

## azbil report 2017

Human-centered Automation

Azbil Corporation



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

Azbil is the new symbol of the group that will bring us together.

Let us nurture it into a brand that customers love. automation·zone·builder: azbil (Automation· Zone·Builder) represents our philosophy of realizing safety, comfort and fulfillment in people's lives, and contributing to the global environment through human-

centered automation. The roundness of the letters signifies tender humanity, and the oval shape curving upward to the right expresses our unlimited potential.

#### **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, 2016 to March 31, 2017 (Contains some information about the year beginning April 2017)

#### 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 page 69.

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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# Value Creation Initiatives

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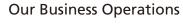
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azbil Group's Strengths

**P.8** 

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azbi

Pズビル株式会社

藤沢テクノセンター

## Leaders' Message

Through the pursuit of "human-centered automation" co-created by human ingenuity and technology, we aspire to be a corporate organization that helps resolve issues faced by customers.



### 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.

Since our establishment in 1906, we have focused on measurement and control technologies, delivering unique solutions to our customers. Our founder, Takehiko Yamaguchi, established the company with the intention of "using advanced technology to liberate people from drudgery," and since then we have advanced with the times. At our centenary in 2006, we introduced "human-centered automation," which remains our philosophy today, and we formulated the group symbol "azbil." In April 2012, we changed the company name from Yamatake to Azbil, and we have sought to make the azbil brand familiar to as wide an audience as possible.

Today, the azbil Group provides unique levels of customer-oriented value in offices, production sites, and daily life over the world through its three business segments: Building Automation, Advanced Automation, and Life Automation. The year ended March 2017 was the final year of our previous medium-term plan. During the year, we upgraded business infrastructure, responded to changes in market conditions, and reassessed our business portfolio. As a result, we achieved year-on-year increases in earnings for the fourth consecutive period.

In the current fiscal year ending March 2018, we have started a new three-year medium-term plan. To achieve the objectives of the plan, we are pursuing three fundamental policies: (1) Being a long-term partner for the customer and the community by offering solutions based on our technologies and products; (2) Taking global operations to the next level by expansion into new regions and a qualitative change of focus; and (3) Being a corporate organization that never stops learning, so that it can continuously grow stronger. In particular, we anticipate sustained growth in the life cycle solutions business, which we will expand globally, as well as in new automation fields where we can apply various technological innovations, and in environmental and energy fields where we will broaden our business presence.

Going forward, the azbil Group will continue forging ahead as a unified corporate group able to help solve various issues by creating new levels of value in partnership with customers at their sites, through the pursuit of "human-centered automation" that liberates people from drudgery and provides them with happiness brimming with joy and fulfillment.

July 2017

Jegi Onoko

Seiji Onoki Chairman Azbil Corporation

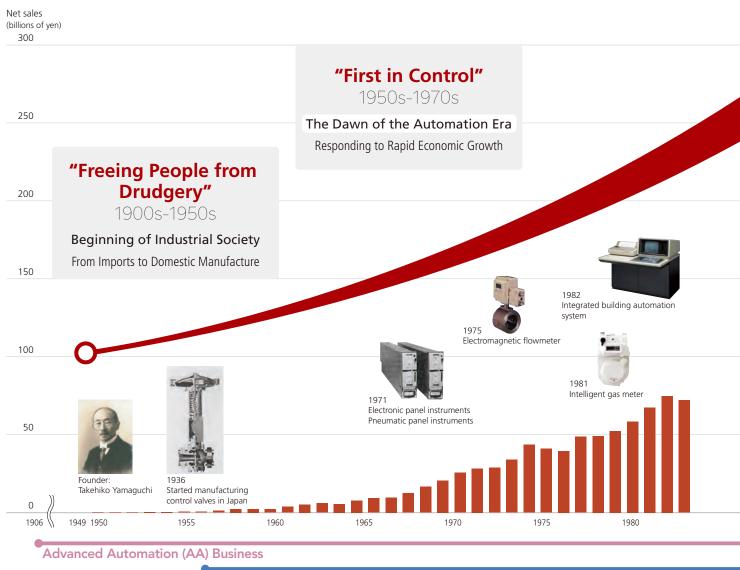
Hirozumi Sone President and Chief Executive Officer Azbil Corporation

## azbil's History of Value Creation

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

Since our founding in 1906, we have taken on the challenges of solving problems in a variety of situations, including buildings, factories and plants, lifelines, and living environments, leveraging both the most advanced automation available and the knowledge that we have built up at customers' sites to provide value.

As well as pursuing new values in automation, we are aiming not only to meet the needs of society but also to further grow and develop in partnership with customers and society amid an increasingly globalized business environment.



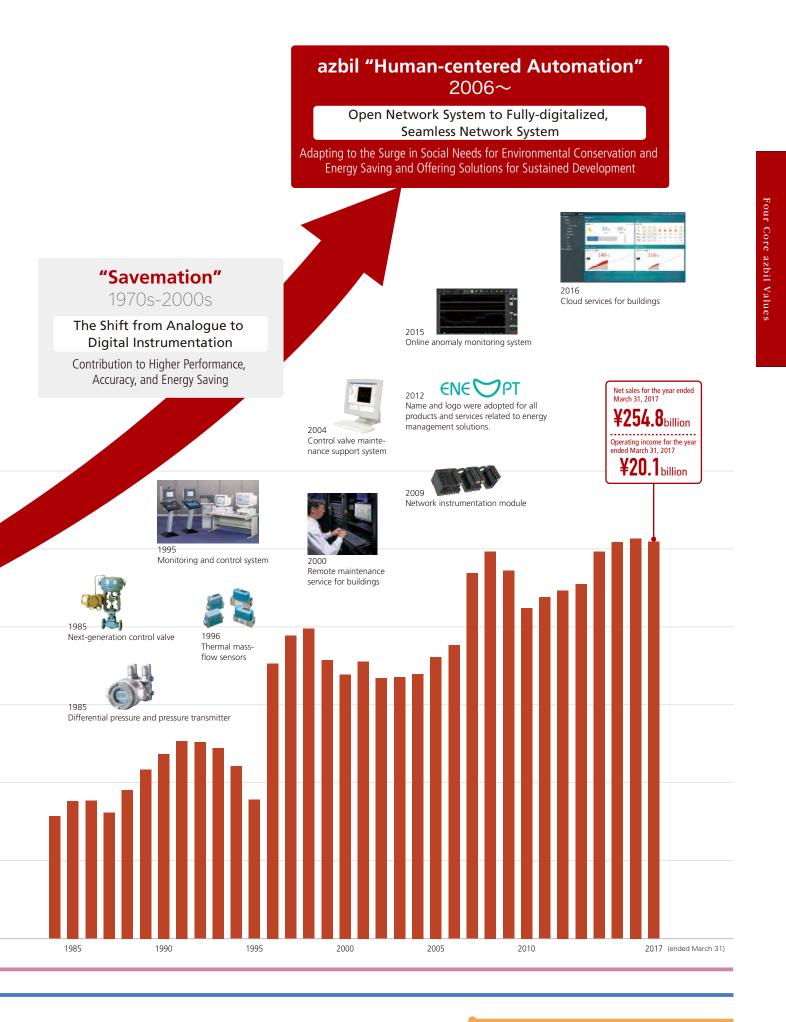
#### **Building Automation (BA) Business**

Notes: 1. As the company had adopted the settlement twice a year before FY1974, the graph shows the total amount of two accounting periods.

2. From FY1948 to FY1993, the financial statements were prepared for the year ended September 30. Since FY1994, they have been prepared for the year ended March 31.

3. As the company changed the fiscal year, FY1994 had irregular closing.

4. The financial statements were prepared on an unconsolidated basis until FY1993. Since FY1994, they have been prepared on a consolidated basis.



Life Automation (LA) Business

## 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.



Feature:

The azbil Group's Endeavors for a Sustainable Future

►P.26

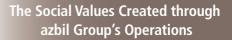
Solutions Based on Our Measurement and Control Technologies and Products







Introduce the elements which form the infrastructure for the azbil Group to maintain and improve value creation.



Facilitating sustainable development for our customers and society as a whole

## Safety

To live and work in good health and in safety



## Comfort To always live and work in cor



## Fulfillment

To create new value with the customer



## Environment

To optimize the management and usage of energy





## Four Strengths of azbil Group

Drawing on its measurement and control technologies, the azbil Group, with a of advanced automation technologies and abundant know-how, and is equipped customers resolve their problems. We will continue aiming for and challenging society, backed by a stable business foundation consisting of three segments, a



#### **Stable Business Foundation and Sound Financial Constitution**

▶ P.12–13 (Financial and Non-financial Highlights)

The three business segments of the azbil Group form a combination that is relatively impervious to the impact of economic fluctuations. We also have a business model that, being involved throughout the life cycles of customers' buildings and facilities, delivers sustained profit over the medium and long terms. Drawing on this foundation, we generate stable income and cash flows to improve our financial constitution and deliver sustainable business expansion and high levels of return to shareholders.

Rating and Investment Information, Inc. (R&I)







#### **Reliable On-site Response Capability to** Help Solve Customers' Problems

## ▶ P.46-47, 105 (Global Operations, azbil Group Companies Data)

The azbil Group is not only a manufacturer but also a consulting, engineering, and service partner. In this role, we remain close to customers' sites, understand their problems, and provide support to solve those problems. Through cooperation among our bases in Japan and overseas and our sales, development, production, and service functions, we aim to create value at our customers' sites.



history of more than 100 years, has amassed a wealth ed with the human resources and systems that help ourselves towards steady growth and a sustainable s well as a sound financial constitution.



## Advanced Automation Technologies and Abundant Know-how



(Business Introduction, Technology Research and Product Development)

To address the needs of various customers and solve their problems, we are refining our advanced automation technologies, which take into account IoT and various other technological innovations, as well as market fluctuations. Our strength lies in our abundant know-how amassed over many years at our customers' sites. Making full use of these technologies and know-how, the azbil Group contributes to environmental impact reduction for customers and society.  $CO_2$  emissions reduction at customers' sites through our products and solutions **3,210,000** 

tons/vear

For details, please see "Contributing to the Environment through Our Core Businesses" on pages 74 to 75.



## Human Resources with Advanced Specialist Expertise



We established the Azbil Academy, an institution specializing in human resource development, to concentrate on fostering personnel who can create value together with customers at their sites. In order to fulfill measurement and control technologies which require advanced specialist expertise, we set up a training environment with various technical education courses using actual equipment, an incentive scheme for official qualifications acquisition, an accreditation system for technical professionals and other schemes, to enhance employees' skills. Azbil Academy: Number of annual students (total number of students)

Approx.



- \* Courses include basic education (such as CSR), personal-choice correspondence education, and e-learning
- \* The number of students includes employees from Group companies, partner companies, dealers etc.

Number of employees with official qualifications (priority qualifications) (total number of employees)



\* Number of people with highly important qualifications (among official qualifications) from business management perspective

### 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

- Measuring equipment and programs that detect malfunctions invisible to the naked eye and facility monitoring systems play a role in the safe, accident-free operation of manufacturing facilities
- Various systems, including those that manage access or automate dangerous work processes, enable the safe operation of facilities and safeguard people who work in offices or factories.
- Integrated management of food, water, electricity, and gas supplies, from production to your doorstep

#### Odawara Gas Co., Ltd.

#### Innovative gas pressure meter sought by industry developed, greatly enhancing safety and efficiency of gas conduit construction

Odawara Gas Co., Ltd. supplies city gas to four towns and two cities of Kanagawa Prefecture. In an initiative to develop new technologies,



Odawara Gas teamed up with six city gas providers, the Japan Gas Association, and Azbil Kimmon Co., Ltd. to develop a widerange gas pressure meter sought after for many years by the industry. Addressing

#### Comfort case study

#### Seaside Hotel Yakushima

Full renewal of hotel air conditioning and hot water supply promotes energy conservation, comfortable spaces

for customers, and protection of island's environment Seaside Hotel Yakushima is an iconic resort hotel on the Japanese island of

## Comfort

To always live and work in comfort

- · Measuring and analyzing indoor air environments in offices, factories, and homes, then adjusting temperature and humidity and removing dust and pollen create comfortable living conditions with minimal temperature differences between areas.
- Automation technologies boost work quality and efficiency, which in turn improve productivity and quality and lead to enhanced customer satisfaction



Yakushima. To address its needs with respect to aging air conditioning and hot water supply equipment, the hotel has implemented energy-saving measures under a subsidy scheme set up by the Ministry of the Environment. Seeking to save energy on the island, where hydropower accounts for

## **Fulfillment**

To create new value with the customer

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

### Tokyo University of the Arts

#### Meticulous temperature and humidity control in protection of artwork as well as significant energy savings

The University Art Museum,

Tokyo University of the Arts has long played a leading role in the advancement of art culture in Japan, and its University Art Museum houses



multiple art objects that include important cultural items designated as national treasures. While protecting such objects requiring strict temperature and humidity management, another major issue is

#### Environment case study Keppel DHCS Pte Ltd

**Optimal control of heat sources using existing facilities** achieves substantial energy savings at DCS plants

Keppel DHCS Pte Ltd is known as the largest district heating and cooling system provider in Singapore. The company considered energy-saving



measures for use at its three DHC plants in response to stronger national environmental protection measures, and in order to reinforce its business competitiveness by reducing operational costs of their facilities.

## Environment

To optimize the management and usage of energy

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

the requirements of gas companies, it successfully turned know-how and technologies of Azbil Kimmon Co., Ltd. into a commercial reality, of which Odawara Gas is a user. Conventionally in gas conduit construction, medium- and low-pressure meters are set up separately. This requires switching between meters during construction according to the measurement range, giving extra workload and potential danger. Taking advantage of the newly developed pressure meter, which can undertake continuous measurement without the need for switching, Odawara Gas has reduced its workload, improved safety, and sped up construction. The new pressure meter is currently acknowledged widely as a groundbreaking product and used by many gas companies.

99.8% of electricity generation, and also foster a transition from heavy oil to natural energy, Seaside Hotel Yakushima took various measures under a proposal from Azbil Corporation. Specifically, it installed a highly efficient heat source and applied various kinds of automatic control technologies to both improve comfort and optimize energy consumption of indoor spaces. It also introduced a central monitoring system to allow visualization of the building's status. As a result, it reduced the cost of heavy oil consumption to one-third and cut carbon dioxide (CO<sub>2</sub>) emissions by 68%. By monitoring the temperature of the entire hotel, including guest rooms, it also established a system that always provides comfortable spaces for customers. This has become a model case for Yakushima, known for its commitment to environment protection and reduction of CO<sub>2</sub> emissions.

energy efficiency, a focus of growing social pressure. With this mind, the university selected Azbil Corporation as an ESCO<sup>\*1</sup> operator to resolve the issue. In addition to renewal of aging heat source equipment, Azbil introduced a BEMS<sup>\*2</sup> and control methods to optimize operation of airconditioning equipment. As a result, we achieved a challenging energy usage reduction target—46.2% of reduction from the annual average for the most recent three-year period—while maintaining high-level temperature and humidity control required by the facility.

\*1 Energy Service COmpany

\*2 Building Energy Management System

The company adopted the azbil Group's approach of making use of the most of the plants' existing facilities, such as chillers, cooling towers, and pumps, optimizing the control of new heat sources, and making use of an ESCO plan, a type of plan that guarantees energy-saving effectiveness. As a result, the Woodlands DHC plant achieved a large reduction in electricity consumption by 2.28 million kW/year, far above its initial target. After these proven results, similar measures were adopted at the Changi and Biopolis DHC plants, which reduced the company's electricity consumption by over 8 million kW/year at three DHC plants in total, again much above their targets.



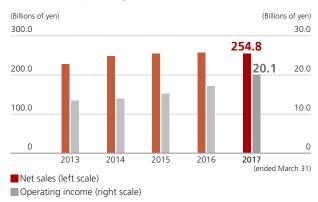






## Financial and Non-financial Highlights

Azbil Corporation and its consolidated subsidiaries



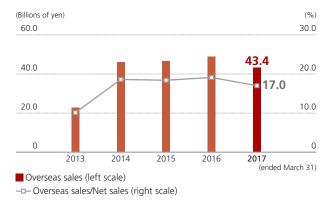
#### Net Sales, Operating Income

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

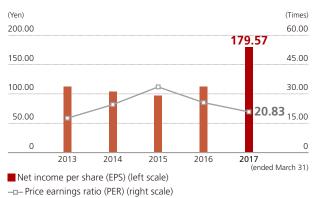


■ Net income attributable to the owners of the parent (left scale) ----- Return on equity (ROE) (right scale)

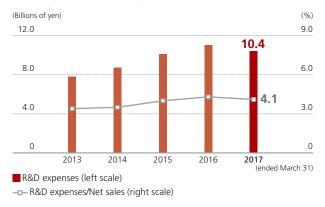
#### Overseas Sales, Overseas Sales/Net Sales



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

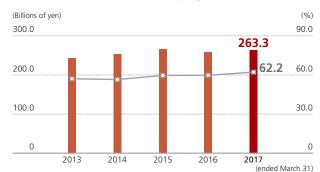


#### R&D Expenses, R&D Expenses/Net Sales



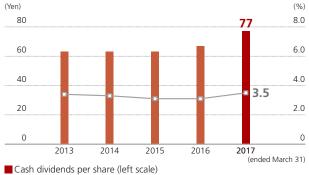
#### Capital Expenditures, Depreciation





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

Cash Dividends per Share, Dividend on Equity (DOE)

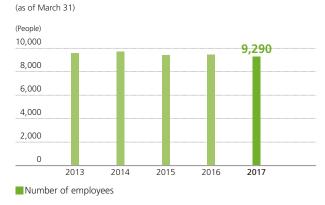


-Dividend on equity (DOE) (right scale)

#### Number of Employees

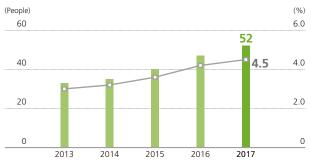
---- Shareholders' equity/Total assets (right scale)

Total assets (left scale)



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

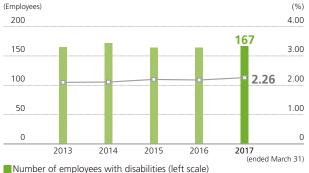
Azbil Corporation (as of April 1)



Number of female employees in managerial or specialist positions (left scale) ––– Ratio of female employees in managerial or specialist positions (right scale)

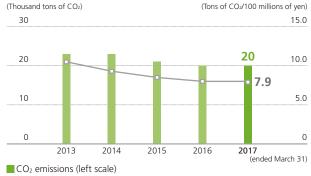
## Number of Employees with Disabilities, Ratio of Employees with Disabilities to Total Workforce

Azbil Corporation and its major consolidated subsidiaries in Japan



#### CO2 Emissions, CO2 Emissions per Unit Sales

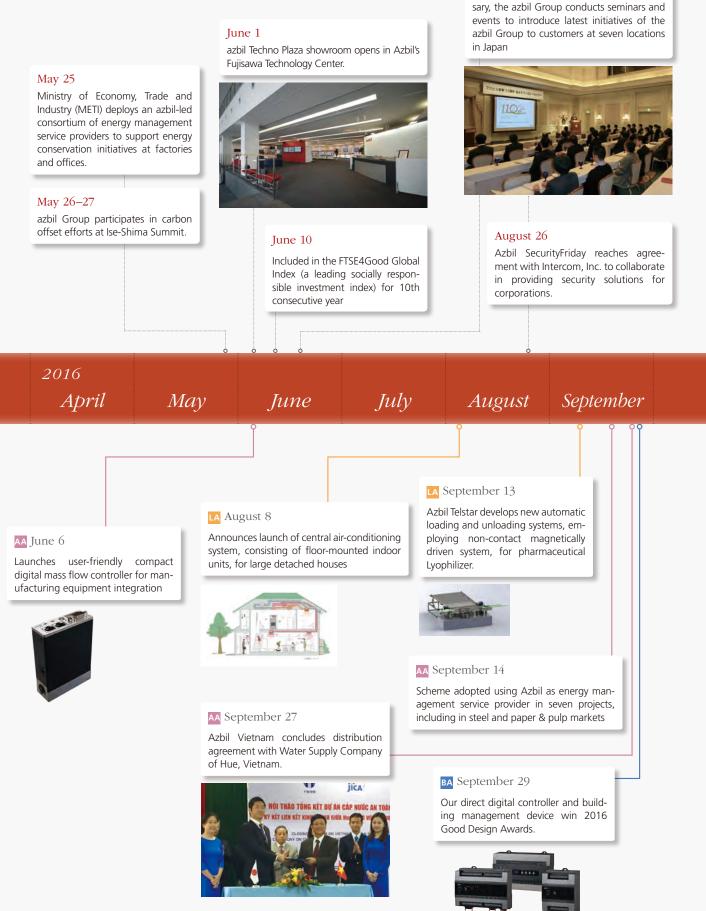
Azbil Corporation, its consolidated subsidiaries in Japan and its main manufacturing bases in overseas



-D- CO2 emissions per unit sales (right scale)

## The Past Year at the azbil Group

Note: Dates generally indicate the date on which the information was released or of the implementation day.



June through February 2017

Taking advantages of our 110th anniver-

Azbil Kimmon participates in

practical water and LP gas meter

reading experiments in Hokkaido

area utilizing low power wide area

Holds science experiment classes for junior high school students as a new social contribution activity co-hosted by Fujisawa City, Kanagawa Prefecture

March 30

March 6

(LPWA) network.



Renewal of "Yamatake Memorial" that conveys the history from the foundation to future generations



#### December 12

December 4

den on the environment

Chosen by Daiwa Investor Relations Co., Ltd. to receive 2016 "Internet IR Excellence Award"

Co-sponsorship of the 11th Shonan

International Marathon (Japan) and

support for efforts to reduce the bur-

#### January 11

Azbil SecurityFriday releases "Cyber Attack Analysis Solution" in cooperation with Core Corporation.

2017

January

January 27

February

Azbil Telstar develops application

for experimental freeze-drying

processes that can measure tem-

perature and pressure in real time.

BA February 2

Direct digital controller, a building

maintenance device, wins iF Design Award 2017 of Hannover Germany.

LA January 23

Azbil's initiatives explained at the 4th Future Investment Council Meeting

Please refer to P.41 for more detail.

March

October 1

October 12

other organizations.

October

Professional soccer club Shonan Bellmare home game held under the azbil name

The azbil Honey Bee Club volunteer

organization provides ¥6.63 million in

support of social welfare groups and

November

Announces launch of central air-conditioning system, equipped with variable air volume (VAV) control function, for detached houses

#### BA October 13

Functions added to our building cloud services that improve efficiency of facility maintenance work and enhance convenience for building residents





December

Azbil Kimmon receives highest-level

JCSS accreditation for gas flow meter

LA November 28

calibration range



#### BA March 23

Azbil wins "Best Facility Management Prize" at the 11th Japan Facility Management Awards.

### Interview with the CEO

Start of New Medium-Term Plan

Through "human-centered automation," we will drive strategies aimed at raising corporate value and delivering sustainable growth.

Four Core azbil Values

## Q1

### Please give an overview of the year ended March 2017, the final year of your previous medium-term plan.

## Taking measures linked to medium- and long-term growth, we achieved a year-on-year increase in operating income for the fourth consecutive period and ROE above 8%.

In the year ended March 2017, the azbil Group posted consolidated net sales of ¥254.8 billion, down 0.8% year on year, impacted mainly by the yen's appreciation and reforms of business through restructuring measures. Nevertheless, initiatives under our previous medium-term plan, covering the year ended March 2014 through the year ended March 2017, bore fruit, with consolidated operating income jumping by 17.6% year on year, to ¥20.1 billion—close to a record-high figure exceeding our initial forecast published on May 13, 2016.

Looking back at over the four years of the previous mediumterm plan, the decision to host the Tokyo 2020 Olympic and Paralympic Games sparked brisk activities related to urban redevelopment and infrastructure projects, but capital investment in the domestic manufacturing sector remained weak. Overseas, the business environment changed dramatically amid economic slowdown in China and other emerging economies.

Under these circumstances, we did not achieve the consolidated targets of the previous medium-term plan (consolidated net sales of ¥280 billion and operating income of ¥22 billion) announced in May 2013. However, we responded flexibly to the changing business environment, such as by personnel reallocation and business structural reforms, resulting in a year-on-year increase in operating income for the fourth consecutive period and ROE above 8%.

