

ANNUAL REPORT 2020



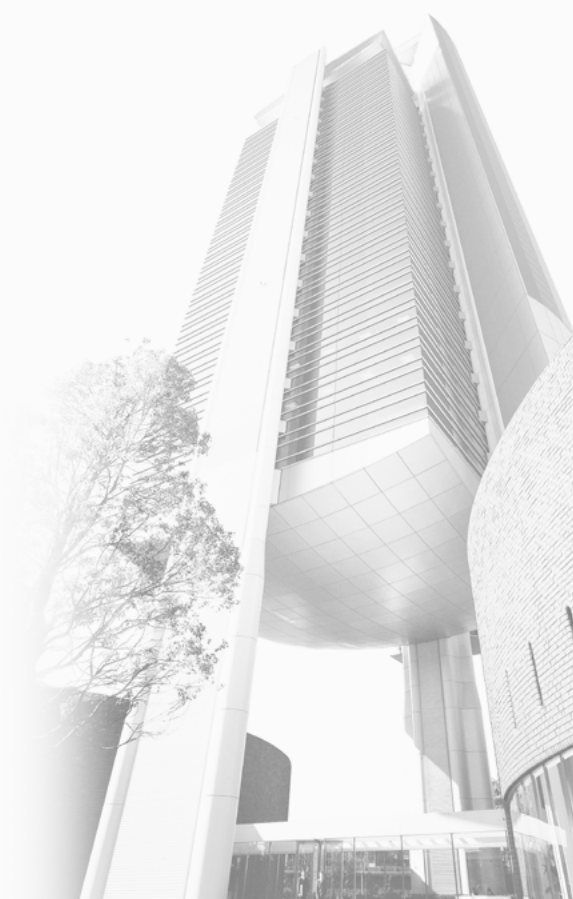
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C O R P O R A T E P R O F I L E

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.



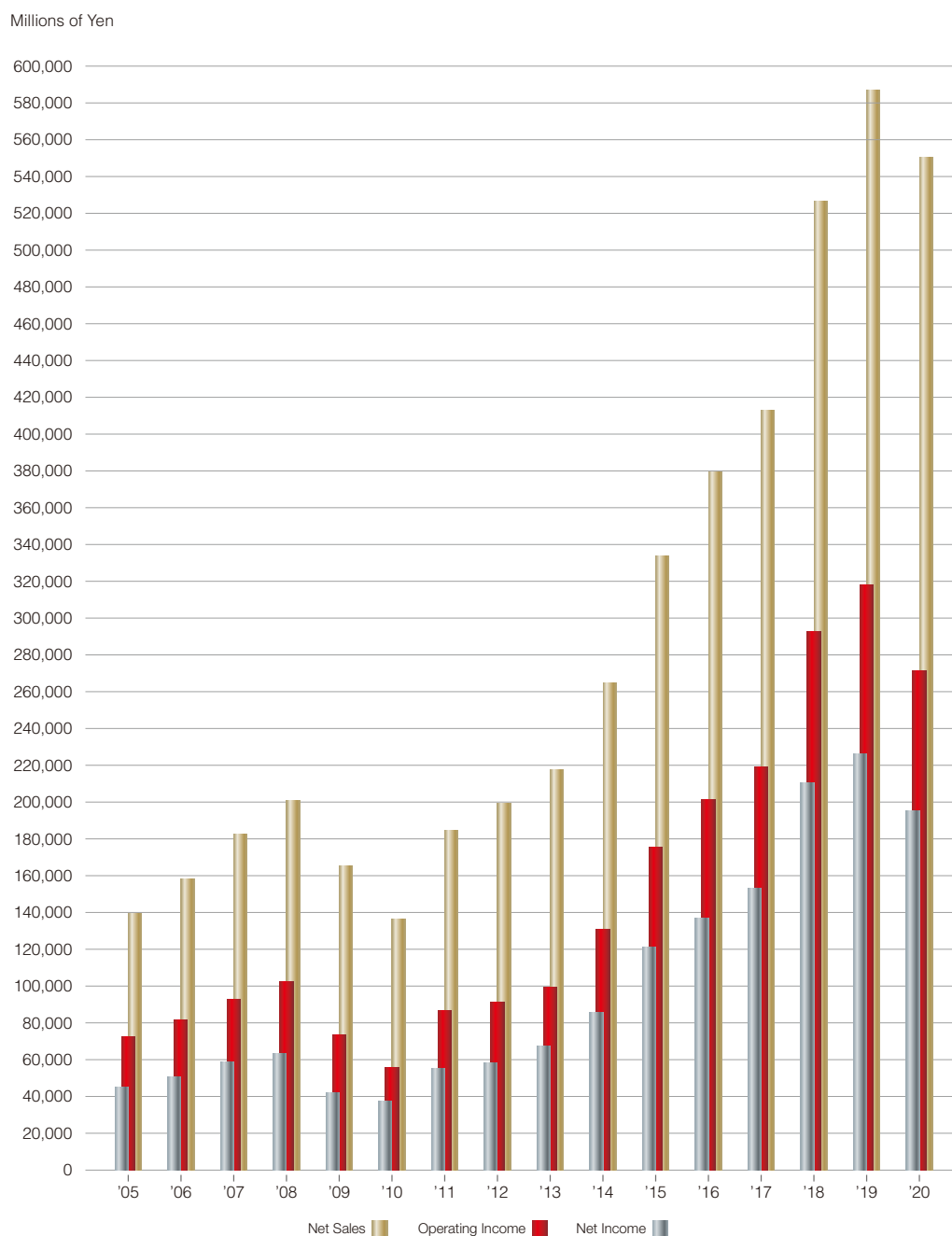
KEYENCE CORPORATION AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS

YEAR ENDED MARCH 20, 2020

	Millions of Yen		Thousands of U.S. Dollars*1
	2020	2019	2020
Net Sales	¥551,843	¥587,095	\$5,062,782
Operating Income	277,631	317,868	2,547,081
Net Income	198,124	226,147	1,817,651
Amounts per Common Share*2 (in Yen and U.S. Dollars)			
Net Income	816.91	932.46	7.49
Cash Dividends Applicable to the Year	150.00	100.00	1.37
Total Assets	1,836,018	1,675,913	16,844,207

*1. All dollar figures herein refer to U.S. dollars. Dollar amounts are translated from Japanese yen, for convenience only, at ¥109 = US\$1, the approximate exchange rate on March 20, 2020.

*2. The Company implemented a stock split of 2 shares for each share of common stock outstanding on November 21, 2019. The computations of net income per common share and cash dividends per common share are based on the weighted-average number of common shares outstanding, retroactively adjusted to give effect to the stock split.



