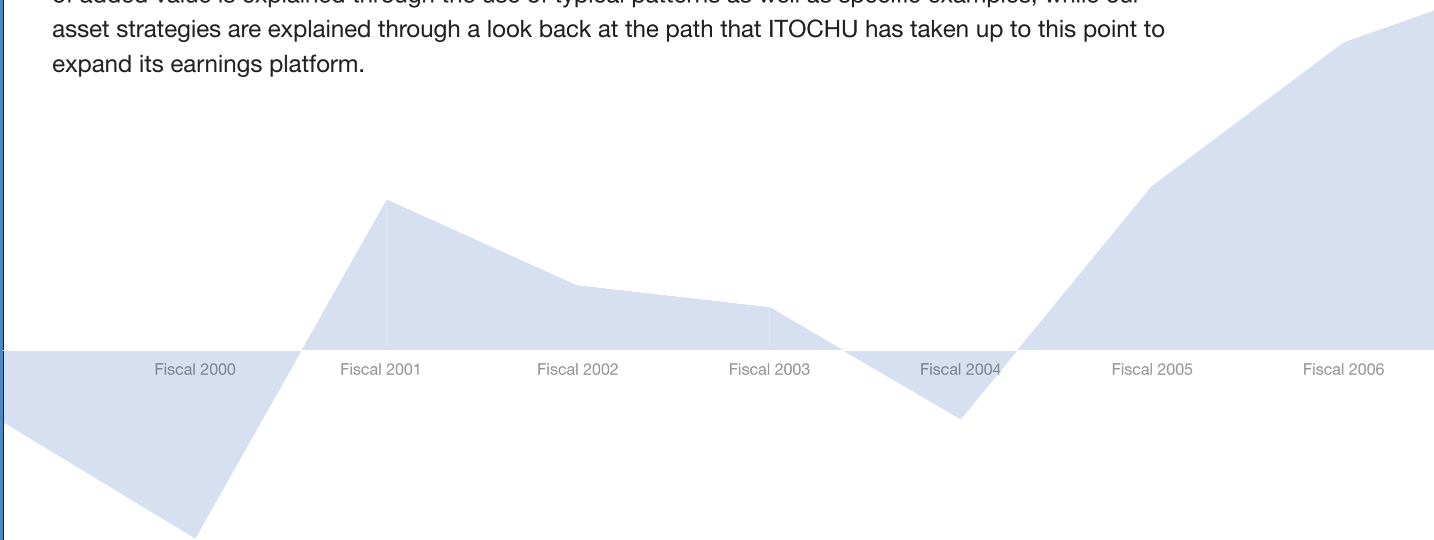
SPECIAL FEATURE

Creating Added Implementing Our

In a new growth stage, ITOCHU is aiming to be the No. 1 trading company in the non-resource sector, and in fiscal 2014 set a new record high of ¥310.3 billion for net income attributable to ITOCHU. This is a marked contrast from the end of the 1990s, however, when we had problems with our balance sheet and were caught up in difficult circumstances.

Over the next 10 years, we strengthened our earnings structure and dramatically improved our financial position. Favorable economic developments during this period included the IT boom in 2000, followed by the resource boom. In 2008, we made our way through the global financial crisis, and in recent years we faced an unfavorable economic development in the decline in resource prices. During that period, we steadily enhanced our business models of creating added value and implementing our asset strategies.

This special feature section explains two key elements that make up our business models. The creation of added value is explained through the use of typical patterns as well as specific examples, while our asset strategies are explained through a look back at the path that ITOCHU has taken up to this point to expand its earnings platform.



Value and Asset Strategies

Implementing Asset Strategies

Creating Added Value

Fiscal 2007 Fiscal 2008 Fiscal 2009 Fiscal 2010 Fiscal 2011 Fiscal 2012 Fiscal 2013 Fiscal 2014

SPECIAL FEATURE

IMPLEMENTING ASSET

Under the previous medium-term management plan, "Brand-new Deal 2012," our cumulative total investment was about ¥970.0 billion on a gross basis over two years and we realized expanded the scale by accumulating superior assets. Under the current medium-term management plan, "Brand-new Deal 2014," we are strengthening our earnings platform aiming to be the No. 1 trading company in the non-resource sector. To facilitate a better understanding of the establishment of the corporate strengths that have become the basis of our growth strategy and the framework for management of the business risks involved, this section will explain the path that ITOCHU has taken since around 2000.

Rebuilding PHASE 1

¥303.9 billion

Amount of restructuring loss recorded due to write-off of low-efficiency, unprofitable businesses in fiscal 2000

Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004

Global-2000 (Fiscal 2000–2001)	A&P-2002 (Fiscal 2002–2003)	Super A&P-2004 (Fiscal 2004–2005)

Disposing of Unprofitable Legacy Assets —Establishing a Highly Profitable Business Model

At the end of the 1990s and the beginning of the 2000s, ITOCHU was burdened by large amounts of interest-bearing debt, inefficient assets, and unprofitable businesses. Although we boasted top-class earning capabilities, a significant portion of our profit had to be allocated to interest payments, the disposal of under-performing assets, and loss on bad debts, which weakened our financial position. Under the medium-term management plan "Global-2000" (fiscal 2000 and 2001), we declared "Reorganization of the Profit Structure." We had taken a decisive action to sell, scale back, and withdraw from inefficient assets, and unprofitable businesses such as golf course-related businesses, fixed assets, and investment property, and reduced interest-bearing debt. We wrote off low-efficiency, unprofitable businesses, and recorded a restructuring loss of more than ¥300.0 billion in fiscal 2000.

