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
Representative	:	Mr. Kyoji Takenaka, President and CEO
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Date of the Board of Directors Meeting Held for the Approving the Financial Results: November 12, 2004

Name of the Parent Company: (Code No.: –)

Percentage of the Shares Held by the Parent Company: – %

Adoption of US Generally Accepted Accounting Principles: No

1. Performance in 1st Half of Fiscal 2005 (from April 1, 2004 to September 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	
1st Half of FY 2005	¥ 690,791	(3.8 %)	¥ 15,501	(-15.3 %)	¥ 15,061	(-38.5 %)
1st Half of FY 2004	¥ 665,389	(2.6 %)	¥ 18,308	(-50.4 %)	¥ 24,476	(-21.6 %)
Fiscal 2004	¥ 1,439,451		¥ 50,324		¥ 56,614	

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

	Net income		Net income per share, basic (Yen)	Net income per share, diluted (Yen)
1st Half of FY 2005	¥ 8,275	(-57.4 %)	¥ 10.63	¥ 10.62
1st Half of FY 2004	¥ 19,404	(16.2 %)	¥ 26.15	¥ 24.99
Fiscal 2004	¥ 38,649		¥ 50.62	¥ 49.66

Notes:
1. Equity loss from investments in affiliated companies : 1st Half of FY 2005 : ¥ (271) million; 1st Half of FY 2004 : ¥ – million; Fiscal 2004 : ¥ – million
2. Average number of shares outstanding during the periods : 1st Half of FY 2005 : 778,789,979 shares; 1st Half of FY 2004 : 742,134,813 shares; Fiscal 2004 : 760,337,498 shares
3. Accounting change : See "Change of Accounting Policy" section
4. Percentage figures in the net sales, operating income, ordinary income and net income columns represent changes from prior semi-annual period.

(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)
1st Half of FY 2005	¥ 1,392,312	¥ 464,215	33.3 %	¥ 595.71
1st Half of FY 2004	¥ 1,367,514	¥ 450,080	32.9 %	¥ 578.22
Fiscal 2004	¥ 1,349,727	¥ 453,708	33.6 %	¥ 582.60

Note: Number of shares outstanding at end of the periods : 1st Half of FY 2005 : 779,266,301 Shares
1st Half of FY 2004 : 778,391,842 Shares
Fiscal 2004 : 778,489,633 Shares

(3) Cash Flows

(Unit: Millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
1st Half of FY 2005	¥ 37,307	¥ (62,405)	¥ 22,342	¥ 137,204
1st Half of FY 2004	¥ 25,930	¥ (57,384)	¥ 19,918	¥ 158,425
Fiscal 2004	¥ 99,774	¥ (127,140)	¥ 2,335	¥ 139,401

(4) Scope of Consolidation and Application of the Equity Method

Consolidated subsidiaries: 66
Non-consolidated subsidiaries accounted for by the equity method: 4
Affiliated companies accounted for by the equity method: 1

(5) Changes in Scope of Consolidation and Application of the Equity Method

Consolidated subsidiaries:

Newly included: –
Newly excluded: –

Companies accounted for by the equity method:

Newly included: 5
Newly excluded: –

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

(Unit: Millions of yen)

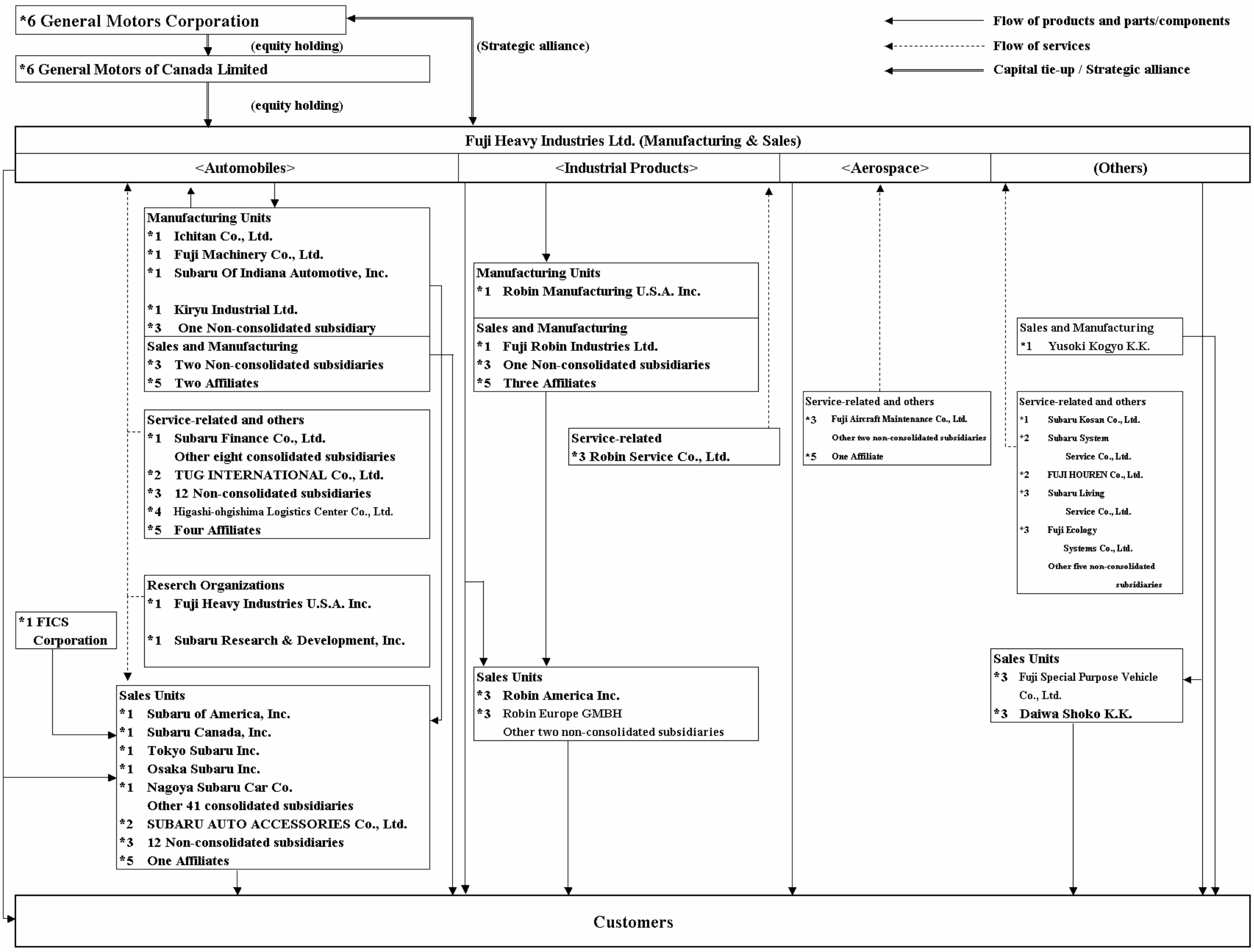
	Net sales	Ordinary income	Net income
Full year	¥ 1,450,000	¥ 47,000	¥ 32,000

Reference: Projected net income per share (full year): ¥ 41.06

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 page 9.

1. Condition of the FHI Group

As of September 30 2004, the FHI Group consisted of Fuji Heavy Industries Ltd., 113 subsidiaries, 11 affiliated companies and 2 associated companies. They primarily engage in operations related to the Group's automotive business, industrial products business, aerospace business and other services, producing a wide range of products.
The flow chart below illustrates the relationship that each subsidiary and affiliate maintains to the parent company.



