Consolidated Semi-annual Financial Results for Fiscal 2007

Oct. 31, 2006

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://ir.fhi.co.jp/index.html
Representative	:	Mr. Ikuo Mori, President and CEO
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Date of the Board of Directors Meeting Held for the Approving the Financial Results: October 31, 2006

Adoption of US Generally Accepted Accounting Principles: No

1. Performance in 1st Half of Fiscal 2007 (from April 1, 2006 to September 30, 2006)

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

(1) Consolidated Results of Operations

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

	Net sales		Operating income		Ordinary income	
1st Half of FY 2007	¥ 698,676	(4.7 %)	¥ 18,126	(4.1 %)	¥ 13,883	(2.6 %)
1st Half of FY 2006	¥ 667,102	(-3.4 %)	¥ 17,410	(12.3 %)	¥ 13,526	(-10.2 %)
Fiscal 2006	¥ 1,476,368		¥ 58,339		¥ 46,768	

(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 2007	¥11,604	(45.8 %)	¥ 16.19	¥ 16.18
1st Half of FY 2006	¥ 7,958	(-3.8 %)	¥ 10.21	¥ 10.21
Fiscal 2006	¥ 15,611		¥ 20.66	¥ 20.66

Notes:

1. Equity income from investments in affiliated companies :
   - 1st Half of FY 2007 : ¥ 728 million
   - 1st Half of FY 2006 : ¥ 1,009 million
   - Fiscal 2006 : ¥ 1,446 million
2. Average number of shares outstanding during the periods :
   - 1st Half of FY 2007 : 716,709,317 shares
   - 1st Half of FY 2006 : 779,194,074 shares
   - Fiscal 2006 : 750,332,110 shares
3. Accounting change : See "Changes in Accounting Policies" 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	Net assets	Net assets to total assets	Net assets per share (Yen)
1st Half of FY 2007	¥ 1,339,453	¥ 472,261	35.1 %	¥ 655.67
1st Half of FY 2006	¥ 1,391,228	¥ 485,017	34.9 %	¥ 622.48
Fiscal 2006	¥ 1,348,400	¥ 465,522	34.5 %	¥ 649.41

Notes: 1.Number of shares outstanding at end of the periods :
- 1st Half of FY 2007 : 716,767,856 Shares
- 1st Half of FY 2006 : 779,171,227 Shares
- Fiscal 2006 : 716,672,587 Shares

2. The amounts under Net assets as of 1st Half of FY 2006 and Fiscal 2006 represent the amounts of total shareholders' equity.

(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 2007	¥ 71	¥ (26,289)	¥ (8,693)	¥ 76,309
1st Half of FY 2006	¥ 67,335	¥ (51,635)	¥ (19,808)	¥ 129,975
Fiscal 2006	¥ 137,485	¥ (75,775)	¥ (88,885)	¥ 112,366

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

Consolidated subsidiaries: 63

Non-consolidated subsidiaries accounted for by the equity method: 17

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: 5

Companies accounted for by the equity method:
- Newly included: 7
- Newly excluded: –

2. Projections for Fiscal 2007 (from April 1, 2006 to March 31, 2007)

(Unit: Millions of yen)

	Net sales	Ordinary income	Net income
Full year	¥ 1,500,000	¥ 42,000	¥ 30,000

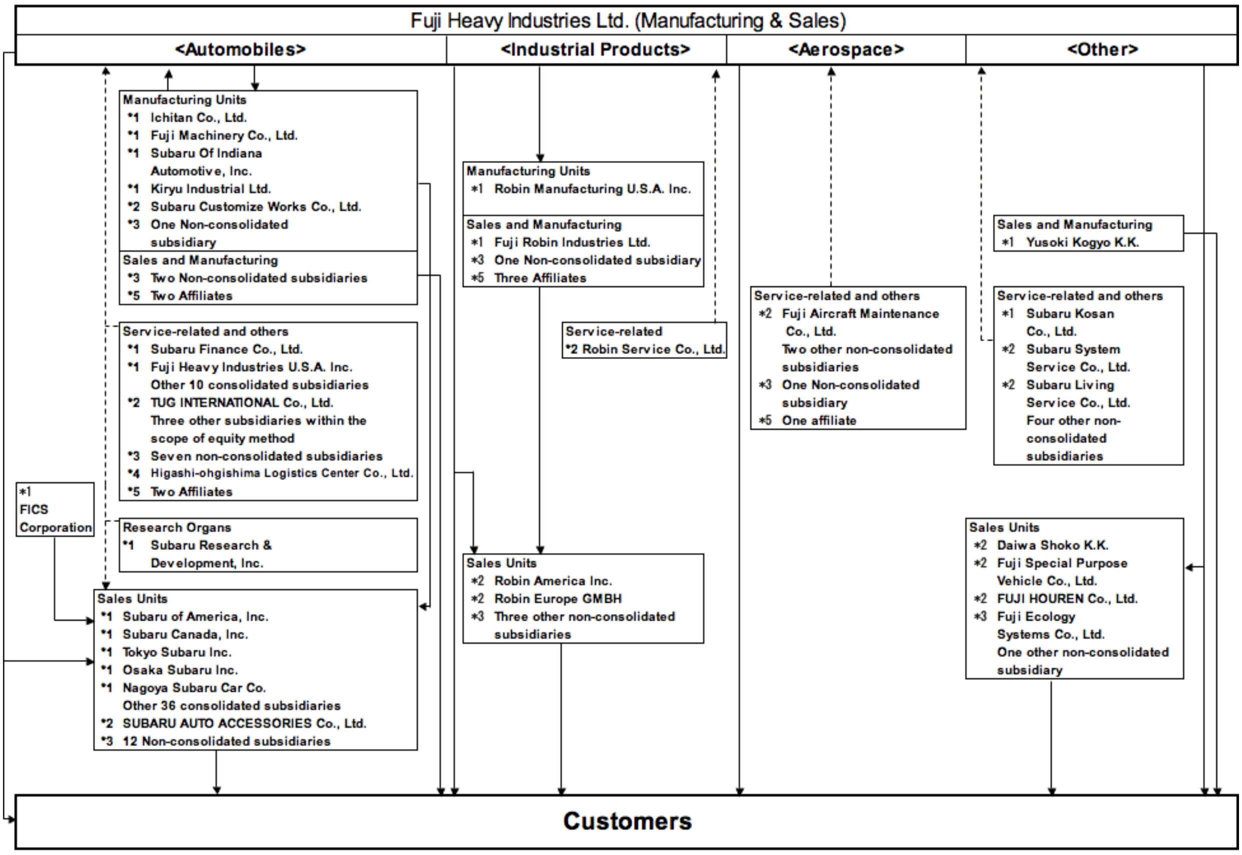
Reference: Projected net income per share (full year): ¥ 41.85

The above projections are made based on available information and assumptions as of Oct. 31, 2006, 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 8.

1. Condition of the FHI Group

As of September 30, 2006, the FHI Group consisted of Fuji Heavy Industries Ltd., 113 subsidiaries, and 9 affiliated companies primarily engaged in four operations related to the Subaru automotive, industrial products, aerospace 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

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 harmony 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 philosophy, FHI intensify its efforts to achieve the vision of "being an appealing company with a strong market presence," and "building a highly profitable business structure with automobile business as its core." The Company's most important management objective is to provide unique and high quality products in our automobile, aerospace, industrial products, eco technologies, and other divisions that only the Subaru brand and FHI are capable of providing. Through these corporate activities, the FHI Group is concentrating on developing and moving forward together with society and being an enterprise that accomplishes a high level of satisfaction and trust of all stakeholders, including shareholders and customers.

2. Basic Policy Regarding the Distribution of Profits

FHI views shareholders' return as a crucial managerial task and follows a basic policy of maintaining stable long-term dividends while taking comprehensive consideration of such factors as its earnings and its dividend payout ratio. FHI intends to use retained earnings to improve balance sheet as well as allocate these funds to the investment of its R&D, production, and strengthening its sales network for the attainment of further future growth and development.

