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Consolidated Financial Results for the First Half FY2006
(January 1 through June 30, 2006)

1. Consolidated results for the first half of FY2006 (from January 1 to June 30, 2006)

(1) Consolidated operating results

	First half FY2006 (ended June 30, 2006)		First half FY2005 (ended June 30, 2005)		FY2005 (full year) (ended Dec. 31, 2005)	
Net sales (millions of yen)	788,589	8.6%	726,155	1.5%	1,526,660	-
Operating income (millions of yen)	66,101	7.0%	61,805	(5.9%)	118,194	-
Ordinary income (millions of yen)	65,373	4.0%	62,862	(2.8%)	118,884	-
Net income (millions of yen)	42,511	(5.4%)	44,923	(24.5%)	60,014	-
Net income per share – basic (yen)	36.25	-	38.66	-	51.36	-
Net income per share – fully diluted (yen)	34.18	-	36.41	-	48.70	-

(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

	First half FY2006 (ended June 30, 2006)	First half FY2005 (ended June 30, 2005)	FY2005 (full year) (ended Dec. 31, 2005)
Total assets (millions of yen)	2,136,139	1,918,591	2,081,926
Total net assets (millions of yen)	975,578	743,612	852,684
Equity ratio (%)	41.4	38.8	41.0
Equity per share (yen)	753.49	639.91	726.98

(3) Consolidated cash flows (Unit: millions of yen)

	First half FY2006 (ended June 30, 2006)	First half FY2005 (ended June 30, 2005)	FY2005 (full year) (ended Dec. 31, 2005)
Cash flows from operating activities	70,823	76,649	185,505
Cash flows from investing activities	(78,695)	(60,601)	(135,796)
Cash flows from financing activities	18,337	(30,962)	(67,436)
Cash and cash equivalents at the end of period	64,674	54,065	54,006

(4) Scope of consolidation and equity method affiliates

Number of consolidated subsidiaries	254 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: (addition) 12 companies (exclusion) 3 companies
Equity method affiliates: (addition) 2 companies (exclusion) 0 company

2. Outlook for the full FY2006 (from January 1 to December 31, 2006)

	FY2006 (full year)
Net sales (millions of yen)	1,600,000
Ordinary income (millions of yen)	136,000
Net income (millions of yen)	80,000
Forecasted net income per share (full year) (yen)	68.21

(Note)
1. Equity in earnings of unconsolidated subsidiaries and affiliates:
   First half FY2006: 2,072 million yen First half FY2005: 1,304 million yen FY2005: 1,801 million yen
2. Number of average shares in the term (consolidated basis):
   First half FY2006: 1,172,859,115 shares First half FY2005: 1,162,118,709 shares FY2005: 1,167,462,201 shares
3. Number of outstanding shares at the end of the term (consolidated basis):
   First half FY2006: 1,172,835,585 shares First half FY2005: 1,162,066,757 shares FY2005: 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. Actual results may be different from the outlook. For matters containing the above outlook, please see page 11 through 15 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 308 subsidiaries and 56 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.

<table>
<tr><th>Segment</th><th>Main Business</th><th></th><th>Main companies</th></tr>
<tr><td rowspan="2">Glass Operations</td><td rowspan="2">Flat Glass
Automotive Glass
Other Glass</td><td>Japan</td><td>The Company, AGC AX, Asahi Fiber Glass,
Asahi Techno Glass
28 other consolidated subsidiaries
3 companies under the equity method
(34 companies in total)</td></tr>
<tr><td>Overseas</td><td>(Asia) Asahimas Flat Glass (Indonesia),
Thai-Asahi Glass Public (Thailand)
(America) 20 group companies of AFG Industries
(head office in the United States)
(Europe) 103 group companies of Glaverbel S.A.
(head office in Belgium)
14 other consolidated subsidiaries
14 companies under the equity method
(153 companies in total)</td></tr>
<tr><td rowspan="2">Electronics and Display Operations</td><td rowspan="2">CRT (Cathode-Ray Tube) Glass
FPD (Flat Panel Display) Glass
Electronic Materials</td><td>Japan</td><td>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)</td></tr>
<tr><td>Overseas</td><td>(Asia) Asahi Techno Vision (Singapore),
Shanghai Asahi Electronic Glass (China),
Asahi Glass Fine Techno Taiwan (Taiwan),
Hankuk Electric Glass (Korea),
Siam Asahi Technoglass (Thailand)
(America) Optrex America (U.S.)
(Europe) Optrex Europe (Germany)
20 other consolidated subsidiaries
4 companies under the equity method
(31 companies in total)</td></tr>
<tr><td rowspan="2">Chemicals Operations</td><td rowspan="2">Fluorochemicals
Chlor-Alkalis
Urethanes and Others
Other Chemicals</td><td>Japan</td><td>The Company, Asahi Glass Urethane, Seimi Chemical,
Keiyo Monomer, Asahi Glass Engineering, Ise Chemicals*
10 other consolidated companies
4 companies under the equity method
(19 companies in total)</td></tr>
<tr><td>Overseas</td><td>(Asia) Asahimas Chemical (Indonesia),
Thasco Chemical (Thailand)
(America) AGC Chemicals Americas (U.S.)
(Europe) Asahi Glass Fluoropolymers UK (England)
8 other consolidated subsidiaries
4 companies under the equity method
(16 companies in total)</td></tr>
<tr><td rowspan="2">Other Operations</td><td rowspan="2">Ceramics
Service-ralated Business</td><td>Japan</td><td>Asahi Distribution & Delivery, A.G. Finance,
Asahi Glass Machinery, Asahi Glass Ceramics
7 other consolidated subsidiaries
1 company under the equity method
(12 companies in total)</td></tr>
<tr><td>Overseas</td><td>(America) AGC America (U.S.), AGA Capital (U.S.)
8 other consolidated subsidiaries
1 company under the equity method
(11 companies in total)</td></tr>
</table>

