

# azbil

azbil report 2014



## Human-centered Automation

Azbil Corporation

# A Company Shaping the Future with Automation



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and its Four  
Core Values

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### Socially Responsible Investment (SRI) Index

The azbil Group has been selected for inclusion in the FTSE4Good Global Index for seven consecutive years.



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### Editorial Policy

The azbil report combines the azbil Group's annual and CSR reports into a single volume. In this report the information about ESG (Environment, Society, and Governance) is enhanced so that all our stakeholders, including shareholders and investors could understand our value-creation in the long-term perspective. In addition, this report was edited with reference to an international framework for integrated reporting which had been issued by the International Integrated Reporting Council in December 2013.

### Cautionary Statement

Statements made in this report with regards to the azbil Group's plans, targets, and strategies and other statements without historical facts are forward-looking statements about the future performance of Azbil Corporation and its subsidiaries. These projections are based on management's assumptions, intent, and expectations in light of the information currently available to it, and therefore these statements are not guarantees of future performance. Due to various factors, actual results may differ from those discussed in this document. Such factors affecting the results of Azbil Corporation and its subsidiaries include but are not limited to:

- 1) General economic conditions in azbil's markets, particularly levels of capital investments.
  - 2) Exchange rates, particularly between the Japanese yen and U.S. dollar and other currencies in which the azbil Group makes significant sales or the azbil Group's assets and liabilities are denominated.
  - 3) Continued acceptance of azbil's products and services offered in highly competitive markets characterized by development of new technologies and the advancement of the global economy.
- Financial data and financial statements have been prepared based on Japanese GAAP and amounts have been rounded.
  - Handling of products and services introduced in this report differs by country or region.



Chairman (right)  
Seiji Onoki

President and  
Chief Executive Officer (left)  
Hirozumi Sone

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### Group Philosophy

**To realize safety, comfort, and fulfillment in people's lives  
and contribute to global environmental preservation  
through "human-centered automation."**

To achieve our philosophy,

- 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.
-

## We Contribute to Sustained Progress for Our Customers and Society through the Pursuit of “Human-centered Automation.”

Since our establishment in 1906, we have focused on measurement and control technologies, delivering unique solutions to our customers. Our evolution having taken us from the idea of controlling machines to the idea of creating fulfillment for people, we now strive to realize work styles and lifestyles that give people a sense of safety, comfort, and fulfillment as well as to contribute to benefit the global environment in our quest for “human-centered automation.”

Under this philosophy, during the last period, we set long-term targets, net sales of ¥300.0 billion, operating income of ¥30.0 billion or higher, and ROE of 10% or higher to be achieved by the year ending March 2022. As the first step in this process, we established a four-year medium-term plan, which will take us through the year ending March 2017, the 110th anniversary of the Company’s founding. Guided by plan, we have been advancing our operations based on three initiatives as follows:

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

Today, the azbil Group focuses on new market needs of energy management, safety, and peace of mind in its three core business segments: Building Automation, Advanced Automation, and Life Automation. Adhering to this strategy, we are targeting steady growth while pursuing reforms to address the rapidly changing business environment.

For the year ended March 31, 2014, the Japanese economy finally showed signs, though modest in scale, of ending its prolonged deflationary period. Furthermore, the decision to award the 2020 Summer Olympics to Tokyo will provide a huge boost for the Japanese government’s growth strategy, known as “Abenomics.” In response, we will closely monitor the changing business environment and adopt a global perspective in both domestic and overseas operations. Working close with customers, we will strive to give them new levels of value and resolve a broad range of issues. We will forge ahead as a unified corporate group that contributes to sustained progress for the customer and society.

August 2014



Seiji Onoki  
Chairman  
Azbil Corporation



Hirozumi Sone  
President and Chief Executive Officer  
Azbil Corporation

# azbil's History of Value Creation

**For More Than a Century, the azbil Group Has Achieved Sustainable Growth in Harmony with Society, by Continuing to Pursue Automation and Always Providing Value That Meets the Needs of the Age.**

Since our founding in 1906, we have taken on the challenge of solving problems in a variety of situations and locations, including buildings, factories and plants, lifelines, and households, making use of the most advanced automation technology available and our accumulated knowledge. By continuing to respond to the needs of society and new needs that have emerged at a range of sites over more than a century, we have always created new value and achieved sustainable growth, even amid harsh environments in which we have been subject to numerous external pressures, including the collapse of the economic bubble and the Lehman Shock financial crisis.



1985  
Next-generation control valve



1985  
Smart differential pressure transmitter



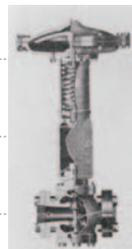
1982  
Integrated building automation system



1975  
Electromagnetic flowmeters



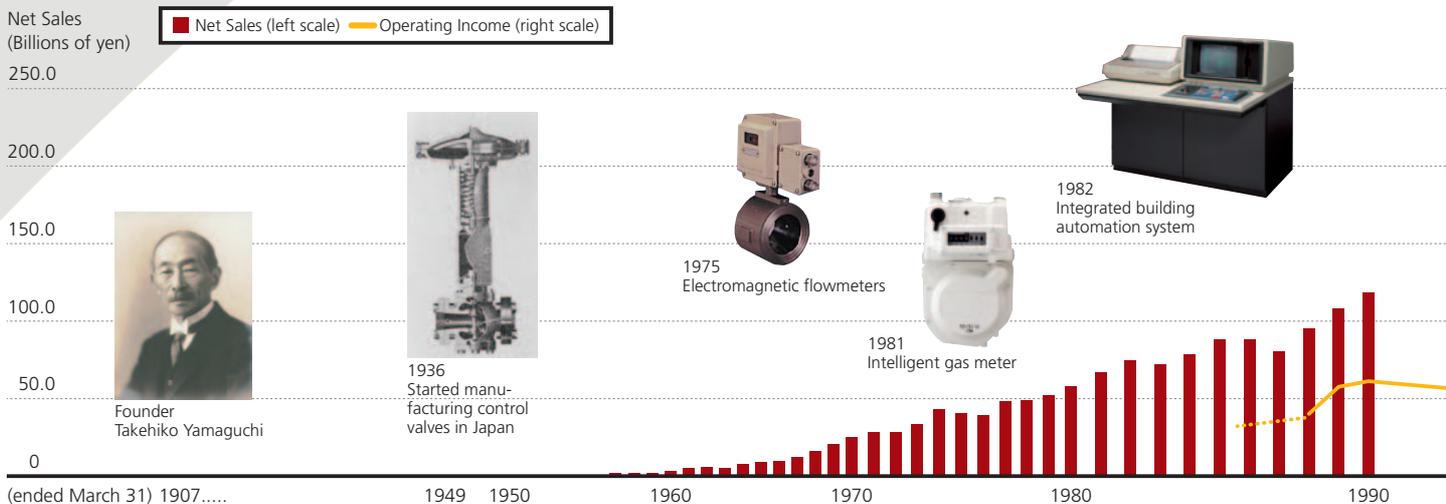
1981  
Intelligent gas meter



1936  
Started manufacturing control valves in Japan



Founder  
Takehiko Yamaguchi



## Pre-industrial Instruments Era

—From Imports to Domestic Manufacture—

### “Freeing People from Drudgery”

- 1906** Yamatake Shokai Co., Ltd. (presently Azbil Trading Co. Ltd.) was founded by Takehiko Yamaguchi; began import and sales of machine tools and other instruments from the U.S. and Europe.
- 1920** Sales representative agreement was signed with the Brown Instrument Co. (presently Honeywell International Inc.)
- 1933** Built dedicated factories for industrial instruments, started manufacturing flowmeters, float level gauges, and carbon dioxide gas analyzers
- 1936** Successfully started the domestic production of control valves

(Reference information)

- 1904** Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.) developed Japan's first gas meter.
- 1913** Kimmon Manufacturing began manufacturing Japan's first water meters.

## The Dawn of the Automation Era

—Responding to Rapid Growth of the Japanese Economy—

### “First in Control”

- 1952** Technical license agreement was signed with Honeywell Inc. (presently Honeywell International Inc.) of the U.S.
- 1953** Yamatake (presently Azbil Corporation) formed an equity-based alliance with Honeywell (presently Honeywell International Inc.) of the U.S. (50% share)
- 1961** Fujisawa Factory (present-day Fujisawa Technology Center) began operations.  
Listing transferred to the Second Section of the Tokyo Stock Exchange
- 1963** Yamatake Engineering Co., Ltd. (presently Azbil Corporation) was established and started offering maintenance services of industrial instruments and supporting the rapid growth of domestic manufacturing companies.  
Yamatake Keiso Co., Ltd. (presently Azbil Corporation) was established and started offering a complete package of heating, ventilation, air conditioning, and related instrumentation which had just begun full-scale expansion at the time of the Tokyo Olympics.
- 1966** Corporate name changed to Yamatake-Honeywell Co. Ltd. (presently Azbil Corporation)
- 1969** Listing transferred to the First Section of the Tokyo Stock Exchange

## The Shift from Analogue to Digital Instrumentation

—Increasing Needs for Energy Saving, Higher Performance, and Accuracy—

### “Savemation”

- 1972** Unveiled a new central control system tailored to the growing size and vertical and horizontal expansion of buildings  
Samukawa Factory (present-day Shonan Factory) began operations as the largest control valve factory in Asia at the time.
- 1975** Isehara Factory began operations for the manufacture of Building Automation and Advanced Automation systems.  
Jointly developed a distributed control system for industrial automation with Honeywell
- 1982** Individually developed an integrated building automation system tailored to domestic needs
- 1984** Individually developed an electromagnetic flowmeter using square-wave excitation system
- 1985** Developed next-generation control valve series through an integration of innovative technologies and the one matured over 50 years in manufacturing control valves  
Developed smart differential pressure transmitter series equipped with semiconductor composite sensors and also developed next-generation field device series
- 1990** Honeywell's stake in Yamatake-Honeywell (presently Azbil Corporation) was reduced from 50% to 24.15%. Technical license agreement with Honeywell was converted into a strategic alliance agreement.

- Notes: 1. As the Company had adopted the settlement twice a year before 1974, the graph shows the total amount of two accounting periods.
2. From 1948 to 1993, the financial statements were prepared for the year ended September 30. Since 1994, they have been prepared for the year ended March 31.
3. As the Company changed the fiscal year, FY 1994 had irregular closing.
4. The financial statements were prepared on an unconsolidated basis until FY 1993. Since 1994, they have been prepared on a consolidated basis.



1996  
Thermal mass-flow sensors



2004  
Control valve maintenance support system



2012  
Name and logo were adopted for all products and services related to energy management solutions.



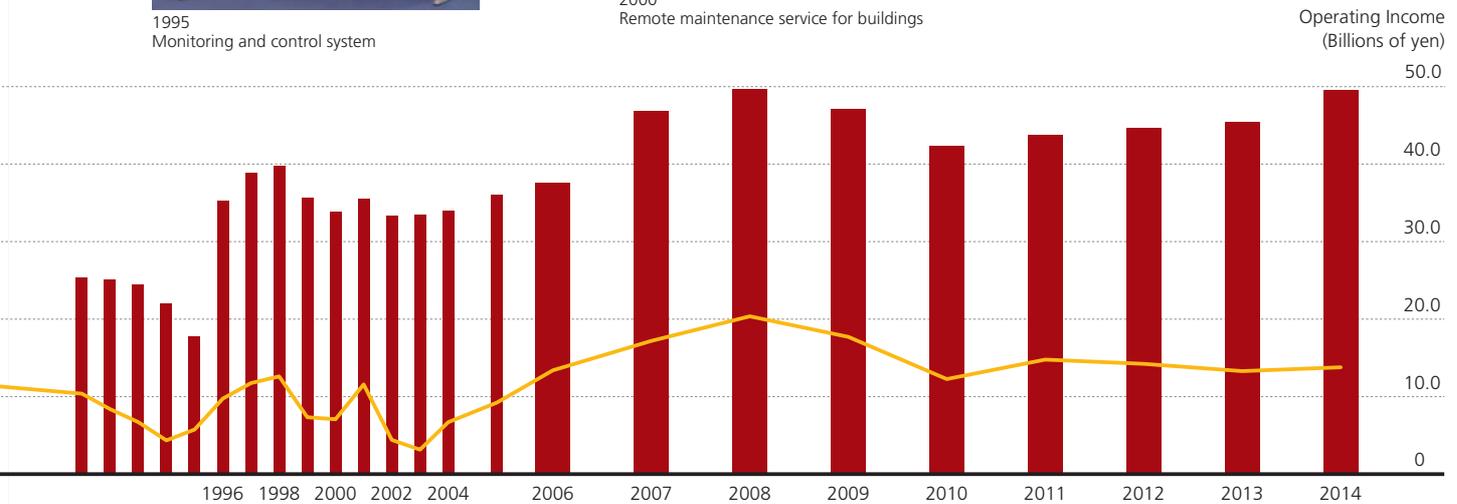
1995  
Monitoring and control system



2000  
Remote maintenance service for buildings



2009  
Instrumentation network modules



### Open Network System to Fully-digitalized, Seamless Network System

—Adapting to the Surge in Social Needs for Environmental Conservation and Energy Saving and Offering Solutions for Sustained Development—

## azbil “Human-centered Automation”

- 1994** Yamatake Environmental Engineering (Shanghai) Co., Ltd. (presently Azbil Control Solutions (Shanghai) Co., Ltd.) was established in China. Sequentially established local subsidiaries around the world  
Dalian Yamatake Control Instruments Co., Ltd. (presently Azbil Control Instruments (Dalian) Co., Ltd.) was established in China.
- 1995** Started sales of smart valve positioner equipped with a microprocessor  
Began sales of monitoring and control system
- 1996** Started sales of new thermal mass-flow sensors. Successfully developed and started mass production of flow velocity sensors using microchip  
Strategic alliance agreement with Honeywell was replaced by business unit agreements.
- 1998** Yamatake-Honeywell renamed Yamatake Corporation

(Reference information)

- 1981 Kimmon Manufacturing developed Japan's first microprocessor-based gas meter with a safety function

- 2000** Started a remote maintenance service for building
- 2002** Equity alliance with Honeywell was terminated.
- 2003** Yamatake Corporation (presently Azbil Corporation), Yamatake Building Systems, and Yamatake Industrial Systems were merged into a single company.
- 2004** Started sales of control valve maintenance support system.
- 2005** Acquired the effective control of management of Kimmon Manufacturing
- 2006** New Group philosophy and symbol, azbil, were formulated.
- 2007** R&D functions were consolidated at the Fujisawa Technology Center.
- 2008** Kimmon Manufacturing became a wholly-owned subsidiary through a share exchange.
- 2009** Started sales of instrumentation network modules featuring advanced communication and control functions

- 2012** Name and logo were adopted to cover all products and services related to energy management solutions.  
Yamatake Corporation renamed Azbil Corporation  
The names of domestic group companies changed to include “Azbil.”  
Yamatake Care-Net Co., Ltd. and Safety Service Center Co., Ltd. merged to become Azbil Care & Support Co., Ltd.  
Acquired capital in TACO Co., Ltd. (presently Azbil TA Co., Ltd.) which had strength in atomization technology
- 2013** Acquired equity stake in VorTek Instruments, LLC (presently Azbil VorTek, LLC) and obtained its technology for vortex flowmeters  
Acquired equity stake in Telstar, S.A. (presently Azbil Telstar, S.L.) in order to launch Life Science Engineering (LSE) business  
Established Azbil Production (Thailand) Co., Ltd., to build up the azbil Group's three-pronged production structure including Japan and China  
Azbil North America Research and Development, Inc. was established.

# Creating Four Core Values

## The azbil Group Strives to Realize Safety, Comfort, and Fulfillment in People's Lives and Contribute to Global Environmental Preservation through "Human-centered Automation."

In buildings, in plants and factories, and in daily life, we aim to create social value through "human-centered automation" in partnership with our customers.

Our Unique Solutions Based on Measurement and Control Technologies and Products

Issues Faced by Our Customers and Society



New product development and business continuity planning (BCP) for business growth



Comfortable, safe, and efficient office spaces and production sites



A stable supply of water, gas, and healthy living environments



Health care and responses to the aging of the population



Achieving compatibility between comfort and energy conservation



Reducing the burden on the environment

# The Social Values Created through azbil's Operations

For detailed cases, see "Case Study of Value Creation" on pages 36-37.

## 1. Safety



### To live and work in good health and in safety

- Measuring equipment that detects malfunctions invisible to the naked eye, emergency alert response programs, and facility monitoring systems play a role in the safe, accident-free operation of manufacturing facilities in plants and factories.
- Various systems, including those that manage access, automate dangerous work processes, and detect microorganisms, enable the safe operation of facilities and safeguard people who work in offices, shopping centers, or factories.
- Integrated management of food, water, electricity, and gas supplies, from production to your doorstep
- We offer various care-related services, including an emergency alert response service and health consultations by phone. These services are provided 24 hours per day, 365 days per year by healthcare specialists who can take care of customers depending on their needs, support health, and ensure peace of mind.

## 2. Comfort



### To always live and work in comfort

- Measuring and analyzing indoor air environments in offices, factories, and homes, then adjusting temperature and humidity and removing dust and pollen create comfortable living conditions with minimal temperature differences between areas.
- Automation technologies boost work quality and efficiency, which in turn improve productivity and quality and lead to enhanced customer satisfaction.
- Health maintenance, nursing care, and other services provided by healthcare specialists, meeting the expectations of customers and enabling each one to live a comfortable life.

## 3. Fulfillment



### To create new value with the customer

- We create new value by working with customers at their sites to improve the operation of buildings and factories, enhance quality, conserve energy, and reduce environmental impact, which help to solve customers' problems.
- We craft optimal solutions with comprehensive support throughout the facilities' life cycle by promptly responding to each customer's needs using our integrated structure that combines consulting, development, production, and maintenance.

## 4. Environment



### To optimize the management and usage of energy

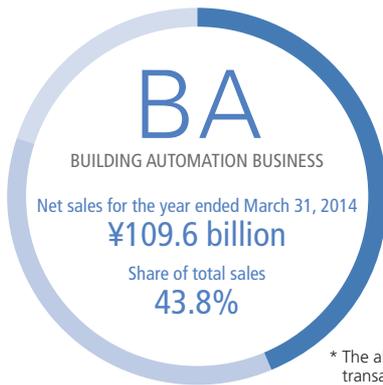
- In buildings, energy is conserved by improving the operating methods of cooling or heating equipment, modifying air-conditioning or heating to match a building's scale and purpose, and upgrading or renewing facilities.
- In the manufacturing process in plants and factories, the reduction in usage of electricity, steam, and compressed air through automation contributes to reducing the waste of energy.
- We show when, where, and to what extent energy is being used, and then provide the best solutions for saving energy while maintaining comfort and quality.

Value created

# azbil's Operations

## Business Areas

- Commercial buildings
- Manufacturing buildings
- Research laboratories
- Clean rooms
- Hospitals
- Data centers
- Government and institutional buildings
- Schools
- Hotels
- Department stores
- Shopping centers
- Airports



A pioneer in the field of air conditioning for domestic large-scale buildings

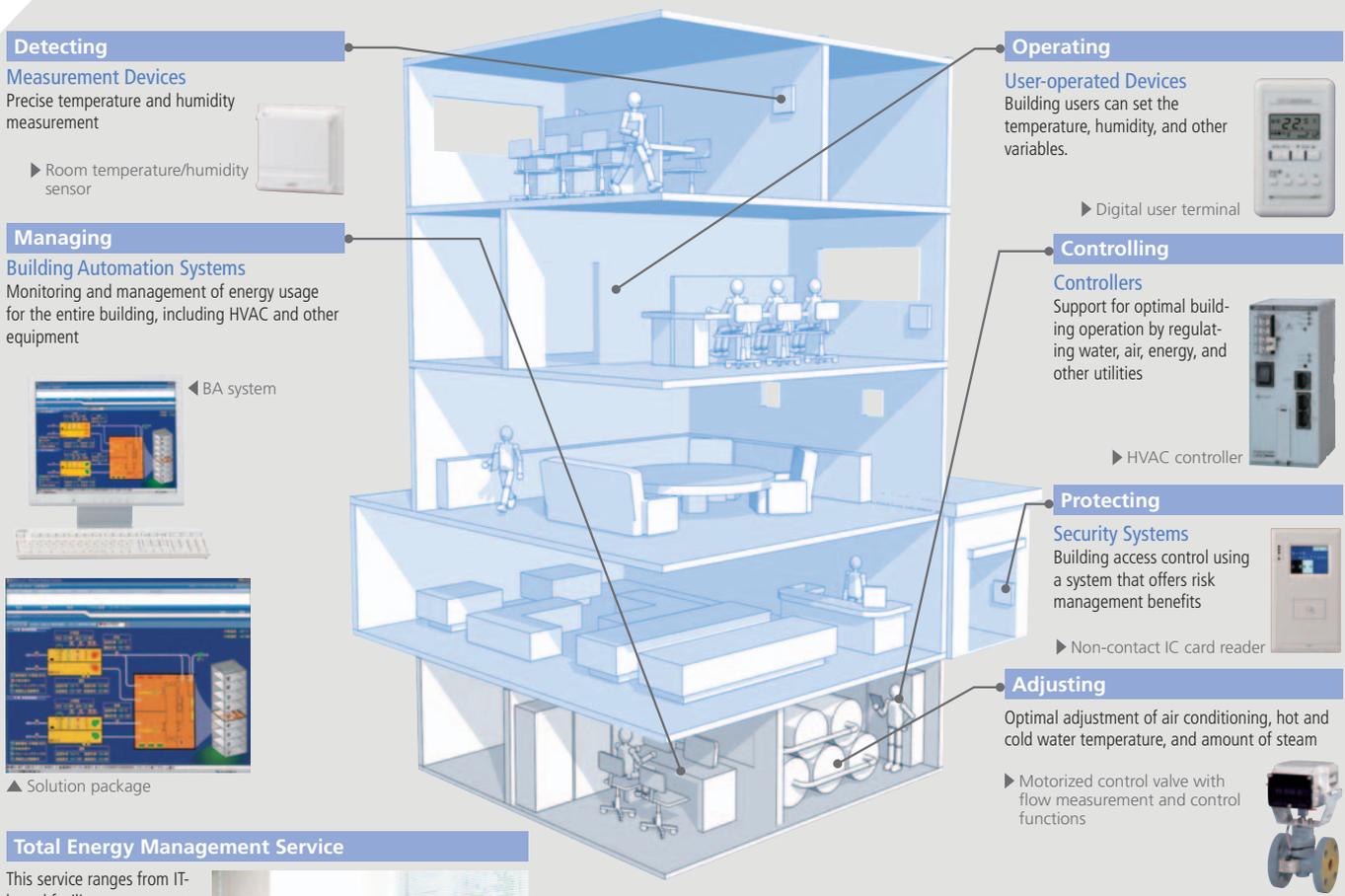
Stable demand for services based on projects completed

\* The above net sales figure includes internal transactions between business segments.

## Building Automation Business

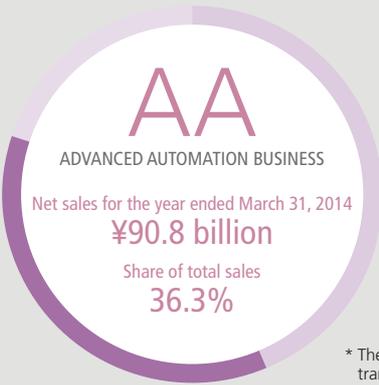
The azbil Group realizes high performance and high quality through its in-house development and manufacture of a full product lineup, from building automation systems and security systems to application software, controllers, valves, and sensors. We offer solutions through an integrated structure extending from instrumentation design to sales, engineering, services, energy-saving solutions, and facility operation management. We are applying our original environmental control technologies to create comfortable and productive office and factory spaces and contribute to environmental load reduction.

For more detailed information on each business, see "Business Overview" on pages 30-31.



**Building Renovation**  
Lifecycle costs are reduced and asset value is improved by upgrading and repairing the various necessary types of equipment.





A comprehensive company specializing in measurement and control which in-house develops and manufactures products for plants and factories and provides maintenance services

Rolling out a solution-based business with a main focus on control valves in Japan and overseas

\* The above net sales figure includes internal transactions between business segments.

**Business Areas**

**Process Automation**

- Petrochemical/chemical
- Water supply and sewerage
- Oil refining
- Electric power and gas
- Iron and steel
- Shipping and marine

**Hybrid Automation/Factory Automation**

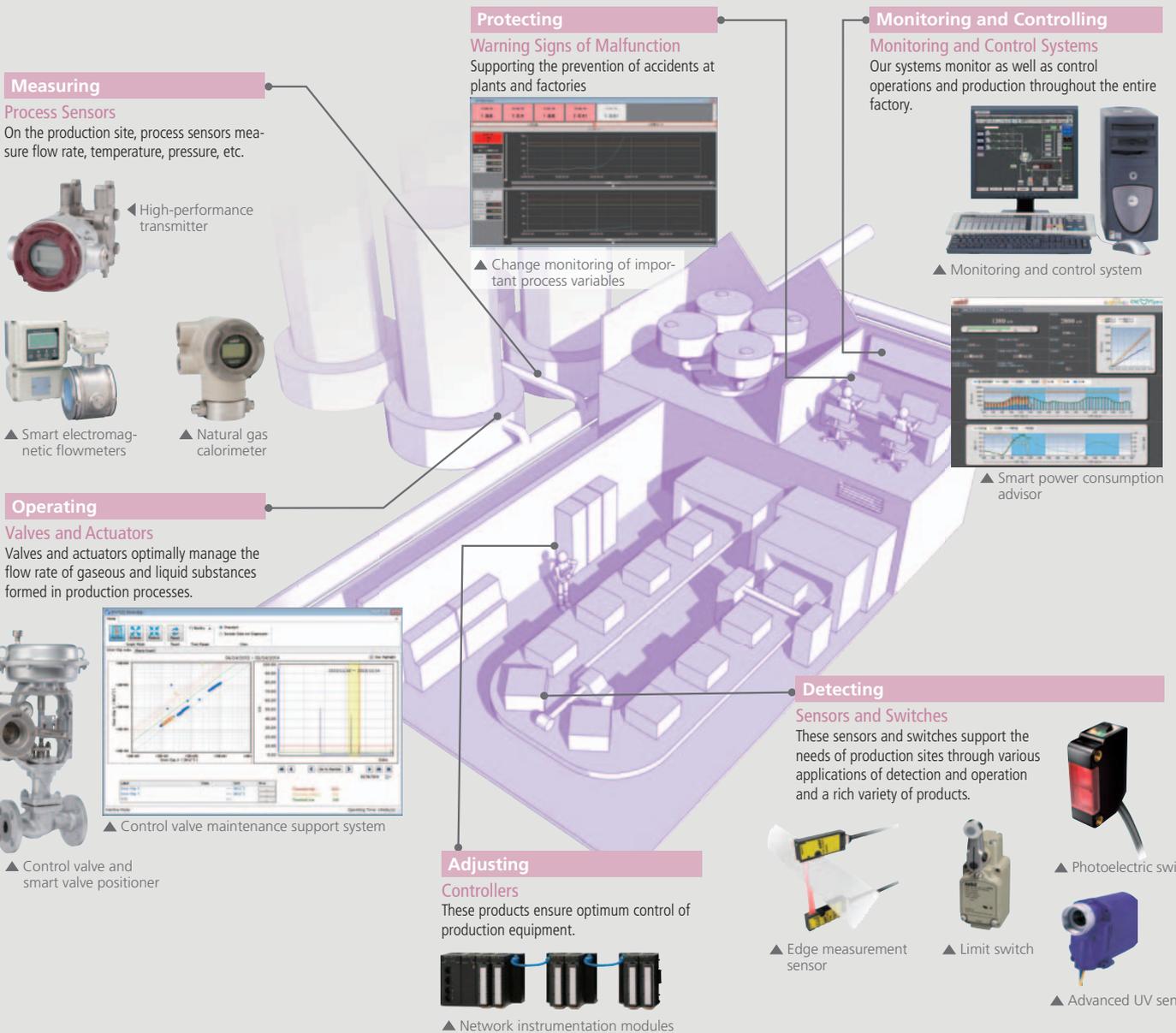
- Semiconductor/semiconductor manufacturing equipment
- Industrial furnaces
- Electrical/electronic components
- Machine tools
- Automobiles
- Pharmaceuticals
- Food/beverage packaging

azbil and its Four Core Values

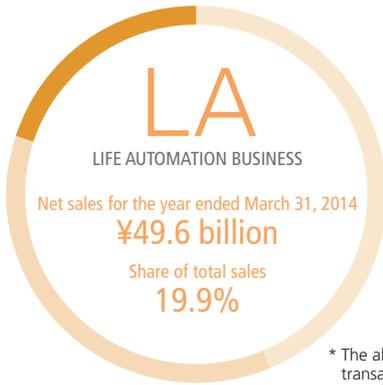
# Advanced Automation Business

The azbil Group is solving issues in the materials, manufacturing, and assembly industries through the provision of products, solutions, instrumentation, engineering, and maintenance services to support the optimum operation of equipment and facilities throughout their life cycle. Through collaboration with customers in manufacturing, we develop advanced measurement and control technologies, aim to realize production spaces that are safe and bring out human capabilities, and create new value for customers.

For more detailed information on each business, see "Business Overview" on pages 32-33.



# azbil's Operations



\* The above net sales figure includes internal transactions between business segments.

In the gas and water meter field, there is a stable demand for cyclical replacement as required by the Measurement Law.

In the Life Science Engineering (LSE) field, we focus on pharmaceutical factories offering an integrated package ranging from a lyophilizer to engineering.

Emergency call services covering more than 67,000 members, the largest in the nation based on the number of contracts with local governments

## Business Areas

### Lifeline

- Gas
- Waterworks
- Factories
- Commercial buildings
- Condominiums

### Life Science Engineering

- Pharmaceutical plants
- Laboratories
- Hospitals

### Community living

- Legal governments
- Health insurance associations
- Individuals
- Housing

# Life Automation Business

The azbil Group applies measurement, control, and metering technologies cultivated over many years in the building, factory, and plant markets, as well as heartfelt, attentive services to lifelines such as gas and water, living spaces, nursing care and health support, life science research, pharmaceutical manufacturing, health care, and other fields.

For more detailed information on each business, see "Business Overview" on pages 34-35.

### Life Science Engineering

With a primary focus on the pharmaceutical market, we provide new solutions for safer environment and high-performance at production sites.

- ▶ Lyophilizer with barrier systems

### Lifeline

#### City Gas & LP Gas

In addition to gas meters, we provide safety devices such as gas leak detectors, automatic shut-off valves, and regulators.

- ◀ Grid gas use intelligent meter
- ▲ LP gas meter
- ▲ N-AFV regulator unit

### Water Meter

We provide water meters.

- ◀ Electronic water meter
- ▶ Battery-operated electromagnetic water meter

### Community living

#### Personal Emergency Response Service

A service that provides emergency response and health consultation by nurses other specialists 24 hours a day, 365 days a year for elderly people who live alone.

- ◀ Emergency alert response service with a mobile device

#### Nursing Care Service

A service that provides consultation by nursing care specialists, care workers, home health-care personnel, and health-related equipment counselors.

#### Residential Central Air-conditioning System

Central air-conditioning system ensures a comfortable indoor temperature year-round. This system removes pollen and household dust with an electronic air cleaner.

## The azbil Group Strives to Solve Problems with Customers through an Integrated Framework Closely Connected to Customer Sites.

In our business segments of Building Automation, Advanced Automation and Life Automation, we have established an integrated framework that is closely connected to customer sites and covers everything from product development to maintenance service as well as engineering that maximizes the value in the life cycle of customers' facilities. As a solution partner that delivers optimum comfort, safety, and energy saving, we are creating new value together with our customers.



### Lineup of Services Creating Value at Customers' Sites

#### Energy Management Solutions

We offer energy-saving solutions with a focus on energy flow from resources to end users. These solutions, leveraged by products and technologies unique to azbil through cross-cutting cooperation among our three business segments, contribute to saving energy and reducing CO<sub>2</sub> emissions at the company as a whole.

#### Comprehensive Building Management Service

We undertake comprehensive management and maintenance on behalf of the building owner by establishing communications links between the property and our operation center, which enables around-the-clock remote monitoring and control.

#### Total Maintenance Service for Building Automation Systems

We provide a total maintenance service for building automation systems that supports efficient and effective building operation through remote monitoring.

#### Services for Factories and Plants

We provide quick and reliable services that enable our customers to run their production equipment safely.

- Lifecycle support
- Maintenance support
- Plant operation support
- Equipment diagnosis support

#### Industrial Service Operation Program

A program for performing a variety of maintenance tasks on behalf of the customer

- Service hotlines
- Emergency services
- Parts management

# azbil through the Year

2013  
**1Q**

2013

April

May

June

**2Q**

July

August

September

## Topics

- Apr 1** Enhanced nursing care policy for employees' family is implemented.
- May 27** Announcement of long-term targets and new medium-term plan

- Aug 5** The use of paid leave on an hourly basis is instituted to foster employee work-life balance.
- Aug 6** Azbil Production (Thailand) Co., Ltd. delivers its first product.
- Aug 8** Inclusion in the FTSE4Good Global Index for the 7th consecutive year
- Aug 25** Establishment of gas flowmeter calibration facilities compliant with Chinese measurement law, sales launch, and strengthening of global production and logistics
- Aug 27** For electromagnetic flowmeters aimed at the Chinese market, new assembly and calibration facilities compliant with Chinese measurement law at our Dalian factory

## Products & Services

May 22

**AA** TIIS flame-proof approval of natural gas calorimeters, and sales launch



Natural gas calorimeter

May 30

**AA** Sales launch of critical indicators display package for energy conservation, stressing information that is "actionable," not merely "visible"



Display of critical indicators for energy

May 31

**LA** Following revision of the Long-term Care Insurance System, Azbil Care & Support Co., Ltd. launches 24/7/365 nursing care services in the city of Kumamoto, including periodic home visits and on-call services.



Support for living at home is provided through home visits for caregiving and nursing.

Jun 26

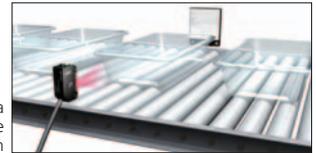
**AA** Introduction of new burner controllers tailored for small-sized furnaces and boilers



Burner controller for single burner

Jul 3

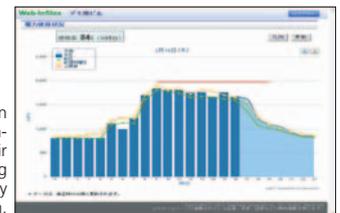
**AA** Sales launch of new photoelectric switches, which easily and reliably detect transparent objects with a 90% light transmission rate



Sample application of a retroreflective photoelectric switch

Jul 18

**BA** Remote operation service of building facilities, promoting visualization and reduction of HVAC energy use, receives new functions for tenant building owners.