Our management stance to focus on withdrawal from inefficient assets and improve our financial position under the "Global-2000" plan was maintained under the following medium-term management plans—"A&P-2002" (fiscal 2002 and 2003) and "Super A&P-2004" (fiscal 2004 and 2005). As a result of these continued rebuilding efforts over those six years, we had reduced net interest-bearing debt in half, to about ¥1,900.0 billion, and the net debt-to-equity ratio (NET DER) to 3.7 times.

NET DER

March 1999
13.7 times

March 2005
3.7 times

In parallel with these efforts to fundamentally improve our financial position, we also aimed to convert to a highly profitable business model, and implemented the principles of selection and concentration in areas that had the potential to become a pillar of our earnings over the medium to long term. The consumer-related sector and China were among the selected segments which we had heavily allocated resources.

Net Interest-bearing Debt

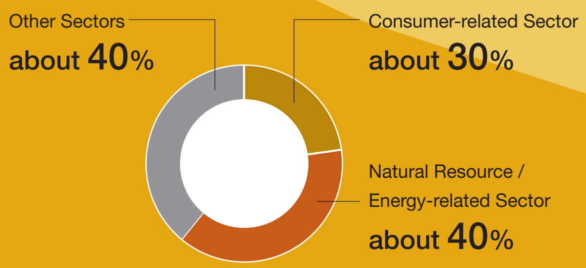
March 1999
about ¥4.2 trillion

March 2005
about ¥1.9 trillion

To maximize the efficiency of our limited management resources, in fiscal 2000 we introduced the Risk Capital Management (RCM) method. This method aims to control the maximum risk exposure by tracking risk assets*1 which quantifies risk and asset efficiency by measuring "RRI"*2, the return on risk assets." This new method entailed withdrawing from inefficient assets and allocating funds to high-efficiency assets. The introduction of this RCM method enabled ITOCHU to create the framework to implement our asset strategy, comprising of investing in areas where we have strengths, asset replacement, and risk management.

*1 Maximum possible loss from holding an asset, calculated by multiplying the asset by a risk weight
*2 RRI: Risk Return Index

STRATEGIES



Balance PHASE 2

Portfolio of our balanced allocation of investments during "Frontier+ 2008" and "Frontiere 2010" (four years)

Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Frontier-2006 (Fiscal 2006–2007)		Frontier+ 2008 (Fiscal 2008–2009)		Frontiere 2010 (Fiscal 2010–2011)

"Enhancement of Solid Management" and "Shift to Aggressive Business"

As ITOCHU strengthened its financial position from "Frontier-2006" (fiscal 2006 and 2007), we steadily adopted a more "aggressive" stance for new business (expanding our asset scale).

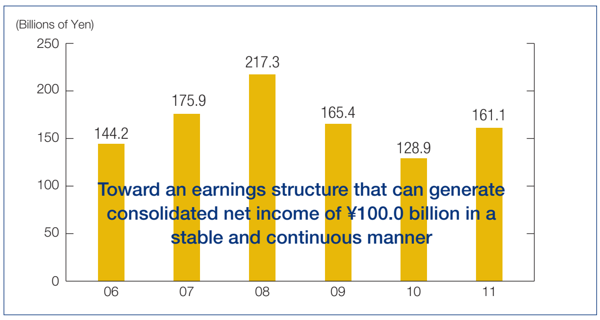
Aiming to build an earnings structure that can sustainably generate consolidated net income of ¥100.0 billion, even in a changing business environment, we invested with a focus on "balance" among the consumer-related sector, the natural resource development sector, and other sectors. However, although having achieved substantial improvements at the beginning of "Frontier-2006," ITOCHU was still halfway in strengthening its balance sheet with NET DER, which was at 3.7 times. Accordingly, we decided on the "Enhancement of Solid Management" strategy to enhance solid management by continuing to reduce interest-bearing debt, strengthening risk management, and withdrawing from inefficient assets.

"Enhancement of Solid Management" / "Shift to Aggressive Business," and "Balance" among investment portfolios were common key words shared throughout the subsequent medium-term management plans "Frontier+ 2008" (fiscal 2008 and 2009) and "Frontiere 2010" (fiscal 2010 and 2011). For example, over the four years of "Frontier+ 2008" and "Frontiere 2010," we implemented a well-balanced investment, with an allocation of about 30% to the consumer-related sector, about 40% to the natural resource / energy-related sector, and about 40% to other sectors. This is the era when we had subsidized NIPPON ACCESS, INC., and established one of the top class food distribution systems in food distribution and marketing business structure. In addition, we took steps to capture the growth in consumer purchasing power in China. These steps included the conclusion of capital and business alliances with TING HSIN (CAYMAN ISLANDS) HOLDING CORP., a leading food manufacturer and distributor in China and Taiwan, and Shanshan Group Co., Ltd., a major conglomerate in China.

