

The 37th Business Term

Annual Business Report

(from April 1, 2005 to March 31, 2006)



FANUC LTD

To Our Shareholders

I am pleased to present the FANUC Group's Annual Business Report for the 37th fiscal year ended March, 2006, and would like to take this opportunity to thank you for your continued support.

The Japanese economy continued to recover in the fiscal year ended March 31, 2006, driven by an increase in corporate earnings and capital investment.

In overseas economies too, China, Korea, Taiwan, India and the United States continued to see growth, in line with a moderate recovery in Europe.

Under these circumstances, demand for capital investments in both the automotive industry and IT industry in each of those countries expanded significantly, bringing our order entries, sales and production over the previous year to a record high.

In the R&D area, FANUC committed itself to developing globally competitive products featuring leading-edge intelligence and networking capabilities. FANUC production focused on "robotizing"



Dr. Eng. Yoshiharu Inaba
President and CEO

its machining and assembly processes, while the entire FANUC Group worked hard to further reduce costs and expenses.

As a result, the FANUC Group posted ¥381,074 million (+15.4% over the previous year) in sales, ¥150,832 million (+20.9%) in ordinary income and ¥90,437 million (+19.4%) in net income on a consolidated basis in the fiscal year ended March 31, 2006.

On a non-consolidated basis, FANUC LTD posted ¥279,622 million (+8.1% over the previous year) in sales, ¥116,162 million (+11.7%) in ordinary income and ¥72,787 million (+12.7%) in net income in the fiscal year ended March 31, 2006.

As for year-end dividends for the current fiscal year, we will pay, based on new basic policies concerning the distribution of profits, ¥65 per share, an increase of ¥34 over the previous year-end dividends. This will bring the total amount of annual dividends paid to ¥96 per share, including ¥31 paid in December of last year as an interim dividend, representing an overall increase of ¥51 over the previous fiscal year.

Faced with various uncertainties that could adversely affect the economic recovery such as the soaring price of crude oil and procured materials including steel, castings, and bearings together with exchange rate fluctuations, we anticipate a more difficult business environment and tougher global competition in the future.

Under these circumstances, the FANUC Group will continue to place even more emphasis on R&D to develop more intelligent, ultra-precision and networking products, and at the same time, FANUC will further “robotize” its factories to launch globally competitive products into the markets. Also, in order to meet delivery dates in spite of high order volumes, FANUC plans to install additional Robot Cells, start up a new servo motor factory and expand the production capacity of each factory. Moreover, to strengthen production capacity, Press & Die Cast Factory will be built.

The FANUC Group is committed to expanding its market share and sustaining growth.

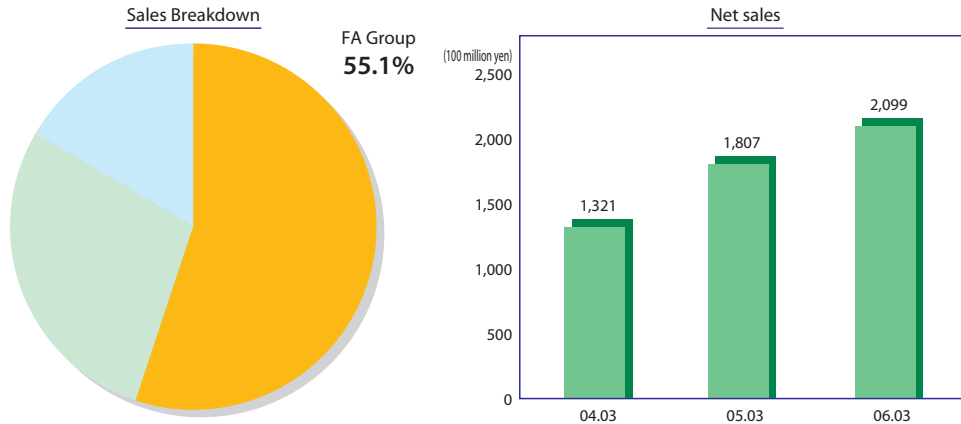
We would like to ask your continued support and assistance to FANUC.