Remote operation service helps customers understand their air-conditioning equipment's energy consumption.

Aug 19

**BA** The successor to our new wall-mounted building automation system goes on the market.



Wall-mounted BA system

Aug 26

**BA** An energy display function is added to services and products for owners of tenant buildings.

Sep 26

**AA** Burner controller series for multiple burners wins New Product Development Award for 2013 from the Society of Instrument and Control Engineers.



Burner controller for multiple burners

**3Q**

**4Q**

2014

October

November

December

January

February

March

**Oct 1** The azbil Honey Bee Club volunteer organization selects recipients and begins support.

**Nov 3** Co-sponsorship of the 8th Shonan International Marathon, helping to reduce human impact on the environment

**Jan 31** Founding of Azbil North America Research and Development, Inc. to strengthen global product appeal and technical development capabilities

**Feb 6** Awarded the Kanagawa Global Environment Award for 2013

**Mar 14** Founding of training programs (with training starting in April) to foster leaders for overseas markets

azbil and its Four Core Values

**BA** : Building Automation Business **AA** : Advanced Automation Business **LA** : Life Automation Business

**Oct 3**

**BA** Contactless smart card reader is added to our building access control system, allowing users to select a security level suited to the location.



Contactless smart card reader

**Oct 24**

**AA** Sales launch of vortex flowmeter series, featuring high-accuracy measurement of superheated vapor and gases, with built-in temperature and pressure compensation



Vortex flowmeter

**Oct 28**

**AA** Control valve diagnostic service for maintenance optimization becomes available.

**Oct 29**

**AA** New safety solution for plants provides prediction and advance notification of problems that can lead to a serious accident.



**Nov 20**

**LA** Azbil Telstar develops high containment barrier systems for manufacturing using active pharmaceutical ingredients and for development of new drugs.



Barrier system

**Dec 12**

**LA** Sales launch of heat-pump-based central air-conditioning system suitable even for regions with low outside temperature



Residential central air-conditioning system

**Dec 17**

**LA** Central air-conditioning system with improved energy efficiency goes on the market.

**Feb 27**

**LA** Azbil Telstar launches a new lyophilizer for clinical trial phase.



Lyophilizer

**Feb 28**

**BA** New building automation system adds a function for confirming personnel safety in time of disaster.

**Mar 12**

**AA** Sales launch of next-generation valve positioner series, for safer and more reliable plant operation



Smart valve positioner

**Mar 24**

**BA** Azbil (Thailand) Co., Ltd. installs the building energy management system for the large-scale Amarin Plaza building complex.



Thailand's large-scale Amarin Plaza building complex

# Trends of Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

| (Ended March 31)                                    | 2004     | 2005     | 2006     | 2007     |
|-----------------------------------------------------|----------|----------|----------|----------|
| <b>Financial Results (For the Year):</b>            |          |          |          |          |
| Net sales                                           | 169,951  | 180,763  | 188,321  | 234,572  |
| Gross profit                                        | 65,130   | 67,754   | 72,769   | 84,780   |
| Operating income                                    | 6,820    | 9,353    | 13,515   | 17,314   |
| Net income                                          | 3,241    | 3,709    | 9,795    | 10,646   |
| Capital expenditures                                | 2,065    | 2,460    | 6,790    | 5,273    |
| Depreciation                                        | 2,346    | 2,291    | 2,352    | 3,891    |
| R&D expenses                                        | 8,099    | 8,170    | 8,360    | 8,776    |
| <b>Cash Flows (For the Year):</b>                   |          |          |          |          |
| Net cash provided by operating activities           | 5,263    | 8,503    | 6,386    | 7,524    |
| Net cash provided by (used in) investing activities | (271)    | (3,707)  | (7,405)  | (2,475)  |
| Free cash flow                                      | 4,992    | 4,796    | (1,019)  | 5,049    |
| Net cash used in financing activities               | (328)    | (2,922)  | (3,328)  | (6,348)  |
| <b>Financial Position (At Year-end):</b>            |          |          |          |          |
| Total assets                                        | 165,264  | 172,586  | 217,882  | 230,679  |
| Net assets                                          | 95,530   | 99,848   | 110,859  | 118,967  |
| <b>Per Share Data:</b>                              |          |          |          |          |
| Net income (Yen)                                    | 43.51    | 49.88    | 132.52   | 144.71   |
| Net assets (Yen)                                    | 1,297.95 | 1,356.65 | 1,506.25 | 1,602.33 |
| Cash dividends (Yen)                                | 14.00    | 23.00    | 50.00    | 50.00    |
| <b>Ratios:</b>                                      |          |          |          |          |
| Gross profit/Net sales (%)                          | 38.3     | 37.5     | 38.6     | 36.1     |
| Operating income/Net sales (%)                      | 4.0      | 5.2      | 7.2      | 7.4      |
| R&D expenses/Net sales (%)                          | 4.8      | 4.5      | 4.4      | 3.7      |
| Shareholders' equity/Total assets (%)               | 57.8     | 57.9     | 50.9     | 51.1     |
| Return on equity (ROE) (%)                          | 3.5      | 3.8      | 9.3      | 9.3      |
| Dividend on equity (DOE) (%)                        | 1.1      | 1.7      | 3.5      | 3.2      |
| Dividend payout ratio (%)                           | 31.8     | 45.6     | 37.6     | 34.6     |

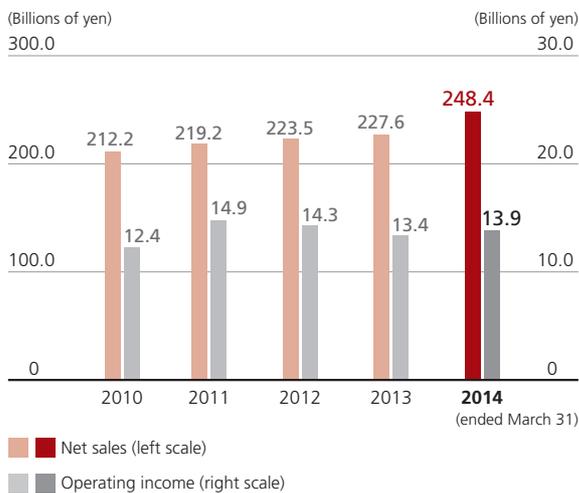
(Millions of yen)

| 2008     | 2009     | 2010     | 2011     | 2012     | 2013     | 2014            |
|----------|----------|----------|----------|----------|----------|-----------------|
| 248,551  | 236,173  | 212,213  | 219,216  | 223,499  | 227,585  | <b>248,417</b>  |
| 89,946   | 86,655   | 76,420   | 79,714   | 80,840   | 77,872   | <b>86,550</b>   |
| 20,484   | 17,832   | 12,385   | 14,896   | 14,348   | 13,411   | <b>13,904</b>   |
| 10,709   | 9,525    | 6,242    | 7,928    | 8,519    | 8,309    | <b>7,669</b>    |
| 4,488    | 6,414    | 2,704    | 3,351    | 3,010    | 3,121    | <b>5,303</b>    |
| 4,387    | 4,503    | 4,751    | 4,460    | 4,027    | 3,621    | <b>3,722</b>    |
| 9,844    | 9,636    | 8,640    | 8,953    | 8,816    | 7,824    | <b>8,767</b>    |
| 21,086   | 21,372   | 15,714   | 15,223   | 5,634    | 15,010   | <b>15,836</b>   |
| (612)    | (16,606) | 1,960    | (2,276)  | (3,549)  | (12,716) | <b>(10,670)</b> |
| 20,474   | 4,766    | 17,674   | 12,947   | 2,085    | 2,294    | <b>5,166</b>    |
| (6,433)  | (8,575)  | (6,757)  | (8,001)  | (6,393)  | (2,487)  | <b>(6,940)</b>  |
| 228,844  | 220,846  | 218,472  | 217,501  | 223,476  | 243,419  | <b>253,448</b>  |
| 121,721  | 124,984  | 129,278  | 131,362  | 135,077  | 141,197  | <b>144,978</b>  |
| 145.63   | 127.87   | 84.52    | 107.35   | 115.35   | 112.50   | <b>103.85</b>   |
| 1,641.73 | 1,672.91 | 1,728.64 | 1,754.86 | 1,808.48 | 1,882.66 | <b>1,940.56</b> |
| 60.00    | 62.00    | 62.00    | 63.00    | 63.00    | 63.00    | <b>63.00</b>    |
| 36.2     | 36.7     | 36.0     | 36.4     | 36.2     | 34.2     | <b>34.8</b>     |
| 8.2      | 7.6      | 5.8      | 6.8      | 6.4      | 5.9      | <b>5.6</b>      |
| 4.0      | 4.1      | 4.1      | 4.1      | 3.9      | 3.4      | <b>3.5</b>      |
| 52.6     | 55.9     | 58.4     | 59.6     | 59.8     | 57.1     | <b>56.5</b>     |
| 9.0      | 7.8      | 5.0      | 6.2      | 6.5      | 6.1      | <b>5.4</b>      |
| 3.7      | 3.7      | 3.6      | 3.6      | 3.5      | 3.4      | <b>3.3</b>      |
| 41.2     | 48.5     | 73.4     | 58.7     | 54.6     | 56.0     | <b>60.7</b>     |

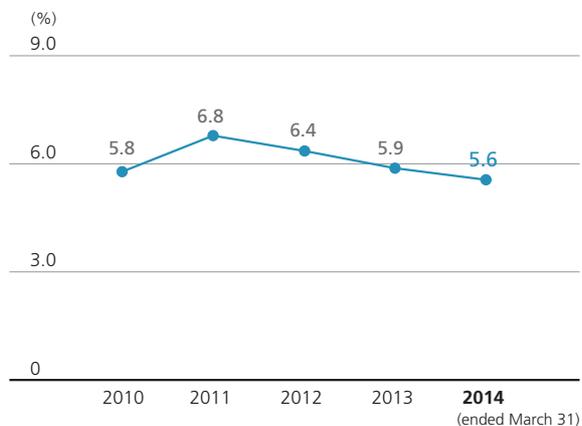
# Financial and Non-financial Highlights

Azbil Corporation and its consolidated subsidiaries

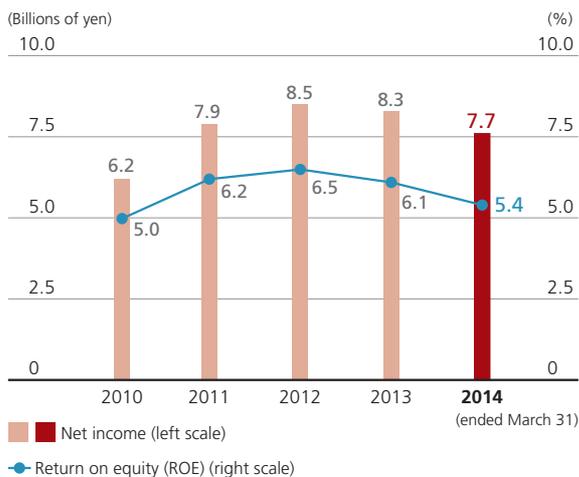
## Net Sales, Operating Income



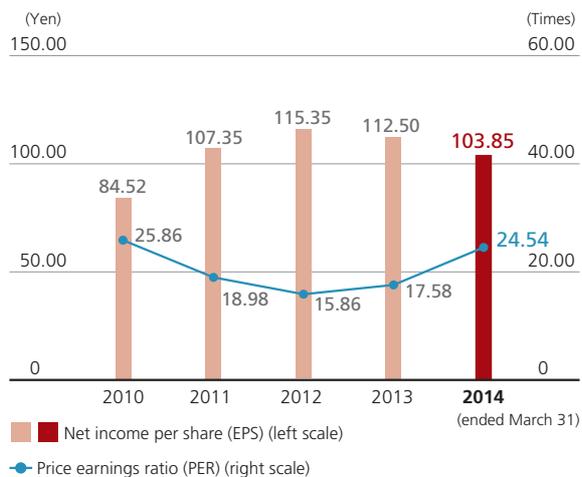
## Operating Income/Net Sales



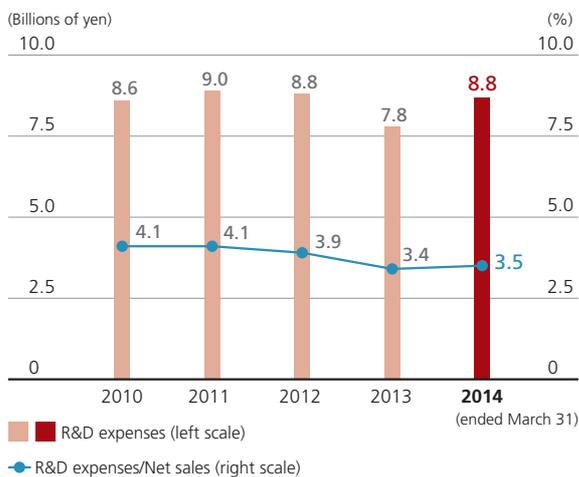
## Net Income, Return on Equity (ROE)



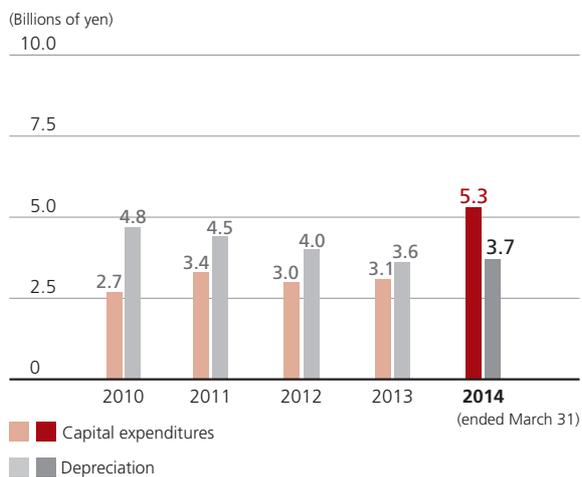
## Net Income per Share (EPS), Price Earnings Ratio (PER)



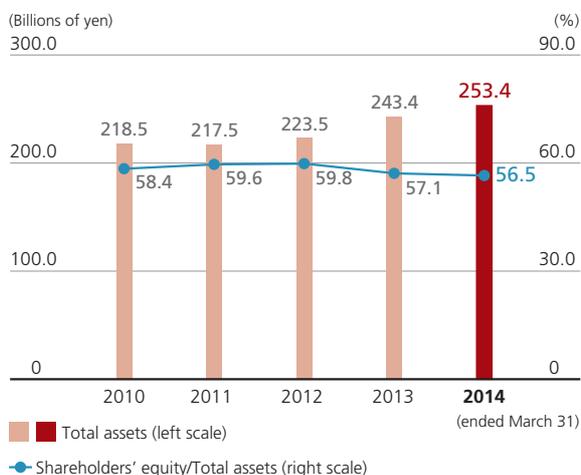
## R&D Expenses, R&D Expenses/Net Sales



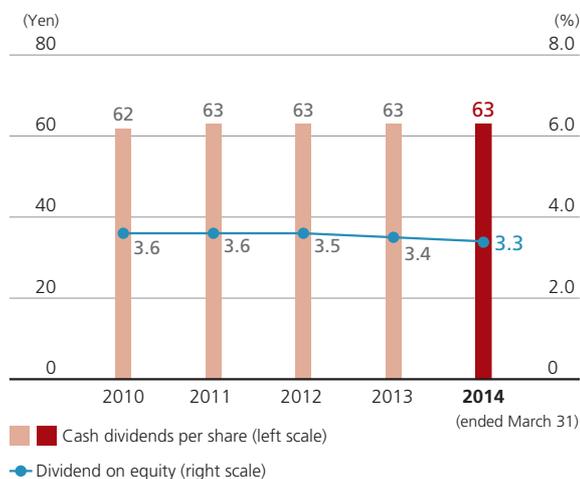
## Capital Expenditures, Depreciation



### Total Assets, Shareholders' Equity/Total Assets



### Cash Dividends per Share, Dividend on Equity (DOE)



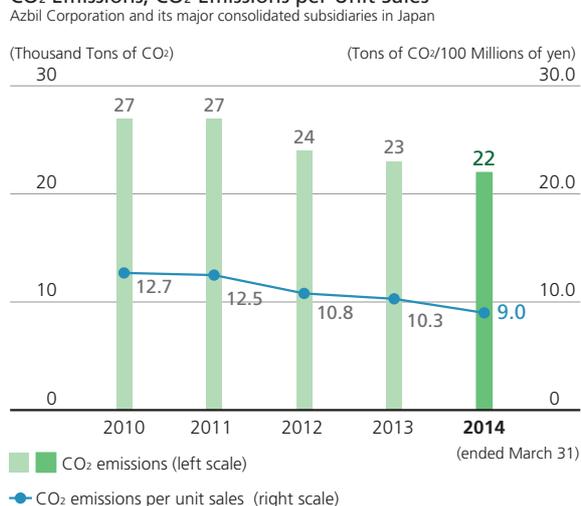
### Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions



### Number of Employees with Disabilities, Ratio of Employees with Disabilities to Total Workforce



### CO<sub>2</sub> Emissions, CO<sub>2</sub> Emissions per Unit Sales



### Total Power Usage, Total Power Usage per Unit Sales





**Hirozumi Sone**  
President and  
Chief Executive Officer

# Q1

## Please outline the azbil Group's medium-term plan and business results for the year ended March 2014.

As the inaugural year of the plan, we made a good start, achieving most of the targets for the year.

For more detailed information on each business, see "Business Overview" on pages 30-35.

Our long-term goal is to become recognized as a "top-class global automation enterprise" by the year ending March 2022. That year marks the 10th year since we changed our name to Azbil Corporation.

The year under review was the inaugural year of our four-year medium-term plan. The plan sets out milestones (medium-term targets) to be achieved by the year ending March 2017. During the year, we made steady progress with the plan's three key initiatives, which are based on the Group's philosophy of "human-centered automation." The three initiatives are as follows:

1. Becoming a long-term partner for the customer and the community by offering solutions based on our

During the year ended March 2014, the azbil Group steadily reinforced its foundation with the aim of achieving sustainable growth. For the year ending March 2015, —the midway point of the medium-term plan— we are targeting huge forward momentum while responding flexibly to changes in the business environment.



**Group Philosophy**

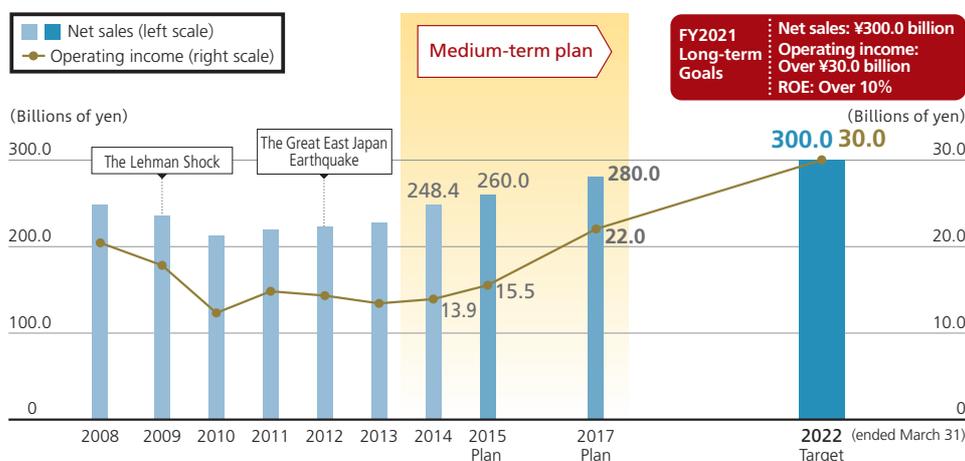
To realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through "human-centered automation."

**The Vision for the Future**

By focusing on people and realizing a world of automation created by human ingenuity and technology, we will become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to solving global environmental issues.

**Results for the Year Ended March 2014**

- Business reforms in the domestic market
- Global expansion
- Implementing organizational reforms



- technologies and products
2. Taking global operations to the next level, with global expansion by moving into new regions and making a qualitative change of focus
  3. Becoming a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure

Adhering to these initiatives, we leveraged our products, technologies, and services to develop distinctive solutions and consequently achieved steady growth in net sales. Of particular note was a two-fold jump in overseas sales accompanying progress in our global advancement. Even in Japan's mature market, the value

of orders received increased on the back of business reforms. As a result, in the year under review consolidated net sales rose 9.2% year on year, to ¥248.4 billion.

On the earnings side, operating income grew 3.7%, to ¥13.9 billion. This was attributable to increased sales and the strengthening of our corporate structure, which compensated for a temporary increase in retirement benefit costs and amortization of goodwill associated with newly consolidated subsidiaries.

In summary, I feel we made a good start toward achieving our targets for the year ending March 2017 of ¥280.0 billion in net sales and of ¥22.0 billion in operating income.

# Q2

### Japan's business environment has changed significantly since you formulated the medium-term plan. What are your thoughts on the Group's journey toward future growth?

We will seize business opportunities while responding flexibly to changing business conditions, such as the awarding of the 2020 Summer Olympics to Tokyo.

[For more detailed information, see "Special Feature" on pages 26-29.](#)

We originally announced our new medium-term plan in May 2013. Since then, however, the 2020 Summer Olympics and Paralympics have been awarded to Tokyo, and Prime Minister Shinzo Abe's cabinet has rolled out its economic policies, known as "Abenomics," aimed at ending Japan's deflation. Both of these events have greatly enhanced the business environment.

Our Building Automation business will benefit from new construction projects to build facilities and buildings associated with the Olympics, as well as the flow-on effect that will see the renovation of existing buildings. We will establish a framework that monitors the timing of peak demand so we do not overlook any business opportunities.

However, Japan has an increasingly aging, low-birth-rate society, and the construction market is expected to mature over the long term. Therefore, we will build a flexible structure capable of addressing increased demand associated with the Olympics. At the same time, we will establish a solid earnings base by adopting a service-driven strategy that can generate stable demand in a mature market. Our aim is to form long-term partnerships with customers. To this end, we will meet

demand for the maintenance and renovation of existing buildings and propose high-value-added solutions, such as advanced energy-saving control solutions that leverage the Group's expertise and accumulated on-site data.

Looking to the manufacturing sector, a key customer base for our Advanced Automation business, investment in expanding the manufacturing bases of upstream materials industries continues to be centered overseas. Therefore, we will place emphasis on providing value to customers' domestic operations through such solutions as preventive maintenance, which focuses on the life cycles of existing plants and facilities. In Japan, as well, we anticipate continued demand growth in the electrical/electronics, semiconductor, automobile, and downstream chemical industries, all of which invest actively in quality improvements and constantly demand technological innovation. In the processing and assembly sector (also defined as Hybrid Automation and Factory Automation, or HA/FA), such as the food and pharmaceutical industries, we expect demand to remain stable. I believe that these fields present opportunities to build long-term partnerships with new customers.

# Q3

### What sort of progress and results are you seeing in the Group's priority growth fields?

Orders received have grown steadily thanks to the azbil Group's unique solutions.

The azbil Group has designated three growth fields in which it aims to "become a long-term partner for both the customer and the community" by offering solutions based on azbil technologies and products.

The first field entails next-generation solutions for the indoor spaces of factories, offices, and homes. Here, we focus on the delivery of advanced, high-value-added solutions centering on the latest products and services required by production facilities—including offices,

factories, and research facilities—as well as living spaces.

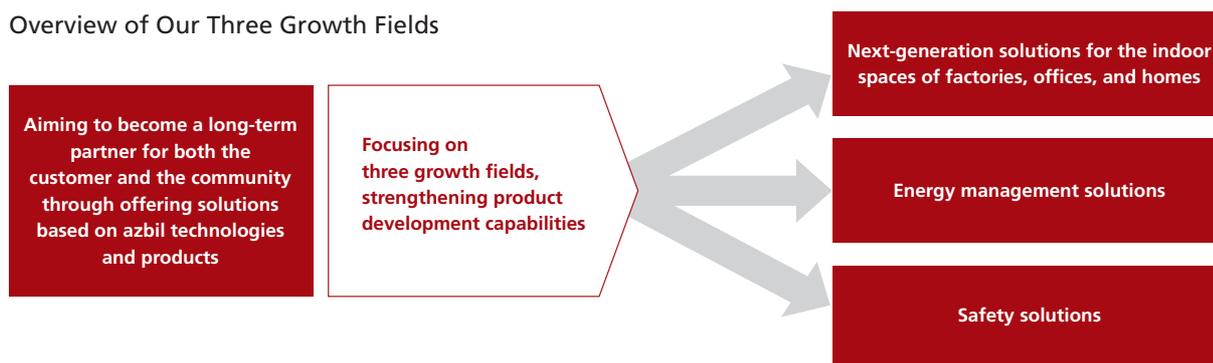
The second relates to energy management solutions. Here, we leverage our on-site data and construction know-how amassed over many years. The aim of these solutions is to not only reduce energy consumption and CO<sub>2</sub> emissions. They also help to reduce costs for customers and provide a stable supply of equipment and systems for utilities, such as energy and water, which are absolutely essential for their business activities.

The third field encompasses safety solutions. In addition to keeping pace with the increasing sophistication of business continuity planning (BCP), we will extend our track record in the areas of building security and machine and combustion safety. We also plan to broaden our activities to lifestyle, work, and information.

We have achieved good outcomes in these growth fields. In the Building Automation business, we reinforced business infrastructure and improved systems, both of which enable provision of integrated services for ongoing measurement of energy savings and construction solutions based on data derived from energy measurement. Thanks also to our energy-saving proposals, we posted an increase in orders for the renovation

of existing buildings. In the Advanced Automation business, we expanded our service-driven, high-value-added engineering and service offerings. In the HA/FA fields, we cultivated new business thanks to our integrated strengths, ranging from product lineup and instrumentation solutions to maintenance services. In the Life Automation business, we improved structures and reported an increase in orders for a new solution business for energy supply lines, including regulators and high-pressure governors. We also enjoyed a boost in orders for new products targeting residential central air-conditioning systems. In addition, we launched a new business for the elderly that makes regular visits to their homes and provides services as needed.

### Overview of Our Three Growth Fields



## Q4

### The azbil Group recorded a surge in overseas sales. Please tell us where the Group is placed with regard to global expansion.

Initiatives implemented so far are gradually producing results, and the recent consolidation of Azbil Telstar is also making a significant contribution.

For the year ended March 2014, overseas sales amounted to ¥46.1 billion, a two-fold increase from the previous year. Under our medium-term plan, we are targeting an overseas sales ratio of 20%, and this is now firmly in our sights. Although exchange rates have had some impact, our efforts to expand into new regions and achieve qualitative changes have been fruitful. The recent consolidation of Azbil Telstar and its subsidiaries is also a major factor behind this success.

Concerning expanding into new regions, we have continued establishing overseas affiliates while adding and strengthening functions—including development,

production, sales, engineering, and service networks—tailored to the attributes of each region’s industries and customers.

As for qualitative change, we are shifting from a business centered on equipment sales and sales to Japanese companies to a model based on solution sales and sales to local companies.

These initiatives aimed at regional expansion and qualitative changes have been successful. Our Building Automation business, for example, posted an increase in orders received for landmark projects, such as international airports, shopping malls, universities, and

## Interview with the CEO

other large facilities in China and other Asian countries. Building on these results, we will work to attract more landmark projects, which will lead to the expansion of our life cycle business entailing its related services.

As for our Advanced Automation business, the control valve business requires ongoing solutions throughout the life cycle of equipment, from selection and installation to operation and maintenance. We have expanded our value maintenance centers and other infrastructure mainly in Asia and the Middle East. We have also advanced our solution-based business offerings, which include maintenance of valves made by other

manufacturers. In the United States and Europe, the Group has strengthened its local design and development functions. Thanks to the adoption of instrumentation solutions aimed at semiconductor manufacturers, revenues have grown considerably in these regions.

In the Life Automation business, meanwhile, Azbil Telstar came under the Group and is spearheading qualitative changes in the new field of Life Science Engineering (LSE). We have also expanded global operations to include the whole of Europe, as well as Central and South America.

### Q5

#### What are your views on capital participation in Azbil Telstar and the positioning of the Life Automation business?

The addition of Azbil Telstar to the azbil Group has greatly contributed to the new development of the Life Automation business, one of the three pillars supporting our creation of a stable business portfolio.

For more than 100 years, the azbil Group has operated mainly in the two pillars of Building Automation (BA) business and Advanced Automation (AA) business, targeting mainly building companies and industry. Since 2006, we have worked hard to foster the Life Automation (LA) business as a third business pillar from the standpoint of establishing a Group business portfolio and achieving continuous growth.

Our plans for the LA business are to deliver solutions based on automation technologies in the fields of lifeline and community living facilities, residential central air-conditioning systems, nursing care, health and welfare, pharmaceutical, and medical care. These areas are less susceptible to economic fluctuations than the BA and AA businesses. In January 2013, we acquired a stake in Telstar, S.A. to help launch our Life Science Engineering business in the pharmaceutical and medical fields. The Spain-based company, now a subsidiary

named Azbil Telstar, S.L., develops, manufactures, and sells manufacturing and environmental equipment to pharmaceutical plants, research centers, and hospitals. Considerable synergistic effects are expected as a result of this recent investment. On the product and equipment side, we look forward to integration with the Group's automation technologies, and in sales and services we anticipate expansion of our customer base and global reach.

With the inclusion of Azbil Telstar into the Group, our LA business sales amounted to ¥49.6 billion for the year ended March 2014. We intend to take good care of this new growth business. After excluding goodwill amortization costs associated with the consolidation of Azbil Telstar, this business achieved positive operating income for the year. Indeed, we took a step forward in enhancing in the portfolio of our three core businesses.

# Q6

## As a “corporate organization that never stops learning,” please tell us about efforts to establish a base for rolling out solutions on a global scale, including Japan.

We are optimizing our development and production structures and fostering the human resources needed for growth in Japan and overseas.

For more detailed information, see “Strength to Support Value Creation” on pages 38-46.

Becoming a “corporate organization that never stops learning” is an initiative to help us strengthen the corporation—through reforms to business and operational structures—in an autonomous way. This initiative focuses on three key areas: structural reform of global production and development, structural reform of engineering and the service business, and human resource reform.

I previously talked about adapting flexibly to changing business conditions in Japan. At the same time, an important challenge for a “corporate organization that never stops learning” is to quickly and effectively establish a presence in new overseas locations. Although the mature domestic market will benefit from economic policies and the like, our forecast is not for a stable trajectory, but a series of peaks and troughs. Consequently, the effective distribution of management resources is an important issue. Overseas, we urgently need to establish a human resource system and foster leaders, which is necessary to accelerate global expansion.

Amid this situation, with respect to structural reform of global production and development, we are reorganizing the Group’s global production system. In February 2013, we established Azbil Production (Thailand) Co., Ltd. As a result, we now have a three-pronged production structure with activities in Japan, China, and Thailand. To address local customer needs according to regional attributes, we also built a new factory to produce valves and other products and provide maintenance services for valves for our customers in the Middle East.

The azbil Group has also made huge strides in creating a global development structure. In February 2014, we established Azbil North America Research and Development, Inc., with the aim of reinforcing the Group’s strengths in basic technology and applying cutting-edge technologies to its products. This complements our existing development network with operations in Europe, the United States, Asia, and Japan. These operations develop

and customize products for advanced equipment manufacturers while working in collaboration with the Group’s development centers in Japan.

Through structural reform of engineering and the service business, we have established a service infrastructure providing advanced remote maintenance in Japan and overseas which is based on the databases we have amassed through extensive domestic experience and networks that are connected directly to customers’ buildings.

As for human resource reform, the Azbil Academy, established in 2012, plays a key role in the optimal placement of personnel, preparing them for different jobs as necessary, fostering global human resources and personnel capable of providing solutions, improving the skills of local employees, and helping employees obtain various qualifications needed for business expansion. This initiative steadily advanced optimal placement of human resources and contributed to enhancing employees’ skills.



# Q7

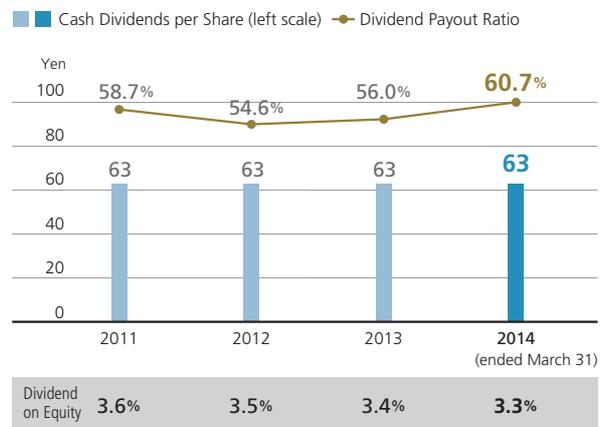
## The Company has maintained high share dividends. Please outline your shareholder return policy and financial strategy.

Our policy is to continue making solid returns to shareholders while ensuring a sound financial structure.

To achieve sustainable growth and enhance corporate value, the azbil Group positions a sound financial policy and returns to shareholders as key management priorities. Our basic policy is to maintain stable dividends using the dividend on equity (DOE) ratio as a guide while also taking return on equity (ROE) into account. Under this policy, for the year ended March 2014, we paid annual dividends of ¥63.00 per share, for a dividend payout ratio of 60.7%.

The azbil Group's basic financial policy is to invest in future growth, including M&A activities. It also calls for maintaining a sound financial foundation capable of continuing business and meeting supply obligations as a long-term partner for both the customer and the community, even in the event of unforeseen circumstances.

Under this policy, we will pursue comprehensive measures to improve corporate value.



# Q8

## The concept of corporate value as a combination of financial data and information on the value a company provides to society is growing in popularity. What is the azbil Group's thinking on CSR management?

We would like stakeholders to evaluate azbil's corporate value from a comprehensive perspective. With this objective, we are further carrying out business operations with CSR at the core of management.

[For more detailed information, see "CSR Management" on page 57.](#)

The azbil Group practices CSR management that benefits society based on business activities embodying its corporate philosophy of "human-centered automation." With regard to realizing a sustainable society, we believe there will be increasing scope for deployment of automation technologies, given the growing need for global environmental preservation, energy efficiency, safety, and peace of mind.

