Rengo, Nippon Paper & Sumitomo Sign Strategic Alliance

Aim to Revitalize Japan's Paperboard and Corrugated Industries

March 2, 2007

Rengo Co., Ltd.
Nippon Paper Group, Inc.
Sumitomo Corporation

Timeline for Strategic Alliance

Strategic Alliance Agreement Signed Today

- Memorandum of understanding for strategic alliance signed on November 20, 2006
- **Strategic alliance agreement signed on March, 2, 2007**
- Start implementing alliance initiatives from April 2007
- Complete transfer of shares among alliance partners during fiscal 2007

Strategic Alliance Overview

1. Significance of strategic alliance

2. The challenges facing Japan's paperboard and corrugated industries & the benefits offered by strategic alliance

3. Specific initiatives

4. Synergies

1. Significance of Strategic Alliance

Strategic Alliance Goals

RENGO	NIPPON PAPER GROUP	Sumitomo Corporation
Leader in paperboard, corrugated products, and other packaging products	Top domestic papermaker	Strong raw materials sourcing capabilities and global network

Strategic Alliance

Strengthen domestic foundations
Create leading group in Asian market

- **Swiftly realize synergies**
- **Strengthen supply chain network**
- **Penetrate overseas markets**

Strengthen Position in Paperboard Industry

RENGO

- Leader in Paperboard & Corrugated Products
  (No. 2 in 2005 in domestic production volume)
- Upstream through downstream capabilities

- Top Japan producer of corrugated products
- No. 2 in containerboard
  (No. 4 in linerboard and No. 1 in corrugating medium)

NIPPON PAPER GROUP

- Nippon Daishowa Paperboard Co., Ltd.
- Raw materials sourcing a key strength

- No. 3 in containerboard
  （No. 2 in in linerboard and No. 4 in corrugating medium)

Strongest combination in domestic paperboard sector

Support from Sumitomo Corporation

- Offer strategic support to paperboard and corrugated industries and assist in creation of new business models
- Help facilitate the restructuring of the domestic paperboard and corrugated industries
- Source recovered paper and other papermaking materials
- Assist with joint projects in China, Southeast Asia, and India, and provide international marketing capabilities

Strategic Alliance Objectives

Enhance corporate value by strengthening core paperboard and packaging businesses

Maintain large presence in Japan while assuming leadership in Asian markets

Promote the flow of information, contribute to cultural exchanges and facilitate more convenient lifestyles

Strategic Alliance Roadmap

Phase I

Enhance Paperboard Platform

Joint overhaul of production facilities

Collaborate in packaging products (corrugated products, folding cartons, and flexible packaging)

Phase II

Strengthen and Stabilized core domestic businesses

Phase III

Expand in Asia and other international markets

Phase IV

Explore even closer ties between Rengo Group and Nippon Paper Group

Benefits of Strategic Alliance for Stakeholders

Shareholders

- Realizing synergies will improve profitability
- Eliminating investment overlaps will increase capital efficiency

Employees

- Increased corporate value
- Stable corporate growth promotes increased job security

Customers

- A more stable supply structure
- Improved quality and service
- Advanced packaging solutions

