



*Note: This English translation is an abridged version of the original notice in Japanese.  
In the event of discrepancies, the Japanese version shall prevail.*

## **Azbil Corporation**

**June 5, 2017**

2-7-3 Marunouchi, Chiyoda-ku, Tokyo

### **Notice of the 95th Ordinary General Meeting of Shareholders**

Dear Shareholders:

I would like to express my thanks for your loyal patronage.

You are cordially invited to attend the Ordinary General Meeting of Shareholders of Azbil Corporation, which will be held on Tuesday, June 27, 2017, at 10:00 a.m. in the Hall, 4th Floor, The JP TOWER Hall & Conference, 2-7-2 Marunouchi, Chiyoda-ku, Tokyo.

Yours faithfully,

Hirozumi Sone  
President and Chief Executive Officer

## **Meeting Agenda**

### **Items to be Reported**

Item 1: Business Reports, Consolidated Financial Statements, and Audit Reports covering Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 95th term from April 1, 2016 to March 31, 2017

Item 2: Non-Consolidated Financial Statements for the 95th term from April 1, 2016 to March 31, 2017

### **Item to be Resolved**

Item : Appropriation of Surplus

## Reference Materials for the General Meeting of Shareholders

### Item : Appropriation of Surplus

The Company regards the distribution of profit to shareholders as one of the most important management issues. Taking comprehensive account of consolidated business results, the levels of return on equity and dividend on equity ratio, as well as internal reserves for future business development and the reinforcement of corporate strength, management strives towards improving dividend levels while maintaining stable dividends.

Based on this policy, while taking comprehensive account of consolidated business results, financial conditions in the current term and the future business environment, etc., to promote further distribution of profit to shareholders, the year-end dividends for the 95th term are proposed as follows, including a commemorative dividend to mark the 110th anniversary of the Company's founding.

(1) Type of dividend

Cash

(2) Allocation of dividends to shareholders, and total amount

¥40 per share of Company common stock

Total amount: ¥2,930,017,680

(including a commemorative dividend of ¥2.50 per share)

As the interim dividend of ¥37 per share (including a commemorative dividend of ¥2.50) was paid in December 2016, the total dividend for full year is ¥77 per share.

(3) Effective date of payments for dividends from surplus

June 28, 2017

## **Business Report**

(From April 1, 2016 to March 31, 2017)

### 1. Matters Concerning the Present State of the Corporate Group

#### (1) Financial results for the current fiscal year

In the current consolidated fiscal year, Japan's economy continued its moderate recovery, although there was evidence of a delay in improvement in some markets. Supported by a recovery in IT demand, production and exports continued to pick up, manufacturing industry earnings improved, and business confidence has been on the rise. Companies are still taking a cautious approach to capital investment, but investment directed at equipment maintenance and replacement continued to be robust. Looking at overseas economies, despite some concerns about the future outlook, including geopolitical risks, in China there has been a pause observed in the economic slowdown, and the US economic climate continues to be sound thanks to an increase in personal consumption and an improvement in corporate earnings. In Europe, too, there was continued evidence of a moderate recovery underway.

Guided by the philosophy of “human-centered automation”, the azbil Group has in the current medium-term plan (FY2013–FY2016) set out three key initiatives <sup>Note 1</sup> and we have been developing and expanding our business with unique solutions – only available from the azbil Group – based on products, technologies, and services. In addition, in order to realize sustained growth over the medium- to long- term, we have been implementing – both in Japan and overseas – business structure reforms and measures to enhance the business infrastructure. In the current consolidated fiscal year, taking into consideration the aforementioned economic circumstances in Japan and abroad as well as the business environment for the azbil Group, we have continued to implement such measures as the reallocation of management resources including human resources, as well as the restructuring of business and production systems. As a result, the business foundation and profitability have been improved, and we have thus succeeded in creating the groundwork for the next medium-term plan (FY2017–FY2019), which starts from FY2017.

Turning to the financial results for the current consolidated fiscal year, orders received fell overall for the Building Automation (BA) business owing to a number of factors. Although in Japan the business environment for the construction of large-scale buildings has remained robust, because there had been a revision <sup>Note 2</sup> made in the previous fiscal year to the way multi-year contracts are recorded, and because there had been orders received for large-scale projects last year, orders received this year fell. They were further impacted by a transient dip in new building projects and by seeking higher profit margins in the domestic market. In addition, overseas orders received were impacted by the appreciation of the yen up to the second half of 2016, and by the transfer of all shares in a subsidiary. Orders received similarly fell for the Advanced Automation (AA) business owing to exchange rates; however, thanks to a market recovery starting in the autumn of last year and sales promotion activities focused on selected targets in Japan and abroad, compared with last year orders received actually increased if the impact of exchange rates is excluded. In the Life Automation (LA) business orders received were down because large-scale projects had been recorded in the previous consolidated fiscal year in the Life Science Engineering (LSE) field, and this was exacerbated by the impact of exchange rates and a reassessment of the cleanroom business, etc. Consequently, overall orders received were 252,314 million yen, down 7.8% from the 273,613 million yen recorded in the previous consolidated fiscal year.

Regarding sales, as a result of an improvement in market conditions and measures taken to secure sales performance, AA business sales grew. However, sales for the BA business and LA business decreased, partly as a result of business structure reforms and exchange rate fluctuations. Overall, therefore, sales were 254,810 million yen, virtually unchanged from the 256,889 million yen recorded in the previous consolidated fiscal year.

Turning to profits, operating income increased. This reflects not only an improved profit structure and the success of business structure reforms but also a reduction in amortization of goodwill. Consequently, overall operating income was 20,145 million yen, up 17.6% on the 17,135 million yen recorded in the previous consolidated fiscal year. Ordinary income was 20,475 million yen, up 23.1% on the 16,627 million yen recorded in the previous consolidated fiscal year. Net income attributable to owners of parent was 13,153 million yen, up 59.1% on the 8,268 million yen recorded in the previous consolidated fiscal year.

\*1: Three Key Initiatives

- Becoming a long-term partner for the customer and the community by offering solutions based on our technologies and products
- Taking global operations to the next level, with global expansion by moving into new regions and making a qualitative change of focus
- Becoming a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure

\*2: A revision made to the way orders received for multi-year contracts are recorded

In recent years there has been an increase in smaller service contracts that span several years, as is the case with some large-scale service projects, and this led to a situation in which they began to have an increasing impact on the orders received recorded for an accounting period. For this reason, in the previous consolidated fiscal year a revision was made to the way orders received for such multi-year contracts are recorded for the domestic market. This revision led to a transient jump in the amount of orders received for multi-year contracts recorded in the previous consolidated fiscal year.

The results for the individual reportable segments are as follows.

### **Building Automation (BA) Business**

In the domestic market, in addition to several urban redevelopment plans for the Tokyo metropolitan area, demand for energy/cost-saving solutions has continued to be robust. As a result, sales in the market for existing buildings have, despite a slight fall, continued to be strong, and steady growth has been achieved in the service market. Nevertheless, because there was a temporary drop in sales in the market for new buildings, overall domestic sales were largely unchanged from the previous fiscal year. Overseas, steady progress has been made with the development of local markets, but owing to the effect of exchange rates and the transfer of all shares in a subsidiary, sales decreased.

Consequently, BA business sales were 116,421 million yen, down 2.0% from the 118,835 million yen recorded in the previous consolidated fiscal year. Turning to profits, while the profitable service market did see increased sales, profits decreased thanks to the impact of optimizing staff allocation to reinforce structures for ensuring on-site job processing capabilities, etc. As a result, segment profit was 11,512 million yen, down 4.2% from the 12,014 million yen recorded in the previous consolidated fiscal year.

### **Advanced Automation (AA) Business**

Overseas sales were depressed by fluctuations in foreign exchange rates, but there was a gradual recovery in China and the Asian region. Also, expansion was achieved in domestic and foreign markets related to semiconductor manufacturing equipment, etc. Leveraging a tripartite

management system based on the three business units (CP, IAP & SS), <sup>Note 3</sup> sales promotion activities have been actively implemented for targeted products and regions to achieve the aforementioned business expansion. Owing in part to the success of this initiative, overall sales increased.

Consequently, AA business sales were 95,484 million yen, up 2.1% on the 93,538 million yen recorded in the previous consolidated fiscal year. Despite the negative impact of exchange rate fluctuations, profits increased significantly over last year, thanks to various measures aimed at improving the profit structure. Segment profit was 7,204 million yen, up 43.3% on the 5,029 million yen recorded in the previous consolidated fiscal year.

\*3: CP business: Control Products business (component business handling digital instrumentation equipment, micro-switches, sensors, combustion control devices, etc.)

IAP business: Industrial Automation Products business (component business handling industrial instruments, transmitters, control valves, etc.)

SS business: Solution & Service business (control systems and service/maintenance business)

### **Life Automation (LA) Business**

The LA business covers three fields: Lifeline (gas/water meters, etc.), Life Science Engineering (serving the pharmaceutical/medical fields), and residential central air-conditioning systems.

In the field of gas and water meters, sales increased thanks mainly to sales growth for LP gas meters, reflecting the demand cycle. However, profits were largely unchanged from last year owing to lower sales of town gas meters and increased research & development expenses.

In the Life Science Engineering field, sales were down due to the impact of exchange rates and a reassessment of the cleanroom business, etc. in Europe and South America, but profits improved thanks to a reduction in amortization of goodwill and the progress of initiatives aimed at achieving business structure reforms, including reviews of current business.

In the residential central air-conditioning systems field, sales increased owing to improvements made to sales and development systems implemented in the previous fiscal year. Furthermore, the profit structure was strengthened.

Consequently, LA business sales were 44,116 million yen, down 3.4% from the 45,646 million yen recorded in the previous consolidated fiscal year. Segment profit was considerably improved at 1,420 million yen; for comparison, a segment profit of 79 million yen was recorded for the previous consolidated fiscal year.

### **Others**

In Other business, sales of 70 million yen were recorded for the current fiscal year; in the previous fiscal year sales were 66 million yen. Segment profit was 18 million yen; in the previous fiscal year there was a segment profit of 17 million yen.

