

## azbil report 2019



Human-centered automation

## 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.

## Contents

### azbil's Value Creation

- 2 Leader's Message
- 4 azbil is here too
- 6 azbil's History of Value Creation
- 8 azbil's Value Creation
- 10 The Social Values Created through the azbil Group's Operations
- 12 Strengths of azbil Group
- 14 Financial and Non-Financial Highlights
- 16 The Past Year at the azbil Group
- 18 Interview with the CEO
- 27 Financial Targets and Non-Financial Priority Initiatives

### Value Creation Initiatives

- 28 At a Glance
- 30 Business Introduction, Business Overview
- 30 Building Automation (BA) Business
- 34 Advanced Automation (AA) Business
- 38 Life Automation (LA) Business
- 42 Resolving Social Issues through Our Business Activities
- 44 A Robust Global Value Chain
- 45 Technology Research and Product Development
- 48 Manufacturing and Procurement
- 49 Sales, Engineering, Installation, and Service
- 52 azbil Group's Global Network to Support Value Chain

### Infrastructure to Support Value Creation

- 54 CSR Management
- 62 Human Resources
- 66 Environmental Initiatives
- 70 Corporate Governance
- 78 Board of Directors, Executive Officers, and Audit & Supervisory Board Members
- 80 Communication with Stakeholders
- 83 Social Contribution Activities

### Financial Data

- 84 11-Year Key Financial Figures
- 86 Consolidated Balance Sheet
- 88 Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
- 89 Consolidated Statement of Changes in Equity
- 90 Consolidated Statement of Cash Flows
- 91 Notes to Consolidated Financial Statements
- 108 Independent Auditor's Report
- 109 azbil Group Companies Data
- 110 Corporate Data/Stock Information

# What is azbil's "Automation"?

Automation at the azbil Group is used to "measure" various factors, such as temperature and pressure, in order to "control" the factors into an optimal state.

We apply these automation technologies to offices, plants and factories, and people's lives in our quest to support the advancement of industry and daily living.

azbil is here too ➡ **P.4**

## Quick Navi

azbil Group's Strengths

➡ **P.12**

Our Management Strategy

➡ **P.18**

Our Financial Targets and  
Non-Financial Priority Initiatives

➡ **P.27**

Our Business Operations

➡ **P.30**

Our Corporate Governance

➡ **P.70**

## 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, Social, 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, 2018 to March 31, 2019 (Contains some information of the fiscal year beginning April 2019)

## 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) Ability to continually provide products and services that are accepted by our customers in highly competitive markets characterized by rapid development of new technologies and advancement of the global economy, etc.

■ For more detail, see "Business-Related and Other Risks" on page 57.

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.



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 and communities.

---

Since our establishment in 1906, we have pursued measurement and control technologies, delivering unique solutions to our customers. In April 2012, we changed our company name from Yamatake Corporation to Azbil Corporation, 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.

Fiscal year 2019 is the last year of the three-year medium-term plan. 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. Taking inspiration from the idea of “going beyond automation,” 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 contribute to the development of a sustainable society by creating new levels of value in partnership with customers at their sites and helping solve various issues, through the pursuit of “human-centered automation” that liberates people from drudgery and provides them with happiness brimming with joy and fulfillment.

August 2019



Hirozumi Sone  
President and Group Chief Executive Officer  
Azbil Corporation

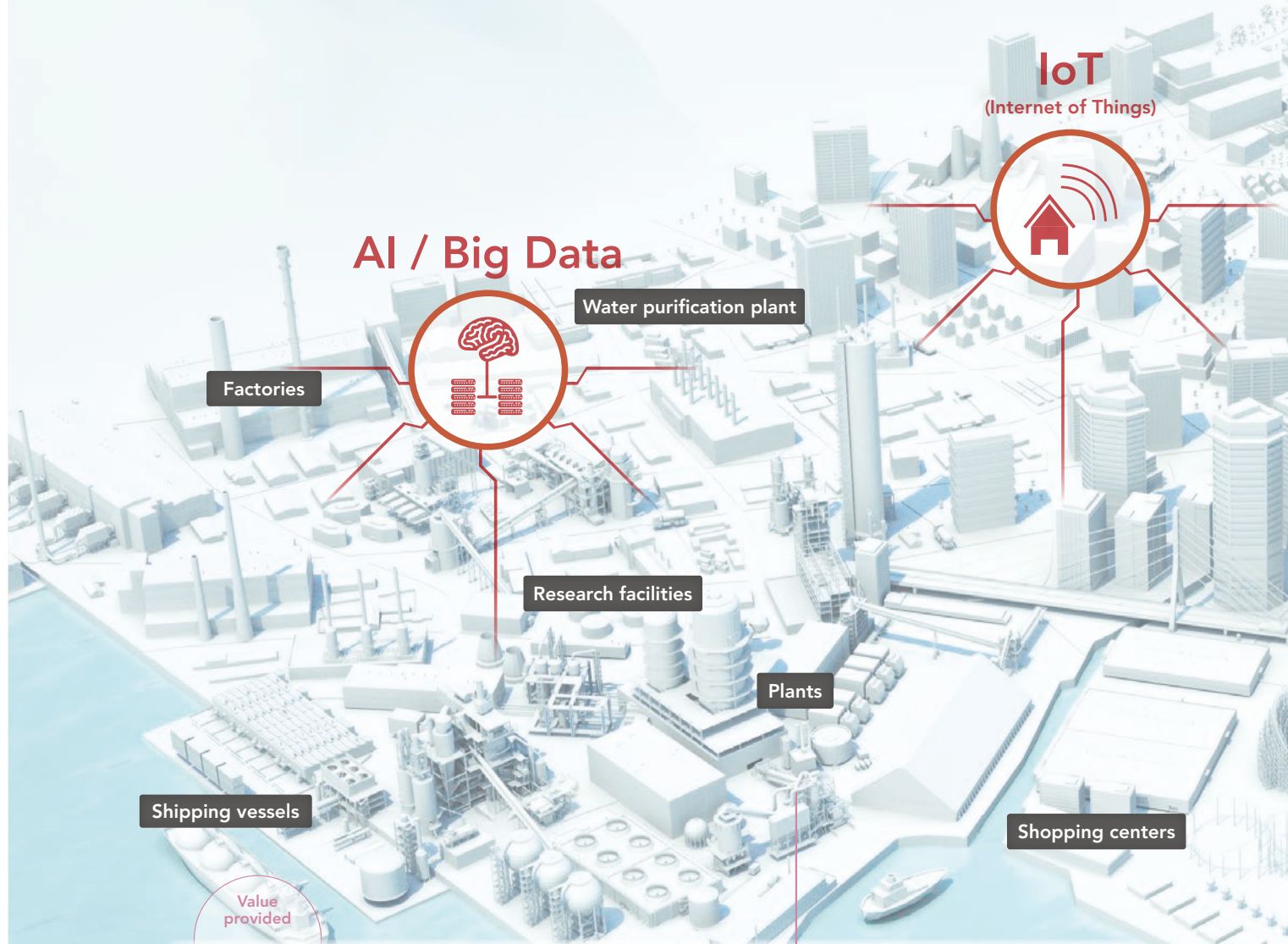




azbil is here too

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

Automation is used to “measure” various factors, such as temperature and pressure, in order to “control” the factors into an optimal state. We at the azbil Group apply these automation technologies—combined with such technological innovations as IoT, AI, big data, and the cloud—to office buildings, plants/factories, and people’s lives. Our quest is to support the advancement of industry and daily living.



### Advanced Automation In Plants and Factories

Automation technology is essential for solving various issues at manufacturing sites. In plants, for example, we use high-performance sensors to undertake online diagnoses of the condition of facilities and equipment. We also use operation big data and AI to learn about normal equipment operating status and detect abnormalities early, thus contributing to safe operation. In food and beverage factories, as well, we deploy advanced sensing technology to support bottling and cooking processes and help ensure consistent quality.

■ For more detail of AA business, see pages 34-35.





Value  
provided

## Life Automation In Our Lives

The azbil Group's automation technologies are used in gas, water, and other lifeline fields, as well as residential air conditioning systems and even pharmaceutical manufacturing equipment. These technologies help people enjoy safe, secure, healthy, and comfortable lives. For example, household gas meters equipped with a communication function enable automated meter reading and allow our data center to monitor the amount of LP gas remaining in the tanks and ensure that such tanks are exchanged or refilled efficiently. We will further promote smarter society and living.

■ For more detail of LA business, see pages 38-39.



azbil's Value Creation

Residential houses

Lifeline utilities

Cloud

Office buildings

Schools

Leisure/sports facilities

Hotels

Value  
provided

## Building Automation In Office and Large-scale Buildings

Our air-conditioning control technologies are incorporated in numerous large-scale facilities, including office buildings, hotels, and shopping centers. They are used to conduct detailed measurements of temperature, humidity, and other factors and control facilities and equipment in a manner that delivers comfort and energy savings. We also use the cloud and IoT technologies to adjust the power demand of numerous buildings and deploy AI to optimally control various equipment for greater energy savings. In these ways, our air-conditioning control technologies contribute to society.

■ For more detail of BA business, see pages 30-31.

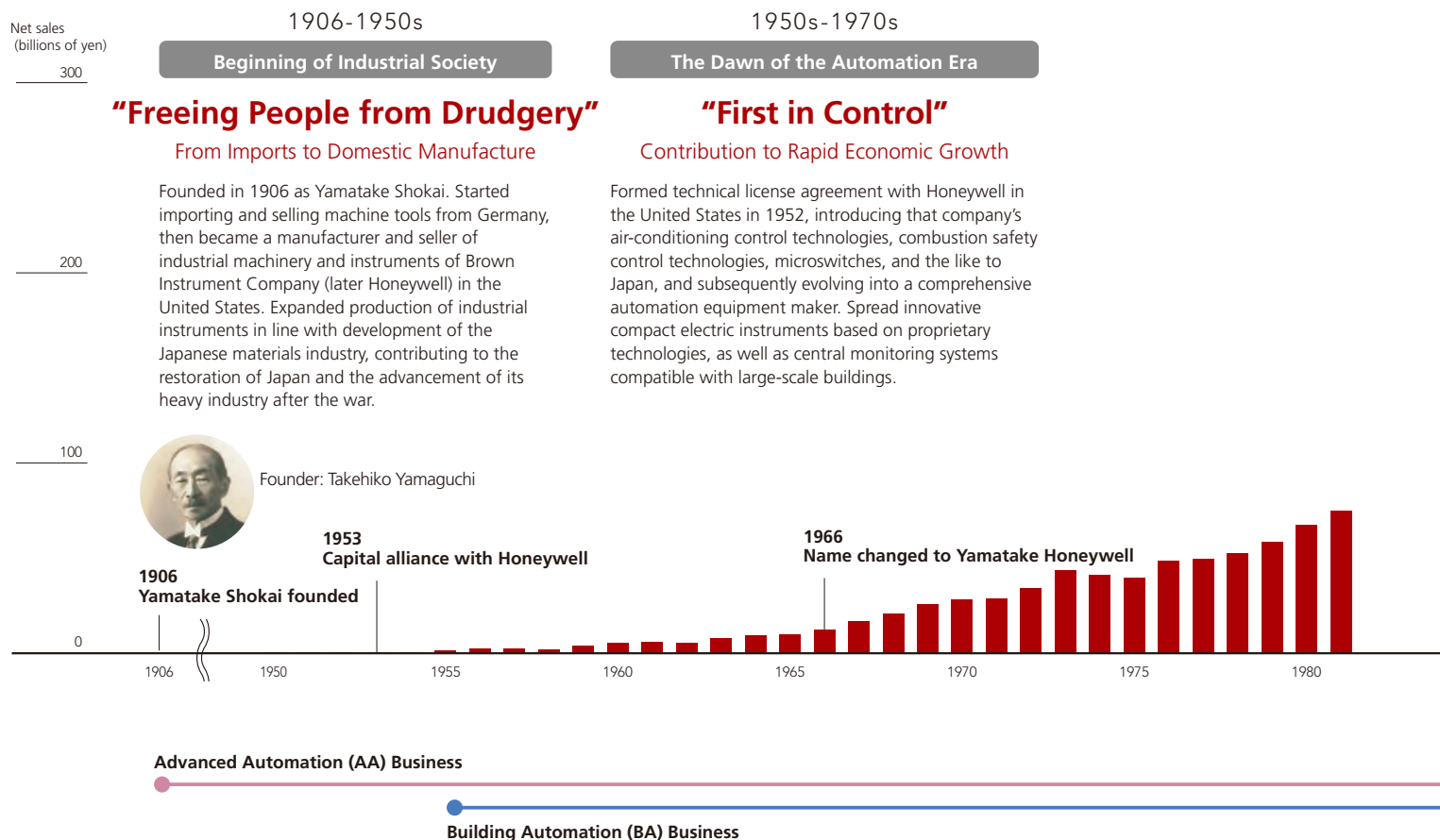




# azbil's History of Value Creation

Since our founding in 1906, we have delivered value by capturing the needs of changing society and embracing challenges to solve issues 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.

## History of azbil



## History of azbil products and services

BA Building Automation (BA) Business

AA Advanced Automation (AA) Business

LA Life Automation (LA) Business



**1936**  
Started manufacturing control valves in Japan



**1968**  
Air conditioning central control system



**1975**  
Distributed control system



**1981**  
Intelligent gas meter (Product of Kimmon Manufacturing Co., Ltd.)



**1984**  
Comprehensive building management service



**1959**  
Domestic production of Modutrol Motors



**1971**  
Electronic panel instruments  
Pneumatic panel instruments



**1975**  
Electromagnetic flowmeter



**1982**  
Integrated building automation system



**1985**  
Next-generation control valve

1970s-2000s

2006-

## The Shift from Analogue to Digital Instrumentation

### "Savemation"

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 needs for high-function, high-precision industrial instruments.

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

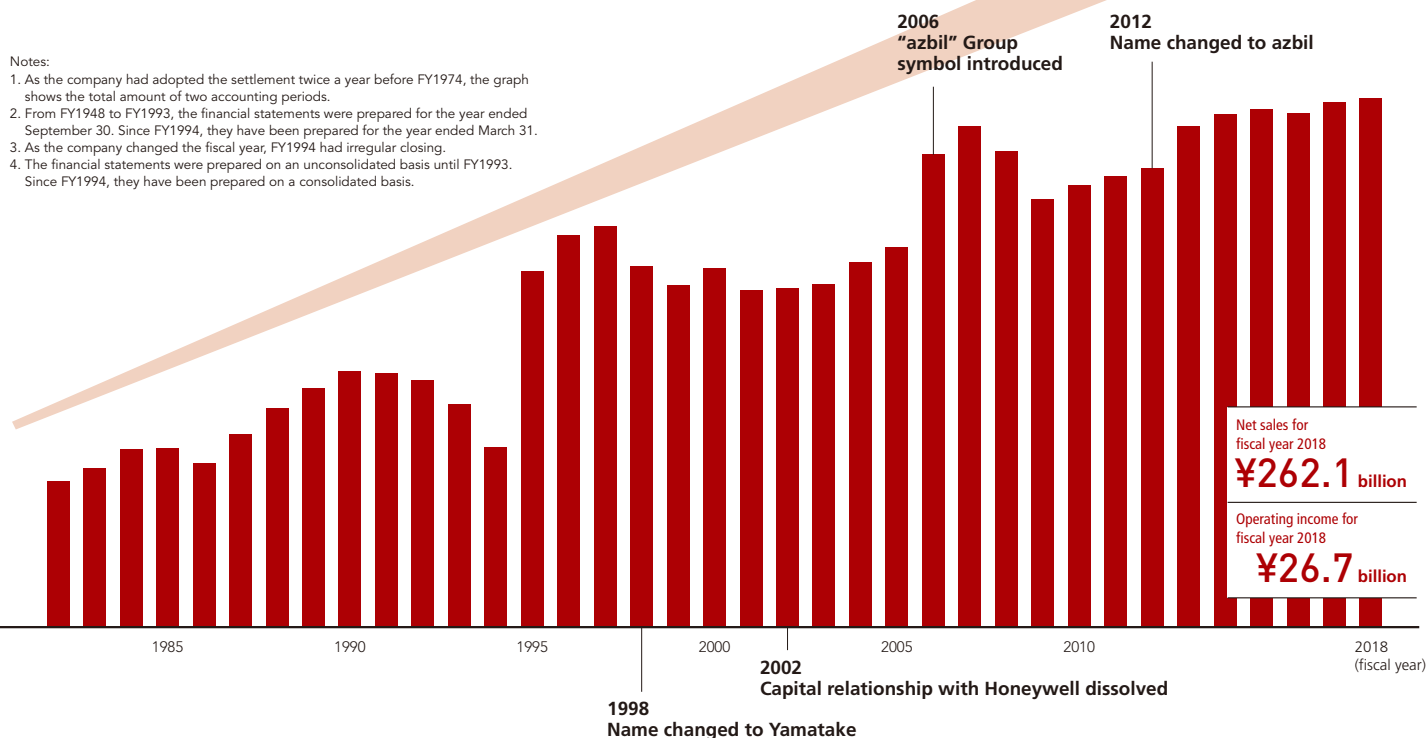
### azbil "Human-centered Automation"

Adapting to the Surge in Various Social Needs for Realizing A Sustainable Society and Offering Solutions for Sustained Development

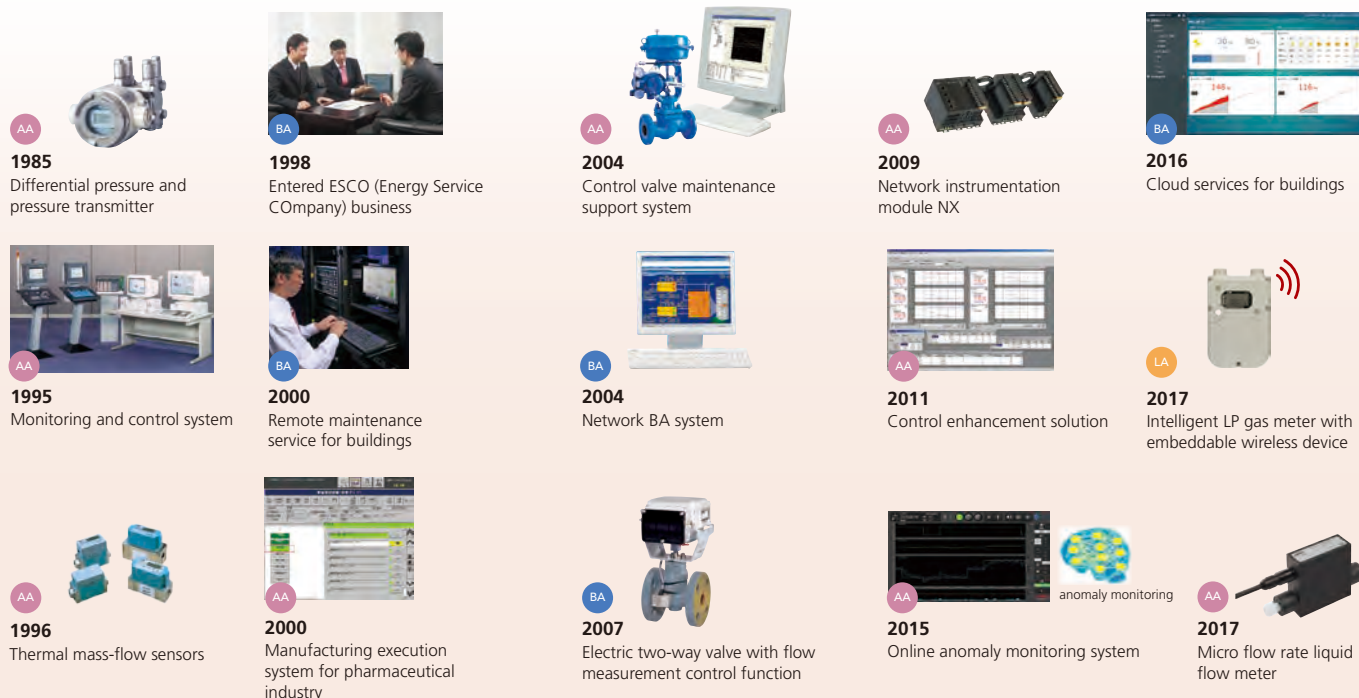
Promoted advancement of network technologies and developed products and solutions that address various technological innovations, such as AI and big data, in each field, guided by an evolved group philosophy of giving people a sense of satisfaction through automation. Sought to solve the problems of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

#### Notes:

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



## Life Automation (LA) Business



# 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.

## External Changes, Issues and Needs Faced by Our Customers and Society

### External changes

#### <Global>

- Technological innovation (AI, IoT, big data, etc.)
- Increasing natural disasters caused by climate change
- Aggravated environmental and energy issues in emerging countries
- Rise in cyber attacks

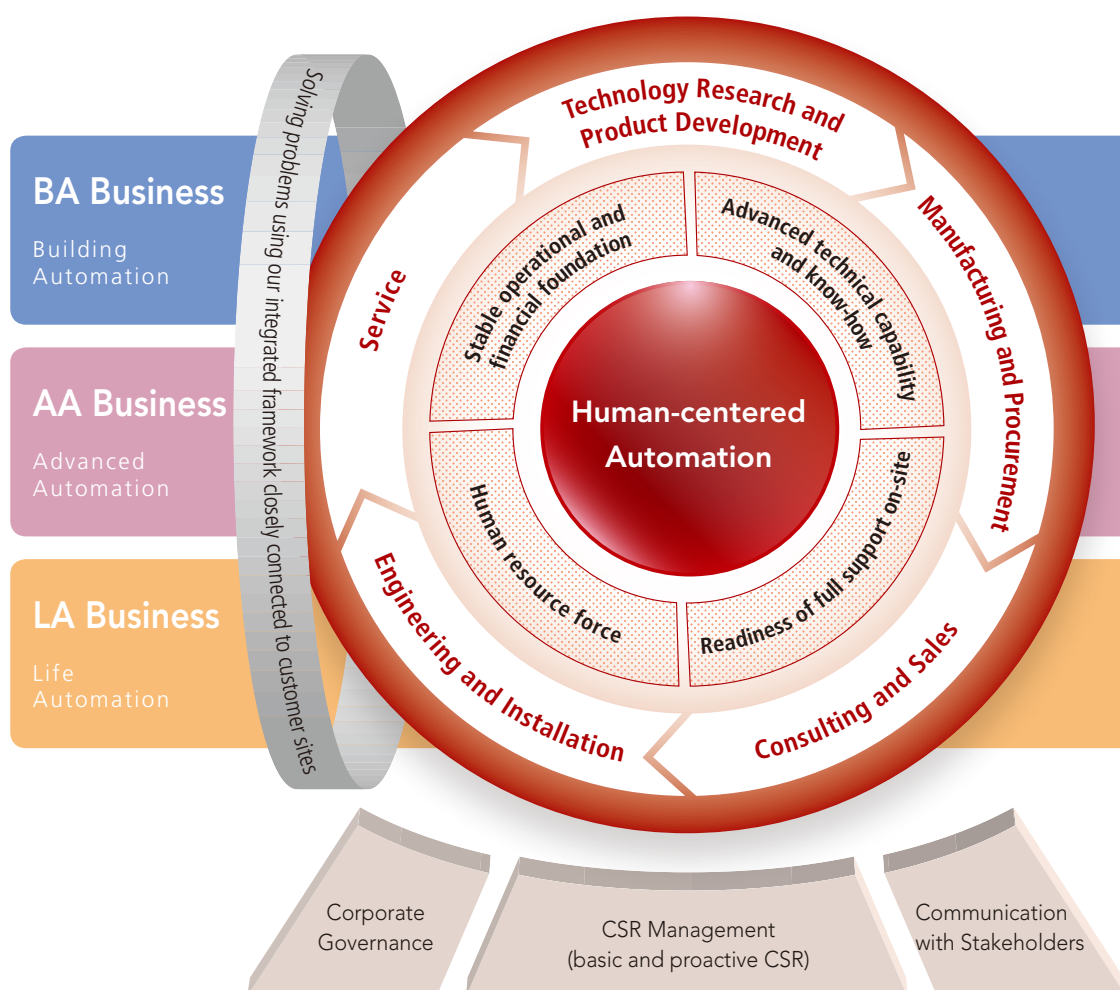
#### <Japan>

- Increasing demand for urban redevelopment, rebuilding, and renovation
- Decrease in working-age population
- Diversification of workstyles
- Increase in natural disasters caused by abnormal weather

### Issues and needs of customers and society

- Balance between energy efficiency and comfort
- Comfortable, productive workplaces
- Pressing demand for building construction and renovation
- Need to address labor shortage and improve productivity
- Advanced manufacturing corresponding to technological innovation
- Prevention of accidents and disasters at production sites
- Disaster prevention and security measures for buildings and facilities
- Cybersecurity measures for industrial infrastructure
- Building infrastructure that is resilient to disasters and abnormal weather

## azbil Group's Operations



### azbil Group's Operations

➔ P.30

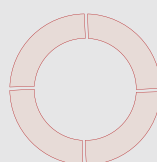
Introduce three businesses of Building Automation (BA), Advanced Automation (AA), and Life Automation (LA).



### Strengths of azbil Group

➔ P.12

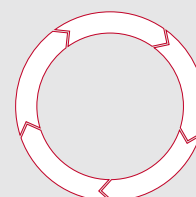
Introduce strengths of the azbil Group which become the driving force of the value chain.



### Value Chain

➔ P.44

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





The Social Values Created  
through the  
azbil Group's Operations

azbil's contributions

- Contribution to the global environment through reduced environmental impacts
- Realization of safe and comfortable social environments
- Realization of super-smart society through innovative manufacturing and infrastructure support



Value provided based on the  
azbil Group philosophy

Safety

Comfort

Fulfillment

Environment

See next page

Solutions Based on Our Measurement and  
Control Technologies and Products

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



Unique  
products

Multi-loop controllers with multifunction display  
Valves with flow measurement function  
Manufacturing equipment for the pharmaceutical market  
Real-time microbe detectors  
Micro flow rate liquid flow meter  
High-accuracy position sensors

Solutions that  
meet the needs  
of the times

Plant smart industrial safety system  
Remote monitoring services  
Energy management solutions  
Cloud services

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



Infrastructure to Support Value Creation

➔ P.54

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



# 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.

## CO<sub>2</sub> emissions reduction at customers' sites through our products, services, and solutions

Through our products, services, and solutions, we contribute to environmental impact reduction for society. The amount of CO<sub>2</sub> emission reduction at our customers' sites in the fiscal year ended March 2019, which totaled 2,980,000 tons of CO<sub>2</sub>, is equivalent to approximately 1/400 of all CO<sub>2</sub> emissions in Japan (approx. 1.3 billion tons of CO<sub>2</sub>). 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.  
\* A third party reviewed estimation method.

### Automation effects

We have reduced environmental impact in our Building Automation, Advanced Automation, and Life Automation businesses, taking advantage of our measurement and control technologies.



### Energy management effects

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



### 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.



CO<sub>2</sub> emission reduction at customers' sites (fiscal year ended March 2019)

**2,690,000** tons of CO<sub>2</sub>

**240,000** tons of CO<sub>2</sub>

**50,000** tons of CO<sub>2</sub>

CO<sub>2</sub> emission reduction at customers' sites (fiscal year ended March 2019)

**Total 2,980,000** tons of CO<sub>2</sub>

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



# Strengths of azbil Group

The azbil Group, with a history of more than 100 years, has amassed a wealth of advanced automation technologies and abundant know-how, and is equipped with the human resources and systems that help customers resolve their problems. We will continue aiming for and challenging ourselves towards steady growth and a sustainable society, backed by a stable business foundation consisting of three segments, as well as a sound financial constitution.



**Strength**

## Advanced Automation Technologies and Abundant Know-how

➡ P.30-41, P.45-47 (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.

**CO<sub>2</sub> emissions reduction at customers' sites through our products, services, and solutions**

**2,980,000** tons of CO<sub>2</sub>

(fiscal year ended March 31, 2019)

■ For details, please see "Environment" on page 11.



**Strength**

## Human Resources with Advanced Specialist Expertise

➡ P.62-65 (Human Resources)

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.

**Number of annual students**

(Total number of students)

**Approx. 71,000** 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



**Strength**

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

➡ P.52-53, P.109 (azbil Group's Global Network, 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 maintenance service functions, which goes beyond Group companies and business segments, we aim to create value with customers at their sites.

Number of bases

Japan... **203**Bases

Overseas... **113**Bases

(as of March 31, 2019)



**Strength**

## 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 17, 2018)

Equity ratio

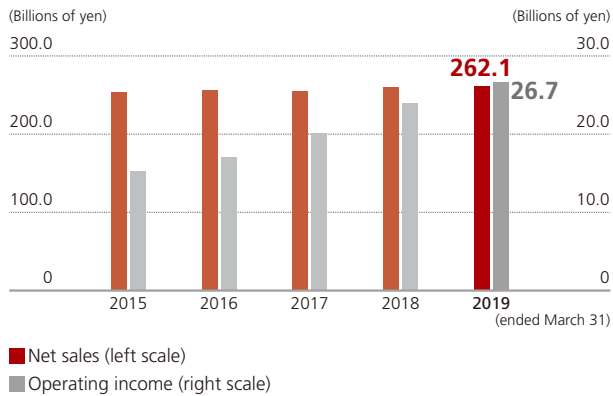
**65.7%**

(as of March 31, 2019)

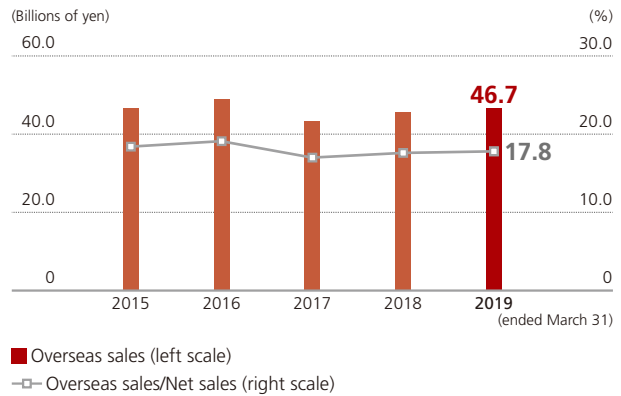
# Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

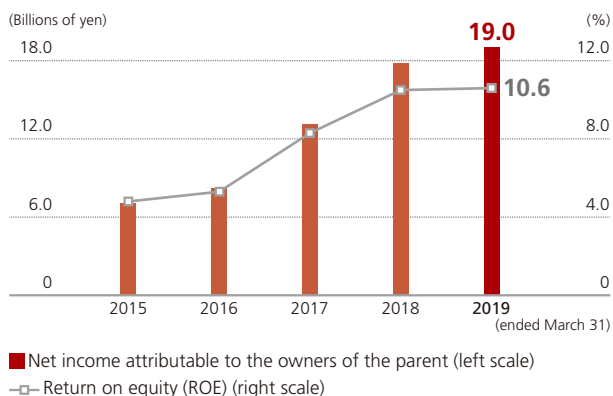
## Net Sales, Operating Income



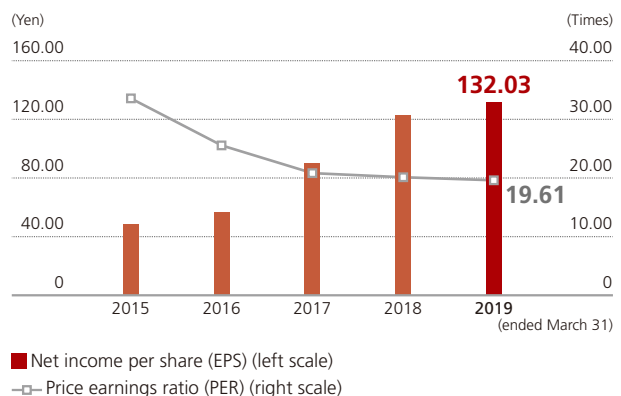
## Overseas Sales, Overseas Sales/Net Sales



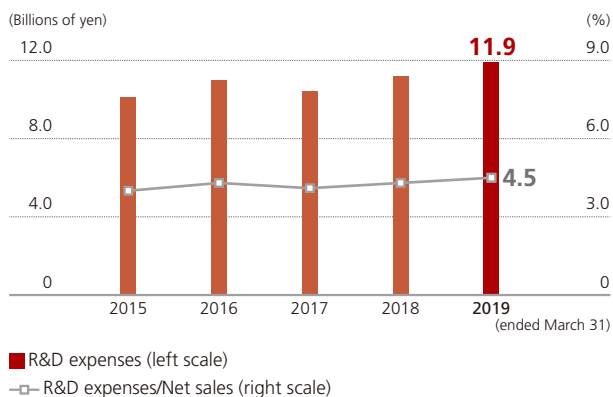
## Net Income Attributable to the Owners of the Parent, Return on Equity (ROE)



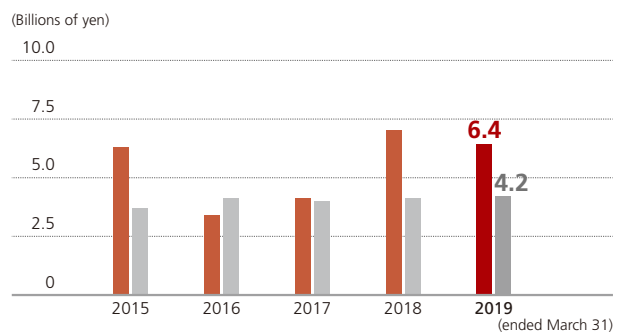
## Net Income per Share (EPS), Price Earnings Ratio (PER)



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



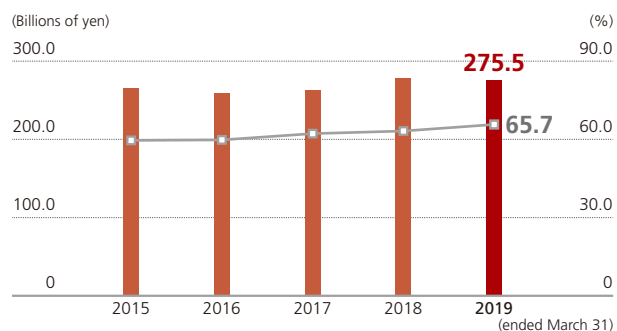
## Capital Expenditures, Depreciation



The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Figures for net income per share (EPS) and cash dividends per share have been recalculated to reflect the number of shares after the stock split.

