

ISHIN2000 – Reformation2000
Mid-range Program of Corporate Reformation

Asahi Chemical Industry Co., Ltd.

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ISHIN2000 is a three-year program of rapid, pervasive business and corporate reformation at Asahi Chemical, directed toward increased assets efficiency and heightened corporate value, and the establishment of a clearer, simpler, more efficient corporate management structure and system. The program, begun in April 1999, will accelerate the business restructuring of the past several years, and build the corporate management structure and system necessary to win in the emerging global era of international competition. It is a clearly defined program of goals and means for implementation of a growth strategy, moving into the early 21st century through an environment of deep, far-reaching changes in business and corporate law.

I. Basic elements of ISHIN2000

The corporate policy and its structural and operational development under the ISHIN2000 program, as outlined in Charts 1 to 8, center on reformation of the corporate business portfolio and management systems, building upon established leadership and strength.

1. Selection and focus on growth-portfolio operations

1) Focus on competitive-superiority businesses

The business portfolio strategy conceived in 1998 has been refined and its implementation is being further advanced. It is focused on growth-oriented businesses, businesses with clear competitive superiority, and related operations. The strategy has become an integral part of the business unit planning, with implementation proceeding in accordance with the related business opportunities and conditions. It is primarily driven by prioritized resources investment in competitive-superiority operations and internally developed business growth, but it also includes the formation of alliances, joint ventures, and acquisitions where these bring mutual advantages in speed and synergy.

2) Assets efficiency

For operations currently lacking a position of competitive superiority, the primary options are development of operational profitability leading to establishment of a

competitive-superiority position, and transformation into a strong, stable earnings base. The secondary option is development as part of an alliance or joint venture, if the synergies are superior to independent development. If none of these can be established as a viable option, and development into a stable earnings base appears impracticable, then the third option is retrenchment, sell-off, or withdrawal, and reallocation of the management resources to areas of higher asset efficiency.

3) Corporate projects

Thirty-two strategic efforts in critical areas have been designated key corporate projects and are now in progress, with corresponding resources allocation priority, for pursuit of the ISHIN2000 objectives.

2. Reformation of corporate management systems

1) Independent-based, self-sustaining corporate divisions

Each corporate division is being assigned the responsibility and the authority to develop the capability to operate as “a corporation within a corporation”, to stand, compete, and grow as a self-sustaining unit, and to build and maintain a strong, stable operating base that will permit its ready establishment as a separate and independent business entity under appropriate conditions.

2) Lean, low-cost corporate management

Effective international competition demands the elimination of high-cost structures for administrative functions. The first target for reformation is corporate-level administration, and the development of a small, high-performance configuration is in progress. With the potential for transformation to a holding company configuration, it will focus on its basic, value-creating functions, take full advantage of market efficiencies by outsourcing its requirements for specialized functions and expertise, for high performance and low-cost operation.

3) Reformation of the corporate paradigm

The basic paradigm of corporate priorities, governance, accountability, management structure and systems, and capital structure is being reformulated and revised, for enhanced performance, response, and transition in a corporate environment of far-reaching changes.

4) Performance-based systems and standards of evaluation

Beginning with FY1999, each business unit will be evaluated on the basis of its EP (economic profit: calculated as after-tax operating profit minus cost of capital in terms of expected shareholder return and interest on debt) and cash flow, to obtain a clear, broad-based assessment of its own performance and its contribution to corporate performance. For board members and corporate executives, the current

system of remunerations will be replaced by a system based on performance and results, with bonuses linked to the performance of their business units in the form of allotments from gains in performance.

II. Key quantitative targets

1. The implementation of this corporate reformation under the ISHIN2000 program will be solidly based, company-wide, and rapid. Key quantitative targets, shown here and also in Chart 9, have been established to measure the progress and ultimate success of this effort. The amounts are given here in billions of yen.

	FY 1998 (est.)	FY 2001 target	ca. FY2005 follow-on
Consolidated sales	1,200	1,200 +	1,500 +
Competitive-superiority units	670	900 +	1,200 +
Consolidated profit	19	50	75
Business unit ROA	2.6%	5.5%	6.8%
Consolidated ROA	1.6%	4.0% min.	5.0% min.