## Orders received and Sales by segment

(Millions of yen)

Reportable segment	Orders received			Sales		
	94th term (Fiscal year ended March 31, 2016)	<b>95th term (Fiscal year ended March 31, 2017)</b>	Increase/ decrease ratio (%)	94th term (Fiscal year ended March 31, 2016)	<b>95th term (Fiscal year ended March 31, 2017)</b>	Increase/ decrease ratio (%)
Building Automation	133,863	<b>117,649</b>	(12.1)	118,835	<b>116,421</b>	(2.0)
Advanced Automation	94,872	<b>93,724</b>	(1.2)	93,538	<b>95,484</b>	2.1
Life Automation	45,784	<b>42,080</b>	(8.1)	45,646	<b>44,116</b>	(3.4)
Total of reportable segments	274,521	<b>253,453</b>	(7.7)	258,020	<b>256,022</b>	(0.8)
Other	66	<b>70</b>	4.8	66	<b>70</b>	4.8
Elimination	(974)	<b>(1,208)</b>	—	(1,197)	<b>(1,281)</b>	—
Consolidated	273,613	<b>252,314</b>	(7.8)	256,889	<b>254,810</b>	(0.8)

### (2) Principal Business (As of March 31, 2017)

—The azbil Group businesses—While realizing safety, comfort and fulfillment through our three businesses, contribute to the global environment preservation.

The azbil Group pursues “human-centered automation” for people’s safety, comfort and fulfillment and to contribute to the global environment, developing its building automation business in the building market and its advanced automation business in the industrial market, as well as its life automation business through lifeline and life sciences research in the lifestyle-focused market.

The azbil Group handles the following major products.

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#### Segment

BA Building Automation Business

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#### Major Products

- |                              |  |
|------------------------------|--|
| ● Building automation system | ● Building automation service                    |
| ● Controllers                | ● Cloud-based services for buildings             |
| ● Sensors                    | ● Total energy management services               |
| ● Valves                     | ● Comprehensive building management services     |
| ● User-operated devices      | ● Cell airflow control system                    |
| ● Security systems           | ● Environmental solutions for data centers, etc. |
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**Segment**

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AA Advanced Automation Business

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**Major Products**

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- |                                  |   |
|----------------------------------|---|
| ● Monitoring and control systems | ● Combustion safety and control systems |
| ● Solution packages              | ● Facility diagnosis devices            |
| ● Field devices                  | ● Maintenance services                  |
| ● Valves/Positioner              | ● Energy-saving solutions for factories |
| ● Controllers                    | ● Lubricators, etc.                     |
| ● Sensors/Switches               |   |
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**Segment**

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LA Life Automation Business

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**Major Products**

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- |                       |  |
|-----------------------|--|
| ● Gas meters          | ● Flowmeters   |
| ● Safety equipment    | ● Residential central air-conditioning systems                     |
| ● Supplying equipment | ● Facilities and equipment for research laboratories and hospitals |
| ● System equipment    | ● Equipment and services for pharmaceutical plants, etc.           |
| ● Water meters        |  |
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**Segment**

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Others

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**Major Products**

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- Insurance agent business
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(3) Capital Investment, etc.

Capital investment in the current fiscal year totaled ¥4,159 million, as we invested in new product development and streamlining.

(4) Fund Raising

There is no important fund raising to list for the current fiscal year.

## (5) Issues to be Tackled

In striving to ensure medium- to long-term business development and continuous enhancement of corporate value, the azbil Group is keen to meet the expectations of all stakeholders, not least the shareholders. We have accordingly established long-term goals for the azbil Group. To achieve these goals, through the pursuit of “human-centered automation” in our three business segments (BA, AA and LA), we are now implementing three key initiatives: (1) becoming a long-term partner for the customer and the community by offering solutions based on our technologies and products; (2) taking global operations to the next level, with global expansion by moving into new regions and making a qualitative change of focus; and to realize these goals by (3) becoming a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure. In this way, we have made progress with reforms to the business structure that can lead to business expansion.

However, giving due consideration to the changing conditions and environment, domestically and internationally, if we are to achieve further growth, then what is called for is a further acceleration of structural reforms for each business, in Japan and abroad, the creation of advanced research & development/production systems for the Group, and the development of products that accommodate technological innovations (e.g. IoT, big data and AI) while utilizing the fruits of efforts for structural reforms and strengthening of the profit structure in the previous medium-term plan and others. We are also aiming to achieve continuous growth through strengthening corporate governance, allocating management resources effectively and boldly, and also working to accelerate these reforms and ensure they take firm root.

- 1) In Japan, all three businesses are located in mature industries, yet there are significant differences in the environment each finds itself in. For the BA business, in order to tap into the demand that is growing with the urban redevelopment plans of the Tokyo metropolitan area, we will strengthen capabilities that enable job fulfillment with appropriate working hours by continuously transferring human resources from within the Group and making structural changes and also with an awareness of work style reforms. In addition, we will build up renovation/service proposals for existing buildings to prepare for when the redevelopment plans have run their course. At the same time, we will offer new added value through life cycle of customers and improve internal efficiency for its offering by enhancing functions of cloud services, and other means. The AA business will promote growth by selecting and concentrating on business fields that can be expected to grow and offer added value in the future from a wide variety of different markets. We will continue our implementing reforms aimed at achieving a highly profitable business structure by developing business models closely matching to customer needs and the market environments for each of its three sub-segments (CP, IAP, SS).\* One such initiative is our development of solutions through the Mass Flow Controller F4H, which focuses specifically on the required functions for the introduction of IoT in manufacturing and analysis equipment and provides such functions in a miniaturized package, in the manufacturing process that requires gas flow control. In the LA business, we will strengthen tie-ups with the BA and the AA businesses, promoting the energy management business centering on enhancement of product capabilities through the adoption of smart meters, introducing Variable Air Volume (VAV) control that enables both “greater comfort” and “energy saving” in residential central air-conditioning systems for detached houses, and initiating expansion into new service fields in the manufacturing equipment field and so forth. In these ways, we will continue vigorously reallocating and optimizing resources within the azbil Group to match changes in the business environment, aiming to

ensure secure profits in mature fields as well as a further shift to new fields with potential for growth.

- \* CP business: Control Products business (component business handling digital instrumentation equipment, micro-switches, sensors, combustion control devices, etc.)
  - IAP business: Industrial Automation Products business (component business handling industrial instruments, transmitters, control valves, etc.)
  - SS business: Solution & Service business (control systems and service/maintenance business)

- 2) In overseas markets, as one approach to further strengthen the business foundation so as to increase earnings, we are aiming to expand business globally by responding to local market needs – such as large-scale projects, which are on the increase – and introducing new products. In the BA business, “savic-net G5,” a new generation building automation system was released in order to boost the share in the Asian market. Starting with the installment of “savic-net G5” in the multipurpose complex building of a major developer in Thailand, we are accelerating proposals for large-scale projects in countries throughout Southeast Asia. This business has potential for growth. In the AA business, as in Japan, we accelerate its growth through selection and concentration of business segments. We will work on the development of the packaged solutions focused on competitive products and services throughout a life cycle of customers utilizing IoT, and other efforts. As regards company management, at our overseas subsidiaries we will continue to advance with structural reforms and strengthen administration and governance. Europe-based Azbil Telstar, S.L.U., which is in charge of the Life Science Engineering field in the LA business, has conducted the review of business structure. We will continue to bolster profitability by acting to enhance project management systems and pursue the product development utilizing resources of the entire azbil Group. As one of these initiatives, we developed a freeze-drying device with conveying functions to which magnetic actuators are applied for pharmaceutical manufacturing to save space, while realizing a dustless and highly sterile system.
- 3) To lend further impetus to azbil Group business expansion, we will reorganize the Group’s production structure and concentrate and optimize its research & development resources to enhance product capabilities. Along with reorganizing factories in Japan, we also expanded our overseas production in Thailand and China (Dalian). In step with an expansion in overseas procurement, we will leverage reforms of our production systems to enhance make our products more cost-competitive. Furthermore, in our research & development activities, in response to the industrial structural reform through the fusion of goods and information, we will build up development systems to keep up with technological innovations (e.g. IoT, big data and AI), and promote cultivation of new automation opportunities in a position closer to corporate management even in the operation of plants and buildings.
- 4) We will promote Group management and enhance corporate governance systems. At the same time, the entire azbil Group continues to be engaged in promotion of CSR

management in a number of priority initiatives focusing on risk management (quality, product liability, disaster prevention, BCP and information security), compliance (corporate ethics and legal conformity), human-centric management, contributing to the global environment, and contributing to the society. In particular, we are working to comply with Japan's Corporate Governance Code in order to enhance the integrity, neutrality and transparency of management. And we are actively progressing with measures to ensure a constructive dialog with all of our stakeholders so as to facilitate sustained growth and enhancement of corporate value over the medium- to long- term.

(6) Financial position and results of operations

Category	92nd term (Fiscal year ended March 31, 2014)	93rd term (Fiscal year ended March 31, 2015)	94th term (Fiscal year ended March 31, 2016)	<b>95th term Fiscal year under review (Fiscal year ended March 31, 2017)</b>
Orders received (Millions of yen)	252,435	266,925	273,613	<b>252,314</b>
Net sales (Millions of yen)	248,416	254,469	256,889	<b>254,810</b>
Operating income (Millions of yen)	13,903	15,337	17,135	<b>20,145</b>
Ordinary income (Millions of yen)	14,599	17,141	16,627	<b>20,475</b>
Net income attributable to owners of parent (Millions of yen)	7,669	7,168	8,268	<b>13,153</b>
Net income per share (Yen)	103.85	97.07	112.73	<b>179.57</b>
Total assets (Millions of yen)	253,448	265,718	259,127	<b>263,317</b>
Net assets (Millions of yen)	144,978	160,294	156,966	<b>165,751</b>
Shareholders' equity ratio (%)	56.5	59.6	59.8	<b>62.2</b>
Net assets per share (Yen)	1,940.56	2,143.11	2,116.09	<b>2,236.47</b>

(7) Significant subsidiaries (As of March 31, 2017)

Company	Capital Stock	The Company's Investment Ratio (%)	Principal Business
Azbil Trading Co., Ltd.	JPY Million 50	100.00	In the FA field, sales, design, and test operations of instruments and systems for control, measurement, inspection, safety, the environment, data recording and analysis, instrumentation work, various software production, technology service provision and insurance agent business, etc.
Azbil Kimmon Co., Ltd.	3,157	100.00	Manufacturing, development and sales of City Gas meters, LP gas meters, water meters and other related equipment, and related maintenance operations including meter replacement
Azbil Control Instruments (Dalian) Co., Ltd.	RMB Thousand 61,176	100.00	Manufacturing of control instruments, automatic control valves, and switches
Azbil North America, Inc.	USD Thousand 28,550	100.00	Sales of control instrument products and field instruments for the industrial market, engineering, maintenance services
Azbil Telstar, S.L.U.	EUR Thousand 17,809	100.00	Development, manufacturing and sales of manufacturing equipment and environmental equipment for pharmaceuticals, hospitals and research laboratories, and clean room consulting and engineering

