Last update: June 27, 2023
Azbil Corporation
Director, President and Group CEO
Kiyohiro Yamamoto
Contact: General Affairs Department
Tel: +81-3-6810-1000
Securities Code: 6845
https://www.azbil.com/index.html/

The corporate governance of Azbil Corporation ("the Company") is described below.

I. Basic Approach to Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Approach and Policy Updated

Basic Approach

In order to deserve the trust of our shareholders and other stakeholders, the Company's fundamental approach to corporate governance is not just to ensure compliance with laws and regulations and our Articles of Incorporation, but also to fulfill our social responsibilities based on corporate ethics and to contribute to society while continuously improving enterprise value through efficient and transparent management. We see this as a top management priority.

The azbil Group has established its long-term targets (to achieve by FY2030) and a medium-term plan (FY2021-FY2024), whose aim is to contribute "in-line" to a sustainable society and achieve growth through providing automation-related products and services. Guided by the Group philosophy of "human-centered automation", we will secure our own medium- and long-term development while implementing sustainable enhancement of enterprise value. At the same time, we recognize that it is corporate governance which provides the foundation for such sustainable enhancement of enterprise value, and so improving corporate governance is a key issue for management. We are therefore working to strengthen the supervisory and auditing functions of the Board of Directors, enhance the transparency and soundness of management, and clarify responsibilities for business execution. To facilitate this, we have recently transitioned from being a company with an audit & supervisory board to a company with a three-committee board structure, following the approval of a proposal to amend our Articles of Incorporation at the 100th Ordinary General Meeting of Shareholders held on June 23, 2022.

Basic Policy

(1) Ensuring the rights and equality of shareholders

In order to ensure that shareholders' rights are substantially secured, the Company takes appropriate measures in accordance with laws and regulations, and, giving due consideration to all shareholders including foreign shareholders and minority shareholders, is promoting the development of an environment in which shareholders can exercise their rights equally and appropriately.

(2) Appropriate cooperation with stakeholders who are not shareholders

In order to achieve sustainable growth and increase enterprise value over the medium to long term, we believe that the Company must be strongly aware of its corporate social responsibility and conduct management that is appropriate for all our stakeholders. For this purpose, we have adopted "human-centered automation" as our Group philosophy to realize safety, comfort and fulfillment in people's lives and contribute to the global environment. To this end, we have instituted Guiding Principles for azbil Group Business and established the azbil Group Code of Conduct to provide specific guidelines for all officers and employees of the Company and the azbil Group. In FY2022, we updated a number of basic policies that comprise important concepts underpinning the Company's fundamental stance; this is essential for implementing the Group's philosophy, Guiding Principles, and Code of Conduct. Also, we have set the essential goals of the azbil Group for the SDGs (basic goals and targets) toward achieving the UN's SDGs. With these SDGs as our new guidepost, we aim to connect our philosophy, Guiding Principles, Code of Conduct, and management strategy, leading "in series" to a sustainable society, and to realize a balance between resolving social issues and sustainable growth. As regards achieving diversity in human resources, we are actively working to promote the advancement of female employees based on the recognition that having diverse values within a company is essential when it comes to achieving sustainable growth.

With regard to the internal reporting system, we believe it is important to (a) encourage employees to use this system by dispelling any concerns that in so doing they might be put at a disadvantage, and (b) ensure that the information thus conveyed is used appropriately. We have therefore established a user-friendly reporting & consultation system—the CSR Hotline—which ensures that the information received is reported to the president & CEO, Audit Committee Members, and outside directors.

(3) Ensuring appropriate information disclosure and transparency

The Company strives to disseminate information so as to ensure transparency and fairness in decision-making, thus realizing effective corporate governance. Specifically, in order to ensure that all stakeholders have a proper understanding of financial information—such as the Company's financial position and business results—as well as non-financial information—such as management strategy, management planning, management issues, and information relating to risk and governance—we actively disclose information on a voluntary basis in addition to the information stipulated by law. The Company also discloses policies and procedures regarding the appointment of directors and corporate executives (*shikkoyaku*), as well as the selection and dismissal of senior executives including the CEO, and policies for deciding on the remuneration for directors and corporate executives. We will continue to strive to increase the scope of information covered by these disclosures and ensure transparency.

In addition, we are taking appropriate measures to ensure proper audits by the independent accounting auditor: the Company provides sufficient time for audits to be conducted, arranges for the ACCOUNTING AUDITOR to interview the president & CEO and the officer in charge of finance on a regular basis, and continuously conducts quarterly report meetings between the accounting auditor, the Audit Committee, and the Internal Audit Department.

(4) Responsibilities of the Board of Directors, etc.

The basic mission of the Board of Directors is to put in place an appropriate corporate governance system and to implement this so as to achieve sustainable growth for the Company and enhance its enterprise value.

The Board Rules stipulate that basic management strategy and management plans are important items for deliberation, and following discussions that are unrestricted, robust and constructive, the Board will make appropriate decisions. Moreover, to ensure transparency and fairness in management, the Company will ensure timely disclosure and systems for internal control and risk management. At the same time, the Audit Committee, in cooperation with the Internal Audit Department, will successively provide appropriate audits and opinions on management.

The Company recognizes that independent outside directors play a key role in ensuring that the Board properly fulfills its functions and responsibilities, and thus it has appointed eight independent outside directors with a broad range of experience in corporate management and supervision, as well as considerable expertise and knowledge. Drawing on their diverse backgrounds, these independent outside directors adopt a wide range of perspectives to fulfill their responsibilities, offering advice on improving enterprise value, supervising management, etc. As of June 27, 2023, the total number of directors is 12, with outside directors representing a majority. Board composition demonstrates ample diversity, including that of nationality and gender.

For the Board of Directors to effectively fulfill its roles, the Company believes that, in appointing directors, it is important to promote diversity, taking into consideration the balance of knowledge and experience, and also to ensure transparency and objectivity in the selection process. Giving due consideration to such management strategies as the realization of the medium-term plan, the Company has set out what skill sets are expected of its directors and has confirmed the requisite independence, diversity, and anticipated skills of its current Board. For details, please refer to Principle 3-1 (4) and Supplementary Principle 4-11-1 in "Disclosure Based on the Principles of the Corporate Governance Code" in this report.

Regarding succession planning for the Company's senior management, the Nomination Committee discusses the ongoing training and selection of successors; record the results of those discussions as well as the process of deliberation; and regularly report to the Board of Directors on details of their deliberations. The Company thus ensures that succession planning is implemented in an appropriate and objective manner, that the Board is proactively involved in succession planning, and that the training of potential successors is conducted systematically, with sufficient time and resources.

(5) Dialogue with shareholders

In order to meet requirements for corporate accountability while contributing to sustainable growth and the enhancement of enterprise value over the medium to long term, the Company is working to develop and implement a system for promoting constructive dialogue with shareholders and investors. For more information, please refer to Principle 5-1 in the "Disclosure Based on the Principles of the Corporate Governance Code" section of this report.

Regarding the publication of management strategies and plans, as well as presenting basic policies such as earnings plans, the Company strives to provide straightforward explanations of the targets of financial affairs (sales, operating income, ROE, etc.) and non-financial affairs in our medium-term plan, as well as outlining strategies for achieving those targets.

[Reasons for Non-Compliance with the Principles of the Corporate Governance Code]

The Company complies with all principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] Updated

[Principle 1-4] [Strategic shareholdings]

Taking into account our business strategies, business relationships, and cooperative business affiliations, the Company holds listed shares if they are judged to contribute to the enhancement of the Company's enterprise value from a medium- to long-term perspective, and to be instrumental in maintaining and strengthening our long-term business relationships. The Company's Board of Directors regularly verifies the significance of individual stocks to our business, including financial returns, to determine whether these holdings are sufficiently advantageous from the viewpoint of economic rationality and capital costs. The results of this verification are reported along with any risks involved in holding a stock. Should it be determined, as a result of this verification, that holding an individual stock is not sufficiently advantageous, and that it cannot be judged to contribute to the improvement of the Company's enterprise value from a medium- to long-term perspective, our policy is to reduce our holdings of that stock by selling shares when deemed appropriate in light of stock prices and market trends. The Company's strategic shareholdings are disclosed in the Securities Report, with the current number of shares of each stock, the purpose of holding the stock, and whether reductions have been made, etc.

When it comes to exercising voting rights, an issuer's financial position and governance status are regularly monitored, and the details of each proposal are reviewed to determine comprehensively whether or not medium- to long-term shareholder value will be enhanced and whether there will be any impact on the Company's enterprise value or on the significance of holding the stock.

In dealings with companies that hold the Company's stock as strategic shareholdings, the economic rationale of each transaction is given appropriate consideration. In addition, even if such a company indicates its intention to sell these shares, the Company will not engage in any conduct intended to prevent the sale, such as suggesting a scaling-back of business.

[Principle 1-7] [Related party transactions]

The Board Rules stipulate that self-trading and competitive transactions by the Company's directors, corporate executives and executive officers with titles require both prior approval and post-transaction reporting. Furthermore, to establish whether or not there have been any transactions involving corporate officers and their close relatives, a questionnaire-based survey is conducted each year. In addition, based on the Code of Audit Committee Auditing Standards, Audit Committee Members monitor and verify whether any directors and corporate executives are in violation of their obligations. As for shareholder transactions, there are no major shareholders as defined by the Financial Instruments and Exchange Act, and thus no such transactions have taken place.

[Supplementary Principle 2-4-1] [Ensuring diversity in the appointment, etc. of core personnel]

For details on ensuring diversity in the appointment, etc. of core personnel, please refer to the "Other" section of "3. Measures to Ensure Due Respect for Stakeholders in III. Implementation of Measures for Shareholders and Other Stakeholders" in this report.

[Principle 2-6] [Functioning as corporate pension asset owner]

In June 2015, the transfer of the Company's corporate pension plan to a defined contribution system was completed. A contractual corporate pension plan was established, however, to manage the assets of those entitled to retirement pensions from the former employees' pension fund under the defined benefit system.

This contractual corporate pension plan is limited to beneficiaries who have already retired, and the pension fund assets will gradually decrease over time. However, in order to ensure the proper operation of the defined benefit corporate pension plan, the Company has established an Asset Management Committee chaired by the officer in charge of finance and composed of employees who work in such fields as finance, accounting, and human resources. Qualified personnel have been assigned to the department in charge of corporate pensions and to the Asset Management Committee office, and also training opportunities are made available to enable the staff to enhance skills relevant to these tasks.

The Company had concluded an investment advisory contract with a neutral, independent external consulting firm to call on additional expertise regarding corporate pensions. However, in view of the fact that the policy assets of the contractual corporate pension plan are wholly composed of life insurance general account and short-term assets, it has been decided that adequate governance of the pension plan can be maintained through regular monitoring of the pension plan's financial status by the Asset Management Committee. Therefore, the investment advisory contract with the consulting firm was not renewed at the expiration of its term on March 31, 2021.

In addition, the management of the reserve funds is entrusted to several investment management organizations. Each of these is able to exercise voting rights appropriately and thus avoid possible conflicts of interest between the beneficiaries of the corporate pension plan and the Company.

[Principle 3-1]　[Enhancement of information disclosure]

As outlined below, the Company discloses information in accordance with relevant laws and regulations, but also proactively publishes additional information on a voluntary basis, and will continue to strive to enhance information disclosure and ensure transparency.

(1) Management philosophy, management strategy, management plans

Please refer to our website: https://www.azbil.com/corporate/index.html

(2) Corporate governance: Basic approach and basic policy

For details, please refer to "Basic Approach" and "Basic Policy" sections in "1. Basic Approach" within "I. Basic Approach to Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information" in this report.

(3) Policies and procedures for determining remuneration for directors and corporate executives

Please refer to "Remuneration for directors and corporate executives" and "2. Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions" within "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management" in this report.

(4) Policies and procedures regarding the appointment of directors, as well as the selection/dismissal of senior executives including the CEO

Please refer to "2. Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions" within "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management" in this report.

(5) Reasons for the appointment of individual directors

For the reasons behind the appointment of individual directors, please refer to the notices of the Ordinary General Meeting of Shareholders.

Notice of the Ordinary General Meeting of Shareholders: https://www.azbil.com/ir/stock/meeting/index.html
(Notices for past Ordinary General Meetings of Shareholders can also be accessed.)

[Supplementary Principle 2-3-1] [Supplementary Principle 3-1-3] [Supplementary Principle 4-2-2] [Sustainability policy and initiatives]

The azbil Group's sustainability policy

With regard to sustainability, the azbil Group is committed to continuously enhancing enterprise value based on mutual trust with stakeholders, to realizing "safety, comfort, and fulfillment in people's lives" and contributing to global environmental preservation, and to contributing "in series" to a sustainable society. These are achieved through practicing the azbil Group's philosophy of "human-centered automation" and respecting the values to contribute to society for people's well-being based on the founding spirit of "freeing people from drudgery".

Sustainability initiatives

In accordance with the Group's philosophy, we are contributing to the global environment and addressing various social issues in order to realize a sustainable society. We recognize that tackling sustainability issues is not just about responding to risk, but also about seizing important business opportunities to enhance enterprise value, so we will continue to make contributions that lead "in series" to a sustainable society. Specifically, in response to global environmental issues such as climate change, we will aim to make further contributions by providing solutions for reducing environmental impact, curbing energy demand, and integrating renewable energy, while our new automation, life-cycle and other businesses are serving our customers and society as a whole. We will also contribute to a sustainable society by respecting human rights as part of our corporate activities, giving due consideration to the health and working environment of our employees, treating them fairly and appropriately as part of our health and well-being management, and conducting CSR-conscious transactions, etc. throughout our supply chains, while taking comprehensive measures to strengthen our BCP and crisis management. In the medium-term plan, based on the above policy, we are comprehensively examining profit opportunities and risk reduction, while formulating and implementing business strategies to improve enterprise value by 2030, including the SDGs.

