ANGLOGOLD ASHANTI LTD
Form 6-K
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated March 31, 2011
Commission File Number 1-14846
AngloGold Ashanti Limited
(Name of registrant)
76 Jeppe Street
Newtown, 2001
(P.O. Box 62117, Marshalltown, 2107)
South Africa
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes **No X**

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes **No X**

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes **No X**

Enclosure: Press release
ANGLOGOLD ASHANTI SUSTAINABILITY REPORT 2010

Sustainability Report **2010**
sustainable
gold

Our
vision
Our
mission
to be
the leading
mining company

To create value for our shareholders, our employees and our business and social partners through safely and responsibly exploring, mining and marketing our products. Our primary focus is gold and we will pursue value creating opportunities in other minerals where we can leverage our existing assets, skills and experience to enhance the delivery of value.

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Safety is our first value.

We place people first and correspondingly put the highest priority on safe and healthy practices and systems of work. We are responsible for seeking out new and innovative ways to ensure that our workplaces are free of occupational injury and illness. We live each day for each other and use our collective commitment, talents, resources and systems to deliver on our most important commitment ... to care.

We treat each other with dignity and respect.

We believe that individuals who are treated with respect and who are entrusted to take responsibility respond by giving their best. We seek to preserve people's dignity, their sense of self-worth in all our interactions, respecting them for who they are and valuing the unique contribution that they can make to our business success. We are honest with ourselves and others, and we deal ethically with all of our business and social partners.

We value diversity.

We aim to be a global leader with the right people for the right jobs. We promote inclusion and team work, deriving benefit from the rich diversity of the cultures, ideas, experiences and skills that each employee brings to the business.

We are accountable for our actions and undertake to deliver on our commitments.

We are focused on delivering results and we do what we say we will do. We accept responsibility and hold ourselves accountable for our work, our behaviour, our ethics and our actions. We aim to deliver high performance outcomes and undertake to deliver on our commitments to our colleagues, business and social partners, and our investors.

The communities and societies in which we operate will be better off for AngloGold Ashanti having been there.

We uphold and promote fundamental human rights where we do business. We contribute to building productive, respectful and mutually beneficial partnerships in the communities in which we operate. We aim to leave host communities with a sustainable future.

We respect the environment.

We are committed to continually improving our processes in order to prevent pollution, minimise waste, increase our carbon efficiency and make efficient use of natural resources. We will develop innovative solutions to mitigate environmental and climate risks.

Our

values

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Our areas of focus in this report

Additional and supplementary information can be found at:
www.anglogoldashanti.com/sustainability
<http://www.anglogoldashanti.com/sustainability>

The table opposite shows performance indicators relating to the key areas of focus of this report which represent the most important sustainability challenges – and opportunities – in our business.

Registered and corporate office
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2010
2009
2008
Operational safety
(pages 21 to 24)
Number of fatalities
15
15
(1)
14
All injury frequency rate (AIFR)
(2)
11.50
12.88
16.66
Employee and community health
(3)
(pages 25 to 28)
New cases of silicosis
459
409
442
Incidence of compensable noise-induced hearing loss (NIHL) (per 100 employees)
2.00
2.36
2.60
Incidence of malaria (per 100 employees)
25
37
42
Percentage of relevant employees provided with anti-retroviral therapy (ART)
75%
87%
76%
Human rights
(pages 29 to 32)
Incidents under the Voluntary Principles on Security and Human Rights (VPSHR)
2
1
3
Allegations under the VPSHR
6
4
6
Percentage of security personnel trained in the VPSHR
88%
86%
75%
(4)

Communities
(pages 33 to 40)
Economic value generated ($m)
5,620
4,059
(1)
3,800
Payments to government ($000)
844,321
644,252
534,549
Community investment ($000)
16,080
10,881
8,441
Environmental and natural resource stewardship
(pages 46 to 52)
Energy usage (Million GJ)
30.6
29.8
(1)
29.4
Greenhouse gas emissions (Mt CO2e)
4.70
4.61
(1)
4.55
Water usage (ML)
54,664
55,138
53,617
Number of reportable environmental incidents
27
51
(1)
55
Number (percentage) of relevant sites with full Cyanide Code certification
(5)
15 (79%)
12 (63%)
8 (42%)
(1)
Figures have been restated – refer to the relevant section of the report or online supplementary information for an explanation of the restatement.
(2)
The total number of injuries and fatalities per million hours worked.
(3)
Data on silicosis, NIHL and ART apply to South Africa only, although small numbers of employees receive ART in other countries. Data on malaria applies
to Ghana, Tanzania, Guinea and Mali only.
(4)

Estimated data.
(5))
Cyanide is used at 19 of our operations.
performance
Our
sustainability
in 2010

CEO's letter

Since 2008, as members of the AngloGold Ashanti team, we have all been working to rebuild our business to ensure we are positioned to realise our full potential. Our strategy has been based on the establishment of a stable growth foundation – we have regenerated our financial capacity and reinvigorated operational performance, including the delivery of substantial improvements in safety performance, while constructing an exciting range of new projects and development opportunities. Together, these initiatives are designed to position AngloGold Ashanti to deliver long-term sustainable value for all its business and social stakeholders. In our world the concept of sustainability, the creation of a better present and future for all of our partners, can only be secured if we are navigating our future together with local communities.

Our vision is to be 'the leading mining company'. We will only achieve this vision if we can prove our ability to operate sensitively to and with our host communities, to demonstrate that we will partner with them to create 'enduring value'. We recognise that 'enduring value' is a relative concept and can only be defined in the eyes of each partner – the challenge is to find common ground upon which we both see enduring value as it relates to our respective needs. AngloGold Ashanti is committed to the journey that discovers where these needs intersect – to help build our company and the communities in which we operate.

In the shorter term we need to develop appropriate responses to the many sustainability challenges that we face in operating across geographically and culturally diverse landscapes. In the long term we must be defined by the nature of our relationships with our business and social partners.

What are these challenges and how are we addressing them now? Improving safety performance is our most important business goal and remains our most significant business challenge. In 2010 we took two critical steps towards realising our long-term goal of operating an accident-free business – we launched our safety transformation project and we undertook the detailed design work that was required to integrate safety transformation into our Project ONE operating model. Our approach to safety incorporates three elements – engaging people in the work of creating a safe environment, building robust systems which support safe work and managing risks effectively through appropriate controls at all levels. Integrating this thinking into the DNA of the business is essential if we are to make sustainable gains in safety performance.

While safety in the workplace is our main concern, the overall health and wellbeing of our employees is a major consideration for the same reason – people are our business and their wellbeing takes precedence. In South Africa, where we have a large workforce, many of whom are migrant workers, there is a continued incidence of silicosis, stubbornly high HIV prevalence rates, the related scourge of tuberculosis and a continuing incidence of noise-induced hearing loss. In Continental Africa, we mine in areas where malaria is endemic and carries a major health risk for employees and communities.

We have made significant progress in bringing down malaria incidence rates in Obuasi, one of the worst-affected areas, and will continue to work in 2011 to replicate the integrated approach that has been so successful there in other affected regions where we operate, as well as in other areas of Ghana, at the request of the Ghanaian authorities, through a substantial grant from the Global Fund.

We are addressing the incidence of silicosis by reinforced information and education, reducing the exposure of employees to silica dust and measuring exposure more effectively to help us more effectively manage all aspects of our operations. Unfortunately, we are unlikely to see the results of this work for another decade due to the long latency period of the disease. In the meantime, we continue to offer vulnerable employees the means to improve their wellness, particularly by combating HIV and tuberculosis, both of which aggravate the affect of silicosis.

Responsible environmental stewardship and the effective management of scarce natural resources are important to us in living to our value of respect for the environment. While we are improving processes in this area, we regrettably had cause to temporarily suspend or curtail production at our two operations in Ghana during 2010, in order to remediate water-related concerns. We are addressing these challenges in part through the establishment of a task force in the region, with a team member dedicated to sustainability issues. We made significant progress in reducing environmental incidents in 2010, through a concerted effort in South Africa to address nagging problems that were causing repeated incidents. In the meantime, we continue to develop company-wide approaches to longer-term issues such as energy and water security.

CEO’s letter

Podcast available at www.anglogoldashanti.com

Mark Cutifani, Chief
Executive Officer

We will only achieve our vision if we can prove our ability to operate sensitively to and with our communities, to partner with them to create ‘enduring value’.

Pod
cast:

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A burgeoning priority area of focus in 2010 was developing a clearer understanding of the steps necessary to ensure that our business operates with due respect for human rights. We operate in regions where communities are vulnerable and we therefore need to be uncompromising in our commitment to respect for human rights and intolerant of corruption in all of its forms. Such an approach is simply the consequence of our belief that people are our business.

We continue to progress the integration of human rights issues into our security strategy, by embedding the Voluntary Principles on Security and Human Rights (VPSHR) into all aspects of security management. In 2011, we will continue with this work and will also examine the implications of the work that is underway in the UN on human rights and business for other areas, for example, in applying due diligence on human rights issues in our operations and in respect of our supply chain dealings.

Against a backdrop of increasing consumer concern about the impact and origin of the products that they purchase, we are continuing our active engagement with the World Gold Council and the Responsible Jewellery Council to develop industry standards for responsible gold production and chain of custody. In 2010, legislation was passed in the USA which will give consumers greater transparency over the chain of custody of products manufactured with gold from the Democratic Republic of the Congo and its neighbours. We are proactively engaging with governments in the region and with the USA government to understand the implications of this legislation and in particular to avoid measures that might inadvertently stigmatise gold produced responsibly in the region.

The sustainability challenges that we face are as significant as they are varied and require a considered strategic response from AngloGold Ashanti. In 2010, we started the development of a sustainability strategy that not only addresses priority areas of concern but also seeks to achieve competitive advantage for the company through excellence and innovation in sustainability practice.

A key objective of this strategy is to achieve a fundamental shift in the nature of our engagement with communities. The mining industry has a legacy of paternalistic relationships with communities and – in many ways – AngloGold Ashanti has not been an exception to this rule. This is hardly surprising as mining companies are so often better resourced and more formally structured than the communities which host them. We have always tried to engage respectfully and in the spirit of good neighbours, but in some cases have tended to direct engagement efforts rather than viewing communities as partners. Our aim is to develop an approach that enables communities to play the dominant role in designing their economic future, with

AngloGold Ashanti as a supporter and contributor in their development. This is essential if we are to fulfil our promise of leaving communities better off for our presence.

Success in this regard is possible, and the positive outcomes already experienced in the limited application of this approach are confirmation that it is. In Argentina, for example, we have worked with the community, government and local businesses to sustainably regenerate a region that was in economic decline. In Ghana, we have co-developed projects with local communities and, notwithstanding setbacks that still occur, are starting to reverse a cycle of mistrust that has been allowed to develop between the mines and the communities over several decades.

Our challenge is to take these successes and replicate them consistently in our business, and therefore one of the most important aspects of our strategy is how we integrate it into the company's operating model, through Project ONE. This is essential as we develop a culture of learning to build successes over the longer term.

Proactive management of sustainability challenges will bring substantial benefits to the company and assist in securing the long-term future of our operations. We believe this approach is more likely to help instil a sense of pride in our employees – that will be reflected through more constructive relationships within our communities.

Important reference points for our strategy have been the work undertaken through various industry and government bodies on sustainability issues, particularly as they relate to the mining sector. We continue to support the International Council on Mining and Metals (ICMM) and the work of bodies such as the Extractive Industries Transparency Initiative (EITI). We also support the goals and objectives of the UN Global Compact principles. Together with our core values, these international standards provide a guideline for implementation of our strategy.

AngloGold Ashanti's sustainability vision will take time to fully realise, but we believe that success will allow us to provide a better set of outcomes for our industry and its stakeholders.

We are working together with our independent sustainability review panel – a carefully selected collegium of independent experts – in order to achieve this arm's length critique of our approach and our progress.

I look forward to keeping you updated on progress as this important area of our work develops.

Mark Cutifani

Chief executive officer

Our commitments
Begin implementation of the Safety
Transformation project
Managing health issues
Our 2009 commitments
Our progress in 2010
Elimination of new cases of silicosis
after December 2013 among
employees in South Africa with no
occupational exposure prior to 2008
We are working towards achievement of this industry milestone. Due to the latency
period of the disease we are not yet able to provide a meaningful assessment of this
group of employees. We have, however, met and exceeded industry milestones on silica
dust exposure as one of the measures in place to combat this disease and have set
lower internal benchmarks for exposure.
Intensify hearing conservation
programmes and continue to silence –
to acceptable levels – all identified
noise equipment in order to achieve
the industry milestone of no
deterioration in hearing greater than
10% among occupationally-exposed
individuals at South African operations
We are working towards achievement of this industry milestone. It is still too early to
provide a meaningful assessment of this group of employees due to the latent nature of
this disability.
We have been in compliance with the 2013 industry noise targets since 2008 and have
now set lower internal benchmarks.
In this section of the report, we report on progress against commitments made in our 2009 report and set out
commitments for 2011
and beyond. These commitments are grouped according to the key focus areas of our report. In 2011, we will also be
working to
develop a sustainability strategy for the business, which will enable us to better define our priority areas of activity.
Improving operational safety performance
Our 2009 commitments
Our progress in 2010
Our 2011 commitments
In 2011, we aim to achieve continued improvement in safety performance towards our 2015 business goal of an all
injury frequency
rate of less than 9 per million hours worked. Our target to reduce fatalities by 70% by 2012 (from a 2007 baseline)
remains intact.
Work is underway to continue implementation of safety transformation within Project ONE in 2011 through:
•
completion of guidelines by mid-2011 to support roll out of the global safety standards;
•
implementation of a new model and process for accident investigation;
•

a review of organisational safety capabilities; and

•

development of operational safety plans to business unit teams.

We achieved a reduction of 11% in our all injury frequency rate in 2010. Although this is short of our target for the year, we are pleased to be able to report a 45% improvement in the all injury frequency rate since 2007, from 20.95 in 2007 to 11.50 in 2010. Due to the transformational nature of our safety interventions, our expectation was that improvements would be achieved through a series of step changes.

Implementation of the Safety Transformation project has begun – the project was launched in May 2010. Significant work was undertaken on integrating the project into the operating framework of the business.

Achieving a further 20% reduction in
the all injury frequency rate with the
long-term objective of operating an
accident-free business

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Podcast available at www.anglogoldashanti.com

Thero Setiloane, Executive Vice President – Business Sustainability,
AngloGold Ashanti

We understand that there are gaps in our knowledge in certain areas of sustainability. In some of these areas, we have good expertise in the business and will start to close these gaps if we adopt an approach that facilitates cross learning between sites and regions. In others, particularly in managing our relationships with communities, we do not yet possess the right expertise, and will need to harness it externally. Part of our challenge for the coming year will be to develop objectives and performance indicators in all areas of sustainability that clearly progress us towards our vision and can be incentivised internally.

Pod **cast:**

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Managing health issues continued

Our 2009 commitments

Our progress in 2010

Our 2011 commitments

To progress our health strategy, we intend to undertake health risk assessments and health system audits at our operations in Continental Africa by the end of 2011 and complete health risk assessments and health system audits for the balance of our operations by the end of 2012.

We have set the following goals relating to wellness and occupational environment:

- continue progress towards the industry milestone of no new cases of silicosis among previously unexposed employees in South Africa (2008 onwards) after December 2013;
- meet the industry milestone of no deterioration in hearing greater than 10% among occupationally-exposed individuals at South African operations;
- roll out integrated malaria programmes, drawing on the model implemented at Obuasi in Ghana, at operations in Mali, Tanzania and Guinea; and
- in South Africa, continue efforts to reduce occupational tuberculosis (TB) incidence to 2.25% of all South African employees by 2015 and successfully cure 85% of new cases (our long-term target is the reduction of TB incidence to 1.5% of all South African employees by 2029).

Maintain a rate of 80% of South African employees attending voluntary counselling and testing for HIV (VCT) during 2010, excluding current wellness clinic attendees

74% of South African employees attended VCT during 2010. The uptake of VCT programmes has been falling since 2008. Programmes relating to the prevention of HIV/AIDS have been in place at AngloGold Ashanti since 2000 and numbers of employees presenting themselves for VCT are declining. Communications and awareness efforts continue, as does the provision of anti-retroviral therapy (ART) and wellness programmes to affected employees.

Reduce by 50% the number of avoidable drop-outs from wellness programmes in 2010

Over 4,000 employees attended wellness programmes in 2010 and ART continues to be supplied to approximately 2,500 employees for whom this treatment is clinically indicated. We have not been able to measure the number of drop-outs from wellness programmes accurately, due to the difficulty of establishing the cause of an employee discontinuing treatment.

Reduce occupational tuberculosis (TB) incidence to 3% of all South African employees by 2010

We have achieved this target. The incidence of TB among South African employees was reduced to 2.64% in 2010.

Successfully cure 85% of new TB cases in 2010

Over 90% of new cases were successfully cured in 2009. Data for 2010 is not yet available as treatment programmes for TB last between six and eight months.

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AngloGold Ashanti Sustainability Report 2010
Our commitments
Human rights and business
Our 2009 commitments
Our progress in 2010
Our 2011 commitments
In 2011, we aim to develop a more effective approach to human rights issues by putting in place a company-wide policy, framework
and procedures.
In the area of security and human rights, we continue to target zero incidents under the Voluntary Principles on Security Human Rights
(VPSHR) and aim to reduce the number of allegations of VPSHR incidents that are made. To support achievement of this target,
we will:
- complete implementation of the global security framework by the end of 2011; and
- review all contracts with private and public security services worldwide in order to standardise contract requirements by the end
of 2011.

Zero violations of the Voluntary
Principles on Security and Human
Rights (VPSHR) in 2010
In 2010, two violations of the VPSHR were recorded. Details are given on page 32. We
are continuing efforts to embed the VPSHR into our security management systems and
practices in order to effect the continuous improvement necessary to reach our target
of zero VPSHR violations.
We continue to encourage self reporting by security personnel of potential violations.
Develop a standard approach for all
contracts with private and public
security
A review of all contracts with private and public security is underway in order to achieve
this target and is scheduled for completion by the end of 2011.
AngloGold Ashanti and communities
Our 2009 commitments
Our progress in 2010
Final approval of management
standards and associated guidance
material that govern how the company
interacts with communities
Standards have been developed and are scheduled for approval by the executive
committee of the company in 2011. Work to develop guidance material will follow
shortly after approval.
Incorporate community aspects into
each operation's ISO 14001
management system by 2012
The ISO 14001 management system is in place at all operations and progress has been
made towards incorporating community aspects. Further work is being done to support
sites to meet the target date which is three years following approval of the management

standards by the board.
Continue to embed the government
relations function into decision-making
processes, including through
development of a management
standard by 2011
In 2010 progress was made in incorporating the government relations function into
broader AngloGold Ashanti decision-making processes. The need for a management
standard will be reviewed.
Our commitments

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AngloGold Ashanti and communities continued

Our 2009 commitments
Our progress in 2010
Our 2011 commitments

In 2011, we aim to better define expectations for performance with regard to community and social performance. This will be done through community-focused management standards which are currently at the latest stages of finalisation and review and are expected to be approved by the Executive Committee of the company in 2011.

Work to support and give effect to the standards will begin in 2011, after their approval, and will include the development of guidelines to aid in implementation of the standard and the allocation of appropriate resources.

To ensure an integrated approach to managing community and environmental aspects in line with the integration of the two functions, we aim to integrate community aspects into the ISO 14001 management system. Work towards this is already in progress; however, a specific work plan has been developed for 2011 to accelerate efforts such that sites will be ready to undergo certification audits by 2014.

Roll-out of a pilot government engagement strategy model in South African and in a minimum of two other jurisdictions in 2011

This pilot programme remains work in progress in South Africa in 2011. Following its successful completion, we aim to extend the model to two other jurisdictions.

In South Africa, participate in the Mining Charter review

We participated actively in the Mining Charter review, including through the relevant industry structures. The reviewed Mining Charter was agreed and published.

Exploration and closure

Our 2009 commitments
Our progress in 2010
Our 2011 commitments

In 2011 and 2012, assess compliance with the closure standard. Work to achieve compliance with the closure standard at all operations by the end of 2011 will continue. A corporate-led assurance and operations review will assess closure plans to ensure compliance and efficiency.

During 2011, the greenfield exploration business unit will be working to formalise and improve a process which will ensure that an appropriate level of community and environmental oversight is completed at each stage of exploration.

Work on findings of review conducted in 2009 to address any site-level deficiencies in closure plans and ensure alignment with company management standard by 2011

An internal multi-disciplinary committee continued to guide site-level closure planning to ensure alignment with the company standard by the end of 2011. A workshop was held in December 2010 to ensure alignment amongst environmental, social and accounting professionals within the company and to share best practices across the group.

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AngloGold Ashanti Sustainability Report 2010
Our commitments
Environmental and natural resource stewardship
Our 2009 commitments
Our progress in 2010
Our 2011 commitments

Improve energy performance by:

- developing site-based targets and action plans from 2012 onwards;
- continuing to refine energy metrics, performance measurement and reporting during 2011; and
- quantifying the energy benefits of business improvement initiatives.

Improve energy security at our operations by:

- finalising high-level reviews of site energy security arrangements during 2011; and
- commencing the development of site-based energy security strategies for life of mine.

Improve water performance by:

- developing site-based targets and action plans from 2012 onwards;
- continuing to refine key performance indicators, performance measurement and reporting during 2011; and
- quantifying the water benefits of business improvement initiatives.

Improve water security at our operations by:

- finalising high-level reviews of water security arrangements during 2011;
- commencing the development of site-based water security strategies for life of mine; and
- embedding integrated water management at all sites, and recognising the value of managing water performance across entire site operations in a planned and coordinated manner.

Continue to address key climate change opportunities and risks, by specifying life-of-mine climate change risks in more detail for priority operations, starting in 2011 with those at greatest risk.

Over 2011 and 2012, a programme of assessing compliance with the environment-focussed management standards approved during 2009 will commence in the form of the biennial Community and Environment Review Programme (CERP). Concurrently, a roll-out phase to socialise finalised community-focussed standards will commence, also as part of the CERP.

Continue work to improve energy and water performance including through the development of site-level objectives

Comprehensive energy maps have been developed for South Africa and are being progressed for all other operations. A more complete range of water performance indicators is being developed for key aspects of water performance. Site water balances are being refined. A global approach for quantifying the energy and water benefits from business improvement projects is also being progressed.

Audit the global energy and water
security position for all operations

High-level energy and water security reviews have been completed at 15 of our 19 relevant operations and the balance will be completed in 2011. Strategic frameworks have been developed for energy and water management.

Continue to address key climate
change opportunities and risks

Preliminary preparations to understand site-specific climate change risks in greater detail have commenced. A project to install heat pumps at high-density residences in South Africa is almost complete and is expected to earn carbon credits. We are continuing to assess other opportunities for generating carbon credits, especially in the South Africa region where our energy consumption is 40% of the group total.

Final approval or development of
management standards and
associated guidance material that
govern how the company interacts
with the environment

Progress was made in agreeing a biodiversity management standard, which will be finalised in 2011. Guidance for the closure and rehabilitation management standard was finalised.

Our commitments

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People

The following commitments were made in our 2009 report and progress against these commitments is reported below:

Our 2009 commitments	Our progress in 2010
Continue with the roll out of the System for People (SP), including the global values survey	Significant progress was made during the year on implementation of the SP, with the development of a new delivery framework clearly defining corporate and regional roles. The global values survey was completed in 2010 and the results reviewed by the Executive Committee. The results will be fed back into the business in early 2011.
Review the wage negotiations strategy in Continental Africa and develop a model for conducting wage negotiations which can be applied throughout the company's Continental African operations	A labour engagement model was developed and successful collective bargaining processes were concluded at the Siguiri mine in Guinea and Sadiola/Yatela mines in Mali.
Standardise, to the extent possible, the conditions of employment of senior managers to facilitate mobility within the company	A survey of conditions of employment with respect to senior and executive management was conducted by PwC on behalf of the company and the report submitted to the Remuneration Committee. This survey covered all the countries in which the company operates. The findings of this survey resulted in the formulation of the company's Remuneration Policy that was approved by the shareholders at the AGM held in May 2010.

Namibia

Prioritising safety as our first value and most important business objective is a natural consequence of our belief that people are the business. Our long-term goal is the operation of an injury-free business

The intention of this group-level report – *Sustainable Gold* – is to provide a concise and balanced account of AngloGold Ashanti's sustainability performance in 2010. AngloGold Ashanti has reported on social investment and sustainability issues since 2002. In 2009 we reviewed our approach to sustainability reporting, taking into account leading international practice, and decided to move towards a more focused report, which clearly identifies the issues that are important in making our business viable over the longer term, and which most concern our stakeholders, social and business partners.

We are continually refining and improving our content selection process for reporting, taking into account the diversity in our portfolio of operations and the countries in which we do business. AngloGold Ashanti operates in 10 countries. The six focus areas that we have identified are challenges that are common to all operating regions, even though they manifest themselves in different ways in each region and require responses appropriate to local circumstances.

Our six focus areas for this 2010 report are:

- improving operational safety performance;
- managing health impacts that arise at our operations and in our communities;
- operating with respect for human rights;
- relationships with the communities which host our operations;
- exploration and closure, recognising and reporting explicitly on these two critical areas in the life cycle of our operations; and
- effective stewardship of the environment and of the natural resources that we use, primarily land, water and energy.

In this report we have tried to convey the context for each of these issues, and explain why it is relevant and how it can impact on our business and on our stakeholders, social and business partners. We describe the work that we have undertaken in managing each issue, the targets that we have set relating to our performance and our progress in meeting these targets.

Extensive web-based information supplements this report and ensures that we continue to report at an A+ level against the Global Reporting Initiative (GRI) G3 guidelines, as well as to comply with our obligations as a signatory of the UN Global Compact (UNGC) and as a member of the International Council on Mining and Metals (ICMM).

External assurance for this report is provided by Ernst &

Young. The same company undertakes our financial audit.
Our goal is the integrated presentation of financial and non-financial information and we intend to move towards an assurance process that supports this objective.

Our external assurance statement is available on our website: www.anglogoldashanti.com.

This report and its supplements form part of our stakeholder communications. We understand that communication that is balanced and accurate generates trust, and we aim to develop an approach to stakeholder engagement that supports relationships with governments and communities, as well as other stakeholders, social and business partners.

We have identified the company's main stakeholder groups as:

- employees, their representatives and families;
- communities or individuals affected by the company's operations;
- governments, including at national, state, provincial and district level or other relevant local and traditional authorities;
- politicians, religious leaders, civic organisations, academics and other groups with special interests;
- businesses supplying, purchasing from or otherwise dealing with the company;
- shareholders;
- media;
- joint venture partners;
- advocacy non-governmental organisations (NGOs); and
- industry associations.

These diverse groups require different communications and engagement approaches. Refining our understanding of who our stakeholders are and how we should communicate with them is therefore challenging, but it is an area of work that we are progressing, and are approaching in a more consistent way through the development and implementation of a global engagement standard.

AngloGold Ashanti's sustainability review panel

In 2011, we will strengthen external engagement, including on our sustainability report, through input from our independent Sustainability Review Panel. The panel will act in an advisory capacity to provide an objective and expert perspective on AngloGold Ashanti's sustainability performance and reporting and its engagement processes. The panel was convened for the first time in November 2010. It is facilitated by Simon Zadek, an independent advisor, and has five members.

