11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2007	2008	2009	2010
Financial Results (for the year):				
Net sales	234,572	248,551	236,173	212,213
Gross profit	84,780	89,946	86,655	76,420
Operating income	17,314	20,484	17,832	12,385
Net income attributable to owners of the parent	10,646	10,709	9,525	6,242
Capital expenditures	5,273	4,488	6,414	2,704
Depreciation	3,891	4,387	4,503	4,751
R&D expenses	8,776	9,844	9,636	8,640
Cash Flows (for the year):				
Net cash provided by operating activities	7,524	21,086	21,372	15,714
Net cash provided by (used in) investing activities	(2,475)	(612)	(16,606)	1,960
Free cash flow	5,049	20,474	4,766	17,674
Net cash used in financing activities	(6,348)	(6,433)	(8,575)	(6,757)
Financial Position (at year-end):				
Total assets	230,679	228,844	220,846	218,472
Net assets	118,967	121,721	124,984	129,278
Per Share Data:				
Net income (yen)	144.71	145.63	127.87	84.52
Net assets (yen)	1,602.33	1,641.73	1,672.91	1,728.64
Cash dividends (yen)	50.00	60.00	62.00	62.00
Ratios:				
Gross profit/Net sales (%)	36.1	36.2	36.7	36.0
Operating income/Net sales (%)	7.4	8.2	7.6	5.8
R&D expenses/Net sales (%)	3.7	4.0	4.1	4.1
Shareholders' equity/Total assets (%)	51.1	52.6	55.9	58.4
Return on equity (ROE) (%)	9.3	9.0	7.8	5.0
Dividend on equity (DOE) (%)	3.2	3.7	3.7	3.6
Dividend payout ratio (%)	34.6	41.2	48.5	73.4

(Millions of yen)

2011	2012	2013	2014	2015	2016	**2017**
219,216	223,499	227,585	248,417	254,469	256,890	**254,811**
79,714	80,840	77,872	86,550	89,884	91,089	**91,492**
14,896	14,348	13,411	13,904	15,337	17,136	**20,145**
7,928	8,519	8,309	7,669	7,169	8,268	**13,154**
3,351	3,010	3,121	5,303	6,302	3,413	**4,160**
4,460	4,027	3,621	3,722	3,784	4,148	**4,075**
8,953	8,816	7,824	8,767	10,124	11,012	**10,446**
15,223	5,634	15,010	15,836	13,698	11,073	**19,949**
(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	4,261	**(9,060)**
12,947	2,085	2,294	5,166	226	15,334	**10,889**
(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)	**(6,441)**
217,501	223,476	243,419	253,448	265,719	259,127	**263,317**
131,362	135,077	141,197	144,978	160,294	156,966	**165,752**
107.35	115.35	112.50	103.85	97.07	112.73	**179.57**
1,754.86	1,808.48	1,882.66	1,940.56	2,143.11	2,116.09	**2,236.47**
63.00	63.00	63.00	63.00	63.00	67.00	**77.00**
36.4	36.2	34.2	34.8	35.3	35.5	**35.9**
6.8	6.4	5.9	5.6	6.0	6.7	**7.9**
4.1	3.9	3.4	3.5	4.0	4.3	**4.1**
59.6	59.8	57.1	56.5	59.6	59.8	**62.2**
6.2	6.5	6.1	5.4	4.8	5.3	**8.3**
3.6	3.5	3.4	3.3	3.1	3.1	**3.5**
58.7	54.6	56.0	60.7	64.9	59.4	**42.9**

Consolidated Balance Sheet

Azbil Corporation and its consolidated subsidiaries
March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2017	2016	2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 59,837	¥ 55,947	$ 534,261
Marketable securities (Note 4)	14,607	12,506	130,421
Notes and accounts receivable:			
Trade (Note 14)	88,500	91,772	790,187
Other	1,412	1,601	12,606
Allowance for doubtful receivables	(907)	(622)	(8,106)
Inventories (Note 5)	22,185	24,153	198,080
Deferred tax assets (Note 10)	5,754	5,345	51,376
Prepaid expenses and other current assets	12,725	10,124	113,614
Total current assets	204,113	200,826	1,822,439
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,639	6,531	59,280
Buildings and structures (Notes 6 and 7)	41,723	42,029	372,525
Machinery and equipment (Note 6)	19,712	20,083	175,999
Furniture and fixtures (Note 6)	19,813	19,948	176,902
Lease assets (Note 13)	243	224	2,174
Construction in progress (Note 6)	869	376	7,756
Total	88,999	89,191	794,636
Accumulated depreciation	(65,775)	(64,820)	(587,281)
Net property, plant and equipment	23,224	24,371	207,355
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	22,007	19,326	196,491
Investments in and advances to unconsolidated subsidiaries and associated companies	331	332	2,957
Goodwill (Note 6)	74	158	661
Deposits	2,792	2,801	24,930
Deferred tax assets (Note 10)	1,190	1,536	10,627
Software (Note 6)	3,848	4,291	34,356
Other assets	5,738	5,486	51,229
Total investments and other assets	35,980	33,930	321,251
TOTAL	¥ 263,317	¥ 259,127	$ 2,351,045

