

# Financial Review 2006

For the year ended  
December 31, 2006

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## CONSOLIDATED ELEVEN-YEAR SUMMARY

Asahi Glass Co., Ltd. and Consolidated Subsidiaries

For the years ended December 31, 2006, 2005, 2004 and for the nine-month period ended December 31, 2003;  
the years ended March 31, 2003, 2002, 2001, 2000, 1999, 1998 and 1997

	2006/12	2005/12	2004/12	2003/12
<b>Operating Results</b>				
Net sales . . . . .	¥1,620,541	¥1,526,661	¥1,475,727	¥1,242,957
Operating income . . . . .	136,612	118,194	139,404	83,187
Income (loss) before income taxes and minority interests . . . . .	38,292	82,758	134,010	85,707
Net income (loss) . . . . .	44,998	60,015	78,287	53,641
<b>Segment Information</b>				
Sales to customers				
Glass operations . . . . .	¥ 806,325	¥ 754,799	¥ 734,653	¥ 662,323
Glass operations (old) . . . . .	—	—	—	—
Electronics and display operations . . . . .	475,787	441,689	434,731	335,497
Electronics operations (old) . . . . .	—	—	—	—
Chemicals operations . . . . .	302,649	295,802	275,957	218,124
Other operations . . . . .	35,780	34,371	30,386	27,013
<b>Financial Position</b>				
Total assets . . . . .	¥2,149,547	¥2,081,927	¥1,885,269	¥1,806,612
Total current assets . . . . .	722,825	688,432	648,237	582,060
Property, plant and equipment . . . . .	1,008,117	922,631	853,391	810,213
Total current liabilities . . . . .	618,042	587,145	549,139	489,319
Total net assets . . . . .	991,751	—	—	—
Total shareholders' equity . . . . .	—	852,684	699,139	622,800
Minority interests in consolidated subsidiaries . . . . .	81,263	99,320	125,308	110,709
<b>Per Share Data (Yen and U.S. Dollars)</b>				
Net income (loss)—basic . . . . .	¥ 38.37	¥ 51.36	¥ 66.75	¥ 45.65
Net income—fully diluted . . . . .	36.61	48.70	63.01	43.17
Cash dividends . . . . .	16.00	15.00	12.00	6.75
Equity . . . . .	776.26	726.98	601.47	530.57
<b>Other Data</b>				
Return on equity (ROE) . . . . .	5.1%	7.7%	11.8%	9.1%
Return on assets (ROA) (operating income base) . . . . .	6.4%	6.0%	7.6%	4.6%
Interest-bearing debt . . . . .	¥ 574,880	¥ 529,387	¥ 523,831	¥ 574,268
Depreciation and amortization . . . . .	125,916	122,665	132,558	99,900
Capital expenditures . . . . .	252,732	203,995	164,655	110,355
Research and development costs . . . . .	30,781	31,706	32,265	27,333
Number of shares issued and outstanding (thousands) . . . . .	1,186,014	1,186,000	1,175,242	1,175,242
Number of employees . . . . .	54,228	56,857	56,776	55,732

Note: Interest-bearing debts comprise short-term bank loans, current maturities of long-term debt, commercial paper, bonds, long-term debt and notes receivable discounted.

Millions of yen							Thousands of U.S. dollars
2003/3	2002/3	2001/3	2000/3	1999/3	1998/3	1997/3	2006/12
¥1,295,011	¥1,263,196	¥1,312,829	¥1,257,052	¥1,280,990	¥1,346,727	¥1,337,293	<b>\$13,617,992</b>
67,475	58,988	111,652	60,689	43,746	66,072	66,281	<b>1,148,000</b>
5,734	(7,653)	60,434	25,767	25,644	46,681	53,711	<b>321,782</b>
(3,918)	(12,605)	24,725	13,164	5,099	20,362	24,167	<b>378,135</b>
¥ 705,345	¥ 662,203	¥ 618,492	¥ 652,323	—	—	—	<b>\$ 6,775,840</b>
—	—	—	—	¥ 783,017	¥ 795,143	¥ 775,967	<b>—</b>
307,799	311,836	384,941	283,595	—	—	—	<b>3,998,210</b>
—	—	—	—	140,375	124,966	105,549	<b>—</b>
250,359	248,327	263,782	254,393	281,994	341,589	364,566	<b>2,543,269</b>
31,508	40,830	45,614	66,741	75,604	85,029	91,211	<b>300,673</b>
¥1,786,513	¥1,889,384	¥1,886,815	¥1,881,333	¥1,848,539	¥1,810,644	¥1,794,056	<b>\$18,063,420</b>
549,255	555,891	582,459	693,941	723,766	720,779	758,610	<b>6,074,160</b>
798,868	817,998	762,784	745,134	730,368	726,055	706,053	<b>8,471,571</b>
569,875	588,671	633,630	606,604	633,544	727,096	609,316	<b>5,193,630</b>
—	—	—	—	—	—	—	<b>8,334,042</b>
553,835	585,975	607,000	605,210	612,404	630,374	618,437	<b>—</b>
72,000	93,843	91,948	97,846	85,765	69,820	67,004	<b>682,882</b>
¥ (3.37)	¥ (10.73)	¥ 21.04	¥ 11.20	¥ 4.34	¥ 17.33	¥ 20.56	<b>\$ 0.32</b>
—	—	20.46	—	16.74	9.71	20.24	<b>0.31</b>
9.00	9.00	9.00	9.00	9.00	10.00	9.00	<b>0.13</b>
471.79	498.74	516.49	514.97	521.09	536.38	526.23	<b>6.52</b>
(0.7%)	(2.1%)	4.1%	2.2%	0.8%	3.3%	3.9%	<b>5.1%</b>
3.7%	3.1%	5.9%	3.3%	2.4%	3.9%	3.8%	<b>6.4%</b>
¥ 685,682	¥ 735,314	¥ 685,521	¥ 680,025	¥ 689,480	¥ 647,191	¥ 632,500	<b>\$ 4,830,924</b>
108,982	109,954	97,522	94,198	93,271	87,165	78,674	<b>1,058,118</b>
98,285	130,913	93,261	90,084	93,864	125,955	112,848	<b>2,123,798</b>
30,868	28,957	28,374	26,519	36,000	36,000	36,000	<b>258,664</b>
1,175,242	1,175,242	1,175,242	1,175,242	1,175,242	1,175,242	1,175,242	<b>1,186,014</b>
53,728	48,362	48,809	43,217	—	—	—	<b>54,228</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis herein of sales and operating income is based on segment information. Sales for business segments and geographic segments include all inter-segment transactions.

### **Recently Adopted Accounting Standards: Accounting Standard for Presentation of Net Assets in the Balance Sheet**

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Effective from the fiscal year ended December 31, 2006, Asahi Glass Co., Ltd. (the "Company") adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet."

Under this standard, "Minority Interests in Consolidated Subsidiaries" and "Shareholders' Equity" are presented as "Net Assets." "Net Assets" are composed of "Shareholders' Equity," "Valuation and Translation Adjustments," "Share Subscription Rights" and "Minority Interests in Consolidated Subsidiaries."

### **Accounting Standard for Directors' Bonuses**

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Directors' bonuses had previously been recognized as a decrease of retained earnings when they were approved by the resolution of the respective shareholders' meeting. Effective from the year ended December 31, 2006, the Company and its consolidated domestic subsidiaries commenced that directors' bonuses were recognized as expenses when incurred. The effect of the adoption of this new accounting standard on net income is not material.

### **Accounting Standard for Stock Options**

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Effective from the fiscal year ended December 31, 2006, the Company recognized the fair values of stock options as expenses when it gave them to its directors and employees, whereas they had not previously been recognized as expenses. The effect of the adoption of this new accounting standard on net income is not material.

### **Change in Scope of Consolidation**

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Beginning in 2006, Matsushima Optical Component Co., Ltd. and 14 other companies were included in the scope of consolidation. On the other hand, Yamakyu Tokushu Glass Co., Ltd. and 20 other companies were deconsolidated due to mergers, the sale of stock and other measures taken as part of business restructuring. These changes brought the total of consolidated subsidiaries to 239.

### **Currency Fluctuations**

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The Japanese yen weakened against both the U.S. dollar and the euro during fiscal 2006. The average yen-dollar rate was ¥116.4=US\$1.00, compared with ¥111.0=US\$1.00 in fiscal 2005, and the average yen-euro rate was ¥146.9=1.00 euro, compared with ¥137.3=1.00 euro in the previous year.

### **Overview of the Period Ended December 31, 2006**

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#### **■ Overview and Main Initiatives**

In fiscal 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 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 higher oil prices and an interest rate hike. In the U.S., although there remained fears over a weaker economy, such as a more stagnant housing market, the economy continued to grow supported by increased 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 televisions, such as LCD televisions and plasma display panel televisions. On the other hand, the market for cathode ray tube (CRT) glass continued to be weak. Growth in demand for Glass Operations fell in some parts of Asia, but demand in Western Europe returned to its previous levels. 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 for the fiscal year ended December 31, 2006, up ¥93.9 billion or 6.1% from the previous year, operating income of ¥136.6 billion, up ¥18.4 billion or 15.6%, and ordinary income of ¥134.5 billion, up ¥15.6 billion or 13.1%. Net income decreased ¥15.0 billion or 25.0% year-on-year to ¥45.0 billion.

### ■ Consolidated Net Sales

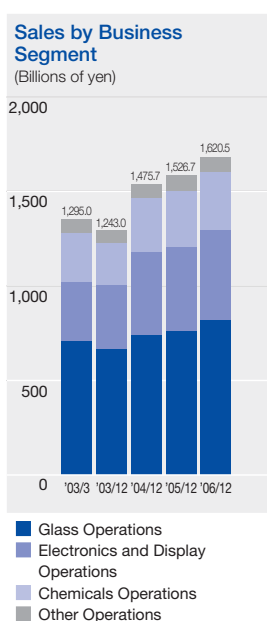
Consolidated net sales were ¥1,620.5 billion in fiscal 2006.

By business segment, the Glass Operations segment recorded sales of ¥815.3 billion in the year under review. In the Flat Glass Company, as a whole, sales increased compared with the previous year, thanks to the firm market in Europe. In the Automotive Glass Company, 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 in the Electronics and Display Operations segment were ¥476.6 billion. 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. Meanwhile, sales in 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 conditions by cutting production capacity; however, demand recovery was not as strong as anticipated and selling prices continued to fall.

In the electronics materials business, demand for photomask substrates for semiconductor manufacturing equipment and LCD back-light tubes in display materials, continued to grow steadily. In the small- and medium-sized displays sector, sales of products for automotive use showed 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.

Sales in the Chemicals Operations segment were ¥307.6 billion. The chlor-alkali & urethane business continued to be sluggish, as a recovery in the market of vinyl chloride-related products especially remained weak throughout the period. In the fluorochemicals & specialty chemicals business, demand for fluorinated resins, fluoropolymer films and liquid crystal materials remained steady.



### Sales by Business Segment

	Millions of yen		
	2006/12	2005/12	2004/12
Glass Operations . . . . .	¥ 815,336	¥ 758,894	¥ 740,483
Electronics and Display Operations . . . . .	476,621	443,803	435,744
Chemicals Operations . . . . .	307,606	300,397	286,018
Other Operations . . . . .	84,124	80,253	75,029
Corporate or Elimination . . . . .	(63,146)	(56,686)	(61,547)
<b>Net Sales . . . . .</b>	<b>¥1,620,541</b>	<b>¥1,526,661</b>	<b>¥1,475,727</b>

## Income and Expenses

Cost of sales rose ¥65.5 billion or 5.7% to ¥1,217.7 billion in fiscal 2006. Meanwhile, the cost-to-sales ratio stood at 75.1%, a decrease of 0.4 percentage points year on year, as the AGC Group's efforts to reduce expenses and increase in price, despite of higher costs resulting from the price surges of raw materials and energy sources, including oil.

