

azbil report 2018



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, 2017 to March 31, 2018

(Contains some information about the year beginning April 2018)

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, exchange rate fluctuations, levels of capital investments, etc. in the azbil Group's markets.
- 2) Continued acceptance of azbil's products and services offered in highly competitive markets characterized by rapid development of new technologies and the advancement of the global economy.

 For more detailed information, see "Business Risks" on pages 68-69.

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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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.



Group Philosophy

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

To achieve our philosophy,

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

Since our establishment in 1906, we have pursued measurement and control technologies, delivering unique solutions to our customers. In April 2012, we changed the company name from Yamatake to Azbil, making the azbil brand familiar to many people. Today, the azbil Group provides unique levels of customer-oriented value in offices, production sites, and daily life all over the world through its three business segments: Building Automation, Advanced Automation, and Life Automation.

The current year ending March 2019 is a halfway point in the three-year medium-term plan that started last year. To achieve the objectives of this 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 expanding into new regions and a qualitative change of focus; and (3) Being a corporate organization that never stops learning, so that we can continuously grow stronger. We will strengthen the life-cycle solutions business globally while also developing new automation fields and expanding environmental and energy fields, in order to enable sustained growth.

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 2018



Hirozumi Sone
President and Chief Executive Officer
Azbil Corporation

azbil is here too

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

What do you think of when you hear the word “automation”? Perhaps you think you know, but there are some concepts you don’t quite understand. Automation is used to “measure” various factors, such as temperature and pressure, in order to “control” the factors into a desired state. We at the azbil Group apply these automation technologies to office buildings, plants/factories, and people’s lives in our quest to support the advancement of industry and daily living.

Automation Technologies (Measurement & Control)

We take detailed measurements of factors related to air conditioning—such as temperature, humidity, and CO₂ concentration—and control facilities and equipment in a manner that delivers comfort and energy savings. We have deployed communication technologies in our comprehensive building management services since the 1980s, and nowadays we provide wide-ranging cloud-based services, including energy management. We are also promoting advanced measures to ensure stable supply of electricity throughout entire communities via remote automatic control.



BUILDING
AUTOMATION

• In Office Buildings

In large-scale buildings, the azbil Group’s air-conditioning control technologies are used to make the air temperature of the entire buildings comfortable and also deliver energy savings.

● In Plants and Factories

Measurement and control technologies are indispensable for various manufacturing sites, and many customers use products and solutions offered by the azbil Group.

ADVANCED AUTOMATION



Various technological innovations are making inroads into manufacturing sites. As a pioneer in automation, the azbil Group supports advanced manufacturing that addresses the need for reliable, safe operations of plants and factories and technological innovations. For example, we have systems that use highly functional sensors to grasp and diagnose the status of numerous equipment online, as well as systems that use big data and AI to check the existence of abnormalities.

● In Our Lives

The azbil Group's automation technologies are active in an increasingly broad range of areas, including gas and water meters, pharmaceutical manufacturing, and central air conditioning for detached houses.

LIFE AUTOMATION



Technological innovations are also increasingly used in automation related to our daily lives, for example in the gas and water meters of numerous households. Here, each meter is fitted with a communications function that transmits data wirelessly to our data center. This enables the data center to monitor the amount of LP gas remaining in the tanks and ensure that such tanks are exchanged or refilled efficiently. The azbil Group will further promote smarter society and living.

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 delivered value by embracing challenges in multiple areas. Here, we have deployed our leading-edge automation technologies and know-how accumulated on site. We will continue pursuing automation as we aim to grow and develop as a partner for customers and communities.

1906-1950s

“Freeing People from Drudgery”

Beginning of Industrial Society

From Imports to Domestic Manufacture

Founded in 1906 as Yamatake Shokai. Started importing and selling machine tools from Germany, then became a manufacturer and seller of industrial machinery and instruments of Brown Instrument Company (later Honeywell) in the United States. Expanded production of industrial instruments in line with development of the Japanese materials industry, contributing to the restoration of Japan and the advancement of its heavy industry after the war.

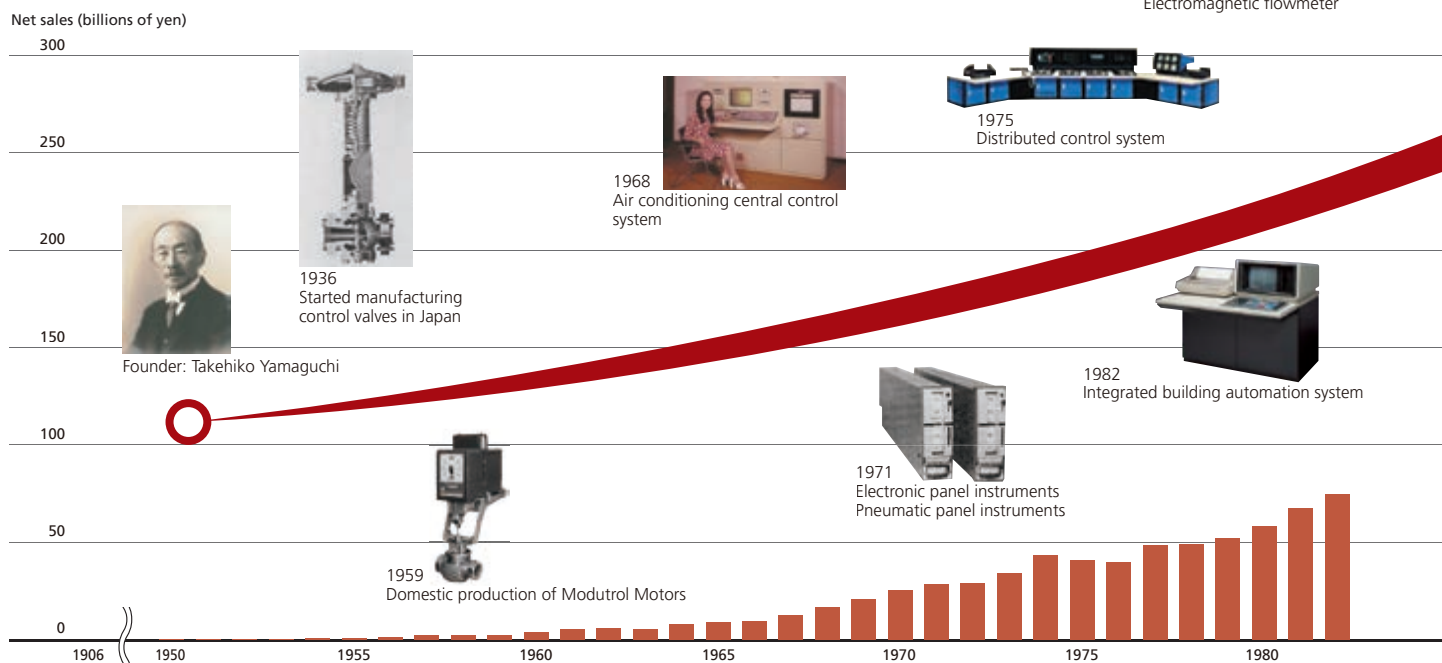
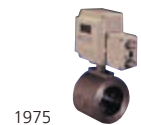
1950s-1970s

“First in Control”

The Dawn of the Automation Era

Contribution to Rapid Economic Growth

Formed technical license agreement with Honeywell in the United States in 1952, introducing that company's air-conditioning control technologies, combustion safety control technologies, microswitches, and the like to Japan, and subsequently evolving into a comprehensive automation equipment maker. Spread innovative compact electric instruments based on proprietary technologies, as well as central monitoring systems compatible with large-scale buildings.



Advanced Automation (AA) Business

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.

1970s-2000s

“Savemation”

The Shift from Analogue to Digital Instrumentation

Contribution to Higher Performance,
Accuracy, and Energy Saving

Realized corporate philosophy of “saving” in various fields to make a clear contribution to the global environment in the midst of energy conservation and labor-saving activities across all industries sparked by the oil crisis. Developed various products that address the need for high-function, high-precision industrial instruments, as well as comprehensive building management services using communication technologies.



1995
Monitoring and control system



2000
Remote maintenance
service for buildings



1985
Differential pressure and
pressure transmitter



1996
Thermal mass-flow sensors



1985
Next-generation control valve



2000
Manufacturing execution
system for pharmaceutical
industry



1998
Entered ESCO business



1984
Comprehensive building management service

2004
Network BA system



2004
Control valve maintenance
support system



2007
Electric two-way valve with flow
measurement control function



2009
Network instrumentation module



2011
Control enhancement solution



2016
Cloud services for buildings



2017
Micro flow rate liquid
flow meter



2017
Intelligent LP gas meter with
embeddable wireless device



2015
Online anomaly monitoring system



anomaly monitoring

Net sales for the year ended
March 31, 2018
¥260.4 billion
Operating income for the year
ended March 31, 2018
¥24.0 billion

2006-

azbil “Human-centered Automation”

Open Network System to Fully-digitalized, Seamless Network System

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

Promoted advancement of network technologies and developed products and solutions that address various technological innovations, such as AI and big data, in each field, guided by an evolved group philosophy of giving people a sense of satisfaction through automation. Sought to solve the problems of customers and society globally and achieve sustainable development.

azbil's Value Creation

Life Automation (LA) Business

azbil's Value Creation

Responding to problems faced by customers and society in line with the changing times, we have been refining our technologies and solutions by drawing on our “measurement and control” automation technologies based on the idea of constantly solving problems by focusing mainly on people. The azbil Group is unique in its ability to promote value creation with customers using its integrated systems with close ties to their sites.

Issues Faced by Our Customers and Society

azbil Group's Operations

Challenges that change with the times

New product development and production for business growth, and advanced manufacturing corresponding to technological innovation



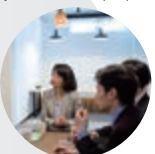
Security and disaster-preventive measures, and business continuity planning (BCP)



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



Creation of better work styles focused on people



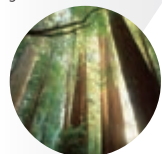
A stable supply of water and gas



Achieving compatibility between comfort and energy conservation



Reducing the burden on the global environment



BA

Building Automation Business

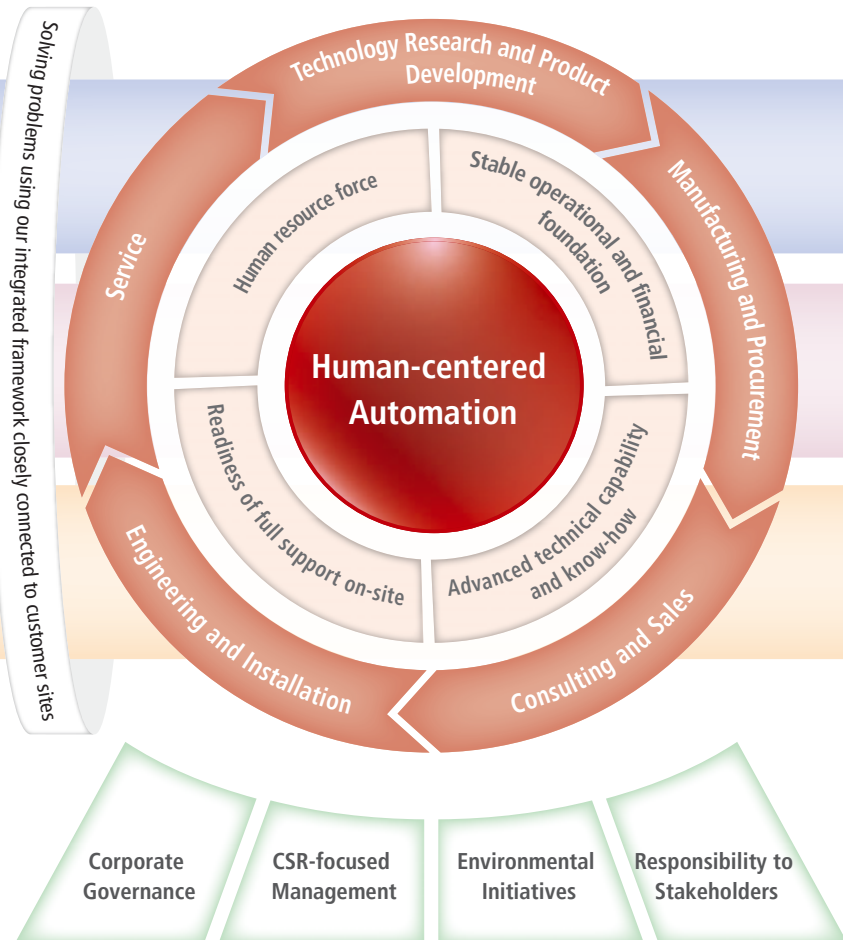
AA

Advanced Automation Business

LA

Life Automation Business

Solving problems using our integrated framework closely connected to customer sites



Approach to Sustainable Development Goals (SDGs)

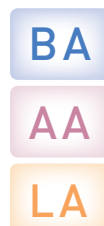
In response to various social issues, we will continue work related to the SDGs by promoting management based on the azbil Group philosophy.



azbil Group's Operations

► **P.34**

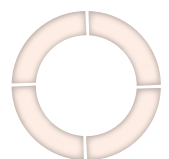
Introduce three businesses of Building Automation (BA), Advanced Automation (AA), and Life Automation (LA).



Four Strengths of azbil Group

► **P.10**

Introduce four strengths of the azbil Group which become the driving force of the value chain.



For more details, please see “SDG Initiatives” on pages 70–71.

Feature
azbil Group's Progressive Innovation

►P.28

Solutions Based on Our Measurement
and Control Technologies and Products

Long-term targets

Medium-term plan

Interview with the CEO

►P.18

Financial Targets

►P.27

Non-Financial Priority Initiatives

►P.27

Development and provision
of devices and applications
corresponding to various
technological innovations



High-precision
laser sensors

Multi-loop
controllers with
multifunction
display

Remote
monitoring
services

Valves with flow
measurement
function

Energy
management
solutions

Solutions that
meet the needs
of the times

Micro flow rate
liquid flow meter

Unique
products

Manufacturing
equipment for the
pharmaceutical
market

Real-time
microbe
detectors

Plant smart
industrial safety
system

Cloud
services

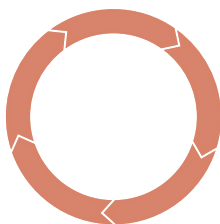
Our engineers with
thorough on-site knowledge
create value with customers
throughout the life cycle of
a customer's facilities.



Value Chain

►P.46

Introduce the azbil Group's
exclusive value chain which is
requisite for sustainable value
creation through automation.



Infrastructure to Support Value Creation

►P.58

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



Four Strengths of azbil Group

Drawing on its measurement and control technologies, the azbil Group, with a history of more than 60 years, has accumulated rich experience and abundant know-how, and is equipped with the human resources and systems that help customers achieve their goals. We are committed to contributing ourselves towards steady growth and a sustainable society, backed by a stable business foundation.



Stable Business Foundation and Sound Financial Constitution

► P.14-15 (Financial and Non-Financial Highlights)

With automation technologies at their core, the three businesses 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 via growth investments as well as high levels of stable return to shareholders.

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

A

(Rating announced on October 18, 2017)

Equity ratio

63.2%

(as of March 31, 2018)



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

► P.56-57, P.105 (Global Operations, azbil Group Companies Data)

The azbil Group is not only a manufacturer but also a long-term 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, which go beyond Group companies and business segments, we aim to create value with customers at their sites.

Number of bases

Japan... **204** bases

Overseas... **110** bases

(as of March 31, 2018)

Over 100 years, has amassed a wealth of advanced automation technologies to help customers resolve their problems. We will continue aiming for and challenging the future, with a business structure consisting of three segments, as well as a sound financial constitution.



Advanced Automation Technologies and Abundant Know-how

► P.34-45, P.47-49 (Business Introduction, Business Overview, 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 we cultivated through our pursuit of automation technologies in a wide range of fields over more than a century, the azbil Group contributes to solving problems and reducing environmental burdens for customers and society.

CO₂ emissions reduction at customers' sites through our products, services, and solutions

3,280,000 tons of CO₂

(Year ended March 31, 2018)

For details, please see "Environment" on page 13.



Human Resources with Advanced Specialist Expertise

► P.54-55, P.78-79 (Human Resources, Responsibility to Employees)

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. In addition, we are creating a working environment where our employees can actively exert their skills through various human resource measures.

Azbil Academy: Number of annual students
(total number of students)

Approx. 70,000 people

*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)

Approx. 2,600 people

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

The Social Values Created through the azbil Group's Operations



Through our business activities, the azbil Group strives to materialize the Group philosophy of realizing safety, comfort, and fulfillment in people's lives and contributing to global environmental preservation through "human-centered automation."

Safety

To live and work in good health and in safety

- Measuring equipment and programs, which detect malfunctions and help address them, as well as facility monitoring systems play a role in the safe operation of manufacturing facilities to ensure there are no accidents.
- Various systems, including those that manage access or automate dangerous work processes and prevent errors, enable the safe operation of facilities and safeguard people who work in offices or factories.
- We provide various equipment and applications that manufacture high quality and safe food and pharmaceuticals, as well as conduct management ensuring a stable supply of water, electricity, and gas to your doorstep.

Comfort

To always live and work in comfort

- Measuring and analyzing the state of various indoor air environments in offices, factories, and homes, then making detailed adjustments such as to temperature, humidity and air volume, and removing dust, pollen, and other particles in the air create comfortable spaces with minimal temperature differences between areas.
- Automation and information technologies boost work quality and efficiency, which in turn improve productivity and quality and lead to better working environments and, by extension, support enhanced customer and user satisfaction and improved work styles for people.

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.
- We support customers' businesses by leveraging our extensive know-how, including the use of contracts that guarantee energy-saving effects and a range of subsidy and support systems.

Environment

To optimize the management and usage of energy

- In buildings, energy is conserved and cost is reduced by adjusting the operation and management of air conditioning equipment to match a building's scale and purpose, and by upgrading or renewing facilities, including making optimal use of energy sources.
- 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.
- The visualization of the usage conditions of energy leads to the provision of the best solutions for energy conservation while maintaining comfort and quality to conserve energy.

Through our products, services, and solutions, we contribute to environmental impact reduction for society. The amount of CO₂ emission reduction at our customers' sites in the fiscal year ended March 2018, which totaled 3,280,000 tons of CO₂, is equivalent to approximately 1/400 of all CO₂ emissions in Japan (approx. 1.3 billion tons of CO₂). The scope of these estimates has been expanded to reflect the international expansion of our businesses.

*In order to assess the contribution to 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. Differences were estimated as reduction effects with the assumption that customers did not adopt our products, services or solutions at their sites. Global effects of reduction are partially based on our own concept.

CO₂ emission reduction at customers' sites
(fiscal year ended March 2018)

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.



2,880,000
tons of CO₂

Energy management effects

We have reduced environmental impact, taking advantage of our energy management solution, to achieve reduction in electricity consumption, energy consumption, and CO₂ emissions.



280,000
tons of CO₂

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 know-how acquired at customers' sites.



120,000
tons of CO₂

CO₂ emission reduction at customers' sites (fiscal year ended March 2018)

Total: 3,280,000 tons of CO₂

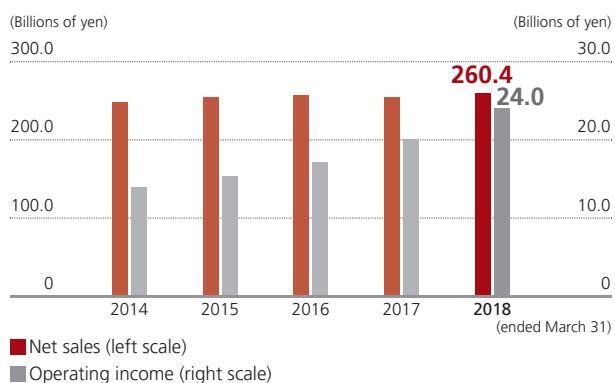
Please refer to our website for details on the calculations.

https://www.azbil.com/csr/basic/environment/core_business_activities/contribution/contribution-to-the-environment/index.html

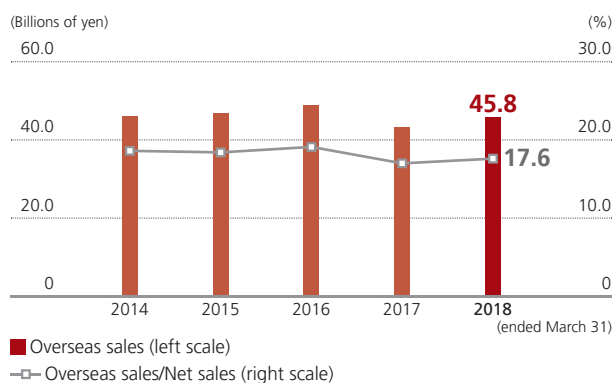
Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

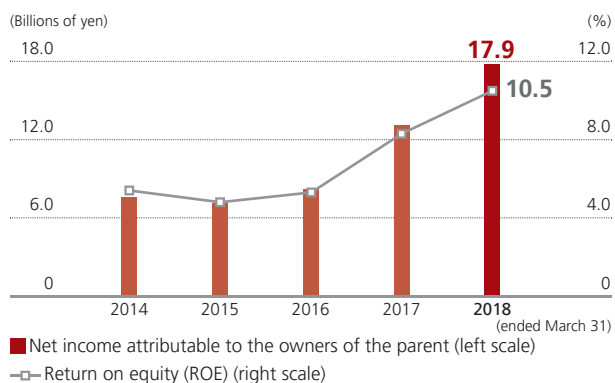
Net Sales, Operating Income



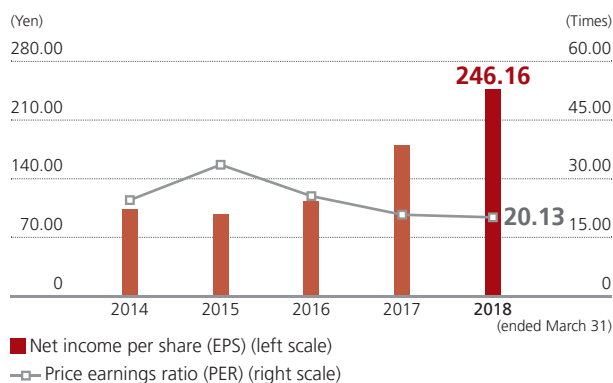
Overseas Sales, Overseas Sales/Net Sales



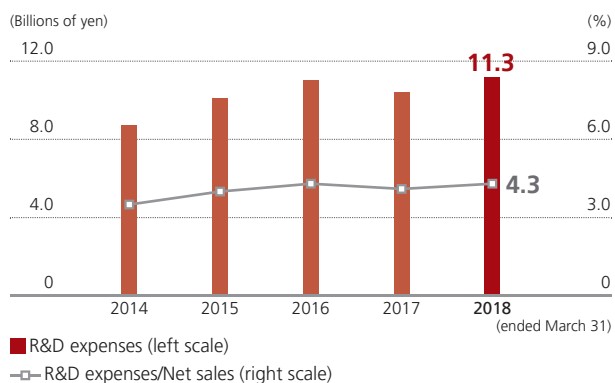
Net Income Attributable to the Owners of the Parent, Return on Equity (ROE)



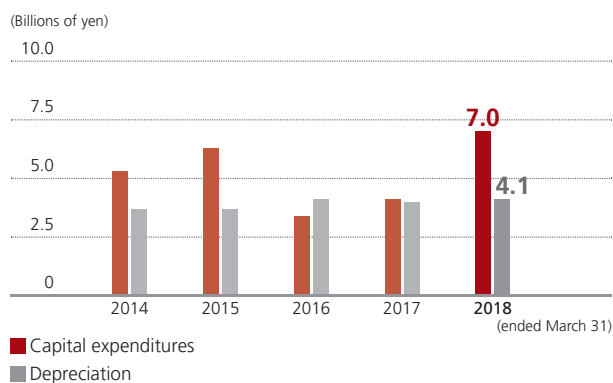
Net Income per Share (EPS), Price Earnings Ratio (PER)



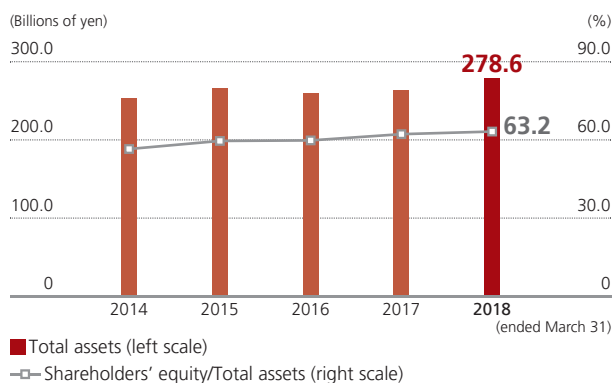
R&D Expenses, R&D Expenses/Net Sales



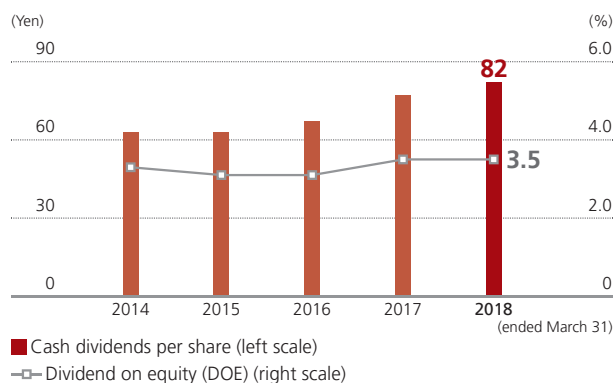
Capital Expenditures, Depreciation



Total Assets, Shareholders' Equity/Total Assets

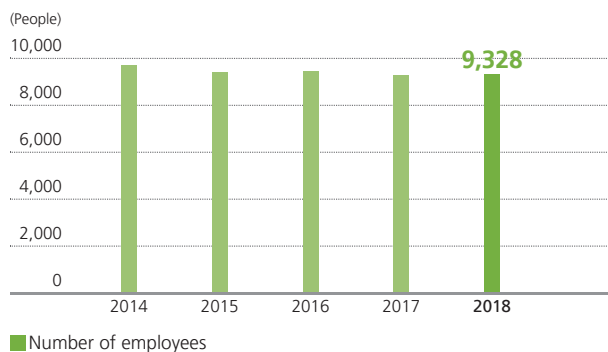


Cash Dividends per Share, Dividend on Equity (DOE)



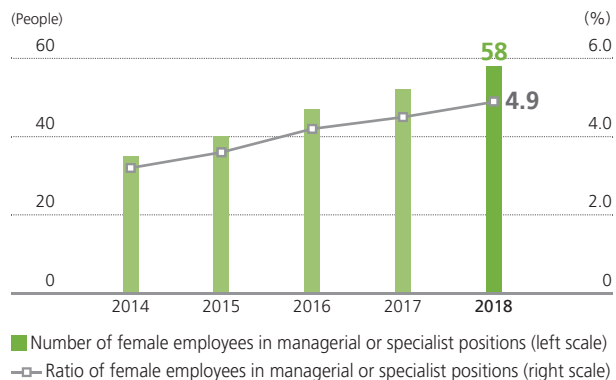
Number of Employees

(as of March 31)



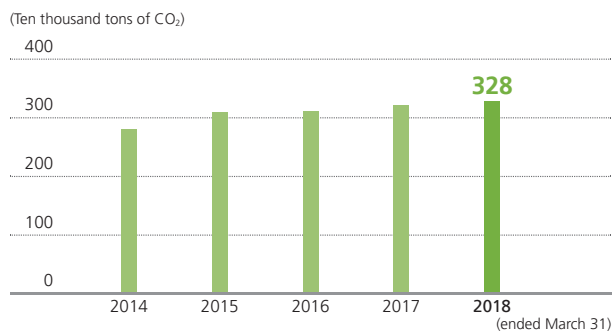
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions

Azbil Corporation (as of April 1)



CO₂ Emission Reduction at Customers' Sites

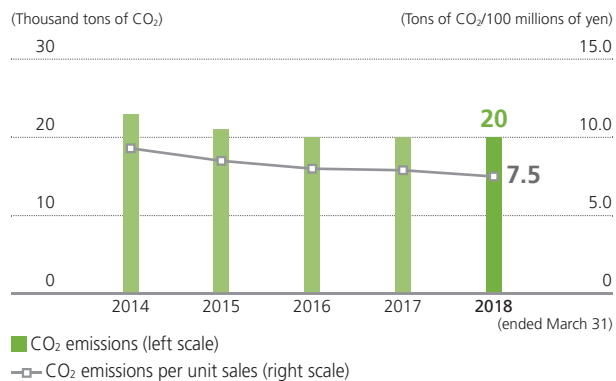
Azbil Corporation and its overseas subsidiaries*



*Steadily expanding since the addition of overseas subsidiaries in FY2014.

CO₂ Emissions (Scope 1, 2) and CO₂ Emissions per Unit Sales

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



The Past Year at the azbil Group

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

Topics

May 9

Registered as an energy management service provider that supports energy conservation initiatives, including an azbil-led consortium, factories and offices for the fourth consecutive year

June

Included in the FTSE4Good Index Series (a leading socially responsible investment index) for 11th consecutive year



FTSE4Good

June 5

Azbil Kimmon starts a joint verification project that leverages the Low Power Wide Area (LPWA) network for the purpose of rationalizing LP gas distribution

August 4

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



August 25

Included as a constituent stock in three ESG indices newly selected by Japan's Government Pension Investment Fund (GPIF)

September 11

Azbil Security Friday ties up with Allied Telesis Holdings K.K. on Secure Enterprise SDN (SES) solutions

September 12

Receives the 21st Engineering Education Award (Achievement Category) from the Japanese Society for Engineering Education

2017

April

May

June

July

August

September

Products/ Services



LA May 19

Azbil Kimmon starts sales of a new intelligent LP gas meter



AA July 20

Multi-loop controllers with multi-function display wins the Distinctive Merit Award at the 47th Machine Design Award

AA September 13

Scheme adopted using Azbil as an energy management service provider in projects, including in steel and chemical markets, for the fourth consecutive year

BA September 22

Expands a line-up of high-performance valves for air-conditioning systems overseas



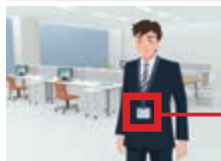
AA October 4

Compact digital mass flow controller wins a Good Design Award 2017

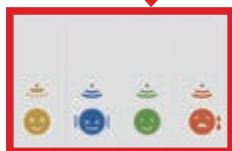


September 20

Starts joint validation testing for a thermal sensation voting air conditioning system that responds to the preferences of all building occupants



Portable "Thermal sensation voting card" for people in the room



Light Cold Comfortable Hot

December 3

Co-sponsors the 12th Shonan International Marathon (Japan) and supports efforts to reduce environmental burdens



December 15

Receives the 3rd Mukaidono Safety Award that recognizes companies and organizations that have contributed to improving safety in manufacturing

March 29

Announces the establishment of the "Strategic Planning & Development Office for Southeast Asia" in Singapore in April



February 22

An azbil employee wins the 7th Monodzukuri Nippon Grand Award for the development of a real-time aquatic microbe detector

February 23

Recognized as a "White 500" company under the 2018 Certified Health and Productivity Management Organization Recognition Program



October 20

The azbil Honey Bee Club provides ¥6 million in support for social welfare associations and other organizations

October 31

Receives technology and new product development awards from the Society of Instrument and Control Engineers in the year ended March 2018

January 31

Azbil North America establishes a subsidiary in Mexico and begins operation

October

November

December

2018

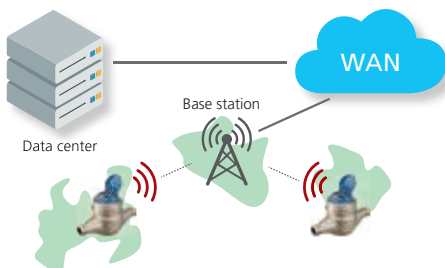
January

February

March

LA November 14

Azbil Kimmon starts operation of automatic reading for water meters using Low Power Wide Area (LPWA)



AA November 24

Starts development of next-generation smart robots with advanced force sensing capabilities



AA November 28

Starts sales of micro flow rate liquid flow meter enabling thermal measurement of micro liquid flow rates

BA January 22

Adds a new BA system responding to IoT and other technical innovations, to the line-up for domestic sales



LA February 5

Azbil Kimmon starts operation of an LP gas data center using cloud services

LA February 7

Azbil Telstar develops an automatic loading and unloading system enabling cleaning and sterilization of pharmaceutical lyophilizers



LA March 27

Announces launch of tablet remote controller, able to control residential central air-conditioning systems



Interview with the CEO

- Q1. Vision
- Q2. Initiatives of medium-term plan
- Q3. Fiscal 2017 performance
- Q4. Changes in targets and business strategies
- Q5. Progress status of each business segment policy
- Q6. Status of global development
- Q7. Reinforcement of Group-wide operational foundation
- Q8. Capital policy
- Q9. Strengthening corporate governance
- Q10. Addressing moves toward ESG evaluation
- Q11. Outlook for fiscal 2018



New Record-high Earnings

Targeting further highs, we will accelerate our growth strategy from medium-to-long-term perspectives, while steadily developing systems to enable sustainable growth.