*1 Consolidated subsidiaries
*2 Subsidiaries within the scope of equity holding method
*3 Non-consolidated subsidiaries
*4 Affiliates within the scope of equity method
*5 Other affiliates
*6 Other associates

2. Management Policies

1. Basic Management Policies

The corporate philosophy of Fuji Heavy Industries Ltd. (FHI) consists of the following three principles:

1) FHI will strive to create advanced technologies on an ongoing basis and provide customers with distinctive products that ensure the highest levels of quality and customer satisfaction.
2) FHI will aim to continuously promote concord among people, society, and the environment while contributing to the prosperity of society.
3) FHI will look to the future with a global perspective and aim to be a vibrant and progressive company.

Based on its corporate philosophies, FHI is redoubling its efforts to achieve its vision of being an appealing company with a strong market presence. The Company's most important management objective is to ensure a high level of customer satisfaction by developing unique products in automobile, aerospace, industrial products, eco technologies business, and other divisions that only the Subaru brand and FHI are capable of offering. Through these and other corporate activities, the FHI Group is concentrating on developing and moving forward together within society and being an enterprise that provides a high level of satisfaction and lives up to the expectations of all stakeholders, including shareholders and customers.

2. Medium- to Long-Term Management Strategies

In May 2002, FHI announced its new mid-term management plan, Fuji Dynamic Revolution-1 (FDR-1). The plan covers the five-year period starting in fiscal 2003 (ended March 31, 2003) and concludes in fiscal 2007, and FHI is now conducting its activities aligned with this plan with the goal of becoming an appealing company with a strong market presence.

The stated vision of FDR-1 is to be a global player with premium brands, and, with a focus on its automobile operations, FHI is implementing a range of dynamic initiatives in all areas of its business, from production through sales, R&D, and after-sales service. Through these efforts, the Company is striving to establish a solid position as a corporate group with brand strength and unique value that is recognized by customers the world over.

Following withdrawal from unprofitable businesses such as the railway car business and bus business, FHI spun off the House Division in April and completed the process of making Yusoki Kogyo K.K. a wholly-owned subsidiary through a stock swap conducted in August.

The Company is steadily proceeding with reconstruction of the business as it enters the third year of FDR-1.

In the domestic automotive business, cumulative sales of vehicles registered (excluding minicars) reached the three million mark in September. We believe this achievement attributes to the accumulated recognition of the Company's products and services such as the Legacy. Furthermore, the Subaru team achieved overall victory at the FIA World Rally Championship (WRC) Rally Japan 2004 in September, which was the first memorial WRC race in Japan. Backed by the momentum of the victory, we aim to improve the brand strength mentioned in FDR-1 by promoting the Subaru brand in all phases of operations, from product development through marketing/sales.

We also aim to strengthen our minicar business by introducing a follow-up product to the new concept Subaru R2 released last December.

Meanwhile, in the U.S, which is a market rivaling the importance of the Japanese market, the all-new Legacy launched this May has started with solid sales. We will work to further strengthen the coordination between production, sales/marketing and service, and achieve success as a result. In March, we also began production of the Saab 9-2X engineered in collaboration with Sweden's Saab Automobile, which is part of the General Motors (GM) group. We will continue to accelerate our alliance strategy as a member of the GM group. In addition, we took an important step in establishing a sales network in the rapidly growing Chinese market.

In areas other than the automotive business, the Aerospace Company is actively conducting new programs such as making steady progress with development of large projects for the Japan Defense Agency, participating in the joint development project of Boeing's 7E7 next-generation passenger aircraft and supplying main wings for the Eclipse 500 small jet aircraft.

The Industrial Products Company is developing and manufacturing the Robin engines installed in various types of application and engines for Polaris snowmobiles and All Terrain Vehicles (ATVs), and will proceed with the timely release of products that suit the needs in the market.

In April, the Eco Technologies Company began joint development project of a next-generation sanitation truck with ShinMaywa Industries, and we will work to strengthen our base as the leading brand in this market and to challenge in seeking new possibilities in the environmental business such as intelligent robots using unique technology.

Together with such new products, we are moving forward step-by-step to reach our objectives under the FDR-1 plan by offering our customers new value on an ongoing basis in all aspects of our operations, including sales/marketing and service.

Furthermore, as an alliance member of the General Motors , FHI will work to augment GM's outstanding global management by enhancing intra-group collaboration in all areas, from design, engineering through production and sales/marketing.

3. Basic Policy Regarding the Distribution of Profits

FHI views profit for its shareholders as one of its most crucial managerial tasks and follows a basic policy of maintaining stable long-term dividends based on the comprehensive consideration of such factors as its earnings and its dividend payout ratio. FHI intends to use retained earnings to bolster its capital as well as to allocate these funds to the strengthening of its R&D, production, and sales/marketing framework and other such investments for the attainment of further future growth.

4. Management tasks for the Company

In line with the FDR-1 medium-term management plan, FHI is responding to changes in the business environment in all phases of its operations, from product development through sales/marketing and service. The Company is working to attain its medium - to long - term goals and corporate vision, and sees customer-oriented management and the enhancement of corporate value to be key management issues.

At the same time, we will step up our efforts as a company fulfilling expectations and being trusted by all stakeholders, including shareholders and customers, by actively working to fulfill our social responsibilities as a company, in areas such as protection of the global environment and compliance.

5. Basic Policy on Corporate Governance and Implementation of Related Policies

(1) Basic Approach to Corporate Governance

FHI is working to strengthen its corporate governance policies to measure up to the trust and confidence placed in the Company by all its stakeholders, including shareholders and customers.

The Board of Directors meeting is responsible for making decisions on important matters related to the conduct of business operations, and the Board of Corporate Auditors meeting supervises and monitors this process.

The Board of Directors meeting is composed of eight directors who carry out prompt decision making regarding business operations. The Board of Corporate Auditors meeting is made up of four auditors who obtain reports on key issues and deliberate accordingly.

The Executive Management Board is established as the preliminary deliberative committee of the Board of Directors, and this committee deliberates on companywide management strategies and the execution of priority business operations.

(2) Implementation of Corporate Governance Policies

In June 1999, FHI introduced an executive officer system as a means to clarify administrative and executive responsibility for each business. In June 2002, further steps were taken to clarify the separation of the functions of management and execution as well as further accelerate management activities by reforming the management system through the adoption of an enterprise holding company system, structured around FHI's core automotive business and including the aerospace, industrial products and eco technology businesses.

In addition, to respond promptly and flexibly to the changes in a challenging business environment, and to enhance the corporate governance structure, the length of terms for directors and executive officers was shortened from two years to one year in June 2003.

In June 2004, based on a resolution passed by the Board of Directors meeting, the Executive Nomination Meeting that decides on the appointment of executive officers and the Executive Compensation Meeting that decides on compensation and performance evaluation of executive officers were established to improve transparency in management.

(3) Establishment of a Risk Management Framework

Risk management is implemented in FHI by the Company's cross-divisional departments centered on the Strategy Development Division, which promote strong collaboration among each division to entirely improve risk management.

The Auditing Division systematically audits the business operations of each organization.

Furthermore, FHI has established and is operating a compliance system and organization positioned as the most fundamental portion of risk management conducive to the creation of an internal control system.

The core of this is the Compliance Committee, which performs the function of deliberating, making decisions and exchanging information on important compliance issues.

A compliance officer is also appointed in each division and company to create an organization that ensures meticulous implementation of compliance on a site-by-site basis.

Moreover, FHI is endeavoring to offer compliance education through the training of directors and employees and the distribution of internal publications.

3. Operating Results and Financial Condition

1. Overview of the Interim Period under Review

During the interim period under review, while the Japanese economy has been exposed to some causes for concern, such as rising prices of oil and raw materials, improvements in corporate earnings and increased private capital investment, together with a gradual increase in consumer spending have brought about a steady recovery in the economy as a whole.

Amid such conditions, consolidated net sales for the interim period under review increased ¥25.4 billion, or 3.8%, to ¥690.8 billion. This rise can be attributed to the minicar business far outstripping the previous year's figures in the domestic automobile market due to a strong showing by the Subaru R2, together with solid sales in the overseas automobile markets of Europe and Australia.

