



azbil report 2015

Human-centered Automation



Azbil Corporation

The azbil Group is creating a better future for individuals and society through human-centered automation.

azbil and its Four Core Values

- 2 Leaders' Message
- 4 azbil's History of Value Creation
- 6 Creating Four Core Values
- 8 Case Study of Value Creation
- 10 azbil's Operations
- 14 azbil through the Year
- 16 Financial and Non-financial Highlights



Creating Value through Automation

- 18 Interview with the CEO
 - Q1 Evaluation of the year ended March 2015 based on the medium-term plan
 - Q2 Business structural reforms carried out in the year ended March 2015
 - Q3 Impact of the deflation of the economy on business and steps taken in response
 - Q4 Progress and results achieved in business in growth fields
 - Q5 Progress and results achieved in global expansion
 - Q6 Shareholder return policy and financial strategy
 - Q7 Increase of corporate value through dialogue with shareholders and investors
 - Q8 Approach to CSR management and initiatives in this area
 - Q9 Intentions for the year ending March 2016

- 26 Special Feature
 - Expanding Our Stable Revenue Base via Tokyo's Transformation and Our Life Cycle Business

30 Business Overview

- 30 Building Automation (BA) Business
- 32 Advanced Automation (AA) Business
- 34 Life Automation (LA) Business



Strength to Support Value Creation

- 37 Intellectual Property
- 38 Technology Research and Product Development
- 40 Manufacturing and Procurement
- 41 Quality Assurance and Safety of Products and Services
- 42 Engineering, Installation, and Service
- 43 Human Resources



Value-sustaining Structures

- 45 CSR Management
- 46 Compliance
- 47 Risk Management
- 48 Workplace Environment
- 50 Environment
- 54 Group Management
- 55 Contributions to Society
- 56 Shareholders' Meeting and Investor Relations
- 57 Corporate Governance
- 60 Board of Directors, Executive Officers, and Corporate Auditors

Financial Data

- 62 11-Year Key Financial Figures
- 64 Consolidated Balance Sheet
- 66 Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
- 67 Consolidated Statement of Changes in Equity
- 68 Consolidated Statement of Cash Flows
- 69 Notes to Consolidated Financial Statements
- 88 Independent Auditor's Report
- 89 azbil Group
- 90 Corporate Data/Stock Information

Editorial Policy

The azbil report combines the azbil Group's annual and CSR reports into a single volume. The publication of azbil report 2014 marked the beginning of our efforts to use our annual report to provide more substantial information concerning ESG (Environment, Society, and Governance), to enable a wide range of stakeholders, including not only our shareholders and investors, but also our customers, suppliers, employees, and partners, to understand our efforts to create value in the long term. In addition, this report was edited with reference to an international framework for

Please see also the relevant websites listed on page 91.

integrated reporting which had been issued by the International Integrated Reporting Council in December 2013.

Organizations Covered
Azbil Corporation and its consolidated subsidiaries

Period of Coverage
April 1, 2014 to March 31, 2015
(Contains some information about the year beginning April 2015)

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 future performance. 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 the following (but are not limited to these):

- 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.

For more detailed information, see "Business Risks" on pages 46-47.

- 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.



Acting as a partner for the customer and the community, we continue to innovate toward a bright future.



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, we set a goal of becoming recognized as a “top class global automation enterprise” and long-term targets of net sales of ¥300.0 billion, operating income of ¥30.0 billion or higher, and ROE of 10% or higher 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

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.

Today, the azbil Group focuses on new market needs of energy management and safety 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, 2015, although there was an uncertain outlook for overseas economies including the low price of crude oil, political instability, and deceleration of growth in emerging countries, the Japanese economy saw steady expansion of demand for energy efficiency, comfort, and safety in accordance with changes of social structure, as well as effects of "Abenomics" and developments toward the Tokyo 2020 Olympic and Paralympic Games. 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.

July 2015



Seiji Onoki
Chairman
Azbil Corporation



Hirozumi Sone
President and Chief Executive Officer
Azbil Corporation



In its pursuit of automation, azbil will deploy worldwide the sustainable value creation that it has achieved within Japan over more than a century.

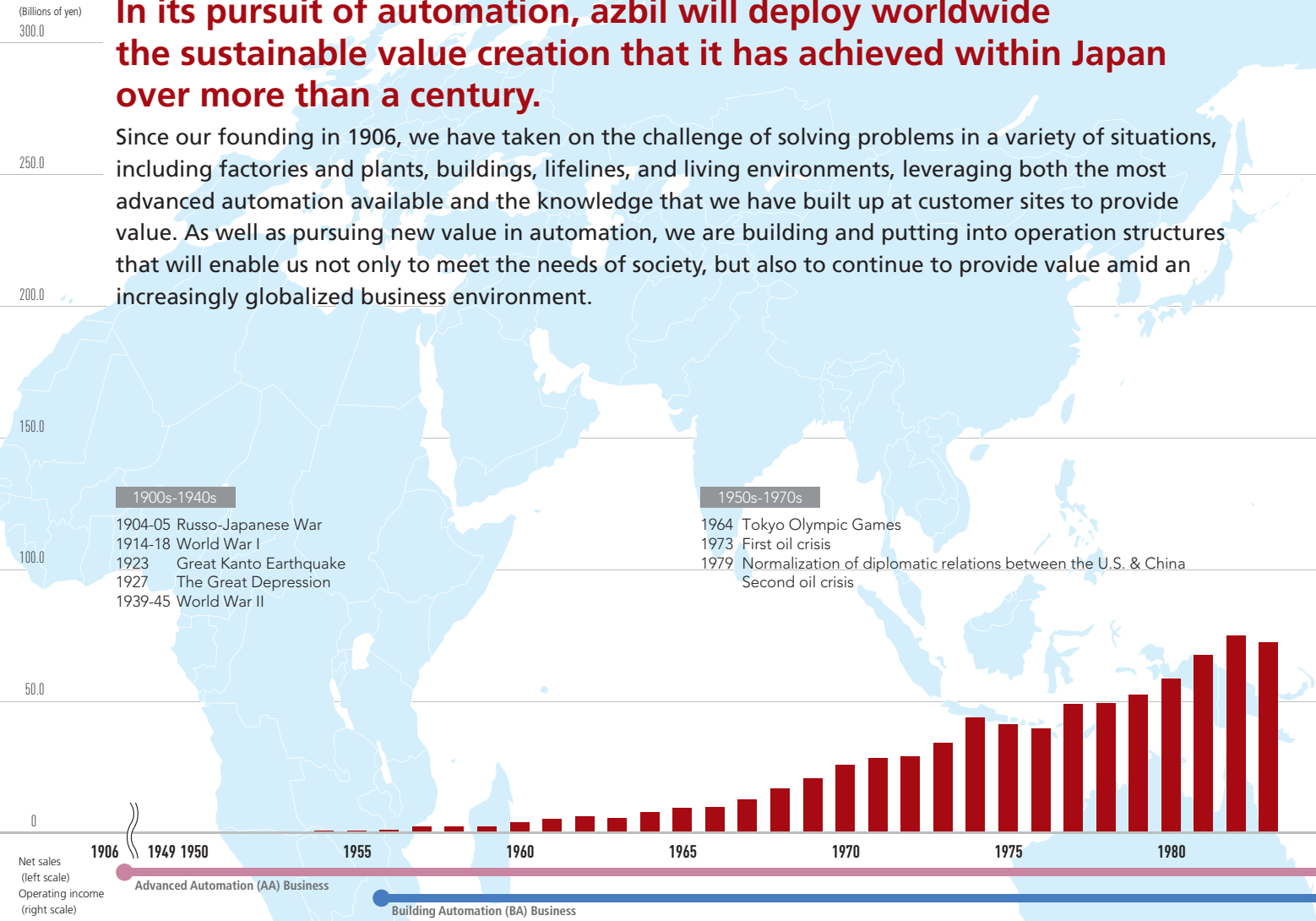
Since our founding in 1906, we have taken on the challenge of solving problems in a variety of situations, including factories and plants, buildings, lifelines, and living environments, leveraging both the most advanced automation available and the knowledge that we have built up at customer sites to provide value. As well as pursuing new value in automation, we are building and putting into operation structures that will enable us not only to meet the needs of society, but also to continue to provide value amid an increasingly globalized business environment.

1900s-1940s

- 1904-05 Russo-Japanese War
- 1914-18 World War I
- 1923 Great Kanto Earthquake
- 1927 The Great Depression
- 1939-45 World War II

1950s-1970s

- 1964 Tokyo Olympic Games
- 1973 First oil crisis
- 1979 Normalization of diplomatic relations between the U.S. & China
- Second oil crisis



“Freeing People from Drudgery” 1900s-1950s

Pre-industrial Instruments Era From Imports to Domestic Manufacture

- 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.) of the U.S.
- 1933 Equipment from the main factory owned by Omori Machine Manufacturing Co., Ltd. purchased and Yamatake Shokai Omori Factory established (marked the beginning of a switch to the domestic production of instruments)
- 1942 Company name changed to Yamatake Kogyo Co., Ltd.
- 1952 Technical license agreement was signed with Honeywell Inc. (presently Honeywell International Inc.) of the U.S.

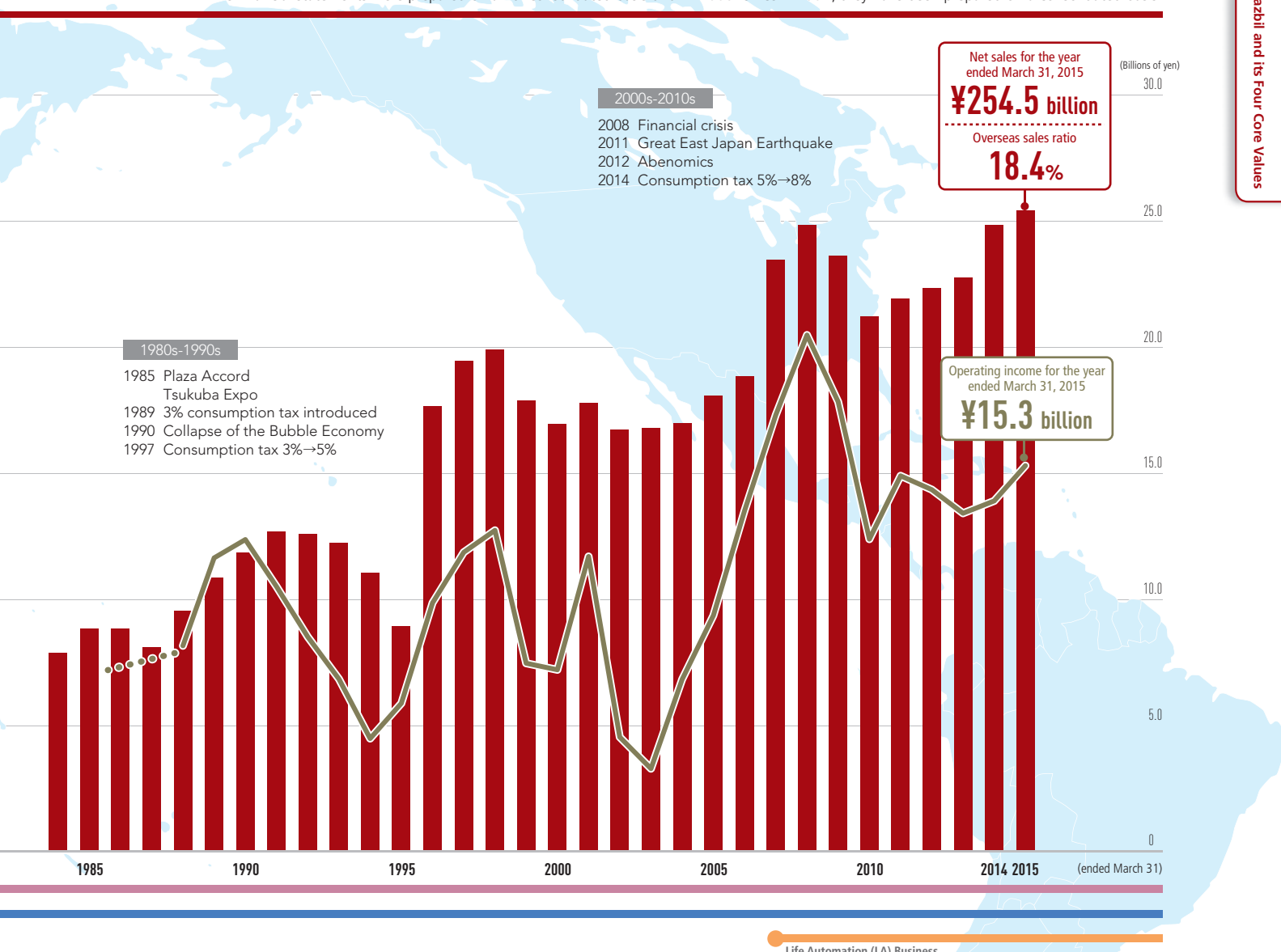
“First in Control” 1950s-1970s

The Dawn of the Automation Era Responding to Rapid Economic Growth

- 1953 Yamatake (presently Azbil Corporation) formed an equity-based alliance with Honeywell (presently Honeywell International Inc.) of the U.S. (50% share)
- 1956 Company name changed to Yamatake-Honeywell Keiki Co., Ltd. (50th anniversary of the company's founding)
- 1961 Fujisawa Factory (presently Fujisawa Technology Center) began operations. Listing transferred to the Second Section of the Tokyo Stock Exchange
- 1966 Corporate name changed to Yamatake-Honeywell Co., Ltd. (presently Azbil Corporation) (60th anniversary of the company's founding)
- 1969 Listing transferred to the First Section of the Tokyo Stock Exchange
- The Control Products Business Division was split in two to form the Air Conditioning Control Business Division and the Instrument Control Business Division
- 1972 Samukawa Factory (presently Shonan Factory) began operations.
- 1973 Isehara Factory began operations.

1974 The new Overseas Business Management Department was established.

- Notes: 1. As the Company had adopted the settlement twice a year before FY1974, the graph shows the total amount of two accounting periods.
 2. From FY1948 to FY1993, the financial statements were prepared for the year ended September 30. Since FY1994, they have been prepared for the year ended March 31.
 3. As the Company changed the fiscal year, FY1994 had irregular closing.
 4. The financial statements were prepared on an unconsolidated basis until FY1993. Since FY1994, they have been prepared on a consolidated basis.



"Savemation"

1970s-2000s

The Shift from Analogue to Digital Instrumentation Contribution to Higher Performance, Accuracy, and Energy Saving

- 1984 The BOSS Center was established and the comprehensive building management service was launched.
- 1985 The Air Conditioning Control Business Division was renamed the Building Systems Division.
- 1998 Yamatake-Honeywell renamed Yamatake Corporation
The Group's core technology development functions were integrated into the newly established Research & Development Headquarters.
- 2000 The Home Comfort Department was established and the residential central air-conditioning system business was launched.
The ESCO business was launched.
- 2002 Equity alliance with Honeywell of the U.S. was terminated.
- 2005 Acquired preferred stock in Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.), becoming its major shareholder
- 2006 Converted its preferred stock in Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.) to common stock, making Kimmon a subsidiary
Established the Life Automation (LA) business as its third pillar and allocated Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.), the health, welfare, and nursing care business (Azbil Care & Support Co., Ltd.), and the residential central air-conditioning systems business to this segment

azbil "Human-centered Automation" 2006~

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

- 2006 New Group symbol, azbil, was formulated.
- 2008 Kimmon Manufacturing Co., Ltd. (presently Azbil Kimmon Co., Ltd.) became a wholly-owned subsidiary through a share exchange.
- 2011 Obtained JCSS accreditation and began offering calibration services for various flow meters
- 2012 Yamatake renamed Azbil Corporation.
- 2015 Transferred ownership of its health, welfare, and nursing care business (Azbil Care & Support Co., Ltd.)

- 1994 An overseas sales subsidiary (presently Azbil Control Solutions (Shanghai) Co., Ltd.) was established in China.
- 1995 The Dalian factory (presently Azbil Control Instruments (Dalian) Co., Ltd.) began operations in China.
An overseas sales subsidiary (presently Shanghai Azbil Automation Co., Ltd.) was established in China.
An overseas sales subsidiary (presently Azbil (Thailand) Co., Ltd.) was established in Thailand.
- 1996 An overseas sales subsidiary (presently Azbil Philippines Corporation) was established in the Philippines.
An overseas sales subsidiary (presently Azbil North America, Inc.) was established in the U.S.
- 1997 An overseas sales subsidiary (presently PT. Azbil Berca Indonesia) was established in Indonesia.
- 1998 An overseas sales subsidiary (presently Azbil Singapore Pte. Ltd.) was established in Singapore.
- 1999 An overseas sales subsidiary (presently Azbil Korea Co., Ltd.) was established in South Korea.
An overseas sales subsidiary (presently Azbil Malaysia Sdn. Bhd.) was established in Malaysia.
- 2000 Set up a structure for promoting international business development in its own right
An overseas sales subsidiary (presently Azbil Taiwan Co., Ltd.) was established in Taiwan.
- 2001 An overseas sales subsidiary (presently Azbil Europe NV) was established in Europe.
- 2002 Shenzhen Factory began operations in China.

- 2008 An overseas sales subsidiary (presently Azbil Vietnam Co., Ltd.) was established in Vietnam.
- 2010 An overseas sales subsidiary (presently Azbil India Pvt. Ltd.) was established in India.
An overseas sales subsidiary (presently Azbil Brazil Limited) was established in Brazil.
- 2012 Acquired capital in a Chinese engineering company (Beijing YTYH Intelli-Technology Co., Ltd.)
- 2013 An overseas manufacturing and sales subsidiary (Azbil Saudi Limited) was established in Saudi Arabia.
Acquired an 80% stake in Spanish company Telstar S.A., making it a subsidiary and changing its name to Azbil Telstar, S.L.U.
Established the Life Science Engineering (LSE) business with Azbil Telstar at its core and allocated it to the LA business segment
The Thailand factory (Azbil Production (Thailand) Co., Ltd.) began operations.
- 2014 Established a research and development base (Azbil North America Research and Development, Inc.) in the U.S.
The Saudi Arabia factory began operations.
- 2015 Acquired the remaining 20% of the equity in Azbil Telstar, S.L.U., making it a wholly-owned subsidiary

For more detailed information on global operations, see "azbil Group" on page 89.

azbil 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.

Issues Faced by Our Customers and Society

Challenges that change with the times

New product development and production for business growth



Comfortable, safe, and efficient office spaces and production sites
Healthy living environments

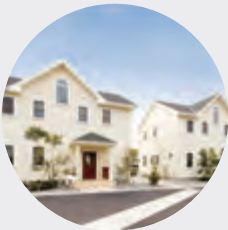


Business continuity planning (BCP)



Our Unique Solutions

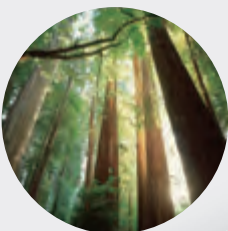
A stable supply of water and gas



Achieving compatibility between comfort and energy conservation



Reducing the burden on the environment



azbil's Operations

BA Business

AA Business

LA Business

Solving problems using our integrated framework closely connected to customer sites

For more detailed information on each business, see "azbil's Operations" on pages 10-13.



The Social Values Created through azbil's Operations

Facilitating sustainable development for our customers and society as a whole

For more detailed information, see "Case Study of Value Creation" on pages 8-9.

1 Safety



To live and work in good health and in safety

- Measuring equipment that detects malfunctions invisible to the naked eye, program for responding to abnormal operations, 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

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 boosts work quality and efficiency, which in turn improves productivity and quality and leads to enhanced customer satisfaction.

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

Provided through “Human-centered Automation”

Case Studies of Four Core Values

1. Safety

To live and work in
good health and in safety



Tokyo Gas Co., Ltd.

Safety
case
study



Facilitating the swift resumption of gas supply in an emergency via the construction of a local governor remote restart system

Tokyo Gas Co., Ltd. has fitted earthquake sensors to local governors installed at approximately 4,000 locations in its service area, which spans the capital and six prefectures. These sensors automatically cut off the supply in the event of a major earthquake. In addition, the local governors can be shut off remotely even if the tremor does not meet the criteria for automatic shut-off, if the extent of the damage to the surrounding area requires it. However, the governors needed to be operated locally when resuming the supply, giving rise to fears that transport network congestion in an emergency might prevent staff from being able to get to the governors promptly. Accordingly, the company worked with azbil to develop a system that would enable the gas supply to be restarted remotely. This system went into operation in July 2014, marking a major step forward in the provision of a safe, reliable supply of gas, which is a vital part of our daily lives.

2. Comfort

To always live and
work in comfort



Sekiya Brewery Co., Ltd.

Comfort
case
study



Aiding “human judgment” and reducing the burden on sake brewers by introducing remote monitoring and control to the sake brewing process

Sekiya Brewery Co., Ltd. is a sake brewery with a history dating back 150 years. It is renowned for its Horaisen sake, which is beloved of sake drinkers throughout the land. As well as pursuing the possibilities for Japanese sake through its own unique initiatives, such as producing the basic ingredients itself, the company has been engaged in a process of mechanization and automation for many years. Brewing fine sake requires meticulous management based on local know-how, including knowledge of how to respond to changes in the weather and basic ingredients. This means that there are times when the brewers cannot leave the brewery, spending sleepless nights there watching over the *koji* mold that enables the sake to ferment. At other times, it becomes impossible to access the brewery, because of the heavy snow that falls in the region. Accordingly, we put together a remote monitoring mechanism based around azbil's harmonized automation system, creating a system that allows the sake brewers to continue monitoring and controlling the brewery when they are away from it.

3. Fulfillment

To create new value with the customer



Yumeooka Management Union

Fulfillment case study



Helping a huge station building in Yokohama to continue meeting the need for environmental conservation with an ESCO project

Since around 2004, Yumeooka—a large complex directly linked to Kamiooka Station in Yokohama City—had faced mounting calls for greater energy efficiency to protect the environment. As a facility with a high level of public use, it needed to address these demands without delay. Financing was the primary challenge when refurbishing the facilities in the communal areas that the Union manages, due to the need to secure the agreement of the owners of each section. Accordingly, it was decided that the best option would be to use the ESCO method, which would facilitate energy conservation, while minimizing the investment required. As a result of the six-year ESCO project that we launched in June 2005, Yumeooka achieved the target level of energy efficiency. In addition, the facility was warmly praised for its achievements in this project, receiving an award for excellence in Yokohama City's Global Warming Countermeasures Plan scheme.

4. Environment

To optimize the management and usage of energy



CO₂ reduction at customers' sites

Automation

2,740 thousand tons per year

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

Energy Management

280 thousand tons per year

We contribute to reduced environmental impact through our energy management solutions for power saving, energy conservation, and CO₂ reduction.

Maintenance and Building Management Services

70 thousand tons per year

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

Providing products and solutions that reduce society's burden on the environment

For the year ended March 31, 2015, we calculated the effect of our businesses in reducing CO₂ emissions at our customers' sites. The total CO₂ reduction under review comes to 3,090 thousand tons, equivalent to about one 500th of the approximately 1.3 billion tons emitted during the year in Japan. In light of the global expansion of our business, we are expanding the scope of our calculations to abroad.

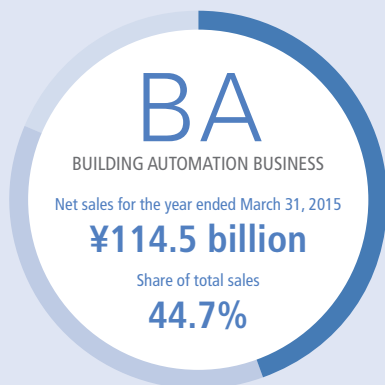
TOTAL

3,090 thousand tons per year

Note: For the calculations, we categorized CO₂ data into three areas—reduction resulting from automation, from energy management, and from maintenance services—and calculated the amount of CO₂ reduction compared with the results if our products and solutions had not been used at our customers' sites. Calculations of the reduction effect are based on the calculation method used hitherto, with a unique approach being used in some cases.

For general information on the method of calculation, please refer to

<http://www.azbil.com/csr/eco/es/shakai/index.html>



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

A lineup of services tailored to the life cycles of buildings

Energy-saving solutions based on accumulated data

Business Field

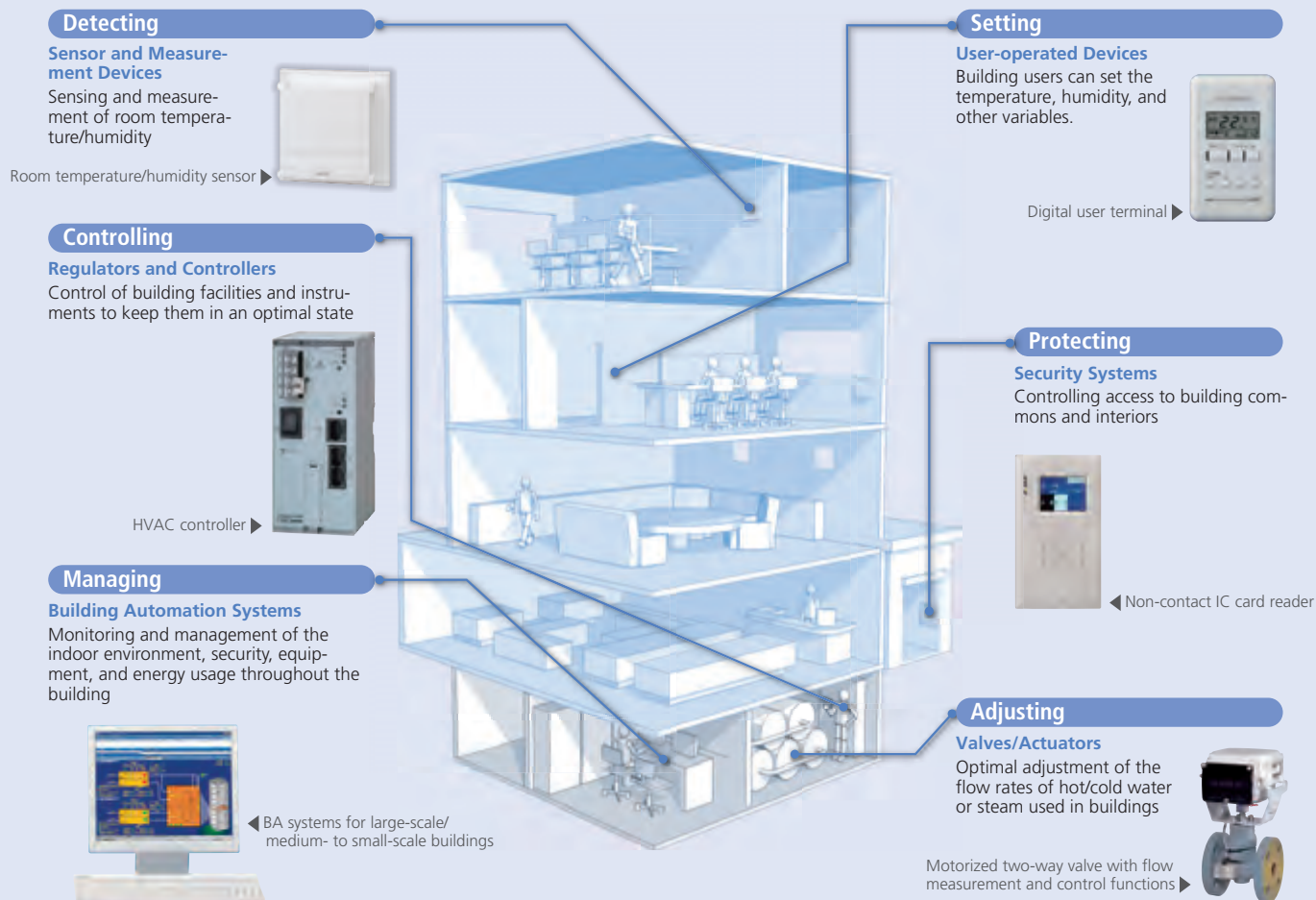
- Office buildings
- Data centers
- Manufacturing buildings
- Research laboratories
- Hospitals
- Medical care and welfare facilities
- Commercial facilities
- Schools
- Hotels
- Training centers
- Stations
- Airports
- Public facilities
- District heating and cooling, etc.

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

For further details of business results, see "Business Overview" on pages 30-31.

Building Automation Business

azbil achieves high performance and high quality through its in-house development and manufacture of a full product lineup, from building automation systems to controllers, valves, and sensors, not to mention security systems. We offer solutions through an integrated structure extending from instrumentation design to sales, engineering and installation, and maintenance services. In addition, we are applying our unique environmental control technologies to the fields of energy-saving solutions and building and facility management in order to create comfortable and productive office and factory spaces, while also helping to reduce the burden on the environment.



Comprehensive Building Management

Round-the-clock services, including remote monitoring/control via communication lines linking buildings to our operation center, as well as inspection patrols and emergency response by engineers



Building Renovation

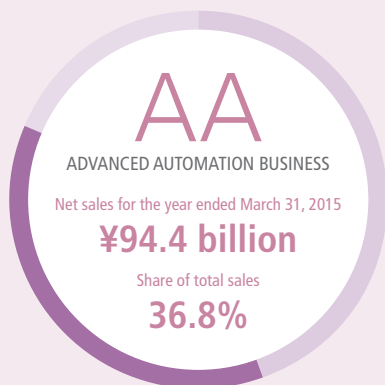
Comprehensive proposals covering everything from the preparation of plans tailored to meet social needs, address the deterioration of buildings and facilities, and respond to changes in their purpose, to installation and management



Total Energy Management

Comprehensive proposals ranging from IT-based building and facility management, energy-saving diagnostics and control, to financing and also guaranteed reductions in energy usage





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

Expanding the solution-based control valve business both in Japan and overseas

Business Field

Process Automation

- Petrochemical/chemical
- Oil refining
- Electric power and gas
- Iron and steel
- Waste management/Water supply and sewerage
- Paper and pulp
- Shipping, etc.