Hirozumi Sone
President and Chief Executive Officer
Azbil Corporation

Q1

What kind of vision is the azbil Group aiming to realize?

We aim to become a global company that deploys cutting-edge technology driven by “human-centered automation” to help realize a future society and industry with a balance between economic development and solving social issues.

The azbil Group has pursued automation technologies for more than a century. Automation is the core technology that supports the basic cycle of achieving targets, accomplished by setting targets and analyzing situations to identify issues, then appropriately addressing those issues. This technological domain will continue to evolve as we incorporate new targets and technologies into the cycle. We have achieved ongoing growth by advancing our business with automation at its core. This goes beyond simply controlling machines. Rather, it is as a characteristic unique to the azbil Group passed down by its founder, who emphasized the notion of “using the power of

technology to free people from drudgery.” Accordingly, we have refined various technologies and services based on the idea of always focusing on people to solve problems.

This quest for automation derives from a corporate culture built on DNA inherited since our foundation. The quest has then brought us to establish our philosophy “human-centered automation,” which aims to bring improvements in comfort and productivity and ultimately give people a sense of satisfaction, as well as its symbol and our current name, “azbil” (automation zone builder). Currently, we are practicing management with this philosophy at the core. We recognize that

the azbil Group's corporate values take shape through a process of co-creation together with our various stakeholders—including shareholders, customers, suppliers, employees, business partners, and society. We adopt a broad interpretation of corporate social responsibility (CSR), positioning “basic CSR” as what we must fulfill in order to exist in society and “proactive CSR” as helping resolve social issues through our core business and the like. We see our corporate value through implementation of both basic CSR and proactive CSR, and practice “CSR-focused management” driven by both perspectives in a balanced manner unique to the azbil Group.

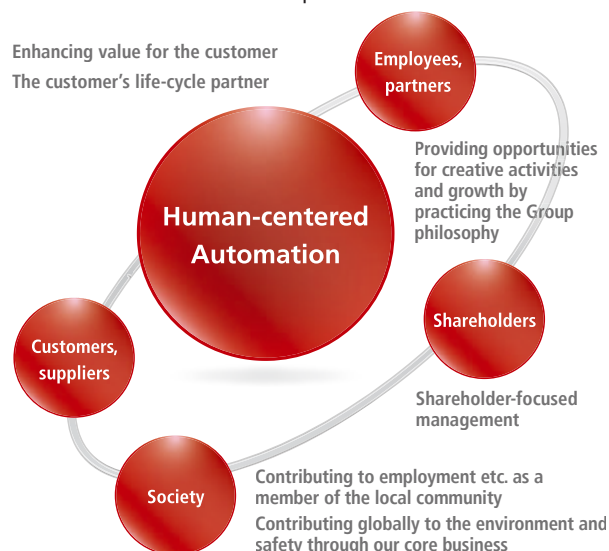
On the business front, based on this “human-centered” perspective, we have leveraged our proprietary automation technologies to advance our operations in three market segments, each with different characteristics, in order to spread our business environment risks. These segments—Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)—are now steadily expanding their respective business domains, taking advantage of the sophistication of social issues and technological progress in such areas as IoT, big data, and AI. At the same time, in addition to developing and making high-quality products as a manufacturer, we are enjoying increasing opportunities to offer varying services.

With advances in information and communication technology (ICT), it is now possible to narrow down big data via the Internet, and to use AI to make complex decision-making tasks and provide associated services. Indeed, the so-called “fourth industrial revolution” aimed at resolving multiple social issues is making good progress. In its 5th Science and Technology Basic Plan (fiscal 2016–2020), meanwhile, the Japanese government proposed “Society 5.0^{*1}” as a human-centered so-

ciety that balances economic development and solving social issues. This can be overlaid with our future vision. In other words, the azbil Group, envisioning a world-leading “super-smart society,” will combine its cutting-edge automation technologies and services with the “human-centered” concept. Our aim here is to become one of the world's leading corporate groups that helps build a society in which humans and technologies collaborate at a more advanced level.

^{*1} Society 5.0: One of the basic guidelines of the science and technology policy proposed by the Japanese government in the 5th Science and Technology Basic Plan (fiscal 2016–2020). Its predecessors are Society 1.0 (Hunting society), Society 2.0 (Farming society), Society 3.0 (Industrial society), and Society 4.0 (Information society). Society 5.0 is a “super smart society” in which, driven by the fourth industrial revolution, a succession of new values and services are created to enrich people's lives. Through its pursuit of “human-centered automation,” the azbil Group will help realize a society and industry envisaged by Society 5.0 by creating and providing new levels of value in automation.

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



Q2

Please describe the direction of initiatives under the Group's medium-term plan aimed at achieving long-term targets for fiscal 2021.

We are driving aggressive management with a focus on expanding business areas earmarked for sustainable growth.

The current medium-term plan (fiscal 2017–2019) is the second step towards achieving our long-term consolidated targets for fiscal 2021, specifically, net sales in the ¥300.0 billion range, operating income of ¥30.0 billion or higher, and ROE of 10% or higher. It is positioned as a three-year period for establishing a business foundation enabling us to secure business growth and high-level profits after the Tokyo Olympic and Paralympic Games in 2020, while aggressively promoting reforms of governance, compliance, and human resource de-

velopment related to corporate sustainability.

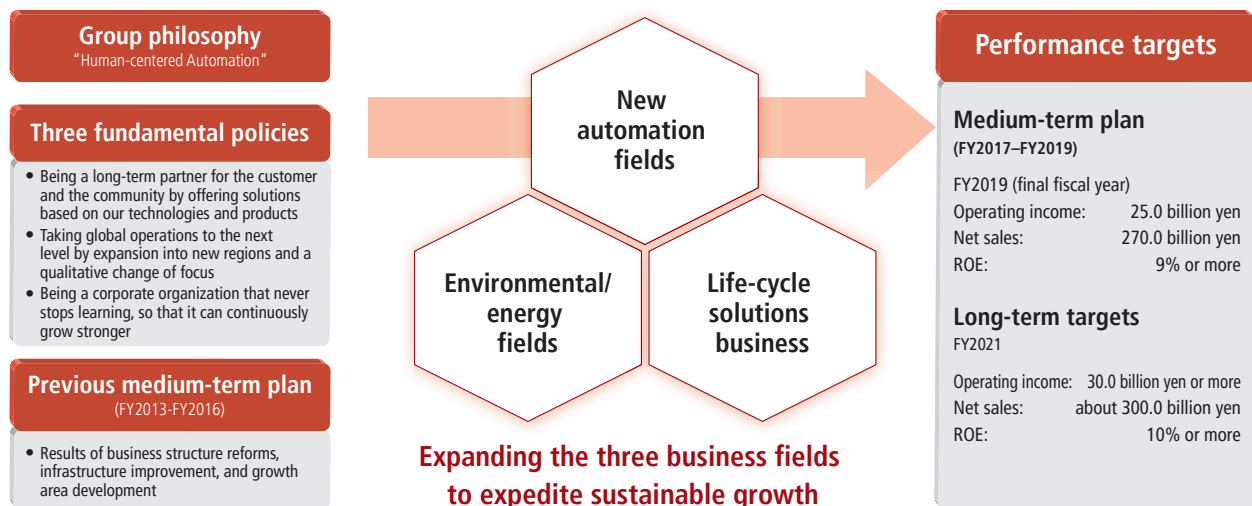
Specifically, we are focusing on more aggressive management to implement the three fundamental policies of the plan: (1) Being a long-term partner for the customer and the community by offering solutions based on our technologies and products; (2) Taking global operations to the next level by expansion 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. Guided by

Interview with the CEO

these policies, we are promoting new product development and strategies through three fields: “Strengthen life-cycle solutions business” (supply value matched to each development stage of the life cycle of a customer’s business), “Develop new automation fields” (respond to innovation born from combining “things” and information), and “Expand environ-

mental and energy fields” (provide solutions to the long-term issues of environmental impact reduction and energy demand restraint). In fiscal 2019, the final year of the plan, we are targeting consolidated net sales of ¥270.0 billion, operating income of ¥25.0 billion, and ROE of 9% or higher.

Medium-term Plan (fiscal 2017–2019): Policies and Targets



Q3

Please describe the Group’s performance in fiscal 2017, the first year of the medium-term plan.

We achieved a significant increase in earnings thanks to successful efforts to improve profitability, with the help of a healthy business environment.

Against the backdrop of vibrant investment in domestic urban redevelopment, demand for equipment and systems for large buildings remained at high levels, while capital spending on production facilities was solid both in Japan and overseas. In this business environment, we made aggressive efforts to increase orders, generating a 4.4% year-on-year increase in orders received*2, to ¥266.3 billion.

By segment, the Building Automation (BA) business posted a decline in overall orders received due to recoil from the previous year, during which we attracted large-scale multiple-year contracts. However, the Advanced Automation (AA) business and Life Automation (LA) business both reported significant year-on-year increases in orders received.

Consolidated net sales rose 2.2%, to ¥260.4 billion, buoyed by sales increases for all three segments, especially the BA and AA businesses. On the earnings side, operating income grew 19.3% year on year, reflecting higher sales and our renewed efforts to enhance profitability from the previous fiscal

year. Indeed, operating income exceeded our planned target, reaching ¥24.0 billion, a record-high figure. Ordinary income climbed 18.8%, to ¥24.3 billion, mainly due to the increase in operating income. Net income attributable to owners of the parent rose considerably, up 36.0% year on year, to ¥17.9 billion. In addition to the increase in operating income, this was due to a number of factors, including a gain on sales of investment securities, a decrease in loss on liquidation of subsidiaries and affiliates, and a reduction in tax expenses following a reappraisal of the recoverability of deferred tax assets of a subsidiary. As a result, return on equity (ROE) at fiscal year-end was 10.5%, showing a steady improvement. (Excluding the temporary impact of the gain on sales of investment securities and the reduction in tax expenses of a subsidiary, ROE would have been around 9.5%).

*2. Orders received: Effective fiscal 2017, we have changed the calculation of orders received to exclude foreign currency translation adjustments, following a revaluation of our order backlog.

Q4

The Group's fiscal 2017 results were better than your forecasts. Do you plan to make any changes to your targets and business strategies?

We will step up efforts necessary for sustainable growth while keeping the numerical targets of the medium-term plan unchanged.

We attribute our performance in fiscal 2017 to the outcomes of business and operational structure reforms and the backup of a robust business environment. In addition to redevelopment and infrastructure projects currently under way ahead of the Tokyo Olympics and Paralympics, we benefited from rising investment sentiment toward streamlining operations and saving labor—reflecting labor shortages—as well as ongoing healthy business conditions. If such business conditions continue, it will become increasingly possible for us to deliver business growth in excess of that projected under our current medium-term plan. However, we foresee various elements of uncertainty as we look ahead to fiscal 2019, the final year of the current medium-term plan, and also to our long-term targets for fiscal 2021. These include expected contraction of the

domestic market stemming from the aging, declining population, as well as issues like trade frictions between the United States and China on the global economic front. Capital investment sentiment is also uncertain, especially in light of limited domestic demand and lack of optimism about its longevity.

Therefore, although we recognize the considerable progress of our reform initiatives, we will keep our fiscal 2019 targets unchanged as we further strengthen profitability and expedite efforts to expand our business domains, to enable swift, accurate responses even under changing business conditions. At the same time, we will actively make investments necessary to reinforce our business foundation, from the perspectives of meeting our fiscal 2021 targets and achieving sustained growth thereafter.

Q5

Please describe the progress of measures taken in each business segment.

We are ahead of schedule with our various initiatives, while the profit structure of the LA business is also stabilizing.

Building Automation (BA) Business

—Renovation projects with good profitability progressing steadily—
In this segment, we are establishing and strengthening systems enabling efficient job processing, while responding steadily to demand for a number of new construction projects that are expected to continue in the lead-up to the Tokyo Olympic and Paralympic Games. These projects will lead to business opportunities through life cycles of buildings, such as services and renovation of existing structures. Regarding new building construction projects, demand is leveling off due to avoidance of the redevelopment rush before the Olympic Games and labor shortages, so we do not foresee a major fall in demand after the Games, which was a temporary concern. In addition, we expect demand for renovation of existing buildings to expand after 2020. Accordingly, we are actively making proposals to capture renovation demand for existing buildings earmarked for growth, while steadily addressing demand for new building construction projects. The increase in these existing building renovation projects, which are highly profitable, will help us improve this segment's profitability in

the future. In fiscal 2017, meanwhile, we introduced building automation systems to address customers' needs throughout the life cycles of their buildings and facilities, by embracing IoT and other technological trends and strengthening open networks. On the global front, we steadily built on our track record of achievements in landmark projects in Asia.

Advanced Automation (AA) Business

—Profit improvement exceeding expectations—

In this segment, we are focusing on efforts to improve profitability and expand businesses in overseas and other growth markets. Specifically, we are entrenching operations in our three business sub-segments*³ and meticulously addressing needs from upstream to downstream via our integrated system, covering everything from marketing to development, production, sales, and services. In the domestic petroleum and chemical sectors, we are deploying IoT, big data, and other technologies to advance into new domains, such as smart industrial safety system, while working to improve profitability in areas where demand is stable, notably main-

tenance and equipment replacement. In addition, we are introducing products that support automation in a variety of production processes. These include high-precision laser sensors for cutting-edge growth markets in Japan and overseas, notably semiconductor devices, flat panel displays (FPDs), and rechargeable batteries.

As a result, in fiscal 2017, we achieved an improvement in profit that exceeded the forecasts of our plan. Going forward, we will continue striving to enhance profitability. At the same time, we will expedite efforts to expand our business in high value-added domains by concentrating human and other managerial resources in areas where the azbil Group can demonstrate its strengths. These include semiconductor manufacturing equipment, high-performance materials production equipment, and combustion-related equipment.

*3. Three business sub-segments (for accounting purposes):

Control Product (CP) business: Supplying factory automation products such as controllers and sensors, etc.

Industrial Automation Product (IAP) business: Supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.

Solution and Service (SS) business: Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.

Life Automation (LA) Business

—Progressively building a stable earnings structure—

In the LA business, as well, we are seeing the benefits of our business restructuring and business infrastructure development as we establish a stable earnings structure. In addition, we are opening and entrenching our presence in new fields, taking into account advances in the deregulation of the domestic gas market, as well as IoT and other technological innovations. For example, we developed a new intelligent LP

gas meter with a built-in communication module compatible with LPWA*4 networks, and we are participating in verification projects for remote measurement of meter reading values. In the Life Science Engineering (LSE) field, we have developed an automatic loading and unloading system for freeze-drying equipment that contributes to improved safety and productivity of pharmaceutical manufacturing. Going forward, we will continue striving to stabilize and improve the profitability of each of this segment's business fields. At the same time, we will demonstrate Group synergies that transcend segment lines to create business opportunities in the market for gas and other energy supply, while developing new products and services in response to changes in the global pharmaceuticals market.

*4. LPWA (low power wide area): A wireless communication technology that enables long-distance communication using much less power than previously; it is expected to be utilized in IoT development.



Q6

Overseas capital investment is strong, but what is the status of global expansion, which you have identified as a growth field?

We aim to improve our brand's strength overseas by advancing a business model unique to the azbil Group, with solutions as the main component.

In the face of progressive economic globalization, the azbil Group has earmarked overseas markets as a growth field as it works to further solidify its business foundation as one of its basic policies. Currently, we are strengthening our sales and service network and broadening our procurement and production system to target overseas business growth.

In the process, we have identified some regions and businesses that require partial strategic reassessment, but this experience has enabled us to accumulate various knowledge and deploy new response measures. We are now entering the stage in which we can book profits from the upfront investment phase, allowing us to witness a certain level of progress.

Under our current global expansion, we have identified several key challenges for achieving the next stage of growth: accumulate a proven track record, leverage that track record to build relationships of trust with customers, and improve our brand power. In the BA business, therefore, we focused on acquiring projects at core buildings, commercial facilities, airports, and the like in each nation. During the year, we introduced state-of-the-art building automation systems, featuring advanced environmental controls that integrate leading-edge technologies, into Thailand, Singapore, and other overseas markets ahead of the domestic market. As a result of these efforts, we have created a business model originating in Ja-

pan that provides comfort and energy savings at each stage of the building's lifecycle. This model is gradually being acknowledged in Asian countries, helping us add to our record of achievement.

In the AA business, as well, several offerings unique to the azbil Group have received high praise overseas on a par with Japan. These include "smart industrial safety system" services and systems, such as remote maintenance for valves and anomaly monitoring systems incorporating advanced sensing, analysis, and AI technologies, as well as laser sensors that measure position, thickness, width, and other aspects of materials, including high-performance film, during the various processing and assembly processes of manufacturing. We are also receiving more and more inquiries about solutions offered by the azbil Group in specialized fields in markets related to chemical and other process automation, as well as markets related to factory automation equipment, such as semiconductor manufacturing equipment and rechargeable battery manufacturing equipment.

Our greatest assets are the deep relationships of trust we have cultivated as we have addressed strict demands from

customers seeking to create and produce environments with world-leading levels of comfort on a global scale, as well as our in-depth business development covering entire life cycles, derived from our provision of advanced technologies and services. Products and applications born from these assets, as well as solutions that augment our services, represent the source of the azbil Group's unique identity and competitiveness. With respect to expediting our global expansion, we opened the Strategic Planning & Development Office for Southeast Asia in Singapore. This new office is responsible for cross-divisional planning, strategic, and management functions. Looking ahead, we will further strengthen our systems in each country. This will include developing human resources to provide solutions across the life cycles of our customers' equipment, even in overseas markets. We will also actively build partnerships, including through M&As, with domestic and foreign companies with strengths in products, sales and service networks, and other areas. In overseas markets, we will leverage the azbil Group's strengths to develop business models and domains and thus further expand our operations.

Q7

How do you plan to reinforce azbil's Group-wide operational foundation to achieve sustainable growth?

In addition to continuously strengthening Group governance, we are forging ahead with new initiatives in production and R&D. Also, we are creating environments enabling individuals to more smoothly demonstrate their capabilities.

First of all, we are restructuring our production system. In Japan, we will consolidate the production functions of our Shonan Factory and Isehara Factory into the Shonan Factory, which will be positioned as the azbil Group's "mother factory" that will spearhead improvements in the competitiveness of the Group's overall manufacturing in Japan and overseas, by addressing customers' needs for customized and other high value-added production solutions. Our plan is for the Shonan Factory to evolve into a next-generation facility with advanced technological power and production lines. At the same time,

Image of Shonan Factory (scheduled for completion in 2019)



we will invest in facilities and equipment at the Fujisawa Technology Center and embrace cutting-edge key technologies in our quest to further strengthen the azbil Group's unique production technologies. Overseas, meanwhile, we have constructed a new building at the Thailand Factory, through which we will expand the supply of products to Southeast Asia and neighboring Asian countries.

Second, we will deploy IoT and AI technologies to strengthen our responses to demand for innovation across all industries. With the establishment of the IT Solutions Headquarters, we now have a framework in place for accelerating the development of products and services featuring these advanced technologies.

Focusing on human-machine collaboration, meanwhile, we are combining robotics and proprietary advanced devices to develop next-generation smart robots that offer attractive new ways of manufacturing.

Third, we will strengthen Group governance. Specifically, we will establish personnel and mechanisms conducive to business and operational expansion, and we will gradually in-

troduce a core information system to domestic and overseas Group companies so we can roll out these standard mechanisms globally. This will enable us to unify the management of our business activities, which is an urgent issue as we expedite our global expansion.

Finally, we will strengthen our human resources so that we can respond flexibly to the transformation of labor quality stemming from technological innovation and market changes.

Specifically, we will review business processes in response to market conditions and trends in IoT and other technologies. At the same time, we will reform our personnel system to facilitate the development of human resources who promote continuous value creation, and also to support and evaluate their ability to demonstrate their capabilities, based on a consistent concept covering all employees. This will enable us to undertake swift reforms of workstyles and other business structures.

Q8

Please describe your capital policies.

In fiscal 2018, we declared a significant year-on-year increase in dividends, as we did in fiscal 2017. We also implemented a repurchase of own shares.

Seeking to increase shareholder value, the azbil Group promotes a disciplined capital policy. Our aim is to achieve return on equity (ROE) of 10% or higher as a long-term target, while taking into consideration a good balance among the three fundamental objectives of enhancing shareholder return, investing for growth, and maintaining a sound financial foundation. We regard shareholder return as an important management priority. Here, we comprehensively evaluate our consolidated business performance, ROE, and dividends on equity (DOE), as well as the need to retain internal reserves to develop our future business and reinforce our corporate structure. Our shareholder return policy, which centers on dividends, also includes flexible share buybacks. We pay particular attention to maintaining stable dividends while raising their levels.

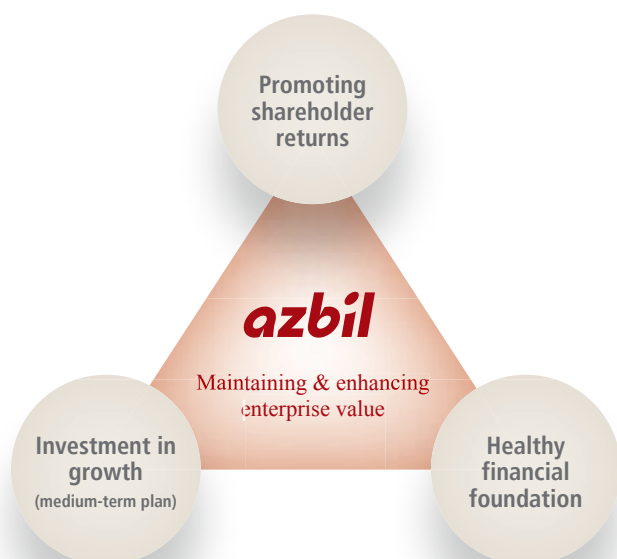
Based on the above policy, we repurchased 710,000 shares (valued at around ¥3.0 billion) in fiscal 2017 as part of our

shareholder return commitment. Buoyed by a solid business performance, we also declared annual cash dividends of ¥82.00 per share (including the interim dividend), as announced in May 2017. In light of the operating environment, as well as our business structural reforms and efforts to reinforce profitability, we will further strengthen returns to all shareholders in fiscal 2018. Specifically, we plan to pay annual cash dividends of ¥92.00 per share, up ¥10.00 year on year, reflecting our forecast for increased earnings from our ongoing business activities, as well as our medium-term plan and prospects for sustainable growth. In addition, at the same time of improving capital efficiency, we are committed to further enhancing shareholder return and implementing flexible capital policies according to changes in the corporate environment in a manner that reflects our performance situation and outlook. With this in mind, we implemented another repurchase of own shares^{*5}, with an upper limit of 1 million shares or ¥5.0 billion in acquisition value, since the close of fiscal 2017.

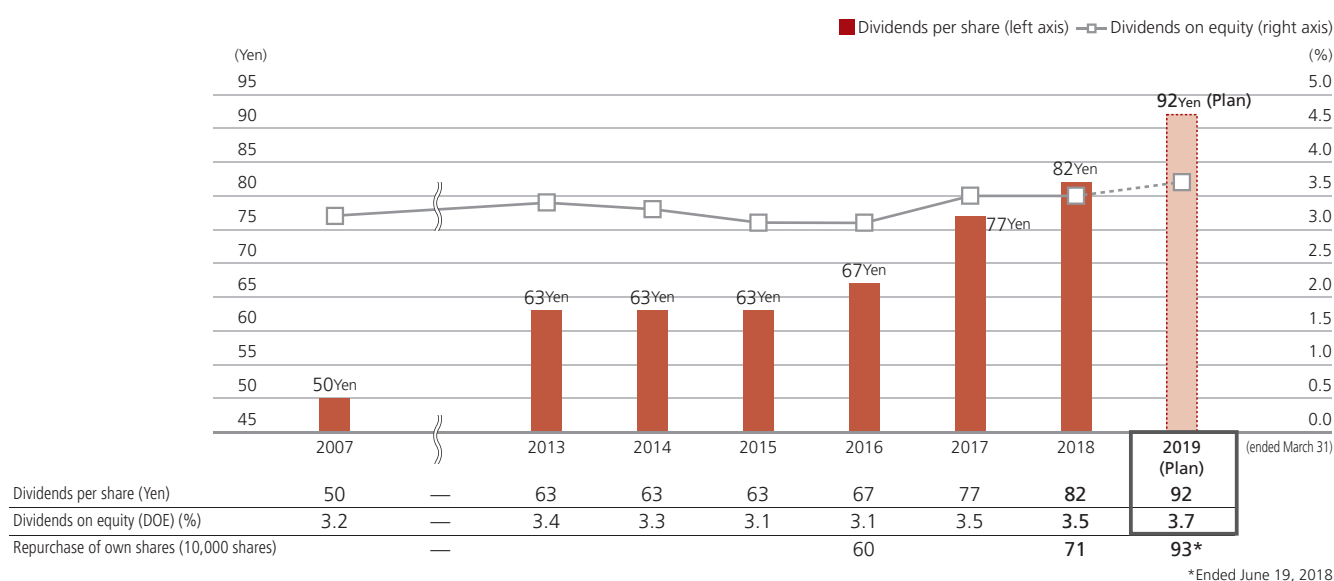
We are also committed to investments aimed at realizing sustainable growth and strengthening our management structure. Accordingly, we will continue striving to further increase shareholder value by retaining earnings and otherwise effectively deploying our capital. Specifically, we will focus on strengthening and expanding our business foundation, including by enhancing our lineup of growth-oriented products and services, while restructuring our advanced global production and development systems. We will also promote M&As and other future growth investments. In addition, we will continue maintaining a sound financial foundation that will enable us to run our business and fulfill our responsibility to supply products even in unforeseen circumstances, such as the occurrence of large-scale natural disasters.

^{*5} Completion of repurchase of the Company's own shares: The Company repurchased 936,200 shares, for a total acquisition value of ¥4,999 million, between May 14 and June 19, 2018.

Basic Capital Policies



Trend in Returning Profits to Shareholders



Q9

What kind of initiatives are you taking to strengthen corporate governance?

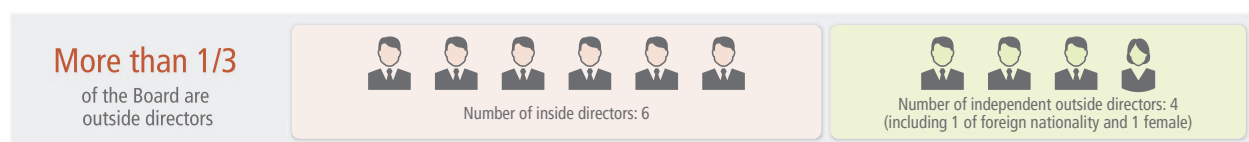
We will increase the number of independent outside directors to strengthen the oversight function and expand diversity. We will also pursue higher management transparency by abolishing the counselor and advisor system.

For some time, the azbil Group has been working to strengthen corporate governance as a priority issue while creating a stable, highly profitable structure that earns high praise from shareholders and other investors. Following deliberations held by the Nomination and Remuneration Committee, of which outside directors form the majority, in fiscal 2017 we reorganized the remuneration system for inside directors, replacing it with a performance-oriented system linked with the Group's long-term targets and medium-term plan achievements. In fiscal 2018, we increased the number of our independent outside directors from the current three to four, so that our outside directors account for more than a third of our Board of Directors. As a result, we strengthened the management oversight and diversity, not only with respect to professionalism, experience, and knowledge, but also nationality and gender. We look forward to receiving various valuable opinions from outside directors as we target sustainable company growth and increased corporate value in the future. In addition, the

Board of Directors resolved to amend the Company's Articles of Incorporation to abolish the system of counselors and advisors, established to advise the president, having deemed that such a system is no longer necessary. Going forward, we will continue enhancing management transparency and further strengthening corporate governance.

In light of a recent revision of Japan's Corporate Governance Code, we have sought continuously to ensure objectivity and transparency through a policy of reducing company strategic shareholdings and that of appointing and dismissing executives. We are also striving to enhance timely, appropriate dialog with all stakeholders, including shareholders and other investors, in an initiative spearheaded by our executive officer in charge of corporate communications. Through these activities, we will continue strengthening corporate governance to deliver sustainable growth and increased corporate value over the medium and long terms.

Composition of the Board of Directors (as of June 26, 2018)



Note: The Chairman of the Board does not concurrently hold an executive position.

Q10

How are you addressing moves in the capital markets to evaluate companies' ESG initiatives?

We are implementing “CSR-focused management” unique to the azbil Group. As a result, our shares have been included in several ESG^{*6}-related indices.

As mentioned earlier, the azbil Group practices various policies based on its unique “CSR-focused management” approach, which transcends the notion that “CSR equals social responsibility.” In fiscal 2017, the Company was included in the FTSE4Good Index Series, a leading socially responsible investment (SRI) index, for the 11th consecutive year. We were also included as a constituent stock in ESG indices^{*7} newly selected by Japan's Government Pension Investment Fund (GPIF), one of the world's largest pension management organizations.

The inclusion of our stock in multiple ESG-related indices illustrates the high evaluation of our ongoing ESG-related initiatives under our unique CSR-focused management approach.