NIPPON ACCESS Distribution Center

On the other hand, we continued to withdraw from inefficient assets, and accumulated stockholders' equity. As a result, NET DER improved. In fiscal 2011, the final year of "Frontiere 2010," we set a goal not to carry over any items which may be of risk to the next fiscal year and accelerated the restructuring and withdrawal of inefficient assets. We recorded a restructuring loss of more than ¥50.0 billion in impairment losses on the stocks of listed equity-method associated companies, and liquidated 41 associated companies that were either unprofitable or had weak growth potential. These initiatives were aimed to reinforce our footing for the coming "next stage."

Net Income Attributable to ITOCHU



Years ended March 31

SPECIAL FEATURE

Expanding Our Earnings Platform PHASE 3

¥1 trillion

Our record-high limits for investments under “Brand-new Deal 2012” and “Brand-new Deal 2014”

Fiscal 2010 Fiscal 2011 Fiscal 2012 Fiscal 2013 Fiscal 2014

Frontier[e] 2010 (Fiscal 2010–2011) ▶◀ **Brand-new Deal 2012** (Fiscal 2012–2013) ▶◀ **Brand-new Deal 2014** (Fiscal 2014–2015)

Proactively Seeking New Opportunities

Through various initiatives to focus on efficiency implemented up to fiscal 2011, we dramatically strengthened our financial base. On the other hand, we had felt that we lacked aggressiveness in accumulating assets during this era, in contrast with the number of abundant business opportunities generated by growth of emerging countries such as China and an increase in resource prices. As a result, we decided to make a major shift in our focus from efficiency to “expanding our scale of operations.” Accordingly, under “Brand-new Deal 2012” (fiscal 2012 and 2013) we decided to accelerate our approach to “proactively seek new opportunities” to facilitate the transition to the next stage of “expanding our scale of operations.” However, there were things to be done first.

Streamlining Operating Rules for a Proactive Approach

In fiscal 2011, prior to the start of “Brand-new Deal 2012,” we accelerated withdrawal from inefficient assets, as previously described, and revised our rules regarding investment to a format more suitable for proactively seeking new opportunities.

Revising Our Organization and Human Resource Management Systems for a Proactive Approach

Organizational Reform

With the objective of bolstering earning power through precise management, we took steps to equalize the scale of earnings and organizational size to enable detailed and timely management, maximize synergies between organizations, and optimize positioning of human resources and gradually revised the Division Company system, from seven Division Companies which had been in place since the system was introduced in 1997 to six Division Companies.

Personnel and Compensation Systems

To increase the motivation of our employees, we eliminated the organizational results evaluation system for compensation of employees and increased the magnitude of which individual capabilities influenced the compensation amount. This change was made due to the fact that compensation under the previous method was substantially biased by the result of the organizational unit in which the employee worked, rather than the individual employee’s own capabilities and achievements.

Textile
Machinery
ICT, Aerospace & Electronics
Energy, Metals & Minerals
Chemicals, Forest Products & General Merchandise
Food
Finance, Realty, Insurance & Logistics Services

From 7 Division Companies to 6

Objectives
- Equalizing the scale of earnings and organizational size to enable detailed and timely management
- Maximizing synergies between organizations
- Optimizing positioning of human resources

Textile
Machinery
Metals & Minerals
Energy & Chemicals
Food
ICT, General Products & Realty

Investment Criteria for a Proactive Approach and Revision of Risk Asset Calculation Method

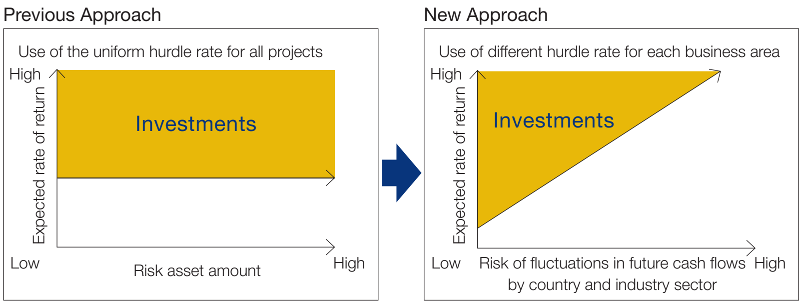
(1) Investment Criteria

The original approach for investment criteria was made using risk assets, based on a hurdle rate that was uniform for the entire company. The reason is that we had carried over this approach from the era of "rebuilding," which was designed to specify and exclude inefficient assets, and focused on raising the overall efficiency of assets. These criteria made a substantial contribution to improving our financial position, but there was a setback where it may exclude investments which are low in expected returns, but would otherwise provide stable earnings. In changing our direction to a proactive approach, the investment criteria were subdivided into about 40 categories by country and industry, enabling investment decisions to be made in accordance with the industrial criteria of each business area.

(2) Risk Asset Calculation Method

The RCM method was introduced at a time when our top priority was to reduce inefficient assets, and accordingly the risk weight was set conservatively. Consequently, for the first time in 10 years we revised the risk asset calculation method to bring it in line with current business environment. Specifically, we revised the risk weight, which was overly conservative, considered the effects of diversification, and revised the definition of the risk buffer from "consolidated stockholders' equity" to "aggregate of consolidated stockholders' equity and noncontrolling interests."