The azbil Group pursues CSR from two dimensions: basic CSR, covering governance, compliance, and other aspects that constitute a company; and proactive CSR,

which leverages a company's business strengths to benefit society. We constantly strive to improve basic CSR, and have established targets to this end in the medium-term plan. In the year ending March 2015, we appointed three outside directors to boost oversight provided from neutral perspectives. We also endeavor to enhance corporate value by building a governance structure that ensures even higher levels of management fairness and transparency. A typical example of proactive CSR is leveraging the Group's products, technologies, and service-based solutions—its primary business—to make a

significant contribution to CO<sub>2</sub> emission reductions at its customers' business operations.

For our achievements, see "Case Study of Value Creation—4. Environment" on page 37.

We recognize our responsibilities to all stakeholders—including shareholders, customers, employees, and society—and strive to enhance our relationships with them. Although evaluations may vary depending on the type of stakeholder, the azbil Group itself has only one corporate value. Based on this belief, for some time we have practiced CSR management and distributed related information so that stakeholders can assess other forms of value besides financial information, and evaluate azbil's corporate value from a comprehensive perspective, which includes capital. From this perspective, I feel that the Group's CSR management reflects the recent global trend of producing integrated reports as a new form of corporate evaluation.

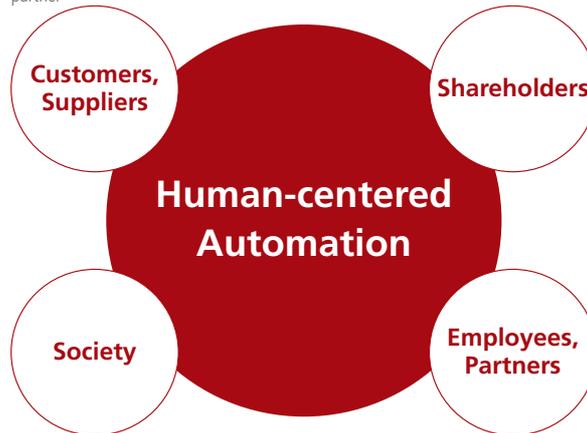
I believe that business operations with CSR at the core of management will become increasingly important as the azbil Group expands the global reach of its activities.

## CSR Management

Presenting all stakeholders with the "human-centered" azbil Group

Enhancing the value offered to customers  
Customer's life cycle partner

Shareholder-oriented management and sound governance



Contributing to employment, etc., as a member of the local community  
Contributing globally to the environment and safety through our core businesses

Providing opportunities for creative activities and growth through putting the Group philosophy into action

- Strive to reduce CO<sub>2</sub> emissions and save resources at Group facilities while facilitating customers' efforts to do the same; promote global environmental preservation
- Implement thorough risk management and cultivate a climate of high compliance
- Strengthen governance among Group companies in Japan and abroad through the adoption of appropriate internal controls, accounting practices, etc.
- Establish a healthy financial base and corporate governance

## Q9

### What are your thoughts concerning the year ending March 2015, the midway point of the medium-term plan?

I would like to see a huge leap forward as we build on the successes of the year ended March 2014.

The year ending March 2015 marks the midway point of the current medium-term plan, which emphasizes the delivery of value in a new dimension globally. As I explained earlier, we have achieved steady progress with reforms to the Building Automation business and Advanced Automation business with a view of increasing overseas sales to the equivalent of 20% of net sales being in our sights. Through the addition of Life Science Engineering (LSE) to the Life Automation business, we have prepared the foundation for a third core business in terms of scale.

For the year ending March 2015, we are targeting consolidated net sales of ¥260.0 billion, up 4.7% year on year, and operating income of ¥15.5 billion, up 11.5%. In addition to steadily improving our financial performance, it is an important year from the perspectives of business reforms and strengthening the corporate structure. We expect to take a huge leap forward towards fulfilling our medium-term plan and long-term goals, thereby meeting the expectations of shareholders, customers, and all other stakeholders.

# Creating Value in New Fields Centered on Automation

A key initiative of the azbil Group's medium-term plan is to become a long-term partner for both the customer and the community by offering solutions based on azbil technologies and products. Our aim is to realize sustainable growth by achieving this initiative on a global scale. Accordingly, we are building global structures for all aspects of business, from planning and development to production, consulting, sales, engineering, construction, and services. With these structures in place and leveraging the azbil Group's distinctive integrated strengths, we are working hard to open up new fields of business centered on automation.



## 1 Global Energy-saving Solutions for Buildings

## 2 Unique Approach to New Challenges in the Processing and Assembly Industries



## 3 Leveraging Synergies to Develop New Business in the Healthcare Market

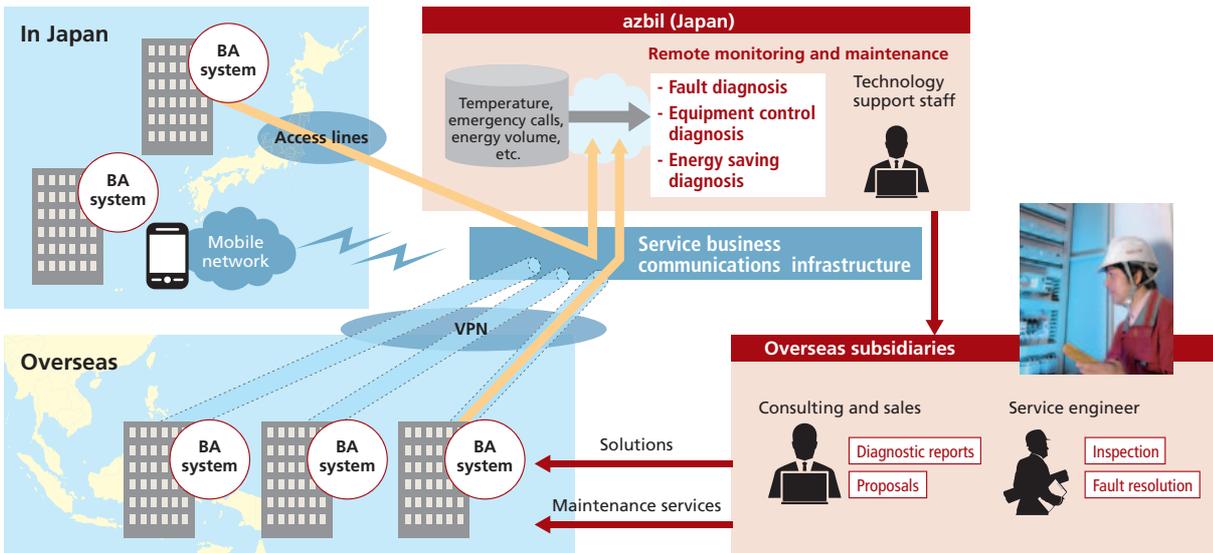


### Embracing Market Changes as Business Opportunities

Investment is recovering in Japan's construction market owing to the government's "Abenomics" economic policies and the decision to hold the 2020 Summer Olympics in Tokyo. The recovery is evident not only in new construction, but also in the existing building sector. Demand for building renovation, including energy-saving solutions, is strengthening due to a number of factors, such as rising energy costs. At manufacturing sites both in Japan and overseas, an endless variety of problems are arising as manufacturers seek to keep pace with a rapidly changing operating environment. The pharmaceutical production industry is making aggressive investments in plants and equipment. Contributing factors include market growth in emerging countries and the introduction of high-value-added products, such as biopharmaceuticals and anti-cancer agents.

This special feature introduces specific initiatives taken by the azbil Group as it works to seize various business opportunities.

## Remote Maintenance Services Platform



# 1 Global Energy-saving Solutions for Buildings

Deploying the azbil Group’s ability to provide integrated solutions—encompassing product development, engineering, construction, and services—we globally deliver advanced, energy-saving solutions tailored to each building’s life cycle.

### Expanding Our Service Platform in Japan and Overseas

We are a pioneer in the field of the automated control of HVAC equipment in large buildings in Japan, and our Building Automation business holds a large share of the market. The azbil Group has delivered integrated solutions, ranging from design and construction to maintenance and upgrades. We have acquired a massive amount of data on building operation from maintenances of the projects we completed throughout the country. Our 400 energy diagnosis experts leverage this data and know-how to meet customers’ requests for advanced energy savings day and night.

Our advanced energy management solutions, which the azbil Group provides overseas as well, are beginning to receive high praise, attracting an increasing number of orders centering on landmark projects.

In the year ending March 2015, for example, Azbil (Thailand) Co., Ltd. was commissioned to undertake an ESCO\* project by Amarin Plaza. The large mall’s tenants include more than 300 retail stores and 30 company offices. The aim of the project is to reduce energy consumption throughout the entire mall by roughly 4% (450 thousand kilowatt hours) annually without a large-scale equipment upgrade. Converted to annual CO<sub>2</sub> emissions, this reduction is equivalent to a 240-ton decrease in greenhouse gas emissions.

The segment has a proven track record in implementing energy conservation measures thanks to the azbil Group’s distinctive strengths, ranging from initial measurement to final construction. Today, maintenance services and the replacement of devices and systems associated with a building’s life cycle account for 70% of the segment’s sales. In Japan’s mature construction market, the business is establishing a stable earnings base by

providing services to buildings it has earlier supplied with products or solutions.

\* ESCO (Energy Service Company): A comprehensive energy conservation business that includes diagnosis, solutions, and fund procurement through to energy-saving guarantees.

### Delivering Japanese Quality, Energy-saving Support Services to Overseas Customers

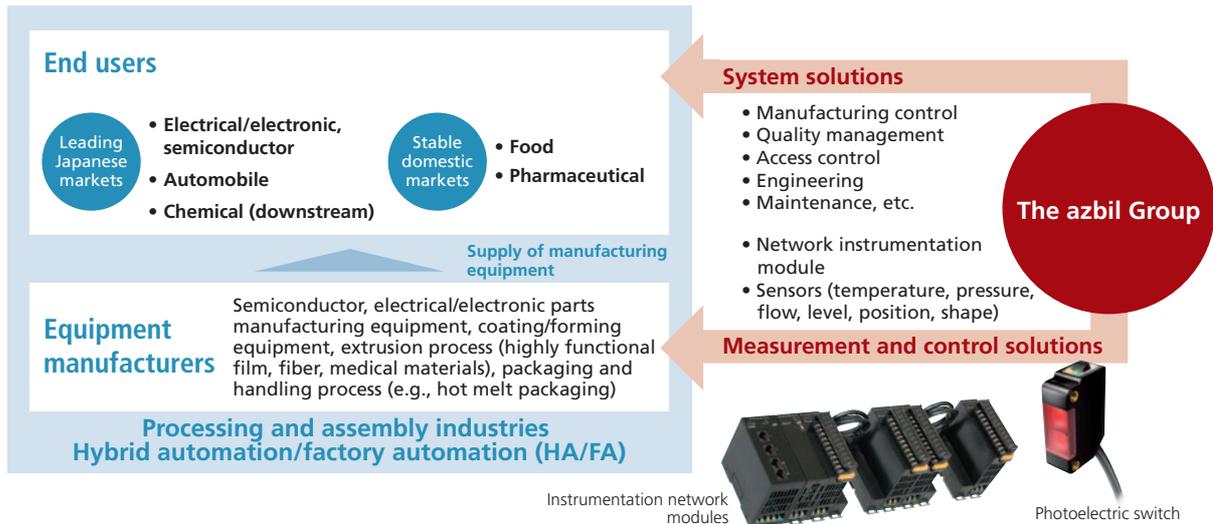
The azbil Group focuses on reinforcing maintenance services and energy-saving solutions overseas, as it does in Japan, in order to build an earnings base from projects it has completed in the past. As part of this strategy, we have expanded infrastructure for remote maintenance services, which connect us via networks to 1,900 properties in Japan. As a result, we have created a framework enabling us to connect with the building automation systems of overseas properties.

Leveraging this infrastructure allows engineers in Japan with advanced diagnostic know-how to provide technology support and data analysis remotely to buildings overseas. Coordination between service infrastructure in Japan and staff in overseas subsidiaries creates a framework enabling the Group to provide customers outside Japan with energy conservation upgrade solutions. The quality of these solutions is similar to the highest standards offered by the azbil Group in the domestic market.

We have already begun this service in Thailand and plan to progressively expand this business to other countries in Southeast Asia.

# Special Feature

## Deploying Multilateral Customer-contact Points to Deliver Next-generation Solutions



## 2 Unique Approach to New Challenges in the Processing and Assembly Industries

The azbil Group delivers next-generation solutions that employ advanced control technologies to solve new problems faced by the processing and assembly industries. The solutions draw on the Group's expert knowledge on end users' production sites and manufacturing equipment.

### Two-pronged Approach Based on Equipment Manufacturers and End Users' Production Sites

Although Japan's economy is recovering on the back of "Abenomics" economic policies, domestic capital investment varies from industry to industry. Whereas there are mature markets in which investment focuses on upgrades and safety, there are also markets undergoing aggressive investments. In this second type of market, investments are being made to address new emerging problems requiring solutions to changing needs and operating environments. Industries requiring next-generation solutions are innovation-driven sectors in which Japanese companies are technology leaders, such as the electrical/electronics and semiconductor industries, and the chemical industry, which produces highly functional materials. Solutions are also required by domestic demand-driven industries, such as food and pharmaceuticals, which must meet quality, safety, and security requirements and stricter regulations. We are striving to develop business in the processing and assembly sector (also defined as Hybrid Automation and Factory Automation, or HA/FA). With expertise in manufacturing equipment at end users' sites, we help solve problems by leveraging our capabilities that cover the entire life cycle of manufacturing sites, from engineering to maintenance. We assist equipment manufacturers by providing them with feedback on problems and needs at end users' factories and their equipment development requirements, as well as engineering services. Taking advantage of these strong contacts with both end users and equipment manufacturers, the azbil Group will tap new markets by further reinforcing its lineup of products to solve future problems. In this way, we will harness our distinctive strengths with the aim of generating sustainable growth.

### Using Advanced Network Instrumentation to Solve Difficult Problems at Manufacturing Sites

The azbil Group's instrumentation network module is equipped with advanced control technology and network functions. The solution's many applications include an extrusion molding machine, or extruder.

An extruder is a processing machine that heats and melts plastic materials, then extrudes and forms the melted plastic into a product. Extruders are widely used in the finishing processes of complicated sectional shapes. They are employed in the high-precision machining process for highly functional films, optical fibers, medical tubes, and ultrathin electric wire sheaths. This process requires advanced heating and cooling control to eliminate temperature fluctuations in the extruded resin.

This product has a proven track record in providing high-level control. It is equipped with temperature control algorithms and can also be connected to multiple distributed pieces of equipment and systems, while extra modules can be added as needed. Furthermore, the control parameters acquired from each piece of manufacturing equipment and operational data can be set and adjusted together via a network, or reused. Thanks to these features, the module provides support for getting a new manufacturing facility up and running, including those located overseas, in a short time and at a low cost.



Containment barrier system



Lyophilizer

### 3 Leveraging Synergies to Develop New Business in the Healthcare Market

The azbil Group is developing Life Science Engineering as a new business field. By leveraging synergies with Azbil Telstar, we will deliver next-generation manufacturing equipment and environments inspired by automation for facilities engaged in the development and manufacture of pharmaceuticals.

#### Maximizing Synergies with Azbil Telstar

In January 2013, Azbil Corporation acquired an 80% stake in the Spain-based company Telstar, S.A. Now known as Azbil Telstar, S.L., the company provides a full spectrum of products and services for pharmaceutical formulation plants. They range from the development, manufacture, sales, and servicing of equipment—including lyophilizers, sterilization equipment, and barrier systems—to the design, engineering, and construction of clean rooms, as well as consulting on manufacturing and quality control standards (GMP).

The mutually complementary strengths of Azbil Telstar and the azbil Group provide significant synergies with potential for business expansion. For example, Azbil Telstar's strengths in downstream formulation processes (manufacturing equipment) complement the azbil Group's strengths in the upstream processes of monitoring and controlling the manufacture of active pharmaceutical ingredients. Also, Azbil Telstar has proven experience in the construction of clean rooms in pharmaceutical facilities, which complements the azbil Group's expertise in the HVAC and control of clean rooms.

Azbil Telstar's global business operations encompass 16 countries, including Spain and other Western European nations, Eastern Europe, and Latin America, while the azbil Group is accelerating business expansion into Asian countries from its base in Japan. Therefore, there is the potential for an optimal mutually complementary relationship in the areas of sales and service networks and facilities.

#### Leveraging Synergies to Expand Business in Asia

In March 2014, Azbil Telstar established a joint venture company in Bangladesh with local partner SAKA International Ltd. Azbil Telstar has a 65% stake in the new subsidiary, called Azbil Telstar Bangladesh Ltd.

The partnership between Azbil Telstar and SAKA International,

going back 10 years, has supported the development of the pharmaceutical industry and local communities in Bangladesh. Collaboration over this period has enabled Azbil Telstar to forge strong relationships with major pharmaceutical companies in the country, as well as industry organizations and related government agencies. As a result, the Azbil Telstar brand has become well recognized and trusted in the local market. The Bangladesh pharmaceutical industry has achieved remarkable growth over the last several years, and is now the country's second largest export industry behind garment manufacturing. Today, the industry exports pharmaceuticals to around 80 countries in Africa, the Middle East, and Europe.

In Southeast Asia, Azbil Telstar and other local subsidiaries have been tasked with strengthening cooperation by allocating the staff in charge of this business field in order to expand the Life Science Engineering business in the region. In Japan, Azbil Telstar and the azbil Group will also reinforce solutions for projects involving the transfer of Japanese-owned manufacturing plants overseas through collaboration with domestic azbil Group companies. For these projects, we will also draw on technologies and know-how amassed in Japan from optimizing HVAC and production lines, improving energy conservation, and installing environmental controls in factories.

For the year ended March 31, 2014, sales in the Life Science Engineering business amounted to ¥15.7 billion, accounting for roughly 30% of total sales in the Life Automation business segment. Going forward, we will build a unique new business model by blending Azbil Telstar's expertise in manufacturing processes and equipment technologies with the azbil Group's automation technologies. Under this model, we will strive to broaden our presence in the global pharmaceutical market, and expand business in the fields of biopharmaceuticals, personalized medicine, regenerative medicine, and functional foods.

# Building Automation (BA) Business

**While Aiming to Steadily Capture Business Opportunities with Growing Demand, We Will Expand in the Advanced Energy Conservation and Service Fields Both in Japan and Overseas.**



**Keiichi Fuwa**  
Executive Director  
Managing Executive Officer  
President of Building Systems Company  
Azbil Corporation

### Operating Environment

During the year ended March 2014, Japan's economy showed a modest recovery from the beginning of the period against a backdrop of government economic policies and monetary easing by the Bank of Japan. The improving domestic economy, coupled with the effects of electricity rate rises accompanying soaring fuel costs, has increased business opportunities for the Building Automation business. In addition to renovation of existing buildings, there is a growing market for advanced energy solutions that deliver both comfort and energy savings. Following the decision to award the 2020 Summer Olympics to Tokyo, we are seeing a rejuvenation of construction investments, including the flow-on effect of investments in Olympics and peripheral facilities.

Overseas, we see firm demand emerging for energy-saving

solutions—one of the azbil Group's key areas of expertise—thanks to buoyant markets in Southeast Asia.

### Review for the Year Ended March 31, 2014

The segment posted a year-on-year increase in sales, thanks to higher revenues in overseas markets, which compensated for a slight decrease in domestic sales. Domestic sales in the service sector had a solid increase, which was derived from our proven track record accumulated over the years. Amid increasing investment in energy management aimed at reducing electricity and energy consumption, the azbil Group offered solutions that leveraged its strengths in the long-term accumulation of field data and project execution. As a result, the segment posted higher revenues from projects for existing buildings. However, total domestic sales decreased slightly due to the timing for booking sales from large-scale redevelopment projects in the new building sector.

Overseas, we focused on tapping demand for local projects, which contributed to sales growth in Singapore, Indonesia, Vietnam, and Taiwan. In China, our performance benefited from increased sales by existing local subsidiaries, as well as the full-year contribution of Beijing YTYH Intelli-Technology Co., Ltd.\*, which became a consolidated subsidiary during the previous fiscal year.

\* Beijing-based firm that undertakes construction and engineering works of light electrical facilities for buildings

### Outlook

In the mature Japanese market, the provision of services related to the life cycle of buildings, where the azbil Group has a proven track record, is generating an increasing proportion of sales. However, new demand is also emerging for redevelopment projects in the Tokyo metropolitan area, as well as for the construction of facilities

## Case Studies (1) Property name (2) Client name



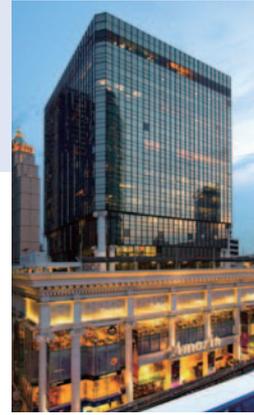
(1) Yellow Building, Tokyo Dome City  
(2) Tokyo Dome Corporation

In this building, we placed top priority on using energy-efficient equipment to comply with environmental laws or regulations. This led to lower peak electricity and heat usage and a reduction in basic contract rates.



(1) Shin-Sapporo ARC City  
(2) Sapporo Sub-center Development Public Corporation

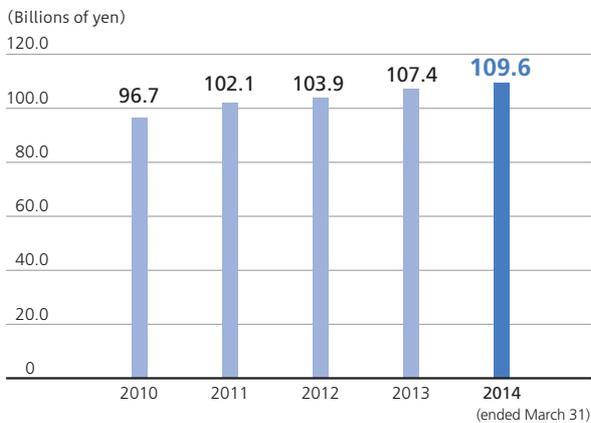
The total area of this commercial complex is around 171,000 m<sup>2</sup>, making it one of the largest ESCO\* projects in the country. The adoption of a broad range of measures contributed to a greater reduction in energy costs than initially estimated.  
\* Energy Service Company



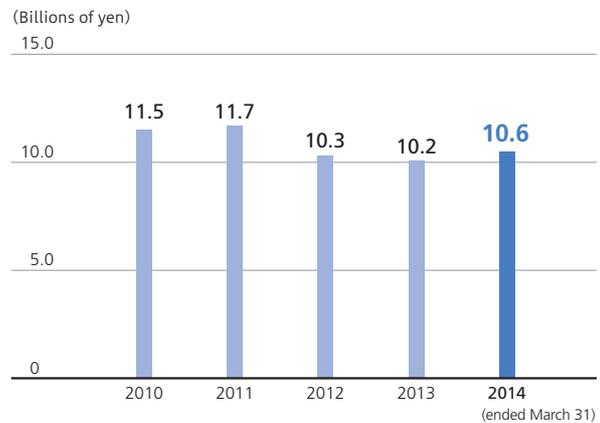
(1) Amarin Plaza (Thailand)  
(2) Amarin Ratchaprasong Co., Ltd.

In this large complex, we supplied a Building Energy Management System to manage the operation of facilities and equipment, which contributed to visualization of energy use, reduced power consumption, and lower human workloads.

### Sales



### Segment Profit (Operating Income)



For the year ended March 2014, the Building Automation business reported a 2.0% year-on-year increase in sales, to ¥109.6 billion. Contributing to this result were healthy sales to the existing building and service fields in Japan, as well as growth of our overseas business. Despite an increase in costs, we improved profitability through reduced construction site costs and robust project management. These efforts led to a 4.3% rise in segment profit (operating income), to ¥10.6 billion.

associated with the 2020 Tokyo Summer Olympics.

Amid such circumstances, the azbil Group plans to continue improving profitability by reducing costs at construction sites and enhancing project management. At the same time, we have established a framework enabling us to respond flexibly to this new demand, which leads to capturing new business opportunities. To meet rising demand for solutions that reduce the energy and operational costs of existing buildings, we will offer state-of-the-art renovation proposals that cover all aspects, including heat source. We will also deliver unique solutions tailored to a building's life cycle that leverage our maintenance service capabilities. In addition, we will enhance our lineup of high-value-added, knowledge-intensive services, including remote maintenance, while offering customers a range of service options tailored to their specific needs.

Overseas, we will focus on emerging markets in Asia, where economic growth is spurring activity in construction investments. By leveraging the azbil Group's strengths in energy-saving know-how amassed in Japan, we will strive to attract orders for landmark projects, including district heating and cooling projects. We will utilize the network base, established during the year ended March 2014, to progressively roll out high-value-added services similar to those we provide in Japan, including remote maintenance.

Going forward, we will harness our strengths as a manufacturer to continue expanding the business unique to azbil. In addition to supplying products, we will offer engineering/construction and other services underpinned by an in-depth understanding of products and technologies as well as solutions, including through tie-ups with other companies' products.

# Advanced Automation (AA) Business

**We Will Steadily Advance Business Structure Reform in Japan and Accelerate Global Business Development Based on the Business Structure Built up over the Years.**



**Masato Iwasaki**

Executive Director  
Managing Executive Officer  
President of Advanced Automation Company  
Azbil Corporation

### Operating Environment

The year ended March 2014 saw a strengthening of the performance recovery trend among Japanese companies, mainly in export-related businesses, due largely to the stabilization of the yen at a low level. However, the cautious domestic approach to capital investment remained largely unchanged, while manufacturing industries accelerated their shift to overseas production. Meanwhile, new demand is emerging in the energy and safety fields, as well as for highly functional materials and high-value-added equipment and facilities. Conditions prompting investment in energy efficiency—one of the azbil Group's strengths—remained in place amid a low yen, high crude oil prices, and rising electricity charges.

In overseas markets, we noted increased business opportunities related to factory and plant construction in emerging countries. We also saw stronger demand for sophisticated management and control solutions among

advanced equipment manufacturers.

### Review for the Year Ended March 31, 2014

Although domestic sales in the business fell slightly, overseas sales were up, resulting in a year-on-year increase in overall segment sales.

In Japan, demand has recovered in the market for equipment manufacturers, such as for industrial furnaces. In addition, business development has progressed, offering new products and solutions to companies in the food, pharmaceutical, and automobile markets. This has led to increased sales of control products to equipment manufacturers. Capital investment and replacement demand in liquefied natural gas (LNG) and other energy markets and for the stable operation of plants also remained firm. However, overall domestic sales decreased slightly. This was due to a decline in new capital investment in the previously healthy chemical industry, which resulted in lower sales of field instruments, control valves, and system products for plants.

Overseas, we reported increased sales of control products for equipment manufacturers in Europe, the United States, China, and South Korea. We also benefited from the consolidation of Azbil VorTek, LLC—which develops, manufactures, and sells flowmeters—as well as strong sales of field instruments and control valves to plants in Asia. Overall overseas sales increased as a consequence.

### Outlook

In Japan, we expect continued increases in demand for control products among equipment manufacturers. We also anticipate solid capital investment in services to ensure safety at plants. In addition to exploiting these changes in demand, we will accelerate the restructuring of the business in order to align it with the market's changing structure and surely capture new needs. For example, we

## Case Studies (1) Client name (2) Market



(1) Kanto Glico Co., Ltd. (Kitamoto Factory)  
(2) Food

In addition to enhancing production quality and safety through delivery of a food traceability system and a room access control system, we employed our energy management system to support Kanto Glico's environmental protection initiatives.



(1) Nippon A&L Inc. (Ehime Plant)  
(2) Chemicals

Here, we provided comprehensive consulting services covering chemical plant operational control and management in order to identify problems at each manufacturing site. The resulting change in employee awareness, control reforms, and alarm management led to reforms of production processes.

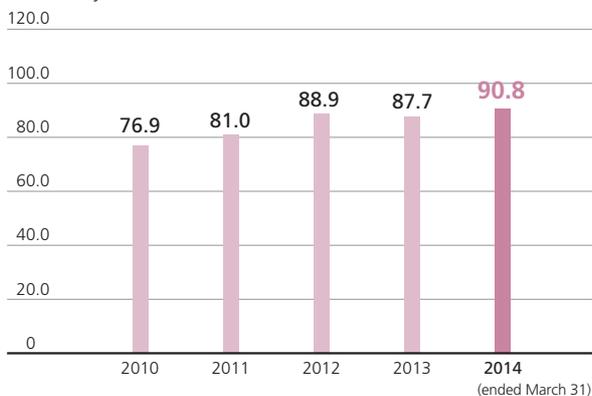


(1) Muroan Institute of Technology  
(2) Educational Institute

By offering real-time "visualization" of electricity consumption across the entire campus, we helped foster energy-saving awareness among teaching staff and students. We also provided a framework enabling autonomous energy-saving initiatives.

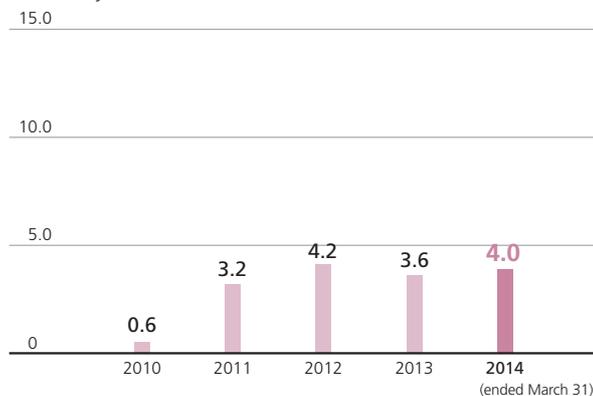
### Sales

(Billions of yen)



### Segment Profit (Operating Income)

(Billions of yen)



For the year ended March 2014, the Advanced Automation business recorded a 3.6% increase in sales, to ¥90.8 billion, thanks to healthy demand among domestic and overseas equipment manufacturers. Despite higher costs, segment profit (operating income) rose 8.8%, to ¥4.0 billion, on the back of increased revenues and an improved cost-of-sales ratio.

will tap into the cutting-edge semiconductor, electrical/electronics, highly functional materials, food, and pharmaceutical markets, where Japan's manufacturing industries excel. We will also develop new business in the processing and assembly sector (also defined as Hybrid Automation and Factory Automation, or HA/FA), where domestic demand is expected to remain steady. In addition, we plan to expand our presence in energy infrastructure, including LNG facilities.

Overseas, the azbil Group will step up the pace of business expansion in Europe, the United States, and Asia, including China, as well as the Middle East. In the autumn of 2014, we will begin operation at a factory in Saudi Arabia that will manufacture valves and perform maintenance services. This factory, together with our valve maintenance centers in various Asian countries, will form a network that will service valves made by other

manufacturers as well. We plan to expand our solution-based valve maintenance business by offering preventive maintenance and other high-value-added services.

The shale gas revolution in the United States presents excellent business opportunities. Working closely with U.S.-based Group companies, we will provide comprehensive support services, encompassing LNG shipments and deliveries and supply, based on the azbil Group's solutions expertise. In Europe and the United States, where there are many leading equipment manufacturers, we will boost customized design and development for customers of our overseas subsidiaries. Deploying a collaborative structure with our Japan-based operations, we will work hard to win global customers.

Going forward, we will continue driving business expansion into new fields in response to structural changes in Japanese and foreign industries.

# Life Automation (LA) Business

**We Will Expand Globally in the Life Science Engineering (LSE) Field, While Building up the Foundation and Reinforcing the Structure of the Life Automation Business So That It Contributes to Living with Peace of Mind and in Comfort.**



**Kanichiro Shimoda**  
President  
Azbil Kimmon Co., Ltd.



**Ton Capella**  
President and CEO  
Azbil Telstar, S.L.



**Ichio Kunii**  
Managing Executive Officer  
General Manager of Home  
Comfort Headquarters  
Azbil Corporation  
President  
Azbil Care & Support Co., Ltd.

markets of emerging countries that present opportunities for business expansion.

The health, welfare, and nursing care field (Azbil Care & Support Co., Ltd.) is impacted by reductions in the welfare budgets of local government agencies. Nevertheless, this sector has huge growth potential associated with the changing structure of Japanese society with its aging population. As of March 31, 2014, our emergency alert response service for the elderly had more than 67,000 customers, making us the largest provider of such services in Japan based on the number of contracts with local governments.

In the residential central air-conditioning system field (Azbil Corporation), there is growing demand for healthy and comfortable living spaces. Against this backdrop, the custom home market has maintained firm growth. We expect business growth in this market as the percentage of homes with central air-conditioning systems increases.

### Operating Environment

The Life Automation (LA) business consists of multiple activities related to lifeline infrastructure, Life Science Engineering (LSE), and community living.

The gas and water meter field (Azbil Kimmon Co., Ltd.) accounts for the bulk of LA business sales. While this business meets cyclical replacement demand for meters as required by law, there are opportunities for expansion into the energy supply line field in activities ranging from production to delivery.

The LSE business (Azbil Telstar, S.L.) provides an extensive range of services for the pharmaceutical industry, from development, manufacture, engineering, and marketing of production line equipment to maintenance services and regulatory-related consulting. Although competition in some fields is getting more intense, we expect steady growth to continue in the pharmaceutical

### Review for the Year Ended March 31, 2014

In the gas and water meter field, sales declined amid falling revenues from gas meters stemming mainly from the impact of the demand cycle. However, owing to improved profitability in water meters and initiatives aimed at carving out new markets, segment profit (operating income) improved as a result.

Sales in the LSE field grew considerably. This was largely due to strong overseas pharmaceutical markets and the inclusion of Azbil Telstar and its subsidiaries in the scope of consolidation.

In the health, welfare, and nursing care field, sales increased as we proactively increased the number of care centers and promoted new comprehensive services, such as scheduled home visits.

Sales of residential central air-conditioning systems

## Case Studies (1) Client name (2) Products/Services



**(1) Yamagataya Ryokan Ltd.**  
**(2) Energy-saving Services**

Drawing on a solid maintenance track record following the installation of a gas heat pump system, we made recommendations that led to energy savings and lower costs.



**(1) Y's residence**  
**(2) Residential Central Air-conditioning Systems**

In this project, we replaced a central air-conditioning system that had been in use for more than 10 years, enabling the owner to continue living in comfort and to lower costs.