Recently, the spotlight has been on the Sustainable Development Goals (SDGs) adopted by the United Nations. Since our establishment, we have emphasized our “human-centered” perspective and actively sought to resolve global envi-

ronmental and other social issues. We believe there is a high correlation between these activities and the SDGs.

Rather than engage in small-scale initiatives to address ESG-focused trends in the capital markets, we believe that benefiting society through our core business—based on our Group philosophy of “human-centered automation”—will lead to both better ESG outcomes and achievement of the SDGs. With this in mind, we will fully demonstrate our approach to practicing CSR-focused management in a sincere manner, and thus earn recognition of the azbil Group's growth potential and sustainability. As a result, we will continue striving to remain included in various ESG-related indices.

^{*6} ESG: A collective term covering three elements—environment (E), social (S), and governance (G)—that is used to determine a company's ability to grow in a sustainable manner. It is often used for reference as an investment indicator.

^{*7} ESG indices: FTSE Blossom Japan Index, etc.

 Please refer to “SDG Initiatives” on pages 70-71 for more information about SDGs.

Q11

What is your performance outlook for fiscal 2018?

We will target further record-high earnings by stepping up business strategy implementation and profitability improvement.

In fiscal 2017, the first year of our medium-term plan, we achieved better results than planned, thanks to the significant progress of our business measures and profitability improvement efforts, buoyed by a robust business environment. In fiscal 2018, as well, we expect domestic and overseas business conditions to remain favorable. Based on this assumption, we will step up business measures and efforts to improve profitability that produced good outcomes in fiscal 2017. At the same time, we will make forward-looking investments—including in R&D and enhancement of our production system—aimed at establishing a business foundation to permit sustained future growth. As a result of such investments, we forecast an 8.2% year-on-year increase in operating income, to ¥26.0 billion—another record-high figure following fiscal 2017—as well as a 2.5% rise in net sales, to ¥267.0 billion.



Financial Targets and Non-Financial Priority Initiatives

Financial Targets

	Operating Income	Net Sales	ROE
Long-term targets (FY2021)	¥30.0 billion or more	About ¥300.0 billion	10 % or more
Medium-term plan (FY2019)	¥25.0 billion	¥270.0 billion	9 % or more

Non-Financial Priority Initiatives

Entrench Basic CSR

P.66

We will strive to prevail for a long time without sacrificing social trust and corporate value, by fulfilling our fundamental obligation to perform as a member of society.

1. Promote systematic CSR and practice the PDCA cycle across the entire azbil Group
2. Raise awareness of compliance issues and encourage corresponding action
3. Expand internal control system to entire group and strengthen comprehensive risk management system

Strengthen Corporate Governance

P.58

Promote efficient, highly transparent management in order to ensure accurate, swift decision-making and business operations for sustainable growth and thus earn the trust of the capital markets.

1. Strengthen the supervision and auditing functions, including by appointing and increasing the number of independent outside officers
2. Make various efforts to strengthen management transparency and soundness
3. Make efforts to clarify responsibility system related to corporate governance management and promote dialogue

Business Management that Values People

P.54,P.78

Foster diverse human resources who can make “a company that never stops learning” a reality, and establish environments enabling all people to fully demonstrate their abilities, in order to raise employee motivation and achieve sustained company growth.

1. Nurture human resources according to theme (global, diversity, solutions, etc.) in order to flexibly address changes in the business environment
2. Implement various personnel policies emphasizing both “work-style reforms” and “diversity promotion”
 - Revitalize the corporate culture and improve workplace environments to realize healthy and happy lives for employees
 - Promote the active participation of women and otherwise strive to promote diversity

Environmental Initiatives

P.13,P.72

Deploy measurement and control technologies to focus on solving issues faced by customers and society (including the environment and energy) as business opportunities, while contributing to the realization of a sustainable society.

- Deploy azbil Group's unique measurement and control technologies to:
1. Reduce the environmental impact of its own business activities
 - Conserve energy and electricity using our own systems, and reduce waste, etc.
 2. Contribute to the environment through our core businesses
 - Use our control technology to make indoor environments comfortable and measurement and control technology to optimize equipment and facility operation

Responsibility to Outside Stakeholders

P.76

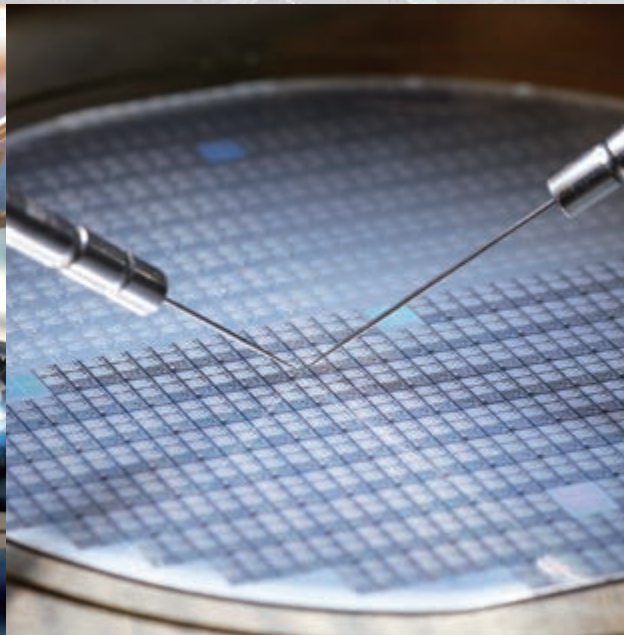
Appropriately consider our various stakeholders when engaging in management and communication activities, in order to facilitate proper corporate evaluation by the capital markets, hiring of talented people, and improving the azbil brand.

1. Return profits to shareholders and promote timely, appropriate information disclosure and active dialogue
2. Emphasize voluntary social contribution activities in addition to benefiting society through our core business
3. Provide high-quality, safe, reliable products and services to customers
4. Emphasize CSR-oriented procurement activities throughout the entire supply chain



Leveraging accumulated technology, knowledge and know-how to deliver new innovations for future society

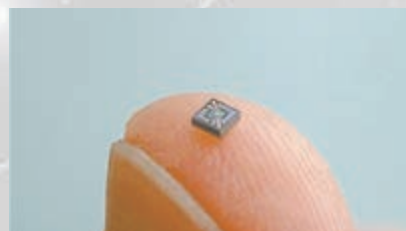
The emergence of technological innovations, such as IoT and AI, has prompted a realignment of existing product domains, including systems, applications, networks, controllers, sensors, and devices. The azbil Group is focusing on two areas: equipment that performs various onsite measurements of buildings, factories, and plants; and applications that add value to information collected by such equipment. We are concentrating on developing core technologies and fostering human resources while working to develop products aimed at cultivating new fields of automation.



Core Technology

Intelligent Devices

—Deploying Our Strengths in Measurement Technologies



Measurement devices are the main product of the azbil Group. Our devices are fitted with our proprietary micro-electro-mechanical systems (MEMS) sensors to detect pressure, flow rate, and humidity. In order to create competitive products for the future, we must improve the performance and ensure the stable supply of MEMS sensors, which are key compo-

nents. In addition to improving MEMS sensor performance by pursuing further miniaturization, we will target advances in measurement devices and expand into new business areas beyond that, by exploring new detection principles and using new materials to develop devices that enhance product value.

Developing Applications

Fostering Engineers for the IoT/AI Era

—Deploying Our Strengths in Human Resources with Advanced Expertise

Seeking to foster the next generation of engineers for the IoT/AI era, the azbil Group formulated its “Software Engineer Development Program,” which includes the latest technology trends and practical examples. Under this program, whose members are selected cross-laterally from each department, we endeavor to strengthen the knowledge and skills necessary for realizing high value-added software and advanced engineering services.



Embracing technological innovation to open new automation fields unique to the azbil Group

Core Technology

Actuators

—Deploying Our Strengths in Control Technologies

With respect to smart actuator technologies, which represent one of the azbil Group's core technological developments, we are focusing on the development of related systems and products. For example, we are currently developing a next-generation smart robot, which is a human-friendly robot equipped with force control technology for soft handling, as well as an explore-and-learn function for carrying out precision work



even if only given rough instructions.

We will also pursue advances in fluid control technologies, notably valves and variable air volume controllers.

Applying these control technologies, the azbil Group will develop devices that operate more delicately and safely, in order to realize a society where people and machines can coexist in harmony.

Here, we introduce the azbil Group's latest initiatives aimed at opening up new fields of automation.

Topic 1

Cloud Services for Buildings: Using IoT and AI to Develop Demand-Response and Optimal Heat-Source Operational Support Systems

Our cloud services for buildings apply IoT technology to improve the efficiency of building energy management and facility management work, as well as enhancing convenience for residents.

Recently, we developed two functions by centralizing the management of information on multiple consumers (buildings): a demand response* function to adjust demand for power covering the entire site, and a function that applies AI to support the optimal operation of heat sources.

Utilizing remote control technology cultivated over many years, the azbil Group will help resolve the social challenge of ensuring the reliable supply of electric power.

*Mechanism that encourages people to limit their power consumption at peak times in order to ensure reliable power supply.

Related information: Azbil Corporation is participating in a demonstration project initiated by the Ministry of Economy, Trade and Industry. The project involves using demand response technology to build a virtual power plant. (See page 37 for more details.)

Demand response

We provide an automatic demand response system that receives signals to adjust power supply from the electricity provider and uses a network linking the cloud with its own Building Energy Management System (BEMS) to automatically control multiple energy resources.

Optimal heat source operation support

Supports optimal heat source operation through various functions, including a demand prediction function based on learning from weather information and heat source operation results, and a guidance function that displays optimal operation plans to minimize operational costs.



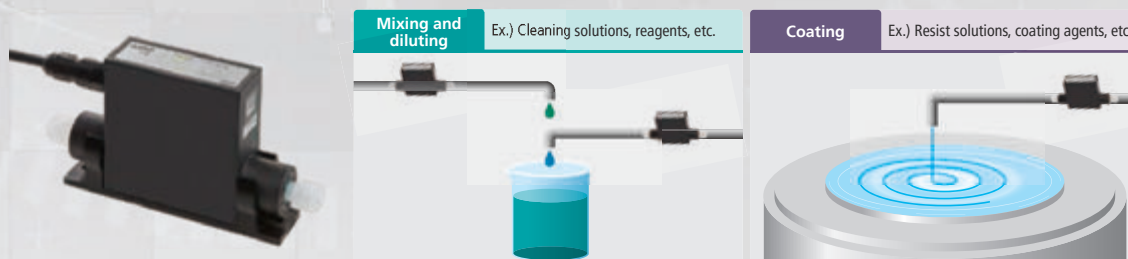
Topic 2

Release of Micro Flow Rate Liquid Flow Meter with High Measurement Performance and Usability

This micro flow rate liquid flow meter performs instantaneous measurements of liquid microflows as low as 30ml/minute or less. It combines our proprietary high-sensitivity thermal MEMS sensor with a highly corrosion-resistant quartz glass flow path, enabling it to measure liquid microflows, which is difficult using conventional methods.

Features of Micro Flow Rate Liquid Flow Meter

- Uses the thermal flow measurement principle based on MEMS sensing technology, enabling measurement of microflow rates of less than 30ml/min, which traditionally has been difficult.
- Compared with other methods, the thermal measurement method allows various types of liquid to be measured easily, because it is mostly unaffected by liquid state (including presence of bubbles and temperature changes), and makes corrections for the different thermal conductivity rates of each liquid.
- In addition to measuring liquid microflow rates, it features as standard an event output function that detects abnormalities (emptiness, air pooling) in the pipe. This, combined with IoT technology, enables better quality control of production processes and detection of process abnormalities.

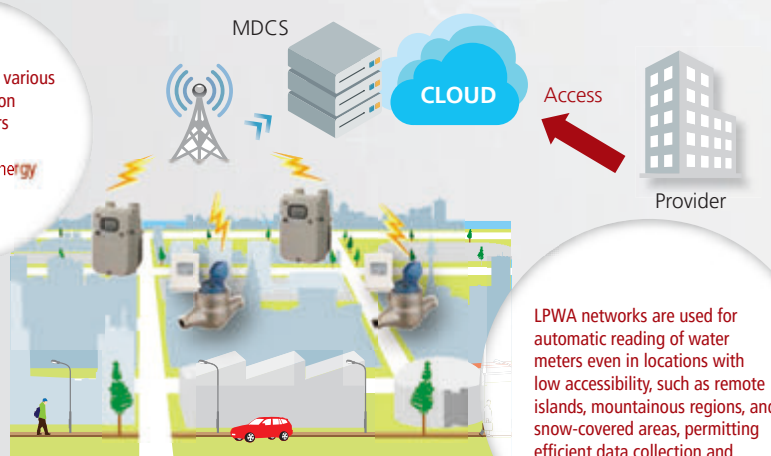


Topic 3

Using Smart Gas and Water Meters for Enhanced Solutions and LPWA to Develop Meter Data Cloud Service (MDCS)

In light of changing business conditions, such as liberalization of the energy market, Azbil Kimmon Co., Ltd. is leveraging smart technologies for gas and water meters to deliver high value-added solutions not seen before. One example is its use of LPWA* wireless communication technology and the cloud to develop an automatic meter reading system and data service.

The MDCS utilizes various kinds of information collected by meters to help customers achieve optimal energy management.



Frequent LP gas meter readings and acquisition of usage amount data make it possible to accurately determine the remaining gas volume in LP gas cylinders. By also using AI for data analysis, we can make optimal deliveries of LP gas cylinders and otherwise help enhance operational efficiency.

LPWA networks are used for automatic reading of water meters even in locations with low accessibility, such as remote islands, mountainous regions, and snow-covered areas, permitting efficient data collection and acquisition of alarm information.

*LPWA: Low Power Wide Area. LPWA is a wireless communication technology capable of long distance communication that requires significantly lower electricity compared to conventional means and is expected to be widely used in IoT.

Topic 4

Development of Next-Generation Smart Robots —Work Robots with Human-Like Movements that Overturn Conventional Robot Wisdom

Using its proprietary measurement and control technologies, the azbil Group has developed a next-generation smart robot with force sensing and visual functions. This robot has delicate craftsman-like force sensing and eyes that can consistently recognize objects. It is able to imitate complex human tasks and can make things in the same way as people do.



Transforming production sites with new technologies

Conventional production site
Production by conventional robot arm



Repeated high-speed, positional operation
→ For simple tasks

After

Site with robot system introduced
Production by azbil Group's robot system



Responds flexibly to changes in parts and environments with tactile sense and vision
→ For tasks requiring skills

Future

Robots with hidden potential will change the future of manufacturing.

With subtle movements and the ability to reproduce things, robots will bring innovation to manufacturing sites. Robots are good at assembly processes. If they can perform their tasks in a more human-like manner, robots will play an active future role in wide-ranging areas.

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

BA

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.



AA

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.



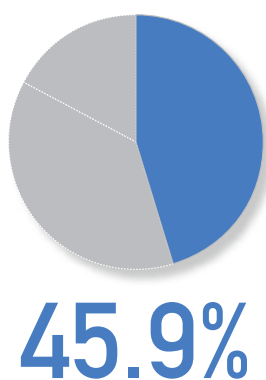
LA

Life Automation Business

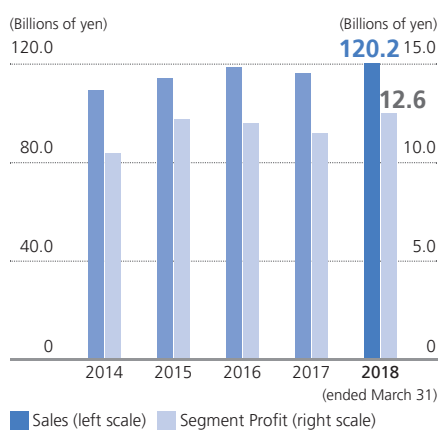
We apply our measurement and control technologies and services, amassed over many years in the BA and AA fields, to lifeline utilities such as gas and water, residential central air-conditioning systems, life science research, pharmaceuticals, and other sectors to help people enjoy active lifestyles.



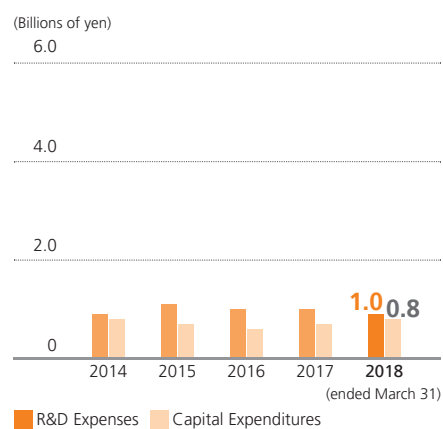
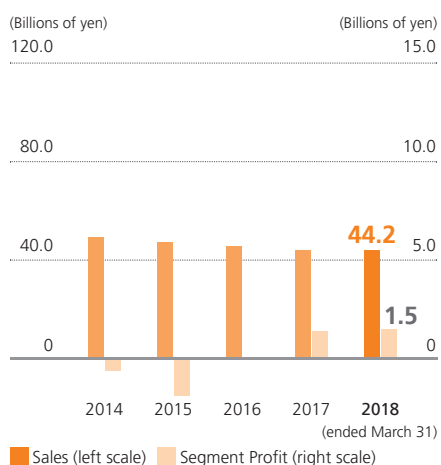
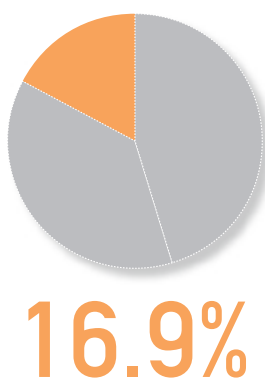
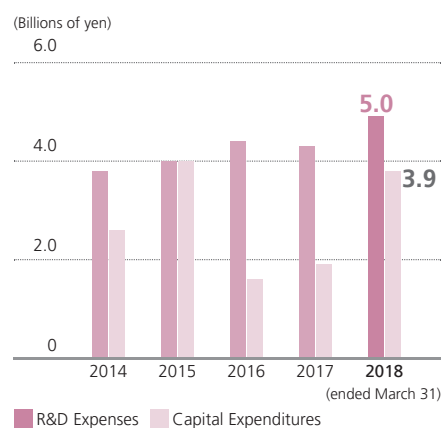
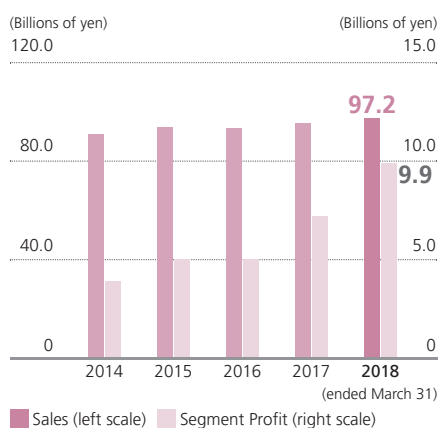
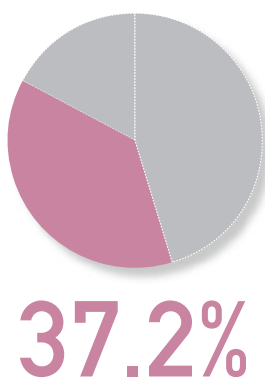
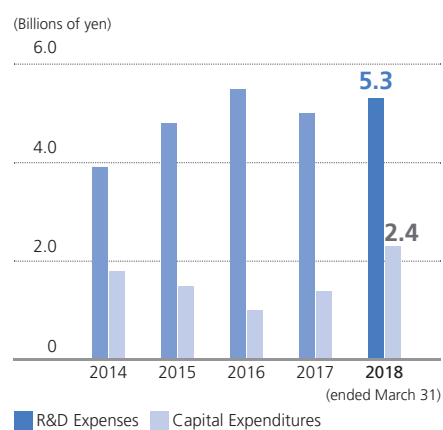
Share of Net Sales by Segment



Sales, Segment Profit (Operating Income)



R&D Expenses, Capital Expenditures



Business Introduction, Business Overview

BA

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

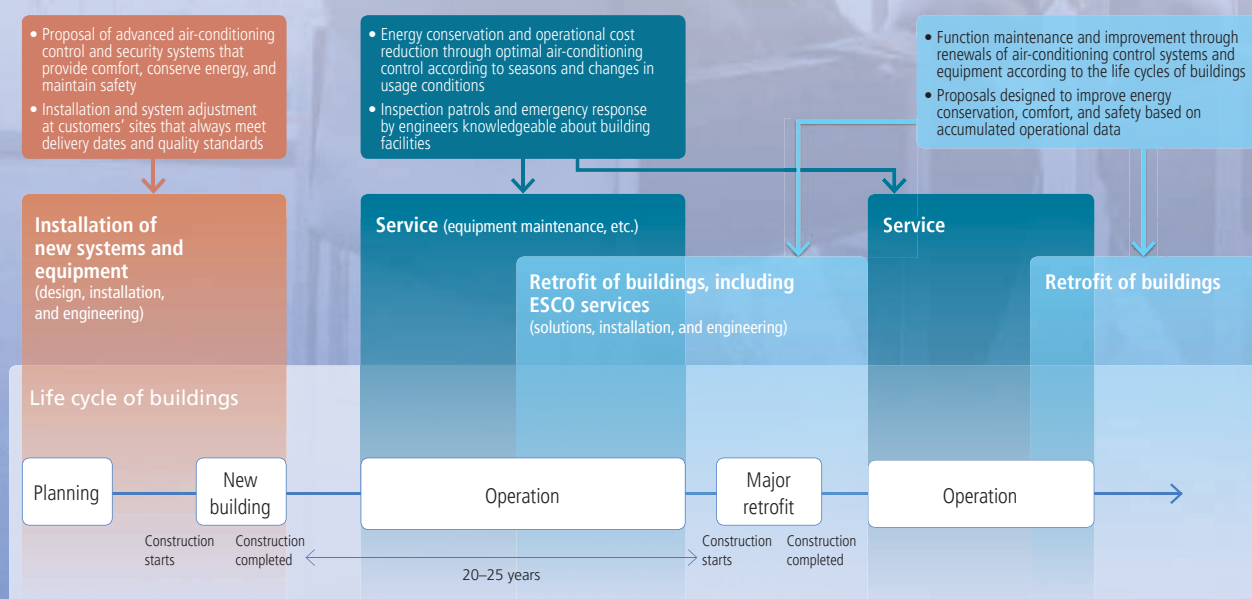
Office buildings, hotels, shopping centers, hospitals, schools, research laboratories, factories, data centers, government offices, airports, etc.

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 Values Delivered by Building Automation Business



Provision of services customized for life cycles by integrating building automation with advances in technology such as IoT

Management and maintenance of wide-area building clusters

Maintenance

Energy management

Proposal of optimal operation of buildings

Proposal of building renovation

CLOUD

Detecting

Sensor and Measurement Devices

Sensing and measurement of room temperature/humidity



▲ Room temperature/humidity sensor



▲ Room temperature/humidity controller

Setting

User-operated Devices

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



▲ Digital user terminal



▲ Digital central control

Managing

Building Automation Systems

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



◀ New BA systems



▲ Wall-mounted BA systems

◀ BA systems for large-facilities and small and medium-sized facilities

Protecting

Security Systems

Controlling access to building commons and interiors



▲ Contactless smart-card reader

▲ High-end contactless smart-card reader

Controlling

Regulators and Controllers

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

HVAC controller ▶



▲ Heating/cooling plant controllers

Adjusting

Valves/Actuators

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



◀ Motorized control valve with flow measurement and control functions



◀ Direct coupled damper actuators

Development and production of central monitoring systems and automatic control instruments for buildings, as well as applications that support the management of buildings

Building Automation (BA) Business

We expect continued demand for new buildings and also an increase in demand for existing building retrofits from 2020 onwards. In addition to fulfilling these jobs, we will expand our life-cycle solutions business in Japan and overseas through new products and services that incorporate technological innovation.



Kazuyasu Hamada

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

BA

■ Operating Environment

In the year ended March 2018, demand for equipment and systems for large-scale buildings in the domestic market remained at high levels on the back of robust trends in construction related to the Tokyo 2020 Olympic and Paralympic Games, and urban redevelopment investments. In addition, demand for solutions aimed at saving energy and reducing operational costs remained healthy. Overseas, the development of local markets in Asia and China advanced steadily.

■ Review for the Year Ended March 2018

Under these circumstances, the business environment remained robust and at high levels. Despite a decline in overall orders due to the impact of large-scale multi-year contracts* recorded last year, orders received increased significantly for existing buildings. In terms of sales, the job fulfillment system continued to be upgraded from the previous year and sales increased for new buildings, in which steady progress was made with on-site construction. Sales for existing buildings and services also grew due to the expansion of solution proposals, closely connected to customers' sites. Sales overseas grew overall with an increase in profit despite the impact of transferring all shares in a subsidiary in the previous year. Segment profit increased from the previous year due to the positive outcome of initiatives to improve profit and decreased temporary expenses for provision, which offset increase in expenses associated with improvement of the job fulfillment system and new product development.

*Large-scale multi-year contracts (market testing): The total value of an order for a multi-year service project is recorded as a lump sum in the first year of the contract. In the fiscal year ended March 2017, orders were recorded for large-scale service projects with multi-year contracts received through the system of public-private competitive tendering called "market testing." The principal contractor decided by such market testing is then responsible for providing a variety of services related to the building in question using vendors selected for the purpose. Also, the contracts won through market testing cover periods ranging from three to five years, and thus they can significantly influence the orders received by the principal contractor, although these contracts have a limited impact on profits for any single fiscal year.

Financial Highlights for the Year Ended March 2018

Sales

¥120.2 billion
(up 3.3% year on year)

Segment Profit

¥12.6 billion
(up 9.3% year on year)
(Segment profit ratio 10.5%)

- Net sales increased overall due to an increase in sales related to new buildings and growth in sales for existing buildings and services owing to expansion of solution proposals.
- Segment profit was up, even with the costs for improvement of the job fulfillment system, new product development, and other expenses.

■ Outlook

In the domestic market, redevelopment projects are planned even after the Olympic Games, and demand for new buildings is expected to continue in 2020 and beyond. We will continue to allocate human resources efficiently and systematically and upgrade our job fulfillment system through personnel transfers, education, and operational reforms. By advancing work-style reforms comprehensively, we will be capable of fulfilling high levels of demands within appropriate work hours. In addition, demand for retrofits are forecast to increase as buildings constructed in the 1990s and early 2000s are up for renovation after the 2020 Olympics. We will proactively make proposals with high added value, such as energy saving and energy management.

On the other hand, overseas we will work to cultivate local-capital building markets, while focusing on expanding business to seize opportunities in Asian markets as Japanese companies are strengthening their real estate investments in

the markets in line with the growth of the markets.

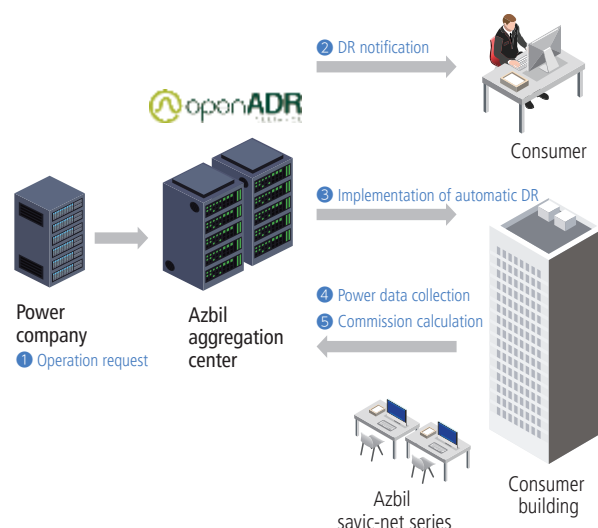
Along with these efforts to increase orders in domestic and overseas markets, we will accelerate the introduction of new products and services that incorporate IoT, AI, cloud services and other technological innovations. The next-generation building automation (BA) system "savic-net™G5" released last year was developed to spearhead the age of IoT. It integrates the latest energy-saving technologies of Japan and is even used in landmark buildings, commercial facilities, airports, and other buildings overseas. In addition, demonstration projects and commercialization of systems are in progress, including a demand response system that enables the consumer to flexibly respond to changes in electricity demand and a system that can control room temperature optimally according to the sensory temperature of the user. With these unique products and services, we will offer solutions that contribute to customers' management in order to strengthen the life-cycle solutions business in Japan and overseas.

Continued Selection for Virtual Power Plant Construction Demonstration Project Initiated by the Ministry of Economy, Trade and Industry

Azbil Corporation has continued to be selected for the Virtual Power Plant*¹ Construction Demonstration Project initiated by the Ministry of Economy, Trade and Industry, which utilizes the demand response*² (DR) system since fiscal year 2016. This demonstration project combines BEMS remote control technology in which Azbil has more than 30 years of a proven track record and the our automatic DR control system that utilizes various energy sources. We aim to offer the result of merging our technological strength built over many years and internationally new technologies as DR service, a new value which will contribute to solving social issues.

*¹ System that balances power demand and supply by integrating distributed energy sources and makes them function as a virtual power plant.

*² System to stabilize the supply of power by encouraging lower power usage to reduce power usage during the peak hours.



AA

Advanced Automation Business

- 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.

[Factory Automation] Food, pharmaceuticals, automobiles, electrical and electronics, semiconductors, manufacturing equipment (industrial furnaces, machine tools and others), etc.

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 factory automation (FA) field, related to the processing and assembly industry. Our products and services are provided in these fields via three business 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. Seizing technological innovations in such areas as IoT, big data, and AI as opportunities, we develop advanced measurement and control technologies to support the creation of new value in the manufacturing industry, together with our customers who aim for not only stable and safe operations but also dramatic improvements in productivity.

Three Business Sub-segments

Control Product (CP) Business

Supplying factory automation products such as controllers and sensors, etc.

Industrial Automation Product (IAP) Business

Supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.

Solution & Service (SS) Business

Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.

Main Products/Services

- Sensors and switches
- Controllers
- Flat-panel displays and recorders
- Combustion safety and control systems

- Control valves and actuators
- Measuring instruments and transmitters (Flow rate, temperature, pressure, liquid surface, etc.)

- Industrial automation control and monitoring systems, applications, and software
- Maintenance service

Business Fields



Factory Automation (the processing and assembly industry)

Sectors that handle or utilize automation of production processes, such as electrical/electronic devices, semiconductors, food, and pharmaceuticals, etc.

