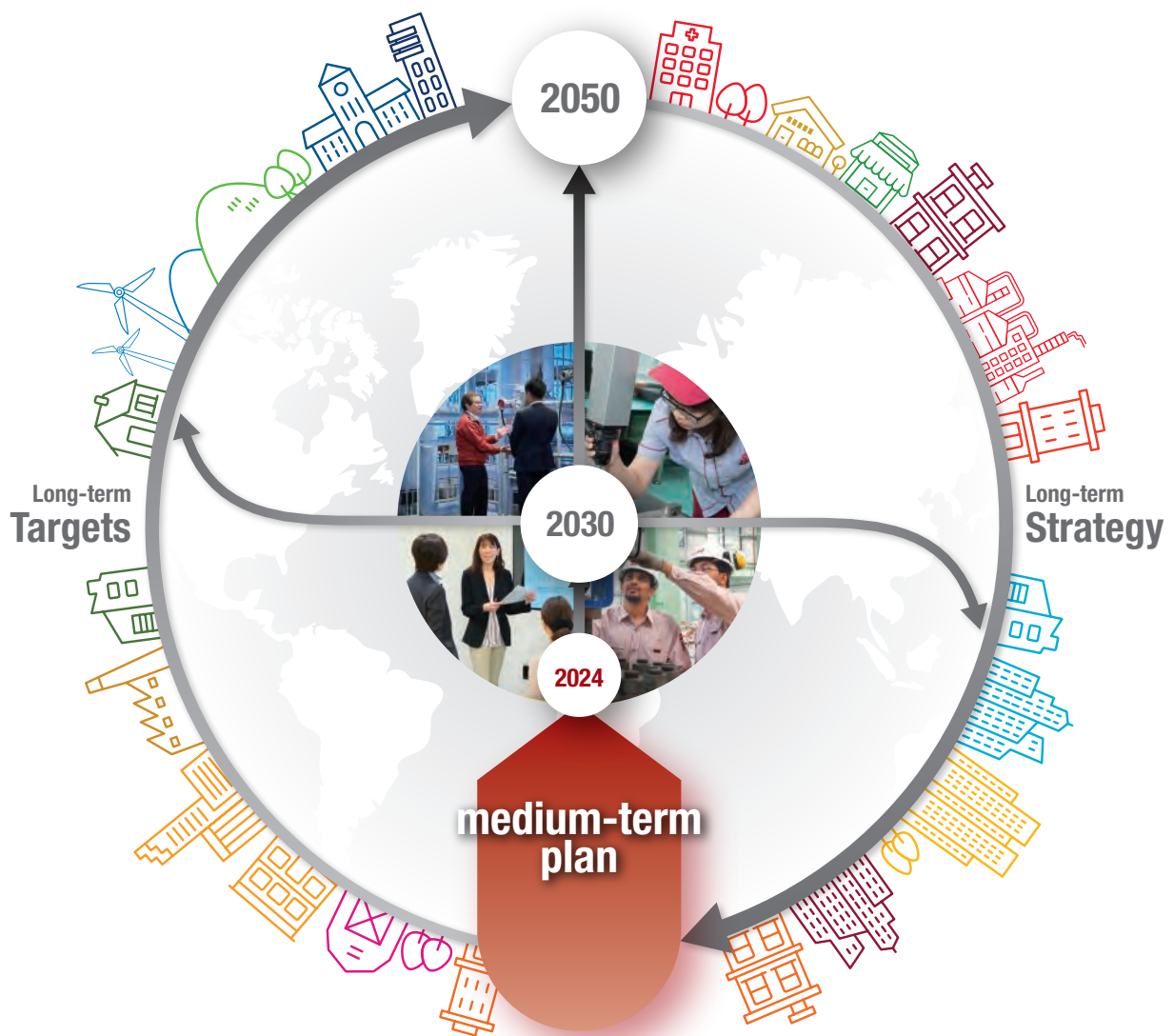


azbil report 2022



We want to communicate our value creation story entitled “Automation.”

The azbil Group’s philosophy of “human-centered automation” seeks harmony between humans and machines and between human ingenuity and technology through the use of advanced measurement and control. Based on our philosophy, by incorporating technological innovations like the IoT, AI, big data, and cloud computing, we continuously provide unique azbil Group value in various environments, from office buildings to plants and factories, and in people’s everyday lives.

In this integrated report we describe the financial and non-financial capital that is the source of our value creation, and we tell the story of our growth along the path to realizing our long-term vision for the year 2030.



Editorial policy

This is an integrated report that summarizes the value creation story of the azbil Group.

The report combines, in an easily understandable way, financial and non-financial information of the sort that was previously published separately in an annual report and CSR report. This integrated report is circulated to various stakeholders, including investors and shareholders, customers, business partners, employees, and local communities where we do business.

In editing the report, we have referred to the International Integrated Reporting Framework of the International Integrated Reporting Committee (IIRC) and Value Co-creation Guidance from Japan’s Ministry of Economy, Trade and Industry. Detailed financial information is available in our Securities Report and governance information is provided in our Corporate Governance Report.

Scope of the report

Azbil Corporation and its consolidated subsidiaries

Period of the report

From April 1, 2021 through March 31, 2022 (although some post-April 2022 information has been included)

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Additional notes

Plans, objectives, strategies, and other statements in this report that are not facts reflect the forecasts and plans of management at the time of editing based on the information available. Such statements do not guarantee future performance, and outcomes may differ materially depending on various important factors. These include, but are not limited to, the following.

- (1) Economic conditions surrounding the azbil Group, exchange rate fluctuations, capital investment trends, etc.
- (2) Changes in our ability to continuously provide products and services that are acceptable to our customers amid severe competition and under condition of rapid technological innovation and global economic development.

For details, see pp. 86–87 for business-related and other risks.

Financial data and financial statements were prepared based on Japanese GAAP, and amounts have been rounded. Environmental data such as CO₂ emissions have also been rounded.

Forms of Value Creation

1 — Evolving Automation

We apply the value gained through automation to a wide range of customer needs and to the solution of problems that society faces.

Expanding our automation business in three areas

The azbil Group has been in the automation business for more than a century, focusing on measurement and control technology. Our businesses serve various areas of society, industry, and daily life, ranging from the Building Automation (BA) business, for control of the air conditioning and other aspects of large buildings, to the Advanced Automation (AA) business, providing systems and equipment necessary for production in the manufacturing industry, to the Life Automation (LA) business, which supports lifelines such as gas and water supply and the manufacture of pharmaceuticals in the field of life sciences.

Prospects for advanced automation technology

In automation, the fundamentals of control are that sensors detect the various conditions, such as temperature and pressure, of the controlled object, and controllers, in order to meet the set target values for these conditions, make decisions which are converted by actuators into mechanical action (electrical, hydraulic, pneumatic, etc.) to maintain the controlled object in a constant state.

There are many different types of automation, depending on the object to be controlled, and the requirements for automation are becoming more advanced

and complex every year due to changes in the controlled objects and an increasing number of factors to be considered.

Accumulation of the azbil Group's unique technology, knowledge, and expertise

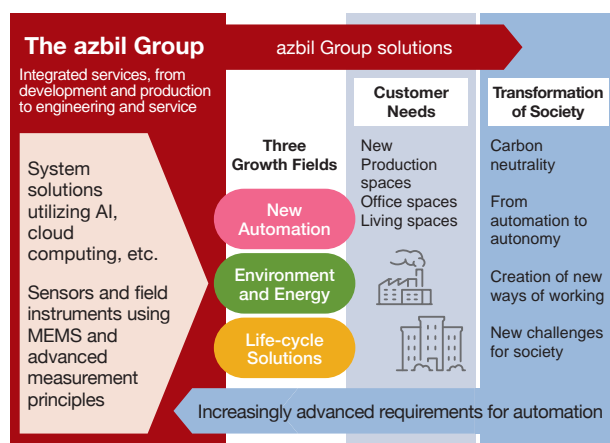
To meet the demand for advanced automation, we must have not only high-precision, high-speed sensors and other sophisticated devices and field equipment, but also systems and applications that utilize AI and big data to judge and control the information coming from our devices and equipment, as well as the engineering and maintenance technology and expertise to install the devices and systems in the field and keep them in working order.

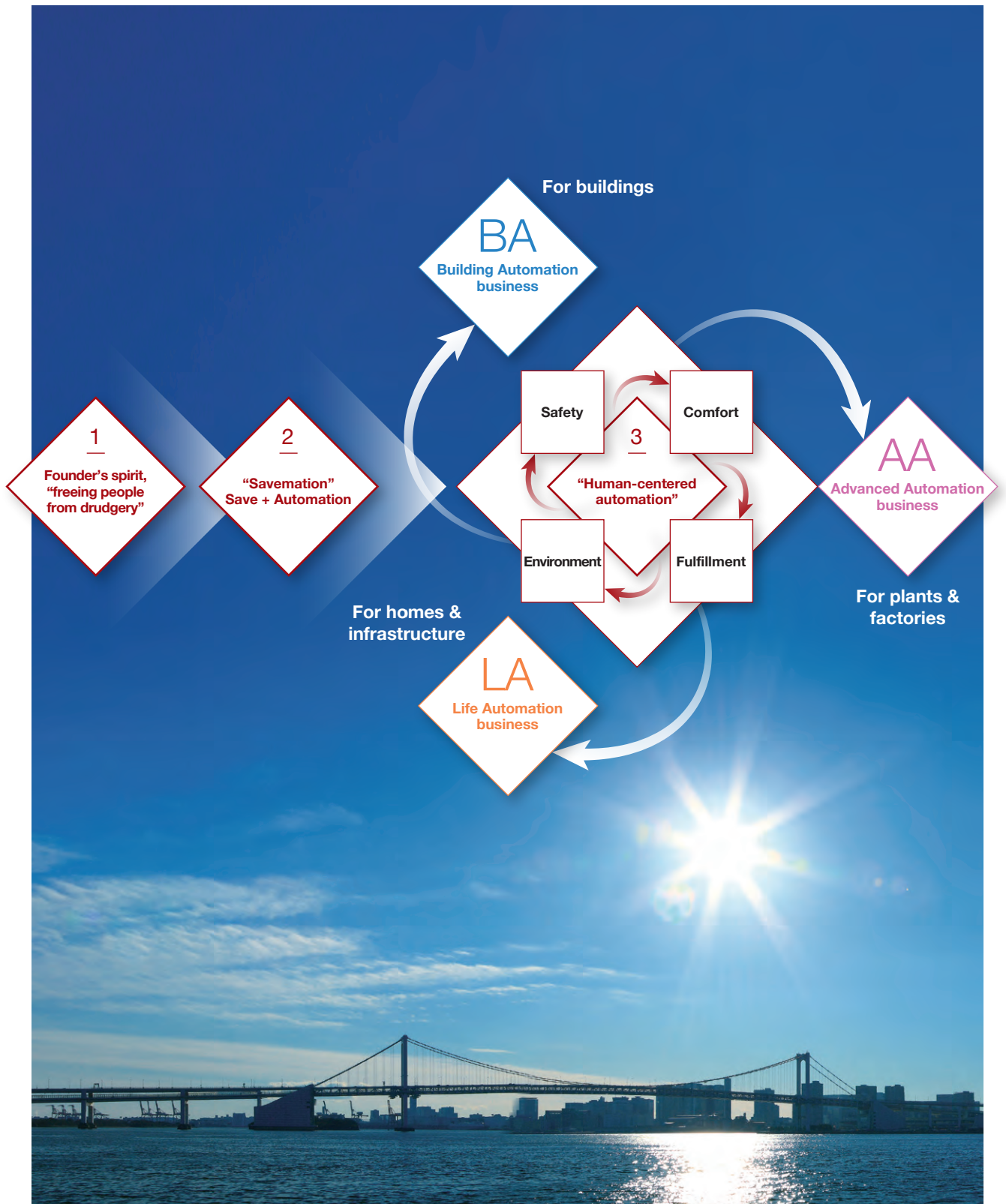
Since its founding in 1906, the azbil Group has always worked to solve problems at our customers' sites through the use of automation, accumulating a variety of knowledge and expertise that can only be obtained onsite, and proactively adopting technological developments like AI, big data, and cloud computing. We have continued to develop the azbil Group's unique automation capabilities by combining the latest technology, expert onsite knowledge, and highly skilled human resources.

In recent years, the needs of society and of our customers around the world have been evolving due to changes in society and the environment, including global warming, the coronavirus pandemic, work-style reforms, and advances in manufacturing technology; and with these changes the role that automation can play is expanding.

Contributing to a sustainable society through new technology

In this environment, with the BA, AA, and LA businesses focusing on three growth fields (New Automation, Environment and Energy, and Life-cycle Solutions) having a common foundation of automation technology, the azbil Group aims to provide "safety, comfort, and fulfillment," to contribute to global environmental preservation, to meet the new needs of society and of our customers, and to provide solutions to emerging problems. In this way we will make contributions that lead "in series" toward a sustainable society while also sustaining our own growth.





2 — History of the azbil Group

Helping to improve the sustainability of industry and society over the past century

Exploring new value creation through automation

The azbil Group, founded in 1906, has established a Group philosophy that inherits the spirit of our founding philosophy. We seek both to create new value through automation and to contribute to the sustainability of industry and society by developing our business.

Helping Japan to industrialize with the founding principle of “freeing people from drudgery”

The azbil Group's history began in 1906 when the Yamatake Shokai company, an importer of machine tools, was founded by Takehiko Yamaguchi with the aim of “freeing people from drudgery.” Thereafter, Yamatake expanded its scope to industrial instruments, selling air conditioning control equipment and micro-switches in the 1950s, while at the same time focusing on independent development and domestic production of equipment.

Yamatake understood the need for automation and was quick to commercialize it, making significant contributions to the development of Japanese industry in the post-war recovery period and the period of rapid economic growth.

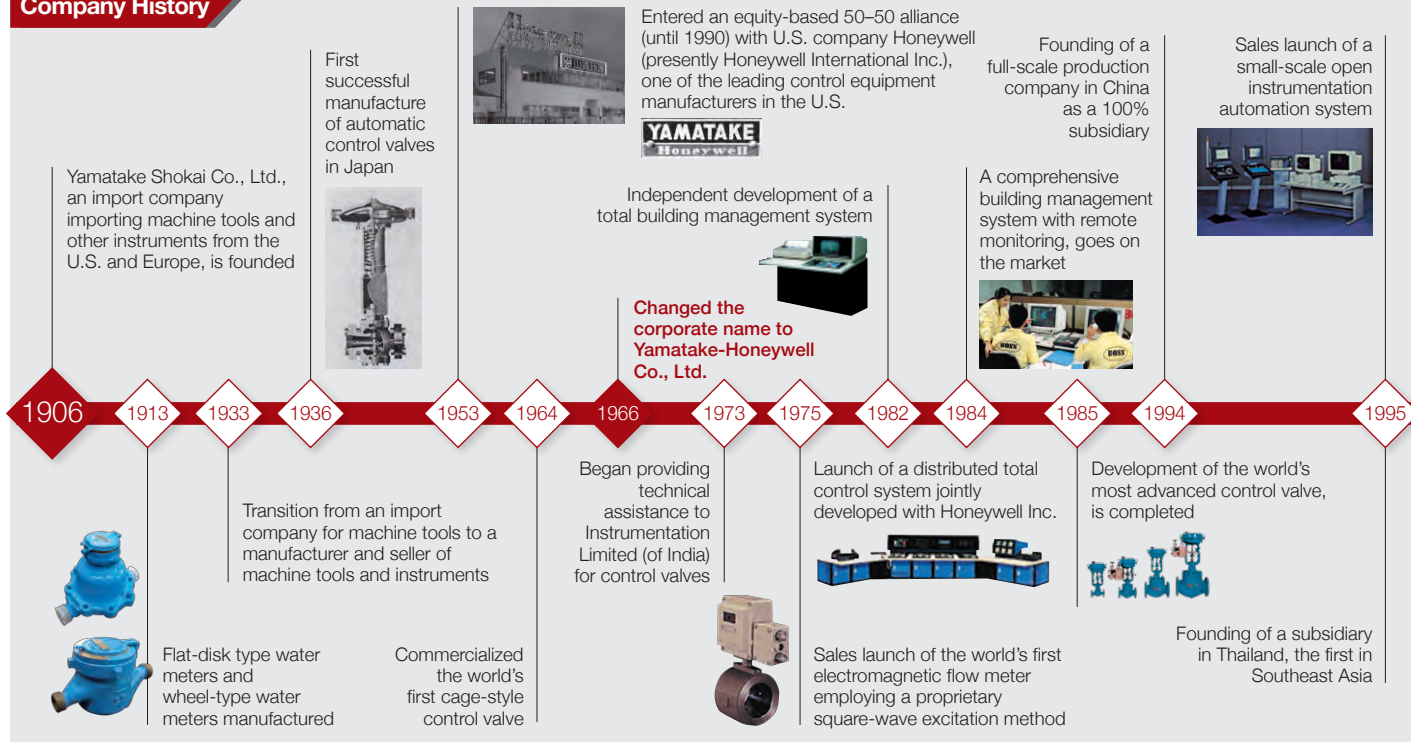


Takehiko Yamaguchi



Product lines that contributed to the development of Japanese industry

Company History



Creating value for a new era with the environmental consciousness, etc., of the Savemation concept

As a comprehensive automation supplier, Yamatake-Honeywell (now Azbil Corporation) grew and contributed to Japan's rapid economic growth through its air conditioning control systems for large buildings, process control systems for petrochemical plants, etc. However, the Japanese economy experienced a major slowdown as a result of the first oil crisis in 1973. In response, Yamatake-Honeywell established a new corporate philosophy, "Savemation,"* to help preserve the environment and meet society's need to save energy. The company's commitment to serving society by developing products and services that provide a range of value, such as energy efficiency through automation technology, has been rated highly in industrial circles.

* Save + Automation = Savemation

Group philosophy

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

azbil

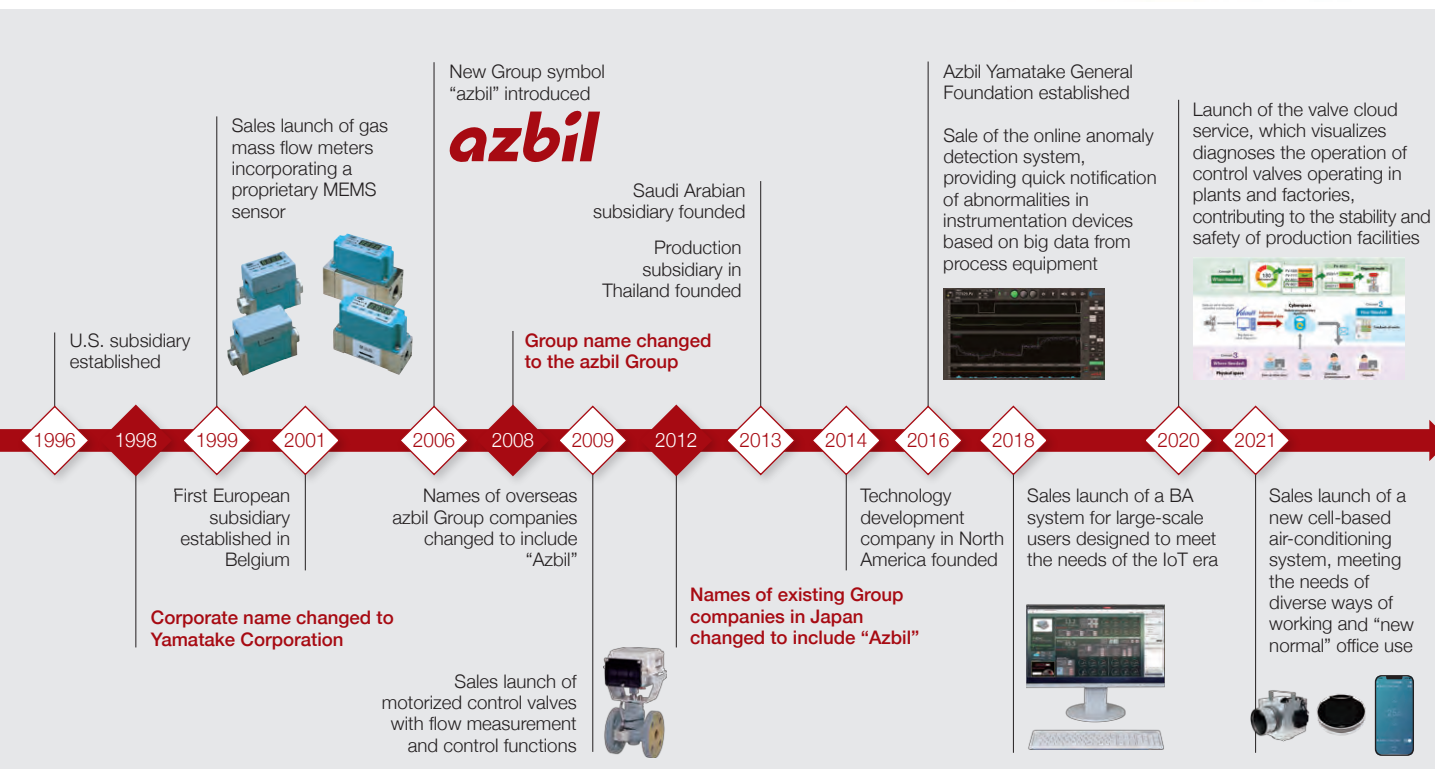
Meaning of "azbil"
automation • zone • builder

Using automation technology, we build zones in which safety, comfort, and fulfillment can flourish.

Contributing to the sustainability of industry and society through "human-centered automation"

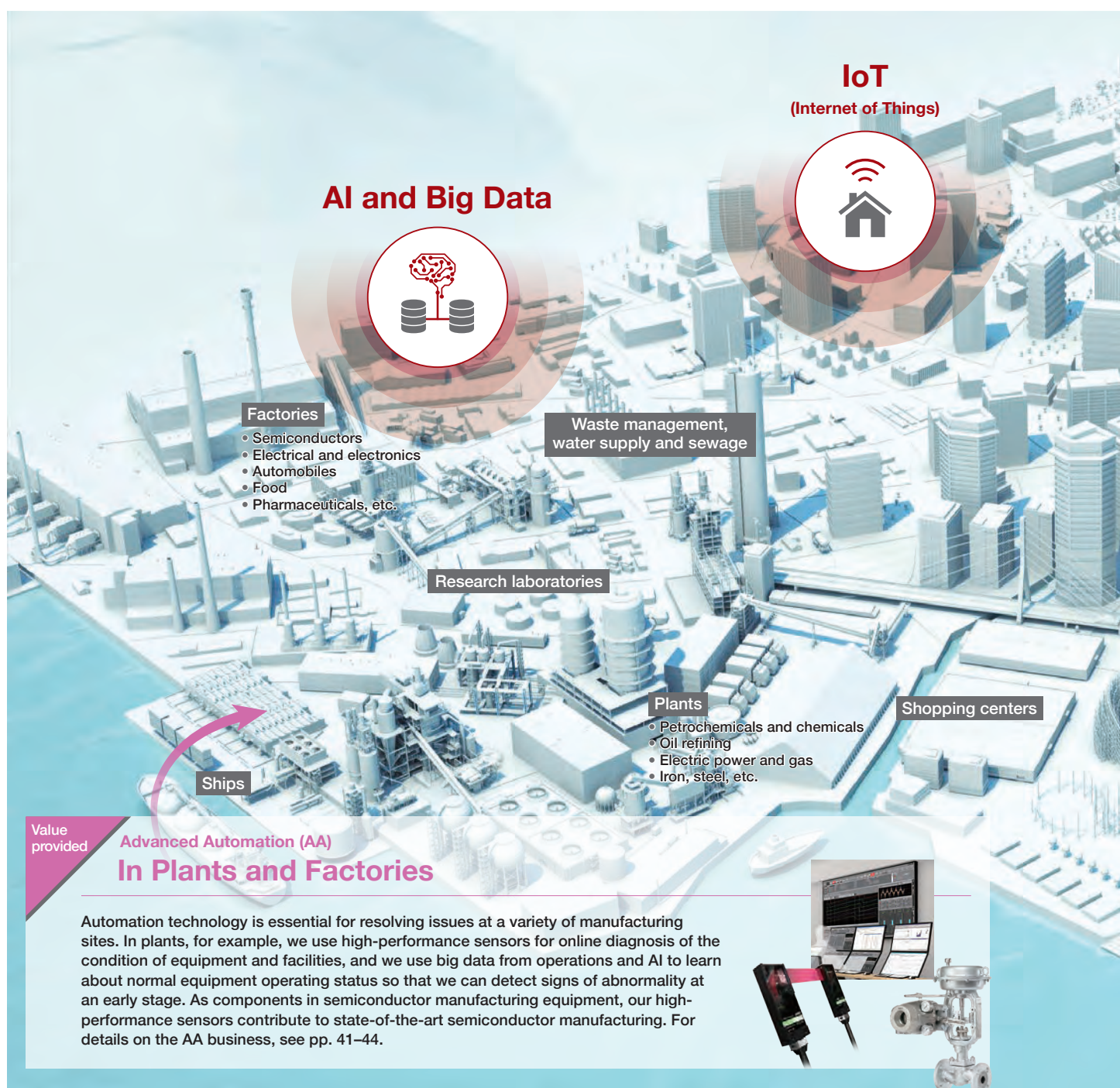
To welcome the 100th anniversary of its founding in 2006, Azbil Corporation launched a new group philosophy centered around the concept of "human-centered automation." This is a statement of Azbil's corporate will to bring about "safety, comfort, and fulfillment" for people in offices, factories, and houses, and "contribution to global environmental preservation," founded on the technology and know-how that we have cultivated over many years in advanced measurement and control technology and energy management.

Now, as the effects of global warming are becoming more apparent and the COVID-19 pandemic is causing changes in behavior, there is increasing concern about the sustainability of businesses, the Earth's environment, and society. With the goal of making contributions leading 'in series' to a sustainable society, the azbil Group in its second century continues to take on the challenge of creating new value while faithfully adapting the spirit of its founder.



3 — The azbil Group in Society

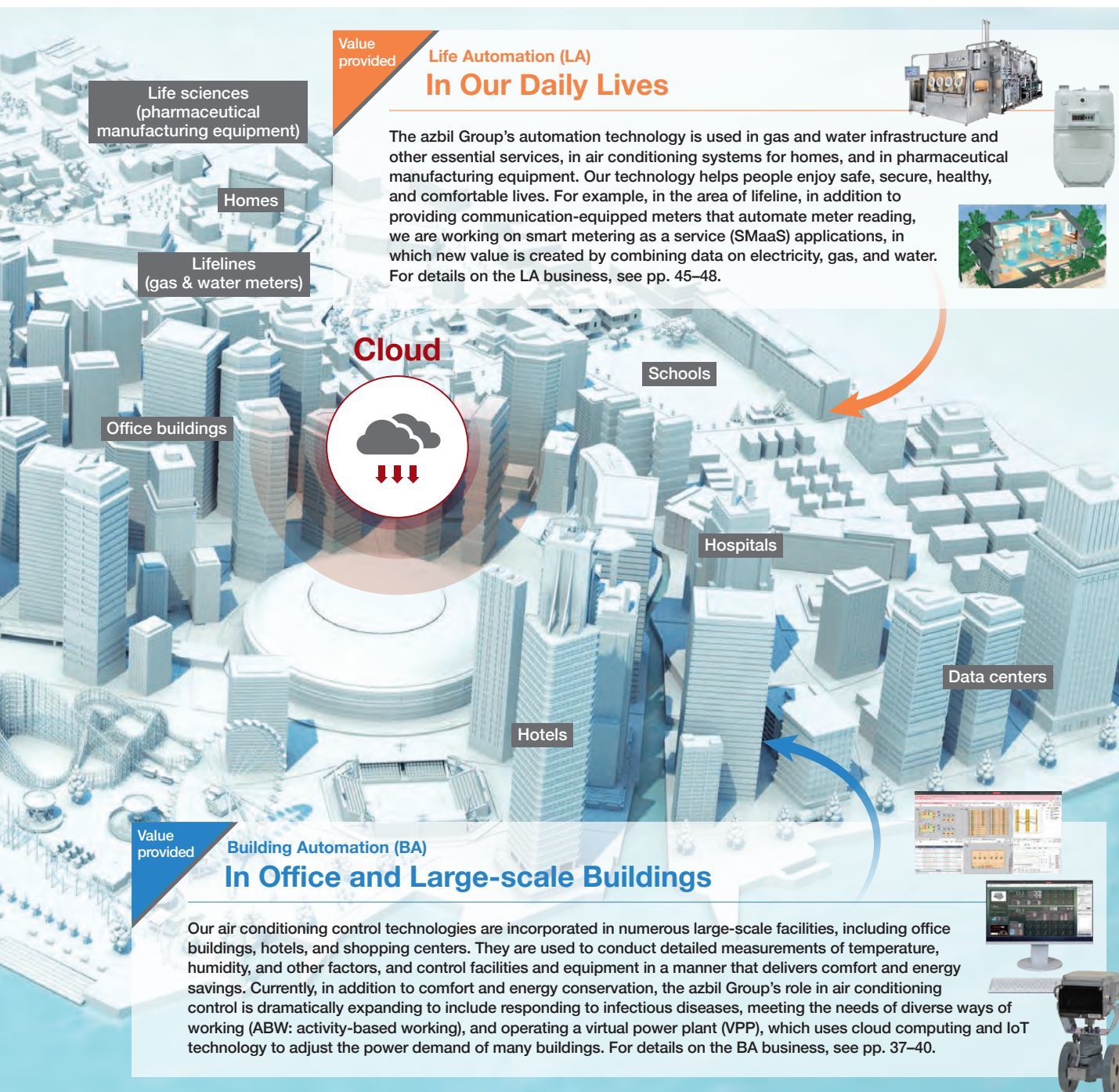
Bringing safety, comfort, and abundance to daily activity,
and offering sustainable solutions for industry and society



Automation for industry and daily living

Automation involves measuring various parameters like temperature and pressure and controlling them to achieve optimal conditions. We at the azbil Group apply our core automation technology—combined with such technological

innovations as the IoT, AI, big data, and cloud computing—to offices, plants, factories, and people's daily living. Our quest is to support both industrial development and people's daily lives.



4 — Growth Strategies

Growth strategies that address the changing expectations and roles of automation

Growth capitalizing on the expanding roles and business opportunities of automation

In Japan and around the world, the nature of society and industry as well as the requirements of consumers are changing dramatically, and a variety of new issues requiring resolution are emerging, such as the worldwide problem of climate change; changes in society, such as Japan's declining birthrate and aging population; rising demand for new industrial-sector products and services that will usher in a smart society; the rapid expansion of global safety and security needs and the need for remote

access due to the spread of the COVID-19 pandemic. To address these issues, the various capabilities of automation that contribute to labor reduction, energy efficiency, and the wise use of resources are attracting attention. In addition, the variables to be controlled are increasing and becoming more complex every year, further raising the value of automation. The azbil Group views these changes in the environment as opportunities for growth that will supplement the stable demand for maintenance and higher efficiency in existing business fields.

Changes in social issues

The needs of customers and society are evolving worldwide—with demands for high quality, safety, remote access, global decarbonization, etc. This is because of changes in society and in our environment, ranging from climate change and the "new normal" of pandemic life, to new ways of working, aging infrastructure, and the increasing sophistication of modern manufacturing.

Providing distinctive solutions in three growth fields where the azbil Group has key strengths

New Automation Field

Solving new challenges with new products and services

Environmental and Energy Field

Applying our proven strengths in energy efficiency and renewable energy

Maintaining long-term optimal operations and contributing to a sustainable society

Life-cycle Solutions Field

Supporting customers' assets over the long term
High value-added services using a network that leverages our business platform expanded and upgraded over the long term

Strengthen the engineering and service business foundation using DX; expand overseas

New Automation Field

In the midst of a changing business environment, this is a value-added field that helps customers to gain a competitive advantage (highly productive, comfortable, safe, and secure indoor spaces, etc.), improving the quality of indoor spaces and productivity at customer's sites

- Development of new business in the area of transition from automation to autonomy
- Development of new business in the areas of data utilization and DX

Environmental and Energy Field

The added value in this field lies in improving the quality of indoor spaces and productivity at customers' sites with minimum consumption of resources and energy. In this era of striving for carbon neutrality, it is important to minimize the use of energy and resources while improving the quality of indoor spaces and productivity, and the azbil Group will bring this to fruition.

- Development of new business by assisting customers' new initiatives to become carbon neutral by providing use of independent and distributed energy resources through an area energy network

Life-cycle Solutions Field

For long-term improvement of the quality of indoor spaces and productivity while minimizing resource and energy consumption at customers' sites over the long term, it is essential to properly maintain customers' assets over the long term.

- Development of new business by offering 24/7/365 solutions where there are insufficient personnel or systems to provide primary decision support or instructions in the event of an alarm or anomaly, or when complaints are received

For expansion

Making contributions that will lead “in series” to a sustainable society

The growth of the automation business, where new issues in society are viewed as business opportunities, is also a great opportunity to help achieve the SDGs. Accordingly, the azbil Group has made a medium-term plan for fiscal years 2021 to 2024 as the first step toward realizing our long-term targets for FY2030 and beyond with the slogan “Contributing ‘in series’ to the achievement of a sustainable society,” with the aim of achieving both our own growth and a sustainable society.

Focus on the three growth fields

In order to meet the new requirements arising from changes in various societal and industrial environments, and to grow along with society and our customers, the azbil Group is transforming its business model to one centered on three growth fields that share a common foundation of automation technology.

In the field of *new automation*, we will quickly respond to global issues and changes in customers’ needs born from changes in society and the business environment, including climate change, the coronavirus

pandemic, work-style reforms, aging infrastructure, and advances in manufacturing technology. Through automation, we will provide value in areas including high quality of products, safety, remote access, and decarbonization. These are areas in which we will carry out improvements in the quality of indoor spaces and productivity at customers’ sites.

Generally speaking, when added value is provided more energy and resources are consumed. However, the azbil Group is different because of its accumulated data and its products, services, and know-how that are effective in saving energy and resources. In the field of *environment and energy* we will respond to both the demands of society and the needs of our customers.

To contribute to a sustainable society, it is necessary to balance the aforementioned “improvements in the quality of indoor spaces and productivity” with resource and energy minimization in order to maintain optimal conditions over the long term. In the field of *life-cycle solutions* we will provide maintenance and other services to ensure the compatibility of these goals over the long term as appropriate for the life cycle of our customers’ assets.

To improve indoor spaces and productivity while minimizing resource use, and to do so over the long term is an ability unique to the azbil Group, thanks to its involvement in automation for more than a century, its accumulation of a great deal of data and know-how from society and customers’ sites, and its consistent pursuit of optimized human-centered indoor spaces through a business structure integrating support for everything from concept to design, construction, installation, engineering, and maintenance.

Steady implementation of growth measures through the medium-term plan

In FY2021, the first year of its medium-term plan, the azbil Group focused on expanding business in the three growth fields. We are also enlarging our customer base and increasing points of contact with customers, using means including collaboration with other companies. One example in the field of *environment and energy* is our collaboration in the green transformation (GX) initiative to achieve carbon neutrality. We are undertaking this initiative in addition to our separate involvement in DX-EGA, a next-generation energy management business.

Also, we have been strengthening the functions of the Fujisawa Technology Center, our central R&D base, in order to expand our lineup of product and service solutions. Going forward, by strengthening our DX-powered engineering and service platform, we will provide to society and our customers even more automation value that transcends domestic and international business domains in the three growth fields.

Expand business areas by means including collaboration with other companies

Accelerate GX and other business development efforts

Increase products and services that provide solutions

Strengthen capabilities for developing new system solutions, cloud applications, and devices

and growth

5 — Business Structure

Proactive investment in technology, equipment, and human resources in an integrated business structure

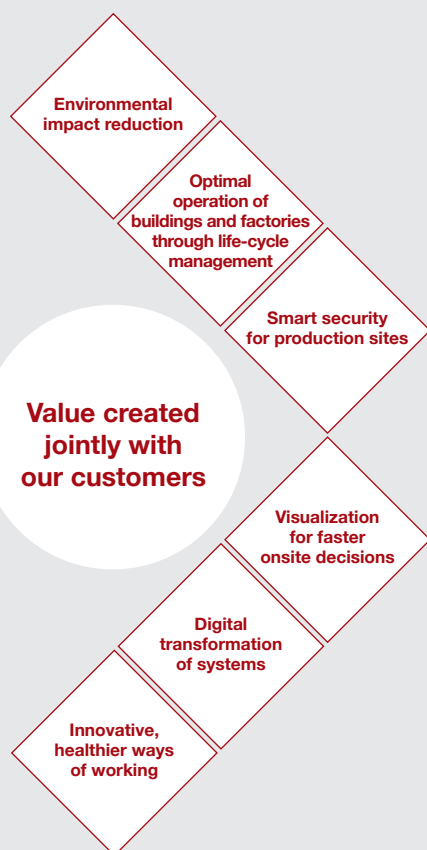


Further strengthening of an integrated system, from technology development to service

In order to continuously create and deliver automation that solves problems in society and meets customer requirements, we need not only a system for developing advanced technology for new products and services, but also a system for understanding issues at customer sites and delivering optimal solutions globally. To ensure consistent delivery, a system that covers everything from production to consulting and sales, engineering and

installation, and post-delivery services is required.

Through both proactive R&D and capital investment, as well as digital transformation in sales, service, and engineering, and through strengthening of network infrastructure and development of human capital (which has been attracting attention in recent years), the azbil Group is leveraging its strengths to fortify its technology research, product development capabilities, and integrated structure.



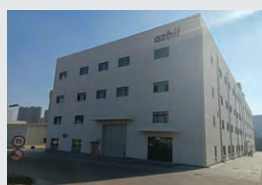
Strengthening of sales, engineering, and service networks, and digital transformation

We have bases that provide sales and services in 23 countries and regions. In addition to further strengthening our sales and service networks by increasing the number of overseas personnel and bases, we are promoting higher added value and efficiency through DX, for example by introducing and rolling out sales force automation (SFA) and marketing automation (MA) globally. We are improving our service delivery system by utilizing cloud computing for remote maintenance and other services. In addition, we have formed business alliances with other companies and are developing businesses in overseas regions, with the Strategic Planning & Development Office for Southeast Asia taking a central role.

Global production and procurement system

We have established a threefold production system with production bases in Japan, China, and Thailand, and we are working to fulfill our responsibilities to society in our supply chain, while also building an optimal production system for global business development.

Our Shonan Factory and Fujisawa Technology Center jointly play the role of “mother factory” in the global production system, in collaboration with other business sites. In addition, we constructed a new factory building at Azbil Control Instruments (Dalian) in China to meet growing global demand and to further advance and automate production processes.

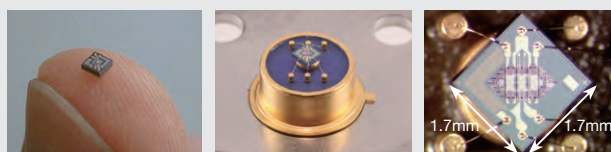


New factory building at Azbil Control Instruments (Dalian)

Human resource development

To identify issues at customers' sites and deliver optimal solutions, engineers with advanced skills and extensive knowledge are the key. The azbil Group is focusing on human resource development in parallel with the development of an integrated system from technology development to services.

For example, to train next-generation engineers for the IoT and AI era, we have instituted an engineer education program covering the latest developments in technology and emphasizing practical examples. We are working to strengthen the knowledge and technical skills required to create high value-added software and advanced engineering services. Also, we have also set human resource development goals as part of our own SDG-related targets, with the aim of having all employees develop and grow.



The independently developed MEMS sensor for gas flow measurement (micro flow sensor) Size: 1.7 × 1.7 × 0.5 mm

6 — Sustainability Management

Making contributions that lead “in series” to the achievement of a sustainable society

Identifying material issues (materiality) to be tackled over the long term

The azbil Group believes that in order to achieve sustainable growth as an enterprise, we must earn the trust of all stakeholders through the implementation of corporate activities based on CSR as the foundation of management. This belief has evolved from the spirit of our founder’s wish to “freeing people from drudgery” to the concept of “Savemation” (save + automation), which aimed to save energy in society and industry, and then to the azbil Group’s philosophy of “human-centered automation,” which is also expressed in our company name, “Azbil.”

The Group’s philosophy, which has been at the core of our DNA since our foundation, is in line with the U.N.’s Sustainable Development Goals (SDGs) and the concept of sustainability, and is the key to supporting the company’s sustainable growth.

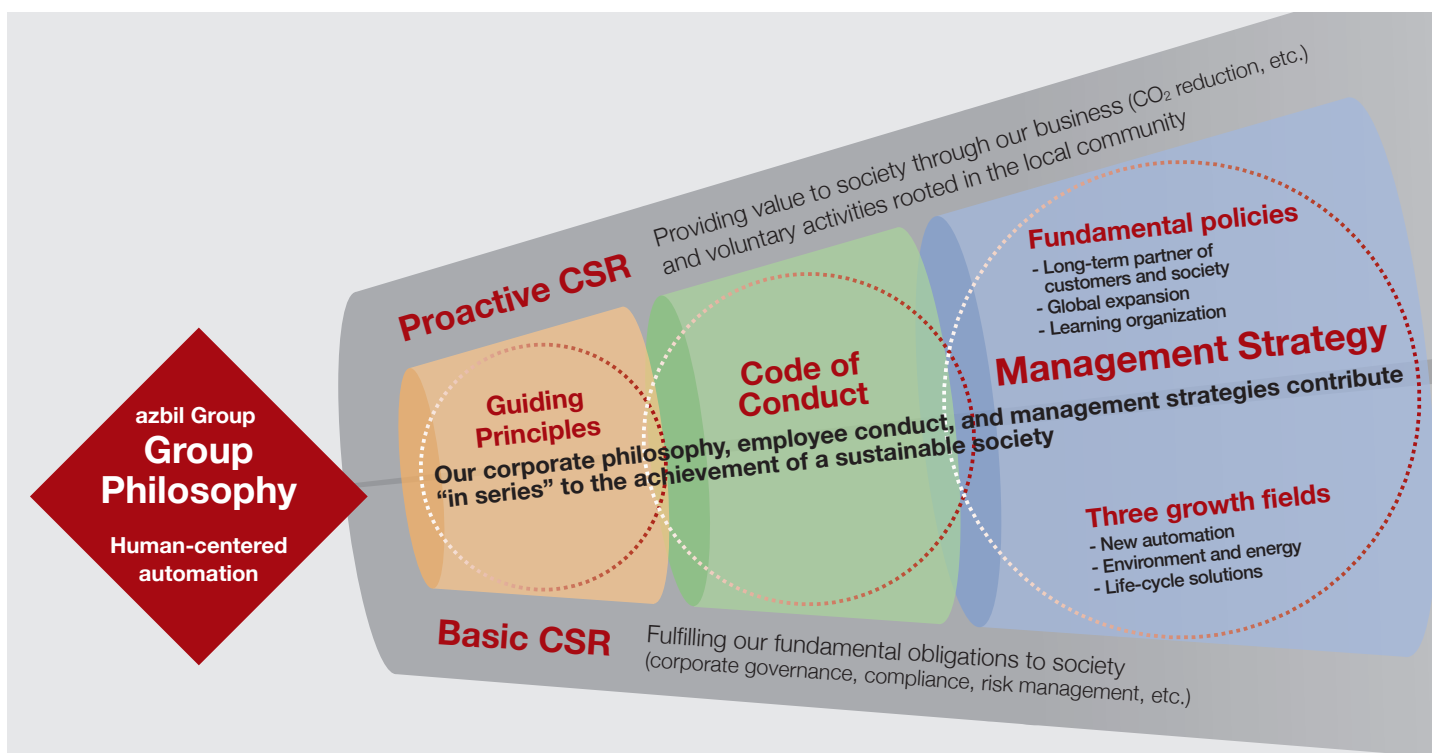
In order to make contributions that lead “in-series” to the achievement of a sustainable society through the

implementation of this philosophy, we formulated three fundamental policies,* began to advocate CSR management unique to the azbil Group based on both “proactive CSR” and “basic CSR,” and revised our Guiding Principles for azbil Group Business and Code of Conduct so that all Group employees can work in unity.