Hybrid Automation/Factory Automation

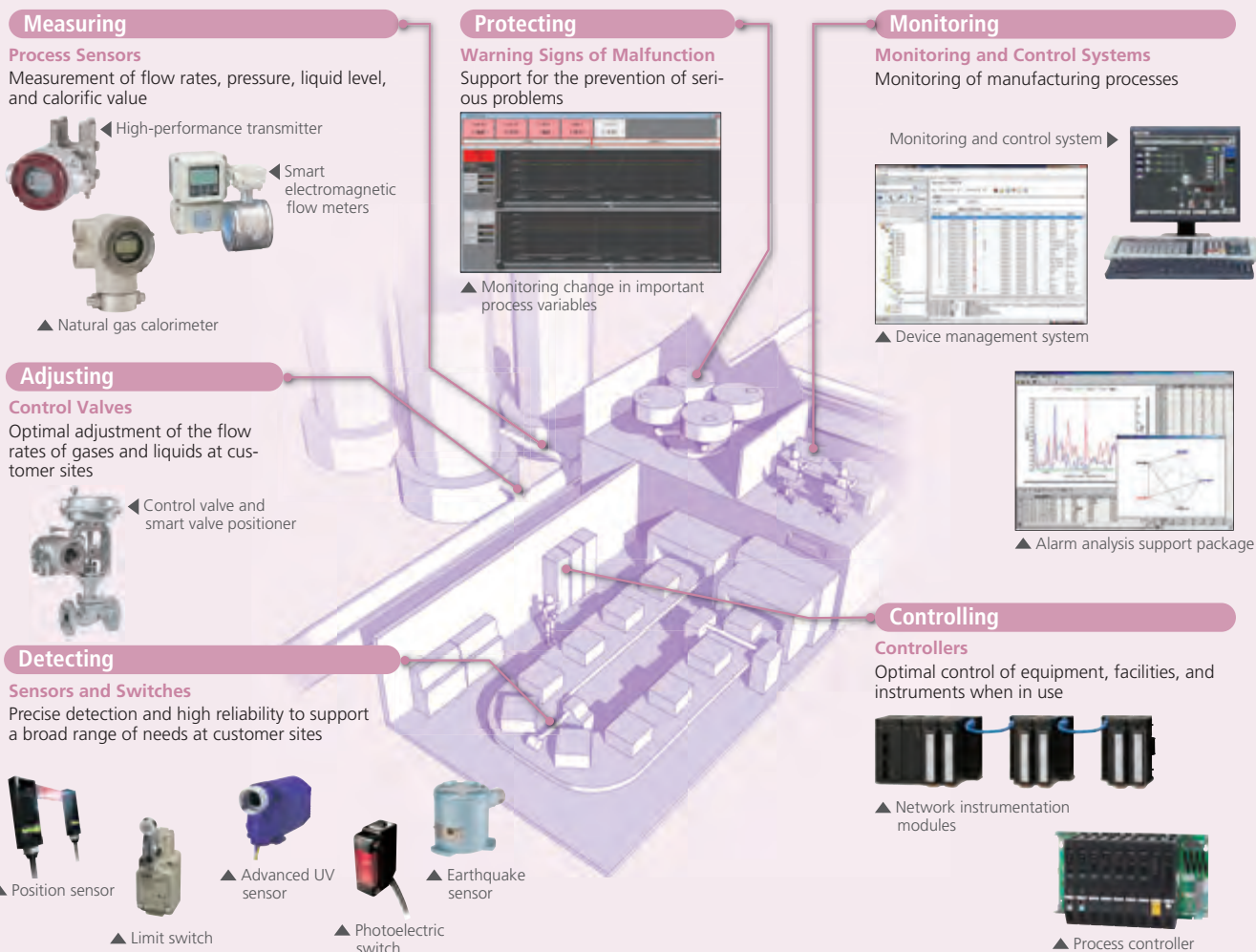
- Food and packaging machinery
- Pharmaceuticals
- Automobiles
- Electrical/electronics/semiconductors
- Industrial furnaces and boilers
- Semiconductor manufacturing equipment
- Industrial machinery, etc.

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

For further details of business results, see "Business Overview" on pages 32-33.

Advanced Automation Business

azbil resolves issues faced by plants and factories 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 at their sites, we develop advanced measurement and control technologies, aiming to create environments that are safe and make the most of human capabilities, and to create new value for customers.



Services for Plants and Factories

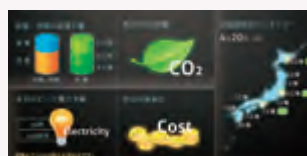
Speedy and reliable services to ensure safe operation

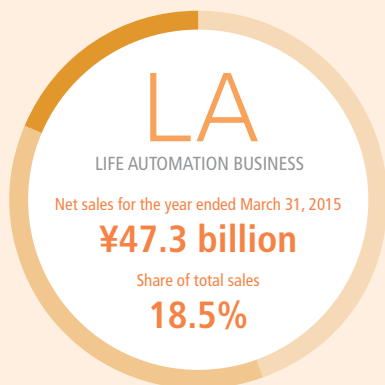


- Support throughout the life cycle
- Maintenance support
- Operation support
- Facility diagnosis support

Energy Management

Optimal control of air, steam, cold water, hot water, electricity, gas, and other forms of energy used at customer sites, in order to support energy conservation and visualization, and address complex legislation





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

In the LSE field, we focus on manufacturing equipment for the pharmaceutical market, offering an integrated package covering everything from development, sale, and engineering to production.

In the residential central air-conditioning systems field, we provide peace of mind with comfortable, healthy living spaces throughout the home, round the clock.

Business Field

Gas and Water Meters

- Town gas (for homes/industry)
- LP gas
- Water supply (local government), etc.

LSE

- Pharmaceutical plants
- Laboratories
- Hospitals and medical facilities
- EPC, etc.

Residential Central

Air-Conditioning Systems

- Homebuilders
- Contractors, etc.

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

For further details of business results, see "Business Overview" on pages 34-35.

Life Automation Business

azbil applies measurement and control technologies cultivated over many years in the building, factory, and plant markets to the gas and water supply services that support daily life, pharmaceutical manufacturing that contributes to health, and ordinary homes that provide a comfortable lifestyle.

Life Science Engineering

Azbil Telstar, S.L.U.

Manufacture of lyophilizers, sterilizers, and barrier systems for pharmaceutical manufacturing facilities and medical institutions
Provision of an integrated package covering everything from the development of equipment through to production, sales, and engineering

Lyophilizer and Barrier Systems



PHARMACEUTICALS

Residential Central Air-conditioning Systems

Provision of an integrated package covering everything from the development of central air-conditioning systems for ordinary homes through to production, sales, installation, engineering, and maintenance

Gas and Water Meters

Azbil Kimmon Co., Ltd.

Provision of town gas/LP gas meters and water meters for the household market, as well as products for industry, including regulators, and also safety equipment in the form of alarms and automatic shut-off valves

Water Meter



Gas Meter and Regulator



Outlet



Remote Controller



Indoor Unit and Ventilation Equipment



Outdoor Unit

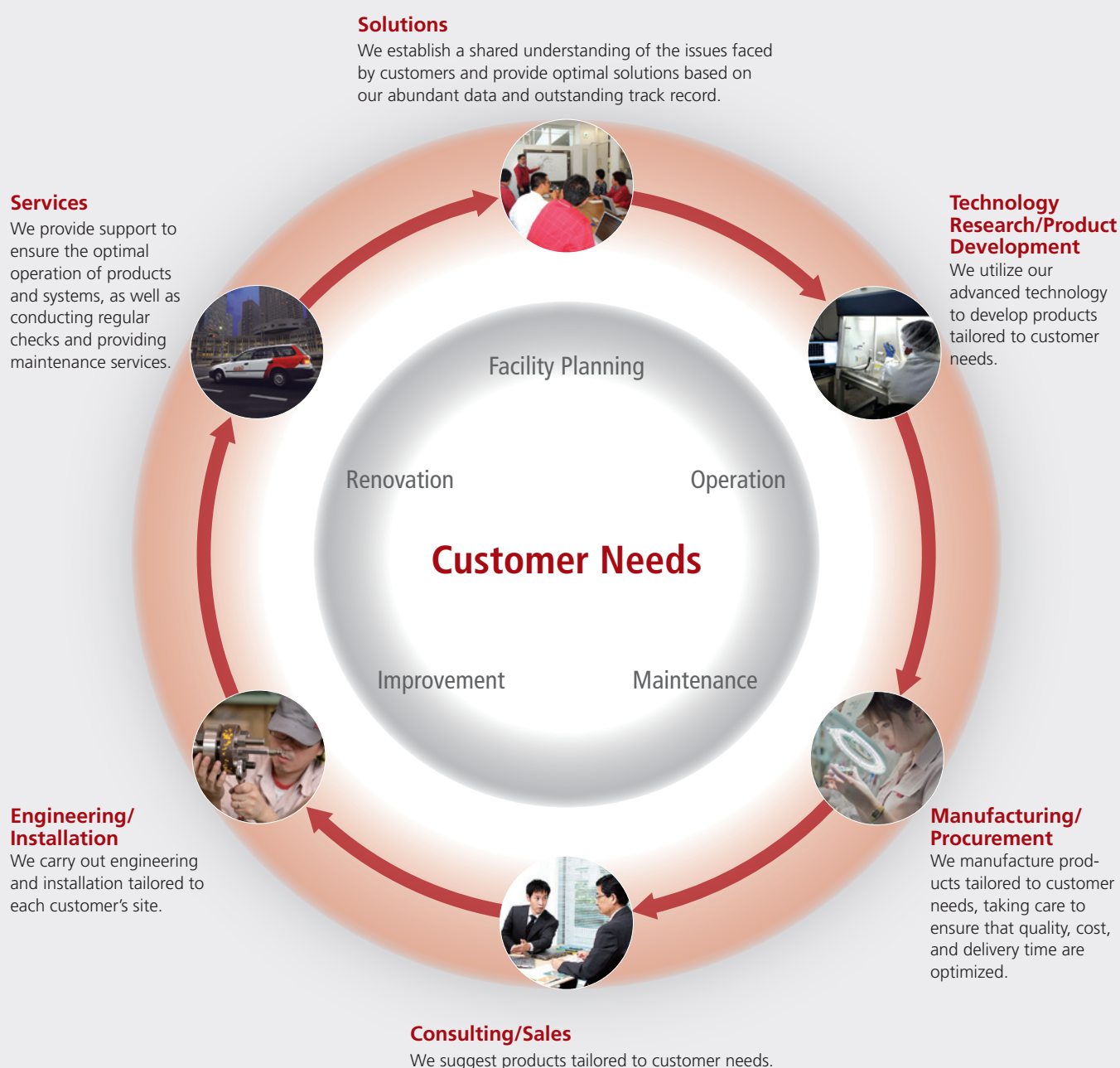


Electronic Air Cleaner



azbil tackles challenges throughout the life cycle of customer facilities through an integrated framework closely connected to customer sites.

In our three 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 production, sales, and services, enabling us to respond to a variety of customer needs and create new value.



2014

1Q

2Q

April

May

June

July

August

September

Topics

May 20

Azbil Kyoto Co., Ltd. is accredited with the largest flow calibration scope of any JCSS-accredited calibration rig in Japan.

Jun 13

METI adopts an azbil-led consortium of energy management service providers, a body that supports energy conservation initiatives at factories and offices.

Sep 22

Azbil Singapore Pte. Ltd. acquires the highest L6 License from Singapore's Building and Construction Authority (BCA).

Products & Services

Apr 2

LA

Azbil Kimmon Co., Ltd. opens its Product Support Center.

Apr 22


BA

Remote control service for buildings adds a function for automatically controlling energy usage.

Apr 24

BA

Remote maintenance service by remote monitoring for overseas buildings becomes available.



May 16


BA

Cloud-based building and equipment management support system adds a function for automatically generating a long-term maintenance plan which is mobile compatible.


Jun 11

BA

Air flow control valve that creates a clean space by controlling indoor air pressure is added to our line-up of environmental control systems for research facilities.



Air flow control valve (room pressure control model)




Room pressure monitor

Jun 18

LA

Azbil Telstar develops a lightweight, compact, ergonomically-designed, dual-access animal handling workstation.



Dual-access animal handling workstation

Jul 16

BA

Large-scale security system adds a function to support the confirmation of personnel safety in the event of disaster.

Jul 22

AA

Sales launch of electromagnetic flow meters with calibration certificates that comply with international standards

Aug 1

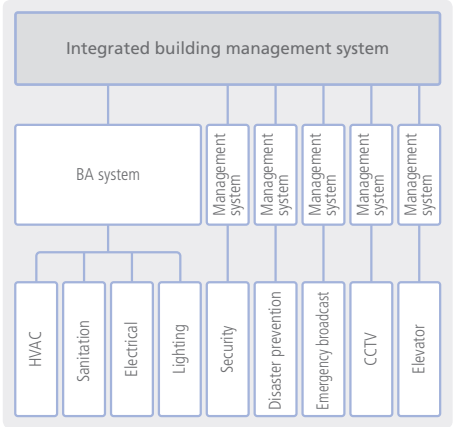
LA

Azbil Telstar's biological safety cabinet receives China Food and Drug Administration (CFDA) certification.

Sep 19

BA

Sales launch of integrated building management systems for large-scale buildings overseas




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graph TD; IBMS[Integrated building management system] --> BAS[BA system]; IBMS --> MS1[Management system]; IBMS --> MS2[Management system]; IBMS --> MS3[Management system]; IBMS --> MS4[Management system]; IBMS --> MS5[Management system]; IBMS --> MS6[Management system]; BAS --> HVAC[HVAC]; BAS --> San[Sanitation]; BAS --> Elec[Electrical]; BAS --> Light[Lighting]; BAS --> Sec[Security]; BAS --> DP[Disaster prevention]; BAS --> EB[Emergency broadcast]; BAS --> CCTV[CCTV]; BAS --> Elev[Elevator];
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Facility management for large-scale facilities overseas

Sep 24

AA

Establishment of 5 valve maintenance centers, offering nationwide coverage






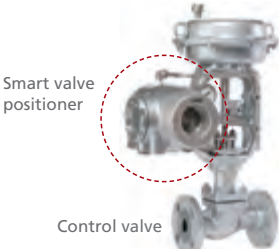



azbil's Mizushima Branch, home to a valve maintenance center

14 azbil report 2015

3Q		4Q		2015		
October		November		December	January	February
						March
Oct 1	Inclusion in the FTSE4Good Global Index for the 8th consecutive year				Feb 4	Transfer of the health, welfare, and nursing care business subsidiary to SOHGO SECURITY SERVICES CO., LTD. (ALSOK)
Oct 9	The azbil Honey Bee Club volunteer organization decides to provide ¥4.57 million in support to social welfare groups and other organizations.				Feb 27	azbil report 2014 receives an award for excellence at the 18th Environmental Communication Awards. Azbil Academy issues accreditation for the first time under the Technical Professional Certification scheme.
Nov 3	Co-sponsorship of the 9th Shonan International Marathon, providing support for efforts to reduce its burden on the environment				Mar 30	Integration of retirement pension schemes into a defined contribution pension plan
Nov 4	Azbil Saudi Limited's factory is completed and begins production.					
Dec 8	Azbil Production (Thailand) Co., Ltd.'s new factory is completed and begins production.					

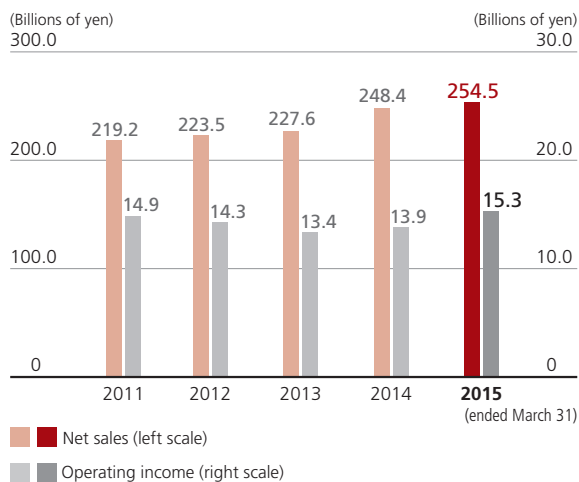
BA : Building Automation Business AA : Advanced Automation Business LA : Life Automation Business

Oct 8	AA TIIS explosion-proof certification for multivariable vortex flow meters	Jan 5	LA Azbil Kimmon Co., Ltd. begins sales of a new Type-S intelligent LPG meter equipped with pulse generator functions.
			
	Vortex flowmeter		Type-S intelligent LPG meter
Oct 22	LA Azbil Telstar develops 2 safety airlock systems utilizing integrated ionHP bio-decontamination processes, for transference of materials into aseptic installations.	Jan 13	AA Formation of a business alliance with Sampo Japan Nipponkoa Risk Management Inc. in the field of earthquake preparedness
		Jan 20	AA Sales launch of position sensors that help to improve the quality of highly functional films and electronic components
	ionHP bio-decontamination system		
Dec 18	AA Integrated monitoring and control system obtains ISASecure EDSA Certification, an internationally recognized certification for control devices.	Jan 30	BA Sales launch of cloud-based services for buildings, offering greater efficiency in building management
		Feb 16	AA TIIS explosion-proof certification for high-performance smart valve positioners
	Process controller for integrated monitoring and control system		
			Smart valve positioner Control valve
		Mar 3	AA Functional enhancement of our intelligent earthquake sensor
			
			Intelligent earthquake sensor

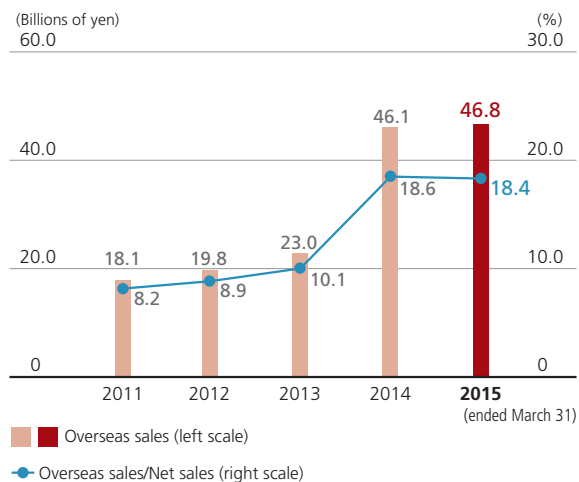
Financial and Non-financial Highlights

Azbil Corporation and its consolidated subsidiaries

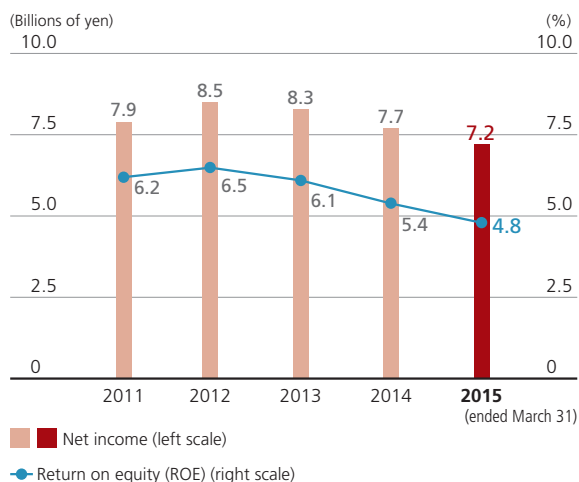
Net Sales, Operating Income



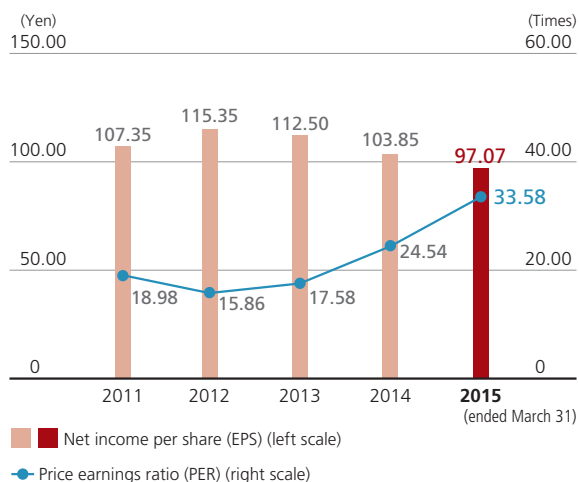
Overseas Sales, Overseas Sales/Net Sales



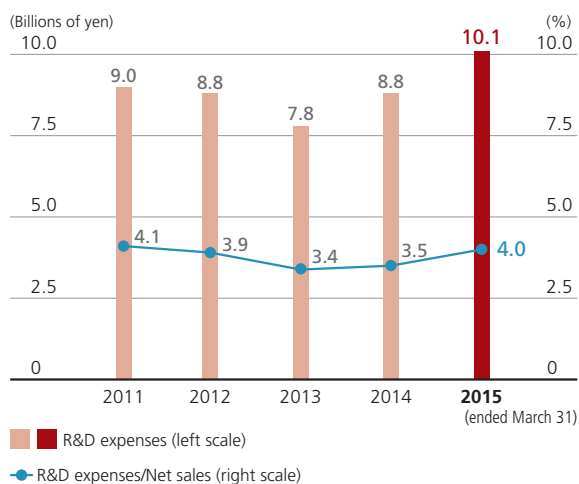
Net Income, Return on Equity (ROE)



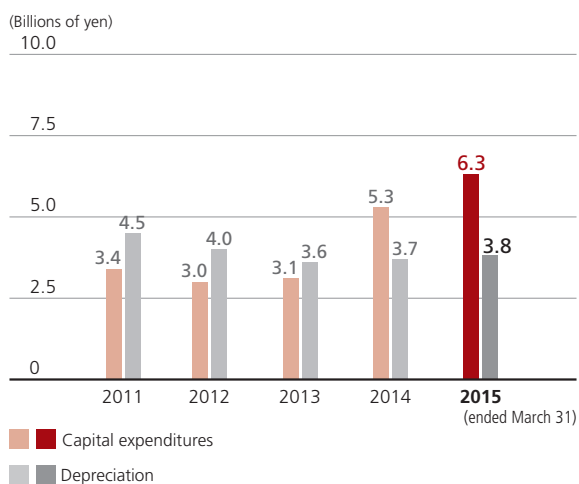
Net Income per Share (EPS), Price Earnings Ratio (PER)



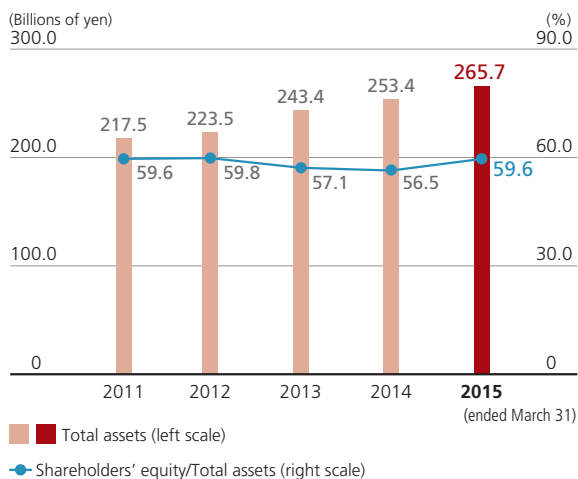
R&D Expenses, R&D Expenses/Net Sales



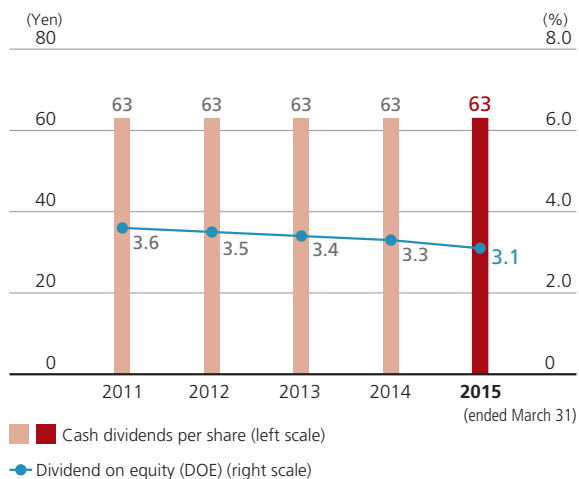
Capital Expenditures, Depreciation



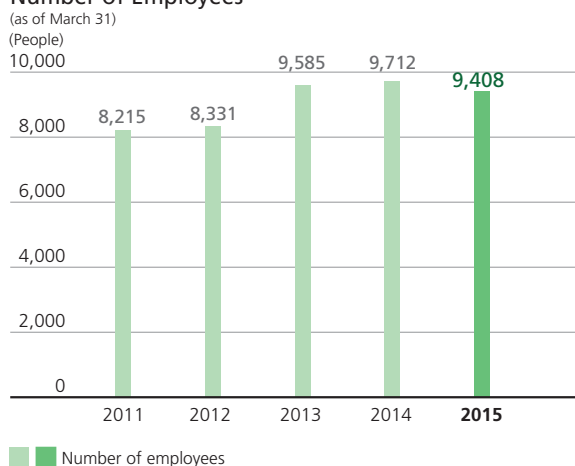
Total Assets, Shareholders' Equity/Total Assets



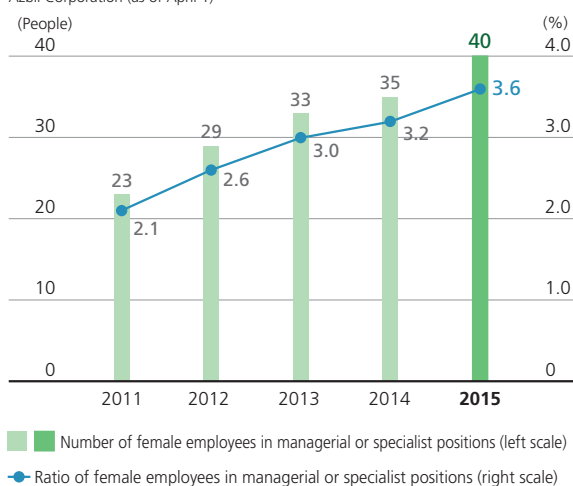
Cash Dividends per Share, Dividend on Equity (DOE)



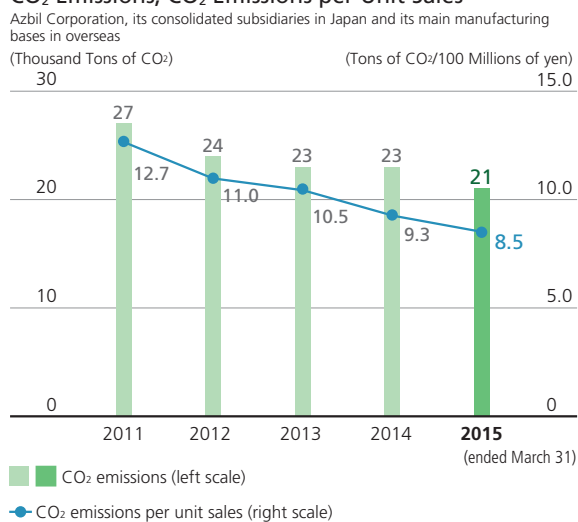
Number of Employees



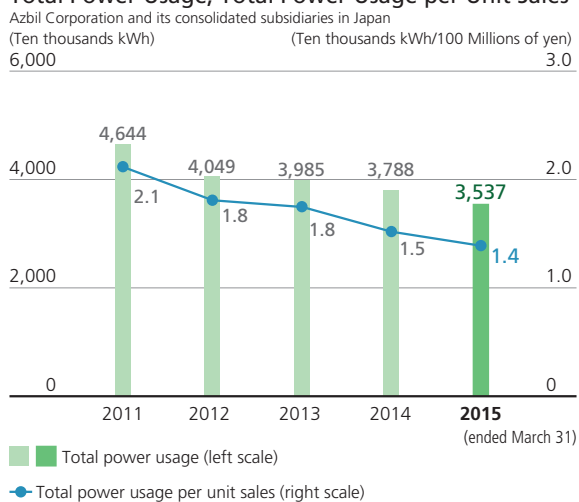
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions



CO₂ Emissions, CO₂ Emissions per Unit Sales



Total Power Usage, Total Power Usage per Unit Sales



Having reached a turning point in the year ended March 2015, we will ensure steady growth in the year ending March 2016 and beyond.



Hirozumi Sone
President and
Chief Executive Officer

How would you rate the year ended March 2015, in light of the medium-term plan?

I would sum up the year ended March 2015 as the turning point in our efforts to achieve the profit goals set in the medium-term plan.

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

Our four-year medium-term plan, the final year of which is the year ending March 2017, sets out three key initiatives under the azbil Group's philosophy of human-centered automation:

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

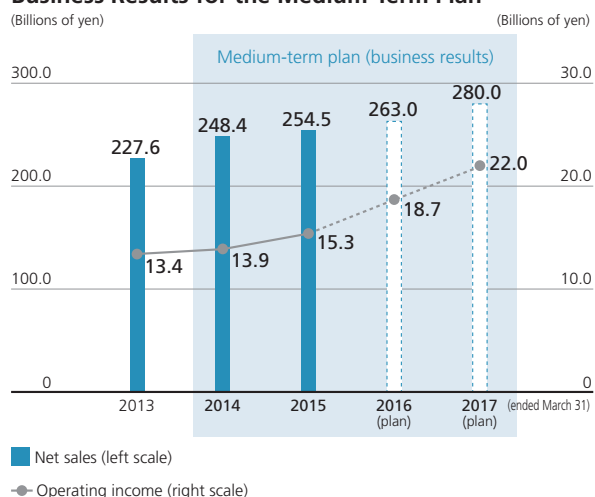
Based on these initiatives, we are developing our business with a focus on solutions that only azbil can offer.