The Company has established a system for examining and promoting sustainability initiatives on a company-wide basis. Under the corporate officer in charge of all sustainability matters, the azbil Group CSR Promotion Committee and SDGs Promotion Committee meet regularly. Progress and issues discussed in these meetings are reported to the Board of Directors and the Management Committee.

Sustainability reporting

The Company discloses its sustainability initiatives in its annual *Securities Report* and the *azbil Report*. In the medium-term plan, we have also formulated management strategies based on the following three basic policies in order to ensure our own medium- to long-term development and to achieve sustainable enhancement of enterprise value. We are committed to (1) being 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, by expansion into new regions and qualitative change of focus; and (3) being a corporate organization that never stops learning, so that it can continuously grow stronger.

We are reforming our business and operational structures, strengthening our business profitability, and working to find solutions to the issues facing society. In addition, as to sustainability, the Company discloses in its annual report (e.g. *azbil Report*) a detailed analysis of its efforts from the perspective of promoting ESG (Environmental, Social and Governance) initiatives. Also, as regards disclosing how climate-related risks and opportunities affect the Company, we have expressed our support for the TCFD international framework. In line with TCFD guidance, the Company discloses information on governance, strategy, risk management, and metrics and targets in its *101st Annual Securities Report* and annual report (*azbil Report*), and is progressively enhancing the content of these reports, both qualitatively and quantitatively.

Investing in human capital and intellectual property

In formulating our medium-term plan, strategies for each business portfolio were discussed and reviewed by our Board of Directors. From FY2021, we have introduced return on invested capital (ROIC) to encourage business management that is mindful of the cost of capital. The plan also includes strategic consideration of human capital and intellectual property, and going forward we will continue to ensure effective monitoring of the utilization efficiency of these management resources so as to contribute to the sustainable growth of the Company. The Company's approach to human capital can be found in the *101st Annual Securities Report*.

[Supplementary Principle 4-1-1]　[Scope of matters delegated to management (summary)]

Our Board Rules stipulate the matters to be discussed and reported to the Board of Directors and also those matters to be delegated to the management team as well as their scope. With the transition to a company with a three-committee board structure, the Board Rules have been revised to ensure an agile and speedy decision-making executive structure, and at the same time to enhance objective supervisory functions that will enable the Board of Directors to promote growth.

The matters to be discussed and reported to the Board shall—in addition to those matters required by laws and regulations and the Articles of Incorporation—be matters that are important for management, such as basic management strategies, basic management plans, corporate governance policies, and risk management. However, we have revised the criteria for items to be included in the Board's agenda so as to facilitate speedy execution, delegating to the management team matters related to business management, excepting those deemed to be especially important and for which authority shall be reserved to the Board.

As regards the scope of delegation to the management team, final decisions are mainly reserved for the president and CEO based on the Management Meeting Rules, while decisions on matters of a more limited scope are made by each executive department., in accordance with the Administrative Authority Rules.

[Principle 4-8]　[Effective use of independent outside directors]

In order to contribute to sustainable growth and the enhancement of enterprise value over the medium to long term, the Company has appointed eight (8) independent outside directors with a wide range of experience in corporate management and supervision, as well as extensive expertise and professional knowledge from their diverse backgrounds. These independent outside directors contribute to enhancing enterprise value through counseling and supervising decision-making processes in meetings of the Board of Directors.

As of June 27, 2023, the total number of directors is twelve (12), with outside directors accounting for more than half of the Board of Directors. The Board composition demonstrates ample diversity, including that of nationality and gender.

[Principle 4-9]　[Criteria for judging the independence and qualifications of independent outside directors]

In addition to meeting the requirements for outside directors set out in the Companies Act, the Company applies its own criteria for judging independence and appoints outside directors who can be expected to make constructive recommendations and offer accurate advice regarding management issues and the enhancement of enterprise value over the medium to long term. As indicated in the *Securities Report* and in the notices of the Ordinary General Meeting of Shareholders, the eight (8) independent outside directors appointed by the Company are demonstrably independent and have diverse backgrounds and knowledge, together with extensive experience and expertise.

The criteria for judging independence established by the Company are explained in this *Corporate Governance Report* and are also included in the reference documents provided with the notices of the Ordinary General Meeting of Shareholders.

[Supplementary Principle 4-11-1]　[Views on balancing knowledge, experience and competence in the composition of the Board of Directors, as well as issues of diversity and scale]

In a rapidly changing business environment, we believe that the Company needs a Board of Directors that offers diversity and provides a good overall balance of knowledge and experience that will contribute to the enhancement of enterprise value over the medium to long term. Based on this fundamental principle, as of June 27, 2023, the Board of Directors consists of four (4) directors with executive experience in the Company's business, audit and management and eight (8) independent outside directors with wide-ranging experience, extensive expertise and professional knowledge.

Of the twelve (12) directors, two (2) are women (one of whom is a foreign national). Also, we have established the skill sets expected of the directors with respect to the realization of the Company's medium-term plan and other management strategies, and we have confirmed the independence, diversity, and expected skills of the current entire Board of Directors. The skills expected of the Company's directors (i.e. their skills matrix) are described below in 2. Other Matters Concerning the Corporate Governance System in the V. Other section of this report.

[Supplementary Principle 4-11-2]　[Concurrent positions of directors]

If a director or a corporate executive concurrently serves as a director of another listed company, the Company shall confirm in advance whether this might negatively impact—owing to the time and effort invested—the individual's ability to carry out their roles and responsibilities as an officer of the Company. Any such concurrent positions are disclosed in the *Securities Report* and in the notices of the Ordinary General Meeting of Shareholders. At this time, there are no concurrent positions that affect the Company's management or the roles and responsibilities of its corporate officers.

[Supplementary Principle 4-11-3]　[Evaluating the effectiveness of the Board of Directors］

In order to clearly separate supervisory and executive functions, and to lend impetus to a further strengthening of the management oversight function, Azbil Corporation transitioned from being a company with an audit & supervisory board to a company with a three-committee board structure, following approval at the Ordinary General Meeting of Shareholders held on June 23, 2022. Through conducting objective and constructive deliberations, the Company's Board of Directors decides on such matters as management strategy, supervises their execution, and strives to enhance enterprise value over the medium to long term. A survey was again carried out this year, like last year, to evaluate the effectiveness of the Board of Directors in properly fulfilling its roles and responsibilities, to identify issues and possible improvements, and to provide suggestions as to how the Board's effectiveness might be enhanced. We were thus able to confirm that, following the transition to a company with a three-committee board structure, steady progress has been made in both strengthening governance and improving the effectiveness of the Board of Directors. In preparing for this evaluation, the Chairperson led a review with outside directors of the approach and methodology to be used, and—so as to ensure objectivity and facilitate more effective initiatives in the future—an outside organization was tasked with compiling both the survey items and the results.

For this survey of FY2022, all directors were asked for their opinions and assessments of (1) the role and functions of the Board of Directors; (2) the size and composition of the Board of Directors; (3) the operation of the Board of Directors; (4) the composition, role, and work of the Nomination Committee; (5) the composition, role, and work of the Remuneration Committee; (6) the composition, role, and work of the Audit Committee; (7) the support provided for outside directors; (8) investor and shareholder relations; (9) the overall effectiveness of the governance system and the Board of Directors; and (10) themselves (self-evaluation). Based on the above, the Board of Directors held constructive discussions on current effectiveness as well as issue-sharing and future steps.

It has thus been concluded that the Board of Directors is of an appropriate size and composition, and is properly fulfilling its role, with its members plainly sharing the Board's supervisory function for a company with a three-committee board structure; that—thanks to the Liaison Meeting for Directors and Corporate Executives, a forum established so that directors can gather information and exchange opinions with corporate executives—there is sufficient communication between directors and corporate executives, as well as between internal directors and outside directors, and that this is contributing to the smooth transition to the new board structure; that the size, composition, and deliberation topics of the three statutory committees for nomination, remuneration, and audit are all appropriate; and that the overall effectiveness of the Board of Directors is adequately ensured. In last year's assessment of effectiveness, Board members all recognized the importance of sharing and discussing the progress of the medium-term plan. Consequently, in FY2022, in addition to being deliberate at Board meetings and at the above-mentioned Liaison Meeting for Directors and Corporate Executives, the medium-term plan was also the subject of intensive discussions at off-site meetings made possible following the lifting of restrictions related to the COVID-19 pandemic. These opportunities were used to review the plan and discuss business strategies to achieve long-term growth and long-term targets; topics included capital policy, overseas business strategy, development capabilities, DX and related businesses, and the business portfolio. These initiatives represented one of the items covered by this year's survey of effectiveness.

Going forward, members agreed that the Board of Directors will strive to make a clearer division of supervisory and executive roles, and to improve the reference materials prepared for meetings so that the Board can discuss more important management issues, and also that the Board of Directors and Nomination Committee will discuss the skills matrix required to maintain the appropriate composition of the Board of Directors, improving it where possible. In order to achieve sustainable growth and increase enterprise value over the medium to long term, the Company will continue its efforts to enhance the effectiveness of the Board of Directors.

[Supplementary Principle 4-14-2]　[Training policy for directors]

The Company believes that it is important to provide appropriate training opportunities for individual officers so that directors can appropriately fulfill their roles and responsibilities. Based on this recognition, external training opportunities are provided for newly appointed directors to acquire and update the knowledge necessary for the performance of their duties, including their legal authority and obligations as officers. Especially, so that they can deepen their understanding of the Company, we operate an introductory program for newly appointed outside directors, providing an overview of the enterprise, its businesses and products; factory tours; and explanations of matters related to corporate governance, etc. Furthermore, we regularly conduct group compliance training for all officers, inviting external lecturers as needed. And in order to prepare the next generation of executives, we provide training opportunities for managers to acquire the leadership skills, knowledge of management strategies, and management competences required of top management.

[Principle 5-1]　[Dialogue with shareholders]

In order to fulfill our duty of corporate accountability and contribute to sustainable growth and the enhancement of enterprise value over the medium to long term, the Company is working to establish a system to promote constructive dialogue with shareholders and investors as described below. Details of these efforts can be found in the *azbil Report* (integrated report).

In order to facilitate constructive dialogue with shareholders and investors, the Company has appointed a director in charge of corporate communications who monitors all such dialogue in coordination with the relevant internal departments. Depending on the purpose, dialogue with shareholders and investors is directed by senior management, the director in charge of corporate communications, or the IR Group within the Communication Department.

In actual practice, dialogue with shareholders and investors is conducted via individual meetings, financial results announcements and other briefings, and informational tours. In addition, we proactively supply information to shareholders, institutional investors and individual investors, both in Japan and overseas, through extensive use of digital media such as online briefings, all designed to promote understanding. Topics range widely, from management strategy and business performance to sustainability, ESG-related initiatives, and voting criteria. We are thus actively promoting dialogue with a mixed audience, ranging from analysts and fund managers utilizing various investment approaches for shareholders and investors, to people who responsibilities cover ESG and the exercise of voting rights. After being made available to the president and management team, the outside directors, management meetings and Board meetings the feedback from such dialogue is used, as appropriate, to inform the development of capital and corporate policies, and guide management.

When preparing to engage in dialogue, both the content and scope of information disclosure are clarified in advance, efforts are made to ensure information consistency, and appropriate measures are taken, such as setting a “quiet period” before the announcement of financial results to prevent leaks of insider information. In order to build, maintain, and develop relationships of trust with our stakeholders, the Company is committed to conducting fair and transparent information disclosure in a timely and appropriate manner, promoting constructive dialogue through a variety of communications activities. This is explained in our disclosure policy, which is made available online.

Disclosure policy: https://www.azbil.com/ir/management/disclosure/index.html

[Principle 5-2] [Formulation and announcement of management strategies and plans]

The azbil Group’s basic goal is to improve consolidated return on equity (ROE) and thus increase shareholder value. Through improvements in profitability and capital efficiency, we are aiming to achieve net sales in the 400 billion yen range, operating income in the 60 billion yen range, an operating income margin of approximately 15%, and an ROE of approximately 13.5%; these are the Group’s long-term targets* for FY2030. Toward achieving these long-term targets, our four-year medium-term plan sets out as targets for FY2024, the final year of the plan, net sales of 300.0 billion yen, operating income of 36.0 billion yen, an operating income margin of 12%, and an ROE of approximately 12%.

* On May 14, 2021, the azbil Group published its long-term targets and the medium-term plan (FY2021–2024).

To encourage a keen awareness of the cost of capital, from FY2021 we have been using return on invested capital (ROIC) as an internal metric for business management. In each of our businesses—Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)—we implement a PDCA cycle for checking and improving each branch of the ROIC tree, advancing business portfolio management aimed at maximizing efficiency in management resource utilization, based on the profitability resulting from invested capital. Also, as part of monitoring the progress of the medium-term plan, the Board of Directors reviews the business portfolio to check its effectiveness.

In addition, as a way of promoting plan-based management informed by a keen awareness of the cost of capital and the Company’s stock price, the relative size of the incentive component of corporate executives’ remuneration has been increased; this is designed to motivate them to achieve our medium- and long-term performance targets and enhance enterprise value. Whereas sales and operating income are used as key performance indicators (KPIs) for determining bonuses, relative TSR (vs. TOPIX, including dividends) and operating income margin are the financial metrics used to determine stock-based compensation.

The basic policy of the azbil Group is to use revenue from business activities for investing in sustainable growth and for ensuring a healthy financial foundation, while simultaneously working to enhance shareholder returns. Through implementing disciplined capital planning based on this policy, we strive to maintain and improve enterprise value. Information on our management strategy and, based on this, our strategy for capital investment as well as investments in R&D, human capital, etc., can be found on our website, in the *azbil Report* (integrated report), and in the materials prepared for disclosure of our financial results. Details of human capital can also be found in the *101st Annual Securities Report*.

[Supplementary Principle 5-2-1] [Basic policy on our business portfolio]

Guided by the Group philosophy of “human-centered automation”, our basic mission is to pursue new value creation and business growth that will contribute “in series” to a sustainable society through a business portfolio that is based on automation technologies and focused primarily on our markets (BA/AA/LA) and solutions (systems and products). The Board of Directors is reviewing the business portfolio for FY2022.