RENGO

NIPPON PAPER GROUP

Sumitomo Corporation

Industry

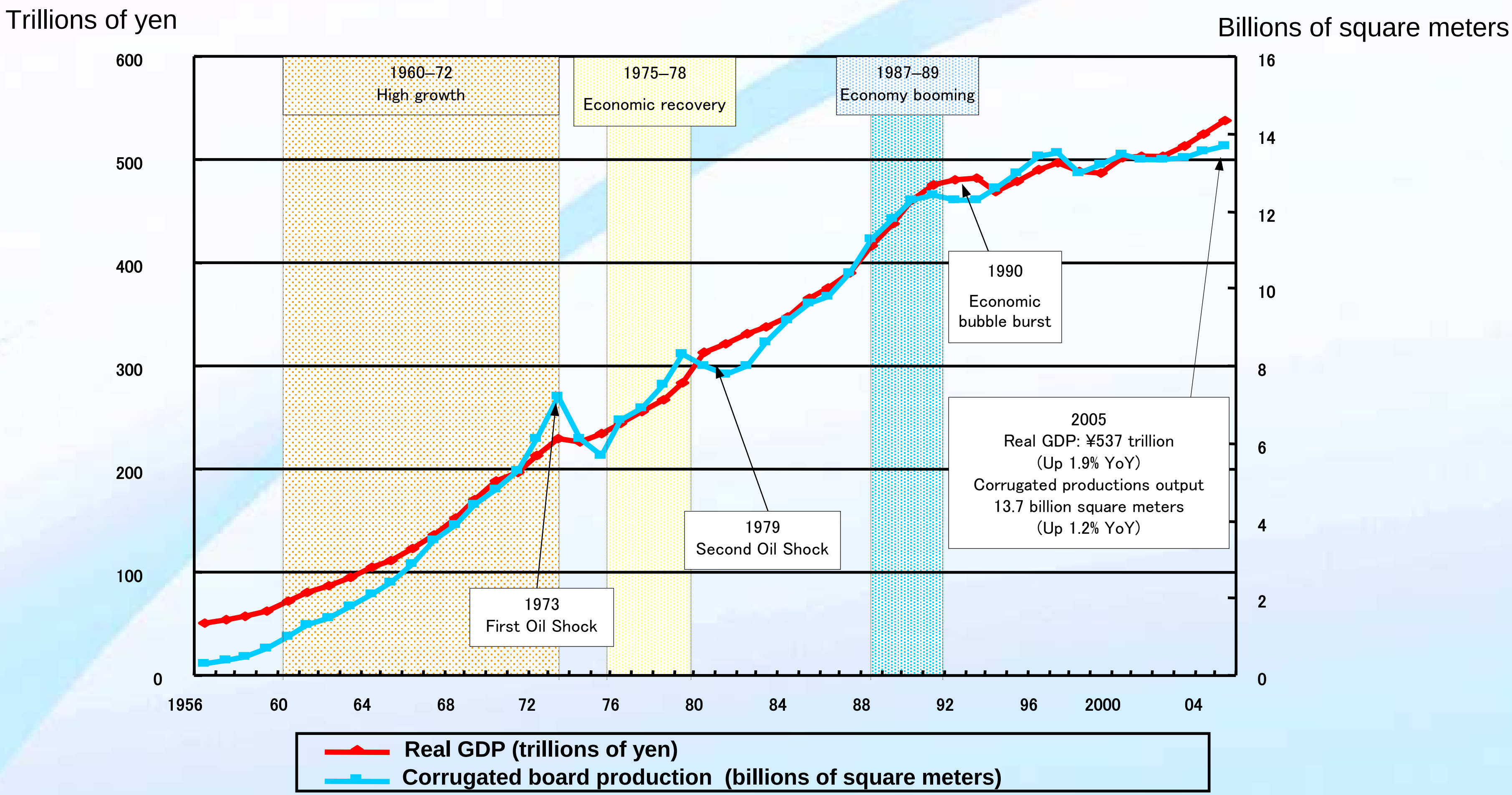
- A more stable domestic market will allow more reinvestment to promote international competitiveness
- Leadership to secure trust of related sectors

Society

- Stable recycling programs
- Resource and energy conservation
- New packaging systems that enhance lifestyles

2. The Challenges Facing Japan’s Paperboard and Corrugated Industries & the Benefits Offered by Strategic Alliance

Domestic Paperboard & Corrugated Markets Plateau



Sources: National Accounts of Cabinet Office and Paper and Pulp Statistics of Ministry of Economy, Trade and Industry

Domestic Paperboard & Corrugated Markets Plateau

- Domestic market remains flat
  - Corrugated cardboard output up 0.9% to 13.9 billion ㎡ in 2006
  - Containerboard production up 0.1% to 9.32 million metric tons in 2006
- Domestic market to shrink as Japanese society ages
- Need to enhance stability and efficiency
- Domestic firms need to expand overseas and improve profit margins
  - Foreign peers have profit margins of 8–10%

Significantly improve domestic productivity to reinforce core businesses

Target emerging international markets in Asia and elsewhere

Our Vision for Japan's Paperboard & Corrugated Industries

- An industry structured to make optimal use of recovered papers in Japan, maintain papermaking and converting system at domestic sites, and support stable earnings

- Business processes that reward all players, including paperboard and corrugated manufactures, recovered paper collectors, and distributors

- Serve society with a packaging and materials supply system that minimizes costs and fosters recycling

Overview of Japan's Paperboard and Corrugated Industries

Upstream: Recovered Paper

- Domestic recovered paper consumption; 18.6 million metric tons
- Utilizing rate for paperboard; 92.6%
- Recovered paper exports surging to 3.71 million metric tons

(※ Paper and Pulp 2005 Statistics of Ministry of Economy, Trade and Industry)

Midstream: Paperboard

- In 2000–2001, production rose outstripping demand, hurting prices and profitability
- Companies posted operating losses in fiscal 2001
- Large players driving sector restructuring

Downstream: Corrugated products

- Turmoil among many players, especially small and medium-sized enterprises
- Firms took losses to maintain volumes

Sluggish domestic market conditions make it essential that recovered paper, paperboard, and corrugated industries are united in keeping investment in line with demand and maintaining profitability

Past Market Turmoil and the Role of Paperboard Platform

- 2000–2001: Industry production levels rose out of line with demand
- July 2001: Containerboard inventories reached record 535,000 metric tons
- December 2001: Prices voluntarily adjusted up by ¥10/kg
- October 2003: Prices adjusted up by ¥5/kg in response to market conditions
- April 2006: Prices adjusted up by another ¥5/kg in response to market conditions