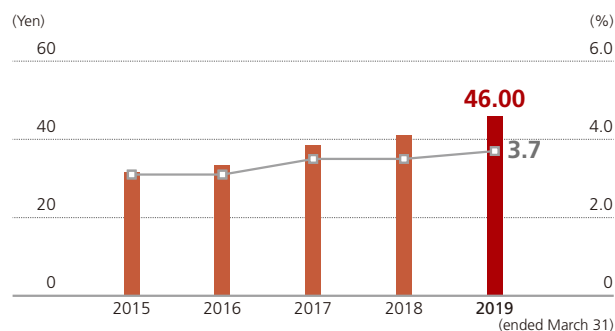


### Total Assets, Shareholders' Equity/Total Assets



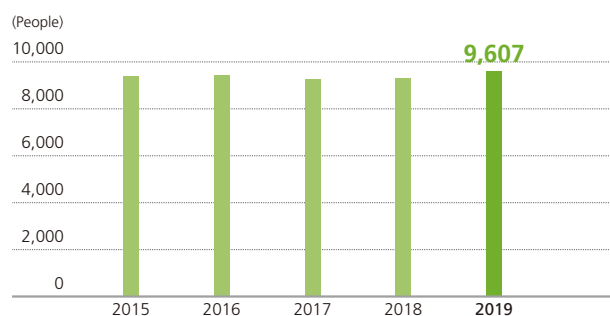
■ Total assets (left scale)  
 □ Shareholders' equity/Total assets (right scale)

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



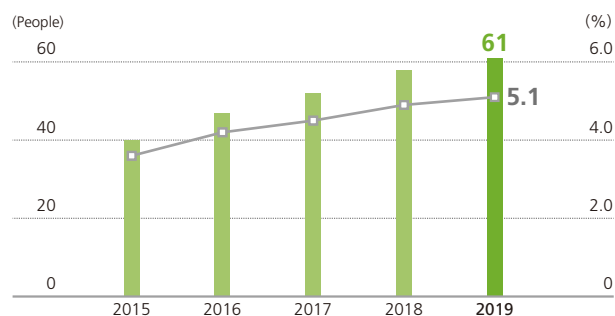
■ Cash dividends per share (left scale)  
 □ Dividend on equity (DOE) (right scale)

### Number of Employees (as of March 31)



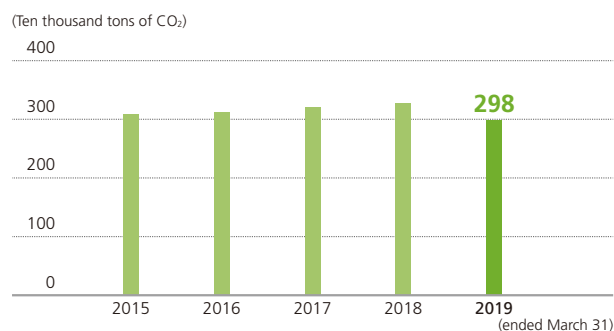
■ Number of employees

### Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions Azbil Corporation (as of April 1)



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

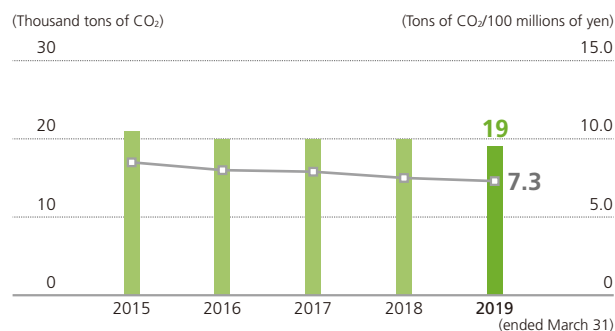
### CO<sub>2</sub> Emission Reduction at Customers' Sites Azbil Corporation and its overseas subsidiaries



\* Estimations for the fiscal year ended March 31, 2019 are based on third-party reviews.

### CO<sub>2</sub> Emissions (Scope 1+2) and CO<sub>2</sub> Emissions per Unit Sales

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



■ CO<sub>2</sub> emissions (left scale)  
 □ CO<sub>2</sub> emissions per unit sales (right scale)

# The Past Year at the azbil Group

## Targeting further advances in value creation

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

### Topics

**April 25**

Azbil Kimmon starts verification experiment of automatic water-meter reading system for housing complex on a conjoint basis utilizing Fukuoka City LoRaWAN™\*

\* LPWA network service covering a wide area within Fukuoka City.  
\* LoRaWAN is a trademark of the Semtech Corporation.

**May 22**

Registers as an energy management service provider that supports energy conservation initiatives, including an azbil-led consortium, buildings, factories, and offices, for the 5th consecutive year

**September 27**

Announces support for power saving and equipment restoration for customers affected by the 2018 Hokkaido Eastern Iburi earthquake

**October 16**

Receives the highest certification (3 Stars) based on the Act on Promotion of Women's Participation and Advancement in the Workplace



**October 16-18**

Exhibits at Industrial Transformation Asia Pacific (ITAP), an exhibition on industrial digitalization technologies held in Singapore



**October 1**

Implements a two-for-one stock split

**June**

Included in the FTSE4Good Index Series (a leading socially responsible investment index) for the 12th consecutive year



FTSE4Good

April

May

June

July

August

September

October

2018

**AA April 16**

Launches control valves with low-emission gland packing to reduce VOC emissions that cause air pollution



**BA June 21**

Launches new security system that centrally and remotely manages information on people entering and leaving company premises

**LA June 25**

Azbil Telstar launches packaging services for retrofitting and upgrading existing equipment



**AA September 11**

Launches smart device gateway that helps make devices IoT-ready and allows communication between multiple control devices without a communication program



**AA September 18**

Scheme adopted using Azbil as an energy management service provider in projects, including in steel and chemical markets, for the 5th consecutive year

### Products/Services

**LA May 2**

Azbil Telstar entrusted by Baccinex SA to design and build an aseptic filling process plant for pharmaceuticals in Switzerland



**BA LA October 3**

Azbil product wins 2018 Good Design Award



Residential central air-conditioning system S series VAV specification

## October 25

The azbil Honey Bee Club decides to provide ¥6.6 million in support for social welfare associations and other organizations

## November 23

Azbil Yamatake Friendly (special subsidiary company of the azbil Group) holds 20th anniversary celebration



## November 30

Azbil Kimmon, Chukai Cable Television System Operator, and two other companies start verification experiment of water meter reading automation using IoT

## December 2

Co-sponsors the 13th Shonan International Marathon (Japan) and supports efforts to reduce environmental burdens



## February 21

Recognized as a "White 500" company under the Certified Health and Productivity Management Organization Recognition Program (second consecutive year)



## February 22-23

Exhibits at Tokyo Stock Exchange IR Festa 2019, an event for individual investors

November

December

January

February

March

2019

## BA October 19

Launches high-performance valves for air-conditioners for overseas semiconductor and liquid crystal panel plants

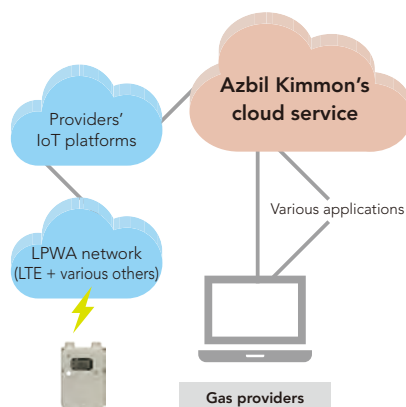
## BA October 24

Adds large-diameter model to enhance energy efficiency of large-capacity air-conditioners; expands lineup of high-performance valves for air-conditioners



## LA December 21

Azbil Kimmon announces launch of new cloud service for LP gas providers



## LA March 18

Azbil Kimmon announces launch of delivery planning optimization systems for LP gas containers using AI

## BA March 18

Controllers and input/output modules developed by Azbil for building automation systems receive "iF DESIGN AWARD 2019" (international design award)





We further strengthened profitability of each business  
and achieved two consecutive years of  
**record-high earnings.**

We will take active measures for sustainable growth while creating  
a business structure that is resilient to economic fluctuations.



Hirozumi Sone  
President and Group Chief Executive Officer  
Azbil Corporation

- Q1 Long-term vision
- Q2 Focal points of current medium-term plan
- Q3 Fiscal 2018 performance
- Q4 Medium- and long-term business strategies
- Q5 Global strategies
- Q6 Production and R&D
- Q7 Work-style reforms
- Q8 Capital policy
- Q9 Strengthening corporate governance
- Q10 Outlook for fiscal 2019

**Q1 What is the azbil Group's long-term vision with respect to achieving sustainable growth?**

**A1 By pursuing "human-centered automation," we aim to be a global company that can help resolve social issues.**

Since its founding in 1906, the azbil Group has inherited its founder's notion of "using the power of technology to free people from drudgery." In the process, we have made advances in automation technology based on the idea of solving problems by focusing mainly on people. We have since expanded this idea to cover broader domains, and in 2006 we formulated our philosophy of "human-centered automation." Guided by the philosophy, today we provide value that helps realize safety, comfort, and fulfillment in people's lives and contributes to the global environment.

Automation is a mechanism for creating new value. It does this by using advanced measurement technology to "visualize" various issues in the field, and then manages and controls those issues in an optimal manner. As long as challenges exist, therefore, automation will be an indispensable solution, and we believe that new applications for automation will emerge as society and





technologies change. Driven by IoT, AI, and big data, we are currently experiencing a technological revolution that is advancing with unimaginable speed and impact. Furthermore, in the era of 5G (fifth-generation mobile communications system), we believe that automation will facilitate the development and provision of new-dimension services that address social problems.

On the subject of social issues, the United Nations adopted its Sustainable Development Goals (SDGs), which clarify various universal challenges related to the environment, energy, safety, and workstyles. At the same time, companies are being asked more and more to help solve problems on a global scale through their business activities. In its 5th Science and Technology Basic Plan, the Japanese government proposes Society 5.0\*1 as a human-centered society that balances economic development and solving social issues. In this period of social change, we believe the role played by "human-centered automation," which the azbil Group has pursued for over a century, is becoming more important and expanding further in Japan and globally.

Considering the potential of automation and the role that companies should play in the coming era, we have cited eight of the 17 SDGs as areas in which

our Group can make a particular contribution, and we are placing top priority on those eight goals. Through our pursuit of "human-centered automation," we will work to achieve the SDGs and aim to become a global company that helps resolve social issues through automation. These challenges include reducing environmental impacts and realizing a super-smart, safe, and comfortable society.

\*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 human-centered society in which, driven by the fourth industrial revolution, a succession of new values and services are created to enrich people's lives.



**Q2 What are the focal points of your current medium-term plan?**

**A2 In order to achieve our long-term targets for fiscal 2021, we are working to reinforce our profit structure and expand our three business areas with a view to sustainable growth.**

Our long-term vision for fiscal 2021 is to become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to solving global environmental issues by focusing on people and realizing a world of automation created by human ingenuity and technology. Our consolidated targets for fiscal 2021 are net sales in the ¥300 billion range, operating income of ¥30 billion or higher, and ROE of 10% or higher.

Our current three-year medium-term plan (fiscal 2017–2019) is the second step towards achieving these targets. Under the plan, we are pursuing three fundamental policies aimed at enhancing profitability and reforming our business structure to achieve growth. The first policy is to leverage our technologies (including IoT and AI), products, and services to help solve problems at customers' sites and establish many long-term partnerships. The second policy is to take global operations to the next level while making a qualitative change of focus by developing solutions such as consulting and other services, in addition to new products tailored to customer needs. The third policy is to become a corporate organization that never stops learning and can respond flexibly to unpredictable environmental changes. We have emphasized these three policies consistently since the beginning of 2012, when I was appointed as president

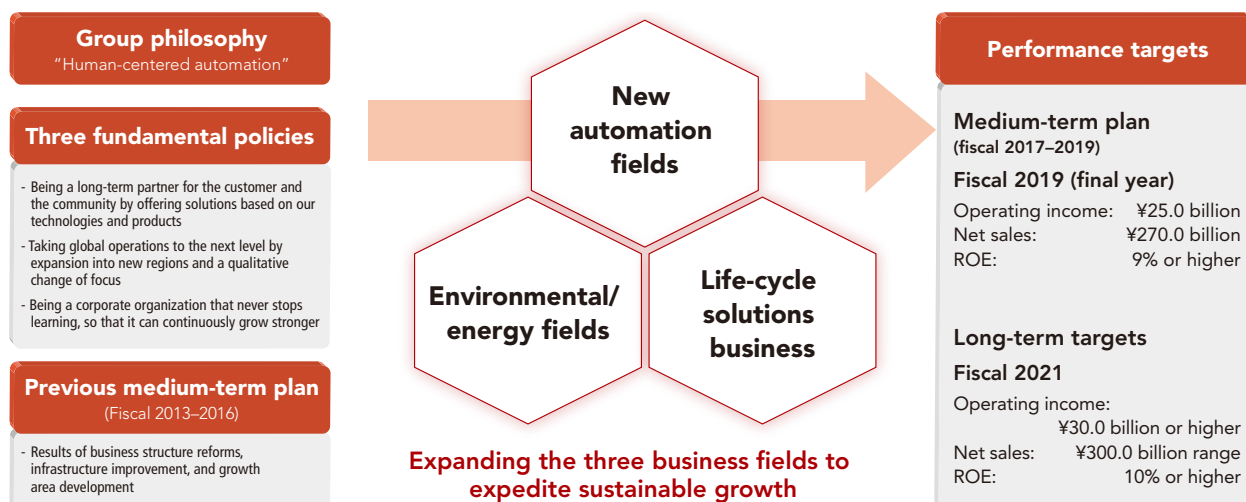
and took over the baton for management, and visible outcomes are gradually emerging.

Under our current medium-term plan, we are focusing particular attention on three growth areas in order to achieve sustainable growth. Specifically, we are strengthening our life-cycle solutions business, developing new automation fields, and expanding our presence in the environmental and energy fields. To this end, we are implementing various measures, including technological development, product and service expansion, and system improvement.



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

[Announced upon release of medium-term plan in May 2017]



### Q3 Please describe the Group's performance in fiscal 2018.

**A3** Despite deteriorating conditions in some parts of the market, we reported earnings that exceeded our initial forecast. We feel we are making progress in reinforcing our corporate structure for stable growth.

Demand for air-conditioning systems for large-scale buildings has been steady in the lead-up to the Tokyo Olympics and Paralympics in 2020, benefiting also from various urban redevelopment plans. However, a slowdown in the semiconductor manufacturing equipment market and other sectors has randomly impacted our business environment. Nevertheless, the azbil Group posted consolidated net sales of ¥262.1 billion, up 0.6% from the previous year, and operating income of ¥26.7 billion, up 11.1%. In particular, the earnings figure exceeded our initial forecasts. Our Advanced Automation (AA) business posted a significant improvement in gross profit margin thanks to cost reductions and sales initiatives. Our Building Automation (BA) and Life Automation (LA) businesses also enjoyed better gross profit margins, which compensated for a one-time provision for expenses in the BA business and higher R&D expenses for the entire Group. Indeed, we achieved our operating income target of fiscal 2019 (final year of the plan) one year ahead of schedule, posting a record-high figure for the second consecutive year.

Each of the Group's businesses— Building Automation (BA), Advanced Automation (AA), and Life Automation (LA) —operates on a different business cycle, although all three focus on automation. In each business, moreover, we have pursued business structure reforms emphasizing management that combines stability and growth. As a result, we now offer value in areas related to the life cycles of our customers' critical equipment, and we are able to advance our businesses from relatively medium- and long-term perspectives. Moreover, a certain share of our revenue derives from post-equipment-delivery operation and management services, including maintenance, repair and operations (MRO), a source of stable earnings, and we have established a foundation which allows us to maintain and improve earnings even in mature markets. Despite a changing business environment in some markets, we reported overall earnings that exceeded our initial forecast. This is a great outcome of our efforts to improve the profitability of the AA business, and also achieve sustainable and stable groupwide growth.

### Q4 Given a sense of uncertainty in part of the business environment, is there any change in your medium- and long-term business strategies?

**A4** We will steadily implement each strategy while accurately grasping changes in the business environment. At the same time, we will invest in technology development and production systems and other business infrastructure, in our quest for sustainable growth.

Looking back on our fiscal 2018 performance, we reaffirmed our belief in the direction of our efforts. We will implement measures suited to the characteristics of our three businesses, allowing us to accurately monitor changes in the business environment while eliminating the adverse effects and risks resulting from such changes. We will continue striving to strengthen profitability and expand our three business fields to expedite sustainable growth. At the same time, we will make new investments and otherwise steadily reinforce our business foundation for sustainable growth.

#### Building Automation (BA) Business Deploying solutions to enhance our approach to the existing building market

We have not changed our outlook for both the domestic and overseas markets, and we expect demand particularly in Japan to remain healthy even after 2020. In the BA business, we have enhanced our job processing capabilities at construction sites and steadily increased orders in response to high-level demand generated by various urban redevelopment projects and the upcoming Tokyo Olympics and Paralympics. At the same time, amid increasing need for solutions related to saving energy and reducing operational costs, we anticipate that demand to refurbish existing buildings will grow beyond 2020, and we are enhancing our approach to such demand. Going forward, we will further expand our product lineup for overseas markets. We will also develop and introduce next-generation products and services that utilize our new building automation (BA) system "savic-net™G5," as well as edge computing, the cloud, and other new technologies to expand into new automation domains. In addition, we will further advance our work-style reforms, which have made great progress to date, and develop business processes that deliver greater efficiency.

### **Advanced Automation (AA) Business** **Continuing our growth strategies unaffected by environmental changes**

Despite sluggish conditions in some markets, investments in production facilities in Japan and overseas remain strong, as does demand for automation to enhance productivity. In the medium and long terms, therefore, we have not changed our view that the business environment remains conducive to continuous growth. In the AA business, we will continue our focus on strengthening profitability and growth strategies centered on our three business sub-segments: CP, IAP and SS\*2. Specifically, we will accelerate our expansion in overseas business and new automation areas. In addition, we will step up efforts to strengthen business profitability by shifting to high-profit businesses, reinforcing our global production and procurement systems, and establishing high-value-added engineering systems.

### **Life Automation (LA) Business** **Creating new business opportunities while reinforcing our profit structure**

In the LA business, we will secure stable demand in lifeline fields, such as gas and water supply. At the same time, we will continue stepping up structural reforms aimed at establishing a solid profit structure in the life science engineering (LSE) field, covering pharmaceuticals and research facilities, as well as in the lifestyle-related field for residential central air-conditioning systems. Targeting future growth, we will create and expand into new automation areas while capturing needs arising from liberalization of the gas market and advances in IoT and other technologies. To this end, we will actively participate in various verification experiments related to energy supply, and we will launch and expand a new data service business that uses the cloud.

\*2. Three business sub-segments (for management accounting purposes):

**Control Product (CP) Business:**

Supplying factory automation products, such as controllers and sensors

**Industrial Automation Product (IAP) Business:**

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

**Solution & Service (SS) Business:**

Offering control systems, as well as engineering, maintenance, energy-saving solutions, and other services

### **Q5 Please tell us about your progress in global expansion.**

**A5 In addition to enhancing our sales and service systems, reinforcing our local production system, and developing a strategic business promotion system, we will accelerate the development and deployment of solutions-driven business models.**

Taking advantage of the opportunity to spread the technologies, products, and services accumulated in Japan to an overseas audience, since the early 2010s the azbil Group has engaged in a full-fledged global expansion that includes forming partnerships with foreign companies. Since then, we have faced tough times requiring a reassessment of some strategies. Nevertheless, we are building relationships of trust with local customers, enhancing our track record of landmark achievements, and promoting steady growth. Currently, our overseas business has progressed from the up-front investment stage to the profit-making stage, and overseas recognition and evaluation of the azbil brand has grown steadily as a result. During this period, we have gained a lot of knowledge through various experiences. In the future, we will work to further increase our presence in overseas markets earmarked for future growth.

For example, in the Asian region where economic growth has been remarkable, the demand for air-conditioning systems is changing. It is entering an era where people care for fine-tuned temperature management that makes them more comfortable, rather than just maintaining temperatures at a constant level. In addition, the environmental impact reduction needs of various industries have become more sophisticated, providing increased opportunities to develop a solutions-driven business. To effectively seize such global business opportunities, we will expand our local sales and service networks and increase the number of personnel, while broadening our product lineup and introducing competitive products in line with local needs. In the meantime, we are continuing to strengthen and expand our life-cycle solutions business—including energy management in the BA business and valve maintenance in the AA business—while upgrading and expanding our production system.

In 2018, we opened the Strategic Planning and Development Office for Southeast Asia in Singapore to strengthen our cross-business planning, strategy, and management capabilities and develop new markets. Through these activities, we have earned high praise for building operation and management methodologies used by our BA business in providing life-cycle solutions. This has led to the fast-paced development of new businesses, including collaboration with a major design office that is operating its business globally.



In our overseas business, we will accelerate the development and deployment of our own business model, which centers on solutions, while paying close attention to compliance and other aspects of business management, without overlooking opportunities for the Group to leverage its strengths.

**Q6 Please describe production and R&D initiatives to increase the competitiveness of the automation business.**

**A6** In addition to enhancing our device technologies and introducing AI technology to develop next-generation products, we are reinforcing production technologies that support advanced manufacturing while strengthening our global production system.

The advancement of information and communication technologies (ICT) has given rise to IoT, where all things are connected, and AI, which uses big data to create value. This has led to the advanced integration of cyber space (virtual space) and physical space (real space) and the approach of a “super-smart society” that will deliver economic development and solutions to social issues. In this “Society 5.0” world, the potential for the automation business to provide value—based on on-site problem identification, countermeasures, and feedback—is limitless.

The azbil Group's strengths lies in its expertise in resolving problems in the field and technologies required to address those problems, including sensors and actuators, as well as MEMS\*<sup>3</sup> and other device technologies for mounting such technologies on a single fine chip. By combining these strengths with big data and AI technologies, we are adding value to our automation business in an innovative manner and seizing future-oriented growth opportunities. Accordingly, we will increase investments in R&D, emphasize speed and efficiency in introducing new technologies, and actively promote M&As and other partnerships with various companies. In addition, we have established a department dedicated to developing and marketing products and services deploying AI, cloud, and other new technologies, thus raising our sensitivity and responsiveness to industrial innovation needs.

On the production side, we will work to strengthen our competitiveness in terms of quality, speed, and cost by building an optimal production system that supports global business development, increasing production at overseas bases, and stepping up overseas procurement, combined with commercial distribution, logistics improvement, and other efforts. In Japan, we will use our new building at the Shonan Factory, which was completed in April 2019, as a “mother factory” that drives innovation in 4M (man, machine, material, method), the basic elements of production. Through

**Global Development and Production System**



the new facility, we will use AI and IoT technologies to build sophisticated manufacturing lines and advance our production processes, while also making operations more efficient and promoting innovation for high-value-added manufacturing unique to the Group. The mother factory will also spearhead efforts to strengthen the manufacturing capabilities of the Group's production companies. Meanwhile, we are reinforcing the Fujisawa Technology Center, our R&D base, where we will undertake various initiatives including the enhancement of MEMS technologies that facilitate the technology for advanced sensor packages.

\*3. MEMS (micro-electro-mechanical systems): A device that integrates sensors, actuators, and electronic circuits on a single substrate using micromachining technology.

**Q7 Please tell us about the azbil Group's distinctive work-style reforms.**

**A7** We will combine know-how accumulated in the automation field with new technologies, such as IoT and AI, and implement business structure reforms in collaboration with customers aimed at improving productivity and enhancing competitiveness.

Work-style reforms will not be effective in the long run if they simply result in reduced working hours without improvements in productivity. Pursuing workstyles that enhance both efficiency and effectiveness is significant because we believe it is meaningless if it does not lead to increased value for customers.

The azbil Group has sought continuously to create mechanisms that allow improvements in the effectiveness and efficiency of its business activities while responding flexibly to changes in the environment. This is mirrored in one of our fundamental policies, which is to

be a corporate organization that never stops learning.

In particular, through the Azbil Academy, we strive to create systems allowing us to demonstrate our capabilities even in the face of severe environmental changes. At the Academy, we work to enhance the mobility of human resources within the Group by fostering and re-training personnel who can adapt to technological innovations and market changes. We also focus on promoting diversity, and attracting and developing global human resources who will spearhead our overseas expansion. In addition, we have revised our personnel system to provide comprehensive evaluations of employee contributions to value creation based on medium- and long-term perspectives. As part of its work-style reform initiatives, the Group also practices “management for healthy working” aimed at creating a workplace that motivates employees.

As we continue with these initiatives, we must keep in mind that we are in the business of solving problems by working with customers at their sites, and for this reason we cannot promote work-style reforms in isolation. In other words, we will undertake distinctive work-style reforms that reflect win-win relationships with our customers. We believe it is important to work together with customers to create new ways of doing business.

In the BA business, for example, we are improving our job processing capabilities by proposing workstyles, job assignments and standardization of work processes to benefit customers, in addition to allocating qualified and other personnel required for the worksite in a concentrative manner. Moreover, we have enhanced the efficiency and sophistication of operations by using remote and IoT technologies to reinforce our on-site backup systems. This has led to reduced workloads for people in the field and steady improvements in overall productivity.

### Q8 Please tell us about your capital policy.

**A8 Based on the progress of our management policies and medium-to-long-term business prospects, we plan to increase annual dividends and repurchase the Company's own shares in fiscal 2019.**

Seeking to increase shareholder value, the azbil Group has adopted a disciplined capital policy that maintains a good balance between promoting shareholder returns, investment for growth, and a healthy financial foundation. Under this policy, we are targeting return on equity (ROE) of 10% or higher over the long term. Returning profits to shareholders is an important management priority. We have a shareholder return policy that focuses on dividends and also flexible repurchase of own shares. It takes into consideration our consolidated financial results and various performance indicators, such as levels of dividends on equity (DOE) and ROE, while retaining internal reserves for future

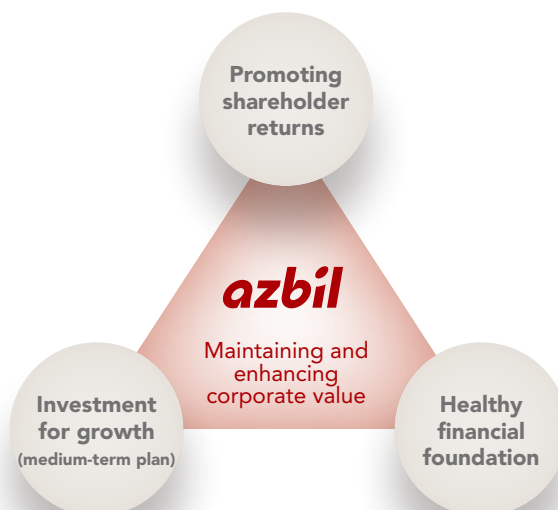
business development and building a sound financial foundation. We pay particular attention to maintaining the stability of dividends, while improving their levels.

Based on the above policies, in fiscal 2018 we acted to further enhance returns to shareholders. Also we implemented a stock split on October 1, 2018 for the purpose of increasing share liquidity to prepare an environment that makes it easier for investors to purchase our shares by reducing the price of share-trading units. In addition to an already-implemented repurchase of own shares amounting to around ¥5.0 billion (equivalent to 1.87 million shares after the stock split), we declared annual dividends of ¥46.00<sup>\*4</sup> per share for fiscal 2018 (as announced after the stock split) in light of our steady financial performance.

Thanks to progress of our business structure reforms and measures to strengthen profit structure, we expect to generate high-level profit that will exceed our target for fiscal 2019, the final year of our current medium-term plan. Due also to medium-to-long-term strategic development and environmental outlooks for each business, we look forward to sustainable growth toward achieving our long-term targets for fiscal 2021. In order to further enhance shareholder returns and dividend stability, we plan to declare ordinary annual dividends of ¥50.00 per share in fiscal 2019, up ¥4.00 year on year.

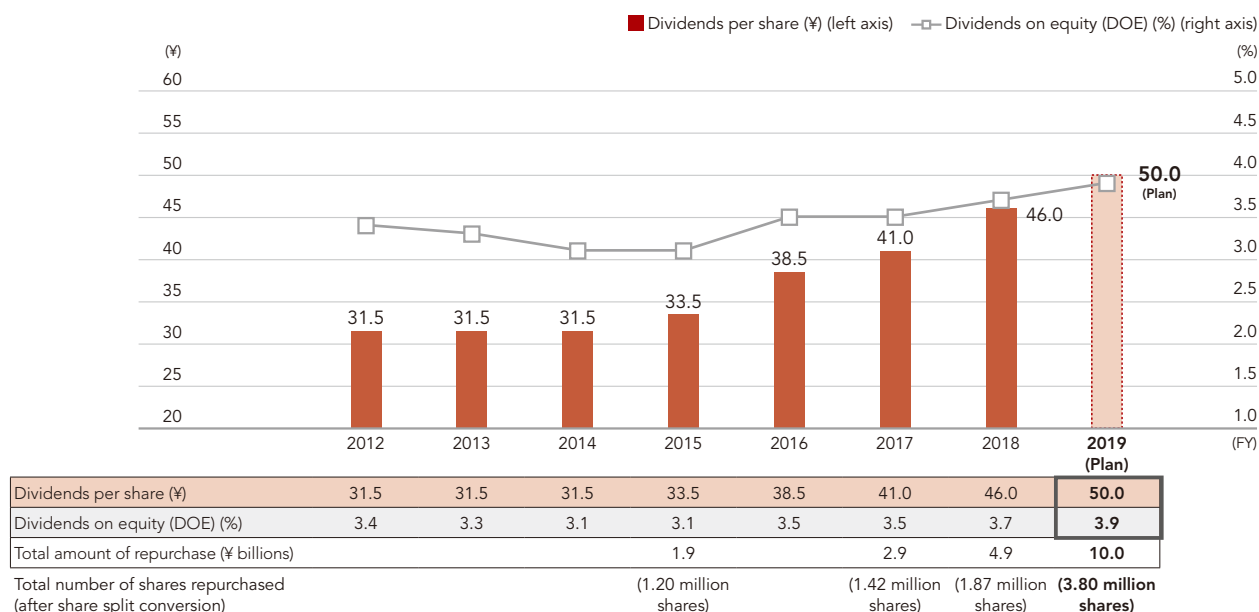
Additionally, we aim to implement a flexible capital policy that can accommodate changes in business conditions and further enhance shareholder returns, taking into consideration our current performance and future business outlook while ensuring a disciplined capital policy and further improving capital efficiency. Accordingly, we cancelled 3.3 million shares<sup>\*5</sup> (almost the entirety of our treasury stock held as of March 31, 2019), and between May 13 and October 31, 2019, we are also implementing repurchase of own shares up to a value of ¥10.0 billion or a total of 3.8 million shares.

#### Basic Capital Policies



## Shareholder Return Trend

Cash dividends per share and the number of shares repurchased have been adjusted retroactively to reflect the stock split.



We are committed to making investments aimed at realizing sustainable growth and strengthening our management structure, which are important to raising corporate value. 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 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 to supporting such investments, 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.

\*4. The value of the year-end dividend for fiscal 2018 is based on the number of shares held after the 2-for-1 stock split implemented on October 1, 2018. If the stock split were not taken into account, the year-end dividend for fiscal 2018 would be ¥46.00 per share (pre-split conversion), and total annual dividends would be ¥92.00. Therefore, this effectively represents no change to dividend forecasts initially announced on May 11, 2018.

\*5. Number of treasury shares held as of March 31, 2019: 3,303,558 shares. The above number of treasury shares does not include shares (1,988,258 shares) owned by a trust account for Employee Stock Ownership Plan (J-ESOP).

**Q9 In fiscal 2018, you increased the number of independent outside directors, as you did in the previous year. What is your thought on strengthening corporate governance?**

**A9 In addition to establishing the necessary corporate governance frameworks, we always take care to consider actual circumstances.**

For some time, we have been reforming our corporate governance system with priority on three areas: (1) Pursuing management transparency and fulfilling accountability to shareholders, (2) Establishing a management foundation for achieving sustainable growth under a highly diverse Board of Directors, and (3) Clarifying responsibilities and promoting dialogue with stakeholders.

At present, we are working on further reforms, taking into account Japan's revised Corporate Governance Code. To strengthen our supervisory and audit functions and enhance management transparency and soundness, in fiscal 2018 we increased the number of independent outside directors by one. We also appointed an outside director to chair the Nomination and Remuneration Committee, of which outside directors form the majority. In addition, we appointed a director who does not concurrently perform executive duties to chairperson of the Board. In fiscal 2019, we again increased the number of independent outside directors by one, with the result that five of the 11-member Board will be independent outside directors.

Rather than making pointless superficial changes, we recognize that having a proper understanding of the purpose of reforms and making the Board of Directors more effective are more important than anything else with respect to increasing long-term corporate value. For this reason, we have established a forum enabling outside directors to receive explanations about the content of proposed bills in advance, and we are working to enhance discussions at Board of Directors meetings. In addition to such meetings, I work to create opportunities to regularly exchange views with outside



### Composition of Board of Directors (as of June 25, 2019)

\* Chairperson of the Board is a director who does not concurrently perform executive duties

More than  
**1/3**  
of the Board are  
outside directors

Chairperson\*



Number of internal directors: 6



Number of independent outside directors: 5  
(including 1 foreign national and 1 woman)

directors about the direction of management.

We are fortunate to have outside directors with high expertise in a wide range of fields, such as corporate governance, compliance, risk management, global management, and M&As. They engage in robust debate at Board meetings and provide much advice, based on their knowledge and valuable experiences, that cannot be obtained internally. With this in mind, when we selected outside directors and outside Audit & Supervisory Board members for fiscal 2019, we emphasized knowledge of business practices required to strengthen our management. Going forward, we will continue reinforcing our highly effective corporate governance system, which will lead to increased corporate value over the medium and long terms.

### Q10 What is your performance outlook for fiscal 2019?

**A10 Despite deteriorating conditions in some markets, we aim to achieve consolidated net sales and operating income on par with fiscal 2018. We expect to post operating income in excess of our target for fiscal 2019, the final year of our medium-term plan.**

In fiscal 2018, conditions in the semiconductor manufacturing equipment market worsened. Nevertheless, we made progress in our business measures and efforts to strengthen profitability, and posted increases in revenue and earnings compared with the previous year. In fiscal 2019, the market for manufacturing equipment is expected to remain sluggish, but the construction market should stay firm. In this environment, we will expand our business domains and strengthen profitability, taking advantage of the broad portfolios of our three business segments—Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). We will also continue making investments to strengthen product development, manufacturing, and other aspects of our business foundation. In fiscal 2019, we are targeting consolidated net sales of ¥262.0 billion and operating income of ¥26.5 billion, the same level as fiscal 2018. We anticipate that operating income will exceed our target for the final year of the medium-term plan, as it did in fiscal 2018, reflecting the unprecedented success of our measures to enhance profitability.



# 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

\* According to the content of current medium-term plan when drafted and announced in May 2017. Under the plan announced in May 2019, we are targeting consolidated net sales of ¥262.0 billion and operating income of ¥26.5 billion.