Investment Criteria



Aggressive Investment to Expand Scale of Operations: "Brand-new Deal 2012"

After solidifying our foothold, under "Brand-new Deal 2012" our cumulative total investment was about ¥970.0 billion on a gross basis over two years. While rigorously selecting projects, we accumulated superior projects to expand our scale of operations.

In the consumer-related sector, we invested ¥265.0 billion over a two-year period. The projects that we invested under this plan, such as the Kwik-Fit Group, the U.K.'s largest tyre retailer, and METSA FIBRE Oy, of Finland, one of the world's largest softwood pulp producers, improved their performance and successfully contributed to this year's group net income. In the machinery-related business, we built a stable earnings platform that included the wind power generation, water supply, and automobile-related businesses. On the other hand, in the natural resource / energy-related sector, we invested in areas in which we have strength, such as coal and iron ore. These projects included the Colombian mining operation of Drummond Company, of the United States.

Consequently, by the time our medium-term management plan was concluded, we had built a well-balanced portfolio that would form the foundation for "Brand-new Deal 2014."


METSA FIBRE Oy


Drummond Company's mining operations in Colombia

Aiming to be the No. 1 Trading Company in the Non-Resource Sector: "Brand-new Deal 2014"

Under "Brand-new Deal 2014" (fiscal 2014 and 2015), we announced that we would aim to be the No. 1 trading company in the non-resource sector and allocated about two-thirds of our total investment budget of ¥1 trillion (gross) for investment in this sector. In addition, we are working to gain returns from large-scale projects that we invested in. Accordingly, we are aiming to pursue a balanced growth and to achieve a solid position as the No. 1 trading company in the non-resource sector. However, there have been no changes to our vigilance in our awareness of keeping a sound financial position and pursuing asset efficiency, by withdrawing from inefficient assets.

In this way, while we adjusted the extent of our proactive approach and changed our focus fields during the course of our growth stage, we have continued to strengthen our risk management and asset replacement without interruption. The next section will explain the creation of "added value," which complements the asset strategies explained in this section.

SPECIAL FEATURE

CREATING ADDED VALUE

Even as times change, the tireless creation of added value ensures that ITOCHU's earnings are supported by a solid foundation of trade, which links sellers and buyers. This section introduces specific examples to explain ITOCHU's typical approach to the creation of added value by making wide-ranging use of both internal and outside management resources.

Brand Management

Drawing on Accumulated Know-how to Maximize Brand Value —Textile Business

Brand management is an approach of adding value to products and services through branding, increasing brand value, and thereby maximizing earnings. The textile business is a good example.

In the 1970s, ITOCHU created a new business model by adding value to imported fabrics through branding. Aiming for stable commercial rights over the long term, ITOCHU began to acquire brands, principally from the 1990s, and to implement direct investment in brand-holding companies. We then worked to enhance our brand management know-how while increasing the value of the acquired brands.

In brand management, we start with branding and then create a brand strategy that is aligned with the brand's distinctive characteristics. For example, this is the process that we implemented with LeSportsac and HUNTING WORLD. Based on each strategy, we work to achieve continuous increases in brand value in each market through integrated management of all aspects of marketing, including pricing, distribution, designing, advertising and promotion. Furthermore, we then work to implement initiatives to increase brand value using the distinctive coordination function of a general trading company. With CONVERSE, for example, we formed alliances with leading apparel manufacturers, and with OUTDOOR PRODUCTS, we introduced the brand into the Chinese market through alliances with leading local partners.


LeSportsac


HUNTING WORLD


CONVERSE


OUTDOOR PRODUCTS

Coordination

Developing Businesses through the Establishment of Win–Win Relationships—China Food Business

In rapidly establishing a market position and increasing the probability of success, ITOCHU focuses on partners that offer complementary functions. One form of added value that is demonstrated in collaboration with partners is coordination. The China food business is a good example.

The key to the success of the global Strategic Integrated System (SIS) strategy* in the food business is the partnerships with leading companies that have accumulated knowledge in each market and established market positions. In China, we concluded a tie-up with TING HSIN (CAYMAN ISLANDS) HOLDING CORP., a corporate group that is a leader in food manufacturing and distribution in China and Taiwan and includes an operating company, Tingyi (Cayman Islands) Holding Corp., that has a number of products with the No. 1 share in such categories as instant noodles, tea drinks, and water. ITOCHU is coordinating new businesses, working together with the Ting Hsin Group and Japanese companies that strive to enter the China market.

Japanese companies are able to draw on the sales channels, raw material procurement channels, and abundant sales know-how of the Ting Hsin Group, while the Ting Hsin Group can differentiate itself through the use of the world-leading technologies of Japanese companies, such as quality control technologies. By boosting the flow of commercial distribution, ITOCHU expects to increase the return on its investment in TING HSIN (CAYMAN ISLANDS) HOLDING and to expand profits from trade.

* SIS strategy: A strategy for supply chain optimization through vertical integration, from upstream procurement of food resources to mid-stream product processing and marketing and distribution and through to downstream retail businesses.

ASAHI BREWERIES	Fuji Oil
KAGOME	FamilyMart
Pasco Shikishima	Calbee
Prima Meat Packers	Nippon Flour Mills

ITOCHU Corporation

Ting Hsin Group

Provision of Trading Company Functions & Brand Management

Focusing Comprehensive Strengths in Pursuit of Corporate Value —Dole Business

The Dole business is a typical example of how we have pursued growth in the corporate value of the businesses that we have invested in while combining various approaches to the pursuit of added value into the optimal format.