By segment, the Building Automation (BA) business benefited from the upgrading of systems in anticipation of demand to retrofit existing buildings after the 2020 Tokyo Olympics and Paralympics, in addition to firm demand for new building construction in Japan. We also promoted our life-cycle business, further solidifying our stable revenue base.

In the Advanced Automation (AA) business, we adopted an operating system classified into three sub-segments\*. Under this system, we subdivided the market further and leveraged the azbil Group's unique strengths to concentrate on domains in which we can deliver added value. In these ways, we targeted profitability improvement and business expansion, achieving a particularly good outcome with respect to improvement of earnings.

In the Life Automation (LA) business, our third core business segment, we undertook drastic structural reforms to rebuild our business, and we upgraded infrastructures to facilitate measures aimed at business expansion.

Looking at global expansion, overseas sales in the year ended March 2017 totaled ¥43.4 billion, or net sales ratio of 17.0%. Accordingly, we did not reach our overseas sales ratio target of 20%. In addition to the yen's appreciation, this was mainly because of partial reorganization of our businesses in China and of Azbil Telstar in Spain. Nevertheless, overseas sales have increased around two-fold over the past four years. The aforementioned 20% figure is not a goal in itself, but a yardstick for building a foundation aimed at full-scale expansion of our overseas business. I believe we are well positioned for the future.

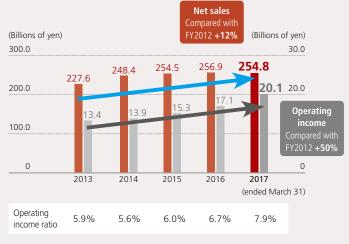
During the last several years, we also took measures to support the sustained growth of the azbil Group. For example, we upgraded various types of infrastructure, including a production and development system, core information system, and personnel system (to foster and reassign human resources). We also continued efforts to strengthen corporate governance.

#### \* Three sub-segments

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

#### Performance Trend

(net sales/operating income/operating income ratio)



Net sales (left scale) Operating income (right scale)

Please describe the fundamental policies of the new medium-term plan in light of your longterm objectives for the year ending March 2022.

## We will step up initiatives related to existing fundamental policies to a new level, while reforming business structures and strengthening the corporation in order to maximize results.

First, I will touch on what the azbil Group regards as its mission—the core of its long-term objectives. The Group was founded in 1906, when Japan's industrial society was emerging. For more than 110 years since then, through the pursuit of automation, we have sought to "liberate people from drudgery" and improve their comfort and productivity levels, evolving into a corporate group that creates contentment for people. In 2006, we formulated our "human-centered automation" philosophy and established "azbil" (automation zone builder) as our new Group symbol embodying those ideas.

When I assumed the post of president, we cited three fundamental policies under the Group philosophy in our quest to achieve sustainable growth in the future: (1) Being a longterm partner for the customer and the community by offering solutions based on our technologies and products; (2) Taking global operations to the next level by expansion into new regions and a qualitative change of focus; and (3) Being a corporate organization that never stops learning, so that it can continuously grow stronger. I feel we have made an impact with these policies, which we will continue and step up over the course of the new medium-term plan, which began in April 2017. In so doing, we will steadily capture growth opportunities in businesses in relatively robust environments. We will also maximize the outcomes of structural reforms and corporate structure reinforcements undertaken to date. At the same time, we will make full-scale advancements into new business areas earmarked for future growth, based on the keywords of life cycle, new automation, and environment and energy. We have set the following consolidated targets for the year ending March 2020: Net sales of ¥270.0 billion, operating income of ¥25.0 billion, and ROE of 9% or more. Moreover, we will continue striving to enhance corporate governance, compliance, and human resource development, which are deeply related to corporate sustainability.

In addition, we will actively promote measures and establish frameworks with a view to business advancement in the year ending March 2022 and beyond. After the 2020 Tokyo Olympics and Paralympics, it will be time to retrofit largescale buildings. Meanwhile, new technologies, such as Al and IoT, are emerging. In addition to achieving our targets for the year ending March 2020, I would like to position the next three years as a period of building foundations aimed at sustaining high levels of earnings from medium- and longterm perspectives.

### A New Medium-term Plan (FY2017-FY2019) has been drawn up to promote corporate operations based on the philosophy of "human-centered automation," and as a second step toward achieving our long-term goals (FY2021).

•	Medium-term plan (FY2013–FY2016)	New medium-term plan (FY2017–FY2019)	Long-term targets (FY2021)	
O N	Y2016 (financial results) perating income: ¥20.1 billion et sales: ¥254.8 billion OE: 8.3%	FY2019 (performance targets) Operating income: ¥25.0 billion Net sales: ¥270.0 billion ROE: 9% or more	Operating income: ¥30.0 billion or more Net sales: about ¥300.0 billion ROE: 10% or more	
Three fundamental policies				

## What are your basic strategies for each business segment?

In the BA business and AA business, we will respond flexibly to changing business conditions and customer needs to target profit growth. At the same time, we will make the LA business a more profitable segment.

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

()[3

Ensure steady job fulfillment for new buildings while strengthening responses to demand for existing building retrofit

In the BA business, we expect the business environment to remain firm as we approach the 2020s. Preparation for the upcoming Olympics and Paralympics and urban redevelopment projects are progressing in the Tokyo metropolitan area, and from 2020 it will be time to retrofit buildings constructed during the "real estate bubble" period of the 1980s and those built early in this century. Some projects have been postponed due to rising costs associated with the redevelopment boom and labor shortages, so we expect further growth in demand for retrofits in the future.

Given this outlook, we will put in place a steadfast system to enable processing of required jobs within reasonable work hours by carrying out work-style reforms. In preparation for a round of redevelopment projects after the 2020 Olympics and Paralympics, we will submit retrofit proposals in a proactive manner.

Over the next three years, we will steadily undertake new construction projects while proposing retrofit projects for existing buildings with good profitability. We will also expand new services in energy management and for the life cycle of facilities. At the same time, we will strive to broaden our overseas business, where we are highly regarded owing to our local track records, and we will aim to improve the efficiency of job fulfillment to enhance profitability.

#### Advanced Automation (AA) Business Respond strategically to both mature and emerging markets

In the AA business, we have an integrated system covering everything from marketing to development, production, and sales and services according to our three sub-segments: CP, IAP, and SS. Under this system, we will seek to improve profitability in mature markets and expand businesses in overseas and growth markets.

Even in so-called mature markets, such as the domestic petroleum and chemical industries, we will focus on stable demand, including for maintenance and equipment replacement, emphasizing efficient responses to generate secure income. On the other hand, new needs are emerging in such areas as plant security and advanced preventative maintenance support, opening up possibilities for new domains using IoT and AI. In these domains, we will deploy proprietary technologies to promote collaboration with partner companies and respond with speed.

In emerging markets, such as domestic and overseas semiconductor manufacturing equipment and high-performance materials production equipment, we are receiving more and more inquiries about the azbil Group's one-of-a-kind technologies. We will focus human and other managerial resources on these areas to accelerate the development and introduction of new products and applications.

Meanwhile, demand for energy conservation is increasing across all industries, both in Japan and overseas. We will focus particular attention on the energy management business, where we excel. In addition to tackling these initiatives, we will upgrade our overseas production system to further strengthen profitability.

#### Life Automation (LA) Business

### From establishment of profit structure to expansion of business

In the LA business, positioned as our third core business segment after our conventional BA business and AA business, we are advancing our operations in the fields of lifeline utilities such as gas and water, Life Science Engineering (LSE) for pharmaceuticals and research facilities, and also residential central air-conditioning systems. While building up our experience in these new fields, we have promoted business structural reforms and made significant progress on the profit front. Going forward, we will promote another round of improvements to establish a stable business foundation as we target the next stage of our evolution—expansion of the LA business.

Our short-term growth strategy is to deploy the azbil Group's synergies to uncover business opportunities in the energy supply market, including for gas, where the business environment is expected to change due to liberalization. We will also strive to develop new products and expand new services to address changes in the global pharmaceutical manufacturing market.

## What are your thoughts on global expansion to spearhead future growth?

## We will actively increase overseas sales of products and applications that are valued highly by customers in Japan.

For global expansion, one of our fundamental policies, we have been establishing overseas operations, developing products and services according to overseas specifications, and building a production system that enables us to provide products closer to our local customers. The next stage, I believe, is to make further advancements to products, applications, and services with high customer value that was cultivated on site, and to familiarize them to global companies developing their businesses worldwide, as well as local-capital enterprises.

In the BA business, we have built relationships in recent years with local-capital building owners, as well as construction distribution-related companies, in various Asian countries. This has created a virtuous circle enabling us to attract orders for new development projects. It is also now recognized that life-cycle services are crucial to maintaining the asset value of buildings, and there are growing movements in various countries to set up energy efficiency standards, such as Green Mark. The azbil Group's unique capabilities can be leveraged in this changing business environment. Under these circumstances, we are confident that we can use our domestic business model, including for services, for global expansion. Specifically, we will develop and introduce new products and utilize our remote maintenance infrastructure, developed during the period of our previous medium-term plan, to propose and deliver high-quality services on a par with those we offer in Japan.

Our AA business, which we developed overseas ahead of our BA business, is now making contributions to both revenue and earnings. To increase sales, we will provide our competitive products, technologies, applications, and services, which are highly evaluated in the domestic market, to Japanese companies operating in emerging economies, including China and elsewhere in Asia, as well as to local materials-related companies, such as petrochemical, and local equipment manufacturers in those countries. We will also work to expand sales to advanced equipment manufacturers operating in North America and Europe.

In these ways, we will actively advance our business overseas, taking advantage of the azbil Group's ability to offer everything from products and systems to services in each business. To further enhance our solutions capabilities, we will work to build partnerships with domestic and overseas companies that have strengths in products, sales, and service networks.

## How do you plan to reinforce your business foundation for sustainable growth?

## We will continuously reinforce Group governance while strengthening infrastructures, with emphasis on the production and development system, advanced technology responsiveness, sales prowess, and product appeal.

In the year ended March 2016, we announced our plan to integrate our domestic production bases and consolidate and reinforce our research and development facilities, and we will steadily advance this plan towards its completion in the year ending March 2021. While this will incur total estimated investments of around ¥8 billion, we expect the plan to eventually deliver cost reduction benefits of about ¥2 billion annually.

We also anticipate increasing demand for products and services using AI and IoT. We established the IT Solutions Headquarters to handle development and marketing of products and services featuring these advanced technologies, and going forward we will expand and strengthen our team of development technicians while making proactive research and development investments.

In addition to reinforcing infrastructure with respect to technologies, production and development systems, and the

like, we will continue looking at M&A and other ways to build a flexible sales and service network and enhance our product lineup. To date, we have embraced M&A opportunities in Japan and overseas, resulting in the formation of Azbil Kimmon Co., Ltd., which is already contributing to the Group's stable profits, as well as Azbil Telstar, S.L.U., which is making efforts to establish a stable earnings structure. Utilizing our built-up experience and know-how, we will steadily pursue any means necessary to achieve sustainable growth, with M&A as an alternative.

On the other hand, expediting global expansion will require unified control of our various business activities, irrespective of region, as well as reinforcement of frameworks to ensure swift decision-making. Therefore, we will incrementally introduce our core information system, commissioned in 2015 in Azbil Corporation, into other Group companies at home and overseas.



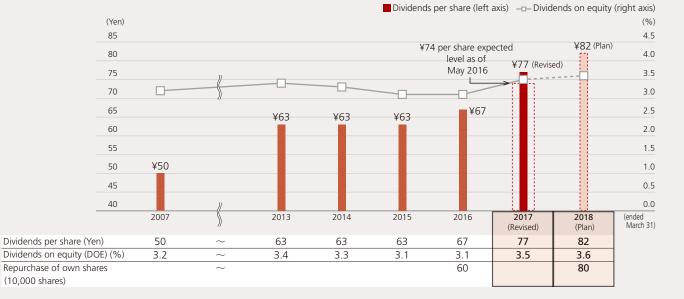
You increased the year-end dividend, with another rise planned in the year ending March 2018, and you have acquired the company's own shares. Please give us your thoughts on shareholder return.

## Having made progress in improving our income structure and implementing business structural reforms, we envisioned a path to sustainable growth and decided to increase dividends accordingly.

With a disciplined capital policy, we seek to maintain and improve enterprise value while emphasizing a good balance among three key elements: promoting shareholder returns, investing in growth, and maintaining a healthy financial foundation. With respect to shareholder return, positioned as an important management priority, we maintain a flexible approach, centered on dividends and including share buybacks. Here, we comprehensively consider a range of factors, including levels of consolidated performance, return on equity (ROE), dividends on equity (DOE), and the need to retain sufficient retained earnings to fund future business development and strengthen our corporate structure. We pay particular attention to maintaining active and stable dividends.

In the year ended March 2017, the final year under our previous medium-term plan, we saw good progress with respect to growing our business and reinforcing our corporate structure, as mentioned earlier. For this reason, we had planned to increase dividends by ¥7 per share (included commemorative dividends), disclosed in May 2016. However, we ultimately declared a year-end dividend increase of ¥3, for total annual dividends of ¥77 per share. In conjunction with the adoption of a new "employee stock ownership plan\*<sup>1</sup>," among treasury shares purchased in the past, we disposed of 1 million shares through allocation to a third party and cancelled all of the remainder (865,659 shares).

In the year ending March 2018, the first year of the new medium-term plan, we will focus on reforming our business structure, upgrading infrastructure, and cultivating and penetrating growth fields in order to realize sustainable growth. We will also continue working to strengthen shareholder return and improve capital efficiency. To further emphasize return of profits to shareholders, we will incorporate a ¥5 commemorative dividend into regular dividends, thus increasing regular dividends by ¥5, for total annual dividends of ¥82 per share for the year ending March 2018. With respect to treasury shares, our goal is to implement flexible capital measures aimed at increasing capital efficiency and addressing changes in the business environment. From this perspective, we implemented a plan to repurchase a maximum of 800,000 shares of our own shares with maximum repurchase value of



#### Trend in Returning Profits to Shareholders

#### ¥3.0 billion\*<sup>2</sup>.

To continue actively returning profits to shareholders, we have set a long-term ROE target of 10% or more. With this in mind, we will continue pursuing business structural reforms aimed at improving capital efficiency under our new medium-term plan. We will also promote future-oriented growth investments in research and development, capital investment, and M&A to broaden our business domains. At the same time, we will continue maintaining a healthy financial foundation to ensure that we can continue our business and fulfill our supply obligations even in unforeseen circumstances, such as large-scale natural disasters.



\*1 Employee stock ownership plan (J-ESOP): An incentive plan aimed at increasing the linkage between the company's stock price/business performance and benefit received by employees; and also raising employee motivation and morale with respect to increasing stock price and business performance. Under the plan, the company grants points to employees according to the company's stock benefit regulations. In principle, employees who retire after meeting certain conditions are given the company's stocks equivalent to the points granted. The treasury stocks disposed of are to be granted to employees when they retire, so it is unlikely that these shares will flow into the stock market at once. For more information on the plan, please see the description of our CSR activities in Q8.

\*2 Completion of repurchase of the company's own shares Between May 30 and June 20, 2017, we acquired 714,300 shares for the total amount of ¥2,999 million.

> Please describe how you are strengthening corporate governance to improve corporate value.

## We have an executive officer in charge of corporate communications to promote "dialogue" with shareholders and other investors.

We have sought actively to strengthen corporate governance for some time, having appointed our first outside director back in the year ended March 2008. In the year ended March 2015, we increased the number of outside directors to three, constituting one-third of the Board of Directors. Since the year ended March 2016, we have been accelerating these efforts, taking advantage of the opportunity presented by the application of Japan's Corporate Governance Code in that year. In the year ended March 2017, we appointed an executive officer in charge of corporate communications to promote constructive "dialogue" with shareholders and other investors. With respect to remuneration for directors serving concurrently as executive officers, we have shifted to an incentive-based framework linked to achievement of mediumand long-term objectives, adopting a similar mindset to that of shareholders.

## How does the Group practice CSR-focused management?

#### We practice it in various ways, including through the introduction of an employee stock ownership plan and contribution to protecting the global environment.

Recent years have seen an increase in movements to evaluate companies based on their ESG (environment, society, governance) frameworks. The azbil Group recognizes that sustainable growth and the creation of corporate value in the medium- to long-term are attributable to the resources and contributions of its various stakeholders. With this in mind, we interpret the concept of CSR to be broader than simply "corporate social responsibility," and pursue ESG-based initiatives accordingly.

The azbil Group practices two types of CSR: "basic CSR," meaning fulfillment of our fundamental obligations to society as a corporate citizen; and "proactive CSR," the provision of value to society though our business activities, as well as voluntary social contribution efforts. We practice CSR-focused management, having identified the goals that we should achieve in regard to compliance, risk management (quality and product liability, disaster preparedness, BCP, and information), business management that values people, contribution to the global environment, Group management, enhancement of our governance framework, and contributions to society.

From the perspective of stakeholders, we pursue profit growth and dividend increases to reward our shareholders.

For employees, we actively undertake "work-style reforms" aimed at raising their productivity and giving them a good work-life balance, and we also decided to introduce an employee stock ownership plan. While the plan is part of our welfare policy, it is designed to encourage efforts to improve our business performance, with individual employees sharing the same values as shareholders and thus having a strong interest in our financial results. We also work constantly to help resolve social issues, such as reducing CO<sub>2</sub> emissions and saving energy at customers' sites, through our Group philosophy of "human-centered automation."

In addition to these efforts to combine corporate value enhancement with CSR, we established the Azbil Yamatake General Foundation to support new technology development and young people, our future leaders. Through its "Asunaro Friendship" program, the Foundation promotes harmonious coexistence with society by launching initiatives to foster the sound growth of young people and technological advancement. Going forward, we will practice CSR-focused management unique to the azbil Group from an ESG perspective, pursuing more in-depth initiatives aimed at meeting the expectations of all stakeholders.

### What your performance forecasts for the year ending March 2018, the first year under the new medium-term plan?

#### We will target sustainable profit growth amid a healthy business environment.

We expect domestic demand for large-scale projects to remain stable in the year ending March 2018. Despite some geopolitical elements of instability, we also anticipate continued strength in capital investment buoyed by economic recovery trends in Japan and overseas. Under these circumstances, we will invest in technological development and production as well as adopt measures necessary for sustainable growth. For the year, we are targeting consolidated net sales of ¥261.0 billion (up 2.4% year on year) and operating income of ¥22.0 billion (up 9.2%). Thanks to business structural reforms and initiatives to strengthen the corporation taken thus far, I am confident that we will make an auspicious start to our three-year plan.

**Hirozumi Sone** President and Chief Executive Officer Azbil Corporation



## The azbil Group's Endeavors for a Sustainable Future



Human-centered automation—we created this phrase as our corporate philosophy out of hope for a future society produced by collaboration between people and technology. Based on this idea, we pursue value creation together with our customers at their work sites, and in so doing we also pursue our own sustainable growth.

Automation needs are about to change dramatically. The azbil Group identifies the challenges to be addressed through automation as the following.

- Managing energy and reducing
- environmental impact

azbil

- Providing new life-cycle services for asset value maintenance, retrofit, etc., in the field of building management
- Dealing with manpower shortages and preventive maintenance needs at manufacturing sites

To address these challenges, the azbil Group is integrating its knowledge and expertise with advances in technology such as the IoT, big data, and AI, and is developing new control technologies, products, and services.

One hundred and eleven years have passed since the foundation of the company in 1906. We have inherited three assets, namely the technology supporting the azbil Group, the spirit of acting for the future, and the sites that connect us to our customers. We will continue to create new value onsite with our customers, helping them to address the various challenges they face.

### **Endeavors at Work Sites Where Value Is Created**

#### A future of building management via the IoT

The rise of new technologies such as the IoT, AI, and big data, calls for the creation of new value in areas like building operation, building management, and services throughout the building life cycle. Using products and services equipped with these new technologies, the azbil Group will provide

the needed information to people in various positions, including building owners, occupants, architects, builders, and managers. In addition to providing value, for example, by achieving energy savings and comfort at the same time, or by ensuring building security, the azbil Group provides support for healthy and productive work environments and comfortable living.

#### Cloud service for buildings, creating new value for a variety of building stakeholders

Data on building operation and maintenance, which formerly was concentrated in a central monitoring room, is provided by the azbil Group's cloud service in an environment where it can be shared by the owner and occupants of the building. The owner of a building can use this data for management, and occupants can use data on room environments or room usage to achieve a more productive and comfortable living space.

Through a new kind of participatory building management involving a variety of people with connections to the building, the azbil Group aims to achieve both energy savings and a comfortable environment.

#### Greater openness through a next-generation building automation system

The azbil Group is working to realize a nextgeneration building automation (BA) system that makes the network communication, data, and engineering environments more open, and will encourage its use by customers throughout the building's life cycle. In addition, the cutting-edge functionality of Azbil's latest BA system helps building managers to keep track of information and make decisions, improving the quality of the user's experience. Combined with the cloud service, this system contributes to creating new value with various specialists involved in building operation.

#### Technology and expertise supporting the work site in the IoT age $\gg$

#### > Better building operation and management through remote data services (remote maintenance)

Daily building operation and management data is collected and stored in the azbil Group's remote maintenance center in order to maintain building control functions and diagnose problems. The accumulated data is also used as big data for equipment and facility fault trend analysis and energy consumption benchmarking. By reducing the downtime of customers' buildings, and improving both living space comfort and energy efficiency at the same time, our remote data service raises the asset value of buildings. This service is already being provided to several thousand sites in Japan, and we have begun to offer it globally. We are now laying the foundations for the proactive use of building data by our customers.



Four Core azbil Values

## **Connecting People to Buildings for a More Healthy and Vibrant Society**

CLOUD

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#### Energy services via the Cloud help to cut CO<sup>2</sup> and preserve the environment

With the increasing need to deal with global warming, the use of demand response and optimized equipment operation support applications can reduce CO<sup>2</sup> emissions throughout the entire building. By both managing and analyzing the data from multiple buildings at the same time, our energy services can reduce energy consumption within an entire company or region.

#### Applying building air conditioning technology to provide comfortable central air conditioning for homes

By developing central air conditioning systems for homes that automatically controls the air flow rate in each room according to the room temperature and the set temperature, we provide comfortable environments in each room.

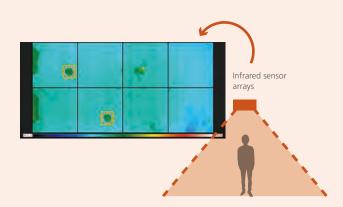
#### A basic infrastructure for workstyle reforms using an access control system

By tracking information about entry and exit from buildings and rooms, one can learn how building users actually work, and then create better workstyles. Since this system covers multiple offices using a network, even if an employee moves to a different office, continuity of information about his or her daily working hours can be maintained.

#### > Infrared sensor arrays for detecting presence in a room

An infrared sensor array installed on the ceiling measures surface temperature per grid square and determines whether a person is in the room based on the movement of temperature in the human body temperature range. Since it is possible to keep track of the number of people in the room and their positions—information which formerly was difficult to obtain—both energy savings and comfort can be realized at the same time by using more appropriate air conditioning control.

2 3 5 5 5



### **Endeavors at Work Sites Where Value Is Created**

#### A future of factories and plants connected by the IoT

IoT technological innovation will soon bring about a safer, more efficient, and more comfortable "super-smart society." Manufacturing sites that support such a society must also evolve into "super-smart factories."

The azbil Group intends to dramatically improve the operation and management of factories and plants through IoT technology. Considering the current technology for operation support and management and human wisdom as "Eyes I (The 1st Eyes)," the azbil Group plans to build on this inheritance to realize "Eyes II and Eyes III" that transcend the current state, enabling us to provide smart data-based services.

#### Eyes II (The 2nd Eyes)

#### Visualization and diagnosis of production and equipment operation using high-performance sensors

What is important in a cyber-physical system (CPS), where value is continuously produced through the connection of the manufacturing site (physical space) and cyber space, is technology that accurately measures the "now" of the manufacturing site. Using not only newly installed equipment, but also existing equipment with high-performance sensors as additions or replacement parts, the condition of the work site can be monitored in detail to strengthen the foundations for data-driven factory operation.

#### Eyes III (The 3rd Eyes)

#### Using big data and AI to detect and predict problems, and optimize plans

A super-smart factory is a new environment that can be realized by making available for everyone the wisdom that skilled workers have gained through long experience. Just as skilled workers can draw upon their rich experience to evaluate equipment movements and processes under various operating conditions, AI can learn from a large quantity of operation patterns contained in big data and evaluate the "now" in real time, detecting abnormalities at an early stage, predicting future changes, and assisting in the formulation of optimal production and maintenance plans.

