Consolidated Semi-annual Financial Results for Fiscal 2006

Nov. 8, 2005

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
Contact for Inquiries	:	Mr. Shunji Yonekura, General Manager of Administration Department Tel: (03) 3347-2005

Date of the Board of Directors Meeting Held for the Approving the Financial Results: November 8, 2005

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 2006 (from April 1, 2005 to September 30, 2005)

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 2006	¥ 667,102	(-3.4 %)	¥ 17,410	(12.3 %)	¥ 13,526	(-10.2 %)
1st Half of FY 2005	¥ 690,791	(3.8 %)	¥ 15,501	(-15.3 %)	¥ 15,061	(-38.5 %)
Fiscal 2005	¥ 1,446,491		¥ 42,017		¥ 43,572	

(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 2006	¥ 7,958	(-3.8 %)	¥ 10.21	¥ 10.21
1st Half of FY 2005	¥ 8,275	(-57.4 %)	¥ 10.63	¥ 10.62
Fiscal 2005	¥ 18,238		¥ 23.27	¥ 23.27

Notes:

1. Equity income (loss) from investments in affiliated companies
   : 1st Half of FY 2006 : ¥ 1,009 million
   1st Half of FY 2005 : ¥ (271) million
   Fiscal 2005 : ¥ (378) million

2. Average number of shares outstanding during the periods
   : 1st Half of FY 2006 : 779,194,074 shares
   1st Half of FY 2005 : 778,789,979 shares
   Fiscal 2005 : 778,995,784 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 2006	¥ 1,391,228	¥ 485,017	34.9 %	¥ 622.48
1st Half of FY 2005	¥ 1,392,312	¥ 464,215	33.3 %	¥ 595.71
Fiscal 2005	¥ 1,357,459	¥ 471,149	34.7 %	¥ 604.51

Note: Number of shares outstanding at end of the periods
: 1st Half of FY 2006 : 779,171,227 Shares
1st Half of FY 2005 : 779,266,301 Shares
Fiscal 2005 : 779,207,882 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 2006	¥ 67,335	¥ (51,635)	¥ (19,808)	¥ 129,975
1st Half of FY 2005	¥ 37,307	¥ (62,405)	¥ 22,342	¥ 137,204
Fiscal 2005	¥ 57,327	¥ (89,761)	¥ 26,199	¥ 131,685

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

Consolidated subsidiaries: 68
Non-consolidated subsidiaries accounted for by the equity method: 10
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: 6
Newly excluded: –

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

(Unit: Millions of yen)

	Net sales	Ordinary income	Net income
Full year	¥ 1,480,000	¥ 29,000	¥ 12,000

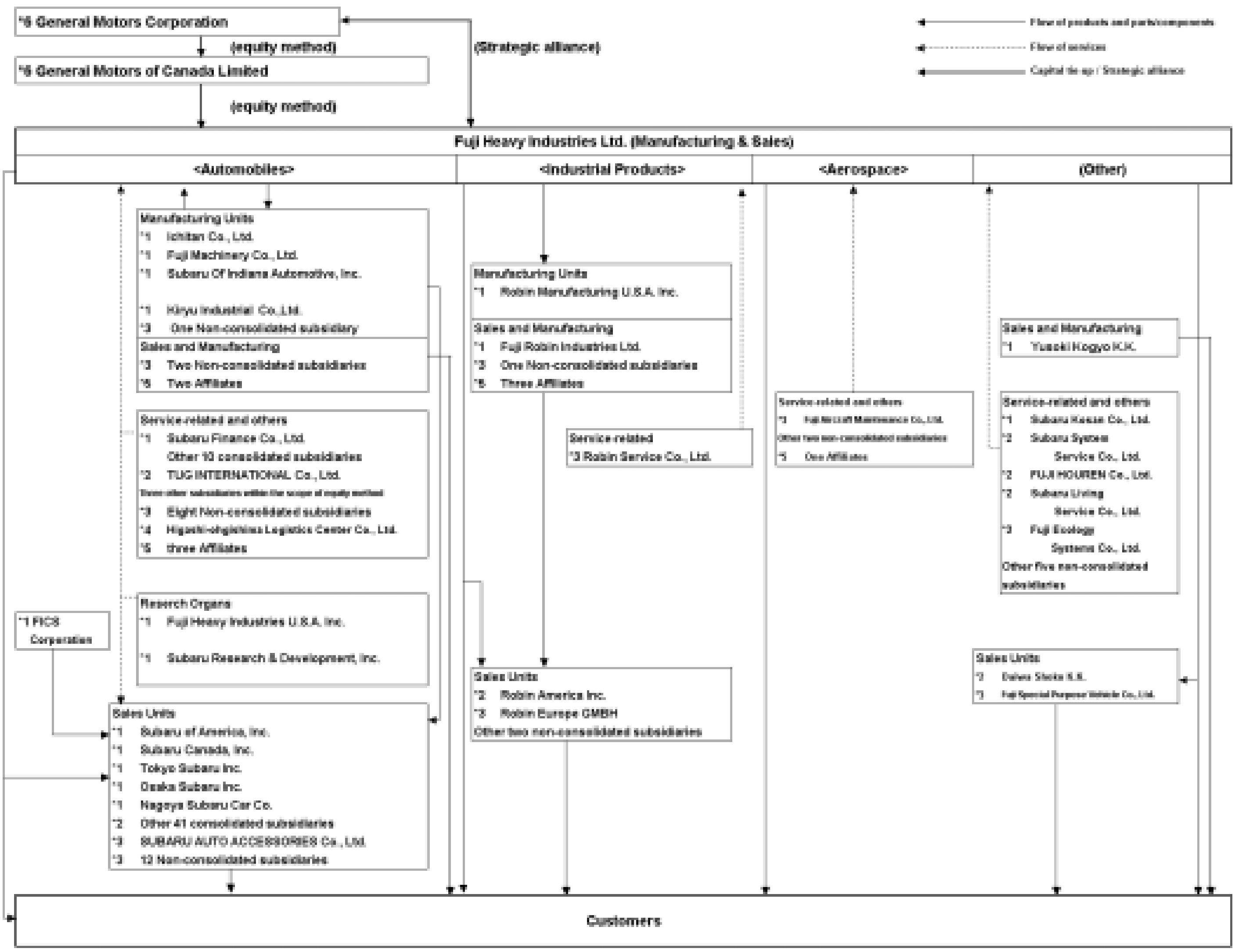
Reference: Projected net income per share (full year): ¥ 15.40 (Calculated based on the number of shares issued as of September 30, 2005.)

The above projections are made based on available information and assumptions as of Nov. 8, 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.

1. Condition of the FHI Group

As of September 30 2005, the FHI Group consisted of Fuji Heavy Industries Ltd., 116 subsidiaries, 10 affiliated companies and 2 other associated companies. They primarily engage in operations related to the Group's automotive business, industrial products business, aerospace business, service and other businesses, producing a wide range of products.