With the Asian fresh produce business and the worldwide packaged foods business that we acquired from Dole Food Company, Inc., we are working to maximize the value of the Dole brand while leveraging the various trading company functions of the ITOCHU Group. We are aiming to expand the brand's share in China and Asia by combining the Dole brand built over many years with our knowledge about dietary culture and business practices in each market, our partnerships with leading companies, and our management resources, such as sales channels and logistics networks. On the other hand, our strategic plan is for products handled by ITOCHU to be distributed through the local-market sales channels built up around the world by Dole, and for the focus of the SIS strategy to rapidly shift from importing to meet domestic demand to implementing a global business model.

In addition, targeting a stable supply of products suitable for the global Dole brand, we are moving ahead with the development of production sites. Specifically, we are advancing the production site development initiated by Dole. Leveraging our financial strengths, we are working to reduce production costs by expanding in-house farms. We are also taking steps to reduce weather risk by using our global network to advance the development of new production sites. Furthermore, the entire Group is working together to provide trading company functions, such as the procurement of cardboard and packaging materials through the Group.

In addition to fresh fruits, such as bananas and pineapples, Dole is also known around the world as a brand of processed foods. Combining Dole's product development capabilities with ITOCHU's marketing strengths, we will strive to increase brand value by offering a wide range of products that earn the support of consumers. The commitment to quality that Dole has maintained since its founding is being rigorously maintained in all of our supply chains. In addition, we are developing new products in line with the concept of "health and nutrition." We are also taking products that were successful in North America and launching them in Asia, as well as marketing high-quality Japanese produce in Asia under the Dole brand.

Function 1	Expanding sales of Dole products in China and Asia utilizing business infrastructure built by ITOCHU
Function 2	Developing production sites using ITOCHU's financial base and networks
Function 3	Reducing costs by using the wide-ranging strengths of ITOCHU Group companies
Function 4	Further increasing the value of the Dole brand by using brand management know-how

Providing the Functions of a General Trading Company—Automobile Business

ITOCHU offers its business partners more than just the traditional functions of a general trading company, such as credit, foreign exchange settlement, insurance, logistics, and IT. To add value in trade, we strive to continually cultivate new functions. The automobile business is a representative example.

Working Closely with Business Partners

ITOCHU continues to gain ground in the non-resource sector, and one of the strongest performers in this sector is the machinery-related business, which is generating strong growth in profits. In fiscal 2014, the Machinery Company set a new record high for profits, with a 35% year-on-year rise in net income attributable to ITOCHU. The automobile business was one of the drivers of this profit growth.

ITOCHU got its start in the automobile business in 1955 with the export of trucks of Isuzu Motors Limited (hereinafter "Isuzu") to South America. Trade was a pillar of ITOCHU's profits at that time, and it maintains that central position today.

The domestic manufacturing industry became internationally competitive during Japan's period of rapid economic growth, and Japanese manufacturers began to open up sales channels on their own and to shift production facilities overseas. Many times, such as in the 1980s, people questioned if general trading companies could even add value in the new markets. The trading business of many trading companies began to contract, and the automobile business was no exception to that trend. Despite these challenges, ITOCHU has remained committed to the trading business. Today, ITOCHU continues to export Japanese vehicles to more than 100 countries around the world, working as a business partner with such companies as Isuzu, Mazda Motor Corporation, and SUZUKI MOTOR CORPORATION.

Focused on Increasing the Sales of Automakers

The automobile trading business, which is centered on exports, is substantially influenced by the unit sales of the automakers. Accordingly, ITOCHU has done more than just open up sales routes in markets around the world. We have also extended our business from mid-stream operations to downstream areas and worked to support growth in the sales of the automakers in a variety of ways.

In general, after automobiles are manufactured, they are exported to the market where they will be used and delivered to the consumer through the local distributors (wholesalers) and dealers (retailers). As with "SUZUKI MOTOR RUS" LLC, for example, ITOCHU contributes to the management of distributors, either through joint ventures with automakers or independently. We provide support to help automakers open up sales routes and enhance their distribution networks.

In downstream areas, we typically participate in the management of dealers, such as Auto Investment Inc., by becoming a major shareholder. To increase sales, we provide support at a point of direct contact with consumers. These dealers employ sales strategies aligned with the policies of the automakers, and in addition they feed back to the automakers information that is useful in marketing. Using our financial resources and know-how, we also provide retail finance functions that are indispensable in automobile sales. A good example is Isuzu Finance of America, Inc., a captive retail finance company for Isuzu. Isuzu Finance of America was established in the United States as a joint venture between ITOCHU, Century Tokyo Leasing Corporation, and Isuzu. Another way in which we provide functions to businesses is through the dispatch of personnel who manage operations to these types of joint ventures.

