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Corporate Name: Asahi Glass Co., Ltd.
President & CEO: Masahiro Kadomatsu
(Code Number: 5201; TSE 1st section)
Contact: Shinichi Kawakami, General Manager,
Corporate Communications & Investor Relations
(Tel: +81-3-3218-5509)

Consolidated Financial Results for the Year Ended December 31, 2006

1. Consolidated financial results for the year ended December 31, 2006

(1) Consolidated operating results

	Current fiscal year (ended December 31, 2006)		Previous fiscal year (ended December 31, 2005)	
	millions of yen	%	millions of yen	%
Net sales (millions of yen)	1,620,540	6.1	1,526,660	3.5
Operating income (millions of yen)	136,611	15.6	118,194	(15.2)
Ordinary income (millions of yen)	134,498	13.1	118,884	(12.4)
Net income (millions of yen)	44,997	(25.0)	60,014	(23.3)
Net income per share -basic (yen)	38.37		51.36	
Net income per share -fully diluted (yen)	36.61		48.70	
Return on equity (%)	5.1		7.7	
Ratio of ordinary income to total assets (%)	6.4		6.0	
Ratio of ordinary income to net sales (%)	8.3		7.8	

(Note) With respect to net sales, operating income, ordinary income and net income, percentage figures show % change from the previous year's corresponding period.

(2) Consolidated financial position

	Current fiscal year (ended December 31, 2006)	Previous fiscal year (ended December 31, 2005)
Total assets (millions of yen)	2,149,546	2,081,926
Total net assets (millions of yen)	991,751	852,684
Equity ratio (%)	42.4	41.0
Equity per share (yen)	776.26	726.98

(3) Consolidated cash flows

	Current fiscal year (ended December 31, 2006)	Previous fiscal year (ended December 31, 2005)
Cash flows from operating activities (millions of yen)	173,997	185,505
Cash flows from investing activities (millions of yen)	(212,477)	(135,796)
Cash flows from financing activities (millions of yen)	35,880	(67,436)
Cash and cash equivalents at the end of the year (millions of yen)	52,627	54,006

(4) Scope of consolidation and equity method affiliates

Number of consolidated subsidiaries	239 companies
Number of unconsolidated subsidiaries to which equity method was applied	4 companies
Number of equity method affiliates	30 companies

Changes in scope of consolidation; Consolidated subsidiaries; (increase) 15 companies (decrease) 21 companies
Equity method affiliates; (increase) 3 companies (decrease) 1 company

2. Outlook for the next fiscal year ending December 31, 2007

	1st half	Full year
Net sales (millions of yen)	810,000	1,670,000
Ordinary income (millions of yen)	80,000	170,000
Net income (millions of yen)	44,000	90,000
Forecasted net income per share (full year) (yen)	-	76.73

(Note)

1. Equity in earnings of unconsolidated subsidiaries and affiliates;
   Year ended December 2006: 3,326 millions of yen Year ended December 2005: 1,801 millions of yen
2. Number of average yearly shares (consolidated basis);
   Year ended December 2006: 1,172,862,887 shares Year ended December 2005: 1,167,462,201 shares
3. Number of outstanding shares at end of year (consolidated basis);
   Year ended December 2006: 1,172,914,463 shares Year ended December 2005: 1,172,848,694 shares
4. All financial information has been prepared in accordance with accounting principles generally accepted in Japan.
5. Rounded off to millions of yen.
6. The above-mentioned outlook reflects management's judgment on the basis of currently available information, as such, contain risks and uncertainties. For matters concerning the above outlook, please see Page 11-16 of the attached materials.

Overview of the AGC Group

The AGC Group consists of Asahi Glass Company, Limited (hereinafter referred to as the "Company") and its 292 subsidiaries and 54 affiliates.

The main business description of the Company, its consolidated subsidiaries, and affiliates under the equity method is as set out below. The classification below is the same as that of the business segment information.

Segment	Main Business		Main companies
Glass Operations	Flat Glass Automotive Glass Other Glass	Japan	The Company, AGC AX, Asahi Fiber Glass, Asahi Techno Glass 28 other consolidated subsidiaries 3 companies under the equity method (34 companies in total)
		Overseas	(Asia) Asahimas Flat Glass (Indonesia), Thai-Asahi Glass Public (Thailand) (America) 20 group companies of AFG Industries (head office in the United States) (Europe) 93 group companies of Glaverbel S.A. (head office in Belgium) 16 other consolidated subsidiaries 16 companies under the equity method (147 companies in total)
Electronics and Display Operations	CRT (Cathode-Ray Tube) Glass FPD (Flat Panel Display) Glass Electronic Materials	Japan	The Company, Optrex, Asahi Glass Fine Techno 7 other consolidated subsidiaries Companies under the equity method; ELNA* 2 other companies under the equity method (12 companies in total)
		Overseas	(Asia) Asahi Glass Fine Techno Taiwan (Taiwan), Hanwook Techno Glass (Korea), Asahi Glass Fine Techno Korea (Korea), Asahi Techno Vision (Singapore), Hankuk Electric Glass (Korea), (America) Optrex America (U.S.) (Europe) Optrex Europe (Germany) 17 other consolidated subsidiaries 2 companies under the equity method (26 companies in total)
Chemicals Operations	Fluorochemicals Chlor-Alkalis Urethanes and Others Other Chemicals	Japan	The Company, Asahi Glass Urethane, Seimi Chemical, Keiyo Monomer, Asahi Glass Engineering, Ise Chemicals* 8 other consolidated companies 5 companies under the equity method (18 companies in total)
		Overseas	(Asia) Asahimas Chemical (Indonesia), Thasco Chemical (Thailand) (America) AGC Chemicals Americas (U.S.) (Europe) Asahi Glass Fluoropolymers UK (England) (Effective Jan. 1 2007, the company changed its name into AGC Chemicals Europe.) 7 other consolidated subsidiaries 3 companies under the equity method (14 companies in total)
Other Operations	Ceramics Service-ralated Business	Japan	Asahi Distribution & Delivery, A.G. Finance, Asahi Glass Machinery, Asahi Glass Ceramics 6 other consolidated subsidiaries 1 company under the equity method (11 companies in total)
		Overseas	(America) AGC America (U.S.), AGA Capital (U.S.) 8 other consolidated subsidiaries 1 company under the equity method (11 companies in total)

(Note)

1. The Company is not included in the total number of companies in the classification of operations.
2. Main subsidiaries and affiliates designated by a '*' are listed on securities markets in Japan.
   Ise Chemicals (Tokyo Stock Exchange 2nd Section)
   ELNA (Tokyo Stock Exchange 2nd Section)

Management Policy

1. Fundamental Policy of Management

Asahi Glass and its consolidated subsidiaries (hereinafter collectively referred to as the "AGC Group" or simply the "Group") aim to excel as a highly profitable and fast-growing enterprise that supplies materials and components globally, based on its core technologies in glass, fluorine chemistry and related fields. To achieve that aim, it is a fundamental management policy of the AGC Group to bolster its total corporate value by endeavoring to be the leader in each market in which it competes.

All members of the Group are expected to adopt and follow the four shared values of "Innovation & Operational Excellence," "Diversity," "Environment," and "Integrity," which serve as the basis for every judgment they make and every action they collectively and individually take.

2. Allocation and Distribution of Profits

The AGC Group pledges to maintain stable dividends, calculating dividends based on a consideration of different factors that include consolidated results and the dividend payout ratio, to ensure that the expectations of its shareholders will be met. The Group will also allocate retained earnings to R&D, capital investment as well as merger and acquisition activities, to strengthen its financial position and improve its corporate value.

3. Trading Unit of Common Shares

The AGC Group finds it useful to lower the trading unit of its shares to revitalize equity trading, and recognizes this as an important corporate management issue. It is the policy of the Group to address this matter on the basis of future stock market conditions as well as trends in trading unit size.

4. Targeted Corporate Index

The AGC Group aims to continuously increase its corporate value. The Group targets an operating margin of at least 10% during the term of ***"JIKKO-2007***," the current medium-term (three-year) management plan for fiscal 2005 through 2007.

5. Medium- and Long-Term Strategies

Under its Group Vision of ***"Look Beyond"*** announced in April 2002, the AGC Group decided to concentrate its management resources on three major business areas (materials and components for the Glazing, Display, and Electronics & Energy fields), aiming to excel as a highly profitable and fast growing global enterprise. The Group also defined its stance on building and bolstering its competitive advantage, by capitalizing on the world-class technologies it has developed in glass, chemicals and related fields over decades and its global workforce.