The flow chart below illustrates the relationship that each subsidiary and affiliate maintains with the parent company.



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

Note) At the time of submission, strategic alliance and capital relationship with General Motors Corporation was dissolved and neither General Motors Corporation nor General Motors of Canada Limited fall under the category of other affiliated companies.

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 promote continuously 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 visions of "being an appealing company with a strong market presence" and "building a highly profitable business structure with automobiles at its core." The Company's most important management objective is to ensure a high level of customer satisfaction by developing unique products in our 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 with 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

FHI has revised the Fuji Dynamic Revolution-1 (FDR-1) 5-year mid-term business plan established in fiscal 2002 and announced a new 2-year plan titled Revised Fuji Dynamic Revolution-1 (Revised FDR-1) this May in an effort to respond to the difficult business environment and improve performance.

The Revised FDR-1 plan is based on the approach of taking the customer's perspective in all areas from product development to sales and service organization, and the following key issues are addressed company-wide in order to improve profitability and increase enterprise value.

(1) Urgent total cost reductions

Together with improvements in our R&D capabilities and production system in addition to further increases in quality, we are working to reduce process costs in all areas from product planning to development and sales through the sharing of parts and more efficient development. The cost reduction of newly developed vehicles has been virtually on target to the objectives of (1) reducing costs by 100,000 yen per vehicle and (2) reducing die costs and development costs by 30 percent. Furthermore, the cost reduction of production vehicles is expected to progress according to plans this year with the targets of (1) a 16 percent reduction for domestic production over two years and (2) a 13.5 percent reduction for U.S. production over two years.

(2) Restructuring of product planning

In addition to product development made from the customer's perspective, we are working to release products that satisfy the needs of the market in a timely fashion by speeding up development and improving efficiency in our operations. Specifically, we are implementing this approach in the development of the new minicar scheduled to be introduced next year. Moreover, we are planning to globally launch the U.S.-made "B9 TRIBECA" next year, and will work on steps to strengthen the product worldwide.

(3) Restructuring of sales processes and networks

In addition to putting the customer first in sales and service, we will improve sales quality in Japan and work to improve productivity by utilizing IT to standardize our distributors as we restructure our sales process and network. Overseas, we are steadily implementing our regional strategy and improving our dealer network in the United States, while also gaining a foothold in regions such as Europe and Asia, and particularly in China and other emerging markets primarily by strengthening our sales network.

(4) Increasing asset turnover

We will place emphasis on asset turnover and thoroughly implement selection and concentration by clarifying the profitability of businesses, while working to increase profitability of the group as a whole and improve efficiency of management. In particular, regarding the three internal companies such as the Aerospace Company and the Industrial Products Company we will review our business portfolio every year from the perspective of how to achieve selection and concentration.

(5) Streamlining the corporate structure

By reviewing the assignment of personnel, we will concentrate management resources on profitable divisions while streamlining personnel throughout the entire group.

In October this year, we dissolved our strategic alliance contract with General Motors Corporation for a capital and business relationship, and reached a memorandum of understanding with Toyota Motor Corporation aimed at an business alliance. In order to ensure the operational business relationship with Toyota Motor Corporation bears fruit, we will specifically examine frameworks and areas of cooperation for bringing about synergies by aiming to utilize each other's management resources and complement each other's technical aspects in the fields of development and production.

3. Basic Policy Regarding the Distribution of Profits

FHI puts importance on profit for its shareholders as a crucial managerial task and the dividend policy is to maintain to be stable for long term with comprehensive consideration of factors, such as its earnings and the dividend payout ratio. At the same time, retained earnings are allocated to invest in R&D to create attractive products, production, and to strength manufacturing and sales network for the further future growth.

4. Management tasks for the Company

In line with the "revised FDR-1", FHI is devoting all of its effort to improve profitability while 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 be an appealing company with a strong market presence, and sees the enhancement of enterprise value to be a key management issue.

Furthermore, we will step up our efforts as a company trusted by all stakeholders, including shareholders and customers, by actively conducting Corporate Social Responsibility (CSR) activities, 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 seven directors (six at the time of submission) 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 organ 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 internal company system for the aerospace, industrial products, eco technology businesses, and automotive business as a FHI's core business.

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) Status of Accounting Auditing

FHI's accounting auditing is conducted by the certified public accountants Mr. Teruo Suzuki and Mr. Tetsuaki Nomura, who belong to KPMG AZSA & Co. Five certified public accountants and two junior accountants serve as assistants in the accounting audit operations of FHI.

(4) Establishment of a Risk Management Framework

Risk management is implemented in FHI by the company's cross-functional departments centered on the Strategy Development Division in head office, which promote strong collaboration with 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 on 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

Although sales in non-automotive divisions exceeded the same period in the previous year during the interim period under review, the automotive business saw reduced sales units in the domestic market and although the new “B9 TRIBECA” which went into full sale in June overseas brought about a net sales units increase in U.S., significant decreases in consignment production from GM-affiliated Saab Automobile AB and the end of consignment production in the American manufacturing subsidiary (Subaru of Indiana Automotive Inc.) led to sales units decreasing compared to the same period at the previous year. With this backdrop, consolidated net sales decreased by ¥23.7 billion, or 3.4%, to ¥667.1 billion.

Despite profitability being adversely affected by a deterioration of the sales mix, operating income increased by ¥1.9 billion, or 12.3%, to ¥17.4 billion due to effective of research and development, lower material costs and reduced expenses. However, ordinary income decreased by ¥1.5 billion, or 10.2%, to ¥13.5 billion due to a reduction in amortization of the consolidation adjustment account and increased derivative valuation losses. Despite an increase in gains from sales of investment securities, net income decreased ¥8 billion as a reflection of extraordinary loss by a ¥300 million, or 3.8%, due to factors such as the termination of a joint development project with Saab Automobile AB .

Results by Business Segment

Automobile Division

As for passenger cars (excluding minicars), although sales of the Impreza that underwent a major facelift in June and a newly released Forester derivative model were steady and surpassed the sales units for the same period at the previous year, sales of the flagship Legacy that is in the third year since full model change, resulting in sales units falling to 48,000, down by 4.2% from the same period in the previous year.

Meanwhile, as for minicars, despite a net increase in the R1 launched this January and growth in sales of the Pleo for which had an additional derivative model was added, sales of the R2 fell significantly short of the same period in the previous year and sales of the Sambar also fell, resulting in the number of minicars sold amounting to 66,000, down 10.4% from the same period at the previous year.

As a result of these developments, the total number of cars sold by FHI in Japan was 114,000 units, down 7.9% compared to the same period in the previous year.

In the North American market, despite the net increase created by the full sale of the B9 TRIBECA in June and sales of the Impreza surpassing the same period in the previous year, significant decreases in consignment production from GM-affiliated Saab Automobile AB and the end of consignment production in the American manufacturing subsidiary led to the number of units sold in the North American market falling by 16.8% compared to the same period in the previous year to 88,000. The number of units sold excluding the consignment production still rose by 1.9% compared to the same period in the previous year to 88,000 (the same number of units as the numbers including the consignment puroduction).

