2006

Fiscal year ended March 31, 2006

ANNUAL REPORT

JEOL

JEOL

Company Philosophy

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
The new YMCC Tendo Factory building completed		Ion source for mass spectrometers, DART completed
		Semiconductor failure analysis system "Beam Tracer" developed

Contents

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, 2006, 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, 2006, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

Financial Highlights

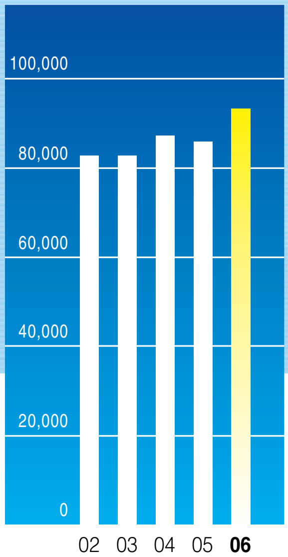
JEOL Ltd. and consolidated subsidiaries, for the years ended March 31, 2006 and 2005

Serving Advanced Technology

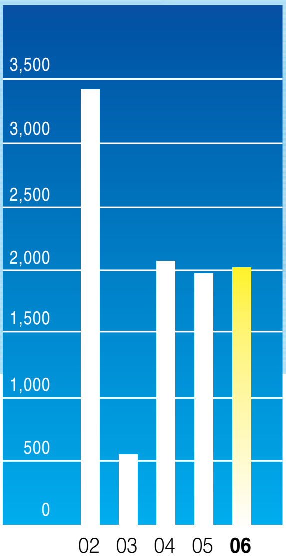
	Millions of yen		Thousands of U.S. dollars*
	2006	2005	**2006**
For the year:			
Net sales	**¥ 93,291**	¥ 85,914	**$ 793,968**
Operating income	**2,013**	1,985	**17,128**
Income before income taxes and minority interests	**2,201**	1,767	**18,732**
Net income	**1,289**	1,245	**10,968**
Per share data (in yen and U.S. dollars):			
Net income	**16.25**	16.24	**0.14**
Total shareholders' equity	**375.14**	341.39	**3.19**
At year-end:			
Total assets	**103,940**	95,211	**884,599**
Total shareholders' equity	**29,752**	27,077	**253,210**

Note: The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥ 117.5 to U.S.$1 (the approximate exchange rate at March 31, 2006).

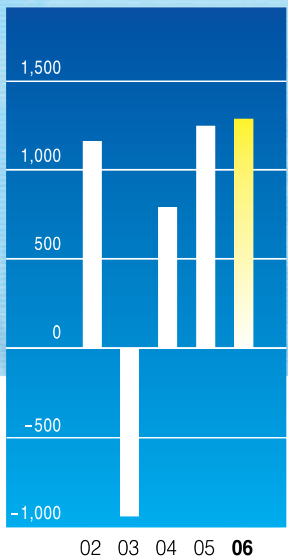
Net sales
Millions of yen



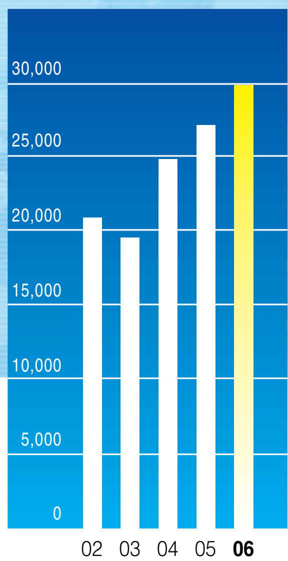
Operating income
Millions of yen



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

What is your assessment of the business environment and the Company's performance in the fiscal year ended March 31, 2006?

During the fiscal year under review, the Japanese economy got on a recovery track due to an increase in private-sector capital expenditures amid strong corporate earnings and steady personal consumption, despite uncertainties over the effects of oil price hikes.

Overseas, the U.S. economy continued to grow steadily and Asian countries maintained substantial growth in their economies as a result of strong exports. The economies in the euro zone picked up, reflecting an improvement in business sentiment.

Under such market conditions, the JEOL Group achieved its profit targets, mainly because its overall performance was improved by the sales of electron microscopes as well as sales at the I-Core (industrial equipment market) business, which is related to semiconductor manufacturing equipment and automated biochemical analyzers. Consequently, we posted consolidated net sales of ¥93,291 million (up 8.6% year-on-year), ordinary profit of ¥1,913 million (up 17.5% year-on-year) and net income of ¥1,289 million (up 3.5% year-on-year) in the fiscal year under review.

JEOL is comprised of the Scientific Instrument segment and the Industrial Equipment segment. In the Scientific Instrument segment, there was strong demand for electron microscopes from a variety of sectors, including the research and development of cutting-edge fields, the development of materials, the basic research of medical and biological fields, as well as quality control.

At the Industrial Equipment segment, sales of electron beam lithography systems picked up in the semiconductor sector. The Company sold small, clinical biochemistry analyzers, in

Focus Plan 2006

Medium-term management plan

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

addition to its conventional medium-sized ones, and together with its newly-launched large models the Company had brisk sales.

It seemed like JEOL was struggling up until the third quarter. Please tell us about that situation in detail.

In our line of business, sales of products, particularly our mainstay large electron microscopes and electron beam lithography systems, tend to occur at the end of the fiscal year.

In the Industrial Equipment segment, profits from products relating to thin films and film deposition fell short of our initial targets due to a delay in market recovery. However, this was offset by strong sales of electron beam lithography systems.

As a result, we were able to obtain our targeted profits, as mentioned earlier.

What is your evaluation of sales costs and selling, general and administrative expenses?

Sales costs and selling, general and administrative expenses were almost the same as our initial projections.

Aiming to reduce production costs, we will further expand the facilities of our subsidiary's plant in Yamagata Prefecture and actively transfer production of mass-market products to that plant.

Looking at the fiscal year ending March 2007 and beyond. The second year of the medium-term management plan "Focus Plan 2006" has ended. Could you tell us how the plan is progressing?

The main aim of "Focus Plan 2006" is to enhance our profit margin, and accordingly we have set a target of 5% for our ordinary profit margin at the end of the last fiscal year of the plan. To achieve this target we implemented a preparatory strategy, through which we believe we achieved solid results in the growth market.

Specifically, we expanded the facilities at our subsidiary's plant in Yamagata Prefecture, and accelerated the transfer of production of mass-market products to that plant. Meanwhile, we improved our marketing and service bases in Russia and China, while further enhancing businesses in India and the Middle East, with Singapore as the hub. We also established an University-Corporate collaboration office jointly with the University of Tokyo, aiming to inform people about advanced measurement technologies, electron microscopes in particular, and promote their use. In addition, we expanded our lineup of strategic products, and sales of electron beam lithography systems and clinical biochemistry analyzers were satisfactory, as we mentioned earlier.

In the future, we will continue to carry out more development activities, JEOL's great strength, and increase our orders received and sales by introducing excellent products, in order to expand our profits. Under such a framework, we will eventually ensure our corporate growth after the fiscal year ending March 2007.

Business Targets

(Consolidated)

Net sales **¥100 billion** or more

Ordinary profit **¥5 billion** or more

Key Measures for the fiscal year ending March 2007

Ensure profit by securing sales from the following four businesses:

(1) Electron microscope business
(2) Semiconductor equipment business
(3) Medical equipment business
(4) Environment-related business

“Focus Plan 2006” focuses on strategies for five activities: production, sales, technology, alliance and organization. Could you explain how these strategies are progressing?

We are now in the phase of creating profits by comprehensively promoting strategies on production, sales, services and technology. We have come to have a clear understanding of the process of ensuring profits at the businesses relating to semiconductors and medical equipment. Furthermore, we are now optimizing our utilization of human resources within the group under a cross-sectional personnel system.

JEOL is well known as an R&D-oriented corporation. Could you tell us about the R&D you are now engaged in and about any new products under development that you can announce publicly?

In the electron microscope field, we developed technology to correct any haze and distortion that an image may have, a problem that had been impossible to solve using only electron beam technology. This new technology enables us to look at smaller objects.

In other fields, we are promoting R&D activities to develop new products using the basic technologies we have acquired.

What are your views on the outlook for capacitors?

In April 2006, we built facilities in the premises of the Company for manufacturing capacitors on an experimental basis.

We lent users samples of high performance capacitors and then listened to their evaluations and requests, at the same time as conducting market research on the capacitors. As a result, we recognized the need to establish a system to supply smaller capacitor samples, in addition to the conventional large models.

