

Ishin-05 – Reformation-05
Corporate Midrange Strategic Initiative

- 1. Basic Concepts**
- 2. Ishin 2000 Retrospective**
- 3. Ishin-05**
 - i) Selection and concentration**
 - ii) Creating customer value — the strategic path to 2010**
 - iii) Highly autonomous, self reliant business units**

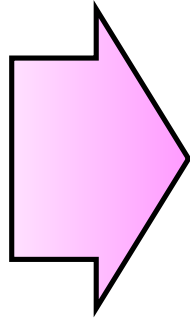
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October 10, 2002
Asahi Kasei Corporation

Ishin 2000

- Success & growth in international competition
- Selection and concentration
- Business unit independence and responsibility
- Lean management
- Rebuilding the management paradigm
- Innovative management systems

Incorporates and advances the basic concepts and objectives of Ishin 2000



- Holding company structure – emphasis on cash flow management
- Disposal of negative legacy holdings

Ishin-05

Selective diversification
 ⇒ Creation of a high-earnings enterprise group by strengthening individual businesses and transforming the overall group portfolio



- i) Selection and concentration
 - Transformation to a high-earnings business portfolio
- ii) Creating customer value
 - The strategic path to 2010
- iii) Highly autonomous, self-reliant business units
 - Regeneration of corporate structure

		Organic growth	Combining with External Resources	Exit & Rearrangement
Transformation to high-margin business structure	Chemicals	<ul style="list-style-type: none"> ■ Plant expansion Elastomers, Leona® □ Commercialization NaCN, Polycarbonatediol □ Plant expansion Xyron®, AN, SM, Cyclohexanol, MF, Hipore® 	<ul style="list-style-type: none"> □ Joint ventures Ammonia (Indonesia), Polystyrene (China), Polycarbonate (Taiwan), POM (China) ■ Joint ventures Polystyrene, Silicone □ Alliance Adipic acid ■ Acquisition of all shares Tong Suh (Korea), Sanyo Petrochemical □ M&As Compounding (US, Europe, Asia) ■ Alliance Water-treatment membranes 	<ul style="list-style-type: none"> ■ Sell-offs Tensho Electric Co.(plastic molding) ■ Plant closure Sanyo Monomer Co. (VCM)
	Fibers	<ul style="list-style-type: none"> □ China entry Roica® □ Commercialization Solo® PTT fiber □ Plant Expansion PP spunbond 	<ul style="list-style-type: none"> ■ Joint ventures Roica® (Taiwan) 	<ul style="list-style-type: none"> ■ Withdrawal Viscose rayon
	Housing	<ul style="list-style-type: none"> □ Commercialization Phenolic foam ■ New product launch Long-life homes ■ Commercialization Urban redevelopment business 	<ul style="list-style-type: none"> ■ Alliances/outsourcing ALC panels, construction piles 	<ul style="list-style-type: none"> □ Plant consolidation Construction materials
	Electronics, Health Care, Other	<ul style="list-style-type: none"> □ China entry DFR ■ Plant expansion Sepacell®, Planova®, Polysulfone hollow fiber, LSIs, Hall elements 	<ul style="list-style-type: none"> □ Alliances/outsourcing New drugs licensing – global clinical development ■ M&A Glass fabric □ .com, B2B e-commerce 	<ul style="list-style-type: none"> ■ Sell-offs Foods business, <i>Shochu</i> and low-alcohol beverages Li-ion batteries ■ Fabrication consolidation LSIs

□ = earnings potential not yet realized

	<u>FY 1998 results</u>	<u>FY 2001 targets</u>	<u>FY 2001 results</u>
Net sales (¥ billion)	1,172	1,250	1,195
Operating Profit (¥ billion)	51	100	46 (+¥3 bn excluding pension liabilities)
D/E ratio	0.78	0.70	0.64

[Consolidated-base]