Although sales fell for the Impreza and the Legacy that was significantly enjoyed the new model effect last year, continued solid sales of the Forester resulted in the number of units sold in Europe staying around the same level as the same period in the previous year at 31,000, up 0.1%.

Furthermore, solid sales were maintained in Australia, breaking the record set the year before with sales of 18,000 units, an increase of 6.2% compared to the same period in the previous year due to sales of the Impreza and Forester surpassing the levels of the same period in the previous year.

As a consequence of these sales results, the total volume of overseas sales fell 8.3% year on year, to 150,000 units.

As a result, the combined sales volume for Japan and overseas markets amounted to 264,000 units, down 8.1% year on year and net sales for the Subaru Automobile Business fell ¥30 billion, or 4.8%, to ¥600.6 billion.

Operating income also decreased ¥2 billion, or 12.6%, to ¥13.8 billion.

Industrial Products Division

Sales exceeded the same period in the previous year due to increased sales of pump and power generator engines in addition to new redesigned generators. Overseas, our marketing strategy focusing on the larger vendors in the industry have borne fruit, with sales of generator engines increasing in the United States and sales of engines manufactured in our Chinese production subsidiary performing well, resulting in sales exceeding the same period in the previous year. As a result, total sales increased ¥2.0 billion, or 8.3%, to ¥25.7 billion, with operating income also improving by ¥300 million, or 55.1%, to ¥800 million.

Aerospace Division

An increase in the number of UH-1J utility helicopters delivered and full-scale shipment of next generation Maritime Patrol Aircraft and Cargo 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 by a significant amount.

While sales in the commercial sector were affected by a decrease in revenue resulting from the end of delivery of station-keeping flight test to the Japan Aerospace Exploration Agency (JAXA), deliveries of aircraft to Boeing and signs of recovery in the market resulted in sales staying around the same level year on year basis. As a result, total sales increased ¥8.5 billion, or 31.2%, to ¥36.0 billion, with operating income also improving by ¥2.4 billion to ¥1.7 billion (a loss of ¥700 million was recorded for the same period at the previous year).

Other Division

Sales for the Eco Technologies Company exceeded those for the same period in the previous year due to an increase in the number of Fuji Mighty sanitation trucks sold because of the direct operation of distributors in the Kansai Region and the release of the Fuji Mighty LP871, which is the first commercial model of the G-PX next-generation sanitation truck jointly developed with ShinMaywa Industries, in addition to increased sales of wind-power generation systems.

However the decrease in sales resulting from the withdrawal of the domestic subsidiary Yusoki Kogyo KK from certain businesses had a significant impact, so overall sales fell by ¥4.6 billion, or 36.5%, to ¥8.1 billion. Meanwhile, operating income improved by ¥1.1 billion to ¥600 million (a loss of ¥500 million was posted last year) due to increased sales in the Eco Technologies Company.

Results by Geographic Region

Although sales in non-automotive divisions exceeded the same period at the previous year in Japan, reduced domestic sales units the automotive business and reduced exports for Saab Automobile AB led to sales in Japan decrease by ¥18.9 billion, or 3.3%, to ¥556.6 billion. However, operating income increased by ¥5.4 billion, or 25.4%, to ¥26.8 billion due to effective R&D, lower material costs and reduced expenses.

Despite the net increase created by the B9 TRIBECA and sales of the Impreza surpassing the same period in the previous year, factors such as the end of consignment production in the American manufacturing subsidiary led to sales falling by ¥12.5 billion, or 5.1%, compared to the same period in the previous year to ¥231.6 billion. Meanwhile, operating income improved by ¥1.5 billion to a loss of ¥6.2 billion (a loss of ¥7.7 billion was posted in the same period at the previous year).

In Europe, sales of the all-new G3X Justy, an OEM vehicle, exceeded sales for the same period of the previous year, and together with an increase in sales of parts and accessories, this resulted in sales increasing by ¥500 million, or 6.0%, to ¥8.4 billion. However, owing to deterioration of the parts and accessories sales mix, operating income slipped ¥50 million, or 22.9%, 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 ¥130.0 billion, a year on year decrease of ¥1.7 billion.

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

Cash flows from operating activities

Cash flows from operating activities increased to ¥67.3 billion, up by ¥30 billion compared to the same period in the previous year, with the principle sources of cash being net income before tax and minority interest totaling ¥10.6 billion and depreciation and amortization amounting to ¥36.6 billion.

Cash flows from investing activities

Cash flows from investing activities decreased by ¥10.8 billion to ¥51.6 billion due to the ¥53.8 billion for the purchase of property, plant, and equipment (net figure with proceeds from sales of property, plant, and equipment), ¥3.8 billion for the acquisition of intangible fixed assets and ¥6.4 billion of net value of disbursement and collection of loan receivables.

Cash flows from financing activities

Cash flow from financing activities decreased by ¥42.2 billion to ¥19.8 billion due to ¥10.3 billion for redemption of bonds and ¥3.5 billion for repayment of long-term debts (net amount including proceed from long term debts). The main factors contributing to the decrease were the lack of revenue from bonds issued last year and a decrease in short-term borrowings.

2. Forecast for the Fiscal Year

The domestic economy is steadily recovering, and the world economy including the American economy is also expected to be strong. However, the outlook for the future remains uncertain due to increasingly difficult business conditions resulting from factors such as the global rise in crude oil prices and intensifying competition in automobile sales.

Considering these conditions, the outlook for the entire fiscal year is as follows:

Consolidated Forecast

Net sales: ¥1,480.0 billion (up 2.3% year-on-year)
Ordinary income: ¥29.0 billion (down 33.4% year-on-year)
Net income: ¥12.0 billion (down 34.2% year-on-year)

Forecast for the Parent Company

Net sales: ¥960.0 billion (up 1.1% year-on-year)
Ordinary income: ¥34.0 billion (down 8.6% year-on-year)
Net income: ¥9.0 billion (up 260% year-on-year)

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

* 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.

3. Business Risks

Items regarding business performance, financial standing and consolidated financial statements shown within this financial report that may have a material effect on the decisions of investors are shown below.

Statements within this document pertaining to the future are based on the judgment of the Group at the end of the interim period under review, and the following list does not include all risks related to the FHI Group.

(1) Economic trends

Economic trends in countries and regions that form the principle markets of the Group could have an effect on the performance of the Group. Economic recession and reduced demand, in addition to intensifying price competition in not only Japan but also in North America, which is a principle market of the Group, could have an adverse effect on sales and profitability of the goods and services provide by the Group.