3. Medium- to Long-Term Management Strategies

FHI established the FDR-1, five-year mid-term business plan for fiscal years beginning from FYE 2003 until this year. We revised the FDR-1 to a new two-year plan entitled the Revised FDR-1 in 2005 in light of our performance and changes in the business environment. With emphasis on "changes for increased profitability," we are making our best efforts to realize (1) urgent total cost reduction, (2) restructure product planning, (3) restructure sales process and network, (4) increase asset turnover, and (5) leaner corporate structure. As this year marks the final year of the Revised FDR-1, we will strive to achieve our goals and have set out to develop a new mid-term business plan in order to deal with significant changes in the business environment resulting from the dissolution of our partnership with General Motors Corporation in October 2005 and entering into a new partnership with Toyota. Corporation

With these changes in mind we will develop action plans that focus on the following three areas in order to make it possible for us to create uniquely Subaru products based on our customer-oriented policies.

(1) Review product lines to better meet market needs

We will strive to build a wider customer base for both our services and products including Subaru's unique horizontally-opposed engines and AWD (All Wheel Drive) vehicles.

(2) Reduce costs and enhance group management capability

We have been steadily moving forward with our cost reduction initiative, which is one of the key issues of the Revised FDR-1, through Total Cost Structure Revolution (TSR) activities that we have been working on since last fiscal year. We will continue to promote not only TSR in the mass production of cars but in the future implement further cost reduction measures in the initial phases of development undergoing new models and major facelifts.

We can look forward to a continued upward trend in the Aerospace Division enjoying increase of revenue and return of investment. Therefore, we expect further improvement of financial conditions

We will also look into the roles of our group companies and review each company's organizational structure, personnel policies and cost structure in an effort to strengthen the management basis of the entire FHI group.

(3) Identify and move forward with our complimentary alliance with Toyota

We are working to implement a plan to start the production of the Toyota's Camry at SIA (Subaru of Indiana Automotive Inc., our wholly-owned US manufacturing subsidiary), by the end of this fiscal year as scheduled maintaining quality and cost. We are also pursuing the idea of partnering with Toyota in the areas of merchandising and development in order to maximize our alliance.

As we concentrate on these critical matters, we will focus on corporate governance and actively engage in environmental, compliance and other CSR activities. This will make the greatest contribution to fostering the growth and development of the entire group and attain everyone's expectations for being a company that is trusted by all its stakeholders including the shareholders as well as the customers.

3. Operating Results and Financial Condition

1. Overview of Interim Period under Review

Despite the decline in the number of vehicles sold in Japan, record high consolidated sales of ¥698.7 billion were posted, representing an increase of ¥31.6 billion, or 4.7%, on a year-on-year basis thanks to the jump up sales in overseas market compared to the previous fiscal year along with revenue of non Automotive division, such as the Aerospace, which significantly outstripped the sales for the previous year.

Despite income hampering factors, such as the deterioration in the sales mix, operating income rose ¥0.7 billion, or 4.1%, to ¥18.1 billion due to foreign exchange gains on the weak yen and cost reductions of materials. Ordinary income also rose ¥0.4 billion, or 2.6%, to ¥13.9 billion. Although gain on sale of investment securities decreased, net income increased ¥3.6 billion, or 45.8%, to ¥11.6 billion due to an increase in gain on sale of property, plant and equipment as well as the absence of loss on termination of a joint development project which were recorded during the same period of last fiscal year.

Results by Business Segment

Automobile Division

Although our flagship model Legacy underwent a major facelift in late May, its sales sank below last year's level partly because it was launched in the middle of this term. Sales of the Impreza and the Forester also declined. As a result, the number of domestic passenger cars (excluding minicars) sold was 40thousand, an 18.2% decline from the previous year.

Minicar sales, on the other hand, increased by 10.4%, to 72thousand units due to a net increase in sales of the Stella, a new passenger minicar launched in June, making up for the sales loss on existing models.

As a result, sales in Japan were down 1.7% from the previous year at 112thousand units.

In the North American market, despite the decline in Forester and Legacy sales, overall sales volume increased by 1.1% over the previous year's level to 89thousand units due to a soaring sales of the Impreza.

Sales in Europe rose by 5.4%, to 32thousand amid continued solid performance of the Forester and the Impreza.

Sales in Australia also continued to be robust, with sales of the Legacy, Impreza and the Forester exceeding last year's level and driving sales volume up 8.5% to reach record-high 20 thousand units.

As a result, total overseas sales rose by 4.2%, to 157thousand units.

The combined sales volume for Japan and overseas markets amounted to 269thousand units, up 1.7%, year on year, then, overall sales in the automotive business increased by ¥23.3 billion, or 3.9%, to ¥623.9 billion.

Operating income decreased by ¥1.1 billion, or 8.0%, to total ¥12.7 billion due to the increase of SG&A expenses and deterioration of sales volume and mix, in spite of foreign exchange gains resulting from the weak yen, and cost reduction efforts.

Industrial Products Division

Domestic sales were up over the previous year's level due to an increase in sales of engines for pumps. Overseas sales also rose from the previous year's level owing to steady sales of the principal Robin EX engine series, which comprises four air-cooled models of 4-cycle, OHC gasoline engines, for use in power generators in the U.S. and for agricultural machinery in Europe.

This all led to an overall sales increase of ¥1.5 billion, or 5.9%, totaling ¥27.2 billion. Operating income also increased by ¥0.4 billion, or 46.8%, to ¥1.2 billion.

Aerospace Division

Despite a drop in the units of UH-1J utility helicopters to be delivered, sales to the Japan Defense Agency outpaced sales for the previous fiscal year with the delivery of prototypes of the next-generation Maritime Patrol Aircraft and Cargo Transport Aircraft (PX/CX). In the commercial sector, the number of existing products delivered to Boeing such as the center-wing of the Boeing 777 also increased significantly as airline industry demand picks up worldwide. Sales were up over the previous year due to the increase in sales of the newly launched development project for the Boeing 787 and the start of delivery of main wings for the Eclipse 500 small business jet to Eclipse Aviation in the U.S.

As a result, total sales increased by ¥6.5 billion, or 18.1%, to ¥42.5 billion. Operating income also increased by ¥1.0 billion, or 61.7%, to ¥2.7 billion.

Other Businesses

Eco Technologies Division sales rose from the previous year as a result of the launch of 2-ton and 3-ton sanitation trucks in the new refuse compacting Fuji Mighty 71 Series in addition to the 4-ton trucks introduced last year, completing the full line up of Fuji Mighty sanitation trucks. However, the closing of domestic subsidiary Yusoki Kogyo K.K. put a major dent in overall sales that fell by ¥0.3 billion, or 3.3%, to ¥7.8 billion, while operating income edged up ¥0.6 billion, or 92.9%, to ¥1.2 billion due to increased revenues at the Eco Technologies Division and the others.

Results by Geographic Region

(Japan)

Although sales of units for the domestic market fell in the automotive business, increased exports and a significant increase in sales of non-automotive business such as the Aerospace Division brought sales up ¥4.7 billion, or 0.8%, to ¥561.3 billion. However, operating income decreased by ¥6.2 billion, or 23.2%, to ¥20.6 billion due to negative factors such as deterioration in the sales mix despite the foreign exchange gains from a weak yen in addition to our efforts to reduce costs and expenses.

(North America)

Despite a decrease in the sales volume of the Forester and the Legacy, sales rose by ¥23.9 billion, or 10.3%, to ¥255.5 billion thanks to a significant increase in the sales volume of the Impreza compared with the previous year. Operating loss improved by ¥1.2 billion for a negative ¥5.1 billion (compared with the loss of ¥6.2 billion for the previous year).