TO OUR SHAREHOLDERS



Business results

The global economy suffered a slowdown during this consolidated fiscal year due to both the US-China trade war and the outbreak of the novel coronavirus, an infectious disease that has impacted the economic activities of countries around the world, resulting in a decline in corporate capital investment and production in some regions. While weakened production and exports continued in Japan, personal consumption also saw a decline, contributing to a continued tenuous situation, especially in the manufacturing industry.

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 Vision Sensor with Built-in AI and a 3D Scanner CMM. 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 551,843 million, operating income of JPY 277,631 million, income before taxes of JPY 280,253 million, and net income of JPY 198,124 million.

TO OUR SHAREHOLDERS

Performance by region

1) Japan

The weakening of production and exports in Japan was the result of a slowing overseas economy.

Under these conditions, we worked to release new products and enhance our sales capabilities, resulting in sales of JPY 260,147 million.

2) Overseas

Overseas, the expanding impact of the US-China trade war and, in some areas, the impact of the infectious disease pandemic resulted in a slowdown of capital investment and production.

Under these economic conditions, we worked to enhance our sales capabilities, with a focus on recruitment and personnel training, resulting in sales of JPY 291,695 million.

Looking to the future of the global economy, increasing risks associated with the spread of the novel coronavirus causing further damage to economies around the world, and the effects of financial and capital market fluctuations, means an era of uncertainty is expected to continue.

Nevertheless, the market environment surrounding KEYENCE Group businesses is expected to see not only growing demand for automation, quality improvement, and R&D investment, but also various technological innovations. We recognize the need to strengthen the Group's planning and development capabilities while also expanding overseas business operations. In addition, furthering human resource development to take advantage of these changes and demands for continued sustainable growth is critical. We view these global trends as having great potential for expanding our business, and to realize this potential, we will focus on applying the powers that we have cultivated over the years to achieve sustained growth.



Yu Nakata
President
June 2020

NEW PRODUCT HIGHLIGHTS



Wide Area Coordinate Measuring Machine

KEYENCE's WM Series of coordinate measuring machines offers repeatability of $\pm 10 \mu\text{m}$ for targets as large as 10 meters simply by touching the wireless probe to the target. Whereas conventional methods required large-scale equipment for large targets, the WM Series ensures high-accuracy measurement with a wireless probe, greatly improving measurement freedom. All of the necessary measurement settings can also be configured using the touch panel on the probe, contributing to significant improvements in work efficiency.



Data Analytics Platform

The KI Series software from KEYENCE allows users of any skill level to easily analyze large amounts of data. Even without a data scientist with specialized knowledge, analyzing enormous amounts of data is possible using AI and machine learning for automatic uncovering of solutions for various business problems. The KI Series can be utilized in any business situation, regardless of industry or field, for swift and accurate decision-making support.

NEW PRODUCT HIGHLIGHTS



Programmable Controller

In addition to high-speed processing and a large-capacity memory—basic performance components of conventional programmable logic controllers (PLCs)—the KV-8000 Series includes the world's first built-in Machine Operation Recorder function. This function saves operation history for all devices, cameras, and touch panels within the PLC, ensuring faster-than-ever identification of equipment stoppage causes and identifies measures to prevent recurrence.



Handheld Mobile Computer

The BT-W370G is the world's first handheld mobile computer equipped with multi-angle lighting. This unique lighting function makes it possible to read DPM (direct part marking) text and codes on metal and plastic products, which is difficult for conventional handheld mobile computers. As a result, on-site confirmation work can be significantly reduced while work efficiency can be greatly improved.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka-shi, Osaka 541-0042
Japan
Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

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, 2020, 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, 2020, 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 12, 2020

Member of
Deloitte Touche Tohmatsu Limited

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

YEAR ENDED MARCH 20, 2020

	2020	2019	2020
		Millions of Yen	Thousands of U.S. Dollars (Note 1)
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents (Note 8)	¥222,903	¥265,894	\$2,044,988
Time deposits (Note 8)	253,734	202,311	2,327,835
Marketable securities (Notes 3 and 8)	467,502	394,999	4,289,015
Notes and accounts receivable (Note 8)	162,611	169,342	1,491,851
Allowance for doubtful receivables	(400)	(347)	(3,676)
Inventories (Note 4)	33,677	38,349	308,971
Other	8,886	7,834	81,531
Total current assets	1,148,916	1,078,383	10,540,518
PROPERTY, PLANT AND EQUIPMENT:			
Land	7,022	7,022	64,426
Buildings and structures	22,731	21,971	208,546
Furniture and fixtures	40,142	35,785	368,283
Other	4,555	4,206	41,792
Total property, plant and equipment	74,452	68,985	683,049
Accumulated depreciation	(48,897)	(44,542)	(448,603)
Net property, plant and equipment	25,554	24,443	234,445
INVESTMENTS AND OTHER ASSETS:			
Investments in associated companies (Note 8)	20,702	16,834	189,927
Investment securities (Notes 3 and 8)	626,720	540,534	5,749,725
Deferred tax assets (Note 7)	5,413	6,653	49,661
Other	8,712	9,064	79,929
Total investments and other assets	661,547	573,086	6,069,244
TOTAL	¥1,836,018	¥1,675,913	\$16,844,207
LIABILITIES AND EQUITY:	2020	2019	2020
CURRENT LIABILITIES:			
Notes and accounts payable (Note 8)	¥9,619	¥6,309	\$88,254
Income taxes payable (Note 8)	34,884	46,789	320,037
Accrued bonuses	10,087	10,165	92,543
Other	20,788	22,361	190,722
Total current liabilities	75,379	85,626	691,557
LONG-TERM LIABILITIES:			
Other	2,555	1,977	23,446
Total long-term liabilities	2,555	1,977	23,446
EQUITY (Notes 6):			
Common stock, authorized, 600,000,000 shares; issued, 243,207,684 shares in 2020 and 243,207,684 shares in 2019*	30,637	30,637	281,078
Capital surplus	30,538	30,537	280,172
Retained earnings	1,698,140	1,524,268	15,579,268
Treasury stock at cost, 680,631 shares in 2020 and 679,432 shares in 2019*	(3,734)	(3,689)	(34,264)
Accumulated other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	2,015	2,924	18,486
Foreign currency translation adjustments	480	3,620	4,406
Defined retirement benefit plan	6	10	55
Total equity	1,758,083	1,588,309	16,129,203
TOTAL	¥1,836,018	¥1,675,913	\$16,844,207

* Shares have been restated, as appropriate, to reflect a two-for-one stock split effected November 21, 2019.
See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED MARCH 20, 2020

