

Outline of Financial Results for the 3rd Quarter of Fiscal 2005 (Consolidated)

Feb.14, 2005

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, 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, operating income increased by ¥195 million and ordinary income and income before income taxes and minority interest increased by ¥465 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: Yes

Consolidated subsidiaries: Companies accounted for by the equity method:
Newly included: 1 Newly included: 5

2. Performance in the 3rd Quarter of Fiscal 2005 (from April 1, 2004 to Dec 31, 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
3 rd Quarter of FY 2005	¥ 1,050,410 (2.1%)	¥ 26,473 (-25.7%)	¥ 28,622 (-33.7%)	¥ 20,723 (-27.9%)
3 rd Quarter of FY 2004	¥ 1,028,357 —	¥ 35,646 —	¥ 43,197 —	¥ 28,743 —
Fiscal 2004	¥ 1,439,451 —	¥ 50,324 —	¥ 56,614 —	¥ 38,649 —

	Net income per share, basic (Yen)	Net income per share, diluted (Yen)
3 rd Quarter of FY 2005	¥ 26.60	¥ 26.60
3 rd Quarter of FY 2004	¥ 38.48	¥ 37.10
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 3rd quarter period.

Information on the Progress of Consolidates Operating Results

Consolidated net sales for the first nine months of this fiscal year increased to ¥150.4 billion, up ¥22.1 billion, or 2.1%, from the same period of previous fiscal year. This rise attributes to the large increase in the domestic minicar sales volume, led by the Subaru R2, over the same period of the previous year. Also, another factor is the continuation of solid sales in the overseas markets of Europe and Australia.

Despite our efforts to reduce material cost and various expenses, operating income was ¥26.5 billion, down ¥9.2 billion, or 25.7%, compared to the corresponding period due to the negative impact of the appreciation of the yen and deterioration of model mix. Ordinary income was ¥28.6 billion, down ¥14.6 billion, or 33.7%. Net income for the nine months fell to ¥20.7 billion, down ¥8.0 billion, or 27.9%.

(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)
3 rd Quarter of FY 2005	¥ 1,357,870	¥ 480,987	35.4 %	¥ 617.25
Fiscal 2004	¥ 1,349,727	¥ 453,708	33.6 %	¥ 582.60

Information on the Consolidated Financial Condition

Total assets as of the end of the first nine months of this fiscal year increased to 1,357.9 billion yen, up ¥8.1 billion, compared to the end of the previous fiscal year. Tangible fixed assets and marketable investment securities increased, while current assets decreased.

Liabilities fell to ¥873.5 billion, down ¥19.2 billion, from the end of the previous fiscal year. The main contributing factors were a decrease in current liabilities and the amortization of the consolidation adjustments.

Shareholders' equity rose to ¥481.0 billion, up ¥27.3 billion from the end of the previous fiscal year. The main contributing factor was increase of retained earnings including net income of ¥20.7 billion.

[Reference]

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

(Unit: Millions of yen)

	Net sales	Ordinary income	Net income
Full year	¥ 1,450,000	¥ 43,000	¥ 28,000

Reference: Projected net income per share (full year): ¥ 35.93

Information on the forecast of financial performance

Net sales is proceeding along with the previous projection, which was announced on November 12, 2004. Yet, The company revises the forecasts of Ordinary income from ¥47 billion to ¥43 billion and Net income from ¥32 billion to ¥28 billion, respectively, due to the negative impact of deterioration of model mix in the domestic market, and slower progress of expense reduction programs than the plan.

The above projections are made based on available information and assumptions as of Feb.14, 2005, 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)

	3 rd Quarter of 2005 (as of Dec 31, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
ASSETS			
Current assets	631,643	654,879	(23,236)
Cash and time deposits	65,767	46,684	19,083
Notes and accounts receivable, trade	97,867	122,724	(24,857)
Marketable securities	70,875	113,490	(42,615)
Inventories	190,386	179,338	11,048
Short-term loans	107,929	101,871	6,058
Deferred tax assets	33,609	34,149	(540)
Other	66,020	57,284	8,736
Allowance for doubtful accounts	(810)	(661)	(149)
Fixed assets	726,227	694,848	31,379
Property, plant and equipment, net	531,732	509,743	21,989
Buildings and structures	130,036	117,446	12,590
Machinery, equipment and vehicles	169,347	161,950	7,397
Land	169,667	166,518	3,149
Construction in progress	13,619	20,935	(7,316)
Other	49,063	42,894	6,169
Intangible assets	42,389	40,453	1,936
Investments and other assets	152,106	144,652	7,454
Investment securities	68,791	57,045	11,746
Long-term loans	5,067	4,918	149
Deferred tax assets	22,295	29,707	(7,412)
Other	58,954	57,938	1,016
Allowance for devaluation of investments	(280)	(280)	—
Allowance for doubtful accounts	(2,721)	(4,676)	1,955
Total assets	1,357,870	1,349,727	8,143

