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ANNUAL REPORT 2012

Year ended March 20, 2012

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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 over 110,000 customers in some 90 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.

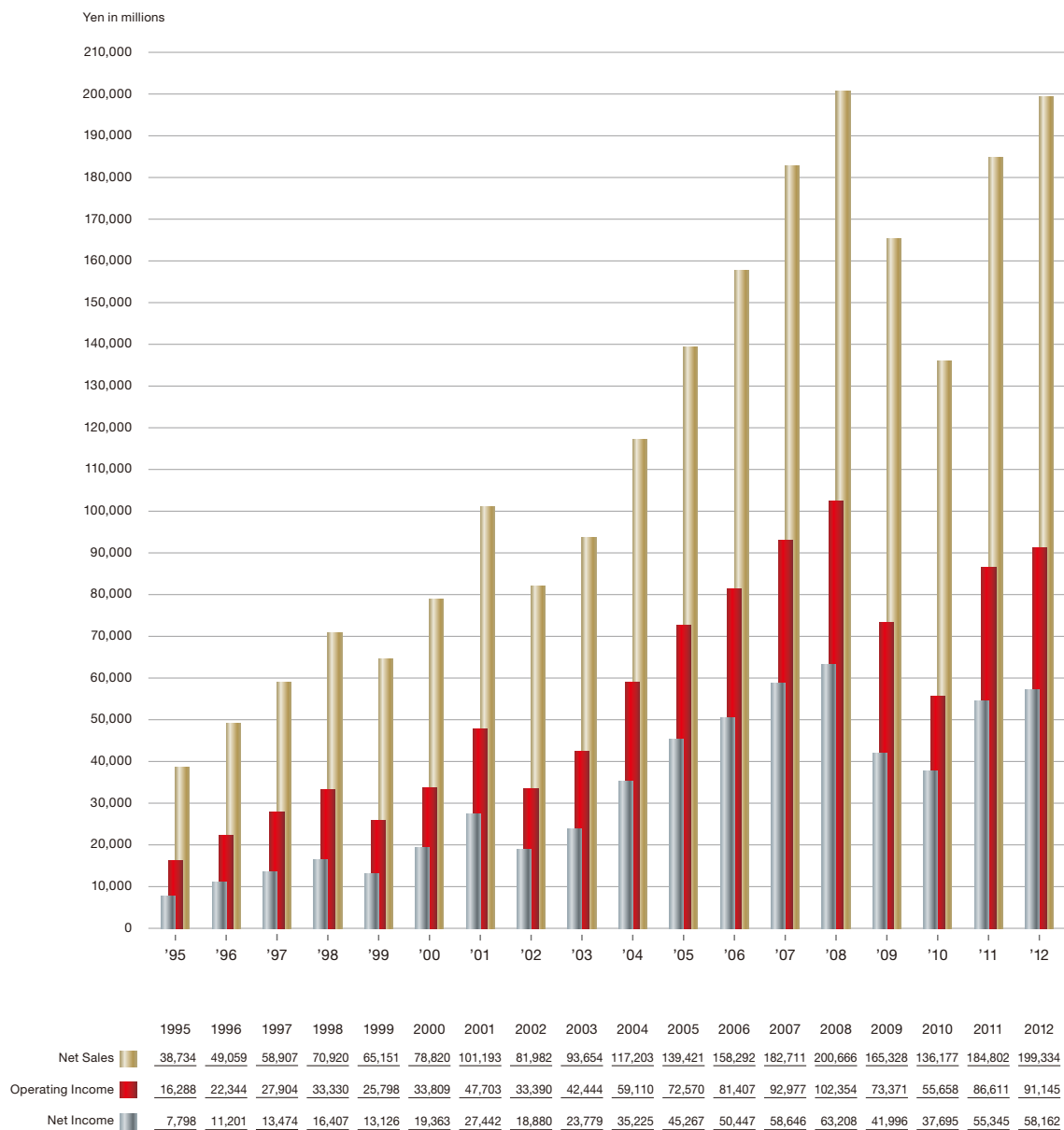


KEYENCE CORPORATION AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS

YEARS ENDED MARCH 20

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Net Sales	¥199,334	¥184,802	\$2,373,023
Operating Income	91,145	86,611	1,085,059
Net Income	58,162	55,345	692,404
Amounts Per Common Share (in yen and U.S. dollars)			
Net Income	1,054.50	1,003.39	12.55
Cash Dividends Applicable to the Year	60.00	60.00	0.71
Total Assets	684,670	631,064	8,150,833

Note: 1. All dollar figures herein refer to U.S. dollars. Dollar amounts are translated from Japanese yen, for convenience only, at ¥84 = US\$1, the approximate exchange rate on March 20, 2012.
 2. Refer to Note 11 in the notes to consolidated financial statements.