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 10,555	¥ 11,747	$ 94,243
Current portion of long-term debt (Notes 7 and 14)	251	383	2,245
Notes and accounts payable:			
Trade (Note 14)	40,456	45,587	361,215
Other	2,721	2,365	24,299
Income taxes payable	4,731	3,796	42,240
Accrued bonuses	9,530	9,004	85,086
Other accrued expenses and current liabilities	15,822	16,062	141,264
Total current liabilities	84,066	88,944	750,592
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,148	1,327	10,252
Liability for retirement benefits (Note 8)	5,817	5,832	51,934
Deferred tax liabilities (Note 10)	4,675	3,804	41,742
Long-term payable for retirement benefits	784	1,596	6,997
Provision for stock payment	312		2,785
Other long-term liabilities	763	658	6,817
Total long-term liabilities	13,499	13,217	120,527
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	93,953
Capital surplus	12,334	12,334	110,124
Retained earnings	136,466	128,476	1,218,443
Treasury stock—at cost, 1,865,659 shares in 2017 and 1,865,122 shares in 2016	(4,652)	(4,651)	(41,541)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	9,553	7,641	85,302
Deferred gain (loss) on derivatives under hedge accounting	32	(1)	291
Foreign currency translation adjustments	1,304	2,212	11,643
Defined retirement benefit plans	(1,737)	(1,529)	(15,517)
Total	163,823	155,005	1,462,698
Noncontrolling interests	1,929	1,961	17,228
Total equity	165,752	156,966	1,479,926
TOTAL	¥ 263,317	¥ 259,127	$ 2,351,045

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2017

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 254,811	¥ 256,890	$ 2,275,097
COST OF SALES	163,319	165,801	1,458,206
Gross profit	91,492	91,089	816,891
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	71,347	73,953	637,023
Operating income	20,145	17,136	179,868
OTHER INCOME (EXPENSES):			
Interest income	136	135	1,210
Dividend income	430	360	3,838
Interest expense	(209)	(330)	(1,869)
Foreign currency exchange loss	(113)	(887)	(1,011)
Loss on sales of property, plant, equipment and others—net	(283)	(4)	(2,525)
Gain on sales of investment securities—net (Note 4)	63	192	561
Loss on impairment of long-lived assets (Note 6)	(570)	(3,396)	(5,087)
Loss on liquidation of subsidiaries and associated companies (Note 11)	(1,057)		(9,439)
Others—net (Note 11)	88	(54)	785
Other expenses—net	(1,515)	(3,984)	(13,537)
INCOME BEFORE INCOME TAXES	18,630	13,152	166,331
INCOME TAXES (Note 10):			
Current	5,246	4,469	46,835
Deferred	(14)	126	(123)
Total income taxes	5,232	4,595	46,712
NET INCOME	13,398	8,557	119,619
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(244)	(289)	(2,177)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 13,154	¥ 8,268	$ 117,442

	Yen		U.S. Dollars (Note 1)
	2017	2016	2017
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 179.57	¥ 112.73	$ 1.60
Cash dividends applicable to the year	77.00	67.00	0.69

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 13,398	¥ 8,557	$ 119,619
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	1,912	(1,883)	17,076
Deferred gain (loss) on derivatives under hedge accounting	33	(1)	296
Foreign currency translation adjustments	(983)	(346)	(8,782)
Defined retirement benefit plans	(208)	(1,130)	(1,859)
Total other comprehensive income (loss)	754	(3,360)	6,731
COMPREHENSIVE INCOME	¥ 14,152	¥ 5,197	$ 126,350
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 13,983	¥ 4,964	$ 124,841
Noncontrolling interests	169	233	1,509