(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

The Company and its subsidiaries and affiliates (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 (FPDs), 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 first half FY2006

(Unit: billions of yen) (Unit: yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
First half FY2006 (January 1 through June 30, 2006)	788.6	66.1	65.4	42.5	36.25
First half FY2005 (January 1 through June 30, 2005)	726.2	61.8	62.9	44.9	38.66
Change (%)	8.6%	7.0%	4.0%	(5.4%)	-

During the first half period under review (January 1 through June 30, 2006), the Japanese economy faced the upward pressure on higher costs reflecting price hikes of oil and other various raw materials and fuels. However, the economy continued to recover, supported by an expansion in consumer spending, capital investment and exports. Other Asian countries in general maintained the momentum in their growth driven by exports, although some countries such as Indonesia could not enjoy growth due to sluggish consumer spending affected by the higher oil prices and interest rate hike. In Europe, the economies of Central-Eastern Europe continued to be steady. Western Europe also showed mild recovery backed by steadily growing exports. In the U.S., although there remained fears for weaker economy such as higher raw materials and fuel price and higher interest rates reflecting concern for future inflation, the economy continued to grow supported by consumer spending and capital expenditure.

Under such market circumstances, as for the target markets of the AGC Group, demand for glass substrates for flat panel displays (FPDs) increased in association with the proliferation of thin-screen TVs. On the other hand, the market environment of cathode-ray tube (CRT) glass continued to be weak. In flat glass markets, due to sharp increases in the costs of raw materials and fuels such as heavy oil, demand fell in some parts of Asia. In Western Europe, demand for flat glass returned to its previous levels. In the chemicals business, sales of vinyl chloride related products remained sluggish throughout the period in the world markets.

As a result, the Group posted net sales of 788.6 billion yen for the period under review, up 62.4 billion yen or 8.6% from the corresponding period of the previous year, operating income of 66.1 billion yen, up 4.3 billion yen or 7.0%, and ordinary income of 65.4 billion yen, up 2.5 billion yen or 4.0%. However, in order to improve the profitability of the CRT glass business, the Group decided to reorganize its CRT glass production bases, including stoppage of some production furnaces, and posted an extraordinary loss of 16.6 billion yen. In consequence, net income for the period under review dropped to 42.5 billion yen, a decrease of 2.4 billion yen or 5.4%

(2) Analysis of operating results

For the first half of fiscal 2006, the net sales increased 62.4 billion yen or 8.6% to 788.6 billion yen from 726.2 billion yen over the corresponding period of the previous year. Cost of sales rose 52.6 billion yen or 9.8% to 591.4 billion yen. The Group adjusted sales prices and reduced costs in response to the price hikes of raw materials and fuels. However, these measures were not sufficient to fully offset the impacts, and the cost-to-sales ratio stood at 75.0%, a year-on-year increase of 0.8 percentage point. Consequently, the operating income was 66.1 billion yen, up 4.3 billion yen or 7.0% year-on-year, but the operating income margin dropped 0.1 percentage point, to 8.4% from the corresponding period of the previous year. 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 2.1 billion yen, compared with 1.3 billion for first half of fiscal 2005. But as interest expenses also increased, the ordinary profit for the period under review was 65.4 billion yen, an increase of 2.5 billion yen or 4.0% from the corresponding period of the previous year. The ordinary income margin fell 0.4 percentage point from of first half of fiscal 2005 to 8.3% .

Net income for the period under review was 42.5 billion yen, down 2.4 billion yen or 5.4%, despite an increase in ordinary income on a year-to-year basis, mainly because of a loss on expenses for restructuring programs in association with the reduction of CRT glass production capacity.

Net income per share for the period under review was 36.25 yen.

(3) Overview by Segment

- Performance by business segment (Unit: billions of yen)

	Net sales		Operating income	
	First half FY2006	First half FY2005	First half FY2006	First half FY2005
Glass	399.0	365.0	20.3	21.3
Electronics and Display	239.6	207.4	40.0	28.6
Chemicals	143.9	144.0	4.6	10.2
Others	38.6	35.7	1.4	1.4
Corporate or elimination	(32.5)	(26.0)	(0.2)	0.3
Total	788.6	726.2	66.1	61.8

- Performance by geographic segment (Unit: billions of yen)

	Net sales		Operating income	
	First half FY2006	First half FY2005	First half FY2006	First half FY2005
Japan	431.3	406.5	41.1	30.4
Asia	210.5	180.4	14.6	24.5
The Americas	104.7	99.6	(2.5)	(0.9)
Europe	176.7	153.7	13.8	10.3
Corporate or elimination	(134.6)	(114.0)	(0.9)	(2.5)
Total	788.6	726.2	66.1	61.8

- Glass operations

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

The flat glass business as a whole increased sales compared with first half of fiscal 2005. The markets in Europe and North America showed steady growth throughout the term, although domestic demand in certain Asian countries dropped. In particular, glass shipments in fast-growing markets including Russia showed rapid growth. On the other hand, higher price of raw materials and fuels such as oil had an adverse impact on every region. In Japan, where the impact was especially significant, the Group introduced an energy surcharge system commencing in June, and raised the sales price mainly in flat glass used for construction. In expectation of further growth of construction and automobile industries in China, the Group started a new flat glass production plant in Suzhou, China.