TO OUR SHAREHOLDERS



Business results

Over the course of the current consolidated fiscal year, there has been a general stagnation in the worldwide economy caused by the European economic problems and the deceleration of the Chinese economy. In Japan, there was a recovery immediately after the Great East Japan Earthquake, but there were also problems such as the sharp appreciation of the yen. As such, we have slowly been increasing our capital investments.

Under these economic conditions, we have been committed to enhancing product development and strengthening sales to ensure continued growth in the medium and long term. In the product development field, we have developed new products that include a Telecentric Laser Marker, a super resolution digital microscope, and a large-screen wireless handy terminal. In the sales field, we made efforts to expand our newly established overseas subsidiaries and similar installations and to increase our human resources.

As a result of these activities, we achieved increase in both sales and profit. Sales in this consolidated fiscal year totaled JPY 199,334 million (up 7.9% from the previous year) and operating income was JPY 91,145 million (up 5.2% from the previous year). Ordinary income was JPY 94,244 million (up 4.7% from the previous year) and net income was JPY 58,162 million (up 5.1% from the previous year).

TO OUR SHAREHOLDERS

Performance by region

1) Japan

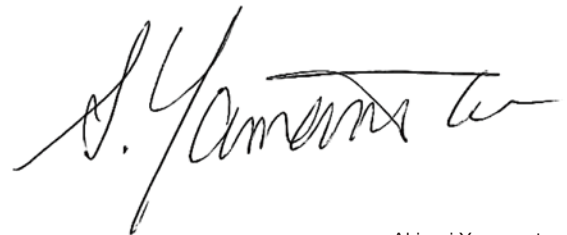
In Japan, capital investments recovered slowly due to factors such as demands caused by the recovery from the 2011 disasters. Under such circumstances, we concentrated on releasing new products and enhancing our sales system, which resulted in sales totaling JPY 136,727 million (up 7.1% from the previous year).

2) Overseas

Overseas, there have been European economic problems and the Chinese economy has decelerated, but the market as a whole has moved to a stable state after having bottomed out. In the environment, we concentrated on projects such as establishing overseas subsidiaries and increasing our human resources, which contributed to sales totaling JPY 62,607 million (up 9.7% from the previous year).

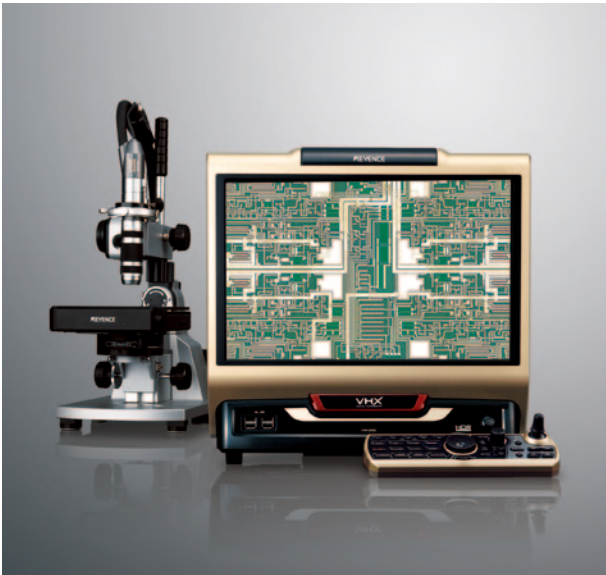
Considering the world economy in the immediate future, although there is uncertainty caused by factors such as the European financial crisis, the market as a whole has moved to a stable state after having bottomed out and considering the Japanese economy, while concerns such as the high price of oil and insufficient power supplies do remain, a slow recovery is expected to continue.

We are determined to further focus on enhancing product development and strengthening our sales force. In the long term, as global competition is expected to become increasingly fierce, it is critical to continue to streamline and reduce labor costs, improve quality, and enhance the research and development capabilities of manufacturing industries. We see in these global trends great potential for expanding our business. We are determined to pursue this potential, vigorously expanding our business while concentrating our abilities and accumulated expertise.



