11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2006	2007	2008	2009
Financial Results (for the year):				
Net sales	188,321	234,572	248,551	236,173
Gross profit	72,769	84,780	89,946	86,655
Operating income	13,515	17,314	20,484	17,832
Net income attributable to owners of the parent	9,795	10,646	10,709	9,525
Capital expenditures	6,790	5,273	4,488	6,414
Depreciation	2,352	3,891	4,387	4,503
R&D expenses	8,360	8,776	9,844	9,636
Cash Flows (for the year):				
Net cash provided by operating activities	6,386	7,524	21,086	21,372
Net cash provided by (used in) investing activities	(7,405)	(2,475)	(612)	(16,606)
Free cash flow	(1,019)	5,049	20,474	4,766
Net cash used in financing activities	(3,328)	(6,348)	(6,433)	(8,575)
Financial Position (at year-end):				
Total assets	217,882	230,679	228,844	220,846
Net assets	110,859	118,967	121,721	124,984
Per Share Data:				
Net income (yen)	132.52	144.71	145.63	127.87
Net assets (yen)	1,506.25	1,602.33	1,641.73	1,672.91
Cash dividends (yen)	50.00	50.00	60.00	62.00
Ratios:				
Gross profit/Net sales (%)	38.6	36.1	36.2	36.7
Operating income/Net sales (%)	7.2	7.4	8.2	7.6
R&D expenses/Net sales (%)	4.4	3.7	4.0	4.1
Shareholders' equity/Total assets (%)	50.9	51.1	52.6	55.9
Return on equity (ROE) (%)	9.3	9.3	9.0	7.8
Dividend on equity (DOE) (%)	3.5	3.2	3.7	3.7
Dividend payout ratio (%)	37.6	34.6	41.2	48.5

(Millions of yen)

2010	2011	2012	2013	2014	2015	2016
212,213	219,216	223,499	227,585	248,417	254,469	**256,890**
76,420	79,714	80,840	77,872	86,550	89,884	**91,089**
12,385	14,896	14,348	13,411	13,904	15,337	**17,136**
6,242	7,928	8,519	8,309	7,669	7,169	**8,268**
2,704	3,351	3,010	3,121	5,303	6,302	**3,413**
4,751	4,460	4,027	3,621	3,722	3,784	**4,148**
8,640	8,953	8,816	7,824	8,767	10,124	**11,012**
15,714	15,223	5,634	15,010	15,836	13,698	**11,073**
1,960	(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	**4,261**
17,674	12,947	2,085	2,294	5,166	226	**15,334**
(6,757)	(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	**(10,536)**
218,472	217,501	223,476	243,419	253,448	265,719	**259,127**
129,278	131,362	135,077	141,197	144,978	160,294	**156,966**
84.52	107.35	115.35	112.50	103.85	97.07	**112.73**
1,728.64	1,754.86	1,808.48	1,882.66	1,940.56	2,143.11	**2,116.09**
62.00	63.00	63.00	63.00	63.00	63.00	**67.00**
36.0	36.4	36.2	34.2	34.8	35.3	**35.5**
5.8	6.8	6.4	5.9	5.6	6.0	**6.7**
4.1	4.1	3.9	3.4	3.5	4.0	**4.3**
58.4	59.6	59.8	57.1	56.5	59.6	**59.8**
5.0	6.2	6.5	6.1	5.4	4.8	**5.3**
3.6	3.6	3.5	3.4	3.3	3.1	**3.1**
73.4	58.7	54.6	56.0	60.7	64.9	**59.4**

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2016**	2015	**2016**
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	**¥ 55,947**	¥ 51,921	**$ 495,110**
Marketable securities (Note 4)	**12,506**	13,606	**110,672**
Notes and accounts receivable:			
Trade (Note 14)	**91,772**	88,961	**812,143**
Other	**1,601**	1,584	**14,167**
Allowance for doubtful receivables	**(622)**	(566)	**(5,504)**
Inventories (Note 5)	**24,153**	21,683	**213,747**
Deferred tax assets (Note 10)	**5,345**	5,388	**47,297**
Prepaid expenses and other current assets	**10,124**	15,419	**89,590**
Total current assets	**200,826**	197,996	**1,777,222**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	**6,531**	6,618	**57,794**
Buildings and structures (Notes 6 and 7)	**42,029**	42,254	**371,941**
Machinery and equipment (Notes 6 and 7)	**20,083**	20,264	**177,723**
Furniture and fixtures (Note 6)	**19,948**	20,231	**176,531**
Lease assets (Note 13)	**224**	279	**1,986**
Construction in progress	**376**	250	**3,329**
Total	**89,191**	89,896	**789,304**
Accumulated depreciation	**(64,820)**	(64,197)	**(573,627)**
Net property, plant and equipment	**24,371**	25,699	**215,677**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	**19,326**	22,395	**171,026**
Investments in and advances to unconsolidated subsidiaries and associated companies	**332**	350	**2,938**
Goodwill (Note 6)	**158**	5,601	**1,399**
Deposits	**2,801**	2,612	**24,787**
Deferred tax assets (Note 10)	**1,536**	875	**13,591**
Software	**4,291**	790	**37,977**
Other assets	**5,486**	9,401	**48,551**
Total investments and other assets	**33,930**	42,024	**300,269**
TOTAL	**¥ 259,127**	¥ 265,719	**$ 2,293,168**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2016	2015	2016
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 11,747	¥ 14,053	$ 103,954
Current portion of long-term debt (Notes 7 and 14)	383	1,871	3,389
Notes and accounts payable:			
Trade (Note 14)	45,587	42,688	403,426
Other	2,365	1,944	20,931
Income taxes payable	3,796	3,830	33,593
Accrued bonuses	9,004	8,876	79,679
Other accrued expenses and current liabilities	16,062	16,433	142,143
Total current liabilities	88,944	89,695	787,115
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,327	1,655	11,745
Liability for retirement benefits (Note 8)	5,832	8,291	51,610
Deferred tax liabilities (Note 10)	3,804	4,725	33,666
Long-term payable for retirement benefits	1,596		14,122
Other long-term liabilities	658	1,059	5,825
Total long-term liabilities	13,217	15,730	116,968
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 9):			
Common stock—authorized, 279,710,000 shares; issued, 75,116,101 shares	10,523	10,523	93,121
Capital surplus	12,334	17,198	109,150
Retained earnings	128,476	121,573	1,136,960
Treasury stock—at cost, 1,865,122 shares in 2016 and 1,263,924 shares in 2015	(4,651)	(2,649)	(41,159)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	7,641	9,524	67,623
Deferred loss on derivatives under hedge accounting	(1)		(5)
Foreign currency translation adjustments	2,212	2,506	19,579
Defined retirement benefit plans	(1,529)	(402)	(13,535)
Total	155,005	158,273	1,371,734
Noncontrolling interests	1,961	2,021	17,351
Total equity	156,966	160,294	1,389,085
TOTAL	¥ 259,127	¥ 265,719	$ 2,293,168