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2017

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income (Loss)						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	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, 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			(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
Net income attributable to owners of the parent				13,154						13,154		13,154
Cash dividends, ¥77 per share				(5,164)						(5,164)		(5,164)
Purchase of treasury stock	(1)				(1)					(1)		(1)
Net change in the year						1,912	33	(908)	(208)	829	(32)	797
BALANCE, MARCH 31, 2017	73,250	¥ 10,523	¥ 12,334	¥ 136,466	¥ (4,652)	¥ 9,553	¥ 32	¥ 1,304	¥ (1,737)	¥ 163,823	¥ 1,929	¥ 165,752

	Thousands of U.S. Dollars (Note 1)											
					Accumulated Other Comprehensive Income (Loss)							
	Common Stock	Capital Surplus	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, 2016	$ 93,953	$ 110,124	$ 1,147,111	$ (41,526)	$ 68,226	$ (5)	$ 19,754	$ (13,656)	$ 1,383,981	$ 17,506	$ 1,401,487
Net income attributable to owners of the parent			117,442						117,442		117,442
Cash dividends, $0.69 per share			(46,110)						(46,110)		(46,110)
Purchase of treasury stock				(15)					(15)		(15)
Net change in the year					17,076	296	(8,111)	(1,861)	7,400	(278)	7,122
BALANCE, MARCH 31, 2017	$ 93,953	$ 110,124	$ 1,218,443	$ (41,541)	$ 85,302	$ 291	$ 11,643	$ (15,517)	$ 1,462,698	$ 17,228	$ 1,479,926

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 18,630	¥ 13,152	$ 166,331
Adjustments for:			
Income taxes—paid	(4,507)	(4,559)	(40,241)
Depreciation and amortization	4,152	4,832	37,071
Reversal of doubtful receivables	241	102	2,154
Increase in accrued bonuses	563	145	5,025
Foreign currency exchange loss	75	617	672
Loss on sales of property, plant,equipment and others—net	283	4	2,525
Gain on sales of investment securities—net	(63)	(192)	(561)
Loss on impairment of long-lived assets	570	3,396	5,087
Loss on liquidation of subsidiaries and associated companies (Note 11)	1,057		9,439
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	1,546	(3,820)	13,807
Decrease (increase) in inventories	1,497	(2,892)	13,365
(Decrease) increase in notes and accounts payable	(4,237)	3,521	(37,830)
Increase (decrease) in liability for retirement benefits	46	(2,730)	411
Increase in net defined benefit assets	(424)	(1,397)	(3,782)
(Decrease) increase in accrued payments due to change in retirement benefit plan	(833)	2,401	(7,441)
Increase in provision for stock payment	312		2,785
Decrease (increase) in other assets	321	(800)	2,865
Increase (decrease) in other liabilities	980	(310)	8,753
Others—net	(260)	(397)	(2,318)
Total adjustments	1,319	(2,079)	11,786
Net cash provided by operating activities	19,949	11,073	178,117
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	210	119	1,875
Purchases of property, plant and equipment	(2,683)	(2,601)	(23,955)
Purchases of intangible assets	(980)	(722)	(8,746)
Proceeds from sales of investment securities	196	244	1,752
Purchases of investment securities	(33)	(23)	(295)
Proceeds from sales of beneficiary securities of trust	12,063	12,728	107,708
Purchases of beneficiary securities of trust	(11,556)	(12,209)	(103,181)
Proceeds from sales of marketable securities	35,000	30,700	312,500
Purchases of marketable securities	(37,101)	(29,600)	(331,261)
Payments for sales of investments in capital of subsidiaries resulting in change in scope of consolidation	(137)		(1,224)
Others—net	(4,039)	5,625	(36,071)
Net cash (used in) provided by investing activities	(9,060)	4,261	(80,898)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(730)	(1,639)	(6,517)
Proceeds from long-term debt	24	112	217
Repayment of long-term debt	(234)	(1,808)	(2,091)
Purchase of treasury stock	(2)	(2,002)	(16)
Cash dividends paid	(5,161)	(4,779)	(46,078)
Dividends paid to noncontrolling interests	(192)	(281)	(1,725)
Others—net	(146)	(139)	(1,300)
Net cash used in financing activities	(6,441)	(10,536)	(57,510)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(558)	(772)	(4,978)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,890	4,026	34,731
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,947	51,921	499,530
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 59,837	¥ 55,947	$ 534,261
ADDITIONAL INFORMATION:			
Decrease in assets, liabilities and foreign currency translation adjustments in the exclusion of Beijing YTYH Intelli-Technology Co., Ltd.:			
Asset excluded	¥ 1,630		$ 14,555
Liability excluded	477		4,263
Foreign currency translation adjustments excluded	96		853

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2017

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 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112 to $1, the approximate rate of exchange as of March 31, 2017. 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, 2017, include the accounts of Azbil and its 53 significant (57 in 2016) subsidiaries (together, the "Azbil Group").