- Dr Muzong Kodi, who has more than 30 years' experience in training, research and consultancy in governance, anti-corruption and human rights. He is based in London as an independent consultant and is also an Associate Fellow of the Africa Programme of the Royal Institute of International Affairs, where he co-ordinates the Congo Forum.

- Mr Stephan Malherbe, chairman of Genesis Economic Consulting, the first specialist competition and regulatory economics advisory firm to be based in India, and the founder and chairman of Genesis Analytics in South Africa. Mr Malherbe has provided economic policy advice to a number of African countries at presidential level and is an internationally-acknowledged expert on capital markets development.
- Dr Ruth Mompati, a South African citizen with a long involvement in issues of social justice and gender equality. Dr Mompati is currently Mayor of Naledi in the North West Province of South Africa. She has previously served as South African ambassador to Switzerland, was a member of the South African Parliament and was a member of the National Executive Council of the African National Congress (ANC).
- Mrs Anita Roper, chief executive officer of Sustainability Victoria in Australia. Previously Mrs Roper worked outside Australia for 10 years, including as director of sustainability for Alcoa in New York, where she was responsible for coordinating and integrating sustainability concepts throughout the company.
- Ms Nisia Werneck, a consultant at the Dom Cabral Foundation in Brazil’s Minas Gerais state, a non-profit institution which aims to develop executives, businessmen and companies. Ms Werneck has contributed to the social and community development programmes of a range of companies and organisations, and has published extensively on the themes of sustainability and corporate social responsibility.

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Stakeholder engagement

Dr Muzong Kodi
Mr Stephan Malherbe
Dr Ruth Mompati
Mrs Anita Roper
Ms Nisia Werneck

About AngloGold Ashanti

AngloGold Ashanti's vision is to be the leading mining company – we operate a diverse portfolio of open pit and underground mines in 10 countries on four continents.
We seek to leverage the diversity in our operations and people, and place people at the centre of our business.

USA
Cripple Creek & Victor
Brazil
Serra Grande
AGA Mineração
Mali
Sadiola
Yatela
Morila
Ghana
Iduapriem
Obuasi
Namibia
Navachab
South Africa
Great Noligwa
Kopanang
Moab Khotsong
Mponeng
Savuka
TauTona
Surface operations
Australia
Sunrise Dam
Argentina
Cerro Vanguardia
Guinea
Siguiri
Tanzania
Geita

gold
Our primary
focus
is

AngloGold Ashanti is operated through four regional management structures – South Africa, Continental Africa, Australasia and the Americas – each headed by an executive vice-president.

Our portfolio of operations

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South Africa
39%
Continental Africa
33%
Americas
19%
Australasia
9%
Percentage gold produced by region
for the year ended 31 December 2010
South Africa
50%
United Kingdom
14%
Asia
11%
North America
11%
Europe
9%
Australia
5%
Geographical distribution of gold sales
for the year ended 31 December 2010
4,509,000
Total oz gold sold in 2010
62,046
Employees and contractors globally
$5,334m
Revenue from gold sales in 2010

Exploration for future growth

AngloGold Ashanti's exploration programme has been one of the most successful in the industry, and it holds a substantial greenfield and brownfield project pipeline.

Customers and markets

AngloGold Ashanti's customers are typically banks acting as intermediaries in gold markets. The breakdown of our sales is based on the domicile of these intermediaries and does not necessarily reflect the location of the end-user of the product. The largest end-user markets for gold are India, China, the Middle East and the USA.

Listing and shareholder details

With headquarters in Johannesburg, South Africa, AngloGold Ashanti's primary listing is on the JSE Limited (JSE).

At 31 December 2010, AngloGold Ashanti had 381,204,080 ordinary shares in issue and a market capitalisation of $18.8 billion (31 December 2009: $14.6 billion).

At the end of 2010, 2.95% of AngloGold Ashanti's shares were held by the Government of Ghana. The free float balance of 97.05% was held as shown in the table below:

Region	Percentage
Americas	53.80
South Africa	22.54
United Kingdom	11.73
Europe	4.92
Asia Pacific/Middle East	3.80
Other/unidentified	0.26

Following year end, on 19 January 2011, the Government of Ghana sold approximately 1.4% of their shareholding and now holds approximately 1.6% of our issued share capital.

Ethics and governance

Acting in compliance with our values and standards is integral to the way we operate. This section sets out how our values are put into practice through the company's various governance structures, as well as through our Code of Ethics, which is the anchor for the application of our values in the company.

Governance structures

AngloGold Ashanti has a 10-member board that includes eight non-executive directors, all of whom are independent as defined by relevant corporate governance codes. The board's Nominations Committee assesses the competencies and experience of potential new members , assisted as required by independent and external consultants. On 17 February 2011, one of the non-executive directors, Dr Motlatsi retired from the board.

Conflicts of interest

A key governance risk is the potential for conflict of interest. Board members declare all outside interests at the start of their tenure, including where no conflict arises. On appointment, board members are made aware that the board has to sanction any outside appointments that might occur during their tenure and a quarterly statement relating to conflict of interest is requested from each board member to ensure that any changes are notified. Directors recuse themselves from any discussion where they may have an actual, perceived or potential conflict as adjudged by the board.

Conflict of interest policies for employees are set out in the company's Code of Ethics, as revised in 2010, and these require a similar declaration of interests at the outset of employment, with provision for annual updates and notification when circumstances change or if conflicts arise.

Board mandate

The mandate of the board is to set strategy and provide organisational oversight. Various board committees, each of which is chaired by an independent non-executive director, deal with aspects of the board's functions, including social, economic and environmental performance. These committees have clear mandates and report quarterly to the board. They receive detailed management reports quarterly and, if required, can call on services of external professionals to advise them.

Oversight of sustainability performance

The Safety, Health and Sustainable Development, Audit and Corporate Governance and Transformation and Human Resources Development Committees of the board are the bodies which most regularly review sustainability performance. The chairman of the Audit and Corporate Governance Committee has been appointed to the Safety, Health and Sustainable Development Committee to ensure consistency of

oversight and reporting between these two committees.
For the 2010 financial year, the board evaluation process has been conducted by self-assessment. From 2011, however, the effectiveness of the board will be assessed in conjunction with an external party, which will undertake board evaluations on the basis of criteria developed jointly by the external party and AngloGold Ashanti.
Criteria for evaluating the performance of the board include the ability to successfully assess, monitor and mitigate risk, including risks relating to sustainability issues.
Remuneration for non-executive directors is by flat fee, approved by shareholders. There is no long-term compensation (for example share scheme participation or performance incentives).
Ethics and governance
values
Giving
to our
effect

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Remuneration for executive management includes basic salary, short- and long-term incentives based on performance, pensions and other benefits. The short-term incentive plan is referenced to the achievement of a set of individual and company performance targets relating to earnings per share, gold production, cost control, Mineral Resource to Ore Reserve conversion and safety.

The objective of the long-term incentive plan is to align the interests of executive management with those of the company and the shareholders over the medium to long term. The targets used for vesting are determined annually by the board's Remuneration Committee and link directly to the company's strategy. Measures include earnings per share, total shareholder return against a comparator group of gold mining companies, Mineral Resource to Ore Reserve generation and safety.

Code of Ethics

During 2010, we developed a revised Code of Ethics, based on our vision, mission and values. External and internal engagement was undertaken as part of the development process and the draft code was benchmarked, both internally and externally.

We view our Code of Ethics as central to the concept of building personal accountability in our business. It has been branded 'Our Code' to make the point that it embraces each and every employee. Communications concerning *Our Code* have reinforced the principle that those with whom the company interacts will judge the company according to the ethical behaviour of each individual.

Our Code is designed to offer general guidelines on how to approach situations, rather than to provide an all-encompassing set of rules on individual behaviour. It covers aspects of the business where ethical considerations are most likely to be raised, including safety, people, environment and community, fraud and corruption, conflict of interest, insider trading and disclosure.

Non-compliance with *Our Code* is a key business risk and mechanisms to ensure compliance and bring to light potential infringements therefore receive significant attention. A 'whistle-blowing' hotline is already well established. The hotline is independently operated and has its own website and web address, and a telephone service through which tip-offs can be processed. It is available in the company's major operating languages on a 24/7 basis.

As *Our Code* is extended through the company over the next 18 months, a communications and training programme will seek to integrate its principles into business. A company-wide training programme will be undertaken and each employee has been asked to acknowledge receipt of *Our Code* to reinforce personal accountability. A summary version of *Our Code* has been produced, translation into the company's main operating languages is underway and compliance champions in each operating region are being identified.

The board will receive quarterly reports on the application of *Our Code* and, in 2011, external assurance will be introduced to assess the process of rolling out *Our Code*, including training offered and responses to confidential tip-offs raised through the whistle-blowing process.

Podcast available at www.anglogoldashanti.com

Professor Mervyn King,
Chairman, Global
Reporting Initiative (GRI)

Amidst evidence that the current economic model is socially and environmentally unsustainable, it is time for new and more effective forms of accountability. The users of an organisation's reporting should be able to determine whether the organisation's governing structure has sufficiently applied its collective mind in identifying the social, environmental, economic and financial issues that impact on the business, and whether these issues have been incorporated into its strategy.

Pod

cast:

"Ensuring performance with integrity"

The company's code of ethics has been translated into our main operating languages. The logo is intended to suggest that accountability begins and ends with each individual, and that ethical conduct depends on personal choices.

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Project ONE

AngloGold Ashanti has grown rapidly over the past 12 years from its South African origins into a global gold company. To underpin this growth and to achieve our future business and growth objectives, we have developed a consistent operating framework, thereby enabling delivery on the company's vision, mission and values.

This framework has been developed and implemented as Project ONE, guided by a steering committee chaired by the CEO. It has two major components:

- the System for People (SP), which aims to have the right person in the right role doing the right work; and
- the Business Process Framework (BPF), with the goal of having the right work done at the right time and in the right way.

Discipline frameworks map the detailed design of functional areas of work, for example safety, and are integrated into the SP and the BPF.

The sustainability strategy that is under development at AngloGold Ashanti supports and reflects the principles of Project ONE. Our objective will be to implement each element of our sustainability strategy through Project ONE, in order to ensure that it is made relevant to the business and becomes part of the way we operate.

Project ONE

Implementing Project ONE at the Geita Gold Mine in Tanzania

When Project ONE was put in place at AngloGold Ashanti, the company's Geita Gold Mine became a pilot site for implementation. With a legacy of unresolved and persistent obstacles, a culture of uncertainty at Geita hindered the business and its people, affecting predictions of performance, the stability of the operation and casting doubt on its potential lifespan.

In the second quarter of 2009, Graham Ehm, previously the executive vice president in Australasia, stepped in to stabilise and turn around the operation and define a sustainable future. The resources for this endeavour included piloting the newly-established operating model through implementation of the System for People (SP) and the Business Process Framework (BPF).

By the third quarter of 2009, Geita had begun to meet its predictions of performance and has now produced to budget for six consecutive quarters. There remains much work to be done to complete implementation of the principles and practices of Project ONE, but the mine, now under the leadership of Gary Davies as Managing Director, is well on the road to financial stability.

"I see Project ONE transforming the business by generating certainty about the organisation and understanding of the work to be done," says Gary. "Individuals are clear about their own roles and understand the accountabilities of their managers."

"I am now using my understanding of capability when I recruit and hire new team members and it has made a difference in how I select candidates", says Geita's Sustainability Manager, Clement Msalangi. "I am doing more context setting for my team and have added context of the work as part of my recruitment and interviewing process."

A detailed version of this case study is available online at www.anglogoldashanti.com

Case
study:

Beginning in the fourth quarter of 2010, larger truck trays supported increased productivity at Geita Gold Mine. Represented here are mine staff in the controlled area where manufactured trucks and parts are stored and where personal protective equipment is not obligatory.

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AngloGold Ashanti and people

We aim to realise one of our core principles – that 'People are the business' – through implementation of the System for People (SP). In terms of this principle, we aspire to provide leadership and managerial processes to establish a culture of accountability and trust in which each individual is able and willing to work to his or her full potential.

Transformation and diversity

Considerations of transformation and employee diversity provide context for the implementation of the SP in each region and at each operation and reflect the way in which we deal with the wellbeing of our employees and the communities in which they live.

The company's transformation strategy and policy, approved by the board in November 2010, rests on its values: 'We treat each other with dignity and respect' and 'We value diversity' and on our commitment 'To leave the communities in which we operate better off for our having been there'.

The purpose of the transformation policy and strategy is to translate these values into the way we do business globally, extending our focus beyond South Africa, and beyond pure legislative compliance. They outline a framework within which every region and operation will set its own strategies, structures and policies, taking into account the challenges faced locally, while meeting our corporate standards.

The SP implementation process

Our business objectives can only be met through a workforce that is capable, accountable and engaged, and where each employee is able to undertake the right work at the right time in order to deliver consistently on the objectives of the business. The SP enables a structured, common approach for

South Africa
57%
Continental Africa
25%
Americas
11%
Australasia
1%
Other
(including exploration sites) 6%
Employees by region of operation
for the year ended 31 December 2010

productive
Towards a
and
workforce
engaged

people to work together to support long-term business improvements. It has three objectives:

1. Creating the right organisation design: a structure where work is undertaken at the correct level, and where the accountability and authority of a particular role clearly contributes towards achieving business objectives. Our organisational structure places priority on operational leadership, with functional roles acting in support of operations through effective cross-functional working relationships.
2. Ensuring we have the right people in the right roles: the continual matching of employee capability to role complexity, which is necessary for meeting immediate and future business needs in line with employee career development plans.
3. Developing effective working relationships: ensuring that employees across the organisation work together effectively, whatever the differences in their internal and external working environments. Effective working relationships are facilitated when employees' behaviour and actions are in accordance with the managerial leadership practices and the company's values.

Technical design of the SP was completed in 2009, and we are currently engaged in its implementation. Our approach to the implementation is that it should be:

- undertaken in a top-down manner;
- inclusive of, and engaging with all employees as far as this is possible;
- undertaken within the respective managerial accountability hierarchies; and
- continually reinforced, until it becomes second nature within the business.

In our 2009 report, we committed to continuing the roll out of the SP, and undertaking a global values survey. Significant progress was made during the year with the development of a new delivery framework for the SP that clearly defines corporate and regional roles in the implementation process. A corporate team was established to be accountable for the process of designing and developing the SP material to be implemented throughout the company. Regional human resources teams have been charged with planning, scheduling and resourcing activation of the programme in consultation with line management.

The global values survey, designed to offer all AngloGold Ashanti employees an opportunity to participate in the identification of value-based behaviours and to gauge employee engagement, was completed during the year. We aim to review our organisational mission, vision and values at regular intervals and maintain their relevance in our constantly-changing environment. The surveys are currently being analysed for trends and conclusions, and the results, which will be integrated with other business processes and communications, will be fed back into the business early in 2011.

In 2010, progress was made on understanding the linkage between the SP and the BPF. The harmonisation of these processes will continue during 2011 under Project ONE. Also of importance for 2011 is the design of appropriate mechanisms to engage employees in the implementation of the BPF and the SP.

AngloGold Ashanti and people

Ghana

The workshop team at Iduapriem: a key objective of the SP is developing effective working relationships

Podcast available at www.anglogoldashanti.com

Steve Rickman,
Senior Vice President –
Business Effectiveness,
AngloGold Ashanti

The essence of SP is simple – it's about enabling each and every person in the business to work to their full potential. Not only do we need to place the right people in the right roles but we also need to make sure that they are engaged in and value the work that they are doing.

Pod **cast:**

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Improving operational safety performance
Our context
Safety is our most important business consideration and we are committed to creating the safest possible working environment for our employees. Poor safety performance is unacceptable for the business, as well as for our stakeholders, business and social partners. When our current business goals were put in place in 2008, we committed to the long-term goal of operating an injury-free business and established a five-year goal of reducing fatality rates by 70%, working from a 2007 baseline.
We have made significant progress towards this target. In 2008, when the 'safety is our first value' campaign was introduced, a step change in safety performance was achieved. Between 2007 and 2008 there was a decrease of 59% in the number of fatal injuries and a 20% reduction in the all injury frequency rate, as illustrated in the graphs opposite.
Safety
is our
value
first
06
07
08
22.83
20.95
16.66
09
10
12.88
11.50
All injury frequency rate – group
2006 – 2010
06
07
08
37
34
14
09
10
15*
15
Fatalities – group
2006 – 2010
** This number has been restated from the number of 16 previously recorded by the company for 2009. Following the investigation into a fatal incident in May 2009 at Moab Khotsong Mine in South Africa, the Department of Mineral*

Resources (DMR) determined that the incident was not a mine fatality.
Refer to the explanatory footnotes on page 24 for the definition of this measure.

Improving operational safety performance

In 2009 and 2010, injury frequency rates continued to improve. A further step change is, however, required to meet our longer-term objectives. This cannot be achieved through individual campaigns alone, but requires a systemic cultural change in the business, integrating a new way of thinking about safety into the way we work, and underpinned by an organisational culture which displays a deep respect for the dignity and wellbeing of others.

AngloGold Ashanti's safety transformation project

The safety transformation project was initiated in 2008 and has resulted in the development of a safety transformation approach which has three components:

- Engaging people – people and culture are vitally important in creating a safe working environment. Compliance with rules and procedures alone cannot address or mitigate all hazards and risks. A culture which fosters improvements in safety performance is built on people who think for themselves about safety issues and who take ownership and accountability for creating a safe environment.
- Building the right systems – systems play a key role in influencing the work environment. We have set ourselves the task of building robust systems that are specific to safety and ensuring that safety considerations are thoroughly integrated with other organisational systems that sustain safety, such as knowledge management.
- Managing risks effectively – our approach is to eliminate hazards where possible, and if they cannot be eliminated, to manage their commensurate risks. This requires broader thinking about hazards and risk, which will result in building more robust defences to protect people from harm, based on group-level, technical, administrative and individual controls.

Setting vision and intent

Building our intent and vision into our organisation and culture

Evaluating performance

Corporate level

Regional level

Site level

Vision

We cannot accept injuries or impairment to health as a natural consequence of our work.

Guiding principles
The directives by which we will
achieve our vision.
Safety policy
A document outlining our global
approach and understanding on what
we will do to change safety.
Measurement of
performance against
standards.
Reviews of standards,
guidelines and
procedures.
Review of site-specific
procedures.
Safety standards
22 standards that map the
minimum criteria for compliance
on various aspects of safety.
Safety guidelines
Documents breaking down each
standard into actions.
Group procedures
The key requirements and
procedures for the safety guidelines
mandated at a group level.
Site-specific procedures
The application of the group
procedures based on the site's
requirements.
Regional EVP
Regional strategy development,
alignment with global strategy,
continuous improvement and reporting.
AngloGold Ashanti's safety framework
Improving operational safety performance

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Integrating safety transformation into Project ONE

In implementing safety transformation, we have adopted an approach which ensures that all of its components are made relevant to the business by integrating them into Project ONE. AngloGold Ashanti introduced Project ONE as a business change initiative to improve performance levels across all areas of its business operations through consistent management and systems. Project ONE incorporates the Business Process Framework (BPF), designed to ensure that the right work is done at the right time and in the right way, and the System for People (SP), which targets putting the right people in the right role to do the right work.

"Living safety as our first value means that we believe that people are the business, and our intention is to bring this to reality", says Safety Transformation Vice President, Brian Chicksen. "So, for example, if SP has been enacted within the organisation to ensure that the right people are doing the right work at the right time, the safety component of this model is to ensure that safety accountabilities for all employees are clear, and appropriate capabilities are developed to support safe work."

A detailed version of this case study is available online at www.anglogoldashanti.com

Case
study:

This approach has been translated into a safety framework for the business, which is integrated into the broader operational model that has been developed through Project ONE. Implementation of the safety transformation framework through the operational model will enable the company to target and deliver on long-term and sustainable safety improvements.

Safety targets in 2011

In 2011, we will continue implementation of the safety transformation project and integration into Project ONE. We aim to achieve continued improvement in safety performance, towards our 2015 business goal of all injury frequency rate of less than 9 per million hours worked. Our target to reduce fatalities by 70% by 2012 remains intact.

Safety performance in 2010

In our 2009 report, we committed to the following safety targets for 2010:

- begin implementation of the safety transformation project; and
- achieve a 20% reduction in our all injury frequency rate.

In memoriam

We record with sadness the loss of 15 of our colleagues in operational accidents in 2010.

In South Africa:

Sabido Debrito Augusto at Kopanang Mine
Hendrie Khosa and Fundile Gaqelo at Moab Khotsong Mine
Sabelo Hezekiel Dlamini and Boy Africa Mabuza at TauTona Mine
Fanele Nobulongwe and Bonginkosi Hertzog Madlopha at Mponeng Mine

Vasco Alfabeto Nhazilo and Motlatsi Elias Ramokoena
at Tau Lekoa Mine
Jonase Serame Mosebo at Kopanang Mine

In Guinea:

Alimou Bangoura at Siguiri Mine

In the Democratic Republic of the Congo:

Damien Unegi Anefwa at the Mongbwalu Project site

In Tanzania:

Esau Mwakibuja and Honest Ngowi at Geita Mine

In Mali:

Lassina Bamba at Sadiola Mine

The memorial garden at AngloGold Ashanti's corporate office in Johannesburg, South Africa

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AngloGold Ashanti Sustainability Report 2010
Improving operational safety performance

Improving operational safety performance

All injury frequency rate by region (2006-2010)

Region	**2010**	**2009**	**2008**	**2007**	**2006**
South Africa	16.69	17.72	22.28	29.10	33.12
Continental Africa	5.26	6.09	8.27	10.31	10.33
Americas	5.66	7.12	9.92	7.16	8.63
Australasia	13.10	8.64	15.17	14.49	17.01
Greenfield exploration	16.99	20.56	16.55	24.90	9.36
Group	11.50	12.88	16.66	20.95	22.83

The all injury frequency rate is the total number of injuries including fatalities that occur per million hours worked. It is being introduced across the company as *a measure of safety performance, replacing a focus on the lost time injury frequency rate (LTIFR). This approach is consistent with our commitment to eliminate all occupational accidents.*

Implementation of the safety transformation project has begun, and the project was launched in May 2010. The table below gives a breakdown of the all injury frequency rate recorded in each of AngloGold Ashanti's operating regions since 2006.

In 2010 we did not achieve the desired 20% reduction – the overall decrease on 2009 was some 11%. However we remain confident of achieving our longer-term targets. Given the transformational nature of our approach to safety, we anticipate that we will improve safety performance through a series of step changes as we implement the safety framework. Work to effect further improvements is continuing across all regions, even those that achieved the targeted reduction.

Managing fatigue at Cripple Creek and Victor (CC&V) Mine in the USA

Shift workers in all industries face a similar problem – managing sleep cycles during shift rotations so that they can stay alert and perform their jobs safely. In the mining industry, shift workers operate heavy equipment, and fatigue can pose significant risk. At the CC&V mine in the USA, two relatively serious fatigue-related incidents occurred during early 2010, fortunately without injury. However, as a result, the safety team at CC&V decided to seek external expertise in combating fatigue amongst employees through a targeted intervention.

CC&V employees were offered free registration to '*Z-Coach*', a programme which teaches participants effective sleep cycle management and lifestyle techniques. The programme is computer based and could therefore be accessed 24/7, making it convenient for use by shift workers, the group most affected by fatigue management issues.

A detailed version of this case study is available online at www.anglogoldashanti.com

Case
study:

Podcast available at www.anglogoldashanti.com

Ron Largent, Executive Vice President – Americas, AngloGold Ashanti

Good safety performance goes beyond technical systems – it requires that safety is a passion. What does this mean? The relentless pursuit of safety at all times.

Pod
cast:

Employees at CC&V participating in the Z-Coach Programme, which can be tailored to each individual's specific interests and needs

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Our context

In line with our values, we believe that we cannot accept ill health as a natural consequence of our business operations, and that our employees must be able to go home fit and well at the end of each working day. Our definition of good health is a state of complete physical, social, mental and spiritual wellbeing and not merely the absence of disease and ill health.

We also subscribe to the value that 'communities in which we operate will be better off for us having been there', which implies that our approach to health encompasses community health issues.

In many areas of operation, we have found that employee and community health issues are inseparable, and integrated strategies are required. Approaches to malaria, HIV/AIDS and TB, for example, require community-level interventions as well as employee-level interventions to be successful.

The diagram below shows the model that we aim to adopt in analysing and managing health issues in the workplace, and the potential health exposures that employees face. These are significant, particularly in South Africa where we encounter many of our most pressing health risks.

Managing health issues
health
and
community
Occupational
Employee joins
Potential exposures and impacts
Employee exits
Social context
Migrancy
Accommodation
Psycho-social
Communicable diseases
Non-communicable diseases-r
elated diseases
Lifestyle
Occupational environment
Dust
Gases
Radiation
Thermal stress
Noise
Ongoing health evaluations and care in line with values
Medical
assesment
of health status
Physical injury
Medical

assessment
of health status
Desired outcome:
An employee's
health status is
sustained or
improved during
the course of
employment.

AngloGold Ashanti's global approach to wellness in the workplace

Managing health issues

Our most material health risks relate to:

- Silicosis – silicosis remains our most serious occupational health concern. Although the company has been able to eliminate new cases of silicosis at its Brazilian operations, we continue to report new cases in South Africa. The number of cases reported in South Africa remains high and in 2010 increased compared with the previous year.
In 2010, 459 new cases of silicosis were submitted to the Medical Bureau for Occupational Disease of South Africa, against 409 in 2009. This increase can be attributed to past exposures and potentially other factors such as the high level of HIV and TB prevalence in our South African workforce, which aggravates the disease.
- Noise-induced hearing loss (NIHL) – this remains a challenge in South Africa. The number of compensable cases declined from 79 in 2009 to 64 in 2010. However, the incidence of early NIHL remains high. 429 new cases of early NIHL were diagnosed in 2010, up from 332 cases in 2009. Early NIHL is defined as a loss of hearing of 5-10% from baseline and is not compensable under current South African legislation.
- HIV/AIDS – HIV/AIDS is a health issue in South Africa, Tanzania, Ghana and the Democratic Republic of the Congo. High prevalence of HIV/AIDS contributes to absenteeism, hospital admission, ill-health retirement and death among affected employees.
- Malaria – malaria is a major health concern for AngloGold Ashanti's operations in Ghana, Guinea, Mali and Tanzania. The prevalence of malaria in these regions can result in illness and absenteeism among employees, and has a significant impact on the health of employees' families and that of the surrounding communities.

Failure to manage these issues adequately poses risks to the business in terms of increased potential for injuries and accidents, decreased productivity, fatigue, poor morale, increased medical and medical compensation costs and poor stakeholder relations, all of which can threaten the social and legal licence of the company to operate.

Our health strategy

AngloGold Ashanti is a global company which operates in a diverse range of settings. Health exposure risks therefore differ between regions and according to the type of mining operation undertaken. The company has not implemented a global health strategy or management system in the past and the management of health and wellbeing issues has not therefore always been consistent.

In 2011, we intend to move towards a structured approach to managing health issues, through the development and implementation of a global health strategy and health management system, thus improving the organisation's ability to learn from the experience of different regions and to replicate good practice across the group.