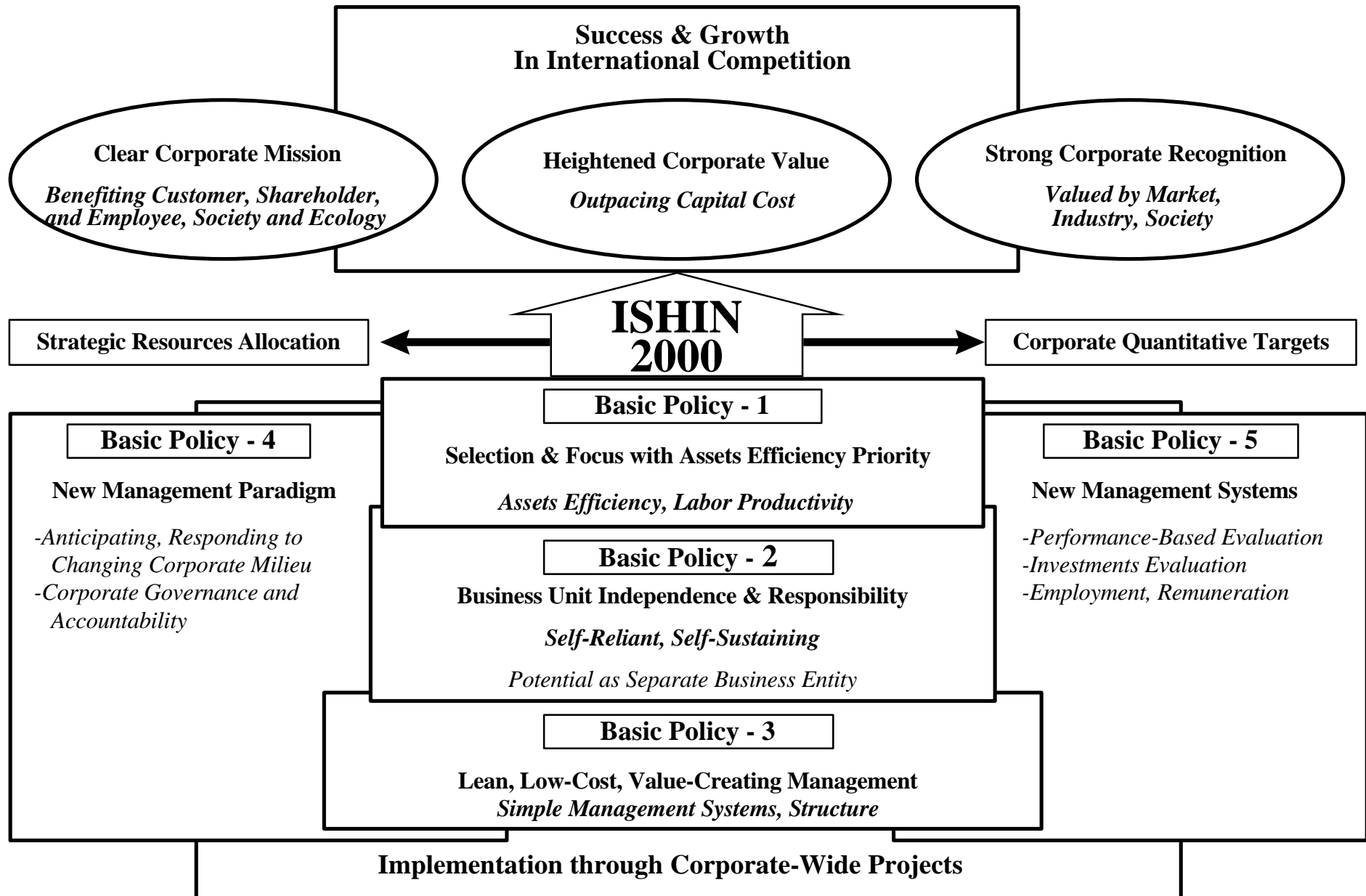
2. The total capital investment for the three-year ISHIN2000 program is set at more than ¥400 billion, including at least ¥200 billion for strategic investment and at least ¥120 billion for structural reformation.