Pricing levels that could not cover production costs

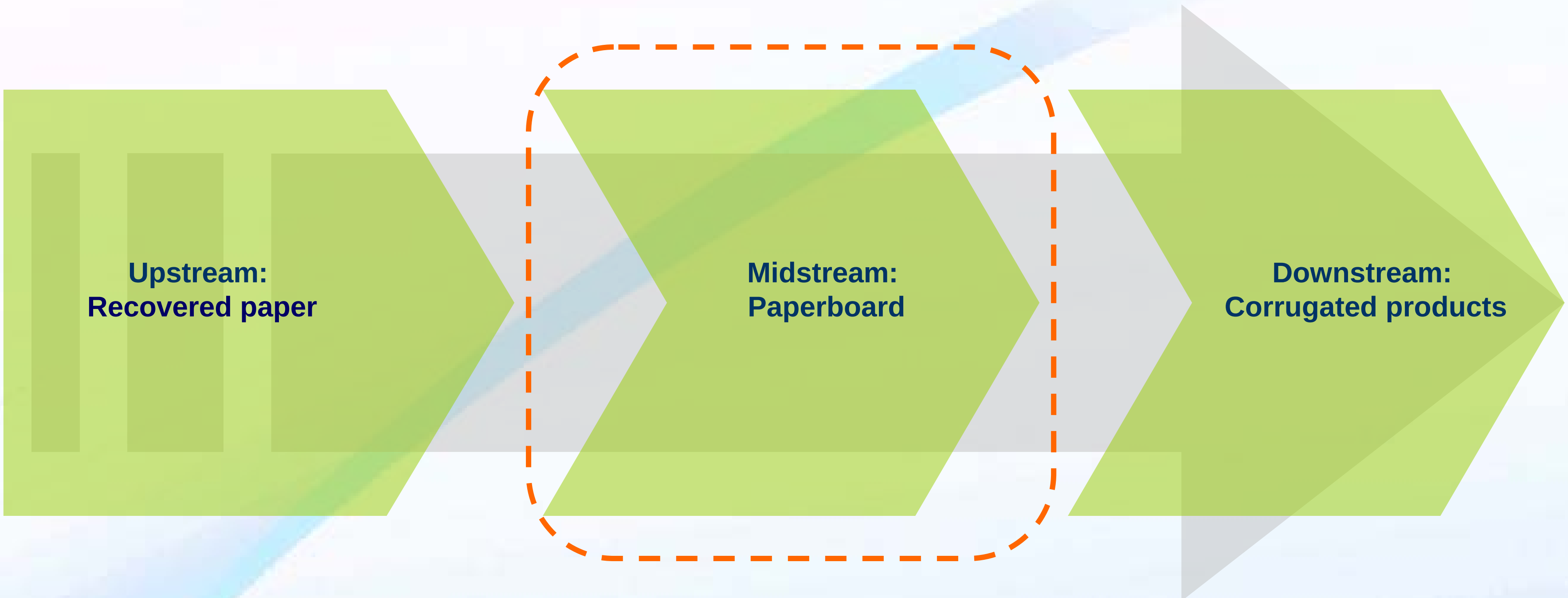
Create demand-responsive production structure

Establish Paperboard Platform

Paperboard Platform:

By maintaining balanced supply and demand of paperboard, the industry has established foundation (Platform) for further structural reforms. The Platform not only enables paperboard manufacturers earn fair profits but also brings order into recovered paper and corrugated industries.

A System Enabling Paperboard and Corrugated Industries to Overcome Challenges



A strong Platform in the paperboard industry will also help stabilize the operating environment in the corrugated and recovered paper sectors

The recovered paper, paperboard, and corrugated sectors will be able to reduce their vulnerability to fluctuating energy prices and other changes in the market environment as well as maintain profitability

Paperboard Platform under our Strategic Alliance

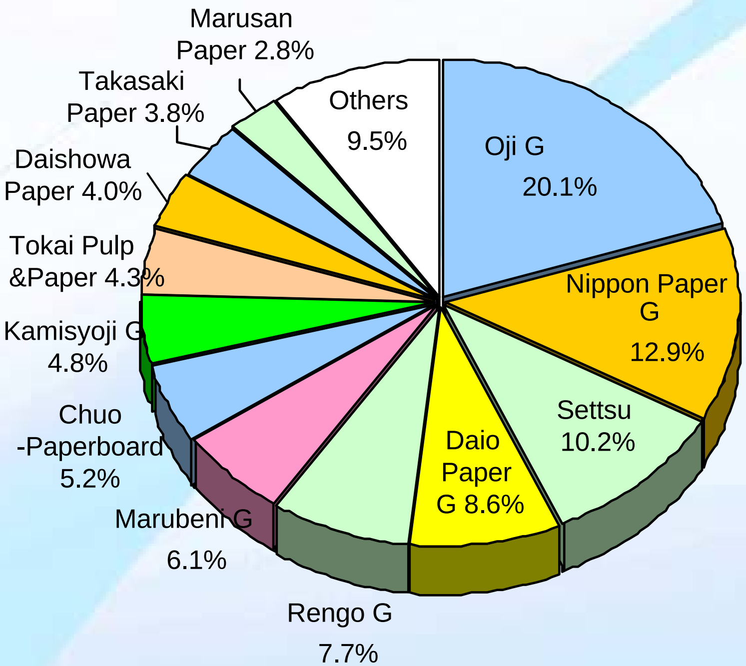
- The ongoing industry trend for paperboard and corrugated businesses to group together will serve to strengthen the Paperboard Platform

