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ANNUAL REPORT 2019

Year ended March 20, 2019

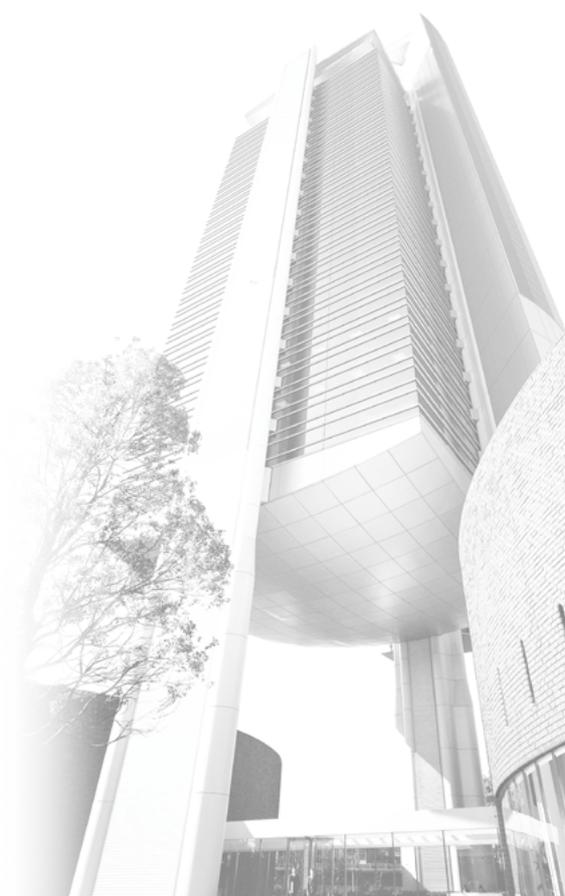
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C O R P O R A T E P R O F I L E

KEYENCE CORPORATION has steadily grown since 1974 to become a leading company in factory automation. It accomplished this by delivering the quality sensors that automation needs. Today, KEYENCE serves 250,000 customers in some 110 countries around the world, where its name stands for innovation and excellence.

Sensors, found in millions of applications, provide the positioning information essential for factory automation. There could be no automation of assembly lines without sensors. KEYENCE has consistently aided the automation revolution by developing superior sensor solutions.

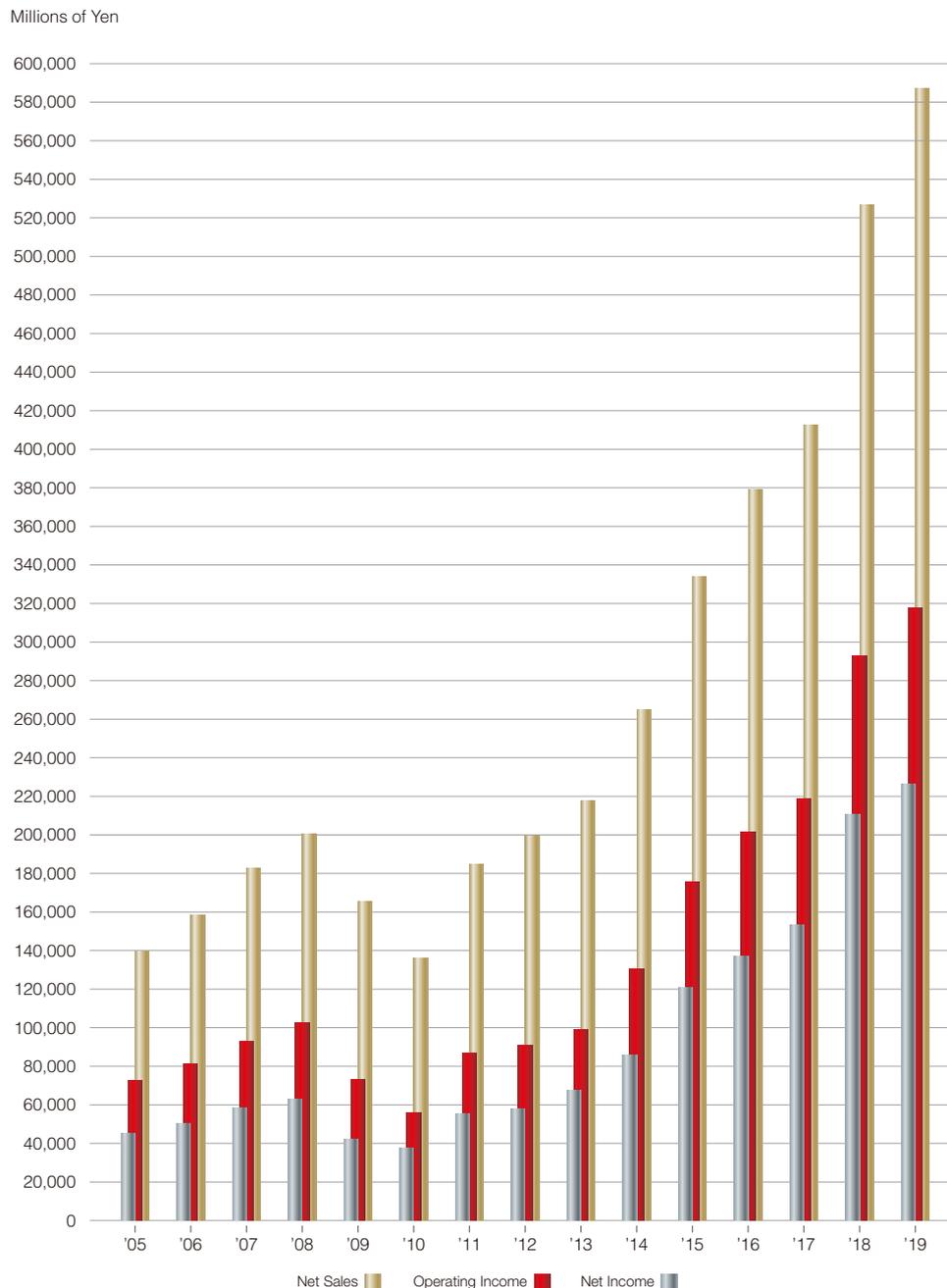


KEYENCE CORPORATION AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS

YEAR ENDED MARCH 20, 2019

	Millions of Yen		Thousands of U.S. Dollars*1
	2019	2018	2019
Net Sales	¥587,095	¥526,847	\$5,241,928
Operating Income	317,868	292,890	2,838,108
Net Income	226,147	210,595	2,019,171
Amounts per Common Share (in Yen and U.S. Dollars)			
Net Income	1,864.91	1,736.65	16.65
Cash Dividends Applicable to the Year	200.00	100.00	1.78
Total Assets	1,682,357	1,486,222	15,021,047

*1. All dollar figures herein refer to U.S. dollars. Dollar amounts are translated from Japanese yen, for convenience only, at ¥112 = US\$1, the approximate exchange rate on March 20, 2019.



TO OUR SHAREHOLDERS



Business results

During this consolidated fiscal year, despite signs of weakness in some areas, the world economy as a whole has continued toward moderate recovery. In the U.S.A., concerns arose regarding the trends and impacts of policy and trade, but capital investment increased moderately. In Asia, exports and production decreased in some areas. Meanwhile, Europe saw moderate increases in consumption and capital investment despite weakened production. As for Japan, some weaknesses arose in exports and production, but moderate recovery was achieved.

Under these economic conditions, the KEYENCE Group worked to enhance planning and development and strengthen sales capabilities to sustain mid-to-long term growth. We have also developed new products, including a Confocal Displacement Sensor and an Image-Based Laser Sensor. In sales, we have made efforts to increase staff and expand our overseas sales offices.

As a result of these activities, in this consolidated fiscal year we recorded sales of JPY 587,095 million, operating income of JPY 317,868 million, income before taxes of JPY 319,860 million, and net income of JPY 226,147 million.