#### Technology and expertise that support work sites in the IoT age $\gg$

## > Control equipment that contributes to preventive maintenance at manufacturing sites

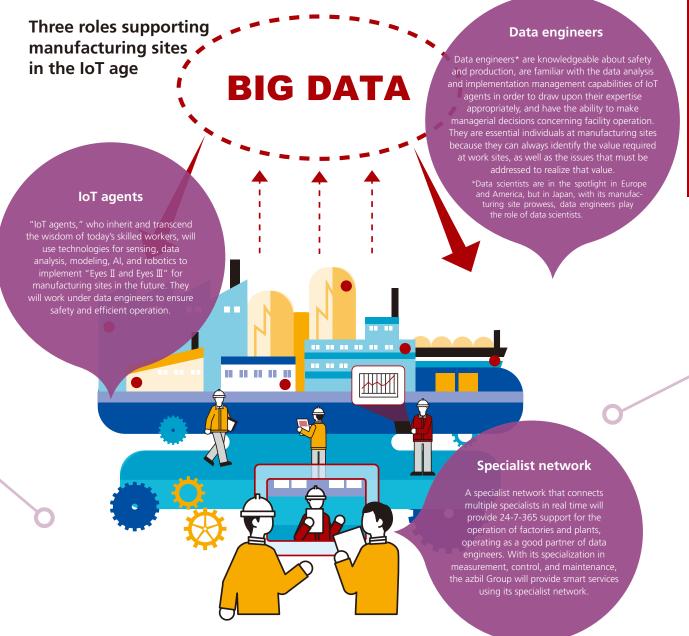
A large amount of process data is handled by manufacturing equipment, and most of it is used by the control devices within that equipment. The azbil Group is developing products that use this data to improve the preventive maintenance of manufacturing equipment. These products have the azbil Group's proprietary health index\* function, which apply measurement and control technology to track the changing condition of the equipment by means of internal process data. With their enhanced communication functionality, these devices also help to bring IoT to manufacturing sites.

\* Diagnostic indicator for prediction or detection of production equipment failure



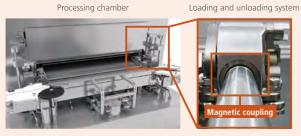
Model C7G multi-loop controllers with multifunction display

## Applying Big Data and AI for More Stable and Safe Manufacturing



#### > Automatic loading and unloading system with excellent clean and sterility in freeze dryer

At pharmaceutical manufacturing sites, the demand for automatic vial handling solutions is increasing. The azbil Group has developed a non-contact automatic loading and unloading system using a noncontact magnetically driven mechanism freeze dryer. The non-contact drive mechanism avoids the risk of cross-contamination from friction dusts, and the steam sterilization and cleaning in place of the slider in the chamber reduce the operator's hard work. This technology contributes to safe operation and product quality at aseptic pharmaceutical manufacturing process.



## Value Creation Initiatives

The pages that follow 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 create value through automation.

## At a Glance

## Building Automation Business

Using original environmental control technologies to deliver comfort, functionality, and energy savings required by all buildings, we help create comfortable and efficient office and production spaces and reduce environmental impacts.





## Advanced Automation Business

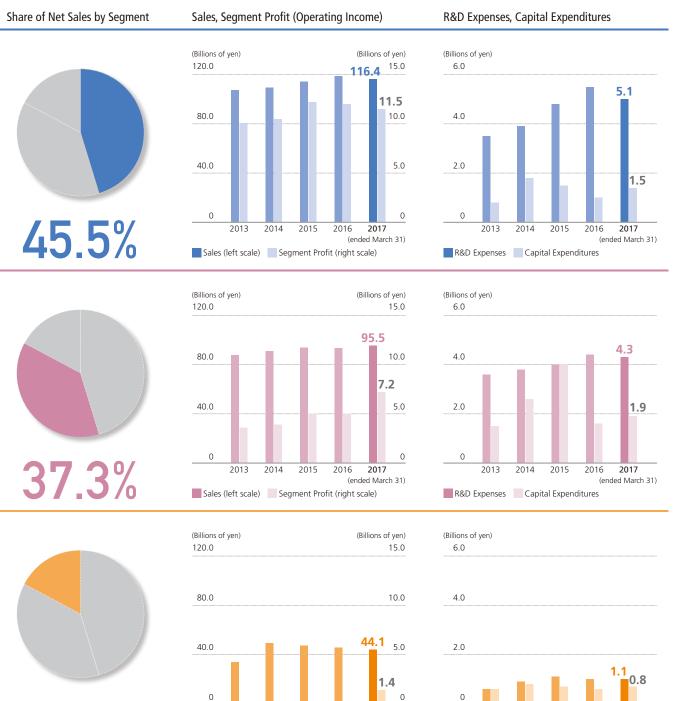
We develop advanced measurement and control technologies for factories and plants to help create production sites in which people can safely demonstrate their abilities. Through collaboration with our customers, we will create new levels of value.



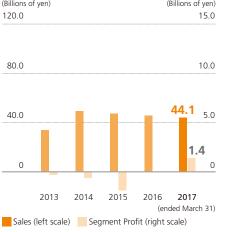
## Life Automation Business

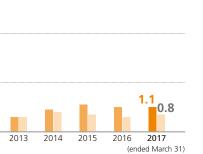
We apply our measurement and control technologies and services, amassed over many years in the BA and AA fields, to lifeline utilities such as gas and water, residential central airconditioning systems, life science research, pharmaceuticals, and other sectors to help people enjoy active lifestyles.





17.2%





R&D Expenses Capital Expenditures

# Building Automation

Business

Using advanced air-conditioning control technologies to provide indoor environments that combine comfort and energy conservation

Our Building Automation (BA) business provides a variety of products and services necessary for air-conditioning control of office buildings and other large-scale buildings, based on an integrated system ranging from development, manufacture, and sales of products and systems to engineering, installation, and maintenance services. We deploy our advanced automated air-conditioning control—combining control systems and application software for air-conditioning facilities with various devices (controllers, valves, and sensors)—and our proprietary environmental control technologies that create business and production spaces where people can work safely, efficiently, and in comfort, and that contribute to reducing environmental impacts. Using our strength in providing total solutions covering the life cycles of buildings, we foster safe operation and increasing the asset value of our customers' buildings over the long term. Our solutions range from construction of new buildings to maintenance services, retrofit of existing buildings, and energy-saving solutions.

#### Life Cycle of Buildings and Building Automation Business



- A pioneer in the field of air-conditioning control systems for Japanese large-scale buildings
- A lineup of services tailored to the life cycles of buildings
- Energy-saving solutions based on accumulated data

Business Fields Office buildings, hotels, shopping centers, hospitals, schools, research laboratories, manufacturing buildings,

## Main Solutions and Services

#### **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



#### Cloud Services for Buildings

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



## Total Energy Management Service

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





## Protecting

**Security Systems** Controlling access to building commons and interiors

Value Creation Initiatives



High-end contactless smart-card reader

## Controlling **Regulators and**

## Controllers

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



Heating/cooling plant controllers



Adjusting

Valves/Actuators

or steam used in buildings

Motorized control valve with flow measurement and control functions



Detecting

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 small and

facilities

BA systems for large-scale buildings



▲ Wall-mounted BA systems

# Building Automation (BA) Business

In addition to proper execution of new projects, we will expand our life cycle solutions business in Japan and overseas.



## Keiichi Fuwa

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

#### Operating Environment

In the year ended March 2017, as the Japanese economy showed signs of moderate recovery, the Building Automation (BA) business environment was steady. 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 trended at high levels. In addition, demand for solutions aimed at saving electricity and energy and reducing CO<sub>2</sub> emissions of large-scale buildings remained brisk. Overseas, there has been growing awareness among emerging nations about the need to save energy and otherwise protect the environment.

#### Review for the Year Ended March 2017

Under these circumstances, we enjoyed solid demand for solutions aimed at saving energy and reducing operational costs, in addition to participating in multiple urban redevelopment projects in the Tokyo metropolitan area. Accordingly, sales in the domestic market for existing buildings, despite declining slightly, remained strong, and we enjoyed steady growth in the services field. Due to a temporary fall in sales in the market for new buildings, however, overall domestic sales remained mostly unchanged from the previous year. Overseas, we made steady progress in cultivating local markets, but the effects of foreign exchange factors and the transfer of shares in a subsidiary led to a decline in overseas sales.

Although the business environment for domestic largescale buildings remained robust, we reported a year-on-year decrease in domestic orders. This was due to several temporary factors such as a decline in new construction projects, a revision made in the previous fiscal year to the way multiyear contracts are recorded, the impact of orders received for large-scale projects last year, and initiatives prioritizing profitability, etc. Overseas orders also declined due to the yen's appreciation lasted until the second half of the year and the transfer of shares in a subsidiary.

Despite an increase in sales in the profitable service market, segment profit declined as we assigned additional numbers of personnel to reinforce structures for ensuring on-site job processing capabilities.



Segment Profit

(down 4.2% year-on-year) (Segment profit ratio 9.9%)

 $\pm 11.5$ 

• Net sales declined year on year, due to a temporary dip in sales related to new buildings, a reassessment of our business overseas, and foreign exchange factors. This was despite growth in the domestic market for services.

• Segment profit was down, due mainly to increased expenses associated with enhancing job processing capabilities.

#### Outlook

In the domestic market, we look forward to a solid business environment amid ongoing demand related to the Tokyo 2020 Olympic and Paralympic Games and to the urban redevelopment projects in the Tokyo metropolitan area. On the other hand, there are concerns that such brisk demand will lead to labor shortages and increased labor costs. Under these circumstances, in addition to projects already ordered, we will address growing demand by steadily carrying out job processing, including on-site construction, spearheaded by a team made stronger through personnel shifts within the Group. We recognize this as a starting point for building relationships of trust with customers and expanding and upgrading our life cycle solutions business, which will lead to an increase in maintenance and retrofit projects, earmarked as highly profitable in the future.

At the same time, we will step up proposal-based activities in conjunction with energy management and other services to address a major increase in demand for existing building retrofits expected after the Olympic Games. Currently new projects are increasing while we have many jobs in hand, however, we regard this timing as a good opportunity to tackle workstyle and operational structure reforms. To this end, we will promote more IT-intensive engineering and design and foster the creation of workplaces and sites that are highly productive and efficient.

In overseas markets, we have forged a strong reputation based on our track record of landmark projects, mainly in emerging Asian countries. We are also expanding acquisition of "Green Mark" certification to address growing awareness among building owners about energy saving and environmental protection. Taking advantage of these market conditions, we will leverage our strength in leading-edge energy-saving automation technologies accumulated in Japan. We will also introduce remote maintenance and other new products allowing us to deliver high-value-added services, as we do in Japan, with the aim of broadening the foundation of our life cycle solutions business model overseas.

# New Building Automation System Launched Overseas

During the year, we began overseas sales of "savic-net™G5," a new building automation (BA) system incorporating IoT and other technological innovations. The new BA system is equipped with open communication protocols to allow optimal system construction, regardless of which company's products are used, and has an advanced interface and utility functions that emphasize user convenience. It also features an advanced energy-saving control system incorporating applications with proven track records in Japan. We have already delivered the system to commercial office buildings and airport facilities in Thailand, Singapore, Sri Lanka, and elsewhere, and we are expanding sales activities across Asia.



# AA

# Advanced Automation Business

Helping to solve problems at manufacturing sites to realize safe, comfortable, and ideal work environments

Our Advanced Automation (AA) business fields are broadly divided into the process automation (PA) field, related to the materials industry, and the hybrid automation/factory automation (HA/FA) field, related to the processing and assembly industry, and our products and services are provided in these fields via three sub-segments: CP, IAP, and SS. To solve problems at various manufacturing sites, including plants and factories, we offer products, solutions, instrumentation, engineering, and maintenance services that support the optimal operation of equipment and facilities throughout their life cycles. Working in collaboration with people involved in production, we aim to develop advanced measurement and control technologies and create production sites where workers can demonstrate their skills safely, while also creating new value for our customers.

#### **Business Sub-Segments**

#### Control Products (CP) Business Provides digital

instrumentation equipment, micro switches, sensors, combustion control equipment, and other components Industrial Automation Products (IAP) Business Provides field instruments, automatic control valves, and other components

#### Solution & Service (SS) Business Provides control systems and service/ maintenance

Solutions incorporating our expertise in both fields

Hybrid Automation/Factory Automation (for the processing and assembly industry) For equipment manufacturers and end users of electrical/electronic devices, semiconductors, food, etc. Process Automation (for the materials industry) For sectors that supply production materials to the petrochemical, chemical, steel, and other industries

**Business Fields** 

 Measurement and control manufacturer handling everything in-house, from development and production to maintenance

## • Expanding the solutions business through a variety of applications

Business Fields [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.

## **Main Solutions and Services**

# 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

# Adjusting

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



 Control valve and smart valve positioner



#### **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





sure, liquid level, and calorific value

▲ Differential pressure and pressure transmitter

Measuring

Measurement of flow rates, pres-

**Process Sensors** 



▲Natural gas calorimeter

■ Vortex flowmeter

# Controlling

Controllers Optimal control of processes, equipment and facilities



# ▲ Process controller

Network instrumentation module

# Detecting

#### Sensors and Switches

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

▲ Advanced

ultraviolet flame detector



▲ Laser sensor



Photoelectric

switch





▲ Limit switch



▲ Earthquake sensor

processes ▼ Monitoring and control system



▲ Device management system



▲ Online anomaly monitoring system

Monitoring and Control

Monitoring of manufacturing

**Systems** 

# Advanced Automation (AA) Business

We will promote further our growth strategy and profit structure reforms in order to build a high-earning business segment offering world-class automation.



## Yoshimitsu Hojo

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

#### Operating Environment

In the year ended March 2017, corporate earnings in the domestic manufacturing sector continued to improve owing to a turnaround in exports and productions amid recovery in IT demand. However, companies maintained a cautious attitude with respect to capital investment.

Overseas, the outlook remained uncertain due in part to geopolitical risks, but the economic slowdown in China took a pause, while the U.S. economy remained healthy, buoyed by increased personal consumption and improved corporate earnings. Europe also enjoyed moderate economic recovery.

#### Review for the Year Ended March 2017

In this business environment, both orders and net sales in the Advanced Automation (AA) business were negatively impacted by foreign exchange factors. In and outside Japan, however, markets for semiconductor manufacturing equipment and other expanded, and we also benefited from active sales promotion activities for targeted products and regions under our three business units: Control Products (CP), Industrial Automation Products (IAP), and Solutions & Services (SS)\*. Excluding foreign exchange factors, we posted real year-on-year growth in orders, while segment sales also increased, offsetting the foreign exchange impact.

While negatively affected by foreign exchange factors, segment profit jumped significantly year on year, owing to increased segment revenue and efforts to improve various facets of our profit structure.

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

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

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



• Net sales increased year on year owing to expansion achieved in the semiconductor manufacturing equipment market both in Japan and overseas, as well as active sales promotion activities for targeted products and regions.

Increased sales and an improved profit structure led to a significant jump in segment profit.

#### Outlook

Although the domestic market continues maturing, the operating environment for the AA Business is enjoying the benefit from strong demand for technological innovation aimed at enhancing production efficiency and manufacturing highly functional products. Together with recovery in the Japanese and global economies, the outlook appears favorable.

We made excellent progress in reforming our profit structure in fiscal year 2016, and going forward we will continue entrenching such reforms while broadening their scope and depth. We will also steadily build foundations for growth. This includes establishing a robust research & development system to address the changing technological trends of the so-called Fourth Industrial Revolution; strengthening our sales, service, and production systems to deliver overseas business growth; and modifying our business promotion systems according to shifting business domains.

Along with efforts to further strengthen our profit structure and business foundation, we will steer the Group on a steady growth trajectory. The AA business is advancing a wide range of automation businesses in both the domestic and overseas industrial markets. Under the management structure based on the aforementioned three business units, we will further strengthen the competitive segments of existing business fields while creating new competitive segments. Overseas, where room for growth is high, we will broaden customer coverage to accelerate business expansion.

The current Fourth Industrial Revolution is driving remarkable technological innovations in such areas as IoT, artificial intelligence (AI), and big data, and customers targeting further growth of their production sites are seeking to significantly advance their operations by exploiting such technologies. Viewing these changes as a golden opportunity, the azbil Group will leverage its original technologies and know-how to cultivate "new automation fields" that can deliver new levels of value desired by customers beyond levels seen to date. By using automation to become a leading company in individual business areas, we aim to become a high-earning business segment offering world-class automation.

# Explained Azbil's Initiatives at the 4th Future Investment Council Meeting

At the fourth meeting of the Council on Investments for the Future, held at the Prime Minister's Official Residence on January 27, 2017, Hirozumi Sone, president and CEO of Azbil Corporation, explained the concept of "smart security using IoT technology."

Japanese manufacturers are facing various issues, such as aging facilities and retirement of skilled operators. Accordingly, there is a need for advanced technologies to ensure that the knowledge of skilled operators is passed down and improved upon. Such technologies include "using highly functional sensors to deliver optimal maintenance based on equipment diagnostic data" and "using big data for online monitoring/detection of anomaly and prediction/ warning of irregularities." At the forum, Mr. Sone introduced specific examples of how Azbil has deployed its technologies to deliver "smart security," receiving high acclaim from attendees.



Source: Website of "The Prime Minister in Action," Prime Minister's Office, January 27, 2017 (Council on Investments for the Future) (URL: http://japan.kantei.go.jp/97\_abe/actions/201701/27article1.html)

# Life Automation Business

Supporting safe, secure, comfortable, and healthy living through measurement and control technologies

We are advancing our Life Automation (LA) business by deploying measurement, control, and metering technologies, cultivated over many years in the building and industrial markets, to expand our presence in new domains that support people's lives. Specifically, this business is focused in the following three fields.

## Gas and Water Meters (Lifelines)

In December 2005, Kimmon Manufacturing Co., Ltd. (now Azbil Kimmon Co., Ltd.), which manufactures and sells city gas meters, LP gas meters, and water meters, became an azbil Group member. That company is a pioneer in metering instruments with a history of more than 100 years, having developed the first Japan-produced gas meter in 1904. It has a stable business foundation that benefits from cyclical replacement demand for gas and water meters as required by law.

## Life Science Engineering (LSE)

Spain-based Telstar S.A. (now Azbil Telstar, S.L.U.), which supplies process equipment and environmental systems for pharmaceutical companies and laboratories, became a member of the azbil Group in January 2013. That company is advancing its operations globally, including in Europe, Latin America, and South Asia. For many years, it has built a track record and experience in engineering and the development of equipment and services related to life sciences.

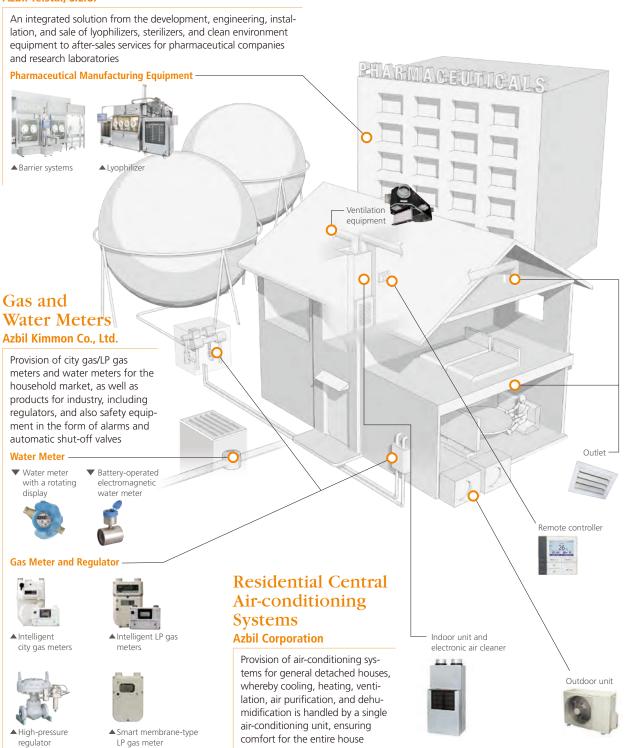
## Residential Central Air-conditioning Systems

In this field, we apply air-conditioning technologies for large-scale buildings to central air conditioning of detached houses. We provide comfortable, healthy living spaces via our central air-conditioning systems, which feature electronic air cleaners with PM2.5 pollen-removal performance, as well as variable air volume (VAV) control enabling temperature settings for each room.

- Gas and water meters: Benefiting from cyclical replacement demand
- LSE: Delivering an integrated products and services based on proprietary technologies to the pharmaceutical market
- Residential central air-conditioning systems: Providing comfortable, healthy living spaces

Business Fields [Gas and Water Meters] City gas (for homes/industry), LP gas, water supply (local government), etc. [LSE] Pharmaceutical manufacturing, life science research & development [Residential Central Air-Conditioning Systems] Ordinary detached houses

## Life Science Engineering Azbil Telstar, S.L.U.



# Life Automation (LA) Business

We will establish a stable earnings structure and shift our focus to profit generation.



## Tadayuki Sasaki

Executive Director Executive Vice President Responsible for the Life Automation business Azbil Corporation

#### Operating Environment

The Life Automation (LA) business operates in three fields: lifeline utilities, such as gas and water supply; Life Science Engineering (LSE) for pharmaceutical manufacturers and laboratories; and residential central air-conditioning systems.

In the year ended March 2017, our business in gas and water meters (Azbil Kimmon Co., Ltd.), which accounts for the majority LA business sales, continued benefiting from cyclical replacement demand for LP gas meters as required by law. In the LSE field (Azbil Telstar, S.L.U.), demand for manufacturing equipment for vaccines and generic drugs remained on a recovery trend, driven mainly by emerging countries. As for residential central air-conditioning systems, we attracted many inquiries about our high-value-added air-conditioning systems for custom-built houses, which address the advanced, diversifying needs of customers seeking a comfortable and healthy indoor environment.

#### Review for the Year Ended March 2017

In this business environment, sales in the gas and water meter field increased, thanks mainly to higher sales of LP gas meters, which are entering a replacement demand period. Due to lower sales of city gas meters and growing research & development expenses, however, profit in this field remained mostly unchanged from the previous year.

Sales in the LSE field declined due to reassessment of our clean room business in Europe and South America and the yen's appreciation. However, we posted improved profit thanks to business reassessment and other structural reforms, as well as a reduction in amortization of goodwill.

In the field of residential central air-conditioning systems, we reported increased year-on-year sales owing to establishment of sales and development systems in the previous fiscal year, and the earnings structure was also reinforced.

As a result, the LA business posted a significant year-onyear increase in segment profit, despite a decline in segment sales. Orders received decreased, because large-scale projects



• Despite net sales increased in the fields of gas and water meters and residential central air-conditioning systems, sales in the LSE field declined due to the yen's appreciation and business structural reforms to emphasize profitability, resulting in an overall decline in segment sales.

· Segment profit improved significantly, driven by progress of business structural reforms in the LSE field.

had been recorded in the previous fiscal year in the LSE field, and this was exacerbated by the impact of the yen's appreciation and a reassessment of the cleanroom business, etc.

#### Outlook

In the year ending March 2018, we expect growth in the LA business as a whole, driven mainly by higher sales of LP gas meters, which continue to benefit from increased demand for cyclical replacement. In the gas and water meter field, we will work actively to exploit business opportunities in the liberalizing energy supply market. We will also continue enhancing our products and cultivating a high-added-value solution-oriented business.

As part of these initiatives, we are working to develop products that support the next generation of communication technologies while advancing new services that utilize IoT technologies. For example, we are pursuing the practical application of innovative meter-reading solutions for water and gas supply in remote islands and mountainous areas. We are also using the latest long-distance wireless communication technologies to collect data from city gas, LP gas, and water meters, and participating in projects that contribute to local energy savings and environmental impact reduction.

In the LSE field, we made considerable progress with structural reforms in the year ended March 2017. We will continue working tirelessly to strengthen and improve our technologies and products through collaboration within the azbil Group, centered on manufacturing equipment for the pharmaceuticals market—an azbil strength—with the aim of establishing a stable earnings structure.