In the automotive glass business, earnings increased from the corresponding period of the previous year due to the worldwide increase in automobile production particularly by Japanese-affiliated automakers, though the business was adversely impacted by sluggish economies in part of Asia.

Sales of other glass products, such as fiberglass, were stable throughout the term, although they were affected by the high price of raw materials and fuels. Asahi Fiber Glass Co., Ltd. withdrew from the composites business in March 2006.

Consequently, net sales of glass operations for the period under review was 399.0 billion yen, an increase of 33.9 billion yen or 9.3% compared with first half of fiscal 2005. Operating income was 20.3 billion yen, a decrease of 1.0 billion yen or 4.8% .

- 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, and the electronic materials business.

In the FPD glass sector of the display business, sales increased with strong demand for glass substrates for TFT LCDs and PDPs on a year-on-year basis, owning to an expansion in demand for panels for thin-screen televisions, such as LCD TVs and plasma display panel TVs, as well as a growing demand for larger sizes of glass substrates. In contrast, in the CRT glass sector, 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. Sales prices, however, continued to fall as the demand recovery driven by the World Cup soccer games was not as strong as anticipated. As a result, the sales of the CRT glass fell compared with first half of fiscal 2005. Given this situation, the Group decided to further reduce its production capacity of CRT glass by September 2006.

In the electronics materials business, sales of LCD back-light tubes and synthetic quartz for semiconductor manufacturing equipment continued to grow steadily thanks to strong demand. However, due to severe competition, sales of optical filters for PDPs remained harsh despite a series of cost cutting measures. In small- and medium-sized displays sector, products for mobile devices such as cellular phones suffered from lower sales prices; however, sales of products for automobile and industrial use showed steady growth.

As a result, net sales of the electronics and display operations for the period under review increased to 239.6 billion yen, up 32.2 billion yen or 15.5% from the corresponding period of the previous year, and operating income was 40.0 billion yen, an increase of 11.4 billion yen or 39.8%.

- Chemicals operations

The Chemicals operations comprise the chlor-alkali & urethane business and the fluorochemicals & specialty chemicals business. The chlor-alkali & urethane business deals with caustic soda, vinyl chloride monomers and other chlor-alkali chemicals in addition to the basic ingredients of urethane. The fluorochemicals & specialty chemicals business handles fluorinated resins, fluorinated oil and water repellents, as well as other specialized chemicals such as those used in batteries and liquid crystals.

The chlor-alkali & urethane business continued to be sluggish, largely because the weak international vinyl chloride market prevented sufficient hike of product prices, which would have offset the increased costs of raw materials and fuels.

In the fluorochemicals & specialty chemicals business, demand for fluorinated resins, fluoropolymer films, oil and water repellents, and liquid crystal materials remained steady, but this is not strong enough to compensate the worsened results of the chlor-alkali & urethane business. Sales of the fluorochemicals business in North America have started to pick up along with improvement of productivity.

Under these market conditions, the chemicals operations posted net sales of 143.9 billion yen for the period under review, down 0.1 billion yen or 0.1% from the corresponding period of the preceding year, and operating income of 4.6 billion yen, down 5.5 billion yen or 54.5%.

- Other operations

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

The ceramics business mainly remained strong in the period under review due to fairly strong demand in the glass engineering sector, mainly in Asia, and the environmental energy sector in Japan. As a result, net sales from other operations for the period under review increased 2.9 billion yen or 8.2% year-on-year, to 38.6 billion yen. Operating income stood at 1.4 billion yen, relatively flat compared with the corresponding period of the previous year.

2. Financial Conditions

(1) Overview of first half FY2006

(Unit: billions of yen)

	First half FY2006	First half FY2005	Change
Total assets	2,136.1	2,081.9	54.2
Total liabilities	1,160.6	1,129.9	30.6
Total net assets	975.6	852.7	122.9

- Total assets

Total assets as of the end of the period under review were 2,136.1 billion yen, up 54.2 billion yen from the period of 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 period under review recorded 1,160.6 billion yen, an increase of 30.6 billion yen from the corresponding period of the preceding year. This is due to an increase of interest-bearing debts, including short-term bank loans 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 first half period under review were 975.6 billion yen, an increase of 122.9 billion yen from the corresponding period of 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)

	First half FY2006	First half FY2005	Change
Cash flows from operating activities	70.8	76.6	(5.8)
Cash flows from investing activities	(78.7)	(60.6)	(18.1)
Cash flows from financing activities	18.3	(31.0)	49.3
Cash & cash equivalents as of end of period	64.7	54.1	10.6

- Cash flows from operating activities

Net cash provided by operating activities was 70.8 billion yen for the period under review, down 5.8 billion yen from the corresponding period of 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 18.1 billion yen year-on-year, to 78.7 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 period under review, which is the sum of cash flows from operating activities and investing activities, declined 23.9 billion yen from the period of the previous year to minus 7.9 billion yen.

- Cash flows from financing activities

Net cash provided by the financing activities for the period under review increased 49.3 billion yen from the corresponding period of the preceding year to 18.3 billion yen, mainly due to an increase in the borrowings.

As a result, the outstanding balance of cash and cash equivalents as of the end of the first half period under review increased 10.7 billion yen in comparison with that at the end of the previous year, to 64.7 billion yen.