Current Portfolio of Major Competitive-Superiority Businesses

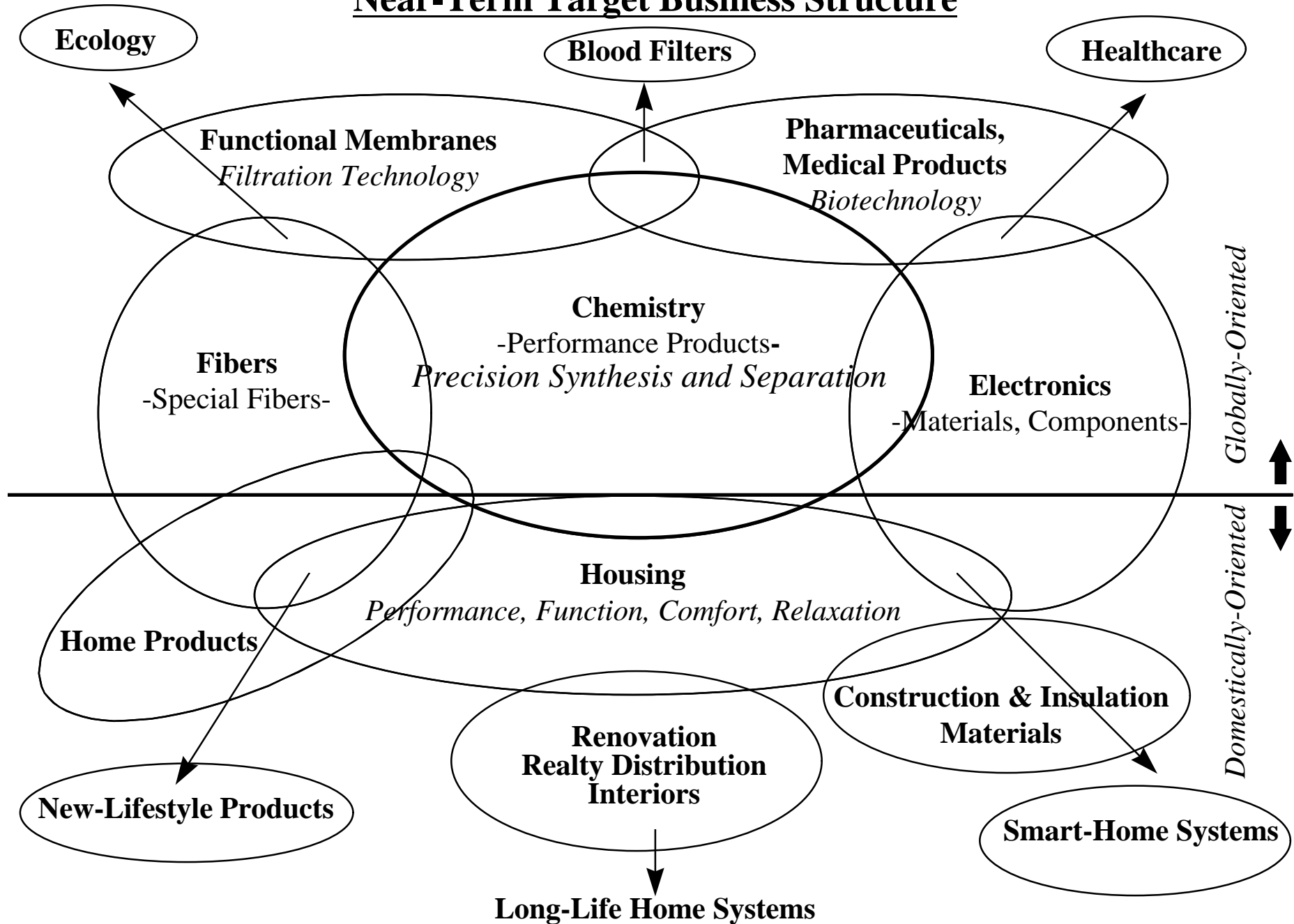
Chart 1

Technology Axis	Market Axis	Market Platforms								
		Basic Materials	Industrial			Electronics Related		Health Care		Ecology
			Auto-motive	Housing & Construction	Consum-ables	Electric & Electronic	Information & Communication	Pharmaceuticals & Nutrition	Medical systems	
Technology Platforms Catalyst & Process <ul style="list-style-type: none">High efficiency catalystsProcesses Innovation Polymer Design <ul style="list-style-type: none">High performance polymersNew molecular structures Organic Chemical Synthesis <ul style="list-style-type: none">Fine chemicals Inorganic Materials <ul style="list-style-type: none">High performance inorganic materials Electrochemistry <ul style="list-style-type: none">Ion-exchange membranesElectrode materialsElectrolytes Fiber Technology <ul style="list-style-type: none">Functional fibersNonwovens Membrane Separation & Filtration <ul style="list-style-type: none">Hollow fibers Electronic Materials & Applications <ul style="list-style-type: none">Electronic materialsMicrofabricationThin filmsCircuit design Biotechnology <ul style="list-style-type: none">PharmaceuticalsMedical systems Processing, Systems, Software Solutions	Product Axis	Business Unit		Competitive Superiority Operations (major products)						