	2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
NET SALES	¥551,843	¥587,095	\$5,062,782
COSTS AND EXPENSES:			
Cost of Sales	100,406	103,623	921,159
Selling, general and administrative	157,525	149,675	1,445,188
Research and development	16,279	15,928	149,354
Total costs and expenses	274,211	269,227	2,515,701
OPERATING INCOME	277,631	317,868	2,547,081
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,326	1,245	12,168
Foreign exchange gain (loss)	(3,647)	(567)	(33,465)
Equity in earnings of associated companies	4,158	548	38,148
Other - net	784	765	7,201
Other income (expenses) - net	2,621	1,992	24,053
INCOME BEFORE INCOME TAXES	280,253	319,860	2,571,134
INCOME TAXES (Note 7):			
Current	80,520	91,228	738,722
Deferred	1,608	2,484	14,760
Total income tax	82,129	93,713	753,483
NET INCOME	198,124	226,147	1,817,651
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥198,124	¥226,147	\$1,817,651

PER SHARE OF COMMON STOCK (Notes 11 and 13)

	2020	Yen 2019	U.S. Dollars (Note 1) 2020
Basic net income*	¥816.91	¥932.46	\$7.49
Cash dividends applicable to the year*	150.00	100.00	1.37

* Shares have been restated, as appropriate, to reflect a two-for-one stock split effected November 21, 2019.
See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED MARCH 20, 2020

	2020	Millions of Yen 2019	Thousands of U.S. Dollars (Note 1) 2020
NET INCOME	¥198,124	¥226,147	\$1,817,651
OTHER COMPREHENSIVE INCOME (LOSS) (Note 10):			
Unrealized gain (loss) on available-for-sale securities	(909)	(719)	(8,345)
Foreign currency translation adjustments	(3,136)	35	(28,772)
Share of other comprehensive income (loss) in associates	(8)	10	(76)
Total other comprehensive income (loss)	(4,054)	(673)	(37,194)
COMPREHENSIVE INCOME	¥194,069	¥225,473	\$1,780,457
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥194,069	¥225,473	\$1,780,457

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED MARCH 20, 2020

	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	Accumulated other comprehensive income	Total equity
BALANCE, MARCH 20, 2018	242,529,278	¥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, ¥100.00 per share (Note 11)				(18,189)					(18,189)
Purchase of treasury stock	(1,026)				(31)				(31)
Net change in the year						(723)	56	(6)	(673)
BALANCE, MARCH 20, 2019	242,528,252	¥30,637	¥30,537	¥1,524,268	(¥3,689)	¥2,924	¥3,620	¥10	¥1,588,309
Net income attributable to owners of the parent				198,124					198,124
Cash dividends, ¥150.00 per share (Note 11)				(24,252)					(24,252)
Purchase of treasury stock	(1,243)				(45)				(45)
Disposal of treasury stock	44		1		0				1
Net change in the year						(909)	(3,140)	(4)	(4,054)
BALANCE, MARCH 20, 2020	242,527,053	¥30,637	¥30,538	¥1,698,140	(¥3,734)	¥2,015	¥480	¥6	¥1,758,083

	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	Accumulated other comprehensive income	Total equity
BALANCE, MARCH 20, 2019	242,528,252	\$281,078	\$280,160	\$13,984,119	(\$33,853)	\$26,832	\$33,216	\$93	\$14,571,647
Net income attributable to owners of the parent				1,817,651					1,817,651
Cash dividends, \$1.37 per share (Note 11)				(222,502)					(222,502)
Purchase of treasury stock	(1,243)				(413)				(413)
Disposal of treasury stock	44		12		2				15
Net change in the year						(8,345)	(28,810)	(38)	(37,194)
BALANCE, MARCH 20, 2020	242,527,053	\$281,078	\$280,172	\$15,579,268	(\$34,264)	\$18,486	\$4,406	\$55	\$16,129,203

* Shares have been restated, as appropriate, to reflect a two-for-one stock split effected November 21, 2019.
See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 20, 2020

	2020	2019	2020
		Millions of Yen	Thousands of U.S. Dollars (Note 1)
OPERATING ACTIVITIES:			
Income before income taxes	¥280,253	¥319,860	\$2,571,134
Adjustments for:			
Income taxes paid	(91,481)	(103,024)	(839,282)
Depreciation and amortization	7,995	6,288	73,350
Equity in earnings of associated companies	(4,158)	(548)	(38,148)
Changes in assets and liabilities:			
Decrease (Increase) in notes and accounts receivable	4,171	(9,569)	38,270
Decrease (Increase) in inventories	4,311	(3,482)	39,550
Decrease (Increase) in interest and dividend receivable	270	183	2,485
Increase (Decrease) in notes and accounts payable	3,308	(4,355)	30,351
Increase (Decrease) in accrued bonuses	23	33	214
Other - net	(1,259)	3,994	(11,551)
Total adjustments	(76,818)	(110,480)	(704,759)
Net cash provided by operating activities	203,434	209,380	1,866,375
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	(53,413)	(45,644)	(490,036)
Capital expenditures	(8,243)	(7,361)	(75,625)
Net decrease (increase) in marketable and investment securities and other	(159,990)	(150,006)	(1,467,803)
Other - net	(1,064)	(2,337)	(9,769)
Net cash used in investing activities	(222,712)	(205,350)	(2,043,233)
FINANCING ACTIVITIES:			
Cash dividends paid	(24,252)	(18,189)	(222,502)
Net decrease (increase) in treasury stock	(43)	(31)	(398)
Net cash used in financing activities	(24,296)	(18,221)	(222,901)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	582	(174)	5,346
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,990)	(14,366)	(394,412)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	265,894	280,260	2,439,400
CASH AND CASH EQUIVALENTS, END OF YEAR	¥222,903	¥265,894	\$2,044,988

See notes to consolidated financial statements.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2020

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 2019 consolidated financial statements to conform to the classifications used in 2020. 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 ¥109 to \$1, the approximate rate of exchange at March 20, 2020. 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 29 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, 2020

- 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. The Company has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting Standard for Tax Effect Accounting (ASBJ Statement No.28, issued on February 16,2018) from the beginning of the current fiscal year. Deferred tax assets have been reclassified as investments and other assets, and deferred tax liabilities have been reclassified as long-term liabilities under the previous accounting standard. As a result, deferred tax assets of current assets decreased by ¥12,628 million (\$115,854 thousand), deferred tax assets of investments and other assets increased by ¥6,184 million (\$56,735 thousand), and deferred tax liabilities of long-term liabilities decreased by ¥6,444 million (\$59,119 thousand), in the consolidated balance sheet as of March 20, 2019. Further, total assets decreased by ¥6,444 million (\$59,119 thousand) due to offsetting deferred tax assets and deferred tax liabilities for the same taxable entity.
- 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, 2020 and 2019. 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, 2020