June 2006



Dr. Eng. Yoshiharu Inaba
President and CEO

FA Group (Consolidated)



Business Overview

Domestic sales of CNCs remained strong, supported by robust capital investments in the machining field of the automotive, machinery, IT and digital home appliances industries. Overseas sales were also solid in China, Korea and Taiwan in addition to Europe and the United States.

As for laser products, sales remained robust in Japan and Europe, posting a record high.

Overall, consolidated sales of the FA Group totaled ¥209,922 million, up 16.2% over the previous fiscal year, accounting for 55.1% of the total FANUC Group sales.

Future Initiatives

FANUC's CNC Series holds the top global market share of control systems for machine tools. We will maintain and expand this market by offering next-generation CNC products to the market.

Product Lineup

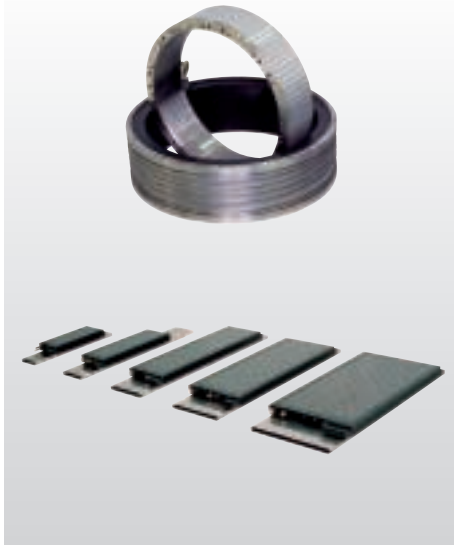
The next-generation CNC Series best suited to all manner of machine tools.

FANUC Series 0i/0i Mate-MODEL C

FANUC Series 16i/18i/21i-MODEL B

FANUC Series 30i/31i/32i-MODEL A

The Series 0i/0i Mate-C for simple machine tools has been made even easier to use. The Series 16i/18i/21i-B, which has a solid track record with standard machine tools, offers even greater productivity. For the Series 30i/31i/32i-A for leading-edge machine tools, we have improved the 5-axis machining and compound machining functions, and developed a function to check beforehand for any interference due to program or operational error.



Synchronous Built-in Motors for higher precision, higher speed and higher efficiency machine tool

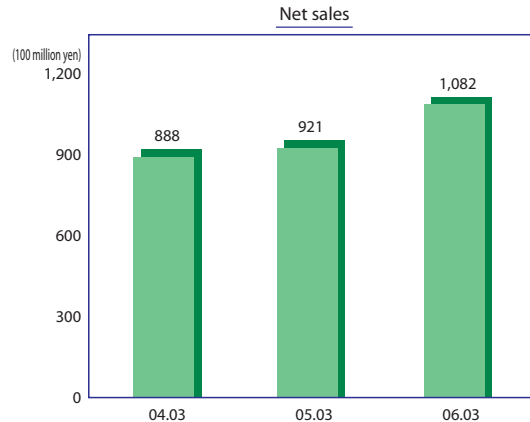
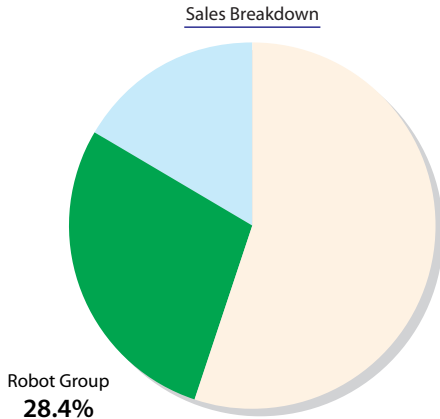
FANUC LINEAR MOTOR L*i*S series

FANUC SYNCHRONOUS BUILT-IN SERVO MOTOR D*i*S series

The L*i*S linear motors series have been fitted with protective covers that improve their environmental resistance. With improved reliability, the series have become best suitable for ultra high-speed and high-precision machining.

For the synchronous built-in servo motor D*i*S series, we have added to our lineup of standard models a high-speed model with its maximum speed of 1000m. When used for a rotary table in a machining center, it allows for lathe turning in addition to indexing. Integration with the higher-precision *ai*CZ sensors creates a rotary axis with excellent cost performance.