(Other regions)

Sales in Europe rose by ¥1.0 billion, or 12.4%, to ¥9.4 billion, with the start of sales of Subaru vehicles other than minicars in addition to the G3X Justy (OEM vehicle), which had already been on the market, as well as an increase in sales of parts and accessories accompanying the growth in units shipped from Japan. Operating income also rose ¥0.1 billion, or 81.5%, to ¥0.3 billion.

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 for the previous fiscal year.

Cash Flows

Cash and cash equivalents (hereinafter cash) at the end of the interim period under review amounted to ¥76.3 billion, a year on year decrease of ¥36.1 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 decreased to ¥0.1 billion, down ¥67.3 billion compared to the same period in the previous fiscal year. Though the principle sources of cash being net income before taxes and minority interest totaling ¥17.3 billion and depreciation and amortization amounting to ¥40.1 billion were provided, ¥39.7 billion increase in inventories and ¥24.3 billion decrease in notes and accounts payable, trade offset the amount.

Cash flows from investing activities

Cash flows from investment activities increased by ¥25.3 billion to ¥26.3 billion due to the ¥14.6 billion used for the purchase of property, plant, and equipment (net figure with proceeds from the sales of property, plant, and equipment) and ¥12.3 billion for the acquisition of leased assets (net figure with proceeds from sale of leased assets).

Cash flows from financing activities

Cash flow from financing activities increased by ¥11.1 billion to ¥8.7 billion after decreasing ¥2.9 billion for the reduction of short-term borrowings and ¥2.5 billion for repayment of long-term debts (net figure with proceeds from long term debts).

2. Forecast for the Fiscal Year

Although the Japanese economy forecast appears strong due to a recovery in consumer spending and capital expenditures, the decline in investment of residential real estate, which once drove the American economy, casts a shadow over our long-term perspective. The outlook for the future remains uncertain as factors like the global rise in crude oil prices and intensifying automobile sales competition make for an increasingly harsh business environment.

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

Consolidated Forecast

Net sales:	¥1,500.0 billion (up 1.6% year-on-year)
Ordinary income:	¥42.0 billion (down 10.2% year-on-year)
Net income:	¥30.0 billion (up 92.2% year-on-year)

Forecast for the Parent Company

Net sales:	¥950.0 billion (down 2.7% year-on-year)
Ordinary income:	¥31.0 billion (down 25.1% year-on-year)
Net income:	¥14.0 billion (up 36.3% year-on-year)

Year-end dividends and interim term dividends are forecasted at ¥4.50 each, making the yearly dividend ¥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 economy, market trends and exchange rate fluctuations are taken into account to develop a reasonable forecast. Since actual results may differ significantly from these forecasts, we urge you to refrain from basing your investment 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 FHI Group ("the Group) at the end of the consolidated fiscal year under review, and the following list does not include all risks related to the 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 not only in 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

The Group's operating income increased by ¥0.7 billion, or 4.1%, to ¥18.1 billion this consolidated fiscal year, and exchange rate fluctuations had a strong effect on this. Overseas sales make up 59.0% of all sales, and items denominated in local currencies such as the US dollar are included in sales, operating income and assets, which are converted to yen when preparing the consolidated financial statements.

In the event the exchange rates actually used for conversion greatly differ from the exchange rates assumed when providing an outlook for the year, a strong yen has a negative impact on the Group's performance and financial condition, while a weak yen has positive impact.

In order to minimize the risks such as exchange rate the company performs hedge operations utilizing forward-exchange contracts to suit the situation. However, sharp fluctuations on the final day of the fiscal year may have an effect on derivative valuation losses and lead to significant changes in nonoperating income and expenses.

(3) Dependence on certain businesses

The I Group is made up of the automotive business in addition to other businesses such as the industrial products and aerospace, but as the automotive business stands out with respect to scale, the performance and financial condition of the entire group may be significantly affected if the demand, market conditions or competition with other companies in the automotive business exceed predictable levels.

(4) Market evaluation fluctuations

The most important aspect of stably improving FHI's performance is the development, manufacture and release of new products at the appropriate timing by planning products based on market trends and customers' needs. If the market's evaluation of new products such as new automobile models falls short of our sales targets, or if existing products become obsolete more quickly than expected, the Group's performance and financial condition may be significantly affected.

(5) Procurement of particular materials and components

The Group procures materials and components from multiple suppliers; however, in some cases we are dependent on certain suppliers. The Group's performance and financial condition may be significantly affected if procurement is not possible at a stable cost, turnaround time or quality due to a tight supply and demand situation.

(6) Protection of intellectual property

The Group will protect its intellectual property regarding technology and know-how in order to differentiate our products. However, the Group's performance and financial condition may be significantly affected by reduced sales or legal expenses if a third party produces similar products by wrongfully using the Group's intellectual property or if protection is limited to a particular region.

(7) Product defects

The Group places the highest priority on safety in the development, manufacture and sale of products 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.

(8) Liabilities for severance and retirement benefits

The Group's expenses and liabilities for employees' severance and retirement benefits are calculated based on assumptions such as an actuarially established discount rate for liabilities for severance and retirement benefits and expected returns on pension plan assets. However, the Group's performance and financial condition may be affected in the future if the actual results differ from the assumptions.

(9) 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.

(10) 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, sales 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 2007 (as of September 30, 2006)	Fiscal 2006 (as of March 31, 2006)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2006 (as of September 30, 2005)
ASSETS				
Current assets	**626,235**	**619,183**	**7,052**	**656,393**
Cash and time deposits	46,732	65,524	(18,792)	79,681
Notes and accounts receivable, trade	100,041	104,972	(4,931)	103,336
Marketable securities	33,207	37,444	(4,237)	55,089
Inventories	254,092	216,396	37,696	202,676
Short-term loans	110,892	118,414	(7,522)	117,011
Deferred tax assets	29,971	32,992	(3,021)	35,301
Other	53,324	45,604	7,720	64,527
Allowance for doubtful accounts	(2,024)	(2,163)	139	(1,228)
Fixed assets	**713,218**	**729,217**	**(15,999)**	**734,835**
Property, plant and equipment, net	**547,573**	**555,973**	**(8,400)**	**564,793**
Buildings and structures	127,218	128,727	(1,509)	128,526
Machinery, equipment and vehicles	122,969	184,582	(61,613)	194,795
Land	172,675	172,338	337	171,337
Construction in progress	9,655	7,396	2,259	7,532
Leased assets	67,784	-	67,784	-
Other	47,272	62,930	(15,658)	62,603
Intangible assets	**35,758**	**38,211**	**(2,453)**	**42,411**
Investments and other assets	**129,887**	**135,033**	**(5,146)**	**127,631**
Investment securities	79,463	80,316	(853)	67,613
Long-term loans	4,739	8,141	(3,402)	7,567
Deferred tax assets	22,911	23,612	(701)	32,271
Other	25,606	25,312	294	21,894
Allowance for devaluation of investments	-	-	-	(41)
Allowance for doubtful accounts	(2,832)	(2,348)	(484)	(1,673)
Total assets	**1,339,453**	**1,348,400**	**(8,947)**	**1,391,228**

Note: In 1st Half of Fiscal 2007, the amount of "Leased assets" in Property, plant and equipment, net has been presented as a separate line item, whereas in Fiscal 2006, "Leased assets" of ¥56,766million and ¥7,485million are included in Machinery, equipment and vehicles and Other, respectively.