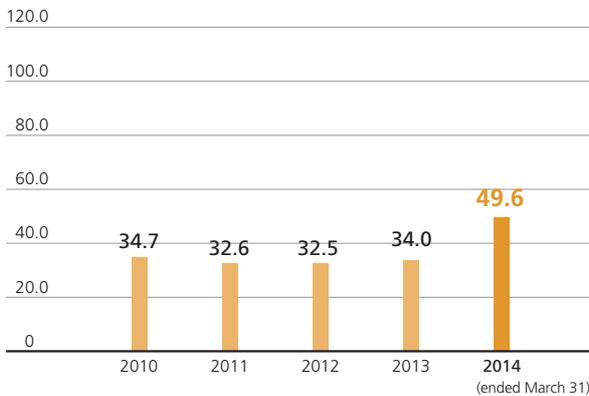


**(1) Ota-ku, Tokyo**  
**(2) Scheduled Visit and On-demand In-home Nursing Care Services**

Here, we are aiming to create an "integrated community care system" that supports elderly people to retain their preferred lifestyle while remaining in their accustomed neighborhood.

### Sales

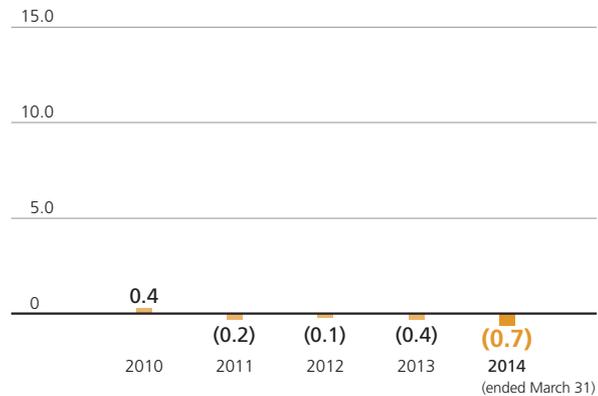
(Billions of yen)



In the year under review, sales in the Life Automation business amounted to ¥49.6 billion, up 45.9% from the previous year. This was attributable to the inclusion of Azbil Telstar and its subsidiaries in the scope of consolidation. Despite improved profitability in the gas and water meter field, we reported a segment loss of ¥0.7 billion, from ¥0.4 billion in the previous year. This was due to costs associated with reinforcing and expanding our business foundation and the effect of consolidation, including an increase in amortization of goodwill.

### Segment Profit (Operating Income)

(Billions of yen)



increased owing to ongoing reinforcement of our sales and development structures from the previous year, as well as aggressive sales initiatives targeting both home builders and owners.

### Outlook

The business will generate stable earnings in existing businesses by reinforcing business structures while cultivating and expanding in new business domains.

We will continue strengthening the business structure in the gas and water meter field, including by reducing production costs. In addition to expanding sales of meters centering on statutory replacement demand, we will broaden the maintenance business and expedite the solution business for energy supply lines based on the development and introduction of high-value-added products.

In the LSE field, we will reinforce our business

foundation and advance our activities on a global scale. Measures will include joint development of products with Azbil Telstar, and deploying the azbil Group's sales network to boost sales in Asia.

In health, welfare, and nursing care, we will adopt a two-pronged approach centering on the provision of personal services and products. Here, we will move into fields where new demand is evolving, such as housing for the elderly and providing scheduled visits and on-demand in-home nursing care services.

In the field of residential central air-conditioning systems, we will broaden our business by leveraging new products while drawing on the success of marketing measures adopted through the previous fiscal year. At the same time, we will strive to expand replacement and service activities.

# Case Study of Value Creation

Provided through “Human-centered Automation”

## Case Studies of Four Core Values

### 1. Safety × Advanced Automation Business

To live and work in good health and in safety

**Safety case study:** Ichihara Factory, JNC Petrochemical Corporation

#### Intelligent Earthquake Emergency Shutdown System Reinforces the Safety of the Factory and the Local Community.

JNC Petrochemical Corporation's Ichihara Factory is located in the Keiyo Industrial Complex on the shore of Tokyo Bay. In addition to manufacturing petrochemical products, the factory also produces LCDs and other functional materials. Guided by the policy of “Safety All the Time,” the Ichihara Factory focuses on preventing and reducing disasters on a daily basis. At the same time, it carries

out exhaustive inspections to detect corrosion in pipes, a cause of on-site accidents. As a result of these efforts, damage to pipes was prevented when the Great East Japan Earthquake occurred in March 2011 with lower-5 intensity in Ichihara City, Chiba Prefecture. However, as part of measures aimed at improving disaster prevention, the Ichihara Factory installed the highly reliable Intelligent Earthquake Emergency Shutdown System provided by the azbil Group, which is equipped with the latest functions.



### 2. Comfort × Building Automation Business

To always live and work in comfort

**Comfort case study:** Mandarin Garden, Hoa Phat Group

#### A Large-scale, Multipurpose Building Complex Provides Japanese Quality Comfort by Installing an Advanced, Integrated Management System.

Mandarin Garden, which was constructed by a leading corporate group Hoa Phat in Vietnam, is a multipurpose building complex located in Hanoi. There are 9 high-rise buildings on the premises, each with 2 basement levels and from 21 to 29 above-ground levels. Located in these buildings are residential units, schools, commercial establishments, athletic facilities, and others.

The complex installed the azbil Group's advanced, integrated management system which has already been proven in the Japanese market. This system centrally manages all facilities,

including the parking area. In addition to controlling the air-conditioning, lighting, water supply/drainage treatment, and access control, the system also collects data on elevators, power generators and other equipment in order to create a secure and comfortable indoor environment for users 24 hours a day. And even after system installation, the azbil Group continues to provide operator training and support to ensure that the equipment and systems operate smoothly on a daily basis, thus realizing high-quality, integrated management of this multipurpose building complex.

As a result, Mandarin Garden is recognized as a leading example in Vietnam of a large-scale, multipurpose building complex which balances energy conservation and a secure, comfortable environment.



### 3. Fulfillment × Life Automation Business

To create new value with the customer

**Fulfillment case study:** Otaki Gas Co., Ltd.

#### Automatic Meter Reading Decreases Workloads While Data Visualization Solves Customer's Issue.

Otaki Gas Co., Ltd. supplies gas to around 160 thousand customers in Chiba Prefecture—one of the few regions in Japan where it is possible to produce domestic natural gas. The company's integrated operations range from development and production to sales. In 1999, Otaki Gas introduced a wired load survey system\* for factories, hospitals, and other large customers. At the time, however, automatic meter readings were not possible for various reasons, such as the cost of laying cable. Moreover, the company was overburdened with onsite meter-reading workloads and other tasks at the end of each billing period.

To help solve this problem, Otaki Gas adopted the azbil Group's automatic wireless meter reading load survey system. From a central computer in the company's office building, the system uses a mobile phone network to automatically gather data on gas usage once daily at night-time. The system makes it possible to take meter readings at 24:00 on the last day of each month. Furthermore, the azbil Group and Otaki Gas have worked together to develop a system that delivers detailed monthly reports on gas usage to customers. In addition to alleviating meter-reading workloads, the system also improves the satisfaction of customers who receive this service.

\* Gas and electric companies use load survey systems to remotely monitor meters installed at the facilities of large users via a wired or wireless network.



# 4. Environment

To optimize the management and usage of energy



## Reducing the Environmental Impact of Society through Our Businesses

The azbil Group helps to reduce the environmental impact of society through the products and solutions it provides. For the year ended March 31, 2014, we calculated the effect of our businesses in reducing CO<sub>2</sub> emissions at our customers' sites. The total CO<sub>2</sub> reduction for the year under review comes to 2,810 thousand tons, equivalent to about one 500th of the approximately 1.3 billion tons emitted during the year in Japan.

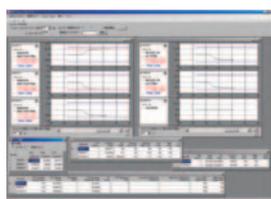
Note: For the calculations, we categorized CO<sub>2</sub> data into three areas—reduction resulting from automation, from energy management, and from maintenance services—and calculated the amount of CO<sub>2</sub> reduction compared with the results if our products and solutions had not been used at our customers' sites.

### Automation

We apply our measurement and control technologies to reduce environmental impact through our Building Automation, Advanced Automation, and Life Automation businesses.



Building Automation System and automated control in new and existing buildings



Advanced control solutions enabling stable and optimal operation of process equipment

CO<sub>2</sub> reduction at customers' sites  
**2,480**  
thousand tons per year

### Energy Management

We contribute to reduced environmental impact through our energy management solutions for power saving, energy conservation, and CO<sub>2</sub> reduction.



ESCO\* and other energy management solutions



Energy management through measures including "energy visualization"

CO<sub>2</sub> reduction at customers' sites  
**260**  
thousand tons per year

### Maintenance and Building Management Services

Leveraging the knowledge and expertise developed at customers' sites in Japan and overseas, we provide unique value-added services that help customers reduce their environmental impact.



Comprehensive building management services



Management of measurement and control instruments and systems in customers' production sites

CO<sub>2</sub> reduction at customers' sites  
**70**  
thousand tons per year

CO<sub>2</sub> reduction at customers' sites

TOTAL **2,810** thousand tons per year

\* ESCO (Energy service company)

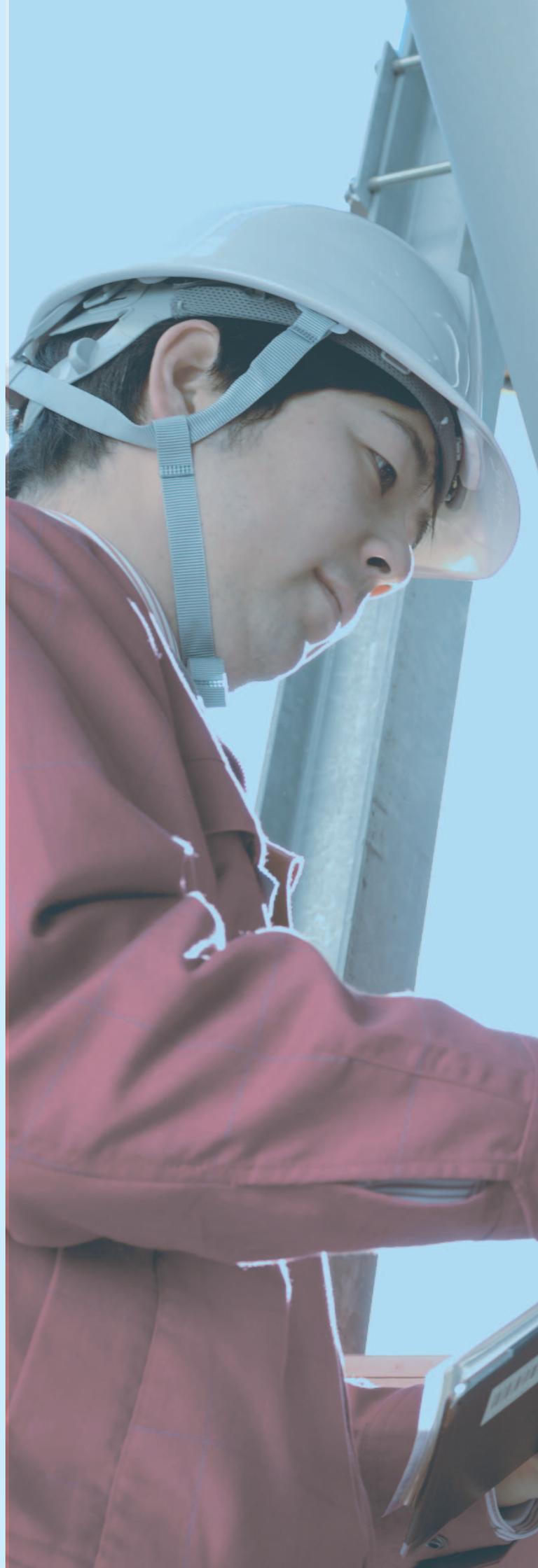
For general information on the method of calculation, please refer to <http://www.azbil.com/csr/eco/es/shakai/index.html>

# Strength to Support Value Creation

By working in partnership with our customers at their sites to create value based on our philosophy of “human-centered automation,” we aim to ensure that we too can grow sustainably.

The previous pages provide an outline of what we have achieved, in which areas of business, and what we intend to do next.

The following pages show how such business development will be supported in the future, so that the azbil Group can continue creating value by providing the kind of automation befitting a long-term partner of the customer and the community. These pages highlight the azbil Group’s unique integrated framework—covering everything from development and manufacturing to engineering construction, and service—as well as the human resource development that underpins the whole.



## The azbil Group Fosters the Growth of Its Business through an Intellectual Property Strategy That Includes a Strong Brand Presence.

In striving for our goal of creating sustainable corporate value, we are deeply aware of the importance of creating, protecting, and exploiting intellectual property, including our brand, in order to maintain our competitive advantage.

### | An Element of Our Management Strategy

Viewing intellectual property as a vital resource for strategic management, we have positioned our intellectual property strategy as a key component in our management strategy. Our Medium-Term Plan highlights next-generation solutions for the indoor spaces of factories, offices, and homes, energy management solutions, and safety and dependability solutions as areas with potential for business growth. We are executing our intellectual property strategy in coordination with the business and R&D strategies resulting from this plan, with a focus on building a patent portfolio that covers major product lines and key technological fields, and on managing risks associated with the intellectual property rights of other companies.

### | Strategy for Acquiring Intellectual Property Rights

The azbil Group's Technology Committee sets targets for the number of inventions to be created. Engineers receive these targets and report on inventions as part of their R&D output. To obtain advantageous patent rights, the Intellectual Property Department applies for patents after selectively identifying inventions related to our major product lines and key technologies.

The marketing and development departments meet regularly with the Intellectual Property Department to determine which overseas patent applications to file, taking into account our business strategy, our R&D strategy, and the patentability of the inventions.

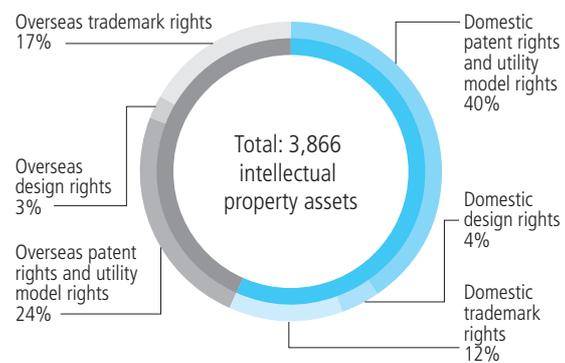
### | Intellectual Property Risk Management

To avoid disputes arising from the patents of other companies, a patent search is done at the product design stage. In addition, more than 1,000 checks are conducted each month through Japanese, American, and Chinese patent gazettes for information concerning other companies. This ensures a degree of freedom in our R&D activities, as well as mitigating business risk.

### | Protecting Our Brand

To protect our brand, we have aggressively registered the azbil Group logo as a trademark in over 90 countries worldwide.

Intellectual Property (as of March 31, 2014)



### Patent and R&D Data

| (Ended March 31)               | 2010  | 2011  | 2012  | 2013  | 2014  |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Patents</b>                 |       |       |       |       |       |
| Number of applications         | 334   | 436   | 428   | 476   | 502   |
| Number owned                   | 1,475 | 1,597 | 1,742 | 2,124 | 2,458 |
| R&D expenses (Billions of yen) | 8.6   | 9.0   | 8.8   | 7.8   | 8.8   |
| R&D expenses/Net sales (%)     | 4.1   | 4.1   | 3.9   | 3.4   | 3.5   |

# Technology Research and Product Development

## Across Japan, the U.S., and Europe, the azbil Group Is Creating New Value.

With three main R&D bases located in Japan, the U.S., and Europe to facilitate prompt response to increasingly diversifying needs, we are able to conduct R&D that enables us to provide a higher level of safety, comfort, and fulfillment, and a greater reduction of the burden on the environment.

### Research and Development Policy

To provide customers with swift access to next-generation products inspired by our philosophy of “human-centered automation,” we have adopted an effective and efficient system rooted in stronger coordination between our R&D departments, which are focusing on five strategic technology areas that we believe will enable us to offer wide-ranging value in the medium and long term.

For further global expansion and greater product appeal, we have established overseas bases for development, and our three main bases in Japan, the United States, and Europe are developing technology and products jointly with global partners in which we have an investment stake. In addition, we are working on the overseas deployment of production technology already established at our domestic plants, as well as increased compliance with international standards.

#### Azbil North America Research and Development, Inc.

This new subsidiary, established in February 2014, will strengthen our basic technological capabilities through cooperation with U.S. research institutes and universities, develop products based on advanced technologies and products tailored for local markets, and accelerate our response to technological developments and changes in international standards. Initially, it is focusing on the use of U.S. R&D resources in order to achieve flexible measurement and control technologies, which is one of our strategic technology areas. These technologies will not be confined to a particular time or location, and will be applicable in a wide variety of manufacturing and living environments.

### Strategic Technology Areas

With diverse business operations at plants, factories, buildings, homes, and infrastructure facilities, we offer wide-ranging value through our solutions for the ever-changing environment faced by our customers. In creating this value, we are moving forward with technology and product development in the five strategic technology areas shown here, which have been identified with a view to medium- to long-term trends in society, in issues faced by our customers, and in technology.

#### Machine Systems with Humanlike Abilities

Advanced intelligent production systems with the dexterity and visual perception of a human

#### Flexible Measurement and Control

A range of super-compact, energy-saving wireless sensors that utilize MEMS\* technology and integrated circuit packaging technology

\* Microelectromechanical systems: These are devices that combine machine elements and components, sensors, actuators, and electronic circuits on a single silicon, glass, or organic substrate.

#### Advanced Technology That Clarifies Complex Systems

Information processing that facilitates quick and easy identification and location of areas where energy could be conserved or equipment improved, and that assists humans in making decisions, even for large, complex systems

#### Systems Enabling Us to Live in Harmony with Nature

Measurement and control systems that learn from environmental changes and supply the optimal amount of energy. Smart grids are a leading example of these systems, which will be required for the infrastructure of indoor environments in the future.

#### Individualized Environmental Comfort Systems

Energy-conserving air-conditioning control systems that maintain the optimum temperature distribution in a space, taking into account the location of heat loads from human beings, etc.

### Examples of Technology R&D

On the basis of our philosophy of “human-centered automation,” we are developing technologies that will be needed in the future and are creating value for customers through products that deliver safety and peace of mind; quality, productivity, and comfort; and conservation of the environment and of energy.

#### Machine Systems with Humanlike Abilities: Assistive Rollator

**Value provided:** Equipped with the ability to detect slopes automatically, to provide power assistance so that the user does not notice the weight of the rollator, and to contact family members automatically if a situation that appears to be dangerous is detected, the rollator will reduce the user’s anxiety while out and about.

**Development details:** A mobility aid equipped with humanlike senses and perception to provide both physical and mental support for the elderly. With currently available rollators as a structural model, users will find the operation of handles, brakes, seat, and collapsible structure to be familiar. In external appearance, the rollator will blend naturally into the living environment.



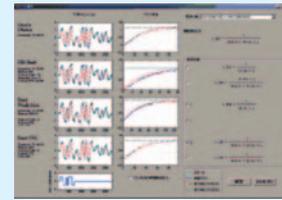
### Flexible Measurement and Control: Steam Quality Sensing System

**Value provided:** Measuring steam quality (the proportion of thermal energy lost) makes it possible to improve the quality of heating processes and achieve new levels of energy conservation in building air conditioning systems.  
**Development details:** A device for measuring the energy of wet steam, which is currently difficult to do in real-time. (Wet steam: steam created in a factory heating process or building heater before the water boils and changes completely to steam (superheated steam))



### Advanced Technology That Clarifies Complex Systems: Model Predictive Control System

**Value provided:** This system, which makes it easy to tune model predictive control parameters, provides advanced process control solutions that reflect the knowledge and experience of highly proficient engineers.  
**Development details:** A model predictive control function that can use equipment and product specification constraints as data for maximizing energy savings and productivity in plants composed of multiple pieces of processing equipment, such as oil refineries.



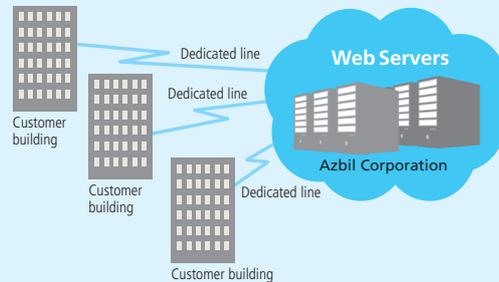
### Systems Enabling Us to Live in Harmony with Nature: Energy Conservation Package

**Value provided:** Increases the energy conservation awareness of building users via the new concept of making energy conservation information visually meaningful, not merely visible.  
**Development details:** A display package for key energy indicators that aims to improve energy conservation. In addition to use on customers' premises, we are using it to make energy conservation efforts visually meaningful at the azbil Group's own facilities and at various Group company sites, helping us to achieve company-wide environmental targets.



### Individualized Environmental Comfort Systems: Demand Response Air Conditioning Control System

**Value provided:** Anticipating the future popularization of demand response systems, this system reliably lowers the demand for electricity while also giving users a sense of efficiency in their work.  
**Development details:** In view of the potential of demand response systems in Japanese office buildings, we have set up a demand response field trial using Azbil Corporation's cloud-based service to control electricity consumption in remote buildings.



## | Strengthening Our R&D Capabilities (through Standardization)

We are increasing the competitiveness of our business operations through the improvement of functionality, cost-effectiveness, quality, reliability, and safety using three methods: use of international standards, standardization in design and development, and measurement standards.

### Bringing Standards into Product Life Cycles



# Manufacturing and Procurement

## By Constructing a Global Manufacturing System, the azbil Group Can Better Customize Individual Products for Particular Regions.

Adopting a global perspective throughout the azbil Group, we are optimizing logistics for individual regions and products, and are strengthening our ability to design products tailored to regional characteristics.

### Building a Global Manufacturing System

As part of our efforts to ensure the optimal distribution of manufacturing capabilities within Japan and overseas, we have established Azbil Production (Thailand) Co., Ltd., which began production of temperature controllers in Thailand in the summer of 2013. With regard to our manufacturing facilities in China, we have expanded the range of products manufactured at Azbil Control Instruments (Dalian) Co., Ltd. In addition to control valves, positioners, and limit switches for use in industry, and air conditioning systems, this company now manufactures pressure transmitters and gas flowmeters for the Chinese market. Asia is a major source of demand, so we are expanding the range of items manufactured and procured there not only as a means of strengthening product competitiveness on a global scale, and benefiting from the growth of economies in the region, but also as a form of business continuity planning (BCP), to correct excessive reliance on manufacturing bases within Japan. With the azbil Group's main manufacturing bases now distributed between Japan, China, and Thailand, we have put in place a system that offers locally based design, manufacturing, engineering, service, and quality assurance, enabling us to better support the globalization of our customers.

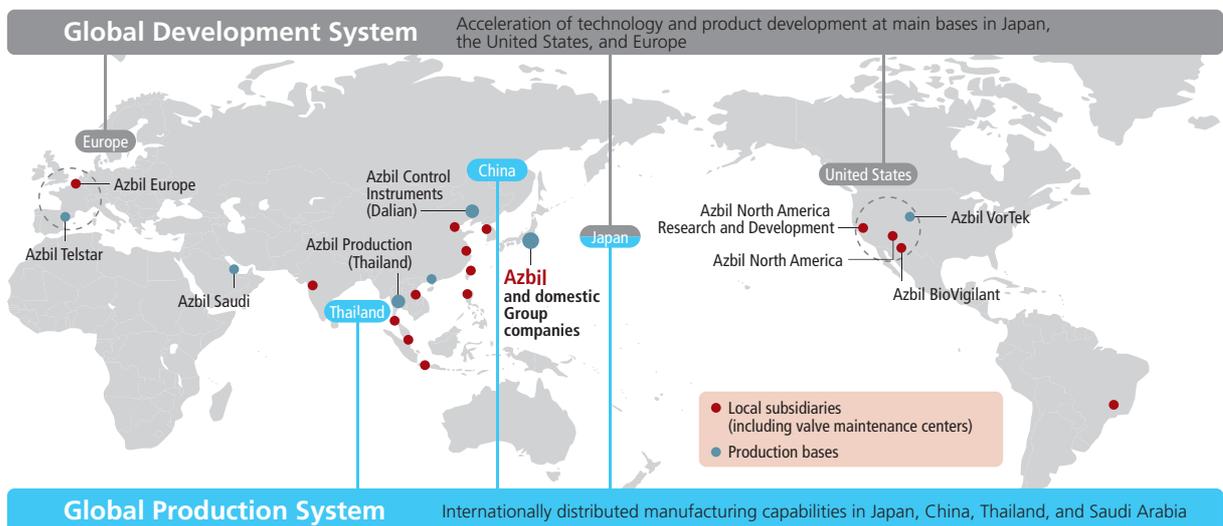
### Restructuring of Manufacturing and Procurement

In addition to strengthening our ability to offer customized design of products overseas and enhancing our quality assurance capabilities, we will accelerate our efforts to achieve optimum procurement worldwide, so that we can optimize functions at both our domestic and overseas plants. As we establish new manufacturing techniques based on improved technology within Japan, they will be deployed throughout our domestic and overseas plants. In addition, we will jointly develop/manufacture technology/products with new overseas business partners in which we have an investment. By these means we plan to increase the proportion of overseas production to more than 30% across the whole of the azbil Group.



Azbil Production (Thailand) Co., Ltd.

## Global Development, Manufacturing, Engineering, and Service System



# Quality Assurance and Safety of Products and Services

## The azbil Group Provides Customers with Products and Services of Assured Quality That Are Safe and Dependable.

To maintain our ability to provide products and services that customers can trust, we have formulated a basic policy and specific rules regarding quality, safety and dependability. On this basis we make proactive efforts to safeguard the quality, safety, and dependability of our products and services.

On the basis of two documents, Basic Policy and Rules on the Quality Assurance of azbil Group Products and Services, and Basic Policy and Rules on the Safety and Dependability of azbil Group Products and Services, we strive proactively to ensure the quality, safety, and dependability of our products and services.

Our quality assurance activity is conducted systematically and emphasizes “quality management,” one of the key points in the rules on the quality assurance of azbil Group products and services.

In addition, we take systematic action to ensure the safety and dependability of our products and services. This activity is founded on the three key pillars of compliance with relevant laws and regulations, prevention of accidents, and provision of safe products.

### | Quality Management

We make thorough efforts to ensure that quality is built into all of Azbil Corporation’s business lines and into the product development and service provision processes of azbil Group companies. In addition, we are constructing a Group-wide product and service quality management system. The azbil Group Quality Assurance Committee meets regularly to check the achievement of quality targets and the progress of initiatives to improve quality that are undertaken by the business lines and various azbil Group companies. The Committee also seeks to identify common challenges and to help in tackling them.

### | Compliance with Relevant Laws and Regulations

The Legal and Intellectual Property Department and the aG Quality Assurance Department collaborate in educating azbil Group employees concerning the Product Liability Act, the Consumer Product Safety Act, and other relevant legislation, as well as accident prevention measures and the procedures to follow in the event of an accident.

### | Prevention of Accidents

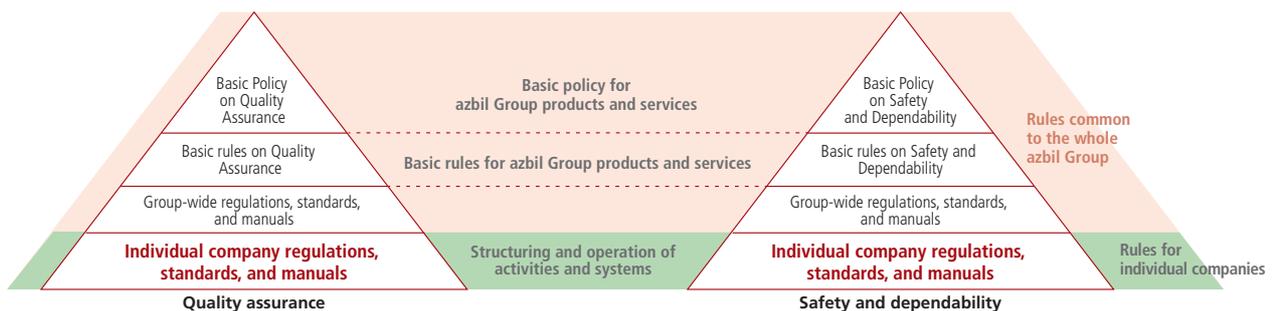
The Product Liability Committee meets regularly to promote accident prevention activities based on actual “near miss” incidents. In addition, it is responsible for the reporting and response systems used in the event of an accident, and for ensuring that employees are thoroughly aware of them. The committee’s activities cover all business lines, manufacturing departments, service departments, and Group companies.

### | Provision of Safe Products

Design standards and safety guides are in place as a means of ensuring that products and services are safe. In addition, a risk assessment and authorization system is used for product risk assessment and facility management risk assessment by the development departments and service departments of each business segment, as well as by each of the azbil Group companies, under the guidance of the Department of Safety Assessment.

### The azbil Group’s Systems for Quality Assurance / Safety and Dependability

To ensure that the azbil Group can continue to provide products and services that our customers can trust, we have established, and put into practice, the policies, rules, standards, and manuals illustrated below.



## Utilizing the azbil Group's Unique Integrated Framework, We Work Side by Side with Customers to Create Value

Based on an integrated framework that brings together everything from consulting and sales to engineering, construction, and service, we make use of the knowledge and skills cultivated at customer sites to offer solutions across the globe.

### | Azbil's Total Solutions

To achieve optimal automation at customers' work sites, we always make sure that we are aware of the issues faced by our customers, and that the opinions of those at the site are quickly and surely applied to our solutions. Our business operations are conducted on the basis of an integrated framework covering everything from consulting and sales to engineering, construction, and service, enabling us to provide a total solution. To maximize value throughout the life cycle of our customers' equipment, we strive to bolster our engineering and service capabilities by means such as human resource development, as well as by developing the high-added-value aspects of our business.

### | Restructuring of the Service Business

Our goal in the service area is to transform our operations from the conventional labor-intensive model to knowledge-intensive service based on our extensive data and experience. A related initiative is the offer of systematic services and energy conservation measures tailored to the life cycle of the customer's facilities, along with the global expansion of operation support services, focusing on the use of remote maintenance technology.

### | Support throughout the Life Cycle

The facility life cycle—namely planning, operation, maintenance, improvement, and renovation—gives rise to a variety of customer needs. To meet these needs throughout the life cycle, we ensure that engineers who are well acquainted with the customer's processes and systems conduct operation, regular inspections, and maintenance services, and respond swiftly in the event of an urgent problem. In addition, we hear the

opinions of our customers at the work site in various situations throughout the life cycle. This information is applied swiftly and surely in our products and services, and is shared with others in the azbil Group. This allows us to improve our technology and services in the field and to make them more efficient.

### | Solutions Based on Accumulated Data

Cutting-edge technology and a wealth of know-how available only to professionals in the field of control and management are now being applied to the development of tools for use in our service operations. The use of service tools in on-site inspections not only increases the efficiency of operations, but also ensures that automatic control instruments are maintained appropriately by enabling experts to conduct remote and off-site inspection of control operations and to analyze events. Self-diagnostic information from equipment is also gathered and analyzed to ensure that systems are operating in an appropriate way at all times and to facilitate rapid recovery in the event of a problem. This enables us to propose preventive maintenance aimed at maintaining the reliability of the system.

### | Global Expansion of the Service Business

We have upgraded and reinforced our infrastructure and trained additional personnel so that we can provide the same level of service overseas as we do in Japan. Our solutions-oriented valve business (integrated supply and maintenance of control valves) has expanded to the Middle East and North America, in addition to main bases in locations including China, Taiwan, Thailand, Singapore, and Indonesia. We are also beginning to develop a service infrastructure that will allow us to monitor overseas buildings remotely, so that we can offer efficient maintenance and energy conservation.



Remote monitoring center for comprehensive management and maintenance of buildings

## The azbil Group Aims to Foster Diverse Personnel Who Can Respond Flexibly to Changes in the Business Environment, and to Create a Working Environment Where All Employees Can Thrive and Be Active To the Best of Their Abilities.

In keeping with our philosophy of “human-centered automation,” we strive to foster diverse personnel who can provide solutions, can work with customers at their sites to create value, and who can operate internationally. Moreover, we strive to encourage a work environment where each employee can realize his or her potential.

### | The Azbil Academy

In order to offer value to our customers through the pursuit of our Group philosophy amid a dramatically changing environment, we have established the following three initiatives:

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

In 2012, we established the Azbil Academy, a new organization that integrates education and training functions across the company, in order to ensure that we can promptly train personnel capable of implementing these initiatives.

The Azbil Academy fulfills two roles: an educational function, implementing training in partnership with each workplace, by bringing together all of the azbil Group’s employee education measures, including function-specific training and level-specific training, as well as the acquisition of official qualifications and global training; and a career support function, offering career counseling for individual employees regarding the way in which they wish to shape their career path, as well as considering and implementing appropriate staff rotation.

The Azbil Academy currently runs more than 300 training courses, training in excess of 12,000 people annually. Moreover, the Azbil Academy Training Center is furnished with training equipment that provides a close simulation of the actual working environment, enabling it to offer ongoing practical training.



The Azbil Academy Training Center

### | Fostering Personnel Who Can Offer Solutions

As a part of our efforts to train engineers who can propose and offer optimal solutions in response to customers’ problems and requests, we actively support our employees in obtaining official qualifications required in our areas of business. Furthermore, for the year ending March 2015, we are introducing a system under which our field engineers with technological capabilities that are at the top level for the industry will be certified as technical specialists in their special field of business. Through this initiative, we aim to increase the motivation of our engineers, improve their ability to offer solutions, and ensure that advanced skills and abilities are passed on to the next generation of employees.