Looking back, the year ended March 2015 was a turning point in our medium-term plan: not only did we expand our business and achieve better results, but we also made tremendous progress in radical structural reforms that will drive future growth. In that sense, I would sum up the year ended March 2015 as the turning point in our efforts to achieve the profit goals set in the medium-term plan.

Firstly, our business results for the year ended March 2015 were primarily driven by our Building Automation (BA) business and our Advanced Automation (AA) business. In the former, sales grew within Japan in the new building field, where construction investment is heating up, as well as in the existing building and service fields; in the latter, on the other hand, we saw growth in sales both at home and

overseas, mainly thanks to rising sales of control products to equipment manufacturers, as a result of market recovery and strategies to boost sales. This enabled us to absorb the effects of the deteriorating business environment in our Life Automation (LA) business, resulting in consolidated net sales rising 2.4% year on year to ¥254.5 billion and consolidated operating income rising 10.3% to ¥15.3 billion. Thus, we achieved increases in both revenue and earnings for the second consecutive year. However, net income fell by 6.5% year on year to ¥7.2 billion, due to the recording of expenses associated with radical business reforms and strengthening the corporate structure to achieve future growth.

Business Results for the Medium-Term Plan



Could you explain what specific business structural reforms you carried out in the year ended March 2015?

Focusing on reforming business structures and strengthening the corporate structure, we put the azbil Group on a solid path to sustainable growth in the next fiscal year and beyond.

In light of changes in the business environment in the year ended March 2015, we undertook three business structural reforms and initiatives to strengthen the corporate structure.

Business structural reforms and initiatives to strengthen the corporate structure (1)

Optimal resource allocation throughout the Group

Firstly, in response to changes in business opportunities, we embarked upon a bold program of redeploying personnel

and optimizing their placement, cutting across the boundaries between the azbil Group's businesses. Domestically, demand for redevelopment and refurbishment, especially in the Tokyo metropolitan area, is thriving. And it will generate business throughout each building's life cycle and upgrading to make buildings more energy efficient. In addition, demand is forecast to grow in businesses associated with energy-switching to LNG, among others, as well as in the processing and

assembly field (HA/FA*). Accordingly, we have concentrated our qualified engineers and technical staff in these fields, which in some cases has involved a change of job.

azbil's businesses focus on a variety of areas, including buildings, manufacturing sites, and the infrastructure and lifestyle fields. However, the characteristic feature of the azbil Group is that all of these businesses share the same corporate culture and technologies through the Group's philosophy of human-centered automation, facilitating the flexible deployment of personnel with a high level of expertise according to the needs of each business segment. In 2012, we established the Azbil Academy, aiming to elevate this kind of optimization to the level of a corporate organization that never stops learning, which can carry out reforms to business and operational structures in an autonomous way. Using the Academy to prepare staff for different jobs and help them to obtain the qualifications that they require, we have swiftly strengthened and redeployed our personnel, as well as cultivating the employees that we need for global expansion. The structure required for tapping into business opportunities is being put in place, making the most of synergies throughout the Group, both within Japan and overseas.

* HA/FA (Hybrid Automation and Factory Automation): The industrial market for manufacturing equipment associated with the highly functional materials, food and beverage, and pharmaceuticals markets is positioned as a growth field for azbil, and is referred to by the blanket term "HA/FA field."

Business structural reforms and initiatives to strengthen the corporate structure (2)

Reform of our Life Science Engineering business

Secondly, we turned our attention to Azbil Telstar, S.L.U. which plays the key role in the Life Science Engineering (LSE) field of our LA business. We have strengthened its core business to facilitate substantial improvements in earnings and ensure solid medium- to long-term growth.

Azbil Telstar's business results in the year ended March 2015 showed losses increasing, due primarily to an increase in unprofitable projects as a result of increasingly intense competition and a rapid deterioration in the business environment in emerging economies. Azbil Telstar's business is focused on the pharmaceutical manufacturing market, which is forecast to see steady growth worldwide in the medium to long term. Accordingly, we made the company a wholly-owned subsidiary and undertook root and branch business reforms and initiatives to strengthen its corporate structure in the second

Reform of Azbil Telstar's Business Structure

▶ Creating an appropriate operational structure (consolidation of subsidiaries and organizational functions)

Lowering the break-even point to realize a V-shaped turnaround

▶ Ensuring profitability through thorough project management

Improving profitability, quality, and efficiency

▶ Strengthening the core business of providing manufacturing equipment for pharmaceutical plants

Concentrating management resources on the manufacturing equipment business, in which azbil has an advantage

half of the year ended March 2015. More specifically, we consolidated the sales structure to focus on the pharmaceuticals manufacturing equipment business, which is one of Azbil Telstar's strengths, and put in place a system for further increasing the competitiveness of its products, including through technical collaboration with Azbil Corporation. At the same time, we enhanced the project management structure, consolidated subsidiaries and organizational functions, and implemented widespread efficiency improvements. As a result, while it recorded a loss on business restructuring (approximately ¥0.4 billion) and impairment of goodwill (approximately ¥1.8 billion), Azbil Telstar is planning to get back onto the path of growth with a more robust business structure in the year ending March 2016 and beyond.

Business structural reforms and initiatives to strengthen the corporate structure (3)

Review of our business portfolio and strengthening of structures and systems

Thirdly, we undertook a review of our business portfolio from the perspective of future feasibility, differentiation, global expansion, and leveraging group synergies. More specifically, we transferred all of our shares in Azbil Care & Support Co., Ltd., which provides health, welfare, and nursing care services, to SOHGO SECURITY SERVICES CO., LTD. (ALSOK). Demand for automation in the field of health, welfare, and nursing care had been expected to grow due to the aging of the population coupled with a declining birthrate, but we judged that ALSOK, as a customer-facing operator in the private service sector, would be better equipped to leverage this strength in developing the business. While we are working on strengthening the corporate structure in other areas of our LA business, endeavors in the aforementioned LSE field and the health, welfare, and nursing care field have made it apparent that the LA business is destined to be our third business pillar in addition to our BA and AA businesses. We are moving forward with reviews of our portfolio in all of our businesses. In our BA business, we undertook a fundamental review of the profitability of existing business in relation to the instantaneous microbial detection technology on which our U.S. subsidiary Azbil BioVigilant, Inc. focuses and, as a result, decided to move this technology into Azbil Corporation in order to extend the range of markets targeted, expand new business opportunities, and pursue innovation.

In addition to structural reforms and efforts to strengthen the corporate structure of our three businesses, we have also sought to enhance our systems by updating our core information system and integrating our retirement pension schemes into a defined contribution pension scheme (implementation from June 2015). Although we recorded an extraordinary loss of approximately ¥2.9 billion because of this reform of our retirement pension scheme, it has not only put in place a better environment for our employees, but also enabled us to minimize the impact of changes in the operating environment on our business results, thereby creating a corporate pension scheme that will remain sustainable into the future.

Ongoing Business Reforms and Efforts to Strengthen the Corporate Structure through the Year Ended March 2015

Business Segment	BA business	AA business	LA business
	<ul style="list-style-type: none"> Strengthening of the foundations of domestic BA business Implementation of life-cycle business development in our overseas business (Establishing a profitable model) 	<ul style="list-style-type: none"> Personnel shift to HA/FA field Service shift in domestic PA* field Enhancement of product competitiveness, life cycle business development in our solution-based valve business, etc. 	<ul style="list-style-type: none"> Structural reform of Azbil Telstar (business restructuring and regional integration) Structural reform of the central air-conditioning field (reinforcing the profit structure) Transfer of shares in Azbil Care & Support Co., Ltd.
	Enhancing the global remote maintenance environment and system architecture, and strengthening local development capabilities for our global customers		
	Redeployment of personnel within the Group (promoting greater efficiency in mature fields and shifting into growth fields)		
Group-wide Functions	Feb 2014	Dec 2014	Nov 2014
	Establishment of our North American technology development site (Azbil North America Research and Development)	Opening of the Saudi Arabia factory and maintenance center (Azbil Saudi)	Completion of a new factory in Thailand, enhancing the overseas production framework (Azbil Control Instruments (Dalian), Azbil Production (Thailand))
Group Management	Launch of the Group-wide core information system (Phase 1: beginning May 2015) Integration of pensions into a defined contribution pension scheme (starting in June 2015) Promotion of optimal personnel deployment within Japan and overseas, and enhancement of human resource development programs		
	Business plan review, and strengthening of global governance and accounting		

* Process Automation

Q3

The economy has received a boost from Abenomics and the announcement that Tokyo will host the Olympic and Paralympic Games. Please tell us how this has affected the business and what steps you are taking in response.

In response to this demand, we are strengthening the job fulfillment system in our BA business, so that we can steadily build up a track record that will become the cornerstone of our life cycle business development based on azbil's integrated framework.

Demand for our BA business is growing overall, stimulated by redevelopment centered in the Tokyo metropolitan area and the development of facilities and infrastructure toward the Tokyo 2020 Olympic and Paralympic Games. As one might expect, this demand includes the new buildings field, but there is also demand for the refurbishment of existing buildings, not to mention demand for advanced energy-efficient systems. We believe that the need for safe, comfortable, and energy-efficient solutions will grow at competition venues and surrounding commercial and accommodation facilities.

Nevertheless, we will be unable to meet the construction and energy efficiency needs of our customers unless we improve our capabilities at construction sites in response to this growing demand. We must also steer a course that takes into account the rebound that will follow this expansion in demand.

Over the next few years, we will steadily build up a base of installed systems and products that will enable us to secure stable earnings throughout the life cycle of customers' buildings and facilities, from the design and installation phase, through to maintenance and renewal when refurbishment is carried out.

At the same time, rather than adopting an expansion



strategy that involves increasing staffing to meet the peak of demand, and thereby increasing fixed costs, our policy is to bolster our job fulfillment system based on shifting resources within the Group and to achieve greater operational efficiency in the field by such means as technology development and environmental improvements. By adopting this profitability-focused approach to our sales activities, we will keep cost increases to the minimum, while ensuring that we do not miss out any these growing business opportunities.

For more detailed information, see "Special Feature" on pages 26-29.

Q4

What progress and results are being achieved in business in growth fields?

We are deploying azbil's unique solutions in growth fields where a variety of automation needs overlap.

Automation needs are changing with the times and we identified the following as growth fields in the azbil Group's medium-term plan:

1. Next-generation solutions for production and working/living spaces (advanced, high-added-value solutions required in offices, factories, research facilities, and other production facilities, and in living environments)
2. Energy management solutions
3. Safety solutions

These interrelated fields will generate business from the need for support throughout the life cycle, and they are also fields in which cross-cutting technology in the form of automation can be newly applied.

For example, looking at the next generation in the field of buildings, it is becoming impossible to separate new systems out into their individual elements governing air conditioning, energy management, and security. In addition, the functions required of such systems vary from country to country. azbil will meet these needs by offering tailored combinations of new control technologies, products, and services. Our integrated building management systems for our overseas customers and our remote maintenance systems that enable us to provide the same high-quality service globally as we do within Japan are one of the fruits of this.

Creating next-generation solutions for manufacturing

plants requires not only the measurement of production conditions, such as temperature and pressure, but also a profound understanding and knowledge of the manufacturing equipment in which these instruments are installed. The customers to whom azbil has links include both end users and equipment manufacturers, and our proposals for solutions that leverage these relationships are now bearing fruit in the HA/FA field. We are already achieving positive results with forming equipment and the extrusion process in the field of equipment for manufacturing highly functional films. We believe that the knowledge held by Azbil Telstar, whose core business is equipment for the pharmaceutical manufacturing market, will also be helpful in the deployment of solutions.

In the energy conversion and supply field, while technologies and products that guarantee safety in various frontline energy supply environments are required, there is also a need for energy management and greater efficiency. azbil is involved throughout the gas supply chain, from production to delivery to households, so we believe that we can leverage Group synergies to provide solutions.

We will make a global contribution through our presence in our customers' theaters of innovation, in an array of growth business fields where such forms of automation overlap.

Q5

Please describe the progress and results of the Group's global expansion as a key part of its growth strategy.

Our efforts to build on our successes to make the leap into the global arena are progressing smoothly and the prospect of achieving overseas sales equivalent to 20% of net sales is close at hand.

In contrast to the buoyant economic climate in domestic markets, there is ongoing uncertainty about current business conditions in Europe and emerging economies. Nevertheless, overseas markets will undoubtedly be a growth field in the medium to long term, so azbil is devoting its energies to establishing the foundations for overseas growth, both by moving into new regions and by undertaking a qualitative change of focus. As part of our strategy for moving into new regions, we have progressively established overseas subsidiaries in the Middle East and Latin America, to add to our existing ones in China, other parts of Asia, North America, and Europe.

At the same time, we have undertaken a qualitative change

of focus, shifting from being a business centered on equipment sales to one based around solutions throughout the life cycle of customers' buildings or facilities. In this process, we have achieved progress in both the enhancement of our functions and the strengthening of our capabilities. As well as our progress in infrastructure development for remote maintenance that I mentioned earlier, with a view to expanding our solutions in the areas of energy efficiency and maintenance, we have achieved major progress this year in improving the level of skill at our overseas subsidiaries. For example, Azbil Singapore Pte. Ltd. obtained a Level 6 license (the highest level) under the registration system operated by Singapore's

Building and Construction Authority, while Azbil Saudi Limited completed construction of the factory and obtained a foreign investment license, enabling the company to undertake wide-ranging business development, from valve production through to the maintenance and instrumentation work.

We also made progress in our efforts to enhance our research and development and production structures to support our move into new regions and qualitative change of focus. In terms of development, the establishment of Azbil North America Research and Development, Inc. has put in place a framework that enables us to tap into both regional customer needs and trends in advanced technology in Japan, the U.S., and Europe, allowing us to propose solutions. On the production side, the new factory at Azbil Production (Thailand) Co., Ltd. has been completed, expanding the

range of products that it produces and making it our main production base for Southeast Asia.

In terms of overseas net sales in the year ended March 2015, the LA business saw a fall due to the deteriorating environment, but the results for both the BA and AA businesses grew, so the overall figure reached ¥46.8 billion. This meant that overseas sales were equivalent to 18.4% of net sales, putting us within sight of the target of 20% set in the medium-term plan. Going forward, we will devote our energies to cultivating personnel with a global outlook, both within Japan and overseas, who are capable of constant self-transformation. This will enable us to make further progress with our qualitative change of focus overseas and ensure that the value provided by azbil is of a uniformly high standard worldwide.

Q6

Following on from the increases in both revenue and earnings achieved in the year ended March 2015, the initiatives undertaken to date are expected to gradually begin to bear fruit. What are your thoughts on the shareholder return policy and financial strategy?

We will continue to invest in sustainable growth and make solid returns to our shareholders.

For details of trends in cash dividends per share, see "Financial and Non-financial Highlights" on page 17.

To achieve sustainable growth and enhance corporate value, the azbil Group positions the maintenance of sound financial foundations, along with efforts to improve capital efficiency and to continue making solid returns to our shareholders, as key management priorities.

Our basic policy on shareholder returns is to maintain stable dividends, while striving to improve results such as the return on equity (ROE), also taking into account the dividends on equity (DOE) level. For the year ended March 2015, we are planning a total dividend of ¥63 per share, including the interim dividend, maintaining a stable dividend level in accordance with our policy of making solid returns to our shareholders.

Focusing on one of our management indicators, we are aiming to achieve an ROE of 10% or higher as a long-term goal to the year ending March 2022, while also pursuing improved capital efficiency through radical structural reforms. At the same time, as well as investing in future growth, including M&A, we will maintain a sound financial footing to ensure that we can continue our business and meet our supply obligations as a long-term partner for both the customer and the community, even in the event of a major natural disaster or other unforeseen circumstances. Under this policy, we will keep striving to improve corporate value.

Solid Returns to Shareholders and a Flexible Capital Strategy

Dividends plan for the year ending March 2016

Annual dividend: **¥67 per share**

(Increase ¥4 as ordinary dividend in the year ended March 2015)

Repurchase of treasury shares

Total amount of repurchase: **approx. ¥1,999 million**

Total number of shares to be repurchased: **600,000 shares**

(Period of repurchase: from May 14 to June 8, 2015)

In the year ending March 2016, we will pursue further improvements in capital efficiency, strengthen the earnings potential of our businesses through the various structural reforms undertaken in the year ended March 2015, and take advantage of the sound financial footing that we have put in place. We will then use this as the basis for implementing a flexible capital strategy conducive to further returns to shareholders and capable of responding to changes in the business environment, reflecting the prospects for our business results based on the steady growth of our businesses in the future. To facilitate this, as well as

planning a total dividend for the year of ¥67 per share, an increase of ¥4 per share, we acquired 600,000 of our own shares (approximately ¥1,999 million) between May 14 and June 8, 2015. We will continue to make solid returns to our

shareholders by focusing on our key management priorities of investing in sustainable growth and implementing a disciplined capital strategy.

Q7

In June 2015, Japan's Corporate Governance Code came into effect, placing considerable emphasis on increasing corporate value through dialogue with shareholders and investors. What are your thoughts on this?

Through dialogue with our shareholders and investors and the exchange of views with our external directors, we will strive to increase corporate value, including improving capital efficiency from a medium- to long-term perspective.

For more detailed information, see "Corporate Governance" on pages 57-59.

We are aware that the entry into force of the Corporate Governance Code requires us to make even greater efforts to raise the level of corporate management to meet global standards, emphasizing capital efficiency via improvements in productivity achieved through transparent, fair, and swift decision-making that takes into account the standpoints of our shareholders, as well as our customers, employees, and local communities.

For many years now, azbil has been actively engaged in building a governance structure that ensures fairness, neutrality, and transparency in our corporate management. We would like to present a highly transparent management style and business performance to all of the many stakeholders who support us every day, demonstrating an understanding of our activities aimed at improving corporate value as an organization that supports its customers behind the scenes. Accordingly, as well as placing a high priority on dialogue with our shareholders and investors, we take care to hold open, accessible shareholders' meetings. Furthermore, we organize briefings on the Group's financial performance, meetings for analysts, and visits to investors, taking these opportunities to communicate our management policy.

We have established a dedicated IR office to maintain close dialogue with our investors, providing them with information; in conjunction with this, we have also put in place structures for them to provide feedback on our management. We regard our system of external directors as a very important mechanism for ensuring appropriate decision-making in our corporate management and providing control and oversight with a business viewpoint. Since June 2007, we have augmented the functions and increased the number of these external directors, with three in place at

present. We also hold regular meetings with them to exchange opinions, ensuring that we obtain their views and cooperation, benefiting from their invaluable experience and expert perspective not only when seeking to improve capital efficiency or otherwise increase corporate value, but also when making a variety of other business judgments. In fact, they provided valuable advice from an objective perspective concerning the structural reforms that we undertook in the year ended March 2015. Going forward, in order to ensure azbil's sustainable growth and increase its corporate value, we will seek a variety of perspectives in obtaining recommendations concerning our business, enabling us to achieve even higher levels of governance for our shareholders.



Please describe your approach to CSR management and initiatives in this area.

In the process of delivering value to society globally through our main business, we will pursue thorough adherence to basic CSR, including at our overseas business bases.

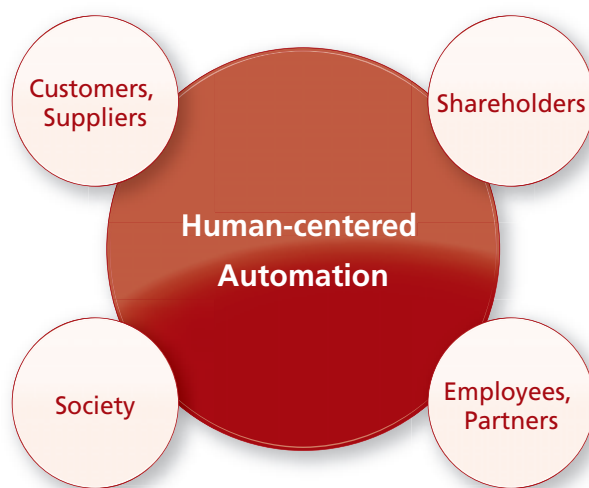
For more detailed information, see "CSR Management" on page 45.

Based on our Group philosophy of human-centered automation, we practice CSR management toward all of our stakeholders. We position the fulfillment of our fundamental obligations to society as a corporate citizen as "basic CSR," while regarding our contribution to society through our business operations and our voluntary activities that benefit society as "proactive CSR." As well as putting together a wide range of relevant initiatives in our business activities, we have identified six basic themes, setting goals for each that we are working toward. These six themes are compliance, risk management, business management that values people, the global environment, Group management, and contributions to society.

Our proactive CSR involves neither more nor less than globally and actively promoting our energy management solutions, which we have identified as a growth field. In terms of our basic CSR predicated on our business activities, we are aware that, as these activities spread across the globe, it is vital for all employees throughout the Group, including those at our overseas business bases, to work together to ensure thorough adherence to the basic conduct of compliance and risk management. I believe that the CSR management that

azbil promotes is inseparably intertwined with the management style with a high regard for corporate governance that I just outlined.

CSR Management Aimed at All Stakeholders



Please tell us about your intentions for the year ending March 2016, with a view to the final year of the medium-term plan (year ending March 2017).

We will aim to translate our radical structural reforms into enhanced earnings, thereby delivering value in a new dimension.

The year ending March 2016 marks the first time that we will see no amortization of goodwill associated with Azbil Kimmon Co., Ltd. in our LA business realm. This will yield a positive effect on earnings of approximately ¥0.6 billion, as well as helping to translate the effects of the radical structural reforms implemented in the year ended March 2015 into enhanced earnings. As a result, we plan consolidated net sales of ¥263.0 billion (up 3.4% year on year) and

consolidated operating income of ¥18.7 billion (up 21.9% year on year).

In the year ending March 2016, as well as taking another step forward in our structural reforms, we intend to maximize synergies throughout the Group and achieve business growth both within Japan and overseas, thereby ensuring that we meet the targets in our medium-term plan.

Expanding Our Stable Revenue Base via Tokyo's Transformation and Our Life Cycle Business

Home to 13 million people and one of the world's foremost business centers, Tokyo is set to undergo a transformation driven by Abenomics and the Tokyo 2020 Olympic and Paralympic Games. Optimizing the deployment of resources and synergies that leverage the Group's capabilities to take advantage of these changes in the business environment, azbil will steadily undertake redevelopment and infrastructure development, as well as providing stable value throughout the life cycle of buildings and facilities.

One of the key initiatives set out by the azbil Group in promoting the medium-term plan is to "become a long-term partner for the customer and the community" by offering solutions based on our technology and products, aiming to achieve sustainable growth by deploying this strategy worldwide. Demand arising from the redevelopment of Tokyo and the construction of facilities toward the Olympic and Paralympic Games is creating business opportunities across all three of our business segments, encompassing not only buildings, but also district heating and cooling, and infrastructure development. As such, the data and know-how that we have built up in our BA, AA, and LA businesses will be a powerful engine for global expansion.

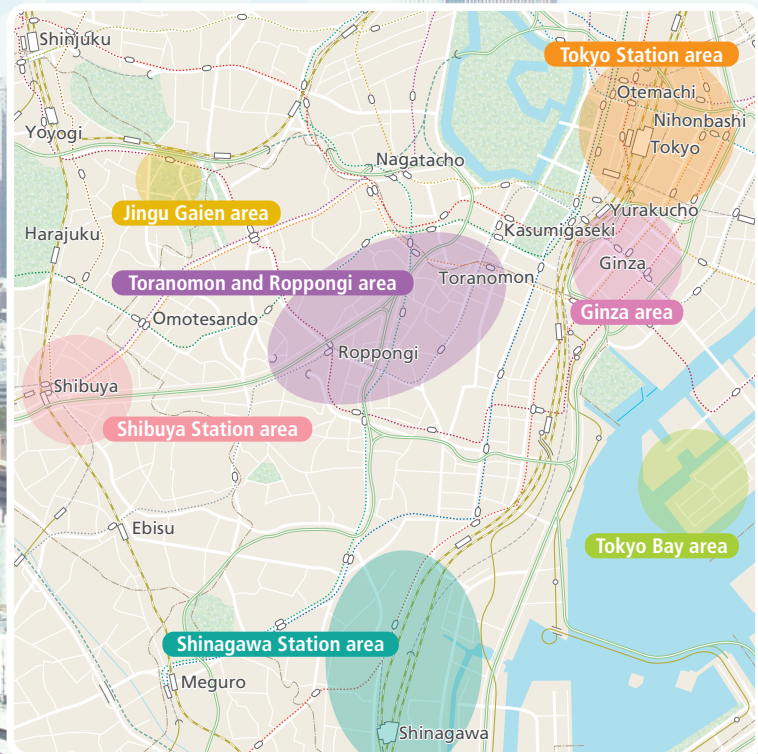
Tokyo's Redevelopment and New Business Opportunities

Tokyo is one of the world's leading metropolises. Today, the Japanese capital stands on the brink of a transformation sparked by the Abenomics-induced economic recovery and the decision to hold the 2020 Olympic and Paralympic Games in Tokyo. The upgrading of transport infrastructure and the relaxation of restrictions on building floor-area ratios have provided an added boost to redevelopment projects aimed at enhancing international competitiveness, while plans such as for the opening and refurbishment of nearby luxury hotels and commercial facilities are also on the increase. Furthermore, due to initiatives aimed at addressing energy efficiency and adding value to buildings, we anticipate a high level of demand for the refurbishment of existing buildings and maintenance services.

Work is progressing on major redevelopment projects

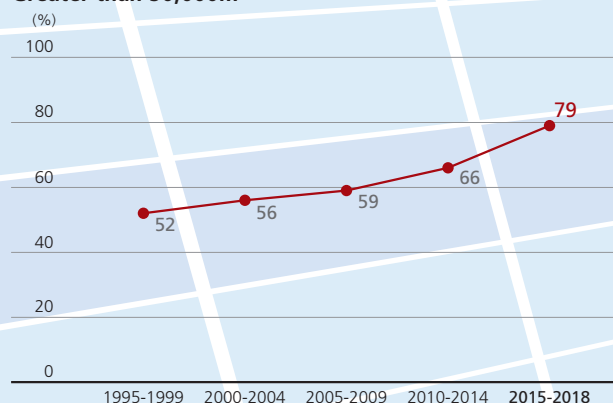
planned for seven key areas in the capital: the Tokyo Station area, which includes the Otemachi and Marunouchi districts where many financial institutions and large corporations are headquartered, as well as the adjacent Nihonbashi and Yaesu districts on the other side of Tokyo Station; the Ginza area, which is home to many commercial premises; the Toranomon and Roppongi area, which aspires to become a new global hub; the Shibuya Station area, where up-and-coming IT companies are clustered; the Shinagawa Station area, where, along with a redevelopment scheme on the site of a former JR East rail yard and the construction of a new station between Shinagawa and Tamachi stations, the terminal for the Chuo Shinkansen maglev line is being developed; and the Tokyo Bay area and Jingu Gaien area, where competition venues for the Tokyo Olympic and

Redevelopment Schemes Underway in Central Tokyo



Paralympic Games are scheduled to be built. These redevelopment schemes are expected to involve the construction of bigger buildings, so they constitute a major business opportunity for our Building Automation (BA) business, given that air-conditioning control in large buildings is one of its strengths. District heating and cooling is also planned in conjunction with this, to achieve a more efficient, stable supply of energy, so we can expect further business expansion by leveraging synergies with our Advanced Automation (AA) business, which focuses on plant control. The growth of the city will require a stable supply of energy and our Life Automation (LA) business has a good track record in this regard, with its gas and water meter business and experience of working with our AA business on projects focused on responses to earthquakes and related disasters.

