

Outline of Financial Results for the 1st Quarter of Fiscal 2007 (Consolidated)

July 31, 2006

For Immediate Release

Company Name : **Fuji Heavy Industries Ltd.**

(Code No.: 7270 :Tokyo Stock Exchange First Section)

(URL <http://ir.fni.co.jp/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 : No

(3) Changes in scope of consolidation and application of the equity method: Yes

- The number of consolidated subsidiaries decreased 5 subsidiaries to 63 subsidiaries. This is because 10 Subaru exclusive dealers companies in Hokkaido and 4 other areas were integrated into 5 companies.
- The number of companies accounted for by the equity method increased 7 companies to 18 companies. From this 1st quarter, Robin service Co., Ltd., Fuji Special Purpose Vehicle Co., Ltd., Robin Europe GmbH and 4 other companies have been accounted for by the equity method due to their increased influence on the consolidated financial statements.

2. Performance in the 1st Quarter of Fiscal 2007 (from April 1, 2006 to June 30, 2006)

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 2007	¥ 329,534 (9.9%)	¥10,768 (834.7%)	¥ 9,645 (—)	¥ 4,598 (—)
1 st Quarter of FY 2006	¥ 299,948 (-2.5%)	¥ 1,152 (—)	¥ 423 (-82.9%)	(¥1,177) (—)
Fiscal 2006	¥ 1,476,368 —	¥ 58,339 —	¥ 46,768 —	¥ 15,611 —

	Net income (loss) per share, basic (Yen)	Net income (loss) per share, diluted (Yen)
1 st Quarter of FY 2007	¥ 6.42	¥ 6.41
1 st Quarter of FY 2006	(¥ 1.51)	(¥ 1.51)
Fiscal 2006	¥ 20.66	¥ 20.66

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

Qualitative Information on Progress of Consolidated Operating Performance

Consolidated net sales for the first quarter of FY2007 were up 9.9% or 29.6 billion yen over the same period of previous fiscal year at 329.5 billion yen thanks to a net increase in the sales of the B9 Tribeca in the North American market as well as steady sales volume increases in Europe and Australia despite decreased sales in the domestic market for the Automobile division. Profits were up on a year-on-year basis with foreign exchange gains on a weak yen, an increase in sales volume and product mix as well as efforts to reduce material costs and SG&A and other expenses pushing operating income up 9.6 billion yen or 834.7% to 10.8 billion yen, and ordinary income up 9.2 billion yen to 9.6 billion yen. Despite an increase in taxes expense, net income totaled 4.6 billion yen, a 5.8 billion yen jump over the same period of previous fiscal year, in which a loss of 1.2 billion yen was reported.

(2) Financial Position

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

	Total assets	Net assets	Shareholders' equity to total assets (%)	Net assets per share (Yen)
1 st Quarter of FY 2007	¥ 1,357,007	¥ 465,996	34.2 %	¥ 647.09
Fiscal 2006	¥ 1,348,400	¥ 465,522	34.5 %	¥ 649.41

Note: Net assets in Fiscal 2006 have described total shareholder's equity.

Qualitative Data on the Progress of Consolidated Financial Condition

Total assets as of the end of the first quarter of FY2007 increased by 8.6 billion yen to 1,357 billion yen compared with the end of the previous fiscal year. Major contributing factors included increases in both work-in-progress for new projects at the Aerospace division and inventory assets at the Automobile division for the preparation of seasonal demand.

Liabilities increased by 10.4 billion yen to 891 billion yen from the end of the previous fiscal year primarily due to an increase in interest-bearing debt.

Net assets including minority interest in consolidated subsidiaries fell 1.8 billion yen from the end of the previous fiscal year to hit 466 billion yen due mainly to net unrealized holding gains on securities.

[Reference]

Projections for Fiscal 2007 (From April 1, 2006 to March 31, 2007)

Unchanged from the latest forecast (announced on May 9, 2006)

The above projections are made based on available information and assumptions as of July 31, 2006, 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 2007 (as of June 30, 2006)	Fiscal 2006 (as of March 31, 2006)	Changes Increase/(Decrease)
ASSETS			
Current assets	639,523	619,183	20,340
Cash and time deposits	52,409	65,524	(13,115)
Notes and accounts receivable, trade	91,109	104,972	(13,863)
Marketable securities	38,301	37,444	857
Inventories	257,498	216,396	41,102
Short—term loans	114,513	118,414	(3,901)
Deferred tax assets	32,762	32,992	(230)
Other	55,010	45,604	9,406
Allowance for doubtful accounts	(2,079)	(2,163)	84
Fixed assets	717,484	729,217	(11,733)
Property, plant and equipment, net	550,927	555,973	(5,046)
Buildings and structures	128,965	128,727	238
Machinery, equipment and vehicles	127,585	184,582	(56,997)
Land	172,615	172,338	277
Construction in progress	5,816	7,396	(1,580)
Leased assets	63,896	—	63,896
Other	52,050	62,930	(10,880)
Intangible assets	37,160	38,211	(1,051)
Investments and other assets	129,397	135,033	(5,636)
Investment securities	76,255	80,316	(4,061)
Long—term loans	4,793	8,141	(3,348)
Deferred tax assets	24,788	23,612	1,176
Other	25,936	25,312	624
Allowance for doubtful accounts	(2,375)	(2,348)	(27)
Total assets	1,357,007	1,348,400	8,607

Note: From this 1st quarter of 2007, “Leased assets” in Property, plant and equipment, net have been described separately, whereas in fiscal 2006 “Leased assets” are included in Machinery, equipment and vehicles (¥56,766 million) and Other (¥7,485 million).