The health strategy that we have developed has the following objectives:

- to sustain and improve the health status of the workforce through disease prevention, early disease identification, effective illness and injury management, and effective rehabilitation;
- to sustain and improve the health status of the communities in which we operate by managing the potential for positive and negative health impacts; and
- to provide a working environment conducive to health through pro-active and systematic hazard management.

A health management system will be designed and implemented which will be compatible with the best practice standards on occupational health and safety already in use at our operations and integrated with our broader business systems. These include key organisational change initiatives such as Project ONE as well as duty of care policies and practices, knowledge and information management systems, risk management systems and community relations strategies.

Standards and guidelines are being developed on key health issues such as health impact assessments, specific disease management and pre-placement medical examinations.

Health impact assessments will be conducted at operations over the next 18 months and health risk assessments will be updated or put in place where they do not already exist. They will also serve as a benchmark for new operations, which in future will be assessed at the feasibility stage.

Health targets for 2011 and 2012

We intend to take forward implementation of our health strategy and management system within the following time frames:

- undertake health risk assessments and health system audits at our operations in Continental Africa by the end of 2011; and
- complete heath risk assessments and health system audits for the balance of our operations by the end of 2012.

We have set the following goals relating to wellness and occupational environment:

-

continue progress towards the industry milestone of no new cases of silicosis among previously unexposed employees in South Africa (2008 onwards) after December 2013;

Managing health issues

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- meet the industry milestone of no deterioration in hearing greater than 10% among occupationally-exposed individuals at South African operations;
- roll out integrated malaria programmes at operations in Mali, Tanzania and Guinea, drawing on the model implemented at Obuasi in Ghana; and
- in South Africa, continue efforts to reduce occupational tuberculosis (TB) incidence to 2.25% of all South African employees by 2015 and to successfully cure 85% of new cases (our long-term target is the reduction of TB incidence to 1.5% of all South African employees by 2029).

Health performance in 2010

In 2009, we committed to a number of targets relating to health issues, as set out below. All of them are centred on South Africa, where the need for progress has been most acute. This is due to the large numbers of people employed by the company in South Africa, as well as the incidence of silicosis, HIV/AIDS, NIHL and TB among this workforce. This section sets out progress against these targets as well as on addressing malaria at our African operations.

Silicosis

Our target is the elimination, by 2013, of new cases of silicosis among employees in South Africa who were not occupationally exposed prior to January 2008 (using present diagnostic techniques).

This target is the industry milestone, set at the 2003 Health and Safety Summit. However, it is still too early to provide a meaningful assessment of the group of employees exposed after January 2008 due to the latency period of the disease. Current diagnostic techniques do not allow us to make a meaningful assessment of performance at this stage.

We therefore measure current performance with reference to the occupational hygiene aspects of the industry milestones. These state that no more than 5% of samples measuring exposure should be above the occupational exposure limit of $0.1mg/m^3$ for respirable crystalline silica.

A continued focus on filtration strategies and footwall treatment has enabled us to continue reducing silica dust exposure and achieve compliance with the industry milestone. We are still maintaining a downward trend of dust exposure on an annual basis. We also maintained significantly higher sampling rates than those prescribed by legislation, increasing our confidence in the data collected and enabling us to manage the issue of silica exposure more closely.

We have now set ourselves a lower benchmark for dust readings for analysis than the industry milestone and investigate the root cause of all dust readings exceeding this benchmark. We are also in the process of defining a new baseline for dust readings by sampling all employees. This will enable us to evaluate high risk areas and occupations so that strategies can be adapted accordingly.

A former employee, Mr Thembekile Mankayi, instituted a legal action against AngloGold Ashanti in October 2006, claiming approximately $360,000 for damages allegedly suffered as a result of silicosis. AngloGold Ashanti learnt of the death of Mr Mankayi on 3 March 2011 and wishes to offer condolences to his family and friends.

In June 2008, judgement on an application was given in the company's favour on the basis that mine employers are indemnified against claims by employees for damages relating to diseases compensated under existing legislation. An appeal by Mr Mankayi was dismissed by the Supreme Court of Appeal. In August 2010, the Constitutional Court of South Africa heard Mr Mankayi's application for leave to appeal to the Constitutional Court. On 3 March 2011 the Constitutional Court granted the leave to appeal and simultaneously granted the Appeal. The effect thereof is that the executor of Mr Mankayi's estate may return to the High Court to recover common law damages from AngloGold Ashanti and that they are not barred by legislation from doing so. AngloGold Ashanti has several defences available to it, and it will continue to defend the action.

Noise-induced hearing loss (NIHL)

Our target on NIHL is to achieve the industry milestone of no deterioration in hearing greater than 10% amongst occupationally-exposed individuals at South African operations. Audiograms are conducted on all occupationally-exposed employees in South Africa when they join the company and annually thereafter. The baseline for the target is the routine audiogram performed during 2009 or, for employees who joined the company after 1 January 2009, the audiogram performed at the start of their employment.

Due to the lag between noise exposure and NIHL, we are not yet able to give a meaningful assessment of performance against this target. In the meantime, however, we continue compliance with noise targets (the industry milestone states that by December 2013, the total noise emitted by all equipment installed in any workplace must not exceed 110dB(A) at any location in that workplace). We have been in compliance with this hygiene target since 2008 and has now set a lower internal benchmark.

Managing health issues

HIV/AIDS, voluntary counselling and testing (VCT) and wellness programmes

Our targets in this area for 2010 were:

- to maintain a rate of 80% of South African employees attending VCT, excluding those already attending current wellness clinics;
- to reduce by 50% the number of avoidable drop-outs from wellness clinic programmes in South Africa.

We were not able to achieve these targets. The uptake of VCT has been falling since 2008 and in 2010 it was 74%. We treated over 4,000 patients at wellness centres during the year but have not been able to measure retention on the programmes. Measuring retention is challenging because of the constant change in the number of patients, and the many reasons for not returning to the programme. These losses include resignation and voluntary and ill-health separations but are not always recorded as such.

The number of employees presenting themselves for VCT is declining. Testing and counselling programmes, which have been in place at AngloGold Ashanti since 2000, have helped curb the epidemic but do not appear to have resulted in a step change in prevalence, for which a major advance in treatment such as a cure or vaccine would be required.

Notwithstanding this situation, communications and awareness programmes have continued and are now conducted on a one-on-one basis as well as through mass media communication channels. Particular attention is given to VCT at induction.

A major advance in 2010 has been the introduction of linked testing, which enables follow up with affected employees and will also form the basis for a better estimate of the incidence of HIV/AIDS among our workforce. Anti-retroviral therapy (ART) continues to be supplied to approximately 2,500 employees for whom this treatment is clinically indicated.

Tuberculosis (TB)

We have met targets on occupational tuberculosis for 2010, which were to:

- reduce occupational TB incidence to 3% of all South African employees; and
- successfully cure 85% of new TB cases.

Occupational TB incidence in 2010 was reduced to 2.64% in 2010 and more than 90% of cases were successfully treated in 2009. Data for successful outcomes of TB cases treated in

2010 is not yet available as treatment programmes last between six and eight months. Prevalence of this disease among employees in South Africa is closely linked to HIV prevalence.

Malaria

Downward trends in malaria cases continued in 2010, as shown in the table below.

In 2009, AngloGold Ashanti was nominated as the principal recipient of a grant of $138 million from the Global Fund to Fight AIDS, Tuberculosis and Malaria. The project will cover 40 districts in Ghana and will be based on the integrated malaria control model implemented at Obuasi. It is anticipated that this will run for five years and create approximately 3,800 jobs. Work on the project is scheduled to begin in the first quarter of 2011 following successful resolution with the Ghanaian authorities of taxation issues relating to the grant.

Starting in 2011, we intend to roll out the highly successful integrated model undertaken at Obuasi in Ghana to other malaria-affected areas where AngloGold Ashanti operates.

Number of malaria cases in affected countries (2007 – 2010)

	2010	**2009**	**2008**	**2007**
Ghana	3,219	5,085*	4,947	7,786
Tanzania	218	447	1,557	3,212
Guinea	783	664	756	633
Mali	268	204	216	434
Total	4,488	6,400	7,476	12,065

** The number of cases of malaria in Ghana was incorrectly stated in our 2009 report as 5,075.*

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Our context

In our values we commit to treating others with dignity and respect, this includes respect for human rights and an undertaking to operate according to the highest standards of business ethics. As a business that aspires to live the belief that 'people are the business', our concern for operating with respect for human rights stems from our aim to place people first in all aspects of the business.

A member of the United Nations (UN) Global Compact since 2004, we have recorded our commitment to observing the Universal Declaration of Human Rights and to upholding the basic labour rights captured in the Fundamental Principles of the International Labour Organisation (ILO). We value diversity and believe that diversity in employment can make a positive contribution to achieving our business objectives.

Human rights considerations cut across a range of disciplines at AngloGold Ashanti, including health, safety, security, community, environmental, human resources, legal and regulatory, ethics, governance and labour relations. Operating with respect for human rights is a particularly relevant consideration for us because of the location of many of the company's operations in regions of the world, including in post-conflict zones, where there are few formal employment opportunities apart from mining.

This context creates the potential for tension between mines and communities over issues such as land usage, relocation, and artisanal and small-scale mining (ASM). ASM activity is often the cause of difficult security issues, including allegations of breaches of human rights. Potential solutions lie in devising programmes for co-habitation with ASM activity and in ensuring that security responses observe the Voluntary Principles on Security and Human Rights (the VPSHR).

In striving to meet our commitments and to mitigate risk, we have aimed to take human rights considerations into account in developing policies in the areas of health, safety, community, environment, human resources, security and corporate governance. In particular, we have focused on implementing and embedding the VPSHR in our security management practices. We have not, however, had a company-wide human rights policy in place. This is an area of work which was initiated in 2010 and will be developed further in 2011, in alignment with the progress that has been made in the UN in defining the responsibilities of business to respect human rights.

dignity
Acting with
and
respect
Human rights and business

Human rights targets in 2011

In 2011, we therefore aim to develop a policy, frameworks and procedures on human rights, giving due recognition to the guiding principles on business and human rights which are currently being formulated by the UN Secretary General's Special Representative on Business and Human Rights, Professor John Ruggie, and are scheduled for presentation to the UN Human Rights Council during 2011. The guidelines are intended to be a blueprint for businesses, and outline recommended policies and procedures.

We also aim to complete implementation of our global security framework by the end of 2011, which will further entrench our commitment and compliance to the VPSHR.

A full review of all contracts with private and public security services worldwide is in progress in order to standardise contract requirements, and is targeted for completion by the end of 2011.

In 2011, our objective is to operate with zero violations of the VPSHR (in 2010, two violations were substantiated in relation to third-party security forces).

Human rights performance in 2010

In 2010, the company's activity on human rights issues focused on two areas:

- preliminary work towards developing over-arching human rights policies and procedures, including a gap analysis to assess the extent to which AngloGold Ashanti's policies and performance measure up to the UN framework on business and human rights; and
- continuing implementation of the VPSHR in the company's approach to security management.

Developing human rights policies and procedures

In 2005, Professor John Ruggie was given a mandate from the United Nations to identify and clarify standards of corporate responsibility and accountability with regard to human rights. Significant work has been undertaken since this mandate was awarded, including the production of a series of public reports.

The 'Ruggie agenda', as set out in these reports, is becoming the primary international guideline regarding business and human rights. It holds that companies have a responsibility to respect human rights across a broad range of areas and recognises the VPSHR as an integral component in achieving this.

The framework rests on three distinct but complementary pillars:

•
the state's duty to protect against human rights abuses by
third parties, including business;
•
corporate responsibility to respect human rights; and
•
the need for more effective access to remedies.

The corporate responsibility to respect human rights applies to all recognised human rights. These are mainly derived from the

Tanzania

The right to sanitation – Geita Gold Mine pumps water from Lake Victoria to supply the community with all-purpose water

Human rights and business

Podcast available at www.anglogoldashanti.com

John Ruggie, UN Secretary General's Special Representative on business and human rights

The idea of human rights is simple: treating people with dignity. That business should respect human rights is perhaps self-evident.

But it requires them to have robust policies and processes. The Guiding Principles will provide a blueprint to help them achieve this.

A related podcast by Caroline Rees, Program Director of the Social Responsibility Initiative at the Harvard Kennedy School, is available at
www.anglogoldashanti.com <http://www.anglogoldashanti.com>.

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Universal Declaration of Human Rights and the International Covenants on Civil and Political Rights and Economic, Social and Cultural Rights.

Results from the gap analysis on AngloGold Ashanti's systems compared with the UN (Ruggie) framework suggested that we should:

- review and evaluate whether our Code of Ethics and other relevant statements and sources contain language sufficiently strong and clear to constitute a human rights policy and, if not, draft such a policy;
- refine and develop existing tools for ongoing and regular due diligence with respect to human rights;
- approve and institute a draft management standard for the handling of grievances, including allegations of human rights violations; and
- develop tools and a framework for fulfilling responsibilities in respect of our supply chain. This involves adopting a risk-aware approach, where the performance of contractors, suppliers and partners is verified and tracked, and procedures identified for acting on adverse human rights behaviour.

In November 2010 a scoping process to develop a human rights policy and framework was approved. The implementation programme which is currently being outlined includes:

- assigning accountability for each aspect of the policy framework;
- integrating human rights with the relevant system; and
- training as required in support of the policy.

During 2010, AngloGold Ashanti participated in several Ruggie consultations to progress this work, and conducted ongoing informal interactions with members of Ruggie's team. These engagements assisted us in preparing the ground for AngloGold Ashanti to meet its human rights responsibilities in terms of the UN framework.

Embedding the VPSHR in our security management approach

AngloGold Ashanti uses its own security employees as well as private and public security service providers to ensure the protection that our employees and assets require. We aim to manage security in a way that ensures that the human rights of individuals and communities affected by the company's activities are safeguarded.

Threat and risk assessments are conducted in all countries in which we operate to determine the security resources which are required. In Colombia, Ghana, the DRC and Guinea, risk assessments categorise the threats as sufficiently elevated to require the inclusion of state military units (public security forces) on a near-permanent basis. In addition, almost all of our active operations employ private security personnel.

AngloGold Ashanti has adopted an inter-disciplinary approach to decision-making and management of human rights, security and community issues. Implementation of the VPSHR has been a key factor in defining the current structuring of the security discipline within the group as well as setting future targets for performance.

Significant progress on implementation of the VPSHR was made in 2010. Procedures, standards and practices were reviewed and refined to ensure full compliance, while standards and procedures were revised to include rules of engagement, the use of force, and the application of less-lethal force, and allow for transparency in security agreements and contracts.

The structured approach to training of security personnel adopted since 2008 has created a better understanding of and commitment to the requirements of the VPSHR, specifically with regard to the use of minimum force and rules of engagement. In the short term, this may result in an increase in the number of alleged VPSHR incidents being reported, as awareness of rights and obligations under the VPSHR grows. We are actively encouraging self reporting of incidents by our security personnel to ensure that comprehensive data is captured. In the longer term, we expect a reduction in the number of allegations received, which would be an indicator of improved security performance.

Following self audits in 2009, formal internal audits were conducted during 2010. These indicated good progress in achieving compliance at all our operations, but highlighted the need to continue the process of formalising implementation and training processes. This will receive the necessary priority in 2011.

Current efforts in respect of training on the VPSHR will be sustained at all sites to improve engagement processes. The percentage of security service providers trained in the VPSHR in 2010 increased slightly to 88%, compared to 86% in 2009. In 2011, training will be extended to stakeholders external to security, where this is appropriate, including employees, community groups and civil societies, to create a better understanding of the issues we face and our goal of eliminating all VPSHR allegations and incidents. External audits by NGOs contracting for us to establish compliance with the VPSHR are also planned for 2011.

Security incidents in 2010

In 2010, six allegations of VPSHR violations were made. Two violations by members of the military contingent at our operation in Guinea were substantiated and these were resolved at community, operational and military levels.

No fatal incidents were recorded in 2010 as a result of security interventions by AngloGold Ashanti security personnel (two fatal incidents concerning community members were recorded in 2009).

Since the introduction of a more structured approach to security incorporating the VPSHR principles, there has been a significant reduction in the number of fatalities among third parties involved in illegal activity, as shown in the graph below.

The majority of fatalities recorded in the graph above took place at the Siguiri mine in Guinea as a result of landslides which occurred when artisanal miners illegally mined in our active pit. The number of these incidents declined from 22 in 2008 to three in 2010, and every effort is being made to prevent these incidents completely, by finding a workable solution in consultation with communities.

In addition to these fatalities recorded at the Siguiri mine in Guinea in 2010, one fatality and one injury were recorded at the Obuasi mine in Ghana as a result of a police intervention, when one person was fatally injured and another injured in an exchange of gunfire that occurred during an attempted theft of explosives. Two artisanal miners working illegally on our concession also died in two separate incidents at our exploration site in the Democratic Republic of the Congo, as a result of fall of ground incidents.

Since the implementation of the VPSHR principles, we have noted an improvement in our ability to deal with incidents of community unrest in a way which ensures that these do not escalate and do not result in injury to community members. In 2010, there were 12 protest actions by community members at AngloGold Ashanti operations, none of which resulted in serious injury to community members or security service providers.

We are, however, monitoring an increasing trend in the number of security incidents resulting in injuries to AngloGold Ashanti personnel which we believe to be the result of a greater level of organisation among criminal elements and syndicates. Of the 44 injuries to AngloGold Ashanti personnel recorded in 2010, 29 were at the Obuasi mine in Ghana (against two in

2009) and eight at the Geita mine in Tanzania.
The number of injuries to community members has remained relatively stable despite this trend, a demonstration of the fact that there is increased adherence to procedures emphasising the use of minimum force. Tighter security management, including improved processes for data collection and reporting, may also have resulted in an upwards trend in our reported numbers.
08
09
10
28
12
6
Fatalities of third parties involved
in illegal activity
2008 – 2010
08
09
10
4
3
5
Injuries to community members
2008 – 2010
08
09
10
12
11
44
Injuries to AngloGold Ashanti
security personnel
2008 – 2010

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Our context
AngloGold Ashanti's vision is to become the leading mining company which, in the context of sustainability, implies that we will adopt an approach which is inclusive and engaging of a broad range of stakeholders, including host communities and governments.
Many of the communities which host our operations are vulnerable. Transparency in our interactions with both communities and governments, as well as an approach of partnership is therefore essential if they are to derive sustainable economic benefit from our operations.
AngloGold Ashanti is in the process of developing a global sustainability strategy, one of the objectives of which is to promote a more consistent approach to local socio-economic development, community and government relations, and which will be integrated with our organisational change model, Project ONE.
Our Community and Environmental Framework remains in place to inform community and environment strategies developed across projects and operations. Successful execution of the sustainability strategy will further strengthen the implementation of this framework, ensure the delivery of sustainable outcomes for our business and social partners and contribute to the reduction of reportable community and environmental incidents, which is a key business objective.
This section gives a consolidated picture of economic value added and distributed by the company in 2010 including payments made to governments and funds invested in host communities. It sets out our current approach to engaging with communities and governments for mutual economic benefit.
Economic value added and distributed
AngloGold Ashanti's economic value-added statement is presented overleaf. It outlines the financial contributions made in respect of, among others, dividends to shareholders, salaries and wages to employees, social investments in communities and taxes paid to governments.
Our annual financial statements and our website, www.anglogoldashanti.com, give more detailed information relating to operating costs, employee salaries and benefits accruing to shareholders. In this report and in our supplementary web-based information we provide disclosure relating to the two remaining aspects of the value-added statement – payments to government and community and social investments including infrastructural investment.
AngloGold Ashanti and communities
mutual
Partnering
for
benefit

Payments to government

AngloGold Ashanti is a member of the Extractive Industries Transparency Initiative (EITI). The EITI process supports fiscal transparency and governance, both of which are important in promoting sustainable economic development.

Of the countries in which AngloGold Ashanti operates, only Ghana has achieved full compliance with EITI membership provisions. Tanzania, Mali, and the Democratic Republic of the Congo (DRC) are candidate members. We have, however, taken the approach of disclosing payments made to governments in all countries in which we operate, whether or not the government concerned is a member of the EITI.

Payments made to governments in 2010 are shown in the following table. Further detail, including a breakdown of the type of payments made to each government is included in our web-based supplementary information.

Economic value added statement for the year ended 31 December

$m
$m
%
2010
%
2009

Economic value generated

Gold sales and by-product income
97
5,463
96
3,862
Interest received
1
43
1
54
Royalties received
–
8
–
–
Profit from sale of assets
–
–
1
49
Income from investments
2
106

2
94
Total economic value generated
100
5,620
100
4,059
Economic value distributed
Operating costs
(1)
41
2,289
28
1,136
Employee salaries, wages and other benefits
24
1,365
28
1,117
Payments to providers of capital
4
233
4
184
– Finance costs and unwinding of obligations
3
166
3
139
– Dividends
1
67
1
45
Payments to governments
– Current taxation
3
147
4
164
Community investment
(2)
–
16
–
11
Total economic value distributed
72
4,050
64
2,612

Economic value retained
28
1,570
36
1,447

(1)
Operating costs for 2009 have been restated to include the effects of the realised gains and losses on non-hedge derivatives and exclude profit (loss) from associates and joint ventures. Operating costs in 2010 are higher due to increased royalty expenditure of $142m (2009: $84m), rehabilitation costs of $109m (2009: $22m), mandatory convertible bonds transaction costs of $56m (2009: nil). The 2010 and 2009 years exclude hedge buy-back costs.

(2)
Community investment excludes equity accounted joint ventures.

Ghana

Two bridges were built over a large river for use by the community just north of Obuasi. Previously there were no bridges over the river

AngloGold Ashanti and communities

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Community investment programmes

We continue to invest substantially in host communities and labour-sending areas and our community investment programme is a significant part of this effort. We define community investment as the investment of resources, including funds and in-kind contributions, in the community where the beneficiaries are external to the company. This support seeks to complement the work of government, non-governmental organisations (NGOs) and community-based organisations (CBOs). It includes those contributions which the company is obliged to undertake, such as those agreed with governments as part of stability agreements or mining conventions, and where legislation dictates that community contributions are made. Each AngloGold Ashanti site defines the areas of emphasis in their community investment programmes in line with their stakeholder engagement plan, but most include priorities relating to education and social infrastructure.

A breakdown of community investment per operation is presented in the supplementary information on our website, www.anglogoldashanti.com.

Payments to government by country in $000 (2008 – 2010)

	2010	**2009**	**2008**
Argentina*	62,581	36,592	31,449
Australia	28,095	54,382	65,645
Brazil	122,499	78,353	82,862
Colombia	14,561	9,617	8,053
DRC	10,494	2,177	2,174
Ghana*	61,558	55,409	42,079

Guinea*
96,344
63,567
37,621
Mali*
170,320
153,296
118,145
Namibia
14,014
6,833
9,236
South Africa
199,455
117,707
91,106
Tanzania
44,994
59,743
38,466
USA
19,406
6,576
7,713
Total
844,321
644,252
534,549

**Includes dividends paid to governments as shareholders of operations.*

Community investment by region in $000 (2008 – 2010)

2010
2009
2008
South Africa
3,242
2,962
3,177
Continental Africa
8,047
5,525
3,770
Americas
5,480
2,804
1,997
Australasia
456
133
117
Sub-total
17,225

11,424
9,061
Less equity accounted investments included above
(1,145)
(543)
(620)
Total
16,080
10,881
8,441

Puerto San Julian Development Agency Foundation in Argentina

In the late 1990's, economic conditions in the Santa Cruz province in Argentina were difficult. The area was traditionally dedicated to the breeding of sheep, soil management was poor and a decline in international wool prices added to economic hardship.

The aftermath of the Hudson volcano eruption in southern Chile in 1991 made growth and development almost impossible. The population therefore depended almost exclusively on state-sector employment.

The start of mining operations at Cerro Vanguardia SA (CVSA) in 1998 provided an alternative source of employment and economic activity. Understanding the inevitability of eventual mine closure, the company proposed the creation of an agency to promote the development of a sustainable economy.

With the support of CVSA, the Santa Cruz and local city governments, the Puerto San Julian Development Agency Foundation was established in 2004 as a non-profit organisation which comprises key representative organisations from the company and the community. Its objective was to establish a vehicle which would enable public and private entities to drive economic growth through the provision of services and development policies based on social equality and environmental sustainability.

A detailed version of this case study is available online at www.anglogoldashanti.com

Case **study:**

Indirect economic benefits resulting from our operations

Our contribution to society and the communities in which we operate often extends beyond the direct payments made to communities and government.

Healthy and co-operative relationships between the company and stakeholders, including appropriate responses to community complaints and grievances regarding our impacts, often contribute towards developmental benefits. Investment in infrastructure and local procurement can contribute to local economic development.

We operate in various and complex environments, namely in developing countries where in many cases we play a pivotal role in providing a source of income to individuals and families or account for a significant percentage of gross domestic product. In such environments we contribute to social infrastructure development, for example power supply, water provision and sanitation and road construction and maintenance. Even in more developed economies, the role of the company is still crucial in many respects in preserving local values and culture, and enhancing the socio-economic status and quality of life of host communities.

In order to make these investments sustainable, we adopt an approach of partnership with local governments, communities and other relevant stakeholders; co-designing strategies that will ensure that communities continue to thrive beyond the lifespan of our operations. In this regard, we strive to identify communities before we start to mine, and engage with them appropriately throughout the life of mine and during closure.

Our approach to community engagement

AngloGold Ashanti defines communities as the groups of people who are directly or indirectly affected by an operation, both positively and negatively. They include host communities – communities in which the operation is located, labour-sending communities, communities along the operation's transport routes where this applies, and, in some cases, other

"La Cruz del Sur" a fishing vessel financed by the Agency for artisanal fishers, in order to reactivate the local port and ensure raw material for fish processing plants in Puerto San Julian

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groups, including former local residents and their families who have moved away but still have strong familial, business or other ties to the area.
Engagement efforts generally focus on two aspects – building relationships with stakeholders and working towards the development of strong economic partnerships. We do this by, among others, implementing mechanisms for handling grievances and complaints, continually assessing the impact of our presence and activities and implementing and assessing steps to minimise and mitigate those impacts.
Results of engagement strategies have been mixed, with some sites continuing to enjoy harmonious relationships and engagements with their stakeholders, whilst others have experienced challenges and friction. At the Siguiri mine in Guinea, for example, we continued to experience community protest actions during the year despite increasing our focus on engagement, including through the holding of an inclusive stakeholder engagement forum.
Management standards on engagement and community complaints and grievances, which are expected to be approved in 2011, will assist the sites in employing the correct strategies of engagement. Even while the standards are being finalised and approved, work continues to tackle these challenges.