## (8) Main offices and factories (As of March 31, 2017)

Azbil Corporation	Headquarters	2-7-3 Marunouchi, Chiyoda-ku, Tokyo		
	Building Systems Company Head Office /Regional Division/Branch	Chuo-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Chuo-ku, Saitama-shi
		Tsukuba-shi, Ibaraki	Chuo-ku, Chiba-shi	Shinagawa-ku, Tokyo
		Nishi-ku, Yokohama-shi	Nagano-shi, Nagano	Naka-ku, Nagoya-shi
		Kanazawa-shi, Ishikawa	Kita-ku, Osaka-shi	Higashi-ku, Hiroshima-shi
		Hakata-ku, Fukuoka-shi		
	Advanced Automation Company Regional Division/Branch	Chuo-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Chuo-ku, Saitama-shi
		Shinagawa-ku, Tokyo	Naka-ku, Nagoya-shi	Kita-ku, Osaka-shi
		Higashi-ku, Hiroshima-shi	Kokurakita-ku, Kitakyushu-shi	
	Fujisawa Technology Center	Fujisawa-shi, Kanagawa		
Factories	Isehara-shi, Kanagawa	Kouza-gun, Kanagawa		
Offices	Hadano-shi, Kanagawa			
Azbil Trading Co., Ltd.	Headquarters	Toshima-ku, Tokyo		
	Branch	Toshima-ku, Tokyo,	Chuo-ku, Saitama-shi,	Naka-ku, Nagoya-shi,
		Yodogawa-ku, Osaka-shi,	Higashi-ku, Hiroshima-shi,	Kokurakita-ku, Kitakyushu-shi
Azbil Kimmon Co., Ltd.	Headquarters	Toshima-ku, Tokyo		
	Regional Division/Branch	Higashi-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Kiryu-shi, Gunma
		Toshima-ku, Tokyo	Naka-ku, Nagoya-shi	Higashiosaka-shi, Osaka
		Higashi-ku, Hiroshima-shi	Hakata-ku, Fukuoka-shi	
	Factories	Aomori-shi, Aomori (Azbil Kimmon Aomori Co., Ltd.) Gobo-shi, Wakayama (Azbil Kimmon Wakayama Co., Ltd.) Shirakawa-shi, Fukushima (Azbil Kimmon Shirakawa Co., Ltd.)* Motomiya-shi, Fukushima (Azbil Kimmon Shirasawa Co., Ltd.)*		
Research Laboratories	Kawagoe-shi, Saitama			
Azbil Control Instruments (Dalian) Co., Ltd.	Headquarters	Dalian, China		
Azbil North America, Inc.	Headquarters	Arizona, U.S.A.		
Azbil Telstar, S.L.U.	Headquarters	Catalonia, Spain		

(Note) For the two Azbil Kimmon Co., Ltd. factories listed with an asterisk, factory facilities are rented to the subsidiaries listed in parentheses, which operate them individually.

(9) Employees (As of March 31, 2017)

1) Employees of the Group

Segment	Number of Employees	Year-on-year Increase/(Decrease)
Building Automation Business	3,037 [769] persons	(57) persons
Advanced Automation Business	3,384 [582]	(83)
Life Automation Business	1,754 [274]	(38)
Total of reportable segments	8,175 [1,625]	(178)
Others	3 [1]	0
Corporate (Common)	1,112 [197]	4
Total	9,290 [1,823]	(174)

Notes: 1. The number of employees listed as Corporate (Common) refers to employees belonging to the administration and research and development division which cannot be categorized in the designated business segments.

2. The numbers of temporary employees (including part timers, employees rehired after the compulsory retirement age and contract employees, excluding temporary workers from temp agencies) are indicated in brackets separately from the total as the average yearly numbers of employees.

3. The main factors for changes in the number of employees for each business include the transfer of all shares of Beijing YTYH Intelli-Technology Co., Ltd., a former consolidated subsidiary of the Company, the optimization of staff allocation within the Group to strengthen its business base, and the improvement of development systems at the company involved in IT solutions.

2) Employees of the Company

Number of Employees	Year-on-year Increase/(Decrease)	Average Age	Average Years of Service
5,070 [1,345] persons	(76) persons	44.8 years old	20.2 years

(Note) The number of temporary employees (including part timers, employees rehired after the compulsory retirement age and contract employees, excluding temporary workers from temp agencies) is indicated in brackets separately from the total as the average yearly number of employees.

(10) Major Lenders (As of March 31, 2017)

Lenders	Loan Outstanding
Mizuho Bank, Ltd.	4,752 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,491

(11) Transfer of important businesses, etc.

1) Business transfers, absorption-type company split or incorporation-type company split

Not applicable

2) Business transfers from other companies

Not applicable

3) Succession of rights and obligations relating to other entities' business as a result of absorption-type merger or company split

Not applicable

- 4) Acquisition or disposal of shares, other equities, or subscription rights to shares of other companies

Not applicable

- (12) Other important matters regarding the current situation of the Group

Not applicable

## 2. Stock Information (As of March 31, 2017)

- (1) Total Number of Authorized Shares      279,710,000 shares
- (2) Shares of Common Stock Issued      75,116,101 shares  
(including treasury shares of 1,865,659 shares)
- (3) Number of Shareholders      7,681
- (4) Major Shareholders (Top 10)

	Number of Shares (thousands)	Percentage of Total Shares Issued (%)
Meiji Yasuda Life Insurance Company	5,214	7.11
State Street Bank and Trust Company	4,895	6.68
The Master Trust Bank of Japan, Ltd. (Trust account)	4,455	6.08
Japan Trustee Services Bank, Ltd. (Trust account)	3,955	5.40
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,708	3.69
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.16
Nippon Life Insurance Company	1,869	2.55
azbil Group Employee Stock Ownership	1,568	2.14
National Mutual Insurance Federation of Agricultural Cooperatives	1,550	2.11
Mizuho Bank, Ltd.	1,404	1.91

Notes: 1. The percentage of total shares issued is calculated excluding treasury shares (1,865,659 shares).

2. 3,618 thousand of the shares held by The Master Trust Bank of Japan, Ltd. (Trust account) and 2,106 thousand of the shares held by Japan Trustee Services Bank, Ltd. (Trust account) are the numbers of shares related to the trust business.

3. According to the Report on Large Shareholding dated September 7, 2016 which was made available for public inspection, the following shares are held by FIL Investments (Japan) Limited, Limited as of August 31, 2016. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2017, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
September 7, 2016	FIL Investments (Japan) Limited	4,412	5.87

(5) Other important matters regarding stock information

Azbil Corporation resolved, at the Board of Directors meeting held on March 30, 2017, to introduce Employee stock ownership plan as an incentive plan for providing employees with the Company's stocks, to boost the linkage between stock price and business performance of the Company on the one hand, and the benefits received by employees on the other hand, and to enhance the motivation and morale of employees for increasing stock price and business performance of the Company by sharing economic effects with shareholders. The system will offer stocks of the Company to its retiring employees who satisfy certain requirements specified in the Company's predetermined stock granting regulations. The Company will award points to employees according to the contribution level of them and will grant stock of the Company proportionate to the awarded points when employees obtain the rights to receive stock by meeting certain conditions. The stock to be granted to employees will be acquired with money previously placed in a trust, including stock to be granted in the future, and will be separately managed as assets in the trust account. This system is expected to heighten the interest of employees in the Company's stock price and business performance, and motivate them to work.

Furthermore, in association with the introduction of the plan, at the Board of Directors meeting held on May 12, 2017, the Company resolved to conclude a trust agreement with Mizuho Trust & Banking Co., Ltd., and with regard to the details of the trust to be established and implementation of the plan, to dispose the Company's current holdings of treasury shares to Trust & Custody Services Bank, Ltd. (Trust E) by way of a third party allocation, as follows.

1) Outline of the trust

Name of the trust	Employee stock ownership plan (J-ESOP)
Trust type	Trust of money other than money in trust (third party trust)
Purpose of the trust	To offer trust assets, stock of the Company to beneficiaries in accordance with the stock granting regulations
Trustor	The Company
Trustee	Mizuho Trust & Banking Co., Ltd. (re-trustee: Trust & Custody Services Bank, Ltd.) Mizuho Trust & Banking Co., Ltd. concludes a comprehensive trust contract with Trust & Custody Services Bank, Ltd., which becomes a re-trustee.
Beneficiary	A person who is entitled to receive trust assets in accordance with the stock granting regulations
Trust administrator	Selected from the employees of the Company
Date of conclusion of the trust contract	May 29, 2017 (tentative)
Date of trust establishment	May 29, 2017 (tentative)
Trust period	From May 29, 2017 (tentative) to June 30, 2027 (tentative)

2) Outline of the disposal

Date of disposal	May 29, 2017 (Monday)
Number of shares disposed of	1,000,000 common stock
Disposal price	3,970 yen per share
Amount of fund procurement	3,970,000,000 yen
Disposal method	Allocation to a third party
Disposal to	Trust & Custody Services Bank, Ltd. (Trust E)
Other	The disposal of treasury shares becomes valid when a notification is filed pursuant to Financial Instruments and Exchange Act of Japan.