In the field of residential central air-conditioning systems, we will mobilize the Group's knowledge and technologies, amassed in the building sector, to bolster sales while delivering our unique, high added value. For example, we will differentiate ourselves by fitting our central air-conditioning systems for detached houses—which provide cooling, heating, ventilation, air purification, and dehumidification functions—with variable air volume (VAV) control to enable temperature settings for each room.

In these ways, we will entrench a solid earnings structure for the LA business, our third pillar after the Building Automation (BA) business and Advanced Automation (AA) business, and thus navigate this segment on a path to growth.

# Deploying New "LPWA" for Practical Application of Automatic Meter Reading

On March 30, 2017, Azbil Kimmon Co., Ltd. began preparing for the introduction and practical application of an automatic water-meter reading system using SIGFOX\* on remote island communities in cooperation with the Himeji City Waterworks Bureau. Azbil Kimmon is working together with DK Corporation, KDDI Corporation, and KYOCERA Communication Systems Co., Ltd. on the project.

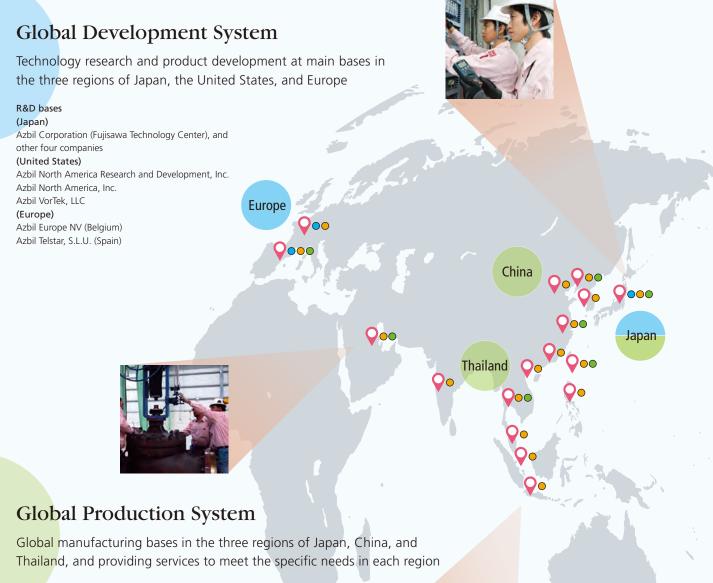
SIGFOX is an example of low power wide area (LPWA) technologies that have attracted attention in recent years. It is a wireless communication technology allowing communication over much greater distances while using less power than existing technologies. We will continue promoting the practical application of efficient automatic meter reading systems for remote islands and mountainous areas where travel is not easy.



\* SIGFOX: IoT-based network technology offered by Sigfox of France.

# The azbil Group's Global Operations

In order to support problem-solving of our customers and society, we have established an integrated framework to provide total solutions. The azbil Group continues to create new values in close and organic coordination of our sales, development, manufacturing, and service locations in Japan and overseas ensuring customers' opinions and needs are quickly and optimally reflected in our solutions.



#### Major factories (Japan) Azbil Corporation (Shonan Factory, Isehara Factory), other 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.



# **R&D to Respond to Needs** around the World

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



# Providing High Level Maintenance ( and Services Globally

Our solutions business maintains close contact with customers and resolves problems through a service network that extends in Japan and overseas. Our maintenance and services optimize the value of customers' equipment throughout its life-cycle, and we provide high value-added services and develop new products based on the valuable voices from the work sites.

Control valve manufacturing and maintenance base at Azbil Saudi Limited



Remote monitoring center for comprehensive management and maintenance of buildings and factories

# 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 collaboration among the companies and divisions that compose the azbil Group, we have been able to cut the lead time from development to manufacturing, and to provide products with a high level of homogeneity at the most appropriate cost to customers all over the world.

Azbil Production (Thailand) Co., Ltd.



Azbil Control Instruments (Dalian) Co., Ltd.



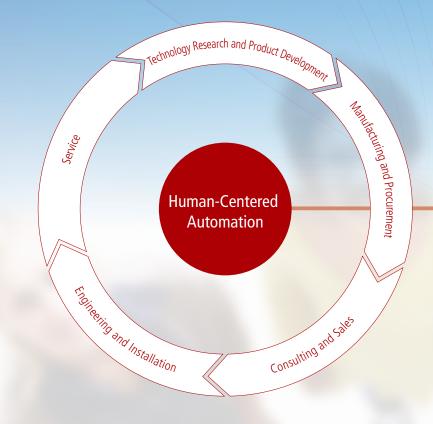
United States

**Sales** 

- Product Development
- Maintenance and Services
- Production



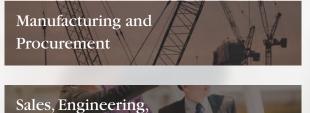




# A Strong Value Chain f<mark>or Sustainab</mark>le Growth

Based on its philosophy of "human-centered automation," the azbil Group creates value together with customers at their sites, and in so doing secures its own sustainable growth. The problems and needs of our customers and of society are changing with the emergence of technological innovations. Against this backdrop, we will continue working tirelessly to create value through automation by utilizing our integrated system, which covers everything from product development to manufacturing, sales, engineering, installation, and service.

Technology Research and Product Development



Installation, and Service

# Technology Research and Product Development

We plan and develop technologies and products in five strategic 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.

#### Technology Research and Product Development Policy

Aiming to swiftly provide customers with next-generation products based on our Group philosophy, we are building an operational framework that emphasizes coordination between our marketing and R&D departments. Having identified five strategic technology areas through which we can deliver widely applicable value over the medium and long terms, we are pursuing original R&D initiatives while stepping up product development in areas of business that are growing. In keeping with our goals for global business advancement, we are developing technologies and products at our R&D base in Silicon Valley in the United States and at Group companies in Europe, as part of our three-base system located in Japan, the United States, and Europe.

## **Five Strategic Technology Areas**

To provide constant and widely applicable value amid the changing business environment faced by our customers, who operate in a variety of areas—including the building market, manufacturing, housing, and infrastructure—we have identified the following five strategic areas for technological and product development. These areas were identified by taking into account factors such as the societal trends, changing needs of our customers, and technological innovations anticipated over the medium and long terms.

#### 1. Machine Systems with Humanlike Abilities

Intelligent systems that bestow on machines a subtle sense of touch, humanlike perception, technical skills, or other human attributes, allowing the machines to work well with people.

#### 2. Flexible Measurement and Control

Technologies allowing free measurement and control of objects in a way that was not previously possible due to circumstances of installation location, time, or environment.

#### 3. Advanced Technology that Clarifies Complex Systems

Information technology that takes complex processes beyond the stage of "visualization" to that of "clarification" of status and problems, to enable advanced system control and enhancement.

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

Control technologies that learn from environmental changes in order to supply just the right amount of energy, bringing human activity (energy consumption) and environmental preservation into harmony.

#### 5. Individualized Environmental Comfort Systems

Technology that maintains the optimal temperature distribution

within a space, taking into account the location of human beings and other heat loads to swiftly provide a safe, high-quality indoor environment.

IFor more details, please refer to "Examples of Technology R&D" on pages 50-51.

#### Three Initiatives for Standardization

We are improving the reliability and safety of our products and services and thereby increasing our business competitiveness by optimizing quality (Q), cost (C), and delivery date (D) using three methods: applying international standards, standardizing technology, and enforcing measurement standards. Together with the application of IT to achieve results in the standardization of design and development, we are improving QCD, and we are making these efforts globally.

#### Standardization of Design and Development

#### Centralized knowledge management

Thorough use of product information (e.g., QCD) based on a digital BOM (bill of materials)

Thorough use of design data (e.g., technical reports, expertise, know-how)

Increased use of standard components and technological standards

#### Front loading in development and design

Early-stage coordination and thorough utilization of 3D data and digital BOMs Increased efficiency through sharing of product information from

the start

Quality	Quality built into the design			
Cost	Facilitation of target costing			
Delivery	Earlier market launches			
Global	Creation of a global network			

#### Strategy for Intellectual Property Rights

In addition to respecting the intellectual property of third parties, we regard our own intellectual property as one of the company's most important resources, and for this reason we make efforts to acquire and protect patents and other rights.

We are working to reinforce our patent portfolio in cooperation with our business and R&D departments, and we are organizing our product and technology development fields in order to make focused R&D investments based on the analysis of other companies' benchmarks and patent information. In priority development fields, we actively acquire patents related to basic and related technologies. At the same time, we endeavor to improve overall investment efficiency by discarding patent rights that have a low value in terms of competitiveness or business performance. In conjunction with our global business expansion, our marketing and development departments hold meetings with the Intellectual Property Department before filing applications for patents overseas in order to determine the importance of the relevant technology for our business strategy.

In addition, to spark creativity that will lead to numerous inventions and enhance our competitiveness, we have revised our incentive system in order to raise employees' motivation to invent. Under the new system, we have improved transparency by disclosing the formula used to calculate incentive payments in response to Japan's revised Patent Act.

#### Brand Management

We have enacted Group-wide regulations governing the use of the company name, logo, and other elements of the azbil brand, and we strictly adhere to these regulations around the world. To protect our brand, we have aggressively registered the Group's "azbil" logo as a trademark in about 100 countries worldwide.

We also endeavor to register our main products in this way around the world.



In light of the increasing unauthorized use of logos on the Internet, we strive to uncover any infringements and deal with them strictly.

#### Patent and R&D Data

(Ended March 31)	2013	2014	2015	2016	2017
Patents					
Number of applications	476	502	513	506	506
Number owned	2,124	2,458	2,703	2,762	2,902
R&D expenses (billions of yen)	7.8	8.8	10.1	11.0	10.4
R&D expenses/net sales (%)	3.4	3.5	4.0	4.3	4.1

#### Examples of Technology R&D

## 1. Machine Systems with Humanlike Abilities

#### Noncontact automatic loading and unloading system

This system automatically transports containers filled Value with chemicals used in freeze-drying equipment for provided the manufacture of pharmaceuticals. It is superior to conventional models in terms of cleanliness and sterilization and requires less space.

## 2. Flexible Measurement and Control

#### Model F7M thermal micro flow rate liquid flowmeter

This device enables measurement of the instantaneous Value and integrated flow rates of micro flow rate liquid flow provided at levels of 100 milliliters per minute or less, which was difficult to achieve with high reproducibility using previous systems. It also incorporates IoT technology to manage the guality control of the manufacturing process and detect any process abnormalities

## 3. Advanced Technology that Clarifies Complex Systems

#### Model C7G multi-loop controllers with multifunction display **Health index function**



Our health index function enables the prediction of control loop abnormalities in manufacturing equipment. This could not be done using conventional alarm

functions. By making appropriate equipment maintenance possible, it improves productivity.

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

#### savic-net<sup>™</sup>G5, a new type of building automation system



This system incorporates recent technological innovations such as cloud computing and IoT, and adopts an open network. It provides advanced user interface and high-speed monitoring and control, and ensures the best work-

ing experience for people involved in facility management tasks.

# 5. Individualized Environmental Comfort Systems

## Whole-house VAV air-conditioning system



This is a central air-conditioning system for houses that handles room-specific load fluctuations to allow individual room temperature settings and switch-offs, resulting in greater comfort and energy savings.

Loading and unloading system

Magnetic coupling

We combined a permanent magnet and magnetic Development materials to develop a magnetic actuator that uses details a noncontact drive mechanism to position objects, helping to reduce the risk of product contamination from dust generated by sliding parts. Quality consistency is further assured by automatic washing and sterilization of the transporter mechanism within the freeze-drying equipment. Moreover, the absence of a hard-to-clean bellows cover helps to reduce the burden on maintenance workers, whose work previously included cleaning and replacing the cover and checking for leaks.

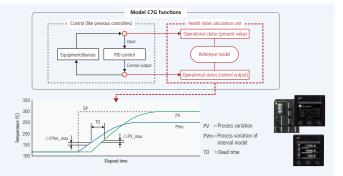
We incorporated a thermal MEMS sensor with a evelopment proven track record into a gas flowmeter and a sildetails ica glass flow path with high corrosion resistance, with the aim of reducing the effect of changes in the state of the fluid (bubbles, pulsation, fluid and ambient temperature, etc.) and facilitating corrections to fluids characteristics (due to thermal conductivity of the fluid). We also deployed alternative methods for pump speed and stroke management, weight measurement, and fluid supply time management to realize more reliable data management.

Processing chamber

Model F7M thermal micro flow rate liquid flowmeter

Heater Fluid temperature sensor Glass capillary

Measuring component



Development details

Development

details

We rebuilt our building automation system from scratch with technological innovations to make it competitive globally. We adopted global standard protocols, and also developed an advanced user interface and

Our health index function, which is a technology pat-

ented by Azbil Corporation, was developed as a way to

quantify the control characteristics of manufacturing equipment based on control theory. Model C7G is networkable, enabling edge computing instead of uploading the Health Index to the cloud or the like. It is also compatible with IoT technologies

for smart factory manufacturing equipment.

a high-speed monitoring and control that are superior to other companies' systems. Moreover, we ensure high reliability system with redundant technology as network connectivity and storage. In addition to storing diverse data that are applicable to any usages, the system has capability for cloud systems and IoT.

This system's low-power design enables control signals Development and power for 16 variable air volume (VAV) units to be details handled with a single cable, eliminating the need to install a power supply for each unit. It also uses a generalized air volume control algorithm to compensate for fluctuation caused by changes in other VAV units' airflows. In addition, we optimized the system for residential use by employing our unique air volume damper mechanism, which allows maintenance to be performed from the air-conditioning outlet so that the installation of dedicated VAV inspection doors is not needed.



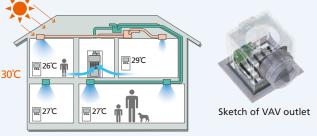


Diagram of home VAV central air-conditioning system

# Manufacturing and Procurement

Adopting 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 production framework capable of weathering changes in the business environment.

Constructing Manufacturing System for Japan and Overseas
 Aiming for an optimal production system to underpin our global

business development, we are working to expand overseas production, strengthen our manufacturing capabilities, and enhance our logistics framework via a network of bases in the three nations of Japan, China, and Thailand. At our production base in Thailand, which was built and began manufacturing in 2013, we are continuing to expand the scale of production, particularly of components, and we plan to enlarge the facility early in 2018. At our production base in Dalian, China, as well, we are continuing to increase the manufacturing capacity for valves and differential pressure and pressure transmitters.

In line with our expansion of overseas production, we are working to build an efficient logistics system, ranging from parts procurement to product shipment. With respect to parts, we are expanding overseas procurement to reduce costs while establishing and reinforcing a global procurement system that allows most-favorable procurement from each nation and region. In addition, we are building a logistics framework that enables direct sale and shipment of products from overseas production bases to various countries, and we are promoting the use of beneficial tax arrangements provided by free-trade agreements and the like.

Concurrently, Azbil Kimmon Co., Ltd., is optimizing its production system by consolidating seven domestic plants into five, with the aim of addressing changes in the business environment and customer needs.

By stepping up these initiatives, we intend to raise the percentage of overseas production to a little over 30% within several years. • Constructing a New Main Factory for the azbil Group As part of measures to optimize our domestic and overseas production system, we will consolidate the Shonan Factory and Isehara Factory to form one facility at the Shonan Factory, which will be the Group's main domestic production base. We will also construct a new factory by the spring of 2019 with production lines equipped with advanced equipment and technology. Our plan is for the new factory, in collaboration with the R&D facility at our Fujisawa Technology Center, to spearhead advances in manufacturing sophistication across the Group.

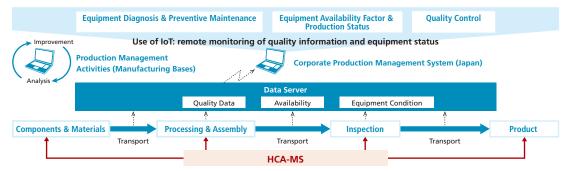
#### Innovations in Production

Seeking to improve the efficiency and quality of production processes, we are pursuing technological advances in a variety of areas, such as production, assembly and processing, and image processing. Based on the azbil Group's unique HCA-MS\* concept, we are making efforts to promote advanced automation by deploying technologies like AI and the IoT to mechanize human activity, including processes previously difficult to automate due to the necessity of human work or judgment. We will extend the application of these efforts from

domestic factories to overseas facilities as we strive to maintain and improve product quality globally while strengthening cost competitiveness.



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 encompassing 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 consulting 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.

#### 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—whether it is 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, including 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 hear various requests from customers regarding their manufacturing sites. When our sales engineers propose energy-efficiency measures for a factory, for example, they conduct an energy analysis and estimate the effectiveness of investment in energy-efficiency measures before proposing a solution to the customer. For the improvement of manufacturing processes, 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 is able to take advantage not only of Azbil Corporation products but also products of Group companies that meet the customer's needs. If the proposal is accepted, 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, provide 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 incorporating their views swiftly and surely into 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.

## Synergy Activities of the azbil Group

The azbil Group puts a strong effort in the activities to expand each company's own value to another group companies and all customers of the Group across companies. Each branch office in Japan conducts a meeting on a monthly basis in which the sales engineers from Group companies get together to discuss business solutions for customers and to learn more about the products. Because we focus on "value creation on-site," the engineers from Group companies also meet and conduct surveys at customers' sites from time to time. Viewpoints of other companies bring out fresh ideas and unexpected discoveries, and sometimes enable us to provide completely new solutions for our customers. We believe that, with this approach, we can stimulate the creation of special value that is unique to the azbil Group.



#### Restructuring of the Service Business

In the service area, we are advancing the transformation of our operations from a conventional labor-intensive model to knowledge-intensive services that make 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 Services**

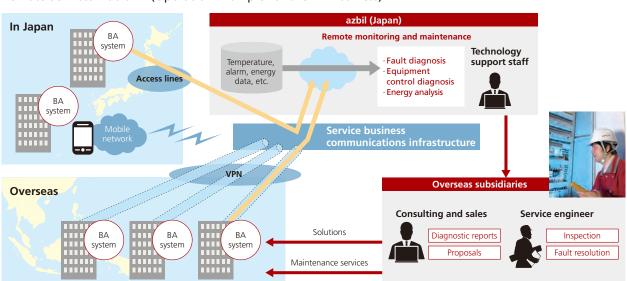
Cutting-edge technology and a wealth of know-how available only to professionals in the field of control and management are now being applied to the development of tools for use in our service operations. The use of service tools not only increases the efficiency of on-site inspections, but also ensures 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 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 suggest preventive maintenance aimed at maintaining the reliability of the system.

#### **Global Expansion of the Service Business**

Our solutions-oriented valve business (for 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 center for comprehensive monitoring of buildings and factories



#### Remote Services Platform (Operation Example for the BA Business)

# Quality Assurance and Safety of Products and Services

The azbil Group delivers safe and dependable products and services of assured quality to customers globally.

# 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.

## The 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 concerning 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 established 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.



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

- Developing diverse personnel who can make "A Company that Never Stops Learning" a real

In order to respond flexibly to changes in the business environment, we established the Azbil Academy as an organization dedicated to the development of human resources, and we actively cultivate diverse personnel around the world.

# **The Azbil Academy**

The Azbil Academy was founded in November 2012 to provide integrated education and human resource development functions for the Group as a whole. In the year ended March 2017, its fifth year of operation, it launched the initiatives described below.

#### Career Development

# Personnel Deployment for Structural Enhancement and Education for Transferred Employees

The azbil Group is carrying out business structural reforms that include the promotion of overseas operation, the training of field engineers and service engineers both in Japan and overseas, and responses to Olympics-related demands. Accordingly, to accomplish the optimal deployment and training of personnel, the Azbil Academy has deployed approximately 600 people in total and provided education to 170 employees who were transferred to another business line or occupation since the year ended March 2013.

#### **Development of Software Engineers**

Software engineer education has been reinforced to cultivate personnel who can carry out the development of products that take advantage of technological innovations in areas such as the IoT, AI, and big data as well as service business that takes advantage of IT infrastructure, and personnel to implement the computerization of engineering, design, and other areas for operational efficiency. In the year ended March 2017 we trained 50 software engineers.

# Global Human Resource Development Global Leader Education

As a part of human resource development to further the Group's fundamental policy of "taking global operations to the next level," the basic policy of the Group, we started to provide the training sessions in the year 2014 to foster leaders for the global business with strengths in logical thinking, problem-solving skills, and communication ability. The year ended March 2017 was already the third year of this global business training. Japanese employees take the training courses together with the employees of overseas subsidiaries, and all of the lectures and discussions are in English. We have trained more than 40 global leaders in total as of the end of March 2017.

We have also offered, since the year ended March 2016, a management training program for employees in leadership positions in order to enhance human resource development at overseas subsidiaries. In the year ended Marcy 2017 we expanded the program to subsidiaries in China, South Korea, and Thailand.

#### **Development of Staff of Overseas Subsidiaries**

In the year ended March 2017, we started a study-abroad program that enables administrative staff of overseas subsidiaries to come and study at Azbil's headquarters in Japan. The main goals of this program are for the staffs of overseas subsidiaries to learn and understand Azbil's CSR management, and to build up a network of personal contacts between employees in Japan and the staff of overseas subsidiaries. The staff of subsidiaries in China and Taiwan have previously been able to take year-long training courses in the year ended March 2017.



#### Global Human Resource Development Program

## Human Resource Development for the Solutions Business

### **Recognition System for Technical Professionals**

In the year ended March 2015, we introduced a system to award the title of "Technical Professional" to azbil Group employees with top-class technical skills who improve the level of technical ability and pass on technical know-how to younger employees. As of the end of March 2017, the title has been given to five top-class engineers from the building automation (BA) business and two top-class engineers from the advanced automation (AA) business.

#### **Education for the Solutions 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 employee's logical communication skills and cultivate their ability to recognize and solve problems. Based on the aforementioned soft skills, we started a selective education program specialized in each line of business and occupation in the year ended March 2017.

#### Positioning of Technical Professionals



General skills, abilities, and knowledge

# The President of the Azbil Academy Emphasizes — Human Resource Development in the azbil Group —



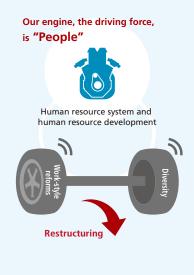
Akihiko Naruse President of the Azbil Academy Executive Officer Azbil Corporation

(With a statue of the founder, Takehiko Yamaguchi) The two approaches of "work-style reforms" and "promotion of diversity" are necessary in order to proceed with business and operational structure reforms in response to environmental changes such as globalization and technological innovation, so that we are to be "a company that never stops learning." The two approaches are like two wheels on which everything rolls and the engine, the driving force, is human resource development and its utilization (the exercise of developed skills).

Human resource development in the azbil Group, which has a 111 year history, has always focused on and treasured the following.

- 1. Passing down the founder's belief that a relationship of mutual trust with customers comes first
- A Focus not only on the acquisition of technical skills but also on soft skills (like problem-solving ability)
- 3. The concept of "creating values on site": growth through collaboration with customers

We will continue to develop human resources who will be the driving force of our new medium-term management plan for the fiscal year 2017-2019, which is the foundation for the azbil Group's future, and who will undertake business and operational structural reforms.



# Infrastructure to Support Value Creation

The azbil Group works hard to create value for customers and society. Here, we introduce the Group's corporate governance and CSR-focused management, which form the basis for sustainable corporate activities, as well as our approach to dialog with various Group stakeholders, and our responsibilities to them.

# Corporate Governance

Our most important management priorities are to achieve sustainable corporate growth and to improve medium-to-long-term corporate value by practicing highly efficient and transparent management while fulfilling our social responsibilities and contributing to society, based not only on compliance with laws, regulations, and our articles of incorporation, but also on our sense of ethics. This will enable us to earn the trust of all stakeholders.

# Efforts to Strengthen Corporate Governance

Azbil Corporation has long emphasized the importance of corporate governance in its management, having appointed its first outside director in June 2007. In the year under review, our efforts to improve corporate governance gained momentum from the enactment of Japan's Corporate Governance Code.

## The Important Role of Independent Outside Directors on the Board

Independent outside directors play an important role in the Group's corporate governance structure and operation. We now have three independent outside directors, representing one-third of the nine-member Board of Directors.

Of our three independent outside directors, one is an American with long involvement in the management of global companies and a wealth of management experience; one has served in major roles in the legal profession, with specialized expertise as a lawyer and deep insights into management; and one has extensive experience in overseas investment banking, with a profound knowledge of management gained through involvement in investment management companies both in Japan and overseas. Applying their diverse backgrounds and expertise, these independent outside directors monitor and supervise the execution of business and play a significant role in helping the firm to achieve sustained growth and higher value over the medium-to-long term.