In April 2004, the Group announced a new management policy, ***"JIKKO" - Execution for Excellence***, which is designed to achieve the AGC Group Vision. The basic concept of ***"JIKKO***" is to emphasize "execution" in all business operations and to ensure that Plan-Do-Check-Act (PDCA) cycles are functioning properly. Under the ***"JIKKO"*** management policy, the Group will focus on improving customer satisfaction (CS) as well as employee satisfaction (ES) and pride in accomplishment. The Group will also focus on its corporate social responsibility (CSR), believing that the combination of these practices will create momentum that drives shareholder value continuously higher. All of these objectives are based on normal practices, and there is nothing that is especially new. Nonetheless, the Group believes that it is critical to execute these normal practices properly and promptly if it is to truly excel as a highly profitable and fast growing global enterprise that has the trust of society.

Since the beginning of 2005, the Group has been implementing the medium-term (three-year) management plan ***"JIKKO-2007,"*** under which it is taking specific steps in line with the ***"JIKKO"*** management policy.

JIKKO (noun): *A Japanese word that means "implementation," "execution," "performance" and "fulfillment."*

6. Issues Confronting the Group

One of the most important challenges presently facing the AGC Group is ensuring the execution of the ***"JIKKO-2007"*** medium-term management plan and achieving steady results.

Based on ***"JIKKO-2007,"*** the Group is focusing on further growth and improving the earnings of existing operations: Glass, Electronics and Display, Chemicals, and others. Meanwhile, the Group is becoming fully committed to developing next- generation growth business in Electronics & Energy.

In Glass operations, the Group will proactively manage operations in emerging markets such as Russia and China, while placing emphasis on the production and sale of value-added products in mature markets, including Western Europe, North America, and Japan. In addition, the Group will find the most efficient approach to manufacturing operations by benchmarking its manufacturing facilities around the world. With this approach, the entire Group will share the efficient manufacturing process.

In Electronics and Display operations, the AGC Group will continue to develop technologies and improve productivity for glass substrates of flat panel displays (FPD), an area of significant growth, while quickly expanding facilities. In the market for cathode ray tube (CRT) glass, the Group will continue to restructure a system to ensure production optimization in light of CRT glass demand, which is expected to decline in the medium- and long-term.

In Chemical operations, the Group will focus on fluorochemicals such as fluoropolymer films and fluorinated water and oil repellents, where it can leverage its competitive advantage.

In addition to measures for these existing operations, the Group is committed to fostering new businesses in the electronics & energy materials fields, regarding them as next-generation growth businesses. Among other areas, the Group will emphasize semiconductor process materials, display materials, photonics components, and energy materials, for which it can use the core technologies it has developed over the decades, such as glass and fluorine chemistry. The Group will establish facilities for prototype and volume production to promote these specialty materials operations.

Operating Results and Financial Conditions

1. Operating Results

(1) Overview of the Fiscal Year under Review (FY2006) (Unit: Billions of Yen) (Unit: Yen)

	Net Sales	Operating income	Ordinary income	Net income	Net income per share
FY 2006 (January 1 through December 31, 2006)	1,620.5	136.6	134.5	45.0	38.37
FY 2005 (January 1 through December 31, 2005)	1,526.7	118.2	118.9	60.0	51.36

During the fiscal year under review (January 1 through December 31, 2006), the Japanese economy continued to make a recovery, supported mainly by expansion in capital expenditure and exports, despite weaker consumer spending reflecting price hikes of various raw materials and fuels such as oil. Other Asian countries, particularly in China, maintained the momentum in their growth driven by exports, although some countries such as Indonesia could not enjoy growth due to sluggish domestic consumer spending affected by the higher oil prices and interest rate hike. In the U.S., although there remained fears for weaker economy such as a higher stagnant housing market, the economy continued to grow supported by consumer spending and capital expenditure. In Europe, the economies of Central-Eastern Europe continued to be strong, and Western Europe also showed a recovery backed by increasing domestic demand.

As for the target markets of the AGC Group, demand for glass substrates for flat panel displays (FPDs) increased steadily in association with the proliferation of thin-screen TVs, such as LCD TVs and plasma display panel TVs. On the other hand, the market for cathode ray tube (CRT) glass continued to be weak. Growth in demand for the Glass operations fell in some parts of Asia, but demand in Western Europe returned to its previous levels. The Chemicals operations remained sluggish during the fiscal year under review, reflecting a weak recovery of the market.

Under such market circumstances, the Group posted net sales of 1,620.5 billion yen for the fiscal year ended December 31, 2006, up 93.9 billion yen or 6.1% from the previous year, operating income of 136.6 billion yen, up 18.4 billion yen or 15.6%, and ordinary income of 134.5 billion yen, up 15.6 billion yen or 13.1%. Net income decreased 15.0 billion yen or 25.0% year-on-year to 45.0 billion yen.

The Group will disburse a year-end dividend of 8.00 yen per share for the year ended on December 31 2006, which will result in an annual dividend of 16.00 yen per share due to the interim dividend of 8.00 yen paid for the first half of fiscal 2006; this 8.00 yen per share is higher than the 7.50 yen originally planned.

(2) Analysis of operating results for FY2006

For the fiscal year under review, consolidated net sales increased 93.9 billion yen or 6.1% to 1,620.5 billion yen from previous year's 1,526.7. Cost of sales rose 65.5 billion yen or 5.7% to 1,217.7 billion yen. The Group adjusted sales prices and reduced costs in response to the price hikes of raw materials and fuels. Meanwhile, the cost-to-sales ratio stood at 75.1%, a year-on-year recovery of 0.4 percentage point. Consequently, the operating income was 136.6 billion yen, up 18.4 billion yen or 15.6% year-on-year, and the operating income margin increased 0.7 percentage point, to 8.4%. The overview of net sales and operating income is described in the following section.

In addition to increase in operating income, equity in earnings of unconsolidated subsidiaries and affiliate also increased to 3.3 billion yen, compared with 1.8 billion for the previous year. But as interest expenses also increased, the ordinary profit for the year under review was 134.5 billion yen, an increase of 15.6 billion yen or 13.1% from the previous year. The ordinary income margin rose 0.5 percentage point from the fiscal year 2005 to 8.3% .

Net income was 45.0 billion yen, down 15.0 billion yen or 25.0%, despite an increase in ordinary income on a year-to-year basis, mainly because of a impairment loss on goodwill of flat glass business in North America.

Net income per share for the fiscal 2006 was 38.37 yen.

(3) Overview by segment

- Performance by business segment (Unit: Billions of Yen)

	Net sales		Operating income	
	FY2006	FY2005	FY2006	FY2005
Glass	815.3	758.9	46.5	38.0
Electronics and Display	476.6	443.8	79.2	60.9
Chemicals	307.6	300.4	7.8	16.3
Other	84.1	80.3	3.3	3.2
Corporate or elimination	(63.1)	(56.7)	(0.2)	(0.1)
Total	1,620.5	1,526.7	136.6	118.2

- Performance by geographic segment (Unit: Billions of Yen)

	Net sales		Operating income	
	FY2006	FY2005	FY2006	FY2005
Japan	913.2	856.2	89.7	68.8
Asia	436.3	390.7	24.6	37.3
The Americas	205.4	203.9	(6.2)	(7.0)
Europe	365.9	318.7	35.4	22.2
Corporate or elimination	(300.3)	(242.9)	(6.9)	(3.2)
Total	1,620.5	1,526.7	136.6	118.2

- Glass operations

The Glass operations comprise flat glass and automotive glass, which are both conducted globally, as well as the Japanese domestic business involving other glass categories including fiberglass and other applications.

Sales in the flat glass business, as a whole, increased compared with the previous year, thanks to the firm market in Europe. In addition, glass shipments grew at a solid pace in growing market such as Russia. Meanwhile, domestic demand declined in some parts of Asia, and suffered from higher prices of raw materials and fuels such as oil in every region of the world. In expectation of further growth of the construction and automobile industries in China, the Group started operations at a new flat glass production plant in Suzhou in the suburbs of Shanghai in May.

In the automotive glass business, earnings increased from a year earlier because of a steady growth in worldwide automotive production particularly by Japanese-affiliated automakers, although the businesses in some parts of Asia were adversely impacted by their sluggish economies.

Sales of other glass products such as fiberglass were favorable throughout the period under review although earnings were affected by higher costs of raw materials and fuels. Asahi Fiber Glass Co., Ltd. withdrew from the composites business in March 2006.

As a result, net sales at the Glass operations for the year under review were 815.3 billion yen, an increase of 56.4 billion yen or 7.4% from the preceding year, and operating income was 46.5 billion yen, up 8.5 billion yen or 22.4%.