Akinori Yamamoto
President
June, 2012

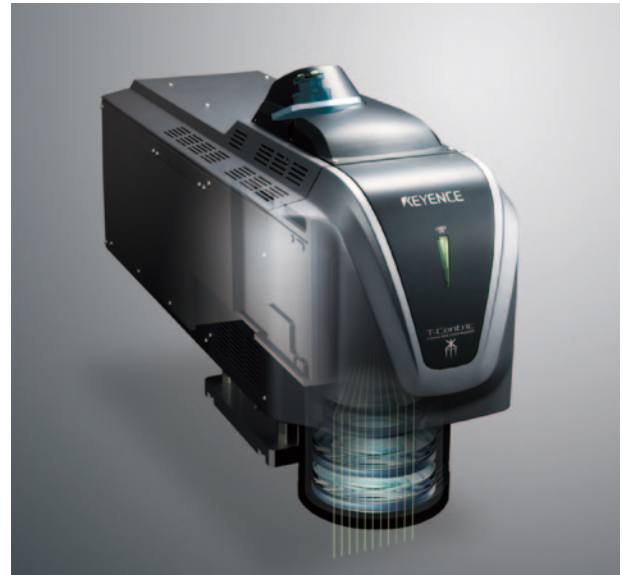
NEW PRODUCT HIGHLIGHTS



Super Resolution Digital Microscope

This digital microscope was designed to perform magnified observation and measurement, and it has achieved wide-spread use in fields such as research and development and failure analysis.

By equipping the VHX Series, with which observation, recording, and measurement can be performed with a single instrument, with a super resolution color filter and a three-axis (XYZ) motorized stage, we have made it possible to observe three-dimensional objects that could not be observed until now.



Telecentric Laser Marker

This laser marker makes it possible to mark on products and to perform non-contact cutting and processing.

This laser marker uses a distortionless telecentric lens and an SHG laser with a diameter of 20 μm . It supports (1) fine marking on the limited space of components that continue being miniaturized and (2) high-grade cutting and processing of precision components.

NEW PRODUCT HIGHLIGHTS



Self-Contained CMOS Laser Sensor

This laser sensor is indispensable in automating and optimizing production lines by checking for the passage of products and for the presence of equipped components. For the first time in the industry, the detection stability of a CMOS laser and the ease-of-use of a self-contained sensor have been presented with an SUS316L Stainless steel body. Possessing both detection abilities of the highest class and a sturdy body that can withstand even the harshest environments, this laser sensor contributes greatly to the further optimization of production lines.



Large-Screen Wireless Handy Terminal

This wireless handy terminal is employed in a wide range of fields such as distribution, transportation, and manufacturing. This terminal is used in these fields to perform inventory control, ordering, and inspections. With its 3.5-inch touch panel LCD, one-hand grip that enables single-handed operation, and light-weight design, this terminal is easy to view and easy to use, which leads to great improvements in operation efficiency.

INDEPENDENT AUDITORS' REPORT



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To the Board of Directors of Keyence Corporation:

We have audited the accompanying consolidated balance sheets of Keyence Corporation and subsidiaries (the "Company") as of March 20, 2012 and 2011, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 20, 2012, and the related consolidated statements of changes in 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 Keyence Corporation and subsidiaries as of March 20, 2012 and 2011, 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 3. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 13, 2012

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 20, 2012 AND 2011

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2012	2011	2012
CURRENT ASSETS :			
Cash and cash equivalents (Note 9)	¥16,721	¥15,808	\$199,059
Time deposits (Note 9)	82,250	17,809	979,166
Marketable securities (Notes 4 and 9)	278,377	295,080	3,314,011
Notes and accounts receivable (Note 9)	65,912	61,110	784,666
Allowance for doubtful receivables	(226)	(227)	(2,690)
Inventories (Note 5)	14,040	11,177	167,142
Deferred tax assets (Note 8)	5,780	5,382	68,809
Other	1,556	1,450	18,523
Total current assets	464,413	407,592	5,528,726
PROPERTY, PLANT AND EQUIPMENT :			
Land	6,920	6,920	82,380
Buildings and structures	18,533	18,607	220,630
Furniture and fixtures	18,977	16,860	225,916
Other	1,179	910	14,035
Total property, plant and equipment	45,610	43,298	542,976
Accumulated depreciation	(27,856)	(26,306)	(331,619)
Net property, plant and equipment	17,753	16,992	211,345
INVESTMENTS AND OTHER ASSETS :			
Investments in associated companies (Note 9)	10,227	8,775	121,750
Investment securities (Notes 4 and 9)	173,266	179,698	2,062,690
Funds in trust (Notes 4 and 9)	17,064	16,090	203,142
Deferred tax assets (Note 8)	61	38	726
Other	1,883	1,877	22,416
Total investments and other assets	202,503	206,480	2,410,750
TOTAL	¥684,670	¥631,064	\$8,150,833