By operating these facilities, we will begin supplying samples, and then develop some of them for various practical uses, aiming to commercialize them. This is our plan for the capacitor business.

Although capacitors can be used in a wide range of products, they cannot be used in all fields. If we succeed in developing a new use for a capacitor that highlights its merits, it will provide us with a big business opportunity to exploit that use.

Could you tell us about the status of corporate governance in your company?

In association with the implementation of the Corporate Law in May 2006, JEOL established the “Internal Auditing Office” on April 1, which not only has the conventional task of supporting corporate auditors, but is also responsible for conducting internal audits.

As part of our overhaul of the previous director system, the Company reduced the number of directors prescribed in its Articles of Incorporation to 8 or less, from 20 or less, by resolution of the general meeting of shareholders held in June 2006. At a Board of Directors meeting held after the said general meeting of shareholders, we resolved to introduce an executive officer system. Consequently, we clearly defined the

Key Measures for the fiscal year ending March 2007

1 Electron Microscope Business

Target
- Maintain Top Share for Both Transmission and Scanning Type
- Increase the Number of Unit
- Improve Profitability Due to Better Cost Rate

Measures
- Promote Sales of High-End Transmission Electron Microscope
- Expand sales by offering solutions
- Develop key regions, such as China, Korea, Taiwan, Russia, and India as well as Europe and the U.S.A.
- Promote sales of compact electron microscope, such as Carry Scope, portable SEM.

2 Semiconductor Equipment Business

Target
- Aim at 50% market share

Measures
- Improve throughput
- Shorten production period
- Further enhancement of service support structure
- Expand Facility of Clean Room

responsibilities of our officers by completely dividing the management and execution of their operations.

Furthermore, JEOL established the "CSR Committee," which is directly under the control of the president, on April 1.

This committee will form a solid corporate governance system under the guidance of outside corporate attorneys, who are also members. Under this system, we will continuously improve and enhance our corporate compliance, the quality of our products and services, our social contribution, corporate ethics and risk management.

What are your views on returning profits to shareholders, dividends and financial policies?

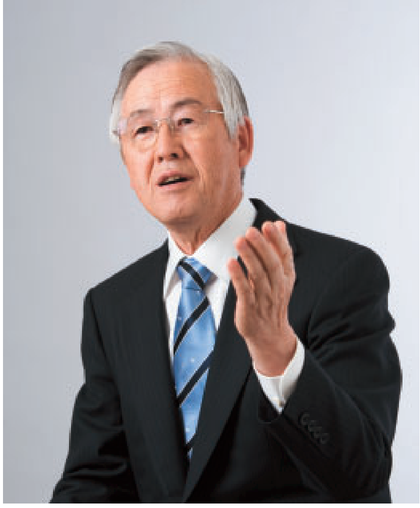
JEOL has been paying its shareholders an annual dividend of ¥5 per share. From now on, we will also continue to pay stable dividends from a long-term perspective, while achieving the targets of "Focus Plan 2006" and returning profits appropriately to shareholders.

We issued yen convertible bonds in July 2005. In the future, we will also raise funds to make capital investment by issuing corporate bonds, and we will implement a wide range of capital policies while taking into account various risks.

Please tell us your views on corporate defense.

Although there has recently been a lot of talk by companies about various takeover prevention measures, our basic policy is to focus on maximizing corporate value and appropriately responding to any takeover attempts.

We believe that the most effective anti-takeover measures are to increase profits, improve corporate value and continuously



develop toward the future.

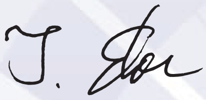
Do you have any messages for the shareholders?

Aiming to expand our business and make the earnings structure stable, JEOL will make every effort to further improve its corporate value. To this end, we will enlarge the semiconductor manufacturing cleanroom at the head office plant in Akishima, Tokyo. We will also expand the factory of our subsidiary in Yamagata Prefecture, and increase production at Beijing Creative Technology Co., Ltd., our manufacturing base in China.

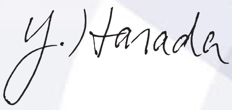
Please continue to place your hopes in the JEOL Group. We will strive to meet your expectations.

July, 2006

Terukazu Eto
Chairman & CEO,
Representative Director



Yoshiyasu Harada
President & COO,
Representative Director



3 Medical Equipment Business

Target

- Improve market share of product in Japan
- Improve overseas market share of product
- Extend reagents, consumables, and service businesses
- Improve production cost

Measures

- Explore new market by using our product line
- Grow Large Capacity Model
- Enhance partnership with OEM suppliers
- Improve production cost by transferring production to Tohoku Region, such as YMCC

4 Environment-related Business

Measures

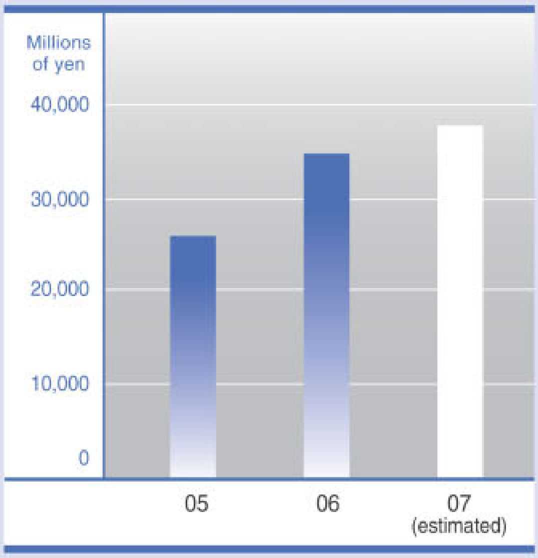
- Application to WEEE & RoHS
- Expansion of order of X-ray spectrometers

Increase sales and profit in I-Core Business

The JEOL Group has two product groups: S-Core, consisting of scientific instruments such as electron microscopes, and I-Core, consisting of industrial equipment which will be applied to industrial, medical and life science fields. In order to achieve business targets (consolidated net sales of ¥100 billion and ordinary profit of ¥5 billion) in the medium-term management plan "Focus Plan 2006" (from April 1, 2004 to March 31, 2007), we believe it is critical to increase sales and profit in the I-Core business.

During the fiscal year ended March 2006, we benefited from the effects of various measures we had implemented, and sales grew for electron beam lithography systems in semiconductor-related equipment, and for clinical biochemistry analyzers in medical equipment.

In order to achieve the business targets of the medium-term management plan, the Company will strive to positively translate strong orders into sales for semiconductor-related equipment, and we will shift production to the Tohoku Area and develop a test reagent business for the medical equipment.



◀ Changes in sales in I-Core Business

Production reform

The JEOL Group listed "production strategy" as one of the basic strategies of its "Focus Plan 2006" medium-term management plan, and the Group is shifting production to Tendo Factory of Yamagata Creative Co., Ltd. (YMCC), its production base in Tohoku Area.

During the fiscal year ended March 2006, nearly 35% of total production of transmission electron microscopes and about 75% of total production of field emission scanning electron microscopes were produced in this factory. In addition, we obtained approval for production of medical equipment under the Pharmaceutical Affairs Law in December 2005 and initiated production thereafter.

In the future, the JEOL Group will push forward with production shift, and we will have the Akishima Factory (the Head Office) focused on the production of high-value added products. All other products will be produced at the YMCC Tendo Factory.

Capacitors

The JEOL Group will continue joint development of capacitors with Nissan Diesel Motor Co., Ltd. In the meantime, we completed a prototype production facility for high density electric double layer capacitor products on the premises of JEOL Ltd. As a result, the Company will be able to supply small-size capacitor samples, in addition to the existing larger sized ones. With this, we will promote businesses, setting our target on small-size products such as mobile items.

At "TECHNO-FRONTIER 2006 – the 21st Power Supply Technology Exhibition 2006" held in April 2006, the Company cooperated with Vicor Japan Co., Ltd. in conducting a demonstration on the next-generation chip-type power supply at its booth.

Research and Development

The JEOL Group, which sells cutting-edge equipment such as electron microscopes all over the world, continuously introduces new products to increase product competitiveness.

In the fiscal year under review, the Group's R&D costs totaled ¥5,223 million, of which the Scientific Instrument segment accounted for ¥3,641 million and the Industrial Equipment segment accounted for ¥1,582 million.

The following are the results of major R&D activities in the fiscal year under review.

May 2005:

Released JCA-BM8060 (7,200 tests/hour: clinical biochemical analyzer)

In the medical equipment sector, the Group previously sold the BioMajesty series of clinical biochemical analyzer mainly in the medium-sized models market. In this period, the Group developed a model that retains the conventional ultra-microanalysis functions and can perform a large number of examinations at high speed, targeting the large-sized models market.