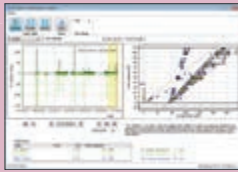


Process Automation (the materials industry)

Sectors that supply production materials to the petrochemical, chemical, steel, and other industries

Using big data and AI at manufacturing sites to support safer and more stable operations

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



▲ Control valve maintenance support system



▲ Device management system

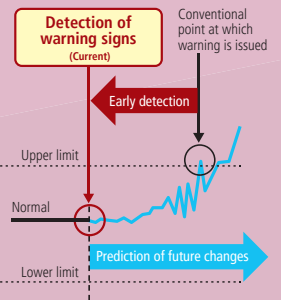
Using big data and AI to detect problems beforehand, predict the future status, and optimize operational plans



▲ Online anomaly monitoring system



▲ Advanced critical trend monitoring for safety



BIG DATA

Adjusting

Control Valves

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



▲ Control valve and smart valve positioner

Measuring

Process Sensors

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



▲ Differential pressure and pressure transmitter



▲ Smart electromagnetic flow meter



▲ Natural gas calorimeter



▲ Vortex flowmeter

Controlling

Controllers

Optimal control of processes, equipment, and facilities



▲ Multi-loop controllers with multifunction display



▲ Network instrumentation module



▲ Process controller

Monitoring

Monitoring and Control Systems

Monitoring of manufacturing processes

▼ Monitoring and control system



Detecting

Sensors and Switches

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



▲ Laser sensor



▲ Photoelectric switch



▲ Advanced ultraviolet flame detector



▲ Limit switch



▲ Earthquake sensor



▲ Micro flow rate liquid flow meter

Development and production of measurement and control instruments, monitoring and control systems, and applications that solve problems at production sites

Advanced Automation (AA) Business

We will accelerate the development and expansion of business in new automation fields by advancing our cutting-edge measurement and control technologies and offering solutions centered upon our unique products and services—our strength.



Yoshimitsu Hojo

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

■ Operating Environment

In the year ended March 2018, capital investment in various markets showed recovery or growth owing to the increase in IT related demands in Japan and Overseas. Investments towards rationalization and labor-saving efforts became more active on the back of labor shortages. Overseas, domestic demand in China remained strong, Europe enjoyed moderate economic recovery, and the United States showed steady recovery in consumption and capital investment. Looked at by industry, the semiconductor manufacturing equipment market had been on a growth trend in Japan and overseas, and other markets also continued to enjoy a favorable business environment overall.

■ Review for the Year Ended March 2018

In this business environment, we were thorough with implementing operations in the three business sub-segments* of Control Product (CP), Industrial Automation Product (IAP), and Solutions & Services (SS), which we implemented last fiscal year to acquire global competitiveness. Through this initiative, we made progress in increasing the sales of our unique new and existing products and services, which are our strength, restructuring our business promotion system according to shifting business areas, and other measures for business growth, in order to improve profitability to a higher level.

As a result, business expanded through the release of new products and other means, and orders received significantly increased. Sales also grew steadily year on year due to the robust business environment in Japan as well as captured demand for controllers and sensors primarily for the semiconductor manufacturing equipment market overseas. Segment profit showed growth far greater than the previous fiscal year owing to initiatives designed to strengthen business profitability and major improvements in the profit structure of each of the three business sub-segments.

*Three AA business sub-segments (for management accounting):
CP (Control Product) business: Supplying factory automation products such as controllers and sensors, etc.
IAP (Industrial Automation Product) business: Supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.
SS (Solution & Service) business: Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.

Financial Highlights for the Year Ended March 2018

Sales

¥97.2 billion
(up 1.8% year on year)

Segment Profit

¥9.9 billion
(up 37.9% year on year)
(Segment profit ratio 10.2%)

- Net sales increased year on year owing to robust demands in the semiconductor manufacturing equipment market as well as business expansion in new automation fields.
- Segment profit increased significantly due to a greatly improved profit structure resulting from initiatives to strengthen business profitability.

■ Outlook

With the operating environment for the AA business forecast to be continuously favorable, new production that addresses the recent changing technological trends is apparent on customers' production sites. Measures for business growth that coincide with these trends have proven to make major progress in improving the profit structure we continue to engage in, with signs of further growth of business profitability. We will continue to further heighten our competitiveness as an automation company through proactive investment in development, production, and sales.

Based on these policies, we will focus on the development and sales of new products that utilize technological innovations which are making rapid advancements to realize a super smart society, such as IoT, AI, and big data, under the business promotion system with the three business sub-segments. We have already developed innovative products such as smart in-

dustrial safety system by an online anomaly monitoring system that can detect signs of equipment anomalies with accuracy greater than that of skilled operators and a new maintenance system that diagnoses valves during plant operation online, and a micro flow rate liquid flow meter utilizing MEMS sensing technology to enable stable measurement of liquid micro flow rates that were previously difficult. These prove the azbil Group's capability of offering value in new automation fields, where customers demand new levels of value that are beyond levels seen to date. We will respond to those demands by accelerating the release of unique new products and services with high added value.

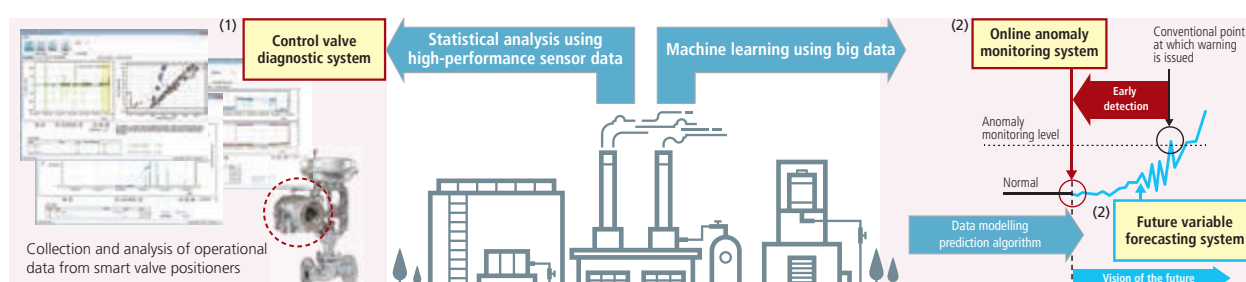
We also aim to create continuous growth overseas through a combination of strengthening sales in the automation field, expanding solutions utilizing competitive products, and offering services that encompass the life cycle such as the diagnosis of customers' equipment using IoT.

Explanation of Smart Industrial Safety System at "Symposium on Thailand 4.0 towards Connected Industries," Commemorating the 130th Anniversary of Thailand-Japan friendship relations

On September 12, 2017, Hirozumi Sone, president and CEO of Azbil Corporation, participated in a panel discussion at "Symposium on Thailand 4.0 towards Connected Industries," which commemorated the 130th anniversary of Thailand-Japan friendship relations. Mr. Sone explained about smart industrial safety system utilizing IoT technologies at the symposium, which was held in Bangkok, Thailand.

In the discussion, Mr. Sone talked about ways to help resolve issues faced by petroleum and chemical plants, namely, "aging

facilities" and "increased risk due to retirement of experienced operators." He introduced specific examples of the azbil Group's (1) use of high-performance sensors for equipment diagnosis and optimal maintenance, and (2) use of big data in real-time anomaly monitoring technology and future fluctuation prediction technology. He explained that these advanced initiatives will help various social challenges and contribute to the Thai government's "Thailand 4.0" economic model.



LA

Life Automation Business

- **Gas and water meters:** Benefiting from stable replacement demand
- **Life Science Engineering (LSE):** Delivering 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

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 business domains that support people's lives. Specifically, LA business focuses on 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.

Total Solutions for Life Sciences

Provision of comprehensive solutions covering the design, engineering, and manufacturing processes that integrate automation technologies for companies engaged in life sciences. These solutions are achieved as turnkey projects* in which expert teams are involved in the entire manufacturing process. We design and manufacture process equipment and facilities which apply our original technologies, such as decontamination, pure water and pure steam, and freeze drying, in order to contribute to the construction of factories that take into account efficiency, the environment, and safety.

*Contracts under which each single contractor assumes responsibility for delivery dates, assurance, and performance guarantee collectively for all operations, ranging from design to procurement of equipment, materials, and services, construction, and test run.



Life Science Engineering [Azbil Telstar, S.L.U.]

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

Pharmaceutical Manufacturing Equipment



▲ Barrier systems

▲ Lyophilizer

Gas and Water Meters [Azbil Kimmon Co., Ltd.]

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

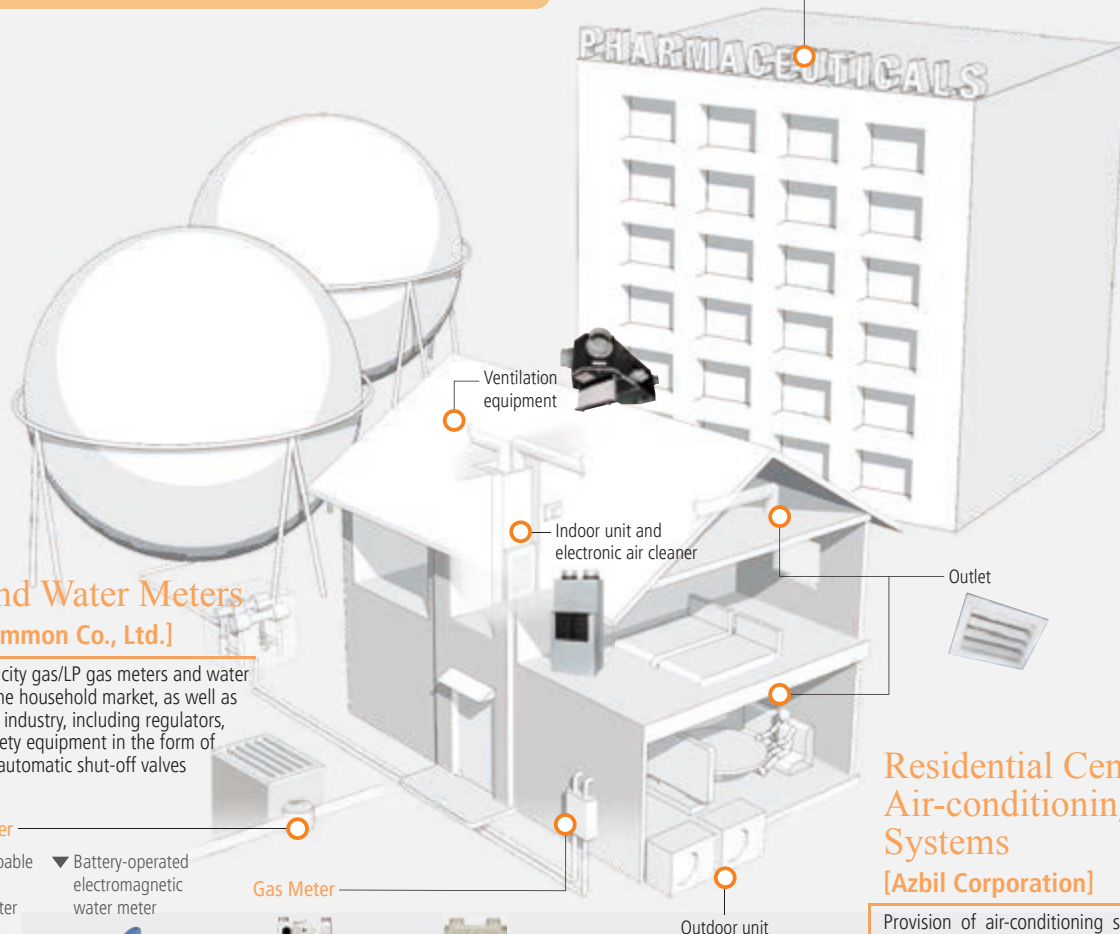
Water Meter

- ▼ LPWA capable electronic water meter
- ▼ Battery-operated electromagnetic water meter



Gas Meter

- ▲ Intelligent city gas meters
- ▲ LPWA capable intelligent LP gas meter



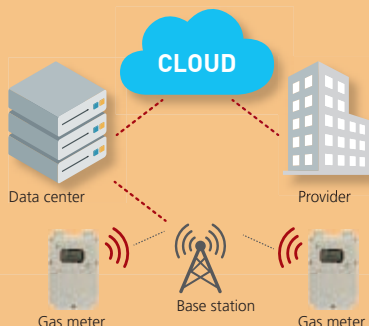
Residential Central Air-conditioning Systems [Azbil Corporation]

Provision of air-conditioning systems for general detached houses, whereby cooling, heating, ventilation, air purification, and dehumidification are handled by a single air-conditioning unit, ensuring comfort for the entire house



LP Gas Centralized Monitoring System Using IoT

Various information obtained from consumers' meters is monitored centrally using wireless technology at our data center, which is connected to gas providers by cloud services. By dramatically increasing the efficiency of day-to-day tasks, such as meter reading, security provision, and delivery planning, higher added value than ever before is given to meter and meter reading businesses, which in turn contributes to efforts to reduce costs and save energy for consumers, including providers and, by extension, general households as well as factories and buildings.



VAV Tablet Remote Controller

Temperatures can be set for each room by installing VAV control in central air-conditioning systems. Settings for each room can be viewed and adjusted in list format using a tablet remote controller.



Life Automation (LA) Business

We will focus on sustainable growth initiatives to establish the LA business as the third pillar building on the improvements made in the profit structure.



Masato Iwasaki

Executive Director
Managing Executive Officer
Responsible for the Life Automation Business
Azbil Corporation

LA

■ 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 2018, our business in gas and water meters (Azbil Kimmon Co., Ltd.) continued benefiting from robust cyclical replacement demand for LP gas meters as required by law. In the LSE field (Azbil Telstar, S.L.U.), new projects increased in emerging countries. As for residential central air-conditioning systems, we continued to attract inquiries about our high value-added air-conditioning systems, which address customers' needs for comfortable and healthy living spaces.

■ Review for the Year Ended March 2018

In this business environment, sales in the gas and water meters field remained mostly unchanged from the previous year. However, we made preparations for entry into a new business area by releasing a new intelligent LP gas meter that can flexibly support various communications and carried out verification projects, such as reading the gauge values through IoT utilizing the new LPWA* technology and big data. Sales in the LSE field remained at the previous year's level, but orders received that will lead to sales in the next fiscal year increased significantly by capturing demands in emerging countries. In the field of residential central air-conditioning systems, we continued to invest in new product development while increasing profit by implementing measures to improve our sales structure. As a result, segment profit for the LA business increased from the previous year owing to improvement of the profit structure in the LSE field.

*LPWA: Low Power Wide Area. LPWA is a wireless communication technology capable of long distance communication that requires significantly lower electricity compared to conventional means and is expected to be widely used in IoT.

Financial Highlights for the Year Ended March 2018

Sales

¥44.2 billion
(up 0.2% year on year)

Segment Profit

¥1.5 billion
(up 5.7% year on year)
(Segment profit ratio 3.4%)

- Net sales continued at the previous level supported by the stable demand in the gas and water meter field.
- Segment profit improved due to progress of the business structure reform in the LSE field.

■ Outlook

In the year ending March 2019, we expect growth in the gas and water meter field driven by sales of LP gas meters where demand for cyclical replacement continues to increase. Also, in creating business opportunities in the liberalizing energy supply market, we will fully engage in verification projects that contribute to optimal delivery of LP gas cylinders through periodic (daily), automatic remote reading of gas usage from meters with IoT capability. We will not limit our efforts to LP gas but simultaneously expand into data measurement solutions that make effective use of data from various meters.

In the LSE field, we aim to continue strengthening the project management system and other business structure reforms while also establishing a stable profit structure. On the other hand, we will promote business expansion through synergy within the Group to enhance the functions and add high value

with automation technology to the lyophilizers which are core products of the LSE field. We will particularly focus on product functions such as analytic technology for processing equipment to support Pharma 4.0 (digitalization of the pharmaceutical production process) and engineering capabilities to respond to strong LSE demands mainly in emerging countries.

In the field of residential central air-conditioning systems, we will further pursue comfort in the living space and differentiate ourselves by introducing a variable air volume (VAV) system that applies air-conditioning technology of the Building Automation (BA) business and tablet remote controllers.

In these ways, we will expand the LA business while establishing a structure that will generate profit as the third business pillar following the BA and Advanced Automation (AA) businesses.

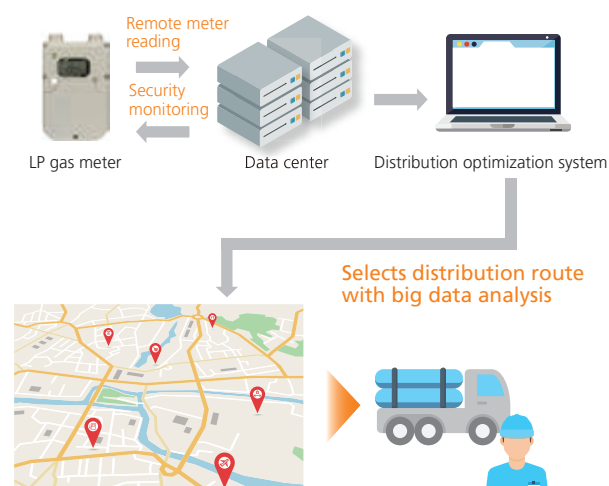
Launch of IoT Verification Project for Rationalizing LP Gas Distribution with LPWA Network

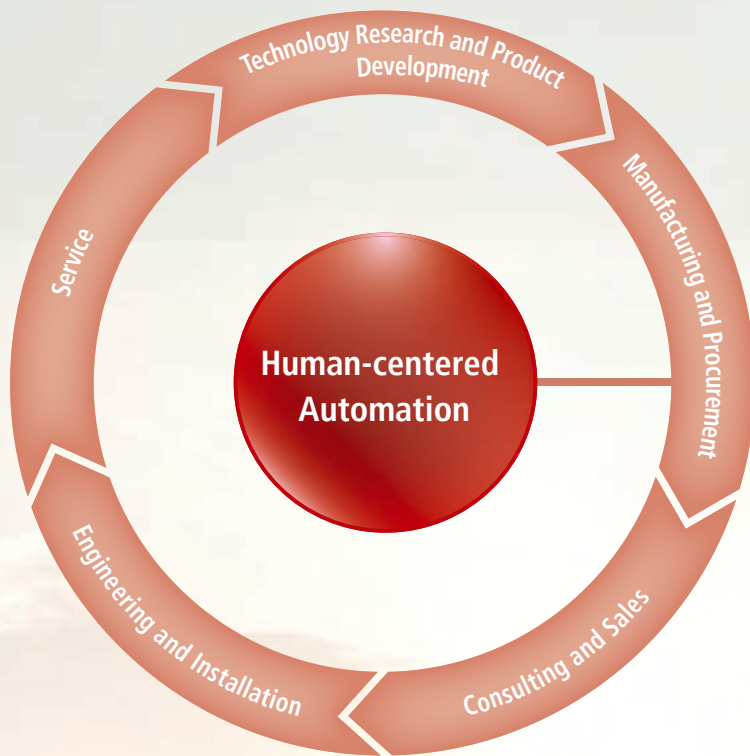
Azbil Kimmon Co., Ltd. launched a verification project for frequent remote meter reading through IoT that utilizes the LPWA network, in cooperation with Azbil Corporation, Tokyo Gas Co., Ltd., and Tokyo Gas Liquid Holdings Co., Ltd. in September 2017.

The four companies are developing a system to establish routes for optimal distribution of LP gas cylinders to customers. By using the LoRaWAN* low-power wide-area wireless technology for frequent and remote meter reading of gas usage, we can accurately determine the remaining gas in order to optimally deliver LP gas cylinders to customers.

*A LPWA network standard for IoT that realizes long-distance communication at low power consumption.

*LoRaWAN is a trademark of the Semtech Corporation.





A Strong Value Chain for Sustainable Growth

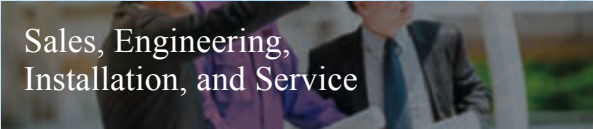
Based on its philosophy of “human-centered automation,” the azbil Group creates value together with customers at their sites, and in so doing secures its own sustainable growth. The problems and needs of our customers and of society are changing with the emergence of technological innovations. Against 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



Manufacturing and Procurement



Sales, Engineering, 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 design 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 expansion, we develop technologies and products at three R&D locations: in Silicon Valley in the United States, at Group companies in Europe, and in Japan.

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 societal trends, the 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, and other human attributes, allowing the machines to work well with people.

2. Flexible Measurement and Control

Technologies allowing us to freely measure and control objects in a way that was not previously possible due to restrictions imposed by the 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 distribu-

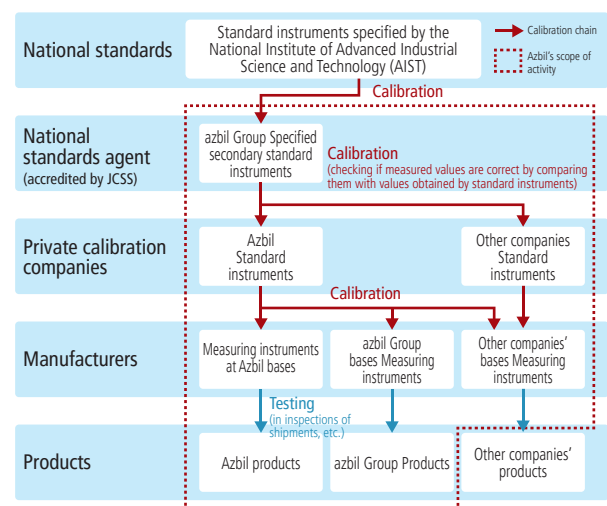
tion within a space, taking into account the location of human beings and other sources of heat to swiftly provide a safe, high-quality indoor environment.

For more details, please refer to “Examples of Technology R&D” on pages 48–49.

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) through the application of international standards, technology standards, and measurement standards. The enforcement of measurement standards enables the azbil Group to guarantee a high level of reliability in the specified performance of its products. As an accredited member of the Japan Calibration Service System (JCSS), Azbil Corporation ensures that the measuring instruments for testing products are traceable to national standards.

Traceability to National Standards for Measuring Instruments Calibration



Strategy for Intellectual Property Rights

In addition to respecting the intellectual property of other companies, we regard our own intellectual property as one of our most important resources, and for that reason we make efforts to acquire and protect patents and other rights.

To formulate strategies for creating new business and expanding and strengthening our existing business, we work with our business and R&D departments to understand trends in patents and other intellectual property and to analyze technology. We are also working to reinforce our patent portfolio and ensure discipline in our product and technology develop-

ment fields in order to make focused R&D investments based on the analysis of other companies' benchmarks and patents. 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.

■ Brand Management

To foster our unified corporate image, 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.



("Azbil Corporation" in Chinese)

In response to the unauthorized use of logos and the circulation of counterfeit logos on the Internet, we strive to uncover any infringement and deal with it strictly.

Patent and R&D Data

(Ended March 31)	2014	2015	2016	2017	2018
Patents					
Number of applications	502	513	506	506	562
Number owned	2,458	2,703	2,762	2,902	3,049
R&D expenses (billions of yen)	8.8	10.1	11.0	10.4	11.2
R&D expenses/net sales (%)	3.5	4.0	4.3	4.1	4.3

Examples of Technology R&D

1. Machine Systems with Humanlike Abilities

Next-generation smart robots

Value provided

By embedding force-sensing functionality into robotic arms and hands, the robot can manipulate delicate parts and operate alongside manufacturing workers. Moreover, using built-in vision functionality, the robot can recognize the position of parts and inspect assemblies of parts. These technologies can be easily implemented in production lines that utilize factory automation.

2. Flexible Measurement and Control

LPWA capable intelligent LP gas meter

Value provided

With the intelligent LP gas meter, installation space for a communication module is not needed, because communication technology is built into the meter itself. With built-in communications, onsite work is reduced, resulting in lower system construction costs.

3. Advanced Technology that Clarifies Complex Systems

Model C7G multi-loop controller with multifunction display Playback functionality compatible with the IoT

Value provided

This device synchronizes and records detailed data on process variable and manipulated variable, heater current, resistance, etc. It can also transmit data to higher level devices when required. These capabilities reduce production equipment downtime and contribute to productivity improvement.

4. Systems Enabling Us to Live in Harmony with Nature

Environmentally conscious cloud services powered by AI technology

Value provided

By using the cloud to centrally manage information for a particular area and by harnessing AI-driven optimization technology and demand-response technology to regulate the power demand of consumers, we can strike the right balance between energy use and comfort in that area.

5. Individualized Environmental Comfort Systems

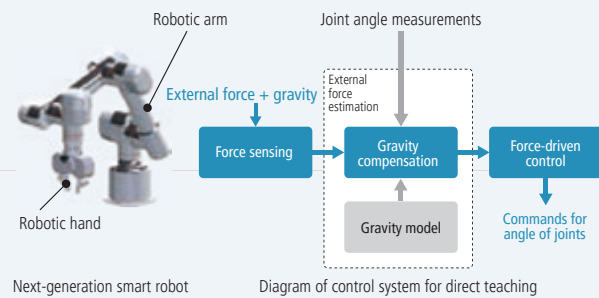
Individualized comfort prediction technology

Value provided

By shedding light on the relationship between the indoor environment and office workers' sensations of temperature, we can potentially fine-tune the environment to improve worker satisfaction and curb excess energy consumption.

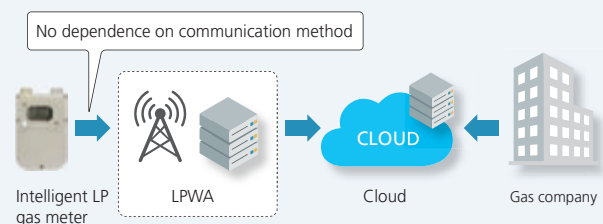
Development details

We developed this force-sensing technology by applying our previously cultivated pressure and flow measurement technologies. We also developed force-feedback control technology so that the robot can precisely manipulate actuators using the force-sensing technology built-into its arms and hands. Moreover, we developed vision technology that allows the robot to recognize positions and shapes of parts, and to inspect assemblies of parts. With these force-sensing and vision technologies, the robot can easily implement work previously done by humans.



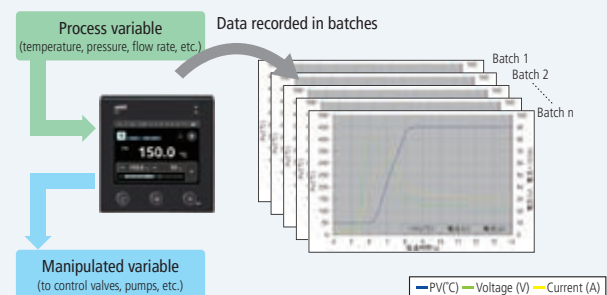
Development details

By miniaturizing the internal mechanism we were able to gain enough space inside the meter to embed the communication components. The meter can transmit data using the LPWA network protocol, allowing central management in the cloud. This capability enables us not only to sell meters themselves but also to provide information services that will improve gas delivery efficiency, among other benefits. By providing data stored in the cloud, gas providers can select the most suitable communication processes for each installation location without worrying about how the data is transmitted.



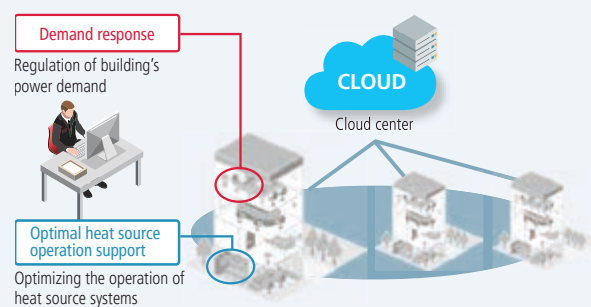
Development details

The C7G controller can now show the correlation between control status and heater status because it synchronizes and records control data (process variable and manipulated variable) and heater status data (current and resistance values). For the playback function, we added a new recording method and extended the measurement recording time. Measured data can be recorded in batches and transmitted to higher level devices when required, which enables greater visibility of production equipment's operational status.



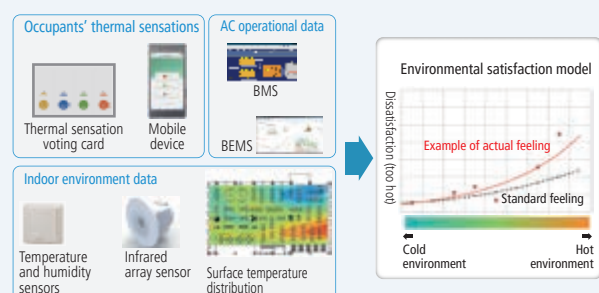
Development details

We have developed a cloud-based service for optimizing the operation of heat source systems. Features of the service include demand forecasting based on machine learning from collected data, a guidance function for displaying plans for optimized operation in order to minimize running costs, etc., and a function for interconnecting with the heat source controller. We have also developed a cloud-based system that receives power supply and demand signals from power companies and coordinates the power demand among multiple consumers (buildings).



Development details

Our thermal sensation voting air conditioning system (p.74) can obtain information on the temperature perception of individuals in various locations, while our newly developed infrared sensor arrays perceive the surface temperatures of the indoor environment. By combining this information with air conditioning control data and other information, we can generate models for the degree of environmental satisfaction. This technology not only delivers information about the physical environment, such as temperature and humidity, but also enables us to understand the temperature sensations of individuals.



Manufacturing and Procurement

Adopting a global perspective throughout the Group, we are optimizing our production and logistics systems for individual regions and products and striving to achieve next-generation production with the goal of realizing innovation in manufacturing.



■ Strengthening the Overseas Production System

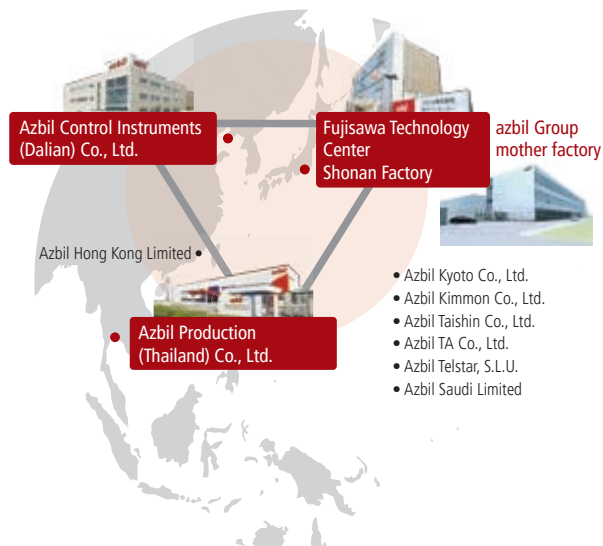
With the aim of establishing an optimal production system to underpin our global business development, we continue to expand the volume of overseas production and the capabilities of our overseas bases in order to improve our distribution and logistics frameworks and strengthen our production centers in Japan, China, and Thailand.

At our production base in Thailand, we are continuing to expand the scale of production, particularly of components. After completing expansion work at the factory in December 2017, we are taking steps to boost production capacity. At our production base in Dalian, China, we are also pressing ahead with increased production capacity for valves and differential pressure and pressure transmitters, and we are building a distribution and logistics framework for direct sale and shipment of products from overseas production bases to various countries. We are also endeavoring to take advantage of beneficial tax arrangements provided under free-trade agreements and other conventions and treaties.

By stepping up these initiatives, we intend to raise the proportion of overseas production to more than 30% within several years.

■ Constructing a New Main Factory for the azbil Group

As part of measures to streamline our global production system, we are consolidating the Shonan Factory and Isehara Factory into one facility at the Shonan Factory location, which will be the Group's "mother factory." It will operate in close collaboration with the R&D facility at Fujisawa Technology Center.