		Chemicals Businesses	Basic chemicals Monomers		Monomers and intermediates (AN, adipic acid, cyclohexanol)					
			Polymers		Performance plastics (Leona [®] PA66, Xyron [®] m-PPE, Tenac [®] POM)					
			Specialty chemicals		Photopolymers, printing plate systems (APR [®] , AFP [®]) Specialty chemicals (paint/coating materials, functional additives) Fine intermediates (acetonitrile, HCN, new intermediates)					
			Fabricated products		Fabricated home products (Saran Wrap [®])					
		Fibers, textiles		Functional fibers (Bemberg [®] , Roica [®]) Nonwoven fabrics (Spunbond, Bemliese [®] , Lamous [®])						
		Advanced Businesses	Membranes & systems		Ion-exchange (electrolysis, electrodialysis) Filtration (ultrafiltration, microfiltration, separation filters) Ecology (water-treatment systems)					
			Electronics		Electronics materials (DFR, Pimel [®] , GF fabric, new materials) Electronic devices (Hall elements, Hall ICs) Battery components and materials					
			Pharmaceuticals Medical devices		Blood filters (hemodialyzers, Sepacell [®]) Virus removal filters (Planova [®])					
		Housing Construction materials		Housing (Hebel [®] Haus, housing-related products and services) Construction materials (Hebel [®] , Hebel Lite [®] , Hebel Power Board [®]) Insulation (Suny Lite [®] , new insulation materials)						