JCA-BM8060

December 2005:

Developed a defect analyzer that can handle semiconductors with 65nm nodes and beyond

The Group developed Beam Tracer, an equipment that can identify defective portions in semiconductor devices using high spatial resolution techniques.

In developing and mass-producing large scale integration (LSI) devices with 65nm nodes and beyond, which are becoming increasingly minute and highly integrated, Beam Tracer can precisely identify any defective sections using high spatial resolution techniques, resulting in devices with improved performance and yield.

Beam Tracer

January 2006:

Released the focused ion beam system JEM-9320FIB

To examine and analyze ultra-fine objects using transmission electron microscopes and scanning electron microscopes, specimens must be fabricated in advance. Using electronic and ion-optics technologies, which the JEOL Group has accumulated over many years, JEM-9320FIB can efficiently and reliably prepare thin-film and cross-sectional specimens.

JEM-9320FIB

January 2006:

Released the compact, high-performance microscope Carry Scope JCM-5700

The JEOL Group developed Carry Scope JCM-5700 as a portable scanning electron microscope for high-resolution examination. Unlike conventional scanning electron microscopes that cannot be carried to a site, Carry Scope JCM-5700 can be installed in a small space.

JCM-5700

Environmental Activities

ISO policy of the JEOLGroup

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 governmental 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 products such as environmental measurement and analyzing equipment and related services.

■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).

●Energy conservation

The JEOL Group has set a goal of reducing the basic unit for energy by 1% from the previous year. To achieve this, the Group will strive to save electricity by introducing energy-saving devices into air conditioners, office automation (OA) equipment and lighting apparatus, as well as promoting the so-called “Cool Biz” and “Warm Biz” campaigns.

●Reduction in waste

The Group aims to achieve a recycling rate of 77% or more, by thoroughly separating waste and fully recycling sludge, dead leaves and vegetation.

●Reduction in greenhouse gas emissions

In the current fiscal year, JEOL will reduce its greenhouse gas emissions by 30% or more from the previous year, by introducing a machine to recover sulfur hexafluoride gas (SF6), a byproduct of the Company’s manufacturing processes, which can be used as an insulating-gas for high-voltage operations.

■Environmental products

The Restrictions on Hazardous Substances (RoHS) regulation, a European Union directive, stipulates that from July 2006 the electrical and electronic products sold in the EU must not contain the following six substances: cadmium, lead, mercury, Chromium (VI) Compound, PBB and PBDE. In response, Japanese companies, centering on the major electrical machinery and electronics manufacturers, announced new procurement standards that require suppliers to issue documents proving that their products do not contain toxic substances and to disclose relevant analysis data.

The JEOL Group offers products, such as environmental measurement and analyzing equipment and related services, which can meet the abovementioned standards. Among the Group’s products, the energy-dispersive X-ray fluorescence spectrometers JSX-3202EV and JSX-3000 can analyze the concentration of cadmium, lead, mercury, chrome and bromine in a specimen without destroying it.

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.
No mark: Consolidated subsidiaries
○ Unconsolidated subsidiaries to which the equity method is applied
● Equity-method associated companies

Board of Directors, Corporate Auditors and Corporate Officers

(As of June 29, 2006)

Chairman and CEO,
Representative Director

Terukazu Eto

President and COO,
Representative Director

Yoshiyasu Harada

Director and Executive
Vice President

Azuma Ohtsuka

Director and Chief
Executive Officers

Toshikazu Honda

Gon-emon Kurihara

Hideaki Hirano

Director and Executive
Officer

Masashi Iwatsuki

Director and Officer

Masayuki Tajimi

Standing
Corporate Auditors

Ryoichi Fujiwara

Reisuke Izumiyama

Corporate
Auditors

Hidetake Horikiri

Yoshiaki Ueda

Executive Officers

Hiroshi Koyama

Mitsuo Kaneko

Masaki Saito

Norimasa Ishida

Mikio Naruse

Corporate Officers

Kazufumi Adachi

Shin-ichi Watanabe

Hirofumi Kusano

Keiji Ota

Youichi Shibuki

Tetsu Hinomoto

Kunio Kamide

Toshihito Suzuki

Koichi Fukuyama

(Note) Mr. Hidetake Horikiri and Mr. Yoshiaki Ueda are the external corporate auditor of the Company.

Five-year Summary

JEOL Ltd. and consolidated subsidiaries, for the years ended March 31, 2006, 2005, 2004, 2003 and 2002.

For the year:	2006	2005	2004	2003	2002
Net sales	**93,291**	85,914	87,097	82,834	82,698
Scientific instrument	**58,502**	60,083	57,935	58,721	57,050
Industrial equipment	**34,789**	25,831	29,162	24,113	25,648
Selling, general and administrative expenses	**26,912**	25,205	24,629	24,993	24,981
Operating income	**2,013**	1,985	2,068	546	3,417
Ordinary profit	**1,913**	1,629	1,638	45	2,585
Net income (loss)	**1,289**	1,245	784	(951)	1,159
Capital expenditures	**3,192**	3,775	3,366	2,157	3,889
Scientific instrument	**1,514**	1,485	2,077	1,485	2,547
Industrial equipment	**1,671**	2,207	1,163	662	1,323
Eliminations/Corporate	**7**	83	126	10	19
Depreciation expense	**2,583**	2,622	2,438	2,217	1,890
Research and development costs	**5,223**	4,436	4,031	4,235	5,019
Scientific instrument	**3,641**	3,416	2,845	2,901	3,118
Industrial equipment	**1,582**	1,020	1,186	1,334	1,901
At year-end:					
Total assets	**103,940**	95,211	95,310	93,135	87,953
Total shareholders' equity	**29,752**	27,077	24,803	19,535	20,861
Per share data (yen)**:**					
Net income (loss)	**16.25**	16.24	10.92	(13.85)	16.16
Total shareholders' equity	**375.14**	341.39	324.88	283.03	306.21
Cash dividends	**5.00**	5.00	2.50	2.50	5.00
Value indicators:					
Return on equity (%) <ROE>	**4.5**	4.8	3.5	(4.7)	5.9
Return on assets (%) <ROA>	**1.3**	1.3	0.8	(1.1)	1.3

Overview

During the fiscal year under review, the Japanese economy was on a recovery path as private-sector capital expenditures amid strong corporate earnings are increased and consumer spending was strong backed by improved employment and income environment, despite uncertainty factors such as the influence of surging oil prices.

Concerning the global economy, the U.S. economy maintained robust growth on the whole, supported by steady growth in consumer spending and capital investment. In Asia, China sustained high growth represented by an upward trend in exports. In the European zone, business confidence improved and economy in the area began to pick up.

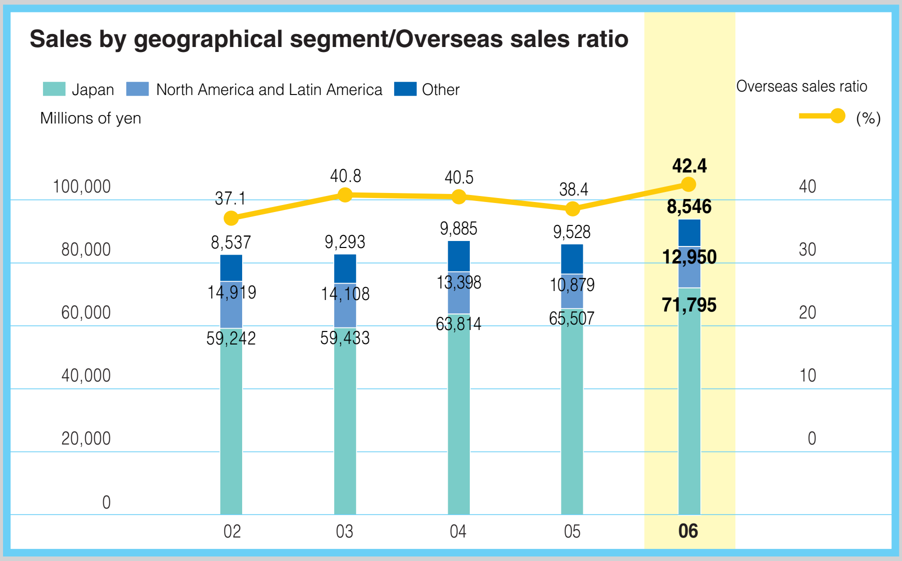
In the scientific instruments and industrial equipment markets where the JEOL Group is involved, recovery in the digital consumer electronics market was slow. However, in the electrical equipment, chemical and general machinery industries, capital expenditure is on the increase and research and development investment remained steady. In addition, capital expenditure in the semiconductor-related industry increased also.