Supply of Office Buildings with a Floor Area Greater than 50,000m²



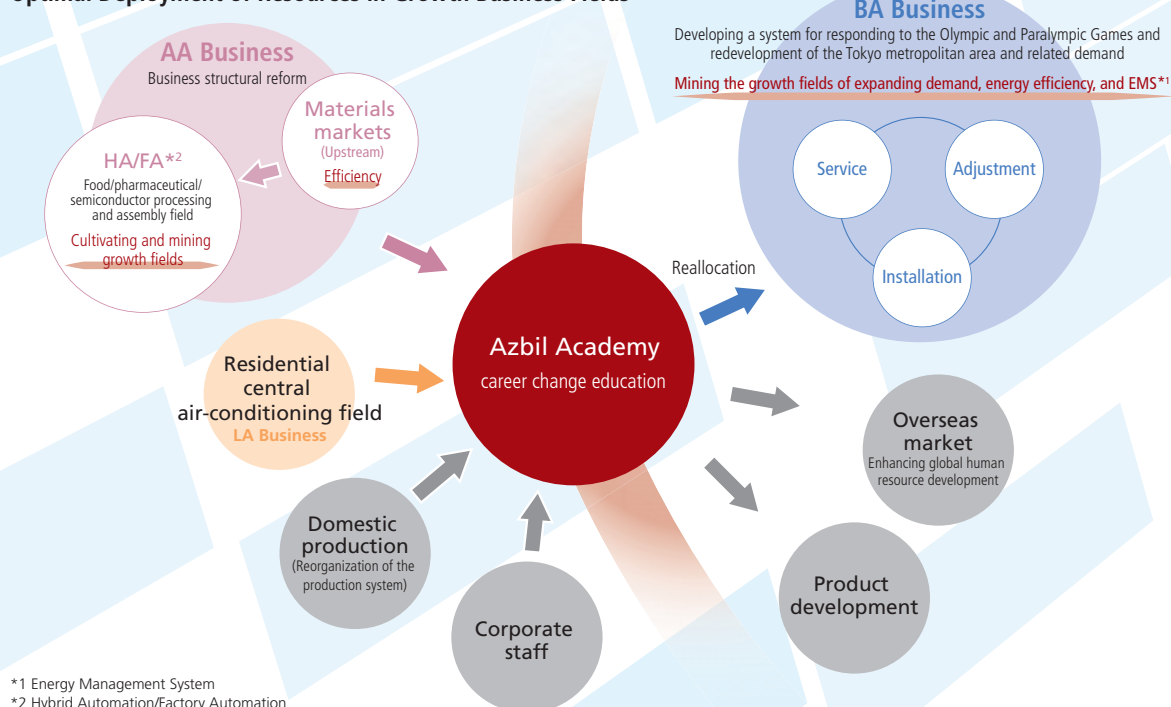
Source: Mori Trust Co., Ltd., "Survey of Large-scale Office Building Supply in Tokyo's 23 Wards 2015"

Optimal Deployment of Group Resources in Growth Business Fields with a View to the Future

On the other hand, the completion of construction work on facilities for the Olympic and Paralympic Games is expected to peak between the year ending March 2019 and the year ending March 2020, so it is unlikely that such strong demand will be sustained thereafter. Consequently, as well as building the job fulfillment system needed to minimize increases in fixed costs by ensuring the optimum deployment of resources within the Group, in accordance with environmental changes affecting each of the Group's businesses, azbil will steadily develop a stable revenue base that spans the future life cycle of each building by achieving greater

efficiency in on-site operations, including via technology development and environmental improvements. To this end, having established the Azbil Academy in 2012, we have positioned it at the forefront of our efforts to ensure the swift, accurate redeployment and re-education of personnel, with the aim of completing the development of this job fulfillment system as soon as possible. In the year ended March 2015, we redeployed personnel (primarily qualified engineers) into our BA business. Going forward, we will continue our efforts to ensure the optimum deployment of resources in growth fields throughout the Group.

Optimal Deployment of Resources in Growth Business Fields



Expanding our Stable Revenue Base Globally via our Life Cycle Business

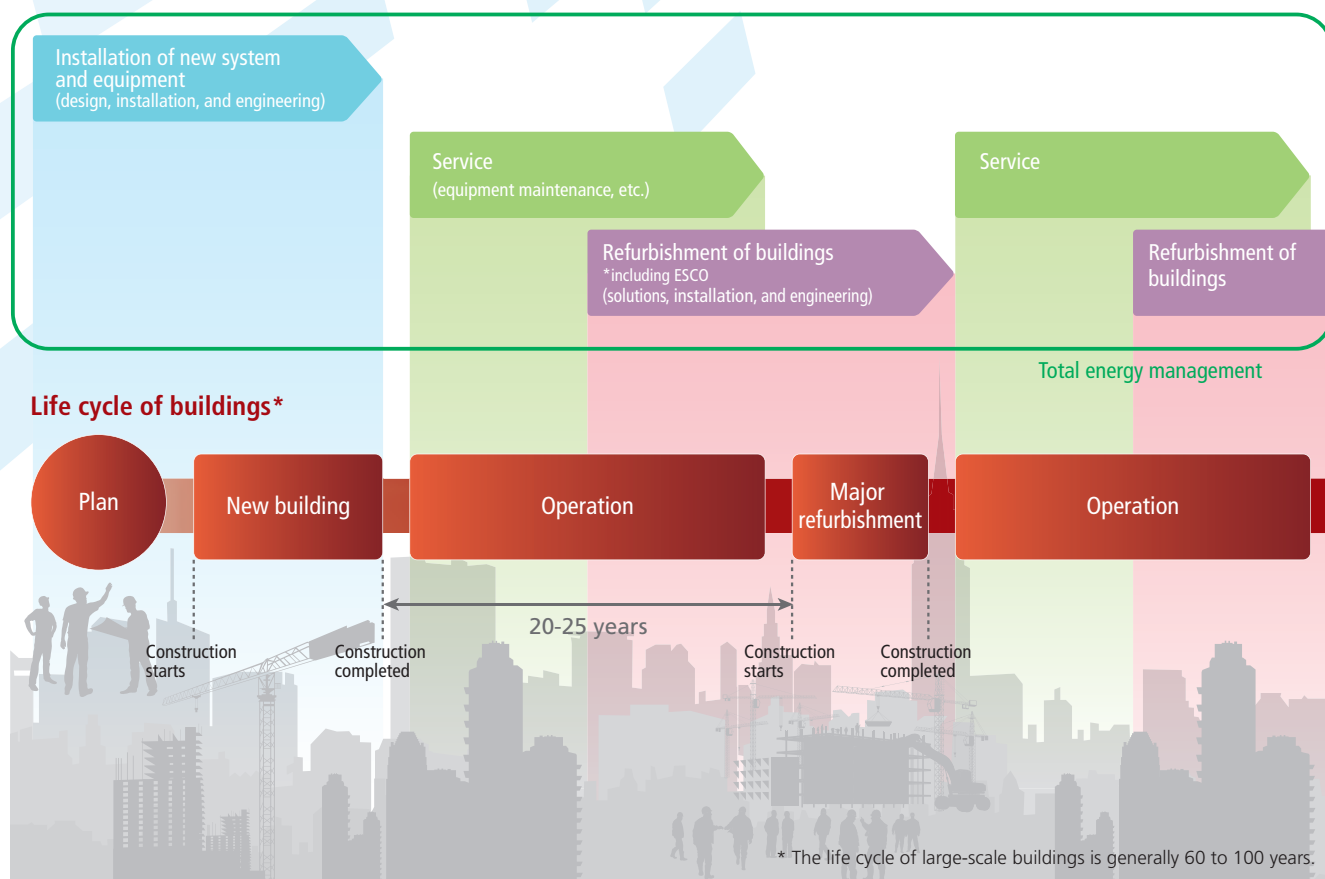
Based on our philosophy of human-centered automation, azbil is striving for business expansion through relationships with customers that last throughout the life cycle of their buildings and facilities. In our BA business, we provide the solutions needed at each stage in a building's life cycle, from the development and sale of air-conditioning control products and systems to their design, installation, after-sales maintenance services, and refurbishment. Our customers have expressed appreciation for our handling of their needs at each stage, based on our track record built up over many years, and we have also garnered praise for our ESCO and other comprehensive energy management solutions aimed at conserving energy and reducing CO₂ emissions. In our AA business, which is deploying a solution-based business focused on valves, we have developed a system that supports stable operations in close proximity to our customers through our maintenance centers located

globally. This initiative has been well received.

The flexible deployment of resources within the Group to take advantage of current business opportunities is something that we can only achieve because of our common philosophy that transcends the boundaries between business segments and our core technology in the field of measurement and control. Developing this system will enable us not simply to minimize fixed costs, but also to deliver the optimal products and services to meet the high expectations of customers. As well as providing the utmost support for the Tokyo 2020 Olympic and Paralympic Games, which will be taking place in Tokyo for the first time in 56 years, azbil will use all of the resources at our disposal to expand the stable revenue base throughout the life cycle of buildings and facilities. In addition, we will utilize the data and know-how that we have built up to accelerate the roll-out of our life cycle solutions overseas as well.

Life Cycle of Buildings and BA Business

BA Business



Building Automation (BA) Business

For further details of this business, see “azbil’s Operations” on page 10.



With an eye to the future, we will steadily tap into demand within Japan in such growth areas as redevelopment, while promoting overseas expansion through the acquisition of landmark projects in Asia’s emerging markets.

Keiichi Fuwa

Executive Director
Managing Executive Officer
President of the Building Systems Company
Azbil Corporation

Operating Environment

During the year ended March 2015, Japan’s economy showed a modest recovery overall as a result of the government’s economic policies, despite the economic slowdown that followed the increase in the consumption tax rate. Coupled with the improving domestic economy, the rise in the number of redevelopment projects being undertaken across the capital and the ripple effect of plans to develop venues and associated facilities toward the Tokyo 2020 Olympic and Paralympic Games have revitalized construction investment. In addition to renovation of existing buildings, investment in advanced energy solutions that deliver both comfort and energy savings has remained high, due to the effects of electricity rate rises.

In overseas markets, the slowdown in the Chinese real estate market and political instability in some Southeast Asian countries did have some impact on our business. Elsewhere, however, the business environment remained steady and we see firm demand emerging for energy-saving solutions, one of the azbil Group’s key areas of expertise.

Review for the Year Ended March 31, 2015

In the domestic market, we saw a rise in sales in the new building, existing building, service, and security fields, against the backdrop of a business environment that has remained healthy since the latter half of the year ended March 31, 2014.

In overseas markets, despite a fall in sales in China, sales

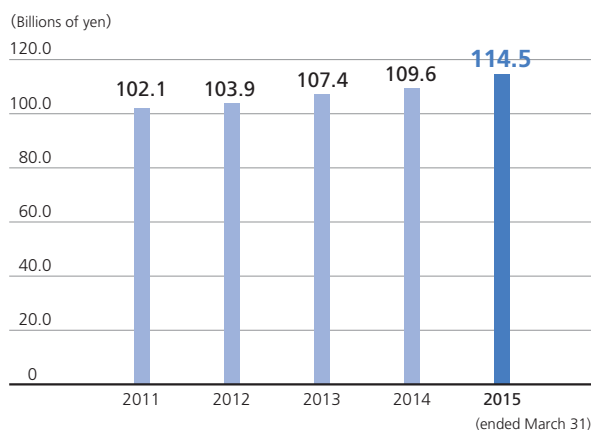
across Asia as a whole rose, thanks to growth in Singapore and other areas where we made progress in developing local markets.

As well as such achievements in the realm of business results, the year under review saw steady progress in our efforts to strengthen the foundations of our Building Automation (BA) business, including product development and the establishment of personnel frameworks for grasping and addressing the business opportunities that we expect to emerge both within Japan and overseas, such as redevelopment projects in Tokyo.

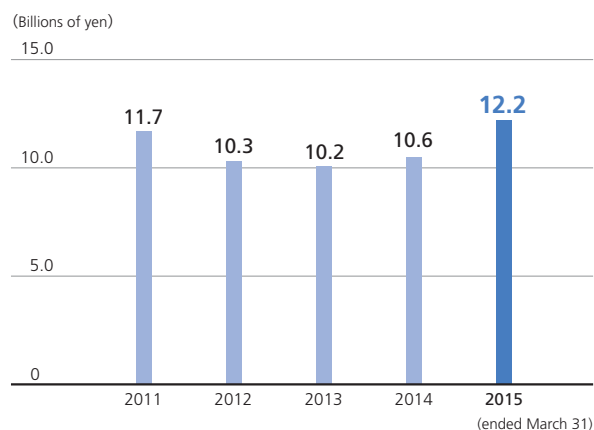
Outlook

In the domestic market, new building projects have been increasing as a result of growing demand emerging from redevelopment projects in Tokyo and the construction of facilities for the Olympic and Paralympic Games, which is expected to have a temporary impact on profit margins. Given that this will also lead to highly profitable maintenance services and refurbishment projects in the future, we will continue improving profitability by reducing costs at construction sites and enhancing project management. At the same time, we will reinforce our engineering and installation frameworks to steadily tap into demand. To meet rising demand for solutions that reduce the energy consumption and operational costs of existing buildings, we will offer state-of-the-art refurbishment proposals that cover all aspects, including the sources of heat. We will

Sales



Segment Profit (Operating Income)



For the year ended March 2015, the segment reported a 4.5% year-on-year rise in net sales to ¥114.5 billion, thanks to increased earnings in both domestic and overseas markets. As a result of increased sales in the highly profitable existing buildings and service fields in the domestic market and the effects of initiatives aimed at improving construction earnings, segment profit grew 15.6% year-on-year to ¥12.2 billion.

also delivery 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, offering customers a wide variety of services tailored to their needs.

Overseas, we will focus on emerging markets in Asia, where economic growth is spurring construction investment. By leveraging the azbil's 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. Furthermore, we will aim to establish

the same kind of business model covering the whole of a building's life cycle, progressively rolling out to buildings overseas high-value-added services similar to those that we offer within Japan, including remote maintenance.

Going forward, we will harness our strengths as a manufacturer to continue expanding azbil's unique businesses. In addition to supplying products, we will offer engineering/installation 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.

Case Studies ① Site ② Business field



① Lion Corporation's Ryogoku Office
② Office buildings

We introduced a BEMS*, enabling the operational status of equipment and electricity usage on each floor to be visualized. This is helping to prolong the life expectancy of the building and to promote awareness of energy conservation among staff.

* Building Energy Management System



① Hakujuen special nursing home for the aged
② Welfare facilities, ESCO

Using a subsidy system by the government to support energy conservation, we updated heat sources, air conditioning equipment, and energy conservation measures. This enabled us to achieve a cut in energy consumption far higher than the target reduction.



① The Enoshima Aquarium
② Commercial facilities, ESCO

Using an ESCO project for in-depth centralized management of the operational status of equipment, we deployed various measures based on the visualization of operational data. As a result, we achieved energy savings well in excess of the target.

Advanced Automation (AA) Business

For further details of this business, see “azbil’s Operations” on page 11.



We will expand our overseas business in areas where we can expect growing demand in the medium to long term, and undertake structural reforms of our domestic business to achieve greater efficiency in mature fields and a shift of resources into growth fields.

Masato Iwasaki

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

Operating Environment

Although the increase in the consumption tax rate had some impact in the year ended March 2015, the weak yen ensured that overseas business in the manufacturing field remained in good shape and there were moves in some industries to repatriate production to domestic bases, so overall our domestic business showed a modest recovery. However, the cautious domestic approach to capital investment remained largely unchanged, while manufacturing industries continued their shift to overseas production. On the other hand, new demand emerged in fields such as industries associated with energy-switching; forefront industries such as highly functional materials, electrical and electronic components, and semiconductors; foods and other industries focused on domestic demand; fields focused on the development of high-added-value aspects for equipment and facilities; and the safety field. Investment in energy efficiency continued, due to the impact of the weak yen 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, 2015

In the domestic market, capital investment in the materials industry and other upstream fields was mainly confined to

maintenance and replacement. Accordingly, we worked on identifying opportunities in the process automation field, which supplies everything from field instruments and systems to services, mainly for plants in the materials industry, as well as implementing measures aimed at expanding the energy-switching market, where new demand is emerging. In the Hybrid Automation and Factory Automation (HA/FA) field, which focuses on sales of control products, such as sensors for factories and manufacturing equipment, we sought to expand sales in safety-related fields, as well as in forefront industries such as highly functional materials, electrical and electronic components, and semiconductors; foods, pharmaceuticals, and other industries focused on domestic demand; and industries that supply manufacturing equipment to these industries. As a result of these efforts, we achieved a rise in net sales overall in the domestic market.

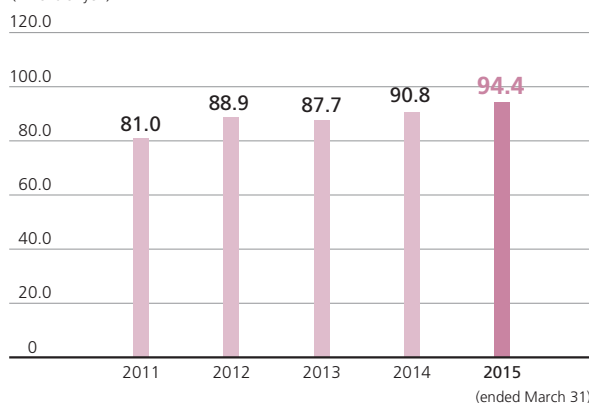
In overseas markets, while there were countries in which sales fell, due to political instability and regime change, there was overall growth in each region, including China and the rest of Asia, as well as Europe and the United States. Combined with the effect of newly consolidated subsidiaries, this led to increased sales in the markets.

Outlook

In Japan, we can expect ongoing demand for control products for equipment manufacturers, but we anticipate that harsh conditions will continue to prevail in the area of capital investment in upstream industries associated with the

Sales

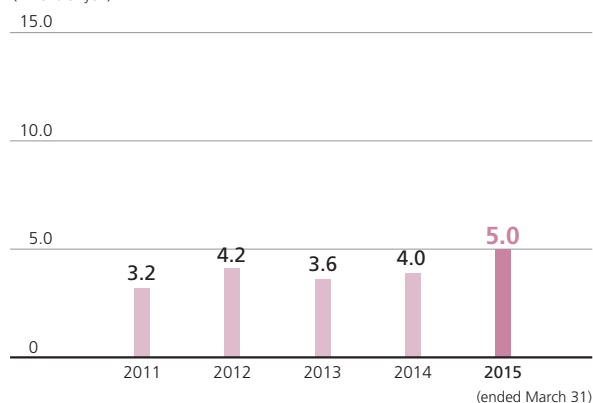
(Billions of yen)



For the year ended March 2015, the segment recorded a 3.9% year-on-year rise in net sales to ¥94.4 billion, driven by improving market conditions in Japan, as well as an expansion of equipment manufacturers and large-scale projects in the control products field. Also, steady business expansion was achieved overseas with the addition of a new subsidiary. As a result of increased earnings and cost improvements resulting from the expansion of our overseas production framework, segment profit grew 26.4% year-on-year to ¥5.0 billion.

Segment Profit (Operating Income)

(Billions of yen)



materials field, other than safety-related investment, including the updating of equipment. In light of this situation, we will strive for greater efficiency in our business in the process automation field, focusing on safety-related markets and demand associated with maintenance. At the same time, with the aim of expanding our business, we will concentrate our resources on the cutting-edge highly functional materials and electrical/electronics/semiconductors markets in which Japan's manufacturing industries excel, as well as the HA/FA field and the food and pharmaceutical markets, where the stable growth of industries focused on domestic demand can be expected. In addition, in the field of energy infrastructure, specifically LNG carriers and LNG receiving terminals, we will work with partners in the gas and water meter field of the

Life Automation (LA) business (Azbil Kimmon Co., Ltd.), leveraging synergies where we can.

Overseas, we will step up the pace of business expansion in Europe, the United States, and Asia, including China, as well as the Middle East. We will expand operations of our high-value-added, solution-based valve maintenance business at valve maintenance centers across Asia, as well as at Azbil Saudi Limited's valve manufacturing and maintenance base which began operating in the year ended March 2015. In conjunction with our global business expansion, we will enhance our customization functions for overseas markets (design and development), as well as seeking to expand overseas production and increase the competitiveness of our business.

Case Studies ① Site ② Business field



① Ube Chemical Plant, Ube Industries, Ltd.
② Chemicals

As part of efforts to reinforce plant safety measures, we introduced a system for monitoring fluctuations in key processes. In addition to enabling signs of anomalies to be spotted, this enhanced operational safety capabilities at the site.



① JCR Pharmaceuticals Co., Ltd.
② Pharmaceuticals

We introduced a software package to support the development of a quality management system and put in place an environment that facilitates the reliable operation and storage of procedure manuals and development process data.



① DaeSung Industrial Gases Co., Ltd. (South Korea)
② Gases

We provide Japanese standards of reliability with our products and services. Our long-term partnership will support the company's 24/7 operations and sustained growth.

Life Automation (LA) Business

For further details of this business, see "azbil's Operations" on page 12.



Building on the outcomes of the radical structural reforms carried out in the year ended March 2015, we will aim to achieve a V-shaped recovery and return to the black in the year ending March 2016.

Kenji Hidaka

Managing Executive Officer
Responsible for the life automation business
Azbil Corporation

Operating Environment

The Life Automation (LA) business consists of multiple fields of business, namely gas and water meters (Azbil Kimmon Co., Ltd.), Life Science Engineering (Azbil Telstar, S.L.U.), health, welfare, and nursing care (Azbil Care & Support Co., Ltd.), and residential central air-conditioning systems (Azbil Corporation).

The gas and water meter field accounts for the bulk of LA business sales. As well as meeting cyclical replacement demand for meters as required by law, this business offers opportunities for expansion into the field of energy supply lines for industry, in activities ranging from production to delivery.

The Life Science Engineering (LSE) field 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. We expect our target pharmaceutical markets in emerging economies to demonstrate steady growth going forward, and there are signs of recovery at present. However, competition intensified in the year ended March 2015, due to a deteriorating economic environment in emerging markets, and this had a major impact on our business results.

In the field of health, welfare, and nursing care, there is substantial potential demand against the backdrop of the aging of the population and other structural changes in society. However, due to the shrinkage of local government welfare budget and other change in the business environment, it is necessary to expand our client base in

the private sector.

In the residential central air-conditioning systems field, we expect a certain level of demand, primarily in the custom homes field, against the backdrop of growing demand for clean, comfortable, energy-efficient living spaces.

Review for the Year Ended March 31, 2015

Thanks to growth in sales of town gas meters and water meters, sales in the gas and water meter field grew overall, despite falling revenues from LP gas meters due to the impact of the demand cycle.

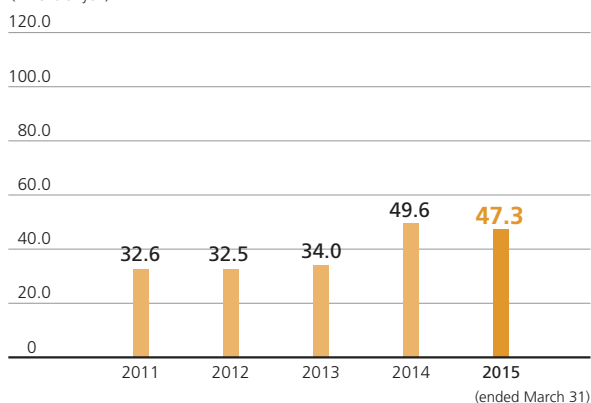
In the LSE field, economic slowdowns and intensifying competition in emerging economies led to a drop in orders from the latter half of the year ended March 2014 through to the first half of the period under review. As a result, both revenues and profits fell. Consequently, seeking to radically strengthen the corporate structure, we undertook structural reform of our businesses, concentrating resources in core areas, as well as enhancing our project management structure and consolidating subsidiaries and organizational functions.

In the health, welfare, and nursing care field, we acquired new contracts and rolled out new comprehensive services, achieving steady business results through to the third quarter. However, this business recorded a fall in revenue in the period under review, due to the transfer in the fourth quarter of a subsidiary* that had been operating in this field.

Our proactive sales activities targeting homebuilders

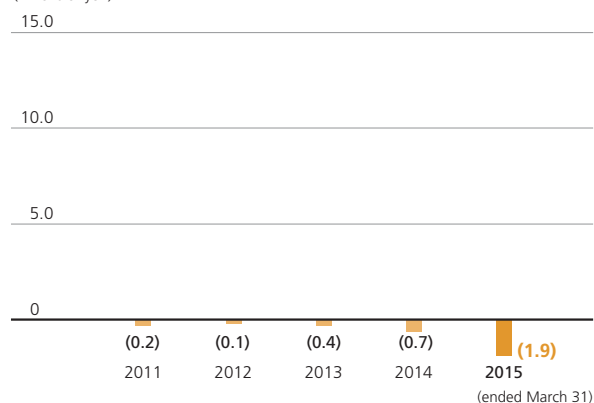
Sales

(Billions of yen)



Segment Profit (Operating Income)

(Billions of yen)



For the year ended March 2015, the segment recorded a 4.6% year-on-year fall in net sales to ¥47.3 billion, due primarily to a fall in orders in the LSE field, where the business environment has continued to be harsh, with economic slowdowns and intensifying competition in emerging economies. Owing primarily to the recording of losses engendered by lower LSE sales and projects for which profit margins were slim, segment loss was ¥1.9 billion. In February 2015, we transferred all of our shares in Azbil Care & Support Co., Ltd., a health, welfare, and nursing care services company, to SOHGO SECURITY SERVICES CO., LTD. (ALSOK)

bore fruit, resulting in increased revenue in the residential central air-conditioning systems field.

* On February 4, 2015, we transferred all of our shares in Azbil Care & Support Co., Ltd., which provided health, welfare, and nursing care services, to ALSOK.

Outlook

In the year ended March 2015, we undertook radical structural reforms in the LSE field, achieving the optimal operational structure by liquidating unprofitable subsidiaries and reducing staffing, as well as building a job fulfillment system that will enable us to continue generating profits, and enhancing our manufacturing equipment business (core business). We will aim to return the LA business as a whole to the black in the year ending March 2016 by achieving a

V-shaped recovery in these fields based on these reforms, as well as by reducing the amortization of goodwill. In addition, we will continue our efforts to reinforce our profit structure in the other fields that comprise this business.

Furthermore, in the gas and water meter field, as well as sales of meters based on cyclical replacement demand for meters as required by law, we will seek to open up new fields of business by leveraging synergies between businesses. These include accelerating business focused on solutions for energy supply lines for industry by developing and launching high-value-added products in partnership with the Advanced Automation (AA) business, as well as expanding our maintenance business.

Case Studies ① Site ② Business field



① Itami Sangyo Co., Ltd. ② Gas/water meters / LP gas

By building a centrally monitored LP gas system, we ensured a stable supply of gas and enhanced operational safety, while substantially streamlining delivery and meter-reading workloads.



① Mr. I's home ② Residential central air-conditioning systems / homebuilders

The client took the opportunity to have a central air-conditioning system installed while his house was being rebuilt. Thanks to meticulous maintenance services and environmental settings tailored to the seasons and the lifestyle patterns of the residents of the house, we have been able to provide a healthy, comfortable living environment for the last 14 years.

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



azbil fosters the growth of its business through an intellectual property strategy that includes a strong brand presence.

We are enhancing our competitive advantage by firmly establishing the azbil brand and by acquiring and protecting intellectual property rights around the globe.

Brand Management

Group-wide regulations governing the use of the company name, logo, and other elements of the azbil brand have been enacted. In addition to ensuring thorough adherence to these regulations worldwide, we are taking steps to heighten brand awareness within the Group, such as specifying in detail the rules for applying the azbil logo to our products and the procedures for using the azbil logo on another company's products.

We are also striving to reduce the risk of damage to the brand and loss of business opportunities by carefully managing the use of our copyrighted material in our business activities. In addition, to protect our brand, we have aggressively registered the azbil Group logo as a trademark in more than 90 countries worldwide.

Strategy for Intellectual Property Rights

We view intellectual property as a crucial management resource, so we actively acquire and protect patent and other rights.

Acquiring Patent Rights

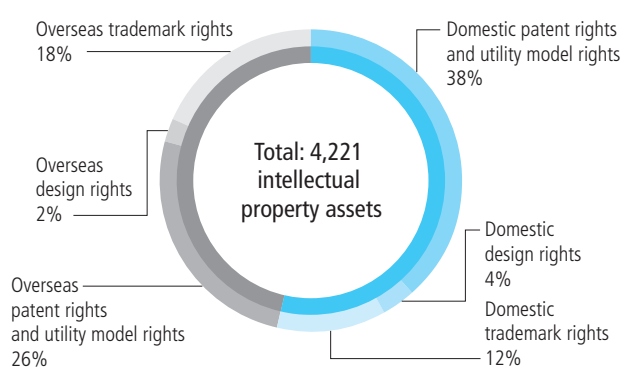
Having identified priority fields for product and technology development, which are centered on the three business-growth areas mentioned in our medium-term plan (next-generation solutions for production and working/living spaces, energy management solutions, and safety solutions), we are building a patent portfolio aligned with our business and R&D strategies.

In conjunction with the global expansion of our business, our marketing and development departments meet regularly with the Intellectual Property Department regarding patentability, both in Japan and overseas, and the submission of appropriate applications.

Risk Management

A search of the intellectual property rights held by other companies is carried out at the product design stage to increase a degree of freedom for R&D. In addition, to obtain information regarding other companies' inventions, more than 1,000 checks are conducted each month in Japanese, American, and Chinese patent gazettes.

Intellectual Property (as of March 31, 2015)



Patent and R&D Data

(Ended March 31)	2011	2012	2013	2014	2015
Patents					
Number of applications	436	428	476	502	513
Number owned	1,597	1,742	2,124	2,458	2,703
R&D expenses (Billions of yen)	9.0	8.8	7.8	8.8	10.1
R&D expenses/Net sales (%)	4.1	3.9	3.4	3.5	4.0

azbil advances its business development by strengthening the planning and development of products and services in business sectors with growth potential.

We plan and develop technologies and products in five strategic technology areas that will play a key role in shaping the future of human-centered automation, and also strengthen our R&D system and product development capabilities around the world to increase product appeal and provide a solid foundation for business development.

Research and Development Policy

With the aim of providing our customers with swift access to next-generation products developed on the basis of our philosophy of human-centered automation, we have adopted an effective and efficient system of closer coordination between our marketing and R&D departments. We are focusing on five strategic technology areas that we believe will enable us to offer wide-ranging value in the medium and long term. We are also enhancing our product development in three business sectors with good growth potential. For further global expansion of our operations, 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.


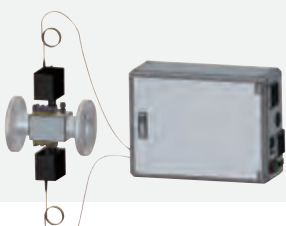
For details on our three main R&D bases, see the diagram on the bottom of page 40.

Five Strategic Technology Areas

Taking into account the medium- to long-term needs of our customers and of society, as well as technological trends, we have identified the following five strategic technology areas for focused technology research and product development, applying our philosophy of human-centered automation to create value through products that deliver safety and peace of mind; quality, productivity, and comfort; and conservation of the environment and of energy.

