

February 15, 2006

## **Progress on The Medium-Term Management Plan “*JIKKO-2007*”**

Asahi Glass Co., Ltd.

In January 2005 Asahi Glass Co., Ltd. (headquartered in Tokyo; President & CEO: Masahiro Kadomatsu) formulated its three-year medium-term management plan “*JIKKO-2007*,” which relates to the period from fiscal 2005 (ended December 2005) through fiscal 2007 (ending December 2007). With this plan, the Company is implementing its growth strategy to strive for the realization of the Group’s vision “*Look Beyond.*”

The Company has summarized as follows its various measures implemented in 2005, which is the first year of the “*JIKKO-2007*” plan, and the business strategies to be developed and issues to be addressed for fiscal years 2006 through 2007.

### **1. Overview of “*JIKKO-2007*”**

Under the medium-term management plan “*JIKKO-2007*,” the Company is making efforts to 1) actively invest in the FPD (Flat Panel Display) operations centering on the TFT glass business; 2) expand glass operations in emerging markets; and 3) improve the business earnings in North America, as well as making new improvements in the CRT glass business as a critical measure based on the performance of fiscal 2005. In addition, the Company is aiming for further growth in existing businesses and an improvement in its earning power. Further, the Company will fully launch Electronics and Energy operations as a growth business for the next generation.

In tandem with implementation of these critical measures, the Company will continuously enhance shareholder value by achieving an operating income margin of 10% or more, and maintaining that level while increasing the efficiency of assets.

#### **(1) Earnings outlook for the fiscal year through December 2007**

- The earnings outlook for the fiscal year through December 2007, a year where the Company has set a target of achieving an operating income margin of 10% or more and to maintain that level, is as follows. The Company has now reviewed and revised its forecasted net sales in light of a possible decline in sales as a result of withdrawal from some businesses, including the fiberglass business operated by Asahi Fiber Glass Co., Ltd. (Our original net sales estimate of 1,750 billion yen has been revised to 1,700 billion yen.)

It should be noted that forecasts for the operating income, operating income margin and D/E remain unchanged.

	Fiscal year through December 2005 (Actual)	Fiscal year through December 2007 (Forecast)	Increase/decrease compared with fiscal 2005
Net sales	1,526.7 billion yen	<b>1,700.0 billion yen</b>	+173.3 billion yen
Operating income	118.2 billion yen	<b>180.0 billion yen</b>	+61.8 billion yen
Operating income margin	7.7%	<b>10%</b>	-
D/E	0.56	<b>0.4 – 0.5</b>	-

- The difference of 61.8 billion yen in operating income is attributable to the following factors:

Fiscal year through December 2005 (Actual)		118.2 billion yen
<b>Factors</b>	<b>Sales volume</b>	<b>+70.0 billion yen</b>
	<b>Cost reductions</b>	<b>+70.0 billion yen</b>
	<b>Sales prices</b>	<b>-65.0 billion yen</b>
	<b>Raw materials and energy sources</b>	<b>-20.0 billion yen</b>
	<b>Others</b>	<b>+6.8 billion yen</b>
Fiscal year through December 2007 (Forecast)		180.0 billion yen

- The Company has implemented the following measures to achieve an operating income of 180 billion yen:

Sales volume (+70.0 billion yen)	<ul style="list-style-type: none"> <li>* An enhancement of FPD production capacity and an improvement of productivity, as well as an increase in sales volume in line with higher demand for the product.</li> <li>* A capacity enhancement of LCD back-light tubes, PDP frit paste, and synthetic quartz for semiconductor manufacturing equipment, and expected increase in sales volume due to strong demand for these products.</li> <li>* Expansion of architectural glass and automotive glass business in emerging markets, and sales promotions of value added products for the construction industry</li> <li>* <b>Strengthening of facilities for fluorinated resin products</b></li> </ul>
Cost reductions (+70.0 billion yen)	<ul style="list-style-type: none"> <li>* Cost reductions by compiling production sites, as a result of closure of CRT production facilities.</li> <li>* Further productivity improvement in FPDs.</li> <li>* Productivity improvement of architectural glass and automotive glass.</li> <li>* Reorganization of other businesses.</li> </ul>
Sales prices (-65.0 billion yen)	<ul style="list-style-type: none"> <li>* In the overall Electronics &amp; Display operations, sales prices are expected to fall as a result of growth in demand.</li> <li>* The Group will stem a decline in overall sales prices by raising the ratio of high value-added products of architectural glass, automotive glass and chemicals.</li> </ul>
Raw materials and energy sources (-20.0 billion yen)	<ul style="list-style-type: none"> <li>* The Group expects prices of raw materials and energy sources to remain high.</li> </ul>

