

ITOCHU: Keeping the Lead in China

1972 First general trading company to obtain ratification for the resumption of Sino-Japanese trade

1979 First general trading company to establish a representative office in Beijing

1992 First general trading company to establish a local subsidiary, ITOCHU Shanghai Ltd

1972

In 1971, a mission led by ITOCHU's President & CEO at the time, Masakazu Echigo, visited China. The objective of the mission was to restore Sino-Japanese trade, which had been interrupted by the Cultural Revolution. The mission was a success, and ITOCHU took the lead over other Japanese companies when it obtained ratification for the resumption of Sino-Japanese trade in March 1972. This was about six months prior to the September 1972 normalization of diplomatic relations between Japan and China through the Joint Communique of the Government of Japan and the Government of the People's Republic of China. That door to the Chinese market was opened by visionary leadership that took the bold step of connecting the future of ITOCHU with the potential of China. We first opened a representative office in Beijing in 1979, and later established a local trading subsidiary in Shanghai. Subsequent milestones included obtaining approvals for an umbrella company and for a multinational company "regional headquarters." In tandem with the growth of China's economy, we steadily built a foundation for our businesses in China while maintaining our lead over other Japanese general trading companies. Sichuan, in midwestern China, is currently drawing widespread attention, but it was nearly a quarter of a century ago, in 1984, that ITOCHU took its first step into Sichuan with the establishment of a representative office.

How do we have an overwhelming presence in China? And how did we develop our competitive edge? The answers lie back in 1972.



Delegation to China, led by ITOCHU's President, Masakazu Echigo, in 1972

01

The ITOCHU Brand: Supported by Trust and Human Resources Developed Over 40 Years

In China, as in other countries, business is built based on relationships of trust. Especially in China, the starting point of building relationships of trust is developing an understanding of China's distinctive culture and values. Since we got our start in 1972, ITOCHU's presidents and other leaders have continued the tradition of working to deepen mutual understanding. As China turned toward economic reform and open relationships with other countries, and carefully introduced capital and technology from overseas, we took steps to reinforce our foothold while constantly respecting profit for China. In around 1978, when there was a problem of temporary suspension of plant contracts with Japan due to a shortage of foreign exchange reserves, ITOCHU worked to settle the situation as a coordinator, including making efforts to persuade Japanese companies to continue the contracts despite the difficulties. There is a Chinese proverb that says that when you drink water from a well, you should not forget who dug it. These words express the virtues of the people of China, who place a high value on history and moral obligation. ITOCHU often hears these words of praise in China, and we are proud of this demonstration of the trust that we have built up in China over many generations.

Over our extensive history in China, we have accumulated

irreplaceable management resources—our people. For foreign companies develop-

ing business in China, required competencies include not only advanced Chinese language skills but also a deep understanding of China's history, culture, and customs. As ITOCHU grew together with China, we made a special effort to establish a team of professionals with those skills. Currently, we have a total of over 400 of these employees, by far the largest among general trading companies. Moreover, our workforce of locally hired employees—580 staff as of March 2011 (excluding staff of affiliates)—is also the largest among general trading companies. The locally hired employees, who have a keen sense of the local market, are also an important source of strength in advancing our business in China.

These two assets—relationships of trust established over many years and a superb workforce with deep knowledge of local business and personal relationships—are the components of the ITOCHU brand, the competitive edge that has made us the strongest Japanese general trading company in China.

The next section provides an overview of key words that indicate how ITOCHU is achieving the true value of its competitive edge.



National staff at a training program

1993 First general trading company to establish an umbrella company, ITOCHU (China) Holding Co., Ltd.

2005 First general trading company to obtain approval for multinational company "regional headquarters"

02

Building Partnerships with Leading Companies

In China, it is not easy for foreign companies to understand differences in consumer preferences and other market characteristics, in commercial practices, or in laws and regulations. Nor is it easy to establish business infrastructure, such as logistics and settlement systems. That is why ITOCHU reached the conclusion that to succeed rapidly and with a high probability, we needed to make alliances with partners who already have that business infrastructure. In particular, our strategy is centered on building partnerships with leading companies in each business area. In food, for example, TING HSIN (CAYMAN ISLANDS) HOLDING CORP., an equity-method affiliate of ITOCHU, is a leading food producer and distributor in China and Taiwan. The Ting Hsin International Group includes Tingyi (Cayman Islands) Holding Corp., which has No. 1 shares in many products, such as a dominant share of 41.6% of the market for instant noodles (volume basis). The Group also includes Ting Qiao (Cayman Islands) Holding Corp., which operates restaurant chains under the Dicos and Master Kong Chef's Table beef noodle brands, with more than 1,000 restaurants in operation. We have also concluded a comprehensive strategic partnership with state-owned COFCO Limited, China's largest company operating in the areas of