- Cash flow indices

	First half FY 2004	FY2004	First half FY 2005	FY2005	First half FY 2006
Equity ratio (%)	37.0	37.1	38.8	41.0	41.4
Equity ratio based on market value (%)	71.5	69.7	70.6	85.8	79.7
Number of years for debt redemption	-	2.2	-	2.9	-
Interest coverage ratio	22.9	20.6	10.6	12.7	9.0

(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.*

3. Outlook for FY2006

(1) Operating outlook for FY2006

(Unit: billions of yen)

	Net sales	Operating income	Ordinary income	Net income
FY2006 [forecast] (January 1 through December 31, 2006)	1,600.0	145.0	136.0	80.0
FY2005 [actual] (January 1 through December 31, 2005)	1,526.7	118.2	118.9	60.0
Change (%)	4.8%	22.7%	14.4%	33.3%

From the third quarter of fiscal 2006 onwards, it is expected that the economies of Japan, Asia, Europe and the U.S. will continue to expand at a moderate pace on the whole, despite such uncertain factors as oil prices and the impact of higher interest rates on these economies.

In the relevant markets of the Group, further expansion of the FPD glass substrates market as well as a recovery of flat glass market condition in Western Europe are expected. However, the upward pressure on higher costs reflecting price hikes of various raw materials and fuels is a substantial cause for concern.

Under such circumstances, as for the flat glass business the AGC Group anticipates a market growth for flat glass in fast-growing countries such as China and Central-Eastern Europe, a market recovery in the Western Europe, and higher demand for high value-added products. In the automotive glass business, global automobile production will rise continuously and in particular demand of automotive glass will grow in fast-growing countries, such as China and Central-Eastern Europe. Meanwhile, there remains concerns over the impacts of higher prices of raw materials and fuels mainly in Asia.

Looking at the electronics and display operations, in the FPD glass substrate sector, with further growth of screen panels for thin-screen TVs as well as higher demand for large-sized panels, strong growth in sales volumes of both glass substrates for TFT LCDs and PDPs is expected. In the CRT glass sector, the market environment is expected to improve to a certain degree as the industry, including the AGC Group, reduces its production capacity. However, as the demand for display panels is rapidly shifting toward FPDs, the Group will take additional measures to restructure the production system in response to the future market environment. In the electronic materials business, sales of LCD back-light tubes and synthetic quartz for semiconductor manufacturing equipment are projected to increase steadily thanks to strong demand, though demand for small- and medium-sized displays used in mobile devices will remain sluggish, and overall it is expected that the business will remain firm.

In the chlor-alkali & urethane business of the chemicals operations, demand is unlikely to improve drastically, but the AGC Group will continue to keep a close eye on any further price increases of raw materials and pursue price adjustments as necessary. In the fluorochemicals & specialty chemicals business, continuing demand growth for fluorochemicals products, such as fluorinated resins, is expected.

In other operations, it is expected that the ceramics business will remain robust.

In light of the foregoing business prospects, the AGC Group projects its net sales for fiscal 2006 to increase 73.3 billion yen or 4.8% year-on-year, to 1,600.0 billion yen, operating income to increase 26.8

billion yen or 22.7% to 145.0 billion yen, ordinary income to increase 17.1 billion yen or 14.4% to 136.0 billion yen, and net income to increase 20.0 billion yen or 33.3% to 80.0 billion yen. For these projections the Group assumes that the key foreign exchange rates throughout fiscal 2006 will average 115 yen to the US dollar and 145 yen to the euro.

The Group plans to increase both interim and year-end dividends from the 7.5 yen per share that was originally planned to 8.0 yen per share, which will result in an annual dividend of 16.0 yen per share.

(2) Outlook of financial conditions for FY2006

Of net cash provided by operating activities, income before income taxes for fiscal 2006 is projected to increase from fiscal 2005. Depreciation expenses are likely to increase to 130.0 billion yen, up 7.3 billion yen from the previous year.

It is estimated that cash outflows of capital investment will increase to 220.0 billion yen, up 16.0 billion from the previous year, in line with the Group's strategy to expand display materials business including glass substrates for FPDs, to promote the glass operations of flat glass for construction and automotive glass in fast-growing markets, and to build foundation of the Electronics & Energy business.

As for cash flows from financing activities, the Group will raise funds 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 August 23, 2006, when the consolidated financial results for the first half of fiscal year ending 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 first half of fiscal year ending December 2006, operating income of the Electronics and Display operations accounted for 60.4% 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)

	First half FY2006 (June 30, 2006)	FY2005 (December 31, 2005)	First half FY2005 (June 30, 2005)
Current Assets	721,161	688,432	664,217
Cash on hand and in banks	81,256	73,811	79,167
Trade notes and accounts receivable	301,850	309,432	282,258
Inventories	265,272	238,022	238,028
Deferred income taxes	12,153	13,342	12,379
Other current assets	67,303	60,390	58,684
Allowance for bad debts	(6,674)	(6,566)	(6,300)
Fixed Assets	1,414,748	1,393,259	1,254,124
Tangible Fixed Assets	957,317	922,630	882,870
Buildings and structures	259,601	245,710	238,535
Machinery and equipment	484,433	460,360	453,654
Tools and fixtures	21,041	20,929	19,119
Land	119,022	118,619	111,538
Construction in progress	73,218	77,010	60,022
Intangible Fixed Assets	104,282	100,026	91,757
Investments and advances	353,147	370,602	279,496
Investment in securities	301,939	320,927	224,164
Long-term loans	7,903	8,404	9,076
Long-term prepaid expenses	9,836	10,117	13,419
Deferred income taxes	16,498	12,885	13,106
Other investments	21,294	21,716	22,860
Allowance for bad debts	(4,325)	(3,448)	(3,131)
Deferred Assets	229	234	248
Total Assets	2,136,139	2,081,926	1,918,591