	3 rd Quarter of 2005 (as of Dec 31, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	566,577	603,231	(36,654)
Notes and accounts payable, trade	168,500	193,186	(24,686)
Short-term borrowings	217,829	227,917	(10,088)
Commercial paper	25,000	10,000	15,000
Current portion of bonds	10,300	10,000	300
Accrued income taxes	6,842	5,092	1,750
Accrued expenses	57,999	69,784	(11,785)
Accrued bonus	8,277	17,165	(8,888)
Accrued warranty claims	29,537	26,959	2,578
Other	42,293	43,128	(835)
Long-term liabilities	306,910	289,469	17,441
Bonds	100,500	90,800	9,700
Long-term debts	55,309	40,279	15,030
Deferred tax liabilities on revaluation of land	478	478	—
Accrued pension and severance liability	63,595	61,654	1,941
Accrued directors' severance and retirement benefits	1,064	1,228	(164)
Consolidation adjustments	28,533	44,027	(15,494)
Other	57,431	51,003	6,428
Total liabilities	873,487	892,700	(19,213)
Minority interest in consolidated subsidiaries	3,396	3,319	77
Shareholders' equity			
Common stock	153,795	153,795	—
Capital surplus	160,071	160,107	(36)
Retained earnings	180,462	165,192	15,270
Revaluation reserve for land	421	421	—
Net unrealized holding gains on securities	15,538	10,291	5,247
Translation adjustments	(27,085)	(33,300)	6,215
Less treasury stock, at cost	(2,215)	(2,798)	583
Total shareholders' equity	480,987	453,708	27,279
Total liabilities and shareholders' equity	1,357,870	1,349,727	8,143

(2) Summary of Consolidated Statements of Income

(Unit: Millions of yen)

	3 rd Quarter of FY 2005 (ended Dec 31, 2004)	3 rd Quarter of FY 2004 (ended Dec 31, 2003)	Changes Increase/(Decrease)		Fiscal 2004 (ended March 31, 2004)
	Amount	Amount	Amount	%	Amount
Net sales	1,050,410	1,028,357	22,053	2.1	1,439,451
Cost of sales	802,739	766,220	36,519	4.8	1,085,716
Gross profit	247,671	262,137	(14,466)	(5.5)	353,735
Selling, general and administrative expenses	221,198	226,491	(5,293)	(2.3)	303,411
Operating income	26,473	35,646	(9,173)	(25.7)	50,324
Non-operating income	10,892	13,735	(2,843)	(20.7)	17,943
Interest and dividends income	1,613	1,707	(94)		2,081
Amortization of consolidation adjustments	5,327	5,040	287		4,912
Other	3,952	6,988	(3,036)		10,950
Non-operating expenses	8,743	6,184	2,559	41.4	11,653
Interest expenses	1,896	1,850	46		2,416
Equity loss from affiliated companies	527	—	527		—
Other	6,320	4,334	1,986		9,237
Ordinary income	28,622	43,197	(14,575)	(33.7)	56,614
Extraordinary gains	3,213	6,327	(3,114)	(49.2)	8,353
Gain on sale of fixed assets	219	664	(445)		2,600
Gain on sale of investment securities	295	4,575	(4,280)		4,564
Gain on prior period adjustment	—	887	(887)		1,049
Other	2,699	201	2,498		140
Extraordinary losses	2,762	5,652	(2,890)	(51.1)	8,701
Loss on sale and disposal of fixed assets	1,819	4,692	(2,873)		5,689
Loss on sale of investment securities	0	405	(405)		411
Loss on devaluation of securities	110	201	(91)		221
Other	833	354	479		2,380
Income before income taxes and minority interest	29,073	43,872	(14,799)	(33.7)	56,266
Tax expense	8,266	15,339	(7,073)	(46.1)	17,633
Minority interest in (income) loss of consolidated subsidiaries	(84)	210	(294)	—	16
Net income	20,723	28,743	(8,020)	(27.9)	38,649

Note: "Extraordinary gain-other" amounting to ¥2,699 million includes ¥2,525 million of gain, which is the amount after offsetting ¥10,168 million of depreciation expense of the consolidation adjustments (credit side), arose from making Subaru of Indiana Automotive, Inc. (SIA) a wholly owned subsidiary of the Company, against ¥7,643 million of losses related to operating lease equipments in the Consignment Division of SIA.

