

# Generating Earnings Large-Scale Business

Under the new medium-term management plan—"Brand-new Deal 2017" (fiscal 2016 to fiscal 2018)—ITOCHU is working to build an earnings base to generate ¥400.0 billion in net profit attributable to ITOCHU. This section explains the formation of large-scale business infrastructure, centered on China and Asia, and efforts to maximize synergies. These initiatives, which will be implemented by three of the leading conglomerates in Japan, China, and Asia, are positioned as a strategic pillar targeting the achievement of ITOCHU's management plan.



# through Infrastructure

Generating Earnings through Large-Scale Business Infrastructure

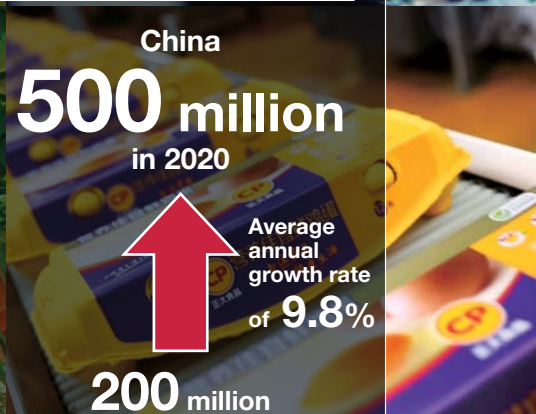
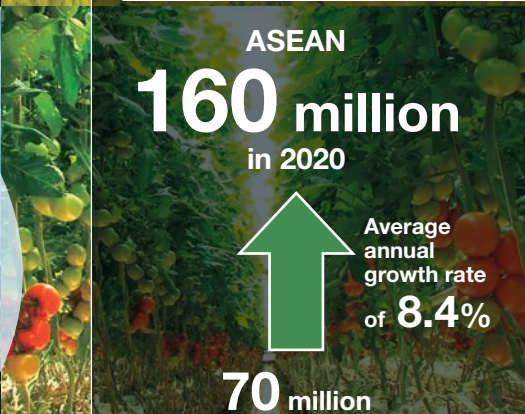
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Concluding a Strategic Business Alliance and Capital Participation Agreement with the Charoen Pokphand Group

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Conclusion of a Strategic Business Alliance and Capital Participation Agreement among Three Companies—CITIC Limited, Charoen Pokphand Group Company Limited, and ITOCHU



Source: Ministry of Economy, Trade and Industry, White Paper on International Economy and Trade 2013

Generating Earnings through Large-Scale Business Infrastructure



Investment: Approximately  
**¥90.0 billion**

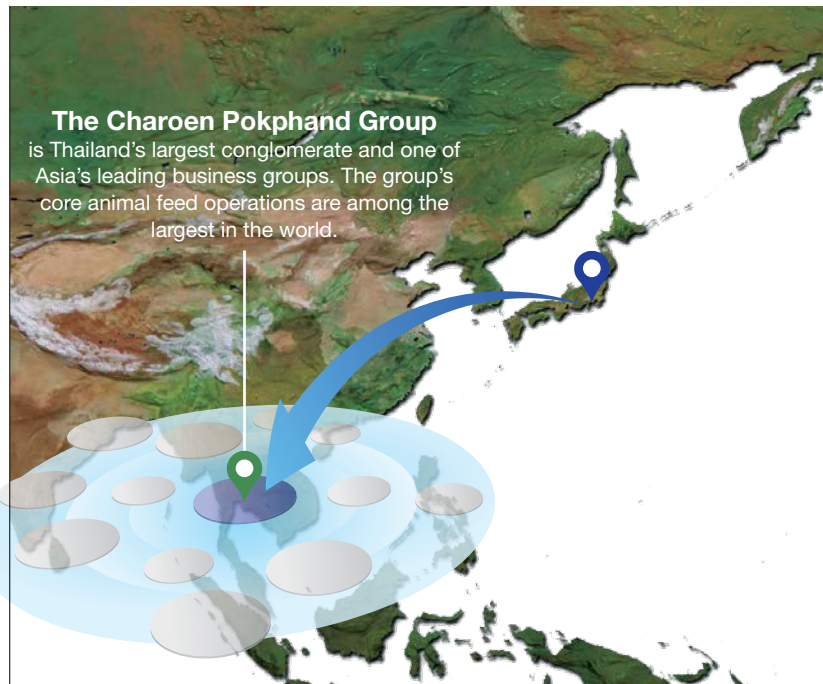
## Concluding a Strategic Business Alliance and Capital Participation Agreement with the Charoen Pokphand Group

### Background **Large Conglomerate with Businesses Extending from Thailand to the ASEAN Region and China**

The first step in the strategy of generating earnings through large-scale business infrastructure was the conclusion of a strategic business alliance with the Charoen Pokphand Group (CP Group) in July 2014.