Robot Group (Consolidated)



Business Overview

Sales of FANUC robots remained solid in Japan, both for the automotive and non-automotive industries. Efforts were concentrated on the sale of intelligent robots. In the overseas market, the United States and Europe continued to see strong sales both for the automotive and non-automotive industries. In Asia, demand from the automotive industry was remarkably strong, which bodes well for the future.

Overall, consolidated sales of the Robot Group totaled ¥108,226 million, up 17.4% over the previous fiscal year, accounting for 28.4% of the total FANUC Group sales.

Future Initiatives

FANUC will further increase its already large market share in the automotive market by expanding sales to European automobile manufacturers and their parts producers. We will also enhance sales to non-automotive industry, focusing on material handling applications for machine tools.

Product Lineup

Our newest multi-purpose intelligent robot FANUC Robot R-2000iB series

The R-2000iB is the successor to the R-2000iA model, a multi-purpose intelligent robot highly regarded for its numerous intelligent functions and excellent cost performance. The R-2000iB uses the latest R-J3iC robot controller, improving its intelligent functions and motion performance.

The R-2000iB/R-J3iC integrates all of its intelligent vision functions in its internal control systems, whereby providing a simple and reliable vision system. The enhanced intelligence of the more evolved R-2000iB multi-purpose robot promotes the robotization of production sites, especially for material handling applications.

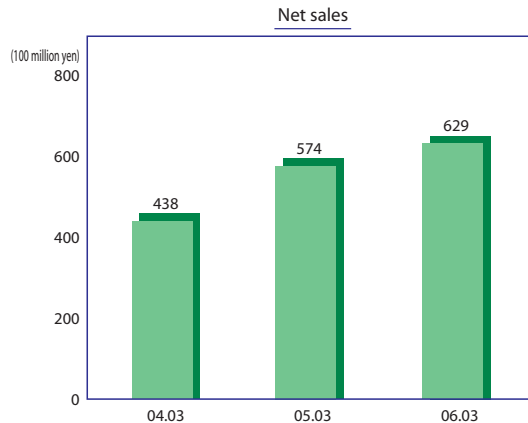
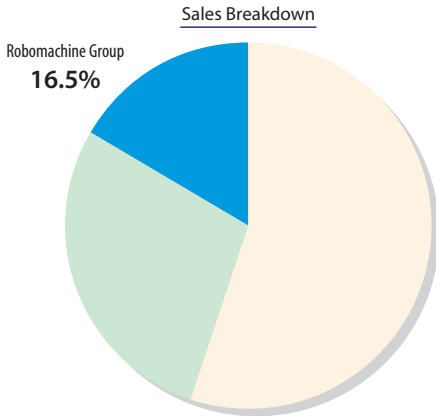


Intelligent robots making headway into machining

Intelligent robots with a wide range of intelligent functions promote the robotization of machining industry. Sophisticated bin-picking functions allow such robots to directly pick work-pieces piled in trays. Peripheral work piece supply devices become unnecessary, allowing for the creation of a simple and low-cost system. In addition, the FANUC ROBOGUIDE animation tool for application reviews of robot systems makes it easy to conduct offline teaching and confirm motions for complicated robot programs. Furthermore, the vision shift function compensates the actual to the offline program in conjunction with placement at a site confirmed by the vision, significantly shortening the system setup time.

Intelligent robots will make a significant contribution to automation of the material handling applications for machine tools.

Robomachine Group (Consolidated)



Business Overview

Sales of the AI electric injection molding machine ROBOSHOT expanded, recovering to a record high level, driven by strong demand from the industries of automotive parts, mobile phone parts and medical equipment as well as a recovery of the IT industry. Geographically, Asia, especially China, saw remarkably robust sales.

Sales of the wire-cut electric discharge machine ROBOCUT and the CNC drill ROBODRILL continued to grow significantly and reach new highs, driven by strong demand from the automotive (including motorcycles and scooters) and IT industries, mostly in Japan and Asian countries such as China.