Because of unfavorable exchange rate movements and deterioration of the model mix, operating income declined ¥2.8 billion, or 15.3%, compared to the same period in the previous fiscal year to ¥15.5 billion, and ordinary income declined ¥9.4 billion, or 38.5%, to ¥15.1 billion. Factors such as a reduction in gains from the write-down on investment securities led to consolidated net income declining ¥11.1 billion, or 57.4%, to ¥8.3 billion.

Results by Business Segment

Automobile Division

Victory in the WRC (FIA World Rally Championship) Rally Japan 2004 by the Impreza, which has been freshened in June, provided the impetus for solid sales, but sales decreased for the Legacy and Forester, which enjoyed a significant impact from the redesigned Legacy last year and domestic passenger cars (excluding minicars) amounted to 50,000, down 2.8% compared to the same period in the previous year.

Meanwhile, minicars including the Pleo saw a substantial increase in sales compared to the same period in the previous year, largely because of the effect of the Subaru R2 introduced last December. The Sambar also performed well, and total sales of minicars rose significantly compared to the same period in the previous year to 73,000, which marked an increase of 19.9%.

As a consequence of these developments, the total number of cars sold by FHI in Japan was 124,000 units, up 9.5% compared to the same period in the previous year.

As for the overseas markets, solid sales of the Forester and consignment production from GM-affiliated Saab Automobile were positive factors in the North American market, but the struggling position of the Impreza and the impact of the Legacy undergoing a transition to a all-new model in the latter part of the first half of the year resulted in sales falling 0.3% to 106,000.

In European markets, sales of the all-new Legacy introduced last autumn continued to be solid, and sales of the new G3X Justy (an OEM vehicle) also introduced last autumn made a significant contribution to substantial growth in overall European sales to 31,000, up 40.6% compared to the same period in the previous year.

Furthermore, Australia maintained strong sales and continuously set new records for the 10 months since last December, with sales amounting to 17,000, up 22.2% compared to the same period in the previous year.

As a consequence of these developments, the total volume of overseas sales rose 10.2% year on year, to 164,000 units.

The combined sales volume for Japan and overseas markets amounted to 288,000 units, up 9.9% year on year and net sales rose ¥22 billion, or 3.6%, to ¥630.5 billion. However, despite reductions in cost and expenses, operating income decreased ¥2.8 billion, or 14.8%, to ¥15.8 billion, because of the adverse impact of foreign exchange rate movements, deterioration of the model mix, and other factors.

Industrial Products Division

Although sales decreased for pump engines, an increase in the number of new redesigned generators sold caused sales in the domestic market to exceed those for the same period in the previous year. For markets overseas, a rise in sales of engines for leisure vehicles and engines for industrial products in the U.S. market led to net sales significantly exceeding those for the same period in the previous year. As a result, total sales increased ¥2.7 billion, or 13.0%, to ¥23.7 billion, with operating income improving by ¥600 million to ¥500 million (a loss of ¥51 million was recorded for the same period in the previous year).

Aerospace Division

Although there was a decrease in the number of UH-1 utility helicopters and target drones, sales of next generation fixed wing surveillance and transport aircraft (P-X/C-X) contributed to sales for products sold to the Japan Defense Agency exceeding the level recorded for the same period in the previous year. While sales in the commercial sector were affected by a decrease in sales of products to Boeing and unfavorable exchange rate movements, delivery of a station-keeping test plane and the start of sales of items for the Airbus A380 resulted in sales around the same level as the previous year. As a result, total sales rose ¥1.5 billion, or 5.7%, to ¥27.4 billion, but an operating loss of ¥700 million was recorded due to unfavorable exchange rate movements and deterioration of the model mix, together with increased initial expenses for recently launched projects (operating income of ¥700 million was recorded for the same period in the previous year).

Other Businesses

Sales fell for the Eco Technologies Company because of a reversal of the special demand for Fuji Mighty sanitation trucks stemming from emissions restrictions on diesel vehicles in the Tokyo metropolitan area that came into force last year.

FHI withdrew from the railway car business and bus business, and this was followed by the transfer of business in the House Division to an affiliate in April this year. As a result, sales in other businesses declined ¥1.1 billion, or 8.1%, to ¥12.7 billion, but operating income improved by ¥700 million to a loss of ¥500 million.

Results by Geographic Region

While there was a decrease in passenger cars (excluding minicars) in the automotive business in Japan, minicars enjoyed solid performance due to the effect of the Subaru R2 and the total number of units sold exceeded that for the same period in the previous year. Overseas, exports to Europe and Australia were good, and sales rose ¥40.7 billion, or 7.6%, to ¥575.5 billion. Increased sales and reduced cost and expenses resulted in operating income rising by ¥4.9 billion, or 29.6%, to ¥21.4 billion.

In North America, sales of the Impreza and the Legacy, which is undergoing a transition to the redesigned model in the latter part of the first half of the year, fell below the levels recorded for the same period in the previous year, and unfavorable exchange rate movements also had a significant impact on sales, which declined by ¥32.8 billion, or 11.8%, to ¥244.1 billion. A loss of ¥7.7 billion was recorded for operating income (a loss of ¥3.2 billion was recorded for the same period in the previous year) due factors such as initial expenses required for the introduction of the redesigned all-new Legacy and a deterioration of the model mix.

In Europe, sales of the all-new G3X Justy, an OEM vehicle introduced last autumn, greatly exceeded sales for the same period in the previous year and an increase in the parts and accessories accompanying the growth in units shipped from Japan also contributed to sales increasing by ¥6.3 billion for the same period in the previous year, or 401.3%, to ¥7.9 billion Operating income also increased ¥100 million, or 137.0%, to ¥200 million.

Dividend Policy

An interim term dividend of ¥4.5 per share will be paid. This is the same amount per share as the interim term dividend of the previous fiscal year.

Cash Flows

Cash and cash equivalents (hereinafter, cash) at the end of the interim period under review amounted to ¥137.2 billion, a year on year decrease of ¥2.2 billion.

The factors accounting for cash flows during the interim period under review were as follows:

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥37.3 billion, with the principle sources of cash being net income before tax and other adjustments totaling ¥14.0 billion and depreciation amounting to ¥35.7 billion, and other revenue including a ¥5.7 billion decrease in accounts receivable and a ¥4.3 billion decrease in purchase liabilities. Expenses included an increase in inventory assets valued at ¥18.0 billion and income tax payments of ¥3.9 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥62.4 billion due to the acquisition of fixed assets (net value after sales) valued at ¥49.9 billion and ¥12.7 billion of spending due to financing (net value including revenue from recovery).

Cash flows from financing activities

Cash flow from financing activities increased to ¥22.3 billion. Short-term borrowings increased ¥18.0 billion, there was a net decrease of ¥5.0 billion in commercial paper, long-term borrowings rose ¥3.2 billion, and revenue from the issuance of bonds (net amount including spending through redemption of bonds) was ¥10.0 billion, while payment of cash dividends amounted to ¥3.5 billion.

2. Forecast for the Fiscal Year

Although the Japanese economy is headed toward recovery, the situation is difficult to forecast due to the impact of the strong yen and concerns about continued rises in material prices. Looking overseas, the unpredictability of the U.S. and Chinese economies, together with rising oil prices are expected to result in continued uncertainty in the economic environment.

Against this backdrop, the outlook for the entire fiscal year is as follows:

Consolidated Forecast

Net sales: ¥1,450.0 billion (up 0.7% year-on-year)

Ordinary income: ¥47.0 billion (down 17.0% year-on-year)

Net income: ¥32.0 billion (down 17.2% year-on-year)

Forecast for the Parent Company

Net sales: ¥965.0 billion (up 3.0% year-on-year)

Ordinary income: ¥36.0 billion (up 26.3% year-on-year)

Net income: ¥14.0 billion (down 26.4% year-on-year)

Year-end dividends and interim term dividends are forecasted at ¥4.50, for a yearly dividend of ¥9, which is the same as the ¥9 yearly dividend for the previous fiscal year.