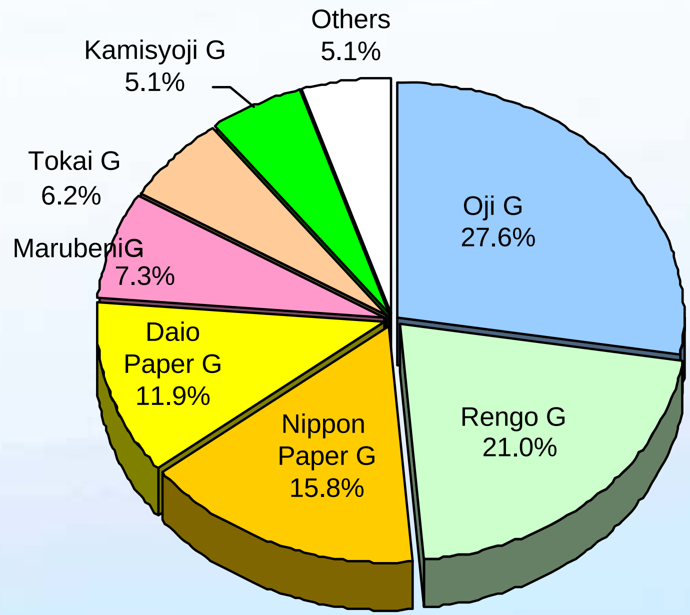
- Rengo, Nippon Paper Group & Sumitomo will extend the scope of their alliance to include the corrugated sector to promote the overall health of the industry