#### Major Official Qualifications and Number of Qualified Staff (as of the end of June 2014) (People)

|                                                      |     |
|------------------------------------------------------|-----|
| Qualified energy management personnel                | 447 |
| Class I piping construction management engineers     | 381 |
| Class I electrical construction management engineers | 944 |
| Class III chief electrical engineers                 | 230 |
| Building sanitation management technicians           | 197 |

### | Fostering Personnel with a Global Outlook

The proportion of overseas staff is increasing as the azbil Group makes progress in global expansion. Accordingly, in addition to training employees at our overseas subsidiaries, the training and deployment of executives who are well-acquainted with the relevant regions is a matter of urgency as we aim to achieve

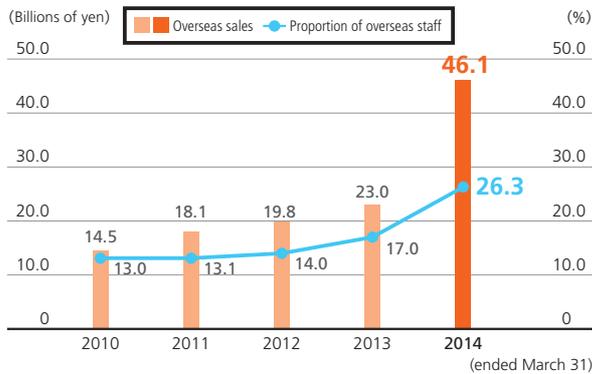


Training course to foster personnel with a global outlook

further increases in overseas sales and additional productivity improvements. Currently, we have 29 overseas subsidiaries headed by a person hired locally, and we intend to continue proactively appointing local employees to senior positions in the future.

Accordingly, for the year ending March 2015, we have already launched a training course for managers from both Japan and overseas, with the aim of improving their capacity for logical thinking, their presentation skills, and their team management abilities. This course, consisting of monthly three-day training sessions over six months, will allow us to provide a common set of skills required of leaders in the azbil Group. In addition, it will promote a sense of unity among employees that transcends national boundaries, helping to accelerate the azbil Group's global expansion.

### Overseas Sales & Proportion of Overseas Staff



### Developing a Female-friendly Workplace Environment

With the aim of building and maintaining a healthy workplace environment in which females can work with long-term health and peace of mind, we are striving to enhance our maternity leave and child care leave systems and have already implemented shorter working hours and staggered working hours systems that enable women to achieve a work-life balance. Furthermore, we continue to make efforts to increase the number of females in managerial level positions. The number of women in managerial or specialist positions is 35 as of April 2014, which equals 3.2% of the total.

Going forward, our aim is to accelerate active participation by female employees and to become a more female-friendly company.

### Supporting the Skill Enhancement and Self-realization of People with Intellectual Disabilities

In 1998, we established the special subsidiary company Azbil Yamatake Friendly Co., Ltd., with the aim of creating a place where employees with intellectual disabilities can thrive and be active as integral members of the staff. Azbil Yamatake Friendly's management policy is to support the skill enhancement and self-realization of people with intellectual disabilities, and contribute to society through the results of these endeavors. With this in mind, Azbil Yamatake Friendly endeavors to maintain and increase employment opportunities for people with disabilities,\* with the cooperation of all azbil Group companies.

\* The azbil Group has received approval to use the special provision applicable to large companies under the government's system for promoting the employment of persons with disabilities (a system that obliges employers to meet or exceed the statutory employment rate [2.0% for private sector companies] for people with disabilities).



Developing a female-friendly workplace environment



Supporting the skill enhancement and self-realization of people with intellectual disabilities



# Value-sustaining Structures

As a company that provides both society and our customers with value through automation, the azbil Group strives to develop sustainably in parallel with society and our customers, dealing with all stakeholders from a human-centered perspective, based on an awareness of the various impacts of our business operations.

This section provides an introduction to our environment-related activity, risk management, contributions to society, annual shareholders' meetings and investor relations, CSR management, internal controls and compliance, and corporate governance, all of which form the basis for sustainable business activity as we seek to maintain and increase the value created by the azbil Group.

## In Addition to Reducing the Environmental Impact of Its Own Activities, the azbil Group Helps Preserve the Earth's Environment through Its Core Businesses.

We work to reduce the impact of our own business activities on the environment, and through our core businesses we also help to reduce society's environmental footprint by cutting CO<sub>2</sub> emissions and improving the efficiency of resource use at customers' work sites.

### | Key Policies Guiding Our Initiatives

Recognizing, based on our Group philosophy, that initiatives to preserve the earth's environment are among the most important issues for management, we are constantly conducting activities aimed at achieving a sustainable society. This approach is encapsulated in the azbil Group Environmental Charter. Under this charter, we help to reduce society's burden on the environment not only by minimizing the environmental impact of our own business activities, but also by helping customers to conserve energy and resources through the products and services

offered by our core businesses.

Individual Group companies formulate their environmental policy based on the Environmental Charter, which serves as a guideline for their efforts to preserve the environment.

The azbil Group implements four key policies—counteracting global warming, promoting environmentally friendly products, resource recycling and biodiversity preservation, and managing environmental risks—that have been incorporated into the medium-term environmental plan. Also, to lay a foundation for our efforts, we endeavor to raise each employee's awareness of environmental issues.



## | Key Initiatives and Achievements in the Year Ended March 2014

### Counteracting Global Warming

We will continue to cut our CO<sub>2</sub> emissions through initiatives to save electricity and conserve energy, broadening the scope of energy use visualization throughout the azbil Group. We are also considering the use of renewable energy.

**Results for the Year Ended March 2014** Through initiatives involving all employees, CO<sub>2</sub> emissions were cut by 4.6%, and CO<sub>2</sub> emissions per unit sales were improved 12.6% compared with levels in the previous year.

### Promoting Environmentally Friendly Products

By means of our environmentally friendly products, we help to reduce the impact of society and of our customers on the environment. We strive to reduce environmental impact throughout the life cycle of our products.

**Results for the Year Ended March 2014** CO<sub>2</sub> emissions were reduced at customers' work sites by 2.81 million tons. Also, life cycle assessment of all our new products showed that 94% met the requirements for environmentally friendly product design.

### Recycling Resources and Preserving Biodiversity

We promote waste reduction and conservation of resources. To support biodiversity, we conduct various activities to preserve the natural environment.

**Results for the Year Ended March 2014** Azbil Kyoto Co., Ltd., achieved "zero waste" (a final disposal rate of 0.5% or lower), the latest Group company to do so. In addition, we implemented environment preservation activities as planned at three sites.

### Managing Environmental Risks

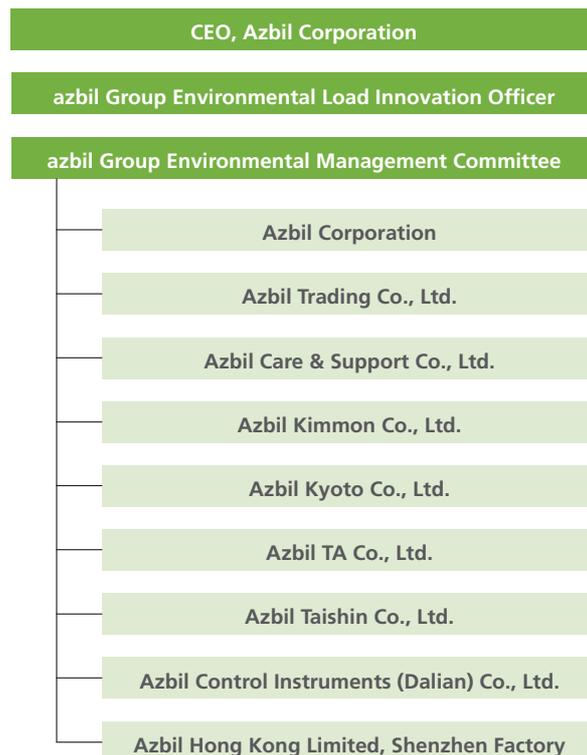
We comply with environmental laws and regulations by fully implementing measures to keep the air, water, and soil unpolluted.

**Results for the Year Ended March 2014** With regard to environmental regulations, there were no significant violations by the azbil Group, and there were no significant penalties, fines, or lawsuits.

## | Environment-Related Administration

The promotion of environmental conservation efforts takes place under an environmental management framework that covers the entire azbil Group. The executive officer in charge of environmental load innovation, who plays the central role in environmental preservation, coordinates the Group's environmental activities and supports the CEO in relation to environmental concerns.

The azbil Group Environmental Committee, led by this executive officer, is responsible for the overall environmental management of the azbil Group. The committee promotes and reviews plans to improve the quality of the Group's environmental management. This committee plays the leading role in actively implementing environmental preservation initiatives across the entire Group, including overseas production sites.



## The azbil Group Helps to Reduce CO<sub>2</sub> Emissions at Customers' Work Sites by Taking Advantage of the Knowledge Acquired through Its Energy Conservation Initiatives.

Using the knowledge we acquire by implementing energy conservation initiatives across the entire azbil Group, our core businesses help customers and the general public to save electricity and otherwise conserve energy.

### Efforts to Prevent Global Warming through Our Business Operations

Global warming is a worldwide challenge. Members of the azbil Group are working together proactively to take measures to save electricity and conserve energy in their business activities, while bearing in mind the importance of their role in helping customers and society to significantly reduce CO<sub>2</sub> emissions.

Under the leadership of the azbil Group Environmental Load Innovation Officer, the management team and employees within the azbil Group work together to reduce CO<sub>2</sub> emissions, with each major business site supervised by an executive officer. Moreover, the environment supervisors committee, which is responsible for Group-wide energy management, meets six times each year. The committee, which is led by the executive officer in charge of environmental load innovation, is composed of officers responsible for energy management at individual business sites. At its meetings, the committee sets CO<sub>2</sub> reduction targets, formulates a plan for achieving the targets, checks the progress of the plan, and feeds the results back to business sites, thereby encouraging proactive action on behalf of the environment.

The implementation of effective electricity-saving and energy-conserving initiatives that optimize energy use at factories and offices is accomplished by visualization of electricity usage through an energy management solution service. The knowledge acquired through these initiatives can then be used to help customers and the general public.

Domestically, in Kanagawa Prefecture in February 2014, Azbil Corporation received the 2013 Kanagawa Environment Award for excellence in the category of Programs to Counteract Global Warming.

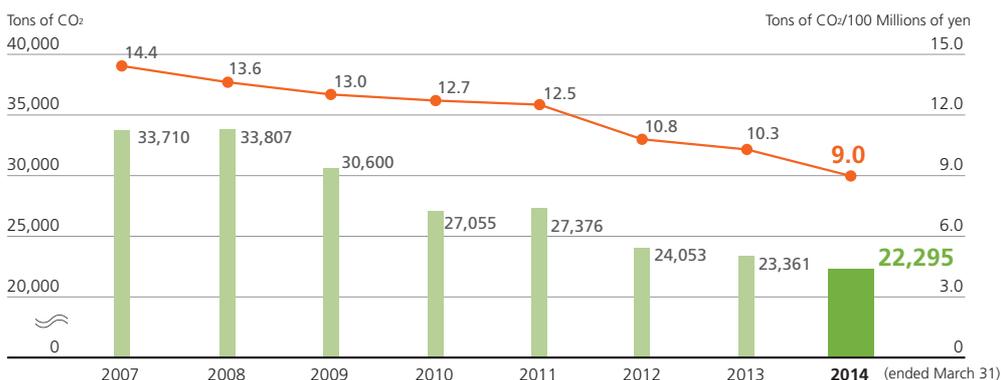
### Results for the Year Ended March 2014 and Future Plans

In the year ended March 2014, initiatives involving all azbil Group employees achieved a 4.6% reduction in CO<sub>2</sub> emissions and a 12.6% improvement in CO<sub>2</sub> emissions per unit sales compared with the levels in the previous year. These initiatives included reducing electricity usage during peak hours in the summer and winter and improving the operation of facilities by making energy usage clearly visible.

We will continue these initiatives in the year ending March 2015. To reduce CO<sub>2</sub> emissions not only in Japan but also overseas, we will also step up efforts to visualize energy usage at overseas production sites.

### CO<sub>2</sub> Emissions

Scope: Azbil and its major consolidated subsidiaries in Japan



Note: The figures for CO<sub>2</sub> emissions use a fixed coefficient (0.378 kg CO<sub>2</sub>/kWh). The figures for CO<sub>2</sub> emissions include estimates of rented office air-conditioning energy and other figures.

## Energy Conservation through Visualization of Energy Use

To reduce CO<sub>2</sub> emissions, which is one of the major objectives of our medium-term plan, we are proactively introducing our system for visualizing energy usage on a Group-wide basis and are conserving energy through improvement of operations and facilities.

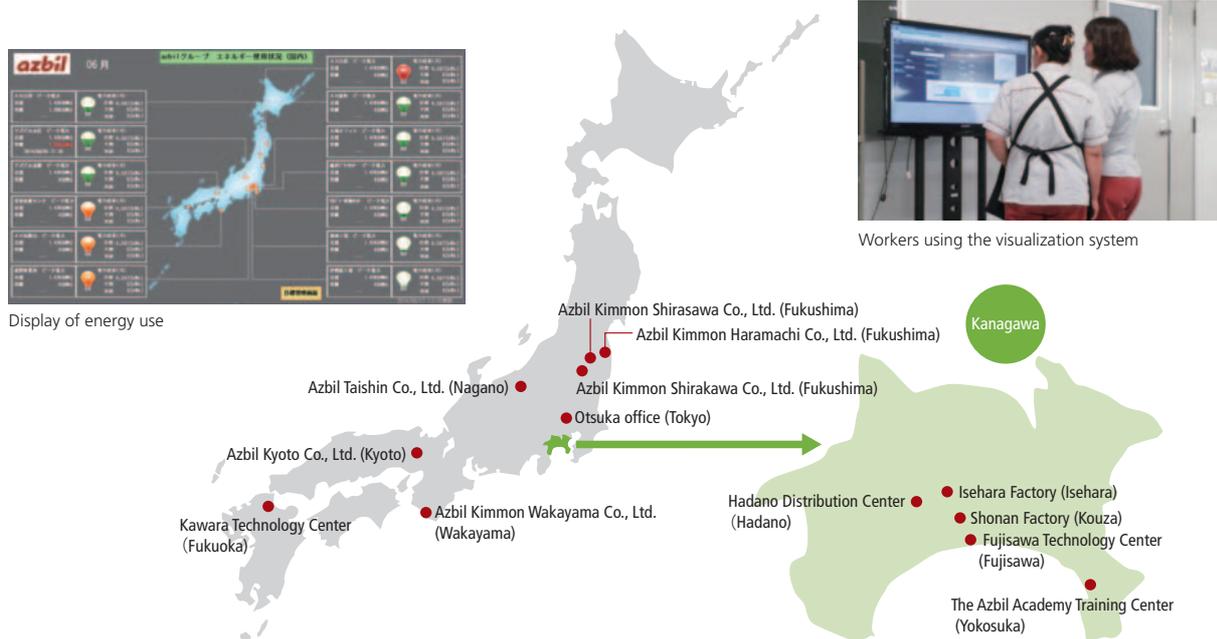
For operational improvement, it is important to use the plan-do-check-act (PDCA) cycle, which assists us to expose wasteful practices, consider and implement improvements and verify their effectiveness, and apply the findings to future measures. The introduction of the visualization system has made it possible to make effective improvements in operation. Moreover, by grasping the energy usage situation during nighttime and holidays, when production is halted, for example, we can find wasteful energy consumption. As a result, we have identified new energy conservation possibilities at business sites where

energy conservation initiatives have already been carried out, and this has led to further reduction of CO<sub>2</sub> and costs. As for improvement of facilities, we are able to make efficient investments that bring greater benefits for less cost by anticipating and eliminating wasteful energy usage through our visualization initiative.

To ensure achievement of our CO<sub>2</sub> reduction targets, we subject these initiatives not only to periodic energy conservation reviews by individual business sites, but also to follow-up reviews by a team dedicated to CO<sub>2</sub> reduction.

When transferring production to an overseas site as part of our reorganization of production infrastructure, we introduce our visualization system at the new factory as soon as it begins operation. For existing overseas production sites, we are considering progressive introduction of the system. Azbil Production (Thailand) Co., Ltd., is making preparations for introduction of the system in the current year.

### Our Sites That Have Adopted the Visualization System



Display of energy use

Workers using the visualization system

## The azbil Group's Goal Is to Create Products and Services That Are Environmentally Friendly throughout Their Life Cycle.

We are proactively creating products and services that are environmentally friendly throughout their life cycle, based on our environmental design guidelines.

### Initiatives to Create Environmentally Friendly Products and Services

The azbil Group's Guidelines for Development of Products with Reduced Environmental Impact were formulated in 1997. Since that time we have endeavored to provide proactive solutions to the challenges faced by society and our customers by giving consideration to the environment throughout the product life cycle, from initial stages such as development planning and design, to materials procurement, production, distribution, sales, usage, and disposal.

With regard to environmentally friendly design, we conduct environmental design reviews at various stages of development.

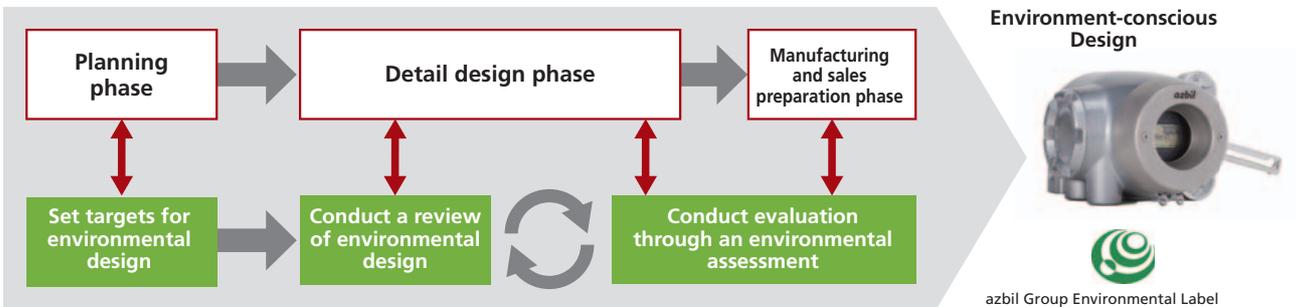
In principle, we conduct life cycle assessment and environmental assessment\*<sup>1</sup> at the development stage of all new products. Products that are judged to meet our in-house requirements are recognized as environmentally friendly and become eligible to bear the azbil Group Environmental Label.

In addition, we use LC-CO<sub>2</sub>\*<sup>2</sup> as one of our goals for design, in order to produce increasingly environment-friendly products and services.

\*1. New products are divided into broad environmental categories and their superiority over comparable existing products in terms of environmental friendliness is evaluated under a four-grade scoring system.

\*2. Lifetime CO<sub>2</sub> emissions of the product.

### Product Development and Flow of Environment-conscious Design



### A new addition to our safety combustion equipment lineup, a JIS-compliant burner controller, incorporates the key features of a variety of products, and its structure conserves resources by being easy to dismantle and recycle.



A burner controller plays an important role in combustion safety control. Our new burner controller, which meets the recently revised JIS standard for burners (JIS B 8407), was created by bringing together a variety of the specifications of previous controllers. By making it compact, resources are conserved. Consolidation of printed wiring boards and sub-bases has led not only to more efficient production management, but also to easier dismantling and recycling through consolidation of materials.

This controller's unique "problem diagnosis function" makes it possible to do appropriate maintenance work at an appropriate time. Consequently, the controller provides safety and peace of mind over a longer product life than previous products.

As a result of these initiatives, we have achieved a 33.3% improvement in reuse and recycling of resources, 23.8% in resource conservation, 22.2% in product life, and 27.3% in environmental preservation.

## As Part of Its Biodiversity Initiatives, the azbil Group Is Working to Preserve the Natural Environment in Nearby Areas and at Business Sites.

Aware of the impact that business activities have on the ecosystem, our employees help to preserve the environment at our business sites and in surrounding areas.

### | Biodiversity Preservation Initiatives

We understand that even as our business activities are receiving benefits from Mother Nature, they are also having various effects on the ecosystem. Based on this awareness, and conscious of our co-existence with nature, we work to foster biodiversity. As a signatory of the Declaration of Biodiversity by Keidanren (the Japan Business Federation), the azbil Group carries out activities to conserve energy and resources, and works to preserve the natural environment at its business sites and in surrounding areas in cooperation with non-profit organizations, universities, and local governments. In the year ended March 2014, we conducted environmental preservation activities on six occasions at three locations, the city of Fujisawa, the town of Minamiaizu in Fukushima Prefecture, and on the premises of Azbil Kyoto Co., Ltd. It is hoped that the continued participation of employees and their families in such activities will raise the environmental awareness of each employee and foster a culture of environmental preservation throughout the azbil Group.

### | Community Initiatives

In 2011, the azbil Group formalized its participation in environmental conservation activities in two localities by signing agreements with the city of Fujisawa in Kanagawa Prefecture, where the company's Fujisawa Technology Center (FTC) is located, and with the town of Minamiaizu in Fukushima Prefecture, where Azbil Kimmon Aizu Co., Ltd., is located.

In a "green zone" in Fujisawa, employees from FTC and elsewhere have engaged in activities such as thinning a wooded area and making a walking path under the guidance of Fujisawa Green Staff, a local non-profit organization, in order to make it easier for local residents to enjoy the natural environment.

Minamiaizu is well-known as a place where clusters of *himesayuri*, or maiden lilies, grow. This plant is designated as a near-threatened species on the Red List of the Ministry of the Environment of Japan. To preserve the maiden lily, azbil Group employees help to sow seeds and plant bulbs.

### | Initiatives at Business Sites

Azbil Kyoto Co., Ltd., which began operations in 1996, built a plant on property developed by the local government in a valley forest amidst hills and rice terraces. With the passage of time since the start of operation, trees began to grow on the cutaway face of the hill in front of the property, as in the surrounding forest.

At that point, together with Earthwatch Japan (an environmental NPO), Kyoto University's Field Science Education and Research Center, and students at the university's Faculty of Agriculture, azbil Group employees and their families started a survey in the year ended March 2014. With the aid of this survey, the future direction of environmental preservation initiatives will be planned, encompassing not only the business site but also a nearby reservoir.



Azbil Kyoto's building at the time of its completion (1996)



Volunteers surveying new trees on the cutaway slope

## Risk Management

**The azbil Group's Aim Is to Build Systems That Enable It to Retain the Public's Trust and the Value of Its Businesses If an Unforeseen Event Occurs.**

## Risk Management

We strive for thorough risk management. Under our total risk management system, risks that could have a significant impact on our business are identified annually through comprehensive surveys of directors and managers of key departments. The Board of Directors then determines the azbil Group's key risks with the aim of facilitating the implementation of Group-wide measures to prevent key risks from materializing. By means of these steps, each potential risk is appropriately addressed.

In addition, we continually mitigate risks through implementation of a standard risk management system for the assessment of risks specific to each individual Group company in Japan.

## Disaster Preparedness and Business Continuity Planning (BCP)

Under the leadership of the azbil Group Disaster Preparedness Liaison Committee, we continue to conduct regular disaster preparedness inspections at all of the azbil Group's domestic business establishments, identifying problems and taking countermeasures. We are continuing our efforts of the previous year to strengthen the Group's overall disaster preparedness through measures that include improving our system for checking the safety of employees after a major earthquake, establishing a workplace emergency contact network, enhancing our communications infrastructure for disasters, relocating offices to

buildings that meet new earthquake resistance standards, and conducting regular emergency drills.

Going forward, we will continue to strengthen our disaster mitigation measures and improve our BCP.

## Information Security

Continuing our efforts from previous years, in addition to thoroughly educating employees about information security by means such as e-learning, we have used attitude surveys to clarify information management issues, and have upgraded our framework for handling important data and personal information.

To ensure that the operational level of services will not be significantly compromised during a disaster, we are upgrading our backup systems, including relocation of our network equipment and servers and installation of emergency power supply equipment.

## Business Risks

### (1) Risks Related to the Business Environment and Business Activities

#### 1. Effect of Economic Downturn or Stagnation

Structural factors make the demand for the azbil Group's products and services susceptible to fluctuations in the economy and their effects on markets related to the Group, including the construction, manufacturing, and equipment manufacture markets. A large-scale downturn in business conditions and a decrease in demand from these markets could have an adverse impact on the Group's operations, business results, and financial position.

#### 2. Risks Related to Competition

Competition is becoming severe in the azbil Group's business segments, which are the Building Automation (BA) business, Advanced Automation (AA) business, and Life Automation (LA) business. Under the circumstances, the azbil Group believes that its products and services offer high added value unmatched by other companies in terms of technology, quality, and cost. While the Group is taking measures to prepare for situations such as intensifying competition or the entry of new competitors, unexpected changes in relationships

among competitors could have an impact on the Group's business results and financial position.

#### 3. Risks Related to the Group's Product Quality

The azbil Group's products, systems, and services are used for vital measurement and control related to safety and quality in a variety of plants and buildings. The Group has established a committee to oversee quality assurance and has enhanced its quality control system through sharing and transparency of quality information. Furthermore, the Group has taken out insurance policies, giving due consideration to damages for product liability. However, an incident caused by defects in the Group's products, systems, or services could result in substantial costs and severely damage the Group's credibility with customers. This in turn could have an impact on the Group's operations, business results, and financial position.

#### 4. Risks Related to R&D Activities

The azbil Group has positioned the management of research and development activities as one of its top priorities. Based on the Group philosophy of "human-centered automation," the Group is carrying out research and development activities aimed at the conservation of resources, energy and labor; safety; environmental preservation; and the realization of comfortable environments. The azbil Group is

strengthening its efforts to deliver appealing products and services to its customers in a timely fashion based on an accurate perception of their needs. However, a misreading of these needs or technological trends, postponement of research and development, insufficient technological capabilities, or other factors could delay the market launch of new products and have an adverse impact on the Group's operations, business results, and financial position.

#### 5. Risks Related to Global Operations

The azbil Group conducts business overseas, mainly in Asia, through 58 local subsidiaries and 2 branches. In the rapidly growing Chinese market, the Group conducts manufacturing, product sales, instrumentation work, energy management, and other businesses locally through 12 subsidiaries. The Group has also established manufacturing bases in Dalian, Shenzhen, and Thailand.

In the LA business, Azbil Telstar, S.L. has subsidiaries mainly in Europe and also in North America, South America, China, and India. In its European and Chinese locations it carries out manufacturing as well as other business operations.

While the Group continues to expand its business globally, being mindful of the decentralization of country risk, delays in its expansion plans, unexpected changes in the political and economic conditions,

## Contributions to Society

In Addition to Contributing to Society through Our Business Operations, We Organize Volunteer Activities in Which Employees Can Participate, Fostering a Culture of Community Engagement throughout the azbil Group.

### | Eighth Shonan International Marathon

We have co-sponsored the Shonan International Marathon, an event that makes a special effort to be environmentally friendly, since the very first event.

In 2013, the eighth running of the race, we coordinated environmental activities with other companies as an "Eco Friendship Leader," helping to promote the separation of different types of recyclable waste, among other activities. A total of 160 employees participated as runners, wearing race bibs bearing the azbil logo as they ran through the roads of the Shonan area. In addition, 140 employees volunteered their services at water stations and elsewhere along the route, coming together to contribute to the festive spirit of the event.



Azbil Corporation is an official sponsor of the Shonan International Marathon

### | azbil Honey Bee Club

Established to encourage participation by staff and officers in voluntary activity that contributes to society by "creating a space" for action, the azbil Honey Bee Club raises awareness and carries out volunteer activities.

In the year ended March 2014, the club's fourth year of operation, the number of members throughout the azbil Group exceeded 1,100. Members voted to give financial support to 36 organizations and Azbil Corporation matched their donations, resulting in the distribution of ¥5.71 million in aid. The categories of activity of the recipient organizations included social welfare, education and lifelong learning, social welfare and international exchange, academic and research activities, sports, the environment, and disaster relief and support for disaster-stricken areas. The club has received many expressions of gratitude and delight in response to the donations.

<http://www.azbil.com/jp/csr/soc/mitsubachi.html>



Members of a social welfare organization supported by the azbil Honey Bee Club



March, the azbil Honey Bee Club's mascot

Photo by Jun-ichi Tanabe

currency fluctuations, local legal, regulatory, and other reforms, natural disasters, terrorism, strikes, and other developments in countries where it has advanced could have an impact on the Group's business results and financial position.

#### (2) Other Risks

##### 1. Risks Related to Securing and Developing Human Resources

Since its founding, the azbil Group has focused on developing human resources based on the view that its employees are a valued asset, the source of corporate cultural renewal, and the creative source of its corporate value. However, possible future issues such as ensuring the safety and health of employees, measures to deal with the aging of the workforce, the handing down of technologies, expertise, and know-how, cross-training for multifunctional workers, and the retention and development of human resources for domestic and international business expansion could have an impact on the Group's business results and financial position.

##### 2. Risks Related to Information Leakage

The azbil Group possesses critical information on businesses and confidential information including personal information and information on business partners that is obtained in the course of business. The Group is taking

measures to strengthen its handling and management of information and increase employees' informational literacy. However, leakage of this type of information due to unforeseen reasons could have an impact on the Group's business results and financial position.

##### 3. Risks Related to Disasters

Three of the seven domestic production bases (including manufacturing subsidiaries) of the azbil Group's BA and AA businesses are concentrated in Kanagawa Prefecture. In addition, four of the seven domestic production bases of Azbil Kimmon Co., Ltd., involved in the LA business are concentrated in Fukushima Prefecture. The Group has taken actions as necessary including implementing safety precautions, taking out insurance, and establishing a business continuity plan (BCP) to maintain operations and/or quickly return operations to normal. However, any direct or indirect effect due to a large-scale disaster or other incident in these areas could have an impact on the Group's business results and financial position. In fiscal year 2011, the temporary shutdown of the azbil Group's factories due to the earthquake and nuclear power plant accident had an impact on the Group's profits, but the Group minimized the impact by taking the measures mentioned above.

##### 4. Risks Related to Laws and Regulations

The azbil Group is subject to laws and regulations in

the countries where it operates, including licensing for operations and investment, environmental and safety standards, and product standards. Unexpected changes in these laws or regulations, or the establishment of new laws or regulations, could have an impact on the Group's business results and financial position. In particular, although the azbil Group is proceeding with a variety of measures to reduce its environmental impact, in part to comply with stricter environmental regulations, difficulty in complying with environmental regulations may result in the cessation of certain business activities or damage to the trust placed in the Group. This could have an impact on the Group's business results and financial position.

##### 5. Risks Related to Intellectual Property Rights

The azbil Group accumulates unique technologies and know-how in the development of products and services within the Group and works to protect its intellectual property rights, in order to ensure and maintain its competitive edge. In addition, the Group works to secure licensing rights from third parties where necessary in product development and production. However, inadequate execution of these processes could have an impact on the Group's business results and financial position.

# Shareholders' Meeting and Investor Relations

## The azbil Group Seeks to Build Relationships of Trust with Its Shareholders and Investors through Timely and Appropriate Disclosure of Information and Proactive Dialogue.

Maximizing corporate value is not only a matter of disclosing information in a timely and appropriate manner, but also of making effective use of the opinions and requests of shareholders and investors regarding the management of the company.

### Accessible Shareholders' Meetings

To make sure that many shareholders can participate, we avoid holding our annual shareholders' meeting on a day when many other companies are holding theirs. In addition, the venue is conveniently located close to Tokyo Station. During the meeting, explanations of the company's financial status are made easier to understand via the use of projected visual aids. In the year ended March 2012, to assist shareholders in exercising their voting rights, we began using color and graphics in our Notice of Convocation of the Ordinary General Meeting of Shareholders, as well as including a six-page message from the President and Chief Executive Officer outlining management's vision and direction. We are putting in place an environment that will allow institutional investors both within Japan and overseas to promptly obtain documents related to the annual shareholders' meeting and to exercise their voting rights not only by mail or internet but also via an electronic voting platform.

The Ordinary General Meeting of Shareholders for the year ended March 2014 was attended in person by 194 shareholders.



President Hirozumi Sone giving a briefing at the 2013 Ordinary General Meeting of Shareholders

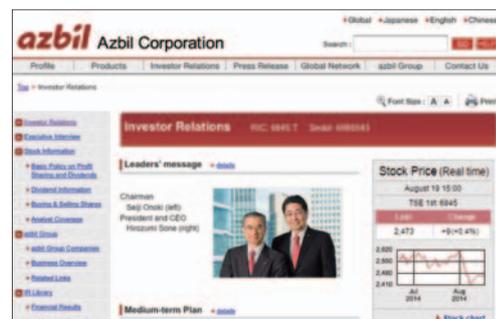
### Enhancing Communication

Briefings on the company's financial results offer an opportunity for dialogue with all of our institutional investors. The President himself gives the briefing and welcomes questions from participants. In addition, the President and other officers endeavor to enhance communication by visiting investors both within Japan and overseas, as well as through their participation in investor relations (IR) conferences. We took the opportunity to

communicate in more than 300 meetings and briefings in the year ended March 2014. An independent organization dedicated to handling IR and actively promoting dialogue has been created, and the opinions and requests that emerge from this dialogue are regarded as valuable information for making decisions concerning management issues.

### Prompt Disclosure via the IR Website

To facilitate timely and appropriate disclosure, business performance information is posted promptly on the IR website. Information that is helpful for gaining a deeper understanding of the azbil Group, such as the Fact Book, which contains basic financial information about the company, and the azbil Report, are also posted on the website. In the year ended March 2014, an explanation of the new Medium-Term Plan was posted promptly on the website.



Front page of the IR website

### Socially Responsible Investment (SRI) Index

The azbil Group has been selected for inclusion in the FTSE4Good Global Index for seven consecutive years.



## As a World-class Comprehensive Automation Enterprise, the azbil Group Strives for the Sustainable Development of Its Business and of Society.

To achieve the sustainable development of society and of our business, we use a twofold approach, applying “proactive CSR” (contributing to society through our business operations and voluntary activity that benefits society) and “basic CSR” (fulfilling our fundamental obligations to society as a corporate citizen).

### Proactive CSR and Basic CSR

#### Policies and Targets for CSR Management Initiatives

We have divided our CSR management initiatives into six themes, with targets for each.

#### 1 Strengthening CSR through business operations and voluntary contributions to society

Active promotion and support of contributions to society through the azbil Group’s unique high-value-added solutions that combine products and services, and through employees’ voluntary participation in activity that benefits society.

#### 2 Compliance control

A culture of thorough compliance that includes not only awareness but also employees’ continuous execution of business activities in a manner that prevents the occurrence of serious compliance problems in the azbil Group’s business activities.

#### 3 Operation with thorough risk management

Full application of Group-wide risk management in areas including disaster preparedness, information security, quality, product liability, and accounting, under a comprehensive risk management system, as well as measures taken on an annual basis to ascertain and deal with key risks.

[For more details, see “Risk Management” on page 54.](#)

#### 4 Promotion of business management that values people

Strengthening of the foundation for a CSR management that values people by promoting employee health and safety, better

workplace environments, a more dynamic corporate culture, and improved motivation as well as establishing a human resource system to support these initiatives.