	1 st Quarter of 2007 (as of June 30, 2006)	Fiscal 2006 (as of March 31, 2006)	Changes Increase/(Decrease)
LIABILITIES AND NET ASSETS			
Current liabilities	614,667	628,113	(13,446)
Notes and accounts payable, trade	199,909	211,412	(11,503)
Short-term borrowings	197,253	195,507	1,746
Commercial paper	16,000	8,000	8,000
Current portion of bonds	500	20,500	(20,000)
Accrued income taxes	6,547	11,472	(4,925)
Accrued expenses	56,678	61,744	(5,066)
Accrued bonus	23,039	15,427	7,612
Accrued warranty claims	23,533	23,496	37
Other	91,208	80,555	10,653
Long-term liabilities	276,344	252,501	23,843
Bonds	100,000	80,000	20,000
Long-term debts	69,664	70,072	(408)
Deferred tax liabilities on revaluation of land	703	703	—
Accrued pension and severance liability	53,727	52,322	1,405
Accrued directors' severance and retirement benefits	900	971	(71)
Consolidation adjustments	2,451	2,995	(544)
Other	48,899	45,438	3,461
Total liabilities	891,011	880,614	10,397

	1 st Quarter of 2007 (as of June 30, 2006)	Fiscal 2006 (as of March 31, 2006)	Changes Increase/(Decrease)
Minority interest in consolidated subsidiaries	—	2,264	—
Shareholders' equity			
Common stock	—	153,795	—
Capital surplus	—	160,071	—
Retained earnings	—	189,996	—
Revaluation reserve for land	—	290	—
Net unrealized holding gains on securities	—	21,145	—
Translation adjustments	—	(18,230)	—
Less treasury stock, at cost	—	(41,545)	—
Total shareholders' equity	—	465,522	—
Total liabilities and shareholders' equity	—	1,348,400	—
Net assets			
Shareholders' equity	464,636	—	—
Common stock	153,795	—	—
Capital surplus	160,071	—	—
Retained earnings	192,303	—	—
Less treasury stock, at cost	(41,533)	—	—
Revaluation, adjustments	(870)	—	—
Revaluation reserve for land	290	—	—
Net unrealized holding gains on securities	17,795	—	—
Translation adjustments	(18,955)	—	—
Minority interest in consolidated subsidiaries	2,230	—	—
Total net assets	465,996	—	—
Total liabilities and net assets	1,357,007	—	—

(2) Summary of Consolidated Statements of Income

(Unit: Millions of yen)

	1 st Quarter of FY 2007 (ended June 30 ,2006)	1 st Quarter of FY 2006 (ended June 30 ,2005)	Changes Increase/(Decrease)		Fiscal 2006 (ended March 31 ,2006)
	Amount	Amount	Amount	%	Amount
Net sales	329,534	299,948	29,586	9.9	1,476,368
Cost of sales	247,044	231,069	15,975	6.9	1,125,293
Gross profit	82,490	68,879	13,611	19.8	351,075
Selling, general and administrative expenses	71,722	67,727	3,995	5.9	292,736
Operating income	10,768	1,152	9,616	834.7	58,339
Non—operating income	4,337	3,366	971	28.8	12,356
Interest and dividends income	1,027	1,055	(28)	(2.7)	3,421
Amortization of consolidation adjustments	544	700	(156)	(22.3)	3,296
Gain on revaluation of derivatives	1,634	470	1,164	247.7	513
Other	1,132	1,141	(9)	(0.8)	5,126
Non—operating expenses	5,460	4,095	1,365	33.3	23,927
Interest expenses	945	726	219	30.2	3,181
Loss on revaluation of derivatives	565	2,375	(1,810)	(76.2)	2,983
Other	3,950	994	2,956	297.4	17,763
Ordinary income	9,645	423	9,222	—	46,768
Extraordinary gains	49	37	12	32.4	9,253
Gain on sale of fixed assets	49	4	45	—	3,872
Gain on sale of investment securities	—	33	(33)	(100.0)	5,274
Other	—	—	—	—	107
Extraordinary losses	332	259	73	28.2	27,347
Loss on sale and disposal of property, plant and equipment	332	259	73	28.2	4,273
Loss on sale of investment securities	—	—	—	—	2,253
Impairment loss on property, plant and equipment	—	—	—	—	4,064
Additional retirement payments	—	—	—	—	7,991
Loss on termination of development projects	—	—	—	—	7,094
Other	—	—	—	—	1,672
Income before income taxes and minority interest	9,362	201	9,161	—	28,674
Tax expense	4,769	1,397	3,372	241.4	12,928
Minority interest in income of consolidated subsidiaries	—	—	—	—	135
Minority interest in loss of consolidated subsidiaries	5	19	(14)	(73.7)	—
Net income (loss)	4,598	(1,177)	5,775	—	15,611