The Consolidation of Japan's Containerboard Industry

1998	Output: 8,964,000 metric tons

2005	Output: 9,311,000 metric tons

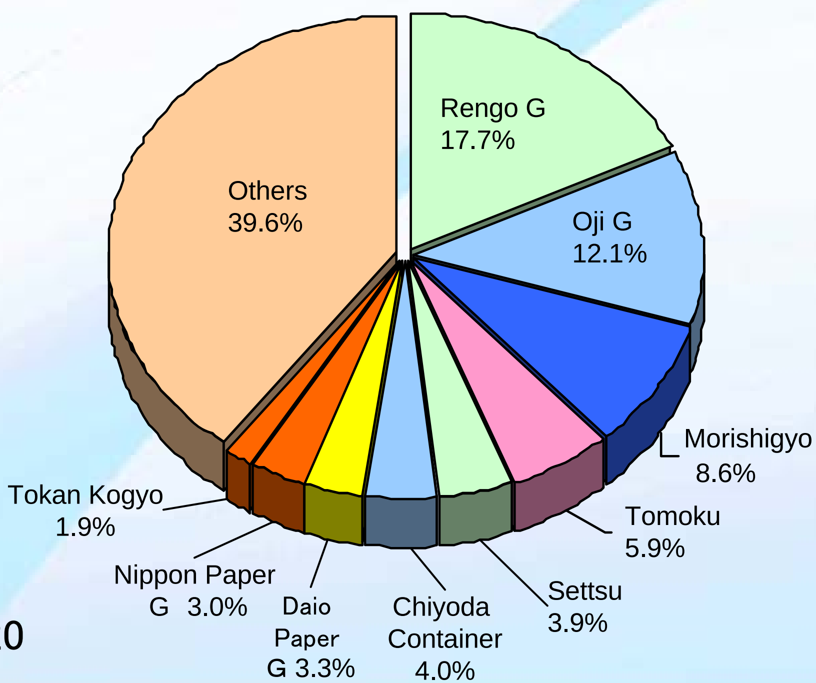




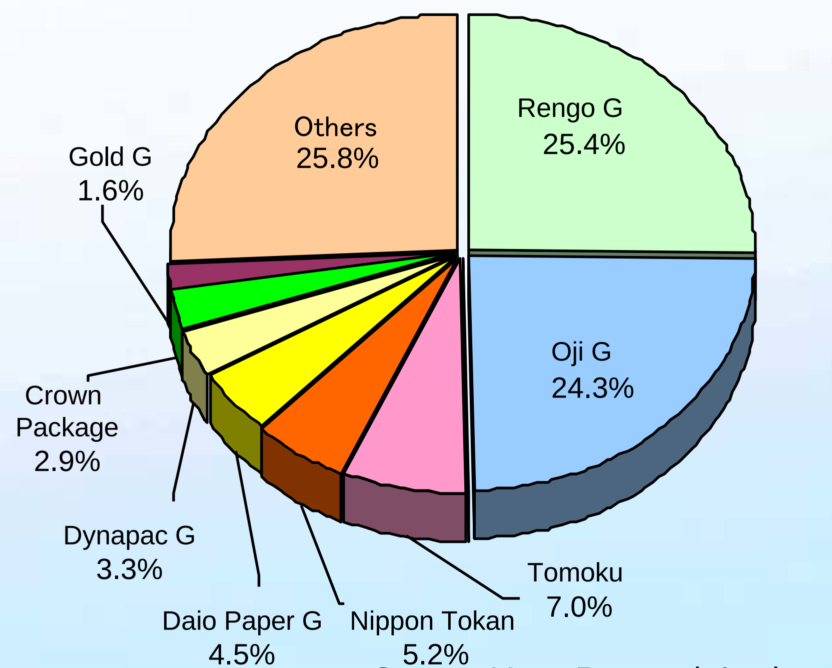
Source: Japan Paper Association

The Consolidation of Japan's Corrugated Industry

1998	Output: **13,015 million m²**



2005	Output: **13,729 million m²**



Source: Yano Research Institute

Plans to Further Strengthen Our Alliance in the Paperboard and Corrugated Sector

Shift from focus on competition within the paperboard and corrugated to the integration of the corrugated and containerboard sectors to improve efficiency and productivity

- Each company to reduce production under Paperboard Platform
  - ✓ The Rengo Group and Nippon Paper Group have combined excess capacity of around 600,000 metric tons annually
  - ✓ The industry's excess capacity is about 1 million metric tons annually

- The Rengo Group and the Nippon Paper Group to strengthen competitiveness by consolidating their plants and other facilities

3. Specific Initiatives

Strategic Alliance Initiatives

① Jointly scrap and build paperboard facilities

② Comprehensively reinforce packaging businesses

③ Joint procurement of raw materials

④ Launch joint business ventures in overseas markets

⑤ Other initiatives

Jointly Scrap and Build Paperboard Facilities

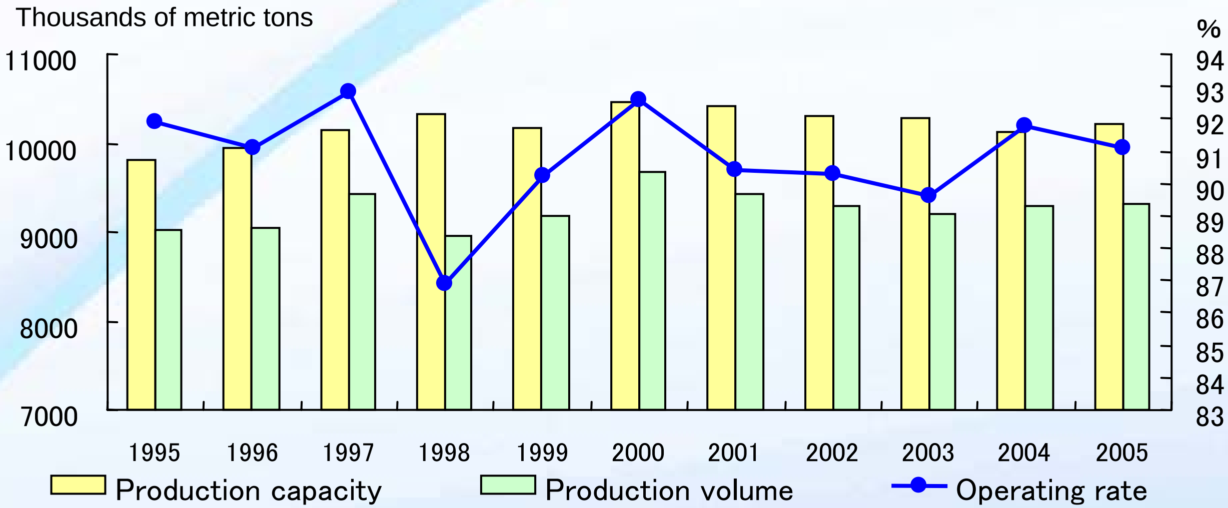
- Launch coordinated scrap & build program for domestic production networks starting in key regional markets
  - ✓ Linerboard — Approx. 150,000 metric tons annually
  - ✓ Corrugating medium — Approx. 150,000 metric tons annually
- Specific initiatives to consolidate production by sharing facilities (under consideration)
  - ✓ Eliminate investment overlaps
  - ✓ Cut excess capacity
- Deepen alliance and consider dramatically overhauling production networks

Containerboard Production Volumes, Capacity, and Operating Rates

Thousands of metric tons, %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Production capacity ※	9,814	9,937	10,153	10,315	10,178	10,452	10,421	10,297	10,271	10,116	10,224
Production volume	9,019	9,048	9,425	8,961	9,180	9,676	9,419	9,301	9,207	9,290	9,311
Operating rates	91.9	91.1	92.8	86.9	90.2	92.6	90.4	90.3	89.6	91.8	91.1

※ Based on daily production volume x annual production days (332)



Sources: Daily Production Capacity by Paperboard Category from Japan Paper Association and Paper and Pulp Statistics from Ministry of Economy, Trade and Industry