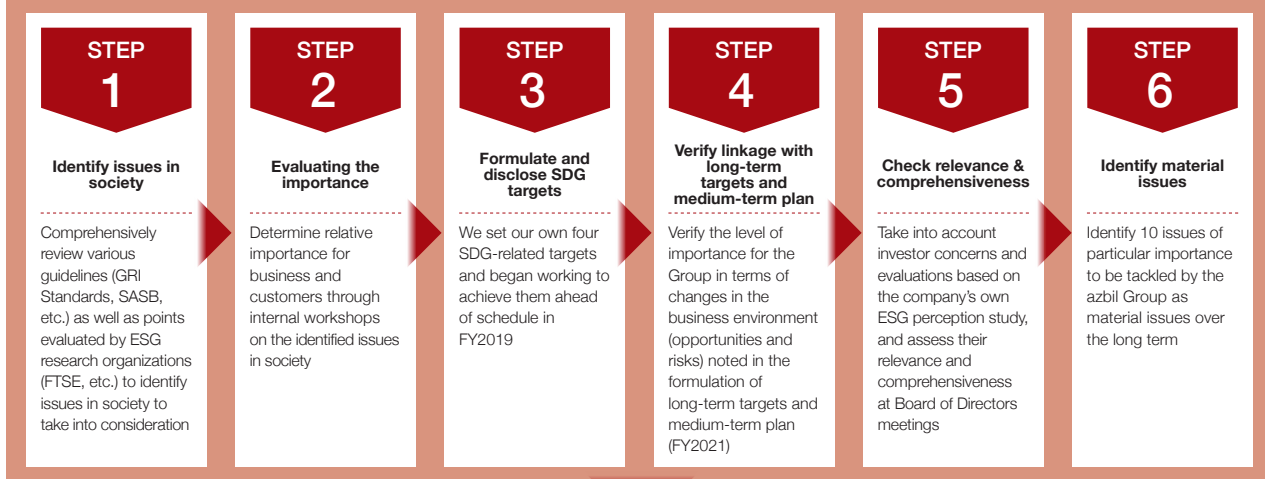
In August 2022, in the midst of a changing environmental factors and needs, including the needs for decarbonization and COVID-19 prevention, the azbil Group, guided by the Group philosophy, identified material issues to be tackled over the long term. We will further evaluate and verify the priority of the 10 issues we identified, set goals, and redouble our efforts using the azbil Group’s sustainability promotion system.

* Three fundamental policies

- Being a long-term partner for the customer and the community by offering solutions based on azbil’s technologies and products
- Taking global operations to the next level by expanding into new regions and a qualitative change of focus
- Being a corporate organization that never stops learning, so that we can continuously grow stronger



Identification of material issues to be tackled over the long term



Material issues	Our aim
Climate change	Help to solve environmental problems to achieve a decarbonized society
Resource recycling	Provide environmentally friendly products and services
Innovation	Seek new forms of automation to achieve a safe and comfortable society
Supply chain	Share CSR values (environment, human rights, etc.) within the supply chain
Contribute to local communities	Contribute to livable communities through community-based action
Human rights, safety, and health	Promote corporate activities based on "human-centered" values and health and well-being management
Learning and employee development	Develop a corporate culture as "an organization that never stops learning" and strengthen the foundations for education
Product safety and quality	Provide high-quality products and services that prioritize customer safety and security
Corporate governance	Continuously raise enterprise value through highly transparent management
Compliance	Fulfill our social responsibilities based on high corporate ethics



* To help preserve the Earth's environment by improving the quality and productivity of customers' indoor spaces and minimizing the consumption of energy used to do so, and to develop business that accomplishes both aims in Japan and abroad, thereby making contributions leading "in series" to the achievement of a sustainable society

The azbil Group's Value Creation Model

To address the changing issues faced by our customers and society, we have refined our technology and solutions by applying our measurement and control automation expertise together with the idea of constantly solving problems while keeping the focus on people.

The azbil Group is unique in its ability to create value with customers by working closely with them at their sites using its integrated system.

Operating Capital (Inputs)



Human capital

No. of employees 10,086
(as of March 31, 2022)
Annual No. of attendees at
Azbil Academy sessions*1
80,000
No. of individuals obtaining
official qualifications*2 2,700



Social and relationship capital

Sales and service bases
23 countries and regions
Domestic: 14 companies
Overseas: 45 companies



Intellectual capital

R&D expenses: approx. ¥56 billion
(FY2021–24 plan)
Capital investment in R&D sites:
Approx. ¥7 billion (FY2021–22)
Patents: 2,520 (as of March 31, 2022)



Manufacturing capital

Production bases
Domestic: 10 factories
Overseas: 6 factories



Natural capital

Total energy usage*3
59,606 MWh
Total water usage*4
110 million L



Financial capital

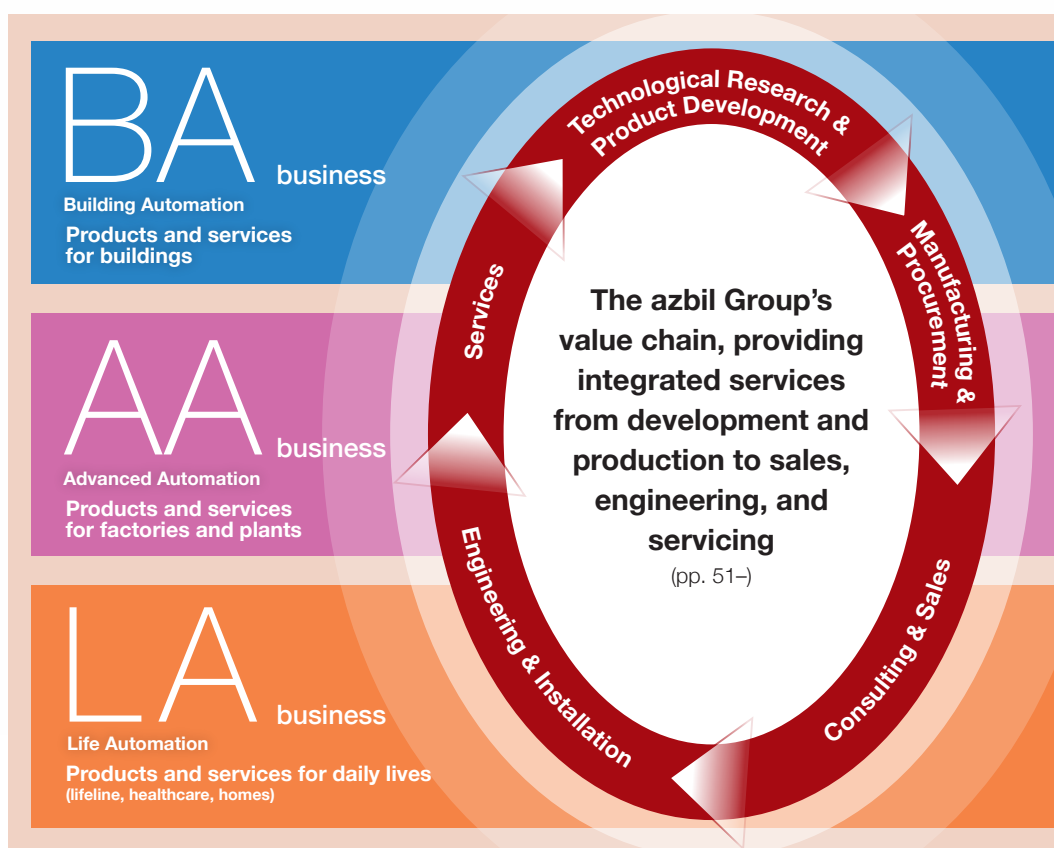
Issuer rating A+ (R&I)
(as of March 31, 2022)

*1 Lectures include general courses like CSR and other elective online courses. The number of students includes personnel of companies such as business partners and retailers in addition to Group companies.

*2 Of the official qualifications, this is the number obtained for qualifications that are considered important for business operations.

*3 Scope of calculation: Azbil Corporation and its consolidated subsidiaries

*4 Scope of calculation: Azbil Corporation, domestic consolidated subsidiaries, and major overseas production bases



Growth in the Three Growth Fields

- ◆ Long-term Targets (FY2030)
- ◆ FY2021–24 Medium-term Plan (pp. 31–)

Foundations Supporting Sustainable Growth

- ◆ The azbil Group's Approach to Sustainability (pp. 71–)

Environment

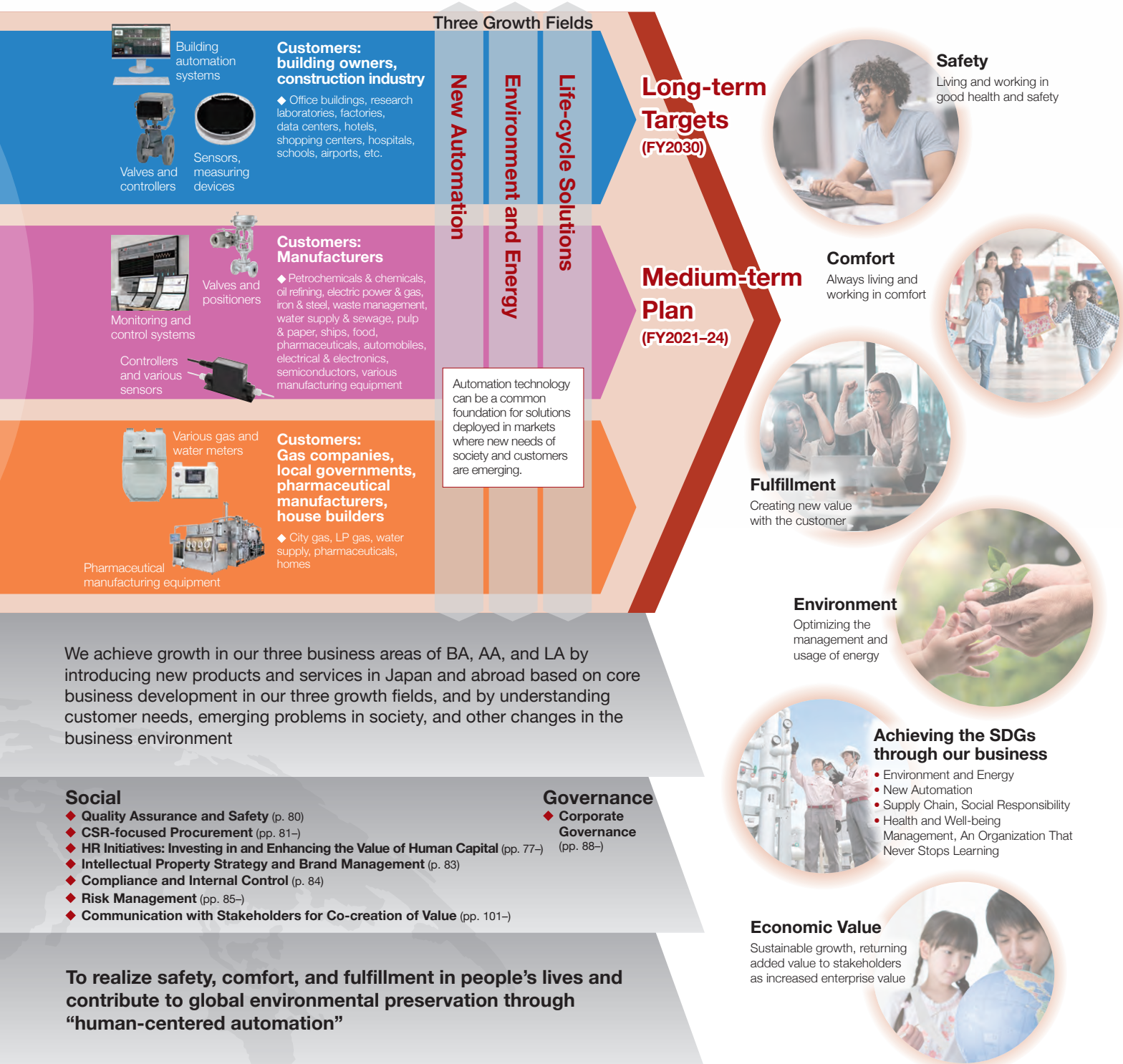
- ◆ Environmental Initiatives (pp. 73–)

azbil Group Philosophy

The azbil Group delivers products and services and works with its customers to solve social issues, thereby making contributions “in series” to a sustainable society, while also achieving sustainable growth for our business and increased enterprise value. With our new long-term targets and medium-term plan, we are strengthening the business foundations that underpin sustainability and making further operating capital investments in order to accelerate expansion in our three growth fields and to make the best use of our integrated system, which extends from the development stage through to servicing.

Main Product Lines (Outputs)

azbil Group Value Creation (Outcomes)



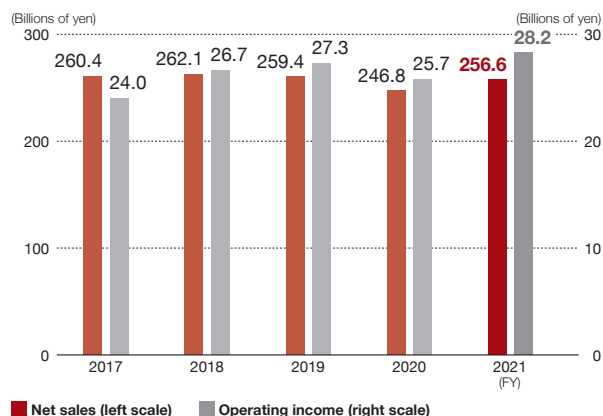
Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

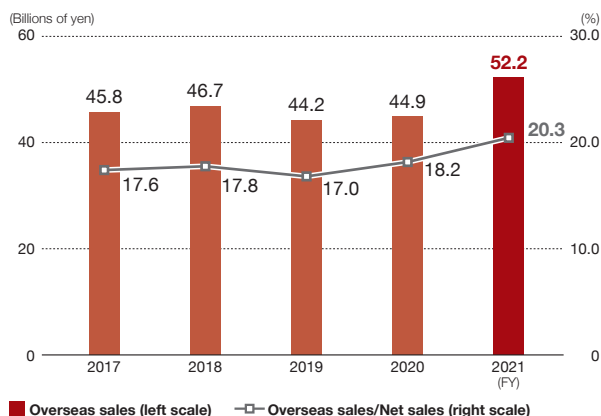
The company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Figures for net income per share (EPS) and dividends per share have been recalculated to reflect the number of shares after the stock split.

Financial Highlights

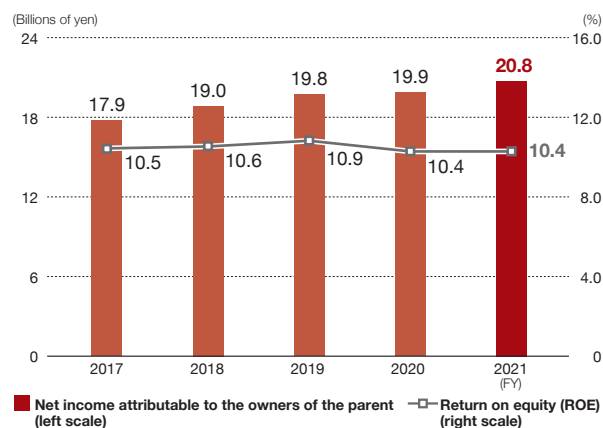
Net Sales, Operating Income



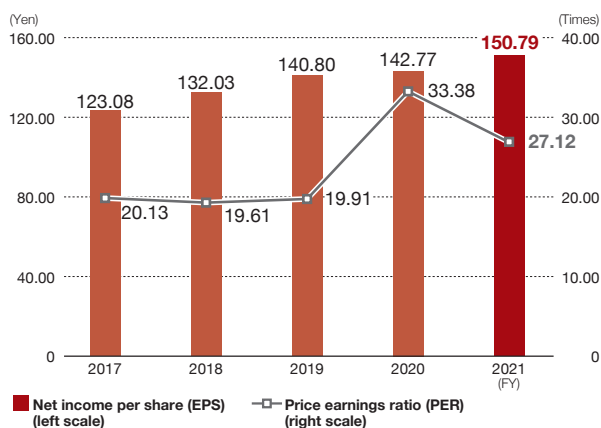
Overseas Sales, Overseas Sales/Net Sales



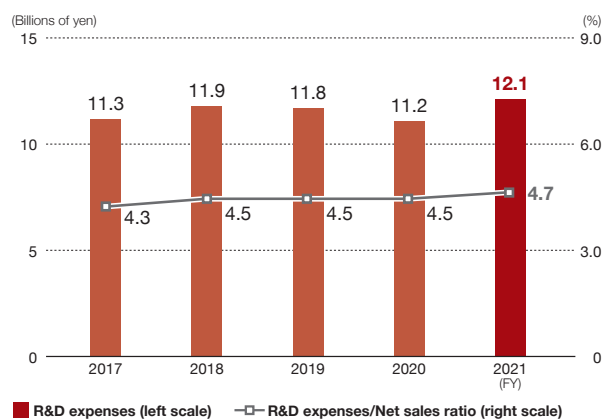
Net Income Attributable to the Owners of the Parent, Return on Equity (ROE)



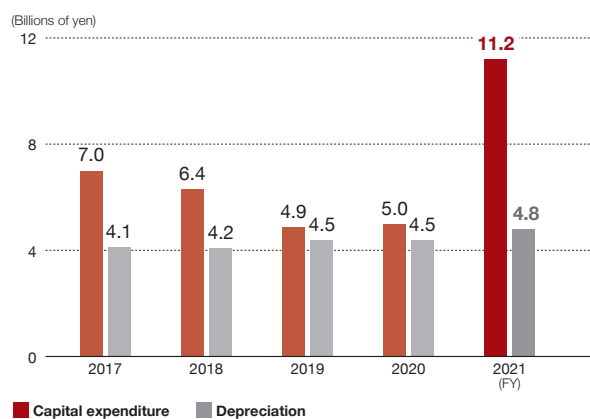
Net Income per Share (EPS), Price Earnings Ratio (PER)



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

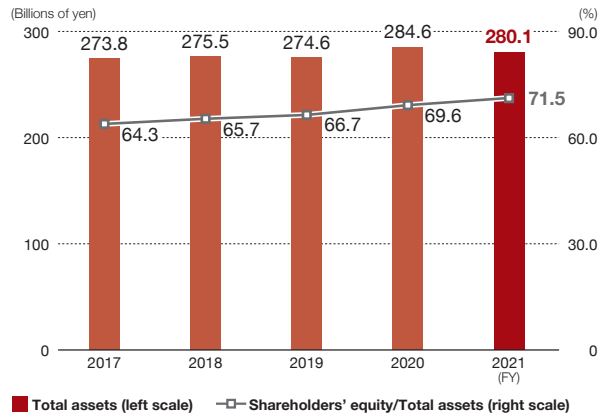


Capital Expenditure, Depreciation

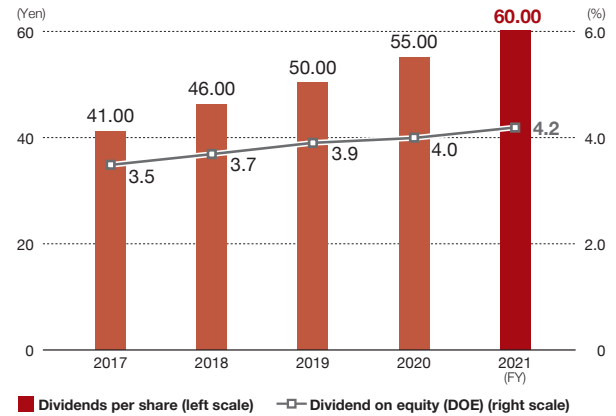


Note: Capital expenditure increased in FY2021 for upgrading the Fujisawa Technology Center.

Total Assets, Shareholders' Equity/Total Assets

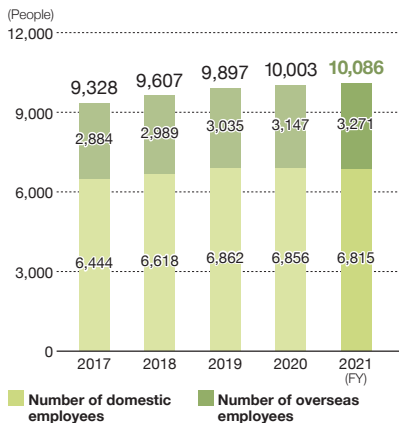


Dividends per Share, Dividend on Equity (DOE)



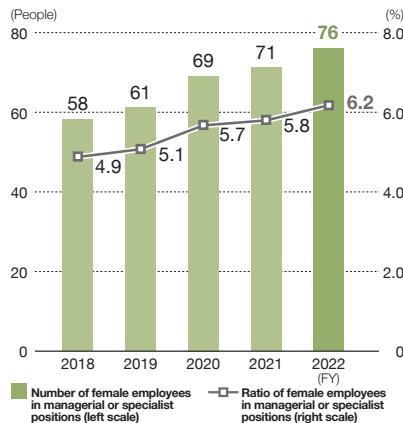
Non-Financial Highlights

Number of Employees

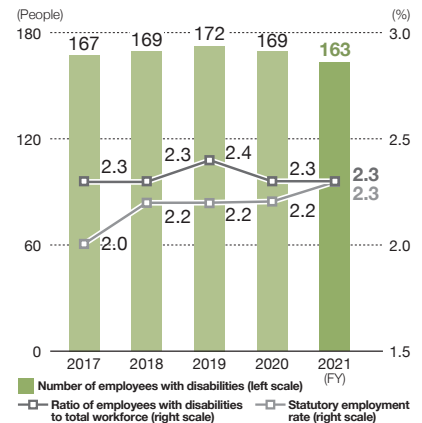


Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions

Azbil Corporation (as of April 1)

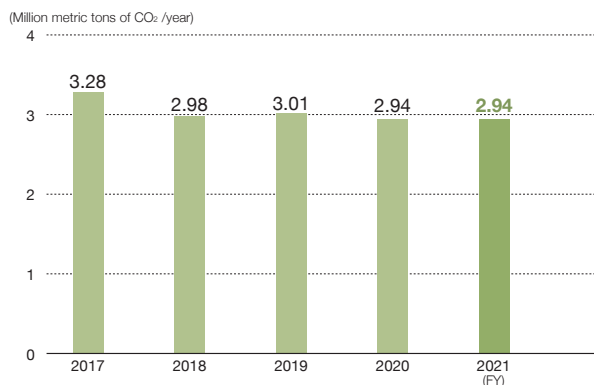


Ratio of Employees with Disabilities to Total Workforce



Effective Reduction of CO₂ at Customers' Sites

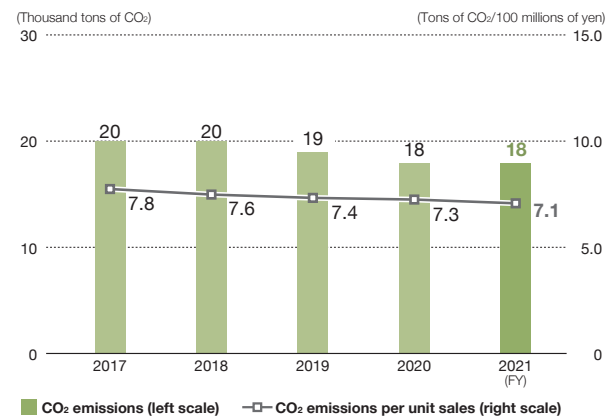
Azbil Corporation and its overseas subsidiaries and affiliates



Note: Estimations for each fiscal year's performance from 2018 are based on the methods reviewed by third parties. Despite the effects of a reduction in the CO₂ emission factor from electricity generation due to the increased introduction of renewable energy sources across society as a whole, the effective reduction of CO₂ remained on the same level as for FY2020 due to a growth in businesses that contribute to reducing the environmental impact.

CO₂ Emissions (Scopes 1+2) and CO₂ Emissions per Unit Sales

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



Note: A fixed value (0.378 Kg-CO₂/kWh) is used for the CO₂ emission factor from electricity generation.

Interview with the CEO

“

Automation is offering a growing number of ways to effectively address social issues and achieve sustainability. As a major supplier of automation technology, we are transforming our business to be a greater force for a sustainable society.

”



Kiyohiro Yamamoto

Director, Representative Corporate Executive,
President & Group Chief Executive Officer

Q1

What is your evaluation of the company's performance and the business conditions in fiscal 2021?

- A1** We advanced the medium-term plan and expanded the role that automation can play providing solutions. We also gained a clear understanding of issues we need to address as a company.

Earnings were boosted by our strategic initiatives and an improving market that confirmed the brisk demand for automation technologies.

The current business environment for automation is characterized by the rapidly changing needs of our customers and society, particularly to prevent the spread of COVID-19 and for decarbonization to protect the environment. Responding to social issues is built into our business model, and we see these and other areas as presenting growing opportunities for the azbil Group to deliver automation solutions. Through our long-term target to contribute "in series" to the achievement of a sustainable society, we aim to continue expanding our business while helping to realize a flourishing society.

Fiscal 2021 was the first year of the current medium-term plan to fiscal 2024 and marks the beginning of the transformation that will put the Group on course to attain our long-term targets. While looking ahead to our future, we also continued to take special steps in the present to protect our employees and customers from the coronavirus. Although the environment was not ideal for

business, we made demonstrable progress with many of our initiatives during the year and increased our confidence in the direction of our medium-term plan's initiatives and our long-term targets.

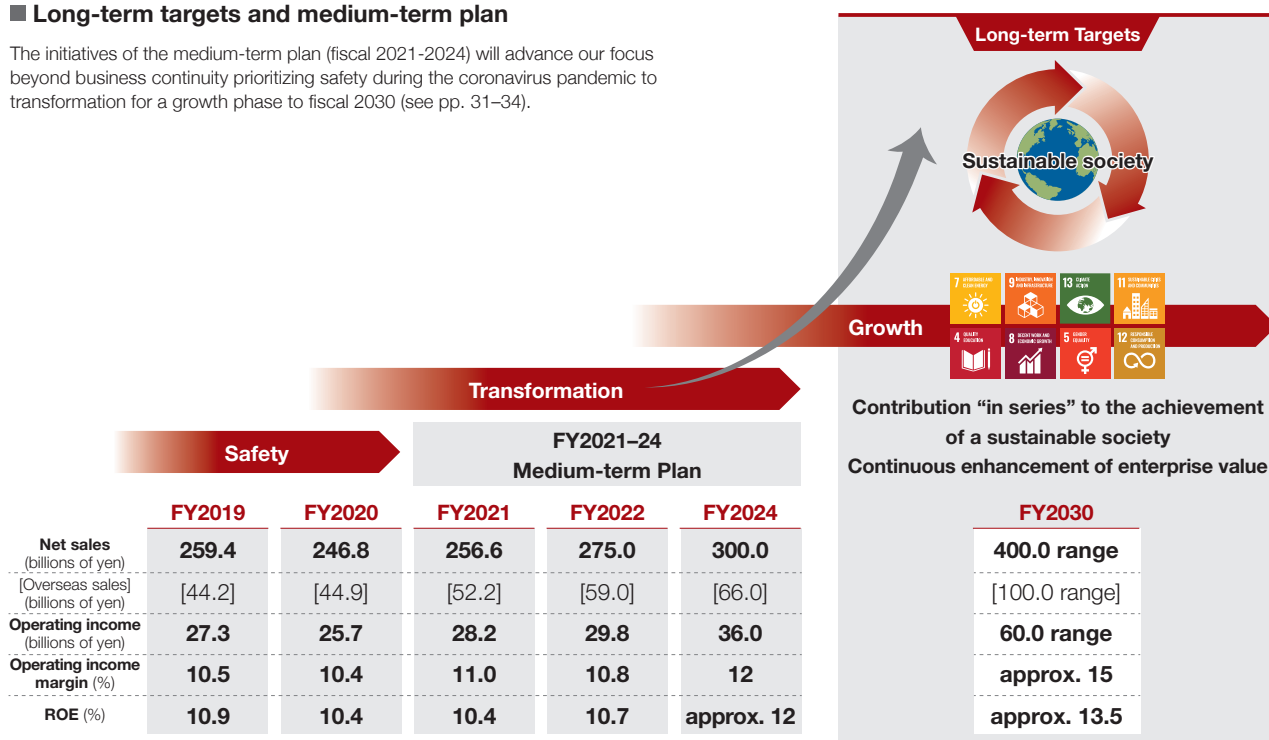
Our business performance for the year included increased orders and sales in all three of our business segments: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). Our plan to steadily ramp up R&D and other spending focused on growth started producing results, and we increased our operating income. The business environment in Japan included ongoing urban redevelopment activity, which provided a firm base of demand for air-conditioning control equipment and systems for large buildings. We also saw increased demand associated with renovation projects, particularly from the needs for improved energy efficiency and for air ventilation. Capital investment in the manufacturing industry increased, particularly for production equipment and systems amid ongoing strong demand in markets related to semiconductors. Demand was also strong from the pharmaceuticals industry for production line equipment.

Quick response to the parts procurement difficulties and geopolitical risk

At the same time, the business conditions presented a constant challenge throughout the year with the coronavirus pandemic and the growing impact of parts procurement difficulties. Widespread demand for automation and energy-efficient equipment supported a sharp increase in orders, but supply chain disruptions

Long-term targets and medium-term plan

The initiatives of the medium-term plan (fiscal 2021-2024) will advance our focus beyond business continuity prioritizing safety during the coronavirus pandemic to transformation for a growth phase to fiscal 2030 (see pp. 31-34).



hindered our ability to procure parts and ultimately limited the growth in final sales and profits.

Under our business continuity plan, we had a solid parts procurement structure in place, but the already challenging conditions grew more intense with the worldwide spread of geopolitical risk in the second half of fiscal 2021. We accordingly started taking steps to further strengthen our BCP and overall resilience in case the situation reached emergency conditions. Looking ahead, our long-term outlook is unchanged. We expect automation to attract increasing demand as a solution for social and client needs, and we are restructuring our businesses and fortifying our business foundation in preparation for our transformation. Management also continues to carefully monitor the pandemic situation to be prepared for any scenario while also taking full advantage of the growing demand for automation.

Q2

What is the progress of your medium-term strategy to strengthen the automation technology in the three growth fields?

A2 Strengthening R&D bases and other steps to fortify our business foundation have increased our ability to develop products and services in the three growth fields and enabled more fruitful collaborations with other companies.

We completed the central R&D base's new laboratory buildings in May 2022 and increased our customer contact points

We have set the three business domains of *new*

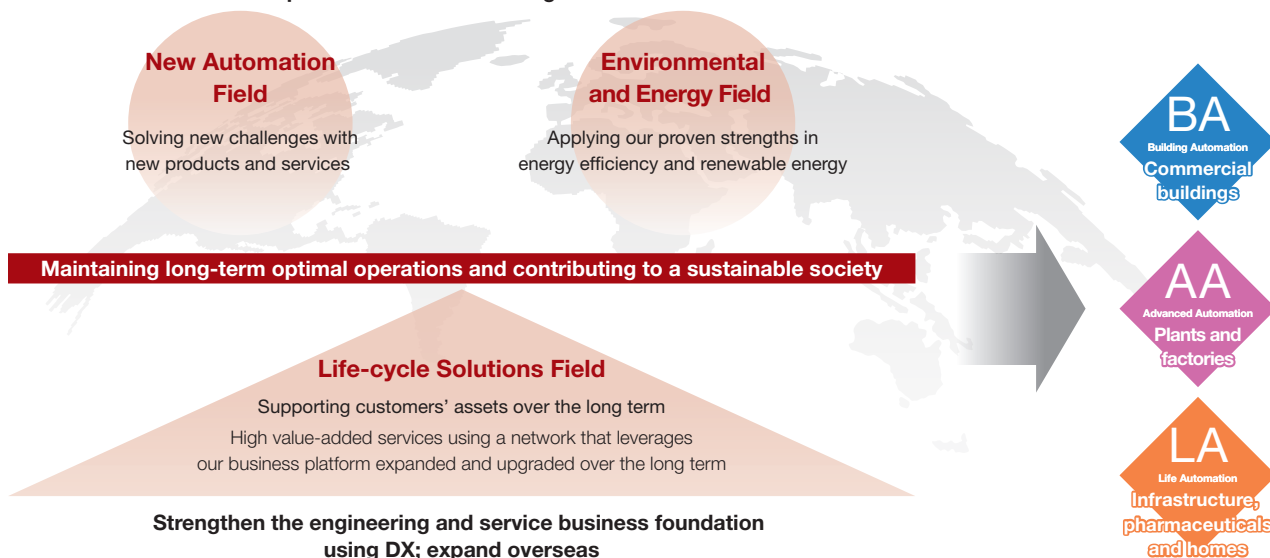
automation, environment and energy, and life-cycle solutions as the growth fields for our transformation, and these will be the primary focus of our efforts to expand the core BA, AA, and LA businesses. We established a solid foundation for their growth in fiscal 2021 with the construction and outfitting of new laboratory buildings in the Fujisawa Technology Center, a state-of-the-art facility that will be our primary base for R&D in advanced system solutions and high-performance, high-precision devices. We also made great strides adding new contact points with customers in Japan and overseas. Two of our biggest initiatives took place in Singapore, where we joined the Smart Urban Co-Innovation Lab led by CapitaLand and launched a program to develop an integrated building management system (IBMS) supported from the Singapore Economic Development Board.

Significant progress was also made fortifying the businesses in the three growth fields, particularly in the areas of setting up product and service channels and forming new collaborative alliances.

The Building Automation business focused on meeting emerging needs in the growth fields of *new automation* and *environment and energy* from the trend for activity-based working (ABW^{*1}), which is becoming more common in the "new normal" work conditions. The move toward ABW is generating strong interest for our centralized air conditioning systems designed with individualized HVAC controls for cellular office layouts. We also launched a collaboration to develop green transformation (GX) solutions for air conditioning control technology that will contribute to making a carbon neutral^{*2} society.

■ Three growth fields that share a common foundation of automation technology

Providing distinctive solutions that leverage the azbil Group's strengths and unique solutions in the three growth fields



The Advanced Automation business introduced the online anomaly detection system for improving equipment safety and productivity. The business also contracted to provide its control valve maintenance support system, to major energy and chemicals companies. The AA business is expanding its AI and cloud technology applications to offer a wider array of services providing support through all stages of customer businesses.

The Life Automation business introduced new platform services using smart meters and networks in the energy management field. The services provide visualization of energy usage and emissions, such as greenhouse gas emissions, using DX-EGA, the business concept developed with Takaoka Toko Group for providing value to clients via detailed energy data on electricity, gas, and water.

*1 ABW is a work style allowing employees to choose the optimal environment, location, and time to work.

*2 Carbon neutral is absorbing and emitting net zero carbon from the atmosphere.

Q3

What challenges do you face for continuing the company's transformation and expanding the three growth fields?

A3 We plan to continue broadening our customer base and contact points through collaboration and other methods, strengthening our AI, cloud, and MEMS^{*3} technologies, and enhancing the application range and value-added of our product and service offerings.

The medium-term plan outlines several initiatives for accelerating our business growth momentum. The five

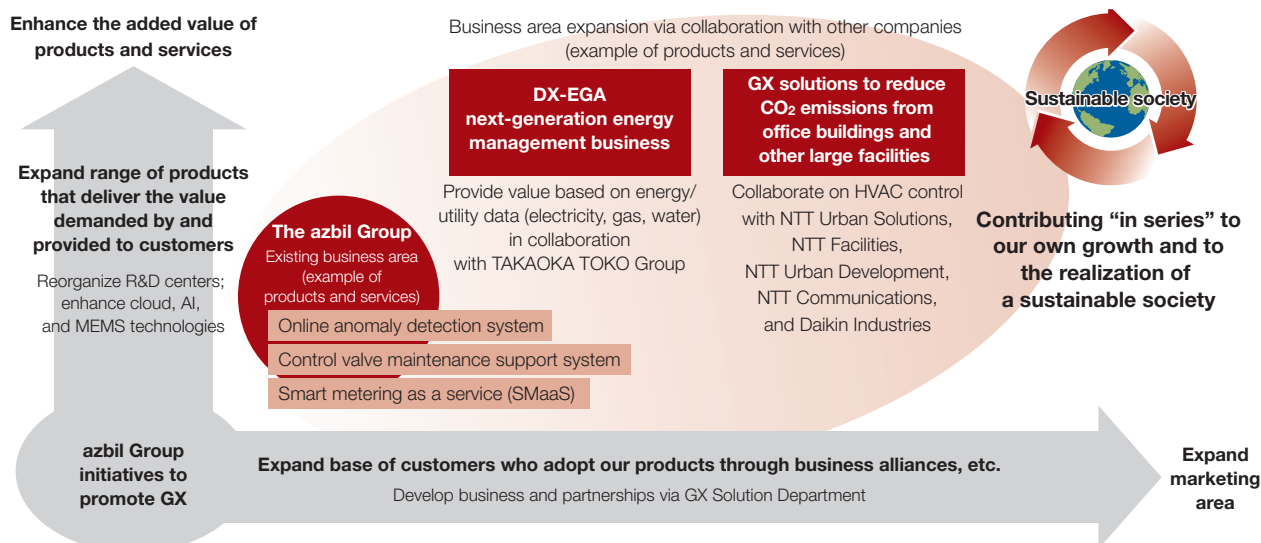
main initiatives are to increase investment to strengthen our product and service development capabilities, increase contact points with customers, expand business by addressing social issues, strengthen employee capabilities including boosting digital transformation (DX) proficiency, and form strategies to establish continuous profit margin growth.

Investing to enhance the functions of the Fujisawa Technology Center, our lead site for R&D, is amplifying our ability to develop new products and services. We are enhancing our facilities to enable the center to develop leading-edge system solutions with advanced AI and cloud technologies, which are critical to our growth strategy, and to further advancing our high-performance, high-precision MEMS sensor technologies. At the same time, we are taking steps on the product side to establish continuous profit margin growth, such as introducing lower production costs when updating our main products. On the production side, we are working to improve profit margins by creating a global production system with the Shonan Factory as the mother factory and increasing the ratio of production conducted overseas.

We will also implement measures specifically aimed at expanding our business in the three growth fields. While developing businesses geared to meeting the new needs of society, we will also pursue collaborations with an eye to increasing our contact points and expanding our customer base. As we implement these measures over the next several years, we will continue developing and advancing the DX technologies where we have demonstrated success and have established a competitive advantage.

*3 Devices built using microfabrication technology to integrate sensors, actuators, and electronic circuits on substrates

■ Expansion in business fields including collaboration with other companies



Green Transformation (GX)

Transformation of the entire economic and social system required to achieve both economic growth and environmental protection while transitioning to carbon neutrality (by 2050), as proposed by Japan's Ministry of Economy, Trade and Industry (METI)



Newly constructed laboratory buildings at the Fujisawa Technology Center, the Group's central R&D base (completed in May 2022)
 Building No. 103 (left) provides state-of-the-art facilities for conducting experiments in an optimal environment to fully accommodate the creativity and innovation of individual and team research projects. Building No. 104 (right) houses a measurement standardization laboratory and the facilities such as development and production clean rooms for the development of the MEMS sensors that are the heart of azbil Group sensing technology. Constructing an advanced environment for R&D requires a robust cleanroom design for semiconductor production and highly controlled temperature and humidity levels, both of which need equipment and facilities that consume high amounts of electricity. However, by incorporating various energy-saving measures based on the technology, know-how, and accumulated data of our Building Automation business, we have achieved energy consumption levels that are much lower than those of other buildings with the same energy-intensive functions.

Leveraging GX to advance toward carbon neutrality and expand the *environmental and energy* field

Current technologies and mechanism do not provide all the answers for social issues, such as for achieving carbon neutrality, and a single company cannot solve the problems on its own. Rather than relying solely on proprietary technology and products, I believe collaborative projects among multiple companies both in Japan and overseas are more important than ever.

We established the GX Solution Department in April 2022 to advance our development of green solutions and technologies and pursue collaborations. Green transformation, or GX, is the total transformation of an economic and social system in order to reach carbon neutrality. The GX Solutions Department will lead the expansion and strengthening of the Group's GX operations to raise them to a new level and to widely promote our GX initiatives through collaborative partnerships in Japan and abroad so we can make a greater contribution to our customers and to society.

In 2022, we launched a collaboration project to develop air conditioning control systems with Daikin Industries and four NTT group companies—NTT Urban Solutions, NTT Facilities, NTT Urban Development, and NTT Communications. Each company is providing their unique technologies and expertise to construct air conditioning control systems for regulating and reducing CO₂ emissions from office buildings and other large structures. We believe the project has promise for offering GX solutions in the air conditioning field that can make a meaningful contribution toward achieving a carbon neutral society.

Advancing our DX and fortifying our system solutions and cloud businesses

The digital transformation, or DX, of our operations and processes is essential to the success of every one of these strategic measures.

The value of the azbil Group's automation technology and solutions expertise is our ability to identify and address our clients' true issues. We gather data using sensor gauges installed at the client's production site, use cloud, IoT and AI technology to analyze the big data and find the optimal conditions for producing the client's desired outcome. We then continue the analysis until we deliver an actionable solution that is fully operative at the site. In short, our business uses data to transform our clients' operations. For us to continue expanding our three growth fields and engage in more collaborations with other companies, we will need to integrate DX even deeper into all of our processes from data analysis to actionable solutions, while also strengthening our abilities to deliver system solutions and utilize cloud technologies.