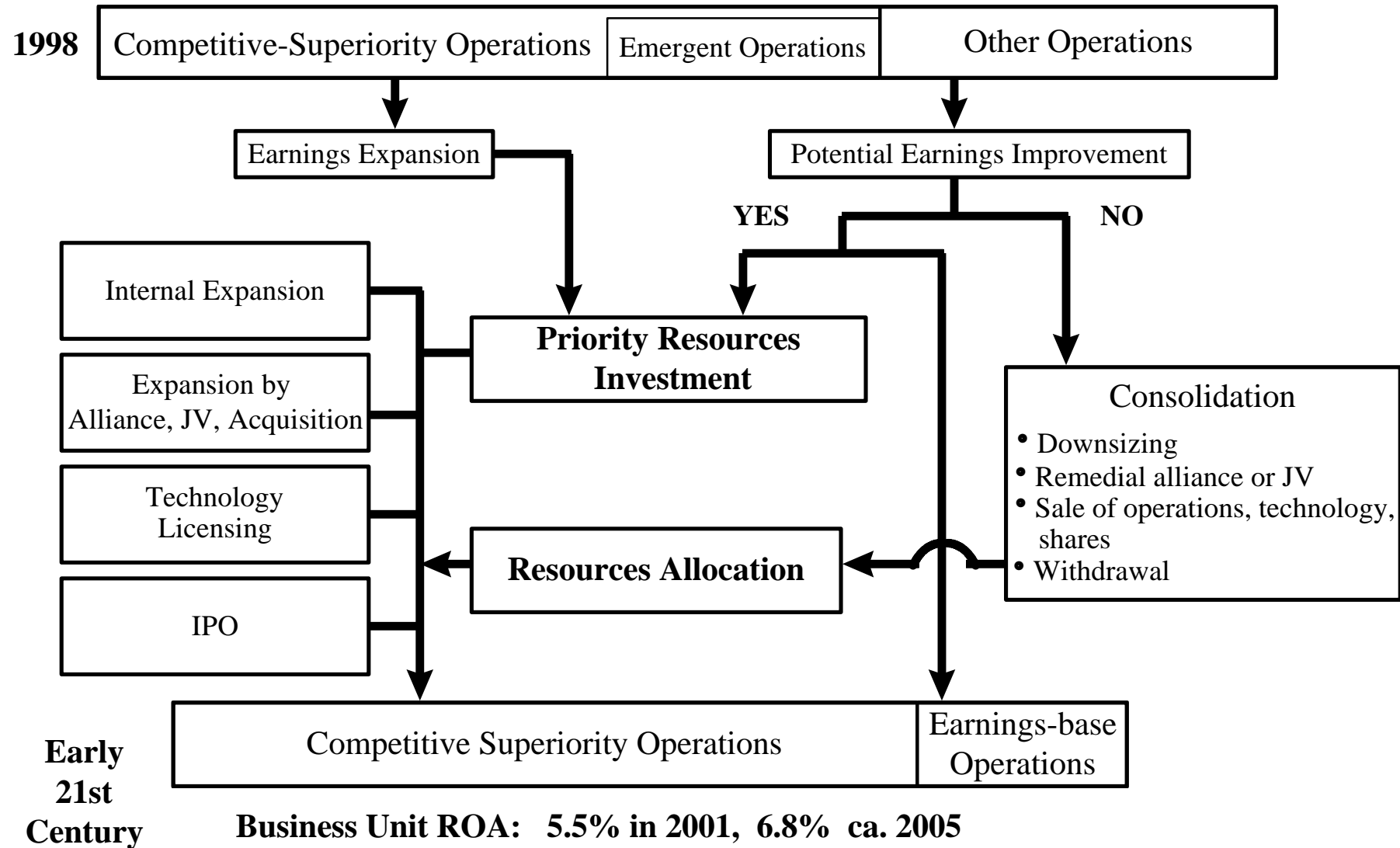
ISHIN2000 - Corporate Policy and Objectives



Near-Term Target Business Structure



Business Portfolio Restructuring



Restructuring of Business Portfolio, 1996~1999

Major Expansions

- 96/5 Spunbond[®]
- 97/6 Adipic acid
- 97/9 Aramid film
- 98/4 Lamous[®]
- 98/7 Hall sensors
- 98/9 Xyron[®]
- 98/10 DFR
- 98/12 Sepacell[®]
- 99/1 Planova[®]

JVs and Alliances

- 97/9 Nylon intermediates supply, DuPont
- 97/10 Ammonia JV, Indonesia
- 98/2 AN supply, Solutia
- 98/3 Roica[®] JV, Taiwan FPC
- 98/9 A&M Styrene JV, Mitsubishi Chemical

Aquisitions

- 96/3 Taiwan Glass Cloth, 50% share
- 98/4 Tong Suh Petrochemicals, 100% share
- 99/1 Thai Compounding business

Dispositions

- 97/7 Closure of Ireland operation
- 98/10 Sale of Tensho Electric shareholding
- 99/1 Sale of food products business