2. Capital Structure

Foreign Shareholding Ratio	30% or more

[Major Shareholders] Updated

Shareholder name	Number of shares owned	Percentage of the total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,330,400	14.88
SSBTC CLIENT OMNIBUS ACCOUNT	10,820,221	7.92
Meiji Yasuda Life Insurance Company	10,428,200	7.63
Custody Bank of Japan, Ltd. (Trust account)	9,075,500	6.64
Northern Trust Co. (AVFC) Re Fidelity Funds	5,015,765	3.67
National Mutual Insurance Federation of Agricultural Cooperatives	3,356,400	2.45
the azbil Group Employee Stock Ownership Association	2,806,197	2.05
BNP PARIBAS LUXEMBOURG/ 2S/ JASDEC/ FIM/ LUXEMBOURG FUNDS/ UCITS ASSETS	2,681,400	1.96
JP MORGAN CHASE BANK 385839	2,332,000	1.70
STATE STREET BANK WEST CLIENT – TREATY 505234	2,262,400	1.65

Controlling Shareholder (other than parent company)	—
Parent Company	None

Supplementary Explanation Updated

1. The Company holds 7,148,221 treasury shares. Furthermore, the number of treasury shares does not include the 2,007,331 shares owned by Custody Bank of Japan, Ltd. (Trust E) for the Employee Stock Ownership Plan (J-ESOP) and the Board Benefit Trust (BBT), nor the 936,000 shares owned by the azbil Group Employee Stock Ownership Dedicated Trust.
2. 8,028 thousand shares held by The Master Trust Bank of Japan, Ltd. (Trust account) and 3,843 thousand shares held by Custody Bank of Japan, Ltd. (Trust account) are the numbers of shares related to the trust business.
3. According to the *Report on Large Shareholding* dated September 7, 2022, which has been made available for public inspection, 13,944,000 shares (9.70 % of the total shares issued) are held by FMR LCC and National Financial Service LCC as of August 31, 2022. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2023, FMR LCC and National Financial Service LCC are not included in the above list of major shareholders.
4. According to the *Report on Large Shareholding* dated November 7, 2022, which has been made available for public inspection, 7,150,000 shares (4.97 % of the total shares issued) are held by Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. as of October 31, 2022. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2023,Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. are not included in the above list of major shareholders.

3. Corporate Attributes

Listed Stock Market, Market Section	Tokyo Stock Exchange, Prime Market
Fiscal Year End	March 31
Business Category	Electric Appliances
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (Consolidated) for the Previous Fiscal Year	Between 100 billion yen and 1 trillion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	Between 10 and 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

—

5. Other Special Circumstances that May Have a Material Impact on Corporate Governance

—

II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Structure of Organization	Company with a three-committee board structure

[Directors]

Number of Directors as Specified in Articles of Incorporation	15
Term of Office of Directors as Specified in Articles of Incorporation	1 year
Chairperson of the Board	Company Chairperson (except when concurrently serving as President)
Number of Directors	12

[Outside Directors]

Number of Outside Directors	8
Number of Independent Directors	8

Relationship with the Company (1)

Name	Affiliation	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Takeshi Itoh	From another company											
Waka Fujiso	Other											
Mitsuhiro Nagahama	From another company								△			
Anne Ka Tse Hung	Lawyer											
Minoru Sakuma	From another company											
Fumitoshi Sato	From another company								△			
Shigeaki Yoshikawa	From another company								△			
Tomoyasu Miura	From another company								△			

* Nature of relationship with the Company:

○ : The director presently belongs to or has recently belonged to the category.

△ : The director belonged to the category in the past.

● : A close relative of the director presently belongs to or has recently belonged to the category.

▲ : A close relative of the director belonged to the category in the past.

Categories:

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant, or legal professional who receives a large monetary consideration or other property from the Company besides remuneration as a director

g. Major shareholder of the Company (or an executive of a major shareholder if the said shareholder is a legal entity)

h. Executive of a client or supplier company of the Company which does not correspond to categories d, e, or f above (the director himself/herself only)

i. Executive of a company having an outside director or Audit & Supervisory Board member who is also appointed to the Company (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Relationship with the Company (2) Updated

Name	Committee membership			Designated as an independent director	Supplementary explanation of conforming items	Reason for appointment
	Nomination Committee	Remuneration Committee	Audit Committee			
Takeshi Itoh	Yes			Yes	-	In addition to management experience and experience as an analyst in investment banks and investment advisory companies, etc. in Japan and abroad, with his long-term overseas work experience and experience in the consulting business including fundraising and M&A advice, he has a record of superior performance in advanced corporate analysis. In addition, by utilizing aforementioned experiences, at Board of Directors meetings of the Company, he not only supervises business execution but also proactively offers his opinions based on his advanced knowledge and experience, and also from the perspective of the capital markets, as an expert in the fields of international financing and investment, to increase the transparency and fairness of management. In these ways, he fulfills such appropriate roles as supervision and advising, etc. on business execution and the Company judges he can continue contributing to raising the standard of the Company's management going forward. Also, as he falls under none of the above categories (a to k), the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders and that he has sufficient independence, in accordance with the Company's own criteria for judging the independence of outside directors.
Waka Fujiso		Yes		Yes	-	She possesses extensive knowledge and experience that she gained mainly during her activities over many years as a public prosecutor, and, after retiring from the position of public prosecutor at the Supreme Public Prosecutors Office, during her service as a council member at a government agency at which time she also

						taught at a law school. At Board of Directors meetings of the Company, she not only supervises business execution, but also proactively offers opinions from the perspectives of sustainability and CSR, based on her extensive knowledge as a legal expert, aiming at more thorough compliance management and risk management as well as the enhancement of management transparency and fairness. In these ways, she fulfills such appropriate roles as supervising and giving advice on business execution and the Company judges she can continue contributing to raising the standard of the Company's management going forward. Also, as she falls under none of the above categories (a to k), the Company has designated her as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders and that she has sufficient independence, in accordance with the Company's own criteria for judging the independence of outside directors.
Mitsuhiro Nagahama		Yes		Yes	He served as a director at the Company's lender, Mizuho Corporate Bank, Ltd. (now: Mizuho Bank, Ltd.), until March 2013. However, the amount of the Company's borrowings from said bank is ¥8,019 million, which is 2.7% of the Company's consolidated total assets of ¥296,873 million and the azbil Group does not effectively have loans payable (net balance of loans not exceeding current liquidity deposited at such lender.) Thus, said bank is not a major lender as per "the criteria for judging the	He possesses broad knowledge and extensive experience in corporate management, financial/securities sectors and global business, as he has successively served in important posts at financial institutions. He was appointed as an outside member of the Audit & Supervisory Board in 2015, and has audited the Company's overall business with his outstanding insights on corporate governance and company management. Furthermore, he has not only supervised business execution as an outside director since 2019, but also proactively offered opinions to enhance management transparency and fairness from the perspective of the capital markets and based on a global perspective. In these ways, he fulfills such appropriate roles as supervising and giving advice on business execution and the Company judges he can continue contributing to raising the standard of the Company's management going forward. He had engaged in business execution at the Company's lender, Mizuho Corporate Bank, Ltd. (now: Mizuho Bank, Ltd.), until

					independence of outside directors established by the Company". He also served as a director at a business partner of the Company, Mizuho Securities Co., Ltd, until March 2015. However, in both the most recent fiscal year and the preceding three fiscal years, the amount of transactions with the Company represents less than 0.3% of the consolidated net sales of both the Company and Mizuho Securities, which does not make said company a major business partner as per the Company's own criteria for judging the Independence of outside directors Thus the Company has determined that neither are business partners which influence the Company's decision-making.	March 2013; and at the Company's business partner Mizuho Securities Co., Ltd. until March 2015. However, they are neither lenders nor business partners that influence the Company's decision-making, as shown at left. Thus, the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders, in accordance with the Company's own criteria for judging the independence of outside directors.
Anne Ka Tse Hung	Yes			Yes	-	She worked at an international law office as a partner attorney, and supported the conclusion of international transaction agreements for Japanese companies in addition to overseas corporate matters. She also has business experience with many Japan-based companies, is familiar with Japanese business customs, and possesses knowledge in the industry to which the Company belongs. At Board of Directors meetings, she draws on her expert knowledge of international business not only to supervise business execution, but also to proactively offer opinions based on her approach to business promotion

						system and investment for international business growth and a global perspective. In these ways, she fulfills such appropriate roles as supervising and giving advice on business execution and the Company judges she can continue contributing to raising the standard of the Company's management going forward. Also, as she falls under none of the above categories (a to k), the Company has designated her as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders and that she has sufficient independence, in accordance with the Company's own criteria for judging the judging the independence of outside directors.
Minoru Sakuma			Yes	Yes	-	He has successively served in important posts at policy-based financial institutions, and in addition to his broad knowledge of international finance and extensive overseas experience, he has management experience at investment corporations and experience as an outside member of the Audit & Supervisory Board at an engineering company with worldwide operations. In 2019, he assumed the post of outside member of our Audit & Supervisory Board, and audited Azbil Corporation's business in general, since 2022 he has contributed to the improvement of the Company's corporate governance and internal control as Director (Audit committee Member). In addition, in the Company's meetings of the Board of Directors, he offers opinions regarding the appropriateness of the Company's business strategies, and from the perspective of enhancing the Group's overall corporate governance. Moreover, he has knowledge of finance, accounting, and legal affairs, as well as knowledge of global business, and the Company judges he can contribute to raising the standard of the Company's management. As he falls under none of the above categories (a to k), the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders and that he has

						sufficient independence, in accordance with the Company's own criteria for judging the independence of outside directors.
Fumitoshi Sato			Yes	Yes	He served as a director at the Company's business partner HORIBA, Ltd. until March 2017. However, in both the most recent fiscal year and the preceding three fiscal years, the amount of transactions with the Company represents less than 0.1% of the consolidated net sales of both the Company and HORIBA Ltd., which does not make said company a major business partner as per the Company's own criteria for judging the independence of outside directors Thus, the Company judges that HORIBA, Ltd. Is not a business partner which influences the Company's decision-making.	He has successively served in important posts at the Bank of Japan, and in addition to his broad knowledge in the financial sector and extensive experience, he has work experience in the management division at an operating company in the manufacturing industry—overseeing accounting, legal affairs, and human resources—and management experience as a director. In 2019, he assumed the post of outside member of our Audit & Supervisory Board, and audited the Company's business in general, and since 2022 he has contributed to the improvement of the Company's corporate governance and internal control as Director (Audit Committee Member). In addition, in the meetings of the Company's Board of Directors, he offers opinions regarding the appropriateness of the Company's business and financial strategies, and from the perspective of risk management and corporate governance enhancement. Moreover, he has knowledge of finance, accounting, and legal affairs, as well as knowledge of corporate management, and the Company judges that he can contribute to raising the standard of the Company's management. He had engaged in business execution at the Company's business partner HORIBA, Ltd. until March 2017. However, said company is not a business partner which influences the Company's decision-making, as shown at left. Thus, the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders, in accordance with the company's own criteria for judging the independence of outside directors.
Shigeaki Yoshikawa	Yes			Yes	He served as an executive vice president at the Company's business partner Mitsubishi Corporation until March 2016.	He has held key positions in a general trading company with global operations, and has broad knowledge and abundant experience regarding overseas business development and business portfolio strategies, as well as corporate management experience, etc., at a think-

					However, in both the most recent fiscal year and the preceding three fiscal years, the amount of transactions with the Company represents less than 0.1% of the consolidated net sales of both the Company and Mitsubishi Corporation, which does not make said company a major business partner as per the Company's own criteria for judging the independence of outside directors. Thus, the Company judges that Mitsubishi Corporation is not a business partner which influences the Company's decision-making.	tank consulting firm. He assumed the post of Outside Director of the Company in 2022, and has proactively offered his opinions regarding the Company's international business strategies, approach to business strategies for growth and human resource development based on his extensive experience and insight into overseas business, as well as his knowledge of marketing and sales. In these ways, he fulfills such appropriate roles as supervising and giving advice on business execution, and the Company judges he can continue contributing to increasing the level of the Company's management going forward. He was involved with business execution at the Company's business partner Mitsubishi Corporation until March 2016. However, Mitsubishi Corporation is not a business partner which influences the Company's decision-making, as shown at left. Thus, the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders, in accordance with the Company's own criteria for judging the independence of outside directors.
Tomoyasu Miura		Yes		Yes	He served as a counselor at the Company's business partner Nomura Research Institute, Ltd. (NRI) (until June 2022) and Executive Director & Dean of Nomura School of Advanced Management (NSAM) (until May 2022). The Company currently has transaction relationships with NRI and NSAM related to consulting and training services. However, in both the most recent fiscal year and the preceding three (3)	He has held key positions at a think-tank consulting firm and possesses extensive knowledge and experience in a wide range of fields, such as IT, technology innovation, and new business creation, as well as abundant experience in the development of HR management at a public interest incorporated foundation. He assumed the post of Outside Director of the Company in 2022, and has proactively offered his opinions from the perspectives of business strategies for the Company's growth, IT and technology based on his abundant knowledge of the IT and technology domains, his experience of new business creation, and his experience of human resource development. In these ways, he fulfills such appropriate roles as supervising and giving advice on business execution and the Company judges that he can continue contributing to raising the standard of the Company's management

					fiscal years, the amount of transactions with NRI makes up less than 0.1% of the consolidated net sales of both the Company and NRI. As regards the Company's relationship with NSAM, the amount of transactions (training fees paid to NSAM) as a percentage of NSAM's net sales is less than 1.4%; in monetary terms, this is less than 8 million yen per fiscal year Note that the Company has no sales to NSAM. Thus, neither is a major business partner as per the Company's own criteria for judging the independence of outside directors and the Company judges they are not business partners which influence the Company's decision-making.	going forward. He was involved with business execution at two of the Company's business partners, Nomura Research Institute, Ltd. (until June 2022) and Nomura School of Advanced Management (until May 2022). However, they are not business partners which influence the Company's decision-making, as shown at left. Thus, the Company has designated him as an independent director, judging there to be no possibility of the occurrence of conflict of interest with general shareholders, in accordance with the Company's own criteria for judging the independence of outside directors.