Two-way communication between independent outside directors and top management is considered to be very important, and there is a meeting every month between the independent outside directors and the president to exchange opinions. In the course of management, top company executives make every effort to incorporate outside directors' suggestions and insights into problems.

## Board of Corporate Auditors is Made More Effective and Proactive by Independent Outside Corporate Auditors

Azbil Corporation has selected the "company with board of corporate auditors" system as its institutional framework under Japan's Companies Act. The five-member Board of Corporate Auditors has three independent outside corporate auditors and two full-time corporate auditors who together carry out strict corporate auditing.

We work to ensure the diversity of the Board of Corporate Auditors. In addition to full-time corporate auditors who are well versed in the firm's accounting, financial, and business aspects from an in-house perspective, we have an outside corporate auditor who is qualified as a certified public accountant and another with deep insight into corporate governance. In addition, we have established a system to ensure that fulltime corporate auditors can properly conduct audits without hindrance and a system enabling internal information to be reported to corporate auditors in a timely and accurate manner. Corporate auditors also hold information-exchange forums to ensure that information is shared effectively between corporate auditors and outside directors, and they hold regular information-exchange meetings with the president to share their views on problems and deepen communication with top management. In these and other ways, we operate with a strong emphasis on strengthening corporate governance.

## Voluntary Advisory Body: Nomination and Remuneration Committee

Recognizing that the selection and dismissal of directors and top management, and decisions on the amount of their remuneration, are important corporate governance matters, in 2008 we set up the Nomination and Remuneration Meeting, attended by independent outside directors and representative directors, to deliberate such matters.

With the enactment of Japan's Corporate Governance Code, we strengthened this framework, renaming it the Nomination and Remuneration Committee and reorganizing it as a voluntary advisory body under the Board of Directors. This committee consists of independent outside directors, who constitute the majority of members, as well as representative directors. In addition to the appointment and dismissal of officers, the committee reviews and examines the executive remuneration system, makes personnel evaluations regarding officers, including representative directors, considers amounts of remuneration, assists with the training of the successor to the chief executive officer, and otherwise handles a wide range of matters relating to the appointment and remuneration of officers. Its role is to ensure the transparency of such matters by soliciting the appropriate involvement and advice of independent outside directors.

#### Improving the Effectiveness of the Board of Directors

To enhance the effectiveness of the Board of Directors, which forms the core of our corporate governance, the self-evaluations and opinions of all Board members are collected and evaluated.

Regarding matters to be deliberated by the Board of Directors, prior briefing meetings about the matters for discussion, mainly for outside officers, is arranged before the day of the Board meeting so that members will have a full understanding of the details. We work hard to ensure that important matters are discussed and debated properly by a fully informed Board of Directors. This enables the Board to freely and actively discuss points related to the substance of matters under deliberation.

Also, 30% of the remarks made at Board meetings come from corporate auditors, and especially from outside corporate auditors, which indicates that, as intended by the Corporate Governance Code, the company's corporate auditors and the Board of Corporate Auditors are exercising their authority effectively and actively, and their opinions are being appropriately conveyed at Board meetings. By the expression of outside perspectives—since in fact the majority of remarks are made by outside directors and outside corporate auditors—it seems that outside executives are playing an important role in the operation of the Board of Directors.

In the year ended March 2017, based on the results of evaluations made at the end of the previous fiscal year, we revised the rules of the Board of Directors to narrow the scope of matters introduced for discussion, allowing more deliberation on management policies, management plans, and the like. To further improve deliberation by the Board of Directors, moreover, we hold discussion forums separately from the Board meeting but mainly for Board members, where matters such as the direction of business development can be freely debated.

Evaluations from the end of the year ended March 2017 indicate that the effectiveness of the entire Board of Directors continued to be properly maintained as in the previous fiscal year. Additionally, the Board engaged in wide-ranging discussions to examine management strategies, business strategies, and the like at an early stage. In so doing the Board fulfilled, at a higher level than previously, its role of providing direction. Also, in view of the expansion of overseas operations, Board members shared their recognition of the importance of continuously reinforcing the supervisory function of Group management.

We will continue to pursue initiatives to enhance the effectiveness of the Board of Directors in order to ensure sustainable growth and improve corporate value over the medium and long terms.

# **Executive Compensation**

For some time, we have sought to determine policies on determination of remuneration, etc. for officers for the purpose of strengthening corporate governance and achieving sustained enhancements in corporate value through meeting the Azbil Group's management targets. The remuneration of executive directors is commensurate to their roles, responsibilities, and accomplishments and designed to contribute to sustainable growth and enhancements in corporate value over the medium and long terms.

Prompted by the enactment of Japan's Corporate Governance Code, we revised our executive remuneration system. This included the strengthening of performance-linked factors, especially for top management, as well as introducing medium-term business perspectives and reinforcing the share buyback system.

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

Outside directors who do not concurrently perform executive duties receive only basic remuneration to ensure that they perform their management supervision function adequately. We have established the "Nomination and Remuneration Committee" consisting of outside directors who perform oversight of management and execution from an external perspective and representative directors (Independent outside directors form a majority) in accordance with our internal rules for director remuneration to ensure transparency and objectivity in the remuneration determination process. Under this process, the basic remuneration amounts paid to individual executive directors and the total amounts of bonuses and the amounts of bonus to be paid to individual executive directors who concurrently perform executive duties shall be kept within the remuneration limits set at the Ordinary General Meeting, and subjected to review and advisory input by this "Nomination and Remuneration Committee."

In addition, to share interests with the shareholders and to create a continuous incentive to enhance corporate value, executive directors who concurrently perform executive duties and executive officers other than directors purchase and continually hold the company's stocks with each officer's role and responsibilities.

The remuneration limit for corporate auditors as a group is also set at the Ordinary General Meeting, while the remuneration of individual corporate auditors is determined on the basis of discussions among the members.

	Total	Total remuneration, etc., by type (millions of yen)				
Position	remuneration, etc., of executives (millions of yen)	Basic remunera- tion	Bonuses	Stock options	Retirement bonuses	Number of executives eligible
Directors (excluding outside directors)	368	247	121			6
Auditors (excluding outside auditors)	47	47				2
Outside directors and auditors	60	60				6

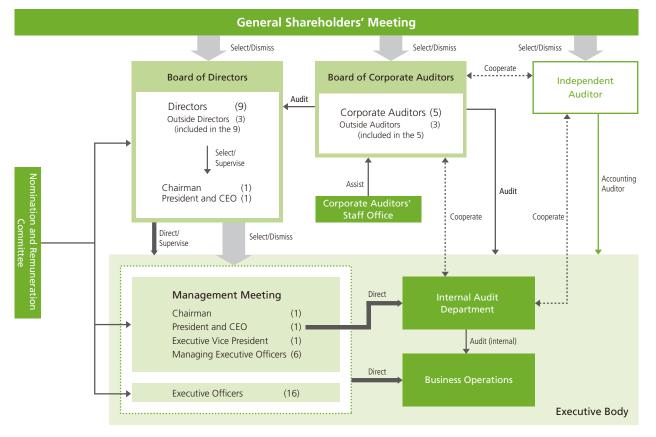
## Remuneration of Executives, etc. (for the year ended March 2017)

# **Corporate Governance Framework**

Azbil Corporation has selected the "company with board of corporate auditors" system as its institutional framework under Japan's Companies Act and has established its corporate governance system accordingly. The Board of Corporate Auditors consists of three independent outside auditors with abundant experience and two full-time corporate auditors with experience in financial affairs and auditing work. Members properly fulfill their duties in supervising the Board of Directors from their standpoint as corporate auditors. Three highly independent outside directors work together with the corporate auditors and the Board of Corporate Auditors to effectively monitor business operations, forming a governance system with proper checks and balances.

In order to swiftly respond to the rapidly changing business environment, the functions of the Board of Directors, which is involved in major decision-making, and the functions of the executive officer system, which is responsible for business execution, are separated. In addition, based on a resolution of the Board of Directors, part of its decision-making authority is transferred to the Executive Body under a system that enables highly efficient and speedy management.

#### Corporate Governance Framework (as of June 27, 2017)



# **Contribution of Outside Officers**

Concerning the outside officers stipulated by the Companies Act, in addition to the Tokyo Stock Exchange's requirements for independent officers, Azbil Corporation has its own criteria for evaluating their independence. Moreover, candidates who are appointed as outside directors are believed to have the ability to provide constructive suggestions and accurate observations and to offer advice concerning business issues and the improvement of corporate value over the medium and long terms. 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. All of the outside officers actively pose questions and make suggestions at Board meetings based on their respective knowledge and experience, contributing to the company's sustainable growth and improvement of corporate value over the medium and long terms.

## Outside Officer Qualifications and Participation at Meetings of the Board of Directors and/or Board of Corporate Auditors

Position	Name	Qualifications and Participation	Attendance
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 prac- tices, 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 his independent position. At Board of Directors meetings, Mr. Lee draws on his experience and knowl- edge to pose questions and make suggestions about the company's business development and strategies, speaking from a global per- spective with a view to medium-to-long-term business strategies.	12 of 12 Board of Directors meetings
	Katsuhiko Tanabe	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, Mr. Katsuhiko Tanabe brings to the company an expert viewpoint and deep insight into man- agement. 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 his independent position. At Board of Directors meetings, Mr. Tanabe draws on his expert point of view and wide-ranging knowledge as a lawyer, as well as abun- dant experience as an outside officer, to pose questions and make suggestions not only about legal matters, but also concerning compliance-related issues and risk reduction.	12 of 12 Board of Directors meetings
	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 busi- ness operations, and his consulting work related to M&As 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 his independent position. At Board of Directors meetings, Mr. Ito draws on his financial knowledge and experience to pose questions and make suggestions about busi- ness development and strategies, as well as financial and capital strategies, particularly as they relate to capital markets and medium-to-long-term business strategies.	12 of 12 Board of Directors meetings

Position	Name	Qualifications and Participation	Attendance
Outside Auditors	Kinya Fujimoto	As a certified public accountant, Mr. Kinya Fujimoto has a wealth of knowledge and experience concerning financial affairs and ac- counting. 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. At Board of Directors meetings, Mr. Fujimoto draws on his long experience as a certified public accoun- tant, as well as his abundant knowledge and experience concerning finance and accounting, to pose questions and make suggestions pertaining to the auditing of the company's overall business.	12 of 12 Board of Directors meetings 13 of 13 Board of Corporate Auditors meetings
	Mitsuhiro Nagahama	Mr. Mitsuhiro Nagahama has worked in a series of important posi- tions at financial institutions and has deep knowledge and abundant international 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. At Board of Directors meetings, Mr. Nagahama draws on the experience, deep knowledge, and perspectives gained at financial institutions to pose questions and make suggestions about the validity of business strategies as considered from a global viewpoint, as well as ways to improve Group company management and corporate governance.	12 of 12 Board of Directors meetings 13 of 13 Board of Corporate Auditors meetings
	Shigeru Morita	Mr. Shigeru Morita has held a succession of important posts at life insurance companies, as well as real estate and facility manage- ment companies, and has abundant knowledge and experience in these fields. He was appointed to audit all aspects of the company's business with an emphasis on reducing and managing risk arising from business operations, and to strengthen corporate governance by virtue of his independent position. At Board of Directors meet- ings, Mr. Morita draws on his experience and knowledge to pose questions and make suggestions on matters such as risk manage- ment and reduction measures and improvement of CSR initiatives.	12 of 12 Board of Directors meetings 13 of 13 Board of Corporate Auditors meetings

## Comment by an Outside Director

The Status and Direction of Azbil's Corporate Governance

## Outside Director Eugene H. Lee

Japan's Corporate Governance Code is a valuable guideline for companies in Japan and has become a model for the corporate world at large. Azbil's innovative corporate governance program preceded Japan's Corporate Governance Code, but the Code contributes to an environment in which good corporate governance can thrive.

Corporate governance compliance is regularly monitored at Azbil Board of Directors' meetings which assures that management, directors and auditors have a common understanding and unity of purpose. Regularly scheduled meetings between the independent directors and the auditors also provide an opportunity to discuss governance and other topics of importance to try to assure smooth functioning of their respective roles.

Engene Lee

Good corporate governance helps create a climate in which management and employees can confidently strive to achieve their goals. Azbil is successfully developing its business on a global basis and a culture of good corporate governance contributes to this success.

# Board of Directors, Executive Officers, and Corporate Auditors

(As of June 27, 2017)

#### 1. Chairman

#### Seiji Onoki

#### Responsible for the azbil Group (aG) overall

- Apr 1970 Joined the Company Nov 1994 Systems Development Manager of Industrial Systems Division of the Company Executive Director of the Company Jun 1996 President of Yamatake Industries Systems Co., Ltd. (Present: The Company's Advanced Automation Company) Jun 2000
- 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. President and Chief Executive Officer

#### Hirozumi Sone

Chief Executive Officer, responsible for the aG overall, Internal Audit Department, Corporate Planning Department

Apr 1979 Joined the Company

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

#### 3. Executive Director, Executive Vice President Tadayuki Sasaki

Assistant to President, responsible for overall administrative function, the life automation (LA) business, aG-CSR, Internal control, Facilities/ Business sites, General Affairs Department, Legal & Intellectual Property Department, Secretary Office

- 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 Managing Executive Officer of the Company Apr 2006 Executive Director of the Company and Managing Executive Officer of the Company Jun 2007
- Apr 2009 Executive Director of the Company and Senior
- Managing Executive Officer of the Company Executive Director of the Company and Vice Apr 2016 President and Chief Executive Officer of the Company (present post)

#### 4. Executive Director, Managing Executive Officer Keiichi Fuwa

Responsible for the building automation (BA) business, aG sales synergy, President of Building Systems Company (BSC)

- Apr 1974 Joined the Company
- Apr 1974 Jointe due Configance 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 Manager of the 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)

# 3

#### 5. Executive Director, Managing Executive Officer Masato Iwasaki

Responsible for business in North America and South America supervision, develop for 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 Executive Officer of the Company, Manager of Marketing
- Apr 2011
- Apr 2017 Executive Onicer 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
- Executive Director of the Company and Managing Executive Apr 2016 Officer of the Company (present post)

#### 6. Executive Director, Managing Executive Officer

#### Yoshimitsu Hojo

Responsible for aG production, aG purchasing, the advanced automation (AA) business, Production Management Headquarters, President of Advanced Automation Company (AAC), General Manager of Production Management Headquarters

- 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 (present post) Executive Director of the Company and Managing Jun 2014
- 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. 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. 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) Outside Audit & Supervisory Board Member of the Company
- Jun 2007
- 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. Outside Director

#### Takeshi Ito

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

Standing Audit & Supervisory Board Members

Tomohiko Matsuyasu Hisaya Katsuta

**Outside Audit & Supervisory Board Members** 

Kinya Fujimoto Mitsuhiro Nagahama Shigeru Morita

#### Managing Executive Officers

#### Takayuki Yokota

Responsible for Corporate Communication, Group Management Headquarters, International Business Headquarters General Manager of Group Management Headquarters, General Manager of International Business Headquarters Kazuyasu Hamada Manager of Building Systems Company (BSC)'s Tokyo Head Office Hiroshi Arai Responsible for Group IT, IT Solutions Headquarters, aG information systems General Manager of IT Solutions Headquarters, General Manager of IT Solutions Development Department

#### **Executive Officers**

Yoshifumi Suzuki Responsible for azbil Group (aG) environmental load innovation. the Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department General Manager of the Department of Safety Assessment, General Manager of aG quality assurance Department

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

Akihiko Naruse Responsible for Human Resources Department, aG Safety Management Department

President of the Azbil Academy

Junva Nishimoto

Responsible for aG research and development, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department,

Document Production Department General Manager of Technology Development Headquarters Haruo Tamura

General Manager of the BSC's Integrated Business Headquarters Seiichiro Hayashi

General Manager of the BSC's BA Engineering Headquarters

Kenichi Hayashi

General Manager of the BSC's Business Planning Department Tetsuya Maruyama

Manager of BSC's Chubu Regional Division

Tomoyuki Takeda

Manager of BSC's Kansai Regional Division Kenii Okumura

Responsible for Sales Department of AA business

General Manager of the Advanced Automation Company (AAC)'s Business Development Group

Hiroshi Shimizu

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

Tetsuo Takamura Responsible for the AA CP\*1 business General Manager of the AAC CP Marketing Department

Tadayoshi Ito

Responsible for the AA SS\*<sup>2</sup> business General Manager of the AAC SS Marketing Department, General Manager of the AAC's Engineering Headquarters

Hideaki Ishii

Responsible for aG production innovation, AA Development and Quality Assurance

Masashi Hirano

President of Azbil TA Co., Ltd.

Kiyohiro Yamamoto

Responsible for marketing, BSC's Development, BSC's marketing General Manager of Corporate Planning Department, General Manager of BSC's Marketing Headquarters

\*1 Control Products \*2 Solution and Service

# CSR-focused Management

Making "human-centered automation" the foundation of its business activities, the azbil Group works to fulfill its corporate social responsibility (CSR) management by assisting in the sustainable development of society. We strive to contribute to an economy, environment, and society where people come first, in order to achieve the sustainable development of our customers and of society.

# Approach to CSR-focused Management

The azbil Group takes a broad view of the responsibilities (CSR) that a company should fulfill toward stakeholders and society, and takes a twofold approach as CSR-focused management across the entire Group.

First, 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 and preventive measures in such fields as disaster mitigation, information security, quality/ product liability, and accounting; strengthening internal controls; and improving workplace environments and ensuring the welfare 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 (1) the contributions that the azbil Group makes to society through our business operations, which leverage our strengths in technology and business; and (2) employees' voluntary participation in activity that benefits society, which is rooted in the culture and atmosphere of the company. Through activities such as these we hope to make a positive contribution to sustainable development and live up to the expectations of society.



## Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to coordinate CSR-related activity throughout the Group and promote a wide range of activities. The Committee consists of senior managers in charge of CSR at each Group company and department managers responsible for individual initiatives. Subject to the approval of Azbil Corporation's Board of Directors, the committee formulates and implements plans, evaluates and analyzes the results, and reports to management, following a plan-do-check-act (PDCA) cycle.

#### CSR Promotion Framework



# Compliance

As part of our basic CSR, which concerns the fundamental obligations of a company as a member of society, each company in the azbil Group—both in Japan and overseas—is making every effort to raise awareness of compliance issues and to encourage corresponding action.

## 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 for reporting, thereby putting in place an environment in which checks can function effectively.

## Maintaining and Improving Awareness of Compliance Issues

Each year, the azbil Group conducts educational forums for officers and department managers, hosted by external professional lecturers. These officers and department managers, who are called compliance managers, work continuously to raise awareness of compliance issues throughout the Group.

Each year, we conduct surveys of all Group employees to

gauge compliance awareness and the status of internal compliance, using the results to identify problems and implement measures to address them. In the year ended March 2017 we surveyed a total of 11,000 people, including domestic and overseas employees, and found that more than 98% recognize the importance of compliance. In compliance education for employees, we are stepping up efforts to raise compliance awareness by checking the guidelines that serve as the standard of behavior, confirming priority measures, and disseminating information.

## 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. In addition to promoting full legal compliance in business activities, it provides education related to the law and also addresses the Group's legal risk overseas, which is increasing as our global expansion accelerates. The department makes every effort to ensure timely and appropriate responses to important new laws and associated issues, and endeavors to prevent problems from occurring.

# **Internal Control**

We are expanding our internal control system to the entire azbil Group and are raising standards in areas such as management, performance of duties, and supervision of duties, as well as internal controls. At the same time, we are working to ensure proper accounting practices and to strengthen governance throughout the entire Group.

## Improving Internal Control Systems

The azbil Group has set out a clearly stated basic policy to be followed by all officers and employees in the Basic Policy on Internal Control System Architecture, and it also discloses the status of implementation of the policy.

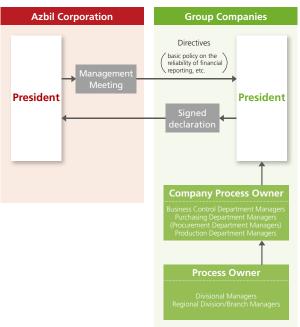
In the year ended March 2017, we expanded the coverage of our notification and advice system, the CSR Hotline, for employees of overseas subsidiaries as part of our compliance-related activities. We also strengthened our risk management system, which comprehensively covers diverse risks and promotes ensuring that risks are reduced across the entire Group. We will continue working to improve our internal control system by creating a structure that is efficient, lawful, and highly transparent.

## Response to Employee Concerns and Internal Issues

The azbil Group has set up a notification and advice system, the CSR Hotline, to identify internal issues, including compliance problems, in a timely manner. Its scope includes such matters as improper accounting, fraudulent commercial transactions, legal violations, and human rights issues. In Japan, the system also handles inquiries about the personnel system and employee benefits and responds to individual concerns about personnel evaluations and the like. Employees can choose between a company-internal or external point of contact for reporting concerns and requesting advice, and degree of awareness and usage of the system among employees is high.

## Response to the Financial Instruments and Exchange Act ("J-SOX"), and Efforts to Improve Accounting Quality

To improve our response to internal control system reporting requirements prescribed by the Financial Instruments and Exchange Act (popularly known as "J-SOX"), we conduct periodic reviews of the scope of internal audit by our internal control organization and we review our risks and controls in light of changing business conditions. Our core information system, which went into operation at Azbil Corporation in the year ended March 2016, will be installed at Azbil Trading Co., Ltd., in the year ending in March 2018. We will continue introducing the system to other Group companies in an effort to improve the reliability of our internal control system. Along with our continuing initiative to provide all Group employees with training aimed at improving accounting quality, we will strive globally to further improve the level of internal control and maintain the appropriateness of our operations through the Internal Control Office at Azbil Corporation's Group Management Headquarters, together with the internal control departments of all Group companies.



#### Management of Group Companies under "J-SOX"

# **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

The azbil Group makes extensive efforts to uncover risks that could potentially have a serious impact on its operations. Our azbil Group Comprehensive Risk Committee, consisting of senior managers, identifies "risks deemed important to the azbil Group," which may then be determined to be key risks by the Board of Directors.

To address key risks, we are building a management structure aimed at minimizing risk. This structure covers everything from the proposal of countermeasures to their implementation and the reporting of outcomes to the Board of Directors.

In addition to the above, the Board of Directors of each individual Group company determines its own important risks and implements measures to counteract them.

## 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, and regular emergency drills.

In addition, our ongoing business continuity planning aims to ensure that in the aftermath of a major disaster, business establishment and factory functions are restored at the earliest



Regular emergency drills are conducted.

possible time and that maintenance services continue to be provided at customer sites.

#### **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, pact on the Group's manufacturing and tion bases (including manufacturing

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 au-tomation," 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 osition

#### (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 im-

## 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.

procurement activities in whole or in subsidiaries) of the azbil Group's BA part and thus impact the Group's business results and financial position

#### (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

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 produc-

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

#### The azbil Group possesses important (5) Risks Related to Intellectual **Property Rights**

order to secure and maintain a competitive edge, the azbil Group, as it develops products and services, accumulates differentiating technologies and knowhow 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.

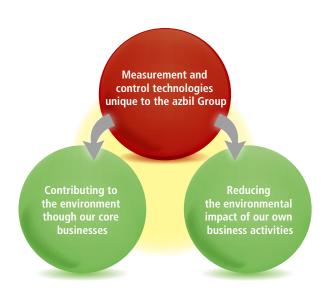
# Environmental Initiatives

Based on our Group philosophy, we actively promote the reduction of environmental impact at our customers' sites through our core businesses while reducing the environmental impact of our own business activities, with the aim of achieving a sustainable society.

In addition to reducing the CO<sub>2</sub> emissions and other environmental effects of its own business activities, the azbil Group contributes to preserving the Earth's environment by utilizing its measurement and control technologies to help solve the problems faced by our customers and society, including environmental and energy issues.

We have a long track record of using our products and services to reduce environmental impact at our customers' sites, and the effectiveness of our initiatives to reduce environmental impact have been verified by environmental technology that draws upon the azbil Group's unique measurement and control technologies and know-how.

For example, we have designated Fujisawa Technology Center (FTC), our R&D facility, as an experimental site for energy management solutions. In addition to conducting technological research, our engineers at the site operate the products we develop to verify their effectiveness. In addition, FTC hosts energy-saving tours, enabling customers to observe environmental impact reduction technology unique to the



azbil Group. This creates opportunities for customers to consider implementing our technology. In this way our internal energy-efficiency efforts contribute to reduce environmental impact outside of the company.