TO OUR SHAREHOLDERS

Performance by region

1) Japan

Despite weaknesses in production in Japan, capital investment increased moderately.

Under these conditions, we worked to release new products and enhance our sales capabilities, resulting in sales of JPY 275,117million.

2) Overseas

Overseas, even with declines in exports and production, overall mild recovery remained gradual.

Under these economic conditions, we worked to enhance our sales capabilities, with a focus on recruitment and personnel training, resulting in sales of JPY 311,978 million.

Looking to the global economy, gradual overall recovery is expected to continue, but we must also be aware of the risks of such factors as trends in trade issues, the economic future of each country, uncertainty regarding policy, and fluctuations in financial and capital markets.

The KEYENCE Group, in an effort to boost sales internationally, will continue to focus on product development and expanded sales capabilities. In light of the trend toward intensifying global competition, the manufacturing sector must continue to address the need for increased production efficiency, automation, enhanced quality, and more robust research and development initiatives. It is in these areas that we have significant potential to expand our operations as a group. To realize this potential, we will focus on applying the powers that we have cultivated over the years to achieve growth.



Akinori Yamamoto
President
June 2019

NEW PRODUCT HIGHLIGHTS



Compact Fan Static Eliminator

KEYENCE's compact fan static eliminator is an incredibly small static electricity elimination blower at just 1/5 the size of conventional models. Monitoring and removing static electricity from manufacturing equipment and components can prevent a variety of static electricity-related problems. KEYENCE's proprietary technology delivers both an ultra-compact size and high-speed static elimination. With no need for special setup conditions, installing the devices in tight spaces or retrofitting to existing equipment is easy. In addition, KEYENCE's unique "Visualization Light" and built-in highly visible indicator allow users to visually and easily check not only for the presence of static electricity but also the effects of static electricity elimination, something that was previously not possible.



Digital Microscope

This 4K microscope offers unprecedented high-definition imaging and operability. The combination of a high-resolution, low-noise 4K CMOS sensor and the newly developed high-resolution HR lens ensure a deep depth of field with impressive resolution. With the highest definition in the history of microscopes, KEYENCE's digital microscope allows users to observe even the most precise surface unevenness and scratches through high-resolution images similar to those from an electron microscope. The intuitive and accessible user console makes it easy even for first-time users to control alignment, focus adjustment, magnification switching, and other settings.

NEW PRODUCT HIGHLIGHTS



Confocal Displacement Sensor

KEYENCE's ultra-compact coaxial laser displacement sensor utilizes a new multi-color confocal method that ensures accurate measurement of any material. At just 1/50 the size of conventional models, these sensors are both ultra-compact and lightweight. Take advantage of simple parallel installation of sensors even in constrained spaces—inconceivable with conventional models—and installation directly on robots. In addition, the ultra-high-brightness multi-color light source enables a wide measurement range and high measurement accuracy regardless of the target material, including not only transparent objects but also mirrored surfaces, rough metal surfaces, ceramics, and all liquids, such as resins and adhesives.



Image-Based Laser Sensor

KEYENCE's image-based laser sensors are displacement sensors that employ a new drive scan system. Objects are recognized by the built-in camera, and lasers capture and track multiple pre-specified points on the target. With measurement being performed at multiple points at the same time, detection requiring multiple sensors and advanced setup is possible with just one device. Because there is no need to design or manufacture any special equipment or jigs, and separate processes for target positioning and multi-point measurement are not necessary, production time can be drastically shortened.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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To the Board of Directors of Keyence Corporation:

We have audited the accompanying consolidated balance sheet of Keyence Corporation and its consolidated subsidiaries as of March 20, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keyence Corporation and its consolidated subsidiaries as of March 20, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 14, 2019

Member of
Deloitte Touche Tohmatsu Limited

KEYENCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

YEAR ENDED MARCH 20, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
ASSETS:	2019	2018	2019	2018
CURRENT ASSETS:				
Cash and cash equivalents (Note 8)	¥265,894	¥280,260	\$2,374,059	
Time deposits (Note 8)	202,311	157,414	1,806,351	
Marketable securities (Notes 3 and 8)	394,999	370,055	3,526,776	
Notes and accounts receivable (Note 8)	169,342	160,276	1,511,987	
Allowance for doubtful receivables	(347)	(366)	(3,106)	
Inventories (Note 4)	38,349	34,847	342,408	
Deferred tax assets (Note 7)	12,628	14,395	112,751	
Other	7,834	6,543	69,948	
Total current assets	1,091,011	1,023,426	9,741,177	
PROPERTY, PLANT AND EQUIPMENT:				
Land	7,022	7,021	62,701	
Buildings and structures	21,971	21,363	196,174	
Furniture and fixtures	35,785	30,744	319,509	
Other	4,206	2,964	37,557	
Total property, plant and equipment	68,985	62,093	615,942	
Accumulated depreciation	(44,542)	(40,667)	(397,698)	
Net property, plant and equipment	24,443	21,426	218,244	
INVESTMENTS AND OTHER ASSETS:				
Investments in associated companies (Note 8)	16,834	16,445	150,308	
Investment securities (Notes 3 and 8)	540,534	416,536	4,826,197	
Deferred tax assets (Note 7)	469	456	4,188	
Other	9,064	7,932	80,930	
Total investments and other assets	566,902	441,369	5,061,625	
TOTAL	¥1,682,357	¥1,486,222	\$15,021,047	
LIABILITIES AND EQUITY:				
CURRENT LIABILITIES:				
Notes and accounts payable (Note 8)	¥6,309	¥10,645	\$56,338	
Income taxes payable (Note 8)	46,789	58,799	417,762	
Accrued bonuses	10,165	10,131	90,762	
Other	22,361	17,982	199,656	
Total current liabilities	85,626	97,558	764,520	
LONG-TERM LIABILITIES:				
Other	8,421	7,606	75,191	
Total long-term liabilities	8,421	7,606	75,191	
EQUITY (Note 6):				
Common stock, authorized, 300,000,000 shares; issued, 121,603,842 shares in 2019 and 121,603,842 shares in 2018	30,637	30,637	273,549	
Capital surplus	30,537	30,537	272,655	
Retained earnings	1,524,268	1,316,311	13,609,544	
Treasury stock at cost, 339,716 shares in 2019 and 339,203 shares in 2018	(3,689)	(3,658)	(32,946)	
Accumulated other comprehensive income				
Unrealized gain (loss) on available-for-sale securities	2,924	3,648	26,113	
Foreign currency translation adjustments	3,620	3,563	32,326	
Defined retirement benefit plan	10	17	91	
Total equity	1,588,309	1,381,057	14,181,335	
TOTAL	¥1,682,357	¥1,486,222	\$15,021,047	

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED MARCH 20, 2019

	2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
NET SALES	¥587,095	¥526,847	\$5,241,928
COSTS AND EXPENSES:			
Cost of sales	103,623	94,174	925,210
Selling, general and administrative expenses	149,675	126,573	1,336,388
Research and development costs	15,928	13,208	142,220
Total costs and expenses	269,227	233,956	2,403,819
OPERATING INCOME	317,868	292,890	2,838,108
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,245	988	11,124
Foreign exchange gain (loss)	(567)	(7)	(5,062)
Equity in earnings of associated companies	548	2,071	4,895
Other – net	765	2,917	6,831
Other income (expenses) – net	1,992	5,969	17,788
INCOME BEFORE INCOME TAXES	319,860	298,860	2,855,897
INCOME TAXES (Note 7):			
Current	91,228	93,427	814,541
Deferred	2,484	(5,162)	22,184
Total income taxes	93,713	88,264	836,726
NET INCOME	226,147	210,595	2,019,171
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥226,147	¥210,595	\$2,019,171

