

Human-centered Automation



Comfort

Fulfillment

Safety

Environment

azbil

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

Four Core azbil Values

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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 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, 2015 to March 31, 2016 (Contains some information about the year beginning April 2016)

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 the azbil Group'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 50-51.

- 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.

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Leaders' Message

As we mark our 110th anniversary, the azbil Group will continue to strive to be a corporate group able to contribute to solving our customers' problems through the pursuit of "human-centered automation."

Seiji Onoki
Chairman



Hirozumi Sone
President and
Chief Executive Officer



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.

The azbil Group celebrates its 110th anniversary in 2016. Since our establishment in 1906, we have focused on measurement and control technologies, delivering unique solutions to our customers. Takehiko Yamaguchi founded the company with the intention of "using advanced technology to liberate people from drudgery." When we celebrated our centenary in 2006, we introduced "human-centered automation" as our new philosophy, informed by the value that we would need to provide in the decades to come. We also formulated the group symbol "azbil" as a means of sharing this value. After changing the company name from Yamatake to Azbil in 2012, we strove to make the azbil brand familiar to as wide an audience as possible.

Today, the azbil Group meets needs in offices, production sites, and daily life through its three areas of business: Building Automation, Advanced Automation, and Life Automation. Our medium-term plan, which finishes in the year ending March 2017, sets out three key initiatives that we are working to achieve: (1) becoming a long-term partner for the customer and the community by offering solutions based on our technologies and products; (2) taking global operations to the next level, with global expansion by moving into new regions and making a qualitative change of focus; and (3) becoming a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure.

In addition, we are striving to adapt to technological innovation in the form of the IoT, big data, and AI, and to enhance our ability to offer solutions by combining the on-site know-how that we have built up over many years with the azbil Group's unique services.

In the year ended March 2016, we not only took advantage of demand arising from redevelopment in the Tokyo metropolitan area and the forthcoming Tokyo 2020 Olympic and Paralympic Games, but also seized the market opportunities presented by global expansion, energy management, and safety and security needs. In addition, we undertook business structural reforms and initiatives to strengthen the corporate structure. As a result, we succeeded in achieving increases in both revenue and earnings for the third consecutive year.

100 years as Yamatake plus 10 as azbil makes a total of 110 years. Going forward, the azbil Group will continue to forge ahead as a unified corporate group able to contribute to solving a variety of problems by creating new levels of value in partnership with customers at their sites, through the pursuit of "human-centered automation" that generates happiness filled with joy and fulfillment for everyone.

July 2016



Seiji Onoki
Chairman
Azbil Corporation



Hirozumi Sone
President and Chief Executive Officer
Azbil Corporation

Special Feature: the azbil Group at 110—Our History and Future

**Yamatake for 100 years, azbil for 10 years.
Together 110 years. In 2016, Azbil Corporation
celebrates its 110th anniversary.**



“Freeing People from Drudgery” 1906–1978

The azbil Group’s origins date back to the birth in 1906 of Yamatake Shokai, a trading company importing machine tools and other instruments from the U.S. and Europe at a time when Japan was trying to become an industrial society. Takehiko Yamaguchi founded the company after becoming aware of the high standard of Western machine tools through his work for the Bureau of Patents at the Ministry of Agriculture and Commerce. Subsequently, amid Japan’s rapid industrialization, the company evolved into a comprehensive automation manufacturer, driven by our founder’s desire to “make a contribution, however small, to freeing people from drudgery by seeking out any possible mechanical alternatives for work carried out by human hands.”

“Savemation” 1978–2006

The first oil crisis motivated us to reinterpret our founder’s mission in the face of global demand, so in 1978 we established “Savemation” as our corporate philosophy. We coined this unique watchword to clearly illustrate our goal: to conserve energy and resources, and enhance safety through automation (measurement and control technologies).

Through the years, the azbil Group has always put the happiness of people first with its “human-centered automation.” Going forward, we will continue to work in partnership with you to use our measurement and control technologies to achieve even greater value creation.



azbil “Human-centered Automation” 2006–

In 2006, when we celebrated the centenary of our founding, we shifted our focus from controlling machines to achieving fulfillment in people’s lives. Accordingly, we established a new Group philosophy: striving to realize safety, comfort, and fulfillment in people’s lives and to contribute to preserving the Earth’s environment through “human-centered automation.” At the same time, we established “azbil” (automation zone builder) as our

new Group symbol, representing our contribution to solving problems at various types of sites through the application of automation technologies. In 2012, we changed the company name to Azbil Corporation. Today, based on this Group philosophy, we aspire to achieve recognition as a top-class global automation enterprise.

Using measurement and control technologies to contribute to the development of a sustainable society for every generation

We began in 1906 as Yamatake Shokai, founded by Takehiko Yamaguchi. Over the 110 years since then, we have contributed to society's ongoing development by continuing to draw upon our measurement and control technology to deliver products and services based on our understanding of the needs of customers and society as they changed with the times. Through this process, we have succeeded in increasing Group net sales to around ¥260 billion and expanding our fields of business to encompass buildings, plants and factories, and the environment of people's daily lives.

1900

1906

Yamatake Shokai founded to import European and American machine tools



Founder: Takehiko Yamaguchi

1913

Manufacture of disc water meters and wheel water meters



1933

Transformation from importer to manufacturer and seller of machine tools and measurement instruments



1936

Became the first to successfully manufacture automatic control valves in Japan

1950

1953

Equity-based alliance with prominent U.S. control equipment maker Honeywell Inc. (the first 50-50 alliance after the war; lasted until 1990)

1966

Company name changed to Yamatake-Honeywell Co., Ltd.

1975

Launched a series of electromagnetic flowmeters incorporating Yamatake's own square-wave excitation method, the first of its kind worldwide



1975

Joint development with Honeywell Incorporated of a distributed control system



1981

Participated in joint development of a microprocessor-based gas meter with a safety function



1982

Development of an integrated building automation system



1984

Launch of a comprehensive building management service with remote monitoring



1985

Developed an innovative control valve series blending mature and new technologies



1985

Developed a smart pressure transmitter series equipped with semiconductor composite sensors to make full use of digital communications technology



1991

Sales launch of a motorized two-way valve with integrated actuator for air conditioning



1995

Sales launch of a compact open harmonized instrumentation automation system



Changes over 110 Years

	1966 Renamed Yamatake-Honeywell	1998 Renamed Yamatake Corporation	2016 110th anniversary
Net sales (millions of yen)	12,518	178,896	260,000
Operating income (millions of yen)	1,328	7,458	19,000
Shareholders' equity (millions of yen)	2,284	112,353	155,005

Notes: • Figures for 1966 show non-consolidated basis, while those for 1998 and 2016 are consolidated basis.
 • 2016 figures for net sales and operating income are planned figures, while shareholder's equity is the actual figure as of the end of March 2016.

2000

1995
Sales launch of a microprocessor-based smart valve positioner

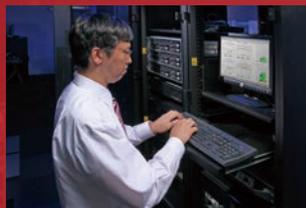


1996
Began sale of a thermal gas flow sensor and a micro flow sensor, and successfully developed and started mass production of microchip-equipped flow velocity sensors



1998
After replacing the strategic alliance agreement with Honeywell Incorporated with business unit agreements in 1997, Yamatake-Honeywell was renamed Yamatake Corporation

2000
Launched a remote maintenance service for buildings



2004
Launched a control valve maintenance support system



2006
Introduced the new Group symbol, azbil

2009
Sales launch of network instrumentation modules, featuring advanced communication and control functions

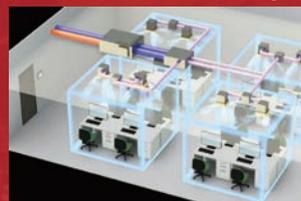


2009 (overseas)/2012 (Japan)
Names of azbil Group companies changed to include "Azbil"

2012
All products and services related to energy management solutions grouped together under a single brand name



2015
Sales launch of a cell air-conditioning system, delivering precision control of air flow within small areas for more comfortable air conditioning



2015
Sales launch of an online anomaly monitoring system using factory big data



2016
Launched our new generation of multi loop controller with multifunction display, contributing to the preventive maintenance of manufacturing equipment



The Future Sketched by the azbil Group's Automation

“Human-centered automation.” This phrase expresses our desire for a future in which people and technology together create a flourishing society. Work sites are where we develop a shared understanding of the issues that customers face. With the work site as our starting point, we have taken up the challenge of pursuing original technologies, products, and services that no other company can imitate, in order to offer society new levels of value.

Automation needs are changing with the times. We have identified the following as growth areas:

1. Next-generation solutions for production and working/living spaces (advanced, high-added-value solutions needed 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 new applications of automation technology that cut across these areas can be expected. We will develop new control technologies, products, and services compatible with the Internet of Things (IoT), big data, and other technological innovations, and combine them to meet the diverse needs emerging in these growth fields.

At sites where the azbil Group works with customers to understand the challenges that they face, it is not merely a manufacturer, but also a partner who offers engineering, consulting, and other services as well. That is precisely why we take pride in our ability to apply human ingenuity and technology to create unique products and services that reflect the needs at the customer's site as well as the latest technology.

110 years have passed since our founding in 1906. The elements that remain unchanged, linking our past to our future, are *technology*, which supports the azbil Group today; our *ethos* of acting with a view to the future; and the *work sites* that connect the azbil Group to its customers. We are steadfastly dedicated to advancing hand in hand with our customers.



Unique products and solutions that meet the needs of the times

Microflow Meters

Over the years, the azbil Group has created numerous innovative sensors using micro-electro-mechanical systems (MEMS) technology, and products fitted with MEMS have become indispensable in a variety of industrial fields. We have recently devised a unique sensor structure based on the application of thermal measurement technology and are currently working on commercializing it in a new type of flowmeter capable of high-precision measurement of microflows* of liquid, which have been difficult to measure until now. We hope to be able to use this flowmeter in applications for the semiconductor, electrical and electronic markets, among others.

*Very small flows of 100 mL/minute or less



Unique products and solutions that meet the needs of the times

Cloud Services

Our cloud services for buildings offer centralized management of building data via a link between the system in the customer's buildings and our Cloud Center, enabling users to access data for multiple buildings from wherever the user might be. As well as facilitating the visualization of energy use and energy efficiency analysis, these services include functions that take advantage of the unique attributes of cloud computing. These include functions for enhanced convenience, such as remote control of air conditioning and lighting; an optimal control function based on modeling from past data; and a function that automatically moderates power consumption when the electricity grid is under pressure. These services are attracting attention as a solution that meets the needs of the times.



Creating new value with customers

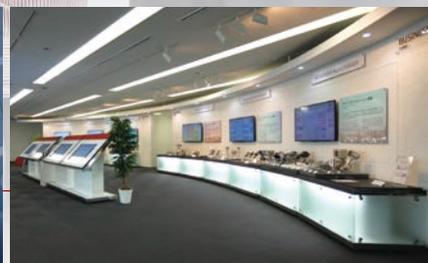
A venue for collaboration with customers

Fujisawa Technology Center and azbil Techno Plaza

The Fujisawa Technology Center is the azbil Group's research and development base. We are in the process of equipping it with a new development environment and advanced work environment for testing purposes, with the aim of achieving even greater efficiency in our research and development activities. At the same time, we are developing it into our main energy management solutions site, furnished with the latest technologies to serve as the Group's model business establishment for energy efficiency, where customers can see our technology in action. In addition, our desire



Fujisawa Technology Center



azbil Techno Plaza

to shape the future in partnership with customers led us to establish the azbil Techno Plaza at the Fujisawa Technology Center. With interactive displays of the azbil Group's latest BA, AA, and LA business initiatives and new proposals leveraging the IoT, it provides customers with hands-on experience of our cutting-edge automation technologies. Located at the Fujisawa Technology Center, which supports the whole azbil Group as an R&D base, the new azbil Techno Plaza will, we hope, become a venue for partnership and collaboration with customers.

Interview with the CEO



President and Chief Executive Officer
Hirozumi Sone

Q1

How would you sum up the year ended March 2016?

We maintained the basic trend of increases in both revenue and earnings, while making further progress with business structural reforms and initiatives to strengthen the corporate structure.

Within Japan, the introduction of a policy of negative interest rates for the first time did not do anything to alter the cautious stance of manufacturing industry toward capital investment, while overseas, economic growth slowed in China and other emerging economies. Nevertheless, in the year ended March 2016, the azbil Group achieved increases in both revenue and earnings for the third consecutive year.

Revenue in our Advanced Automation (AA) business declined slightly as capital investment remained sluggish, while the transfer of our health, welfare, and nursing care business during the previous year caused revenue in our Life Automation (LA) business to decrease (down by around ¥3.4 billion). However, the Building Automation (BA) business saw revenue rise against the background of urban redevelopment in the Tokyo metropolitan area and construction demand ahead of the Tokyo 2020 Olympic and Paralympic Games, as well as steady demand for refurbishment and services due to efforts to make existing buildings more energy-efficient. As a result, consolidated net sales rose 1.0% year on year to ¥256.9 billion.

Looking at profit and loss, we incurred one-off costs from

increased research and development expenses aimed at bringing new products to market, as well as the launch of our new core information system and the resultant unification of job profit-and-loss management procedures. However, the effect of increased revenue, a decline in goodwill amortization expenses, and the positive impact of structural reforms on income in our LA business resulted in consolidated operating income rising 11.7% year on year to ¥17.1 billion. We have posted approximately ¥3.0 billion as a goodwill impairment loss (one-time amortization of the balance) from our consolidated subsidiary Azbil Telstar, S.L.U., but the net income attributable to owners of the parent rose 15.3% year on year to ¥8.3 billion.

Although results in the year ended March 2016 did not reach the levels indicated in our plan at the start of the year, we maintained the basic trend of increases in both revenue and earnings overall, while making further progress with business structural reforms and initiatives to strengthen the corporate structure. Accordingly, I believe that we have succeeded in paving the way for measures that will lead to future growth.

I want us to achieve increases in both net sales and operating income for the fourth consecutive year in the year ending March 2017, to clearly demonstrate sustainable growth in the year ending March 2018 and beyond.

Q2

How do you feel about the year ending March 2017, which will mark both the 110th anniversary of the company's founding and the 10th year since it adopted azbil?

I feel that more active efforts to communicate to the market the unique value provided by the azbil Group are vital.

Yamatake Shokai Co., Ltd., the forerunner of the azbil Group, was founded in 1906 as a trading company importing machine tools and other instruments from the U.S. and Europe. Its founder, Takehiko Yamaguchi, established the company out of a wish to liberate Japanese workers from their toil of harsh and excessive work. After the war, the company lost no time in introducing the innovative concept of automation (measurement and control technologies) and expedited the domestic production and in-house development of instruments. In addition, we made wide-ranging contributions to Japanese economic growth via process control in the petrochemical and chemical fields and heating ventilation, and air-conditioning control of large buildings.

Our pursuit of automation resulted in the value that we provide evolving from "freeing people from drudgery" to "creating contentment." As such, when we celebrated our centenary in 2006, we established a new Group philosophy centering on "human-centered automation." Behind these words lies our desire to contribute to society through our commitment to focusing

on people and realizing a world of automation created by human ingenuity and technology. Our current name, "azbil (automation zone builder)," was introduced at that time to symbolize the Group.

When we first instituted this Group philosophy, it was hard for people to understand the meaning behind this combination of "human-centered" with automation, which tended to be associated with machine control. However, the concept of creating new value through cooperation between humans and automation technologies is now discussed as a perfectly natural thing, not only in manufacturing industry, but also in a variety of other fields. I believe that this is due in part to the fact that the azbil Group has been putting this into practice in buildings, manufacturing equipment, and everyday settings over the last ten years.

I feel that more active efforts to communicate to the market the unique value provided by the azbil Group are vital, taking pride in the fact that we had the foresight to anticipate and respond to these changes at the cutting edge of automation.

Q3

What is the state of progress with the medium-term plan, whose final year coincides with these key milestones?

We are steadily working to reform and strengthen the corporate structure in response to the ever-changing business environment and new challenges.

Our four-year medium-term plan, which finishes in the year ending March 2017, sets out three key initiatives under the azbil Group's philosophy of human-centered automation: becoming a long-term partner for the customer and the community by offering solutions based on our technologies and products; taking global operations to the next level, with global expansion by moving into new regions and making a qualitative change of focus; and becoming a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure.

At the same time, the business environment is changing constantly and although the 2020 Olympic and Paralympic Games will be held in Tokyo, capital investment within Japan remains sluggish and growth is starting to slow in the emerging economies that had been driving the global economy. Increasing awareness of international issues such as global environmental conservation, and technological innovation arising from the evolution of the Internet environment can also be seen.

Amid this situation, we are steadily implementing ongoing business reforms and efforts to strengthen the corporate structure, as the new challenges that we face and the actions that we need to take have become clear. These challenges include ensuring expansion of both our BA and AA businesses in overseas markets, a growth field for the company; preparing for the post-2020 era, when demand triggered by redevelopment of the Tokyo metropolitan area and the Olympics will have died down; putting in place sales and production systems capable of adapting to changes in domestic and overseas business environments and market structures; and building a profitable structure into our LA

business, which is our third core business segment.

In our BA business, we transferred the sales and service functions of our Shinagawa branch to new branches that we established in Osaki, Kasumigaseki, and Toranomon in the year ended March 2016. The purpose of this is to enable us to work more closely with customers, in response to demand in the new and existing building fields, which are both thriving in the Tokyo metropolitan area. In addition, we are expanding our stable revenue base with a view to future business opportunities throughout the life cycle of buildings. In the year ending March 2017, we plan to devote even greater efforts to global expansion with the launch of new products overseas.

In our AA business, we have achieved greater efficiency in mature industrial fields and stepped up the shift of personnel and other resources into the HA/FA* field and overseas markets, which are forecast to grow. Furthermore, anticipating major changes in global technological trends, such as the IoT (Internet of Things) and big data, we will create business models tailored to the market environment and promote innovative change to establish a high-profit structure in our three business units in the year ending March 2017.

We will also work on bolstering our research and development system and reorganizing our production systems, with the next medium-term plan in mind.

*The azbil Group has identified as a priority area automation in advanced industries such as electrical/electronics, semiconductors, automobiles, and chemicals (downstream) as well as domestic demand-oriented industries such as food and pharmaceuticals, together with the companies that produce manufacturing equipment for the aforesaid industries. Automation for these industries is referred to collectively as HA/FA (Hybrid Automation/Factory Automation), and the azbil Group is actively engaged in growing this HA/FA business.

Ongoing Business Reforms and Efforts to Strengthen the Corporate Structure

Business Segment	BA business	AA business	LA business
Business Segment	<ul style="list-style-type: none"> Strengthening of the foundations of domestic BA business (tapping into demand triggered by redevelopment of the Tokyo metropolitan area and the Olympics) Strengthening of our energy management business (for sustainable growth with a view after the Olympics) Implementation of life-cycle business development in our overseas business (establishing a profitable model) 	<ul style="list-style-type: none"> Shifting to priority fields (HA/FA field) and strengthening of the business structure Implementation of a high value-added service business in mature fields (PA field) Strengthening of product development capabilities Strengthening of overseas business infrastructure (development, production, sales, and service) 	<ul style="list-style-type: none"> Upgrading of the foundation of the Azbil Kimmon business (rationalization of production facilities in Japan, and new products) Structural reform of Azbil Telstar (restructuring of the business and consolidation as a subsidiary) Structural reform of the residential central air-conditioning systems field (reinforcing the profit structure) Transfer of all shares in Azbil Care & Support Co., Ltd.
Group-wide Functions	<p style="text-align: center;">Redeployment of personnel within the Group (promoting greater efficiency in mature fields and shifting into growth fields)</p> <p>Enhancement and construction of global service infrastructure and systems, including remote maintenance, strengthening of local development capabilities for our global customers, and optimization of global production systems</p>		
Group Management	<ul style="list-style-type: none"> Establishment of a technology development center in North America (Azbil North America R&D) Start of the development of the R&D base at Fujisawa Technology Center 	<ul style="list-style-type: none"> Establishment of a new factory in Thailand, enhancing the overseas production framework (Azbil Production (Thailand), Azbil Control Instruments (Dalian)) Consolidation of the Shonan and Isehara factories 	<ul style="list-style-type: none"> Enhancement of remote service and IT infrastructure Development of production facilities and regional maintenance centers in Saudi Arabia
	<ul style="list-style-type: none"> Launch of the Group-wide core information system (Phase 1 started in May 2015) Transition of pensions into the defined contribution pension plan (started in June 2015) 	<ul style="list-style-type: none"> Promotion of optimal personnel deployment within Japan and overseas, and enhancement of human resource development programs 	<ul style="list-style-type: none"> Strengthening of global governance and compliance

Q4 **Please tell us about the positioning of the LA business and efforts to ensure the profitability of the Life Science Engineering (LSE) field.**

After paving the way for the recovery of our business results in the LSE field, we will bring sustainability and stability to the LA business as a whole to make it our third core business segment, now that it has returned to profit.

For many years, the azbil Group sought to expand business operations in its two main business segments: the BA business, which focuses on the automation of buildings (HVAC: heating, ventilation, and air-conditioning), and the AA business, which focuses on the automation of plants and factories. However, in 2006, the gas and water meter company that is now Azbil Kimmon Co., Ltd. became a subsidiary and we established a third core business segment in the form of the LA business, focusing on automation in the lifeline and lifestyle fields, which include health, welfare, and nursing care and residential central air-conditioning systems.

In 2013, the company that is now Azbil Telstar, S.L.U., which has unique technologies and products in the Life Science Engineering (LSE) field, became a subsidiary. The addition of the life sciences field made our LA business operations our third core segment after BA and AA businesses, as well as accelerating our global expansion.

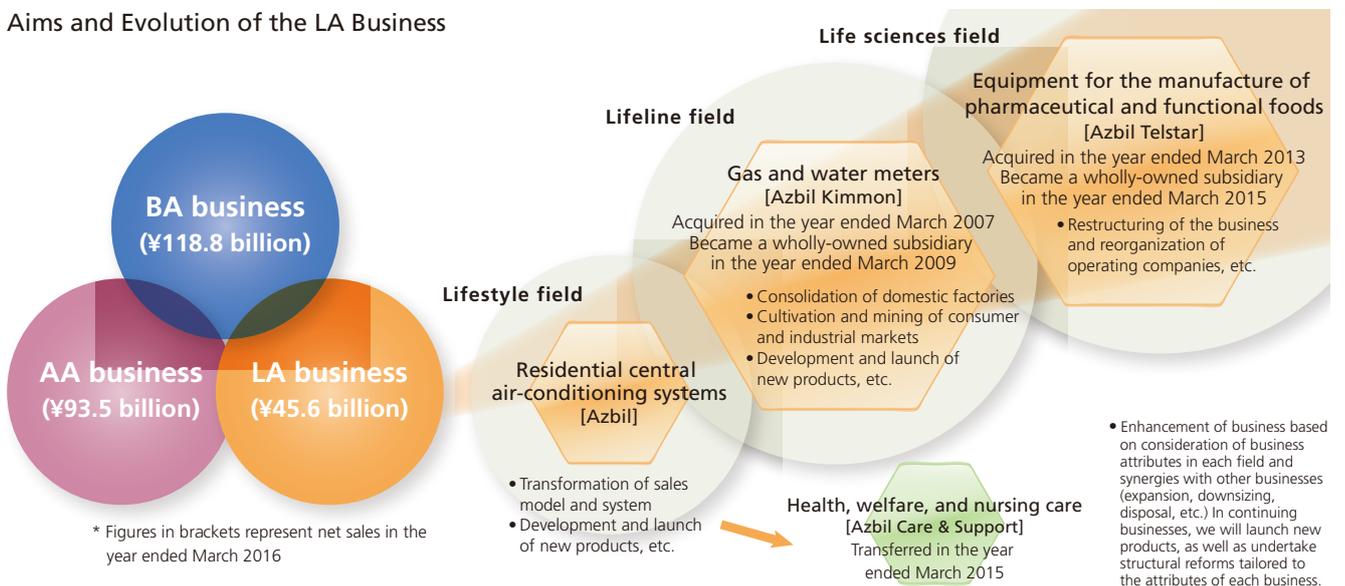
Our determination to grow our LA business stems from our objectives of avoiding an excessive concentration on a single market, building a diverse business portfolio with a variety of market structures, and ensuring the long-term sustainability and stability of the azbil Group, while still maintaining our focus on human-centered automation.

New investment and the amortization of goodwill arising from M&A exceed earnings in the LA business, which has also suffered from the harsh business environment. Accordingly, to ensure that it has a structure capable of steadily generating some level of profit as our third core business segment, we carried out a radical

review of the LA business, examining the feasibility of each of the business's component fields and synergies throughout the Group as a whole. This culminated in our withdrawal from the health, welfare, and nursing care field in the year ended March 2015. We are also pursuing a clear strategy of selection and concentration in the lifeline, life sciences, and lifestyle fields. Furthermore, we consolidated our gas meter factories to achieve greater manufacturing efficiency, transformed our sales model and system for residential central air-conditioning systems, and undertook bold structural reforms in the LSE field by liquidating unprofitable subsidiaries and reducing staffing, while at the same time stepping up our efforts to bring new products to market. As a result, we succeeded in returning the LA business to profit in the year ended March 2016.

While the business results of the Spanish company at the heart of the Azbil Telstar Group are improving, we have posted the roughly ¥3.0 billion balance of goodwill as a one-off impairment loss, due to the severity of the downturn in business at the Dutch and Brazilian subsidiaries. By doing so, we will address foreseeable future risk factors, while at the same time approving the underwriting of a capital increase to improve the company's financial position. Starting in the year ending March 2017, we will place the recovery in business results in the LSE field on a sound footing, based on the global pharmaceutical and functional food markets.

Aims and Evolution of the LA Business



Q5

Please explain to us what is being done to strengthen the research and development system and reorganize production bases within Japan.

We will consolidate our research and development bases to create a new point of contact with customers, offering enhanced functionality. In addition, we will promote greater efficiency at our production bases worldwide.

In preparation for our next medium-term plan, which starts in the year ending March 2018, we have decided to strengthen our research and development system within Japan and reorganize our production system. We aim to complete both processes in the year ending March 2020.

We have already put in place research and development frameworks in Japan, the U.S., and Europe that enable us to work closely with customers to propose solutions, so we will now move on to the next phase with the launch of new initiatives at our core research base in Japan. More specifically, we will consolidate the azbil Group's research and development resources at the Fujisawa Technology Center (Fujisawa City, Kanagawa Prefecture) and put in place advanced development and testing environments, thereby achieving greater efficiency in research and development activities and expediting new product development.

At the same time, we will enhance the functions of the Fujisawa Technology Center as our energy management solutions site, so that it can serve as a showroom for proposing energy-efficient solutions. Although the concept of "human-centered automation" has

come to be accepted, it is not easy to give people a true sense of the effects of cutting-edge technology and new products. Accordingly, I want to make the Center a new point of contact with customers, where they can gain a real sense of the possibilities offered by the azbil Group's technologies, while ensuring that these lead into business and collaborative innovation.

As far as the reorganization of our domestic production system is concerned, we will consolidate our Shonan and Isehara factories in Kanagawa Prefecture into a single mother factory supplying high-added-value products worldwide. In conjunction with our factories in China and Thailand, we will also rearrange our domestic and overseas production lines into the optimal configuration.