- Electronics and Display operations

The Electronics and Display operations consist of the display business, which handles glass substrates for flat panel displays (FPDs) and cathode-ray tube (CRT) glass, as well as the electronic materials business.

In the display business, sales increased from the previous year due to strong shipments of glass substrates for TFT LCDs and PDPs, supported by a rise in demand for panels for thin-screen televisions and the spread of larger sizes of such panels. As for glass substrates for TFT LCDs, shipments for the entire period increased from a year earlier, although the rise in shipments slowed later in the year because of a physical damage to a furnace and repairs. Meanwhile, sales at the CRT glass sector decreased from the previous year. In order to cope with reduced demand, the AGC Group strived to improve the supply-demand condition by cutting overseas production bases and withdrawing from production in Japan. Despite these efforts, however, demand recovery was not as strong as anticipated and selling prices continued to fall. Given this situation, the Group further reduced its production capacity of CRT glass by the end of September in the year under review.

In the electronics materials business, demand for LCD back-light tubes in display materials which is used as projection lens materials and photomask substrates for semiconductor manufacturing equipment, continued to grow steadily. In the small- and medium-sized displays sector, sales of the products for automotive use showed a steady growth; however, products for mobile devices such as cellular phones suffered from lower selling prices. As a consequence, earnings from the sector remained sluggish.

In the Electronics and Display operations, a decline in the CRT glass business was offset by growth of the FPD glass substrate business and the electronic materials business. As a result, net sales of the operations for the year under review were 476.6 billion yen, up 32.8 billion yen or 7.4% from a year earlier, and operating income was 79.2 billion yen, up 18.3 billion yen or 30.1%.

- Chemicals operations

The Chemicals operations comprise the chlor-alkali & urethane business and the fluorochemicals & specialty chemicals business. The chlor-alkali & urethane business involves caustic soda, vinyl chloride monomers and other chlor-alkali chemicals in addition to the basic ingredients of urethane. The fluorochemicals & specialty chemicals business consists of fluorinated resins, fluorinated oil and water repellents, as well as other specialty chemicals including batteries materials and liquid crystal materials.

The chlor-alkali & urethane business continued to be sluggish. With regard to vinyl chloride-related products, prices of raw materials such as ethylene surged from the preceding year, but the higher costs could not be totally passed on to the products as a recovery in the market remained weak throughout the period.

In the fluorochemicals & specialty chemicals business, demand for fluorinated resins, fluoropolymer films and liquid crystal materials remained steady, but this was not strong enough to compensate for the worsened results of the chlor-alkali & urethane business.

As a result, net sales at the Chemicals operations posted 307.6 billion yen, up 7.2 billion yen or 2.4% from the previous year, and operating income decreased 8.5 billion yen or 51.9% year-on-year to 7.8 billion yen.

- Other operations

Other operations consist of the ceramics business as well as a variety of service-related businesses, including logistics and engineering services.

In the ceramics business, demand in the glass engineering sector remained steady mainly in Europe and Asia, while demand in the environmental energy sector continued to be steady in Japan.

As a result, net sales at the other operations were 84.1 billion yen, up 3.9 billion yen or 4.8% from the preceding year, and operating income increased 0.2 billion yen or 4.8% year-on-year to 3.3 billion yen.

2. Financial Conditions

(1) Overview of FY2006

(Unit: billions of yen)

	FY2006	FY2005	Change
Total assets	2,149.5	2,081.9	67.6
Total liabilities	1,157.8	1,129.9	27.9
Total net assets	991.8	852.7	139.1

- Total assets

Total assets as of the end of the fiscal 2006 were 2,149.5 billion yen, up 67.6 billion yen from the previous year. This is mainly attributable to the increase of property, plant and equipment, resulting from proactive capital investments in manufacturing and processing facilities for FPD glass substrates.

- Total liabilities

The total liabilities as of the end of the fiscal year under review recorded 1,157.8 billion yen, an increase of 27.9 billion yen from the fiscal 2005. This is due to an increase of interest-bearing debts, including commercial papers and long-term borrowings, as a result of the proactive capital investments.

- Total net assets

The total net assets of the Group as of the end of the fiscal year under review were 991.8 billion yen, an increase of 139.1 billion yen from the preceding year, mainly because the retained earnings increased with net income for the period, and the minority interests started to be included in the net assets in the period under review.

(2) Cash flows

(Unit: billions of yen)

	FY2006	FY2005	Change
Cash flows from operating activities	174.0	185.5	(11.5)
Cash flows from investing activities	(212.5)	(135.8)	(76.7)
Cash flows from financing activities	35.9	(67.4)	103.3
Cash & cash equivalents as of end of period	52.6	54.0	(1.4)

- Cash flows from operating activities

Net cash provided by operating activities was 174.0 billion yen for the period under review, down 11.5 billion yen from the previous year. This decline is attributable chiefly to a decrease in net income before taxes and increased payments of corporate income taxes on a year-on-year basis.

- Cash flows from investing activities

Net cash used in investing activities increased 76.7 billion yen year-on-year, to 212.5 billion yen. During the period under review, the Group mainly made capital investments in manufacturing facilities for FPD glass substrate and electronic materials operations, as well as facilities for the glass operations in China and Russia.

As a result, free cash flows for the fiscal year under review, which is the sum of cash flows from operating activities and investing activities, declined 88.2 billion yen from the previous year to minus 38.5 billion yen.

- Cash flows from financing activities

Net cash provided by the financing activities for the fiscal year under review increased 103.3 billion yen from the preceding year to 35.9 billion yen, mainly due to issue of commercial papers.

As a result, the outstanding balance of cash and cash equivalents as of the end of the fiscal year under review decreased 1.4 billion yen in comparison with that at the end of the previous year, to 52.6 billion yen.

- Cash flow indices

	Period ended Dec. 2003	FY2004	FY2005	FY2006
Equity ratio (%)	34.5	37.1	41.0	42.4
Equity ratio based on market value (%)	57.2	69.7	85.8	78.0
Number of years for debt redemption	-	2.2	2.9	3.3
Interest coverage ratio	12.2	20.6	12.7	9.5

(Notes) Equity ratio (%): (Net assets – minority interest – share subscription rights) / total assets
Equity ratio based on market value (%): Total market capitalization / total assets
Number of years for debt redemption: Interest-bearing debts/operating cash flows
Interest coverage ratio: Operating cash flows/interest payment

- *All indices were computed using consolidated financial figures.*
- *Total market capitalization was computed based on the closing stock price at period-end multiplied by number of outstanding shares at period-end (after deducting treasury stock).*
- *Operating cash flows represent cash flows from operating activities on the consolidated statements of cash flows.*
- *Interest-bearing debts represent all debts on the consolidated balance sheets for which interest is paid. In addition, interest payment represents amount of interest paid on the consolidated statements of cash flows.*
- *Since the Group's fiscal period ended December 2003 was a nine-month transitional accounting period due to a change in fiscal year, the number of years for debt redemption is not presented herein.*

3. Outlook for FY2007

(1) Operating outlook for FY2007

(Unit: Billions of Yen)

	Net Sales	Operating income	Ordinary income	Net income
FY 2007 (January 1 through December 31, 2007)	1,670.0	180.0	170.0	90.0
FY 2006 (January 1 through December 31, 2006)	1,620.5	136.6	134.5	45.0
Change (%)	3.1%	31.8%	26.4%	100.0%

The global economy for 2007 is expected to expand continuously at a moderate pace on the whole, despite several uncertain factors such as oil prices and the impact of higher interest rate on these economies.

In Japan, the trend of economic recovery may weaken, influenced by such uncertain factors as the future trend of the economies overseas as well as a slow growth of private demands including corporate capital expenditure and consumer spending. The economies of ASEAN countries will likely grow stably driven by an increase in external demand and infrastructure-related investments. In China, the economic growth is likely to maintain its trend led by strong capital investment, exports and individual investment, though it has slightly slowed down from 2006. Meanwhile, the U.S. economy is projected to remain firm in general, despite such negative factors as inflationary pressures and higher interest rates. In Western Europe, exports are expected to slow slightly, while in Central-Eastern Europe (particularly Russia), high economic growth is likely to continue in 2006.

Under such circumstances, the flat glass business of the Glass operations will likely be affected by uncertainties about the prices of oil and other energy sources and the future movement of the market. However, the market of glass for construction is forecast to expand in fast growing regions, where the economies are growing at high rates, and demand for high value-added products, including raw glass for automotive use and for industrial use, is expected to increase. In the automotive glass business, global auto production is predicted to rise continuously, and it is expected that demand for automotive glass will increase particularly in the Asian region including China and Central-Eastern Europe.