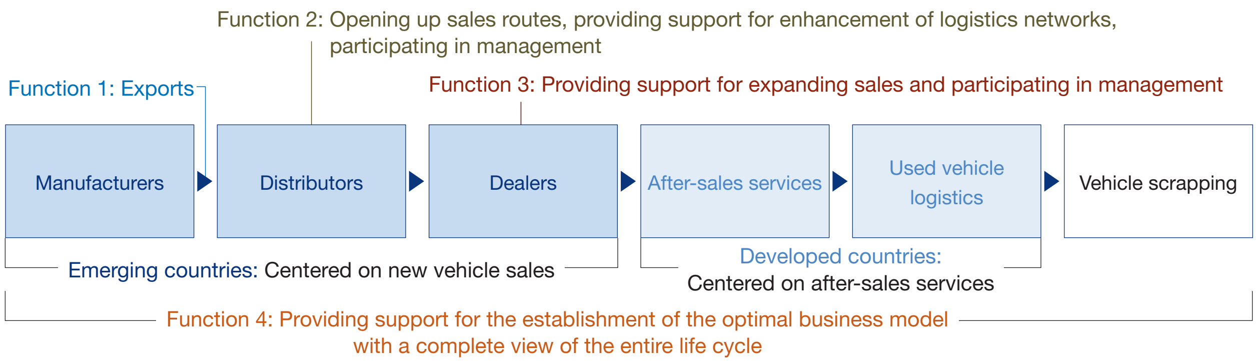
In this way, our focus on helping to increase the sales of manufacturers and on continuing to provide added value through detailed responses to the needs of both manufacturers and markets has undergirded our ability to maintain and expand trade.

ITOCHU's Automobile Exports

Fiscal 2014 **414 thousand**

Fiscal 2010 **213 thousand**

ITOCHU's Value Chain in the Automobile Business



Towards a Business Model with a Complete View of the Entire Value Chain

The automobile value chain extends from the sale of a new vehicle to after-sales services, such as the provision of maintenance, repairs, and parts, the sale of used vehicles, and finally to the scrapping of the vehicles. Considering the entire value chain, the optimal business model for an automobile dealer depends on the degree of maturity of the market it serves. In developing countries where automobile ownership is growing, the optimal business model would center on sales of new vehicles, but in developed countries where rapid growth in automobile ownership has ended, the business model would center on after-sales services. Maintaining close ties with manufacturers, ITOCHU is building distributor and dealer business models that are aligned with these types of market-specific characteristics.

For example, we have strengthened our cooperative relationship with Isuzu in downstream areas. In 2007, we established Isuzu Motors Sales Ltd. as a joint venture, thereby establishing a foothold in sales of commercial vehicles in the domestic market. The needs of the corporate customers that are customers of Isuzu Motors Sales extend throughout the entire vehicle life cycle, from purchase and operation to replacement and disposal. Accordingly, Isuzu and ITOCHU have worked together to build a business model that provides comprehensive services extending to maintenance, inspections, and repairs; used vehicle trade-ins; and scrapping. This business model is not limited to new vehicle sales, which are significantly influenced by economic trends. Rather, the model incorporates multifaceted

coverage of the entire life cycle, thereby contributing to the stability of the management foundation. In April 2013, Isuzu Leasing Services Limited was established. By combining Isuzu's Life Cycle Business with ITOCHU's know-how in the automobile finance business and Century Tokyo Leasing's know-how in the auto lease business, the new company has an enhanced ability to meet the needs of customers.

ITOCHU also has a close cooperative relationship, including human resources, with YANASE & CO., LTD., which is the leader in unit sales of imported cars in Japan. Through this relationship, ITOCHU is moving forward with the establishment of a business model for the provision of services throughout the value chain, from sales to after-sales services. Through our cooperative relationship with YANASE, we have acquired customer service know-how that is among the strongest in the industry. We will consider applying this know-how in markets around the world, centered on emerging countries.

Unit sales of automobiles are expected to increase due to further advances in motorization in emerging countries. Moreover, environmental technology is expected to hold the key to competitiveness in the automobile industry. Accordingly, as we move forward in our role as a business partner we will continue to provide needed functions so that manufacturers can focus their resources on technical innovation.

Providing Management Know-how —European Tyre Enterprise Limited

To increase the probability of success in investment, ITOCHU provides know-how in a wide range of areas, such as management strategy, risk management, finance, and legal affairs. Furthermore, by sending management personnel to front-line worksites, we provide additional support to increase the corporate value of the companies we have invested in. This section explains this approach, using the U.K. tyre business.

ITOCHU's Front-line Approach Opens Business Opportunities —U.K. Tyre Business (European Tyre Enterprise Limited)

A focus on the front lines generates strong business opportunities, even in developed countries. The U.K. tyre market is a good example.

The replacement tyre market in the U.K. has sales of approximately 30 million units a year, or about ¥400.0 billion. European Tyre Enterprise Limited (ETEL), a wholly owned subsidiary of ITOCHU, handles a substantial segment of this market, with a share of about 40%. ETEL is the holding company for Stapleton's (Tyre Services) Ltd., Kwik Fit Netherlands, and Kwik-Fit GB Ltd. Stapleton's is the largest tyre wholesaler in the U.K. and also operates retail centers, while the Kwik-Fit Group is the largest tyre retailer in Europe.

ITOCHU's European tyre business started when Stapleton's became a subsidiary in 1994, and since then the business has evolved and recorded steady growth and increases in corporate value. For example, net income from ETEL in the fiscal year ended March 31, 2014, was up ¥2.9 billion year on year, to ¥5.1 billion. Nonetheless, the journey has been anything but smooth. This section reviews that journey, from the initial identification of the business opportunity as a result of ITOCHU's focus on the front lines, to the substantial improvements in profitability and competitiveness, while introducing the key ITOCHU person who led the drive to put the tyre business back on track.