Consolidated Balance Sheets (continued)

(Unit: millions of yen)

	First half FY2006 (June 30, 2006)	FY2005 (December 31, 2005)	First half FY2005 (June 30, 2005)
Current Liabilities	655,779	587,145	549,430
Trade notes and accounts payable	186,554	206,350	170,270
Short-term bank loans	117,454	110,517	107,965
Commercial paper	49,004	32,036	20,893
Current maturities of bonds	49,281	9,589	21,654
Accounts payable, other	84,678	71,835	61,412
Accrued expenses	34,650	20,065	33,186
Income taxes payable	25,587	33,144	31,538
Deposits received	25,530	25,485	23,756
Accrued bonuses to employees	7,059	6,804	6,811
Accrued bonuses to directors	63	-	-
Reserve for scheduled repairs	2,293	1,679	2,179
Reserve for restructuring programs	6,523	6,521	5,181
Other current liabilities	67,096	63,116	64,580
Non-current Liabilities	504,781	542,777	497,041
Bonds issued	207,862	254,635	257,383
Long-term bank loans	137,451	122,154	111,438
Deferred income taxes	55,332	58,455	26,001
Accrued retirement benefits	66,430	64,447	59,312
Accrued retirement benefits for directors and corporate auditors	1,261	1,532	1,619
Reserve for rebuilding furnaces	17,271	17,809	16,442
Reserve for restructuring programs	1,302	2,060	2,508
Other non-current Liabilities	17,870	21,681	22,335
Total Liabilities	1,160,561	1,129,922	1,046,471

Consolidated Balance Sheets (continued)

(Unit: millions of yen)

	First half FY2006 (June 30, 2006)	FY2005 (December 31, 2005)	First half FY2005 (June 30, 2005)
Minority Interests in Consolidated Subsidiaries	-	99,319	128,506
Shareholders' Equity	-	852,684	743,612
Common stock	-	90,472	90,472
Additional paid-in capital	-	96,561	84,624
Retained earnings	-	556,424	549,904
Asset revaluation reserve	-	120	120
Unrealized gains on securities, net of tax	-	124,262	59,552
Foreign currency translation adjustments	-	(1,448)	(27,365)
Treasury stock	-	(13,709)	(13,697)
Total Liabilities and Shareholders' Equity		2,081,926	1,918,591
Shareholders' Equity	763,315	-	-
Common stock	90,480	-	-
Additional paid-in capital	96,569	-	-
Retained earnings	590,091	-	-
Treasury stock	(13,825)	-	-
Valuation and translation adjustments	120,402	-	-
Unrealized gains on securities, net of tax	114,239	-	-
Deferred gains or losses on hedges, net of tax	419	-	-
Asset revaluation reserve	63	-	-
Foreign currency translation adjustments	5,678	-	-
Share subscription rights	0	-	-
Minority Interests in Consolidated Subsidiaries	91,860	-	-
Total Net Assets	975,578	-	-
Total Liabilities and Net Assets	2,136,139	-	-

Consolidated Statements of Income

(Unit: millions of yen)

	First half FY2006 (Jan. to Jun. 2006)	First half FY2005 (Jan. to Jun. 2005)	FY2005 (Jan. to Dec. 2005)
Net Sales	788,589	726,155	1,526,660
Cost of Sales	591,442	538,834	1,152,164
Gross profit	197,146	187,321	374,496
Selling, general and administrative expenses	131,045	125,516	256,302
Operating Income	66,101	61,805	118,194
Other Income	11,273	11,501	20,890
Interest and dividend income	3,198	3,226	5,491
Equity in earnings of unconsolidated subsidiaries and affiliates	2,072	1,304	1,801
Others	6,002	6,970	13,597
Other Expenses	12,001	10,444	20,200
Interest expenses	7,270	5,800	12,379
Others	4,731	4,643	7,821
Ordinary Income	65,373	62,862	118,884
Extraordinary Gains	18,739	9,391	24,925
Gain on sale of properties	3,466	4,088	5,836
Gain on sale of investments in securities, unconsolidated subsidiaries and affiliates	9,927	3,517	14,181
Others	5,345	1,785	4,907
Extraordinary Losses	26,529	6,004	61,051
Loss on disposal of properties	2,029	1,303	3,753
Impairment loss on long-lived assets	1,928	-	31,556
Expenses for restructuring programs	16,638	2,675	15,683
Others	5,932	2,026	10,058
Income before income taxes and minority interest	57,583	66,248	82,758
Income Taxes	21,288	24,330	47,693
Deferred Income Taxes	774	(5,573)	(14,566)
Minority Interests in Earnings (Losses) of Consolidated Subsidiaries	(6,990)	2,567	(10,383)
Net Income	42,511	44,923	60,014

Consolidated Statements of Changes in Net Assets

First half FY2006 (from January 1 to June 30, 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			(8,796)		(8,796)
Bonuses to directors and corporate auditors			(97)		(97)
Net income			42,511		42,511
Increase of treasury stock				(242)	(242)
Disposal of treasury stock			(8)	125	117
Asset revaluation reserve			57		57
Net changes other than shareholders' equity					
Total changes during the current period	7	7	33,666	(116)	33,565
Balance as of June 30, 2006	90,480	96,569	590,091	(13,825)	763,315