(2) Exchange rate fluctuations

Operating income of the Group was ¥17.4 billion in the interim period under review, up ¥1.9 billion, or 12.3% from the same period in the previous year, but this was strongly influenced by fluctuations in exchange rates. Overseas sales make up 55.7%, or more than half, of the Group's revenue, and many items in net sales, operating income and assets denominated in currencies such as the U.S. dollar, which are then converted into yen when preparing financial statements.

Therefore, if there are discrepancies in the exchange rates used when estimating forecasts for the entire fiscal year and the conversion rate actually used, a strong yen could have a negative impact on the Group's performance and financial standing, while a weak yen could have a positive impact.

In order to minimize such exchange risks, the company implements hedging using forward exchange contracts, and conducts forward exchange contract hedge operations according to the situation. However, extreme exchange rate fluctuations on the final day of the fiscal year have an impact on derivative valuation gains and losses, and could lead to significant variations in nonoperating income.

(3) Dependence on certain businesses

In addition to the automotive business, the Group is made up of businesses including aerospace and industrial products businesses, but as the scale of the automotive business stands out, cases in which aspects such as demand, market conditions and price competition with rival companies exceed foreseeable levels could have a significant impact on the business performance and financial standing of the entire Group.

(4) Market evaluation fluctuations

The most important means of ensuring stable improvements in performance of the Company is to develop, manufacture and release new products at appropriate times and prices through product planning based on market trends and customers needs. Cases where the market's evaluation of new products such as new cars does not reach the level assumed in sales planes and cases where existing products have become obsolete more quickly than assumed could have a significant effect on the business performance and financial standing of the Group.

(5) Product cost fluctuations

The global balance of supply and demand and political conditions in producer countries could lead to sharp rises in the cost of certain materials and parts, and this could have an adverse effect of the Group's performance due to the impact on the Company's cost of product.

(6) Product defects

The Group places the highest priority on safety in the sale of goods and services, but defects in goods and services and the possibility of recalls occurring cannot be completely ruled out. If a large-scale recall is implemented, a large cost is incurred and this could have a significant effect on the business performance and financial standing of the Group. We are insured for product liability, but some risks cannot be covered by this insurance.

(7) Legal regulations on the environment, etc.

We are subject to a variety of legal regulations inside and outside Japan regarding limits on emissions, promotion of energy saving, noise, recycling, levels of emissions of pollutants from manufacturing plants and safety of automobiles, etc. Future increases in costs resulting from the strengthening of such legal regulations could have an effect on the performance of the Group.

(8) Impact of disasters, wars, terrorism, strikes, etc.

Natural disasters such as major earthquakes and typhoons, diseases, wars and terrorism could hinder the business activities of the Group, and lead to delays or stoppages in procurement of materials and parts, production, sale and distribution of products, and the provision of services. If such delays or stoppages are prolonged, they could have an effect on the business performance and financial standing of the Group.

Consolidated Balance Sheets

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (as of September 30, 2005)	Fiscal 2005 (as of March 31, 2005)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2005 (as of September 30, 2004)
ASSETS				
Current assets	**656,393**	**649,070**	**7,323**	**673,871**
Cash and time deposits	79,681	40,742	38,939	32,202
Notes and accounts receivable, trade	103,336	116,278	(12,942)	117,340
Marketable securities	55,089	87,003	(31,914)	130,242
Inventories	202,676	175,087	27,589	195,241
Short-term loans	117,011	128,202	(11,191)	105,718
Deferred tax assets	35,301	34,859	442	31,903
Other	64,527	68,158	(3,631)	62,098
Allowance for doubtful accounts	(1,228)	(1,259)	31	(873)
Fixed assets	**734,835**	**708,389**	**26,446**	**718,441**
Property, plant and equipment, net	**564,793**	**543,726**	**21,067**	**528,966**
Buildings and structures	128,526	129,376	(850)	128,597
Machinery, equipment and vehicles	194,795	183,946	10,849	169,934
Land	171,337	170,809	528	169,320
Construction in progress	7,532	12,891	(5,359)	13,658
Other	62,603	46,704	15,899	47,457
Intangible assets	**42,411**	**43,211**	**(800)**	**41,865**
Investments and other assets	**127,631**	**121,452**	**6,179**	**147,610**
Investment securities	67,613	71,114	(3,501)	62,901
Long-term loans	7,567	5,976	1,591	5,096
Deferred tax assets	32,271	24,481	7,790	25,444
Other	21,894	22,632	(738)	57,184
Allowance for devaluation of investments	(41)	(41)	-	(280)
Allowance for doubtful accounts	(1,673)	(2,710)	1,037	(2,735)
Total assets	**1,391,228**	**1,357,459**	**33,769**	**1,392,312**

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (as of September 30, 2005)	Fiscal 2005 (as of March 31, 2005)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2005 (as of September 30, 2004)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	**654,196**	**610,311**	**43,885**	**615,764**
Notes and accounts payable, trade	208,727	190,790	17,937	205,017
Short-term borrowings	218,861	220,295	(1,434)	236,736
Commercial paper	21,000	22,000	(1,000)	5,000
Current portion of bonds	20,000	10,300	9,700	10,300
Accrued income taxes	11,309	8,872	2,437	8,786
Accrued expenses	60,725	74,326	(13,601)	62,929
Accrued bonus	15,332	15,277	55	17,091
Accrued warranty claims	21,239	20,490	749	27,210
Other	77,003	47,961	29,042	42,695
Long-term liabilities	**248,485**	**272,532**	**(24,047)**	**308,902**
Bonds	80,500	100,500	(20,000)	100,500
Long-term debts	57,691	59,095	(1,404)	52,994
Deferred tax liabilities on revaluation of land	478	478	-	478
Accrued pension and severance liability	61,336	59,002	2,334	63,925
Accrued directors' severance and retirement benefits	834	1,150	(316)	994
Consolidation adjustments	3,551	12,352	(8,801)	40,357
Other	44,095	39,955	4,140	49,654
Total liabilities	**902,681**	**882,843**	**19,838**	**924,666**
Minority interest in consolidated subsidiaries	**3,530**	**3,467**	**63**	**3,431**
Shareholders' equity				
Common stock	**153,795**	**153,795**	**-**	**153,795**
Capital surplus	**160,071**	**160,071**	**-**	**160,071**
Retained earnings	**185,851**	**178,022**	**7,829**	**171,475**
Revaluation reserve for land	**421**	**421**	**-**	**421**
Net unrealized holding gains on securities	**15,283**	**16,945**	**(1,662)**	**12,441**
Translation adjustments	**(28,156)**	**(35,874)**	**7,718**	**(31,783)**
Less-treasury stock, at cost	**(2,248)**	**(2,231)**	**(17)**	**(2,205)**
Total shareholders' equity	**485,017**	**471,149**	**13,868**	**464,215**
Total liabilities and shareholders' equity	**1,391,228**	**1,357,459**	**33,769**	**1,392,312**