The FPD glass business of the Electronics and Display operations is likely to remain strong, because of a possible rise in demand for FPD glass substrates caused by a further acceleration of thin and large displays. Smooth production at existing facilities and launch of operations at new facilities are also expected to contribute to supporting the FPD glass business. As for the CRT glass business, shipments will likely decrease sharply owing to a reduction in production capacity.

In the electric materials business, the market environment of products for small- and medium-sized displays, which are used in cellular phones and other mobile products, is expected to remain challenging. On the other hand, demand is likely to grow for synthetic quartz, a semiconductor process material, and LCD back-light tubes, a display material, both of which shipped well in 2006. Business of optical components such as optical pickup elements are also likely to increase. Accordingly, the whole electric materials business is forecasted to remain strong.

As for the chlor-alkali & urethane business of the Chemicals operations, demand is unlikely to change drastically, but the Group will continue to closely monitor the movement of raw materials and fuel prices and the market trends. In the fluorochemicals & specialty chemicals business, products such as fluorinated resins, fluoropolymer films, eco-friendly water- and oil-repellent agents and fluorinated paints are expected to continue to be brisk.

In Other operations, sales at the ceramics business are expected to remain strong.

In light of the foregoing business prospect, the Group projects its net sales for fiscal 2007 to increase 49.5 billion yen or 3.1%, year-on-year, to 1,670.0 billion yen, operating income to rise 43.4 billion yen or 31.8% to 180.0 billion yen, ordinary income to rise by 35.5 billion yen or 26.4% to 170.0 billion yen, and net income to advance 45.0 billion yen or 100.0% to 90.0 billion yen. The Group assumes that the key foreign exchange rates throughout fiscal 2007 will average at 115 yen to the US dollar and 150 yen to euro.

(2) Outlook of financial conditions for FY2007

Of net cash provided by operating activities, income before income taxes for fiscal 2007 is projected to increase from fiscal 2006. Depreciation expenses are likely to increase to 135.0 billion yen, up 9.1 billion yen from the previous year.

It is estimated that capital investment of cash outflows from investing activities will fall to 240.0 billion yen, down 12.7 billion from the previous year, in line with the Group's strategy to enhance display materials business including glass substrates for FPDs, to expand the glass operations of flat glass for construction and automotive glass in fast-growing markets, and to promote the Electronics & Energy business.

As for cash flows from financing activities, the Group will raise fund and repay interest-bearing debts, in addition to dividends paid in line with the Group's dividend policy.

(3) Risks Associated with Operations

Set out below are the risks associated with the AGC Group's operations and other risks that may materially influence the decisions of investors to invest in the Group. However, the description does not include all possible risks relating to the Group and there may exist additional risks not stated below. Any such risks are also likely to influence investors' decisions.

Future matters contained in this statement are based on information available as of February 5, 2007, when the consolidated financial results for the fiscal year ended December 2006 were announced.

a. Economic status of markets in which the Group's products are sold

Demand for the AGC Group's products is impacted by trends in such industries as construction and building materials, automobile, electronics and display. The Group's products are supplied throughout the world, for example in the United States, Asia and Europe, as well as in Japan, and sales are therefore influenced by local economies. Although the Group is working hard to build an earnings structure that is not impacted by changes in the business environment, by improving productivity and reducing fixed and variable costs, its performance and financial state is susceptible to declining demand from the industries mentioned as well as overall economic downturns in the regions where its products are primarily sold.

b. High dependence on the Electronics and Display operations

In the year through December 2006, operating income of the Electronics and Display operations accounted for 58.0% of the AGC Group's total operating income, denoting a heavy reliance on this sector for revenue. Earnings from these operations tend to fluctuate substantially, and losses cannot always be offset by income from other operations. This has the potential to significantly impact the Group's performance and financial position.

c. Expansion of operations overseas

The AGC Group has substantial operations overseas, through exports of products and manufacturing abroad. The risks associated with operating abroad include deteriorating political and economic situations, the imposition of regulations on imports and foreign investment, unexpected changes in laws, the worsening of public security, and the occurrence of terrorist attacks and war. These events may hinder the Group's operations overseas and have serious effects on its performance and financial position.

d. Competitive edge, and development and commercialization of new technologies and products

In every field in which the AGC Group engages, there are competitors supplying products similar to those of the Group. Accordingly, to maintain its competitive edge, the Group is striving to identify the needs of customers, and to develop and commercialize new technologies and products. However, should the Group fail to appropriately respond to technical changes and customer needs or take too long to develop and commercialize new technologies and products, growth would be hampered and profitability would decline. This may significantly impact the Group's performance and financial position.

e. Procurement of production materials and resources

Because the AGC Group partially uses special materials, suppliers of which are limited, if supply tightens or is delayed, the Group's performance and financial positions may be greatly affected.

f. Government regulations

In the countries and regions where it operates, the AGC Group is subject to the approval and authorization of local governments with respect to investments, regulations on exports and imports, as well as laws governing commercial transactions, labor, patents, taxation, foreign exchanges, and other issues. Consequently, amendments to these regulations and laws may significantly influence the Group's performance and financial position.

g. Environmental regulations

The AGC Group engages primarily in glass and chemicals operations, which are characterized by a heavy environmental impact because they consume a great quantity of resources and energy. Recognizing this, the Group is making great efforts to reduce the environmental impact by improving facilities, establishing related management systems, and raising production efficiency by decreasing unit resource consumption and unit energy consumption. However, if environmental regulations become more stringent and the public calls for greater corporate responsibility in environmental protection, the Group's performance and financial position may be significantly impacted.

h. Product liability

The AGC Group is making every effort to ensure that products are of the highest quality, according to their individual characteristics. Despite these efforts, the possibility remains that unexpected quality problems may occur because of unanticipated factors develop, prompting a major recall. This could substantially influence the Group's performance and financial position.

i. Intellectual property rights

The AGC Group endeavors to acquire intellectual property rights that appear useful for its present business activities and future operations alike, while investigating the rights of other firms, in order to prevent intellectual property issues from arising. However, there is the possibility that the Group will enter into disputes with other firms over intellectual property or that other firms will infringe the Group's intellectual property rights. This has the potential to materially influence the Group's performance and financial position.

j. Litigation

There is always a risk that other firms, corporate groups, or individuals may take legal action against the AGC Group with respect to its operations at home and abroad. During the fiscal period under review, there was no legal action pending that had a significantly negative effect on the Group's operations. However, if a major lawsuit is filed against the Group, its performance and financial positions may be significantly impacted.

k. Effect of natural disasters and accidents

To minimize the adverse impact on business caused by the suspension of production, the AGC Group regularly conducts inspections of all facilities for maintenance purposes and to prevent potential damage from disaster. But there is no guarantee that the effects of disasters occurring at manufacturing facilities (including earthquakes, power outages, and other disruptions) can be completely eliminated or mitigated.

Given that some of the Group's products cannot be replaced by alternatives, should production cease at some facilities temporarily or for the long term because of a major earthquake or other incident, the Group's ability to manufacture such products is likely to sharply decline. Should this occur, the Group's performance and financial position may be greatly affected.

l. Exchange rate fluctuations

The AGC Group manufactures and sells products worldwide, and converts transaction accounts in local currencies, including sales, costs, and assets, into yen when preparing consolidated financial statements. Even if the values of these items remain unchanged in local currency terms, they may change when converted into yen depending on exchange rates. The yen's appreciation against other currencies (particularly the U.S. dollar and the euro, which account for a considerable percentage of the Group's sales) generally has a negative affect on the Group's earnings, while the depreciation of the yen exerts a favorable influence.

The AGC Group also manufactures products at its facilities worldwide, including Japan, and exports the products to a number of countries. The Group generally procures raw materials and sells products in the local currency of each country/region. Accordingly, fluctuations in exchange rates influence the prices of materials the Group procures and the pricing policy for its products, and this impacts the Group's performance, financial position and future earnings.

m. Retirement benefit obligations

The AGC Group calculates costs for employee retirement benefits and obligations based on an actuarial assumption of the returns on pension funds and a specific discount rate. If the actuarial assumption and results diverge substantially because of a deterioration in the market environment for pension fund management, future costs for retirement benefits will increase, and this may seriously impact the Group's performance and financial position.

n. Decline in asset values of fixed assets

If the asset values of the AGC Group's owned fixed assets were to decline because of a drop in market values or profitability, the Group's performance and financial position may be substantially impacted.

o. Other

Officials from the European Commission visited two AGC Group companies in Belgium, Glaverbel S.A. and AGC Automotive Europe S.A., on February 22 and 23, 2005, with authorization to inspect documents in connection with alleged infringements of competition rules. At this moment, however, it is not clear yet to what extent this matter will impact the operating performance and the financial position of the AGC Group.