<p>Machine Systems with Humanlike Abilities</p> <p>Advanced intelligent production systems with the dexterity and visual perception of a human</p>	<p>Flexible Measurement and Control</p> <p>A range of super-compact, energy-saving wireless sensors that utilize MEMS* technology and integrated circuit packaging technology</p> <p>* Microelectromechanical systems: These are devices that combine machine elements and components, sensors, actuators, and electronic circuits on a single silicon, glass, or organic substrate.</p>	<p>Advanced Technology that Clarifies Complex Systems</p> <p>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</p>	<p>Systems Enabling Us to Live in Harmony with Nature</p> <p>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.</p>	<p>Individualized Environmental Comfort Systems</p> <p>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.</p>
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Examples of Technology R&D

<p>Machine Systems with Humanlike Abilities: Mechanical Impedance Control Device</p> <p>Value provided: Reduction of production cycle time through swift and sensitive force control, automation of physically demanding tasks that otherwise would require an experienced worker, improvement of product quality by controlling contact pressure on components, thereby preventing damage.</p> <p>Development details: An intelligent device consisting of a position sensor, an accelerometer, and a linear actuator, is fitted between a robot and an end effector, facilitating quick and gentle handling and sensing of the working conditions, which cannot easily be achieved by a robot alone.</p>	
<p>Flexible Measurement and Control: Steam Quality Sensing System</p> <p>Value provided: Measuring steam quality (the proportion of thermal energy lost) makes it possible to improve quality in heating processes that use saturated steam and to achieve new levels of control over air conditioning systems that use steam.</p> <p>Development details: We have improved the precision and reliability of dryness measurement, which was previously hard to quantify in real time, and have verified that it can be measured in actual operational environments.</p>	

Advanced Technology that Clarifies Complex Systems: Intelligent Earthquake Sensor

Value provided: Provides a wide range of safety support in the event of a large-scale earthquake. In addition to the emergency shut-down of manufacturing equipment, it assists in preventing secondary damage, ascertaining the extent of damage, and evacuating workers.

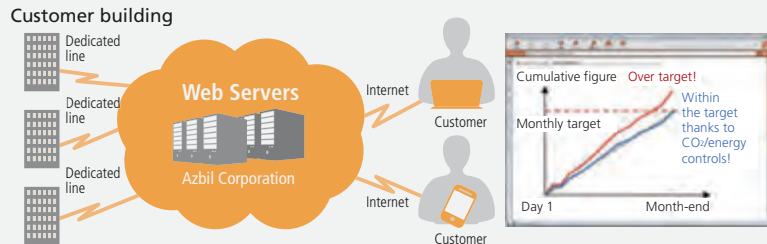
Development details: An earthquake sensor that uses signals emitted by its internal acceleration pickup to output seismic intensity, shindo-scale equivalent value, and maximum resultant acceleration data, enabling estimation of the extent of damage to structures caused by the earthquake. The sensor also judges the extent of soil liquefaction based on the characteristics of the acceleration waveforms.



Systems Enabling Us to Live in Harmony with Nature: Automatic Remote Energy Use Controller for Buildings

Value provided: Automatically limits the amount of energy used by a building to ensure that its annual energy usage (as measured by CO₂ emissions, tons of oil equivalent, or electricity) does not exceed a target. Operating remotely, the system restricts the operation of air conditioning equipment, etc.

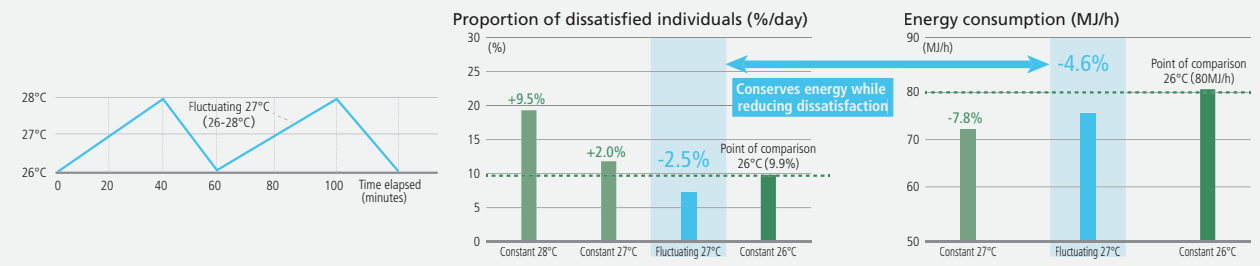
Development details: This system compares the building's monthly energy use target with the forecast usage for the current month to determine if energy usage needs to be curbed. If necessary, it activates energy conservation applications, such as automatic controls for room temperature set back or turning on/off equipment.



Individualized Environmental Comfort Systems: Air Conditioning Control System Responsive to Room Temperature Fluctuations

Value provided: Maintains indoor environment satisfaction levels and intellectual productivity among office workers while conserving energy.

Development details: Based on knowledge of human response to room temperature fluctuations (hot/cold, satisfaction level, intellectual productivity, etc.) and HVAC control technology, this control system achieves both a comfortable indoor environment and energy conservation.

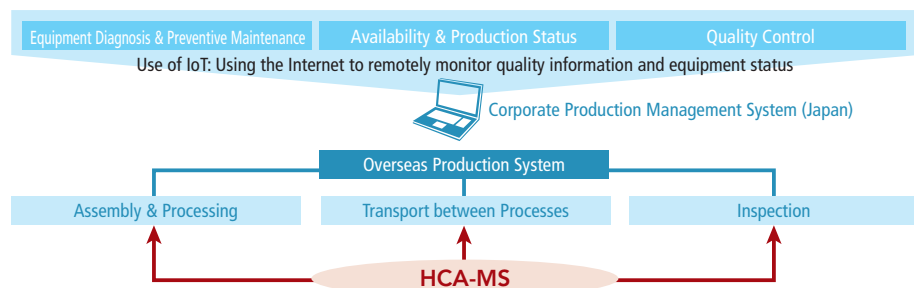


Overseas Deployment of Production Technology

We will develop new production lines using HCA-MS,*¹ bringing to fruition an IoT*² unique to azbil and thereby improving our overseas production.

*¹ A production system based on our group philosophy of human-centered automation. It is equipped with the accuracy of a machine and the flexibility of a human as a result of mechanization of aspects of human intelligence and the capabilities of the human hand (sense of touch) and eye (sense of sight), enabling the automation of processes that were impossible to automate with conventional technologies. Its modularized functions allow reuse, so production equipment can be altered or extended as needed.

*² Internet of Things



Improved Response to International Standards

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



* These are: 1) Next-generation solutions for production and working/living spaces 2) Energy management solutions 3) Safety solutions

To support business growth, azbil is constructing an optimal global manufacturing system.

Taking a global perspective throughout the Group, we are optimizing our production and logistics systems for individual regions and products to build a competitive framework capable of withstanding changes in the business environment.

Building a Competitive Manufacturing System

In addition to optimizing the manufacturing system at our three key bases in Japan, China, and Thailand, we are taking measures such as expanding overseas production, making innovative improvements in production processes, and restructuring procurement, in order to build a competitive framework.

Optimizing Production in Japan and Overseas

In the year ended March 2015, we expanded our capabilities by constructing a new plant at the manufacturing base we founded in Thailand in February 2013, Azbil Production (Thailand) Co., Ltd. This was another step forward in our efforts to develop a global manufacturing system centered on key bases in Japan, China, and Thailand. With a view to advancing our medium-term plan, we will further expand our manufacturing and manufacturing system at our Chinese and Thai plants, increasing the types of items produced



Azbil Production (Thailand) Co., Ltd.

there and boosting the proportion of overseas production to more than 30% of our total output (the actual figure for the year ended March 2015 was more than 20%). In addition to this manufacturing framework, we will enhance our capabilities in areas such as valve assembly and flowmeter calibration to meet the specific needs of each region.

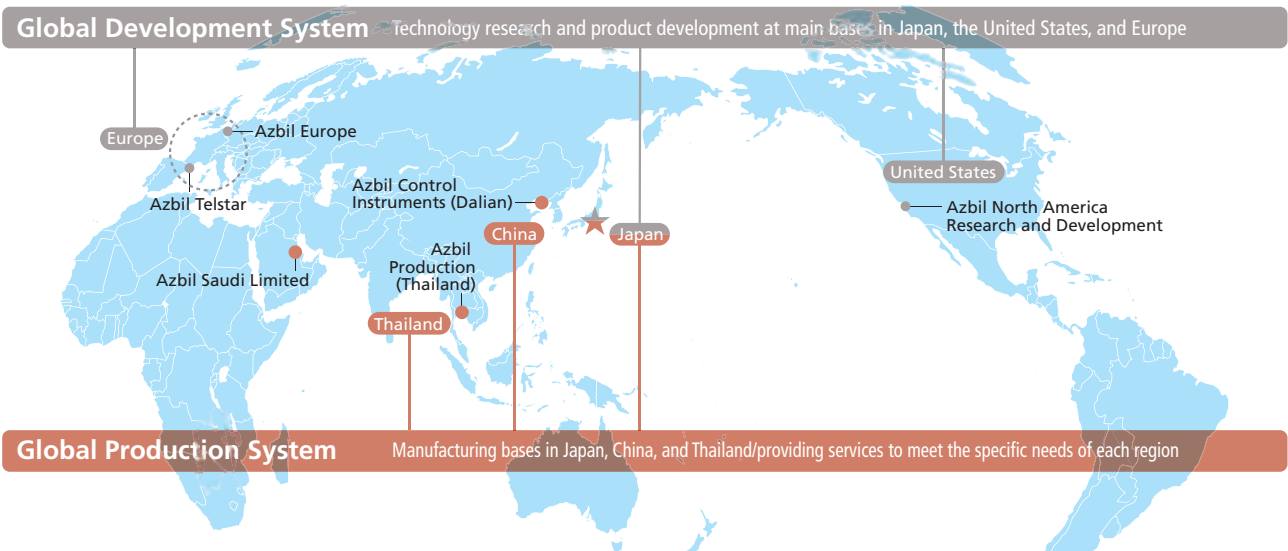
Innovation in Production Processes

To achieve greater efficiency and higher quality in production processes, we are upgrading our production technologies, with a particular focus on assembly and processing technologies, as well as image-processing technology. These technologies will be exported to our overseas sites from our plants in Japan, enabling us to maintain and improve quality across the globe and enhance our cost-competitiveness. We will also build an integrated manufacturing system for the Group as a whole to facilitate a high degree of information integration, including development and design information, with the aim of making cutting-edge automated production processes a reality.

Restructuring of Procurement

In conjunction with the optimization of manufacturing both within Japan and overseas, we will enhance our overseas procurement and competitive procurement, thereby putting in place a competitive global framework.

Global Development and Manufacturing System



Around the globe, azbil provides products and services of assured quality that are safe and dependable.

As we expand globally, we continue to deliver safe, dependable, high-quality products and services that customers trust.

Safeguarding the Quality, Safety, and Dependability of Our Products and Services

A number of documents governing the entire azbil Group spell out the basic policy and approach to quality assurance and safety: azbil Group Basic Quality Policy, azbil Group Quality Assurance Rules, azbil Group Basic Policy on the Safety and Dependability of Products and Services, and azbil Group Rules for the Safety and Dependability of Products and Services. Additionally, each Group company has its own detailed rules and standards.

Quality of Our Products and Services

Because “building in quality” is vital when developing products and providing services, we set quality targets for every azbil Group company. The azbil Group Quality Assurance Committee meets regularly to check the achievement of quality targets and the progress of quality improvement initiatives by azbil Group companies. The committee also helps the Group as a whole to build in quality by identifying common quality issues and improving collaboration in tackling them. Quality-related structures and procedures are being rolled out globally as our businesses expand.

Safety and Dependability of Our Products and Services

Our efforts to ensure the safety and dependability of products and services are founded on the three key pillars of compliance with relevant laws and regulations, prevention of accidents, and provision of safe products.

Compliance with Relevant Laws and Regulations

The Legal and Intellectual Property Department and the aG Quality Assurance Department cooperate in regularly educating azbil Group employees concerning the Product Liability Act, the Consumer Product Safety Act, and other legislation relevant to the safety and dependability of our products and services. These departments also endeavor to promote understanding and awareness among relevant employees of accident prevention measures and the procedures to follow in the event of an accident.

Prevention of Accidents

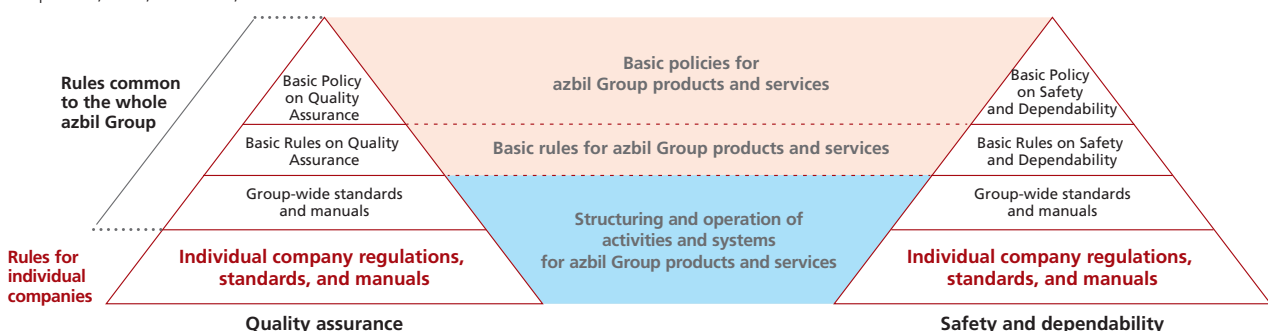
The Product Liability Committee meets regularly to promote accident prevention activities based on actual “near miss” incidents. In addition, it is responsible for ensuring that employees are thoroughly aware of the reporting and response systems used in the event of an accident. Through these activities, it strives to prevent situations that could be detrimental to the safety and peace of mind of our customers.

Provision of Safe Products

We have put in place safe design standards and safety guides, along with a risk assessment and authorization system. The development departments and service departments of each business segment carry out product risk assessment under the guidance of the Department of Safety Assessment.

Systems for Quality Assurance / Safety and Dependability

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



Utilizing azbil'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, installation, and service, we make use of the knowledge and skills cultivated at customer sites to offer high-value-added services across the globe.

For a diagram showing an integrated framework, see "azbil's Operations" on page 13.

Total Solutions

To maximize value throughout the life cycle of our customers' equipment, we provide total solutions on the basis of our unique integrated framework, covering everything from consultations and sales to engineering, installation, and service.

To meet a variety of needs—including planning, operation, maintenance, improvement, and renovation—we ensure that engineers who are thoroughly acquainted with the customer's processes and systems conduct optimized operation, regular inspections, and maintenance services, and respond swiftly in the event of an urgent problem. In addition, we listen to our customers. By reflecting their opinions swiftly and surely in our products and services, and sharing them with others in the azbil Group, we improve our technology and services in the field and make them more efficient.

Restructuring of the Service Business

In the service area, we are advancing the transformation of our operations from a conventional labor-intensive model to knowledge-intensive service that makes use of our extensive data and experience. In addition, we are upgrading and reinforcing our infrastructure and training additional personnel so that we can provide the same level of service overseas as we do in Japan.

Knowledge-Intensive Service

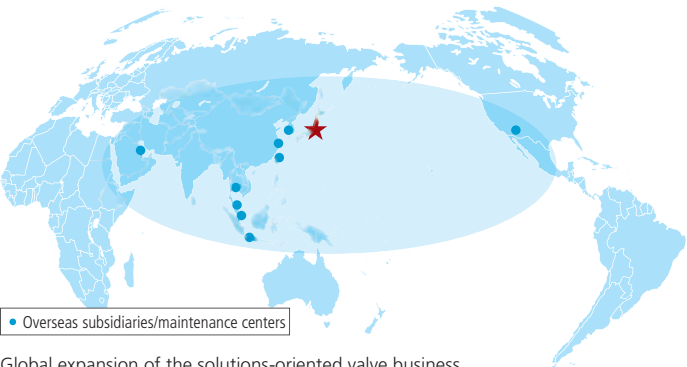
Cutting-edge technology and a wealth of know-how available only to professionals in the field of control and management are now being applied to the development of tools for use in our service operations. The use of service tools in on-site inspections not only increases the efficiency of operations, 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

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



Global expansion of the solutions-oriented valve business

azbil cultivates diverse personnel who can respond flexibly to changes in the business environment.

We established the Azbil Academy and actively cultivate diverse personnel in order to create an organization that never stops learning and is capable of continuously growing stronger.

The Azbil Academy

The Azbil Academy was founded in November 2012 to provide integrated education and career support functions for the Group as a whole. In the year ended March 2015, its third year of operation, it launched the following new initiatives.

Education for People Changing Jobs (Career Development)

The Azbil Academy provides education to enhance the skills of azbil Group personnel and facilitate their swift re-deployment in the event of a change due to business reorganization or in-house recruitment.

When employees are transferred to another business line or occupation, we provide training concerning products, instrumentation, engineering, installation, and service for the relevant customer market. In addition, we conduct follow-up interviews over the course of the year following the transfer, to help employees to adopt to the change and to maintain and improve the level of service they provide.

Global Training

As our business expands globally, the structures required for tapping into business opportunities are steadily being constructed, making the most of synergies throughout the Group, both within Japan and overseas. We have put

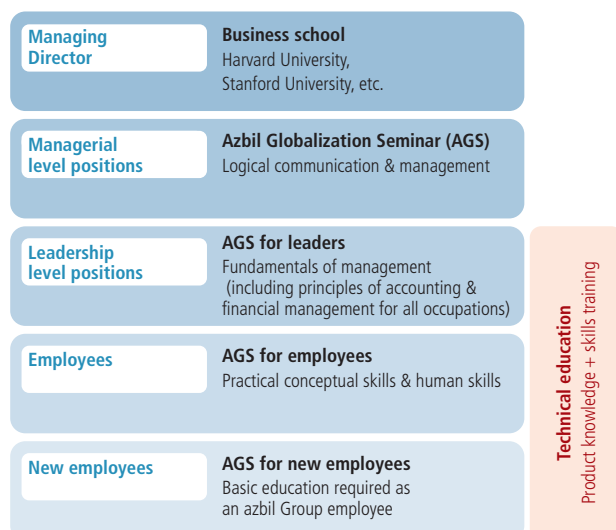
together an education system that will enhance the training offered to employees of overseas subsidiaries. In the year ended March 2015, we began to offer training to improve logical thinking, presentation, and team management skills of staff in managerial posts. This training program is now being held for the second time, with around 20 people having participated to date. We plan to have a total of around 100 participants over the period of five years that began in April 2014.

Solutions Education

Level-specific training within Japan: From the year ending March 2016, the timing of level-specific training is ahead of schedule to ensure that our younger employees get off to a good start. And we are reviewing our system of training especially for strengthening logical thinking and communication skills.

Accreditation as a Technical Professional: To facilitate the transfer of technical skills to our younger employees, we have introduced a system in which the title of “Technical Professional” is awarded to employees with the high level technical skills in the Group. In the year ended March 2015, the four engineers in the Building Automation (BA) business (1% of the total number of staff in eligible occupations) were awarded this title.

Education System



Positioning of Technical Professionals



Value-sustaining Structures

As a provider of value through automation to both society and our customers, the azbil Group strives to develop sustainably in parallel with society and our customers, relating to 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 corporate social responsibility, annual shareholders' meetings, investor relations, 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.



Making “human-centered automation” the foundation of its business activities, azbil implements CSR management that contributes to the sustainable development of society.

As a world-class comprehensive automation manufacturer, we strive to contribute to a people-centered economy, environment, and society, to achieve the sustainable development of our customers and of society.

CSR Management Initiatives

We take a balanced twofold approach to CSR management, applying “basic CSR” (fulfilling our fundamental obligations to society) and “proactive CSR” (contributing to society through our business operations and voluntary activity that benefits society). Our CSR management initiatives are organized into six basic themes with targets for each.

Overview of CSR Activity



Basic Themes and Targets

1. 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.

For more detailed information, see “Compliance” on page 46.

2. 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 detailed information, see “Risk Management” on page 47.

3. 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.

For more detailed information, see “Workplace Environment” on pages 48-49.

4. Contributions to preserving our natural environment

Reduction of our own CO₂ emissions and, through our business activities, proactively helping to reduce the CO₂ emissions of our partner companies and society. In addition, comprehensive promotion of energy conservation measures to address electric power supply shortages.

For more detailed information, see “Environment” on pages 50-53.

5. 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.

For more detailed information, see “Group Management” on page 54.

6. Strengthening contributions to society

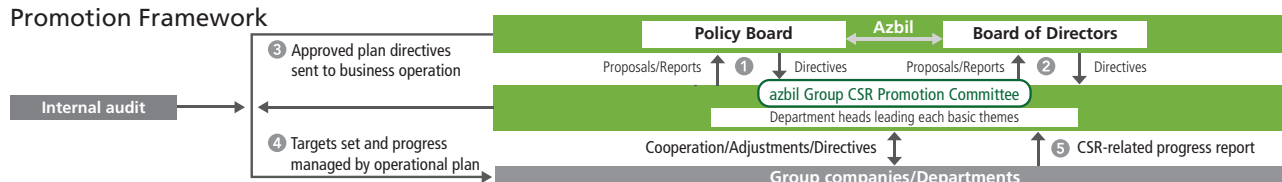
Active promotion and support of contributions to society through azbil's unique high-value-added solutions that combine products and services, and through employees' voluntary participation in activity that benefits society.

For more detailed information, see “Contributions to Society” on page 55.

CSR Promotion Framework

We established the azbil Group's CSR Promotion Committee to promote CSR-related activities 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 each basic themes. The committee, subject to the approval of the Board of Directors of Azbil Corporation, implements initiatives, appraises and analyzes their results, and reports to management, following a plan-do-check-act (PDCA) cycle.

Promotion Framework



In each area of basic CSR, which concerns fundamental obligations as a corporate citizen, azbil worldwide is making every effort to raise awareness of compliance issues and avoid legal risk.

Business Conduct Policy and Guidelines

The Business Conduct Policy for companies in the azbil Group consists of five elements: (1) fulfilling the Group’s public and social responsibilities, (2) compliance with antitrust and other fair trade regulations, (3) respect for human rights, (4) proper management of corporate assets, and (5) protection of the environment. We have also established a Code of Conduct for all employees of the Group, consisting of 50 specific guidelines covering all aspects of our business activities from the perspectives of compliance with internal regulations and compliance with external laws.

In cases where a breach of the Code of Conduct is discovered, the code imposes a mandatory reporting requirement and forbids reprisals, thereby putting in place an environment in which internal checks can function effectively.

Maintaining and Improving Awareness of Compliance Issues

The General Affairs Department of Azbil Corporation bears primary responsibility for maintaining and improving compliance with internal regulations throughout the azbil Group. In Japan, compliance in each workplace is promoted by the heads of departments and business office managers of each Group company, who are designated as compliance managers, and the heads of sections, who are designated as compliance leaders. In addition, the establishment of a “discuss-anything consultation

window” provides a mechanism for the company to learn of compliance-related risks in a timely manner.

We conduct annual compliance awareness surveys among all azbil Group officers and employees, using the results to identify issues and implement measures to address them. Surveys are followed by compliance education sessions that check key points and ensure thorough awareness and compliance. As our business expands, the number of consolidated companies in Japan and abroad is growing, and consequently we are endeavoring to raise the level of compliance awareness among subsidiaries by means of education, surveys, and “consultation windows.”

Preventing Legal Risk

The Legal and Intellectual Property Department of Azbil Corporation bears primary responsibility for ensuring complete compliance with external laws throughout the azbil Group. It promotes basic legal compliance in business activities, ensures that all necessary permits and approvals are obtained, and additionally is addressing the Group’s legal risk overseas, which is increasing as our global expansion accelerates. The department also makes every effort to prevent, in a timely and appropriate manner, risk arising from new and important legal issues affecting the business world.

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 in the regions where we do business 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 superior to 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. To ensure that we are prepared in the event of problems related to damages arising from product liability, we have taken out insurance policies, as well as enhancing our other precautions. 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 focused on the development of next-generation products that will maintain their technological superiority on an ongoing basis 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 more than 50 local subsidiaries and 2 branches. The Group has also established manufacturing bases in Thailand and Saudi Arabia in addition to Dalian and Shenzhen. In addition, Azbil VorTek, LLC, produces vortex flowmeters. In the LA business, Azbil Telstar, S.L.U. 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. The Group continues to expand its business globally, with a view to distributing country risk, but delays in its expansion plans, unexpected changes in the political and economic conditions, 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 manufacturing and procurement activities in whole or in part and thus impact the Group’s business results and financial position.

We are striving to construct a system that prevents risk so that we do not lose corporate value or the trust of the public.

Risk Management

As part of our wide-ranging CSR management activities, we conduct an annual interview-based survey of the senior managers in charge of CSR and of the heads of the main departments, in order to bring to light all risks that could potentially have a serious impact on our corporate management. 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.

Enhancing Disaster Preparedness and Business Continuity Planning (BCP)

Under the leadership of the azbil Disaster Preparedness Liaison Committee, we are endeavoring to improve our disaster preparedness by conducting regular inspections at all of the azbil Group's domestic business establishments, identifying risks and considering and implementing countermeasures. Our continuing efforts to strengthen the azbil Group's overall disaster preparedness include developing a manual to serve as a guide for initial response measures in the event of a major earthquake, improving our system for checking the safety of employees, 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. In addition, we are aiming to achieve coordinated BCP among all departments.



Regular emergency drills are conducted.

Upgrading and Reinforcing the Information Management System

As well as conducting an annual educational program on information security for all employees, we are addressing information management issues that emerge in the course of awareness surveys, and are upgrading and reinforcing our framework for managing important information and personal information to ensure tight control throughout the Group.

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.

6. Risks Related to Exchange Rate Fluctuations

The azbil Group is endeavoring to mitigate risk resulting from exchange rate fluctuations by expanding its overseas production, but sudden fluctuations affect net sales, the prices of raw materials and components, and sales and administrative costs, so they have the potential to have an adverse impact on the Group's business results and financial situation.

(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

Two of the six 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.

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.

We’re working to create a workplace environment where employees can thrive to the extent of their abilities.

We are promoting business management that values people and allows each and every employee to realize his or her potential. To this end, we are revising our approaches to work and organizational management to reflect changes in the employment and work environment, as well as striving to foster a high level of safety consciousness.

Business Management that Values People

We are implementing a range of measures to invigorate the workplace, improve motivation, promote diverse ways of working, and create an environment that ensures the safety and peace of mind of our employees.

Invigorating the Workplace and Increasing Motivation

Awards Systems

We updated our company-wide awards system, introducing a *Kaizen* Inspiration Award in January 2014. This award adopts a bottom-up approach in which employees nominate workplace improvements that they or their colleagues have made, and information about awards is published on our intranet system. This has given employees a greater sense of ownership in the awards system, helping to breathe new life into workplaces and promote activities aimed at achieving continuous improvement.

In the year ended March 2015, 3,516 initiatives aimed at reform or improvement were recognized with the awards.

Promoting a Better Work-life Balance

To encourage a good work-life balance, we are developing systems to help employees adapt to environmental changes such as a new way of working or transfer to a new workplace. Also, we encourage employees to use their annual paid leave time. In the year ended March 2015, we introduced a new system that enables our employees to take their paid leave in hourly increments. This system facilitates more diverse ways of working and our employees have used it for a wide range of purposes, including pursuing their own

hobbies and interests, taking care of children, and nursing aging family members.

Promoting Diverse Ways of Working

Developing a Female-friendly Workplace Environment

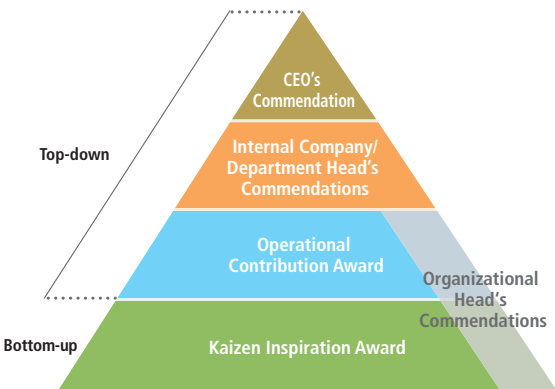
With the aim of building and maintaining a healthy workplace environment in which females can work with long-term health and peace of mind, we are striving to enhance our maternity leave and child care leave systems and have already implemented a system in which a woman can work shorter hours or shift her working hours to achieve a work-life balance. In addition, to increase the number of women appointed to managerial posts, we offer career consciousness-changing training at the Azbil Academy and encourage participation in networks outside the company. The number of women in managerial or specialist positions is 40 as of April 2015, which equals 3.6% of the total.

For details of trends in the number of female employees in managerial or specialist positions, see “Financial and Non-financial Highlights” on page 17.

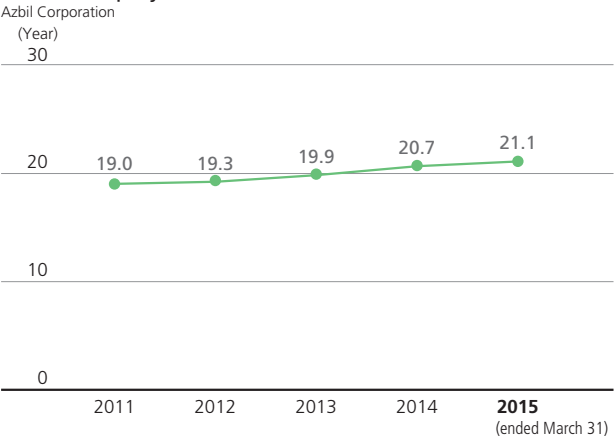
Maintaining and Increasing Employment Opportunities for People with Disabilities

In 1998, we established a 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 assist in the skill enhancement and self-realization of people with intellectual disabilities through work that supports the operations of all Group

Structure of the Awards System



Average Length of Continuous Service among Female Employees



— Average length of continuous service among female employees

companies, thereby enabling these employees to contribute to society. With this in mind, we endeavor to maintain and improve employment opportunities for people with disabilities.*

* We have 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).