### Cost of Sales and SG&A Expenses

	Millions of yen		
	2006/12	2005/12	2004/12
Cost of sales . . . . .	<b>¥1,217,655</b>	¥1,152,165	¥1,084,550
Cost-to-sales ratio . . . . .	<b>75.1%</b>	75.5%	73.5%
Gross profit . . . . .	<b>402,886</b>	374,496	391,177
SG&A expenses . . . . .	<b>266,274</b>	256,302	251,773
Percentage of net sales . . . . .	<b>16.4%</b>	16.8%	17.1%

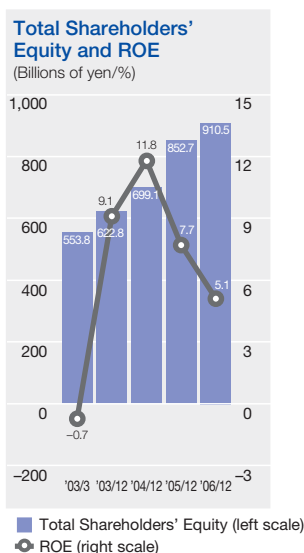
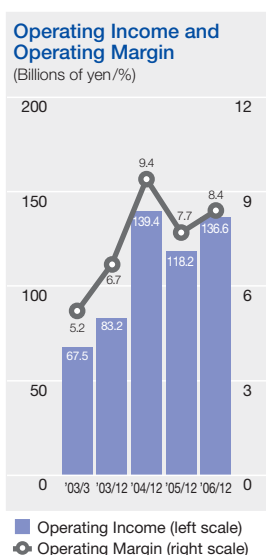
Operating income, the net result of gross profit minus SG&A expenses, was ¥136.6 billion, up ¥18.4 billion or 15.6% from a year earlier, and the operating margin increased 0.7 percentage points, from 7.7% in the previous year, to 8.4%.

Other expenses were a net ¥98.3 billion, compared with a net ¥35.4 billion in fiscal 2005.

The AGC Group registered an impairment loss on long-lived assets of ¥45.6 billion in the year under review, mainly because of an impairment loss on goodwill of flat glass business in North America in which earnings declined. Further, expenses for restructuring programs of ¥57.5 billion were recorded, mainly because of the restructuring of the CRT glass business in Asian companies by cutting product bases in relation to a decrease in demand. Therefore, the AGC Group posted ¥98.3 billion in net other expenses.

Income before income taxes and minority interests decreased ¥44.5 billion year on year, to ¥38.3 billion. Minority interests in losses of consolidated subsidiaries was ¥12.8 billion (income), compared with ¥10.4 billion (income) in the previous year, reflecting worsened earnings at subsidiaries engaged in the CRT glass business.

Consequently, net income for the year under review was ¥45.0 billion, down ¥15.0 billion or 25.0% from ¥60.0 billion in the year earlier. Basic net income per share decreased 25.3% year-on-year from ¥51.36 to ¥38.37. ROE decreased 2.6 percentage points to 5.1% and ROA on an operating income base increased 0.4 percentage points to 6.4%.



### Income

	Millions of yen		
	2006/12	2005/12	2004/12
Operating income . . . . .	<b>¥136,612</b>	¥118,194	¥139,404
Operating margin . . . . .	<b>8.4%</b>	7.7%	9.4%
Income before income taxes and minority interests . . . . .	<b>38,292</b>	82,758	134,010
Net income . . . . .	<b>44,998</b>	60,015	78,287
Percentage of net sales . . . . .	<b>2.8%</b>	3.9%	5.3%
Per share data (yen)			
Net income—basic . . . . .	<b>38.37</b>	51.36	66.75
Net income—fully diluted . . . . .	<b>36.61</b>	48.70	63.01
Return on equity (ROE) . . . . .	<b>5.1%</b>	7.7%	11.8%
Return on assets (ROA)			
(operating income base) . . . . .	<b>6.4%</b>	6.0%	7.6%

## Performance by Segment

### ■ Glass Operations

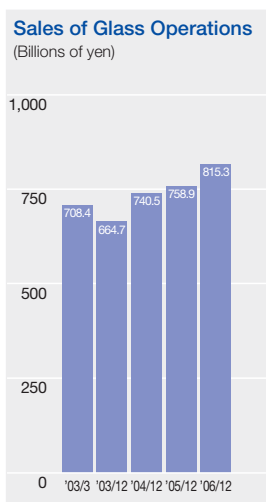
Glass Operations comprise flat glass business and automotive glass business, which are both conducted globally, as well as the Japanese domestic business involving other glass categories including fiberglass and other applications.

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 markets 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 from Glass Operations for the year under review were ¥815.3 billion, an increase of ¥56.4 billion or 7.4% from the preceding year, and operating income was ¥46.5 billion, up ¥8.5 billion or 22.4%.



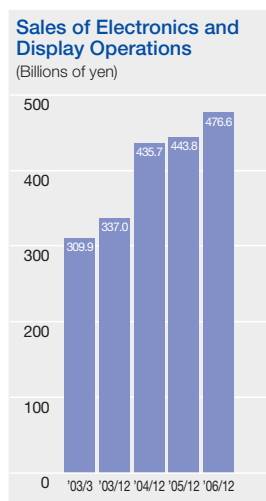
### ■ Electronics and Display Operations

Electronics and Display Operations involve the display business, which handles glass substrates for FPDs and 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 damage to a furnace and ensuing repairs. Meanwhile, sales in 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 conditions by cutting overseas production bases and withdrawing from production in Japan. Despite these efforts, 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.

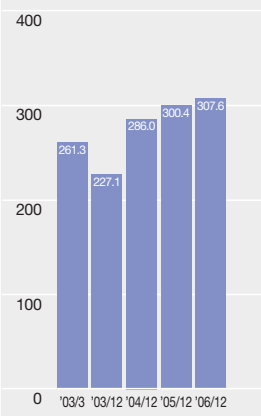
In the electronics materials business, demand for LCD back-light tubes in display materials, which are used as projection lens materials and photomask substrates for semiconductor manufacturing equipment, continued to grow steadily. In the small- and medium-sized displays sector, sales of the products for automotive use showed 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 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 for the year under review were ¥476.6 billion, up ¥32.8 billion or 7.4% from a year earlier, and operating income was ¥79.2 billion, up ¥18.3 billion or 30.1%.



### Sales of Chemicals Operations

(Billions of yen)



### Chemicals Operations

Chemicals Operations comprise the chlor-alkali & urethane business and the fluorochemicals & specialty chemicals business. The chlor-alkali & urethane business involves caustic soda, vinyl chloride monomer and other chlor-alkali chemicals in addition to basic ingredients of urethane, such as polyols. The fluorochemicals & specialty chemicals business consists of fluorinated resins, fluorinated oil and water repellents, fluoropolymer films, and fluorinated gases and solvents, as well as other specialty chemicals including battery 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, Chemicals Operations posted net sales of ¥307.6 billion, up ¥7.2 billion or 2.4% from the previous year, and operating income decreased ¥8.5 billion or 51.9% year-on-year to ¥7.8 billion.

### Other Operations

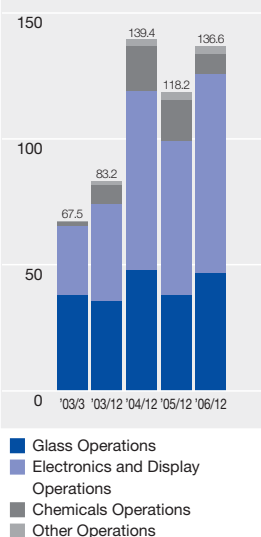
Other Operations consist of ceramics and a variety of service-related businesses, including logistics and engineering services.

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 Other Operations were ¥84.1 billion, up ¥3.9 billion or 4.8% from the preceding year, and operating income increased ¥0.2 billion or 4.8% year-on-year to ¥3.3 billion.

### Operating Income by Business Segment

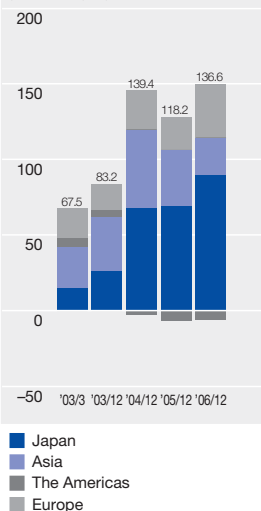
(Billions of yen)



### Sales and Income by Business Segment

	Millions of yen		
	2006/12	2005/12	2004/12
<b>Glass Operations</b>			
Sales	¥815,336	¥758,894	¥740,483
Operating income	46,486	37,986	48,017
Operating margin	5.7%	5.0%	6.5%
<b>Electronics and Display Operations</b>			
Sales	476,621	443,803	435,744
Operating income	79,193	60,888	70,862
Operating margin	16.6%	13.7%	16.3%
<b>Chemicals Operations</b>			
Sales	307,606	300,397	286,018
Operating income	7,844	16,295	17,559
Operating margin	2.5%	5.4%	6.1%
<b>Other Operations</b>			
Sales	84,124	80,253	75,029
Operating income	3,304	3,151	2,958
Operating margin	3.9%	3.9%	3.9%

**Operating Income (Loss)  
by Geographic Segment**  
(Billions of yen)



**Sales and Income (Loss) by Geographic Segment**

	Millions of yen		
	2006/12	2005/12	2004/12
<b>Japan</b>			
Sales	<b>¥913,247</b>	¥856,232	¥868,622
Operating income	<b>89,724</b>	68,827	67,520
Operating margin	<b>9.8%</b>	8.0%	7.8%
<b>Asia</b>			
Sales	<b>436,333</b>	390,702	341,761
Operating income	<b>24,623</b>	37,332	52,166
Operating margin	<b>5.6%</b>	9.6%	15.3%
<b>The Americas</b>			
Sales	<b>205,391</b>	203,911	204,578
Operating loss	<b>(6,183)</b>	(6,973)	(3,240)
Operating margin	<b>(3.0%)</b>	(3.4%)	(1.6%)
<b>Europe</b>			
Sales	<b>365,908</b>	318,738	295,676
Operating income	<b>35,375</b>	22,160	25,854
Operating margin	<b>9.7%</b>	7.0%	8.7%

**Assets, Liabilities and Net Assets**

We continue to adhere to a policy of maintaining appropriate liquidity, securing the funds necessary to conduct our operations and ensuring the soundness of our balance sheet. With the aim of facilitating the stable procurement of long-term funds, we have obtained an A rating from Standard & Poor's, an A1 rating from Moody's Investors Service and an AA rating from Rating and Investment Information, Inc.

Total assets were ¥2,149.5 billion as of the end of fiscal 2006, an increase of ¥67.6 billion 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.

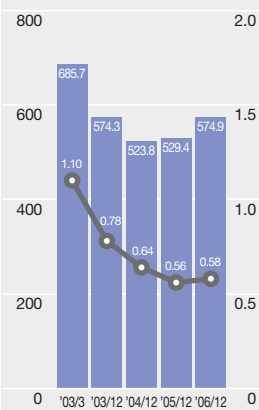
At the end of fiscal 2006, total liabilities amounted to ¥1,157.8 billion, up ¥27.9 billion from the preceding year. This is due to an increase in interest-bearing debt, including commercial paper and long-term debt, as a result of proactive capital investments.

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

As a consequence of the above, the equity ratio rose 1.4 percentage points from December 31, 2005 to 42.4%. Total shareholders' equity per share was ¥776.26, up from ¥726.98.