Programs that will be started or completed in FY 2002

<p>(1) Accelerate transformation to a high-earnings operational structure</p>	Exit	<ul style="list-style-type: none"> - <i>Shochu</i> and low-alcohol beverages
	Revitalization	<ul style="list-style-type: none"> - Manufacturing consolidation (Construction materials) - Change of business model (Housing)
	Expansion	<ul style="list-style-type: none"> - Polysulfone dialyzers, blood filters - LSIs, electronic materials - Elastomers
<p>(2) Disposal of negative legacy holdings</p>	<ul style="list-style-type: none"> - Full disposal of pension-related liabilities (-¥120.2 billion) - Reversion of proxy execution of a portion of the national pension (+ ¥56.1 billion) - Restructuring of businesses 	
<p>(3) Transition to a high-speed management system</p>	<ul style="list-style-type: none"> - Transformation to a holding company and constituent corporations - Development of optimal structures suited to specific fields of business 	

FY 2005 targets**Selective Diversification**

Creation of a high-earnings enterprise group by strengthening individual businesses and transforming the overall group portfolio

Targets:	Net sales	¥1,300 billion
	Operating profit	¥110 billion
	ROE	10% or higher
	D/E ratio	0.7 or less

[Consolidated-base]



Capturing the benefits of Ishin
2000



Expanding high-earnings
businesses
- Including tie-ups, M&A

Growth of operating profit > ¥60 billion

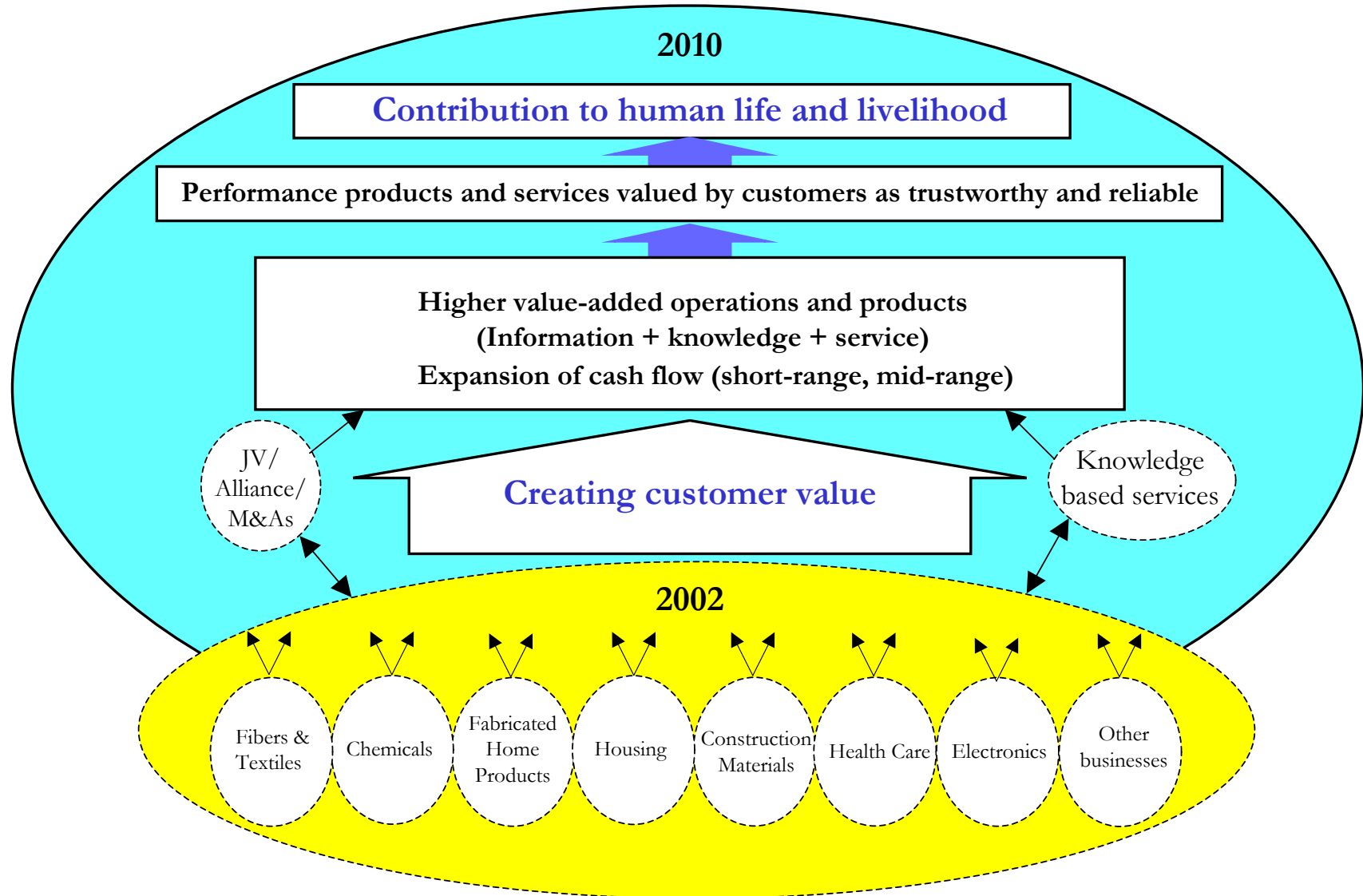
		Net sales	Operating profit
Investment expansion	a) Focus on chemical derivatives Elastomers, AN, SM, performance chemicals, other b) Expansion of electronics, pharma & medical, polymer applications LSI, Polysulfone dialyzers, Sepacell®, Compounds (overseas), other c) Overseas investments PS, Xyron®, Polycarbonate, Roica®, other	140	35 5 40
	Profit increase programs		
Business restructuring	Rayon, Liquors, Construction materials, other	-40	10
Disposal of negative legacy holdings	a) Divestments for next phase restructuring b) Disposal of pension liabilities	—	15
Total		100	60

