

Outline of Financial Results for the 1st Quarter of Fiscal 2005

August 6, 2004

For Immediate Release

Company Name : Fuji Heavy Industries Ltd. (Code No.: 7270 : Tokyo Stock Exchange First Section)

(URL: <http://www.fhi.co.jp/fina/index.html>)

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1. Basis for preparation of financial results of this quarter

1) Adoption of simplified accounting practices: Yes

Income taxes are calculated using a simplified accounting method.

2) Accounting change from prior year: Yes

Previously, for foreign exchange contracts used as hedges and which meet certain hedging criteria, the Company translated hedged foreign currency receivables using the contracted forward rates, and for forward exchange contracts hedging future transactions, the Company deferred recognition of gains or losses resulting from changes in fair value of the foreign exchange contracts until related gains or losses on the hedged items are recognized. However, the Company stopped applying the hedge accounting since 1st quarter of fiscal 2005.

As a result of this change, ordinary income and income before income taxes and minority interest for the 1st quarter increased by ¥1,694 million as compared with amounts assumed by application of previous hedge accounting policy.

3) Changes in scope of consolidation and application of the equity method: No

2. Performance in the 1st Quarter of Fiscal 2005 (from April 1, 2004 to June 30, 2004)

Note that all amounts have been rounded off to the nearest million yen, unless otherwise specified

(1) Consolidated Results of Operations

(Unit: Millions of yen, except for per share figures)

	Net sales	Operating income	Ordinary income	Net income
1 st Quarter of FY 2005	¥ 307,543 (8.5%)	¥ 12 (-99.9%)	¥ 2,479 (-78.9%)	¥ 619 (-89.7%)
1 st Quarter of FY 2004	¥ 283,345 —	¥ 9,226 —	¥ 11,755 —	¥ 5,994 —
Fiscal 2004	¥ 1,439,451 —	¥ 50,324 —	¥ 56,614 —	¥ 38,649 —

	Net income per share, basic (Yen)	Net income per share, diluted (Yen)
1 st Quarter of FY 2005	¥ 0.80	¥ 0.80
1 st Quarter of FY 2004	¥ 8.08	¥ 8.08
Fiscal 2004	¥ 50.62	¥ 49.66

Note: Percentage figures in the net sales, operating income, ordinary income and net income columns represent changes from prior 1st quarter period.

Qualitative Data on the Progress of Consolidated Operating Results

Consolidated net sales for the first quarter was 307.5 billion yen, 24.2 billion yen increase from the same period of the previous year. It is due to the increase in sales units such as minicar in Japan and the Saab OEM cars in the United States. Operating income was 12 million yen, which is 9.2 billion yen decrease from the previous year. The decrease attributes to some special factors such as exchange rate impact and the costs associated with model change of the Legacy in the United States, which were greater than the various cost reduction efforts. Ordinary income was 2.5 billion yen with 9.3 billion decrease from the previous year. Net income for the quarter was 0.6 billion yen, or 5.4 billion yen less than the previous year.

(2) Financial Position

(Unit: Millions of yen, except for per share figures)

	Total assets	Shareholders' equity	Shareholders' equity to total assets (%)	Shareholders' equity per share (Yen)
1 st Quarter of FY 2005	¥ 1,389,334	¥ 451,000	32.5 %	¥ 579.34
Fiscal 2004	¥ 1,349,727	¥ 453,708	33.6 %	¥ 582.60

Qualitative Data on the Progress of Consolidated Financial Condition

Total assets were 1,389.3 billion yen, an increase of 39.6 billion yen from the end of the previous fiscal year. The main factor was the vehicle inventory increase prepared for July, which is a typically strong sales month in Japan. Liabilities were 935 billion yen, 42.3 billion yen increase from the previous year, of which the main factor is the issuance of corporate bonds.

[Reference]

Projections for Fiscal 2005 (From April 1, 2004 to March 31, 2005)

Unchanged from the latest forecast (announced on May 14, 2004)

The above projections are made based on available information and assumptions as of Aug. 6, 2004, and are subject to the uncertainties of future operations. Therefore, actual results could differ materially from those anticipated.