PER SHARE OF COMMON STOCK (Notes 11 and 13)

	2019	Yen 2018	U.S. Dollars (Note 1) 2019
Basic net income	¥1,864.91	¥1,736.65	\$16.65
Cash dividends applicable to the year	200.00	100.00	1.78

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED MARCH 20, 2019

	2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
NET INCOME	¥226,147	¥210,595	\$2,019,171
OTHER COMPREHENSIVE INCOME (LOSS) (Note 10):			
Unrealized gain (loss) on available-for-sale securities	(719)	967	(6,423)
Foreign currency translation adjustments	35	148	319
Share of other comprehensive income (loss) in associates	10	(2)	92
Total other comprehensive income (loss)	(673)	1,112	(6,012)
COMPREHENSIVE INCOME	¥225,473	¥211,708	\$2,013,158
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥225,473	¥211,708	\$2,013,158

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED MARCH 20, 2019

	Millions of Yen									
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plan	Accumulated other comprehensive income	Total equity
BALANCE, MARCH 20, 2017	121,265,467	¥30,637	¥30,533	¥1,120,874	(¥3,608)	¥2,679	¥3,422	¥14		¥1,184,552
Net income attributable to owners of the parent				210,595						210,595
Cash dividends, ¥100.00 per share (Note11)				(15,158)						(15,158)
Purchase of treasury stock	(926)				(50)					(50)
Disposal of treasury stock	98		4		1					5
Net change in the year						968	141	2		1,112
BALANCE, MARCH 20, 2018	121,264,639	¥30,637	¥30,537	¥1,316,311	(¥3,658)	¥3,648	¥3,563	¥17		¥1,381,057
Net income attributable to owners of the parent				226,147						226,147
Cash dividends, ¥200.00 per share (Note11)				(18,189)						(18,189)
Purchase of treasury stock	(513)				(31)					(31)
Net change in the year						(723)	56	(6)		(673)
BALANCE, MARCH 20, 2019	121,264,126	¥30,637	¥30,537	¥1,524,268	(¥3,689)	¥2,924	¥3,620	¥10		¥1,588,309

	Thousands of U.S. Dollars (Note 1)									
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plan	Accumulated other comprehensive income	Total equity
BALANCE, MARCH 20, 2018	121,264,639	\$273,549	\$272,655	\$11,752,780	(\$32,662)	\$32,571	\$31,819	\$153		\$12,330,868
Net income attributable to owners of the parent				2,019,171						2,019,171
Cash dividends, \$1.78 per share (Note11)				(162,407)						(162,407)
Purchase of treasury stock	(513)				(284)					(284)
Net change in the year						(6,457)	507	(62)		(6,012)
BALANCE, MARCH 20, 2019	121,264,126	\$273,549	\$272,655	\$13,609,544	(\$32,946)	\$26,113	\$32,326	\$91		\$14,181,335

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 20, 2019

	2019	2018	2019
		Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:			
Income before income taxes	¥319,860	¥298,860	\$2,855,897
Adjustments for:			
Income taxes paid	(103,024)	(62,071)	(919,862)
Depreciation and amortization	6,288	4,577	56,147
Equity in earnings of associated companies	(548)	(2,071)	(4,895)
Changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable	(9,569)	(31,525)	(85,438)
Decrease (Increase) in inventories	(3,482)	(10,525)	(31,090)
Decrease (Increase) in interest and dividends receivable	183	569	1,634
Increase (Decrease) in notes and accounts payable	(4,355)	3,345	(38,891)
Increase (Decrease) in accrued bonuses	33	1,746	301
Other – net	3,994	27	35,663
Total adjustments	(110,480)	(95,925)	(986,432)
Net cash provided by operating activities	209,380	202,934	1,869,464
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	(45,644)	(115,007)	(407,542)
Capital expenditures	(7,360)	(6,770)	(65,720)
Net decrease (increase) in marketable and investment securities and other	(150,006)	(155,502)	(1,339,347)
Other – net	(2,337)	(2,928)	(20,873)
Net cash used in investing activities	(205,350)	(280,208)	(1,833,483)
FINANCING ACTIVITIES:			
Cash dividends paid	(18,189)	(15,158)	(162,407)
Net decrease (increase) in treasury stock	(31)	(45)	(284)
Net cash used in financing activities	(18,221)	(15,203)	(162,691)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(174)	123	(1,558)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,366)	(92,354)	(128,268)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	280,260	372,615	2,502,328
CASH AND CASH EQUIVALENTS, END OF YEAR	¥265,894	¥280,260	\$2,374,059

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the 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 of Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019. Amounts less than one million yen and one thousand U.S. dollars are rounded down, except for per share data. Therefore, total or subtotal amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which KEYENCE CORPORATION (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 of Japan and have been made at the rate of ¥112 to \$1, the approximate rate of exchange at March 20, 2019. 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 28 significant subsidiaries (together, the "Group"). Under the control and influence concepts, 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 Group has the ability to exercise significant influence are accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also 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, all of which mature or become due within three months of the date of acquisition.
- c. Inventories** — Inventories of the Company and its domestic subsidiaries are principally stated at the lower of cost, determined by the average cost method or net selling value. Inventories of foreign subsidiaries are principally stated at the lower of cost, determined by the average cost method or market value.
- d. Marketable and Investment Securities** — All of the Group's securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Nonmarketable 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. Allowance for Doubtful Receivables** — The Company and its domestic subsidiaries have provided an allowance for doubtful receivables stated in an amount considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding. Foreign subsidiaries have provided an allowance for doubtful receivables at the estimated amount of probable bad debts.
- f. Property, Plant and Equipment** — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is principally computed by the declining-balance method based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of foreign subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the assets.
- g. Long-Lived Assets** — The Group reviews its 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 is 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.
- h. 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 statement of income to the extent that they are not hedged by forward foreign exchange contracts.
- i. Foreign Currency Financial Statements** — The balance sheet accounts of the consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet date, except for equity, which is translated at the historical rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

- j. Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statement 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 income tax rates to the temporary differences.
- k. Derivatives and Hedging Activities** — The Group utilizes derivative financial instruments in order to manage foreign currency risk and reduce exposure to fluctuations in foreign exchange rates. The Group does not enter into derivatives for trading or speculative purposes. Derivative financial instruments are classified and accounted for as derivatives used for hedging purposes if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items. Gains or losses on derivatives are deferred until maturity of the hedged transactions. Foreign currency time deposits for which foreign exchange forward contracts are used to hedge foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.
- l. Research and Development Costs** — Research and development costs are charged to income as incurred.
- m. Per Share Information** — Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The Company did not have securities or contingent stock agreements that could potentially dilute net income per common share in the year ended March 20, 2019 and 2018. Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.
- n. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** — Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting. ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.
- o. Accounting Changes and Error Corrections** — In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:
- 1) Changes in Accounting Policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
 - 2) Changes in Presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
 - 3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
 - 4) Corrections of Prior-Period Errors
When an error in prior-period financial statements is discovered, those statements are restated.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 20, 2019 and 2018 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars		Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019		2019	2018	2019
Current:				Non-current:			
Government and corporate bonds	¥9,999	¥50,055	\$89,276	Equity securities	¥5,456	¥6,556	\$48,723
Negotiable certificates of deposit	385,000	320,000	3,437,500	Government and corporate bonds	125,077	29,980	1,116,760
Total	¥394,999	¥370,055	\$3,526,776	Negotiable certificates of deposit	410,000	380,000	3,660,714
				Total	¥540,534	¥416,536	\$4,826,197

The cost and aggregate fair values of marketable and investment securities at March 20, 2019 and 2018 were as follows:

Securities classified as:	Millions of Yen				Securities classified as:	Thousands of U.S. Dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value		Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:					Available-for-sale:				
Equity securities	¥1,329	¥4,138	¥10	¥5,456	Equity securities	\$11,866	\$36,953	\$97	\$48,723
Government and corporate bonds	134,997	86	7	135,076	Government and corporate bonds	1,205,333	774	70	1,206,037
Negotiable certificates of deposit	795,000			795,000	Negotiable certificates of deposit	7,098,214			7,098,214
Available-for-sale:					Available-for-sale:				
Equity securities	¥1,327	¥5,252	¥23	¥6,556	Equity securities	\$11,866	\$36,953	\$97	\$48,723
Government and corporate bonds	80,020	19	5	80,035	Government and corporate bonds	1,205,333	774	70	1,206,037
Negotiable certificates of deposit	700,000			700,000	Negotiable certificates of deposit	7,098,214			7,098,214

There is no proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 20, 2019 and 2018.