# **Reducing the Environmental Impact of Our Own Business Activities**

Seeking to realize a sustainable society, the azbil Group formulated its Environmental Initiative Measures to approach this challenge from four angles: reducing CO<sub>2</sub> emissions, using resources wisely, coexisting with nature, and supplying environmentally friendly products and services. Based on these measures, we are extending our efforts to reduce the environmental impact of our own business to cover our operations globally.

#### Measures in Environmental Initiatives



#### Reducing CO2

#### **Environmental Performance Data**

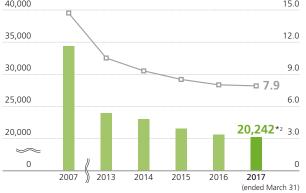
In the year ended March 2017, the volume of  $CO_2$  emissions from the azbil Group's operations was 41% lower than the level ten years earlier.

We intend to deploy the knowledge we have gained through these many years to implement various initiatives in a strategic manner. One of these is our Energy Conservation Project. This involves energy-saving activities from various perspectives at work sites, as well as collaboration with factory managers, company-wide environmental promotion managers, energy-saving experts from business departments, and product/technology development managers. The project is already delivering good outcomes.

In addition to  $CO_2$  emissions under our control (Scope 1 and 2), we will pinpoint  $CO_2$  emissions from corporate activities

CO<sub>2</sub> Emissions (Scope 1, 2)\*<sup>1</sup> and CO<sub>2</sub> Emissions per Unit Sales

Azbil Corporation, its consolidated subsidiaries in Japan, and its main manufacturing bases overseas
(Tons of CO<sub>2</sub>) (Tons of CO<sub>2</sub> Per 100 Million Yen)
40,000
15.0

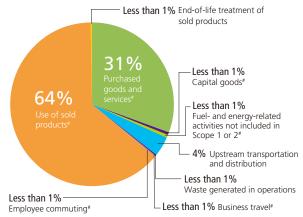


Emissions (left scale) — Emissions per unit sales (right scale)

\*1. The figures for CO2 emissions use a fixed coefficient (0.378 kg CO2/kWh). The figures for

CO: emissions include estimates of rented office air-conditioning energy and other figures. \*2. Our CO: emissions (Scope 1 & 2) from fiscal year 2014 onwards have received third-party verification.

CO<sub>2</sub> Emissions (Scope 3) (for Fiscal Year 2016)\* Azbil Corporation



\* Items marked with a sharp (\*) have received third-party verification.

overall (Scope 3) for use in Design for the Environment and other initiatives.

#### azbil Group's Energy-Saving Initiatives

We have introduced our own energy management solution, which allows everyone from the company president to individual employees to share the same information, at 14 bases in Japan and two overseas. This product enables top management to understand the amount of energy used at each site and utilize this information as a tool to promote environment-oriented management globally.

With the ability to visualize the amounts of electricity, gas, and other energy consumed, managers at each site can plan and implement specific energy-saving measures, check the results in real time, and make continuous improvements.

#### azbil Group Sites Using Our Visualization System



Visualization system at Azbil Control Instruments (Dalian)

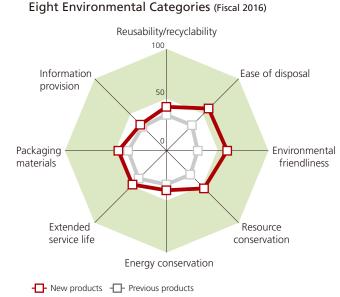
By expanding our visualization system to Azbil Control Instruments (Dalian) Co., Ltd. and Azbil Production (Thailand) Co., Ltd., we are promoting effective energy-saving measures within our global production system.

#### Supplying Environmentally Friendly Products and Services, and Using Resources Wisely

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. Design for the Environment conforms to our environmental initiatives of supplying environmentally friendly products and services and using resources wisely. Below, we introduce two initiatives related to product development.

The first is the environmental design assessment. This involves quantifying and evaluating the degree of improvement in comparison with equivalent products in eight environment-related categories. Products that are evaluated highly can be granted the "azbil Group Environment Label" as environmentally friendly products.

The second is the life-cycle assessment. Here, we calculate the amount of CO<sub>2</sub> emitted throughout the entire life cycle of individual products and use the results to set product development targets for reducing emissions in such areas as "use of products sold" and "purchased goods and services."



Overall Results of New Product Assessments in



#### azbil Group Environmental Label

The azbil Group uses a "Self-Declared Environmental Label," which is a Type II Environmental Label based on the ISO 14020 series of environmental standards. Our label depicts a person reaching out to envelop Planet Earth, with mutual reverberations.

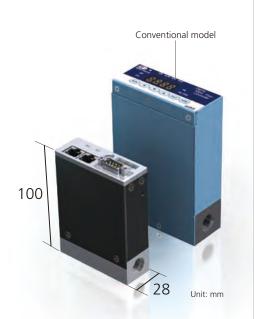
#### The model F4H compact digital mass flow controller which is 50% the size of conventional models illustrates our "using resources wisely" initiative

In June 2016, Azbil Corporation introduced its model F4H compact digital mass flow controller, which is easy to use and easy to incorporate into manufacturing equipment for purposes of factory automation.

The F4H retains the responsiveness and controllability of existing models, but its functions have been narrowed down to what is necessary for use with electrical and electronic component manufacturing equipment and various analyzers and incubators for fields such as physics and chemistry. This enabled us to reduce its size to 50% of previous models.

Accordingly, new equipment that incorporates this controller can be made more compact, and the F4H can be installed in existing equipment where space is limited.

Moreover, the controller is easy to use, thanks to improvements in noise immunity, which is necessary for incorporation into manufacturing equipment, as well as multiple-gas compatibility, operation with general-purpose 24 V power supplies, and 4–20 mA output, all of which helps to reduce the total cost.



For product specifications, please refer to the following site.

http://www.azbil.com/products/factory/factory-product/flowmeter/mass-flow-meter-controller/mass-flow-controller/downloads.html

#### Coexisting with Nature

#### **Biodiversity Initiatives**

As we utilize 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 nonprofit organizations, universities, and local governments on various initiatives at the sites of azbil Group business establishments and in the surrounding communities.

As part of a Group-wide initiative, in the year ended March 2017 there were six occasions 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 nearthreatened species found in the town of Minamiaizu in Fukushima Prefecture; and surveying the trees at Azbil Kyoto Co., Ltd., whose facilities are built on land originally developed by the local government.

In addition, other Group companies launched initiatives in their respective locations.



maiden lily (right)

#### Disseminating Environmental Information

"EcoBalance Award for Best Business Practices" Received At the 12th Biennial International Conference on EcoBalance, held October 3-6, 2016, representatives of Azbil Corporation



made a presentation on LCA initiatives entitled "Application of organizational life-cycle assessment to define materiality in environmental initiatives of the azbil Group." The company subsequently received an EcoBalance Award for Best Business Practices in recognition of its practical approach, which was unparalleled among the presentations given.

The Biennial International Conference on EcoBalance was first held in 1994, with LCA as its main theme. The theme of the 12th conference was "Responsible value chains for sustainability.

For more information on the Biennial International Conference on EcoBalance, including a list of award-winning companies, please see the following site.

http://www.ecobalance2016.org/submission/awardee.html

#### Information Disclosure on Environmental Initiatives

#### "In Pursuit of Human-Centered Automation: Preserving the Environment"

Azbil Corporation has produced a brochure entitled "In Pursuit of Human-Centered Automation: Preserving the Environment"

to coincide with the 110th anniversary of its founding and the 10th anniversary of the formulation of "azbil."

The brochure introduces our efforts to reduce the environmental impact of our own business activities, as well as our advanced energy-saving technologies and examples of energy savings realized by customers using those technologies.



Brochure produced in 2016

- Japanese
- http://www.azbil.com/jp/news/pdf/161202.pdf 🛄 English
- http://www.azbil.com/jp/news/pdf/20161202\_en.pdf Chinese
- http://www.azbil.com/jp/news/pdf/20161202\_cn.pdf

#### Website

The website below provides information on the azbil Group's efforts to preserve the environment and its acquisition of ISO 14001 certification, as well as data on the environmental impact of our own global business activities (such as CO2 emissions, electricity consumption, water consumption, waste volume, status of compliance with laws and ordinances, and chemical substance management) and third-party evaluations of our environmental initiatives.

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

### **Contributing to the Environment through Our Core Businesses**

#### Realizing Our Desire to Reduce Environmental Impact through Our Core Businesses

By delivering solutions based on its measurement and control technologies, the azbil Group promotes the advancement of society and industry. At the same time, we work tirelessly to reduce environmental impact in order to achieve a sustainable society. Throughout our history since the company's founding, we have constantly demonstrated this spirit of helping to preserve the Earth's environment.

We regard energy management solutions—aimed at reducing electricity and energy consumption and CO<sub>2</sub> emissions—as a key priority in every area of business, and we deploy them

#### **In Buildings**

all the first of the second second

Air conditioning accounts for a large share of the energy consumed in buildings, so installing air conditioning control system for energy management is a key priority for saving energy. Amid the increasing need to improve the energy efficiency of buildings, we provide the optimal building energy management system (BEMS) according to the size and use of the building. The BEMS collects information on machinery, equipment, and energy usage status, as well as on the indoor environment, enabling us to analyze the current status in detail and to forecast future demand. We also use this information to downsize machinery and equipment and

### At Production Sites



Production sites use energy in diverse forms, including electricity, gas, heat, and steam. Through the overall optimization of energy usage, we provide customers with total life-cycle support that includes productivity improvement and facility management. To this end, we conduct onsite energyefficiency diagnoses and use a "plan-do-see" procedure to make improvements. As an energy management service provider,\* Azbil Corporation offers energy management systems and support services that bolster the energy-saving in a wide range of fields, in office buildings, factories and plants, houses, and energy supply lines. One of our strengths is an integrated support system, which takes advantage of the azbil Group's accumulated know-how gained through abundant experience and achievements in automation technology, to handle everything from planning to development, production, consulting, engineering, and after-delivery maintenance services. Based on the concept of "creating value on site," we conduct meticulous onsite investigations, make accurate judgments on overall operations and equipment usage status, and make proposals tailored to various needs.

to design upgrades under ESCO\* contracts. We provide energy management services that enhance the performance and maximize the energy efficiency of machinery and equipment by fine-tuning their operation and settings, while providing ongoing support for long-term energy savings through our full-service system. In addition, we deploy our control technology and know-how, amassed over many years, to suggest improvements, incorporating legal compliance work and various grant applications. We provide these energy management services as part of our building management business.

\* Energy service company. An ESCO business provides comprehensive services related to the energy efficiency of buildings and factories. The effectiveness of the services is guaranteed by the provider.

efforts of our customers. Other services include applying for grants on behalf of customers. At production sites that use a large volume of energy, it is not easy to meet the criteria for government grants. For facilities with a complex mixture of equipment and energy, our employees—who possess wide-ranging knowledge, from facility mechanisms and control to engineering—identify the optimal control method for worksite energy savings and then deliver to the customer the benefits of reduced energy consumption. We have an extensive track record for this type of project, especially in the chemical, steel, food, and pulp and paper markets.

\* Azbil Corporation is an energy management service provider registered with the Sustainable open Innovation Initiative (SII).

#### **Throughout Cities**



Against the background of a tight power supply stemming from the Great East Japan Earthquake, as well as the expansion of renewable energy sources and the full liberalization of electricity retailing in Japan, authorities are encouraging reduced electricity consumption during peak hours while fostering the establishment of frameworks to ensure the reliable supply of power. Demand response (DR) services play an important role in these efforts. Since fiscal 2012, Azbil has participated in collaborative research and governmental proofof-concept experiments in various locations and compiled a strong track record in the aggregator business, which involves bundling electricity customers to provide DR services. Fiscal 2017 will see the full-scale launch in Japan of "negawatt" trading, which allows users to sell electricity saved (negawatts) through their DR services, and Azbil is participating in this initiative. Two of Azbil's key strengths are its remote control technology, based on more than 30 years of BEMS use, and its automatic control using multiple energy sources. The use of cloud technology will enable us to connect a building's BEMS with Azbil's aggregation center to provide DR services automatically. As entire cities become "smarter," Azbil will deploy its remote control technology to provide DR services that deliver new levels of value.

### Protecting the Earth's Environment

#### Reducing the Environmental Impact of Society through Our Core Businesses

The amount of CO<sub>2</sub> emission reduction at our customers' sites in the fiscal year ended March 2017, which totals 3,210,000 tons, is equivalent to approximately 1/400 of all CO<sub>2</sub> emissions in Japan (approx. 1.3 billion tons). The scope of these calculations has been expanded to reflect the international expansion of our businesses.

In order to assess the reduction of environmental impact quantitatively, the effects were classified into the three categories of 1) effects from automation, 2) effects from energy management, and 3) effects from maintenance services. In addition, the reduction was calculated by comparison with the assumption that customers did not adopt our products or solutions at their sites. The calculation of reduction in global impact was based on the conventional calculation method and partially on our own concept.

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

# Total: **3,210,000** tons/year

#### Automation effects

We have reduced environmental impact in our building automation, advanced automation, and life automation businesses, taking advantage of our measurement and control technologies.



#### **Energy management effects**

We have reduced environmental impact, taking advantage of our energy management solution, to achieve reduction in electricity consumption, energy consumption, and CO<sub>2</sub> emissions.

# 280,000 tons/year

#### Maintenance services effects

We have reduced environmental impact by providing the high value-added services of the azbil Group, taking advantage of the knowledge and knowhow acquired at customers' sites.

# 120,000 tons/year

Please refer to our website for details on the calculations.

http://www.azbil.com/csr/value/contribution-to-the-environment/index.html

### Responsibility to Stakeholders

The azbil Group pursues its business activities on the basis of its philosophy of "human-centered automation," fully aware of its corporate social responsibility and giving due consideration to its various stakeholders.

### **Responsibility to Shareholders**

In addition to achieving sustained business growth and improved medium-to-long-term corporate value, we regard shareholder return as an important management priority. Moreover, we take appropriate measures in accordance with laws and regulations to create an environment in which the rights of all shareholders are protected effectively and equally. To fulfill our obligation for accountability, we also strive to enhance the information we disclose and ensure proper transparency.

#### Returning Profits to Shareholders

We work to maintain and improve corporate value by following a disciplined capital allocation policy that emphasizes three factors: enhancing shareholder returns, investing for sustainable growth, and maintaining a sound financial foundation.

With respect to shareholder returns, we consider a comprehensive range of factors, including consolidated performance, return on equity (ROE), dividends on equity (DOE), and the need to retain sufficient reserves to fund future business development and strengthen our corporate foundation. While raising our benchmarks in these areas, we endeavor to maintain stable dividends and also adopt a flexible approach to share buybacks.

#### Enhancing Corporate Communication and Investor Relations

We have appointed an executive officer in charge of corporate communications, who is 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 and formulating plans for IR activities, we strive to improve communication by putting in place various tools to assist investment decisions, including the IR website, which provides information for shareholders and other investors, and our Integrated Report publication.

We hold our Ordinary General Meeting of Shareholders in convenient locations while avoiding dates when such meetings are concentrated, in order to attract as many shareholders as possible. In notices about the meeting, we include a message from our president and CEO and other information that shareholders can use for reference when exercising their voting rights. In addition to sending out notices three weeks before the general meeting and publishing them on our website in Japanese and English 10 days before they are sent, we have established an online environment that enables a wide range of investors to use an electronic voting platform to quickly obtain information about the general meeting and exercise their voting rights. In the year ended March 2017, we sought to encourage dialog with shareholders and other investors. In addition to attending various meetings with institutional investors in Japan and overseas, company staff and officers, including the president and CEO, participated in conferences at home and abroad, engaging in dialog on more than 250 occasions. We convey the opinions gathered through these discussions to our management team, including 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 explains our results, and he and executive officers welcome 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 spelled 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.

#### New System Introduced to Promote Common Interests with Shareholders

In March 2017 we decided to introduce an employee stock ownership plan. This is an incentive plan for strengthening the connection between the company's stock price and business performance on the one hand, and employee rewards on the other, so that employees share the perspectives of shareholders and are motivated to increase the price of company stock and improve business performance.

### **Responsibility to Society**

In addition to benefitting society through our core businesses, we work to foster a culture of contribution to society through various initiatives, including voluntary activities in areas accessible to employee involvement and participation in local grass-roots events. In these ways, we help raise environmental awareness and enliven local communities.

#### Contributions to the Community through Science Experiment Classroom for Junior High School Students

In a recent initiative to make a new contribution to society while celebrating our 110th anniversary, our employees served as instructors to teach young people about the azbil Group's measurement and control technologies, giving the students an opportunity to gain a better appreciation of science. After conducting in-house trial runs, we held the first "azbil Youth Experiment Classroom" in March 2017 for 15 junior high school students in the city of Fujisawa in Kanagawa Prefecture. The event was hosted jointly with the Fujisawa Industry and Labor Division as a way for students to obtain work experience in local companies. The feedback was positive, with attendees noting especially that the computer programming experiment was enjoyable.



Experiment classroom

#### Participation in the Shonan International Marathon

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. In the year ended March 2017, we supported it for the 11th time. Each year, we serve as an Eco Friendship Leader, working with other supporting companies to assist in the smooth running of the event, to help with the separation of recyclable waste, and to foster environmental awareness among visitors. Previously, to mark our 10th year of involvement, we created an "Eco Runner" plan. Six employees from the company participated as volunteer Eco Runners, urging people to adopt eco-friendly habits as they ran. Also, the Eco-Café that we operate at the race each year helps to raise awareness about social issues among participants and spectators by using locally grown and locally consumed ingredients. In addition, we offer coffee made from fair-trade coffee beans. About 80 employees and members of their families volunteered to help host the event, and a record-high 208 employees took part as runners, making the 11th Shonan International Marathon an event to remember.

#### azbil Honey Bee Club

The azbil Honey Bee Club was established to encourage voluntary participation by staff and officers in activities that contribute to society.

In the year ended March 2017, the club's seventh year of operation, 33 groups previously selected by vote received donations from the club, and donations were also made to another 17 groups engaged in activities benefitting society. Together, the groups received ¥6,630,000 in total from membership fees and matching donations from Azbil Corporation. This brought the total number of donations by the Club since its

inception to 245, with cumulative donations amounting to ¥34,270,000. Azbil Corporation encourages active participation by each employee by providing matching donations.



March, the azbil Honey Bee Club's mascot

#### Azbil Yamatake General Foundation

The Azbil Yamatake General Foundation was established in February 2016 with the aim of providing frameworks and educational opportunities in which children, who represent our future, can concentrate on learning, and to foster research in science and technology and support the development of new technology. The Foundation's program named "Asunaro Friendship" was created to provide financial support for scholarships, educational awareness, and research activities. Through the program, our aim is to promote a variety of activities in cooperation with local communities, schools, research institutes, and the like, in a way that brings happiness and a feeling of accomplishment to the recipients. To date, we have provided support for a scholarship program established by the city of Fujisawa, as well as support for childcare centers.



### **Responsibility to Customers and Suppliers**

At the production sites and worksites of our customers, we help to solve problems and create value by delivering highquality, 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 our customers at their sites to identify and understand their challenges and deliver solutions across the life cycles of their systems, while making every effort to ensure the quality, safety, and dependability of our products. We also make sure to appropriately manage the information entrusted to us by customers through diligent adherence to information management and confidentiality protocols, reinforced by information security training for employees. In addition, the azbil Techno Plaza is available to provide customers with a deeper understanding of our technology, products, and services.

Please refer to "Quality Assurance and Safety of Products and Services" on p.55 for more detail.

### **Responsibility to Employees and Business Partners**

We encourage business management that values people and allows all employees to realize their potential. For that reason we are revising our approaches to work and organizational management to reflect changes in the employment and work environment while continually fostering awareness about health and safety.

#### Business Management that Values People

We respect fundamental human rights and do not discriminate based on race, nationality, gender, religion, creed, birth, age, or physical disability. On the basis of our standards of conduct, we strive to improve employee health and work-life balance, improve workplace environment and safety, and increase employee satisfaction. We are developing various measures and systems to support these efforts, while strengthening the foundations of our "business management that values people."

#### Healthy, Highly Satisfactory Workplaces

**Invigorating the Corporate Culture** 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 workplace situation and any problems in matters such as motivation for work, mutual communication between management and staff, and job performance. Through this repeated process of survey—analysis—improvement, we are endeavoring to raise the standard of workplace management.

In departments where employee satisfaction was relatively low, the Human Resources Department has worked with workplace managers to devise and implement corrective measures. Repeatedly carrying out this process has resulted in our satisfaction index\* improving from 40% in the year ended March 2014 to 46% in the year ended March 2017.

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 (%).

**Work-style Reforms** Azbil Corporation is promoting "workstyle reforms" as an important part of its commitment to CSR-focused management that values people. This entails companywide initiatives in three areas: (1) reduction in the total working hours of each individual, (2) realization of healthy lives both physically and mentally, and (3) creation of harassment-free workplaces.

We have been working hard to reduce the total number of hours worked and appropriately manage the overtime hours of employees by setting time management levels for each workplace under a three-year plan that began in the year ended March 2017. In addition, we are acting to reduce overtime work by introducing a diversified work system that takes efficiency and customer service into account. Through these efforts, the number of employees doing heavy overtime hours in the year ended March 2017 decreased by 89% compared with the year ended March 2016. Our aim is to have no employee exceed the maximum overtime of 45 hours per month by the year ending March 2019.

#### Employee Health and Safety

**Raising the Standard of Health and Safety among Group Companies** In the year ended March 2017, we extended the 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 in an ongoing effort to raise the standard of health and safety among Group companies.

**Progressive Expansion of OHSMS Certification** During the fifth year of our Occupational Health and Safety Management System 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 our business establishments that have OHSMS certification.

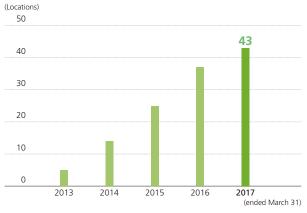
**Health and Safety Education through E-Learning** We educate all employees about safety through e-learning programs in order to prevent disasters caused by carelessness (human error), including accustomedness and disregard for danger. We also provide education on past occupational accidents to prevent disasters from happening in the future.

**Mental Health Measures** As mental health measures, we provide self-care education to help employees notice their stress levels and deal with them effectively. We also conduct training so that workplace managers can quickly identify mental issues among their staff. In addition, we conduct annual stress checks, the results of which are used to provide individual care for high-stress employees through interviews with industrial physicians. The results are also used to analyze the situation in the organization and, together with the results of the separately conducted employee satisfaction surveys, provide valuable feedback regarding our efforts to improve workplace environments.

When an employee is reinstated after taking a leave of

#### Number of azbil Group Business Establishments with OHSMS Certification Azbil Corporation

·



Number of azbil Group business establishments with OHSMS certification

absence due to mental illness, we carefully check the preparedness of the workplace to which the employee returns, and we have a system in place to provide support to prevent a recurrence of the illness.

**Eradicating Harassment** We conduct compliance awareness surveys of all employees and use the survey results to plan and implement remedial measures at departments deemed highly susceptible to harassment.

At departments that require remedial measures for two consecutive years, we hold review meetings with management and HR department staff and take concrete measures accordingly. These efforts have led to improvements, as the results of our awareness surveys confirm.

#### Diversity Reforms

Seeking to create healthy, low-stress workplaces conducive to long-term employment, we are enhancing our framework for maternity leave, childcare leave, and nursing care. We have also introduced system allowing employees to take paid leave on an hourly basis, and we are encouraging employees to take advantage of it.

Based on the Act on Promotion of Women's Participation and Advancement in the Workplace, we have put together an action plan that encourages women to remain in the workplace for the long term and enhances efforts to create opportunities for women to take on more important roles and greater responsibilities. Moreover, the plan aims to develop a more pleasant 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 management or specialist positions by the year ending March 2022 compared with the year ended March 2015 level, when there were 35 women in such positions. We aim to continue our efforts to create pleasant workplace environments in which employees can actively demonstrate their capabilities.

#### Responsibility to Business Partners (Subcontractors, Suppliers, etc.)

The azbil Group emphasizes fair purchasing both in Japan and overseas. Accordingly, to ensure full consideration of our corporate social responsibility (CSR) throughout the supply chain, we request that suppliers familiarize themselves with the azbil Group's Basic Purchasing Policy. To deliver high levels of value together with our partners, moreover, we provide training courses for engineers from allied companies and dealerships at Azbil Academy to support technological improvement and human resource development.