Industry's excess capacity is about 1 million metric tons annually
Combined Rengo Group and Nippon Paper Group excess capacity is 600,000 metric tons a year

Scrap and Build Initiatives in Key Kanto & Kansai Markets

■ Regional corrugated production

(Million square meters)

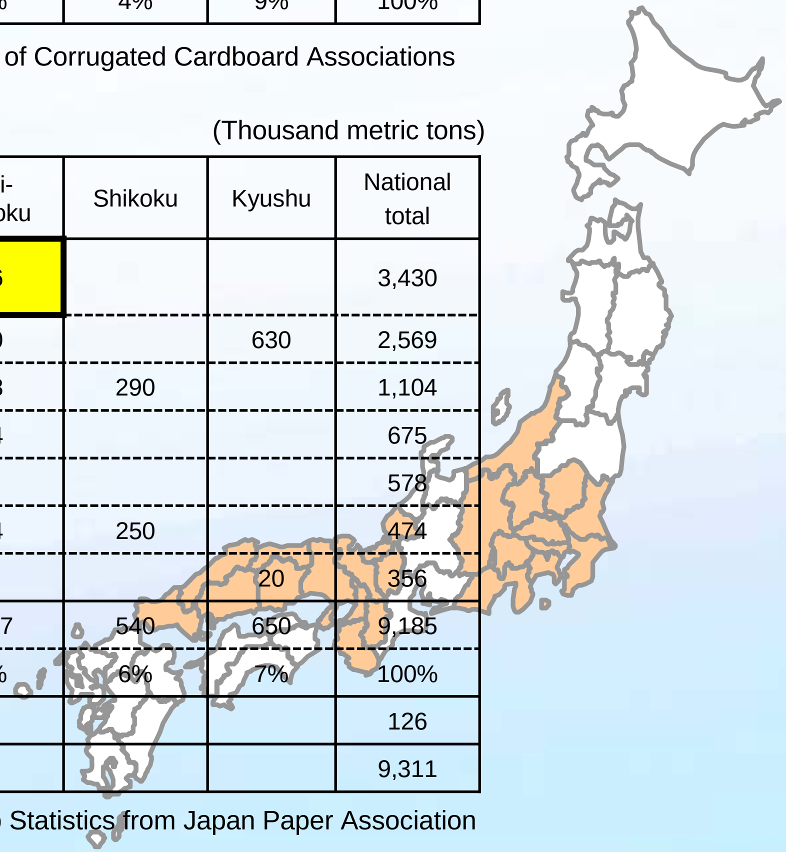
District	Hokkaido	Tohoku	Kanto-Koshinetsu	Chubu	Kinki-Chugoku	Shikoku	Kyushu	National total
Volume	451	855	5,691	1,901	3,121	524	1,186	13,729
Share	3%	6%	41%	14%	23%	4%	9%	100%

Source: National Federation of Corrugated Cardboard Associations

■Regional containerboard production

(Thousand metric tons)

District	Hokkaido	Tohoku	Kanto-Koshinetsu	Chubu	Kinki-Chugoku	Shikoku	Kyushu	National total
Rengo Group + Nippon Paper Group	3	724	1,807		896			3,430
Oji Group	594		469	636	240		630	2,569
Daio Group		315			498	290		1,104
Marubeni Group			471		204			675
Tokai Pulp Group			483		95			578
Kamisyoji Group					224	250		474
Others			42	294			20	356
Subtotal	597	1,039	3,272	930	2,157	540	650	9,185
Production volume share	7%	11%	36%	10%	23%	6%	7%	100%
(No statistics)								126
Total								9,311