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	¥ 256,890	¥ 254,469	$ 2,273,361
COST OF SALES (Notes 8 and 13)	165,801	164,585	1,467,268
Gross profit	91,089	89,884	806,093
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12 and 13)	73,953	74,547	654,451
Operating income	17,136	15,337	151,642
OTHER INCOME (EXPENSES):			
Interest income	135	131	1,200
Dividend income	360	341	3,185
Interest expense	(330)	(461)	(2,923)
Foreign currency exchange gain (loss)	(887)	1,771	(7,846)
Gain (loss) on sales of property, plant, equipment and others—net	(4)	95	(39)
Gain on sales of shares of subsidiaries and associates		1,607	
Gain on sales of investment securities—net (Note 4)	192	53	1,697
Loss on impairment of long-lived assets (Note 6)	(3,396)	(2,669)	(30,051)
Loss on abolishment of retirement benefit plan		(2,885)	
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary		(899)	
Others—net (Note 11)	(54)	(808)	(473)
Other (expenses) income—net	(3,984)	(3,724)	(35,250)
INCOME BEFORE INCOME TAXES	13,152	11,613	116,392
INCOME TAXES (Note 10):			
Current	4,469	4,426	39,556
Deferred	126	(232)	1,111
Total income taxes	4,595	4,194	40,667
NET INCOME	8,557	7,419	75,725
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(289)	(250)	(2,555)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 8,268	¥ 7,169	$ 73,170

	Yen		U.S. Dollars (Note 1)
	2016	2015	2016
PER SHARE OF COMMON STOCK (Note 2.s):			
Net income	¥ 112.73	¥ 97.07	$ 1.00
Cash dividends applicable to the year	67.00	63.00	0.59

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 8,557	¥ 7,419	$ 75,725
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	(1,883)	4,546	(16,665)
Deferred loss on derivatives under hedge accounting	(1)	(1)	(5)
Foreign currency translation adjustments	(346)	1,794	(3,065)
Defined retirement benefit plans	(1,130)	1,435	(10,004)
Total other comprehensive income (loss)	(3,360)	7,774	(29,739)
COMPREHENSIVE INCOME	¥ 5,197	¥ 15,193	$ 45,986
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 4,964	¥ 14,830	$ 43,928
Noncontrolling interests	233	363	2,058

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Thousands	Millions of Yen											
							Accumulated Other Comprehensive Income (Loss)						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2014 (as previously reported)	73,853	¥ 10,523	¥ 17,198	¥ 2	¥ 114,275	¥ (2,647)	¥ 4,978	¥ 1	¥ 825	¥ (1,837)	¥ 143,318	¥ 1,660	¥ 144,978
Cumulative effect of accounting change					5,149						5,149		5,149
BALANCE, APRIL 1, 2014 (as restated)	73,853	10,523	17,198	2	119,424	(2,647)	4,978	1	825	(1,837)	148,467	1,660	150,127
Adjustment of retained earnings for newly consolidated subsidiaries					(367)						(367)		(367)
Net income attributable to owners of the parent					7,169						7,169		7,169
Cash dividends, ¥63 per share					(4,653)						(4,653)		(4,653)
Purchase of treasury stock	(1)					(2)					(2)		(2)
Net change in the year				(2)			4,546	(1)	1,681	1,435	7,659	361	8,020
BALANCE, MARCH 31, 2015 (APRIL 1, 2015, as previously reported)	73,852	10,523	17,198		121,573	(2,649)	9,524		2,506	(402)	158,273	2,021	160,294
Cumulative effect of accounting change (Note 2.b)			(4,864)		3,415						(1,449)		(1,449)
BALANCE, APRIL 1, 2015 (as restated)	73,852	10,523	12,334		124,988	(2,649)	9,524		2,506	(402)	156,824	2,021	158,845
Net income attributable to owners of the parent					**8,268**						**8,268**		**8,268**
Cash dividends, ¥67 per share					**(4,780)**						**(4,780)**		**(4,780)**
Purchase of treasury stock	**(601)**					**(2,002)**					**(2,002)**		**(2,002)**
Net change in the year							**(1,883)**	**(1)**	**(294)**	**(1,127)**	**(3,305)**	**(60)**	**(3,365)**
BALANCE, MARCH 31, 2016	**73,251**	**¥ 10,523**	**¥ 12,334**		**¥ 128,476**	**¥ (4,651)**	**¥ 7,641**	**¥ (1)**	**¥ 2,212**	**¥ (1,529)**	**¥ 155,005**	**¥ 1,961**	**¥ 156,966**