(3) Segment Information

[Business segment information]

3rd Quarter of FY2005 (from April 1, 2004 to Dec 31, 2004)

(Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income (loss)							
Sales							
(1) Outside customer	959,347	34,050	41,334	15,679	1,050,410	—	1,050,410
(2) Inter-segment	2,843	200	31	2,291	5,365	(5,365)	—
Total sales	962,190	34,250	41,365	17,970	1,055,775	(5,365)	1,050,410
Operating cost and expense	935,501	33,769	42,027	18,501	1,029,798	(5,861)	1,023,937
Operating income (loss)	26,689	481	(662)	(531)	25,977	496	26,473

3rd Quarter of FY2004 (from April 1, 2003 to Dec 31, 2003)

(Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income (loss)							
Sales							
(1) Outside customer	944,569	30,492	35,944	17,352	1,028,357	—	1,028,357
(2) Inter-segment	2,885	112	208	2,585	5,790	(5,790)	—
Total sales	947,454	30,604	36,152	19,937	1,034,147	(5,790)	1,028,357
Operating cost and expense	911,038	31,003	35,312	21,424	998,777	(6,066)	992,711
Operating income (loss)	36,416	(399)	840	(1,487)	35,370	276	35,646

[Overseas sales]

3rd Quarter of FY2005 (from April 1, 2004 to Dec 31, 2004)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	437,323	88,048	79,553	604,924
Consolidated net sales				1,050,410
Percentage of overseas sales over consolidated sales (%)	41.6 %	8.4 %	7.6 %	57.6 %

3rd Quarter of FY2004 (from April 1, 2003 to Dec 31, 2003)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	459,342	73,978	62,153	595,473
Consolidated net sales				1,028,357
Percentage of overseas sales over consolidated sales (%)	44.7 %	7.2 %	6.0 %	57.9 %

<Reference for the 3rd Quarter of FY2005 Consolidated Financial Results>

(Feb. 14, 2005)

Fuji Heavy Industries Ltd.

(in 100 millions of yen) (in thousands of units)	RESULTS 3rd Quarter of FY2004 Apr. 2003 to Dec. 2003	RESULTS 3rd Quarter of FY2005 Apr. 2004 to Dec. 2004		RESULTS FY2004 Apr. 2003 to Mar. 2004	FORECAST FY2005 Apr. 2004 to Mar. 2005		FORECAST FY2005 (November 2004) Apr. 2004 to Mar. 2005	
Net Sales	10,284	10,504	2.1 %	14,395	14,500	0.7 %	14,500	
Domestic	4,329	4,455	2.9 %	6,279	6,400	1.9 %	6,500	
Overseas	5,955	6,049	1.6 %	8,115	8,100	-0.2 %	8,000	
Margin Percentage	3.5%	2.5%		3.5%	2.8%		3.1%	
Operating Income	356	265	-25.7 %	503	400	-20.5 %	450	
Margin Percentage	4.2%	2.7%		3.9%	3.0%		3.2%	
Ordinary Income	432	286	-33.7 %	566	430	-24.0 %	470	
Margin Percentage	2.8%	2.0%		2.7%	1.9%		2.2%	
Net Income	287	207	-27.9 %	386	280	-27.6 %	320	
Factors of Change in Operating Income	/	Gain factors Reduction in cost 90 Decrease of expenses and others 42 Decrease in R&D expenses 27 Loss factors Foreign exchange 151 Decrease in sales mix 99		/	Gain factors Reduction in cost 166 Decrease in R&D expenses 25 Decrease of expenses and others 7 Increase in R&D expenses 25 Loss factors Foreign exchange 178 Decrease in sales mix 123		Gain factors Reduction in cost 163 Decrease of expenses and others 28 Increase in R&D expenses 25 Loss factors Foreign exchange 176 Decrease in sales mix 93	
Exchange rate YEN/US\$	118	109		116	108		108	
R&D Expenses	427	400		575	550		550	
Interest bearing debt	3,894	4,089		3,790	4,100		4,100	
Performance of Operation	/	Net Sales to increase Net Income to decrease		/	Net Sales to increase Net Income to decrease Best Net Sales		/	
Domestic Sales	166	179	7.9 %	246	263	7.2 %	265	
Small Cars	77	72	-5.5 %	111	108	-2.6 %	110	
Minicars	89	107	19.4 %	134	155	15.3 %	155	
Overseas Sales	219	240	9.4 %	306	326	6.6 %	323	
North America	146	153	5.0 %	206	209	1.5 %	210	
Europe	40	45	13.9 %	54	60	12.2 %	59	
Other	34	42	23.3 %	46	57	22.5 %	54	
Units Total	385	419	8.8 %	551	589	6.8 %	588	
SIA Isuzu SUVs	19	13	-31.2 %	25	13	-47.9 %	13	

* 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.

*Exchange rate is the non-consolidated base of Fuji Heavy Industries Ltd..