#### 5 Contributions to preserving our natural environment

Reduction of our own CO<sub>2</sub> emissions and, through our business activities, proactively helping to reduce the CO<sub>2</sub> emissions of our partner companies and society. In addition, comprehensive promotion of energy conservation measures to address electric power supply shortages.

#### 6 Improvement of Group management

Strengthening of governance at domestic and overseas subsidiaries by significantly raising the level of management-related practices in areas including internal control, risk management, and accounting at subsidiaries.

### CSR Promotion Framework

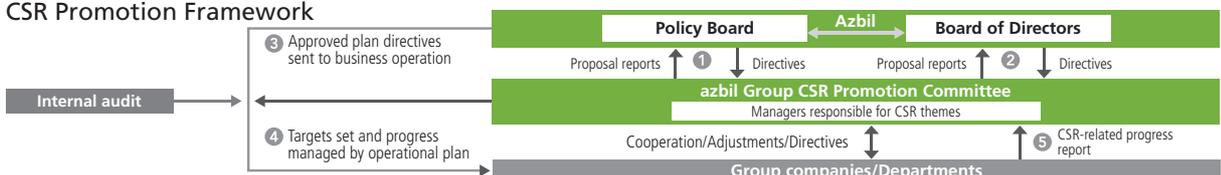
The azbil Group’s CSR Promotion Committee was established in order to promote and enact CSR-related activity for the Group as a whole over a broad range of fields. The committee is composed of senior managers in charge of promoting CSR at individual Group companies and department heads leading the various initiatives. The committee, subject to the approval of the Board of Directors of Azbil Corporation, directs the implementation of CSR initiatives, appraises their results, and reports to management, following a PDCA (plan-do-check-act) cycle.

Value-sustaining Structures

### Overview of CSR Activity



### CSR Promotion Framework



# Internal Control and Compliance

## Internal Control Systems

**Through Constant Review and Improvement of Internal Control Systems, the azbil Group Aims to Build Highly Efficient, Legal, and Transparent Business Structures.**

### Internal Controls and Responses to the Financial Instruments and Exchange Act (J-SOX)

The Basic Policy on Internal Control System Architecture, which was approved in the May 2006 Board of Directors meeting, is based on the Companies Act and sets forth basic policies with which officers and employees should comply, as well as prescribing guidelines for the structures needed for internal control systems. More specifically, it requires the reliability of financial reporting, the promotion of sound business activities with a high level of business ethics, the development and management of the control environment and other fundamental elements of internal controls, and the management of key risks to ensure business continuity and stable development. To create highly efficient, legal, and transparent business structures, we

strive for improvement through constant reviews of our internal control systems.

In addition, we are actively implementing initiatives to strengthen our response to the requirements for internal control reporting systems prescribed by the Financial Instruments and Exchange Act (J-SOX), conducting annual reviews of the scope of internal control system evaluation in response to changes in the business environment and risks arising from them as well as reviewing our controls. In the year ending March 2015, we will take all possible measures to ensure the reliability of financial reporting. As part of these endeavors, Azbil Trading Co., Ltd., will be added to the list of companies subject to evaluation of core business processes.

## Compliance

**In Each Area of Basic CSR, Which Concerns Fundamental Obligations as a Corporate Citizen, the azbil Group Is United in Its Efforts to Instill Awareness of Compliance Issues.**

### Business Conduct Policy and Guidelines

Our Business Conduct Policy consists of six items that address the Group's public responsibilities, social responsibilities, compliance with antitrust and other fair trade regulations, and respect for human rights. Based on the Business Conduct Policy, specific business guidelines are formulated to serve as a code of conduct covering all business activities from the perspectives of legal compliance and ethical conduct.

During the year ended March 2014, each department deepened its understanding of the content and application of the guidelines by presenting cases that could arise in the course of business and discussing what actions the department should take in accordance with the code of conduct.

### Compliance Promotion Framework

The General Affairs Department of Azbil Corporation is primarily responsible for ensuring the full and complete compliance of all employees throughout the azbil Group. The CSR Promotion Committee, chaired by the director in charge of CSR, determines policy and awareness initiatives to ensure legal compliance and ethical behavior. The heads of departments and business office managers are designated as compliance managers

and the heads of sections as compliance leaders, each of whom works to heighten awareness and ensure thorough compliance in each workplace.

In addition, we conduct annual surveys of compliance awareness among all azbil Group officers and employees to identify issues and implement improvements.

### Compliance Education

Compliance education sessions are held annually for directors and all employees, including business office managers, the heads of sections, newly hired employees, newly appointed managers, and employees assigned to overseas postings.

In addition to the annual company-wide compliance training sessions, in the year ending March 2015, compliance training targeting all those holding managerial posts will be introduced, with the goal of increasing the effectiveness of compliance education.

## Azbil Corporation Is Working to Perfect a Governance Framework That Ensures Highly Fair, Neutral, and Transparent Management.

We have built a system that facilitates the prompt implementation of policy initiatives by separating decision making by the Board of Directors from the actual execution of company policy by executive officers. In addition, highly independent outside directors provide oversight of the company's management and execution of business, helping to raise the level of fairness, neutrality, and transparency in the company's management.

### Our Approach to Corporate Governance

Our basic policy on corporate governance is to promote policies that fulfill our social responsibilities based on corporate ethics and that contribute to the welfare of the community based on sound legal and regulatory compliance. We work to consistently increase enterprise value for the benefit of our shareholders and all stakeholders by strengthening policies and structures aimed at realizing highly efficient, fair, and transparent business practices.

### Executive Officer System and Outside Directors

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

The Board of Directors is convened monthly, and management meetings for executive officers, with representatives of the Board of Corporate Auditors also attending, are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision making and strict execution.

As of June 26, 2014, Azbil's Board of Directors consisted of nine members, including three outside directors. Six of the directors also serve as executive officers. All of the outside

directors are highly independent and provide oversight of the company's management and execution of business, thereby helping to raise the level of fairness, neutrality, and transparency in the company's management.

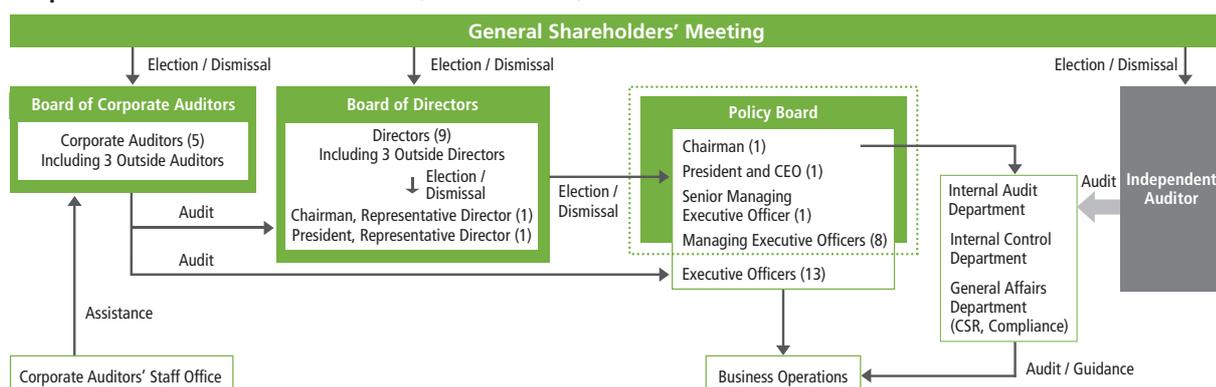
### Corporate Auditor System and Internal Audits

Azbil has a corporate auditor system in which five corporate auditors, including three outside auditors, are appointed, with two of these auditors serving on a full-time basis. The corporate auditors carry out rigorous audits of the administrative decisions and conduct of business by the directors and executive officers, primarily from the perspective of legal compliance. In order to strengthen the auditing function, the company has established the Corporate Auditors' Staff Office under the direct control of the Board of Corporate Auditors, with full-time personnel who assist the corporate auditors in their duties. The corporate auditors maintain close ties with accounting auditors and the Internal Audit Office, exchanging information and opinions regularly in order to improve the effectiveness and efficiency of the audits.

In addition, the Internal Audit Department, which reports directly to the President, regularly audits organizations and structures, the conduct of business, business risks, compliance, and internal control systems. It also provides specific advice and proposals for operational controls and business improvements.

Value-sustaining Structures

Corporate Governance Framework (As of June 26, 2014)



## Executive Compensation

As part of the effort to strengthen corporate governance and achieve sustained improvements in corporate value by meeting the azbil Group's management targets, policies have been established concerning executive compensation. The remuneration of officers clearly reflects business performance during the period in question, based on a system that takes into account each officer's role, responsibilities, and accomplishments.

The remuneration limit for the directors as a group (up to ¥450 million annually) is set at the annual shareholders' meeting. Azbil has established a Nomination and Remuneration

Committee based on its Internal Rules for Director Remuneration to ensure transparency and objectivity in setting the amount of remuneration for individual directors. This committee, consisting of outside directors and representative directors, reviews and determines the remuneration of each director, including the representative directors.

The remuneration limit for corporate auditors as a group (up to ¥120 million annually) is also set at the annual shareholders' meeting, while the remuneration of individual corporate auditors is determined on the basis of discussions among the corporate auditors.

### Remuneration of Executives, etc. (For the year ended March 2014)

| Positions                               | Total remuneration, etc. of executives (Millions of yen) | Total remuneration, etc. by type (Millions of yen) |         |               |                    | Number of executives eligible |
|-----------------------------------------|----------------------------------------------------------|----------------------------------------------------|---------|---------------|--------------------|-------------------------------|
|                                         |                                                          | Basic remuneration                                 | Bonuses | Stock options | Retirement bonuses |                               |
| Directors (excluding outside directors) | 376                                                      | 263                                                | 113     | —             | —                  | 7                             |
| Auditors (excluding outside auditors)   | 45                                                       | 45                                                 | —       | —             | —                  | 2                             |
| Outside directors and auditors          | 47                                                       | 47                                                 | —       | —             | —                  | 6                             |

Note: This includes one corporate auditor whose resignation took effect at the end of the 91st Ordinary General Meeting of Shareholders held on June 26, 2013.

## Reasons for Appointing Outside Directors

### Eugene H. Lee

Mr. Eugene H. Lee brings in-depth knowledge of international law and international business, as well as experience in the management of global companies. The company secured his services in order to benefit from his wealth of experience and wide-ranging insight as a company executive, and in order that corporate governance might be strengthened by virtue of Mr. Lee's independent position.

### Katsuhiko Tanabe

Mr. Katsuhiko Tanabe has been a lawyer for many years and is a legal expert who has held important positions of responsibility in the legal profession. The company secured his services in order to benefit from his specialist viewpoint and wide-ranging insight as a lawyer, and in order that corporate governance might be strengthened by virtue of Mr. Tanabe's independent position.

### Takeshi Ito

Mr. Takeshi Ito has held a succession of important posts in securities and investment management companies, and has abundant knowledge and experience in the financial field. He was appointed in order to provide advice and suggestions for the company's management based on his perspectives on capital markets and other knowledge and experience. In addition, he was appointed to strengthen corporate governance by virtue of his independent position.

## Reasons for Appointing the Outside Auditors

### Kinya Fujimoto

As a certified public accountant, Mr. Kinya Fujimoto has a wealth of knowledge and experience concerning financial affairs and accounting. He was appointed to audit all aspects of the company's business from his specialist viewpoint, based on his knowledge and experience, and to strengthen corporate governance by virtue of his independent position.

### Jyunichi Asada

Mr. Jyunichi Asada was appointed for his wealth of experience and wide-ranging insight into corporate management and other aspects of the auditing of all facets of the company's business, and in order to strengthen corporate governance by virtue of his independent position.

### Hideo Sato

Mr. Hideo Sato was appointed to audit all aspects of the company's business based on his experience as a corporate auditor for other companies and his wide-ranging insight into corporate management and other areas, and to strengthen corporate governance by virtue of his independent position.

## Outside Director Attendance at Meetings of the Board of Directors and Board of Corporate Auditors

(For the year ended March 2014)

| Category  | Name             | Number of meetings of the Board of Directors attended | Number of meetings of the Board of Corporate Auditors attended |
|-----------|------------------|-------------------------------------------------------|----------------------------------------------------------------|
| Directors | Eugene H. Lee    | 11 of 12                                              | —                                                              |
|           | Katsuhiko Tanabe | 9 of 12                                               | —                                                              |
| Auditors  | Kinya Fujimoto   | 12 of 12                                              | 13 of 13                                                       |
|           | Jyunichi Asada   | 12 of 12                                              | 13 of 13                                                       |
|           | Hideo Sato       | 10 of 10*                                             | 9 of 9*                                                        |

\* Corporate auditor Hideo Sato was appointed at the 91st Ordinary General Meeting of Shareholders on June 26, 2013, so only meetings of the Board of Directors and Board of Corporate Auditors held after his appointment are included.

Comment by  
an Outside Director

### The Status and Direction of Azbil's Corporate Governance



**Eugene H. Lee**  
Outside Director

Azbil Corporation's corporate governance program has been evaluated as being in the upper echelon of Japanese companies, which is justifiably a source of pride. It has taken time and effort by management and staff to develop this well-regarded program. We have to remember, however, that corporate governance is much more than a set of rules and standards. It needs to become a way of life throughout the organization. Its objectives need to be reflected in the culture of the organization, not only in Japan, but also worldwide. As such, corporate governance can become a unifying force that illustrates who we are, what we do, and how we do it.

I consider corporate governance to be a priority topic for the Board of Directors, and am gratified by efforts to continuously improve this program. As the company continues to expand its international operations we must try to assure that the culture of corporate governance grows apace.

# Board of Directors, Executive Officers, and Corporate Auditors



Executive Director  
(Outside Director)  
**Eugene H. Lee**

Executive Director, Managing Executive Officer,  
President of the Advanced Automation Company  
**Masato Iwasaki**

Executive Director, Senior  
Managing Executive Officer  
**Tadayuki Sasaki**

Representative Director,  
Chairman of the Board  
**Seiji Onoki**



**1** | Representative Director,  
Chairman of the Board  
**Seiji Onoki**

In charge of the azbil Group (aG) overall

- Apr 1970 | Joined the Company
- Nov 1994 | Systems Development Manager of Industrial Systems Division
- Jun 1996 | Executive Director of the Company
- Jun 2000 | President of Yamatake Industries Systems Co., Ltd. (now the Advanced Automation Company)
- Apr 2003 | Executive Director and Managing Executive Officer of the Company, President of Advanced Automation Company
- Jun 2004 | President and Chief Executive Officer of the Company
- Apr 2012 | Chairman of the Company (present post)

**2** | Representative Director,  
President and Chief Executive Officer  
**Hirozumi Sone**

CEO, in charge of the aG overall, Internal Audit Department, Corporate Planning Department

- Apr 1979 | Joined the Company
- Apr 1996 | Systems Marketing Manager of Systems Development Group, Industrial Systems Division
- Oct 1998 | Transferred to Yamatake Industries Systems Co., Ltd. (now the Company's Advanced Automation Company), as Marketing Manager
- Apr 2005 | Executive Officer of the Company, Manager of the Corporate Planning Department
- Apr 2008 | Managing Executive Officer of the Company, Manager of the Corporate Planning Department
- Jun 2010 | Executive Director of the Company and Managing Executive Officer of the Company
- Apr 2012 | President and Chief Executive Officer of the Company (present post)

**3** | Executive Director, Senior Managing Executive Officer  
**Tadayuki Sasaki**

Assistant to President, in charge of aG CSR, Internal Control, Facilities/Business sites, Group Management Headquarters, General Affairs Department, Legal & Intellectual Property Department, Secretary Office

- Apr 1972 | Joined The Fuji Bank, Limited
- Oct 1999 | Manager of Project Finance Department Sales
- May 2002 | Joined the Company (Director)
- Apr 2003 | Executive Officer and Manager of the Accounting & Finance Department
- Apr 2006 | Managing Executive Officer of the Company
- Jun 2007 | Executive Director of the Company and Managing Executive Officer of the Company
- Apr 2009 | Executive Director of the Company and Senior Managing Executive Officer of the Company (present post)

**4** | Executive Director, Managing Executive Officer,  
President of the Building Systems Company  
**Keiichi Fuwa**

In charge of Building Automation Business, Sales Synergy of aG

- Apr 1974 | Joined the Company
- Oct 1998 | Transferred to Yamatake Building Systems Co., Ltd. (now the Company's Building Systems Company) as Manager of Security System Department of the Tokyo Head Office
- Apr 2006 | Executive Officer of the Company, Manager of Osaka Branch, Building Systems Company
- Apr 2011 | Managing Executive Officer of the Company, Manager of Business Headquarters and Manager of Tokyo Head Office, Building Systems Company
- Apr 2012 | Managing Executive Officer of the Company, President of the Building Systems Company
- Jun 2012 | Executive Director of the Company and Managing Executive Officer of the Company, President of the Building Systems Company (present post)

**5** | Executive Director, Managing Executive Officer,  
President of the Advanced Automation Company  
**Masato Iwasaki**

In charge of Advanced Automation Business

- Apr 1982 | Joined the Company
- Apr 2003 | Manager of Marketing Department 2, and Information Systems Department, Advanced Automation Company
- Apr 2011 | Executive Officer of the Company, Manager of Marketing Department, Advanced Automation Company
- Apr 2012 | Managing Executive Officer of the Company, President of the Advanced Automation Company
- Jun 2012 | Executive Director of the Company and Managing Executive Officer of the Company, President of Advanced Automation Company (present post)



Representative Director,  
President and Chief Executive Officer  
**Hirozumi Sone**

Executive Director, Managing  
Executive Officer, President of  
the Building Systems Company  
**Keiichi Fuwa**

Executive Director,  
Managing Executive Officer  
**Yoshimitsu Hojo**

Executive Director  
(Outside Director)  
**Katsuhiko Tanabe**

Executive Director  
(Outside Director)  
**Takeshi Ito**

**6** Executive Director, Managing Executive Officer  
**Yoshimitsu Hojo**

In charge of aG Production, aG Purchasing, Production Management Headquarters

Aug 1990 Joined the Company  
Apr 2011 Director of the Company, Manager of Business Control Department, Advanced Automation Company  
Apr 2013 Executive Officer of the Company, Manager of Production Management Headquarters  
Apr 2014 Managing Executive Officer of the Company, Manager of Production Management Headquarters (present post)  
Jun 2014 Executive Director of the Company and Managing Executive Officer of the Company (present post)

**7** Executive Director (Outside Director)  
**Eugene H. Lee**

Sep 1970 Professor of International Business and International Law at Sophia University  
Feb 1973 President of International Investment Consultants Ltd.  
Jan 1982 President of Siemens Medical Systems (now Siemens Japan K.K.)  
Dec 1990 Vice Chairman of Siemens K.K. (now Siemens Japan K.K.) (Representative of Siemens AG in Japan)  
Jun 2007 Outside Director of the Company (present post)

**8** Executive Director (Outside Director)  
**Katsuhiko Tanabe**

Apr 1973 Registered as a Lawyer  
Sep 1979 Established Tanabe & Partners (present post)  
Apr 1998 Managing Director of Japan Federation of Bar Associations  
Jun 2000 Outside Auditor of Sanwa Shutter Corporation (now Sanwa Holdings Corporation) (present post)  
Jun 2007 Outside Audit & Supervisory Board Member of the Company  
Jun 2010 Outside Director of the Company (present post)  
Oct 2010 Outside Director of MIRAIT Holdings Corporation

**9** Executive Director (Outside Director)  
**Takeshi Ito**

Sep 1969 Entered Burnham & Company  
Oct 1983 Director of The First Boston Corporation (now Credit Suisse Group AG)  
Oct 1993 Managing Director and Vice Manager of Tokyo Branch, Smith Barney (now Citigroup Global Markets Japan Inc.)  
Oct 1998 President of UBS Asset Management Inc. (now UBS Global Asset Management (Japan) Ltd.)  
Dec 2010 Chief advisor of Japan Wealth Management Securities, Inc. (now Aozora Securities Co., Ltd.)  
Feb 2012 Vice Chairman and Chief Operating Officer of Aozora Securities Co., Ltd.  
Jun 2013 Senior Advisor of Aozora Securities Co., Ltd. (present post)  
Jun 2014 Outside Director of the Company (present post)

**Corporate Auditors**

Full-time Corporate Auditors  
**Tomohiko Matsuyasu**  
**Kensei Sukizaki**

Corporate Auditors  
**Kinya Fujimoto**  
**Jyunichi Asada**  
**Hideo Sato**

**Executive Officers**

Managing Executive Officers  
**Ichio Kunii**  
General Manager of the Home Comfort Headquarters  
Home Comfort Business

**Michihiro Tomonaga**  
Manager for China

**Haruo Tamura**  
General Manager of the Kansai Regional  
Division Building Systems Company

**Yoshihide Sugino**  
General Manager of Technology Development Headquarters  
aG Technology Development, aG Environmental  
Load Innovation, Corporate Quality Assurance  
Promotion, Marketing, Department of Safety  
Assessment, Valve Production Development  
Department, Environment Promotion Department,  
Technology Standardization Department

**Seiichiro Hayashi**  
General Manager of Engineering Headquarters  
Building Systems Company

**Kazuyasu Hamada**  
Vice General Manager of Environmental Facility  
Solution Headquarters  
Building Systems Company  
Environmental Solutions Building Systems Company;  
Security Business

**Kenji Hidaka**  
General Manager of Tokyo Regional Division  
Advanced Automation Company  
Advanced Automation Business Sales

**Kenji Okumura**  
General Manager of Business Sales Headquarters,  
Advanced Automation Company

**Mitsuharu Miyazawa**  
General Manager of Environmental Facility Solution  
Headquarters  
Building Systems Company, General Manager of the  
Tokyo Head Office  
Service Business, aG Safety Management Department

**Hiroshi Shimizu**  
General Manager of Advanced Solution Department  
Engineering Headquarters, Advanced Automation  
Company Advanced Automation Control Business

**Hirohiko Kazato**  
New Business Development for Building Systems  
Company (through synergy with Life Automation  
Business)  
Life Science Engineering Department

**Takayuki Yokota**  
General Manager of Group Management  
Headquarters

Executive Officers  
**Norio Murase**  
General Manager of the Legal & Intellectual  
Property Department

**Akihiko Naruse**  
President of the Azbil Academy  
Human Resources Department

**Hiroshi Arai**  
General Manager of the Information Systems Department  
aG Information Systems

**Kenichi Hayashi**  
General Manager of the Business Control Department  
Building Systems Company

**Yoshifumi Suzuki**  
General Manager of International Business  
Headquarters  
International Business; Document Production Department

**Tetsuo Takamura**  
Vice General Manager of Business Sales  
Headquarters  
Advanced Automation Company

# Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries

March 31, 2014

| ASSETS                                                                                           | Millions of Yen  |                  | Thousands of<br>U.S. Dollars (Note 1) |
|--------------------------------------------------------------------------------------------------|------------------|------------------|---------------------------------------|
|                                                                                                  | 2014             | 2013             | 2014                                  |
| <b>CURRENT ASSETS:</b>                                                                           |                  |                  |                                       |
| Cash and cash equivalents (Note 15)                                                              | ¥ 51,014         | ¥ 46,050         | \$ 495,278                            |
| Marketable securities (Note 4)                                                                   | 14,937           | 13,251           | 145,020                               |
| Notes and accounts receivable:                                                                   |                  |                  |                                       |
| Trade (Note 15)                                                                                  | 88,228           | 88,875           | 856,581                               |
| Other                                                                                            | 2,570            | 2,012            | 24,951                                |
| Allowance for doubtful receivables                                                               | (494)            | (362)            | (4,799)                               |
| Inventories (Note 5)                                                                             | 18,194           | 16,503           | 176,640                               |
| Deferred tax assets (Note 11)                                                                    | 5,404            | 5,531            | 52,463                                |
| Prepaid expenses and other current assets                                                        | 9,525            | 9,854            | 92,486                                |
| Total current assets                                                                             | 189,378          | 181,714          | 1,838,620                             |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                                                            |                  |                  |                                       |
| Land (Notes 6 and 7)                                                                             | 6,624            | 6,699            | 64,310                                |
| Buildings and structures (Notes 6 and 7)                                                         | 40,831           | 39,350           | 396,419                               |
| Machinery and equipment (Notes 6 and 7)                                                          | 19,713           | 18,579           | 191,385                               |
| Furniture and fixtures (Note 6)                                                                  | 20,226           | 21,142           | 196,372                               |
| Lease assets (Note 14)                                                                           | 294              | 397              | 2,853                                 |
| Construction in progress                                                                         | 168              | 188              | 1,629                                 |
| Total                                                                                            | 87,856           | 86,355           | 852,968                               |
| Accumulated depreciation                                                                         | (63,355)         | (61,678)         | (615,091)                             |
| Net property, plant and equipment                                                                | 24,501           | 24,677           | 237,877                               |
| <b>INVESTMENTS AND OTHER ASSETS:</b>                                                             |                  |                  |                                       |
| Investment securities (Notes 4 and 15)                                                           | 16,185           | 14,677           | 157,137                               |
| Investments in and advances to unconsolidated subsidiaries<br>and associated companies (Note 15) | 999              | 1,279            | 9,696                                 |
| Goodwill                                                                                         | 8,084            | 9,663            | 78,483                                |
| Deposits                                                                                         | 2,633            | 2,740            | 25,560                                |
| Deferred tax assets (Note 11)                                                                    | 2,102            | 1,801            | 20,404                                |
| Other assets (Note 6)                                                                            | 9,566            | 6,868            | 92,886                                |
| Total investments and other assets                                                               | 39,569           | 37,028           | 384,166                               |
| <b>TOTAL</b>                                                                                     | <b>¥ 253,448</b> | <b>¥ 243,419</b> | <b>\$ 2,460,663</b>                   |

See notes to consolidated financial statements.

| LIABILITIES AND EQUITY                                                           | Millions of Yen |           | Thousands of U.S.<br>Dollars (Note 1) |
|----------------------------------------------------------------------------------|-----------------|-----------|---------------------------------------|
|                                                                                  | 2014            | 2013      | 2014                                  |
| <b>CURRENT LIABILITIES:</b>                                                      |                 |           |                                       |
| Short-term borrowings (Notes 7 and 15)                                           | ¥ 13,279        | ¥ 9,191   | \$ 128,925                            |
| Current portion of long-term debt (Notes 7 and 15)                               | 2,200           | 4,250     | 21,358                                |
| Notes and accounts payable:                                                      |                 |           |                                       |
| Trade (Note 15)                                                                  | 41,456          | 40,548    | 402,488                               |
| Other                                                                            | 1,835           | 1,221     | 17,812                                |
| Income taxes payable                                                             | 6,248           | 5,626     | 60,660                                |
| Accrued bonuses                                                                  | 8,710           | 7,934     | 84,561                                |
| Other accrued expenses and current liabilities                                   | 13,629          | 14,058    | 132,320                               |
| Total current liabilities                                                        | 87,357          | 82,828    | 848,124                               |
| <b>LONG-TERM LIABILITIES:</b>                                                    |                 |           |                                       |
| Long-term debt (Notes 7 and 15)                                                  | 2,338           | 4,602     | 22,698                                |
| Liability for retirement benefits (Note 8)                                       | 16,748          | 12,825    | 162,602                               |
| Deferred tax liabilities (Note 11)                                               | 1,026           | 946       | 9,958                                 |
| Other long-term liabilities                                                      | 1,001           | 1,021     | 9,721                                 |
| Total long-term liabilities                                                      | 21,113          | 19,394    | 204,979                               |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b><br>(Notes 14, 16 and 17)           |                 |           |                                       |
| <b>EQUITY</b> (Notes 9, 10 and 19):                                              |                 |           |                                       |
| Common stock—authorized, 279,710,000 shares;<br>issued, 75,116,101 shares        | 10,523          | 10,523    | 102,162                               |
| Capital surplus                                                                  | 17,198          | 17,198    | 166,969                               |
| Stock acquisition rights                                                         | 2               | 2         | 23                                    |
| Retained earnings                                                                | 114,275         | 111,141   | 1,109,469                             |
| Treasury stock—at cost, 1,263,194 shares in 2014 and<br>1,262,123 shares in 2013 | (2,647)         | (2,644)   | (25,695)                              |
| Accumulated other comprehensive income:                                          |                 |           |                                       |
| Unrealized gain on available-for-sale securities                                 | 4,978           | 3,776     | 48,335                                |
| Deferred gain on derivatives under hedge accounting                              | 1               |           | 5                                     |
| Foreign currency translation adjustments                                         | 825             | (952)     | 8,006                                 |
| Defined retirement benefit plan                                                  | (1,837)         |           | (17,834)                              |
| Total                                                                            | 143,318         | 139,044   | 1,391,440                             |
| Minority interests                                                               | 1,660           | 2,153     | 16,120                                |
| Total equity                                                                     | 144,978         | 141,197   | 1,407,560                             |
| <b>TOTAL</b>                                                                     | ¥ 253,448       | ¥ 243,419 | \$ 2,460,663                          |

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries  
Year Ended March 31, 2014

## Consolidated Statement of Income

|                                                                             | Millions of Yen |           | Thousands of U.S. Dollars (Note 1) |
|-----------------------------------------------------------------------------|-----------------|-----------|------------------------------------|
|                                                                             | 2014            | 2013      | 2014                               |
| <b>NET SALES</b>                                                            | ¥ 248,417       | ¥ 227,585 | \$ 2,411,811                       |
| <b>COST OF SALES</b> (Notes 8 and 14)                                       | 161,867         | 149,713   | 1,571,523                          |
| Gross profit                                                                | 86,550          | 77,872    | 840,288                            |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b><br>(Notes 8, 13 and 14) | 72,646          | 64,461    | 705,301                            |
| Operating income                                                            | 13,904          | 13,411    | 134,987                            |
| <b>OTHER INCOME (EXPENSES):</b>                                             |                 |           |                                    |
| Interest income                                                             | 170             | 128       | 1,654                              |
| Dividend income                                                             | 300             | 285       | 2,911                              |
| Interest expense                                                            | (394)           | (108)     | (3,825)                            |
| Foreign currency exchange gain                                              | 518             | 955       | 5,028                              |
| Gain (loss) on sales of property, plant, equipment and others—net           | (54)            | 587       | (523)                              |
| Gain on sales of investment securities—net (Note 4)                         | 25              |           | 239                                |
| Loss on impairment of long-lived assets (Note 6)                            | (36)            | (95)      | (346)                              |
| Others—net (Note 12)                                                        | 116             | (1,071)   | 1,128                              |
| Other income—net                                                            | 645             | 681       | 6,266                              |
| <b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>                    | 14,549          | 14,092    | 141,253                            |
| <b>INCOME TAXES</b> (Note 11):                                              |                 |           |                                    |
| Current                                                                     | 6,664           | 5,617     | 64,696                             |
| Deferred                                                                    | 237             | (59)      | 2,301                              |
| Total income taxes                                                          | 6,901           | 5,558     | 66,997                             |
| <b>NET INCOME BEFORE MINORITY INTERESTS</b>                                 | 7,648           | 8,534     | 74,256                             |
| <b>MINORITY INTERESTS IN NET INCOME</b>                                     | 21              | (225)     | 207                                |
| <b>NET INCOME</b>                                                           | ¥ 7,669         | ¥ 8,309   | \$ 74,463                          |

|                                              | Yen      |          | U.S. Dollars (Note 1) |
|----------------------------------------------|----------|----------|-----------------------|
|                                              | 2014     | 2013     | 2014                  |
| <b>PER SHARE OF COMMON STOCK</b> (Note 2.t): |          |          |                       |
| Net income                                   | ¥ 103.85 | ¥ 112.50 | \$ 1.01               |
| Cash dividends applicable to the year        | 63.00    | 63.00    | 0.61                  |

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

|                                                     | Millions of Yen |          | Thousands of U.S. Dollars (Note 1) |
|-----------------------------------------------------|-----------------|----------|------------------------------------|
|                                                     | 2014            | 2013     | 2014                               |
| <b>NET INCOME BEFORE MINORITY INTERESTS</b>         | ¥ 7,648         | ¥ 8,534  | \$ 74,256                          |
| <b>OTHER COMPREHENSIVE INCOME</b> (Note 18):        |                 |          |                                    |
| Unrealized gain on available-for-sale securities    | 1,202           | 1,325    | 11,673                             |
| Deferred gain on derivatives under hedge accounting |                 | 1        | 1                                  |
| Foreign currency translation adjustments            | 2,042           | 681      | 19,825                             |
| Total other comprehensive income                    | 3,244           | 2,007    | 31,499                             |
| <b>COMPREHENSIVE INCOME</b>                         | ¥ 10,892        | ¥ 10,541 | \$ 105,755                         |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>  |                 |          |                                    |
| Azbil Corporation                                   | ¥ 10,649        | ¥ 10,184 | \$ 103,388                         |
| Minority interests                                  | 243             | 357      | 2,367                              |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries

Year Ended March 31, 2014

|                                                                     | Thousands                                    |              |                 |                          | Millions of Yen   |                |                                                  |                                                            |                                          |                                 |           |         |                    |              |
|---------------------------------------------------------------------|----------------------------------------------|--------------|-----------------|--------------------------|-------------------|----------------|--------------------------------------------------|------------------------------------------------------------|------------------------------------------|---------------------------------|-----------|---------|--------------------|--------------|
|                                                                     | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Stock Acquisition Rights | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss)    |                                                            |                                          |                                 |           | Total   | Minority Interests | Total Equity |
|                                                                     |                                              |              |                 |                          |                   |                | Unrealized Gain on Available-for-Sale Securities | Deferred Gain (Loss) on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plan |           |         |                    |              |
| <b>BALANCE, APRIL 1, 2012</b>                                       | 73,855                                       | ¥ 10,523     | ¥ 17,198        | ¥ 2                      | ¥ 107,538         | ¥ (2,643)      | ¥ 2,452                                          | ¥ (1)                                                      | ¥ (1,502)                                |                                 | ¥ 133,567 | ¥ 1,510 | ¥ 135,077          |              |
| Adjustment of retained earnings for newly consolidated subsidiaries |                                              |              |                 |                          | (53)              |                |                                                  |                                                            |                                          |                                 | (53)      |         | (53)               |              |
| Net income                                                          |                                              |              |                 |                          | 8,309             |                |                                                  |                                                            |                                          |                                 | 8,309     |         | 8,309              |              |
| Cash dividends, ¥63 per share                                       |                                              |              |                 |                          | (4,653)           |                |                                                  |                                                            |                                          |                                 | (4,653)   |         | (4,653)            |              |
| Purchase of treasury stock                                          | (1)                                          |              |                 |                          |                   | (1)            |                                                  |                                                            |                                          |                                 | (1)       |         | (1)                |              |
| Disposal of treasury stock                                          |                                              |              |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |           |         |                    |              |
| Transfer from retained earnings to capital surplus                  |                                              |              |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |           |         |                    |              |
| Net change in the year                                              |                                              |              |                 |                          |                   |                | 1,324                                            | 1                                                          | 550                                      |                                 | 1,875     | 643     | 2,518              |              |
| <b>BALANCE, MARCH 31, 2013</b>                                      | 73,854                                       | 10,523       | 17,198          | 2                        | 111,141           | (2,644)        | 3,776                                            |                                                            | (952)                                    |                                 | 139,044   | 2,153   | 141,197            |              |
| Adjustment of retained earnings for newly consolidated subsidiaries |                                              |              |                 |                          | 118               |                |                                                  |                                                            |                                          |                                 | 118       |         | 118                |              |
| Net income                                                          |                                              |              |                 |                          | 7,669             |                |                                                  |                                                            |                                          |                                 | 7,669     |         | 7,669              |              |
| Cash dividends, ¥63 per share                                       |                                              |              |                 |                          | (4,653)           |                |                                                  |                                                            |                                          |                                 | (4,653)   |         | (4,653)            |              |
| Purchase of treasury stock                                          | (1)                                          |              |                 |                          |                   | (3)            |                                                  |                                                            |                                          |                                 | (3)       |         | (3)                |              |
| Disposal of treasury stock                                          |                                              |              |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |           |         |                    |              |
| Transfer from retained earnings to capital surplus                  |                                              |              |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |           |         |                    |              |
| Net change in the year                                              |                                              |              |                 |                          |                   |                | 1,202                                            | 1                                                          | 1,777                                    | ¥ (1,837)                       | 1,143     | (493)   | 650                |              |
| <b>BALANCE, MARCH 31, 2014</b>                                      | 73,853                                       | ¥ 10,523     | ¥ 17,198        | ¥ 2                      | ¥ 114,275         | ¥ (2,647)      | ¥ 4,978                                          | ¥ 1                                                        | ¥ 825                                    | ¥ (1,837)                       | ¥ 143,318 | ¥ 1,660 | ¥ 144,978          |              |

|                                                                     | Thousands of U.S. Dollars (Note 1) |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |            |              |                    |              |
|---------------------------------------------------------------------|------------------------------------|-----------------|--------------------------|-------------------|----------------|--------------------------------------------------|------------------------------------------------------------|------------------------------------------|---------------------------------|------------|--------------|--------------------|--------------|
|                                                                     | Common Stock                       | Capital Surplus | Stock Acquisition Rights | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss)    |                                                            |                                          |                                 |            | Total        | Minority Interests | Total Equity |
|                                                                     |                                    |                 |                          |                   |                | Unrealized Gain on Available-for-Sale Securities | Deferred Gain (Loss) on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plan |            |              |                    |              |
| <b>BALANCE, MARCH 31, 2013</b>                                      | \$102,162                          | \$166,969       | \$ 23                    | \$ 1,079,042      | \$(25,672)     | \$ 36,661                                        | \$ 4                                                       | \$ (9,244)                               |                                 |            | \$ 1,349,945 | \$ 20,903          | \$ 1,370,848 |
| Adjustment of retained earnings for newly consolidated subsidiaries |                                    |                 |                          | 1,136             |                |                                                  |                                                            |                                          |                                 |            | 1,136        |                    | 1,136        |
| Net income                                                          |                                    |                 |                          | 74,463            |                |                                                  |                                                            |                                          |                                 |            | 74,463       |                    | 74,463       |
| Cash dividends, \$0.61 per share                                    |                                    |                 |                          | (45,172)          |                |                                                  |                                                            |                                          |                                 |            | (45,172)     |                    | (45,172)     |
| Purchase of treasury stock                                          |                                    |                 |                          |                   | (25)           |                                                  |                                                            |                                          |                                 |            | (25)         |                    | (25)         |
| Disposal of treasury stock                                          |                                    |                 |                          |                   | 2              |                                                  |                                                            |                                          |                                 |            | 2            |                    | 2            |
| Transfer from retained earnings to capital surplus                  |                                    |                 |                          |                   |                |                                                  |                                                            |                                          |                                 |            |              |                    |              |
| Net change in the year                                              |                                    |                 |                          |                   |                |                                                  | 11,674                                                     | 1                                        | 17,250                          | \$(17,834) | 11,091       | (4,783)            | 6,308        |
| <b>BALANCE, MARCH 31, 2014</b>                                      | \$102,162                          | \$166,969       | \$ 23                    | \$ 1,109,469      | \$(25,695)     | \$ 48,335                                        | \$ 5                                                       | \$ 8,006                                 | \$(17,834)                      |            | \$ 1,391,440 | \$ 16,120          | \$ 1,407,560 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries

Year Ended March 31, 2014

|                                                                                                                                                                                                                                                                                                          | Millions of Yen |          | Thousands of U.S.<br>Dollars (Note 1) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------|---------------------------------------|
|                                                                                                                                                                                                                                                                                                          | 2014            | 2013     | 2014                                  |
| <b>OPERATING ACTIVITIES:</b>                                                                                                                                                                                                                                                                             |                 |          |                                       |
| Income before income taxes and minority interests                                                                                                                                                                                                                                                        | ¥ 14,549        | ¥ 14,092 | \$ 141,253                            |
| Adjustments for:                                                                                                                                                                                                                                                                                         |                 |          |                                       |
| Income taxes—paid                                                                                                                                                                                                                                                                                        | (5,947)         | (5,414)  | (57,736)                              |
| Depreciation and amortization                                                                                                                                                                                                                                                                            | 5,595           | 4,980    | 54,317                                |
| Reversal of doubtful receivables                                                                                                                                                                                                                                                                         | 189             | (98)     | 1,831                                 |
| Increase (decrease) in accrued bonuses                                                                                                                                                                                                                                                                   | 746             | (351)    | 7,240                                 |
| Loss (gain) on sales of property, plant and equipment—net                                                                                                                                                                                                                                                | 54              | (404)    | 523                                   |
| Gain on sales of investment securities—net                                                                                                                                                                                                                                                               | (25)            |          | (239)                                 |
| Loss on impairment of long-lived assets—trade                                                                                                                                                                                                                                                            | 36              | 95       | 346                                   |
| Changes in assets and liabilities:                                                                                                                                                                                                                                                                       |                 |          |                                       |
| Decrease in notes and accounts receivable                                                                                                                                                                                                                                                                | 2,630           | 2,596    | 25,534                                |
| (Increase) decrease in inventories                                                                                                                                                                                                                                                                       | (847)           | 1,982    | (8,219)                               |
| Decrease in notes and accounts payable                                                                                                                                                                                                                                                                   | (341)           | (1,040)  | (3,306)                               |
| (Decrease) increase in liability for retirement benefits                                                                                                                                                                                                                                                 | 1,319           | (172)    | 12,803                                |
| Increase in other assets                                                                                                                                                                                                                                                                                 | (1,091)         | (851)    | (10,590)                              |
| Decrease in other liabilities                                                                                                                                                                                                                                                                            | (772)           | (38)     | (7,491)                               |
| Others—net                                                                                                                                                                                                                                                                                               | (259)           | (367)    | (2,527)                               |
| Total adjustments                                                                                                                                                                                                                                                                                        | 1,287           | 918      | 12,486                                |
| Net cash provided by operating activities                                                                                                                                                                                                                                                                | 15,836          | 15,010   | 153,739                               |
| <b>INVESTING ACTIVITIES:</b>                                                                                                                                                                                                                                                                             |                 |          |                                       |
| Proceeds from sales of property, plant and equipment                                                                                                                                                                                                                                                     | 254             | 590      | 2,466                                 |
| Purchases of property, plant and equipment                                                                                                                                                                                                                                                               | (2,651)         | (2,513)  | (25,735)                              |
| Purchase of intangible assets                                                                                                                                                                                                                                                                            | (2,092)         | (783)    | (20,308)                              |
| Proceeds from sales of investment securities                                                                                                                                                                                                                                                             | 250             | 4        | 2,426                                 |
| Purchases of investment securities                                                                                                                                                                                                                                                                       | (27)            | (35)     | (261)                                 |
| Proceeds from sales of beneficiary securities of trust                                                                                                                                                                                                                                                   | 12,999          | 13,890   | 126,200                               |
| Purchases of beneficiary securities of trust                                                                                                                                                                                                                                                             | (13,302)        | (13,403) | (129,144)                             |
| Proceeds from sales of marketable securities                                                                                                                                                                                                                                                             | 9,845           | 32       | 95,586                                |
| Purchase of marketable securities                                                                                                                                                                                                                                                                        | (16,700)        | (3,000)  | (162,137)                             |
| Payments for acquisition of a newly consolidated subsidiary                                                                                                                                                                                                                                              |                 | (7,575)  |                                       |
| Others—net                                                                                                                                                                                                                                                                                               | 754             | 77       | 7,318                                 |
| Net cash used in investing activities                                                                                                                                                                                                                                                                    | (10,670)        | (12,716) | (103,589)                             |
| <b>FINANCING ACTIVITIES:</b>                                                                                                                                                                                                                                                                             |                 |          |                                       |
| Net increase in short-term borrowings                                                                                                                                                                                                                                                                    | 789             | 3,896    | 7,662                                 |
| Proceeds from long-term debt                                                                                                                                                                                                                                                                             | 87              | 140      | 847                                   |
| Repayment of long-term debt                                                                                                                                                                                                                                                                              | (2,502)         | (1,628)  | (24,288)                              |
| Disposal of treasury stock                                                                                                                                                                                                                                                                               |                 |          | 2                                     |
| Purchase of treasury stock                                                                                                                                                                                                                                                                               | (3)             | (1)      | (25)                                  |
| Dividends paid                                                                                                                                                                                                                                                                                           | (5,248)         | (4,810)  | (50,952)                              |
| Others—net                                                                                                                                                                                                                                                                                               | (63)            | (84)     | (621)                                 |
| Net cash used in financing activities                                                                                                                                                                                                                                                                    | (6,940)         | (2,487)  | (67,375)                              |
| <b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS<br/>ON CASH AND CASH EQUIVALENTS</b>                                                                                                                                                                                                                         | 1,533           | 837      | 14,880                                |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH<br/>EQUIVALENTS</b>                                                                                                                                                                                                                                          | (241)           | 644      | (2,345)                               |
| <b>CASH AND CASH EQUIVALENTS OF NEWLY<br/>CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR</b>                                                                                                                                                                                                               | 36              | 50       | 350                                   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                                                                                                                                                                                                                      | 56,050          | 55,356   | 544,179                               |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                                                                                                                                                                                                                                            | ¥ 55,845        | ¥ 56,050 | \$ 542,184                            |
| <b>ADDITIONAL INFORMATION:</b>                                                                                                                                                                                                                                                                           |                 |          |                                       |
| Increase in assets and liabilities, cash paid for capital, goodwill and minority interests in the acquisition of Beijing YTYH Intelli-Technology Co., Ltd., Azbil TA Co., Ltd. (former TACO Co., Ltd.), Azbil VorTek, LLC, Azbil Telstar, S.L. (former Telstar, S.A.) and its consolidated subsidiaries: |                 |          |                                       |
| Assets acquired                                                                                                                                                                                                                                                                                          |                 | ¥ 14,405 |                                       |
| Liabilities assumed                                                                                                                                                                                                                                                                                      |                 | 12,642   |                                       |
| Cash paid for capital                                                                                                                                                                                                                                                                                    |                 | 9,758    |                                       |
| Goodwill                                                                                                                                                                                                                                                                                                 |                 | 8,418    |                                       |
| Minority interests                                                                                                                                                                                                                                                                                       |                 | 423      |                                       |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries  
Year Ended March 31, 2014

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103 to \$1, the approximate rate of exchange as of March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2014, include the accounts of Azbil and its 59 significant (64 in 2013) subsidiaries (together, the "azbil Group").

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

Investments in 3 (4 in 2013) associated companies are accounted for by the equity method.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill from the acquisition of Azbil Kimmon Co., Ltd. ("Azbil Kimmon") is being amortized over seven years and Azbil Telstar, S.L. and its group are being amortized over nine years. Other goodwill is being amortized on a straight-line basis over five years, with the exception of minor amounts which are charged to income in the period of the acquisitions.

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

**b. Business Combinations**—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

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

**c. Cash Equivalents**—Cash equivalents are short term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

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

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

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

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

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

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

**h. Long-Lived Assets**—The azbil Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and the eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and the eventual disposition of the asset or the net selling price at disposition.

**i. Retirement and Pension Plans**—Azbil has a noncontributory funded pension plan and a defined contribution pension plan covering substantially all of its employees.

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

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

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

- (a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.v).
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

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

The azbil Group applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥2,602 million (\$25,261 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥1,837 million (\$17,834 thousand) and net assets per share for the year ended March 31, 2014, decreased by ¥24.87 (\$0.24).

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

**j. Asset Retirement Obligations**—In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the

asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**k. Stock Options**—In December 2005, the ASBJ issued ASBJ Statement No. 8, “Accounting Standard for Stock Options,” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

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

**m. Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions.

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

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

All other leases are accounted for as operating leases.

**n. Bonuses to Directors**—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2014 and 2013, was ¥110 million (\$1,065 thousand) and ¥96 million, respectively.

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

**p. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences and tax loss carryforwards.

**q. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**r. Foreign Currency Financial Statements**—The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

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

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

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

**t. Per Share Information**—Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares of common stock used in the computation was 73,853,357 shares for 2014 and 73,854,399 shares for 2013.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

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

**u. Accounting Changes and Error Corrections**—In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

- (1) Changes in accounting policies  
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
- (2) Changes in presentations  
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
- (3) Changes in accounting estimates  
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
- (4) Corrections of prior-period errors  
When an error in prior-period financial statements is discovered, those statements are restated.

#### **v. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

- (a) Treatment in the balance sheet  
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, is recognized as a liability or asset.  
Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) Treatment in the statement of income and the statement of comprehensive income  
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.
- (c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases  
The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

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

The azbil Group applied the revised accounting standard for (a) and (b) above effective March 31, 2014. As a result, liability for retirement benefits at beginning of the year decreased by ¥7,986 million (\$77,532 thousand), and retained earnings at the beginning of the year increased by ¥5,149 million (\$49,988 thousand). The azbil Group expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

**Accounting Standards for Business Combinations and Consolidated Financial Statements**—On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” revised ASBJ Guidance No. 10, “Guidance on Accounting Standards for Business Combinations and Business Divestitures,” and revised ASBJ Statement No. 22, “Accounting Standard for Consolidated Financial Statements.”

Major accounting changes are as follows:

- (a) **Transactions with noncontrolling interest**  
A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.
- (b) **Presentation of the consolidated balance sheet**  
In the consolidated balance sheet, “minority interest” under the current accounting standard will be changed to “noncontrolling interest” under the revised accounting standard.
- (c) **Presentation of the consolidated statement of income**  
In the consolidated statement of income, “income before minority interest” under the current accounting standard will be changed to “net income” under the revised accounting standard, and “net income” under the current accounting standard will be changed to “net income attributable to owners of the parent” under the revised accounting standard.
- (d) **Provisional accounting treatments for a business combination**  
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
- (e) **Acquisition-related costs**  
Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard,

the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for “transactions with noncontrolling interest,” “acquisition-related costs” and “presentation changes in the consolidated financial statements” are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” is permitted. In retrospective application of the revised standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs,” accumulated effects of retrospective adjustments for all “transactions with noncontrolling interest” and “acquisition-related costs” which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for “provisional accounting treatments for a business combination” is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The azbil Group expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

### 3. BUSINESS COMBINATION

#### Transaction under Common Control

##### a. Summary of the Transaction

(1) Name of the parties of the transaction and their business

|          | Continuing Company                                                                                                                                                                                                                                                                                 | Merged Company                                                                                                                                                           |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name     | Azbil RoyalControls Co., Ltd.                                                                                                                                                                                                                                                                      | Azbil Trading Co., Ltd.                                                                                                                                                  |
| Business | Sale of industrial automation and control equipment; instrumentation system engineering; design of panels; instrumentation engineering; production of various software; test operation, adjustment, and planned maintenance of factory automation equipment; and non-life insurance agent business | Sale, design, and test operation of, and technical services for control, measurement, inspection, safety, and environmental equipment and systems for factory automation |
| Capital  | ¥50 million (\$485 thousand)                                                                                                                                                                                                                                                                       | ¥50 million (\$485 thousand)                                                                                                                                             |

(2) Date of business combination

April 1, 2013

(3) Legal form of business combination

Absorption-type Merger; Azbil RoyalControls Co., Ltd. is the continuing company and Azbil Trading Co., Ltd. is the merged company.

(4) Company name after business combination

Azbil Trading Co., Ltd.

(5) Purpose of the transaction

Guided by the "human-centered automation" philosophy, the azbil Group has been redefining its businesses and reforming business structures in its drive for global growth. Even in Japan, with a mature economy and continuing structural change, the azbil Group has secured a growth model by combining the characteristics of its three core businesses (Building Automation business, Advanced Automation business, and Life Automation business). Furthermore, by strengthening ties with global partners, it is planning to globally deploy this model to enhance growth and business efficiency. This merger of two azbil Group sales companies is a tangible development of establishing a model for growth in Japan.

In the face of severe conditions in the domestic markets for electric and electronics, semiconductors, automobiles, and machine tools, the former Azbil Trading Co., Ltd. and Azbil RoyalControls Co., Ltd. have been reforming their business and operational structures as they aimed to establish a growth model for further development. This merger will accelerate these activities. Furthermore, as a technology-specialized trading firm of the azbil Group, which is guided by the Group philosophy of "human-centered automation," it will strive to expand business and enhance its enterprise power through synergies that leverage the strength of both companies.

##### b. Outline of the Accounting Treatment

This transaction is accounted for as a transaction under common control in accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10, "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (both issued by the ASBJ on December 26, 2008).

#### 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

|                   | Millions of Yen |          | Thousands of U.S. Dollars |
|-------------------|-----------------|----------|---------------------------|
|                   | 2014            | 2013     | 2014                      |
| Current—Other     | ¥ 14,937        | ¥ 13,251 | \$ 145,020                |
| Total             | ¥ 14,937        | ¥ 13,251 | \$ 145,020                |
| Noncurrent:       |                 |          |                           |
| Equity securities | ¥ 16,182        | ¥ 14,528 | \$ 157,109                |
| Other             | 3               | 149      | 28                        |
| Total             | ¥ 16,185        | ¥ 14,677 | \$ 157,137                |

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2014 and 2013, were as follows:

|                                              | Millions of Yen |                  |                   |            | Thousands of U.S. Dollars |                  |                   |            |           |                  |                   |            |
|----------------------------------------------|-----------------|------------------|-------------------|------------|---------------------------|------------------|-------------------|------------|-----------|------------------|-------------------|------------|
|                                              | 2014            |                  |                   |            | 2013                      |                  |                   |            | 2014      |                  |                   |            |
|                                              | Cost            | Unrealized Gains | Unrealized Losses | Fair Value | Cost                      | Unrealized Gains | Unrealized Losses | Fair Value | Cost      | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as available-for-sale: |                 |                  |                   |            |                           |                  |                   |            |           |                  |                   |            |
| Equity securities                            | ¥ 5,793         | ¥ 9,753          | ¥ 38              | ¥ 15,508   | ¥ 5,874                   | ¥ 7,904          | ¥ 81              | ¥ 13,697   | \$ 56,241 | \$ 94,685        | \$ 365            | \$ 150,561 |
| Other                                        | 14,937          |                  |                   | 14,937     | 13,058                    | 6                | 1                 | 13,063     | 145,020   |                  |                   | 145,020    |

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2014 and 2013, is disclosed in Note 15.

The information for available-for-sale securities which were sold during the years ended March 31, 2014 and 2013, is as follows:

|                                      | Millions of Yen |                |                 |          |                |                 | Thousands of U.S. Dollars |                |                 |
|--------------------------------------|-----------------|----------------|-----------------|----------|----------------|-----------------|---------------------------|----------------|-----------------|
|                                      | 2014            |                |                 | 2013     |                |                 | 2014                      |                |                 |
|                                      | Proceeds        | Realized Gains | Realized Losses | Proceeds | Realized Gains | Realized Losses | Proceeds                  | Realized Gains | Realized Losses |
| Available-for-sale—Equity securities | ¥ 274           | ¥ 44           | ¥ 19            | ¥ 4      |                |                 | \$ 2,665                  | \$ 423         | \$ 184          |

The impairment losses on available-for-sale equity securities for the years ended March 31, 2014 and 2013, were ¥134 million (\$1,297 thousand) and ¥10 million, respectively.

#### 5. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

|                   | Millions of Yen |          | Thousands of U.S. Dollars |
|-------------------|-----------------|----------|---------------------------|
|                   | 2014            | 2013     | 2014                      |
| Merchandise       | ¥ 1,203         | ¥ 1,720  | \$ 11,682                 |
| Finished products | 3,034           | 2,467    | 29,454                    |
| Work in process   | 5,959           | 5,263    | 57,849                    |
| Raw materials     | 7,998           | 7,053    | 77,655                    |
| Total             | ¥ 18,194        | ¥ 16,503 | \$ 176,640                |

#### 6. LONG-LIVED ASSETS

The azbil Group reviewed its long-lived assets for impairment, and recognized impairment losses of ¥36 million (\$346 thousand) and ¥95 million for the years ended March 31, 2014 and 2013, respectively, for certain assets of Azbil Kimmon.

The carrying amount of the relevant property, plant and the idle asset and equipment was written down to the net selling price.

## 7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2014 and 2013, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.5% to 7.8% as of March 31, 2014, and from 0.5% to 9.0% as of March 31, 2013.

Long-term debt as of March 31, 2014 and 2013, consisted of the following:

|                                                                                                                                                                   | Millions of Yen |         | Thousands of U.S. Dollars |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------|---------------------------|
|                                                                                                                                                                   | 2014            | 2013    | 2014                      |
| Loans from banks and other financial institutions, due serially through 2029 with interest rates ranging from 0.0% to 3.1% in 2014 and from 0.0% to 5.6% in 2013: |                 |         |                           |
| Collateralized                                                                                                                                                    | ¥ 568           | ¥ 1,221 | \$ 5,517                  |
| Unsecured                                                                                                                                                         | 3,749           | 7,338   | 36,398                    |
| Bonds due serially through 2016 with interest rates ranging from 0.7% to 0.9% in 2014 and from 0.7% to 1.5% in 2013—Collateralized                                | 90              | 170     | 874                       |
| Obligations under finance leases                                                                                                                                  | 131             | 123     | 1,267                     |
| Total                                                                                                                                                             | 4,538           | 8,852   | 44,056                    |
| Less current portion                                                                                                                                              | (2,200)         | (4,250) | (21,358)                  |
| Long-term debt, less current portion                                                                                                                              | ¥ 2,338         | ¥ 4,602 | \$ 22,698                 |

As of March 31, 2014, Azbil had an unused line of credit amounting to ¥30,000 million (\$291,262 thousand), of which ¥10,000 million (\$97,087 thousand) related to the unused portion of commitment lines with four banks and ¥20,000 million (\$194,175 thousand) related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2014, for the next five years and thereafter were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2015                 | ¥ 2,200         | \$ 21,358                 |
| 2016                 | 1,798           | 17,461                    |
| 2017                 | 230             | 2,231                     |
| 2018                 | 124             | 1,198                     |
| 2019                 | 55              | 537                       |
| 2020 and thereafter  | 131             | 1,271                     |
| Total                | ¥ 4,538         | \$ 44,056                 |

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2014, were as follows:

|                                   | Millions of Yen | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|---------------------------|
| Land                              | ¥ 444           | \$ 4,309                  |
| Buildings and structures          | 229             | 2,219                     |
| Machinery, equipment and vehicles | 3               | 30                        |
| Total                             | ¥ 676           | \$ 6,558                  |

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

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

## 8. RETIREMENT AND PENSION PLANS

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

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

The liability for retirement benefits at March 31, 2014 and 2013, for directors and Audit & Supervisory Board members is ¥112 million (\$1,084 thousand) and ¥105 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

### Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

|                              | Millions of Yen | Thousands of U.S. Dollars |
|------------------------------|-----------------|---------------------------|
| Balance at beginning of year | ¥ 44,934        | \$ 436,255                |
| Current service cost         | 1,631           | 15,834                    |
| Interest cost                | 359             | 3,490                     |
| Actuarial gains              | (617)           | (5,995)                   |
| Benefits paid                | (1,758)         | (17,066)                  |
| Balance at end of year       | ¥ 44,549        | \$ 432,518                |

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

|                                 | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------------|-----------------|---------------------------|
| Balance at beginning of year    | ¥ 29,871        | \$ 290,012                |
| Expected return on plan assets  | 149             | 1,450                     |
| Actuarial gains                 | 2,381           | 23,116                    |
| Contributions from the employer | 2,773           | 26,921                    |
| Benefits paid                   | (1,758)         | (17,066)                  |
| Balance at end of year          | ¥ 33,416        | \$ 324,433                |

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

|                                                       | Millions of Yen | Thousands of U.S. Dollars |
|-------------------------------------------------------|-----------------|---------------------------|
| Funded defined benefit obligation                     | ¥ 44,549        | \$ 432,518                |
| Plan assets                                           | (33,416)        | (324,433)                 |
|                                                       | 11,133          | 108,085                   |
| Unfunded defined benefit obligation                   | 5,503           | 53,430                    |
| Net liability arising from defined benefit obligation | ¥ 16,636        | \$ 161,515                |

|                                                       | Millions of Yen | Thousands of U.S. Dollars |
|-------------------------------------------------------|-----------------|---------------------------|
| Liability for retirement benefits                     | ¥ 16,636        | \$ 161,515                |
| Asset for retirement benefits                         |                 | (2)                       |
| Net liability arising from defined benefit obligation | ¥ 16,636        | \$ 161,517                |

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

|                                     | Millions of Yen | Thousands of U.S. Dollars |
|-------------------------------------|-----------------|---------------------------|
| Service cost                        | ¥ 2,236         | \$ 21,711                 |
| Interest cost                       | 388             | 3,763                     |
| Expected return on plan assets      | (149)           | (1,450)                   |
| Recognized actuarial losses         | 2,377           | 23,073                    |
| Amortization of prior service costs | (186)           | (1,803)                   |
| Others                              | 378             | 3,681                     |
| Net periodic benefit costs          | ¥ 5,044         | \$ 48,975                 |

(5) Accumulated other comprehensive income on defined retirement benefit plans before adjustment for tax effects as of March 31, 2014

|                                 | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------------|-----------------|---------------------------|
| Unrecognized prior service cost | ¥ 1,529         | \$ 14,848                 |
| Unrecognized actuarial losses   | (4,131)         | (40,108)                  |
| Total                           | ¥ (2,602)       | \$ (25,260)               |

(6) Plan assets as of March 31, 2014

a. Components of plan assets

Plan assets consisted of the following:

|                                         |      |
|-----------------------------------------|------|
| Debt investments                        | 37%  |
| Life insurance company general accounts | 33   |
| Equity investments                      | 28   |
| Cash and cash equivalents               | 1    |
| Others                                  | 1    |
| Total                                   | 100% |

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

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

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

|                                        |      |
|----------------------------------------|------|
| Discount rate                          | 0.8% |
| Expected rate of return on plan assets | 0.5  |

(8) Total expenses under the defined contribution pension plan system charged by Azbil Corporation and its consolidated subsidiaries were ¥1,092 million (\$10,597 thousand).

**Year Ended March 31, 2013**

The liability for retirement benefits at March 31, 2013, consisted of the following:

|                                  | Millions of Yen |
|----------------------------------|-----------------|
| Projected benefit obligation     | ¥ 50,481        |
| Fair value of plan assets        | (29,926)        |
| Unrecognized prior service costs | 1,715           |
| Unrecognized actuarial loss      | (9,550)         |
| Prepaid pension expense          |                 |
| Net liability                    | ¥ 12,720        |

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

|                                                         | Millions of Yen |
|---------------------------------------------------------|-----------------|
| Service cost                                            | ¥ 1,775         |
| Interest cost                                           | 814             |
| Amortization of prior service costs                     | (220)           |
| Recognized actuarial loss                               | 920             |
| Payment for defined contribution pension plan and other | 867             |
| Net periodic benefit costs                              | ¥ 4,156         |

Assumptions used for the year ended March 31, 2013, were set forth as follows:

|                                           |             |
|-------------------------------------------|-------------|
| Discount rate                             | 0.8%        |
| Expected rate of return on plan assets    | 0.0%        |
| Amortization period of prior service cost | 10–15 years |
| Recognition period of actuarial gain/loss | 10–15 years |

## 9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Azbil cannot do so because it does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 10. STOCK OPTIONS

A director and employees of Azbil BioVigilant, Inc. were granted options for common stock.

The stock options outstanding as of March 31, 2014, are as follows:

| Stock Option      | Persons Granted            | Number of Options Granted | Date of Grant | Exercise Price (U.S. Dollars) | Exercise Period                             |
|-------------------|----------------------------|---------------------------|---------------|-------------------------------|---------------------------------------------|
| 2007 Stock Option | 1 employee                 | 6,000 shares              | 2007.1.23     | \$ 1.00                       | From January 23, 2007 to January 23, 2017   |
| 2007 Stock Option | 1 employee                 | 7,450 shares              | 2007.1.24     | 1.00                          | From January 24, 2007 to January 24, 2017   |
| 2007 Stock Option | 3 employees                | 26,500 shares             | 2007.5.4      | 1.00                          | From May 4, 2007 to May 4, 2017             |
| 2007 Stock Option | 2 employees                | 24,000 shares             | 2007.8.13     | 1.00                          | From August 13, 2007 to August 13, 2017     |
| 2007 Stock Option | 1 director                 | 20,000 shares             | 2007.11.20    | 1.00                          | From November 20, 2007 to November 20, 2017 |
| 2008 Stock Option | 1 director                 | 10,000 shares             | 2008.4.25     | 0.38                          | From April 25, 2008 to April 25, 2018       |
| 2008 Stock Option | 1 director and 7 employees | 62,500 shares             | 2008.6.13     | 0.38                          | From June 13, 2008 to June 13, 2018         |
| 2008 Stock Option | 2 employees                | 9,000 shares              | 2008.8.19     | 0.38                          | From August 19, 2008 to August 19, 2018     |
| 2009 Stock Option | 1 director and 7 employees | 12,000 shares             | 2009.6.22     | 0.38                          | From June 22, 2010 to June 22, 2019         |

The stock option activity is as follows:

| Year Ended March 31, 2013                      | 2007 Stock Option | 2008 Stock Option | 2009 Stock Option |
|------------------------------------------------|-------------------|-------------------|-------------------|
|                                                | (Shares)          |                   |                   |
| <b>Nonvested</b>                               |                   |                   |                   |
| April 1, 2012—Outstanding                      |                   |                   | 4,662             |
| Granted                                        |                   |                   |                   |
| Canceled                                       |                   |                   |                   |
| Vested                                         |                   |                   | (4,662)           |
| March 31, 2013—Outstanding                     |                   |                   |                   |
| <b>Vested</b>                                  |                   |                   |                   |
| April 1, 2012—Outstanding                      | 94,950            | 99,000            | 20,338            |
| Vested                                         |                   |                   | 4,662             |
| Exercised                                      |                   |                   |                   |
| Canceled                                       |                   |                   | (11,000)          |
| March 31, 2013—Outstanding                     | 94,950            | 99,000            | 14,000            |
| Year Ended March 31, 2014                      |                   |                   |                   |
| <b>Nonvested</b>                               |                   |                   |                   |
| March 31, 2013—Outstanding                     |                   |                   |                   |
| Granted                                        |                   |                   |                   |
| Canceled                                       |                   |                   |                   |
| Vested                                         |                   |                   |                   |
| March 31, 2014—Outstanding                     |                   |                   |                   |
| <b>Vested</b>                                  |                   |                   |                   |
| March 31, 2013—Outstanding                     | 94,950            | 99,000            | 14,000            |
| Vested                                         |                   |                   |                   |
| Exercised                                      |                   |                   |                   |
| Canceled                                       | (11,000)          | (17,500)          | (2,000)           |
| March 31, 2014—Outstanding                     | 83,950            | 81,500            | 12,000            |
| Exercise price (U.S. dollars)                  | \$1.00            | \$0.38            | \$0.38            |
| Average stock price at exercise (U.S. dollars) |                   |                   |                   |
| Fair value price at grant date (U.S. dollars)  |                   |                   |                   |

### Estimate of Vested Number of Share Options

Only the actual number of forfeited share options is considered because it is difficult to rationally estimate the number of share options that will be forfeited in the future.

## 11. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.9% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

|                                                      | Millions of Yen |         | Thousands of U.S. Dollars |
|------------------------------------------------------|-----------------|---------|---------------------------|
|                                                      | 2014            | 2013    | 2014                      |
| Deferred tax assets:                                 |                 |         |                           |
| Pension and severance costs                          | ¥ 5,729         | ¥ 4,665 | \$ 55,624                 |
| Accrued expenses                                     | 4,092           | 3,983   | 39,720                    |
| Depreciation                                         | 896             | 1,043   | 8,700                     |
| Loss on impairment of property, plant and equipment  | 355             | 336     | 3,455                     |
| Allowance for doubtful receivables                   | 1,229           | 892     | 11,936                    |
| Tax loss carryforwards                               | 1,402           | 2,282   | 13,616                    |
| Others                                               | 2,505           | 2,494   | 24,312                    |
| Less valuation allowance                             | (4,709)         | (4,869) | (45,719)                  |
| Total                                                | 11,499          | 10,826  | 111,644                   |
| Deferred tax liabilities:                            |                 |         |                           |
| Net unrealized gain on available-for-sale securities | 3,383           | 2,727   | 32,840                    |
| Special advanced depreciation                        | 1,315           | 1,427   | 12,765                    |
| Others                                               | 115             | 79      | 1,118                     |
| Total                                                | 4,813           | 4,233   | 46,723                    |
| Net deferred tax assets                              | ¥ 6,686         | ¥ 6,593 | \$ 64,921                 |

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥210 million at March 31, 2013, and ¥210 million (\$2,040 thousand) at March 31, 2014.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, is as follows:

|                                                 | 2014  |
|-------------------------------------------------|-------|
| Normal effective statutory tax rate             | 37.9% |
| Expenses not deductible for income tax purposes | 2.0   |
| Tax benefits for qualified expenses             | (4.3) |
| Valuation allowance increase                    | 5.3   |
| Amortization of goodwill                        | 3.6   |
| Effect of tax rate reduction                    | 3.1   |
| Others—net                                      | (0.2) |
| Actual effective tax rate                       | 47.4% |

There is no material difference between the normal effective statutory tax rate for the year ended March 31, 2013, and the actual effective tax rate reflected in the accompanying consolidated statement of income.