The CP Group is centered on Charoen Pokphand Group Company Limited, which traces its roots back to 1921, when the Chearavanont family, from China, opened a small seed shop in Bangkok. The group's business activities were subsequently extended to the production of animal feed, and from the 1980s the CP Group accelerated its diversification, moving into agriculture and livestock products, food, ICT, logistics, finance, pharmaceuticals, and other fields. The group also expanded its geographic reach to include all ASEAN members as well as China and Europe. Currently, the CP Group has sales of ¥5 trillion, about half of the national budget of Thailand; approximately 300,000 employees; and operations in 17 countries. It has grown into Thailand's largest conglomerate and one of Asia's leading business groups. Its core animal feed operations are among the largest in the world, and its exposure to the real estate business, which has been central to the growth of many overseas Chinese business groups, is limited to about 10% of its total assets. The CP Group's distinctive presence, which reflects the consistent development of sound and stable businesses, is one of its major strengths.

In addition, another major strength is the CP Group's status as one of only a few groups that have successfully



**The Charoen Pokphand Group** is Thailand's largest conglomerate and one of Asia's leading business groups. The group's core animal feed operations are among the largest in the world.

established a business foundation in domestic Chinese markets. In 2013, the CP Group took steps to further strengthen its business base, such as acquiring 15.6% (at the time) of the shares of Ping An Insurance (Group) Company of China, Ltd., the second largest insurance company in China.

Through this strategic business and capital alliance, ITOCHU acquired 25% of the shares of C.P. Pokphand Co. Ltd. (CPP), a member of the CP Group with animal feed, livestock, and aquatic products businesses in China and Vietnam, and through a capital increase by third-party allotment the CP Group acquired approximately 4.9% (based on the number of common shares issued before the capital increase by third-party allotment) of ITOCHU's stock. This is the first time in history that a Japanese general trading company has entered a business tie-up that included the acceptance of overseas capital. The reasons why we decided to take this step are explained below.

### Decision **Anticipating Significant Synergies Centered on the Food Business**

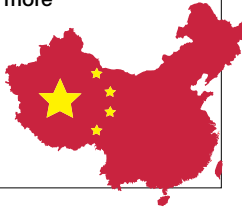
Through cooperative initiatives with the CP Group, which has outstanding name recognition and a strong network in China and Asia in the fields of agriculture and livestock products as well as food, ITOCHU will be able to make steady progress in reinforcing its position as the "No. 1 trading company in the





### The CP Group's Strengths in China

- One of China's largest poultry exporters
- Has established business foundation in 29 of 31 provinces
- Business initiatives implemented by more than 300 companies
- Has earned the strong trust of the government
- Chia Tai brand has widespread name recognition



non-resource sector," centered on China and Asia. On the other hand, through ITOCHU's raw materials procurement bases, the CP Group will be able to efficiently procure competitive ingredients for animal feed (corn, soybean cake, wheat for feed, etc.), even from locations on the other side of the world. Moreover, by selling products through ITOCHU's global sales channels, CP Group companies can instantly expand their markets, not only to Japan but around the world. The advancement of the CP Group's global strategy in this way will also lead to growth in trade for ITOCHU. In addition, through mutual customer base integration and joint investment initiatives, ITOCHU and the CP Group will have the important strategic option of securing new procurement bases that leverage their operational scales.

### Strong Commitment to China and Multifaceted Collaboration

In particular, it was the creation of business opportunities in China that unified the thinking of ITOCHU and the CP Group.

Though China has entered a period of stable expansion, it is now expecting annual growth of about 7%, substantially more than in developed countries. Under the guidance of the government, China has entered a phase called "the new

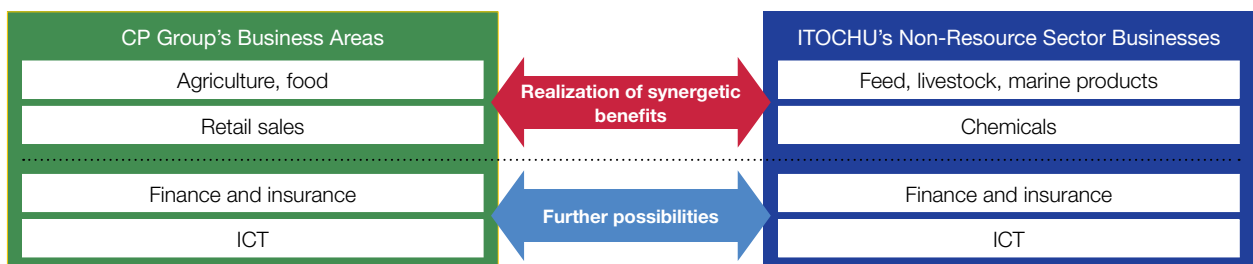
normal," in which the economy is shifting from quantitative growth to qualitative growth. In the world's largest consumer market, which has a population approaching 1.4 billion, the needs for product quality, such as "security and safety," are increasing against a background of growth in the affluent and middle-class segments of society.