The total investment associated with consolidation of our research and development bases and reorganization of our production system is due to be around ¥8.0 billion over three years. We anticipate that this investment will contribute to developing and enhancing products in energy management and other businesses, and to eventually reducing our fixed costs by approximately ¥2.0 billion annually.

Q6

Economic growth in China and other emerging economies is slowing; please tell us about the progress of global expansion and its future direction.

We are seeing some progress in our efforts to upgrade our physical resources, such as subsidiaries and facilities, so I believe our next challenge is to develop and secure personnel with a global outlook.

Recently, the outlook for the global economy has become increasingly uncertain, but when you take into account the business environment that will prevail after the Tokyo 2020 Olympics and Paralympics take place, it is clear that building our revenue base in overseas markets—which still offer plenty of regional and qualitative scope for business expansion—will be the engine of growth for the azbil Group going forward.

In terms of regional expansion, we have already established overseas subsidiaries everywhere from China and other parts of Asia, North America, and Europe to the Middle East and Latin America, actively developing sales and service bases there. With regard to qualitative change of focus, in our BA business, we have put in place innovative remote maintenance infrastructure

that enables us to provide the same high-quality energy efficiency solutions and maintenance services as we do in Japan. We have also begun to launch new products developed with a view to their deployment in global markets, such as BA systems for overseas markets.

Thus, we are seeing some progress in upgrading our physical resources, so the next key area of focus will be enhancing our intangible resources; specifically, we will need to develop personnel capable of increasing points of contact with local customers and secure staff with the talent to manage our overseas subsidiaries. Accordingly, we are devoting considerable effort to developing such personnel with a global outlook via the Azbil Academy, which we established in 2012.

Overseas net sales in the year ended March 2016 totaled ¥49.0 billion, which meant that overseas sales were equivalent to 19.1% of total net sales, almost meeting the target of 20% set in the medium-term plan. From the year ending March 2017, we will promote the development of personnel with a global

outlook, while bringing to overseas markets advanced solutions that deliver the same levels of safety, peace of mind, comfort, environmental conservation, and energy efficiency as those demanded by the mature Japanese market.

Q7

The azbil Group achieves a high level of shareholder returns. What are your thoughts on the shareholder return policy and financial strategy?

We will seek further improvements in the dividend level, to reflect the prospects for increased revenue and the fruits of business structural reform, and provide our shareholders with even greater returns.

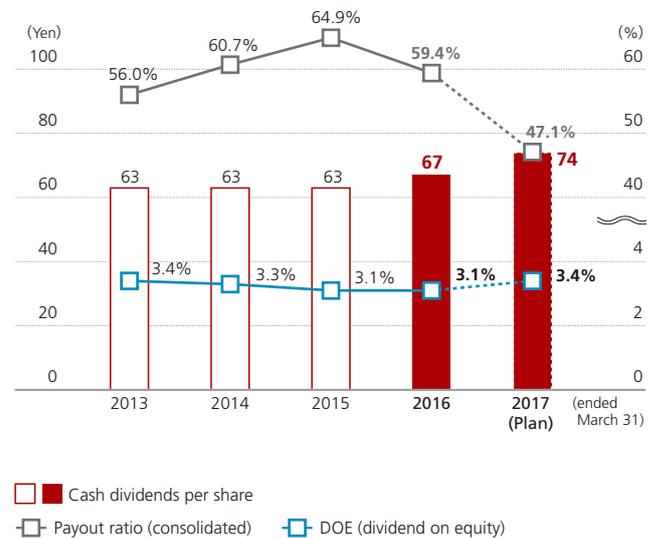
Our basic policy on shareholder returns is to maintain solid and stable dividends, striving to improve capital efficiency as represented by such indicators as the return on equity (ROE) and also taking into account the dividends on equity (DOE) level, while maintaining sound financial foundations, in order to achieve sustainable growth and enhance corporate value.

For the year ended March 2016, in addition to acquiring 600,000 of our own shares (between May 14 and June 8, 2015), we paid a total dividend of ¥67 per share, including the interim dividend, as announced. In the year ending March 2017, we intend to increase the ordinary dividend by ¥2 to ¥69 per share for the year, to provide our shareholders with even greater returns, reflecting the prospects for increased revenue going forward, as well as the fruits of business structural reform and initiatives to strengthen the profit structure. In addition, as 2016 marks the 110th anniversary of the company's founding and the 10th anniversary of its adopting azbil, we plan to pay a commemorative dividend of ¥5 per share, as an expression of our gratitude to all of our shareholders for their support over many years. As a result, we intend to pay an annual dividend of ¥74 per share in the year ending March 2017.

To ensure that we continue to provide solid returns to our shareholders, we have set the long-term goal of achieving ROE of 10% or higher. Accordingly, as well as continuing to undertake business structural reforms aimed at increasing capital efficiency,

we will invest in future growth, including M&A, and continue to maintain a sound financial footing to ensure that we can continue our business and meet our supply obligations, even in the event of a major natural disaster or other unforeseen circumstances.

Trends in Cash Dividends Per Share



Q8

How does the Group practice CSR-focused management?

Having identified basic themes and goals, we practice basic CSR and proactive CSR.

The azbil Group positions 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.” Approaching CSR from both of these perspectives, we practice CSR management toward all stakeholders, having identified the goals that we should achieve in regard to the basic themes of compliance, risk management (quality and product liability, and disaster preparedness and BCP), business management that values people, contribution to the global environment, Group management and enhancement of our governance framework, and contributions to society.

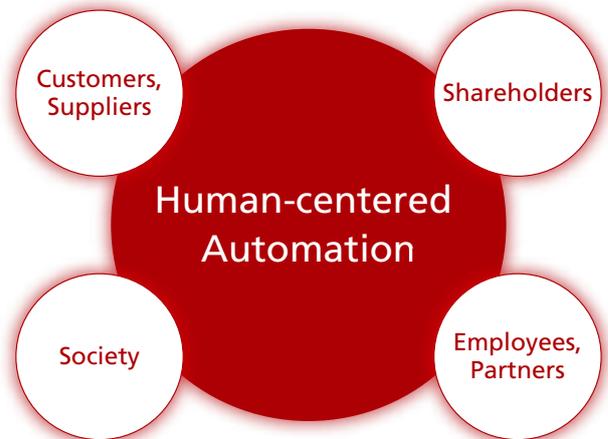
The azbil Group has remained true to the DNA of the company founded more than a century ago to “free people from drudgery.” For us, there is thus no contradiction between our Group philosophy of human-centered automation and contributing to society. In other words, it is simple for us to understand the link between the day-to-day activities of our employees and our contribution to the world. I believe that this is also significant in motivating our employees.

CSR Management

Presenting all stakeholders with the “human-centered” azbil Group

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

Shareholder-focused management and sound governance



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

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



Q9

Please tell us about your efforts to reinforce the governance framework to achieve sustainable growth and enhance corporate value.

We have strengthened both our unique systems for ensuring that governance functions appropriately and our frameworks for communicating these to shareholders and investors.

We have been working on bolstering our governance framework for some time, having appointed our first outside director in 2007. In 2014, we increased the number of outside directors to three, constituting one-third of the Board of Directors. Then, in the year ended March 2016, we took the opportunity presented by the application of Japan's Corporate Governance Code to appoint an executive officer in charge of corporate communications, who promotes even more constructive dialogue with shareholders and investors by ensuring that they understand that the governance framework is functioning properly, as well as enhancing functions for feeding back external views to management.

We have reviewed the Regulations of the Board of Directors and other related rules and regulations, and have put in place various systems of our own. These include establishing our Independence

Standards for Outside Executives and specifying that the number of outside directors on the Nomination and Remuneration Committee must exceed the number of representative directors on the committee. Furthermore, we have prescribed Corporate Governance Operational Guidelines, to ensure that we practice appropriate and efficient corporate governance.

On the practical side, while promoting dialogue with shareholders and investors, we hold frequent meetings with our outside directors, who have a wealth of experience in overseas business, corporate law, and investment management companies. We benefit from their valuable advice when we are exploring global expansion and new business, as well as when making decisions on business restructuring and withdrawal.

Q10

Please tell us about the prospects for business results for the year ending March 2017, which marks the final year of the medium-term plan.

I want us to achieve increases in both revenue and earnings for the fourth consecutive year, to clearly demonstrate sustainable growth.

Sluggish capital investment in manufacturing industry and the slowdown in economic growth in emerging countries make it difficult for us to achieve the targets that we set when originally formulating the medium-term plan. However, the year ending March 2017 marks a milestone in our efforts to achieve a major transformation, as we will see the outcomes of the medium-term plan, so I want us to achieve increases in both net sales and operating income for the fourth consecutive year, to clearly demonstrate sustainable growth in the year ending March 2018 and beyond.

In addition to growth in our BA business, where the domestic business environment remains steady, we anticipate that structural reforms will bear fruit in our LA business. As such, although the AA business environment is expected to be severe, due to capital investment trends in domestic and overseas manufacturing industry and the impact of exchange rates, we plan consolidated net sales of ¥260.0 billion (up 1.2% year on year) and consolidated operating income of ¥19.0 billion (up 10.9% year on year).

Building Automation Business

We develop and manufacture our own extensive range of building automation products, from application software to controllers, valves and sensors, ensuring the high functionality and quality of our building automation systems. Our products and services are provided through an integrated framework, ranging from instrumentation design to sales, engineering, maintenance, energy-saving solutions, and facility operation and management. We also apply original environmental technologies that create business and production spaces where people can work efficiently and in comfort, and that contribute to reducing environmental impact.

➔ For further details of business results, see "Business Overview" on pages 33-35.

- A pioneer in the field of air conditioning system 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, hotels, shopping centers, hospitals, schools, research laboratories, manufacturing buildings, data centers, government offices, airports, etc.

Detecting

Sensor and Measurement Devices

Sensing and measurement of room temperature/humidity



◀ Room temperature/humidity sensor

Setting

User-operated Devices

Building users can set the temperature, humidity, and other variables.



◀ Digital user terminal

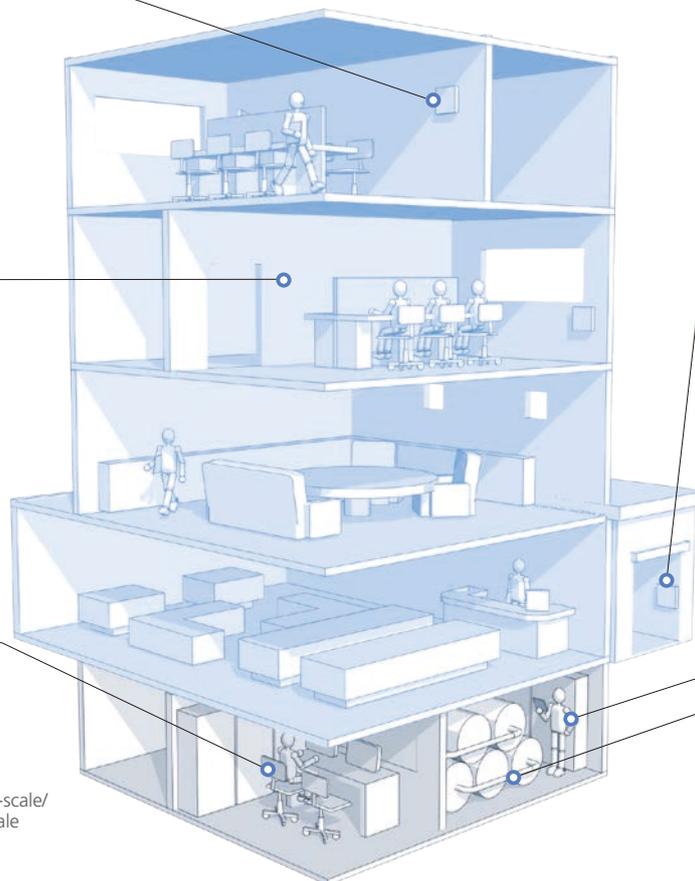
Managing

Building Automation Systems

Monitoring and management of the indoor environment, security, equipment, and energy usage throughout the building



◀ BA systems for large-scale/medium- to small-scale buildings



Protecting

Security Systems

Controlling access to building commons and interiors



◀ Non-contact IC card reader

Controlling

Regulators and Controllers

Control of building facilities and instruments to keep them in an optimal state



HVAC controller ▶

Adjusting

Valves/Actuators

Optimal adjustment of the flow rates of hot/cold water or steam used in buildings



◀ Motorized two-way valve with flow measurement and control functions

Comprehensive Building Management Service

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



Total Energy Management Service

Global deployment of energy service company (ESCO) projects for buildings, helping update and improve building facilities and reduce energy consumption



Cloud Services for Buildings

More efficient energy and facility management and a more comfortable indoor environment in buildings



Advanced Automation Business

We solve problems at plants, factories, and a variety of other production sites by providing products, solutions, instrumentation, engineering and maintenance services to support optimal operation of our customers' facilities and equipment throughout their life cycle. Through collaboration with the people involved in production, we develop advanced measurement and control technologies, strive to realize production sites where workers can safely develop their skills, and create new value for our customers.

➔ For further details of business results, see "Business Overview" on pages 33,36-37

- A 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 business through a variety of applications both in Japan and overseas

Business Field

[Process Automation] Petrochemicals and chemicals, oil refining, electric power and gas, iron and steel, waste management, water supply and sewerage, paper and pulp, ships, etc.
 [Hybrid Automation/Factory Automation] Food, pharmaceuticals, automobiles, electrical and electronics, semiconductors, manufacturing equipment (industrial furnaces, machine tools and others), etc.

Adjusting

Control Valves

Optimal adjustment of the flow rates of gases and liquids at customer sites



Controlling

Controllers

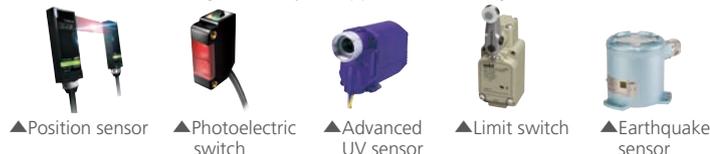
Optimal control of processes, equipment, and facilities



Detecting

Sensors and Switches

Precise detection and high reliability to support a broad range of needs at customer sites



Measuring

Process Sensors

Measurement of flow rates, pressure, liquid level, and calorific value



Monitoring

Monitoring and Control Systems

Monitoring of manufacturing processes

Monitoring and control system



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



Life Automation Business

The azbil Group offers measurement, control, and metering technologies cultivated over many years of working on buildings, factories and plants, along with attentive service with a human touch in its wide-ranging business fields, which encompass gas, water supply and other lifeline utilities, residential central air-conditioning systems, life science research, pharmaceutical manufacturing, and medical care.

- >> 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 develop and sell manufacturing equipment for the pharmaceutical market, offering an integrated range of products and services covering everything from equipment design to manufacturing and validation.
- >> 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 manufacturing, life science research & development, medical institutions
 [Residential Central Air-Conditioning Systems] Ordinary detached houses

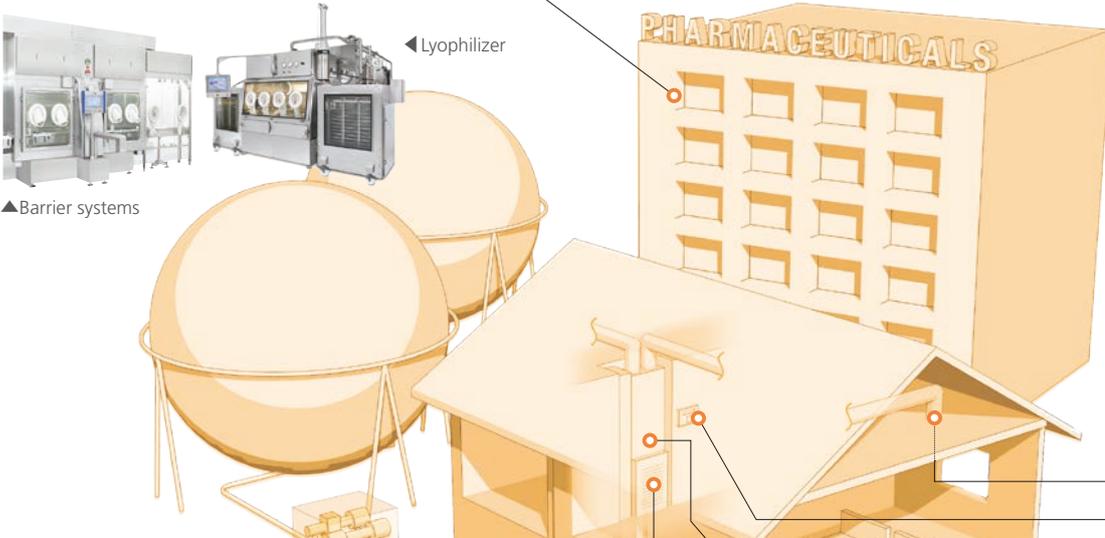
➔ For further details of business results, see "Business Overview" on pages 33,38-39.

Life Science Engineering

Azbil Telstar, S.L.U.

An integrated package covering everything from the development, engineering, installation, and sale of lyophilizers, sterilizers, and clean environment equipment to after-sales services for pharmaceutical companies, research laboratories, and medical institutions

Pharmaceutical Manufacturing Equipment



Residential Central Air-conditioning Systems

Azbil Corporation

Central air-conditioning systems for ordinary detached houses, creating a comfortable, healthy, safe living environment

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

▶ Water meter with a rotating display



▶ Battery-operated electromagnetic water meter



Gas Meter and Regulator



▶ Intelligent town gas meter



▶ Intelligent LP gas meter



▶ High-pressure regulator

Indoor Unit and Ventilation Equipment



Electronic Air Cleaner



Outdoor Unit



With close cooperation between the locations in our expanding global network, we are able to meet the needs of customers around the world.

As a manufacturer, we assume responsibility for the products and systems we make. For that reason, and in order to better solve the problems of our customers and society, we have established a comprehensive service system encompassing from planning to development, production, engineering and installation, and maintenance and services. Close coordination of our sales, development, manufacturing, and service locations in Japan and overseas ensures that customers' opinions and needs are quickly and optimally reflected in our solutions. The azbil Group continues to work together as one to create new value.



Global Network

Japan

Azbil Corporation
Azbil Trading Co., Ltd.
Azbil Yamatake Friendly Co., Ltd.
Azbil SecurityFriday Co., Ltd.
Azbil Kimmon Co., Ltd.
Azbil Kyoto Co., Ltd.
Azbil TA Co., Ltd.
Azbil Taishin Co., Ltd.
Tem-Tech Lab.

China

Azbil Control Instruments (Dalian) Co., Ltd.
Dalian, China
Azbil Information Technology Center (Dalian) Co., Ltd.
Dalian, China
Yamatake Environmental Control Technology (Beijing) Co., Ltd.
Beijing, China
Beijing YTYH Intelli-Technology Co., Ltd.
Beijing, China
CECEP Building Energy Management Co., Ltd.
Beijing, China

Azbil Control Solutions (Shanghai) Co., Ltd.
Shanghai, China

Shanghai Azbil Automation Co., Ltd.
Shanghai, China

Yamatake Automation Products (Shanghai) Co., Ltd.
Shanghai, China

Azbil Hong Kong Limited
Hong Kong, China

Asia

Azbil Korea Co., Ltd.
Seoul, Korea

Azbil Taiwan Co., Ltd.
Taipei, Taiwan

Azbil Vietnam Co., Ltd.
Hanoi, Vietnam

Azbil India Private Limited
Navi Mumbai, India

Azbil (Thailand) Co., Ltd.
Bangkok, Thailand

Azbil Production (Thailand) Co., Ltd.
Chonburi, Thailand

Azbil Philippines Corporation
Makati, Philippines

Azbil Malaysia Sdn. Bhd.
Kuala Lumpur, Malaysia

Azbil Singapore Pte. Ltd.
Singapore

PT. Azbil Berca Indonesia
Jakarta, Indonesia

Azbil Saudi Limited
Dammam, Saudi Arabia

America and Europe

Azbil North America Research and Development, Inc.
Santa Clara, CA, U.S.A.

Azbil North America, Inc.
Phoenix, AZ, U.S.A.

Azbil VorTek, LLC
Longmont, CO, U.S.A.

Azbil Brazil Limited
Sao Paulo, Brazil

Azbil Europe NV
Zaventem, Belgium

Azbil Telstar, S.L.U.
Terrassa, Spain



For details of bases of the azbil Group, please see pages 22 and 23.

The azbil Group's Global Operations

- Overseas subsidiaries
- Development function
- Production function
- Maintenance centers

* indicates a country (or city in China or U.S.A) of overseas subsidiaries

Europe

Global Development
Technology research and product development in three regions of Japan, the

Providing High Level Maintenance and Services Globally

Our solutions business maintains close contact with customers and resolves problems through a service network that extends across Japan and increasingly overseas. As our maintenance and services maximized the value of customers' equipment throughout its life-cycle, we receive valuable feedback from the work site that enables us to provide high value-added services and to develop new products.



Control valve manufacturing and maintenance base at Azbil Saudi Limited



Valve maintenance center in Taiwan



Global Production
Global manufacturing bases in the three regions and providing services to meet the

Production Systems that Deliver Reliability

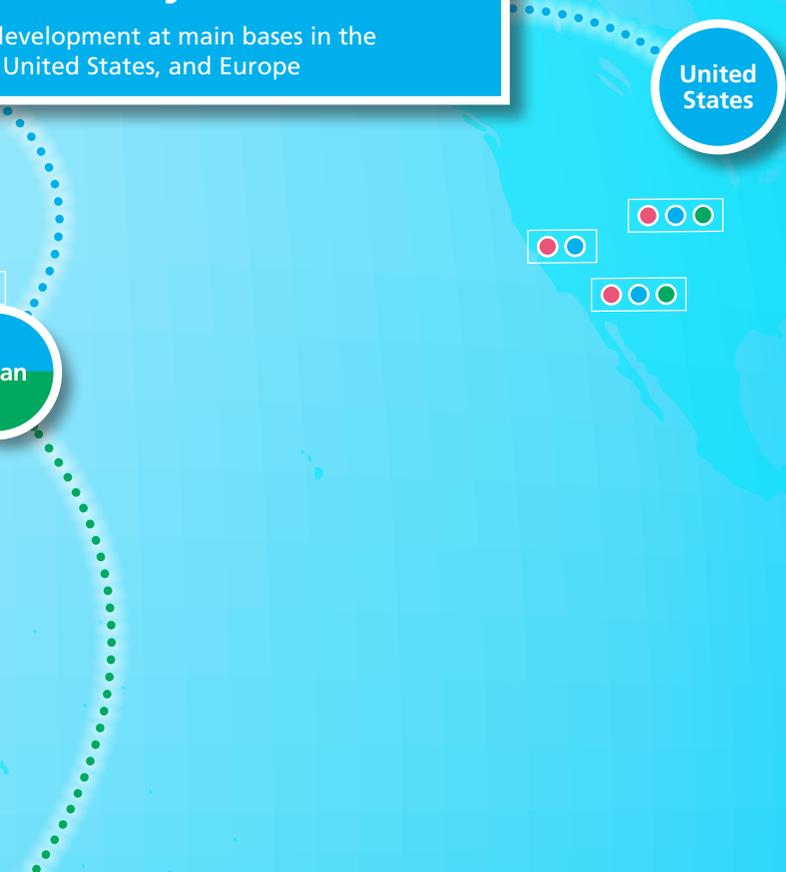
At each of our domestic and overseas production locations we have constructed globally competitive production systems that can respond to changes in the market environment. By strengthening the connections between the companies and divisions that compose the azbil Group, we have been able to cut the lead time between development and manufacturing, and to provide products with a high level of homogeneity at the most appropriate cost to customers all over the world.



Azbil Production

Development System

Development at main bases in the United States, and Europe



Production System

Production in the regions of Japan, China, and Thailand, to meet the specific needs in each region



Azbil Production (Thailand) Co., Ltd.



Azbil Control Instruments (Dalian) Co., Ltd.

R&D to Respond to Needs around the World

Our R&D centers in Japan, and now in America and Europe, cooperate to develop products and solutions, while also reflecting regional characteristics. Following our human-centered automation philosophy, these centers promote development of the cutting-edge technology and new products that create value for customers and deal with changes in the environment.



Fujisawa Technology Center (Japan)

R&D bases

- (Japan) Azbil Corporation (Fujisawa Technology Center), and four companies
- (United States) Azbil North America Research and Development, Inc.
Azbil North America, Inc.
Azbil VorTek, LLC
- (Europe) Azbil Europe NV
Azbil Telstar, S.L.U.



Major factories

- (Japan) Azbil Corporation (Shonan Factory, Isehara Factory), and four companies
- (China) Azbil Control Instruments (Dalian) Co., Ltd., and one company
- (Thailand) Azbil Production (Thailand) Co., Ltd.

* Shonan Factory and Isehara Factory will be merged and a new factory will be built at the location of the current Shonan Factory in 2019.

Creating Four Core Values

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

In buildings, in plants and factories, and in daily life, we aim to create social values 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



Creating comfortable, safe, and efficient office spaces and production living sites, and healthy living environments



Business continuity planning (BCP)



A stable supply of water and gas



Achieving compatibility between comfort and energy conservation



Reducing the burden on the environment



azbil Group's Operations

BA Business

AA Business

➡ For more detailed information on each business, see "azbil Group Operations" on pages 18-20.

Solving problems using our integrated framework closely

Technology Research and Product Development ➡ P.40

Service ➡ P.44

Engineering and Installation ➡ P.44

Human-centered Automation

Quality Assurance and Safety ➡ P.46

Human Resources

CSR Management ➡ P.49

Corporate Governance ➡ P.53



Solutions based on our measurement and control technologies and products

The Social Values Created through azbil Group'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 26-27.

Safety

To live and work in good health and in safety



Comfort

To always live and work in comfort



Fulfillment

To create new value with the customer



Environment

To optimize the management and usage of energy



➔ For further details of products and services, see "azbil Group Operations" on pages 18-20.

Case Study of Value Creation

These case studies highlight our four core values provided through “human-centered automation.”

Safety

To live and work in good health and in safety

Safety case study ▶ OHTA OILMILL CO., LTD.



Wristband with built-in IC chip

Installation of a security solution at a food plant to protect the food safety and security of consumers

OHTA OILMILL CO., LTD. manufactures and sells a variety of edible oils, such as corn oil and perilla oil. In recent years, it has been working on initiatives to enhance food defense*, to meet surging demand for food safety and security. Taking the opportunity presented by the construction of its new product packaging factory, the company installed a security solution combining the azbil Group's access control system with live cameras at three of its factories, including those of its group companies. This enables the company to ascertain who entered and left its manufacturing sites and when they did so. It also facilitates real-time monitoring of the situation at its manufacturing sites, allowing appropriate instructions to be communicated to those on the manufacturing floor while viewing images relayed via the cameras. The company is garnering attention from business partners and consumers alike for its factories practicing food safety and security.

*Mechanism for preventing intentional contamination of foods with a foreign substance

Comfort

To always live and work in comfort

Comfort case study ▶ Amarin Plaza



BEMS installed to control facility equipment, saving energy and reducing on-site workload

Amarin Plaza, which is located in the business and shopping quarter of Thailand's capital Bangkok, first became interested in a building energy management system (BEMS*) at a seminar about building energy efficiency. Although the use of a BEMS was not very common in Thailand at that time, Amarin Plaza asked the azbil Group to propose an energy-saving plan for the building complex. After considering the energy savings that could be expected from the proposed measures, and the fact that return on investment was guaranteed by the included ESCO plan, Amarin Plaza decided to install the azbil Group's BEMS as its building management system. The BEMS has enabled Amarin Plaza to check its energy consumption trends at a glance, and now with optimized operation and control of heat source equipment, the building complex overall has cut its annual energy use by 4%. Air-conditioning equipment that previously had to be operated manually at the point of installation can now be controlled from the BEMS screen, resulting in a substantial reduction in operators' workload.