Overall, sales of the Robomachine Group totaled ¥62,924 million, up 9.5% from the previous year, accounting for 16.5% of the total FANUC Group Sales.

Future Initiatives

We will continue to expand sales of machine tools such as ROBOCUT, ROBODRILL and ROBONANO (ultra-precise nano machine), and industrial machines such as ROBOSHOT, to the IT industry, automobile and motorcycle industries, and other fields.

Product Lineup

Artificial intelligence (AI) electric injection molding machine FANUC ROBOSHOT S-2000i 150BR

The S-2000i 150BR combines a newly developed mechanical unit, the latest CNC system, and servo technologies with the SR Mate 200IB, a mold extraction device that serves as the “arm” of the molding machine. This integrated assembly provides more highly precise molding capabilities, creating an AI electric injection molding machine ideally suited to the molding of medical devices, containers, and automotive parts.

A newly developed clamping mechanism, which both improves the machine rigidity and enlarges the mold mounting dimensions, allows for the multiple cavity molding with consistent quality, such as for medical devices, containers and other products.

A custom signal function can be used to easily create the signals necessary among molding machines, dies, and peripheral equipment, simplifying the integration of the equipment into a system.



Ultra-precision, 5-axis nano machine FANUC ROBONANO α -0iB

FANUC has achieved high reliability for machining at the nanometer level by fusing its nano-servo technology, using the latest standard CNC system, linear motor and synchronous built-in servo motor, with air bearing technology accumulated over many years.

Synchronous 5-axis machining is adaptable to various types of machining methods, including turning, milling, snapping and grinding. This makes it extremely useful for the optical electronics field, as well as for semiconductors, biotechnology, and medical uses, or in any field demanding nanometer-level precision, from R&D to mass production of metal molds and parts.

TOPICS

FANUC Open House Exhibition

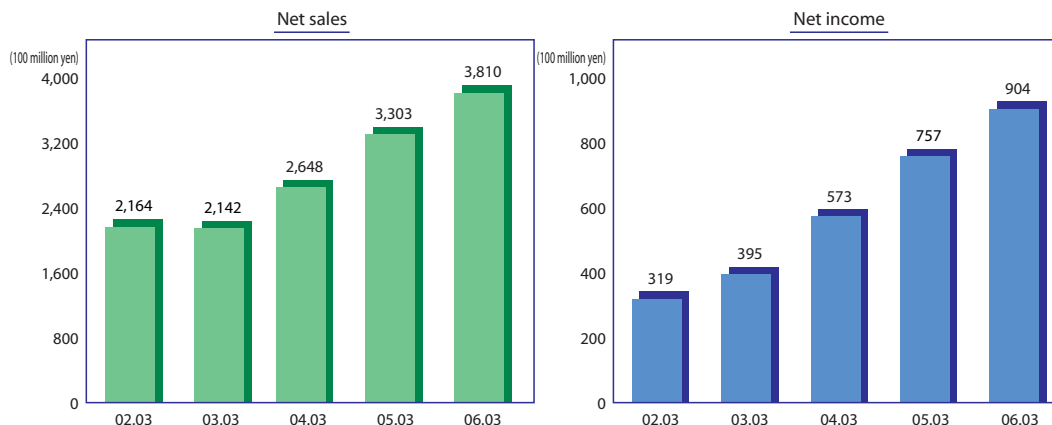
FANUC held an Open House Exhibition on April 6, 2006, at the Nature Hall located on the grounds of its Headquarters. Products on display included new models of CNC systems, servo motors, motion controllers, lasers, robots, ROBOSHOT, ROBONANO, ROBOCUT and ROBODRILL. Presentations and demonstrations of new features were given. The event was blessed with fine weather, and more than 3,800 people attended. Visitors examined new products, and FANUC received numerous compliments and specific business inquiries.



Honorary Chairman Dr. S. Inaba Receives the JSPE Prize

Honorary Chairman Dr. Seiemon Inaba has received the JSPE Prize from the Japan Society for Precision Engineering. The award is presented by the JSPE to researchers and engineers who make innovative and internationally recognized achievements in the field of precision engineering. This was the fifth year the award was conferred. Prior recipients were Dr. M. E. Merchant, Dr. M. C. Shaw, Dr. Toshio Sata, and Dr. P. A. Mckeown. Dr. S. Inaba is the second Japanese to receive the prize.

