

2005

Fiscal year ended March 31, 2005

ANNUAL REPORT



JEOL

On the basis of “Creativity” and “Research and Development,”
 JEOL positively challenges the world’s highest technology,
 thus forever contributing to the progress
 in both Science and Human Society through its products.

Corporate History

Product Development History

Japan Electron Optics Laboratory Co., Ltd. established	1949	JEM-1 electron microscope completed
	1956	JEM-5G electron microscope first exported to the CEA Saclay Atomic Energy Research Institute, France; JNM-1, Japan’s first nuclear magnetic resonance system, completed
Company name changed to JEOL Ltd.	1961	
JEOL listed on the Second Section of the Tokyo Stock Exchange	1962	JXA-3 x-ray microanalyzer completed
JEOLCO (USA) INC. established as the first overseas subsidiary		
	1963	JMS-01 double-focusing mass spectrometer completed; JLC-01 general-purpose automatic recording fluid chromatograph completed
JEOL listed on the First Section of the Tokyo Stock Exchange	1966	JSM-1 scanning electron microscope completed; JEM-1000 1000kV ultrahigh voltage electron microscope completed
	1967	JEBX-2A electron beam exposure instrument completed
	1968	JLC-5AH, world’s first fully automated amino acid analyzer, completed
	1970	Medical-use JTG-MA “Thermoviewer” infrared photography equipment completed
	1972	JCA-1KM “Clinalyzer” automated biochemical analyzer completed
	1974	JAMP-3 Auger micro probe, JIR-03F fourier transform infrared spectrometer, and JESCA-2 photoelectron spectrometer diffraction system completed
“Tokyo Meeting,” first overseas marketing meeting, held	1976	
	1982	JEPAS-1000 electron beam measuring instrument completed
	1983	JIBL-100 convergent ion beam equipment completed
	1989	JSTM-4000XV ultrahigh vacuum scanning tunnel microscope completed
	1990	JWS-7500 wafer process inspection system completed
“JEOL 21” corporate management vision for the 21st century announced	1991	
	1993	JEIP-900F high-density reactive ion plating system completed
“BS EN ISO9001” obtained	1995	
Launch the JEOL Group web site (http://www.jeol.co.jp)	1996	High-speed next-generation automated biochemical analyzer “Bio Majesty” completed
	1998	JBX-9000MV electron beam lithography system completed
“JEOL SPIRIT-1” mid-term management vision announced on JEOL’s 50th anniversary	1999	JSM-6700F field emission scanning electron microscope completed
“Bright Plan 1000,” management plan for the JEOL group, announced	2000	Wafer process monitor “i-Checker” completed
		JSM-6500F field emission scanning electron microscope completed
The new JEOL TECHNICS LTD. bulding completed	2001	Release of the JMS-T100LC (AccuTOF) time-of-flight mass spectrometer and the JNM-ECA series of nuclear magnetic resonance spectrometers
		JEM-2500SE nano analysis transmission electron microscope, completed and unveiled at Semicon Japan 2002
		JEM-9310FIB focused ion beam system for specimen-preparation completed
YAMAGATA CREATIVE CO., LTD. established, and the New Datum Hall completed	2002	JSM-6460 and 6360 series of scanning electron microscopes completed
BEIJING CREATIVE TECHNOLOGY CO. LTD. established		JPS-9200 photoelectron spectrometer completed
Obtained ISO14001 certification for environmental management system		JBX-3030 series of electron beam lithography system completed
The JEOL Group’s Environmental Statement announced	2003	JEM2100F field-emission transmission electron microscope completed
		JMS-800D mass spectrometer dedicated to dioxin analysis completed
		Succeeded in developing a high-performance capacitor
New medium-term management plan for the JEOL Group: Focus Plan 2006 announced	2004	JMS-T100GC gas-chromatography time-of-flight mass spectrometer completed
JEOL CREATIVE CO., LTD. merged		JCM-5100 carry scope (portable scanning electron microscope) completed
YMCC Tendo Factory completed		
Agreed to set up an industry-academia-collaboration office with the University of Tokyo	2005	JCA-BM8060 clinical biochemistry analyzer completed
		Ion source for mass spectrometers, DART completed

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Disclaimer Regarding Forward-Looking Statements

The information contained in this annual report is given for the sole purpose of providing information regarding the business performance of JEOL Ltd. during the fiscal year ended March 31, 2005, and is not intended to solicit investment in any securities issued by the Company. Any statements with respect to JEOL’s current plans, strategies and forecasts are forward-looking statements based upon information available as of March 31, 2005, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

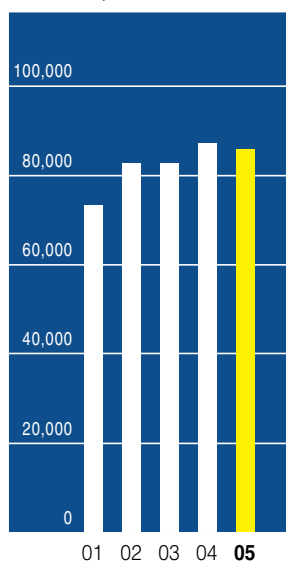
Financial Highlights

JEOL Ltd. and consolidated subsidiaries, for the years ended March 31, 2005 and 2004

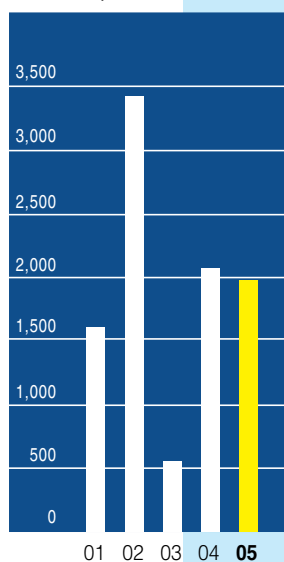
	Millions of yen		Thousands of U.S. dollars*
	2005	2004	2005
For the year:			
Net sales	¥ 85,914	¥ 87,097	\$ 799,947
Operating income	1,985	2,068	18,483
Income before income taxes and minority interests	1,767	1,541	16,450
Net income	1,245	784	11,588
Per share data (in yen and U.S. dollars):			
Net income	16.24	10.92	0.15
Total shareholders' equity	341.39	324.88	3.18
At year-end:			
Total assets	95,211	95,310	886,504
Total shareholders' equity	27,077	24,803	252,115

Note: The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.4 to U.S.\$1 (the approximate exchange rate at March 31, 2005).

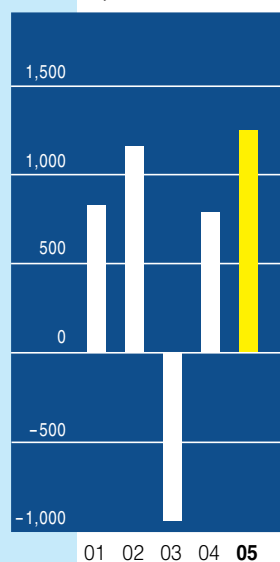
Net sales
Millions of yen



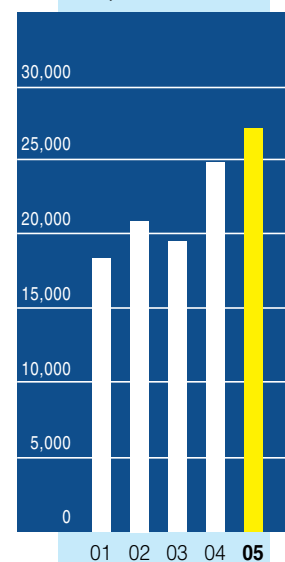
Operating income
Millions of yen



Net income (loss)
Millions of yen



Total shareholders' equity
Millions of yen



To Our Shareholders



Terukazu Eto
Chairman & CEO,
Representative Director

Yoshiyasu Harada
President & COO,
Representative Director

Q1 Could you please explain about business results in the fiscal year ended March 31, 2005?

During the fiscal year under review, while the Japanese economy continued to gradually recover supported by increasing private capital expenditures, it has paused in the latter half due to inventory adjustment in the IT-related sectors and slowing consumer spending. In the markets in which JEOL is engaged, on the other hand, investment in research and development mainly in nanotechnology remained strong owing to increasing capital expenditures, though there has been an adjustment phase in semiconductor demand. These circumstances led JEOL to develop a “focused strategy” in terms of production, sales and services, and technology, in the first year of the medium-term management plan “Focus Plan 2006.” As a result, the Scientific Core (S-Core: a business group for advanced science) realized stable growth for its products, particularly electron microscopes. The Industrial Core (I-Core: a business group targeting affluent society) also showed a steady growth in orders received for medical equipment, whereas semiconductor-related equipment experienced difficulties. Consequently, net sales totaled ¥85,914 million (down 1.4% from the previous year), with ordinary profit of ¥1,629 million (down 0.6%) and net income of ¥1,245 million (up 58.7%) in fiscal 2005. The current ratio between the S-Core and the I-Core is roughly 70:30. It is our goal to change it to 65:35 under the medium-term management plan.

Q2 Could you give us more details about the progress of important strategies such as: (1) production strategy, (2) sales and services strategy, (3) technology strategy, (4) alliance strategy, and (5) organizational and human resources strategy?

(1) For production strategy, we set up the YMCC Tendo Factory within one of our subsidiaries, Yamagata Creative Co., Ltd., to expand the production base in the Tohoku region and reduce

Medium-term management plan

(from April 1, 2004 to March 31, 2007)

Focus Plan 2006

costs. The Factory started its operation in June 2004. Currently, approximately 30% of the total production of field emission scanning electron microscopes comes from the YMCC Tendo Factory. We will raise the ratio to 70-80% during fiscal 2006. We will also work to expand production capacity and cost reduction with highly efficient production.

(2) For the sales and services strategy, we will first strengthen our activities in the Chinese market. In China, four sales and services bases are now in operation and have just started producing results, which we aim to increase further. While our products of electron microscopes and analytical instruments are mainly large-sized products, small and medium sizes also contributed to earnings supported by increased orders received. In the future, we intend to focus on these small- and medium-sized products and meet such market needs.

(3) As part of the technology strategy, we have committed ourselves to strengthening research and development capabilities, as well as production technology capabilities. Specifically, we have strengthened the development system for each product line, adopted market feedback quickly, and put a great deal of effort into developing products to satisfy the needs of the market.

(4) Regarding the alliance strategy, we would like to engage in service and ancillary businesses, such as establishing a business model to market reagents and supplies together with our clinical biochemistry analyzers, as we have been focusing mainly on hardware businesses. Actually, fiscal 2005 became the year to solidify the foundation for this business direction. Also in terms of organizational structure, a function related to services for medical equipment within subsidiaries was consolidated, and is to be made into a proper division at headquarters in April 2005, suggesting that we are proceeding in the right direction toward our goal.

(5) For organizational and human resources strategy, we have substantially changed our conventional system organized by function to one organized along product lines, in order to bolster product competitiveness and improve the cost structure. We have created a department for each product line, and have

set up technology, design and system development functions for each line. With this new organization, we hope to enhance product competitiveness and quality, leading to lower costs.