*Building Energy Management System

Fulfillment

To create new value with the customer

Fulfillment case study **Tokyo Rinkai Heat Supply Corporation**



Updating and integration of plant monitoring systems in three districts

Achieving greater efficiency via the installation of a new operations support system

Tokyo Rinkai Heat Supply Corporation is a district heating and cooling business serving Tokyo's Rinkai Fukutoshin area. Its plants in the Daiba, Aomi Minami, and Ariake Minami districts had different central monitoring systems, so the company decided to update and integrate them to improve operability and increase efficiency. The project team—consisting of members from the three districts—formulated and implemented a thorough five-year plan for system transition without interrupting the supply of heat to the areas served. In addition, the company achieved the “best energy mix” for the efficient use of both electricity and gas by installing a system that supports optimal operation based on information including energy demand trends, climate conditions such as air temperature and humidity, and data on past operating performance.

Environment

To optimize the management and usage of energy

CO₂ reduction at customers' sites

Automation

2,730 thousand tons per year

Drawing on our measurement and control technologies, we 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

110 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, 2016, we calculated the effect of our businesses in reducing CO₂ emissions at our customers' sites. The total CO₂ reduction comes to 3,120 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 3,120 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 globally 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/value/contribution-to-the-environment/index.html>

The Past Year at the azbil Group

1Q



2Q



2015

April

May

June

July

August

September

Topics

Apr 21

Award ceremony for the first group of individuals accredited by Azbil Academy under the Technical Professional Certification scheme

May 20

Agreement to extend the joint venture contract for Shanghai Azbil Automation Co., Ltd., a joint investment company established with Shanghai Petrochemical Investment & Development Co., Ltd.

May 22

Shonan Factory (Japan) receives the 2015 Environmental Conservation Award from the Kanagawa Environmental Conservation Association.

Jun 23

METI adopts an azbil-led consortium of energy management service providers to support energy conservation initiatives at factories and offices.

Jul 7

Inclusion in the FTSE4Good Global Index (a leading socially responsible investment index) for the 9th consecutive year

Sep 22

Azbil Telstar opens an office in Kuala Lumpur, Malaysia.

Products & Services

May 7

LA Azbil Telstar develops a desktop lyophilizer for research.



Desktop lyophilizer

Jul 7

LA Azbil Telstar develops an integrated lyophilization system in a vertical configuration for production of oncological products.



Integrated lyophilization system in a vertical configuration

May 29

LA Inclusion of our residential central air-conditioning systems in Tokyo Electric Power Company's list of Smart Wellness equipment



Residential central air-conditioning system (concept diagram)

Jul 21

AA Launch of an online anomaly monitoring system using factory big data, to serve as a third eye monitoring instrumentation devices



Online anomaly monitoring system using factory big data

Jul 23

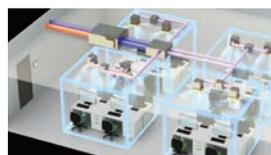
AA Our high-performance smart valve positioner wins the Jury's Special Award at the 45th Machine Design Awards.

Jul 29

BA Our CO₂ concentration control application goes on sale, offering energy-efficient maintenance of indoor comfort.

Aug 3

BA Our cell-based air-conditioning system goes on sale, meeting air-conditioning needs in small and medium-sized office buildings.



Cell-based air-conditioning system (concept diagram)

Aug 26

AA Azbil Trading Co., Ltd. launches an inspection system based on temperature data obtained using compact thermographic cameras.

Thermographic quality judgment system (monitor and cameras)



Note: Dates generally indicate the date on which the information was released.

3Q >>>

4Q >>>

October

November

December

2016

January

February

March

- Oct 5** Azbil approves the establishment of the Azbil Yamatake Foundation, to support new technology development and the young people who will lead the way into the future.
- Oct 7** Co-sponsorship of the 10th Shonan International Marathon (Japan), providing support for efforts to reduce its burden on the environment
- Oct 8** The azbil Honey Bee Club volunteer organization provides ¥6.43 million in support to social welfare groups and other organizations.
- Nov 9** Azbil Hong Kong Limited ceases outsourced production in China's Shenzhen region.

- Feb 1** Azbil becomes a partner of the J1 professional soccer club Shonan Bellmare.
- Feb 10** Our Environmentally Friendly Design initiative wins an Incentive Award at the 12th LCA Japan Forum Commendation Ceremony.

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

- Oct 5** **AA** Our PLC integration controller for industrial systems wins a Good Design Award in 2015

PLC integration controller



- Oct 14** **AA** The latest version of our factory equipment management support application goes on sale, using an Android-based terminal.

- Oct 19** **LA** Azbil Kimmon Co., Ltd. launches ultrasonic gas meters for town and LP gas.

Ultrasonic gas meter for LP gas



- Nov 11** **AA** Our new high-precision position sensors model adapted to the latest motion networks goes on sale.



High-precision position sensors

- Nov 27** **BA** Energy efficiency analysis function for building energy managers added to our cloud services for buildings



Sample of a cloud services for building's screen

- Jan 12** **AA** Our smart ESD device for emergency shutdown valves in safety instrumented systems goes on sale.



Smart ESD device

- Mar 4** **LA** Azbil Kimmon Co., Ltd. launches a new compact, lightweight, low-noise high-pressure regulator.

High-pressure regulator



- Mar 18** **LA** Azbil Telstar develops a next-generation aseptic isolator equipped with the sterilization system, which can be used at normal room temperature and relative humidity.

Next-generation aseptic isolator



- Mar 24** **AA** Our new generation of multi loop controller with multifunction display goes on sale, contributing to the preventive maintenance of manufacturing equipment.



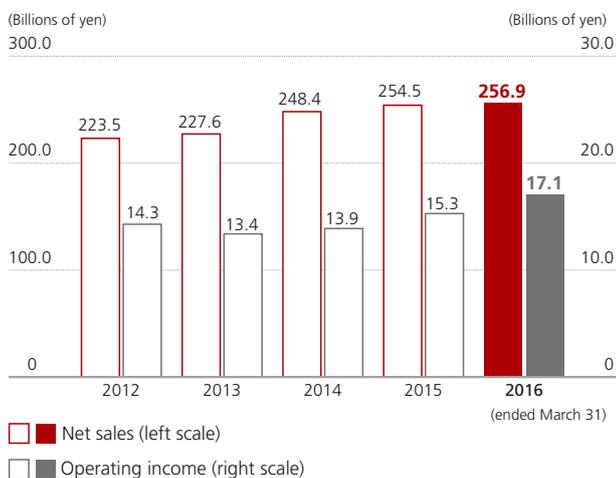
Multi loop controller with multifunction display

- Mar 25** **BA** We achieve reductions of up to 16.8% in electricity consumption in a demand response trial in Kawasaki Miyuki Building.

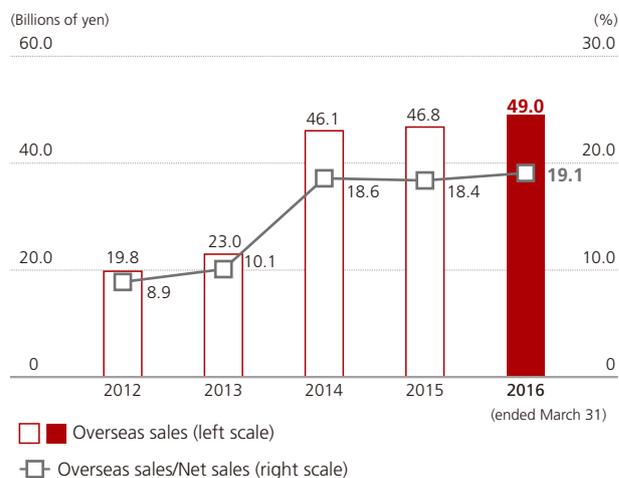
Financial and Non-financial Highlights

Azbil Corporation and its consolidated subsidiaries

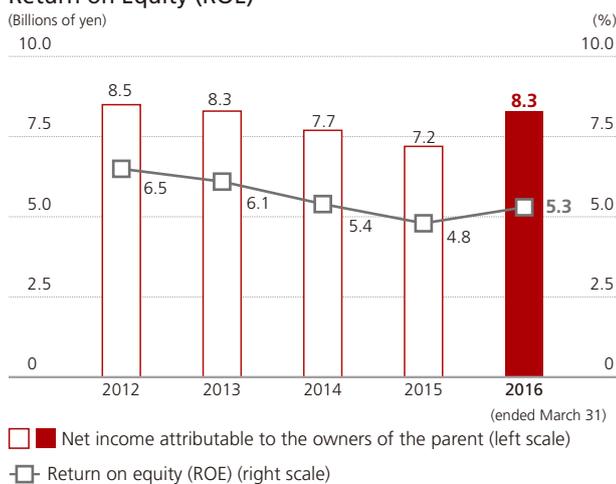
Net Sales, Operating Income



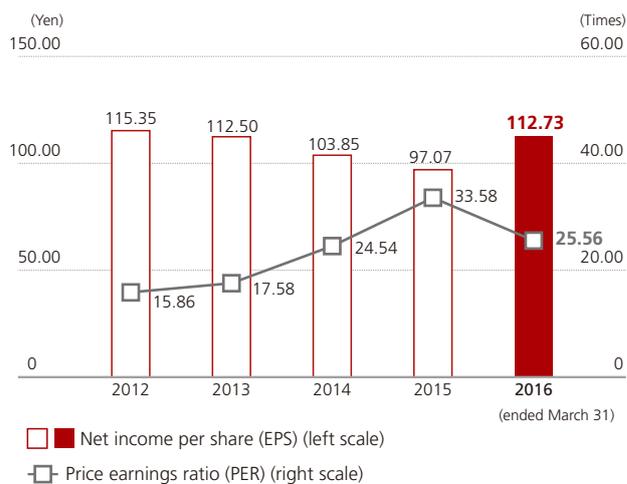
Overseas Sales, Overseas Sales/Net Sales



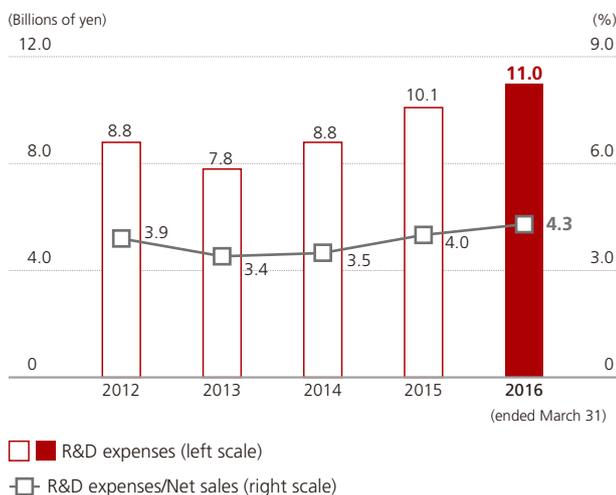
Net Income Attributable to the Owners of the Parent, Return on Equity (ROE)



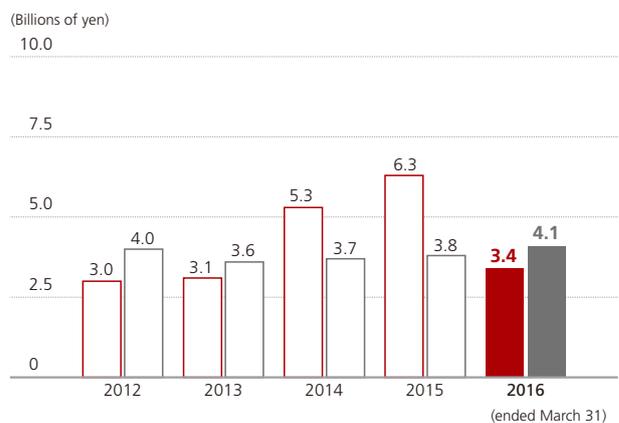
Net Income per Share (EPS), Price Earnings Ratio (PER)



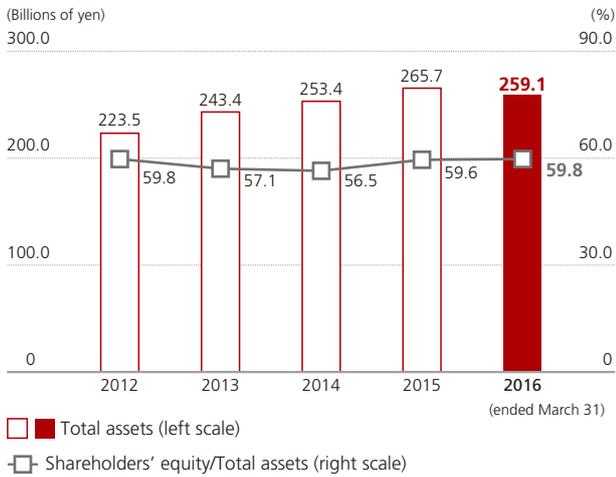
R&D Expenses, R&D Expenses/Net Sales



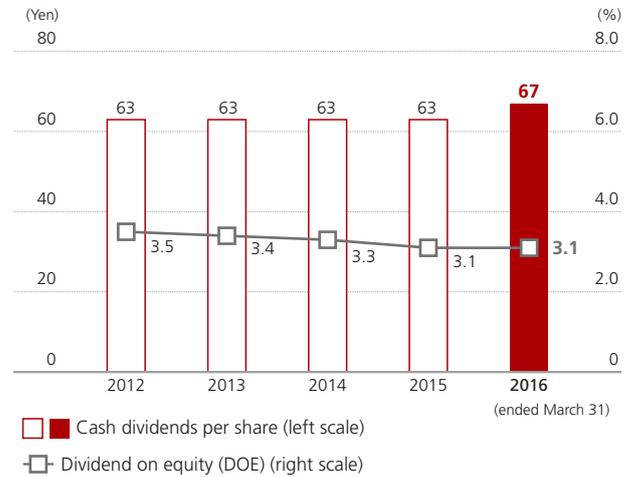
Capital Expenditures, Depreciation



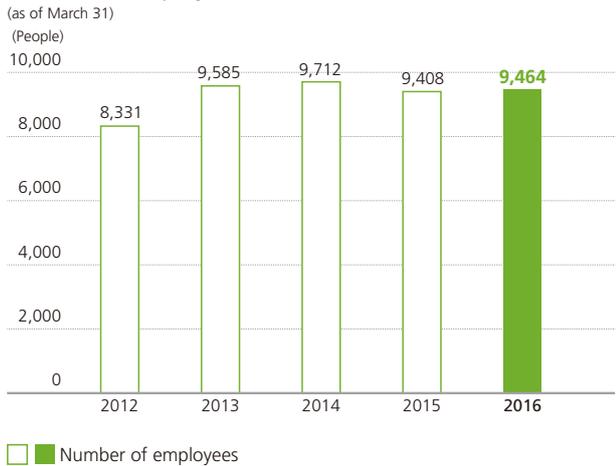
Total Assets, Shareholders' Equity/Total Assets



Cash Dividends per Share, Dividend on Equity (DOE)



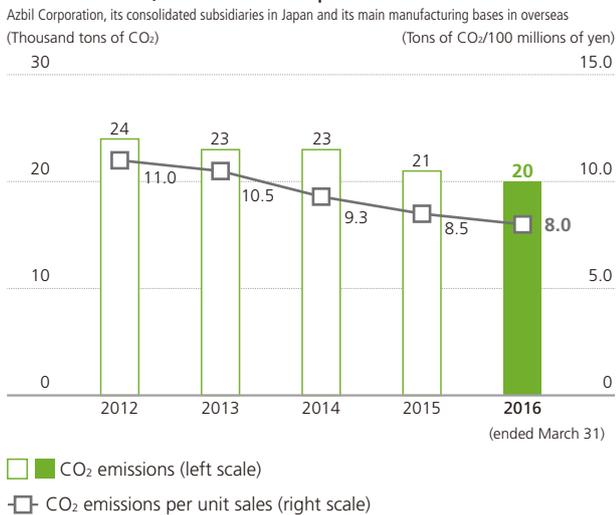
Number of Employees



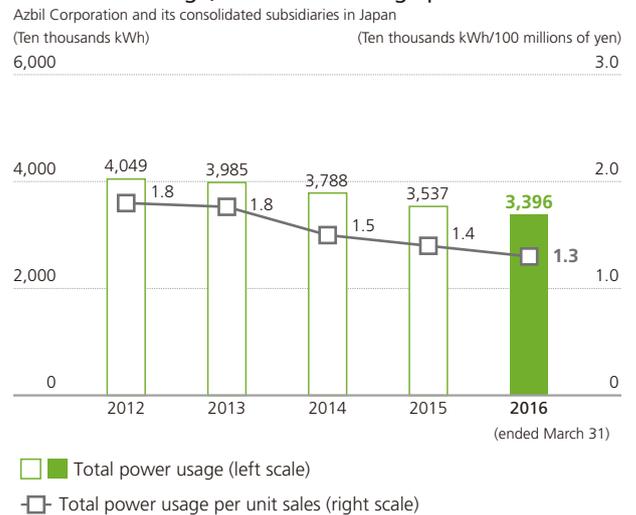
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions



CO₂ Emissions, CO₂ Emissions per Unit Sales



Total Power Usage, Total Power Usage per Unit Sales



Value Creation Initiatives

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 pages that follow provide an overview of the development of the azbil Group’s Building Automation (BA) business, Advanced Automation (AA) business, and Life Automation (LA) business. In addition, they highlight the azbil Group’s unique initiatives focused on the entire value chain, from development to manufacturing, sales, engineering, installation, and service, as well as quality assurance and safety, and the human resource development that underpins all of this. Such initiatives are essential in order to enable the azbil Group to ceaselessly develop its business and create value through automation, as a long-term partner for both customers and the community.

At a Glance

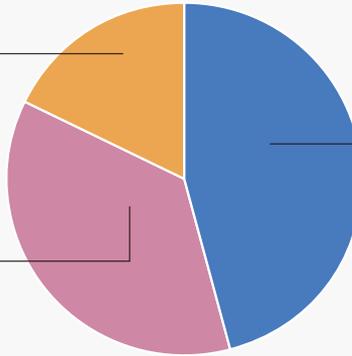
Share of Net Sales by Segment (for the year ended March 2016)

Life Automation (LA) Business

17.7%

Advanced Automation (AA) Business

36.2%

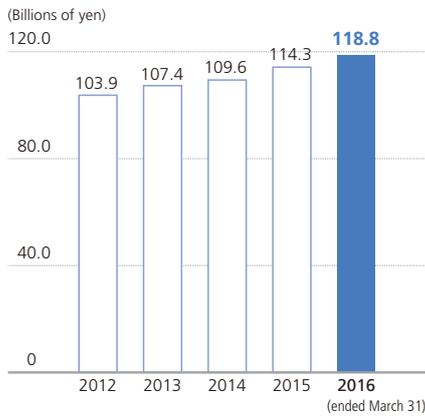


Building Automation (BA) Business

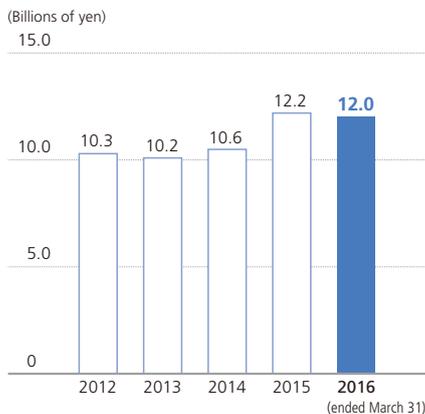
46.1%

Building Automation (BA) Business

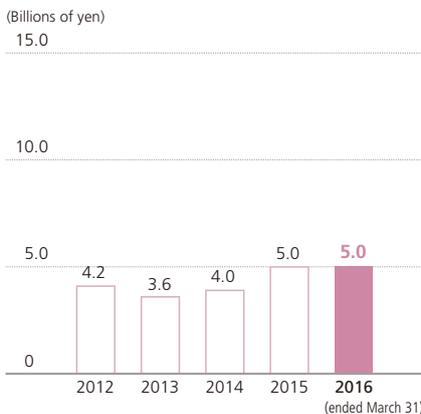
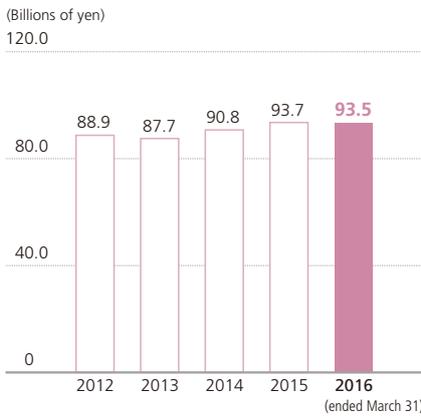
Sales



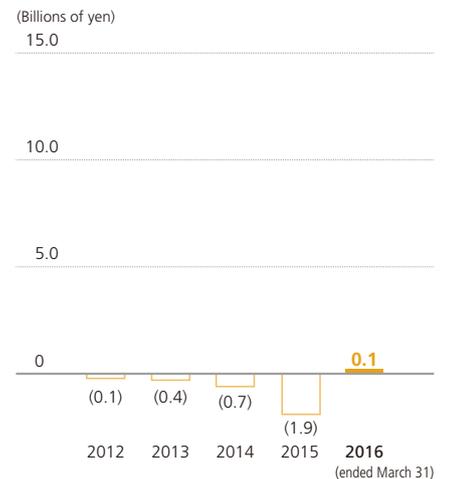
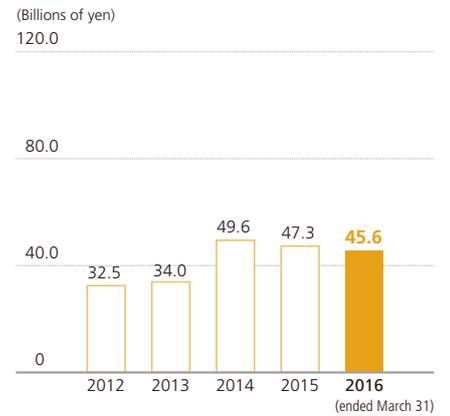
Segment Profit (Operating Income)



Advanced Automation (AA) Business



Life Automation (LA) Business



* The method used to calculate net sales included in each segment or transferred between segments changed in the year ended March 2016, so the figures for the year ended March 2015 have been revised on the basis of the newer method.

➔ For further details of this business, see "azbil Group Operations" on pages 18-20.

Building Automation (BA) Business



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

Financial Highlights for the Year Ended March 2016

Sales

¥ 118.8 billion 
(up 3.9% year-on-year)

Segment Profit

¥ 12.0 billion 
(down 1.9% year-on-year)

- Substantial growth in the new buildings field within Japan and increased revenue overseas
- Segment profit fell slightly, due to such factors as increased expenses arising from the enhancement of frameworks to strengthen the business and research and development expenditure, as well as the impact of unifying job profit-and-loss management procedures to coincide with the introduction of the core information system.

We will lay the foundations for increases in both revenue and earnings by steadily tapping into demand within Japan in such areas as urban redevelopment, as well as offering proposals for highly profitable retrofit projects and services focused on existing buildings, and adding to our record of achievement overseas.

Operating Environment

During the year ended March 2016, Japan's economy was treading water, due to weak domestic and overseas demand in the latter half of the fiscal year, but the Building Automation (BA) business environment remained steady nonetheless. In the domestic market, construction demand arising from urban redevelopment projects in the Tokyo metropolitan area and the forthcoming Tokyo 2020 Olympic and Paralympic Games was accompanied by ongoing demand for solutions that reduce energy consumption and operational costs, so active investment continued overall. On the other hand, in overseas markets, construction investment was stagnant in Thailand and South Korea, among other emerging economies, due to slowing economic growth in those countries.

Review for the Year Ended March 2016

In this business environment, we have succeeded in achieving a substantial increase in net sales in the new building field by strengthening our customer- and region-focused sales and service frameworks in response to the intensive construction investment taking place in the domestic market, as well as by enhancing our job fulfillment system. We have also continued to maintain high net sales in the existing buildings and services fields by pursuing optimal allocation of human resources within the Group, among other initiatives.

In overseas markets, although the business environment deteriorated, we succeeded in expanding overseas net sales overall, primarily in China. This was due to steady progress in developing local markets via energy-saving solutions, among others, which are an area of strength for the azbil Group.

Segment profit declined slightly, due in part to the impact of changes in the sales mix as a result of an increase in new projects, as well as higher research and development expenditure and efforts to enhance measures and frameworks with a view to future business opportunities throughout the life cycle of buildings. Other factors included increased expenses arising from the new core information system going into operation and the effect of unifying job profit-and-loss management procedures at the same time as the introduction of the aforementioned system.

Outlook

In the domestic market, orders for new projects such as redevelopment in the Tokyo metropolitan area are piling up, as described above, so further growth is forecast going forward. We will secure our income by steadily carrying out these orders using the job fulfillment system that we have been enhancing, and continuing to improve installation costs and job management. Demand for solutions that reduce energy consumption and operational costs is also steady. There are plans to start renovating a number of large buildings in 2018 or thereabouts and energy efficiency regulations for buildings are expected to be tightened in the wake of the agreement on cutting greenhouse gas emissions from 2020 that was reached at COP21. In the existing buildings field, we will continue to offer retrofit proposals with a view to such changes, and will also propose and deliver unique solutions tailored to a building's life cycle that leverage our maintenance service capabilities.

Overseas, we will continue to focus on emerging markets in Asia, leveraging the azbil Group's strengths in energy-saving know-how amassed in Japan as we strive to attract orders for landmark projects. In the year ended March 2015, we also began offering remote maintenance for buildings overseas. We will aim to establish a business model covering the whole of a building's life cycle overseas as well, by offering high-value-added services similar to those that we offer within Japan.

In 2016, we upgraded the scalability and operability of our BA systems equipped with energy conservation applications, which have performed well in Japan, and started to launch them in overseas markets. Going forward, we will adapt to big data and the IoT, continuing to develop products that harness data gathered over the life cycles of buildings. We will thus continue expanding the azbil Group's unique businesses in Japan and overseas, including offering engineering/installation and services underpinned by an in-depth understanding of products and technologies.

➡ For further details of new product development, see "Technology Research and Product Development" on pages 40-42.

Case Studies

① Site ② Business field



① Minakuchi Century Hotel ② Accommodation facilities, ESCO

Using a government subsidy scheme to promote energy conservation, the azbil Group supported the introduction of a BEMS* and upgrade of equipment to high-efficiency models as an ESCO project. Minakuchi Century Hotel succeeded in surpassing its energy conservation target, while minimizing the investment and risks.



① Amari Watgate Bangkok ② Accommodation facilities

Amari Watgate Bangkok has installed the latest Japanese BEMS* provided by the azbil Group as part of an international energy conservation partnership program. The operational status of its air-conditioning and heat source facilities and the amount of energy being consumed can be viewed on a screen. It has now achieved energy savings of 15% for the entire building.

* Building Energy Management System

Advanced Automation (AA) Business



Yoshimitsu Hojo

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

Amid the major changes underway in global technological trends, we will seek to become a high-earning business segment offering world-class automation through the azbil Group's unique technologies and on-site value creation.