Creating the Workplaces that Ensure Safety and Peace of Mind

Improvement Targets and OHSMS Certification

By managing and sharing risk information in each business segment and learning from "near miss" incidents, we are making every effort to reduce the number of industrial accidents, and have set a target of making 40 safety improvements per year. Furthermore, since the year ended March 2013, we have been working on creating highly safety-conscious workplace environments by operating the PDCA cycle in accordance with the Ministry of Health, Labour and Welfare's Guidelines on Occupational Health and Safety Management Systems. In addition, we are progressively expanding the scope of our efforts to address this issue by increasing the number of business establishments with OHSMS certification.

Safety and Health Education and Safety Information Visualization and Sharing

To increase the safety consciousness of all employees, we provide safety and health education, and is increasing the number of accredited safety professionals and internal auditors and improving safety consciousness among business

office managers. Additionally, tools such as safety and health websites and safety newsletters are used to visualize and share information with the aim of preventing industrial accidents.

Health Improvement

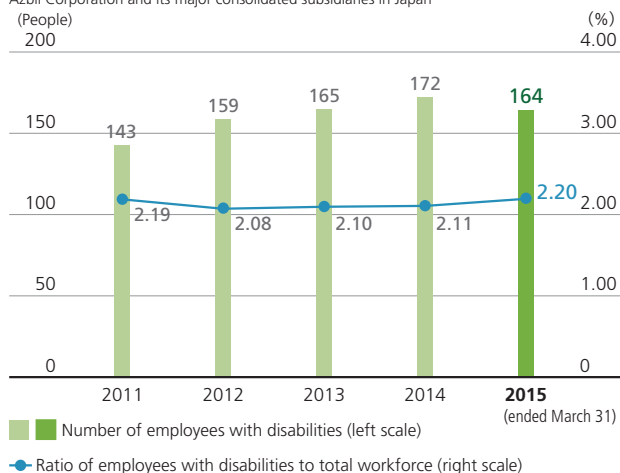
In partnership with the azbil Group's health insurance association, we are working to improve the health of our employees using a health data program offered by the government. This program links the exercise, dietary, and smoking habits of all employees with the results of medical examinations and workplace environment surveys in order to identify problems that should be tackled. Starting in the current fiscal year we will set targets for each business establishment to encourage employees to improve their lifestyle habits, and in particular to quit smoking.

Mental Health Support

We are expanding our mental health support efforts, with a primary focus on routine support provided by managers. In addition, to facilitate environmental improvements and the early return to the workplace of employees who have taken time off for reasons of mental health, we share with the appropriate personnel the results of our analyses of the factors that gave rise to the employee's situation, while maintaining confidentiality. In addition to providing those in managerial posts with education concerning mental health care, we are putting in place stress checks and other self-care tools to reduce the number of mental health days taken and to facilitate early detection and prevention of problems related to mental health.

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

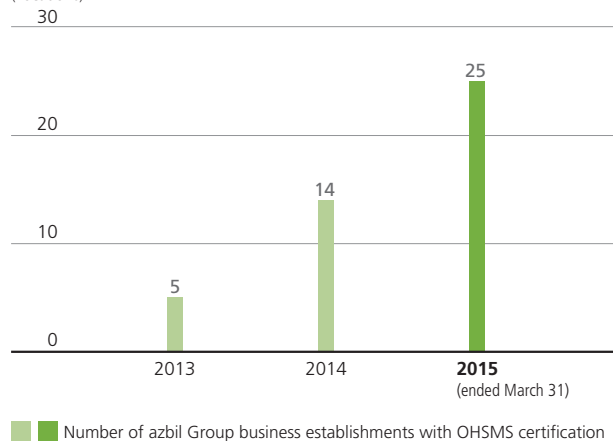
Azbil Corporation and its major consolidated subsidiaries in Japan



Number of azbil Group Business Establishments with OHSMS Certification

Azbil Corporation

(Locations)



In addition to reducing the environmental impact of its own activities, azbil helps to 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 CO₂ emissions and improving the efficiency of resource use at customers’ sites.

For a case study of cutting CO₂ emissions at customers’ sites, see “Case Study of Value Creation” on page 9.

Efforts to Achieve a Sustainable Society

Recognizing, based on our Group philosophy, that helping to achieve a sustainable society is among the most important management tasks, we promote environmental conservation activities centered on humanity’s need to achieve a low-carbon society, to achieve a recycling-oriented society, and to achieve a society that coexists with nature. Adopting an approach that incorporates both basic and proactive initiatives, the entire azbil Group is making conservation efforts, in accordance with our medium-term environmental plan, which was formulated on the basis of priority measures that were identified.

For details on our environmental conservation activities in the year ended March 2015 and on our medium-term targets, please visit the web page below.

<http://www.azbil.com/csr/eco/em/highlight.html>

Priority Measures in Environmental Initiatives

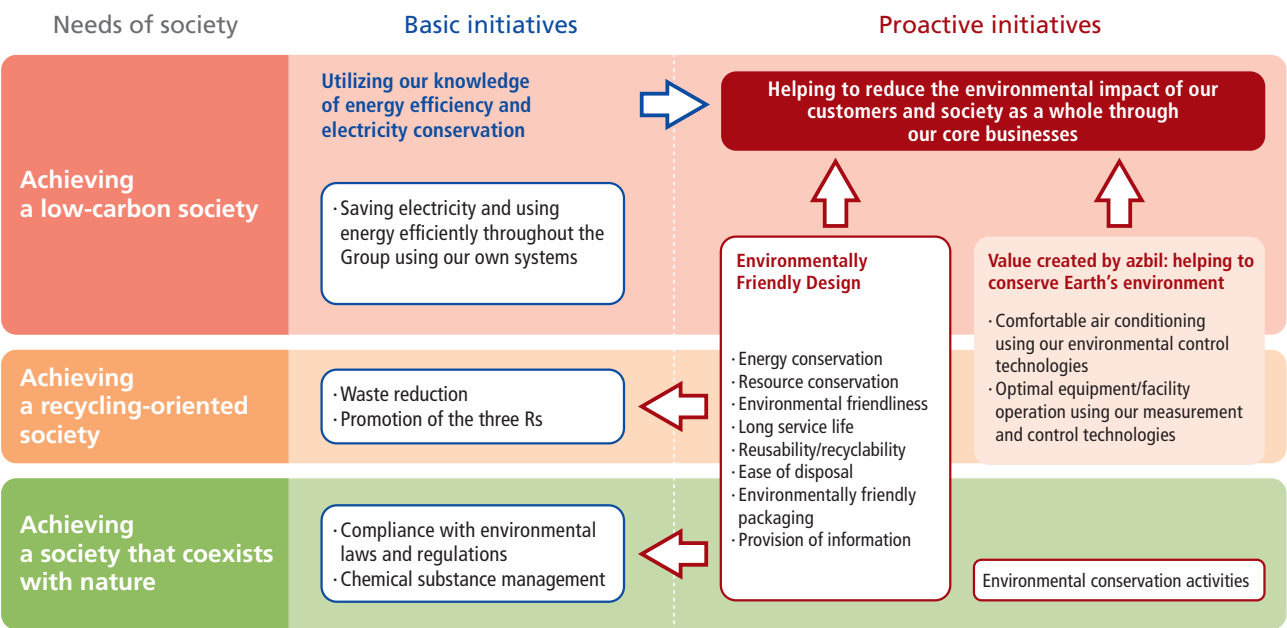
Our basic initiatives aim at reducing the impact of our own business activities on the environment by saving electricity, using energy efficiently, reducing waste, promoting the three Rs,* complying with laws and regulations, and managing chemical substances, in order to achieve the three aspects of a sustainable society mentioned above.

Our proactive initiatives focus on providing products and solutions based on our measurement and control technologies in order to resolve environmental issues faced by our customers and society as a whole. We are attempting to expand the scope of our activities throughout the value chain.

With a view to achieving a low-carbon society, an ambition that is closely linked to our core businesses, we are utilizing our know-how in energy efficiency and conservation of electricity, which has been gained through initiatives undertaken throughout the Group, in order to reduce the environmental impact of our customers and society as a whole.

* Three Rs: initiatives focused on the “reduce, reuse, and recycle” approach, to encourage effective use of resources

Priority Measures in Environmental Initiatives



Environmental Performance Data

Our environmental conservation activity is based on quantitative data concerning the impact of our business activities on the environment. With the aim of achieving a low-carbon society, we strive to evaluate environmental impact based on the entire value chain. As a result of our proactive efforts concerning our own business activities, our CO₂ emissions in the year ended March 2015 were down 37% from their level in the year ended March 2007, with a 42%

improvement per unit sales. We will continue to undertake initiatives, with the full participation of our employees, in order to achieve our new target of a reduction of at least 38% compared with the year ended March 2007 level by the year ending March 2017.

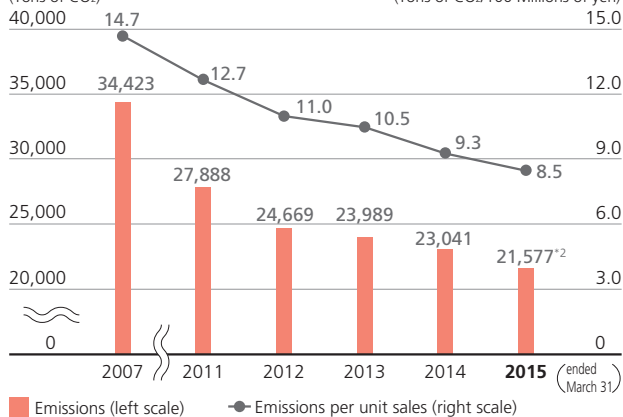
For further details on our environmental performance data and for reports from each site, please visit the following web page.

<http://www.azbil.com/csr/eco/eo/perform/index.html>

Efforts to Achieve a Low-carbon Society

CO₂ Emissions (SCOPE 1, 2)*1/CO₂ Emissions per Unit Sales

Azbil Corporation, its consolidated subsidiaries in Japan and its main manufacturing bases in overseas (Tons of CO₂) (Tons of CO₂/100 Millions of yen)

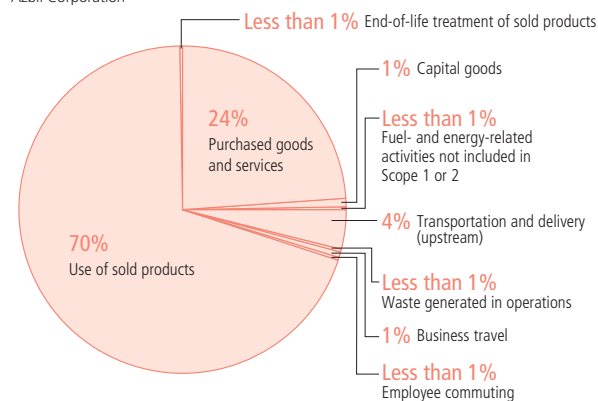


*1. The figures for CO₂ emissions use a fixed coefficient (0.378 kg CO₂/kWh). The figures for CO₂ emissions include estimates of rented office air-conditioning energy and other figures.

*2. The year ended March 2015 CO₂ emissions total was certified by a third party.

CO₂ Emissions (Scope 3)*1 *2 (For the year ended March 2015)

Azbil Corporation



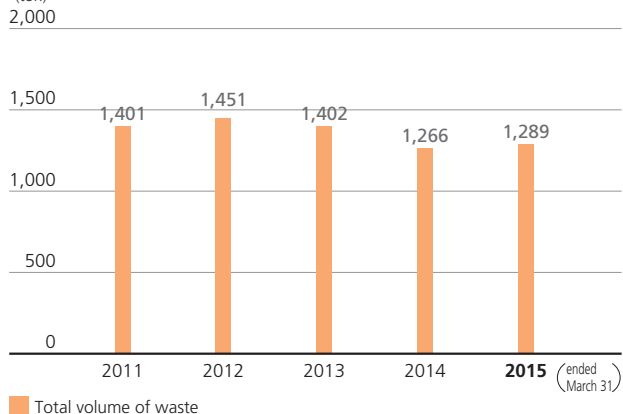
*1. Indirect emissions of CO₂ from sources (e.g., suppliers) not under the company's control (SCOPE1, 2) but related to the company's activity

*2. Percentages were calculated as a participant in the Ministry of the Environment's "Supply Chain Greenhouse Gas Emission Accounting Assistance" program and with reference to "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain" (Japanese ver. 2.2).

Efforts to Achieve a Recycling-oriented Society

Total Volume of Waste

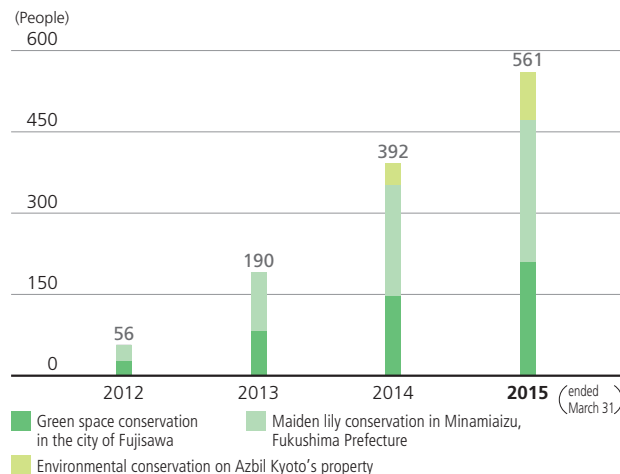
Production bases in Japan and major overseas production bases (ton)



* In addition, factories in the Azbil Kimmon group generated a total of 1,337 tons of emissions in the year ended March 2015.

Efforts to Achieve a Society that Coexists with Nature

Number of Participants in Environmental Conservation Activity (cumulative)



The whole azbil Group is working toward a sustainable society.

In our environmental activity we try to take the entire value chain into account, focusing on the need to achieve a low-carbon society, a society that recycles, and a society that coexists with nature.

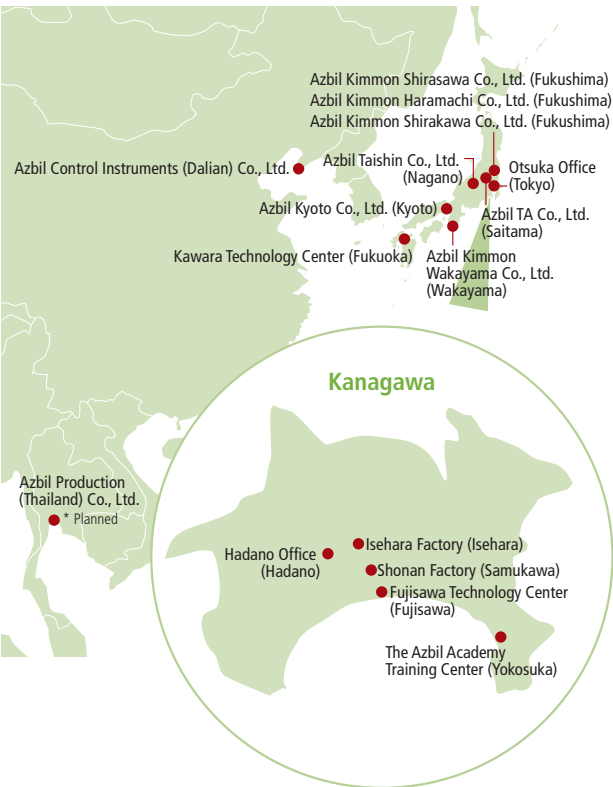
Efforts to Achieve a Low-carbon Society

Promoting the Group-wide Use of Our Energy Management Solution

We are actively deploying our own energy management solution at major business centers throughout the Group to promote energy conservation through improvements focused on both operation and equipment by “visualizing” information such as electricity usage. Each site conducts regular energy efficiency reviews, and we make every effort to ensure that each site can achieve its targets through follow-up by a dedicated CO₂ reduction team. The knowledge gained through these initiatives is used to increase energy efficiency and electricity conservation among our customers and society as a whole.

In the year ended March 2015, we launched our visualization initiative at Azbil TA Co., Ltd., and Azbil Control Instruments (Dalian) Co., Ltd. In the year ending March 2016, we intend to introduce it at Azbil Production (Thailand) Co., Ltd.

azbil Group Sites Using Our Visualization System

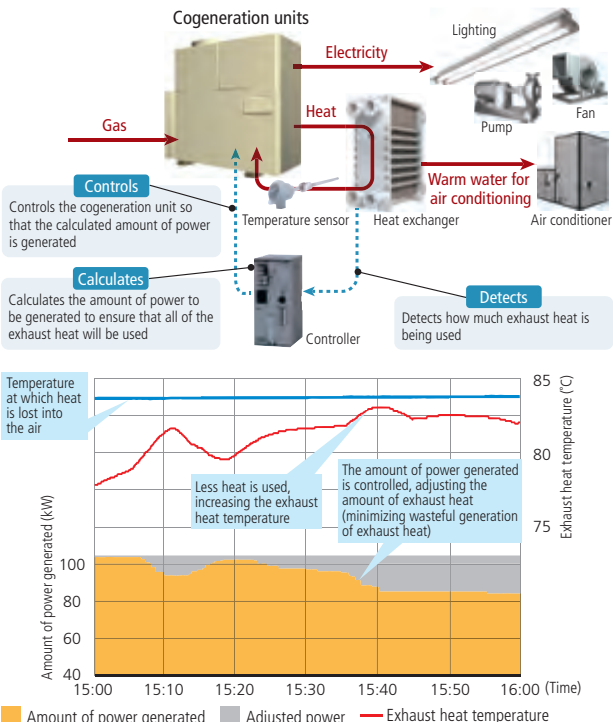


Developing a New Cogeneration Control that Can Use Exhaust Heat without Waste

In March 2015, when refurbishing the air conditioning heat source system at Fujisawa Technology Center, we introduced cogeneration systems, and we are currently testing one of their environmentally friendly technological features, a new control method. Cogeneration systems recover and utilize exhaust heat from power generation, thereby increasing overall energy efficiency, but in many cases the amount of exhaust heat is greater than the amount of heat actually used, resulting in a system that is not maximally efficient. Accordingly, we have devised a control method that controls not only the number of operating units, but also the amount of power generated according to the amount of heat to be used, so that exhaust heat is used without any waste. Field trials are underway at Fujisawa Technology Center, where an energy conservation effect of around 15% annually is expected. The system can also make use of exhaust heat to generate cool water. In due course, we will use this control method to improve the efficiency of our customers’ cogeneration systems.

Waste-free Exhaust Heat Control

Minimizes the exhaust heat wasted through dissipation into the atmosphere, thereby maximizing overall efficiency



Efforts to Achieve a Recycling-oriented Society

An Example of Environmentally Friendly Design: The Sapphire Capacitance Diaphragm Gauge

Using a sapphire-based sensor that we were able to miniaturize using proprietary micromachining and other technology, we succeeded in creating a smaller and lighter product that achieved a 57.1% improvement in resource conservation. In addition, miniaturization of the sensor reduced its power consumption, thereby improving its energy efficiency by 53.3%. As a result, we were also able to substantially reduce the LC CO₂ of the product.



Consideration for the Environment in Our Products and Services

Since establishing our “Guidelines for Development of Products with Reduced Environmental Impact” in 1997, we have favored designs that take into account the environmental impact of products and services throughout their life cycle, from the initial stages of new product development to materials procurement, production, logistics, sales, use, and disposal. In addition to conducting environmental design reviews at each development stage, we set targets for the LC CO₂*¹ of each product and evaluate products based on these targets. We conduct life-cycle assessments and environmental assessments*² at all stages of new product development, and products that meet our internal criteria can be granted the azbil Group Environmental Label as an environmentally friendly product.

*1 Life-cycle CO₂ emissions of the product

*2 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.



azbil Group
Environmental Label

Efforts to Achieve a Society that Coexists with Nature

Conservation Activity at our Sites and in Nearby Communities

While we utilize the bounties of nature in our business activities, we are aware that those same activities affect ecosystems in various ways. Accordingly, as one of the partners promoting the Keidanren Declaration on Biodiversity, we undertake environmental conservation activities at our business establishments and in the communities where they are based. In doing so, we work together with non-profit organizations, universities, and local governments. In the year ended March 2015, we carried out environmental conservation activities on six occasions. These included thinning work in the city of Fujisawa in Kanagawa Prefecture, where the Fujisawa Technology Center is located; work to protect the maiden lily, a near-threatened species, in the town of Minamiaizu in Fukushima Prefecture, where Azbil Kimmon Aizu Co., Ltd., is based; and surveying of the trees on the site where Azbil Kyoto Co., Ltd., built a plant on land developed by the local government.



Maiden lilies, the focus of our conservation efforts in Minamiaizu, Fukushima Prefecture

Efforts Spanning the Value Chain

We strive to reduce not only the environmental impact of our own company, but also the impact of others throughout the value chain, including our customers and suppliers. The azbil Group's Basic Purchasing Policy, established in the year ended March 2015, also mandates efforts to protect the environment. The azbil Group is actively striving to prevent global warming, promote the cyclical use of resources, and conserve biodiversity throughout the value chain.

Constant review and improvement of internal control systems is used to promote highly efficient, lawful, and transparent Group management.

As we raise standards in areas such as business administration and supervision, internal controls, and proper accounting, we are also endeavoring to strengthen governance in each member of the azbil Group.

Improving Internal Control Systems

Basic policies governing all officers and employees are clearly set out in our Basic Policy on Internal Control System Architecture. In addition, we have prescribed guidelines for internal control system architecture. Already in the year ending March 2016, in response to the revision of the country's Companies Act, we have revised the content of these policies and guidelines to clarify the matters that Azbil Corporation and the Group companies should address. These matters include ensuring the reliability of financial reporting, promoting sound business activities with a high level of business ethics, developing and managing the control environment and other fundamental elements of internal controls, and managing key risks to ensure business continuity and stable development. To construct an efficient, lawful, and highly transparent system, we constantly review and improve our internal control structures.

Enhancing Group-wide Initiatives

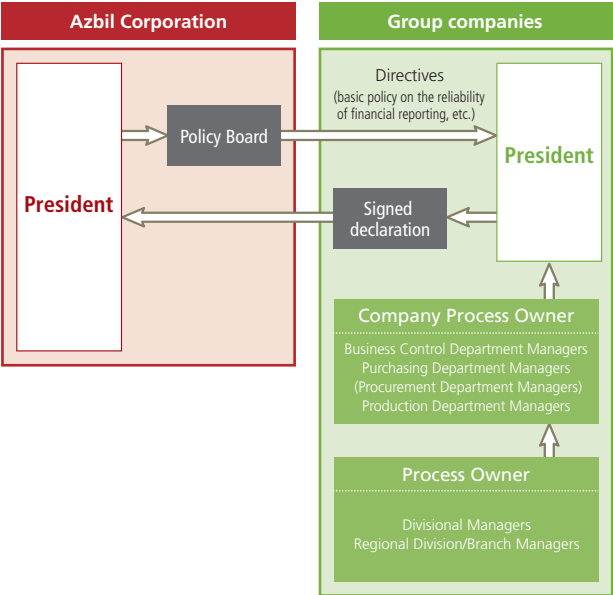
In conjunction with the updating of our basic policies, we have launched initiatives to develop compliance and risk management systems that cover the whole azbil Group. These include strengthening reporting systems concerning the performance of duties at each Group company (for reporting to senior management of individual companies and to the board of directors of Azbil Corporation), enhancing the support functions of auditors, and expanding the internal notification system to cover the employees of our overseas subsidiaries.

Responses to the Financial Instruments and Exchange Act (J-SOX) and Improving the Standard of Accounting

To improve our response to the requirements for internal control reporting systems prescribed by the Financial Instruments and Exchange Act (popularly known as J-SOX), we conduct periodic reviews of the scope of our control system evaluation in light of changes in the business environment, as well as reviewing our risks and controls. In the year ended March 2015, Azbil Trading Co., Ltd., was added to the list of companies subject to evaluation of core business processes, thereby extending the scope of evaluation by 10% year on year. In the year ending March 2016, to further strengthen the foundation for internal control, we will provide all Group employees with education aimed at improving accounting standards.

Also, in May 2015, Azbil Corporation began using a new core information system. Based on new business procedures and operation systems, we intend to build more efficient and reliable internal control systems, and we will make every effort to ensure that they are effective.

Management of Group Companies under J-SOX



We encourage employee participation in volunteer activities, fostering a culture of community engagement throughout the azbil Group.

To foster a culture of involvement with the community throughout the azbil Group, we encourage participation in voluntary activities that contribute to society by “creating a space” for action in a variety of fields. In addition, we help to raise awareness of environmental issues and facilitate regional revitalization through participation in events in the communities where azbil Group companies are located.

Promoting Voluntary Activities that Contribute to Society

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 31, 2015, the club’s fifth year of operation, members voted to provide donations to 30 groups. The groups received a total of ¥4.57 million, including the matching donation from Azbil Corporation. This brought the total number of initiatives supported by the club since its inception to 143, with donations worth a total of ¥21.21 million.

The main categories of activity of the recipient organizations were social welfare, education, lifelong learning, support for disaster-stricken areas, health and medical care, the environment, sports, town planning to reduce disaster risk, and academia and the preservation of traditional culture. The club has received high praise in response to the donations.



Members of a social welfare organization supported by the azbil Honey Bee Club (Photo by Jun-ichi Tanabe)

Improving Environmental Awareness and Contributing to Communities

Our involvement in the Shonan International Marathon, which aims to be an environmentally friendly race that promotes environmental awareness, dates back to its very first running. Working with other co-sponsors, we help to improve environmental awareness and contribute to the community.

At the ninth running of the marathon, in 2014, we again served as an “Eco Friendship Leader,” assisting in the separation of different types of recyclable waste and finding other ways to make the event kinder to the environment. In addition, we ran an Eco Café to promote environmental awareness among the participants. A total of 200 employees took part as runners, wearing race bibs bearing the azbil logo as they ran along the roads of the Shonan area, where the company has close ties. In addition, 60 employees volunteered their services to assist in the hosting of the event, working together to make it a festive occasion for the whole community.

<http://www.shonan-kokusai.jp/9th/eco-friendship/index.html>



azbil Group staff and family members who participated in the Shonan International Marathon

azbil Honey Bee Club

March, the azbil Honey Bee Club's mascot

An independent voluntary group founded in 2009 with the aim of encouraging azbil Group employees to participate in social contribution activities by “creating a space” for action.

- All employees can participate if they wish.
- By saving a little bit back from normal everyday expenditures, it's easy to save enough money or supplies to participate.
- A proportion of the money or supplies is donated to volunteer groups or individuals engaged in activities that contribute to society, preferably activities in which club members have participated.

The club's purpose is to foster the azbil Group's corporate culture of community engagement.

For further details, please visit the club's web page. <http://www.azbil.com/jp/csr/soc/mitsubachi.html>



azbil strives to build relationships of trust with its shareholders and investors through timely and appropriate disclosure of information and proactive dialogue.

Ensuring the sound management and proper evaluation of the company 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.

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, as well as including a message from the president and CEO concerning the management's vision and direction. In addition to sending the notices as early as possible and publishing them on our website before they are sent, we are putting in place an environment that will enable a wide range of investors to use an electronic voting platform, quickly obtain information concerning the annual shareholders' meeting and exercise their voting rights.

The Ordinary General Meeting of Shareholders for the year ended March 2015 was attended in person by 174 shareholders, and almost 90% of shareholders exercised their voting rights.



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

Enhancing Communication

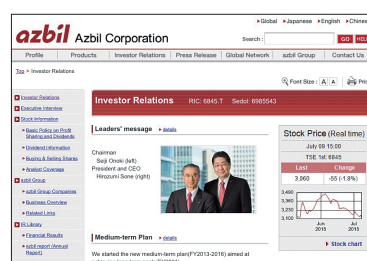
In addition to establishing the Investor Relations (IR) office to handle IR full time and formulating communication plans, we are attempting to enhance communication by putting in place various tools to assist investors in making decisions, including the IR website (providing information for shareholders and investors), the annual report (this publication), and the Fact Book. In the year ended March 2015, in addition to participating in conferences organized

by securities companies within Japan and overseas, company staff and officers met with various stakeholders, such as investors, for articles or feature stories, and took the opportunity to participate in discussions in more than 200 meetings and briefings in order to promote understanding of our company and gain valuable insights into the views of others. We regard the opinions gathered through such dialogue as valuable information for making decisions concerning management issues.

At our half-yearly briefings on the company's financial results, the president personally explains the results and welcomes questions from institutional investors. In addition, following the announcement of our quarterly financial results, managers from each business segment and staff in charge of the company's financial affairs hold briefing sessions for analysts from securities companies.

Prompt Disclosure

To facilitate timely and appropriate disclosure, information about such matters as shareholders' meetings, financial results, and the updating of IR tools is posted promptly on the IR website. In addition, we offer an IR information e-mail service that enables subscribers to receive information as it is announced. We will upgrade our IR website in the year ending March 2016 to enhance the information provided and improve its searchability and uniformity.