NOTE: Performance projections are based on information currently available to the Company. Risks and uncertainties such as the global economic situation, market trends and exchange rate fluctuations are taken into account, and the forecast results are believed to be logical. As actual results may differ significantly from these forecasts, please refrain from basing investing and other decisions solely on these forecasts.

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	**673,871**	**654,879**	**18,992**	**675,994**
Cash and time deposits	32,202	46,684	(14,482)	67,470
Notes and accounts receivable, trade	117,340	122,724	(5,384)	120,109
Marketable securities	130,242	113,490	16,752	107,499
Inventories	195,241	179,338	15,903	201,336
Short-term loans	105,718	101,871	3,847	90,492
Deferred tax assets	31,903	34,149	(2,246)	36,728
Other	62,098	57,284	4,814	53,058
Allowance for doubtful accounts	(873)	(661)	(212)	(698)
Fixed assets	**718,441**	**694,848**	**23,593**	**691,520**
Property, plant and equipment, net	**528,966**	**509,743**	**19,223**	**510,601**
Buildings and structures	128,597	117,446	11,151	118,888
Machinery, equipment and vehicles	169,934	161,950	7,984	173,373
Land	169,320	166,518	2,802	162,713
Construction in progress	13,658	20,935	(7,277)	21,479
Other	47,457	42,894	4,563	34,148
Intangible assets	**41,865**	**40,453**	**1,412**	**39,500**
Investments and other assets	**147,610**	**144,652**	**2,958**	**141,419**
Investment securities	62,901	57,045	5,856	48,972
Long-term loans	5,096	4,918	178	4,693
Deferred tax assets	25,444	29,707	(4,263)	31,801
Other	57,184	57,938	(754)	59,685
Allowance for devaluation of investments	(280)	(280)	–	–
Allowance for doubtful accounts	(2,735)	(4,676)	1,941	(3,732)
Total assets	**1,392,312**	**1,349,727**	**42,585**	**1,367,514**

(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	**615,764**	**603,231**	**12,533**	**601,651**
Notes and accounts payable, trade	205,017	193,186	11,831	187,766
Short-term borrowings	236,736	227,917	8,819	222,834
Commercial paper	5,000	10,000	(5,000)	11,000
Current portion of bonds	10,300	10,000	300	10,000
Accrued income taxes	8,786	5,092	3,694	9,498
Accrued expenses	62,929	69,784	(6,855)	77,679
Accrued bonus	17,091	17,165	(74)	17,140
Accrued warranty claims	27,210	26,959	251	26,968
Other	42,695	43,128	(433)	38,766
Long-term liabilities	**308,902**	**289,469**	**19,433**	**312,461**
Bonds	100,500	90,800	9,700	90,800
Long-term debts	52,994	40,279	12,715	61,974
Deferred tax liabilities on revaluation of land	478	478	—	439
Accrued pension and severance liability	63,925	61,654	2,271	63,802
Accrued directors' severance and retirement benefits	994	1,228	(234)	1,095
Consolidation adjustments	40,357	44,027	(3,670)	45,579
Other	49,654	51,003	(1,349)	48,772
Total liabilities	**924,666**	**892,700**	**31,966**	**914,112**
Minority interest in consolidated subsidiaries	**3,431**	**3,319**	**112**	**3,322**
Shareholders' equity				
Common stock	**153,795**	**153,795**	**—**	**153,795**
Capital surplus	**160,071**	**160,107**	**(36)**	**160,071**
Retained earnings	**171,475**	**165,192**	**6,283**	**149,115**
Revaluation reserve for land	**421**	**421**	**—**	**391**
Net unrealized holding gains on securities	**12,441**	**10,291**	**2,150**	**7,172**
Translation adjustments	**(31,783)**	**(33,300)**	**1,517**	**(17,683)**
Less treasury stock, at cost	**(2,205)**	**(2,798)**	**593**	**(2,781)**
Total shareholders' equity	**464,215**	**453,708**	**10,507**	**450,080**
Total liabilities and shareholders' equity	**1,392,312**	**1,349,727**	**42,585**	**1,367,514**

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	Amount	Ratio of Total (%)
Net sales	**690,791**	**100.0**	**665,389**	**100.0**	**25,402**	**1,439,451**	**100.0**
Cost of sales	525,179	76.0	493,746	74.2	31,433	1,085,716	75.4
Gross profit	165,612	24.0	171,643	25.8	(6,031)	353,735	24.6
Selling, general and administrative expenses	150,111	21.8	153,335	23.0	(3,224)	303,411	21.1
Operating income	**15,501**	**2.2**	**18,308**	**2.8**	**(2,807)**	**50,324**	**3.5**
Non-operating income	**6,804**	**1.0**	**10,375**	**1.5**	**(3,571)**	**17,943**	**1.2**
Interest and dividends income	1,076		1,187		(111)	2,081	
Amortization of consolidation adjustments	3,671		3,360		311	4,912	
Gain on revaluation of derivatives	–		1,807		(1,807)	–	
Other	2,057		4,021		(1,964)	10,950	
Non-operating expenses	**7,244**	**1.0**	**4,207**	**0.6**	**3,037**	**11,653**	**0.8**
Interest expenses	1,268		1,290		(22)	2,416	
Loss on revaluation of derivatives	1,782		–		1,782	–	
Equity loss from affiliated companies	271		–		271	–	
Other	3,923		2,917		1,006	9,237	
Ordinary income	**15,061**	**2.2**	**24,476**	**3.7**	**(9,415)**	**56,614**	**3.9**
Extraordinary gains	**384**	**0.0**	**6,276**	**0.9**	**(5,892)**	**8,353**	**0.6**
Gain on sale of fixed assets	81		658		(577)	2,600	
Gain on sale of investment securities	221		4,576		(4,355)	4,564	
Gain on prior period adjustment	–		887		(887)	1,049	
Other	82		155		(73)	140	
Extraordinary losses	**1,448**	**0.2**	**4,133**	**0.6**	**(2,685)**	**8,701**	**0.6**
Loss on sale and disposal of fixed assets	1,339		3,721		(2,382)	5,689	
Loss on sale of investment securities	0		–		0	411	
Loss on devaluation of securities	109		58		51	221	
Other	–		354		(354)	2,380	
Income before income taxes and minority interest	13,997	2.0	26,619	4.0	(12,622)	56,266	3.9
Income taxes-current	1,449	0.2	4,027	0.6	(2,578)	12,030	0.8
Income taxes-deferred	4,147	0.6	3,230	0.5	917	5,603	0.4
Minority interest in (income) loss of consolidated subsidiaries	(126)	(0.0)	42	0.0	(168)	16	0.0
Net income	**8,275**	**1.2**	**19,404**	**2.9**	**(11,129)**	**38,649**	**2.7**

Consolidated Statements of Retained Earnings

(Unit: Millions of yen)

	1st Half Year Fiscal 2005 (ended September 30, 2004)		1st Half Year Fiscal 2004 (ended September 30, 2003)		Fiscal 2004 (ended March 31, 2004)	
(Capital surplus)						
Balance at beginning of the period		160,107		150,766		150,766
Increase						
Conversion of convertible bonds	–		9,305		9,305	
Gain on disposal of treasury stock	–	–	–	9,305	36	9,341
Decrease						
Loss on disposal of treasury stock	36	36	–	–	–	–
Balance at end of the period		160,071		160,071		160,107
(Retained earnings)						
Balance at beginning of the period		165,192		133,186		133,186
Increase						
Increase in the number of companies accounted for by the equity method	1,496		–		–	
Net income	8,275		19,404		38,649	
Other	247	10,018	37	19,441	405	39,054
Decrease						
Dividends	3,505		3,341		6,846	
Bonus to directors and statutory auditors	157		171		171	
Loss on disposal of treasury stock	73		–		–	
Other	–	3,735	–	3,512	31	7,048
Balance at end of the period		171,475		149,115		165,192