Consolidated Statements of Income

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (ended September 30, 2005)		1st Half Year Fiscal 2005 (ended September 30, 2004)		Changes Increase/ (Decrease)	Fiscal 2005 (ended March 31, 2005)	
	Amount	Ratio of Total (%)	Amount	Ratio of Total (%)	Amount	Amount	Ratio of Total (%)
Net sales	**667,102**	**100.0**	**690,791**	**100.0**	**(23,689)**	**1,446,491**	**100.0**
Cost of sales	506,970	76.0	525,179	76.0	(18,209)	1,107,718	76.6
Gross profit	160,132	24.0	165,612	24.0	(5,480)	338,773	23.4
Selling, general and administrative expenses	142,722	21.4	150,111	21.8	(7,389)	296,756	20.5
Operating income	**17,410**	**2.6**	**15,501**	**2.2**	**1,909**	**42,017**	**2.9**
Non-operating income	**6,181**	**0.9**	**6,804**	**1.0**	**(623)**	**14,096**	**1.0**
Interest and dividend income	1,635		1,076		559	2,393	
Amortization of consolidation adjustments	1,715		3,671		(1,956)	6,868	
Equity income from affiliated companies	1,009		-		1,009	-	
Other	1,822		2,057		(235)	4,835	
Non-operating expenses	**10,065**	**1.5**	**7,244**	**1.0**	**2,821**	**12,541**	**0.9**
Interest expenses	1,430		1,268		162	2,437	
Loss on revaluation of derivatives	3,244		1,782		1,462	3,132	
Equity loss from affiliated companies	-		271		(271)	378	
Other	5,391		3,923		1,468	6,594	
Ordinary income	**13,526**	**2.0**	**15,061**	**2.2**	**(1,535)**	**43,572**	**3.0**
Extraordinary gains	**5,505**	**0.8**	**384**	**0.0**	**5,121**	**2,261**	**0.2**
Gain on sale of fixed assets	131		81		50	1,417	
Gain on sale of investment securities	5,259		221		5,038	541	
Other	115		82		33	303	
Extraordinary losses	**8,398**	**1.2**	**1,448**	**0.2**	**6,950**	**24,767**	**1.7**
Loss on sale and disposal of fixed assets	928		1,339		(411)	6,169	
Loss on sale of investment securities	36		0		36	-	
Loss on devaluation of securities	10		109		(99)	-	
Loss on termination of a joint development project	5,613		-		5,613	-	
Impairment loss of fixed assets	1,811		-		1,811	-	
Loss on devaluation of inventories	-		-		-	8,122	
Loss on compensation to suppliers	-		-		-	4,174	
Loss on discontinued operations	-		-		-	3,467	
Other	-		-		-	2,835	
Income before income taxes and minority interest	10,633	1.6	13,997	2.0	(3,364)	21,066	1.5
Income taxes-current	10,085	1.5	1,449	0.2	8,636	5,913	0.4
Income taxes-deferred	(7,467)	(1.1)	4,147	0.6	(11,614)	(3,264)	(0.2)
Minority interest in income of consolidated subsidiaries	(57)	(0.0)	(126)	(0.0)	69	(179)	(0.0)
Net income	**7,958**	**1.2**	**8,275**	**1.2**	**(317)**	**18,238**	**1.3**

Consolidated Statements of Retained Earnings

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (ended September 30, 2005)		1st Half Year Fiscal 2005 (ended September 30, 2004)		Fiscal 2005 (ended March 31, 2005)	
(Capital surplus)						
Balance at beginning of the period		160,071		160,107		160,107
Decrease						
Loss on disposal of treasury stock	-	-	36	36	36	36
Balance at end of the period		160,071		160,071		160,071
(Retained earnings)						
Balance at beginning of the period		178,022		165,192		165,192
Increase						
Increase in the number of companies accounted for by the equity method	3,466		1,496		1,496	
Net income	7,958		8,275		18,238	
Other	26	11,450	247	10,018	343	20,077
Decrease						
Dividends	3,508		3,505		7,013	
Bonus to directors and statutory auditors	112		157		157	
Loss on disposal of treasury stock	1	3,621	73	3,735	77	7,247
Balance at end of the period		185,851		171,475		178,022

Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (ended September 30, 2005)	1st Half Year Fiscal 2005 (ended September 30, 2004)	Changes Increase/ (Decrease)	Fiscal 2005 (ended March 31, 2005)
1. Cash flows from operating activities:				
Income before income taxes and minority interest	10,633	13,997	(3,364)	21,066
Depreciation and amortization	36,553	35,659	894	71,010
Increase in allowance for doubtful accounts	(1,068)	371	(1,439)	732
Increase (decrease) in accrued warranty claims	16	107	(91)	(6,437)
Increase (decrease) in accrued pension and severance liability	2,018	2,037	(19)	(2,730)
Interest and dividends income	(1,635)	(1,076)	(559)	(2,393)
Amortization of consolidation adjustments (non-operating income)	(1,715)	(3,671)	1,956	(31,675)
Equity income from affiliated companies	(1,009)	–	(1,009)	–
Interest expenses	1,430	1,268	162	2,437
Loss on revaluation of derivatives	3,244	1,782	1,462	3,132
Equity loss from affiliated companies	–	271	(271)	378
Gain on sale of fixed assets	(131)	(81)	(50)	(1,417)
Gain on sale of investment securities	(5,259)	(221)	(5,038)	(541)
Loss on sale and disposal of fixed assets	928	1,339	(411)	6,169
Loss on sale of investment securities	36	0	36	–
Loss on devaluation of securities	10	109	(99)	–
Loss on termination of the joint development projects	5,613	–	5,613	–
Impairment loss of fixed assets	1,811	–	1,811	–
Loss on discontinued operations	–	–	–	3,467
Loss on compensation to suppliers	–	–	–	4,174
Decrease in notes and accounts receivable, trade	15,280	5,678	9,602	5,353
(Increase) decrease in inventories	(26,805)	(18,029)	(8,776)	(11,272)
Increase (decrease) in notes and accounts payable, trade	13,181	4,262	8,919	33
Increase in deposits received	27,371	–	27,371	–
Other, net	(10,302)	(2,324)	(7,978)	2,225
Sub total	70,200	41,478	28,722	63,711
Interest and dividends received	1,459	1,093	366	2,406
Interest paid	(1,140)	(1,170)	30	(2,432)
Income taxes paid	(3,056)	(3,933)	877	(6,197)
Bonus paid to directors and statutory auditors	(128)	(161)	33	(161)
Net cash provided by operating activities	67,335	37,307	30,028	57,327