In the third quarter of the current consolidated accounting period, all shares of Beijing YTYH Intelli-Technology Co., Ltd., a former subsidiary of Azbil, were sold. Thus, the entity was excluded from the scope of consolidation.

The figures presented on the consolidated statement of income consolidated the financial information of the entity until the third quarter of the current consolidated accounting period.

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 2 (3 in 2016) 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 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—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the period in which the costs are incurred. 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. 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. 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. 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 capital surplus as long as the parent retains control over its subsidiary.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and 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, determined by the specific identification method, 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, and to facilities attached to buildings and structures acquired after April 1, 2016. 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. Some of the consolidated foreign subsidiaries have defined contribution pension 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.

Azbil accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. 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 are recognized in profit or loss over 13 years, which is no longer than the expected average remaining service period of the employees.

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—An asset retirement obligation is recorded for 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. Provision for Stock Payment—Provision for stock payment is stated in amounts considered to be appropriate based on the provisions of Azbil's employee stock ownership plan.
(Additional Information)
As a result of the introduction of an employee stock ownership plan as an incentive plan for providing employees with the Azbil's stocks, Azbil has recorded provision for stock payment from the year ended March 31, 2017.

m. Leases—In March 2007, the Accounting Standards Board of Japan ("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 permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

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 that do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

n. 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, 2017 and 2016, was ¥115 million ($1,030 thousand) and ¥109 million, respectively.

o. Construction Contracts—Construction revenue and construction costs are 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 such construction contracts.

p. 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.

Azbil applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

q. 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.

r. 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.

s. 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.

t. 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 73,250,697 shares for 2017 and 73,348,020 shares for 2016.

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.

u. Accounting Changes and Error Corrections—Under 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 are required 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.

3. ACCOUNTING CHANGE

Pursuant to an amendment to the Corporate Tax Act, Azbil adopted ASBJ Practical Issues Task Force ("PITF") No. 32, "Practical Solution on a change in a depreciation method due to Tax Reform 2016," and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The impact of this change on operating income and income before income taxes for the year ended March 31, 2017, is immaterial. As the effect of this change on segment information is also immaterial.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current—Other	¥ 14,607	¥ 12,506	$ 130,421
Total	¥ 14,607	¥ 12,506	$ 130,421
Noncurrent:			
Equity securities	¥ 22,005	¥ 19,324	$ 196,472
Other	2	2	19
Total	¥ 22,007	¥ 19,326	$ 196,491

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2017 and 2016, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2017				2016				2017			
	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	¥ 5,822	¥ 15,653	¥ 37	¥ 21,438	¥ 5,811	¥ 12,975	¥ 93	¥ 18,693	$ 51,991	$ 139,757	$ 328	$ 191,420
Certificate of deposit	9,500			9,500	12,400			12,400	84,821			84,821
Trust fund investments and other	5,001			5,001					44,654			44,654
Other	106			106	106			106	946			946

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2017 and 2016, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2017 and 2016, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2017			2016			2017		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 142	¥ 63		¥ 244	¥ 192		$ 1,263	$ 561	

5. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise	¥ 1,384	¥ 2,750	$ 12,360
Finished products	3,521	3,740	31,440
Work in process	7,724	7,520	68,962
Raw materials	9,556	10,143	85,318
Total	¥ 22,185	¥ 24,153	$ 198,080

6. LONG-LIVED ASSETS AND GOODWILL

The Azbil Group recognized impairment losses for the years ended March 31, 2017 and 2016, as follows:

		Millions of Yen		Thousands of U.S. Dollars
		2017	2016	2017
Azbil	Furniture and fixtures	¥ 11		$ 100
	Construction in progress	1		13
	Subtotal	12		113
Azbil Saudi Arabia Limited	Buildings and structures	349		3,118
	Machinery and equipment, etc.	58		520
	Furniture and fixtures	39		345
	Software	2		12
	Subtotal	448		3,995
Azbil Telstar Benelux, B.V.	Buildings and structures	57		506
	Machinery and equipment	20		179
	Furniture and fixtures	11		101
	Software	22		193
	Subtotal	110		979
Azbil Telstar, S.L.U.	Goodwill		¥ 3,012	
Azbil Vortek, LLC	Goodwill		300	
Azbil Kimmon Co., Ltd.	Buildings and structures		60	
	Machinery and equipment		4	
	Furniture and fixtures, etc.		2	
	Land		18	
	Subtotal		84	
Total		¥ 570	¥ 3,396	$ 5,087

The Azbil Group groups assets based on the classification of managerial accounting, and groups idle assets individually.