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 20, 2020 and 2019 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars		Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020		2020	2019	2020
Current:				Non-current:			
Government and corporate bonds	¥40,002	¥9,999	\$366,997	Equity securities	¥4,225	¥5,456	\$38,766
Negotiable certificate of deposits	427,500	385,000	3,922,018	Government and corporate bonds	184,994	125,077	1,697,197
Total	¥467,502	¥394,999	\$4,289,015	Negotiable certificate of deposits	437,500	410,000	4,013,761
				Total	¥626,720	¥540,534	\$5,749,725

The carrying amounts and aggregate fair values of marketable and investment securities at March 20, 2020 and 2019 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	¥1,331	¥3,024	¥130	¥4,225	Equity securities	\$12,211	\$27,748	\$1,193	\$38,766
Government and corporate bonds	224,994	74	71	224,997	Government and corporate bonds	2,064,167	687	660	2,064,194
Negotiable certificate of deposits	865,000			865,000	Negotiable certificate of deposits	7,935,779			7,935,779

Securities classified as:	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥1,329	¥4,138	¥10	¥5,456
Government and corporate bonds	134,997	86	7	135,076
Negotiable certificate of deposits	795,000			795,000

There is no proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended March 20, 2020 and 2019.

4. INVENTORIES

Inventories at March 20, 2020 and 2019, consisted of following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Finished products	¥19,002	¥22,226	\$174,338
Work in process	5,358	5,703	49,162
Raw materials	9,316	10,419	85,470
Total	¥33,677	¥38,349	\$308,971

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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Contribution to defined contribution pension plans and prepayment retirement benefits	¥1,935	¥1,732	\$17,578

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2020

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 rates of approximately 30.5% and 30.7% for the years ended March 20, 2020 and 2019, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 20, 2020 and 2019, are as follows:

	2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Deferred tax assets:			
Accrued bonuses	¥2,392	¥2,492	\$21,950
Inventories	6,003	6,529	55,077
Accrued enterprise tax	1,730	2,287	15,878
Other	2,352	2,298	21,578
Deferred tax assets	12,478	13,608	114,485
Deferred tax liabilities:			
Undistributed earnings	(5,965)	(5,541)	(54,728)
Investment securities	(883)	(1,284)	(8,106)
Other	(237)	(153)	(2,178)
Deferred tax liabilities	(7,086)	(6,979)	(65,014)
Net deferred tax assets (liabilities)	¥5,392	¥6,628	\$49,471

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, 2020 and 2019.

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2020

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)
				2020		2020
Assets:						
Cash and cash equivalents and Time deposits	¥476,637	¥476,637		\$4,372,823	\$4,372,823	
Notes and accounts receivable	162,611	162,611		1,491,851	1,491,851	
Marketable securities and investment securities and investment in associated company	1,114,368	1,205,480	¥91,111	10,223,566	11,059,454	\$835,888
Assets	¥1,753,618	¥1,844,730	¥91,111	16,088,242	16,924,130	835,888
Liabilities:						
Notes and accounts payable	¥9,619	¥9,619		\$88,254	\$88,254	
Income taxes payable	34,884	34,884		320,037	320,037	
Liabilities	¥44,503	¥44,503		\$408,291	\$408,291	

	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
			2019
Assets:			
Cash and cash equivalents and Time deposits	¥468,206	¥468,206	
Notes and accounts receivable	169,342	169,342	
Marketable securities and investment securities and investment in associated company	951,796	1,014,421	¥62,624
Assets	¥1,589,345	¥1,651,969	¥62,624
Liabilities:			
Notes and accounts payable	¥6,309	¥6,309	
Income taxes payable	46,789	46,789	
Liabilities	¥53,099	¥53,099	

- 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
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥556	¥571	\$5,101

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2020

d. Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen		Thousands of U.S. Dollars	
	2020		2020	
	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	¥476,637		\$4,372,823	
Notes and accounts receivables	162,611		1,491,851	
Marketable securities and Investment securities-Available-for-sale securities with contractual maturities	40,000	¥185,000	366,972	\$1,697,247
Negotiable certificate of deposits	427,500	437,500	3,922,018	4,013,761
TOTAL	¥1,106,749	¥622,500	\$10,153,666	\$5,711,009

	Millions of Yen	
	2019	
	Due in one year or less	Due after one year through five years
Cash and cash equivalents and Time deposits	¥468,206	
Notes and accounts receivables	169,342	
Marketable securities and Investment securities-Available-for-sale securities with contractual maturities	10,000	¥125,000
Negotiable certificate of deposits	385,000	410,000
TOTAL	¥1,032,548	¥535,000

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			
	2020				2020			
	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 deposit	¥210,054			Selling U.S.\$	Foreign currency Time deposit	\$1,927,103	

	Millions of Yen			
	2019			
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair value
Foreign currency forward contract:				
Selling U.S.\$	Foreign currency Time deposit	¥160,055		

- Foreign currency time deposits for which forward exchange contracts have been entered are recorded at the contracted rate.
- The contract amounts are presented including the fair value because 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, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized gain (loss) on available-for-sale securities			
Gains (losses) arising during the year (Amount before income tax effect)	(¥1,309)	(¥1,036)	(\$12,012)
Income tax effect	399	316	3,667
Total	(¥909)	(¥719)	(\$8,345)
Foreign currency translation adjustments			
Adjustments arising during the year	(¥3,136)	¥35	(\$28,772)
Share of other comprehensive income (loss) in associates			
Gains (losses) arising during the year	(¥8)	¥10	(\$76)
Total other comprehensive income (loss)	(¥4,054)	(¥673)	(\$37,194)

KEYENCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 20, 2020

11. AMOUNT PER COMMON SHARE

The computation of net income per common share is based on the weighted-average number of common shares outstanding, retroactively adjusted to give effect to the stock split that occurred on November 21, 2019. The average number of common shares used in the computations was 242,527,588 and 242,528,636 shares for 2020 and 2019, 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, 2020 and 2019, has been omitted.

• Information by geographical area

	2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Revenue			
Japan	¥260,147	¥275,117	\$2,386,673
Overseas			
USA	81,561	86,938	748,269
China	63,887	69,700	586,122
Other	146,247	155,340	1,341,718
Total	291,695	311,978	2,676,109
TOTAL	¥551,843	¥587,095	\$5,062,782

	2020	Millions of Yen 2019	Thousands of U.S. Dollars 2020
Property, plant and equipment			
Japan	¥17,869	¥17,399	\$163,938
Overseas	7,685	7,044	70,506
TOTAL	¥25,554	¥24,443	\$234,445

• Information on principal customers

There is no customer, whose sales exceed 10% of the total consolidated sales for the years ended March 20, 2020 and 2019.