**(2) Cash flows (from January 2005 through December 2007: 3-year accumulated)**

	Announced on January 13, 2005	Revised (Forecast)
Operating cash flow	730.0 billion yen	<b>700.0 billion yen</b>
Investment cash flow	550.0 billion yen	<b>550.0 billion yen</b>
Free cash flow	180.0 billion yen	<b>150.0 billion yen</b>

- The investment cash flow of 550 billion yen is broken down by operations as follows.

Glass	200.0 billion yen
Electronics & Display	300.0 billion yen
Chemicals	80.0 billion yen
Gain on sales of assets	-30.0 billion yen

## 2. Progress on the measures implemented under “JIKKO-2007” and the key issues

### (1) Display operations

#### TFT glass

<Status in 2005>

- In addition to an increase in production of liquid crystal panels (up 40% from the previous year), use of larger displays contributed to a growth in demand for glass substrates, increasing by about 60% up in surface area from a year earlier.
- Under such market conditions, the Group substantially increased its shipments of products through enhanced production capacity due to the start of operations of its new facilities, as well as improved productivity in its existing facilities.

<Outlook for FY 2006 and FY 2007>

- Demand for LCD panels is expected to grow at an annual rate of slightly less than 20% while that for glass substrates is also forecast to increase by 20% to 30% a year. Further growth in both businesses is even more upward tendency. Demand for 6G or larger glass substrates is predicted to steadily grow, especially because a number of customers continuously plan to newly install 6G, 7G and 8G panel lines.
- The Group stably supplied larger glass substrates in 2005 using the “float method and polishing facility for large glass substrates”, which was highly evaluated by customers. Given this, more and more customers will expect the Group to produce a stable supply of large glass substrates and request the supply of such substrates.

<Key issues to be dealt with through 2007>

- Responding to steady growth in demand for glass substrates and an increasing trend to use large glass substrates, the Group needs to raise productivity of furnaces and polishing facilities for such substrates, and needs to invest in furnaces and polishing facilities in anticipation of the growth of this market. The Group will thereby catch up with customers demand for the supply of large glass substrates.
- Specifically, the Group plans to implement the following capital investment by the end of FY2007 to increase production capacity from the current 22 million square meters per year to 37 million square meters per year.

Location	Production capacity and facilities
Takasago Plant	Furnace (5 million square meters per year), Polishing facilities
Taiwan	Furnace (5 million square meters per year), Polishing facilities
Undetermined	Furnace (5 million square meters per year)

- If demand for glass substrates is greater than expected, the Group will bring forward its production step-up plan by constructing an additional furnace (with a production capacity of 5 million square meters per year) by the end of FY2007, in response to customers' demand.

### **PDP glass**

- In 2005, demand for PDPs nearly doubled from a year ago and the demand is expected to steadily increase in and after 2006. Such demand is likely to further grow, so the Group is considering an expansion of the production facilities earlier than originally planned.
- Since customers are expected to ask the Group for help in lowering prices, enlarging the size of glass substrates and producing new product specifications, the Group will work hard to realize such requests while clarifying the goals for cost reductions as well as proactively trying to produce thinner glass substrates.

### **CRT glass**

- In 2005, the Group's earnings from the CRT business was drastically reduced due to 1) a rapid shift to TFT LCDs and PDPs, both for use in personal computers and for use in TV sets; 2) a rapid development of products into commodities; and 3) a decrease in production by CRT manufacturers.
- In such circumstances, the Group will implement the following measures.
  - \* Deliberate selection and concentration of production bases regardless of the supply-demand cycle.
  - \* Pursuit of more efficient and leaner organizations and functions.