Another way we are harnessing the Group's strengths to advance our growth strategies is by augmenting the functions of the Fujisawa Technology Center to strengthen our product development capabilities and enhance the efficiency of our R&D operations. With two new laboratory buildings equipped with state-of-the-art development and testing facilities and featuring work environments optimized for ABW, the augmented center will boost our ability to create the new business and new ways of working that will bring about the Group's transformation.

Q4

How is the azbil Group integrating sustainability and ESG into its operations and medium- to long-term plans?

- A4** We have set our Group sustainability policy and created our own set of goals for the SDGs designed to contribute “in series” to supporting a sustainable society and to increasing our enterprise value.

Creating our Sustainability Policy

Regarding our idea of sustainability, we are committed to continuously enhancing enterprise value based on mutual trust with stakeholders, to realizing “safety, comfort, and fulfillment in people’s lives” and contributing to global environmental preservation, and to contributing “in series” to a sustainable society. These are achieved through practicing our Group philosophy of “human-centered automation” and respecting the values to contribute to society for people’s well-being based on the founding spirit of “freeing people from drudgery.” We are advancing several initiatives that address social issues and contribute to sustainability by applying this policy. When we created the sustainability policy in fiscal 2021, we identified 10 material issues to be tackled over the long term that need to be addressed to create a sustainable society and to raise our enterprise value in the medium and long term.

Our activities in the *environmental and energy* field are directly aimed at achieving our SDG targets.

One of the key elements of our sustainability efforts is addressing social issues through our businesses, such as with environmental measures to mitigate climate change and by introducing new automation solutions and offering solutions geared to society and customer lifecycles. Through these efforts, we seek to do our part to help society achieve the international SDGs for a better and sustainable world. Our enterprise value derives directly from the success we have using our automation technologies to attain the SDGs by helping address climate change, creating sustainable cities and communities, improving industry, innovation and infrastructure, creating decent work and generating economic growth. Simply put, we align our operations with the United Nations SDGs and grow our business by providing automation technology that helps achieve those goals and create a sustainable society. To ensure our activities are implemented to full effectiveness, in fiscal 2020, we set our essential goals of the azbil Group for the SDGs with four essential goals, specific targets and indicators.

The *environment and energy* field is front and center of our efforts, and we have made it one of the three growth fields that the Group is focusing on. While we help clients to meet their CO₂ emission reduction targets, we also view

numerical targets as always being fluid, and we review and update them as we make progress and as new technologies enable us to look beyond to even better performance in the future. In fiscal 2021, the Science Based Targets initiative renewed its approval of our targets for their Business Ambition for 1.5°C. In fiscal 2022, we added specific environmental targets for our product designs.

The social element of ESG is indispensable for sustaining growth, and we are advancing initiatives to enhance human capital.

We are also actively working to strengthen our environment, social, and governance (ESG) as a key element to generating sustaining growth for our company. In addition to the environmental activities described above, I would like to step up our efforts in the social domain, specifically concerning human capital and human rights.

Our approach to human capital is embodied in our concept of Health and Well-being Management under which we seek to create a work atmosphere where employees are healthy, happy, and lively. In addition to designing work environments where employees can thrive, we also seek to engage people with global business skills and various abilities and provide education programs worldwide. We envision a virtuous cascade in which a





diverse makeup of employees who feel satisfaction and a sense of growth in their work are more creative and productive, which then leads to rising enterprise value. To promote this vision, we have created point systems to recognize the advancement of women in the workforce and to encourage employees to participate in educational opportunities. In addition, following the medium-term plan's objective to transform the company, we are creating new ways of working by overhauling our work mechanisms, work styles, and work sites and environments. The new Fujisawa Technology Center laboratory buildings are prime examples of our efforts to create new and vibrant environments for R&D and other operations.

As we advance the Group's global expansion, human rights are an issue of the highest priority. We are fully committed to ensuring human rights for all individuals associated with our business activities. To substantiate our commitment, in 2021 we endorsed the United Nations Global Compact and initiated measures following the compact's Ten Principles governing human rights, labor, the environment, and anti-corruption. We will be stepping up our efforts in these areas as I believe ensuring human rights is more important than ever in the current geopolitical situation.

Q5

Why did the company adopt a company with a three-committee Board structure?

A5 The new structure will enable us to better meet the expectations of our shareholders and all stakeholders and give us greater flexibility to respond to even major changes in the business environment.

The separation of business supervision and execution will be more clear, and our decision-making processes will be faster and more transparent.

The azbil Group sets fortifying corporate governance as a management priority and considers vigorous governance to be vital to enhancing enterprise value. A recent focus has been implementing measures to strengthen the supervisory and auditing functions of the Board of Directors, improve the management transparency and soundness, and clarify the structure of responsibility for the execution of duties.

Governance was strengthened significantly this year when the Ordinary General Meeting of Shareholders held on June 23, 2022 approved the transition from a company with Audit & Supervisory Board to a company with a three-committee Board structure.

The new corporate structure with three separate committees for executive nominations, remuneration, and auditing will have multiple benefits, particularly as we deal with the increasingly rapid changes the Group's business environment. The clear separation of supervisory and business execution functions will enable us to better ensure the transparency and soundness of management decision-making while also improving our ability to quickly identify and take actions on present and future business opportunity and risk.

The azbil Group has set long-term targets for fiscal 2030 and is advancing its medium-term plan to achieve growth by using its automation business to contribute "in series" to the achievement of a sustainable society. The process leading to the decision to adopt the new structure included intense discussion covering all aspects of the change by the Board of Directors. My view was that we need a structure that incorporates diverse opinions from outside directors and strong management supervisory functions in order to generate the growth needed to attain our targets and to effectively respond to changes in the business environment. At the same time, the structure must facilitate swift execution of management decisions.

I believe stakeholders will recognize the benefits of the new structure as management navigates through even more dramatic changes that may lie ahead in the business environment.

Stock compensation plan for directors, corporate executives, and executive officers

With the adoption of the new corporate structure, we also initiated a stock compensation plan using a trust fund ensuring high transparency and objectivity with the aims of sharing value with stakeholders and providing ongoing incentives to managers to raise enterprise value. The stock compensation plan structured for corporate executives and executive officers provides incentives to work toward attaining the Group's business objectives by linking their compensation to business performance.

Completing our medium-term plan will require both employees and executives to be fully invested in carrying out the plan's strategies and in working toward raising enterprise value over the medium to long term. To that end, we introduced the Trust-type Employee Shareholding Incentive Plan (E-Ship®) as an addition to the Employee Stock Ownership Plan (J-ESOP) introduced in 2017. Although structured primarily as a welfare plan, E-Ship adds another link to the company's share price and will align both management and employees toward the same objective of raising the Group's enterprise value over the medium to long term.

Q6

What is the company's policy on shareholder returns?

A6 We intend to continue raising our dividend distribution as well as buying back and cancelling shares in accordance with our capital policy to maintain adequate funds in considerations of the medium- to long-term business outlook.

We are committed to maintaining a disciplined capital policy aimed at attaining our long-term target of return on equity (ROE) approx. 13.5% while maximizing shareholder value through a balance of enhancing shareholder returns, investing in growth, and maintaining a sound financial foundation. Shareholder return is a management priority. Our basic policy is to maintain a consistent dividend distribution and to raise dividends while considering the overall circumstances of our consolidated business performance, dividend on equity ratio (DOE), ROE, and the strategic need to ensure adequate internal reserves to develop businesses and maintain a sound financial foundation.

Following our basic policy, we have determined to distribute the planned year-end dividend of ¥30 per share, bringing the annual dividend payment to ¥60 per share for fiscal 2021. In consideration of our medium- to long-term outlook, the current business conditions given the current parts procurement difficulties and other factors, and our forecasts for growing business and improving

performance, we plan to raise the dividend distribution by ¥5 per share for a full-year dividend of ¥65 per share in fiscal 2022. During the year, we carried through with our disciplined capital policy by cancelling 1.5 million shares of treasury stock and continuing our plan to repurchase ¥10 billion worth, or up to 4 million shares, of the company's outstanding common stock (as of July 31, 2022).

Management will continue to pay close attention to the cost of capital to better enable us to make decisions that contribute to raising enterprise value and meet investor expectations for shareholder return.

Q7

Is there a message you would like to share with stakeholders?

A7 We will continue to transform the Group so we can make a meaningful contribution to creating a sustainable society.

Our Group philosophy of "human-centered automation" is also at the center of our efforts to build relationships of trust with stakeholders. We seek to continuously build our enterprise value and contribute "in series" to achieving a sustainable society while helping provide safety, comfort and fulfillment in people's lives and contribute to global environmental preservation.

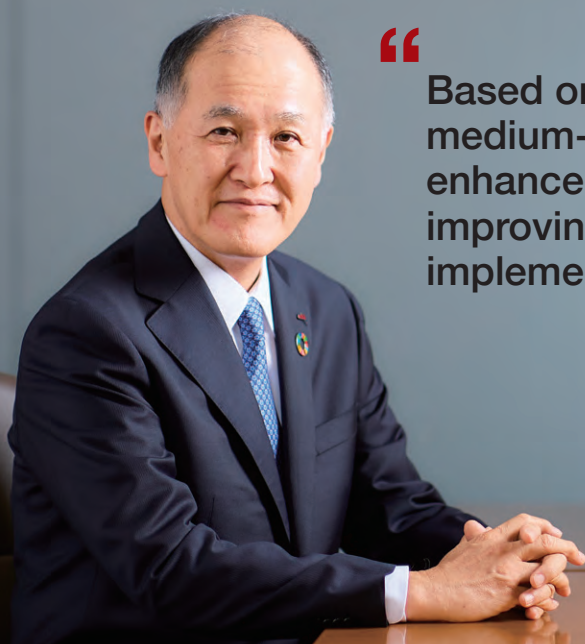
Society is facing several serious issues, including climate change, the coronavirus pandemic, material and product supply disruptions, and the situation in Ukraine. We believe the Group's "human-centered automation" and our approach of "creating value together with customers at their sites" are more important than ever.

At the same time, for us to continue providing "value at the customer sites," it is essential that our Group continues to transform in various ways. Our product development must incorporate design concepts based on sustainability. As we grow as a business, we must include and respect diverse and talented human resources from around the world. Our pursuit of sustaining business growth should bring in teams from outside the Group when that is advantageous and should be boosted by active and collaborative involvement of talented human resources and teams from outside. And, last but not least, management must be transparent, fair, and sound with its decision-making as we seek to achieve the medium-term plan and our long-term targets.

We will continue advancing the Group's transformation so we can establish consistent and sustaining business growth. We also will engage in open communication, dialogue, and collaboration with stakeholders in Japan and worldwide as we seek to grow the azbil Group and contribute to the creation of a sustainable society.

(Reference) E-Ship® is a trademark of Nomura Securities Co., Ltd.

Message from the Corporate Executive for Finance and Business Management



“Based on our long-term targets and medium-term plan, we will work to enhance enterprise value by further improving efficient use of capital and by implementing a disciplined capital policy.”

Takayuki Yokota

Director, Representative Senior Managing
Corporate Executive

Q1

Can you give us a summary of the issues and measures worked on in FY2021 and the results of those measures? Also, are there remaining challenges in FY2021?

A1 In addition to securing a strong financial foundation capable of responding to changes in the business environment and strengthening supply chain linkages, we made aggressive investments aimed at sustainable growth.

The azbil Group has set ROE objectives with efficient use of capital in mind in our medium-term plan and long-term targets, and we aim to achieve an ROE of approximately 12% for FY2024 and approximately 13.5% for FY2030, which are the final years of each.

In FY2021, the first year of our medium-term plan, market conditions, which deteriorated in the previous year due to the coronavirus pandemic, continued to recover, and the impact of delayed sales booking due to parts procurement difficulties expanded in the second half of the year onwards. However, sales increased compared to the previous fiscal year. In terms of earnings, investments were made in R&D and other areas necessary for future business growth, and expenses were also recorded related to work-related responses to the declared state of emergency in Japan and strengthened supply chain management. The increase in sales and the effects of ongoing measures to strengthen the profitability of the business have borne fruit, with the operating income margin reaching a record high of 11.0%, an increase compared to the previous fiscal year. Net income attributable to owners of parent also increased, but the

profit margin remained at the same level as the previous fiscal year due to the absence of the extraordinary gains recorded in the previous fiscal year. As a result, ROE was 10.4%, the same level as the previous year.

In FY2021, in addition to the continued COVID-19 pandemic, we faced a difficult business operation situation due to disruptions in the global supply chain caused by parts procurement difficulties and other factors. Since the Group's business must continue so that the infrastructure and customers' critical facilities are not disrupted, we have taken steps to strengthen our resilience by securing a solid financial foundation and developing a parts procurement system as part of our business continuity planning (BCP).

Meanwhile, we are leveraging cash flow from operating activities and capital, including retained earnings, for the development and strengthening of our business foundations and the realization of sustainable growth by reorganizing and expanding domestic and overseas production bases, conducting R&D in areas of

■ FY2020/21 performance review

(Billions of yen)

	FY2020	FY2021	Year on year	
			Change	Change %
Orders received	247.9	287.0	+39.1	+15.8
Net sales	246.8	256.6	+9.7	+3.9
Operating income %	25.7 10.4	28.2 11.0	+2.5 +0.6 pp	+9.8
Net income attributable to owners of parent %	19.9 8.1	20.8 8.1	+0.9 +0.0pp	+4.3
ROE %	10.4	10.4	(0.0 pp)	

technological innovation, and investing in digital transformation (DX) to add value to our services and improve business efficiency. From the perspective of business management as well, we are continuing efforts to improve accounting standards with a view to voluntary application of International Financial Reporting Standards (IFRS), and are strengthening our internal controls in line with this.

In May 2022, we introduced the Trust-Type Employee Shareholding Incentive Plan for all employees who are members of the azbil Group Employee Stock Ownership Association, utilizing our own shares. Along with a stock compensation plan introduced in June for management, the plan is intended to provide employees with incentives to achieve long-term targets and the medium-term plan and to raise enterprise value on a medium- to long-term basis.

Q2

Please tell us about your approach to your medium- to long-term capital policy.

A2 Our basic policy is to implement a disciplined capital policy including shareholder returns, while strengthening our financial base and strategically leveraging cash flow to make further investments for growth, with a view to sustainably maintaining and enhancing enterprise value.

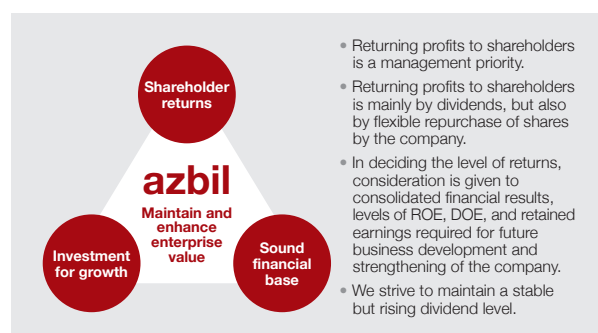
Our core policy in establishing and executing capital policy is to maintain and enhance enterprise value by implementing a disciplined capital policy that balances investment for growth, securing a sound financial foundation, and enhancing shareholder returns.

The period beginning in FY2020 was marked by the COVID-19 pandemic, and one of our important management issues has been to maintain and improve our ability to raise external funds and maintain a strong financial base to fulfill our supply responsibilities in preparation for such a disaster. Going forward, while maintaining a sound financial foundation, we will strategically leverage the cash flow generated by our business growth and plan investments for growth, such as a ¥56 billion range of R&D investments in the medium-term plan for the four years through FY2024.

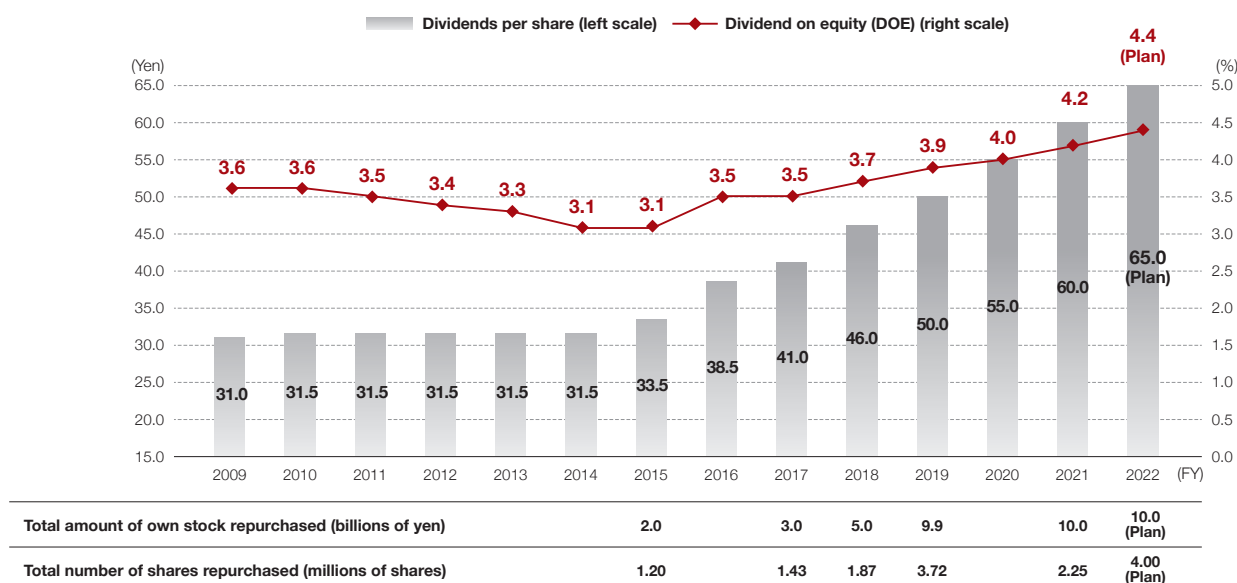
With the above considerations in mind, we will maintain a constant focus on a disciplined capital policy, recognizing the return of profits to shareholders as an important part of our capital policy, also based on the verification of capital efficiency. In terms of shareholder returns, we strive to maintain a stable and increasing level of dividends by comprehensively considering consolidated financial results, dividend on equity (DOE), return on equity (ROE), and dividend payout ratio. At the same time, we

Basic policy

Developing a disciplined capital policy and maintaining and enhancing the azbil Group's enterprise value, while carefully balancing three key elements: promoting shareholder returns, investing in growth, and maintaining a financial foundation.



Dividends and DOE



The dividend per share and the amount of shares repurchased have been retroactively revised to take into account the effect of the 2-for-1 common stock split.

flexibly combine share buybacks with consideration of cash on hand and capital efficiency.

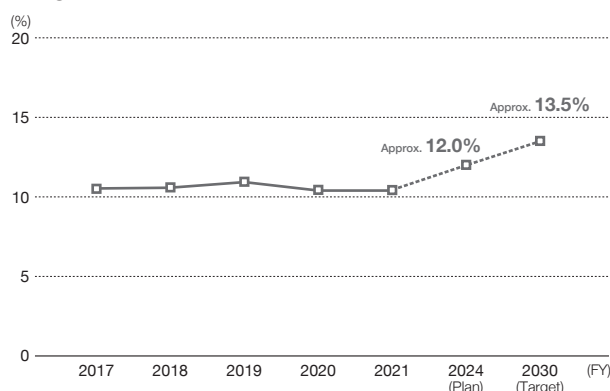
Q3

Please tell us about the measures you are implementing to improve capital efficiency with respect to the progress of ROIC management with an awareness of the cost of capital.

A3 We in management have in place a review system to improve cost-of-capital recognition and return-on-invested-capital indicators, and we are promoting internal visualization. In addition, from the viewpoint of capital efficiency, we are reducing the number of cross-shareholdings.

Along with business expansion and profitability improvements, the medium-term plan also emphasizes improvement of capital efficiency. In FY2021, we began using return on invested capital (ROIC) as a management indicator to further promote management with an awareness of the cost of capital, to improve ROE. In each business, we go through the PDCA cycle of checking and improving each element broken down by the ROIC tree to promote business portfolio management that aims to

■ ROE



■ Status of reduction of cross-shareholdings

	As of the end of March 2021			As of the end of March 2022		
	Number of stocks	Total amount shown on balance sheet (millions of yen)	Ratio to consolidated net assets (%)	Number of stocks	Total amount shown on balance sheet (millions of yen)	Ratio to consolidated net assets (%)
Unlisted shares	8	186	0.1	8	190	0.1
Shares other than unlisted shares	33	18,497	9.2	27	15,939	7.8
Total	41	18,683	9.3	35	16,129	7.9

maximize efficiency in the utilization of management resources based on profitability from invested capital. The Board of Directors also reviews the business portfolio as part of its examination of the progress of the medium-term plan to verify its effectiveness.

In addition, since the awareness of each and every employee is vital in further promoting ROIC management, we are working to instill and share awareness throughout the Group in FY2022.

Also, we have accelerated the reduction of our existing shareholdings in line with the guidelines on cross-shareholdings that we formulated and revised in light of the objectives of the Corporate Governance Code. In FY2021, we sold all or part of our holdings of eight stocks after conducting a quantitative verification as to whether the cost of holding them was commensurate with the cost of capital from the perspective of economic rationality in light of the significance of holding the stocks, including business and financial returns, as well as the risk of holding them (Number of stocks held at the end of March 2015: 71; Number of stocks held at the end of March 2022: 35).

Q4

Please tell us about shareholder returns for fiscal years 2021 and 2022.

A4 Given that we achieved an increase in both sales and profit in FY2021 and maintained and strengthened our sound financial base, we maintained the year-end dividend as announced, and plan to further increase the dividend in FY2022, since we expect an increase in both sales and profit, along with stable and sustainable growth.

In terms of dividends for FY2021, we have set the annual dividend at ¥60 per share as announced, since we achieved increases in sales and profits and maintained and

strengthened a sound financial base compared to the previous fiscal year, despite the impact of parts procurement difficulties, etc.

Despite expectations that the global economic environment will remain uncertain in FY2022, we plan to increase sales and profits by capturing strong market demand for large structures and manufacturing equipment in Japan, investing in R&D and DX to achieve sustainable growth, and implementing measures to further strengthen profitability, even assuming the impact of parts procurement difficulties. From a medium- to long-term perspective and based on the outlook for stable and sustainable growth (given the development of strategies in each business and the environmental outlook, including initiatives in three growth business areas), we plan to increase the ordinary dividend by ¥5 to ¥65 per share, with a view to further raising the dividend level, in order to further promote profit distribution and further increase DOE. In addition, from the standpoint of conducting a disciplined capital policy, we are repurchasing up to ¥10 billion or 4 million shares of own stock (as of July 31, 2022). In addition, a further 1.5 million treasury shares were canceled in conjunction with the response to further expansion of the azbil Group Employee Stock Ownership Association, which incorporates the use of treasury shares.

Going forward, we will continue to work to enhance enterprise value by implementing a disciplined capital policy while enhancing returns to shareholders and practicing management with an even greater awareness of the cost of capital.

Q5

Is there anything you would like to communicate to azbil Group stakeholders?

With the continuing response to COVID-19, heightened geopolitical risks, high prices and energy shortages



worldwide, and uncertainty about economic trends, the macro environment is undergoing increasingly dramatic changes as we enter FY2022. I believe that the true value of steering global companies toward the sustainable enhancement of enterprise value, while further strengthening their ability to respond to risk, will be tested. Under these circumstances, I believe that the azbil Group must make aggressive investments, by means that include the use of external resources, to achieve further business growth, along with additional investments to build a steady and stable revenue base and secure our financial base. In addition to a stable dividend payment, we would like to realize further returns to our shareholders as the fruits of business growth.

The reason why the azbil Group makes a point of “disciplined capital policy” is precisely our commitment to stakeholders to develop an unwavering capital policy while promoting a financial strategy that supports this policy as we develop our businesses. It is my hope that you will pay close attention to the azbil Group in the future.

■ Dividends, payout ratio, and DOE for FY2020–22

	FY2020	FY2021	FY2022
	Results	Results	Plan
Dividend per share (annual)	¥55	¥60	→ ¥65
Compared to the previous fiscal year	+¥5 Year-end dividend increased by ¥5	+¥5	+¥5
Interim	¥25	¥30	¥32.5
Year-end	¥30	¥30	¥32.5
Payout ratio	38.5%	39.8%	40.7%
Dividend on equity (DOE)	4.0%	4.2%	4.4%

The Practice of Value Creation

— Providing Value to Our Customers

Status of our Medium-term Plan Initiatives (FY2021–24)

In spite of the need to respond to the COVID-19 pandemic and parts shortages, steady progress is being made with transformative initiatives to expand the three growth fields, including strengthening R&D, improving production systems, and promoting DX.

Long-term targets and medium-term plan

Guided by its philosophy of “human-centered automation,” the azbil Group will contribute “in series” to the achievement of a sustainable society through its business activities. We will meet the expectations of our stakeholders by ensuring our own medium- to long-term development and achieving sustainable enhancement of enterprise value. To this end, we have established three fundamental policies* and are committed to the following three businesses: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). Through these three businesses, we deliver products and services that meet customer needs and solve social issues.

■ Focusing on three growth fields

Today, as we seek to create a sustainable society, we are faced with a variety of challenges, for our customers and for society in general, ranging from the need to address climate change and decarbonization, as well as changing social structures and values, to ensuring safety and security as we learn to live with viral diseases. Automation, which provides solutions to help us to respond to such major changes, is increasingly valuable, and demand is expected to grow. The azbil Group will focus on the three growth fields of *new automation*, *environment and energy*, and *life-cycle solutions*, where we can take advantage of azbil’s unique technologies, products, and services. By providing solutions to new issues, we will achieve growth in the BA, AA, and LA businesses.

■ Numerical targets

As specific numerical targets for FY2030, our long-term targets, we aim to achieve net sales of the order of ¥400 billion, operating income in the ¥60 billion range, an operating income margin of approximately 15%, and an ROE of approximately 13.5%. In order to achieve these long-term targets, in the final year of our four-year medium-term plan, ending in FY2024, we are aiming for net sales of ¥300 billion, operating income of ¥36 billion, operating income margin of 12%, and ROE of approximately 12%.

* Three fundamental policies

- Being a long-term partner for the customer and the community by offering solutions based on azbil’s technologies and products
- Taking global operations to the next level by expanding into new regions and a qualitative change of focus
- Being a corporate organization that never stops learning, so that we can continuously grow stronger

Changes in the business environment and greater business opportunities in the automation business

- Changes in societal structure
- Changes in the business environment
- Trends in technological innovation
- Accelerating change due to the pandemic

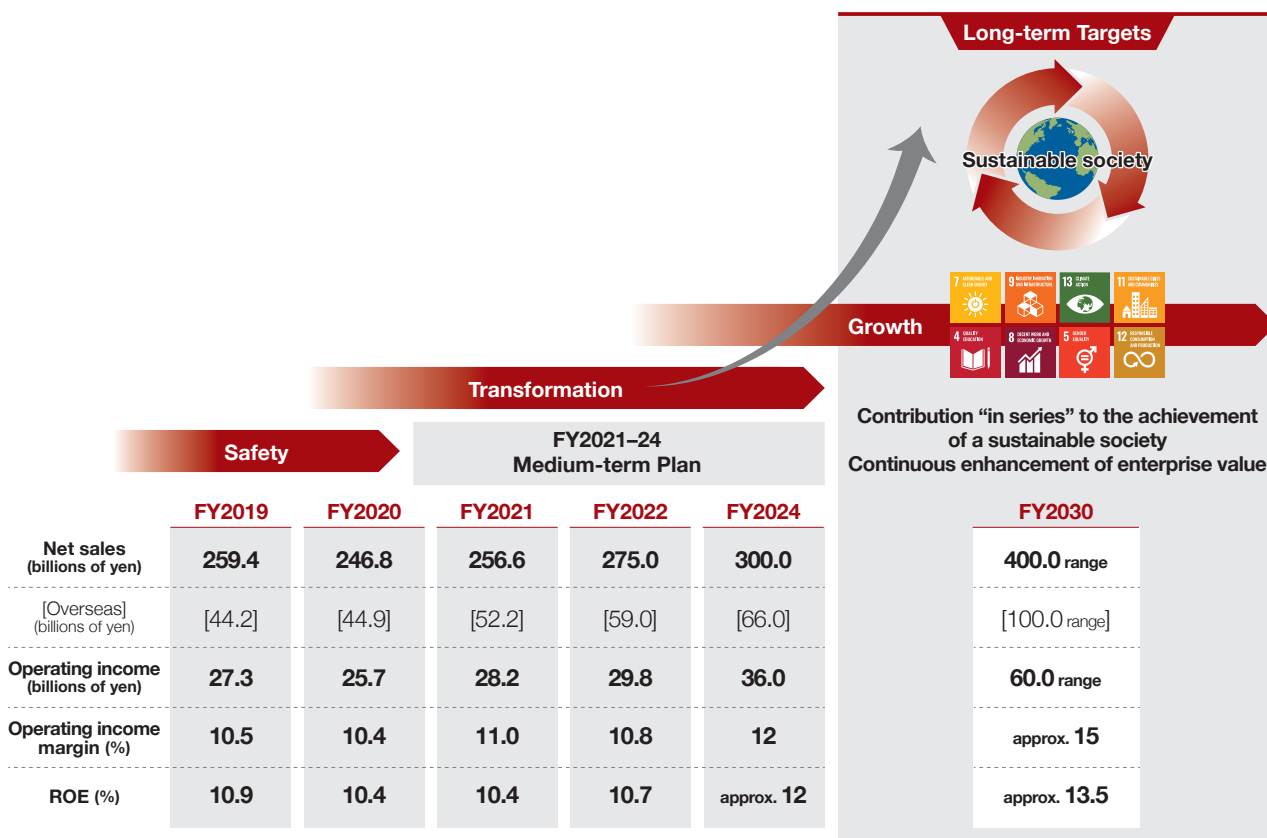
- The role and value of automation have increased in response to the emergence of new social issues
- New business opportunities

FY2021 (first year of the medium-term plan) performance review

The business environment surrounding the azbil Group remained solid overall, although there were differences depending on the market. As for our performance in FY2021, the impact of delays in recording sales due to customers’ advance orders and long delivery times caused by parts shortages increased from the second half of the year, but the recovery from the market downturn triggered by the COVID-19 pandemic in the previous fiscal year helped us to start the year with increased sales and profit.

Orders received increased significantly overall, up 15.8% compared to the previous fiscal year at ¥287.0 billion, reversing the previous year’s decline that resulted from the COVID-19 pandemic. Factors behind this result include primarily an increase in the AA business due to a recovery in market conditions and the impact of advance orders, and in part the effect of parts shortages; an increase in the BA business reflecting demand for the refurbishment of existing facilities and services; and an increase in the LA business due to demand for pharmaceutical facilities. In terms of net sales, the AA business was partially affected by longer delivery times, but sales increased due to a recovery in demand in the manufacturing equipment market. Sales in the BA and LA businesses also rose, resulting in overall net sales of

Long-term targets and medium-term plan performance targets



¥256.6 billion, a 3.9% increase compared to the previous fiscal year. Operating income increased to ¥28.2 billion, 9.8% up on the previous fiscal year, due to the impact of increased revenue and the continuing effects of measures to strengthen business profitability, despite an increase in expenses related to work-related costs associated with the COVID-19 pandemic as well as an increase in R&D expenses from measures determined by the medium-term plan. Net income attributable to owners of parent increased to ¥20.8 billion, up 4.3% on the previous fiscal year, despite gains on sales of investment securities and gains on sales of fixed assets from the integration of domestic factories in the previous fiscal year. As a result, ROE for FY2021 was 10.4%.

Note: For BA, AA, and LA business overviews and initiatives to achieve the medium-term plan, see pp. 35–48.

	FY2020	FY2021	Year-on-year	
			Change	Change (%)
Orders received (billions of yen)	247.9	287.0	+39.1	+15.8
Net sales (billions of yen)	246.8	256.6	+9.7	+3.9
Operating income (billions of yen)	25.7	28.2	+2.5	+9.8
Operating income margin (%)	10.4	11.0	+0.6pp	

Status of medium-term plan initiatives

In order to ensure growth in the three business fields above, we are promoting specific measures in our medium-term plan, such as increasing investment to strengthen our ability to develop new products and services, and expanding our customer nexus.

■ Technological research and product development

To be able to continually create solutions, we are working to enhance our marketing and development capabilities so as to reinforce new product and service development. In FY2021, we upgraded the Fujisawa Technology Center, our research and development hub, strengthening our development capabilities in advanced system solutions and high-function, high-performance devices utilizing microelectromechanical systems (MEMS) technology. (Construction was completed in May 2022.)

■ Global production and procurement system

We are engaged in building an optimal production system to support global business development. To this end, we have further upgraded the functions of the Shonan Factory by strengthening its linkage with the Fujisawa Technology Center's technological development functions. In addition, we made progress in strengthening our production foundation overseas, including the completion of a new factory building at our production subsidiary in Dalian, China.

■ Strengthening sales, engineering, and service networks, and promoting DX

We continue to work on strengthening our sales structure and improving the quality of sales activities by strengthening personnel development and introducing management systems such as salesforce automation (SFA) and marketing automation (MA) in our overseas strategic regions. We are also expanding our client coverage. In addition to building relationships with leading local businesses through cross-regional business promotion and strategic planning by the Strategic Planning & Development Office for Southeast Asia, we have started development of new digital solutions for overseas integrated building management systems (IBMS) with

support from the Singapore Economic Development Board. We also continued our efforts to develop a system to provide high-value-added services such as remote maintenance by harnessing cloud services.

■ Boosting profitability

In our medium-term plan, we are aiming for an operating income margin of 12% while making R&D and capital investments to achieve our long-term target of an operating margin of approximately 15%. In addition to measures to strengthen profitability—such as improving the profitability of orders and expanding overseas production and procurement—we have been developing and introducing renewal products and promoting DX to streamline operations globally from the perspective of profitability.

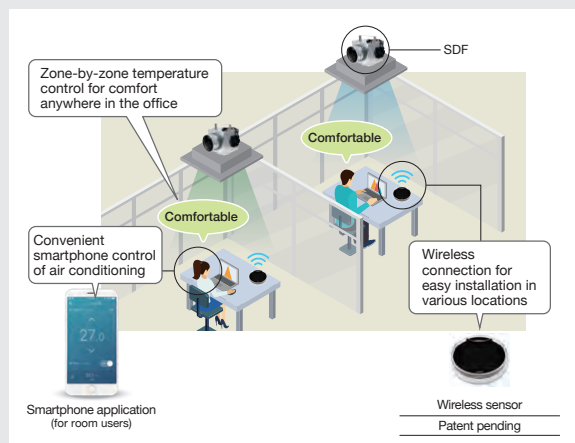
Increasing the range of products, services, and business fields to expand the three growth fields

In order to achieve growth in each of the BA, AA, and LA businesses by expanding the three growth fields, we have developed products and services, some of which utilize new technologies such as IoT and cloud computing, while also collaborating with other companies to expand our business fields.

Cell-type air conditioning system

Air conditioning suited to the diversification of work styles and office use

We are addressing major changes in the value and requirements people set on office spaces now, with ongoing workstyle reforms and measures to prevent the spread of infectious diseases, and we are aiming to provide added value by improving the quality of these spaces. We have won praise for our proposals for systems that are designed to manage diversification of work styles and office use, part of the “new normal” era, and we are receiving a growing number of inquiries. In response, we have developed sites in Japan and overseas where customers can experience how azbil Group's products and services, such as the cell-type air conditioning system, can be used to create workplaces that encourage not only productivity and knowledge creation but also improve the wellness of the people working there.



Control valve maintenance support system

- A growing presence at plant sites

Our cloud-based system for the analysis of valve operating data plays an important role in ensuring stable plant operation. The results of a valve “health checkup” are visualized for users, thus contributing to stable operation of production facilities and strengthening security. This system is being introduced at an increasing number of chemical and oil refinery plants.



Expansion of business fields through collaboration with other companies

DX-EGA: We are launching a cloud service for calculating and visualizing GHG emissions
GX Solution: Reducing CO₂ emissions from large-scale facilities

In order to make a significant contribution toward achieving carbon neutrality, we have launched a collaboration with the NTT Group and others in the field of HVAC control to establish a green transformation (GX) solution that can be smoothly adopted in all types of buildings. In addition, as part of our business expansion into new automation fields in anticipation of the smart metering as a service (SMaaS) era, we have begun to offer customers our know-how and emission reduction measures using cloud services to facilitate the calculation and visualization of greenhouse gas emissions.

Dealing with pandemics and parts shortages

The COVID-19 pandemic has still not abated, and global supply chain and parts procurement challenges and other disruptions continue to plague the industry. Furthermore, the business forecast is uncertain due to rising geopolitical risks in Europe and other regions, soaring energy prices, and concerns about inflation. The azbil Group will respond promptly and appropriately to these various changes in the business environment. With respect to COVID-19, by continuing on-site business activities such as production, engineering, and service activities with the safety of our customers and employees as our top priority, we have responded to the demands of society in terms of both infection prevention and maintenance of social infrastructure and critical customer facilities. At the same time, we have reinforced our COVID-19 measures as a crisis management response, enhanced our business continuity plans (BCP), and strengthened and diversified our fund-raising capabilities. We have also worked to mitigate the impact of disruptions in global parts procurement, etc. by improving production operations, utilizing parts inventories for BCP, securing commercially available parts, switching to alternative parts and making design changes, in cooperation with other companies in the supply chain. In response to changes in ways of working, the azbil Group is expanding the use of telecommuting to help prevent infections, promoting the reform and creation of DX-based work mechanisms, and striving to improve new work styles and productivity by combining remote work and telecommuting, incorporating the concept of activity based working (ABW).

Sustainability/ESG initiatives

In addition to promoting group management and improving governance systems, the azbil Group continues to promote CSR management with a focus on risk management (quality and product liability, disaster/infection prevention, BCP, and information), compliance (corporate ethics and legal compliance), people-oriented management, contributions to the global environment, and social contributions.

We are actively pursuing environmental, social and governance (ESG) initiatives to realize sustainability. As for environment (E), we have declared our endorsement of the international framework of the TCFD, and disclosed our governance, strategy, risk management, metrics and targets; we have also targets to reduce greenhouse gas emissions across the entire supply chain (scope 3) in addition to greenhouse gas emissions from our business operations (scopes 1+2), and we are working to achieve these. As for society (S), we are a signatory to the United Nations Global Compact regarding human rights, labor, environment, and anti-corruption. We are also conducting

Business continuity planning

We are working to ensure the implementation and effectiveness of BCPs for production and head office functions founded on the basic policy of contributing to the recovery of society and protecting enterprise value without suspending business activities, while giving maximum consideration to safety measures and respect for human life. In FY2021, we established alternative locations to continue our top-priority business activities, improved the earthquake resistance of our buildings, and established systems and measures to prevent delays in our initial response to an emergency. In addition, we are implementing crisis management initial response training based on the assumption that the entire Kanto region may suffer a natural disaster.



Evacuation training based on the assumption of a natural disaster

a strategic review of human capital and intellectual property in our medium-term plan. With respect to corporate governance, Azbil Corporation, with the approval of the Annual General Meeting of Shareholders held on June 23, 2022, has transitioned to a company structure based on three committees, the majority of which are composed of outside directors, for the purpose of further reforming corporate governance. This new structure enables a significant delegation of authority for business activities from the Board of Directors, the majority of whose members are outside directors, to corporate executives with clear legal responsibilities. In conjunction with this transition to a three-committee corporate structure, a new compensation policy for management has been established, and a trust-based stock compensation plan for management have been introduced.

■ azbil Group's SDG targets

From the perspective of contributing "in series" to the achievement of a sustainable society and sustainability, we have positioned the SDGs as important guideposts for our management, and have established the azbil Group's SDG targets in two fields—"Environment and Energy" and "New Automation"—as areas to be addressed by our business. In terms of overall corporate activities, we have established "Supply Chain, Social Responsibility" and "Health and Well-being Management, An Organization That Never Stops Learning" as the essential goals of the azbil Group for the SDGs and are promoting efforts to achieve them.

In addition, the CSR and Risk Management Department has been established within the Corporate Sustainability Headquarters for the purpose of developing effective integrated risk management.

| Creating New Value Together with Customers at their Sites

Automation is playing a growing role as a solution for addressing various social issues and meeting changing customer needs. The azbil Group combines the measurement and control technologies it has cultivated to date, the knowledge it has gained working on site, and advanced IoT, AI, and big data technology to create new value through its three businesses while working together with customers at their sites.

At a Glance

BA

Building Automation business

We create comfortable and efficient office and production spaces and reduce the environmental burden by using our original environmental control technologies to deliver comfort, functionality, and energy efficiency for all types of buildings.

AA

Advanced Automation business

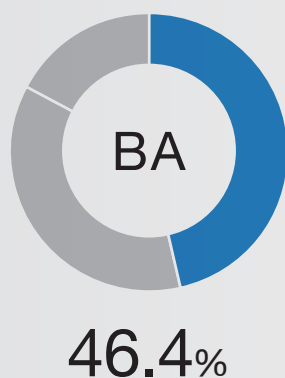
We develop advanced measurement and control technologies for factories and plants to help create production sites in which people can safely fulfill their potential. We create new value in collaboration with our customers.

LA

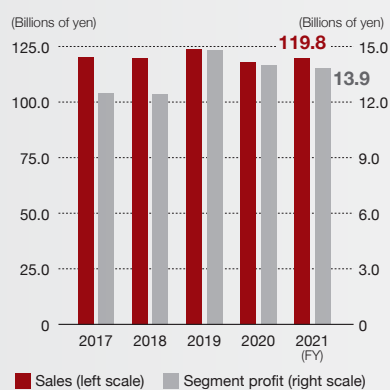
Life Automation business

We apply our measurement and control technologies and services cultivated over many years for buildings, factories, plants, and basic infrastructure to lifeline utilities such as gas and water, residential central air-conditioning systems, life science research, and pharmaceuticals. We help people to enjoy active lifestyles.