	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	(10,022)	419	(57)	7,127	(2,532)
Total changes during the current period	(10,022)	419	(57)	7,127	(2,532)
Balance as of June 30, 2006	114,239	419	63	5,678	120,402

	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			(8,796)
Bonuses to directors and corporate auditors			(97)
Net income			42,511
Increase of treasury stock			(242)
Disposal of treasury stock			117
Asset revaluation reserve			57
Net changes other than shareholders' equity	0	(7,459)	(9,991)
Total changes during the current period	0	(7,459)	23,574
Balance as of June 30, 2006	0	91,860	975,578

Consolidated Statements of Shareholders' Equity

(Unit: millions of yen)

	First half FY2005 (Jan. to Jun. 2005)	FY2005 (Jan. to Dec. 2005)
(Additional paid-in capital)		
Balance at the beginning of year	84,627	84,627
Increase	-	11,937
Increase due to the exchange of stock	-	11,936
Increase due to the conversion of convertible bonds	-	0
Decrease	3	3
Loss on sale of treasury stock, net of tax	3	3
Balance at the end of period	84,624	96,561
(Retained earnings)		
Balance at the beginning of year	511,749	511,749
Increase	45,449	60,710
Net income	44,923	60,014
Increase due to inclusion of new subsidiaries in consolidation	345	515
Increase due to exclusion of subsidiaries	35	35
Increase due to change in overseas subsidiaries' functional currency	145	145
Decrease	7,293	16,034
Dividends declared	6,973	15,688
Bonuses to directors and corporate auditors	181	181
Decrease due to inclusion of new subsidiaries in affiliates	138	138
Loss on sale of treasury stock, net of tax	0	26
Balance at the end of period	549,904	556,424

Consolidated Statements of Cash Flows

(Unit: millions of yen)

	First half FY2006 (Jan. to Jun. 2006)	First half FY2005 (Jan. to Jun. 2005)	FY2005 (Jan. to Dec. 2005)
I. Cash Flows from Operating Activities			
Income before income taxes and minority interest	57,583	66,248	82,758
Depreciation and amortization	61,358	57,395	122,664
Impairment loss on long-lived assets	1,928	-	31,556
Amortization of goodwill	3,938	3,744	7,774
(Decrease) increase in reserves	(84)	2,899	5,813
Interest and dividend income	(3,198)	(3,226)	(5,491)
Interest expenses and commercial paper interest	8,161	6,066	13,073
Exchange (gain) loss	(642)	(505)	(2,019)
Equity in earnings of unconsolidated subsidiaries and affiliates	(2,072)	(1,304)	(1,801)
Gain on sale of securities and properties, etc.	(11,508)	(5,412)	(15,494)
Decrease (increase) in trade notes and accounts receivable	10,029	(1,188)	(23,068)
Increase in inventories	(20,838)	(24,014)	(16,278)
(Decrease) increase in trade notes and accounts payable	(22,782)	(12,930)	19,228
Others	26,153	17,568	21,170
Subtotal	108,025	105,341	239,885
Interest and dividend received	3,864	3,420	5,125
Interest paid	(7,857)	(7,227)	(14,617)
Income taxes paid	(33,209)	(24,884)	(44,888)
Net cash provided by operating activities	70,823	76,649	185,505
II. Cash Flows from Investing Activities			
Decrease in time deposits due over three months	(888)	(18,963)	(20,148)
Increase in time deposits due over three months	5,010	26,006	34,772
Purchase of property, plant and equipment	(99,322)	(89,453)	(197,264)
Proceeds from sale of property, plant and equipment	4,637	6,215	13,862
Purchase of investments in securities, unconsolidated subsidiaries and affiliates	(5,291)	(550)	(4,025)
Proceeds from sale and redemption of investments in securities, unconsolidated subsidiaries and affiliates	17,217	16,362	36,145
Others	(59)	(218)	861
Net cash used in investing activities	(78,695)	(60,601)	(135,796)
III. Cash Flows from Financing Activities			
Increase (decrease) in short-term bank loans and commercial paper	31,625	(8,918)	7,240
Proceeds from long-term debts	22,764	7,866	28,022
Repayments of long-term debts	(19,122)	(24,990)	(50,972)
Proceeds from issuance of bonds	-	19,206	19,926
Redemption of bonds	(6,452)	(971)	(16,181)
Repayments from sale of borrowed securities	-	(12,639)	(23,146)
Purchase of treasury stock	(116)	(191)	(432)
Redemption of preferred stocks	-	-	(11,573)
Dividends paid	(10,354)	(10,291)	(20,533)
Others	(7)	(32)	212
Net cash provided by (used in) financing activities	18,337	(30,962)	(67,436)
IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents	279	1,266	4,029
V. Changes in Cash and Cash Equivalents	10,744	(13,648)	(13,698)
VI. Cash and Cash Equivalents at Beginning of Year	54,006	67,943	67,943
Cash and cash equivalents held by newly consolidated subsidiaries net of those held by deconsolidated subsidiaries	(76)	(230)	(238)
Cash and Cash Equivalents at End of Period	64,674	54,065	54,006

Notes

1. Summary of significant accounting policies

(1) Scope of Consolidation

The Company had 308 subsidiaries as of June 30, 2006 (304 as of December 31, 2005). The consolidated financial statements include the accounts of the Company and 254 (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 54 (59 as of December 31, 2005) unconsolidated subsidiaries are excluded from the 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 Group.

