

Non-consolidated Semi-annual Financial Results for Fiscal 2005

Nov. 12, 2004

For Immediate Release

Company Name : **Fuji Heavy Industries Ltd.**
 Name of Stock Exchange : Tokyo Stock Exchange (First Section)
 Code No. : 7270
 Location of Head Office : Tokyo, Japan
 URL : <http://www.fhi.co.jp/fina/index.html>
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Date of the Board of Directors Meeting Held for Approving the Financial Results: November 12, 2004

Date of Interim Dividends: December 9, 2004

Provision for Interim Dividends: Provision exists

Number of Shares in Unit Share System: 1,000 shares

1. Performance in 1st Half Year Fiscal 2005 (from April 1, 2004 to September 30, 2004)

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

(1) Results of Operations

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

	Net sales		Operating income		Ordinary income	
1st Half of FY 2005	¥486,402	(6.9%)	¥19,961	(37.9%)	¥16,896	(4.1%)
1st Half of FY 2004	¥455,163	(2.5%)	¥14,472	(-41.2%)	¥16,227	(-29.5%)
Fiscal 2004	¥936,911		¥30,143		¥28,496	

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

	Net income		Net income per share, basic (Yen)
1st Half of FY 2005	¥ 6,706	(-39.0%)	¥ 8.60
1st Half of FY 2004	¥10,985	(7.5%)	¥14.79
Fiscal 2004	¥19,012		¥24.86

- Notes: 1. Average number of shares outstanding during the periods : 1st Half of FY 2005 : 779,086,059 shares
 : 1st Half of FY 2004 : 742,574,652 shares
 : Fiscal 2004 : 760,753,377 shares
2. Accounting change : See "Change of Accounting Policy" section
3. Percentage figures in the net sales, operating income, ordinary income and net income columns represent changes from prior semi-annual period.

(2) Dividends

(Unit: Yen)

	Cash dividends per share	
	Semi-annual	Year-end
1st Half of FY 2005	¥4.50	–
1st Half of FY 2004	¥4.50	–
Fiscal 2004	–	¥9.00

(3) 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)
1st Half of FY 2005	¥960,405	¥510,488	53.2%	¥654.83
1st Half of FY 2004	¥945,049	¥497,233	52.6%	¥638.43
Fiscal 2004	¥947,124	¥504,566	53.3%	¥647.76

Notes: 1. Number of shares outstanding at end of the periods : 1st Half of FY 2005 : 779,562,381 shares
: 1st Half of FY 2004 : 778,831,681 shares
: Fiscal 2004 : 778,785,713 shares

2. Number of treasury stock at end of the periods : 1st Half of FY 2005 : 3,303,492 shares
: 1st Half of FY 2004 : 4,034,192 shares
: Fiscal 2004 : 4,080,160 shares

2. Projections for Fiscal 2005 (from April 1, 2004 to March 31, 2005)

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

	Net sales	Ordinary income	Net income	Fiscal 2005 cash dividends per share	
				Year-end	
Full year	¥965,000	¥36,000	¥14,000	¥4.50	¥9.00

Reference: Projected net income per share (full year): ¥17.96

The above projections are made based on available information and assumptions as of Nov. 12, 2004, and are subject to the uncertainties of future operations. Therefore, actual results could differ materially from those anticipated. The assumptions used for the above projections are stated on *Consolidated Financial Results for Fiscal 2005* on page 9.