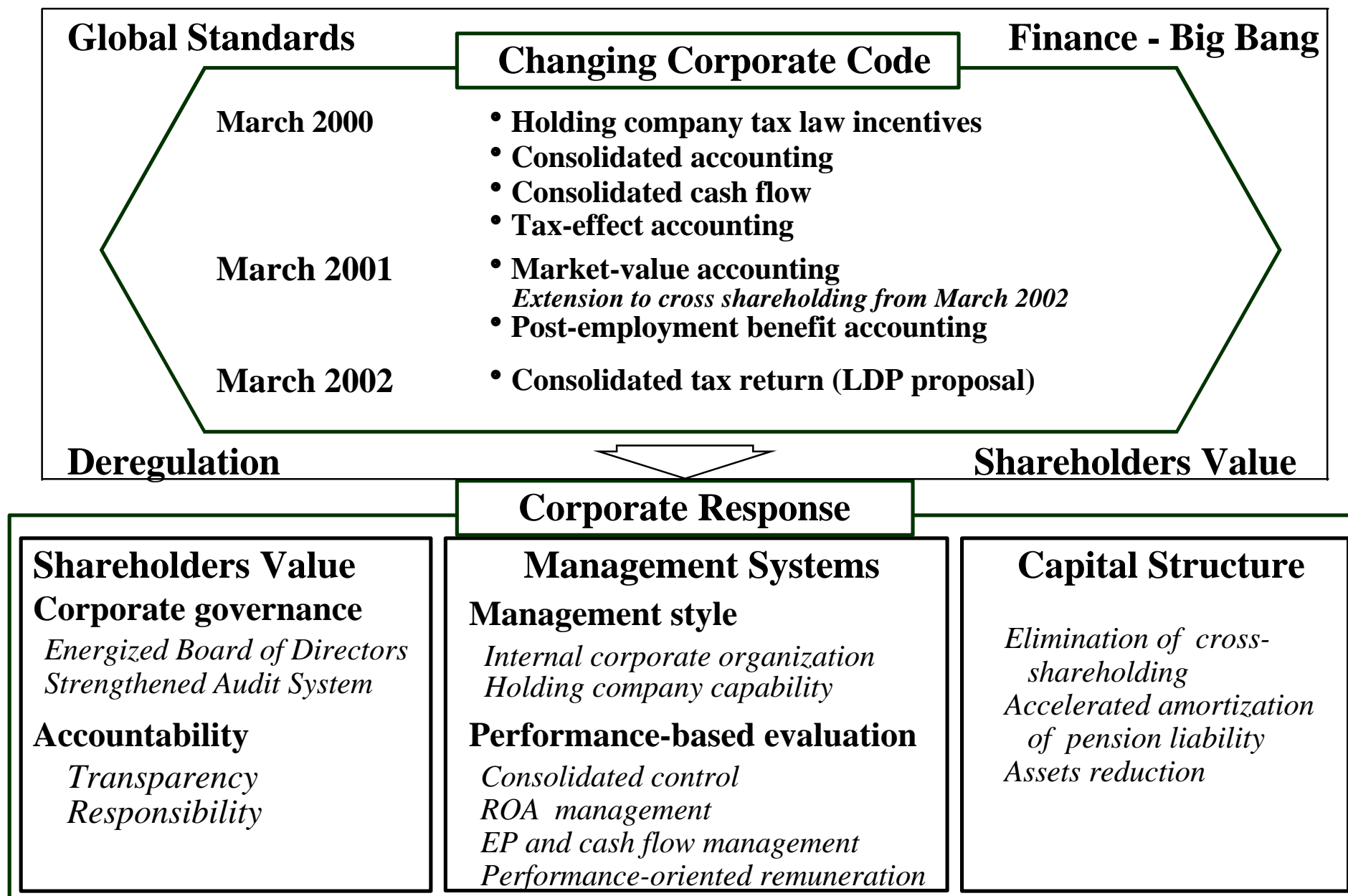
All dates shown indicate time of definitive decision