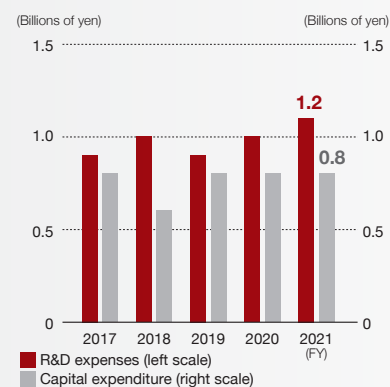
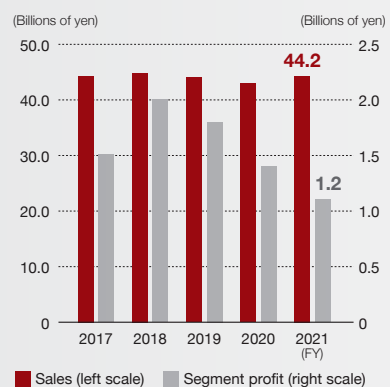
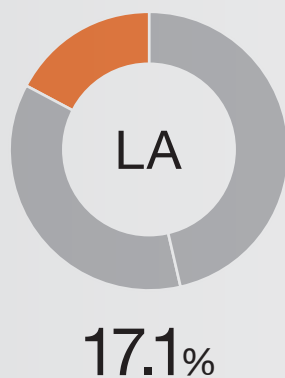
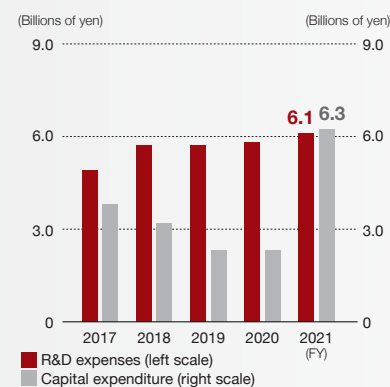
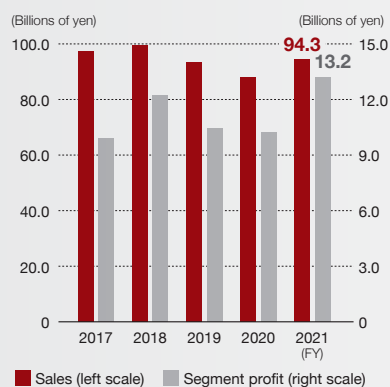
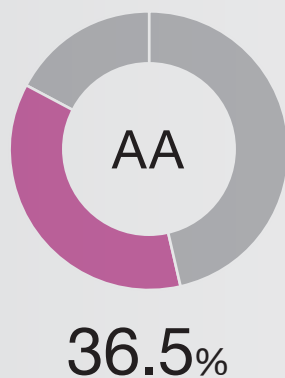
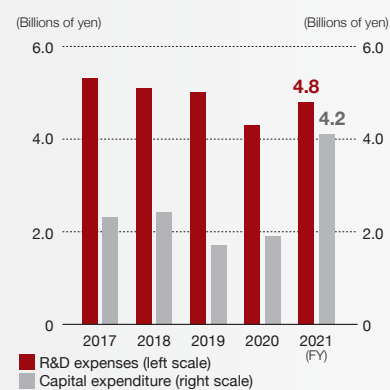
Share of Net Sales
by Segment



Sales, Segment Profit
(Operating Income)



R&D Expenses,
Capital Expenditure



BA

Building Automation (BA) business



We create building environments that balance comfort and energy saving and provide long-term services throughout a building's life cycle.

The Building Automation (BA) business provides products and systems necessary for heating, ventilation, and air conditioning (HVAC) control of office buildings and all types of large-scale buildings through an integrated framework, ranging from the development, manufacture, and sales of products and systems to engineering, installation, and maintenance services.

We deploy our advanced automated HVAC control technology combining control systems and application software for air-conditioning facilities with multiple devices (controllers, valves, and sensors) along with our proprietary

environmental control technologies. With these technologies, we create office and production spaces designed for comfort and health, as well as overall wellness, helping to boost business efficiency and labor productivity while minimizing environmental impact.

Leveraging our strengths in providing total solutions covering the life cycle of buildings, we support stable operation while increasing the asset value of customer buildings over the long term, from building construction and maintenance services to renovation and energy-saving solutions.

Features and Strengths

Presence Pioneer in the HVAC control field

Pioneer in Japan in the field of HVAC control for large-scale buildings

Product strength Full lineup of products

Responding quickly to societal changes through open innovation and in-house development and manufacture of sensors, valves, controllers, and systems

Technical capabilities Environmental control technology utilizing cloud computing and AI

Original environmental control technology using networks and operating data to improve safety, comfort, and environmental performance

Execution ability Total solutions / Integrated framework

Integrated framework for instrumentation design, installation & engineering, maintenance services, energy-saving solutions, and building management & operation

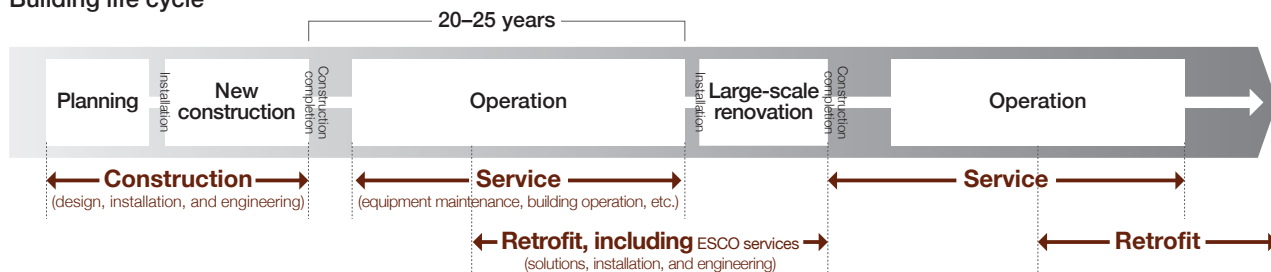
Earning power Life-cycle business

Stable business model aligned to a building's life cycle, from construction planning to providing daily services and supporting renovation projects

Business Fields

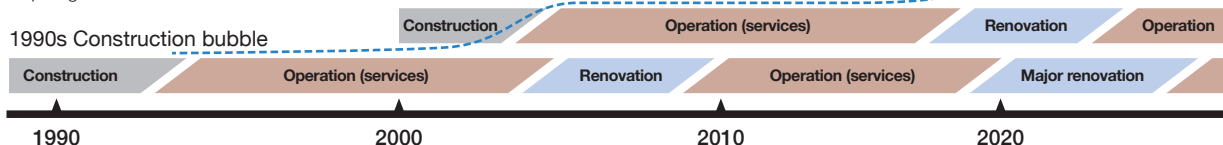
Office buildings, research laboratories, factories, data centers, hotels, shopping centers, hospitals, schools, airports, etc.

Building life cycle



Business environment (life cycle of buildings, construction boom)

Steadily growing volume of buildings requiring services and renovation from FY2021



Management & maintenance for building complex

Maintenance

Energy management

Building operation optimization proposals

Building renovation proposals

We provide life-cycle appropriate services by combining building automation with new areas of technology like the IoT.

Detecting

Sensors and measurement devices

Sensing and measurement of room temperature and humidity



Room temperature/humidity sensor



Room temperature/humidity controller



Infrared array sensor



Wireless sensor

Settings

User-operated devices

Building users can set temperature, humidity, and other variables



Digital user terminal



Multi-area user terminal



Smartphone application (for room users)

Managing

Building automation (BA) systems

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



BA system



Wall-mounted BA system



BA system for small buildings

Protecting

Security systems

Controlling access to building commons and interiors



Contactless smartcard reader



Biometric authentication

Controlling

Regulators and controllers

Control to keep building facilities and instruments in optimal state



Controller for air conditioning equipment



Heating/cooling plant controller



Compact remote I/O module

Adjusting

Valves / actuators

Optimal adjustment of the flow rates of hot/cold water and steam used in building



Motorized control valve with flow measurement and control functions



VAV damper

We develop and produce building automation systems, automatic control instruments, and applications that facilitate building management.

Building Automation business



Medium-term plan | Vision and growth strategy for the BA business

Becoming the No. 1 BA supplier in Asia



“The BA business is developing products and services and collaborating with other companies to develop businesses to provide solutions for today’s needs, such as decarbonization and adapting to the “new normal.”

Changes in the business environment and customer needs

- ◆ Major construction projects in Japan and Asia
- ◆ Increasing demand for building refurbishment in Japan
- ◆ Decarbonization increasing energy-saving and CO₂ emission reduction needs
- ◆ In the “new normal” era new building environmental needs for safety and productivity are emerging, while business opportunities are expanding for the realization of both carbon neutrality and wellness.

Core strategies

- ◆ Provide energy savings and wellness based on the integration of our BA system, IoT devices, and field equipment, as well as accumulated data and know-how
- ◆ Strengthen solutions capabilities and expand business fields, including collaboration with other companies
- ◆ Introduce cloud-based energy efficiency and virtual power plant (VPP) services
- ◆ Develop proven energy-saving apps and engineering services that meet safety and comfort needs overseas

Kazuyasu Hamada

Managing Corporate Executive

President of Building Systems Company, Azbil Corporation

Fiscal Year 2021 Performance Review

Operating environment

In the domestic market, demand continued from urban redevelopment projects and factories in the Tokyo metropolitan area, and interest in solutions related to improving ventilation, saving energy, reducing CO₂ emissions, and lowering operational costs also expanded. The impact of the COVID-19 pandemic remained limited, but some parts procurement difficulties were seen. Overseas, the pandemic had an impact on construction projects, including postponements and construction delays.

Fiscal year 2021 business review

In these business conditions, we diligently worked to secure orders while maintaining and enhancing profitability and strengthening our job execution capabilities and efficiencies, primarily at our construction and service sites, to respond to the Japanese government’s work-style reforms while giving due consideration to the safety of our employees and customers.

As a result, overall orders received recorded a year-on-year increase of 11.8% to ¥132.511 billion, despite the impact of the new revenue recognition standard on the service sector.* This result was due to the renewal of multi-year service contracts, as well as an

increase in the sector related to the refurbishment of existing buildings, partly owing to customers placing advance orders because of parts shortages.

Sales grew 1.9% year-on-year to ¥119.765 billion as a result of an increase in the field for new large-scale buildings and the field related to the refurbishment of existing buildings, despite a decrease in the service field owing to the new revenue recognition standard and parts procurement difficulties. Owing to parts procurement difficulties and other factors, the segment sales fell short of our plan.

Despite the effect of improved profitability, segment profit was on a par with the previous fiscal year at ¥13.863 billion due to increased R&D expenses determined by the medium-term plan and personnel expenses associated with increased order-taking activities, as well as work-related expenses related to the COVID-19 pandemic that were recorded in the first half of the year. It also fell short of the plan because the sales plan was not achieved.

* The new revenue recognition standard mainly affected the service field, resulting in a decrease of approximately ¥3.2 billion in orders received, while the impact on sales and segment profit was insignificant.

Fiscal Year 2022 Performance Plan

We aim to increase both sales and profits in FY2022 by capturing the strong demand for HVAC control equipment and systems for large-scale buildings, working through the

order backlog for new building projects, and responding to the rising demand for building refurbishment.

Initiatives to Accomplish the Medium-term Plan

Business environment outlook and basic policies

In the medium to long term, we plan to leverage our solid track record to fully respond to the anticipated growth in demand generated by major redevelopment projects and by the planned renovation of numerous large-scale buildings beginning in FY2022.

We expect growing demand for advanced automated HVAC control to realize comfortable interior environments and growing customer needs for energy saving and the reduction of CO₂ emissions as a result of the movement toward decarbonization. Although the growth in remote working due to the pandemic could reduce demand related to office buildings, we expect the “new normal” to increase demand, in Japan and overseas, for solutions involving the highest S-class and A-class large-scale office buildings offering ventilation/access control while also promoting safety, security, and wellness.

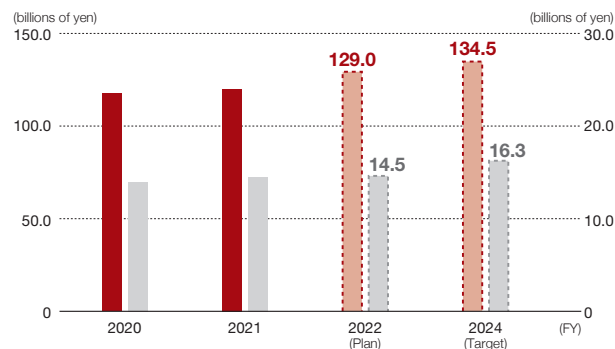
To respond to the growth in demand, the azbil Group will maintain business expansion by continuing to provide solutions founded on its established engineering, installation, and service structure as well as extensive data and expertise, while also offering innovative solutions for remote maintenance, cloud-based services, and cell-type air conditioning systems. We are also advancing internal measures, such as reforming our business processes, to establish a more robust profit structure.

Initiatives and progress in attaining our medium-term plan targets

■ Expand the three growth fields / Respond to new societal issues

We have made steady progress with securing orders for the retrofit business for existing buildings—which corresponds to

Sales and segment profit



■ Sales (left scale) ■ Segment profit (right scale)

our environment and energy and life-cycle solutions fields, and for which demand is expected to grow in the future—and orders received have increased. We have also begun to collaborate with other companies to establish a GX Solution that contributes to the reduction of CO₂ emissions from large-scale facilities. In addition, VPP demonstration testing has progressed; utilizing our BA system that has already been adopted for large-scale office buildings, this can provide a solution unique to the azbil Group.

■ Develop and launch new products and services

To meet the needs for new office environments accommodating the diverse work styles of the “new normal” era, and aligning with the activity based working (ABW) concept, we have launched new products such as cell-type air conditioning systems. We are developing proposals for customers and have opened a business office where visitors can gain firsthand experience of the benefits of these products.

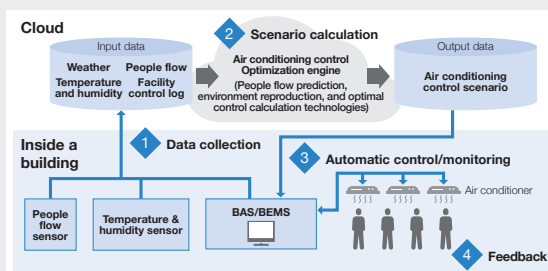
■ Increasing overseas customer contact points (coverage)

We will expand our overseas business by introducing products for overseas markets and building relationships with leading companies. With the support of the Singapore Economic Development Board, we have begun developing a new digital solution for an integrated building management system for overseas use.

Close Up

Collaboration to achieve carbon neutrality

- Reducing CO₂ emissions from office buildings by 20% through green transformation



We are aiming to realize a GX solution through collaboration, with Azbil providing building operation technologies and HVAC control know-how.

The azbil Group has concluded a collaboration agreement—related to HVAC control aimed at realizing carbon neutrality—with four companies of the NTT Group and Daikin Industries, Ltd. Through this collaboration, we will establish a green transformation (GX) solution in the HVAC control field, one that can be smoothly adopted in all types of buildings and facilities, both new and existing, by combining the HVAC control technologies and expertise of each company. This will reduce CO₂ emissions from large-scale facilities and contribute significantly to achieving carbon neutrality for society as a whole.

Advanced Automation (AA) business



We work with our customers to solve problems at manufacturing sites, creating safe and comfortable environments that are perfect for work.

Our Advanced Automation (AA) business is 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. The azbil Group structures its activities in the PA and FA fields into the three business sub-segments of control products (CP), industrial automation products (IAP), and solution and service (SS). We make full use of our considerable expertise and familiarity with specific market needs and product characteristics in each

sub-segment to provide a variety of solutions enabling advanced control and optimized operation throughout the life cycle of customer equipment and facilities—from systems, products, and software to instrumentation, engineering and maintenance services. Incorporating the latest innovations—such as IoT, big data, cloud computing, and AI—we create new value at the manufacturing site by working with customers seeking safe and stable operations, improvements in productivity, and innovation in production processes.

Features and Strengths

Presence Leading the industrialization of Japan

Unmatched ability to generate new value, backed by over a century of developing measurement and control technologies at production sites and substantiated by a successful track record and unrivaled expertise in a wide variety of industries

Execution ability Total solutions / integrated framework

- Developing business in the three AA business sub-segments based on market characteristics
- Providing solutions tailored to customer needs through an integrated framework—from the development of products and applications to instrumentation, engineering, and maintenance services

Technical capabilities Combining on-site knowledge and the latest measurement and control technologies with information technologies

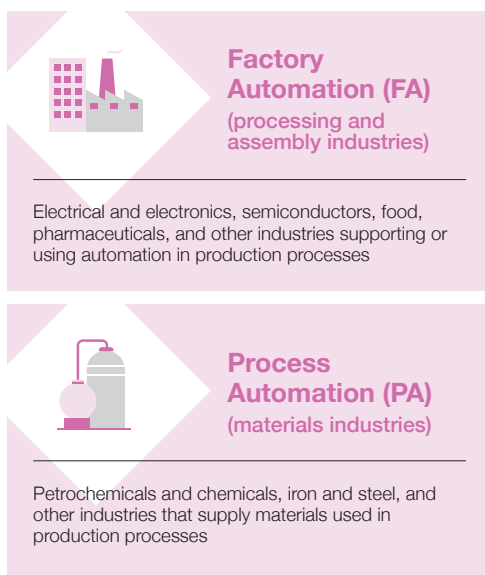
Experienced field staff draw on all their skills and knowledge to provide measurement and control solutions optimized for production sites and smart IoT services using big data and AI

Product strength Sensors and field instruments incorporating advanced technology

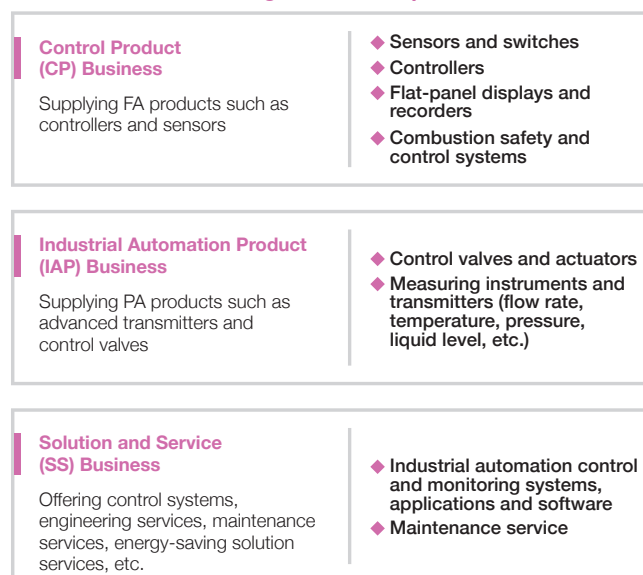
Sensors and field instruments incorporating MEMS and other advanced technologies for quick and accurate on-site acquisition of the information essential for sophisticated control

Business Fields and Business Units

Business fields



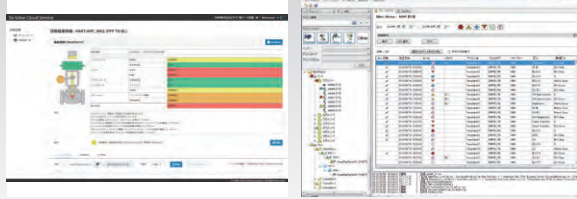
Three AA business sub-segments Main products and services





Diagnosing

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

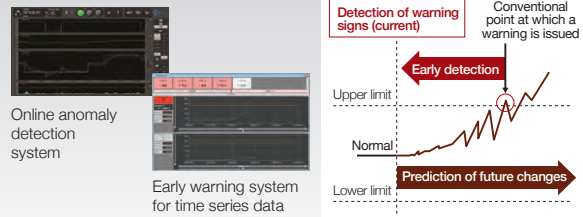


Control valve maintenance support system

Device management system

Predicting

Using big data and AI to detect anomalies in advance, predict future status, and optimize operational plans



We are raising productivity and quality and supporting reliable operation at production sites by utilizing big data and AI.

Adjusting

Control valves

Optimal adjustment of gas and liquid flow rates at production sites



Control valve and smart valve positioner

Detecting

Sensors and switches

Precise detection and high reliability to meet a wide range of needs at production sites



High-accuracy position sensor



Photoelectric switch with built-in amplifier



Advanced ultraviolet flame detector



Limit switch



Adjustable proximity sensor



Micro flow rate liquid flow meter



Monitoring

Monitoring and control systems

Monitoring of manufacturing processes



Monitoring and control systems

Measuring

Process sensors

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



Advanced transmitter



Electromagnetic flow meter



Vortex flow meter

Controlling

Controllers

Optimal control of processes, equipment, and facilities



Multi-loop controllers with multifunction display



Network instrumentation module



Process controller

Mass flow controllers

Gas flow rate control (set value)



Digital mass flow controller

We develop and produce measurement and control equipment, monitoring and control systems, and applications in order to solve problems at worksites.

Advanced Automation business



Medium-term plan | Vision and growth strategy for the AA business

Developing a globally competitive business to become a high-profit business entity that contributes to a sustainable society



“**The AA business is developing products and services integrating AI, cloud computing, MEMS,* and other technologies. It is accelerating market launches, and creating a new automation field unique to the azbil Group.**”

Changes in the business environment and customer needs

- ◆ Growing demand for manufacturing equipment and production lines to provide the semiconductors and new products required to meet society's growing needs for remote working and high-speed telecommunications
- ◆ Growing demand for energy-efficient production facilities with GHG controls required for decarbonization
- ◆ Growing requirements to ensure safe, efficient operation of facilities, to manage labor shortages, and to meet the demand for products and high value-added services suited to the “new normal” era

Core strategies

- ◆ Develop new products using MEMS technology and expand the measurement field
 - ◆ Develop new products, systems and services for anomaly prediction/detection and AI equipment diagnosis that integrate cloud computing, AI technology, and IoT devices
 - ◆ Develop for overseas markets proven and competitive products and services offered in Japan
- * Devices built using microfabrication technology to integrate sensors, actuators, and electronic circuits on substrates

Yoshimitsu Hojo

Managing Corporate Executive

President of Advanced Automation Company, Azbil Corporation

Fiscal Year 2021 Performance Review

Operating environment

Regarding FY2021 market conditions affecting the AA business in Japan and overseas, demand in markets for semiconductor manufacturing equipment remained at a high level due to expanding investment in 5G. Overall capital investment recovered, particularly in the manufacturing equipment market. On the other hand, the impact of longer delivery times for some products due to parts procurement difficulties continued to be felt.

Fiscal year 2021 business review

In this business environment, our overseas growth strategy generated results, and our profit structure was further strengthened through the progress of various measures.

Orders received increased significantly overall for the AA business, rising by 25.2% to ¥109.562 billion, with a growing backlog of orders. This was mainly due to continued demand in the manufacturing equipment market and business growth overseas, against the backdrop of expanding global semiconductor investment.

Sales increased 7.4% to ¥94.276 billion, mainly in the manufacturing equipment market and overseas business. Although the initial plan* was achieved, this

result fell short of the revised plan* owing in part to the delayed recording of sales for some products in the second half because of parts procurement difficulties.

Segment profit increased 29.1% to ¥13.237 billion as segment profit margin continued to improve, reflecting increased revenue and the success of measures to strengthen profitability. This was despite increased expenses associated with strengthening sales and increased R&D expenses determined by the medium-term plan. Although the revised plan* was not achieved, the segment was able to record its highest ever profit, exceeding the original plan.*

* Initial plan (May 2021)

Sales: ¥94.2 billion, segment profit: ¥11.6 billion

Revised plan (November 2021)

Sales: ¥96.5 billion, segment profit: ¥13.4 billion

Fiscal Year 2022 Performance Plan

We aim to increase revenue and profits in FY2022 based on the recovery of market conditions in the previous fiscal year, the backlog of orders accumulated through advance orders, and the growth of our overseas business thanks to measures taken to strengthen sales capabilities. Nevertheless, we expect parts procurement difficulties to continue.

Initiatives to Accomplish the Medium-term Plan

Business environment outlook and basic policies

In the medium to long term, we anticipate growing investment demand in response to labor shortages, the decarbonization of society, telecommuting and the “new normal.” This continued investment is aimed at the automation of manufacturing equipment and production lines to increase productivity by introducing new technologies.

We will continue advancing our business expansion into growth fields, particularly overseas, centered on the CP, IAP, and SS business sub-segments. We will accelerate the development and market launches of products and services incorporating AI, cloud computing, and MEMS technologies; create a new automation field unique to azbil; and aim for business growth with high competitiveness.

Initiatives and progress in attaining our medium-term plan targets

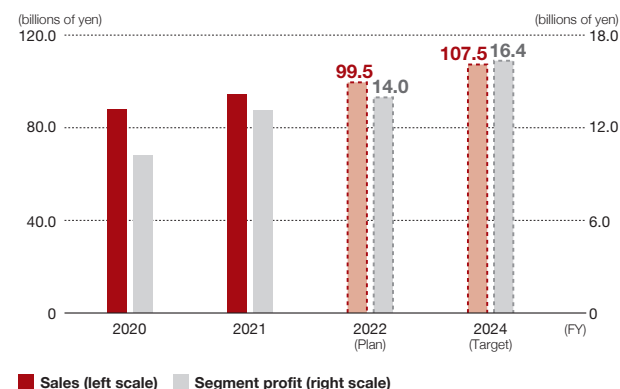
■ Expand the three growth fields / Respond to new societal issues

The AA business covers a wide range of business fields and a variety of markets through its CP, IAP, and SS business sub-segments. Within each of these, we take a more granular approach, leveraging our unique characteristics to develop business in the three growth fields. In this way, we will reform our business portfolio by expanding business areas in which we enjoy a competitive advantage.

■ Measures to boost profitability

We will further advance measures to strengthen profitability, tailored to the characteristics of each business sub-segment. These includes expanding overseas production and procurement, redesigning products to reduce product costs (core product renovation), improving the cost of services, optimizing selling prices, and improving our product/service mix. In FY2021, our gross profit margin

Sales and segment profit



continued to improve, despite the impact of cost escalation caused by parts shortages and other factors.

■ Develop and launch new products and services

As an engine for business growth, we have selected the creation of a new automation field, utilizing new products and services that leverage the azbil Group's strengths. One such product, our cloud-based valve analysis and diagnosis service, has been increasingly adopted at various customer plants. In addition, we have garnered praise for our expertise in AI development and operation as applied in our anomaly prediction and detection system, and this has led to joint development projects with our customers.

■ Increase domestic and overseas customer contact points (coverage)

In overseas markets, we continue to strengthen our sales structure by increasing the number of sales staff, improving their skills, and increasing the number of distributors. As a result, progress has been made with customer development in each region, and sales in China increased significantly with the market recovery. In addition, to advance the digital transformation (DX) of our sales functions, various tools have been introduced in Japan and overseas, and work has begun on ensuring more efficient operations.

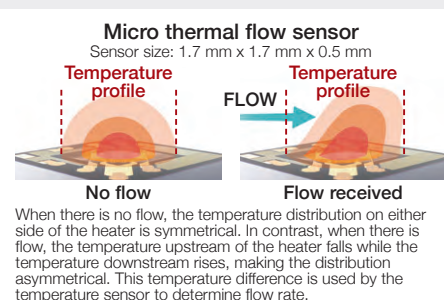
Close Up

Providing new products that expand the measurement field with new technologies such as MEMS

- Mass flow controller with rapid response and high accuracy



The digital mass flow controller model F4Q is a high-performance digital mass flow controller equipped with a proprietary micro thermal flow sensor in the detection unit. It is equipped with a large LED that shows control status at a glance and an LCD that provides control status details. It has enhanced accuracy over a wide flow rate range, and new functions have been added to solve flow control issues.



Life Automation (LA) business



Measurement and control technologies for safe, secure, comfortable, and healthy living

The Life Automation (LA) business leverages automation technologies to meet a vast wide variety of needs in people's everyday lives, including realizing safe and secure living conditions, supporting fulfilling lives, and helping to address environmental issues. Through our business, we

enhance safety, security, comfort, and energy saving in various fields ranging from lifelines such as gas and water, and living spaces, including our residential air conditioning systems, to research, pharmaceutical, and medical facilities that contribute to people's health.

Features and Strengths

Stability and growth potential

Meeting replacement demand

Meters to meet replacement demand as required by law, smartification of gas and water meters, and use of smart meters to develop an "as a service" business model

Growth potential

Contributing to advanced medical care

Engineering services and safe, high-quality equipment for pharmaceutical research and development, manufacturing sites, and medical institutions

Uniqueness

Whole building air conditioning

Centralized air conditioning systems equipped with comfort features to provide high air quality, ventilation, and comfort

Business Fields

Lifeline field (gas and water meters)

The LA business provides meters for households and businesses using city gas, LP gas, and water, as well as products for industrial use, including regulators and safety equipment, such as gas alarm units. The azbil Group's meter business took a giant step forward in December 2005 with the acquisition of Kimmon Manufacturing Co., Ltd. (now Azbil Kimmon Co., Ltd.), a pioneer in metering instruments that introduced Japan's first domestically produced gas meter in 1904. The company currently offers meters for city gas, LP gas, and water. It enjoys a stable business foundation benefitting from legal requirements that support steady replacement demand for gas and water meters. Kimmon Manufacturing is currently developing smart meters with IoT technology.

Life science engineering (LSE) field

Our total solutions for pharmaceutical manufacturers encompass development, engineering, installation, sales, and after-sales services for lyophilizers, sterilizers, clean environment equipment, and other equipment.

In January 2013, the azbil Group's LSE business benefited from the addition of Spanish company Telstar S.A. (now Azbil Telstar, S.L.U.), a supplier of process equipment and environmental systems for pharmaceutical companies and laboratories with operations in Europe, Latin America, and South Asia. Telstar has an extensive track record and experience in engineering, providing equipment and services related to the life science field.

Residential central air conditioning systems

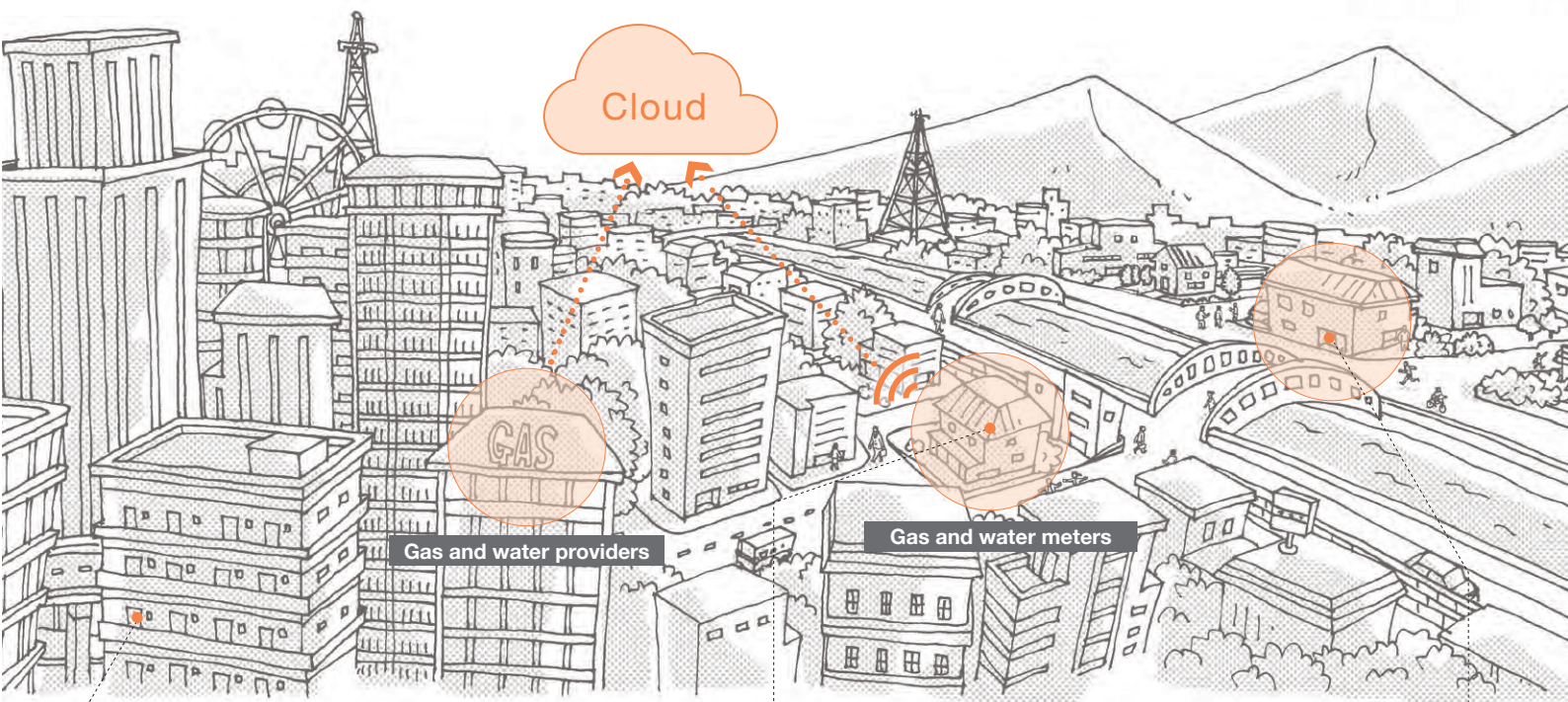
We have adapted our air conditioning technology for large-scale buildings to create central air conditioning systems for detached residential houses: a single system for cooling, heating, ventilation, air purification, and dehumidification that provides a comfortable environment throughout the home. These systems also support comfortable and healthy living spaces through features such as electronic air cleaners—with pollen, PM2.5 particle, and virus removal technology—and variable air volume (VAV) control, enabling individual temperature settings for each room.



Meter data services harnessing IoT

The LA business is increasingly harnessing IoT for its water and gas meters. In the LP gas market, we are expanding sales of our cloud-based service for meter reading, security, and monitoring alarm conditions using the LTE-M* standard for IoT communications. We are also introducing a similar smart meter reading and alarm data monitoring service for city gas and water. Looking ahead to the coming era of smart metering as a service (SMaaS), we are accelerating development of businesses that apply automation to new fields while exploring services that will offer new value by combining electricity, gas, and water data.

* LTE-M is a communications standard for IoT using licensed frequency bands in a low-power wide-area (LPWA) wireless network.



Lifeline Field (Gas and Water Meters)

Azbil Kimmon Co., Ltd.

Gas meters



City gas smart diaphragm meter Ultrasonic gas meter High-pressure regulator



LP Gas LP gas smart diaphragm meter Ultrasonic gas meter

Water Meters



Electronic counter type water meter Battery-operated electromagnetic water meter

Life Science Engineering Field (Pharmaceutical Manufacturing Equipment)

Azbil Telstar, S.L.U.

Pharmaceutical manufacturing equipment



Barrier systems Lyophilizer

Total solutions for life science

Azbil Telstar offers solutions comprising design, engineering, and manufacturing processes backed by automation technology for life science companies. Teams of experts oversee the entire manufacturing process, including the design and manufacture of process equipment and facilities using original technologies for decontamination, pure water, pure steam, and freeze-drying. Delivered as turnkey projects,* these solutions contribute to efficient, environmental, and safe factory operations.

* Contracts in which a single contractor is responsible for the delivery date, assurance, and performance guarantee for all steps of development, from design and the procurement of equipment, materials, and services, to installation and commissioning

Lifestyle-related Field

(Residential Central Air-conditioning Systems)

Azbil Corporation

Air quality—ventilation and central air conditioning systems

Ventilation is important in enclosed spaces. Unlike ordinary room air conditioners, our residential central air conditioning system features a heat exchange ventilation system that refreshes the air in the entire house every two hours. This energy-efficient air conditioning system also features an electronic air cleaner that removes contaminants—pollen, PM2.5 particles, and viruses—to further enhance air quality.



Indoor unit and electronic air cleaner



Outdoor unit



Outlet



Heat exchange ventilator

Life Automation (LA) business



Medium-term plan | Vision and growth strategy for the LA business

Structural reforms to evolve from being a “new business” to a “growth business”



“We are progressing with the development and testing of a new business model employing meter data services, as we evolve from being a new business to become a growth business.”

Changes in the business environment and customer needs

- ◆ Growing demand for infrastructure maintenance and safe, efficient operations
- ◆ Increase in demand for IoT-compatible meters; use of big data acquired from smart meters
- ◆ Regional decentralization of pharmaceutical production lines; increasing demand
- ◆ Balancing comfort and safety/security requirements in living spaces

Core strategies

- ◆ Advance energy management and smart metering as a service (SMaaS) businesses
- ◆ Develop pharmaceutical manufacturing solutions, such as for vaccines overseas
- ◆ Offer space comfort solutions featuring our variable air volume (VAV) and clean air technologies for small buildings

Masato Iwasaki

Managing Executive Officer

Life Automation Business, Azbil Corporation

Fiscal Year 2021 Performance Review

Operating environment

The LA business's three core fields each have a different business environment.

Demand in the lifeline field of gas and water meters, which account for the majority of sales, is primarily driven by demand for meter replacement as required by law. Thus, basically stable demand is expected, though cyclical demand for LP gas meters is currently at a low ebb. On the other hand, in the LSE field, investment in pharmaceutical plant facilities continues to increase.

Fiscal year 2021 business review

Orders received increased 8.1% to ¥46.845 billion, mainly due to an increase in the LSE field driven by growing demand for pharmaceutical equipment in the pharmaceutical market.

Sales in the lifeline field declined owing to changes in market conditions, the COVID-19 pandemic, and difficulties in procuring parts. However, overall sales increased 3.0% to ¥44.238 billion due to growth in the LSE field, reflecting increased orders in the previous fiscal year. Segment sales fell short of the plan mainly due to the prolonged impact of the pandemic.

Segment profit also fell short of the plan, declining

19.7% to ¥1.151 billion, primarily due to lower revenue in the lifeline field. Though the LSE field achieved revenue growth, expenses increased along with business growth, and profit was impacted by soaring raw material prices and higher energy and transportation costs.

Fiscal Year 2022 Performance Plan

We aim to increase both revenues and profits in FY2022 by expanding the LSE field, harnessing expanding demand in the pharmaceutical market, and by developing cloud-based services in the lifeline field.

Initiatives to Accomplish the Medium-term Plan

Business environment outlook and basic policies

The LA business has a portfolio of businesses strongly associated with society, such as the meter business contributing to social infrastructure, equipment and engineering businesses supporting pharmaceutical manufacturing, and residential central air conditioning systems. These businesses are also strongly related to the three growth fields such as environment and energy. We will continue taking steps to stabilize and improve profits in each of the business fields.

At the same time, in addition to augmenting our existing product-driven business, we will pursue opportunities brought about by business environmental change in the energy supply market. For example, we are creating new business as a service provider using IoT and other technologies, collecting data from our meters to boost sales and profits in the lifeline field. As we promote initiatives in each field to generate business growth, we will transform our LA business from the new category to the growth category.

Initiatives and progress to attaining our medium-term plan targets

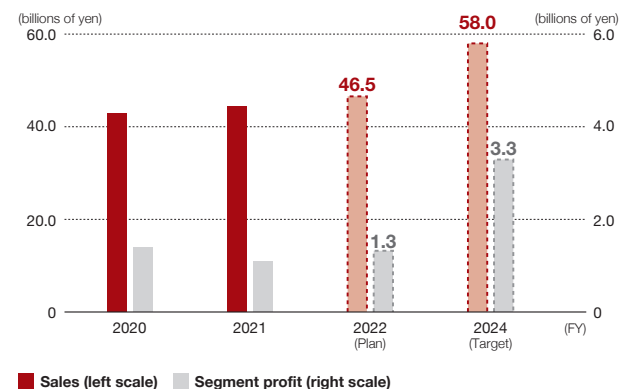
■ Lifeline field

We will build on our stable product sales, supported by meter replacement as required by law, to further develop our service business using IoT and SMaaS. As for DX-EGA, our next-generation energy management business, we have begun providing our technology for a cloud-based service, operated by another company, for calculating and visualizing greenhouse gas (GHG) emissions. In addition, cloud-based services for water meters are being used for early detection of water leakage and other problems as well as for meter reading at a resort complex with a total area of approximately 8 million square meters, contributing to water resource management. At the same time, we continue to work on expanding our lineup of smart meters.

■ Life science engineering field

We have developed an IoT-supported service business with a focus on designing sterile spaces and designing/

Sales and segment profit



manufacturing pharmaceutical production equipment through an integrated framework, ranging from equipment layout design for pharmaceutical production processes, to equipment design, manufacture, installation and after-sales service. We will continue to pursue the growing global demand related to pharmaceuticals, including the trend toward regional decentralization of pharmaceutical manufacturing.

■ Lifestyle-related field

As a business that improves the quality of life by contributing to comfortable spaces, we provide equipment and systems that create comfortable living conditions in a wide range of houses, large and small, new and old. We will also support healthy living through better home air quality, offering equipment that improves ventilation using heat exchange ventilators and electronic air cleaners.

Close Up

DX-EGA,* a next-generation energy management business

- DX-EGA is conceived as a collaborative business combining various business data and services with current data collection methods.



DX-EGA provides added value in the energy and environmental fields, for example by providing individual household energy data analysis and supporting corporate ESG initiatives and carbon pricing. We are also planning to offer services for finance, distribution, healthcare, and other fields.

As one example, financial institutions are urging companies and their supply chains to streamline GHG emissions accounting and decarbonization management. We provide cloud services to support these companies, including a GHG emissions management service and recommendations for emission reduction measures suited to each company, backed by our expertise and experience in this field.

* DX-EGA: A business concept that provides value to customers by accelerating DX in various domains based on energy data (electricity, gas) and water data (aqua).

Digital Transformation (DX)

Strengthening the Business Foundations and Expanding the Three Growth Fields by DX

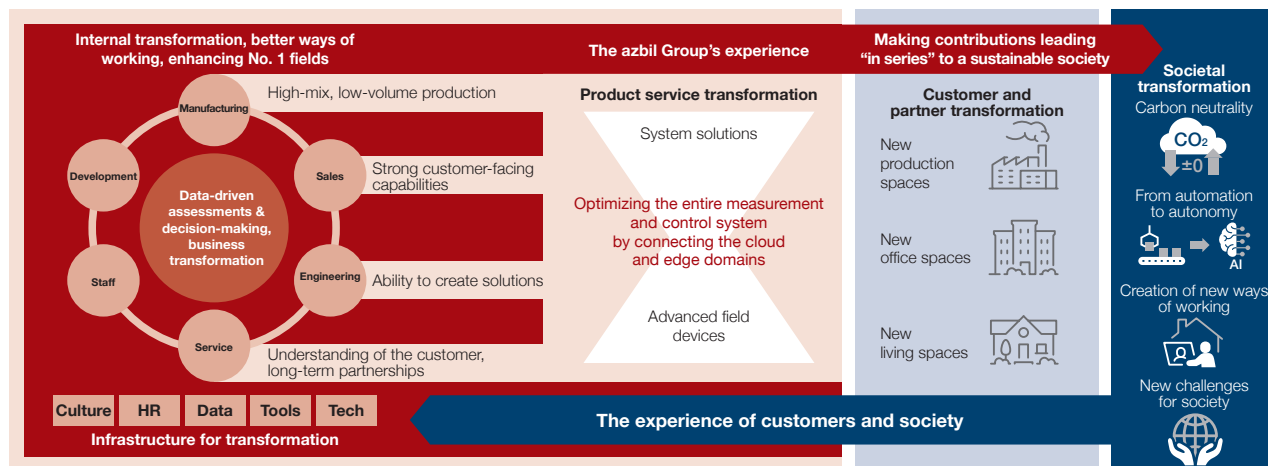
Basic policies

Recognizing that changes in the natural environment and the business environment, evolving technology, and new requirements of society are expanding the role and opportunities for automation, the azbil Group aims to further enhance the value it provides by creating new work and new work mechanisms through the use of DX. Specifically, we have identified three growth fields: *new automation*, which integrates products and information; *environment and energy*, which provides solutions to

reduce environmental impact, curb energy demand, and integrate renewable energy; and *life-cycle solutions*, which provides value tailored to each stage of our customers' business development. We intend to further accelerate our business development by utilizing the latest digital technology. In addition, to promote growth we are making proactive efforts as the Group to improve business activity, shift onsite work to remote operation, introduce new tools, and create new ways of working that gives us the opportunity to provide our expertise to customers.