Non-consolidated Balance Sheets

(Unit: Millions of yen)

	1st Half Year Fiscal 2005 (as of September 30, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2004 (as of September 30, 2003)
ASSETS				
Current assets	425,292	408,744	16,548	413,976
Cash and time deposits	13,273	25,336	(12,063)	37,168
Notes receivable, trade	1,844	2,585	(740)	2,983
Accounts receivable, trade	106,038	120,090	(14,051)	89,996
Marketable securities	110,224	75,850	34,374	97,393
Finished products	37,231	31,774	5,457	35,637
Raw materials	5,456	4,988	467	5,289
Work in process	50,977	51,140	(163)	50,779
Supplies	1,280	1,580	(299)	1,648
Advances paid	19,040	15,305	3,735	12,020
Prepaid expenses	3,627	2,248	1,379	2,811
Deferred tax assets	16,176	16,045	131	17,864
Accounts receivable, other	18,687	24,658	(5,971)	17,656
Short-term loans	40,037	31,437	8,599	38,026
Other	1,431	5,746	(4,314)	5,007
Allowance for doubtful accounts	(35)	(44)	9	(307)
Fixed assets	535,112	538,380	(3,267)	531,072
Property, plant and equipment, net	238,448	241,788	(3,340)	246,784
Buildings	50,776	51,548	(772)	52,152
Structures	6,666	6,920	(254)	6,501
Machinery and equipment	83,198	88,002	(4,803)	87,788
Aircrafts	89	107	(18)	135
Vehicles	1,394	1,465	(70)	1,289
Tools	9,897	11,179	(1,282)	10,883
Land	81,991	80,274	1,717	79,076
Construction in progress	4,434	2,289	2,144	8,955
Intangible assets	20,413	20,117	295	17,078
Industrial rights	10	11	0	13
Software	11,871	13,219	(1,348)	9,826
Other	8,530	6,886	1,644	7,238
Investments and other assets	276,251	276,474	(222)	267,209
Investment securities	46,097	42,480	3,616	38,255
Investments in subsidiaries and affiliated companies	139,168	138,336	832	137,226
Investment securities, other than stock	34	32	1	33
Investments in subsidiaries and affiliated companies, other than stock	453	453	-	453
Long-term loans	61,596	60,279	1,316	52,990
Long-term prepaid expenses	2,951	3,102	(151)	2,879
Deferred tax assets	29,621	31,985	(2,364)	35,012
Other	7,651	7,827	(177)	8,179
Allowance for devaluation of investments	(5,680)	(280)	(5,400)	-
Allowance for doubtful accounts	(5,643)	(7,746)	2,103	(7,820)
Total assets	960,405	947,124	13,281	945,049

(Unit: Millions of yen)

	1st Half Year Fiscal 2005 (as of September 30, 2004)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2004 (as of September 30, 2003)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	300,384	304,489	(4,104)	298,349
Notes payable, trade	3,441	3,762	(321)	4,802
Accounts payable, trade	179,237	172,465	6,772	164,339
Short-term borrowings	25,040	25,040	–	25,040
Current portion of long-term debts	7,016	7,018	(2)	145
Current portion of bonds	10,000	10,000	–	10,000
Accounts payable, other	10,650	14,716	(4,066)	15,376
Accrued expenses	31,700	41,196	(9,496)	41,984
Accrued income taxes	3,154	447	2,706	7,295
Advances received	6,912	1,885	5,027	3,573
Deposits received	803	699	103	969
Income in advance	170	132	37	129
Accrued bonus	11,285	11,417	(132)	11,499
Accrued warranty claims	8,713	9,180	(467)	9,232
Notes payable for acquisition of fixed assets	580	2,075	(1,494)	2,373
Other	1,679	4,449	(2,770)	1,588
Long-term liabilities	149,532	138,068	11,463	149,466
Bonds	100,000	90,000	10,000	90,000
Long-term debts	4,779	4,794	(15)	10,807
Long-term accounts payable, other	780	1,675	(894)	2,206
Long-term deposits received	1,420	1,404	16	2,455
Accrued pension and severance liability	42,405	40,067	2,338	43,777
Accrued directors' severance and retirement benefits	145	127	18	94
Allowance for losses on guarantees	–	–	–	125
Other	0	–	0	–
Total liabilities	449,916	442,557	7,359	447,816
Shareholders' equity				
Common stock	153,795	153,795	–	153,795
Capital surplus	160,070	160,070	–	160,070
Capital reserve	160,070	160,070	–	160,070
Retained earnings	186,884	183,892	2,991	179,370
Legal reserve	7,901	7,901	–	7,901
Dividends reserve	–	6,000	(6,000)	6,000
Retirement reserve	–	1,000	(1,000)	1,000
Advanced depreciation reserve	687	–	687	–
General reserve	85,335	78,335	7,000	78,335
Unappropriated retained earnings	92,961	90,656	2,304	86,134
Net unrealized holding gains on securities	11,917	9,579	2,337	6,744
Less treasury stock, at cost	(2,179)	(2,771)	592	(2,747)
Total shareholders' equity	510,488	504,566	5,921	497,233
Total liabilities and shareholders' equity	960,405	947,124	13,281	945,049