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

The Company had 54 (59 as of December 31, 2005) unconsolidated subsidiaries and 56 (56 as of December 31, 2005) affiliates as of June 30, 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 June 30, 2006 and December 31, 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”, a separate component of 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 consolidated subsidiaries in Japan is principally computed by the declining-balance method, at rates based on the estimated useful lives of the 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 Group. 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 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 additional severance compensation program related to restructuring, and the restructuring of certain businesses of the Group.

(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 the 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 Company and its subsidiaries in Japan have 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 Company consolidates all wholly owned subsidiaries in Japan, based on the Japanese tax regulations.

(13) Derivatives Financial Instruments

The Group use financial instruments to reduce their 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 bonds 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 period ended June 30, 2006, the Company and its subsidiaries in Japan 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 period ended June 30, 2006, the Company and its subsidiaries in Japan 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 883,717 millions of yen.

(3) Accounting standard for stock options

Effective from the period ended June 30, 2006, the Company and its subsidiaries in Japan 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)

	First half FY2006		FY2005		First half FY2005	
1. Accumulated depreciation for tangible fixed assets	1,469,238		1,451,126		1,361,293	
2. Notes discounted	730		453		475	
3. Endorsed notes for transfer	4,154		3,627		5,330	
4. Treasury stock	13,178,099	stocks	13,150,884	stocks	13,175,740	stocks
5. Guaranteed obligations	5,329		7,105		7,078	
6. Contingent liabilities in relation to agreement for assumed bond obligations	15,000		15,000		45,000	
7. Goodwill included in intangible fixed assets	70,581		73,526		73,287	
8. Collateralized assets and obligations						
Assets pledged as collaterals;						
Securities	5		7		5	
Tangible fixed assets	7,581		7,586		32,487	
Total	7,586		7,594		32,493	
Debt by covered by the collaterals;						
Short-term loans	2,179		2,613		2,240	
Long-term loans	102		140		452	
Total	2,281		2,754		2,693	

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

	First half FY2006	FY2005	First half FY2005
Notes receivable	-	3,741	-
Notes payable	-	996	-

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

	First half FY2006	First half FY2005	FY2005
1. Amortization of goodwill included in the selling, general and administrative expenses	3,938	3,744	7,774
2. Research and development costs included in the general and administrative expenses and manufacturing costs	15,279	15,873	31,706

3. Impairment loss on long-lived assets

The Group, as a general rule, categorize operating assets by business unit, whereas idle assets are assigned to a particular asset group on an individual basis. For the period ended June 30, 2006, the Group marked down the book value of asset groups where there had been a significant decline in profitability and value to the recoverable amount and recorded the impairment losses of 14,581 millions of yen on long-lived assets under the Extraordinary section. 12,652 millions of yen is recorded as “Expenses for restructuring programs”.

With respect to operating assets, the Group principally used the value in use for calculating the recoverable amount, whereas idle assets are recorded mainly at the official appraised value. The discount rate used for computing the value in use was the Company’s pre-tax cost of capital, which was 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 First half period, 2006	14	147
Decrease during the First half period, 2006	-	120
Number of shares as of June 30, 2006	1,186,013	13,178

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 147 thousand common stocks was due to purchase of less-than-one-unit shares.

3. Decrease in the number of treasury stock of 120 thousand common stocks was due to sale of less-than-one-unit shares (8 thousand stocks) and execution of stock option (112 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 First half period, 2006	-	-
Decrease during the First half period, 2006	-	-
Number of shares as of June 30, 2006	-	-
Balance as of June 30, 2006 (millions of yen)	0	0

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

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

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

(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)

	First half FY2006	First half FY2005	FY2005
Cash on hand and in banks	81,256	79,167	73,811
Short-term loans receivable included in other current assets	693	363	383
Total	81,949	79,531	74,195
Time deposits due over three months	(17,274)	(25,465)	(20,188)
Cash and cash equivalents	64,674	54,065	54,006

Segment Information

1. Business Segment

(1) First half FY2006 (January 1 to June 30, 2006) (Unit: millions of yen)

	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales							
Sales to customers	393,286	239,147	141,607	14,547	788,589	-	788,589
Inter-segment sales/transfers	5,676	455	2,310	24,078	32,521	(32,521)	-
Total sales	398,963	239,602	143,918	38,625	821,110	(32,521)	788,589
Operating expenses	378,674	199,645	139,279	37,213	754,812	(32,324)	722,488
Operating income	20,289	39,957	4,638	1,412	66,298	(196)	66,101

(2) First half FY2005 (January 1 to June 30, 2005) (Unit: millions of yen)

	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales							
Sales to customers	363,010	206,457	141,333	15,354	726,155	-	726,155
Inter-segment sales/transfers	2,019	957	2,702	20,347	26,026	(26,026)	-
Total sales	365,029	207,414	144,036	35,701	752,182	(26,026)	726,155
Operating expenses	343,727	178,827	133,848	34,309	690,713	(26,362)	664,350
Operating income	21,302	28,587	10,187	1,392	61,469	335	61,805

(3) FY2005 (January 1 to December 31, 2005) (Unit: millions of yen)

	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales							
Sales to customers	754,799	441,688	295,802	34,370	1,526,660	-	1,526,660
Inter-segment sales/transfers	4,094	2,113	4,594	45,882	56,685	(56,685)	-
Total sales	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

2. Geographic Segment

(1) First half FY2006 (January 1 to June 30, 2006) (Unit: millions of yen)