Financial Highlights (Consolidated)



	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006
	100 million yen	100 million yen	100 million yen
Net Sales			
FA Group	*1 1,321	1,807	2,099
Robot Group	*2 888	921	1,082
Robomachine Group	*3 438	574	629
Total	2,648	3,303	3,810
(Overseas sales)	(1,661)	(2,049)	(2,418)
Ordinary income	899	1,247	1,508
Net income	573	757	904
Net income per share (yen)	¥254.62	¥339.09	¥420.01
Total assets	7,586	*4 7,995	9,034
Shareholders' equity	6,736	*4 6,790	7,744

Note 1 Main products in FA Group comprise CNC series, servo motors, and lasers.

Note 2 Main products in Robot Group comprise robots.

Note 3 Main products in Robomachine Group comprise electric injection molding machines, wire-cut electric discharge machines, CNC drills, and ultra precision nano machines.

Note 4 The Company acquired 9.85 million shares of its own stock (69,935 million yen) in the Year ended March 31, 2005.

Consolidated Balance Sheet (As of March 31, 2006)

(Millions of yen)

Titles of Account	Amount	Titles of Account	Amount
(Assets)	903,409	(Liabilities)	108,181
Current assets	637,565	Current liabilities	82,433
Cash and cash equivalents	471,575	Notes and accounts payable - trade	17,665
Notes and accounts receivable - trade	89,881	Accrued income taxes	30,560
Inventories	59,858	Provisions for after-sales services	4,910
Deferred tax assets	16,935	Other	29,297
Other	2,642	Long-term liabilities	25,747
Allowance for doubtful accounts	(3,327)	Reserve for retirement benefits of employees	16,459
Fixed assets	265,843	Reserve for retirement benefits of Directors and Auditors	1,535
Tangible fixed assets	196,092	Other	7,752
Intangible fixed assets	1,627	(Minority interests)	20,810
Investments and other assets	68,123	Minority interests	20,810
Investments and other assets	68,141	(Shareholders' equity)	774,418
Allowance for doubtful accounts	(18)	Common stock	69,014
Total	903,409	Capital surplus	96,215
		Retained earnings	753,436
		Unrealized gain on securities	4,791
		Foreign currency translation adjustment	5,269
		Treasury stock	(154,309)
		Total	903,409

Notes 1 Accumulated depreciation of tangible fixed assets 148,712 million yen

2 Outstanding balance of guaranteed debts 624 million yen

Consolidated Statement of Income (April 1, 2005 through March 31, 2006)

(Millions of yen)

Titles of Account	Amount
Operating revenues	381,074
Net sales	381,074
Operating expenses	240,485
Cost of sales	192,363
Selling, general and administrative expenses	48,121
Operating profit	140,589
Non-operating income	11,724
Interest and dividends income	3,166
Equity in earnings	5,531
Miscellaneous income	3,026
Non-operating expenses	1,481
Miscellaneous losses	1,481
Ordinary income	150,832
Income before income taxes and minority interests	150,832
Income taxes and current	54,814
Income taxes and deferred	2,960
Minority interest in income	2,619
Net income	90,437

Consolidated subsidiaries, etc.: 42 companies

Principal companies

FANUC Robotics America, Inc.

FANUC Robotics Europe S.A.

GE Fanuc Automation CNC Europe S.A.

FANUC KOREA CORPORATION

FANUC TAIWAN LIMITED

FANUC AMERICA CORPORATION

FANUC EUROPE SERVICE GmbH

FANUC ROBOMACHINE EUROPE SALES GmbH

FANUC INDIA PRIVATE LIMITED

FANUC FA SERVICE LTD

FANUC ROBOT SERVICE LTD

FANUC LASER SERVICE LTD

FANUC PERTRONICS LTD

FANUC SERVO LTD

FANUC DD MOTOR LTD

27 other companies

The equity method is applied to the following two companies in their accounting:

GE Fanuc Automation Corporation

BEIJING-FANUC Mechatronics CO., LTD.