Front page of the IR site

Inclusion in SRI Indexes

- FTSE4Good Global Index



FTSE4Good

- Morningstar Socially Responsible Investment Index



We are 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 25, 2015, 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

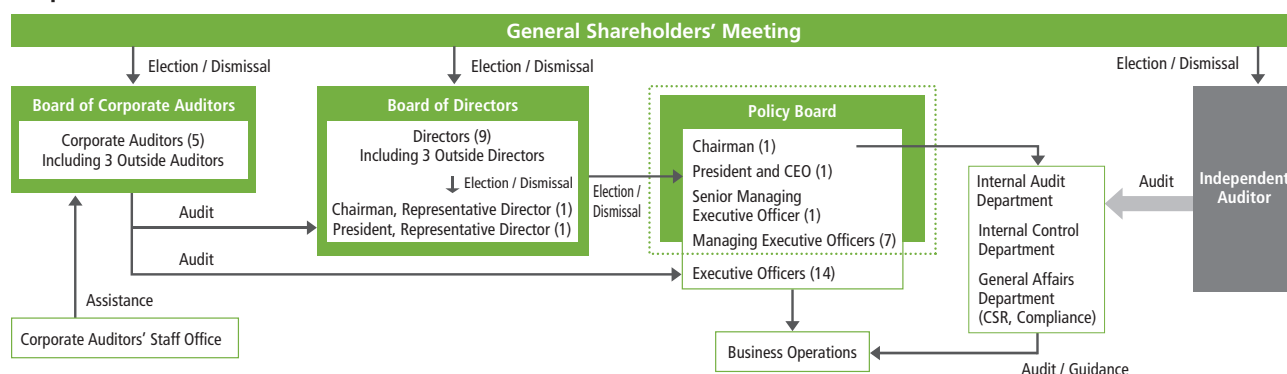
of the company's management and execution of business, thereby helping to raise the level of fairness, neutrality, and transparency in the company's management.

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.

Corporate Governance Framework (As of June 25, 2015)



Executive Compensation

Policies on executive compensation have been established as part of our 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 (a maximum of ¥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 (a maximum of ¥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 2015)

Position	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)	374	255	118	—	—	8
Auditors (excluding outside auditors)	45	45	—	—	—	2
Outside directors and auditors	55	55	—	—	—	6

Note: This includes two corporate directors whose resignation took effect at the end of the 92nd Ordinary General Meeting of Shareholders held on June 26, 2014.

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.

Mitsuhiro Nagahama

Mr. Mitsuhiro Nagahama has held a succession of important posts at financial institutions, and has wide-ranging knowledge and abundant global experience in the areas of finance and securities. He was appointed to audit all aspects of the company's business from the perspective of capital markets, based on his wide-ranging insight into corporate management and the business world, and to strengthen corporate governance by virtue of his independent position.

Shigeru Morita

Mr. Shigeru Morita has held a succession of important posts at life insurance companies, as well as real estate and facility management companies, and has abundant knowledge and experience in these fields. He was appointed to audit all aspects of the company's business from the perspective of reducing and managing risks arising from business operations, 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 2015)

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	12 of 12	—
	Katsuhiko Tanabe	11 of 12	—
	Takeshi Ito*	10 of 10	—
Auditors	Kinya Fujimoto	12 of 12	14 of 14
	Jyunichi Asada	11 of 12	14 of 14
	Hideo Sato	12 of 12	14 of 14

* Corporate director Takeshi Ito was appointed at the 92nd Ordinary General Meeting of Shareholders on June 26, 2014, so only meetings of the Board of Directors held after his appointment are included.

The Status and Direction of Azbil's Corporate Governance

Comment by an Outside Director

azbil's business results have grown, thanks to efforts by the management to put in place an environment in which they can fully exercise their abilities, appointing talented directors and auditors from both within Azbil Corporation and outside it, and engaging in lively and constructive discussion in good faith at meetings of the Board of Directors. I have a high opinion of the governance framework that has been established in this way and believe that it compares favorably with the governance systems of other leading companies, both in Japan and overseas.

As described in the medium-term plan, the domestic market is maturing. Accordingly, in order for the azbil Group to achieve sustainable growth and improve corporate value going forward, it is necessary to steadily tap into overseas demand, particularly in emerging economies which, although entailing some risk, are expected to see substantial growth. Also, to ensure that members of the management team can continue to exercise their abilities in the same way, there is undoubtedly a greater need than ever to enhance its "aggressive governance" framework, which is predicated on healthy risk-taking. I am certain that its corporate culture will enable it to successfully address these kinds of challenges.



Katsuhiko Tanabe

Outside Director

Board of Directors, Executive Officers, and Corporate Auditors

(As of June 25, 2015)



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, Secretarial 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 the building automation business, aG sales synergy

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 the 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)



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
Hisaya Katsuta

Corporate Auditors
Kinya Fujimoto
Mitsuhiro Nagahama
Shigeru Morita

Executive Officers

Managing Executive Officers

Yoshihide Sugino

Responsible for aG research and development, aG environmental load innovation, corporate quality assurance promotion, marketing, Technology Development Headquarters, the Department of Safety Assessment, Environment Promotion Department, Technology Standardization Department, and Valve Production Development Department

Kenji Hidaka

Responsible for the life automation business
General Manager of Home Comfort Headquarters

Mitsuharu Miyazawa

Responsible for the service business and the aG Safety Management Department
General Manager of the Tokyo Head Office of the Building Systems Company

Hirohiko Kazato

Responsible for new business development for the Building Systems Company (incl. environmental particle solutions development), the life science engineering business, the Life Science Engineering Business Promotion Office

Executive Officers

Norio Murase

General Manager of the Legal and Intellectual Property Department

Hiroshi Arai

Responsible for aG information systems
General Manager of the Information Systems Department

Yoshifumi Suzuki

Responsible for the international business and the Document Production Department
General Manager of International Business Headquarters

Michihiro Tomonaga

Responsible for China area supervision

Haruo Tamura

General Manager of the Building Systems Company's Integrated Business Headquarters

Seiichiro Hayashi

General Manager of the Building Systems Company's Engineering Headquarters

Kazuyasu Hamada

Responsible for the Building Systems Company's Security & Workplace Solutions Headquarters
General Manager of the Building Systems Company's Environmental Facility Solutions Headquarters
Manager of the Building Systems Company's Environmental Particle Solutions Business Promotion Office

Kenji Okumura

General Manager of the Advanced Automation Company's Global Business Sales Headquarters

Hiroshi Shimizu

Responsible for the advanced control business
General Manager of the Advanced Automation Company's Engineering Headquarters' Advanced Solutions Department

Takayuki Yokota

General Manager of Group Management Headquarters

Akihiko Naruse

Responsible for Human Resources Department
President of the Azbil Academy

Kenichi Hayashi

General Manager of the Building Systems Company's Business Planning Department

Tetsuo Takamura

Responsible for the Advanced Automation Company's development, marketing, and control product business
General Manager of the Advanced Automation Company's Marketing Department

Junya Nishimoto

General Manager of Technology Development Headquarters

11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2005	2006	2007	2008
Financial Results (For the Year):				
Net sales	180,763	188,321	234,572	248,551
Gross profit	67,754	72,769	84,780	89,946
Operating income	9,353	13,515	17,314	20,484
Net income	3,709	9,795	10,646	10,709
Capital expenditures	2,460	6,790	5,273	4,488
Depreciation	2,291	2,352	3,891	4,387
R&D expenses	8,170	8,360	8,776	9,844
Cash Flows (For the Year):				
Net cash provided by operating activities	8,503	6,386	7,524	21,086
Net cash provided by (used in) investing activities	(3,707)	(7,405)	(2,475)	(612)
Free cash flow	4,796	(1,019)	5,049	20,474
Net cash used in financing activities	(2,922)	(3,328)	(6,348)	(6,433)
Financial Position (At Year-end):				
Total assets	172,586	217,882	230,679	228,844
Net assets	99,848	110,859	118,967	121,721
Per Share Data:				
Net income (Yen)	49.88	132.52	144.71	145.63
Net assets (Yen)	1,356.65	1,506.25	1,602.33	1,641.73
Cash dividends (Yen)	23.00	50.00	50.00	60.00
Ratios:				
Gross profit/Net sales (%)	37.5	38.6	36.1	36.2
Operating income/Net sales (%)	5.2	7.2	7.4	8.2
R&D expenses/Net sales (%)	4.5	4.4	3.7	4.0
Shareholders' equity/Total assets (%)	57.9	50.9	51.1	52.6
Return on equity (ROE) (%)	3.8	9.3	9.3	9.0
Dividend on equity (DOE) (%)	1.7	3.5	3.2	3.7
Dividend payout ratio (%)	45.6	37.6	34.6	41.2

(Millions of yen)

2009	2010	2011	2012	2013	2014	2015
236,173	212,213	219,216	223,499	227,585	248,417	254,469
86,655	76,420	79,714	80,840	77,872	86,550	89,884
17,832	12,385	14,896	14,348	13,411	13,904	15,337
9,525	6,242	7,928	8,519	8,309	7,669	7,169
6,414	2,704	3,351	3,010	3,121	5,303	6,302
4,503	4,751	4,460	4,027	3,621	3,722	3,784
9,636	8,640	8,953	8,816	7,824	8,767	10,124
21,372	15,714	15,223	5,634	15,010	15,836	13,698
(16,606)	1,960	(2,276)	(3,549)	(12,716)	(10,670)	(13,472)
4,766	17,674	12,947	2,085	2,294	5,166	226
(8,575)	(6,757)	(8,001)	(6,393)	(2,487)	(6,940)	(6,066)
220,846	218,472	217,501	223,476	243,419	253,448	265,719
124,984	129,278	131,362	135,077	141,197	144,978	160,294
127.87	84.52	107.35	115.35	112.50	103.85	97.07
1,672.91	1,728.64	1,754.86	1,808.48	1,882.66	1,940.56	2,143.11
62.00	62.00	63.00	63.00	63.00	63.00	63.00
36.7	36.0	36.4	36.2	34.2	34.8	35.3
7.6	5.8	6.8	6.4	5.9	5.6	6.0
4.1	4.1	4.1	3.9	3.4	3.5	4.0
55.9	58.4	59.6	59.8	57.1	56.5	59.6
7.8	5.0	6.2	6.5	6.1	5.4	4.8
3.7	3.6	3.6	3.5	3.4	3.3	3.1
48.5	73.4	58.7	54.6	56.0	60.7	64.9

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 51,921	¥ 55,845	\$ 432,672
Marketable securities (Note 4)	13,606	10,106	113,382
Notes and accounts receivable:			
Trade (Note 14)	88,961	88,228	741,340
Other	1,584	2,570	13,202
Allowance for doubtful receivables	(566)	(494)	(4,715)
Inventories (Note 5)	21,683	18,194	180,691
Deferred tax assets (Note 10)	5,388	5,404	44,897
Prepaid expenses and other current assets	15,419	9,525	128,496
Total current assets	197,996	189,378	1,649,965
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 7)	6,618	6,624	55,146
Buildings and structures (Notes 6 and 7)	42,254	40,831	352,121
Machinery and equipment (Notes 6 and 7)	20,264	19,713	168,863
Furniture and fixtures (Note 6)	20,231	20,226	168,593
Lease assets (Note 13)	279	294	2,324
Construction in progress	250	168	2,080
Total	89,896	87,856	749,127
Accumulated depreciation	(64,197)	(63,355)	(534,971)
Net property, plant and equipment	25,699	24,501	214,156
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	22,395	16,185	186,622
Investments in and advances to unconsolidated subsidiaries and associated companies	350	999	2,914
Goodwill (Note 6)	5,601	8,084	46,678
Deposits	2,612	2,633	21,767
Deferred tax assets (Note 10)	875	2,102	7,288
Other assets	10,191	9,566	84,931
Total investments and other assets	42,024	39,569	350,200
TOTAL	¥ 265,719	¥ 253,448	\$ 2,214,321

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 14,053	¥ 13,279	\$ 117,105
Current portion of long-term debt (Notes 7 and 14)	1,871	2,200	15,590
Notes and accounts payable:			
Trade (Note 14)	42,688	41,456	355,733
Other	1,944	1,835	16,204
Income taxes payable	3,830	6,248	31,914
Accrued bonuses	8,876	8,710	73,965
Other accrued expenses and current liabilities	16,433	13,629	136,944
Total current liabilities	89,695	87,357	747,455
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,655	2,338	13,789
Liability for retirement benefits (Note 8)	8,291	16,748	69,088
Deferred tax liabilities (Note 10)	4,725	1,026	39,377
Other long-term liabilities	1,059	1,001	8,828
Total long-term liabilities	15,730	21,113	131,082
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Notes 9 and 18):			
Common stock—authorized, 279,710,000 shares; issued, 75,116,101 shares	10,523	10,523	87,689
Capital surplus	17,198	17,198	143,315
Stock acquisition rights		2	
Retained earnings	121,573	114,275	1,013,111
Treasury stock—at cost, 1,263,924 shares in 2015 and 1,263,194 shares in 2014	(2,649)	(2,647)	(22,072)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	9,524	4,978	79,371
Deferred gain on derivatives under hedge accounting		1	
Foreign currency translation adjustments	2,506	825	20,883
Defined retirement benefit plan	(402)	(1,837)	(3,352)
Total	158,273	143,318	1,318,945
Minority interests	2,021	1,660	16,839
Total equity	160,294	144,978	1,335,784
TOTAL	¥ 265,719	¥ 253,448	\$ 2,214,321

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
NET SALES	¥ 254,469	¥ 248,417	\$ 2,120,576
COST OF SALES (Notes 8 and 13)	164,585	161,867	1,371,545
Gross profit	89,884	86,550	749,031
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12 and 13)	74,547	72,646	621,219
Operating income	15,337	13,904	127,812
OTHER INCOME (EXPENSES):			
Interest income	131	170	1,092
Dividend income	341	300	2,843
Interest expense	(461)	(394)	(3,845)
Foreign currency exchange gain	1,771	518	14,754
Gain (loss) on sales of property, plant, equipment and others—net	95	(54)	794
Gain on sales of shares of subsidiaries and associates	1,607		13,388
Gain on sales of investment securities—net (Note 4)	53	25	445
Loss on impairment of long-lived assets (Note 6)	(2,669)	(36)	(22,245)
Loss on abolishment of retirement benefit plan	(2,885)		(24,042)
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary	(899)		(7,492)
Others—net (Note 11)	(808)	116	(6,732)
Other (expenses) income—net	(3,724)	645	(31,040)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,613	14,549	96,772
INCOME TAXES (Note 10):			
Current	4,426	6,664	36,882
Deferred	(232)	237	(1,938)
Total income taxes	4,194	6,901	34,944
NET INCOME BEFORE MINORITY INTERESTS	7,419	7,648	61,828
MINORITY INTERESTS IN NET (LOSS) INCOME	(250)	21	(2,090)
NET INCOME	¥ 7,169	¥ 7,669	\$ 59,738

	Yen		U.S. Dollars (Note 1)
	2015	2014	2015
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 97.07	¥ 103.85	\$ 0.81
Cash dividends applicable to the year	63.00	63.00	0.53

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
NET INCOME BEFORE MINORITY INTERESTS	¥ 7,419	¥ 7,648	\$ 61,828
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized gain on available-for-sale securities	4,546	1,202	37,883
Deferred loss on derivatives under hedge accounting	(1)		(5)
Foreign currency translation adjustments	1,794	2,042	14,953
Defined retirement benefit plan	1,435		11,955
Total other comprehensive income	7,774	3,244	64,786
COMPREHENSIVE INCOME	¥ 15,193	¥ 10,892	\$ 126,614
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Azbil Corporation	¥ 14,830	¥ 10,649	\$ 123,583
Minority interests	363	243	3,031

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	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			
BALANCE, APRIL 1, 2013	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													
Net change in the year							1,202	¥ 1	1,777	¥ (1,837)	1,143	(493)	650
BALANCE, MARCH 31, 2014 (APRIL 1, 2014, as previously reported)	73,853	10,523	17,198	2	114,275	(2,647)	4,978	1	825	(1,837)	143,318	1,660	144,978
Cumulative effect of accounting change					5,149						5,149		5,149
BALANCE, APRIL 1, 2014 (as restated)	73,853	10,523	17,198	2	119,424	(2,647)	4,978	1	825	(1,837)	148,467	1,660	150,127
Adjustment of retained earnings for newly consolidated subsidiaries					(367)						(367)		(367)
Net income					7,169						7,169		7,169
Cash dividends, ¥63 per share					(4,653)						(4,653)		(4,653)
Purchase of treasury stock	(1)					(2)					(2)		(2)
Disposal of treasury stock													
Net change in the year				(2)			4,546	(1)	1,681	1,435	7,659	361	8,020
BALANCE, MARCH 31, 2015	73,852	¥ 10,523	¥ 17,198		¥ 121,573	¥ (2,649)	¥ 9,524		¥ 2,506	¥ (402)	¥ 158,273	¥ 2,021	¥ 160,294

	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			
BALANCE, MARCH 31, 2014 (APRIL 1, 2014, as previously reported)	\$ 87,689	\$ 143,315	\$ 20	\$ 952,294	\$ (22,055)	\$ 41,487	\$ 5	\$ 6,872	\$ (15,307)	\$ 1,194,320	\$ 13,836	\$ 1,208,156
Cumulative effect of accounting change				42,906						42,906		42,906
BALANCE, APRIL 1, 2014 (as restated)	87,689	143,315	20	995,200	(22,055)	41,487	5	6,872	(15,307)	1,237,226	13,836	1,251,062
Adjustment of retained earnings for newly consolidated subsidiaries				(3,054)						(3,054)		(3,054)
Net income				59,738						59,738		59,738
Cash dividends, \$0.53 per share				(38,773)						(38,773)		(38,773)
Purchase of treasury stock					(18)					(18)		(18)
Disposal of treasury stock					1					1		1
Net change in the year			(20)			37,884	(5)	14,011	11,955	63,825	3,003	66,828
BALANCE, MARCH 31, 2015	\$ 87,689	\$ 143,315		\$ 1,013,111	\$ (22,072)	\$ 79,371		\$ 20,883	\$ (3,352)	\$ 1,318,945	\$ 16,839	\$ 1,335,784

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2014	2015
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,613	¥ 14,549	\$ 96,772
Adjustments for:			
Income taxes—paid	(6,851)	(5,947)	(57,092)
Depreciation and amortization	5,636	5,595	46,966
Reversal of doubtful receivables	51	189	427
Increase in accrued bonuses	204	746	1,702
Foreign currency exchange gain	(1,334)	(597)	(11,118)
(Gain) loss on sales of property, plant and equipment and others—net	(95)	54	(794)
Gain on sales of investment securities—net	(53)	(25)	(445)
Loss on impairment of long-lived assets	2,669	36	22,245
Loss on abolishment of retirement benefit plan	2,885		24,042
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary	899		7,492
Gain on sales of shares of subsidiaries and associates	(1,607)		(13,388)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(352)	2,630	(2,930)
Increase in inventories	(2,978)	(847)	(24,814)
Increase (decrease) in notes and accounts payable	457	(341)	3,807
(Decrease) increase in liability for retirement benefits	(1,710)	1,319	(14,251)
Decrease (increase) in other assets	438	(1,091)	3,651
Increase (decrease) in other liabilities	3,214	(772)	26,784
Others—net	612	338	5,097
Total adjustments	2,085	1,287	17,381
Net cash provided by operating activities	13,698	15,836	114,153
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	562	254	4,680
Purchases of property, plant and equipment	(4,463)	(2,651)	(37,192)
Purchase of intangible assets	(1,591)	(2,092)	(13,258)
Proceeds from sales of investment securities	138	250	1,149
Purchases of investment securities	(77)	(27)	(641)
Proceeds from sales of beneficiary securities of trust	14,026	12,999	116,887
Purchases of beneficiary securities of trust	(13,971)	(13,302)	(116,426)
Proceeds from sales of marketable securities	30,000	9,845	250,000
Purchase of marketable securities	(33,500)	(16,700)	(279,167)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	2,373		19,777
Purchase of investments in capital of subsidiaries	(1,637)		(13,643)
Others—net	(5,332)	754	(44,437)
Net cash used in investing activities	(13,472)	(10,670)	(112,271)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	587	789	4,891
Proceeds from long-term debt	380	87	3,167
Repayment of long-term debt	(2,115)	(2,502)	(17,622)
Disposal of treasury stock			2
Purchase of treasury stock	(2)	(3)	(18)
Dividends paid	(4,865)	(5,248)	(40,545)
Others—net	(51)	(63)	(421)
Net cash used in financing activities	(6,066)	(6,940)	(50,546)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,432	1,533	11,931
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,408)	(241)	(36,733)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	484	36	4,031
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,845	56,050	465,374
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 51,921	¥ 55,845	\$ 432,672
ADDITIONAL INFORMATION:			
Decrease in assets and liabilities in the exclusion of Azbil Care & Support Co., Ltd.:			
Asset excluded	¥ 1,201		\$ 10,006
Liability excluded	402		3,354

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2015

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 2014 consolidated financial statements to conform to the classifications used in 2015.

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 ¥120 to \$1, the approximate rate of exchange as of March 31, 2015. 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, 2015, include the accounts of Azbil and its 60 significant (59 in 2014) subsidiaries (together, the "azbil Group").

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

Investments in 3 (3 in 2014) 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.U. 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 are treated as reclassification adjustments (see Note 17).
- (c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain

disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

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

With respect to (c) above, Azbil and certain subsidiaries changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, liability for retirement benefits as of April 1, 2014, decreased by ¥7,986 million (\$66,549 thousand), and retained earnings as of April 1, 2014, increased by ¥5,149 million (\$42,906 thousand). On the other hand, there were no significant impact on operating income and income before income taxes and minority interests for the year ended March 31, 2015. In addition, net assets per share for the year ended March 31, 2015, increased by ¥69.72 (\$0.58).

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, 2015 and 2014, was ¥117 million (\$973 thousand) and ¥110 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 73,852,582 shares for 2015 and 73,853,357 shares for 2014.

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 presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
- (3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
- (4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

v. New Accounting Pronouncements

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

Major accounting changes are as follows:

- (a) Transactions with noncontrolling interest
A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of 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,” the 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” are 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. The effect of these changes is expected to decrease capital surplus by ¥4,912 million (\$40,936 thousand), and goodwill by ¥1,449 million (\$12,074 thousand), and increase retained earnings by ¥3,463 million (\$28,862 thousand), in the consolidated balance sheet as of April 1, 2015.

3. BUSINESS COMBINATIONS

Transaction under Common Control

a. Summary of Business Combination

- (1) Name and business of the acquired company
 Name of the acquired company:
 Azbil Telstar, S.L.U.
 Business contents:
 Development, manufacturing, and sale of freeze-drying machines, sterilization devices, and pharmaceutical water/vapor production equipment; consulting and engineering for clean rooms; and other businesses
- (2) Date of business combination
 December 23, 2014
- (3) Legal form of business combination
 Stock purchase for cash from minority stockholders
- (4) Company name after business combination
 Not changed
- (5) Major reason for business combination
 Azbil purchased 80.0% of the shares of Azbil Telstar, S.L.U. on January 10, 2013, and it became a consolidated subsidiary. Azbil decided to make Azbil Telstar, S.L.U. a wholly owned subsidiary by purchasing the remaining outstanding shares. The purpose of the transaction is to accelerate management decision-making, improve the efficiency of management and maximize the synergies of the whole group for expanding profitability.
- (6) Acquired voting rights

Owned voting rights before acquisition:	80.0%
Acquired voting rights:	20.0%
After additional acquisition:	100.0%

b. Outline of the Accounting Treatment

Based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008), Azbil treated the business combination as a transaction with minority shareholders.

c. Details on the Acquisition Cost of the Acquired Company

	Millions of Yen	Thousands of U.S. Dollars
Stock purchase price	¥ 1,637	\$ 13,643
Purchase price	¥ 1,637	\$ 13,643

d. Amount of Goodwill, Reason for Goodwill and Method and Term of Amortization

- (1) Amount of goodwill: ¥1,637 million (\$13,643 thousand)
- (2) Reason for goodwill: As the purchase price of Azbil Telstar, S.L.U. exceeded the fair value of its net equity, the excess amount was booked as goodwill.
- (3) Method and term of amortization: Straight-line method over 7 years

Azbil devalued a part of the goodwill amount to the recoverable amount and booked the amount of the decrease as impairment loss.

Business Divestitures

a. Summary of Business Divestitures

- (1) Name and business of the divested company
Name of the divested company:
Azbil Care & Support Co., Ltd.
Business contents:
Emergency alert response service business including health consulting and emergency care service
Nursing care business including home attendant care, day care, group homes and rental of welfare goods
- (2) Major reason for business divestitures
The azbil Group closely monitors changes in the business environment, in both the domestic and overseas markets, ensuring the optimum deployment of management resources and strengthening its corporate structure. In this way, it aims to realize customer satisfaction—by providing greater added value for its products and services—and thus achieve sustainable growth, which will lead to increased shareholders' value. Azbil has come to the conclusion that the best way to realize the future business development of Azbil Care & Support Co., Ltd. in a speedy manner is to place this business within SOHGO SECURITY SERVICES CO., LTD., a company that already possesses an extensive customer base in the field of private sector services, and which is currently expanding a range of services to watch over the elderly and to provide nursing care. It was therefore decided to transfer the shares of Azbil Care & Support Co., Ltd. to SOHGO SECURITY SERVICES CO., LTD.
- (3) Date of business divestitures
February 4, 2015
- (4) Legal form of business divestitures
Stock transfer for cash as consideration

b. Outline of the Accounting Treatment

- (1) Amount of gain on sales of shares

Gain on sales of shares of subsidiaries and associates:	¥1,607 million (\$13,338 thousand)
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- (2) Details of assets and liabilities divested on the date of business divestitures

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 839	\$ 6,992
Noncurrent assets	362	3,014
Total assets	¥ 1,201	\$ 10,006
Current liabilities	¥ 397	\$ 3,312
Noncurrent liabilities	5	42
Total liabilities	¥ 402	\$ 3,354

- (3) Accounting treatment
Azbil recorded the difference between the market value of the asset received due to the share transfer and the equivalent of the net assets for the divested business as a gain on sales of shares.

c. Reportable Segment for Divested Business

Life Automation

d. Approximate Amount for Divested Business Recorded in Consolidated Statement of Income during the Year Ended March 31, 2015

Net sales:	¥3,402 million (\$28,350 thousand)
Operating income:	¥7 million (\$60 thousand)

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Current—Other	¥ 13,606	¥ 10,106	\$ 113,382
Total	¥ 13,606	¥ 10,106	\$ 113,382
Noncurrent:			
Equity securities	¥ 22,391	¥ 16,182	\$ 186,588
Other	4	3	34
Total	¥ 22,395	¥ 16,185	\$ 186,622

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2015 and 2014, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2015				2014				2015			
	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	¥ 15,942	¥ 40	¥ 21,695	¥ 5,793	¥ 9,753	¥ 38	¥ 15,508	\$ 48,276	\$ 132,849	\$ 336	\$ 180,789
Other	13,606			13,606	14,937			14,937	113,382			113,382

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2015 and 2014, is disclosed in Note 14. The information for available-for-sale securities which were sold during the years ended March 31, 2015 and 2014, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2015			2014			2015		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 138	¥ 53		¥ 274	¥ 44	¥ 19	\$ 1,149	\$ 445	

The impairment losses on available-for-sale equity securities for the year ended March 31, 2014, were ¥134 million.

5. INVENTORIES

Inventories at March 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Merchandise	¥ 1,580	¥ 1,203	\$ 13,164
Finished products	3,774	3,034	31,450
Work in process	7,009	5,959	58,408
Raw materials	9,320	7,998	77,669
Total	¥ 21,683	¥ 18,194	\$ 180,691

6. LONG-LIVED ASSETS AND GOODWILL

The azbil Group reviewed its long-lived assets for impairment, and recognized impairment losses of ¥2,669 million (\$22,245 thousand) for the year ended March 31, 2015, for certain assets of Azbil and goodwill of Azbil Telstar, S.L.U., Azbil Vortek, LLC and Beijing YTYH Intelli-Technology (Beijing) Co., Ltd. The carrying amount of the relevant property, plant and equipment was written down to the net selling price and the carrying amount of goodwill was written down to the recoverable amount. The discount rate for measuring the recoverable amount was 6.9% for Azbil Telstar, S.L.U. and 12.7% was for Azbil Vortek, LLC. The recoverable amount was zero for Beijing YTYH Intelli-Technology (Beijing) Co., Ltd.

Impairment loss was ¥36 million for the year ended March 31, 2014, for part of Azbil Kimmon. The carrying amounts of the relevant property, plant and equipment were written down to the net selling price.

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Buildings and structures	¥ 67		\$ 559
Machinery and equipment	2	¥ 7	16
Furniture and fixtures	13	29	107
Goodwill of Azbil Telstar, S.L.U.	1,784		14,871
Goodwill of Azbil Vortek, LLC	407		3,392
Goodwill of Beijing YTYH Intelli-Technology (Beijing) Co., Ltd.	396		3,300
Total	¥ 2,669	¥ 36	\$ 22,245

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2015 and 2014, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.4% to 9.4% as of March 31, 2015, and from 0.5% to 7.8% as of March 31, 2014.