LIABILITIES AND EQUITY	2012	2011	2012
CURRENT LIABILITIES :			
Notes and accounts payable (Note 9)	¥3,962	¥3,748	\$47,166
Income taxes payable (Note 9)	18,923	22,751	225,273
Accrued bonuses	4,339	3,947	51,654
Other	6,880	7,192	81,904
Total current liabilities	34,106	37,639	406,023
LONG-TERM LIABILITIES :			
Other	2,130	870	25,357
Total long-term liabilities	2,130	870	25,357
EQUITY (Notes 7 and 13) :			
Common stock, authorized, 137,000,000 shares; issued, 55,274,474 shares in 2012 and 2011	30,637	30,637	364,726
Capital surplus	30,531	30,531	363,464
Retained earnings	592,224	537,371	7,050,285
Treasury stock at cost, 118,768 shares in 2012 and 117,228 shares in 2011	(2,330)	(2,299)	(27,738)
Accumulated other comprehensive income			
Net unrealized gain on available-for-sale securities	2,383	1,057	28,369
Foreign currency translation adjustments	(5,013)	(4,744)	(59,678)
Total equity	648,433	592,554	7,719,440
TOTAL	¥684,670	¥631,064	\$8,150,833

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 20, 2012 AND 2011

	2012	Millions of Yen 2011	Thousands of U.S. Dollars (Note 3) 2012
NET SALES	¥199,334	¥184,802	\$2,373,023
COSTS AND EXPENSES :			
Cost of Sales	47,542	42,856	565,976
Selling, general and administrative	50,366	46,805	599,595
Research and development	10,281	8,529	122,392
Total costs and expenses	108,189	98,190	1,287,964
OPERATING INCOME	91,145	86,611	1,085,059
OTHER INCOME (EXPENSES) :			
Interest and dividend income	1,324	1,693	15,761
Foreign exchange gain (loss)	319	(722)	3,797
Equity in earnings of associated companies	1,573	1,893	18,726
Loss on disposal of property and equipment	(80)	(41)	(952)
Other - net	(38)	551	(452)
Other income (expenses) - net	3,098	3,375	36,880
INCOME BEFORE INCOME TAXES	94,244	89,987	1,121,952
INCOME TAXES (Note 8) :			
Current	36,159	34,926	430,464
Deferred	(77)	(285)	(916)
Total income taxes	36,081	34,641	429,535
NET INCOME	¥58,162	¥55,345	\$692,404

	2012	Yen 2011	U.S. Dollars 2012
AMOUNTS PER COMMON SHARE (Note 11) :			
Net income	¥1,054.50	¥1,003.39	\$12.55
Cash dividends applicable to the year	60.00	60.00	0.71

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED MARCH 20, 2012

	Millions of Yen	Thousands of U.S. Dollars (Note 3)
	2012	2012
NET INCOME	¥58,162	\$692,404
OTHER COMPREHENSIVE INCOME (Note 10) :		
Unrealized gain on available-for-sale securities	1,325	15,773
Foreign currency translation adjustments	(135)	(1,607)
Share of other comprehensive income in associated companies	(132)	(1,571)
Total other comprehensive income	1,057	12,583
COMPEREHENSIVE INCOME	59,219	704,988
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO		
Owners of the parent	59,219	704,998
Minority interests	-	-

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED MARCH 20, 2012 AND 2011

	Millions of Yen							
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income		Total Equity
						Net unrealized gain (loss) on available-for- sale securities	Foreign currency translation adjustments	
BALANCE, MARCH 21, 2010	55,160,441	¥30,637	¥30,530	¥485,335	(¥2,230)	¥1,599	(¥3,582)	¥542,290
Net income				55,345				55,345
Cash dividends, ¥60.00 per share				(3,309)				(3,309)
Repurchase of treasury stock	(3,235)				(68)			(68)
Disposal of treasury stock	40		0		0			0
Net change in the year						(541)	(1,161)	(1,703)
BALANCE, MARCH 20, 2011	55,157,246	30,637	30,531	537,371	(2,299)	1,057	(4,744)	592,554
Net income				58,162				58,162
Cash dividends, ¥60.00 per share				(3,309)				(3,309)
Repurchase of treasury stock	(1,540)				(31)			(31)
Net change in the year						1,326	(269)	1,057
BALANCE, MARCH 20, 2012	55,155,706	¥30,637	¥30,531	¥592,224	(¥2,330)	¥2,383	(¥5,013)	¥648,433

	Thousands of U.S. Dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income		Total Equity	
					Net unrealized gain (loss) on available-for- sale securities	Foreign currency translation adjustments		
BALANCE, MARCH 20, 2011	\$364,726	\$363,464	\$6,397,273	(\$27,369)	\$12,583	(\$56,476)	\$7,054,214	
Net income			692,404				692,404	
Cash dividends, \$0.71 per share			(39,392)				(39,392)	
Repurchase of treasury stock				(369)			(369)	
Net change in the year					15,785	(3,202)	12,583	
BALANCE, MARCH 20, 2012	\$364,726	\$363,464	\$7,050,285	(\$27,738)	\$28,369	(\$59,678)	\$7,719,440	