[Supervisory Committees]

Composition of Supervisory Committee and Attributes of the Chairperson

	Total no. of committee members	Full-time members	Internal directors	Outside directors	Chairperson
Nomination Committee	4	0	1	3	Outside Director
Remuneration Committee	4	0	1	3	Outside Director
Audit Committee	3	1	1	2	Outside Director

[Corporate Executives (*shikkoyaku*)]

Number of Corporate Executives Updated	5

Additional Duty Status

Name	Representative Authority	Concurrent duties as director			Concurrent duties as employee
			Nomination Committee member	Remuneration Committee member	
Kiyohiro Yamamoto	Yes	Yes	○	×	No
Takayuki Yokota	Yes	Yes	○	×	No
Yoshimitsu Hojo	No	No	×	×	No
Kazuyasu Hamada	No	No	×	×	No
Akihiko Naruse	No	No	×	×	No

[Auditing Structure]

Appointment of Directors and Employees to Support the Audit Committee Updated	Yes

Matters Related to the Independence from Corporate Executives of Such Directors and Employees Updated

To perform their duties under the direction and instructions of the Audit committee, we have established an Audit Committee office with three (3) staff within the Internal Audit Department. Personnel transfers involving members of this staff are decided with the prior consent of the Audit Committee. Also, the performance of the head of the Audit Committee office is reviewed by the Audit Committee, and personnel evaluations involving him/her are decided with the prior consent of the Audit Committee, thereby ensuring independence from the executive side.

Cooperation Between the Audit Committee, Accounting Auditor, and Internal Audit Department Updated

As stated in “2. Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions” of this report, the Audit Committee—the majority of which is composed of outside directors—conducts audits in cooperation with the Internal Audit Department and the accounting auditor. The Committee regularly reports to the Board of Directors on its audit activities.

[Independent Directors]

Number of Independent Directors	8

Matters Relating to Independent Directors / Audit & Supervisory Board Members

The Company designates as independent directors all outside directors who meet the criteria for independent directors.

The Company’s criteria for determining the independence of outside directors are as follows.

Criteria for Judging the Independence of Outside Directors (revised on June 23, 2022)

For appointing outside directors, the Company has formulated its own criteria for judging the independence of outside directors. It judges that a person is not independent if any of the items below apply:

1. A person who currently serves as an operating executive*1 of the Company or a consolidated subsidiary of the Company, or who previously served within ten (10) years prior to being appointed;

2. A person who has 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 has served as a non-executive director of the Company or its consolidated subsidiary for more than twelve (12) years, in principle;
4. A person who has served as a member of the Audit & Supervisory Board of the Company or its consolidated subsidiary for more than twelve (12) years or three (3) terms, in principle;
5. A person who serves as an executive of a major business partner of the azbil Group—that is, a business partner that has made a payment in the amount exceeding 2% of its annual consolidated sales for the latest fiscal year or any of the preceding three (3) fiscal years or receives such a payment—or who has served in such a position in the last three (3) years;
6. A person who serves as an executive or an Audit & Supervisory Board member of a major lender*2 of the azbil Group or its parent company or its significant subsidiary, or who served in such a position in the last three (3) years;
7. 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 a position (including those who have already resigned from such a position);
8. A lawyer, certified public accountant, or other consultant who does not correspond with item 7 above and who received money or other economic benefits in the annual average amount of 10 million yen or more over the past three (3) years other than executive compensation from the azbil Group;
9. A member, partner, associate or employee of a law firm or an audit firm, etc. who does not correspond with items 7 or 8 above, where the azbil Group is a major business partner of the said law firm, audit firm, etc.—that is, a firm that received a payment from the Company or its consolidated subsidiary in the annual average amount of 2% or more of the consolidated net sales of said firm over the past three (3) fiscal years;
10. 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 in the Company), its parent company or its significant subsidiary, or who served in such a position in the last five (5) years;
11. 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;
12. A person who serves as an executive or an Audit & Supervisory Board member of a company in which the Company is a major shareholder;
13. A person who has received as an executive of an organization such as a public interest incorporated foundation, a public interest incorporated association, or a 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 (3) fiscal years; or
14. A spouse, a person within the second degree of consanguinity, or a relative residing in the same household of a person for whom any of above items (1 to 13) are applicable.

**1: Here "operating executive" refers to an executive director, a corporate executive, an executive officer, the head of a department, or other general employee.*

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

[Incentives]

Implementation of Measures to Provide Incentives to Directors and Corporate Executives	Performance-linked remuneration, etc.

Supplementary Explanation

Along with the transition to a company with a three-committee board structure, the Remuneration Committee, which is chaired by an outside director, has formulated a policy for determining executive remuneration suited to the new corporate structure. In conjunction with this revision of the executive remuneration system, which now includes a stock compensation plan, the company has disclosed its new remuneration policy. For details, please refer to the remuneration policy at the end of this report.

Recipients of Stock Options	

Supplementary Explanation

-

[Remuneration for Directors and Corporate Executives]

Disclosure of Individual Directors' Remuneration Updated	Disclosure for selected Directors
Disclosure of Individual Corporate Executives' Remuneration Updated	Disclosure for selected Corporate Executives

Supplementary Explanation Updated

The remuneration of one corporate executive (concurrently serving as a director) is disclosed separately in the *101st Annual Securities Report*, in accordance with the provisions of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Along with the transition to a company with a three-committee board structure, the Remuneration Committee, which is chaired by an outside director, has formulated a policy for determining executive remuneration suited to the new corporate structure. In conjunction with this revision of the executive remuneration system, which now includes a stock compensation plan, the company has disclosed its new remuneration policy. For details, please refer to the remuneration policy at the end of this report.

[Supporting System for Outside Directors] Updated

We have established a Corporate Secretariat office, which, in addition to performing secretarial duties for officers and handling special instructions from management, functions as a secretariat for the Board and provides support for the Nomination Committee and Remuneration Committee. Within the Internal Audit Department, we have also set up an Audit Committee office with three (3) staff. In these ways, we are strengthening support functions for the Board of Directors and statutory committees. Moreover, materials prepared for Board meetings are distributed in advance, and outside directors are provided with briefings so that they have access to all necessary information for items on the agenda.

[Status of Persons Who Have Retired as President and Representative Director, Chief Executive Officer, etc.]

Name of Consultants, Advisors, etc., Who were Formerly President and Representative Director, Chief Executive Officer, etc.

Name	Title and position	Description of Business	Form and Conditions of Employment（Full-time, Part-time, Paid or Unpaid, etc.）	Date of Retirement as President, etc.	Term of Office
—	—	—	—	—	—

Total number of consultants, advisors, etc. who were formerly President and Chief Executive Officer, etc.	0

Other Matters

The Board of Directors decided to abolish the counselor/advisor system on March 31, 2018, and the provision was deleted from the Articles of Incorporation at the 96th Ordinary General Meeting of Shareholders held on June 26, 2018.

2. Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System)

Updated

1. Overview of Current Corporate Governance System

To ensure its own medium- to long-term development, respond to the trust of all its stakeholders including its shareholders, and proceed with consistently increasing enterprise value, the azbil Group sets fortifying the underlying corporate governance as a management priority. Measures have included strengthening the supervisory and auditing functions of the Board of Directors, improving management transparency and soundness, and clarifying the structure of responsibility for the execution of duties.

The Company has transitioned from having an Audit & Supervisory Board to having a three-committee board structure, following the approval of a proposal to amend its Articles of Incorporation at the 100th Ordinary General Meeting of Shareholders held on June 23, 2023.

Accompanying this transition to a three-committee board structure, three statutory committees – the Nomination Committee, Audit Committee, and Remuneration Committee – have been established, each consisting of a majority of Independent Outside Directors and being chaired by an Independent Outside Director. In addition, by substantially transferring business execution authority from the Board of Directors to Corporate Executives with clear legal responsibilities, we are clearly separating supervisory and execution functions to ensure a business execution system based on flexible and efficient decision making, while at the same time enhancing the objective supervision of management. Furthermore, as a company with a three-committee board structure, to ensure the effectiveness of monitoring by the Board of Directors, we have established a forum for providing information to directors and exchanging opinions with corporate executives in the form of a Liaison Meeting for Directors and Corporate Executives and in addition, opinion exchange meetings are held regularly among outside directors. At the same time, we are continuing the system for Executive Officers charged with business execution, aiming to enhance the quality and speed of decision-making.

The Board of Directors is convened monthly in principle, to discuss and consider legal issues, and other important managerial matters as the highest decision-making body for management and provide a major direction, and to exercise appropriate supervision over execution in order to reflect opinions of stakeholders. In business execution, the management meetings, which Corporate Executives and Executive Officers with titles attend, have been established to serve as an executive-level advisory body to assist President & Group CEO in making decisions, and are attended by the full-time Audit Committee Member to ensure the effectiveness of monitoring. The management meetings are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision making and strict execution.

As of June 27, 2023, the Company has appointed a total of 12 Directors, including four (4) who are involved in business execution and have accumulated experience in the Company's business, management and audits (Hirozumi Sone, Kiyohiro Yamamoto, Takayuki Yokota, and Hisaya Katsuta), as well as eight (8) who are Independent outside directors and have independence, broad experience, a wealth of expertise and knowledge, and rich diversity in the form of nationality and gender (Takeshi Itoh, Waka Fujiso, Mitsuhiro Nagahama, Anne Ka Tse Hung, Minoru Sakuma, Fumitoshi Sato, Shigeaki Yoshikawa, and Tomoyasu Miura). independent outside directors have reached the majority of the Board of Directors. In addition to working diligently to contribute to enhancement of the Company's enterprise value through appropriate oversight and advice during the decision-making process at Board of Directors meetings, these independent outside directors regularly exchange opinions with corporate executives. Moreover, we established the skills expected of the directors with respect to the realization of the Company's medium-term plan and other management strategies, and confirmed the independence, diversity, and expected skills of the current Board of Directors.

2. Status of Activities of the Board of Directors

In fiscal year 2022, the Board of Directors met a total of 12 times. The 12 Directors attended all of the meetings. Because Directors Shigeaki Yoshikawa and Tomoyasu Miura were elected at the 100th Ordinary General Meeting of Shareholders held on June 23, 2022, their attendance only applies to Board of Directors meetings held after their appointment. Major items discussed at the Board of Directors meetings are as follows.

Items resolved	Medium-term plan, budget development, CSR management plan, selection of major risks, establishment and revision of policies regarding corporate governance, capital policies including sale of strategic shareholdings, appointment of Corporate Executives, appointment of committee members, approval for financial results, and other matters

Items reported	Reports on execution of duties from each statutory committee, reports on execution of duties from Corporate Executives, reports on the status of operation of internal control systems, reports on the status of CSR management, reports on the status of management of group companies in Japan and overseas, business portfolio review, and other reports
Free discussion	Discussions on strategies toward medium- to long-term business growth, and other discussions

3. Status of Activities of the Nomination Committee, the Audit Committee, and the Remuneration Committee

As a company with a three-committee board structure, the Company has established three committees, namely the Nomination Committee, the Audit Committee, and the Remuneration Committee. The status of activities of each committee is as follows.

(Nomination Committee)

As of June 27, 2023, for the Nomination Committee, Takeshi Itoh (Independent Outside Director) serves as the Committee chairperson, Anne Ka Tse Hung (Independent Outside Director), Shigeaki Yoshikawa (Independent Outside Director), and Kiyohiro Yamamoto (Director, President and Group CEO) serve as committee members, with Independent Outside Directors comprising a majority of the Committee. In fiscal year 2022, the Nomination Committee met nine (9) times, and three (3) members of the Nomination Committee (Takeshi Itoh, Anne Ka Tse Hung, and Shigeaki Yoshikawa) attended all of the meetings, and one (1) member (Kiyohiro Yamamoto) participated in eight (8) of them. Specific items considered by the Nomination Committee are as follows.

Items implemented	Specific contents of consideration
Action plans for the current fiscal year	While sharing information on the status of activities of the Nomination and Remuneration Committee, an optional committee that served until the previous fiscal year, the Nomination Committee considered and determined annual action plans for the committee in the current fiscal year, and other matters.
Determination of contents of proposals concerning candidates for Directors for the next term	In considering the Board of Directors structure for the next term (fiscal year 2023), the Nomination Committee confirmed views on the selection and the state of consideration, and deliberated and determined candidates for Directors for the next term.
Consideration of candidates for Corporate Executives for the next term and candidates for Executive Officers for the next term	As for the Corporate Executive structure and the Executive Officer structure for the next term (fiscal year 2023), the Nomination Committee confirmed views for the selection and the state of consideration, as well as the selection of candidates for Corporate Executives for the next term and candidates for Executive Officers for the next term.
Selection of successor candidates and confirmation of individual training plans	The Nomination Committee shared a profile of needed successor and the judgment criteria for promotion, and confirmed the selection and training process and the training status of successor candidates based on the development of leadership personnel.

Consideration regarding global personnel	The Nomination Committee confirmed the status of promotion of overseas business, and shared information and exchanged opinions on needed global personnel and the state and method of recruitment, while confirming appointment of global Executive Officers and the structure of executives of overseas subsidiaries.

(Audit Committee)

As of June 27, 2023, for the Audit Committee, Fumitoshi Sato (Independent Outside Director) serves as the Committee chairperson, Minoru Sakuma (Independent Outside Director) and Hisaya Katsuta (Non-executive inside Director) serve as committee members, with Independent Outside Directors comprising a majority of the Committee. Two (2) Independent Outside Directors and one (1) Non-executive inside Director who is versed in the Company's businesses formulate audit plans together with the Internal Audit Department and conduct multifaceted auditing activities, and the internal Audit Committee Member serves on a full-time basis, to enhance the effectiveness of audits by the Audit Committee. The Audit Committee chairperson Fumitoshi Sato has experience as the person responsible for the creation of financial statements as the officer in charge of accounting and finance at another operating company over many years and thus has a wealth of knowledge concerning financial affairs and accounting. Furthermore, the Company established an Audit Committee Office, an organization dedicated to assisting the Audit Committee in its duties, with three (3) staff members assigned to assist the Audit Committee in the execution of its duties.