### Interest-bearing Debt and Debt-to-equity Ratio

(Billions of yen/Times)

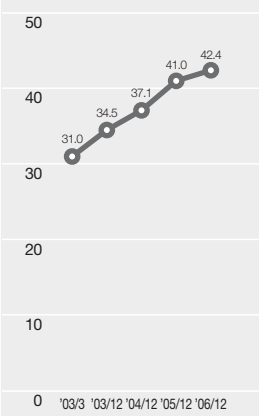


■ Interest-bearing Debt (left scale)  
● Debt-to-equity Ratio (right scale)

\* Debt-to-equity Ratio=Interest-bearing Debt/Net Assets

### Equity Ratio

(%)



### Assets, Liabilities and Net Assets

As of	Millions of yen		
	2006/12	2005/12	2004/12
Total assets . . . . .	<b>¥2,149,547</b>	¥2,081,927	¥1,885,269
Total current assets . . . . .	<b>722,825</b>	688,432	648,237
Inventories . . . . .	<b>248,232</b>	238,023	215,783
Investments and advances . . . . .	<b>337,180</b>	349,953	260,320
Total current liabilities . . . . .	<b>618,042</b>	587,145	549,139
Interest-bearing debt (includes notes receivable discounted) . . . . .	<b>574,880</b>	529,387	523,831
Total net assets/shareholders' equity . . . . .	<b>991,751</b>	852,684	699,139
Equity ratio . . . . .	<b>42.4%</b>	41.0%	37.1%
Equity per share (yen) . . . . .	<b>776.26</b>	726.98	601.47
Debt-to-equity ratio (times) . . . . .	<b>0.58</b>	0.56	0.64

### Cash Flows

Cash and cash equivalents (hereinafter "cash") at December 31, 2006 amounted to ¥52.6 billion, a decrease of ¥1.4 billion from ¥54.0 billion at the end of the previous year.

#### ■ Cash Flows from Operating Activities

Net cash provided by operating activities was ¥174.0 billion for the period under review, down ¥11.5 billion from the previous year. This decline is attributable chiefly to a decrease in income before income taxes and minority interests 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 year-on-year, to ¥212.5 billion. 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 glass operations in China and Russia.

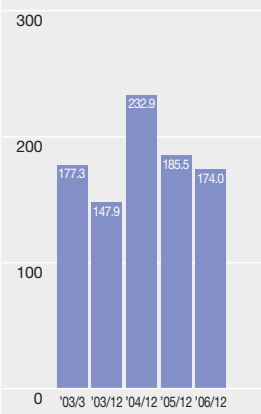
As a result, free cash flows for the fiscal year under review, which is the sum of cash flows from operating activities and investing activities, declined ¥88.2 billion from the previous year to minus ¥38.5 billion.

#### ■ Cash Flows from Financing Activities

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

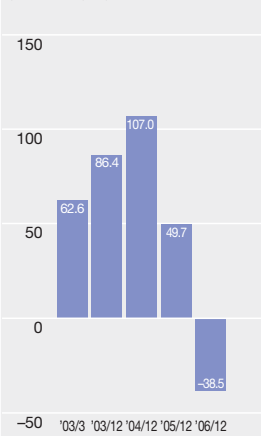
### Cash Provided by Operating Activities

(Billions of yen)



### Free Cash Flow

(Billions of yen)



### Summary Cash Flow Statement

	Millions of yen		
	2006/12	2005/12	2004/12
Net cash provided by operating activities . . . . .	<b>¥173,997</b>	¥185,505	¥232,888
Income before income taxes and minority interests . . . . .	<b>38,292</b>	82,758	134,010
Depreciation and amortization . . . . .	<b>125,916</b>	122,665	132,558
Net cash used in investing activities . . . . .	<b>(212,478)</b>	(135,796)	(125,933)
Purchases of property, plant and equipment . . . . .	<b>(242,121)</b>	(197,265)	(161,103)
Free cash flow . . . . .	<b>(38,481)</b>	49,709	106,955
Net cash provided by (used in) financing activities . . . . .	<b>35,881</b>	(67,436)	(98,967)
Repayments of long-term debts . . . . .	<b>(54,207)</b>	(50,973)	(51,241)
Effect of exchange rate changes on cash and cash equivalents . . . . .	<b>1,553</b>	4,028	1,521
Changes in cash and cash equivalents . . . . .	<b>(1,047)</b>	(13,699)	9,509
Cash and cash equivalents at beginning of year . . . . .	<b>54,007</b>	67,944	55,916
Cash and cash equivalents held by newly consolidated subsidiaries net of those held by deconsolidated subsidiaries . . . . .	<b>(333)</b>	(238)	2,519
Cash and cash equivalents at end of year . . . . .	<b>52,627</b>	54,007	67,944

### 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 AGC Group. However, the description does not include all possible risks relating to the AGC 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 March 29, 2007.

#### (1) Economic status of the markets in which the AGC 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 AGC Group's products are supplied throughout the world, for example in the U.S., Asia and Europe, as well as Japan, and sales are therefore influenced by local economies. Although the AGC 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.

#### (2) High dependence on the electronics and display operations

In the year through December 2006, operating income of 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 AGC Group's performance and financial position.

#### (3) 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 AGC Group's operations overseas and have serious effects on its performance and financial position.

#### **(4) 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 AGC Group. Accordingly, to maintain its competitive edge, the AGC Group is striving to identify the needs of customers, and to develop and commercialize new technologies and products. However, should the AGC 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 AGC Group's performance and financial position.

#### **(5) 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 AGC Group's performance and financial positions may be greatly affected.

#### **(6) 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 AGC Group's performance and financial position.

#### **(7) 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 AGC 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 AGC Group's performance and financial position may be significantly impacted.

#### **(8) 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 developing, prompting a major recall. This could substantially influence the AGC Group's performance and financial position.

#### **(9) 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 AGC Group will enter into disputes with other firms over intellectual property or that other firms will infringe the AGC Group's intellectual property rights. This has the potential to materially influence the AGC Group's performance and financial position.

#### **(10) 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 AGC Group's operations. However, if a major lawsuit is filed against the AGC Group, its performance and financial positions may be significantly impacted.

#### **(11) 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 a 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 AGC 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 AGC Group's ability to manufacture such products is likely to sharply decline. Should this occur, the AGC Group's performance and financial position may be greatly affected.

#### **(12) 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 AGC Group's sales) generally has a negative affect on the AGC 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 AGC 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 AGC Group procures and the pricing policy for its products, and this impacts the AGC Group's performance, financial position and future earnings.

#### **(13) 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 AGC Group's performance and financial position.

#### **(14) 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 AGC Group's performance and financial position may be substantially impacted.

### **Other Information**

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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. The European Commission issued to Glaverbel S.A. and the Company a Statement of Objections dated March 9, 2007 with respect to alleged anticompetitive behavior in the flat glass sector in Europe. 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

Asahi Glass Co., Ltd. and Consolidated Subsidiaries  
As of December 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current Assets:</b>			
Cash on hand and in banks . . . . .	¥ 80,610	¥ 73,811	\$ 677,395
Trade notes and accounts receivable (Note 7) . . . . .	295,079	309,432	2,479,655
Inventories (Note 4) . . . . .	248,232	238,023	2,085,983
Prepaid expenses . . . . .	6,316	5,586	53,076
Deferred income taxes (Note 10) . . . . .	16,351	13,342	137,403
Other current assets . . . . .	83,332	54,805	700,269
Less: Allowance for bad debts . . . . .	(7,095)	(6,567)	(59,621)
Total current assets . . . . .	<u>722,825</u>	<u>688,432</u>	<u>6,074,160</u>
<b>Investments and Advances:</b>			
Investments in securities (Notes 6 and 8) . . . . .	279,461	286,749	2,348,412
Investments in unconsolidated subsidiaries and affiliates . . . . .	32,377	34,179	272,076
Other investments and advances . . . . .	25,342	29,025	212,957
	<u>337,180</u>	<u>349,953</u>	<u>2,833,445</u>
<b>Property, Plant and Equipment (Notes 5 and 8):</b>			
Land . . . . .	124,000	118,620	1,042,017
Buildings and structures . . . . .	545,682	527,363	4,585,563
Machinery and equipment . . . . .	1,649,426	1,650,764	13,860,723
Construction in progress . . . . .	148,062	77,011	1,244,218
	<u>2,467,170</u>	<u>2,373,758</u>	<u>20,732,521</u>
Less: Accumulated depreciation . . . . .	(1,459,053)	(1,451,127)	(12,260,950)
	<u>1,008,117</u>	<u>922,631</u>	<u>8,471,571</u>
<b>Other Assets:</b>			
Deferred income taxes (Note 10) . . . . .	18,514	12,885	155,580
Deferred charges and other . . . . .	38,927	37,949	327,117
Less: Allowance for bad debts . . . . .	(3,685)	(3,449)	(30,966)
	<u>53,756</u>	<u>47,385</u>	<u>451,731</u>
<b>Goodwill, Net (Note 5) . . . . .</b>	<b>27,669</b>	<b>73,526</b>	<b>232,513</b>
<b>Total Assets . . . . .</b>	<b><u>¥2,149,547</u></b>	<b><u>¥2,081,927</u></b>	<b><u>\$18,063,420</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current Liabilities:</b>			
Short-term bank loans (Note 8) . . . . .	¥ 86,365	¥ 80,920	\$ 725,756
Current maturities of long-term debt (Note 8) . . . . .	67,872	39,187	570,353
Commercial paper (Note 8) . . . . .	57,907	32,037	486,613
Trade notes and accounts payable (Note 7) . . . . .	180,129	206,351	1,513,689
Other accounts payable . . . . .	43,002	41,081	361,361
Accrued expenses . . . . .	21,444	20,065	180,202
Income taxes payable (Note 10) . . . . .	10,061	33,157	84,546
Accrued bonuses to employees . . . . .	7,138	6,804	59,983
Accrued bonuses to directors . . . . .	118	—	992
Deferred income taxes (Note 10) . . . . .	349	847	2,933
Reserve for restructuring programs . . . . .	6,919	6,522	58,143
Other current liabilities . . . . .	136,738	120,174	1,149,059
Total current liabilities . . . . .	<u>618,042</u>	<u>587,145</u>	<u>5,193,630</u>
<b>Non-current Liabilities:</b>			
Long-term debt (Note 8) . . . . .	388,286	398,472	3,262,908
Accrued retirement benefits for employees (Note 9) . . . . .	68,557	64,448	576,109
Accrued retirement benefits for directors and corporate auditors . . . . .	1,300	1,533	10,924
Reserve for rebuilding furnaces . . . . .	18,836	17,810	158,286
Reserve for restructuring programs . . . . .	2,155	2,060	18,109
Deferred income taxes (Note 10) . . . . .	60,620	58,455	509,412
Total non-current liabilities . . . . .	<u>539,754</u>	<u>542,778</u>	<u>4,535,748</u>

**Commitments and Contingent Liabilities (Note 12)**

(Continued on following page.)