Non-consolidated Statements of Income

(Unit: Millions of yen)

	1st Half Year Fiscal 2005 (ended September 30, 2004)		1st Half Year Fiscal 2004 (ended September 30, 2003)		Changes Increase/ (Decrease)	Fiscal 2004 (ended March 31, 2004)	
	Amount	Ratio of Total (%)	Amount	Ratio of Total (%)		Amount	Ratio of Total (%)
Net sales	486,402	100.0	455,163	100.0	31,238	936,911	100.0
Cost of sales	388,832	79.9	362,904	79.7	25,928	750,315	80.1
Gross profit	97,569	20.1	92,259	20.3	5,310	186,596	19.9
Selling, general and administrative expenses	77,607	16.0	77,786	17.1	(178)	156,452	16.7
Operating income	19,961	4.1	14,472	3.2	5,488	30,143	3.2
Non-operating income	4,134	0.8	5,131	1.1	(996)	6,804	0.7
Interest and dividends income	1,264		1,227		37	1,863	
Gain on revaluation of derivatives	—		1,726		(1,726)	—	
Other	2,869		2,176		692	4,940	
Non-operating expenses	7,199	1.4	3,376	0.7	3,822	8,451	0.9
Interest expenses	809		831		(21)	1,601	
Loss on revaluation of derivatives	1,782		—		1,782	—	
Other	4,607		2,545		2,062	6,850	
Ordinary income	16,896	3.5	16,227	3.6	668	28,496	3.0
Extraordinary gains	239	0.0	4,979	1.1	(4,739)	6,687	0.7
Gain on sale of fixed assets	7		21		(14)	1,479	
Gain on sale of investment securities	220		4,035		(3,815)	4,036	
Reversal of allowance for doubtful accounts	12		35		(23)	75	
Reversal of allowance for losses on guarantees	—		—		—	47	
Gain on prior year adjustment	—		886		(886)	1,049	
Extraordinary losses	6,467	1.3	3,685	0.8	2,782	5,832	0.6
Loss on sale and disposal of fixed assets	1,065		3,550		(2,485)	4,968	
Loss on sale of investment securities	—		—		—	390	
Loss on devaluation of securities	1		56		(54)	193	
Allowance for losses on guarantees	—		78		(78)	—	
Allowance for devaluation of investments	5,400		—		5,400	280	
Income before income taxes	10,668	2.2	17,522	3.9	(6,853)	29,351	3.1
Income taxes-current	3,319	0.7	7,804	1.7	(4,484)	8,691	0.9
Income taxes-deferred	(641)	0.1	(1,267)	(0.2)	1,909	1,646	0.2
Net income	6,706	1.4	10,985	2.4	(4,278)	19,012	2.0
Unappropriated retained earnings brought forward	86,365		75,148		11,216	75,148	
Loss on disposal of treasury stock	110		—		110	—	
Interim dividends	—		—		—	3,504	
Unappropriated retained earnings at end of the period	92,961		86,134		6,826	90,656	