[Consolidated Financial Statements]

(1) Summary of Consolidated Balance Sheets

(Unit: Millions of yen)

	1 st Quarter of 2005 (as of June 30, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
ASSETS			
Current assets	679,068	654,879	24,189
Cash and time deposits	48,908	46,684	2,224
Notes and accounts receivable, trade	105,733	122,724	(16,991)
Marketable securities	112,403	113,490	(1,087)
Inventories	213,422	179,338	34,084
Short-term loans	101,180	101,871	(691)
Deferred tax assets	33,546	34,149	(603)
Other	64,402	57,284	7,118
Allowance for doubtful accounts	(526)	(661)	135
Fixed assets	710,266	694,848	15,418
Property, plant and equipment, net	520,759	509,743	11,016
Buildings and structures	128,948	117,446	11,502
Machinery, equipment and vehicles	169,952	161,950	8,002
Land	167,510	166,518	992
Construction in progress	7,792	20,935	(13,143)
Other	46,557	42,894	3,663
Intangible assets	40,079	40,453	(374)
Investments and other assets	149,428	144,652	4,776
Investment securities	61,107	57,045	4,062
Long-term loans	7,304	4,918	2,386
Deferred tax assets	28,110	29,707	(1,597)
Other	57,893	57,938	(45)
Allowance for devaluation of investments	(280)	(280)	—
Allowance for doubtful accounts	(4,706)	(4,676)	(30)
Total assets	1,389,334	1,349,727	39,607

	1 st Quarter of 2005 (as of June 30, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	618,062	603,231	14,831
Notes and accounts payable, trade	202,123	193,186	8,937
Short-term borrowings	228,727	227,917	810
Commercial paper	20,000	10,000	10,000
Current portion of bonds	—	10,000	(10,000)
Accrued income taxes	6,143	5,092	1,051
Accrued expenses	67,636	69,784	(2,148)
Accrued bonus	25,522	17,165	8,357
Accrued warranty claims	27,764	26,959	805
Other	40,147	43,128	(2,981)
Long-term liabilities	316,983	289,469	27,514
Bonds	110,800	90,800	20,000
Long-term debts	47,704	40,279	7,425
Deferred tax liabilities on revaluation of land	478	478	—
Accrued pension and severance liability	63,370	61,654	1,716
Accrued directors' severance and retirement benefits	1,168	1,228	(60)
Consolidation adjustments	42,191	44,027	(1,836)
Other	51,272	51,003	269
Total liabilities	935,045	892,700	42,345
Minority interest in consolidated subsidiaries	3,289	3,319	(30)
Shareholders' equity			
Common stock	153,795	153,795	—
Capital surplus	160,107	160,107	—
Retained earnings	162,266	165,192	(2,926)
Revaluation reserve for land	421	421	—
Net unrealized holding gains on securities	12,312	10,291	2,021
Translation adjustments	(35,097)	(33,300)	(1,797)
Less treasury stock, at cost	(2,804)	(2,798)	(6)
Total shareholders' equity	451,000	453,708	(2,708)
Total liabilities and shareholders' equity	1,389,334	1,349,727	39,607

(2) Summary of Consolidated Statements of Income

(Unit: Millions of yen)

	1 st Quarter of FY 2005 (ended June 30,2004)	1 st Quarter of FY 2004 (ended June 30,2003)	Changes Increase/(Decrease)		Fiscal 2004 (ended March 31,2004)
	Amount	Amount	Amount	%	Amount
Net sales	307,543	283,345	24,198	8.5	1,439,451
Cost of sales	235,819	204,997	30,822	15.0	1,085,716
Gross profit	71,724	78,348	(6,624)	(8.5)	353,735
Selling, general and administrative expenses	71,712	69,122	2,590	3.7	303,411
Operating income	12	9,226	(9,214)	(99.9)	50,324
Non-operating income	4,972	4,477	495	11.1	17,943
Interest and dividends income	717	821	(104)	(12.7)	2,081
Amortization of consolidation adjustments	1,836	1,680	156	9.3	4,912
Other	2,419	1,976	443	22.4	10,950
Non-operating expenses	2,505	1,948	557	28.6	11,653
Interest expenses	578	672	(94)	(14.0)	2,416
Other	1,927	1,276	651	51.0	9,237
Ordinary income	2,479	11,755	(9,276)	(78.9)	56,614
Extraordinary gains	270	790	(520)	(65.8)	8,353
Gain on sale of fixed assets	50	86	(36)	(41.9)	2,600
Gain on sale of investment securities	220	619	(399)	(64.5)	4,564
Gain on prior period adjustment	—	—	—	—	1,049
Other	—	85	(85)	(100.0)	140
Extraordinary losses	476	934	(458)	(49.0)	8,701
Loss on sale and disposal of fixed assets	476	911	(435)	(47.7)	5,689
Loss on sale of investment securities	—	—	—	—	411
Loss on devaluation of securities	—	—	—	—	221
Pension and severance cost	—	—	—	—	1,268
Other	—	23	(23)	(100.0)	1,112
Income before income taxes and minority interest	2,273	11,611	(9,338)	(80.4)	56,266
Tax expense	1,662	5,689	(4,027)	(70.8)	17,633
Minority interest in loss of consolidated subsidiaries	8	72	(64)	(88.9)	16
Net income	619	5,994	(5,375)	(89.7)	38,649