Community incidents in 2010

One of the company's six business goals is the reduction of reportable incidents on community and environment. Our

Formulating a common approach to stakeholder engagement in the Americas

AngloGold Ashanti's operations span a wide range of operating conditions and as a result, the means of engaging with communities and other stakeholders differ from site to site. Nevertheless, the company must understand where such engagement is functioning well and where additional effort is required. The development of a common approach and methodology would also allow key challenges and opportunities to be more effectively highlighted across the business and for insights to be shared more effectively.
Over the course of 2010, our regional group in the Americas took this work forward, by reviewing stakeholder engagement practices at the Cripple Creek & Victor Gold Mining Company (CC&V) in the USA. The work began with an update to the existing stakeholder analysis. With this in hand, externally-conducted interviews were undertaken with a large number of local and regional stakeholders. The objective of these interviews was to elicit objective assessments of CC&V's communications and stakeholder engagement practices. This also allowed CC&V to assess whether its understanding of how stakeholders perceive operations was accurate. This aspect of work is still in process at CC&V; the objective for 2011 is to integrate the learning from this process into the mine's stakeholder engagement strategy for 2011 and beyond.
Once this work is completed at CC&V, we will assess the relevance of this process to other parts of the business and decide whether similar efforts could enhance stakeholder engagement at other operations.
A detailed version of this case study is available online at www.anglogoldashanti.com

Case
study:
The CC&V mine in the USA. Reviews of stakeholder engagement practices were held at CC&V during 2010

long-term objective is the complete elimination of these incidents. In 2010, community incidents were included in the incident classification and reporting standard. During 2011, work will continue to understand these impacts and reduce their numbers.

Seven reportable community incidents were recorded in 2010, four of which occurred at the Siguiri mine in Guinea, one at the Geita mine in Tanzania, one at the Sadiola mine in Mali and one at the Obuasi mine in Ghana. Two of the incidents were classified as major incidents according to the incident reporting system in place. Of these two major incidents, one occurred at the Geita mine when approximately 150 local community members protested against delays in compensation payments. Issues relating to these payments have been resolved and the payments have been effected. The other occurred at the Sadiola mine in Mali, when local residents protested against the failure of the mine to respond to various grievances. Responses to the grievances raised were given following a mediation meeting attended by local community representatives and chaired by a local government representative.

Community relations objectives in 2010

In our 2009 report, we set out objectives relating to community relations in 2010. Our performance against these objectives is set out below.

Implement management standards and associated guidance material that govern the company's relationships with communities and the environment.

Standards were developed in consultation with the relevant practitioners at AngloGold Ashanti sites. Internal and external experts were invited to review and add input into these standards. Each standard complies with the current International Finance Corporation (IFC) Performance Standards and ICMM principles and good practice guidelines.

The management standards that have been developed and are pending sign-off are: Engagement, Socio-Economic Contribution, Community Complaints and Grievances, Artisanal and Small-scale Mining (ASM); Cultural Heritage and Sacred Sites; Indigenous Peoples; and Land Access and Resettlement. The standards set out corporate expectations for performance in these areas and will replace the existing Stakeholder Engagement Action Plan (SEAP) and Integrated Development Action Plan (IDAP) guidelines which are currently in use at our operations. Following approval, operations are expected to comply with standards within a period of three years.

Conduct a Community and Environmental Review Programme (CERP) biennially at selected sites, including community aspects.

The 2010/11 programme of community and environmental audits comprised a gap analysis to measure the extent to which sites have met the requirements of the environmental management standards. Work to include community aspects will begin after the standards have been approved by the company's executive committee which is anticipated in the first half of 2011.

Standards are in the late stages of internal and external reviews. In the interim, site visits have been undertaken to engage sites by raising awareness, soliciting further input and providing feedback on the steps that they would need to take to comply with the proposed standards.

Incorporate community aspects into each operation's ISO 14001 management system by 2012.

The ISO 14001 management system is in place at all operations and some have gone a long way to incorporating community aspects. Further work is being done to support sites to meet the 2014 target date, which is three years after approval of the standard.

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Engagement with government

The government relations function aims to support the company by addressing its key strategic issues in a collaborative way with host governments. Its work is underpinned by an appreciation that government is the custodian of each country's natural resources. It has full authority to regulate and legislate the licensing of exploration and exploitation of natural resources. Various ministries within each government have a role to play in regulating the industry in areas such as environment, safety, water, finance and taxes. Government structures being represented at national, regional and local level within each country presents challenges and opportunities for our operations in developing mutually-beneficial relationships in host countries. For example, community investment needs to be aligned with regional development strategies as defined by host governments. Recognising this key role of government, we aim to include regional and national government representatives in partnerships and engagement processes on local development programmes.

In 2010, we committed to rolling out a pilot engagement strategy model which would introduce more consistency into this area of work. Three specific tools were developed: to guide conversations with government, to maintain a register of all government stakeholders and to capture online feedback from all meetings with governments globally. The latter will be analysed and fed back into the business to serve as an 'early warning system' for emerging issues, as well as assisting each operation in managing its business unit. This pilot programme will remain work in progress in South Africa during 2011 and, following its successful completion, we hope to extend the programme to two other jurisdictions.

Local skills development

Significant direct and indirect economic benefits are generated in host communities through investment in local skills development ranging from hiring, training and developing employees from local communities.

Local skills development is not only undertaken as a consequence of the impetus of local authorities and communities to employ people from their own countries, but is also in line with AngloGold Ashanti's value of leaving the communities better off for us having been there.

As such, a company policy for global transformation and localisation of labour was approved in November 2010 and will be incorporated into formal policies, leadership practices and the System for People (SP) from 2011 with frequent reviews by regions and committees assigned to the transformation model. The policy aims to promote the company's values, and in particular respect for the diversity of our various societies. It also takes into account our global footprint and the legislative framework of the countries in which we are present, so as to:

- redress historical imbalances – this applies particularly in South Africa to historically disadvantaged South Africans (HDSAs);
- promote the equitable employment of local citizens at all levels of management at our operations;
- promote the equitable employment of disabled people into the company and at all levels; and
- promote gender equality at all levels of management of the company.

Podcast available at www.anglogoldashanti.com

Kathryn McPhail,
Principal, International
Council on Mining
Metals (ICMM)

No one party working alone can deliver sustainable development. It is critical for key stakeholder groups to work in partnership: companies, governments, civil society, and international donor agencies.

Pod **cast:**

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AngloGold Ashanti and communities

Legislation concerning transformation and localisation of labour is in place in some regions in which we operate:

- in South Africa, the Mining Charter aims to transform the workplace and communities in which we operate and source labour;
- in Ghana and Tanzania work is ongoing to implement localisation legislation, targeting the reduction of expatriate numbers and the employment of local people into managerial roles. Here immigration laws and practices restrict or limit the employment period of expatriates;
- in Brazil, targets relate to the employment of people with disabilities; and
- in Argentina, provincial legislation restricts the employment of people from outside the province of Santa Cruz, where AngloGold Ashanti operates.

AngloGold Ashanti recognises the critical role of employees in implementing its business strategy. In line with our values we are committed to recognising diversity and to treating people with dignity and respect. We acknowledge that significant benefits can arise if transformation and localisation are integral to how we do business, everywhere we operate. Accountability for transformation ultimately rests with line management, with the corporate office transformation team supporting the regions in developing their strategies in line with the legislative and business requirements and standards as outlined in the policy framework.

Implementation of the policy will be reviewed regularly. Governance structures have been put in place, including a board Transformation and Human Resources Development Committee and a Transformation Steering Committee, which meet quarterly to review progress. Transformation structures will also be established at a regional level, similar to those that already exist at the group's South African operations.

The focus for 2011 will be on ensuring that all operations have systems and structures to ensure compliance with all transformation-related legislation, while at the same time beginning to socialise the transformation policy and strategy as part of the SP implementation process.

Partnering for sustainable development in Colombia

The International Council on Mining and Metals (ICMM) launched 'Mining: Partnerships for Development' in February 2010 – a global initiative to enhance mining's contribution to development and poverty reduction through multi-stakeholder partnerships. AngloGold

Ashanti has been an active supporter of the programme since its inception, supporting workshops in Ghana and in Tanzania and most recently participating in a workshop in Bogota, Colombia in April 2010.

The workshop was well attended with over 150 participants from the various stakeholder groups, including community and youth representatives. A basic action plan was developed which included the formation of a committee responsible for promoting mining partnerships within Colombia, to be led by the Colombian Ministry of Mines and Energy as part of their 'Mineria Responsible' ('Responsible Mining') campaign.

Kathryn McPhail, who has spearheaded the programme from within the ICMM said: "The ICMM's work with United Nations Conference on Trade and Development (UNCTAD) and the World Bank Group has shown that the 'resource curse' is not inevitable. That said, we believe more can be done to enhance mining's contribution to economic and social development and this is the rationale for ICMM's Mining: Partnerships for Development."

A detailed version of this case study is available online at www.anglogoldashanti.com

Case
study:

The team gears up for the 2011
exploration campaign

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Our context

The commitments made in our values imply that, even at the exploration phase of a project, we need to take into account the fact that our mines will eventually close. Rehabilitation costs must be provided for over the lifetime of the operation, and rehabilitation work must be undertaken in line with our commitment to respect the environment. Communities which have hosted our operations must be consulted on what we leave behind in terms of infrastructure and impacts.

AngloGold Ashanti has a large portfolio of greenfield and brownfield exploration projects. Active community engagement is underway at many sites and issues such as health, safety and environmental management are addressed in the exploration phase of our projects.

On closure planning, significant efforts have been made to improve the quality of closure plans at all of our operations. As a means to achieving this end, a company closure standard was approved in 2009. Operations have been given until the end of 2011 to comply with this standard.

This section provides more detail in respect of two critical aspects of our business – exploration and closure planning – both of which are essential to mine in a sustainable manner and leave communities with a sustainable future.

communities

Leaving
for our presence
better

Podcast available at www.anglogoldashanti.com

Caroline Digby, Director,
Post-Mining Alliance,
Eden Project

Successful mine closure ensures
VALIGN="bottom" WIDTH="3%">

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
U.S. defined-benefit plans				
Pension Benefits				

Service cost of benefits earned

$4.5 $6.2 $13.6 $18.5

Interest cost on projected benefit obligation

23.1 24.0 69.4 71.9

Expected return on plan assets

(40.5) (39.4) (121.5) (118.4)

Amortization of prior service cost

2.3 4.1 6.7 12.4

Recognized net actuarial loss

0.4 0.3 1.3 1.1

Net periodic pension (credit)

$(10.2) $(4.8) $(30.5) $(14.5)

Retiree Health and Life Insurance Benefits

Service cost of benefits earned

$0.6 $0.7 $1.8 $2.1

Interest cost on projected benefit obligation

5.0 5.2 14.9 15.5

Amortization of prior service benefit

(1.6) (1.4) (4.8) (4.2)

Recognized net actuarial loss

3.2 2.9 9.4 8.9

Net periodic postretirement benefit cost

$7.2 $7.4 $21.3 $22.3

	Three Months Ended	Nine Months Ended
	September 30,	**September 30,**

	2006	2005	2006	2005
Non-U.S. defined-benefit plans				
Pension Benefits				
Service cost of benefits earned	$ 1.9	$ 2.4	$ 7.2	$ 7.6
Interest cost on projected benefit obligation	4.4	5.3	14.7	16.5
Expected return on plan assets	(3.0)	(3.8)	(10.6)	(11.9)
Amortization of transition obligation			(0.1)	(0.1)
Amortization of prior service cost	0.1	0.1	0.5	0.2
Recognized net actuarial loss	0.8	0.4	2.2	1.4
Net periodic pension cost	$ 4.2	$ 4.4	$ 13.9	$ 13.7

In addition, we recorded a separate charge in the second quarter of 2006 of $8.5 million for a non-cash curtailment and settlement loss related to the transfer of a non-U.S. defined benefit plan to a multiemployer industry plan.

We previously disclosed in our financial statements for the year ended December 31, 2005 that we expected to contribute $23.9 million to our non-U.S. defined benefit pension plans in 2006. As of September 30, 2006, $32.2 million of contributions have been made.

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(dollar amounts in millions, except share data)

NOTE 13. PRODUCT WARRANTIES

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales. The increase in the current year warranty accruals in 2006 compared to 2005 related primarily to a revision of certain assumptions used in prior periods when estimating the accrual for the Wood Flooring segment. The following table summarizes the activity for the accrual of product warranties for the first nine months of 2006 and 2005:

	2006	2005
Balance at January 1	$ 21.1	$ 22.6
Reductions for payments	(25.6)	(28.5)
Current year warranty accruals	30.5	29.7
Preexisting warranty accrual changes		(0.2)
Acquisitions	0.6	
Effects of foreign exchange translation	0.5	(1.0)
Balance at September 30	$ 27.1	$ 22.6

NOTE 14. SHARE-BASED COMPENSATION PLANS

On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This statement replaced FASB Statement No. 123 and superseded APB Opinion No. 25. Prior to January 1, 2006, we used APB Opinion No. 25 s intrinsic value method for stock-based employee compensation.

We used the modified prospective method of adopting FAS 123R, which does not require restatement of prior periods. There was no impact of adoption of the new standard because all of our outstanding stock options are fully vested.

Awards under the 1993 Long-Term Stock Incentive Plan (1993 Plan) were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan (1999 Plan) which replaced the 1993 Plan. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock were to be issued under the 1999 Plan, and no more than 300,000 of the shares were to be awarded in the form of performance restricted shares, restricted stock awards or stock awards.

During 2000, we adopted the Stock Award Plan (2000 Plan) to enable stock awards and restricted stock awards to officers, key employees and non-employee directors. No more than 750,000 treasury shares were to be awarded under the 2000 Plan.

All three of the plans discussed above were terminated upon AWI emerging from Chapter 11 on October 2, 2006. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000 through September 30, 2006, other than commitments entered into prior to the Chapter 11 filing.

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Options were granted to purchase shares at prices not less than the closing market price of the shares on the dates the options were granted. The options generally became exercisable in one to three years and expired 10 years from the date of grant. As of September 30, 2006, there were no stock options granted since 2001.

Changes in AHI option shares outstanding (thousands except for share price and life)	**AHI Option Shares**	**Weighted-average exercise price**	**Weighted-average remaining contractual life (in years)**
Option shares outstanding at January 1, 2006	1,987.3	$ 27.97	
Options granted			
Option shares exercised			
Options cancelled	(213.6)	55.37	
Option shares outstanding at September 30, 2006	1,773.7	$ 24.67	3.26
Option shares exercisable at September 30, 2006	1,773.7	$ 24.67	3.26
Shares available for grant	5,029.0		

The intrinsic value of the AHI option shares outstanding and exercisable at September 30, 2006 was $0, as the exercise price of all AHI options exceeded the market price of the stock on that date.

Restricted stock awards were used for the purposes of recruitment, special recognition and retention of key employees. As of September 30, 2006, no award of restricted stock shares had been granted since 2000. As of September 30, 2006, there were 111,463 restricted shares of AHI common stock outstanding with 596 accumulated dividend equivalent shares.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30, 2006	**2005**
Interest paid	$ 0.7	$ 1.5
Income taxes paid, net	$ 56.6	$ 41.1

NOTE 16. LITIGATION AND RELATED MATTERS

ASBESTOS-RELATED LITIGATION

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

On October 2, 2006 (the Effective Date), AWI s plan of reorganization, which was confirmed by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11. The following summarizes the asbestos-related litigation matters during the Chapter 11 Case and as of September 30, 2006, and how they were impacted by AWI s emergence.

Prior to December 6, 2000, AWI, the major operating subsidiary of AHI, had been named as a defendant in personal injury cases and property damage cases related to asbestos-containing products. On December 6, 2000, AWI filed a voluntary petition for relief (the Filing) under Chapter 11 of the U.S. Bankruptcy Code to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability.

Two of AWI s domestic subsidiaries also commenced Chapter 11 proceedings at the time of the Filing. AHI and all of AWI s other direct and indirect subsidiaries and affiliates, including Armstrong Wood

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Products Inc. (formerly Triangle Pacific Corp.), WAVE (Armstrong s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada and Armstrong DLW AG were not a part of the Filing and accordingly the liabilities, including asbestos-related liability if any, of such companies arising out of their own activities were not resolved in AWI s Chapter 11 Case except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI.

Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the CCR), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program (SSP) and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims were stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants was appointed in the Chapter 11 Case. Upon AWI s emergence on October 2, 2006, the Asbestos Personal Injury Claimants Committee was disbanded. The Future Claimants Representative will continue to serve, but as of October 2, 2006 his expenses will be borne by the Asbestos Personal Injury Trust. See Note 2 regarding AWI s Chapter 11 proceeding and its emergence from Chapter 11.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI s pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, December 3, 2004, and February 21, 2006, and which was confirmed by the U.S. District Court for the District of Delaware (the Court) on August 18, 2006. Such plan, as modified on May 23, 2003 and as from time to time modified through February 21, 2006 and then confirmed, is referred to in this report as the POR . See Note 2 for discussion on the Chapter 11 proceedings that led to AWI s emergence from Chapter 11 on October 2, 2006.

A description of the components of the POR effecting AWI s asbestos-related liability follows.

Asbestos PI Trust

Upon AWI s Plan of Reorganization becoming effective on October 2, 2006, the Asbestos PI Trust was created, pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing and resolving AWI s personal injury (including wrongful death) asbestos-related liability. As of October 2, 2006, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust.

As part of the POR, in accordance with an 524(g) injunction issued under Section 524(g) and entered in connection with the POR, various entities are protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized Armstrong, AHI, AWI s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor does it participate in their resolution.

Armstrong Holdings, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

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However, although AWI s domestic and foreign subsidiaries and other affiliates have certain protection afforded by the 524(g) injunction, asbestos-related personal injury claims against them will be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI s ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). Currently, two asbestos-related personal injury litigations against subsidiaries of AWI allegedly arising out of such independent activities are pending. These claims will not be channeled to the Asbestos PI Trust under the POR inasmuch as they do not involve activities of AWI. The subsidiaries deny liability and are aggressively defending the matters. AWI has not recorded any liability for these matters. Management does not expect that any sum that may have to be paid in connection with these matters will be material to Armstrong.

In addition, workers compensation claims brought against AWI or its subsidiaries or other affiliates will not be channeled to the Asbestos PI Trust and will remain subject to the workers compensation process. Historically, workers compensation claims against AWI and its subsidiaries have not been significant in number or amount and AWI honored its obligations with respect to such claims during the Chapter 11 Case. Workers compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Currently, AWI has four pending workers compensation claims, and a UK subsidiary has seven employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that will not be channeled to the Asbestos PI Trust under the POR and that are of a magnitude that, individually or collectively, would be material in amount to reorganized Armstrong.

Asbestos-Related Liability

Based upon events through early March 2003, specifically the parties agreement on the basic terms of the POR s treatment of AWI s asbestos-related liabilities under a plan of reorganization, management concluded that it could reasonably estimate its probable liability for AWI s current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a $2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately $3.2 billion at September 30, 2006 and December 31, 2005, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

As of October 2, 2006, when the POR became effective, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust. AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor will it participate in their resolution. Accordingly, in the financial statements reported in AWI s Form 10-K for the year 2006, AWI will reflect the resolution of this liability.

Armstrong Holdings, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions, except share data)

Insurance Recovery Proceedings

As of September 30, 2006, a substantial portion of AWI s primary and remaining excess insurance asset is non-products (general liability) insurance for personal injury claims. AWI had entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution (ADR) procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are non-products claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The non-products coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI s claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of $73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The $1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. In October 2006, Liberty Mutual filed counterclaims and a jury demand requesting declaratory judgment in its favor. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company (Home) under an order of liquidation. Less than $10 million of AWI s recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004.

The issue of shared coverage with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) was resolved through a court-approved settlement among AWI, ACandS and the insurer, andAWI received net proceeds of $7 million during the third quarter of 2006. As part of the settlement, ACandS s remaining limits for shared coverage was assigned to AWI.

On October 2, 2006, pursuant to the POR becoming effective, AWI transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust. As of October 2, 2006, resolution of the ADR and other asbestos-related personal injury insurance matters is the responsibility, and at the expense, of the Asbestos PI Trust.

Insurance Asset

An insurance asset in respect of asbestos claims in the amount of $91.5 million was recorded as of September 30, 2006 and $98.6 million as of December 31, 2005. The total amount recorded these periods reflected AWI s belief that insurance proceeds will be recovered in this amount, based upon AWI s success in insurance recoveries, settlement agreements that provide such coverage, the non-products recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is

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(dollar amounts in millions, except share data)

either available through settlement or probable of recovery through negotiation or litigation. Approximately $79 million of the asset was determined from agreed coverage in place.

In the financial statements reported in AWI s Form 10-K for the year 2006, AWI will reflect the transfer, as of October 2, 2006, of rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust.

Cash Flow Impact

As a result of the Chapter 11 Filing, AWI did not make any payments for asbestos-related personal injury claims since the fourth quarter of 2000 through October 1, 2006. AWI did not receive any asbestos-related insurance recoveries during 2005 or during the first six months of 2006, but did receive $7 million in the third quarter of 2006 from the court-approved settlement with ACandS and the insurer, described above.

As of October 2, 2006, upon the POR becoming effective, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos, are channeled to the Asbestos PI Trust. Pursuant to the POR, the Asbestos PI Trust received its share of reorganized Armstrong s new common shares, Available Cash, and net cash proceeds from the secured term loan borrowings. Pursuant to the POR, on October 2, 2006, AWI also transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor does it participate in their resolution. Following its distribution of consideration, described above, to the Asbestos PI Trust, AWI does not expect any future cash flow impact from asbestos-related personal injury claims against AWI.

ENVIRONMENTAL MATTERS

Environmental Expenditures

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at our operating facilities.

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency (EPA) has promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

Environmental Remediation

Summary

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and similar state Superfund laws at 30 sites. We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. In most cases, we are one of many potentially responsible parties (PRPs) which have potential liability for the required investigation and remediation of each site. In some cases, we have agreed to jointly fund that required investigation and remediation, while at some sites, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

Armstrong Holdings, Inc., and Subsidiaries

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(dollar amounts in millions, except share data)

Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as our activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies also identified as potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters, and the impact of AWI s emergence from Chapter 11 upon the validity of the claim.

Effects of Chapter 11

Upon AWI s emergence from Chapter 11 on October 2, 2006, AWI s environmental liabilities with respect to properties that AWI does not own or operate (such as formerly owned sites, or landfills to which AWI s waste was taken) were discharged. Claims brought by a federal or state agency alleging that AWI should reimburse the claimant for money that it spent cleaning up a site which AWI does not own or operate, and claims by private parties, such as other PRPs with respect to sites with multiple PRPs, were discharged upon emergence. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims.

Those environmental obligations that we have with respect to AWI s subsidiaries, as well as those environmental claims AWI has with respect to property that it currently owns or operates, have not been discharged. Therefore, we will be required to continue meeting our on-going environmental compliance obligations at those sites.

In addition to the right to sue for reimbursement of the money it spends, however, CERCLA also gives the federal government the right to sue for an injunction compelling a defendant to perform a cleanup. Several state statutes give similar injunctive rights to those States. While we believe such rights against AWI were also discharged upon AWI s emergence from Chapter 11, there does not appear to be controlling judicial precedent in that regard. Thus, according to some cases, while a governmental agency s right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same government agency s right to compel us to spend our money cleaning up the same site may not be discharged even though the financial impact to AWI would be the same in both instances.

Specific Events

Upon emergence, AWI resolved its environmental liabilities at 21 active sites through its Chapter 11 Case. The liabilities at sixteen of these active sites have been resolved through the global environmental settlement (Global Settlement) with the Department of Justice (DOJ) and the EPA with respect to CERCLA liability. The Global Settlement also resolved AWI s liability at 21 additional sites. The Global Settlement, which was approved by the Bankruptcy Court in October 2005, provided EPA an approved proof of claim in the amount of $8.7 million, which included $7.8 million with respect to the Peterson Puritan site. At one CERCLA site, however, AWI will continue to participate in the cleanup under a previously approved Consent Decree. In addition to the federal claims resolved by the Global Settlement, AWI s emergence from Chapter 11 also resolved its environmental liabilities with respect to claims asserted by the State and/or private parties at 5 other sites.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality (DEQ) to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning (OC) and Kaiser Gypsum Company, Inc. (Kaiser). AWI has entered into an agreement with Kaiser for the sharing of costs and responsibilities with respect to the remedial investigation, feasibility study and remedy selection at the site. OC has entered into a settlement with the DEQ, pursuant to

Armstrong Holdings, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions, except share data)

which, OC has made a lump sum payment to the DEQ in exchange for contribution protection (including protection against common law and statutory contribution claims by AWI against OC), and a covenant not to sue. AWI has reached an agreement with the DEQ as to how these funds will be made available to reimburse AWI and Kaiser for a portion of their shared costs of investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen s facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

A foreign subsidiary of AWI sold a manufacturing facility in 1990, which was prior to AWI s acquisition of the subsidiary. Under the terms of the sales agreement, an environmental indemnification was provided to the buyer of the facility. During the third quarter of 2005, the facility owner discovered additional areas of soil contamination that require additional remediation. Accordingly, a $3.1 million charge was recorded within SG&A expense to increase our probable liability. As additional sampling efforts and meetings with local government authorities continue, further increases to our recorded liability are possible.

Summary of Financial Position

Liabilities of $25.6 million and $27.3 million at September 30, 2006 and December 31, 2005, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $19.5 million of the September 30, 2006 and $19.4 million of the December 31, 2005 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was $2.3 million at September 30, 2006 and December 31, 2005.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for costs and potential damages related to the litigation.

During the first quarter of 2006, a favorable settlement of a patent infringement case totaling $8.6 million was recorded within SG&A. This case, in which we were the plaintiff, related to a previously divested business. We received the proceeds in the second quarter of 2006.

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Armstrong Holdings, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions, except share data)

OTHER CLAIMS

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

NOTE 17. EARNINGS PER SHARE

The difference between the average number of basic and diluted common shares outstanding is due to contingently issuable shares.