The azbil Group's DX overview

Through internal transformation, helping to transform our customers, partners, and society, while providing feedback for the azbil Group's next transformation



On September 1, 2021, we received DX-certified operator status from the Ministry of Economy, Trade and Industry, as a company highly rated for commitment to creating new value in automation through its unique DX.

■ Sales and engineering

We conduct integrated business activity that combines sales, engineering, installation, and maintenance. We provide DX-powered maintenance using cloud technology. In response to the different problems faced by our customers in each region, we provide world-class solutions and maximize the value of our customers' facilities throughout their life cycles.

■ Service

We are working to digitize service operations. In addition to streamlining work during onsite inspections, our systems allow us to remotely collect data and analyze "event" outputs, and offsite experts can inspect control operations for better maintenance of automatic control equipment.

■ Development

We are putting IoT, cloud computing, and AI to practical use and strengthening the network and system solutions we use between field devices and control and monitoring centers. Sensing information received from field devices is aggregated and processed by our systems, facilitating site control planning and monitoring and allowing the entire measurement and control system to be optimized.

■ Cloud Operation Center

We provide secure operation and monitoring. On May 29, 2020, our Cloud Operation Center obtained ISMS certification for "energy, equipment, and quality monitoring & management cloud services" based on the international ISO 27001 standard, as well as ISMS Cloud Security certification based on the ISO 27017 standard.

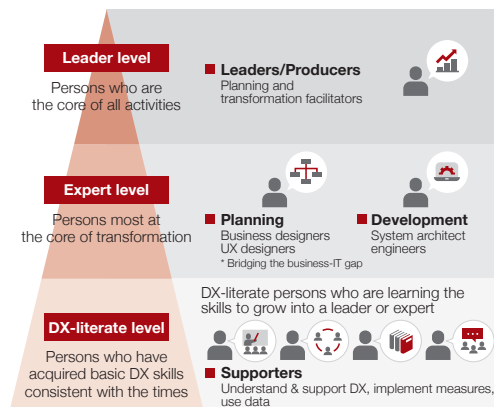
DX human resource development

DX provides support for the expansion and deepening of the azbil Group's three growth fields. To promote and accelerate DX, it is essential to train personnel to have the necessary skills in business, data science, and data engineering. The azbil Group classifies DX-capable personnel into three levels: DX-literate, expert, and leader. We are working on a human resource development program with the aim of a class of 1,000 experts. In FY2021, Azbil launched DX seminars and basic cloud-based education for the DX-literate level and will expand the program to all employees starting this year.

Strengthening DX human resource recruitment

We support the Japanese government's Mathematics, Data Science and AI Smart Higher Education Programs and are working proactively to enhance employee training, recruit DX-capable human resources, and strengthen our workforce in order to promote DX.

DX-capable personnel and their roles



Collaborative creation with customers

We combine our in-house DX experience with solution services and products as we work together with customers.

- Our online anomaly detection system, which uses AI, is developed collaboratively by Azbil and Kansai Electric Power Company, and is used mainly for thermal power generating plants.



Online anomaly detection system

- Control valve maintenance support system, a cloud-based valve analysis and diagnosis service
- Smart metering as a service (SMaaS)
- DX-EGA, a next-generation energy management business (run by Takaoka Toko Co., Ltd., Toshiba Toko Meter Systems Co., Ltd., Azbil Kimmon Co., Ltd., and Azbil Corporation)
- GX solutions, reducing CO₂ emissions from office buildings and other large facilities (participants: NTT Urban Solutions, Inc., NTT Facilities Inc., NTT Urban Development Corporation, NTT Communications Corporation, Azbil Corporation, Daikin Industries, Ltd.)

Green transformation (GX)

We also support the GX League Basic Concept, which was published by the Ministry of Economy, Trade and Industry in February 2022. In keeping with this



concept, in order to achieve carbon neutrality and social transformation by 2050 we will continue taking on the challenge of promoting GX together with the government and academia. In April 2022, we created the "GX Solution Department" in charge of GX promotion, related business development, and partnership development across the entire company. We are aggressively strengthening our product capabilities and value offerings through DX, expanding our client business contributions and contributions to society, and extensively promoting GX.

Integration of core and production systems

In May 2015, the first phase of the Group-wide core information system went online. This accomplished the integration into a single system of our core system and more than 140 systems that had previously been partially optimized under different mechanisms at various Group companies. The new system was successively introduced to domestic sales subsidiaries and affiliates and overseas subsidiaries and affiliates (two overseas sales companies and one overseas manufacturing company), and beginning in 2020 it was introduced to the Azbil Kimmon Group (head office and five production sites) and one overseas manufacturing base.

Introduction of core system and cloud MES to the Kimmon Group

Even during the COVID-19 pandemic, we are introducing the system (training, migration, and post-go-live support) through remote work, leveraging the benefits of cloud computing, and we have begun production DX efforts centered on onsite personnel to improve the accuracy of inventory control, eliminate dependence on individual skills, reduce paperwork, and visualize the progress of production in real time.

Global Network

Through Our Global Value Chain, Increasing Customer Satisfaction and Contribute to the Resolution of the Problems Faced by Society



Azbil Telstar, S.L.U., Spain



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

Technological Research and Product Development p. 53

Promoting research and global development through our three main hubs in Japan, the U.S., and Europe

We have added a new building and introduced advanced facilities at our Fujisawa Technology Center, our core base for technological research and product development, in order to enhance our capabilities by creating an optimal research and development environment. We focus on research into cutting-edge technology, including next-generation measurement methods and the IoT, at our U.S. Silicon Valley location, and on the development of pharmaceutical manufacturing equipment in Europe. While pursuing initiatives that leverage the special strengths of each region, we are also creating synergies among our global locations.

R&D Bases

- Japan** Azbil Corporation's Fujisawa Technology Center and other locations
- USA** Azbil North America Research and Development, Inc.; Azbil VorTek, LLC
- Europe** Azbil Telstar, S.L.U., Spain



Azbil Corporation (Fujisawa Technology Center), Japan

Manufacturing and Procurement p. 57

Building a highly efficient production system centered on our mother factory

We established our main manufacturing bases in Japan, China, and Thailand to create a production system that combines global competitiveness with responsiveness to risk and changes in the market environment. Centered on our Shonan Factory and Fujisawa Technology Center, which function together as a mother factory, all Group companies and departments collaborate to maintain low costs and produce high-performance, high-quality products that incorporate cutting-edge technology.

The azbil Group is creating an integrated value chain that includes technological research and product development, manufacturing and procurement, sales, engineering, installation, and services.





While sharing case studies for advanced solutions and initiatives in Japan, the U.S., Europe, and Asia, we are working to improve customer satisfaction throughout the world and aim to resolve environmental and other global issues.



Azbil Corporation (Shonan Factory), Japan



Azbil North America, Inc., USA

-  Sales
-  Development
-  Services (maintenance services)
-  Production

Sales, Engineering, Installation, and Services p. 59

Main Production Factories

- Japan** Azbil Corporation's Shonan Factory, etc.
- China** Azbil Control Instruments (Dalian) Co., Ltd., etc.
- Thailand** Azbil Production (Thailand) Co., Ltd.



Azbil Control Instruments (Dalian) Co., Ltd., China

We work with our customers worldwide to create value rooted in their sites

Based on our global service network, we conduct integrated business activity that combines sales, engineering, installation, and maintenance. We promote DX maintenance using cloud technology. In response to the different problems faced by our customers in each region, we provide world-class solutions and maximize the value of our customers' facilities throughout their life cycles.

Main Sales and Services Locations

- Japan** Azbil Corporation; Azbil Trading Co., Ltd.; Azbil Kimmon Co., Ltd.; and others
- Asia-Pacific** Azbil Control Solutions (Shanghai) Co., Ltd.; Shanghai Azbil Automation Co., Ltd.; Azbil Korea Co., Ltd.; Azbil Corp.'s Strategic Planning & Development Office for Southeast Asia; Azbil Singapore Pte. Ltd.; PT. Azbil Berca Indonesia; and others
- USA/Europe** Azbil North America, Inc.; Azbil Europe NV; Azbil Telstar, S.L.U.; and others



Azbil (Thailand) Co., Ltd. (Rayong Office, Solution & Technology Center), Thailand

Technological Research and Product Development

Promoting Research and Development of Products and Services based on Our Management Strategy by Capturing the Changing Needs of the Market

Technological development policy

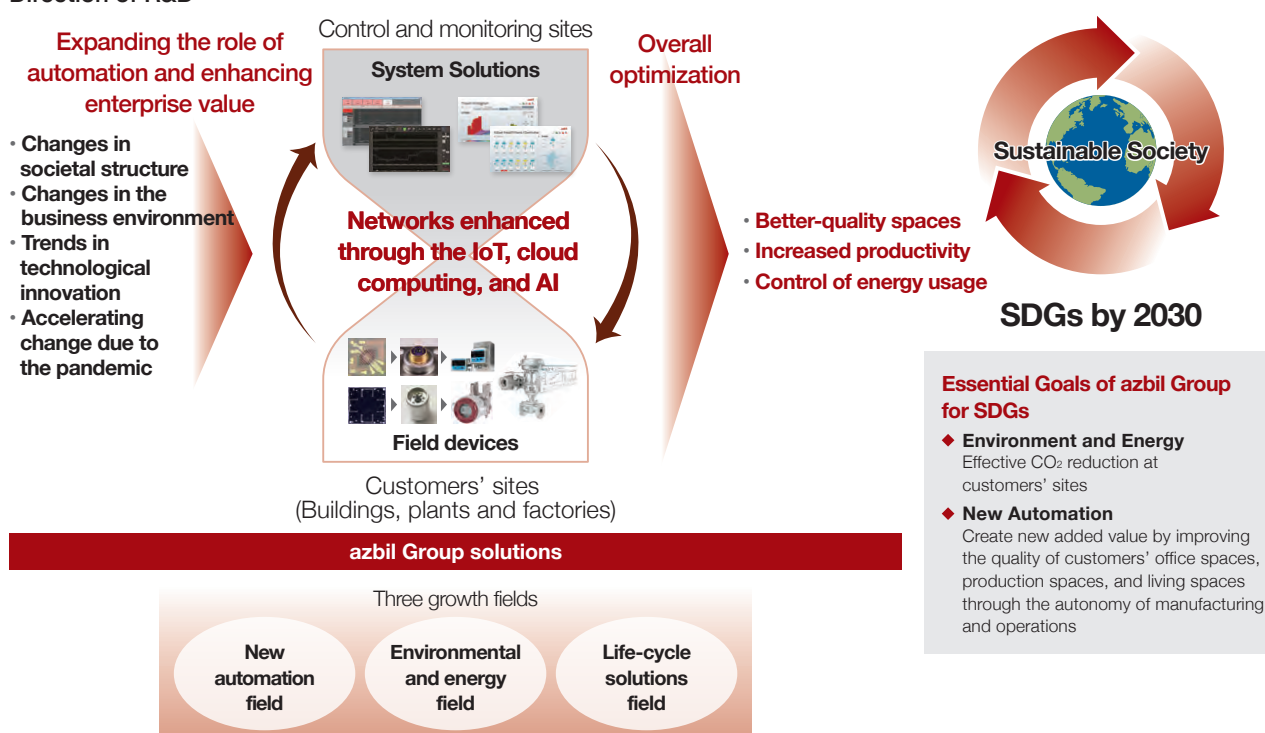
The azbil Group is introducing new, competitive products and services in the three growth fields we have identified for business growth: *new automation*, *environment and energy*, and *life-cycle solutions*. For this purpose, we are working to further strengthen our measurement and control technology for field devices and system solutions (see the figure below) in order to take advantage of changes in the business environment and in technology.

Specifically, we are promoting the use of the IoT, cloud computing, and AI, while also enhancing the capabilities of our network between field devices at our customers' buildings, plants, and factories on the one hand and our system solutions at control and monitoring sites on the other. With this network, sensing information received by field devices is aggregated and processed by our system solutions for purposes of control planning and monitoring, allowing for optimization of the entire measurement and control system. Through these initiatives we aim to build optimal operating systems even for large-scale, complex control targets.

At the same time, we are working to develop various individual technologies. For our field devices, we are incorporating MEMS,* advanced measurement principles, and AI capabilities with the aim of creating sensing devices with autonomous processing capabilities. In the area of system solutions, we are applying cutting-edge technology, including the use of cloud systems and AI, to process the big data obtained at our customers' sites, to convey complex phenomena in easily understandable ways, and to achieve total system optimization. Through these initiatives, based on information that has been optimized using system solutions, we are aiming for more precise control of field devices by making them more user-friendly and more compatible with control devices.

In so doing, we are developing our three growth fields to bring about improvements in the quality of indoor spaces and productivity at our customers' sites while curbing energy consumption, as stated in our new long-term goals, in order to help solve problems faced by society and achieve our own sustainable growth.

Direction of R&D



To improve the quality of indoor spaces at our customers' properties, it is important to understand how people sense heat and which aspects of the indoor environment create discomfort or negatively affect intellectual productivity, and then to control air circulation local areas as well as over wide, based on whether (and how many) people are present. We are working to capture the necessary information on environmental factors to achieve this goal, continually developing new technology to create indoor environments where everyone in the facility feels comfortable.

To increase productivity, we are working to help our customers stabilize the quality of their operations through smart maintenance at manufacturing sites by making complex processes more understandable and by converting human skills to explicit knowledge and automating them.

To minimize resource and energy use, we are working toward further optimization by determining the best methods for saving energy without decreasing productivity or the quality of the interior environment, and by learning from changes in the indoor environment and understanding both current and predicted energy consumption.

* Devices built using microfabrication technology to integrate sensors, actuators, and electronic circuits on substrates

Developing products by combining the three growth fields

While creating unique solutions at customers' sites, the azbil Group is pursuing the initiatives below in its three main businesses to continuously generate new solutions.

■ Building Automation business

To counter global warming, we are retrofitting existing buildings and developing energy management technology to achieve a continuous reduction in the CO₂ emitted from large buildings. We are also developing a product group to provide safer workplaces, which are increasingly in demand during the COVID-19 pandemic.

■ Advanced Automation business

Using AI and IoT, we are developing cloud services to achieve safe and efficient remote operations of manufacturing facilities.

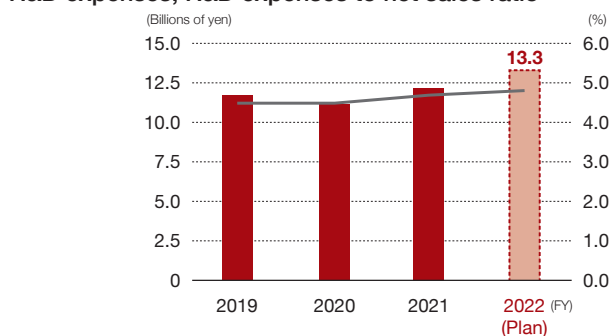
■ Life Automation business

Our new services in development range from a service to save labor in energy infrastructure maintenance to a service for collecting and using big data.

KPIs for technology and product development

The azbil Group has set out quantitative indicators (KPIs) for the development of technology, products, and services, including patent application count,* ratio of R&D expenses to net sales, product sales, and the ratio of new products to total product sales. Since we have KPI data through time on the results of the technology and products we develop, we are able to appropriately revise our strategies for technology and product development.

R&D expenses, R&D expenses to net sales ratio



R&D expenses	11.8	11.2	12.1	13.3
R&D expenses to net sales ratio	4.5	4.5	4.7	4.8

* We believe that intellectual property is an important management resource for maintaining, expanding, and creating business. For more information on our intellectual property strategy, including the number of patent applications and patents held, see p. 83.

Global development framework

We have a trilateral system of developing technology and products in Japan, the U.S., and Europe. These locations include our research and development center in Silicon Valley and our European companies.

At our U.S. research and development company, we are developing next-generation measurement technology and conducting research on the latest technological innovations, including those related to the IoT and international standardization.

In Europe, through cooperation with companies such as Azbil Telstar, S.L.U., we are strengthening our product line for pharmaceutical manufacturing facilities and medical facilities.

R&D bases



Strengthening of calibration capabilities

With “correct measurement” as the starting point, the azbil Group provides safety, comfort, and fulfillment for its customers. To determine whether the sensors and measuring devices that are key to this end goal are measuring correctly, calibration is used. The measuring devices, generators, etc., that themselves serve as the physical measurement standards are managed with high precision. The Measurement Standards Section at Azbil's Fujisawa Technology Center is certified by the Japanese government as a JCSS Accredited Laboratory in the fields of temperature, humidity, electricity, pressure, vacuum, liquid microflow, and time (frequency).* The Calibration Service Center at Azbil Kimmon and the Calibration Group at Azbil Kyoto are also certified as JCSS Accredited Laboratories, maintaining calibration capabilities that are top-class in Japan.

In May 2022, the construction of a new laboratory building was completed at the Fujisawa Technology Center. In September 2022, a new calibration office will begin operation, bringing together current construction technology, the azbil Group's air conditioning technology, and its measurement expertise. As we combine the top-class capabilities of the new calibration office with DX and other elements, our “correct measurement” will be ensured through calibration and standards.

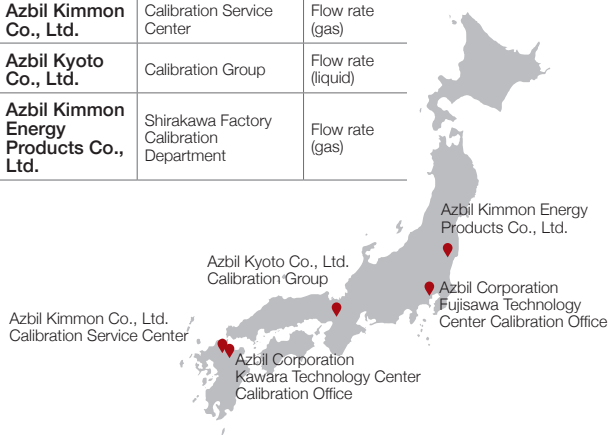


High-precision vacuum calibration system

* Please refer to the website of the National Institute of Technology and Evaluation (NITE) for information on the categories registered and certified under JCSS.

azbil Group calibration locations

Company	Location	Calibration capabilities
Azbil Corporation	Fujisawa Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage, resistance), fluid flow (gas, liquid), pressure, vacuum, time (frequency), length, weight, torque
	Kawara Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage, resistance), pressure, time (frequency), length, weight, torque
Azbil Kimmon Co., Ltd.	Calibration Service Center	Flow rate (gas)
Azbil Kyoto Co., Ltd.	Calibration Group	Flow rate (liquid)
Azbil Kimmon Energy Products Co., Ltd.	Shirakawa Factory Calibration Department	Flow rate (gas)



Production technology

We are working to strengthen the production technology for our next-generation MEMS sensors, which are based on the strength of our advanced packaging technology.

The angle sensors installed in our smart valve positioners contribute to the stable supply of high-quality products through integrated in-house production, from the development of MEMS sensor chips to the production process of sensor packages for installation in products and the development of product assembly processes.

By integrating the azbil Group's know-how in high-mix, low-volume production and customized production with the latest AI and IoT technologies, we are achieving high-value-added production that meets even more diversified customer requirements (see p. 58).



Smart valve positioner 700 series



Sensor package production process

Human resource development for R&D personnel

We are focused on training personnel who can create high added value using AI and big data for our services and DX for our engineering services (which are the backbone of the azbil Group's business), and who can achieve the timely market introduction of new products. We are working to train personnel for project management, software development, and electronic circuit and machinery design, and for the overall strengthening of our technological and development capabilities.

R&D investment

At the Fujisawa Technology Center, the azbil Group's core research and development hub, which is located in Fujisawa, Kanagawa Prefecture, we are improving the efficiency of R&D and accelerating technological and product development by establishing advanced R&D facilities and innovative, collaborative spaces where new technology and new value can be conceived.

We have constructed a laboratory building (Bldg. 103) for R&D activities for advanced system solutions and measurement and control equipment utilizing the cloud and AI, and a laboratory building (Bldg. 104) for R&D of advanced-function, high-precision MEMS sensors that provide new value for customers.

Building 104 is equipped with facilities for measurement standardization and for development of MEMS

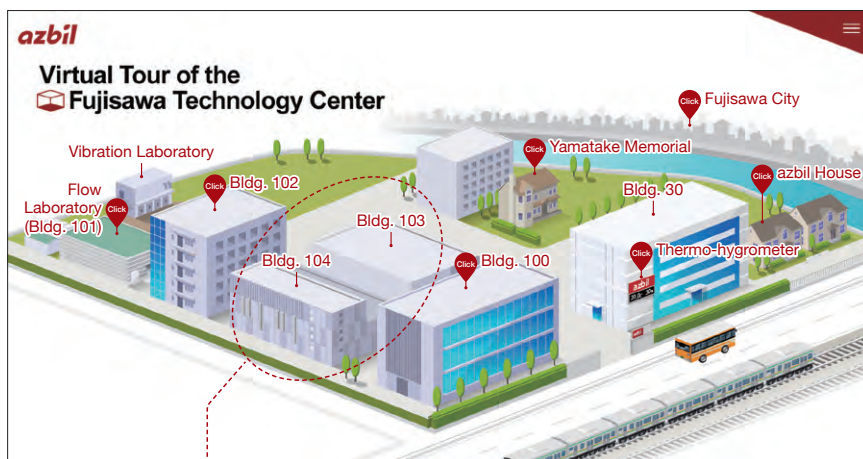
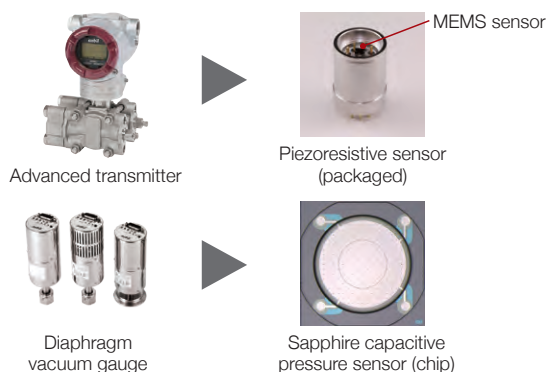
sensors, a key component of the azbil Group's sensing technology. We aim to maintain and improve competitiveness of its MEMS sensors through its accumulated proprietary underlying technology, process technology, and development & production expertise. At the same time, we also ensure the stable supply of and new product development of high-performance sensors as well as expanding business into new fields based on those sensors.

Building 103 will boost development with its optimized and advanced development environment, while also providing a workspace to bring about productivity and creativity for R&D. The work areas are laid out to strike a balance between fostering concentration and enabling work at a more leisurely pace, the latter of which can be accomplished at a café-style area that reflects current work styles. By providing an optimized environment for development and work, this new building promotes stimulation for employees and creation of new ways of working.*

We are also developing facilities that allow our customers and local residents to experience the azbil Group's technology and that promote interaction within and outside the Group, with the aim of developing technology and products that incorporate diverse opinions.

* By bringing about transformation through combining work mechanisms (promoting digital transformation), new work styles, and work sites and environments, we aim to increase value provided to customers.

Products with built-in MEMS sensors



Lab buildings 103 (left) and 104 (right), completed in May 2022

The new lab buildings (completed in May 2022) at the Fujisawa Technology Center, our central R&D base, are outfitted with the latest experimental environments and contain energy-intensive facilities and equipment like clean rooms and measurement standard facilities. However, by incorporating various energy-saving measures based on the technology, know-how, and accumulated data of our Building Automation business, we have achieved energy consumption levels that are much lower than those of other buildings with the energy consumption rate per unit of production.

A virtual tour of the Fujisawa Technology Center, our central R&D base, is available on our website (see the illustration above). The newly constructed laboratory buildings 103 and 104 will also be added to the virtual tour one by one in FY2022.



Virtual tour of the Fujisawa Technology Center
<https://www.azbil.com/corporate/pr/showroom/ftc/index.html>

Manufacturing and Procurement

Establishing an Optimal and Sustainable Supply Chain to Support Global Business Development

Basic approach

The azbil Group aims to build an optimal production system for global business development. In addition to the expected considerations of quality, cost, delivery deadlines, and manufacturing efficiency, we are incorporating the achievement of the SDGs into our manufacturing and procurement activities as a corporate goal, and proactively taking on the challenge of new initiatives such as applying DX to production.

Improving the global production system

With the expansion of our business globally, we established a three-pronged production system with bases in Japan, China, and Thailand. At each location we are strengthening our procurement network, improving our sales and distribution channels for direct sales and shipment to various markets, and working to enhance productivity and expand production volume while lowering costs.

At our Thailand production center, we are further expanding the scale of production with a focus on component products, and have plans for factory expansion, etc., for new industrial market products. At the production base in Dalian, China, we enhanced our production capacity for valves and differential pressure transmitters, and a new factory building providing expanded production capacity was completed in April 2022. The new factory building is mainly for industrial valves, and work is proceeding to automate various processes.

The Group's new main factory

As part of the optimization of our global production system, the new Shonan Factory and our technology R&D facility, the Fujisawa Technology Center, work in close collaboration, functioning together as a mother factory for the Group.

To rise to the challenge of next-generation production, our goal is to achieve a “4M revolution” for the basic elements of manufacturing (man, machine, material, and method), further enhancing the three functions below and the strength of our production.

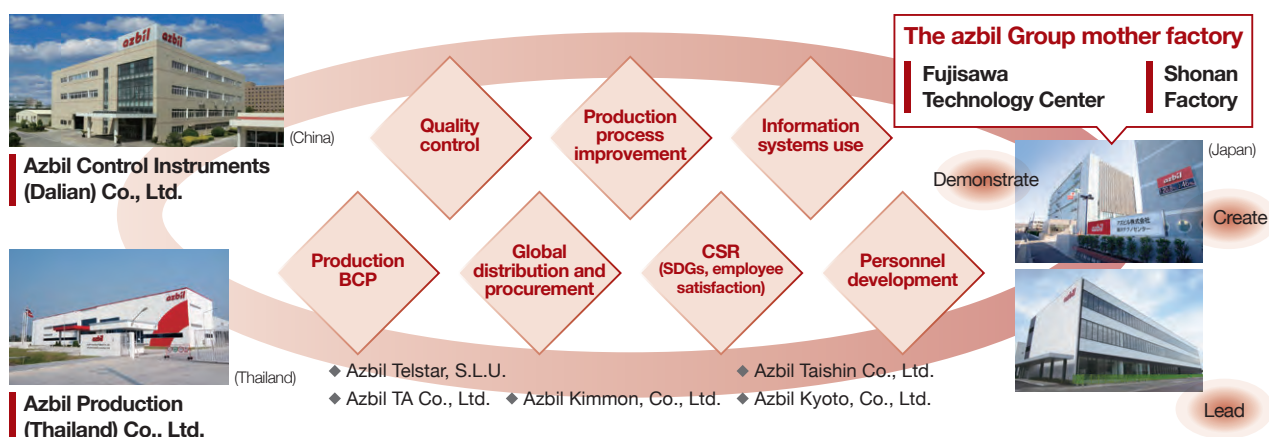
Creating We aim to create and increase competitive advantages in our manufacturing departments that competitors cannot rival, by developing cutting-edge technology with advanced MEMS sensor packaging, and production processes that harness the power of AI, the IoT, and automatic precision processing.

Demonstrating One of the azbil Group's strengths is the development of highly automated production lines for high-mix low-volume manufacturing and other types of customization in which humans and machinery work together. That is where we demonstrate our competitive production capabilities, which are both flexible and powerful.

Leading The role of the Shonan Factory is to lead the entire azbil Group in production, distribution, and procurement transformation, and to promote standardization in the Group's factories worldwide. Moreover, the factory strives to systematically train the personnel involved in Japan and abroad with our foundational production and control technology and the personnel who manage production at bases worldwide.

The azbil Group's production system

Our mother factory leads azbil Group production, creating a strong global system and raising the level of production in Japan and abroad.



Innovative production processes

The azbil Group aims to use innovative production processes and construct competitive production lines through improved production technology.

Specifically, we are making more advanced micro-component connection, bonding, and assembly/precision processing technologies, with a focus on MEMS sensor assembly technology. At the same time, we are pursuing creative and advanced manufacturing processes by means such as the utilization of new materials and the development of innovative material processing technologies, and are applying them to the development of new production lines.

In addition, to improve manufacturing process efficiency and quality, we are systematically moving toward further automation and systemization of processes based on the azbil Group's own HCA-MS concept.* We are also looking to expand global production and are combining the azbil Group's expertise in high-mix, low-volume production and customized production with the latest AI and IoT technologies. We are working towards the automation of microfabrication processes, which previously relied on the skills of workers, and the establishment of systemized assembly and inspection processes that require a certain level of experience and judgment to ensure the same quality no matter when, where, or by whom they are performed.

We are working on expanding the scope of application of these initiatives from our mother factory to production sites in Japan and overseas to maintain and improve quality globally and to strengthen our competitiveness.

BCP for manufacturing and procurement

We must limit the impact on our customers of risks that threaten production or distribution in Japan or overseas, including natural disasters that cause or potentially cause serious damage, or other unexpected situations such as the COVID-19 pandemic, or emergency situations. For that reason, we have undertaken the following initiatives to improve production robustness, with the aim of restoring production within an acceptable amount of time.

- Production line BCP: plans for restarting production lines
- Component BCP: plans for alternative acquisition of parts and for maintaining inventory
- Countermeasures for activity restrictions in the capital area: securing alternative factory production and logistical capacity
- Disaster preparedness: strengthening the capacity of production sites to cope with natural disasters

Moreover, in response to the recent shortage of semiconductors and the difficulty in procuring parts due to *force majeure* declarations by companies providing materials, we are implementing measures to minimize production stoppages as much as possible through flexible responses involving distribution channels, design changes, etc.

Contributing to a sustainable society and corporate growth

The azbil Group has announced its own SDG-related goals and is strengthening efforts in the area of manufacturing to contribute to a sustainable society.

We are improving energy efficiency using IoT, AI, and other technology. With regard to products, we promote energy-saving design that reduces the number of parts and we try to adopt recyclable materials to reduce the amount of material consumed. Furthermore, to fulfill our responsibilities in the supply chain, we have reviewed our basic procurement policy with our business partners, with the SDGs as a common goal, aiming to achieve the SDGs through shared goals and cooperation.

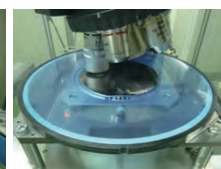
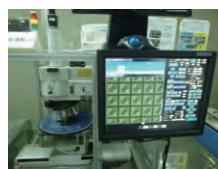
We continue to pursue optimization of our global production framework, providing high-quality advanced technology, products, and services worldwide in a timely manner. In so doing, we strive to meet the various needs of our customers and contribute to a sustainable society and sustainable business operations (see pp. 68, 81–82).

Controller inspection and assembly process

Digital mass flow controller

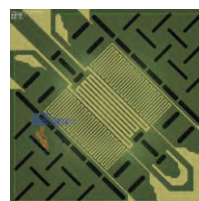


MEMS sensor chip image inspection



By introducing an imaging device for inspection, accuracy has been improved and work time has been significantly reduced.

Many decisions can now be made automatically through AI-based image processing.



High-tech assembly process

Products of the same quality can now be produced at any production base around the world.



* HCA-MS refers to a system that automates processes by mechanizing human capabilities such as the sensation of touch, eyesight, and intelligence, and combines the accuracy of machinery with the flexibility of human beings. Functionality is modular, allowing reuse and flexible response to production facility expansion or other changes.

Sales, Engineering, Installation, and Services

Maximization of Life-cycle Value Through a System Integrating Sales, Engineering, Installation, and Services

Providing total solutions worldwide

In order to maximize life-cycle value in our customers' buildings, factories, and plants, the azbil Group has a unique integrated framework that allows us to offer total solutions incorporating everything from consulting and sales proposals to engineering, installation, and services. Our sales engineers, systems engineers, field engineers, and service engineers work around the world to provide optimized solutions tailored to each site in order to meet the different requirements at various stages of the life cycle: planning, operation, maintenance, improvement, and refurbishing.

Sales, engineering, and installation

Drawing upon our integrated framework, we share the various needs and problems faced by our customers in their buildings, plants, and factories, from analysis of problems and proposal of solutions, to system design and actual onsite installation and adjustment.

■ Building Automation (BA) business

In the air conditioning control systems of buildings handled by our BA business, there are various challenges depending on the nature of the facility (offices, etc.) and the regional characteristics. The azbil Group, based on its know-how and operating data accumulated over many years, can recommend optimal products and solutions ranging from BA systems to energy-saving solutions, depending on the use of the facility and the type of operations. In addition, we provide onsite engineering and manage the safety, quality, and cost of our installations, providing the level of control that our customers request.

■ Advanced Automation (AA) business

Customers at the manufacturing sites handled by our AA business also have a wide range of needs, which change greatly along with the evolution of technology like the IoT. We constantly work together with our customers to pursue solutions, ranging from creating systems for plants and factories to improving manufacturing processes, providing energy-saving solutions, and proposing optimal products and applications.

■ Life Automation (LA) business

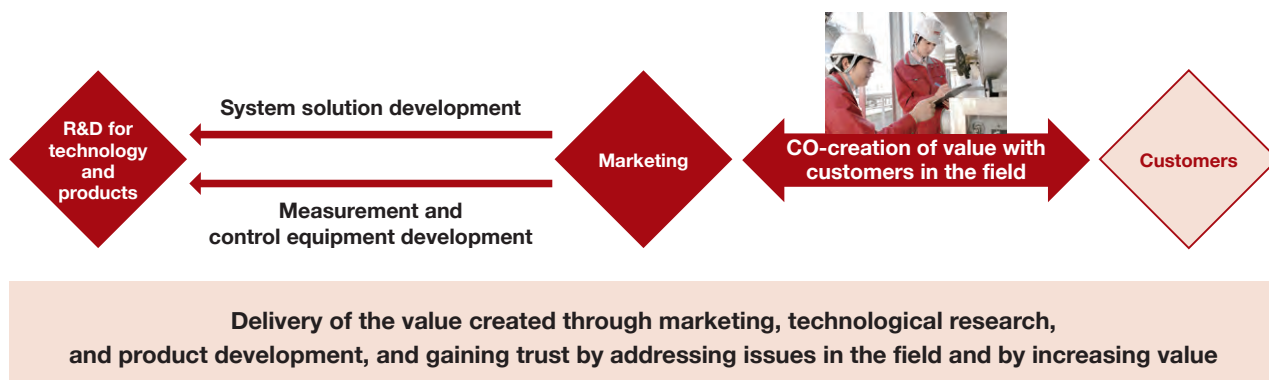
Life science engineering is one component of our LA business. We provide the equipment used to produce vaccines and other pharmaceutical products. To ensure the safety of these products, there are technologically complex and highly distinct requirements for the manufacturing equipment and services, which must also comply with very strict legal regulations in their design and fabrication. We use our deep knowledge in this area to propose optimal solutions that satisfy both our customers and the legal requirements.

Services (maintenance services)

■ Boosting QCDSE using DX and HR

Our service engineers are specialists in the equipment and systems used in customers' buildings, plants, factories, and other facilities. They provide periodic inspections and maintenance for optimal operation and respond promptly to emergencies. Additionally, we also aim for the transformation from conventional labor-intensive services to knowledge-intensive services.*¹ We focus on providing DX-powered services such as remote maintenance and

The azbil Group service business



control valve diagnostics, proposing solutions based on our extensive data and actual results and bringing together human resources with exceptional experience and skills who help to achieve customers' QCDSE*² targets.

*1 For this transformation to knowledge-intensive service, the company develops professional personnel.

(1) Technical specialists for control operation inspection: 60% of our target for FY2024 has been achieved.

(2) Valve professionals: 40% of our target for FY2024 has been achieved.

*2 An acronym for quality, cost, delivery, safety, and environment.

■ Global expansion of the life-cycle solutions business

In our BA business, we are enhancing the remote maintenance technology that allows us to remotely monitor buildings overseas and to provide efficient maintenance services with high added value. In our AA business, we are expanding our Asian service area, including China, Thailand, Singapore, and Indonesia, by developing a comprehensive solutions-oriented valve business encompassing everything from the supply of control valve products to maintenance services. In addition to IoT-based services that use big data and AI, such as monitoring for anomalies and forecasting future conditions, we provide added-value solutions services globally as we work to expand our life-cycle solutions business.

■ Improving service productivity and added value through DX

The azbil Group, based on the unique advanced technology and abundant know-how acquired by its control and management professionals, is working to create new tools for service operations. In addition to making site inspections more efficient, these tools allow us to more effectively maintain automated control devices by remotely collecting data and analyzing "event" outputs, and by having offsite experts examine control operations. Additionally, through the collection and analysis of self-diagnostic information from equipment, we can proactively propose preventive maintenance services that ensure system reliability.

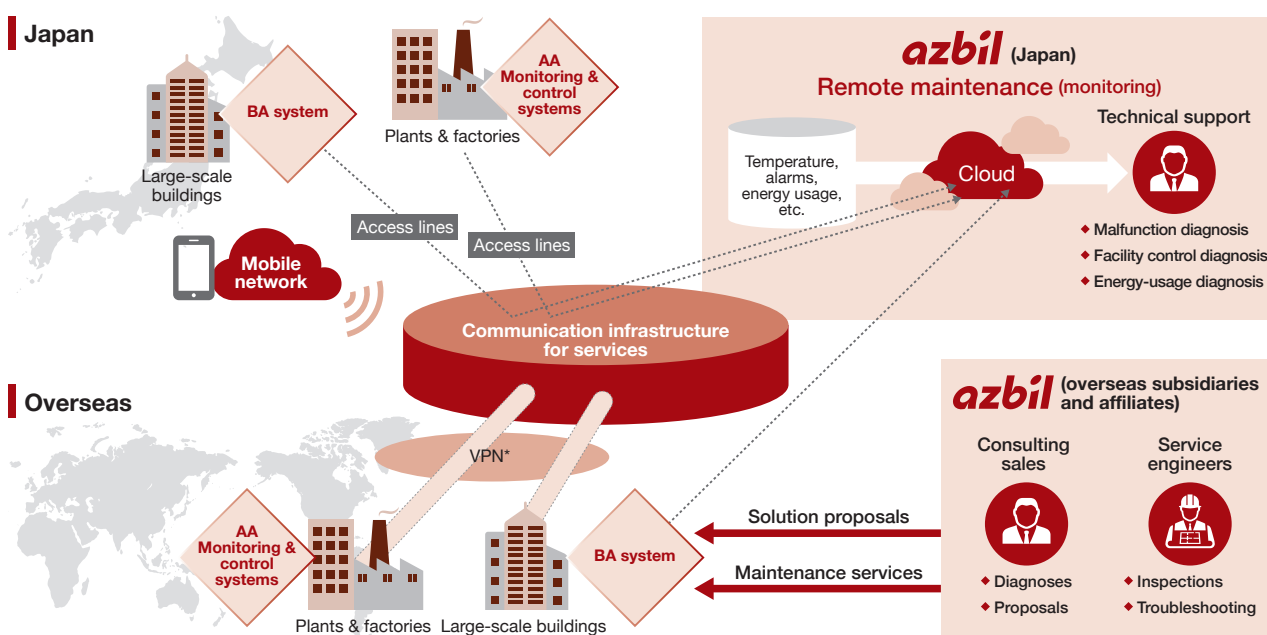
While helping to solve a broad range of problems for customers by increasing the added value of these services, we are also transitioning to knowledge-intensive services through the sale of new products and services.

■ Human resource development to support global services

To help our global service business adapt to the conditions of each country and to develop engineers who can propose added value for customers, we have established a systematic program to train measurement, control, and maintenance specialists and data scientists both in Japan and abroad.

- Project management education: strengthening project execution skills
- Engineering tool education, IoT education: improving engineering skills

Remote maintenance service platform (sample uses in our BA and AA businesses)



* Virtual private networks make communication with distant locations possible as if they were within the company's own network.

The Practice of Value Creation – Contributing to the SDGs

The azbil Group's Value Creation and Approach to Realizing the SDGs

The azbil Group shares the value of sustainability with society by working with our stakeholders to promote activities that contribute to the SDGs. This leads to our sustained growth and increased enterprise value.

The azbil Group's approach to the SDGs

Since the United Nations adopted the SDGs in 2015, the azbil Group has used them as a compass to guide its business activities, engaging in SDG initiatives to achieve sustained growth and contribute “in series” to a sustainable society.

We established our “Essential Goals of azbil Group for SDGs” in 2019, identifying the period through to FY2030 as our Decade of Action. We have been stepping up our efforts, with the lead taken by the Corporate Sustainability Headquarters, set up in 2020.

Steps the azbil Group is taking to achieve the SDGs



*These are Goals I-IV listed on the right page. Detailed qualitative and quantitative targets have been established for each goal.

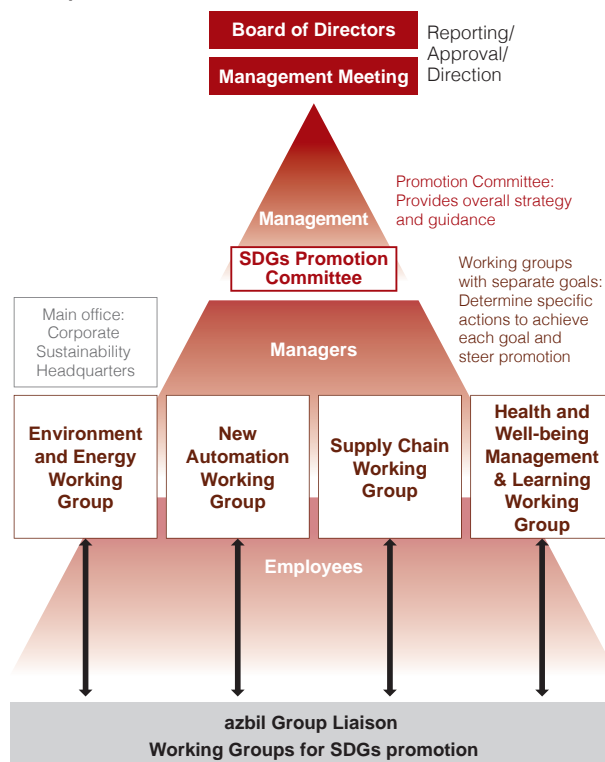
SDG promotion framework

The azbil Group's SDGs Promotion Committee holds a meeting once every quarter hosted by the President & Group CEO and chaired by the officer in charge of the Corporate Sustainability Headquarters. The Committee is engaged in levelling up activities while verifying the PDCA cycle to achieve the essential goals of the azbil Group for the SDGs in FY2030. Serving as the main office for this, the Corporate Sustainability Headquarters formulates, executes, and evaluates plans relating to the SDGs based on the discussions of the SDGs Promotion Committee, and reports the details to the Board of Directors.