## **(2) Flat glass operations**

- The Group is implementing the following measures with an aim to expanding profitable businesses by constructing float furnaces in emerging markets:
  - \* It started up a furnace (with a nominal capacity of about 600 tons per day) in Klin, Russia in March 2005.
  - \* It plans to start up a new furnace to manufacture automotive raw glass (with a nominal capacity of about 700 tons per day) in Suzhou, China in May 2006. This is to be capable of supporting automotive' high quality standards.
  - \* It will carefully study the startup of new furnaces in the Asian region that had been originally planned, while fully taking into account the balance of supply and demand.

### **(3) North American Region Operations (Measures to improve earnings)**

- The status of implementing measures to improve earnings in the North American region and the related issues are as follows:

#### **Business of architectural glass**

##### <Cost reductions>

- \* Benchmarking of float furnaces
- \* Automation of the cold-end processing in the facilities (implemented in one plant in 2005 and to be implemented in the remaining four plants in or after 2006)
- \* Closure of a fabricated glass base in Canada (implemented in 2005)
- \* Measure for improving yield & quality of float glass
- \* Reduction of various expenses

##### <Business expansion of value-added products>

- \* Coating glass: In order to expand sales of Low-E glass and to develop new coating products, production capacity through replacement of coating facilities will be enhanced.
- \* Increase in sales of other value-added products

#### **Automotive glass business**

- \* Upgrade manufacturing capabilities to improve cost competitiveness
- \* Realign glass assembly strategies

#### **Fluorine business**

- \* Stable production and quality were achieved through a large-scale replacement of facilities (implemented in 2005)

### **(4) Electronics & Energy Operations (Full-scale startup of the operations)**

- As for the Electronics & Energy Operations that the Group decided to foster as its third business core in the Group's vision "*Look Beyond*," in 2005 the Group 1) established the headquarters of the Electronics & Energy Operations; 2) made Asahi Techno Glass Corp. a wholly-owned subsidiary; and 3) entered the business of glass substrates for hard disks.
- The Group will allocate its management resources preferentially to the following businesses, positioning them as the present pillars of growth, while strengthening the groundworks until 2007, regarding it as a development period.
  - \* As to synthetic quartz for semiconductor manufacturing equipment (steppers), demand for synthetic quartz for ArF laser steppers is increasing sharply. To meet such a sharp increase in demand, the Group will differentiate itself from its competitors through the enhancement of production capacity and improvement of product quality.

- \* Regarding frit paste for PDPs, to respond to the rapidly expanding PDP market, the Group will boost production capacity and increase its competitive advantage with respect to environment-friendly, lead-free frit.
- \* Concerning LCD back-light tubes, the Group will step up production capacity to respond to a rapidly expanding LCD market and it aims to increase its market share.
- \* With respect to glass substrates for hard disks, the supply-demand situation is expected to remain tight and so the Group will start concentrated production in Thailand.

## **(5) Other issues**

### **Flat glass for construction**

- Response to price hikes of raw materials and energy sources
  - \* Cost reductions through benchmarking
  - \* Continuation of the energy surcharge pricing system mainly in Europe and the U.S.
- Expansion of value-added products

### **Automotive glass**

- Utilize China and Hungary footprints to match growth trends in emerging market
- Optimize glass assembly operations globally (reinforce us facilities and complete integration of European facilities)

### **Business of small- and medium-sized displays**

- The Group will allocate its management resources preferentially to the TFT sector, aiming to strengthen the sector's product supply capability, cost competitiveness, and technology development capabilities.

### **Chemicals**

- Improvement of production capacity for fluorinated resins in response to strong demand.
- Development of the business of fluoropolymer films, such as membrane structure and industrialization of agriculture, aimed at enhancing customer value.
- As for fluorinated oil and water repellents, the Group has launched eco-friendly products, into the market ahead of other companies.

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