Long-term debt as of March 31, 2015 and 2014, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Loans from banks and other financial institutions, due serially through 2029 with interest rates ranging from 0.0% to 3.1% in 2015 and from 0.0% to 3.1% in 2014:			
Collateralized	¥ 310	¥ 568	\$ 2,583
Unsecured	2,271	3,749	18,922
Bonds due serially through 2016 with interest rates of 0.7% in 2015 and from 0.7% to 0.9% in 2014—			
Collateralized	40	90	333
Obligations under finance leases	905	131	7,541
Total	3,526	4,538	29,379
Less current portion	(1,871)	(2,200)	(15,590)
Long-term debt, less current portion	¥ 1,655	¥ 2,338	\$ 13,789

As of March 31, 2015, Azbil had an unused line of credit amounting to ¥30,000 million (\$250,000 thousand), of which ¥10,000 million (\$83,333 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$166,667 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2015, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2016	¥ 1,871	\$ 15,590
2017	345	2,876
2018	239	1,992
2019	212	1,765
2020	411	3,426
2021 and thereafter	448	3,730
Total	¥ 3,526	\$ 29,379

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2015, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 373	\$ 3,111
Buildings and structures	88	736
Machinery and equipment	3	23
Total	¥ 464	\$ 3,870

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

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

8. RETIREMENT AND PENSION PLANS

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

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

In addition, Azbil and a certain subsidiary transferred the defined benefit pension plans for working employees to the defined contribution pension plans at June 1, 2015. The accounting for these transfers was recorded according to “Guidance on Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (ASBJ PITF No. 2). The estimated losses on these transfers were ¥2,885 million (\$24,042 thousand) and recorded as losses on abolishment of retirement benefit plan in the consolidated statement of income for the year ended March 31, 2015.

The liability for retirement benefits at March 31, 2015 and 2014, for directors and Audit & Supervisory Board members is ¥126 million (\$1,049 thousand) and ¥112 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

(1) The changes in defined benefit obligation for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Balance at beginning of year (as previously reported)	¥ 44,549	¥ 44,934	\$ 371,245
Cumulative effect of accounting change	(7,985)		(66,549)
Balance at beginning of year (as restated)	36,564	44,934	304,696
Current service cost	1,675	1,631	13,962
Interest cost	402	359	3,352
Actuarial (gains) losses	65	(617)	548
Benefits paid	(1,558)	(1,758)	(12,987)
Decrease with transfer to the defined contribution pension plan	(673)		(5,610)
Others	151		1,255
Balance at end of year	¥ 36,626	¥ 44,549	\$ 305,216

(2) The changes in plan assets for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Balance at beginning of year	¥ 33,416	¥ 29,871	\$ 278,472
Expected return on plan assets	835	149	6,962
Actuarial gains	1,217	2,381	10,140
Contributions from the employer	3,070	2,773	25,584
Benefits paid	(1,558)	(1,758)	(12,987)
Others	158		1,314
Balance at end of year	¥ 37,138	¥ 33,416	\$ 309,485

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

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Funded defined benefit obligation	¥ 36,626	¥ 44,549	\$ 305,216
Plan assets	(37,138)	(33,416)	(309,485)
	(512)	11,133	(4,269)
Unfunded defined benefit obligation	8,670	5,503	72,258
Net liability arising from defined benefit obligation	¥ 8,158	¥ 16,636	\$ 67,989

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Liability for retirement benefits	¥ 8,165	¥ 16,636	\$ 68,039
Asset for retirement benefits	(7)		(59)
Net liability arising from defined benefit obligation	¥ 8,158	¥ 16,636	\$ 67,980

(4) The components of net periodic benefit costs for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Service cost	¥ 2,352	¥ 2,236	\$ 19,601
Interest cost	430	388	3,584
Expected return on plan assets	(835)	(149)	(6,962)
Recognized actuarial losses	1,007	2,377	8,394
Amortization of prior service cost	(516)	(186)	(4,300)
Others	467	378	3,893
Net periodic benefit costs	¥ 2,905	¥ 5,044	\$ 24,210
Losses on abolishment of retirement benefit plan (recorded on other expenses)	¥ 2,885		\$ 24,042

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Prior service cost	¥ (516)		\$ (4,300)
Actuarial losses	2,264		18,867
Reconciliation on abolishment of retirement benefit plan	404		3,367
Total	¥ 2,152		\$ 17,934

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrecognized prior service cost	¥ 1,013	¥ 1,529	\$ 8,444
Unrecognized actuarial gains	(1,867)	(4,131)	(15,559)
Reconciliation on abolishment of retirement benefit plan	404		3,367
Total	¥ (450)	¥ (2,602)	\$ (3,748)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2015 and 2014, consisted of the following:

	2015	2014
Debt investments	45%	37%
Life insurance company general accounts	36	33
Equity investments	18	28
Others	1	2
Total	100%	100%

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

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

(8) Assumptions used for the years ended March 31, 2015 and 2014, are set forth as follows:

	2015	2014
Discount rate	0.8%–1.1%	0.8%
Expected rate of return on plan assets	2.5%	0.5%
Expected rate of increase in future salary	2.8%	2.8%

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 being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Azbil 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 within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 35.5% for the year ended March 31, 2015, and 37.9% for the year ended March 31, 2014.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2015 and 2014, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Deferred tax assets:			
Pension and severance costs	¥ 2,651	¥ 5,729	\$ 22,090
Accrued expenses	3,762	4,092	31,352
Depreciation	771	896	6,426
Loss on impairment of property, plant and equipment	172	355	1,434
Allowance for doubtful receivables	774	1,229	6,454
Tax loss carryforwards	1,443	1,402	12,027
Others	2,324	2,505	19,360
Less valuation allowance	(3,885)	(4,709)	(32,371)
Total	8,012	11,499	66,772
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	5,053	3,383	42,107
Special advanced depreciation	1,154	1,315	9,617
Others	113	115	943
Total	6,320	4,813	52,667
Net deferred tax assets	¥ 1,692	¥ 6,686	\$ 14,105

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥191 million (\$1,589 thousand) at March 31, 2015, and ¥210 million at March 31, 2014.

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

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%

On March 31, 2015, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 35.5% to approximately 33.0% effective for the fiscal year beginning on or after April 1, 2015, and to approximately 32.1% effective for the fiscal year beginning on or after April 1, 2016. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities by ¥74 million (\$619 thousand) and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥529 million (\$4,411 thousand), and defined retirement benefit plan by ¥5 million (\$41 thousand), in the consolidated balance sheet as of March 31, 2015, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥460 million (\$3,832 thousand).

At March 31, 2015, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,500 million (\$70,831 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
2016	¥ 13	\$ 110
2017	5	41
2018	481	4,008
2019	6	52
2020	260	2,164
2021 and thereafter	7,735	64,456
Total	¥ 8,500	\$ 70,831

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—Others—net for the years ended March 31, 2015 and 2014, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Gain on compensation from Tokyo Electric Power Company caused by claim for damage from Fukushima nuclear disasters	¥ 132	¥ 506	\$ 1,097
Restructuring loss	(450)	(358)	(3,747)
Provision for loss litigation	(442)		(3,683)
Other	(48)	(32)	(399)
Total	¥ (808)	¥ 116	\$ (6,732)

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,124 million (\$84,365 thousand) and ¥8,767 million for the years ended March 31, 2015 and 2014, respectively.

13. LEASES

(1) Financing Leases as a Lessee

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

Total rental expenses under the above leases for the years ended March 31, 2015 and 2014, were ¥5,542 million (\$46,187 thousand) and ¥5,968 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							
	2015				2014			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 30			¥ 30	¥ 30			¥ 30
Accumulated depreciation	27			27	24			24
Accumulated impairment loss								
Net leased property	¥ 3			¥ 3	¥ 6			¥ 6

	Thousands of U.S. Dollars			
	2015			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$ 249			\$ 249
Accumulated depreciation	224			224
Accumulated impairment loss				
Net leased property	\$ 25			\$ 25

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due within one year	¥ 155	¥ 171	\$ 1,290
Due after one year	282	437	2,353
Total	¥ 437	¥ 608	\$ 3,643

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

Depreciation expense and other information for finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Depreciation expense	¥ 3	¥ 5	\$ 28
Lease payments	3	8	28

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, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Due within one year	¥ 20	¥ 18	\$ 166
Due after one year	55	58	456
Total	¥ 75	¥ 76	\$ 622

(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, 2015 and 2014, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Receivables under finance leases:			
Due within one year	¥ 152	¥ 168	\$ 1,265
Due after one year	282	434	2,353
Total	¥ 434	¥ 602	\$ 3,618

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

Notes and accounts receivable—trade are subject to the credit risks of the customers. The azbil Group manages its credit risks on the basis of internal guidelines, which include keeping track of due dates and outstanding balances of the receivables for each transaction and 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 stipulate the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more details about derivatives.

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

(3) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2015		
	2015			2014					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 51,921	¥ 51,921		¥ 51,014	¥ 51,014		\$ 432,672	\$ 432,672	
Notes and accounts receivable—trade	88,961	88,961		88,228	88,228		741,340	741,340	
Investment securities	21,695	21,695		15,508	15,508		180,789	180,789	
Total	¥ 162,577	¥ 162,577		¥ 154,750	¥ 154,750		\$ 1,354,801	\$ 1,354,801	
Short-term borrowings	¥ 14,053	¥ 14,053		¥ 13,279	¥ 13,279		\$ 117,105	\$ 117,105	
Current portion of long-term debt	1,871	1,871		2,200	2,200		15,590	15,590	
Notes and accounts payable—trade	42,688	42,688		41,456	41,456		355,733	355,733	
Long-term debt	1,655	1,656	¥ (1)	2,338	2,340	¥ (2)	13,789	13,799	\$ (10)
Total	¥ 60,267	¥ 60,268	¥ (1)	¥ 59,273	¥ 59,275	¥ (2)	\$ 502,217	\$ 502,227	\$ (10)

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

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

Investment Securities

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

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

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

Long-Term Debt

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Investments in equity instruments that do not have a quoted market price in an active market	¥ 856	¥ 1,333	\$ 7,137

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

	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
March 31, 2015								
Cash and cash equivalents	¥ 51,921				\$ 432,672			
Notes and accounts receivable—trade	85,817	¥ 3,116	¥ 28		715,142	\$ 25,969	\$ 229	
Total	¥ 137,738	¥ 3,116	¥ 28		\$ 1,147,814	\$ 25,969	\$ 229	

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

15. DERIVATIVES

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

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen								Thousands of U.S. Dollars			
	March 31								March 31, 2015			
	2015				2014							
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:												
Selling U.S. dollars	¥ 812		¥ (4)	¥ (4)	¥ 643		¥ (5)	¥ (5)	\$ 6,795		\$ (35)	\$ (35)
Buying U.S. dollars	478		(2)	(2)	319		4	4	3,987		(17)	(17)
Buying BR real					130		58	58				
Interest rate swaps (fixed rate payment, floating rate receipt)	676		(20)	(20)	843		(26)	(26)	5,636		(169)	(169)

Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2015		
		2015			2014					
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥ 54		¥ (2)				\$ 452		\$ (18)
Buying IN rupee	Payables	762		(4)				6,348		(30)
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	240	¥ 39		¥ 320	¥ 79		2,000	\$ 321	

Information on the foreign currency forward contracts for the year ended March 31, 2014, 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.

16. COMMITMENT AND CONTINGENT LIABILITIES

At March 31, 2015, the azbil Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans	¥ 3	\$ 23

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2015 and 2014, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2015	2014	2015
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 6,269	¥ 1,762	\$ 52,242
Reclassification adjustments to profit or loss	(54)	93	(453)
Amount before income tax effect	6,215	1,855	51,789
Income tax effect	(1,669)	(653)	(13,906)
Total	¥ 4,546	¥ 1,202	\$ 37,883
Deferred gain on derivatives under hedge accounting:			
Reclassification adjustments to profit or loss	¥ (1)		\$ (7)
Amount before income tax effect	(1)		(7)
Income tax effect			2
Total	¥ (1)		\$ (5)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 2,693	¥ 2,042	\$ 22,445
Reclassification adjustments to profit or loss	(899)		(7,492)
Amount before income tax effect	1,794	2,042	14,953
Total	¥ 1,794	¥ 2,042	\$ 14,953
Defined retirement benefit plan:			
Adjustment arising during the year	¥ 1,257		\$ 10,473
Reclassification adjustments to profit or loss	895		7,461
Amount before income tax effect	2,152		17,934
Income tax effect	(717)		(5,979)
Total	¥ 1,435		\$ 11,955
Total other comprehensive income	¥ 7,774	¥ 3,244	\$ 64,786

18. SUBSEQUENT EVENTS

a. Acquisition of Own Shares

Azbil resolved at its Board of Directors' meeting held on May 13, 2015, to acquire its own shares pursuant to Articles 156 and 165, paragraph 3 of the Companies Act.

- (1) Reason for acquisition of own shares
Taking into consideration the future business performance forecast, Azbil aims not only to improve capital efficiency but also to enhance the return of profits to shareholders and develop capital policies in response to changes in the corporate environment.
- (2) Details of acquisition of own shares
 - (a) Class of Shares to Be Acquired
Common stock
 - (b) Total Number of Shares to Be Acquired
Up to 600,000 shares
(0.8% of number of common shares issued, excluding treasury shares)
 - (c) Total Payment Amount to Acquire Shares
Up to ¥2,100 million (\$17,500 thousand)
 - (d) Method of Acquisition
Purchase on the stock exchange via a trust bank
 - (e) Period of Acquisition
From May 14, 2015 to June 23, 2015

Based on this resolution, Azbil acquired 600,000 shares of its common stock for a total acquisition price of ¥1,998 million during the period from May 14, 2015 to June 8, 2015, and has completed the acquisition of its common stock as resolved by the Board of Directors.

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2015, was approved at Azbil's shareholders' meeting held on June 25, 2015:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥31.5 (\$0.26) per share	¥ 2,326	\$ 19,386

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

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

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

The building automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The advanced automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The life automation business supplies 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 and Other Items

	Millions of Yen							
	2015							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	¥ 114,098	¥ 93,132	¥ 47,178	¥ 254,408	¥ 61	¥ 254,469		¥ 254,469
Intersegment sales or transfers	423	1,231	153	1,807	6	1,813	¥ (1,813)	
Total	¥ 114,521	¥ 94,363	¥ 47,331	¥ 256,215	¥ 67	¥ 256,282	¥ (1,813)	¥ 254,469
Segment profit (loss)	¥ 12,245	¥ 5,013	¥ (1,937)	¥ 15,321	¥ 18	¥ 15,339	¥ (2)	¥ 15,337
Segment assets	65,550	69,880	36,011	171,441	7	171,448	94,271	265,719
Other:								
Depreciation	935	1,709	1,140	3,784		3,784		3,784
Increase in property, plant and equipment and intangible assets	1,582	4,016	704	6,302		6,302		6,302
Impairment losses of assets	396	407	1,866	2,669		2,669		2,669

	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)	
Total	¥ 109,567	¥ 90,827	¥ 49,597	¥ 249,991	¥ 67	¥ 250,058	¥ (1,641)	¥ 248,417
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

Thousands of U.S. Dollars								
	2015							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	\$ 950,816	\$ 776,098	\$ 393,154	\$ 2,120,068	\$ 508	\$ 2,120,576		\$ 2,120,576
Intersegment sales or transfers	3,526	10,257	1,272	15,055	48	15,103	\$ (15,103)	
Total	\$ 954,342	\$ 786,355	\$ 394,426	\$ 2,135,123	\$ 556	\$ 2,135,679	\$ (15,103)	\$ 2,120,576
Segment profit (loss)	\$ 102,044	\$ 41,779	\$ (16,143)	\$ 127,680	\$ 148	\$ 127,828	\$ (16)	\$ 127,812
Segment assets	546,251	582,332	300,095	1,428,678	56	1,428,734	785,587	2,214,321
Other:								
Depreciation	7,793	14,242	9,504	31,539	3	31,542		31,542
Increase in property, plant and equipment and intangible assets	13,182	33,468	5,864	52,514	1	52,515		52,515
Impairment losses of assets	3,300	3,391	15,554	22,245		22,245		22,245

Note: Corporate assets of ¥94,271 million (\$785,587 thousand) for the year ended March 31, 2015, 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						
2015						
Japan	Asia	China	North America	Europe	Other	Total
¥ 207,713	¥ 18,354	¥ 9,630	¥ 4,195	¥ 10,244	¥ 4,333	¥ 254,469

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						
2015						
Japan	Asia	China	North America	Europe	Other	Total
\$ 1,730,943	\$ 152,950	\$ 80,251	\$ 34,954	\$ 85,369	\$ 36,109	\$ 2,120,576

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

(b) Property, plant and equipment

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

Thousands of U.S. Dollars						
2015						
Japan	Asia	China	North America	Europe	Other	Total
\$ 178,114	\$ 13,962	\$ 9,779	\$ 515	\$ 5,619	\$ 6,167	\$ 214,156

The value of domestic property, plant and equipment exceeds 90% of the value of the property, plant and equipment in the consolidated balance sheet for the year ended March 31, 2014, 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							
	2015							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill	¥ 174	¥ 355	¥ 1,321	¥ 1,850		¥ 1,850		¥ 1,850
Goodwill at March 31, 2015		837	4,764	5,601		5,601		5,601

	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							
	2015							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill	\$ 1,453	\$ 2,960	\$ 11,011	\$ 15,424		\$ 15,424		\$ 15,424
Goodwill at March 31, 2015		6,979	39,699	46,678		46,678		46,678

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, 2015, 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, 2015, 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.

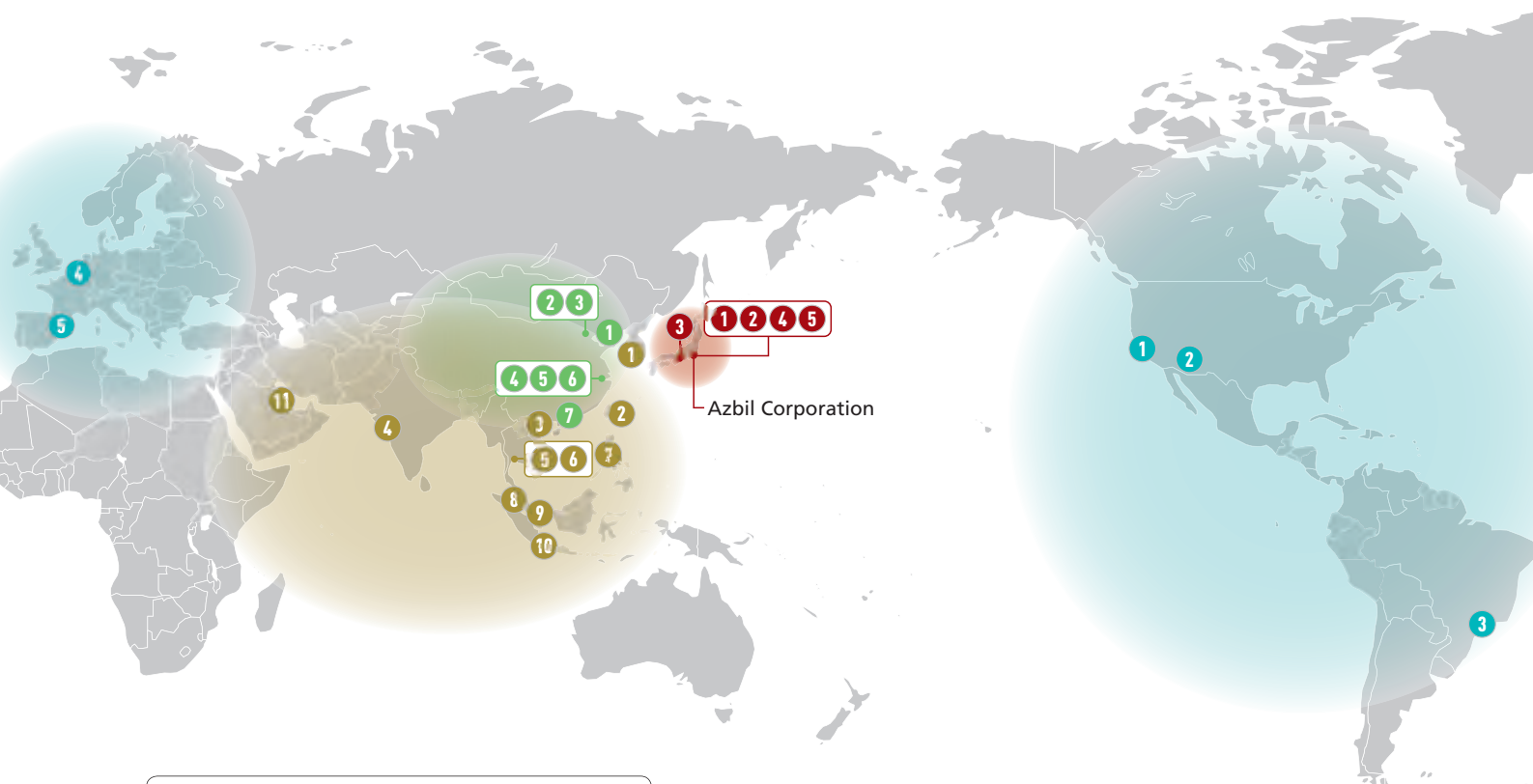
Convenience Translation

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, 2015

Member of
Deloitte Touche Tohmatsu Limited



● BA Business ● AA Business ● LA Business
 Underlining indicates bases with R&D / production functions

Japan

Azbil Corporation ● ● ●

- ① Azbil Trading Co., Ltd. ●
- ② Azbil Kimmon Co., Ltd. ●
- ③ Azbil Kyoto Co., Ltd.
- ④ Azbil TA Co., Ltd. ●
- ⑤ Azbil Taishin Co., Ltd. ●

Asia

- ① Azbil Korea Co., Ltd. ● ●
Seoul, Korea
- ② Azbil Taiwan Co., Ltd. ● ●
Taipei, Taiwan
- ③ Azbil Vietnam Co., Ltd. ● ●
Hanoi, Vietnam
- ④ Azbil India Pvt. Ltd. ● ●
Navi Mumbai, India
- ⑤ Azbil (Thailand) Co., Ltd. ● ●
Bangkok, Thailand
- ⑥ Azbil Production (Thailand) Co., Ltd.
Chonburi, Thailand

- ⑦ Azbil Philippines Corporation ● ●
Makati, Philippines
- ⑧ Azbil Malaysia Sdn. Bhd. ● ●
Kuala Lumpur, Malaysia
- ⑨ Azbil Singapore Pte. Ltd. ● ●
Singapore
- ⑩ PT. Azbil Berca Indonesia ● ● ●
Jakarta, Indonesia
- ⑪ Azbil Saudi Limited ●
Dammam, Saudi Arabia

China

- ① Azbil Control Instruments (Dalian) Co., Ltd.
Dalian, China
- ② Yamatake Environmental Control Technology (Beijing) Co., Ltd. ●
Beijing, China
- ③ Beijing YTYH Intelli-Technology Co., Ltd. ●
Beijing, China
- ④ Azbil Control Solutions (Shanghai) Co., Ltd. ● ●
Shanghai, China

- ⑤ Shanghai Azbil Automation Co., Ltd. ●
Shanghai, China
- ⑥ Yamatake Automation Products (Shanghai) Co., Ltd. ●
Shanghai, China
- ⑦ Azbil Hong Kong Limited
Hong Kong, China

America and Europe

- ① Azbil North America Research and Development, Inc.
Santa Clara, CA, U.S.A.
- ② Azbil North America, Inc. ● ●
Phoenix, AZ, U.S.A.
- ③ Azbil Brazil Limited ●
Sao Paulo, Brazil
- ④ Azbil Europe NV ●
Zaventem, Belgium
- ⑤ Azbil Telstar, S.L.U. ●
Terrassa, Spain
*Expansion worldwide, with Europe as the primary focus

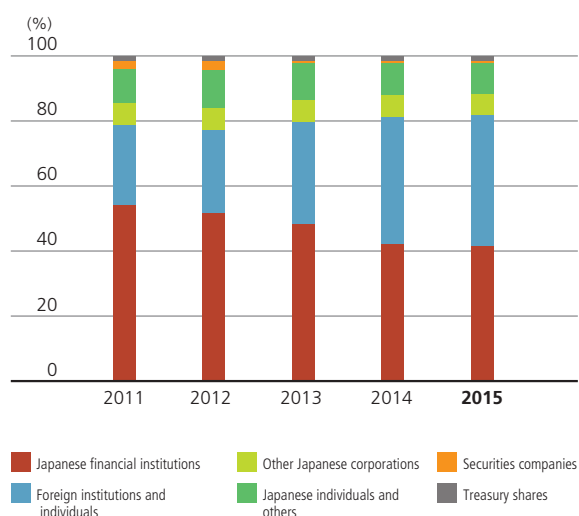
Corporate Data / Stock Information

(As of March 31, 2015)

Corporate Data

Founded	December 1, 1906
Incorporated	August 22, 1949
Paid-in Capital	¥10,523 million
Accounting Date	March 31
Annual Shareholders' Meeting	June
Head Office	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan
Consolidated Number of Employees	9,408
Stock Listing	Tokyo Stock Exchange, 1st Section
Ticker Symbol Number	6845
Stock Information	Shares of Common Stock Issued 75,116,101 Share unit number 100 Shareholders 8,750
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

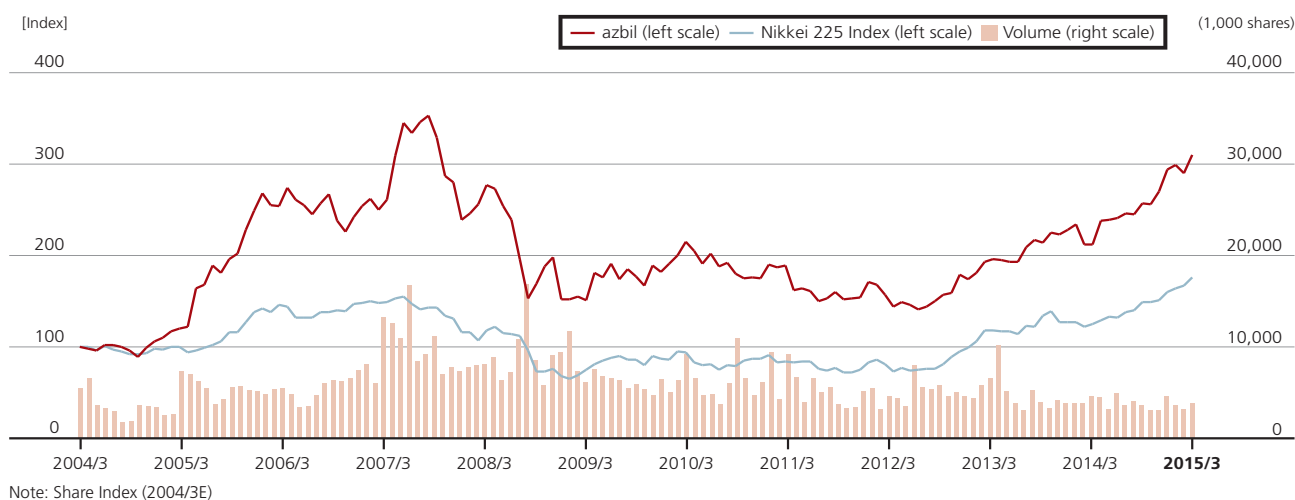
Composition of Shareholders



Major Shareholders (Top 10)

	Number of shares held (Thousands)	Percentage of total investment (%)
Meiji Yasuda Life Insurance Co.	5,214	6.94
State Street Bank and Trust Company	5,112	6.81
The Master Trust Bank of Japan, Ltd. (Trust account)	4,618	6.15
Japan Trustee Services Bank, Ltd. (Trust account)	2,913	3.88
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.08
Nippon Life Insurance Co.	1,869	2.49
National Mutual Insurance Federation of Agricultural Cooperatives	1,853	2.47
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,686	2.25
azbil Group Employee Stock Ownership	1,526	2.03
Mizuho Bank, Ltd.	1,404	1.87

Common Stock Price Range



(Ended March 31)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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	3,260
High (Yen)	1,340	2,920	3,050	3,960	3,070	2,241	2,370	2,066	2,046	2,561	3,355
Low (Yen)	922	1,282	2,320	2,300	1,431	1,594	1,634	1,539	1,490	1,870	2,300

azbil Azbil Corporation

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](#)

Font Size : **A** **A** **A**

Country Index

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 1, 2015
[2015 Vol.3 "azbil" - azbil Group PR magazine is available on our website.](#)
- ▶ June 26, 2015
[Notice of Resolutions of the 93rd Ordinary General Meeting of Shareholders \(PDF/96KB\)](#)
- ▶ June 1, 2015
[Officers of azbil Group Overseas Subsidiaries \(PDF/17KB\)](#)

Highlights

Exhibitions & Seminars Download Investors relations

[▶ Exhibitions and seminars](#) [▶ Download specifications](#) [▶ Information for our](#)

Investor Relations page

<http://www.azbil.com/ir/index.html>

Investor Relations RIC: 6845.T Sedol: 6985543

Leaders' message ▶ details

Chairman
Seiji Onoki (left)
President and CEO
Hirozumi Sone (right)

Stock Price (Real time)

July 09 15:00
TSE 1st 6845

Last	Change
3,000	-55 (-1.8%)

3,400
3,300
3,200
3,100

Jun 2015 Jul 2015

[▶ Stock chart](#)

Medium-term Plan ▶ details

We started the new medium-term plan(FY2013-2016) aimed at achieving long term goals(FY2021).

President and CEO Sone describes the progress of the plan, and future development at the interview on [our annual report](#)

Environmental and Social page

<http://www.azbil.com/csr/index.html>

Environmental and Social

What's New

- ▶ 2014 Group Sustainability Report(azbil report) was published. Integrated annual report, CSR report and intellectual property report.

Environmental Initiatives

- ▶ Basic Stance on the Environmental Initiatives
- ▶ Environmental Initiatives through Our Business Operations
- ▶ Environmental Initiatives to Products and Services
- ▶ Environmental Awareness and Initiatives for Local Communities
- ▶ An Outside Opinion of Our Environmental Initiatives

Social Activities

- ▶ CSR Philosophy
- ▶ Promoting CSR Management
- ▶ Corporate Governance
- ▶ Risk Management
- ▶ Compliance
- ▶ For Local Communities
- ▶ Employee Relations

azbil report 2014

Contact

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Azbil Corporation**

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azbil



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