## Non-Financial Priority Initiatives

### Entrench Basic CSR

P.54

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 compliance awareness and take rigorous corresponding action
3. Expand the internal control system to the entire Group and strengthen the comprehensive risk management system
4. Promote CSR procurement activities throughout the supply chain in collaboration with suppliers
5. Build and operate a quality assurance and safety system to guarantee product quality, safety, and dependability

### Strengthen Corporate Governance

P.70

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 and enhancing the effectiveness of the Board of Directors
2. Make various efforts to strengthen management transparency and soundness (for example, appointing an independent outside director as chairperson of the Nomination and Remuneration Committee)
3. Make efforts to clarify the responsibility system related to corporate governance management and promote dialogue

### Business Management that Values People

P.62

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.

Promote both work-style reforms and diversity

1. Implement various personnel measures based on the concept of "health and well-being management"
  - Implement work-style reforms that help reduce total working hours and support the healthy lives of employees
  - Promote the active participation of women and otherwise strive to promote diversity
2. Nurture human resources according to theme (global, diversity, solutions, etc.) in order to flexibly address changes in the business environment

### Environmental Initiatives

P.11,P.66

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 the azbil Group's unique measurement and control technologies to:

1. Reduce the environmental impact of our 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

### Communication with Stakeholders

P.80

By actively communicating with various stakeholders and sharing value with society, we will improve enterprise value and the azbil brand.

1. Implement disciplined capital policies and otherwise share value with shareholders, and enhance dialogue with shareholders and other investors
2. Ensure timely and appropriate information disclosure based on the azbil Group's Disclosure Policy and promote ESG-related information disclosure
3. Make efforts to strengthen information dissemination to society through active PR activities using the media
4. Use showrooms etc. to share value with customers and expand communication opportunities
5. Use a new corporate advertising campaign to promote brand building globally

# Value Creation Initiatives

The azbil Group's business units are committed to the ceaseless creation of value through automation. The pages that follow introduce the Group's business segments and the current status of their activities, and provide an overview of the Group's unique initiatives focused on the entire value chain—from development to manufacturing, sales, engineering and installation, and maintenance service—which is deployed globally.

## 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

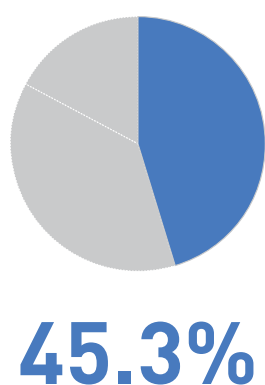
## Life Automation Business

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.

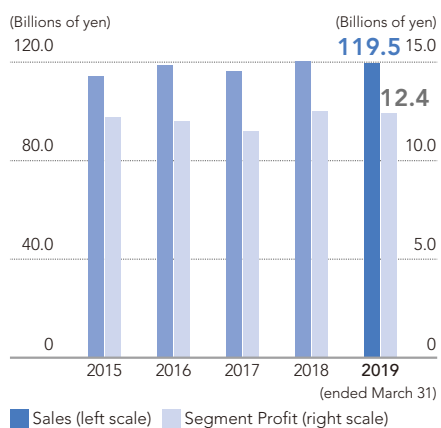




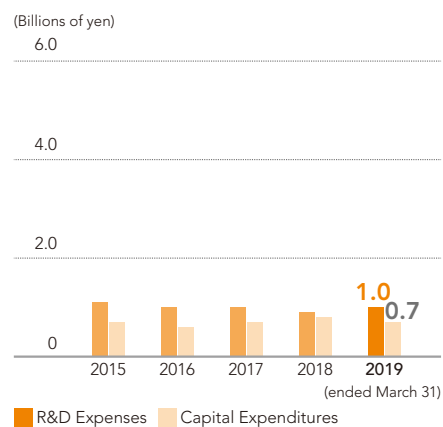
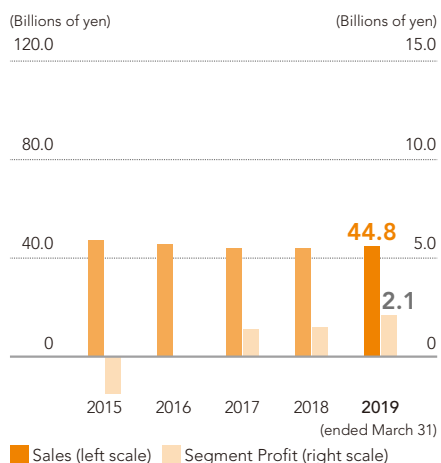
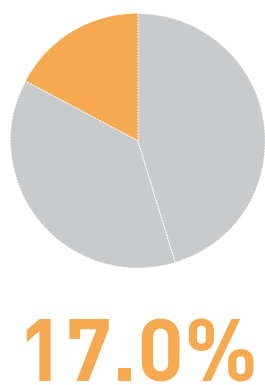
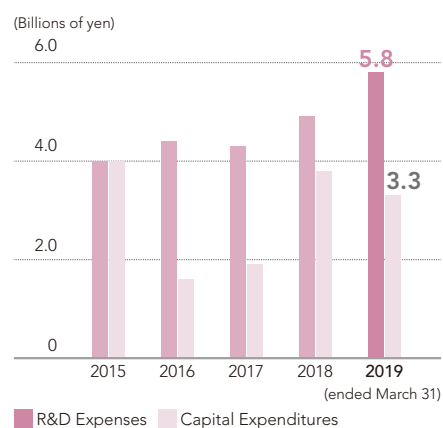
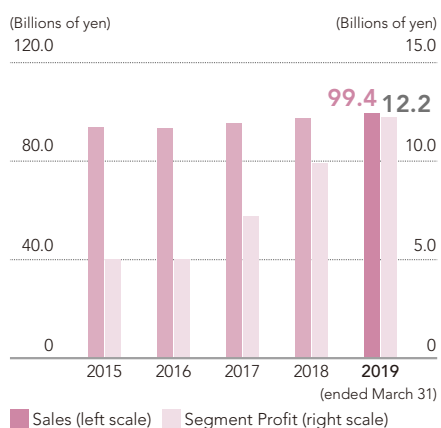
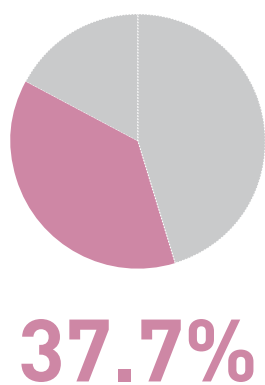
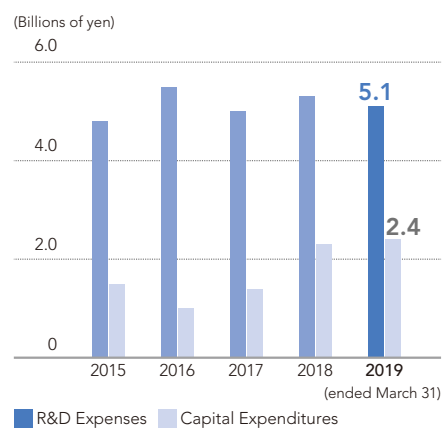
Share of Net Sales by Segment



Sales, Segment Profit (Operating Income)



R&amp;D Expenses, Capital Expenditures



# Building Automation (BA) Business

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

## Spreading BA systems throughout Japan

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

### New installation

### Service

### Retrofit of buildings

➔ Service lineup tailored to the life cycles of buildings

## Analysis using cloud and AI

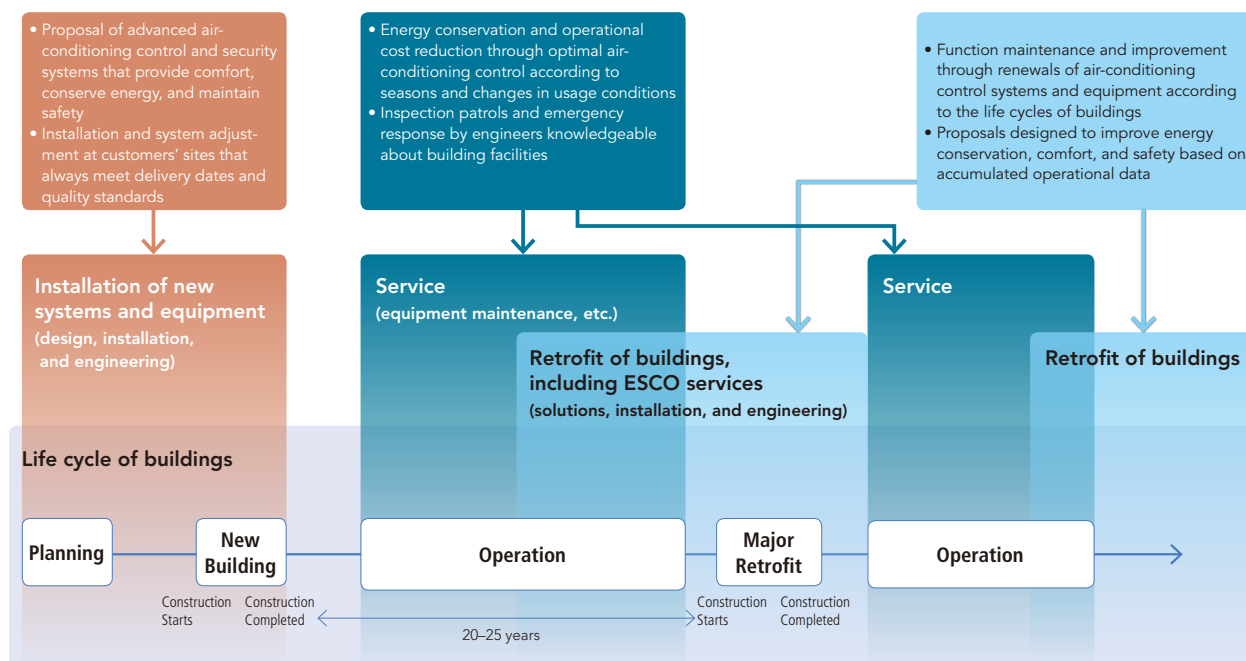
➔ Comfort and energy savings based on networks and accumulated data

## 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

## Detecting

### Sensor and Measurement Devices

Sensing and measurement of room temperature/humidity



Room temperature/humidity sensor



Room temperature/humidity controller



Ceiling-mounted temperature sensor (Round-type)

## Setting

### User-operated Devices

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



Digital user terminal



Digital central control

## Managing

### Building Automation Systems

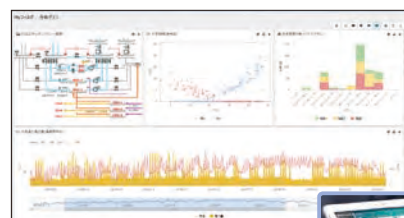
Monitoring and management of the indoor environment, security, equipment, and energy usage throughout the building



Building automation (BA) system



Wall-mounted BA system



CLOUD

## Protecting

### Security Systems

Controlling access to building commons and interiors



High-end contactless smart-card reader



Contactless smart-card reader

## Controlling

### Regulators and Controllers

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



Air-conditioning controller



Heat source controller



## 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 actuator

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



# BA

In addition to addressing an increase in orders stemming from advances in work-style reforms, we will work to improve profitability. We will also leverage our next-generation building automation (BA) systems to expand our life-cycle solutions business.

## Sales

**¥119.5** billion

(down 0.6% year on year)

## Segment Profit

**¥12.4** billion

(down 1.3% year on year)  
(segment profit ratio 10.4%)

- Sales remained mostly unchanged from the previous fiscal year despite the impact of construction period reassessments across the entire building market.
- Despite an impact of decreased segment sales and a one-time provision for expenses in the first half of the year, segment profit also remained unchanged thanks to improved profitability.

## Kazuyasu Hamada

Director  
Managing Executive Officer  
President of Building Systems Company  
Azbil Corporation

## Operating Environment for the Year Ended March 2019

In the year ended March 2019, demand for equipment and systems for large-scale buildings in the domestic market remained at high levels on the back of robust investments in urban redevelopment projects in the Tokyo metropolitan area. We also enjoyed an increase in demand for solutions aimed at saving energy and reducing operational costs. Overseas markets saw ongoing investments in large-scale buildings using domestic and foreign capital, especially in Asia where economic growth continues.

## Review for the Year Ended March 2019

Benefiting from strong demand, especially in Japan, we aggressively engaged in sales activities while monitoring profitability, leading to a significant increase in domestic orders. We also attracted local projects in overseas nations. As a result, segment orders increased 5.1% year on year. Despite the impact of construction period

reassessments across the entire building market, sales remained mostly unchanged from the previous fiscal year. This was due to our steady responses to orders resulted from the reinforcement of work-style reforms and other job processing capabilities, especially at construction sites, as well as enhanced efficiency. Segment profit also remained mostly unchanged thanks to improved profitability, despite an impact of decreased segment sales and a one-time provision for expenses in the first half of the year.

Seeking to achieve medium- and long-term business growth, we also focused on making proposals for existing building retrofits, a highly profitable market earmarked for growth in demand in 2020 and onwards. With respect to products and services, we developed various sensors, software, and cloud-based services, centering on our next-generation building automation (BA) system savic-net<sup>TM</sup>G5, as our key measures to address the needs of customers both in Japan and overseas seeking existing system continuity and utilization of IoT and other



technologies. Addressing the needs of customers in Asia, we also expanded our product lineup to meet overseas demand, including for high-performance valves for large-capacity air conditioners.

## Outlook

In the year ending March 2020, we are targeting record-high figures for sales and profit in this segment. To achieve this, we will respond consistently and efficiently to incoming orders, which are increasing steadily, by deploying our job processing system established to date. Looking at the future business environment, a number of large-scale urban redevelopment projects are planned for the domestic market, and for this reason we expect any decline in demand for new construction to be limited, even after the Tokyo Olympic and Paralympic Games. In addition, large-scale buildings constructed around the year 1990 and the early 2000s will start to need retrofitting from fiscal 2020 onward. In light of strong expected demand, we will strive to build a stable, future-oriented, and highly profitable structure by continually upgrading our systems through personnel allocation, education, and operational reforms. At the same time, we will deploy IT to develop more advanced business processes, in order to drive work-style reforms alongside productivity improvements.

In overseas markets, we will differentiate ourselves by providing high-quality installation, energy-saving, and other high-value-added services unique to the azbil Group. At

the same time, we will continue working to enhance our product and service lineup to meet local needs. In addition, our Strategic Planning & Development Office for Southeast Asia, established in Singapore, will spearhead efforts to strengthen customer relationships and develop our business on a regional basis across national boundaries.

With respect to life-cycle solutions business, a key strength of our Building Automation (BA) business, we will actively make proposals with high added value, such as energy saving and energy management, including for large-scale buildings completed in recent years. We will place particular emphasis on increasing our profile in the "new automation" domain, centering on savic-net<sup>TM</sup>G5, which has enabled flexible system construction to meet the needs of high-speed monitoring and open network systems. Specifically, we will enhance applications such as optimal operational support and preventive maintenance by making sensors and other field equipment more advanced and intelligent and deploying AI, the cloud, and other cutting-edge technologies. We will also provide knowledge-intensive services. In these and other ways, we will accelerate our shift towards higher-value-added offerings. In addition, we will actively develop businesses in advanced fields through participation in VPP\* field tests and the like.

\* VPP (virtual power plant): A system that uses IoT and other new information technologies to integrate and remotely control multiple small-scale power generation and storage facilities—dispersed among homes, buildings, factories, and the like—thus making them function as a virtual power plant.

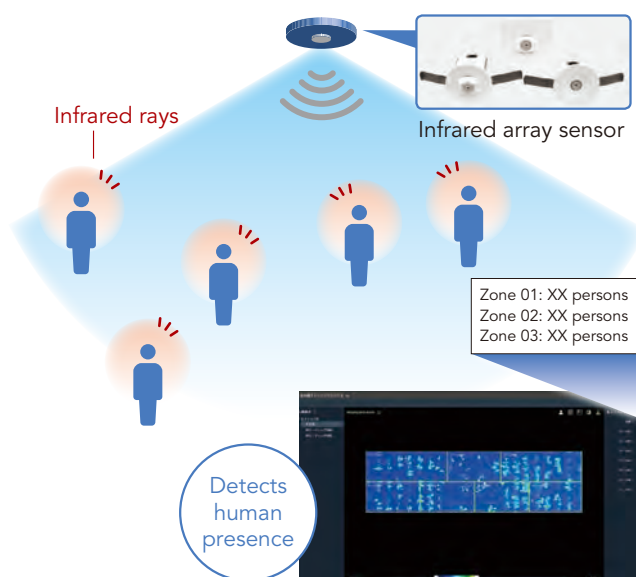
## BA Topics

### Infrared array sensor system that delivers high levels of comfort and energy efficiency

Infrared array sensor systems are used to enhance comfort and save energy by measuring temperature distribution of floor and wall surfaces and monitoring heat load and human presence in real time to adjust air-conditioning levels accordingly.

Unlike conventional sensors, they continue monitoring even when the humans are at rest. Using human positioning information and estimates of number of people, the systems are able to save energy by turning down air conditioning and also lighting in areas with no people, while swiftly detecting changes in number of people and solar insolation to ensure that the indoor environment remains comfortable. Using technologies to analyze both air conditioning outlet temperature and air volume, moreover, the systems provide an accurate understanding of a room's thermal distribution status.

By combining new sensing technology with cloud, AI, big data, and other technologies, we will provide cutting-edge air conditioning control systems that add new levels of value to buildings.



# Advanced Automation (AA) Business

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.

Leader in Japan's industrialization

➔ 100-plus-year history in measurement and control advances and rich experience and know-how in wide-ranging markets

Long-term partner of customers and society

➔ Total life-cycle support, from development and production to maintenance, done in-house

Applying technological innovation to measurement and control

➔ Solutions-driven business with unique applications for technological innovation

## 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. In these fields, we have three business sub-segments based on market and product characteristics: CP, IAP, and SS. Each sub-segment has a high level of expertise and uses an integrated framework to achieve customer satisfaction. To solve problems at various manufacturing sites, including

plants and factories, we offer products, solutions, instrumentation and engineering, and maintenance services that support increasing sophistication and 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 improvements in productivity and innovations in production processes.

### Three Business Sub-segments

#### Control Product (CP) Business

Supplying factory automation products such as controllers and sensors

#### Industrial Automation Product (IAP) Business

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

#### Solution and 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



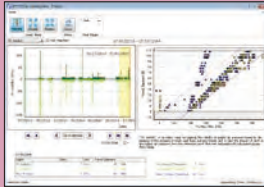
#### Process Automation (the materials industry)

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

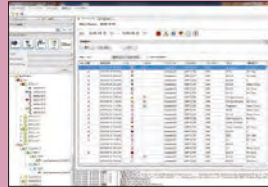
# Using big data and AI at manufacturing sites to support safer and more stable operations

## Diagnosis

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



Control valve maintenance support system



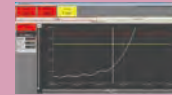
Device management system

## Prediction

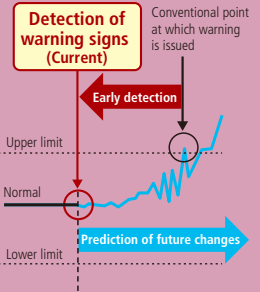
Using big data and AI to detect problems beforehand, predict the future status, and optimize operational plans



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

## Controlling

### Controllers

Optimal control of processes, equipment, and facilities



Multi-loop controllers with multifunction display



Network instrumentation module



Process controller

## 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

## Measuring

### Process Sensors

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



Differential pressure and pressure transmitter



Smart electromagnetic flow meter



Vortex flowmeter



Natural gas calorimeter

## Monitoring

### Monitoring and Control Systems

Monitoring of manufacturing processes



Monitoring and control system

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



# AA

We will develop new automation fields and expand our overseas business as priority areas while continuing to strengthen the profitability of our three business sub-segments.

## Sales

**¥99.4**billion  
(up 2.2% year on year)

## Segment Profit

**¥12.2**billion  
(up 23.0% year on year)  
(segment profit ratio 12.3%)

- Despite signs of slowdown in some markets, progress in growth strategies led to an increase in segment sales.
- Segment profit rose significantly to a record-high level thanks to higher revenue and successful approach to strengthen profitability.

## Yoshimitsu Hojo

Director  
Managing Executive Officer  
President of Advanced Automation Company  
Azbil Corporation

## Operating Environment for the Year Ended March 2019

The year under review was characterized by changing business conditions, including a slowdown in the semiconductor manufacturing equipment market both in Japan and overseas. Amid labor shortages, however, demand for automation aimed at rationalization and labor saving remained strong in both the factory automation (FA) and process automation (PA) fields.

## Review for the Year Ended March 2019

Under these circumstances, we sought to strengthen our global competitiveness by leveraging our three business sub-segments (Control Product (CP), Industrial Automation Product (IAP), and Solution and Service (SS)\*1) to be thorough in implementing operations through our integrated framework—encompassing everything from marketing to product development, manufacturing, and sales and services—while pursuing overseas business expansion

and other growth strategies. As a result, we launched and increased sales of new products aimed at cultivating and deepening our presence in the automation domain where the azbil Group has unique strengths. Overseas, we enjoyed significant growth in sales of automatic control valves and various field devices in China and elsewhere in Asia. Consequently, we posted a steady increase in segment sales despite a slowdown in some markets. Moreover, we achieved record-high segment profit for the second consecutive year, reflecting ongoing efforts to enhance profitability, as well as higher segment revenue. The segment profit figure greatly exceeded our target for the final year of our medium-term plan.

\*1 Three AA business sub-segments (for management accounting):  
Control Product (CP) business: Supplying factory automation products such as controllers and sensors  
Industrial Automation Product (IAP) business: Supplying process automation products such as differential pressure and pressure transmitters, and control valves  
Solution and Service (SS) business: Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.



## Outlook

We expect market conditions for some domestic and overseas manufacturing equipment makers to remain depressed in fiscal 2019. Due to a wave of technological innovation in such areas as IoT, AI, and the cloud, as well as needs arising from social structural changes, automation in the manufacturing industry has become increasingly diversified and sophisticated. Despite saturation in traditional areas, therefore, new unprecedented areas are emerging and growing. Demand for automation to address labor shortages in Japan and improve productivity on a global basis remains strong, and overall investments in automation are firm. In the medium and long terms, therefore, we anticipate a business environment of continuous growth.

While responding appropriately to changes in the market environment surrounding us, we will implement aggressive growth strategies aimed at developing new markets in Japan and overseas and expanding our business scale, while continuing to enhance profitability in each of the three business sub-segments. One such strategy is to achieve business growth by “creating new automation.” We already have new automation offerings based on technologies unique to the azbil Group. They include the thermal micro flow rate liquid flow meter,

which is based on MEMS<sup>\*2</sup> sensing technology; the smart device gateway, which addresses IoT needs in manufacturing equipment; and the online anomaly monitoring system, which uses big data and AI to detect abnormalities in production facilities. In these ways, we are working hard to create new automation fields and achieve market penetration. We will continue meeting the expectations of customers by creating new automation unique to the azbil Group. We will also focus on expanding our business in overseas markets where the azbil Group has large growth potential as a priority area. In particular, we will broaden our customer coverage and strengthen our proposal capabilities in China and elsewhere in Asia. At the same time, we will expand orders by launching timely strategic products in growth regions. In addition to pursuing such growth strategies in Japan and overseas, we will implement measures to enhance profitability, including shift of our emphasis to high profit businesses, strengthening our global production and procurement systems, and establishment of a high-value-added engineering system. In these ways, we will make advances as a business with high growth potential and profitability.

<sup>\*2</sup> MEMS (micro-electro-mechanical systems): A device that integrates sensors, actuators, and electronic circuits on a single substrate using micromachining technology.

## AA Topics

### Launch of smart device gateway that connects multiple control devices without a communication program

During the year, we commenced sales of smart device gateway model NX-SVG, which significantly reduces the time and effort required to develop IoT-ready devices. It does this by linking the information of multiple control devices incorporated in manufacturing equipment without requiring a communication program.

Because it is compatible with programmable logic controllers (PLCs) of various companies, as well as the communication protocols of various companies' factory automation devices in a variety of networks, there is no need to provide communication support for individual devices, which had been the case for conventional control devices. This allows reciprocal data exchange between devices in a

short time without the need for communication programs and detailed knowledge of communication, facilitating efforts to make devices IoT-ready.



Smart device gateway  
model NX-SVG

# Life Automation (LA) Business

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

## Measuring instrument pioneer and innovator

- ➔ **Gas and water meters: Deploying IoT technologies for smarter gas and water meters based on stable meter replacement demand**

## Life sciences and automation

- ➔ **Life Science Engineering (LSE): Delivering integrated products and services based on proprietary technologies to the pharmaceutical market**

## Advanced air conditioning for detached houses

- ➔ **Residential central air-conditioning systems: Providing comfortable, healthy living spaces**

## 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, the LA business focuses on the following three fields.

### ▶ Gas and Water Meters (Lifelines)

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

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, having developed the first Japan-produced gas meter in 1904. It has a stable business foundation that benefits from replacement demand for gas and water meters as required by law, and is also using IoT technologies to develop smart meters.

### ▶ Life Science Engineering (LSE)

Provision of integrated solutions for pharmaceutical manufacturing, from the development, engineering, installation, and sale of lyophilizers, sterilizers, and clean environment equipment to after-sales services.

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

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

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.]

### Pharmaceutical Manufacturing Equipment



Barrier systems



Lyophilizer

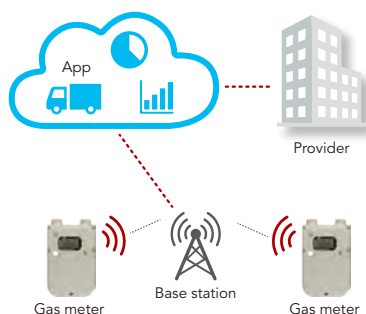


## Gas and Water Meters

[Azbil Kimmon Co., Ltd.]

## LP gas cloud service using IoT

Various information obtained from consumers' meters is transmitted wirelessly to the cloud, which is connected to gas providers, dramatically increasing the efficiency of day-to-day tasks, such as meter reading, security provision, and delivery planning. In this way, information from meters is used to provide higher added value than ever before to both gas providers and users.



## Residential Central Air-conditioning Systems

[Azbil Corporation]

### 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. Energy-saving schedules can also be set for each room.





# LA

**We will work to expand our business for the future, with top priority on establishing a solid profit structure.**

Sales

**¥44.8** billion  
(up 1.4% year on year)

Segment Profit

**¥2.1** billion  
(up 37.3% year on year)  
(segment profit ratio 4.6%)

- Sales increased due to growth in lifeline and lifestyle-related fields.
- Segment profit improved steadily amid progress in business structural reforms.

**Masato Iwasaki**

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

## Operating Environment for the Year Ended March 2019

The Life Automation (LA) business operates in three fields: lifeline field for gas and water meters; Life Science Engineering (LSE) field for pharmaceutical manufacturers and research laboratories; and lifestyle-related field for residential central air-conditioning systems. Each field has a different business environment. In the year ended March 2019, our lifeline business in gas and water meters (Azbil Kimmon Co., Ltd.), which accounts for the majority of segment revenue, continued benefiting from robust cyclical replacement demand as required by law. In the LSE field (Azbil Telstar, S.L.U.), demand for manufacturing equipment for pharmaceuticals, such as vaccines and generics, remained firm, especially in emerging countries, although business conditions fluctuated. In the lifestyle-related field, we are receiving more and more inquiries about residential central air-conditioning systems for detached houses,

whereby cooling, heating, ventilation, air purification, and dehumidification are handled by a single system—reflecting consumer needs in terms of energy savings, comfort, and health.

## Review for the Year Ended March 2019

In this business environment, the lifeline and lifestyle-related fields posted increased orders, but orders in the LSE field declined mainly due to a recoil in the wake of large-scale projects booked in the previous fiscal year, as well as streamlining of unprofitable businesses as part of structural reforms aimed at improving profits. Overall segment orders declined by 8.6% as a result. By contrast, business growth in the lifeline and lifestyle-related fields led to an increase in segment sales. Segment profit improved significantly due to the aforementioned business structural reforms, in addition to higher sales.

In the gas and water meter market, there is a growing



need to increase efficiency while addressing changes in the competitive environment caused by liberalization of the gas market and responding to labor shortages caused by Japan's aging society. Using these changes as opportunities for business expansion, we developed an automatic water-meter reading system incorporating the latest IoT, AI, and LPWA\* technologies, as well as a system for optimizing LP gas delivery planning. We also participated in various verification projects.

\* LPWA (low power wide area): A wireless communication technology that enables long-distance communication using minimal power and covering wide areas; it is optimal for compatible with IoT and M2M.

## Outlook

In the year ending March 2020, we expect overall profit in this segment to improve, driven mainly by the lifeline field (gas and water meters and the like), where we will target growth by embracing new demand, in addition to relatively stable replacement demand as required by law. Based on our track record, we will continue to make efforts to improve profit structure in each of the fields that constitute our LA business, with top priority on stabilizing and

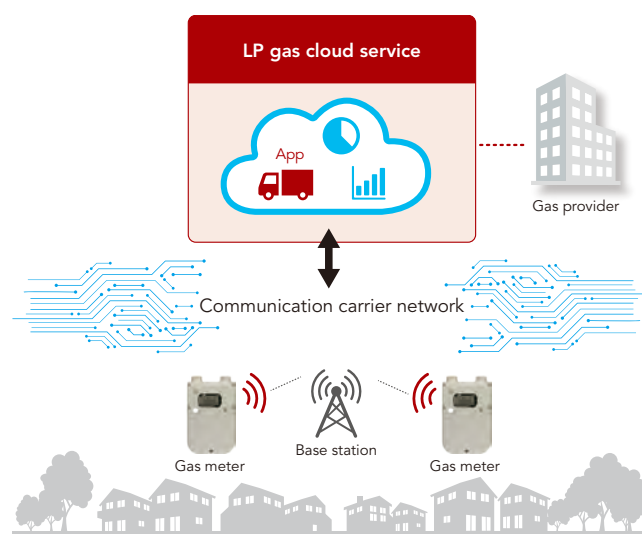
improving profitability. At the same time, we will deploy IoT and cloud technologies to build a business model different from the conventional meter replacement business that will serve as a foundation for future business expansion. In our LA business as well, we will accelerate business development in "new automation" fields. Specifically, this will include a new service that optimizes billing and LP gas containers delivery planning. Based on a new type of LP gas meter that is flexibly adaptable to multiple communication systems, the service uses LPWA technology to collect meter reading data, and then utilizes the collected big data together with AI to optimize delivery schedules. Similarly, in the LSE field we will aim to expand our business by leveraging synergies with Azbil Telstar to upgrade our processing equipment. In the lifestyle-related field (residential central air-conditioning systems), we aim to capture demand by expanding new services with high added value. These include energy-efficient air-conditioning management systems with tablet remote controllers and other features that suit people's lifestyles.

## LA Topics

### Launch of cloud service for LP gas providers based on wireless communication technology

Azbil Kimmon has commenced sales of a service for LP gas providers that utilizes gas meter data via the cloud.

This service sends daily reading data obtained from meters to the cloud via wireless communication terminals and communication carrier networks. In the cloud, the data is linked with various applications that benefit providers, including support for reduced shipping costs, enhanced work efficiency, and security operations. Moreover, it applies LPWA communication technology to the wireless communication terminals to enable power savings and lower communication costs. Use of the cloud also makes it easier for providers to adopt services and reduce operating costs. Two types of wireless communication terminals are available with the service: one that can be stored in smart meters made by Azbil Kimmon and one that can be connected to existing meters.

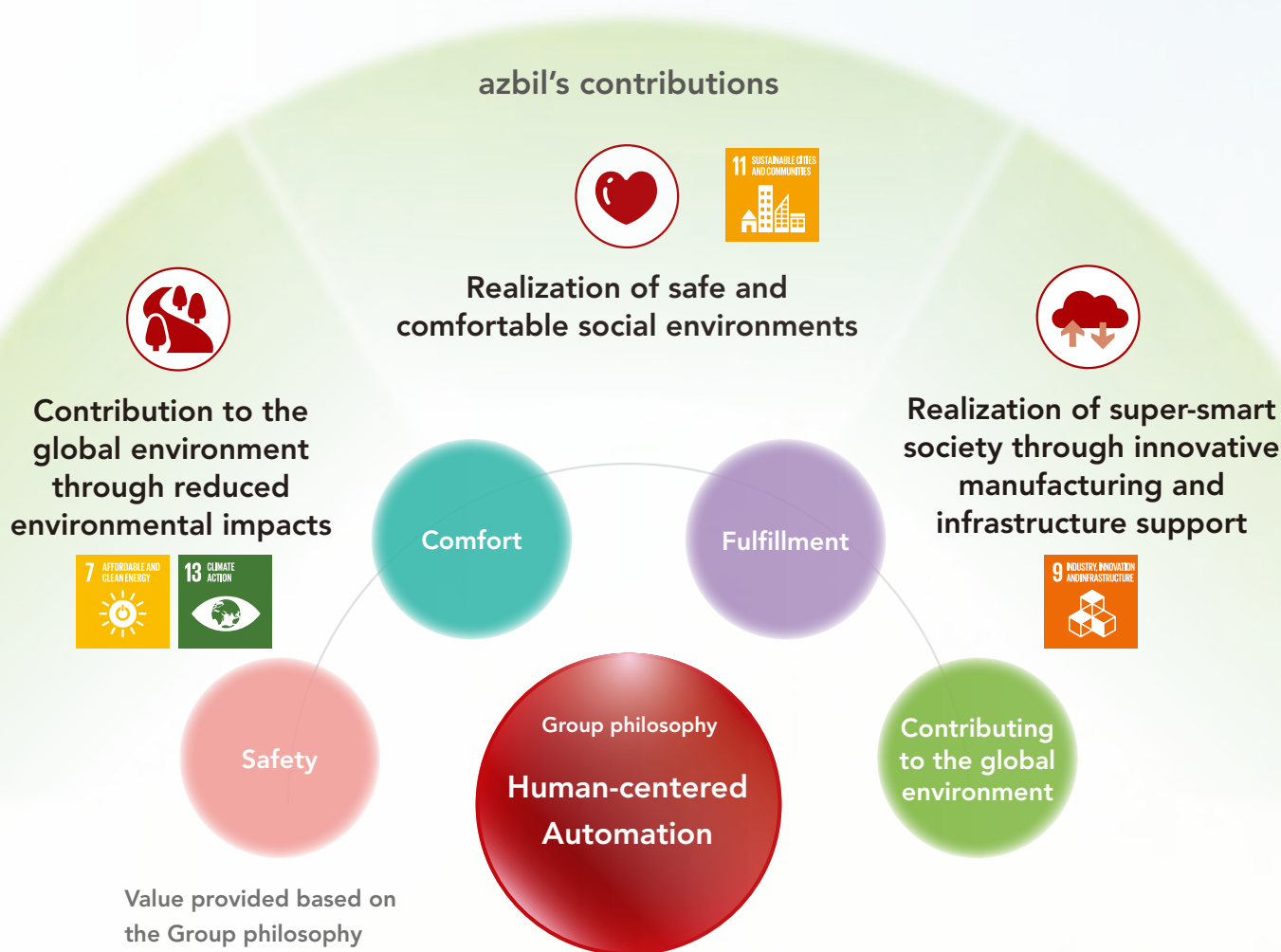


# Resolving Social Issues through Our Business Activities

Contributions to building a sustainable society

With “human-centered automation” as its philosophy, the azbil Group will forge steadily ahead to resolve various social issues. We will strive to share value with society, deliver further sustainable growth, and improve enterprise value through business activities guided by the Sustainable Development Goals (SDGs), which provide a compass to confirm the direction of our business activities.