(Unit: Millions of yen)

	1st Half Year Fiscal 2007 (as of September 30, 2006)	Fiscal 2006 (as of March 31, 2006)	Changes Increase/ (Decrease)	1st Half Year Fiscal 2006 (as of September 30, 2005)
LIABILITIES AND NET ASSETS				
Current liabilities	**602,327**	**628,113**	**(25,786)**	**654,196**
Notes and accounts payable, trade	186,224	211,412	(25,188)	208,727
Short-term borrowings	191,264	195,507	(4,243)	218,861
Commercial paper	8,000	8,000	-	21,000
Current portion of bonds	10,500	20,500	(10,000)	20,000
Accrued income taxes	4,852	11,472	(6,620)	11,309
Accrued expenses	63,061	61,744	1,317	60,725
Accrued bonus	15,299	15,427	(128)	15,332
Accrued warranty claims	22,909	23,496	(587)	21,239
Other	100,218	80,555	19,663	77,003
Long-term liabilities	**264,865**	**252,501**	**12,364**	**248,485**
Bonds	90,000	80,000	10,000	80,500
Long-term debts	67,300	70,072	(2,772)	57,691
Deferred tax liabilities on revaluation of land	703	703	-	478
Accrued pension and severance liability	53,899	52,322	1,577	61,336
Accrued directors' severance and retirement benefits	886	971	(85)	834
Consolidation adjustments	-	2,995	(2,995)	3,551
Goodwill	1,908	-	1,908	-
Other	50,169	45,438	4,731	44,095
Total liabilities	**867,192**	**880,614**	**(13,422)**	**902,681**
Minority interest in consolidated subsidiaries	**-**	**2,264**	**-**	**3,530**
Shareholders' equity				
Common stock	**-**	**153,795**	**-**	**153,795**
Capital surplus	**-**	**160,071**	**-**	**160,071**
Retained earnings	**-**	**189,996**	**-**	**185,851**
Revaluation reserve for land	**-**	**290**	**-**	**421**
Net unrealized holding gains on securities	**-**	**21,145**	**-**	**15,283**
Translation adjustments	**-**	**(18,230)**	**-**	**(28,156)**
Less-treasury stock, at cost	**-**	**(41,545)**	**-**	**(2,248)**
Total shareholders' equity	**-**	**465,522**	**-**	**485,017**
Total liabilities and shareholders' equity	**-**	**1,348,400**	**-**	**1,391,228**
Net assets				
Shareholders' equity	**471,679**	**-**	**-**	**-**
Common stock	**153,795**	**-**	-	**-**
Capital surplus	**160,071**	**-**	-	**-**
Retained earnings	**199,300**	**-**	-	**-**
Less-treasury stock, at cost	**(41,487)**	**-**	-	**-**
Valuation, translation and other adjustments	**(1,715)**	**-**	**-**	**-**
Revaluation reserve for land	**290**	**-**	-	**-**
Net unrealized holding gains on securities	**19,405**	**-**	-	**-**
Translation adjustments	**(21,410)**	**-**	-	**-**
Minority interest in consolidated subsidiaries	**2,297**	**-**	**-**	**-**
Total net assets	**472,261**	**-**	**-**	**-**
Total liabilities and net assets	**1,339,453**	**-**	**-**	**-**

Consolidated Statements of Income

(Unit: Millions of yen)

	1st Half Year Fiscal 2007 (ended September 30, 2006)		1st Half Year Fiscal 2006 (ended September 30, 2005)		Changes Increase/ (Decrease)	Fiscal 2006 (ended March 31, 2006)	
	Amount	Ratio of Total (%)	Amount	Ratio of Total (%)	Amount	Amount	Ratio of Total (%)
Net sales	**698,676**	**100.0**	**667,102**	**100.0**	**31,574**	**1,476,368**	**100.0**
Cost of sales	**524,042**	**75.0**	**506,970**	**76.0**	**17,072**	**1,125,293**	**76.2**
Gross profit	174,634	25.0	160,132	24.0	14,502	351,075	23.8
Selling, general and administrative expenses	**156,508**	**22.4**	**142,722**	**21.4**	**13,786**	**292,736**	**19.8**
Operating income	**18,126**	**2.6**	**17,410**	**2.6**	**716**	**58,339**	**4.0**
Non-operating income	**5,862**	**0.8**	**6,181**	**0.9**	**(319)**	**12,356**	**0.8**
Interest and dividend income	1,815		1,635		180	3,421	
Amortization of negative goodwill	1,087		-		1,087	-	
Amortization of consolidation adjustments	-		1,715		(1,715)	3,296	
Equity income from affiliated companies	728		1,009		(281)	1,446	
Other	2,232		1,822		410	4,193	
Non-operating expenses	**10,105**	**1.4**	**10,065**	**1.5**	**40**	**23,927**	**1.6**
Interest expenses	1,915		1,430		485	3,181	
Loss on revaluation of derivatives	246		3,244		(2,998)	2,983	
Other	7,944		5,391		2,553	17,763	
Ordinary income	**13,883**	**2.0**	**13,526**	**2.0**	**357**	**46,768**	**3.2**
Extraordinary gains	**7,588**	**1.1**	**5,505**	**0.8**	**2,083**	**9,253**	**0.6**
Gain on sale of property, plant and equipment	6,060		131		5,929	3,872	
Gain on sale of investment securities	6		5,259		(5,253)	5,274	
Prior period adjustment	1,451		-		1,451	-	
Other	71		115		(44)	107	
Extraordinary losses	**4,173**	**0.6**	**8,398**	**1.2**	**(4,225)**	**27,347**	**1.9**
Loss on sale and disposal of property, plant and equipment	2,924		928		1,996	4,273	
Loss on sale of investment securities	-		36		(36)	2,253	
Loss on devaluation of investment securities	284		10		274	-	
Impairment loss on property, plant and equipment	108		1,811		(1,703)	4,064	
Loss on liquidation of affiliated companies	857		-		857	-	
Additional retirement payments	-		-		-	7,991	
Loss on termination of joint development projects	-		5,613		(5,613)	7,094	
Other	-		-		-	1,672	
Income before income taxes and minority interest	**17,298**	**2.5**	**10,633**	**1.6**	**6,665**	**28,674**	**1.9**
Income taxes-current	4,273	0.6	10,085	1.5	(5,812)	13,231	0.8
Income taxes-deferred	1,351	0.2	(7,467)	(1.1)	8,818	(303)	(0.0)
Minority interest in income of consolidated subsidiaries	(70)	(0.0)	(57)	(0.0)	(13)	(135)	(0.0)
Net income	**11,604**	**1.7**	**7,958**	**1.2**	**3,646**	**15,611**	**1.1**

Consolidated Statements of Net Assets

1st Half Year Fiscal 2007 (from April 1, 2006 to September 30, 2006) (Unit: Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance, March 31, 2006	153,795	160,071	189,996	(41,545)	462,317
Increase (decrease) during the period					
Dividends paid	-	-	(3,226)	-	(3,226)
Payment of bonus to directors and statutory auditors	-	-	(107)	-	(107)
Net income	-	-	11,604	-	11,604
Increase in treasury stock	-	-	-	(29)	(29)
Disposal of treasury stock	-	-	(13)	87	74
Increase in the number of companies accounted for by the equity method	-	-	1,038	-	1,038
Other changes in shareholders' capital	-	-	8	-	8
Changes (other than shareholders' capital), net	-	-	-	-	-
Total	-	-	9,304	58	9,362
Balance, September 30, 2006	153,795	160,071	199,300	(41,487)	471,679

	Valuation, translation and other adjustments				Minority interest in consolidated subsidiaries	Total net assets
	Revaluation reserve for land	Net unrealized holding gains on securities	Translation adjustments	Total		
Balance, March 31, 2006	290	21,145	(18,230)	3,205	2,264	467,786
Increase (decrease) during the period						
Dividends paid	-	-	-	-	-	(3,226)
Payment of bonus to directors and statutory auditors	-	-	-	-	-	(107)
Net income	-	-	-	-	-	11,604
Increase in treasury stock	-	-	-	-	-	(29)
Disposal of treasury stock	-	-	-	-	-	74
Increase in the number of companies accounted for by the equity method	-	-	(18)	(18)	-	1,020
Other changes in shareholder's capital	-	-	-	-	-	8
Changes (other than shareholders' capital), net	-	(1,740)	(3,162)	(4,902)	33	(4,869)
Total	-	(1,740)	(3,180)	(4,920)	33	4,475
Balance, September 30, 2006	290	19,405	(21,410)	(1,715)	2,297	472,261