SHAREHOLDERS' EQUITY/NET ASSETS	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Minority Interests in Consolidated Subsidiaries</b> . . . . .	—	99,320	—
<b>Shareholders' Equity:</b>			
Common stock—no par value			
Authorized: 2,000,000,000 shares at December 31, 2005			
Issued and outstanding: 1,185,999,578 shares at December 31, 2005 . .	—	90,473	—
Additional paid-in capital . . . . .	—	96,561	—
Retained earnings (Note 14) . . . . .	—	556,424	—
Asset revaluation reserve . . . . .	—	121	—
Unrealized gains on securities, net of tax . . . . .	—	124,262	—
Less: Foreign currency translation adjustments . . . . .	—	(1,448)	—
Less: Treasury stock, at cost, 13,150,884 shares at December 31, 2005 (Note 14) . . . . .	—	(13,709)	—
Total shareholders' equity . . . . .	—	852,684	—
<b>Total Liabilities and Shareholders' Equity</b> . . . . .	—	¥2,081,927	—
<b>Net Assets:</b>			
<b>Shareholders' Equity</b>			
Common stock—no par value			
Authorized: 2,000,000,000 shares at December 31, 2006			
Issued and outstanding: 1,186,013,684 shares at December 31, 2006	90,481	—	760,345
Additional paid-in capital . . . . .	96,569	—	811,504
Retained earnings (Note 14) . . . . .	583,176	—	4,900,639
Less: Treasury stock, at cost, 13,099,221 shares at December 31, 2006 (Note 14) . . . . .	(13,801)	—	(115,975)
Total shareholders' equity . . . . .	756,425	—	6,356,513
<b>Valuation and Translation Adjustments</b>			
Unrealized gains on securities, net of tax . . . . .	123,311	—	1,036,227
Deferred losses on hedges, net of tax . . . . .	(1,038)	—	(8,723)
Asset revaluation reserve . . . . .	64	—	538
Foreign currency translation adjustments . . . . .	31,725	—	266,597
Total valuation and translation adjustments . . . . .	154,062	—	1,294,639
<b>Share Subscription Rights</b> (Note 14) . . . . .	1	—	8
<b>Minority Interests in Consolidated Subsidiaries</b> . . . . .	81,263	—	682,882
Total net assets . . . . .	991,751	—	8,334,042
<b>Total Liabilities and Net Assets</b> . . . . .	¥2,149,547	—	\$18,063,420



## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Asahi Glass Co., Ltd. and Consolidated Subsidiaries  
For the year ended December 31, 2005

	Thousands	Millions of yen					Total
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Others	Treasury stock, at cost	
<b>Balance at December 31, 2004</b> . . . . .	1,175,242	¥90,472	¥84,628	¥511,749	¥25,836	¥(13,546)	¥699,139
Net income . . . . .	—	—	—	60,015	—	—	60,015
Dividends declared . . . . .	—	—	—	(15,689)	—	—	(15,689)
Bonuses to directors and corporate auditors . . . . .	—	—	—	(181)	—	—	(181)
Increase due to inclusion of new subsidiaries in consolidation . . . . .	—	—	—	550	—	—	550
Increase due to change of overseas subsidiary's functional currency . . . . .	—	—	—	145	—	—	145
Increase due to the exchange of stock . . . . .	10,757	—	11,937	—	—	—	11,937
Increase due to the exchange of conversion of convertible bonds . . . . .	1	1	0	—	—	—	1
Decrease due to inclusion of new subsidiaries in affiliates . . . . .	—	—	—	(139)	—	—	(139)
Loss on sale of treasury stock, net of tax . . . . .	—	—	(4)	(26)	—	—	(30)
Foreign currency translation adjustments, net . . . . .	—	—	—	—	31,478	—	31,478
Unrealized gains on securities, net of tax . . . . .	—	—	—	—	65,621	—	65,621
Asset revaluation reserve . . . . .	—	—	—	—	0	—	0
Increase of treasury stock . . . . .	—	—	—	—	—	(163)	(163)
<b>Balance at December 31, 2005</b> . . . . .	1,186,000	¥90,473	¥96,561	¥556,424	¥122,935	¥(13,709)	¥852,684

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (Note 14)

Asahi Glass Co., Ltd. and Consolidated Subsidiaries  
For the year ended December 31, 2006

	Thousands	Millions of yen				
	Number of shares of common stock	Shareholders' equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at December 31, 2005</b> . . . . .	1,186,000	¥90,473	¥96,561	¥556,424	¥(13,709)	¥729,749
Conversion of convertible bonds . . . . .	14	8	8	—	—	16
Dividends declared <sup>(*)</sup> . . . . .	—	—	—	(8,796)	—	(8,796)
Dividends declared . . . . .	—	—	—	(9,383)	—	(9,383)
Bonuses to directors and corporate auditors <sup>(*)</sup> . . . . .	—	—	—	(97)	—	(97)
Net income . . . . .	—	—	—	44,998	—	44,998
Acquisition of treasury stock . . . . .	—	—	—	—	(466)	(466)
Disposal of treasury stock . . . . .	—	—	—	(27)	374	347
Asset revaluation reserve . . . . .	—	—	—	57	—	57
Net change other than shareholders' equity . . . . .	—	—	—	—	—	—
<b>Balance at December 31, 2006</b> . . . . .	1,186,014	¥90,481	¥96,569	¥583,176	¥(13,801)	¥756,425

	Thousands	Thousands of U.S. dollars				
	Number of shares of common stock	Shareholders' equity				
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at December 31, 2005</b> . . . . .	1,186,000	\$760,278	\$811,437	\$4,675,832	\$(115,200)	\$6,132,347
Conversion of convertible bonds . . . . .	14	67	67	—	—	134
Dividends declared <sup>(*)</sup> . . . . .	—	—	—	(73,916)	—	(73,916)
Dividends declared . . . . .	—	—	—	(78,849)	—	(78,849)
Bonuses to directors and corporate auditors <sup>(*)</sup> . . . . .	—	—	—	(815)	—	(815)
Net income . . . . .	—	—	—	378,135	—	378,135
Acquisition of treasury stock . . . . .	—	—	—	—	(3,917)	(3,917)
Disposal of treasury stock . . . . .	—	—	—	(227)	3,142	2,915
Asset revaluation reserve . . . . .	—	—	—	479	—	479
Net change other than shareholders' equity . . . . .	—	—	—	—	—	—
<b>Balance at December 31, 2006</b> . . . . .	1,186,014	\$760,345	\$811,504	\$4,900,639	\$(115,975)	\$6,356,513

<sup>(\*)</sup> These items were resolved at the shareholders' meeting held on March 30, 2006.

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen

Valuation and translation adjustments							
Unrealized gains on securities, net of tax	Deferred losses on hedges, net of tax	Asset revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
¥124,262	¥ —	¥121	¥ (1,448)	¥122,935	¥—	¥99,320	¥952,004
—	—	—	—	—	—	—	16
—	—	—	—	—	—	—	(8,796)
—	—	—	—	—	—	—	(9,383)
—	—	—	—	—	—	—	(97)
—	—	—	—	—	—	—	44,998
—	—	—	—	—	—	—	(466)
—	—	—	—	—	—	—	347
—	—	—	—	—	—	—	57
(951)	(1,038)	(57)	33,173	31,127	1	(18,057)	13,071
¥123,311	¥(1,038)	¥ 64	¥31,725	¥154,062	¥ 1	¥81,263	¥991,751

Thousands of U.S. dollars

Valuation and translation adjustments							
Unrealized gains on securities, net of tax	Deferred losses on hedges, net of tax	Asset revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Share subscription rights	Minority interests in consolidated subsidiaries	Total net assets
\$1,044,219	\$ —	\$1,017	\$(12,168)	\$1,033,068	\$—	\$834,621	\$8,000,036
—	—	—	—	—	—	—	134
—	—	—	—	—	—	—	(73,916)
—	—	—	—	—	—	—	(78,849)
—	—	—	—	—	—	—	(815)
—	—	—	—	—	—	—	378,135
—	—	—	—	—	—	—	(3,917)
—	—	—	—	—	—	—	2,915
—	—	—	—	—	—	—	479
(7,992)	(8,723)	(479)	278,765	261,571	8	(151,739)	109,840
\$1,036,227	\$(8,723)	\$ 538	\$266,597	\$1,294,639	\$ 8	\$682,882	\$8,334,042

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Asahi Glass Co., Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests . . . . .	¥ 38,292	¥ 82,758	\$ 321,782
Depreciation and amortization . . . . .	125,916	122,665	1,058,118
Impairment loss on long-lived assets . . . . .	45,557	31,556	382,832
Amortization of goodwill . . . . .	7,927	7,774	66,613
Increase in reserves . . . . .	4,165	5,813	35,000
Interest and dividend income . . . . .	(6,915)	(5,491)	(58,109)
Interest expenses . . . . .	18,589	13,073	156,210
Exchange gain, net . . . . .	(5,263)	(2,019)	(44,227)
Equity in earnings of unconsolidated subsidiaries and affiliates . . . . .	(3,327)	(1,802)	(27,958)
Gain on sale of investments in securities, unconsolidated subsidiaries, affiliates and properties, etc., net . . . . .	(11,532)	(15,494)	(96,908)
Decrease (increase) in trade notes and accounts receivable . . . . .	16,909	(23,069)	142,092
Decrease (increase) in inventories . . . . .	2,990	(16,279)	25,126
Increase (decrease) in trade notes and accounts payable . . . . .	(18,892)	19,229	(158,756)
Others . . . . .	29,296	21,171	246,185
Subtotal . . . . .	243,712	239,885	2,048,000
Interest and dividends received . . . . .	7,214	5,126	60,622
Interest paid . . . . .	(18,366)	(14,618)	(154,336)
Income taxes paid . . . . .	(58,563)	(44,888)	(492,126)
Net cash provided by operating activities . . . . .	173,997	185,505	1,462,160
<b>Cash Flows from Investing Activities:</b>			
Decrease in time deposits due over three months . . . . .	(9,464)	(20,149)	(79,529)
Increase in time deposits due over three months . . . . .	5,077	34,773	42,664
Purchases of property, plant and equipment . . . . .	(242,121)	(197,265)	(2,034,630)
Proceeds from sale of property, plant and equipment . . . . .	14,457	13,863	121,487
Purchases of investments in securities, unconsolidated subsidiaries and affiliates . . . . .	(6,072)	(4,026)	(51,025)
Proceeds from sale and redemption of investments in securities, unconsolidated subsidiaries and affiliates . . . . .	26,378	36,146	221,664
Others . . . . .	(733)	862	(6,160)
Net cash used in investing activities . . . . .	(212,478)	(135,796)	(1,785,529)
<b>Cash Flows from Financing Activities:</b>			
Increase in short-term bank loans and commercial paper . . . . .	45,577	7,241	383,000
Proceeds from long-term debts . . . . .	54,692	28,023	459,597
Repayments of long-term debts . . . . .	(54,207)	(50,973)	(455,521)
Proceeds from issuance of bonds . . . . .	21,394	19,927	179,781
Redemption of bonds . . . . .	(11,421)	(16,181)	(95,975)
Repayments from sale of borrowed securities . . . . .	—	(23,146)	—
Purchase of treasury stock . . . . .	(466)	(432)	(3,916)
Redemption of preferred stock . . . . .	—	(11,573)	—
Dividends paid . . . . .	(19,974)	(20,534)	(167,849)
Others . . . . .	286	212	2,404
Net cash provided by (used in) financing activities . . . . .	35,881	(67,436)	301,521
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents . . . . .</b>	<b>1,553</b>	<b>4,028</b>	<b>13,050</b>
<b>Changes in Cash and Cash Equivalents . . . . .</b>	<b>(1,047)</b>	<b>(13,699)</b>	<b>(8,798)</b>
<b>Cash and Cash Equivalents at Beginning of Year . . . . .</b>	<b>54,007</b>	<b>67,944</b>	<b>453,840</b>
<b>Cash and Cash Equivalents Held by Newly Consolidated Subsidiaries, Net of Those Held by Deconsolidated Subsidiaries . . . . .</b>	<b>(333)</b>	<b>(238)</b>	<b>(2,798)</b>
<b>Cash and Cash Equivalents at End of Year (Note 2 (17)) . . . . .</b>	<b>¥ 52,627</b>	<b>¥ 54,007</b>	<b>\$ 442,244</b>

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Asahi Glass Co., Ltd. and Consolidated Subsidiaries

## Note 1: Basis of Presentation

The accompanying consolidated financial statements of Asahi Glass Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively, referred to as the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As discussed in Note 2 (18), the Company adopted a new accounting standard for the presentation of net assets in the balance sheet in the year ended December 31, 2006, and the Company prepared the consolidated balance sheet as of December 31, 2006 in accordance with the new accounting standard. The accompanying consolidated balance sheet as of December 31, 2005, however, has been prepared in accordance with the previously effective accounting standards.