Q3 Please explain the Group management vision “JEOL SPIRIT 1”, which is the premise of the medium-term management plan “Focus Plan 2006.”

The JEOL Group has accumulated many technologies through development of products by S-Core. Intending to leverage these technologies in manufacturing I-Core products and converting technologies into profits, we have included the slogan of “From S-Core to I-Core” in “JEOL SPIRIT 1”.

Q4 Could you give us some idea of the possibility of achieving the final financial targets of ¥100 billion in net sales and ¥5 billion in ordinary profit on a consolidated basis?

As the Company focuses rigorously on research and development, we obviously want to manufacture products that are technically advanced. To achieve the target of ¥5 billion in ordinary profit, therefore, it will be important to keep a mindset of converting technologies into profits. We should change our thinking from “how much have we sold” to “how much have we earned.

Q5 What is the relationship between existing businesses and the capacitor business (power storage systems), which has just started commercial operations?

The capacitor business should be considered as a different business, as it is quite alien to the conventional technologies on which we have been working. Thus, we set up a joint company, Advanced Capacitor Technologies, Inc., for commercialization of capacitors last year. In February this year, we exhibited three kinds of capacitors at ENEX 2005 held at Tokyo Big Sight and started a trial supply of capacitors. They are now in the

(Consolidated)



Net Sales **¥100 billion** or more
Ordinary Profit **¥5 billion** or more



- Promotion of Solution Business
- Supply of High Value-Added Product
- Organization Reform

evaluation phase, and we are working out how to develop them as a business in the future.

Q6 Could you explain the shortening of the period from research and development to delivery and inspection of products?

We have always intended to reduce the work period since “Bright Plan 1000” was implemented, and adopted an approach to change the production method in accordance with the

number of products for sale. Production methods are broadly divided into four categories that include production for made-to-stock and assemble-to-order, which is a relatively new production method to this industry. This is a framework in which production is started when orders come from customers and the products are delivered in a short period of time. In assemble-to-order, basic components have already been

made when customers order, then assembly begins after the order is received. Through the introduction of this framework, the JEOL Group is making efforts to shorten the current work period of 160 days from order receipt to around 40 days.

Q7 Please explain specific results and products in S-Core and I-Core for the fiscal 2005.

In S-Core, general-purpose scanning electron microscopes (SEMs) and peripheral equipment for electron microscopes enjoyed favorable sales in fiscal 2005. In particular, cross section polishers (CPs), which are specimen preparation devices for electron microscopes, showed strong sales in their first year after release. We were also able to launch a time-of-flight mass spectrometer “GC-TOF” last year.

In I-Core, on the other hand, design rules, which are allegedly

“road maps” for semiconductor development, have constantly improved given increasing competition. Therefore, we have nearly completed the development of the planned 65 nanometer electron beam lithography systems.

In the medical equipment front, we have traditionally only manufactured medium-sized equipment, but we were able in fiscal 2004 to market our first small format equipment. At the end of fiscal 2005, we also completed the development of large-sized products. This diversified product mix should substantially contribute to the business results from this year.

Q8 What are the basic policies for research and development and the measures to maintain corporate superiority?

It is no exaggeration to say that our products have been used at most universities. Traditionally, therefore, students who have used our products in university laboratories have joined our company by saying that they would like to engage in research and development within the JEOL Group — which gives us the privilege to find well-qualified people. In other words, the strength of the JEOL Group lies in its very ability to continue creating products that enjoy a high reputation in the market through our excellent human resources and technologies accumulated over the years. By leveraging this strength, we hope to manufacture user-friendly and productive equipment in the I-Core market to increase profits in the future.

Q9 What are the current and future projects for research and development?

We will strengthen the development of pretreatment systems of specimen for electron microscopes, which we have not substantially emphasized before. Specimens for electron microscopes have been clipped with a focus ion beam (FIB), although specimen preparation for pretreatment took too much work. To review this process, equipment to produce cross sections using a cross section polisher was successfully launched in fiscal 2005. In the future, we hope to tap new markets by releasing an “Ion Slicer” that makes thin films, along



Fiscal 2005
Management
Policy

1 Promotion of Solution Business

■ To provide sufficient peripheral line-ups and expand markets

- Advance into a totally new market for the JEOL Group
 - Cross section polishers
 - Ion slicers
 - DART ion sources
 - Carry scopes

■ Environmental responsiveness / WEEE & RoHS Directives

- Two approaches to products
 - Provide products that contribute to environmental conservation
 - Launch products that are friendly to the environment

with the polishers, and by steadily increasing small-sized products.

Furthermore, we would like to provide customers with various types of pretreatment equipment for use before analyzers. As the customers' needs for such pretreatment equipment are strong, we consider it worth exploring the extent to which we can link these products to our analyzers.

Q10 Please explain the operational and financial issues and relevant countermeasures.

With regard to operating activities, an overseas strategy is an issue for us. We will secure bases in East Asia mainly in China, as well as in Russia and India. Financially, we remain sensitive to the movement of exchange rates. If the yen drops below ¥100 to the dollar we will be in an extremely difficult situation. So our current goal is to improve our business structure to enable profit generation, even at ¥100 per dollar.

Q11 What is the status of corporate governance in your company?



It has not significantly changed from fiscal 2004. The Boards of Directors and Auditors fulfill their functions by supervising and auditing execution of business operations. It is therefore important to solidly corporate governance as the status quo. Given that commercial and company laws are changing, we will

continue to consider how we should address the establishment of profitable corporate structure and enhancement of the transparency of information, including the role of the Committee of Judicial Affairs.

Q12 Please explain the returns to shareholders, including dividends and capital policies.

We have disbursed dividends of ¥5 per share to shareholders. We will basically continue to pursue a stable dividend policy based on a long-term perspective. We will also make efforts to return appropriately to shareholders, while making profits by achieving the targets of "Focus Plan 2006" and increasing dividends. In terms of capital policies, we issued convertible bonds three years ago, nearly all of which have been converted into shares. We would like to continue to plan financing in consideration of business results, project size and market trends.

Q13 Could you explain your views and stance toward the environment and CSR?

We have placed a very high priority on CSR. We have focused on the environment in particular, and acquired ISO14001. Meanwhile, we have taken two approaches to products. One of them is to provide products which will contribute to environmental conservation by proactively developing analyzers to measure ingredients related to the environment. The other is to manufacture environmentally friendly products that will reduce environmental burdens as much as possible. Both of them are covered on our website and we intend to continue to pursue these issues proactively in the future as well.

July, 2005

Terukazu Eto
Chairman & CEO,
Representative Director

Yoshiyasu Harada
President & COO,
Representative Director

2 Supply of High Value-Added Product

■ Promotion of sales in the Nano tech product field, such as ultra high voltage electron microscope

- Delivered an Ultrahigh Voltage Electron Microscope JEM-ARM1300 (acceleration voltage, 1,300kV), to Kyushu University

3 Organization Reform

■ To take the market's voice into the consideration promptly and respond to it without delay

- As of April 1, 2005
- Functional organization
⇒ Organization by product line
- Business Unit System is introduced into semiconductor equipments and medical equipments

1

Expansion of production base outside of Tokyo area

/ To respond to increased production of clinical biochemistry analyzer and cost cutting



YMCC Tendo Factory

Production strategy in Focus Plan 2006

As part of the basic strategies of its medium-term management plan “Focus Plan 2006” (fiscal 2005 through fiscal 2007), the JEOL Group established a production strategy and considers the establishment of a production base in the Tohoku region to be the highest priority issue.

Production rollout in the Tohoku region

Production of general-purpose transmission electron microscopes has already taken off at Yamagata Creative Co., Ltd. (YMCC), which was set up in Yamagata City, Yamagata Prefecture as a production base in the Tohoku region in March 2002.

YMCC Tendo Factory has started operation

For expansion of the production base in the Tohoku region and cost reduction, construction of a new plant, the YMCC Tendo Factory, was initiated in Tendo city, Yamagata Prefecture in February 2004, and operation was started in June 2004.

As a production base for field emission scanning electron microscopes, the efforts of the Tendo Factory are aimed at building a highly efficient production system, higher production capacity and lower costs.

2

Reinforce overseas sales capability

We will open our fifth sales office in China (current office in Beijing, Shanghai, Guangzhou and Wuhan), to expand our sales system. We will also set up a service office in Russia and focus on the Indian market as well.

3

Stronger cooperation of industry-government-university

In August 2004, Kyushu University and JEOL Datum LTD. concluded an organizational (comprehensive) collaboration agreement. In June 2005, the University of Tokyo and JEOL agreed to set up “The University of Tokyo/JEOL industry-academia-collaboration office” for the purpose of improving and promoting advanced measuring technology, electron microscopes in particular.

4

Streamline

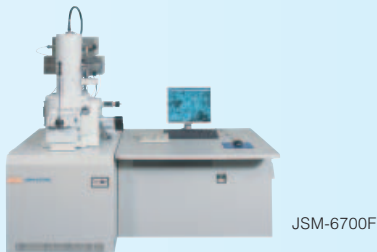
To achieve profit targets set in the medium-term management plan, we will reduce the workforce over three years, in order to streamline our organization based on the principle that reducing fixed costs is an important issue.

Expansion of the Tendo Factory initiated

—Integrated production system built for medical equipment—

In June 2005, the expansion of the YMCC Tendo Factory, a production base in the Tohoku region, started integrated production of medical equipment in the region. Production of transmission electron microscopes and field emission scanning electron microscopes, including various models and auxiliary equipment, will also be expanded.

We will increase the production of clinical biochemistry analyzers by achieving an annual production capacity of a maximum of 400 units at this Tendo Factory, which will help to reduce costs.



[Factory Profile]

Name of Factory	YMCC Tendo Factory (Yamagata Creative Co., Ltd. Tendo Factory)
Location	1655 Daibutsu, Yamaguchi Aza, Tendo City, Yamagata Prefecture
Scale of Expansion	Construction Area: floor space for production of 2,400 m ² (two floors of 1,200 m ² each)
Products	Transmission Electron Microscope: up to approximately 100 units/year Field Emission Scanning Electron Microscope: up to approximately 200 units/year Medical Equipment: up to approximately 400 units/year of production scale
Number of Employees	Approximately 80 persons including outsourcing (projected)
Production Start Time	Transmission electron microscopes, field emission scanning electron microscopes: October 2005 (projected) Medical equipment: December 2005 (projected)
Scale of Investment	Approximately ¥500 million, including expansion of buildings, facilities, and jigs

5

Promotion of capacitor (power-storage system) business

A joint company set up for commercialization of capacitors

In April 2004, a joint company, Advanced Capacitor Technologies, Inc., was established to commercialize capacitors for power storage.

Business tie-up with Nissan Diesel Motor Co., Ltd.

In June 2004, JEOL, Advanced Capacitor Technologies, Inc. and Nissan Diesel Motor Co., Ltd. agreed to form an alliance in the capacitor business by concluding a feasibility study agreement for mass production of high energy density capacitors and a joint development contract to quickly develop commercial technology.