JEOL Group was therefore able to implement various strategies in technology, production, and in sales and services, as measures in the second year of the medium-term management plan "Focus Plan 2006," which has business targets of achieving consolidated net sales of ¥100 billion or more and ordinary profit of ¥5 billion or more in its final year.

On the production side, the Group completed an expansion project on its subsidiary factory in Tendo City, Yamagata Prefecture, and we pushed forward with a production shift of mass-market items including medical equipment to this subsidiary, in an effort to expand production in Tohoku Area and reduce cost. On the sales and services side, the Group strived to enhance its system. For example, it opened the Moscow office as a new service base in Russia and established the Chengdu Office as the fifth sales base in China. On the technology and development side, the Group strived to reinforce cooperation among government, industry and academia. At the same time, it made efforts to develop new products with a competitive edge speedily and quickly introduce them to the market.

As a result, consolidated net sales during the year under review increased 8.6% year-on-year to ¥93,291 million from ¥85,914 million in the previous year.

As for profit and loss, ordinary profit increased 17.5% year-on-year to ¥1,913 million from ¥1,629 million in the previous year and net income rose 3.5% year-on-year to ¥1,289 million from ¥1,245 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)

1) Scientific instrument

Concerning electron microscopes, we met demand in broad range of fields including research and development in the cutting-edge area as well as material development, basic research in medicine and biology and quality control. Sales of transmission electron microscopes remained steady due primarily to core products such as large-sized equipment. In the meantime, we ensured sales of scanning electron microscopes, backed by favorable sales of field emission scanning electron microscopes and general-purpose and analytical scanning electron microscopes that responded to the market needs.

Concerning nuclear magnetic resonance systems, the Group secured share in the low-magnetic-field market, but sales of high-magnetic-field nuclear magnetic resonance devices decreased. We strived to increase sales of time-of-flight mass spectrometers, whereas the market for dual-focus mass spectrometers remained difficult, and sales were sluggish. In the environment-related field, sales of X-ray spectrometers increased, but we faced an uphill battle in sales of quadrupole gas chromatograph mass spectrometers.

As a result, sales of the scientific instrument segment decreased 2.6% year-on-year, to ¥58,502 million.

2) Industrial equipment

In semiconductor-related equipment, sales of mask/reticle lithography devices recovered amid progress in miniaturization of electron beam lithography systems, contributing significantly to sales in this segment.

In optical thin-film and coating products, sales of electron beam evaporation guns and power supplies as well as high-power electron beam guns and power supplies decreased due to the influence of delay in inventory adjustment of digital consumer electronics.

In medical equipment, clinical biochemistry analyzers for small-sized equipment market gained a significant foothold in the market and ensured sales, in addition to the conventional medium-sized equipment. Moreover, large-sized clinical biochemistry analyzers, which were newly introduced to the market, contributed to sales. In the overseas markets, export through OEM remained strong.

As a result, sales of industrial equipment increased 34.7% year-on-year, to ¥34,789 million.

[Main Products]

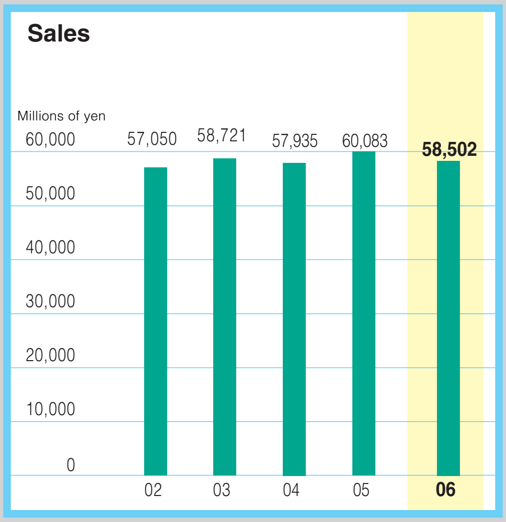
Scientific Instrument

<Electron-Optic Instruments>

Electron microscope, Scanning electron microscope, Electron probe microanalyzer, Auger microprobe, Photoelectron spectrometer, Scanning probe microscope, Focused Ion Beam system for specimen-preparation

<Analytical Instruments>

Nuclear magnetic resonance system, Electron spin resonance spectrometer, Mass spectrometer, X-ray spectrometer, Portable gas chromatograph



(Segment Information by geographical region)

1) Japan

As for the scientific instrument business, sales increased for transmission electron microscopes, field emission scanning electron microscopes and general-purpose scanning electron microscopes, and X-ray spectrometers contributed to sales. However, sales of quadrupole gas chromatograph mass spectrometers were sluggish with difficult market conditions and those of high-magnetic-field nuclear magnetic resonance systems decreased as well.

As for the industrial equipment business, sales of mask/reticle lithography specialized electron beam lithography systems increased substantially in semiconductor-related equipment, but electron beam evaporation electron guns and power supplies decreased in optical thin film-related equipment. In medical equipment, sales of clinical biochemistry analyzers increased.

As a result, sales in Japan increased 9.6% year-on-year, to ¥71,795 million.

2) North America and Latin America

Amid the brisk U.S. economy, the JEOL Group proactively promoted sales activities for transmission electron microscopes, field emission scanning electron microscopes and general-purpose scanning electron microscopes and increased sales, with strong business performance in time-of-flight mass spectrometers and electron beam lithography systems contributing to sales.

As a result, sales in these regions increased 19.0% year-on-year, to ¥12,950 million.

3) Other regions

In Southeast Asia, business remained steady, but the Group faced intensified competitions in Europe and Australia, leading to a decrease in sales as a whole.

As a result, sales in other regions were down 10.3% year-on-year, to ¥8,546 million.

[Main Products]

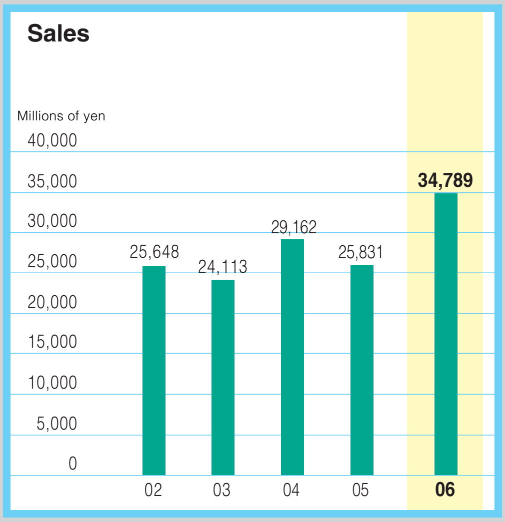
Industrial Equipment

<Industrial Equipment>

Electron beam lithography system, Wafer process monitor, Nano review Analyzer, Wafer surface Particle analyzer, Electron beam evaporation gun and power supply, Plasma gun and plasma gun control power supply, High-frequency generator for thermal plasma, RF ion source and power supply, High density reactive ion plating system, Thermal plasma system

<Medical Equipment>

Clinical biochemistry analyzer, Laboratory information system, Amino acid analyzer



Operating Income and Net Income

Cost of sales during the fiscal year under review increased 9.6% to ¥64,366 million, which exceeded the sales growth rate of 8.6%. As a result, gross profit rose 6.4% to ¥28,925 million.

Selling, general and administrative (SG&A) expenses increased 6.8% year-on-year to ¥26,912 million. Research and development costs included in SG&A expenses were ¥5,223 million (up 17.7% year-on-year), which accounted for 5.6% of net sales. As a result, operating income increased 1.4% year-on-year, to ¥2,013 million and the operating income ratio to sales was 2.2%.

As for other income and expenses, revenue from acceptance of research and development increased to ¥447 million from ¥217 million in the previous period and net gain on sales and disposals of property, plant and equipment of ¥216 million were posted. As a result, income before income taxes and minority interests jumped 24.6% year-on-year, to ¥2,201 million and net income rose 3.5%, year-on-year, to ¥1,289 million. Net income per share was ¥16.25.

Financial Position

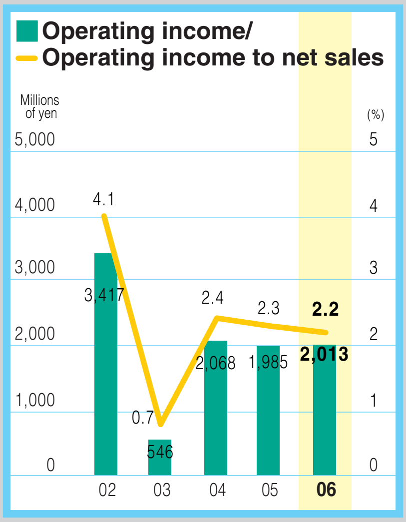
Total assets at the end of the year under review increased ¥8,729 million to ¥103,940 million.