	Thousands of U.S. Dollars (Note 1)											
						Accumulated Other Comprehensive Income (Loss)						
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2015 (APRIL 1, 2015, as previously reported)	$ 93,121	$ 152,193		$ 1,075,871	$ (23,439)	$ 84,288		$ 22,176	$ (3,560)	$1,400,650	$ 17,882	$ 1,418,532
Cumulative effect of accounting change (Note 2.b)		(43,043)		30,221						(12,822)		(12,822)
BALANCE, APRIL 1, 2015 (as restated)	93,121	109,150		1,106,092	(23,439)	84,288		22,176	(3,560)	1,387,828	17,882	1,405,710
Net income attributable to owners of the parent				**73,170**						**73,170**		**73,170**
Cash dividends, $0.59 per share				**(42,302)**						**(42,302)**		**(42,302)**
Purchase of treasury stock					**(17,720)**					**(17,720)**		**(17,720)**
Net change in the year						**(16,665)**	**$ (5)**	**(2,597)**	**(9,975)**	**(29,242)**	**(531)**	**(29,773)**
BALANCE, MARCH 31, 2016	**$ 93,121**	**$ 109,150**		**$ 1,136,960**	**$ (41,159)**	**$ 67,623**	**$ (5)**	**$ 19,579**	**$ (13,535)**	**$1,371,734**	**$ 17,351**	**$ 1,389,085**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 13,152	¥ 11,613	$ 116,392
Adjustments for:			
Income taxes—paid	(4,559)	(6,851)	(40,348)
Depreciation and amortization	4,832	5,636	42,761
Reversal of doubtful receivables	102	51	904
Increase in accrued bonuses	145	204	1,285
Foreign currency exchange loss (gain)	617	(1,334)	5,459
Loss (gain) on sales of property, plant and equipment and others—net	4	(95)	39
Gain on sales of investment securities—net	(192)	(53)	(1,697)
Loss on impairment of long-lived assets	3,396	2,669	30,051
Loss on abolishment of retirement benefit plan		2,885	
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary		899	
Gain on sales of shares of subsidiaries and associates		(1,607)	
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(3,820)	(352)	(33,808)
Increase in inventories	(2,892)	(2,978)	(25,590)
Increase in notes and accounts payable	3,521	457	31,155
Decrease in liability for retirement benefits	(2,730)	(1,710)	(24,157)
Increase in net defined benefit assets	(1,397)		(12,361)
Increase in accrued payments due to change in retirement benefit plan	2,401		21,246
Decrease (increase) in other assets	(800)	438	(7,076)
Increase (decrease) in other liabilities	(310)	3,214	(2,745)
Others—net	(397)	612	(3,521)
Total adjustments	(2,079)	2,085	(18,403)
Net cash provided by operating activities	11,073	13,698	97,989
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	119	562	1,055
Purchases of property, plant and equipment	(2,601)	(4,463)	(23,016)
Purchase of intangible assets	(722)	(1,591)	(6,388)
Proceeds from sales of investment securities	244	138	2,161
Purchases of investment securities	(23)	(77)	(202)
Proceeds from sales of beneficiary securities of trust	12,728	14,026	112,639
Purchases of beneficiary securities of trust	(12,209)	(13,971)	(108,045)
Proceeds from sales of marketable securities	30,700	30,000	271,681
Purchase of marketable securities	(29,600)	(33,500)	(261,947)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation		2,373	
Purchase of investments in capital of subsidiaries		(1,637)	
Others—net	5,625	(5,332)	49,777
Net cash provided by (used in) investing activities	4,261	(13,472)	37,715
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	(1,639)	587	(14,505)
Proceeds from long-term debt	112	380	995
Repayment of long-term debt	(1,808)	(2,115)	(15,996)
Purchase of treasury stock	(2,002)	(2)	(17,720)
Cash dividends paid	(4,779)	(4,651)	(42,289)
Dividends paid to noncontrolling interests	(281)	(214)	(2,493)
Others—net	(139)	(51)	(1,232)
Net cash used in financing activities	(10,536)	(6,066)	(93,240)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(772)	1,432	(6,829)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,026	(4,408)	35,635
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		484	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	51,921	55,845	459,475
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 55,947	¥ 51,921	$ 495,110
ADDITIONAL INFORMATION:			
Decrease in assets and liabilities in the exclusion of Azbil Care & Support Co., Ltd.:			
Asset excluded		¥ 1,201	
Liability excluded		402	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

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, 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 Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113 to $1, the approximate rate of exchange as of March 31, 2016. 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 as of March 31, 2016, include the accounts of Azbil and its 57 significant (60 in 2015) subsidiaries (together, the "azbil Group").

Under the control and influence concepts, those companies in which Azbil, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the azbil Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 3 (3 in 2015) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill is amortized on a straight-line basis over five to nine years, with the exception of minor amounts which are charged to income in the period of the acquisitions.

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

b. Business Combinations—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income—In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The azbil Group applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred in the past.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The cumulative effects from the retrospective application for (a) and (e) above at April 1, 2015, have been reflected within capital surplus and retained earnings at April 1, 2015.

As a result, goodwill and capital surplus at April 1, 2015, decreased by ¥1,449 million ($12,822 thousand) and ¥4,864 million ($43,043 thousand), respectively, and retained earnings at April 1, 2015, increased by ¥3,415 million ($30,221 thousand). The effect on operating income and income before income taxes for the year ended March 31, 2016, was immaterial. Also, net assets per share for the year ended March 31, 2016, decreased by ¥19.78 ($0.18).

c. 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, certificates of deposit, beneficiary securities of trust under resale agreements and commercial paper, all of which mature or become due within three months of the date of acquisition.

d. Inventories—Inventories, other than raw materials, are principally stated at the lower of cost on a specific identification basis or net selling value. Raw materials are principally stated at the lower of cost determined by the moving-average method or net selling value.

e. Allowance for Doubtful Receivables—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the azbil Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, 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.

g. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation for Azbil and its consolidated domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998. Depreciation of consolidated foreign subsidiaries is mainly computed by the straight-line method. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

The range of useful lives is from 15 to 50 years for buildings and structures, from 4 to 9 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

h. Long-Lived Assets—The azbil Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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 the 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 the eventual disposition of the asset or the net selling price at disposition.

i. Retirement and Pension Plans—Azbil and a certain subsidiary have defined benefit pension plans and defined contribution pension plans covering retired employees. Regarding working employees, Azbil and a certain subsidiary transferred the defined benefit pension plans to the defined contribution pension plans on June 1, 2015.