Even as one of the strongest Japanese trading companies in China, ITOCHU had problems in making headway in the domestic Chinese markets, just like other foreign companies. In contrast, the CP Group has more than 300 companies operating in 29 provinces in China, not only in agricultural and livestock products but also in other businesses. The CP Group has grown into China's largest foreign-capital business group, with widespread name recognition as "Chia Tai." The CP Group has earned the trust of the Chinese government and consumers, and has built an extensive network of contacts. One of the core companies in those endeavors has been CPP, in which ITOCHU has taken an equity position. CPP is one of the largest producers of animal feed and has a feed sales network that covers nearly all of China. By combining ITOCHU's management resources, such as Japan's advanced technologies, and the CP Group's business infrastructure, such as its sales routes, ITOCHU and the CP Group will be able to address the growing "needs for quality" on a broad scale. In addition to food, throughout the entire non-resource sector ITOCHU and the CP Group will be able to implement cooperative initiatives across an extremely wide range of fields, including ICT, retail, finance and insurance, and pharmaceuticals.

To advance cooperative business-expansion initiatives in a steady, sustained manner, ITOCHU and the CP Group have implemented cross-investment measures and established a solid relationship to increase the corporate value of both groups.

### Course Commencing Joint Initiatives in Growth Markets

ITOCHU and the CP Group are taking concrete steps to promote collaboration, such as holding periodic meetings of the Strategic Alliance Committee and dispatching directors and employees. ITOCHU and the CP Group have already commenced cooperative initiatives, centered on fields in which synergies can be rapidly generated. These initiatives include procurement of corn and other ingredients for animal feed and imports to Japan of livestock products and processed meat products. The following pages introduce decisive joint initiatives that will generate earnings through large-scale business infrastructure.



Generating Earnings through Large-Scale Business Infrastructure



Investment: Approximately  
**¥600.0 billion**

## Conclusion of a Strategic Business Alliance and Capital Participation Agreement among Three Companies—CITIC Limited, Charoen Pokphand Group Company Limited, and ITOCHU

### Background

#### China's Largest Conglomerate

In January 2015, CITIC Limited ("CITIC"), CP Pokphand Group Company Limited, and ITOCHU reached a capital participation agreement under which ITOCHU and the CP Group would ultimately acquire 20% of CITIC, China's largest conglomerate and a constituent of the Hang Seng Index. The investment is approximately ¥1,200.0 billion and is made through a joint investment vehicle held in equal 50% shares by ITOCHU and the CP Group. The three companies also reached agreement on a strategic business alliance. These are decisive measures to generate earnings through large-scale business infrastructure.

CITIC's businesses include financial services, resources and energy, manufacturing, engineering contracting, real estate and infrastructure, and other businesses in China and overseas. With its leading market positions in sectors well-matched to China's development, and with strong expertise in the industries in which it operates, CITIC is well-equipped to capture opportunities arising from China's continued growth. At the end of fiscal 2015, CITIC had total assets of ¥92 trillion.

#### CITIC

- Financial services
- Resources and energy
- Manufacturing
- Engineering contracting
- Real estate and infrastructure
- Other (Information services, motor vehicles, food and logistics, general aviation services, publishing, tourism, sports)

**CITIC has top-ranked companies in a variety of industries,**

- Trust Company
- Securities Company
- Alloy Wheel Manufacturer
- Mining and Construction Equipment Manufacturer
- Special Steel Producer



entity that was 100% funded by the Chinese government and assumed the role of China's international point of economic contact with the world. Subsequently, starting with the reform and opening-up policies, China has been transformed from "the world's factory" into "the world's consumer market." China has grown dramatically to become the world's second largest economy, and CITIC has supported that sustained economic development.