Source: Annual Paper and Pulp Statistics from Japan Paper Association

Initiatives to Comprehensively Reinforce Alliance Partners' Packaging Businesses

- Develop total packaging solutions

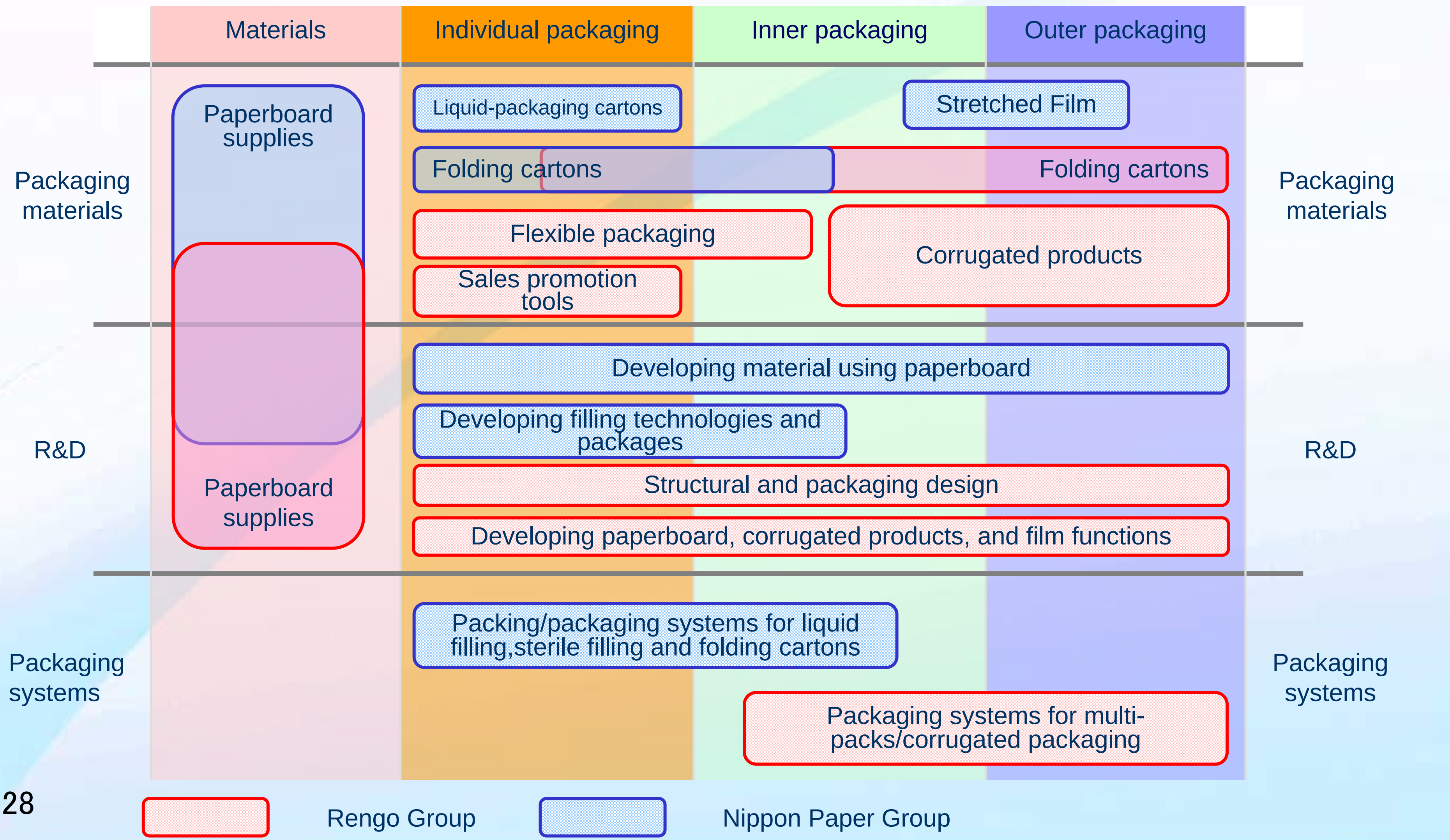
- Forge alliances in the corrugated industry
  - ✓ Harness networks of three strategic alliance partners to build a safety net and strengthen ties.

- Launch joint sales & marketing initiatives, forge OEM agreements in the folding cartons and flexible packaging segment
  - ✓ Nippon Paper Group & Rengo to pursue joint sales and OEM initiatives. Utilize Nippon Paper Group's paper and paperboard to develop new packaging.
  - ✓ Leverage Sumitomo's distribution networks

- Pursue integrated sales from filling to packaging lines
  - ✓ Combine Nippon Paper Group's filling and individual packaging system and Rengo Group's outer packaging system

- Joint product development
  - ✓ Launch joint development initiatives, share materials and design capabilities.

Offering Total Packaging Solutions for Everything from Materials to Wrapping



Joint Procurement of Raw Materials (Recovered Paper)

- Eliminate transportation overlaps
  - ✓ Reassess purchasing from distant areas to streamline regional recovered paper procurement
- Enhance operational stability by optimizing the efficiency and security of supply chain networks for raw materials
  - ✓ Strengthen a system to accommodate recovered papers for paperboard mills of both groups.
  - ✓ Broaden geographical scope of procurement
  - ✓ Equalize inventory levels
  - ✓ Utilize Rengo’s Utsunomiya warehouse
  - ✓ Harness Sumitomo’s logistics capabilities
- Expand shipping network
  - ✓ Utilize Sumitomo’s network

Joint Procurement of Raw Materials

- Boost purchasing power through joint procurement
  - ✓ Promote joint procurement of raw materials
  - ✓ Coal supplies
  - ✓ Source and supply pulp
  - ✓ Leverage Sumitomo’s supply networks
- Consolidate sourcing activities for shared gains
- Consider in-house production of some materials
  - ✓ Aluminum sulfate, etc.