### 3. Matters Concerning Officers

#### (1) Executive Directors and Audit & Supervisory Board Members (As of March 31, 2017)

Positions	Name	Assignments in the Company and Important Concurrent Positions Outside the Company
Chairman	Seiji Onoki	Chairman, responsible for the azbil Group (aG) overall
President and Chief Executive Officer	Hirozumi Sone	President and Chief Executive Officer, responsible for the aG overall, Internal Audit Department, Corporate Planning Department
Executive Director	Tadayuki Sasaki	Executive Vice President, Assistant to President, responsible for overall administrative function, aG-CSR, Internal control, Facilities/Business sites, General Affairs Department, Secretary Office
Executive Director	Keiichi Fuwa	Managing Executive Officer, responsible for the building automation (BA) business, aG sales synergy President of Building Systems Company (BSC)
Executive Director	Masato Iwasaki	Managing Executive Officer, responsible for business in North America and South America supervision, develop for new business model in North America
Executive Director	Yoshimitsu Hojo	Managing Executive Officer, responsible for aG production, aG purchasing, the advanced automation (AA) business, Production Management Headquarters President of Advanced Automation Company (AAC), General Manager of Production Management Headquarters
Outside Director	Eugene H. Lee	Outside Director
Outside Director	Katsuhiko Tanabe	Outside Director Lawyer Outside Audit & Supervisory Board Member of JSP Corporation
Outside Director	Takeshi Ito	Outside Director Senior Advisor of Aozora Securities Co., Ltd.
Standing Audit & Supervisory Board Member	Tomohiko Matsuyasu	
Standing Audit & Supervisory Board Member	Hisaya Katsuta	
Outside Audit & Supervisory Board Member	Kinya Fujimoto	Certified Public Accountant Outside Audit & Supervisory Board Member of Nihon Kajo Publishing Co., Ltd.
Outside Audit & Supervisory Board Member	Mitsuhiro Nagahama	Adviser of Mizuho Securities Co., Ltd.
Outside Audit & Supervisory Board Member	Shigeru Morita	

Notes: 1. Executive Directors Eugene H. Lee, Katsuhiko Tanabe and Takeshi Ito are Outside Directors of the Company under Article 2, Item 15 of the Companies Act.

2. Audit & Supervisory Board Members Kinya Fujimoto, Mitsuhiro Nagahama and Shigeru Morita are Outside Audit & Supervisory Board Members of the Company under Article 2, Item 16 of the Companies Act.

3. Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with each of Outside Directors and Outside Audit & Supervisory Board Members, as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum amount of the liability for damage based on said contracts is the minimum liability amount prescribed in laws and regulations.

4. Standing Audit & Supervisory Board Member Tomohiko Matsuyasu has served for many years in the Company's accounting division, carrying out accounting procedures and preparing financial statements, and Audit & Supervisory Board Member Kinya Fujimoto, as a certified public accountant, has a wealth of knowledge and experience concerning financial affairs and accounting.
5. The Company has notified each of Outside Directors and Outside Audit & Supervisory Board Members as Independent Officers to the Tokyo Stock Exchange.
6. As of April 1, 2017, the assignments of Directors have been changed as follows:

Positions	Name	Assignments in the Company and Important Concurrent Positions Outside the Company
Executive Director	Tadayuki Sasaki	Executive Vice President, Assistant to President, responsible for overall administrative function, the life automation (LA) business, aG-CSR, Internal control, Facilities/Business sites, General Affairs Department, Legal & Intellectual Property Department, Secretary Office

7. We have an Executive Officer System that facilitates the prompt decision making and execution of company policy. As of April 1, 2017, there were 25 Executive Officers, including the above six (6) Executive Directors who also serve as Executive Officers and the Executive Officers appointed below.

Position	Name	Assignments in the Company
Managing Executive Officer	Takayuki Yokota	Responsible for Corporate Communication, Group Management Headquarters, International Business Headquarters General Manager of Group Management Headquarters, General Manager of International Business Headquarters
Managing Executive Officer	Kazuyasu Hamada	Manager of Building Systems Company (BSC)'s Tokyo Head Office
Managing Executive Officer	Hiroshi Arai	Responsible for Group IT, IT Solutions Headquarters, aG information systems General Manager of IT Solutions Headquarters, General Manager of IT Solutions Development Department
Executive Officer	Yoshifumi Suzuki	Responsible for azbil Group (aG) environmental load innovation, the Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department General Manager of the Department of Safety Assessment, General Manager of aG quality assurance Department
Executive Officer	Michihiro Tomonaga	Chairman and General Manager of Azbil Taiwan Co., Ltd
Executive Officer	Akihiko Naruse	Responsible for Human Resources Department, aG Safety Management Department President of the Azbil Academy
Executive Officer	Junya Nishimoto	Responsible for aG research and development, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department General Manager of Technology Development Headquarters
Executive Officer	Haruo Tamura	General Manager of the BSC's Integrated Business Headquarters
Executive Officer	Seiichiro Hayashi	General Manager of the BSC's BA Engineering Headquarters
Executive Officer	Kenichi Hayashi	General Manager of the BSC's Business Planning Department
Executive Officer	Tetsuya Maruyama	Manager of BSC's Chubu Regional Division
Executive Officer	Tomoyuki Takeda	Manager of BSC's Kansai Regional Division
Executive Officer	Kenji Okumura	Responsible for Sales Department of AA business General Manager of the Advanced Automation Company (AAC)'s Business Development Group
Executive Officer	Hiroshi Shimizu	Responsible for the advanced control business General Manager of the AAC's Engineering Headquarters, General Manager of Advanced Solutions Department
Executive Officer	Tetsuo Takamura	Responsible for the AA CP <sup>*1</sup> business General Manager of the AAC CP Marketing Department
Executive Officer	Tadayoshi Ito	Responsible for the AA SS <sup>*2</sup> business General Manager of the AAC SS Marketing Department, General Manager of the AAC's Engineering Headquarters
Executive Officer	Hideaki Ishii	Responsible for aG production innovation, AA Development and Quality Assurance
Executive Officer	Masashi Hirano	President of Azbil TA Co., Ltd.
Executive Officer	Kiyohiro Yamamoto	Responsible for marketing, BSC's Development, BSC's marketing General Manager of Corporate Planning Department, General Manager of BSC's Marketing Headquarters

\*1: Control Products

\*2: Solution and Service

(2) Total amounts of remuneration, etc., paid to Executive Directors and Audit & Supervisory Board Members

Category	Number of Persons Remunerated	Total Amount of Remunerations Paid (Millions of yen)
Executive Directors	9	404
Audit & Supervisory Board Members	5	71
Total (Outside Directors and Audit & Supervisory Board Members)	14 (6)	475 (60)

- Notes: 1. The remuneration for Executive Directors excludes the salary to be paid for service as officer or employee for Executive Directors who concurrently hold a post of officer or employee of the Company.
2. The Company resolved that the maximum annual remuneration for Executive Directors shall be not more than 450 million yen (excluding amounts paid as salaries for officer or employee) at the 84th Ordinary General Meeting of Shareholders held on June 29, 2006.
3. The Company resolved that the maximum annual remuneration for Audit & Supervisory Board Members shall be not more than 120 million yen at the 85th Ordinary General Meeting of Shareholders held on June 28, 2007.
4. The remuneration for Executive Directors includes directors' bonuses (121 million yen for six (6) Executive Directors).

(Reference) Policies on Determination of Remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

The Company determines policies on determination of remuneration, etc. for officers for the purpose of strengthening corporate governance and achieving sustained enhancements in corporate value through meeting the azbil Group's management targets. The remuneration of Executive Directors is commensurate to their roles, responsibilities, and accomplishments and designed to contribute to sustainable growth and enhancements in corporate value.

Remuneration for Executive Directors who concurrently perform executive duties comprises basic remuneration that is a fixed remuneration based on their roles, responsibilities, and other factors, and bonuses that are linked to business results and are also determined in consideration of the degree of achievement of medium-term targets.

Outside Directors who do not concurrently perform executive duties receive only basic remuneration to ensure that they perform their management supervision function adequately.

The Company has established the "Nomination and Remuneration Committee" consisting of Outside Directors who perform oversight of management and execution from an external perspective and Representative Directors (Independent Outside Directors form a majority) in accordance with our internal rules for director remuneration to ensure transparency and objectivity in the remuneration determination process. Under this process, the basic remuneration amounts paid to individual Executive Directors and the total amounts of bonuses and the amounts of bonus to be paid to individual Executive Directors who concurrently perform executive duties shall be kept within the remuneration limits set at the Ordinary General Meeting, and subjected to review and advisory input by this "Nomination and Remuneration Committee."

Furthermore, to share interests with the shareholders and to create a continuous incentive to enhance corporate value for Executive Directors who also serve as Executive Officers, they purchase the Company's stocks in the planned annual contribution amount proportional with

each officer's role and responsibilities through the officer stock ownership plan and continually hold these stocks.

The remuneration limit for Audit & Supervisory Board Members as a group is also set at the Ordinary General Meeting, while the remuneration of individual Audit & Supervisory Board Members is determined on the basis of discussions among the members.

### (3) Important Concurrent Positions Outside the Company of Outside Officers

Positions	Name	Important Concurrent Positions Outside the Company
Outside Director	Eugene H. Lee	
Outside Director	Katsuhiko Tanabe	Lawyer Outside Audit & Supervisory Board Member of JSP Corporation
Outside Director	Takeshi Ito	Senior Advisor of Aozora Securities Co., Ltd.
Outside Audit & Supervisory Board Member	Kinya Fujimoto	Certified Public Accountant Outside Audit & Supervisory Board Member of Nihon Kajo Publishing Co., Ltd.
Outside Audit & Supervisory Board Member	Mitsuhiro Nagahama	Adviser of Mizuho Securities Co., Ltd.
Outside Audit & Supervisory Board Member	Shigeru Morita	

Note: There is no particular relationship between the Company and each of the important concurrent positions outside the Company of Outside Directors and Audit & Supervisory Board Members.

(4) Major activities of Outside Officers

	Name	Number of attendance at the Board of Directors meeting	Number of attendance at the Audit & Supervisory Board meeting	Statements
Outside Director	Eugene H. Lee	12/12	–	Eugene H. Lee raised questions and made comments in view of the Company's business development and strategies from a global perspective and from the standpoint of medium- to long-term business strategies, based on his in-depth knowledge of international business and experience and knowledge gained in the management of global companies.
	Katsuhiko Tanabe	12/12	–	Katsuhiko Tanabe raised questions and made comments from such standpoints as the presence of legal as well as compliance issues, and risk reduction, from his specialist standpoint and wide-ranging expertise as a lawyer, and abundant experience as an outside officer at other companies.
	Takeshi Ito	12/12	–	Takeshi Ito raised questions and made comments from his perspective on the capital markets, and from the standpoint of medium- to long-term business strategy and so forth, on business expansion, strategies, finance and investment of the Company, based on his knowledge and experience in the financial field developed in overseas securities and investment management companies.
Outside Audit & Supervisory Board Member	Kinya Fujimoto	12/12	13/13	Kinya Fujimoto raised questions and made comments from the standpoint of auditing the Company's overall business, based on his wealth of expertise and experience concerning financial affairs and accounting, as well as long-term experience as a certified public accountant.
	Mitsuhiro Nagahama	12/12	13/13	Mitsuhiro Nagahama raised questions and made comments from a global perspective on the appropriateness of the Company's business strategies and the further improvement of Group company management and the Company's corporate governance, based on his experience of serving in important positions in his native field of finance and in-depth knowledge and vantage point in financial services.
	Shigeru Morita	12/12	13/13	Shigeru Morita raised questions and made comments from the standpoint of improving risk management and risk reduction measures, and the approach to CSR of the Company from his experience serving in important positions in insurance companies, which are his native field, as well as his management experience in real estate and facility management companies.