Consolidated Statements of Cash Flows

(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)
1. Cash flows from operating activities				
Income before income taxes and minority interest	13,997	26,619	(12,622)	56,266
Depreciation and amortization	35,659	34,021	1,638	71,112
Increase in allowance for doubtful accounts	371	–	371	1,083
Increase in warranty claims	107	2,158	(2,051)	4,171
Increase in accrued pension and severance liability	2,037	2,088	(51)	73
Interest and dividends income	(1,076)	(1,187)	111	(2,081)
Amortization of consolidation adjustments (non-operating income)	(3,671)	(3,360)	(311)	(4,912)
Gain on revaluation of derivatives	–	(1,807)	1,807	–
Interest expenses	1,268	1,290	(22)	2,416
Loss on revaluation of derivatives	1,782	–	1,782	–
Equity loss from affiliated companies	271	–	271	–
Gain on sale of fixed assets	(81)	(658)	577	(2,600)
Gain on sale of investment securities	(221)	(4,576)	4,355	(4,564)
Gain on prior period adjustment	–	(887)	887	(1,049)
Loss on sale and disposal of fixed assets	1,339	3,721	(2,382)	5,689
Loss on sale of investment securities	0	–	0	411
Loss on devaluation of securities	109	58	51	221
Decrease in notes and accounts receivable, trade	5,678	8,798	(3,120)	1,191
(Increase) decrease in inventories	(18,029)	(3,725)	(14,304)	5,889
Increase (decrease) in notes and accounts payable, trade	4,262	(26,327)	30,589	(13,979)
Other, net	(2,324)	(5,427)	3,103	(753)
Sub total	41,478	30,799	10,679	118,584
Interest and dividends received	1,093	1,190	(97)	2,099
Interest paid	(1,170)	(1,260)	90	(2,361)
Income taxes paid	(3,933)	(4,625)	692	(18,374)
Bonus paid to directors and statutory auditors	(161)	(174)	13	(174)
Net cash provided by operating activities	37,307	25,930	11,377	99,774

2. Cash flows from investing activities				
Purchase of marketable securities	(30,729)	(24,622)	(6,107)	(54,192)
Proceeds from sale of marketable securities	28,952	16,546	12,406	43,239
Acquisition of shares of newly consolidated subsidiary	–	(1,859)	1,859	(1,859)
Purchase of property, plant and equipment	(61,457)	(63,293)	1,836	(125,351)
Proceeds from sales of property, plant and equipment	15,347	18,638	(3,291)	38,634
Purchase of intangible assets	(3,753)	(4,026)	273	(8,070)
Purchase of investment securities	(3,756)	(5,264)	1,508	(11,718)
Proceeds from sale of investment securities	2,835	10,842	(8,007)	11,178
Disbursement of loans receivable	(61,835)	(36,827)	(25,008)	(90,041)
Collection of loans receivable	49,172	31,967	17,205	70,101
Other, net	2,819	514	2,305	939
Net cash used in investing activities	(62,405)	(57,384)	(5,021)	(127,140)

3. Cash flows from financing activities				
Net increase in short-term borrowings	18,043	18,920	(877)	21,662
Net increase (decrease) in commercial paper	(5,000)	2,000	(7,000)	1,000
Proceeds from long-term debts	19,048	1,531	17,517	5,269
Repayments on long-term debts	(15,883)	(9,032)	(6,851)	(28,635)
Issuance of bonds	20,000	20,000	−	20,000
Redemption of bonds	(10,000)	(10,129)	129	(10,129)
Purchase of treasury stock	(356)	(24)	(332)	(49)
Proceeds from disposal of treasury stock	7	−	7	70
Dividends paid	(3,505)	(3,341)	(164)	(6,846)
Other, net	(12)	(7)	(5)	(7)
Net cash provided by financing activities	22,342	19,918	2,424	2,335

4. Effect of exchange rate changes on cash and cash equivalents	**559**	**17**	**542**	**(5,512)**
5. Net decrease in cash and cash equivalents	**(2,197)**	**(11,519)**	**9,322**	**(30,543)**
6. Cash and cash equivalents at beginning of the period	**139,401**	**169,944**	**(30,543)**	**169,944**
7. Cash and cash equivalents at end of the period	**137,204**	**158,425**	**(21,221)**	**139,401**

Basis of Consolidated Semi-annual Financial Statements and Summary of Significant Accounting Policies

1. Scope of Consolidation and Application of the Equity Method

(1) Consolidated subsidiaries: 66

Domestic subsidiaries:	49	Fuji Robin Industries Ltd., Ichitan Co., Ltd., TOKYO SUBARU, Inc. and 46 other subsidiaries
Foreign subsidiaries:	17	Subaru of Indiana Automotive, Inc., Subaru of America, Inc. and 15 other subsidiaries

(2) Companies accounted for by the equity method: 5

Domestic companies:	5	Subaru Auto Accessory Co., Ltd., Subaru System service Co., Ltd. and 3 other companies

2. Changes in Scope of Consolidation and Application of the Equity Method

(1) Consolidated subsidiaries: None

Increase:	–
Decrease:	–

(2) Companies accounted for by the equity method:

Increase:	5
Decrease:	–

From this semi-annual period, Subaru Auto Accessory Co., Ltd., Subaru System Service Co., Ltd. and 3 other companies have been accounted for by the equity method due to their increased influence on the consolidated financial statements.

3. Semi-annual Fiscal Year-end of Consolidated Subsidiaries

The semi-annual fiscal year-end of the consolidated domestic subsidiaries is the same as that of the parent company, while the semi-annual fiscal year-end of the consolidated foreign subsidiaries is June 30. Although these consolidated foreign subsidiaries are included based on their fiscal year ended June 30, significant transactions that incurred for the period between June 30 and September 30 are reflected in the consolidated financial statements.

4. Accounting Policies

(1) Method and basis for valuation of significant assets

1. Marketable securities and investment securities:

Held-to-maturity debt securities: The amortized interest cost method (the straight-line method)

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 as determined by the moving-average method, after devaluation for any permanent impairment.

2. Derivative financial instruments: Stated at fair value.

3. Inventories:

Finished products: Stated principally at cost determined by the moving-average method.

Other inventories: Stated principally at cost determined by the first-in, first-out method.

(2) Depreciation/Amortization method of fixed assets

1. Property, plant and equipment:

Depreciation of the property, plant and equipment of the Company and consolidated domestic subsidiaries 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. Depreciation of the property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method in accordance with the accounting principles generally accepted in each country.

Estimated useful lives for depreciable assets are as follows:

Building and structures:	7~50 years
Machinery, equipment and vehicles:	2~11 years

2. Intangible assets:

Goodwill is amortized by the straight-line method based on the accounting principles generally accepted in the respective countries of domicile. However, goodwill of the consolidated subsidiary in the U.S. is not amortized in accordance with SFAS 142, while other identifiable intangible assets are amortized by the straight-line method.

Computer software used internally by the Company and consolidated subsidiaries is amortized by the straight-line method over the relevant economic useful lives (3 or 5 years).

(3) 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 non-consolidated 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 and consolidated subsidiaries provide for accrued warranty claims on products sold based on their 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. Prior service cost is being amortized as incurred by the straight-line method over the period (14 or 15 years), which is shorter than the average remaining service periods of the eligible employees. Actuarial gains and losses have been amortized from the following fiscal year by the straight-line method over the periods (primarily 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 and consolidated subsidiaries 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 and consolidated subsidiaries' internal rules.

(4) Revenue recognition

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

(5) 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 consolidated statements of income.

Assets and liabilities of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates in effect at the semi-annual balance sheet date of the foreign subsidiaries and affiliated companies, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the current semi-annual period. The resulting foreign currency translation adjustments are included in "Translation adjustments" in shareholders' equity and minority interest in the accompanying consolidated balance sheets.