The Audit Committee convenes in principle once a month and holds ad-hoc meetings, as necessary. In fiscal year 2022, it convened a total of 11 times and the three (3) Audit Committee Members participated in all of the meetings. Specific items considered by the Audit Committee are as follows.

Items implemented	Specific contents of consideration
Auditing policy, audit implementation plan, and task division for the current fiscal year	The Audit Committee considered an organizational auditing structure including the Internal Audit Department after the transition to a company with a three-committee board structure, and determined the auditing policy, audit implementation plan and task division.
Consideration of the Audit Committee Rules, and establishment of the Audit Committee Auditing Standards, and other rules	The Audit Committee considered the Audit Committee Rules that fit the actual condition of the Company, and set the Audit Committee Auditing Standards, and others by reference to rules, standards and other regulations established by the Japan Audit & Supervisory Board Members Association.
Consideration of revision of the basic policy for establishing internal control systems	The Audit Committee considered incorporating measures to ensure independence of Executive Officer in charge of internal audits, the head of the Internal Audit Department, and the Audit Committee Office from Corporate Executives, and others.
Cooperation with the Internal Audit Department	The Executive Officer in charge of internal audits and the head of the Internal Audit Department also attended Audit Committee meetings to exchange information and opinions on the status of implementation of audits by the Audit Committee and internal audits.
Evaluation of the Accounting Auditor	Based on the evaluation criteria for the Accounting

	Auditor, the Audit Committee evaluated the appropriateness of audits, independence, audit quality, and other matters through listing to regular reports on audits, etc. and to evaluation of the Accounting Audit by the Accounting Department, etc., witnessing audits, and other means.
Status of audit activities by the full-time Audit Committee Member	The full-time Audit Committee Member shared information with outside Audit Committee Members on audit activities including attending important meetings such as management meetings, reviewing important documents such as approval forms, investigation of operations of departments and business sites.

The Audit Committee Members determined the task division, and performed attendance at the Board of Directors meetings and a Liaison Meeting for Directors and Corporate Executives, exchange of opinions with Corporate Executives, Executive Officers and President of subsidiaries, investigation of business operations of departments, business sites and subsidiaries, sharing of the audit plan and audit results with the Internal Audit Department, participation in certain operation audits performed by the Internal Audit Department as an observer, communication and exchange of information with Audit & Supervisory Board Members of subsidiaries in Japan, listing to explanations on the status of implementation of audits and audit results, consideration of items, contents, etc. of key audit matters (KAM), and other matters from the Accounting Auditor.

Furthermore, all Audit Committee Members including outside Audit Committee Members were appointed as select Audit Committee Members, and outside Audit Committee Members also conducted many audit operations including meetings to exchange opinions with Corporate Executives and Executive Officers. Moreover, Audit Committee Members discussed internal issues, other companies' instances of fraud, and other matters.

Continuing from last fiscal year, though audit activities were affected by COVID-19 to some degree, the Audit Committee used a mix of visiting audits and remote surveys using an online conferencing system. Furthermore, on-site visiting audits were also resumed for overseas subsidiaries.

(Remuneration Committee)

As of June 27, 2023, for the Remuneration Committee, Mitsuhiro Nagahama (Independent Outside Director) serves as the Committee chairperson, Waka Fujiso (Independent Outside Director), Tomoyasu Miura (Independent Outside Director), and Takayuki Yokota (Director, Representative Corporate Executive Deputy President) serve as committee members, with Independent Outside Directors comprising a majority of the Committee. In fiscal year 2022, the Remuneration Committee met seven (7) times and all the four (4) Remuneration Committee Members attended all of the meetings. Specific items considered by the Remuneration Committee are as follows.

Items implemented	Specific contents of consideration
Determination of policies for determining details of remuneration for Directors and Corporate Executives	In line with the transition of organizational design to a company with a three-committee board structure, the Remuneration Committee determined policies for determining details of remuneration for Directors and Corporate Executives and a new remuneration plan for officers including the introduction of stock-based compensation.
Determination of individual remuneration for Directors and Corporate Executives	Based on the above determination policies, the Remuneration Committee determined details of individual remuneration for Directors and Corporate Executives during the period

	from July 2022 to June 2023.
Establishment of rules in line with the introduction of a stock compensation plan for officers	In line with the introduction of a stock compensation plan for officers, the Remuneration Committee considered and established the content of rules for stock-based compensation for officers.
Confirmation of the external environment as for officers' remuneration	The Remuneration Committee made regular confirmation of the current remuneration plan for officers and the remuneration level in light of information on other companies and general trends provided by external specialized institutions, etc.

4. Appointment of candidates for Directors, and the election/dismissal of senior management including CEO

a. Appointment of directors

The basic criterion for director candidates is to be a person who has excellent character and insight, contributes to the growth of the Company and the Group, and helps improve enterprise value. Directors involved in business execution need to have high levels of ability and knowledge about each business segment and important management functions. Outside director candidates must have wide-ranging experience, excellent expertise and knowledge, and no issues regarding their independence. They must also come from diverse backgrounds and have the ability to proactively express opinions and raise issues from outside perspectives. This is our approach to the nomination and appointment of directors. The nomination and appointment of director candidates are decided by the Nomination Committee.

b. Appointment/dismissal of the CEO and subordinate officers

With respect to appointing the CEO and subordinate officers (president & CEO, vice president, etc.), the Board of Directors makes decisions—based on selection criteria and the desired composition of the Board of Directors—after deliberation by the Nomination Committee.

<u>Appointment criteria</u>

Candidates must have a full understanding of the Group philosophy, an extensive knowledge of corporate management, and wide-ranging experience both inside and outside Japan, as well as good insights on corporate governance, CSR, and compliance. They must meet the following criteria and be capable of leading the Group to sustainable growth.

1. Good character and insights, and selfless attitude; a person who earns the trust of others;
2. The ability to think and judge from a global perspective and from the standpoint of the entire Group;
3. Exceptional insights, the ability to implement change and innovation and predict the future, and a willingness to embrace challenges from a results-oriented approach; and
4. To be healthy, energetic, physically sound, as well as mentally resilient.

<u>Dismissal criteria</u>

With respect to policies and procedures for dismissing the CEO and subordinate officers (president & CEO, vice president, etc.), the candidate for dismissal undergoes a fair and rigorous process of screening and deliberation by the Nomination and Remuneration Committee, based on the following criteria. If they then judge that dismissal is appropriate, the Board of Directors approves it.

Reasons for proposing dismissal include a serious business problem arising from a violation of the law or the Articles of Incorporation, an event that makes it difficult for the person to perform and continue in the job, and a situation in which it becomes evident that the person does not meet the appointment criteria.

5.Status of accounting audits

The Company has retained the services of Deloitte Touche Tohmatsu LLC (DTT) to conduct statutory audits, as obliged by the Companies Act and by the Financial Instruments and Exchange Act. There exist no special interests between the Company and DTT or between the Company and the engagement partners of DTT who conduct the Company's audits. Furthermore, DTT takes measures to ensure that none of its engagement partners are involved with the Company's audits for more than seven years. DTT has been conducting the Company's audits for an uninterrupted period of 23 years. The Company has concluded a contract with DTT to conduct statutory audits, as obliged by the Companies Act and by the Financial Instruments and Exchange Act, and has paid compensation as set forth in the contract. The names of the certified public accountants who executed their duties in FY2022 and details of the team assisting them in the audit work are as follows:

Certified public accountants who conducted the audit:Seiji Oguchi, Koji Kusano

Composition of team assisting in the audit: 6 certified public accountants, 29 others

6. Status of internal audits

The Internal Audit Department, which reports directly to the president, monitors the overall management activities of the head office functional departments, internal companies, and Group affiliates. It conducts regular and systematic internal audits of the management/operational organization and systems, business execution, business risk management, compliance, and internal control systems; it also provides specific advice and recommendations for business improvement. With the transition to a company with a three-committee board structure, a review of internal audit regulations was conducted, and the Company has expanded and strengthened cooperation between the Internal Audit Department and the Audit Committee. The results of internal audits are now reported not only to the President and CEO but also to the Audit Committee on a monthly basis. Moreover, the Internal Audit Department discusses and collaborates with the Audit Committee when planning and formulating plans for internal audits, and members of the department attend some of the Audit Committee's inspections of business operations.

7. Executive remuneration

As part of strengthening corporate governance and delivering sustainable increases in enterprise value through achieving the Group's management goals, the Company has established a policy regarding the determination of remuneration, etc. of directors. The specific details are as laid out above in "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" and "Incentives".

8. Others

The Company and the outside directors have entered into a contract to limit legal liability under Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act. The limit of legal liability under said contract is the minimum liability amount stipulated by laws and regulations. However, such limitation of liability is applicable only when the outside director was performing the duties that gave rise to such responsibility in good faith and without gross negligence. In addition, the Company has concluded Officer Liability Policies with an insurance company as stipulated in Article 430-3 Paragraph 1 of the Companies Act, with the Company and its subsidiaries' Directors, Audit & Supervisory Board members, and executive officers being included in the scope of the insured persons. Per the liability policies, the insurance company will cover damages incurred by the insured persons in bearing responsibility for the execution of their duties or as a result of claims received in pursuit of these responsibilities. However, as a measure to ensure that the appropriateness of the duties of the insured persons is not lost, damages resulting from negligence, illegal personal profit sharing, and criminal actions are not covered. The insured persons are not responsible for the insurance premiums.

3. Reasons for Adopting the Current Corporate Governance System Updated

The azbil Group has established its long-term targets (to achieve by FY2030) and a medium-term plan (FY2021-FY2024), whose aim is to contribute "in series" to a sustainable society and achieve growth through providing automation-related products and services. Guided by the Group philosophy of "human-centered automation", we will secure our own medium- and long-term development while implementing sustainable enhancement of enterprise value. At the same time, we recognize that it is corporate governance which provides the foundation for such sustainable enhancement of enterprise value, and so improving corporate governance is a key issue for management. We are therefore working to strengthen the supervisory and auditing functions of the Board of Directors, enhance the transparency and soundness of management, and clarify responsibilities for business execution. To facilitate this, we have recently transitioned from being a company with an audit & supervisory board to a company with a three-committee board structure, following the approval of a proposal to amend our Articles of Incorporation at the 100th Ordinary General Meeting of Shareholders held on June 23, 2022.

Accompanying the transition to a company with a three-committee board structure, three committees have been established—Nomination Committee, Audit Committee, and Remuneration Committee—each consisting of a majority of outside directors. By substantially transferring business execution authority from the Board of Directors to executive officers with clear legal responsibilities, we are promoting a well-defined separation of supervisory and executive functions and ensuring a business execution system based on flexible and efficient decision-making, while at the same time enhancing the objective supervision of management.

Playing a central role in this is the Board of Directors, which has a total of 12 directors as of June 27, 2023; outside directors now represent a majority of the Board, whose composition demonstrates ample diversity, including that of nationality and gender.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Revitalize the General Shareholders Meeting and Facilitate the Exercise of Voting Rights Updated

	Supplementary explanation
Early notification of General Shareholders Meeting	The notice is sent about seven (7) days before the legally stipulated day.
Scheduling of General Shareholders Meeting to avoid the peak day	The 101st Ordinary General Meeting of Shareholders was held on June 27, 2023.
Allowing the electronic exercise of voting rights	The electronic exercise of voting rights via the Internet is allowed.
Participation in an electronic voting platform and other measures to improve the voting environment for institutional investors	The Company participates in an electronic voting platform.
Provision of notice of Annual Shareholders Meeting (summary) in English	The notice of an upcoming General Meeting of Shareholders is posted in English on the Company's website and on the Tokyo Stock Exchange's website for foreign shareholders at the same time as the notice in Japanese.
Other	The notice of an upcoming General Meeting of Shareholders is posted on the Company's website and on the Tokyo Stock Exchange's website, etc. about ten (10) days before mailing for early provision of agenda information, etc. In addition to live broadcasts of parts of the proceedings on the day of the General Meeting of Shareholders, a video recording of some of the proceedings is made available on our website at a later date.