Operating Environment

In the year ended March 2016, manufacturing companies became increasingly cautious due to a sense of uncertainty about the future stemming from such factors as a slowdown in exports to China and other parts of Asia and the appreciation of the yen. Accordingly, capital investment remained low overall within Japan. Despite the recoveries seen in some markets, the environment was harsh overall: in addition to sluggish demand for control products among equipment manufacturers, motivation to undertake capital investment failed to grow in materials-related fields.

In overseas markets, there was a marked slowdown in China and falls in resource prices also had an impact on other emerging economies. Capital investment in the U.S. was sluggish, due to the deceleration in emerging economies, the low price of crude oil, and the strong dollar. Signs of slackening performance were also seen in European manufacturing industry.

Review for the Year Ended March 2016

Amid this business environment, we have sought to cultivate and mine the markets of automation for the forefront industries of electrical/electronic goods and semiconductors, automobiles, and chemicals (downstream), domestic demand-driven industries such as foods and pharmaceuticals, and the manufacturing equipment industry serving these markets, grouping them together as a field that we have called "Hybrid Automation/Factory Automation (HA/FA)." In fields associated with the energy supply chain for gas, including LNG carriers, we have moved forward with business development based on delivering solutions offering enhanced safety and energy efficiency which are unique to the azbil Group. As a result, we have maintained domestic net sales in line with the previous fiscal year, overall.

In overseas markets, we saw growth in the provision of solutions to equipment manufacturers in North America, but the business environment in materials-related fields continued to be harsh, due to the slowdown in capital investment in China. This was the primary factor behind the slight decline in overseas net sales.

Despite rising expenses associated with our new core information

Financial Highlights for the Year Ended March 2016

Sales

¥ 93.5 billion 
(down 0.2% year-on-year)

Segment Profit

¥ 5.0 billion 
(up 0.3% year-on-year)

- Although we saw a slight decline overseas due to the slowdown in demand in China and elsewhere, our domestic initiatives in the HA/FA and solutions fields enabled us to secure net sales in line with the previous fiscal year.
- Segment profit was around the same as the previous fiscal year, thanks to improvements in the profit structure.

system going into operation, we achieved progress in the delivery of high-added-value solutions and initiatives to improve the profit structure. Accordingly, segment profit remained at the same level as the previous fiscal year.

Outlook

In the domestic market, a certain level of demand can be expected, primarily in the area of maintenance and upgrading, including safety-related investment. However, demand is forecast to remain stagnant, due to the impact of sluggish growth in corporate profits as a result of foreign exchange factors and slowing economies at home and abroad. In overseas markets as well, China and emerging economies will slow further, rendering the outlook uncertain. Technological trends are also changing dramatically, as indicated by growing use of the terms big data, IoT, and AI. Going forward, we expect that customers' production sites will become smarter and more advanced, and that automation of production will accelerate.

In light of this demanding business environment and the structural changes that these technological trends are triggering in industry, we will deploy a growth strategy and implement structural reforms with the aim of becoming a high-earning business segment offering world-class automation.

The Advanced Automation (AA) business offers a diverse range of automation for the industrial market. Leveraging our insight into current changes in technological trends and the azbil Group's unique technologies, we will work with our customers at their sites to create value and establish numerous new and competitive fields of automation.

Our structural reforms will focus on laying the appropriate foundations for growth, such as putting in place research and development frameworks adapted to changing technological trends, developing overseas business infrastructure to match the growth in our overseas business, and revising our business development frameworks to correspond to the shift in our fields of business. In addition, we will embark on reforms of our profit structure within Japan and build a business and business structure that will generate a higher income.

Case Studies

① Site ② Business field



① Matsumoto Gas Co., Ltd. ② Gases

Matsumoto Gas introduced the azbil Group's remote monitoring system for gas supply, using its own digital wireless system and mobile monitoring base. This provides a mechanism that would, in the event of a disaster affecting the gas supply equipment, enable its staff to ascertain the supply status wherever they might be and to take the appropriate action, such as shutting off the supply.



① Honda Motor Co., Ltd. Saitama Factory Yorii Automobile Plant ② Motor vehicles

Honda Motor installed the azbil Group's combustion safety controls compliant with the latest safety standards in the air conditioning unit for the coating booth, the coating dryer, and the deodorizing equipment on the automobile production line. The company is deploying this know-how globally.

Life Automation (LA) Business



Kenji Hidaka
Managing Executive Officer
Responsible for
the life automation business
Azbil Corporation

Financial Highlights for the Year Ended March 2016

Sales

¥ 45.6 billion 
(down 3.6% year-on-year)

Segment Profit

¥ 0.1 billion 
(Segment loss of ¥1.9 billion in
the year ended March 2015)

- Net sales in the segment showed an increase in real terms, if the impact of the transfer of our business in the field of health, welfare, and nursing care is excluded.
- We returned the segment to profitability as a result of the effect of structural reforms of the businesses in the segment, in addition to the reduction in the amortization of goodwill.

We will continue to implement business reforms in the three fields and seek to establish a profit structure by means of business structural reforms in the LSE field in particular.

Operating Environment

The Life Automation (LA) business consists of three fields: life-line utilities such as gas and water supply, taking advantage of measurement, control, and metering technologies and services cultivated over many years of working on buildings, factories, and plants; life science in the areas of research, pharmaceutical manufacturing, and medical care; and residential central air-conditioning systems for everyday life.

In the gas and water meter field (Azbil Kimmon Co., Ltd.), which accounts for the bulk of LA business sales, we meet cyclical replacement demand for meters as required by law, so the outlook for the business environment is comparatively stable. Nevertheless, in the year ended March 2016, replacement demand for LP gas meters grew, as did demand for industrial meters. This business offers increasing opportunities in fields where we can leverage synergies with our Building Automation (BA) and Advanced Automation (AA) business segments, such as the field of energy supply lines for industry, in activities ranging from gas production to delivery.

In the Life Science Engineering (LSE) field (Azbil Telstar, S.L.U.), the prospects for economic growth are increasingly uncertain worldwide, but the pharmaceuticals manufacturing market is linked to the health and welfare of people in each country, encompassing such products as vaccines and generics used in emerging economies, so demand is beginning to recover after a period of stagnation.

In the field of residential central air-conditioning systems, we expect demand to increase going forward, as housebuilding companies primarily in the custom-built homes market focus on addressing the needs of clients seeking not only comfortable temperature and humidity levels, but also improved air purity and the minimization of the heat shock caused by rapid changes in temperature, in order to achieve healthier homes.

Review for the Year Ended March 2016

Amid this business environment, the impact (a loss of ¥3.4 billion) of the transfer* of our business in the field of health, welfare, and nursing care during the previous fiscal year resulted in reduced revenue for the segment as a whole. However, our steady progress with reforms in other business fields succeeded in improving

profitability. Combined with a reduction in the amortization of goodwill, this enabled us to turn things around from the segment loss of the previous fiscal year and post a profit.

Net sales in the gas and water meter field were around the same as the previous fiscal year, but initiatives focused on the profitability of orders in the water supply business enabled us to increase earnings.

In the LSE field, our companies in the Netherlands and Brazil saw a downturn in business, but the core Azbil Telstar unit achieved further progress in improving its business results. Accordingly, increased revenue overall and business structural reforms led to improved profits.

In the field of residential central air-conditioning systems, we undertook reforms of our sales model and systems, as well as enhancing our marketing and development frameworks. Orders and net sales increased as a result, strengthening the profit structure.

* Transfer of our business in the field of health, welfare, and nursing care
In February 2015, we transferred all of our shares in Azbil Care & Support Co., Ltd., which provided health, welfare, and nursing care services, to Sohgo Security Services Co., Ltd.

Outlook

In terms of business results for the year ending March 2017, we anticipate that the outcomes of business structural reforms in each field and reducing the amortization of goodwill will give rise to a substantial improvement in segment profit. In particular, the restructuring of business at Azbil Telstar's poorly performing Dutch and Brazilian companies will complete the radical structural reforms that we began in the latter half of the year ended March 2015, substantially improving profitability in the LSE field. Due to the downturn in business at these two companies, we have revised the future profitability of the business and posted a goodwill impairment loss* this year. However, this has enabled us to manage foreseeable future risk factors. We will continue our efforts to strengthen the business structure in the other fields and sustain our structural reform initiatives, with the aim of establishing a profit structure in our LA business.

Going forward, we will aim to transform our gas and water meter business from a conventional meter sales business into a high-added-value solution-oriented business, by promoting technical and sales-related synergies with our AA business. In the life

sciences field, regenerative medicine and other markets continue to expand. As well as steadily capturing growing demand in the recovering pharmaceuticals market, we will tap into market growth by developing and enhancing manufacturing equipment—one of our areas of strength—in collaboration with Azbil Corporation. In the central air-conditioning systems field, we will expand sales by launching new products tailored more specifically to health needs, based on the fruits of our sales model and system reforms.

* Goodwill impairment loss

We have posted a goodwill impairment loss of ¥3,012 million in relation to Azbil Telstar, S.L.U. for the year ended March 2016.

Launch of Initiatives Aimed at Stabilizing Business and Generating Profits in the LSE Field in the Year Ended March 2016

▶ Business restructuring

Reforming systems
(reducing personnel/management costs)

Tasks for the year ending March 2017

Business restructuring of the Dutch subsidiary
(year ending March 2017)
(restructuring of clean room and equipment businesses throughout Europe)

Business restructuring and structural reform of the Brazilian subsidiary (year ending March 2017)
(review of the clean room business)

▶ Review and enhancement of project management

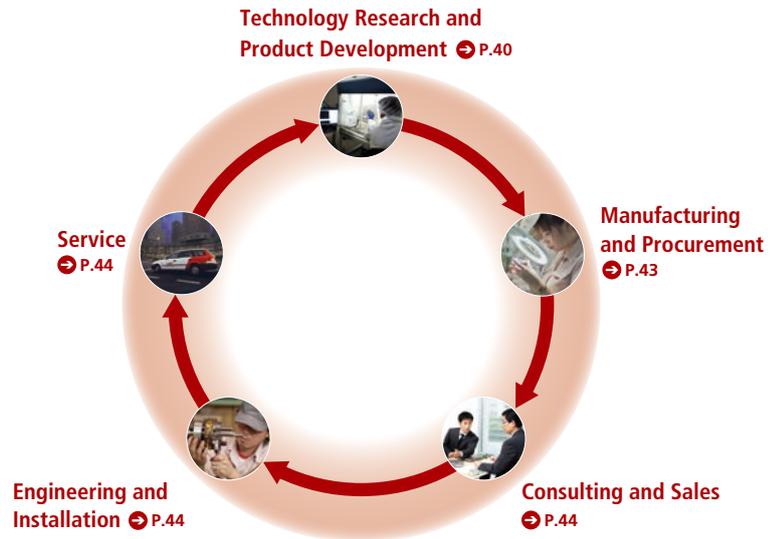
Improving the standard of management as an integrated business structure, from proposal to design, production, delivery, and maintenance.

▶ Strengthening of the pharmaceutical manufacturing equipment business

Redeveloping the sales system with an intensive focus on the manufacturing equipment business.
Enhancing technologies and products through collaboration with Azbil Corporation.

Value Chain

In our three business segments of building automation, advanced automation, and life automation, we have established an integrated framework that covers everything from product development to production, sales, engineering, installation, and service. Using this infrastructure, we draw upon the knowledge and skills cultivated at customer sites in order to offer high-value-added solutions to our customers around the globe.



Technology Research and Product Development

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

► Research and Development Policy

With the aim of providing our customers with swift access to next-generation products developed around the concept of human-centered automation, we have strengthened the coordination between our marketing and R&D departments to build an effective and efficient operational system. While 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 segments with good growth potential. For further global expansion of our operations, we are carrying out technology and product development via our three-base Japan-U.S.-Europe network,

which includes our group companies in Europe and an R&D base in Silicon Valley in the U.S.

► 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 and services that deliver safety and peace of mind; quality, productivity, and comfort; and conservation of the environment and of energy.

Five Strategic Technology Areas

Machine Systems with Humanlike Abilities

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

Flexible Measurement and Control

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

Advanced Technology that Clarifies Complex Systems

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

Systems Enabling Us to Live in Harmony with Nature

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

Individualized Environmental Comfort Systems

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

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

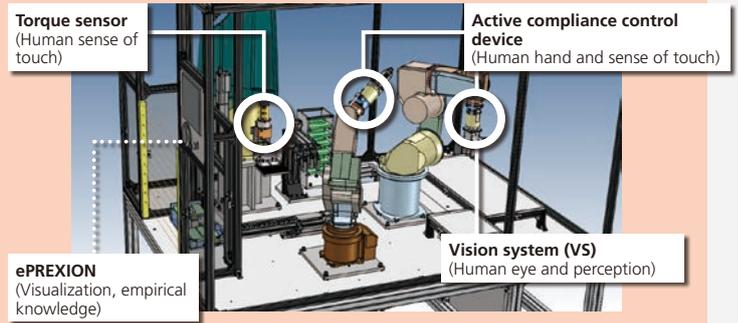
Examples of Technology R&D

Machine Systems with Humanlike Abilities:

Precise and delicate motion control system

Value provided: Automation of work that requires precise control and a delicate touch, such as the creation of traditional handiwork and *wagashi* confections

Development details: An intelligent fully-automatic assembly system that mimics the human sense of touch and vision, and is capable of adapting to changes and completing the assembly process on its own

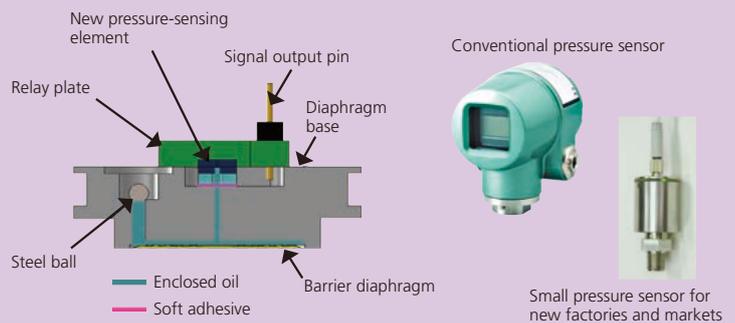


Flexible Measurement and Control:

Pressure sensor for small pressure transmitters

Value provided: We have succeeded in reducing the size of our pressure sensor to one-tenth while improving its temperature characteristics and reproducibility. We have also improved the allowable pressure, thereby enhancing the scope of possible applications.

Development details: Compact high-precision pressure sensor without the need for a hermetic seal, developed with the aim of minimizing the amount of enclosed oil.

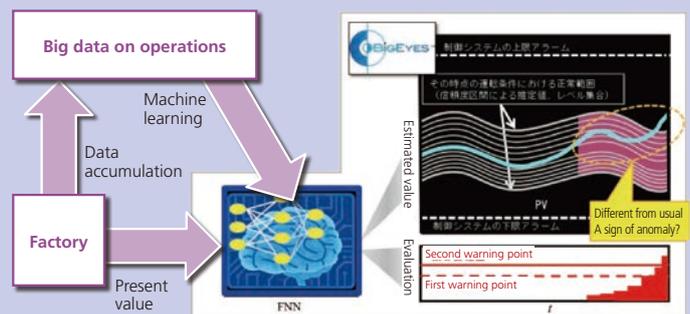


Advanced Technology that Clarifies Complex Systems:

Online anomaly monitoring system using factory big data

Value provided: This system provides early detection of irregularities in the manufacturing process that escape detection by conventional alarm functions.

Development details: This system applies artificial intelligence technology to learn the neutral state of processes and facilities based on "big data" from manufacturing plant operations, and on this basis detects symptoms of anomaly.

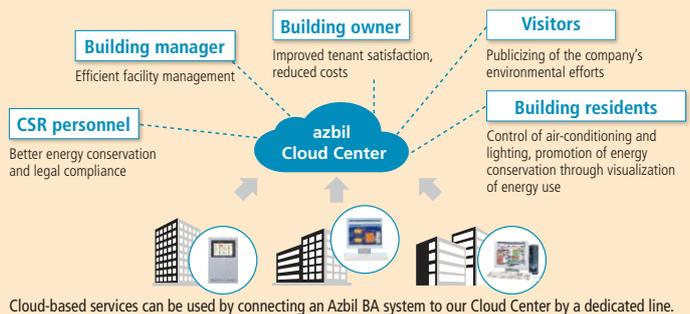


Systems Enabling Us to Live in Harmony with Nature:

Cloud system for buildings

Value provided: Buildings can be managed using the latest applications from any place with Internet access, without the need for a server or IT equipment.

Development details: A cloud-based building management operation support system designed for energy management, facility maintenance, and tenant services



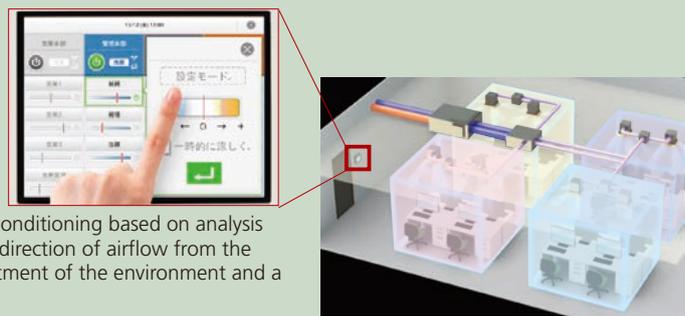
Cloud-based services can be used by connecting an Azbil BA system to our Cloud Center by a dedicated line.

Individualized Environmental Comfort Systems:

Cell-based air-conditioning system

Value provided: A comfortable environment responsive to individuals' feelings of warmth or coolness is provided by automated control of the volume and direction of airflow from the AC equipment.

Development details: In response to people's reported feelings about the temperature, this system automatically controls the air conditioning based on analysis of the relationship between people's feelings and the volume and direction of airflow from the air-conditioning equipment. This system provides fine-tuned adjustment of the environment and a user-friendly interface.

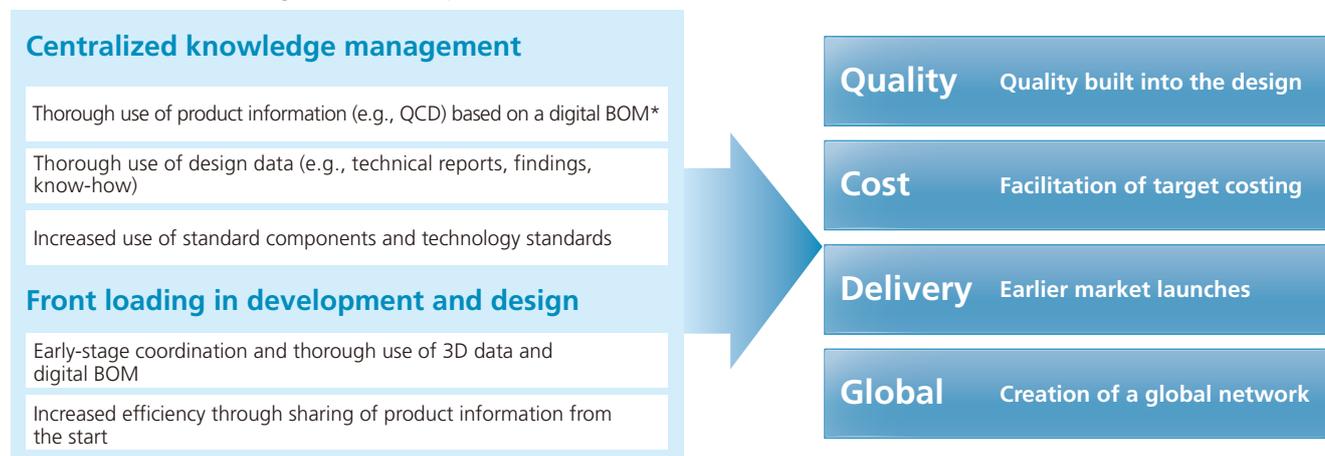


► **Three Initiatives for Standardization**

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

development, and the enforcement of measurement standards. While promoting the use of IT in our operations for standardization in design and development, we are taking measures in the design and development processes to improve QCD and to collaborate globally.

Standardization in Design and Development



* Bill of materials

► **Intellectual Property and Brand Management**

Strategy for Intellectual Property Rights Viewing intellectual property as a crucial management resource, we actively acquire and protect patents and other intellectual property 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 our global business expansion, our marketing and development departments hold meetings with the Intellectual Property Department before filing applications for patents in Japan and abroad, in order to determine the importance of the relevant technology for our business strategy.

At the product design stage we carry out a search of the intellectual property rights held by other companies in order to

increase our degree of freedom for R&D. In addition, to obtain information on other companies' inventions, more than 1,000 checks are conducted every month in Japanese, American, and Chinese patent gazettes.

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 monitoring infringement of the azbil brand and by managing the copyrighted materials used in our business activities. To protect our brand, we have aggressively registered the azbil Group logo as a trademark in more than 100 countries worldwide.

Patent and R&D Data

(Ended March 31)	2012	2013	2014	2015	2016
Patents					
Number of applications	428	476	502	513	506
Number owned	1,742	2,124	2,458	2,703	2,762
R&D expenses (billions of yen)	8.8	7.8	8.8	10.1	11.0
R&D expenses/net sales (%)	3.9	3.4	3.5	4.0	4.3

Manufacturing and Procurement

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

▶ Developing Manufacturing Systems in Japan and Overseas

With the aim of establishing an optimal manufacturing framework that will support our global business expansion, we are making efforts to enhance our overseas production by forming a manufacturing network in the three countries of Japan, China and Thailand and strengthen our overseas bases. In Thailand, we have increased production of components at the new factory built in 2014. At our manufacturing base in Dalian, China, we have enhanced our capabilities for production of valves and switches.

Furthermore, we are working to reduce procurement costs by developing a logistics framework for product shipment directly from our overseas manufacturing bases to overseas markets, by increasing materials procurement overseas, and by promoting value engineering activities. We are also enhancing our capabilities in areas such as valve assembly and flowmeter calibration to meet the specific needs of various regions.

Also, Azbil Kimmon, a Group company, will optimize its manufacturing system by consolidating its five domestic plants into three, in order to better respond to the changing business climate and to customer needs.

By advancing these initiatives, we will boost the proportion of overseas production to more than 30% of our total output. (The actual figure for the fiscal year ended March 2016 was around 25%).

▶ Constructing a New Main Factory for the azbil Group

As part of our initiative to optimize manufacturing systems in Japan and overseas, we will renovate Shonan Factory to make it the main factory for the azbil Group by consolidating it with our Isehara Factory. By the spring of 2019, we will construct a new plant on the premises of Shonan Factory and install a

production line equipped with advanced production technology and equipment. Through effective collaboration with our initiative to develop an R&D base at the Fujisawa Technology Center, we will pursue the advancement of *monozukuri* for our group as a whole, with Shonan Factory at the center of this endeavor.

▶ Innovation in Production Processes and Overseas Business Expansion

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 and image-processing technology. Based on the azbil Group's unique HCA-MS* concept, we are endeavoring to achieve automation of processes by substituting machinery that can mimic human capabilities. 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 to enhance our cost-competitiveness.

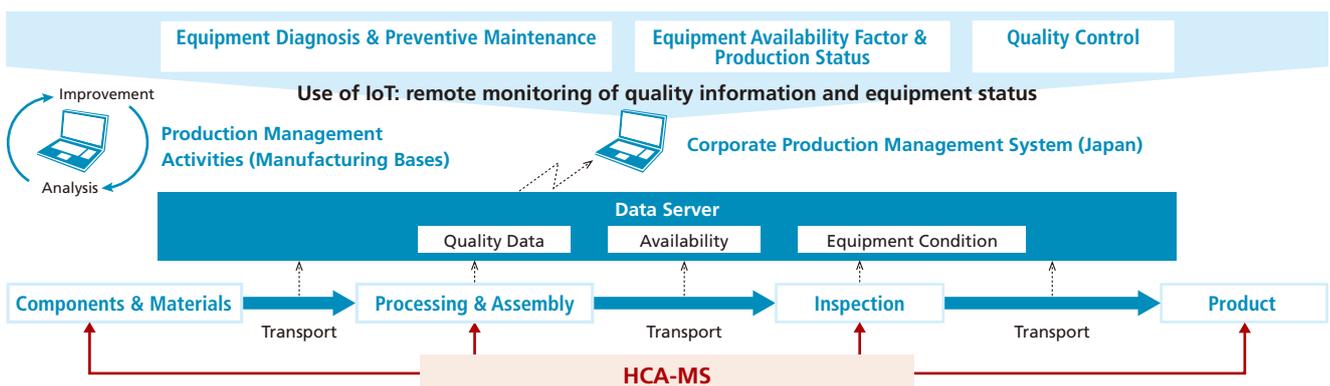
We will also build an integrated production system using the IoT (Internet of Things) to perform integrated management of various types of information in order to strengthen our production globally.



An example of a production line with HCA-MS

* Human-centered automation manufacturing system. Based on our Group philosophy of human-centered automation, the system is equipped with machine accuracy and human flexibility through the mechanization of aspects of human intelligence and capabilities of the human hand (sense of touch) and eye (sense of sight), enabling the automation of processes that could not be automated with conventional technologies. Modularized functions allow reuse, so production equipment can be altered or extended as needed.

Production Lines Using HCA-MS



Sales, Engineering, Installation, and Service

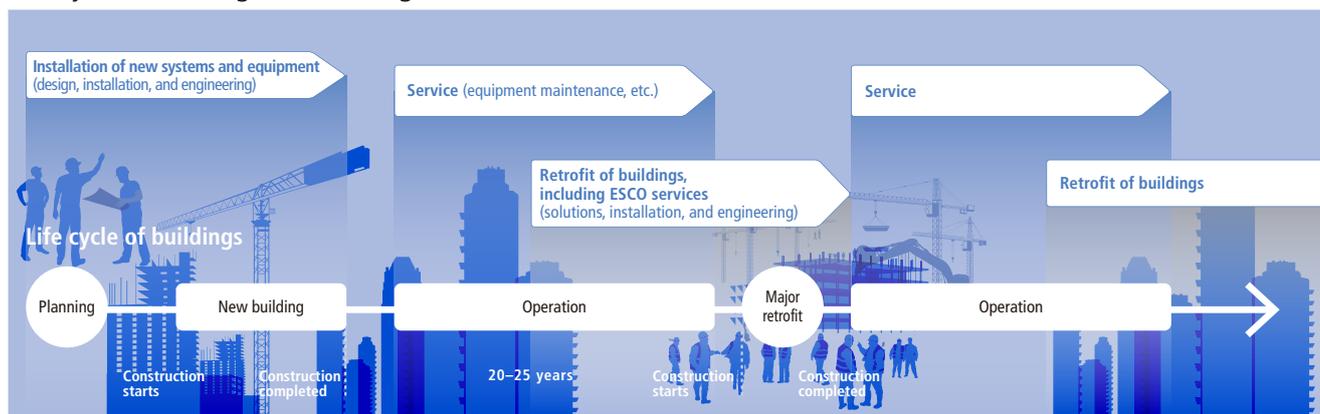
Based on an integrated framework that brings together everything from consulting and sales to engineering, installation, and service, we make use of the knowledge and skills cultivated at customer sites to offer high value-added solutions and services across the globe.

► Total Solutions

To maximize value throughout the life cycle of our customers' facilities, 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 at each stage of the facility life cycle—including planning, operation, maintenance, improvement, and renovation—our sales engineers, system engineers, field engineers and service engineers are committed to providing the best solutions for each manufacturing site.

Life Cycle of Buildings and Building Automation Business



Sales, Engineering, Installation Our customers share with us the needs and problems they experience with their buildings, plants and factories, and we help them to find solutions through our integrated framework, starting from analysis and proposal of solutions, and continuing through design, installation, and system adjustment.