Exhibited at ENEX 2005 and trial supply initiated

In February 2005, capacitors branded as EcoCache® were exhibited at “ENEX 2005, the 29th Energy & Environmental Exhibition” with a trial supply of capacitors. In the future, market research and exploitation will proceed through trial supply and development, which we hope will indicate the way forward toward commercialization and mass production of capacitors at an early date.



Compact capacitor power supply module



Coin-shaped capacitor



Large capacitor module



ENEX 2005

Research and Development

Early development of new products to compete with the world's advanced technology trend

R&D activities in the JEOL Group are conducted through close cooperation among group companies. Development of fundamental and essential technologies, which form the Group's future, and core products is carried out by the Company, which then plays a key role in R&D activities within the Group. Group companies develop various products, leveraging their own production and service technologies—their core competence.

In the consolidated fiscal year under review, the Group has worked on the early development of new products in light of global trends in advanced technology in the fields of nano-technology, materials science and life science.

The achievements of the R&D activities by business segment in the consolidated fiscal year under review are shown below, with R&D costs at ¥4,436 million.

Scientific Instrument

R&D costs for this segment were ¥3,416 million.

In the electron microscopes sector, we developed and initiated sales for 8 new models, including 4 models of general-purpose scanning electron microscopes which combine high performance with miniaturization (JSM-6480/6480LV, JSM-6380/6380LV), and 4 models of analytical scanning electron microscopes integrated with energy dispersive X-ray spectrometers (JSM-6480A/6480LA, JSM-6380A/6380LA), as well as the next-generation digital transmission electron microscope (TEM) JEM-2100, which allows are to operate by personal computer. We also developed and released an ultra-small high-power microscope Carry Scope JCM-5100 (a portable scanning electron microscope), which can be moved as easily as optical microscopes, and a field emission scanning electron microscope JSM-7401F, which reduces damage to materials and achieves high resolution with low acceleration voltage.

In the mass spectrometers sector, JEOL has developed and launched the nation's first gas chromatography time-of-flight mass spectrometer (GC-TOFMS) JMS-T100GC "AccuTOF GC," which combines high speed and high resolution, for the petrochemical and fragrance industries.

As a new tool for protein structure analysis, JEOL has developed and initiated sales of its JES-MQ series (MQ100/MQ200/MQ300) pulse electron spin resonance (ESR) devices.

Other developments include a revolutionary ion source DART™ (Direct Analysis in Real Time), which enables real-time nondestructive detection and identification of trace amounts of organic matter at ordinary temperature and atmospheric pressure, developed by our U.S. subsidiary JEOL USA, INC.



JSM-6480



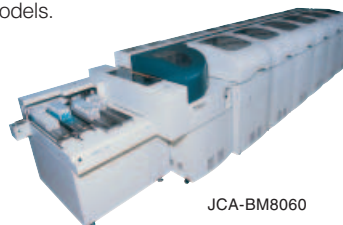
JCM-5100

Industrial Equipment

R&D costs for this segment were ¥1,020 million.

In the semiconductor-related equipment sector, JEOL has undertaken the development of equipment that will contribute to the development and manufacturing of the leading edge advanced semiconductor devices that are becoming increasingly miniaturized.

In the medical equipment sector, JEOL engaged in the development of the clinical biochemistry analyzer BioMajesty series and completed to increase the product lineup, including large-sized as well as the conventional medium- and small-sized models.



JCA-BM8060

Development of Value-Added Products

Nano-technology has become essential to research in many fields, including materials, information and telecommunications, life sciences, and the environment. It has been positioned as a pillar of national policy by key countries.

The JEOL Group has been actively involved in the development of value-added products with leading-edge technology in step with new global science and technology trends.

JEM-ARM1000 and JEM-ARM1300 Ultrahigh voltage electron microscopes that achieve 0.10 nm point resolution, the world's highest resolution.

These models are ultrahigh voltage electron microscopes with an acceleration voltage of 1,000kV and 1,300 kV. The higher acceleration voltage shortens the wavelength of electrons and improves resolution. JEM-ARM1300 has the world highest point resolution of 0.10 nm. As an electron beam has high specimen penetrating power, a sharp image can be obtained even from thick specimens. It is also suitable for ad hoc or three-dimensional observation. In addition, simulation of the damage evolution of nuclear reactor materials is possible by irradiating specimens with the high-energy electron beam for prolonged periods. With such functionality, the JEM-ARM1000 and JEM-ARM1300 play an essential role in the development of new materials and in biotechnology research. They are already in use at laboratories of state institutions and universities all over the world that engage in advanced scientific research, including biomedical and new materials researches.



JEM-ARM1300

Environmental Activities

ISO Policy of the JEOL Group

The JEOL Group engages in business activities with an awareness of its responsibility as a "global corporate citizen" for harmonious coexistence with customers, local residents, shareholders and government agencies to ultimately develop a suitable recycling-based society in the future. Based on this corporate philosophy, the JEOL Group intends to conduct business activities that contribute to a better global environment by providing services for environmental measurement and related products including analyzers.

Promotion of Environmental Conservation Activities

The ISO Management Committee plays a central role in carrying out the ISO management system, which combines ISO 9001 and ISO 14001. In order to meet the requirements of European Union directives on Waste Electrical and Electronic Equipment (WEEE) and Restrictions on Hazardous Substances (RoHS) contained in electrical and electronic equipment, the Group set up the WEEE & RoHS Committee to address this issue.

Development of Activities toward Environmental Conservation

The JEOL Group has been engaged in the following activities for environmental conservation to assume its corporate social responsibility (CSR).

Product assessment

While carrying out a series of processes from formulation to implementation of the plan for developing environmentally conscious products based on environmental design criteria, JEOL conducted environmental impact assessments of 12 existing models. We formally introduced a life cycle assessment (LCA) method for products from the planning and design stage.

Establishment of a network for environmentally-conscious companies in Akishima City

On April 28, 2005, Akishima City, Tokyo, and 15 major companies in the city including JEOL established a "Network for Environmentally-Conscious Companies in Akishima City." By exchanging information with each other on approaches to reducing burdens on the environment, we will work together to further improve our commitment to environmental consciousness and to contribute to the sustainable development of the local community.

Reduction of greenhouse gas emissions

JEOL has adopted a unit to recover sulfur hexafluoride gas (SF₆), which is produced in the manufacture of the Company's products and used as insulating-gas for high-voltage operations. Work is now being conducted toward collecting greenhouse gas emissions with a phased approach.

Environment-related Products

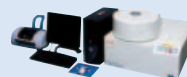
The JEOL Group offers a wide variety of instruments and equipment to attend to every need for measuring and analyzing components that may impact the environment.

All Kinds of Needs

WEEE & RoHS Directives
Revision of water quality standard for drinking water
Soil Pollution Control Law
Food Sanitation Law
Others (indoor air pollution, dioxins, combustion gases, flock, etc.)

Product Lines

X-ray spectrometers
ICP spectrometers
Gas chromatograph mass spectrometers
Portable gas chromatographs
Amino acid analyzers
Multifunctional gas chromatographs
Mass spectrometers dedicated to dioxin analysis
Portable FT-IR
Low vacuum analysis scanning electron microscopes



α series hand-held X-ray analysis meter (element testers)

—Quick and easy detection of trace elements on the order of parts per million (ppm) without cutting up specimens—

These element testers can be used without any difficulty even on electrical and electronic equipment, components, and materials that are different in size and shape, for which it is difficult to carve out specimens. Although the device is light and compact—weighing only 1.6 kg—it detects and quickly determines the amount of trace elements on the order of ppm without carving out specimens. The results of analysis can be input to an external personal computer. It can also be controlled via a personal computer with loaded software (optional).



Environment-Related Website

In order to inform our approach toward environmental issues and to provide various environment-related information, the JEOL Group offers useful, detailed content through its environment-related website.

The JEOL Group Network

Worldwide Network

With overseas branch offices based in more than 30 countries all over the world including America, Europe, Oceania, and Asia, we have established local sales systems and the best possible service systems. In particular, JEOL USA, INC. has set up many offices since its inception in Boston in 1962, and has now become well established as a local company in ten regions throughout the United States. Also in Europe, JEOL has established service support systems using local companies, with more than 5,000 units of JEOL products delivered to date, since its first overseas delivery to France (in 1956). Local offices in Europe were established earlier, starting with one in France (1964) followed by Britain, the Netherlands, Sweden, Italy and Germany.

Domestic

Corporate name	Production	Sales	Development & Design	Service	Purchase	Training & Others
JEOL TECHNICS LTD.	●		●			
JEOL DATUM LTD.				●		●
SATSUKI INDUSTRIES CO., LTD.	●					
JEOL SYSTEM TECHNOLOGY CO., LTD.			●			
JEOL ENGINEERING CO., LTD.	●		●			
JEOL ACTIVE CO., LTD.		●			●	
JAPAN LASER CORPORATION		●	●			
TACHIBANA ELECTRONICS CO., LTD.	●					
JEOL TECHNOSERVICE CO., LTD.						●
YAMAGATA CREATIVE CO., LTD.	●					
ADVANCED CAPACITOR TECHNOLOGIES, INC.		●	●			

All Companies in the above table are consolidated subsidiaries.

Overseas

Corporate name	Location	Foundation	Capital	Equity ratio
JEOL USA, INC.	USA	1962	US\$ 15,060 thousand	100%
JEOL (EUROPE) SAS*	France	1964	EUR 720 thousand	100%
JEOL (U.K.) LTD.	U.K.	1968	Stg. £ 400 thousand	100%
JEOL (EUROPE) B.V.	the Netherlands	1973	EUR 1,472 thousand	100%
JEOL (SKANDINAVISKA) A.B.	Sweden	1973	S.Kr 3,160 thousand	100%
JEOL (GERMANY) GmbH	Germany	1997	EUR 511 thousand	100%
JEOL (ITALIA) S.p.A.	Italy	1984	EUR 300 thousand	100%
JEOL ASIA PTE. LTD.	Singapore	1995	S.\$ 350 thousand	(JEOL DATUM 40%) 60%
JEOL (AUSTRALASIA) PTY. LTD.	Australia	1968	A.\$ 500 thousand	(JEOL ASIA 100%) —
○ JEOL DE MEXICO S.A. DE C.V.	Mexico	1991	MXP 650 thousand	(JEOL USA 100%) —
○ JEOL CANADA, INC.	Canada	1993	C.\$ 100 thousand	(JEOL USA 100%) —
○ JEOL (MALAYSIA) SDN BHD	Malaysia	1995	RM 300 thousand	(JEOL ASIA 100%) —
● JEOL KOREA LTD.	Korea	1994	Won 600,000 thousand	(JEOL DATUM 12%) 28%
○ JEOL TAIWAN SEMICONDUCTORS LTD.	Taiwan	1999	NT\$ 7,000 thousand	(JEOL DATUM 100%) —
○ Beijing Creative Technology Co., Ltd.	China	2002	Yuan 330,000 thousand	60.6%

Notes: * JEOL (EUROPE) S.A. changed its corporate form on April 1, 2005 and became JEOL (EUROPE) SAS. Its equity ratio became 100%.