2. IR Activities Updated

	Supplementary explanation	In-person explanations by the Company Representative
Preparation and publication of disclosure policy	The Company has its own disclosure policy. It is available on the Company's website. https://www.azbil.com/ir/management/disclosure/index.html	
Regular investor briefings for analysts and institutional investors	Twice a year the president & CEO, as well as an officer in charge of corporate communications, explain the financial results and managing strategy.	Held
Regular investor briefings for foreign investors	Periodically the president & CEO, as well as an officer in charge of corporate communications, explain the financial results and managing strategy.	Held
Posting of IR materials on website	https://www.azbil.com/jp/ir/index.html *Securities Report*, *Summary of Financial Results*, *Financial Results Presentation* materials, *Business Report*, *azbil Report*, ESG Databook, *Fact Book*, Notice of General Meeting of Shareholders, Resolution Notices, etc. are posted.	
Establishment of department and/or appointment of manager in charge of IR	Department in charge: Communication Department, Investor Relations Officer in charge: Director and Representative Corporate Executive Deputy President Takayuki Yokota, who is in charge of corporate communications	

3. Measures to Ensure Due Respect for Stakeholders Updated

	Supplementary explanation
Stipulation of internal rules for respecting the position of stakeholders	The Company's basic attitude to stakeholders is set down in the azbil Group's Code of Conduct based on our Group philosophy, "human-centered automation". The azbil Group's contribution to society is posted on the Company's website. https://www.azbil.com/csr/basic/compliance/business-conduct-guidelines.html
Implementation of environmental protection activities, CSR activities, etc.	These activities are detailed in the *azbil Report* (the Company's annual report) and on the Company's website. https://www.azbil.com/csr/index.html
Other	In the Group's Code of Conduct and azbil Group's basic policy on human rights, those stipulate that within the Company there should be no discrimination or harassment based on a person's race, nationality, gender, beliefs, birth, disability, etc., and that we should never turn a blind eye to discrimination. In order to foster happiness among the peoples of the world through the realization of "human-centered automation", as set forth in the Group philosophy, we must first respect the individuality of each and every employee, and strive to create a corporate culture in which a diversity of human resources can be nurtured and put to good use. At the Ordinary General Meeting of Shareholders held on June 27, 2023, two female directors (one of whom is a foreign national) were appointed, resulting in a Board of Directors that represents ample diversity in terms of both nationality and gender. Approach to Ensuring Diversity We believe that the driving force for corporate growth is respect for the individuality of each person, making use of their qualities, so they can enhance their performance by working with vitality. The azbil Group's Guiding Principles set forth "Creating dynamic value through diverse human resources and teamwork" and "Growing constantly through innovation and a corporate culture of continual learning". We value the diversity of our human resources—each employee valued for their own personality, abilities, and knowledge—and at the same time we encourage them to continuously learn and grow by thinking "outside the box" and taking innovative action, unconstrained by precedent. In addition, by appointing and treating employees based on a fair evaluation of their ability to perform, we are ensuring that people with diverse personalities, characteristics, and experiences—including women, foreigners, and mid-career hires—are now actively engaged as our core human resources. This is all tied in with our initiatives designed to increase the value of human capital that contributes to the sustainable growth of the Company. Voluntary and measurable goals for ensuring diversity: progress to date (1) Female employees Taking the number of women employed by the Company at each level, and weighting these according to position in the organization—officer, manager, etc.—we arrive at our own metric (expressed as points), enabling us to determine our progress in meeting the target we have set for our core human resources. We are aiming to more than double this figure by FY2024 compared to FY2017. Through the activities of the Diversity Promotion Task Force, we have been promoting initiatives to encourage women to take on important roles and responsibilities, and, as a result, our metric, which was 125 points in FY2017, had risen to 263 points as of June 2023. (2) Foreign employees In addition to globalization, we are promoting the hiring of foreign nationals: we hired 11 new university graduates who are foreign nationals in 2023 and have set a target of hiring 10 overseas university graduates and foreign nationals as part of our goal of hiring 120 new graduates in 2024. By bringing together a wide range of human resources—including Japanese employees given the opportunity to work overseas, and employees of overseas subsidiaries given the opportunity to study in Japan—we are creating new value while globalizing our human resources. With regard to the participation of our core human resources, we have 6 foreign nationals in senior management positions in the Company, and we have set a target to further increase this number to 7 or more by FY2024. (3) Mid-career hires On the expectation that they will be able to "hit the ground running", we have been hiring a number of mid-career staff every year. We hired 42 in FY2022 and have set a goal of hiring 50 mid-career candidates in FY2023. To date, they have demonstrated practical business skills and are being promoted to managerial positions within the organization suited to their proven capabilities. Regarding the

	participation of these mid-career hires as core human resources, as of June 2023, 210 (18%) were in senior management positions, and we have set a goal of increasing this number to 19% by FY2024. Human resource development policies and internal environmental enhancement policies to ensure diversity (current status) The Azbil Academy, which is an organization specifically established for HR development, fosters the human resources that will propel operational reforms, including work-style reforms and diversity promotion. Launched in FY2017, the Diversity Promotion Task Force has made significant progress with developing leadership skills and diverse work styles, as well as reforming the corporate culture. We will next be expanding our existing initiatives, which focus on female participation, to include foreign nationals and mid-career hires. Furthermore, in the Health and Well-being Declaration of 2019, the Company and its employees declared that they will strive together to create a comfortable work environment that facilitates work, and to actively promote physical and mental health. The declaration also says that they will respect opportunities for diverse human resources to work and actively participate, with mutual recognition of differences in social and physical characteristics, ideas and values. We have established support systems so that employees can balance work and family life—including childcare, nursing care, and various other life events—and we are working to further improve the workplace environment so that all employees can continue their work comfortably and easily.

IV. Matters Related to the Internal Control System

1. Basic Approach to and Enhancement of the Internal Control System Updated

Regarding the Company's internal control system, the Board of Directors partially revised the Basic Policy for the Establishment of an Internal Control System at its meeting held on June 23, 2022; the Board will periodically confirm the continuation of this policy. The Basic Policy for the Establishment of an Internal Control System and its current implementation are summarized as follows.

Summary of Resolution

Pursuant to Article 416, Paragraph 1, Item 1 of the Companies Act, the establishment of an internal control system is to be specifically implemented by Azbil Corporation (hereinafter referred to as the "Company") and its subsidiaries*1 (hereinafter referred to as the "Subsidiaries" and, collectively with the Company, as the "azbil Group"). As well as clarifying the basic policy—which is to be complied with by the Company's corporate executives, executive officers, and other employees, as well as by the directors, executive officers and other employees of its Subsidiaries (hereinafter referred to as "Officers and Employees")—this sets forth the principal features of the system required for the maintenance of an internal control system as stipulated in Article 112 of the Ordinance for Enforcement of the Companies Act. The purpose of the internal control system based on this policy is to create an efficient, lawful, and transparent corporate structure through constant review and improvement.

*1: The Subsidiaries subject to this Basic Policy are the consolidated subsidiaries specified in the separate azbil Group Management Basic Rules, and whose annual net sales account for 1% or more of the consolidated net sales of the azbil Group.

Systems to ensure the appropriateness of the Company's operations and the azbil Group's operations

1. System to ensure that the execution of duties by Officers and Employees of the Company and its Subsidiaries shall comply with laws, regulations, and the Articles of Incorporation

(1) Aiming to be a corporate group that contributes to society and is trusted by it, the Officers and Employees of the Company and its Subsidiaries shall comply not only with laws and regulations and the Articles of Incorporation but also with the Guiding Principles for azbil Group Business and the azbil Group Code of Conduct, while maintaining high standards of corporate ethics and conducting sound business activities. To do so, the Company and its Subsidiaries shall designate an executive at each company to be responsible for compliance promotion activities and as a whole they shall tirelessly promote compliance initiatives.

(2) In addition to what is stated in the preceding paragraph, the Company and each of its separately specified Subsidiaries shall formulate their own action plans to promote compliance—including compliance with laws, regulations, and the Articles of Incorporation—and they shall report the results of implementation to their own Board of Directors.

(3) The Company, to promote compliance-related activities throughout the entire Group, shall establish the azbil Group CSR Promotion

Committee, and shall create action plans for the Group as a whole, manage progress, and provide guidance and advice to Subsidiaries.

(4) The Company and its Subsidiaries shall establish internal control systems to ensure the appropriateness of business activities. To do so, the Officers and Employees of the Company and its Subsidiaries shall endeavor to develop and implement the basic elements of internal control, including the control environment, and in the performance of business, shall seek to maintain and improve the status of internal control by complying with relevant laws and regulations, business process manuals, etc.

(5) In accordance with the Internal Audit Rules, the Internal Audit Department of the Company shall conduct audits periodically, or as necessary, on the status of compliance promotion activities at the Company and Subsidiaries and their establishment of internal control systems.

(6) In the event where the Company or its Subsidiaries engage in serious illegal or unethical acts, or where there is a significant adverse impact on society, the Officers and Employees of the Company and Subsidiaries shall report it using either the designated reporting channels or the internal reporting system.

(7) The Internal Audit Department of the Company shall maintain, develop and properly operate the internal reporting system and related mechanisms. Any expansion or modification of the scope of the internal reporting system shall be implemented after reporting to the Board of Directors.

2. System for the storage and management of information related to the execution of duties by the Company's corporate executives

(1) The Officers and Employees of the Company shall comply with the Rules for Storage and Management of Information Related to the Execution of a Corporate Executive's Duties, and they shall store and manage information related to the execution of duties appropriately.

(2) As regards the formulation, revision, or abolition of the rules in the preceding paragraph, the General Affairs Department shall be responsible—with the approval of either the Board of Directors or the Management Committee, depending on the level of importance—and operational status shall be evaluated/reviewed as necessary.

(3) In accordance with the Internal Audit Rules, the Internal Audit Department of the Company shall conduct audits, on a regular basis or as necessary, on the status of operations and management of the Internal Audit Rules and others.

3. Regulations and other systems for managing the risk of loss at the Company and Subsidiaries

(1) To properly manage the risk of loss and ensure the continuity and stable development of business, the Company's Board of Directors shall identify risks that could cause significant loss to the management of the azbil Group as a whole (serious risks for the azbil Group) in accordance with the azbil Group Risk Management Rules.

(2) The Company shall instruct its Subsidiaries, as necessary, in order to promote countermeasures against what have been identified as serious risks for the azbil Group.

(3) In addition to what is stated in the preceding paragraph, separately designated Subsidiaries shall independently identify their own serious risks, and work to establish and promote countermeasures against those risks.

(4) In accordance with the Internal Audit Rules, the Internal Audit Department of the Company shall conduct internal audits, on a regular basis or as necessary, of the status of implementation of the risk management system of the Company and its Subsidiaries.

4. System to ensure the efficient execution of duties by the Company's corporate executives and by the directors of Subsidiaries

(1) To ensure the efficient and prompt execution of business activities without compromising the soundness of the enterprise, the Company and its Subsidiaries shall develop an organizational system and rules regarding administrative authority for the effective execution of business.

(2) Officers and employees of the Company and its Subsidiaries shall take action to ensure the achievement of the medium-term plan and the annual plan, and shall periodically review whether the execution of business is progressing as initially planned.

(3) In accordance with the Rules for Division of Duties and other relevant regulations, the Company shall provide necessary support and guidance to its Subsidiaries to improve the efficiency and standard of operations of the azbil Group as a whole.

(4) At both the Company and its Subsidiaries, to ensure thorough deliberation by the Board of Directors on matters that require Board approval, a system shall be established whereby materials related to agenda items are distributed to all executives in advance.

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

(1) In the execution of their duties, Subsidiaries shall obtain the Company's approval or report to the Company in accordance with the azbil Group Management Basic Policy that stipulates management control matters to be brought to the attention of the Company's Board of Directors.

(2) In addition to what is stated in the preceding paragraph, domestic Subsidiaries shall report to the Company—directly, at regular meetings of Group company presidents, or at other meetings—on the status of their own businesses and on important management matters.

(3) Overseas subsidiaries shall, in addition to what is stated in paragraph (1) above, report to the Company—directly, or through the Company's relevant department(s)—on the status of their own businesses and on important management matters.

Matters necessary for the performance of the duties of the Audit Committee

1. Matters concerning Officers and Employees assisting the Company's Audit Committee; matters concerning the independence of such Officers and Employees from the Company's corporate executives; and matters to ensure the effectiveness of the Audit Committee's instructions to these Officers and Employees

(1) The Company shall establish an Audit Committee Office within the Internal Audit Department and assign full-time employees to assist the Audit Committee in its duties.

(2) To maintain the independence, from the Company's corporate executives, of the aforesaid employees assigned to assist the duties of the Audit Committee, personnel transfers involving these employees shall be decided with the prior consent of the Audit Committee. Also, the performance of the head of the Audit Committee office is reviewed by the Audit Committee, and personnel evaluations involving him/her shall be decided with the prior consent of the Audit Committee.

(3) To maintain the independence, from the Company's corporate executives, of the executive officers in charge of the Internal Audit Department and the head of the Internal Audit Department, personnel transfers, evaluations and budget matters involving these executive officers and the head of the Internal Audit Department shall be decided with the prior consent of the Audit Committee.

(4) Full-time employees assigned to assist the Audit Committee in its duties shall perform their duties under the direction and instructions of the Audit Committee.

2. System for reporting to the Company's Audit Committee by Officers and Employees of the Company and Subsidiaries and by Audit & Supervisory Board members of Subsidiaries; and system to ensure that a person making such as report shall not be treated disadvantageously as a result of said reporting

(1) In the event that any officer or employee of the Company or its Subsidiaries discovers any matter that may invite significant loss to the Company or its Subsidiaries; or any serious deficiency in the internal control system or procedures; or the occurrence of any serious violation of laws and regulations or fraud, they shall make a report to their top management and to the department responsible for internal control if such has been established. On receipt of such a report, a Subsidiary's top management or internal control department shall make a report to the Company's top management and Internal Audit Department, as well as to the Subsidiary's own directors and Audit & Supervisory Board members, if the latter have been appointed. Also, on receipt of such a report, the Company's top management and Internal Audit Department shall report it to the Company's directors, corporate executives, and the Audit Committee.

(2) In addition to the reporting system described in the preceding paragraph, the Company shall maintain, develop, and appropriately operate the azbil Group's internal reporting system.

(3) The department in charge of the internal reporting system in the Company shall make regular reports to the Audit Committee regarding the status of internal reports from the Officers and Employees of the Company and its Subsidiaries.

(4) Notwithstanding the preceding paragraphs, the Audit Committee of the Company may, at any time, request necessary reports from the Officers and Employees of the Company and its Subsidiaries and from the Audit & Supervisory Board members of the Subsidiaries.

(5) Internal rules shall be developed to ensure the Company and Subsidiaries do not treat officers or employees disadvantageously because they made such a report to the Audit Committee of the Company or to the Audit & Supervisory Board members of a Subsidiary.

3. Matters concerning the policy for the handling of expenses and financial obligations arising from the performance of duties by the Company's Audit Committee Members

(1) The Company shall promptly handle expenses and financial obligations with respect to costs incurred by Audit Committee Members in the performance of their duties, and any costs incurred when they seek the opinion of outside experts such as lawyers in forming their

own opinion, except when the Company demonstrates that such expenses were not required for the performance of Audit Committee's duties.