**We regard efforts to resolve social issues as business opportunities**



## Corporate management's efforts to fulfill social responsibilities and strengthen operational foundation

**Corporate group that never stops learning** → P.64



The Azbil Academy:  
71,000 students per year

**Health and well-being management** → P.62



Certified as “White 500” company  
in fiscal 2018 and 2019

**Diversity promotion** → P.62



Emphasizing individuality of diverse employees  
and promoting the advancement of women

**Design for the Environment (DfE)** → P.68



Environmentally friendly designs that  
consider entire product life cycles

## Active social contribution initiatives supported by the Azbil Yamatake General Foundation

**Raising environmental awareness and revitalizing local communities** → P.83



Active social contribution initiatives  
supported by the Foundation



## Contribution to the global environment through reduced environmental impacts

Fully utilizing our measurement and control know-how and network technology, we work to reduce environmental impacts by supporting optimal energy management for large buildings with high energy consumption and at customers' production sites that use multiple forms of energy.

### Initiatives

- ✓ Energy management solutions in wide-ranging fields
- ✓ Support for introduction of energy management systems (EMSs) as an energy management service provider\*
- ✓ Development of energy service company (ESCO) business to provide energy-efficiency renovation
- ✓ Participation in virtual power plant (VPP) demonstration projects and implementation of demand responses

\* Entity registered with the Sustainable open Innovation Initiative (SII) as a provider of energy management support services to help save energy at factories and business premises.



### Providing energy management solutions



EMS for buildings



Visualization of energy usage



Energy-saving solutions by engineers familiar with equipment and facilities

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

**2.98 million tons of CO<sub>2</sub>**  
(fiscal 2018)

\* See page 11 for details on CO<sub>2</sub> reduction outcomes.



## Realization of safe and comfortable social environments

Our automation technologies are designed to provide people with safety, comfort, and fulfillment. Leveraging these technologies in wide-ranging business fields, we will help ensure the safe operation of production facilities, provide office and factory environments where people can work with peace of mind, and create comfortable spaces.

### Initiatives

- ✓ Providing products, systems, and solutions for safe operation of production facilities
- ✓ Providing automatic air-conditioning control and remote monitoring services for buildings and factories (BOSS Center), as well as access control systems, etc.
- ✓ Expanding product portfolio that ensures stable supply of energy to homes and contributes to early recovery from disasters (intelligent earthquake sensors, etc.)
- ✓ Providing life science solutions and residential central air-conditioning systems



### azbil's products and services that benefit society



BOSS Center for remote monitoring

Number of remotely monitored properties

**Approx. 550 buildings**

Cumulative results

**Approx. 10,000 units**



Intelligent earthquake sensor



## Realization of super-smart society through innovative manufacturing and infrastructure support

Combining big data and AI technology with our accumulated problem-solving know-how in the field and our unique strengths in sensors, actuators, and MEMS\*, we will dramatically increase the added value of automation in manufacturing and society.

\* MEMS (micro-electro-mechanical systems): A device that integrates sensors, actuators, and electronic circuits on a single substrate using micromachining technology.

### Initiatives

- ✓ Providing products and solutions that reflect technological innovations, centered on measurement, control, and MEMS technologies (smart industrial safety system solutions, micro liquid flow meters, high-accuracy position sensors, etc.)
- ✓ Providing high value-added solutions based on smart gas and water meters (automatic meter reading systems, data services, etc. using wireless communication and cloud technologies)
- ✓ Developing next-generation smart robots with the ability to manufacture things in a human-like manner



### Plant operation support through "Smart Industrial Safety System"



Statistical analysis using advanced sensor data

Control valve diagnostic system



Machine learning using operation big data

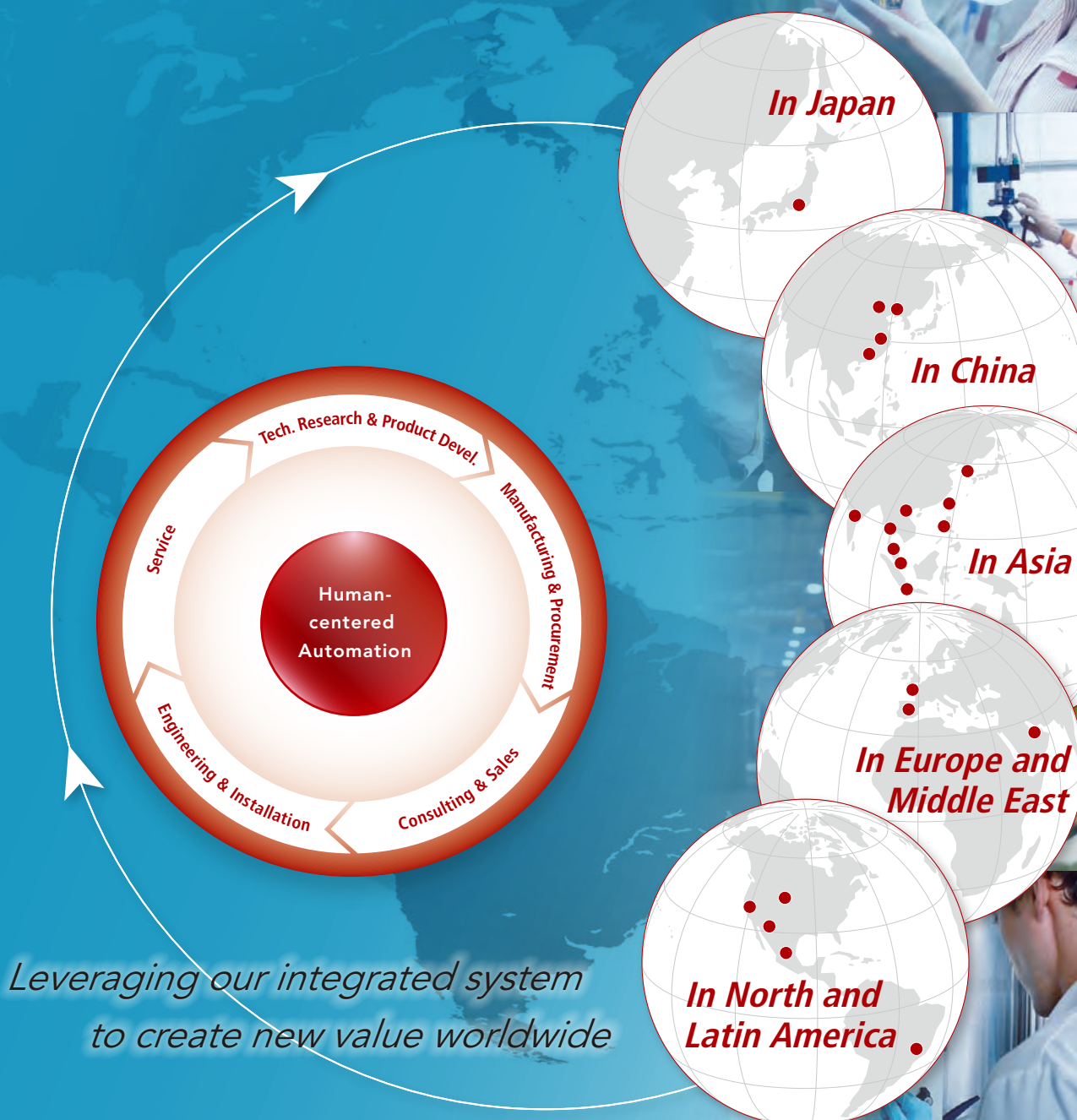
Online anomaly monitoring system  
Advanced critical trend monitoring system





# A Robust Global Value Chain

The azbil Group is focusing its efforts on global business expansion aimed at new value creation and growth. Based on our Group philosophy of "human-centered automation," we are actively working in overseas markets to promote the technology, products, and services we have cultivated in Japan, helping customers worldwide to create value at their sites. Central to these efforts is the azbil Group's unique integrated value chain, extending from product development to manufacturing, sales, engineering, installation, and maintenance services.



*Leveraging our integrated system  
to create new value worldwide*



We plan and develop technology 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 and Framework

Aiming to rapidly 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.

We develop technology and products at three R&D locations in Japan, the United States, and Europe. In Japan, our research facilities and research, development, and engineering personnel are concentrated at the Fujisawa Technology Center, enabling us to exploit synergies that transcend business boundaries in order to develop cutting-edge technology and new products.

At our R&D base in Silicon Valley in the United States, we are strengthening our basic technological capabilities and developing products that incorporate advanced technology through collaboration with U.S. research institutes and universities. In Europe, we are engaged mainly in basic technology research and product development in the field of life science engineering (LSE), focusing on equipment for pharmaceutical manufacturers.

### 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. In identifying these areas, we took 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 give machines a subtle sense of touch, humanlike perception, technical skills, and other human attributes, allowing 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 system enhancement.

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

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

#### 5. Individualized Environmental Comfort Systems

Technology that maintains the optimal temperature distribution within a space, taking into account the location of human beings and other 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 46–47.

### Three Standardization Initiatives

Through the three initiatives for standardization outlined below, we are improving the productivity of product development and design work, strengthening product quality and reliability, and enhancing our business competitiveness.

#### 1. Standardization of Development and Design Work

In addition to promoting standardization of development and design work, we are actively introducing product life-cycle management (PLM), robotic process automation (RPA), and other ICT technologies, as well as exploiting synergies to improve the productivity of development and design processes.

#### 2. Standards Development

In addition to promoting compliance with international standards (ISO and IEC) and National standards as business-enhancement tools, we establish azbil Group standards—which embody both international and national standards, as well as the Group’s knowledge—to strengthen our product development and design capabilities.

#### 3. Measurement Standards Management

Taking advantage of our nationally leading measurement capabilities, we maintain and control high-standard measurement equipment at production sites to ensure product reliability. At the same time, applying the technological expertise gained through our calibration work, we conduct R&D focused on new measurement methods.

## 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.

With the aim of maintaining and expanding existing markets and creating new businesses, we actively use intellectual property data to analyze other companies' benchmarks and patent information in cooperation with our business and R&D departments. In the product and technology development fields earmarked for priority investment, 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 departments hold meetings with R&D and intellectual property departments before filing applications for patents overseas in order to determine the importance of the relevant product or technology for our business strategy.

### Patent and R&D Data

Fiscal year	2014	2015	2016	2017	2018
Patents					
Applications	513	506	506	562	537
Patents owned	2,703	2,762	2,902	3,049	2,911
R&D expenses (billions of yen)	10.1	11.0	10.4	11.2	11.8
R&D expenses / net sales (%)	4.0	4.3	4.1	4.3	4.5

## Brand Management

To foster a 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 customers from damage caused by counterfeit products, we monitor e-commerce websites, etc., for brand infringement, especially in Asia. We also investigate the distribution of shipped products and conditions at our dealers, and take appropriate measures, including reports to the authorities, when we detect infringement.

With the aim of improving azbil brand recognition and image globally, we have defined our desired brand image and renewed our corporate advertising designs. We are also looking to establish brand design guidelines to unify our brand image.

## Examples of Technology R&D

### 1. Machine Systems with Humanlike Abilities

#### ▶ Next-generation smart robots

**Value provided** Embedding of force sensors and control functionality gives robots human-like sensitivity, delicacy, dexterity, and flexibility. By doing the work of humans, our robots help improve overall productivity and quality.

### 2. Flexible Measurement and Control

#### ▶ Smart device gateway model NX-SVG

**Value provided** Model NX-SVG makes it easy for devices made by different manufacturers within a piece of equipment to communicate with each other. By centralizing data collection from various devices and providing centralized control of those devices, the NX-SVG helps to make equipment IoT-ready.

### 3. Advanced Technology that Clarifies Complex Systems

#### ▶ SIGFOX unit for electronic water meters

**Value provided** We developed a wireless unit equipped with SIGFOX, an LPWA communication technology used for low-power communication, even over long distances. The unit can be installed in locations where meter reading is difficult, such as on remote islands and in mountainous areas, saving time and cost.

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

#### ▶ savic-net<sup>TM</sup>G5 system supervisory controller

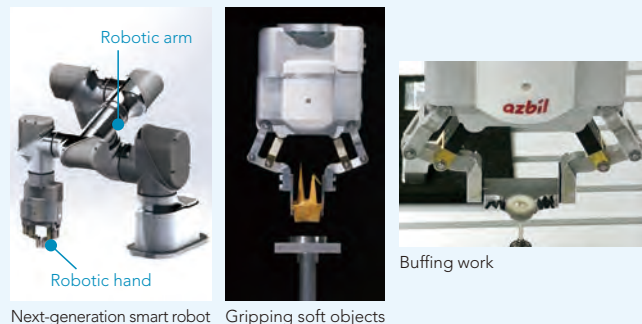
**Value provided** We enhanced the savic-net<sup>TM</sup> system by incorporating new functions, namely, compatibility with open communication standards, high-speed data scanning and change accumulation, and the ability to install multiple supervisory controllers for increased capacity. This has enabled us to continuously offer new applications.

### 5. Individualized Environmental Comfort Systems

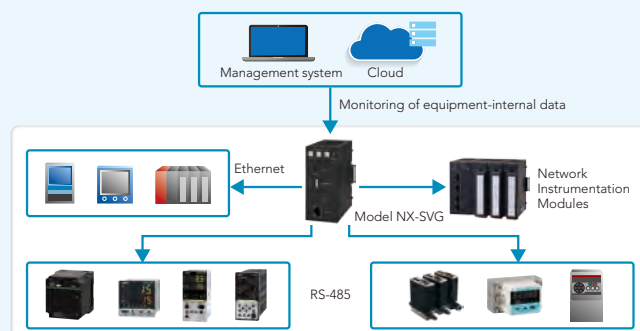
#### ▶ Technology to quantify environmental satisfaction level

**Value provided** This technology allows us to make quantitative assessments of building occupants' level of satisfaction with an air conditioned environment. We can then provide more satisfactory air conditioning (AC) control and operation management in a manner that better reflects how occupants feel.

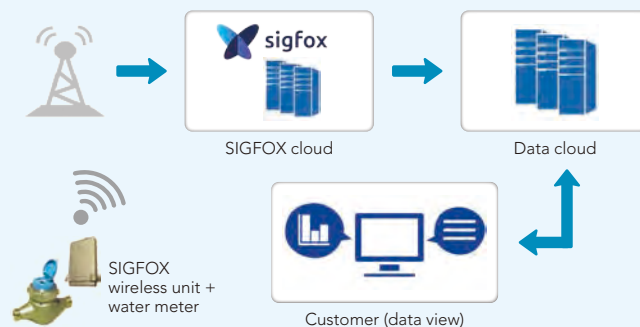
**Development details** Applying microelectromechanical system (MEMS) technology to create a high-strength, high-rigidity force sensor, we developed high-speed, high-precision force control technology that uses signals from that sensor. Utilizing this technology to control robot arms or hands enables robots to perform tasks that were difficult for conventional robots. Examples include deburring and polishing work that follows the contours of the object; shaft insertion; pressing and other assembly operations that require force adjustment; and carrying soft or fragile objects, which requires force reduction.



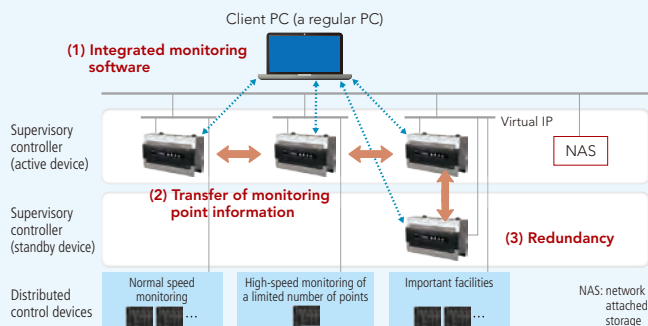
**Development details** The NX-SVG facilitates communication between devices with different communication protocols by simply specifying the transfer source register and transfer destination register. With two built-in LAN ports and two built-in RS485 ports, it makes communication possible between devices using Ethernet and devices using RS485, and also helps to make existing equipment IoT-ready. Moreover, its Modbus/TCP server function makes it possible to monitor the equipment's internal data from the cloud or a management system.



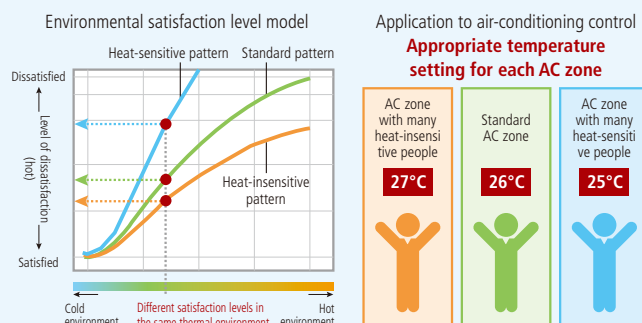
**Development details** This system is designed to read water meters and obtain alarm information, such as water leak alarms, every 12 hours and transmit the information to the SIGFOX cloud. Since the volume of data that can be transmitted by SIGFOX is limited, the information is compressed before transmission. The waterproof case of the wireless unit allows it to be installed alongside the water meter. Using data obtained from the SIGFOX cloud, our own data cloud provides visualization of each meter's usage and alarm information.



**Development details** The supervisory controller is compatible with open communication standards, such as BACnet, and enables important measurement points to be monitored on a one-second cycle. Moreover, the system can be scaled up to a maximum of 150,000 points. Accordingly, we have developed integrated monitoring software that enables multiple supervisory controllers to be managed in a single system. The system also allows lateral management across multiple supervisory controllers, accumulated data display and operation, and redundancy limited to important facilities.

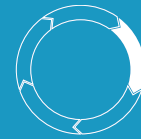


**Development details** We developed a modeling method for measuring the environmental satisfaction level of a small group of occupants in each air-conditioning zone of a building. The method is based on the relationship between occupants' actual feelings of thermal sensations (e.g., "hot," "cold"... ) and the indoor environment. Most indexes in common use for comfort evaluation show average feelings of large numbers of people because they rely on a statistical method. Our technology, by contrast, enables more detailed evaluations and estimations of environmental satisfaction levels that reflect individual thermal sensations of occupants.



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.

# Manufacturing and Procurement



## 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 strengthen the procurement capabilities of our overseas bases in order to improve our distribution and logistics frameworks and strengthen our three production centers in Japan, China, and Thailand.

At our production base in Thailand, we are expanding the scale of production, particularly of component products, while taking steps to boost production capacity through factory expansion and additional product models. At our production base in Dalian, China, we are also pressing ahead with increased production capacity for valves and differential and gauge 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.

Alongside expansion of overseas production, we are stepping up procurement of materials overseas and emphasizing quality assurance and environmental preservation. We are also renewing efforts to reduce the cost of materials both in Japan and overseas.

## Construction of a New Main Factory for the Group

As part of efforts to streamline our global production system, we are consolidating the Shonan Factory and Isehara Factory into one facility at the Shonan Factory location which, in close collaboration with the R&D facilities

at Fujisawa Technology Center, will serve as the Group's "mother factory."

Utilizing the new buildings completed in spring 2019 at the Shonan Factory, we will establish advanced production lines, implement sophisticated production processes, and make operations highly efficient. In addition to implementing innovations in high-value-added manufacturing, an azbil Group specialty, we will ramp 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 MEMS\*<sup>1</sup> sensor 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.

Moreover, in order to streamline our production processes and improve quality, we are making efforts, based on the azbil Group's unique HCAMS\*<sup>2</sup> concept, to further advance automation by deploying microassembly, processing, and image-processing technology, 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 this advanced technology from domestic factories to overseas facilities in order to maintain and improve global product quality and strengthen business competitiveness.

\*<sup>1</sup> Microelectromechanical systems

\*<sup>2</sup> Human-Centered Automation for Manufacturing Systems. 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.

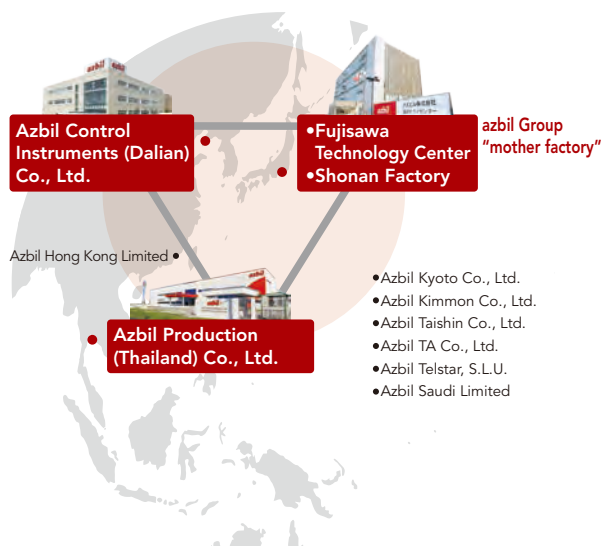


MEMS sensor automated assembly equipment



AI-powered component inspection equipment

### Global production system





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.

## Sales, Engineering, Installation, and Service



### Comprehensive Global Solutions

To maximize value throughout the life cycle of our customers' buildings, plants, and factories, we provide total solutions on the basis of our unique integrated framework, which extends from proposals (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 global 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.

#### ► Building Automation (BA) Business

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 challenges, depending on its intended use and regional 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 overseas markets as well, there is increasing demand for careful temperature management that provides comfort and reduces environmental impact. Using know-how accumulated in Japan, we propose and provide life-cycle solutions tailored to regional characteristics at each site.

#### ► Advanced Automation (AA) Business

In our Advanced Automation (AA) business, we hear a variety of requests pertaining to manufacturing sites, reflecting the dramatically changing global needs of customers seeking to keep abreast of technological changes such as advances in IoT, AI, and robotics.

## The azbil System for Recognizing Technical Professionals

### (Top-notch Measurement and Control Engineers)

At the Azbil Academy, an organization for human resource development, we have established a system that confers the title of "Technical Professional" on Group employees who have demonstrated first-rate technical capabilities and knowledge and have passed technical examinations. The aims of this system are to improve the technical capabilities of engineers who spearhead value creation in the field, and to facilitate technology transfer between engineers, in order to create value for customers and help them to meet their challenges. To date, we have certified 14 people, mainly in technical positions in the field (sales, design, engineering, start-up coordination, and maintenance services). These certified Technical Professionals, who stand at the pinnacle of our engineering force, are expected to play a central role in improving the Group's technological abilities and passing down technologies, expertise, and know-how to the next generation of engineers through various training programs. Through this system, we are working to develop and raise the level of engineers who can provide customers with high added value.



Two new control valve maintenance Technical Professionals at their award ceremony

## Sales, Engineering, Installation, and Service

Before our sales engineers propose an energy-efficiency solution for a factory, they conduct an energy analysis and estimate the cost-effectiveness of an energy-efficiency investment. 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 IoT, AI, and other advanced technology, draw up a system design, develop an application, and build a high-performance and high-quality system. In response to requests from equipment manufacturers, we strive to deliver high-value-added solutions on a global basis. In addition to providing products, we propose

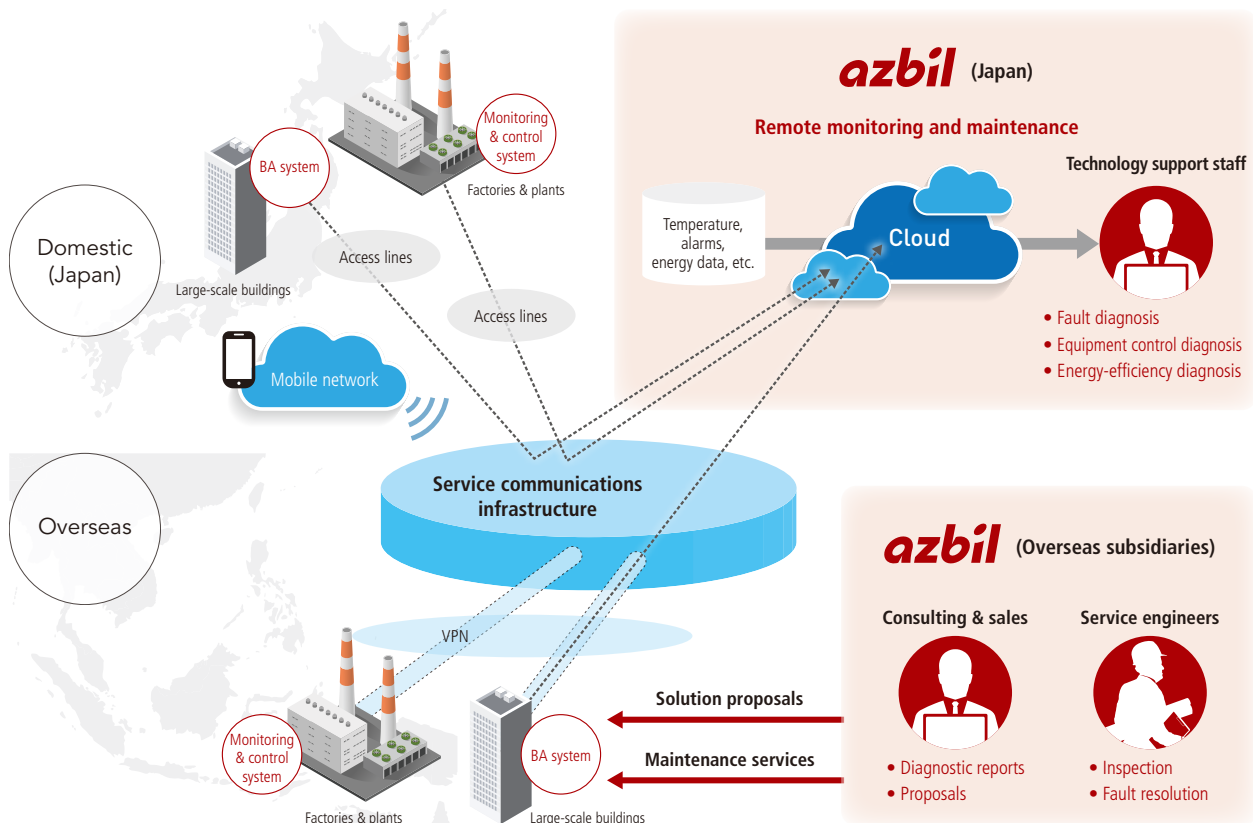
applications and customized systems at the equipment design and development stages, based on the relationship of trust we have fostered with our customers.

### Maintenance Service

Our service engineers, who are thoroughly acquainted with the equipment and systems at our customers' buildings, plants, and factories, provide optimized operation, regular inspections, and maintenance services, and they respond swiftly in the event of an urgent problem. By incorporating customers' viewpoints promptly and faithfully into our products and services and sharing them with others in the azbil Group, we increase our value in the field and make our products and services more efficient.

We are also pressing ahead with the transformation of our operations from a conventional labor-intensive model to a knowledge-intensive services model in which we

### Remote Maintenance Service Platform (BA and AA Examples)



mainly focus on offering solutions based on our extensive data and experience.

#### ► Knowledge-Intensive Services

Making use of cutting-edge technology and a wealth of know-how available only to professionals in the field of control and management, we are developing tools for use in our service operations. The use of service tools not only increases the efficiency of onsite inspections, but also, through the use of remote data collection, remote event analysis, and offsite inspection of control operations by experts, ensures that automatic control instruments are maintained properly. Self-diagnostic information from equipment is collected and analyzed to ensure that systems are operating correctly at all times and to facilitate rapid recovery in the event of a problem. Also, this enables us to suggest preventive maintenance aimed at maintaining the reliability of the system.

#### ► Global Expansion of the Service Business

In the Building Automation (BA) business, we are strengthening our remote maintenance capabilities to enable remote monitoring of overseas buildings, while continuing to provide efficient maintenance and suggest energy efficiency improvements.

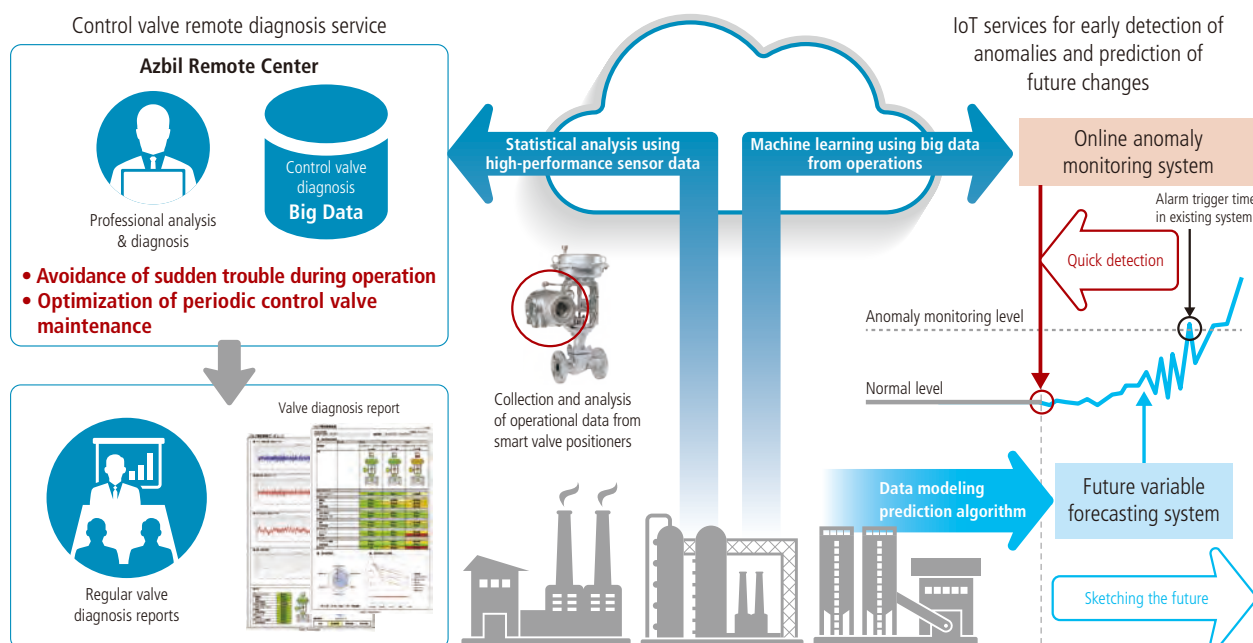
In the Advanced Automation (AA) business, our



Remote monitoring center for comprehensive monitoring of buildings and factories

solutions-oriented valve business, which focuses on integrated supply and maintenance of control valves, has expanded to the Middle East and North America, in addition to our main bases in China, Taiwan, Thailand, Singapore, Indonesia, and elsewhere. Going forward, we will continue to promote our smart industrial safety system solutions globally, in addition to our IoT services that use big data and AI to predict future changes and to detect anomalies before they become problems.

#### Smart Industrial Safety System Solutions (AA business)



Seeking to help resolve the problems faced by customers and society, our development, production, sales, and service bases throughout Japan and overseas are organically linked. With our unique, integrated system, we provide optimal solutions to problems and support the creation of new value.

# azbil Group's Global Network to Support Value Chain

## Global Development System

A technology research and product development system that meets the needs of a variety of customers globally and regionally.

### R&D Bases

[In Japan]  
Azbil Corporation (Fujisawa Technology Center) (plus four others)  
[In the U.S.]  
Azbil North America Research and Development, Inc.  
Azbil North America, Inc.  
Azbil VorTek, LLC  
[In Europe]  
Azbil Europe NV (Belgium)  
Azbil Telstar, S.L.U. (Spain)



## Global Production System

Highly flexible global production, with manufacturing and distribution functions in three locations: Japan, China, and Thailand

### Major factories

[In Japan]  
Azbil Corporation (Shonan Factory)\*, (plus four others)  
[In China]  
Azbil Control Instruments (Dalian) Co., Ltd., (plus one other)  
[In Thailand]  
Azbil Production (Thailand) Co., Ltd.

\* In 2019, Shonan Factory and Isehara Factory merged to form a single facility at the location of the current Shonan Factory.



## Global Sales and Service System

A sales and service (maintenance & repair) system that works together with customers around the world to create value

[In Japan]  
Azbil Corporation, Azbil Trading Co., Ltd., Azbil Kimmon Co., Ltd. (plus two others)  
[In China]  
Azbil Control Solutions (Shanghai) Co., Ltd., Shanghai Azbil Automation (plus four others)  
[In Asia]  
Azbil Korea Co., Ltd., Azbil Singapore Pte. Ltd.,  
Azbil Berca Indonesia (plus seven others)  
[In the Americas and Europe]  
Azbil North America, Inc., Azbil Europe NV, Azbil Telstar, S.L.U. (plus three others)







## R&D Responding to Needs Around the World

Our R&D centers in Japan, the United States, and Europe cooperate to develop products and solutions. Applying our philosophy of human-centered automation, each of these centers leverages regional strengths to develop cutting-edge technology and new products that create value for our customers and help them to deal with changes in the business environment.

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



Fujisawa Technology Center (Japan)



### The Americas

- Sales
- Product Development
- Services (maintenance & repair)
- Production

## Production Systems that Deliver Reliability to Customers

At each of our domestic and overseas production locations we have established globally competitive production systems that are able to respond to changes in the market. By closer cooperation among the azbil Group's departments and companies, we have cut the lead time from development to manufacturing in order to provide products with a high level of homogeneity at an optimal cost to customers all over the world.

Azbil Production (Thailand)  
Co., Ltd.



Azbil Control Instruments  
(Dalian) Co., Ltd.



## Global support, from consulting and sales to maintenance

Utilizing our domestic and international service network, we provide integrated support, from consulting and sales to engineering, installation, and maintenance. We strive to maximize the value of customer facilities throughout their life cycle, applying the knowledge gained through the operation of facilities worldwide to develop new equipment and solutions.

Control valve manufacturing and  
maintenance base at Azbil Saudi Limited



Remote monitoring center for comprehensive management and maintenance of buildings and factories (Japan)

# Infrastructure to Support Value Creation

In this section, we describe a variety of CSR management initiatives, our corporate governance system, and our efforts to communicate with each stakeholder, which together form the foundation that supports value creation by the azbil Group.

## CSR Management

Making “human-centered automation” the foundation for its business activities, the azbil Group works to fulfill its corporate social responsibility (CSR) by assisting in the continuous development of society. By actively putting people first as we contribute to the economy, environment, and society, we strive to substantialize the values that we hold in common with society, such as the U.N.’s Sustainable Development Goals (SDGs).