Major Competitive-Superiority Operations

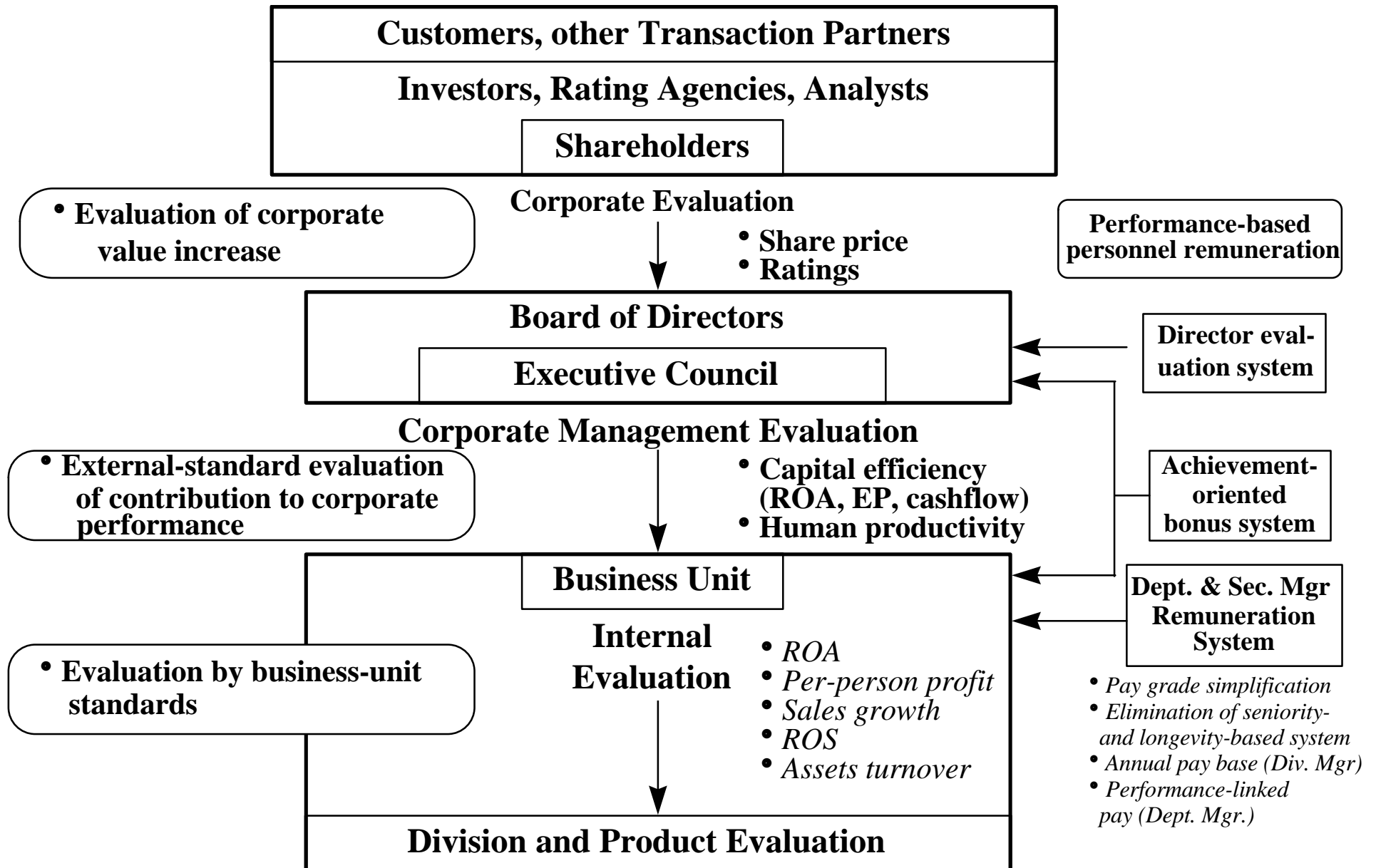
Category	Product, Trade Mark	Market Position	Technology and Cost Superiority	Brand Strength
Chemicals	AN	No. 2, world	++	
	Adipic acid	No. 1, Asia	++	
	mPPE, Xyron [®]	No. 2, world	+	
	MCC, Avicel [®]	No. 1, Japan	+	+
	Photosensitive materials	No. 2, world	++	+
	Cling wrap, Saran Wrap [®]	No. 1, Japan	+	+++
Fibers	Spandex, Roica [®]	No. 2, Japan	++	+
	Cupro, Bemberg [®]	No. 1, world	+	++
	Spunbonds	No. 2, Japan	+	
	Artificial suede, Lamous [®]	No. 3, world	++	+
Specialties	DFR	No. 1, Japan	++	
	Photosensitive PPI, Pimel [®]	No. 1, world	++	
	Fine-pore membranes, Hipore [®]	No. 1, world	+	
	Glass cloth	No. 1, world*	++	
	Hall elements	No. 1, world	++	
	Leukocyte filter, Sepacell [®]	No. 2, world	++	++
	Hemodialyzers	No. 1, Japan	+	+
Membrane electrolysis	No. 1, world	++		
Housing	ALC homes, Hebel Haus [®]	No. 1, Japan	+	+++
	ALC panels, Hebel [®]	No. 1, Japan	+	+

*As part of Schwebel Group

Changing Environment and Corporate Response



Performance-Based Evaluation



Consolidated-Base Sales and ROA Targets