2. Cash flows from investing activities:				
Purchase of marketable securities	(7,455)	(30,729)	23,274	(37,119)
Proceeds from sale of marketable securities	16,008	28,952	(12,944)	50,474
Purchase of property, plant and equipment	(68,598)	(61,457)	(7,141)	(137,998)
Proceeds from sale of property, plant and equipment	14,781	15,347	(566)	36,411
Purchase of intangible assets	(3,841)	(3,753)	(88)	(8,009)
Purchase of investment securities	(3,484)	(3,756)	272	(7,690)
Proceeds from sale of investment securities	13,677	2,835	10,842	5,395
Price adjustment on investments in subsidiaries	(7,087)	–	(7,087)	–
Disbursement of loans receivable	(64,130)	(61,835)	(2,295)	(122,633)
Collection of loans receivable	57,748	49,172	8,576	101,195
Proceed from withdrawal of restricted collateral cash	–	–	–	29,390
Other, net	746	2,819	(2,073)	823
Net cash used in investing activities	(51,635)	(62,405)	10,770	(89,761)

3. Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	(1,521)	18,043	(19,564)	(1,102)
Net increase (decrease) in commercial paper	(1,000)	(5,000)	4,000	12,000
Proceeds from long-term debts	3,901	19,048	(15,147)	49,867
Repayment on long-term debts	(7,361)	(15,883)	8,522	(37,166)
Issuance of bonds	–	20,000	(20,000)	20,000
Redemption of bonds	(10,300)	(10,000)	(300)	(10,000)
Purchase of treasury stock	(20)	(356)	336	(399)
Proceeds from disposal of treasury stock	3	7	(4)	24
Dividends paid	(3,508)	(3,505)	(3)	(7,013)
Other, net	(2)	(12)	10	(12)
Net cash provided by (used in) financing activities	(19,808)	22,342	(42,150)	26,199

4. Effect of exchange rate changes on cash and cash equivalents	**2,398**	**559**	**1,839**	**(1,481)**
5. Net decrease in cash and cash equivalents	**(1,710)**	**(2,197)**	**487**	**(7,716)**
6. Cash and cash equivalents at beginning of the period	**131,685**	**139,401**	**(7,716)**	**139,401**
7. Cash and cash equivalents at end of the period	**129,975**	**137,204**	**(7,229)**	**131,685**

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: 68

Domestic subsidiaries:	49	Fuji Robin Industries Ltd., Ichitan Co., Ltd., TOKYO SUBARU, Inc. and 46 other subsidiaries
Foreign subsidiaries:	19	Subaru of Indiana Automotive, Inc., Subaru of America, Inc. and 17 other subsidiaries

(2) Companies accounted for by the equity method: 11

Domestic companies:	10	Subaru Auto Accessory Co., Ltd., Subaru System service Co., Ltd. Subaru Tecnica International and 7 other companies
Foreign subsidiary:	1	Robin America, Inc.

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:	6
Decrease:	–

From this semi-annual period, Subaru Tecnica International, Robin America, Inc. and 4 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 occurred 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 as the actual ratio of bad debt for ordinary receivables, and the amount required for uncollectible accounts 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 has been 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 18 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) 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.

(5) 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.

(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 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 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

(Accounting Standard for Impairment of Fixed Assets)

Effective this semi-annual period, the Company and consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of this adoption, "Income before income taxes and minority interest" was decreased by ¥1,811 million.

An accumulated impairment loss is recorded as direct deduction in the book value of respective assets.

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 operating 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 Company has revised the amortization schedule, due to the settlement of actual losses reached with Isuzu in accordance with the Master Agreement for Cancellation of the Joint Venture Relationship and Consignment of Production dated December 20, 2002, which resulted in a reduction in the consolidation adjustments account in this semi-annual period.

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

(Unit: Millions of yen)

Fiscal year ended	Forecasted amortization amount
March 31, 2006	¥ 3,280
March 31, 2007	¥ 1,950

As a result of this settlement, the consolidation adjustments account (credit side) was decreased by ¥7,087 million and the amortization of consolidation adjustments (non-operating income) was decreased by ¥499 million in this semi-annual period.

Notes to Consolidated Semi-annual Financial Statements

(Consolidated Balance Sheet)

1. Pledged assets and secured liabilities

Pledged assets and secured liabilities are as follows:

(1) Pledged assets:

(Unit: Millions of yen)

Notes and accounts receivable, trade	¥ 4,045
Buildings and structures	28,516
	[18,017]
Machinery, equipment and vehicles	20,486
	[20,255]
Land	43,255
	[1,893]
Other fixed assets	286
Total	¥ 96,588
	[40,165]

(2) Secured liabilities:

(Unit: Millions of yen)

Short-term borrowings	¥ 59,999
	[7,023]
Long-term debts	8,809
	[7,499]
Total	¥ 68,808
	[14,522]

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

2. Accumulated depreciation for property, plant and equipment is ¥656,306 million.

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

(Unit: Millions of yen)

Investments and other assets	
Investment securities (stocks)	¥ 10,258
Other (investments in capital)	¥ 1,179

4. Consolidation adjustments included in intangible assets are ¥85 million.

5. Contingent liabilities

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

(Unit: Millions of yen)

Employees	¥ 24,904
Customers of Subaru Canada, Inc.	8,265
Other	6,336
Total	¥ 39,505

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	¥ 12,610
Less amounts currently executed	(6,768)
Unexecuted balance	¥ 5,842

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	¥ 79,598
Less amounts currently executed	(1,285)
Unexecuted balance	¥ 78,313

(Consolidated Statement of Income)

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

		(Unit: Millions of yen)
1)	Salary and bonus	¥ 21,417
2)	Provision for accrued bonus	¥ 6,279
3)	Pension and severance cost	¥ 1,821
4)	Sales incentives	¥ 17,419
5)	Advertisement cost	¥ 22,510
6)	Depreciation and amortization	¥ 7,309
7)	Research and development cost	¥ 21,152

2. Research and development cost included in general and administrative expenses and cost of sales is as follows: ¥21,577 million

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

	(Unit: Millions of yen)
Machinery, equipment and vehicles	¥ 66
Land	26
Other	39
Total	¥ 131

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

	(Unit: Millions of yen)
Buildings and structures	¥ 301
Machinery, equipment and vehicles	500
Other	127
Total	¥ 928

5. Loss on Termination of a Joint Development Project:

As a consequence of the termination of the Strategic Alliance with General Motors Corporation (“GM”), the Company and GM have agreed to terminate a joint development project of cross over vehicles with SAAB Automobile AB, and the Company has recorded a loss on significant development costs related to the joint development project.

6. Impairment loss of Fixed Assets:

The Company has recorded an impairment loss on the following asset groups in this semi-annual period.

Location	Purpose	Type
Wakayama pref. and 2 other	Operating property for dealers	Buildings and Structures, Machinery, and Land
Gunma pref.	Leased property	Buildings
Hokkaido pref. and 2 other	Unused property	Land

The operating properties for dealers are grouped by each company and the leased property and unused property are grouped on a property by property basis.

To take account of the decline in market price of land and profitability of each company in resent years, the carrying amounts of these asset groups were devalued to an amount considered recoverable. This devaluation was charged as impairment loss included in extraordinary losses. The impairment loss consisted of ¥ 837 million for buildings and structures, ¥ 103 million for machinery, and ¥ 871 million for land, respectively.

