

Non-consolidated Financial Results for Fiscal 2005

May 12, 2005

For Immediate Release

Company Name : **Fuji Heavy Industries Ltd.**
 Name of Stock Exchanges : Tokyo Stock Exchange (First Section)
 Code No. : 7270
 Location of Head Office : Tokyo, Japan
 URL : <http://www.fhi.co.jp/fina/index.html>
 Representative : Mr. Kyoji Takenaka, President and CEO
 Contact for Inquiries : Mr. Shunji Yonekura, General Manager of Administration Department
 Tel: (03) 3347-2005

Date of the Board of Directors Meeting Held for Approving the Financial Results: May 12, 2005

The Scheduled Commencement Date of Dividend Payments: June 27, 2005

Date of the Regular Shareholders Meeting: June 24, 2005

Provision for Interim Dividends: Provision exists

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

1. Performance in Fiscal 2005 (from April 1, 2004 to March 31, 2005)

Note that all amounts for fiscal 2005 have been rounded off to the nearest million yen, whereas all amounts for fiscal 2004 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	
Fiscal 2005	¥ 949,511	(1.3 %)	¥ 35,436	(17.6 %)	¥ 31,304	(9.9 %)
Fiscal 2004	¥ 936,911	(2.7 %)	¥ 30,143	(-39.9 %)	¥ 28,496	(-38.7 %)

	Net income		Net income per share, basic (Yen)	Net income per share, diluted (Yen)	Return on equity (%)	Ratio of ordinary income to total assets (%)	Ratio of ordinary income to net sales (%)
Fiscal 2005	¥ 2,503	(-86.8 %)	¥ 3.14	¥ 3.14	0.5 %	3.3 %	3.3 %
Fiscal 2004	¥ 19,012	(0.7 %)	¥ 24.86	¥ 24.39	3.9 %	3.1 %	3.0 %

Notes: 1. Average number of shares outstanding during the year : Fiscal 2005 : 779,291,864 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 fiscal year

(2) Dividends

(Unit: Yen, except for per year figures)

	Cash dividends per share			Cash dividends per year (Millions of yen)	Dividend payout ratio (%)	Cash dividends per year to Shareholders' equity (%)
		Semi-annual	Year-end			
Fiscal 2005	¥ 9.00	¥ 4.50	¥ 4.50	¥ 7,016	286.6%	1.4 %
Fiscal 2004	¥ 9.00	¥ 4.50	¥ 4.50	¥ 7,009	36.2%	1.4 %

(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)
Fiscal 2005	¥ 938,003	¥ 507,091	54.1 %	¥ 650.46
Fiscal 2004	¥ 947,124	¥ 504,566	53.3 %	¥ 647.76

Notes: 1. Number of shares outstanding at : Fiscal 2005 : 779,503,962 shares
end of the year : Fiscal 2004 : 778,785,713 shares

2. Number of treasury stock at end : Fiscal 2005 : 3,361,911 shares
of the year : Fiscal 2004 : 4,080,160 shares

2. Projections for Fiscal 2006 (from April 1, 2005 to March 31, 2006)

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

	Net sales	Ordinary income	Net income	Fiscal 2006 cash dividends per share		
				Semi-annual	Year-end	
Half year	¥ 450,000	¥ 10,000	¥ 7,000	4.50	-	-
Full year	¥ 944,000	¥ 29,000	¥ 10,000	-	4.50	9.00

Reference: Projected net income per share (full year): ¥ 12.83

The above projections are made based on available information and assumptions as of May 12, 2005, 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 page 9.