Summary of Significant Accounting Policies

1. Method and Basis for Valuation of Marketable Securities and Investment Securities

- (1) Held-to-maturity debt securities: The amortized interest cost method (the straight-line method)
- (2) Investments in subsidiaries and affiliated companies: Stated at cost determined by the moving-average method.
- (3) Other securities:
 - a) Securities for which fair market value is available: Stated at fair value as of the balance sheet date with unrealized holding gains and losses included as a component of shareholders' equity until realized. Realized gains and losses on sale of securities are principally computed using the moving-average method.
 - b) Securities for which fair market value is not available: Stated principally at cost determined by the moving-average method, after devaluation for any permanent impairment.

2. Method and Basis for Valuation of Derivative Instruments

Derivative instruments are stated at fair values.

3. Method and Basis for Valuation of Inventories

- (1) Finished products: Stated principally at cost determined by the moving-average method (the first-in, first-out method is used for certain items).
- (2) Raw materials, work in process and supplies: Stated principally at cost determined by the first-in, first-out method (the moving-average method is used for certain items).

4. Depreciation/Amortization Method of Fixed Assets

(1) Property, plant and equipment

Depreciation of the property, plant and equipment is principally computed by the declining-balance method, except for the buildings (excluding building improvements) acquired on or after April 1, 1998, for which the straight-line method is applied.

Estimated useful lives for depreciable assets are as follows:

Building and structures:	7~50 years
Machinery, equipment and vehicles:	4~11 years

(2) Intangible assets

Intangible assets are principally amortized by the straight-line method. Computer software used internally by the Company is amortized by the straight-line method over the relevant economic useful lives (3 or 5 years).

5. Method for Valuation of Deferred Assets

Bond issuing costs are expensed as incurred.

6. Basis for Significant Accruals and Reserves

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the amount calculated at the actual ratio of bad debt for ordinary receivables, and an amount required for uncollectible account for specific doubtful receivables.

(2) Allowance for devaluation of investments

Allowance for devaluation of investments is provided for losses from decrease in the value of investment securities for which fair value is not available and investments in subsidiaries and affiliated companies based on the evaluation of the investees' financial conditions, such as net assets and the probability of recovering the value.

(3) Accrued bonus

Accrued bonus is recorded based on the estimated future payments pro-rated for employee services received during the current semi-annual period.

(4) Accrued warranty claims

The Company provides for accrued warranty claims on products sold based on its past experiences of warranty services and estimated future warranty costs.

(5) Accrued pension and severance liability

Accrued pension and severance liability for employees is provided based on the estimated amounts of projected pension and severance obligation and fair value of plan assets at end of the current semi-annual period. Actuarial gains and losses have been amortized from the following fiscal year by the straight-line method over the periods (18 years), which are shorter than the average remaining service periods of the eligible employees.

(6) Accrued directors' severance and retirement benefits

Directors and statutory auditors of the Company are entitled to receive lump-sum payments at the time of severance or retirement, subject to the approval of the shareholders. The liabilities for such benefits are determined based on the Company's internal rules.

(7) Allowance for losses on guarantees

Allowance for losses on guarantees is provided in the amount sufficient to cover potential losses from guarantees based on the assessment of the financial conditions of the parties to which guarantees are provided.

7. Revenue recognition

Revenues of the Aerospace Division's production contracts with the production term exceeding one year and the amount each contract exceeding ¥ 5,000 million are recognized by the percentage-of-completion method.

8. Basis for Translation of Foreign Currency Accounts

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each semi-annual balance sheet date with the resulting gain or loss included in the accompanying statement of income.

9. Accounting for Leases

Finance leases which do not transfer ownership of the leased assets to lessees are accounted for as operating leases.

10. Accounting for Consumption Taxes

Consumption taxes are excluded from the related transaction amounts and are accounted for separately.

Change of Accounting Policy

Method of Hedge accounting

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 from this semi-annual period.