Also, as discussed in Note 2 (19), the consolidated statement of changes in net assets for the year ended December 31, 2006 has been prepared in accordance with the new accounting standard adopted in the year then ended. The accompanying consolidated statement of shareholders' equity for the year ended December 31, 2005 has been prepared in accordance with the previously effective accounting standards.

The Company maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto, represent the arithmetical results of translating yen to dollars on the basis of ¥119=US\$1, the approximate exchange rate at the balance sheet date. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥119=US\$1 or at any other rate.

## Note 2: 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 as of December 31, 2005) of its subsidiaries. The definition of subsidiary is based on the substantive existence of controlling power. The major subsidiaries, which have been consolidated with the Company, are listed below:

	Country/region of incorporation (i)	Direct and indirect ownership percentage (ii)	Paid-in capital (millions)
A.G. Finance Co., Ltd. . . . .		100.0%	¥800
Asahi Distribution & Delivery Co., Ltd. . . . .		100.0	¥100
Asahi Fiber Glass Co., Ltd. . . . .		100.0	¥6,000
Asahi Glass Ceramics Co., Ltd. . . . .		100.0	¥3,500
Asahi Glass Fine Techno Co., Ltd. . . . .		100.0	¥9,000
Asahi Techno Glass Corporation . . . . .		100.0	¥7,233
Ise Chemicals Corporation . . . . .		53.2	¥3,600
Optrex Corporation . . . . .		60.0	¥2,500
AFG Industries, Inc. (iii) . . . . .	U.S.A.	100.0	US\$553
AGA Capital, Inc. . . . .	U.S.A.	100.0	US\$20
AGC America, Inc. . . . .	U.S.A.	100.0	US\$859
Asahi Glass Fine Techno Korea Co., Ltd. . . . .	South Korea	81.1	WON87,000
Asahi Glass Fine Techno Taiwan Co., Ltd. . . . .	Taiwan	100.0	NT\$2,120
Asahi Techno Vision Pte., Ltd. . . . .	Singapore	100.0	S\$121
Glaverbel S.A. (iv) . . . . .	Belgium	100.0	€199
Hankuk Electric Glass Co., Ltd. . . . .	South Korea	42.8	WON40,366
Hanwook Techno Glass Co., Ltd. . . . .	South Korea	84.6	WON3,900
P.T. Asahimas Chemical . . . . .	Indonesia	52.5	US\$42
Thai Asahi Glass Public Co., Ltd. . . . .	Thailand	98.7	BAHT2,580

(i) If other than Japan

(ii) As of December 31, 2006

(iii) Includes 19 companies consolidated by AFG Industries, Inc.

(iv) Includes 92 companies consolidated by Glaverbel S.A.

Note: All of the consolidated subsidiaries use a fiscal year ending December 31 of each year.

The accounts of the remaining 53 (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 Companies.

## **(2) Principles of Consolidation**

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. At December 31, 2006 and 2005, the financial year-end of all the consolidated subsidiaries matches that of the Company.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill is principally amortized over a period of 20 years on a straight-line basis.

Legal reserves of consolidated subsidiaries provided subsequent to the acquisition of such subsidiaries are included in retained earnings and are not shown separately in the consolidated financial statements.

## **(3) Investments in Unconsolidated Subsidiaries and Affiliates Under the 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.

## **(4) 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 Sheet.

## **(5) 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 the determination of net income for the period.

## **(6) 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.

## **(7) Inventories**

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

## **(8) 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 the assets.

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

## **(9) Intangible Assets**

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

#### **(10) Certain Accrued Expense 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.  
Directors’ bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the year ended December 31, 2006, the Company and its consolidated domestic subsidiaries adopted Accounting Standards Board of Japan Statement No. 4 “Accounting standard for Directors’ bonuses” issued by the Accounting Standards Board of Japan on November 29, 2005, and directors’ bonuses are accounted for as expenses of the period when incurred. The effect of the adoption of this new accounting standard on net income is not material.
- (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 Companies’ 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 the additional severance compensation program related to restructuring, and the restructuring of certain businesses of the Companies.

#### **(11) 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.

#### **(12) 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.

#### **(13) Income Taxes**

The Company 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 Company consolidates all wholly owned domestic subsidiaries based on the Japanese tax regulations.

#### **(14) Derivative Financial Instruments**

The Companies 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.

Hedged items mainly include bonds and fuel oil.

Derivatives are recorded at fair value.

### (15) Appropriation of Retained Earnings

Under the Japanese Corporate Law and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting, which shall be held within three months of the end of each financial year. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved at the shareholders' meeting, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register at the end of each financial year.

### (16) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each financial year, adjusted for subsequent free distribution of shares (stock splits).

For the year ended December 31, 2005, "Bonuses to directors and corporate auditors," which are determined through appropriation of retained earnings by resolution of the general shareholders' meeting subsequent to the year-end, and not reflected in the accounts of the current year, should be reflected in the calculation of net income per share as if "Bonuses to directors and corporate auditors" were to be charged to income during the year.

Diluted net income per share is computed based on the assumption that the convertible bonds, treasury stock for stock option and warrant for stock option were fully converted into common stock on the date of issuance or at the beginning of the respective years subsequent to the issuance, with appropriate adjustments of related interest expenses (net of tax).

Cash dividends per share shown for each reporting period in the accompanying Consolidated Statements of Income represent dividends approved or declared as applicable to the respective reporting periods.

### (17) 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.

Cash and cash equivalents at December 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Cash on hand and in banks . . . . .	<b>¥80,610</b>	¥73,811	<b>\$677,395</b>
Short-term loans receivable included in other current assets . . . . .	<b>313</b>	384	<b>2,630</b>
	<b>80,923</b>	74,195	<b>680,025</b>
Less: Time deposits due over three months . . . . .	<b>(28,296)</b>	(20,188)	<b>(237,781)</b>
	<b>¥52,627</b>	¥54,007	<b>\$442,244</b>

### (18) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended December 31, 2006, the Companies adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of December 31, 2006 has been prepared in accordance with the New Accounting Standards comprises the assets, liabilities and net assets sections. The consolidated balance sheet as of December 31, 2005 has been prepared pursuant to the previous standards comprises the assets, liabilities, minority interests and shareholders' equity sections.

The net assets section comprises four subsections, which are shareholders' equity, valuation and translation adjustments, share subscription rights and minority interests in consolidated subsidiaries, as applicable.

If the New Accounting Standards had not been adopted and the previous standards for the shareholders' equity had been applied, the shareholders' equity at December 31, 2006 would have been ¥910,487 million (\$7,651,151 thousand).

### (19) Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "New Accounting Standards"). Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required in Japan.

The consolidated statement of changes in net assets for the year ended December 31, 2006 has been prepared in accordance with the New Accounting Standards. The accompanying consolidated statements of shareholders' equity for the year ended December 31, 2005, prepared for inclusion in the consolidated financial statements for 2005 has not been adapted to the 2006 presentation.

## (20) Accounting Standard for Stock Options

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Stock-Based Compensation" (Statement No. 8 issued by the Accounting Standard Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for stock-based compensation (the Financial Accounting Standard Implementation Guidance No. 11 issued by the Accounting Standards Board of Japan on May 31, 2006), (collectively, "the New Accounting Standards"). The effect of the adoption of the New Accounting Standards on net income is not material.

## Note 3: Reclassification and Restatement

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications and restatement had no impact on previously reported results of operations.

## Note 4: Inventories

Inventories as of December 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Finished goods . . . . .	<b>¥116,969</b>	¥119,024	<b>\$ 982,933</b>
Raw materials . . . . .	<b>57,317</b>	52,980	<b>481,655</b>
Work in process . . . . .	<b>51,731</b>	42,577	<b>434,714</b>
Repair parts and supplies . . . . .	<b>22,215</b>	23,442	<b>186,681</b>
	<b>¥248,232</b>	¥238,023	<b>\$2,085,983</b>

## Note 5: Impairment of Long-Lived Assets

The Company adopts accounting for impairment of long-lived assets, namely property, plant and equipment, and goodwill. The Companies, 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 year ended December 31, 2006, the Companies 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 ¥80,795 million (\$678,950 thousand) on long-lived assets under the Other Expenses section. ¥35,238 million (\$296,118 thousand) of ¥80,795 million (\$678,950 thousand) is recorded as "Expenses for restructuring programs." With respect to operating assets, the Companies 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%.

The impairment loss on long-lived assets recorded in the income statement for the year ended December 31, 2006 consisted of:

Business area	Geographic area	Category	Millions of yen	Thousands of U.S. dollars
Manufacturing facilities for flat glass and goodwill	The Americas	Goodwill and buildings . . . . .	<b>¥41,534</b>	<b>\$349,025</b>
	Japan	Buildings . . . . .	<b>48</b>	<b>404</b>
Manufacturing facilities for CRT glass	Asia	Machinery and buildings . . . . .	<b>31,705</b>	<b>266,429</b>
	Japan	Buildings . . . . .	<b>596</b>	<b>5,009</b>
Manufacturing facilities of chemical products	The Americas	Construction in progress . . . . .	<b>1,684</b>	<b>14,151</b>
	Japan	Machinery and buildings . . . . .	<b>1,332</b>	<b>11,193</b>
	Asia	Machinery . . . . .	<b>174</b>	<b>1,462</b>
Manufacturing facilities for automotive glass	Europe	Machinery and buildings . . . . .	<b>2,400</b>	<b>20,168</b>
Manufacturing facilities for electronic materials	Japan	Machinery . . . . .	<b>401</b>	<b>3,370</b>
Unused land	Japan	Land . . . . .	<b>921</b>	<b>7,739</b>

## Note 6: Investments in Securities

Acquisition cost, market value (book value) and unrealized gains/losses on investments in securities with market quotation on stock exchanges or others at December 31, 2006 and 2005 are summarized as follows:

December 31, 2006				
Millions of yen				
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Securities with market value				
Corporate stock . . . . .	¥80,419	¥191,400	¥(42)	¥271,777
Bonds . . . . .	548	17	—	565
Other securities . . . . .	98	1	—	99
	<b>¥81,065</b>	<b>¥191,418</b>	<b>¥(42)</b>	<b>¥272,441</b>
December 31, 2005				
Millions of yen				
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Securities with market value				
Corporate stock . . . . .	¥87,437	¥190,785	¥(220)	¥278,002
Bonds . . . . .	1,526	9	—	1,535
Other securities . . . . .	93	0	—	93
	<b>¥89,056</b>	<b>¥190,794</b>	<b>¥(220)</b>	<b>¥279,630</b>
December 31, 2006				
Thousands of U.S. dollars				
	Acquisition cost	Unrealized gain	Unrealized loss	Book value (Market value)
Securities with market value				
Corporate stock . . . . .	\$675,790	\$1,608,403	\$(353)	\$2,283,840
Bonds . . . . .	4,605	143	—	4,748
Other securities . . . . .	823	9	—	832
	<b>\$681,218</b>	<b>\$1,608,555</b>	<b>\$(353)</b>	<b>\$2,289,420</b>

The aggregate carrying amounts of investments in non-public companies at December 31, 2006 and 2005, which were included in "Investments in securities" and valued at cost, were ¥7,020 million (\$58,992 thousand) and ¥7,118 million, respectively.