provisions and food products. In textiles, we have concluded a comprehensive capital and business tie-up with Shanshan Group Co., Ltd. The members of the Shanshan Group include NINGBO SHANSHAN Group, which is a leader in apparel and brand retailing. We have also built strong partnerships with a range of other companies, such as the Youngor Group Co., Ltd., Qingdao Jifa Group Co., Ltd., and Dalian Yawen Underwear Co., Ltd. In 2011, we concluded an agreement of a Comprehensive Strategic Alliance with the CITIC Group, one of the China's largest government-run conglomerates. The results that we have achieved with these market leaders, which are centered on relationships of trust, have created a favorable cycle that generates further trust and achievements.

The Ting Hsin Group: An Overwhelming Market Presence

(Tingyi (Cayman Islands) Holding Corp: The Group's largest operating company)

2.86 times
Sales growth over the past five years

About **1.2 trillion**
Total market capitalization*2

41.6 %
Share of instant noodle market



54.1 %
Share of tea beverage market



24.1 % Share of bottled water market



*1 Source: Tingyi, 2010 annual report

*2 Listed on Hong Kong Stock Exchange; as of the end of 2010

03 Expanding the Scope of Multifaceted Cooperative Initiatives

Currently in China, there are many companies that have wide-ranging portfolios of diverse business activities. For example, the Ting Hsin International Group is diversifying its businesses to retail and food services, centered on food manufacturing and distribution. The Shanshan Group has extended its business areas from its founding business of textiles to other areas, such as natural resources and energy, science and technology, and real estate. As a result, it has become a conglomerate with 100 subsidiaries. Our investment in the holding companies of these diversified enterprise groups generates significant advantages for the development of our business operations in China. These capital relationships were results of the relationship of trust that we had developed over many years.

We have accumulated substantial knowledge through business activities in a wide range of industry areas, and today we are not focused on single-purpose joint ventures, or “limited” cooperative initiatives. Rather, we are aggressively pursuing a wide range of cooperative initiatives, or “multifaceted” relationships with the corporate groups with which we are partnered, through their lead companies, in tandem with diversification of their businesses.

For example, we are taking steps to reinforce our relationship with the Shanshan Group in the area of textiles, through initiatives such as the development of fashion brands. In addition, in the area of science and technology, we are advancing our cooperative initiatives by joint investment with Toda Kogyo Corp. in Hunan Shanshan Advanced Material Co., Ltd., one of the China’s

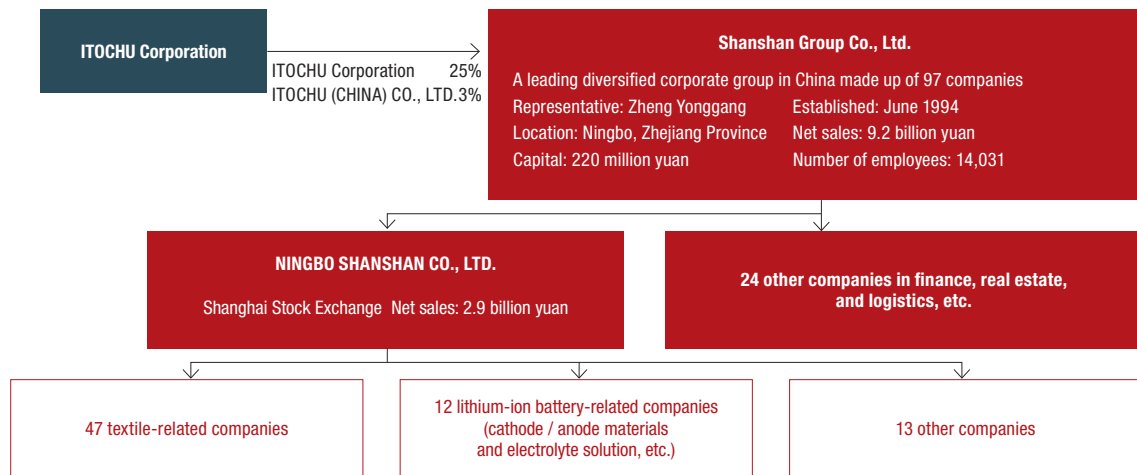


At the signing ceremony with the Shanshan Group

leading lithium ion battery cathode material manufacturers and a member of the Shanshan Group. Moreover, we are transcending divisional boundaries and extending the scope of our cooperative initiatives into such areas as outlet malls and other real estate development activities as well as the supply of parts used in the manufacture of solar panels.