(6) Accounting for leases

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

(7) Accounting for hedging activities

1. Method of hedge accounting:

   Principally, the deferred hedge accounting method is applied.

   For interest rate swap contracts used as hedges and which meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

2. Derivative financial instruments qualifying as a hedge, along with the related transactions, assets and liabilities, are as follows:

Financial instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

3. Hedge policy:

   The risk exposures to movements in the foreign exchange rates and interest rates are hedged according to the Company's and consolidated subsidiaries' risk management policy.

4. Method for evaluating hedge effectiveness:

   Evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedge instruments are the same as those of the related transactions, assets and liabilities, and therefore they are assumed to be highly effective in offsetting movements in the exchange rates and interest rates at their inception as well as during their term.

(8) Accounting for consumption taxes

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

5. Definition of Cash and Cash Equivalents for the Statements of Cash Flows

Cash and cash equivalents for the purpose of presentation in the statements of cash flows consist of cash on hand, time deposits, and highly liquid short-term investments with negligible risk of changes in value due to their short maturities of three months or less.

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 ¥ 163 million and ordinary income and income before income taxes and minority interest decreased by ¥ 888 million as compared with amounts assumed by application of previous hedge accounting policy.

The impact of such change on segments information is stated at accounting footnote.

Additional Information

Amortization of Consolidation Adjustments (Credit Side)

On January 1, 2003, the Company acquired Isuzu's share of Subaru of Indiana Automotive, Inc. (SIA), to make SIA a wholly owned subsidiary of the Company, and SIA was assigned to produce certain Isuzu vehicles as well as Subaru vehicles.

Acquisition cost of the Isuzu's share of SIA was determined in consideration of certain losses on the disposal of fixed assets, losses on cancellation of capital leases, and losses related to personnel reduction, incurring during and after the consigned production activities. Consequently, the consolidation adjustments (credit side) arose.

The portion of the consolidation adjustments that clearly corresponds to the forecasted future losses has been amortized according to the generation of those losses, and the remaining portion has been amortized by the straight-line method over 5 years.

The annual amortization based on currently forecasted losses is as follows:

(Unit: Millions of yen)

Fiscal year ended	Forecasted amortization amount
March 31, 2005	¥ 21,300
March 31, 2006	¥ 5,700
March 31, 2007	¥ 4,400
March 31, 2008	¥ 900
March 31, 2009 and thereafter	¥ 11,666

The amortization of the consolidation adjustments for the current semi-annual period is ¥ 3,660 million.

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 Consolidated Semi-annual Financial Statements

(Consolidated Balance Sheet)

1. Pledged assets and secured liabilities

(1) Pledged assets and secured liabilities are as follows:

a) Pledged assets:

(Unit: Millions of yen)

Notes and accounts receivable, trade	¥ 21,630
Other current assets	205
Buildings and structures	30,645
	[19,049]
Machinery, equipment and vehicles	20,943
	[20,398]
Land	39,169
	[1,917]
Other fixed assets	239
Total	¥ 112,831
	[41,364]

b) Secured liabilities:

(Unit: Millions of yen)

Short-term borrowings	¥ 68,147
	[10,819]
Long-term debts	15,551
	[4,365]
Bonds	300
Total	¥ 83,998
	[15,184]

Notes: 1. The above amounts in parentheses represent a mortgage of the factory foundation and the related liabilities.
2. In addition to other current assets, lease receivables of ¥ 506 million for auto leases of Subaru Finance Co. have been pledged.

(2) "Other" under "Investment and other assets" includes ¥ 27,711 million in restricted collateral cash of Subaru of Indiana Automotive, Inc. (SIA), which has been pledged as alternative credit for collateral to secured the lease payment of production equipment of Isuzu vehicles.

2. Accumulated depreciation for property, plant and equipment: ¥ 634,185 million

3. Investments in non-consolidated subsidiaries and affiliated companies:

(Unit: Millions of yen)

Investments and other assets	
Investment securities (stocks)	¥ 5,534
Other (investments in capital)	¥ 1,178

4. Consolidation adjustments included in intangible assets: ¥ 1,015 million

5. Contingent liabilities

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

(Unit: Millions of yen)

Employees	¥ 24,998
Customers of Subaru Canada, Inc.	7,401
Other	4,594
Total	¥ 36,993

6. The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) is as follows:

	(Unit: Millions of yen)
Total overdraft facilities and lending commitments	¥ 12,320
Less amounts currently executed	(5,591)
Unexecuted balance	¥ 6,729

A portion of the overdraft facilities and lending commitments above is subject to credit considerations as documented in the customer contracts. Therefore, the total balance above is not always executable.

7. The unexecuted balance of commitments for borrowings by the Company and consolidated subsidiaries (Subaru of America, Inc. and Subaru Europe N.V./S.A.) are as follows:

	(Unit: Millions of yen)
Total commitments	¥105,598
Less amounts currently executed	(19,131)
Unexecuted balance	¥ 86,467

(Consolidated Statement of Income)

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

		(Unit: Millions of yen)
1)	Salary and bonus	¥ 22,207
2)	Provision for accrued bonus	¥ 6,713
3)	Pension and severance cost	¥ 1,684
4)	Sales incentives	¥ 15,064
5)	Advertisement cost	¥ 25,052
6)	Research and development cost	¥ 27,312

2. Research and development cost included in general and administrative expenses and cost of sales: ¥27,809 million

3. Gain on sale of fixed assets are as follows:

	(Unit: Millions of yen)
Buildings and structures	¥ 24
Land	40
Other	17
Total	¥ 81

4. Loss on sale and disposal of fixed assets are as follows:

	(Unit: Millions of yen)
Buildings and structures	¥ 380
Machinery, equipment and vehicles	826
Other	133
Total	¥ 1,339

(Consolidated Statement of Retained Earnings)

Increase of retained earnings-other in the consolidated statements of retained earnings represents "Comprehensive income" from a consolidated subsidiary in the U.S., based on generally accepted accounting principal in the U.S.

(Consolidated Statement of Cash Flows)

1. Breakdown of the ending balances of cash and cash equivalents out of balance sheet amount of each related account of the current semi-annual period end are as follows:

(Unit: Millions of yen)

	Balance sheet amounts	Cash and cash equivalents
Cash and time deposits	¥ 32,202	¥ 31,889
Marketable securities	¥130,242	101,294
Short-term loans	¥105,718	4,021
Cash and cash equivalents		¥ 137,204

2. Significant non-cash transaction

On August 2004, the Company executed the share exchange agreement and made Yusoki Kogyo K.K. a wholly owned subsidiary of the Company. As a result of the share exchange, consolidation adjustments increased by ¥ 833 million and treasury stock decreased by ¥ 942 million.