For example, in the area of building air-conditioning control, which is handled by our building automation (BA) business, each type of building—such as an office building, hotel, or hospital—presents its own special problems, depending on its intended use and characteristics. Based on the know-how and actual operating data that the azbil Group has accumulated over many years, our sales engineers provide consultation and propose the best BA system or control system for each facility, or the best energy-saving

solutions and services, in consideration of the purpose and manner of use of the facility. Our field engineers, drawing upon their deep knowledge of products and experience in the field, manage the construction process details, such as process safety, quality and cost, in addition to field engineering, in order to control the process in a way that meets customers' specifications.

In our advanced automation (AA) business, we also hear various requests from customers regarding their manufacturing sites. When our sales engineers propose energy-saving measures for a factory, for example, they conduct an energy analysis and estimate the effectiveness of investment in energy-saving measures before proposing a solution to the customer. For the improvement of a manufacturing process, our sales engineers investigate the manufacturing site's actual operation, examining the problems

and pursuing the solutions together with the customer, and then propose an application that may take advantage not only of our own products but also products of Group companies that meet the customer's needs. Meanwhile, our system engineers, who are well-versed in advanced technology, draw the system design and develop an application to build a high-performance and high-quality system. In response to the request of a customer who is an equipment manufacturer, we not only provide products, but also propose applications and customized systems as a partner in the equipment design and development stage, based on the relationship of trust we have established to date.

Service Our service 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 a 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

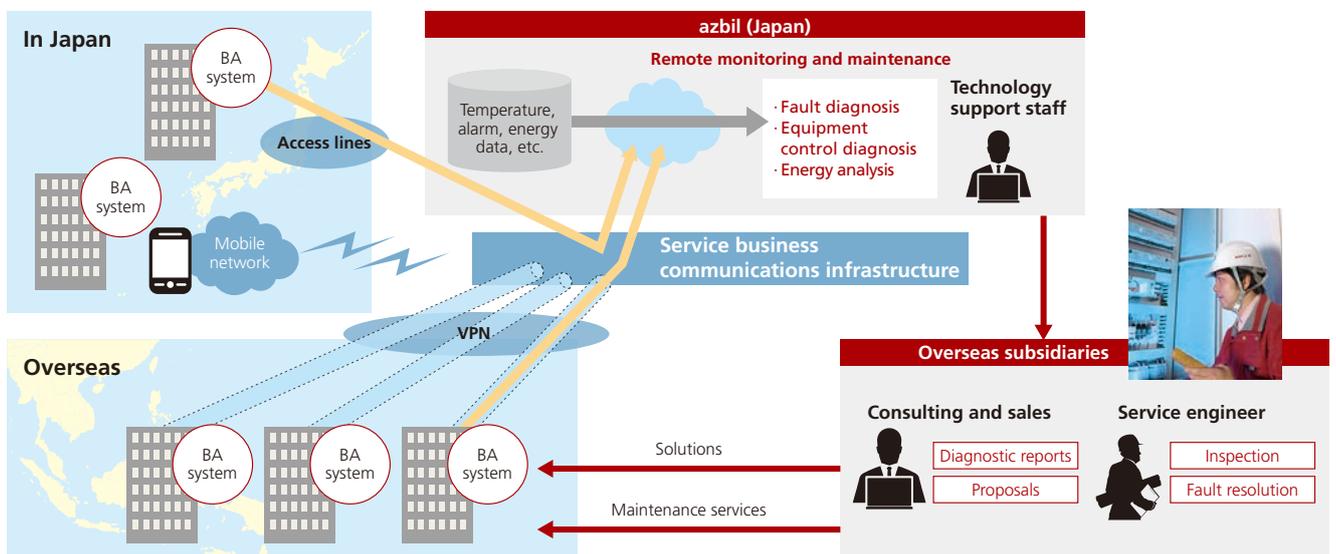
operations, but also ensures that automatic control instruments are maintained appropriately through remote data collection and event analysis and off-site inspection of control operations by experts. Self-diagnostic information from equipment is also gathered and analyzed to ensure that systems are 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

Remote Maintenance Services Platform



Quality Assurance and Safety of Products and Services

Around the globe, the azbil Group 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 its basic policy and approach to quality assurance and safety: the 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 “built-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 shared quality issues and improving collaboration in tackling them. Quality-related structures and procedures are being rolled out globally as our business expands.

► 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 the relevant employees of accident prevention measures and the procedures to follow in the event of an accident.

Prevention of Accidents

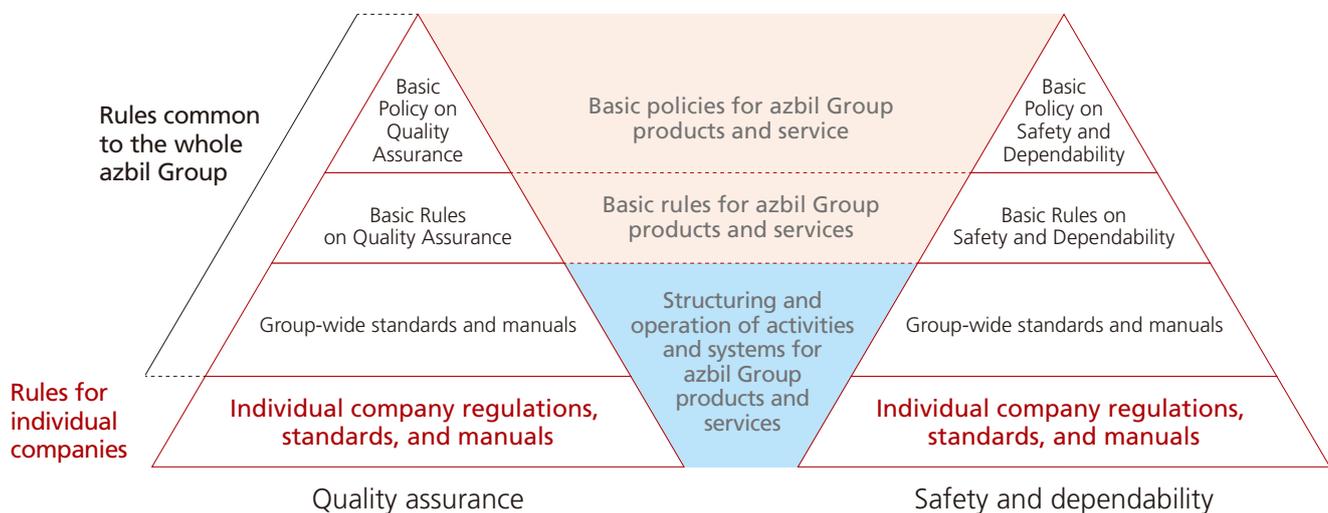
The azbil Group Quality Assurance Committee promotes accident prevention activities based on actual “near miss” incidents. In addition, it is responsible for ensuring that employees are thoroughly aware of the reporting and response systems used in the event of an accident. Through these activities, 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, 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 the azbil Group 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.



Human Resources

We established the Azbil Academy in order to ensure that the azbil Group never stops learning and is capable of both responding flexibly to changes in the business climate and continuously growing stronger. The Academy actively cultivates diverse personnel who can create new value in collaboration with our customers.

The Azbil Academy

The Azbil Academy was founded in November 2012 to provide integrated education functions for the Group as a whole. In the year ended March 2016, its fourth year of operation, it launched the new initiatives described below.

▶ Education for People Changing Jobs (Career Development)

The azbil Group is carrying out business structural reform that includes the promotion of overseas operations and production and the training of field engineers and service engineers in Japan and overseas. Accordingly, to accomplish the optimal deployment and training of personnel, the Azbil Academy provided education to more than 500 employees from the year ended March 2013 to the year ended March 2016, including more than 70 in the year ended March 2016 who were being redeployed or transferred. The Academy does follow-up interviews periodically and provides other support for employee career development.

▶ Training for Global Business

As our customers and Group companies expand overseas, the training of employees to handle globalization and the development of human resources at overseas subsidiaries have become pressing needs. In the year ended March 2016, a basic management training program for employees in leadership positions that had been implemented in Japan was launched at overseas subsidiaries in China. Going forward, we will introduce the same training

program in other regions and upgrade the program content. In addition, we will launch a program that brings administrative staff from overseas subsidiaries to study at Azbil's headquarters in Japan. We hope that these employees, who will learn about a wide range of business operations at Azbil's headquarters, will return home to lead the management of overseas subsidiaries and will play an active role in the azbil Group as a whole in the future.

▶ Education for Solution Business

We have established a training system that will provide young employees in Japan with level-specific education on an accelerated schedule so that they can acquire important business skills at an early stage. The program is designed especially to enhance young employees' logical communication skills and cultivate their ability to recognize and solve problems.

▶ Accreditation as a Technical Professional

In the year ended March 2015, we introduced a system in which the title of "Technical Professional" is awarded to Group employees with a high level of technical skills, in order to facilitate the transfer of technical skills to younger employees. Under this system, a total of five instrument engineers in the building automation business were given the technical professional accreditation by the year ended March 2016. We are planning to award this title to candidates in other business sectors in the future.

Education System



Positioning of Technical Professionals



Infrastructure to Support Value Creation

As a provider of value through automation to both our customers and society, 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 impact of our business operations.

This section provides an introduction to our corporate social responsibility, corporate governance, and dialogue with and responsibility to shareholders, customers, and the azbil Group's other stakeholders, all of which form the basis for sustainable business activity as we seek to maintain and increase the value created by the azbil Group.

CSR Management

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

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

Approach to CSR

The azbil Group has a broad perspective on the responsibilities that a company should fulfill toward stakeholders and society. Accordingly, we take a twofold approach across the entire Group.

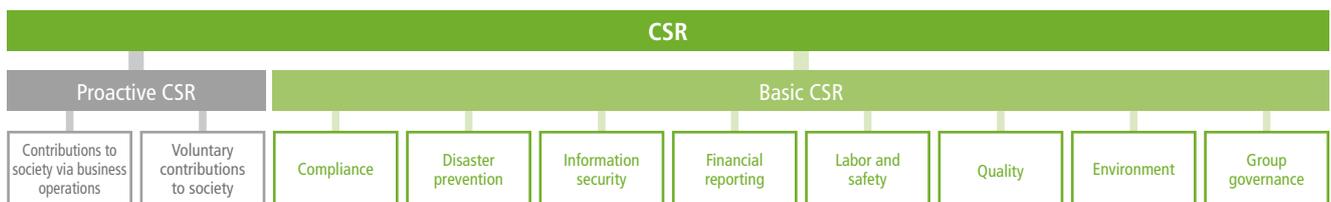
Firstly, there is what we call “basic CSR,” which involves fulfilling the azbil Group’s fundamental obligations as a member of society. This includes ensuring thorough compliance to laws and regulations; risk management in such fields as disaster prevention, information security, quality and product liability, and accounting; promoting internal controls; and improving workplace environments and ensuring the safety and security of the people who work in them.

The azbil Group believes that there are no shortcuts to winning the trust of society, so we aim to engage in fair and honest management, combined with efforts to further strengthen our corporate governance.

The second approach is what we term “proactive CSR,” which consists of (i) the contribution that the azbil Group makes to society through our business operations that leverage our strengths in technology and business; and (ii) employees’ voluntary participation in activity that benefits society, which is rooted in the culture and climate of the company. Through such activities, we wish to make a proactive contribution to sustainable development and to live up to the expectations of society.

► Areas of Focus in CSR Management

Overview of CSR Activity



► CSR Promotion Framework

The azbil Group CSR Promotion Committee was established to promote activity related to corporate social responsibility for the Group as a whole over a broad range of fields. The committee is composed of senior management in charge of promoting CSR at

CSR Initiatives

Basic CSR

Fulfilling our fundamental obligations to society

- Creating an environment conducive to compliance**
 ➔ For more detailed information, see “Compliance” on page 50.
- Operation with thorough risk management**
 ➔ For more detailed information, see “Risk Management” on page 51.
- Implementing internal controls**
 ➔ For more detailed information, see “Internal Control” on page 52.
- The Group’s own environmental initiatives**
 ➔ For more detailed information, see “Environmental Initiatives” on pages 60–63.
- Business management that values people**
 ➔ For more detailed information, see “Responsibility to Employees and Partners” on pages 66–67.

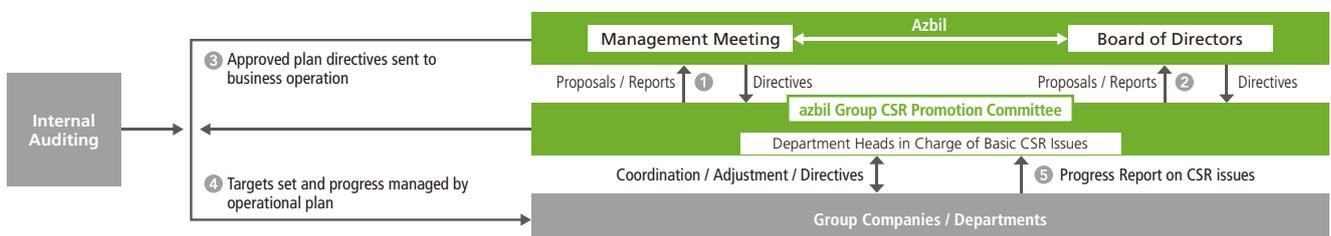
Proactive CSR

Contributing to society through our business operations and voluntary activity that benefits society

- Contributing to society through our business operations**
 The azbil Group contributes to society through our unique solutions that combine our own products and services.
 ➔ For more detailed information, see “Creating Four Core Values” on pages 24–25.
- Voluntary contributions to society**
 The azbil Group proactively supports and promotes voluntary contribution to society by employees.
 ➔ For more detailed information, see “Responsibility to Society” on page 65.

individual Group companies and department heads in charge of individual primary issues-related initiatives. The committee, subject to the approval of the Board of Directors of Azbil Corporation, implements initiatives, appraises and analyzes their results, and reports to the management, following a plan-do-check-act (PDCA) cycle.

CSR Promotion Framework



Compliance

In each area of basic CSR, which concerns the fundamental obligations of a company as a member of society, each company in the azbil Group—both at home and overseas—is making every effort to raise awareness of compliance issues and avoid legal risk.

► Business Conduct Policy and Code of Conduct

The azbil Group has instituted a Business Conduct Policy for Group companies, consisting 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, consisting of 50 specific guidelines covering all aspects of our business activities.

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 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 CSR Hotline provides a mechanism for employees to seek advice and report concerns, enabling the

company to learn of compliance-related problems and risks in a timely manner.

Each year, we conduct 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. We also implement these initiatives at our Group companies overseas, improving compliance awareness by means of employee education and workplace surveys, as well as setting up CSR Hotline.

► 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 ensure a timely and appropriate response to important new laws and associated issues, as well as endeavoring to prevent risks from occurring.

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 manufacturing 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 that of 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 put a committee in place to lead the Group 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 of technological trends, delayed 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 through more than 50 local subsidiaries and 2 branch offices. The Group has also established manufacturing bases in Thailand and Saudi Arabia, in addition to our Dalian site in China. As the ratio of overseas sales increases, the Group is decentralizing its production by establishing multiple manufacturing bases both in Japan and abroad. The Group continues to expand its business globally, with a view to distributing country risk, but delays in its expansion plans, unexpected changes in political and economic conditions, currency fluctuations, local legal, regulatory, and other changes, natural disasters, terrorism, strikes, and other developments in countries where it operates 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.

Risk Management

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

Each year, the azbil Group conducts an interview-based survey of officers and heads of major departments, in order to bring to light all risks that could potentially have a serious impact on the Group as a whole. 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.

We have also extended the scope of these initiatives to encompass each individual Group company, continually mitigating risks through implementation of a risk management system that covers everything from the identification of the key risks for each company to the implementation of measures to combat those risks and reporting of the outcomes to the Board of Directors of the company concerned.

► 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 the development of a manual to guide the initial responses to a major earthquake, improvement of our system for checking the safety of employees,

establishment of a workplace emergency contact network, enhancement of our communications infrastructure for disasters, relocation of offices to buildings that meet new earthquake resistance standards, and regular emergency drills.

In addition, our ongoing business continuity planning (BCP) aims to ensure that in the aftermath of a major disaster, business establishment and factory functions are restored at the earliest possible time and that maintenance services continue to be provided at customer sites.

► Upgrading and Reinforcing the Information Management System

As well as conducting an educational program on information security for all Group employees every year, we are addressing information management issues that emerge in the course of compliance 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.



Regular emergency drills are conducted.

(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 costs and expenses, including selling, general and administrative expenses, so they have the potential to have an adverse impact on the Group's business results and financial position.

2. Other Risks

(1) Risks Related to Securing and Developing Human Resources

Since its founding, the azbil Group has focused on developing human resources based on the view that its employees are a valued asset, the source of corporate cultural renewal, and the creative source of its corporate value. However, failure to address issues such as employee safety, maintaining employee health, the aging of the workforce, the handing down of technology, 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 important information for business 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 to increase employees' informational literacy. However, leakage of this type of information due to unforeseeable circumstances 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, three of the six domestic production bases of Azbil Kimmon Co., Ltd., involved in the LA business are concentrated in Fukushima Prefecture. The Group has taken necessary actions, including the implementation of safety precautions, purchase of insurance, and establishment of a business continuity plan, to maintain operations and/or quickly return operations to normal. However, direct or indirect effects from 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 the laws and regulations of 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 and other problems. This could have an impact on the Group's business results and financial position.

(5) Risks Related to Intellectual Property Rights

In order to secure and maintain a competitive edge, the azbil Group, as it develops products and services, accumulates differentiating technologies and know-how and works to protect its rights to this intellectual property. 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.

Internal Control

Systems for ensuring proper business operations (internal control systems) are deployed throughout the Group and are constantly reviewed to promote highly efficient, lawful, and transparent Group management.

As we raise standards in areas such as management, performance of duties, and the supervision thereof, as well as internal controls, we are also endeavoring to ensure thorough adherence to proper accounting and to strengthen governance in each member of the azbil Group.

► Improving Internal Control Systems

The azbil Group has set out clearly stated basic policies governing all officers and employees in our Basic Policy on Internal Control System Architecture. In addition, we have prescribed guidelines for internal control system architecture. In May 2015, in response to the revision of the Companies Act, we revised the content of these policies and guidelines to clarify the matters that Azbil Corporation and azbil Group companies should address.

These matters include ensuring the reliability of financial reporting, promoting sound business activities with a high level of business ethics, and developing and managing the control environment and other fundamental elements of internal controls. Moreover, in addition to managing key risks to ensure business continuity and steady development, we constantly review and improve our internal control structures and disclose their overall operational status to maintain an efficient, lawful, and highly transparent system.

► Response to Employee Concerns and Internal Issues

The azbil Group has set up a notification and advice system, CSR Hotline, to handle the personal concerns and queries of employees, and to learn of compliance problems and other internal problems in a timely manner. The system's broad scope includes matters such as the personnel system and benefits system, queries about personnel evaluations, problems and views about the workplace environment, concerns about improper accounting or business practices, violations of the law, and human rights issues. Employees can choose between an internal and external point of contact for reporting concerns and requesting advice. Awareness and usage of the system among employees is high.

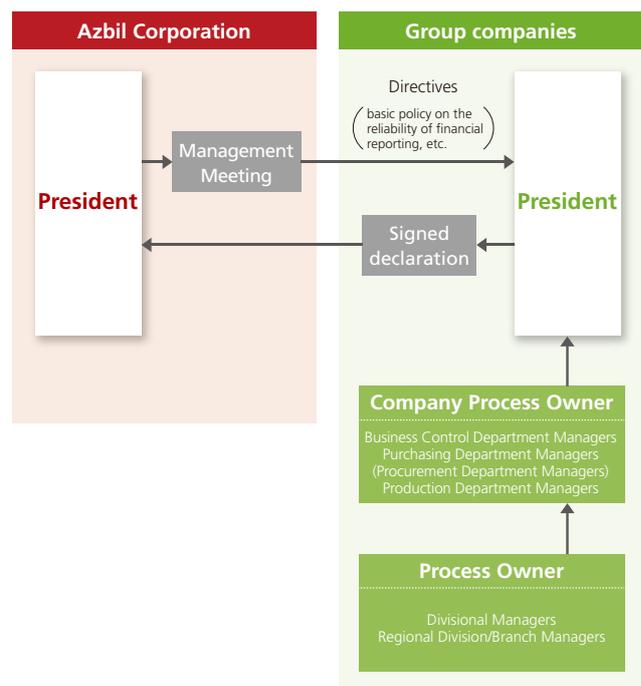
Note: Our notification and advice system for employees overseas deals with concerns about improper accounting or business practices and violations of the law.

► Response to the Financial Instruments and Exchange Act (J-SOX), and Efforts to Improve Accounting Standards

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's evaluation in light of changes in the business environment and to review our risks and controls. To coincide with Azbil Corporation's new core information system that went into operation in May 2015, we conducted a wide-ranging review of our business procedures and operation systems and introduced a more efficient and reliable internal control system. We plan to start rolling out this system to all Group companies in the year ending March 2017.

Also, in the year ended March 2016, we introduced a new initiative providing all Group employees with education aimed at improving accounting standards. We will continue this in the year ending March 2017, to further strengthen the foundations for internal control.

Management of Group Companies under J-SOX



Corporate Governance

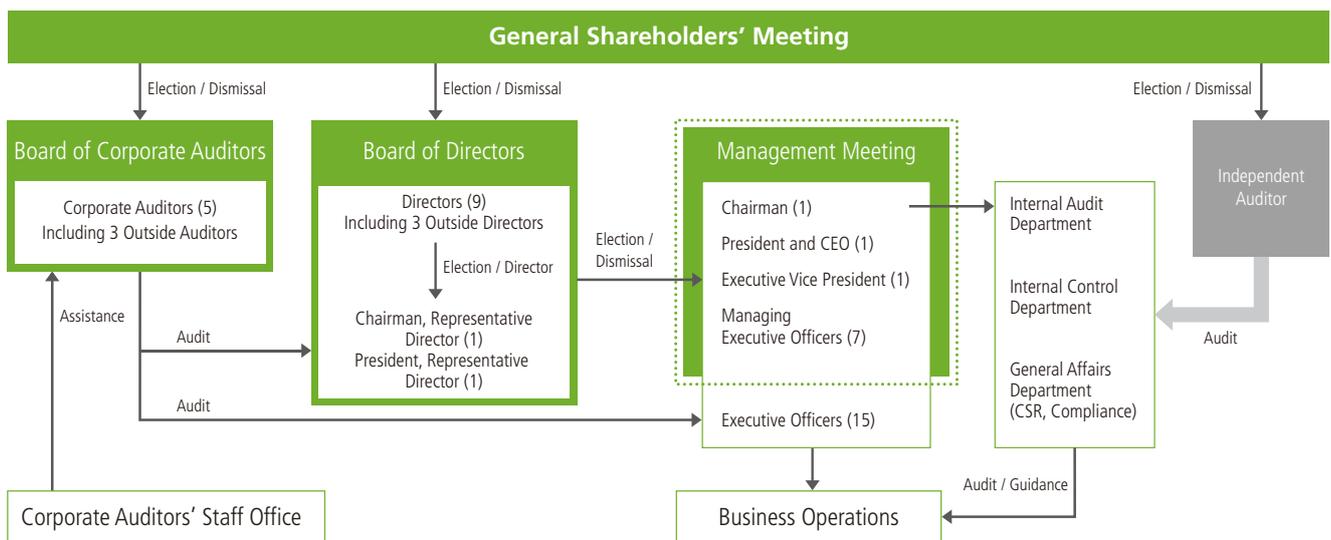
One of our most important management tasks is to consistently increase enterprise value by means of highly efficient and transparent management, while fulfilling our social responsibility and contributing to the welfare of the community based not only on compliance with laws, regulations, and our articles of incorporation, but also on corporate ethics. Achieving this will enable the azbil Group to live up to the trust placed in us by shareholders and all other stakeholders.

Our Approach to Corporate Governance

Contributing to the welfare of the community is part of our management policy, along with compliance with laws and regulations and fulfilling our social responsibility based on corporate ethics. We are strengthening our systems and initiatives to ensure highly

efficient and transparent management, with the aim of consistently increasing enterprise value for all of our shareholders and other stakeholders.

Corporate Governance Framework (as of June 28, 2016)



Efforts to Strengthen Corporate Governance

Azbil Corporation has long considered corporate governance to be of the utmost importance. The entry into force of Japan's Corporate Governance Code in our fiscal year ended March 2016 provided us with an opportunity to further enhance and strengthen our governance framework. For a number of years, we have had three independent outside directors, who have played a major role in the nomination and remuneration of directors. When the Code was established, we renamed the existing body the Nomination and Remuneration Committee and augmented the role of the outside directors, as well as specifying

that they must constitute a majority of this committee. We also established and published our own standards for the independence of outside executives. We have sought to further enhance the effectiveness of the Board of Directors through debate on the areas that should be tackled, based among other things on self-appraisal of the Board by its members and the Board. In addition, we have revised the regulations of the Board of Directors and its rules of operation. We are implementing all of the principles stipulated in the Code, the details of which are disclosed in our separately issued Corporate Governance Report.

Basic Policy on Corporate Governance [Overview]

▶ 1. Securing the Rights and Equal Treatment of Shareholders

Azbil Corporation takes appropriate measures to fully secure shareholder rights in accordance with laws and regulations. We are also developing an environment in which shareholders can exercise their rights more easily, by such means as providing more comprehensive English translations of notices of general meetings of shareholders, dispatching the notices to shareholders earlier and publishing them on our website, and developing an environment in which shareholders can exercise their voting rights online.

▶ 2. Appropriate Cooperation with Stakeholders Other Than Shareholders

We at Azbil Corporation are fully aware of our corporate social responsibility and believe that we should manage the company with appropriate consideration for a variety of stakeholders, as we seek to achieve sustainable growth and increase mid- to long-term corporate value. Under our corporate philosophy of human-centered automation, we seek to bring safety, comfort, and fulfillment to people's personal lives and work, and to help to preserve the Earth's environment. To achieve this, we have prescribed Guidelines for Corporate Behavior and Business Conduct Guidelines, and are working to roll these out to all officers and employees of Group companies. We are actively endeavoring to increase diversity among our personnel, by means such as expanding the hiring of non-Japanese employees and encouraging the promotion of female employees.

▶ 3. Ensuring Appropriate Information Disclosure and Transparency

Azbil Corporation strives to be proactive in disclosing information in order to ensure the transparency and fairness of decision-making and to achieve effective corporate governance.

In addition to financial information, such as financial standing and operating results, we actively disclose information concerning such matters as business strategies, business issues, risk, and governance, as well as our method of appointing candidates to director positions and our policy on determining the compensation of directors.

▶ 4. Responsibilities of the Board

Azbil Corporation's Board of Directors uses an appropriate decision-making process based on frank and constructive discussions concerning important matters that could have a significant effect on increasing our mid- to long-term corporate value, such as basic business strategy and business plans. Our Board of Directors is aware that independent outside directors have a vital part to play in ensuring that it fulfills its roles and responsibilities. Accordingly, it appoints three independent outside directors with extensive experience, knowledge, and insight who can enhance the fairness and transparency of company management by drawing upon their diverse backgrounds to give management advice and by supervising the execution of duties. The corporate auditors and Board of Corporate Auditors regularly exchange views with the internal auditors and Internal Audit Office in the course of providing appropriate supervision of Azbil Corporation's management and expressing their opinions on this subject.