Most of the consolidated subsidiaries have defined benefit pension plans and unfunded retirement benefit plans.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments (see Note 17).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The azbil Group applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, Azbil and certain subsidiaries changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, retained earnings as of April 1, 2014, increased by ¥5,149 million.

Retirement benefits to directors and Audit & Supervisory Board members are provided at the amount which would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. Asset Retirement Obligations—In March 2008, the ASBJ issued 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 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 the 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

l. 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.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

Azbil and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, Azbil and its consolidated domestic subsidiaries continue to account for leases that existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

m. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2016 and 2015, was ¥109 million ($969 thousand) and ¥117 million, respectively.

n. Construction Contracts—In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

o. 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 and tax loss carryforwards.

p. 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 exchange contracts.

q. Foreign Currency Financial Statements—The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. 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 yen at the average exchange rate.

r. Derivatives Financial Instruments—The azbil Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the azbil Group to reduce foreign currency exchange and interest rate risks. The azbil Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, hedge accounting is applied.

Foreign exchange forward contracts are utilized to hedge foreign exchange exposures for export sales and import purchases. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts related to forecasted (or committed) transactions are measured at fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

s. Per Share Information—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 weighted-average number of shares of common stock used in the computation was 73,348,020 shares for 2016 and 73,852,582 shares for 2015.

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.

Diluted net income per share is not disclosed because it is antidilutive.

t. 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.

u. New Accounting Pronouncements

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The azbil Group expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. ACCOUNTING CHANGE

Concerning the sales of goods within Japan, Azbil had been recognizing the revenue on a shipment on delivery basis; however, effective April 1, 2015, it altered the method to recognize the revenue on the date when the goods are delivered to and arrive at the customer site.

While the azbil Group had been recognizing the revenue for sales of goods within Japan on a shipment on delivery basis, it had been recognizing the revenue for overseas countries on a loading basis based on the Free On Board (FOB) contracts and the revenue for overseas consolidated subsidiaries and affiliates as a general rule, based on International Financial Reporting Standards (IFRS). In recent years, however, the importance of sales of goods overseas and sales by overseas consolidated subsidiaries and affiliates is increasing, as customers continue to expand their businesses overseas. Under this circumstance, Azbil reviewed its revenue recognition policy. As a result, concerning revenue recognition, Azbil deemed it more appropriate to change the method of recognizing revenue from the sales of goods within Japan from a delivery basis to the date of the receipt by the customer to emphasize the objectivity of "transferring important risks and rewards associated with possession of goods to the buyers" and also to promote integration of the processing method for sales of goods among the azbil Group.

Thus, the azbil Group decided to change the method accordingly upon introduction of a new core information system and the improvement of its management structure from the year ended March 31, 2016.

Because the effect of this change on net sales, operating income, and income before income taxes for the year ended March 31, 2016, is immaterial, retrospective application has not been carried out. The effect on segment information is also immaterial. Therefore, the statement is omitted.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current—Other	¥ 12,506	¥ 13,606	$ 110,672
Total	¥ 12,506	¥ 13,606	$ 110,672
Noncurrent:			
Equity securities	¥ 19,324	¥ 22,391	$ 171,006
Other	2	4	20
Total	¥ 19,326	¥ 22,395	$ 171,026

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2016 and 2015, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2016				2015				2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥ 5,811	¥ 12,975	¥ 93	¥ 18,693	¥ 5,793	¥ 15,942	¥ 40	¥ 21,695	$ 51,423	$ 114,825	$820	$ 165,428
Other	12,506			12,506	13,606			13,606	110,672			110,672

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2016 and 2015, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2016			2015			2016		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 244	¥ 192		¥ 138	¥ 53		$ 2,161	$ 1,701	$ 4

The impairment losses on available-for-sale equity securities for the year ended March 31, 2016, were ¥2 million ($14 thousand).

5. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise	¥ 2,750	¥ 1,580	$ 24,335
Finished products	3,740	3,774	33,095
Work in process	7,520	7,009	66,554
Raw materials	10,143	9,320	89,763
Total	¥ 24,153	¥ 21,683	$ 213,747

6. LONG-LIVED ASSETS AND GOODWILL

The azbil Group reviewed its long-lived assets for impairment, and recognized impairment losses of ¥3,396 million ($30,051 thousand) for the year ended March 31, 2016, for certain assets of Azbil Kimmon Co., Ltd. and goodwill of Azbil Telstar, S.L.U. and Azbil Vortek, LLC. Azbil Kimmon Co., Ltd. decided to close two of its factories to consolidate its production bases. As a result, the carrying amount of the relevant asset group was written down to the recoverable amount. The recoverable amount was calculated on the basis of net realizable value, while land and buildings and structures are calculated using the real estate appraisal value. The recoverable amount of other assets was recorded as the memorandum value as these assets are not expected to be used or sold in the future. The carrying amount of goodwill was written down to the recoverable amount taking into account future earnings. The discount rate for measuring the recoverable amount was 12.7% for Azbil Vortek, LLC. The recoverable amount was zero for Azbil Telstar, S.L.U.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Buildings and structures	¥ 60	¥ 67	$ 532
Machinery and equipment	4	2	34
Furniture and fixtures, etc.	2	13	18
Land	18		156
Goodwill of Azbil Telstar, S.L.U.	3,012	1,784	26,659
Goodwill of Azbil Vortek, LLC	300	407	2,652
Goodwill of Beijing YTYH Intelli-Technology (Beijing) Co., Ltd.		396	
Total	¥ 3,396	¥ 2,669	$ 30,051

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2016 and 2015, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 10.6% as of March 31, 2016, and from 0.4% to 9.4% as of March 31, 2015.