NOTE 18. SUBSEQUENT EVENT

On October 2, 2006, AWI s court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11. See Notes 2 and 16 for further discussion of AWI s emergence.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Armstrong Holdings, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Armstrong Holdings, Inc., and subsidiaries (the Company) as of September 30, 2006, the related condensed consolidated statements of earnings for the three and nine-month periods ended September 30, 2006 and 2005, and the related condensed consolidated statements of cash flows and shareholders equity for the nine-month periods ended September 30, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Armstrong Holdings, Inc., and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, cash flows and shareholders equity for the year then ended (not presented herein); and in our report dated February 23, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Philadelphia, Pennsylvania

October 30, 2006

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings

(amounts in millions)

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net sales	$ 973.6	$ 937.0	$ 2,795.7	$ 2,696.7
Cost of goods sold	747.1	720.8	2,169.1	2,101.5
Gross profit	226.5	216.2	626.6	595.2
Selling, general and administrative expenses	173.7	158.2	469.9	496.2
Restructuring charges (reversals), net	(0.5)	1.4	10.0	17.0
Equity (earnings) from joint ventures	(14.1)	(9.9)	(41.4)	(28.2)
Operating income	67.4	66.5	188.1	110.2
Interest expense (unrecorded contractual interest of $19.3, $20.5, $57.6, $63.6, respectively)	2.1	2.2	5.8	6.4
Other non-operating expense	0.4	1.1	1.0	1.4
Other non-operating (income)	(3.2)	(5.5)	(7.3)	(9.8)
Chapter 11 reorganization costs, net	4.4	1.5	10.9	4.5
Earnings before income taxes	63.7	67.2	177.7	107.7
Income tax expense	24.5	21.1	70.3	47.5
Net earnings	$ 39.2	$ 46.1	$ 107.4	$ 60.2

See accompanying notes to condensed consolidated financial statements beginning on page 41.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Balance Sheets

(amounts in millions, except share data)

	Unaudited September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 520.6	$ 602.2
Accounts and notes receivable, net	407.5	328.8
Inventories, net	542.6	514.5
Deferred income taxes	18.2	15.4
Income tax receivable	18.2	18.2
Other current assets	60.7	82.2
Total current assets	1,567.8	1,561.3
Property, plant and equipment, less accumulated depreciation and amortization of $1,324.1 and $1,562.0, respectively	1,164.0	1,145.3
Insurance receivable for asbestos-related liabilities, noncurrent	91.5	88.8
Prepaid pension costs	510.0	476.9
Investment in affiliates	95.0	67.4
Goodwill, net	143.1	134.2
Other intangibles, net	84.5	68.1
Deferred income taxes, noncurrent	967.4	967.4
Other noncurrent assets	97.5	96.6
Total assets	$ 4,720.8	$ 4,606.0
Liabilities and Shareholder_s Equity		
Current liabilities:		
Short-term debt	$ 0.4	$ 14.6
Current installments of long-term debt	0.9	5.4
Accounts payable and accrued expenses	415.9	392.5
Short term amounts due to affiliates	10.1	10.0
Income tax payable	7.5	10.0
Deferred income taxes	0.8	0.8
Total current liabilities	435.6	433.3
Liabilities subject to compromise	4,868.1	4,869.4
Long-term debt, less current installments	12.1	21.5
Postretirement and postemployment benefit liabilities	260.9	258.9
Pension benefit liabilities	230.7	223.7
Other long-term liabilities	74.6	90.0
Deferred income taxes, noncurrent	35.7	21.2
Minority interest in subsidiaries	7.3	7.9
Total noncurrent liabilities	5,489.4	5,492.6
Shareholder s equity (deficit):		
Common stock, $1 par value per share, authorized 200 million shares; issued 51,878,910 shares	51.9	51.9
Capital in excess of par value	172.6	172.6

Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(803.4)	(910.8)
Accumulated other comprehensive income	45.4	37.1
Less common stock in treasury, at cost 2006 and 2005 - 11,393,170 shares	(528.5)	(528.5)
Total shareholder s (deficit)	(1,204.2)	(1,319.9)
Total liabilities and shareholder s equity	$ 4,720.8	$ 4,606.0

See accompanying notes to condensed consolidated financial statements beginning on page 41.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Shareholder s Equity

(amounts in millions, except per share amounts)

Unaudited

	2006		2005	
Common stock, $1 par value:				
Balance at beginning of year and September 30	$ 51.9		$ 51.9	
Capital in excess of par value:				
Balance at beginning of year and September 30	$ 172.6		$ 172.6	
Reduction for ESOP loan guarantee:				
Balance at beginning of year and September 30	$ (142.2)		$ (142.2)	
Retained earnings (accumulated deficit):				
Balance at beginning of year	$ (910.8)		$ (1,021.9)	
Net earnings for period	107.4	$ 107.4	60.2	$ 60.2
Balance at September 30	$ (803.4)		$ (961.7)	
Accumulated other comprehensive income:				
Balance at beginning of year	$ 37.1		$ 42.8	
Foreign currency translation adjustments	18.5		(12.0)	
Derivative gain (loss), net	(9.5)		9.1	
Minimum pension liability adjustments	(0.7)		2.3	
Total other comprehensive income (loss)	8.3	8.3	(0.6)	(0.6)
Balance at September 30	$ 45.4		$ 42.2	
Comprehensive income		$ 115.7		$ 59.6
Less treasury stock at cost:				
Balance at beginning of year and September 30	$ (528.5)		$ (528.5)	
Total shareholder s (deficit)	$ (1,204.2)		$ (1,365.7)	

See accompanying notes to condensed consolidated financial statements beginning on page 41.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(amounts in millions)

Unaudited

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities:		
Net earnings	$ 107.4	$ 60.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	101.2	106.7
Fixed asset impairments	0.6	
Deferred income taxes	16.5	(11.1)
Gain on sale of assets	(17.1)	(0.4)
Equity (earnings) from affiliates, net	(41.4)	(27.5)
Gain on sale of investment in affiliates		(3.4)
Chapter 11 reorganization costs, net	10.9	4.5
Chapter 11 reorganization costs payments	(13.1)	(9.2)
Restructuring charges, net of reversals	10.0	17.0
Restructuring payments	(3.0)	(22.0)
Asbestos-related insurance recoveries	7.0	
Cash effect of hedging activities	(2.8)	11.1
Increase (decrease) in cash from change in:		
Receivables	(66.0)	(85.9)
Inventories	(12.7)	24.0
Other current assets	2.0	5.5
Other noncurrent assets	(45.3)	(26.8)
Accounts payable and accrued expenses	11.3	11.9
Income taxes payable	(2.8)	18.1
Other long-term liabilities	(10.5)	(3.0)
Other, net	5.8	(6.2)
Net cash provided by operating activities	58.0	63.5
Cash flow from investing activities:		
Purchases of property, plant and equipment and computer software	(98.2)	(83.4)
Purchase of minority interest	(1.5)	
Acquisitions	(60.5)	
Distributions from equity affiliates	18.0	17.0
Investment in affiliates	(4.3)	
Proceeds from the sale of investment in affiliates		20.6
Loan to affiliate	(6.3)	
Proceeds from the sale of assets	39.1	4.7
Net cash (used for) investing activities	(113.7)	(41.1)
Cash flows from financing activities:		
(Decrease) increase in short-term debt, net	(15.2)	12.1
Payments of long-term debt	(15.5)	(4.3)

Dividend to minority interest	(1.1)	
Other, net	0.5	
Net cash (used for) provided by financing activities	(31.3)	7.8
Effect of exchange rate changes on cash and cash equivalents	5.4	(5.3)
Net (decrease) increase in cash and cash equivalents	(81.6)	24.9
Cash and cash equivalents at beginning of year	602.2	515.9
Cash and cash equivalents at end of period	$ 520.6	$ 540.8

See accompanying notes to condensed consolidated financial statements beginning on page 41.

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

NOTE 1. BASIS OF PRESENTATION

Armstrong World Industries, Inc. (AWI) is a Pennsylvania corporation incorporated in 1891. On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in order to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability. On October 2, 2006, AWI s plan of reorganization (the POR), as confirmed by the U.S. District Court for the District of Delaware by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11.

Armstrong Holdings, Inc. is a Pennsylvania corporation and, as of September 30, 2006, was the publicly held parent holding company of AWI. Armstrong Holdings, Inc. s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware corporation), of all of the capital stock of AWI. Upon AWI s POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and Armstrong Holdings, Inc. was not entitled to any distribution under the POR in respect of its former equity interest in AWI. AHI and Armstrong Worldwide, Inc. have pending claims in AWI s Chapter 11 case and the potential for a tax refund. See Note 2 for additional information about AWI s Chapter 11 case and the pending claims and potential tax refund.

We include separate consolidated financial statements for Armstrong Holdings, Inc. and its subsidiaries, and AWI and its subsidiaries in this report because, as of September 30, 2006, both companies had public securities that were registered under the Securities Exchange Act of 1934. The differences between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries are primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and subsequent employee compensation-related stock activity. When we refer to we , our and us in this report, we are referring to AHI and AWI through October 1, 2006 and reorganized Armstrong as it was reorganized under the POR thereafter. References in this report to reorganized Armstrong are to AWI as it was reorganized under the POR on October 2, 2006, and its subsidiaries collectively.

The accounting policies used in preparing these statements are the same as those used in preparing the consolidated financial statements for the year ended December 31, 2005. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Form 10-K for the fiscal year ended December 31, 2005. In the opinion of management, all adjustments of a normal recurring nature have been included to provide a fair statement of the results for the reporting periods presented. Quarterly results are not necessarily indicative of annual earnings, primarily due to the different level of sales in each quarter of the year and the possibility of changes in general economic conditions. In addition, in connection with AWI s emergence from Chapter 11 on October 2, 2006, reorganized Armstrong will adopt fresh-start reporting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). As a result of the application of fresh-start reporting as of October 2, 2006, reorganized Armstrong s consolidated financial statements in future periods will not be comparable to AWI s consolidated financial statements from prior periods. See Note 2 for additional information about fresh-start reporting.

These financial statements are prepared in accordance with generally accepted accounting principles and include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asbestos-related liabilities and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market changes, warranty, workers compensation, general liability and environmental claims. When preparing an estimate, management determines the amount based upon considering relevant information, which may include conferring with outside parties where appropriate. Actual results may differ from these estimates.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

Operating results for the third quarter and first nine months of 2006 and the corresponding periods of 2005 included in this report are unaudited. However, these condensed consolidated financial statements have been reviewed by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) for a limited review of interim financial information.

On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R). Prior to January 1, 2006, we used the intrinsic value method for stock-based employee compensation. There would have been no effect on net income and earnings per share if we had applied the fair value recognition provisions of FAS 123R to share-based employee compensation in 2005. See Note 14 for additional information on FAS 123R.

NOTE 2. CHAPTER 11 REORGANIZATION

On October 2, 2006 (the Effective Date), AWI s plan of reorganization, which was confirmed by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11. AWI s two wholly-owned subsidiaries that commenced Chapter 11 proceedings at the same time as AWI remain in Chapter 11. The following summarizes the events in its Chapter 11 case that led to AWI s emergence.

Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief (the Filing) under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) in order to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability. Also filing under Chapter 11 were two of AWI s wholly-owned subsidiaries, Nitram Liquidators, Inc. (Nitram) and Desseaux Corporation of North America, Inc. (Desseaux). The Chapter 11 cases are being jointly administered under case number 00-4471 (the Chapter 11 Case). Shortly after its commencement, the Chapter 11 Case was assigned to Judge Randall J. Newsome. His appointment as a visiting judge in the District of Delaware ended on December 31, 2003. On January 6, 2004, the Chapter 11 Case was assigned to Judge Judith K. Fitzgerald.

AHI and all of AWI s other direct and indirect subsidiaries and affiliates, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies were not resolved in AWI s Chapter 11 Case. See below under The Asbestos Personal Injury Trust and Note 16 under Asbestos-Related Litigation .

Through October 1, 2006, AWI operated its business and managed its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI was not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Bankruptcy Court. Similarly, claimants could not enforce any prepetition claims unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI had the right, subject to the Bankruptcy Court s approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Some of these were specifically assumed and others were specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization, AWI identified other executory contracts and unexpired leases that it assumed or rejected effective on the Effective Date; any not specifically assumed under the plan of reorganization were rejected as of that date.

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

Three creditors committees, one representing asbestos personal injury claimants (the Asbestos Personal Injury Claimants Committee), one representing asbestos property damage claimants (the Asbestos Property Damage Committee), and the other representing other unsecured creditors (the Unsecured Creditors Committee), were appointed in the Chapter 11 Case. In addition, an individual was appointed to represent the interests of future asbestos personal injury claimants (the Future Claimants Representative). In accordance with the provisions of the Bankruptcy Code, these parties had the right to be heard on matters that came before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded. Upon AWI s emergence from Chapter 11 on October 2, 2006, the Asbestos Personal Injury Claimants Committee and the Unsecured Creditors Committee were disbanded. The Future Claimants Representative will continue to serve, but as of October 2, 2006 his expenses will be borne by the Asbestos Personal Injury Trust established under the plan of reorganization as described below.

Plan of Reorganization and Disclosure Statement

On November 4, 2002, AWI filed a plan of reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, December 3, 2004, and February 21, 2006, was confirmed by the U.S. District Court for the District of Delaware (the Court) on August 18, 2006. Such plan, as modified on May 23, 2003 and as from time to time modified through February 21, 2006 and then confirmed, is referred to in this report as the POR . Pursuant to the POR, upon emergence from Chapter 11 on October 2, 2006, AWI continued to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares were cancelled and new common shares of reorganized Armstrong and cash were issued to its unsecured creditors and to the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the Asbestos PI Trust), which was established under the POR, as described below, for the benefit of AWI s current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. The POR excludes AWI s Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which are pursuing separate resolutions of their Chapter 11 cases that are expected to result in the winding up of their affairs.

In connection with the vote of creditors on the POR, AWI prepared a disclosure statement concerning its business and the POR, including certain projected financial information assuming an effective date of the POR of July 1, 2003, intended to demonstrate to the Bankruptcy Court the feasibility of the POR and AWI s ability to continue operations upon its emergence from Chapter 11. On May 30, 2003, the Bankruptcy Court approved the disclosure statement for distribution to parties in interest in the Chapter 11 Case. The projected financial information included in the disclosure statement was updated in certain respects by information submitted to the Bankruptcy Court in connection with the Bankruptcy Court s November 2003 hearing on confirmation of the POR and was not otherwise updated for use in any submission made in the Chapter 11 Case. This projected financial information was prepared for the limited purposes of consideration by the Bankruptcy Court, creditors and other parties in interest in the Chapter 11 Case of matters pertinent to the case. The projected financial information and estimates of value were prepared by AWI and its financial advisors and were not audited or reviewed by independent accountants. At the time they were prepared in 2003, the projections reflected numerous assumptions concerning reorganized Armstrong s anticipated future performance and with respect to prevailing and anticipated market and economic conditions, which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in a material respect. Actual results have and may vary significantly from those contemplated by the projections.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

During 2003, the POR was submitted for a vote by AWI s creditors for its approval. It was approved by each creditor class that was entitled to vote on the POR except the class of unsecured creditors. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the POR and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors Committee filed an objection to the Bankruptcy Court s proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

In order for AWI s POR to be confirmed, the U.S. District Court had to also issue findings of fact and conclusions of law in support of confirmation of the POR, enter or affirm an order confirming the POR and issue an injunction under Section 524(g) of the Bankruptcy Code (see Asbestos Personal Injury Trust below). Following procedural delays concerning the status of the prior U.S. District Court judge presiding over AWI s Chapter 11 Case, the case was assigned to U.S. District Court Judge Eduardo C. Robreno in June 2004. A hearing was held before Judge Robreno on December 15, 2004 to consider the objections to confirmation of the POR. On February 23, 2005, Judge Robreno ruled that the POR could not be confirmed. In the court s decision, the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders, as then provided under the POR violated the absolute priority rule of the Bankruptcy Code.

AWI filed a Notice of Appeal of this decision to the United States Court of Appeals for the Third Circuit. On December 29, 2005, the U.S. Court of Appeals affirmed the District Court s decision to deny confirmation of the POR.

At a status conference before Judge Robreno on February 3, 2006, AWI and the court-authorized representatives of AWI s creditors and claimants advised the Court that they had agreed on a proposed schedule for a confirmation hearing on a modified POR which would eliminate the provisions regarding distribution of warrants to AWI s existing equity holder. AWI filed the modified POR with the Court on February 21, 2006. Following the conference, Judge Robreno established a schedule for a U.S. District Court confirmation hearing on the modified POR.

The confirmation hearing commenced on May 23, 2006 and concluded with oral arguments on July 11, 2006. At that hearing, the Court heard testimony and received evidence relating to the Unsecured Creditors Committee s objection that the modified POR unfairly discriminated against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR.

On August 15, 2006, the Court issued its opinion overruling the Unsecured Creditors Committee s objection. On August 18, 2006, the Court entered the order confirming AWI s POR, along with its findings of facts and conclusions of law.

A description of the basic components of the POR, as it became effective on October 2, 2006, follows.

Relationship to Armstrong Holdings, Inc. (AHI)

Upon the POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution on account of its equity interest in AWI. See Matters Concerning AHI in this footnote for a discussion on the pending matters between AHI and AWI.

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Asbestos Personal Injury Trust

Upon the POR becoming effective on October 2, 2006, the Asbestos PI Trust was created, pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI s personal injury (including wrongful death) asbestos-related liability. As of October 2, 2006, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust.

As part of the POR, an injunction was issued under Section 524(g) protecting various entities from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized Armstrong, AHI, AWI s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Now that AWI has emerged from Chapter 11, reorganized Armstrong does not have any responsibility for these claims (including claims against reorganized Armstrong based solely on its ownership of a subsidiary or other affiliate), nor will it participate in the resolution of these claims.

However, although AWI s domestic and foreign subsidiaries and other affiliates have certain protection afforded by the 524(g) injunction, asbestos-related personal injury claims against them will be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI s ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 16 under Asbestos-Related Litigation.

In addition, workers compensation claims brought against AWI or its subsidiaries or other affiliates will not be channeled to the Asbestos PI Trust and will remain subject to the workers compensation process. Workers compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Historically, workers compensation claims against AWI or its subsidiaries have not been significant in number or amount, and AWI honored its obligations with respect to such claims during the Chapter 11 Case. Currently, AWI has four pending workers compensation claims, and a UK subsidiary has seven employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that will not be channeled to the Asbestos PI Trust under the POR and that are of a magnitude that, individually or collectively, would be material in amount to reorganized Armstrong.

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Consideration to Be Distributed under the POR

The Asbestos PI Trust and the holders of allowed unsecured claims, other than convenience creditors described below, became entitled on the Effective Date to share in the following consideration to be distributed to them under the POR:

AWI s Available Cash, which, as defined in the POR, was:

Cash available as of September 30, 2006 after reserving up to $100 million (as determined by AWI) to fund ongoing operations and making provisions for the payment of allowed claims of convenience creditors and certain other required payments under the POR,

Any cash drawn, at AWI s sole discretion, under a credit facility to be established as provided by the POR for the purpose of funding distributions under the POR, and

Certain insurance proceeds related to environmental matters.

However, pursuant to the POR, proceeds received from any private offering of debt securities or secured term loan borrowings made, as permitted by, and in connection with consummation of, the POR, and certain other amounts authorized or directed by the Court, were excluded from the determination of Available Cash.

Plan Notes of AWI as further described below or net cash proceeds from any private offerings of debt securities or secured term loan borrowings made in lieu of Plan Notes, and

New common shares of reorganized Armstrong, representing all of the shares issued under, and outstanding after giving effect to, the POR, which were determined to be 56.4 million shares, except that an additional 5,349,000 shares (5% of the shares on a fully diluted basis) were reserved for issuance pursuant to a Long-Term Incentive Plan for key employees.

The POR called for AWI to use reasonable efforts to issue one or more private offerings of debt securities or arrange term loan borrowings on, or as soon as practicable after, the Effective Date, so as to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan, which was the greater of (i) $1.125 billion less Available Cash and (ii) $775 million. Following its emergence, AWI received commitments for, and then entered into and received the proceeds from, $800 million of secured term loan borrowings for use principally in lieu of issuance of the Plan Notes. The borrowings consist of a $300 million term loan with a 5 year maturity and a $500 million term loan with a 7 year maturity. Of the $800 million borrowed, $775 million will be distributed to the Asbestos PI Trust and holders of allowed unsecured claims, as described in the following paragraph, and the remaining $25 million will be used by AWI for operational purposes.

The POR provided that unsecured creditors, other than convenience creditors described below, receive their pro rata share of:

34.43% of the 56.4 million new common shares of reorganized Armstrong, 34.43% of the first $1.05 billion of all the Available Cash and net cash proceeds from the secured term loan borrowings in lieu of Plan Notes to be distributed under the POR to unsecured creditors (other than convenience creditors) and the Asbestos PI Trust, in the form of:

Up to $300 million of Available Cash and

The balance in net cash proceeds from the secured term loan borrowings.

60% of the next $50 million of Available Cash but, if such Available Cash is less than $50 million, then 60% of the balance of the net cash proceeds from the secured term loan borrowings made in lieu of issuing the Plan Notes, and

34.43% of the remaining amount of any Available Cash, and the remaining net cash proceeds from the secured term loan borrowings made in lieu of issuing the Plan Notes.

Under the POR, the remaining amount of new common shares of reorganized Armstrong, Available Cash and net cash proceeds from the secured term loan borrowings, made in lieu of issuing the Plan Notes, were distributed to the Asbestos PI Trust. Pursuant to the POR, AWI also transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the

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Asbestos PI Trust. See Note 16 for additional information regarding the asbestos-related personal injury insurance proceedings.

Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than $10 thousand or who elect to reduce their claims to $10 thousand were treated as convenience creditors and will receive payment of 75% of their allowed claim amount in cash (which payments reduced the amount of Available Cash). Payments totaling $2.3 million to-date were made to the convenience creditors, commencing on October 2, 2006, with another $0.7 million expected to be paid in future periods.

Valuation of Consideration to be Distributed under the POR

During the third quarter of 2003, AWI and its financial advisors estimated the value of reorganized Armstrong to be between $2.4 billion and $3.0 billion, with the mid-point of this range used in the financial projections that were part of the Disclosure Statement. AWI is currently working with its financial advisors to determine what point within this range is appropriate to be the reorganization value as of October 2, 2006. This value will be used as the basis for AWI s fresh-start reporting, which will be reflected in the fourth quarter 2006 financial statements.

Based upon the distribution provisions for the POR described above, the Asbestos PI Trust and holders of allowed unsecured claims became entitled on the Effective Date to receive the following distributions:

	Value Distributed To		
(reported in millions)	**Asbestos PI Trust**	**Unsecured Creditors**	**Total**
Shares of reorganized Armstrong	37.0	19.4	56.4
Cash proceeds from borrowings	$ 508.2	$ 266.8	$ 775.0
Available Cash	230.3	140.4	370.7
Total of cash proceeds	$ 738.5	$ 407.2	$ 1,145.7
AWI book value of insurance	$ 91.5		

Distribution to the Asbestos PI Trust of the above-mentioned new common shares was made on October 2, 2006 and distribution to it of its share of Available Cash and net cash proceeds from the secured term loan borrowings was completed by October 17, 2006. The rights arising under liability insurance policies issued to AWI with respect to asbestos related personal injury claims were transferred to the Asbestos PI Trust on October 2, 2006. The initial distribution to holders of allowed unsecured claims, of their pro rata share of the above-mentioned new common shares, Available Cash and net cash proceeds from the secured term loan borrowings, commenced on October 17,2006. Substantially all of the total unsecured creditors value was distributed in October 2006, with some of the value reserved from distribution due to a few unsecured claims that remain unresolved. The remaining amount of distribution to the unsecured creditors will be made in future periods, as the disputed claims are resolved, in accordance with the dates and procedures established under the POR.

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Matters Concerning AHI

A final federal income tax return for AHI and AWI on a consolidated basis is expected to be filed for 2006 by September 2007. AHI and reorganized Armstrong will report substantial tax losses in this final tax return. The use of the tax losses and the extent to which they result in tax refunds will be affected in part by elections to be made in the final consolidated return by AHI as agent for the Armstrong consolidated group. Some elections would be more beneficial to one company than the other. AHI will receive a substantial tax refund of current year, and possibly prior year, tax payments, a portion of which AHI would pay over to reorganized Armstrong and the balance of which it would retain. The amount of the refund of prior year tax payments will depend in part on the elections made in the tax return. How much of the tax refunds will be retained by AHI may be the subject of dispute between AHI and reorganized Armstrong. Reorganized Armstrong expects to begin shortly negotiations with AHI concerning this matter.

Regardless of the election made in the final tax return for 2006 of the Armstrong consolidated group of companies and apart from any available tax refund, reorganized Armstrong will have a substantial tax loss carryforward as a result of its contributions to the Asbestos PI Trust on and after the Effective Date pursuant to the POR. The amount of the tax loss carryforward will, however, be affected by elections made in the final tax return of the consolidated group.

Common Shares and Debt Securities

AWI s new common shares began trading on the New York Stock Exchange on October 10 under the ticker symbol AWI . AHI s common shares continue to trade in the over-the-counter (OTC) Bulletin Board under the ticker symbol ACKHQ . AWI s pre-Filing debt securities that were trading in the OTC Bulletin Board under the ticker symbol AKKWQ ceased trading upon AWI s emergence from Chapter 11.

Bar Date for Filing Claims

The Bankruptcy Court established August 31, 2001 as the bar date for all claims against AWI except for asbestos-related personal injury claims and certain other specified claims. A bar date is the date by which claims against AWI must be filed if the claimants wish to participate in any distribution in the Chapter 11 Case. A bar date for asbestos-related personal injury claims (other than claims for contribution, indemnification, or subrogation) was rendered unnecessary under the terms of the POR, which defers the filings of such claims until the Asbestos PI Trust is established to administer such claims.

Approximately 4,900 proofs of claim (including late-filed claims) totaling approximately $6.4 billion, alleging a right to payment from AWI, were filed with the Bankruptcy Court in response to the August 31, 2001 bar date. In its ongoing review of the filed claims, AWI to date has objected to approximately 2,200 claims totaling $2.7 billion. The Bankruptcy Court disallowed these claims with prejudice.

During the first six months of 2003, AWI settled all of the approximately 460 remaining asbestos property damage claims that alleged damages of $800 million, for approximately $9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance.

As of September 30, 2006, approximately 1,100 proofs of claim totaling approximately $1.3 billion were associated with asbestos-related personal injury litigation, including direct personal injury claims, claims by co-defendants for contribution and indemnification, and claims relating to AWI s participation in the Center for Claims Resolution. As stated above, the bar date of August 31, 2001 did not apply to asbestos-related personal injury claims other than claims for contribution, indemnification, or subrogation. Pursuant to the POR, all AWI asbestos-related personal injury claims, including claims for contribution, indemnification, or subrogation, will be channeled to, and resolved by, the Asbestos PI Trust. See the further discussion regarding AWI s liability for asbestos-related matters in Note 16.

Substantially all of the remaining approximately 1,100 claims, totaling approximately $1.6 billion, alleging a right to payment for financing, environmental, trade debt and other claims have been allowed by the

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Bankruptcy Court. For these categories of claims, AWI has previously recorded approximately $1.6 billion in liabilities. A few claims remain pending, and if allowed will be entitled only to the distributions provided for such claims in accordance with the POR.

As of September 30, 2006, AWI recorded liability amounts for claims that could be reasonably estimated and which it did not contest or believed were probable of being allowed by the Bankruptcy Court. The final value of all the claims that will ultimately be allowed by the Bankruptcy Court is not known at this time. It is possible that the value of the claims ultimately allowed by the Bankruptcy Court will be different than amounts presently recorded by AWI. However, any difference in the value of the claims ultimately allowed will not change the amount of consideration to be distributed by AWI, as described above, or impact reorganized Armstrong.

Financing

Through October 1, 2006, AWI had a $75.0 million debtor-in-possession (DIP) credit facility that was limited to issuances of letters of credit. This facility was cancelled as of October 2, 2006. As of October 2, 2006, AWI had available a $300 million revolving credit facility, that is scheduled to mature in 5 years. By October 16, 2006, AWI received commitments for, and the proceeds from, $800 million of secured term loan borrowings.

Accounting Impact

AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7) provides financial reporting guidance for entities that are reorganizing under the Bankruptcy Code. This guidance is implemented in the accompanying consolidated financial statements.

Pursuant to SOP 90-7, AWI was required to segregate pre-Filing liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at September 30, 2006 and December 31, 2005. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI s pre-Filing debt, in default as of the Filing Date, was recorded at face value and was classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI s estimated liability for asbestos-related personal injury claims was also recorded in liabilities subject to compromise. See Note 16 for further discussion of AWI s asbestos liability.