No mark: Consolidated subsidiaries

○ Unconsolidated subsidiaries to which the equity method is applied

● Equity-method associated companies

Board of Directors and Corporate Auditors

(As of June 29, 2005)

<p>Chairman and CEO, Representative Director</p>  <p>Terukazu Eto</p>	<p>President and COO, Representative Director</p>  <p>Yoshiyasu Harada</p>	<p>Executive Vice President</p>  <p>Azuma Ohtsuka</p>	
<p>Senior Managing Directors</p>  <p>Toshikazu Honda</p>  <p>Gon-emon Kurihara</p>  <p>Hideaki Hirano</p>			
<p>Managing Directors</p>  <p>Hiroshi Koyama</p>  <p>Mitsuo Kaneko</p>  <p>Masaki Saito</p>  <p>Norimasa Ishida</p>			
<p>Directors</p>  <p>Masashi Iwatsuki</p>  <p>Yoshinori Takaha</p>  <p>Mikio Naruse</p>  <p>Kazufumi Adachi</p>  <p>Shin-ichi Watanabe</p>  <p>Masayuki Tajimi</p>  <p>Hirofumi Kusano</p>			
<p>Standing Corporate Auditors</p>  <p>Ryoichi Fujiwara</p>  <p>Reisuke Izumiyama</p>		<p>Corporate Auditor</p>  <p>Hidetake Horikiri</p>	

(Note) Mr. Hidetake Horikiri is the external corporate auditor of the Company, as stipulated under Article 18-1 of the Law Concerning Special Measures under the Commercial Code with respect to Audit, etc. of Corporations (Kabushiki Kaisha).

Five-year Summary

JEOL Ltd. and consolidated subsidiaries, for the years ended March 31, 2005, 2004, 2003, 2002 and 2001.

For the year:	2005	2004	2003	2002	2001
Net sales	85,914	87,097	82,834	82,698	73,316
Scientific instrument	60,083	57,935	58,721	57,050	48,954
Industrial equipment	25,831	29,162	24,113	25,648	24,362
Selling, general and administrative expenses	25,205	24,629	24,993	24,981	23,468
Operating income	1,985	2,068	546	3,417	1,596
Ordinary profit	1,629	1,638	45	2,585	2,106
Net income (loss)	1,245	784	(951)	1,159	818
Capital expenditures	3,775	3,366	2,157	3,889	2,010
Scientific instrument	1,485	2,077	1,485	2,547	1,292
Industrial equipment	2,207	1,163	662	1,323	704
Eliminations/Corporate	83	126	10	19	14
Depreciation expense	2,622	2,438	2,217	1,890	1,647
Research and development costs	4,436	4,031	4,235	5,019	5,109
Scientific instrument	3,416	2,845	2,901	3,118	3,341
Industrial equipment	1,020	1,186	1,334	1,901	1,768
At year-end:					
Total assets	95,211	95,310	93,135	87,953	84,602
Total shareholders' equity	27,077	24,803	19,535	20,861	18,417
Per share data (yen):					
Net income (loss)	16.24	10.92	(13.85)	16.16	12.63
Total shareholders' equity	341.39	324.88	283.03	306.21	284.22
Cash dividends	5.00	2.50	2.50	5.00	5.00
Value indicators:					
Return on equity (%) <ROE>	4.8	3.5	(4.7)	5.9	4.5
Return on assets (%) <ROA>	1.3	0.8	(1.1)	1.3	1.0

Financial Analysis

Overview

During the fiscal year under review, while the Japanese economy continued to gradually recover given increasing private capital expenditures supported by improved corporate earnings, it has paused due to inventory adjustment in IT-related sectors and slowing consumer spending as exports slowed down in the latter half of the year.

On the other hand, the world economy maintained its underlying strength, although the U.S. economy continued to moderate its underlying growth due to increasing interest rates. Asian economies continued to show substantial growth, with overheated investment in China. In Europe, however, the economy experienced a moderate recovery.

In the scientific instrument and industrial equipment markets, in which JEOL has been active, despite price declines in the digital consumer electronics market and demand adjustment in semiconductors, capital expenditures in the industries of electrical equipment, chemicals, and general machinery were on the rise. Further, investment in research and development, mainly in nanotechnology, remained strong.

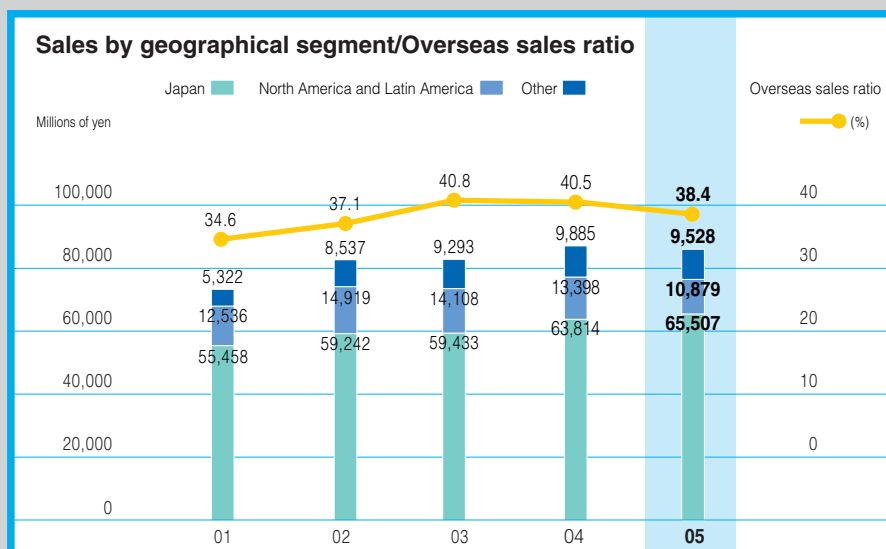
JEOL started its first year of the Group's medium-term management plan "Focus Plan 2006," and developed a focused strategy in production, sales and services, and

technology in order to achieve the business objectives for fiscal 2007, these objects called for a minimum of ¥100 billion in sales and a minimum of ¥5 billion in ordinary profit on a consolidated basis.

In terms of production, JEOL merged with its production subsidiary JEOL CREATIVE CO., LTD., in April 2004 to further reinforce its production technology and production management functions. In June, JEOL began operations at a new plant of its subsidiary in Tendo City, Yamagata Prefecture to expand production bases in the Tohoku region and reduce costs. In sales and services, JEOL worked to maintain fair product sales prices, and to expand and improve the sales and services systems in Asia with the Wuhan Office in China. In technology and development, JEOL made efforts to increase the efficiency of research and development, with a focus on swift development of new products to respond to market needs and on early market penetration.

As a result, consolidated net sales for the year totaled ¥85,914 million, a 1.4% decrease from ¥87,097 million in the previous year.

With respect to profits and losses, ordinary profit amounted to ¥1,629 million, a 0.6% decrease from ¥1,638 million in the previous year, and net income soared to ¥1,245 million, a 58.7% increase from ¥784 million in the previous year.



(Note) The primary countries and regions included in geographic classifications outside Japan are as follows:

- 1 North America and Latin America : U.S.A, Canada and Mexico
- 2 Other : Europe, Southeast Asia and Australia

Segment Information

(Segment information by industry)

Scientific Instrument

JEOL satisfied demand for electron microscopes in broad fields, ranging from research and development in cutting-edge areas—such as nanotechnology—to quality control, testing, and evaluation and failure analysis of materials. In the transmission electron microscopes sector, sales mainly of core products, including field emission electron microscopes, remained solid. In scanning electron microscope products, multipurpose high resolution thermal emission scanning electron microscopes, and new products like high-power general-purpose scanning electron microscopes and analytical scanning electron microscopes fared well in the market and saw an increase in sales.

Meanwhile, in the nuclear magnetic resonance system sector, the world's best high-magnetic-field systems and high resolution nuclear magnetic resonance systems, as well as those of the small-size core products contributed to the increase in sales. In mass spectrometer products, time-of-flight mass spectrometers for the biotechnology and pharmaceutical markets contributed to sales increase, while mass spectrometers dedicated to dioxin analysis saw continued weak demand and sales

declined. In the environmental fields, JEOL could respond to market demand for quadrupole gas chromatograph-mass spectrometers and X-ray spectrometers.

Consequently, sales of the scientific instrument segment amounted to ¥60,083 million, a 3.7% increase from the previous year.

Industrial Equipment

In semiconductor-related products, JEOL strove to secure sales of state-of-the-art mask/reticle lithography devices for miniaturization of electron beam lithography systems. Sales of these products declined, with direct lithography equipment in a severe condition in overseas markets as well. Sales of wafer inspection systems also declined from the previous year.

With regard to optical films and coating products, despite inventory adjustment in the digital consumer electronics market, sales of electron beam evaporation guns and power supplies as well as high-power electron beam guns and power supplies remained the same as the previous year.

In medical equipment, sales advanced gradually supported by demand for its core products in the medium-sized equipment market overseas, and by an increase in sales of clinical biochemistry analyzers for the

Main Products

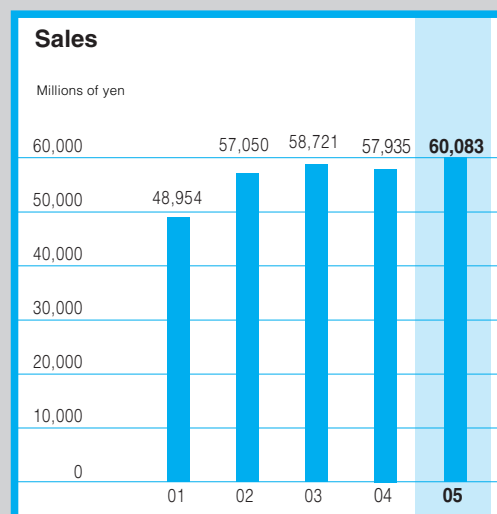
Scientific Instrument

<Electron-Optic Instruments>

Transmission electron microscope (TEM), Scanning electron microscope (SEM), Analytical electron microscope, Electron probe microanalyzer (EPMA), Auger microprobe (AES), Photoelectron spectrometer (XPS), Scanning probe microscope (SPM), and focused ion beam system for specimen-preparation

<Analytical Instruments>

Nuclear magnetic resonance system (NMR), Electron spin resonance spectrometer (ESR), Mass spectrometer (MS), Time-of-flight mass spectrometer (TOFMS), X-ray diffractometer, and Portable gas chromatograph



small-sized equipment market due to its reputation in the market. JEOL also promoted the development of large-sized equipment and completed an increase its product lineup.

As a result, sales of the industrial equipment segment totaled ¥25,831 million, an 11.4% decrease from the previous year.

(Segment information by geographical region)

Japan

In the scientific instrument, transmission electron microscopes, high-power general-purpose scanning electron microscopes, and electron probe microanalyzers boosted sales steadily, and nuclear magnetic resonance systems also contributed to sales. Quadrupole gas chromatograph-mass spectrometers and X-ray spectrometers satisfied demand as well. However, mass spectrometers dedicated to dioxin analysis had difficulty in a weak market environment.