(2) The Company shall set aside in advance a budget for the Audit Committee and for the full-time employees engaged in assisting the Audit Committee in the performance of their duties, and shall not interfere in the execution of that budget. However, this excludes cases where the Company demonstrates that the costs were not required for the performance of Audit Committee's duties.

4. Other systems to ensure that the audits of the Company's Audit Committee are implemented effectively

(1) Audit Committee Members may attend meetings of the Board of Directors and other important meetings such as the Management Committee; may inspect key approval forms and other documents related to the execution of business operations; and may request explanations from Officers and Employees.

(2) To establish a system that enables the efficient implementation of audits, the Audit Committee shall regularly exchange information and collaborate with the Company's directors, corporate executives, and Internal Audit Department, as well as with Subsidiaries' directors, Audit & Supervisory Board members, and accounting auditors.

Summary of the operational status of the system to ensure the appropriateness of business activities

The following is a summary of the operational status of the system to ensure the appropriateness of business activities in FY2022.

1. Compliance systems
   - The azbil Group, guided by the Group philosophy of "human-centered automation," has formulated the Guiding Principles for azbil Group Business and the azbil Group Code of Conduct, making efforts toward creating a corporate culture permeated by compliance awareness. To do so, the Company and its subsidiaries have appointed officers who are responsible for controlling and promoting company-wide compliance-related activities, and have designated compliance managers and compliance leaders to ensure thorough compliance, and to provide education and supervision with the cooperation of the department in charge of compliance. In the current fiscal year, we planned Regional CL Meetings with the goal of leveling up our CSR leaders (CL) responsible for education at our overseas subsidiaries, and we held meetings at subsidiaries in Southeast Asia and India area, China and South Korea. Furthermore, in managing the exports of the overall Group, we are implementing policies to strengthen our resilience to recent trends including trade friction between the U.S. and China and the situation in Ukraine.
   - To promote compliance-related activities throughout the azbil Group, the Company has formed a permanent meeting structure to promote CSR related activities, where an officer of the Company in charge of compliance is appointed as chief officer, and officers in charge of compliance at each subsidiary are appointed as members. This organization creates action plans for the entire Group, managing progress and providing guidance to subsidiaries.
   - The officers and employees of the Company and its 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. Unfair treatment of persons initiating consultations and reports is prohibited by these rules, and we have made this known internally. In the current fiscal year, we made Company and domestic subsidiaries well known about the details of the revisions in the revised Whistleblower Protection Act and organized our own rules. Furthermore, with the promulgation of the China Personal Information Protection Law, we created a structure using a unique CSR Hotline at our local Chinese offices.
   - As contingency planning for responding to serious illegal or unethical acts, the Company and its Subsidiaries have formulated Rules for Reporting in Emergency and Serious Situations. Should such an emergency or serious situation occur, using the system provided, reports shall be made to the top management and Audit Committee Members of any Subsidiary involved as well as to the Company's top management and Audit Committee Members. Furthermore, regarding the state of response to emergency or serious situations and the implementation status of measures to prevent recurrence, reports are regularly made at Board of Directors meetings attended by members of the Audit Committee.
   - The Company's Internal Audit Department conducts audits to verify the situation relating to (a) the promotion of compliance and the establishment of internal control procedures at the Company and its Subsidiaries; (b) operation and management with respect to the regulations stipulated in (2) below; and (c) the development of risk management systems in (3) below.
     Furthermore, the Internal Audit Department provides diagnoses of the overall management control at overseas subsidiaries to further improve their management. These diagnostic reports are presented at meetings of the Board of Directors. In addition to thus encouraging improvement at individual subsidiaries, for cross-sectional improvement, a dedicated team was formed to tackle the issues highlighted in the diagnostic reports, implementing initiatives aimed at resolving them. In the current fiscal year, we expanded the scope of overseas subsidiaries and diagnosed overall management control and promoted initiatives to resolve issues.

Regarding internal control associated with the reliability of financial reporting under the Financial Instruments and Exchange Act (J-SOX), we have been working to create awareness about the importance of internal control and to raise the standard of our internal control by issuing management messages on appropriate accounting procedures, and by implementing accounting compliance education and internal control education.

2. Storage and management of information
   - Pursuant to the Rules for Storage and Management of Information Related to Corporate Executives' Duties, the Company has created a department in charge of storing and managing the minutes of Board of Directors meetings and as well as those of the Management Meeting, and other important documents and information.
3. Risk management systems
   - Pursuant to the azbil Group Risk Management Rules, the Company identifies—at Board of Directors meetings, following screening by the Comprehensive Risk Subcommittee and its superior body, the Comprehensive Risk Committee—serious risks for the azbil Group which may cause significant losses for the overall Group management. While strengthening the comprehensive risk management system and countermeasures, the Company also instructs its Subsidiaries, when necessary, to promote such measures within the Group. In the current fiscal year, the Company performed a comprehensive risk identification based on new standards including the level of impact and possibility of occurrence and established as key risks those risks that could have a serious impact and whose countermeasures require direct monitoring by management. The Company also clarified who is in charge of those risks and the risk owners that will carry out the countermeasures.
   - The Board of Directors of each Subsidiary identifies its own serious risks. Countermeasures are then prepared and promoted, and the results of their implementation and risk mitigation are reported to their Board.

     The Company is also working to promptly resolve crises in the event of a reported emergency or major incident through the establishment of an Emergency Headquarters to deal with such events. The state of these activities are regularly reported to the Board of Directors.
4. System of efficient execution of duties
   - The Officers and Employees of the Company and its Subsidiaries periodically develop a medium-term plan and an annual plan, and take actions based on such plans. We conduct regular reviews of the operational status, follow the progress of business execution, and plan new measures.
   - In accordance with the Rules for Division of Duties and other rules, the Company provides necessary support and guidance to its Subsidiaries to enhance the efficiency and standard of business operations of the Group as a whole.
   - To ensure thorough deliberation by the Board of Directors, and while seeking ways to improve the operation of Board meetings, the Company and its Subsidiaries distribute materials related to the agenda in advance of meetings. In addition, the Company holds briefings for outside directors and outside members of the Audit & Supervisory Board regarding items scheduled for discussion at meetings of the Board of Directors.
   - To improve the effectiveness of the Board of Directors and to make fuller use of the time available for deliberation at Board meetings, the Company facilitates the sharing of information by Board members using the Board of Directors Deemed Reporting and Information Reporting System. Additionally, we report some of the items at Board meetings—in other words, so-called deemed reporting by the Board of Directors, as recognized by Article 372 of the Companies Act.
5. Group management system
   - Pursuant to the azbil Group Management Basic Policy, for certain important items Subsidiaries report to or obtain approval from the Company's Board of Directors or the Management Meeting, which decides on business execution matters within the scope of the authority of the president & CEO.
   - The management status of major Subsidiaries is reported at meetings of the Company's Board of Directors and Management Meeting, while business status and performance, as well as important management items relating to overseas Subsidiaries are reported via the Group's Global Meeting for overseas Subsidiaries.
   - Furthermore, as the response to issues that occurred in certain LP gas meters, in addition to implementing an inspection of the meter development process, we also implemented an inspection of the development process throughout the azbil Group.
6. Audit system implemented by Audit Committee
   - The Company has established an Audit Committee Office in the Internal Audit Division to which it has assigned three staff members with dedicated responsibility to assist the duties of the Audit Committee, performing their duties under the direction and instruction of the Audit Committee. Personnel transfers are decided with the consent of the Audit Committee, and the performance evaluation of the Audit Committee Office Manager is determined through an evaluation by the Audit Committee. Furthermore, personnel rotations, performance evaluations, and the budget for the Executive Officer responsible for the Internal Audit Division and the Internal Audit Division Manager are determined with the consent of the Audit Committee.
   - Regarding matters raised or reported via the aforementioned CSR Hotline by Officers and Employees of the Company and its

Subsidiaries, the Internal Audit Department reports on these to the Audit Committee on a monthly basis, and the detailed reports are presented at the quarterly liaison meetings for the Audit Committee.

- The Company bears and promptly handles expenses incurred by Audit Committee Members in the performance of their duties.
- The Audit Committee Members attend meetings of the Board of Directors and other important meetings including those of the Management Meeting, inspect key approval forms and other documents related to the execution of business, and request explanations from the Officers and Employees, regularly or when necessary. In addition, the Audit Committee may obtain the opinion of lawyers, with whom they have individually concluded advisory contracts, as appropriate.
- The Company's Audit Committee regularly hold meetings with the Directors, Corporate Executives, the Internal Audit Department, the accounting auditor, the Directors and the Audit & Supervisory Board members of Subsidiaries to share information, communicate and provide reports, and exchange opinions and information as needed to improve the efficacy of audits.

2. Basic Approach to and Progress Towards Shunning Anti-Social Forces

Being aware of the public nature of the Company, we have established the Guiding Principles for azbil Group Business and the Code of Conduct. These internal regulations have been formulated so as to shoulder responsibility for maintaining sound management, and to fulfill the Company's social responsibilities to the community and the economy, both in Japan and overseas. These regulations state that our basic policy is to take a firm stance in opposition to groups that engage in anti-social behavior and to resolutely eradicate any relationship with them. A unit has been set up in the General Affairs Department to oversee the corporate response to such anti-social forces. There is also close cooperation between Group companies on such issues, and manuals have been prepared to provide guidance. In addition, arrangements have been made to facilitate cooperation with local police forces and dedicated organizations such as the Special Violence Prevention Council. We are striving to improve our efforts in this regard and participate in various seminars and workshops—mainly organized for the General Affairs Department staff from each company.

V. Other

1. Adoption of Anti-takeover Measures

Adoption of Anti-takeover Measures	Not adopted

Supplementary Explanation

-

2. Other Matters Concerning the Corporate Governance System

The status of our internal system for timely disclosure of company information is as follows.

1. Basic policy for timely disclosure

The Company's basic policy is to ensure management transparency for shareholders and other parties involved with the Company, and to disclose information in a timely and appropriate manner in order to realize fair management. The Company discloses information in accordance with our own corporate regulations, with the Companies Act and with the Financial Instruments and Exchange Act, and with other relevant laws and regulations, as well as with the Rules Concerning Timely Disclosure of Corporate Information by Issuers of Listed Securities (hereinafter referred to as the Timely Disclosure Rules) stipulated by the Tokyo Stock Exchange (TSE).

2. Internal system for timely disclosure

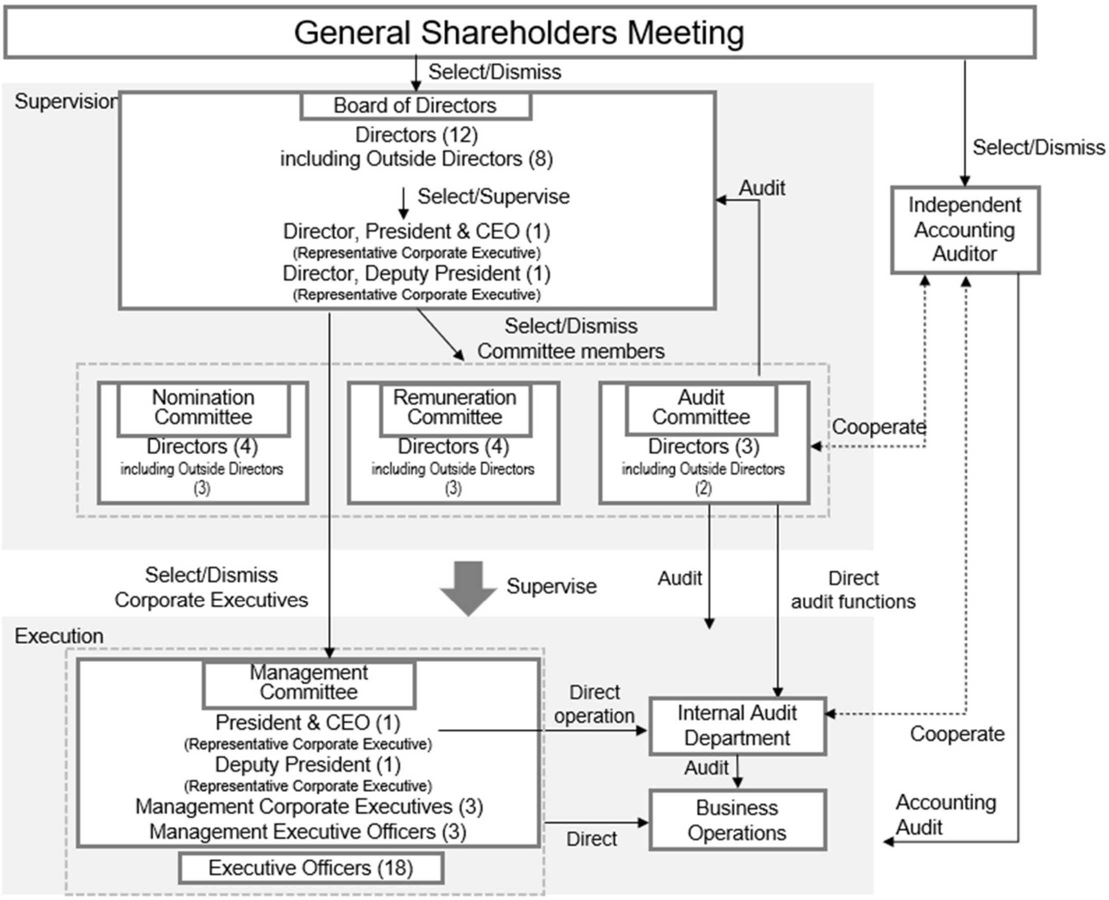
Important information is reported to the corporate communications officer and to information management departments (General Affairs Department and Group Management Headquarters) from each division of the Company and from azbil Group companies. The information management departments determine whether disclosure is required based on the Financial Instruments and Exchange Act, the Timely Disclosure Rules, etc. If timely disclosure is necessary, the disclosure materials will be registered in the Timely Disclosure Information Transmission System (TDnet) provided by the TSE as soon as approved by the Board of Directors. These disclosure materials are also posted on the Company's website after publication on TDnet.