4. INVENTORIES

Inventories at March 20, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products	¥22,226	¥17,637	\$198,454
Work in process	5,703	6,379	50,919
Raw materials	10,419	10,829	93,034
Total	¥38,349	¥34,847	\$342,408

5. EMPLOYEES' RETIREMENT BENEFITS

The company and certain subsidiaries have prepayment retirement benefits and defined contribution pension plans. The net periodic benefit costs for the years ended March 20, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Contribution to defined contribution pension plans and prepayments for retirement benefits	¥1,732	¥1,447	\$15,472

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

6. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends — Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit Supervisory Board, and (4) having a term of service for the directors prescribed as one year rather than the two years of normal terms per its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations 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. The Companies Act 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 Companies Act 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon the resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights — The Companies Act 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 a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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 equity or deducted directly from stock acquisition rights.

7. INCOME TAXES

The company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 30.7% for the years ended March 20, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 20, 2019 and 2018, are as follows:

	2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Deferred tax assets:			
Accrued bonuses	¥2,492	¥2,496	\$22,254
Inventories	6,529	7,673	58,301
Accrued enterprise tax	2,287	2,819	20,420
Other	2,298	2,194	20,524
Deferred tax assets	13,608	15,184	121,500
Deferred tax liabilities:			
Undistributed earnings	(5,541)	(4,772)	(49,477)
Investment securities	(1,284)	(1,596)	(11,469)
Other	(153)	(8)	(1,368)
Deferred tax liabilities	(6,979)	(6,378)	(62,314)
Net deferred tax assets (liabilities)	¥6,628	¥8,806	\$59,185

There is no significant difference 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 20, 2019 and 2018.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

8. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

a. **Group Policy for Financial Instruments** — The Group invests in financial instruments and in low-risk financial assets, including bonds. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in b. below.

b. **Nature of Financial Instruments, Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments** — Notes and accounts receivable are exposed to customer credit risk. In order to reduce risk, the Group monitors financial status and transaction history to detect the default risk of customers at an early stage. Since marketable securities and investment securities are mainly composed of high credit-rated bonds, the credit risk associated with the investments is not considered to be significant. However, since they are exposed to the risk of market price fluctuations, the Group monitors the market value and reviews the validity of continued possession on a regular basis. Notes and accounts payable and income taxes payable are all due within less than one year. Derivatives, forward foreign currency contracts, are used to manage exposure to market risks from fluctuations in foreign currency exchange rates of foreign currency time deposits.

c. **Fair Values of Financial Instruments** — Fair values of financial instruments are based on quoted prices in active markets. If the quoted prices are not available, other rational valuation techniques are used instead.

I. Fair value of financial instruments	Millions of Yen			Thousands of U.S.Dollars		
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
			2019			2019
Assets:						
Cash and cash equivalents and time deposits	¥468,206	¥468,206		\$4,180,411	\$4,180,411	
Notes and accounts receivable	169,342	169,342		1,511,987	1,511,987	
Marketable securities, investment securities and investment in associated companies	951,796	1,014,421	¥62,624	8,498,182	9,057,331	\$559,148
Assets	¥1,589,345	¥1,651,969	¥62,624	14,190,581	14,749,729	559,148
Liabilities:						
Notes and accounts payable	¥6,309	¥6,309		\$56,338	\$56,338	
Income taxes payable	46,789	46,789		417,762	417,762	
Liabilities	¥53,099	¥53,099		\$474,100	\$474,100	

	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
			2018
Assets:			
Cash and cash equivalents and time deposits	¥437,675	¥437,675	
Notes and accounts receivable	160,276	160,276	
Marketable securities, investment securities and investment in associated companies	802,493	854,918	¥52,425
Assets	¥1,400,445	¥1,452,870	¥52,425
Liabilities:			
Notes and accounts payable	¥10,645	¥10,645	
Income taxes payable	58,799	58,799	
Liabilities	¥69,444	¥69,444	

- i. Cash and cash equivalents, time deposits, notes and accounts receivable, notes and accounts payable, and income taxes payable — The carrying values of cash and cash equivalents, time deposits, notes and accounts receivable, notes and accounts payable, and income taxes payable are used as the fair values because of their short maturities.
- ii. Marketable securities, investment securities and investment in associated companies — The fair values of marketable securities, investment securities and investment in associated companies are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The fair values of negotiable certificates of deposit are deemed to be the acquisition price because the current price approximates the acquisition price. Information on the fair value for marketable securities, investment securities, and negotiable certificates of deposit is included in Note 3.
- iii. Fair Values of derivatives — information on the fair values of derivatives is included in Note 9.

II. Carrying amount of financial instruments whose fair value cannot be reliably determined	Millions of Yen			Thousands of U.S. Dollars		
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
			2019			2019
Investments in equity instruments that do not have a quoted market price in an active market	¥571	¥543		\$5,100		

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

d. Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen		Thousands of U.S.Dollars	
	2019		2019	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Cash and cash equivalents and time deposits	¥468,206		\$4,180,411	
Notes and accounts receivable	169,342		1,511,987	
Marketable securities and investment securities-available-for-sale securities with contractual maturities	10,000	125,000	89,285	1,116,071
Negotiable certificates of deposit	385,000	410,000	3,437,500	3,660,714
TOTAL	¥1,032,548	¥535,000	\$9,219,184	\$4,776,785

	Millions of Yen	
	2018	
	Due in one year or less	Due after one year through five years
Cash and cash equivalents and time deposits	¥437,675	
Notes and accounts receivable	160,276	
Marketable securities and investment securities-available-for-sale securities with contractual maturities	50,000	30,000
Negotiable certificates of deposit	320,000	380,000
TOTAL	¥967,951	¥410,000

9. DERIVATIVES

a. **Group Policy for Derivatives** — The Group does not utilize derivatives for trading or speculative purposes, but only uses derivatives such as forward exchange contract in order to manage the foreign currency exposure.

b. **Derivative Transactions to which Hedge Accounting Is Applied**

	Millions of Yen				Thousands of U.S. Dollars			
	2019				2019			
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contract:								
Selling U.S.\$	Foreign currency time deposits	¥160,055			Selling U.S.\$	Foreign currency time deposits	\$1,429,067	

	Millions of Yen			
	2018			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contract:				
Selling U.S.\$	Foreign currency time deposits	¥109,961		

- Foreign currency time deposits for which forward exchange contracts have been entered into are recorded at the contracted rate.
- The contract amounts are presented including the fair value because in foreign currency time deposits to which hedge accounting is applied, the foreign currency forward contract are accounted for as an integrality.
- The contract amounts do not measure the Group's exposure to market risk.