Introducing Japanese-style Service Quality while Respecting British-style Management

In 2004, current ETEL CEO, Kenji Murai, who at the time had just been dispatched to Stapleton's with the mission of turning the business around, said "The results are not favorable, and we may have to consider exiting the business as one of our options."

In the U.K., there are two places that people tend to avoid until they must go. One is the dentist, which is probably the case in every country in the world. The other is the tyre center. Many tyre centers in the U.K. are similar to warehouses. They tend to be somewhat messy, do not have waiting rooms, and they make customers wait outside in the cold while their tyres are being changed. In addition, the customer service level in U.K. tyre retail is not always excellent compared to other industries. Stapleton's retail centers were no exception. All tyre centers have similar items, as a result it is difficult to be differentiated in the tyre market. Kenji Murai said "The U.K. may be a nation where people do not generally worry about little things, but the hearts of the customers are the same as Japan. They would simply appreciate better service from tyre centers." He selected "service quality" as the decisive point of differentiation in front-line worksites, where the existing conditions were taken for granted.

Nonetheless, Murai could not simply transfer the Japanese style to the U.K., which has substantially different culture and values. In particular, Stapleton's was an entirely local enterprise, with retail operations closely tied to local communities and a workforce composed almost entirely of British employees. Accordingly, he decided to introduce Japanese-style service quality while maintaining and making the most of the superior aspects of U.K.-style management.

Strengthening the Wholesale Function by Simultaneously Increasing Service Quality and Reducing Costs

Stapleton's as a wholesaler handled 4,500 varieties of tyres, but the in-store inventory was restricted to about 250 varieties, so customers faced limited choices. Stapleton's referred to the system in Japan, where a tyre can be delivered anywhere in the country within two hours. On that basis, Stapleton's restructured its product flow, storage systems, and control procedures to build a small-lot delivery system that could make two deliveries per day to sites in 85% of the U.K., compared with the previous system's one delivery per day.

This restructuring of the entire supply chain made it possible for both retail and wholesale customers to select the optimal tyre for their needs at the right time, which dramatically increased their handling volume. As a result, this has reduced distribution costs, and made a major contribution to improving Stapleton's earnings structure.

Focusing on the Fundamentals and Improving Morale

As wholesale operations had been successful in assessing market needs, retail operations actively invested to increase customer satisfaction.

The company first implemented a rigorous approach to the fundamentals of the retail business. In addition to keeping centers neat and organized, the floors and bays in the centers were repainted. In this way, the centers were transformed from "warehouses" to "clean, relaxing spaces." In addition, Stapleton's implemented employee education and awareness training, targeting error-free maintenance services and qualitative improvements in customer service. Murai said "We made employees change some things, such as not eating sandwiches or drinking coffee when customers were present. At the time, they probably wondered why we were asking them to change." Eventually, however, even the employees who were a bit hesitant at first began to straighten up their appearance and to follow the new rules. In addition, Stapleton's transparently displayed product and service prices and eliminated poor business practices, such as overcharging by selling at more than the list price, which had been considered to be a standard practice.

In the U.K., generally employee morale is one of the main focuses for management. Accordingly, Stapleton's introduced a variety of initiatives to boost morale. For example, the company instituted training to help center managers act more like business managers rather than shopkeepers. In addition, Stapleton's worked to nurture a spirit of eagerly taking on challenges and transitioned to an organization in which each center has independence to be run by the center managers.

While customers are relaxing on a sofa, Stapleton's provide the industry's highest quality services, from changing tyres to battery and brake pad maintenance. With a highly efficient distribution system and reforms of the front-line retail work sites, the company was able to achieve service quality that is among the best in the industry, and that quality steadily began to earn the support of customers. That support can be seen in sales, which rose about 2.5 times from 2003 to 2010, and in strong per-center profitability.

The know-how that Stapleton's acquired through these business initiatives will be the foundation on which further success is achieved in the years ahead.

Stapleton's Profit Improvement Initiatives

Wholesale

Build a small-lot delivery system that can make two deliveries per day to sites in 85% of the U.K., compared with the previous system's one delivery per day

Retail

(1) Rigorous approach to the basics of retail (cleanliness, refurbishment to create relaxing spaces, transparent display of prices, improved customer service quality)
(2) Take steps to enhance motivation, such as increasing independence by delegating authority

Stapleton's Profit Improvement Results
(2003: Year before Kenji Murai arrived—
2010: Year before Kwik-Fit acquisition)

	Sales	Profit after Tax
2010	£304 mil	£5.7 mil
2003	£122 mil	£-0.5 mil

Applying the Know-how of Stapleton's into the Largest Retail Network in the U.K.

In 2011, ITOCHU invested about ¥85.0 billion to acquire Kwik-Fit, which had over 1,000 centers in Europe. That included 675 centers in the U.K., the largest tyre retail network. Kwik-Fit has strength of fleet business, which is resistant to the influence of economic fluctuations. Stapleton's and Kwik-Fit have a combined total of about 800 centers in the U.K., which has about half the population and two-thirds of the geographical area of Japan, while in comparison the largest tyre shop chain in Japan has only 500 centers.