Seeking for a new platform for this strategy of “wide-ranging” cooperative initiatives, ITOCHU has concluded an implementation of a Comprehensive Strategic Alliance with the CITIC Group. CITIC’s business areas are centered on finance and cover a vast range, real estate and infrastructure, construction-related businesses, natural resources and energy, manufacturing, information technology, trading, and services. The objective of this alliance is the generation of synergies in a wide range of these areas, by combining the financial approach by CITIC with its strength, with the commercial approach by ITOCHU from the perspectives of products and services, based on our expertise in a wide range of industries.

Business Ties between ITOCHU and the Shanshan Group



Cooperative Initiatives with the Shanshan Group



Brand business (le coq sportif)



Brand business (renoma)



Manufacturing lithium ion battery cathode material (Hunan Shanshan Advanced Material Co., Ltd.)



Procurement of solar panel parts



Real estate development (Outlet mall in Ningbo)

As of the end of 2010

04

As an Organizer

ITOCHU utilizes a variety of methods to provide the capabilities and added value necessary in the management strategies of our partners, such as technology and marketing know-how, logistics, and know-how in business administration including internal control. In addition to providing our own capabilities, we also consider the optimal capital relationship with leading Japanese companies in each area and coordinate the interests between both parties. Thus, as an organizer that brings together various parties, we make full use of our own capabilities and strive to contribute to the success of each project.

Our partners in China already have established sales and raw material procurement channels. However, as the living standards and technical needs of consumers are changing rapidly, they would achieve substantial benefits from the assimilation of advanced manufacturing technologies, for differentiation from their competitors. These technologies include the hygiene control and quality control technologies of Japanese companies, which are the best in the world.

In the area of food, for instance, our mass-production bread business is a good example of this process. We are advancing the business through a three-party joint venture scheme that leverages the advanced manufacturing technologies and quality control know-how of Shikishima Baking Co., Ltd. (Pasco), the sales

channels of the Ting Hsin International Group, and ITOCHU's raw material procurement capabilities. There are many examples of how ITOCHU has served as an intermediary in establishing joint ventures that contribute to business expansion of the Ting Hsin International Group and penetration to China market by our Japanese partners. These include beverage production with Asahi Breweries, Ltd, convenience store business with FamilyMart, beverage production and sales with Kagome Co., Ltd., and premix flour production and sales with Nippon Flour Mills Co., Ltd.

In the area of pharmaceuticals, in March 2011 Liaoning Chengda Co., Ltd., which has a pharmaceutical distribution subsidiary; Alfresa Holdings Corporation; and ITOCHU agreed on establishing comprehensive business ties. The objective of this alliance is to generate synergies between an about 780-store pharmacy chain, the largest in the northeastern region of China, and Japan's efficient and high value-added drug distribution.



FamilyMart store in China

05

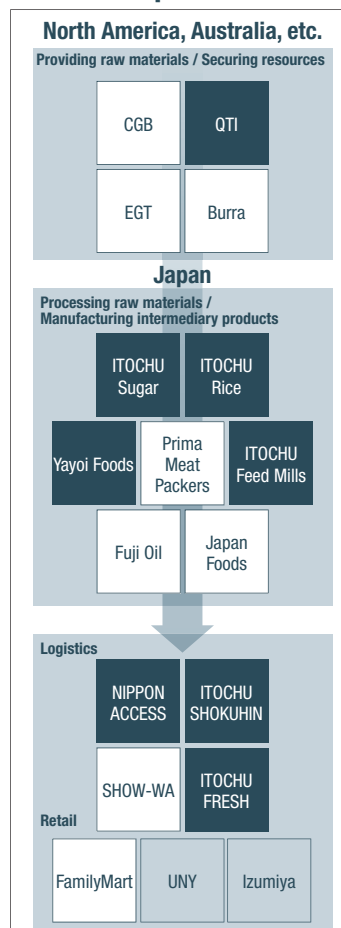
Lateral Development of Success Model

Currently, we are advancing the lateral development of our success models in Japan, to China by drawing fully upon our partnerships with local companies and our capabilities as an organizer.