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 20, 2012 AND 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 3)	
	2012	2011	2012
OPERATING ACTIVITIES :			
Income before income taxes	¥94,244	¥89,987	\$1,121,952
Adjustments for :			
Income taxes-paid	(39,908)	(27,949)	(475,095)
Depreciation and amortization	2,925	2,228	34,821
Equity in earnings of associated companies	(1,573)	(1,893)	(18,726)
Changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable	(4,812)	(10,702)	(57,285)
Decrease (Increase) in inventories	(2,848)	(1,083)	(33,904)
Decrease (Increase) in interest and dividend receivable	1,833	262	21,821
Increase (Decrease) in notes and accounts payable	214	222	2,547
Increase (Decrease) in accrued bonuses	390	(938)	4,642
Other - net	(445)	2,369	(5,297)
Total adjustments	(44,223)	(37,484)	(526,464)
Net cash provided by operating activities	50,020	52,502	595,476
INVESTING ACTIVITIES :			
Net decrease (increase) in time deposits	(64,439)	(17,810)	(767,130)
Capital expenditures	(3,544)	(2,507)	(42,190)
Net decrease (increase) in marketable and investment securities and other	22,288	(43,376)	265,333
Other-net	(13)	9	(154)
Net cash used in investing activities	(45,707)	(63,684)	(544,130)
FINANCING ACTIVITIES :			
Cash dividends paid	(3,309)	(3,309)	(39,392)
Net increase in treasury stock	(31)	(67)	(369)
Net cash used in financing activities	(3,340)	(3,377)	(39,761)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	(59)	(571)	(702)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	912	(15,131)	10,857
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,808	30,940	188,190
CASH AND CASH EQUIVALENTS, END OF YEAR	¥16,721	¥15,808	\$199,059

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 Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 20, 2012 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 20, 2011 is disclosed in Note 10. 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. In addition, certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements include the accounts of Keyence Corporation (the "Company") and all subsidiaries (together, the "Group"). Under the control concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are to be fully consolidated.

Investments in associated companies (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 intercompany transactions 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, 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 method, or market.

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.

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. 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 at rates 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 at rates 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 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.

h. Asset Retirement Obligations – In March 2008, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period.

Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010. The Company applied this accounting standard effective March 21, 2011. The effect of this change was immaterial.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

- i. 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.
- j. Foreign Currency Financial Statements** – The balance sheet accounts of 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.
- 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. Research and Development Costs** – Research and development costs are charged to income as incurred.
- m. Per Share Information** – 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, 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 years ended March 20, 2012 and 2011.
- n. Leases** – In March 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008, 2012 with early adoption permitted for fiscal years beginning on or after April 1, 2007. Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions. The Company applied the revised accounting standard effective March 21, 2009. All other leases are accounted for as operating leases.
- o. Unification of Accounting Policies Applied to Foreign Subsidiaries and Associated Companies for the Consolidated Financial Statements** – In May 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. PITF No.18 prescribes: (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:
- 1) amortization of goodwill;
 - 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity;
 - 3) expensing capitalized development costs of R&D;
 - 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting;
 - 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and
 - 6) exclusion of minority interests from net income, if contained.
- In December 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments”. The new standard 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 adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States 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: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and the incorporation of the cost model of accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. This standard is applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010. The company applied this accounting standard effective March 21, 2011.
- p. New Accounting Pronouncements**
- 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:

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

5. INVENTORIES

Inventories at March 20, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Finished products	¥7,523	¥5,604	\$89,559
Work-in-process	2,994	2,618	35,642
Raw materials	3,523	2,953	41,940
TOTAL	¥14,040	¥11,177	\$167,142

6. EMPLOYEES' RETIREMENT BENEFITS

The company and certain subsidiaries have the prepayment retirement benefits and the defined contribution pension plans. The net periodic benefit costs for the years ended March 20, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Contribution to defined contribution pension plans and prepayment retirement benefits	¥783	¥658	\$9,321

7. 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. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) having a term of service for the directors prescribed as one year rather than two years of normal term 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 company must include this information so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 total of 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 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 specific formula.

Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now 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.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

8. 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 rates of approximately 40.5% for the years ended March 20, 2012 and 2011.