▶ 5. Engagement with Shareholders

Azbil Corporation strives to develop systems and implement initiatives to fulfill its obligation for accountability and promote constructive dialogue with shareholders and investors. Our efforts in this regard include not only the part played by senior executives, but also the appointment of executive officer in charge of corporate communications and the strengthening of our Investor Relations Department.

Overall Balance and Diversity of the Board of Directors

Nine directors are appointed to our Board of Directors: six directors who have ample in-depth experience of business and management at Azbil Corporation and are involved in the execution of duties, and three highly independent outside directors with outstanding experience, knowledge, and expertise in corporate management. Moreover, we are enhancing the supervisory

function of our corporate auditors by appointing three outside auditors, one of whom is a certified public accountant, as well as having several corporate auditors who are knowledgeable about finance and accounting. Thus, we maintain the Board of Directors with a good overall balance.

Overall Effectiveness of the Board of Directors

We have gathered and assessed self-appraisals and views concerning the overall effectiveness of the Board of Directors from all those who participate in board meetings, in order to enhance its effectiveness. As a result, we have ascertained that the scale, composition, and running of our Board of Directors is generally appropriate and that the systems required for making important business decisions and supervising the execution of duties have been put in place. We have also confirmed that the overall effectiveness of the Board of Directors is appropriately ensured by the fact that all members have an in-depth understanding of the roles

that they should play, and that they engage in open, lively, and constructive discussion, including the outside directors, who have a diverse array of experience and expertise. At the same time, we ascertained that improvement in the efficiency of meetings is required, so that more time is devoted to discussion of matters such as company strategy and key decisions, as well as devising and improving explanatory materials and methods. We have already begun working on these improvements, and will continue to implement innovations and improvements to further enhance the overall effectiveness of the Board of Directors.

Executive Compensation

Azbil Corporation has established policies on executive compensation as part of its efforts to strengthen corporate governance and achieve sustained improvement in corporate value by meeting the azbil Group's management targets. The remuneration of executives clearly reflects the results of business performance during the period in question, based on a compensation 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. The Nomination and Remuneration

Committee, which consists of outside directors (who constitute a majority) and representative directors, reviews and determines the remuneration of each director, including the representative directors, based on our internal rules for director remuneration.

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 2016)

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)	370	255	114	—	—	6
Auditors (excluding outside auditors)	46	46	—	—	—	3
Outside directors and auditors	58	58	—	—	—	8

Note: This includes three corporate auditors whose resignation took effect at the end of the 93rd Ordinary General Meeting of Shareholders held on June 25, 2015.

Utilization of Outside Directors

In addition to the requirements for independent directors stipulated by the Tokyo Stock Exchange, Azbil Corporation, when appointing outside directors as prescribed in the Companies Act, follows criteria that it has formulated and published for determining their independence. Candidates believed to have the ability to provide constructive suggestions and accurate observations and

advice concerning Azbil Corporation's business issues and the improvement of corporate value in the medium to long term are appointed as outside directors. Candidates who are knowledgeable about finance, accounting and/or key aspects of auditing and are independent of company executives are appointed as outside corporate auditors.

Reasons for Appointing Outside Directors and Outside Auditors and Their Attendance Record

Position	Name	Reason for appointment	Attendance record
Outside Directors	Eugene H. Lee 	Mr. Eugene H. Lee brings a high level of expertise in international law and international business, as well as a wealth of experience and achievement in the management of global companies. In addition, he has an in-depth knowledge of Japan, Japanese business practices, and Japanese companies derived from his lengthy professional experience in Japan. The company secured his services in order to benefit from his advanced knowledge, business experience, and global perspective, and in order that corporate governance might be strengthened by virtue of Mr. Lee's independent position.	Board of Directors 11 of 12
	Katsuhiko Tanabe 	Mr. Katsuhiko Tanabe brings an expert viewpoint and deep insight into management as a lawyer who has held important positions of responsibility in the legal profession and has a considerable record of achievement as an expert in corporate legal affairs. The company secured his services in order to benefit from his expert legal knowledge and deep insight into corporate governance, and in order that corporate governance might be strengthened by virtue of Mr. Tanabe's independent position.	Board of Directors 11 of 12
	Takeshi Ito 	Mr. Takeshi Ito brings experience as an executive and analyst at Japanese and overseas investment banks and investment advisory companies. In addition, he has a substantial record of achievement in advanced analysis of companies and economic outlook, based on his lengthy experience of working overseas and financing business operations, and his consulting work related to M&A and other matters. The company secured his services in order to benefit from his advanced knowledge as an expert in international finance and investment, and in order that corporate governance might be strengthened by virtue of Mr. Ito's independent position.	Board of Directors 12 of 12

Position	Name	Reason for appointment	Attendance record
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.	Board of Directors 12 of 12 Board of Corporate Auditors 16 of 16
	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.	Board of Directors 10 of 10 Board of Corporate Auditors 11 of 11
	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.	Board of Directors 10 of 10 Board of Corporate Auditors 11 of 11

* Outside auditor Mitsuhiro Nagahama and outside auditor Shigeru Morita were appointed at the 93rd Ordinary General Meeting of Shareholders on June 25, 2015, so only meetings of the Board of Directors and Board of Corporate Auditors held after their appointment are included.

Comment by an Outside Director

The Status and Direction of Azbil's Corporate Governance

Japan's Corporate Governance Code has now come into effect. Azbil Corporation has scrutinized it in detail and confirmed that we have already incorporated its contents into our basic policies. We believe that this is because our management team has strived for many years to develop an environment in which we are ahead of the times, and this spirit has permeated the company. We regard the composition of our Board of Directors as one outcome of this fact. Our outside directors have all had diverse careers and hope to be able to contribute to the company's future development from their respective standpoints.

In a world in which technology, society, and the competitive environment are changing at a dizzying pace, an aggressive management style is essential to the long-term prosperity of a company. Corporate governance is nothing less than a model for achieving this. We would like to assist in realizing the azbil Group's potential on the global stage, by using its technical abilities, competitiveness, and systems that the Group has established and built up.

Outside Director
Takeshi Ito



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 of the Company
 Jun 1996 Executive Director of the Company
 Jun 2000 President of Yamatake Industries Systems Co., Ltd. (Present: The Company's 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. (Present: The Company's Advanced Automation Company), as Marketing Manager of the Company
 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, Vice President and Chief Executive Officer

Tadayuki Sasaki

Assistant to President, Overall administrative function, in charge of aG CSR, internal control, facilities/business sites, General Affairs Department, Secretary Office

Apr 1972 Joined The Fuji Bank, Limited
 Oct 1999 Manager of Project Finance Department Sales
 May 2002 Joined the Company (Director)
 Apr 2003 Executive Officer and Manager of the Accounting & Finance Department
 Apr 2006 Managing Executive Officer of the Company
 Jun 2007 Executive Director of the Company and Managing Executive Officer of the Company
 Apr 2009 Executive Director of the Company and Senior Managing Executive Officer of the Company
 Apr 2016 Executive Director of the Company and Vice President and Chief Executive Officer of the Company (present post)

4. Executive Director, Managing Executive Officer, President of 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. (Present: The Company's Building Systems Company), Manager of Security System Department of the Tokyo Head Office, of the Company
 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 Building Systems Company (present post)
 Jun 2012 Executive Director of the Company and Managing Executive Officer of the Company, President of Building Systems Company (present post)

5. Executive Director, Managing Executive Officer

Masato Iwasaki

Business in North America and South America supervision, Develop New Business Model in North America

Apr 1982 Joined the Company
 Apr 2003 Manager of Marketing 2nd Department, 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 Advanced Automation Company
 Jun 2012 Executive Director of the Company and Managing Executive Officer of the Company, President of Advanced Automation Company
 Apr 2016 Executive Director of the Company and Managing Executive Officer of the Company (present post)

6. Executive Director, Managing Executive Officer, President of Advanced Automation Company, Manager of Production Management Headquarters

Yoshimitsu Hojo

In charge of aG production, aG purchasing, the advanced automation business, Production Management Headquarters

Aug 1990 Joined the Company
 Apr 2011 Director of the Company, Manager of Company 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
 Jun 2014 Executive Director of the Company and Managing Executive Officer of the Company (present post)
 Apr 2016 Managing Executive Officer of the Company, President of Advanced Automation Company, Manager of Production Management Headquarters (present post)



7. Eugene H. Lee

5. Masato Iwasaki

3. Tadayuki Sasaki

1. Seiji Onoki

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 (Present: Siemens Healthcare K.K.)
 Dec 1990 Vice Chairman of Siemens 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 Audit & Supervisory Board Member of Sanwa Shutter Corporation (Present: 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
 Jun 2015 Outside Audit & Supervisory Board Member of JSP Corporation (present post)

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

Sep 1969 Entered Burnham & Company
 Oct 1983 Director of The First Boston Corporation (Present: Credit Suisse Group AG)
 Oct 1993 Managing Director and Vice Manager of Tokyo Branch, Smith Barney (Present: Citi Group Global Markets Japan Inc.)
 Oct 1998 President of UBS Asset Management Inc. (Present: UBS Asset Management (Japan) Ltd.)
 Dec 2010 Supreme advisor of Japan Wealth Management Securities, Inc. (Present: 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 Corporate Auditors (Outside Auditors)

Tomohiko Matsuyasu
Hisaya Katsuta

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, Valve Production Development Department, and Document Production Department

Kenji Hidaka

Responsible for the life automation business, Home Comfort Headquarters, the Life Science Engineering Development

Takayuki Yokota

Responsible for Corporate Communication, Group Management Headquarters, International Business Headquarters
 General Manager of Group Management Headquarters

Kazuyasu Hamada

Manager of Building Systems Company's Tokyo Head Office

Executive Officers

Norio Murase

Responsible for the Legal and Intellectual Property Department

Hiroshi Arai

Responsible for aG information systems, IT/software technology development

Yoshifumi Suzuki

Responsible for China area supervision

Michihiro Tomonaga

Chairman and General Manager of Azbil Taiwan Co., Ltd.

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

Kenji Okumura

Responsible for Sales Department of Advanced Automation business
 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

Akihiko Naruse

Responsible for Human Resources Department, aG Safety Management 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 CP¹ business

General Manager of the Advanced Automation Company CP Marketing Development

Junya Nishimoto

General Manager of Technology Development Headquarters

Tadayoshi Ito

Responsible for the AA SS² business, General Manager of the Advanced Automation Company SS Marketing Development, General Manager of the Advanced Automation Company's Engineering Headquarters

Tetsuya Maruyama

Responsible for Energy Management promotion, General Manager of the Building Systems Company's Environmental Facility Solutions Headquarters

Tomoyuki Takeda

Vice Manager of the Building Systems Company's Tokyo Head Office, Vice Manager of the Building Systems Company's Integrated Business Headquarters

*1 Control Products

*2 Solution and Service

**2. Hirozumi Sone****4. Keiichi Fuwa****6. Yoshimitsu Hojo****8. Katsuhiko Tanabe****9. Takeshi Ito**

Environmental Initiatives

Our environmental contributions have three key goals: achieving a low-carbon society, achieving a recycling-oriented society, and achieving a society that coexists with nature. We work to reduce the impact of our own business activities on the environment, and through our core businesses we also actively seek to help to reduce society's environmental footprint by cutting CO₂ emissions and improving the efficiency of resource use at customers' sites.

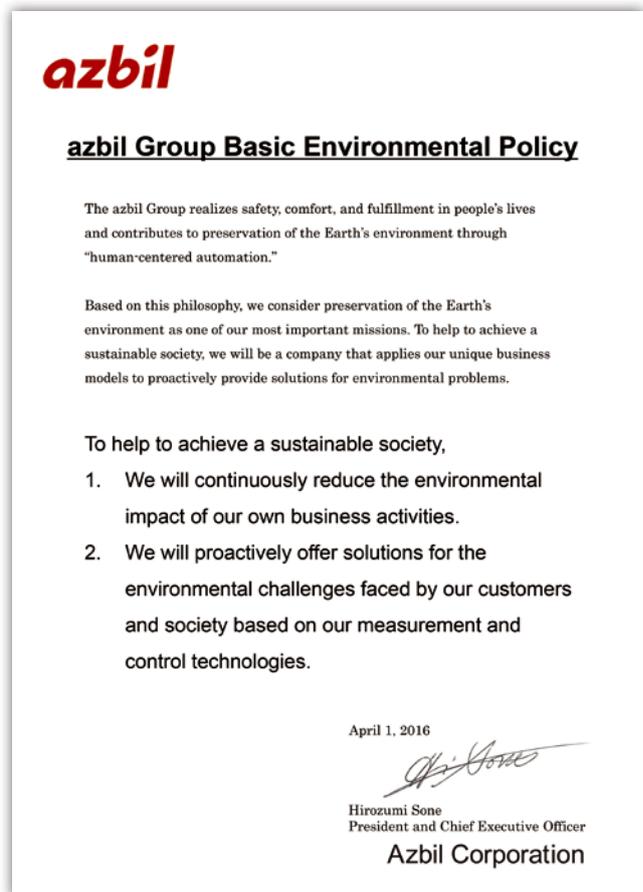
➔ For further details on CO₂ reduction at customers' sites, see "Environment" on page 27.

The azbil Group Basic Environmental Policy, and Rules for Environmental Preservation

► The azbil Group Basic Policy on the Environment

The azbil Group's environmental conservation activities were previously governed by the azbil Group Environmental Charter, which was based on the Group philosophy. We have now outlined a new approach in the azbil Group Basic Policy on the Environment, which has a stronger focus on promoting initiatives to preserve the Earth's environment. Our basic initiatives seek to reduce 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. At the same time, through our core businesses, we help to reduce society's environmental impact by solving the environmental issues faced by our customers. Guided by our new Basic Policy on the Environment, we will implement environmental preservation initiatives worldwide to do our part to achieve a sustainable society.

* Initiatives focused on the "reduce, reuse, and recycle" approach, to encourage effective use of resources



► The azbil Group Rules for Environmental Preservation

We have established the azbil Group Rules for Environmental Preservation to strengthen our environmental initiatives around the globe. Based on the azbil Group Basic Environmental Policy, these rules set out the fundamentals concerning each Group company's systems and specific required measures.

Outline of the azbil Group Rules for Environmental Preservation

(1)	Compliance with regulations
(2)	Reduction of our environmental impact Reduce CO ₂ emissions, improve the efficiency of resource use, prevent pollution, and preserve biodiversity
(3)	Green procurement
(4)	Promote environmentally friendly design, taking into account the entire product life cycle
(5)	External communication
(6)	Education and training

Priority Measures in Environmental Initiatives

Recognizing society's need to achieve a sustainable society, we identify specific priority measures and promote Group-wide initiatives that approach this challenge from four angles: reducing CO₂, using resources wisely, coexisting with nature, and

supplying environmentally friendly products and services. We are utilizing the know-how gained through our own initiatives to help to reduce the environmental impact of customers and society as a whole.

Priority Measures in Environmental Initiatives



Environmental Performance Data

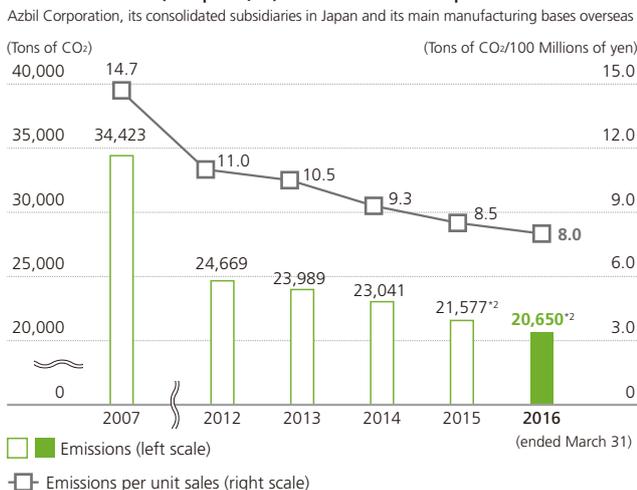
Our environmental preservation activities are based on quantitative data concerning the various burdens placed on the environment by our business activities. With the aim of achieving a low-carbon society, we strive to evaluate environmental impact across all of our business activities. As a result of our proactive efforts concerning our own business activities, we exceeded our target of a 37% cut in CO₂ emissions in the year ended March

2016 as compared with their level in the year ended March 2007, achieving a 40% reduction, or a 45% improvement per unit sales.

For further details on our environmental performance data and for reports from individual sites, please visit the web page below.

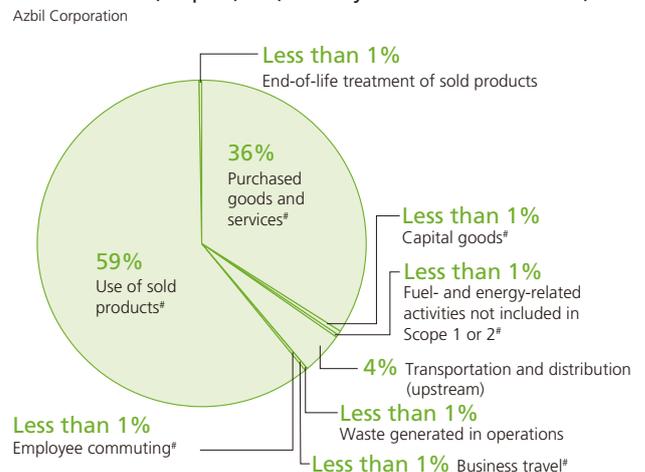
http://www.azbil.com/csr/basic/environment/business_site/performance/index.html

CO₂ Emissions (Scope 1, 2)^{*1}/CO₂ Emissions per Unit Sales



*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. Our CO₂ emissions (Scope 1 & 2) from the year ended March 2015 onwards have received third-party verification.

CO₂ Emissions (Scope 3)^{*1*2} (for the year ended March 2016)^{*3}



*1. Indirect emissions of CO₂ from sources (e.g., suppliers) not under the company's control (Scope 1 & 2) but related to its business activities.
 *2. Percentages were calculated with reference to "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain" (Japanese ver. 2.2).
 *3. CO₂ emissions (Scope 3) in the year ended March 2016 indicated with a sharp (#) have received third-party verification.

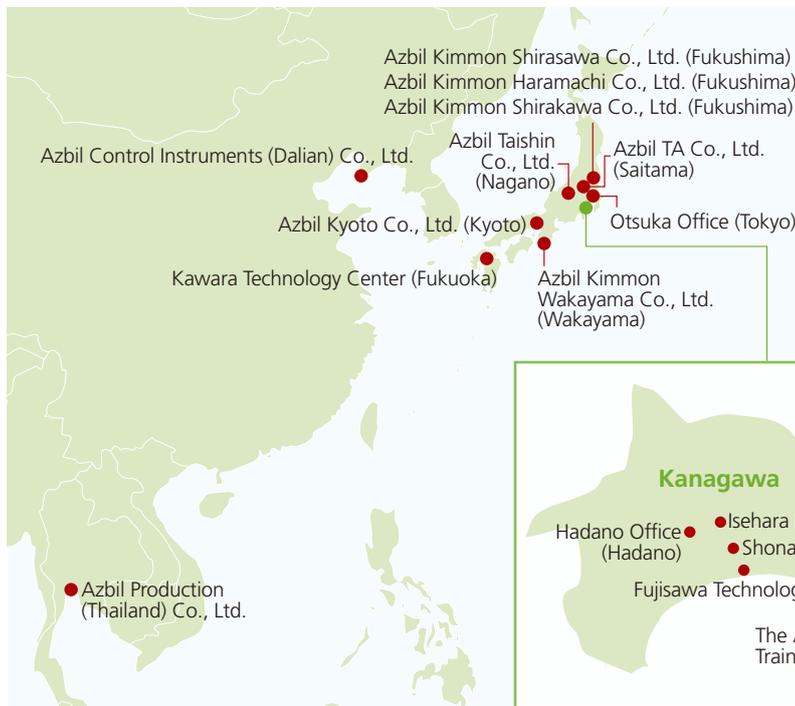
Group-wide Electricity-Saving and Energy-Efficiency Initiatives

We are actively deploying our own energy management solution, at the Group's major business centers within Japan and overseas to promote efforts to save electricity and use energy efficiently through improvements in both operation and equipment by "visualizing" electricity usage and other information in real time. Each site conducts regular energy efficiency reviews. In addition, the company's environmental promotion team, the energy efficiency experts from our business divisions dealing with energy

efficiency, and our product and technology development teams work together to develop new visualization-based energy efficiency measures through trial and error, and they are steadily achieving results. The knowledge gained through these initiatives is used to increase energy efficiency and electricity conservation among our customers and the general public.

In the year ended March 2016, we introduced our visualization system at Azbil Production (Thailand) Co., Ltd.

azbil Group Sites Using Our Visualization System



Energy conservation project activities with local staff at Azbil Production (Thailand)

Biodiversity Initiatives

When utilizing the bounties of nature in our business activities, we are aware at the same time that our activities affect ecosystems in various ways. Accordingly, as one of the partners promoting the Keidanren Declaration on Biodiversity, we work together with non-profit organizations, universities, and local governments on initiatives at the sites of azbil Group business establishments and in the communities where they are based. There were six occasions in the year ended March 2016 when employees and their families participated in environmental conservation activities. These included tree-thinning work in the city of Fujisawa in Kanagawa Prefecture; work to protect the maiden lily, a near-threatened species found in the town of Minamiaizu in Fukushima Prefecture; and surveying the trees at Azbil Kyoto Co., Ltd., which is located on land developed by the local government.



Maiden lily conservation work



Maiden lily

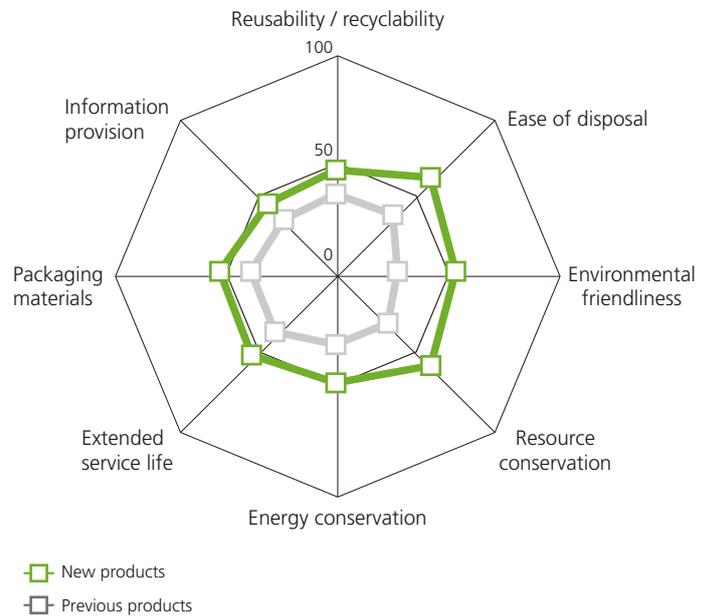
Consideration for the Environment in Our Products and Services

Since establishing our "Guidelines for Development of Products with Reduced Environmental Impact" in 1997, we have promoted Design for the Environment, which covers the entire life cycle of products and services, from the initial stages of development planning and design to materials procurement, production, logistics, sale, use, and disposal. In addition to conducting environmental design reviews at each development stage, we set environmental design 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 of all new products, and products that meet our internal criteria can be granted the azbil Group Environmental Label³ as an environmentally friendly product and service.

As a result of our Design for the Environment initiatives in the year ended March 2016, we achieved improvements of 20% or more in the categories of ease of disposal (ease of collection, transport, and disassembly), environmental friendliness (nonuse of specific hazardous substances, detachability of components containing environmental pollutants, avoidance of hazardous substance use during manufacturing), and recyclability (smaller and lighter products, use of less wiring). This translated into an overall**⁴ improvement of 17.9% in our environmental assessment as a whole.

- *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.
- *3. Type II Environmental Label
- *4. Overall figure calculated from the results of each environmental assessment

Environmental Assessment Results (for the year ended March 2016)



azbil Group Environmental Label

Incentive Award Presentation at the 12th LCA Society of Japan Commendation Ceremony

At the 12th LCA* Society of Japan Commendation Ceremony, Azbil Corporation was presented with the LCA Society of Japan Incentive Award in recognition of our proactive initiatives to develop products and services that are environmentally friendly throughout their life cycle. We were praised for our Design for the Environment initiatives using LC-CO₂ as the environmental design target, based on standardized LCA calculation throughout the azbil Group and our quick LCA calculation tool.

*LCA: Life Cycle Assessment

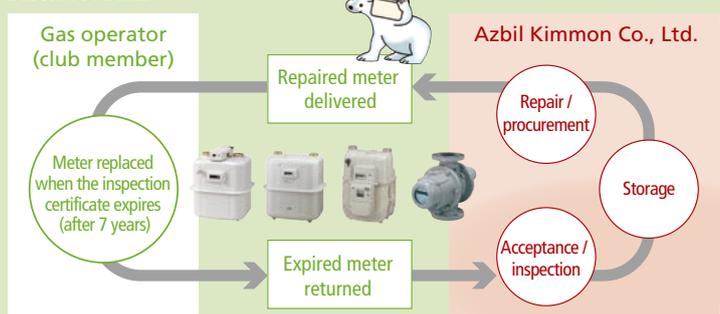


Presentation at the award ceremony

Gas Meter Repair Club

The Gas Meter Repair Club is a membership-based system for the reuse of gas meters that we launched for LP gas operators in the year ended March 2015. We collect and repair the gas meters of club members, enabling them to be used again by the next member who requires one. The purpose of the system is not only to reduce costs for customers, but also to ensure the effective use of resources, thereby helping to protect the environment. The program initially focused only on commercial LP gas meters, but we subsequently expanded its scope and now also accept high-capacity rotary meters for grid gas. Around 570 gas operators nationwide are signed up as members of this program at present, a strong indication of their approval for its goals. Going forward, we would like to further enhance services for members and expand the program in a way that leverages the advantages of a membership system.

Service Process



Responsibility to Stakeholders

Based on its philosophy of “human-centered automation,” the azbil Group aims to achieve sustainable growth and increase mid- to long-term corporate value by bringing safety, comfort, and fulfillment to people’s lives.

We are fully aware of our corporate social responsibility and believe that we should manage the company with appropriate consideration for our various stakeholders in the course of our business activities.

Responsibility to Shareholders

We take appropriate measures to fully secure shareholder rights in accordance with laws and regulations. We are also developing an environment that takes into consideration the needs of minority shareholders and foreign shareholders, enabling them to exercise their rights effectively and equally. Moreover, to fulfill our accountability, we are striving to enhance the information we disclose and ensure greater transparency, with the aim of achieving a sustained improvement in corporate value.

► 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 by the use of projected visual aids.

We were one of the first companies to encourage shareholders to exercise their voting rights by 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 out the notices three weeks before the annual shareholders’ meeting and publishing them on our website in Japanese and English 10 days before they are sent, we have put in place an environment that enables a wide range of investors to use an electronic voting platform so that they can quickly obtain information about the annual shareholders’ meeting and exercise their voting rights.

The Ordinary General Meeting of Shareholders for the year ended March 2016 was attended in person by 178 shareholders, and almost 90% of shareholders exercised their voting rights.

► Enhancing Communication

We have appointed an executive officer in charge of corporate communications, who are putting in place systems to facilitate dialogue with shareholders and investors, in partnership with various departments at Azbil Corporation. 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 investment decisions, including the IR website (providing information for shareholders and investors), the annual report (this publication), and the Fact Book.