(3) Segment Information

[Business segment information]

1st Quarter of FY2007 (from April 1, 2006 to June 30, 2006)

(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	297,672	13,116	16,347	2,399	329,534	–	329,534
(2) Inter—segment	700	4	6	620	1,330	(1,330)	–
Total sales	298,372	13,120	16,353	3,019	330,864	(1,330)	329,534
Operating cost and expense	291,002	12,492	14,327	2,473	320,294	(1,528)	318,766
Operating income (loss)	7,370	628	2,026	546	10,570	198	10,768

1st Quarter of FY2006 (from April 1, 2005 to June 30, 2005)

(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	270,802	11,757	14,378	3,011	299,948	–	299,948
(2) Inter—segment	916	46	9	672	1,643	(1,643)	–
Total sales	271,718	11,803	14,387	3,683	301,591	(1,643)	299,948
Operating cost and expense	271,618	11,648	13,756	3,675	300,697	(1,901)	298,796
Operating income (loss)	100	155	631	8	894	258	1,152

[Segment information by geographic area]

1st Quarter of FY2007 (from April 1, 2006 to June 30, 2006)

(Unit: Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	192,892	132,791	3,851	329,534	–	329,534
(2) Inter—segment	62,876	647	69	63,592	(63,592)	–
Total sales	255,768	133,438	3,920	393,126	(63,592)	329,534
Operating cost and expense	244,355	134,325	3,781	382,461	(63,695)	318,766
Operating income (loss)	11,413	(887)	139	10,665	103	10,768

1st Quarter of FY2006 (from April 1, 2005 to June 30, 2005)

(Unit: Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income						
Sales						
(1) Outside customer	186,331	109,619	3,998	299,948	–	299,948
(2) Inter—segment	59,249	528	86	59,863	(59,863)	–
Total sales	245,580	110,147	4,084	359,811	(59,863)	299,948
Operating cost and expense	239,151	113,747	3,992	356,890	(58,094)	298,796
Operating income (loss)	6,429	(3,600)	92	2,921	(1,769)	1,152

[Overseas sales]**1st Quarter of FY2007** (from April 1, 2006 to June 30, 2006)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	144,070	30,893	33,239	208,202
Consolidated net sales				329,534
Percentage of overseas sales over consolidated sales (%)	43.7%	9.4%	10.1%	63.2%

1st Quarter of FY2006 (from April 1, 2005 to June 30, 2005)

(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	118,499	23,369	28,876	170,744
Consolidated net sales				299,948
Percentage of overseas sales over consolidated sales (%)	39.5%	7.8%	9.6%	56.9%



<Reference for the 1st Quarter of FY2007 Consolidated Financial Results>

(July 31,2006)
Fuji Heavy Industries Ltd.

(in 100 millions of yen) (in thousands of units)	ACTUAL RESULTS 1st Quarter of FY 2006 Apr.2005 to Jun.2005		ACTUAL RESULTS 1st Quarter of FY 2007 Apr.2006 to Jun.2006		FORECAST FY2007 Apr.2006 to Mar.2007	
	Net Sales	2,999	3,295	9.9 %	15,500	5.0 %
Domestic	1,292	1,213	(6.1) %	6,400	5.9 %	
Overseas	1,707	2,082	21.9 %	9,100	4.3 %	
Margin Percentage	0.4%	3.3%		3.2%		
Operating income	12	108	834.7	500	(14.3) %	
Margin Percentage	0.1%	2.9%		3.2%		
Ordinary income	4	96	—	500	6.9 %	
Margin Percentage	—	1.4%		1.9%		
Net income	(12)	46	—	300	92.2 %	
Analysis of increase/decrease in operating income			Gain factors	Gain factors		
			Foreign exchange 52	Increase in sales mix 107		
		Increase in sales mix 31	Reduction in costs 27			
		Decrease of expenses and others 16				
		Reduction in costs 11				
		Loss factors	Loss factors			
		Increase in R&D expenses 14	Increase of expenses and others 96			
			Increase in R&D expenses 71			
			Foreign exchange 50			
Exchange rate YEN/US\$	107	115		110		
Capital investment	95	87		930		
Depreciation and amortization	125	146		605		
R&D expenses	97	111		540		
Interest bearing debt	4,124	3,835		3,700		
Performance of operation			Net sales to increase	Net sales to increase		
			Net income to increase	Net income to increase		
				Best net sales		
Domestic sales units	50	45	(8.9) %	264	14.5 %	
Small Cars	19	16	(13.5) %	97	(0.8) %	
Minicars	31	29	(6.1) %	167	25.8 %	
Overseas sales units	71	79	11.7 %	347	1.8 %	
North America	43	47	7.9 %	220	4.9 %	
Europe	12	16	32.5 %	65	1.0 %	
Others	16	17	6.6 %	62	(7.3) %	
Total sales units	120	124	3.2 %	611	6.9 %	

*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.