Utilizing the new buildings slated for completion in spring 2019 at the Shonan Factory, we intend to establish advanced production lines, implement sophisticated production processes, and make operations highly efficient. In addition to implementing innovations in high value-added manufacturing, which is an azbil Group specialty, we also aim to beef up our manufacturing capabilities at each Group production company, following the lead of the mother factory.

■ Innovations in Production

As we continue to seek improvements in our production technology, we are also introducing innovations in manufacturing processes and constructing competitive production lines. To this end, we are investigating microsensor assembly technologies and microassembly and microprocessing technologies, as well as proprietary advanced technologies centered on new materials and innovative material processing that can be integrated into our production lines.



Microsensor automated assembly equipment



AI-powered component testing equipment

Moreover, in order to streamline our production processes and improve quality, we are making efforts, based on the azbil Group's unique HCA-MS* concept, to promote advanced automation by deploying sophisticated assembly, processing, and image-processing technologies, as well as AI and IoT applications to automate human activity, including work that previously required human skills or judgment.

We aim to extend the application of these advanced technologies from domestic factories to overseas facilities in order to maintain and improve global product quality and strengthen cost competitiveness.

*Human-Centered Automation for Manufacturing System. Based on our Group philosophy of human-centered automation, manufacturing systems are 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 technology. Modularized functions allow reuse, so production equipment can be altered or extended as needed.

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, which covers 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, and 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 confer with the customer 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 enables the customer 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 a request by an equipment manufacturer, we strive to deliver high value-added solutions, not only by providing products, but also by proposing applications and customized systems at the equipment design and development stages, based on the relationship of trust we have fostered with the customer.

Service

Our service engineers, who are thoroughly acquainted with our customer's processes and systems, provide optimized operation, regular inspections, and maintenance services, and they respond swiftly in the event of an urgent problem. In addition, we listen to our customers. By incorporating their views promptly 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.

■ Engineers Creating Value On the Site — The Untiring Drive to Automate —

The strengths of the azbil Group lie not only in the sale and delivery of equipment and systems, but also in the ability to generate added value using its advanced, expert knowledge and extensive know-how of measurement and control technology. In the area of energy conservation, for example, our BA business engineers have an expert knowledge of building facilities and can optimize performance and maximize energy efficiency by fine-tuning the operation and settings of machinery and equipment. In the AA business too, at production sites with a complex mix of equipment and energy, our engineers—who possess wide-ranging knowledge, from facility mechanisms and control to engineering—are able to identify the optimal control method for energy savings and deliver to the customer the benefits of reduced energy consumption. Some case examples can be viewed here:
<https://www.azbil.com/case/index.html>



■ Restructuring the Service Business

In the service area, we are pressing ahead with the transformation of our operations from a conventional labor-intensive model to a knowledge-intensive services model in which we mainly focus on offering solutions based on 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

We are now making use of cutting-edge technology and a wealth of know-how available only to professionals in the field of control and management in order to develop 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 correctly 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.

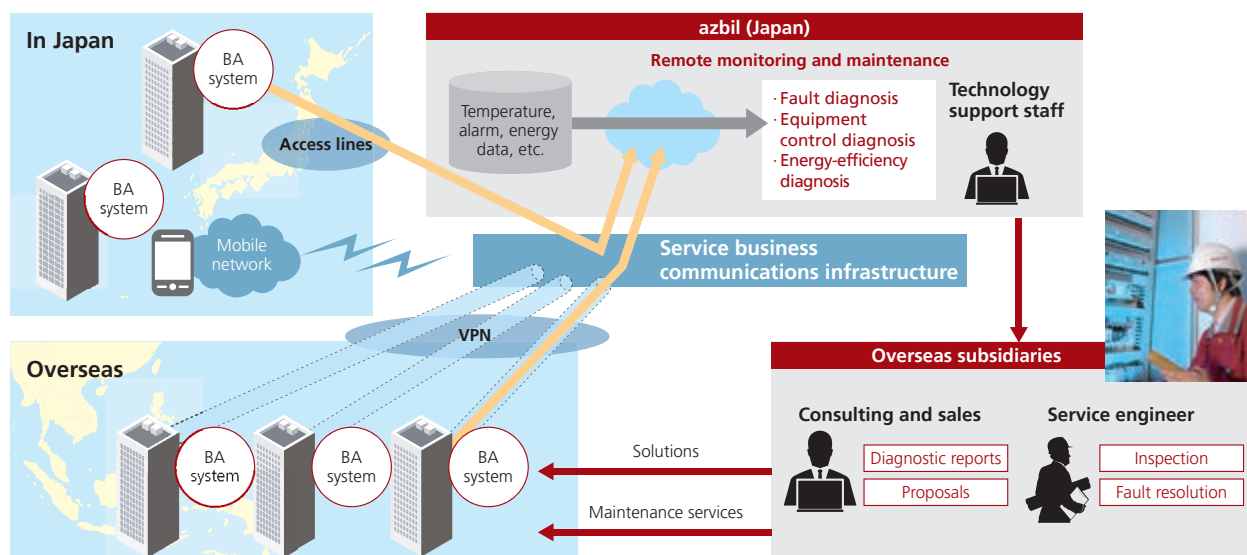
Global Expansion of the Service Business

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 strengthening the service infrastructure that allows 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 acci-

dents, 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

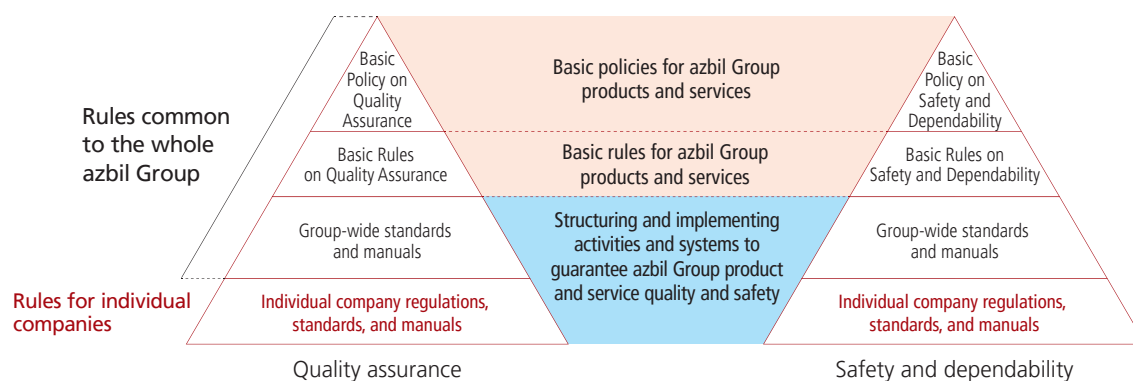
The azbil Group Quality Assurance Committee promotes accident prevention activities based on actual “near miss” incidents. In addition, it is responsible for ensuring that employees are thoroughly aware of the reporting and response systems used in the event of an accident. Through these activities,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

Systems for Quality Assurance/Safety and Dependability

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



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. We cultivate personnel from around the globe who can drive business reorganization on two fronts: work-style reforms and promotion of diversity.

The Azbil Academy

■ Approach to Human Resource Development for Sustained Growth

As “a company that never stops learning,” the two approaches of work-style reforms and promotion of diversity are essential to our constant and stable growth and development in response to environmental changes such as globalization. Supporting the positive work-life balance of each and every employee according to their individuality, personal circumstances, and lifestyle is ultimately the driving force behind our organization’s work-style reforms.

Please refer to “Responsibility to Employees and Business Partners” on pages 78-79 for details about work-style reforms and other human resources initiatives.

■ Global Human Resource Development

All azbil Group companies worldwide work together to develop global leaders. We offer the following training programs, depending on the management level of the employee: (1) manager training in the local language of the Group company, (2) international business training in English (executives candidates are invited from various countries), and (3) business school (attended by CEO/CFO-level executives from each country).

Furthermore, in the year ended March 2018, we strengthened our collaboration with universities inside and outside of Japan in an effort to further promote globalization within the azbil Group. As part of this initiative, Azbil Corporation and our overseas subsidiaries accepted 18 interns from varied backgrounds.

Interns in the azbil Group

Since 1996, the azbil Group has accepted more than 100 interns from abroad. In fiscal year 2017 we accepted interns through Thailand’s Kasetsart University and Chulalongkorn University, Japan’s Ritsumeikan Asia Pacific University, and the International Association for the Exchange of Students for Technical Experience (IAESTE).*

*IAESTE is a non-profit and non-governmental organization for promoting paid internships abroad for science and engineering students.

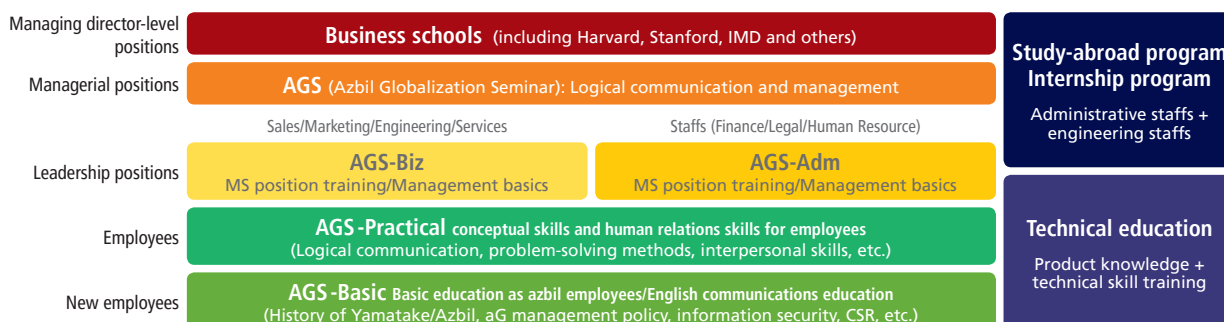
Interns at Overseas Subsidiaries

Since fiscal year 2016 (ended March 2017), Azbil Production (Thailand) Co., Ltd. has accepted two Nagaoka University of Technology students through Kasetsart University in Thailand on an internship program focused on production line productivity improvements and energy-saving improvements. Our overseas subsidiaries in Thailand, the Philippines, Vietnam, and elsewhere are also planning to accept interns in the current fiscal year.

■ Cultivating Diverse Personnel

We define the promotion of diversity as “respecting the individuality of each and every person, putting their attributes to best use, and encouraging them to achieve more through lively participation in work.” To consistently implement this objective, we set up a diversity promotion task force. The task force carries out various activities with the aim of reforming culture and awareness, promoting the participation and ad-

Global Human Resource Development Program



vancement of diverse personnel, and supporting a variety of ways of working. These initiatives are collectively referred to as the Azbil Diversity Network, or ADN for short.

ADN Business Training

The ADN's activities include initiatives for developing the capabilities and promoting the participation of female workers so that they will aspire to a managerial role and develop the mindset and acquire the business skills needed to further their careers. In the fiscal year that ended in March 2018, the ADN hosted events such as lectures by external experts, meetings with other companies for cross-industrial exchange, roundtable discussions with company officers, business knowledge seminars, and team-based subcommittee activities.

ADN Forums

We also hold forums to educate department heads and managers about the importance of promoting diversity and the ways in which a diverse workforce can be useful for the company's business. In addition to lectures by external lecturers, these programs involve the formulation and implementation of concrete action plans for promoting diversity management. These plans aid the transformation of company culture and the fostering of awareness.

■ Human Resource Development for the Solutions Business

In fostering personnel for the solutions business based on our policy of "being a long-term partner for the customer and the community," we are intensifying training related to technology, products, and business skills, and introducing it at a much earlier stage. We have also established a system for rec-

ognizing technical professionals in order to nurture top-class engineers and the engineers of the next generation. Those engineers accredited as a "Technical Professional" do supervisory work related to safety and quality.

In addition to these initiatives, in the previous fiscal year we provided training for software engineers and business development engineers with the aim of fostering entrepreneurs who will accelerate business reform.

Software Engineer Training

Since fiscal year 2016, we have provided software engineer training with the goal of cultivating employees capable of developing products that integrate innovative technology (in areas such as the IoT, AI, and big data), expanding our energy management and remote monitoring services using IT infrastructure, and accelerate IT for improving engineering and design. In FY 2017, we upgraded the training content for advanced employees and also added new hires and Group company employees to the program. Over a two-year period, 190 employees have received this training.

Business Development Engineer Training

To contribute to Japan's industrial development, we launched a business development seminar to foster personnel with the ability to carry on the entrepreneurial spirit of the company founder (who in fact founded three companies, including Azbil, that are still listed today), as well as plan, propose, and create new business models for the medium to long term. In the last fiscal year, the younger generation of azbil Group employees who attended the seminar delivered business proposals on key topics such as AI and the IoT.

TOPIC

— Supporting Engineer Development Overseas —

In addition to running training courses on azbil Group products for customers overseas, we also actively lend our support to engineer development programs at overseas universities and technical colleges.

Engineer Development in Malaysia

At Azbil Malaysia Sdn. Bhd., control valve training continues to be held at the Advanced Technology Training Center (ADTEC) of the Ministry of Human Resources.

In September 2017, Azbil was the only Japanese company to take part in the ceremony of the Malaysian government's Technical and Vocational Education and Training (TVET) program. We have also signed a memorandum on future participation in the program.

During the fiscal year that will end in March 2019, Azbil is scheduled to start practical skills and technician training at public universities in Malaysia. The company will continue to support the development of Malaysian engineers, given their potential to play an active role in international business in the future.



Azbil Malaysia President Tatsuhiko Taniguchi (left) and Yamatake Engineering Managing Director Dicky Yamany Othman (right) holding copies of the memorandum

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.

Global Development System

Technology research and product development at main bases in the three regions of Japan, the United States, and Europe

R&D bases

(Japan)

Azbil Corporation (Fujisawa Technology Center),

and other four companies

(United States)

Azbil North America Research and Development, Inc.

Azbil North America, Inc.

Azbil VorTek, LLC

(Europe)

Azbil Europe NV (Belgium)

Azbil Telstar, S.L.U. (Spain)



Global Production System

Global manufacturing bases in the three regions of Japan, China, and Thailand, and providing services to meet the specific needs in each region

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.

Strategic Planning and Development Office for Southeast Asia Established in Singapore

The Strategic Planning and Development Office for Southeast Asia was established in Singapore in April 2018 to facilitate further growth and development of the local subsidiaries in the region through business support and centralized management. The office aims to provide cross-sectional support to customers in Southeast Asia in the form of core products and services and the cutting-edge business models it developed in Japan, such as energy management solutions.



New showroom in Singapore



Guanajuato – home to many industrial estates



Azbil North America Establishes Subsidiary in Mexico

The azbil Group's local subsidiary in the United States, Azbil North America, Inc., established Azbil Mexico, S. de R. L. de C.V. as a subsidiary in León in the state of Guanajuato where numerous Japanese companies are located in order to provide equipment and services to automobile and manufacturing equipment makers in Mexico. The subsidiary began operations in January 2018.

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 value for customers and deal with changes in the environment.

Azbil Telstar, S.L.U.
(Spain)



Fujisawa Technology Center
(Japan)



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 maximize the value of customers' facilities throughout its life cycle, and we provide high value-added services and develop new products based on the valuable voices from the customers' 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 to Customers

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 Control Instruments
(Dalian) Co., Ltd.

Azbil Production
(Thailand) Co., Ltd.



- Sales
- Product Development
- Maintenance and Services
- Production

Infrastructure to Support Value Creation

We describe our corporate governance and CSR-focused management, as well as our approach to dialogue with various stakeholders and our responsibilities to them. These elements together form the foundation that supports value creation by the azbil Group.

Corporate Governance

To be worthy of the trust placed in us by all of our stakeholders, we strive not only to comply with laws and regulations and our Articles of Incorporation, but also to fulfill our social responsibilities and contribute to the welfare of the community based on corporate ethics. Our aim is to realize sustainable corporate growth and to enhance enterprise value over the medium and long terms by means of highly efficient and transparent management.

Efforts to Strengthen Corporate Governance

Although Azbil Corporation has long emphasized the importance of corporate governance in its management, as evidenced by the appointment of outside directors which began in June 2007, we have stepped up efforts in this area following the establishment 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 structure and operation of corporate governance. In order to strengthen our corporate governance, we increased the number of independent outside directors by one, to a total of four, at our 96th annual Ordinary General Meeting of Shareholders in June 2018. Independent outside directors now account for more than one-third of the 10-member Board of Directors, contributing to the Board's rich diversity in such areas as nationality and gender.

Our outside directors fulfill their responsibilities in a broad range of ways, such as providing advice on raising enterprise value and providing oversight of management activities. They are independent and come from diverse backgrounds. One is a foreign national with extensive experience in managing global companies for many years. Another has served in senior positions in the legal community and has expertise and insights on management from the perspective of a lawyer. A third has extensive experience in the investment banking business overseas, as well as deep management-related knowledge gained through senior positions in investment management companies in Japan and abroad. A fourth has played a pioneering role in the advancement of women and demon-

strated leadership as a prosecutor for many years.

Two-way communication between the independent outside directors and the management team is considered to be very important. Monthly sessions are held in which independent outside directors exchange opinions with the company president. Issues raised and suggestions made by the outside directors receive careful consideration by the management team and are reflected in management practices.

■ Independent Outside Members Make the Audit & Supervisory Board More Active and Proactive

There are five members of the Audit & Supervisory Board, three of whom are independent outside members, two of them on a full-time basis. They carefully audit, mainly from a legal perspective, the decisions made by the Board of Directors and executive officers, as well as the execution of business by the Board of Directors and executive officers.

The diverse five-member Audit & Supervisory Board includes full-time members from within the company who are well-versed in its accounting, finance, and business, as well as an outside member qualified as a certified public accountant and another with a deep knowledge of corporate governance. A framework has been established to ensure that Audit & Supervisory Board members can conduct audits

properly without hindrance, and to ensure that information reported internally is conveyed to Audit & Supervisory Board members in a timely and appropriate manner. Meetings are held to facilitate a smooth exchange of information between Audit & Supervisory Board members and independent outside directors, in addition to regular meetings of the Audit & Supervisory Board with the company president, in order to share perspectives on problems and deepen the mutual understanding between the board of auditors and top management. In addition, Audit & Supervisory Board members exchange information and views regularly with the accounting auditor and the Internal Audit Department. These efforts reflect the emphasis placed by the Audit & Supervisory Board on strengthening corporate governance.

■ Nomination and Remuneration Committee

Recognizing that the election and dismissal of directors and of top management, and decisions on their remuneration, are important issues for corporate governance, we have established a Nomination and Remuneration Committee as a voluntary advisory body. This committee, which consists of independent outside directors (who constitute a majority) and representative directors, is headed by an independent outside director. In addition to the election and dismissal of officers, the committee reviews and examines the executive remuneration system. It also conducts personnel evaluations of officers, including representative directors, examines remuneration amounts, and handles a wide range of matters related to executive nomination and remuneration, such as the training of a successor CEO. This system ensures the transparency of nomination and remuneration and makes full use of the appropriate involvement and advice of independent outside directors.

■ Improving the Effectiveness of the Board of Directors

An effective Board of Directors forms the cornerstone of good corporate governance. With this in mind, we collect and assess self-evaluations and opinions from all board meeting attendees and use this information to enhance the Board's

functionality. Regarding matters to be discussed by the Board of Directors, we provide opportunities for prior explanation, mainly for outside officers, before the Board of Directors meetings to ensure a full understanding of the details, in order to facilitate active debate and discussion on essential points by a fully informed Board of Directors.

The Board of Directors also receives proactive input from members of the Audit & Supervisory Board. Guided by Japan's Corporate Governance Code, we have created conditions in which our Audit & Supervisory Board and its members exercise their authority effectively and actively, and convey their opinions appropriately at Board of Directors meetings. Outside officers play an important role in the operation of the Board of Directors. More than half of the remarks at board meetings are made by outside directors and outside Audit & Supervisory Board members.

In fiscal year 2017 (ended March 2018), the board stepped up discussions on important management topics, such as reviewing the company's medium-term management plan and growth strategies. It also sought to strengthen the supervision of Group companies. During the year, it received detailed reports, mainly from domestic subsidiaries, on their business situations, medium-term management plans, and progress.

In fiscal year 2018 (ending March 2019), the Board of Directors will continue actively discussing management plans, business strategies, and the like in order to fulfill its role in providing direction for the Group's overall management strategies. Board members together recognize the need to strengthen the oversight function with respect to monitoring the progress of annual plans and the operational status of domestic and overseas subsidiaries. We will continue striving to increase the effectiveness of the Board of Directors in order to achieve sustainable growth and enhance corporate value over the medium and long terms.

■ Changes to Improve Corporate Governance

We have been proactive in our efforts to strengthen corporate governance. Since fiscal year 2017, for example, we have been working to strengthen and upgrade corporate governance in order to ensure fairness, transparency, and impartiality in management. Recent initiatives include (1) abolishing the “counselor and advisor system,” (2) appointing a non-executive director to the post of Chairman of the Board, (3) appointing an independent outside director to the post of chairman of the Nomination and Remuneration Committee, and (4) increasing the number of outside directors.

Strengthening of oversight and auditing	<ul style="list-style-type: none"> • Number of outside directors increased (1 in 2007 → 2 in 2010 → 3 in 2014 → 4 in 2018) • Number of outside Audit & Supervisory Board members increased (2 in 1994 → 3 in 2011) • Established criteria for judging the independence of outside officers (2016) • Started evaluating the effectiveness of the Board of Directors (2016) • Appointed a non-executive director as Chairman of the Board (2018)
Strengthening of management transparency and soundness	<ul style="list-style-type: none"> • Replaced the Remuneration Meeting with the Nomination and Remuneration Meeting (2008) • Replaced the aforementioned meeting with the Nomination and Remuneration Committee with independent outside directors as a majority (2016) • Revised the officer remuneration system and strengthened performance-linking; introduced medium-term business perspectives, etc. (2017) • Abolished the “counselor and advisor system” (2018) • Appointed an outside director as chairman of the Nomination and Remuneration Committee (2018)
Clarification of responsibilities, encouragement of dialogue, etc.	<ul style="list-style-type: none"> • Introduced the executive officer system (2000) • Formulated the Corporate Governance Guidelines (2016) • Formulated guidelines on strategic shareholdings (2016) • Appointed executive officer in charge of corporate communications (2016)

Executive Compensation

To strengthen corporate governance and to deliver sustainable increases in enterprise value by achieving Group management goals, we have established policies on the determination of officer remuneration. Remuneration for directors is commensurate with their roles, responsibilities, and accomplishments and is designed to contribute to sustainable growth and improvement in enterprise value.

We reassessed the executive remuneration system after the establishment of Japan’s Corporate Governance Code, and made a number of changes in 2017. These included stronger links to performance for top management, the introduction of medium-term performance perspectives, and the reinforcement of the stock ownership plan for officers.

Remuneration for directors who concurrently perform executive duties consists of basic and fixed remuneration commensurate with their roles, responsibilities, and other factors, as well as bonuses that are linked to business results and that also reflect the degree to which medium-term targets have been achieved. Directors who do not concurrently perform executive duties receive only basic remuneration to ensure that they perform their management supervision function without consideration of the effects on business results.

The Nomination and Remuneration Committee, a voluntary committee consisting of independent outside directors (consti-

tuting the majority) who oversee management and execution from an external perspective, and representative directors, was established in accordance with our Rules for Director Remuneration, in order to ensure transparency and objectivity in the process of determining remuneration. The committee is chaired by an outside director. The basic remuneration amounts paid to individual directors and the total amounts of bonuses paid to directors concurrently performing executive duties, as well as individual payments to concurrently performing directors, are kept within limits set at the General Shareholders’ Meeting, and are reviewed by the Nomination and Remuneration Committee. To encourage commonality of interest between directors concurrently performing executive duties and executive officers, on the one hand, and shareholders on the other, and to provide directors and executive officers with ongoing incentives to enhance enterprise value, we have an officer stock ownership plan to which they contribute set annual amounts. The plan purchases and continuously holds company shares for each of the directors and executive officers in amounts proportional to their roles and responsibilities.

The remuneration limit for Audit & Supervisory Board members as a group is also set at the General Shareholders’ Meeting, while remuneration paid to individual members of that board is determined on the basis of discussion among members.

Remuneration of Executives, etc. (for the year ended March 2018)

Position	Total remuneration, etc., of executives (millions of yen)	Total remuneration, etc., by type (millions of yen)				Number of executives eligible
		Basic remuneration	Bonuses	Stock options	Retirement bonuses	
Directors (excluding outside directors)	412	261	150	—	—	6
Audit & supervisory board members (excluding outside audit & supervisory board members)	49	49	—	—	—	2
Outside directors and audit & supervisory board members	62	62	—	—	—	6

Corporate Governance Framework

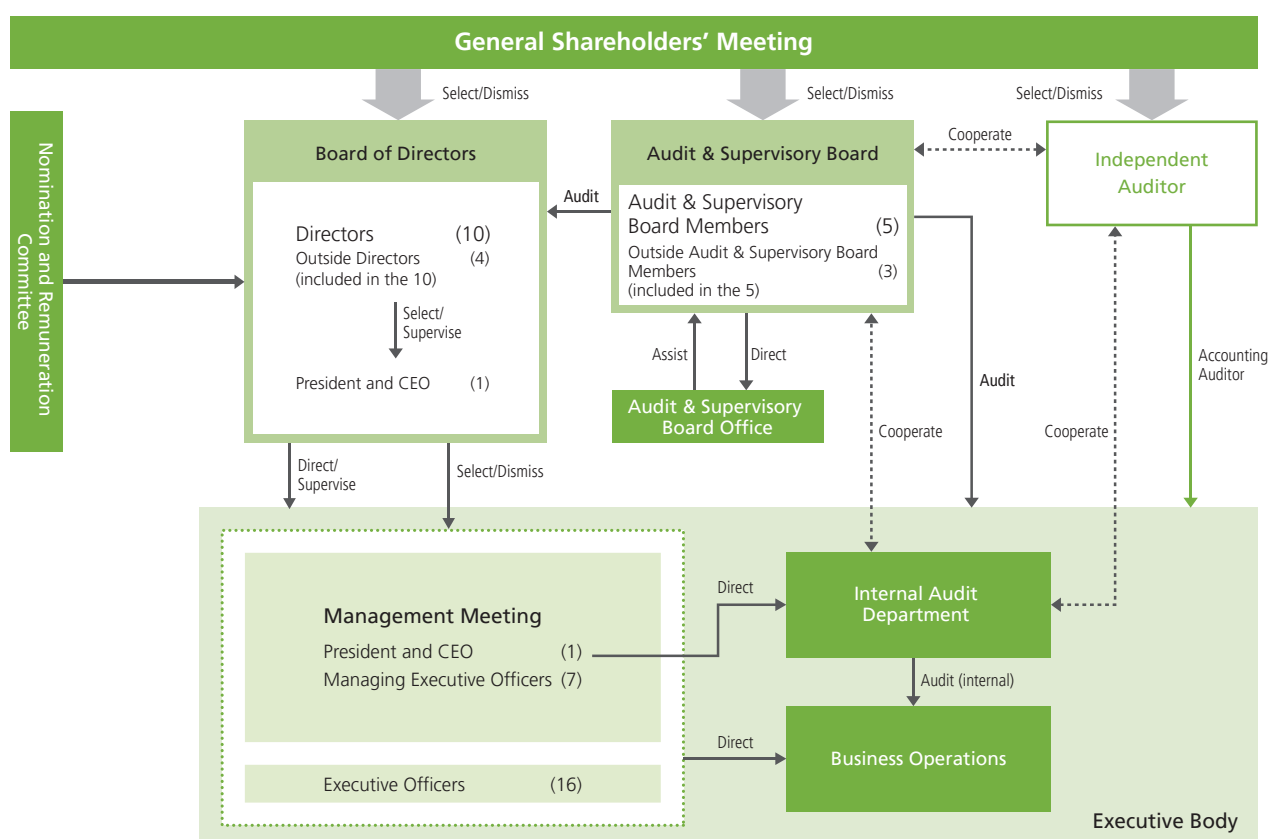
The company has selected the “Company with Board of Corporate Auditors” model for its corporate governance system under the Companies Act.

The Audit & Supervisory Board effectively performs a supervisory function for the Board of Directors from the standpoint of Audit & Supervisory Board members. The company's highly independent outside directors interact with the Audit & Supervisory Board and its members to properly monitor the execution of business. In these ways, we are striving for a gov-

ernance system with effective checks and balances.

In order to respond swiftly to the rapidly changing business environment, we have put in place a system that allows fast and efficient management. We achieve this by functionally separating the Board of Directors, which is involved in making important decisions, from the executive officers, who are responsible for business execution. Also, we have transferred part of the decision-making process of the Board of Directors to the executive body, based on a resolution of the Board.

Corporate Governance Framework (as of June 26, 2018)







Contribution of Outside Officers

In addition to the requirements for independent officers stipulated by the Tokyo Stock Exchange, we follow criteria for independence that we have formulated when appointing outside officers as prescribed by the Companies Act. Candidates deemed capable of providing constructive suggestions and accurate observations and advice concerning the company's business and the improvement of enterprise value in the medium and long terms are appointed as outside directors.

Candidates who are knowledgeable about key aspects of finance, accounting, and auditing and who are independent of company executives are appointed as outside members of the Audit & Supervisory Board. Our outside officers, from their diverse perspectives, are active in asking questions and giving suggestions at Board of Directors meetings, thereby contributing to sustainable corporate growth and the enhancement of enterprise value over the medium and long terms.