Note: During the fiscal year under review, in addition to the above Board of Directors meetings, one (1) deemed Board of Directors resolution was made by written or electronic media based on Article 370 of the Companies Act and Article 27 of the Company's Articles of Incorporation.

(Reference)

**Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members**

The Company formulated its own criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members for appointing Outside Directors and Outside Audit & Supervisory Board Members and judges that a person is not independent if he/she falls under any of the items below:

1. A person who serves as an executive<sup>\*1</sup> of the Company or a consolidated subsidiary of the Company, or who served for ten (10) years prior to being appointed;

\*1: "Executive" refers to an executive director, an executive officer or a head of a department and other general employees.

2. A person who served as an executive of the Company or a consolidated subsidiary for ten (10) years prior to being appointed as a non-executive director or an audit & supervisory board member of the Company or a subsidiary of the Company;
3. A person who serves as an executive of a major business partner of the azbil Group (a business partner that makes a payment in the amount exceeding 2% of its annual consolidated sales for the latest fiscal year or any of the preceding three fiscal years or receives such a payment), or who has served in the last three (3) years;
4. A person who serves as an executive or an audit & supervisory board member of a major lender<sup>\*2</sup> of the azbil Group or its parent company or its significant subsidiary, or who served in the last three (3) years;

\*2: A major lender refers a financial institution group from which the azbil Group has borrowed funds where the outstanding aggregate of those borrowings exceeds 2% of consolidated total assets of the azbil Group as of the end of the Company's fiscal year in situations where the azbil group effectively has loans payable (net balance of loans exceeding current liquidity deposited to such lender).

5. A related party of the Accounting Auditor or audit firm etc. of the azbil Group, or who has served in the last three (3) years in such position (including those who have already resigned from such position);
6. A lawyer, certified public accountant, or other consultant who does not fall under the above item 5 and who received money and other economic benefits in the annual average amount of 10 million yen or more over the past three years other than executive compensations from the azbil Group;
7. A member, partner, associate or employee of a law firm or an audit firm, etc. who does not fall under the above items 5 or 6 and for which the azbil Group is a major business partner (a company that received a payment from the Company or a consolidated subsidiary in the annual average amount of 2% or more of the consolidated net sales of the company over the past three (3) fiscal years);
8. A person who serves as an executive or an audit & supervisory board member of a current major shareholder of the Company (a shareholder that holds 10% or more of voting rights of the Company), its parent company or its significant subsidiary, or who served in the last five (5) years;
9. A person who serves as an executive or an audit & supervisory board member of a company that accepts a director seconded from the azbil Group, its parent company or its subsidiary;
10. A person who serves as an executive or an audit & supervisory board member of a company in which the Company is a major shareholder;
11. A person who has received as an executive of an organization such as public interest incorporated foundation, public interest incorporated association, non-profit organization that has received a donation or subsidy from the azbil Group in the annual average of 10

million yen or more over the past three fiscal years; and

12. A spouse, a person within the second degree of consanguinity or a relative residing in the same household of the above items from 1 to 11

#### 4. Accounting Auditor

(1) Accounting Auditor's name: Deloitte Touche Tohmatsu LLC

(2) Amount of remuneration during the Fiscal Year Ended March 31, 2017

	Amount Paid
Amount of remuneration paid for services rendered as Accounting Auditor during the Fiscal Year Ended March 31, 2017	77 million yen
Total cash and other remuneration paid by the Company and its subsidiaries to the Accounting Auditor	109 million yen

Notes: 1. The audit agreement entered into by the Accounting Auditor and the Company does not clearly distinguish the amount being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Act, and the two amounts cannot be practically distinguished from each other. Therefore, the amount in above indicates the total of these two kinds of amounts.

2. The Audit & Supervisory Board gives consent regarding remunerations etc. for the Accounting Auditor as stipulated under Article 399, Item 1 of the Companies Act. The consent is given as a result of examining the validity of the expected auditing hours and the amount of remuneration, after comparing the audit plan of the previous business year with its performance, and reviewing the trend of the time spent for audit and the amount of remuneration by obtaining necessary materials and examining reports from the relevant departments of the Company and the Accounting Auditor.

3. Consolidated overseas subsidiaries of the Company are audited by Auditing firms other than the Accounting Auditor of the Company.

#### (3) Policy regarding decisions of dismissal or non-reappointment of Accounting Auditors

Where the Audit & Supervisory Board deems there are problems with the suitability or independence of an Accounting Auditor, it will decide the details of an item to be submitted to the General Meeting of Shareholders related to the dismissal or non-reappointment of the Accounting Auditor.

Furthermore, where the Audit & Supervisory Board deems the Accounting Auditor corresponds to the provisions of Article 340, Paragraph 1 of the Companies Act, based on the agreement of the all Audit & Supervisory Board Members, the Accounting Auditor will be dismissed. In this case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the fact that the Accounting Auditor was dismissed and the reason for such dismissal at the first General Meeting of Shareholders convened after the dismissal.

#### 5. System and Policies of the Company

(1) System to ensure the appropriateness of business activities and the operational status of that system

<Outline of resolution on system to ensure the appropriateness of business activities>

As decided at the Board of Directors meeting convened on May 16, 2006 and partially revised at the Board of Directors meetings convened on August 3, 2007, May 23, 2008, August 6, 2009 and May 13, 2015, the Basic Policy on Internal Control System Architecture is as follows.

This policy, based on Article 362, Paragraph 4, Item 6 of the Companies Act, stipulates an overall framework required to create an internal control system as stipulated by Article 100 of

the Ordinance for Enforcement of the Companies Act, clarifying basic policies to be followed by Executive Directors, Executive Officers and Employees (hereafter, “the Officers and Employees”) of Azbil Corporation (hereafter, “the Company”) and the Company’s subsidiaries\*<sup>1</sup> (hereafter, “Subsidiary” or “Subsidiaries”) in the building of internal control system architecture concretely implemented by the Company and Subsidiaries. The goal of the internal control system based on this policy is to create a corporate structure that is efficient, lawful, and highly transparent, based on improvement through constant review.

\*1: The Subsidiaries subject to basic policies are the consolidated Subsidiaries specified in “azbil Group Management Basic Policy” that also have annual net sales accounting for 1 % or more of the consolidated sales of the azbil Group.

1. System to ensure that the execution of duties of Officers and Employees of the Company and Subsidiaries complies with laws and regulations and the Articles of Incorporation

- 1) The Officers and Employees of the Company and Subsidiaries, aiming to be a corporate group that contributes to and is trusted by society, will comply with laws and regulations and the Articles of Incorporation, as well as the “azbil Group Business Conduct Policy” and the “azbil Group Business Conduct Guidelines,” maintaining high-level business ethics and conducting sound business activities. To do so, both the Company and Subsidiaries will designate an officer to be responsible for compliance promotion activities in each company, forming a constant approach throughout the entire company.
- 2) In addition to the above paragraph, the Company and the separately listed Subsidiaries will create individual action plans to promote compliance, including the compliance with laws and regulations and the Articles of Incorporation, and report the results of implementation to the Board of Directors of their own companies.
- 3) The Company, to promote compliance-related activities throughout the entire group, has formed the “azbil Group CSR Promotion Committee,” creating action plans for the overall group, managing progress, and providing guidance and advice to Subsidiaries.
- 4) The Company and Subsidiaries will create internal control systems to ensure the appropriateness of business activities. To do so, the Officers and Employees of the Company and Subsidiaries will endeavor to develop and implement the basic elements of internal control, including the control environment, and with regard to the performance of business, shall comply with relevant laws and regulations, business process manuals, etc., thereby ensuring, and seeking to maintain and improve appropriate control conditions.
- 5) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc audits as required on the status of the Company’s and Subsidiaries’ compliance promotion and internal control system architecture.
- 6) In the rare event the Company or Subsidiaries engage in serious illegal or unethical acts, or any event that might produce a serious impact on society, the Officers and Employees of the Company and the Subsidiaries will make a report using either the designated reporting route or the internal reporting system.
- 7) The Internal Auditing Department of the Company will maintain, develop and properly operate the internal reporting system and other systems. Expansions or changes to the coverage scope of the internal reporting system will be made following a report to the Board of Directors.

2. System for the storage and management of information relating to the execution of duties of the Executive Directors of the Company

- 1) The Officers and Employees of the Company will comply with the “Rules for Keeping Information Related to Directors’ Duties,” appropriately storing and managing information on the execution of duties.
- 2) The General Affairs Department will create, revise and abolish the above rules with the approval of the Board of Directors meetings or the management meetings, depending on the level of importance of the rules, and evaluate and review the management status as necessary.
- 3) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc audits as required on the status of operations and management of the Internal Audit Rules and others.

3. Rules and other systems for management of risk of loss at the Company and Subsidiaries

- 1) To properly manage risk of loss and ensure the continuity and stable development of business, based on the “azbil Group Risk Management Rules,” the Company will identify risks that could cause serious losses to the overall group management (serious risks for the azbil Group) at the Board of Directors meetings.
- 2) The Company will instruct Subsidiaries as necessary to implement and promote countermeasures against the serious risks that have been identified for the azbil Group.
- 3) In addition to the above paragraph, the separately listed Subsidiaries will independently identify serious risks at those Subsidiaries, and work to establish and promote policies addressing these serious risks.
- 4) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc internal audits as required on the status of the implementation of risk management systems at the Company and Subsidiaries.

4. System to ensure the efficient execution of duties of the Executive Directors of the Company and Subsidiaries

- 1) For the efficient and prompt execution of business activities without risking the soundness of the company, the Company and Subsidiaries will endeavor to develop an organizational system and prepare rules regarding administrative authority for the effective execution of business.
- 2) The Officers and Employees of the Company and Subsidiaries will take action to ensure the achievement of plans based on the medium-term plan and the annual plan, which are the central components of the management plan system, and conduct regular reviews to ensure the execution of business is progressing in line with the original plans.
- 3) Based on the “Rules for Division of Duties” and other rules, the Company will provide the required support and guidance to Subsidiaries to increase the work efficiency and work level of the overall group.
- 4) At both the Company and Subsidiaries, for items requiring the approval of the Board of Directors of the company, to ensure the thorough deliberation by the Board of Directors, materials related to the item will be distributed to all directors ahead of time.