Expanded EVA and stable positive cash flow

Strategy for developing high-earnings businesses (including tie-ups and M&A)	
Structural change	<ul style="list-style-type: none">• Freedom from the restrictions of extensive vertically-integrated operations (Chemicals)• Accelerated development of high-performance chemicals (Elastomers, High-performance coating materials, High-performance plastics, Roica®, Hipore®, other)• Advancement of housing-related business and urban redevelopment business (Housing)
Related expansion	<ul style="list-style-type: none">• New solutions in the field of wrap products (Home products)• Growth based on performance products, as well as blood filters and related product areas (Medical)• Growth of LSI and intelligent-sensor operations (LSIs, Electronics Devices)
Continued Strengthening	<ul style="list-style-type: none">• Expansion around existing products and market channels (Home products)• No.2 or higher position in dialyzers business (Medical)• Expansion of business in Japanese market, with strategic alliances (Pharmaceutical)• Expansion around core products in niche market (Electronics Materials)• Applications development based on CMOS mixed-signal technology (LSIs)

ii) Creating customer value

The strategic path to 2010



1. Fast-moving expansion of businesses

Establishment of No. 1 – No. 2 position in Markets

a) No. 1 – No. 2 Worldwide

Elastomers, Roica[®], Extracorporeal therapy system components, AN, Xyron[®], other

b) No. 1 in Niche Market

CMOS mixed-signal LSIs, Electronics materials/devices, Blood filters, Saran Wrap[®]

c) No. 1 in domestic market in urban-type housing

Hebel Haus[®]

2. Transformation to a high-value added enterprise group

- a) Evaluation of businesses based on cash flow and acceleration of selection and focus
- b) Investment priorities are businesses with a strong potential for enhancing cash flow
- c) Higher value-added operations through group-wide synergies

A focus on “New Materials” based on core chemical technologies

New raw materials

Design/Manufacturing Technology

“New Materials”