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities through September 2006 and 2005:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2006	**2005**	**2006**	**2005**
Professional fees	$ 10.0	$ 4.7	$ 25.9	$ 11.8
Interest income, post-Filing	(5.6)	(3.2)	(15.0)	(7.5)
Adjustments to pre-Filing liabilities				0.1
Other expense directly related to bankruptcy, net				0.1
Total Chapter 11 reorganization costs, net	$ 4.4	$ 1.5	$ 10.9	$ 4.5

Professional fees represent legal and financial advisory fees and expenses directly related to the Filing.

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Interest income was earned from short-term investments subsequent to the Filing.

Because the POR became effective on October 2, 2006, reorganized Armstrong s condensed consolidated financial statements will change materially in amounts and classifications through the implementation of the fresh-start reporting rules of SOP 90-7. This will be reflected in the financial statements reported in AWI s Form 10-K for the year 2006.

NOTE 3. SEGMENT RESULTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net sales to external customers	**2006**	**2005**	**2006**	**2005**
Resilient Flooring	$ 304.8	$ 311.5	$ 893.9	$ 914.0
Wood Flooring	217.2	220.2	645.0	624.9
Textiles and Sports Flooring	86.3	79.7	222.6	211.4
Building Products	304.5	268.2	859.8	784.5
Cabinets	60.8	57.4	174.4	161.9
Total sales to external customers	$ 973.6	$ 937.0	$ 2,795.7	$ 2,696.7

	Three Months Ended September 30,		Nine Months Ended September 30,	
Segment operating income (loss)	**2006**	**2005**	**2006**	**2005**
Resilient Flooring	$ (2.9)	$ 7.7	$ 11.3	$ (5.8)
Wood Flooring	16.5	25.7	46.2	54.4
Textiles and Sports Flooring	4.2	3.2	(4.9)	(3.2)
Building Products	59.7	43.1	152.9	116.0
Cabinets	3.8	(0.3)	6.1	(9.5)
Unallocated Corporate (expense)	(13.9)	(12.9)	(23.5)	(41.7)
Total consolidated operating income	$ 67.4	$ 66.5	$ 188.1	$ 110.2

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Segment operating income	$ 67.4	$ 66.5	$ 188.1	$ 110.2
Interest expense	2.1	2.2	5.8	6.4
Other non-operating expense	0.4	1.1	1.0	1.4
Other non-operating income	(3.2)	(5.5)	(7.3)	(9.8)

Chapter 11 reorganization costs, net	4.4	1.5	10.9	4.5
Earnings before income taxes	$ 63.7	$ 67.2	$ 177.7	$ 107.7

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Segment assets	September 30, 2006	December 31, 2005
Resilient Flooring	$ 675.9	$ 675.9
Wood Flooring	720.8	646.4
Textiles and Sports Flooring	231.3	196.6
Building Products	702.9	613.2
Cabinets	106.4	99.1
Total segment assets	2,437.3	2,231.2
Assets not assigned to segments	2,283.5	2,374.8
Total consolidated assets	$ 4,720.8	$ 4,606.0

NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI s Chapter 11 filing (see Note 2), pursuant to SOP 90-7, AWI was required to segregate prepetition liabilities that were subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization were recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI s prepetition debt, now in default, was recorded at face value and was classified within liabilities subject to compromise. Obligations of our subsidiaries that were not covered by the Filing remain classified on the condensed consolidated balance sheet based upon maturity date. AWI s asbestos liability was also recorded in liabilities subject to compromise. See Note 2 for further discussion on how the Chapter 11 process addressed AWI s liabilities subject to compromise and Note 16 for further discussion of AWI s asbestos liability.

Liabilities subject to compromise at September 30, 2006 and December 31, 2005 are as follows:

	September 30, 2006	December 31, 2005
Debt (at face value)(1)	$ 1,388.6	$ 1,388.6
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.1	58.1
Prepetition other payables and accrued interest	68.4	69.7
Amounts due to affiliates	4.7	4.7
ESOP loan guarantee	157.7	157.7
Total liabilities subject to compromise	$ 4,868.1	$ 4,869.4

(1) In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $19.3 million and $57.6 million in the third quarter and first nine months of 2006, respectively, and $20.5 million and $63.6 million in the third quarter and first nine months of 2005, respectively.

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NOTE 5. ACQUISITIONS

On April 3, 2006, we purchased certain assets and assumed certain liabilities of HomerWood, Inc., a hardwood flooring company. On May 1, 2006 we purchased certain assets and assumed certain liabilities of Capella Engineered Wood, LLC, a hardwood flooring company, and of its parent company, Capella, Inc. The combined purchase price of these acquisitions was $61.5 million. Both acquisitions were financed from existing cash balances. Both investments will expand Armstrong s wood flooring product offerings. The acquisitions were accounted for under the purchase method of accounting in the second quarter of 2006. Preliminary allocation of the purchase price to the fair value of tangible and identifiable intangible assets acquired in each transaction has been completed. Adjustments may be recorded in future periods as the allocations are finalized.

NOTE 6. INVENTORIES

	September 30, 2006	December 31, 2005
Finished goods	$ 373.5	$ 339.1
Goods in process	53.7	44.6
Raw materials and supplies	188.0	194.4
Less LIFO and other reserves	(72.6)	(63.6)
Total inventories, net	$ 542.6	$ 514.5

NOTE 7. NATURAL GAS HEDGES

We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing short term cost volatility by purchasing natural gas forward contracts, purchased call options, and zero-cash collars. These instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying products are sold. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. The fair value of these cash flow hedges at September 30, 2006 was a $3.8 million asset compared to an $18.7 million asset at December 31, 2005, primarily due to the price of natural gas decreasing during the year.

NOTE 8. EQUITY INVESTMENTS

Investments in affiliates of $95.0 million at September 30, 2006 reflected the equity interest in our 50% investment in the WAVE joint venture and our 50% investment in a China hardwood flooring joint venture. Both joint ventures are accounted for under the equity method of accounting. The balance increased $27.6 million from December 31, 2005 primarily due to our equity interest in WAVE s earnings. Condensed income statement data for WAVE is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	$ 82.7	$ 77.6	$ 260.2	$ 230.0
Gross profit	29.8	24.9	95.1	70.9
Net earnings	28.3	19.9	83.0	56.4

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During the third quarter of 2006 an entrustment loan of $6.3 million was made to our China hardwood flooring joint venture to cover their short term working capital requirements. As of the end of the third quarter, no monies had been drawn by the joint venture.

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

As of January 1, 2006, we had goodwill of $134.2 million. Goodwill is required to be tested for impairment at least annually. We perform our annual assessment in the fourth quarter.

The following table represents the change in goodwill for the first nine months of 2006.

Goodwill by segment	January 1, 2006	Goodwill acquired	Adjustments, net[1]	Impairments	September 30, 2006
Wood Flooring	$ 108.2	$ 8.0			$ 116.2
Building Products	13.4		$ 0.9		14.3
Cabinets	12.6				12.6
Total consolidated goodwill	$ 134.2	$ 8.0	$ 0.9		$ 143.1

(1) Consists of the effects of foreign exchange

We recognized $8.0 million of goodwill, $11.0 million of trademarks and $10.8 million of customer relationships during 2006 related to acquisitions. See Note 5 for further discussion of the acquisitions.

The following table details amounts related to our intangible assets as of September 30, 2006 and December 31, 2005.

	September 30, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Computer software	$ 67.2	$ 37.0	$ 102.1	$ 66.7
Customer relationships	10.8	0.3		
Land use rights and other	4.6	1.2	4.5	1.1
Total	$ 82.6	$ 38.5	$ 106.6	$ 67.8
Unamortized intangible assets				
Trademarks and brand names	$ 40.4		$ 29.3	
Other intangible assets, gross	$ 123.0		$ 135.9	
Aggregate Amortization Expense				
For the nine months ended September 30, 2006		$ 12.0		
For the nine months ended September 30, 2005		$ 12.8		

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NOTE 10. RESTRUCTURING AND OTHER ACTIONS

Net restructuring charges of $10.0 million and $17.0 million were recorded in the first nine months of 2006 and 2005, respectively. These charges are summarized in the following table:

	Net Charge/(Reversal)				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Action Title	**2006**	**2005**	**2006**	**2005**	**Segment**
Lancaster Plant	$ (0.4)	$ 0.2	$ 9.6	$ 11.3	Resilient Flooring
Hoogezand		1.1	0.5	5.1	Building Products
U.K. Lease	(0.1)		(0.1)		Unallocated Corporate
North America SG&A				(0.1)	Resilient Flooring
Morristown		0.1		0.4	Cabinets
Searcy				0.1	Wood Flooring
Oss				0.2	Textiles & Sports Flooring
Total	$ (0.5)	$ 1.4	$ 10.0	$ 17.0	

Lancaster Plant: These charges related to the fourth quarter 2004 decision to cease commercial flooring production at Lancaster in 2006. Commercial flooring production requirements are being serviced in part by our other facilities around the world. Of the $9.6 million and $11.3 million charges in 2006 and 2005, $8.5 million and $10.5 million, respectively, are non-cash charges related to termination benefits to be paid through the U.S. pension plan. The other $1.1 million in 2006 and $0.8 million in 2005 are comprised of severance and related costs. The $0.4 million reversal in the third quarter related to certain severance accruals that were no longer necessary. We have incurred $26.9 million of severance and pension related restructuring charges to-date. We do not expect to incur any additional restructuring charges for severances and pension benefits in the remainder of 2006. Additionally, we recorded $0.3 million and $5.3 million of accelerated depreciation in 2006 and 2005, respectively, in cost of goods sold. We also recorded $9.3 million and $2.7 million of other related costs in 2006 and 2005, respectively, in cost of goods sold and $7.4 million in SG&A in 2006. We expect to incur approximately $0.2 million of other related costs in cost of good sold in the remainder of 2006. Further, we realized a gain of $14.3 million in SG&A in the second quarter of 2006 from the sale of a warehouse which became available as a result of this initiative.

Hoogezand: These charges are related to the first quarter 2004 decision to close the manufacturing facility and are comprised of severance and related costs. Closure of the plant was completed in the first quarter of 2005. The production was transferred to another Building Products location in Münster, Germany and resulted in a net reduction of approximately 72 positions. We have incurred restructuring charges of $17.7 million to-date, and expect to incur an additional $0.5 million in the remainder of 2006 and in 2007. Additionally, we recorded $0.5 million of accelerated depreciation in cost of goods sold in the first nine months of 2005, and $0.1 million and $0.6 million of other related costs in cost of goods sold in the first nine months of 2006 and 2005, respectively.

U.K. Lease: In 1996, we recorded a restructuring charge to reflect future rent associated with the vacated portion of a leased building. The lease extends through 2017. In the third quarter of 2006, we signed a new sublease agreement for a portion of the unused space and, accordingly, recorded a reduction of $0.1 million in our reserve to reflect the future expected sublease income.

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North America SG&A: The net reversal of $0.1 million in 2005 comprised certain severance accruals that were no longer necessary in the remaining accruals recorded in 2004 for severance and related costs due to a restructuring of the sales force and management structure in North America in response to changing market conditions. This initiative was announced in the fourth quarter of 2004 and was completed in the second quarter of 2005. We incurred project-to-date restructuring charges of $5.2 million and do not expect to incur any additional charges.

Morristown: The charge related to the fourth quarter 2004 decision to close a plant in Tennessee in the first quarter of 2005. Manufacturing was consolidated at two existing plants in the United States. We incurred project-to-date restructuring charges of $0.4 million of severance related charges and $0.4 million of related shutdown costs and do not expect to incur additional costs. Additionally, we recorded $0.1 million of accelerated depreciation and $0.8 million of other related costs in 2005, both in cost of goods sold.

Searcy: The charge related to the fourth quarter 2004 decision to cease production at a solid hardwood flooring location in Arkansas in the first quarter of 2005 and was comprised of estimated severance benefits and related costs. We continue to manufacture solid wood flooring at other plants across the United States. We incurred $0.9 million of restructuring charges for the project-to-date and do not expect to incur any additional charges. Additionally, in the second quarter of 2006, we recorded an asset impairment charge of $0.7 million in cost of goods sold related to property, plant and equipment at this site.

Oss: The charge was recorded to reflect shutdown costs related to a plant closure in The Netherlands. The related severance charges were recorded during the third quarter of 2003 when the plant closure was announced. We continue to manufacture carpet at other plants across Europe. We incurred $4.9 million of restructuring charges to-date and do not expect to incur any additional costs in the future.

The following table summarizes activity in the restructuring accruals for the first nine months of 2006 and 2005.

	Beginning Balance	Cash Payments	Net Charges	Other	Ending Balance
2006	$ 8.8	$ (3.0)	$ 1.5	$ 0.5	$ 7.8
2005	24.8	(22.0)	6.5	(1.0)	8.3

The amount in other for 2006 and 2005 is related to the effects of foreign currency translation.

Of the September 30, 2006 and 2005 ending balances, $1.3 million is reported in liabilities subject to compromise.

Substantially all of the remaining balance of the restructuring accrual as of September 30, 2006 relates to the noncancelable U.K. operating lease, which extends through 2017, and severance for terminated employees with extended payouts, the majority of which will be paid in 2006.

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NOTE 11. INCOME TAX EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Earnings from continuing operations before income taxes	$ 63.7	$ 67.2	$ 177.7	$ 107.7
Income tax expense	24.5	21.1	70.3	47.5
Effective tax rate	38.5%	31.4%	39.6%	44.1%

The primary factor for the increase in the third quarter effective tax rate was an increase in non-deductible bankruptcy reorganization fees, partially offset by the finalization of tax benefits related to the 2005 subsidiary capital restructuring. The primary reduction in the nine month effective tax rate resulted from lower unbenefited foreign losses during 2006 compared to 2005. The 2005 third quarter and nine month tax rates were favorably impacted by the conclusion of IRS audit and appeals issues and the impact of American Jobs Creation Act dividends from foreign affiliates.

NOTE 12. PENSIONS

Following are the components of net periodic benefit costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
U.S. defined-benefit plans				
Pension Benefits				
Service cost of benefits earned	$ 4.5	$ 6.2	$ 13.6	$ 18.5
Interest cost on projected benefit obligation	23.1	24.0	69.4	71.9
Expected return on plan assets	(40.5)	(39.4)	(121.5)	(118.4)
Amortization of prior service cost	2.3	4.1	6.7	12.4
Recognized net actuarial loss	0.4	0.3	1.3	1.1
Net periodic pension (credit)	$ (10.2)	$ (4.8)	$ (30.5)	$ (14.5)
Retiree Health and Life Insurance Benefits				
Service cost of benefits earned	$ 0.6	$ 0.7	$ 1.8	$ 2.1
Interest cost on projected benefit obligation	5.0	5.2	14.9	15.5
Amortization of prior service benefit	(1.6)	(1.4)	(4.8)	(4.2)
Recognized net actuarial loss	3.2	2.9	9.4	8.9
Net periodic postretirement benefit cost	$ 7.2	$ 7.4	$ 21.3	$ 22.3

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Non-U.S. defined-benefit plans				
Pension Benefits				
Service cost of benefits earned	$ 1.9	$ 2.4	$ 7.2	$ 7.6
Interest cost on projected benefit obligation	4.4	5.3	14.7	16.5
Expected return on plan assets	(3.0)	(3.8)	(10.6)	(11.9)
Amortization of transition obligation			(0.1)	(0.1)
Amortization of prior service cost	0.1	0.1	0.5	0.2
Recognized net actuarial loss	0.8	0.4	2.2	1.4
Net periodic pension cost	$ 4.2	$ 4.4	$ 13.9	$ 13.7

In addition, we recorded a separate charge in the second quarter of 2006 of $8.5 million for a non-cash curtailment and settlement loss related to the transfer of a non-U.S. defined benefit plan to a multiemployer industry plan.

We previously disclosed in our financial statements for the year ended December 31, 2005 that we expected to contribute $23.9 million to our non-U.S. defined benefit pension plans in 2006. As of September 30, 2006, $32.2 million of contributions have been made. We presently anticipate contributing an additional $4.4 million to fund our non-U.S. pension plans in 2006 for a total of $36.6 million.

NOTE 13. PRODUCT WARRANTIES

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales. The increase in the current year warranty accruals in 2006 compared to 2005 related primarily to a revision of certain assumptions used in prior periods when estimating the accrual for the Wood Flooring segment. The following table summarizes the activity for the accrual of product warranties for the first nine months of 2006 and 2005:

	2006	2005
Balance at January 1	$ 21.1	$ 22.6
Reductions for payments	(25.6)	(28.5)
Current year warranty accruals	30.5	29.7
Preexisting warranty accrual changes		(0.2)
Acquisitions	0.6	
Effects of foreign exchange translation	0.5	(1.0)
Balance at September 30	$ 27.1	$ 22.6

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NOTE 14. SHARE-BASED COMPENSATION PLANS

On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R), which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This statement replaced FASB Statement No. 123 and superseded APB Opinion No. 25. Prior to January 1, 2006, we used APB Opinion No. 25 s intrinsic value method for stock-based employee compensation.

We used the modified prospective method of adopting FAS 123R, which does not require restatement of prior periods. There was no impact of adoption of the new standard because all of our outstanding stock options are fully vested.

Awards under the 1993 Long-Term Stock Incentive Plan (1993 Plan) were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan (1999 Plan) which replaced the 1993 Plan. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock were to be issued under the 1999 Plan, and no more than 300,000 of the shares were to be awarded in the form of performance restricted shares, restricted stock awards or stock awards.

During 2000, we adopted the Stock Award Plan (2000 Plan) to enable stock awards and restricted stock awards to officers, key employees and non-employee directors. No more than 750,000 treasury shares were to be awarded under the 2000 Plan.

All three of the plans discussed above were terminated upon AWI emerging from Chapter 11 on October 2, 2006. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000 through September 30, 2006, other than commitments entered into prior to the Chapter 11 filing.

Options were granted to purchase shares at prices not less than the closing market price of the shares on the dates the options were granted. The options generally became exercisable in one to three years and expired 10 years from the date of grant. As of September 30, 2006, there were no stock options granted since 2001.

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Changes in AHI option shares outstanding (thousands except for share price and life)	**AHI Option Shares**	**Weighted-average exercise price**	**Weighted-average remaining contractual life (in years)**
Option shares outstanding at January 1, 2006	1,987.3	$ 27.97	
Options granted			
Option shares exercised			
Options cancelled	(213.6)	55.37	
Option shares outstanding at September 30, 2006	1,773.7	$ 24.67	3.26
Option shares exercisable at September 30, 2006	1,773.7	$ 24.67	3.26
Shares available for grant	5,029.0		

The intrinsic value of the AHI option shares outstanding and exercisable at September 30, 2006 was $0, as the exercise price of all AHI options exceeded the market price of the stock on that date.

Restricted stock awards were used for the purposes of recruitment, special recognition and retention of key employees. As of September 30, 2006, no award of restricted stock shares had been granted since 2000. As of September 30, 2006, there were 111,463 restricted shares of AHI common stock outstanding with 596 accumulated dividend equivalent shares.

On October 2, 2006, following the issuance by AWI of Common Shares to the Asbestos PI Trust in furtherance of the POR, the trust as the then sole shareholder of AWI acted by written consent to approve AWI s 2006 Long-Term Incentive Plan.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended September 30, 2006	**2005**
Interest paid	$ 0.7	$ 1.5
Income taxes paid, net	$ 56.6	$ 41.1

NOTE 16. LITIGATION AND RELATED MATTERS

ASBESTOS-RELATED LITIGATION

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

On October 2, 2006 (the Effective Date), AWI s plan of reorganization, which was confirmed by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11. The following summarizes the asbestos-related litigation matters during the Chapter 11 Case and as of September 30, 2006, and how they were impacted by AWI s emergence.

Prior to December 6, 2000, AWI, the major operating subsidiary of AHI, had been named as a defendant in personal injury cases and property damage cases related to asbestos-containing products. On December 6, 2000, AWI filed a voluntary petition for relief (the Filing) under Chapter 11 of the U.S. Bankruptcy Code to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability.

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Two of AWI s domestic subsidiaries also commenced Chapter 11 proceedings at the time of the Filing. AHI and all of AWI s other direct and indirect subsidiaries and affiliates, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (Armstrong s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada and Armstrong DLW AG were not a part of the Filing and accordingly the liabilities, including asbestos-related liability if any, of such companies arising out of their own activities were not resolved in AWI s Chapter 11 Case except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI.

Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the CCR), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program (SSP) and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims were stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants was appointed in the Chapter 11 Case. Upon AWI s emergence on October 2, 2006, the Asbestos Personal Injury Claimants Committee was disbanded. The Future Claimants Representative will continue to serve, but as of October 2, 2006 his expenses will be borne by the Asbestos Personal Injury Trust. See Note 2 regarding AWI s Chapter 11 proceeding and its emergence from Chapter 11.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI s pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, December 3, 2004, and February 21, 2006, and which was confirmed by the U.S. District Court for the District of Delaware (the Court) on August 18, 2006. Such plan, as modified on May 23, 2003 and as from time to time modified through February 21, 2006 and then confirmed, is referred to in this report as the POR . See Note 2 for discussion on the Chapter 11 proceedings that led to AWI s emergence from Chapter 11 on October 2, 2006.

A description of the components of the POR effecting AWI s asbestos-related liability follows.

Asbestos PI Trust

Upon AWI s Plan of Reorganization becoming effective on October 2, 2006, the Asbestos PI Trust was created, pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing and resolving AWI s personal injury (including wrongful death) asbestos-related liability. As of October 2, 2006, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust.

As part of the POR, in accordance with an 524(g) injunction issued under Section 524(g) and entered in connection with the POR, various entities are protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized Armstrong, AHI, AWI s subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor does it participate in their resolution.

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However, although AWI s domestic and foreign subsidiaries and other affiliates have certain protection afforded by the 524(g) injunction, asbestos-related personal injury claims against them will be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI s ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). Currently, two asbestos-related personal injury litigations against subsidiaries of AWI allegedly arising out of such independent activities are pending. These claims will not be channeled to the Asbestos PI Trust under the POR inasmuch as they do not involve activities of AWI. The subsidiaries deny liability and are aggressively defending the matters. AWI has not recorded any liability for these matters. Management does not expect that any sum that may have to be paid in connection with these matters will be material to Armstrong.

In addition, workers compensation claims brought against AWI or its subsidiaries or other affiliates will not be channeled to the Asbestos PI Trust and will remain subject to the workers compensation process. Historically, workers compensation claims against AWI and its subsidiaries have not been significant in number or amount and AWI honored its obligations with respect to such claims during the Chapter 11 Case. Workers compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Currently, AWI has four pending workers compensation claims, and a UK subsidiary has seven employer liability claims involving alleged asbestos exposure.

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that will not be channeled to the Asbestos PI Trust under the POR and that are of a magnitude that, individually or collectively, would be material in amount to reorganized Armstrong.

Asbestos-Related Liability

Based upon events through early March 2003, specifically the parties agreement on the basic terms of the POR s treatment of AWI s asbestos-related liabilities under a plan of reorganization, management concluded that it could reasonably estimate its probable liability for AWI s current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a $2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately $3.2 billion at September 30, 2006 and December 31, 2005, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

As of October 2, 2006, when the POR became effective, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust. AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor will it participate in their resolution. Accordingly, in the financial statements reported in AWI s Form 10-K for the year 2006, AWI will reflect the resolution of this liability.

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Insurance Recovery Proceedings

As of September 30, 2006, a substantial portion of AWI s primary and remaining excess insurance asset is non-products (general liability) insurance for personal injury claims. AWI had entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution (ADR) procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are non-products claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The non-products coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI s claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of $73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The $1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. In October 2006, Liberty Mutual filed counterclaims and a jury demand requesting declaratory judgment in its favor. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company (Home) under an order of liquidation. Less than $10 million of AWI s recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004.

The issue of shared coverage with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) was resolved through a court-approved settlement among AWI, ACandS and the insurer, andAWI received net proceeds of $7 million during the third quarter of 2006. As part of the settlement, ACandS s remaining limits for shared coverage was assigned to AWI.

On October 2, 2006, pursuant to the POR becoming effective, AWI transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust. As of October 2, 2006, resolution of the ADR and other asbestos-related personal injury insurance matters is the responsibility, and at the expense, of the Asbestos PI Trust.

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Insurance Asset

An insurance asset in respect of asbestos claims in the amount of $91.5 million was recorded as of September 30, 2006 and $98.6 million as of December 31, 2005. The total amount recorded these periods reflected AWI s belief that insurance proceeds will be recovered in this amount, based upon AWI s success in insurance recoveries, settlement agreements that provide such coverage, the non-products recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is either available through settlement or probable of recovery through negotiation or litigation. Approximately $79 million of the asset was determined from agreed coverage in place.

In the financial statements reported in AWI s Form 10-K for the year 2006, AWI will reflect the transfer, as of October 2, 2006, of rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust.

Cash Flow Impact

As a result of the Chapter 11 Filing, AWI did not make any payments for asbestos-related personal injury claims since the fourth quarter of 2000 through October 1, 2006. AWI did not receive any asbestos-related insurance recoveries during 2005 or during the first six months of 2006, but did receive $7 million in the third quarter of 2006 from the court-approved settlement with ACandS and the insurer, described above.

As of October 2, 2006, upon the POR becoming effective, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos, are channeled to the Asbestos PI Trust. Pursuant to the POR, the Asbestos PI Trust received its share of reorganized Armstrong s new common shares, Available Cash, and net cash proceeds from the secured term loan borrowings. Pursuant to the POR, on October 2, 2006, AWI also transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor does it participate in their resolution. Following its distribution of consideration, described above, to the Asbestos PI Trust, AWI does not expect any future cash flow impact from asbestos-related personal injury claims against AWI.

ENVIRONMENTAL MATTERS

Environmental Expenditures

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at our operating facilities.

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency (EPA) has promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

Environmental Remediation

Summary

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and similar state Superfund laws at 30 sites. We have also

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been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. In most cases, we are one of many potentially responsible parties (PRPs) which have potential liability for the required investigation and remediation of each site. In some cases, we have agreed to jointly fund that required investigation and remediation, while at some sites, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as our activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies also identified as potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters, and the impact of AWI s emergence from Chapter 11 upon the validity of the claim.

Effects of Chapter 11

Upon AWI s emergence from Chapter 11 on October 2, 2006, AWI s environmental liabilities with respect to properties that AWI does not own or operate (such as formerly owned sites, or landfills to which AWI s waste was taken) were discharged. Claims brought by a federal or state agency alleging that AWI should reimburse the claimant for money that it spent cleaning up a site which AWI does not own or operate, and claims by private parties, such as other PRPs with respect to sites with multiple PRPs, were discharged upon emergence. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims.

Those environmental obligations that we have with respect to AWI s subsidiaries, as well as those environmental claims AWI has with respect to property that it currently owns or operates, have not been discharged. Therefore, we will be required to continue meeting our on-going environmental compliance obligations at those sites.