Tyre retailing has a long operational cycle. On average, it is about 18 months between visits to a store by an individual customer, including maintenance visits. Accordingly, Kwik-Fit needed to take the time required to nurture the business. However, Kwik-Fit had been owned by an investment fund for many years, and the owners took a short-term approach with the highest priority on sales. They did not invest from a long-term frame of reference. This is where ITOCHU saw the potential of Kwik-Fit.

Murai, who has become the Managing Director of Kwik-Fit, took steps to increase corporate value by leveraging the know-how gained through the turnaround of Stapleton's.

The Tyre Business is a Brand Business

Murai says that "tyre retailing is a brand business." Tyres are important products that have responsibility for people's lives. However, for most consumers tyres are purchased because they are necessary, and consumer awareness of tyre performance and varieties is relatively low. Accordingly, typical consumers select the tyres that are recommended by center employees. Of course, they select staff and centers that can be trusted, when making a tyre purchase. In other words, to encourage customers to visit a center repeatedly, the center itself must be a "trusted" brand. This was a factor in Stapleton's elimination of overcharging and pursuit of customer service quality. Murai insisted that "we will allow discounts but we will not allow overcharging under any circumstances."

The know-how to enhance the brand value of the center, which Murai developed in Stapleton's has been applied to the new project within Kwik-Fit, already 5 times larger than Stapleton's retail network. The key was "How to be trusted from the customers."

Kwik-Fit is aiming to boost profitability by developing a high level of service quality on a large scale.

Being led by Murai, the staff developed new policies known as the "Kwik-Fit Way" in their own words to deliver best customer satisfaction.

The company has taken a thorough approach to staff training and education in customer relationship and technical skill. In addition, leveraging the know-how acquired by Stapleton's center refurbishment, which substantially exceed industry standards in store grades and service details, Kwik-Fit is developing Kwik Fit Premier, a premium-quality center brand for the group. By providing a higher level of service quality without compromise, Kwik-Fit is aiming to gain brand value and on employee morale, to improve the customer repeat rate, and to increase sales. Kwik-Fit has already converted 120 centers to Kwik Fit Premier, and plans call for the entire network to gradually be converted to the new format.

In the two and a half years since the acquisition, the number of complaints from customers has been reduced by 50%, and letters of appreciation from customers are four times more than the previous level. In fact, the number of letters of appreciation is now four times of complaints. These strong results are attributable to the united efforts of the team.

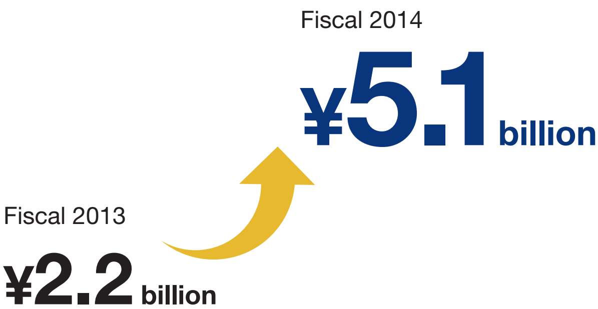
Growing Corporate Value with a Commitment to the Front-Line Approach and a Long-Term Viewpoint

The ETEL Group is using its distinctive strengths to pursue higher value added. One example of that approach is the launch of a private brand that draws on the ITOCHU network.

Operational scale is something that can simply be purchased if sufficient funds are available. However, if the objectives are to foster shared values while respecting the culture, increase customer satisfaction, and build a brand, then long-term, sustained effort is essential. Time and perseverance will be required for the ETEL Group to generate full-fledged synergies. It is in this setting that the true capabilities of an ITOCHU person are demonstrated, with a commitment to the front lines and to enhancing business at a point of direct contact with consumers.

Kenji Murai, who said that "It is OK if others imitate us, we will lead the way forwards," believes that it is essential to regularly visit the centers in person. That belief is based on the ITOCHU philosophy of focusing on the front-line approach.

ITOCHU Corporation's Net Income from ETEL (U.S. GAAP)



European Tyre Enterprise Limited

After I returned from a posting in Pakistan, I worked in a regional city in Japan as a branch manager with responsibility for planning, development, and operations for retail tyre centers. I had experience on the front lines of retail in the tyre industry, which differs from the mid-stream sectors of the industry. At a general trading company with operations centered on B2B businesses, that experience was a precious asset that substantially influenced the way I approach things. Even though we are in a different country, I believe that my experience on the front lines has become the cornerstone of management at Kwik-Fit. That is why I continue to place great importance on front lines. When a network reaches a scale of 800 stores, the thinking of the executives does not always reach the stores. Accordingly, several times a month I visit centers. In this way, I can tell the employees directly what I am thinking and confirm for myself how projects are progressing.

When I first came to Stapleton's and results were poor, I was impressed by the words I heard from U.K. employees, that "happy people make miracles," and today we are putting those words into practice. We are doing our best to sustain and improve morale. In the tyre business, it can take time to see results. I will strive to maintain an active dialogue with front-line work sites, and to contribute to the success of our projects by working together with employees and sustaining morale at a high level.

European Tyre Enterprise Limited CEO
Kenji Murai