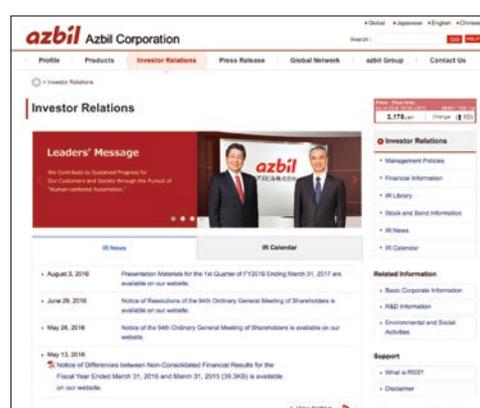
In the year ended March 2016, in addition to participating in conferences organized by securities companies in Japan and overseas, company staff and officers including the president and CEO attended various meetings, engaging in dialogue on more than 280 occasions. These offered an opportunity to promote

understanding of our company and gain valuable insights into views of others. We forward the opinions gathered through such dialogue to the management team, including the outside directors, and use it as a key source of information for making decisions on corporate management.

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 and accounting hold briefing sessions for analysts from securities companies to promote understanding of the company.

► Timely and Appropriate Disclosure

We ensure that highly transparent and fair disclosure of information is carried out in a timely and appropriate manner, in order to build and develop a relationship of trust with stakeholders. In addition, we have set out our basic approach to disclosure in our Disclosure Policy. We also do our utmost to ensure prompt disclosure on the IR website, publishing and updating information about such matters as shareholders’ meetings, financial results, and IR tools. In addition, we offer an IR information e-mail service that enables subscribers to receive information as it is announced. We upgraded our IR website in the year ended March 2016 to enhance the information provided and improve its accessibility.



Front page of the IR site

Responsibility to Society

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 2016, the club’s sixth year of operation, 29 groups previously selected by vote received donations from the club, and donations were also made to another 23 groups engaged in activities that contribute to society. The groups received a total of ¥6.43 million, including matching donations from Azbil Corporation. This brought the total number of initiatives supported by the club since its inception to 195, with accumulative donations worth a total of ¥27.64 million.

Azbil Corporation encourages active participation in such activities by each and every employee by providing matching donations.



Assistance activity in a disaster-affected area by groups supported by the club

azbil Honey Bee Club

The club was formed to allow the Group’s corporate culture and spirit to take root and result in contributions to society.

- Any employee who wishes can participate.
- By saving a little bit back from expenditures, it’s easy to save enough money to participate.
- A certain amount of the money is donated to volunteer groups or individuals engaged in activities that contribute to society, preferably activities in which club members have participated.

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

For further details, please visit the club’s web page.

<http://www.azbil.com/jp/csr/contribution-to-society/mitsubachi.html>

► 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 the very first time the race was run. The year ended March 2016 saw us supporting it for the 10th time.

Each year, we serve as an Eco Friendship Leader, working with other supporting organizations to assist in the smooth running of the event, the separation of different types of recyclable waste, and the building of structures from environmentally friendly materials. Through these activities, we make a contribution to the community and raise environmental awareness among participants and spectators.

The Eco-Café that we operate there each year helps to raise awareness about contributing to society among participants and spectators by using locally grown and locally consumed ingredients. In addition, at the 2015 race, we offered coffee made from fair trade coffee beans for the first time.

In addition to 91 employees from across the country and other volunteers who offered their services to assist in the hosting of the event, a total of 206 employees took part as runners, making the 10th anniversary Shonan International Marathon a lively occasion.

<http://www.shonan-kokusai.jp/10th/approach/ecofriendship/index.html>



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



March, the azbil Honey Bee Club’s mascot

Responsibility to Customers and Suppliers

At customers' sites, we help to solve problems and create value for customers by delivering high-quality, safe and dependable products and services unique to the azbil Group.

► Responsibility to Customers

Backed by our integrated framework, which covers everything from development to manufacturing, sales, engineering, installation, and service, we work with customers at their sites to identify and understand their challenges and deliver solutions, while making every effort to ensure the quality, safety, and dependability of our products. We have now opened a new venue, the azbil Techno Plaza, to

provide customers with a deeper understanding of our technologies, products, and services.

Additionally with regard to our responsibilities to customers, we make sure to appropriately manage the information entrusted to us by customers by thorough adherence to information management and confidentiality protocols, reinforced by information security training for employees.

➔ For more detailed information, see "Quality Assurance and Safety of Products and Services" on page 46.

Responsibility to Employees and Partners

We encourage 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 undertaking various initiatives 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

Raising the Standard of Workplace Management Since the year ended March 2014, we have conducted employee satisfaction surveys with the aim of creating healthy and positive workplaces, using the results to identify and analyze the current situation in workplaces and any problems involving matters such as motivation for work, communication between managers and staff, or job performance. Through this repeated process of surveys, analysis, and the formulation and implementation of improvements, we are endeavoring to raise the standard of workplace management.

In organizations where employee satisfaction was relatively low, the Personnel Department worked with the workplace management to devise and implement corrective measures. Repeatedly carrying out this process has resulted in our Satisfaction DI* improving from 40% in the year ended March 2014 to 47% in the year ended March 2016.

In the year ended March 2016, we began conducting the satisfaction survey at all Group companies and are working on creating healthy and positive workplaces throughout the azbil Group.

* An index calculated by: Satisfied employees (%) – Dissatisfied employees (%).

Promoting a Better Work-Life Balance To help employees achieve a good work-life balance, we encourage them as a first step to use their annual paid leave. In addition to setting a single company target for taking annual paid leave, we are working to achieve greater efficiency of workplace operations in workplaces where employees have difficulty taking paid leave. In addition, we

are spreading the workload between workplaces through more effective utilization and deployment of personnel.

As a result, the percentage of employee annual paid leave which was used has increased at Azbil Corporation from 73% (14.7 days) in the year ended March 2014 to 75% (15.1 days) in the year ended March 2016.

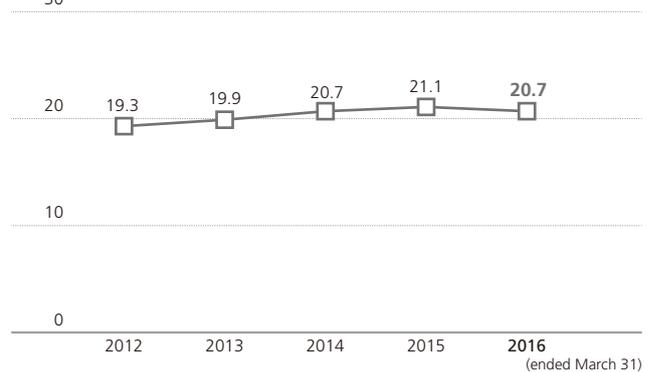
► Promoting Diverse Ways of Working

Developing a Female-friendly Workplace Environment

With the aim of building and maintaining a healthy workplace environment in which women can work with long-term health and peace of mind, we are continuing to enhance our maternity leave and child care leave systems. We have introduced a system in which a woman can work shorter hours or shift her working hours to achieve a better work-life balance. Based on the Act on Promotion of Women's Participation and Advancement in the Workplace, we have put together an action plan that supports active participation by women and, to encourage women to remain in the workplace for the long term, enhances efforts to

Average Length of Continuous Service among Female Employees

Azbil Corporation
(Years)
30



□ Average length of continuous service among female employees

create opportunities for women to take on more important roles and greater responsibilities. Moreover, it aims to develop a more pleasant long-term working environment for all employees, men and women alike, in order to improve job satisfaction. We have set a target of at least doubling the number of women in managerial or specialist positions compared with the year ended March 2015 (when there were 35 women in such positions).

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 play an active role in the company. Azbil Yamatake Friendly's management policy is to assist in the skill enhancement and self-realization of people with intellectual disabilities through work, thereby enabling these employees to contribute to society. With this in mind, we endeavor to increase employment opportunities for people with disabilities. Having received approval to use the special provision applicable to large companies in regard to the statutory employment rate, our special subsidiary company is strengthening its partnerships with other Group companies in order to offer a wider range of opportunities for people with disabilities to play an active role in society. In the year ended March 2016, we added Azbil TA Co., Ltd., to the list of companies included in the calculations, thereby further expanding the scope for offering employment opportunities.

► **Creating the Workplaces that Ensure Safety and Peace of Mind**

Raising the Standard of Health and Safety among Group Companies To raise the standard of health and safety among Group companies, we have extended Azbil Corporation's Basic Policy on Health and Safety, its Health and Safety Regulations, and its Health and Safety Committee Regulations to cover the entire azbil Group, and we are now acting on this basis.

Progressive Expansion of OHSMS Certification During the fourth year of our OHSMS certification, we continued to maintain highly safety-conscious workplace environments and are expanding the scope of our efforts to address workplace safety issues by

increasing the number of business establishments with OHSMS certification.

New Health and Safety Education Programs As the number of serious incidents has been decreased, in the current fiscal year (ending March 2017) we introduce new health and safety education programs entitled "Preventing Human Error," "How to Conduct Effective Safety Patrols," and "Preventing Incidents Caused by Falls." Through these courses, we are working to prevent industrial accidents.

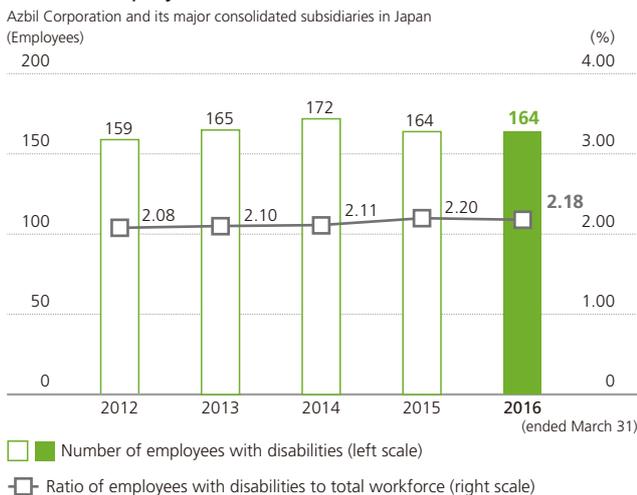
Mental Health Support In addition to conducting stress checks, we are improving our self-care education. Also, when conducting group analysis of stress checks, we link them to the results of employee satisfaction surveys and analyses of factors contributing to past employee absenteeism, and seek to improve the workplace environment in order to facilitate early detection and prevention of problems related to mental health.

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. Specifically, in the current fiscal year (ending March 2017), we are measuring the physical fitness of employees as part of our effort to prevent falls, and we are also setting improvement targets and conducting activities to help to improve employee physical fitness.

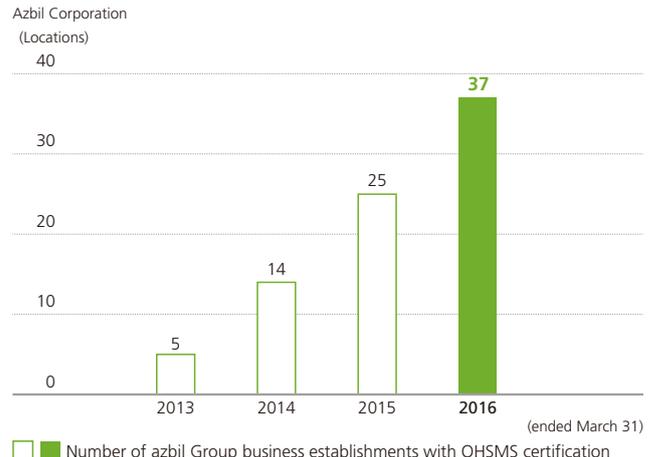
► **Responsibility to Partners (Partner Companies, Suppliers, etc.)**

The azbil Group endeavors to ensure honest and fair purchasing both within Japan and overseas. Accordingly, to ensure full consideration of corporate social responsibility (CSR) throughout the supply chain, we request that suppliers familiarize themselves with the azbil Group's Basic Purchasing Policy. Moreover, we assist partner companies to improve technical capabilities and human resource development in order to ensure that we provide a high level of value. As part of these endeavors, we hold an in-house session featuring presentations of outstanding proposals for improving energy efficiency at client sites and examples of improvements in the operation of equipment. The very best examples are recognized with a commendation.

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



Number of azbil Group Business Establishments with OHSMS Certification



11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2006	2007	2008	2009
Financial Results (for the year):				
Net sales	188,321	234,572	248,551	236,173
Gross profit	72,769	84,780	89,946	86,655
Operating income	13,515	17,314	20,484	17,832
Net income attributable to owners of the parent	9,795	10,646	10,709	9,525
Capital Expenditures:				
Capital expenditures	6,790	5,273	4,488	6,414
Depreciation	2,352	3,891	4,387	4,503
R&D expenses	8,360	8,776	9,844	9,636
Cash Flows (for the year):				
Net cash provided by operating activities	6,386	7,524	21,086	21,372
Net cash provided by (used in) investing activities	(7,405)	(2,475)	(612)	(16,606)
Free cash flow	(1,019)	5,049	20,474	4,766
Net cash used in financing activities	(3,328)	(6,348)	(6,433)	(8,575)
Financial Position (at year-end):				
Total assets	217,882	230,679	228,844	220,846
Net assets	110,859	118,967	121,721	124,984
Per Share Data:				
Net income (yen)	132.52	144.71	145.63	127.87
Net assets (yen)	1,506.25	1,602.33	1,641.73	1,672.91
Cash dividends (yen)	50.00	50.00	60.00	62.00
Ratios:				
Gross profit/Net sales (%)	38.6	36.1	36.2	36.7
Operating income/Net sales (%)	7.2	7.4	8.2	7.6
R&D expenses/Net sales (%)	4.4	3.7	4.0	4.1
Shareholders' equity/Total assets (%)	50.9	51.1	52.6	55.9
Return on equity (ROE) (%)	9.3	9.3	9.0	7.8
Dividend on equity (DOE) (%)	3.5	3.2	3.7	3.7
Dividend payout ratio (%)	37.6	34.6	41.2	48.5

(Millions of yen)

2010	2011	2012	2013	2014	2015	2016
212,213	219,216	223,499	227,585	248,417	254,469	256,890
76,420	79,714	80,840	77,872	86,550	89,884	91,089
12,385	14,896	14,348	13,411	13,904	15,337	17,136
6,242	7,928	8,519	8,309	7,669	7,169	8,268
2,704	3,351	3,010	3,121	5,303	6,302	3,413
4,751	4,460	4,027	3,621	3,722	3,784	4,148
8,640	8,953	8,816	7,824	8,767	10,124	11,012
15,714	15,223	5,634	15,010	15,836	13,698	11,073
1,960	(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	4,261
17,674	12,947	2,085	2,294	5,166	226	15,334
(6,757)	(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)
218,472	217,501	223,476	243,419	253,448	265,719	259,127
129,278	131,362	135,077	141,197	144,978	160,294	156,966
84.52	107.35	115.35	112.50	103.85	97.07	112.73
1,728.64	1,754.86	1,808.48	1,882.66	1,940.56	2,143.11	2,116.09
62.00	63.00	63.00	63.00	63.00	63.00	67.00
36.0	36.4	36.2	34.2	34.8	35.3	35.5
5.8	6.8	6.4	5.9	5.6	6.0	6.7
4.1	4.1	3.9	3.4	3.5	4.0	4.3
58.4	59.6	59.8	57.1	56.5	59.6	59.8
5.0	6.2	6.5	6.1	5.4	4.8	5.3
3.6	3.6	3.5	3.4	3.3	3.1	3.1
73.4	58.7	54.6	56.0	60.7	64.9	59.4

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 55,947	¥ 51,921	\$ 495,110
Marketable securities (Note 4)	12,506	13,606	110,672
Notes and accounts receivable:			
Trade (Note 14)	91,772	88,961	812,143
Other	1,601	1,584	14,167
Allowance for doubtful receivables	(622)	(566)	(5,504)
Inventories (Note 5)	24,153	21,683	213,747
Deferred tax assets (Note 10)	5,345	5,388	47,297
Prepaid expenses and other current assets	10,124	15,419	89,590
Total current assets	200,826	197,996	1,777,222
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,531	6,618	57,794
Buildings and structures (Notes 6 and 7)	42,029	42,254	371,941
Machinery and equipment (Notes 6 and 7)	20,083	20,264	177,723
Furniture and fixtures (Note 6)	19,948	20,231	176,531
Lease assets (Note 13)	224	279	1,986
Construction in progress	376	250	3,329
Total	89,191	89,896	789,304
Accumulated depreciation	(64,820)	(64,197)	(573,627)
Net property, plant and equipment	24,371	25,699	215,677
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	19,326	22,395	171,026
Investments in and advances to unconsolidated subsidiaries and associated companies	332	350	2,938
Goodwill (Note 6)	158	5,601	1,399
Deposits	2,801	2,612	24,787
Deferred tax assets (Note 10)	1,536	875	13,591
Software	4,291	790	37,977
Other assets	5,486	9,401	48,551
Total investments and other assets	33,930	42,024	300,269
TOTAL	¥ 259,127	¥ 265,719	\$ 2,293,168

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 11,747	¥ 14,053	\$ 103,954
Current portion of long-term debt (Notes 7 and 14)	383	1,871	3,389
Notes and accounts payable:			
Trade (Note 14)	45,587	42,688	403,426
Other	2,365	1,944	20,931
Income taxes payable	3,796	3,830	33,593
Accrued bonuses	9,004	8,876	79,679
Other accrued expenses and current liabilities	16,062	16,433	142,143
Total current liabilities	88,944	89,695	787,115
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,327	1,655	11,745
Liability for retirement benefits (Note 8)	5,832	8,291	51,610
Deferred tax liabilities (Note 10)	3,804	4,725	33,666
Long-term payable for retirement benefits	1,596		14,122
Other long-term liabilities	658	1,059	5,825
Total long-term liabilities	13,217	15,730	116,968
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 9):			
Common stock—authorized, 279,710,000 shares; issued, 75,116,101 shares	10,523	10,523	93,121
Capital surplus	12,334	17,198	109,150
Retained earnings	128,476	121,573	1,136,960
Treasury stock—at cost, 1,865,122 shares in 2016 and 1,263,924 shares in 2015	(4,651)	(2,649)	(41,159)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	7,641	9,524	67,623
Deferred loss on derivatives under hedge accounting	(1)		(5)
Foreign currency translation adjustments	2,212	2,506	19,579
Defined retirement benefit plans	(1,529)	(402)	(13,535)
Total	155,005	158,273	1,371,734
Noncontrolling interests	1,961	2,021	17,351
Total equity	156,966	160,294	1,389,085
TOTAL	¥ 259,127	¥ 265,719	\$ 2,293,168

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	¥ 256,890	¥ 254,469	\$ 2,273,361
COST OF SALES (Notes 8 and 13)	165,801	164,585	1,467,268
Gross profit	91,089	89,884	806,093
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12 and 13)	73,953	74,547	654,451
Operating income	17,136	15,337	151,642
OTHER INCOME (EXPENSES):			
Interest income	135	131	1,200
Dividend income	360	341	3,185
Interest expense	(330)	(461)	(2,923)
Foreign currency exchange gain (loss)	(887)	1,771	(7,846)
Gain (loss) on sales of property, plant, equipment and others—net	(4)	95	(39)
Gain on sales of shares of subsidiaries and associates		1,607	
Gain on sales of investment securities—net (Note 4)	192	53	1,697
Loss on impairment of long-lived assets (Note 6)	(3,396)	(2,669)	(30,051)
Loss on abolishment of retirement benefit plan		(2,885)	
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary		(899)	
Others—net (Note 11)	(54)	(808)	(473)
Other (expenses) income—net	(3,984)	(3,724)	(35,250)
INCOME BEFORE INCOME TAXES	13,152	11,613	116,392
INCOME TAXES (Note 10):			
Current	4,469	4,426	39,556
Deferred	126	(232)	1,111
Total income taxes	4,595	4,194	40,667
NET INCOME	8,557	7,419	75,725
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(289)	(250)	(2,555)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 8,268	¥ 7,169	\$ 73,170

	Yen		U.S. Dollars (Note 1)
	2016	2015	2016
PER SHARE OF COMMON STOCK (Note 2.s):			
Net income	¥ 112.73	¥ 97.07	\$ 1.00
Cash dividends applicable to the year	67.00	63.00	0.59

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 8,557	¥ 7,419	\$ 75,725
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	(1,883)	4,546	(16,665)
Deferred loss on derivatives under hedge accounting	(1)	(1)	(5)
Foreign currency translation adjustments	(346)	1,794	(3,065)
Defined retirement benefit plans	(1,130)	1,435	(10,004)
Total other comprehensive income (loss)	(3,360)	7,774	(29,739)
COMPREHENSIVE INCOME	¥ 5,197	¥ 15,193	\$ 45,986
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 4,964	¥ 14,830	\$ 43,928
Noncontrolling interests	233	363	2,058

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	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)					Noncontrolling 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 Plans	Total		
BALANCE, 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 attributable to owners of the parent					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)
Net change in the year				(2)			4,546	(1)	1,681	1,435	7,659	361	8,020
BALANCE, MARCH 31, 2015 (APRIL 1, 2015, as previously reported)	73,852	10,523	17,198		121,573	(2,649)	9,524		2,506	(402)	158,273	2,021	160,294
Cumulative effect of accounting change (Note 2.b)			(4,864)		3,415						(1,449)		(1,449)
BALANCE, APRIL 1, 2015 (as restated)	73,852	10,523	12,334		124,988	(2,649)	9,524		2,506	(402)	156,824	2,021	158,845
Net income attributable to owners of the parent					8,268						8,268		8,268
Cash dividends, ¥67 per share					(4,780)						(4,780)		(4,780)
Purchase of treasury stock	(601)					(2,002)					(2,002)		(2,002)
Net change in the year							(1,883)	(1)	(294)	(1,127)	(3,305)	(60)	(3,365)
BALANCE, MARCH 31, 2016	73,251	¥ 10,523	¥ 12,334		¥ 128,476	¥ (4,651)	¥ 7,641	¥ (1)	¥ 2,212	¥ (1,529)	¥ 155,005	¥ 1,961	¥ 156,966

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Noncontrolling 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 Plans	Total		
BALANCE, MARCH 31, 2015 (APRIL 1, 2015, as previously reported)	\$ 93,121	\$ 152,193		\$ 1,075,871	\$ (23,439)	\$ 84,288		\$ 22,176	\$ (3,560)	\$ 1,400,650	\$ 17,882	\$ 1,418,532
Cumulative effect of accounting change (Note 2.b)		(43,043)		30,221						(12,822)		(12,822)
BALANCE, APRIL 1, 2015 (as restated)	93,121	109,150		1,106,092	(23,439)	84,288		22,176	(3,560)	1,387,828	17,882	1,405,710
Net income attributable to owners of the parent				73,170						73,170		73,170
Cash dividends, \$0.59 per share				(42,302)						(42,302)		(42,302)
Purchase of treasury stock					(17,720)					(17,720)		(17,720)
Net change in the year						(16,665)	\$ (5)	(2,597)	(9,975)	(29,242)	(531)	(29,773)
BALANCE, MARCH 31, 2016	\$ 93,121	\$ 109,150		\$ 1,136,960	\$ (41,159)	\$ 67,623	\$ (5)	\$ 19,579	\$ (13,535)	\$ 1,371,734	\$ 17,351	\$ 1,389,085

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 13,152	¥ 11,613	\$ 116,392
Adjustments for:			
Income taxes—paid	(4,559)	(6,851)	(40,348)
Depreciation and amortization	4,832	5,636	42,761
Reversal of doubtful receivables	102	51	904
Increase in accrued bonuses	145	204	1,285
Foreign currency exchange loss (gain)	617	(1,334)	5,459
Loss (gain) on sales of property, plant and equipment and others—net	4	(95)	39
Gain on sales of investment securities—net	(192)	(53)	(1,697)
Loss on impairment of long-lived assets	3,396	2,669	30,051
Loss on abolishment of retirement benefit plan		2,885	
Loss on reversal of foreign currency translation adjustment due to liquidation of a foreign subsidiary		899	
Gain on sales of shares of subsidiaries and associates		(1,607)	
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(3,820)	(352)	(33,808)
Increase in inventories	(2,892)	(2,978)	(25,590)
Increase in notes and accounts payable	3,521	457	31,155
Decrease in liability for retirement benefits	(2,730)	(1,710)	(24,157)
Increase in net defined benefit assets	(1,397)		(12,361)
Increase in accrued payments due to change in retirement benefit plan	2,401		21,246
Decrease (increase) in other assets	(800)	438	(7,076)
Increase (decrease) in other liabilities	(310)	3,214	(2,745)
Others—net	(397)	612	(3,521)
Total adjustments	(2,079)	2,085	(18,403)
Net cash provided by operating activities	11,073	13,698	97,989
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	119	562	1,055
Purchases of property, plant and equipment	(2,601)	(4,463)	(23,016)
Purchase of intangible assets	(722)	(1,591)	(6,388)
Proceeds from sales of investment securities	244	138	2,161
Purchases of investment securities	(23)	(77)	(202)
Proceeds from sales of beneficiary securities of trust	12,728	14,026	112,639
Purchases of beneficiary securities of trust	(12,209)	(13,971)	(108,045)
Proceeds from sales of marketable securities	30,700	30,000	271,681
Purchase of marketable securities	(29,600)	(33,500)	(261,947)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation		2,373	
Purchase of investments in capital of subsidiaries		(1,637)	
Others—net	5,625	(5,332)	49,777
Net cash provided by (used in) investing activities	4,261	(13,472)	37,715
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	(1,639)	587	(14,505)
Proceeds from long-term debt	112	380	995
Repayment of long-term debt	(1,808)	(2,115)	(15,996)
Purchase of treasury stock	(2,002)	(2)	(17,720)
Cash dividends paid	(4,779)	(4,651)	(42,289)
Dividends paid to noncontrolling interests	(281)	(214)	(2,493)
Others—net	(139)	(51)	(1,232)
Net cash used in financing activities	(10,536)	(6,066)	(93,240)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(772)	1,432	(6,829)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,026	(4,408)	35,635
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		484	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	51,921	55,845	459,475
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 55,947	¥ 51,921	\$ 495,110
ADDITIONAL INFORMATION:			
Decrease in assets and liabilities in the exclusion of Azbil Care & Support Co., Ltd.:			
Asset excluded		¥ 1,201	
Liability excluded		402	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥113 to \$1, the approximate rate of exchange as of March 31, 2016. 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, 2016, include the accounts of Azbil and its 57 significant (60 in 2015) 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 2015) associated companies are accounted for by the equity method.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill is amortized on a straight-line basis over five to nine 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."

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.

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 noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is 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 previous accounting standard is 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 previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is 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 previous 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 previous 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 (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs 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 (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) 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 shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income 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 (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The azbil Group applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred in the past.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The cumulative effects from the retrospective application for (a) and (e) above at April 1, 2015, have been reflected within capital surplus and retained earnings at April 1, 2015.

As a result, goodwill and capital surplus at April 1, 2015, decreased by ¥1,449 million (\$12,822 thousand) and ¥4,864 million (\$43,043 thousand), respectively, and retained earnings at April 1, 2015, increased by ¥3,415 million (\$30,221 thousand). The effect on operating income and income before income taxes for the year ended March 31, 2016, was immaterial. Also, net assets per share for the year ended March 31, 2016, decreased by ¥19.78 (\$0.18).

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 and a certain subsidiary have defined benefit pension plans and defined contribution pension plans covering retired employees. Regarding working employees, Azbil and a certain subsidiary transferred the defined benefit pension plans to the defined contribution pension plans on June 1, 2015.

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

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, retained earnings as of April 1, 2014, increased by ¥5,149 million.