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and other financial institutions, due serially through 2029 with interest rates ranging from 0.0% to 4.9% in 2016 and from 0.0% to 3.1% in 2015:			
Collateralized	¥ 121	¥ 310	$ 1,076
Unsecured	727	2,271	6,434
Bonds due serially through 2016 with interest rates of 0.7% in 2016 and 0.7% in 2015—			
Collateralized	10	40	88
Obligations under finance leases	852	905	7,536
Total	1,710	3,526	15,134
Less current portion	(383)	(1,871)	(3,389)
Long-term debt, less current portion	¥ 1,327	¥ 1,655	$ 11,745

As of March 31, 2016, Azbil had an unused line of credit amounting to ¥30,000 million ($265,487 thousand), of which ¥10,000 million ($88,496 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($176,991 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2016, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 383	$ 3,389
2018	235	2,083
2019	155	1,370
2020	435	3,852
2021	113	999
2022 and thereafter	389	3,441
Total	¥ 1,710	$ 15,134

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 373	$ 3,304
Buildings and structures	69	611
Total	¥ 442	$ 3,915

As is customary in Japan, the azbil Group maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The azbil Group has never received any such requests.

8. RETIREMENT AND PENSION PLANS

Azbil and certain subsidiaries have retirement and pension plans for employees, and certain domestic subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members.

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

In addition, Azbil and a certain subsidiary transferred the defined benefit pension plans for working employees to the defined contribution pension plans on June 1, 2015. The accounting for these transfers was recorded according to "Guidance on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ PITF No. 2).

The liability for retirement benefits at March 31, 2016 and 2015, for directors and Audit & Supervisory Board members is ¥133 million ($1,178 thousand) and ¥126 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

(1) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 36,626	¥ 44,549	$324,123
Cumulative effect of accounting change		(7,985)	
Balance at beginning of year (as restated)	36,626	36,564	324,123
Current service cost	331	1,675	2,933
Interest cost	175	402	1,550
Actuarial losses	1,637	65	14,484
Benefits paid	(1,182)	(1,558)	(10,456)
Decrease with transfer to the defined contribution pension plan	(25,532)	(673)	(225,946)
Others	73	151	642
Balance at end of year	¥ 12,128	¥ 36,626	$107,330

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 37,138	¥ 33,416	$328,656
Expected return on plan assets	419	835	3,708
Actuarial gains	19	1,217	174
Contributions from the employer	807	3,070	7,143
Benefits paid	(1,175)	(1,558)	(10,403)
Decrease with transfer to the defined contribution pension plan	(25,591)		(226,472)
Others	(6)	158	(54)
Balance at end of year	¥ 11,611	¥ 37,138	$102,752

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 12,128	¥ 36,626	$ 107,330
Plan assets	(11,611)	(37,138)	(102,752)
Total	517	(512)	4,578
Unfunded defined benefit obligation	5,177	8,670	45,809
Net liability arising from defined benefit obligation	¥ 5,694	¥ 8,158	$ 50,387

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 5,699	¥ 8,165	$ 50,432
Asset for retirement benefits	(5)	(7)	(45)
Net liability arising from defined benefit obligation	¥ 5,694	¥ 8,158	$ 50,387

(4) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 857	¥ 2,352	$ 7,582
Interest cost	196	430	1,731
Expected return on plan assets	(419)	(835)	(3,708)
Recognized actuarial losses	291	1,007	2,572
Amortization of prior service cost	(215)	(516)	(1,899)
Others	403	467	3,572
Net periodic benefit costs	¥ 1,113	¥ 2,905	$ 9,850
Losses on abolishment of retirement benefit plan (recorded on other expenses)		¥ 2,885	

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost	¥ (860)	¥ (516)	$ (7,611)
Actuarial (gains) losses	(384)	2,264	(3,399)
Reconciliation on abolishment of retirement benefit plan	(404)	404	(3,575)
Total	¥ (1,648)	¥ 2,152	$ (14,585)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 153	¥ 1,013	$ 1,356
Unrecognized actuarial gains	(2,251)	(1,867)	(19,922)
Reconciliation on abolishment of retirement benefit plan		404	
Total	¥ (2,098)	¥ (450)	$ (18,566)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Life insurance company general accounts	57%	36%
Debt investments	30	45
Short-term assets	9	
Equity investments	2	18
Others	2	1
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2016 and 2015, are set forth as follows:

	2016	2015
Discount rate	0.2%	1.1%
Expected rate of return on plan assets	3.5	2.5
Expected rate of increase in future salary		2.8

Note: In actuarial assumptions for Azbil and a certain subsidiary, a discount rate of 1.1% was applied for the year ended March 31, 2015. However, after a reevaluation in consideration of the market environment at March 31, 2016, this was revised to 0.0%.

9. 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) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Azbil does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. 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 amount 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 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.

10. INCOME TAXES

Azbil 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 33.0% for the year ended March 31, 2016, and 35.5% for the year ended March 31, 2015.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Pension and severance costs	¥ 1,756	¥ 2,651	$ 15,533
Accrued expenses	4,312	3,762	38,157
Depreciation	758	771	6,704
Loss on impairment of property, plant and equipment	177	172	1,570
Allowance for doubtful receivables	810	774	7,170
Tax loss carryforwards	1,809	1,443	16,013
Others	2,129	2,324	18,843
Less valuation allowance	(3,482)	(3,885)	(30,817)
Total	8,269	8,012	73,173
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	3,900	5,053	34,516
Special advanced depreciation	1,034	1,154	9,153
Others	122	113	1,077
Total	5,056	6,320	44,746
Net deferred tax assets	¥ 3,213	¥ 1,692	$ 28,427

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million ($1,604 thousand) at March 31, 2016, and ¥191 million at March 31, 2015.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, is as follows:

	2016
Normal effective statutory tax rate	33.0%
Expenses not deductible for income tax purposes	1.4
Tax benefits for qualified expenses	(8.3)
Valuation allowance increase	(4.9)
Amortization of goodwill	1.7
Impairment loss of goodwill	8.3
Effect of tax rate reduction	3.1
Others—net	0.6
Actual effective tax rate	34.9%

There is no material difference between the normal effective statutory tax rate for the year ended March 31, 2015, and the actual effective tax rate reflected in the accompanying consolidated statement of income.