# 11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2007	2008	2009	2010	
Financial Results (for the year):					
Net sales	234,572	248,551	236,173	212,213	
Gross profit	84,780	89,946	86,655	76,420	
Operating income	17,314	20,484	17,832	12,385	
Net income attributable to owners of the parent	10,646	10,709	9,525	6,242	
Capital expenditures	5,273	4,488	6,414	2,704	
Depreciation	3,891	4,387	4,503	4,751	
R&D expenses	8,776	9,844	9,636	8,640	
Cash Flows (for the year):					
Net cash provided by operating activities	7,524	21,086	21,372	15,714	
Net cash provided by (used in) investing activities	(2,475)	(612)	(16,606)	1,960	
Free cash flow	5,049	20,474	4,766	17,674	
Net cash used in financing activities	(6,348)	(6,433)	(8,575)	(6,757)	
Financial Position (at year-end):					
Total assets	230,679	228,844	220,846	218,472	
Net assets	118,967	121,721	124,984	129,278	
Per Share Data:					
Net income (yen)	144.71	145.63	127.87	84.52	
Net assets (yen)	1,602.33	1,641.73	1,672.91	1,728.64	
Cash dividends (yen)	50.00	60.00	62.00	62.00	
Ratios:					
Gross profit/Net sales (%)	36.1	36.2	36.7	36.0	
Operating income/Net sales (%)	7.4	8.2	7.6	5.8	
R&D expenses/Net sales (%)	3.7	4.0	4.1	4.1	
Shareholders' equity/Total assets (%)	51.1	52.6	55.9	58.4	
Return on equity (ROE) (%)	9.3	9.0	7.8	5.0	
Dividend on equity (DOE) (%)	3.2	3.7	3.7	3.6	
Dividend payout ratio (%)	34.6	41.2	48.5	73.4	

						(Millions of yer
2011	2012	2013	2014	2015	2016	2017
219,216	223,499	227,585	248,417	254,469	256,890	254,811
79,714	80,840	77,872	86,550	89,884	91,089	91,492
14,896	14,348	13,411	13,904	15,337	17,136	20,145
7,928	8,519	8,309	7,669	7,169	8,268	13,154
3,351	3,010	3,121	5,303	6,302	3,413	4,160
4,460	4,027	3,621	3,722	3,784	4,148	4,075
8,953	8,816	7,824	8,767	10,124	11,012	10,446
15,223	5,634	15,010	15,836	13,698	11,073	19,949
(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	4,261	(9,060)
12,947	2,085	2,294	5,166	226	15,334	10,889
(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)	(6,441)
247 504	222.476	242,440	252.440	265 740	250 427	262 247
217,501	223,476	243,419	253,448	265,719	259,127	263,317
131,362	135,077	141,197	144,978	160,294	156,966	165,752
107.35	115.35	112.50	103.85	97.07	112.73	179.57
1,754.86	1,808.48	1,882.66	1,940.56	2,143.11	2,116.09	2,236.47
63.00	63.00	63.00	63.00	63.00	67.00	77.00
36.4	36.2	34.2	34.8	35.3	35.5	35.9
6.8	6.4	5.9	5.6	6.0	6.7	7.9
4.1	3.9	3.4	3.5	4.0	4.3	4.1
59.6	59.8	57.1	56.5	59.6	59.8	62.2
6.2	6.5	6.1	5.4	4.8	5.3	8.3
3.6	3.5	3.4	3.3	3.1	3.1	3.5
58.7	54.6	56.0	60.7	64.9	59.4	42.9

# Consolidated Balance Sheet

Azbil Corporation and its consolidated subsidiaries March 31, 2017

	Millions of	of Yen	Thousands of U.S. Dollars (Note 1)	
ASSETS	2017	2016	2017	
CURRENT ASSETS:				
Cash and cash equivalents (Note 14)	¥ 59,837	¥ 55,947	\$ 534,261	
Marketable securities (Note 4)	14,607	12,506	130,421	
Notes and accounts receivable:				
Trade (Note 14)	88,500	91,772	790,187	
Other	1,412	1,601	12,606	
Allowance for doubtful receivables	(907)	(622)	(8,106)	
Inventories (Note 5)	22,185	24,153	198,080	
Deferred tax assets (Note 10)	5,754	5,345	51,376	
Prepaid expenses and other current assets	12,725	10,124	113,614	
Total current assets	1,412       1,601         907       (622)         22,185       24,153         0)       5,754       5,345         r current assets       12,725       10,124         204,113       200,826       200,826         QUIPMENT:       6,639       6,531         otes 6 and 7)       41,723       42,029         (Note 6)       19,712       20,083         e 6)       19,813       19,948         243       224       224         Aote 6)       869       376         88,999       89,191       (64,820)	1,822,439		
PROPERTY, PLANT AND EQUIPMENT:				
Land (Notes 6 and 7)	6,639	6,531	59,280	
Buildings and structures (Notes 6 and 7)	41,723	42,029	372,525	
Machinery and equipment (Note 6)	19,712	20,083	175,999	
Furniture and fixtures (Note 6)	19,813	19,948	176,902	
Lease assets (Note 13)	243	224	2,174	
Construction in progress (Note 6)	869	376	7,756	
Total	88,999	89,191	794,636	
Accumulated depreciation	(65,775)	(64,820)	(587,281)	
Net property, plant and equipment	23,224	24,371	207,355	
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Notes 4 and 14)	22,007	19,326	196,491	
Investments in and advances to unconsolidated subsidiaries	22,007	13,320	150,451	
and associated companies	331	332	2,957	
Goodwill (Note 6)	74	158	661	
Deposits	2,792	2,801	24,930	
Deferred tax assets (Note 10)	1,190	1,536	10,627	
Software (Note 6)	3,848	4,291	34,356	
Other assets	5,738	5,486	51,229	
Total investments and other assets	35,980	33,930	321,251	
TOTAL	¥ 263,317	¥ 259,127	\$ 2,351,045	

	Millions	of Yen	Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2017	2016	2017
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 10,555	¥ 11,747	\$ 94,243
Current portion of long-term debt (Notes 7 and 14)	251	383	2,245
Notes and accounts payable:			
Trade (Note 14)	40,456	45,587	361,215
Other	2,721	2,365	24,299
Income taxes payable	4,731	3,796	42,240
Accrued bonuses	9,530	9,004	85,086
Other accrued expenses and current liabilities	15,822	16,062	141,264
Total current liabilities	84,066	88,944	750,592
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,148	1,327	10,252
Liability for retirement benefits (Note 8)	5,817	5,832	51,934
Deferred tax liabilities (Note 10)	4,675	3,804	41,742
Long-term payable for retirement benefits	784	1,596	6,997
Provision for stock payment	312		2,785
Other long-term liabilities	763	658	6,817
Total long-term liabilities	13,499	13,217	120,527
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	93,953
Capital surplus	12,334	12,334	110,124
Retained earnings	136,466	128,476	1,218,443
Treasury stock—at cost, 1,865,659 shares in 2017 and 1,865,122 shares in 2016	(4,652)	(4,651)	(41,541)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	9,553	7,641	85,302
Deferred gain (loss) on derivatives under hedge accounting	32	(1)	291
Foreign currency translation adjustments	1,304	2,212	11,643
Defined retirement benefit plans	(1,737)	(1,529)	(15,517)
Total	163,823	155,005	1,462,698
Noncontrolling interests	1,929	1,961	17,228
Total equity	165,752	156,966	1,479,926
TOTAL	¥ 263,317	¥ 259,127	\$ 2,351,045

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and its consolidated subsidiaries Year Ended March 31, 2017

#### **Consolidated Statement of Income**

	Millions	s of Yen	Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 254,811	¥ 256,890	\$ 2,275,097
COST OF SALES	163,319	165,801	1,458,206
Gross profit	91,492	91,089	816,891
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
(Note 12)	71,347	73,953	637,023
Operating income	20,145	17,136	179,868
OTHER INCOME (EXPENSES):			
Interest income	136	135	1,210
Dividend income	430	360	3,838
Interest expense	(209)	(330)	(1,869)
Foreign currency exchange loss	(113)	(887)	(1,011)
Loss on sales of property, plant, equipment and			
others—net	(283)	(4)	(2,525)
Gain on sales of investment securities—net (Note 4)	63	192	561
Loss on impairment of long-lived assets (Note 6)	(570)	(3,396)	(5,087)
Loss on liquidation of subsidiaries and			
associated companies (Note 11)	(1,057)		(9,439)
Others—net (Note 11)	88	(54)	785
Other expenses—net	(1,515)	(3,984)	(13,537)
INCOME BEFORE INCOME TAXES	18,630	13,152	166,331
INCOME TAXES (Note 10):			
Current	5,246	4,469	46,835
Deferred	(14)	126	(123)
Total income taxes	5,232	4,595	46,712
NET INCOME	13,398	8,557	119,619
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(244)	(289)	(2 177)
NET INCOME ATTRIBUTABLE TO OWNERS OF	(244)	(289)	(2,177)
THE PARENT	¥ 13,154	¥ 8,268	\$ 117,442

		Yen	U.S. Dollar	s (Note 1)		
	2017	7	20	16	2017	
PER SHARE OF COMMON STOCK (Note 2.t):						
Net income	¥	179.57	¥	112.73	\$	1.60
Cash dividends applicable to the year		77.00		67.00		0.69

See notes to consolidated financial statements.

#### **Consolidated Statement of Comprehensive Income**

		Millions		Thousands of U.S. Dollars (Note 1)		
	20	17	20	16	2	2017
NET INCOME	¥	13,398	¥	8,557	\$	119,619
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):						
Unrealized gain (loss) on available-for-sale securities		1,912		(1,883)		17,076
Deferred gain (loss) on derivatives under hedge accounting		33		(1)		296
Foreign currency translation adjustments		(983)		(346)		(8,782)
Defined retirement benefit plans		(208)		(1,130)		(1,859)
Total other comprehensive income (loss)		754		(3,360)		6,731
COMPREHENSIVE INCOME	¥	14,152	¥	5,197	\$	126,350
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of the parent	¥	13,983	¥	4,964	\$	124,841
Noncontrolling interests		169		233		1,509

# Consolidated Statement of Changes in Equity

Azbil Corporation and its consolidated subsidiaries Year Ended March 31, 2017

	Thousands					Ν	Aillions of Ye	en				
						Accumula	ted Other C (Lc	omprehensiv ss)	/e Income			
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon- trolling Interests	Total Equity
BALANCE, 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			(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
Net income attributable to owners of the parent				13,154						13,154		13,154
Cash dividends, ¥77 per share				(5,164)						(5,164)		(5,164
Purchase of treasury stock	(1)				(1)					(1)		(1
Net change in the year						1,912	33	(908)	(208)	829	(32)	797
BALANCE, MARCH 31, 2017	73,250	¥ 10,523	¥ 12,334	¥ 136,466	¥ (4,652)	¥ 9,553	¥ 32	¥ 1,304	¥ (1,737)¥	∉ 163,823	¥ 1,929 ¥	∉ 165,752

					Thousands	of U.S. Doll	ars (Note 1)				
					Accumula	ted Other C (Lo		e Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon- trolling Interests	Total Equity
BALANCE, MARCH 31, 2016	\$ 93,953	\$ 110,124	\$ 1,147,111	\$ (41,526)	\$ 68,226	\$ (5)	\$ 19,754	\$ (13,656)	\$1,383,981	\$ 17,506	\$ 1,401,487
Net income attributable to owners of the parent			117,442						117,442		117,442
Cash dividends, \$0.69 per share			(46,110)						(46,110)		(46,110)
Purchase of treasury stock				(15)					(15)		(15)
Net change in the year					17,076	296	(8,111)	(1,861)	7,400	(278)	7,122
BALANCE, MARCH 31, 2017	\$ 93,953	\$ 110,124	\$ 1,218,443	\$ (41,541)	\$ 85,302	\$ 291	\$ 11,643	\$ (15,517)	\$1,462,698	\$ 17,228	\$ 1,479,926

# Consolidated Statement of Cash Flows

Azbil Corporation and its consolidated subsidiaries Year Ended March 31, 2017

	Millions of	Yen U	Thousands of .S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 18,630	¥ 13,152	\$ 166,331
Adjustments for:			
Income taxes—paid	(4,507)	(4,559)	(40,241)
Depreciation and amortization	4,152	4,832	37,071
Reversal of doubtful receivables	241	102	2,154
Increase in accrued bonuses	563	145	5,025
Foreign currency exchange loss	75	617	672
Loss on sales of property, plant, equipment and	202	4	2 525
others—net Gain on sales of investment securities—net	283	4 (192)	2,525 (561)
Loss on impairment of long-lived assets	(63) 570	3,396	5,087
Loss on liquidation of subsidiaries and	570	2,290	5,067
associated companies (Note 11)	1,057		9,439
Changes in assets and liabilities:	1,057		5,455
Decrease (increase) in notes and accounts receivable	1,546	(3,820)	13,807
Decrease (increase) in inventories	1,497	(2,892)	13,365
(Decrease) increase in notes and accounts payable	(4,237)	3,521	(37,830)
Increase (decrease) in liability for retirement benefits	46	(2,730)	411
Increase in net defined benefit assets	(424)	(1,397)	(3,782)
(Decrease) increase in accrued payments due to	(+2+)	(1,557)	(5,702)
change in retirement benefit plan	(833)	2,401	(7,441)
Increase in provision for stock payment	312	2,401	2,785
Decrease (increase) in other assets	321	(800)	2,865
Increase (decrease) in other liabilities	980	(310)	8,753
Others—net	(260)	(397)	(2,318)
Total adjustments	1,319	(2,079)	11,786
Net cash provided by operating activities	19,949	11,073	178,117
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	210	119	1,875
Purchases of property, plant and equipment	(2,683)	(2,601)	(23,955)
Purchases of intangible assets	(980)	(722)	(8,746)
Proceeds from sales of investment securities	196	244	1,752
Purchases of investment securities	(33)	(23)	(295)
Proceeds from sales of beneficiary securities of trust	12,063	12,728	107,708
Purchases of beneficiary securities of trust	(11,556)	(12,209)	(103,181)
Proceeds from sales of marketable securities	35,000	30,700	312,500
Purchases of marketable securities	(37,101)	(29,600)	(331,261)
Payments for sales of investments in capital of subsidiaries			
resulting in change in scope of consolidation	(137)		(1,224)
Others—net	(4,039)	5,625	(36,071)
Net cash (used in) provided by investing activities	(9,060)	4,261	(80,898)
FINANCING ACTIVITIES:		· · · ·	
Net decrease in short-term borrowings	(730)	(1,639)	(6,517)
Proceeds from long-term debt	24	112	217
Repayment of long-term debt	(234)	(1,808)	(2,091)
Purchase of treasury stock	(2)	(2,002)	(16)
Cash dividends paid	(5,161)	(4,779)	(46,078)
Dividends paid to noncontrolling interests	(192)	(281)	(1,725)
Others—net	(146)	(139)	(1,300)
Net cash used in financing activities	(6,441)	(10,536)	(57,510)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(550)	(770)	(4.070)
ON CASH AND CASH EQUIVALENTS	(558)	(772)	(4,978)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,890	4,026	34,731
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,947	<u>51,921</u>	499,530
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 59,837	¥ 55,947	\$ 534,261
ADDITIONAL INFORMATION:			
Decrease in assets, liabilities and foreign currency translation			
adjustments in the exclusion of Beijing YTYH			
Intelli-Technology Co., Ltd.:	V 4 555		A
Asset excluded	¥ 1,630		\$ 14,555
Liability excluded	477		4,263
Foreign currency translation adjustments excluded	96		853

## Notes to Consolidated Financial Statements

Azbil Corporation and its consolidated subsidiaries Year Ended March 31, 2017

#### 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 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112 to \$1, the approximate rate of exchange as of March 31, 2017. 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, 2017, include the accounts of Azbil and its 53 significant (57 in 2016) subsidiaries (together, the "Azbil Group").

In the third quarter of the current consolidated accounting period, all shares of Beijing YTYH Intelli-Technology Co., Ltd., a former subsidiary of Azbil, were sold. Thus, the entity was excluded from the scope of consolidation.

The figures presented on the consolidated statement of income consolidated the financial information of the entity until the third quarter of the current consolidated accounting period.

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 2 (3 in 2016) 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 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—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the period in which the costs are incurred. 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. 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. 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. 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 capital surplus as long as the parent retains control over its subsidiary.

**c. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and 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, determined by the specific identification method, 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, and to facilities attached to buildings and structures acquired after April 1, 2016. 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. Some of the consolidated foreign subsidiaries have defined contribution pension 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.

Azbil accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. 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 are recognized in profit or loss over 13 years, which is no longer than the expected average remaining service period of the employees.

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—An asset retirement obligation is recorded for 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.

**I. Provision for Stock Payment**—Provision for stock payment is stated in amounts considered to be appropriate based on the provisions of Azbil's employee stock ownership plan.

(Additional Information)

As a result of the introduction of an employee stock ownership plan as an incentive plan for providing employees with the Azbil's stocks, Azbil has recorded provision for stock payment from the year ended March 31, 2017.

**m.** Leases—In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised 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 lessees that existed at the transition date and do not transfer ownership of the lease the transition date and do not transfer ownership of the lease to continue to be accounted for as operating lease to continue to be accounted for as operating lease to continue to be accounted for as operating lease transactions.

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 that do not transfer ownership of the leased property to the lesse as operating lease transactions.

All other leases are accounted for as operating leases.

**n. Bonuses to Directors**—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2017 and 2016, was ¥115 million (\$1,030 thousand) and ¥109 million, respectively.

**o. Construction Contracts**—Construction revenue and construction costs are 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 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 such construction contracts.

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

Azbil applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017. **q. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

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

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

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

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

**t. Per Share Information**—Net income per share is computed by dividing net income 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 73,250,697 shares for 2017 and 73,348,020 shares for 2016.

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

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

**u. Accounting Changes and Error Corrections**—Under 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 are required 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.

#### 3. ACCOUNTING CHANGE

Pursuant to an amendment to the Corporate Tax Act, Azbil adopted ASBJ Practical Issues Task Force ("PITF") No. 32, "Practical Solution on a change in a depreciation method due to Tax Reform 2016," and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The impact of this change on operating income and income before income taxes for the year ended March 31, 2017, is immaterial. As the effect of this change on segment information is also immaterial.

#### 4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions	of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Current—Other	¥ 14,607	¥ 12,506	\$ 130,421
Total	¥ 14,607	¥ 12,506	\$ 130,421
Noncurrent:			
Equity securities	¥ 22,005	¥ 19,324	\$ 196,472
Other	2	2	19
Total	¥ 22,007	¥ 19,326	\$ 196,491

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2017 and 2016, were as follows:

				Millions	of Yen				Thousands of U.S. Dollars			
		2017				20	16			20	17	
	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	¥ 5,822	¥ 15,653	¥ 37	¥ 21,438	¥ 5,811	¥ 12,975	¥ 93	¥ 18,693	\$ 51,991	\$ 139,757	\$ 328 \$	5 191,420
Certificate of deposit	9,500			9,500	12,400			12,400	84,821			84,821
Trust fund investments and other	5,001			5,001					44,654			44,654
Other	106			106	106			106	946			946

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2017 and 2016, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2017 and 2016, is as follows:

		Millions of Yen				Thousands of U.S. Dollars			
		2017			2016			2017	
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 142	¥ 63		¥ 244	¥ 192		\$ 1,263	\$ 561	

#### 5. INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millior	s of Yen	Thousands of U.S. Dollars	
	<b>2017</b> 2016 <b>20</b>		2017	
Merchandise	¥ 1,384	¥ 2,750	\$ 12,360	
Finished products	3,521	3,740	31,440	
Work in process	7,724	7,520	68,962	
Raw materials	9,556	10,143	85,318	
Total	¥ 22,185	¥ 24,153	\$ 198,080	

#### 6. LONG-LIVED ASSETS AND GOODWILL

The Azbil Group recognized impairment losses for the years ended March 31, 2017 and 2016, as follows:

		Millions of	Yen	Thousands of U.S. Dollars
		2017	2016	2017
Azbil	Furniture and fixtures	¥ 11		\$ 100
	Construction in progress	1		13
	Subtotal	12		113
Azbil Saudi Arabia Limited	Buildings and structures	349		3,118
	Machinery and equipment, etc.	58		520
	Furniture and fixtures	39		345
	Software	2		12
	Subtotal	448		3,995
Azbil Telstar Benelux, B.V.	Buildings and structures	57		506
	Machinery and equipment	20		179
	Furniture and fixtures	11		101
	Software	22		193
	Subtotal	110		979
Azbil Telstar, S.L.U.	Goodwill		¥ 3,012	
Azbil Vortek, LLC	Goodwill		300	
Azbil Kimmon Co., Ltd.	Buildings and structures		60	
	Machinery and equipment		4	
	Furniture and fixtures, etc.		2	
	Land		18	
	Subtotal		84	
Total		¥ 570	¥ 3,396	\$ 5,087

The Azbil Group groups assets based on the classification of managerial accounting, and groups idle assets individually.

For the year ended March 31, 2017, as a result of reviewing expected future earnings from a part of the Life Automation business of Azbil, the carrying amount of the relevant asset group was written down by ¥12 million (\$113 thousand) in total, and this reduction was recognized as an impairment loss.

As a result of reviewing expected future earnings from the Advanced Automation business of Azbil Saudi Limited, a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥448 million (\$3,995 thousand) to the recoverable amount, and this reduction was recognized as an impairment loss. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 9.8%.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Telstar Benelux, B.V., a consolidated subsidiary of Azbil, which was carried out in the process of revising and restructuring the business, the carrying amount of the relevant asset group was written down by ¥110 million (\$979 thousand) in total, and this reduction was recognized as an impairment loss.

For the year ended March 31, 2016, as a result of reviewing expected future earnings from a part of the Life Automation business of Azbil Telstar, S.L.U., the carrying amount of the relevant asset group was written down by ¥3,012 million in total, and this reduction was recognized as impairment loss.

As a result of reviewing expected future earnings from Advanced Automation business of Azbil Vortek, LLC, a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥300 million to the recoverable amount, and this reduction was recognized as impairment loss. The recoverable amount was measured on the basis of value in use calculated by a discount rate of 12.7%.

As a result of the decision to close two of its factories to consolidate its production bases, Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥83 million to the recoverable amount, and this reduction was recognized as an impairment loss. 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.

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

Short-term borrowings as of March 31, 2017 and 2016, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 8.8% as of March 31, 2017, and from 0% to 10.6% as of March 31, 2016. Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Million	s of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 4.9% in 2017 and from 0.0% to 4.9% in 2016:			
Collateralized	¥ 30	¥ 121	\$ 270
Unsecured	589	727	5,267
Bonds due serially through 2016 with interest rates of 0.7% in 2016—			
Collateralized		10	
Obligations under finance leases	780	852	6,960
Total	1,399	1,710	12,497
Less current portion	(251)	(383)	(2,245)
Long-term debt, less current portion	¥ 1,148	¥ 1,327	\$ 10,252

As of March 31, 2017, Azbil had an unused line of credit amounting to ¥30,000 million (\$267,857 thousand), of which ¥10,000 million (\$89,286 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$178,571 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2017, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 251	\$ 2,245
2019	163	1,454
2020	443	3,954
2021	125	1,115
2022	136	1,213
2023 and thereafter	281	2,516
Total	¥ 1,399	\$ 12,497

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2017, were as follows:

	Millions of Ye	en	Thousands of U.S. Dollars	
Land	¥	342	\$ 3,053	
Buildings and structures		73	656	
Total	¥	415	\$ 3,709	

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 Guidance No. 2).