Joint Expansion of Overseas Businesses

- Share capabilities at existing overseas operations
  - ✓ Overhaul operations in Eastern China (consider joint paperboard and corrugated operations)
- Consider joint acquisition or co-development of overseas paperboard and corrugated companies
  - ✓ Targets include China, Southeast Asia, and India
- Supply overseas markets with products made in Japan
  - ✓ Linerboard, corrugating medium, and boxboard
- Leverage Sumitomo’s extensive capabilities
  - ✓ Materials supply
  - ✓ Overseas marketing
  - ✓ Identify new projects

Other Initiatives

- Strengthen OEM operations

- Exchange production technologies in areas such as:
  - ✓ Energy conservation
  - ✓ Yield optimization
  - ✓ Water consumption

- Joint R&D Projects

Other Initiatives

- Share human resources capabilities
  - ✓ Share best practice in human resources in areas such as career development, technical training, personnel operations and welfare services
- Joint development and application of IT systems
  - ✓ Electronic data interchange (EDI)
  - ✓ Consider jointly purchasing of IT equipment

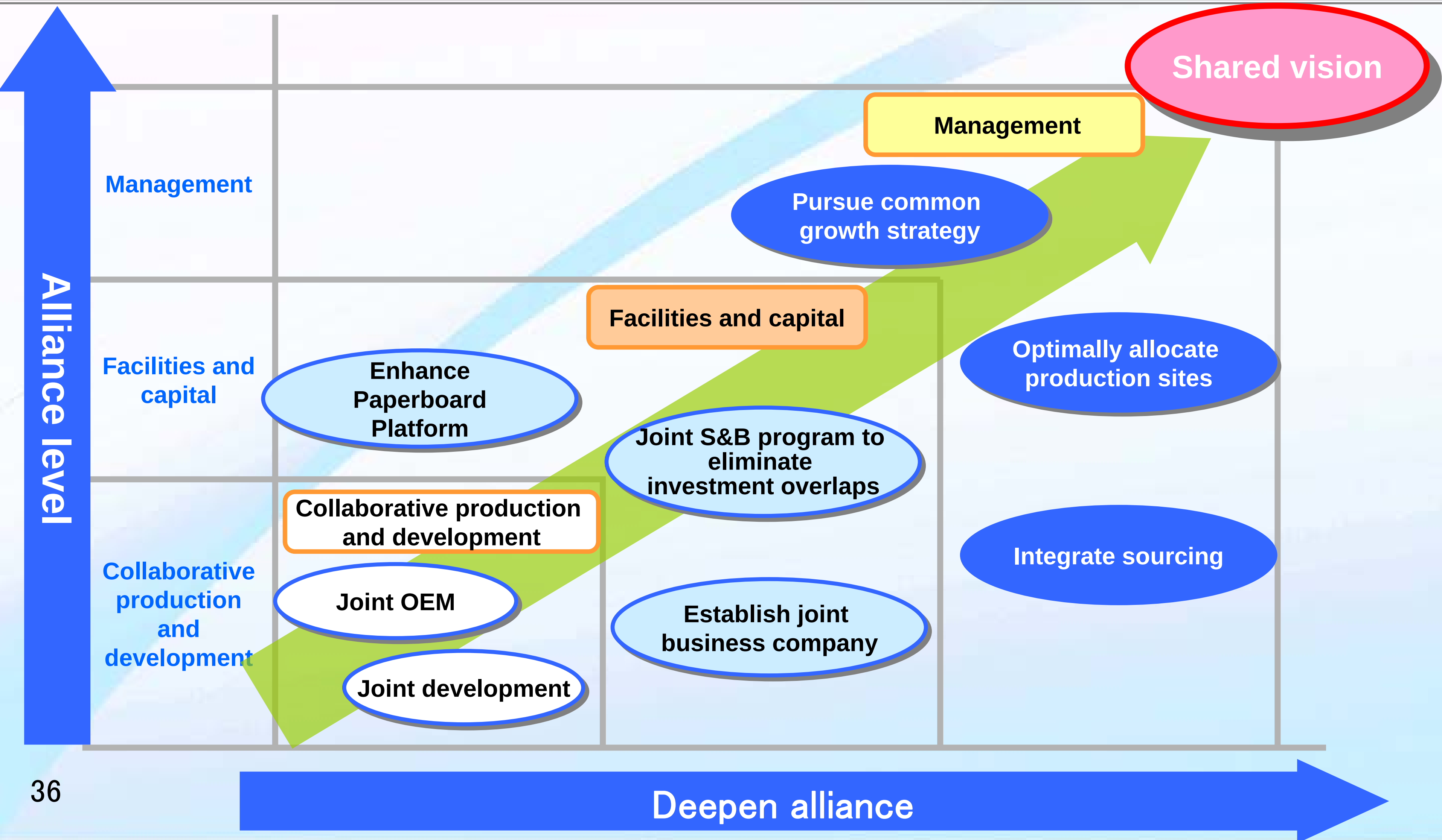
4. Synergies

Strategic Alliance Synergies

(Annual total for three companies combined)

Joint procurement of raw materials	**¥350 million**
Eliminate transportation overlaps from recovered paper sourcing	**¥50 million**
Scrap & build program	**¥1 billion**
OEM Agreements	**¥400 million**
Total	**¥1.8 billion**

Deepening Alliance to Optimize Synergies



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