Four working groups, each with a different remit, have been set up under the umbrella of the SDGs Promotion Committee. They liaise closely with Group-wide bodies—such as the azbil Group CSR Promotion Committee, the azbil Group Technology Committee, and the azbil Group SDGs Supply Chain Promotion Committee—to resolve issues and engage in SDG realization across the Group. Furthermore, in collaboration with the Human Resources Department and Azbil Academy, a specialized organization dedicated to personnel development, we promote greater awareness of the SDGs throughout the Group and focus on education and training activities that will encourage proactive participation on the part of every employee. At the same time, by working closely with the Corporate Communication Task Force, we are promoting SDG initiatives and disseminating ESG information to meet society's expectations.

In FY2021, we further strengthened our Group-wide initiatives by holding the SDGs Promotion Committee targeted at management-level employees in Group companies in Japan and abroad and providing study opportunities for the SDGs promotion leaders.

SDG promotion framework



Essential Goals of azbil Group for SDGs

The targets for the essential goals of the azbil Group for the SDGs are updated and supplemented as necessary, based on the current social situation and our strategy.

SDG goals and key initiatives

Essential goals		Targets	Progress in FY2021	Reference
I	Business	Solutions for energy (toward a decarbonized society) <ul style="list-style-type: none"> Effective reduction of CO₂ at customers' sites: 3.40 million metric tons of CO₂/year 55% reduction*1 in GHG*2 emissions from our business activities 20% reduction*3 in GHG emissions across the entire supply chain Environmental preservation (realization of Integrated Environmental Corporate Management*4) <ul style="list-style-type: none"> Creation and provision of eco-friendly products and services <ul style="list-style-type: none"> Design all new products to meet the azbil Group's own sustainability standards*5 Effective use of natural resources*6 and reduction of waste generation <ul style="list-style-type: none"> Design all new products to be 100% recyclable*7 	→ Total of 2.94 million metric tons of CO ₂ /year → 27% reduction compared to 2017 → 23% reduction compared to 2017 → As this is a new target, progress will be disclosed in FY2023 → Revised the definition of Best Available Technology (BAT): Built a progress management system	pp. 63–64 pp. 73–76
II	Realizing a safe and comfortable society through new automation	Providing productivity and higher value that lead to our customers' peace of mind and comfort So that our customers can benefit from greater security, comfort, and a sense of achievement, we will solve the irregular issues confronting society and create new added value by promoting digitalization for production spaces, office spaces (in large buildings) as well as living spaces, and the autonomy of manufacturing and operations. <ul style="list-style-type: none"> Realizing automation that is resilient to changes in the business environment <ul style="list-style-type: none"> Prediction & diagnosis of changes in the internal business environment (e.g. equipment malfunctions, raw material quality) and autonomous decision-making and control Prediction & diagnosis of changes in the external business environment (e.g. natural disasters, impact of social conditions) and autonomous decision-making and control Realizing a stress-free work environment <ul style="list-style-type: none"> Reduction of work errors and unscheduled work through data-based work support Creation of a comfortable and energy-efficient environment that enhances labor productivity Realizing an environment conducive to diverse work styles <ul style="list-style-type: none"> Creation of optimal working environments suited to different times and locations Creation of work environments that are neutral (re. age, gender, skills, etc.) 	→ Identification of areas where we contribute to the SDGs through our targets - Realizing automation that is resilient to changes in the business environment - Realizing a stress-free work environment - Realizing an environment conducive to diverse work styles	p. 67
III	General Corporate Activities	Fulfilling social responsibilities with customers and partners (Expansion of azbil CSR activities to share value) <ul style="list-style-type: none"> Working with our business partners on achieving the SDGs as a common goal and creating shared CSR value across the supply chain 	→ Encouragement of our business partners to establish a PDCA cycle based on cooperation Revision of the azbil Group Basic Procurement Policy Explanation of the CSR Procurement Guidelines to business partners	pp. 68–69 pp. 81–82
		Invigorating local communities (Contribution around azbil Group bases) <ul style="list-style-type: none"> Social contribution activities rooted in local communities are run at all our business sites,*8 with active participation of every employee*9 	→ Enhancement of social contribution system Creation of a system for employee participation Promotion of regional activities	
IV	Strengthening our foundation to solve societal problems through health and well-being management and continuous learning	Implementing health and well-being management (job satisfaction, health, diversity and inclusion) (Creating workplaces that allow flexible work styles and a reduction in total work hours, maintaining and promoting employees' mental and physical health, and creating opportunities for diverse personnel to demonstrate their abilities) <ul style="list-style-type: none"> 65% or more employees expressed satisfaction with working at azbil Group companies Double women's advancement points*10 by 2024 (versus 2017) 	→ 59% of employees found satisfaction in working for the azbil Group (2percent points higher than FY2019).	p. 70 pp. 77–79
		Developing and strengthening "an organization that never stops learning" (Expanding opportunities for continuing education of globally active employees and opportunities to learn with stakeholders) <ul style="list-style-type: none"> 65% or more employees have experienced personal growth over the past year Double training opportunity points*11 by 2024 (versus 2012) 	→ 58% of employees experienced personal growth over the past year (1percent point higher than FY2019).	

*1 Base year: 2017 *2 Greenhouse gases (i.e. CO₂) *3 Base year: 2017 *4 Management that integrates environmental activities such as decarbonization, resource recycling, and biodiversity conservation into business operations. *5 This design strives to create and provide products that contribute to solving global environmental issues (through decarbonization, resource recycling, and biodiversity conservation). *6 A general term for materials and energy found in nature that can be used in daily human lives and that exists naturally and can be used for people's daily lives and in production activities. *7 BAT refers to the most effective technology that is both economically and technologically viable. *8 All offices, in Japan and overseas. *9 The azbil Group aims to participate in activities of a scale that can accommodate the total number of employees. *10 Points tallied internally, with weight given based on the role, such as company executive, officer, and manager. *11 Points tallied internally for participating in opportunities (frequency or number of employees) to learn with stakeholders.

Essential Goal I Environment and Energy



Preserving the Earth's Environment and Solving Energy-related Problems through Cooperative Creation

Solving global environmental problems is a prerequisite for achieving a sustainable society, and it is one of the key issues of the SDGs. The azbil Group recognizes that responding to climate change is a priority, and we have set

solutions for energy toward a decarbonized society and realizing Integrated Environmental Corporate Management as our targets to achieve the SDGs. (See pp. 73–76)

Solutions for Energy (Toward a Decarbonized Society)

Further effective reduction of CO₂ at customers' sites

We offer products, services, and solutions that help our customers reduce CO₂ emissions at their sites.

We provide automation equipment and systems for process optimization and stabilization, as well as energy management and other solutions to achieve a reduction in energy use and CO₂ emissions. In our maintenance and services, we pursue methods with a low environmental impact, thereby helping to reduce the environmental impact of our customers' products and equipment throughout their life cycles.

The total annual effective reduction of CO₂ at customers' sites for FY2021 was 2.94 million metric tons.* This corresponds to approximately 1/400 of the total CO₂ emitted in Japan each year (approx. 1.2 billion metric tons).

Despite the effects of a reduction in the CO₂ emission factor from electricity generation due to the increased introduction of renewable energy sources across society as a whole, the effective reduction of CO₂ remained on the same level as for FY2020 due to a growth in businesses

that contribute to reducing the environmental impact.

By FY2030, we aim to increase this effective reduction to 3.40 million metric tons of CO₂. We have included overseas customer sites in these estimates since FY2014 in line with our global business expansion.

* In order to quantitatively assess the contribution to the reduction of environmental impact, the effects were classified into the three categories of 1) effects from automation, 2) effects from energy management, and 3) effects from maintenance and services to theoretically estimate the difference between adopting and not adopting azbil Group products, services and solutions at customers' sites. Global reduction impact is partially based on original methods. A third party reviewed the estimation method.

Fiscal Year 2030 Targets

Effective reduction of CO₂ at customers' sites

3.40 million metric tons of CO₂/year

* The FY2030 emission factor from electricity generation is our own estimated value based on the Japanese government's Energy Basic Plan in 2019.

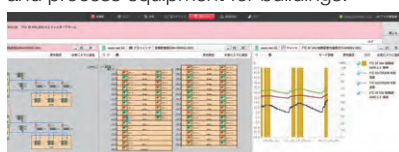


Please visit the link below for more information.

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

Automation effects

Utilizing our measurement and control technologies, we contribute to reducing environmental impact with our advanced control solutions that deliver stability and optimization of automatic control systems and process equipment for buildings.



2.66 million metric tons of CO₂

Energy management effects

We have reduced the impact on the environment by taking advantage of our energy management solution to reduce electricity consumption, energy consumption, and CO₂ emissions.



0.23 million metric tons of CO₂

Maintenance and services effects

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



0.05 million metric tons of CO₂

Total effective reduction of CO₂ at customers' sites (FY2021) **2.94 million metric tons of CO₂/year**

2030 Greenhouse Gas (GHG) Emission Reduction Targets

We have formulated our 2050 Long-term Vision for Reducing GHG Emissions, which lays out our goal to achieve substantially zero GHG emissions (scopes*¹ 1+2) from our own business activities by 2050, and we propose to achieve carbon-neutral operations.

To achieve this long-term vision, we have set medium-term 2030 GHG Emission Reduction Targets for our business activities, and we are working on measures to cut CO₂ emissions across our entire supply chain.

In FY2021, GHG emissions from our own business activities (scopes 1+2) were 0.019 million metric tons, down 27% from FY2017. GHG emissions across the entire supply chain (scope 3) were 0.848 million metric tons, down by 23% compared to FY2017. Since we achieved our SBTi targets for scope 3 emissions, we plan to revise our targets upwards.

*1 Scope 1: Direct GHG emissions from a business (from fuel burning, industrial processes, etc.)

Scope 2: Indirect GHG emissions from using electricity, heat, or steam provided by another business

Scope 3: Indirect GHG emissions related to business activities (indirect emissions not included in scopes 1 and 2)

*2 The targets approved by the SBTi are as follows: Azbil Corporation commits to reduce absolute scope 1 and 2 GHG emissions 55% by FY2030 from a FY2017 base year. Azbil Corporation also commits to reduce absolute Scope 3 GHG emissions 20% within the same time frame.

Fiscal Year 2030 Targets*²

GHG emissions from business activities (scopes 1+2):

55% reduction

(Ref: 2017 base year; reapproved August 2021)

GHG emissions across the entire supply chain (scope 3):

20% reduction

(Ref: 2017 base year; approved May 2019)

Environmental Preservation (Realization of Integrated Environmental Corporate Management)

Creation and provision of eco-friendly products and services

To create and provide sustainable products aimed at solving issues in three environmental priority areas—decarbonization, resource recycling and environmental pollution prevention—in May 2022 we declared our new target of “designing all new products to meet the azbil Group’s own sustainability standards.” We will help to solve environmental problems in society through Integrated Environmental Corporate Management that integrates our initiatives to address environmental issues with our business activities.

Fiscal Year 2030 Targets

Design all new products to meet the azbil Group’s own sustainability standards*³

*3 This design strives to create and provide products that contribute to solving global environmental issues (through decarbonization, resource recycling, and biodiversity conservation). It is comprehensively evaluated based on the following items.

- Product life cycle CO₂
- Resource consumption reduction and resource recycling indicators
- Evaluation of decarbonization, resource recycling and, environmental pollution prevention efforts and level of information disclosure

Effective use of natural resources and reduction of waste generation

As well as creating and supplying more eco-friendly products and services, we have set a goal of designing all new products to be 100% recyclable by aiming towards the 3Rs (reduce, reuse, recycle) through environmentally conscious design during new product development. We are working on designs that can be appropriately disassembled/separated and recycled when a customer disposes of the product, within the scope of the best available technology (BAT).

In FY2021, we adjusted the definition of the BAT and established a new progress management system.

Fiscal Year 2030 Targets

Design all new products to be 100% recyclable

TCFD-based Report

—Initiative to Identify and Disclose Climate Change Impacts



In November 2019, the azbil Group endorsed the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD) to gain an accurate understanding of the impact of climate change on business activities and disclose that impact. After this announcement, evaluations of each of our businesses' opportunities and risks, based on a scenario where global temperatures are rising, indicated that the opportunities for business activities that contribute to reducing CO₂ greatly outweigh the risks. The azbil Group delivers comprehensive products, services, and solutions that address various social issues. In FY2021, we estimated the financial impact on two of the Group's core businesses, the Building Automation (BA) and Advanced Automation (AA) businesses. In line with the TCFD recommendations, we will continue to disclose our governance, strategies, risk management, indicators and goals.

Governance

The azbil Group recognizes that climate change is one of the top priorities in practicing the Group philosophy, and a cross-group task force led by designated officers was formed to deliberate in Management Meetings from the perspective of business and financial impacts under the supervision of the Board of Directors.

Strategy

Based on information from the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA) and other organizations, we have identified the long-term business risks and opportunities for the azbil Group until 2030 according to a well below 2°C scenario*¹ and a 4°C scenario.*²

*¹ This scenario assumes that temperature rise is contained within a sustainable range due to the implementation of stricter regulations and the introduction of technological innovations aimed at a decarbonized society.

*² This scenario assumes that no effective measures to reduce greenhouse gas (GHG) emissions are implemented, resulting in continued temperature rise and an increase in abnormal weather and natural disasters.

■ Disclosure of opportunities and risks

Type	Scenario	Building Automation (BA) business	Advanced Automation (AA) business	Life Automation (LA) business
Opportunity	Well below 2°C	Expanding demand for energy-saving and CO ₂ -reducing solutions and services that meet global needs	Increased demand for solutions, and sensors and other measuring instruments designed for new industries and processes that reduce the effect on the environment	Increased SMaaS business for gas meters using IoT technologies
	4°C	Increased demand for products, services, and solutions that enable buildings to adapt to climate-related disasters	Increased demand for products, services, and solutions that offer anomaly prediction functions	Increased demand for products, services, and solutions adapted to handle climate-related disasters

Type	Scenario	Summary
Migration risk	Well below 2°C	<ul style="list-style-type: none"> Increased R&D costs for new products and services that target new markets and meet new regulations Increased production and procurement costs due to rising energy prices Increase in the azbil Group's costs of CO₂ emissions and reduction in customers' intensive capital investment in fossil fuels due to rising carbon prices
Physical risk	4°C	<ul style="list-style-type: none"> Operational stoppages due to abnormal weather events, inability to provide products, services, and solutions Large reduction in customer investment due to business instability caused by abnormal weather

■ Impact of opportunities and risks on azbil Group financial plans, and countermeasures

At this stage, we recognize that there are more opportunities than risks, as reduction of CO₂ emissions significantly outweighs CO₂ emissions from azbil Group business activities.



We have divided risks into physical risks and migration risks and are analyzing their impacts on finances. Although we estimate physical risks based on a number of assumptions, we believe their impact on business is limited due to the countermeasures we have put in place such as decentralizing our production network and formulating BCPs. For migration risks, we have formulated the 2030 Greenhouse Gas (GHG) Emission Reduction Targets based on SBTs to gradually reduce our GHG emissions, and we are putting systematic risk reduction measures in

place. Emissions from the azbil Group's own business activities (scopes 1+2) were approximately 0.019 million metric tons, a figure that is roughly 1/160 of the 2.94 million metric tons of effective CO₂ reduction at our customers' sites,*¹ a relatively low level. Even with the rise in future carbon prices and increase in burden of 5,000 to 10,000 yen per ton taken into account, the total financial burden should be around 100 to 200 million yen. However, after a quantitative evaluation of the impact on the azbil Group's business in 2030 in the hypothetical well below 2°C scenario, we expect it will lead to effective reduction of CO₂ at customers' sites and the expansion of new energy markets. We therefore estimated the contribution to the increase in sales to be at least on the scale of about 12 billion yen per year.

Building Automation (BA) business: approx. 7 billion yen

Due to the increased installation of related equipment and the increased installation of high-efficiency equipment caused by the spread of renewable energy sources and the increase in electricity fees, we assumed an increase in demand for existing businesses related to energy conservation such as our total energy management service (TEMS). We also assumed an expansion in business opportunities for one-stop services that combine energy procurement and emissions-related transactions (such as from renewable energy sources) with energy management systems (EMS) that centrally manage everything from the visualization of CO₂ emissions to carbon offsets. Our estimates are based on a scenario with certain assumptions as well as past installation histories and customer needs in the hospital and hotel market, where energy use is high.

Advanced Automation (AA) business: approx. 5 billion yen

We assumed an increase in business opportunities related to markets that contribute to carbon neutrality (hydrogen, CO₂-free ammonia, carbon recycling / CCUS*²). Our estimates are based on a scenario with certain assumptions such as trends and past installations in the target market and information on the target market's growth rate from third-party research organizations.

To control risks and expand business opportunities, the azbil Group encourages the reduction of the environmental impact of our business activities while pursuing environmental preservation through our core businesses by harnessing the technologies and expertise accumulated through those initiatives and utilizing our measurement and control technologies to help customers solve their environmental issues, which will lead to the realization of a sustainable society.

*¹ Effective CO₂ reduction is estimated by the difference between adopting and not adopting azbil Group products, services, and solutions at customers' sites (see pp. 63-64).

*² Carbon dioxide Capture, Utilization and Storage

Risk management

The azbil Group comprehensively works to identify risks that may have a significant impact on operations, including those connected to climate change. (1) After risks are extracted and analyzed by the azbil Group General Risk Management Committee, consisting mainly of the department managers, (2) the azbil Group General Risk Committee, headed by the corporate executive in charge of risk management, identifies risks deemed important to the azbil Group for deliberation and decision-making by the Board of Directors. Once the risks are identified, we work to reduce those various types of risk by proposing countermeasures at the Management Meeting and other forums and reporting on the implementation status of measures as necessary to the Board of Directors. (See p. 85)

Indicators and goals

We promote efforts to combat climate change through our business activities which contribute "in series" to the achievement of a sustainable society, by considering indicators and goals that take into account all azbil Group customers, the Group itself, and its entire supply chain. (See pp. 63-64, 73)

- We aim to increase the effective reduction of CO₂ at our customers' sites to 3.40 million metric tons by FY2030.
- We have formulated the azbil Group's 2050 Long-Term Vision for Reducing GHG Emissions in order to reduce GHG emissions from our business activities (scopes 1+2) to substantially zero emissions by 2050 with the ultimate aim of achieving a carbon-neutral society. To achieve this long-term vision, we have set medium-term 2030 Targets for Reducing GHG Emissions for our business activities, and we are working on measures to cut CO₂ emissions across our entire supply chain.

2030 Targets for Reducing GHG Emissions

- GHG emissions from business activities (scopes 1+2): 55% reduction (2017 base year)
- GHG emissions across the entire supply chain (scope 3): 20% reduction (2017 base year)

Essential Goal II New Automation



Realizing a Safe and Comfortable Society with New Automation

In today's rapidly-changing business environment, there is strong demand for data-backed management, operations and environmental measures. In new automation business field, so that our customers can benefit from greater security, comfort and sense of achievement, we will solve

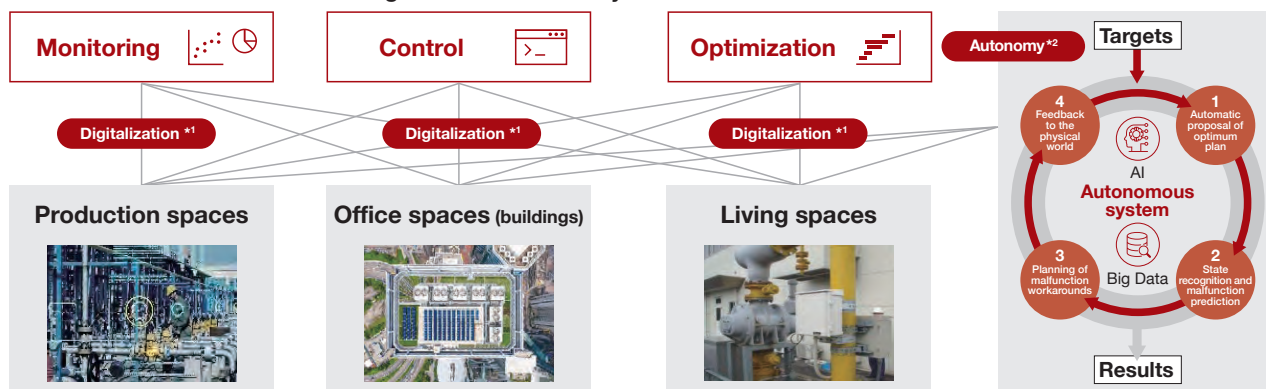
the irregular issues confronting society and create new added value by promoting digitalization for production spaces and office spaces (in large buildings) as well as living spaces, and the autonomy of manufacturing and operations.

New Automation Business Field

Further digitization of production, office (buildings), and living spaces can vigorously advance automation methods such as visualization, control, and optimization. Also, by applying autonomy to our new business, we will build an operating environment that is strong against business

environment changes. By expanding partnerships with companies involved in a variety of fields as well as various research institutes, and by fully implementing our technologies and knowledge in society, we will achieve business growth and contribute to realizing the SDGs.

Automation business fields and digitalization/autonomy



*1 Goes beyond digitization, with the use of digitized mechanisms and services to transform a business model

*2 An autonomous system independently creates an action plan for the assigned target. While executing the action or task, the system foresees and detects malfunctions, devises and implements measures as needed, and achieves the target with minimal human intervention.

Contributing to the SDGs through new automation

We have identified three areas where we contribute to the SDGs.

1. Realizing automation that is resilient to changes in the business environment

- Prediction and diagnosis of changes in the internal business environment (e.g. equipment malfunctions, raw material quality) and autonomous decision-making and control
- Prediction and diagnosis of changes in the external business environment (e.g. natural disasters, impact of social conditions) and autonomous decision-making and control

2. Realizing a stress-free work environment

- Reduction of work errors and unscheduled work through data-backed work support
- Creation of a comfortable and energy-efficient environment that enhances labor productivity

3. Realizing an environment conducive to diverse work styles

- Creation of optimal working environments suited to different times and locations
- Creation of work environments that are neutral (re. age, gender, skills, etc.)



Essential Goal III Supply Chain, Social Responsibility



Fulfilling Our Responsibilities to Society across Our Supply Chain

In line with our Group philosophy, the azbil Group is actively engaged in efforts to realize a sustainable society, including the preservation of the environment through our businesses. There is growing awareness of the need to respond to climate change and human rights issues, particularly in recent years.

In light of this we have built longstanding relationships of trust with our business partners and we undertake procurement activities aimed at increasing added value for both the azbil Group and our business partners. To respond to the SDGs and other demands from international society, we will continue to strengthen

our supply chain-focused initiatives so we can fulfill our social responsibilities even more actively.

PDCA Cycle

We will work together with our business partners to realize shared CSR values in the supply chain with the SDGs as a common goal.



Fulfill Social Responsibilities with Customers and Partners

Focus areas in the supply chain

To fulfill our social responsibility across the supply chain, in 2021, the azbil Group reviewed and amended our essential goals of the azbil Group for the SDGs and established evaluation indicators for 10 target areas (intermediate categories), drawing on evaluations of ESG by external institutions.

We are encouraging our business partners in these areas, utilizing the knowledge the Group has built up over many years in areas such as the environment, quality, compliance, and health and well-being management. At the same time, we will proceed with CSR initiatives concerned with evaluating the initiatives of the azbil Group and its business partners.

Encouraging the supply chain

By working together with our business partners on initiatives that comply with the four actions below, we aim to steadily improve the entire supply chain socially and environmentally.



Evaluation

The azbil Group carries out a self-evaluation of the 10 target areas (intermediate categories) at four items. Self-evaluations from business partners are added to this to create a comprehensive evaluation with a total of five items. Based on the results of this evaluation, we visualize the strengths and weaknesses of the azbil Group's initiatives and of our business partners and feed that into planning measures for the following fiscal year.

Broad category	Intermediate category	Subcategory
E (Environmental supply chain)	Climate change (GHG, energy)	◆ Initiatives to address CO ₂ /GHG emissions and other climate change issues
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)	◆ Green procurement ◆ Management of chemical substances in products ◆ Less use of resources ◆ Less industrial waste ◆ Reuse of resources ◆ Use of renewable energy
	Water security & water risks	◆ Less use of water, less wastewater
	Biodiversity	◆ Biodiversity conservation
	Environmental management	◆ Environmental management activities in conformity with ISO 14001
S (Social supply chain)	Labor practices	◆ Elimination of child labor and forced labor, reduction of overwork ◆ Equal opportunity, prohibition of discrimination ◆ Promotion of diversity
	Health and safety	◆ Health and safety management ◆ Work-life balance, new ways of working
	Human rights	◆ Respect for fundamental human rights (including rejection of antisocial forces and handling of conflict minerals)
	Community (local communities)	◆ Action that encourages local development or contributes to society
	Quality & customers	◆ Fair trade (including legal compliance) ◆ Quality management

Broad category	Intermediate category	The azbil Group self-evaluation				Business partners' self-evaluations
		Policies & strategies	Systems & structures	Initiatives	Evaluation of effectiveness	
E (Environmental supply chain)	Climate change (GHG, energy)					
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)					
	Water security & water risks					
	Other, omitted					

* Evaluation is performed on a 10-point scale for each **red frame**

* See pp. 81–82 for the results of business partners' self-evaluations (FY2021)

Invigorating Local Communities

Implementing community-based social contribution activities across all offices

The azbil Group has set “Social contribution activities rooted in local communities are run at all our business sites, with active participation by every employee” as one of the targets in its essential goals, and we carry out initiatives to that end. To facilitate the practice of continuous and systematic activities, we established the Social Contribution Promotion Office in April 2021 and formulated aims and key themes for the initiatives. Furthermore, the azbil Group’s offices in Japan and overseas exchange ideas on themes for contributing to society, and we have collected over 500 ideas to date. By using these ideas and strengthening the efforts each employee makes to tackle social problems in Japan and overseas, we aim to contribute “in series” to the achievement of a sustainable society.

■ Aims

We aim to achieve a sense of solidarity and accomplishment as the azbil Group by establishing a corporate culture that helps individual employees to plan and implement solutions to societal problems and achieve ongoing personal growth, and to participate in initiatives that bring individual employees together with various stakeholders.

■ Key themes

- Areas involving the global environment
- Areas involving people (particularly fostering the next generation)

Supporting education in elementary schools

The azbil Group provides educational support as part of our activities contributing to local communities. In FY2021, one of our employees spoke about his own work in a social studies lecture during a teaching unit entitled “Workers and Our Lives.” He spoke to over 200 third graders from Katase Elementary School and Takaya

Elementary School in Fujisawa City, near the Fujisawa Technology Center which is our R&D base. In the course of his speech, he also explained



The employee in class

that the azbil Group is engaged in activities connected to the achievement of the SDGs. As a result of the lesson, we received a newspaper the children created about the Group and their written impressions of the lesson, and we continue to interact with them.

Support from the azbil Honey Bee Club

The azbil Honey Bee Club consists of about 1,100 employees and executive officers of the azbil Group. In addition to donating a small amount from their salaries every month, the members propose recipients for support to help provide solutions to society’s problems and determine who to support by voting.



March, the azbil Honey Bee Club’s mascot

As these activities involve collaborating with a variety of stakeholders, we have positioned them as activities that foster a corporate culture where we continue to grow with society and that help us achieve a sense of solidarity and accomplishment as the azbil Group. In FY2021, the azbil Honey Bee Club presented a total of 8.45 million yen to 54 organizations. Out of that amount, a total of 5.325 million yen was support funds from azbil Honey Bee Club while 3.125 million yen came from Azbil Corporation as a matching gift.*

* A system where Azbil Corporation donates the same amount as the azbil Honey Bee Club when members themselves participate in the activities of the recipient.



Please visit the link below for more information.

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



Azbil Yamatake General Foundation

We established the Azbil Yamatake General Foundation to provide a stable learning system and educational opportunities for promising children, provide research grants and support the development of new technologies in the fields of science and technology. We offer three programs—scholarships, support for education and awareness, and research grants—under the motto “For the future of youth.” Through these programs, we collaborate with local communities, schools and research organizations to engage in a variety of activities so that those who receive support can feel happy and fulfilled. The Foundation carried out such activities as participating in and supporting scholarship systems established by local

governments, helping needy youth from single-parent families to enroll in schools, and donating to orphanages. Additionally, we have worked with local governments to support the establishment of new children’s clubs, supported education at *terakoya* (Japanese voluntary prep schools), and supported student volunteers that manage cafeterias for children. These are activities aimed at tackling child poverty and creating an environment where children who need assistance can learn in peace. We intend to expand the areas where we are active even further, as shown by the opening of applications for research grants from FY2021.



Essential Goal IV Health and Well-being Management, An Organization That Never Stops Learning



Strengthening Our Foundation to Solve Societal Problems through Health and Well-being Management and Continuous Learning

One of the azbil Group's essential goals for the SDGs is to strengthen its foundation to solve societal problems through health and well-being management and continuous learning. We are developing various measures based on feedback from employee satisfaction surveys and are running a range

of different human resource development programs to promote job satisfaction and autonomous personal growth in employees from diverse backgrounds, while also motivating staff to engage in business activities that contribute "in series" to a sustainable society. (See pp. 77–79)

Implementing Health and Well-being Management (Job Satisfaction, Health, Diversity and Inclusion) Developing and Strengthening an Organization That Never Stops Learning

Implementing health and well-being management that revolves around work-style reforms and diversity and inclusion

Based on the "Health and Well-being Declaration" we announced in 2019, we have been working to make working environment and employees healthy, happy, and lively, focusing on measures to improve employee job satisfaction and make it possible for a diverse workforce to play an active role independent of gender, nationality or method of joining the company.

We have set a goal for FY2030 of achieving a 65% or more ratio of employees expressed satisfaction with working at the azbil Group companies. The figure for FY2021 was 59%, an increase of 2 percent points compared to FY2019. From an in-house analysis, we recognized a strong correlation between the value of one's own work and trust and appraisal from one's supervisor. We are therefore providing coaching and leadership training for managers on motivating subordinates and acknowledging their efforts as well as on improving the vitality of the organization. We have evolved the focus of our programs from the previous concept of "turning minus into zero" (measures on health and safety, and harassment) to "turning zero into plus" (measures to promote self-efficacy and organizational energy), which we will use to increase employee motivation and job satisfaction even further.

As against our FY2024 target of doubling women's advancement points compared with 2017, in FY2021 we

achieved a 1.9x increase. We are working to help women rise to positions of responsibility through Azbil Diversity Network (ADN) measures.*

* Increasing women's self-awareness and improving their skills, and fostering a culture where a diverse workforce can play an active role

Developing and strengthening an organization that never stops learning

As an organization that never stops learning, the azbil Group responds flexibly to changes in the business environment and promotes operational reforms through the creation of new business and new ways of working. Azbil Academy, our specialized personnel training/developing institution, works to help employees grow autonomously into globally active human capital. In FY2021, 58% of employees reported that they experienced personal growth over the past year (1 percent point more than FY2019), compared to our FY2030 target of 65% or more.

Building on work-style reforms enacted to prevent the spread of COVID-19, we are providing more thorough DX-related training, enhancing our education platforms and carrying out much more of our training online. We are also providing online internships and working together with higher education institutions to give employees a chance to learn together with stakeholders.

We will accelerate specific initiatives that address various needs we learned about from in-house surveys and interviews with related parties so that all employees can continue to feel a sense of personal growth in FY2022 as well.

Targets for FY2024 and FY2030

Double women's advancement points
compared with 2017*¹ (by FY2024)
Achieve a 65% or more*² employees expressed satisfaction with working at the azbil Group companies
(by FY2030)

Targets for FY2024 and FY2030

Double training opportunity points*³
compared with 2012 (by FY2024)
Achieve a 65% or more*² employees have experienced personal growth over the past year (by FY2030)

* 1 Points tallied internally with weight given based on the role, such as company executive, officer, and manager

* 2 Employee satisfaction survey conducted annually

* 3 Points tallied internally for participating in opportunities (by frequency or number of participating employees) to learn with stakeholders at internal training, internships, and training and briefings for customers

Strengthening the Foundations of our Value Creation

— ESG Initiatives

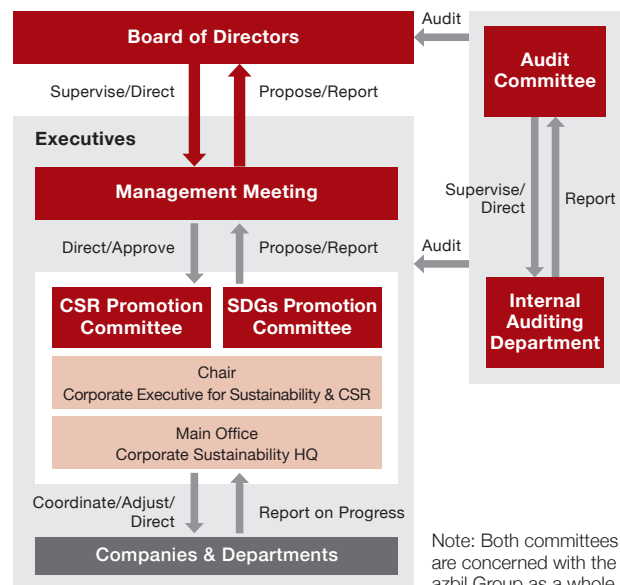
The azbil Group's Approach to Sustainability

The azbil Group is committed to continuously enhancing enterprise value based on mutual trust with stakeholders, to realizing “safety, comfort, and fulfillment in people’s lives” and contributing to global environmental preservation, and to contributing “in series” to a sustainable society. These are achieved through practicing the azbil Group’s philosophy of “human-centered automation” and respecting the values to contribute to society for people’s well-being based on the founding spirit of “freeing people from drudgery.” As an aspect of sustainability we are also pursuing environmental, social, and governance (ESG) initiatives, which are essential for the realization of a sustainable society.

Structures to advance sustainability

The azbil Group has established dedicated organizations and placed a corporate executive in charge of all aspects of sustainability. The azbil Group CSR Promotion Committee and the SDGs Promotion Committee meet quarterly, with the corporate executive serving as chair respectively. Issues and status checks from these meetings are reported to the Board of Directors and the Management Meeting. With this structure in place, the azbil Group as a whole can consider and pursue sustainability-related initiatives.

Additionally, we provide opportunities for discussion with internal and external stakeholders as necessary so that their opinions can help improve the effectiveness of our corporate activities (see pp. 101–102).



Committee	CSR Promotion Committee	SDGs Promotion Committee
Role	Formulates CSR action plans for the whole Group, monitors progress, guides and advises subsidiaries to ensure CSR management throughout the Group.	Plans and spearheads SDG strategies for making contributions that lead “in series” to a sustainable society and to sustainable growth for the whole Group.
FY2021 deliberations	CSR activity plans for all Group companies on topics including compliance, risk management, internal controls, people-focused management, reducing environmental impact	Progress reports on targets, formulation of new targets, determination of areas for contribution, encouragement of business partners, sharing on initiatives among domestic and overseas companies, external communication, etc.



















The azbil Group's approach to CSR management

The azbil Group has long held a broad view of the responsibilities that a company should fulfill for the benefit of stakeholders and society, and the Group as a whole takes a twofold approach to CSR management.

1. Basic CSR, which involves fulfilling the azbil Group’s fundamental obligations as a member of society
 - Establishing and improving corporate governance
 - Initiatives for sound and healthy corporate operations (compliance, risk management, people-focused management, etc.)
 - Strengthening the foundations and infrastructure of corporate activity
2. Proactive CSR, in order to carry out fair and honest management
 - Helping to solve problems in society through our business operations
 - Employee’s voluntary participation in activities that contribute to society

We carry out sustainability initiatives on the basis of this CSR management.

As an aspect of sustainability, the azbil Group undertakes initiatives related to environmental, social, and governance concerns. Through these initiatives, we make contributions that lead “in series” to the achievement of the Sustainable Development Goals and a sustainable society.

ESG	Major ESG Topics	Main Initiatives of the azbil Group	SDG Targets	Related SDGs
E Environment	Climate change Carbon neutrality	Contribute to decarbonization at customer sites	7.3, 13.2, 13.3	       
		Reduce mid- to long-term CO ₂ emissions from business activities (scopes 1+2)	7.3, 13.2, 13.3	
		Offer energy management solutions	7.3, 13.2, 13.3	
		Greatly increase the energy efficiency of batch polymerization reactors at chemical plants around the world through control performance optimization services. Also, energy management through autonomy.	7.3	
		Promote the introduction of renewable energy with virtual power plant technology	7.2, 13.2, 13.3	
	Environmental considerations for products and services	Promote environmentally conscious design	8.4, 9.4, 12.2, 12.5	
		Promote compliance with regulations on chemical substances in products both in Japan and overseas	12.4	
	Pollution & resources	Prevent environmental pollution. Promote effective use of resources (including waste reduction). Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.	12.2, 12.4, 12.5	
	Water security & water risk	Support waterworks infrastructure development and water resource management in developing countries, popularize remote monitoring systems for wide area water supply facilities using cloud services	6.1, 6.3, 6.4, 14.1	
		Provide a usage environment for a waterworks information utilization system (as promoted by Japan's Ministry of Economy, Trade and Industry and Ministry of Health, Labour and Welfare) to help waterworks operators achieve sustainable operations through the use of monitoring and operation services (a cyber-physical system or CPS for waterworks)	6.1	
		Respond to water withdrawal restrictions, strengthening of wastewater regulations, and natural disasters	6.4, 14.1	
	Biodiversity	Help conserve ecosystems through our operations (for example, by providing equipment and other solutions for ballast water treatment systems in large ships)	14.1	
		Natural environmental conservation efforts centered on business sites	15.1, 15.4	
	Environmental supply chain	Reduce mid- to long-term CO ₂ emissions across the entire supply chain (scope 3)	13.3	
	Environmental management	Promote green procurement and the management of chemical substances contained in products, reduce industrial waste	12.2, 12.4, 12.5	
		Promote environmental management based on ISO 14001	12.2, 12.4, 12.5, 13.3, 14.1	
S Society	Labor practices, health, and safety	Provide working environments for any age, gender, and skill level and prevent work errors through work support based on data from supporting work in the field	8.5	         
		Promote health and well-being management (supporting new ways of working, diversity, and inclusion), recruit and develop personnel, prevent the spread of COVID-19	3.3, 4.4, 5.5, 8.5	
	Human rights	Respect fundamental human rights, work to implement the 10 principles of the UN Global Compact, recruit personnel in accordance with each country's laws and compliance regulations, eliminate harassment, promote diversity and inclusion	4.4, 4.7, 5.1, 5.2, 8.5, 8.7	
	Community	Provide a usage environment for a waterworks information utilization system (as promoted by Japan's Ministry of Economy, Trade and Industry and Ministry of Health, Labour and Welfare) to help waterworks operators achieve sustainable operations through the use of monitoring and operation services (a cyber-physical system or CPS for waterworks)	9.1	
		Sponsor community events, volunteer, and donate to organizations that contribute to society	4.4, 4.7, 5.5, 7.3, 8.5, 12.5, 13.3	
	Social supply chain	Consider CSR in our purchasing activities, share CSR values with business partners across the supply chain	5.1, 8.5, 8.7	
		Greatly increase the productivity (quality, energy efficiency, automation rate) of batch polymerization reactors operating at chemical plants around the world through control performance optimization services. Also, improve productivity through autonomous production.	9.4	
		Increase both comfort (predicted mean vote, PMV) and energy savings for users of office spaces (buildings)	11.3, 12.8	
G Governance	Corporate governance	Provide products and services with high quality, long life, high safety, environmental friendliness, and long-term supply stability to meet the life-cycle needs of customers	9.4, 11.3	
		Offer total solutions through an integrated system including development, production, sales, engineering, and services	9.4, 11.3, 12.2, 12.4, 12.5	
		Fortify supervisory and audit functions (by transitioning to a company with a three-committee Board structure, setting criteria to assess Board independence, etc.)	5.5	
	Risk management	Bolster management transparency and soundness (introduce a skill matrix, introduce a stock compensation system and make other changes to the remuneration system for directors and officers, etc.)	16.7	
		Clarify responsibility system and promote dialogue (in accordance with the Corporate Governance Code, the corporate communications officer, etc.)	12.6	
	Compliance	Expand the comprehensive major risk management system (The azbil Group General Risk Management Committee and the azbil Group General Risk Committee), emergency and critical event management, business continuity management (disaster preparedness, disease prevention, BCP)	12.4, 13.1	
		Increase awareness of the Group philosophy, Guiding Principles, and Code of Conduct	4.7	
G Governance	Compliance	Enhance compliance training, conduct and analyze the results of regular company-wide awareness surveys, improve the hotline function	4.4, 16.3, 16.5	

Active contributions to society through support of the Azbil Yamatake General Foundation



Environmental Initiatives

In keeping with the azbil Group philosophy, to help achieve a sustainable society and protect the Earth's environment, we strive to reduce the burden on the environment caused by our own business activities and we work to reduce the CO₂ emissions at our customers' sites through our core businesses.



Please visit the link below for more information.
<https://www.azbil.com/csr/basic/environment/index.html>

Our basic approach

The azbil Group, in light of international developments such as the adoption of the United Nations' SDGs and the rapid drive towards decarbonization across society, has made a long-term commitment to working on the environmental issues that it can tackle in order to protect the environment.