In the industrial equipment, although semiconductor-related products saw a decline in sales of electron beam lithography systems, optical thin film-related equipment—such as electron beam evaporation guns and power supplies—contributed to secure certain sales figure. Medical equipment showed a steady growth in sales of clinical biochemistry analyzers.

Thus, sales in Japan rose 2.7% from the previous year to ¥65,507 million.

North America and Latin America

In the United States, given its sound economy, JEOL committed itself to sales activities for transmission electron microscopes and high-power general-purpose scanning electron microscopes, leading only to a difficult situation. In the semiconductor-related products, sales of electron beam lithography systems for use in direct lithography declined below the level of the previous year.

As a result, sales in these regions fell 18.8% from the previous year to ¥10,879 million.

Other regions

In the Asian markets, sales were firm mainly due to favorable sales of electron microscopes. In Europe, sales weakened in the semiconductor-related equipment, particularly electron beam lithography systems, with sales decreasing in both French and German markets.

As a result, sales in other regions totaled ¥9,528 million, a 3.6% decrease from the previous year.

Main Products

Industrial Equipment

<Semiconductor-related Equipment>

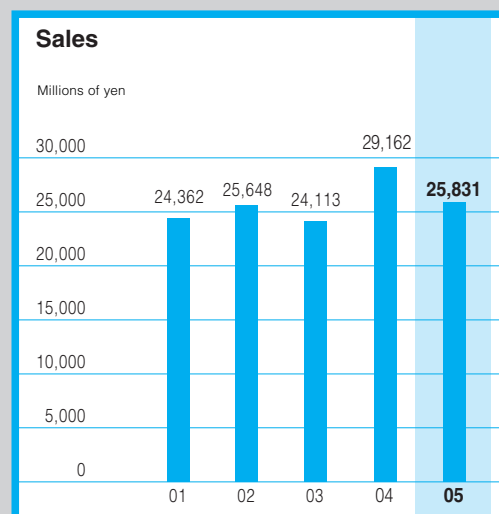
Electron beam lithography system, Wafer inspection system, Fine process inspection system, and wafer surface analyzer

<Optical Thin-Film Formation Equipment>

Electron beam evaporation gun and power supply, High-power electron beam gun, High density reactive ion plating system, Built-in plasma gun and plasma gun control power supply, and High-frequency generator for thermal plasma

<Medical Equipment>

Clinical biochemistry analyzer, Laboratory automation system, Laboratory information system, and Automated fecal occult blood analyzer



Operating Income and Net Income

Cost of sales for the fiscal year under review declined 2.8% from the previous year to ¥58,724 million. The decrease of cost of sales exceeded sales decrease of 1.4% and pushed gross profit up to ¥27,190 million, a 1.8% increase over the previous year.

Selling, general and administrative (SG&A) expenses rose 2.3% from the previous year to ¥25,205 million. Research and development costs included in SG&A expenses grew 10.1% from the previous year to ¥4,436 million, which accounts for 5.2% of total sales. As a result, operating income fell 4.0% to ¥1,985 million, with operating income ratio to sales only at 2.3%.

In other income and expenses, while a gain of ¥489 million from sales of investment securities were posted, a loss on sales and disposals of property, plant and equipment of ¥344 million were also posted. As a result, income before income taxes and minority interests increased 14.7% to ¥1,767 million and net income jumped 58.7% to ¥1,245 million, with net income per share at ¥16.24.

Financial Position

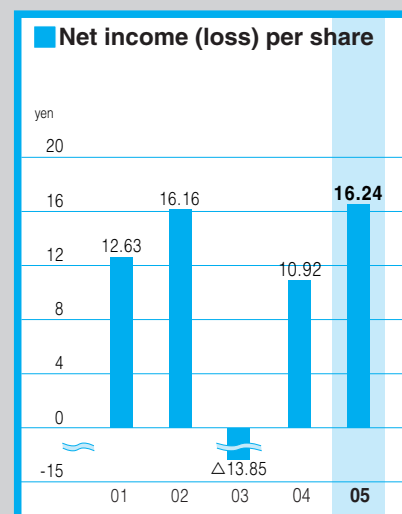
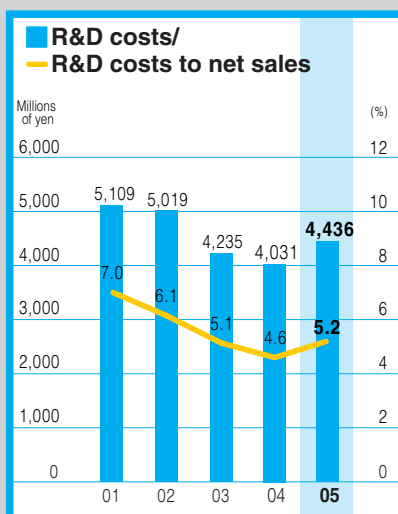
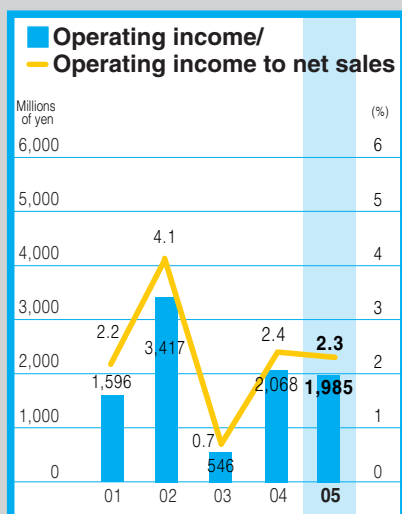
Total assets remained virtually unchanged at ¥95,211 million, a slight 0.1% decrease from the previous year, as of March 31, 2005.

Current assets declined ¥737 million to ¥72,521 million, as a result of an increase in inventories and decreases in cash and cash equivalents and trade notes.

Property, plant and equipment advanced ¥656 million to ¥12,341 million, due to increased construction in progress.

In the liabilities section, current liabilities were down ¥596 million from the previous year to ¥53,012 million, owing to a fall in advances received. Long-term liabilities decreased ¥1,824 million to ¥14,994 million as a result of conversion of convertible bonds into shares and a fall in long-term bank loans.

Shareholders' equity increased ¥2,274 million to ¥27,077 million, due to increases in common stock and capital surplus. The shareholders' equity ratio rose from 26.0% at the end of the previous year to 28.4%, and return on equity (ROE) also increased from 3.5% to 4.8%.



Fund Procurement

During the fiscal year under review, JEOL raised funds of ¥1,000 million by using a part of the commitment loan facility agreement of ¥6,000 million established by financial institutions.

Cash Flows

Cash flows from operating activities showed a net inflow of ¥1,473 million, due mainly to decrease in trade notes and accounts receivable and increase in trade notes and accounts payable despite increased in inventories.

Cash flows from investing activities showed a net outflow of ¥2,682 million, owing mainly to payment for purchase of property, plant and equipment despite proceeds from sales of investment securities.

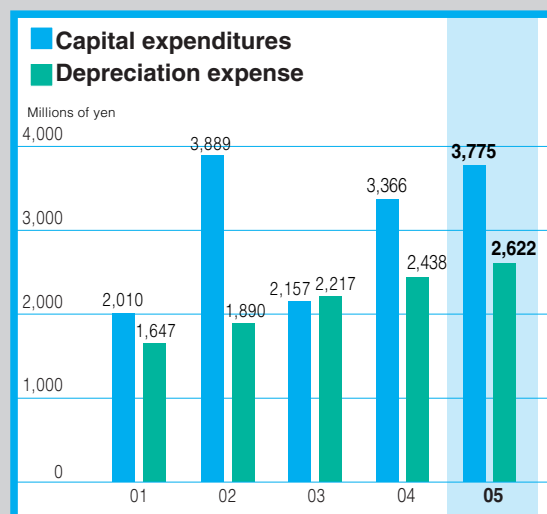
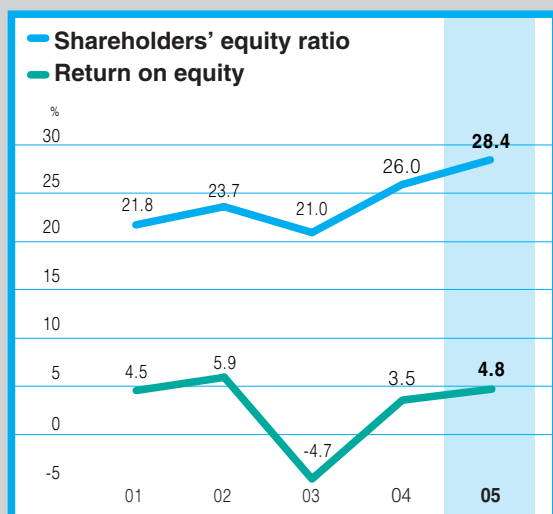
Cash flows from financing activities showed a net outflow of ¥1,914 million, attributed to repayments of bank loans and cash dividends paid.

Outlook

Looking forward, exit from the pause in economic recovery is expected given recovery in exports and consumer spending as well as progress in inventory adjustment in IT-related fields. However, uncertain factors such as petroleum prices, material prices, the development of foreign exchange rates, and the effects of anti-Japan demonstrations in China, will keep the Japanese economy in a state that is difficult to predict with any certainty.

Therefore, the JEOL Group will carry out policy measures to achieve the targets in the second year of the medium-term management plan "Focus Plan 2006," through clarification of responsibilities for products and formulation of the corporate framework in response to the market.

In the fiscal year ending March 2006, net sales are expected to reach ¥92,000 million (up 7.1% from the current year), with ordinary profit of ¥1,800 million (up 10.5%) and net income of ¥800 million (down 35.7%) on a consolidated basis.