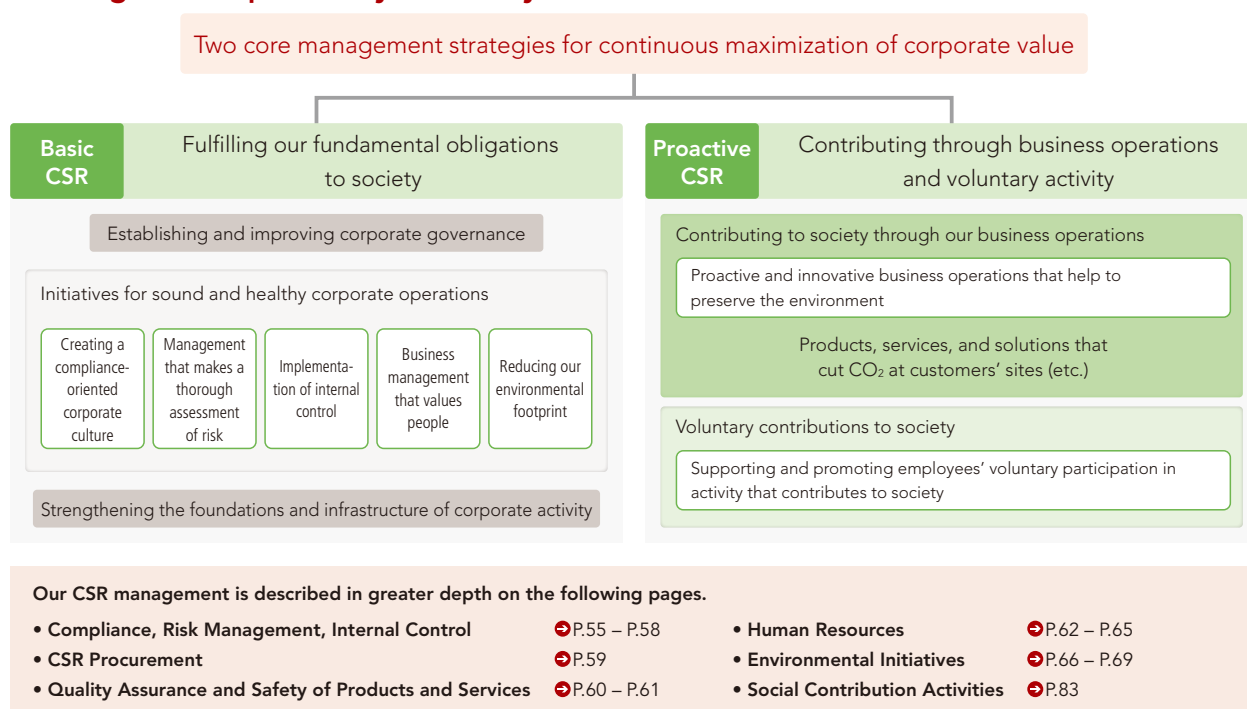
### Approach to CSR Management

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 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 thorough compliance with laws and regulations; risk management and preventative measures in such fields as disaster mitigation, information security, product quality, product liability, and accounting; strengthening of risk management measures and internal controls; and improvement of 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.

By managing the company on the basis of the corporate philosophy, the azbil Group proactively contributes to the development of a sustainable society.

### Fulfilling Our Responsibility to Society

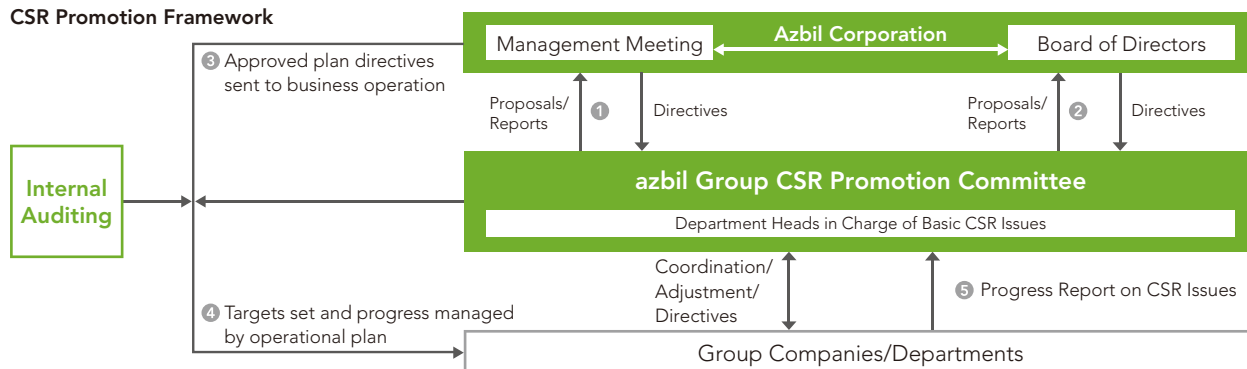


## Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to promote CSR activities across the entire azbil Group. The committee consists of officers in charge of CSR at each Group company and is led by the executive officer in charge of CSR at Azbil Corporation. In addition to formulating Group-wide action plans and monitoring

progress, the committee provides guidance to subsidiaries. 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 compliance awareness 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 about Compliance

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 about compliance throughout the Group.

Each year, we conduct a survey of all Group employees to gauge compliance awareness and the status of internal compliance. The results are used to identify problems and implement measures to address them. In fiscal year 2018, we surveyed a total of approx. 11,000 employees in Japan and overseas, including temporary



Education by professional lecturer

and other employees, and found that more than 99% of them recognize the importance of compliance, an even higher number than the previous year's 98%. To educate employees about compliance, in addition to face-to-face training provided by lecturers, we launched a new e-learning program. In this way, we not only fully familiarize employees with the basic matters, such as the code of conduct's guidelines and priority measures, but also deepen their understanding of ever-changing compliance issues. Going forward, we will continue to step up our efforts to raise compliance awareness.

### Preventing Legal Risk

The entire azbil Group strives to ensure complete compliance with external laws. 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 response to important laws and associated matters, as we endeavor to prevent problems from occurring.

## 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. The azbil Group Comprehensive Risk Committee, led by the executive officer in charge of risk management, identifies "risks deemed important to the azbil Group," which may then be determined to be key risks by the Board of Directors.

To minimize the 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

The azbil Group takes disaster prevention measures aimed at minimizing damage to the Group and protecting people's lives. These measures include making buildings

earthquake-resistant, performing hazard inspections, stockpiling, deploying an emergency communication infrastructure, and providing education and training. We also have a business continuity plan (BCP) in place to ensure ongoing provision of products and services at predetermined levels after a disaster. This includes preparing the required funds, product and part stockpiles, personnel, and production facilities. To prepare for crises, we review our emergency contact network and emergency headquarters manual and work to strengthen systems so that the right decisions can be made on policies and important matters.



Crisis training drill



## 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. In addition, we have a framework to ensure proper protection of personal and

other important information in compliance with the EU General Data Protection Regulation (GDPR) and other regulations. In these ways, we are upgrading and reinforcing the Group's information management system.

## Business-Related and Other Risks

Risks that may affect the business results and financial position of the azbil Group are summarized below. These risks are discussed by the azbil Group Comprehensive Risk Committee and the Board of Directors, and are addressed by our comprehensive risk management system. We also take measures to mitigate and respond to risks in the related business departments. Information contained in the following that pertains to the future is deemed valid by the Company as of March 31, 2019. In addition, the risks stated below are described in the 97th Annual Securities Report ("Business-Related and Other Risks"), and each potential risk event has been adequately analyzed, evaluated, and addressed.

### 1. Risk related to the business environment

Changing market conditions in specific regions and key business sectors, including construction and manufacturing, may have an impact on capital investments, which, together with major economic recession, could have an adverse impact on the Group's operations, business results, or financial position.

### 2. Risk related to growth in a competitive environment

#### (1) Risk related to business management

Risk that inadequate response to business opportunities that may arise from changes in social conditions and technological innovation, etc., could lead to the loss of competitive advantage.

#### (2) Risk related to technology

Risk that the loss of competitiveness led by misreading of technological trends, slow R&D progress, or failure to respond to open innovation and technological development, etc., delay in launching new products, and sluggish sales, etc., could affect operations or business results.

### 3. Risk related to product quality

Risk that costs incurred by defective products, systems, and services and the resulting damage to the corporate reputation could affect operations, business results, or financial position.

### 4. Risk related to global operations

- (1) Risk that unforeseen situations, such as regional political and economic upheaval, changes to laws, terrorism, or differences in business practices, etc., could have an effect on operations, business results, or financial position.
- (2) Risk that delay in planned business expansion due to regional peculiarities and the like could affect the Building Automation (BA) business.
- (3) Risk that sharp foreign exchange fluctuations, which may impact net sales, prices of raw materials and parts, SG&A expenses, and the like, could have an effect on operations, business results, or financial position.

### 5. Risk related to securing and developing human resources

- (1) Risk that obstacles to securing, educating, and smoothly deploying human resources needed to address business structural changes could lead to declines in productivity or other performance indicators.
- (2) Risk that delays in securement, education, and deployment of human resources needed for overseas business development may inhibit achievement of business growth targets.

### 6. Risk related to information and IT security

- (1) Risk that leakage of confidential business information or personal information due to unforeseen circumstances could affect business performance or financial position, or cause damage to the corporate reputation.
- (2) Risk that terrorist and other unexpected cyberattacks could affect the Group's business operations.

### 7. Risk related to the environment, climate change, and natural disasters

- (1) Risk that damage to production and interrupted supply of products and services stemming from large-scale disasters and other unforeseen events could have an effect on business results or financial position.
- (2) Risk that events beyond those assumed in the BCP will have a negative impact on business continuation, which could have a major effect on business results or financial position.

### 8. Risk related to compliance

- (1) Risk that violation of laws (antitrust laws, construction industry regulations, labor standards, bribery laws, and the like), including violation that results from failure to address regional and industry characteristics of newly entered business, and delays in responding to new laws and revisions of existing laws, may result in administrative penalties and fines, which could affect business results or financial position.
- (2) Risk arising from secondary events, such as business bans and rejection by customers; risk that violation of laws and guidelines could affect business results or financial position; risk that inappropriate acts by the company and/or its business partners will damage the reputation of the Group.

## 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 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, in fiscal year 2018 we established a system for more quickly and reliably implementing measures to prevent recurrence.

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

### Feedback Loop System for Employee Concerns and Internal Issues

To strengthen CSR management, the azbil Group has set up a reporting and consultation system, the CSR Hotline, to swiftly identify and deal with compliance violations or the potential for such violations. This system is primarily for reporting and consultation about actions that deviate from the Group's code of conduct, such as legal violations, human rights issues, and improper accounting. Our work rules and other regulations include a whistle-blower protection clause to prevent whistleblowers from being disadvantaged as a result of their actions.

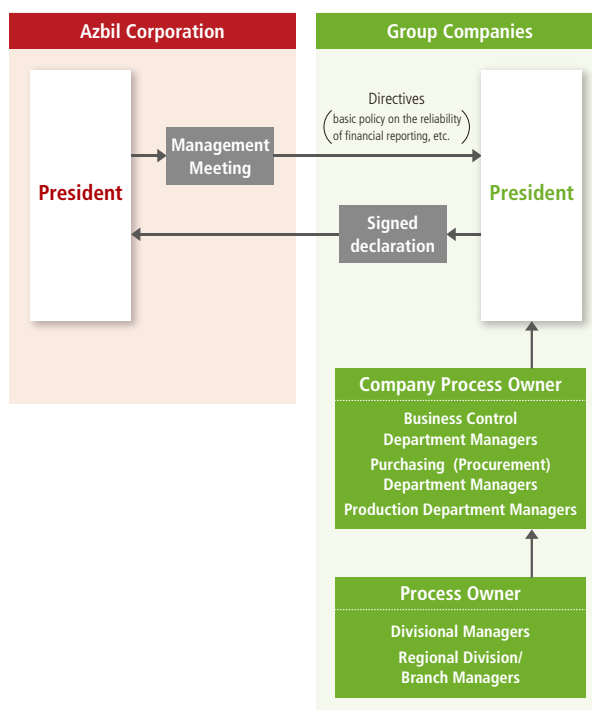
In Japan, the system also handles inquiries related to employees' personal troubles and concerns, as well as personnel evaluations, and questions about the personnel system and welfare programs. We have also set up two reporting and consultation hotlines—one internal and one external—that accept anonymous inquiries and are easily accessible. These hotlines are well recognized and used by many employees on a daily basis.

### 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 risks and controls in light of changing business conditions. The core information system operating at Azbil Corporation was extended to Azbil Korea Co., Ltd., and Azbil Production (Thailand) Co., Ltd., in January 2019. We will continue to introduce the system and revise our administrative processes at other Group companies in Japan and overseas.

We conduct ongoing education programs aimed at improving the accounting levels of all Group employees in Japan and overseas. In addition, we are working to further improve the accounting, internal control, and other systems of overseas subsidiaries in order to raise the standard and enhance the reliability of the azbil Group's internal control system.

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



## CSR Procurement

The azbil Group works with suppliers to ensure CSR procurement throughout the entire supply chain.

### azbil Group Basic Procurement Policy

The azbil Group emphasizes fair procurement both within Japan and abroad. Guided by the Group Philosophy and the azbil Group Business Conduct Policy, we endeavor to understand and comply with laws and regulations and give full consideration to human rights and the environment.

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, which includes the following.

1. The public nature of the company and the fulfillment of our social responsibility
2. Observance of fair commercial transactions
3. Social conduct characterized by respect for people
4. Promotion of environmental protection

More details:  
<https://www.azbil.com/corporate/procurement/policy/index.html>

### Working with Suppliers to Ensure CSR Procurement

Our suppliers understand the azbil Group Basic Procurement Policy, and agree with provisions on environmental conservation activity in the basic business agreement made with them. We also send a document explaining our basic procurement policy to subcontractors as well as suppliers from whom we make ongoing, large-sum purchases in order to ensure a thorough understanding of our policy. In these ways, we work to ensure CSR procurement throughout the entire supply chain.

Before we decide whether or not to initiate business with a new supplier, we evaluate the supplier's business management and financial status, examine their product quality and their management system for chemical substances contained in their products, and also require completion of an environmental conservation questionnaire.\* If the results do not meet fixed criteria but we believe that improvements can be made, we ask the supplier to make improvements in order to ensure fair and appropriate procurement.

We also conduct onsite surveys of our suppliers, and certify them as our subcontractors only if they satisfy the conditions. For subcontractors, we require completed environmental conservation questionnaires every year and conduct onsite information security and safety inspections every two years. We issue correction requests when improvements are necessary, and we subsequently check whether corrections have been made. In addition,

we provide instruction for subcontractors on adjustment technique, basic air conditioning, and the like. When our factory purchases parts from a supplier, we provide guidance if quality is inadequate or improvement is necessary based on the results of our chemical substance management system audit.

Section 3 of the azbil Group Basic Procurement Policy calls for "social conduct characterized by respect for people." To this end, we demand that suppliers do not engage in human rights violations, including illegal labor arrangements and child labor, human trafficking, forced labor, and other forms of inhumane treatment.

\* The questionnaire covers the supplier's management philosophy and policy on the environment, ISO14001 certification status, employee education, and establishment of an environmental management system.

### Green Procurement

To providing customers with environmentally friendly products and services, the azbil Group emphasize green procurement when obtaining raw materials, parts, materials, services, etc. Our priority is to select environmentally friendly products that help to prevent global warming, recycle resources, and preserve biodiversity.

We also ask our suppliers to work on environmental management standards, etc., to reduce environmental impact.

In evaluating green procurement, we ask all suppliers to submit a report on their environmental conservation activity and their assessment of the results of such activity, and we evaluate suppliers' environmental activity every three years. Suppliers who receive a low rating from this three-step process are asked to acquire official certifications or to work on environmental conservation, and we check whether action is taken.



Green Procurement Standard

Please see the following websites for details on the Group's CSR procurement initiatives.

**Management of chemical substances in products:**  
<https://www.azbil.com/corporate/procurement/green/hazardous-substances.html>

**Handling of conflict minerals:**  
<https://www.azbil.com/corporate/procurement/conflict-minerals/index.html>

## Quality Assurance and Safety of Products and Services

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

To safeguard the quality, safety, and dependability of our products and services, we established and operate a quality assurance system and work constantly to enhance the quality of our products. Through these activities, we ensure that customers can use the azbil Group's products safely and with a sense of security.

### (1) azbil Group's Quality Assurance and Safety System

Under the azbil Group's quality and safety management, we provide quality-related guidance, supervision, and audits of the entire Group via two corporate functions (group quality assurance and safety assessment). We also ensure product safety and security through safety assessments.

### (2) Quality Assurance and Safety of Group Companies and Business Lines

Through our quality assurance system, which fully meets our business requirement, we guarantee the quality and safety of the products and services we provide.

### The Quality of Our Products and Services

The aG Quality Assurance Department, which is independent of the business departments, supervises and monitors the quality improvement activity of the azbil Group as a whole. Through the azbil Group Quality Assurance Committee, meanwhile, we work to prevent the occurrence (or recurrence) of quality problems and to establish a crisis management system.

### ► Prevention of Problems and Recurrence

Incorporating quality is key in the process of developing products and providing services. To this end, we check the status of quality targets achieved by each Group company for each of their businesses. To improve quality, we use "near miss" incidents and other case studies to prevent problems from occurring and to provide guidance on avoiding recurrence. We distribute information on mutually relevant quality improvement matters with all Group companies and businesses as a preventive measure.

### ► Quality-related Crisis Management

In addition to promoting efforts to prevent quality problems and avoid recurrence, we are building a reporting and response system that will anticipate the occurrence of emergencies and accidents, and we are training personnel to ensure the system's effectiveness.

### Safety and Dependability of Our Products and Services

To make sure that customers can use our products safely and with a sense of security, our written Safe Design Standards promote safe designs, and our Risk Assessment and Authorization System supports our product safety efforts.

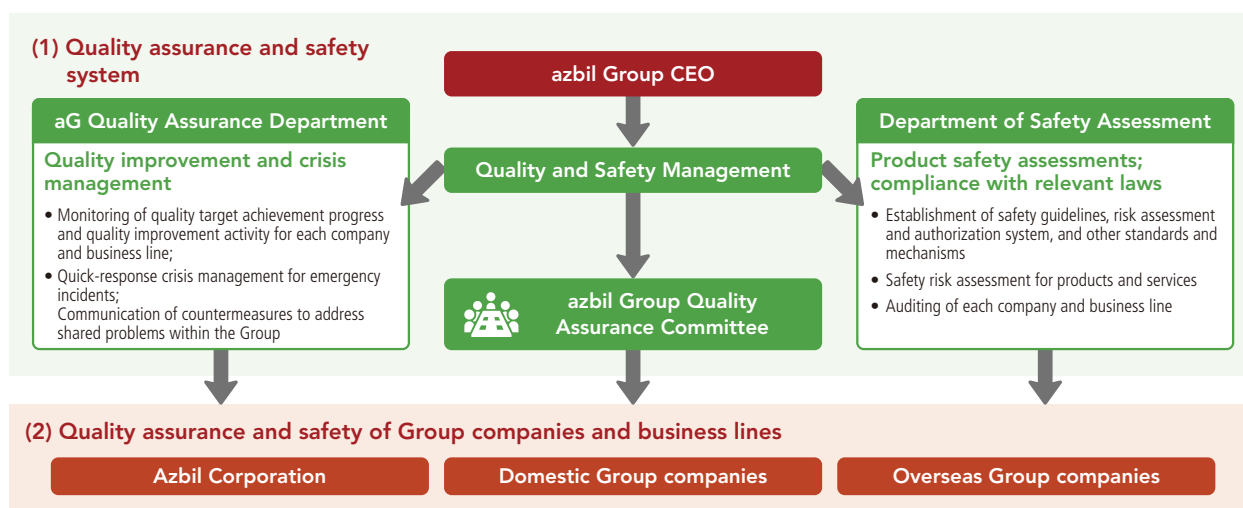
### ► Safe Design Standards

We have established a set of safety standards to guarantee user safety for the products we deliver to customers, and we are working on risk assessment and risk reduction in the course of product development.

### ► Safety Assessment

The development and service departments of each

#### azbil Group's Quality Assurance and Safety Activities





business segment conduct product risk assessments. Moreover, the Department of Safety Assessment, which is independent of the business departments, conducts product safety assessments and audits to ensure product safety.

## Quality Assurance and Safety of Our Products and Services

In each of the azbil Group companies and business lines, we have established a quality assurance system for legal compliance, quality assurance, and safety assurance, in order to safeguard the quality and safety of the products and services we provide.

### (1) Design Quality

The quality and safety of our products, which we guarantee as a manufacturer, have their origins already at the product development stage. In addition to incorporating reliability and safety in the product development process, our process design and equipment design procedures prevent products that do not meet our quality and safety standards from being made. Moreover, knowledge obtained during development and design is entered into our design knowledge database and used for new product development.

### (2) Production Quality

At production sites, we have standard procedures in place for each product, aimed at ensuring that nonconforming parts are not put on the manufacturing line, nonconforming products are not made, and if made they do not enter

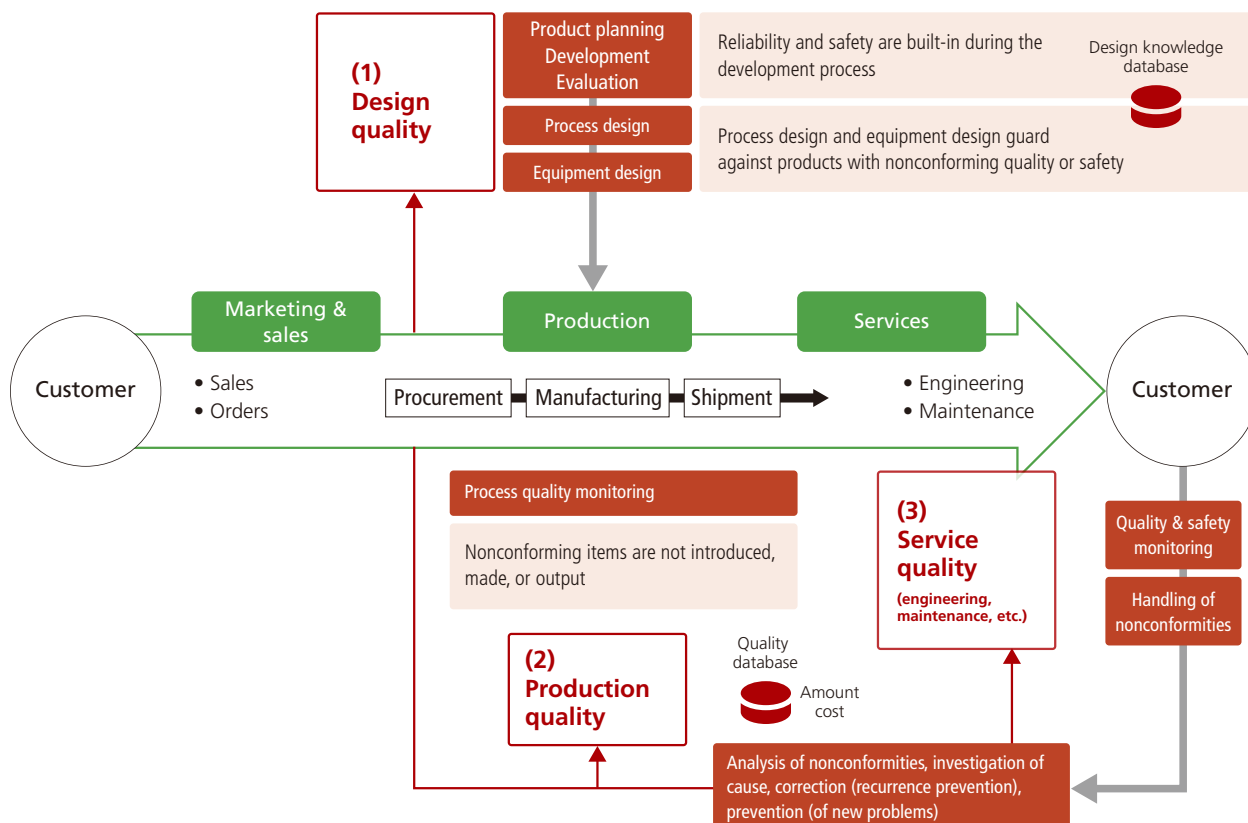
the marketplace. To this end, we practice continuous quality management and 4M\* change management, as do our subcontractors and suppliers, and we implement rigorous quality improvement and daily management efforts at production sites. We have also established process implementation guidelines to ensure correct measurements using carefully controlled measuring instruments, so that inspections are performed properly.

\* Man, machine, material, and method

### (3) Service Quality (Engineering and Other Services)

For engineering and other services, we have established operational standards and quality control systems similar to those for our products, so that nonconforming elements are not introduced or output. At construction sites, for example, when selecting construction materials and designing work processes, we take appropriate measures and conduct internal inspections at appropriate junctures. At the operation stage after a building's completion, we provide maintenance services to ensure comfortable working spaces for building users and also to save energy and ensure safety. In addition, our remote monitoring center monitors our customers' facilities 24 hours a day, 365 days a year, to prevent problems from occurring. We also have a training center that provides regular education and training for engineers so that the aforementioned services are delivered properly.

## Incorporating Quality and Safety, from Design and Production to Engineering and Maintenance Services



By promoting “health and well-being management” and fostering human resources through a combination of “work-style reforms” and diversity promotion, we emphasize business management that values people, aiming to be a corporate group that allows everyone to realize their potential.

## Health and Well-being Management

### Management that Values People

As part of the azbil Group’s “work-style reforms,” efforts are underway in the workplace to reduce total working hours and eliminate harassment. We respect the individuality of each and every employee and are undertaking comprehensive initiatives such as diversity promotion to utilize employees’ various talents, initiatives that are embodied in the term “health and well-being management,” which expresses our emphasis on management that values people. In July 2019, we enacted an “azbil Group Health and Well-being Declaration.”

### New Salary System for Employees

To step up work-style reforms and promote diversity, we revised our employee salary system in fiscal year 2018. Seeking to incorporate the “human-centered” element of our Group philosophy into the principles of our personnel system revisions, we restructured our personnel system and HR development system to make them consistent for all employees. Specifically, we introduced three shared concepts: (1) develop long-term human resources; (2) maximize the capabilities of our personnel; and (3) enhance the lives of employees and attract exceptional individuals.

### Work-Style Reforms

Our efforts at work-style reforms, which we introduced in fiscal year 2016, include 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.

### ► 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 working hours of employees by setting time target levels for each workplace under a three-year plan that began in fiscal year 2016.

To reduce total work time, we established a unique work-time management system based on target hours. Each department then considered and implemented various measures to reduce the total number of hours worked. As a result, the number of employees with more than 45 hours of overtime per month in fiscal year 2018 fell to one-quarter of the number two years earlier.

In addition to office entry and exit records, in 2018 we introduced a system that monitors the operating hours of employees’ PCs, allowing us to properly manage employee work time.

### ► Realization of Healthy Lives Both Physically and Mentally

#### (1) Employee 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 employees’ exercise, diet, smoking habits, and health examination results, as well as workplace environment surveys and the like.

Regarding mental health, since fiscal year 2016 we conduct training for line supervisors to enhance employee care and administer stress checks. Using the results of the stress checks, we try to identify, at an early stage,

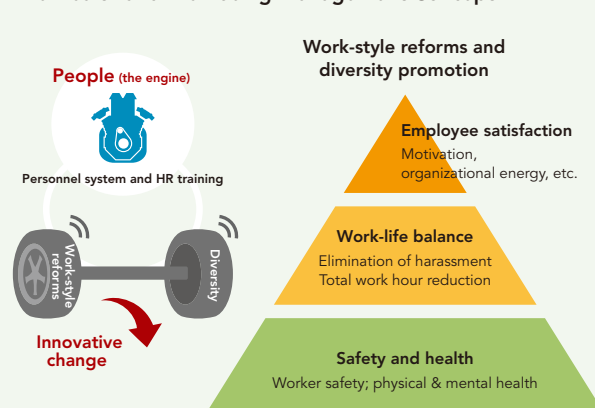
## azbil Group Health and Well-being Declaration

Making workplaces and employees healthy, happy, and lively

The azbil Group believes that the health of each employee is an important basis for corporate activities, and aims to create workplaces where each and every person at an azbil Group company works in a lively, healthy, and comfortable way, with a feeling of safety and peace of mind, and in a manner that suits each person. When each person is able to express his or her diverse abilities and to live a fulfilled life both at work and at home, productivity and performance will improve, resulting in innovation and contributions to society.

We declare our intention that companies and employees proactively work together to create a comfortable work environment, to enhance the mental and physical health of employees, and to make workplaces and employees healthy, happy, and lively. July 2019

### The Health and Well-being Management Concept



employees who suffer from anxiety, and we take preventative action, providing individual care for high-stress employees in consultation with industrial physicians.

In addition, we station industrial physicians at large-scale offices, regional divisions, and branch offices under the supervision of a general industrial physician. Workplace supervisors, industrial physicians, and our human resource and labor department work together to provide appropriate care for employees with mental illness or concerns about such illness. Also, in May 2019, we introduced an Employee Assistance Program (EAP) to strengthen mental health prevention, early recovery, and prevention of recurrence.

In acknowledgment of these activities, for the second consecutive year Azbil Corporation was selected as a "White 500" company under the government's Certified Health and Productivity Management Organization Recognition Program in February 2018.

## (2) Worker safety management

**Raising the Standard of Health and Safety among Group Companies** Based on the azbil Group Health and Safety Basic Policy, we are continuing to raise the safety and health standards of each Group company. Our efforts include safety and health education programs, hazard prediction training, and safety drills to feel a sense of unsafe state.

**Occupational Health and Safety Management System** In fiscal year 2019, we will switch to ISO 45001 as the certification standard for our Occupational Health and Safety Management System (OHSMS). Along with acquiring ISO certification, we are following a plan-do-check-act (PDCA) cycle to create highly safe and health-conscious work environments.

## Health and Safety Education through e-Learning

To prevent occupational accidents, we provide health and safety education for all employees, including temporary workers. Our programs examine examples of past accidents and teach employees to prevent unsafe behavior and other human error.

## ► Eliminating Harassment

Based on the results of a compliance awareness survey conducted every year, we provide education for management-level employees to reduce the risk of harassment in the workplace.

In addition, we analyze and evaluate the results of employee satisfaction surveys and analyze stress-check results in the aggregate. On this basis, our workplace managers and the Human Resources Department work together to consider ways to improve the workplace environment.

In fiscal year 2018, we produced a manual on eliminating harassment and conducted one-on-one training tailored to the characteristics of individual workplaces. The results of awareness surveys confirm that these efforts led to improvements.

## Diversity Promotion

Our code of conduct emphasizes respect for basic human

rights and rejects any kind of discriminatory treatment according to race, nationality, gender, sexual orientation, religion, belief, birth, age, physical appearance, and the like. Based on this code of conduct, as well as our "human-centered" Group philosophy, we promote and put to good use the wide-ranging diversity of our employees.

The azbil Group believes that respecting the personality of all individuals, utilizing their unique characteristics, and enabling them to work enthusiastically improves performance and is the driving force for corporate growth. We are creating environments where diverse human resources can excel and systems that support the work-life balance of employees.

\* Please refer to pages 64–65 for more information on our human resource development initiatives.

## ► Expanding Human Resource Diversity

### (1) Promoting the advancement of women

We are working to create workplaces where women are able not only to pursue long-term careers, but also to assume more important roles and excel in responsible positions. In addition to increasing the female hiring rate, we are working to create opportunities for women's advancement. These include educational programs for female employees and their bosses aimed at broadening their areas of responsibility. In fiscal year 2014 (ended March 2015), we had 35 women in management positions. Our aim is to at least double this number by fiscal year 2021 (by March 2022).

In October 2018, we received the highest certification (3 Stars) from the Minister of Health, Labour and Welfare for excellence in promoting the active participation and advancement of women in the workplace.

### (2) Helping people with disabilities to flourish

We work continuously to create employment opportunities for people with disabilities. They are now working in various fields in the azbil Group, including technology, manufacturing, and office work.



Staff working at  
Azbil Yamatake Friendly

Azbil Yamatake Friendly Co., Ltd., a special subsidiary company of the azbil Group, celebrated its 20th anniversary in 2018. Its operations have expanded significantly over the years, from office organization and cleaning to production line assistance and precision processing. At the end of fiscal year 2018, it had 32 employees using their abilities in a variety of tasks. People with intellectual disabilities are provided with employment opportunities and environments enabling them to achieve self-growth through work.

### (3) Promoting an active role for seniors

Under our new personnel system, we place importance on employees who have reached the retirement age of 60 but are healthy and remain motivated to work, allowing them to demonstrate their full potential by making use of their accumulated know-how and experience.

We view the age of 55 as the starting point for a second career stage, and have a system which provides a smooth

career transition to “veteran” status (reemployment upon retirement) for employees aged 55 or older. By continuing to play an active role and using their abilities, these employees can benefit from our bonus system, in which performance is evaluated and reflected in compensation.

#### (4) Recruiting foreign personnel and internal globalization

Both in Japan and overseas, we actively recruit people of various nationalities and graduates from overseas universities. By bringing together a diverse workforce, we promote the globalization of our personnel and create new value.

#### (5) Diverse ways of working according to life events

We are upgrading our systems to enable employees to

work and also raise children or care for an elderly family member at the same time. This reflects our commitment to provide a comfortable workplace where all employees, including men, can work on a continuing basis. Under our action plan, which is designed to improve work satisfaction, we have formulated and are implementing the following.

- A leave system for employees whose spouses are transferred overseas
- A leave system for study
- Expansion of the hourly paid vacation system
- Strengthening of support for the clubs

## The Azbil Academy: Human Resource Development

### Human Resource Development for Sustained Growth

As “a corporate group that never stops learning,” we are committed to constant and stable corporate growth and development in response to globalization and other changes in the business environment. To this end, we train our personnel with three themes in mind—global expansion, diversity promotion, and strengthening of the solutions business—while pressing forward with reforms in operations and business structure.

### Global Human Resource Development

All azbil Group companies worldwide work together to develop global leaders. We provide the following training programs, depending on the managerial level: (1) manager training in the local language, (2) global business training in English (for executive candidates from overseas subsidiaries), and (3) business school (for CEO/CFO executives from overseas subsidiaries).

In fiscal year 2018, we launched a manager training program in Vietnam for the first time. The results were presented at a ceremony to celebrate the 10th anniversary of the founding of Azbil Vietnam Co., Ltd., and awards were given to all trainees who excelled in the program. This was the fifth year of our global business training program. Over the course of the five years, a total of 66 participants completed the program and 16 in-house

coaches were trained.

#### ► Internship Program in the azbil Group

Since 1996, the azbil Group has accepted more than 100 interns from abroad. In 2018, we accepted foreign students studying in Japanese universities through the Japan International Cooperation Agency (JICA).\*

\* JICA is an official development assistance (ODA) agency that provides centrally coordinated technical assistance, financial assistance (yen-based loans), and grant-based financing.