Non-consociated Balance Sheets

	Fiscal 2005 (as of March 31, 2005)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
ASSETS			
Current assets	380,755	408,744	(27,989)
Cash and time deposits	17,193	25,336	(8,143)
Notes receivable, trade	2,048	2,585	(537)
Accounts receivable, trade	122,119	120,090	2,029
Marketable securities	54,556	75,850	(21,295)
Finished products	27,585	31,774	(4,189)
Raw materials	6,668	4,988	1,679
Work in process	49,783	51,140	(1,358)
Supplies	1,294	1,580	(286)
Advances paid	23,335	15,305	8,030
Prepaid expenses	1,812	2,248	(436)
Deferred tax assets	17,254	16,045	1,208
Accounts receivable, other	20,891	24,658	(3,768)
Short-term loans	34,977	31,437	3,539
Other	1,282	5,746	(4,464)
Allowance for doubtful accounts	(42)	(44)	2
Fixed assets	557,248	538,380	18,868
Property, plant and equipment, net	237,626	241,788	(4,162)
Buildings	51,644	51,548	95
Structures	6,778	6,920	(142)
Machinery and equipment	81,811	88,002	(6,192)
Aircrafts	71	107	(36)
Vehicles	1,325	1,465	(140)
Tools	10,010	11,179	(1,170)
Land	82,209	80,274	1,934
Construction in progress	3,778	2,289	1,489
Intangible assets	22,797	20,117	2,679
Industrial rights	110	11	98
Software	17,567	13,219	4,348
Other	5,120	6,886	(1,767)
Investments and other assets	296,825	276,474	20,351
Investment securities	53,401	42,480	10,920
Investments in subsidiaries and affiliated companies	146,728	138,336	8,392
Investment securities, other than stock	27	32	(6)
Investments in subsidiaries and affiliated companies, other than stock	453	453	—
Long-term loans	66,478	60,279	6,198
Long-term prepaid expenses	2,825	3,102	(278)
Deferred tax assets	29,073	31,985	(2,913)
Other	8,089	7,827	261
Allowance for devaluation of investments	(4,597)	(280)	(4,317)
Allowance for doubtful accounts	(5,652)	(7,746)	2,094
Total assets	938,003	947,124	(9,121)

(Unit: Millions of yen)

	Fiscal 2005 (as of March 31, 2005)	Fiscal 2004 (as of March 31, 2004)	Changes Increase/(Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	280,405	304,489	(24,084)
Notes payable, trade	3,439	3,762	(324)
Accounts payable, trade	167,674	172,465	(4,791)
Short-term borrowings	16,040	25,040	(9,000)
Current portion of long-term debts	3,715	7,018	(3,304)
Current portion of bonds	10,000	10,000	—
Accounts payable, other	17,551	14,716	2,834
Accrued expenses	34,204	41,196	(6,993)
Accrued income taxes	—	447	(447)
Advance received	4,758	1,885	2,873
Deposits received	1,202	699	503
Income in advance	165	132	32
Accrued bonus	9,798	11,417	(1,619)
Accrued warranty claims	8,140	9,180	(1,041)
Notes payable for acquisition of fixed assets	718	2,075	(1,358)
Other	3,001	4,449	(1,449)
Long-term liabilities	150,507	138,068	12,439
Bonds	100,000	90,000	10,000
Long-term debts	10,565	4,794	5,770
Long-term accounts payable, other	515	1,675	(1,159)
Long-term deposits received	1,466	1,404	61
Accrued pension and severance liability	37,781	40,067	(2,286)
Accrued directors' severance and retirement benefits	179	127	52
Other	1	—	1
Total liabilities	430,912	442,557	(11,645)
Shareholders' equity			
Common stock	153,795	153,795	—
Capital surplus	160,071	160,070	—
Capital reserve	160,071	160,070	—
Retained earnings	179,168	183,892	(4,724)
Legal reserve	7,901	7,901	—
Dividends reserve	—	6,000	(6,000)
Retirement reserve	—	1,000	(1,000)
Advanced depreciation reserve	687	—	687
General reserve	85,335	78,335	7,000
Unappropriated retained earnings	85,245	90,656	(5,411)
Net unrealized holding gains on securities	16,262	9,579	6,682
Less treasury stock, at cost	(2,205)	(2,771)	566
Total shareholders' equity	507,091	504,566	2,524
Total liabilities and shareholders' equity	938,003	947,124	(9,121)