For the year ended March 31, 2017, as a result of reviewing expected future earnings from a part of the Life Automation business of Azbil, the carrying amount of the relevant asset group was written down by ¥12 million ($113 thousand) in total, and this reduction was recognized as an impairment loss.

As a result of reviewing expected future earnings from the Advanced Automation business of Azbil Saudi Limited, a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥448 million ($3,995 thousand) to the recoverable amount, and this reduction was recognized as an impairment loss. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 9.8%.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Telstar Benelux, B.V., a consolidated subsidiary of Azbil, which was carried out in the process of revising and restructuring the business, the carrying amount of the relevant asset group was written down by ¥110 million ($979 thousand) in total, and this reduction was recognized as an impairment loss.

For the year ended March 31, 2016, as a result of reviewing expected future earnings from a part of the Life Automation business of Azbil Telstar, S.L.U., the carrying amount of the relevant asset group was written down by ¥3,012 million in total, and this reduction was recognized as impairment loss.

As a result of reviewing expected future earnings from Advanced Automation business of Azbil Vortek, LLC, a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥300 million to the recoverable amount, and this reduction was recognized as impairment loss. The recoverable amount was measured on the basis of value in use calculated by a discount rate of 12.7%.

As a result of the decision to close two of its factories to consolidate its production bases, Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥83 million to the recoverable amount, and this reduction was recognized as an impairment loss. 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.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2017 and 2016, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 8.8% as of March 31, 2017, and from 0% to 10.6% as of March 31, 2016.

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 4.9% in 2017 and from 0.0% to 4.9% in 2016:			
Collateralized	¥ 30	¥ 121	$ 270
Unsecured	589	727	5,267
Bonds due serially through 2016 with interest rates of 0.7% in 2016—			
Collateralized		10	
Obligations under finance leases	780	852	6,960
Total	1,399	1,710	12,497
Less current portion	(251)	(383)	(2,245)
Long-term debt, less current portion	¥ 1,148	¥ 1,327	$ 10,252

As of March 31, 2017, Azbil had an unused line of credit amounting to ¥30,000 million ($267,857 thousand), of which ¥10,000 million ($89,286 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($178,571 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2017, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 251	$ 2,245
2019	163	1,454
2020	443	3,954
2021	125	1,115
2022	136	1,213
2023 and thereafter	281	2,516
Total	¥ 1,399	$ 12,497

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 342	$ 3,053
Buildings and structures	73	656
Total	¥ 415	$ 3,709

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, 2017 and 2016, for directors and Audit & Supervisory Board members is ¥112 million ($1,003 thousand) and ¥133 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 17,305	¥ 45,296	$ 154,506
Current service cost	566	827	5,051
Interest cost	34	203	307
Actuarial losses	109	1,622	975
Benefits paid	(1,431)	(1,949)	(12,778)
Decrease with transfer to the defined contribution pension plan		(28,686)	
Others	(8)	(8)	(76)
Balance at end of year	¥ 16,575	¥ 17,305	$ 147,985

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 11,611	¥ 37,138	$ 103,669
Expected return on plan assets	457	419	4,081
Actuarial (losses) gains	(281)	19	(2,509)
Contributions from the employer	53	807	473
Benefits paid	(960)	(1,175)	(8,567)
Decrease with transfer to the defined contribution pension plan		(25,591)	
Others	(7)	(6)	(67)
Balance at end of year	¥ 10,873	¥ 11,611	$ 97,080

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 11,354	¥ 12,128	$ 101,374
Plan assets	(10,873)	(11,611)	(97,080)
Total	481	517	4,294
Unfunded defined benefit obligation	5,221	5,177	46,611
Net liability arising from defined benefit obligation	¥ 5,702	¥ 5,694	$ 50,905

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 5,704	¥ 5,699	$ 50,931
Asset for retirement benefits	(2)	(5)	(26)
Net liability arising from defined benefit obligation	¥ 5,702	¥ 5,694	$ 50,905

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 566	¥ 827	$ 5,051
Interest cost	34	203	307
Expected return on plan assets	(457)	(419)	(4,081)
Recognized actuarial losses	224	293	1,998
Amortization of prior service cost	(154)	(215)	(1,378)
Others	138	424	1,233
Net periodic benefit costs	¥ 351	¥ 1,113	$ 3,130