Consolidated Balance Sheets

(Unit: millions of yen)

	FY2006 (December 31, 2006)	FY2005 (December 31, 2005)	Increase (Decrease)
Current Assets	722,824	688,432	34,392
Cash on hand and in banks	80,610	73,811	6,799
Trade notes and accounts receivable	295,078	309,432	(14,353)
Inventories	248,231	238,022	10,208
Deferred income taxes	16,351	13,342	3,009
Other current assets	89,647	60,390	29,257
Allowance for bad debts	(7,095)	(6,566)	(528)
Fixed Assets	1,426,489	1,393,259	33,229
Tangible Fixed Assets	1,008,116	922,630	85,486
Buildings and structures	252,343	245,710	6,632
Machinery and equipment	462,062	460,360	1,701
Tools and fixtures	21,649	20,929	720
Land	123,999	118,619	5,379
Construction in progress	148,061	77,010	71,051
Intangible Fixed Assets	57,573	100,026	(42,452)
Investments and Advances	360,798	370,602	(9,804)
Investment in securities	311,838	320,927	(9,089)
Long-term loans	7,550	8,404	(853)
Long-term prepaid expenses	6,258	10,117	(3,859)
Deferred income taxes	18,514	12,885	5,629
Other investments	20,322	21,716	(1,394)
Allowance for bad debts	(3,685)	(3,448)	(236)
Deferred Assets	232	234	(2)
Total Assets	2,149,546	2,081,926	67,619

Consolidated Balance Sheets (continued)

(Unit: millions of yen)

	FY2006 (December 31, 2006)	FY2005 (December 31, 2005)	Increase (Decrease)
Current Liabilities	618,041	587,145	30,896
Trade notes and accounts payable	180,129	206,350	(26,221)
Short-term bank loans	105,202	110,517	(5,314)
Commercial paper	57,907	32,036	25,870
Current maturities of bonds	49,034	9,589	39,445
Accounts payable, other	85,416	71,835	13,581
Accrued expenses	21,443	20,065	1,378
Income taxes payable	10,061	33,144	(23,083)
Deposits received	30,945	25,485	5,460
Accrued bonuses to employees	7,138	6,804	334
Accrued bonuses to directors	118	-	118
Reserve for scheduled repairs	2,041	1,679	362
Reserve for restructuring programs	6,919	6,521	397
Other current liabilities	61,683	63,116	(1,432)
Non-current Liabilities	539,753	542,777	(3,023)
Bonds issued	224,649	254,635	(29,986)
Long-term bank loans	138,086	122,154	15,931
Deferred income taxes	60,619	58,455	2,164
Accrued retirement benefits	68,557	64,447	4,109
Accrued retirement benefits for directors and corporate auditors	1,299	1,532	(233)
Reserve for rebuilding furnaces	18,835	17,809	1,026
Reserve for restructuring programs	2,155	2,060	95
Other non-current liabilities	25,550	21,681	3,869
Total Liabilities	1,157,795	1,129,922	27,872

Consolidated Balance Sheets (continued)

(Unit: millions of yen)

	FY2006 (December 31, 2006)	FY2005 (December 31, 2005)	Increase (Decrease)
Minority Interests in Consolidated Subsidiaries	-	99,319	-
Shareholders' Equity	-	852,684	-
Common stock	-	90,472	-
Additional paid-in capital	-	96,561	-
Retained earnings	-	556,424	-
Asset revaluation reserve	-	120	-
Unrealized gains on securities, net of tax	-	124,262	-
Foreign currency translation adjustments	-	(1,448)	-
Treasury stock	-	(13,709)	-
Total Liabilities and Shareholders' Equity	-	2,081,926	-
Shareholders' Equity	756,424	-	-
Common stock	90,480	-	-
Additional paid-in capital	96,569	-	-
Retained earnings	583,176	-	-
Treasury stock	(13,802)	-	-
Valuation and Translation Adjustments	154,062	-	-
Unrealized gains on securities, net of tax	123,312	-	-
Deferred gains or losses on hedges, net of tax	(1,038)	-	-
Asset revaluation reserve	63	-	-
Foreign currency translation adjustments	31,724	-	-
Share Subscription Rights	1	-	-
Minority Interests in Consolidated Subsidiaries	81,263	-	-
Total Net Assets	991,751	-	-
Total Liabilities and Net Assets	2,149,546	-	-

Consolidated Statements of Income

(Unit: millions of yen)

	FY2006 (Jan. through Dec. 2006)	FY2005 (Jan. through Dec. 2005)	Increase (Decrease)
Net Sales	1,620,540	1,526,660	93,879
Cost of Sales	1,217,654	1,152,164	65,489
Gross profit	402,885	374,496	28,389
Selling, general and administrative expenses	266,274	256,302	9,972
Operating Income	136,611	118,194	18,417
Other Income	24,906	20,890	4,016
Interest and dividend income	6,915	5,491	1,424
Equity in earnings of unconsolidated subsidiaries and affiliates	3,326	1,801	1,524
Others	14,664	13,597	1,067
Other Expenses	27,019	20,200	6,819
Interest expenses	16,704	12,379	4,325
Others	10,315	7,821	2,494
Ordinary Income	134,498	118,884	15,614
Extraordinary Gains	29,388	24,925	4,463
Gain on sale of properties	4,275	5,836	(1,560)
Gain on sale of investments in securities, unconsolidated subsidiaries and affiliates	15,357	14,181	1,175
Gain from the transfer of the substitutional portion of the Employees Pension Funds	-	2,221	(2,221)
Others	9,755	2,685	7,069
Extraordinary Losses	125,595	61,051	64,543
Loss on disposal of properties	4,857	3,753	1,104
Impairment loss on long-lived assets	45,557	31,556	14,000
Expenses for restructuring programs	57,532	15,683	41,849
Others	17,648	10,058	7,589
Income before income taxes and minority interest	38,291	82,758	(44,466)
Income Taxes	15,936	47,693	(31,757)
Deferred Income Taxes	(9,803)	(14,566)	4,763
Minority Interests in Earnings (Losses) of Consolidated Subsidiaries	(12,838)	(10,383)	(2,455)
Net Income	44,997	60,014	(15,016)

Consolidated Statements of Changes in Net Assets

FY2006 (Jan. through Dec. 2006) (Unit: millions of yen)

	Shareholders' Equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' Equity
Balance as of December 31, 2005	90,472	96,561	556,424	(13,709)	729,749
Changes during the current period					
Conversion of convertible bonds	7	7			15
Dividends declared			(18,179)		(18,179)
Bonuses to directors and corporate auditors			(97)		(97)
Net income			44,997		44,997
Increase of treasury stock				(466)	(466)
Disposal of treasury stock			(27)	373	346
Asset revaluation reserve			57		57
Net changes other than shareholders' equity					
Total changes during the current period	7	7	26,751	(92)	26,674
Balance as of December 31, 2006	90,480	96,569	583,176	(13,802)	756,424

	Valuation and translation adjustments				
	Unrealized gains on securities, net of tax	Deferred gains or losses on hedges, net of tax	Asset revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments
Balance as of December 31, 2005	124,262	-	120	(1,448)	122,934
Changes during the current period					
Conversion of convertible bonds					
Dividends declared					
Bonuses to directors and corporate auditors					
Net income					
Increase of treasury stock					
Disposal of treasury stock					
Asset revaluation reserve					
Net changes other than shareholders' equity	(949)	(1,038)	(57)	33,173	31,128
Total changes during the current period	(949)	(1,038)	(57)	33,173	31,128
Balance as of December 31, 2006	123,312	(1,038)	63	31,724	154,062

	Share Subscription Rights	Minority Interests in Consolidated Subsidiaries	Total Net Assets
Balance as of December 31, 2005	-	99,319	952,004
Changes during the current period			
Conversion of convertible bonds			15
Dividends declared			(18,179)
Bonuses to directors and corporate auditors			(97)
Net income			44,997
Increase of treasury stock			(466)
Disposal of treasury stock			346
Asset revaluation reserve			57
Net changes other than shareholders' equity	1	(18,056)	13,072
Total changes during the current period	1	(18,056)	39,747
Balance as of December 31, 2006	1	81,263	991,751

Consolidated Statements of Shareholders' Equity

(Unit: millions of yen)