Consolidated Balance Sheets

JEOL Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,237	¥11,185	\$ 76,696
Time deposits	276	70	2,570
Receivables:			
Trade notes	2,338	3,477	21,765
Trade accounts	21,956	21,674	204,435
Unconsolidated subsidiaries and associated companies	660	641	6,140
Other	447	317	4,161
Allowance for doubtful receivables	(142)	(101)	(1,320)
Inventories (Note 4)	35,400	33,099	329,611
Deferred tax assets (Note 9)	2,047	1,702	19,055
Prepaid expenses and other current assets	1,302	1,194	12,125
Total current assets	72,521	73,258	675,238
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	1,351	1,302	12,574
Buildings and structures	14,846	14,453	138,233
Machinery and equipment	3,692	3,605	34,379
Tools, furniture and fixtures	12,361	12,446	115,092
Construction in progress	1,022	188	9,514
Total	33,272	31,994	309,792
Accumulated depreciation	(20,931)	(20,309)	(194,886)
Net property, plant and equipment	12,341	11,685	114,906
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 6)	4,753	5,087	44,257
Investments in unconsolidated subsidiaries and associated companies	304	239	2,826
Software	410	747	3,815
Deferred tax assets (Note 9)	2,992	2,563	27,862
Other assets	1,890	1,731	17,600
Total investments and other assets	10,349	10,367	96,360
TOTAL	¥95,211	¥95,310	\$886,504

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥16,588	¥19,583	\$154,452
Current portion of long-term bank loans (Note 6)	3,742	1,149	34,841
Current portion of convertible bonds (Note 6)	1		9
Payables (Notes 5 and 6):			
Trade notes	11,503	9,423	107,100
Trade accounts	9,258	9,546	86,205
Unconsolidated subsidiaries and associated companies	86	371	797
Other	1,802	2,126	16,775
Income taxes payable	1,089	423	10,136
Advances received	5,043	6,675	46,960
Accrued bonuses to employees	1,488	1,621	13,853
Other current liabilities (Notes 6 and 9)	2,412	2,691	22,462
Total current liabilities	53,012	53,608	493,590
LONG-TERM LIABILITIES:			
Bonds (Note 6)	2,000	2,000	18,622
Convertible bonds (Note 6)		1,336	
Long-term bank loans (Note 6)	4,460	5,312	41,529
Liability for employees' retirement benefits (Note 7)	6,367	5,970	59,281
Retirement allowances for directors and corporate auditors (Note 7)	607	719	5,652
Negative goodwill	25	48	235
Other long-term liabilities (Notes 6 and 9)	1,535	1,433	14,291
Total long-term liabilities	14,994	16,818	139,610
MINORITY INTERESTS	128	81	1,189
CONTINGENT LIABILITIES (Note 14)			
SHAREHOLDERS' EQUITY (Notes 8 and 16):			
Common stock—authorized, 136,080,000 shares; issued, 79,363,368 shares in 2005 and 76,383,459 shares in 2004	6,740	6,072	62,751
Capital surplus	6,346	5,678	59,087
Retained earnings	13,494	12,637	125,646
Unrealized gain on available-for-sale securities	1,601	1,678	14,911
Foreign currency translation adjustments	(1,069)	(1,234)	(9,953)
Treasury stock—at cost, 48,336 shares in 2005 and 38,345 shares in 2004	(35)	(28)	(327)
Total shareholders' equity	27,077	24,803	252,115
TOTAL	¥95,211	¥95,310	\$886,504

Consolidated Statements of Income

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES (Note 11)	¥85,914	¥87,097	\$799,947
COST OF SALES (Note 11)	58,724	60,400	546,778
Gross profit	27,190	26,697	253,169
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 11)	25,205	24,629	234,686
Operating income	1,985	2,068	18,483
OTHER INCOME (EXPENSES):			
Interest and dividend income	81	68	753
Revenue from acceptance of research and development	217	330	2,023
Insurance claim receipt	50	59	464
Interest expense	(420)	(406)	(3,910)
Foreign exchange gain—net	69	4	645
Charge for sales of trade receivables	(215)	(261)	(2,005)
Loss on disposals of inventories	(124)	(44)	(1,151)
Loss on sales and disposals of property, plant and equipment—net	(344)	(114)	(3,199)
Loss on write-down of investment securities	(17)	(1)	(160)
Gain on sales of investment securities	489		4,551
Equity in earnings of unconsolidated subsidiaries and associated companies	85	15	792
Other—net	(89)	(177)	(836)
Other expenses—net	(218)	(527)	(2,033)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,767	1,541	16,450
INCOME TAXES (Note 9):			
Current	1,248	649	11,619
Deferred	(711)	90	(6,619)
Total income taxes	537	739	5,000
MINORITY INTERESTS IN NET LOSS (INCOME)	15	(18)	138
NET INCOME	¥ 1,245	¥ 784	\$ 11,588
		Yen	U.S. Dollars
	2005	2004	2005
PER SHARE OF COMMON STOCK (Notes 2.o and 15):			
Basic net income	¥ 16.24	¥ 10.92	\$ 0.15
Diluted net income	15.69	10.15	0.15
Cash dividends applicable to the year	5.00	2.50	0.05

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2003	69,037	¥4,427	¥4,032	¥11,853	¥ 137	¥ (904)	¥(10)
Net income				784			
Increase in treasury stock—net (20,415 shares)							(18)
Conversion of convertible bonds	7,346	1,645	1,646				
Net increase in unrealized gain on available-for-sale securities					1,541		
Net change in foreign currency translation adjustments						(330)	
BALANCE, MARCH 31, 2004	76,383	6,072	5,678	12,637	1,678	(1,234)	(28)
Net income				1,245			
Cash dividends paid:							
For prior year-end, ¥2.5 per share				(191)			
Interim for current year interim, ¥2.5 per share				(191)			
Decrease due to merger of a subsidiary				(6)			
Increase in treasury stock—net (9,991 shares)							(7)
Conversion of convertible bonds	2,980	668	668				
Net decrease in unrealized gain on available-for-sale securities					(77)		
Net change in foreign currency translation adjustments						165	
BALANCE, MARCH 31, 2005	79,363	¥6,740	¥6,346	¥13,494	¥1,601	¥(1,069)	¥(35)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2004	\$56,536	\$52,872	\$117,666	\$15,622	\$(11,498)	\$(260)	
Net income			11,588				
Cash dividends paid:							
For prior year-end, \$0.02 per share			(1,777)				
Interim for current year interim, \$0.02 per share			(1,777)				
Decrease due to merger of a subsidiary			(54)				
Increase in treasury stock—net (9,991 shares)						(67)	
Conversion of convertible bonds	6,215	6,215					
Net decrease in unrealized gain on available-for-sale securities				(711)			
Net change in foreign currency translation adjustments					1,545		
BALANCE, MARCH 31, 2005	\$62,751	\$59,087	\$125,646	\$14,911	\$ (9,953)	\$(327)	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥1,767	¥ 1,541	\$16,450
Adjustments for:			
Income taxes—paid	(692)	(385)	(6,443)
Depreciation and amortization	2,622	2,438	24,417
Loss on sales and disposals of property, plant and equipment—net	344	114	3,199
Gain on sales of investment securities	(489)		(4,551)
Loss on write-down of investment securities	17	1	160
Equity in earnings of unconsolidated subsidiaries and associated companies	(85)	(15)	(792)
Changes in assets and liabilities, net of effects from consolidation of previously unconsolidated subsidiaries:			
Decrease in trade notes and accounts receivable	1,391	2,870	12,956
(Increase) decrease in inventories	(2,115)	1,152	(19,695)
Increase (decrease) in trade notes and accounts payable	1,286	(1,361)	11,977
Decrease in trade notes and accounts payable related to sales of trade accounts by consolidated subsidiaries (Note 5)	(300)	(1,776)	(2,793)
Decrease in advances received	(1,678)	(184)	(15,622)
Decrease in provision for accrued bonuses to employees	(138)	(632)	(1,288)
Increase in liability for employees' retirement benefits	390	543	3,635
(Decrease) increase in retirement allowances for directors and corporate auditors	(112)	78	(1,047)
Other—net	(735)	514	(6,848)
Total adjustments	(294)	3,357	(2,735)
Net cash provided by operating activities	1,473	4,898	13,715
INVESTING ACTIVITIES:			
(Increase) decrease in time deposits—net	(199)	68	(1,855)
Payment for purchases of investment securities		(152)	
Proceeds from sales of investment securities	676		6,298
Proceeds from sales of property, plant and equipment	58	108	538
Payment for purchases of property, plant and equipment	(3,107)	(2,971)	(28,930)
Payment for purchases of intangible assets	(91)	(315)	(843)
Other—net	(19)	(42)	(179)
Net cash used in investing activities	(2,682)	(3,304)	(24,971)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(3,008)	2,415	(28,003)
Proceeds from long-term bank loans	2,800	1,566	26,071
Repayments of long-term bank loans	(1,226)	(1,162)	(11,416)
Proceeds from issuance of common stock to minority shareholders	180		1,676
Cash dividends paid	(386)	(3)	(3,596)
Proceeds from sale and installment buyback agreement		1,300	
Payments for sale and installment buyback agreement	(252)	(126)	(2,350)
Other—net	(22)	(28)	(205)
Net cash (used in) provided by financing activities	(1,914)	3,962	(17,823)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	112	(120)	1,039
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,011)	5,436	(28,040)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	63		589
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,185	5,749	104,147
CASH AND CASH EQUIVALENTS, END OF YEAR	¥8,237	¥11,185	\$76,696
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock and capital surplus	¥1,336	¥ 3,291	\$12,430
Assets increased by consolidation of previously unconsolidated subsidiary	74		686
Liabilities increased by consolidation of previously unconsolidated subsidiary	150		1,397

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which JEOL Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107.4 to \$1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 20 significant subsidiaries (together, the "Companies"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements. Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

JEOL CREATIVE CO., LTD. was merged with the Company effective as of April 1, 2004.

YAMAGATA CREATIVE CO., LTD., a previously unconsolidated subsidiary, has been consolidated from 2005 because of its materiality.

Investments in 5 (6 in 2004) unconsolidated subsidiaries and 2 associated companies are accounted for by the equity method.

Negative goodwill represents the excess of the fair value of the net assets of the acquired subsidiaries at the date of acquisition over their cost. Negative goodwill is credited to income using the straight-line method over 5 years, with the exception of minor amounts which are credited to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are stated at mainly cost substantially determined by the moving-average cost method and last purchased price method.

Inventories of consolidated foreign subsidiaries are stated at the lower of cost or market, mainly determined by the specific identification method.

d. Investment Securities

All securities are classified as available-for-sale securities and are reported at fair value, with unrealized gain and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is from 7 to 65 years for buildings and structures and from 2 to 15 years for tools, furniture and fixtures.

f. Software

Development costs related to software for sale are deferred and amortized in proportion to the actual sales volume of software sold during the current year to the estimated total sales volume. Software development costs for internal use are deferred at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).

g. Retirement and Pension Plans

Employees of the Company and certain consolidated subsidiaries who retire at or after the age of 60 are entitled to approximately 50% of their benefits in the form of an

annuity. The funds for the annuity payments are entrusted to an outside trustee.

Effective April 1, 2000, the Company and consolidated domestic subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

For the transitional obligation of ¥6,981 million in April 2000, the Company contributed certain available-for-sale securities with a fair value of ¥3,601 million to the employees' retirement benefits trust for the Company's non-contributory pension plans, and recognized a non-cash gain of ¥3,201 million. The securities held in this trust are qualified as plan assets. The remaining transitional obligation of ¥3,380 million (\$31,471 thousand) is being amortized over 15 years.

Retirement allowances for directors and corporate auditors of the Company and its domestic consolidated subsidiaries are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

h. Research and Development Costs

Research and development costs are charged to income as incurred.

i. Leases

All leases except for finance leases that deem to transfer ownership of the leased property to lessee, are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

l. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet

date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

n. Derivatives and Hedging Activities

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Gains or losses on derivatives used for hedging purposes, if qualified for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, are deferred until maturity of the hedged transactions.