Proceeds from the sale of other investments in securities were ¥22,957 million (\$192,916 thousand) and ¥23,827 million for the years ended December 31, 2006 and 2005, respectively. In addition, gross realized gains were ¥15,471 million (\$130,007 thousand) and ¥12,896 million, and gross realized losses were ¥114 million (\$958 thousand) and ¥95 million for the years ended December 31, 2006 and 2005, respectively.

The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of December 31, 2006 and 2005 is summarized as follows:

December 31, 2006				
Millions of yen				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds . . . . .	¥ 6	¥25	¥11	—
Corporate bonds . . . . .	565	—	—	—
	<b>¥571</b>	<b>¥25</b>	<b>¥11</b>	<b>—</b>
December 31, 2005				
Millions of yen				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds . . . . .	¥ 5	¥ 25	¥17	—
Corporate bonds . . . . .	1,013	522	—	—
	<b>¥1,018</b>	<b>¥547</b>	<b>¥17</b>	<b>—</b>

	December 31, 2006			
	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds . . . . .	\$ 50	\$210	\$92	—
Corporate bonds . . . . .	4,748	—	—	—
	<b>\$4,798</b>	<b>\$210</b>	<b>\$92</b>	<b>—</b>

**Note 7: The Accounting Treatment of Notes Receivable and Payable Maturing on December 31, which was a bank holiday**

The year-end dates of 2006 and 2005, namely, December 31, 2006 and 2005 were bank holidays. Although notes receivable and payable with maturity on these dates were accordingly settled on January 4, 2007 and January 4, 2006, the Companies accounted for their given notes in their financial statements as if they had been settled on those maturity dates.

Notes maturing at December 31, 2006 and 2005 were dealt with in the above manner as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Notes receivable . . . . .	¥3,379	¥3,742	\$28,395
Notes payable . . . . .	383	996	3,218

**Note 8: Short-Term Bank Loans and Long-Term Debts**

Short-term bank loans and long-term debts at December 31, 2006 and 2005, are summarized as follows:

	Weighted average interest rate	Millions of yen		Thousands of U.S. dollars
		2006/12	2005/12	2006/12
Short-term bank loans . . . . .	4.3%	¥ 86,365	¥ 80,920	\$ 725,756
Commercial paper . . . . .	3.1%	57,907	32,037	486,613
Current maturities of long-term bank loans . . . . .	4.1%	18,837	29,598	158,294
Current maturities of bonds at interest rates ranging from 0.42% to 2.93% . . . . .		49,035	9,589	412,059
		<b>¥212,144</b>	<b>¥152,144</b>	<b>\$1,782,722</b>
	Weighted average interest rate	Millions of yen		Thousands of U.S. dollars
		2006/12	2005/12	2006/12
Long-term bank loans from banks and other financial institutions . . . . .	3.3%	¥156,923	¥151,753	\$1,318,683
Less: Portions due within one year . . . . .		(18,837)	(29,598)	(158,294)
		<b>138,086</b>	<b>122,155</b>	<b>1,160,387</b>
1.9% convertible bonds due December 26, 2008 . . . . .		98,686	98,702	829,294
1.5% bonds due February 21, 2007 . . . . .		30,000	30,000	252,101
1.5% bonds due December 16, 2011 . . . . .		20,000	20,000	168,067
0.9% bonds due September 9, 2009 . . . . .		25,000	25,000	210,084
1.3% bonds due October 17, 2012 . . . . .		15,000	15,000	126,051
0.7% bonds due June 3, 2013 . . . . .		20,000	20,000	168,067
Bonds at interest rates ranging from 0.42% to 2.93% at December 31, 2006 and 0.13% to 2.06% at December 31, 2005, respectively, issued by subsidiaries . . . . .		64,998	55,523	546,202
		<b>273,684</b>	<b>264,225</b>	<b>2,299,866</b>
Less: Portions due within one year . . . . .		(49,035)	(9,589)	(412,059)
		<b>224,649</b>	<b>254,636</b>	<b>1,887,807</b>
Other long-term debt . . . . .		25,551	21,681	214,714
		<b>¥388,286</b>	<b>¥398,472</b>	<b>\$3,262,908</b>

Average interest rates are calculated using the average interest rates of short-term bank loans and long-term debt outstanding as at December 31, 2006.

The aggregate annual maturities of long-term loans and bonds outstanding at December 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
Long-term loans		
Year ending December 31,		
2007 .....	¥ 18,837	\$ 158,294
2008 .....	19,350	162,605
2009 .....	10,160	85,378
2010 .....	43,132	362,454
2011 .....	37,261	313,118
2012 and thereafter .....	28,183	236,832
	<u>¥156,923</u>	<u>\$1,318,681</u>
Bonds		
Year ending December 31,		
2007 .....	¥ 49,035	\$ 412,059
2008 .....	109,569	920,748
2009 .....	43,749	367,639
2010 .....	3,315	27,857
2011 .....	33,016	277,445
2012 and thereafter .....	35,000	294,118
	<u>¥273,684</u>	<u>\$2,299,866</u>

As of December 31, 2006 and 2005, the assets of the Companies, which were furnished as collaterals for short-term and long-term bank loans, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Assets pledged as collateral:			
Investments in securities .....	¥ 6	¥ 8	\$ 50
Property, plant and equipment (book value) .....	5,275	7,587	44,328
	<u>¥5,281</u>	<u>¥7,595</u>	<u>\$44,378</u>
Debt secured by collateral:			
Short-term bank loans .....	¥1,712	¥2,613	\$14,387
Long-term bank loans .....	87	141	731
	<u>¥1,799</u>	<u>¥2,754</u>	<u>\$15,118</u>

#### Note 9: Retirement Benefit Plans for Employees

The 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 domestic subsidiaries and certain foreign subsidiaries have adopted funded non-contributory and contributory defined benefit pension plans.

The contributory plans mainly represent the Employees' Pension Fund plans ("EPFs"), composed of the substitutional portions that are the obligation related to the government-defined benefit prescribed by the Japanese Welfare Pension Insurance Law ("JWPIL"), and the corporate portions based on contributory-defined benefit pension arrangements established at the discretion of the Companies.

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 employees 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 funded status of the pension benefit plans is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2006/12	2006/12
<b>Projected Benefit Obligation:</b>			
Projected benefit obligation	¥(343,493)	¥(338,765)	\$(2,886,496)
Plan assets	299,049	284,107	2,513,017
Unfunded projected benefit obligation	(44,444)	(54,658)	(373,479)
Unrecognized actuarial gain (loss)	14,637	(1,191)	123,000
Unrecognized prior service cost	(9,290)	(10,037)	(78,067)
	(68,371)	(63,504)	(574,546)
Less: Prepaid pension costs	186	944	1,563
Accrued retirement benefits	¥ (68,557)	¥ (64,448)	\$ (576,109)
<b>Retirement Benefit Costs:</b>			
Service cost	¥ 11,052	¥ 10,813	\$ 92,874
Interest cost	9,590	9,525	80,588
Expected return on plan assets	(6,527)	(5,541)	(54,849)
Recognized actuarial loss	1,088	6,817	9,143
Amortization of prior service cost	(602)	(304)	(5,059)
Retirement benefit cost for the period	14,601	21,310	122,697
Gain from the transfer of the substitutional portion of the Employees' Pension Fund Plans	—	(2,221)	—
	¥ 14,601	¥ 19,089	\$ 122,697

**Assumptions Used for Calculation of the 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 period for prior service cost	Mainly 13 years	Mainly 13 years
Amortization period for actuarial loss/gain	Mainly 13 years	Mainly 13 years

**Note 10: Income Taxes**

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries for the years ended December 31, 2006 and 2005, consisted of corporate income tax (national), enterprise tax (local) and resident income taxes (local) at the approximate rates indicated below:

	Rates on taxable income	
	2006/12	2005/12
Corporate income tax	30.0%	30.0%
Enterprise tax	7.4	7.4
Resident income taxes	6.0	6.0
	43.4%	43.4%
Statutory tax rate in effect to reflect the deductibility of enterprise tax when paid	40.4%	40.4%

Unlike other income taxes, enterprise tax is deductible for tax purposes when it is paid. "Income Taxes" in the accompanying Consolidated Statements of Income includes all taxes based on income mentioned above.

Deferred tax assets and liabilities (both current and non-current) consisted of the following elements:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
<b>Deferred Tax Assets:</b>			
Accrued retirement benefits for employees . . . . .	¥ 70,171	¥ 66,652	\$ 589,672
Tax losses carried forward . . . . .	32,190	21,733	270,504
Loss on write-down of investments in securities . . . . .	27,161	10,390	228,244
Depreciation and amortization of furnaces in excess of tax limit . . . . .	7,998	7,248	67,210
Reserve for rebuilding furnaces in excess of tax limit . . . . .	6,360	5,532	53,445
Reserve for restructuring programs . . . . .	3,494	2,864	29,361
Accrued bonuses to employees in excess of tax limit . . . . .	2,445	2,286	20,546
Other . . . . .	39,199	37,520	329,404
Gross deferred tax assets . . . . .	189,018	154,225	1,588,386
Less: Valuation allowance . . . . .	(53,744)	(24,972)	(451,630)
Total deferred tax assets . . . . .	¥135,274	¥129,253	\$1,136,756
<b>Deferred Tax Liabilities:</b>			
Unrealized gains on securities . . . . .	¥ (68,976)	¥ (68,418)	\$ (579,630)
Gain on establishment of trust for retirement benefits . . . . .	(34,315)	(33,154)	(288,361)
Depreciation . . . . .	(16,426)	(19,257)	(138,034)
Deferred capital gain reserve . . . . .	(13,087)	(14,408)	(109,975)
Other . . . . .	(28,574)	(27,091)	(240,118)
Gross deferred tax liabilities . . . . .	(161,378)	(162,328)	(1,356,118)
Net deferred tax liabilities . . . . .	¥ (26,104)	¥ (33,075)	\$ (219,362)

The reconciliation of the statutory tax rates and the effective income tax rates appearing in the Consolidated Statements of Income for the years ended December 31, 2006 and 2005 are shown as follows:

	2006/12	2005/12
Statutory tax rates . . . . .	40.4%	40.4%
Entertainment expenses, etc., nondeductible . . . . .	3.5	0.7
Dividend income, not taxable . . . . .	(21.1)	(1.4)
Difference in tax rates applied to overseas subsidiaries . . . . .	9.4	(5.2)
Equity in earnings of unconsolidated subsidiaries and affiliates . . . . .	(3.5)	(0.9)
Amortization of goodwill . . . . .	10.5	—
Dividend received from overseas subsidiaries . . . . .	2.8	—
Valuation allowance . . . . .	71.4	—
Loss on write-down of investments in subsidiaries deductible for tax purposes . . . . .	(102.7)	—
Other . . . . .	5.3	6.4
Effective income tax rate . . . . .	16.0%	40.0%

## Note 11: Accounting for Leases

All finance lease contracts, other than those through which the ownership of the leased assets is transferred to the lessees, are accounted for using a method similar to that applicable to operating leases.

### (1) Lessees' accounting

Lease expenses on finance lease contracts without ownership transfer for the years ended December 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Lease expenses . . . . .	<u>¥1,094</u>	<u>¥1,277</u>	<u>\$9,193</u>

The acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Acquisition cost . . . . .	<u>¥6,462</u>	<u>¥7,316</u>	<u>\$54,303</u>
Accumulated depreciation . . . . .	<u>(4,162)</u>	<u>(4,823)</u>	<u>(34,975)</u>
Net book value . . . . .	<u>¥2,300</u>	<u>¥2,493</u>	<u>\$19,328</u>
Depreciation . . . . .	<u>¥1,094</u>	<u>¥1,277</u>	<u>\$ 9,193</u>

Depreciation is computed using the straight-line method over the lease term of the leased assets with no residual value.