■ Outside Officer Qualifications and Participation at Meetings of the Board of Directors and/or Audit & Supervisory Board

Position	Name	Qualifications and participation
Outside Directors	Eugene H. Lee 	<p>Mr. Eugene H. Lee brings a high level of expertise in international law and international business, as well as a wealth of experience and achievement in the management of global companies. In addition, he has an in-depth knowledge of Japan, Japanese business practices, and Japanese companies, as a result of his lengthy professional experience in Japan. He uses his experience in the management of global companies and advanced knowledge not only to monitor the execution of business as a member of the Board of Directors but also to make active suggestions aimed at increasing management transparency and fairness. In these ways, Mr. Lee fulfills his role of supervising and giving advice on business execution.</p> <p>Attendance: 11 of 12 Board of Directors meetings</p>
	Katsuhiko Tanabe 	<p>As a lawyer who has held important positions of responsibility in the legal profession and who has a considerable record of achievement as an expert in corporate legal affairs, Mr. Katsuhiko Tanabe provides an expert viewpoint and deep insight into management. He utilizes his experience as an outside officer at multiple companies to monitor business execution as a member of the Board of Directors and also uses his extensive knowledge as a legal expert and deep insight into corporate governance to make active suggestions aimed at increasing management transparency and fairness. In these ways, Mr. Tanabe fulfills his role of supervising and giving advice on business execution.</p> <p>Attendance: 12 of 12 Board of Directors meetings</p>
	Takeshi Ito 	<p>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 the analysis of companies based on his lengthy experience of working overseas and financing business operations, and his consulting work related to M&As and other matters. He not only utilizes his experience as an executive of investment management companies in and outside of Japan to monitor business execution as a member of the Board of Directors but also utilizes advanced knowledge and experience as an expert in international finance and investment fields to make active suggestions aimed at increasing management transparency and fairness. In these ways, Mr. Ito fulfills his role in supervising and giving advice on business execution.</p> <p>Attendance: 12 of 12 Board of Directors meetings</p>
	Waka Fujiso <small>New appointment</small> 	<p>Ms. Waka Fujiso brings a high level of expertise and a wealth of experience gained over many years as a prosecutor. After retiring from the Supreme Public Prosecutor's Office, she taught at a graduate school and served as a committee member for government agency councils. The company believes she will utilize her knowledge and experience not only to monitor business execution as a member of the Board of Directors but also to provide impartial suggestions and advice from a variety of perspectives aimed at further solidifying compliance-driven management and increasing management transparency and fairness. In addition, Ms. Fujiso has played a pioneering role in the advancement of women among prosecutors, and we believe that she will help to promote better utilization of human resources and greater diversity at the company. Based on these points, the company concluded that she can play a valuable role in supervising and giving advice on business execution, and thus elected her as a new outside director.</p>

Position	Name	Qualifications and participation
Outside Audit & Supervisory Board Members	Kinya Fujimoto 	<p>As a certified public accountant, Mr. Kinya Fujimoto has a wealth of knowledge and experience concerning financial affairs and accounting. He was appointed to audit all aspects of the company's business from the viewpoint of his specialties, based on his knowledge and experience, and to further strengthen corporate governance by virtue of his independent position. Mr. Fujimoto uses his long experience as a certified public accountant and abundant knowledge concerning financial affairs and accounting to ask questions and provide suggestions to the Board of Directors from the perspective of overall business auditing.</p> <p>Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit & Supervisory Board meetings</p>
	Mitsuhiro Nagahama 	<p>Mr. Mitsuhiro Nagahama has held a succession of important posts at financial institutions, and has wide-ranging knowledge and abundant global experience in the areas of finance and securities. He was appointed to audit all aspects of the company's business from the perspective of capital markets, based on his wide-ranging insight into corporate management and the business world, and to further strengthen corporate governance by virtue of his independent position. Mr. Nagahama uses his experience and in-depth knowledge gained at financial institutions to ask questions and provide suggestions to the Board of Directors related to the appropriateness of the Company's business strategies based on a global perspective, with the aim of further improving corporate governance and the control of Group companies.</p> <p>Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit & Supervisory Board meetings</p>
	Shigeru Morita 	<p>Mr. Shigeru Morita has held a succession of important posts at life insurance companies, as well as real estate and facility management companies, and has abundant knowledge and experience in these fields. He was appointed to audit all aspects of the company's business from the perspective of reducing and managing risks arising from business operations, and to further strengthen corporate governance by virtue of his independent position. Mr. Morita uses his experience and knowledge to ask questions and provide suggestions to the Board of Directors related to risk management, risk reduction measures, and improving the company's CSR initiatives.</p> <p>Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit & Supervisory Board meetings</p>

Comment by an Outside Director

The Status and Direction of Azbil's Corporate Governance

Outside Directors **Katsuhiko Tanabe**




Azbil Corporation has for some time worked to inculcate the compliance aspect of governance and foster a compliance-oriented corporate culture.

For example, our Nomination and Remuneration Committee, a voluntary advisory body, has held deliberations on executive appointments and other matters. The committee has so far not included various items, such as dismissal of representative directors, in its deliberations because the necessary circumstances have not arisen. Recently, however, we revised the rules of the committee so that dismissal of representative directors and other matters are now included in its deliberations. Therefore, we are currently working on the specification of reasons for dismissal and the like. In addition, we recently increased the number of outside directors by one person. Now, the Board of Directors, with 10 members in all, has four out-

side members, and the Audit & Supervisory Board, with five members, has three outside members. Accordingly, the seven outside officers account for nearly half of the sum of both boards, which have a total of 15 members. Moreover, the outside officers include a foreign national, a woman, a person with financial and accounting knowledge, and a person with legal knowledge, thus fully satisfying calls for diversity.

In order to deliver sustained growth in an increasingly severe business environment, it is highly advisable for the company to embrace strategies and supporting governance that emphasize fairness, objectivity, and transparency, so that it can advance its business resolutely while taking sound risks. As we can foster a compliance-oriented corporate culture, I am convinced that we can adequately deal with various future challenges.

Board of Directors, Executive Officers, and Audit & Supervisory Board Members

(As of June 26, 2018)



President and Chief Executive Officer
Hirozumi Sone

Responsible for the Group CEO, Internal Audit Department, Corporate Planning Department

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



Executive Director, Managing Executive Officer
Masato Iwasaki

Responsible for Life Automation (LA) business, Strategy for LA business growth, Promotion and Development of business in North America
General Manager of Life Science Engineering Department

Apr 1982 Joined the Company
Apr 2003 Manager of Marketing 2nd Department, and Information Systems Department, Advanced Automation Company
Apr 2011 Executive Officer of the Company, Manager of Marketing Department, Advanced Automation Company
Apr 2012 Managing Executive Officer of the Company, President of Advanced Automation Company
Jun 2012 Executive Director of the Company
Apr 2016 Executive Director of the Company and Managing Executive Officer of the Company (present post)
Apr 2018 General Manager of Life Science Engineering Department (present post)



Executive Director, Managing Executive Officer
Yoshimitsu Hojo

Responsible for azbil Group (aG) production, aG purchasing, the Advanced Automation business, Production Management Headquarters
President of Advanced Automation Company, 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)
Jun 2014 Executive Director of the Company (present post)
Apr 2016 Managing Executive Officer of the Company, President of Advanced Automation Company (present post)



Executive Director, Managing Executive Officer
Takayuki Yokota

Responsible for Corporate Communication, Overall Administrative Function, azbil Group (aG)-CSR, Internal control, Facilities/Business sites, Group Management Headquarters, International Business Headquarters, General Affairs Department, Legal & Intellectual Property Department, Secretary Office

Apr 1983 Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.)
Nov 2005 Director of the Investor Relations Department, Mizuho Financial Group, Inc.
Apr 2010 Executive Officer and Director of the Investment Banking Business Management Department, Mizuho Corporate Bank, Limited (present: Mizuho Bank, Ltd.)
Apr 2013 Joined the Company (Director)
Apr 2014 Executive Officer of the Company, General Manager of Group Management Headquarters
Apr 2016 Managing Executive Officer of the Company, General Manager of Group Management Headquarters
Apr 2017 Managing Executive Officer of the Company, General Manager of Group Management Headquarters and General Manager of International Business Headquarters
Apr 2018 Managing Executive Officer of the Company (present post)
Jun 2018 Executive Director of the Company (present post)



Executive Director, Managing Executive Officer
Kazuyasu Hamada

Responsible for Building Automation business, azbil Group (aG) Sales Synergy
President of Building Systems Company

Apr 1987 Joined the Company
Aug 2006 Manager of Security Business Planning Department, Security Business Headquarters, Building Systems Company of the Company
Apr 2008 General Manager of Security Business Headquarters, Building Systems Company of the Company
Apr 2011 Director of the Company, General Manager of Security System Headquarters, Building Systems Company
Apr 2013 Executive Officer of the Company, Vice Manager of Environmental Facility Solution Headquarters, Building Systems Company
Apr 2015 Executive Officer of the Company, General Manager of Environmental Facility Solution Headquarters and General Manager of Environmental Particle Solution Department, Building Systems Company
Apr 2016 Managing Executive Officer of the Company, General Manager of Tokyo Head Office, Building Systems Company
Apr 2018 Managing Executive Officer of the Company, President of Building Systems Company (present post)
Jun 2018 Executive Director of the Company (present post)



Chairman
Tadayuki Sasaki

Apr 1972 Joined The Fuji Bank, Limited (present: Mizuho Bank, Ltd.)
Oct 1999 Manager of Project Finance Department
May 2002 Joined the Company (Director)
Apr 2003 Executive Officer and Manager of the Accounting & Finance Department
Apr 2006 Managing Executive Officer of the Company
Jun 2007 Executive Director of the Company and Managing Executive Officer of the Company
Apr 2009 Executive Director of the Company and Senior Managing Executive Officer of the Company
Apr 2016 Executive Director of the Company and Vice President of the Company
Jun 2018 Chairman of the Company (present post)



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)



Outside Director

Takeshi Ito

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



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)
Jun 2007 Outside Audit & Supervisory Board Member of the Company
Jun 2010 Outside Director of the Company (present post)
Oct 2010 Outside Director of MIRAIT Holdings Corporation
Jun 2015 Outside Audit & Supervisory Board Member of JSP Corporation (present post)



Outside Director

Waka Fujiso

Apr 1980 Public prosecutor of Tokyo District Public Prosecutor's Office
Apr 2001 Public prosecutor of Tokyo High Public Prosecutor's Office
Dec 2007 Public prosecutor of Supreme Public Prosecutors Office
Mar 2008 Resigned from Public prosecutor of Supreme Public Prosecutors Office
Apr 2009 Professor of Rikkyo University's Law School
Sep 2011 Member of council of Ministry of Health, Labor and Welfare (present post)
Mar 2014 Resigned from Professor of Rikkyo University's Law School
Jun 2015 Substitute Audit & Supervisory Board Member of the Company
Jun 2018 Outside Director of the Company (present post)

Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members

Tomohiko Matsuyasu Hisaya Katsuta

Outside Audit & Supervisory Board Members

Kinya Fujimoto Mitsuhiro Nagahama Shigeru Morita

Managing Executive Officers

Hiroshi Arai

Responsible for Group IT, aG information systems, IT Solutions Headquarters
General Manager of IT Solutions Headquarters

Junya Nishimoto

Responsible for aG research and development (Group development synergy), Smart Robot, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department
General Manager of Technology Development Headquarters

Kiyohiro Yamamoto

Responsible for marketing, BA International Business, BA Environmental Solution, BSC's Development, BSC's marketing
General Manager of BSC's Marketing Headquarters

Executive Officers

Yoshifumi Suzuki

Responsible for 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

Masashi Hirano

Responsible for development for new business of Factory Automation

Seiichiro Hayashi

Responsible for 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

Hiroshi Shimizu

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

Tetsuo Takamura

Responsible for the advanced automation (AA) CP business*1
General Manager of the AAC CP Marketing Department

Tadayoshi Itoh

Responsible for the AA SS business*2
General Manager of the AAC SS Marketing Department

Hideaki Ishii

Responsible for aG production innovation, AA Development and Quality Assurance

Takahiro Sakamoto

Deputy General Manager of Technology Development Headquarters

Takashi Sawada

Manager of BSC's Tokyo Head Office

Taro Sento

Responsible for the AA IAP business*3
General Manager of the AAC IAP Marketing Department

Toshiyasu Sumitomo

Responsible for business development in North America, Life Science
Engineering business development

*1. CP business: Control Product business (supplying factory automation products such as controllers and sensors, etc.)

*2. SS business: Solution & Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

*3. IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.)

CSR-focused Management

Making “human-centered automation” the foundation of its business activities, the azbil Group works to fulfill its corporate social responsibility (CSR) 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

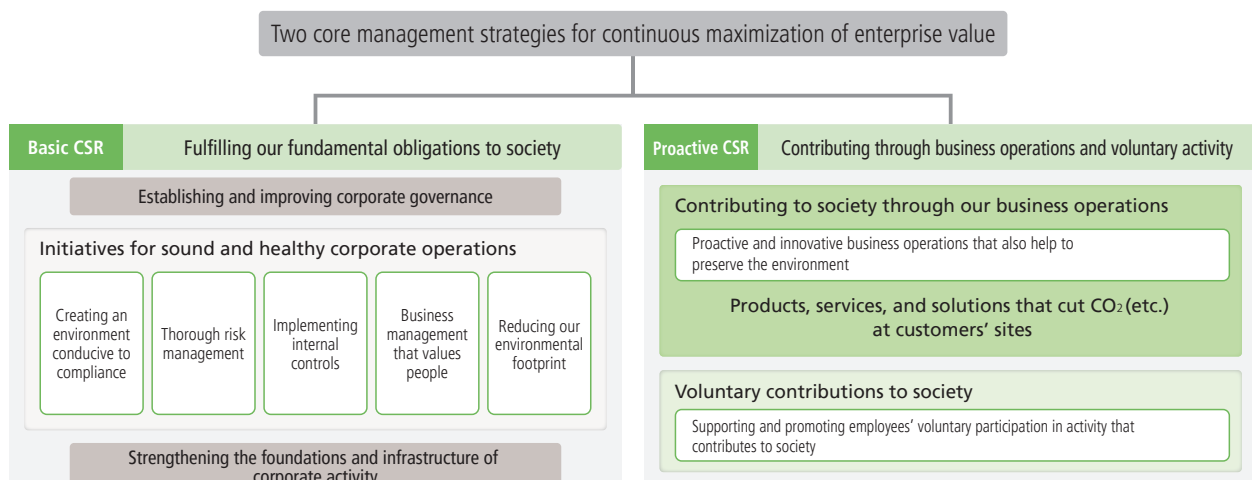
The azbil Group takes a broad view of the responsibilities that a company should fulfill toward stakeholders and society, and takes a twofold approach to CSR-focused management across the entire Group, as explained in the diagram below. First, there is what we call “basic CSR,” which involves fulfilling the azbil Group’s fundamental obligations as a member of society. This includes ensuring thorough compliance to laws and regulations; risk management and preventative measures in such fields as disaster mitigation, information security, product quality and product liability, and accounting; strengthening risk management measures and internal controls; and improving workplace environments to ensure the welfare of the

people who work in them. The azbil Group believes that there are no shortcuts to earning the trust of society, so our aim is to implement fair and honest management and to strengthen our corporate governance.

The second approach is what we term “proactive CSR,” which consists of contributions to society through our business operations, as well as employees’ voluntary participation in activity that benefits society, as an outgrowth of the culture and atmosphere of the company.

In these ways we hope to make positive contributions to the sustainable development of society and to live up to its expectations.

Initiatives to Fulfill Our Responsibilities to Society

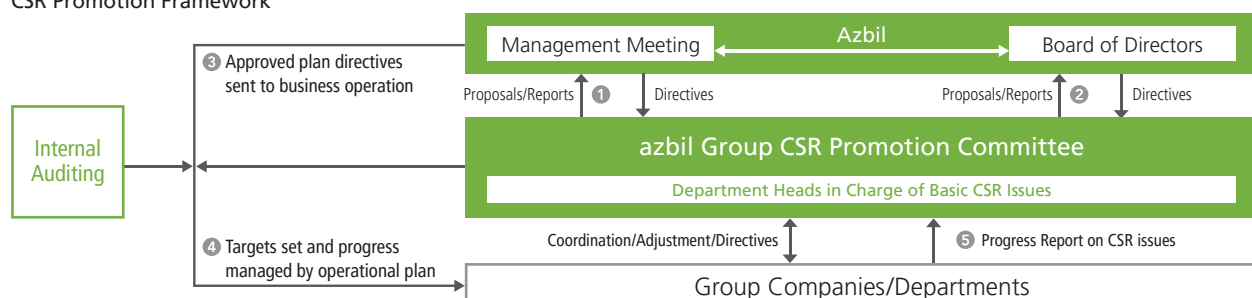


Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to coordinate and promote a wide range of CSR-related activity throughout the Group. 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 azbil Group Code of Conduct is discovered, the code imposes a mandatory reporting requirement and forbids reprisals for reporting, thereby establishing an environment in which checks on wrongdoing 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 a survey 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 fiscal year 2017, we surveyed a total of 11,000 people, including domestic and overseas employees, and found that more than 98% of these employees recognize the importance of compliance. In our compliance education for employees, we are stepping up efforts to raise compliance awareness through measures that include checking the code of conduct's guidelines and important countermeasures, and disseminating information.

■ Preventing Legal Risk

The azbil Group strives to ensure complete compliance with external laws throughout the Group. In addition to promoting full legal compliance in business activities, the Group provides education related to the law and also addresses legal risk overseas, which is increasing as our global expansion accelerates. Every effort is made to ensure timely and appropriate responses to important new laws such as the EU's General Data Protection Regulation (GDPR) and associated issues, as we endeavor 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 the Internal Control Systems

All officers and employees are required to comply with the clearly stated "azbil Group Basic Policy on Internal Control System Architecture," and the Group discloses the status of implementation of the policy.

In the 2017 fiscal year we amended our reporting rules in urgent or serious situations, clarifying the roles of each person with responsibility and revising the criteria for reporting, in order to ensure proper reporting during an emergency or critical event, such as an illegal or unethical act of major proportions at a domestic or overseas subsidiary.

We will continue working to improve our internal control systems by creating structures that are efficient, lawful, and highly transparent.

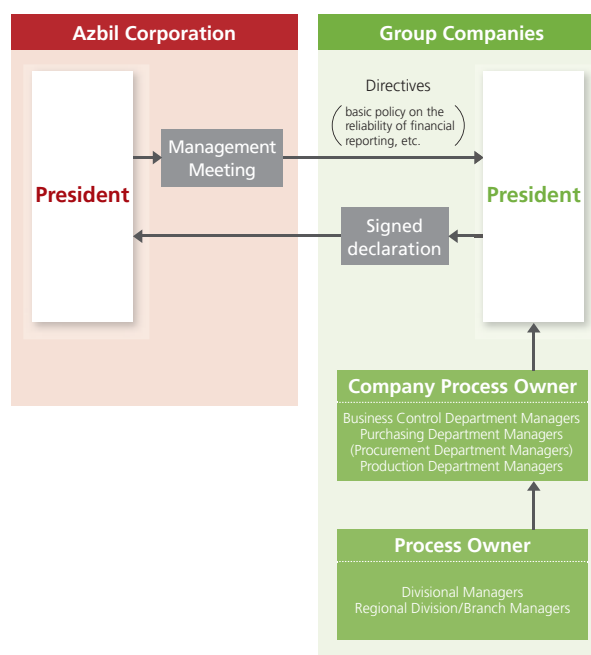
■ Response to Employee Concerns and Internal Issues

The azbil Group has set up a reporting and consultation system, the CSR Hotline, to identify a variety of issues, including compliance problems at Group companies, in a timely manner. This system is primarily for reporting and consultation about actions that deviate from the Group's code of conduct, such as improper accounting, fraudulent commercial transactions, legal violations, and human rights issues. In Japan, the system also handles inquiries about the personnel system, personnel evaluations, employee benefits, and other personal concerns. This system allows employees to choose between an internal or external point of contact. Awareness of this system is high, and many employees use it.

■ Improvements in Accounting in Response to the Internal Control Reporting System Mandated by “J-SOX”

To improve our response to the internal control reporting system requirement (“J-SOX”) prescribed by the Financial Instruments and Exchange Act, we conduct periodic reviews of the scope of internal audit and review our risks and controls in light of changing business conditions. The core information system operating at Azbil Corporation was stretched to Azbil Trading Co., Ltd., in April 2017 and to Azbil (Thailand) Co., Ltd., in January 2018. We will continue to introduce the system and revise our administrative processes at other Group companies domestically and overseas. We are also making efforts to raise the level of our internal control systems through ongoing education for all Group employees worldwide and improve the reliability on our accounting.

Management of Group Companies under “J-SOX”



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 and a market recession in a region where we do business, and a decrease in demand, 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 the life automation (LA) business.

In this environment, 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 measurements and control related to safety and quality in a variety of plants and buildings.

With regard to product quality, the Group promotes the sharing and transparency of information, such as sharing information in a committee. We are also enhancing quality control systems for the management of production lines, etc., and checking laws and regulations related to plant operation in view of revelations of wrongdoing at other companies. To ensure that we are prepared in the event of problems related to damages arising from product liability, we have taken out insurance policies, as well as enhancing our other precautions. However, an incident caused by defects in the Group's products, systems, or services could result in substantial costs and severely damage the Group's credibility with customers. This in turn could have an impact on the Group's operations, business results, and financial position.

(4) Risks Related to R&D

The azbil Group views research and development focused on the development of next-generation products that will maintain their technological superiority on an ongoing basis as a key management issue. Based on the Group philosophy of “human-centered automation,” the Group carries out research and development aimed at the conservation of resources,

energy, and labor; safety; preservation of the environment; and the provision of comfortable indoor 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, delays in research and development, insufficient technological capabilities, or other factors could delay the market launch of new products and have an adverse impact on the Group's operations, business results, and financial position.

(5) Risks Related to Global Operations

The azbil Group has expanded business overseas to more than 40 local subsidiaries and 2 branch offices. It has also established manufacturing bases in Dalian, China and in Thailand.

As the ratio of overseas sales increases, the Group is decentralizing production, including the establishment of manufacturing bases 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, local legal, regulatory, and other changes, natural disasters, terrorism, strikes, and other developments in countries where it operates could have an impact on the Group's manufacturing and procurement activities in whole or in part and thus affect the Group's business results and financial position.

Risk Management

We are striving to construct a system that prevents risk so that we do not lose enterprise 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 minimize key risks, we are building a management structure extending 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

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 and overseas production sites to identify risks and consider and implement 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, manufacturing function links between Japan and overseas bases are restored at the earliest possible time and that maintenance services continue to be provided at customers’ sites.



Regular emergency drills are conducted.

■ Upgrading and Reinforcing the Information Management System

We conduct an educational program on information security for all Group employees every year, and also address information management issues that emerge in the course of compliance awareness surveys. We are upgrading and reinforcing our framework for managing important information and personal information (including consideration of the newly enacted EU General Data Protection Regulation) to ensure proper management throughout the Group.

To prevent significant compromise of our level of services during a disaster, we are continually reviewing our backup systems, including the use of cloud computing environments.

(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 in exchange rates affect sales, the cost of raw materials and components, sales expenses, general expenses, and administrative expenses. These fluctuations have the potential to adversely impact 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 matters such as employee safety, employee health, the aging of the workforce, the handing down of technology, expertise, and know-how, cross-training to develop multifunctional workers, and the retention and development of personnel who will expand our domestic and international business to bring about our global expansion could have an impact on the Group’s business results and financial position.

(2) Risks Related to Information Leakage

The azbil Group possesses information that is important for business, as well as confidential information, which includes personal information and information about customers, suppliers, business partners, etc., that is obtained in the course of business.

The Group is taking measures to strengthen its handling and management of important information, including compliance with relevant laws, and to increase employees’ knowledge of information management. However, leakage of important 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 main domestic production bases (including manufacturing subsidiaries) of the azbil Group’s building automation (BA) and advanced automation (AA) businesses are located in Kanagawa Prefecture.

In addition, two of the six domestic production bases of Azbil Kimmon Co., Ltd., involved in the life automation (LA) business are located in Fukushima Prefecture. The Group has taken necessary actions, including the implementation of safety precautions, purchase of insurance, and the establishment of business continuity plans, 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, any difficulty in complying with environmental regulations could result in the cessation of certain business activities or other problems, potentially having an impact on the Group’s business results and financial position.

(5) Risks Related to Intellectual Property Rights

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

SDG Initiatives

We have cited “human-centered automation,” evolved from the ideas of our founder, as the azbil Group philosophy. By promoting management based on this philosophy, we will continue pursuing Sustainable Development Goals (SDG)-oriented activities.

Group Philosophy

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



2006- azbil “Human-centered Automation”

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

We have advanced the idea of our founder, who sought to “utilize advanced technologies to free people of drudgery,” together with the changing times.



1970s-2000s

Savemation



1950s-1970s

First in
Control

1906-1950s

“Freeing
People from
Drudgery”

The azbil Group is pursuing various efforts aimed at achieving the SDGs.

The SDGs

Our Initiatives

7 AFFORDABLE AND CLEAN ENERGY



Promote energy savings together with customers

In addition to conducting energy-saving diagnoses of customer sites, we use various tools to uncover areas of energy wastage. We also measure and analyze energy data of various facilities and compile reports on how to recover investments and the effects of energy savings. As an energy management service provider, we propose methods to drastically reduce capital investments required for energy conservation. As part of increased introduction of renewable energy, meanwhile, we are participating in a virtual power plant demonstration project (Ministry of Economy, Trade and Industry) aimed at fine-tuning a balance between energy demand and supply. Specifically, we are field-testing our automatic demand response system.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



Use IoT and AI to help realize "super-smart factories"

Through IoT innovation, companies are trying to realize a "super-smart society" that is safer, more efficient, and more comfortable. To achieve this, they must transform their manufacturing facilities into "super-smart factories." By utilizing big data and AI at manufacturing sites, the azbil Group aims to dramatically improve the operational management of factories and plants using IoT and realize safer, more stable operations.

11 SUSTAINABLE CITIES AND COMMUNITIES



Deploy operational management using network technologies to deliver a balance between comfort and energy conservation

Through industry-leading building automation technology and product lines, for many years we have pursued efficient operational management, energy and cost savings, and enhanced safety and comfort of buildings and facilities. For more than 30 years, we have provided remote monitoring and control services using network technologies, and we now undertake unified management of building facilities covering such areas as air conditioning, electricity, sanitation, and disaster prevention. In these ways, we contribute to reductions in life-cycle costs while creating safe, comfortable building environments.

13 CLIMATE ACTION



Reduce environmental impacts on customers' sites and society through our core business, and also reduce the environmental impact of our own business activities

In addition to identifying energy conservation issues in buildings, factories, and plants, we propose and implement solutions to them. We also verify the outcomes and provide support for subsequent improvements in order to encourage an upward spiral. In addition, we monitor the amount of CO₂ emissions from our business activities and are strategically reducing the environmental impact of our activities through a system in which our internal departments work together. We will use technologies and know-how derived from these efforts to solve further environmental issues.

4 QUALITY EDUCATION



Maximize the value we offer to customers through organizational transformation into a corporate group that never stops learning

In order to respond flexibly to changes in the business environment, we established the Azbil Academy, a professional organization for human resource development, and are promoting efforts to foster diverse human resources globally. In fiscal 2017, we also cooperated with programs for developing engineers at overseas universities and technical colleges.

5 GENDER EQUALITY



Step up efforts to create workplaces where people can demonstrate their abilities and excel from a responsible position

We define diversity promotion as "respecting each person's individuality and making use of his/her characteristics to enhance results through motivating work," and regard diversity as the driving force for corporate growth. In fiscal 2017, we conducted training for female managerial candidates and their supervisors in an effort to create environments where women can excel and also raise awareness among women.

8 DECENT WORK AND ECONOMIC GROWTH



Aim to realize healthy and happy lives for employees

As part of our important business management activities that value people, we are pursuing three initiatives: (1) reduction in the total working hours of individual employees; (2) realization of healthy lives, both physically and mentally; and (3) creation of harassment-free workplaces. Through these initiatives, we will create environments where all people can fully demonstrate their abilities and enhance employees' job satisfaction as we aim for sustainable growth of our company. Azbil Corporation has been certified as a "Health and Productivity Management Organization 2018 (White 500)." (See page 79 for more details.)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Promote Design for the Environment that consider whole life cycles

We are promoting Design for the Environment based on eight environmental viewpoints that consider the entire life cycles of products and services. We are now implementing "Environmental Design Assessments" that quantify and evaluate the degree of improvement vis-à-vis equivalent products, as well as "Life-Cycle Assessments" to calculate environmental impacts across the entire life cycles of individual products. We conduct reviews of Design for the Environment according to the development stage, and we are making efforts to achieve targets for reducing CO₂ emissions across the life cycles of each product. (Please see page 73.)

Environmental Initiatives



Based on our Group philosophy, and with the aim of achieving a sustainable society, we work proactively to reduce society's impact on the Earth's environment, both by cutting CO₂ emissions and conserving resources at our customers' sites through our core businesses, and by reducing the environmental impact of our own business activities.

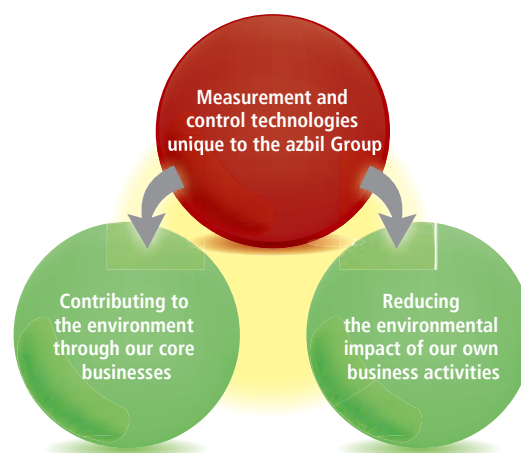
Please refer to our website for details on our environmental initiatives.
<https://www.azbil.com/csr/basic/environment/index.html>

Overview of Environmental Initiatives

In setting our environmental agenda, we take into consideration related global trends, including the U.N.'s adoption of Sustainable Development Goals and the entry into force of the Paris Agreement. Under the leadership of the azbil Group Environmental Committee, which meets three times a year, Group companies develop environmental management systems and conduct planning, deliberations, and reviews.

In addition to reducing the environmental impact of our own business activities and drawing upon the technologies and know-how obtained by doing so, the azbil Group makes use of its measurement and control technologies to help find solutions to the environment-related problems faced by our customers. In doing so, we promote "contributing to the environment through our core businesses" and contribute to achieving a sustainable society.

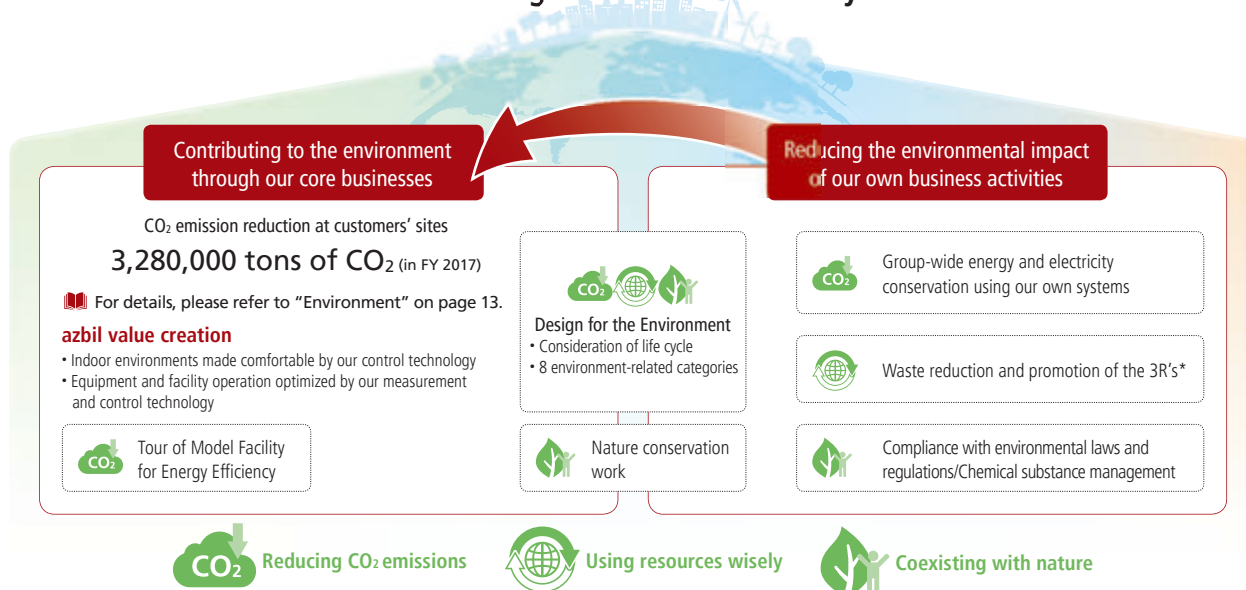
The company's Fujisawa Technology Center serves as an experimental site for energy management solutions and as a



model business site for energy conservation. In addition to conducting technological research, our engineers at the site operate the products we develop to verify their effectiveness.