5. System for the reporting of items related to the execution of the duties of the Officers and Employees of Subsidiaries to the Company

- 1) Based on the management control items to be submitted to the Board of Directors, etc. of the Company in the execution of duties of Subsidiaries as stipulated in the “azbil Group Management Basic Policy,” the Company’s approval will be received or a report made to the Company as required.
- 2) In addition to the items stated in the above paragraph, domestic Subsidiaries will, either directly or at the regular meeting of Group company presidents or other meetings, report to the Company on the state of business at their company and on important management items.
- 3) In addition to 1) above, overseas Subsidiaries will, either directly or through the pertinent administrative department of the Company, report to the Company on the state of business at their company and on important management items.

6. Items related to employees aiding the duties of the Audit & Supervisory Board Members of the Company, items related to the independence of these employees from the Executive Directors of the Company, and items to ensure the effectiveness of the instructions from the Audit & Supervisory Board Members of the Company to these employees

- 1) The Company will assign full-time personnel to aid the duties of the Audit & Supervisory Board Members.
- 2) To maintain the independence of the employees in question, the Company will receive the agreement of the Audit & Supervisory Board Members when making decisions on the personnel rotation and personnel evaluation of the employees aiding the duties of the Audit & Supervisory Board Members.
- 3) The full-time employees aiding the duties of the Audit & Supervisory Board Members will execute their duties under the reporting line of the Audit & Supervisory Board Members.

7. System for the reporting by the Officers and Employees of the Company and Subsidiaries and the Audit & Supervisory Board Members of Subsidiaries to the Audit & Supervisory Board Members of the Company and system to ensure unfair treatment is not received due to the reporting in question

- 1) Where the Officers and Employees of the Company or Subsidiaries discover items which could invite serious losses to the Company or Subsidiaries, serious defects in the internal control system or procedures, or the occurrence of serious legal violations or fraud, they will make a report to the top management of the Company, and where a division responsible for internal control is in place, to the division in question. The top management or internal control division at the Subsidiary receiving the report will make a report to the Executive Directors of the Company, and where Audit & Supervisory Board Members are appointed, to the Audit & Supervisory Board Members of the company in question, as well as to the top management and the internal control division of the Company. The top management of the Company and internal control division of the Company receiving the report will make a report to the Executive Directors and Audit & Supervisory Board Members of the Company.

- 2) Furthermore, in addition to the reporting system in the previous paragraph, the Company will maintain, develop and properly operate the Group's internal reporting system.
- 3) The department in charge of internal reporting system in the Company within the Company will make regular reports to the Audit & Supervisory Board Members of the Company regarding the state of internal reports from the Officers and Employees of the Company and Subsidiaries.
- 4) Regardless of the above paragraphs, the Audit & Supervisory Board Members of the Company may demand a report as required from the Officers and Employees of the Company and Subsidiaries and the Audit & Supervisory Board Members of Subsidiaries.
- 5) Internal rules will be developed to ensure the Company and Subsidiaries do not treat the Officers and Employees unfairly because of their reporting in question to the Audit & Supervisory Board Members of the Company or Subsidiaries.

8. Items related to the policy for the handling of Expenses or Financial Obligations by Audit & Supervisory Board Members of the Company in the execution of their duties

- 1) The Company will promptly handle expenses or financial obligations with respect to the costs incurred by the Audit & Supervisory Board Members in the execution of their duties and any costs incurred when they request the opinion of external experts such as attorneys in forming their own opinion. However, this excludes cases where the Company demonstrates the costs are not required for the Audit & Supervisory Board Members to execute their duties.
- 2) The Company will secure a budget ahead of time for the Audit & Supervisory Board Members and for the full-time employees who aid the Audit & Supervisory Board Members to execute their duties, and shall not interfere in the execution of that budget. However, this excludes cases where the Company demonstrates the costs are not required for the Audit & Supervisory Board Members to execute their duties.

9. Other systems to ensure the audits of the Audit & Supervisory Board Members of the Company are implemented effectively

- 1) The Audit & Supervisory Board Members will attend the Board of Directors meetings and other important meetings including the meetings of the management meeting, review key approval forms and other documents related to the execution of business, and may request explanations from the Officers and Employees.
- 2) The Audit & Supervisory Board Members will work to exchange information and cooperate with the Executive Directors, the Internal Auditing Department, the Audit & Supervisory Board Members of Subsidiaries and the Accounting Auditor to establish a system for the efficient implementation of the audits.

<Outline of the operational status of system to ensure the appropriateness of business activities>

The outline of the operational status of the system to ensure the appropriateness of business activities is as follows.

## 1. Compliance Systems

- Azbil Group, guided by the corporate philosophy of “human-centered automation, ” has formulated the “azbil Group Business Conduct Policy” and “azbil Group Business Conduct Guidelines,” making efforts toward creating a corporate culture in which compliance awareness is permeated. To do so, the Company and Subsidiaries have appointed officers who are responsible for controlling and promoting company-wide compliance related activities for each organization, and have designated general managers and group managers (head of the section) as compliance managers and compliance leaders, respectively, to ensure thorough compliance, educate and supervise employees with the cooperation of the department of the Company in charge of compliance.
- To promote compliance-related activities throughout the azbil Group, the Company has formed the “azbil Group CSR Promotion Committee” where an officer of the Company in charge of compliance is appointed as chief officer and officers of each company in charge of compliance are appointed as committee members. Here, creating action plans for the overall group, managing progress, and providing guidance to Subsidiaries are conducted.
- The Officers and Employees of the Company and Subsidiaries may use the “CSR Hotline” in Japan and abroad to consult and report pursuant to the “Rules for the consultation and reporting system of aG employees.” The people making reports or consultations are not to be unfavorably treated pursuant to the “Rules for the consultation and reporting system of aG employees” and efforts are made to ensure that this is thoroughly informed within the azbil Group. During the fiscal year under review, we expanded the scope of the hotline usage to cover overseas Subsidiaries, and now almost all Executive Directors and Audit & Supervisory Board Members and employees of the azbil Group have access to the consultation hotline.
- To be prepared against the occurrence of serious illegal or unethical acts, the Company and Subsidiaries have formulated the “Rules for Reporting in Emergency and Serious Situations.” In the event such emergency or serious situations occur, under the structure provided, reports will be made to the top management and Audit & Supervisory Board Members of Subsidiaries where such emergency or serious situations occurs, and the top management and Audit & Supervisory Board Members of the Company.
- The Internal Audit Department performs audits in the Company and Subsidiaries respectively, regarding the status of compliance promotion and the development of structure for internal controls, the operation and management of the rules provided in 2. below, and the development of risk management systems provided in 3. below.

## 2. Storage and Management of Information

- The Company has designated a department in charge pursuant to the “Rules for Keeping Information Related to Directors’ Duties” in which the Board of Directors’ minutes, the management meeting’s minutes, and other important documents and information are stored and managed.

### 3. Risk Management Systems

- Pursuant to the “azbil Group Risk Management Rules,” the Company identifies serious risks for azbil Group which may cause serious losses to the overall group management at the Board of Directors meetings and promotes measures. It also instructs Subsidiaries, when necessary, to promote such measures.
- Subsidiaries identify serious risks particular to the relevant Subsidiary at the Board of Directors meetings of each Subsidiary, plan and promote measures. The execution results of such measures and the status of risk reduction are to be reported to the Board of Directors of each Subsidiary.
- During the fiscal year under review, the comprehensive risk management system was strengthened further, and management with an even stronger emphasis on ensuring that risks are reduced was promoted throughout the entire Group.

### 4. System of Efficient Execution of Duties

- The Officers and Employees of the Company and Subsidiaries develop a medium-term plan and an annual plan, take actions based on such plans, conduct regular reviews, follow progress of the status of business execution and plan new measures.
- Based on the “Rules for Division of Duties” and other rules, the Company provides the required support and guidance to Subsidiaries to increase work efficiency and work level of the overall Group.
- To ensure the thorough deliberation by the Board of Directors, the Company and Subsidiaries bear in mind improvement of operation of the Board of Directors and operate such as distributing materials related to the agenda item before the meetings. In addition, the Company holds prior briefing meetings about the matters for discussion at the Board of Directors meetings for the benefit of its Outside Directors and Outside Audit & Supervisory Board Members.

### 5. Group Management System

- For certain important items, Subsidiaries report to or obtain approval from the Board of Directors meetings of the Company or the management meeting, which decides the execution of duties and other matters within the range of the authority of the President, pursuant to the “azbil Group Management Basic Policy.”
- Domestic Subsidiaries report their business status and important management items to meeting of Group company presidents and the management meeting and others while overseas Subsidiaries report the aforementioned items to the Company through Group Global Meetings and others.

### 6. System of Audit by Audit & Supervisory Board Members

- The Company has established an Audit & Supervisory Board Members’ Staff Office as an organization to aid the duties of the Audit & Supervisory Board Members. Personnel belonging to the Audit & Supervisory Board Members’ Staff Office are under the direct control of the Audit & Supervisory Board Members, aiding the duties of the Audit &

Supervisory Board Members under their instructions. The personnel rotation and personnel evaluation are determined with the agreement of the Audit & Supervisory Board Members

- Items which have been consulted on or reported to the aforementioned hotline by the Officers and Employees of the Company and Subsidiaries are regularly reported to Audit & Supervisory Board Members of the Company by the Internal Audit Department.
- The expenses arising from executing duties of the Audit & Supervisory Board Member are borne by the Company and are promptly handled.
- Audit & Supervisory Board Members attend the Board of Directors meetings and other important meetings including the management meeting, review approval forms and other documents related to the execution of business and request explanations from the Officers and Employees, when necessary. In addition, Audit & Supervisory Board Members request the opinion of attorneys, with whom they have individually concluded advisory contracts, as appropriate.
- Audit & Supervisory Board Members regularly hold meetings with the Executive Directors, the internal audit department, Accounting Auditor and Audit & Supervisory Board Members of Subsidiaries, exchanging information and opinions to enhance efficacy of audit.

(2) Basic policy related to persons controlling interests in the Company

Not applicable

(Reference) Our approach to corporate governance

The Company's basic approach to corporate governance is to work not only toward compliance with laws and regulations and the Articles of Incorporation, but also to fulfill our social responsibilities based on corporate ethics and to contribute to the welfare of the community, and to consistently increase corporate value through highly efficient and transparent management, positioning Corporate Governance as our most important management issue.