Forward contracts applied to forecasted (or committed) transactions are also measured at their fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense.

o. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Companies expect to adopt these pronouncements as of April 1, 2005 and are currently in the process of assessing the effect of adoption of these pronouncements.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Non-current:			
Marketable equity securities	¥4,702	¥5,011	\$43,779
Non-marketable securities	51	76	478
Total	¥4,753	¥5,087	\$44,257

The carrying amounts and aggregate fair values of current and investment securities at March 31, 2005 and 2004, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as available-for-sale equity securities	¥2,267	¥2,454	¥19	¥4,702

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale equity securities	¥2,448	¥2,583	¥20	¥5,011

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as available-for-sale equity securities	\$21,112	\$22,850	\$183	\$43,779

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale—Equity securities	¥51	¥76	\$478
Total	¥51	¥76	\$478

Proceeds from sales of available-for-sale securities for the year ended March 31, 2005 were ¥676 million (\$6,298 thousand). Gross realized gains on these sales, computed on the moving average cost basis, were ¥489 million (\$4,551 thousand) for the year ended March 31, 2005.

4. INVENTORIES

Inventories at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥ 325	¥ 431	\$ 3,021
Finished products	15,207	16,704	141,594
Work in process	16,845	13,313	156,847
Raw materials and supplies	3,023	2,651	28,149
Total	¥35,400	¥33,099	\$329,611

5. PAYABLES

Payables (trade notes and trade accounts) of the Company which were sold to a third party (finance company) by consolidated subsidiaries for financing are reported as "Payables (trade notes and trade accounts)" in the consolidated balance sheets, if the due dates of settlement have not come as of balance sheet date.

The amount of such payables was ¥1,700 million (\$15,829 thousand) and ¥2,000 million at March 31, 2005 and 2004, respectively.

Decreases in those payables are reported as "Decrease in trade notes and accounts payable related to sales of trade accounts by consolidated subsidiaries" in the consolidated statements of cash flows.

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2005 and 2004, consisted of notes to banks and bank overdrafts. The weighted average annual interest rates for the short-term bank loans as of March 31, 2005 and 2004, were 2.9 % and 2.3%, respectively.

Long-term debt at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured 0.54% yen bonds, due 2008	¥2,000	¥2,000	\$18,622
Unsecured zero coupon yen convertible bonds, due September 2005	1	1,336	9
Loans from banks, due serially to 2010 with interest rates ranging from 1.6% to 4.4%:			
Collateralized	4,145	3,455	38,594
Unsecured	4,057	3,006	37,776
Unsecured long-term payable, due serially to 2010 with interest rate 1.85%	921	1,174	8,577
Lease obligations	47	61	433
Total	11,171	11,032	104,011
Less current portion	(4,015)	(1,415)	(37,381)
Long-term debt, less current portion	¥7,156	¥9,617	\$66,630

The unsecured zero coupon yen convertible bonds are convertible into common stocks on or after August 7, 2001 and up to including September 16, 2005. Unsecured zero coupon yen convertible bonds outstanding at March 31, 2005, were convertible into 2,232 shares of common stock of the Company. The conversion price was ¥448 per share at March 31, 2005. The conversion price of the unsecured zero coupon yen convertible bonds is subject to adjustments to reflect stock splits and certain other events. Under certain conditions, the unsecured zero coupon yen convertible bonds may be redeemed prior to maturity in whole at the option of the Company at prices ranging from 101.75% to 100% of the principal amount.

Annual maturities of long-term debt as of March 31, 2005 for the next five years were as follows:

Year Ending March 31	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
2006	¥ 4,015		\$ 37,381
2007	1,911		17,792
2008	3,366		31,338
2009	962		8,957
2010	917		8,543
Total	¥11,171		\$104,011

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥5,648 million (\$52,588 thousand), current portion of long-term bank loans of ¥2,445 million

(\$22,765 thousand), long-term bank loans of ¥1,700 million (\$15,829 thousand) and deposit received accounts which were included in other current liabilities of ¥40 million (\$375 thousand) and included in other long-term liabilities of ¥242 million (\$2,250 thousand) at March 31, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Land	¥ 637	\$ 5,931
Buildings and structures		
—net of accumulated depreciation	2,820	26,260
Machinery and equipment		
—net of accumulated depreciation	10	90
Investment securities	4,468	41,601
Total	¥7,935	\$73,882

In addition to the above loan balance, in order to raise liquidity, the Company entered into a committed loan facility agreement, aggregated amount of ¥6,000 million (\$55,866 thousand), with a syndicate of six Japanese banks, arranged by The Bank of Tokyo-Mitsubishi, Ltd. The Company must maintain net assets in excess of ¥13,813 million (\$128,613 thousand) as of every year-end and interim closing dates. As of March 31, 2005, the Company was in compliance with this requirement.

7. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥(18,061)	¥(17,608)	\$(168,169)
Fair value of plan assets	6,569	6,472	61,163
Unrecognized actuarial loss	3,798	3,459	35,364
Unrecognized transitional obligation	2,248	2,474	20,940
Benefits paid	(921)	(767)	(8,579)
Net liability	¥ (6,367)	¥ (5,970)	\$ (59,281)

The components of net periodic retirement benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 897	¥ 837	\$ 8,348
Interest cost	403	398	3,752
Expected return on plan assets	(215)	(180)	(2,000)
Recognized actuarial loss	354	373	3,297
Amortization of transitional obligation	225	224	2,094
Net periodic retirement benefit costs	¥1,664	¥1,652	\$15,491

The above service cost does not include additional retirement payments of ¥99 million (\$921 thousand) and ¥65 million for the years ended March 31, 2005 and 2004, respectively.

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	4.0%	4.0%
Recognition period of actuarial gain/loss	12 years	12 years
Amortization period of transitional obligation	15 years	15 years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code.

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury

stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥9,948 million (\$92,628 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

During the year ended March 31, 2005, zero coupon yen convertible bonds in the amount of ¥1,336 million (\$12,430 thousand) were converted into 2,979,909 shares of the Company's common stock; resulting in an increase in capital stock of ¥668 million (\$6,215 thousand) and an increase in capital surplus of ¥668 million (\$6,215 thousand).

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.7% and 42.1% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from approximately 42.1% to 40.7%, effective for years beginning on or after April 1, 2004. The effect on deferred income taxes in the consolidated statements of income for the year ended March 31, 2004 was increase of ¥31 million. The deferred tax assets and liabilities which will be realized on or after April 1, 2004 are measured at the effective tax rate of 40.7% as of March 31, 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets—Current:			
Accrued bonuses to employees	¥ 602	¥ 659	\$ 5,608
Research and development cost	364	312	3,385
Accrued enterprise taxes	113	37	1,054
Unrealized intercompany profits of inventories	534	447	4,971
Loss on write-down of inventories	278	87	2,590
Other	297	294	2,767
Less valuation allowance	(3)		(30)
Total	2,185	1,836	20,345
Deferred tax liabilities—Current	(138)	(134)	(1,290)
Net deferred tax assets—Current	¥2,047	¥1,702	\$19,055

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets—Non-current:			
Amortization of deferred charges		¥ 123	
Amortization of software	¥ 949	942	\$ 8,836
Loss on devaluation of software	40	48	372
Loss on write-down of investment securities	202	272	1,875
Liability for employees' retirement benefits	2,127	1,856	19,807
Retirement allowances for directors and corporate auditors	247	293	2,304
Tax loss carryforwards	359		3,346
Other	322	297	2,998
Less valuation allowance	(216)	(181)	(2,007)
Total	4,030	3,650	37,531
Deferred tax liabilities—Non-current	(1,038)	(1,087)	(9,669)
Net deferred tax assets—Non-current	¥2,992	¥2,563	\$27,862
Deferred tax liabilities—Current:			
Advances received	¥ (53)	¥ (53)	\$ (491)
Other	(136)	(122)	(1,270)
Total	(189)	(175)	(1,761)
Deferred tax assets—Current	138	134	1,290
Net deferred tax liabilities—Current	¥ (51)	¥ (41)	\$ (471)
Deferred tax liabilities—Non-current:			
Unrealized gain on available-for-sale securities	¥ (833)	¥ (885)	\$ (7,754)
Undistributed earnings of associated companies	(120)	(109)	(1,117)
Other	(91)	(98)	(852)
Total	(1,044)	(1,092)	(9,723)
Deferred tax assets—Non-current	1,038	1,087	9,669
Net deferred tax liabilities—Non-current	¥ (6)	¥ (5)	\$ (54)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004, was as follows:

	2005	2004
Normal effective statutory tax rate	40.7%	42.1%
Expenses not deductible for income tax purposes	4.7	5.6
Capitation of local inhabitant tax	1.7	2.1
Unrealized intercompany profits	(10.8)	0.9
Difference in tax rates of foreign subsidiaries	(2.4)	(2.5)
Effect of tax rate reduction		1.2
Special tax credit on research and development expenses	(4.9)	
Other—net	1.4	(1.5)
Actual effective tax rate	30.4%	47.9%

At March 31, 2005, certain subsidiaries had tax loss carryforwards aggregating approximately ¥883 million (\$8,221 thousand) which were available to be offset against taxable income of such subsidiaries in future years.

The tax loss carryforwards, if not utilized, will expire in years ending in 2012 and thereafter.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,436 million (\$41,303 thousand) and ¥4,031 million for the years ended March 31, 2005 and 2004, respectively.

11. RELATED PARTY TRANSACTIONS

Transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Sales	¥2,146	¥2,144	\$22,853
Purchases	280	624	2,645
Selling, general and administrative expenses	256	173	2,381

12. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.

Total rental expenses, primarily for lease agreements for office space which were cancelable at the option of the Company or upon expiration, for the years ended March 31, 2005 and 2004, were ¥2,052 million (\$19,110 thousand) and ¥1,974 million, respectively, including ¥443 million (\$4,122 thousand) and ¥479 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

Year Ended March 31, 2005

	Millions of Yen				
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥7	¥84	¥666	¥1,310	¥2,067
Accumulated depreciation	3	74	458	1,023	1,558
Net leased property	¥4	¥10	¥208	¥ 287	¥ 509

	Thousands of U.S. Dollars				
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	\$63	\$785	\$6,198	\$12,203	\$19,249
Accumulated depreciation	27	691	4,261	9,524	14,503
Net leased property	\$36	\$ 94	\$1,937	\$ 2,679	\$ 4,746

Year Ended March 31, 2004

	Millions of Yen				
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥7	¥99	¥725	¥1,301	¥2,132
Accumulated depreciation	2	80	485	796	1,363
Net leased property	¥5	¥19	¥240	¥ 505	¥ 769

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥386	¥ 417	\$3,592
Due after one year	526	794	4,903
Total	¥912	¥1,211	\$8,495

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Depreciation expense	¥383	¥485	\$3,562
Interest expense	26	33	247
Total	¥409	¥518	\$3,809

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, were computed by the declining-balance method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥205	¥217	\$1,906
Due after one year	207	197	1,926
Total	¥412	¥414	\$3,832

13. DERIVATIVES

The Companies enter into derivative financial instruments ("derivatives"), including foreign currency forward contracts and foreign currency denominated loans, to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap agreements as a means of managing their interest rate exposure.