Consolidated statements of Retained Earnings

(Unit: Millions of yen)

	1st Half Year Fiscal 2006 (Ended September 30, 2005)		Fiscal 2006 (Ended March 31, 2006)	
(Capital surplus)				
Ⅰ Balance at beginning of the period		160,071		160,071
Ⅱ Balance at end of the period		160,071		160,071
(Retained earnings)				
Ⅰ Balance at beginning of the period		178,022		178,022
Ⅱ Increase				
Increase in the number of companies accounted for by the equity method	3,466		3,466	
Net income	7,958		15,611	
Other	26	11,450	31	19,108
Ⅲ Decrease				
Dividends	3,508		7,015	
Bonus to directors and statutory auditors	112		111	
Loss on disposal of treasury stock	1	3,621	8	7,134
Ⅳ Balance at end of the period		185,851		189,996

Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	1st Half Year Fiscal 2007 (ended September 30, 2006)	1st Half Year Fiscal 2006 (ended September 30, 2005)	Changes Increase/ (Decrease)	Fiscal 2006 (ended March 31, 2006)
1.Cash flows from operating activities:				
Income before income taxes and minority interest	17,298	10,633	6,665	28,674
Depreciation and amortization expenses	40,118	36,553	3,565	80,073
Increase (decrease) in allowance for doubtful accounts	345	(1,068)	1,413	542
Increase (decrease) in accrued warranty claims	(400)	16	(416)	1,040
Increase (decrease) in accrued pension and severance liability	1,492	2,018	(526)	(6,859)
Interest and dividends income	(1,815)	(1,635)	(180)	(3,421)
Amortization of negative goodwill	(1,087)	–	(1,087)	–
Amortization of consolidation adjustments (non-operating income)	–	(1,715)	1,715	(3,296)
Equity income from affiliated companies	(728)	(1,009)	281	(1,446)
Interest expenses	1,915	1,430	485	3,181
Loss on revaluation of derivatives	246	3,244	(2,998)	2,983
Gain on sale of property, plant and equipment	(6,060)	(131)	(5,929)	(3,872)
Gain on sale of investment securities	(6)	(5,259)	5,253	(5,274)
Loss on sale and disposal of property, plant and equipment	2,924	928	1,996	4,273
Loss on sale of investment securities	–	36	(36)	2,253
Loss on devaluation of investment securities	284	10	274	–
Impairment loss on property, plant and equipment	108	1,811	(1,703)	4,064
Loss on liquidation of affiliated companies	857	–	857	–
Additional retirement payments	–	–	–	7,991
Loss on termination of the joint development projects	–	5,613	(5,613)	7,094
Decrease in notes and accounts receivable, trade	4,796	15,280	(10,484)	13,893
Increase in inventories	(39,712)	(26,805)	(12,907)	(9,944)
Increase (decrease) in notes and accounts payable, trade	(24,308)	13,181	(37,489)	16,555
Increase in deposits received	8,918	27,371	(18,453)	23,964
Other, net	5,436	(10,302)	15,738	(7,884)
Sub total	10,621	70,200	(59,579)	154,584
Interest and dividends received	2,256	1,459	797	3,126
Interest paid	(1,842)	(1,140)	(702)	(2,920)
Additional retirement payments	–	–	–	(7,991)
Income taxes paid	(10,857)	(3,056)	(7,801)	(9,201)
Bonus paid to directors and statutory auditors	(107)	(128)	21	(113)
Net cash provided by operating activities	71	67,335	(67,264)	137,485

(Unit: Millions of yen)

	1st Half Year Fiscal 2007 (ended September 30, 2006)	1st Half Year Fiscal 2006 (ended September 30, 2005)	Changes Increase/ (Decrease)	Fiscal 2006 (ended March 31, 2006)
2.Cash flows from investing activities:				
Purchase of marketable securities	(959)	(7,455)	6,496	(9,489)
Proceeds from sale of marketable securities	3,980	16,008	(12,028)	21,908
Purchase of property, plant and equipment	(21,992)	(68,598)	46,606	(120,875)
Proceeds from sale of property, plant and equipment	7,413	14,781	(7,368)	38,115
Purchase of leased assets	(39,101)	–	(39,101)	–
Proceeds from sale of leased assets	26,779	–	26,779	–
Purchase of intangible assets	(1,785)	(3,841)	2,056	(5,127)
Purchase of investment securities	(3,197)	(3,484)	287	(9,063)
Proceeds from sale of investment securities	1,834	13,677	(11,843)	13,092
Price adjustment on investments in subsidiaries	–	(7,087)	7,087	(7,087)
Disbursement of loans receivable	(40,901)	(64,130)	23,229	(124,989)
Collection of loans receivable	41,968	57,748	(15,780)	127,450
Other, net	(328)	746	(1,074)	290
Net cash used in investing activities	(26,289)	(51,635)	25,346	(75,775)
3.Cash flows from financing activities:				
Net decrease in short-term borrowings	(2,943)	(1,521)	(1,422)	(4,538)
Net decrease in commercial paper	–	(1,000)	1,000	(14,000)
Proceeds from long-term debts	500	3,901	(3,401)	15,301
Repayment on long-term debts	(2,967)	(7,361)	4,394	(28,996)
Issuance of bonds	20,000	–	20,000	-
Redemption of bonds	(20,000)	(10,300)	(9,700)	(10,300)
Purchase of treasury stock	(29)	(20)	(9)	(39,352)
Proceeds from disposal of treasury stock	74	3	71	30
Dividends paid	(3,226)	(3,508)	282	(7,015)
Other, net	(102)	(2)	(100)	(15)
Net cash used in financing activities	(8,693)	(19,808)	11,115	(88,885)
4.Effect of exchange rate changes on cash and cash equivalents	**(1,146)**	**2,398**	**(3,544)**	**7,856**
5.Net decrease in cash and cash equivalents	**(36,057)**	**(1,710)**	**(34,347)**	**(19,319)**
6.Cash and cash equivalents at beginning of the period	**112,366**	**131,685**	**(19,319)**	**131,685**
7.Cash and cash equivalents at end of the period	**76,309**	**129,975**	**(53,666)**	**112,366**

Note: In 1st Half of Fiscal 2007, the amounts of “Purchase of leased assets” and “Proceeds from sale of leased assets” in Cash flows from investing activities have been stated separately, whereas in 1st Half of Fiscal 2006 “Purchase of leased assets” of ¥31,907million and “Proceeds from sale of leased assets” of ¥14,550million are included in “Purchase of property, plant and equipment” and “Proceeds from sale of property, plant and equipment”, respectively.

Basis for Preparation 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: 63

Domestic subsidiaries:	44	Fuji Robin Industries Ltd., Ichitan Co., Ltd., TOKYO SUBARU, Inc. and 41 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: 18

Domestic companies:	16	Subaru Auto Accessory Co., Ltd., Subaru System service Co., Ltd. Subaru Tecnica International Inc., Robin Service Co., Ltd., Fuji Special Purpose Vehicle Co., Ltd. and 11 other companies
Foreign companies:	2	Robin America, Inc., Robin Europe GmbH

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

(1) Consolidated subsidiaries:

Increase:	–
Decrease:	5

The number of consolidated subsidiaries has decreased by 5 subsidiaries to a total of 63 subsidiaries. The decrease was due to reorganization of 10 Subaru exclusive dealer subsidiaries in Hokkaido and four other regions into 5 companies.

(2) Companies accounted for by the equity method:

Increase:	7	Robin Service Co., Ltd., Fuji Special Purpose Vehicle Co., Ltd., Robin Europe GmbH, and 4 other companies
Decrease:	–	

From this semi-annual period, Robin Service Co., Ltd., Fuji Special Purpose Vehicle Co., Ltd., Robin Europe GmbH, and 4 other companies have been accounted for by the equity method due to their increased significance in the consolidated financial statements.