Note: Net income per share 420.01 yen

Non-consolidated Balance Sheet (As of March 31, 2006)

(Millions of yen)

Titles of Account	Amount	Titles of Account	Amount
(Assets)	747,435	(Liabilities)	64,962
Current assets	466,631	Current liabilities	49,738
Cash and cash equivalents	365,680	Accounts payable - trade	12,735
Notes receivable - trade	29,209	Accounts payable - other	6,141
Accounts receivable - trade	29,883	Accrued expenses	3,966
Finished goods	11,203	Accrued income taxes	24,469
Raw materials	4,841	Advances received	397
Work in process	18,096	Provisions for after-sales service	1,579
Supplies	110	Other	448
Deferred tax assets	8,603	Long-term liabilities	15,223
Other	1,148	Reserve for retirement benefits of employees	13,693
Allowance for doubtful accounts	(2,147)	Reserve for retirement benefits of Directors and Auditors	1,529
Fixed assets	280,804	(Shareholders' equity)	682,473
Tangible fixed assets	175,392	Common stock	69,014
Buildings	51,197	Capital surplus	96,067
Structures	2,864	Capital reserve	96,057
Machinery and equipment	15,088	Other capital surplus	
Tools, furniture and fixtures	5,565	Gain on sales of treasury stock	10
Land	96,020	Retained earnings	666,909
Construction in progress	4,656	Legal reserve	8,251
Intangible fixed assets	833	Voluntary reserve	
Investments and other assets	104,578	Reserve for research and development	294,800
Investment securities	14,316	Reserve for special depreciation	61
Stocks of subsidiaries and affiliates	83,672	Reserve for advanced depreciation	81
Investments in equity of subsidiaries and affiliates	97	General reserve	286,580
Deferred tax assets	5,105	Unappropriated retained earnings at the end of the fiscal term	77,135
Other	1,404	Unrealized gain on securities	4,791
Allowance for doubtful accounts	(18)	Treasury stock	(154,309)
Total	747,435	Total	747,435

Notes 1 Accumulated depreciation of tangible fixed assets	134,027 million yen
2 Short-term monetary receivables from subsidiaries and affiliates	12,499 million yen
3 Long-term monetary receivables from subsidiaries and affiliates	720 million yen
4 Short-term monetary debts payable to subsidiaries and affiliates	1,587 million yen
5 Outstanding balance of guaranteed debts	624 million yen
6 Net assets stipulated in Article 124, Item 3 of the Enforcement Regulation of the Commercial Code	4,791 million yen

Non-consolidated Statement of Income (April 1, 2005 to March 31, 2006)

(Millions of yen)

Titles of Account	Amount
Operating revenues	279,622
Net sales	279,622
Operating expenses	171,723
Cost of sales	148,791
Selling, general and administrative expenses	22,931
Operating profit	107,899
Non-operating income	9,631
Interest and dividends income	6,341
Miscellaneous income	3,290
Non-operating expenses	1,368
Miscellaneous losses	1,368
Ordinary income	116,162
Income before income taxes	116,162
Income taxes – Current	43,420
Income taxes – Deferred	(45)
Net income	72,787
Retained earnings brought forward	10,988
Interim dividends	6,640
Unappropriated retained earnings at the end of the fiscal term	77,135

Notes 1 Transactions with subsidiaries and affiliates

 Net sales to subsidiaries and affiliates

129,374 million yen

 Amount of procurements from subsidiaries and affiliates

8,957 million yen

 Transactions other than operating transactions

12,226 million yen

2 Net income per share

337.61 yen

Appropriations of Retained Earnings

(Yen)

Remarks	Amount
Unappropriated retained earnings at the end of the fiscal term	77,135,275,205
Reversal of reserve for special depreciation	19,596,960
Reversal of reserve for advanced depreciation	3,821,666
Total	77,158,693,831
To be appropriated as follows:	
Dividend	13,919,244,820
(¥65/share)	
Directors' and Auditors' bonuses	472,500,000
[Directors' bonuses]	[415,500,000]
[Auditors' bonuses]	[57,000,000]
Reserve for research and development	17,000,000,000
General reserve	17,000,000,000
Retained earnings carried forward	28,766,949,011

Note: The Company declared and paid an interim dividend of ¥6,640,298,735 (¥31 per share) on December 1, 2005.