In addition to the right to sue for reimbursement of the money it spends, however, CERCLA also gives the federal government the right to sue for an injunction compelling a defendant to perform a cleanup. Several state statutes give similar injunctive rights to those States. While we believe such rights against AWI were also discharged upon AWI s emergence from Chapter 11, there does not appear to be controlling judicial precedent in that regard. Thus, according to some cases, while a governmental agency s right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same government agency s right to compel us to spend our money cleaning up the same site may not be discharged even though the financial impact to AWI would be the same in both instances.

Specific Events

Upon emergence, AWI resolved its environmental liabilities at 21 active sites through its Chapter 11 Case. The liabilities at sixteen of these active sites have been resolved through the global environmental settlement (Global Settlement) with the Department of Justice (DOJ) and the EPA with respect to CERCLA liability. The Global Settlement also resolved AWI s liability at 21 additional sites. The Global Settlement, which was approved by the Bankruptcy Court in October 2005, provided EPA an approved proof of claim in the amount of $8.7 million, which included $7.8 million with respect to the Peterson Puritan site. At one CERCLA site, however, AWI will continue to participate in the cleanup under a previously approved Consent Decree. In addition to the federal claims resolved by the Global Settlement, AWI s emergence from Chapter 11 also resolved its environmental liabilities with respect to claims asserted by the State and/or private parties at 5 other sites.

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality (DEQ) to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning (OC) and Kaiser Gypsum Company, Inc. (Kaiser). AWI has entered into an agreement with Kaiser for the sharing of costs and responsibilities with respect to the remedial investigation, feasibility study and remedy selection at the site. OC has entered into a settlement with the DEQ, pursuant to which, OC has made a lump sum payment to the DEQ in exchange for contribution protection (including protection against common law and statutory contribution claims by AWI against OC), and a covenant not to sue. AWI has reached an agreement with the DEQ as to how these funds will be made available to reimburse AWI and Kaiser for a portion of their shared costs of investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen s facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

A foreign subsidiary of AWI sold a manufacturing facility in 1990, which was prior to AWI s acquisition of the subsidiary. Under the terms of the sales agreement, an environmental indemnification was provided to the buyer of the facility. During the third quarter of 2005, the facility owner discovered additional areas of soil contamination that require additional remediation. Accordingly, a $3.1 million charge was recorded within SG&A expense to increase our probable liability. As additional sampling efforts and meetings with local government authorities continue, further increases to our recorded liability are possible.

Summary of Financial Position

Liabilities of $25.6 million and $27.3 million at September 30, 2006 and December 31, 2005, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $19.5 million of the September 30, 2006 and $19.4 million of the December 31, 2005 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was $2.3 million at September 30, 2006 and December 31, 2005.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for costs and potential damages related to the litigation.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

During the first quarter of 2006, a favorable settlement of a patent infringement case totaling $8.6 million was recorded within SG&A. This case, in which we were the plaintiff, related to a previously divested business. We received the proceeds in the second quarter of 2006.

OTHER CLAIMS

Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

NOTE 17. SUBSEQUENT EVENTS

On October 2, 2006, AWI s court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11. See Notes 2 and 16 for further discussion of AWI s emergence.

For the past several years, we have maintained an agreement with the lending institution of one of our flooring distributors. Under this agreement, if the distributor was to default on its obligations and the lender foreclosed on the assets, the bank could return a large portion of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. In October 2006, the lending institution of the distributor notified Armstrong that the distributor had defaulted on its obligations. As of October 17, 2006, the amount of inventory held at the distributor was approximately $3 million. We are working with the distributor and its lending institution to determine the actual amount of inventory to be repurchased subject to the agreement.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Armstrong World Industries, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Armstrong World Industries, Inc., and subsidiaries (the Company) as of September 30, 2006, the related condensed consolidated statements of earnings for the three and nine-month periods ended September 30, 2006 and 2005, and the related condensed consolidated statements of cash flows and shareholder s equity for the nine-month periods ended September 30, 2006 and 2005. These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, cash flows and shareholder s equity for the year then ended (not presented herein); and in our report dated February 23, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Philadelphia, Pennsylvania

October 30, 2006

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Armstrong World Industries, Inc. (AWI) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. (AHI) is a Pennsylvania corporation and, as of September 30, 2006, was the publicly held parent holding company of AWI. Armstrong Holdings, Inc. s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware corporation), of all of the capital stock of AWI. Upon AWI s Plan of Reorganization (the POR) becoming effective on October 2, 2006, all then-current shares of AWI were cancelled and AHI no longer has any ownership interest in AWI. We include separate financial statements for Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries in this report because, as of September 30, 2006, both companies had public securities that were registered under the Securities Exchange Act of 1934. The differences between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries included in this report are primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. When we refer to we , our and us in this report, we are referring to AHI and AWI through October 1, 2006 and reorganized Armstrong as it was reorganized under the POR thereafter. References in this report to reorganized Armstrong are to AWI as it was reorganized under the POR on October 2, 2006, and its subsidiaries collectively.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-Q. This discussion contains forward-looking statements based on our current expectations, which are inherently subject to risks and uncertainties. Actual results and the timing of certain events may differ significantly from those referred to in such forward-looking statements. We undertake no obligation beyond what is required under applicable securities law to publicly update or revise any forward-looking statement to reflect current or future events or circumstances, including those set forth in the section entitled Uncertainties Affecting Forward-Looking Statements and elsewhere in this Form 10-Q.

References to performance excluding the translation effect of changes in foreign exchange rates are non-GAAP measures. We believe that this information improves the comparability of business performance by excluding the impacts of changes in foreign exchange rates when translating comparable foreign currency amounts. We calculate the translation effect of foreign exchange rates by applying the current year s foreign exchange rates to the equivalent period s foreign currency amounts as reported in the prior year. We believe that this non-GAAP reference provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding the effects of foreign exchange rates.

We maintain a website at http://www.armstrong.com. Information contained on our website is not incorporated into this document. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission (SEC).

OVERVIEW

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United States (U.S.) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (resilient, wood, carpeting and sports flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S. We own and operate 43 manufacturing plants in 12 countries, including 26 plants located throughout the United States. Through WAVE, our joint venture with Worthington Industries, Inc., we also have an interest in 7 additional plants in 5 countries that produce suspension system (grid) products for our ceiling systems.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

Our business strategy focuses on product innovation, product quality and customer service. In our businesses, these factors are the primary determinants of market share gain or loss. Our objective is to ensure that anyone buying a floor or ceiling can find an Armstrong product that meets his or her needs. Our cabinet strategy is more focused on stock cabinets in select geographic markets. In these segments, we have the same objectives: high quality, good customer service and products that meet our customers needs. Our markets are very competitive, which limits our pricing flexibility. This requires that we increase our productivity each year both in our plants and in our administration of the businesses.

On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of AWI s wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case number 00-4471 (the Chapter 11 Case). Through October 1, 2006, AWI operated its business and managed its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. On October 2, 2006, AWI s court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11. AWI s two wholly-owned subsidiaries that commenced Chapter 11 proceedings at the same time as AWI remain in Chapter 11. See Note 2 of the Condensed Consolidated Financial Statements for information on the Chapter 11 Case and Note 16 of the Condensed Consolidated Financial Statements for information on asbestos litigation.

Reportable Segments

Resilient Flooring produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

Wood Flooring produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (predominantly pre-finished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring s sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce®, Hartco®, Robbins®, Timberland , Armstrong , HomerWood® and Capella®.

Textiles and Sports Flooring (TSF) produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

Building Products produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources complementary ceiling products. Our products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold primarily in North America through wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

Cabinets produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong and Bruce®.

We also report an Unallocated Corporate segment, which includes assets and expenses that have not been allocated to the business units.

See Note 3 of the Condensed Consolidated Financial Statements for additional financial information on our reportable segments.

Financial highlights for the third quarter and first nine months:

			Change is Favorable/(Unfavorable)	
	2006	2005	As Reported	Excluding Effects of Foreign Exchange Rates
Three months ended September 30				
Total Consolidated Net Sales	$ 973.6	$ 937.0	3.9%	2.4%
Operating Income	$ 67.4	$ 66.5	1.4%	0.9%
Net increase/(decrease) in cash and cash equivalents	$ (14.4)	$ 80.7	Unfavorable	Unfavorable
Nine months ended September 30				
Total Consolidated Net Sales	$ 2,795.7	$ 2,696.7	3.7%	4.1%
Operating Income	$ 188.1	$ 110.8	69.8%	66.3%
Net increase/(decrease) in cash and cash equivalents	$ (81.6)	$ 24.9	Unfavorable	Unfavorable

In the third quarter of 2006, positive trends in Building Products and Cabinets were sustained but year-to-date growth trends in our residential businesses, particularly in Wood Flooring, were tempered by the slow-down in the U.S. housing markets.

Resilient Flooring earnings declined on lower sales and increased spending related to cost reduction initiatives.

Wood Flooring had declining sales and earnings on significantly softer markets. Increased promotional spending also hurt earnings.

Textiles and Sports Flooring continued to grow sales on the strength of pricing and improved product mix.

Building Products sustained sales and earnings growth trends, with particular strength in the Americas.

Cabinets continued to reverse the prior year s operating loss to deliver operating income on increased sales and stabilized operating performance.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

In the third quarter of 2006, cash decreased primarily due to debt repayments by subsidiaries not involved in our Chapter 11 case, increased capital expenditures, contributions to under-funded non-U.S. pension funds, investments in acquisitions and higher spending on cost reduction initiatives.

Factors Affecting Revenues

Markets. We compete in building material markets around the world. The majority of our sales opportunity is in the North American and European markets. During the third quarter of 2006, these markets experienced the following:

- In the U.S. residential market, housing activity continued its precipitous decline with total housing starts falling sharply in the third quarter of 2006 to 1.74 million units (at seasonally adjusted and annualized rates) compared to 2.10 million units in the same period of 2005, a decrease of over 17%. Additionally, sales of existing homes declined nearly 12% year-over-year from 7.17 million homes in July and August 2005 to 6.32 million homes in the same months of 2006. Total U.S. housing completions ticked upwards by 2.1% to 1.97 million units completed in the third quarter compared to 1.93 million units in the same period of 2005.

U.S. retail sales through building materials, garden equipment and supply stores (an indicator of home renovation activity) have continued to increase, rising nearly 9% in the third quarter of 2006 over sales levels in the third quarter of 2005, according to figures from the U.S. Census Bureau. This growth has been partially due to the strong sales of existing homes last year, after allowing for the usual lag for renovation-related expenditures. Continued strength in employment conditions and job security have also sustained solid retail sales and consumer confidence.

- The North American commercial market remained strong across all segments in the third quarter of 2006 in dollar terms, driven by price gains amidst construction material inflation. Construction completions in the office, healthcare, retail and education segments increased between 8.3% (education) and 17.6% (office) compared to the third quarter of 2005. Industry statistics indicate that commercial starts have improved in 2006, with emphasis on office and education and softness in the health care and retail segments. Office vacancy rates in the third quarter were the lowest since the third quarter of 2001.

- In Europe, markets in Western European countries generally remained soft with pockets of modest growth, while Eastern European markets continued to grow.

- Growth continued across most Pacific Rim markets.

Quality and Customer Service Issues. Our quality and customer service are critical components of our total value proposition. In the third quarter of 2006, we experienced no significant quality or customer service issues.

Pricing Initiatives. We periodically modify prices in response to changes in costs for raw materials and energy, and to market conditions and the competitive environment. The net impact of these pricing initiatives improved sales in the first nine months of 2006 compared to the first nine months of 2005. The most significant pricing actions were:

- In Resilient Flooring, we announced price increases in the third quarter of 2006 in response to inflationary cost pressures. These increases were offset by price concessions on certain products due to competitive pressures.

- In Wood Flooring, there have been no significant pricing actions in 2006.

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In Building Products, we implemented previously announced price increases in the third quarter of 2006 in response to inflationary cost pressures.

In Cabinets, we implemented a January 2006 price increase.

In certain cases, price increases realized are less than the announced price increases because of our response to competitive actions and changing market conditions.

Pricing actions increased consolidated net sales in the third quarter of 2006 by approximately $19 million and in the first nine months of 2006 by approximately $38 million, when compared to the same periods of 2005.

Sales Mix. Our strategy to grow earnings includes improving profitability by increasing the portion of our sales that is derived from higher value products. Conversely, competitive changes sometimes result in lower sales related to product, geographic or channel mix. The net impact of mix improved sales in every segment for the first nine months of 2006 compared to the same period in 2005. The most significant impacts were:

In Resilient Flooring, North American sales benefited from the rapid growth of laminate flooring.

In Wood Flooring, faster growth in engineered products and the recently acquired premium HomerWood products improved sales.

Textile and Sports Flooring benefited from increased sales of higher value broadloom and carpet tile products.

In Building Products, North American sales continued to benefit from the introduction of new high value products.

Cabinets sales improved on an improved product portfolio including the addition of higher value maple and cherry products.

Impact From Major Customers Decisions. Lowe s Companies, Inc. (Lowe s), one of our largest customers, advised us in 2004 that they would reduce the number of laminate flooring products they purchase from us starting in the first quarter of 2005. We currently estimate that the Lowe s decision will incrementally reduce 2006 sales by approximately $20 million.

Factors Affecting Operating Costs

Operating Expenses. Our operating expenses consist of direct production costs (principally raw materials, labor and energy) and manufacturing overhead costs, costs to purchase sourced products and selling, general and administrative (SG&A) expenses.

Our largest individual raw material expenditures are for lumber and veneers, PVC resins, backings for various flooring products and plasticizers. Fluctuations in the prices of these raw materials are generally beyond our control and have a direct impact on our financial results. In 2006 we experienced the following:

PVC is a widely used, oil-based raw material. We experience cost pressures on PVC when energy prices increase and when industrial demand for the material increases. Our cost to acquire PVC resin and plasticizers prices increased by approximately $3 million in the third quarter of 2006 compared to the third quarter of 2005 and increased approximately $9 million in the nine month comparative period.

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(dollar amounts in millions)

We incurred approximately $2 million of additional costs for natural gas in the third quarter of 2006 compared to the third quarter of 2005, and approximately $15 million of additional costs for natural gas in the first nine months of 2006 compared to the first nine months of 2005, due to price increases. For the remainder of 2006, we expect year-on-year increases to continue at a moderated pace.

In our normal course of business, we transfer certain products between locations to take advantage of our production capabilities and to better service our customers needs. During the third quarter of 2006 freight costs increased by approximately $1 million and grew about $8 million in the first nine months compared to the same periods in 2005. The increases were due to rising fuel costs and the need to maintain customer service levels.

Cost Reduction Initiatives. During 2004, we implemented several significant manufacturing and organizational programs to improve our cost structure and enhance our competitive position. We did not initiate any additional manufacturing or organizational programs in 2005 or the first nine months of 2006 but did incur costs in the first nine months of 2006 and 2005 related to previously announced cost reduction initiatives. The major 2004 programs were:

- We ceased production of certain products at our Resilient Flooring manufacturing plant in Lancaster, Pennsylvania, transferring production to other Resilient Flooring plants.

- We announced that we would cease production at our Building Products plant in The Netherlands. Acceptance of the closure proposal was received from the local works council in the fourth quarter of 2004. The plant ceased production in the first quarter of 2005, and production was transferred to another Building Products location.

- We ceased production at our Cabinets manufacturing plant in Morristown, Tennessee, transferring production to other Cabinets plants.

- We restructured the sales force and management structure in our North America flooring organization.

- We announced that we would cease production at our Wood Flooring manufacturing plant in Searcy, Arkansas. Production ended in the first quarter of 2005, and was transferred to other Wood Flooring plants.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

We incurred the following expenses in 2006 due to implementing these initiatives:

	SG&A	Cost of Goods Sold	Restructuring Charges	Total Expenses
Three months ended September 30, 2006				
Resilient Flooring	$ 6.2	$ 1.6	$ (0.4)	$ 7.4
Wood Flooring				
Textiles & Sports Flooring				
Building Products				
Cabinets				
Unallocated Corporate			(0.1)	(0.1)
Total Consolidated	$ 6.2	$ 1.6	$ (0.5)	$ 7.3
Nine months ended September 30, 2006				
Resilient Flooring	$ 7.4	$ 9.6	$ 9.6	$ 26.6
Wood Flooring		0.7		0.7
Textiles & Sports Flooring				
Building Products		0.1	0.5	0.6
Cabinets				
Unallocated Corporate			(0.1)	(0.1)
Total Consolidated	$ 7.4	$ 10.4	$ 10.0	$ 27.8

The Resilient Flooring SG&A costs in both the third quarter and the first nine months of 2006 relate to the Lancaster Plant cost reduction initiative. Cost of goods sold includes $1.6 million of other related costs in the third quarter, and $0.7 million of fixed asset impairments, $0.3 million of accelerated depreciation and $9.4 million of other related costs in the first nine months of 2006.

In addition, we realized a gain of $14.3 million in SG&A in the second quarter of 2006 from the sale of a warehouse which became available as a result of the Resilient Flooring cost reduction initiatives.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

We incurred the following expenses in 2005 due to implementing these initiatives:

	Cost of Goods Sold	Restructuring Charges	Total Expenses
Three months ended September 30, 2005			
Resilient Flooring	$ 2.5	$ 0.2	$ 2.7
Wood Flooring			
Textiles & Sports Flooring			
Building Products	0.1	1.1	1.2
Cabinets	0.2	0.1	0.3
Total Consolidated	$ 2.8	$ 1.4	$ 4.2
Nine months ended September 30, 2005			
Resilient Flooring	$ 8.0	$ 11.2	$ 19.2
Wood Flooring		0.1	0.1
Textiles & Sports Flooring		0.2	0.2
Building Products	1.1	5.1	6.2
Cabinets	1.1	0.4	1.5
Total Consolidated	$ 10.2	$ 17.0	$ 27.2

Cost of goods sold includes $1.7 million of accelerated depreciation and $1.1 million of other related costs in the third quarter, and $6.0 million of accelerated depreciation and $4.2 million of other related costs in the first nine months of 2005.

See Note 10 of the Condensed Consolidated Financial Statements for more information on restructuring charges.

On-going Cost Reduction. In addition to significant cost reduction programs we have an ongoing focus on continuously improving our cost structure.

As a result of these cost reduction initiatives and our on-going productivity improvement efforts, we have realized significant reductions in our manufacturing conversion costs.

Employee Benefits. We recorded a pre-tax charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million), related to changes made to the U.S. defined benefit pension plan. The changes are considered a curtailment under SFAS No. 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (FAS 88). The changes are expected to reduce Armstrong s annual retirement-related expenses by approximately $13 million in 2006 and $15 million in 2007, based on pension assumptions for 2006.

We also recorded a non-cash charge of $8.5 million in the second quarter of 2006 in cost of goods sold ($3.7 million) and SG&A ($4.8 million) related to the transfer of a non-U.S. defined benefit pension plan to a multiemployer industry plan. The transfer is considered a curtailment and a settlement under FAS 88.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

Factors Affecting Cash Flow

Historically, excluding the cash demands for asbestos-related claims in 2000 and prior years, we typically generate positive cash flow from operating activities on an annual basis. The amount of cash generated in any one period is dependent on a number of factors, including the amount of operating profit generated and the amount of working capital (such as inventory, receivables and payables) required to operate our businesses. To maintain and enhance our operating efficiencies, we typically invest in property, plant & equipment (PP&E) and computer software.

During the first nine months of 2006, our cash and cash equivalents balance decreased by $81.6 million, compared to an increase of $24.9 million during the same period of 2005. The difference was due primarily to investments in acquisitions, debt repayments by subsidiaries not involved in our Chapter 11 case, increased capital expenditures and contributions to under-funded non-U.S. pension funds partially offset by proceeds from sale of assets. See Financial Condition and Liquidity for further discussion.

Employee Relations

As of September 30, 2006, we had approximately 14,500 full-time and part-time employees worldwide, compared to approximately 14,900 employees as of December 31, 2005. The decline reflects headcount reductions in both production and staff positions as part of ongoing cost reduction efforts. As of the date of this filing, no employees are working under expired contracts.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

(dollar amounts in millions)

RESULTS OF OPERATIONS

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made.

2006 COMPARED TO 2005

CONSOLIDATED RESULTS

			Change is Favorable/(Unfavorable)	
	2006	2005	As Reported	Excluding Effects of Foreign Exchange Rates[1]
Three months ended September 30				
Net Sales:				
Americas	$ 684.2	$ 674.8	1.4%	1.0%
Europe	255.2	231.8	10.1%	5.0%
Pacific Rim	34.2	30.4	12.5%	12.9%
Total Consolidated Net Sales	$ 973.6	$ 937.0	3.9%	2.4%
Operating Income	$ 67.4	$ 66.5	1.4%	0.9%
Nine months ended September 30				
Net Sales:				
Americas	$ 2,014.3	$ 1,936.5	4.0%	3.6%
Europe	685.0	673.5	1.7%	4.3%
Pacific Rim	96.4	86.7	11.2%	12.5%
Total Consolidated Net Sales	$ 2,795.7	$ 2,696.7	3.7%	4.1%
Operating Income	$ 188.1	$ 110.8	69.8%	66.3%

(1) Excludes a favorable foreign exchange effect in translation on net sales of $13.4 million for three months and an unfavorable effect of $10.4 million for nine months. Excludes favorable foreign exchange effect in translation on operating income of $0.3 million for three months and $2.3 million for nine months.

Net sales in the Americas increased in the third quarter primarily on the strength of Building Products. Growth in Building Products, Cabinets and Wood Flooring sales more than offset declines in Resilient Flooring for the first nine months.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets also increased in both the third quarter and for the first nine months on sales growth in both Building Products and the European flooring segments.

Excluding the translation effect of changes in foreign exchange rates, double-digit net sales growth in the Pacific Rim in both the third quarter and for the first nine months on increased Building Products and Resilient Flooring sales.

Cost of goods sold in the third quarter of 2006 was 76.7% of net sales, compared to 76.9% in the same period of 2005. Cost of goods sold in the first nine months of 2006 was 77.6% of net sales, compared to 77.9% in the same period of 2005. Year-over-year productivity improvements benefited 2006 margins, while 2005 margins include the one-time benefit from an accrual related to a favorable decision in a breach of contract dispute and from proceeds received from a business interruption insurance claim.

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SG&A in the third quarter of 2006 was $173.7 million (17.8% of net sales) and $469.9 million (16.8% of net sales) for the first nine months of 2006, compared to $158.2 million (16.9% of net sales) and $495.6 million (18.4% of net sales) for the corresponding 2005 periods. Excluding the translation effect of changes in foreign exchange rates of $2.7 million, SG&A expenses in the third quarter of 2006 were $12.6 million higher than the 2005 SG&A expenses, primarily due to $6.2 million of expenses associated with the closure of the Lancaster plant and to a $5.0 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong). Excluding the translation effect of changes in foreign exchange rates of $(4.8) million, SG&A expenses in the first nine months of 2006 were $21.1 million lower than the 2005 SG&A expenses, primarily as a result of a $17 million gain related to the sale of buildings.

We recorded net restructuring charges of $(0.5) million in the third quarter and $10.0 million in the first nine months of 2006 compared to $1.4 million in the third quarter and $17.0 million in the first nine months of 2005. See Note 10 of the Condensed Consolidated Financial Statements for a description of the restructuring actions.

Equity earnings, primarily from our WAVE joint venture, were $14.1 million in the third quarter of 2006 compared to $9.9 million for the third quarter of 2005, and $41.4 million in the first nine months of 2006 compared to $28.2 million for the first nine months of 2005. See Note 8 for further information.

Operating income of $67.4 million in the third quarter and $188.1 million in the first nine months of 2006 compared to operating income of $66.5 million and $110.8 million in the same periods of 2005.

Interest expense was $2.1 million in the third quarter of 2006, compared to $2.2 million in the third quarter of 2005. Interest expense was $5.9 million in the first nine months of 2006, compared to $6.5 million in the first nine months of 2005. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $19.3 million in the third quarter and $57.6 million in the first nine months of 2006 and $20.5 million in the third quarter and $63.6 million in the first nine months of 2005. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Income tax expense of $24.5 million and $70.3 million for the third quarter and first nine months of 2006 compared to $21.1 million and $47.5 million in the comparable 2005 periods. We reported an effective income tax rate of 38.5% for the third quarter compared to a tax rate of 31.4% for the same period in 2005. The primary factor for the increase in the third quarter effective tax rate was an increase in non-deductible bankruptcy reorganization fees, partially offset by the finalization of tax benefits related to the 2005 subsidiary capital restructuring. We reported an effective income tax rate of 39.6% for the nine months compared to a tax rate of 43.9% for the same period in 2005. The primary reduction in the nine month effective tax rate resulted from lower unbenefited foreign losses during 2006 compared to 2005. The 2005 third quarter and nine month tax rates were favorably impacted by the conclusion of IRS audit and appeals issues and the impact of American Jobs Creation Act dividends from foreign affiliates.

Net earnings of $39.2 million for the third quarter and $107.4 million for the first nine months of 2006 compared to net earnings of $46.1 million for the third quarter and $60.8 million for the first nine months of 2005.

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REPORTABLE SEGMENT RESULTS

Resilient Flooring

			Change is Favorable/(Unfavorable)	
	2006	**2005**	**As Reported**	**Excluding Effects of Foreign Exchange Rates[1]**
Three months ended September 30				
Net Sales:				
Americas	$ 224.0	$ 233.5	(4.1)%	(4.7)%
Europe	66.0	64.6	2.2%	(2.7)%
Pacific Rim	14.8	13.4	10.4%	11.3%
Total Segment Net Sales	$ 304.8	$ 311.5	(2.2)%	(3.6)%
Operating Income/(Loss)	$ (2.9)	$ 7.7	Unfavorable	Unfavorable
Nine months ended September 30				
Net Sales:				
Americas	$ 662.7	$ 677.5	(2.2)%	(2.8)%
Europe	187.7	197.7	(5.1)%	(2.5)%
Pacific Rim	43.5	38.8	12.1%	14.2%
Total Segment Net Sales	$ 893.9	$ 914.0	(2.2)%	(2.0)%
Operating Income/(Loss)	$ 11.3	$ (5.8)	Favorable	Favorable

(1) Excludes favorable foreign exchange rate effect in translation on net sales of $4.6 million for three months and unfavorable $1.7 million for nine months. Excludes favorable foreign exchange rate effect in translation on operating income of $0.1 million for three months and $1.4 million for nine months.

Net sales in the Americas in the third quarter and first nine months declined $9.5 million and $14.8 million respectively on volume declines in vinyl products and lower selling prices for laminate. These were partially offset by growth in laminate volume and for the nine month period, growth in sales of commercial vinyl products.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets in the third quarter and first nine months declined $1.8 million and $4.8 million respectively as lower volumes more than offset improvements in price realization and product/geographic mix.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim in the third quarter and first nine months increased $1.5 million and $5.4 million respectively on improved product mix, and higher volume for the nine month period.

Operating income for the third quarter declined $10.6 million as sales declines, increased spending on cost reduction initiatives and raw material inflation more than offset benefits from previously implemented cost reductions. In addition, operating income in the third quarter of 2005 included a $5.2 million gain from the settlement of a breach of contract dispute and $2.4 million of proceeds received from a business interruption insurance claim. Through nine months operating income improved by $17.1 million, which includes $17 million in net gains from the sale of buildings in 2006. The operating loss in the first nine months of 2005 included the gain from the settlement of a breach of contract dispute and proceeds received from a business interruption insurance claim, as described previously.