Please refer to page 74 for details on initiatives at the Fujisawa Technology Center.

Achieving a Sustainable Society



*"Reduce, reuse, and recycle" in order to effectively use resources.

Achievements of Key Initiatives in FY 2017

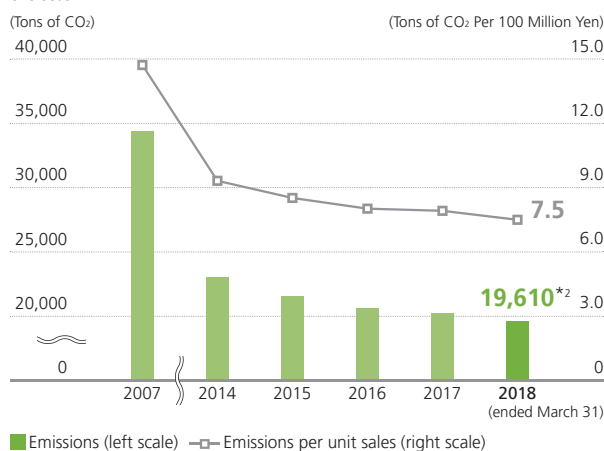
■ Reducing CO₂ Emissions

In fiscal year 2017, CO₂ emissions (Scopes 1 and 2) at the azbil Group's bases decreased by 43% compared with fiscal year 2006 (ended March 2007), a 49% improvement per unit sales.

In addition to CO₂ emissions under our control (Scope 1 and 2), we also identify CO₂ emissions indirectly related to corporate activities (Scope 3), including emissions from our supply chains, in our efforts to reduce emissions through Design for the Environment and other initiatives.

CO₂ Emissions (Scope 1, 2)*¹ and CO₂ Emissions per Unit Sales

Azbil Corp., consolidated subsidiaries in Japan, and main manufacturing bases overseas

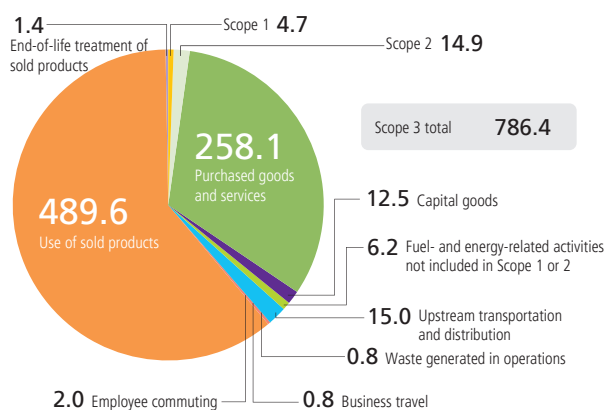


*1. The figures for CO₂ emissions use a fixed coefficient (0.378 kg CO₂/kWh). The figures for CO₂ emissions include estimates of rented office air-conditioning energy and other figures.

*2. The figures for CO₂ emissions (Scope 1, 2) from fiscal year 2014 onwards have received third-party verification.

CO₂ Emissions (Scope 1, 2, 3)* in FY 2017

Azbil Corporation
(Thousand Tons of CO₂)



Scope of calculation

Scope 1, 2: Azbil Corporation, consolidated subsidiaries in Japan, and main manufacturing bases overseas.

Scope 3: Azbil Corporation, plus some of its consolidated subsidiaries in Japan and its main manufacturing bases overseas.

*Our CO₂ emissions (Scope 1, 2, 3) have received third-party verification.

■ Responding to Water-Related Risk

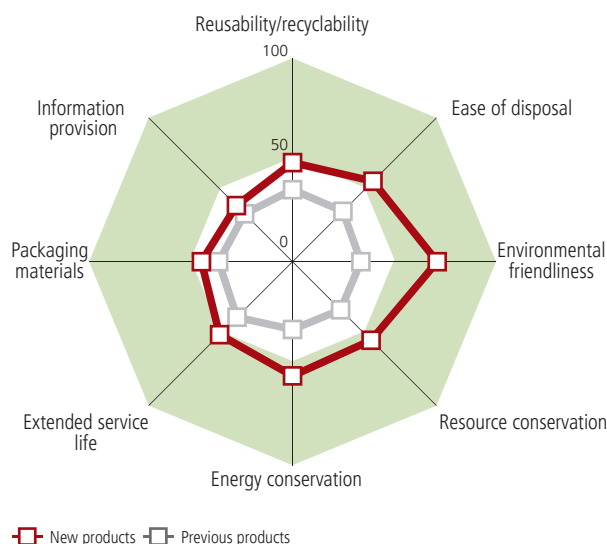
The azbil Group's bases used 142.2 million liters of water in fiscal year 2017, up 5.3% year on year. We continue to undertake

business continuity initiatives and to carry out risk assessments using the World Resources Institute's water risk mapping tool, Aqeduct. We received a B score in CDP Water 2017.

■ Design for the Environment

Our new products undergo a life-cycle assessment and an environmental design assessment*¹ to promote designs for the environment (DfE) that consider the entire life cycle. We conduct a DfE review appropriate for the stage of development and set environmental design targets measured by LC-CO₂*² for each product. In the DfE results for fiscal year 2017, our environmental design assessment overall*³ showed an 18.6% improvement, and 88% of our new products satisfied the certification standards for the azbil Group's Environmental Label.*⁴

Results of Environmental Design Assessment (FY 2017)



*1. A relative assessment in which a new product is compared with previous similar products on a four-point scale based on the degree of improvement by major environmental category.

*2. CO₂ emissions over the entire life cycle.

*3. Sum total of all environmental design assessment results.

*4. A Type II Environmental Label.

■ Status of our Environmental Education Overseas

In fiscal year 2017, we strengthened environmental education at our overseas subsidiaries. An educational program was presented to a total of 3,430 employees at 16 locations. Some content original to each overseas subsidiary was added to the core curriculum.

■ Compliance with Environmental Laws and Regulations

Again in fiscal year 2017, the azbil Group did not violate, and was not penalized, fined, or sued in connection with, major environmental laws or regulations.

Examples of Environmental Initiatives in FY 2017



■ Initiatives at the Fujisawa Technology Center

The Fujisawa Technology Center, our R&D facility, carries out a range of demonstration experiments for energy management solutions and serves as a model business site for energy conservation, activities that help us to reduce environmental impact at our customers' sites. The technology and know-how obtained through these initiatives can be viewed by the public.

Mastering both the Physical and the Psychological: Air Conditioning Control Experiment to Understand the Preferences of Room Occupants

In many buildings, energy is wasted by excessively hot or cold temperatures set by occupants.

As a solution, we devised a thermal sensation voting air conditioning system (tentative name). Instead of directly setting the temperature, occupants send a signal informing the system that they feel hot or cold. They do so using a newly developed thermal sensation voting card. The system responds immediately to their temperature preference while also appropriately controlling the room environment to ensure that other people do not feel uncomfortable for an extended period.

We installed this system in Building 100 at Fujisawa Technology Center and are currently evaluating the resulting comfort level and energy efficiency. Based on analysis of the transmitted temperature sensations and of questionnaire results, we hope to have this system in operation as a service that helps to save energy and also improves productivity at customers' sites.

Please refer to our technical report in the *azbil Technical Review* (April 2018 issue) for details on the experiment.
 https://www.azbil.com/corporate/technology/review/pdf/rev2018E_3.pdf



Portable temperature sensation voting card

Expanding the Use of Renewable Energy: Virtual-Power-Plant Construction Demonstration Project

Virtual power plants are gaining attention as a way to expand the use of renewable energy, which in turn provides benefits such as mitigating climate change. A virtual power plant (VPP) functions by aggregating distributed energy resources (solar, wind, etc.).

Using a VPP to adjust the energy supply-demand balance with demand response (DR)*¹ requires advanced energy management techniques. Azbil Corporation was selected to participate in the Ministry of Economy, Trade and Industry's Virtual-Power-Plant Construction Demonstration Project. We

have been conducting experiments at Fujisawa Technology Center since FY 2016 with our automatic DR, a program that responds to demand using automated control.

We are examining the operation of this program in real time and attempting to achieve optimal operation by means of communication between solar panels and energy storage facilities using *savic-net™FX*, a system that monitors and controls facilities and equipment. We ran automatic DR for an energy demand control (Adjustable Power Source I**²) that was activated from January to February 2018 in areas served by Tokyo Electric Power Company, so we were able to test automatic DR in an actual electric power control situation.

We intend to optimize our operation and control methods not only for our own electricity and energy conservation, but also for the buildings of general electricity consumers, helping society as a whole to save energy.

*1. With DR the owners of energy resources among the energy consumers, or businesses such as Azbil, control energy resources on behalf of consumers in order to change power demand patterns.

*2. An energy demand control for the purpose of adjusting the supply-demand balance during periods of tight supply and demand. These periods are caused by such factors as severe weather conditions (extreme heat and cold), which occur about once every 10 years.



Solar panels

Tour of Model Facility for Energy Efficiency

Fujisawa Technology Center utilizes a variety of energy-saving techniques, ranging from unique measures that make use of familiar ideas, to those that utilize state-of-the-art technology. The technology and know-how obtained by implementing these techniques is shown to participants in the Center's energy conservation tours.



The first tour was conducted in 2002. Since then, a total of 15,842 people (including 1,385 overseas trainees) have participated (as of the end of March 2018).



■ Design for the Environment: PLC Linker DOPL II S: Environmental Impact Reduced Throughout the Life Cycle

DOPL II S is a controller that integrates PLC subsystems for the Harmonas-DEO system and Advanced-PS system.

It consumes 37.5% less power than previous products, thanks to lower power consumption by parts, power-optimizing design, and other efficiency improvements. It is also 41.2% smaller in size and is lighter due to a more than 20% reduction in the number of parts, elimination of internal wires, extension of the CPU board and incorporation into the board of other functions, and other enhancements. We also eliminated limited-life parts to achieve a longer service life and improved extensibility by modularizing internal components. As a result, the product improved by 39.6% overall in its environmental design assessment, with a significant reduction in life-cycle carbon dioxide emissions, meeting the certification criteria for the azbil Environmental Label.



azbil Group
Environmental
Label

Winner of a Good Design Award 2015



■ "Visualization" Takes Energy Efficiency to the Next Level Promotion of Sustainable Initiatives through Further Improvement of Operations

At the azbil Group's main domestic and overseas bases, we have used our energy management solution to develop a system that manages energy use and implements energy-savings through the visualization of energy consumption in real time. Meanwhile, some say that the continuation of this initiative over many years has made it difficult to develop new measures for improving operations.

In response, we are now promoting a project throughout the azbil Group in which energy conservation personnel, company-wide environmental conservation personnel, energy conservation experts from business departments, and product and technology development personnel work together to meet the challenge of achieving sustainable energy conservation. In addition to sharing effective measures, project personnel use and analyze data collected by visualization and apply it to calorific value and electricity consumption prediction models. This assists in establishing systems for guiding improvement in HVAC equipment operation tailored to the challenges facing particular factories, in order to produce out-

comes that exceed efficiency targets.

By utilizing the knowledge obtained through improvement of our own utility operations and related problem-solving in order to provide products for buildings and for small and medium-size factories, we can help to reduce the environmental impact of our customers and of society.



Guidance for improving heat source operation



Energy conservation project operation



■ Biodiversity Initiatives Nature Conservation by Employees in the Local Community

Employees of the azbil Group help to conserve nature in the communities where our business sites and bases are located. It is hoped that this kind of activity will make employees more environmentally conscious, which in turn will have a positive impact on the value of the corporation.



The maiden lily

As part of a Group-wide initiative, in FY 2017, on six occasions a total of 120 employees and family members participated in environmental conservation. There were three kinds of conservation work: surveys and activities with Kyoto University on the premises of Azbil Kyoto Co., Ltd.; work with an NPO to conserve green spaces in the city of Fujisawa in Kanagawa Prefecture; and work to protect the maiden lily, a near-threatened species found at Nango Ski Resort in the town of Minamiaizu in Fukushima Prefecture.



■ Calculation of Environmental Impact from Our Corporate Activity (Organizational LCA)

The azbil Group attempted to calculate its company-wide environmental impact as the only Japanese "road tester" for the guidelines on the calculation of organizational LCA issued by the United Nations Environment Programme (UNEP) in 2015. The results were published in a report by the UNEP in September 2017.

Please refer to the website below to view the report.
 <https://www.lifecycleinitiative.org/o-lca-road-testing-publication-launched/>

The azbil Group pursues its business activities while maintaining a full awareness of its corporate social responsibilities 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 disclose complete information 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 foundations. 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 our shareholders and investors, in partnership with various Azbil Corporation departments. With efforts spearheaded by the Investor Relations (IR) Office, we are engaging in dialogue on a wide range of topics that include our business performance, business details, governance, and proposals made at the General Meeting of Shareholders. The IR office also creates the IR website, which provides information for shareholders and other investors, such as consolidated reports (this publication), and the like to actively release information valuable in making investment decisions, both financial information and non-financial information related to environment, society, and governance (ESG). In the fiscal year ended March 2018, we worked to enhance this information by adding online content that gives a virtual tour of our research and development center and our exhibits.

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 our notice about the shareholder meeting, which gives information for shareholders' decision making when they exercise their voting rights, we work to provide comprehensive information, including a message from the president and CEO, and strive to publish that information quickly in both Japanese and English. In the fiscal year ended March 2018, the azbil Group sent the notice to all the shareholders three weeks before the General Meeting of Shareholders and included the information on its website about

one month prior to the meeting. We are also creating an online environment that enables a wide range of shareholders to use an electronic voting platform to quickly obtain information about the General Meeting of Shareholders and to exercise their voting rights.

We also sought to encourage dialogue with shareholders and other investors through one-on-one meetings and conferences with our institutional investors in Japan and overseas. In these meetings, which were attended by the president, officers, and the IR Office, we entered into dialogue on more than 260 occasions in the fiscal year ended March 2018. We convey the opinions gathered through these discussions to our management team, including outside officers, and use them 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. Following the announcement of our quarterly financial results, the responsible officers or staff provide briefings for securities company analysts in an effort to promote understanding of the company. We also work to expand dialogue with other shareholders who are not institutional investors by holding briefings for private investors.

■ 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.

■ Employee Stock Incentive System Introduced to Promote Common Interests with Shareholders

In March 2017 we introduced 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 the company's 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 grassroots events. In these ways, we help to raise environmental awareness and enliven local communities.

■ Participation in the Shonan International Marathon

Our participation in the Shonan International Marathon, which aims to be an environmentally friendly race that promotes environ-



mental awareness, dates back to the very first time the race was run. In fiscal year 2017, we supported it for the 12th time. Every year, azbil Group employees and their families participate as volunteers and runners. A total of 200 people from the Group came together to bring even more excitement to the marathon in the year ended March 2018. As part of the Eco Friendship activity promoted by Azbil Corporation with the assistance of other companies, a total of 70 volunteers assisted in efforts to reduce the environmental footprint of the race, not only at the venue but throughout the entire operation. The volunteers helped to separate recyclable waste, fostered environmental awareness among visitors, and (through the company's Eco Runner plan) encouraged runners to discard trash properly, etc. In addition, our Eco-Café raised awareness about the environment and social responsibility among visitors by offering Japanese pork soup made using locally grown ingredients and coffee made from fair-trade* coffee beans.



® International Fairtrade Certification Mark

The International Fairtrade Certification Mark certifies that each process leading up to a finished Fairtrade International Certified Product, from raw material production to import/export, processing, and manufacturing, adheres to the international fair-trade standards set out by the Fairtrade Labelling Organizations International (Fairtrade International).

*As indicated by the name, this refers to impartial and fair trading of commodities. The aim is to improve the lives and independence of producers and workers in developing countries, who often have a weak bargaining position, by facilitating ongoing purchases of raw materials and products from developing countries at fair prices.

■ azbil Honey Bee Club

The azbil Honey Bee Club encourages members' voluntary participation in activities that contribute to society. Since the club was established in 2006, more than 1,100 employees and officers of the azbil Group have joined as members and participated in club activities.

A distinct feature of the club is the ability of members to apply for support of activities that they wish to help. The applications are voted upon by other members in order to decide whether to provide support. Azbil Corporation supports the club in the form of matching donations for activities that members themselves participate in to encourage the members to participate in activities that contribute to society.

In the fiscal year ended March 2018, its eighth year, the club voted to support 26 groups, while also donating to other organizations engaged in activities that benefit society. As a result, it distributed a total of ¥6 million in membership fees and matching donations from Azbil Corporation, bringing the cumulative donations provided by the club since its inception to ¥40 million. The Club has received many words of thanks from various groups who have received support. It is redoubling its efforts as it approaches its 10th anniversary in fiscal year 2019.

March, the azbil Honey Bee Club's mascot



■ Please refer to the website for more information about the azbil Honey Bee Club.

■ <https://www.azbil.com/csr/contribution-to-society/mitsubachi.html>

■ Azbil Yamatake General Foundation

The Azbil Yamatake General Foundation was established with the aim of providing systems and educational opportunities by which children, who represent our future, can learn without hindrances. The foundation also fosters research in science and technology and supports the development of new technology. The foundation's "Asunaro Friendship" program provides financial support for scholarships, educational awareness, and research activities. This program's 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, the foundation has supported a scholarship program established by the city of Fujisawa in Kanagawa Prefecture, scholarships to students from single-parent households, support for a childcare center, support for a student volunteer group that runs a small private school, and donations to a research institute. Future plans are to expand the system and the regions supported to enable many more young people to learn without hindrances and to increase support for technological research.

Responsibility to Customers and Suppliers

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

■ Responsibility to Customers

Backed by our integrated framework, which covers everything from development to manufacturing, sales, engineering, installation, and service, we work with 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.53 for more information about product quality and safety.

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.”

■ Realizing Healthy and Happy Lives for Employees Invigorating the Corporate Culture

Since fiscal year 2013, we have conducted employee satisfaction surveys with the aim of creating healthy, happy 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 bosses and subordinates, 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 is 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 yearly from 40% in fiscal year 2013 to 49% in fiscal year 2017.

In fiscal year 2015 (ended March 2016), we began conducting the satisfaction survey at all Group companies in order to create healthy, happy, and positive workplaces throughout the azbil Group.

* An index calculated by: satisfied employees (%) – dissatisfied employees (%).

Work-Style Reforms Azbil Corporation is promoting “work-style reforms” as an important part of its commitment to business management that values people. This entails company-wide initiatives in three areas: (1) reduction in the total working hours of individual employees, (2) realization of healthy lives, both physically and mentally, and (3) creation of harassment-free workplaces.

(1) Reduction in the Total Working Hours of Individual Employees

We have been working hard to reduce the total number of hours worked by individual employees and appropriately manage the overtime hours of employees by setting time management levels for each workplace under a three-year plan that began in fiscal year 2016. In addition, we are acting to reduce overtime work by introducing a diversified work system that takes efficiency and customer service into account. We aim to satisfy the standards of legal amendments in Japan that are to become effective in fiscal year 2019 one year early.

(2) Realization of Healthy Lives Both Physically and Mentally Raising the Standard of Health and Safety among Group Companies

We have 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 sixth year of our Occupational Health and Safety Management System (OHSMS) certification, we continued to maintain a highly safety-conscious workplace environment while gradually increasing the number of business establishments that have OHSMS certification.

Health and Safety Education through e-Learning

We use e-learning programs to teach employees to prevent unsafe behavior due to human error and to study examples of past accidents. We also continually provide education based on past occupational accidents to prevent their recurrence.

Promotion of Health Management We are promoting better employee health with the cooperation of the Azbil Group's Health Insurance Society by clarifying health issues that we need to address based on employee exercise, diet, smoking habits, and health examination results, as well as workplace environment surveys and the like. In fiscal year 2017, events were held to promote routine exercise and prevent obesity, in addition to further activities to help employees quit smoking through the use of lung checkers and other methods. Thanks to praise for these initiatives, the azbil Group was selected as a "White 500 Company" in the large enterprise category of the Health and Productivity Management Organization Recognition Program by the Ministry of Economy, Trade and Industry in February 2018.

Mental Health Measures We provide self-care education to help employees notice their stress levels and deal with them effectively. We have also updated the content of our "line care training" in the fiscal year ended March 2017. A third round of the training is conducted to enable workplace managers to quickly identify mental illness among their subordinates. 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 separately conducted employee satisfaction surveys, provide valuable feedback for improving the workplace environment.

When an employee is reinstated after taking a leave of absence due to a mental illness, we carefully check the preparedness of the workplace for the employee's return, and we have a system in place to provide support after reinstatement to prevent a recurrence of the illness.

Number of Azbil Corporation Business Establishments with OHSMS Certification
Azbil Corporation



(3) Creation of Harassment-free Workplaces

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.

In particular, at departments that require intensive remedial measures for two consecutive years, we hold review meetings with the workplace managers and HR department staff and take concrete measures accordingly. Furthermore, in the fiscal year ended March 2018, we implemented these measures at departments where there was little concern of harassment, if any. These efforts have led to improvements, as the results of our awareness surveys confirm.

■ Diversity Promotion

The azbil Group believes that raising performance by respecting each individual's personality, utilizing their unique characteristics, and enabling them to work enthusiastically is the driving force of corporate growth. We think creating an environment where diverse human beings can actively participate, such as one which has systems that support work-life balance of individuals to enable them to both work and raise children or nurse a family member at the same time, is extremely important.

In regard to promoting the active participation of women, the Group has set a target to at least double the number of women in managerial or specialist positions (35 managers) in March 2015 by the fiscal year ending in March 2022. We are creating even more opportunities for women to actively participate, such as ongoing training focusing on recruitment, education, and the expansion of operations for target female employees and their supervisors.

In addition, to promote various ways of working, we are actively seeking the opinions and concerns of our employees who are actually raising children or nursing a family member, and we are applying what we have learned to the creation of systems which make the work environment more employee-friendly.

Starting in the fiscal year 2018, the azbil Group will expand the time within which employees can take paid leave by the hour, in addition to adopting systems such as allowing employees to take a leave of absence to accompany a spouse on an overseas assignment, and allowing employees to take a leave of absence for self-improvement.

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

The azbil Group emphasizes fair procurement both within Japan and overseas. Accordingly, to ensure full consideration of our corporate social responsibility (CSR) throughout the supply chain, we ask our suppliers familiarize themselves with the azbil Group's Basic Procurement 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)	2008	2009	2010	2011
Financial Results (for the year):				
Net sales	248,551	236,173	212,213	219,216
Gross profit	89,946	86,655	76,420	79,714
Operating income	20,484	17,832	12,385	14,896
Net income attributable to owners of the parent	10,709	9,525	6,242	7,928
Capital expenditures	4,488	6,414	2,704	3,351
Depreciation	4,387	4,503	4,751	4,460
R&D expenses	9,844	9,636	8,640	8,953
Cash Flows (for the year):				
Net cash provided by operating activities	21,086	21,372	15,714	15,223
Net cash provided by (used in) investing activities	(612)	(16,606)	1,960	(2,276)
Free cash flow	20,474	4,766	17,674	12,947
Net cash used in financing activities	(6,433)	(8,575)	(6,757)	(8,001)
Financial Position (at year-end):				
Total assets	228,844	220,846	218,472	217,501
Net assets	121,721	124,984	129,278	131,362
Per Share Data:				
Net income (yen)	145.63	127.87	84.52	107.35
Net assets (yen)	1,641.73	1,672.91	1,728.64	1,754.86
Cash dividends (yen)	60.00	62.00	62.00	63.00
Ratios:				
Gross profit/Net sales (%)	36.2	36.7	36.0	36.4
Operating income/Net sales (%)	8.2	7.6	5.8	6.8
R&D expenses/Net sales (%)	4.0	4.1	4.1	4.1
Shareholders' equity/Total assets (%)	52.6	55.9	58.4	59.6
Return on equity (ROE) (%)	9.0	7.8	5.0	6.2
Dividend on equity (DOE) (%)	3.7	3.7	3.6	3.6
Dividend payout ratio (%)	41.2	48.5	73.4	58.7

(Millions of yen)

	2012	2013	2014	2015	2016	2017	2018
	223,499	227,585	248,417	254,469	256,890	254,811	260,384
	80,840	77,872	86,550	89,884	91,089	91,492	97,481
	14,348	13,411	13,904	15,337	17,136	20,145	24,027
	8,519	8,309	7,669	7,169	8,268	13,154	17,890
	3,010	3,121	5,303	6,302	3,413	4,160	7,038
	4,027	3,621	3,722	3,784	4,148	4,075	4,111
	8,816	7,824	8,767	10,124	11,012	10,446	11,262
	5,634	15,010	15,836	13,698	11,073	19,949	19,481
	(3,549)	(12,716)	(10,670)	(13,472)	4,262	(9,061)	(48)
	2,085	2,294	5,166	226	15,334	10,889	19,433
	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)	(6,441)	(10,852)
	223,476	243,419	253,448	265,719	259,127	263,317	278,629
	135,077	141,197	144,978	160,294	156,966	165,752	177,963
	115.35	112.50	103.85	97.07	112.73	179.57	246.16
	1,808.48	1,882.66	1,940.56	2,143.11	2,116.09	2,236.47	2,426.29
	63.00	63.00	63.00	63.00	67.00	77.00	82.00
	36.2	34.2	34.8	35.3	35.5	35.9	37.4
	6.4	5.9	5.6	6.0	6.7	7.9	9.2
	3.9	3.4	3.5	4.0	4.3	4.1	4.3
	59.8	57.1	56.5	59.6	59.8	62.2	63.2
	6.5	6.1	5.4	4.8	5.3	8.3	10.5
	3.5	3.4	3.3	3.1	3.1	3.5	3.5
	54.6	56.0	60.7	64.9	59.4	42.9	33.3

Consolidated Balance Sheet

Azbil Corporation and its consolidated subsidiaries
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 68,640	¥ 59,837	\$ 647,548
Marketable securities (Note 4)	12,606	14,607	118,924
Notes and accounts receivable:			
Trade (Note 14)	91,420	88,500	862,455
Other	1,701	1,412	16,050
Allowance for doubtful receivables	(597)	(907)	(5,632)
Inventories (Note 5)	23,836	22,185	224,872
Deferred tax assets (Note 10)	5,691	5,754	53,685
Prepaid expenses and other current assets	9,108	12,725	85,923
Total current assets	212,405	204,113	2,003,825
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,601	6,639	62,269
Buildings and structures (Notes 6 and 7)	42,481	41,723	400,766
Machinery and equipment (Note 6)	18,982	19,712	179,075
Furniture and fixtures (Note 6)	20,076	19,813	189,399
Lease assets (Note 13)	230	243	2,174
Construction in progress (Note 6)	2,967	869	27,989
Total	91,337	88,999	861,672
Accumulated depreciation	(65,858)	(65,775)	(621,301)
Net property, plant and equipment	25,479	23,224	240,371
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	26,590	22,007	250,847
Investments in and advances to unconsolidated subsidiaries and associated companies	415	331	3,919
Goodwill (Note 6)		74	
Deposits	2,828	2,792	26,679
Deferred tax assets (Note 10)	1,379	1,190	13,012
Software (Note 6)	4,412	3,848	41,619
Other assets	5,121	5,738	48,307
Total investments and other assets	40,745	35,980	384,383
TOTAL	¥ 278,629	¥ 263,317	\$ 2,628,579

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 10,096	¥ 10,555	\$ 95,248
Current portion of long-term debt (Notes 7 and 14)	190	251	1,788
Notes and accounts payable:			
Trade (Note 14)	41,498	40,456	391,498
Other	2,913	2,721	27,478
Income taxes payable	6,313	4,731	59,562
Accrued bonuses	10,368	9,530	97,815
Other accrued expenses and current liabilities	16,151	15,822	152,365
Total current liabilities	87,529	84,066	825,754
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,074	1,148	10,129
Liability for retirement benefits (Note 8)	5,686	5,817	53,645
Deferred tax liabilities (Note 10)	5,005	4,675	47,221
Long-term payable for retirement benefits		784	
Provision for stock payment	655	312	6,178
Other long-term liabilities	717	763	6,757
Total long-term liabilities	13,137	13,499	123,930
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 9):			
Common stock—authorized, 279,710,000 shares; issued, 74,250,442 shares	10,523	10,523	99,271
Capital surplus	11,670	12,334	110,095
Retained earnings	147,729	136,466	1,393,667
Treasury stock—at cost, 1,713,287 shares in 2018 and 1,865,659 shares in 2017	(6,966)	(4,652)	(65,718)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	12,906	9,553	121,761
Deferred gain on derivatives under hedge accounting	45	32	430
Foreign currency translation adjustments	1,837	1,304	17,339
Defined retirement benefit plans	(1,749)	(1,737)	(16,507)
Total	175,995	163,823	1,660,338
Noncontrolling interests	1,968	1,929	18,557
Total equity	177,963	165,752	1,678,895
TOTAL	¥ 278,629	¥ 263,317	\$ 2,628,579

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2018

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥ 260,384	¥ 254,811	\$ 2,456,453
COST OF SALES	162,903	163,319	1,536,822
Gross profit	97,481	91,492	919,631
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	73,454	71,347	692,964
Operating income	24,027	20,145	226,667
OTHER INCOME (EXPENSES):			
Interest income	128	136	1,214
Dividend income	520	430	4,910
Interest expense	(165)	(209)	(1,559)
Foreign currency exchange loss	(296)	(113)	(2,791)
Loss on sales of property, plant, equipment and others—net	(130)	(283)	(1,229)
Gain/loss on sales of investment securities—net (Note 4)	656	63	6,184
Loss on impairment of long-lived assets (Note 6)	(342)	(570)	(3,228)
Loss on liquidation of subsidiaries and associated companies (Note 11)	(298)	(1,057)	(2,809)
Others—net (Note 11)	81	88	770
Other income (expenses)—net	154	(1,515)	1,462
INCOME BEFORE INCOME TAXES	24,181	18,630	228,129
INCOME TAX EXPENSE (BENEFIT) (Note 10):			
Current	7,211	5,246	68,034
Deferred	(1,172)	(14)	(11,064)
Total income tax expense	6,039	5,232	56,970
NET INCOME	18,142	13,398	171,159
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	252	244	2,379
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 17,890	¥ 13,154	\$ 168,780

	Yen		U.S. Dollars (Note 1)
	2018	2017	2018
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 246.16	¥ 179.57	\$ 2.32
Cash dividends applicable to the year	82.00	77.00	0.77