The reason for the change is that the Company reconsidered appropriateness of application of the hedge accounting in connection with reviewing the hedge policy and the management activities for foreign exchange contracts.

As a result of this change, operating income increased by ¥ 1,493 million and ordinary income and income before income taxes and minority interest decreased by ¥ 955 million as compared with amounts assumed by application of previous hedge accounting policy.

Additional Information

Revenue recognition

The Company changed the revenue recognition policy for Aerospace Division's production contracts with the production term exceeding one year and the amount of each contract exceeding ¥ 5,000 million, from the delivery basis to the percentage-of-completion method since 2nd half of fiscal 2004. Since the change was made in 2nd half of fiscal 2004, revenues from such contracts were recognized upon delivery of the products in 1st half of fiscal 2004. Net sales would have been increased by ¥ 3,519 million and gross profit, operating income, ordinary income and income before income taxes and minority interest would have been increased by ¥ 208 million, if the percentage-of-completion method for revenue recognition had been applied retroactively to 1st half of the fiscal 2004. The impact of such change on segments information is stated at accounting footnote.

Notes to Non-consolidated Semi-annual Financial Statements

(Balance Sheet)

1. Accumulated depreciation for property, plant and equipment: ¥ 438,327 million

2. Pledged assets and secured liabilities

Pledged assets are as follows:

	(Unit: Millions of yen)
Buildings and structures	¥ 15,298 [15,298]
Machinery and equipment	19,157 [19,157]
Land	1,190 [1,190]
Total	¥ 35,646 <u>[35,646]</u>

Secured liabilities are as follows:

	(Unit: Millions of yen)
Current portion of long-term debts	¥ 7,000 [7,000]
Long-term debts	¥ 3,700 [3,700]
Total	¥ 10,700 <u>[10,700]</u>

The above amounts in parentheses represent a mortgage of the factory foundation and the related liabilities.

3. Balance with affiliated companies

	(Unit: Millions of yen)
Notes and accounts receivable, trade	¥ 62,143
Short-term loans	¥ 40,037
Long-term loans	¥ 60,312
Other assets - total	¥ 9,822
Notes and accounts payable, trade	¥ 17,402
Accrued expenses	¥ 9,265
Other liabilities - total	¥ 563

4. Contingent liabilities

The Company's guarantees for the indebtedness from financial institutes are as follows:

	(Unit: Millions of yen)
Subaru Finance Co., Ltd.	¥ 99,200
Employees	24,253
Subaru of Indiana Automotive, Inc. and 4 other entities	14,173
Sub-total	<u>¥ 137,626</u>

The Company's guarantees for the lease payment on equipment with leveraged lease are as follows:

Subaru of Indiana Automotive, Inc.	¥ 25,885
Total	<u>¥ 163,511</u>

In addition, the Company's guarantees for the indebtedness of the affiliated companies are ¥452 million.

5. The unexecuted balances of commitments for borrowings are as follows:

	(Unit: Millions of yen)
Total commitments	¥ 71,000
Less amounts currently executed	<u>(19,000)</u>
Unexecuted balance	<u>¥ 52,000</u>

(Statement of Income)

1. Research and development cost included in general and administrative expenses:
¥27,718 million

2. Depreciation/Amortization expense

	(Unit: Millions of yen)
Property, plant and equipment	¥ 13,179
Intangible assets	¥ 2,240

(Marketable Securities)

Investments in subsidiaries and affiliated companies with fair market value
(1st half of fiscal 2005)

		(Unit: Millions of yen)	
	Book value	Fair market value	Difference
Investment in subsidiaries	1,758	6,079	4,320
Investment in affiliated companies	-	-	-
Total	1,758	6,079	4,320

(Leases)

1. Finance leases without transfer of ownership

a) Acquisition cost, accumulated depreciation/amortization and net book value of leased assets:

(Unit: Millions of yen)

