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Launch of Glass-fiber Reinforced Plastic Pipes in Russian Market

—Sumitomo Corp and Sekisui Chemical Establish Joint Venture in Russia—

Sumitomo Corporation (President and CEO: Susumu Kato; hereinafter, “Sumitomo”) and SEKISUI CHEMICAL CO., LTD (President & Representative Director: Naotake Okubo; hereinafter, “Sekisui”) have determined to set up a joint venture with ZAO Vodokanalstroy (President: Agiyan Vladimir; hereinafter, “VKS”), a local contractor of water supply and sewage systems, to tap the rapidly growing water environmental infrastructure industry in Russia. Sumitomo, Sekisui and VKS shall contribute equity at a level of 40 percent, 30 percent, and 30 percent, respectively, to the joint venture, which will be based in the city of Vsevolozhsk, Leningrad Oblast, neighboring St. Petersburg, Russia’s second largest city.

Combining Sekisui’s long-accumulated product expertise and manufacturing technologies, Sumitomo’s business management capabilities and VKS’ local construction experience, the joint venture aims to create cutting-edge chemistry, continuously expand its market position and increase business for glass-fiber reinforced plastic (GRP) pipes in Russia. Sekisui will be the first Japanese plastic pipe manufacturer to build a production base focusing on the water environment infrastructure market in Russia.

1. Background

The city of St. Petersburg is located near the west of the Russian Federation. It is the second largest city in Russia following Moscow and has population of 4.58 million. It takes up approximately 600 km² (or about 1,400 km² including satellite cities). Meanwhile, some 1.67 million people across 85,000 km² in Leningrad Oblast. In this area, which neighbors St. Petersburg, a number of major automakers, including

Ford, Toyota, Nissan and GM, have set up plants, and it is expected to become a hub for direct foreign investment. Accordingly, the construction of new infrastructure is urgently required, including roads, a harbor, power plants and water supply facilities.

In 2004, when Valentina Matviyenko, the mayor of St. Petersburg, visited Japan, Sumitomo concluded an agreement with the city on mutual cooperation in association with providing infrastructure, including water supply facilities and sewage systems. Sekisui is proud of its top position in sales of GRP pipes in Japan and China. Together with its engineering capabilities and support services, Sekisui's GRP pipe technology drew attention as the most suitable materials and technologies for the rehabilitation and modernization of water conduits in a feasibility study on the modernization of infrastructure for water supply and sewage. Sekisui was thus chosen for the conduit renewal and extension works and also for the associated cooperation project with local manufacturers.

2. Reasons for Establishing Joint Venture

Through the joint venture, Sumitomo and Sekisui aim to build a foothold in the water environment business in Russia, starting off in the neighborhood of St. Petersburg, and then gradually extending a network for the water environment solution business across Russia as follows.

- (1) Use Sekisui's strength in products, technology and engineering, and establish a competitive position;
- (2) Run the business in a stable manner, backed by Sumitomo's long-standing experience in business management in Russia;
- (3) Focus on a target area in Russia and increase market share in that area by strategically drawing on VKS' proven track record of achieved orders and completed water supply and sewage works; and
- (4) Extend its marketing activities to other areas such as Moscow and southern Russia from the St. Petersburg production base, looking to future expansion across Russia.

3. Outline of Joint Venture

- (1) Company name: LLC SUMI-LON
- (2) Organizational status: Limited Liability Corporation
- (3) Establishment date: Commercial registration scheduled for completion in mid-July 2008
- (4) Line of business: Manufacturing and sales of GRP pipes and joints
- (5) Paid-in capital: 181 million rubles (roughly equivalent to 0.8 billion yen) in fiscal 2008
267 million rubles (roughly equivalent to 1.2 billion yen) in fiscal 2011
- (6) Contribution: Sumitomo – 40%; Sekisui – 30%; VKS – 30%
- (7) Location: Vsevolozhsk, Leningrad Oblast, approx. 30 km from St. Petersburg
- (8) Plant area: Approx. 20,000 m², consisting of 7,290 m² for plant building, 1,500 m² for office building, 10,000 m² for stock yard
- (9) Manufacturing capacity: GRP pipes
3,000 tons per year in one product line in fiscal 2008
15,000 tons per year in three product lines (φ500~2000 mm) in fiscal 2011

(10) No. of employees: About 30 in fiscal 2008
 About 100 in fiscal 2011

4. Operation Target

The joint venture aims to commence commercial production toward the end of December 2008. The sales target for fiscal 2011 has been set at 5 billion yen.

5. GRP pipes

The GRP pipes are plastic products made from glass fiber, unsaturated polyester resin and silica sand. Sekisui has sold a series of these products within Japan since 1975 under the commercial name, Eslon® RCP®. Not only do they display remarkable strength and flexibility, owing to the utilization of glass fiber, but also excellent earthquake resistance, chemical resistance and hydrological characteristics. For these reasons, usage is not limited to water supply and sewage conduits. They are used for a broad range of purposes, from drainage pipes at airport sites and residential ground-break sites to irrigation pipes.

6. Outline of VKS

Business: Construction. VKS is the largest contractor of the water supply and sewage corporation of the city of St. Petersburg

No. of employees: About 200

Annual sales: Approx. 23 billion yen equivalent

Total assets: Approx. 9 billion yen equivalent

7. References



VKS employees work on an Eslon® RCP® pipes of ϕ 1000mm



The plant site awaiting construction

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