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“JIKKO-2007,” The New Medium-Term Management Plan

Asahi Glass Co., Ltd.

Asahi Glass Co., Ltd. (Head Office: Tokyo; President & CEO: Masahiro Kadomatsu) aims to realize the Group vision of ***“Look Beyond”*** under the management policy **“JIKKO”**—*Execution for Excellence*, which was introduced in 2004. The Group is executing its new growth strategy, which is formulated based on favorable results of “Shrink to Grow” initiatives launched in 1998.

In the “Shrink to Grow” initiatives, Asahi Glass carried out various measures by implementing a series of medium-term management plans, “StoG2001,” “StoG2003” and “StoG2005,” for every three-year period. This time, the Company has developed “JIKKO-2007,” a new medium-term management plan for the three years of FY2005 through FY2007.

1. Results of “StoG2005”

Under the medium-term management plan “StoG2005” (from FY2003 to FY2005), the Electronics and Display Operations expanded substantially helped by the growth mainly in TFT glass substrates. Both the Glass and Chemicals operations also saw earnings power improve thanks to aggressive restructuring.

As a result, the initial target of achieving 10% in ROE, which was set out in “StoG2005,” is expected to be achieved in FY2004, a year ahead of schedule.

	“StoG2005” outlook	FY2004 estimate
Sales	1,450 billion yen	1,470 billion yen
Operating profit	130 billion yen	135 billion yen
ROE	10%	11%
Interest-bearing debt	560 billion yen	530 billion yen

2. Summary of “JIKKO-2007,” the New Medium-Term Management Plan

In “JIKKO-2007,” the new medium-term management plan, the Group will improve profitability and further grow the existing businesses, by aggressively investing into the flat panel display (FPD) business, particularly in TFT glass substrates, by expanding flat glass business in fast growing markets and by improving the profitability of North American operations. The Group will also commence the full-scale business expansion in the Electronics and Energy (E&E) materials operations, a next-generation growth business.

In addition to these major initiatives, to achieve sustained gains in shareholder value, the Group aims to rapidly achieve an operating margin of more than 10% and continues to maintain profitability, while improving asset efficiency.

(1) Financial outlook for FY2007

The following are financial outlook for FY2007, when the Group aims to achieve and maintain an operating margin of 10% or more.

	FY2004 estimate	FY2007 outlook	Change from FY2004
Sales	1,470 billion yen	1,750 billion yen	+280 billion yen
Operating profit	135 billion yen	180 billion yen	+45 billion yen
Operating margin	9.2%	More than 10%	-
Debt-equity ratio	0.64	0.4 - 0.5	-

The following are sales outlook for FY2007 by business segment.

	FY2004 estimate	FY2007 outlook	Change from FY2004
Glass	735 billion yen	800 billion yen	+65 billion yen
Electronics and Display	440 billion yen	600 billion yen	+160 billion yen
Chemicals	280 billion yen	320 billion yen	+40 billion yen
Others	75 billion yen	80 billion yen	+5 billion yen
Elimination and others	-60 billion yen	-50 billion yen	+10 billion yen
Total	1,470 billion yen	1,750 billion yen	+280 billion yen

The major variance factors of operating income (45 billion yen) are as follows:

FY2004 estimate		135 billion yen
Factor	Market slump and others	-45 billion yen
	Cost increase and others	-10 billion yen
	Rationalization of operations	+50 billion yen
	Business growth	+50 billion yen
FY2007 outlook		180 billion yen

(2) Cash flows (From FY2005 to FY2007: Total for three years)

The Company plans the following cash flows over three years:

Operating cash flows	730 billion yen
Cash flows from investing activities	550 billion yen
Free cash flows	180 billion yen

Breakdown of cash flows from investing activities (550 billion yen) by business segment is as follows:

Glass	200 billion yen
Electronics and Display	270 billion yen
Chemicals	80 billion yen

The Company plans to use free cash flows mainly for returns to shareholders, including dividend payments and stock repurchase, repayment of interest-bearing debts and M&A activities.

3. Major Initiatives of “JIKKO-2007” by Business

(1) Display Operations

As for displays (excluding small- and mid-sized displays), demand for CRTs is expected to decline gradually in the TV market, while that for FPDs such as TFT LCDs and PDPs is likely to increase significantly. In the PC monitor market, the migration from CRTs to TFT LCDs will continue. Demand of TFT LCDs, in terms of glass dimensions, is projected to increase at an annual growth rate as high as 30%, with demand of 2007 expected to more than double that of 2004. The PDP market is expected to grow at an annualized growth rate of 40%, in terms of the number of panels.

Overall demand for small- and mid-sized displays will decline in 2005, but start to increase again in 2006, centering on organic light emitting diode (OLED) and low-temperature polysilicon LCD panels.

Under these circumstances, the Group will take the following major initiatives.

CRT glass

- Proceeding with measures to meet the strong demand for CRT glass used in TVs in emerging countries, centering on BRICs—Brazil, Russia, India and China.
- Promoting a global production optimization within the Group based on demand trends, which corresponds to a drive of CRT manufacturers that are shifting to China.
  - ✓ Stop a funnel production furnace at Takasago plant in Japan (by the end of 2005)
  - ✓ Establish a new funnel production furnace in China (at an affiliate of Hankuk Electric Glass Co., Ltd.), scheduled to come on stream in the fourth quarter of 2005.