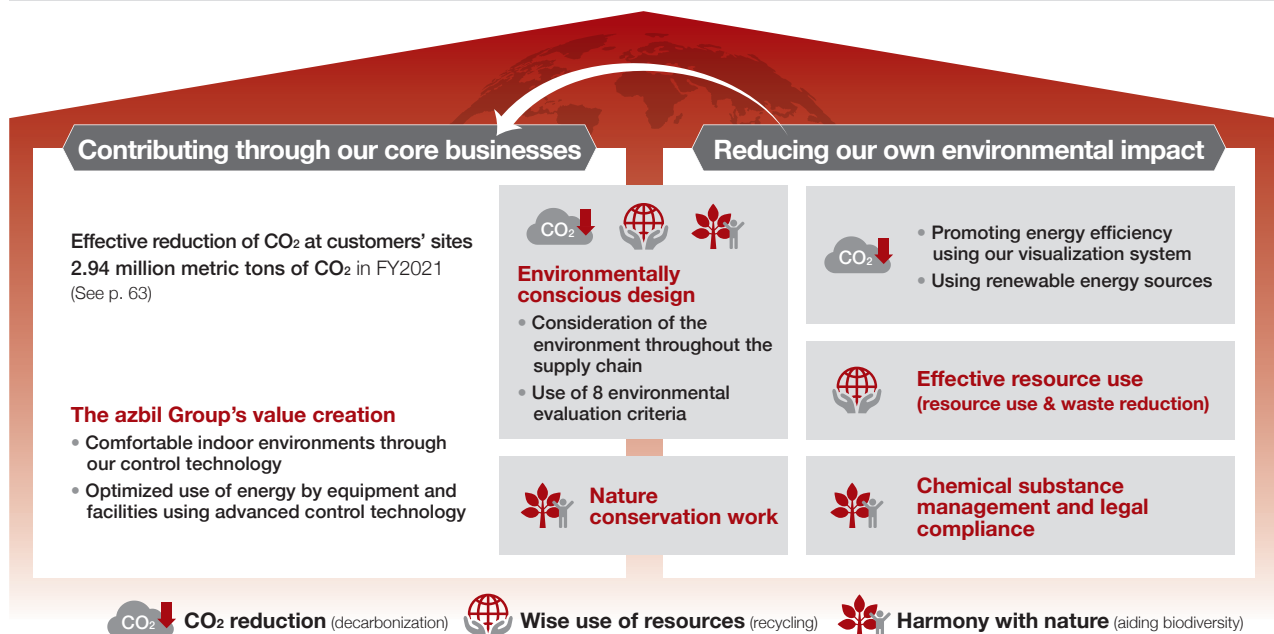
As we work to reduce our own environmental footprint, we gain know-how that enables us to better apply our measurement and control technology to assist our customers to find solutions for their environmental challenges. In that way, we help to preserve the environment through our core businesses and contribute to the achievement of a sustainable society.

System for progress on the environment

As a system for advancing environmental measures, the international azbil Group Environmental Committee, headed by the executive officer for aG Environmental Protection Innovation, meets three times a year to plan, deliberate on, and review each Group company's environment-related systems, considering both risks and opportunities.

Achieving a sustainable society

Our SDG targets for FY2030	
Effective reduction of CO ₂ at customers' sites 3.40 million metric tons of CO₂/year	GHG emissions from business activities (scopes 1+2): 55% reduction (from a base year 2017) GHG emissions across the entire supply chain (scope 3): 20% reduction (from a base year 2017)
Design all new products to meet the azbil Group's own sustainability standards Design all new products to be 100% recyclable	



Key policies in the medium-term plan (FY2021–24)

We have set medium-term policies that start in FY2021 to help achieve the azbil Group's SDG goals. With Integrated Environmental Corporate Management, which combines environmental action with business action, we are strengthening collaboration with our business units while expanding the scope of our

initiatives and making progress on the global environmental issues we have identified as priorities, namely decarbonization, resource recycling, biodiversity conservation, and promotion of environmentally conscious design for our products and services.

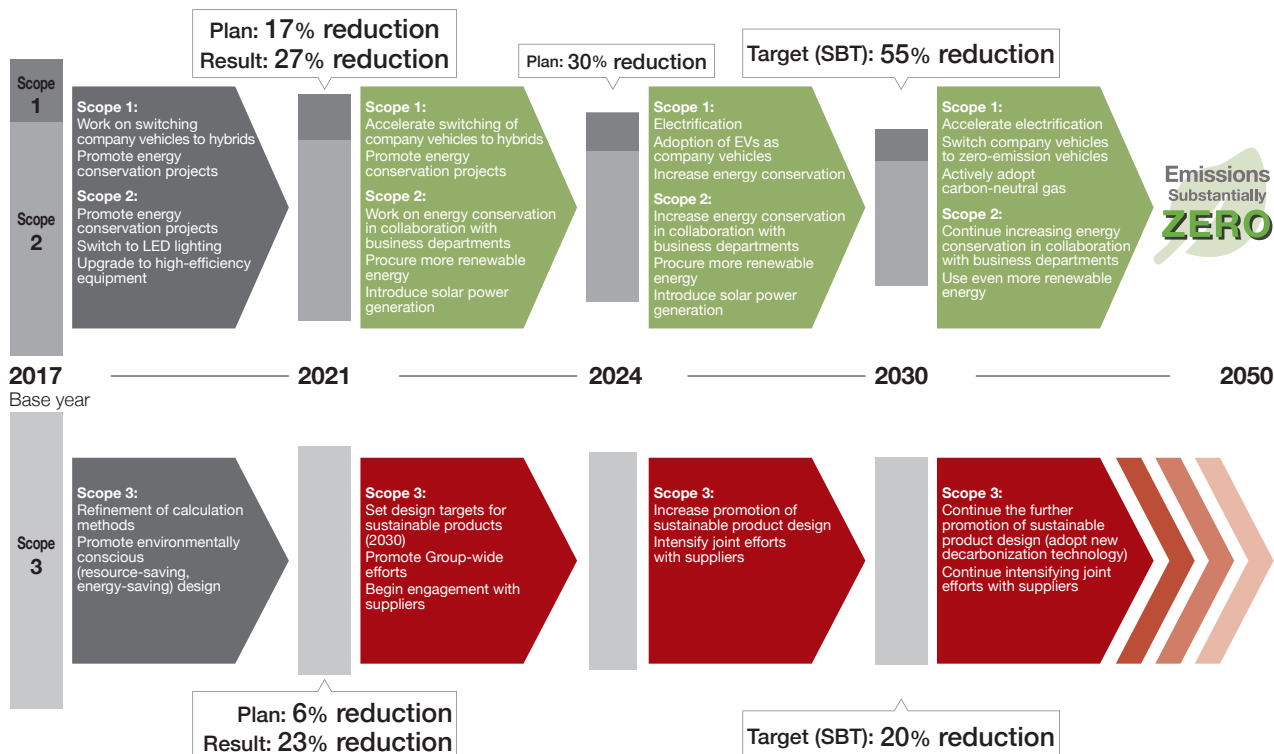
■ Five strategic policies

Strategic policies	Policy	Results in FY2021	Plan for FY2024	Ideal for 2030
Response to decarbonization	Effective reduction of CO ₂ at customers' sites			
	• Work with business departments to increase CO ₂ effective reduction	• Visualized effective reduction of CO ₂ in tandem with business targets	• Further expand effective reduction of CO ₂ at customers' sites, enhance collaboration with business departments	• Effective reduction of CO ₂ at customers' sites: 3.40 million metric tons/year
	Reduce GHG emissions from our business activities			
	• Expand and intensify energy-saving measures and promote adoption of renewable energy in order to fulfill 2030 targets	• Formulated concrete plan for decarbonization by 2030 • Increased number of our sites using renewable energy	• Work with business departments to intensify energy-saving efforts at key business locations • Further increase number of bases adopting renewable energy	• Reduce GHG emissions from business activities (scopes 1+2) by 55% (compared to 2017)
	• Consider how to make the entire supply chain carbon neutral by 2050	• Understood the amount of emissions from business partners and commenced reduction efforts	• Plan and commence work on making the entire supply chain carbon neutral by 2050	• Reduce GHG emissions across entire supply chain (scope 3) by 20% (compared to 2017)
Promote environmentally conscious design	• During new product development, help achieve the SDGs through using environmentally conscious design	• Designed a system for sustainable design, formulated internal standards, set targets • Made a new progress tracking system for SDG targets	• Make a progress tracking system for fulfilling SDG targets	• Design all new products to meet the azbil Group's own sustainability standards • Design all new products to be 100% recyclable
Improve environmental management	• Strengthen environmental initiatives linked to business activities	• Integrated major environmental goals (energy and environment SDG targets) with business plans	• Establish an environmental target progress tracking system linked to business	• Achieve 2030 business goals and environmental targets (SDG targets) at the same time
	• Respond to requests from stakeholders (investors, customers, etc.)	• External evaluation of our climate change and water risk initiatives —CDP Climate 2021: A— —CDP Water 2021: A—	• Maintain and improve communication with investors and customers on environmental issues	• Create links between the requests of investors, customers, and other stakeholders and the company and its businesses and environmental initiatives through appropriate communication
Enhance resource recycling	• Continuously reduce resource consumption through efficiency in business activities	• Implemented target tracking by aG environmental meeting bodies for reducing the use of various resources Final disposal rate: 1.3% (for aG manufacturing bases in Japan, etc.) • Evaluated water risk	• Strengthen initiatives to reduce waste and consumption of resources like water (including compliance with Japan's Act on Promotion of Resource Circulation for Plastics, a new law on plastic waste)	• Establish resource recycling initiatives overseas
Comply with environmental laws and regulations	Comply with environmental laws and regulations			
	• Set up a system to track action on laws and regulations	• Prevented major legal violations and thereby avoided penalties, administrative fines, and lawsuits	• Continue and strengthen tracking of action on laws and regulations	• Continue and strengthen tracking of action on laws and regulation
	Conservation of biodiversity			
Conserve biodiversity	• Intensify nature conservation efforts (including conservation through our business activities)	• Held a total of 5 online conservation activities with a total of 94 participants	• Further help conserve biodiversity through business	• Strengthen biodiversity conservation efforts linked to the SDGs

Decarbonization initiatives

Based on the azbil Group's 2050 Long-Term Vision for Reducing GHG Emissions, we have formulated and are forging ahead with plans and policies for reducing CO₂.

Plans and policies for decarbonization

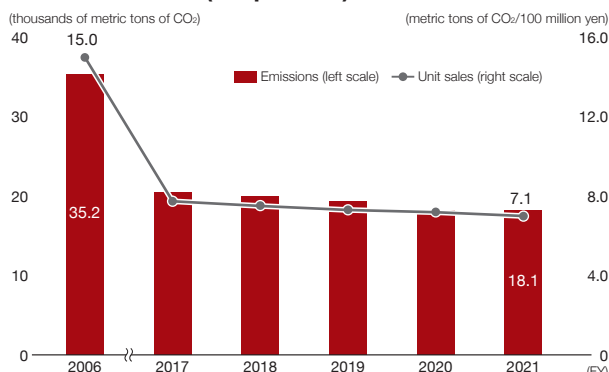


Results of initiatives in FY2021

As a result of energy conservation efforts at the azbil Group's bases, CO₂ emissions (scopes 1+2) in FY2021 were 18 thousand metric tons, a 49% reduction compared to the 35.2 thousand metric tons emitted in FY2006 when Group-wide efforts began. The impact of the COVID-19

pandemic weakened and production increased in FY2021. However, emissions remained at the same level as in FY2020 as a result of energy-saving initiatives. As part of our sustainability activities, which make use of the knowledge we have cultivated for many years, we are collaborating with business departments to use the energy visualization systems installed across the Group in order to improve both our operations and our facilities, while also pursuing other initiatives such as the adoption of renewable energy resources. In May 2022, we began procuring 100%

CO₂ emissions (scopes 1+2)/unit sales



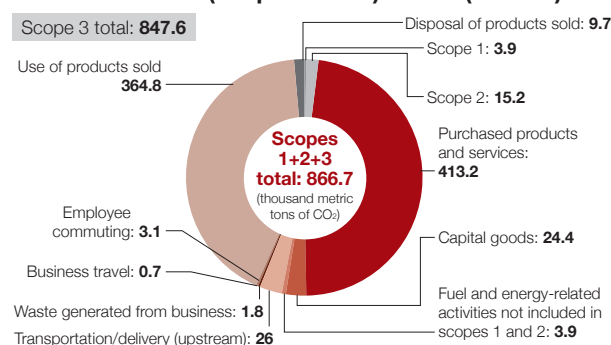
* To evaluate the success of our independent efforts to conserve energy, we use a fixed value (0.378kg-CO₂/kWh) for the CO₂ emission factor from electric generation. Note also that part of the figure contains estimates of quantities such as energy for air conditioning at rented offices.

* We have received third-party verification for our CO₂ emissions figures (scopes 1+2) for FY2017 onwards. Azbil Telstar, S.L.U. was added to the scope of verification in FY2021.

* Sales figures under "unit sales" are consolidated sales for the entire Group.

Scope of calculations • Azbil Corp., consolidated subsidiaries in Japan, and main production bases overseas

CO₂ emissions (scopes 1+2+3) status (FY2021)



* We have received third-party verification for CO₂ emissions (scopes 1+2+3).

Scope of calculations • Scopes 1+2: Azbil Corp., consolidated subsidiaries in Japan, and main production bases overseas
• Scope 3: Azbil Corp. and consolidated subsidiaries

of the power used at the Hadano Distribution Center and at the Shonan Factory, our mother factory, from renewable energy sources. As a result of this, the equivalent of 38% of the electricity used by the whole Group in FY2020 is now derived from renewable energy sources.

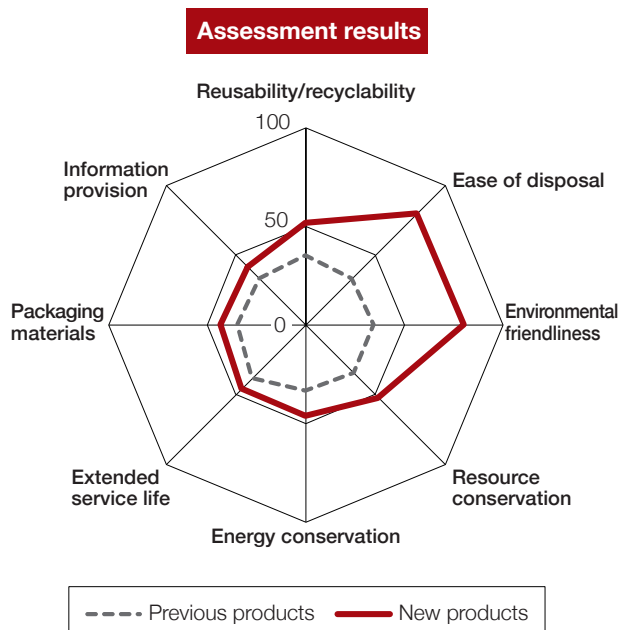
CO₂ emissions across the entire supply chain (scope 3) were 848 thousand metric tons, meeting the 2030 target according to the SBTi's 2 °C standard. We plan to revise our targets even further upwards. Since CO₂ emissions from the use of products sold and from purchased products and services comprise over 90% of the total, we are concentrating our efforts on environmentally conscious design (e.g., energy-saving or resource-conserving design). We have also begun efforts to strengthen cooperation with our suppliers.

Environmentally conscious design initiatives for our products and services

To create and provide environmentally friendly products and services, the azbil Group as a whole is committed to environmentally conscious design that seeks to reduce the environmental impact of products and services throughout their life cycles. At the development stage, all new products undergo an environmental design assessment*¹ in eight separate environment-related categories. We also conduct a life-cycle assessment that provides a comprehensive evaluation of the entire life cycle from manufacture to disposal. Products that meet our standards are classified as environmentally conscious products and can be marked with the azbil Group Environment Label.*² Products with particularly excellent evaluation results receive the azbil Group Environmentally Conscious Design Award as an incentive for developers.

In FY2021, we devised our own indicators and set targets for resource consumption reduction and resource recycling and started making concrete efforts to achieve them. The results of the environmentally focused designs showed a 21.2% improvement overall*³ in the environmental design assessments.

■ Results for total environmental design assessments (for FY2021)



Examples of a product with an environmentally conscious design in FY2021

The Smart HART modem supports multiple protocols. It can be used as an analysis tool to find the cause of HART transmission problems. It combines the functions of multiple tools such as conventional oscilloscopes and communicators, resulting in a much lower environmental footprint.



LC-CO₂ reduction rate: 57.4%
Overall improvement: 30.8%
Energy conservation: 18.5%
Resource conservation: 41.4%

*¹ We carry out an original four-stage scoring process and evaluate products according to the degree of improvement in environmental performance compared with similar previous products in eight separate environment-related categories.

*² Type-II self-declared environmental labeling.

*³ A summation of the evaluation points for all products that received an environmental design assessment.

New initiatives to fulfill the SDG target of creating and providing of eco-friendly products and services

To help find solutions to environmental problems through Integrated Environmental Corporate Management that combines environmental concerns with business activities, we set up a new evaluation system with an SDG aspect for our conventional environmentally conscious designs. Moreover, in May of 2022 we set the new SDG target of “designing all new products to meet the azbil Group’s own sustainability standards.” Sustainable design is an advanced form of the environmentally conscious design found under our conventional environmental label. We developed a unique set of design guidelines for creating and providing products that address worldwide environmental concerns (like decarbonization, resource recycling, and biodiversity conservation). The guidelines go into effect starting in FY2022. Through these new initiatives, we will deliver products with sustainable designs that help to achieve a sustainable society.

HR Initiatives: Investing in and Enhancing the Value of Human Capital

Our health and well-being management revolves around encouraging both new ways of working and diverse personnel. In addition, we strive to transform human resources into human capital through training spearheaded by our specialized personnel training institution, Azbil Academy. Through these efforts we seek to become a corporation where all employees can display their abilities to the fullest. Through “people-focused” management based on the principle of “conduct based on respect for human dignity” encapsulated in the azbil Group Code of Conduct, we are working on initiatives to enhance our human capital to produce sustained growth in enterprise value (see p. 70).

Promoting health and well-being management

In July 2019 we announced the azbil Group Health and Well-being Declaration. It defines our overall direction as “health and well-being management” and mentions initiatives for work-style reforms and diversity promotion that are intended to help employees stay healthy and actively demonstrate their abilities. All azbil Group companies are transitioning from a policy of merely reducing risk to actively increasing job satisfaction.



Transforming “work-style reform” into new ways of working

To create highly satisfying work environments, we endeavor to reduce the total working hours of employees, create harassment-free workplaces with respect for the rights of others, while also undertaking initiatives to ensure employee safety and health, maintain and increase physical and mental health, and encourage work-life balance. We conduct annual employee satisfaction surveys to learn about problems, and then incorporate the results into plans for the following year in order to improve. This helps to increase employee job satisfaction (see p. 70).

Beginning in FY2021, partly to help prevent the spread of COVID-19, we have transformed the Japanese government’s “work-style reform” initiative into an effort to

create and adopt new ways of working, such as hybrid working and new offices that integrate new ways of working with improvements in the work environment in order to increase productivity. We intend to invigorate internal communications between departments and divisions for everyone from management personnel to young recruits, which will lead to better value provision for our customers.

Promoting diversity and inclusion

We believe that having employees from different backgrounds who respect each other’s individuality and can utilize their talents and grow is the driving force for corporate growth. We are therefore committed to promoting initiatives with *diversity and inclusion* as the keywords.

In FY2017 we launched our diversity promotion task force, the Azbil Diversity Network (ADN), which is working on a variety of measures. ADN’s activities expanded in FY2021. In addition to female employees, it also covers a wider range of personnel such as mid-career hires and foreign employees. We are also forging ahead with efforts to follow up on recommendations made to the company through ADN activities. By creating environments that are more pleasant to work in, we hope to foster many employees of diverse backgrounds who can succeed as core personnel.

Azbil Diversity Network (ADN) measures



Human rights initiatives

We signed the United Nations Global Compact and are strengthening our efforts around the world in the areas of human rights, labor, the environment, and anti-corruption. We participate in 13 subcommittees of the Global Compact Network Japan, an internationally recognized initiative, and we are strengthening our initiatives in light of global trends.

Human resource development initiatives

In order for the azbil Group to continue engaging in business that makes contributions leading “in series” to a sustainable society, and because we are an organization that never stops learning, we pursue training initiatives, mainly through the Azbil Academy, according to our Basic Principles of Human Resource Development.

Basic Principles of Human Resource Development

1. Human resources are the source of the azbil Group's growth, so the azbil Group cannot grow unless its employees grow.
2. Therefore, to optimize employee strength and organizational strength, the following are necessary.
 - (1) Individuals: Take responsibility for your own growth and the development of your abilities as much as possible
 - (2) Supervisors: Take responsibility for developing subordinates' abilities in the workplace
 - (3) Companies: Support individuals and organizations by providing opportunities fairly.

■ Human resource development that is resilient against changes in the business environment

Developing personnel with product development and digital transformation (DX) skills is essential in order to respond to changes in the marketplace and in customer needs. It is also important to cultivate a mindset of work improvement and reform. With that in mind, to help employees gain and apply new knowledge and know-how, in FY2021 we started holding DX seminars and providing employees with opportunities for study with employees of other companies.

Our ways of working have changed dramatically due to the coronavirus pandemic, and our training methods have changed significantly as well. Specifically, we have introduced a new learning management platform where azbil Group employees from around the world can learn together globally, and we are also developing content for business partners and customers. Through these efforts, we will create opportunities to grow together with our stakeholders and help develop the capabilities of a diverse group of employees.

■ Developing “global” personnel

To increase our market share overseas, we need to develop personnel in Japan and abroad who are capable of succeeding in international business. With that in mind, we are expanding online communication opportunities at our bases overseas to make them thoroughly aware of the azbil Group philosophy and corporate culture. At the same time, we are enhancing our “internal globalization” in Japan by actively recruiting foreign employees and graduates of universities overseas to help increase employees' awareness.

Also, although we suspended exchanges for training and temporary transfers of overseas subsidiary employees due to the effects of COVID-19, once movement restrictions are lifted we will resume them and accelerate the development of personnel equipped for global business.

■ Creating an environment for developing diverse personnel

To help employees develop their careers, in addition to providing better career training for various age groups, we offer training for long-term workers on how to draw up their plans for a “100-year life.”

Employees also develop career plans according to their personal traits and work to realize their plans by accumulating a variety of experiences. They also have interviews with their supervisors to plan new duties that will help them prepare for their career in the future, in cooperation with the personnel system.

Additionally, we encourage motivated employees who wish to plan their own careers to do so by taking on new challenges through the internal recruitment system.



New employees in training (at the Shonan Training Center)

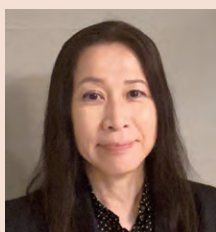
Main initiatives for investing in and enhancing the value of human capital

Aims

All Group employees contribute to the SDGs by working and learning actively together with stakeholders and demonstrating the results achieved through mutual growth.

Policy	Results in FY2021	Initiatives in FY2022
Health and well-being management (new ways of working)	<ul style="list-style-type: none"> Shared with all employees the company president's video message on health and well-being management Rebranded "work-style reform" (reducing overtime work, encouraging taking of paid leave) to "creation of new ways of working" (improving productivity and job satisfaction) using the coronavirus crisis as a springboard Held meetings to exchange opinions at all workplaces as a step to eliminate harassment Mental health program: Continued to perform stress checks Physical health program: Started assistance for employees to quit smoking (support for smoking cessation outpatient service fees, seminars on how to quit). Created a handbook for employees working while receiving cancer treatment, with publicity through videos. Listed among the "Health and Productivity White 500" companies for 2022 Continued implementing measures aiming for 0 occupational accidents (occupational accident frequency: 0.78) Guidance on workplace safety from 44 "safety meister" employees all across Japan 	<ul style="list-style-type: none"> Position office facilities, new work styles, and work DX as the pillars for creating ways of working and encourage greater productivity and the optimization of total working hours Make a plan for training on respect for human rights and prevention of harassment Mental health program: Develop a new strategies and future plans to prevent the occurrence of mental health issues Physical health program: Implement measures against lifestyle diseases, cancer, passive smoking Continue to implement measures toward the target of 0 occupational accidents
Health and well-being management (diversity & inclusion)	<ul style="list-style-type: none"> Expanded ADN activities to include mid-career hires and foreign employees, changing the focus from "empowering women" to "encouraging the active participation of a diverse workforce" Female managers: 76 (as of April 1, 2022) Female outside directors: 2 Female executive officers: 1 Continued support for Azbil Yamatake Friendly Co., Ltd., a special subsidiary for employees with disabilities, maintaining an employment rate higher than legally mandated 	<ul style="list-style-type: none"> Introduce an in-house short-term internship system and an internal communication tool based on recommendations received through ADN activities Improve systems allowing employees to balance work with childcare or family care to support the active participation of a diverse workforce Continue to support Azbil Yamatake Friendly Co., Ltd., and maintain an employment rate higher than legally mandated
Recruitment	<ul style="list-style-type: none"> Recruited diverse personnel for the future International business personnel: 38 New graduates with a talent for innovation: 3 Women in STEM: 22 Recruitment based on the medium- to long-term plan for each business New graduates hired: 101 Mid-career hires: 33 	<ul style="list-style-type: none"> Enhance mid-career hire of personnel in development and international business through an employee referral program* Strengthen recruitment of personnel at overseas subsidiaries and affiliates, especially in China and the ASEAN region Encourage the recruitment of persons with disabilities <p>* A recruitment method where employees recommend their friends or acquaintances</p>
Development	<ul style="list-style-type: none"> DX training 5 courses, 60 participants, 100 open seminar attendants Study with employees from other companies 2 courses, 10 persons dispatched International business personnel development get-togethers Held twice, 33 participants 	<ul style="list-style-type: none"> Introduce a new learning management system (in June 2022) and strengthen training for the whole azbil Group as well as business partners Enhance implementation of e-learning in the azbil Group DX training: Train all employees at the basic level Hold 5 or more courses for azbil Group companies in Japan and abroad with over 100 planned participants
Personnel system	<ul style="list-style-type: none"> Established a system whereby healthy long-term workers who demonstrate a high level of skill can continue to play an active role after age 65 Expanded the scope of the professional certification system from mainly the field of development to engineering, service, and manufacturing. As a result, we certified 24 professionals in these fields in FY2021 	<ul style="list-style-type: none"> Consider adopting a remuneration system that emphasizes the productivity of individual employees in the azbil Group in Japan and abroad Introduce the Trust-type Employee Shareholding Incentive Plan to expand the benefits system and provide incentives for medium- and long-term growth in enterprise value

A message from Azbil Academy



Akiko Ogino
President of Azbil
Academy
(Appointed in April 2022)

1. Please tell us the aim of this "an organization that never stops learning."

We aim to build a strong corporate structure that can adapt to a variety of changes in the environment and autonomously promote new value creation.

Through learning and practical application in business, we aim to develop our skills and use them at our individual work sites and workplaces, creating an organization that never stops learning.

2. Please tell us about the human resource development issues and specific measures involved in trying to achieve the long-term targets and medium-term plan.

As we look towards 2030, we need to develop human resources that are resilient to changes in the business environment.

We will enhance training to enhance the basic skills of workers, develop leaders for international business, and provide training for employees of overseas subsidiaries and affiliates. We will also strive to continually build, deploy, and strengthen learning environments that support diverse ways of working and diverse human resources, including mid-career hires and employees balancing work with childcare and family care.

Digital transformation will be a major asset as we expand and transform our business, so we are focused on DX-related thinking and knowledge acquisition as well. We will create a skill map for the kind of DX personnel the azbil Group needs and hold seminars for that as soon as possible.

Quality Assurance and Safety

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

The azbil Group's quality assurance and safety assessment system

To allow our customers to use safe and secure products and services, the azbil Group has two corporate functions, Group-wide quality assurance and safety assessment that offer guidance for and supervision of quality throughout the Group and ensure product safety through safety assessments.

Initiatives for quality, safety and security

Through the azbil Group Quality Assurance Committee, we work to prevent the occurrence or recurrence of quality problems and establish a crisis management system. We also endeavor to guarantee the safety of our products and services by promoting safe designs based on our Safe Design Standards document and by applying the mechanisms in our safety risk assessment system.

Quality assurance and safety of Group companies and business lines

By establishing a quality assurance system that is directly linked to our business requirements, we guarantee the quality and safety of the products we provide.

Working towards 2030

To help achieve the SDG targets for 2030, the azbil Group aims for a level of quality that is both satisfying and attractive to customers and users throughout the life cycle of products and services (from understanding the customer's needs to the time of product disposal).

Providing product quality that satisfies users and customers

When there are changes in our businesses or the introduction of new technology, we will further reinforce the "expected quality" that satisfies customers.

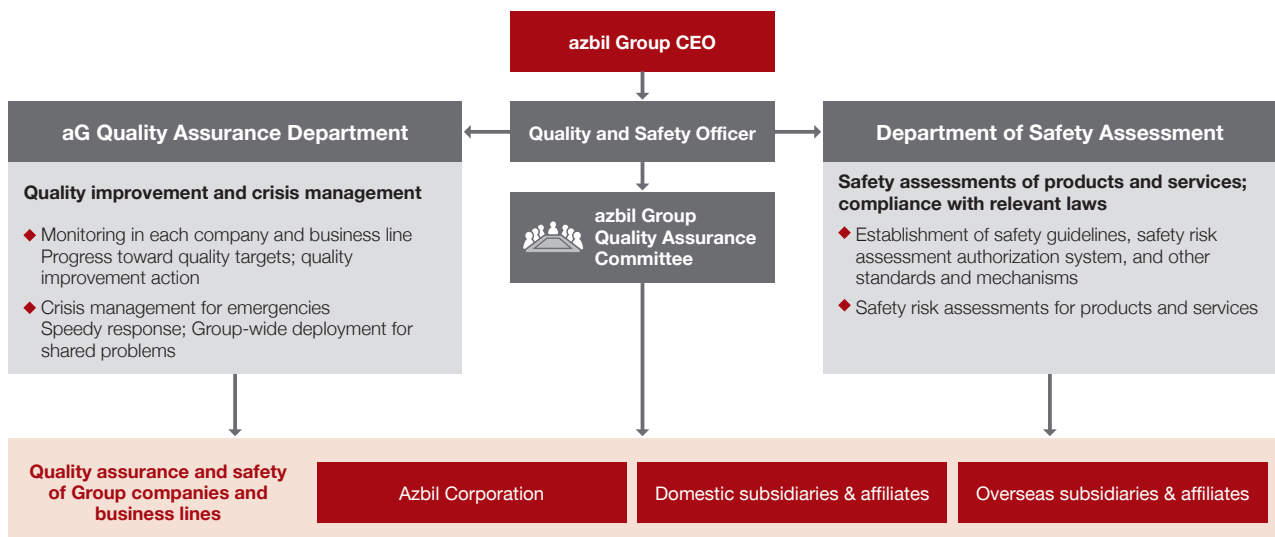
Providing product quality that attracts users and customers

In addition to reinforcing expected quality, we seek to break new ground in product planning and development by adding attractive quality features that appeal to customers.

Initiatives and progress in FY2021

- Expanded efforts to ensure expected quality globally to monitor and guide azbil Group sites world-wide through remote communication tools.
- Continued efforts to provide attractive quality through product planning and development processes so that customers will trust us for everything from products and solutions to engineering and servicing.
- Continued improvements in our risk assessment methods to maintain the safety of products equipped with AI and other new technology and service areas where humans and robots work together.

The azbil Group's quality assurance and safety efforts



CSR-focused Procurement

The azbil Group works with its business partners to undertake CSR-focused purchasing activities throughout the supply chain.

The azbil Group Basic Procurement Policy

In keeping with the azbil Group philosophy and the azbil Group Guiding Principles, the azbil Group undertakes fair and honest purchasing activities in Japan and abroad, understanding and complying with legal regulations and acting with consideration for human rights and the environment. We ensure that our business partners understand the azbil Group Basic Procurement Policy as we endeavor to carry out purchasing throughout the supply chain with an awareness of our corporate social responsibilities.

1. The public nature of the company and the fulfillment of our responsibilities to society
2. Fairness in commercial transactions
3. Respect for human rights
4. Protection of the environment



The azbil Group Basic Procurement Policy is available at the following:
<https://www.azbil.com/corporate/procurement/policy/index.html>

Revisions to the azbil Group Basic Procurement Policy

In June 2022, in light of internal and external requirements (such as the SDGs) the azbil Group Basic Procurement Policy was revised based partly on policies of the United Nations Global Compact.

Points revised

- For supply chain management policy, items were added about climate change, prohibition of discrimination, elimination of excessive overtime, prohibition of forced labor and water use risk.
- An item about human rights was added in line with emphasis by the United Nations Global Compact, which we signed in April 2021.
- We added an item about environmentally conscious design, which is related to the azbil Group's SDG target of designing all new products to be 100% recyclable.
- An item on the management of chemical substances in products was added. This is an important means for conserving biodiversity, one of our environmental protection targets.

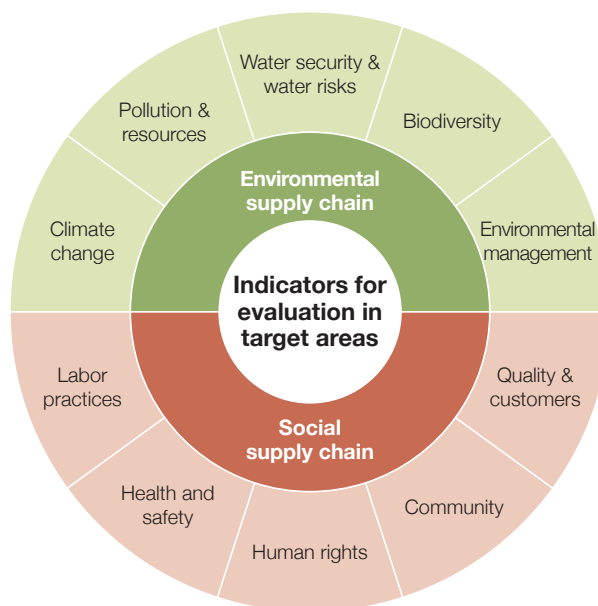
Encouragement of supply chain cooperation

■ Creating CSR Procurement Guidelines for the azbil Group

We created CSR Procurement Guidelines for the azbil Group to help our business partners understand the ideas and the necessity of the SDGs and take specific measures to achieve them. The guidelines summarize the direction of our extensive CSR activity in the supply chain and points for compliance, based on the fundamental approach contained in the Group philosophy and the azbil Group Guiding Principles.

The guidelines contain points that must be addressed in 10 target areas in order to put the azbil Group Basic Procurement Policy into practice.

Areas to be addressed in the supply chain for the SDGs



Drawing upon ESG evaluations by external organizations, we set 10 evaluation indicators. Expansion of target areas in both society and the environment.



CSR Procurement Guidelines for the azbil Group is available at the following:
https://www.azbil.com/corporate/procurement/policy/csr_guideline/index.html

■ Briefings on CSR Procurement Guidelines for the azbil Group

To encourage our business partners to take action to achieve the SDGs and to urge them to undertake specific initiatives, in December 2021 we held four remote briefing sessions on the azbil Group's SDG target initiatives and CSR Procurement Guidelines for the azbil Group. Of 313 main business partners of Azbil Corporation, 276 companies (88%) participated.

After the briefing sessions, we surveyed the participating companies to learn if they were taking action to fulfill the SDGs, and the extent of their cooperation with the guidelines. Of the 276 companies, 265 companies (96%) responded (see the table on right).

■ azbil Group and business partners' self-evaluations

Apart from the survey conducted at the briefings on the guidelines, we also conducted a survey asking each of the azbil Group's major business partners to carry out a self-evaluation of their organization's efforts to achieve the SDGs. Of the 558 companies, 502 companies (90%) responded (see the table below). We also did a self-evaluation of our SDG supply chain initiatives.

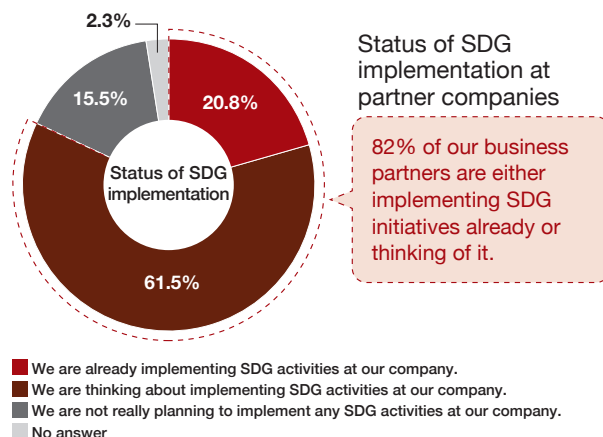
■ Evaluation of FY2021 action

- Through our briefings on the guidelines, we found that we were able to cultivate awareness of the need to work towards the SDGs across our supply chain, and we also obtained support for and agreement with the azbil Group's SDG initiatives.
- We found that we can continuously improve the entire supply chain by using the PDCA cycle to implement the targets set at the beginning of the year.

■ Initiatives for FY2022 and beyond

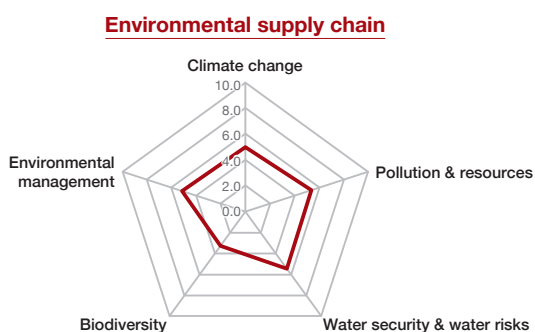
- To increase our effectiveness, we will take up the topics of climate change and protection of human rights, which society regards as imperatives, plan specific related measures, and encourage and collaborate with our business partners.

Survey results



- We will also hold briefing sessions on the guidelines for each Group company's business partners.
- Based on the results of evaluation, we will provide feedback to business partners on points for improvement and encourage them to improve voluntarily.
- We will build IT mechanisms to serve as infrastructure for sharing information between the azbil Group and its business partners and among business partners.

Results of business partners' self-evaluations (FY2021)



Intellectual Property Strategy and Brand Management

We consider our intellectual property rights to be an important management resource. As we strive to increase our brand value, we also take steps to acquire, protect, and apply those rights by means such as strengthening our global management systems for the product designs and communication tools that form our points of contact with customers.

Intellectual property strategy

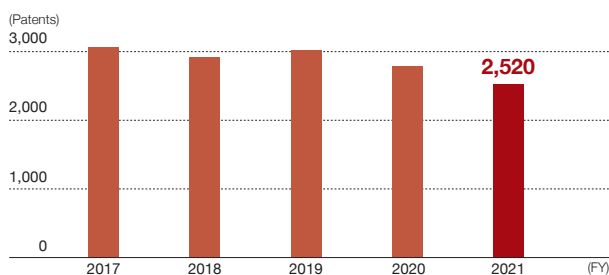
We respect the intellectual property of third parties and view our intellectual property as an important resource for maintaining and expanding existing markets and creating new businesses. We therefore work to acquire and protect that intellectual property.

Through the Intellectual Property Department, we work to support decision-making on business and R&D within our business units and research and development departments in the collaborative framework they have created. We do this by actively mining both intellectual property information and business- and management-related information in order to gain an understanding of technological trends in Japan and around the world, and to better understand our own position and trends among other companies and in the market. Specifically, we use intellectual property information to verify the business hypotheses made when breaking new ground in our three growth fields.

To build a high-quality intellectual property portfolio, we carefully select the patent applications and subjects of examination that are the fruits of our R&D, and we preserve the patents that play an important role in the azbil Group's business strategy.

Number of patents owned

We strive to obtain and keep patents that have a high priority for business strategy.



Data on patents and R&D

FY	2017	2018	2019	2020	2021
Number of applications	562	537	423	393	256
Patents*					
Number owned	3,049	2,911	3,016	2,784	2,520
R&D expenses (billions of yen)	11.3	11.9	11.8	11.2	12.1
R&D expenses/net sales (%)	4.3	4.5	4.5	4.5	4.7

* Total for Azbil Corporation, Azbil Kimmon Co., Ltd., and Azbil TA Co., Ltd.

Brand management

To foster a unified corporate image, we have laid out Group-wide rules for the use of company names and logos, and other components of the azbil brand and have implemented them worldwide. One of our goals is to increase the azbil Group's presence in the global market and promote domestic and overseas business expansion more effectively. Thus, we are currently looking to optimize everything from our product designs to the communication tools we use to remain in contact with stakeholders.

For communication tools, we are in the process of drafting guidelines for a uniform brand image in our videos and presentation materials, which are gaining importance as remote work increases. We are also working in our locations worldwide to unify our corporate image and improve management of our logos and colors at places such as factory buildings and office reception areas, that are seen by many stakeholders.

In the area of product design, to help realize the azbil Group's vision of "a world of automation created by human ingenuity and technology," we are establishing design guidelines, promoting the idea of human-centered design, and continuing to design products from the user's perspective. The various products developed through these efforts have been highly regarded domestically and internationally and have been honored with prestigious design awards both in Japan and abroad.



The model F4Q digital mass flow controller, which won a Good Design Award and iF Design Award



The cell-type air conditioning system, which won a Good Design Award



Pneumatic solenoid dual valves from Azbil TA Co., Ltd., which won a Good Design Award

Compliance and Internal Control

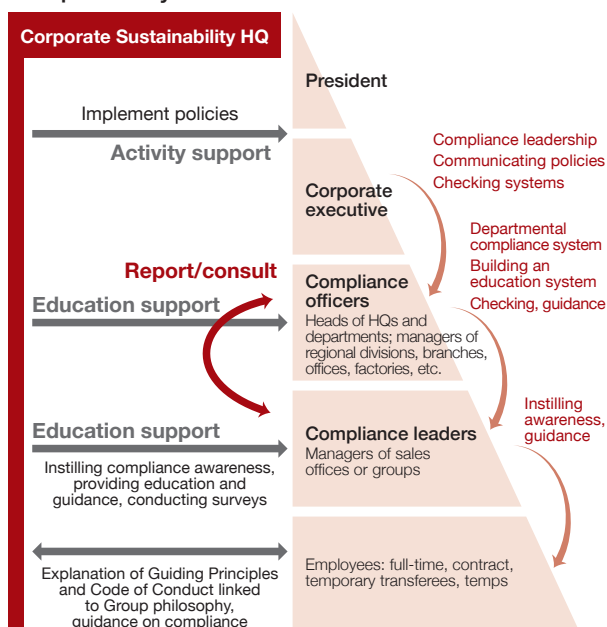
As part of our efforts to fulfill our “basic CSR,” which we define as our responsibility as a corporate member of society, we strive to ensure compliance and build internal control systems for the entire azbil Group throughout our operations in Japan and abroad.

Promotion system, initiatives

■ Compliance system

The azbil Group has built an organizational compliance system in which a corporate executive is appointed to drive and oversee compliance efforts, as shown in the chart below. An especially important role is played by compliance leaders, who are responsible for instilling awareness and leading compliance in the workplace and for discovering and reporting problems to compliance officers as quickly as possible.