3. Semi-annual Fiscal Period-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 semi-annual fiscal period ended June 30, significant transactions that occurred for the intervening period between June 30 and September 30 are reflected in the consolidated financial statements.

4. Summary of Significant Accounting Policies

(1) Method and basis for valuation of significant assets

1. Marketable securities and investment securities:

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

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 net assets until realized. Realized gains and losses on sale of securities are principally computed using the moving-average method.

b) Securities for which fair market value is not available: Stated principally at cost determined by the moving-average method, after taking into consideration devaluation, if any, 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 at rates based on the estimated useful lives of the assets according to their general class, type of construction, and use.

Estimated useful lives for depreciable assets are as follows:

Buildings and structures:	7-50 years
Machinery, equipment and vehicles:	2-11 years

2. Goodwill and intangible assets:

Goodwill is principally 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 of 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 an estimated amount of uncollectible account for specific over-due receivables.

(2) Allowance for devaluation of investments:

Allowance for devaluation of investments is provided for losses from declines in the value of investment securities for which fair value is not readily 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 rendered 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 the fair value of plan assets at end of the current semi-annual period. Prior service cost is being amortized 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 are amortized from the following fiscal year by the straight-line method over a period (primarily 18 years), which are shorter than the average remaining service period of the eligible employees.

(6) Accrued directors' severance and retirement benefits:

Directors and statutory auditors of the Company and consolidated domestic subsidiaries are entitled to receive a lump-sum payment 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-denominated 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 currently in the statements of income.

The 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 dates 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 respective semi-annual period. The resulting foreign currency translation adjustments are included in "Translation adjustments" and "Minority interest in consolidated subsidiaries" in net assets of 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 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 hedged 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:

An evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the hedged transactions, assets and liabilities, and therefore they are presumed to be highly effective in offsetting the effect of movements in interest rates at their inception as well as during their terms.

(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 include all highly liquid investments, generally with original maturities of three months or less that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

Changes in Accounting Policies

(Accounting standard for director's bonus)

Effective this semi-annual period, the Company and consolidated subsidiaries adopted the provisions of "Accounting Standard for Director's Bonus "(Business Accounting Standards Committee, November 29, 2005, Business Accounting Standard No. 4).
The adoption of this standard had no effect on income.

(Accounting standard for business combination)

Effective this semi-annual period, the Company and consolidated subsidiaries adopted the provisions of "Accounting Standard for Business Combination" (Business Accounting Deliberation Council, October 31, 2003), "Accounting Standard for Business Separation" (Business Accounting Standard Committee, December 27, 2005, Business Accounting Standard No. 7), and "Implementation guidance for the accounting standard for business combination and the accounting standard for business separation" (Business Accounting Standard Committee, December 27, 2005, Financial Accounting Standard Implementation Guidance No. 10).
The adoption of these standards had no effect on income.

〔Semi-annual consolidated balance sheet〕
Effective this semi-annual period, the Company has presented "consolidation adjustment (credit side)" as "goodwill".

〔Semi-annual consolidated statement of income〕
Effective this semi-annual period, the Company has presented "amortization of consolidation adjustment" (non-operating income) as "amortization of negative goodwill".

〔Semi-annual consolidated statement of cash flows〕
Effective this semi-annual period, the Company has presented "amortization of consolidation adjustment" (non-operating income) as "amortization of negative goodwill".

(Accounting standard for presentation of net assets in the balance sheet)

Effective this semi-annual period, the Company and consolidated subsidiaries adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Business Accounting Standard Committee, December 9, 2005, Business Accounting Standard No. 5) and "Implementation guidance for the accounting standard for presentation of net assets in the balance sheet" (Business Accounting Standard Committee, December 9, 2005, Financial Accounting Standard Implementation Guidance No. 8).
The adoption of this standard has no effect on income.
The amount that would have otherwise been reported as total "shareholders' equity" is ¥469,964 million.

Due to certain revisions to the regulations concerning semi-annual consolidated financial statements, the semi-annual consolidated financial statements in this semi-annual period have been prepared in conformity with the revised regulations concerning semi-annual consolidated financial statements.

Additional Information

(Amortization of negative goodwill)

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.

The acquisition cost of the Isuzu's share of SIA was determined in consideration of certain losses on the disposal of property, plant and equipment, losses on cancellation of operating leases, and losses related to personnel reduction, to be incurred during and after the consigned production activities. Consequently, the negative goodwill arose.

The portion of the negative goodwill 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.

In FY2006, the Company revised the amortization schedule following the statement of actual losses with Isuzu according to the Master Agreement for Cancellation of the Joint Venture Relationship and Consignment of Production dated December 20, 2002, which resulted in reduction in the negative goodwill account.

As a result, the balance of the negative goodwill as of March 31, 2006 was reduced to ¥1,949 million and the entire amount is to be amortized in Fiscal 2007.
In this semi-annual period the Company amortized ¥974 million of the negative goodwill and the balance remaining as of September 30, 2006 was ¥975 million.

(Transfer to the government of substitutional portion of employee pension fund)

As stipulated in Japanese Defined Benefit Pension Insurance Law, the Tokyo Subaru Employees' Pension Fund (a multi-employer welfare pension fund), of which certain consolidated subsidiaries are members, obtained an approval from the Minister of Health, Labor and Welfare for exemption from the benefit obligations related to future employee service in respect of substitutional portion on October 28, 2005. The pension fund is currently in the process of transferring the obligations related to past employee service to the government.

The amount to be transferred (the minimum reserve obligations) to the government as of September 30, 2006, was estimated ¥5,400 million. Had the amount been transferred at the end of this semi-annual period, an extraordinary gain of approximately ¥2,300 million would have been recognized in the following fiscal year, in accordance with the provisions of Article 44 – 2 of "Practice Guidelines of Accounting for Retirement Benefits (Interim Report)" (JICPA Accounting Systems Committee Report No. 13).

Notes to Consolidated Semi-annual Financial Statements

(Consolidated Balance Sheets)

1. Pledged assets and secured liabilities

Pledged assets and secured liabilities are as follows:

(1)Pledged assets (Unit: Millions of yen)

	1st Half Year Fiscal 2007	Fiscal 2006
Notes and accounts receivable, trade	644	291
Buildings and structures	14,871	31,318
	[5,992]	[10,879]
Machinery, equipment and vehicles	2,527	16,021
	[2,527]	[16,012]
Land	27,025	41,515
	[1,486]	[1,493]
Other fixed assets	-	180
Total	¥ 45,067	¥ 89,325
	[10,005]	[28,384]

(2)Secured liabilities (Unit: Millions of yen)

	1st Half Year Fiscal 2007	Fiscal 2006
Short-term borrowings	¥ 48,053	¥ 45,934
	[4,075]	[2,112]
Long-term debts	8,320	11,625
	[7,179]	[7,230]
Total	¥ 56,373	¥ 57,559
	[11,254]	[9,342]

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

2. Accumulated depreciation for property, plant and equipment (Unit: Millions of yen)

1st Half Year Fiscal 2007	Fiscal 2006
¥ 703,119	¥ 686,418

3. The Company's guarantee amounts for the indebtedness from financial institutes

(Unit: Millions of yen)

1st Half Year Fiscal 2007	Fiscal 2006
¥ 40,686	¥ 41,451

4. The balance of assets transferred to the special purpose company

(Unit: Millions of yen)

1st Half Year Fiscal 2007	Fiscal 2006
¥ 21,458	¥ 18,174

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

(Unit: Millions of yen)

	1st Half Year Fiscal 2007	Fiscal 2006
Total overdraft facilities and lending commitments	¥ 10,910	¥ 14,310
Less amounts currently executed	2,739	2,788
Unexecuted balance	¥ 8,171	¥ 11,522

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.