#### ► Internship Program at Overseas Subsidiaries

Since fiscal year 2016, we have trained Japanese student interns at overseas subsidiaries. In the past fiscal year, our local subsidiary in Thailand accepted Japanese students from Hokkaido University, and our subsidiary in Vietnam welcomed students from the Shibaura Institute of Technology. We plan to continue accepting students in the future.

#### ► Work Abroad Experience for Young Employees

Seeking to identify future leaders in international business, in fiscal year 2018 we launched a training program for employees aged around 30 who have not studied or worked abroad. They receive three to six months of experience at an overseas subsidiary, enabling them to review their current work, think about their future career, and move toward the next step, through the perspective of work in a foreign culture.

We plan to expand this program, which began at local subsidiaries in Southeast Asia, to subsidiaries in China, South Korea, Europe, and the United States.



Results of the manager training program were announced at Azbil Vietnam's 10th anniversary ceremony.



## Cultivating Diverse Personnel

### ► Diversity Promotion Task Force

To advance our diversity initiatives, in fiscal year 2017 we set up a diversity promotion task force, which works to change culture and awareness, to help diverse personnel to flourish, and to encourage a variety of ways of working. These initiatives are collectively called the Azbil Diversity Network (ADN), and have attracted 48 participants and their bosses in the past two years.

### ► ADN-C (Business College)

ADN activities include initiatives to develop the capabilities and promote the participation of female workers so that they will aspire to managerial roles and develop the mindset and business skills needed to further their careers. Activities include lectures by external experts, cross-industry exchange gatherings, roundtable discussions with company officers, business skill seminars, and team-based activities.

### ► ADN-F (Forums)

We also hold ADN forums to educate department heads and managers about the importance of promoting diversity and we ask them to think of ways to leverage our diverse workforce in the Group's business. In addition to lectures by external lecturers, this program is designed to plan and implement specific actions that promote diversity management, which helps to change the corporate culture and raise awareness.

### ► ADN-K (Exchange Meetings)

We conduct meetings among employees raising young children to stimulate communication, and hold seminars on balancing work and care for the elderly to give employees a better understanding of the needs they will face in the future.

## Human Resource Development for the Solutions Business

To foster personnel for the solutions business, in keeping with 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 an earlier stage. We have also established an accreditation system for technical professionals in order to nurture top-class engineers and the engineers of the next generation. Those engineers who are certified as a "Meister" do supervisory work related to safety and quality.

### ► Software Engineer Training

We have provided software engineer training since fiscal year 2016 with the goal of cultivating employees capable of developing products that integrate innovative technologies (such as the IoT, AI, and big data), expanding our energy management and remote monitoring services using IT infrastructure, and accelerating IT to improve engineering and design efficiency. We have since added new hires and Group company employees to the program, which has trained 440 employees over the past three years.

### ► Business Development Seminar

In fiscal year 2017 we launched a business development seminar to train personnel to carry on the entrepreneurial spirit of the company founder, Takehiko Yamaguchi, as well as to plan, propose, and create new business models for the medium and long terms. In the following fiscal year, 24 young seminar attendees delivered business proposals on key topics, such as AI, the IoT, and robotics. Over the past two years, 42 employees have attended the seminar.

Azbil Diversity Network (ADN)



With the aim of achieving a sustainable society, based on our Group philosophy, we work proactively to reduce society's impact on the Earth's environment, both by cutting CO<sub>2</sub> emissions 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



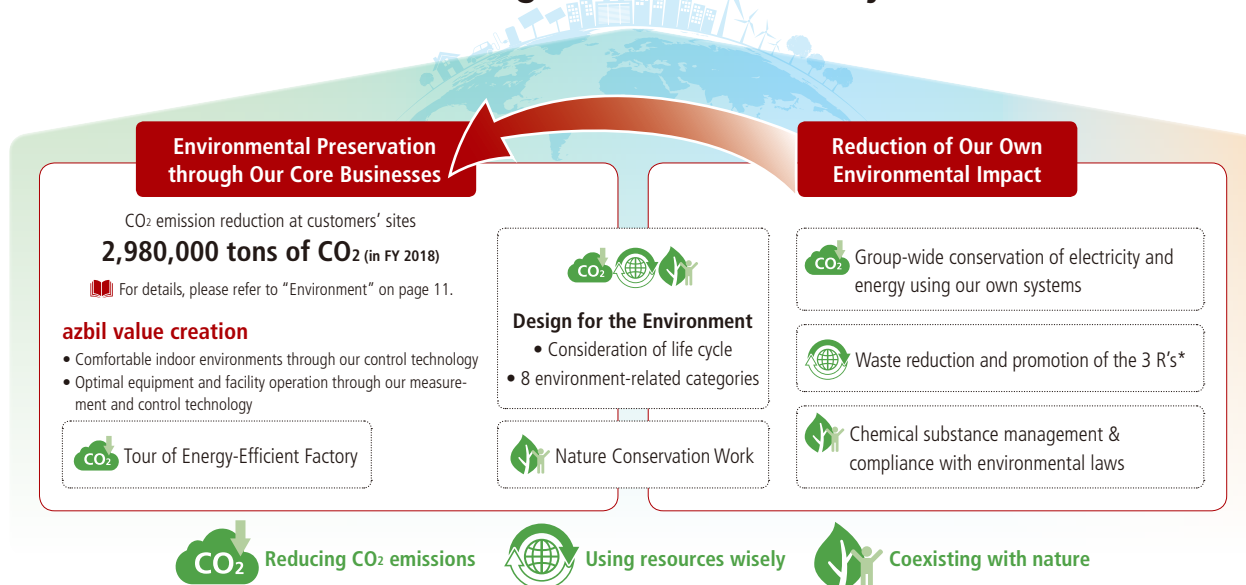
In setting our environmental goals, we identify significant environmental issues, taking into consideration related global trends, including the U.N.'s adoption of Sustainable Development Goals and the entry into force of the Paris Agreement.

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

Under the leadership of the azbil Group's executive officer in charge of environment, the azbil Group Environmental Committee, which meets three times a year, and Group companies conduct planning, deliberations, and reviews as a part of their system for promoting environmental measures, taking into consideration the risks and opportunities.



## Achieving a Sustainable Society



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

## Reducing CO<sub>2</sub> Emissions from the Group's Business Activities and our Entire Supply Chain



### Greenhouse Gas Emission Reduction Targets for 2030

To reduce CO<sub>2</sub> emissions over the long term pursuant to the Paris Agreement, we set targets for reduction of greenhouse gas (GHG) emissions by 2030 and are working to achieve them.

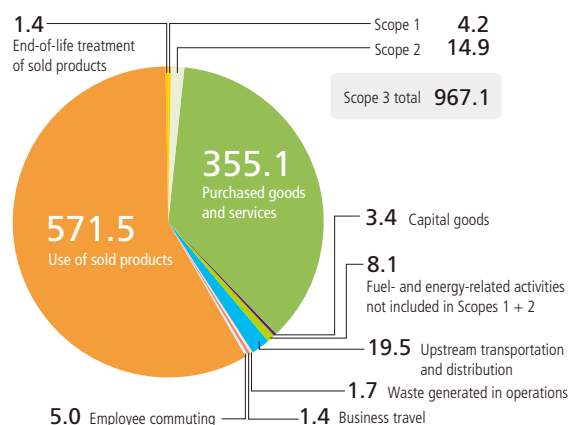
#### Greenhouse gas reduction targets for 2030

Reduce CO<sub>2</sub> emissions (Scopes 1 + 2) associated with business activities by 30% (base year: 2013)

Reduce CO<sub>2</sub> emissions (Scope 3) of our entire supply chain by 20% (base year: 2017)

The above targets are approved as GHG emission reduction "Science-Based Targets." Applying these targets to the Group's business activities and the entire supply chain reflects our sincere commitment to resolving global warming and climate change—globally shared problems addressed by the United Nations' SDGs—and realizing a sustainable low-carbon society.

#### CO<sub>2</sub> Emissions (Scopes 1+2+3)\* in FY 2018 (Thousand Tons of CO<sub>2</sub>)



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

Scope 3: Azbil Corporation, and its consolidated subsidiaries

\* Our CO<sub>2</sub> emissions (Scopes 1+2+3) have received third-party verification.

### CO<sub>2</sub> Emissions from the Group's Business Activities (Scopes 1+2)

CO<sub>2</sub> emissions (Scopes 1+2) from business activities of azbil Group bases in fiscal year 2018 totaled 19,000 tons, down 44% from the FY 2006 level.

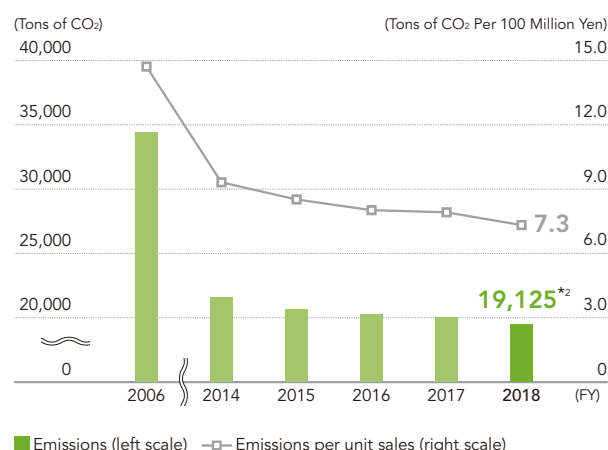
Using knowledge gained over many years, we are making continuous efforts to reduce CO<sub>2</sub> emissions, a key theme of our medium-term plan. Our efforts include the Group-wide introduction of an energy visualization system aimed at making improvements in both operations and equipment.

► **Operational Improvements:** introduction of a visualization system to increase the efficiency of the PDCA cycle in such areas as discovering inefficiencies and considering and implementing improvements

► **Equipment Improvement:** promotion of the use of hybrid and other eco-friendly vehicles; introduction of high-efficiency LED lighting, high-efficiency equipment, and the like

In addition to our ongoing efforts to save energy and achieve our GHG emission reduction targets for 2030, we are enhancing production and development process efficiency, reforming our way of working in order to increase business efficiency and save energy, introducing renewable energy generation equipment, procuring electricity with a high renewable energy ratio, and considering the use of Green Power Certificates.

#### CO<sub>2</sub> Emissions (Scopes 1+2)\*<sup>1</sup> and CO<sub>2</sub> Emissions per Unit Sales (Azbil Corp., consolidated subsidiaries in Japan, and main manufacturing bases overseas)



\*1. The figures for CO<sub>2</sub> emissions use a fixed coefficient (0.378 kg CO<sub>2</sub>/kWh). The figures for CO<sub>2</sub> emissions include estimates of rented office air-conditioning energy and other figures.

\*2. The figures for CO<sub>2</sub> emissions (Scopes 1+2) from fiscal year 2014 onwards have received third-party verification.

### CO<sub>2</sub> Emissions Throughout the Supply Chain (Scope 3)

Addressing CO<sub>2</sub> emissions across the supply chain (Scope 3) has a major impact on our efforts to reduce the emissions of our Group-wide activities over the long term. In fiscal 2018, the CO<sub>2</sub> emissions (Scope 3) of the Group's entire supply chain totaled 967,000 tons.

Because more than 90% of these emissions derive from the use of products sold and from products and services we purchased, we focus strongly on Design for the Environment (DfE), including designs that enhance energy efficiency and conserve resources. In these ways, we are working to reduce CO<sub>2</sub> emissions throughout the supply chain.




We plan to continue and to strengthen our DfE activity (design that enhances energy efficiency and conserves resources, etc.) in order to achieve our 2030 GHG emissions reduction targets.

## Environmentally Friendly Design of Products and Services



### Direction of Initiatives for Design for the Environment

The azbil Group is employing Design for the Environment (DfE) to reduce the environmental impact of its products and services throughout their life cycles.

	Reducing CO <sub>2</sub> emissions	Setting of LC-CO <sub>2</sub> * reduction targets throughout the supply chain for all new products
	Using resources wisely	Stepping up the use of original indexes so that numerical targets can be set for reducing the consumption of resources and resource recycling
	Coexisting with nature	Ensuring compliance with chemical substance regulations for domestic and overseas products

\*CO<sub>2</sub> emissions over the entire life cycle.

### Environmental Design Assessment and the azbil Group's Environmental Label

At the development stage of all new products, we carry out environmental design assessments\*<sup>1</sup> in eight environmental categories. We also perform comprehensive life-cycle assessments for the product. If the results of the evaluation satisfy our internal standards, the product receives the azbil Group's Environmental Label,\*<sup>2</sup> indicating that it is an environmentally friendly product.

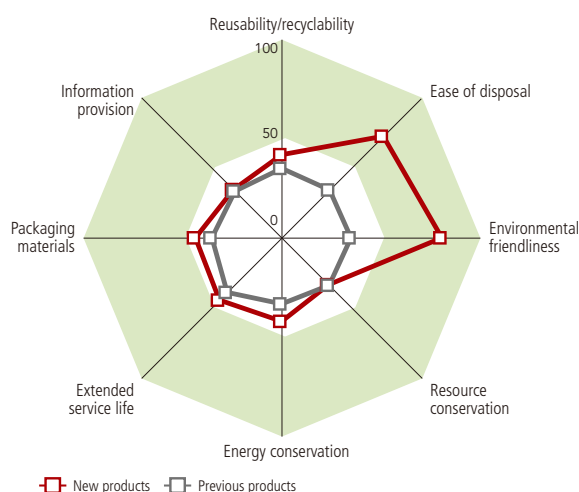
In the DfE results for fiscal year 2018, our environmental design assessment overall\*<sup>3</sup> showed a 15.2% improvement. Moreover, all of our new products satisfied the certification standards for the azbil Group's Environmental Label.

\*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 across eight environmental categories.

\*2. A Type II environmental label (self-declared)

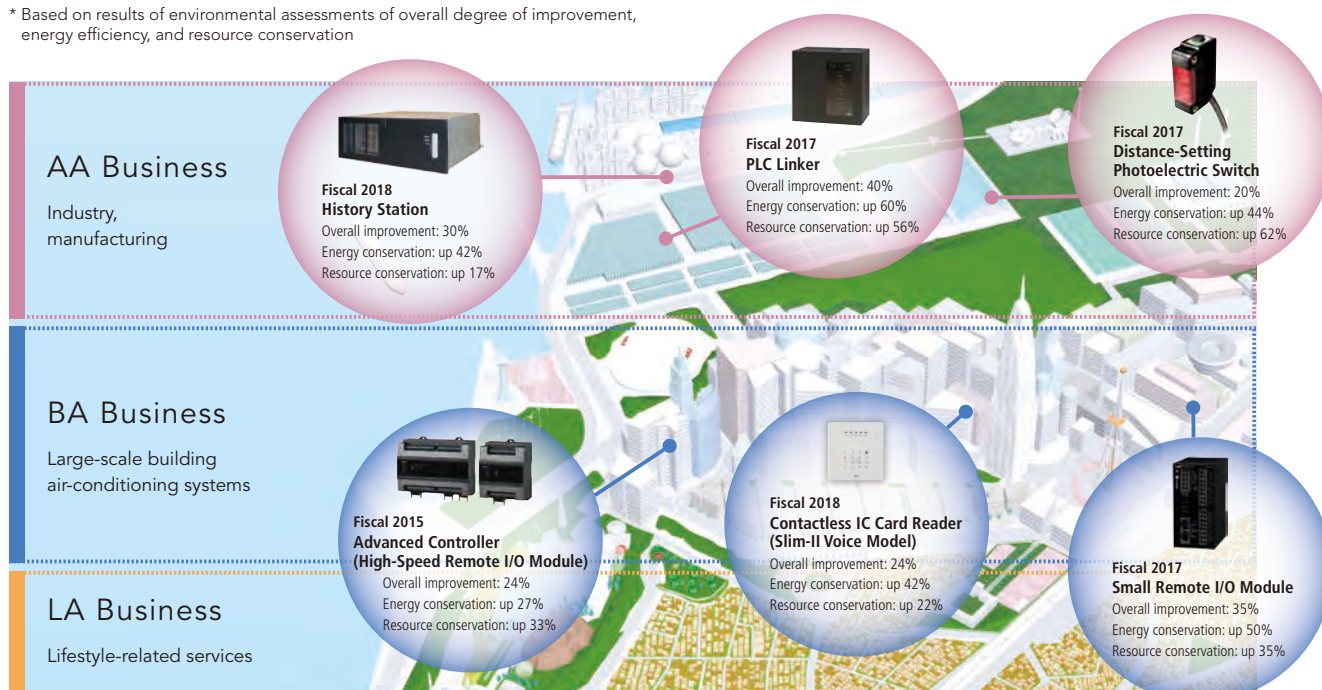
\*3. The sum of all environmental design assessment results.

Results of Environmental Design Assessment (FY 2018)



### Examples of products that meet the azbil Group's Environmental Label certification standard

\* Based on results of environmental assessments of overall degree of improvement, energy efficiency, and resource conservation





## Biodiversity Initiatives

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. As part of a Group-wide initiative, a total of 110 employees and family members participated in environmental conservation activities held at three different locations on six occasions in FY 2018.

### ► Green-space conservation (Fujisawa)

Since 2011, we have conducted tree-thinning and other conservation activities under the guidance of an NPO, Fujisawa Green Staff, on land in Fujisawa, where the Fujisawa Technology Center is located. This allows sunlight to shine on previously dim spaces, prompting growth of new plants and trees.



Green-space conservation activities (city of Fujisawa, Kanagawa Prefecture)

### ► Himesayuri conservation (Minamiaizu)

Since 2011, we have worked under the guidance of local authorities in Fukushima Prefecture, where the Group has multiple factories, to increase the number of *himesayuri*, a variety of lily which is listed as “near-threatened” on the Red List issued by the Ministry of the Environment. It normally takes six years or more for a *himesayuri* to bloom, but we have now seen blossoms in places where we planted seedlings.



Himesayuri

Himesayuri conservation activities (town of Minamiaizu, Fukushima Prefecture)

### ► Environmental work at Azbil Kyoto

Azbil Kyoto is located in an area surrounded by mountains. Together with Earthwatch Institute (an accredited Japanese NPO) and Kyoto University, we have been surveying trees on the Azbil Kyoto grounds and in the area since 2013. We also plant trees and participate in thinning programs based on data from the surveys.



On-the-premise environmental activities (Azbil Kyoto Co., Ltd.)

## Dealing with Water-Related Risk

The azbil Group used 137 million liters of water at its bases in fiscal year 2018, down 3.8% year on year. We continue to undertake business continuity initiatives and perform risk assessments using the World Resources Institute's water risk mapping tool, Aqeduct. We received a B- score in the CDP Water Security Report for 2018.

## Compliance with Environmental Laws and Regulations

Again in fiscal year 2018, the azbil Group did not violate, and was not penalized, fined, or sued in connection with major environmental laws or regulations.



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 corporate value over the medium and long terms by means of highly efficient and transparent management.

## Efforts to Strengthen Corporate Governance

**We are continuing our efforts to establish a highly transparent, diversified, and effective Board of Directors and corporate governance system.**

### 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 five, at our 97th annual General Meeting of Shareholders in June 2019. Independent outside directors continue to account for more than one-third of the 11-member Board of Directors, contributing to the Board's rich diversity in such areas as nationality and gender. Currently, the chairperson of the Board of Directors does not concurrently perform executive duties, thereby enhancing the supervisory function of the Board of Directors.

Our independent outside directors fulfill their responsibilities in a broad range of ways, such as providing advice on raising corporate 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 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 demonstrated leadership as a prosecutor for many years. A fifth has extensive knowledge and experience in the fields of finance and securities overseas.

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 representative director. Issues raised and suggestions made by the independent outside directors receive careful consideration by the management team and are reflected in management practices.

### Activity of the Audit & Supervisory Board and initiatives to enhance its effectiveness

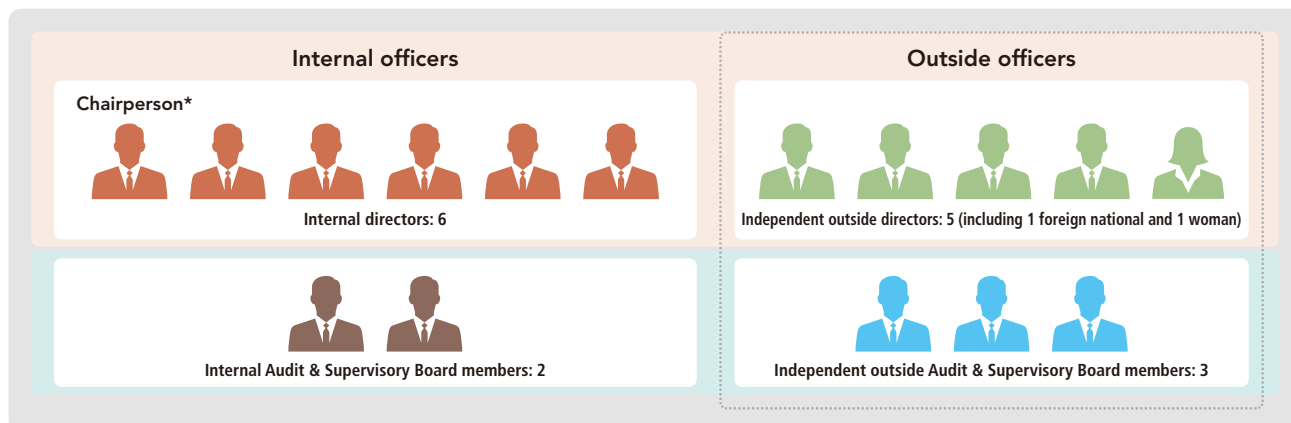
There are five members of the Audit & Supervisory Board, three of whom are independent outside members, two of them on a full-time basis. They carefully audit, mainly from a legal perspective, the decisions made by the Board of Directors and executive officers, as well as the execution of business by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

The Audit & Supervisory Board deliberates on the annual audit plan at the beginning of each year, submits monthly and quarterly reports of its members' activities during the year, submits quarterly financial audit reports,

### Composition of Board of Directors (outside officers: 8 out of 16 members)

\* The Chairperson of the Board of Directors does not concurrently perform executive duties.

(As of June 25, 2019)



provides year-end evaluation of audit activities, and deliberates the assessments of the accounting auditor.

In addition, the Audit & Supervisory Board holds regular discussions with the representative director and exchanges of information with independent outside directors. It also conducts year-end evaluations of its own effectiveness, reviews its audit activities in the current fiscal year, and reflects the results of its evaluations in the audit plan for the next fiscal year to enhance its effectiveness. Full-time Audit & Supervisory Board members attend important meetings, such as those of the Board of Directors and the Management Committee, visit main business offices and subsidiaries, conduct interviews with key departments, and peruse minutes of important meetings and other important documents. This enables them to understand the current status of management and audit management decisions and business execution of directors and executive officers. Also, the Audit & Supervisory Board Office, an organization dedicated to assisting the Audit & Supervisory Board in its duties, was established and is working to strengthen its support of Board members.

Audit & Supervisory Board members coordinate with the accounting auditor and the Internal Audit Department not only to discuss audit plans and important audit matters at the beginning of each fiscal year, but also to share each other's audit results on a regular basis. In addition, they are working to improve the effectiveness and efficiency of audits through close links to auditors of the Group companies.

### Nomination and Remuneration Committee

The Company established its Nomination and Remuneration Committee as an optional advisory body to the Board of Directors. The role of the Committee is to ensure higher fairness, objectivity, and transparency of processes for nominating and remunerating officers, with the aim of fostering the enduring development of the company and improving its medium- and long-term profitability and productivity.

The Committee selects candidates for directors and representative director, as well as candidates for president and CEO, chairperson of the Board of Directors, and managing executive officer. It also deliberates on the officer remuneration system and remuneration plan, as well as basic remuneration, individual performance evaluation, progress evaluation of qualitative items, bonus payments to individuals based on the officer remuneration system, and amendments to the director remuneration framework. In addition, it deliberates on matters relating to the dismissal of the president and CEO,

directors, and managing executive officers; dismissal of the representative director and chairperson of the Board of Directors; and training of successors.

It is stipulated that independent outside directors account for the majority of Committee members and that an independent outside director is elected as its chairperson by mutual election. Currently, Eugene H. Lee (independent outside director) serves as chairperson, the other members being Katsuhiko Tanabe (independent outside director), Takeshi Itoh (independent outside director), and Hirozumi Sone (representative director). Therefore, independent outside directors constitute the majority.

### Appointment of Directors and Audit & Supervisory Board Members, and Election/Dismissal of Senior Management

#### ► Appointment of Directors

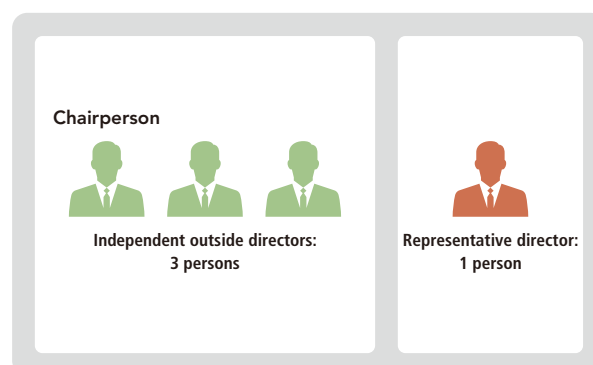
The basic criterion for director candidates is to be a person who has excellent character and insight, contributes to the growth of the company and the Group, and helps improve corporate value. Directors involved in business execution need to have high levels of ability and knowledge about each business segment and important management functions. Outside director candidates must have wide-ranging experience and excellent expertise and knowledge, as well as no issues about independence. They must also come from diverse backgrounds and have the ability to proactively express opinions and raise issues from outside perspectives. These are our policies for the nomination and appointment of directors. Nomination and appointment of director candidates and management executives are decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee.

#### ► Appointment of Audit & Supervisory Board Members

Candidates for Audit & Supervisory Board members must

### Composition of Nomination and Remuneration Committee

(since April 1, 2018)



have the appropriate experience and ability, as well as knowledge about finance, accounting, and legal matters. We also consider independence from the executive side to be another eligibility requirement. For outside Audit & Supervisory Board members, our policy is to first confirm that there are no issues about independence. Among Audit & Supervisory Board member candidates, we require at least one person with sufficient knowledge of finance and accounting. Such candidates are first discussed by full-time Audit & Supervisory Board members and the representative director, then considered and agreed upon by the Audit & Supervisory Board, before approval at a Board of Directors' meeting.

### ► Appointment/dismissal of CEO and Subordinate Officers

With respect to appointing the CEO and subordinate officers (president and CEO, vice president, and the like), the Board of Directors makes decisions—based on selection criteria and the desired composition of the Board of Directors—after deliberation by the Nomination and Remuneration Committee.

#### (Appointment Criteria)

Candidates must have a full understanding of the Group's corporate philosophy, deep knowledge of corporate management, and wide-ranging experiences both inside and outside Japan, as well as good insights on corporate governance, CSR, and compliance. They must meet the following criteria and be capable of leading the Group to sustainable growth.

1. Good character and insights and selfless attitude, a person who earns the trust of others;
2. The ability to think and judge from a global perspective and from the standpoint of the entire Group;
3. Exceptional insights, the ability to implement change and innovation and predict the future, and the willingness to embrace challenges from a results-oriented approach;
4. Healthy, with good energy and physical strength, as well as mental toughness

#### (Dismissal Criteria)

With respect to policies and procedures for dismissing the CEO and subordinate officers (president and CEO, vice president, and the like), the candidate for dismissal undergoes a fair and rigorous process of screening and deliberation by the Nomination and Remuneration Committee, based on the following criteria. As a result of it, if they judge that dismissal is appropriate, the Board of Directors approves it.

Reasons for proposing dismissal include a serious business problem arising from a violation of law or the Articles of Incorporation, an event that makes it difficult for the person to perform and continue in the job, and when becomes evident that the person does not meet the appointment criteria.

### Succession Plan that the Board of Directors is involved in

With respect to succession planning for management executives, the Nomination and Remuneration Committee deliberates on the status of fostering and selection of successors, and records the process and results of such deliberation. This ensures that the succession plan is implemented properly and objectively. The chairperson of the Nomination and Remuneration Committee reports the results of deliberations held by the Committee to the Board of Directors, to ensure the Board's active involvement in the succession planning process. We also make sure, on a systematic basis, that adequate time and resources are allocated to training of successor candidates.

### Improving/evaluating the Effectiveness of the Board of Directors

The Board of Directors makes appropriate decisions after open and constructive discussion and strives to improve corporate value over the medium and long terms. To continue fulfilling its roles and responsibilities properly, the Board of Directors identifies issues and areas requiring improvement with the aim of enhancing the Board's effectiveness. Since fiscal 2018, members of the Board of Directors and Audit & Supervisory Board have conducted annual self-evaluations and have gathered opinions about the (1) Size and composition of the Board of Directors; (2) Management status of the Board of Directors; (3) Support systems and communication with outside directors and Audit & Supervisory Board members; and (4) Decision-making process of the Board of Directors. Based on these efforts, the Board of Directors made an assessment of its current effectiveness, shared information on issues, and engaged in constructive discussions on future action.

As a result, we have confirmed that the Board of Directors overall is performing effectively and appropriately. For example, the size, composition, and operating status of the Board of Directors are generally appropriate, and systems are in place to make important management decisions and supervise business execution. Also, members of the Board—both internal and external officers with wide-ranging



experience and expertise—have a deep understanding of their roles and engage in open, active, and constructive discussions based on adequate communication.

In fiscal 2018, the Board stepped up deliberations about growth strategies in each business segment, technology development, and human resource development, with a view to the long-term development of the company. It also received reports on business results and strategies of major subsidiaries and reports on business conditions at overseas subsidiaries in major regions and the responses to those conditions in order to strengthen the supervision of Group management. In addition, a team was organized to address responses in a cross-organizational manner and received detailed reports on efforts to resolve issues. Meanwhile, the Board of Directors continued to actively discuss management plans, business strategies, and the like with a view to long-term growth and formulation of the next medium-term plan, in order to fulfill its role in providing direction for the

Group's overall management strategies. Board members together recognize the need to strengthen their oversight function, particularly with respect to understanding the management 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.

### Complying with the Corporate Governance Code

Azbil Corporation is adopting all of the principles set out in Japan's Corporate Governance Code, which was revised in June 2018. Our Corporate Governance Report, updated on June 26, 2019, clarifies that all principles have been adopted and discloses in detail in all of the 11 general principles, principles, and supplementary principles that require disclosure under the Code.

## Changes to Improve Our Corporate Governance

We have sought to strengthen corporate governance ahead of other companies.

We will continue working to reinforce and upgrade corporate governance in order to ensure fairness, transparency, and impartiality in management.

### Changes to Improve Corporate Governance

Strengthening of oversight and auditing	<ul style="list-style-type: none"> <li>• Number of independent outside directors increased (1 in 2007 → 2 in 2010 → 3 in 2014 → 4 in 2018 → 5 in 2019)</li> <li>• Number of independent outside Audit &amp; Supervisory Board members increased (2 in 1994 → 3 in 2011)</li> <li>• Established criteria for judging the independence of outside officers (2016)</li> <li>• Started evaluating the effectiveness of the Board of Directors (2016)</li> <li>• Appointed a director who does not concurrently perform executive duties as Chairperson of the Board (2018)</li> </ul>
Strengthening of management transparency and soundness	<ul style="list-style-type: none"> <li>• Nomination and Remuneration Committee established with independent outside directors as a majority (2016)</li> <li>• Revised the officer remuneration system; strengthened performance-linking and introduced medium-term business perspectives, etc. (2017)</li> <li>• Abolished the "counselor and advisor system" (2018)</li> <li>• Appointed an outside director as chairperson of the Nomination and Remuneration Committee (2018)</li> </ul>
Clarification of responsibilities, encouragement of dialogue, etc.	<ul style="list-style-type: none"> <li>• Introduced the executive officer system (2000)</li> <li>• Formulated the Corporate Governance Guidelines (2016)</li> <li>• Appointed executive officer in charge of corporate communications (2016)</li> <li>• Formulated guidelines on strategic shareholdings (2016; revised 2018)</li> </ul>

### Executive Compensation

#### Decision-making Policy

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

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. The president and CEO, appointed by resolution of the Board of Directors, produces a draft proposal of individual compensation amounts based on our Director Remuneration Regulations and Nomination and Remuneration Committee Regulations. The Nomination and Remuneration Committee makes the final decision after deliberating on the proposed amounts. Decisions on the remuneration amount for the representative director, who is a member of Nomination and Remuneration Committee, are made by the Committee without participation by the representative director in question.

#### Officer Remuneration: Breakdown, Approach, and Limits

Remuneration for directors who concurrently perform executive duties consists of basic remuneration—fixed amounts commensurate with their roles and responsibilities—as well as bonuses that are linked to fiscal year business results and that also reflect the degree to which medium-term targets have been achieved. Basic remuneration of directors who concurrently perform executive duties consists of three parts: director compensation, executive position remuneration, and executive responsibility remuneration. As for director remuneration, a fixed amount is paid to the representative director and a fixed amount is paid to other directors. Executive position remuneration is a fixed amount set for each position, and executive responsibility remuneration is commensurate with the responsibility grade for each individual based on the weight of responsibility, scope of role, and qualitative evaluations for the year. Responsibility grade is adjusted annually by the Nomination and Remuneration Committee after deliberation.

To encourage commonality of interest between directors concurrently performing executive duties on the one hand, and shareholders on the other, and to provide the directors and officers with ongoing incentives to enhance corporate value, we have an officer stock ownership plan to which they can contribute fixed annual amounts. They can purchase and continue to hold company stock in an amount proportional with each officer's position and responsibilities through the officer stock ownership plan.

Directors (internal) who do not concurrently perform executive duties and outside directors receive only basic, fixed remuneration to ensure that they perform their management supervision function effectively. At the 84th Ordinary General Meeting of Shareholders, held on June 29, 2006, the total remuneration limit for directors was set at ¥450 million per year (total of eight directors; remuneration does not include employee portion of director's salary).

With regard to remuneration for Audit & Supervisory Board members, only basic, fixed amounts are paid in consideration of their duties and authority. At the 85th Ordinary General Meeting of Shareholders, held on June 28, 2007, the total remuneration limit for Audit & Supervisory Board members was set at ¥120 million per year (total of five members), with individual payments decided through discussion by Audit & Supervisory Board members.

#### Performance-linked remuneration

Directors who concurrently perform executive duties receive bonuses based on performance evaluation and qualitative evaluation,\* as well as the degree to which medium-term targets have been achieved. The portion that is linked to performance is designed to foster the sustainable growth and improved corporate value of the company. Specific calculations are based on ROE and other indicators—which reflect an increase in operating income, profitability, and capital efficiency—in order to evaluate how directors have fulfilled their Group consolidated management responsibilities. Another selected indicator is operating income growth rate, which reflects the efforts of directors to achieve medium- and long-term improvement in corporate value. The Nomination and Remuneration Committee discusses individual performance-linked remuneration amounts after comprehensive consideration of these indicators.