#### Corporate Governance System

The Board of Directors makes decisions on basic operational policy, legal issues, and other important matters, and oversees the status of business execution. Functional separation between the Executive Officers and the Board of Directors enables swift business execution and strengthens the oversight of execution.

The Company has an Audit & Supervisory Board system in which five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members, are appointed, with two of these Audit & Supervisory Board Members serving on a full-time basis as of March 31, 2017. The Audit & Supervisory Board Members carry out rigorous audits of the administrative decisions and execution of business by the Executive Directors and Executive Officers, primarily from the perspective of legal compliance.

The Board of Directors is convened monthly in principle, and meetings of the management meeting for Executive Officers with titles, with representatives of the Audit & Supervisory Board Members also attending, are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision making and strict execution.

The Company has nine Executive Directors, six of whom also serve as Executive Officers, and three of whom are Outside Directors. The three Outside Directors are not bound by the responsibilities or everyday duties of a full-time Director, and in addition to actively asking questions and offering suggestions at the Board of Directors Meetings, they regularly exchange opinions with the President and Chief Executive Officer as part of their oversight of the Company's management and execution of business, which they provide from an outside viewpoint.

In addition, the Company has voluntarily established the "Nomination and Remuneration Committee," consisting of independent Outside Directors and the Representative Executive Directors (independent Outside Directors form the majority), to serve as an advisory body concerning the nomination and remuneration of Executive Directors and Audit & Supervisory Board Members, and through this, the Company ensures greater fairness, objectivity, and transparency in the decision-making process concerning the nomination and remuneration of such officers.

Furthermore, in regard to the appointment of Outside Directors and Outside Audit & Supervisory Board Members, the Company has formulated its own criteria for independence. The Company's Outside Directors and Outside Audit & Supervisory Board Members meet these criteria for independence and each of them have a sufficient amount of independence.

Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with Outside Directors and Outside Audit & Supervisory Board Members, as provided for in Article 423, Paragraph 1 of the Companies Act. The limit amount of the liability for damage based on said contracts is the minimum liability amount prescribed in laws and regulations. However, such limitation of liability only applies when the Outside Directors and Outside Audit & Supervisory Board Members executed their duties that caused the liability in good faith and without gross negligence.

Furthermore, regarding the maintenance of the Compliance Systems of the Group as a whole, the Company aims to be a corporate group trusted by society, and including compliance with laws and regulations, has established "azbil Group Business Conduct Guidelines" as a guideline for the conduct of Officers and Employees in the interest of maintaining the public nature of the Company by first cutting off any relationships to antisocial forces, fulfilling our social responsibilities, compliance with antitrust and other fair trade regulations, respect for human rights, proper management of corporate assets, and protection of the environment, working toward sound business activities through the establishment of our corporate philosophy. For the proper and efficient execution of business operations, by establishing various internal rules relating to the decision making of the Company and implementation of business operations and other measures, the Company is maintaining a system which clarifies job authority and allows the appropriate checks to function. In terms of our internal control functions, the Internal Audit Department, which reports directly to the President, regularly performs internal audits that cover the overall management activities of headquarters divisions, each company and each group company, targeting the management and operations systems, the execution of business operations, business risks, compliance, and internal control systems, providing specific advice and proposals for improved oversight and business operations. The Company works to strengthen internal controls within the Financial Instruments and Exchange Act, and in the azbil Group CSR Promotion Committee, we are creating a system for compliance with laws and regulations and corporate ethics as well as thorough compliance, oversight, and business operations guidance. We also maintain a system for the early discovery of misconduct through our internal reporting system. Furthermore, we receive the advice and support from legal advisers, certified public accountants and external experts as necessary regarding the overall execution of business operations.

The business report is listed as follows.

1. For monetary values, fractional numbers are rounded down to the nearest whole unit.
2. Stock quantities listed in thousands are rounded down to the nearest thousand.

## Consolidated Financial Statements

### Consolidated Balance Sheet

	95th term As of March 31, 2017		95th term As of March 31, 2017
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>204,113</b>	<b>Current liabilities</b>	<b>84,066</b>
Cash and deposits	53,940	Notes and accounts payable - trade	40,456
Notes and accounts receivable - trade	88,500	Short-term loans payable	10,669
Securities	25,607	Income taxes payable	4,730
Merchandise and finished goods	4,905	Advances received	3,249
Work in process	7,723	Provision for bonuses	9,414
Raw materials	9,555	Provision for directors' bonuses	115
Deferred tax assets	5,754	Provision for product warranties	647
Other	9,032	Provision for loss on order received	1,222
Allowance for doubtful accounts	(907)	Other	13,561
<b>Non-current assets</b>	<b>59,203</b>	<b>Non-current liabilities</b>	<b>13,499</b>
<b>Property, plant and equipment</b>	<b>23,223</b>	Long-term loans payable	505
Buildings and structures	11,406	Deferred tax liabilities	4,493
Machinery, equipment and vehicles	2,425	Deferred tax liabilities for land revaluation	181
Tools, furniture and fixtures	1,742	Net defined benefit liability	5,704
Land	6,639	Provision for directors' retirement benefits	112
Leased assets	141	Provision for stock payment	311
Construction in progress	868	Other	2,190
<b>Intangible assets</b>	<b>5,392</b>	<b>Total liabilities</b>	<b>97,565</b>
Right of using facilities	143	<b>Net assets</b>	
Software	3,847	<b>Shareholders' equity</b>	<b>154,669</b>
Goodwill	73	Capital stock	10,522
Other	1,327	Capital surplus	12,333
<b>Investments and other assets</b>	<b>30,587</b>	Retained earnings	136,465
Investment securities	22,163	Treasury shares	(4,652)
Long-term loans receivable	38	<b>Accumulated other comprehensive income</b>	<b>9,152</b>
Claims provable in bankruptcy, claims provable in rehabilitation and other	75	Valuation difference on available-for-sale securities	9,553
Deferred tax assets	1,190	Deferred gains or losses on hedges	32
Net defined benefit asset	2	Foreign currency translation adjustment	1,303
Other	7,429	Remeasurements of defined benefit plans	(1,737)
Allowance for doubtful accounts	(311)	<b>Non-controlling interests</b>	<b>1,929</b>
<b>Total assets</b>	<b>263,317</b>	<b>Total net assets</b>	<b>165,751</b>
		<b>Total liabilities and net assets</b>	<b>263,317</b>

(Note) Amounts less than one million yen are rounded down.

## Consolidated Statement of Income

(Millions of yen)

	95th term April 1, 2016 to March 31, 2017
<b>Net sales</b>	<b>254,810</b>
<b>Cost of sales</b>	<b>163,319</b>
<b>Gross profit</b>	<b>91,491</b>
<b>Selling, general and administrative expenses</b>	<b>71,346</b>
<b>Operating income</b>	<b>20,145</b>
<b>Non-operating income</b>	<b>888</b>
Interest and dividend income	565
Other	323
<b>Non-operating expenses</b>	<b>557</b>
Interest expenses	209
Foreign exchange losses	113
Other	235
<b>Ordinary income</b>	<b>20,475</b>
<b>Extraordinary income</b>	<b>110</b>
Gain on sales of non-current assets	47
Gain on sales of investment securities	62
<b>Extraordinary losses</b>	<b>1,957</b>
Loss on sales and retirement of non-current assets	330
Impairment loss	569
Loss on liquidation of subsidiaries and associates	1,057
<b>Income before income taxes</b>	<b>18,629</b>
Income taxes - current	5,245
Income taxes - deferred	(13)
<b>Net income</b>	<b>13,397</b>
Net income attributable to non-controlling interests	243
<b>Net income attributable to owners of parent</b>	<b>13,153</b>

(Note) Amounts less than one million yen are rounded down.

## Consolidated Statement of Changes in Net Assets

(Millions of yen)

95th term April 1, 2016 to March 31, 2017	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,522	12,333	128,476	(4,650)	146,682
Changes of items during period					
Dividends of surplus			(5,164)		(5,164)
Net income attributable to owners of parent			13,153		13,153
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	-	0	7,989	(1)	7,987
Balance at end of current period	10,522	12,333	136,465	(4,652)	154,669

(Millions of yen)

95th term April 1, 2016 to March 31, 2017	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	7,641	(0)	2,212	(1,529)	8,323	1,960	156,966
Changes of items during period							
Dividends of surplus							(5,164)
Net income attributable to owners of parent							13,153
Purchase of treasury shares							(1)
Disposal of treasury shares							0
Net changes of items other than shareholders' equity	1,912	33	(908)	(208)	828	(31)	797
Total changes of items during period	1,912	33	(908)	(208)	828	(31)	8,785
Balance at end of current period	9,553	32	1,303	(1,737)	9,152	1,929	165,751

(Note) Amounts less than one million yen are rounded down.