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ (154)	¥ (860)	$ (1,378)
Actuarial gains	(166)	(384)	(1,483)
Reconciliation on abolishment of retirement benefit plan		(404)	
Total	¥ (320)	¥ (1,648)	$ (2,861)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (1)	¥ 153	$ (9)
Unrecognized actuarial gains	(2,417)	(2,251)	(21,584)
Total	¥ (2,418)	¥ (2,098)	$ (21,593)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Life insurance company general accounts	60%	57%
Debt investments	15	30
Short-term assets	14	9
Equity investments	8	2
Others	3	2
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, 2017 and 2016, are set forth as follows:

	2017	2016
Discount rate	0.2%	0.2%
Expected rate of return on plan assets	4.0	3.5

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 30.8% for the year ended March 31, 2017, and 33.0% for the year ended March 31, 2016.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Pension and severance costs	¥ 1,781	¥ 1,756	$ 15,898
Accrued expenses	4,195	4,312	37,451
Depreciation	766	758	6,836
Loss on impairment of property, plant and equipment	202	177	1,808
Allowance for doubtful receivables	394	810	3,520
Tax loss carryforwards	2,470	1,809	22,056
Others	2,552	2,129	22,787
Less valuation allowance	(3,944)	(3,482)	(35,214)
Total	8,416	8,269	75,142
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,716	3,900	42,111
Special advanced depreciation	981	1,034	8,760
Others	268	122	2,393
Total	5,965	5,056	53,264
Net deferred tax assets	¥ 2,451	¥ 3,213	$ 21,878

In addition to the above, the Azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million ($1,618 thousand) at March 31, 2017, and ¥181 million at March 31, 2016.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.8%	33.0%
Expenses not deductible for income tax purposes	0.9	1.4
Tax credits for qualified expenses	(4.1)	(8.3)
Valuation allowance	(0.4)	(4.9)
Amortization of goodwill	0.1	1.7
Impairment loss of goodwill		8.3
Effect of tax rate reduction		3.1
Others—net	0.8	0.6
Actual effective tax rate	28.1%	34.9%

At March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥9,795 million ($87,450 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
2018	¥ 72	$ 641
2019	55	487
2020	24	214
2021	30	267
2022	34	305
2023 and thereafter	9,580	85,536
Total	¥ 9,795	$ 87,450

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2017 and 2016, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Gain on reversal of environmental expenses		¥ 291	
Restructuring loss		(142)	
Loss on plants reorganization		(266)	
Other	¥ 88	63	$ 785
Total	¥ 88	¥ (54)	$ 785

Other than the above, loss on liquidation of subsidiaries and associated companies was recorded because all shares of Beijing YTYH Intelli-Technology Co., Ltd., the former subsidiary of Azbil were transferred.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,446 million ($93,268 thousand) and ¥11,012 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, were ¥5,420 million ($48,392 thousand) and ¥5,606 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:

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 47	¥ 120	$ 416
Due after one year	115	162	1,028
Total	¥ 162	¥ 282	$ 1,444

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
	2017	2016	2017
Depreciation expense		¥ 3	
Lease payments		3	

Assets under finance leases were depreciated by the straight-line method assuming the lease periods as useful lives without residual value.

The minimum rental commitments under noncancelable operating leases as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 872	¥ 874	$ 7,784
Due after one year	1,260	2,117	11,247
Total	¥ 2,132	¥ 2,991	$ 19,031

(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, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Receivables under finance leases:			
Due within one year	¥ 47	¥ 120	$ 416
Due after one year	115	162	1,028
Total	¥ 162	¥ 282	$ 1,444

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Azbil Group makes risk reduction 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 foreign currency 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, 2017		
	2017			2016					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 59,837	¥ 59,837		¥ 55,947	¥ 55,947		$ 534,261	$ 534,261	
Notes and accounts receivable—trade	88,500	88,500		91,772	91,772		790,187	790,187	
Investment securities	21,438	21,438		18,693	18,693		191,420	191,420	
Total	¥ 169,775	¥ 169,775		¥ 166,412	¥ 166,412		$1,515,868	$1,515,868	
Short-term borrowings	¥ 10,555	¥ 10,555		¥ 11,747	¥ 11,747		$ 94,243	$ 94,243	
Current portion of long-term debt	251	251		383	383		2,245	2,245	
Notes and accounts payable—trade	40,456	40,456		45,587	45,587		361,215	361,215	
Long-term debt	1,148	1,149	¥ (1)	1,327	1,330	¥ (3)	10,252	10,260	$ (8)
Total	¥ 52,410	¥ 52,411	¥ (1)	¥ 59,044	¥ 59,047	¥ (3)	$ 467,955	$ 467,963	$ (8)