(Leases)

1. Finance leases without transfer of ownership

Information as lessee

1. 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
Machinery, equipment and vehicles	¥1,252	¥ 387	¥ 865
Other tangible assets	¥2,293	¥1,146	¥ 1,147
Intangible assets	¥ 125	¥ 97	¥ 48
Total	¥3,670	¥1,630	¥ 2,040

2. The future minimum lease payments:

(Unit: Millions of yen)

Due within one year	¥ 529
Due after one year	1,604
Total	¥ 2,133

3. Rent paid, depreciation/amortization expense and interest expense portion:

(Unit: Millions of yen)

Rent paid	¥ 350
Depreciation/amortization expense	¥ 316
Interest expense portion	¥ 29

4. Method of depreciation/amortization:

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

5. Method for 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.

Information as lessor

1. 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
Machinery, equipment and vehicles	¥22,667	¥10,010	¥12,657
Other tangible assets	¥ 9,962	¥ 5,537	¥ 4,425
Intangible assets	¥ 1,315	¥ 443	¥ 872
Total	¥33,944	¥15,990	¥17,954

2. The future minimum lease payments receivable:

(Unit: Millions of yen)

Due within one year	¥ 8,577
Due after one year	13,281
Total	¥ 21,858

3. Rent received, depreciation/amortization expense and interest income portion:

(Unit: Millions of yen)

Rent received	¥ 4,656
Depreciation/amortization expense	¥ 3,574
Interest income portion	¥ 642

4. Method for 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 interest method.

1. Operating leases

Information as lessee

The future minimum rent payments:

(Unit: Millions of yen)

Due within one year	¥ 6,493
Due after one year	49,150
Total	¥ 55,643

Information as lessor

The future minimum rent payments receivable:

(Unit: Millions of yen)

Due within one year	¥ 4,279
Due after one year	4,507
Total	¥ 8,786

(Securities and Investments)

1. Securities and investments for which fair market value are available

(Unit: Millions of yen)

	1st Half Year Fiscal 2005 (as of September 30, 2004)			Fiscal 2004 (as of March 31, 2004)		
	Book value	Fair market value	Difference	Book value	Fair market value	Difference
Held-to-maturity debt securities:						
(1) Government bonds	–	–	–	5	5	–
Total	–	–	–	5	5	–
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Other investment securities (available-for-sale securities):						
(1) Equity securities	20,554	41,548	20,994	20,880	38,056	17,176
(2) Debt securities						
Government and municipal bonds	6,611	6,497	(114)	6,818	6,821	3
Corporate bonds	10,292	10,265	(27)	10,100	10,130	30
Other	3,147	3,258	111	1,582	1,707	125
(3) Other	7,440	7,424	(16)	6,418	6,418	0
Total	48,044	68,992	20,948	45,798	63,132	17,334

2. Major securities without available fair market value (except for held-to-maturity debt securities stated in 1 above)

(Unit: Millions of yen)

1st Half Year Fiscal 2005 (as of September 30, 2004)		Fiscal 2004 (as of March 31, 2004)	
	Book value		Book value
Other securities:		Other securities:	
Commercial paper	53,898	Money management fund	52,202
Money management fund	36,692	Commercial paper	31,062
Medium-term government bond fund		Beneficiary rights to the trust	8,367
Unlisted stocks (excluding over-the-counter stocks)	11,000	Unlisted stocks (excluding over-the-counter stocks)	6,640
Beneficiary rights to the trust	6,680	Medium-term government bond fund	4,500
Medium-term government bond fund	5,340	Free financial fund	501
	4,501		

Note: The Company and consolidated subsidiaries recognized ¥ 109 million in loss on devaluation of securities in the current semi-annual period.

For purpose of recording the loss on devaluation of securities, the Company and consolidated subsidiaries consider all securities whose fair value has fallen below 50% of the book value to be permanently impaired, and records the relevant loss on devaluation. For securities whose fair value has declined between 30% to 50% in relation to book value, the Company and consolidated subsidiaries specifically consider the probability of recovery of the fair value, and records a loss on devaluation in an amount deemed sufficient.

(Derivative Transactions)

Derivative financial instruments' contract amount, fair value and valuation gain or loss

(1) Foreign currency contracts

(Unit: Millions of yen)

Type of transactions	1st Half Year Fiscal 2005 (as of September 30, 2004)				Fiscal 2004 (as of March 31, 2004)			
	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)
Transactions other than market: Forward exchange contract								
Sell US$	59,768	–	60,339	(571)	–	–	–	–
CAN$	6,506	–	6,848	(342)	–	–	–	–
Euro €	5,165	–	5,224	(59)	–	–	–	–
Transactions other than market: Foreign currency option contract								
Sell								
Call: US$	55,283	–			29,726	–		
	[996]		1,337	(341)	[398]		93	305
Buy								
Put: US$	55,177	–			29,571	–		
	[990]		683	(307)	[398]		255	(143)
Total	181,899	–	74,431	(1,620)	59,297	–	348	162

Notes:
1. Method to determine fair value is based on quotations obtained from financial institutions.
2. Derivative financial instruments that qualify as a hedge and are accounted for using the deferred hedge accounting method are excluded from the above disclosure.

(2) Interest rate contracts

(Unit: Millions of yen)

Type of transactions	1st Half Year Fiscal 2005 (as of September 30, 2004)				Fiscal 2004 (as of March 31, 2004)			
	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)
Transactions other than market:								
Interest swap contracts								
Receive floating rate, pay fixed rate	–	–	–	–	5,300	5,000	(74)	(74)
Total	–	–	–	–	5,300	5,000	(74)	(74)

Notes:
1. Method to determine fair value is based on quotations obtained from financial institutions.
2. Derivative financial instruments that qualify as a hedge and are accounted for using the deferred hedge accounting method are excluded from the above disclosure.

Segment Information

(1) Business segment information

1st Half Year Fiscal 2005 (from April 1, 2004 to September 30, 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	628,709	23,607	27,397	11,078	690,791	–	690,791
(2) Inter-segment	1,832	125	22	1,646	3,625	(3,625)	–
Total sales	630,541	23,732	27,419	12,724	694,416	(3,625)	690,791
Operating cost and expense	614,699	23,211	28,138	13,180	679,228	(3,938)	675,290
Operating income (loss)	15,842	521	(719)	(456)	15,188	313	15,501

1st Half Year Fiscal 2004 (from April 1, 2003 to September 30, 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	606,689	20,970	25,759	11,971	665,389	–	665,389
(2) Inter-segment	1,891	32	185	1,870	3,978	(3,978)	–
Total sales	608,580	21,002	25,944	13,841	669,367	(3,978)	665,389
Operating cost and expense	589,984	21,053	25,229	15,010	651,276	(4,195)	647,081
Operating income (loss)	18,596	(51)	715	(1,169)	18,091	217	18,308

Fiscal 2004 (from April 1, 2003 to March 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	1,316,951	42,257	56,632	23,611	1,439,451	–	1,439,451
(2) Inter-segment	3,847	333	218	3,284	7,682	(7,682)	–
Total sales	1,320,798	42,590	56,850	26,895	1,447,133	(7,682)	1,439,451
Operating cost and expense	1,268,684	42,889	57,177	28,377	1,397,127	(8,000)	1,389,127
Operating income (loss)	52,114	(299)	(327)	(1,482)	50,006	318	50,324

Notes: 1. Definition of business segments
Business segments are defined based on product line and market.
2. Main products by each business segment

Business segment	Main products
Automobiles	Passenger cars, mini-cars
Industrial products	General-purpose engines, power generators
Aerospace	Aircraft, parts of space-related devises
Other	Specialized vehicles, real estate

3. All operating costs and expenses are allocated to each business segment.

4. “Houses” are excluded from main products of “Other segment” as a result of transfer the business to a non-consolidated subsidiary, which is accounted for by the equity method, on April 1, 2004.

5. Change of accounting policy
   Method of hedge accounting
   As stated in "Change of Accounting Policy", the Company stopped applying the hedge accounting from this semi-annual period. As a result of this change, net sales and operating income increased by ¥ 126 million in Automobile segment and ¥ 37 million in Industrial products segments as compared with amounts assumed by application of previous hedge accounting policy.

6. Revenue recognition
   As stated in "Additional Information", the Company has recognized revenues of the Aerospace Division's production contracts with the production term exceeding one year and the amount of each contract exceeding ¥ 5,000 million by the percentage-of-completion method. 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 operating income 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.