13. SUBSEQUENT EVENT

At the Shareholder's General Meeting held on June 12, 2020, the shareholders approved payment of ¥100.00 (\$0.92) per share or total of ¥24,252 million (\$222,501 thousand), to shareholders of record on March 20, 2020.

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

BOARD OF DIRECTORS

As of June 12, 2020

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

AUDIT & SUPERVISORY BOARD MEMBERS

As of June 12, 2020

Koichiro Komura Outside Auditor	Hidehiko Takeda Outside Auditor	Hiroji Indoh Outside Auditor
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CORPORATE DATA

As of March 20, 2020

Established:	March 1972
Incorporated:	May 1974
Capital:	30,637 million yen
Number of Employees:	8,419 (consolidated)
Common Stock:	600,000,000 shares Authorized 243,207,684 shares Issued
Number of Shareholders:	13,648
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, 2020

KEYENCE CORPORATION

Osaka, Japan Tel: +81-6-6379-1111

AFFILIATES:

KEYENCE CORPORATION OF AMERICA

Chicago, U.S.A. Tel: +1-201-930-0100
New Jersey, U.S.A. Tel: +1-201-930-0100

KEYENCE CANADA INC.

Toronto, Canada Tel: +1-905-366-7655

KEYENCE MEXICO S.A. DE C.V.

Mexico City, Mexico Tel: +52-55-8850-0100

KEYENCE BRASIL COMERCIO DE PRODUTOS ELETRONICOS LTDA.

Sao Paulo, Brasil Tel: +55-11-3045-4011

KEYENCE DEUTSCHLAND GmbH

Frankfurt, Germany Tel: +49-6102-3689-0

KEYENCE INTERNATIONAL (BELGIUM) NV/SA

Mechelen, Belgium Tel: +32-15-281-222

KEYENCE (UK) LIMITED

Milton Keynes, U.K. Tel: +44-1908-696-900

KEYENCE FRANCE SAS

Paris, France Tel: +33-1-56-37-78-00

KEYENCE ITALIA S.p.A.

Milan, Italy Tel: +39-02-6688220

KEYENCE (CHINA) CO., LTD.

Shanghai, China Tel: +86-21-5058-6228

KEYENCE (HONG KONG) CO., LTD.

Kowloon, Hong Kong Tel: +852-3104-1010

KEYENCE TAIWAN CO., LTD.

Taipei, Taiwan Tel: +886-2-2721-8080

KOREA KEYENCE CO., LTD.

Seoul, Korea Tel: +82-31-789-4300

KEYENCE SINGAPORE PTE LTD.

Singapore Tel: +65-6392-1011

KEYENCE INDIA PVT. LTD.

Chennai, India Tel: +91-44-4963-0900

PT. KEYENCE INDONESIA

Jakarta, Indonesia Tel: +62-21-2966-0120

KEYENCE VIETNAM CO., LTD.

Hanoi, Vietnam Tel: +84-24-3772-5555

KEYENCE PHILIPPINES INC.

Manila, Philippines Tel: +63-2-8981-5000

KEYENCE (MALAYSIA) SDN BHD

Petaling Jaya, Malaysia Tel: +60-3-7883-2211

KEYENCE (THAILAND) CO., LTD.

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

ADDRESSING SOCIETAL CHALLENGES USING OUR PRODUCTS

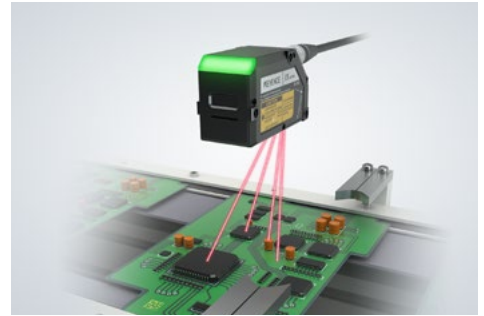
Improving Productivity

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.



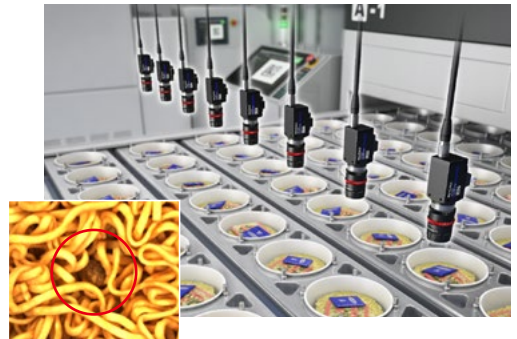
Improving Product Quality

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.

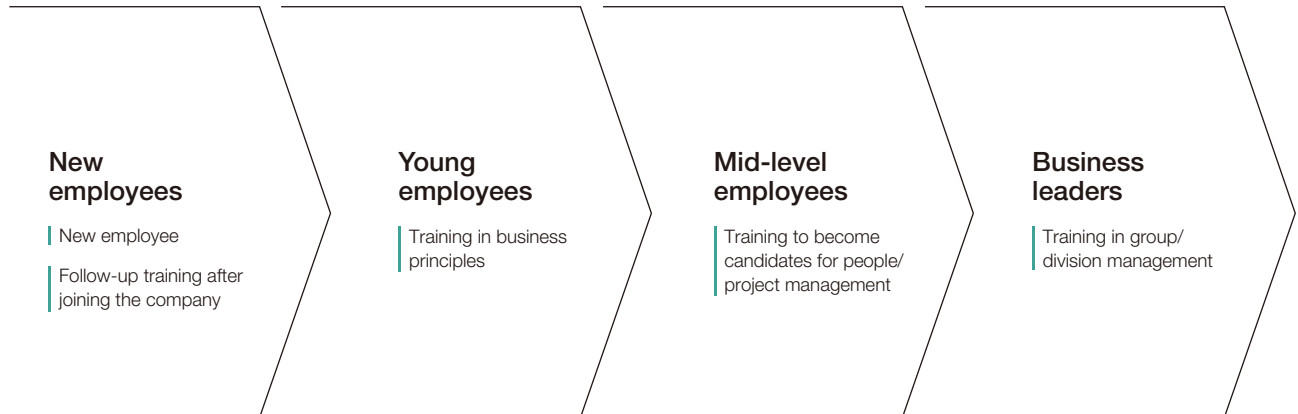
Mentoring program

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

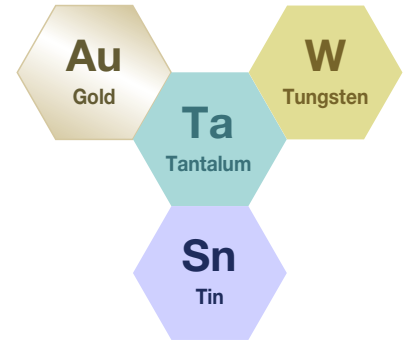


COMPLIANCE

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

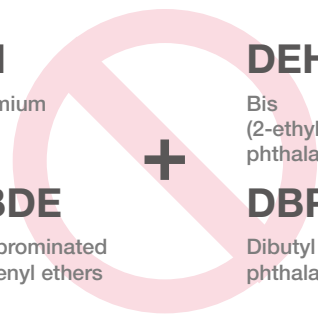
Restrictions of chemical substances in electric and electronic products are spreading worldwide.