Shareholders' Data (as of March 31, 2006)

- **Total number of shares authorized to be issued:** 400,000,000
- **Total number of shares issued and outstanding:** 239,508,317
- **Amount of capital:** ¥69,014,459,450
- **Number of shareholders:** 92,016
- **Major shareholders:**

Name	Shareholders' Investment in the Company	
	Number of shares (thousand shares)	Ratio of investment
FUJITSU LIMITED	18,623	7.8%
The Master Trust Bank of Japan, Ltd. (Trust Account)	14,382	6.0%
Japan Trustee Services Bank, Ltd. (Trust Account)	14,117	5.9%
FUJI ELECTRIC HOLDINGS CO., LTD	10,617	4.4%
The Chase Manhattan Bank NA, London	8,129	3.4%
State Street Bank and Trust Company	5,703	2.4%
State Street Bank and Trust Company 505103	4,497	1.9%
The Chase Manhattan Bank 385036	2,841	1.2%
JPMCB USA Residents Pension Jasdec Lend 385051	2,260	0.9%
BNP Paribas Securities (Japan) Ltd	2,259	0.9%

Note: 25,366 thousand shares of treasury stock in the name of the Company are excluded from the above table.

Corporate Data

■ Company Name	FANUC LTD
■ Headquarter	3580, Shibokusa Aza-Komanba, Oshino-mura, Minamitsuru-gun, Yamanashi Prefecture 401-0597, Japan Tel: +81-555-84-5555 website: http://www.fanuc.co.jp/
■ Incorporated	May 12, 1972
■ Employees	4,560 (Consolidated) 1,901 (Non-consolidated) (as of March 31, 2006)

Management (as of June 28, 2006)

Honorary Chairman	Dr. Eng. Seiueemon Inaba	Managing Officers	Nobutoshi Torii Ryo Nihei Yoshihiro Gonda Hidehiro Miyajima Yoshiyuki Nomura Takayuki Taira Syunsuke Matsubara Takashi Yamauchi Hiroshi Noda Kazuo Hariki Koji Samukawa Masaki Seki Kenji Yamaguti Yasushi Ishikawa Seiji Akashi
President & CEO	Dr. Eng. Yoshiharu Inaba		
Chairman & CMO	Shigeaki Oyama		
Senior Managing Directors	Mitsuo Kurakake Katsuo Kohari Hajimu Kishi Atsushi Watanabe Shinichi Tanzawa Hideo Kojima Mitsuto Miyata Hiroshi Araki Hiroyuki Uchida Hideaki Inoue		
Directors	Richard E. Schneider Dong Kee Kim Olaf C. Gehrels	Standing Auditors	Naoki Shimizu Nobuo Otsuka
Advisors	Ryoichiro Nozawa Shimpei Kato	Auditors	Naoyuki Akikusa Tetsunosuke Ishibashi Hajime Harada

Shareholder Information

■ **Business handling location of transfer agent**

Shareholders' register keeper : Tokyo Securities Transfer Agent Co., Ltd.
(Togin Building 3F)1-4-2 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan
Phone: (03)3212-4611
(0120)49-7009(Toll free number)

Other points of contact : Relevant offices of Tokyo Securities Transfer Agent Co., Ltd.

■ **Closing of accounts** March 31 each year

■ **Data of record** The record data to determine the holders of voting rights at the Ordinary General Meetings of Shareholders of the Company shall be March 31 of each year.

■ **Register closing data for dividends payment** March 31 each year and September 30 if interim dividends shall be paid

■ **Stock transfer fee** No charge

■ **Fee for issuing new share certificate** ¥100 per share certificate

■ **Newspaper Notice** The Nihon Keizai Shimbun

■ **Stock listing** Tokyo stock Exchange, First Section

■ **Number of shares per unit** 100 shares

FANUC LTD

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Yamanashi Prefecture 401-0597, Japan

<http://www.fanuc.co.jp/>