3. Check function for timely disclosure

In order to ensure the transparency and reliability of corporate information subject to disclosure, the Audit Committee monitors and verifies that the directors and corporate executives have established appropriate systems for information preparation and disclosure, and that they are operating these systems appropriately. In addition, the Company receives advice on disclosure content, etc. as necessary from third parties such as lawyers and audit companies.

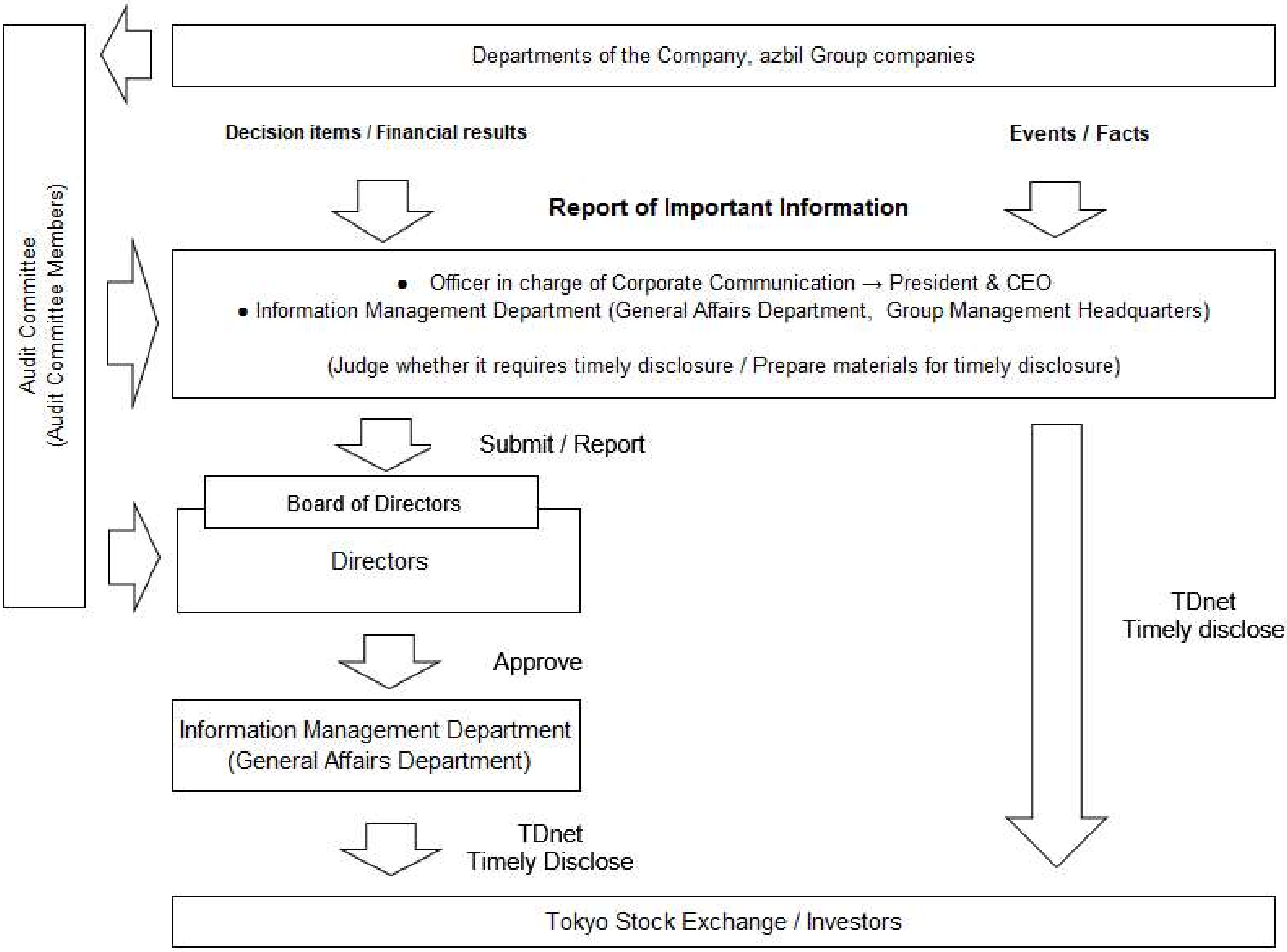
Corporate governance organization chart

(As of June 27, 2023)



※The chairperson of the Board is a non-executive director.

Schematic of timely disclosure system



Skills Expected of Directors

We have established the skills expected of the directors with respect to the realization of the Company's medium-term plan and other management strategies, and we have confirmed the independence, diversity, and expected skills of the current entire Board of Directors. As regards the specific skill areas, in May 2021 the Board of Directors and the Nomination and Remuneration Committee of the Company conducted an objective review, taking into consideration the Group philosophy, business model, growth strategy, etc., and selected seven key skills expected of the directors to support growth toward "contribution 'in series' to a sustainable society" as outlined in the medium-term plan. Of these, "corporate management/sustainability," "global business," and "IT, technology/control and automation business" are particularly relevant to the Group's sustainable growth over the medium and long term.
Of the twelve (12) Directors, two (2) are women, one (1) of whom is a foreign national.

(As of June 27, 2023)

Name (Age)	Current Positions	Independence	Diversity	Expected skills						
		Independent officer	Gender	Corporate management/ sustainability*Note	Global business	Financial affairs, accounting, finance	IT, technology/ control and auto -mation business	Sales, marketing	Manufacturing, research and development	Legal, risk management, compliance
Hirozumi Sone (68)	Director Chairperson, Chairperson of the Board		M	○			○	○		○
Kiyohiro Yamamoto (58)	Director, Representative Corporate Executive, President & Group CEO, Nomination Committee Member		M	○	○		○	○	○	
Takayuki Yokota (62)	Director, Representative Corporate Executive Deputy President, Remuneration Committee Member		M	○	○	○				○
Hisaya Katsuta (65)	Director, Audit Committee Member		M			○			○	○
Takeshi Itoh (79)	Outside Director, Nomination Committee Chairperson	○	M		○	○				
Waka Fujiso (74)	Outside Director, Remuneration Committee Member	○	F	○						○
Mitsuhiro Nagahama (69)	Outside Director, Remuneration Committee Chairperson	○	M	○	○	○				
Anne Ka Tse Hung (59)	Outside Director, Nomination Committee Member	○	F		○					○
Minoru Sakuma (74)	Outside Director, Audit Committee Member	○	M		○	○				
Fumitoshi Sato (69)	Outside Director, Audit Committee Chairperson	○	M	○		○				○
Shigeaki Yoshikawa (70)	Outside Director, Nomination Committee Member	○	M	○	○			○		
Tomoyasu Miura (61)	Outside Director, Remuneration Committee Member	○	M	○			○	○		

*Note: "Corporate management/sustainability" includes skills regarding human resources and personnel development from the viewpoint of sustainability.

Remuneration Policy of Azbil Corporation

Guided by the azbil Group philosophy of “human-centered automation,” Azbil Corporation (“the Company”) aims to contribute “in series” to a sustainable society by providing automation-related products and services.

With regard to our executive remuneration system, in order to add impetus to the realization of our long-term targets (to achieve by FY2030) and the medium-term plan (FY2021-FY2024), we will further increase both the corporate executives’ awareness of the need to contribute to enhancing enterprise value and their motivation to maximize shareholder value, as well as ensuring that directors who are not responsible for business execution can share value with our shareholders. With this system, we will promote initiatives to contribute “in series” to a sustainable society.

■ The azbil Group philosophy

The azbil Group philosophy is to realize safety, comfort and fulfillment in people’s lives and contribute to global environmental preservation through “human-centered automation.” To achieve this,

- ■ We create value together with customers at their site.
- ■ We pursue our unique value based on the idea of “human-centered.”
- ■ We think towards the future and act progressively.

■ Basic policy regarding executive remuneration

Aiming to realize the Group’s philosophy, we have adopted the following basic policy for the remuneration of Company officers to motivate them not only as regards short-term performance but also to achieve medium- and long-term performance goals and to enhance enterprise value.

- ❖ Taking into consideration the nature of the Company’s business, the remuneration should encourage awareness of the necessity to enhance enterprise value from a medium- to long-term perspective and further promote value sharing with our shareholders.
- ❖ The remuneration should contribute to securing talented management personnel to realize the Company’s management philosophy and achieve medium- to long-term performance goals.
- ❖ The remuneration system should be highly independent and objective, and should enable us to fulfill our duty of accountability to the Company’s stakeholders.

■ Remuneration levels

Remuneration levels for the Company’s officers (corporate executives and directors) shall be set by resolution of the Remuneration Committee, after it has verified their appropriateness using data supplied by an external research agency. Also, the Committee shall review remuneration levels as necessary in response to changes in the external environment.

■ Remuneration structure

The remuneration structure for our corporate executives (including corporate executives who concurrently serve as directors, similarly hereinafter) comprises basic remuneration, which is a fixed remuneration paid monthly based on their roles and responsibilities; bonuses as short-term incentives; and stock-based compensation as a medium- to long-term incentive. In order to ensure a remuneration structure that motivates officers to achieve our medium- and long-term performance targets and enhance enterprise value, the incentive component of their remuneration has been increased, and the combined remuneration for corporate executives will be typically determined thus: basic remuneration 56%, bonus (base amount) 33%, stock-based compensation (base amount) 11% The remuneration for directors (not including directors who concurrently serve as corporate executives, similarly hereinafter) comprises basic remuneration and stock-based compensation.

●Corporate executives

(1) Basic remuneration

- Basic remuneration is paid as a fixed monthly monetary remuneration based on the position, responsibilities, and roles of the officer.

(2) Bonus

- A bonus is paid as performance-linked monetary remuneration that takes into consideration the Company's performance and non-financial metrics for the single fiscal year.
- As regards the financial metrics, to improve enterprise value over the medium to long term, we use sales and operating income, the Company's main management indices, as key performance indicators (KPIs). The amount of the bonus will fluctuate according to the degree by which these targets have been achieved, while taking also into consideration non-financial metrics.
- The non-financial metrics are based on the degree of achievement of the various roles of the corporate executive, such as implementing measures to realize the medium-term plan, engagement in CSR management, and the development of human resources (succession training). The Remuneration Committee determines the amount of remuneration based on such evaluation.
- Taking into account both financial and non-financial metrics, the final amount paid as a bonus will vary between 0% and 150%.
- The remuneration is designed so that the higher the officer's position, the higher the weighting of financial metrics. As an example, the KPIs and their respective evaluation weightings for the president and CEO are as follows.

Bonus KPIs		Evaluation weighting
Financial metrics	Net sales	45%
	Operating income	45%
Non-financial metrics	Improved customer satisfaction, increased efficiency and productivity, HR development, revitalization of the organization, CSR management	10%

(3) Stock-based compensation

- In principle, stock-based compensation is paid to the corporate executive following retirement from the current position, with the aim of continuously enhancing enterprise value while sharing value with the shareholders.
- A base amount for stock-based compensation is set for each position. Of this, 50% is performance-linked and the remaining 50% is non-performance-linked.
- As regards KPIs, the performance-linked component uses relative TSR—a metric that evaluates total shareholder return relative to the Tokyo Stock Exchange Stock Price Index (TOPIX)—designed to ensure that officers and shareholders have a shared interest; and operating income margin, a metric set forth in the Company's medium-term plan. As a non-financial metric, we use effective CO_2 reduction at customers' sites, which is one of the essential goals of the azbil Group for the SDGs. The performance-linked component will vary between 0% and 150% depending on how much the targets have been achieved during the period covered by the mid-term plan. The evaluation weightings for each KPI are as follows.

Stock-based compensation KPIs		Evaluation weighting
Financial metrics	Relative TSR (vs. TOPIX, including dividends)	50%
	Operating income margin	30%
Non-financial metrics	Effective CO_2 reduction	20%

- As a way to further encourage value sharing with shareholders, the non-performance-linked component is paid as stock-based compensation with vesting of a fixed number of shares.
- Stock-based compensation is paid through a trust-type stock compensation plan. Under this plan, points corresponding to an officer's position are awarded annually, and Company shares equivalent to the number of points accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

●Directors

（1）Basic remuneration

- Basic remuneration is paid as a fixed monthly monetary sum based on the responsibilities pertaining to the position.

（2）Stock-based compensation

- In principle, stock-based compensation is paid to the director following retirement from the current position, with the aim of continuously enhancing enterprise value while sharing value with the shareholders.
- A base amount of stock-based compensation is determined, which is entirely non-performance-linked.
- Stock-based compensation is paid through a trust-type stock compensation plan. Under this plan, a certain number of points are awarded annually to those eligible, and Company shares equivalent to the number of points accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

■ Process for determining remuneration

- The Remuneration Committee determines the remuneration of directors and corporate executives. The majority of the members of the Remuneration Committee, including the chairperson, are outside directors, which ensures objectivity and transparency.
- The Remuneration Committee has the authority to determine the remuneration details of individual directors and corporate executives of the Company. It arrives at evaluation decisions based primarily on (1) the policy regarding the determination of remuneration details for individual directors and corporate executives; (2) the remuneration details for individual directors and corporate executives; and (3) in the case of corporate executives, the degree of achievement of both company-wide performance targets and the individual targets set for each corporate executive for the purpose of determining performance-based remuneration.
- In the event of a substantial change occurring in the Company’s external environment, the Remuneration Committee may take exceptional measures after carefully deliberating on the appropriateness of the target values, and calculation methods used, for determining performance-linked remuneration.

■ Non-payment of stock-based compensation

- If it is determined that an officer is responsible for a serious misconduct or violation, the Company can deny all or part of the Company’s shares, etc. that were to be transferred to said officer under this plan.

■ Disclosure policy

- Details of the executive remuneration system are compiled and disclosed—in accordance with our disclosure policy, applicable laws and regulations—promptly and proactively through the annual *Securities Report*, reference materials for the General Meeting of Shareholders, *Business Report*, *Corporate Governance Report*, Company website, etc. The Company implements a policy of active engagement with shareholders and investors.