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, 2017
	2017	2016	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 724	¥ 789	$ 6,466

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

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2017	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	¥ 59,837				$ 534,261			
Notes and accounts receivable—trade	84,995	¥ 3,442	¥ 63		758,886	$ 30,733	$ 568	
Total	¥ 144,832	¥ 3,442	¥ 63		$1,293,147	$ 30,733	$ 568	

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 currency exchange rate 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, 2017			
	2017				2016							
	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	¥ 391								$ 3,496		$ (4)	$ (4)
Selling Euro	356		¥ (4)	¥ (4)					3,177		(35)	(35)
Buying U.S. dollars	80		2	2	¥ 173		¥ 3	¥ 3	710		21	21
Buying Yen	20								176		(2)	(2)

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2017		
		2017			2016					
	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)			
Selling IN rupee	Receivables				1		1			
Buying U.S. dollars	Payables				30		1			
Buying Euro	Payables				52					
Buying IN rupee	Payables	¥ 427		¥ 43	536		(62)	$ 3,815		$ 388
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	120			120	¥ 15		1,071		

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, etc., 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, 2017, the Azbil Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans	¥ 2	$ 18

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 2,784	¥ (3,033)	$ 24,861
Reclassification adjustments to profit or loss	(57)	(2)	(509)
Amount before income tax effect	2,727	(3,035)	24,352
Income tax effect	(815)	1,152	(7,276)
Total	¥ 1,912	¥ (1,883)	$ 17,076
Deferred gain (loss) on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 43	¥ (1)	$ 389
Reclassification adjustments to profit or loss	1		7
Amount before income tax effect	44	(1)	396
Income tax effect	(11)		(100)
Total	¥ 33	¥ (1)	$ 296
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (888)	¥ (346)	$ (7,930)
Reclassification adjustments to profit or loss	(95)		(852)
Amount before income tax effect	(983)	(346)	(8,782)
Total	¥ (983)	¥ (346)	$ (8,782)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (389)	¥ (1,625)	$ (3,479)
Reclassification adjustments to profit or loss	69	(23)	618
Amount before income tax effect	(320)	(1,648)	(2,861)
Income tax effect	112	518	1,002
Total	¥ (208)	¥ (1,130)	$ (1,859)
Total other comprehensive income (loss)	¥ 754	¥ (3,360)	$ 6,731

18. SUBSEQUENT EVENTS

a. Disposal, Cancellation and Repurchase of Treasury Shares

Azbil implemented the following matters relating to its 1,865,659 treasury shares (as of March 31, 2017), which was resolved at the Board of Directors' meeting held on May 12, 2017.

(1) Disposal of treasury shares through third party allocation (hereinafter referred to as the "Disposal of Treasury Shares")

(a) Purpose of and Reason for the Disposal

In the fiscal year ended March 31, 2017, Azbil introduced an employee stock ownership plan, an incentive plan for offering Azbil's stocks to its employees (hereinafter referred to as the "System"; a J-ESOP trust thereafter referred to as the "Trust" has been established in accordance with a trust contract with Mizuho Trust & Banking Co., Ltd. for the System). In relation to the System, Azbil determined the details, including the date of the establishment of the Trust.

The Disposal of Treasury Shares is intended to dispose of the treasury shares of Azbil through allocation to Trust & Custody Services Bank, Ltd. (Trust E), (a re-trustee entrusted by Mizuho Trust & Banking Co., Ltd., which is the trustee of the Trust), which holds and disposes of the shares of Azbil for the operations of the System.

(b) Outline of the Disposal

1. Date of disposal:	May 29, 2017
2. Number of shares disposed:	1,000,000 common stock
3. Disposal price:	¥3,970 ($35.4) per share
4. Total disposal amount:	¥3,970 million ($35,446 thousand)
5. Disposal method:	Allocation to a third party
6. Disposal to:	Trust & Custody Services Bank, Ltd. (Trust E)
7. Other:	The Disposal of Treasury Shares is executed when a notification is filed pursuant to the Financial Instruments and Exchange Act of Japan.