The amount of outstanding future lease payments due at December 31, 2006 and 2005, which included the portion of interest thereon, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Future lease payments:			
Due within one year . . . . .	<u>¥ 932</u>	<u>¥ 898</u>	<u>\$ 7,832</u>
Due over one year . . . . .	<u>1,368</u>	<u>1,595</u>	<u>11,496</u>
Total . . . . .	<u>¥2,300</u>	<u>¥2,493</u>	<u>\$19,328</u>

The amount of outstanding future lease payments under non-cancelable operating leases at December 31, 2006 and 2005, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Future lease payments:			
Due within one year . . . . .	<u>¥1,639</u>	<u>¥ 1,891</u>	<u>\$13,773</u>
Due over one year . . . . .	<u>8,177</u>	<u>9,666</u>	<u>68,714</u>
Total . . . . .	<u>¥9,816</u>	<u>¥11,557</u>	<u>\$82,487</u>

## (2) Lessors' accounting

Lease receipts and depreciation expense on finance lease contracts without ownership transfer for the years ended December 31, 2006 and 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Lease receipts	¥696	¥807	\$5,849
Depreciation	184	253	1,546

The acquisition cost, accumulated depreciation and net book value of the leased assets, which included the portion of interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Acquisition cost	¥348	¥327	\$2,924
Accumulated depreciation	(151)	(180)	(1,269)
Net book value	¥197	¥147	\$1,655

The amount of outstanding future lease receipts under non-cancelable operating leases at December 31, 2006 and 2005, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Future lease receipts:			
Due within one year	¥ 86	¥111	\$ 723
Due over one year	376	243	3,159
Total	¥462	¥354	\$3,882

## Note 12: Commitments and Contingent Liabilities

As of December 31, 2006, the Companies had contingent liabilities in the aggregate amount of ¥2,376 million (\$19,966 thousand) from notes endorsed.

The Companies had contingent obligations for guarantee of loans borrowed by the following companies as of December 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Loans borrowed by:		
DAP Technology Co., Ltd.	¥1,580	\$13,277
Hibikinada Development Co., Ltd.	1,087	9,135
Other	576	4,840
	¥3,243	\$27,252

## Note 13: R&D Costs

Research and development costs incurred by the Companies for the years ended December 31, 2006 and 2005, included in "Selling, General and Administrative Expenses" and "Cost of Sales," totalled ¥30,781 million (\$258,664 thousand) and ¥31,706 million, respectively.

## Note 14: Information on Net Assets

### (1) Type and Number of Shares Outstanding and Treasury Stock

For the year ended December 31, 2006, information on shares outstanding and treasury stock is presented as follows:

Type of shares	Thousand stocks	
	Shares outstanding Common stock	Treasury stock Common stock
Number of shares as of December 31, 2005	1,186,000	13,151
Increase during the year ended December 31, 2006 <sup>(i,ii)</sup>	14	304
Decrease during the year ended December 31, 2006 <sup>(iii)</sup>	—	(356)
Number of shares as of December 31, 2006	<b>1,186,014</b>	<b>13,099</b>

<sup>(i)</sup> Increase in the number of shares outstanding of 14 thousand common stocks was due to conversion of convertible bonds.

<sup>(ii)</sup> Increase in the number of treasury stock of 304 thousand common stocks was due to purchase of less-than-one-unit shares.

<sup>(iii)</sup> 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

For the year ended December 31, 2006, information on share subscription rights is presented as follows:

	Thousand stocks
Company name	Asahi Glass Co., Ltd.
Detail of share subscription rights	Stock option
Type of shares	Common stock
Number of shares as of December 31, 2005	—
Increase during the year ended December 31, 2006	—
Decrease during the year ended December 31, 2006	—
Number of shares as of December 31, 2006	—
Balance as of December 31, 2006 (millions of yen)	<b>1</b>

### (3) Dividends

(i) Dividend payment

Approvals by shareholders' meeting held on March 30, 2006 are as follows:

Type of shares	Common stock
Total amount of dividends	8,796 millions of yen
Dividends per share	7.5 yen
Record date	December 31, 2005
Effective date	March 31, 2006

Approvals by board of directors' meeting held on August 23, 2006 are as follows:

Type of shares	Common stock
Total amount of dividends	9,383 millions of yen
Dividends per share	8.0 yen
Record date	June 30, 2006
Effective date	September 8, 2006

(ii) Dividends whose record date is attributable to the year ended December 31, 2006 but to be effective after the said year

Approvals by shareholders' meeting held on March 29, 2007 are as follows:

Type of shares	Common stock
Total amount of dividends	9,383 millions of yen
Funds for dividends	Retained earnings
Dividends per share	8.0 yen
Record date	December 31, 2006
Effective date	March 30, 2007

### Note 15: Net Income per Share—Basic and Net Income per Share—Fully Diluted

Calculations of net income per share for the years ended December 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Net income per share—basic			
Net income . . . . .	<b>¥44,998</b>	¥60,015	<b>\$378,135</b>
Less: Bonuses to directors and corporate auditors . . . . .	—	50	—
	<b>¥44,998</b>	¥59,965	<b>\$378,135</b>
Weighted average number of shares issued (thousands) . . . . .	<b>1,172,863</b>	1,167,462	<b>1,172,863</b>
	In exact yen		In exact U.S. dollars
	2006/12	2005/12	2006/12
Net income per share—basic . . . . .	<b>¥38.37</b>	¥51.36	<b>\$0.32</b>
	Millions of yen		Thousands of U.S. dollars
	2006/12	2005/12	2006/12
Net income per share—fully diluted			
Adjustments to net income			
Interest expense, net of tax . . . . .	<b>¥1,145</b>	¥1,145	<b>\$9,622</b>
Increase in common shares (thousands)			
Convertible bonds . . . . .	<b>87,025</b>	87,039	<b>87,025</b>
Treasury stock for stock option . . . . .	<b>23</b>	21	<b>23</b>
Warrant for stock option . . . . .	<b>375</b>	174	<b>375</b>
	<b>87,423</b>	87,234	<b>87,423</b>
	In exact yen		In exact U.S. dollars
	2006/12	2005/12	2006/12
Net income per share—fully diluted . . . . .	<b>¥36.61</b>	¥48.70	<b>\$0.31</b>

The potential common stock upon exercise of stock option rights with anti-dilutive effect, excluded from the computation of “Net income per share—fully diluted,” amounted to 640,000 and 630,000 shares at December 31, 2006 and 2005, respectively.

## Note 16: Stock-based Compensation Plan

Stock-based compensation plan as of December 31, 2006 is as follows:

	Treasury stock		
Date of grant . . . . .	August 1, 2001		
Number of shares granted . . . . .	Common stock 229,000		
Grantee . . . . .	Company directors and employees		
Exercise price . . . . .	¥1,010		
Exercisable period . . . . .	August 1, 2003 through July 31, 2007		
Outstanding at the end of the fiscal year . . . . .	69,000		
	Share subscription rights-1	Share subscription rights-2	Share subscription rights-3
Date of grant . . . . .	August 1, 2002	August 1, 2003	June 1, 2004
Number of shares granted . . . . .	Common stock 346,000	Common stock 370,000	Common stock 630,000
Grantee . . . . .	Directors and employees of the Companies	Directors and employees of the Companies	Directors and employees of the Companies
Exercise price . . . . .	¥799	¥826	¥1,243
Exercisable period . . . . .	August 1, 2004 through July 31, 2008	August 1, 2005 through July 31, 2009	June 1, 2006 through May 31, 2010
Outstanding at the end of the fiscal year . . . . .	95,000	237,000	556,000
	Share subscription rights-4	Share subscription rights-5	Share subscription rights-6
Date of grant . . . . .	June 1, 2005	April 28, 2006	June 1, 2006
Number of shares granted . . . . .	Common stock 630,000	Common stock 625,000	Common stock 15,000
Grantee . . . . .	Directors and employees of the Companies	Directors and employees of the Companies	Subsidiary directors and employees
Exercise price . . . . .	¥1,226	¥1,757	¥1,779
Exercisable period . . . . .	June 1, 2007 through May 31, 2011	June 1, 2008 through May 31, 2012	June 1, 2008 through May 31, 2012
Outstanding at the end of the fiscal year . . . . .	600,000	625,000	15,000

## Note 17: Information on Derivatives

As of December 31, 2006 and 2005, derivatives, including forward foreign exchange contracts and interest rate swap transactions (other than those accounted for as hedges) are summarized as follows:

	Millions of yen							
	2006/12				2005/12			
	Contracted amount and option premium		Market value	Gain (loss)	Contracted amount and option premium		Market value	Gain (loss)
Total	Due over one year	Total			Due over one year			
<b>Forward Foreign Exchange Contracts:</b>								
Sell								
U.S. dollars . . . . .	¥5,144	—	¥5,284	¥(140)	¥6,167	—	¥6,567	¥(400)
Other . . . . .	3,601	—	3,655	(54)	5,041	—	5,047	(6)
Buy								
U.S. dollars . . . . .	313	—	316	3	1,699	—	1,777	78
Other . . . . .	572	—	619	47	2,868	—	2,947	79
<b>Currency Option Contracts:</b>								
Sell call option/Buy put option . . . . .	237	—			550	—		
	—	—	(0)	(0)	—	—	(2)	(2)*
Buy								
Put option . . . . .	1,414	—			2,103	—		
	(36)	—	40	4	(28)	—	46	18*
Call option . . . . .	1,191	—			1,393	—		
	(15)	—	10	(5)	(12)	—	18	6*
Sell								
Put option . . . . .	1,787	—			839	—		
	(7)	—	11	(4)	(6)	—	2	4*
Call option . . . . .	2,828	—			4,240	—		
	(36)	—	17	19	(19)	—	10	9*
TOTAL . . . . .				¥(130)				¥(214)

\*Represents option premiums

Millions of yen

	2006/12				2005/12			
	Contracted amount and option premium		Market value	Gain (loss)	Contracted amount and option premium		Market value	Gain (loss)
	Total	Due over one year			Total	Due over one year		
<b>Interest Rate Swap Contracts:</b>								
Receiving fixed rates and paying floating rates . . . . .	¥22,288	¥13,680	¥ 177	¥ 177	¥81,688	¥79,688	¥389	¥389
Receiving floating rates and paying fixed rates . . . . .	52,248	32,836	(104)	(104)	56,014	35,835	(362)	(362)
<b>Forward Interest Rate Contracts:</b>								
Buy . . . . .	11,738	—	11,735	(3)	—	—	—	—
<b>Interest Rate Cap Contracts:</b>								
Buy . . . . .	69,330	54,775			34,538	26,987		
	(456)	(427)	881	425	(170)	(107)	258	88
Sell . . . . .	43,038	39,125			—	—		
	(599)	(564)	621	(22)	—	—	—	—
<b>Interest Rate Floor Contracts:</b>								
Buy . . . . .	54,027	36,778			41,250	19,576		
	(179)	(87)	29	(150)	(128)	(64)	68	(60)
Sell . . . . .	27,388	25,040			11,186	9,089		
	(111)	(94)	25	86	(53)	(44)	43	10
<b>Interest Rate Swaption Contracts:</b>								
Sell . . . . .	3,913	3,913			14,469	14,469		
	(7)	(7)	0	7	(91)	(91)	55	36
TOTAL . . . . .				¥ 416				¥101
<b>Oil Swap Contracts:</b>								
Buy . . . . .	3,038	376	(303)	(303)	2,159	—	72	72
<b>Metal Swap Contracts:</b>								
Buy . . . . .	364	—	103	103	—	—	—	—
<b>Oil Option Contracts:</b>								
Buy . . . . .	23,399	—			1,423	—		
	—	—	(26)	(26)	(133)	—	149	16
TOTAL . . . . .				¥(226)				¥ 88

\*Represents option premiums

## Note 18: Segment Information

Segment information of the Companies classified by business segment for the years ended December 31, 2006 and 2005 is presented as below:

The Companies operate principally in four business segments: Glass products, Electronics and Display products, Chemical products, and Other products.