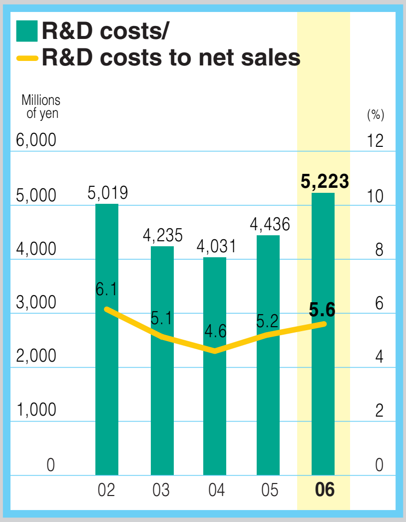
Concerning current assets, cash and cash equivalents and trade accounts receivable increased ¥3,740 million and ¥3,921 million, respectively. In the meantime, inventories decreased by ¥1,997 million. As a result, total current assets increased ¥6,187 million from the previous period to ¥78,708 million.

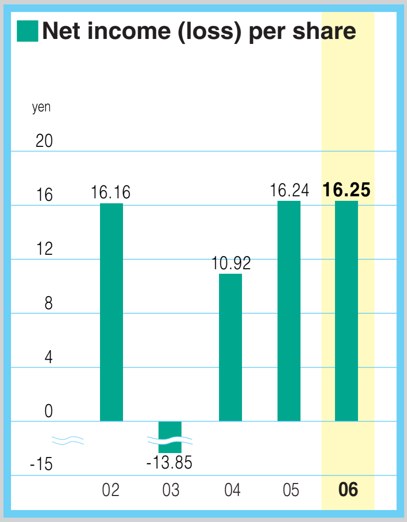
Property, plant and equipment remained at almost the same level as those of the previous period, with an increase of ¥465 million to ¥12,806 million. As for investments and other assets, investment securities increased ¥2,915 million from the previous period to ¥7,668 million, while deferred tax assets decreased ¥1,034 million from the previous period to ¥1,958 million.

In the liabilities section, current liabilities decreased ¥2,719 million from the previous period to ¥50,293 million, primarily due to significant decrease in short-term bank loans of ¥3,101 million. In the meantime, long-term liabilities increased ¥8,619 million from the previous period to ¥23,613 million, primarily due to issuance of convertible bonds of ¥6,000 million and long-term bank loans rose ¥2,128 million from the previous period to ¥6,588 million.

In the shareholders' equity section, shareholders' equity increased ¥2,675 million from the previous period to ¥29,752 million, primarily due to increases in retained







earnings and unrealized gain on available-for-sale securities. Shareholders' equity to total assets remained almost at the same level with the previous period with 28.6% and return on equity decreased slightly by 0.3% from the previous period to 4.5%.

Financing Conditions

In July 2005, the JEOL Group issued convertible bonds of ¥6,000 million with a redemption period of four years.

Cash Flows

Cash flow from operating activities increased ¥2,146 million. This was primarily due to a decrease in inventories and an increase in advances received, despite an increase in notes and accounts receivable.

Cash flow from investing activities decreased ¥2,237 million. This was primarily due to payment for purchases of property, plant and equipment.

Cash flow from financing activities increased ¥3,670 million. This was primarily due to financing through issuance of convertible bonds and repayments of bank loans. As a result, outstanding balance of cash and cash equivalents as of the end of fiscal year under review amounted to ¥11,977 million.

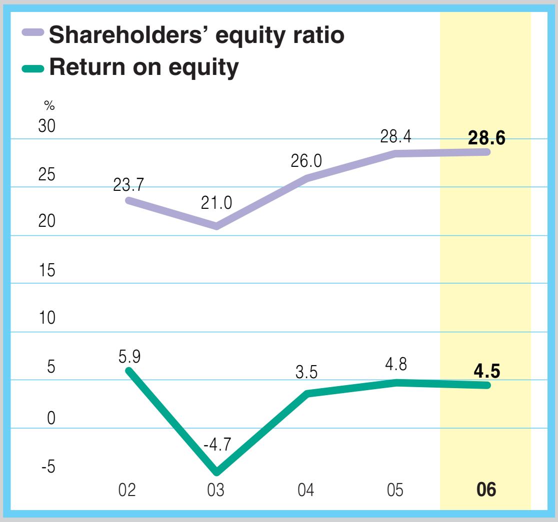
Outlook

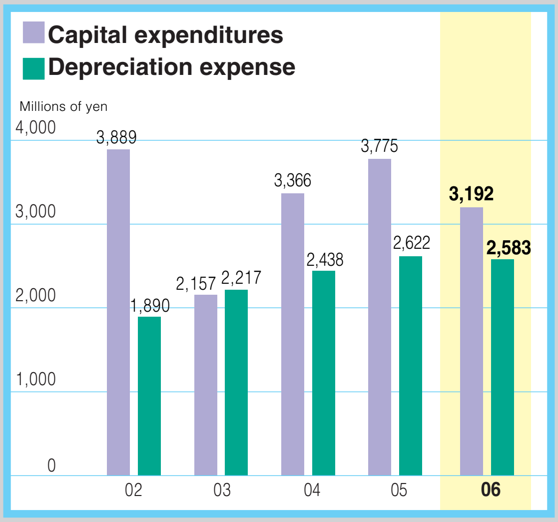
As for the future outlook, the Japanese economy is expected to show a further rebound as represented by increases in capital investment and consumer spending, raising hopes for a departure from deflation. However, uncertainty will continue due to factors such as trends in the U.S. economy, oil prices, materials costs and exchange rates.

It is with this business environment that we enter the final year of the "Focus Plan 2006" medium-term management plan in the fiscal year ending March 2007. In this circumstance, JEOL Group will push forward with "promotion of I-Core (industrial equipment market) business" and "production reform" to achieve the numerical target of Focus Plan 2006 of consolidated net sales of ¥100 billion and ordinary profit of ¥5 billion.

Concerning consolidated earnings for the fiscal year ending March 2007, we forecast net sales and ordinary profit at ¥100 billion (up 7.2% year-on-year) and ¥5 billion (up 161.3% year-on-year), respectively, and net income at ¥2.5 billion (up 94.0% year-on-year).

Regarding dividend payment, we will pay interim dividends and year-end dividends of ¥3.5 per share, respectively. As a result, full-year dividends will be increased by ¥2 to ¥7 per share.





Consolidated Balance Sheets

JEOL Ltd. and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 11,977	¥ 8,237	$101,930
Time deposits	226	276	1,928
Receivables:			
Trade notes	2,850	2,338	24,254
Trade accounts	25,877	21,956	220,226
Unconsolidated subsidiaries and associated companies	888	660	7,557
Other	552	447	4,697
Allowance for doubtful receivables	(171)	(142)	(1,455)
Inventories (Note 4)	33,403	35,400	284,281
Deferred tax assets (Note 9)	2,028	2,047	17,261
Prepaid expenses and other current assets	1,078	1,302	9,174
Total current assets	78,708	72,521	669,853
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	1,376	1,351	11,714
Buildings and structures	15,455	14,846	131,530
Machinery and equipment	3,541	3,692	30,132
Tools, furniture and fixtures	14,028	12,361	119,391
Construction in progress	374	1,022	3,181
Total	34,774	33,272	295,948
Accumulated depreciation	(21,968)	(20,931)	(186,964)
Net property, plant and equipment	12,806	12,341	108,984
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 6)	7,668	4,753	65,262
Investments in unconsolidated subsidiaries and associated companies	395	304	3,364
Software	478	410	4,065
Deferred tax assets (Note 9)	1,958	2,992	16,663
Other assets	1,927	1,890	16,408
Total investments and other assets	12,426	10,349	105,762
TOTAL	¥103,940	¥95,211	$884,599