\* We also take into consideration the degree of achievement of qualitative targets assigned individually to each role. These include objectives set at the beginning of each period for CSR and other activities and human resource succession training.

## Remuneration of Officers in FY 2018 (year ended March 2019)

Category	Amount of remunerations paid (millions of yen)	Total amount by type (millions of yen)				Number of persons remunerated
		Basic remuneration	Performance-linked remuneration	Stock options	Retirement allowance	
Directors (Outside Directors)	404 (48)	315 (48)	89 (—)	—	—	12 (4)
Audit & Supervisory Board Members (Outside Members)	77 (27)	77 (27)	— (—)	—	—	5 (3)
Total (Outside Members)	482 (75)	392 (75)	89 (—)	—	—	17 (7)

\* The above includes two directors who retired at the conclusion of the 96th Ordinary General Meeting of Shareholders held on June 26, 2018.

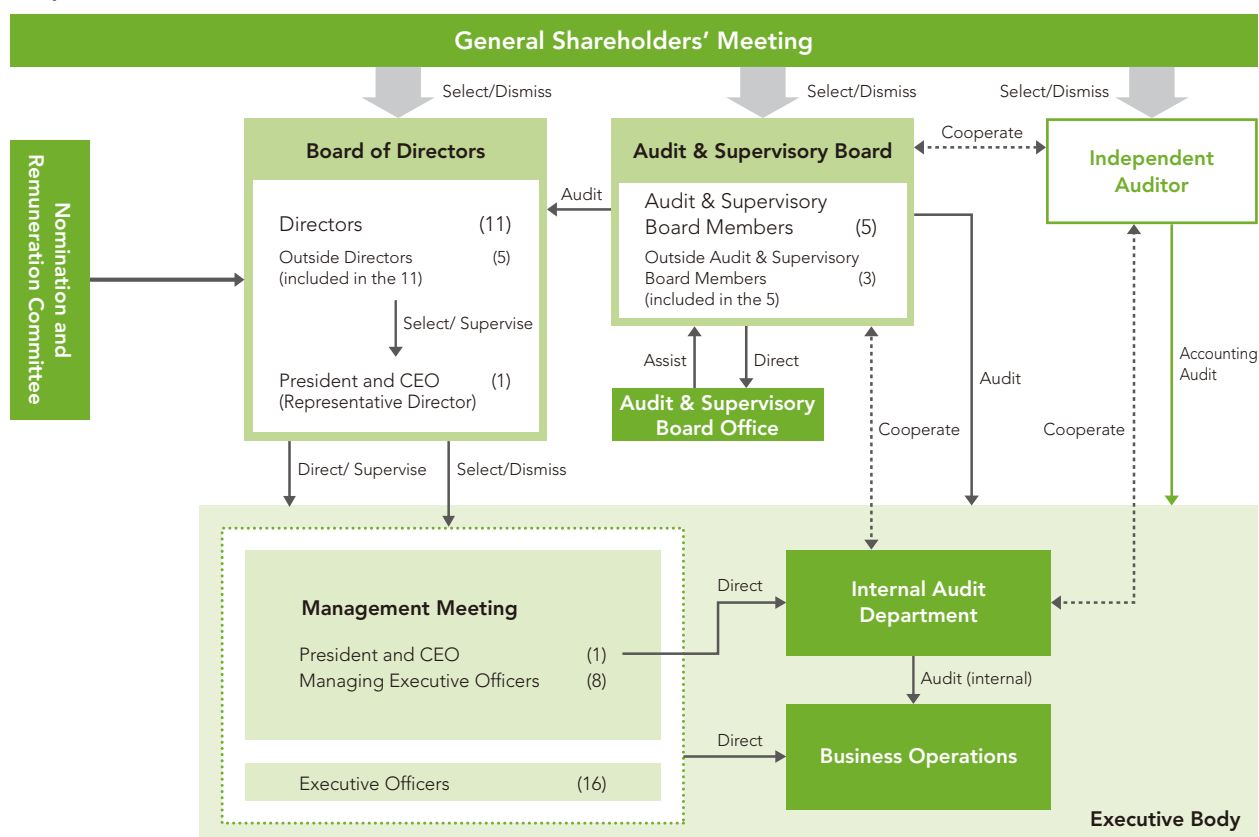
## Corporate Governance Framework

The company has selected the “Company with Audit & Supervisory Board” 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 governance system with effective checks and balances. In order to respond swiftly to the rapidly changing business environment, we have functionally separated the Board of Directors, which is involved in making important decisions, from the executive officer system, which is in charge of business execution. Thus, we have transferred the business execution process to the executive body, based on resolution of the Board, to create a system that allows fast and efficient management.

## Corporate Governance Framework

(As of June 25, 2019)



## 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 corporate value in the medium and long terms are appointed as outside directors. Candidates who are

knowledgeable about key aspects of finance, legal matters, and auditing and who are independent of company executives are appointed as outside members of the Audit & Supervisory Board. And each of our outside officers, from his/her diverse backgrounds and external perspectives, is 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

### Independent Outside Directors

Name	Qualifications and participation
 <p>Eugene H. Lee</p>	<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: 12 of 12 Board of Directors meetings</p>
 <p>Katsuhiko Tanabe</p>	<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>
 <p>Takeshi Itoh</p>	<p>Mr. Takeshi Itoh 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 sophisticated analysis of companies based on his lengthy experience of working overseas and his consulting work related to M&amp;As, financing business operations 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. Itoh fulfills his role in supervising and giving advice on business execution.</p> <p>Attendance: 12 of 12 Board of Directors meetings</p>
 <p>Waka Fujiso</p>	<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 law school and served as a committee member for government agency councils. She uses her wide range of insight on legal matters and compliance to monitor business execution as a member of the Board of Directors and also gives assertive opinions from the perspectives of compliance and CSR, in addition to mentioning existence of legal issues, for enhancing management transparency and fairness. In these ways, Ms. Fujiso fulfills her role of supervising and giving advice on business execution.</p> <p>Attendance: 9 of 10 Board of Directors meetings (appointed at the 96th General Meeting of Shareholders held on June 26, 2018)</p>
 <p>Mitsuhiro Nagahama</p>	<p>Mr. Mitsuhiro Nagahama possesses broad knowledge and extensive experience in the financial/securities sectors and abroad, as he has successively served in important posts at financial institutions. As an Outside Audit &amp; Supervisory Board member of the Company, he has audited all aspects of the company's business, utilizing his excellent insights on corporate governance and corporate management, while helping improve the corporate governance and internal control systems from an independent standpoint. This time, utilizing his deep insights, we would like him not only to monitor the execution of business as a member of the Board of Directors, but also to provide impartial remarks and advice aimed at enhancing management transparency and fairness from wide-ranging perspectives. Based on these points, the company elected him as a new outside director.</p> <p>Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit &amp; Supervisory Board meetings</p>



## Independent Outside Audit &amp; Supervisory Board Members

Name	Qualifications and participation
 Kinya Fujimoto	<p>As a certified public accountant for many years, Mr. Kinya Fujimoto has a wealth of knowledge and experience concerning financial affairs and accounting, as well as the legal knowledge necessary for serving as an Audit &amp; Supervisory Board member. Utilizing his knowledge and experience, he audits the company's overall businesses, especially from financial and accounting perspectives, from a position of independence. At Board of Directors meetings, he asks questions and makes recommendations related to management of the company and other azbil Group members and the reinforcement of corporate governance.</p> <p>Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit &amp; Supervisory Board meetings</p>
 Satoshi Sakuma	<p>Mr. Satoshi Sakuma has held key positions at a government financial agency and has wide-ranging knowledge about international finance and extensive experience overseas. He also has management experience at an investment company and experience at a business company that develops global activities. The company believes that Mr. Sakuma will reflect his expert perspective, based on his knowledge and experience, to conduct overall business audits and improve the management level of Group companies. He also has knowledge on finance, accounting, and legal matters required of an Audit &amp; Supervisory Board member and the ability to further strengthen corporate governance from an independent position. Based on these points, the company elected him as a new outside Audit &amp; Supervisory Board member.</p>
 Fumitoshi Sato	<p>Mr. Fumitoshi Sato has held key positions in Japan's central bank and has wide-ranging knowledge and abundant experience in the financial field. He also has work experience and management experience as a director of a company in the manufacturing field, where he served in the department overseeing accounting, legal, and personnel affairs. The company believes that Mr. Sato will reflect his expert perspective, based on his knowledge and experience, to conduct overall business audits and strengthen the management of Group companies. He also has knowledge on finance, accounting, and legal matters required of an Audit &amp; Supervisory Board member and the ability to further strengthen corporate governance from an independent position. Based on these points, the company elected him as a new outside Audit &amp; Supervisory Board member.</p>



Comment by an Outside Director

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

Outside Directors Takeshi Itoh

For a long time, Azbil has embraced a corporate governance system emphasizing social responsibility as part of its corporate culture. When the Japanese version of the Corporate Governance Code was formulated in 2015, we took a serious view of content to be included in our governance system. We now have a comprehensive corporate governance system that reflects our serious approach, including compliance with revisions to the Code in 2018. Our Board of Directors has 16 members, eight of whom are outside officers, and is highly diverse with respect to nationality, gender, and the like. Our Nomination and Remuneration Committee consists mainly of independent outside directors and is chaired by one such director. It engages mainly in deliberation on the officer remuneration system, CEO election and dismissal criteria, and the status of successor training. The officer remuneration system also takes into account the balance between basic remuneration and bonuses and determines contribution amounts to the officer stock ownership plan. Through long-term ownership of the company's own shares, we aim to increase awareness among officers about shareholder perspectives.

Because of the nature of our business, male employees with technical backgrounds constitute the majority of our

workforce. In recent years, however, we have been promoting the advancement of women, who now account for one-quarter of the nearly 100 new employees intake. Furthermore, while we hear about scandals in multiple corporations in the world, we believe such situations are very unlikely to happen in our company due to our corporate structure. We also perform meticulous inspections to make sure that the seeds of potential future problems have not been planted.

When formulating long-term business strategies, we hold extensive discussions at Board of Directors meetings, which include outside officers, about major future developments based on the progress of medium-term plans, in order to address domestic and international market trends and rapid technological changes. To achieve sustainable corporate growth, we must conduct business based on sound risk management to effectively address changing conditions, while emphasizing CSR management to fulfill our social responsibilities. I firmly believe we have found a good balance between sound business management and CSR management.



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

(As of June 25, 2019)



## President and Group Chief Executive Officer (Representative Director)

### Hirozumi Sone

Responsible for 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.,  
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 Director of the Company  
Apr 2012 President and Chief Executive Officer of the Company  
(present post)



## Director, Managing Executive Officer

### Masato Iwasaki

Responsible for Life Automation business, 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 Director of the Company (present post)  
Apr 2016 Managing Executive Officer of the Company  
Apr 2018 General Manager of Life Science Engineering  
Department (present post)



## 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

Aug 1990 Joined the Company  
Apr 2011 Manager of Company Business Control Department,  
Advanced Automation Company  
Apr 2013 Executive Officer of the Company, Head of Production  
Management Headquarters  
Apr 2014 Managing Executive Officer of the Company, Head of  
Production Management Headquarters  
Jun 2014 Director of the Company (present post)  
Apr 2016 Managing Executive Officer of the Company, President  
of Advanced Automation Company (present post)



## Director, Managing Executive Officer

### Takayuki Yokota

Assistant to President, Responsible for Corporate  
Administration, Corporate Communication, azbil Group  
CSR, Internal Control, Facilities/Business Sites, Secretary  
Office, Group Management Headquarters, General  
Affairs Department, Legal & Intellectual Property  
Department, International Business Headquarters

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



## Director, Managing Executive Officer

### Kazuyasu Hamada

Responsible for Building Automation Business,  
azbil Group 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 Head of Security Business Headquarters, Building  
Systems Company of the Company  
Apr 2011 Head of Security System Headquarters, Building  
Systems Company  
Apr 2013 Executive Officer of the Company, Vice Head of  
Environmental Facility Solution Headquarters, Building  
Systems Company  
Apr 2015 Executive Officer of the Company, Head 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 Director of the Company (present post)



## Director, Chairperson of the Board

### 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 (Senior Officer)  
Apr 2003 Executive Officer and Manager of the Accounting &  
Finance Department  
Apr 2006 Managing Executive Officer of the Company  
Jun 2007 Director of the Company (present post)  
Apr 2009 Senior Managing Executive Officer of the Company  
Apr 2016 Vice President of the Company  
Jun 2018 Chairperson of the Board (present post)

## Audit & Supervisory Board Members

### Audit & Supervisory Board Members

#### Tomohiko Matsuyasu

#### Hisaya Katsuta

### Outside Audit & Supervisory Board Members

#### Kinya Fujimoto

#### Minoru Sakuma

#### Fumitoshi Sato

## Managing Executive Officers

### Hiroshi Arai

Responsible for azbil Group (aG) IT, aG Information  
Systems, aG Information Security, aG Cyber Security,  
IT Solutions Headquarters, Information Systems  
Department, Cyber Security Office, Head of IT Solutions  
Headquarters

### Junya Nishimoto

Responsible for aG Research and Development (aG  
Development Synergy), Smart Robots, Technology  
Development Headquarters, Technology Standardization  
Department, Valve Production Development  
Department, Document Production Department, AI  
Solution Department, Head of Technology Development  
Headquarters

### Kiyohiro Yamamoto

Responsible for aG Marketing, Building Automation  
(BA) International Business, BA Environmental Solution,  
Building Systems Company's (BSC) Development, BSC's  
Marketing, Head of BSC Marketing Headquarters

### Akihiko Naruse

Responsible for aG Safety Management (Occupational  
Health and Safety), Human Resources Department,  
aG Safety Management Department, Azbil Academy,  
General Manager of Internal Audit Department

**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 Chairperson of Siemens K.K. (Representative of Siemens AG in Japan)  
 Jun 2007 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****Takeshi Itoh**

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 Chairperson 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****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 Retired from Public prosecutor of Supreme Public Prosecutor's 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 Retired 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)

**Outside Director****Mitsuhiro Nagahama**

Apr 1976 Joined The Fuji Bank Limited. (Present: Mizuho Bank, Ltd.)  
 Mar 2003 Executive Officer and General Manager of Otemachi Corporate Banking Division No. 6 and Otemachi Corporate Banking Division No. 7, Mizuho Corporate Bank, Ltd. (Present: Mizuho Bank, Ltd.)  
 Apr 2005 Senior Executive Officer in charge of Corporate Banking, Mizuho Corporate Bank, Ltd.  
 Mar 2006 Senior Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.  
 Apr 2010 Deputy President and Deputy President-Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.  
 Mar 2013 Retired from Mizuho Corporate Bank, Ltd.  
 Apr 2013 Chairperson of the Board of Mizuho Securities Co., Ltd. & Mizuho Securities USA Inc.  
 Apr 2015 Advisor of Mizuho Securities Co., Ltd. (present post)  
 Jun 2015 Outside Audit & Supervisory Board Member of Azbil Corporation  
 Mar 2018 Outside Audit & Supervisory Board Member of KURARAY Co., Ltd. (present post)  
 Mar 2019 Outside Director of Tokyo Tatemono Co., Ltd. (present post)  
 Jun 2019 Outside Director of the Company (present post)

**Executive Officers****Yoshifumi Suzuki**

Responsible for aG Environmental Load Innovation, Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department, General Manager of Department of Safety Assessment, General Manager of aG Quality Assurance Department

**Masashi Hirano**

Responsible for New Business Development of Factory Automation

**Takahiro Sakamoto**

Deputy Head of Technology Development Headquarters

**Toshiyasu Sumitomo**

Business Development in North America

**Kenichi Hayashi**

General Manager of the BSC Business Planning Department

**Tetsuya Maruyama**

Manager of BSC Chubu Regional Division

**Tomoyuki Takeda**

Manager of BSC Kansai Regional Division

**Takashi Sawada**

Manager of BSC Tokyo Head Office

**Hiroshi Shimizu**

aG Advanced Control Business, General Manager of Advanced Solutions Department in Advanced Automation Company (AAC) Engineering Headquarters

**Tetsuo Takamura**

General Manager of Advanced Automation (AA) CP Business\*1

**Tadayoshi Itoh**

General Manager of 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

**Taro Sento**

General Manager of AA IAP Business\*3

**Takashi Imamura**

Head of Production Management Headquarters

**Tetsuya Iwasaki**

Responsible for System Development, Head of BSC Development Headquarters

**Kanichiro Tsuruta**

Head of BSC Engineering Headquarters

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

\*2. SS business: Solution and 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 and pressure transmitters, and control valves)

# Communication with Stakeholders

Sharing values with society through corporate communication activities

The azbil Group strongly recognizes its own social responsibility with respect to its corporate activities. Based on our Group philosophy of “human-centered automation,” we work to create various types of value for shareholders and other investors, as well as customers, business partners, employees, and society. We will convey information about these efforts to share our values with society while enhancing understanding among people both inside and outside the Company. At the same time, we will use feedback from our stakeholders to create new value. To advance these efforts, we appointed an executive officer in charge of corporate communication, who is putting in place systems to facilitate dialogue with stakeholders and other investors, in partnership with various Azbil Corporation departments.

## Enhancing Dialogue with Shareholders and Other Investors

Under the direction of the executive officer in charge of corporate communications, our various departments—those in charge of accounting and finance, general affairs, and corporate planning and public relations, as well as our business divisions—work together to enhance dialogue with shareholders and other investors.

To this end, we provide opportunities for executives, including the president, to communicate directly with shareholders and other investors. We also have in place an Investor Relations (IR) Office which is dedicated to enhancing such dialogue. With efforts spearheaded by the 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.

### ► Proactive Dialogue by Officers (in Addition to Financial Results Briefings)

Regarding specific dialogue initiatives, we hold semi-annual briefings on the Company’s financial results, where the president explains our performance and management plan and, together with executive officers, welcomes questions from institutional investors. We also hold one-on-one

meetings and conferences with our institutional investors in Japan and overseas. The president, executive officer in charge of corporate communications, other officers, and the IR Office participate in these meetings. In fiscal 2018, we engaged in such dialogue with shareholders and other investors on more than 250 occasions. 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.

### ► Dialogue with Individual Shareholders and Other Investors

In addition to institutional investors, we work to expand opportunities for dialogue with individual shareholders and other investors. In fiscal 2018, we held briefings for individual investors at branches and sales offices of securities companies, and we participated in exhibitions for individual investors and held company briefings at the same venues.



Briefing in azbil booth at exhibition for individual investors

## Sharing Values with Our Shareholders

### ► Disciplined Capital Policy

To enhance constructive dialogue with our shareholders, we strive to improve disclosure of management policies and business content. In addition to delivering sustainable corporate growth and improving enterprise value, we regard the return of profits to shareholders as an important management priority. With this in mind, we maintain a disciplined capital policy while taking into consideration a good balance among the three fundamental objectives of (1) investing for growth, (2) maintaining a sound financial foundation, and (3) enhancing shareholder return.

Regarding shareholder return, we comprehensively evaluate our consolidated business performance, dividends on equity (DOE), and return on equity (ROE), as well as the need to retain internal reserves to develop our future

business and maintain a sound financial base. Our policy, which is to maintain stable dividends while improving performance and DOE and ROE levels, also includes flexible share buybacks.

### ► Employee Stock Incentive System: Sharing Values with Shareholders and Employees

To promote shared values, 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 same values as shareholders and are motivated to increase the Company’s stock price and improve business performance.



### ► General Meeting of Shareholders, Early Disclosure Efforts, and Global Information Dissemination

Regarding the General Meeting of Shareholders, we include a message from the president in the convocation notice, which is used as a basis for deciding on voting rights. We also work to enhance the content of the convocation notice and publish that information quickly in both Japanese and English. Our policy is to post the convocation notice on our website one month prior to the General Meeting of Shareholders, and to send the notice to all shareholders three weeks before the event. We are also creating an online means of enabling 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.



President Hirozumi Sone answers questions at the General Meeting of Shareholders

### ► Expanding Dialogue Opportunities and Enhancing Disclosure Content

To promote a deeper understanding of the azbil Group in terms of value provided and business content, we are working to expand dialogue opportunities and enhance disclosure content, in addition to holding financial results briefings.

To increase opportunities for dialogue, for example, we hold forums at the sites of investor exhibitions in which we participate, where we explain our business and products. In addition, we post content on our website where visitors can take virtual tours of our main R&D base and our exhibition display booths, to foster a broader understanding of the azbil Group among stakeholders.

### ► Timely and Appropriate Disclosure

To ensure the rights of all shareholders and other investors in a substantial and equal manner, we take appropriate measures and establish frameworks that conform to laws and regulations. We also strive to ensure the integrity and transparency of information disclosed to fulfill our corporate accountability obligation.

We ensure that highly transparent and fair disclosure of information is carried out in a timely and appropriate manner, and have spelled out our basic approach to disclosure in our Disclosure Policy. Responding to the establishment of Japan's Fair Disclosure Rules (Articles 36–38, April 2018), in fiscal 2018 we reaffirmed our internal disclosure procedures and revised our internal rules. We also revised and published our Disclosure Policy.

In addition, we have a "Investor Relations" section on our corporate website, and we publish and update information about such matters as shareholders' meetings, financial results, and IR materials in a timely manner. We also strive to disclose financial information in both Japanese and English on the same day so that there is no information gap between Japan and overseas.

### ► Non-financial (ESG) Information Disclosure

For some time, we have published our annual azbil report (this publication) to actively release information valuable in making investment decisions. This contains both financial and non-financial information related to environmental, social, and governance (ESG) issues. Recent years have seen growing demand for non-financial (ESG) information disclosure, so we are working to improve information and other content on our website. Reflecting these efforts, the Company's shares have been included in the following ESG indices.

#### Index status (as of July 31, 2019)

Azbil is included in the following indices.

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- MSCI Japan ESG Select Readers Index
- MSCI Japan Empowering Women Index (WIN)
- S&P/JPX Carbon Efficient Index



FTSE4Good

Azbil Corporation has been selected for inclusion in the FTSE4Good Index Series for the thirteenth consecutive year.

The FTSE4Good Index Series is designed to facilitate investment in companies that meet specific environmental, social and governance criteria.

### Providing Information to Society Via Media

In addition to shareholders and other investors, we communicate widely with other stakeholders in Japan and overseas through proactive public relations activities via the media. These include issuing press releases, holding press conferences, and conducting interviews. We also provide more detailed information about our products, business, and social contribution activities, which we post on our global website as appropriate, and we utilize communication systems in each country to disseminate information to the media.

For reporters, we augment our press releases with tours of our booths at major exhibitions and our business facilities to help them gain a deeper understanding of our Company and convey accurate information to the public. We also pursue these initiatives overseas. In fiscal 2018, for example, we participated in Industrial Transformation Asia Pacific (ITAP), one of the largest industrial digitalization related exhibitions in the Asia-Pacific region. At the event, held in Singapore, we issued press releases to local media, welcomed interviews with reporters, and engaged in other proactive communication activities.

In addition to public relations activities, we conduct research to find out how the Group is perceived and recognized at home and abroad, and what we could do to enhance people's understanding of the company.



azbil booth at ITAP (October 16–18, 2018)

### Sharing Values with Customers

Creating value with customers at their sites is a key activity that reflects our Group philosophy. In other words, we work to share values with our customers. To this end, we introduce the products, services, and solutions offered by our three business segments—Building Automation, Advanced Automation, and Life Automation. We have also set aside space at our Fujisawa Technology Center to engage in discussions with customers aimed at solving their problems. In fiscal 2018, we welcomed 180 people from 55 companies. Specifically, we exchanged opinions on future technology scenarios and next-generation products, systems, and services that we could collaborate on.

For customers outside of Japan, we have established a videoconferencing link with the showroom at our Strategic Planning & Development Office for Southeast Asia, which we set up in Singapore. By communicating with local customers in this way, we are expanding our field of activity globally.



Space to create value with customers in the Management Room and azbil Techno Plaza at Fujisawa Technology Center



### Conveying Value Provided by azbil Group to the World: Building a Global Brand

The azbil Group is working to build a global brand in order to tell the world about the value it aims to provide through its philosophy of “human-centered automation” and share this value with stakeholders in Japan and overseas.



New corporate advertising slogans

In 2018, we produced new advertising slogans in Japanese and English and new designs for those slogans (English slogan: “Azbil - Going Beyond Automation”). We also stepped up global corporate advertising and displayed the new slogans at major exhibitions in Japan and overseas. By creating a corporate identity design system in this way, the azbil Group aims to rigorously disseminate information based on a unified design and build its brand globally.

\* In the new corporate advertisement, Azbil expresses its commitment to using automation technology to shape a bright future together with customers. Please see page 111 for more details.



### Corporate Communication is Essential for Improving Enterprise Value

Takayuki Yokota  
Director, Managing Executive Officer  
Responsible for Corporate Communication

An important management policy of the azbil Group is to achieve sustainable growth by providing various stakeholders with the means to achieve their goals and solve their problems. Especially, through our corporate communication activities, we aim to enhance understanding of the direction of the azbil Group's corporate value creation and also the corporate activities as the source of creating such values. We also welcome opinions and other feedback from stakeholders so we can further increase enterprise value while gaining an impartial understanding of our own issues. This is an important cycle, we believe.

To communicate our future value creation activities more effectively, we will work to disclose detailed information that complies with laws and guidelines in a timely, appropriate, and highly transparent manner. At the same time, we will strive to ensure a deeper mutual sharing of values with our stakeholders.

In addition to benefitting society through our core businesses, we work to entrench a culture of contribution to society through various voluntary initiatives in areas accessible to employee involvement and participation in local grassroots events. In these ways, we continue to help raise awareness about social issues and enliven local communities.

## Participation in the Shonan International Marathon

We have supported the Shonan International Marathon, which aims to be an environmentally friendly race that promotes environmental awareness, since the first time the race was run. In fiscal 2018, we served as main sponsor for the 13th time. Since the beginning, Azbil Corporation has been a leader of Eco Friendship, an environmental action group consisting of various companies that sponsor events. In this role, we engage in the planning of Shonan International Marathon as an environmentally friendly event, analyze the environmental impact of the competition, and cooperate with arrangement of carbon offsets throughout the event to minimize its environmental impact. On the day of the marathon, a total of around 300 azbil Group employees and their family members served as volunteers, participating in recyclable waste separation activities and helping lift the morale of runners, including employees. In addition, we operated our Eco-Café to raise 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).



\* Fair trade  
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, with around 1,100 employees and officers of the azbil Group as members, encourages social contribution activities through a mechanism that allows ¥100 to be donated from each member's salary. A distinct feature of the club is the ability of members to apply for support of activities that they wish to help. Azbil Corporation supports the club in the form of matching donations for activities that members themselves participate. This is to encourage members to engage in activities that help resolve social issues.

In fiscal 2018, its ninth year, the club voted to support 38 groups, while also donating to other organizations engaged in activities that benefit society. These included a group that supports elementary school students with financial difficulties, a group engaged in sports activities in which disabled and able-bodied people have the same goals, and countryside regeneration projects with diverse participants, from children to adults. As a result, the club distributed a total of ¥6.6 million. In fiscal 2019, we will celebrate the 10th anniversary of the club, and we will continue promoting more diversified activities aimed at resolving social issues.



March, the azbil Honey Bee Club's mascot

## 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 Fujisawa City, Kanagawa Prefecture, provided scholarships to students from single-parent households who need economic assistance, and donated to childcare centers. In addition to its regular activities, in fiscal 2018 the foundation enhanced its programs aimed at helping children who need support to learn with peace of mind. These include addressing child poverty by providing support for a student volunteer group in Fujisawa City that runs a small school and manages a cafeteria for children in need. Going forward, we will donate to institutions that conduct cutting-edge research and otherwise build a foundation where young researchers—Japan's future leaders—can devote themselves to research with peace of mind.



# 11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2009	2010	2011	2012
<b>Financial Results (for the year):</b>				
Net sales	236,173	212,213	219,216	223,499
(Overseas sales)* <sup>1</sup>				19,837
Gross profit	86,655	76,420	79,714	80,840
Selling, general and administrative expenses	68,823	64,035	64,818	66,492
Operating income	17,832	12,385	14,896	14,348
Net income attributable to owners of the parent	9,525	6,242	7,928	8,519
Capital expenditures	6,414	2,704	3,351	3,010
Depreciation	4,503	4,751	4,460	4,027
R&D expenses	9,636	8,640	8,953	8,816
<b>Cash Flows (for the year):</b>				
Net cash provided by operating activities	21,372	15,714	15,223	5,634
Net cash provided by (used in) investing activities	(16,606)	1,960	(2,276)	(3,549)
Free cash flow	4,766	17,674	12,947	2,085
Net cash used in financing activities	(8,575)	(6,757)	(8,001)	(6,393)
<b>Financial Position (at year-end):</b>				
Total assets* <sup>2</sup>	220,846	218,472	217,501	223,476
Interest-bearing debt	16,913	15,190	11,848	10,230
Shareholders' equity	123,554	127,669	129,605	133,565
Net assets	124,984	129,278	131,362	135,077
<b>Per Share Data*<sup>3</sup>:</b>				
Net income (yen)	63.94	42.26	53.67	57.67
Net assets (yen)	836.45	864.32	877.43	904.24
Cash dividends (yen)	31.00	31.00	31.50	31.50
<b>Ratios:</b>				
Gross profit/Net sales (%)	36.7	36.0	36.4	36.2
SG&A expenses/Net sales (%)	29.1	30.2	29.6	29.8
Operating income/Net sales (%)	7.6	5.8	6.8	6.4
R&D expenses/Net sales (%)	4.1	4.1	4.1	3.9
Shareholders' equity/Total assets (%)* <sup>2</sup>	55.9	58.4	59.6	59.8
Return on equity (ROE) (%)	7.8	5.0	6.2	6.5
Dividend on equity (DOE) (%)	3.7	3.6	3.6	3.5
Dividend payout ratio (%)	48.5	73.4	58.7	54.6
Debt-equity ratio	0.14	0.12	0.09	0.08

\*1 The Company has disclosed overseas sales figures since fiscal 2012, when overseas sales first accounted for more than 10% of consolidated net sales. The figure for fiscal 2011 (¥19,837 million), shown as a comparison information, reflects the aggregate of sales in the same regions used for overseas sales calculations in fiscal 2012 and thereafter

\*2 Effective from the beginning of fiscal 2018, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. Figures for total assets and shareholders' equity/total assets in fiscal 2017 have been changed retrospectively to reflect the amended standard as a comparison information.



(Millions of yen)

2013	2014	2015	2016	2017	2018	2019
227,585	248,417	254,469	256,890	254,811	260,384	<b>262,055</b>
22,956	46,135	46,756	48,991	43,380	45,797	<b>46,710</b>
77,872	86,550	89,884	91,089	91,492	97,481	<b>102,338</b>
64,461	72,646	74,546	73,953	71,347	73,454	<b>75,648</b>
13,411	13,904	15,337	17,136	20,145	24,027	<b>26,690</b>
8,309	7,669	7,169	8,268	13,154	17,890	<b>18,951</b>
3,121	5,303	6,302	3,413	4,160	7,038	<b>6,363</b>
3,621	3,723	3,785	4,148	4,075	4,112	<b>4,167</b>
7,824	8,767	10,124	11,012	10,446	11,262	<b>11,897</b>
15,010	15,836	13,698	11,073	19,949	19,481	<b>16,113</b>
(12,716)	(10,670)	(13,472)	4,262	(9,061)	(48)	<b>(4,075)</b>
2,294	5,166	226	15,334	10,889	19,433	<b>12,038</b>
(2,487)	(6,940)	(6,066)	(10,536)	(6,441)	(10,852)	<b>(12,025)</b>
243,419	253,448	265,719	259,127	263,317	273,805	<b>275,519</b>
17,920	17,687	16,673	12,605	11,175	10,686	<b>10,028</b>
139,042	143,316	158,273	155,006	163,822	175,996	<b>181,143</b>
141,197	144,978	160,294	156,966	165,752	177,963	<b>183,098</b>
56.25	51.93	48.53	56.36	89.78	123.08	<b>132.03</b>
941.33	970.28	1,071.56	1,058.05	1,118.23	1,213.14	<b>1,264.88</b>
31.50	31.50	31.50	33.50	38.50	41.00	<b>46.00</b>
34.2	34.8	35.3	35.5	35.9	37.4	<b>39.1</b>
28.3	29.2	29.3	28.8	28.0	28.2	<b>28.9</b>
5.9	5.6	6.0	6.7	7.9	9.2	<b>10.2</b>
3.4	3.5	4.0	4.3	4.1	4.3	<b>4.5</b>
57.1	56.5	59.6	59.8	62.2	64.3	<b>65.7</b>
6.1	5.4	4.8	5.3	8.3	10.5	<b>10.6</b>
3.4	3.3	3.1	3.1	3.5	3.5	<b>3.7</b>
56.0	60.7	64.9	59.4	42.9	33.3	<b>34.8</b>
0.13	0.12	0.11	0.08	0.07	0.06	<b>0.06</b>

\*3 The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Per share data are based on the number of shares after the stock split.