10. COMPREHENSIVE INCOME

The component of other comprehensive income for the years ended March 20, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities			
Gains (loss) arising during the year (Amount before income tax effect)	(¥1,036)	¥1,392	(\$9,253)
Income tax effect	316	(424)	2,829
Total	(¥719)	¥967	(\$6,423)
Foreign currency translation adjustments			
Adjustments arising during the year	¥35	¥148	\$319
Share of other comprehensive income (loss) in associates			
Gains (losses) arising during the year	¥10	(¥2)	\$92
Total other comprehensive income (loss)	(¥673)	¥1,112	(\$6,012)

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2019

11. AMOUNT PER COMMON SHARE

The computation of net income per common share is based on the weighted-average number of common shares outstanding. The average number of common shares used in the computations was 121,264,318 and 121,264,954 shares for the years ended March 20, 2019 and 2018, respectively. Cash dividends per common share represent amounts applicable to the respective periods, including dividends to be paid after the end of the period.

12. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

I. Reportable Segments

Information about reportable segments is not disclosed because the Company has one operating segment.

II. Related Information

• **Information by product and service**

As the Sales of one product group account for more than 90% of the Group's total consolidated sales, the disclosure for the years ended March 20, 2019 and 2018, has been omitted.

• **Information by geographical area**

	2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Revenue			
Japan	¥275,117	¥246,259	\$2,456,404
Overseas			
USA	86,938	78,798	776,234
China	69,700	64,435	622,321
Other	155,340	137,353	1,386,967
Total	311,978	280,587	2,785,523
TOTAL	¥587,095	¥526,847	\$5,241,928

	2019	Millions of Yen 2018	Thousands of U.S. Dollars 2019
Property, plant and equipment			
Japan	¥17,399	¥15,524	\$155,350
Overseas	7,044	5,901	62,893
TOTAL	¥24,443	¥21,426	\$218,244

• **Information on principal customers**

There is no customer, whose sales exceed 10% of the total consolidated sales for the years ended March 20, 2019 and 2018.

13. SUBSEQUENT EVENT

At the Shareholder's General Meeting held on June 14, 2019, the shareholders approved payment of ¥100.00 (\$0.89) per share or total of ¥12,126 million (\$108,271 thousand), to shareholders of record on March 20, 2019.

BOARD OF DIRECTORS/AUDIT AND SUPERVISORY BOARD/CORPORATE DATA/DIRECTORY

BOARD OF DIRECTORS

As of June 14, 2019

Takemitsu Takizaki Honorary Chairman and Director	Keiichi Kimura Director	Yu Nakata Director	Seiichi Taniguchi Outside Director
Akinori Yamamoto President and Representative Director	Akiji Yamaguchi Director	Akira Kanzawa Director	Yoichi Tanabe Outside Director
	Masayuki Miki Director		

AUDIT & SUPERVISORY BOARD

As of June 14, 2019

Koichiro Komura Outside Auditor	Koichi Ogawa Outside Auditor	Hidehiko Takeda Outside Auditor
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CORPORATE DATA

As of March 20, 2019

Established:	March 1972
Incorporated:	May 1974
Capital:	30,637 million yen
Number of Employees:	7,941 (consolidated)
Common Stock:	300,000,000 shares Authorized 121,603,842 shares Issued
Number of Shareholders:	10,592
Stock Listing:	Tokyo Stock Exchange, Inc.
Share Registrar:	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, JAPAN

DIRECTORY

As of March 20, 2019

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KEYENCE (THAILAND) CO., LTD.

Bangkok, Thailand Tel: +66-2-369-2777

ADDRESSING SOCIETAL CHALLENGES USING OUR PRODUCTS

Improving Productivity

We are working to streamline the manufacturing process in various industries and countries to improve productivity and efficiency. By proposing solutions that lead to improved productivity, product quality can be ensured, while production time and waste can be minimized.

Image-Based Laser Sensor

IX Series

Conventionally, objects were moved to measure multiple points, or processes were detected separately. The IX Series identifies measurement targets through imaging and measures specified points with a laser to detect multiple heights at the same time. This helps reduce production time.



Improving Product Quality

As the functionality and sophistication of products advance, product quality has become more important. KEYENCE products can be used to stably produce high quality products.

Image Processing System

XG-X Series

This system uses multi-spectrum lighting with eight wavelength LEDs and the industry's fastest 14-core image processing system to accurately identify subtle color differences that cannot be identified with a regular color camera. It helps improve food safety by quickly inspecting food for foreign matter, or other defects.



Ensuring the Safety of the Working Environment

We provide products that help improve safety at production sites. This also reduces the load on health and safety management. Specifically, we are promoting the improvement of on-site safety by developing safety equipment that maintains productivity while securing the safety of workers from hazardous elements, such as machinery and robots used at production sites.

Safety Laser Scanner

SZ-V Series

Safety measures are necessary at manufacturing sites, but these can lower productivity. With KEYENCE's SZ-V Series, new technologies and concepts are combined to ensure both safety and productivity.



ADDRESSING SOCIETAL CHALLENGES USING OUR PRODUCTS

Improving the Working Environment

KEYENCE inkjet printers are equipped with various features to prevent health risks.

In the past, separate equipment was required to safely perform maintenance on inkjet printing equipment.

Daily maintenance is required to use an inkjet printer.

Examples of measures taken to prevent the release of chemical substances are shown.

Glovebox

Workers must use this box, which provides airflow intake and exhaust to reduce exposure to chemical substances.



Respiratory Protective Gear

Workers are recommended to use a respiratory mask to prevent inhalation of chemical substances.



Occupational Health Protective Gear

Workers are recommended to wear protective glasses and solvent-resistant gloves to protect the skin and eyes.



The MK-U Series enables anyone to perform maintenance safely.

The MK-U Series has a new design to prevent exposure to ink and solvents and associated vapors.

No special measures or additional cost is required as is the case with conventional inkjet printers.



HUMAN RESOURCES DEVELOPMENT

Basic Guideline on Human Resources Development

KEYENCE prioritizes efforts to train its employees in order to contribute to the added value of the company, while aiming to create a workplace with a positive impact on society.

Basic Policy on Training Personnel

- Give employees ownership and accountability for both their actions and results
- On-the-job training as a core component of the training program
- Promote comprehensive skill development through continuous training programs

On-the-job Training Program Examples

Sales

Joint action

1. New employees accompany senior employees on sales visits in order to learn sales techniques and industry knowledge.
2. Senior employees accompany new employees during sales visits and offer tangible business advice.

Development

Project lead

New employees participate in development projects two months after joining the company.
We promote growth and development by giving significant project ownership to new employees.

Programs for Promoting On-the-job Training

Personal coach program

This program promotes growth by allowing new employees to receive general work advice directly from senior employees.

Mentoring program

This program differs from the personal coach system in that it allows experienced employees to mentor new employees and address their detailed questions and concerns.

HUMAN RESOURCES DEVELOPMENT

Development Timeline

• Training by career



Training Programs

Management Development Program (MDP)

This training program cultivates next-generation leaders by granting trial management responsibilities for a certain period of time. This program not only encourages growth, but is also effective in developing leadership candidates and helps to maintain an active organization.

Career Development Program (CDP)

This program allows employees to move to another section of the company for a certain period of time to work in a new role. Experiencing various types of work outside of their specialties cultivates broad skill set and promotes development of new capacities. Recently, there has been an increase in "overseas CDP", in which Japanese workers are assigned to overseas subsidiaries to further this goal.

Multi assessment

To foster the development of managers, this program gives employees the opportunity to complete an evaluation (survey) of management. The purpose is to periodically and openly share strengths and improvement areas to improve management quality.



PROVIDING RESPONSIBLE PRODUCTS

Procurement Guidelines

To ensure a workplace that takes human rights into consideration, we have established procurement guidelines for our supply chain, and request that our suppliers follow these. In addition, as part of our basic business agreement, we ask that these businesses make efforts to reduce their environmental impact and prevent environmental pollution to protect our planet.