The recoverable amount is the higher of either a fair value less costs to sell or a value from its use. The fair value less costs to sell is an estimated market value of property based on the government road rating or valuation for properly tax purposes, less costs of disposal. The value from its use is a present value of estimated future cash flows generated from the asset group discounted at mainly 6.4%.

(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 amounts 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	¥ 79,681	¥ 79,498
Marketable securities	¥ 55,089	48,569
Short-term loans	¥ 117,011	1,908
Cash and cash equivalents		¥ 129,975

2. “Price adjustment on investments in subsidiaries” included in cash flows from investing activities represents a cash payment related to the adjustment to the price of SIA shares transferred from Isuzu Motors, Limited under the settlement of actual losses in this semi-annual period, in accordance with the Master Agreement for Cancellation of the Joint Venture Relationship and Consignment of Production with Isuzu, as described in “Additional Information.”

(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	¥ 503	¥ 749
Other tangible assets	¥2,319	¥ 974	¥ 1,345
Intangible assets	¥ 32	¥ 19	¥ 13
Total	¥3,603	¥1,496	¥ 2,107

(2) The future minimum lease payments:

(Unit: Millions of yen)

Due within one year	¥ 542
Due after one year	1,646
Total	¥ 2,188

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

(Unit: Millions of yen)

Rent paid	¥ 311
Depreciation/amortization expense	¥ 284
Interest expense portion	¥ 26

(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	¥22,918	¥10,817	¥12,101
Other tangible assets	¥ 9,407	¥ 5,856	¥ 3,551
Intangible assets	¥ 1,572	¥ 619	¥ 953
Total	¥33,897	¥17,292	¥16,605

2. The future minimum lease payments receivable:

(Unit: Millions of yen)

Due within one year	¥ 7,162
Due after one year	12,128
Total	¥ 19,290

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

(Unit: Millions of yen)

Rent received	¥ 4,696
Depreciation/amortization expense	¥ 3,595
Interest income portion	¥ 616

4. Method for computing interest:

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

2.Operating leases

Information as lessee

The future minimum rent payments:

(Unit: Millions of yen)

Due within one year	¥ 710
Due after one year	3,353
Total	¥ 4,063

Information as lessor

The future minimum rent payments receivable:

(Unit: Millions of yen)

Due within one year	¥ 4,605
Due after one year	4,419
Total	¥ 9,024

(Securities and Investments)

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

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (as of September 30, 2005)			Fiscal 2005 (as of March 31, 2005)		
Other investment securities (available-for-sale securities):	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
(1) Equity securities	19,470	45,002	25,532	21,017	49,419	28,402
(2) Debt securities						
Government and municipal bonds	9,494	9,486	(8)	6,756	6,727	(29)
Corporate bonds	3,294	3,268	(26)	7,240	7,225	(15)
Other	36	258	222	537	681	144
(3) Other	1,653	1,641	(12)	6,625	6,620	(5)
Total	33,947	59,655	25,708	42,175	70,672	28,497

2. Major securities without available fair market value

(Unit: Millions of yen)

1st Half Year Fiscal 2006 (as of September 30, 2005)	Book value	Fiscal 2005 (as of March 31, 2005)	Book value
Other securities:		Other securities:	
Money management fund	39,868	Money management fund	47,688
Commercial paper	11,399	Commercial paper	19,838
Unlisted stocks (excluding over-the-counter stocks)	1,524	Unlisted stocks (excluding over-the-counter stocks)	6,544
		Negotiable certificated deposit	5,000
		Beneficiary rights to the trust	2,579
		Held-to-maturity debt securities	6

Note: The Company and consolidated subsidiaries recognized ¥ 10 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 market value has fallen below 50% of the book value to be permanently impaired, and records the relevant loss on devaluation. For securities whose fair market 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

Foreign currency contracts

(Unit: Millions of yen)

Type of transactions	1st Half Year Fiscal 2006 (as of September 30, 2005)				Fiscal 2005 (as of March 31, 2005)			
	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)	Contract amount	Over 1 year	Fair value	Valuation gain/(loss)
Transactions other than market: Foreign exchange forward contracts								
Sell								
US$	104,733	–	109,935	(5,202)	100,153	–	102,393	(2,240)
Euro €	7,737	–	7,811	(74)	8,906	–	8,979	(73)
CAN$	5,682	–	6,195	(513)	6,183	–	6,438	(255)
Buy								
US$	14,708	–	14,939	231	20,021	–	20,274	253
Transactions other than market: Foreign currency options contracts								
Sell								
Call: US$	19,964 [196]	–	448	(252)	26,843 [419]	–	841	(422)
Euro €	679 [8]	–	8	0	690 [13]	–	7	6
CAN$	2,368 [16]	–	58	(42)	855 [7]	–	28	(21)
Buy								
Put: US$	17,764 [166]	–	119	(47)	21,626 [336]	–	133	(203)
Euro €	- [-]	–	–	–	675 [13]	–	1	(12)
CAN$	2,318 [15]	–	5	(10)	855 [6]	–	2	(4)
Total	175,953	–	139,518	(5,909)	186,807	–	139,096	(2,971)

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.

3. The amounts in parentheses are the carrying amounts of the premium on the option recorded as other current assets or liabilities.

Segment Information

(1) Information by business segment

1st Half Year Fiscal 2006 (from April 1, 2005 to September 30, 2005) (Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income							
Sales							
(1) Outside customer	598,700	25,643	35,946	6,813	667,102	–	667,102
(2) Inter-segment	1,888	66	22	1,267	3,243	(3,243)	–
Total sales	600,588	25,709	35,968	8,080	670,345	(3,243)	667,102
Operating cost and expense	586,744	24,901	34,302	7,456	653,403	(3,711)	649,692
Operating income (loss)	13,844	808	1,666	624	16,942	468	17,410

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

	Automobiles	Industrial products	Aerospace	Other	Total	Corporate and elimination	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

Fiscal 2005 (from April 1, 2004 to March 31, 2005) (Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income (loss)							
Sales							
(1) Outside customer	1,319,603	46,814	59,434	20,640	1,446,491	–	1,446,491
(2) Inter-segment	4,069	307	40	2,994	7,410	(7,410)	–
Total sales	1,323,672	47,121	59,474	23,634	1,453,901	(7,410)	1,446,491
Operating cost and expense	1,282,730	46,272	59,279	24,224	1,412,505	(8,031)	1,404,474
Operating income (loss)	40,942	849	195	(590)	41,396	621	42,017

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	Legacy, Impreza, Forester, B9 Tribeca, R1, R2, Pleo, Samber
Industrial products	Robin engine, power generators, Pumps
Aerospace	Aircraft, parts of space-related devices
Other	Garbage collection vehicles, specialized vehicles, real estate leasing