FPD glass

[TFT LCD glass substrates]

- Continuing to enhance production capacities on a timely manner according to real demand (by investing 100 billion yen or more during the medium-term plan period).

[PDP glass substrates]

- Securing a stable supply utilizing two furnaces: one at Kansai plant and the other at Aichi plant.
- Leveraging the competitive edge as the frontrunner to maintain a high market share.

Small- and mid-sized displays

- Increasing capacities in response to growing demand for TFT LCDs.
- Responding to diversified applications of LCDs, including those for automobile rear-seat entertainment systems and for digital video cameras.
- Bringing new lines of displays such as OLED to market.

(2) Electronics and Energy (E&E) materials operations

To develop the Electronics and Energy (E&E) materials operations as the third mainstay under the vision, ***"Look Beyond,"*** the Group had narrowed down the number of themes for research and development as well as established the R&D system. In the new medium-term management plan, however, the E&E materials operations were positioned as the next mainstay following the FPD glass operations. Accordingly, the Group will further improve the relevant infrastructure and begin to expand the E&E materials operations on a full-scale basis.

The Group hopes to expand the sales of E&E materials operations from about 75 billion yen in 2004 to more than 100 billion yen in 2007 and over 200 billion yen in 2010.

Major initiatives for achieving these targets are as follows:

- Developing the specialty materials operations based on the Group's own technologies on glass and fluorine chemistry, and bringing about a greater synergy with the related businesses by best utilizing the electronic materials operations as a core.
- Focusing on the following four business fields:

	Business field	Major products
1	Semiconductor process components	Fused silica materials, SiC materials, CMP slurry
2	Optical components	Optical pickup elements, Micro-optical lens, Fluorinated optical fibers
3	Display components	Frit & paste, PDP filters, Components for projection-related products
4	Energy components	Membrane electrode assembly for fuel cells, Ultra capacitors

During the "JIKKO-2007" period, the Group will invest about 55.0 billion yen in the E&E-related operations (10% of the Group total), and appropriate approximately 35.0 billion yen for R&D activities (35% of the Group total).

(3) Flat glass operations

Demand for flat glass is expected to increase about 4% annually in Europe, due chiefly to high growth in Russia and Central Europe, and grow 7% or more annually in Asia, supported by strong demand in China, while remaining almost unchanged in North America.

For the whole flat glass operations, the Group will strive to further reduce costs using the Global Benchmarking exercise, and proactively tackle challenges posed by surging energy costs, by negotiating on the revision of prices and introducing the energy surcharge pricing system.

In developed markets, the Group will promote value-added products, including coated, double-glazed and laminated glass.

By region, the Group will proactively expand businesses in fast growing markets such as Russia and Asia, bringing on stream three new furnaces during the period of the medium-term management plan. In North America, the Group will revamp operations by introducing more value-added products, improving productivity and cutting costs.

Major initiatives in Russia and Asia are as follows:

Russia

- Reinforcing production capacity for construction, automobile glass and mirrors.
- A new furnace on the outskirts of Moscow due to come on stream in the first quarter of 2005.
- Increased equity stake of Bor Glassworks from 44% to 83% effective in December 2004

Asia

- Responding to growing demand for automotive glass in China with a new furnace on the outskirts of Shanghai (Suzhou), scheduled to come on stream in the second quarter of 2006.
- Increasing production capacity to proactively respond to the flat glass shortage in Asia.

(4) Automotive glass operations

The Group will aggressively expand businesses in emerging markets, centering on Central and Eastern Europe as well as Asia, where production of vehicles is expected to grow, as well as establish excellent technical and manufacturing facilities globally to increase sales of value-added products and improve product quality and productivity.

Major initiatives for each region are as follows:

Japan-Asia/Pacific

- Boosting production capacity for automotive glass in China (completed capacity increase in the third quarter of 2004).
- Introducing new technologies in high-growth Asian markets.
- Building new and scraping old in Japan to maintain and extend leadership.

Europe

- Constructing a plant in Hungary, due to high growth in Central Europe (with operations scheduled to start in early 2006).
- Continuing to bolster productivity and reorganizing operations where necessary.

North America

- Volume increasing as automakers downsize in-house glass production and market grows.
- Introduced state-of-the-art technology to meet customer requirements.

(5) Chemicals Operations

While the fluoro-chemicals market is projected to expand at an annual growth rate of 5%, the demand-supply situation of mainly water and oil repellents, fluorinated resin (ETFE) and ion-exchange membranes are expected to remain tight. Demand for chlor-alkali products, particularly vinyl chloride and caustic soda, is also predicted to be robust.

Under these circumstances, the Group will take the following major initiatives for the Chemicals Operations.

- In the fluorine and specialty chemicals business, the Group will expand sales of fluoropolymer films, PDP filters and water and oil repellents by capitalizing on the large market share, while continuing the structural reforms of fluorine operations in the U.S.
- As for the chlor-alkali business in Japan, the Group will hold the status quo under the present business situation with a strategy of consolidated marketing in Eastern Japan. In the urethane operations, the Group will migrate to highly functional products and reduce costs.
- In the overseas chlor-alkali operations, the Group will strive to generate cash by leveraging cost competitiveness amid the strong demand.
- The Group will focus on the E&E business field and foster growing business for 5-10 years ahead as new businesses.

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