On March 31, 2016, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 32.1% to approximately 30.8% effective for the fiscal year beginning on or after April 1, 2016, and to approximately 30.5% effective for the fiscal year beginning on or after April 1, 2018. The effect of these changes was to increase deferred tax assets, net of deferred tax liabilities by ¥28 million ($248 thousand), accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥203 million ($1,796 thousand), and defined retirement benefit plans by ¥29 million ($257 thousand), in the consolidated balance sheet as of March 31, 2016, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥204 million ($1,805 thousand).

At March 31, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥10,777 million ($95,371 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 5	$ 42
2018	82	726
2019	64	565
2020	208	1,839
2021	439	3,887
2022 and thereafter	9,979	88,312
Total	¥ 10,777	$ 95,371

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—Others—net for the years ended March 31, 2016 and 2015, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Gain on compensation from Tokyo Electric Power Company caused by claim for damage from Fukushima nuclear disasters		¥ 132	
Gain on reversal of environmental expenses	¥ 291		$ 2,573
Restructuring loss	(142)	(450)	(1,252)
Loss on plants reorganization	(266)		(2,351)
Provision for loss litigation		(442)	
Other	63	(48)	557
Total	¥ (54)	¥ (808)	$ (473)

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥11,012 million ($97,454 thousand) and ¥10,124 million for the years ended March 31, 2016 and 2015, respectively.

13. LEASES

(1) Financing Leases as a Lessee

The azbil Group leases certain machinery, computer equipment, office space and other assets as a lessee.

Total rental expenses under the above leases for the years ended March 31, 2016 and 2015, were ¥5,606 million ($49,611 thousand) and ¥5,542 million, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, was as follows:

	Millions of Yen							
	2016				2015			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost					¥ 30			¥ 30
Accumulated depreciation					27			27
Accumulated impairment loss								
Net leased property					¥ 3			¥ 3

	Thousands of U.S. Dollars			
	2016			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost				
Accumulated depreciation				
Accumulated impairment loss				
Net leased property				

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 120	¥ 155	$ 1,068
Due after one year	162	282	1,431
Total	¥ 282	¥ 437	$ 2,499

The above obligations under finance leases include the imputed interest portion.

Depreciation expense and other information for finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Depreciation expense	¥ 3	¥ 3	$ 27
Lease payments	3	3	27

The above depreciation expense, which is not reflected in the accompanying consolidated statement of income, is computed mainly by the declining-balance method at rates based on the period of those financing leases with a remaining value of 10% of total lease payments.

The minimum rental commitments under noncancelable operating leases as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 874	¥ 20	$ 7,734
Due after one year	2,117	55	18,737
Total	¥ 2,991	¥ 75	$ 26,471

(2) Financing Leases as a Lessor

The azbil Group leases certain machinery and equipment as a lessor.

Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as receivables under the finance leases, on an "as if capitalized" basis for the years ended March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Receivables under finance leases:			
Due within one year	¥ 120	¥ 152	$ 1,068
Due after one year	162	282	1,431
Total	¥ 282	¥ 434	$ 2,499

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The azbil Group makes safety the first priority in terms of its asset management and limits its investments to financial assets that consist mainly of short-term deposits, while the azbil Group's financing needs are met by selecting the most suitable method of funding while taking into account such factors as the purpose of the loan, the terms and funding costs. The azbil Group limits the use of derivatives to forward exchange contracts and currency option contracts to hedge against the risks associated with fluctuating exchange rates, and interest rate swaps to hedge against the risks associated with fluctuating interest rates, and does not engage in transactions for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Notes and accounts receivable—trade are subject to the credit risks of the customers. The azbil Group manages its credit risks on the basis of internal guidelines, which include keeping track of due dates and outstanding balances of the receivables for each transaction and monitoring the credit standing of major customers on a yearly basis. Notes and accounts receivable—trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the azbil Group has business relationships, and are subject to the risks associated with fluctuating stock prices. Such stock investments are managed by monitoring their fair values and the financial status of the companies on a regular basis, as well as conducting ongoing reviews of their holding status by taking into account the azbil Group's relationship with the issuing companies.

Notes and accounts payable—trade are liabilities due within one year. Although certain notes and accounts payable—trade denominated in foreign currencies are subject to the risks associated with fluctuating exchange rates, the majority of such instruments are constantly kept within the amount of the outstanding balance of accounts receivable denominated in the same foreign currency.

Interest-bearing debt mainly comprises short-term borrowings. While a portion of these borrowings, having floating interest rates, is subject to the risks associated with fluctuating interest rates, the effects of these risks are negligible as their terms are short and amounts are minimal.

Derivative transactions are executed and managed in accordance with internal rules that stipulate the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more details about derivatives.