	Acquisition cost	Accumulated depreciation /amortization	Net book value at end of the period
Vehicles	37	32	5
Tools	4,167	2,238	1,929
Software	13	4	8
Total	4,218	2,274	1,943

b) The future minimum lease payments:

(Unit: Millions of yen)

Due within one year	¥ 930
Due after one year	1,162
Total	<u>¥ 2,093</u>

c) Rents paid, depreciation/amortization expense and interest expense portion:

(Unit: Millions of yen)

Rents paid	¥ 543
Depreciation/amortization expense	¥ 502
Interest expense portion	¥ 35

d) Method of depreciation/amortization:

The straight-line method over the lease term with no residual value

e) Method of computing interest:

Interest has been computed as the difference between the total lease payments and the value of leased assets and has been allocated to each period using the effective interest method.

2. Operating leases

The future minimum rent payments:

(Unit: Millions of yen)

Due within one year	¥ 39
Due after one year	10
Total	<u>¥ 49</u>

<Reference for the First Half of FY2005(Apr. 2004 to Sep. 2004) Non-Consolidated Financial Results>

(Nov. 12, 2004)

Fuji Heavy Industries Ltd.

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

	RESULTS	RESULTS		RESULTS	FORECAST		FORECAST
	1st HALF of FY2004	1st HALF of FY2005		FY2004	FY2005		FY2005
	Apr. 2003 to Sep. 2003	Apr. 2004 to Sep. 2004		Apr. 2003 to Mar. 2004	Apr. 2004 to Mar. 2005		Apr. 2004 to Mar. 2005
Net Sales	4,551	4,864	6.9 %	9,369	9,650	3.0 %	9,850
Domestic	2,144	2,183	1.8 %	4,648	4,621	-0.6 %	5,030
Overseas	2,407	2,680	11.4 %	4,720	5,029	6.5 %	4,820
Margin Percentage	3.2%	4.1%		3.2%	4.0%		3.6%
Operating Income	144	199	37.9 %	301	390	29.4 %	355
Margin Percentage	3.6%	3.5%		3.0%	3.7%		3.4%
Ordinary Income	162	168	4.1 %	284	360	26.3 %	330
Margin Percentage	2.4%	1.4%		2.0%	1.5%		1.8%
Net Income	109	67	-39 %	190	140	-26.4 %	180
Factors of Change in Operating Income		Gain factors Reduction in cost 64 Decrease of expenses and others 56 Increase in sales mix 43 Decrease in R&D expenses 26 Loss factors Foreign exchange 134			Gain factors Reduction in cost 126 Decrease of expenses and others 103 Increase in sales mix 30 Decrease in R&D expenses 29 Loss factors Foreign exchange 199		Gain factors Increase in sales mix 189 Reduction in cost 120 Decrease of expenses and others 51 Loss factors Foreign exchange 302 Increase in R&D expenses 4
Foreign Exchange Rate YEN/US\$	120	110		116	108		105
Capital Investment	200	108		327	280		320
Depreciation and Amortization	135	132		294	270		280
R&D Expenses	302	277		573	544		577
Interest bearing debt	1,359	1,468		1,368	1,400		1,550
Performance of operation		Net Sales to increase Operation Income to increase Best Net Sales			Net Sales to increase Operation Income to increase Best Net Sales		
Domestic Production Volume	222	253	13.8 %	465	487	4.6 %	513
Domestic Sales	119	133	12.0 %	262	276	5.4 %	302
Small Cars	56	52	-8.6 %	119	110	-7.3 %	113
Minicars	63	82	30.7 %	144	166	16.0 %	189
Export	97	114	17.1 %	201	212	5.5 %	214
North America	56	60	7.2 %	106	105	-0.8 %	119
Europe	21	27	27.3 %	49	52	7.9 %	49
Other	20	27	33.3 %	46	54	17.4 %	46
Knock Down Parts	46	58	27.4 %	90	119	32.3 %	121