KEYENCE shares the procedures/rules with our suppliers, for management of chemical substances in products.

KEYENCE defines and shares a set of restricted substances in addition to the chemical substances that are regulated by the RoHS Directive and the REACH regulation in the European Union. KEYENCE promotes Green Procurement of the components and materials that we use in our products. KEYENCE is actively engaged in efforts to abide by all regulations set against using harmful chemical substances in our products.

KEYENCE contributes to a green initiative through the use of our products.

Pb Lead	Hg Mercury	Cd Cadmium	DEHP*1 Bis (2-ethylhexyl) phthalate	BBP*1 Butyl benzyl phthalate
Cr⁶⁺ Hexavalent chromium	PBB Polybrominated biphenyls	PBDE Polybrominated diphenyl ethers	DBP*1 Dibutyl phthalate	DIBP*1 Diisobutyl phthalate



*1 The specific phthalates which added by (EU) 2015/863. Most KEYENCE products will be subject to regulation from July 22, 2021, but we are gradually transitioning them now.

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 automatic control equipment, measuring equipment, related electronic/optoelectronics equipment, etc. and these systems, 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.

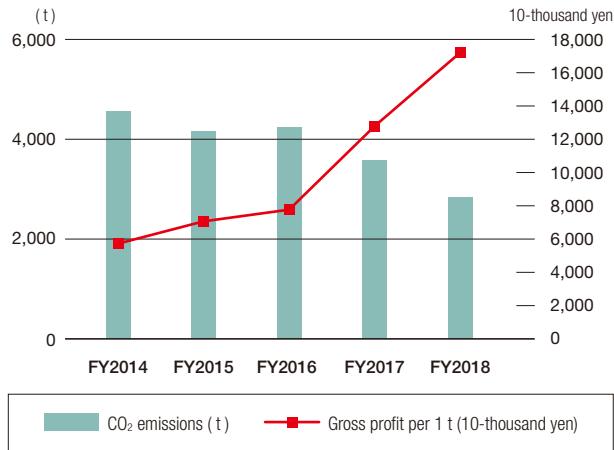
ENVIRONMENTAL NUMERICAL DATA

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

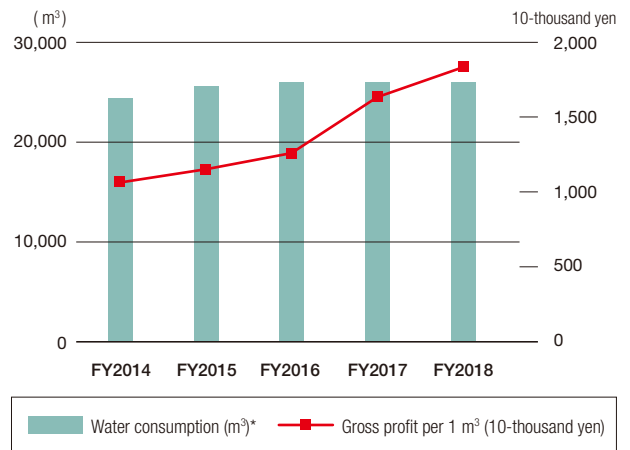
	FY2014	FY2015	FY2016	FY2017	FY2018
CO₂ emissions (t)*	4,539	4,136	4,225	3,592	2,821
Gross profit per 1 t (10-thousand yen)	5,870	7,414	7,890	12,047	17,140
Water consumption (m³)*	24,598	25,748	26,052	26,102	26,091
Gross profit per 1 m ³ (10-thousand yen)	1,083	1,191	1,280	1,658	1,853
Electricity consumption (MWh)*	8,293	7,863	8,005	7,910	7,596
Gross profit per 1 MWh (10-thousand yen)	3,213	3,900	4,164	5,470	6,365
Industrial waste (t)*	139	125	113	170	153
Gross profit per 1 t (1 million yen)	1,910	2,456	2,952	2,548	3,162

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

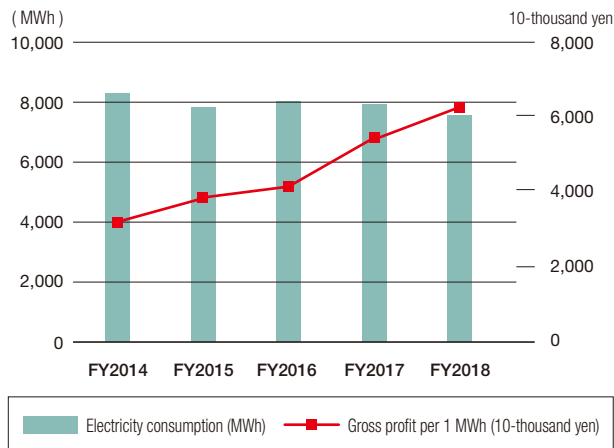
CO₂ emissions



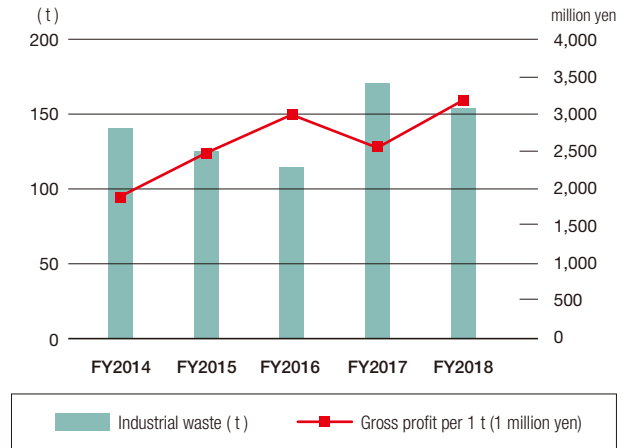
Water consumption (m³)



Electricity consumption (MWh)