Additionally, notes and accounts payable—trade and short-term borrowings are subject to liquidity risks such as in the event the azbil Group cannot execute payment on the payment date. Liquidity risks are managed by such methods as having each group company draw up monthly cash flow plans.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please see Note 15 for the details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2016		
	2016			2015					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 55,947	¥ 55,947		¥ 51,921	¥ 51,921		$ 495,110	$ 495,110	
Notes and accounts receivable—trade	91,772	91,772		88,961	88,961		812,143	812,143	
Investment securities	18,693	18,693		21,695	21,695		165,428	165,428	
Total	¥ 166,412	¥ 166,412		¥ 162,577	¥ 162,577		$ 1,472,681	$ 1,472,681	
Short-term borrowings	¥ 11,747	¥ 11,747		¥ 14,053	¥ 14,053		$ 103,954	$ 103,954	
Current portion of long-term debt	383	383		1,871	1,871		3,389	3,389	
Notes and accounts payable—trade	45,587	45,587		42,688	42,688		403,426	403,426	
Long-term debt	1,327	1,330	¥ (3)	1,655	1,656	¥ (1)	11,745	11,770	$ (25)
Total	¥ 59,044	¥ 59,047	¥ (3)	¥ 60,267	¥ 60,268	¥ (1)	$ 522,514	$ 522,539	$ (25)

Cash and Cash Equivalents, and Notes and Accounts Receivable—Trade

The carrying values of cash and cash equivalents and notes and accounts receivable—trade approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Short-Term Borrowings, Current Portion of Long-Term Debt and Notes and Accounts Payable—Trade

The carrying values of short-term borrowings, current portion of long-term debt, and notes and accounts payable—trade approximate fair value because of their short maturities.

Long-Term Debt

The fair values of loans from banks and other financial institutions are determined by the present values calculated by discounting the total amount of principal and interest rates currently considered applicable to similar loans.

The fair values of bonds without market value price are determined by the present values calculated by discounting the total amount of principal and interest at a rate that takes into account the remaining term and credit risks.

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31, 2016
	2016	2015	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 789	¥ 856	$ 6,980

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2016	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 55,947				$ 495,110			
Notes and accounts receivable—trade	87,794	¥ 3,888	¥ 90		776,943	$ 34,407	$ 793	
Total	¥ 143,741	¥ 3,888	¥ 90		$ 1,272,053	$ 34,407	$ 793	

Please see Note 7 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. DERIVATIVES

The azbil Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with trade receivables and payables denominated in foreign currencies. The azbil Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

It is the azbil Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities, not to hold or issue derivatives for speculative or trading purposes.

Since all of the azbil Group's foreign currency forward contracts and interest rate swap contracts are related to qualified hedges of underlying business exposures, market gain or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the azbil Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the azbil Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen								Thousands of U.S. Dollars			
	March 31								March 31, 2016			
	2016				2015							
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:												
Selling U.S. dollars					¥812		¥ (4)	¥ (4)				
Buying U.S. dollars	¥173		¥3	¥ 3	478		(2)	(2)	$ 1,533		$ 28	$ 28
Interest rate swaps (fixed rate payment, floating rate receipt)					676		(20)	(20)				

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2016		
		2016			2015					
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥ 66		¥ (2)	¥ 54		¥ (2)	$ 583		$ (14)
Selling IN rupee	Receivables	1		1				11		5
Buying U.S. dollars	Payables	30		1				268		9
Buying Euro	Payables	52						465		(2)
Buying IN rupee	Payables	536		(62)	762		(4)	4,746		(550)
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	120	¥ 15		240	¥39		1,062	$ 128	

Note: The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 7 is included in that long-term debt.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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

16. COMMITMENT AND CONTINGENT LIABILITIES

At March 31, 2016, the azbil Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans	¥ 2	$ 20

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (3,033)	¥ 6,269	$ (26,850)
Reclassification adjustments to profit or loss	(2)	(54)	(14)
Amount before income tax effect	(3,035)	6,215	(26,864)
Income tax effect	1,152	(1,669)	10,199
Total	¥ (1,883)	¥ 4,546	$ (16,665)
Deferred gain (loss) on derivatives under hedge accounting:	¥ (1)		$ (7)
Reclassification adjustments to profit or loss		¥ (1)	
Amount before income tax effect	(1)	(1)	(7)
Income tax effect			2
Total	¥ (1)	¥ (1)	$ (5)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (346)	¥ 2,693	$ (3,065)
Reclassification adjustments to profit or loss		(899)	
Amount before income tax effect	(346)	1,794	(3,065)
Total	¥ (346)	¥ 1,794	$ (3,065)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (1,625)	¥ 1,257	$ (14,378)
Reclassification adjustments to profit or loss	(23)	895	(207)
Amount before income tax effect	(1,648)	2,152	(14,585)
Income tax effect	518	(717)	4,581
Total	¥ (1,130)	¥ 1,435	$ (10,004)
Total other comprehensive income (loss)	¥ (3,360)	¥ 7,774	$ (29,739)

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at Azbil's shareholders' meeting held on June 28, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥33.5 ($0.30) per share	¥ 2,454	$ 21,716

19. 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.

(1) Description of Reportable Segments

The reportable segments of the azbil Group—identifiable operating segments of the Group's business structure for which financial information is made separately available—are subject to periodic review by the Board of Directors in order to make decisions on the distribution of management resources and to assess performance.

The azbil Group identifies its operating segments using such criteria as business organization, product lines, service content, and markets. This approach results in three separate reportable segments: the building automation business, the advanced automation business, and the life automation business.

The building automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The advanced automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The life automation business supplies meters for lifelines, residential central air-conditioning systems, life science research, manufacture and sale of manufacturing equipment and environmental equipment for the pharmaceutical and medical fields as well as related services—all of which are intimately connected with everyday life.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."
(Application of the Accounting Standard for Business Combinations, Etc.)

The "Accounting Standard for Business Combinations," and related guidance, have been applied since the year ended March 31, 2016. The balance generated from the changes in the ownership ratio over the affiliates under control began to be included in capital surplus, and the expenses related to acquisitions of businesses are recorded as expenses when they are generated. Furthermore, with regard to business combinations conducted at the beginning of annual periods beginning on or after April 1, 2015, the accounting method has been changed to reflect the revised allocation of acquisition costs arising from the settlement of the tentative accounting treatment in the consolidated financial statements in which the business combination occurs.

As a result, unamortized balance of goodwill decreased by ¥200 million ($1,767 thousand) for the "Advanced Automation business" and by ¥1,249 million ($11,055 thousand) for the "Life Automation business."