(2) Segment information by geographic area

1st Half Year Fiscal 2005 (from April 1, 2004 to September 30, 2004) (Unit: Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	439,761	243,314	7,716	690,791	–	690,791
(2) Inter-segment	135,700	805	199	136,704	(136,704)	–
Total sales	575,461	244,119	7,915	827,495	(136,704)	690,791
Operating cost and expense	554,088	251,834	7,697	813,619	(138,329)	675,290
Operating income (loss)	21,373	(7,715)	218	13,876	1,625	15,501

1st Half Year Fiscal 2004 (from April 1, 2003 to September 30, 2003) (Unit: Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	387,899	276,069	1,421	665,389	–	665,389
(2) Inter-segment	146,878	861	158	147,897	(147,897)	–
Total sales	534,777	276,930	1,579	813,286	(147,897)	665,389
Operating cost and expense	518,290	280,097	1,487	799,874	(152,793)	647,081
Operating income (loss)	16,487	(3,167)	92	13,412	4,896	18,308

Fiscal 2004 (from April 1, 2003 to March 31, 2004) (Unit: Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated total
I. Sales and operating income						
Sales						
(1) Outside customer	840,330	590,271	8,850	1,439,451	–	1,439,451
(2) Inter-segment	263,260	1,692	344	265,296	(265,296)	–
Total sales	1,103,590	591,963	9,194	1,704,747	(265,296)	1,439,451
Operating cost and expense	1,065,920	590,892	8,935	1,665,747	(276,620)	1,389,127
Operating income	37,670	1,071	259	39,000	11,324	50,324

Notes: 1. Geographic areas are based on geographical proximity.

2. Principal countries or districts in each geographic area:
   North America: United States and Canada
   Other: Europe

3. All operating costs and expenses are allocated to each segment.

4. Change of accounting policy
   Method of Hedge accounting
   As stated in "Change of Accounting Policy", the Company stopped applying the hedge accounting from this semi-annual period. As a result of this change, net sales and operating income increased by ¥ 1,493 million in Japan segment as compared with amounts assumed by application of previous hedge accounting policy.

5. Revenue recognition
   As stated in "Additional Information", in Japan, the Company has recognized revenues of the Aerospace Division's production contracts with the production term exceeding one year and the amount of each contract exceeding ¥ 5,000 million by the percentage-of-completion method. 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 operating income 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.

(3) Overseas sales

1st Half Year Fiscal 2005 (from April 1, 2004 to September 30, 2004) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	273,554	59,249	52,950	385,753
Consolidated net sales				690,791
Percentage of overseas sales over consolidated sales (%)	39.6%	8.6%	7.6%	55.8%

1st Half Year Fiscal 2004 (from April 1, 2003 to September 30, 2003) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	294,030	41,042	38,178	373,250
Consolidated net sales				665,389
Percentage of overseas sales over consolidated sales (%)	44.2%	6.2%	5.7%	56.1%

Fiscal 2004 (from April 1, 2003 to March 31, 2004) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	624,372	101,049	86,113	811,534
Consolidated net sales				1,439,451
Percentage of overseas sales over consolidated sales (%)	43.4%	7.0%	6.0%	56.4%

Notes:
1. Geographic areas are based on geographical proximity.
2. Principal countries or districts in each geographic area:
   North America: United States and Canada
   Europe: Germany, Switzerland and England
   Other: Australia
3. Overseas sales are sales outside of Japan by the Company and consolidated subsidiaries.
4. Revenue recognition
   As stated in "Change of Accounting Policy", the Company stopped applying the hedge accounting from this semi-annual period. As a result of this change, net sales increased by ¥124 million in North America and ¥39 million in Europe as compared with amounts assumed by application of previous hedge accounting policy.

Production, Accepted Orders and Sales Results Information

(1) Production

Actual production during the current semi-annual period by each segment is as follows:

(Unit: Millions of yen, except for Automobiles)

Segments		1st Half Year Fiscal 2005 (From April 1, 2004 to September 30, 2004)	Changes from prior semi-annual period (%)
Automobiles	Mini-cars	85,259	31.2
	Compact cars	212,183	1.8
	Consignment production of Isuzu vehicles	12,183	(9.1)
Sub-total		309,625	7.9
Industrial products		21,670	27.7
Aerospace		29,297	(3.9)
Other		9,389	(17.6)

Notes: 1. Amounts are based on sales prices and inter-segment transactions are eliminated.
2. The above amounts exclude consumption taxes.

(2) Accepted orders

Accepted orders in the current semi-annual period by each segment are as follows (automobiles and industrial products are produced based on order forecasts):

(Unit: Millions of yen)

Segments	1st Half Year Fiscal 2005 (From April 1, 2004 to September 30, 2004)			
	Accepted orders	Changes from prior semi-annual period (%)	Order balance	Changes from prior semi-annual period (%)
Aerospace	30,668	235.7	124,035	24.4
Other	9,877	(9.9)	4,772	(17.5)
Total	40,545	101.7	128,807	22.1

Note: The above amounts exclude consumption taxes.

(3) Sales results

Sales results for the current semi-annual period by each segment are as follows:

(Unit: Millions of yen)

Segments	1st Half Year Fiscal 2005 (From April 1, 2004 to September 30, 2004)	Changes from prior semi-annual period (%)
Automobiles	628,709	3.6
Industrial products	23,607	12.6
Aerospace	27,397	6.4
Other	11,078	(7.5)
Total	690,791	3.8

Notes: 1. Amounts are based on sales prices and inter-segment transactions are eliminated.
2. The above amounts exclude consumption taxes.

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

(Nov. 12, 2004)

Fuji Heavy Industries Ltd.

(in 100 millions of yen) (in thousands of units)	RESULTS 1st HALF of FY2004 Apr. 2003 to Sep. 2003	RESULTS 1st HALF of FY2005 Apr. 2004 to Sep. 2004		RESULTS FY2004 Apr. 2003 to Mar. 2004	FORECAST FY2005 Apr. 2004 to Mar. 2005		FORECAST FY2005 (August 2004) Apr. 2004 to Mar. 2005
Net Sales	6,653	6,907	3.8 %	14,394	14,500	0.7 %	14,700
Domestic	2,921	3,050	4.4 %	6,279	6,500	3.5 %	6,800
Overseas	3,732	3,857	3.3 %	8,115	8,000	-1.4 %	7,900
Margin Percentage	2.8%	2.2%		3.5%	3.1%		3.1%
Operating Income	183	155	-15.3 %	503	450	-10.6 %	450
Margin Percentage	3.7%	2.2%		3.9%	3.2%		3.2%
Ordinary Income	244	150	-38.5 %	566	470	-17.0 %	470
Margin Percentage	2.9%	1.2%		2.7%	2.2%		2.2%
Net Income	194	82	-57.4 %	386	320	-17.2 %	320
Factors of Change in Operating Income		**Gain factors** Reduction in cost 70 Decrease in R&D expenses 26 Decrease of expenses and others 15 **Loss factors** Foreign exchange 121 Decrease in sales mix 18			**Gain factors** Reduction in cost 163 Decrease of expenses and others 28 Decrease in R&D expenses 25 **Loss factors** Foreign exchange 176 Decrease in sales mix 93		**Gain factors** Reduction in cost 162 Increase in sales mix 27 Decrease of expenses and others 6 **Loss factors** Foreign exchange 238 Increase in R&D expenses 10
Capital Investment	357	405		745	770		820
Depreciation and Amortization	272	255		532	520		520
R&D Expenses	304	278		575	550		585
Interest bearing debt	3,966	4,055		3,789	4,100		4,100
Performance of Operation		Net Sales to increase Net Income to decrease Best Net Sales			Net Sales to increase Net Income to decrease Best Net Sales		
Domestic Sales	113	124	9.5 %	246	265	7.8 %	282
Small Cars	52	50	-2.8 %	111	110	-1.3 %	110
Minicars	61	73	19.9 %	134	155	15.3 %	172
Overseas Sales	135	152	12.2 %	306	323	5.8 %	329
North America	93	94	1.0 %	206	210	2.1 %	222
Europe	22	31	40.6 %	54	59	10.0 %	58
Other	20	27	32.8 %	46	54	17.4 %	50
Units Total	248	275	10.9 %	551	588	6.7 %	611
SIA Isuzu SUVs	13	12	-9.1 %	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.