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥ 18,142	¥ 13,398	\$ 171,159
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized gain on available-for-sale securities	3,352	1,912	31,631
Deferred gain on derivatives under hedge accounting	13	33	123
Foreign currency translation adjustments	524	(983)	4,942
Defined retirement benefit plans	(21)	(208)	(207)
Total other comprehensive income	3,868	754	36,489
COMPREHENSIVE INCOME	¥ 22,010	¥ 14,152	\$ 207,648
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 21,778	¥ 13,983	\$ 205,459
Noncontrolling interests	232	169	2,189

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2018

	Thousands					Millions of Yen						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income						Total
						Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans		Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 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)		(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
Net income attributable to owners of the parent				17,890						17,890		17,890
Cash dividends, ¥82 per share				(5,944)						(5,944)		(5,944)
Change in ownership interest of parent due to transactions with noncontrolling interests			(664)							(664)		(664)
Purchase of treasury stock (715)	(715)				(6,973)					(6,973)		(6,973)
Disposal of treasury stock 2	2		1,476		2,500					3,976		3,976
Retirement of treasury stock			(2,159)		2,159							
Transfer from retained earnings to capital surplus			683	(683)								
Net change in the year						3,353	13	533	(12)	3,887	39	3,926
BALANCE, MARCH 31, 2018	72,537	¥ 10,523	¥ 11,670	¥ 147,729	¥ (6,966)	¥ 12,906	¥ 45	¥ 1,837	¥ (1,749)	¥ 175,995	¥ 1,968	¥ 177,963

	Thousands of U.S. Dollars (Note 1)										
	Accumulated Other Comprehensive 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	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2017	\$ 99,271	\$ 116,358	\$ 1,287,412	\$ (43,893)	\$ 90,130	\$ 308	\$ 12,302	\$ (16,396)	\$ 1,545,492	\$ 18,203	\$ 1,563,695
Net income attributable to owners of the parent			168,780						168,780		168,780
Cash dividends, \$0.77 per share			(56,086)						(56,086)		(56,086)
Change in ownership interest of parent due to transactions with noncontrolling interests		(6,262)							(6,262)		(6,262)
Purchase of treasury stock				(65,781)					(65,781)		(65,781)
Disposal of treasury stock		13,926		23,590					37,516		37,516
Retirement of treasury stock		(20,366)		20,366							
Transfer from retained earnings to capital surplus		6,439	(6,439)								
Net change in the year					31,631	122	5,037	(111)	36,679	354	37,033
BALANCE, MARCH 31, 2018	\$ 99,271	\$ 110,095	\$ 1,393,667	\$ (65,718)	\$ 121,761	\$ 430	\$ 17,339	\$ (16,507)	\$ 1,660,338	\$ 18,557	\$ 1,678,895

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 24,181	¥ 18,630	\$ 228,129
Adjustments for:			
Income taxes—paid	(5,672)	(4,507)	(53,517)
Depreciation and amortization	4,183	4,152	39,470
(Reversal of) provision for doubtful receivables	(50)	241	(467)
Increase in accrued bonuses	808	563	7,632
Foreign currency exchange loss	394	75	3,719
Loss on sales of property, plant, equipment and others—net	130	283	1,229
Gain on sales and valuation of investment securities—net	(636)	(63)	(5,998)
Loss on impairment of long-lived assets	342	570	3,228
Loss on liquidation of subsidiaries and associated companies (Note 11)	298	1,057	2,809
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(2,680)	1,546	(25,281)
(Increase) decrease in inventories	(1,569)	1,497	(14,806)
Increase (decrease) in notes and accounts payable	763	(4,237)	7,195
Increase in liability for retirement benefits	26	46	237
Increase in net defined benefit assets	(298)	(424)	(2,813)
Decrease in accrued payments due to change in retirement benefit plan	(804)	(833)	(7,582)
Increase in provision for stock payment	350	312	3,299
(Increase) decrease in other assets	(71)	321	(672)
(Decrease) increase in other liabilities	(213)	980	(2,013)
Others—net	(1)	(260)	(11)
Total adjustments	(4,700)	1,319	(44,342)
Net cash provided by operating activities—(Forward)	19,481	19,949	183,787
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	79	210	741
Purchases of property, plant and equipment	(5,795)	(2,683)	(54,665)
Purchases of intangible assets	(1,030)	(980)	(9,721)
Proceeds from sales of investment securities	910	196	8,583
Purchases of investment securities	(16)	(33)	(155)
Proceeds from sales of beneficiary securities of trust	11,248	12,063	106,113
Purchases of beneficiary securities of trust	(11,207)	(11,556)	(105,728)
Proceeds from sales of marketable securities	35,202	35,000	332,093
Purchases of marketable securities	(33,201)	(37,101)	(313,213)
Payments for sales of investments in capital of subsidiaries resulting in change in scope of consolidation	(98)	(137)	(925)
Purchase of investments in capital of subsidiaries	(22)		(203)
Others—net	3,882	(4,039)	36,622
Net cash used in investing activities	(48)	(9,060)	(458)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(841)	(730)	(7,935)
Proceeds from long-term debt	62	24	587
Repayment of long-term debt	(107)	(234)	(1,009)
Proceeds from sales of treasury stock	3,970		37,453
Purchase of treasury stock	(6,973)	(2)	(65,782)
Cash dividends paid	(5,943)	(5,161)	(56,066)
Dividends paid to noncontrolling interests	(149)	(192)	(1,414)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation	(735)		(6,929)
Others—net	(136)	(146)	(1,279)
Net cash used in financing activities	(10,852)	(6,441)	(102,374)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	222	(558)	2,091
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,803	3,890	83,046
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	59,837	55,947	564,502
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 68,640	¥ 59,837	\$ 647,548

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and its consolidated subsidiaries
Year Ended March 31, 2018

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106 to \$1, the approximate rate of exchange as of March 31, 2018. 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, 2018, include the accounts of Azbil and its 50 significant (53 in 2017) subsidiaries (together, the "Azbil Group").

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 (2 in 2017) 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.

Some of the consolidated subsidiaries have defined benefit pension plans, unfunded retirement benefit plans and 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 Expenses—Research and development expenses are charged to income as incurred.

l. 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)

Azbil has introduced an employee stock ownership plan (hereinafter referred to as "the Plan"), an incentive plan, offering Azbil's stock to its employees in order to enhance the motivation and morale of employees for increasing the stock price and business performance of Azbil by sharing economic effects with shareholders. This will hopefully enhance the correlation between the stock price and business performance of the Company.

(1) Outline of the transaction

Under the Plan, Azbil offers Azbil's stock to its employees who satisfy certain requirements specified in Azbil's predetermined stock granting regulations. Azbil awards points to employees according to their contribution level, and grants Azbil's stock proportionate to the awarded points when employees obtain the right to receive the stock by meeting certain conditions. The stock to be granted to employees is acquired with money previously placed in the trust, including stock to be granted in the future, and is separately managed as assets in the trust.

(2) Azbil's stock remaining in the trust

Regarding the accounting treatments for the trust contract, Azbil has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issue Task Force No. 30, March 26, 2015), and Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of Azbil's stock in the trust is ¥3,963 million for 998,283 shares as of March 31, 2018.

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 for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee 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 lessee as operating lease transactions.

All other leases are accounted for as operating leases.

n. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2018 and 2017, was ¥157 million (\$1,483 thousand) and ¥115 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 cannot be reliably estimated, the completed-contract method should be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on 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.

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 72,677,586 shares for 2018 and 73,250,697 shares for 2017.

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.

v. New Accounting Pronouncements

Azbil and Domestic Subsidiaries

—Application of policies for calculating tax expenses (Corporate Accounting Standards Guidance No. 28 of February 16, 2018)

—Implementation Guidance on Recoverability of Deferred Tax Assets (Corporate Accounting Standards Guidance No. 26 of February 16, 2018)

- (1) Overview
The treatment of taxable temporary differences related to subsidiaries occurring in nonconsolidated financial statements is being revised. Additionally, the treatment of the recoverability of deferred tax assets for companies that fall into category 1 is clarified.
- (2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2018.
- (3) Impact of adoption of this accounting standard
The amount of the impact on consolidated financial statements is currently under review.

—Accounting standards regarding revenue recognition (Corporate Accounting Standards No. 29 of March 30, 2018)

—Implementation Guidance on accounting standards regarding revenue recognition (Corporate Accounting Standards Guidance No. 30 of March 30, 2018)

- (1) Overview
This is a comprehensive accounting standard for revenue recognition. Revenue recognition is conducted through these five steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
- (2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2021.
- (3) Impact of adoption of this accounting standard
The amount of the impact on consolidated financial statements is currently under review.

Foreign Consolidated Subsidiaries

The amount of the impact on consolidated financial statements is currently under review.

	IFRS	Overview	Schedule Date of Adoption
IFRS 9	Financial Instruments	Amendments to classification, measurement, impairment and recognition of financial instruments and hedge accounting	Fiscal year ending March 31, 2019
IFRS 15	Revenue from contracts with customers	Comprehensive framework for revenue recognition	Fiscal year ending March 31, 2019
IFRS 16	Leases	Amendments to recognition of assets and liabilities for lessees	Fiscal year ending March 31, 2020

3. ACCOUNTING CHANGE

Not applicable.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current—Other	¥ 12,606	¥ 14,607	\$ 118,924
Total	¥ 12,606	¥ 14,607	\$ 118,924
Noncurrent:			
Equity securities	¥ 26,576	¥ 22,005	\$ 250,718
Other	14	2	129
Total	¥ 26,590	¥ 22,007	\$ 250,847

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2018 and 2017, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2018				2017				2018			
	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	¥ 5,562	¥ 20,446		¥ 26,008	¥ 5,822	¥ 15,653	¥ 37	¥ 21,438	\$ 52,473	\$ 192,886	\$ 4	\$ 245,355
Certificate of deposit	11,500			11,500	9,500			9,500	108,491			108,491
Trust fund investments and other	1,000			1,000	5,001			5,001	9,434			9,434
Other	106			106	106			106	999			999

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2018 and 2017, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2018 and 2017, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2018			2017			2018		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 910	¥ 656		¥ 142	¥ 63		\$ 8,583	\$ 6,185	\$ 1

The impairment losses on available-for-sale equity securities for the year ended March 31, 2018, were ¥20 million (\$186 thousand).

5. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Merchandise	¥ 1,225	¥ 1,384	\$ 11,558
Finished products	3,744	3,521	35,319
Work in process	7,788	7,724	73,469
Raw materials	11,079	9,556	104,526
Total	¥ 23,836	¥ 22,185	\$ 224,872

6. LONG-LIVED ASSETS AND GOODWILL

The Azbil Group recognized impairment losses for the years ended March 31, 2018 and 2017, as follows:

		Millions of Yen		Thousands of U.S. Dollars
		2018	2017	2018
Azbil TA Co., Ltd.	Land	¥ 32		\$ 303
Azbil Kimmon Co., Ltd.	Buildings and structures	30		279
	Machinery and equipment, etc.	222		2,098
	Furniture and fixtures	58		548
	Subtotal	310		2,925
Azbil	Furniture and fixtures		¥ 11	
	Construction in progress		1	
	Subtotal		12	
Azbil Saudi Arabia Limited	Buildings and structures		349	
	Machinery and equipment, etc.		58	
	Furniture and fixtures		39	
	Software		2	
	Subtotal		448	
Azbil Telstar Benelux, B.V.	Buildings and structures		57	
	Machinery and equipment		20	
	Furniture and fixtures		11	
	Software		22	
	Subtotal		110	
Total		¥ 342	¥ 570	\$ 3,228

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

For the year ended March 31, 2018, Azbil TA Co., Ltd., a consolidated subsidiary of Azbil decided to sell land for office relocation. As a result, the carrying amount of the asset was written down by ¥32 million (\$303 thousand) 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, evaluated based on the estimated price if sold.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥310 million (\$2,925 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 8.1%.

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 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 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 in total, and this reduction was recognized as an impairment loss.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2018 and 2017, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 6.7% as of March 31, 2018, and from 0% to 8.8% as of March 31, 2017.

Long-term debt as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 4.6% in 2018 and 0.0% to 4.9% in 2017:			
Collateralized		¥ 30	
Unsecured	¥ 590	589	\$ 5,567
Obligations under finance leases	674	780	6,350
Total	1,264	1,399	11,917
Less current portion	(190)	(251)	(1,788)
Long-term debt, less current portion	¥ 1,074	¥ 1,148	\$ 10,129

As of March 31, 2018, Azbil had an unused line of credit amounting to ¥30,000 million (\$283,019 thousand), of which ¥10,000 million (\$94,340 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$188,679 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2018, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 190	\$ 1,788
2020	451	4,248
2021	145	1,367
2022	158	1,494
2023	117	1,105
2024 and thereafter	203	1,915
Total	¥ 1,264	\$ 11,917

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 defined benefit pension plans for the pension beneficiaries (i.e., closed pension plans), lump-sum payment plans, and also maintain defined contribution plans for the participating employees.

In addition to the plans above, certain subsidiaries participate in the Employees' Pension Fund, a multiemployer pension plan, or the Smaller Enterprise Retirement Allowance Mutual Aid System. Among the Employees' Pension Fund plan, plans under which it is impossible to reasonably calculate the plan assets corresponding to their contributions are accounted for in the same way as defined contribution pension plans.

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 a 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.

Azbil and certain subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members. The liability for retirement benefits at March 31, 2018 and 2017, for directors and Audit & Supervisory Board members is ¥123 million (\$1,160 thousand) and ¥112 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 16,574	¥ 17,305	\$ 156,362
Current service cost	461	566	4,353
Interest cost	36	34	337
Actuarial losses	70	109	661
Benefits paid	(1,408)	(1,431)	(13,286)
Others	25	(8)	236
Balance at end of year	¥ 15,758	¥ 16,575	\$ 148,663

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 10,873	¥ 11,611	\$ 102,576
Expected return on plan assets	480	457	4,525
Actuarial losses	(267)	(281)	(2,519)
Contributions from the employer	78	53	737
Benefits paid	(989)	(960)	(9,330)
Others	23	(7)	219
Balance at end of year	¥ 10,198	¥ 10,873	\$ 96,208

(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
	2018	2017	2018
Funded defined benefit obligation	¥ 10,543	¥ 11,354	\$ 99,467
Plan assets	(10,198)	(10,873)	(96,208)
Total	345	481	3,259
Unfunded defined benefit obligation	5,215	5,221	49,196
Net liability arising from defined benefit obligation	¥ 5,560	¥ 5,702	\$ 52,455

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥ 5,563	¥ 5,704	\$ 52,485
Asset for retirement benefits	(3)	(2)	(30)
Net liability arising from defined benefit obligation	¥ 5,560	¥ 5,702	\$ 52,455

(4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 461	¥ 566	\$ 4,353
Interest cost	36	34	337
Expected return on plan assets	(480)	(457)	(4,525)
Recognized actuarial losses	221	224	2,082
Amortization of prior service cost		(154)	2
Others	83	138	787
Net periodic benefit costs	¥ 321	¥ 351	\$ 3,036

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost		¥ (154)	\$ 2
Actuarial gains	¥ (116)	(166)	(1,098)
Total	¥ (116)	¥ (320)	\$ (1,096)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥ (1)	¥ (1)	\$ (8)
Unrecognized actuarial gains	(2,534)	(2,417)	(23,903)
Total	¥ (2,535)	¥ (2,418)	\$ (23,911)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
Life insurance company general accounts	61%	60%
Debt investments	25	15
Equity investments	7	8
Short-term assets	4	14
Others	3	3
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, 2018 and 2017, are set forth as follows:

	2018	2017
Discount rate	0.3%	0.2%
Expected rate of return on plan assets	4.5	4.0

9. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Azbil does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.8% for the year ended March 31, 2018, and 30.8% for the year ended March 31, 2017.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Pension and severance costs	¥ 1,775	¥ 1,781	\$ 16,741
Accrued expenses	4,174	4,195	39,381
Depreciation	1,190	766	11,231
Loss on impairment of property, plant and equipment	203	202	1,910
Allowance for doubtful receivables	243	394	2,297
Tax loss carryforwards	1,895	2,470	17,875
Others	2,506	2,552	23,644
Less valuation allowance	(2,334)	(3,944)	(22,022)
Total	9,652	8,416	91,057
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	6,192	4,716	58,418
Special advanced depreciation	931	981	8,783
Others	287	268	2,707
Total	7,410	5,965	69,908
Net deferred tax assets	¥ 2,242	¥ 2,451	\$ 21,149

In addition to the above, the Azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million (\$1,710 thousand) at March 31, 2018, and ¥181 million at March 31, 2017.

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, 2018 and 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	30.8%	30.8%
Expenses not deductible for income tax purposes	1.3	0.9
Tax credits for qualified expenses	(3.2)	(4.1)
Valuation allowance	(4.7)	(0.4)
Amortization of goodwill	0.1	0.1
Others—net	0.7	0.8
Actual effective tax rate	25.0%	28.1%

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,364 million (\$78,905 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
2019	¥ 56	\$ 531
2020	7	67
2021	42	401
2022	21	194
2023	9	80
2024 and thereafter	8,229	77,632
Total	¥ 8,364	\$ 78,905

Revision of Amounts of Deferred Tax Assets and Deferred Tax Liabilities due to Change in Tax Rate, Such as Corporate Tax, etc.

The new U.S. tax legislation was enacted on December 22, 2017, and the federal corporate tax rate was reduced from the start of the fiscal year beginning on January 1, 2018. As a result, federal corporate tax rate changed from 35% to 21%, but the impact of the revision is immaterial.

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2018 and 2017, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Expenses for office relocation	¥ (32)	¥ (14)	\$ (306)
Loss on valuation of investment security	(20)		(186)
Other	133	102	1,262
Total	¥ 81	¥ 88	\$ 770

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,262 million (\$106,244 thousand) and ¥10,446 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, were ¥5,516 million (\$52,034 thousand) and ¥5,420 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. However, disclosure is omitted as it is immaterial.

The minimum rental commitments under noncancelable operating leases as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥ 637	¥ 872	\$ 6,008
Due after one year	638	1,260	6,019
Total	¥ 1,275	¥ 2,132	\$ 12,027

(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. However, disclosure is omitted as it is immaterial.

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 in the event the Azbil Group cannot execute payment on the payment date. Liquidity risks are managed by such methods as having each group company draw up monthly cash flow plans.

(3) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2018		
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 68,640	¥ 68,640		¥ 59,837	¥ 59,837		\$ 647,548	\$ 647,548	
Notes and accounts receivable—trade	91,420	91,420		88,500	88,500		862,455	862,455	
Investment securities	26,008	26,008		21,438	21,438		245,355	245,355	
Total	¥ 186,068	¥ 186,068		¥ 169,775	¥ 169,775		\$ 1,755,358	\$ 1,755,358	
Short-term borrowings	¥ 10,096	¥ 10,096		¥ 10,555	¥ 10,555		\$ 95,248	\$ 95,248	
Current portion of long-term debt	190	190		251	251		1,788	1,788	
Notes and accounts payable—trade	41,498	41,498		40,456	40,456		391,498	391,498	
Long-term debt	1,074	1,074		1,148	1,149	¥ (1)	10,129	10,132	\$ (3)
Total	¥ 52,858	¥ 52,858		¥ 52,410	¥ 52,411	¥ (1)	\$ 498,663	\$ 498,666	\$ (3)

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

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

Investment Securities

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

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

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

Long-Term Debt

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31, 2018
	2018	2017	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 738	¥ 724	\$ 6,967

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

	Millions of Yen				Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2018								
Cash and cash equivalents	¥ 68,640				\$ 647,548			
Notes and accounts receivable—trade	88,508	¥ 2,904	¥ 8		834,983	\$ 27,392	\$ 80	
Total	¥ 157,148	¥ 2,904	¥ 8		\$1,482,531	\$ 27,392	\$ 80	

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							March 31, 2018				
	2018			2017								
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:												
Selling U.S. dollars	¥ 533		¥ 3	¥ 3	¥ 391				\$ 5,030		\$ 30	\$ 30
Selling Euro					356		¥ (4)	¥ (4)				
Buying SG dollars									3			
Buying U.S. dollars	383		(9)	(9)	80		2	2	3,615		(85)	(85)
Buying Yen					20							

Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2018		
		2018			2017					
		Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥ 580	¥ 184	¥ 41				\$ 5,469	\$ 1,740	\$ 388
Selling G.B. pounds	Receivables	35						335		(3)
Buying IN rupee	Payables	155		20	¥ 427		¥ 43	1,463		188
Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term debt				120					

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

Disclosure is omitted as it is immaterial.

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 5,464	¥ 2,784	\$ 51,546
Reclassification adjustments to profit or loss	(635)	(57)	(5,988)
Amount before income tax effect	4,829	2,727	45,558
Income tax effect	(1,477)	(815)	(13,927)
Total	¥ 3,352	¥ 1,912	\$ 31,631
Deferred gain on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 17	¥ 43	\$ 164
Reclassification adjustments to profit or loss		1	
Amount before income tax effect	17	44	164
Income tax effect	(4)	(11)	(41)
Total	¥ 13	¥ 33	\$ 123
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 524	¥ (888)	\$ 4,942
Reclassification adjustments to profit or loss		(95)	
Amount before income tax effect	524	(983)	4,942
Total	¥ 524	¥ (983)	\$ 4,942
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (337)	¥ (389)	\$ (3,182)
Reclassification adjustments to profit or loss	221	69	2,086
Amount before income tax effect	(116)	(320)	(1,096)
Income tax effect	95	112	889
Total	¥ (21)	¥ (208)	\$ (207)
Total other comprehensive income	¥ 3,868	¥ 754	\$ 36,489

18. SUBSEQUENT EVENTS

a. Repurchase of Treasury Shares

Azbil implemented the following matters which was resolved at the Board of Directors' meeting held on May 11, 2018.

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 business result and 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 |
| (3) Total number of shares to be repurchased: | Up to 1,000,000 shares (1.4% of total number of common stock issued, excluding treasury shares) |
| (4) Total amount of repurchase: | Up to ¥5,000 million (\$47,170 thousand) |
| (5) Period of repurchase: | From May 14, 2018 to July 31, 2018 |
| (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, 2018, was approved at Azbil's shareholders' meeting held on June 26, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥41.0 (\$0.39) per share	¥ 3,015	\$ 28,443

The total cash dividends approved at Azbil's shareholders' meeting held on June 26, 2018, include the dividends of ¥40 million (\$386 thousand) for the stock of Azbil held by Trust & Custody Services Bank, Ltd. (Trust E) as assets in the trust of "Employee Stock Ownership Plan (J ESOP)."

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 of Yen							
	2018							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	¥ 119,940	¥ 96,563	¥ 43,822	¥ 260,325	¥ 59	¥ 260,384		¥ 260,384
Intersegment sales or transfers	294	668	387	1,349	6	1,355	¥ (1,355)	
Total	¥ 120,234	¥ 97,231	¥ 44,209	¥ 261,674	¥ 65	¥ 261,739	¥ (1,355)	¥ 260,384
Segment profit	¥ 12,584	¥ 9,931	¥ 1,502	¥ 24,017	¥ 10	¥ 24,027		¥ 24,027
Segment assets	67,553	73,537	31,095	172,185		172,185	¥ 106,443	278,628
Other:								
Depreciation	1,214	2,027	870	4,111		4,111		4,111
Increase in property, plant and equipment and intangible assets	2,351	3,868	819	7,038		7,038		7,038
Impairment losses of assets		32	310	342		342		342

	Millions of Yen							
	2017							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
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

Thousands of U.S. Dollars								
	2018							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	\$ 1,131,506	\$ 910,974	\$ 413,418	\$ 2,455,898	\$ 555	\$ 2,456,453		\$ 2,456,453
Intersegment sales or transfers	2,775	6,303	3,645	12,723	60	12,783	\$ (12,783)	
Total	\$ 1,134,281	\$ 917,277	\$ 417,063	\$ 2,468,621	\$ 615	\$ 2,469,236	\$ (12,783)	\$ 2,456,453
Segment profit	\$ 118,712	\$ 93,691	\$ 14,166	\$ 226,569	\$ 93	\$ 226,662	\$ 5	\$ 226,667
Segment assets	637,293	693,748	293,349	1,624,390	4	1,624,394	1,004,185	2,628,579
Other:								
Depreciation	11,456	19,125	8,210	38,791		38,791		38,791
Increase in property, plant and equipment and intangible assets	22,182	36,497	7,722	66,401		66,401		66,401
Impairment losses of assets		303	2,925	3,228		3,228		3,228

Note: Corporate assets of ¥106,444 million (\$1,004,185 thousand) for the year ended March 31, 2018, 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						
2018						
Japan	Asia	China	North America	Europe	Other	Total
¥ 214,587	¥ 20,048	¥ 9,366	¥ 4,200	¥ 9,087	¥ 3,096	¥ 260,384

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

Thousands of U.S. Dollars						
2018						
Japan	Asia	China	North America	Europe	Other	Total
\$ 2,024,404	\$ 189,132	\$ 88,355	\$ 39,627	\$ 85,724	\$ 29,211	\$ 2,456,453

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

(b) Property, plant and equipment

Millions of Yen						
2018						
Japan	Asia	China	North America	Europe	Other	Total
¥ 21,940	¥ 1,834	¥ 960	¥ 82	¥ 496	¥ 167	¥ 25,479

Millions of Yen						
2017						
Japan	Asia	China	North America	Europe	Other	Total
¥ 19,956	¥ 1,581	¥ 941	¥ 80	¥ 475	¥ 191	¥ 23,224

Thousands of U.S. Dollars						
2018						
Japan	Asia	China	North America	Europe	Other	Total
\$ 206,986	\$ 17,300	\$ 9,060	\$ 773	\$ 4,675	\$ 1,577	\$ 240,371

(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 of Yen							
	2018							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill		¥ 72		¥ 72		¥ 72		¥ 72
Goodwill at March 31, 2018								

	Millions of Yen							
	2017							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill		¥ 77		¥ 77		¥ 77		¥ 77
Goodwill at March 31, 2017		74		74		74		74

	Thousands of U.S. Dollars							
	2018							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill		\$ 679		\$ 679		\$ 679		\$ 679
Goodwill at March 31, 2018								

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, 2018, 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, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 19, 2018
(June 26, 2018 as to Note 18)

Member of
Deloitte Touche Tohmatsu Limited

azbil Group Companies Data

(As of March 31, 2018)

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 Mexico, S. de R.L. de C.V.**
Head office: León, Mexico
Established: 2018
- **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

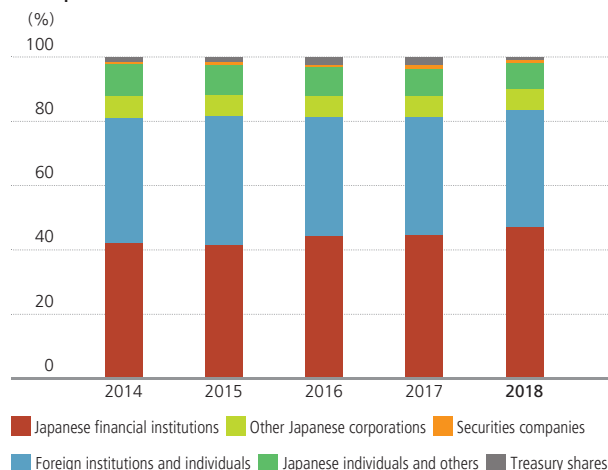
Corporate Data/Stock Information

(As of March 31, 2018)

Corporate Data

Founded	December 1, 1906
Incorporated	August 22, 1949
Paid-in capital	¥10,523 million
Accounting date	March 31
Annual shareholders' meeting	June
Head office	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan
Consolidated number of employees	9,328
Stock listing	Tokyo Stock Exchange, 1st Section
Ticker symbol number	6845
Stock information	Shares of Common Stock Issued 74,250,442 Share unit number 100 Shareholders 7,851
Transfer agent	Mizuho Trust & Banking Co., Ltd.

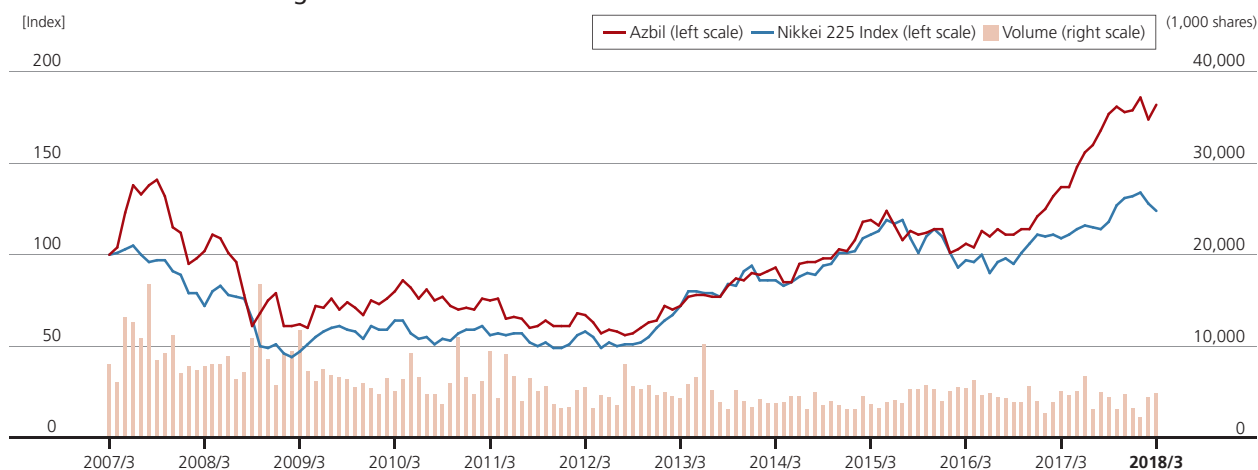
Composition of Shareholders



Major Shareholders (Top 10)

	Number of shares held (thousands)	Percentage of total investment (%)
Meiji Yasuda Life Insurance Co.	5,214	7.09
The Master Trust Bank of Japan, Ltd. (Trust account)	4,608	6.26
Japan Trustee Services Bank, Ltd. (Trust account)	3,731	5.07
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,057	4.15
State Street Bank and Trust Company	2,945	4.00
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.14
JPMC Oppenheimer Jasdec Lending Account	1,909	2.59
Nippon Life Insurance Co.	1,869	2.54
National Mutual Insurance Federation of Agricultural Cooperatives	1,550	2.10
azbil Group Employee Stock Ownership	1,410	1.91

Common Stock Price Range



(Ended March 31)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stock price at the end of the period (yen)	2,795	1,689	2,186	2,038	1,830	1,978	2,548	3,260	2,881	3,740	4,955
High (yen)	3,960	3,070	2,241	2,370	2,066	2,046	2,561	3,355	3,500	3,855	5,310
Low (yen)	2,300	1,431	1,594	1,634	1,539	1,490	1,870	2,300	2,618	2,695	3,545



Inclusion in SRI Indices (As of July 31, 2018)

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- MSCI Japan ESG Select Leaders Index
- Morningstar Socially Responsible Investment Index



Azbil has been selected for inclusion in the FTSE4Good Index Series for the twelfth consecutive year. The FTSE4Good Index Series is designed to facilitate investment in companies that meet specific Environment, Social and Governance criteria.

Contact

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azbil



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