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Wood Flooring

	2006	2005	Change is Favorable/ (Unfavorable)
Three months ended September 30			
Total Segment Net Sales[(1)]	$ 217.2	$ 220.2	(1.4)%
Operating Income	$ 16.5	$ 25.7	(35.8)%
Nine months ended September 30			
Total Segment Net Sales[(1)]	$ 645.0	$ 624.9	3.2%
Operating Income	$ 46.2	$ 54.4	(15.1)%

(1) Virtually all Wood Flooring products are sold in the Americas, primarily in the U.S.

Net sales for the third quarter decreased by $3.0 million. The decrease was primarily due to volume declines from the residential housing market slowdown in both engineered and solid wood floors which more than offset the benefit from previously announced acquisitions. Through the first nine months net sales increased by $20.1 million on the benefit from previously announced acquisitions and volume growth in both engineered and solid wood floors, which were only partially offset by price declines.

Operating income for the third quarter and first nine months decreased by $9.2 million and $8.2 million respectively. For the quarter, operating income decreased primarily due to volume declines, raw material inflation and increased investment in promotional efforts. The 2005 quarter also included the benefit from the settlement of a breach of contract dispute. Through nine months, increased sales volume and production efficiencies offset price declines and approximately $4 million in charges related to warranty reserves and a fixed asset write-down.

Textiles and Sports Flooring

			Change is Favorable/(Unfavorable)	
	2006	2005	As Reported	Excluding Effects of Foreign Exchange Rates[(1)]
Three months ended September 30				
Total Segment Net Sales	$ 86.3	$ 79.7	8.3%	3.2%
Operating Income	$ 4.2	$ 3.2	31.3%	23.5%
Nine months ended September 30				
Total Segment Net Sales	$ 222.6	$ 211.4	5.3%	7.4%
Operating (Loss)	$ (4.9)	$ (3.2)	(53.1)%	Unfavorable

(1) Excludes favorable foreign exchange rate effect in translation on net sales of $3.9 million for three months and an unfavorable $4.1 million for nine months. Excludes favorable foreign exchange rate effect in translation on operating income of $0.2 million for three months and $0.9 million for nine months.

Excluding the translation effects of changes in foreign exchange rates, net sales for the third quarter and first nine months increased by $2.7 million and $15.3 million respectively. In the third quarter, net sales benefited from higher volume and improved pricing in carpet tiles and improved pricing and product mix in broadloom carpet. For the first nine months, higher volume in broadloom carpet and carpet tiles combined with improved product mix to drive the sales growth.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

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Operating income for the third quarter improved $1.0 million, primarily due to sales growth. Through nine months, operating losses increased by $1.7 million, primarily due to an $8.5 million non-cash charge related to the transfer or a defined benefit pension plan to a multiemployer industry plan, partially offset by sales growth.

Building Products

	2006	2005	Change is Favorable As Reported	Excluding Effects of Foreign Exchange Rates[1]
Three months ended September 30				
Net Sales:				
Americas	$ 182.2	$ 163.7	11.3%	10.7%
Europe	102.9	87.5	17.6%	12.3%
Pacific Rim	19.4	17.0	14.1%	14.1%
Total Segment Net Sales	$ 304.5	$ 268.2	13.5%	11.5%
Operating Income	$ 59.7	$ 43.1	38.5%	37.2%
Nine months ended September 30				
Net Sales:				
Americas	$ 532.2	$ 472.2	12.7%	12.0%
Europe	274.7	264.4	3.9%	6.8%
Pacific Rim	52.9	47.9	10.4%	11.1%
Total Segment Net Sales	$ 859.8	$ 784.5	9.6%	10.2%
Operating Income	$ 152.9	$ 116.0	31.8%	31.9%

(1) Excludes favorable foreign exchange rate effect in translation on net sales of $5.0 million for three months and unfavorable $4.6 million for nine months. Excludes favorable foreign exchange rate effect in translation on operating income of $0.4 million for three months and unfavorable $0.1 million for nine months.

Net sales in the Americas for the third quarter and first nine months increased by $18.5 million and $60.0 million respectively. The growth in sales over both periods was driven by price increases made to offset inflationary pressures and by improved product mix. Through nine months increased volume in the strong U.S. Commercial markets also contributed to growth. This year-over-year volume growth moderated in the third quarter as we began to lap the market improvement that began in the second half of 2005.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe for the third quarter and first nine months increased by $11.3 million and $17.6 million respectively. Over both periods, increased sales of metal ceilings and improved price and product mix offset volume declines in mineral fiber ceilings across weak Western European markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim for the third quarter and first nine months increased by $2.4 million and $5.3 million respectively on strong sales in Australia and India.

Operating income for the third quarter and first nine months increased by $16.6 million and $36.9 million respectively on improved price realization, better product mix and increased equity earnings in WAVE, only partially offset by inflation in raw materials, energy and freight.

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Cabinets

	2006	2005	Change is Favorable
Three months ended September 30			
Total Segment Net Sales[1]	$ 60.8	$ 57.4	5.9%
Operating Income/(Loss)	$ 3.8	$ (0.3)	Favorable
Nine months ended September 30			
Total Segment Net Sales[1]	$ 174.4	$ 161.9	7.7%
Operating Income/(Loss)	$ 6.1	$ (9.5)	Favorable

(1) Substantially all Cabinets products are sold in the U.S.

Net sales for the third quarter and first nine months increased by $3.4 million and $12.5 million respectively on higher selling prices and improved product mix, which more than offset lower volume due to declines in the residential market.

Operating income for the third quarter and first nine months increased by $4.1 million and $15.6 million respectively, primarily driven by the sales growth. In addition, the 2005 operating loss included higher SG&A expense and costs related to the shutdown of the Morristown, Tennessee manufacturing plant which were not repeated in 2006.

Unallocated Corporate

Unallocated corporate expense of $13.9 million in the third quarter increased from $12.9 million in the prior year due to a $5 million increased U.S. pension credit related to plan changes and favorable asset performance, offset by a $5.0 million contribution to the Armstrong Foundation, the settlement of a liability related to a previously divested business and increased incentive compensation. For the first nine months of 2006 expense of $23.5 million decreased from $41.1 million in the comparable period of 2005 primarily due to a $16 million increased U.S. pension credit related to plan changes and favorable asset performance, partially offset by a $5.0 million contribution to the Armstrong Foundation, the settlement of a liability related to a previously divested business and increased incentive compensation. In addition, the first nine months of 2006 included a gain related to an $8.6 million settlement of a patent infringement case.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

As shown on the Condensed Consolidated Statements of Cash Flows, our cash and cash equivalents balance decreased by $81.6 million in the first nine months of 2006, compared to a $24.9 million increase in the first nine months of 2005.

Operating activities in the first nine months of 2006 provided $58.0 million of net cash, compared to $63.5 million provided in the same period of 2005. The $5.5 million change was primarily due to a relative increase in inventories and contributions to non-U.S. under-funded pension plans, partially offset by higher earnings and a lower increase in receivables.

Net cash used for investing activities was $113.7 million in the first nine months of 2006, compared to $41.1 million in 2005. The increase was due to investments in acquisitions partially offset by proceeds received from the sale of assets. In addition, in the first nine months of 2005 we received proceeds of $20.6 million from the sale of our equity interest in Interface Solutions, Inc.

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Net cash of $31.3 million was used by our financing activities in the first nine months of 2006, compared to $7.8 million provided in the same period of 2005. The change is due to higher debt repayments by subsidiaries not involved in our Chapter 11 case.

Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2005 to September 30, 2006 are as follows:

	September 30, 2006	December 31, 2005	Increase/ (Decrease)
Cash and cash equivalents	$ 520.6	$ 602.2	$ (81.6)
Current assets, excluding cash and cash equivalents	1,047.2	959.1	88.1
Current assets	$ 1,567.8	$ 1,561.3	$ 6.5

The decrease in cash and cash equivalents was described previously (see Cash Flow). The increase in current assets, excluding cash and cash equivalents, was primarily due to an increase in receivables due to higher sales in September of 2006 compared to December of 2005, and to an increase in inventory to sustain customer service levels, partially offset by a reduction in prepaid expenses.

	September 30, 2006	December 31, 2005	Increase
Property, plant and equipment, net	$ 1,164.0	$ 1,145.3	$ 18.7

The change was due to capital expenditures of $93.0 million, acquired fixed assets of $26.2 million and foreign currency translation. This was mostly offset by scheduled depreciation of $88.8 million and the sale of certain assets.

Credit Facilities

Through October 1, 2006, AWI had a $75 million debtor-in-possession credit facility that was limited to issuances of letters of credit. As of September 30, 2006 and December 31, 2005, AWI had $43.4 million and $43.3 million, respectively, in letters of credit outstanding pursuant to the DIP credit facility. The DIP credit facility also contained several covenants including, among other things, limits on asset sales and capital expenditures and a required ratio of debt to cash flow. We were in compliance with all of the DIP facility covenants. The covenants did not impair our operating ability.

Pursuant to AWI emerging from Chapter 11 on October 2, 2006, the DIP facility was cancelled as of that date. As of October 2, 2006, reorganized Armstrong had available a $300 million revolving credit facility. By October 16, 2006, reorganized Armstrong received commitments for, and the proceeds from, $800 million of secured term loan borrowings. See Note 2 for additional information about this financing.

Liquidity

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs, if required. For certain international operations that were not participating in our Chapter 11 Case, we had lines of credit of $47.8 million at September 30, 2006, of which $5.1 million was used and $42.7 million was available. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace credit facilities to support our operations. Additionally, we had letter of credit issuance capabilities under the DIP Facility which, as of our emergence date, was replaced with a revolving credit facility (described above). We believe that cash on hand and generated from operations, together with lines of credit and the revolving credit facility, will be adequate to address reorganized Armstrong s foreseeable liquidity needs in the normal course of business operations and to meet scheduled debt obligations consisting of principal and debt repayments.

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As of September 30, 2006, AHI s only operation was its indirect ownership of all the capital stock of AWI. As a result of AWI emerging from Chapter 11 on October 2, 2006 and all-then current shares of AWI being cancelled, AHI does not have any current operational activities but certain AWI Chapter 11 related matters concerning AHI remain unresolved (see Note 2 for additional information). Pursuant to the POR, AWI is required to bear certain costs and expenses that are incurred by AHI over a reasonable period to effect an orderly transition in its affairs following AWI s emergence from Chapter 11, including the costs and expenses of preparing, submitting to AHI s shareholders and, if approved by AHI s shareholders, implementing a plan of dissolution and liquidation. Accordingly, as a result of such obligations of AWI, AHI currently expects to have adequate liquidity to satisfy its anticipated administrative costs during such transition period. If AHI determines not to pursue its dissolution, there can be no assurance that AWI will continue to bear the costs and expenses of AHI.

New Accounting Pronouncements

In connection with AWI s emergence from Chapter 11 on October 2, 2006, reorganized Armstrong will adopt fresh-start reporting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). As a result of the application of fresh-start reporting as of October 2, 2006, changes in accounting principles that will be required in reorganized Armstrong s financial statements within the twelve months following our emergence date must be adopted at the time fresh-start reporting is adopted.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertain tax positions and adds new required annual disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006. However, due to the requirements of fresh-start reporting, reorganized Armstrong was required to adopt FIN 48 effective October 2, 2006. We continue to evaluate the effects of this pronouncement and expect to complete this analysis during the fourth quarter of 2006.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS 157), Fair Value Measurements, which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect any material impact on reorganized Armstrong or AHI from adopting FAS 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (FAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which establishes recognition and disclosure provisions for sponsors of defined benefit pension and other postretirement benefit plans. FAS 158 is effective for fiscal years ending after December 15, 2006. Due to the requirements of fresh-start reporting, reorganized Armstrong is required to adopt FAS 158 effective October 2, 2006. As part of fresh-start reporting, AWI will recognize all unrecognized gains, losses, and prior service cost existing at October 2, 2006. The equity adjustment for FAS 158 in reorganized Armstrong s December 31, 2006 balance sheet will therefore represent only gains and losses incurred in the fourth quarter of 2006. FAS 158 will have no impact on AHI, as AHI does not have any pension or postretirement benefit plans after October 2, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), Quantification of Misstatements, which provides guidance to public companies related to quantifying prior period misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006. Due to the requirements of fresh-start reporting, reorganized Armstrong is required to adopt SAB 108 effective October 2, 2006. We do not expect any material impact on reorganized Armstrong or AHI from adopting SAB 108.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding our exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2005 Form 10-K filing. There have been no significant changes in our financial instruments or market risk exposures from the amounts and descriptions disclosed therein.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Securities and Exchange Commission defines the term disclosure controls and procedures to mean a company s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms.

(b) Changes in Internal Control Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

See Note 16 of the Condensed Consolidated Financial Statements for a full description of our legal proceedings.

Item 1A. Risk Factors

See page 4 for our Risk Factors discussion which has been updated from the risk factors previously disclosed in Part I, Item 1A of our 2005 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In connection with the consummation of AWI s Fourth Amended Plan of Reorganization, as modified, dated February 21, 2006 (the POR), AWI issued on October 2, 2006 and October 17, 2006 a total of approximately 55,862,000 Common Shares to the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the Asbestos PI Trust) and to holders of allowed general unsecured creditor claims against AWI, in discharge as provided by the POR of claims against AWI. An additional 538,000 Common Shares were reserved for issuance under the POR pending the resolution of unresolved unsecured creditor claims. The issuance of such shares was reported in AWI s Current Reports on Form 8-K filed with the Commission on October 2, 2006 and October 10, 2006 and the nature of the claims in consideration of which such shares were or are to be issued is discussed further in Note 2 to our financial statements for the quarter ended September 30, 2006 included in this report. The issuance of such shares was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 1145 of the Bankruptcy Code.

Item 4. Submission of Matters to a Vote of Security Holders.

On October 2, 2006, following the issuance by AWI of Common Shares to the Asbestos PI Trust in furtherance of the POR, the trust as the then sole shareholder of AWI acted by written consent to approve AWI s 2006 Long-Term Incentive Plan.

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Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.	**Description**
No. 3.1	Amended and Restated Certificate of Incorporation of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 3.1.
No. 3.2	Armstrong World Industries, Inc. s Bylaws are incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein they appeared as Exhibit 3.2.
No. 3.3	Armstrong Holdings, Inc. s Bylaws, as amended, effective October 2, 2006, are filed herewith.
No. 3.4	Armstrong Holdings, Inc. s Amended and Restated Articles of Incorporation are incorporated by reference from the Current Report on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 3.1(i). (SEC File No. 000-50408)
No. 4.1	Armstrong Holdings, Inc. s Shareholder Summary of Rights to Purchase Preferred Stock as amended and restated as of February 20, 2006 is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 4.1.
No. 4.2	Armstrong World Industries, Inc. s Retirement Savings and Stock Ownership Plan effective as of October 1, 1996, as amended April 12, 2001 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, wherein it appeared as Exhibit 4. * (SEC File No. 1-2116)
No. 4.3	Armstrong World Industries, Inc. s $450,000,000 Credit Agreement (5-year) dated as of October 29, 1998, among Armstrong World Industries, Inc., The Chase Manhattan Bank, as administrative agent, and the banks listed therein, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f). (SEC File No. 1-2116)
No. 4.4	Armstrong World Industries, Inc. s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from Armstrong World Industries, Inc. s registration statement on Form S-3/A dated August 14, 1996, wherein it appeared as Exhibit 4.1. (SEC File No. 1-2116)
No 4.5	Instrument of Resignation, Appointment and Acceptance dated as of December 1, 2000 among Armstrong World Industries, Inc., The Chase Manhattan Bank and Wells Fargo Bank Minnesota, National Association, regarding Armstrong World Industries, Inc. s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(e). (SEC File No. 1-2116)

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No. 4.6	Copy of portions of Armstrong World Industries, Inc. s Board of Directors Pricing Committee s resolutions establishing the terms and conditions of $200,000,000 of 6.35% Senior Notes Due 2003 and $150,000,000 of 6 1/2% Senior Notes Due 2005, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h). (SEC File No. 1-2116)
No. 4.7	Copy of portions of Armstrong World Industries, Inc. s Board of Directors Pricing Committee s resolutions establishing the terms and conditions of $180,000,000 of 7.45% Senior Quarterly Interest Bonds Due 2038, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i). (SEC File No. 1-2116)
No. 4.8	Note Purchase Agreement dated June 19, 1989 for 8.43% Series A Guaranteed Serial ESOP Notes due 1989 2001 and 9.00% Series B Guaranteed Serial ESOP Notes due 2000-2004 for the Armstrong World Industries, Inc. Employee Stock Ownership Plan (Share in Success Plan) Trust, with Armstrong World Industries, Inc. as guarantor is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc. s registration statement on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 4(a). (SEC File No. 1-2116)
No. 4.9	Armstrong World Industries, Inc. s $300,000,000 Revolving Credit and Guarantee Agreement dated December 6, 2000, between Armstrong World Industries, Inc. and The Chase Manhattan Bank and the banks referenced therein; the First Amendment to this Agreement, dated February 2, 2001; and the Amendment Letter to this Agreement, dated February 28, 2001, are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(i). (SEC File No. 1-2116)
No. 4.10	Second, Third, Fourth, Fifth, Sixth and Seventh Amendments to Armstrong World Industries, Inc. s December 6, 2000 Debtor in Possession Credit Facility dated May 29, 2001; June 4, 2001; October 30, 2002; October 31, 2003; October 14, 2004; and October 27, 2005, respectively, are incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, wherein they appeared as Exhibit 4.10.
No. 4.11	Instrument of Resignation, Appointment and Acceptance dated June 14, 2005, among Armstrong World Industries, Inc., J. P. Morgan Trust Company, National Association, successor-in-interest to Bank One Trust Company, N.A. (J. P. Morgan) and Law Debenture Trust Company of New York (Law Debenture), whereby J. P. Morgan resigned as trustee and Law Debenture accepted the appointment as successor trustee under the Indenture dated March 15, 1988 between Armstrong World Industries, Inc. and Morgan Guaranty Trust Company of New York, as supplemented by the supplemental indenture dated as of October 19, 1990 between Armstrong World Industries, Inc. and First National Bank of Chicago, J. P. Morgan Trust Company, National Association successor-in-interest to Bank One Trust Company (relating to Armstrong World Industries, Inc. s $125 million 9-3/4% Debentures due 2008 and Series A Medium Term Notes which is incorporated by reference from the 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c) (SEC File No. 1-2116)) is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, wherein it appeared as Exhibit 4.11.

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No. 4.12 Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated by reference from Armstrong World Industries, Inc. s Registration Statement on Form S-3 (File No. 333- 74501) dated March 16, 1999, wherein it appeared as Exhibit 4.3. (SEC File No. 1-2116)

No. 4.13 Global Note representing $200 million of 7.45% Senior Notes due 2029 is incorporated by reference from the Current Report on Form 8-K filed on May 29, 1999, wherein it appeared as Exhibit 4.2. (SEC File No. 1-2116)

Armstrong Holdings, Inc. and Armstrong World Industries, Inc. agree to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrants and their subsidiaries which are not filed herewith in accordance with applicable rules of the Commission because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrants and their subsidiaries on a consolidated basis.

No. 10.1 Armstrong World Industries, Inc. s Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the Wellington Agreement) among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a). (SEC File No. 1-2116)

No. 10.2 Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b). (SEC File No. 1-2116)

No. 10.3 Armstrong World Industries, Inc. s 1993 Long-Term Stock Incentive Plan is incorporated by reference from the 1993 Proxy Statement wherein it appeared as Exhibit A. * (SEC File No. 1-2116)

No. 10.4 Armstrong World Industries, Inc. s Directors Retirement Income Plan, as amended, is incorporated by reference from the 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c). * (SEC File No. 1-2116)

No. 10.5 Armstrong World Industries, Inc. and Armstrong Holdings, Inc. s Management Achievement Plan for Key Executives, as amended August 1, 2005, is incorporated by reference from the Current Report on Form 8-K filed on September 30, 2005, wherein it appeared as Exhibit 10.1.*

No. 10.6 Armstrong World Industries, Inc. s Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended January 1, 2000 is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e). * (SEC File No. 1-2116)

No. 10.7 Armstrong Holdings, Inc. s Deferred Compensation Plan, as amended May 1, 2000, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(f). * (SEC File No. 000-50408)

No. 10.8 Armstrong World Industries, Inc. s Severance Pay Plan for Salaried Employees, as amended January 1, 2003 and March 15, 2005 in incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.8.*

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No. 10.9	Armstrong World Industries, Inc. s 1999 Long-Term Incentive Plan and Supplement dated August 1, 2005, are incorporated by reference from the Current Report on Form 8-K filed on September 30, 2005, wherein they appeared as Exhibit 10.2 and Exhibit 10.3.*
No. 10.10	Form of Change in Control Agreement between Armstrong World Industries, Inc. and certain officers is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(k). * (SEC File No. 1-2116)
No. 10.11	Change in Control Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10(e). * (SEC File No. 000-50408)
No. 10.12	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors and officers is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, wherein it appeared as Exhibit 10(iii)(a). * (SEC File No. 000-50408)
No. 10.13	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors is incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(q). * (SEC File No. 000-50408)
No. 10.14	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors is incorporated by reference from the 2001 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(s). * (SEC File No. 000-50406)
No. 10.15	Armstrong World Industries, Inc. s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference from the 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m). * (SEC File No. 1-2116)
No. 10.16	Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(a). * (SEC File No. 000-50408)
No. 10.17	Amendment to August 7, 2000 Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, wherein it appeared as Exhibit 10. * (SEC File No. 000-50408)
No. 10.18	Armstrong Holdings, Inc. s Stock Award Plan is incorporated by reference from Armstrong Holdings, Inc. s registration statement on Form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1. * (SEC File No. 000-50408)
No. 10.19	Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(g). * (SEC File No. 000-50408)

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No. 10.20	Form of Amendment of Restricted Stock Award Agreements between Armstrong Holdings, Inc. and the following executive officers: M.D. Lockhart, S.J. Senkowski and W.C. Rodruan dated July 22, 2002 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 wherein it appeared as Exhibit 10. *
No. 10.21	Hiring Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.1. *
No. 10.22	Change in Control Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.2. *
No. 10.23	Indemnification Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.3. *
No. 10.24	Order of the U.S. District Court Authorizing and Approving Continued Cash Retention Program for Key Employees dated December 9, 2004, is incorporated by reference from the Current Report filed on Form 8-K on February 3, 2005, wherein it appeared as Exhibit 99.1.*
No. 10.25	Executive Officer Compensation Arrangements between Armstrong World Industries Inc. and certain executive officers are incorporated by reference from the 2004 Annual Report on Form 10-K wherein they appeared as Exhibit 10.29. *
No. 10.26	Form of Long-Term Incentive Plan 2005 award letter regarding executive participation in the 1999 Long-Term Incentive Plan is incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.30. *
No. 10.27	Armstrong World Industries, Inc. s Nonqualified Deferred Compensation Plan effective January 2005 is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 10.29. *
No. 10.28	Summary of Armstrong Nonemployee Director Compensation is incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.32. *
No. 10.29	Agreement of Purchase and Sale between S-J Realty Management, LLC and Armstrong World Industries, Inc. dated December 5, 2005, is incorporated by reference from the Current Report filed on Form 8-K on January 30, 2006, wherein it appeared as Exhibit 10.1.
No. 10.30	Form of grant letter regarding executive officer participation in Armstrong World Industries, Inc. s 2006 retention payment program is incorporated by reference from the Current Report filed on Form 8-K on January 30, 2006, wherein it appeared as Exhibit 10.1.*
No. 10.31	Order of the U.S. District Court dated January 26, 2006, and related Armstrong World Industries, Inc. s Motion for an Order Authorizing and Approving Continued Cash Retention Program for Key Employees, is incorporated by reference from the Current Report filed on Form 8-K/A on February 2, 2006, wherein it appeared as Exhibit 99.1 *

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No. 10.32	Form of Long-Term Incentive Plan 2006 award letter regarding executive participation in the 2006 Long-Term Incentive Plan is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 10.37. *
No. 10.33	Change in Control Agreement between Armstrong World Industries, Inc. and Donald A. McCunniff dated March 13, 2006 is incorporated by reference from the Current Report filed on Form 8-K on March 14, 2006, wherein it appeared as Exhibit 10.1. *
No. 10.34	Indemnification Agreement between Armstrong World Industries, Inc. and Donald A. McCunniff dated March 13, 2006 is incorporated by reference from the Current Report filed on Form 8-K on March 14, 2006, wherein it appeared as Exhibit 10.2. *
No. 10.35	Credit Agreement, dated as of October 2, 2006, by and among the Company, certain subsidiaries of the Company as guarantors, Bank of America, N.A., as Administrative Agent, the other lenders party thereto, JP Morgan Chase Bank, N.A. and Barclays Bank PLC, as Co-Syndication Agents and LaSalle Bank National Association and the Bank of Nova Scotia, as Co-Documentation Agents, is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.1.
No. 10.36	The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement dated as of October 2, 2006, by and among Armstrong World Industries, Inc. and, as trustees, Anne M. Ferazzi, Harry Huge, Paul A. Knuti, Lewis R. Sifford and Thomas M. Tully is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.2.
No. 10.37	Stockholder and Registration Rights Agreement, dated as of October 2, 2006, by and between Armstrong World Industries, Inc. and the Armstrong World Industries, Inc. Asbestos Personal Injury Asbestos Trust is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.3.
No. 10.38	Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.4.*
No. 10.39	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan Stock Option Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.5.*
No. 10.40	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan Restricted Stock Award Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.6.*
No. 10.41	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan notice of restricted stock and/or option award is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.7.*
No. 10.42	Form of Indemnification Agreement for directors and officers of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.8.*
No. 10.43	2006 Director Phantom Stock Unit Plan is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.1.*

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No. 10.44	2006 Director Phantom Stock Unit Agreement is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.2.*
No. 10.45	2006 Director Phantom Stock Unit Agreement is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.3.*
No. 15.1	Awareness Letter from Independent Registered Public Accounting Firm.
No. 15.2	Awareness Letter from Independent Registered Public Accounting Firm.
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.3	Certification of Chief Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.4	Certification of Chief Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).

* Management Contract or Compensatory Plan.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Armstrong Holdings, Inc.
Armstrong World Industries, Inc.

By: /s/ F. Nicholas Grasberger III
F. Nicholas Grasberger III, Senior Vice President and Chief Financial Officer

By: /s/ John N. Rigas
John N. Rigas, Senior Vice President, Secretary and General Counsel

By: /s/ William C. Rodruan
William C. Rodruan, Vice President and

Controller (Principal Accounting Officer)

Date: October 30, 2006

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EXHIBIT INDEX

No. 3.1	Armstrong Holdings, Inc. Bylaws, as amended effective October 2, 2006.
No. 15.1	Awareness Letter from Independent Registered Public Accounting Firm.
No. 15.2	Awareness Letter from Independent Registered Public Accounting Firm.
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(b) and18 U.S.C. Section 1350 (furnished herewith).
No. 32.3	Certification of Chief Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.4	Certification of Chief Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(b) and18 U.S.C. Section 1350 (furnished herewith).