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 normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

l. 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.

m. 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, 2016 and 2015, was ¥109 million (\$969 thousand) and ¥117 million, respectively.

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

s. Per Share Information—Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares of common stock used in the computation was 73,348,020 shares for 2016 and 73,852,582 shares for 2015.

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.

t. 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.

u. New Accounting Pronouncements

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, “Guidance on Recoverability of Deferred Tax Assets,” which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified

Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company’s classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The azbil Group expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. ACCOUNTING CHANGE

Concerning the sales of goods within Japan, Azbil had been recognizing the revenue on a shipment on delivery basis; however, effective April 1, 2015, it altered the method to recognize the revenue on the date when the goods are delivered to and arrive at the customer site.

While the azbil Group had been recognizing the revenue for sales of goods within Japan on a shipment on delivery basis, it had been recognizing the revenue for overseas countries on a loading basis based on the Free On Board (FOB) contracts and the revenue for overseas consolidated subsidiaries and affiliates as a general rule, based on International Financial Reporting Standards (IFRS). In recent years, however, the importance of sales of goods overseas and sales by overseas consolidated subsidiaries and affiliates is increasing, as customers continue to expand their businesses overseas. Under this circumstance, Azbil reviewed its revenue recognition policy. As a result, concerning revenue recognition, Azbil deemed it more appropriate to change the method of recognizing revenue from the sales of goods within Japan from a delivery basis to the date of the receipt by the customer to emphasize the objectivity of “transferring important risks and rewards associated with possession of goods to the buyers” and also to promote integration of the processing method for sales of goods among the azbil Group.

Thus, the azbil Group decided to change the method accordingly upon introduction of a new core information system and the improvement of its management structure from the year ended March 31, 2016.

Because the effect of this change on net sales, operating income, and income before income taxes for the year ended March 31, 2016, is immaterial, retrospective application has not been carried out. The effect on segment information is also immaterial. Therefore, the statement is omitted.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current—Other	¥ 12,506	¥ 13,606	\$ 110,672
Total	¥ 12,506	¥ 13,606	\$ 110,672
Noncurrent:			
Equity securities	¥ 19,324	¥ 22,391	\$ 171,006
Other	2	4	20
Total	¥ 19,326	¥ 22,395	\$ 171,026

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2016 and 2015, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2016				2015				2016			
	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	¥ 5,811	¥ 12,975	¥ 93	¥ 18,693	¥ 5,793	¥ 15,942	¥ 40	¥ 21,695	\$ 51,423	\$ 114,825	\$ 820	\$ 165,428
Other	12,506			12,506	13,606			13,606	110,672			110,672

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2016 and 2015, is disclosed in Note 14. The information for available-for-sale securities which were sold during the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2016			2015			2016		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 244	¥ 192		¥ 138	¥ 53		\$ 2,161	\$ 1,701	\$ 4

The impairment losses on available-for-sale equity securities for the year ended March 31, 2016, were ¥2 million (\$14 thousand).

5. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise	¥ 2,750	¥ 1,580	\$ 24,335
Finished products	3,740	3,774	33,095
Work in process	7,520	7,009	66,554
Raw materials	10,143	9,320	89,763
Total	¥ 24,153	¥ 21,683	\$ 213,747

6. LONG-LIVED ASSETS AND GOODWILL

The azbil Group reviewed its long-lived assets for impairment, and recognized impairment losses of ¥3,396 million (\$30,051 thousand) for the year ended March 31, 2016, for certain assets of Azbil Kimmon Co., Ltd. and goodwill of Azbil Telstar, S.L.U. and Azbil Vortek, LLC. Azbil Kimmon Co., Ltd. decided to close two of its factories to consolidate its production bases. As a result, the carrying amount of the relevant asset group was written down to the recoverable amount. The recoverable amount was calculated on the basis of net realizable value, while land and buildings and structures are calculated using the real estate appraisal value. The recoverable amount of other assets was recorded as the memorandum value as these assets are not expected to be used or sold in the future. The carrying amount of goodwill was written down to the recoverable amount taking into account future earnings. The discount rate for measuring the recoverable amount was 12.7% for Azbil Vortek, LLC. The recoverable amount was zero for Azbil Telstar, S.L.U.

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Buildings and structures	¥ 60	¥ 67	\$ 532
Machinery and equipment	4	2	34
Furniture and fixtures, etc.	2	13	18
Land	18		156
Goodwill of Azbil Telstar, S.L.U.	3,012	1,784	26,659
Goodwill of Azbil Vortek, LLC	300	407	2,652
Goodwill of Beijing YTYH Intelli-Technology (Beijing) Co., Ltd.		396	
Total	¥ 3,396	¥ 2,669	\$ 30,051

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2016 and 2015, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 10.6% as of March 31, 2016, and from 0.4% to 9.4% as of March 31, 2015.

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and other financial institutions, due serially through 2029 with interest rates ranging from 0.0% to 4.9% in 2016 and from 0.0% to 3.1% in 2015:			
Collateralized	¥ 121	¥ 310	\$ 1,076
Unsecured	727	2,271	6,434
Bonds due serially through 2016 with interest rates of 0.7% in 2016 and 0.7% in 2015—			
Collateralized	10	40	88
Obligations under finance leases	852	905	7,536
Total	1,710	3,526	15,134
Less current portion	(383)	(1,871)	(3,389)
Long-term debt, less current portion	¥ 1,327	¥ 1,655	\$ 11,745

As of March 31, 2016, Azbil had an unused line of credit amounting to ¥30,000 million (\$265,487 thousand), of which ¥10,000 million (\$88,496 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$176,991 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2016, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 383	\$ 3,389
2018	235	2,083
2019	155	1,370
2020	435	3,852
2021	113	999
2022 and thereafter	389	3,441
Total	¥ 1,710	\$ 15,134

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2016, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 373	\$ 3,304
Buildings and structures	69	611
Total	¥ 442	\$ 3,915

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

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

8. RETIREMENT AND PENSION PLANS

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

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

In addition, Azbil and a certain subsidiary transferred the defined benefit pension plans for working employees to the defined contribution pension plans on June 1, 2015. The accounting for these transfers was recorded according to "Guidance on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ PITF No. 2).

The liability for retirement benefits at March 31, 2016 and 2015, for directors and Audit & Supervisory Board members is ¥133 million (\$1,178 thousand) and ¥126 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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 36,626	¥ 44,549	\$324,123
Cumulative effect of accounting change		(7,985)	
Balance at beginning of year (as restated)	36,626	36,564	324,123
Current service cost	331	1,675	2,933
Interest cost	175	402	1,550
Actuarial losses	1,637	65	14,484
Benefits paid	(1,182)	(1,558)	(10,456)
Decrease with transfer to the defined contribution pension plan	(25,532)	(673)	(225,946)
Others	73	151	642
Balance at end of year	¥ 12,128	¥ 36,626	\$107,330

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 37,138	¥ 33,416	\$328,656
Expected return on plan assets	419	835	3,708
Actuarial gains	19	1,217	174
Contributions from the employer	807	3,070	7,143
Benefits paid	(1,175)	(1,558)	(10,403)
Decrease with transfer to the defined contribution pension plan	(25,591)		(226,472)
Others	(6)	158	(54)
Balance at end of year	¥ 11,611	¥ 37,138	\$102,752

(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
	2016	2015	2016
Funded defined benefit obligation	¥ 12,128	¥ 36,626	\$ 107,330
Plan assets	(11,611)	(37,138)	(102,752)
Total	517	(512)	4,578
Unfunded defined benefit obligation	5,177	8,670	45,809
Net liability arising from defined benefit obligation	¥ 5,694	¥ 8,158	\$ 50,387

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 5,699	¥ 8,165	\$ 50,432
Asset for retirement benefits	(5)	(7)	(45)
Net liability arising from defined benefit obligation	¥ 5,694	¥ 8,158	\$ 50,387

(4) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 857	¥ 2,352	\$ 7,582
Interest cost	196	430	1,731
Expected return on plan assets	(419)	(835)	(3,708)
Recognized actuarial losses	291	1,007	2,572
Amortization of prior service cost	(215)	(516)	(1,899)
Others	403	467	3,572
Net periodic benefit costs	¥ 1,113	¥ 2,905	\$ 9,850
Losses on abolishment of retirement benefit plan (recorded on other expenses)		¥ 2,885	

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost	¥ (860)	¥ (516)	\$ (7,611)
Actuarial (gains) losses	(384)	2,264	(3,399)
Reconciliation on abolishment of retirement benefit plan	(404)	404	(3,575)
Total	¥ (1,648)	¥ 2,152	\$ (14,585)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 153	¥ 1,013	\$ 1,356
Unrecognized actuarial gains	(2,251)	(1,867)	(19,922)
Reconciliation on abolishment of retirement benefit plan		404	
Total	¥ (2,098)	¥ (450)	\$ (18,566)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Life insurance company general accounts	57%	36%
Debt investments	30	45
Short-term assets	9	
Equity investments	2	18
Others	2	1
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, 2016 and 2015, are set forth as follows:

	2016	2015
Discount rate	0.2%	1.1%
Expected rate of return on plan assets	3.5	2.5
Expected rate of increase in future salary		2.8

Note: In actuarial assumptions for Azbil and a certain subsidiary, a discount rate of 1.1% was applied for the year ended March 31, 2015. However, after a reevaluation in consideration of the market environment at March 31, 2016, this was revised to 0.0%.

9. EQUITY

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

a. Dividends

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33.0% for the year ended March 31, 2016, and 35.5% for the year ended March 31, 2015.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Pension and severance costs	¥ 1,756	¥ 2,651	\$ 15,533
Accrued expenses	4,312	3,762	38,157
Depreciation	758	771	6,704
Loss on impairment of property, plant and equipment	177	172	1,570
Allowance for doubtful receivables	810	774	7,170
Tax loss carryforwards	1,809	1,443	16,013
Others	2,129	2,324	18,843
Less valuation allowance	(3,482)	(3,885)	(30,817)
Total	8,269	8,012	73,173
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	3,900	5,053	34,516
Special advanced depreciation	1,034	1,154	9,153
Others	122	113	1,077
Total	5,056	6,320	44,746
Net deferred tax assets	¥ 3,213	¥ 1,692	\$ 28,427

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million (\$1,604 thousand) at March 31, 2016, and ¥191 million at March 31, 2015.

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, 2016, is as follows:

	2016
Normal effective statutory tax rate	33.0%
Expenses not deductible for income tax purposes	1.4
Tax benefits for qualified expenses	(8.3)
Valuation allowance increase	(4.9)
Amortization of goodwill	1.7
Impairment loss of goodwill	8.3
Effect of tax rate reduction	3.1
Others—net	0.6
Actual effective tax rate	34.9%

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.

On March 31, 2016, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 32.1% to approximately 30.8% effective for the fiscal year beginning on or after April 1, 2016, and to approximately 30.5% effective for the fiscal year beginning on or after April 1, 2018. The effect of these changes was to increase deferred tax assets, net of deferred tax liabilities by ¥28 million (\$248 thousand), accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥203 million (\$1,796 thousand), and defined retirement benefit plans by ¥29 million (\$257 thousand), in the consolidated balance sheet as of March 31, 2016, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥204 million (\$1,805 thousand).

At March 31, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥10,777 million (\$95,371 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
2017	¥ 5	\$ 42
2018	82	726
2019	64	565
2020	208	1,839
2021	439	3,887
2022 and thereafter	9,979	88,312
Total	¥ 10,777	\$ 95,371

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—Others—net for the years ended March 31, 2016 and 2015, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Gain on compensation from Tokyo Electric Power Company caused by claim for damage from Fukushima nuclear disasters		¥ 132	
Gain on reversal of environmental expenses	¥ 291		\$ 2,573
Restructuring loss	(142)	(450)	(1,252)
Loss on plants reorganization	(266)		(2,351)
Provision for loss litigation		(442)	
Other	63	(48)	557
Total	¥ (54)	¥ (808)	\$ (473)

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥11,012 million (\$97,454 thousand) and ¥10,124 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, were ¥5,606 million (\$49,611 thousand) and ¥5,542 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							
	2016				2015			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost					¥ 30			¥ 30
Accumulated depreciation					27			27
Accumulated impairment loss								
Net leased property					¥ 3			¥ 3

	Thousands of U.S. Dollars			
	2016			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost				
Accumulated depreciation				
Accumulated impairment loss				
Net leased property				

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 120	¥ 155	\$ 1,068
Due after one year	162	282	1,431
Total	¥ 282	¥ 437	\$ 2,499

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
	2016	2015	2016
Depreciation expense	¥ 3	¥ 3	\$ 27
Lease payments	3	3	27

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥ 874	¥ 20	\$ 7,734
Due after one year	2,117	55	18,737
Total	¥ 2,991	¥ 75	\$ 26,471

(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, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Receivables under finance leases:			
Due within one year	¥ 120	¥ 152	\$ 1,068
Due after one year	162	282	1,431
Total	¥ 282	¥ 434	\$ 2,499

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 monitoring the credit standing of major customers on a yearly basis. Notes and accounts receivable—trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

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

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

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

Derivative transactions are executed and managed in accordance with internal rules that stipulate the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more details about derivatives.

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

(3) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2016		
	2016			2015					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 55,947	¥ 55,947		¥ 51,921	¥ 51,921		\$ 495,110	\$ 495,110	
Notes and accounts receivable—trade	91,772	91,772		88,961	88,961		812,143	812,143	
Investment securities	18,693	18,693		21,695	21,695		165,428	165,428	
Total	¥ 166,412	¥ 166,412		¥ 162,577	¥ 162,577		\$ 1,472,681	\$ 1,472,681	
Short-term borrowings	¥ 11,747	¥ 11,747		¥ 14,053	¥ 14,053		\$ 103,954	\$ 103,954	
Current portion of long-term debt	383	383		1,871	1,871		3,389	3,389	
Notes and accounts payable—trade	45,587	45,587		42,688	42,688		403,426	403,426	
Long-term debt	1,327	1,330	¥ (3)	1,655	1,656	¥ (1)	11,745	11,770	\$ (25)
Total	¥ 59,044	¥ 59,047	¥ (3)	¥ 60,267	¥ 60,268	¥ (1)	\$ 522,514	\$ 522,539	\$ (25)

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

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

Investment Securities

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

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

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

Long-Term Debt

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31, 2016
	2016	2015	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 789	¥ 856	\$ 6,980

(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, 2016								
Cash and cash equivalents	¥ 55,947				\$ 495,110				
Notes and accounts receivable—trade	87,794	¥ 3,888	¥ 90		776,943	\$ 34,407	\$ 793		
Total	¥ 143,741	¥ 3,888	¥ 90		\$ 1,272,053	\$ 34,407	\$ 793		

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, 2016					
	2016			2015									
	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)					
Buying U.S. dollars	¥173		¥ 3	¥ 3	478		(2)	(2)	\$ 1,533		\$ 28	\$ 28	
Interest rate swaps (fixed rate payment, floating rate receipt)					676		(20)	(20)					

Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2016		
		2016			2015					
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥ 66		¥ (2)	¥ 54		¥ (2)	\$ 583		\$ (14)
Selling IN rupee	Receivables	1		1				11		5
Buying U.S. dollars	Payables	30		1				268		9
Buying Euro	Payables	52						465		(2)
Buying IN rupee	Payables	536		(62)	762		(4)	4,746		(550)
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	120		¥ 15	240		¥ 39	1,062		\$ 128

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, 2016, the azbil Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans	¥ 2	\$ 20

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (3,033)	¥ 6,269	\$ (26,850)
Reclassification adjustments to profit or loss	(2)	(54)	(14)
Amount before income tax effect	(3,035)	6,215	(26,864)
Income tax effect	1,152	(1,669)	10,199
Total	¥ (1,883)	¥ 4,546	\$ (16,665)
Deferred gain (loss) on derivatives under hedge accounting:	¥ (1)		\$ (7)
Reclassification adjustments to profit or loss		¥ (1)	
Amount before income tax effect	(1)	(1)	(7)
Income tax effect			2
Total	¥ (1)	¥ (1)	\$ (5)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (346)	¥ 2,693	\$ (3,065)
Reclassification adjustments to profit or loss		(899)	
Amount before income tax effect	(346)	1,794	(3,065)
Total	¥ (346)	¥ 1,794	\$ (3,065)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (1,625)	¥ 1,257	\$ (14,378)
Reclassification adjustments to profit or loss	(23)	895	(207)
Amount before income tax effect	(1,648)	2,152	(14,585)
Income tax effect	518	(717)	4,581
Total	¥ (1,130)	¥ 1,435	\$ (10,004)
Total other comprehensive income (loss)	¥ (3,360)	¥ 7,774	\$ (29,739)

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at Azbil's shareholders' meeting held on June 28, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥33.5 (\$0.30) per share	¥ 2,454	\$ 21,716

19. SEGMENT INFORMATION

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

(1) Description of Reportable Segments

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

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

The building automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The advanced automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The life automation business supplies meters for lifelines, residential central air-conditioning systems, life science research, manufacture and sale of manufacturing equipment and environmental equipment for the pharmaceutical and medical fields as well as related services—all of which are intimately connected with everyday life.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." (Application of the Accounting Standard for Business Combinations, Etc.)

The "Accounting Standard for Business Combinations," and related guidance, have been applied since the year ended March 31, 2016. The balance generated from the changes in the ownership ratio over the affiliates under control began to be included in capital surplus, and the expenses related to acquisitions of businesses are recorded as expenses when they are generated. Furthermore, with regard to business combinations conducted at the beginning of annual periods beginning on or after April 1, 2015, the accounting method has been changed to reflect the

revised allocation of acquisition costs arising from the settlement of the tentative accounting treatment in the consolidated financial statements in which the business combination occurs.

As a result, unamortized balance of goodwill decreased by ¥200 million (\$1,767 thousand) for the "Advanced Automation business" and by ¥1,249 million (\$11,055 thousand) for the "Life Automation business."

(Changes in the Methods to Measure Internal Sales or Transfer Prices between Segments)

From the year ended March 31, 2016, Azbil reviewed the performance assessment method upon introduction of our new core information system and changed the methods to measure internal sales or transfer prices between segments. This procedure had a minor effect on internal sales or transfer prices between segments and segment profit during the year ended March 31, 2016.

Segment information for the year ended March 31, 2015, was presented based on the new methods to measure internal sales or transfer prices between segments.

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

	Millions of Yen							
	2016							
	Reportable Segment			Total	Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation						
Sales:								
Sales to external customers	¥ 118,548	¥ 92,937	¥ 45,344	¥ 256,829	¥ 61	¥ 256,890		¥ 256,890
Intersegment sales or transfers	287	601	303	1,191	6	1,197	¥ (1,197)	
Total	¥ 118,835	¥ 93,538	¥ 45,647	¥ 258,020	¥ 67	¥ 258,087	¥ (1,197)	¥ 256,890
Segment profit (loss)	¥ 12,015	¥ 5,029	¥ 79	¥ 17,123	¥ 18	¥ 17,141	¥ (5)	¥ 17,136
Segment assets	68,842	71,302	30,124	170,268	7	170,275	88,852	259,127
Other:								
Depreciation	1,069	2,064	1,015	4,148		4,148		4,148
Increase in property, plant and equipment and intangible assets	1,090	1,699	623	3,412	1	3,413		3,413
Impairment losses of assets		300	3,096	3,396		3,396		3,396

	Millions of Yen							
	2015							
	Reportable Segment			Total	Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation						
Sales:								
Sales to external customers	¥ 114,098	¥ 93,132	¥ 47,178	¥ 254,408	¥ 61	¥ 254,469		¥ 254,469
Intersegment sales or transfers	224	555	153	932	5	937	¥ (937)	
Total	¥ 114,322	¥ 93,687	¥ 47,331	¥ 255,340	¥ 66	¥ 255,406	¥ (937)	¥ 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

	Thousands of U.S. Dollars							
	2016							
	Reportable Segment			Total	Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation						
Sales:								
Sales to external customers	\$ 1,049,103	\$ 822,450	\$ 401,270	\$ 2,272,823	\$ 538	\$ 2,273,361		\$ 2,273,361
Intersegment sales or transfers	2,539	5,320	2,683	10,542	54	10,596	\$ (10,596)	
Total	\$ 1,051,642	\$ 827,770	\$ 403,953	\$ 2,283,365	\$ 592	\$ 2,283,957	\$ (10,596)	\$ 2,273,361
Segment profit (loss)	\$ 106,318	\$ 44,505	\$ 704	\$ 151,527	\$ 158	\$ 151,685	\$ (43)	\$ 151,642
Segment assets	609,227	630,996	266,584	1,506,807	64	1,506,871	786,297	2,293,168
Other:								
Depreciation	9,461	18,261	8,978	36,700	3	36,703		36,703
Increase in property, plant and equipment and intangible assets	9,650	15,039	5,515	30,204	3	30,207		30,207
Impairment losses of assets		2,652	27,399	30,051		30,051		30,051

Note: Corporate assets of ¥88,852 million (\$786,297 thousand) for the year ended March 31, 2016, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

(1) Information about Products and Services

This information is identical to the segment information and is therefore omitted.

(2) Information by Region

(a) Sales

Millions of Yen						
2016						
Japan	Asia	China	North America	Europe	Other	Total
¥ 207,899	¥ 20,045	¥ 9,974	¥ 4,764	¥ 10,610	¥ 3,598	¥ 256,890
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
Thousands of U.S. Dollars						
2016						
Japan	Asia	China	North America	Europe	Other	Total
\$ 1,839,812	\$ 177,392	\$ 88,266	\$ 42,155	\$ 93,897	\$ 31,839	\$ 2,273,361

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

(b) Property, plant and equipment

Millions of Yen						
2016						
Japan	Asia	China	North America	Europe	Other	Total
¥ 20,403	¥ 1,483	¥ 1,073	¥ 63	¥ 600	¥ 749	¥ 24,371
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						
2016						
Japan	Asia	China	North America	Europe	Other	Total
\$ 180,556	\$ 13,127	\$ 9,496	\$ 558	\$ 5,313	\$ 6,627	\$ 215,677

(3) Information about Major Customers

This information is omitted as no clients accounted for more than 10% of sales in the consolidated statement of income.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

	Millions of Yen							
	2016							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Amortization of goodwill		¥ 182	¥ 502	¥ 684		¥ 684		¥ 684
Goodwill at March 31, 2016		158		158		158		158
	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
	Thousands of U.S. Dollars							
	2016							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Amortization of goodwill		\$ 1,614	\$ 4,443	\$ 6,057		\$ 6,057		\$ 6,057
Goodwill at March 31, 2016		1,399		1,399		1,399		1,399

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, 2016, 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, 2016, 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 17, 2016

Member of
Deloitte Touche Tohmatsu Limited

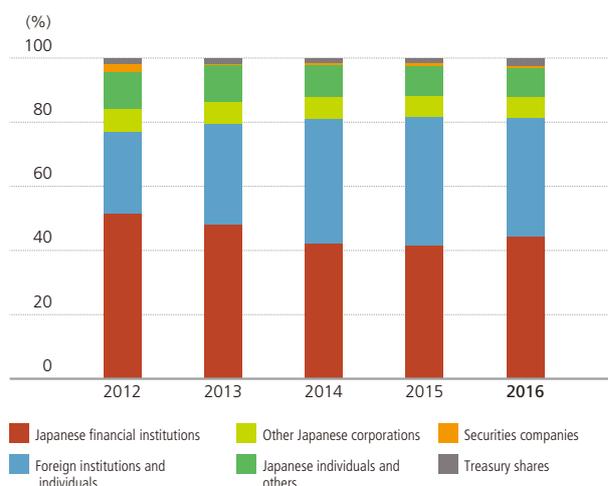
Corporate Data / Stock Information

(As of March 31, 2016)

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	9,464
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 8,371
Transfer agent	Mizuho Trust & Banking Co., Ltd.

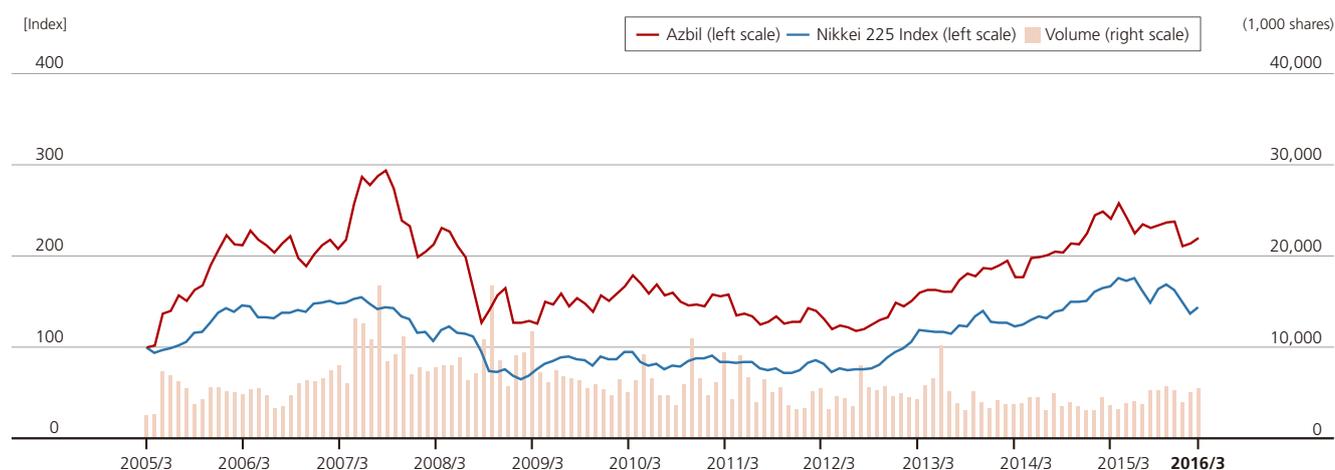
Composition of Shareholders



Major Shareholders (Top 10)

	Number of shares held (thousands)	Percentage of total investment (%)
State Street Bank and Trust Company	5,471	7.46
Meiji Yasuda Life Insurance Co.	5,214	7.11
The Master Trust Bank of Japan, Ltd. (Trust account)	4,312	5.88
Japan Trustee Services Bank, Ltd. (Trust account)	4,223	5.76
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,600	3.55
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.16
Nippon Life Insurance Co.	1,869	2.55
National Mutual Insurance Federation of Agricultural Cooperatives	1,550	2.11
azbil Group Employee Stock Ownership	1,540	2.10
Mizuho Bank, Ltd.	1,404	1.91

Common Stock Price Range



(Ended March 31)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Stock price at the end of the period (yen)	2,775	2,730	2,795	1,689	2,186	2,038	1,830	1,978	2,548	3,260	2,881
High (yen)	2,920	3,050	3,960	3,070	2,241	2,370	2,066	2,046	2,561	3,355	3,500
Low (yen)	1,282	2,320	2,300	1,431	1,594	1,634	1,539	1,490	1,870	2,300	2,618

Azbil Corporation Website

<http://www.azbil.com>

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Yamatake for 100 years, "azbil" for 10 years. Together 110 years.

Through all of this time the azbil Group has put human happiness first with "human-centered automation." We are determined to work closely with our customers in the future as well, using our measurement and control technologies as the basis for ever greater value creation.

110th Since 1906

Building Automation | Smart valve positioner | 110th Anniversary

Products & Services

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- For Factories and Plants
- Solutions for Pharmaceutical Production

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- Find by business area
- Find by company name
- Find by product or service name

What's New

July 1, 2016
▶ 2016 Vol.3 "azbil" - azbil Group magazine.

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FTSE4Good Global Index



Morningstar Socially
Responsible Investment Index

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azbil



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