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

(2) Information by geographic area

1st Half Year Fiscal 2006 (from April 1, 2005 to September 30, 2005) (Unit: Millions of yen)

	Japan	North America	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	428,377	230,490	8,235	667,102	–	667,102
(2) Inter-segment	128,232	1,111	152	129,495	(129,495)	–
Total sales	556,609	231,601	8,387	796,597	(129,495)	667,102
Operating cost and expense	529,805	237,831	8,219	775,855	(126,163)	649,692
Operating income (loss)	26,804	(6,230)	168	20,742	(3,332)	17,410

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

	Japan	North America	Other	Total	Corporate and elimination	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

Fiscal 2005 (from April 1, 2004 to March 31, 2005) (Unit: Millions of yen)

	Japan	North America	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	886,793	544,753	14,945	1,446,491	–	1,446,491
(2) Inter-segment	241,860	2,027	391	244,278	(244,278)	–
Total sales	1,128,653	546,780	15,336	1,690,769	(244,278)	1,446,491
Operating cost and expense	1,088,136	553,458	14,969	1,656,563	(252,089)	1,404,474
Operating income (loss)	40,517	(6,678)	367	34,206	7,811	42,017

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.

(3) Overseas sales

1st Half Year Fiscal 2006 (from April 1, 2005 to September 30, 2005) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	251,054	60,932	59,603	371,589
Consolidated net sales				667,102
Percentage of overseas sales over consolidated sales (%)	37.6%	9.1%	9.0%	55.7%

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%

Fiscal 2005 (from April 1, 2004 to March 31, 2005) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	593,249	117,826	108,357	819,432
Consolidated net sales				1,446,491
Percentage of overseas sales over consolidated sales (%)	41.0%	8.2%	7.5%	56.7%

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.

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 2006 (From April 1, 2005 to September 30, 2005)	Changes from prior semi-annual period (%)
Automobiles	Mini-cars	70,261	(17.6)
	Compact cars	216,527	2.0
Sub-total		286,788	(7.4)
Industrial products		23,776	9.7
Aerospace		39,392	34.5
Other		5,248	(44.1)

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 2006 (From April 1, 2005 to September 30, 2005)			
	Accepted orders	Changes from prior semi-annual period (%)	Order balance	Changes from prior semi-annual period (%)
Aerospace	33,675	9.8	126,027	1.6
Other	6,101	(38.2)	2,493	(47.8)
Total	39,776	(1.9)	128,520	(0.2)

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 2006 (From April 1, 2005 to September 30, 2005)	Changes from prior semi-annual period (%)
Automobiles	598,700	(4.8)
Industrial products	25,643	8.6
Aerospace	35,946	31.2
Other	6,813	(38.5)
Total	667,102	(3.4)

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

Subsequent event

(Termination of the Strategic Alliance Agreement)

The Company and GM have agreed to terminate the Strategic Alliance Agreement on October 5, 2005, and GM disposed of all shares in the Company.

As a consequence of this termination, the Company and GM plan to evaluate each of ongoing joint development projects for disposition.
The Company and GM have agreed to terminate a joint development project of cross over vehicles with SAAB Automobile AB, and the Company has recorded an extraordinary loss of ¥ 5,613 million incurred on the joint development costs in this semi-annual period.

(Acquisition of Treasury Shares)

The Company acquired the following treasury shares pursuant to a resolution by the board of directors on October 5, 2005, in accordance with the article 211-3 of the Japanese Commercial Code.

1. Purpose of Acquisition:	To enable the Company to carry out capital strategy actively upon “4309642 Canada” Inc.’s, one of the Company’s major shareholders, disposal of all shares in FHI.
2. Quantity of shares acquired:	62,504,000 shares
3. Acquisition cost:	¥ 39,300,560,000
4. Date of Acquisition:	October 7 and 11, 2005

SUBARU

<Reference for the First Half of FY2006(Apr. 2005 to Sep. 2005) Consolidated Financial Results>

(Nov. 8, 2005)

Fuji Heavy Industries Ltd.

(in 100 millions of yen) (in thousands of units)	RESULTS 1st HALF of FY2005 Apr. 2004 to Sep. 2004	RESULTS 1st HALF of FY2006 Apr. 2005 to Sep. 2005		RESULTS FY2005 Apr. 2004 to Mar. 2005	FORECAST FY2006 Apr. 2005 to Mar. 2006		FORECAST FY2006 (May 2005) Apr. 2005 to Mar. 2006
Net Sales	6,908	6,671	(3.4) %	14,465	14,800	2.3 %	14,700
Domestic	3,050	2,955	(3.1) %	6,271	6,230	(0.6) %	6,472
Overseas	3,858	3,716	(3.7) %	8,194	8,570	4.6 %	8,228
Margin Percentage	2.2%	2.6%		2.9%	2.6%		2.1%
Operating Income	155	174	12.3 %	420	390	(7.2) %	310
Margin Percentage	2.2%	2.0%		3.0%	2.0%		1.8%
Ordinary Income	151	135	(10.2) %	436	290	(33.4) %	270
Margin Percentage	1.2%	1.2%		1.3%	0.8%		1.0%
Net Income	83	80	(3.8) %	182	120	(34.2) %	150
Factors of Change in Operating Income		Gain factors Decrease in R&D expenses 62 Reduction in cost 59 Decrease of expenses and others 51 Foreign exchange 2 Loss factors Decrease in sales mix 155			Gain factors Reduction in cost 113 Decrease in R&D expenses 40 Decrease of expenses and others 27 Foreign exchange 12 Loss factors Decrease in sales mix 222		Gain factors Reduction in cost 110 Loss factors Decrease in sales mix 92 Foreign exchange 86 Increase in R&D expenses 25 Increase of expenses and others 17
Foreign Exchange Rate YEN/US$	110	109		108	108		105
Capital Investment	405	324		853	630		670
Depreciation and Amortization	255	270		511	570		580
R&D Expenses	278	216		530	490		555
Interest bearing debt	4,055	3,981		4,122	4,100		4,100
Performance of Operation		Net Sales to decrease Net Income to decrease			Net Sales to increase Net Income to decrease Best Net Sales		
Domestic Sales	124	114	(7.9) %	254	237	6.7 %	251
Small Cars	50	48	(4.2) %	104	103	(0.7) %	107
Minicars	73	66	(10.4) %	150	134	(10.8) %	143
Overseas Sales	152	150	(0.9) %	328	336	2.6 %	331
North America	94	88	(6.1) %	210	213	1.1 %	219
Europe	31	31	0.1 %	61	62	2.4 %	58
Other	27	31	15.7 %	57	61	8.4 %	54
Units Total	275	264	(4.0) %	582	573	(1.4) %	582
SIA Isuzu SUVs	12	0	-	13	0	-	0

* Figures of Total Sales are the sum of retail sales units of the Japanese subsidiary dealers, wholesale units of the overseas subsidiary distributors, and wholesale units of FHI to other distributors/dealers.

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