Non-consolidated Statements of Income

(Unit: Millions of yen)

	Fiscal 2005 (ended March 31, 2005)		Fiscal 2004 (ended March 31, 2004)		Changes Increase/(Decrease)
	Amount	Ratio of total (%)	Amount	Ratio of total (%)	Amount
Net sales	949,511	100.0	936,911	100.0	12,599
Cost of sales	761,093	80.2	750,315	80.1	10,777
Gross profit	188,418	19.8	186,596	19.9	1,822
Selling, general and administrative expenses	152,982	16.1	156,452	16.7	(3,470)
Operating income	35,436	3.7	30,143	3.2	5,292
Non-operating income	7,740	0.8	6,804	0.7	936
Interest and dividends income	2,270		1,863		407
Other	5,470		4,940		529
Non-operating expenses	11,872	1.2	8,451	0.9	3,421
Interest expenses	1,610		1,601		9
Loss on revaluation of derivatives	3,132		—		3,132
Other	7,130		6,850		280
Ordinary income	31,304	3.3	28,496	3.0	2,807
Extraordinary gains	957	0.1	6,687	0.7	(5,730)
Gain on sale of fixed assets	485		1,479		(995)
Gain on sale of investment securities	220		4,036		(3,816)
Reversal of allowance for doubtful accounts	2		75		(73)
Reversal of allowance for losses on guarantees	—		47		(47)
Reversal of allowance for devaluation of investments	250		—		250
Gain on prior period adjustment	—		1,049		(1,049)
Extraordinary losses	29,540	3.1	5,832	0.6	23,707
Loss on sale and disposal of fixed assets	2,248		4,968		(2,721)
Loss on sale of investment securities	4		390		(386)
Loss on devaluation of securities	10,425		193		10,231
Allowance for devaluation of investments	4,567		280		4,287
Loss on devaluation of inventories	8,122		—		8,122
Loss on compensation to suppliers	4,174		—		4,174
Income before income taxes	2,721	0.3	29,351	3.1	(26,630)
Income taxes-current	3,062	0.3	8,691	0.9	(5,630)
Income taxes-deferred	(2,844)	(0.3)	1,646	0.2	(4,490)
Net income	2,503	0.3	19,012	2.0	(16,510)
Unappropriated retained earnings brought forward	86,365		75,148		11,216
Loss on disposal of treasury stock	115		—		115
Interim dividends	3,508		3,504		3
Unappropriated retained earnings at end of the year	85,245		90,656		(5,412)

Proposed Appropriation of Retained Earnings

(Unit: Millions of yen)

	Fiscal 2005 (ended March 31, 2005)	Fiscal 2004 (ended March 31, 2004)	Changes Increase/(Decrease)
Unappropriated retained earnings at end of the year	85,245	90,656	(5,412)
Reversal of dividends reserve	—	6,000	(6,000)
Reversal of retirement reserve	—	1,000	(1,000)
Total	85,245	97,656	(12,412)
Planned appropriations:			
Dividends to shareholders	3,507	3,504	3
Directors' bonuses [Statutory auditors]	55 [7]	100 [14]	(45) [(7)]
Advanced depreciation reserve	—	687	(687)
Other reserve	—	7,000	(7,000)
Retained earnings to be carried forward	81,683	86,365	(4,683)

Notes: 1. Cash dividend per share is 9 yen for fiscal 2005, which includes interim dividend of 4.5 yen.

2. Advanced depreciation reserve is based on Special Tax Treatment Law.

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:
 - * 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 computed using the moving-average method.
 - * Securities for which fair market value is not available: Stated at cost as determined by the moving-average method, after devaluation for any permanent impairment.

2. Method and Basis for Valuation of Derivative Instruments

Derivative financial instruments are stated at fair values.

