

May 9, 2006

Company: Fuji Heavy Industries, Ltd.
Representative: Kyoji Takenaka, President & CEO
(TSE Code: 7270)

Company: Fuji Machinery Co., Ltd.
Representative: Kiyoshi Morita, President
(JASDAQ Code: 7252)

**Fuji Heavy Industries, Ltd. decided to make Fuji Machinery Co., Ltd
as a wholly owned subsidiary**

Fuji Heavy Industries, Ltd. (“FHI”) hereby gives notice that it was decided to make Fuji Machinery Co., Ltd. (“Fuji Machinery”) a wholly-owned subsidiary through a stock exchange and that the two companies have concluded a stock exchange agreement.

1. Purpose

FHI’s consolidated subsidiary Fuji Machinery mainly develops, manufactures and sells automobile parts centered on drive systems such as manual transmissions (parts for minicars and passenger vehicles) and transmissions for industrial products (industrial, agricultural), and 90% of its sales are to FHI.

In order to ensure Fuji Machinery develops future technological innovation while conducting management effectively, it is necessary to further deepen the relationship with FHI and make fast and dynamic decisions to efficiently distribute limited management resources within a group. This will increase the corporate value of Fuji Machinery while clearly placing it as a dedicated transmission manufacturer for the FHI Group and enhancing that role in the Group.

Based on this situation, the two companies decided to make Fuji Machinery a wholly owned subsidiary of FHI in order to improve the management capabilities of the group.

In the future, the two companies will strengthen their production organization further and aim for improving earnings and shareholders’ value.

2. Stock exchange conditions, etc.

(1) Schedule

May 9, 2006	Board of Directors Meeting approved stock exchange agreement
May 9, 2006	Conclusion of stock exchange agreement
June 28, 2006 (planned)	General Shareholders’ Meeting Fuji Machinery (Approval of stock exchange)
October 1, 2006 (Planned)	Execution of Stock exchange (share certificate submission deadline)

According to the Article No. 796 (simplified stock exchange) of the Corporate Law (enforced since May 1, 2006), it is not required for FHI to hold General Shareholders’

Meeting for stock exchange approval.

(2) Stock exchange ratio

	FHI (Parent company)	Fuji Machinery (Wholly-owned subsidiary)
Exchange ratio	1	0.52

(Note) 1. Allocation ratio

FHI will allocate 0.52 shares to 1 share of Fuji Machinery. However, FHI will allocate nothing for 6,949,000 shares of Fuji Machinery that FHI holds as a parent company.

2. FHI stock transfer

As FHI will allocate 1,586,520 treasury stocks for Fuji Machinery shareholders and no new shares will be issued.

(3) Stock exchange grant

No stock exchange grant will be paid.

3. Condition after stock exchange

(1) Company name, lines of business, representative, location of head office

There are no changes to either company resulting from the stock exchange.

(2) Capital of FHI

FHI will use solely treasury stock for the stock exchange, so there is no change in the capital.

4. Future outlook

Fuji Machinery is already a consolidated subsidiary of FHI and the impact on FHI's consolidated performance is minor.