(Reference) Status of treasury shares

As of March 31, 2017:	1,865,659 shares
After the Disposal of Treasury Shares:	865,659 shares

(2) Cancellation of treasury shares

Cancellation of treasury shares pursuant to Article 178 of the Companies Act

1. Type of shares canceled:	Common stock of Azbil
2. Number of shares canceled:	865,659 shares (1.2% of total number of issued shares before the cancellation)
3. Total number of issued shares after the cancellation:	74,250,442 shares
4. Cancellation date:	May 31, 2017

In addition, Azbil also resolved to repurchase of its own shares, aiming to develop flexible capital policies, as follows:

(3) Repurchase of Azbil's own shares

Repurchase of own shares pursuant to Article 156 and Article 165, paragraph 3 of the Companies Act

1. Reason for share repurchase:	Taking into consideration the outlook for future business performance, Azbil aims not only to improve capital efficiency, but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
2. Type of shares to be repurchased:	Common stock of Azbil
3. Total number of shares to be repurchased:	Up to 800,000 shares (1.1% of total number of common stock issued, excluding treasury shares)
4. Total amount of repurchase:	Up to ¥3,000 million ($26,786 thousand)
5. Period of repurchase:	From May 30, 2017 to July 31, 2017
6. Method of repurchase:	Purchase in the open market through a trust bank

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at Azbil's shareholders' meeting held on June 27, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40.0 ($0.36) per share	¥ 2,930	$ 26,161

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."

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

	Millions of Yen							
	2017							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 116,154	¥ 94,820	¥ 43,775	¥ 254,749	¥ 62	¥ 254,811		¥ 254,811
Intersegment sales or transfers	268	664	342	1,274	8	1,282	¥ (1,282)	
Total	¥ 116,422	¥ 95,484	¥ 44,117	¥ 256,023	¥ 70	¥ 256,093	¥ (1,282)	¥ 254,811
Segment profit (loss)	¥ 11,512	¥ 7,204	¥ 1,420	¥ 20,136	¥ 19	¥ 20,155	¥ (10)	¥ 20,145
Segment assets	65,320	68,639	29,945	163,904	1	163,905	99,412	263,317
Other:								
Depreciation	1,177	2,030	868	4,075		4,075		4,075
Increase in property, plant and equipment and intangible assets	1,470	1,904	786	4,160		4,160		4,160
Impairment losses of assets		448	122	570		570		570

	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

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 1,037,089	$ 846,613	$ 390,844	$ 2,274,546	$ 551	$ 2,275,097		$ 2,275,097
Intersegment sales or transfers	2,392	5,924	3,052	11,368	75	11,443	$ (11,443)	
Total	$ 1,039,481	$ 852,537	$ 393,896	$ 2,285,914	$ 626	$ 2,286,540	$ (11,443)	$ 2,275,097
Segment profit (loss)	$ 102,786	$ 64,323	$ 12,682	$ 179,791	$ 167	$ 179,958	$ (90)	$ 179,868
Segment assets	583,217	612,845	267,362	1,463,424	15	1,463,439	887,606	2,351,045
Other:								
Depreciation	10,508	18,126	7,753	36,387		36,387		36,387
Increase in property, plant and equipment and intangible assets	13,127	16,998	7,014	37,139		37,139		37,139
Impairment losses of assets		3,995	1,092	5,087		5,087		5,087

Note: Corporate assets of ¥99,412 million ($887,606 thousand) for the year ended March 31, 2017, 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						
2017						
Japan	Asia	China	North America	Europe	Other	Total
¥ 211,431	¥ 19,501	¥ 8,574	¥ 3,983	¥ 8,419	¥ 2,903	¥ 254,811

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

Thousands of U.S. Dollars						
2017						
Japan	Asia	China	North America	Europe	Other	Total
$ 1,887,778	$ 174,112	$ 76,554	$ 35,560	$ 75,170	$ 25,923	$ 2,275,097

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

(b) Property, plant and equipment

Millions of Yen						
2017						
Japan	Asia	China	North America	Europe	Other	Total
¥ 19,956	¥ 1,581	¥ 941	¥ 80	¥ 475	¥ 191	¥ 23,224

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

Thousands of U.S. Dollars						
2017						
Japan	Asia	China	North America	Europe	Other	Total
$ 178,179	$ 14,119	$ 8,399	$ 714	$ 4,242	$ 1,702	$ 207,355

(3) Information about Major Customers

This information is omitted as no client 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							
	2017							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Amortization of goodwill		¥ 77		¥ 77		¥ 77		¥ 77
Goodwill at March 31, 2017		74		74		74		74

	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

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Amortization of goodwill		$ 684		$ 684		$ 684		$ 684
Goodwill at March 31, 2017		661		661		661		661

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, 2017, 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, 2017, 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 20, 2017

Member of
Deloitte Touche Tohmatsu Limited