It is the Companies' policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Companies do not hold or issue derivatives for trading purposes.

Derivatives are subject to market risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates and interest rates. Because the counterparties to those derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors and the execution and control of derivatives are controlled by the Financial Department.

Foreign currency forward contracts and interest rate swaps which qualified for hedge accounting for the years ended March 31, 2005 and 2004, are excluded from the disclosure of market value information.

Quantitative information is not disclosed because all derivatives qualify for hedge accounting at March 31, 2005 and 2004.

14. CONTINGENT LIABILITIES

At March 31, 2005, the Companies had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of advance received by unconsolidated subsidiary	¥19	\$174

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2004 was as follows:

Year Ended	Millions	Thousands	Yen	U.S.Dollars
	of Yen	of Shares		
	Net	Weighted-	EPS	
	Income	average		
		Shares		
Year Ended March 31, 2005				
Basic EPS—Net income available to common shareholders	¥1,245	76,620	¥16.24	\$0.15
Effect of dilutive securities—Convertible bonds		2,704		
Diluted EPS—Net income for computation	¥1,245	79,324	¥15.69	\$0.15
Year Ended March 31, 2004				
Basic EPS—Net income available to common shareholders	¥784	71,842	¥10.92	
Effect of dilutive securities—Convertible bonds		5,433		
Diluted EPS—Net income for computation	¥784	77,275	¥10.15	

16. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2005, was approved at the Company's shareholders meeting held on June 29, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.5 (\$0.02) per share	¥ 198	\$ 1,846

17. SEGMENT INFORMATION

Information about operations in different industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2005 and 2004, was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen			
	2005			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Sales to customers	¥60,083	¥25,831		¥85,914
Intersegment sales				
Total sales	60,083	25,831		85,914
Operating expenses	56,838	24,292	¥ 2,799	83,929
Operating income	¥ 3,245	¥ 1,539	¥(2,799)	¥ 1,985

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2005			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Total assets	¥56,983	¥24,658	¥13,570	¥95,211
Depreciation	1,558	1,010	54	2,622
Capital expenditures	1,485	2,207	83	3,775

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2005			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Sales to customers	\$559,433	\$240,514		\$799,947
Intersegment sales				
Total sales	559,433	240,514		799,947
Operating expenses	529,214	226,188	\$ 26,062	781,464
Operating income	\$ 30,219	\$ 14,326	\$(26,062)	\$ 18,483

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2005			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Total assets	\$530,569	\$229,586	\$126,349	\$886,504
Depreciation	14,507	9,405	505	24,417
Capital expenditures	13,825	20,551	771	35,147

a. Sales and Operating Income

	Millions of Yen			
	2004			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Sales to customers	¥57,935	¥29,162		¥87,097
Intersegment sales				
Total sales	57,935	29,162		87,097
Operating expenses	55,848	26,535	¥ 2,646	85,029
Operating income	¥ 2,087	¥ 2,627	¥(2,646)	¥ 2,068

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2004			
	Scientific Instrument	Industrial Equipment	Eliminations/Corporate	Consolidated
Total assets	¥51,283	¥27,447	¥16,580	¥95,310
Depreciation	1,500	884	54	2,438
Capital expenditures	2,077	1,163	126	3,366

Note:

The Companies primarily engage in the manufacture and sale of products in two major segments, grouped on the basis of similarities in the type, nature and market of the products. The two segments, namely, scientific instrument and industrial equipment, consist of the following main products:

Scientific instrument: Electron Microscopes, NMR Spectrometers, Mass Spectrometers, etc.

Industrial equipment: Electron Beam Lithography System, Wafer Inspection Systems, High Frequency Plasma Generators, Clinalyzers, etc.

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 were summarized as follows:

	Millions of Yen				
	2005				
	Japan	North America Latin America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥65,507	¥10,879	¥9,528		¥85,914
Interarea transfer	9,219	578	313	¥(10,110)	
Total sales	74,726	11,457	9,841	(10,110)	85,914
Operating expenses	69,803	11,865	9,730	(7,469)	83,929
Operating income (loss)	¥ 4,923	¥ (408)	¥ 111	¥ (2,641)	¥ 1,985
Total assets	¥69,780	¥ 8,538	¥6,058	¥ 10,835	¥95,211

	Thousands of U.S. Dollars				
	2005				
	Japan	North America Latin America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$609,935	\$101,291	\$88,721		\$799,947
Interarea transfer	85,835	5,379	2,918	\$ (94,132)	
Total sales	695,770	106,670	91,639	(94,132)	799,947
Operating expenses	649,938	110,471	90,601	(69,546)	781,464
Operating income (loss)	\$ 45,832	\$ (3,801)	\$ 1,038	\$ (24,586)	\$ 18,483
Total assets	\$649,717	\$ 79,496	\$56,406	\$ 100,885	\$886,504

	Millions of Yen				
	2004				
	Japan	North America Latin America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥63,814	¥13,398	¥9,885		¥87,097
Interarea transfer	11,746	700	716	¥(13,162)	
Total sales	75,560	14,098	10,601	(13,162)	87,097
Operating expenses	71,091	14,233	10,401	(10,696)	85,029
Operating income (loss)	¥ 4,469	¥ (135)	¥ 200	¥ (2,466)	¥ 2,068
Total assets	¥65,863	¥ 9,678	¥5,212	¥ 14,557	¥95,310

Note:

Each area primarily refers to the following countries:

North America, Latin America:
U.S.A., Canada and Mexico

Other:
Europe, Southeast Asia and Australia

(3) Sales to Foreign Customers

The sales to foreign customers of the Company and subsidiaries for the years ended March 31, 2005 and 2004 were summarized as follows:

	Millions of Yen		
	2005		
	North America Latin America	Other	Total
Overseas sales (A)	¥14,645	¥18,324	¥32,969
Consolidated sales (B)			85,914
(A)/(B)	17.1%	21.3%	38.4%

	Thousands of U.S. Dollars		
	2005		
	North America Latin America	Other	Total
Overseas sales (A)	\$136,359	\$170,615	\$306,974
Consolidated sales (B)			799,944
(A)/(B)	17.1%	21.3%	38.4%

	Millions of Yen		
	2004		
	North America Latin America	Other	Total
Overseas sales (A)	¥16,336	¥18,979	¥35,315
Consolidated sales (B)			87,097
(A)/(B)	18.7%	21.8%	40.5%

Note:

The Company and subsidiaries are summarized in these segments by geographic area and the countries where the customers are located. The segments consisted of the following countries:

North America, Latin America:
U.S.A., Canada and Mexico

Other:
Europe, Southeast Asia and Australia



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
JEOL Ltd.:

We have audited the accompanying consolidated balance sheets of JEOL Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JEOL Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

Corporate Outline

(As of March 31, 2005)

Corporate Name: JEOL Ltd.
 Address: 1-2, Musashino 3-chome, Akishima, Tokyo 196-8558, Japan
 TEL: +81-42-543-1111 FAX: +81-42-546-3353
 Establishment: May 30, 1949
 Capital: ¥6,740 million
 Number of Employees: Consolidated 3,048 Non-consolidated 1,373

Stock Information: Authorized shares: 136,080,000
 Issued shares: 79,363,368
 Unit Number: 1,000 shares per unit
 Number of Shareholders: 14,255

Head Office and Branch Offices:	Head Office: Factory	Domestic Subsidiaries JEOL TECHNICS LTD.
	Tokyo Office	and Affiliated Companies: JEOL DATUM LTD.
	Tokyo Branch Office	SATSUKI INDUSTRIES CO., LTD.
	Sapporo Branch Office	JEOL SYSTEM TECHNOLOGY CO., LTD.
	Sendai Branch Office	JEOL ENGINEERING CO., LTD.
	Tsukuba Branch Office	JEOL ACTIVE CO., LTD.
	Yokohama Branch Office	JAPAN LASER CORPORATION
	Nagoya Branch Office	TACHIBANA ELECTRONICS CO., LTD.
	Osaka Branch Office	JEOL TECHNOSERVICE CO., LTD.
	Kansai Application Research Center	YAMAGATA CREATIVE CO., LTD.
	Hiroshima Branch Office	ADVANCED CAPACITOR TECHNOLOGIES, INC.
	Takamatsu Branch Office	
Fukuoka Branch Office		

Overseas Subsidiaries and Affiliated Companies:	JEOL USA, INC. [USA]	11 Dearborn Road, Peabody, MA. 01960, USA TEL. (978) 535-5900
	JEOL (EUROPE) S. A. [France]	Espace Claude Monet, 78290 Croissy-sur-Seine, France TEL. (1) 3015-3737
	JEOL (U.K.) LTD. [U.K.]	JEOL House, Silver Court, Watchmead, Welwyn Garden City, Herts AL7 1LT, U.K. TEL. 01707-377117
	JEOL (EUROPE) B. V. [the Netherlands]	Tupolevlaan 28-A, 1119 NZ Schiphol-Rijk, the Netherlands TEL. (20) 6533088
	JEOL (SKANDINAVISKA) A.B. [Sweden]	Hammarbacken 6A 191 49 Sollentuna, Sweden TEL. (08) 282800
	JEOL (GERMANY) GmbH [Germany]	Oskar-Von-Miller-Strasse 1, 85386 Eching, Germany TEL. (08165) 77346
	JEOL (ITALIA) S.p.A. [Italy]	Centro Direzionale Ripamonti Via Dei Tulipani, 1, 20090 Pieve, Emanuele (MI), Italy TEL. (39) 2-9041431
	JEOL ASIA PTE. LTD. [Singapore]	29 International Business Park #03-02A Acer Building, Tower B, Singapore 609928 TEL. (65) 5659989
	JEOL (AUSTRALASIA) PTY. LTD. [Australia]	Unit 9, 750-752 Pittwater Road, Brookvale, N.S.W. 2100, Australia TEL. (02) 9905-8255
	JEOL DE MEXICO S.A. DE C.V. [Mexico]	Av. Amsterdam #46 DEPS. 402 Col Hipodromo, Mexico 06100, Mexico D.F TEL. (5) 211 0672
	JEOL CANADA, INC. [Canada]	5757 Cavendish Boulevard, Suite 504, Montreal, Quebec H4W 2W8, Canada TEL. (514) 482-6427
	JEOL (MALAYSIA) SDN BHD [Malaysia]	205, Block A, Mezzanine Floor, Kelana Business Center 97, Jalan SS 7/2, Kelana Jaya, 47301 Petaling Jaya, Selangor, Malaysia TEL. (3) 582-7722
	JEOL KOREA LTD. [Korea]	Sunmin Building 218-16, Nonhyun-Dong, Gangnam-Gu, Seoul 135-010, Korea TEL. (02) 511-5501
	JEOL TAIWAN SEMICONDUCTORS LTD. [Taiwan]	6F-4, No.346, Pei-Ta Road, Hsin-Chu City300, Taiwan, R.O.C. TEL. (886) 3-523-8490
	Beijing Creative Technology Co., Ltd. [China]	No.75 DAWUJISI CHAOYANG QU BEIJING CHINA TEL. (010) 6737-7132

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