3. Method and Basis for Valuation of Inventories

- (1) Finished products: Stated 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 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 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 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.

(1) 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 fiscal year.

(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 fiscal year. Prior service cost is being amortized as incurred by the straight-line method over the periods (18 years), which is shorter than the average remaining service periods of the eligible employees. Actuarial gains and losses is 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. This is the allowance based on Article 43 of the Japanese Commercial Code Enforcement Regulation.

7. 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 balance sheet date with the resulting gain or loss included in the accompanying statements of income.

8. Revenue recognition

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

9. Accounting for Leases

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

10. Other Matters Concerned with Basis for Presentation of the Financial Statements

(1) Accounting for consumption taxes

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

(2) Treatment of fractional figure

All amounts for fiscal 2005 have been rounded off to the nearest million yen, whereas all amounts for fiscal 2004 have been rounded down to the nearest million yen, unless otherwise specified.

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 fiscal year.

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 ¥ 1,282 million and ordinary income and income before income taxes decreased by ¥ 1,814 million as compared with amounts assumed by application of previous hedge accounting policy.

Additional information

The Introduction of Size-Based Corporation Tax System

Due to introduction of "Size-Based Corporation Tax System" for the enterprise taxes, Accounting Standards Board of Japan issued Practical Solutions Report No.12, "Practical Solution on Presentation for Size-Based Components of Corporate Enterprise Tax on Income Statement" on February 13, 2004, which prescribes new accounting standard for enterprise taxes. In compliance with the report, the value-added and the capital components of the enterprise taxes are included in selling, general and administrative expenses from this fiscal year.

As a result, selling, general and administrative expenses increased by ¥822 million, and operating income, ordinary income and income before income taxes decreased by the same amount as compared with previous fiscal year.

Notes to Non-consolidated Financial Statements

(Balance Sheet)

1. Accumulated depreciation for property, plant and equipment is ¥ 444,359 million.

2. Pledged assets and secured liabilities

Pledged assets are as follows:

	(Unit: Millions of yen)
Buildings and structures	¥ 16,512
	¥ [16,512]
Machinery and equipment	21,981
	[21,981]
Land	1,196
	[1,196]
Total	¥ 39,688
	¥ [39,688]

Secured liabilities are as follows:

	(Unit: Millions of yen)
Current portion of long-term debts	¥ 3,700
	¥ [3,700]
Long-term debts	7,010
	[7,010]
Total	¥ 10,710
	¥ [10,710]

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

3. Balance with affiliated companies is as follows:

	(Unit: Millions of yen)
Notes and accounts receivable, trade	¥ 77,369
Short-term loans	¥ 34,977
Long-term loans	¥ 64,168
Other assets – total	¥ 10,298
Notes and accounts payable, trade	¥ 20,781
Accrued expenses	¥ 10,745
Other liabilities – total	¥ 3,827

4. Number of issuing shares is as follows:

Number of shares authorized	Common Stock 1,500,000,000 shares
Number of shares issued at end of the year shares	Common Stock 782,865,873

5. Contingent liabilities

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

	(Unit: Millions of yen)
Subaru Finance Co., Ltd.	¥ 121,150
Subaru of Indiana Automotive, Inc.	¥ 42,549
Yusoki Kogyo K.K.	¥ 5,802
Employees	¥ 24,466
Subaru Kosan Co., Ltd. and 5 other entities	<u>¥ 3,546</u>
Total	<u>¥ 197,513</u>

In addition, the Company's guarantees for the indebtedness of the affiliated companies are ¥ 53 million.

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

	(Unit: Millions of yen)
Total commitments	¥ 53,000
Less amounts currently executed	<u>¥ 10,000</u>
Unexecuted balance	<u>¥ 43,000</u>

7. Number of treasury stock owned at end of the year is 3,361,911 shares of common stock.

8. Limitation on dividends

Net unrealized gains on securities of ¥ 16,262 million are restricted from dividends pursuant to Article 124, No.3 of the Japanese Commercial Code Enforcement Regulation.