On December 2, 2011, "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" and "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake", which concern reduction in corporation tax rates and imposing surtax regarding the Special Reconstruction Corporation Tax, were promulgated in Japan which changed the normal effective statutory tax rate from 40.5% to 37.9% for those temporary differences expected to reverse between years beginning on March 21, 2013 and 2015, to 35.5% for those temporary differences expected to reverse in years beginning on or after March 21, 2016. The effect of this change was immaterial.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 20, 2012 and 2011 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Accrued bonuses	¥1,592	¥1,458	\$18,952
Inventories	1,977	1,549	23,535
Accrued enterprise tax	1,446	1,693	17,214
Other	1,233	1,695	14,678
Less valuation allowance		(210)	
Deferred tax assets	6,250	6,186	74,404
Deferred tax liabilities:			
Undistributed earnings	(1,314)	(1,124)	(15,642)
Other	(624)	(28)	(7,428)
Deferred tax liabilities	(1,938)	(1,152)	(23,071)
Net deferred tax assets (liabilities)	¥4,312	¥5,034	\$51,333

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 year ended March 20, 2012 is as follows:

	2012
Normal effective statutory tax rate	40.5%
Tax credit for research and development expenses	(1.1)
Equity in earnings of associated companies	(0.7)
Other-net	(0.4)
Actual effective tax rate	38.3%

There is no significant difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 20, 2011.

9. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 20, 2011. The Group applied the revised accounting standard and the guidance effective March 20, 2011.

(1) Group policy for financial instruments

The Group invests in financial instruments, in low risk financial assets including bonds.

(2) Nature of financial instruments, extent of risks arising from financial instruments and risk management for financial instruments

Notes and accounts receivables are exposed to customer credit risk. In order to reduce the risk, the Group monitors the financial status and transaction history, and detects the default risk of customers in early stage. Since marketable securities, investment securities and funds in trusts are mainly composed with high credit rated bonds, the credit risk associated with the investments is not considered to be significant. ;However, they are exposed to the risk of market price fluctuations, the Group monitors the market value and reviews the validity of the continuance possession on a regular basis. Notes and accounts payable and income taxes payable are all due within less than one year.

(3) Fair values of financial instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

(a) Fair value of financial instruments

	Millions of Yen			Thousands of U.S.Dollars		
	2012			2012		
Assets:	Carrying amount	Fair value	Unrealized gain(loss)	Carrying amount	Fair value	Unrealized gain(loss)
Cash and cash equivalents and time deposits	¥98,972	¥98,972		\$1,178,238	\$1,178,238	
Notes and accounts receivable	65,912	65,912		784,666	784,666	
Marketable securities and investment securities and investments in associated companies	459,399	458,696	(702)	5,469,035	5,460,666	(8,357)
Funds in trust	17,064	17,064		203,142	203,142	
Assets	641,349	640,646	(702)	7,635,107	7,626,738	(8,357)
Liabilities:						
Notes and accounts payable	¥3,962	¥3,962		\$47,166	\$47,166	
Income taxes payable	18,923	18,923		225,273	225,273	
Liabilities	¥22,886	¥22,886		\$272,452	\$272,452	

	Millions of Yen		
	2011		
Assets:	Carrying amount	Fair value	Unrealized gain(loss)
Cash and cash equivalents and time deposits	¥33,618	¥33,618	
Notes and accounts receivable	61,110	61,110	
Marketable securities and investment securities and investments in associated companies	481,423	480,703	(720)
Funds in trust	16,090	16,090	
Assets	592,242	591,521	(720)
Liabilities:			
Notes and accounts payable	¥3,748	¥3,748	
Income taxes payable	22,751	22,751	
Liabilities	¥26,499	¥26,499	

- 1) **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, notes and accounts receivable, notes and accounts payable and income taxes payable are used as the fair values because of their short maturities.
- 2) **Marketable securities, investment securities, investments in associated companies and funds in trust** – The fair values of marketable securities, investment securities, investments in associated company and funds in trust 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 information of the fair value for the marketable securities, investment securities and funds in trust by classification is included in Note 4.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S.Dollars
	2012	2011	2012
Investments in equity instruments that do not have a quoted market price in an active market	¥2,471	¥2,131	\$29,416

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

(4) Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen		Thousands of U.S.Dollars	
	2012		2012	
	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	¥98,972		\$1,178,238	
Notes and accounts receivables	65,912		784,666	
Marketable securities and investment securities- Available-for-sale securities with contractual maturities	278,100	156,800	3,310,714	1,866,666
TOTAL	¥442,985	¥156,800	\$5,273,630	\$1,866,666

	Millions of Yen	
	2011	
	Due in one year or less	Due after one year through five years
Cash and cash equivalents and time deposits	¥33,618	
Notes and accounts receivables	61,110	
Marketable securities and investment securities- Available-for-sale securities with contractual maturities	294,900	164,400
TOTAL	¥389,628	¥164,400