The liability for retirement benefits at March 31, 2017 and 2016, for directors and Audit & Supervisory Board members is ¥112 million (\$1,003 thousand) and ¥133 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions	of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 17,305	¥ 45,296	\$ 154,506
Current service cost	566	827	5,051
Interest cost	34	203	307
Actuarial losses	109	1,622	975
Benefits paid	(1,431)	(1,949)	(12,778)
Decrease with transfer to the defined contribution pension plan		(28,686)	
Others	(8)	(8)	(76)
Balance at end of year	¥ 16,575	¥ 17,305	\$ 147,985

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions	s of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 11,611	¥ 37,138	\$ 103,669
Expected return on plan assets	457	419	4,081
Actuarial (losses) gains	(281)	19	(2,509)
Contributions from the employer	53	807	473
Benefits paid	(960)	(1,175)	(8,567)
Decrease with transfer to the defined contribution pension plan		(25,591)	
Others	(7)	(6)	(67)
Balance at end of year	¥ 10,873	¥ 11,611	\$ 97,080

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

	Millions	of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 11,354	¥ 12,128	\$ 101,374
Plan assets	(10,873)	(11,611)	(97,080)
Total	481	517	4,294
Unfunded defined benefit obligation	5,221	5,177	46,611
Net liability arising from defined benefit obligation	¥ 5,702	¥ 5,694	\$ 50,905

	Millions of Yen			Thousands of U.S. Dollar		
	2017		2016		201	7
Liability for retirement benefits	¥	5,704	¥	5,699	\$	50,931
Asset for retirement benefits		(2)		(5)		(26)
Net liability arising from defined benefit obligation	¥	5,702	¥	5,694	\$	50,905

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

		Millions of Yen				U.S. Dollars
	2017		2016		201	7
Service cost	¥	566	¥	827	\$	5,051
Interest cost		34		203		307
Expected return on plan assets		(457)		(419)		(4,081)
Recognized actuarial losses		224		293		1,998
Amortization of prior service cost		(154)		(215)		(1,378)
Others		138		424		1,233
Net periodic benefit costs	¥	351	¥	1,113	\$	3,130

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

		Millions of Yen			Thousands of U.S. Dollars	
	2017		2016		2017	7
Prior service cost	¥	(154)	¥	(860)	\$	(1,378)
Actuarial gains		(166)		(384)		(1,483)
Reconciliation on abolishment of retirement benefit plan				(404)		
Total	¥	(320)	¥ (	(1,648)	\$	(2,861)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions	s of Yen	Thousands of U.S. Dollars	
	2017	2016	2017	
Unrecognized prior service cost	¥ (1)	¥ 153	\$ (9)	
Unrecognized actuarial gains	(2,417)	(2,251)	1) (21,584)	
Total	¥ (2,418)	¥ (2,098)	\$ (21,593)	

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Life insurance company general accounts	60%	57%
Debt investments	15	30
Short-term assets	14	9
Equity investments	8	2
Others	3	2
Total	100%	100%

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

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

(8) Assumptions used for the years ended March 31, 2017 and 2016, are set forth as follows:

	2017	2016
Discount rate	0.2%	0.2%
Expected rate of return on plan assets	4.0	3.5

#### 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 30.8% for the year ended March 31, 2017, and 33.0% for the year ended March 31, 2016.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Million	s of Yen	Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Pension and severance costs	¥ 1,781	¥ 1,756	\$ 15,898
Accrued expenses	4,195	4,312	37,451
Depreciation	766	758	6,836
Loss on impairment of property, plant and equipment	202	177	1,808
Allowance for doubtful receivables	394	810	3,520
Tax loss carryforwards	2,470	1,809	22,056
Others	2,552	2,129	22,787
Less valuation allowance	(3,944)	(3,482)	(35,214)
Total	8,416	8,269	75,142
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,716	3,900	42,111
Special advanced depreciation	981	1,034	8,760
Others	268	122	2,393
Total	5,965	5,056	53,264
Net deferred tax assets	¥ 2,451	¥ 3,213	\$ 21,878

In addition to the above, the Azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million (\$1,618 thousand) at March 31, 2017, and ¥181 million at March 31, 2016.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.8%	33.0%
Expenses not deductible for income tax purposes	0.9	1.4
Tax credits for qualified expenses	(4.1)	(8.3)
Valuation allowance	(0.4)	(4.9)
Amortization of goodwill	0.1	1.7
Impairment loss of goodwill		8.3
Effect of tax rate reduction		3.1
Others—net	0.8	0.6
Actual effective tax rate	28.1%	34.9%

At March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥9,795 million (\$87,450 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		
2018	¥ 72	\$ 641		
2019	55	487		
2020	24	214		
2021	30	267		
2022	34	305		
2023 and thereafter	9,580	85,536		
Total	¥ 9,795	\$ 87,450		

#### **11. OTHER INCOME (EXPENSES)—OTHERS—NET**

Other income (expenses)—others—net for the years ended March 31, 2017 and 2016, mainly consisted of the following:

	Million	Millions of Yen			
	2017	2016		2017	
Gain on reversal of environmental expenses		¥	291		
Restructuring loss			(142)		
Loss on plants reorganization			(266)		
Other	¥ 88		63	\$	785
Total	¥ 88	¥	(54)	\$	785

Other than the above, loss on liquidation of subsidiaries and associated companies was recorded because all shares of Beijing YTYH Intelli-Technology Co., Ltd., the former subsidiary of Azbil were transferred.

#### **12. RESEARCH AND DEVELOPMENT COSTS**

Research and development costs charged to income were ¥10,446 million (\$93,268 thousand) and ¥11,012 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, were ¥5,420 million (\$48,392 thousand) and ¥5,606 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:

Obligations under finance leases:

	Millions of Yen				Thousands of U.S. Dollars		
	2017		2016		2017		
Due within one year	¥	47	¥	120	\$	416	
Due after one year		115		162		1,028	
Total	¥	162	¥	282	\$	1,444	

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

Depreciation expense and other information for finance leases:

	Millions		Thousands of U.S. Dollars	
	2017	2016		2017
Depreciation expense		¥	3	
Lease payments			3	

Assets under finance leases were depreciated by the straight-line method assuming the lease periods as useful lives without residual value.

The minimum rental commitments under noncancelable operating leases as of March 31, 2017 and 2016, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Due within one year	¥	872	¥	874	\$	7,784
Due after one year	1,	,260		2,117		11,247
Total	¥ 2,	,132	¥	2,991	\$	19,031

#### (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, 2017 and 2016, was as follows:

		Millions of Yen				.S. Dollars
	2017		2016		2017	
Receivables under finance leases:						
Due within one year	¥	47	¥	120	\$	416
Due after one year		115		162		1,028
Total	¥	162	¥	282	\$	1,444

#### **14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

#### (1) Policy for Financial Instruments

The Azbil Group makes risk reduction 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 foreign currency 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	s of Yen			Thous	sands of U.S.	Dollars	
		March 31						NA   24 2047		
		2017		2016			March 31, 2017			
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	
Cash and cash equivalents	¥ 59,837	¥ 59,837		¥ 55,947	¥ 55,947		\$ 534,261	\$ 534,261		
Notes and accounts receivable—trade	88,500	88,500		91,772	91,772		790,187	790,187		
Investment securities	21,438	21,438		18,693	18,693		191,420	191,420		
Total	¥ 169,775	¥ 169,775		¥ 166,412	¥ 166,412		\$1,515,868	\$1,515,868		
Short-term borrowings	¥ 10,555	¥ 10,555		¥ 11,747	¥ 11,747		\$ 94,243	\$ 94,243		
Current portion of long-term debt	251	251		383	383		2,245	2,245		
Notes and accounts payable—trade	40,456	40,456		45,587	45,587		361,215	361,215		
Long-term debt	1,148	1,149	¥ (1)	1,327	1,330	¥ (3)	10,252	10,260	\$ (8)	
Total	¥ 52,410	¥ 52,411	¥ (1)	¥ 59,044	¥ 59,047	¥ (3)	\$ 467,955	\$ 467,963	\$ (8)	

#### 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

	Million	Thousands of U.S. Dollars			
	Mar	March 31, 2017			
	2017	2016	Warch 31, 2017		
Investments in equity instruments that do not have a quoted market price in an active market	¥ 724	¥ 789	\$ 6,466		

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

		Millions	of Yen	Thousands of U.S. Dollars						
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years		
Cash and cash equivalents	¥ 59,837				\$ 534,261					
Notes and accounts receivable—trade	84,995	¥ 3,442	¥ 63		758,886	\$ 30,733	\$ 568			
Total	¥ 144,832	¥ 3,442	¥ 63		\$1,293,147	\$ 30,733	\$ 568			

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 currency exchange rate 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														
	2017					201	6			March 3	1, 2017				
	Contract	Contract Amount Due after One	Fair	Unrealized		Contract Amount Due after One	Fair	Unrealized		Contract Amount Due after One	Fair	Unrealized			
Foreign currency forward contracts:	Amount	Year	Value	Gain/Loss	Amount	Year	Value	Gain/Loss	Amount	Year	Value	Gain/Loss			
5 ,	V 201								¢ > 400		¢ (A				
Selling U.S. dollars	¥ 391								\$ 3,496		\$ (4)				
Selling Euro	356		¥ (4)	) ¥ (4)					3,177		(35)	) (35)			
Buying U.S. dollars	80		2	2	¥ 173		¥ 3	¥ 3	710		21	21			
Buying Yen	20								176		(2)	(2)			

#### Derivative Transactions to Which Hedge Accounting Is Applied

				Thousands of U.S. Dollars						
					1 24 204	-				
			2017			2016		IVI	arch 31, 201	17
		Contract	Contract Amount Due after One	Fair	Contract	Contract Amount Due after One	Fair	Contract	Contract Amount Due after One	Fair
	Hedged Item	Amount	Year	Value	Amount	Year	Value	Amount	Year	Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables				¥ 66		¥ (2)			
Selling IN rupee	Receivables				1		1			
Buying U.S. dollars	Payables				30		1			
Buying Euro	Payables				52					
Buying IN rupee	Payables	¥ 427		¥ 43	536		(62)	\$ 3,815		\$ 388
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt	120			120	¥ 15		1,071		

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, etc., 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, 2017, the Azbil Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of loans	¥ 2	\$ 18

#### **17. OTHER COMPREHENSIVE INCOME (LOSS)**

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of	Yen	Thousands of U.S. Dollar
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 2,784	¥ (3,033)	\$ 24,861
Reclassification adjustments to profit or loss	(57)	(2)	(509
Amount before income tax effect	2,727	(3,035)	24,352
Income tax effect	(815)	1,152	(7,276
Total	¥ 1,912	¥ (1,883)	\$ 17,076
Deferred gain (loss) on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 43	¥ (1)	\$ 389
Reclassification adjustments to profit or loss	1		7
Amount before income tax effect	44	(1)	396
Income tax effect	(11)		(100
Total	¥ 33	¥ (1)	\$ 296
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (888)	¥ (346)	\$ (7,930
Reclassification adjustments to profit or loss	(95)		(852
Amount before income tax effect	(983)	(346)	(8,782
Total	¥ (983)	¥ (346)	\$ (8,782)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (389)	¥ (1,625)	\$ (3,479
Reclassification adjustments to profit or loss	69	(23)	618
Amount before income tax effect	(320)	(1,648)	(2,861
Income tax effect	112	518	1,002
Total	¥ (208)	¥ (1,130)	\$ (1,859)
Total other comprehensive income (loss)	¥ 754	¥ (3,360)	\$ 6,731

#### **18. SUBSEQUENT EVENTS**

#### a. Disposal, Cancellation and Repurchase of Treasury Shares

Azbil implemented the following matters relating to its 1,865,659 treasury shares (as of March 31, 2017), which was resolved at the Board of Directors' meeting held on May 12, 2017.

#### (1) Disposal of treasury shares through third party allocation (hereinafter referred to as the "Disposal of Treasury Shares")

#### (a) Purpose of and Reason for the Disposal

In the fiscal year ended March 31, 2017, Azbil introduced an employee stock ownership plan, an incentive plan for offering Azbil's stocks to its employees (hereinafter referred to as the "System"; a J-ESOP trust thereafter referred to as the "Trust" has been established in accordance with a trust contract with Mizuho Trust & Banking Co., Ltd. for the System). In relation to the System, Azbil determined the details, including the date of the establishment of the Trust.

The Disposal of Treasury Shares is intended to dispose of the treasury shares of Azbil through allocation to Trust & Custody Services Bank, Ltd. (Trust E), (a re-trustee entrusted by Mizuho Trust & Banking Co., Ltd., which is the trustee of the Trust), which holds and disposes of the shares of Azbil for the operations of the System.

#### (b) Outline of the Disposal

May 29, 2017
1,000,000 common stock
¥3,970 (\$35.4) per share
¥3,970 million (\$35,446 thousand)
Allocation to a third party
Trust & Custody Services Bank, Ltd. (Trust E)
The Disposal of Treasury Shares is executed when a notification is filed pursuant to the Financial Instruments and Exchange Act of Japan.

(Reference) Status of treasury shares	
As of March 31, 2017:	1,865,659 shares
After the Disposal of Treasury Shares:	865,659 shares

#### (2) Cancellation of treasury shares

Cancellation of treasury shares pursuant to Article 178 of the Companies Act

1. Type of shares canceled:	Common stock of Azbil
2. Number of shares canceled:	865,659 shares (1.2% of total number of issued shares before the cancellation)
3. Total number of issued shares after the cancellation:	74,250,442 shares
4. Cancellation date:	May 31, 2017

In addition, Azbil also resolved to repurchase of its own shares, aiming to develop flexible capital policies, as follows:

#### (3) Repurchase of Azbil's own shares

Repurchase of own shares pursuant to Article 156 and Article 165, paragraph 3 of the Companies Act

1. Reason for share repurchase:	Taking into consideration the outlook for future business performance, Azbil aims not only to improve capital efficiency, but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
2. Type of shares to be repurchased:	Common stock of Azbil
<ol> <li>Total number of shares to be repurchased:</li> </ol>	Up to 800,000 shares (1.1% of total number of common stock issued, excluding treasury shares)
4. Total amount of repurchase:	Up to ¥3,000 million (\$26,786 thousand)
5. Period of repurchase:	From May 30, 2017 to July 31, 2017
6. Method of repurchase:	Purchase in the open market through a trust bank

#### **b.** Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at Azbil's shareholders' meeting held on June 27, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40.0 (\$0.36) per share	¥ 2,930	\$ 26,161

#### **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."

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

								Millions o	of Yen							
								201	7							
		Reportable Segment														
		Building Itomation		vanced omation		Life omation		Total	Other			Total	Recor	nciliations	Co	nsolidated
Sales:																
Sales to external customers	¥	116,154	¥	94,820	¥	43,775	¥	254,749	¥	62	¥	254,811			¥	254,811
Intersegment sales or transfers		268		664		342		1,274		8		1,282	¥	(1,282)		
Total	¥	116,422	¥	95,484	¥	44,117	¥	256,023	¥	70	¥	256,093	¥	(1,282)	¥	254,811
Segment profit (loss)	¥	11,512	¥	7,204	¥	1,420	¥	20,136	¥	19	¥	20,155	¥	(10)	¥	20,145
Segment assets		65,320		68,639		29,945		163,904		1		163,905		99,412		263,317
Other:																
Depreciation		1,177		2,030		868		4,075				4,075				4,075
Increase in property, plant and equipment and intangible assets		1,470		1,904		786		4,160				4,160				4,160
Impairment losses of assets				448		122		570				570				570

								201	6							
		Reportable Segment														
		Building Itomation		vanced omation	Aut	Life omation		Total	Other			Total	Reco	nciliations	Co	nsolidated
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

				Thousands of	f U.S. Dollars			
				20	17			
	Re	portable Segme	ent					
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	\$ 1,037,089	\$ 846,613	\$ 390,844	\$ 2,274,546	\$ 551	\$ 2,275,097		\$ 2,275,097
Intersegment sales or transfers	2,392	5,924	3,052	11,368	75	11,443	\$ (11,443)	
Total	\$ 1,039,481	\$ 852,537	\$ 393,896	\$ 2,285,914	\$ 626	\$ 2,286,540	\$ (11,443)	\$ 2,275,097
Segment profit (loss)	\$ 102,786	\$ 64,323	\$ 12,682	\$ 179,791	\$ 167	\$ 179,958	\$ (90)	\$ 179,868
Segment assets	583,217	612,845	267,362	1,463,424	15	1,463,439	887,606	2,351,045
Other:								
Depreciation	10,508	18,126	7,753	36,387		36,387		36,387
Increase in property, plant and equipment and intangible assets	13,127	16,998	7,014	37,139		37,139		37,139
Impairment losses of assets		3,995	1,092	5,087		5,087		5,087

Note: Corporate assets of ¥99,412 million (\$887,606 thousand) for the year ended March 31, 2017, 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			
			2017			
Japan	Asia	China	North America	Europe	Other	Total
¥ 211,431	¥ 19,501	¥ 8,574	¥ 3,983	¥ 8,419	¥ 2,903	¥ 254,811

			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

		T	nousands of U.S. Dollars			
			2017			
Japan	Asia	China	North America	Europe	Other	Total
\$ 1,887,778	\$ 174,112	\$ 76,554	\$ 35,560	\$ 75,170	\$ 25,923	\$ 2,275,097

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

#### (b) Property, plant and equipment

			Millions of Yen			
			2017			
Japan	Asia	China	North America	Europe	Other	Total
¥ 19,956	¥ 1,581	¥ 941	¥ 80	¥ 475	¥ 191	¥ 23,224
			Millions of Yen			
			2016			
Japan	Asia	China	North America	Europe	Other	Total
¥ 20,403	¥ 1,483	¥ 1,073	¥ 63	¥ 600	¥ 749	¥ 24,37

		Th	nousands of U.S. Dollars			
			2017			
Japan	Asia	China	North America	Europe	Other	Total
\$ 178,179	\$ 14,119	\$ 8,399	\$714	\$ 4,242	\$ 1,702	\$ 207,355

#### (3) Information about Major Customers

This information is omitted as no client 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	s of Yen				
		2017							
	Re	portable Segme	ent						
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations C	onsolidated	
Amortization of goodwill		¥ 77		¥ 77		¥ 77		¥ 77	
Goodwill at March 31, 2017		74		74		74		74	
				Millions	s of Yen				
				20	16				
	Re	portable Segme	ent						
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations C	onsolidated	
Amortization of goodwill		¥ 182	¥ 502	¥ 684		¥ 684		¥ 684	
Goodwill at March 31, 2016		158		158		158		158	
				Thousands o	f U.S. Dollars				
				20	17				
	Re	portable Segme	ent						
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations C	onsolidated	
Amortization of goodwill		\$ 684		\$ 684		\$ 684		\$ 684	
Goodwill at March 31, 2017		661		661		661		661	



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#### 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, 2017, 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, 2017, 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 Tohmaton LLC

June 20, 2017

Member of Deloitte Touche Tohmatsu Limited

### azbil Group Companies Data

(As of March 31, 2017)

#### Japan

- Azbil Corporation
   Head office: Chiyoda-ku, Tokyo
   Founded: 1906 Established: 1949
- Azbil Trading Co., Ltd. Head office: Toshima-ku, Tokyo Established: 2013
- Azbil Yamatake Friendly Co., Ltd. Head office: Fujisawa-shi, Kanagawa Established: 1998
- Azbil SecurityFriday Co., Ltd. Head office: Fujisawa-shi, Kanagawa Established: 2003
- Azbil Kimmon Co., Ltd. Head office: Toshima-ku, Tokyo Founded: 1904 Established: 1948
- Azbil Kyoto Co., Ltd. Head office: Funai-gun, Kyoto Established: 2009
- Azbil TA Co., Ltd. Head office: Itabashi-ku, Tokyo Established: 1955
- Azbil Taishin Co., Ltd. Head office: Nakano-shi, Nagano Established: 1974
- Tem-Tech Lab. Head office: Chuo-ku, Tokyo Established: 1982

#### **Overseas**

#### Asia ·····

- Azbil Korea Co., Ltd. Head office: Seoul, Korea Established: 1999
- Azbil Taiwan Co., Ltd. Head office: Taipei, Taiwan Established: 2000
- Azbil Vietnam Co., Ltd. Head office: Hanoi, Vietnam Established: 2008
- Azbil India Private Limited Head office: Navi Mumbai, India Established: 2010
- Azbil (Thailand) Co., Ltd. Head office: Bangkok, Thailand Established: 1995
- Azbil Production (Thailand) Co., Ltd. Head office: Chonburi, Thailand Established: 2013
- Azbil Philippines Corporation Head office: Makati, Philippines Established: 1996
- Azbil Malaysia Sdn. Bhd. Head office: Kuala Lumpur, Malaysia Established: 1999
- Azbil Singapore Pte. Ltd. Head office: Singapore Established: 1998
- **PT. Azbil Berca Indonesia** Head office: Jakarta, Indonesia Established: 1997
- Azbil Saudi Limited Head office: Dammam, Saudi Arabia Established: 2013

#### China .....

- Azbil Control Instruments (Dalian) Co., Ltd.
   Head office: Dalian, China Established: 1994
- Azbil Information Technology Center (Dalian) Co., Ltd.
   Head office: Dalian, China
   Established: 2007
- Yamatake Environmental Control Technology (Beijing) Co., Ltd.
   Head office: Beijing, China Established: 2000
- CECEP Building Energy Management Co., Ltd. Head office: Beijing, China Established: 2012
- Azbil Control Solutions (Shanghai) Co., Ltd.
   Head office: Shanghai, China
   Established: 1994
- Shanghai Azbil Automation Co., Ltd. Head office: Shanghai, China Established: 1995
- Yamatake Automation Products (Shanghai) Co., Ltd.
   Head office: Shanghai, China
   Established: 2004
- Azbil Hong Kong Limited Head office: Hong Kong, China Established: 2000

#### Americas and Europe

- Azbil North America Research and Development, Inc.
   Head office: Santa Clara, CA, U.S.A.
   Established: 2014
- Azbil North America, Inc. Head office: Phoenix, AZ, U.S.A. Established: 2000
- Azbil VorTek, LLC Head office: Longmont, CO, U.S.A. Established: 1995
- Azbil Brazil Limited
   Head office: Sao Paulo, Brazil
   Established: 2010
- Azbil Europe NV
   Head office: Zaventem, Belgium
   Established: 2001
- Azbil Telstar, S.L.U. Head office: Terrassa, Spain Established: 1963

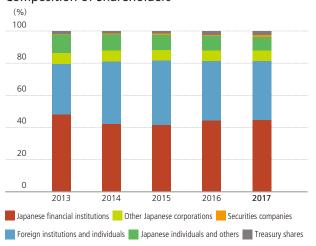
# Corporate Data/Stock Information

(As of March 31, 2017)

#### 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, Japa	n
Consolidated number of employees	9,290	
Stock listing	Tokyo Stock Exchange, 1st Section	
Ticker symbol number	6845	
Stock information	Shares of Common Stock Issued Share unit number Shareholders	75,116,10 100 7,681
Transfer agent	Mizuho Trust & Banking Co., Ltd.	

Composition of Shareholders

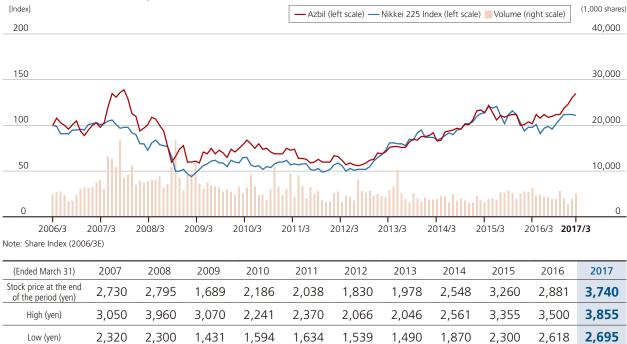


#### Major Shareholders (Top 10)

Meiji Yasuda Life Insurance Co. State Street Bank and Trust Company	5,214 4,895	7.11
	4,895	6.60
		6.68
The Master Trust Bank of Japan, Ltd. (Trust account)	4,455	6.08
Japan Trustee Services Bank, Ltd. (Trust account)	3,955	5.40
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,708	3.69
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.16
Nippon Life Insurance Co.	1,869	2.55
azbil Group Employee Stock Ownership	1,568	2.14
National Mutual Insurance Federation of Agricultural Cooperatives	1,550	2.11
Mizuho Bank, Ltd.	1,404	1.91

1

#### **Common Stock Price Range**



### **Azbil Corporation Website**

### http://www.azbil.com



Inclusion in SRI Indexes (As of July 31, 2017)

- FTSE4Good Global Index
- FTSE Blossom Japan Index
- MSCI Japan ESG Select Leaders Index
- MSCI Japan Empowering Women Index (WIN)
- Morningstar Socially Responsible Investment Index



Environment, Social and Governance criteria.

#### Contact Investor Relations, Group Management Headquarters, Azbil Corporation E-MAIL azbil-ir@azbil.com TEL 81-3-6810-1031 FAX 81-3-5220-7278





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