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
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

Strategic Alliance

Strengthen domestic foundations
Create leading group in Asian market

Swiftly realize synergies
Strengthen supply chain network
Penetrate overseas markets

RENGO
Top domestic papermaker

NIPPON PAPER GROUP

Sumitomo Corporation
Strong raw materials sourcing capabilities and global network

Leader in paperboard, corrugated products, and other packaging products
Strengthen Position in Paperboard Industry

- 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 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

**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 m² 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

<table>
<thead>
<tr>
<th>Upstream: Recovered Paper</th>
<th>Midstream: Paperboard</th>
<th>Downstream: Corrugated products</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Domestic recovered paper consumption; 18.6 million metric tons</td>
<td>• In 2000–2001, production rose outstripping demand, hurting prices and profitability</td>
<td>• Turmoil among many players, especially small and medium-sized enterprises</td>
</tr>
<tr>
<td>• Utilizing rate for paperboard; 92.6%</td>
<td>• Companies posted operating losses in fiscal 2001</td>
<td>• Firms took losses to maintain volumes</td>
</tr>
<tr>
<td>• Recovered paper exports surging to 3.71 million metric tons (※ Paper and Pulp 2005 Statistics of Ministry of Economy, Trade and Industry)</td>
<td>• Large players driving sector restructuring</td>
<td></td>
</tr>
</tbody>
</table>

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

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

- Pricing levels that could not cover production costs
- Create demand-responsive production structure
- Establish Paperboard Platform
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

- Oji G 20.1%
- Nippon Paper G 12.9%
- Daio Paper G 8.6%
- Chuo-Paperboard 5.2%
- Marubeni G 6.1%
- Rengo G 7.7%
- Takasaki Paper 3.8%
- Daishowa Paper 4.0%
- Settsu 10.2%
- Kamisyoji G 4.8%
- Others 9.5%

2005 Output: 9,311,000 metric tons

- Oji G 27.6%
- Nippon Paper G 21.0%
- Rengo G 15.8%
- Daio Paper G 11.9%
- Marubeni G 7.3%
- Tokai G 6.2%
- Dam Paper G 5.1%
- Kamisyoji G 5.1%
- Others 5.1%

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
Join 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Production Capacity</th>
<th>Production Volume</th>
<th>Operating Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>9,814</td>
<td>9,019</td>
<td>91.9</td>
</tr>
<tr>
<td>1996</td>
<td>9,937</td>
<td>9,048</td>
<td>91.1</td>
</tr>
<tr>
<td>1997</td>
<td>10,153</td>
<td>9,425</td>
<td>92.8</td>
</tr>
<tr>
<td>1998</td>
<td>10,315</td>
<td>8,961</td>
<td>86.9</td>
</tr>
<tr>
<td>1999</td>
<td>10,178</td>
<td>9,180</td>
<td>90.2</td>
</tr>
<tr>
<td>2000</td>
<td>10,452</td>
<td>9,676</td>
<td>92.6</td>
</tr>
<tr>
<td>2001</td>
<td>10,421</td>
<td>9,419</td>
<td>90.4</td>
</tr>
<tr>
<td>2002</td>
<td>10,297</td>
<td>9,301</td>
<td>90.3</td>
</tr>
<tr>
<td>2003</td>
<td>10,271</td>
<td>9,207</td>
<td>89.6</td>
</tr>
<tr>
<td>2004</td>
<td>10,116</td>
<td>9,290</td>
<td>91.8</td>
</tr>
<tr>
<td>2005</td>
<td>10,224</td>
<td>9,311</td>
<td>91.1</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Regional corrugated production</th>
<th>(Million square meters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>District</td>
<td>Hokkaido</td>
</tr>
<tr>
<td>Volume</td>
<td>451</td>
</tr>
<tr>
<td>Share</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: National Federation of Corrugated Cardboard Associations

<table>
<thead>
<tr>
<th>Regional containerboard production</th>
<th>(Thousand metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>District</td>
<td>Hokkaido</td>
</tr>
<tr>
<td>Rengo Group + Nippon Paper Group</td>
<td>3</td>
</tr>
<tr>
<td>Oji Group</td>
<td>594</td>
</tr>
<tr>
<td>Daio Group</td>
<td></td>
</tr>
<tr>
<td>Marubeni Group</td>
<td></td>
</tr>
<tr>
<td>Tokai Pulp Group</td>
<td></td>
</tr>
<tr>
<td>Kamisyoji Group</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>42</td>
</tr>
<tr>
<td>Subtotal</td>
<td>597</td>
</tr>
<tr>
<td>Production volume share</td>
<td>7%</td>
</tr>
<tr>
<td>(No statistics)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

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
  - 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

- **Materials**
  - Packaging materials
    - Paperboard supplies
  - R&D
    - Paperboard supplies
- **Individual packaging**
  - Liquid-packaging cartons
  - Flexible packing
  - Sales promotion tools
  - Developing material using paperboard
  - Developing filling technologies and packages
  - Structural and packaging design
  - Developing paperboard, corrugated products, and film functions
- **Inner packaging**
  - Stretched Film
  - Corrugated products
- **Outer packaging**
  - Packing/packaging systems for liquid filling, sterile filling and folding cartons
  - Packaging systems for multi-packs/corrugated packaging

Rengo Group  Nippon Paper Group
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)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint procurement of raw materials</td>
<td>¥350 million</td>
</tr>
<tr>
<td>Eliminate transportation overlaps from recovered paper sourcing</td>
<td>¥50 million</td>
</tr>
<tr>
<td>Scrap &amp; build program</td>
<td>¥1 billion</td>
</tr>
<tr>
<td>OEM Agreements</td>
<td>¥400 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥1.8 billion</td>
</tr>
</tbody>
</table>
Deepening Alliance to Optimize Synergies

- Management
- Facilities and capital
- Collaborative production and development

Shared vision
- Management
- Pursue common growth strategy
- Optimal allocation of production sites
- Integrate sourcing

Enhance Paperboard Platform
Joint OEM
Joint development
Joint S&B program to eliminate investment overlaps
Establish joint business company

Deepen alliance
Please Note

- These materials include company-related forecasts, plans, and management targets. Forward-looking statements are based on assumptions about the future and trends at the time of producing these materials and contain uncertainties. Actual results could differ significantly from what is presented here.

- These materials do not represent an offer or solicitation of an offer to purchase securities, and the contents do not constitute an agreement or promises of any kind.