# Consolidated Balance Sheet

Azbil Corporation and its consolidated subsidiaries  
March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
<b>ASSETS</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 14)	¥ 68,134	¥ 68,640	\$ 613,823
Marketable securities (Note 4)	13,306	12,606	119,873
Notes and accounts receivable:			
Trade (Note 14)	93,748	91,420	844,580
Other	1,565	1,701	14,098
Allowance for doubtful receivables	(379)	(597)	(3,415)
Inventories (Note 5)	24,914	23,836	224,454
Prepaid expenses and other current assets	8,619	9,108	77,648
Total current assets	209,907	206,714	1,891,061
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Notes 6 and 7)	6,660	6,601	59,996
Buildings and structures (Notes 6 and 7)	44,324	42,481	399,318
Machinery and equipment (Note 6)	18,671	18,982	168,204
Furniture and fixtures (Note 6)	20,292	20,076	182,814
Lease assets (Note 13)	240	230	2,159
Construction in progress (Note 6)	2,894	2,967	26,072
Total	93,081	91,337	838,563
Accumulated depreciation	(66,115)	(65,858)	(595,629)
Net property, plant and equipment	26,966	25,479	242,934
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4 and 14)	21,425	26,590	193,016
Investments in and advances to unconsolidated subsidiaries and associated companies	418	415	3,765
Deposits	3,016	2,828	27,170
Deferred tax assets (Note 10)	4,278	2,246	38,544
Software (Note 6)	4,530	4,412	40,807
Other assets	4,978	5,121	44,852
Total investments and other assets	38,645	41,612	348,154
<b>TOTAL</b>	<b>¥ 275,518</b>	<b>¥ 273,805</b>	<b>\$ 2,482,149</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 7 and 14)	¥ 9,498	¥ 10,096	\$ 85,569
Current portion of long-term debt (Notes 7 and 14)	482	190	4,343
Notes and accounts payable:			
Trade (Note 14)	40,102	41,498	361,278
Other	1,954	2,913	17,604
Income taxes payable	7,667	6,313	69,075
Accrued bonuses	10,599	10,368	95,485
Other accrued expenses and current liabilities	16,670	16,147	150,183
Total current liabilities	86,972	87,525	783,537
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 7 and 14)	640	1,074	5,769
Liability for retirement benefits (Note 8)	2,096	5,686	18,883
Deferred tax liabilities (Note 10)	182	185	1,639
Provision for stock payment	988	655	8,901
Other long-term liabilities	1,542	717	13,893
Total long-term liabilities	5,448	8,317	49,085
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 13, 15 and 16)			
<b>EQUITY (Note 9):</b>			
Common stock—authorized, 559,420,000 shares; issued, 148,500,884 shares*	10,523	10,523	94,799
Capital surplus	11,671	11,670	105,142
Retained earnings	160,325	147,729	1,444,373
Treasury stock—at cost, 5,291,816 shares in 2019 and 3,426,574 shares in 2018*	(11,952)	(6,966)	(107,677)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	9,727	12,906	87,636
Deferred gain on derivatives under hedge accounting	4	45	33
Foreign currency translation adjustments	936	1,837	8,430
Defined retirement benefit plans	(91)	(1,749)	(821)
Total	181,143	175,995	1,631,915
Noncontrolling interests	1,955	1,968	17,612
Total equity	183,098	177,963	1,649,527
<b>TOTAL</b>	¥ 275,518	¥ 273,805	\$ 2,482,149

\* Shares have been restated, as appropriate, to reflect a two-for-one stock split effected on October 1, 2018.

# Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and its consolidated subsidiaries  
Year Ended March 31, 2019

## Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>NET SALES</b>	¥ 262,055	¥ 260,384	\$ 2,360,856
<b>COST OF SALES</b>	159,717	162,903	1,438,889
Gross profit	102,338	97,481	921,967
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 12)	75,648	73,454	681,515
Operating income	26,690	24,027	240,452
<b>OTHER INCOME (EXPENSES):</b>			
Interest income	150	128	1,347
Dividend income	552	520	4,974
Interest expense	(135)	(165)	(1,218)
Foreign currency exchange gain (loss)	249	(296)	2,246
Loss on sales of property, plant, equipment and others—net	(143)	(130)	(1,292)
Gain on sales of investment securities—net (Note 4)	2,219	656	19,988
Loss on impairment of long-lived assets (Note 6)	(87)	(342)	(782)
Loss on abolishment of retirement benefit plan (Note 8)	(3,211)		(28,924)
Loss on liquidation of subsidiaries and associated companies (Note 11)		(298)	
Others—net (Note 11)	159	81	1,431
Other (expenses) income—net	(247)	154	(2,230)
<b>INCOME BEFORE INCOME TAXES</b>	26,443	24,181	238,222
<b>INCOME TAX EXPENSE (BENEFIT)</b> (Note 10):			
Current	8,643	7,211	77,861
Deferred	(1,416)	(1,172)	(12,757)
Total income tax expense	7,227	6,039	65,104
<b>NET INCOME</b>	19,216	18,142	173,118
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	265	252	2,387
<b>NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥ 18,951	¥ 17,890	\$ 170,731

	Yen		U.S. Dollars (Note 1)
	2019	2018*	2019
<b>PER SHARE OF COMMON STOCK</b> (Note 2.t):			
Net income	¥ 132.03	¥ 123.08	\$ 1.19
Cash dividends applicable to the year	46.00	41.00	0.41

\* Per share figures have been restated, as appropriate, to reflect a two-for-one stock split effected on October 1, 2018.

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>NET INCOME</b>	¥ 19,216	¥ 18,142	\$ 173,118
<b>OTHER COMPREHENSIVE INCOME</b> (Note 17):			
Unrealized (loss) gain on available-for-sale securities	(3,179)	3,352	(28,640)
Deferred (loss) gain on derivatives under hedge accounting	(42)	13	(378)
Foreign currency translation adjustments	(967)	524	(8,709)
Defined retirement benefit plans	1,666	(21)	15,012
Total other comprehensive income	(2,522)	3,868	(22,715)
<b>COMPREHENSIVE INCOME</b>	¥ 16,694	¥ 22,010	\$ 150,403
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of the parent	¥ 16,486	¥ 21,778	\$ 148,528
Noncontrolling interests	208	232	1,875

See notes to consolidated financial statements.



# Consolidated Statement of Changes in Equity

Azbil Corporation and its consolidated subsidiaries  
Year Ended March 31, 2019

	Thousands					Millions of Yen						
	Number of Shares of Common Stock Outstanding*	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Noncon- trolling Interests	Total Equity
						Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2017</b>	146,501	¥ 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, ¥41 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	(1,430)				(6,973)					(6,973)		(6,973)
Disposal of treasury stock	3		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
<b>BALANCE, MARCH 31, 2018</b>	145,074	10,523	11,670	147,729	(6,966)	12,906	45	1,837	(1,749)	175,995	1,968	177,963
Net income attributable to owners of the parent				18,951						18,951		18,951
Cash dividends, ¥46 per share*				(6,355)						(6,355)		(6,355)
Change in ownership interest of parent due to transactions with noncontrolling interests			1							1		1
Purchase of treasury stock	(1,873)				(5,003)					(5,003)		(5,003)
Disposal of treasury stock	8				17					17		17
Net change in the year						(3,179)	(41)	(901)	1,658	(2,463)	(13)	(2,476)
<b>BALANCE, MARCH 31, 2019</b>	143,209	¥ 10,523	¥ 11,671	¥ 160,325	¥ (11,952)	¥ 9,727	¥ 4	¥ 936	¥ (91)	¥ 181,143	¥ 1,955	¥ 183,098

\* Shares and per share figures have been restated, as appropriate, to reflect a two-for-one stock split effected on October 1, 2018.

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Noncon- trolling Interests	Total Equity
					Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2018</b>	\$ 94,799	\$ 105,136	\$ 1,330,889	\$ (62,758)	\$ 116,276	\$ 411	\$ 16,558	\$ (15,764)	\$ 1,585,547	\$ 17,721	\$ 1,603,268
Net income attributable to owners of the parent			170,731						170,731		170,731
Cash dividends, \$0.41 per share			(57,247)						(57,247)		(57,247)
Change in ownership interest of parent due to transactions with noncontrolling interests		6							6		6
Purchase of treasury stock				(45,071)					(45,071)		(45,071)
Disposal of treasury stock				152					152		152
Net change in the year					(28,640)	(378)	(8,128)	14,943	(22,203)	(109)	(22,312)
<b>BALANCE, MARCH 31, 2019</b>	\$ 94,799	\$ 105,142	\$ 1,444,373	\$ (107,677)	\$ 87,636	\$ 33	\$ 8,430	\$ (821)	\$ 1,631,915	\$ 17,612	\$ 1,649,527

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Azbil Corporation and its consolidated subsidiaries  
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 26,443	¥ 24,181	\$ 238,222
Adjustments for:			
Income taxes—paid	(7,324)	(5,672)	(65,982)
Depreciation and amortization	4,167	4,183	37,536
Reversal of doubtful receivables	(277)	(50)	(2,497)
Increase in accrued bonuses	263	808	2,369
Foreign currency exchange (gain) loss	(148)	394	(1,336)
Loss on sales of property, plant, equipment and others—net	143	130	1,292
Gain on sales and valuation of investment securities—net	(2,219)	(636)	(19,988)
Loss on impairment of long-lived assets	87	342	782
Loss on abolishment of retirement benefit plan	3,211		28,924
Loss on liquidation of subsidiaries and associated companies (Note 11)		298	
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(3,018)	(2,680)	(27,187)
Increase in inventories	(1,395)	(1,569)	(12,566)
(Decrease) increase in notes and accounts payable	(1,006)	763	(9,059)
(Decrease) increase in liability for retirement benefits	(3,306)	26	(29,788)
Increase in net defined benefit assets	(227)	(298)	(2,048)
Decrease in accrued payments due to change in retirement benefit plan	(764)	(804)	(6,881)
Increase in provision for stock payment	350	350	3,155
Decrease (increase) in other assets	91	(71)	826
Increase (decrease) in other liabilities	1,041	(213)	9,398
Others—net	(1)	(1)	(13)
Total adjustments	(10,332)	(4,700)	(93,063)
Net cash provided by operating activities—(Forward)	16,111	19,481	145,159
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	84	79	754
Purchases of property, plant and equipment	(5,706)	(5,795)	(51,403)
Purchases of intangible assets	(940)	(1,030)	(8,469)
Proceeds from sales of investment securities	2,838	910	25,567
Purchases of investment securities	(11)	(16)	(102)
Proceeds from sales of beneficiary securities of trust	10,649	11,248	95,938
Purchases of beneficiary securities of trust	(10,198)	(11,207)	(91,872)
Proceeds from sales of marketable securities	27,200	35,202	245,045
Purchases of marketable securities	(27,900)	(33,201)	(251,351)
Payments for sales of investments in capital of subsidiaries resulting in change in scope of consolidation		(98)	
Purchase of investments in capital of subsidiaries	(28)	(22)	(249)
Others—net	(63)	3,882	(571)
Net cash used in investing activities	(4,075)	(48)	(36,713)
<b>FINANCING ACTIVITIES:</b>			
Net decrease in short-term borrowings	(293)	(841)	(2,643)
Proceeds from long-term debt	11	62	95
Repayment of long-term debt	(53)	(107)	(477)
Proceeds from sales of treasury stock		3,970	3
Purchase of treasury stock	(5,003)	(6,973)	(45,071)
Cash dividends paid	(6,354)	(5,943)	(57,241)
Dividends paid to noncontrolling interests	(210)	(149)	(1,896)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation	(5)	(735)	(46)
Others—net	(117)	(136)	(1,057)
Net cash used in financing activities	(12,024)	(10,852)	(108,333)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(518)	222	(4,669)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(506)	8,803	(4,556)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	68,640	59,837	618,379
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 68,134	¥ 68,640	\$ 613,823

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Azbil Corporation and its consolidated subsidiaries  
Year Ended March 31, 2019

## 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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111 to \$1, the approximate rate of exchange as of March 31, 2019. 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, 2019, include the accounts of Azbil and its 48 (50 in 2018) significant subsidiaries (together, the "Azbil Group").

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

Investments in 2 (2 in 2018) 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 ¥3,947 million (\$35,556 thousand) for 1,988,258 shares as of March 31, 2019, and ¥3,963 million for 1,996,566 shares\* as of March 31, 2018.

\* Shares have been restated, as appropriate, to reflect a two-for-one stock split effected on October 1, 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, 2019 and 2018, was ¥131 million (\$1,177 thousand) and ¥157 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.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, “Partial Amendments to Accounting Standard for Tax Effect Accounting,” which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Azbil Group retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥5,691 million and deferred tax liabilities of ¥4 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet.

In addition, in the note to income taxes, the Azbil Group added the contents described in the annotation (Note 8) (excluding total valuation allowance) and the annotation (Note 9), both for the “Accounting Standard for Tax Effect Accounting,” stipulated in Paragraph 3 through Paragraph 5 of the revised accounting standard. However, of these contents, information concerning the previous fiscal year is not described pursuant to the transitional treatment stipulated in Paragraph 7 of the revised accounting standard.

**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.

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.

On October 1, 2018, Azbil effected a two-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on August 30, 2018. All prior-year share and per share figures have been restated to reflect the impact of the stock split and to provide data on a basis comparable to the year ended March 31, 2019. Such restatements include calculations regarding Azbil’s weighted-average number of common shares, net income per share, and cash dividends per share.

The weighted-average number of shares of common stock used in the computation was 143,535,250 shares for 2019 and 145,355,172 shares for 2018.

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.

### Azbil and Domestic Subsidiaries

—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 of March 30, 2018)

This is a comprehensive accounting standard for revenue recognition. Revenue recognition is conducted through these five steps:

Step 2: Identify the performance obligations in the contract

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

This standard will be applied for the fiscal year beginning on April 1, 2021.

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

## —IFRS 16. Leases

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

This standard will be applied for the fiscal year beginning on April 1, 2019.

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

Not applicable.

Marketable and investment securities as of March 31, 2019 and 2018, consisted of the following:

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2019 and 2018, were as follows:

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2019 and 2018, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2019 and 2018, is as follows:

The impairment losses on available-for-sale—equity securities for the year ended March 31, 2018, were ¥20 million.

## 5. INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Merchandise	¥ 1,258	¥ 1,225	\$ 11,338
Finished products	4,571	3,744	41,179
Work in process	7,418	7,788	66,826
Raw materials	11,667	11,079	105,111
Total	¥ 24,914	¥ 23,836	\$ 224,454

## 6. LONG-LIVED ASSETS

The Azbil Group recognized impairment losses for the years ended March 31, 2019 and 2018, as follows:

		Millions of Yen		Thousands of U.S. Dollars
		2019	2018	2019
Azbil TA Co., Ltd.	Buildings and structures	¥ 4		\$ 37
	Land	17	¥ 32	151
	Subtotal	21	32	188
Azbil Kimmon Co., Ltd.	Buildings and structures		30	
	Machinery and equipment, etc.	35	222	311
	Furniture and fixtures	31	58	283
	Subtotal	66	310	594
Total		¥ 87	¥ 342	\$ 782

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

For the year ended March 31, 2019, Azbil TA Co., Ltd., a consolidated subsidiary of Azbil decided to sell land and buildings for office relocation. As a result, the carrying amount of the assets was written down by ¥21 million (\$188 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 ¥66 million (\$594 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 7.9%.

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 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 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%.

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

Short-term borrowings as of March 31, 2019 and 2018, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 6.0% as of March 31, 2019, and from 0% to 6.7% as of March 31, 2018.

Long-term debt as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 4.6% in 2019 and 0.0% to 4.6% in 2018—Unsecured	¥ 530	¥ 590	\$ 4,774
Obligations under finance leases	592	674	5,338
Total	1,122	1,264	10,112
Less current portion	(482)	(190)	(4,343)
Long-term debt, less current portion	¥ 640	¥ 1,074	\$ 5,769

As of March 31, 2019, Azbil had an unused line of credit amounting to ¥30,000 million (\$270,270 thousand), of which ¥10,000 million (\$90,090 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$180,180 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2019, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 482	\$ 4,343
2021	149	1,341
2022	162	1,459
2023	123	1,112
2024	100	905
2025 and thereafter	106	952
Total	¥ 1,122	\$ 10,112

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 multi-employer 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. A domestic consolidated subsidiary had participated in the Employees' Pension Fund of the Japan Die & Mold Industry (the "Fund"), which is a multi-employer pension plan. However, the dissolution of the Fund was approved by the Ministry of Health, Labour and Welfare on November 2, 2018. No additional expenses are expected to arise from the dissolution of the Fund.

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.

Regarding defined benefit corporate pension plans for the pension beneficiaries (i.e., closed pension plans) associated with Azbil and a domestic consolidated subsidiary, final settlement of retirement benefit plans for accounting purposes was adopted with reference to the following two documents issued by the Accounting Standards Board of Japan: "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ PITF No. 2). The loss related to this settlement was recorded as the loss on abolishment of retirement benefit plan in other expenses.

Azbil and certain subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members. The liability for retirement benefits at March 31, 2019 and 2018, for directors and Audit & Supervisory Board members is ¥120 million (\$1,083 thousand) and ¥123 million, respectively.



(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 15,758	¥ 16,574	\$ 141,967
Current service cost	483	461	4,348
Interest cost	36	36	328
Actuarial losses	25	70	231
Benefits paid	(1,550)	(1,408)	(13,966)
Decrease due to the final settlement of the defined benefit pension plan	(9,292)		(83,716)
Others	(179)	25	(1,612)
Balance at end of year	¥ 5,281	¥ 15,758	\$ 47,580

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 10,198	¥ 10,873	\$ 91,874
Expected return on plan assets	446	480	4,018
Actuarial losses	(342)	(267)	(3,084)
Contributions from the employer	81	78	736
Contributions to the retirement benefit trust	3,000		27,027
Benefits paid	(921)	(989)	(8,293)
Decrease due to the final settlement of the defined benefit pension plan	(9,133)		(82,279)
Others	(16)	23	(148)
Balance at end of year	¥ 3,313	¥ 10,198	\$ 29,851

(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
	2019	2018	2019
Funded defined benefit obligation	¥ 3,758	¥ 10,543	\$ 33,858
Plan assets	(3,313)	(10,198)	(29,851)
Total	445	345	4,007
Unfunded defined benefit obligation	1,523	5,215	13,722
Net liability arising from defined benefit obligation	¥ 1,968	¥ 5,560	\$ 17,729

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 1,976	¥ 5,563	\$ 17,800
Asset for retirement benefits	(8)	(3)	(71)
Net liability arising from defined benefit obligation	¥ 1,968	¥ 5,560	\$ 17,729

(4) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 483	¥ 461	\$ 4,348
Interest cost	36	36	328
Expected return on plan assets	(446)	(480)	(4,018)
Recognized actuarial losses	261	221	2,347
Amortization of prior service cost			2
Others	184	83	1,656
Net periodic benefit costs	¥ 518	¥ 321	\$ 4,663
Loss on abolishment of retirement benefit plan	¥ 3,211		\$ 28,924

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥ 1		\$ 8
Actuarial losses (gains)	2,396	¥ (116)	21,584
Total	¥ 2,397	¥ (116)	\$ 21,592

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost		¥ (1)	
Unrecognized actuarial gains	¥ (137)	(2,534)	\$ (1,237)
Total	¥ (137)	¥ (2,535)	\$ (1,237)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Cash and cash equivalents	100%	
Life insurance company general accounts		61%
Debt investments		25
Equity investments		7
Short-term assets		4
Others		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, 2019 and 2018, are set forth as follows:

	2019	2018
Discount rate	0.9%	0.3%
Expected rate of return on plan assets	4.5	4.5

## 9. EQUITY

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

### a. Dividends

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

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

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

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

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

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

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

On October 1, 2018, Azbil effected a two-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on August 30, 2018.

## 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 30.5% for the year ended March 31, 2019, and 30.8% for the year ended March 31, 2018.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Pension and severance costs	¥ 1,929	¥ 1,775	\$ 17,375
Accrued expenses	4,086	4,174	36,808
Depreciation	1,401	1,190	12,630
Loss on impairment of long-lived assets	200	203	1,800
Allowance for doubtful receivables	146	243	1,312
Tax loss carryforwards	1,976	1,895	17,803
Others	2,640	2,506	23,782
Total of tax loss carryforwards and temporary differences	12,378	11,986	111,510
Less valuation allowance for tax loss carryforwards	(1,499)		(13,501)
Less valuation allowance for temporary differences	(647)		(5,832)
Total valuation allowance	(2,146)	(2,334)	(19,333)
Deferred tax assets	10,232	9,652	92,177
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,842	6,192	43,627
Special advanced depreciation	883	931	7,952
Others	229	287	2,061
Deferred tax liabilities	5,954	7,410	53,640
Net deferred tax assets	¥ 4,278	¥ 2,242	\$ 38,537

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2019, were as follows:

	Millions of Yen						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
March 31, 2019							
Deferred tax assets relating to tax loss carryforwards	¥ 2	¥ 5	¥ 3	¥ 59	¥ 140	¥ 1,767	¥ 1,976
Less valuation allowances for tax loss carryforwards	(2)	(5)	(3)		(3)	(1,486)	(1,499)
Net deferred tax assets relating to tax loss carryforwards				59	137	281	477

	Thousands of U.S. Dollars						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
March 31, 2019							
Deferred tax assets relating to tax loss carryforwards	\$ 15	\$ 48	\$ 28	\$ 529	\$ 1,264	\$ 15,919	\$ 17,803
Less valuation allowances for tax loss carryforwards	(15)	(48)	(28)		(32)	(13,378)	(13,501)
Net deferred tax assets relating to tax loss carryforwards				529	1,232	2,541	4,302

In addition to the above, the Azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million (\$1,633 thousand) at March 31, 2019, and ¥181 million at March 31, 2018.

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, 2019 and 2018, is as follows:

	2019	2018
Normal effective statutory tax rate	30.5%	30.8%
Expenses not deductible for income tax purposes	0.8	1.3
Tax credits for qualified expenses	(3.4)	(3.2)
Valuation allowance	(0.3)	(4.7)
Amortization of goodwill		0.1
Others—net	(0.3)	0.7
Actual effective tax rate	27.3%	25.0%

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

Other income (expenses)—others—net for the years ended March 31, 2019 and 2018, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Expenses for office relocation	¥ (8)	¥ (32)	\$ (70)
Loss on valuation of investment security		(20)	
Other	167	133	1,501
Total	¥ 159	¥ 81	\$ 1,431

## 12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,897 million (\$107,178 thousand) and ¥11,262 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, were ¥5,629 million (\$50,713 thousand) and ¥5,516 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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 1,030	¥ 764	\$ 9,282
Due after one year	1,858	1,655	16,735
Total	¥ 2,888	¥ 2,419	\$ 26,017

#### (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, 2019		
	2019			2018					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 68,134	¥ 68,134		¥ 68,640	¥ 68,640		\$ 613,823	\$ 613,823	
Notes and accounts receivable—trade	93,748	93,748		91,420	91,420		844,580	844,580	
Investment securities	20,846	20,846		26,008	26,008		187,799	187,799	
Total	¥ 182,728	¥ 182,728		¥ 186,068	¥ 186,068		\$ 1,646,202	\$ 1,646,202	
Short-term borrowings	¥ 9,498	¥ 9,498		¥ 10,096	¥ 10,096		\$ 85,569	\$ 85,569	
Current portion of long-term debt	482	482		190	190		4,343	4,343	
Notes and accounts payable—trade	40,102	40,102		41,498	41,498		361,278	361,278	
Long-term debt	640	640		1,074	1,074		5,769	5,769	
Total	¥ 50,722	¥ 50,722		¥ 52,858	¥ 52,858		\$ 456,959	\$ 456,959	

#### 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, 2019
	2019	2018	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 735	¥ 738	\$ 6,623

### (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, 2019								
Cash and cash equivalents	¥ 68,134				\$ 613,823			
Notes and accounts receivable—trade	89,832	¥ 3,912	¥ 4		809,300	\$ 35,244	\$ 36	
Total	¥ 157,966	¥ 3,912	¥ 4		\$ 1,423,123	\$ 35,244	\$ 36	

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.

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 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, 2019			
	2019				2018							
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	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
Foreign currency forward contracts:												
Selling U.S. dollars					¥ 533		¥ 3	¥ 3				
Buying U.S. dollars	¥ 330		¥ 2	¥ 2	383		(9)	(9)	\$ 2,976		\$ 15	\$ 15

### Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2019		
		2019			2018					
		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	¥ 531		¥ 5	¥ 580	¥ 184	¥ 41	\$ 4,784		\$ 44
Selling G.B. pounds	Receivables				35					
Buying IN rupee	Payables				155		20			

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, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (2,338)	¥ 5,464	\$ (21,060)
Reclassification adjustments to profit or loss	(2,219)	(635)	(19,988)
Amount before income tax effect	(4,557)	4,829	(41,048)
Income tax effect	1,378	(1,477)	12,408
Total	¥ (3,179)	¥ 3,352	\$ (28,640)
Deferred (loss) gain on derivatives under hedge accounting:			
Adjustments arising during the year	¥ (56)	¥ 17	\$ (503)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(56)	17	(503)
Income tax effect	14	(4)	125
Total	¥ (42)	¥ 13	\$ (378)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (967)	¥ 524	\$ (8,709)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(967)	524	(8,709)
Total	¥ (967)	¥ 524	\$ (8,709)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (366)	¥ (337)	\$ (3,297)
Reclassification adjustments to profit or loss	2,763	221	24,889
Amount before income tax effect	2,397	(116)	21,592
Income tax effect	(731)	95	(6,580)
Total	¥ 1,666	¥ (21)	\$ 15,012
Total other comprehensive income	¥ (2,522)	¥ 3,868	\$ (22,715)



## 18. SUBSEQUENT EVENTS

### a. Cancellation and Repurchase of Treasury Shares

Azbil implemented the following matters which was resolved at the Board of Directors' meeting held on May 10, 2019.

#### (1) Cancellation of Treasury Shares

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

- (a) Type of shares canceled: Common stock of Azbil
- (b) Number of shares canceled: 3,300,000 shares (2.2% of total number of issued shares before cancellation)
- (c) Total number of issued shares after cancellation: 145,200,884 shares
- (d) Cancellation date: May 31, 2019

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

#### (2) Repurchase of Azbil's Own Shares

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

- (a) Reason for share repurchase: Taking into consideration business results 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.
- (b) Type of shares to be repurchased: Common stock of Azbil
- (c) Total number of shares to be repurchased: Up to 3,800,000 shares  
(2.6% of total number of common stock issued, excluding treasury shares)
- (d) Total amount of repurchase: Up to ¥10,000 million (\$90,090 thousand)
- (e) Period of repurchase: From May 13, 2019 to October 31, 2019
- (f) Method of repurchase: Market transactions on the Tokyo Stock Exchange

### b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at Azbil's shareholders' meeting held on June 25, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥23.0 (\$0.21) per share	¥ 3,340	\$ 30,086

The total cash dividends approved at Azbil's shareholders' meeting held on June 25, 2019, include the dividends of ¥46 million (\$412 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							
	2019							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	¥ 119,164	¥ 98,351	¥ 44,484	¥ 261,999	¥ 56	¥ 262,055		¥ 262,055
Intersegment sales or transfers	337	1,039	356	1,732	6	1,738	¥ (1,738)	
Total	¥ 119,501	¥ 99,390	¥ 44,840	¥ 263,731	¥ 62	¥ 263,793	¥ (1,738)	¥ 262,055
Segment profit (loss)	¥ 12,421	¥ 12,211	¥ 2,061	¥ 26,693	¥ 2	¥ 26,695	¥ (5)	¥ 26,690
Segment assets	68,622	75,679	29,746	174,047		174,047	101,471	275,518
Other:								
Depreciation	1,281	2,121	765	4,167		4,167		4,167
Increase in property, plant and equipment and intangible assets	2,408	3,255	700	6,363		6,363		6,363
Impairment losses of assets		21	66	87		87		87

	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*	64,660	71,724	30,977	167,361		167,361	¥ 106,444	273,805
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

\* “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. are effective for annual periods beginning on or after April 1, 2018. The Azbil Group retrospectively applied the revised accounting standards effective April 1, 2018, to the segment assets as of March 31, 2018.

	Thousands of U.S. Dollars							
	2019							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	\$ 1,073,549	\$ 886,044	\$ 400,761	\$ 2,360,354	\$ 502	\$ 2,360,856		\$ 2,360,856
Intersegment sales or transfers	3,036	9,361	3,207	15,604	56	15,660	\$ (15,660)	
Total	\$ 1,076,585	\$ 895,405	\$ 403,968	\$ 2,375,958	\$ 558	\$ 2,376,516	\$ (15,660)	\$ 2,360,856
Segment profit (loss)	\$ 111,902	\$ 110,012	\$ 18,567	\$ 240,481	\$ 20	\$ 240,501	\$ (49)	\$ 240,452
Segment assets	618,220	681,792	267,986	1,567,998	4	1,568,002	914,147	2,482,149
Other:								
Depreciation	11,532	19,112	6,892	37,536		37,536		37,536
Increase in property, plant and equipment and intangible assets	21,694	29,326	6,305	57,325		57,325		57,325
Impairment losses of assets		188	594	782		782		782

Note: Corporate assets of ¥101,471 million (\$914,147 thousand) for the year ended March 31, 2019, 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						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 215,345	¥ 20,415	¥ 9,763	¥ 5,397	¥ 8,512	¥ 2,623	¥ 262,055

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

Thousands of U.S. Dollars						
2019						
Japan	Asia	China	North America	Europe	Other	Total
\$ 1,940,041	\$ 183,918	\$ 87,959	\$ 48,623	\$ 76,680	\$ 23,635	\$ 2,360,856

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

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

Millions of Yen						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 23,445	¥ 1,948	¥ 869	¥ 103	¥ 450	¥ 151	¥ 26,966

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

Thousands of U.S. Dollars						
2019						
Japan	Asia	China	North America	Europe	Other	Total
\$ 211,218	\$ 17,551	\$ 7,830	\$ 928	\$ 4,047	\$ 1,360	\$ 242,934

### (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

March 31, 2019

Amortization of goodwill Not applicable

Goodwill at March 31, 2019 Not applicable

March 31, 2018

Millions of Yen								
	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								

## 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, 2019, 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, 2019, 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 20, 2019  
(June 25, 2019 as to Note 18.b)

Member of  
Deloitte Touche Tohmatsu Limited



# azbil Group Companies Data

(As of March 31, 2019)

## 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

- **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

- **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

- **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

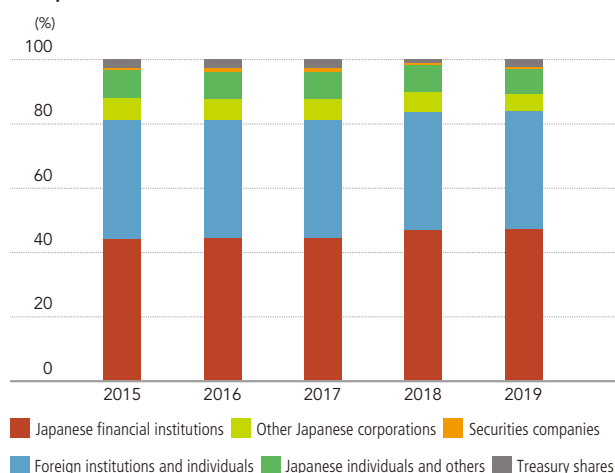
(As of March 31, 2019)

## 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	9,607
Stock listing	Tokyo Stock Exchange, 1st Section
Ticker symbol number	6845
Stock information	Shares of Common Stock Issued 148,500,884*
	Share unit number 100
	Shareholders 7,571
Transfer agent	Mizuho Trust & Banking Co., Ltd.

\* The total number of shares of common stock issued increased by 74,250,442 due to the 2-for-1 stock split implemented on October 1, 2018.

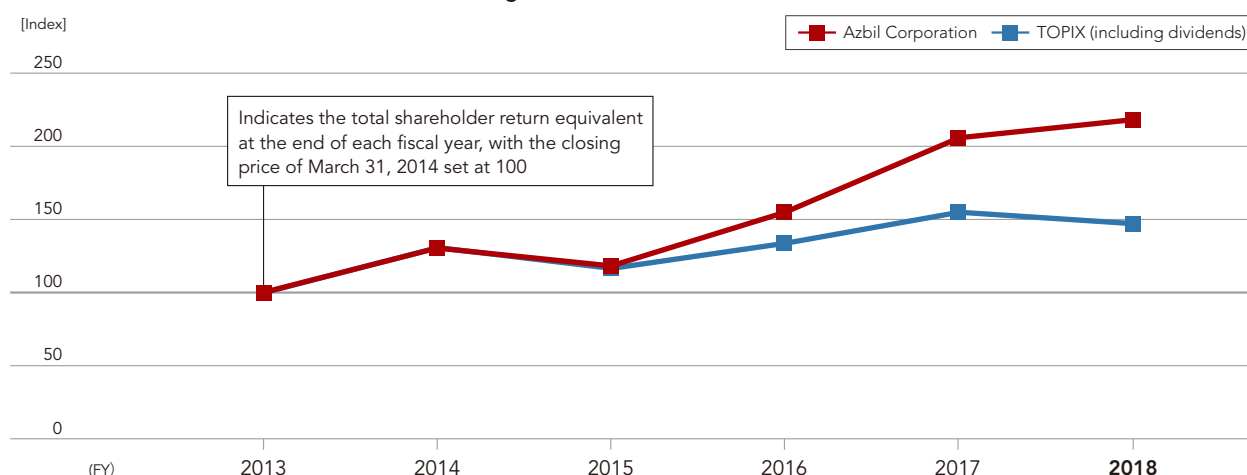
## Composition of Shareholders



## Major Shareholders (Top 10)

	Number of shares held (thousands)	Percentage of Total Shares Issued (%)
Meiji Yasuda Life Insurance Co.	10,428	7.18
The Master Trust Bank of Japan, Ltd. (Trust account)	10,291	7.08
SSBTC CLIENT OMNIBUS ACCOUNT	9,383	6.46
Japan Trustee Services Bank, Ltd. (Trust account)	8,703	5.99
JPMC Oppenheimer Jasdec Lending Account	4,637	3.19
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	4,631	3.18
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,405	3.03
State Street Bank and Trust Company 505025	3,768	2.59
Nippon Life Insurance Company	3,739	2.57
National Mutual Insurance Federation of Agricultural Cooperatives	3,101	2.13

## Total Shareholder Return/Common Stock Price Range




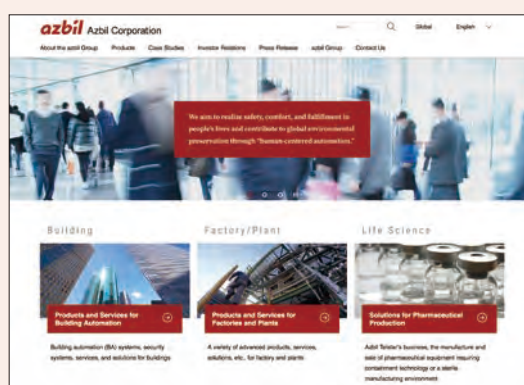
Fiscal Year	2013	2014	2015	2016	2017	2018
Year-end closing price (yen)	1,274.0	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0
Highest price (yen)	1,280.5	1,677.5	1,750.0	1,927.5	2,655.0	2,775.0
Lowest price (yen)	935.0	1,150.0	1,309.0	1,347.5	1,772.5	1,949.0

\* On October 1, 2018, the Company implemented a 2-for-1 stock split for shares of common stock. Above figures for stock prices and total shareholder return have been recalculated to take the stock split into account.



For more than 100 years, Azbil has deployed its measurement and control automation technologies to create environments where people can live comfortably and work with peace of mind. Since July 2018, we have been building a global brand through the launch of new corporate advertisements, “Azbil - Going Beyond Automation.” These advertisements convey our vision of forging ahead toward a bright future together with customers using automation technologies.

 **Azbil Corporation Website** <https://www.azbil.com>



Contact

**Investor Relations,**  
**Group Management Headquarters,**  
**Azbil Corporation**  
E-MAIL [azbil-ir@azbil.com](mailto:azbil-ir@azbil.com)  
TEL 81-3-6810-1031 FAX 81-3-5220-7278

# *azbil*



All trademarks, logos, and company names mentioned are property of Azbil Corporation or their respective owners.

Please note in advance the contents in this report are subject to change without a prior notice.  
This report is printed on FSC®-certified paper.