	FY2005 (Jan. through Dec. 2005)
(Additional paid-in capital)	
Balance at the beginning of year	84,627
Increase	11,937
Increase due to exchange offering	11,936
Increase due to the conversion of convertible bonds	0
Decrease	3
Loss on disposition of treasury stocks	3
Balance at the end of year	96,561
(Retained earnings)	
Balance at the beginning of year	511,749
Increase	60,710
Net income	60,014
Increase due to inclusion of new subsidiaries in consolidation	515
Increase due to exclusion of subsidiaries	35
Increase due to change in oversea subsidiaries' functional currency	145
Decrease	16,034
Dividends declared	15,688
Bonuses to directors and corporate auditors	181
Loss on disposition of treasury stocks	26
Decrease due to inclusion of new affiliated companies in consolidation	138
Balance at the end of year	556,424

Consolidated Statements of Cash Flows

(Unit: millions of yen)

	FY2006 (Jan. through Dec. 2006)	FY2005 (Jan. through Dec. 2005)
I. Cash Flows from Operating Activities		
Income before income taxes and minority interest	38,291	82,758
Depreciation and amortization	125,915	122,664
Impairment loss on long-lived assets	45,557	31,556
Amortization of goodwill	7,927	7,774
Increase in reserves	4,164	5,813
Interest and dividend income	(6,915)	(5,491)
Interest expenses and Commercial paper interest	18,588	13,073
Exchange (gain) loss	(5,263)	(2,019)
Equity in earnings of unconsolidated subsidiaries and affiliates	(3,326)	(1,801)
Gain on sale of securities and properties, etc.	(11,532)	(15,494)
Decrease (increase) in trade notes and accounts receivable	16,908	(23,068)
Decrease (increase) in inventories	2,990	(16,278)
(Decrease) increase in trade notes and accounts payable	(18,892)	19,228
Others	29,297	21,170
Subtotal	243,712	239,885
Interest and dividend received	7,213	5,125
Interest paid	(18,366)	(14,617)
Income taxes paid	(58,563)	(44,888)
Net cash provided by operating activities	173,997	185,505
II. Cash Flows from Investing Activities		
Decrease in time deposits due over three months	(9,463)	(20,148)
Increase in time deposits due over three months	5,076	34,772
Purchase of property, plant and equipment	(242,121)	(197,264)
Proceeds from sale of property, plant and equipment	14,456	13,862
Purchase of investments in securities, unconsolidated subsidiaries and affiliates	(6,071)	(4,025)
Proceeds from sale and redemption of investments in securities, unconsolidated subsidiaries and affiliates	26,378	36,145
Others	(732)	861
Net cash used in investing activities	(212,477)	(135,796)
III. Cash Flows from Financing Activities		
Increase (decrease) in short-term loans and commercial paper	45,576	7,240
Proceeds from long-term debt	54,691	28,022
Repayments of long-term debt	(54,206)	(50,972)
Proceeds from issuance of bonds	21,394	19,926
Redemption of bonds	(11,420)	(16,181)
Repayments of borrowed securities	-	(23,146)
Purchase of treasury stocks	(466)	(432)
Redemption of preferred stock	-	(11,573)
Dividends paid	(19,973)	(20,533)
Others	285	212
Net cash provided by (used in) financing activities	35,880	(67,436)
IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,553	4,029
V. Changes in Cash and Cash Equivalents	(1,046)	(13,698)
VI. Cash and Cash Equivalents at Beginning of Year	54,006	67,943
Cash and cash equivalents held by newly consolidated subsidiaries net of those held by deconsolidated subsidiaries	(332)	(238)
Cash and Cash Equivalents at End of Year	52,627	54,006

Notes

1. Summary of significant accounting policies

(1) Scope of Consolidation

The Company had 292 subsidiaries as of December 31, 2006 (304 as of December 31, 2005). The consolidated financial statements include the accounts of the Company and 239 (245 for December 31, 2005) of its subsidiaries. The definition of subsidiary is based on the substantive existence of controlling power.

The accounts of the remaining 53 (59 as of December 31, 2005) unconsolidated subsidiaries are excluded from consolidated financial statements since the aggregate amounts of these subsidiaries in terms of combined assets, net sales, net income (loss) and retained earnings (accumulated deficit) are immaterial in relation to those of the consolidated financial statements of the Companies.

(2) Investments in Unconsolidated Subsidiaries and Affiliates and Equity Method

The Company had 53 (59 as of December 31, 2005) unconsolidated subsidiaries and 54 (56 as of December 31, 2005) affiliates as of December 31, 2006. Affiliates are defined to include those which are 15% or more owned and those that are subject to exercise of influence over the management of the affiliates by the investor company.

The equity method is applied only to investments in major companies (34 and 32 companies at December 31, 2006 and 2005, respectively). The investments in the remaining unconsolidated subsidiaries and affiliates are stated at cost or less, because they do not have a material effect on the consolidated financial statements.

(3) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries and Affiliates)

All the assets and liabilities of overseas consolidated subsidiaries and overseas affiliates accounted for by the equity method are translated into yen at the current exchange rates prevailing at the balance sheet dates, except common stock and additional paid-in capital accounts which are translated at the historical rates. Revenues and expenses are translated by the average exchange rates prevailing during each period. The resulting differences are recorded as “Foreign currency translation adjustments” and “Minority Interests in Consolidated Subsidiaries” in Net Assets in the Consolidated Balance Sheets.

(4) Translation of Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are translated into yen at the rates effective at the respective transaction dates.

Foreign currencies and monetary receivables and payables denominated in foreign currencies are translated into yen at the current exchange rates prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in determination of net income for the period.

(5) Valuation of Securities

Securities other than securities of subsidiaries and affiliated companies are stated at market value. Differences between market value and acquisition costs are recorded as “Unrealized gains on securities, net of tax” in Net Assets. The cost of securities sold is calculated by the moving-average method. Securities without market value are stated at cost determined by the moving-average method. Debt securities that are expected to be held-to-maturity are accounted for by the amortized cost method. Declines in the value of securities, other than those which are deemed to be temporary, are reflected in current income.

(6) Inventories

Inventories are mainly stated at the lower of cost or market value, cost being determined by the moving-average method.

(7) Property, Plant and Equipment

Depreciation by the Company and its domestic consolidated subsidiaries is principally computed by the declining-balance method, at rates based on the estimated useful lives of assets.

Depreciation by overseas consolidated subsidiaries is principally computed by the straight-line method over the estimated useful lives of the assets.

(8) Intangible Assets

Amortization of intangible assets is computed by the straight-line method, principally over a period of five years.

(9) Certain Accrued Expenses Items

Certain accrued expense items, which are essentially an estimate of amounts to be determined in future years, are provided by the Companies. The basis for recognizing such accrued expenses is as follows:

(i) Allowance for bad debts

"Allowance for bad debts" is provided for at an amount sufficient to cover possible losses on the collection of receivables. For certain doubtful receivables, the uncollectible amounts are estimated based on a review of the collectibility of individual receivables.

(ii) Accrued bonuses to employees

"Accrued bonuses to employees" is provided for based on the estimated amount to be paid to employees after the balance sheet date for their services rendered during the current period.

(iii) Accrued bonuses to directors

"Accrued bonuses to directors" is provided for based on the estimated amount to be paid to directors after the balance sheet date for their services rendered during the current period.

(iv) Accrued retirement benefits for directors and corporate auditors

"Accrued retirement benefits for directors and corporate auditors" is provided for based on the estimated amount to be paid to directors and corporate auditors under the Group's internal rules.

(v) Reserve for rebuilding furnaces

"Reserve for rebuilding furnaces" is provided for based on the estimated costs to be incurred at the next periodic repair works on its facilities over the service period until the next repair works.

(vi) Reserve for restructuring programs

"Reserve for restructuring programs" represents reasonably estimated costs arising from the additional severance compensation program related to restructuring, and the restructuring of certain businesses of the Companies.

(10) Accounting for Retirement Benefits to Employees

Recognition of accrued retirement benefits to employees is based on actuarial valuation of projected benefit obligations and fund assets. The prior service cost is amortized over the average remaining service period of employees (mainly 13 years), from the year when it is incurred. Actuarial gains/losses are amortized over average remaining service period of employees (mainly 13 years), in the year subsequent to when it is incurred.

(11) Accounting for Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all Japanese domestic consumption of goods and services (with certain exemptions).

The consumption tax withheld upon sale, and consumption tax paid on purchases of goods and services, are not included in the amounts of respective revenue and cost or expense items in the accompanying Consolidated Statements of Income. The consumption tax withheld and consumption tax paid are recorded as assets or liabilities and the net balance is included in "Other current assets" of the Consolidated Balance Sheets, as the case may be.