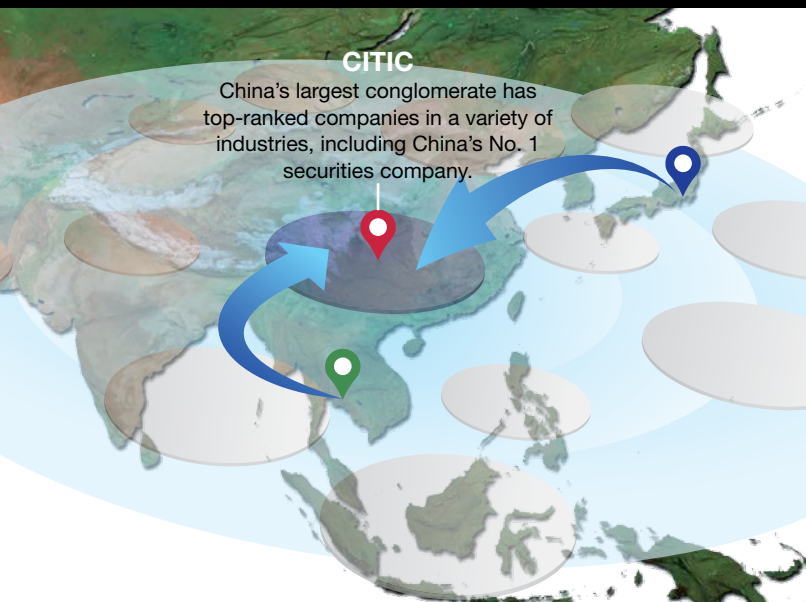
With the objective of accelerating the absorption of management know-how and international development, the "mixed ownership model," which promotes the acceptance of private-sector capital, including capital from overseas, is one facet of the reform of government-owned enterprises that is currently being advanced in China. This made the 20% investment by ITOCHU and the CP Group possible.

In 1979, the CP Group became the first foreign company to advance into China. On the other hand, six months prior to the September 1972 normalization of diplomatic relations between Japan and China, ITOCHU obtained ratification for resumption of Sino-Japanese trade and became the first Japanese company to establish a foothold in the Chinese market.

The CP Group has done its utmost to help advance the agricultural reforms promoted by the Chinese government, such as contributing to the development of agriculture and to raising the incomes of farmers through a range of initiatives. These include the provision of know-how to boost productivity and the purchase of agricultural products, centered on poultry, hogs, and eggs, as well as the provision of financing. As China has carefully advanced the introduction of foreign capital and technologies, ITOCHU has also served as an intermediary between China and other Japanese companies and has contributed to the nurturing of industries while maintaining a focus on making people's lives more comfortable.

### An Extremely Rare Capital Participation Agreement Backed Up by History

To understand the significance of this capital participation agreement, it is necessary to look back to the 1970s. At that time, China had just started to follow a course of reform and opening up under the leadership of Deng Xiaoping. In 1979, China International Trust and Investment Corporation (later renamed CITIC Group) was established as a state-owned



The realization of this unprecedented capital participation is backed by the high evaluations garnered by the relationships that ITOCHU and the CP Group have established with China, as well as the strategic significance of the “win-win-win” situation for the three groups.

**Decision**  
**Establishing Large-Scale Business Infrastructure that Extends Around the World**

Through the integration of the three groups’ management resources and the joint acquisition of superior assets, in a wide range of fields the groups will be able to implement multifaceted initiatives that address the demand accompanying China’s “transition from quantity to quality.” Moreover, the possibilities of this expansion of business infrastructure are not limited to China. Rather, they extend to Asia, and—through ITOCHU’s network—around the world. ITOCHU can look forward to business opportunities in a variety of fields that have been difficult to enter.

ITOCHU and the CP Group will acquire 20% of the shares of CITIC, making CITIC an equity-method associated company of ITOCHU, and consequently ITOCHU will share 10% of CITIC’s consolidated net profit. These are the reasons why ITOCHU decided to invest about ¥600.0 billion, which will mark a record high, not only as an investment in China by a Japanese company but also as an overseas investment by a Japanese general trading company and as an investment by ITOCHU.

**Course**  
**Aiming to Generate Earnings through Large-Scale Business Infrastructure and Achieve the Objectives of the Medium-Term Management Plan**

Currently, progress is being made with discussions in a wide range of fields that hold potential for the generation of synergies. In April 2015, five companies—ITOCHU, the CITIC Group, the CP Group, China Mobile Communications Corporation, and Shanghai Information Investment Inc. —agreed to cooperate in entering the e-commerce market to sell Japanese products to Chinese consumers through the Shanghai Pilot Free Trade Zone. In this way, we have established a foothold in a rapidly growing market. In addition, ITOCHU and a subsidiary of CITIC Securities International Company Limited have also concluded a joint agreement for a strategic capital tie up and partnership with Bosideng International Holdings Limited, a leading apparel company. ITOCHU believes that, in China’s huge market, the establishment of a system based on cooperation with a powerful local partner will provide an important foundation for the acceleration of progress in the textile retail business.

ITOCHU will be entitled to 10% of CITIC’s consolidated net profit and will further expand its lead as the “No. 1 trading company in the non-resource sector.” Under “Brand-new Deal 2017,” ITOCHU is aiming to build an earnings base to generate ¥400.0 billion in net profit attributable to ITOCHU.



From left: CITIC Chairman Chang Zhenming, ITOCHU President Masahiro Okafuji, CP Group Chairman Dhanin Chearavanont  
 On May 27, the top executives of the three companies held the First Meeting on Strategic Cooperation at ITOCHU’s Tokyo Head Office, where they exchanged opinions on proposals for cooperative ventures and other initiatives going forward.