(3) Segment Information

[Business segment information]

1st Quarter of FY2005 (from April 1, 2004 to June 30, 2004)

(Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Elimination and corporate	Consolidated total
Sales and operating income (loss)							
Sales							
(1) Outside customer	278,136	10,740	13,731	4,936	307,543	—	307,543
(2) Inter-segment	892	92	12	735	1,731	(1,731)	—
Total sales	279,028	10,832	13,743	5,671	309,274	(1,731)	307,543
Operating cost and expense	278,693	10,918	13,907	5,867	309,385	(1,854)	307,531
Operating income (loss)	335	(86)	(164)	(196)	(111)	123	12

1st Quarter of FY2004 (from April 1, 2003 to June 30, 2003)

(Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Elimination and corporate	Consolidated total
Sales and operating income (loss)							
Sales							
(1) Outside customer	257,446	9,457	11,336	5,106	283,345	—	283,345
(2) Inter-segment	894	4	163	950	2,011	(2,011)	—
Total sales	258,340	9,461	11,499	6,056	285,356	(2,011)	283,345
Operating cost and expense	249,322	9,869	10,241	6,774	276,206	(2,087)	274,119
Operating income (loss)	9,018	(408)	1,258	(718)	9,150	76	9,226

[Overseas sales]

1st Quarter of FY2005 (from April 1, 2004 to June 30, 2004)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	126,577	20,643	23,751	170,971
Consolidated net sales				307,543
Percentage of overseas sales over consolidated sales (%)	41.2%	6.7%	7.7%	55.6%

1st Quarter of FY2004 (from April 1, 2003 to June 30, 2003)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	119,547	19,082	18,709	157,338
Consolidated net sales				283,345
Percentage of overseas sales over consolidated sales (%)	42.2%	6.7%	6.6%	55.5%

<Reference for the 1st Quarter of FY2005 Consolidated Financial Results>

(August 6, 2004)
Fuji Heavy Industries Ltd.

(in 100 millions of yen)
(in thousands of units)

	ACTUAL RESULTS		ACTUAL RESULTS		FORECAST	
	1st Quarter of FY 2004 Apr.2003 to Jun.2003		1st Quarter of FY 2005 Apr.2004 to Jun.2004		FY2005 Apr.2004 to Mar.2005	
Net Sales	2,833	3,075	8.5 %	14,700	2.1 %	
Domestic	1,260	1,365	8.4 %	6,800	8.3 %	
Overseas	1,573	1,709	8.7 %	7,900	-2.7 %	
Margin Percentage	3.3%	0.0%		3.1%		
Operating income	92	0	-99.0 %	450	-10.6 %	
Margin Percentage	4.1%	0.8%		3.2%		
Ordinary income	117	24	-78.9 %	470	-17.0 %	
Margin Percentage	2.1%	0.2%		2.2%		
Net income	59	6	-89.7 %	320	-17.2 %	
Analysis of increase/decrease in operating income			Gain factors	Gain factors		
			Reduction in costs 37	Reduction in costs 162		
		Decrease in R&D expenses 22	Increase in sales mix 27	Increase of expenses and others 6		
		Loss factors	Loss factors			
		Increase of expenses and others 68	Foreign exchange 238	Increase in R&D expenses 10		
		Foreign exchange 56				
		Decrease in sales mix 27				
Exchange rate YEN/US\$	119	107		107		
R&D expenses	145	123		585		
Interest bearing debt	—	4,072		4,100		
Performance of operation			Net sales to increase	Net sales to increase		
			Net income to decrease	Net income to decrease		
Domestic sales units	49	54	10.3 %	282	14.8 %	
Small Cars	20	20	-0.7 %	110	-1.4 %	
Minicars	29	34	18.0 %	172	28.2 %	
Overseas sales units	57	67	18.7 %	329	7.7 %	
North America	36	44	22.2 %	222	7.6 %	
Europe	11	11	0.4 %	58	7.5 %	
Others	10	12	25.3 %	50	7.9 %	
Total sales units	106	122	14.8 %	611	10.8 %	
SIA Isuzu SUVs units	7	6	-5.5 %	13	-47.9 %	

*Figures of Total Sales are the sum of retail sales units of the Japanese subsidiary dealers, wholesale units of the overseas subsidiary distributors, and wholesale units of FHI to other distributors/dealers.

*Analysis of increase/decrease in operating income and sales units for the fiscal year ending in March 2005 include the update to the plan in May, reflecting the recent situations.