(12) Income Taxes

The Group has adopted the consolidated tax return system for the calculation of income taxes effective from the year ended December 31, 2005. Under the consolidated tax return system, the Group consolidate all wholly owned domestic subsidiaries based on the Japanese tax regulations.

(13) Derivative Financial Instruments

The Group uses financial instruments to reduce its exposure to market risks from fluctuations in foreign currency exchange rates, interest rates, and oil prices that may occur in the ordinary course of business.

The basic rules and policies are determined by the Board of Directors, and the results of the transactions, including balances and gains/losses, are periodically reported to management. The controls over the transaction and position balances of foreign currency derivatives are monitored by the accounting/finance departments and the controls over the transactions and position balances of commodity derivatives are monitored by the procurement department.

Hedging instruments mainly include foreign currency swap contracts, interest rate swap contracts and commodity swap contracts.

Hedging items mainly include bond and fuel oil.

Derivatives are recorded at fair value.

(14) Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

"Cash and cash equivalents" comprises cash on hand, bank deposits available for withdrawal on demand, and short-term investments due within three months or less and substantially free from any price fluctuation risk.

2. Changes in Accounting Standards

(1) Accounting standard for director's bonus

Directors' bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the fiscal year ended December 31, 2006, the Company adopted Accounting Standards Board of Japan Statement No.4 "Accounting standard for Directors' bonus" issued by the Accounting Standards Board of Japan on November 29, 2005, and directors' bonuses are accounted for as an expense of the period during which the payments had occurred. The effect of the adoption of this new accounting standard on net income is not material.

(2) Accounting standard for presentation of net assets in the balance sheet

Effective from the fiscal year ended December 31, 2006, the Company adopted Accounting Standards Board of Japan Statement No.5 "Accounting standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005 and Accounting Standards Board of Japan Guidance No.8 "Guidance on Accounting standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005. Amount corresponding to conventional "total shareholders' equity" in the balance sheet is 910,487 millions of yen.

(3) Accounting standard for stock options

Effective from the fiscal year ended December 31, 2006, the Company adopted Accounting Standards Board of Japan Statement No. 8 "Accounting standard for Stock-Based compensation", of December 27, 2005 and Accounting Standards Board of Japan Guidance No. 11 "Guidance on Accounting standard for Stock-Based compensation" of May 31, 2006, both issued by the Accounting Standards Board of Japan. The effect of the adoption of this new accounting standard on net income is not material.

3. Notes to consolidated financial statements

(1) Notes to Consolidated balance sheets (Unit: millions of yen, except specified otherwise)

		FY2006		FY2005	
1. Accumulated depreciation for tangible fixed assets		1,459,053		1,451,126	
2. Notes discounted		-		453	
3. Endorsed notes for transfer		2,375		3,627	
4. Treasury stocks		13,099,221	shares	13,150,884	shares
5. Guaranteed obligations		3,243		7,105	
6. Contingent liabilities in relation to agreement for assumed bond obligations		-		15,000	
7. Goodwill included in intangible fixed assets		27,669		73,526	
8. Collateralized assets and obligations					
Assets pledged as collaterals;	Securities	5		7	
	Tangible fixed assets	5,275		7,586	
	Total	5,280		7,594	
Debt covered by the collaterals;	Short-term loans	1,711		2,613	
	Long-term loans	86		140	
	Total	1,798		2,754	

9. When the consolidated fiscal year-end is a bank holiday, the Company considers that notes that mature on that day have been settled on the maturity date. The settled amount is as follows.

	FY2006	FY2005
Notes receivable	3,378	3,741
Notes payable	382	996

(2) Notes to Consolidated statements of income (Unit: millions of yen)

	FY2006	FY2005
1. Amortization of goodwill included in the selling, general and administrative expenses	7,927	7,774
2. Research and development costs included in the general and administrative expenses and manufacturing costs	30,781	31,706

3. Impairment loss

The Company essentially groups its operating assets by business unit, or look at its idle assets severally, to measure the impairment of the assets. In the fiscal year under review, each of the book values for the following asset groups, of which the profitability and valuation significantly declined were impaired to a realizable value, and the decline in value of the assets, or impairment loss, was booked as an extraordinary loss.

To figure out the realizable value for the assets, the Company calculated the usable values for operating assets, and the real estate appraisal or the assessed value of fixed-property taxes for idle assets, taking into account the present values of future cash flows to be generated by the relevant assets, which are discounted mainly at the rate of 7%.

(3) Notes to Consolidated statements of changes in net Assets

1. Type and number of shares outstanding and treasury stock (Unit: thousand stocks)

	Type of shares outstanding	Type of treasury stock
	Common stock	Common stock
Number of shares as of December 31, 2005	1,185,999	13,150
Increase during the FY 2006	14	304
Decrease during the FY 2006	-	356
Number of shares as of December 31, 2006	1,186,013	13,099

Note 1. Increase in the number of shares outstanding of 14 thousand common stocks was due to conversion of convertible bonds.

2. Increase in the number of treasury stock of 304 thousand common stocks was due to purchase of less-than-one-unit shares.

3. Decrease in the number of treasury stock of 356 thousand common stocks was due to sale of less-than-one-unit shares (34 thousand stocks) and execution of stock option (322 thousand stocks).

2. Share subscription rights

Company name	Asahi Glass Co., Ltd.	Total
Detail	Share subscription rights as stock option	
Type of shares	Common stock	
Number of shares as of December 31, 2005	-	-
Increase during the FY 2006	-	-
Decrease during the FY 2006	-	-
Number of shares as of December 31, 2006	-	-
Balance as of Dec. 31, 2006 (millions of yen)	1	1

3. Dividends

(i) Dividend payment

Approval	Ordinary general meeting of shareholders held on March 30, 2006
Type of shares	Common Stock
Total amount of dividends	8,796 millions of yen
Dividend per share	7.5 yen
Record date	December 31, 2005
Effective date	March 31, 2006

Approval	Ordinary board of directors' meeting held on August 23, 2006
Type of shares	Common Stock
Total amount of dividends	9,382 millions of yen
Dividend per share	8.0 yen
Record date	June 30, 2006
Effective date	September 8, 2006

(ii) Dividend whose record date is attributable to the current period but to be effective after the current period.

Approval	Ordinary general meeting of shareholders held on March 29, 2007
Type of shares	Common Stock
Total amount of dividends	9,383 millions of yen
Dividend per share	8.0 yen
Record date	December 31, 2006
Effective date	March 30, 2007

(4) Notes to Consolidated statements of cash flows

Reconciliation of cash and cash equivalents to accounts on the consolidated balance sheets (Unit: millions of yen)

	FY2006	FY2005
Cash on hand and in banks	80,610	73,811
Short-term loans receivable included in other current assets	312	383
Total	80,923	74,195
Time deposits due over three months	(28,296)	(20,188)
Cash and cash equivalents	52,627	54,006

Segment Information

1. Business Segment

(1) FY2006 (January through December, 2006) (Unit: millions of yen)

	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
I Sales and Operating income							
Sales							
(1) Sales to customers	806,325	475,786	302,649	35,779	1,620,540	-	1,620,540
(2) Inter-segment sales/transfers	9,010	834	4,956	48,344	63,146	(63,146)	-
Total	815,335	476,621	307,606	84,123	1,683,687	(63,146)	1,620,540
Operating expenses	768,850	397,427	299,762	80,820	1,546,860	(62,931)	1,483,928
Operating income	46,485	79,193	7,843	3,303	136,826	(215)	136,611
II Assets, Depreciation and amortization, Impairment and Capital expenditures							
Assets	893,166	662,291	283,384	218,426	2,057,270	92,276	2,149,546
Depreciation and amortization	56,448	47,657	20,801	1,168	126,077	(161)	125,915
Impairment of fixed assets	43,998	32,702	3,190	904	80,794	-	80,794
Capital expenditures	79,595	146,013	25,886	1,236	252,731	-	252,731

(2) FY2005 (January through December, 2005) (Unit: millions of yen)

	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
I Sales and Operating income							
Sales							
(1) Sales to customers	754,799	441,688	295,802	34,370	1,526,660	-	1,526,660
(2) Inter-segment sales/transfers	4,094	2,113	4,594	45,882	56,685	(56,685)	-
Total	758,894	443,802	300,397	80,252	1,583,346	(56,685)	1,526,660
Operating expenses	720,907	382,914	284,102	77,101	1,465,026	(56,559)	1,408,466
Operating income	37,986	60,887	16,294	3,151	118,320	(126)	118,194
II Assets, Depreciation and amortization and Capital expenditures							
Assets	873,192	614,036	283,412	257,438	2,028,080	53,846	2,081,926
Depreciation and amortization	56,681	46,084	18,615	1,383	122,765	(101)	122,664
Impairment of fixed assets	3,182	34,753	-	292	38,229	-	38,229
Capital expenditures	73,037	100,505	27,479	2,972	203,995	-	203,995

(Note) Total assets included in the "Corporate or elimination" amounted to 296,369 millions of Yen (FY2006) and 298,532 millions of Yen (FY2005). These amounts primarily represent the parent company's excess operating funds (cash on hand and in banks), long-term investment funds (investments in securities), etc.