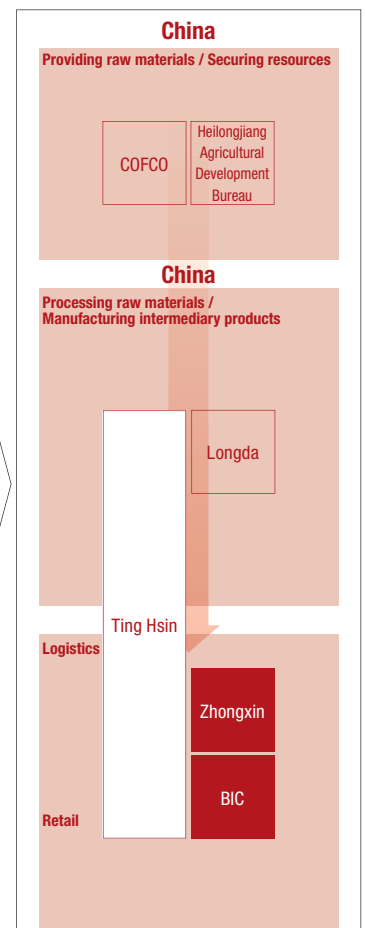
In the food business, we established a solid presence in the maturing domestic market through the Strategic Integrated System (SIS) strategy. The objective of this strategy is to build a value chain that starts with customer needs by seamlessly integrating everything from food resource development to product processing, marketing and distribution, and retail sales. Since 2002, when we concluded a comprehensive strategic agreement with the Ting Hsin International Group, we have steadily been implementing lateral development of the SIS strategy to the China market.

In 2007, we commenced a tie-up with Heilongjiang Agricultural Development

SIS Strategy Focused on the Japanese Market



SIS Strategy Focused on the Chinese Market



■ : Consolidated Subsidiaries
 □ : Equity-method Affiliates
 ■ : Investment / Business Alliance Partners

Bureau, and in 2008, we started an alliance with COFCO Limited. In this way, we have established a foothold in upstream raw material procurement. In 2009, we enhanced our presence in midstream product processing by taking an equity position in Shandong Longda Meat Foodstuffs Co., Ltd. This company is a member of Longda Foodstuff Group Co., Ltd., a major producer of food products with which we have developed close relationships through a variety of joint initiatives, such as production of frozen vegetables. In addition, we have taken an equity position in TING HSIN (CAYMAN ISLANDS) HOLDING CORP., the holding company of the Ting Hsin International Group. As a result, we have achieved a foundation of “integration” extending from

upstream to downstream in the world's largest consumer market. The stable demand generated by this massive foundation will become a major force driving the momentum in our food business in China.

The next section provides the direction of our future strategies.



At the signing ceremony with the Ting Hsin International Group

06 Embracing Significant Change in Consumption Culture with 1.3 Billion Consumers

The 12th five-year plan indicates a shift in China's growth driver from exports and investment in fixed assets to personal consumption. The curtain has opened on a new age in which the consumption culture with 1.3 billion consumers will undergo a transition from quantity to quality. With a focus on this structural change, ITOCHU has started to take on new challenges to expand our lead in the consumer-related sector.

In the textile business, to take the lead in the transformation of the consumption culture, we are actively advancing our downstream strategy.

In addition to advancing cooperative initiatives with the Shanshan Group, we are also taking steps to develop a new sales channel for brand products—non-store retailing, such

as TV home shopping and e-commerce, which is expected to record strong growth.

In the food business, we are moving to the stage where we will reinforce our foundation. In order to respond to the expected substantial food demand with quality as well as quantity, we have positioned the securing of food resource supply bases as an important strategic priority. Accordingly, we are opening up and reinforcing supply bases on a global basis, centered on North America, Central and South America, and Australia. In August 2011, we plan to start operations at an export grain terminal (EGT) with the largest loading capacity on the west coast of the United States.

We are also preparing for responding to the growing concerns about food safety and security. Through our business alliance with Heilongjiang Agricultural Development Bureau and Heilongjiang Academy of Agricultural Sciences, we have

established an integrated supply system for safe, secure agricultural products. This alliance adds cultivation management and a local inspection structure to the existing secondary and tertiary inspection structure at both processing and consuming locations.