(Changes in the Methods to Measure Internal Sales or Transfer Prices between Segments)

From the year ended March 31, 2016, Azbil reviewed the performance assessment method upon introduction of our new core information system and changed the methods to measure internal sales or transfer prices between segments. This procedure had a minor effect on internal sales or transfer prices between segments and segment profit during the year ended March 31, 2016.

Segment information for the year ended March 31, 2015, was presented based on the new methods to measure internal sales or transfer prices between segments.

(3) Information about Sales, Profit (Loss), Assets and Other Items

	Millions of Yen							
	2016							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 118,548	¥ 92,937	¥ 45,344	¥ 256,829	¥ 61	¥ 256,890		¥ 256,890
Intersegment sales or transfers	287	601	303	1,191	6	1,197	¥ (1,197)	
Total	¥ 118,835	¥ 93,538	¥ 45,647	¥ 258,020	¥ 67	¥ 258,087	¥ (1,197)	¥ 256,890
Segment profit (loss)	¥ 12,015	¥ 5,029	¥ 79	¥ 17,123	¥ 18	¥ 17,141	¥ (5)	¥ 17,136
Segment assets	68,842	71,302	30,124	170,268	7	170,275	88,852	259,127
Other:								
Depreciation	1,069	2,064	1,015	4,148		4,148		4,148
Increase in property, plant and equipment and intangible assets	1,090	1,699	623	3,412	1	3,413		3,413
Impairment losses of assets		300	3,096	3,396		3,396		3,396

	Millions of Yen							
	2015							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 114,098	¥ 93,132	¥ 47,178	¥ 254,408	¥ 61	¥ 254,469		¥ 254,469
Intersegment sales or transfers	224	555	153	932	5	937	¥ (937)	
Total	¥ 114,322	¥ 93,687	¥ 47,331	¥ 255,340	¥ 66	¥ 255,406	¥ (937)	¥ 254,469
Segment profit (loss)	¥ 12,245	¥ 5,013	¥ (1,937)	¥ 15,321	¥ 18	¥ 15,339	¥ (2)	¥ 15,337
Segment assets	65,550	69,880	36,011	171,441	7	171,448	94,271	265,719
Other:								
Depreciation	935	1,709	1,140	3,784		3,784		3,784
Increase in property, plant and equipment and intangible assets	1,582	4,016	704	6,302		6,302		6,302
Impairment losses of assets	396	407	1,866	2,669		2,669		2,669

	Thousands of U.S. Dollars							
	2016							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 1,049,103	$ 822,450	$ 401,270	$ 2,272,823	$ 538	$ 2,273,361		$ 2,273,361
Intersegment sales or transfers	2,539	5,320	2,683	10,542	54	10,596	$ (10,596)	
Total	$ 1,051,642	$ 827,770	$ 403,953	$ 2,283,365	$ 592	$ 2,283,957	$ (10,596)	$ 2,273,361
Segment profit (loss)	$ 106,318	$ 44,505	$ 704	$ 151,527	$ 158	$ 151,685	$ (43)	$ 151,642
Segment assets	609,227	630,996	266,584	1,506,807	64	1,506,871	786,297	2,293,168
Other:								
Depreciation	9,461	18,261	8,978	36,700	3	36,703		36,703
Increase in property, plant and equipment and intangible assets	9,650	15,039	5,515	30,204	3	30,207		30,207
Impairment losses of assets		2,652	27,399	30,051		30,051		30,051

Note: Corporate assets of ¥88,852 million ($786,297 thousand) for the year ended March 31, 2016, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

(1) Information about Products and Services

This information is identical to the segment information and is therefore omitted.

(2) Information by Region

(a) Sales

Millions of Yen						
2016						
Japan	Asia	China	North America	Europe	Other	Total
¥ 207,899	¥ 20,045	¥ 9,974	¥ 4,764	¥ 10,610	¥ 3,598	¥ 256,890

Millions of Yen						
2015						
Japan	Asia	China	North America	Europe	Other	Total
¥ 207,713	¥ 18,354	¥ 9,630	¥ 4,195	¥ 10,244	¥ 4,333	¥ 254,469

Thousands of U.S. Dollars						
2016						
Japan	Asia	China	North America	Europe	Other	Total
$ 1,839,812	$ 177,392	$ 88,266	$ 42,155	$ 93,897	$ 31,839	$ 2,273,361

Note: Sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

Millions of Yen						
2016						
Japan	Asia	China	North America	Europe	Other	Total
¥ 20,403	¥ 1,483	¥ 1,073	¥ 63	¥ 600	¥ 749	¥ 24,371

Millions of Yen						
2015						
Japan	Asia	China	North America	Europe	Other	Total
¥ 21,374	¥ 1,675	¥ 1,173	¥ 62	¥ 674	¥ 741	¥ 25,699

Thousands of U.S. Dollars						
2016						
Japan	Asia	China	North America	Europe	Other	Total
$ 180,556	$ 13,127	$ 9,496	$ 558	$ 5,313	$ 6,627	$ 215,677

(3) Information about Major Customers

This information is omitted as no clients accounted for more than 10% of sales in the consolidated statement of income.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

	Millions of Yen							
	2016							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 182	¥ 502	¥ 684		¥ 684		¥ 684
Goodwill at March 31, 2016		158		158		158		158

	Millions of Yen							
	2015							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Amortization of goodwill	¥174	¥ 355	¥ 1,321	¥ 1,850		¥ 1,850		¥ 1,850
Goodwill at March 31, 2015		837	4,764	5,601		5,601		5,601

	Thousands of U.S. Dollars							
	2016							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 1,614	$ 4,443	$ 6,057		$ 6,057		$ 6,057
Goodwill at March 31, 2016		1,399		1,399		1,399		1,399

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

We have audited the accompanying consolidated balance sheet of Azbil Corporation and its consolidated subsidiaries as of March 31, 2016, 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 Azbil Corporation and its consolidated subsidiaries as of March 31, 2016, 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 17, 2016

Member of
Deloitte Touche Tohmatsu Limited