Green Procurement

The following efforts are being made to promote green procurement:

- We established rules for environmental management and materials management and ask that our suppliers comply with these.
- We confirm and provide guidance on environmental management systems through on-site guidance and interviews with questionnaires.
- We request the submission of non-inclusion certificates for each component and the provision of information on substances contained in components using standard industry formats.
- We hold workshops on the environment as part of environmental education for our employees.
- We have built an environmental management system based on ISO 14001, and we are certified by a third-party organization.



Supply Chain Management

We clarify our basic policies and rules regarding product manufacturing, and share our environmental policy with each subcontractor.

- Fair trade in compliance with the law
- Prohibiting forced labor, slave labor, child labor, discriminatory practices, unknowingly hurting another individual or using one's status or position to harass another individual
- Maintaining confidentiality
- Protecting the work environment
- Safety management
- Complying with rules and regulations
- Complying with and maintaining standards and making efforts to achieve environmental policies
- Creating a workplace environment that ensures the greatest respect for others

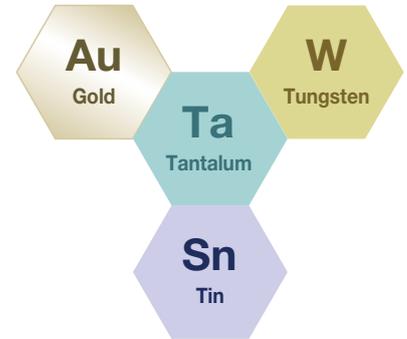


COMPLIANCE

Conflict Minerals

Conflict minerals originating in the Democratic Republic of the Congo (DRC) or an adjoining country (hereinafter called "the covered countries") have become a source of funding for armed groups, leading to human rights violations and environmental destruction while threatening to promote further conflict. The four minerals in question (tin, tantalum, tungsten, and gold) are widely used in electric and electronic products.

It is KEYENCE's policy to refrain from purchasing of any parts, components, or materials that are recognized as containing conflict minerals. Furthermore, KEYENCE has no intention to benefit from or finance the armed groups responsible for human-rights violations in the covered countries. KEYENCE is engaging in efforts to eliminate conflict minerals while cooperating with suppliers, such as investigating supply chains using tools provided by the Responsible Minerals Initiative (RMI, formerly CFSI), an organization that promotes the responsible procurement of minerals.



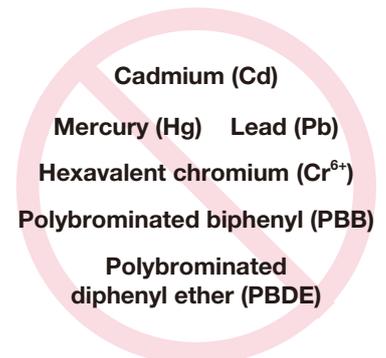
Management of Chemical Substances in Products

Restrictions on chemical substances in electric and electronic products are spreading worldwide.

KEYENCE shares with suppliers its procedures/rules for management of chemical substances in products.

which are defined by the company, in addition to the chemical substances, shown in right, regulated by the Restriction of Hazardous Substances Directive (RoHS) of the European Union, and we promote Green Procurement of components and materials that we use in our products.

KEYENCE is engaged in efforts to comply with restrictions on chemical substances in products and contributes to the environment through its products.



Compliance with the UK Modern Slavery Act 2015

KEYENCE CORPORATION has issued the statement in accordance with Section 54 of the UK Modern Slavery Act 2015.

ENVIRONMENTAL POLICY

KEYENCE will continue to fulfill its social responsibilities including efforts to protect the environment through its business activities and products.

Basic Principle

We recognize that efforts to protect the global environment, including the prevention of global warming, are of the utmost importance for the entire world.

Environmental Policy

Based on the fact that we develop, manufacture, and sell systems such as automatic control equipment, measuring equipment, and related electronic/optoelectronics equipment, etc., we are working on reducing the environmental burden based on the following policy.

1. We will comply with environmental laws, regulations, and other requirements, and work on environmental conservation by establishing voluntary management standards.
2. In order to reduce our environmental burden, we will establish and maintain an environmental management system to continuously improve and promote the prevention of environmental pollution.
3. Among the environmental impacts related to our activities, products, and services, we will address the following items as priority items.
 - i) Establish and maintain a chemical substance management system that includes the absence of harmful chemical substances from our products.
 - ii) Establish and promote a management system for electricity consumption for suppressing/reducing CO₂ emissions.
 - iii) In order to make effective use of resources, we will reduce waste emission, promote energy conservation activities, and promote recycling.
 - iv) Promote the design and development of products that take into consideration customers' environmental load reduction activities.
 - v) Promote activities that take into account the conservation of biodiversity.

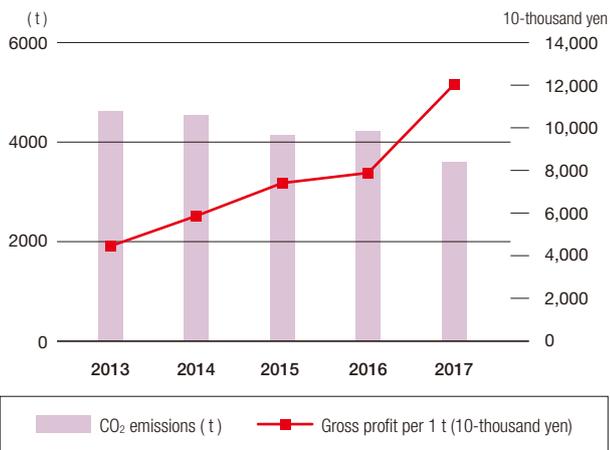
ENVIRONMENTAL NUMERICAL DATA

We are consciously working to create maximum added value with minimum environmental load.

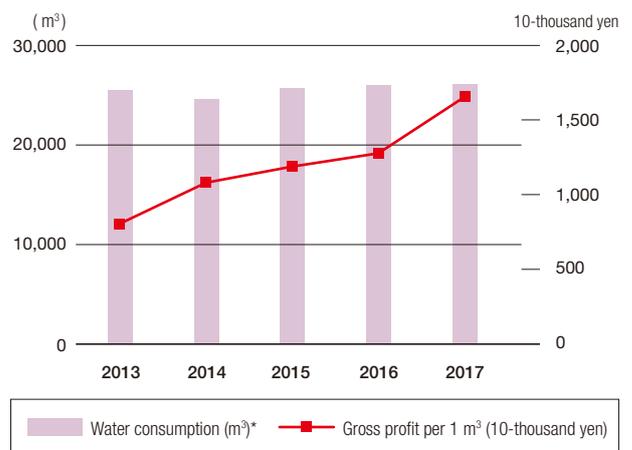
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
CO₂ emissions (t)*	4,625	4,539	4,136	4,225	3,592
Gross profit per 1 t (10-thousand yen)	4,453	5,870	7,414	7,890	12,047
Water consumption (m³)*	25,500	24,598	25,748	26,052	26,102
Gross profit per 1 m ³ (10-thousand yen)	808	1,083	1,191	1,280	1,658
Electricity consumption (MWh)*	8,568	8,293	7,863	8,005	7,910
Gross profit per 1 MWh (10-thousand yen)	2,403	3,213	3,900	4,164	5,470
Industrial waste (t)*	128	139	125	113	170
Gross profit per 1 t (1 million yen)	1,605	1,910	2,456	2,952	2,548

*Scope 1, 2 (Target range: Head office building, Quality Lab, Takatsuki Logistics Center, production control center, Takatsuki office)