(Statement of Income)

1. Major components of selling, general and administrative expenses are as follows:

	(Unit: Millions of yen)
Packing and freight cost	¥ 12,696
Sales incentives	¥ 20,913
Advertisement cost	¥ 23,499
Selling expenses over SG&A	55 %
General and administrative expenses over SG&A	45 %

2. Research and development costs are ¥ 52,854 million.

3. Gain on sale of fixed assets is as follow:

	(Unit: Millions of yen)
Land	¥ 474
Machinery and equipment and other	11
Total	<u>¥ 485</u>

4. Loss on sale and disposal of fixed assets is as follow:

	(Unit: Millions of yen)
Buildings	¥ 420
Machinery and equipment	1,187
Vehicles	88
Tools	199
Other	354
Total	<u>¥ 2,248</u>

5. Transaction with affiliated companies is as follow:

	(Unit: Millions of yen)
Net sales	¥ 571,661
Non-operating income (lease payments)	¥ 2,112
Non-operating income (miscellaneous revenue)	¥ 1,695

6. "Loss on devaluation of inventories" in extraordinary losses is recorded because the prospective realization of the "Work in process" of Aerospace Division's certain project has become uncertain due to a substantial delay in schedule of the project.

7. "Loss on compensation to suppliers" in extraordinary losses is recorded based on the anticipated compensation loss for suppliers' development costs which arose from the Company's partial rescheduling of a certain development plan in Automotive Division.

(Securities and Investments)

Investments in subsidiaries and affiliated companies for which fair market value are available as of March31, 2005

(Unit: Millions of yen)

	Book value	Fair market value	Difference
Investment in subsidiaries	1,759	5,679	3,920
Total	1,759	5,679	3,920

(Leases)

1. Finance leases without transfer of ownership

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 year
Vehicles	13	2	11
Tools	3,816	2,299	1,517
Software	13	6	7
Total	3,842	2,307	1,535

The future minimum lease payments:

(Unit: Millions of yen)

Due within one year	¥ 780
Due after one year	<u>876</u>
Total	<u>¥ 1,656</u>

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

(Unit: Millions of yen)

Rents paid	¥ 1,045
Depreciation/Amortization expense	¥ 967
Interest expense portion	¥ 67

Method of depreciation/amortization:

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

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	¥ 30
Due after one year	<u>8</u>
Total	<u>¥ 38</u>

(Income Taxes)

1. Significant components of the deferred tax assets and liabilities are as follows:

	(Unit: Millions of yen)
	Fiscal 2005
	<u>As of March 31, 2005</u>
Deferred tax assets	
Loss on devaluation of securities	¥ 19,296
Accrued pension and severance liabilities	14,417
Accrued bonus	3,968
Allowance for doubtful accounts	2,306
Accrued warranty claims	3,297
Allowance for devaluation of investments	1,862
Loss on devaluation of inventories	4,513
Accrued enterprise taxes	96
Other	8,109
Total	<u>57,864</u>
Deferred tax liabilities	
Net unrealized holding gains on investment securities	(11,069)
Advanced depreciation reserve	(468)
Total	<u>(11,537)</u>
Net deferred tax assets	<u>¥ 46,327</u>

2. A reconciliation of the statutory income tax rate in Japan to the Company's effective income tax rate is as follows:

	Fiscal 2005 [from April 1, 2004 to March 31, 2005]
Statutory income tax rate in Japan	40.5 %
(Reconciling items)	
Entertainment and other non-deductible expenses	5.5
Non-taxable dividends received	(6.8)
Inhabitant taxes per capita	1.6
Adjustment of past corporate income taxes	9.2
Special deduction on corporate income taxes	(37.9)
Other	(4.1)
Effective income tax rate	<u>8.0 %</u>

Directors' and statutory auditors' change

It was announced on March 31, 2005.