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

(Unit: Millions of yen)

	1st Half Year Fiscal 2007	Fiscal 2006
Total commitments	¥ 80,444	¥ 81,174
Less amounts currently executed	-	-
Unexecuted balance	¥ 80,444	¥ 81,174

(Consolidated Statements of Income)

1. Research and development cost included in general and administrative expenses and cost of sales

(Unit: Millions of yen)

1st Half Year Fiscal 2007	1st Half Year Fiscal 2006
¥ 25,063	¥ 21,577

2. Extraordinary gains and losses

(1) 1st Half Year Fiscal 2007

Prior period adjustment

Prior period adjustment represents a gain due to final settlement on reversal of a portion of “Loss on termination of a joint development project (a joint development project for new model vehicles)” which was recorded as an extraordinary loss in prior period.

Loss on liquidation of affiliated companies
The Company has recorded a loss on liquidation of Fuji AT Ltd, which was a joint venture with JATCO Ltd.

(2) 1st Half Year Fiscal 2006

The Company recorded an impairment loss with regard to the following asset groups.

Use	Location	Category
Asset for dealership business	Wakayama prefecture and 2 other locations	Buildings and structures, machinery and equipment, and land
Real estate for lease business	Gunma prefecture	Buildings
Underutilized real estate	Hokkaido prefecture and 2 other locations	Land

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

The impairment loss by each category of property, plant and equipment was as follows;

(Unit: Millions of yen)

Buildings and structures	¥ 837
Machinery and equipments	¥ 103
Land	¥ 871
Total	¥ 1,811

“Loss on termination of joint development projects” is about termination of the joint development projects for new model vehicle. In light of the termination of the Strategic Alliance between the Company and General Motors (GM), the Company and GM agreed to terminate the joint development project for cross over vehicles with SAAB Automobile AB. As a result, the Company has recorded an extraordinary loss on the joint project estimated costs.

(Consolidated Statements of Net Assets)

1. Number of shares issued and outstanding

Class	At beginning of the period (as of March 31,2006)	Increase	Decrease	At end of the period (as of September 30,2006)	Memo
Common stock	782,865,873	-	-	782,865,873	

2. Number of treasury stock

Class	At beginning of the period (as of March 31,2006)	Increase	Decrease	At end of the period (as of September 30,2006)	Memo
Common stock	66,193,286	42,911	138,180	66,098,017	

3. Dividends

Resolution	Class of stock	Total amounts of cash dividends	Cash dividends per share	Record date	Effective date
Annual meeting of shareholders on June 27, 2006	Common stock	3,226 million yen	4.5 yen	March 31, 2006	June 28, 2006

(Consolidated Statements of Cash Flows)

1. A reconciliation of the ending balance of cash and cash equivalents to the balance sheet amounts of each related account at end of the period is as follows:

(1) 1st Half Year Fiscal 2007

(Unit: Millions of yen)

	Balance sheet amounts	Cash and cash equivalents
Cash and time deposits	¥ 46,732	¥ 46,671
Marketable securities	¥ 33,207	25,124
Short-term loans	¥110,892	4,514
Cash and cash equivalents		¥ 76,309

(2) 1st Half Year Fiscal 2006

(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. Other

(1) 1st Half Year Fiscal 2007
None.

(2) 1st Half Year Fiscal 2006
"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."

(Securities and Investments)

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

(Unit: Millions of yen)

	1st Half Year Fiscal 2007 (as of September 30, 2006)			Fiscal 2006 (as of March 31, 2006)		
Other investment securities (available-for-sale securities):	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
(1) Equity securities	20,380	53,068	32,688	20,385	55,867	35,482
(2) Debt securities						
Government and municipal bonds	8,866	8,587	(279)	11,297	11,154	(143)
Corporate bonds	3,524	3,730	206	3,632	3,572	(60)
Other	1	3	2	35	344	309
(3) Other	1,540	1,500	(40)	1,335	1,314	(21)
Total	34,312	66,889	32,577	36,684	72,251	35,567

2. Major securities without available fair market value

(Unit: Millions of yen)

1st Half Year Fiscal 2007 (as of September 30, 2006)	Book value	Fiscal 2006 (as of March 31, 2006)	Book value
Other securities:		Other securities:	
Money management fund	15,122	Money management fund	33,679
Commercial paper	16,687	Unlisted stocks (excluding over-the-counter stocks)	1,469
Unlisted stocks (excluding over-the-counter stocks)	2,004		

Note: The Company and consolidated subsidiaries recognized ¥63 million in loss on devaluation of securities in the current semi-annual period.

For the purpose of recording a 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 record the relevant loss on devaluation. For securities whose fair market value has declined between 30% to 50% in relation to their book values, the Company and consolidated subsidiaries specifically consider the probability of recovery of the fair value, and record a loss on devaluation in an amount deemed permanently impaired.

(Segment Information)

(1) Information by business segment

1st Half Year Fiscal 2007 (from April 1, 2006 to September 30, 2006) (Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income							
Sales							
(1) Outside customer	622,447	27,217	42,476	6,536	698,676	–	698,676
(2) Inter-segment	1,482	12	9	1,274	2,777	(2,777)	–
Total sales	623,929	27,229	42,485	7,810	701,453	(2,777)	698,676
Operating cost and expense	611,187	26,043	39,791	6,606	683,627	(3,077)	680,550
Operating income	12,742	1,186	2,694	1,204	17,826	300	18,126

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	13,844	808	1,666	624	16,942	468	17,410

Fiscal 2006 (from April 1, 2005 to March 31, 2006) (Unit: Millions of yen)

	Automobiles	Industrial products	Aerospace	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income							
Sales							
(1) Outside customer	1,329,161	52,436	81,787	12,984	1,476,368	–	1,476,368
(2) Inter-segment	3,688	116	35	2,518	6,357	(6,357)	–
Total sales	1,332,849	52,552	81,822	15,502	1,482,725	(6,357)	1,476,368
Operating cost and expense	1,281,290	50,514	79,027	14,271	1,425,102	(7,073)	1,418,029
Operating income	51,559	2,038	2,795	1,231	57,623	716	58,339

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, Stella, 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 2007 (from April 1, 2006 to September 30, 2006) (Unit: Millions of yen)

	Japan	North America	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	435,144	254,237	9,295	698,676	–	698,676
(2) Inter-segment	126,158	1,250	128	127,536	(127,536)	–
Total sales	561,302	255,487	9,423	826,212	(127,536)	698,676
Operating cost and expense	540,710	260,541	9,118	810,369	(129,819)	680,550
Operating income (loss)	20,592	(5,054)	305	15,843	2,283	18,126

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

Fiscal 2006 (from April 1, 2005 to March 31, 2006) (Unit: Millions of yen)

	Japan	North America	Other	Total	Corporate and elimination	Consolidated total
I. Sales and operating income (loss)						
Sales						
(1) Outside customer	888,117	572,412	15,839	1,476,368	–	1,476,368
(2) Inter-segment	257,456	2,298	313	260,067	(260,067)	–
Total sales	1,145,573	574,710	16,152	1,736,435	(260,067)	1,476,368
Operating cost and expense	1,088,584	572,740	15,843	1,677,167	(259,138)	1,418,029
Operating income	56,989	1,970	309	59,268	(929)	58,339

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 2007 (from April 1, 2006 to September 30, 2006)(Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	277,031	65,832	69,424	412,287
Consolidated net sales				698,676
Percentage of overseas sales over consolidated sales (%)	39.7%	9.4%	9.9%	59.0%

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%

Fiscal 2006 (from April 1, 2005 to March 31, 2006) (Unit: Millions of yen)

	North America	Europe	Other	Total
Overseas sales	616,437	128,777	127,016	872,230
Consolidated net sales				1,476,368
Percentage of overseas sales over consolidated sales (%)	41.8%	8.7%	8.6%	59.1%

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.

(Business Combination)

The Company has integrated certain Subaru dealer subsidiaries for the purpose of enhancement of their sales force and improvement of their profitability.
Those integrated companies are consolidated subsidiaries included in the automobiles segment, and the integration has been accounted for as a reorganization of entities under common control.