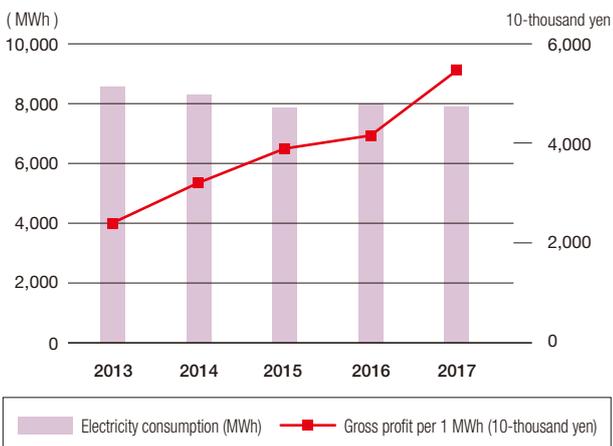
CO₂ emissions



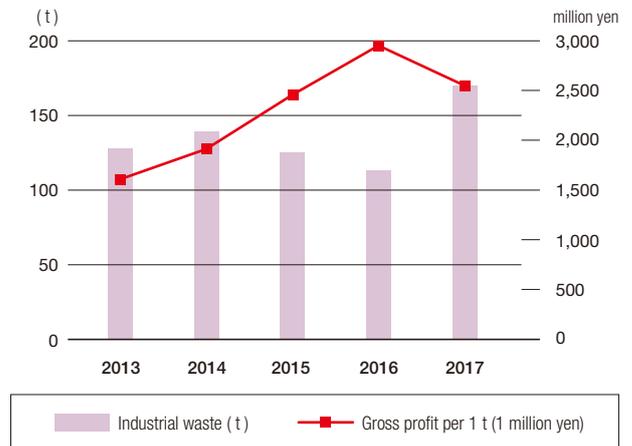
Water consumption (m³)



Electricity consumption (MWh)



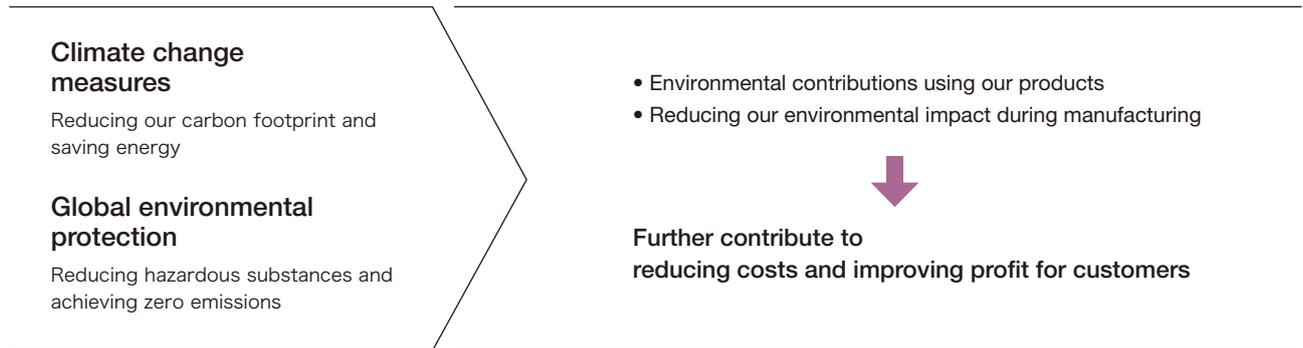
Industrial waste (t)



REDUCING OUR ENVIRONMENTAL IMPACT THROUGH OUR PRODUCTS

Contributing to the Global Environment Through Our Products

KEYENCE contributes to environmental conservation not only by creating products with the environment in mind, but we are also reducing the environmental impact at locations where customers use our products, which benefits society as a whole. That is to say, we create products with large added value using less resources and energy, and these products improve manufacturing productivity and reduce environmental impact. Pursuing greater added value always leads to environmental contribution.

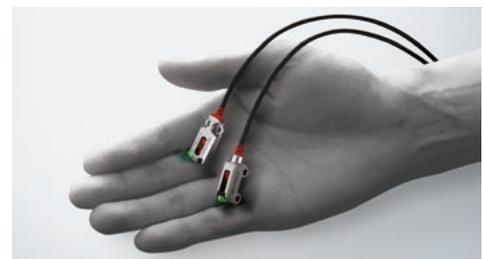


Developing Products with Low Environmental Impact

Smaller: Reduction of parts used

Photoelectric Sensor PR Series

By using our own hybrid construction, we have increased shock resistance by five times while reducing the size by 81% over conventional models. The result is a photoelectric sensor that is the smallest in its class with significantly improved sensor functionality.



Stronger: Using longer lasting materials

Safety Light Curtain GL-R Series

We achieved an overall durable design that minimizes the need for replacement parts in response to damage. In addition to protecting the optical surface, which is subject to the most damage, the design uses a twin bumper construction to protect the display, achieving a robustness with high shock resistance even for the mounting bracket.



More efficient: Using less energy

Handheld Mobile Computer BT Series

Using a battery degradation control algorithm extends battery life. The battery degradation control algorithm improves battery life drastically, resulting in less-frequent battery replacement.



REDUCING OUR ENVIRONMENTAL IMPACT THROUGH OUR PRODUCTS

Reducing Environmental Impact at Customer Locations

Contributing to the Reduction of Material Waste

The introduction of 3D printers has significantly reduced the time required to produce samples and waste generated during rework.

Examples of Modeled Objects



Connectors

Fine connectors can be scaled up and verified in detail.



On-board control units

It is possible to check the fit of and the interference between the circuit board and components while viewing the internal state.



Managing the Amount of Water Used

Flow sensors that were difficult to retrofit in the past now incorporate proprietary technology that enables easy installation simply by clamping, without having to cut into piping. This enables management of a variety of fluids, including water, thereby helping reduce environmental impact at customer locations. In addition, this technology can record usage for a certain period of time using only the main unit, without the need for a recording device, for easy usage management.

Data recorded on the main unit



Cause analysis

Data is output using RS-232C communication and analyzed using a computer



Usage management

Can be checked on the main unit screen



REDUCING OUR ENVIRONMENTAL IMPACT THROUGH BUSINESS ACTIVITIES

Recycling Efforts

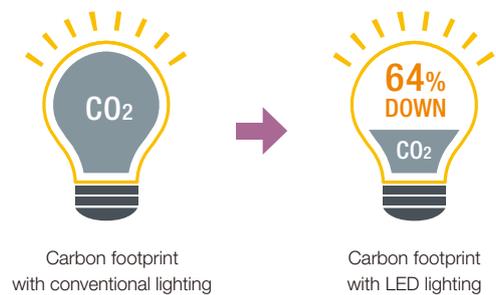
Paper Recycling

KEYENCE is also working hard to manage paper recycling. In addition to efforts to digitize application forms that used paper in the past, we have installed recycling containers on each floor of our office, and paper is collected by a used paper company for delivery to a paper company. This paper goes through a recycling process and is recycled into cardboard.

Reducing Our Carbon Footprint

Making the Switch to LED Lighting

As part of our efforts to reduce our environmental impact, we are reducing our carbon footprint by switching to LED lighting at our head office building and all distribution locations. The switch to LED lighting is reducing our carbon footprint by approximately 64%.

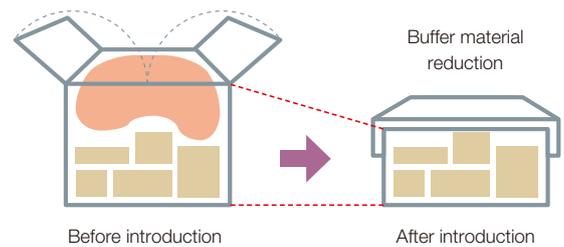


Updating to High Efficiency Air Conditioners

By switching to energy-saving air conditioner models with lower power consumption and compact models that use less resources, KEYENCE is using environmentally friendly technology that will reduce its carbon footprint.