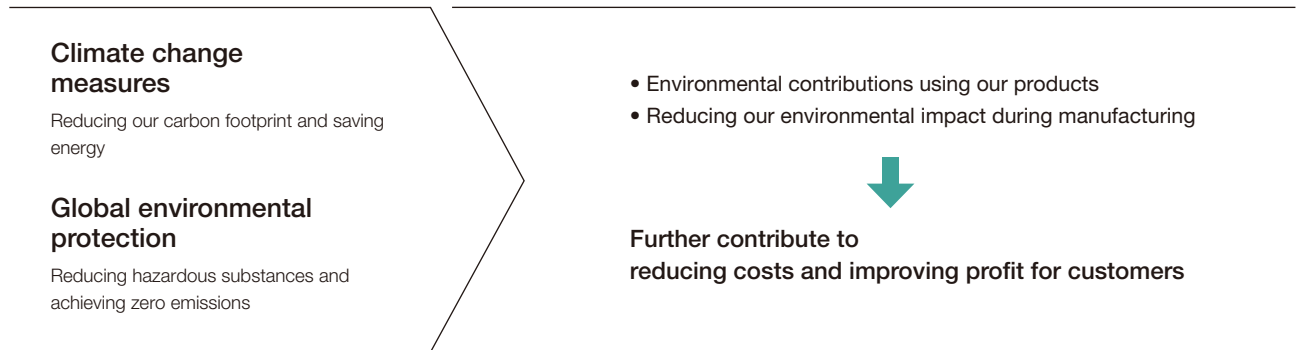
Industrial waste (t)



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.

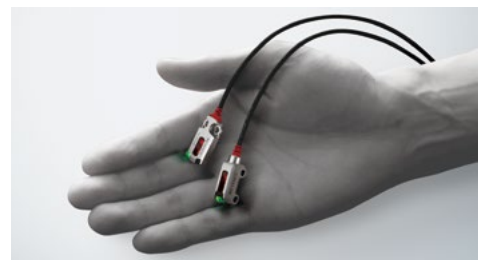


Developing Products with Low Environmental Impact

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

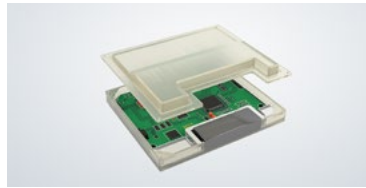
The introduction of 3D printers has significantly reduced the time required to produce samples and waste generated during rework.

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

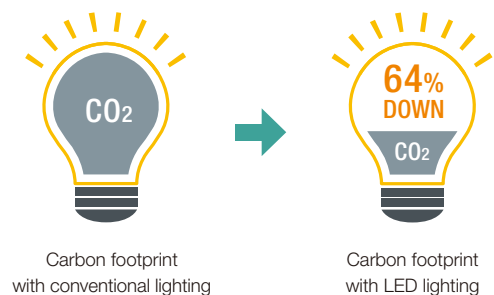
Paper Recycling

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%.

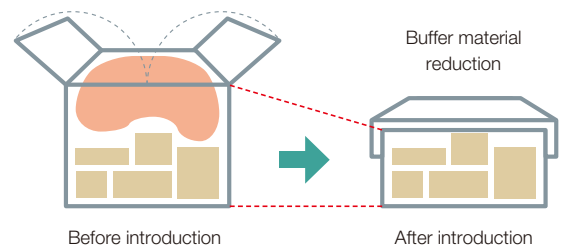


Updating to High Efficiency Air Conditioners

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

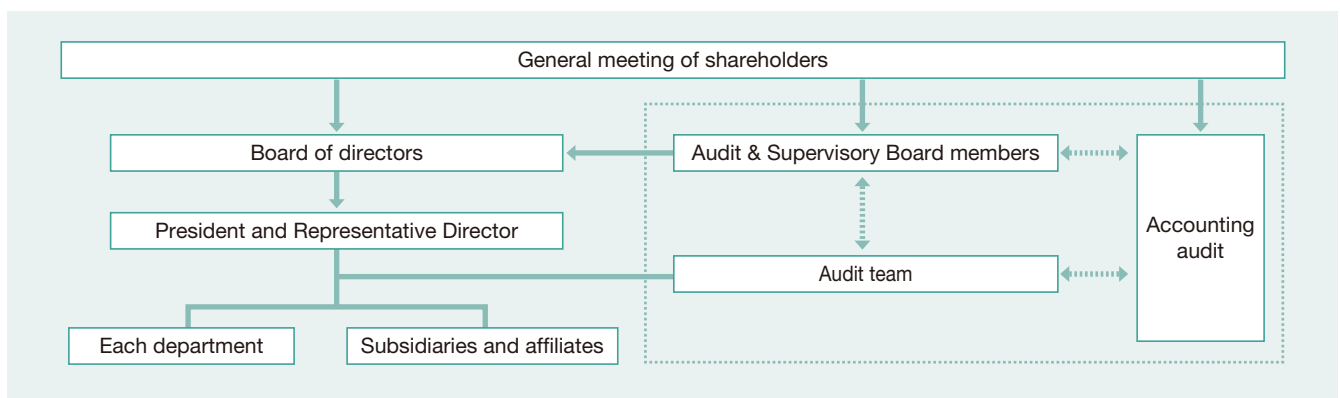
GOVERNANCE

Basic Guideline on Corporate Governance

To ensure lasting and sustainable growth of the company, the Group places importance on making swift and appropriate management decisions based on the corporate management philosophy and action guidelines, and strives to further enhance corporate governance.

Corporate Governance System

Our corporate governance system uses an auditor system with three outside auditors. Audit & Supervisory Board members do not have any full-time KEYENCE staff. The audit team works together and Audit & Supervisory Board members 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 Behavior

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 behavior. In addition, by actively using this code of behavior 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.

RISK FACTORS

Risk factors that investors may regard as potentially having a significant impact on the businesses of the Company and the Group are stated below. The statements with regard to the future are based on projections made by the Company based on information available as of March 20, 2020.

(1) Economic Trends

The Group is involved in developing business in Japan, North America, Latin America, Europe, and Asia. As such, fluctuations in both domestic and international economic trends tend to affect Group operations. While playing close attention to global economic trends, the Group also takes risk diversification measures that do not depend on any specific product, customer, or region. However, in the event of sudden domestic and global economic changes, the Group's business performance and finances may nevertheless be affected.

(2) Exchange Rate Fluctuations

The costs and prices of Group products and services traded in foreign currencies tend to be affected by exchange rates. The Group is working to create a business environment that does not depend on the value of any specific currency by promoting development of overseas businesses and by diversifying trading bases and trading currencies. However, when preparing consolidated financial statements, all assets, liabilities, incomes, expenses, and other factors counted in local currencies are converted into yen. Exchange rate fluctuations also influence corporate R&D investment and manufacturing equipment investment trends in various industries, not limited to only manufacturing. In this way, fluctuations in exchange rates can affect Group finances and business performance.