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 13,487	¥16,588	$114,781
Current portion of long-term bank loans (Note 6)	2,557	3,742	21,761
Current portion of convertible bonds (Note 6)		1	
Payables (Notes 5 and 6):			
Trade notes	11,545	11,503	98,259
Trade accounts	8,751	9,258	74,479
Unconsolidated subsidiaries and associated companies	220	86	1,872
Other	1,478	1,802	12,577
Income taxes payable	469	1,089	3,993
Advances received	6,995	5,043	59,535
Accrued bonuses to employees	1,310	1,488	11,151
Other current liabilities (Notes 6 and 9)	3,481	2,412	29,616
Total current liabilities	50,293	53,012	428,024
LONG-TERM LIABILITIES:			
Bonds (Note 6)	2,770	2,000	23,574
Convertible bonds (Note 6)	6,000		51,064
Long-term bank loans (Note 6)	6,588	4,460	56,071
Liability for employees' retirement benefits (Note 7)	6,620	6,367	56,344
Retirement allowances for directors and corporate auditors (Note 7)	605	607	5,145
Negative goodwill	9	25	76
Other long-term liabilities (Notes 6 and 9)	1,021	1,535	8,684
Total long-term liabilities	23,613	14,994	200,958
MINORITY INTERESTS	282	128	2,407
CONTINGENT LIABILITIES (Notes 12, 13 and 14)			
SHAREHOLDERS' EQUITY (Notes 8 and 16):			
Common stock—authorized, 136,080,000 shares; issued, 79,365,600 shares in 2006 and 79,363,368 shares in 2005	6,740	6,740	57,362
Capital surplus	6,346	6,346	54,013
Retained earnings	14,330	13,494	121,958
Unrealized gain on available-for-sale securities	3,140	1,601	26,722
Foreign currency translation adjustments	(764)	(1,069)	(6,502)
Treasury stock—at cost, 56,690 shares in 2006 and 48,336 shares in 2005	(40)	(35)	(343)
Total shareholders' equity	29,752	27,077	253,210
TOTAL	¥103,940	¥95,211	$884,599

Consolidated Statements of Income

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Note 11)	¥93,291	¥85,914	$793,968
COST OF SALES (Note 11)	64,366	58,724	547,794
Gross profit	28,925	27,190	246,174
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
(Notes 10 and 11)	26,912	25,205	229,046
Operating income	2,013	1,985	17,128
OTHER INCOME (EXPENSES):			
Interest and dividend income	162	81	1,376
Revenue from acceptance of research and development	447	217	3,806
Insurance claim receipt	50	50	426
Interest expense	(372)	(420)	(3,170)
Foreign exchange (loss) gain—net	(7)	69	(60)
Charge for sales of trade receivables	(291)	(215)	(2,474)
Loss on disposals of inventories	(172)	(124)	(1,462)
Gain (loss) on sales and disposals of property, plant and equipment—net	216	(344)	1,834
Gain on sales of investment securities	2	489	21
Loss on write-down of investment securities		(17)	
Equity in earnings of unconsolidated subsidiaries and associated companies	74	85	629
Other—net	79	(89)	678
Other income (expenses)—net	188	(218)	1,604
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,201	1,767	18,732
INCOME TAXES (Note 9):			
Current	975	1,248	8,300
Deferred	(36)	(711)	(308)
Total income taxes	939	537	7,992
MINORITY INTERESTS IN NET LOSS	27	15	228
NET INCOME	¥ 1,289	¥ 1,245	$ 10,968

	Yen		U.S. Dollars
	2006	2005	2006
PER SHARE OF COMMON STOCK (Notes 2.p and 15):			
Basic net income	¥ 16.25	¥ 16.24	$ 0.14
Diluted net income	15.06	15.69	0.13
Cash dividends applicable to the year	5.00	5.00	0.04

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	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, 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)			
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)
Net income				1,289			
Cash dividends paid:							
For prior year end, ¥2.5 per share				(198)			
For current year interim, ¥2.5 per share				(198)			
Treatment of the foreign consolidated subsidiary's liability for employees' retirement benefits				(57)			
Increase in treasury stock—net (8,354 shares)							(5)
Conversion of convertible bonds	3						
Net increase in unrealized gain on available-for-sale securities					1,539		
Net change in foreign currency translation adjustments						305	
BALANCE, MARCH 31, 2006	79,366	¥6,740	¥6,346	¥14,330	¥3,140	¥ (764)	¥(40)

	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, 2005	$57,357	$54,008	$114,846	$13,629	$(9,098)	$(299)
Net income			10,968			
Cash dividends paid:						
For prior year end, $0.02 per share			(1,688)			
For current year interim, $0.02 per share			(1,687)			
Treatment of the foreign consolidated subsidiary's liability for employees' retirement benefits			(481)			
Increase in treasury stock—net (8,354 shares)						(44)
Conversion of convertible bonds	5	5				
Net increase in unrealized gain on available-for-sale securities				13,093		
Net change in foreign currency translation adjustments					2,596	
BALANCE, MARCH 31, 2006	$57,362	$54,013	$121,958	$26,722	$(6,502)	$(343)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

JEOL Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,201	¥1,767	$ 18,732
Adjustments for:			
Income taxes—paid	(1,563)	(692)	(13,306)
Depreciation and amortization	2,583	2,622	21,985
(Gain) loss on sales and disposals of property, plant and equipment—net	(216)	344	(1,834)
Gain on sales of investment securities	(2)	(489)	(21)
Loss on write-down of investment securities		17	
Equity in earnings of unconsolidated subsidiaries and associated companies	(74)	(85)	(629)
Changes in assets and liabilities, net of effects from consolidation of previously unconsolidated subsidiaries:			
(Increase) decrease in trade notes and accounts receivable	(4,118)	1,391	(35,049)
Decrease (increase) in inventories	1,621	(2,115)	13,796
(Decrease) increase in trade notes and accounts payable	(130)	1,286	(1,110)
Decrease in trade notes and accounts payable related to sales of trade accounts by consolidated subsidiaries (Note 5)	(700)	(300)	(5,957)
Increase (decrease) in advances received	1,832	(1,678)	15,592
Decrease in provision for accrued bonuses to employees	(179)	(138)	(1,521)
Increase in liability for employees' retirement benefits	195	390	1,656
Decrease in retirement allowances for directors and corporate auditors	(3)	(112)	(21)
Other—net	699	(735)	5,955
Total adjustments	(55)	(294)	(464)
Net cash provided by operating activities	2,146	1,473	18,268
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits—net	55	(199)	464
Payment for purchases of investment securities	(321)		(2,735)
Proceeds from sales of investment securities	3	676	25
Proceeds from sales of property, plant and equipment	282	58	2,398
Payment for purchases of property, plant and equipment	(2,102)	(3,107)	(17,893)
Payment for purchases of intangible assets	(181)	(91)	(1,536)
Other—net	27	(19)	236
Net cash used in investing activities	(2,237)	(2,682)	(19,041)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(3,213)	(3,008)	(27,343)
Proceeds from long-term bank loans	4,747	2,800	40,401
Repayments of long-term bank loans	(3,885)	(1,226)	(33,060)
Proceeds from issuance of common stock to minority shareholders	170	180	1,447
Proceeds from convertible bonds issuance	6,725		57,236
Cash dividends paid	(399)	(386)	(3,398)
Payments for sale and installment buyback agreement	(456)	(252)	(3,884)
Other—net	(19)	(22)	(169)
Net cash provided by (used in) financing activities	3,670	(1,914)	31,230
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	161	112	1,370
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,740	(3,011)	31,827
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		63	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,237	11,185	70,103
CASH AND CASH EQUIVALENTS, END OF YEAR	¥11,977	¥8,237	$101,930
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock and capital surplus		¥1,336	
Assets increased by consolidation of previously unconsolidated subsidiary		74	
Liabilities increased by consolidation of previously unconsolidated subsidiary		150	

See notes to consolidated financial statements.

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 ¥117.5 to $1, the approximate rate of exchange at March 31, 2006. 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.

Investments in 5 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 under 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. ***Long-lived Assets***—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ 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.

The Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2005. The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate 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.

Adoption of the new accounting standard for impairment of fixed assets did not effect income before income taxes and minority interests for the year ended March 31, 2006.

g. ***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).

h. 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 ($28,773 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.

i. Research and Development Costs—Research and development costs are charged to income as incurred.

j. Leases—All leases, except for finance leases that deem to transfer ownership of the leased property to the 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.

k. 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.

l. 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.

m. 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.

n. 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.

o. 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, currency swaps 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 and currency swaps 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.

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.

p. 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.

q. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Marketable equity securities	¥7,587	¥4,702	$64,570
Non-marketable securities	81	51	692
Total	¥7,668	¥4,753	$65,262

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005, were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥2,558	¥5,061	¥32	¥7,587
March 31, 2005				
Securities classified as available-for-sale equity securities	¥2,267	¥2,454	¥19	¥4,702

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$21,773	$43,075	$278	$64,570

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale—Equity securities	¥81	¥51	$692
Total	¥81	¥51	$692

Proceeds from sales of available-for-sale securities for the year ended March 31, 2006 were ¥3 million ($25 thousand). Gross realized gains on these sales, computed on the moving average cost basis, were ¥2 million ($21 thousand) for the year ended March 31, 2006.