Reducing Waste at Distribution Centers

In the past, it was necessary to prepare packaging boxes for each product size and use cushioning material to fill the extra space. With the installation of automated packing equipment, the space inside the packaging box can be utilized more efficiently. As a result, the amount of cushioning material can be reduced. In addition, integrating new types of packaging boxes used has helped to reduce resources and space.



ISO 9001/14001 Certification

KEYENCE has received ISO 9001/14001 certification for its efforts to contribute to the environment through business activities and products.



ISO 9001



ISO 14001

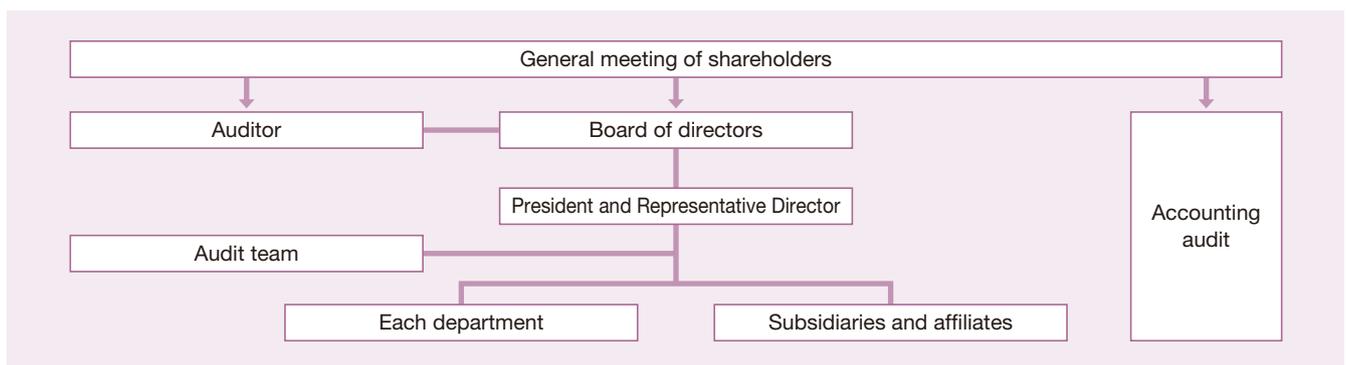
GOVERNANCE

Basic Guideline on Corporate Governance

When it comes to corporate governance, we recognize that unfair and inefficient management not only cripples corporate values, but it also seriously hinders the sustainability of the company. Our basic guideline is to refine the aspirations and self-discipline of corporate members, in particular management, and to create more effective corporate governance through management philosophy, action guidelines and strategic sharing within the company by means of thorough communication. By minimizing the number of directors, facilitating the flow of information within the company and maintaining a corporate culture in which issues are settled logically while clarifying merits and demerits, we can avoid fraud and scandals, and through continuous improvements in management efficiency and faster decision making and execution of operations, we aim to strengthen our competitiveness and improve our corporate value.

Corporate Governance System

Our corporate governance system uses an auditor system with three outside auditors. The corporate auditors do not have any full-time KEYENCE staff. The audit team works together and the corporate auditors attend various important company meetings. Meanwhile, the number of directors is nine, including two outside directors, which enables quick and thorough information exchange to achieve both supervision and execution. We are building an internal control system where on-site audits are performed by a special department, information is quickly transmitted and a check function is implemented. The following is an overview of the corporate governance system and the business management organization for management decision-making, execution and supervision.



Internal Audit Team

An appointed audit team has been formed to conduct internal audits. The audit team conducts internal audits focusing on the appropriateness and effectiveness of business operations at locations in Japan and overseas, and the audit results and other information are reported regularly and as required by the president.

Employee Code of Conduct

To maintain an organization that is less prone to fraud and harassment, we are building a system where all employees regularly review the corporate policies and business guidelines that form our code of conduct. In addition, by actively using this code of conduct as judgment criteria in our daily business, we are working to ensure thorough compliance and improve compliance awareness. We also make efforts to create a workplace where everyone can freely voice their opinion. We focus on "what was said" as opposed to "who said it". For example, so as not to encourage awareness of the hierarchical relationship, it is important that employees address each other not by their job titles but by their names and be allowed to sit anywhere in meetings, thereby creating a culture where employees can speak their minds freely regardless of job title, age, career or gender.

In addition, to eliminating gaps between groups, we have created an environment that facilitates open discussions by eliminating partitions in the office space as much as possible. This type of culture and environment enables even new employees to assert their opinions without hesitation. Rational ideas will be realized with the support of coworkers; therefore, a culture with logical discussion will further enhance the logical thinking of the employee and increase their work success rate.

CREATING A FULFILLING WORKPLACE

Creating high added value starts with our employees.

We are putting effort into creating a workplace culture of mutual respect and an environment that facilitates independent work.

Creating a Workplace with Respect

Our policy is to create a fulfilling workplace in which people respect one another and a workplace that encourages both physical and mental productivity. We are engaged in corporate activities with a strong sense of ethics in which we follow rules and regulations; do not discriminate or slander each other based on race, gender, nationality, creed, age or disability; do not harm each other subconsciously and do not use our role or position in a coercive manner.

Counseling Area

We created a counseling area where employees can receive direct counseling if they have concerns about inappropriate language or action in the workplace. If counseling is required, an investigation is performed and action is taken immediately while maintaining privacy.



WORLD NETWORK



WWL1_1037

The Americas

KEYENCE CORPORATION OF AMERICA

Chicago	New Jersey	Atlanta
Austin	Birmingham	Boston
Charlotte	Cincinnati	Cleveland
Cupertino	Dallas	Denver
Detroit	Grand Rapids	Greenville
Indianapolis	Iowa	Irvine
Kansas City	Knoxville	Little Rock
Los Angeles	Louisville	Milwaukee
Minneapolis	Nashville	Philadelphia
Phoenix	Pittsburgh	Portland
Raleigh	Rochester	San Francisco
San Jose	Seattle	St. Louis
Tampa		

KEYENCE CANADA INC.

Toronto	Montreal	Windsor
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KEYENCE MEXICO S.A. DE C.V.

Mexico City	Ciudad Juarez	Leon
Monterrey	Queretaro	Tijuana

KEYENCE BRASIL COMERCIO DE PRODUTOS ELETRONICOS LTDA.

Sao Paulo	Curitiba
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Europe

KEYENCE DEUTSCHLAND GmbH

Frankfurt	Berlin	Cologne
Dusseldorf	Erfurt	Essen
Hamburg	Hanover	Karlsruhe
Leipzig	Mannheim	Montabaur
Munich	Nuremberg	Stuttgart
Ulm		

KEYENCE INTERNATIONAL (BELGIUM) NV/SA

Mechelen	AUSTRIA	CZECH REPUBLIC
HUNGARY	NETHERLANDS	POLAND
ROMANIA	SLOVAKIA	SLOVENIA
SWITZERLAND		

KEYENCE (UK) LIMITED

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Manchester	Newcastle	IRELAND

KEYENCE FRANCE SAS

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Lyon	Nantes	Toulouse

KEYENCE ITALIA S.p.A.

Milan	Bologna	Padua
Pescara	Turin	

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Ningbo	Qingdao	Shanghai Hongqiao	Shenzhen East
Shenzhen West	Suzhou	Tianjin	Wuhan
Wuxi			

KEYENCE (HONG KONG) CO., LTD.

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KEYENCE TAIWAN CO., LTD.

Taipei	Hsinchu	Kaohsiung	Taichung
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KOREA KEYENCE CO., LTD.

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KEYENCE SINGAPORE PTE LTD.

Singapore

KEYENCE INDIA PVT. LTD.

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PT. KEYENCE INDONESIA

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KEYENCE PHILIPPINES INC.

Manila

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Kuala Lumpur Penang

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Bangkok	Chiang Mai	Chonburi	Pathumthani
Rayong			



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