(3) Information Security

In the course of business, the Group gains sensitive business and personal information as well as confidential information from business partners and other sources. To prevent unauthorized use by a third party due to theft or loss of such information, the Group is working to improve information literacy and to strengthen IT governance of employees and contractors. Measures to prevent intrusion into the company's information systems are also being implemented. Nevertheless, unforeseen circumstances make it difficult to completely prevent the possibility of information leaking or such incidents from occurring, and there is always the risk of leakage or internal system disruption following a cyberattack or the application of some other technology that exceeds the assumed defense level, resulting in information being destroyed or tampered with. Should any such situation occur, costs associated with taking appropriate measures will be incurred, and such costs could affect the finances and business performance of the Group.

(4) International Business Development

Overseas business development tends to be affected by changes in a variety of factors, including local political situations, economic situations, and social situations as well as foreign currency/import/export regulations and regional characteristics. The Group is also active in North America, Latin America, Europe, and Asia, which means careful consideration of profitability, market expansion potential, foreign exchange fluctuation risks, geopolitical risks, and the risks of various laws and regulations (including import/export regulations, environmental regulations, and taxes)—followed by a comprehensive judgment—are essential for overseas expansion. However, sudden changes in any of these factors may affect the Group's business performance and finances.

RISK FACTORS

(5) Product Quality

Because the Group is focused on expanding business activities in Japan, North America, Latin America, Europe, and Asia, compliance with laws and regulations within the applicable countries is necessary regardless of whether a product will be sold domestically or internationally. In its commitment to providing products responsibly, the Group will continue efforts to improve quality by implementing Group quality management systems and environmental management systems with ISO standard certification, and will continue to focus intensively on production such as by linking KEYENCE's quality control departments to cooperating factories where production is performed, even if fables systems are in place. However, in the event of a large-scale recall following a serious quality issue caused by use of a product in an unexpectedly diverse environment or an accident that exceeds the current technological and management levels, or if an applicable law or regulation is significantly strengthened or changed, the costs of dealing with such an issue may affect the performance and finances of the Group.

(6) Disasters, Accidents, etc.

The Group is focused on expanding business activities in Japan, North America, Latin America, Europe, and Asia. As such, any natural disasters (including those caused by climate change) or accidents—such as earthquakes, tsunamis, floods, heavy rains, lightning, industrial accidents, fire/explosion, wars, acts of terrorism, and infectious disease epidemics—in those locations may seriously harm Group employees and property. This may interrupt operations, affect production and shipping, and incur recovery costs in the event of damage. Moreover, disasters or accidents that occur in the Group supply chain, such as those that affect suppliers or product delivery destinations, may cause a shortage or supply interruption of parts and the like, or a suspension of production at product delivery destinations. Such declines may also affect the business performance and finances of the Group.

The Group strives to diversify risks by promoting a management system that does not depend on any specific activity base, specific supplier, specific product, specific customer, or specific industry. Nevertheless, avoiding all such risks is difficult, and a disaster or accident that occurs on an unexpected scale may affect the business performance and finances of the Group.

(7) Accounting and Tax Systems

The Group is focused on expanding business activities in Japan, North America, Latin America, Europe, and Asia, and those activities will invariably be affected by the accounting standards and tax systems of the particular country or region. The Group conducts business activities based on current accounting systems and tax systems, but if major changes, enhancements, or additions to a country's system affecting customer purchasing behaviors are introduced, or if a disagreement with the relevant authorities arises, additional response and compliance costs may be incurred, additional taxes may be levied, and double taxation may result, which may affect the performance and finances of the Group.

(8) Conservation of the Global Environment

Because the Group is involved with the development, manufacture, and sale of automatic control equipment, measuring equipment, information and related electronic application equipment, optoelectronic equipment, and the systems associated with these devices, compliance with a variety of national and international regulations is necessary. In addition to complying with the requirements of environment-related regulations, the Group complies with voluntary management standards and has established environmental policies that contribute to environmental conservation, thereby fulfilling social responsibilities including environmental protection through our business activities and products. As part of these efforts, the Group has established a chemical substance management system that excludes the use of harmful chemical substances, and a management system that controls the amount of electricity used in order to control/reduce CO₂ emissions. The Group is also striving to use resources effectively to reduce waste emissions, promote energy-saving activities, and promote recycling. Moreover, the Group is also working toward building an environmental management system that allows for a reduced environmental load such as by promoting product design and development that considers the environmental load reduction activities of our customers. Such continuous improvements will allow the Group to better promote the protection of the global environment and the prevention of environmental pollution. However, in the event various applicable laws and regulations are changed or newly established, compliance costs may be incurred, which may in turn affect the business performance and finances of the Group.

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	Salt Lake City
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	Hermosillo
Leon	Monterrey	Queretaro
Tijuana		

KEYENCE BRASIL COMERCIO DE PRODUTOS ELETRONICOS LTDA.

Sao Paulo	Campinas	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

Milton Keynes	Birmingham	London
Manchester	Newcastle	IRELAND

KEYENCE FRANCE SAS

Paris	Besancon	Lille
Lyon	Nantes	Toulouse

KEYENCE ITALIA S.p.A.

Milan	Bologna	Padua
Pescara	Turin	

Asia

KEYENCE (CHINA) CO., LTD.

Shanghai	Beijing	Chongqing	Dalian
Dongguan	Guangzhou	Hangzhou	Kunshan
Nanjing	Ningbo	Qingdao	Shanghai Hongqiao
Shanghai Qiantan	Shenzhen East	Shenzhen West	Suzhou 1
Suzhou 2	Tianjin	Wuhan	Wuxi

KEYENCE (HONG KONG) CO., LTD.

Hong Kong

KEYENCE TAIWAN CO., LTD.

Taipei	Hsinchu	Kaohsiung	Taichung
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KOREA KEYENCE CO., LTD.

Seoul	Busan	Cheonan	Daegu
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KEYENCE SINGAPORE PTE LTD.

Singapore

KEYENCE INDIA PVT. LTD.

Chennai	Bangalore	Delhi	Pune
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PT. KEYENCE INDONESIA

Jakarta	Cikarang
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KEYENCE VIETNAM CO., LTD.

Hanoi	Ho Chi Minh
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KEYENCE PHILIPPINES INC.

Manila

KEYENCE (MALAYSIA) SDN BHD

Kuala Lumpur Penang

KEYENCE (THAILAND) CO., LTD.

Bangkok	Chachoengsao	Chiang Mai	Chonburi
Pathumthani	Rayong		

www.keyence.com

KEYENCE CORPORATION

1-3-14 Higashinakajima, Higashiyodogawa-ku, Osaka, 533-8555, Japan
TEL: +81-6-6379-1111 FAX: +81-6-6379-2222