4. INVENTORIES

Inventories at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥ 625	¥ 325	$ 5,316
Finished products	14,450	15,207	122,978
Work in process	12,590	16,845	107,150
Raw materials and supplies	5,738	3,023	48,837
Total	¥33,403	¥35,400	$284,281

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 ¥1,000 million ($8,511 thousand) and ¥1,700 million at March 31, 2006 and 2005, 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, 2006 and 2005, consisted of notes to banks and bank overdrafts. The weighted average annual interest rates for the short-term bank loans as of March 31, 2006 and 2005, were 3.7% and 2.9%, respectively.

Long-term debt at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured 0.54% yen bonds, due 2008	¥ 2,000	¥2,000	$ 17,021
Unsecured 0.50% yen bonds, due 2009	170		1,447
Unsecured 0.90% yen bonds, due 2009	100		851
Unsecured 1.42% yen bonds, due 2011	500		4,255
Unsecured zero coupon yen convertible bonds, due September 2005		1	
Unsecured zero coupon yen convertible bonds, due 2010	6,000		51,064
Loans from banks, due serially to 2011 with interest rates ranging from 1.45% to 5.44% (2006 and 2005):			
Collateralized	2,085	4,145	17,745
Unsecured	7,060	4,057	60,087
Unsecured long-term payable, due serially to 2008 with interest rate 1.85%	465	921	3,956
Lease obligations	32	47	272
Total	18,412	11,171	156,698
Less current portion	(2,755)	(4,015)	(23,447)
Long-term debt, less current portion	¥15,657	¥7,156	$133,251

The unsecured zero coupon yen convertible bonds, due 2010 are convertible into common stocks on or after August 8, 2005 and up to including July 10, 2009. Unsecured zero coupon yen convertible bonds outstanding at March 31, 2006, were convertible into 9,160,305 shares of common stock of the Company. The conversion price was ¥655 per share at March 31, 2006. 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 104% to 100% of the principal amount.

The Company must maintain net assets in excess of ¥13,813 million ($117,557 thousand) as of every year-end and interim closing dates. As of March 31, 2006, the Company was in compliance with this requirement.

Annual maturities of long-term debt as of March 31, 2006 for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 2,755	$ 23,447
2008	4,245	36,129
2009	2,201	18,730
2010	7,864	66,931
2011	1,347	11,461
Total	¥18,412	$156,698

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥6,018 million ($51,213 thousand), current portion of long-term bank loans of ¥860 million ($7,319 thousand), long-term bank loans of ¥1,225 million ($10,426 thousand) and deposit received accounts which were included in other current liabilities of ¥59 million ($501 thousand) and included in other long-term liabilities of ¥331 million ($2,819 thousand) at March 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 632	$ 5,375
Buildings and structures —net of accumulated depreciation	2,526	21,499
Machinery and equipment —net of accumulated depreciation	7	62
Investment securities	6,167	52,483
Total	¥9,332	$79,419

In addition to the above loan balances, in order to raise liquidity, the Company entered into a committed loan facility agreement, aggregated amount of ¥6,000 million ($51,064 thousand), with a syndicate of six Japanese banks, arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Company must maintain net assets in excess of ¥13,813 million ($117,557 thousand) as of every year-end and interim closing dates. As of March 31, 2006, 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. The certain consolidated foreign subsidiaries also have pension plans.

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 payments 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, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥(18,942)	¥(18,061)	$(161,205)
Fair value of plan assets	8,801	6,569	74,901
Unrecognized actuarial loss	2,397	3,798	20,400
Unrecognized transitional obligation	2,062	2,248	17,547
Unrecognized prior service cost	13		110
Benefits paid	(951)	(921)	(8,097)
Net liability	¥ (6,620)	¥ (6,367)	$ (56,344)

The components of net periodic retirement benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥1,003	¥ 897	$ 8,534
Interest cost	387	403	3,293
Expected return on plan assets	(218)	(215)	(1,859)
Recognized actuarial loss	415	354	3,532
Amortization of transitional obligation	237	225	2,017
Amortization of prior service cost	1		13
Net periodic retirement benefit costs	¥1,825	¥1,664	$15,530

The above service cost does not include additional retirement payments of ¥112 million ($952 thousand) and ¥99 million for the years ended March 31, 2006 and 2005, respectively.

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	4.0%
Recognition period of actuarial gain/loss	12 years	12 years
Amortization period of transitional obligation	15 years	15 years
Amortization of prior service cost	11 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

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥10,759 million ($91,562 thousand) as of March 31, 2006, 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 end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

During the year ended March 31, 2006, zero coupon yen convertible bonds in the amount of ¥1 million ($8 thousand) were converted into 2,232 shares of the Company's common stock; resulting in an increase in capital stock of ¥0 million ($5 thousand) and an increase in capital surplus of ¥0 million ($5 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 a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets–Current:			
Accrued bonuses to employees	¥ 529	¥ 602	$ 4,502
Research and development cost	391	364	3,331
Accrued enterprise taxes	45	113	384
Unrealized intercompany profits of inventories	529	534	4,499
Loss on write-down of inventories	400	278	3,405
Other	307	297	2,607
Less valuation allowance	(5)	(3)	(39)
Total	2,196	2,185	18,689
Deferred tax liabilities–Current	(168)	(138)	(1,428)
Net deferred tax assets–Current	¥2,028	¥2,047	$17,261

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets–Non-current:			
Amortization of software	¥ 878	¥ 949	$ 7,469
Loss on devaluation of software		40	
Loss on write-down of investment securities	201	202	1,713
Liability for employees' retirement benefits	2,372	2,127	20,191
Retirement allowances for directors and corporate auditors	248	247	2,105
Tax loss carryforwards	378	359	3,214
Other	384	322	3,268
Less valuation allowance	(407)	(216)	(3,462)
Total	4,054	4,030	34,498
Deferred tax liabilities–Non-current	(2,096)	(1,038)	(17,835)
Net deferred tax assets–Non-current	¥ 1,958	¥2,992	$ 16,663
Deferred tax liabilities–Current:			
Advances received	¥ (53)	¥ (53)	$ (449)
Other	(115)	(136)	(979)
Total	(168)	(189)	(1,428)
Deferred tax assets–Current	168	138	1,428
Net deferred tax liabilities–Current		¥ (51)	
Deferred tax liabilities–Non-current:			
Unrealized gain on available-for-sale securities	¥(1,889)	¥ (833)	$(16,075)
Undistributed earnings of associated companies	(138)	(120)	(1,173)
Other	(69)	(91)	(587)
Total	(2,096)	(1,044)	(17,835)
Deferred tax assets–Non-current	2,096	1,038	17,835
Net deferred tax liabilities–Non-current		¥ (6)	

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 was as follows, and that for the year ended March 31, 2006 is not material:

	2005
Normal effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	4.7
Capitation of local inhabitant tax	1.7
Unrealized intercompany profits	(10.8)
Lower income tax rates applicable to income in certain foreign countries	(2.4)
Special tax credit on research and development expenses	(4.9)
Other–net	1.4
Actual effective tax rate	30.4%

At March 31, 2006, certain subsidiaries had tax loss carryforwards aggregating approximately ¥922 million ($7,851 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 ¥5,223 million ($44,452 thousand) and ¥4,436 million for the years ended March 31, 2006 and 2005, respectively.

11. RELATED PARTY TRANSACTIONS

Transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales	¥2,854	¥2,146	$24,292
Purchases	158	280	1,342
Selling, general and administrative expenses	524	256	4,461

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, 2006 and 2005, were ¥1,993 million ($16,958 thousand) and ¥2,052 million, respectively, including ¥420 million ($3,578 thousand) and ¥443 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 and 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, 2006 and 2005 was as follows:

Year Ended March 31, 2006

	Millions of Yen				
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	¥7	¥17	¥647	¥1,045	¥1,716
Accumulated depreciation	4	12	451	860	1,327
Net leased property	¥3	¥ 5	¥196	¥ 185	¥ 389

	Thousands of U.S. Dollars				
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Software	Total
Acquisition cost	$58	$141	$5,510	$8,895	$14,604
Accumulated depreciation	34	98	3,841	7,322	11,295
Net leased property	$24	$ 43	$1,669	$1,573	$ 3,309

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

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥314	¥386	$2,677
Due after one year	379	526	3,223
Total	¥693	¥912	$5,900

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥308	¥383	$2,616
Interest expense	20	26	174
Total	¥328	¥409	$2,790

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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥229	¥205	$1,953
Due after one year	245	207	2,084
Total	¥474	¥412	$4,037

13. DERIVATIVES

The Companies enter into derivative financial instruments ("derivatives"), including foreign currency forward contracts and currency swaps, 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.