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.9% to 35.5%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥457 million (\$4,435 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥457 million (\$4,435 thousand).

At March 31, 2014, certain subsidiaries have tax loss carryforwards aggregating approximately ¥10,924 million (\$106,044 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2015                 | ¥ 682           | \$ 6,617                  |
| 2016                 | 12              | 115                       |
| 2017                 | 7               | 63                        |
| 2018                 | 395             | 3,831                     |
| 2019                 | 6               | 61                        |
| 2020 and thereafter  | 9,822           | 95,357                    |
| Total                | ¥ 10,924        | \$ 106,044                |

## 12. OTHER INCOME (EXPENSES)—NET

Other income (expenses)—net for the years ended March 31, 2014 and 2013, mainly consisted of the following:

|                                                                                                                    | Millions of Yen |           | Thousands of U.S. Dollars |
|--------------------------------------------------------------------------------------------------------------------|-----------------|-----------|---------------------------|
|                                                                                                                    | 2014            | 2013      | 2014                      |
| Gain on compensation from Tokyo Electric Power Company caused by claim for damage from Fukushima nuclear disasters | ¥ 506           |           | \$ 4,915                  |
| Loss on lump-sum withdrawal from employees' pension funds                                                          |                 | ¥ (800)   |                           |
| Gain on sales of property and equipment—net                                                                        | 5               | 629       | 47                        |
| Restructuring loss                                                                                                 | 358             |           | 3,482                     |
| Other                                                                                                              | (753)           | (900)     | (7,316)                   |
| Total                                                                                                              | ¥ 116           | ¥ (1,071) | \$ 1,128                  |

## 13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,767 million (\$85,120 thousand) and ¥7,824 million for the years ended March 31, 2014 and 2013, respectively.

## 14. LEASES

### (1) Financing Leases as a Lessee

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

Total rental expenses under the above leases for the years ended March 31, 2014 and 2013, were ¥5,968 million (\$57,940 thousand) and ¥5,439 million, respectively.

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

|                             | Millions of Yen         |                        |          |       |                         |                        |          |       |
|-----------------------------|-------------------------|------------------------|----------|-------|-------------------------|------------------------|----------|-------|
|                             | 2014                    |                        |          |       | 2013                    |                        |          |       |
|                             | Machinery and Equipment | Furniture and Fixtures | Software | Total | Machinery and Equipment | Furniture and Fixtures | Software | Total |
| Acquisition cost            | ¥ 30                    |                        |          | ¥ 30  | ¥ 46                    |                        | ¥ 35     | ¥ 81  |
| Accumulated depreciation    | 24                      |                        |          | 24    | 36                      |                        | 34       | 70    |
| Accumulated impairment loss |                         |                        |          |       |                         |                        |          |       |
| Net leased property         | ¥ 6                     |                        |          | ¥ 6   | ¥ 10                    |                        | ¥ 1      | ¥ 11  |

|                             | Thousands of U.S. Dollars |                        |          |        |
|-----------------------------|---------------------------|------------------------|----------|--------|
|                             | 2014                      |                        |          |        |
|                             | Machinery and Equipment   | Furniture and Fixtures | Software | Total  |
| Acquisition cost            | \$ 290                    |                        |          | \$ 290 |
| Accumulated depreciation    | 229                       |                        |          | 229    |
| Accumulated impairment loss |                           |                        |          |        |
| Net leased property         | \$ 61                     |                        |          | \$ 61  |

Obligations under finance leases:

|                     | Millions of Yen |       | Thousands of U.S. Dollars |
|---------------------|-----------------|-------|---------------------------|
|                     | 2014            | 2013  | 2014                      |
| Due within one year | ¥ 171           | ¥ 207 | \$ 1,660                  |
| Due after one year  | 437             | 623   | 4,245                     |
| Total               | ¥ 608           | ¥ 830 | \$ 5,905                  |

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

Allowance for impairment loss on leased property of ¥18 million as of March 31, 2013, is not included in the obligations under finance leases.

Depreciation expense and other information for finance leases:

|                                                              | Millions of Yen |      | Thousands of U.S. Dollars |
|--------------------------------------------------------------|-----------------|------|---------------------------|
|                                                              | 2014            | 2013 | 2014                      |
| Depreciation expense                                         | ¥ 5             | ¥ 42 | \$ 46                     |
| Lease payments                                               | 8               | 92   | 79                        |
| Reversal of allowance for impairment loss on leased property |                 | 18   |                           |

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

The minimum rental commitments under noncancelable operating leases as of March 31, 2014 and 2013, were as follows:

|                     | Millions of Yen |       | Thousands of U.S. Dollars |
|---------------------|-----------------|-------|---------------------------|
|                     | 2014            | 2013  | 2014                      |
| Due within one year | ¥ 18            | ¥ 179 | \$ 179                    |
| Due after one year  | 58              | 71    | 564                       |
| Total               | ¥ 76            | ¥ 250 | \$ 743                    |

## (2) Financing Leases as a Lessor

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

Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as receivables under the finance leases, on an "as if capitalized" basis for the years ended March 31, 2014 and 2013, was as follows:

|                                   | Millions of Yen |       | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|-------|---------------------------|
|                                   | 2014            | 2013  | 2014                      |
| Receivables under finance leases: |                 |       |                           |
| Due within one year               | ¥ 168           | ¥ 197 | \$ 1,628                  |
| Due after one year                | 434             | 617   | 4,215                     |
| Total                             | ¥ 602           | ¥ 814 | \$ 5,843                  |

## 15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Policy for Financial Instruments

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

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

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

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

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

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

Derivative transactions are executed and managed in accordance with internal rules that have determined the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 16 for more detail about derivatives.

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

### (3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also please see Note 16 for the detail of fair value for derivatives.

#### (a) Fair value of financial instruments

|                                     | Millions of Yen  |                  |                 |                  |                  |                 | Thousands of U.S. Dollars |                     |                 |
|-------------------------------------|------------------|------------------|-----------------|------------------|------------------|-----------------|---------------------------|---------------------|-----------------|
|                                     | March 31         |                  |                 |                  |                  |                 | March 31, 2014            |                     |                 |
|                                     | 2014             |                  |                 | 2013             |                  |                 |                           |                     |                 |
|                                     | Carrying Amount  | Fair Value       | Unrealized Loss | Carrying Amount  | Fair Value       | Unrealized Loss | Carrying Amount           | Fair Value          | Unrealized Loss |
| Cash and cash equivalents           | ¥ 51,014         | ¥ 51,014         |                 | ¥ 46,050         | ¥ 46,050         |                 | \$ 495,278                | \$ 495,278          |                 |
| Notes and accounts receivable—trade | 88,228           | 88,228           |                 | 88,875           | 88,875           |                 | 856,581                   | 856,581             |                 |
| Investment securities               | 15,508           | 15,508           |                 | 13,760           | 13,760           |                 | 150,561                   | 150,561             |                 |
| <b>Total</b>                        | <b>¥ 154,750</b> | <b>¥ 154,750</b> |                 | <b>¥ 148,685</b> | <b>¥ 148,685</b> |                 | <b>\$ 1,502,420</b>       | <b>\$ 1,502,420</b> |                 |
| Short-term borrowings               | ¥ 13,279         | ¥ 13,279         |                 | ¥ 9,191          | ¥ 9,191          |                 | \$ 128,925                | \$ 128,925          |                 |
| Current portion of long-term debt   | 2,200            | 2,200            |                 | 4,250            | 4,250            |                 | 21,358                    | 21,358              |                 |
| Notes and accounts payable—trade    | 41,456           | 41,456           |                 | 40,548           | 40,548           |                 | 402,488                   | 402,488             |                 |
| Long-term debt                      | 2,338            | 2,340            | ¥ (2)           | 4,602            | 4,610            | ¥ (8)           | 22,698                    | 22,718              | \$ (20)         |
| <b>Total</b>                        | <b>¥ 59,273</b>  | <b>¥ 59,275</b>  | <b>¥ (2)</b>    | <b>¥ 58,591</b>  | <b>¥ 58,599</b>  | <b>¥ (8)</b>    | <b>\$ 575,469</b>         | <b>\$ 575,489</b>   | <b>\$ (20)</b>  |

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

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

#### Investment Securities

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

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

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

#### Long-Term Debt

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

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

#### Derivatives

The information of the fair value for derivatives is included in Note 16.

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

|                                                                                              | Millions of Yen |       | Thousands of U.S. Dollars |
|----------------------------------------------------------------------------------------------|-----------------|-------|---------------------------|
|                                                                                              | March 31        |       | March 31, 2014            |
|                                                                                              | 2014            | 2013  |                           |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥ 1,333         | ¥ 917 | \$ 12,946                 |

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

| March 31, 2014                      | Millions of Yen       |                                  |                                    |                    | Thousands of U.S. Dollars |                                  |                                    |                    |
|-------------------------------------|-----------------------|----------------------------------|------------------------------------|--------------------|---------------------------|----------------------------------|------------------------------------|--------------------|
|                                     | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years | Due in 1 Year or Less     | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| Cash and cash equivalents           | ¥ 51,014              |                                  |                                    |                    | \$ 495,278                |                                  |                                    |                    |
| Notes and accounts receivable—trade | 85,419                | ¥ 2,786                          | ¥ 23                               |                    | 829,313                   | \$ 27,044                        | \$ 224                             |                    |
| <b>Total</b>                        | <b>¥ 136,433</b>      | <b>¥ 2,786</b>                   | <b>¥ 23</b>                        |                    | <b>\$ 1,324,591</b>       | <b>\$ 27,044</b>                 | <b>\$ 224</b>                      |                    |

Please see Note 7 for annual maturities of long-term debt and Note 14 for obligations under finance leases.

## 16. DERIVATIVES

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

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

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

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

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

### Derivative Transactions to Which Hedge Accounting Is Not Applied

|                                                                 | Millions of Yen |                                    |            |                      |                 |                                    |            |                      | Thousands of U.S. Dollars |                                    |            |                      |
|-----------------------------------------------------------------|-----------------|------------------------------------|------------|----------------------|-----------------|------------------------------------|------------|----------------------|---------------------------|------------------------------------|------------|----------------------|
|                                                                 | March 31        |                                    |            |                      |                 |                                    |            |                      | March 31, 2014            |                                    |            |                      |
|                                                                 | 2014            |                                    |            |                      | 2013            |                                    |            |                      |                           |                                    |            |                      |
|                                                                 | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss | Contract Amount           | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts:                             |                 |                                    |            |                      |                 |                                    |            |                      |                           |                                    |            |                      |
| Selling U.S. dollars                                            | ¥ 643           |                                    | ¥ (5)      | ¥ (5)                | ¥ 656           |                                    | ¥ (5)      | ¥ (5)                | \$ 6,244                  |                                    | \$ (44)    | \$ (44)              |
| Selling KR won                                                  |                 |                                    |            |                      | 81              |                                    | (2)        | (2)                  |                           |                                    |            |                      |
| Selling GB pound                                                |                 |                                    |            |                      | 2               |                                    | 1          | 1                    |                           |                                    |            |                      |
| Buying U.S. dollars                                             | 319             |                                    | 4          | 4                    | 536             |                                    | (18)       | (18)                 | 3,100                     |                                    | 37         | 37                   |
| Buying BR real                                                  | 130             |                                    | 58         | 58                   | 734             |                                    | (137)      | (137)                | 1,261                     |                                    | 558        | 558                  |
| Interest rate swaps (fixed rate payment, floating rate receipt) | 843             |                                    | (26)       | (26)                 | 804             | ¥ 667                              | (14)       | (14)                 | 8,188                     |                                    | (256)      | (256)                |

### Derivative Transactions to Which Hedge Accounting Is Applied

| Hedged Item                                                     | Millions of Yen |                                    |            |                 |                                    |            | Thousands of U.S. Dollars |                                    |            |
|-----------------------------------------------------------------|-----------------|------------------------------------|------------|-----------------|------------------------------------|------------|---------------------------|------------------------------------|------------|
|                                                                 | March 31        |                                    |            |                 |                                    |            | March 31, 2014            |                                    |            |
|                                                                 | 2014            |                                    |            | 2013            |                                    |            |                           |                                    |            |
|                                                                 | Contract Amount | Contract Amount Due after One Year | Fair Value | Contract Amount | Contract Amount Due after One Year | Fair Value | Contract Amount           | Contract Amount Due after One Year | Fair Value |
| Interest rate swaps (fixed rate payment, floating rate receipt) |                 |                                    |            |                 |                                    |            |                           |                                    |            |
| Long-term debt                                                  | ¥ 320           | ¥ 79                               |            | ¥ 400           | ¥ 141                              |            | \$ 3,107                  | \$ 762                             |            |

Information on the foreign currency forward contracts for the years ended March 31, 2014 and 2013, is not disclosed as the amounts are not material.

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

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

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

## 17. COMMITMENT AND CONTINGENT LIABILITIES

At March 31, 2014, the azbil Group had the following contingent liabilities:

|                                       | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------------------|-----------------|---------------------------|
| Guarantees and similar items of loans | ¥ 7             | \$ 66                     |

## 18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

|                                                      | Millions of Yen |         | Thousands of U.S. Dollars |
|------------------------------------------------------|-----------------|---------|---------------------------|
|                                                      | 2014            | 2013    | 2014                      |
| Unrealized gain on available-for-sale securities:    |                 |         |                           |
| Gains arising during the year                        | ¥ 1,762         | ¥ 1,979 | \$ 17,112                 |
| Reclassification adjustments to profit or loss       | 93              | 10      | 905                       |
| Amount before income tax effect                      | 1,855           | 1,989   | 18,017                    |
| Income tax effect                                    | (653)           | (664)   | (6,344)                   |
| Total                                                | ¥ 1,202         | ¥ 1,325 | \$ 11,673                 |
| Deferred gain on derivatives under hedge accounting: |                 |         |                           |
| Gains arising during the year                        |                 | ¥ 2     | \$ 1                      |
| Income tax effect                                    |                 | (1)     |                           |
| Total                                                |                 | ¥ 1     | \$ 1                      |
| Foreign currency translation adjustments—            |                 |         |                           |
| Adjustments arising during the year                  | ¥ 2,042         | ¥ 681   | \$ 19,825                 |
| Total other comprehensive income                     | ¥ 3,244         | ¥ 2,007 | \$ 31,499                 |

## 19. SUBSEQUENT EVENT

### Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at Azbil's shareholders' meeting held on June 26, 2014:

|                                                   | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------------------------------|-----------------|---------------------------|
| Year-end cash dividends, ¥31.5 (\$0.31) per share | ¥ 2,326         | \$ 22,586                 |

## 20. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) Description of Reportable Segments

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

The azbil Group identifies its operating segments using such criteria as business organization, product lines, service content, and markets. This approach results in three separate reportable segments: the Building Automation (BA) business, the Advanced Automation (AA) business, and the Life Automation (LA) business.

The BA business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The AA business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The LA business supplies lifeline meters, as well as products and services related to nursing care/health support and emergency alert response services—all of which are intimately connected with the daily lives of the general public.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

|                                                                 | Millions of Yen     |                 |                 |                  |             |                  |                  |                  |
|-----------------------------------------------------------------|---------------------|-----------------|-----------------|------------------|-------------|------------------|------------------|------------------|
|                                                                 | 2014                |                 |                 |                  |             |                  |                  |                  |
|                                                                 | Reportable Segment  |                 |                 |                  | Other       | Total            | Reconciliations  | Consolidated     |
| Building Automation                                             | Advanced Automation | Life Automation | Total           |                  |             |                  |                  |                  |
| Sales:                                                          |                     |                 |                 |                  |             |                  |                  |                  |
| Sales to external customers                                     | ¥ 109,285           | ¥ 89,638        | ¥ 49,434        | ¥ 248,357        | ¥ 60        | ¥ 248,417        |                  | ¥ 248,417        |
| Intersegment sales or transfers                                 | 282                 | 1,189           | 163             | 1,634            | 7           | 1,641            | ¥ (1,641)        |                  |
| <b>Total</b>                                                    | <b>¥ 109,567</b>    | <b>¥ 90,827</b> | <b>¥ 49,597</b> | <b>¥ 249,991</b> | <b>¥ 67</b> | <b>¥ 250,058</b> | <b>¥ (1,641)</b> | <b>¥ 248,417</b> |
| Segment profit (loss)                                           | ¥ 10,593            | ¥ 3,966         | ¥ (672)         | ¥ 13,887         | ¥ 18        | ¥ 13,905         | ¥ (1)            | ¥ 13,904         |
| Segment assets                                                  | 62,299              | 66,716          | 40,558          | 169,573          | 16          | 169,589          | 83,859           | 253,448          |
| Other:                                                          |                     |                 |                 |                  |             |                  |                  |                  |
| Depreciation                                                    | 989                 | 1,642           | 1,091           | 3,722            |             | 3,722            |                  | 3,722            |
| Increase in property, plant and equipment and intangible assets | 1,820               | 2,667           | 816             | 5,303            |             | 5,303            |                  | 5,303            |
| Impairment losses of assets                                     |                     |                 | 36              | 36               |             | 36               |                  | 36               |

|                                                                 | Millions of Yen     |                 |                 |                  |             |                  |                  |                  |
|-----------------------------------------------------------------|---------------------|-----------------|-----------------|------------------|-------------|------------------|------------------|------------------|
|                                                                 | 2013                |                 |                 |                  |             |                  |                  |                  |
|                                                                 | Reportable Segment  |                 |                 |                  | Other       | Total            | Reconciliations  | Consolidated     |
| Building Automation                                             | Advanced Automation | Life Automation | Total           |                  |             |                  |                  |                  |
| Sales:                                                          |                     |                 |                 |                  |             |                  |                  |                  |
| Sales to external customers                                     | ¥ 107,138           | ¥ 86,534        | ¥ 33,851        | ¥ 227,523        | ¥ 62        | ¥ 227,585        |                  | ¥ 227,585        |
| Intersegment sales or transfers                                 | 289                 | 1,143           | 143             | 1,575            | 11          | 1,586            | ¥ (1,586)        |                  |
| <b>Total</b>                                                    | <b>¥ 107,427</b>    | <b>¥ 87,677</b> | <b>¥ 33,994</b> | <b>¥ 229,098</b> | <b>¥ 73</b> | <b>¥ 229,171</b> | <b>¥ (1,586)</b> | <b>¥ 227,585</b> |
| Segment profit (loss)                                           | ¥ 10,153            | ¥ 3,646         | ¥ (399)         | ¥ 13,400         | ¥ 9         | ¥ 13,409         | ¥ 2              | ¥ 13,411         |
| Segment assets                                                  | 62,895              | 65,359          | 39,808          | 168,062          | 11          | 168,073          | 75,346           | 243,419          |
| Other:                                                          |                     |                 |                 |                  |             |                  |                  |                  |
| Depreciation                                                    | 1,028               | 1,845           | 747             | 3,620            | 1           | 3,621            |                  | 3,621            |
| Increase in property, plant and equipment and intangible assets | 900                 | 1,588           | 632             | 3,120            | 1           | 3,121            |                  | 3,121            |
| Impairment losses of assets                                     |                     |                 | 95              | 95               |             | 95               |                  | 95               |

|                                                                 | Thousands of U.S. Dollars |                   |                   |                     |               |                     |                    |                     |
|-----------------------------------------------------------------|---------------------------|-------------------|-------------------|---------------------|---------------|---------------------|--------------------|---------------------|
|                                                                 | 2014                      |                   |                   |                     |               |                     |                    |                     |
|                                                                 | Reportable Segment        |                   |                   |                     | Other         | Total               | Reconciliations    | Consolidated        |
| Building Automation                                             | Advanced Automation       | Life Automation   | Total             |                     |               |                     |                    |                     |
| Sales:                                                          |                           |                   |                   |                     |               |                     |                    |                     |
| Sales to external customers                                     | \$ 1,061,013              | \$ 870,271        | \$ 479,942        | \$ 2,411,226        | \$ 585        | \$ 2,411,811        |                    | \$ 2,411,811        |
| Intersegment sales or transfers                                 | 2,741                     | 11,540            | 1,584             | 15,865              | 64            | 15,929              | \$ (15,929)        |                     |
| <b>Total</b>                                                    | <b>\$ 1,063,754</b>       | <b>\$ 881,811</b> | <b>\$ 481,526</b> | <b>\$ 2,427,091</b> | <b>\$ 649</b> | <b>\$ 2,427,740</b> | <b>\$ (15,929)</b> | <b>\$ 2,411,811</b> |
| Segment profit (loss)                                           | \$ 102,844                | \$ 38,506         | \$ (6,523)        | \$ 134,827          | \$ 171        | \$ 134,998          | \$ (11)            | \$ 134,987          |
| Segment assets                                                  | 604,850                   | 647,734           | 393,768           | 1,646,352           | 150           | 1,646,502           | 814,161            | 2,460,663           |
| Other:                                                          |                           |                   |                   |                     |               |                     |                    |                     |
| Depreciation                                                    | 9,606                     | 15,943            | 10,592            | 36,141              | 4             | 36,145              |                    | 36,145              |
| Increase in property, plant and equipment and intangible assets | 17,668                    | 25,891            | 7,920             | 51,479              | 2             | 51,481              |                    | 51,481              |
| Impairment losses of assets                                     |                           |                   | 346               | 346                 |               | 346                 |                    | 346                 |

Note: Corporate assets of ¥83,859 million (\$814,161 thousand) for the year ended March 31, 2014, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

## Related Information

### (1) Information about Products and Services

The information disclosed is identical to the segment information and is therefore omitted.

### (2) Information by Region

#### (a) Sales

| Millions of Yen |          |          |               |          |         |           |
|-----------------|----------|----------|---------------|----------|---------|-----------|
| 2014            |          |          |               |          |         |           |
| Japan           | Asia     | China    | North America | Europe   | Other   | Total     |
| ¥ 202,282       | ¥ 16,066 | ¥ 11,293 | ¥ 3,445       | ¥ 11,572 | ¥ 3,759 | ¥ 248,417 |

| Thousands of U.S. Dollars |            |            |               |            |           |              |
|---------------------------|------------|------------|---------------|------------|-----------|--------------|
| 2014                      |            |            |               |            |           |              |
| Japan                     | Asia       | China      | North America | Europe     | Other     | Total        |
| \$ 1,963,894              | \$ 155,985 | \$ 109,640 | \$ 33,446     | \$ 112,351 | \$ 36,495 | \$ 2,411,811 |

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

#### (b) Property, plant and equipment

The value of domestic property, plant and equipment exceeds 90% of the value of the property, plant and equipment on the consolidated balance sheet, so this information is omitted.

### (3) Information about Major Customers

No clients accounted for more than 10% of sales in the consolidated statement of income, so this information is omitted.

## Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

|                            | Millions of Yen     |                 |         |         |       |         |                 |              |
|----------------------------|---------------------|-----------------|---------|---------|-------|---------|-----------------|--------------|
|                            | 2014                |                 |         |         |       |         |                 |              |
|                            | Reportable Segment  |                 |         |         | Other | Total   | Reconciliations | Consolidated |
| Building Automation        | Advanced Automation | Life Automation | Total   |         |       |         |                 |              |
| Amortization of goodwill   | ¥ 158               | ¥ 314           | ¥ 1,399 | ¥ 1,871 |       | ¥ 1,871 |                 | ¥ 1,871      |
| Goodwill at March 31, 2014 | 554                 | 1,304           | 6,226   | 8,084   |       | 8,084   |                 | 8,084        |

|                            | Thousands of U.S. Dollars |                 |           |           |       |           |                 |              |
|----------------------------|---------------------------|-----------------|-----------|-----------|-------|-----------|-----------------|--------------|
|                            | 2014                      |                 |           |           |       |           |                 |              |
|                            | Reportable Segment        |                 |           |           | Other | Total     | Reconciliations | Consolidated |
| Building Automation        | Advanced Automation       | Life Automation | Total     |           |       |           |                 |              |
| Amortization of goodwill   | \$ 1,538                  | \$ 3,050        | \$ 13,584 | \$ 18,172 |       | \$ 18,172 |                 | \$ 18,172    |
| Goodwill at March 31, 2014 | 5,383                     | 12,659          | 60,441    | 78,483    |       | 78,483    |                 | 78,483       |

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

We have audited the accompanying consolidated balance sheet of Azbil Corporation and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Azbil Corporation and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 16, 2014

Member of  
Deloitte Touche Tohmatsu Limited

## Azbil Corporation

|                            |                                                                                                                     |
|----------------------------|---------------------------------------------------------------------------------------------------------------------|
| <b>Head Office</b>         | Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan                                                 |
| <b>Founded</b>             | December 1, 1906                                                                                                    |
| <b>Incorporated</b>        | August 22, 1949                                                                                                     |
| <b>Paid-in Capital</b>     | ¥10,522,716,817                                                                                                     |
| <b>Main Facilities</b>     | Fujisawa Technology Center, Shonan and Isehara Factories, Hadano Distribution Center, Azbil Academy Training Center |
| <b>Number of Employees</b> | 5,247                                                                                                               |

## azbil Group

\*Consolidated subsidiary

### Japan

|                                   |                                |                                                                                |
|-----------------------------------|--------------------------------|--------------------------------------------------------------------------------|
| Azbil Corporation                 | Azbil SecurityFriday Co., Ltd. | Azbil Taishin Co., Ltd.*                                                       |
| Azbil Trading Co., Ltd.*          | Azbil Kimmon Co., Ltd.*        | Tem-Tech Lab.                                                                  |
| Azbil Yamatake Friendly Co., Ltd. | Azbil Kyoto Co., Ltd.*         | Plus eight other consolidated subsidiaries and one non-consolidated subsidiary |
| Azbil Care & Support Co., Ltd.*   | Azbil TA Co., Ltd.*            |                                                                                |

### Overseas

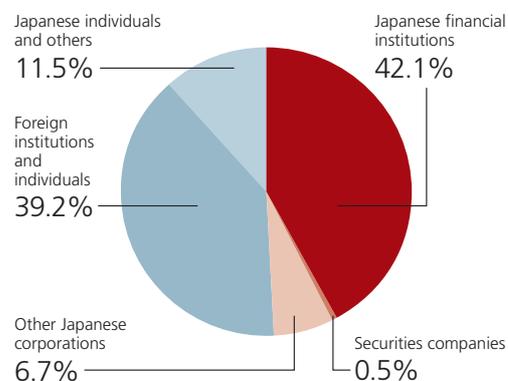
|                                                             |                                                                                  |                                                                                            |
|-------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Azbil Korea Co., Ltd.*<br>Seoul, Korea                      | Azbil Saudi Limited<br>Dammam, Saudi Arabia                                      | Azbil North America Research and Development, Inc.<br>Santa Clara, CA, U.S.A.              |
| Azbil Taiwan Co., Ltd.*<br>Taipei, Taiwan                   | Azbil Control Instruments (Dalian) Co., Ltd.*<br>Dalian, China                   | Azbil North America, Inc.*<br>Phoenix, AZ, U.S.A.                                          |
| Azbil Vietnam Co., Ltd.*<br>Hanoi, Vietnam                  | Azbil Information Technology Center (Dalian) Co., Ltd.<br>Dalian, China          | Azbil VorTek, LLC*<br>Longmont, CO, U.S.A.                                                 |
| Azbil India Pvt. Ltd.*<br>Navi Mumbai, India                | Yamatake Environmental Control Technology (Beijing) Co., Ltd.*<br>Beijing, China | Azbil BioVigilant, Inc.*<br>Tucson, AZ, U.S.A.                                             |
| Azbil (Thailand) Co., Ltd.*<br>Bangkok, Thailand            | Beijing YTYH Intelli-Technology Co., Ltd.*<br>Beijing, China                     | Azbil Brazil Limited*<br>Sao Paulo, Brazil                                                 |
| Azbil Production (Thailand) Co., Ltd.<br>Chonburi, Thailand | Azbil Control Solutions (Shanghai) Co., Ltd.*<br>Shanghai, China                 | Azbil Europe NV*<br>Zaventem, Belgium                                                      |
| Azbil Philippines Corporation*<br>Makati, Philippines       | Shanghai Azbil Automation Co., Ltd.*<br>Shanghai, China                          | Azbil Telstar, S.L.*<br>Terrassa, Spain                                                    |
| Azbil Malaysia Sdn. Bhd.*<br>Kuala Lumpur, Malaysia         | Yamatake Automation Products (Shanghai) Co., Ltd.*<br>Shanghai, China            | Plus 23 other consolidated subsidiaries, 2 non-consolidated subsidiaries, and 6 affiliates |
| Azbil Singapore Pte. Ltd.*<br>Singapore                     | Azbil Hong Kong Limited*<br>Hong Kong, China                                     |                                                                                            |
| PT. Azbil Berca Indonesia*<br>Jakarta, Indonesia            | CECEP Building Energy Management Co., Ltd.<br>Beijing, China                     |                                                                                            |

# Stock Information

(As of March 31, 2014)

|                                          |                                             |
|------------------------------------------|---------------------------------------------|
| <b>Total Number of Authorized Shares</b> | 279,710,000                                 |
| <b>Shares of Common Stock Issued</b>     | 75,116,101                                  |
| <b>Shareholders</b>                      | 9,685                                       |
| <b>Fiscal Year</b>                       | April 1 to March 31                         |
| <b>Annual Shareholders' Meeting</b>      | June                                        |
| <b>Stock Listing</b>                     | Tokyo Stock Exchange,<br>1st Section (6845) |
| <b>Transfer Agent</b>                    | Mizuho Trust & Banking Co., Ltd.            |

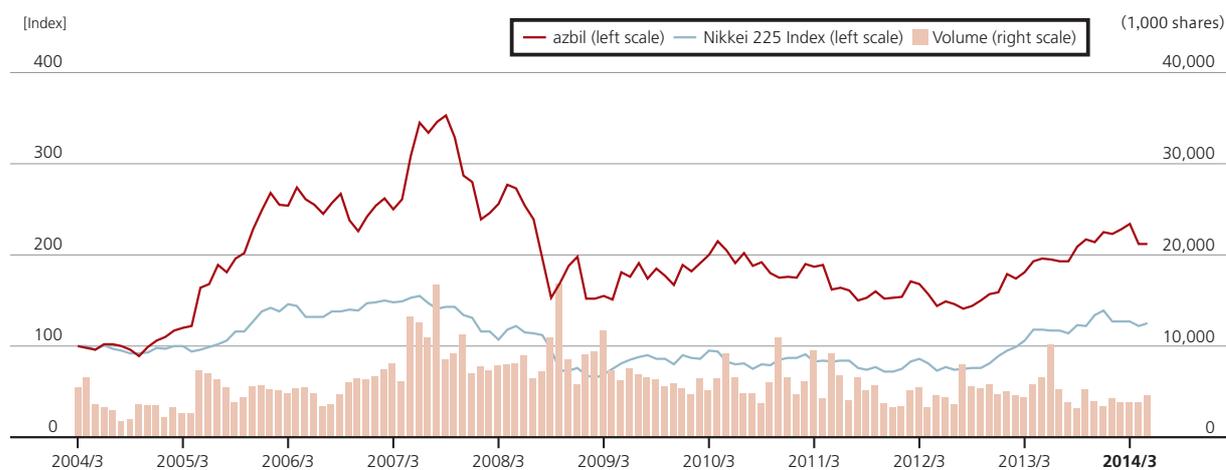
## Composition of Shareholders



## Major Shareholders (Top 10)

|                                                                                                                     | Number of shares held<br>(Thousands) | Percentage of total<br>investment (%) |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------|
| State Street Trust & Banking Co., Ltd.                                                                              | 5,301                                | 7.06                                  |
| Meiji Yasuda Life Insurance Co.                                                                                     | 5,214                                | 6.94                                  |
| The Master Trust Bank of Japan, Ltd.                                                                                | 4,342                                | 5.78                                  |
| Japan Trustee Services Bank, Ltd.                                                                                   | 3,200                                | 4.26                                  |
| Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account) | 2,315                                | 3.08                                  |
| Nippon Life Insurance Co.                                                                                           | 2,269                                | 3.02                                  |
| Northern Trust Co. (AVFC) Account Non Treaty                                                                        | 2,255                                | 3.00                                  |
| National Mutual Insurance Federation of Agricultural Cooperatives                                                   | 2,248                                | 2.99                                  |
| The Chase Manhattan Bank, N.A. London secs Lending Omnibus Account                                                  | 1,754                                | 2.34                                  |
| azbil Group Employee Stock Ownership                                                                                | 1,553                                | 2.07                                  |

## Common Stock Price Range



| (Ended March 31)                           | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
|--------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Stock price at the end of the period (Yen) | 1,310 | 2,775 | 2,730 | 2,795 | 1,689 | 2,186 | 2,038 | 1,830 | 1,978 | 2,548 |
| High (Yen)                                 | 1,348 | 2,980 | 3,090 | 4,050 | 3,070 | 2,248 | 2,393 | 2,070 | 2,055 | 2,591 |
| Low (Yen)                                  | 922   | 1,280 | 2,305 | 2,290 | 1,377 | 1,592 | 1,512 | 1,530 | 1,474 | 1,840 |

Azbil Corporation Website

<http://www.azbil.com>

Global Japanese English Chinese

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**From Yamatake to Azbil**  
Yamatake Corporation changed its name to Azbil Corporation on April 1, 2012  
[▶ more](#)

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Contact information and main business of Azbil Corporation's subsidiaries, affiliates and distributors by region/country

**Business Index**  
Introducing Azbil Corporation's products and solutions by business field

**What's New**

▶ July 11, 2014  
To help cut the consumption of electricity this summer, Azbil Corporation will have extra days off. Our call center will also be unavailable on those days.  
We apologize for any inconvenience and ask for your understanding.

\*Extended holidays to save electricity from Friday, July 25 to Monday, July 28

**Highlights**

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azbil Group Investor Relations Website

<http://www.azbil.com/ir/index.html>

azbil Group Environmental and Social Website

<http://www.azbil.com/csr/index.html>

#### Contact

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Azbil Corporation

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# *azbil*



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