Through an equity participation in a financial business firm under the CITIC

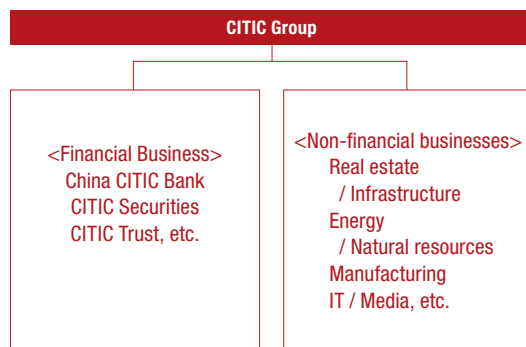


Farm in Heilongjiang Province



EGT: Grain Export Terminal on the West Coast in the U.S.

Business areas of the CITIC Group



Potential Areas of Future Cooperative Ventures

- Joint initiatives in retail finance, with a focus on the expanding middle-income class in China
- Advisory services related to Japan-China cross-border M&A transactions and the entry into China of Japanese companies
- Joint real estate development, operation, and fund activities, such as housing, office buildings, commercial facilities, and logistics facilities
- Joint initiatives in automobile-related operations, such as new automobile sales
- Joint initiatives in overseas resource development and the areas of new energy
- Joint initiatives in the consumer-related sector, with a focus on the expanding consumer market in China

Group, we have already commenced a Comprehensive Strategic Alliance with the group. Moving forward, we will consider joint efforts with CITIC in a wide range of business areas, such as retail finance and automobile-related businesses, with a view to expanding the middle income group in China.

Originally, our Chinese logistics businesses were mainly on trade between Japan and China. In the 1990s we started providing logistics services for Japanese companies expanding domestic businesses mainly in urban areas around the coastal regions of China. We established logistics companies in China such as Beijing Pacific Logistics Co., Ltd. (currently ITOCHU LOGISTICS (CHINA) CO., LTD.) which commenced providing third party logistics (3PL) services with “Japan-Standard” high quality at a reasonable cost.

In the 2000s, with domestic demand expanding rapidly, we set up a strategy of building a supply chain to accommodate the customers’ business growth. In 2004, we acquired 50% of TINGTONG (CAYMAN ISLANDS) HOLDING CORP., a logistics subsidiary of the Ting Hsin International Group. We took the lead over other Japan’s logistics companies in the

directly-operated 3PL services by leveraging the nationwide logistics centers of TINGTONG LOGISTICS.

Currently, we are utilizing about 95 logistics centers in China to provide a supply chain that meets the needs of customers. Furthermore, leveraging our logistics centers, we are aiming to expand our business in rapidly growing regions, including in coastal regions, such as the Yangtze River Delta, the Pearl River Delta, and the Bohai Gulf; in the three northeastern provinces; and in the midwest, which has recorded dramatic growth as a consumer market over the past 10 years since the Campaign to Open Up the West was commenced.



Shanghai Anting logistics center of ITOCHU LOGISTICS (CHINA) CO., LTD.

07 A New Key Word for Growth: Environment

In the areas of increased energy efficiency and environmental measures, which are being implemented as a national policy, there are abundant opportunities for the creation of new business.

In the Dalian Changxing Island Harbor Industrial Zone, one of the China’s national projects, large-scale development is underway as the primary area for the Northeastern China Regional Industrial Promotion Measures. At this industrial zone, we are stepping up our initiatives in the areas of environment and



Conceptual drawing of Recycling Facility on Changxing Island

energy-conservation. In April 2010, we commenced sewage treatment operations through a joint venture with Suez Environment S.A., of France, one of the world’s largest water and

waste management businesses. Subsequently, in December 2010 we entered the area of integrated recycling operations when we began construction of a large-scale, integrated recycling and resources plant to handle steel, non-ferrous scrap,

consumer electronics and home appliances, and plastics. By installing one of the most sophisticated facilities in the world using Japanese advanced environmental technologies, we will strive to make this plant a model in the area of recycling. We will also continue to take on challenges in this new growth area, such as

extending the results achieved in the Dalian Changxing Island Harbor Industrial Zone to initiatives in other special economic zones.

08 A Firm Grip on the Lead

It has been 40 years since Mr. Echigo led the mission to China. We have maintained an ongoing commitment to the pioneering spirit, and have discovered a number of business opportunities in this huge market. We have inherited the spirit of contributing to the introduction of advanced technologies to China and China’s economic development, rather than simply selling merchandise.

In recent years, there has been some attention paid to indications of deceleration in China’s economic growth, but

nonetheless China is still expected to surpass the United States as the world’s largest economy in the near future. China will maintain its position as the engine of global economic growth. Under the new medium-term management plan, Brand-new Deal 2012, ITOCHU will more proactively seek new opportunities and strive to maintain its position as the strongest Japanese general trading company in China.