2. Geographic Segment

(1) FY2006 (January through December, 2006) (Unit: millions of yen)

	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
I Sales and Operating income							
Sales							
(1) Sales to customers	695,022	367,076	195,134	363,307	1,620,540	-	1,620,540
(2) Inter-segment sales/transfers	218,223	69,256	10,256	2,600	300,337	(300,337)	-
Total	913,246	436,332	205,390	365,907	1,920,877	(300,337)	1,620,540
Operating expenses	823,522	411,709	211,574	330,533	1,777,339	(293,410)	1,483,928
Operating income (loss)	89,723	24,622	(6,183)	35,374	143,538	(6,926)	136,611
II Assets	859,646	534,066	158,206	424,596	1,976,516	173,030	2,149,546

(2) FY2005 (January through December, 2005) (Unit: millions of yen)

	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
I Sales and Operating income							
Sales							
(1) Sales to customers	686,484	327,601	196,055	316,519	1,526,660	-	1,526,660
(2) Inter-segment sales/transfers	169,747	63,100	7,855	2,218	242,922	(242,922)	-
Total	856,232	390,702	203,910	318,737	1,769,583	(242,922)	1,526,660
Operating expenses	787,404	353,370	210,883	296,577	1,648,236	(239,769)	1,408,466
Operating income (loss)	68,827	37,332	(6,972)	22,159	121,346	(3,152)	118,194
II Assets	825,483	501,662	206,315	367,638	1,901,099	180,826	2,081,926

3. Overseas Sales

(1) FY2006 (January through December, 2006) (Unit: millions of yen)

	Asia	The Americas	Europe	Other	Total
Overseas sales	425,916	197,577	362,059	20,624	1,006,178
Percentage of Overseas sales to Consolidated sales	26.3%	12.2%	22.3%	1.3%	62.1%

(2) FY2005 (January through December, 2005) (Unit: millions of yen)

	Asia	The Americas	Europe	Other	Total
Overseas sales	393,648	189,580	319,328	18,120	920,677
Percentage of Overseas sales to Consolidated sales	25.8%	12.4%	20.9%	1.2%	60.3%

Securities

1. Investment in Securities with Market Values

(Unit: millions of yen)

	FY2006 (December 31, 2006)			FY2005 (December 31, 2005)		
	Acquisition cost	Amount recorded on the consolidated balance sheet	Difference	Acquisition cost	Amount recorded on the consolidated balance sheet	Difference
Securities whose acquisition costs are less than the corresponding amounts recorded on the consolidated balance sheet						
(1) Stocks	80,191	271,591	191,400	86,985	277,770	190,784
(2) Bonds	548	565	16	1,525	1,534	8
(3) Others	98	98	0	92	93	0
Sub-total	80,837	272,255	191,417	88,604	279,398	190,794
Securities whose acquisition costs are more than the corresponding amounts recorded on the consolidated balance sheet						
(1) Stocks	227	185	(41)	452	231	(220)
(2) Bonds	-	-	-	-	-	-
(3) Others	-	-	-	-	-	-
Sub-total	227	185	(41)	452	231	(220)
Total	81,064	272,441	191,376	89,056	279,630	190,573

2. Investment in Securities without Market Values

(Unit: millions of yen)

	FY2006 (December 31, 2006)	FY2005 (December 31, 2005)
Unlisted stocks	6,977	7,070
Unlisted bonds	42	47

3. Investment in Securities Sold during the Fiscal Year

(Unit: millions of yen)

	FY2006 (January through December, 2006)	FY2005 (January through December, 2005)
Proceed from sale of securities	22,957	23,827
Gross realized gains	15,470	12,895
Gross realized losses	114	94

Retirement Benefit Plans

Employees of the Companies (excluding directors and corporate auditors) are generally entitled to lump-sum retirement benefits determined based on the average rate of pay, length of service and conditions under which the terminations occur.

In addition, the Company and its certain subsidiaries have adopted funded non-contributory and contributory pension plans.

The pension plans of the Company and its certain domestic subsidiaries provide for a lump-sum payment or pension payments for life generally after the age of 60, at the option of the employee with at least 20 years of participation in the plan. Those employees retiring with less than 20 years of participation are entitled to a lump-sum payment of the current value of their vested benefits. The amount of retirement benefits to be paid by the Company and its certain domestic subsidiaries are, in most cases, reduced by the benefits payable under the pension plans.

The information for the pension and retirement benefit plan is summarized as follows:

(Unit: millions of yen)

	FY2006 (December 31, 2006)	FY2005 (December 31, 2005)
Projected Benefit Obligation:		
Projected benefit obligation	(343,493)	(338,765)
Plan assets	299,048	284,107
Unfunded projected benefit obligation	(44,445)	(54,658)
Unrecognized actuarial loss	14,637	(1,191)
Unrecognized prior service cost	(9,289)	(10,037)
	(68,371)	(63,504)
Prepaid pension costs	(186)	(943)
Accrued retirement benefits	68,557	64,447
Retirement Benefit Costs:		
Service cost	11,051	10,812
Interest cost	9,589	9,525
Expected return on plan assets	(6,526)	(5,541)
Recognized actuarial loss	1,088	6,817
Amortization of prior service cost	(601)	(304)
Retirement benefit costs for the year	14,600	21,309
Gain from the transfer of the substitutional portion of the Employees Pension Funds	-	(2,221)
Total	14,600	19,088
Basis of Calculation for Projected Benefit Obligation:		
Attribution method for projected benefit obligation	Straight-line method	Straight-line method
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 3.5%	Mainly 3.5%
Amortization term for prior service cost	Mainly 13 years	Mainly 13 years
Amortization term for actuarial loss/gain	Mainly 13 years	Mainly 13 years

Supplementary Information for Consolidated Results for Fiscal Year Ended 2006

1. Operating results of FY 2006 (Unit: billions of yen)

	FY 2006	FY 2005
Net sales	1,620.5	1,526.7
Operating income	136.6	118.2
Ordinary income	134.5	118.9
Net income	45.0	60.0
Total net assets	991.8	852.7
Net income per share (yen)	38.37	51.36

2. Major item (Unit: billions of yen)

	FY 2006	FY 2005
Capital expenditures	252.7	204.0
Depreciation and amortization	125.9	122.7
Research and development costs	30.8	31.7
Interest-bearing debts	574.9	529.4
Interest expenses & dividend income	(11.7)	(7.6)
D/E ratio	0.58	0.56
Number of employees at end of period	54,228	56,857

3. Scope of consolidation

	FY 2006	FY 2005
Number of consolidated subsidiaries	239	245
Number of equity method affiliates	34	32

(1) Newly consolidated subsidiaries: 15 companies (Matsushima Optical Component Co., Ltd. etc.)
Excluded: 21 companies (Yamakyu Tokushu Glass Co., Ltd., etc.)
(2) New equity method affiliates: 3 companies (Murakami Chemicals Co., Ltd.[from consolidated subsidiary], etc.)
Excluded: 1 company (Engro Asahi Polymer and Chemicals Co., Ltd.)

4. Outlook for FY 2007 operating results (Unit: billions of yen)

	FY 2007	First half of FY 2007
Net sales	1,670.0	810.0
Operating income	180.0	85.0
Ordinary income	170.0	80.0
Net income	90.0	44.0
Capital expenditures	240.0	
Depreciation and amortization	135.0	
Research and development costs	35.0	

5. Outlook for FY 2007 operating results by business segment (Unit: billions of yen)

	Net sales	Operating income
Glass	830.0	53.0
Electronics and Display	500.0	115.0
Chemicals	310.0	10.0
Other	90.0	2.0
Corporate or elimination	(60.0)	0
Consolidated total	1,670.0	180.0

6. Exchange rates

	FY 2006		FY 2005		FY 2007
	Average	End of period	Average	End of period	Outlook
Yen/Dollar	116.40	119.11	110.95	118.07	115
Yen/Euro	146.87	156.50	137.31	139.83	150