Example application areas

Electronics

Medical

Environment, Energy

Target many markets
Develop markets via integrated technologies & operations

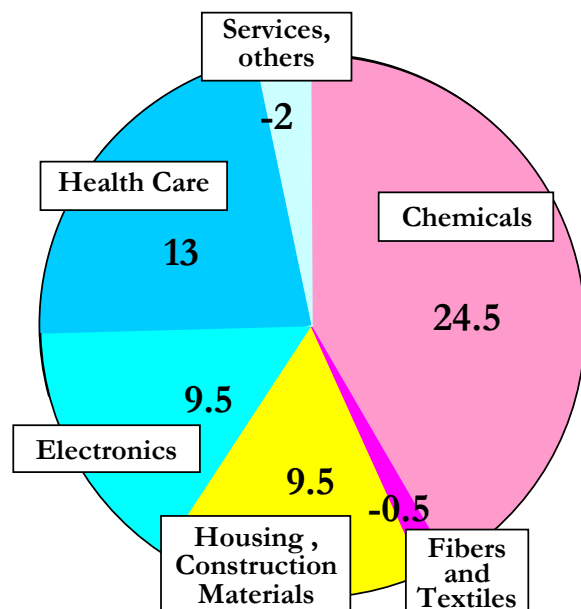
Shared Technologies

Materials/Polymer Design	Nanotechnology	Biotechnology	IT
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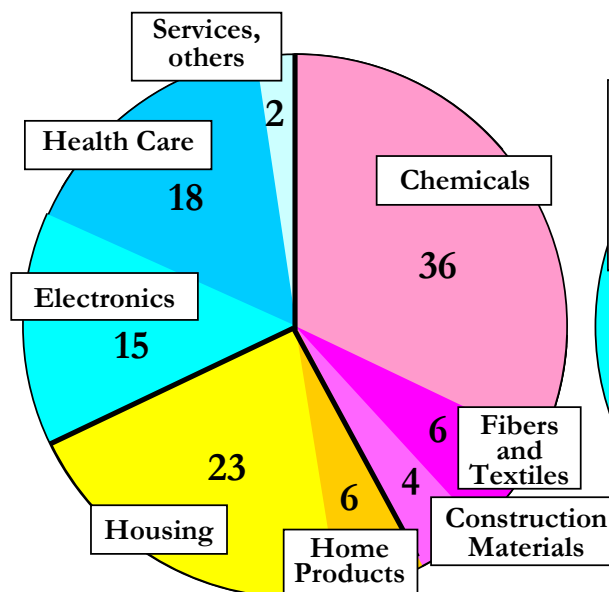
Operating profit by sector (consolidated)

(¥ billion)

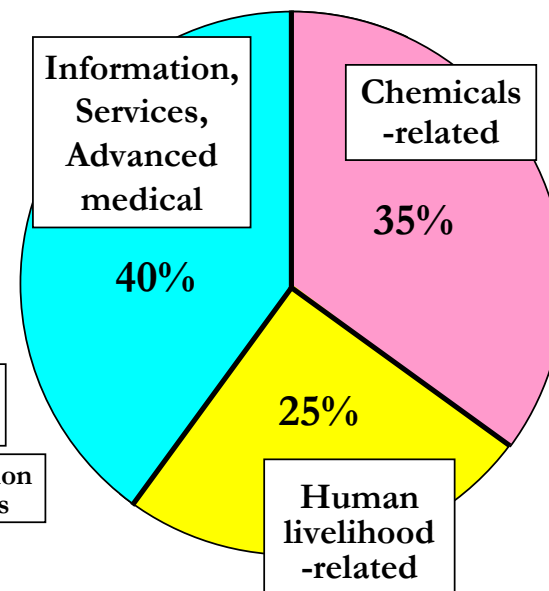
FY 2002 (revised forecast)



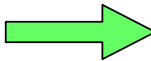
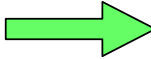
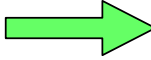

FY 2005 targets



FY 2010 targets



Net sales	1,200	1,300
Operating profit	54	110
Net income	- 46	50
ROE		10% or higher
D/E		0.7 or less

 140
 70
 10% or higher
 0.7 or less

Reasons and techniques for building a strong holding company & dynamic constituent corporations

- Transformation of industrial structure (lower growth of Japanese market & rapid growth of Chinese market)
- Intensified business competition (spread of oligopolistic markets worldwide)
- Demise of management based on latent profits

1. The holding company configuration is an inherently advantageous management configuration for the Asahi Kasei Group, which is primarily characterized by the range and depth of its diversified products and operations
2. Separation of the functions of execution and supervision
3. Remodeling the corporate cultural web and modes of behaviour to fit with the change in organizational structure

Transformation to a Holding Company Configuration

**Holding company + seven constituent corporations
+ independent businesses group consisting of subsidiaries**

- **Constituent corporations:**
Fibers & Textiles, Chemicals, Fabricated Home Products, Construction Materials, Housing, Electronics, Health Care
- **Responsibility for existing subsidiaries will, as a general rule, be taken over by the relevant constituent corporation**

Group operation

- **The holding company will be organized into strategic functional divisions and integrated group service divisions supporting the management of the constituent corporations**
- **The strategic function divisions will be formed in accordance with their respective functions**
- **The integrated group service divisions will – as opportunity and feasibility arise – be developed and operated as autonomous service companies.**