(1) April 1, 2006, merger by surviving companies

<table>
<tr><th>Area</th><th>Integrated companies</th><th>New companies</th></tr>
<tr><td rowspan="2">Hokkaido</td><td>ASAHIKAWA SUBARU, Inc.</td><td rowspan="2">HOKKAIDO SUBARU, Inc.</td></tr>
<tr><td>HOKKAIDO SUBARU, Inc. *</td></tr>
<tr><td rowspan="2">Chubu</td><td>Hokuriku Subaru, Inc.*</td><td rowspan="2">Hokuriku Subaru, Inc.</td></tr>
<tr><td>FUKUI SUBARU, CO., LTD</td></tr>
<tr><td rowspan="2">Shikoku</td><td>Kagawa Subaru, Inc.*</td><td rowspan="2">HIGASHISHIKOKU SUBARU, Inc.</td></tr>
<tr><td>TOKUSHIMA SUBARU, INC</td></tr>
<tr><td rowspan="2">Kita-Kyushu</td><td>SAGA SUBARU, INC</td><td rowspan="2">NISHIKYUSHU SUBARU, Inc.</td></tr>
<tr><td>NAGASAKI Subaru, Inc.*</td></tr>
<tr><td rowspan="2">Minami-Kyushu</td><td>Miyazaki Subaru, Inc.</td><td rowspan="2">MINAMIKYUSHU SUBARU, Inc.</td></tr>
<tr><td>Kagoshima Subaru, Inc.*</td></tr>
</table>

* Surviving companies

(2) October 1, 2006, sale of automobile dealership business to a surviving company.

<table>
<tr><th>Area</th><th>Integrated companies</th><th>New company</th></tr>
<tr><td rowspan="2">Kinki</td><td>WAKAYAMA SUBARU MOTORS INC.</td><td rowspan="2">OSAKA SUBARU, INC.</td></tr>
<tr><td>OSAKA SUBARU, INC.*</td></tr>
</table>

* Surviving company

(Footnote Information Omitted in This Release)

The following footnotes are not presented herein for they will be disclosed in the EDINET filing:

・Lease transactions
・Derivative transactions
・Stock option, etc.

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 2007 (From April 1, 2006 to September 30, 2006)	Changes from prior semi-annual period (%)
Automobiles	Mini-cars	83,458	18.8
	Compact cars	224,319	3.6
	Sub-total	307,777	7.3
Industrial products		24,596	3.4
Aerospace		51,049	29.6
Other		4,938	(5.9)

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 2007 (From April 1, 2006 to September 30, 2006)			
	Accepted orders	Changes from prior semi-annual period (%)	Order balance	Changes from prior semi-annual period (%)
Aerospace	29,060	(13.7)	150,739	19.6
Other	4,111	(32.6)	1,696	(32.0)
Total	33,171	(16.6)	152,435	18.6

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 2007 (From April 1, 2006 to September 30, 2006)	Changes from prior semi-annual period (%)
Automobiles	622,447	4.0
Industrial products	27,217	6.1
Aerospace	42,476	18.2
Other	6,536	(4.1)
Total	698,676	4.7

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

Subsequent Event

The share exchange to make Fuji Machinery Co., Ltd. a wholly owned subsidiary

Fuji Machinery Co., Ltd., a consolidated subsidiary, accounts for approximately 90% of its sales to Fuji Heavy Industries Ltd. (the Company). In order to enhance group management, the Company, at its Board of Directors' meeting on May 9, 2006, approved a share exchange (under the simplified share exchange method), in which Fuji Machinery Co., Ltd. will become a wholly owned subsidiary, and it executed a share exchange agreement with Fuji Machinery Co., Ltd.

1. Principal terms and conditions of the share exchange

(1) Timetable

October 1, 2006: Closing date of share exchange (Deadline to submit stock certificate)

The Company will conduct this share exchange in accordance with the simplified share exchange provision in Article 796 of the Corporate Law, without seeking the approval at a shareholders' meeting.

(2) Share exchange ratio

	The Company (Future 100% parent company)	Fuji Machinery Co., Ltd. (Future wholly-owned subsidiary)
Share exchange ratio	1	0.52

Note: Basis of determining the share exchange ratio

The Company and Fuji Machinery Co., Ltd. individually engaged third party appraisers to analyze the exchange ratio. The analysis was performed based on the market stock prices, the comparable-company comparisons, and the discounted cash flows. The Company and Fuji Machinery Co., Ltd. have agreed to the above ratio, taking into consideration the results of such third party appraisals and certain other factors.

(3) Share transfer payment in connection with the share exchange

No share transfer payment will be paid in connection with the share exchange.

2. Operations following the closing of the share exchange

(1) Company name, nature of business, management, and location of the head office

There will be no change as a result of the share exchange.

(2) Common stock of the Company

There will be no change in the amount of common stock of the Company because the Company intends to re-issue its treasury stock for all the shares to be exchanged.

(3) Effect on the results of the Company's operation

The Company expects the share exchange will have no material effect on its results of operations.

SUBARU

<Reference for the First Half of FY2007(Apr. 2006 to Sep. 2006) Consolidated Financial Results>

(Oct 31, 2006)

Fuji Heavy Industries Ltd.

(in 100 millions of yen) (in thousands of units)	RESULTS 1st HALF of FY2006 Apr. 2005 to Sep. 2005	RESULTS 1st HALF of FY2007 Apr. 2006 to Sep. 2006		RESULTS FY2006 Apr. 2005 to Mar. 2006	FORECAST FY2007 Apr. 2006 to Mar. 2007		FORECAST FY2007 (May 2006) Apr. 2006 to Mar. 2007
Net Sales	6,671	6,987	4.7 %	14,764	15,000	1.6 %	15,500
Domestic	2,955	2,864	(3.1) %	6,041	5,800	(4.0) %	6,400
Overseas	3,716	4,123	11.0 %	8,722	9,200	5.5 %	9,100
Margin Percentage	2.6%	2.6%		4.0%	3.3%		3.2%
Operating Income	174	181	4.1 %	583	500	(14.2) %	500
Margin Percentage	2.0%	2.0%		3.2%	2.8%		3.2%
Ordinary Income	135	139	2.6 %	468	420	(10.2) %	500
Margin Percentage	1.2%	1.7%		1.1%	2.0%		1.9%
Net Income	80	116	45.8 %	156	300	92.2 %	300
Factors of Change in Operating Income		**Gain factors** Foreign exchange 84 Reduction in cost 36 **Loss factors** Decrease in sales mix 63 Increases in R&D expenses 35 Increases of expenses and others 15			**Gain factors** Foreign exchange 96 Reduction in cost 77 **Loss factors** Decrease in sales mix 208 Increases in R&D expenses 41 Increases of expenses and others 7		**Gain factors** Increases in sales mix 107 Reduction in cost 27 **Loss factors** Increase of expenses and others 96 Increase in R&D expenses 71 Foreign exchange 50
Foreign Exchange Rate YEN/US$	109	115		112	115		110
Capital Investment	324	209		562	730		930
Depreciation and Amortization	270	289		575	590		605
R&D Expenses	216	251		469	510		540
Interest bearing debt	3,981	3,671		3,741	3,500		3,700
Performance of Operation		Net Sales to increase Net Income to increase Best Net Sales			Net Sales to increase Net Income to increase Best Net Sales		
Domestic Sales	114	112	(1.7) %	230	237	3.0 %	264
Small Cars	48	40	(18.2) %	98	82	(16.3) %	97
Minicars	66	72	10.4 %	132	155	17.2 %	167
Overseas Sales	150	157	4.2 %	341	345	1.1 %	347
North America	88	89	1.1 %	210	207	(1.6) %	220
Europe	31	32	5.4 %	65	69	7.0 %	65
Other	31	35	11.7 %	67	69	3.8 %	62
Units Total	264	269	1.7 %	571	582	1.8 %	611

* 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..