10. COMPREHENSIVE INCOME

Total comprehensive income for the year ended March 20, 2011 was the following :

	Millions of Yen
Total comprehensive income attributable to :	2011
Owners of the parent	¥53,641
Minority interests	-
Total comprehensive income	¥53,641

Other comprehensive income for the year ended March 20, 2011 consisted of the following :

	Millions of Yen
Other comprehensive income :	2011
Unrealized gain (loss) on available-for-sale securities	(¥541)
Foreign currency translation adjustments	(910)
Share of other comprehensive income in associates	(251)
Total other comprehensive income	(¥1,703)

11. AMOUNTS 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 55,156,327 and 55,158,607 shares for 2012 and 2011, 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

In March 2008, the ASBJ revised ASBJ Statement No.17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, 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. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on March 21, 2011.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 20, 2012 AND 2011

For the year ended March 20, 2012**(1) Reportable Segments**

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

(2) Related Information**•Information by product and service**

As the Sales of one product group accounts for more than 90% of the Group's total consolidated sales, the disclosure for this information has been omitted.

•Information by geographical area

	Millions of Yen	Thousands of U.S. Dollars
Revenue	2012	2012
Japan	¥136,727	\$1,627,708
Overseas	62,607	745,322
TOTAL	¥199,334	\$2,373,023

Property

As the carrying value of the property located in Japan accounts for more than 90% of the Group's total consolidated property, disclosure has been omitted.

•Information on principal customers

There is no single customer, whose sales exceed 10% of the total consolidated sales.

For the year ended March 20, 2011

Information about operations in different industry segments is not required to be disclosed, since the sales, operating income and assets of the Group's major industry segment (industrial electronics devices) exceeds 90% of the respective amounts in the consolidated financial statements.

(1) Geographical Segments

The geographical segments of the Group for the year ended March 20, 2011 are summarized as follows:

	Millions of Yen						
							2011
	Japan	North/Central America	Asia	Other	Total	Eliminations	Consolidated
Sales to customers	¥132,364	¥16,127	¥22,716	¥13,593	¥184,802		¥184,802
Intersegment sales	34,633				34,633	¥(34,633)	
Total sales	166,998	16,127	22,716	13,593	219,436	(34,633)	184,802
Operating expenses	83,832	14,289	21,096	12,800	132,018	(33,827)	98,190
Operating income	¥83,166	¥1,837	¥1,620	¥793	¥87,417	¥(805)	¥86,611
Identifiable assets	¥107,246	¥8,953	¥15,074	¥6,672	¥137,946	¥(12,546)	¥125,399
Corporate assets							505,664
Total assets							¥631,064

(2) Sales to Foreign Customers

Sales to foreign customers for the year ended March 20, 2011 amounted to ¥57,093 million.

13. SUBSEQUENT EVENT

On March 21, 2012, the company executed a stock split by way of a free share distribution at the rate of 0.1 shares for each outstanding share and 5,527,447 shares were issued to shareholders of record on March 20, 2012.

At the Shareholders' General Meeting held on June 13, 2012, the shareholders approved payment of ¥30.00 (\$0.36) per share or a total of ¥1,654 million (\$19,690 thousand) to shareholders of record on March 20, 2012.

BOARD OF DIRECTORS AND AUDITORS / CORPORATE DATA / DIRECTORY

BOARD OF DIRECTORS AND AUDITORS

As of June 14, 2012

Takemitsu Takizaki Chairman and Representative Director	Akira Kanzawa Director	Michio Sasaki Special Advisory Director
Akinori Yamamoto President and Representative Director	Tsuyoshi Kimura Director	Yoshiro Kinomoto Corporate Auditor
	Yoshihiro Ueda Director	Keizo Kosaka Corporate Auditor
	Masayuki Konishi Director	Koichi Ogawa Corporate Auditor
	Tomohide Ideno Director	

CORPORATE DATA

As of March 20, 2012

Established:	March, 1972
Incorporated:	May, 1974
Capital:	30,637 million yen
Number of Employees:	3,420 (consolidated)
Common Stock:	137,000,000 shares Authorized 55,274,474 shares Issued
Number of Shareholders:	5,748
Stock Listing:	Tokyo Stock Exchange, Inc. Osaka Securities Exchange Co., Ltd.
Share Registrar:	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo, 100-8212, JAPAN