## Non-Consolidated Financial Statements

### Non-consolidated Balance Sheet

	95th term As of March 31, 2017		95th term As of March 31, 2017
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>160,258</b>	<b>Current liabilities</b>	<b>65,615</b>
Cash and deposits	40,261	Notes payable - trade	1,810
Notes receivable - trade	12,981	Account payable –factoring	14,609
Accounts receivable - trade	34,714	Accounts payable - trade	9,277
Accounts receivable from completed construction contracts	21,885	Accounts payable for construction contracts	2,968
Securities	25,501	Short-term loans payable	4,622
Merchandise and finished goods	2,572	Accounts payable - other	1,691
Work in process	3,215	Accrued expenses	3,812
Costs on uncompleted construction contracts	1,178	Income taxes payable	3,739
Raw materials	4,817	Accrued consumption taxes	1,210
Deferred tax assets	5,013	Advances received	904
Short-term loans receivable from subsidiaries and associates	801	Advances received on uncompleted construction contracts	979
Accounts receivable - other	907	Deposits received	2,413
Prepaid expenses	2,091	Deposits received from subsidiaries and associates	7,623
Other	4,408	Provision for bonuses	7,963
Allowance for doubtful accounts	(92)	Provision for directors' bonuses	77
<b>Non-current assets</b>	<b>61,081</b>	Provision for product warranties	522
<b>Property, plant and equipment</b>	<b>13,048</b>	Provision for loss on order received	1,214
Buildings	7,423	Notes payable - facilities	56
Structures	134	Other	116
Machinery and equipment	1,051	<b>Non-current liabilities</b>	<b>6,647</b>
Vehicles	1	Long-term loans payable	315
Tools, furniture and fixtures	1,006	Deferred tax liabilities	4,298
Land	2,765	Provision for stock payment	311
Leased assets	76	Other	1,721
Construction in progress	587	<b>Total liabilities</b>	<b>72,263</b>
<b>Intangible assets</b>	<b>4,761</b>	<b>Net assets</b>	
Right of using facilities	143	<b>Shareholders' equity</b>	<b>139,899</b>
Software	3,622	<b>Capital stock</b>	<b>10,522</b>
Other	995	<b>Capital surplus</b>	<b>17,197</b>
<b>Investments and other assets</b>	<b>43,271</b>	Legal capital surplus	17,197
Investment securities	18,491	Other capital surplus	0
Shares of subsidiaries and associates	16,063	<b>Retained earnings</b>	<b>116,831</b>
Investments in capital of subsidiaries and associates	1,349	Legal retained earnings	2,519
Long-term loans receivable from employees	17	Other retained earnings	114,311
Long-term loans receivable from subsidiaries and associates	3,054	Reserve for advanced depreciation of non-current assets	2,233
Claims provable in bankruptcy, claims provable in rehabilitation and other	0	General reserve	51,811
Lease deposits	2,506	Retained earnings brought forward	60,266
Prepaid pension cost	1,408	<b>Treasury shares</b>	<b>(4,652)</b>
Other	1,266	<b>Valuation and translation adjustments</b>	<b>9,177</b>
Allowance for doubtful accounts	(886)	<b>Valuation difference on available-for-sale securities</b>	<b>9,177</b>
<b>Total assets</b>	<b>221,340</b>	<b>Total net assets</b>	<b>149,076</b>
		<b>Total liabilities and net assets</b>	<b>221,340</b>

(Note) Amounts less than one million yen are rounded down.

## Non-consolidated Statement of Income

(Millions of yen)

	95th term April 1, 2016 to March 31, 2017
<b>Net sales</b>	<b>179,264</b>
Net sales of finished goods and others	120,202
Net sales of completed construction contracts	59,062
<b>Cost of sales</b>	<b>113,089</b>
Cost of sales of finished goods sold and others	74,646
Cost of sales of completed construction contracts	38,442
<b>Gross profit</b>	<b>66,175</b>
Gross profit - finished goods and others	45,555
Gross profit on completed construction contracts	20,619
<b>Selling, general and administrative expenses</b>	<b>51,653</b>
<b>Operating income</b>	<b>14,521</b>
<b>Non-operating income</b>	<b>1,878</b>
Interest income	96
Dividend income	1,654
Real estate rent	2
Subsidy income	79
Other	45
<b>Non-operating expenses</b>	<b>590</b>
Interest expenses	30
Foreign exchange losses	168
Provision of allowance for doubtful accounts	338
Office transfer expenses	14
Commitment fee	20
Real estates rent expenses	9
Other	7
<b>Ordinary income</b>	<b>15,809</b>
<b>Extraordinary income</b>	<b>57</b>
Gain on sales of non-current assets	6
Gain on sales of investment securities	50
<b>Extraordinary losses</b>	<b>1,999</b>
Loss on sales and retirement of non-current assets	284
Impairment loss	12
Loss on valuation of investments in capital of subsidiaries and associates	877
Loss on liquidation of subsidiaries and associates	824
<b>Income before income taxes</b>	<b>13,868</b>
Income taxes - current	3,541
Income taxes - deferred	(259)
<b>Net income</b>	<b>10,586</b>

(Note) Amounts less than one million yen are rounded down.

## Non-consolidated Statement of Changes in Net Assets

(Millions of yen)

95h term April 1, 2016 to March 31, 2017	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for special deprecia- tion	Reserve for ad- vanced deprecia- tion of non-cur- rent assets	General reserve
Balance at beginning of current period	10,522	17,197	0	17,197	2,519	0	2,355	51,811
Changes of items during period								
Reversal of reserve for special depreciation						(0)		
Reversal of reserve for advanced depreciation of non-current assets							(121)	
Dividends of surplus								
Net income								
Purchase of treasury shares								
Disposal of treasury shares			0	0				
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	0	0	-	(0)	(121)	-
Balance at end of current period	10,522	17,197	0	17,197	2,519	-	2,233	51,811

(Note) Amounts less than one million yen are rounded down.

(Millions of yen)

95th term April 1, 2016 to March 31, 2017	Shareholders' equity				Valuation and translation adjustments		Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	Valuation difference on available-f or-sale securities	Total valuation and translation adjustments	
	Other retained earnings	Total retained earnings					
Retained earnings brought forward							
Balance at beginning of current period	54,722	111,409	(4,650)	134,479	7,387	7,387	141,866
Changes of items during period							
Reversal of reserve for special depreciation	0	-		-			-
Reversal of reserve for advanced depreciation of non-current assets	121	-		-			-
Dividends of surplus	(5,164)	(5,164)		(5,164)			(5,164)
Net income	10,586	10,586		10,586			10,586
Purchase of treasury shares			(1)	(1)			(1)
Disposal of treasury shares			0	0			0
Net changes of items other than shareholders' equity					1,789	1,789	1,789
Total changes of items during period	5,543	5,421	(1)	5,420	1,789	1,789	7,210
Balance at end of current period	60,266	116,831	(4,652)	139,899	9,177	9,177	149,076

(Note) Amounts less than one million yen are rounded down.

## **Independent Auditor's Report**

May 12, 2017

To the Board of Directors  
Azbil Corporation

Deloitte Touche Tohmatsu LLC  
Hitoshi Matsumoto, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Keiji Koide, CPA  
Designated Limited Liability Partner,  
Engagement Partner

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and basis of preparation of the consolidated financial statements, and the related notes of Azbil Corporation. (the "Company") for the 95th fiscal term from April 1, 2016 to March 31, 2017.

The responsibility of management concerning the financial statements, etc.

The responsibility of management is to prepare consolidated financial statements in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of consolidated financial statements, free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

The responsibility of independent auditors

Our responsibility is to express an opinion independently on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the consolidated financial statements, due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

#### Audit opinion

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of corporate group consisting of the Company and its consolidated subsidiaries for the relevant term of the financial statements and the supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## **Independent Auditor's Report**

May 12, 2017

To the Board of Directors  
Azbil Corporation

Deloitte Touche Tohmatsu LLC  
Hitoshi Matsumoto, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Keiji Koide, CPA  
Designated Limited Liability Partner,  
Engagement Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, that is, the balance sheet, statement of income, statement of changes in net assets and notes to financial statements, significant accounting policies, and the related notes as well as the supplementary schedules of Azbil Corporation (the "Company") for the 95th fiscal term from April 1, 2016 to March 31, 2017.

The responsibility of management concerning the financial statements, etc.

The responsibility of management is to prepare financial statements and the supplementary schedules in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of financial statements, and the supplementary schedules, free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

The responsibility of independent auditors

Our responsibility is to express an opinion independently on the financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements and the supplementary schedules are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the financial statements and the supplementary schedules. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the financial statements, and the supplementary schedules, due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation of financial statements, and the supplementary schedules, and the appropriate presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that we have obtained sufficient and appropriate audit evidence to support our

audit opinion.

#### Audit opinion

In our opinion, the above financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the financial statements and the supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## Audit Report

The Audit & Supervisory Board, following review and deliberations on the reports made by each Audit & Supervisory Board Member concerning the execution of duties by Executive Directors for the 95th fiscal term from April 1, 2016 to March 31, 2017, prepared this Audit Report and hereby submit it as follows:

### 1. Summary of auditing methods by Audit & Supervisory Board Members and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board established auditing policies and the audit plan for the current fiscal term, received reports regarding the status of audits and the results thereof from each Audit & Supervisory Board Member, received reports regarding the status of the execution of duties from Executive Directors and the Accounting Auditor, and requested explanation as necessary.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, and in compliance with auditing policies and the audit plan for the current fiscal term, each Audit & Supervisory Board Member made efforts to collect information and establish auditing circumstances through communication with Executive Directors, Internal Audit Department and other employees, and conducted the audit by the following methods.
  - (i) Each Audit & Supervisory Board Member attended the Board of Directors meetings and other important meetings to receive reports regarding execution of duties from Executive Directors and employees, and requested explanations as necessary. Each Audit & Supervisory Board Member also inspected the approved documents and examined the status of operations and conditions of assets at the head office and principal offices.

With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received reports from subsidiaries as necessary.

- (ii) Each Audit & Supervisory Board Member verified the resolutions adopted by the Board of Directors regarding the establishment of a system for ensuring that the Executive Directors' duties, as stated in the business report, are executed in conformity of laws and regulations, and the Articles of Incorporation of the Company, and the establishment of a system necessary to ensure proper business operations of stock companies consisting of the Company and its subsidiaries set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act. It also regularly received reports from Executive Directors and employees on the status of the establishment and operation of the system (internal control system) established in accordance with such resolutions adopted by the Board of Directors, and requested explanations as necessary and expressed his/her opinions.
    - (iii) Audit & Supervisory Board Members monitored and verified that the Accounting Auditor maintains independence and conducts the audits appropriately. Each Audit & Supervisory Board Member also received reports on the status of the execution of duties from the Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of

the Ordinance on Accounting of Companies) in accordance with “Standards for the Quality Control of Audits” (Business Accounting Council, October 28, 2005) from the Accounting Auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the business report and the accompanying supplementary schedules, the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and consolidated tables of explanatory notes) and the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets and non-consolidated tables of explanatory notes), the supplementary schedules thereto, for the fiscal term ended March 31, 2017.

## 2. Results of audit

### (1) Results of audit of business report and other relevant documents

- (i) The business report and supplementary schedules present fairly the financial condition of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (ii) Regarding the execution of duties by Executive Directors, there were no instances of misconduct or material matters in violation of laws and regulations, nor of the Articles of Incorporation of the Company.
- (iii) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional comment regarding the contents of the business report on such internal control and the execution of duties by Executive Directors.

### (2) Results of audit of consolidated financial statements

The auditing methods and results of the Accounting Auditor, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

### (3) Results of audit of non-consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

May 19, 2017

The Audit & Supervisory Board, Azbil Corporation  
Tomohiko Matsuyasu,  
Standing Audit & Supervisory Board member  
Hisaya Katsuta,  
Standing Audit & Supervisory Board member  
Kinya Fujimoto,  
Outside Audit & Supervisory Board member  
Mitsuhiro Nagahama,  
Outside Audit & Supervisory Board member  
Shigeru Morita,  
Outside Audit & Supervisory Board member