	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
Sales							
Sales to customers	337,171	176,671	99,238	175,508	788,589	-	788,589
Inter-segment sales/transfers	94,091	33,781	5,505	1,196	134,574	(134,574)	-
Total sales	431,262	210,452	104,743	176,704	923,163	(134,574)	788,589
Operating expenses	390,144	195,810	107,273	162,898	856,126	(133,638)	722,488
Operating income (loss)	41,118	14,642	(2,529)	13,805	67,036	(935)	66,101

(2) First half FY2005 (January 1 to June 30, 2005) (Unit: millions of yen)

	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
Sales							
(1) Sales to customers	326,057	152,292	95,246	152,559	726,155	-	726,155
(2) Inter-segment sales/transfers	80,402	28,113	4,362	1,090	113,969	(113,969)	-
Total sales	406,459	180,406	99,608	153,650	840,125	(113,969)	726,155
Operating expenses	376,042	155,876	100,508	143,398	775,825	(111,474)	664,350
Operating income (loss)	30,417	24,529	(899)	10,252	64,299	(2,494)	61,805

(3) FY2005 (January 1 to December 31, 2005) (Unit: millions of yen)

	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
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 sales	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

3. Overseas Sales

(1) First half FY2006 (January 1 to June 30, 2006) (Unit: millions of yen)

	Asia	The Americas	Europe	Other	Total
Overseas sales	193,453	109,586	172,601	5,664	481,305
Percentage of overseas sales to Consolidated sales	24.5%	13.9%	21.9%	0.7%	61.0%

(2) First half FY2005 (January 1 to June 30, 2005) (Unit: millions of yen)

	Asia	The Americas	Europe	Other	Total
Overseas sales	178,872	93,217	154,897	8,138	435,126
Percentage of overseas sales to Consolidated sales	24.6%	12.8%	21.3%	1.1%	59.9%

(3) FY2005 (January 1 to December 31, 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 Value (Unit: millions of yen)

	First half FY2006 (June 30, 2006)			FY2005 (December 31, 2005)			First half FY2005 (June 30, 2005)		
	Acquisition cost	Book value (Market value)	Unrealized gain (loss)	Acquisition cost	Book value (Market value)	Unrealized gain (loss)	Acquisition cost	Book value (Market value)	Unrealized gain (loss)
(1) Stocks	82,688	258,862	176,174	87,437	278,002	190,564	95,200	182,054	86,853
(2) Bonds	1,555	1,574	18	1,525	1,534	8	1,458	1,499	40
(3) Others	92	93	0	92	93	0	110	120	10
Total	84,336	260,530	176,193	89,056	279,630	190,573	96,769	183,674	86,905

2. Investment in Securities without Market Value (Unit: millions of yen)

	First half FY2006 (June 30, 2006)	FY2005 (December 31, 2005)	First half FY2005 (June 30, 2005)
Unlisted stocks	6,864	7,070	6,827
Unlisted bonds	24	47	47

Supplementary Information for Consolidated Results for First half FY2006

1. Operating results for First Half FY2006

(Unit: billions of yen)

	First half FY2006	First half FY2005	FY2005
Net sales	788.6	726.2	1,526.7
Operating income	66.1	61.8	118.2
Ordinary income	65.4	62.9	118.9
Net income	42.5	44.9	60.0
Total Net Assets	975.6	743.6	852.7
Net income per share (YEN)	36.25	38.66	51.36

2. Major items

(Unit: billions of yen)

	First half FY2006	First half FY2005	FY2005
Capital expenditures	111.9	86.5	204.0
Depreciation and amortization	61.4	57.4	122.7
Research and development costs	15.3	15.9	31.7
Interest-bearing debts	561.8	519.8	529.4
Interest expenses & dividend income	(5.0)	(2.8)	(7.6)
D/E ratio	0.58	0.60	0.56
Number of employees at end of period	57,405	56,403	56,857

3. Scope of consolidation

	First half FY2006	First half FY2005	FY2005
Number of consolidated subsidiaries	254	249	245
Number of equity method affiliates	34	35	32

(1) Newly consolidated subsidiaries: 12 companies (Matsushima Optical Component Co., Ltd., etc.)
Excluded: 3 companies (Yamakyu Tokushu Glass Co., Ltd., etc.)

(2) Newly equity method affiliates: 2 companies Excluded: 0 companies

4. Outlook for FY2006 operating results

(Unit: billions of yen)

	FY2006
Net sales	1,600.0
Operating income	145.0
Ordinary income	136.0
Net income	80.0
Capital expenditures	220.0
Depreciation and amortization	130.0
Research and development costs	36.0

5. Outlook for FY2006 operating results classified by business segment

(Unit: billions of yen)

	Net sales			Operating income		
	Previous	Revised	Difference	Previous	Revised	Difference
Glass	740.0	795.0	55.0	35.0	40.0	5.0
Electronics and Display	530.0	510.0	(20.0)	90.0	92.0	2.0
Chemicals	305.0	290.0	(15.0)	17.0	10.0	(7.0)
Other	80.0	70.0	(10.0)	3.0	3.0	0.0
Corporate or elimination	(55.0)	(65.0)	(10.0)	0.0	0.0	0.0
Consolidated total	1,600.0	1,600.0	0.0	145.0	145.0	0.0

* Previous released outlook is as of May 11, 2006 (release of financial results of FY2006 1st quarter)

6. Exchange rates

	First half FY2006		First half FY2005		FY2006 (outlook)	
	Average	End of period	Average	End of period	Previous	Revised
Yen/Dollar	115.57	115.24	106.80	110.62	110	115
Yen/Euro	142.74	146.00	136.43	133.63	137	145

* Previous released outlook is as of May 11, 2006 (release of financial results of FY 2006 1st quarter)