DIRECTORY

As of June 14, 2012

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KOREA KEYENCE CO., LTD.
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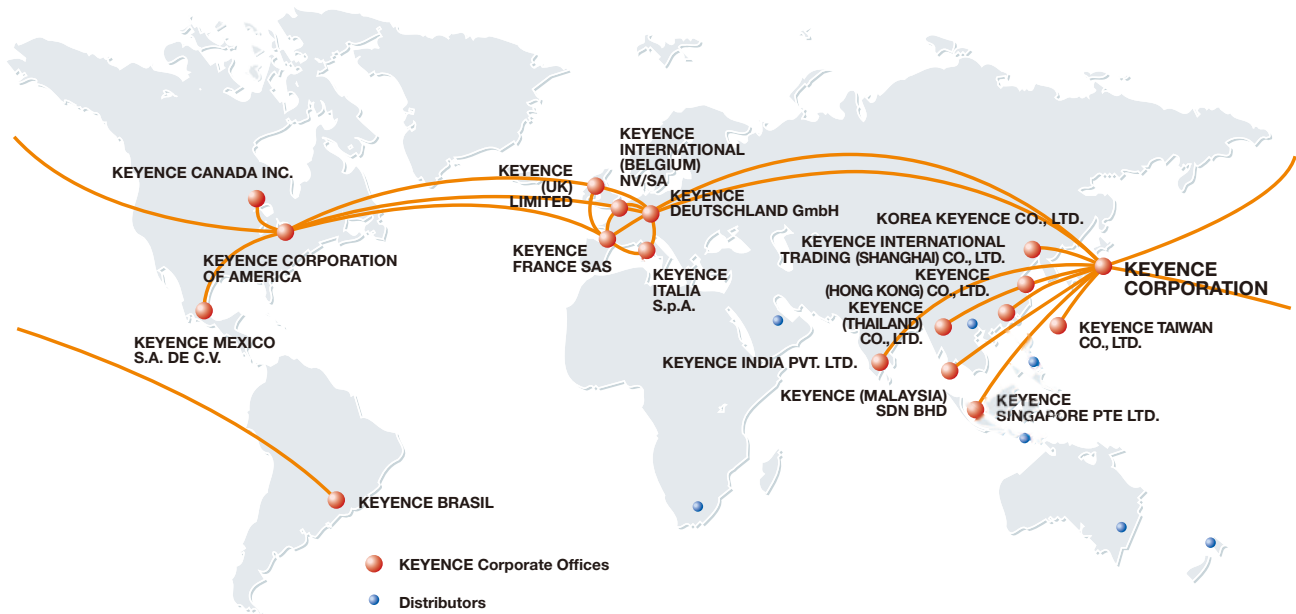
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Bangkok, Thailand Tel: +66-2-369-2777

WORLD NETWORK



US & Americas

KEYENCE CORPORATION OF AMERICA

Chicago	New Jersey	Atlanta
Austin	Birmingham	Boston
Charlotte	Cincinnati	Cleveland
Dallas	Denver	Detroit
Grand Rapids	Greenville	Indianapolis
Kansas City	Knoxville	Los Angeles
Louisville	Milwaukee	Minneapolis
Nashville	Northern California	Philadelphia
Portland	Raleigh	Richmond
Rochester	Seattle	St. Louis
Tampa		

KEYENCE CANADA INC.

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

Monterrey	Ciudad Juárez	Leon
Tijuana		

KEYENCE BRASIL COMERCIO DE PRODUTOS ELETRONICOS LTDA

São Paulo,

Europe

KEYENCE DEUTSCHLAND GmbH

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Freiburg	Hamburg	Hannover
Heidelberg	Jena	Karlsruhe
Köln	Leipzig	Montabaur
München	Nürnberg	Stuttgart

KEYENCE INTERNATIONAL (BELGIUM) NV/SA

Mechelen	AUSTRIA	CZECH
HUNGARY	NETHERLANDS	POLAND
SLOVAKIA	SWITZERLAND	

KEYENCE (UK) LIMITED

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Newbury	Newcastle	

KEYENCE FRANCE SAS

Paris	Belfort	Bordeaux
Lille	Lyon	Nantes

KEYENCE ITALIA S.p.A.

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Torino		

Asia

KEYENCE INTERNATIONAL TRADING (SHANGHAI) CO., LTD.

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Guangzhou	Hangzhou	Shenzhen	Suzhou
Tianjin	Wuhan		

KEYENCE (HONG KONG) CO., LIMITED

Hong Kong

KEYENCE TAIWAN CO., LTD.

Taipei	Hsinachu	Kaohsiun	Taichung
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KOREA KEYENCE CO., LTD.

Seoul	Busan	Cheonan	Gumi
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KEYENCE SINGAPORE PTE LTD.

Singapore

KEYENCE INDIA PVT. LTD.

Chennai	Delhi
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KEYENCE (MALAYSIA) SDN BHD

Kuala Lumpur	Penang
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KEYENCE (THAILAND) CO., LTD.

Bangkok	Lamphun
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www.keyence.com

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