The fair value of the Companies' derivative financial instruments at March 31, 2006 and 2005, is as follows:

	Millions of Yen		
	2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Buying—U.S.$ forward	¥1,634	¥1,639	¥(5)

	Millions of Yen		
	2005		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Buying—U.S.$ forward			

	Thousands of U.S. Dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Buying—U.S.$ forward	$13,909	$13,945	$(36)

Foreign currency forward contracts, interest rate swaps and currency swaps which qualified for hedge accounting for the years ended March 31, 2006 and 2005, are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

14. CONTINGENT LIABILITIES

At March 31, 2006, the Companies had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of advance received by unconsolidated subsidiary	¥28	$235

15. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S.Dollars
Year Ended March 31, 2006	Net Income	Weighted-average Shares	EPS	
Basic EPS–Net income available to common shareholders	¥1,289	79,311	¥16.25	$0.14
Effect of dilutive securities–Convertible bonds		6,277		
Diluted EPS–Net income for computation	¥1,289	85,588	¥15.06	$0.13
Year Ended March 31, 2005				
Basic EPS–Net income available to common shareholders	¥1,245	76,620	¥16.24	
Effect of dilutive securities–Convertible bonds		2,704		
Diluted EPS–Net income for computation	¥1,245	79,324	¥15.69	

16. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2006, was approved at the Company's shareholders meeting held on June 29, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.5 ($0.02) per share	¥198	$1,687

17. SEGMENT INFORMATION

Information about operations in different industry segments, geographical segments and sales to foreign customers of the Companies for the years ended March 31, 2006 and 2005, was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen			
	2006			
	Scientific Instrument	Industrial Equipment	Eliminations/ Corporate	Consolidated
Sales to customers	¥58,502	¥34,789		¥93,291
Intersegment sales				
Total sales	58,502	34,789		93,291
Operating expenses	55,930	32,639	¥ 2,709	91,278
Operating income	¥ 2,572	¥ 2,150	¥(2,709)	¥ 2,013

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2006			
	Scientific Instrument	Industrial Equipment	Eliminations/ Corporate	Consolidated
Total assets	¥50,422	¥33,251	¥20,267	¥103,940
Depreciation	1,525	995	63	2,583
Capital expenditures	1,514	1,671	7	3,192

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2006			
	Scientific Instrument	Industrial Equipment	Eliminations/ Corporate	Consolidated
Sales to customers	$497,892	$296,076		$793,968
Intersegment sales				
Total sales	497,892	296,076		793,968
Operating expenses	476,000	277,779	$ 23,061	776,840
Operating income	$ 21,892	$ 18,297	$(23,061)	$ 17,128

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2006			
	Scientific Instrument	Industrial Equipment	Eliminations/ Corporate	Consolidated
Total assets	$429,126	$282,990	$172,483	$884,599
Depreciation	12,978	8,467	540	21,985
Capital expenditures	12,886	14,221	63	27,170

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

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 Companies for the years ended March 31, 2006 and 2005 were summarized as follows:

	Millions of Yen				
	2006				
	Japan	North America Latin America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥71,795	¥12,950	¥8,546		¥ 93,291
Interarea transfer	9,236	565	348	¥(10,149)	
Total sales	81,031	13,515	8,894	(10,149)	93,291
Operating expenses	76,384	13,309	8,896	(7,311)	91,278
Operating income (loss)	¥ 4,647	¥ 206	¥ (2)	¥ (2,838)	¥ 2,013
Total assets	¥71,386	¥ 8,600	¥5,997	¥ 17,957	¥103,940

	Thousands of U.S. Dollars				
	2006				
	Japan	North America Latin America	Other	Eliminations/ Corporate	Consolidated
Sales to customers	$611,023	$110,211	$72,734		$793,968
Interarea transfer	78,600	4,812	2,962	$ (86,374)	
Total sales	689,623	115,023	75,696	(86,374)	793,968
Operating expenses	650,080	113,267	75,717	(62,224)	776,840
Operating income (loss)	$ 39,543	$ 1,756	$ (21)	$ (24,150)	$ 17,128
Total assets	$607,539	$ 73,195	$51,041	$152,824	$884,599

	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

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 Companies for the years ended March 31, 2006 and 2005 were summarized as follows:

	Millions of Yen		
	2006		
	North America Latin America	Other	Total
Overseas sales (A)	¥19,055	¥20,468	¥39,523
Consolidated sales (B)			93,291
(A)/(B)	20.4%	22.0%	42.4%

	Thousands of U.S. Dollars		
	2006		
	North America Latin America	Other	Total
Overseas sales (A)	$162,173	$174,192	$336,365
Consolidated sales (B)			793,968
(A)/(B)	20.4%	22.0%	42.4%

	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%

Note:

The Companies 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

Corporate Outline

(As of March 31, 2006)

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 3,020 Non-consolidated 1,347
Stock Information:	Authorized shares: 136,080,000 Issued shares: 79,365,600 Unit Number: 1,000 shares per unit Number of Shareholders: 13,798

Head Office and Branch Offices:

Head Office: Factory
Tokyo Office
Tokyo Branch Office
Sapporo Branch Office
Sendai Branch Office
Tsukuba Branch Office
Yokohama Branch Office
Nagoya Branch Office
Osaka Branch Office
Kansai Application Research Center
Hiroshima Branch Office
Takamatsu Branch Office
Fukuoka Branch Office

Domestic Subsidiaries and Affiliated Companies:

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.

Overseas Subsidiaries and Affiliated Companies:

JEOL USA, INC. [USA]	11 Dearborn Road, Peabody, MA. 01960, USA TEL. 1-978-535-5900
JEOL (EUROPE) SAS [France]	Espace Claude Monet, 1 Allee de Giverny 78290 Croissy-sur-Seine, France TEL. 33-13015-3737
JEOL (U.K.) LTD. [U.K.]	JEOL House, Silver Court, Watchmead, Welwyn Garden City, Herts AL7 1LT, U.K. TEL. 44-1707-377117
JEOL (EUROPE) B. V. [the Netherlands]	Lireweg 4, NL-2153 PH Nieuw-Vennep, The Netherlands TEL. 31-252-623500
JEOL (SKANDINAVISKA) A.B. [Sweden]	Hammarbacken 6A Box 716 191 27 Sollentuna, Sweden TEL. 46-8-28-2800
JEOL (GERMANY) GmbH [Germany]	Oskar-Von-Miller-Strasse 1, 85386 Eching, Germany TEL. 49-8165-77512
JEOL (ITALIA) S.p.A. [Italy]	Centro Direzionale Green Office Via Dei Tulipani, 1, 20090 Pieve, Emanuele (MI), Italy TEL. 39-2-9041431
JEOL ASIA PTE. LTD. [Singapore]	29 International Business Park #04-02A Acer Building, Tower B, Singapore 609928 TEL. 65-6565-9989
JEOL (AUSTRALASIA) PTY. LTD. [Australia]	Unit 9, 750-752 Pittwater Road, Brookvale, N.S.W. 2100, Australia TEL. 61-2-9905-8255
JEOL DE MEXICO S.A. DE C.V. [Mexico]	Av. Amsterdam #46 DEPS. 402 Col Hipodromo, Mexico 06100, Mexico D.F. Mexico TEL. 52-5-55-211-4511
JEOL CANADA, INC. [Canada]	5757 Cavendish Boulevard, Suite 504, Montreal, Quebec H4W 2W8, Canada TEL. 1-514-482-6427
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. 60-3-7492-7722
JEOL KOREA LTD. [Korea]	Sunmin Building. 6th F1., 218-16, Nonhyun-Dong, Kangnam-Ku, Seoul 135-010, Korea TEL. 82-2-511-5501
JEOL TAIWAN SEMICONDUCTORS LTD. [Taiwan]	11F, No.346, Pei-Ta Road, Hsin-Chu City300, Taiwan, Republic of China TEL. 886-3-523-8490
Beijing Creative Technology Co., Ltd. [China]	No.75 DAWUJISI CHAOYANG QU BEIJING CHINA TEL. 86-10-6737-7132

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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, 2006 and 2005, 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, 2006 and 2005, 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, 2006

Member of
Deloitte Touche Tohmatsu

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