Glass products: Flat and automotive glass, construction materials and others

Electronics and Display products: FPD (liquid crystal display, PDP) glass substrates, CRT glass bulbs, and electronic components and others

Chemical products: Caustic soda, chlorine and its derivative products, fluorochemical products and others

Other products: Ceramics and others

¥35,238 million (\$296,118 thousand) and ¥6,673 million of impairment loss on long-lived assets for the years ended December 31, 2006 and 2005 are recorded as expenses for restructuring programs, respectively.

	For the year ended December 31, 2006						
	Millions of yen						
	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales:							
Sales to customers . . . . .	¥ 806,325	¥475,787	¥302,649	¥ 35,780	¥1,620,541	¥ —	¥1,620,541
Inter-segment sales/transfers . . . . .	9,011	834	4,957	48,344	63,146	(63,146)	—
Total sales . . . . .	<u>815,336</u>	<u>476,621</u>	<u>307,606</u>	<u>84,124</u>	<u>1,683,687</u>	<u>(63,146)</u>	<u>1,620,541</u>
Operating expenses . . . . .	768,850	397,428	299,762	80,820	1,546,860	(62,931)	1,483,929
Operating income . . . . .	¥ 46,486	¥ 79,193	¥ 7,844	¥ 3,304	¥ 136,827	¥ (215)	¥ 136,612
Assets . . . . .	¥ 893,166	¥662,292	¥283,385	¥218,427	¥2,057,270	¥92,277	¥2,149,547
Depreciation and amortization . . . . .	¥ 56,449	¥ 47,658	¥20,802	¥ 1,168	¥ 126,077	¥ (161)	¥ 125,916
Impairment loss on long-lived assets . . . . .	¥ 43,998	¥ 32,702	¥ 3,191	¥ 904	¥ 80,795	—	¥ 80,795
Capital expenditures . . . . .	¥ 79,595	¥146,014	¥ 25,886	¥ 1,237	¥ 252,732	—	¥ 252,732
	For the year ended December 31, 2005						
	Millions of yen						
	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales:							
Sales to customers . . . . .	¥754,799	¥441,689	¥295,802	¥ 34,371	¥1,526,661	¥ —	¥1,526,661
Inter-segment sales/transfers . . . . .	4,095	2,114	4,595	45,882	56,686	(56,686)	—
Total sales . . . . .	<u>758,894</u>	<u>443,803</u>	<u>300,397</u>	<u>80,253</u>	<u>1,583,347</u>	<u>(56,686)</u>	<u>1,526,661</u>
Operating expenses . . . . .	720,908	382,915	284,102	77,102	1,465,027	(56,560)	1,408,467
Operating income . . . . .	¥ 37,986	¥ 60,888	¥ 16,295	¥ 3,151	¥ 118,320	¥ (126)	¥ 118,194
Assets . . . . .	¥873,193	¥614,036	¥283,413	¥257,438	¥2,028,080	¥53,847	¥2,081,927
Depreciation and amortization . . . . .	¥ 56,682	¥ 46,085	¥ 18,616	¥ 1,383	¥ 122,766	¥ (101)	¥ 122,665
Impairment loss on long-lived assets . . . . .	¥ 3,183	¥ 34,754	—	¥ 293	¥ 38,230	—	¥ 38,230
Capital expenditures . . . . .	¥ 73,038	¥100,505	¥ 27,480	¥ 2,972	¥ 203,995	—	¥ 203,995

For the year ended December 31, 2006							
Thousands of U.S. dollars							
	Glass	Electronics and Display	Chemicals	Other	Total	Corporate or elimination	Consolidated total
Sales:							
Sales to customers . . . . .	\$6,775,840	\$3,998,210	\$2,543,269	\$ 300,673	\$13,617,992	\$ —	\$13,617,992
Inter-segment sales/transfers . . .	75,723	7,008	41,655	406,252	530,638	(530,638)	—
Total sales . . . . .	6,851,563	4,005,218	2,584,924	706,925	14,148,630	(530,638)	13,617,992
Operating expenses . . . . .	6,460,924	3,339,731	2,519,008	679,160	12,998,823	(528,831)	12,469,992
Operating income . . . . .	\$ 390,639	\$ 665,487	\$ 65,916	\$ 27,765	\$ 1,149,807	\$ (1,807)	\$ 1,148,000
Assets . . . . .	\$7,505,597	\$5,565,479	\$2,381,386	\$1,835,521	\$17,287,983	\$775,437	\$18,063,420
Depreciation and amortization . . .	\$ 474,361	\$ 400,487	\$ 174,807	\$ 9,816	\$ 1,059,471	\$ (1,353)	\$ 1,058,118
Impairment loss on long-lived assets . . . . .	\$ 369,731	\$ 274,807	\$ 26,815	\$ 7,597	\$ 678,950	—	\$ 678,950
Capital expenditures . . . . .	\$ 668,866	\$1,227,008	\$ 217,529	\$ 10,395	\$ 2,123,798	—	\$ 2,123,798

Segment information of the Companies classified by geographic segment for the years ended December 31, 2006 and 2005 is presented as follows:

For the year ended December 31, 2006							
Millions of yen							
	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
Sales to customers . . . . .	¥695,023	¥367,077	¥195,134	¥363,307	¥1,620,541	¥ —	¥1,620,541
Inter-segment sales . . . . .	218,224	69,256	10,257	2,601	300,338	(300,338)	—
Total . . . . .	913,247	436,333	205,391	365,908	1,920,879	(300,338)	1,620,541
Operating expenses . . . . .	823,523	411,710	211,574	330,533	1,777,340	(293,411)	1,483,929
Operating income (loss) . . . . .	¥ 89,724	¥ 24,623	¥ (6,183)	¥ 35,375	¥ 143,539	¥ (6,927)	¥ 136,612
Assets . . . . .	¥859,647	¥534,066	¥158,207	¥424,597	¥1,976,517	¥173,030	¥2,149,547

For the year ended December 31, 2005							
Millions of yen							
	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
Sales to customers . . . . .	¥686,484	¥327,602	¥196,056	¥316,519	¥1,526,661	¥ —	¥1,526,661
Inter-segment sales . . . . .	169,748	63,100	7,855	2,219	242,922	(242,922)	—
Total . . . . .	856,232	390,702	203,911	318,738	1,769,583	(242,922)	1,526,661
Operating expenses . . . . .	787,405	353,370	210,884	296,578	1,648,237	(239,770)	1,408,467
Operating income (loss) . . . . .	¥ 68,827	¥ 37,332	¥ (6,973)	¥ 22,160	¥ 121,346	¥ (3,152)	¥ 118,194
Assets . . . . .	¥825,483	¥501,662	¥206,315	¥367,639	¥1,901,099	¥180,828	¥2,081,927

For the year ended December 31, 2006							
Thousands of U.S. dollars							
	Japan	Asia	The Americas	Europe	Total	Corporate or elimination	Consolidated total
Sales to customers . . . . .	\$5,840,529	\$3,084,681	\$1,639,782	\$3,053,000	\$13,617,992	\$ —	\$13,617,992
Inter-segment sales . . . . .	1,833,815	581,983	86,193	21,857	2,523,848	(2,523,848)	—
Total . . . . .	7,674,344	3,666,664	1,725,975	3,074,857	16,141,840	(2,523,848)	13,617,992
Operating expenses . . . . .	6,920,361	3,459,748	1,777,933	2,777,588	14,935,630	(2,465,638)	12,469,992
Operating income (loss) . . . . .	\$ 753,983	\$ 206,916	\$ (51,958)	\$ 297,269	\$ 1,206,210	\$ (58,210)	\$ 1,148,000
Assets . . . . .	\$7,223,924	\$4,487,950	\$1,329,471	\$3,568,042	\$16,609,387	\$1,454,033	\$18,063,420

Major countries/regions in the regional segmentation above

Asia: Indonesia, Singapore, Thailand, Taiwan, China, and South Korea

The Americas: U.S.A., Canada, and Mexico

Europe: Belgium, Netherlands, Italy, Spain, Czech Republic, Germany, France, U.K., and Russia

Overseas sales by geographic segment and those as a percentage of consolidated sales for the years ended December 31, 2006 and 2005 are as follows:

For the year ended December 31, 2006						
	Millions of yen					Thousands of U.S. dollars
	Asia	The Americas	Europe	Other	Total	Total
Overseas sales . . . . .	¥425,917	¥197,578	¥362,059	¥20,625	¥1,006,179	\$ 8,455,286
Consolidated sales . . . . .	—	—	—	—	¥1,620,541	\$13,617,992
Percentage . . . . .	26.3%	12.2%	22.3%	1.3%	62.1%	

For the year ended December 31, 2005					
	Millions of yen				
	Asia	The Americas	Europe	Other	Total
Overseas sales . . . . .	¥393,649	¥189,580	¥319,328	¥18,121	¥ 920,678
Consolidated sales . . . . .	—	—	—	—	¥1,526,661
Percentage . . . . .	25.8%	12.4%	20.9%	1.2%	60.3%

Major countries/regions in the regional segmentation above

Asia: Indonesia, Singapore, Thailand, Taiwan, China, and South Korea

The Americas: U.S.A., Canada, and Mexico

Europe: Belgium, Netherlands, Italy, Spain, Czech Republic, Germany, France, and Russia

Other: Oceania, Middle East, and Africa

## INDEPENDENT AUDITORS' REPORT



To the Shareholders and Board of Directors of  
Asahi Glass Company, Limited:

We have audited the accompanying consolidated balance sheet of Asahi Glass Company, Limited and consolidated subsidiaries as of December 31, 2006 and the related consolidated statements of income, net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit. The consolidated balance sheet of Asahi Glass Company, Limited and consolidated subsidiaries as of December 31, 2005 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended were audited by other auditors whose report, dated March 30, 2006, expressed an unqualified opinion on those statements.

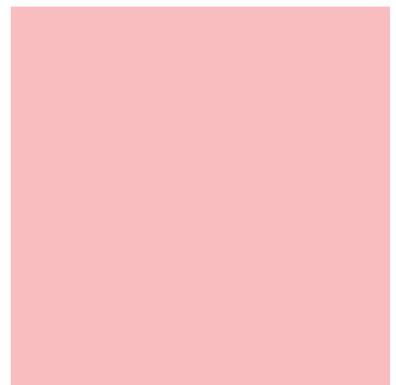
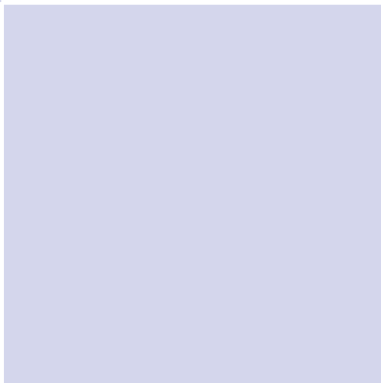
We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Asahi Glass Company, Limited and subsidiaries as of December 31, 2006 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
March 29, 2007



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