Compliance system



■ Building internal control systems and complying with J-SOX

The basic policy that officers and employees are expected to adhere to is stated in the Basic Policy on Internal Control System Architecture, and we also disclose an overview of our performance. Additionally, we are strengthening efforts to comply with the Financial Instruments and Exchange Act and Internal Control Reporting System (J-SOX) and improving our accounting standards.

Maintaining and increasing compliance awareness

We conduct annual compliance training for officers and department heads, led by an external lecturer, and the management and department heads spearhead efforts to improve compliance awareness throughout the Group. In

October 2021, we invited an external professional lecturer to give an online lecture, which was attended by 278 people.

In FY2021, 6,824 employees attended lectures online (e-learning). We also organized online training on compliance in a group discussion format, with 3,535 people participating. Online training for compliance officers and leaders with in-house instructors was also held 26 times, with 809 participants. Additionally, we conduct an annual survey of all Group employees about the status of compliance within the Group. The results help us to understand and identify problems that need to be tackled so that we can implement the necessary countermeasures.

Consultation service for early detection of internal problems and workplace environment problems

To enhance its CSR management and health and well-being management, the azbil Group has established a reporting and consultation service for management and employees (including temps) working at Azbil Corporation and Group companies and our business partners. This system allows the Group to quickly discover and appropriately handle compliance violations and issues that negatively affect the workplace environment.

We make continuous efforts to improve confidence and encourage use of the consultation service. For example, we disclose to employees the number of reports and consultations per year, broken down by type of content, and also provide collections of case studies on reports and consultations in various languages (Japanese, English and Chinese).

Additionally, we are working to increase the number of regions that can use the CSR hotline for persons overseas. We are also striving to comply with laws protecting personal information in individual countries by, for example, establishing a dedicated consultation system for China alone.

To comply with the revised Whistleblower Protection Act that came into effect in Japan on June 1, 2022, we strengthened protections for people seeking consultation, among other things, and we are enhancing and adjusting our system for reporting and consultation by reviewing our regulations and operations.

We will continue working to increase confidence in the consultation service as a means of receiving feedback from our stakeholders, which contributes to our CSR management.

Risk Management

To avoid losing enterprise value and the trust of the public, the azbil Group strives to accurately understand and minimize risk factors with the potential for serious impact on operations.

Risk management system

The azbil Group General Risk Management Committee, composed of department managers, conducts an exhaustive investigation to identify risks that may have a significant impact on operations. Following this, the azbil Group General Risk Committee, headed by the corporate executive in charge of risk management, compiles a list of risks deemed important to the azbil Group that are especially in need of action, which are then deliberated on and confirmed by the Board of Directors. The Management Meeting and the azbil Group CSR Promotion Committee then set up systems with a PDCA cycle as a countermeasure for each kind of major risk, monitor the progress of the countermeasures, and report on outcomes to the Board of Directors. In April 2022, we also established the CSR and Risk Management Department to enhance our risk management.

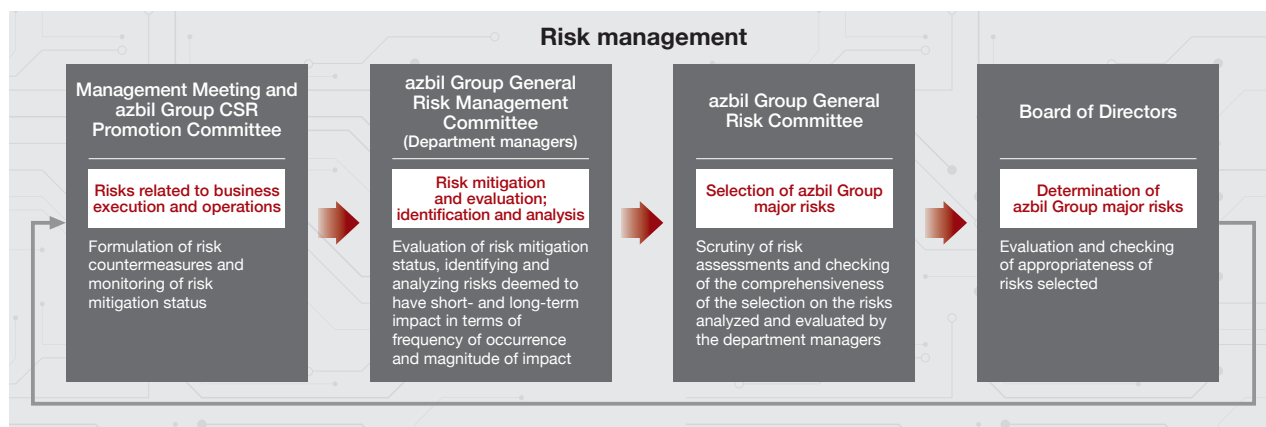
In addition to the aforementioned systems, the Board of Directors of each Group company determines its own important risks and implements measures to counteract them.

■ The azbil Group's risk management

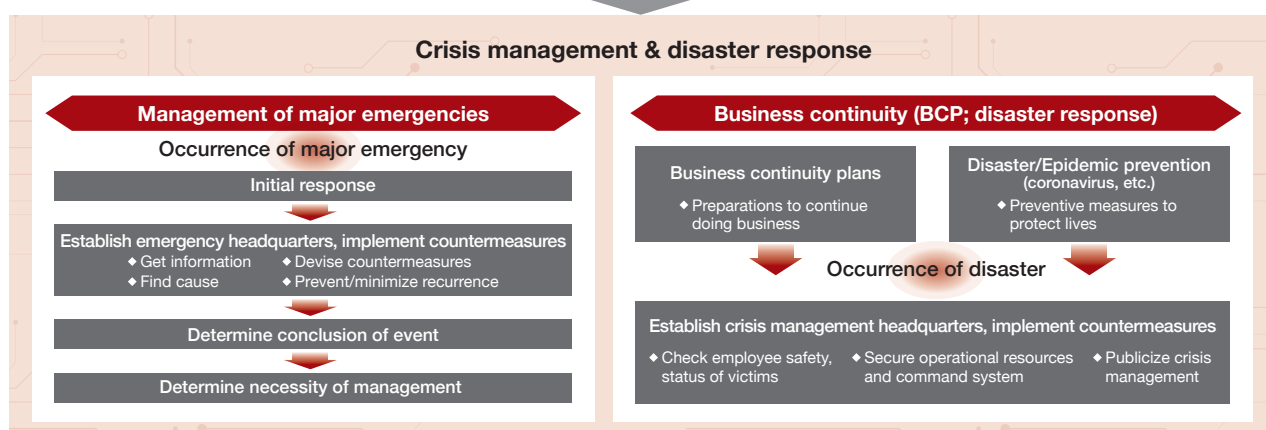
To minimize risk from possible future events, we carefully review risks every year, identify the major risks, and monitor the progress in strengthening of countermeasures using the PDCA cycle.

We have also established a crisis management response system to help us respond to crises and emergencies, with the aim of minimizing the impact of any crisis that occurs. We are also building and strengthening our response system for major emergencies. Furthermore, we have formulated many kinds of detailed BCPs as we continuously strive to improve our systems as part of our business continuity management.

The azbil Group's risk management



Crisis management and disaster response (handling of major incidents)



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 deliberated on by the azbil Group General Risk Committee and the Board of Directors, and are managed comprehensively. In addition to this overall management, related departments also take measures to mitigate risk.

Information in the table that pertains to the future was judged by the Group to be valid as of the end of FY2021. The risks that are listed are described in our 100th Securities Report under “Business-Related and Other Risks.” Please refer to the report for details on how each potential risk was addressed and evaluated.

Category	Risk awareness	Countermeasures and risk mitigation
Business environment	<ul style="list-style-type: none"> • Risk that changes in the economic environment (such as increased inflation) in the regions we operate in, widespread difficulty in parts procurement, changing market conditions in specific regions and key business sectors, including construction and manufacturing, may have an impact on capital investment; risk of medium- to long-term decline in demand for offices due to changes in the environment; and a major economic recession could all have an adverse impact on the Group's operations, business results, or financial position. 	<ul style="list-style-type: none"> • Aim for business growth by expanding life-cycle businesses, the demand for which is relatively stable amid economic fluctuation.
Growth in competitive environments	<ul style="list-style-type: none"> • Risk that inadequate responses to business opportunities that may arise from changing conditions in society, technological innovations, and the like could lead to the loss of competitive advantage. • Risk that the loss of competitiveness—caused by misreading of technological trends, slow R&D progress, or failure to respond to open innovation and technological developments—or delays in launching new products, sluggish sales, and the like could affect the Group's operations or business results. 	<ul style="list-style-type: none"> • Upon recognizing new risks, develop new subscription models, etc., and engage in strategic collaboration. • Develop business by forming deeper alliances (including M&As) with other companies. This will require the establishment of a preparatory system and careful consideration. • Make appropriate technology R&D investments and create a new organizational structure dedicated to specialized fields, such as IT solutions and cloud services; take action to verify new business models; improve systems by using the Azbil Academy to help train employees and help them change jobs; continue pursuing M&A opportunities; update and strengthen core information system and roll them out across the Group; and take other measures to avoid delays in addressing changes in the environment and competitive disadvantages.
Product quality	<ul style="list-style-type: none"> • Risk that costs incurred by accidents due to defective products, systems, or services, or the resulting damage to our corporate reputation, or the effects of the aforementioned could affect the Group's operations, business results, or financial position. 	<ul style="list-style-type: none"> • Use a dedicated organization to check quality at the product development and manufacturing stages. • Strengthen quality control efforts such as managing and improving production lines to maintain proper inspection work processes and checking legal compliance related to factory operation, construction management, etc. • Conduct inspections using a dedicated organization that specializes in safety in addition to checks at the design and production stages.
Global operations	<ul style="list-style-type: none"> • Risk that unforeseen situations, such as regional political and economic upheaval, changes in laws, and terrorism; geopolitical risks such as wars and conflicts; as well as differences in business practices or the occurrence of an epidemic such as COVID-19 could affect the Group's operations, business results, or financial position. • Risk that delays in planned business expansion for reasons such as regional peculiarities could affect the Building Automation (BA) business. • Risk that sharp foreign exchange fluctuations may impact net sales, prices of raw materials and parts, SG&A expenses, etc. 	<ul style="list-style-type: none"> • Continue to monitor the geopolitical risks presented by the Ukraine crisis and its economic effects and respond appropriately. • Prepare disaster response, BCPs, etc. Introduce flexible work styles such as working from home. • In the BA business, establish bases especially in Southeast Asia and China; secure in-house engineers and partner companies to establish a robust business execution system; start providing services aimed at launching life-cycle businesses overseas. • Hedge against foreign exchange fluctuations appropriately and expand overseas production to mitigate risk.

(Continued)

Category	Risk awareness	Countermeasures and risk mitigation
Securing and developing human resources	<ul style="list-style-type: none"> • Risk that obstacles to securing, educating, and smoothly deploying human resources needed to address business structural changes could lead to a decline in productivity or other performance indicators. • Risk that delays in securing, educating, or deploying personnel needed for overseas business development may inhibit achievement of business growth targets. 	<ul style="list-style-type: none"> • Secure and allocate the personnel necessary to address changes in business structure. • Take steps to establish a new personnel system. • Implement measures for securing and training human resources for overseas business development tailored to the situation of each business location.
Information leaks and IT security	<ul style="list-style-type: none"> • Risk that leaks of confidential business information or personal information due to unforeseen circumstances could affect the Group's business performance or financial position, or cause damage to its corporate reputation. • Risk that unexpected cyber-attacks, possibly using new methods, could affect the Group's business operations. 	<ul style="list-style-type: none"> • Ensure confidentiality of important information and comply with laws on personal information protection (establish and implement internal regulations and educate employees). • Create a strong IT environment and implement employee training. • Establish a new inspection department that specializes in information security (integrated management and countermeasures for everything from products and services to business systems). • Thoroughly enhance information security management, including support for network transmissions to entities outside the Group, limits on the sending and receiving of potentially dangerous email attachments, and changes to VPN methods.
Environment, climate change, natural disasters	<ul style="list-style-type: none"> • Risk of damage to production and supply of products and services stemming from large-scale disasters, lockdowns, and other activity restrictions in major cities, or other unforeseen events • Risk that events beyond those assumed in the BCP will have a negative impact on business continuation, which could have a major effect on the Group's business results or financial position. • Risk that climate change could lead to long-term market structural changes or impact the Group's core businesses • Risk that long-term market structural changes or a decline in sales generated by customers in core businesses could affect the Group's business results. 	<ul style="list-style-type: none"> • Decentralize the production network to reduce the risk of concentration. • Devise a production response plan anticipating a situation equivalent to a lockdown, such as restrictions on activities in major cities. • Verify the business continuity period without limiting it to specific events; prepare the necessary funds, product inventories and materials, personnel, and production equipment. • Formulate a long-term vision to achieve "substantially zero emissions" of greenhouse gases associated with our business activities by 2050; reduce our environmental impact (obtain Science Based Targets initiative (SBTi) certification and formulate long-term vision aimed at "substantially zero emissions"). • Identify various events that may be caused by climate change and check the details of the risks and potential impact on operations, and then undertake scenario analysis and respond accordingly (disclosure according to the recommendations by the Task Force on Climate-related Financial Disclosures framework).
Compliance	<ul style="list-style-type: none"> • Risk that the violation of laws (antitrust laws, construction industry laws, labor laws, bribery laws, etc.), including violations resulting from failure to address characteristics of newly entered regions and industries and delays in responding to new laws and revisions of existing laws, may result in administrative penalties and fines; risk that inappropriate acts by the Group and/or its business partners will lead to harmful rumors and damage the Group's reputation. 	<ul style="list-style-type: none"> • Conduct regular monitoring in Japan and abroad to check compliance with laws and internal rules; engage in rigorous compliance education. • Place top priority on legal compliance and conduct regular monitoring in Japan and overseas to check compliance; strengthen system for concluding contracts while also informing and educating all employees.
Changes in how employees work	<ul style="list-style-type: none"> • Risk of undesirable changes in how employees work as a result of efforts to introduce new work styles, increased telecommuting, and support for remote work as a countermeasure for infectious disease • Risk of regulatory problems • Risk of negative effects on employee health such as mental health problems, lack of exercise, etc. 	<ul style="list-style-type: none"> • Revise various internal rules and standards in line with changes in systems and business processes. • Conduct disease prevention seminars, health promotion programs, and employee surveys, and issue alerts.
Difficulties in procuring parts	<ul style="list-style-type: none"> • Risk of the prolonged effects of difficulties in procurement and cost increases for semiconductor-related parts and other parts in the global market • Risk of long-term suspended production or large-scale reduced production due to difficulties in procuring parts 	<ul style="list-style-type: none"> • Improve production operations; use a parts inventory for BCPs; secure products for market distribution; switch to alternate parts or change designs.

Interview with the Chairperson of the Board



“The new corporate structure with three committees enables the Board of Directors’ supervisory roles and responsibilities to be clearly separated from execution functions. This allows for more open and thorough discussion with the outside directors, giving us a stronger foundation for our pursuit of sustainable growth.”

Hirozumi Sone
Chairperson of the Board

As we seek to contribute “in series” to the achievement of a sustainable society, the azbil Group is fully committed to its founding mission to “freeing people from drudgery” and to the azbil Group philosophy of “human-centered automation,” which was adopted on our 100th anniversary in 2006. Corporate governance is our fundamental management priority, and we have been taking significant steps since 2000 to strengthen governance and establish our business value structure. With the appointment of President Yamamoto in 2020, we have clarified the Group’s mission for the future and the direction of business development to achieve sustainable growth.

The new Board structure with three committees — the Nomination Committee, Audit Committee, and Remuneration Committee— allows a clear division between the execution function and the supervisory function. This enables us to respond more quickly to opportunities and risks that arise from changes in the business environment or in the course of implementing our business strategies, while also giving us a more flexible framework for business development. The increased presence of outside directors, who make up the majority of the Board of Directors and who play central roles in the three

committees, also fortifies our governance by enhancing management transparency and ensuring the soundness of decision making. Adopting a new structure was a major decision for us, but we believe this transition enables us to better follow the Group philosophy of “human-centered automation” and to continue providing technology and services that contribute “in series” to creating a sustainable society. We trust that all our stakeholders around the world will support the change in corporate structure and, like us, look forward to seeing its positive effects.

In the present company with a three-committee Board structure, in order to fulfill its role of supervising execution, the Board of Directors must engage in discussions that are more open and thorough. We have always cultivated an atmosphere that encourages outside directors to speak openly and frankly in the interests of corporate growth, and the new framework will facilitate this to greater extent. As chairperson, I will seek to build relationships so that Board members and corporate executives can fully engage in healthy and deep discussions, maximizing the advantages of independence between supervisory and execution functions.

I would like to ask for your continuing support as the new azbil Group moves ahead.

Basic approach to corporate governance

In order to deserve the trust of all of our stakeholders, we not only ensure compliance with laws and regulations and our Articles of Incorporation, but also fulfill our social responsibilities based on corporate ethics and contribute to society while continuously improving enterprise value through efficient and transparent management.

We also comply with Japan's Corporate Governance Code, which was published by the Financial Services Agency and Tokyo Stock Exchange, and satisfy requirements for information disclosure by publishing corporate governance reports and integrated reports (such as this one) on our company website.



The latest Corporate Governance Report is available at the following:
<https://www.azbil.com/csr/basic/governance.html>

Corporate governance framework

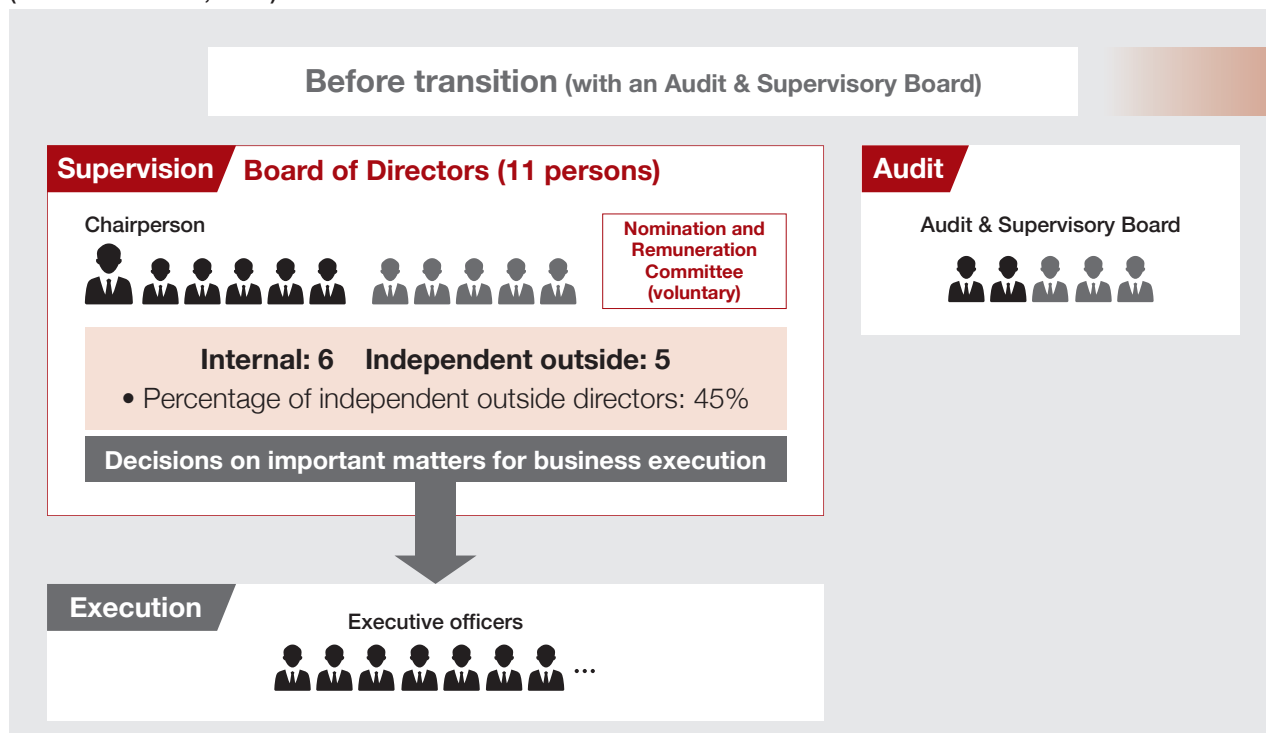
The azbil Group has established its long-term targets (for FY2030) and a medium-term plan (FY2021–24), whose aim is to make contributions that lead “in series” to a sustainable society and achieve growth through providing automation-related products and services. Guided by the Group philosophy of “human-centered automation,” we are securing our own medium- and long-term development while implementing sustainable enhancement of enterprise value. At the same time, we recognize that it is corporate governance which provides the foundation for sustainable enhancement of enterprise value, and so improving corporate governance is a key issue for management. We

are therefore working to strengthen the supervisory and auditing functions of the Board of Directors, enhance the transparency and soundness of management, and clarify responsibilities for business execution. To facilitate this, we have recently transitioned from having an Audit & Supervisory Board to having a three-committee Board structure, following the approval of a proposal to amend our Articles of Incorporation at the 100th Ordinary General Meeting of Shareholders held on June 23, 2022.

Accompanying this transition to a three-committee Board structure, three statutory committees—the Nomination Committee, Audit Committee, and Remuneration Committee—have been established, each consisting of a majority of outside directors. By substantially transferring business execution authority from board members to corporate executives with clear legal responsibilities, we are further separating supervisory and execution functions to ensure a business execution system based on flexible and efficient decision making, while at the same time enhancing the objective supervision of management.

Furthermore, as a company with a three-committee Board structure, to ensure the effectiveness of monitoring by the Board of Directors, we have established a forum for providing information to directors and exchanging opinions with corporate executives in the form of a Liaison Meeting for Directors and Corporate Executives. At the same time, we are continuing our system for executive officers charged with business execution, aiming to provide appropriate decision-making while enhancing its speed.

Transition to a company with a three-committee Board structure (effective June 23, 2022)



Changes to improve corporate governance

Strengthening of supervision and auditing

- Appointed and increased the number of independent outside directors (1 in 2007, 2 in 2010, 3 in 2014, 4 in 2018, 5 in 2019)
- Appointed and increased the number of independent outside Audit & Supervisory Board members (2 in 1994, 3 in 2011)
- Evaluations of Board of Directors effectiveness began (2016)
- Established criteria for judging the independence of outside directors and Audit & Supervisory Board members (2016, revised 2020)
- Set an upper limit on the term of office for outside directors and Audit & Supervisory Board members (2020)
- Transitioned to a company with a three-committee Board structure (2022)

Strengthening of management transparency and soundness

- Replaced the Nomination and Remuneration Meeting with the Nomination and Remuneration Committee, with independent outside directors as a majority (2016)
- Revised the remuneration system for management (2017)
- Abolished the “counselor and advisor system” (2018)
- Appointed an independent outside director as chairperson of the Nomination and Remuneration Committee (2018)

Clarification of responsibilities, encouragement of dialogue, etc.

- Introduced the executive officer system (2000)
- Formulated Corporate Governance Guidelines (2016)
- Appointed an executive officer for corporate communications (2016)
- Formulated guidelines on cross-shareholdings (2016, revised 2018)
- Defined skills expected of directors (skills matrix) (2021)

After transition (with a three-committee Board structure)

Supervision Board of Directors (12 persons)

Chairperson



Internal: 4 Independent outside: 8

- Percentage of independent outside directors: 67% (majority)
- 2 internal directors are non-executive
- The chairperson is a non-executive internal director

Nomination Committee

Audit Committee

Remuneration Committee

Note: The chairperson of each statutory committee is an outside director

Decisions on important matters for business execution

Note: Substantially transferred business execution authority to corporate executives for quick response to business environment changes

Execution

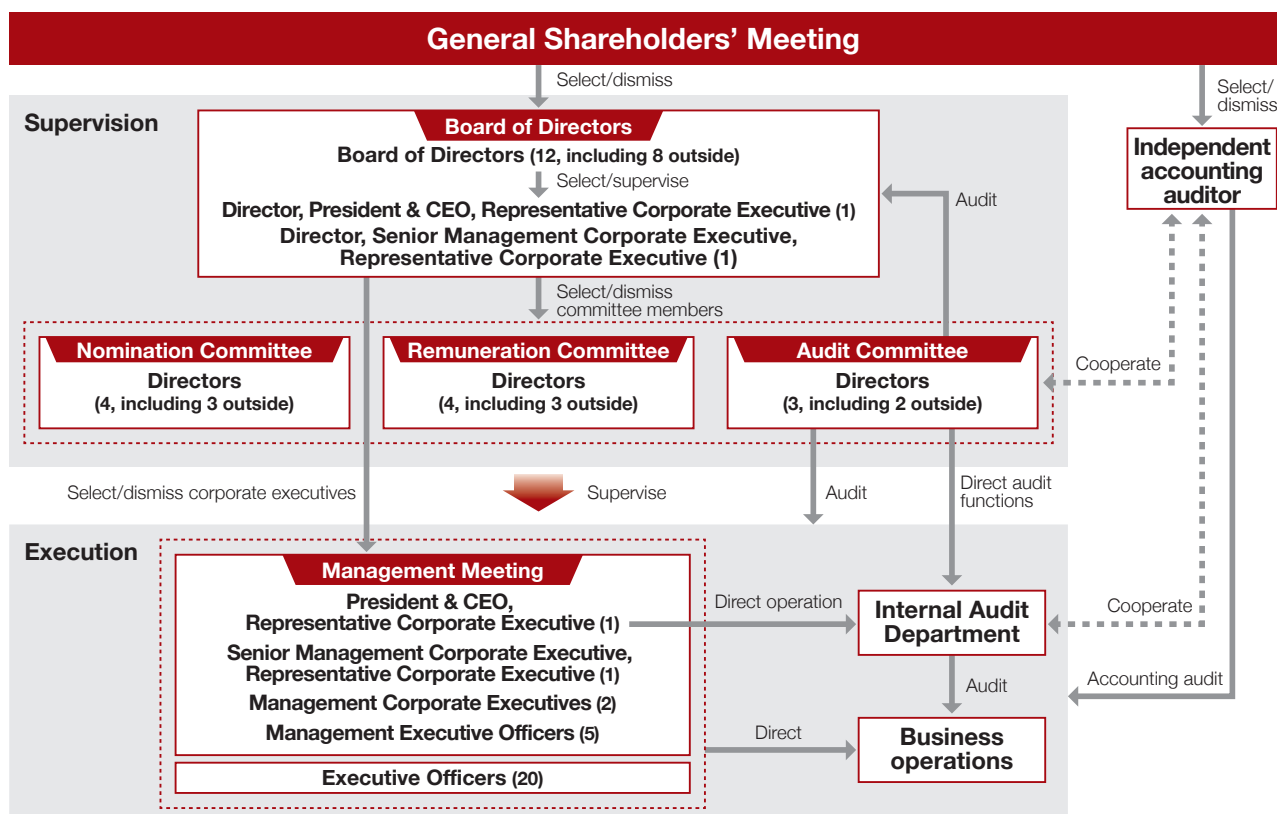
Corporate executives



Executive officers



Corporate governance framework (as of June 23, 2022)



Composition of committees

In keeping with our three-committee Board structure we have established three statutory committees. Their role, membership, and chairperson are given below. The

members are selected from among the directors by a resolution of the Board of Directors. Similarly, the chairperson is selected from among the outside directors by a resolution of the Board.

Nomination Committee

Responsible for deciding proposals for the selection/dismissal of directors to be submitted to the General Meeting of Shareholders, and for deliberating matters related to selecting/dismissing members of statutory committees (Nomination, Audit, and Remuneration), selecting/dismissing corporate executives, and planning for succession.

Chairperson	Takeshi Itoh (outside)
Members	Anne Ka Tse Hung (outside)
Members	Shigeaki Yoshikawa (outside)
Members	Kiyohiro Yamamoto

Audit Committee

Responsible for auditing the execution of duties by corporate executives and directors, for preparing audit reports, for drawing up detailed proposals for the selection, dismissal, or non-reappointment of the accounting auditor, and for promoting systematic auditing.

Chairperson	Fumitoshi Sato (outside)
Members	Minoru Sakuma (outside)
Members	Hisaya Katsuta

Remuneration Committee

Responsible for determining policies related to the remuneration system for corporate executives and directors, for determining individual remuneration, and for deliberating on the establishment, revision, or abolition of remuneration systems as well as other matters related to remuneration for directors and officers.

Chairperson	Mitsuhiro Nagahama (outside)
Members	Waka Fujiso (outside)
Members	Tomoyasu Miura (outside)
Members	Takayuki Yokota

Messages from Committee Chairpersons



Takeshi Itoh

Chairperson of the Nomination Committee

I was appointed chairperson of the Nomination Committee following the transition to a company with a three-committee Board structure. Under the new organizational structure, independent outside directors make up the majority of the Board of Directors. The corporate governance structure is such that an independent Board of Directors performs supervisory functions and corporate executives are responsible for execution in their respective businesses. This structure, which enables the efficient execution of business operations while the Board of Directors bears responsibilities to all stakeholders, puts the company at the forefront of corporate governance in Japan. The Nomination Committee has the heavy responsibility of nominating individuals to serve as the top executives that will manage the company. The Company has already established structures to develop human resources and select candidates for top positions. These efforts are behind our steady growth and business performance in recent years. Top executives must not only navigate the company's internal structure, they also must respond to ESG concerns and a wide range of circumstances. Since personnel selection is the cornerstone of corporate culture, the Nomination Committee aspires to create a management body that will take great strides forward as the company expands its overseas business. As the committee chairperson, I will do my best to guide the outstanding members of our committee in fulfilling our important responsibilities.



Fumitoshi Sato

Chairperson of the Audit Committee

I was recently appointed as an outside director and chairperson of the Audit Committee after serving three years as an outside member of the company's Audit & Supervisory Board.

The committee's other two members and I are working to establish a new structure for the committee's activities, to deepen "the Group's organizational audits" by increasing cooperation with the Internal Audit Department and Group companies in Japan and overseas. In the year ahead, I will be looking to give more emphasis to "a risk-based approach" to our evaluations and to increase the opportunities for Group executives to exchange opinions.

I will fulfill the mandate from our shareholders to express my views and carry out my duties as an outside director and to audit the company's corporate executives and directors in the execution of their duties.



Mitsuhiro Nagahama

Chairperson of the
Remuneration Committee

Azbil Corporation has a unique remuneration system for management that is deeply rooted in "azbil culture," which is the foundation for our sound growth. In the past, by the company's own initiative, the Nomination and Remuneration Committee played a major role in reviews for improvements that were necessitated by changes in the business environment. Under the new framework, the Remuneration Committee will take full advantage of the merits of this existing system, while constructing and continually improving a remuneration system for management that is optimal for the rapidly changing business environment and our company's expected transformation. The remuneration system is important part of management infrastructure for the goal of improving enterprise value over the medium and long term. To develop and maintain an optimal system that is consistent with our business strategy and that provides healthy incentives, we will work to improve its effectiveness while paying particular attention to its alignment with the company's strategies.

Main activities of the Board of Directors in FY2021

In principle, the Board of Directors meets once a month. Board meetings were held 12 times in FY2021, with full attendance by all directors and Audit & Supervisory Board members at all meetings.

In addition to deliberations in Board meetings, the Board of Directors also discussed the medium-term plan on more than 10 occasions, including at non-Board forums arranged to exchange opinions. The members have reviewed the plan and discussed business strategies to achieve long-term growth and long-term targets. Topics included overseas business development, DX and related businesses, and sustainability initiatives. In terms of governance, in addition to deliberating the transition to the prime market segment,* the Board confirmed compliance with the Corporate Governance Code, which was revised in June 2021, and also confirmed compliance with the principles applicable to the prime market. The Board also held multiple deliberations and reviews of matters concerning our recent transition to a three-committee Board structure.

* Azbil Corporation moved to the prime market in April 2022.

Main topics for discussion by theme at Board of Directors' meetings in FY2021

Themes	Main topics
Management strategy and planning	<ul style="list-style-type: none"> • Growth strategy for each business • Deliberations on medium-term plan • Business portfolio review
Capital policy	<ul style="list-style-type: none"> • Year-end dividend and capital policy • Sale or retention of cross-shareholdings
Subsidiary management status	<ul style="list-style-type: none"> • Business status reports at domestic subsidiaries and affiliates • Business status reports at Southeast Asian & North American subsidiaries and affiliates
Governance	<ul style="list-style-type: none"> • Evaluation of effectiveness of the Board of Directors • Compliance with the revised Corporate Governance Code • Compliance with the new market categories of the Tokyo Stock Exchange
Sustainability	<ul style="list-style-type: none"> • CSR action policy and reports • Formulating sustainability policy, reports on initiatives

Composition and main activities of the Nomination and Remuneration Committee in FY2021

In FY2021, the Nomination and Remuneration Committee served as a voluntary advisory body to the Board of

Main activities of the Audit & Supervisory Board in FY2021

In FY2021, Azbil Corporation had an Audit & Supervisory Board. This Board consisted of two full-time members and three outside members. The Audit & Supervisory Board carefully audited, mainly from a legal standpoint, the business decisions and operational execution of the Board of Directors and executive officers.

In principle, the Audit & Supervisory Board met once a month. In FY2021, it met a total of 14 times with full attendance by all five members. It also exchanged opinions with the representative directors and shared information regularly with outside directors.

Additionally, the effectiveness of the Audit & Supervisory Board was evaluated at the end of the fiscal year and its auditing in FY2021 was reviewed. To increase the effectiveness of the Audit & Supervisory Board we applied the results of the evaluations to aspects of auditing work and priority items for auditing in the auditing plan for the following fiscal year with regard to methods of cooperating with outside directors, methods of remote investigation, and points of evaluation in key auditing matters.

Main topics for discussion by the Audit & Supervisory Board in FY2021

	Main topics
Resolutions	<ul style="list-style-type: none"> • Audit & Supervisory Board auditing plan, auditing policy, division of duties • Agreement on remuneration for accounting auditors • Evaluation and re-election/non-reappointment of accounting auditor • Year-end audit report
Reports	<ul style="list-style-type: none"> • Quarterly report on each member's activity • Quarterly financial audit reports • Audit reports from accounting auditor

Directors that fulfilled the function of both a nomination committee and a remuneration committee. The Nomination and Remuneration Committee met seven times and deliberations mainly involved the following.

Date	Items of discussion
May 2021	Evaluated the results of individual performance targets in FY2020 and deliberated the amount of bonuses to be paid to individual directors who concurrently performed executive duties and served as executive officers. Also deliberated the basic remuneration to be paid in FY2021 to outside directors and to individual directors who concurrently performed executive duties. Deliberated on the publication of the skill matrix in the business report and on full-time executives taking up concurrent posts at external organizations.
August, September, and November 2021	Deliberated and confirmed revisions to the Nomination and Remuneration Committee regulations, the operating and training status of the successor training plan, and revisions to the remuneration system for management.
December 2021	Confirmed the state of discussion and the procedure for the FY2022 management structure.
February 2022	Deliberated the management structure for FY2022 and the management structure at Group companies after confirming the review and proposal process for the proposed new management structure accompanying the transition to a three-committee Board structure. Deliberated the stock compensation scheme as well.
March 2022	Deliberated and confirmed the operating status and procedure for the management structure at domestic and foreign Group companies and our HR system for international business employees.

Evaluation of effectiveness of Board of Directors

The Board of Directors aims to raise enterprise value over the medium and long term through open-minded and constructive discussions. To ensure that the Board of Directors continues to fulfill its roles and responsibilities, the Board assesses its own effectiveness each year, identifying issues and areas requiring improvement.

As in the preceding year, for FY2021 the evaluations and views on the issues listed below were collected from all members of the Board of Directors and the Audit & Supervisory Board. Based on this information, the Board of Directors assessed its current effectiveness, shared information on issues, and engaged in discussions on future action.

- (1) Size and composition of the Board of Directors
- (2) Operating status of the Board of Directors
- (3) Support systems and communication with outside directors and outside Audit & Supervisory Board members
- (4) Decision-making process of the Board of Directors
- (5) The content of reports from the Nomination and Remuneration Committee to the Board and the process for appointing directors and Audit & Supervisory Board members
- (6) Evaluations and opinions on initiatives aimed at transition to a three-committee Board and changes to the remuneration system for management

As a result of the evaluations, we confirmed that the size, composition, and operation of the Board of Directors are all appropriate; that a system has been established to make important management decisions and supervise business execution; that both the reporting of the Nomination and Remuneration Committee to the Board and the process for appointing directors and Audit & Supervisory Board members are conducted appropriately; that Board members, including outside directors, with diverse experience and expertise, have a clear understanding of their roles and are fully participating in open, lively, and constructive discussions, with sufficient opportunities for communication, even when meetings are held online.

At the same time, by way of future initiatives, the Board of Directors will share and discuss matters such as the progress of the medium-term plan and aim to deepen deliberations on corporate governance and business management issues, including compliance. The Board members also have a shared recognition that it is necessary to improve communication with the executive side of the company as well as between committees following the transition to a three-committee Board structure in FY2022, and that it is necessary to strive to

exercise supervisory functions so that the full potential of this transition can be realized.

For sustainable growth and increased enterprise value over the medium to long term, initiatives to enhance the effectiveness of the Board of Directors will continue.

■ Outside verification of Board of Directors effectiveness evaluation

Formerly the company evaluated the effectiveness of the Board of Directors based on self-evaluations of the directors and Audit & Supervisory Board members. For the FY2021 evaluation, however, we used an external organization to make our evaluation process more objective.

Director training policy

To ensure that the Board properly fulfills its functions and responsibilities, the company believes it is important to provide training opportunities tailored to each individual officer. Based on that awareness, new directors are given opportunities to train outside the company so that they can gain and update knowledge that they need to execute their duties, such as information on their legal authority and obligations. New outside directors also go through an orientation program where they are given an overview of the company, its business, and products it handles; are briefed on matters such as corporate governance; and also tour our factories. Moreover, we regularly hold group training sessions on compliance for all directors even after appointment, in addition to inviting external lecturers for training as necessary.

Outside director support system

We have established a Corporate Secretariat Office, which performs secretarial duties for directors, handles special management orders, serves as the main office for the Board of Directors, and supports the Nomination Committee and Remuneration Committee. We have also established an Audit Committee Office consisting of dedicated staff within the Internal Audit Department. Through these offices, we are working to boost the support functions available to the Board of Directors and the statutory committees. Moreover, we distribute materials for Board of Directors' meetings in advance, and for outside directors we hold advance briefings on agenda items so that they can obtain any needed information.

Remuneration for directors and officers in FY2022

After the transition to a three-committee Board structure, which was approved on June 23, 2022, at the 100th Ordinary General Meeting of Shareholders, the company has disclosed its remuneration policy, based on a policy for determining remuneration for the company officers (corporate executives and directors) that was passed by resolution of the Remuneration Committee, which is chaired by an outside director.

Remuneration policy for officers

■ Basic policy regarding remuneration for officers

Aiming to realize the Group's philosophy, we have adopted the following basic policy for the remuneration of company officers to motivate them not only for short-term performance but also to achieve medium- and long-term performance goals and to enhance enterprise value.

- Taking into consideration the nature of our business, remuneration should encourage awareness of the necessity to enhance enterprise value from a medium- to long-term perspective and further promote value sharing with our shareholders.
- Remuneration should help to secure talented management personnel to realize the company's management philosophy and achieve the medium- to long-term performance goals.
- The remuneration system should be highly independent and objective, and should enable us to fulfill our duty of accountability to stakeholders.

■ Remuneration levels

Remuneration levels for company officers (corporate executives and directors) are set by resolution of the Remuneration Committee after it has verified their appropriateness using data supplied by an external research agency. Also, the committee reviews remuneration levels as necessary in response to changes in the external environment.

■ Remuneration structure

The remuneration structure for corporate executives (including those concurrently serving as directors; similarly hereafter) consists of basic remuneration, which is a fixed monthly amount based on their roles and responsibilities; bonuses, which are short-term incentives; and stock-based compensation, which is a medium- to long-term incentive. In order to ensure a remuneration structure that motivates officers to achieve our medium- and long-term performance targets and enhance enterprise value, the incentive component of remuneration has been increased, and the combined remuneration for corporate executives will be typically determined thus: basic remuneration 56%, bonus (base amount) 33%, stock-based compensation (base amount) 11%.

The remuneration for directors (not including

those concurrently serving as corporate executives; similarly hereafter) consists of basic remuneration and stock-based compensation.

Corporate executives

(1) Basic remuneration

- Basic remuneration is paid as a fixed monthly monetary amount based on the position, responsibilities, and roles of the officer.

(2) Bonus

- A bonus is paid as a performance-linked monetary remuneration that takes into consideration company performance and non-financial indicators for the single fiscal year.
- As regards financial indicators, to improve enterprise value over the medium to long term, we use sales and operating income, which are the company's main management indices, as key performance indicators (KPIs). The amount of the bonus will fluctuate according to the degree by which these targets have been achieved, while taking into consideration also non-financial indicators.
- Non-financial indicators are based on the degree of achievement of the various roles of the corporate executive, such as implementing measures to realize the medium-term plan, engagement in CSR management, and the development of human resources (succession training). The Remuneration Committee determines the amount of remuneration based on such evaluation.
- Taking into account both financial and non-financial indicators, the final amount paid as a bonus will vary between 0% and 150%.
- Remuneration is designed so that the higher the officer's position, the higher the weighting of financial indicators. As an example, the KPIs and their respective evaluation weightings for the president and CEO are as follows.

Bonus KPIs		Evaluation weighting
Financial indicators	Net sales	45%
	Operating income	45%
Non-financial indicators	Improved customer satisfaction, increased efficiency and productivity, HR development and revitalization of the organization, CSR management	10%

(3) Stock-based compensation

- In principle, stock-based compensation is paid to the corporate executive following retirement from the current position, with the aim of continuous enhancement of enterprise value while sharing value with shareholders.
- A base amount for stock-based compensation is set for each position. Of this, 50% is performance-linked and 50% is not.
- As regards KPIs, the performance-linked component uses relative total shareholder return (TSR)—an indicator that evaluates our TSR relative to the Tokyo Price Index (TOPIX) by the Tokyo Stock Exchange—to ensure that officers and

shareholders have a shared interest, and operating income margin, an indicator set forth in the medium-term plan. As a non-financial indicator, we use effective CO₂ reduction at customers' sites, which is one of the essential goals of the azbil Group for the SDGs. The performance-linked component will vary between 0% and 150% depending on the extent to which these targets have been achieved during the period covered by the medium-term plan. The evaluation weightings for each KPI are as follows.

Stock-based compensation KPIs		Evaluation weighting
Financial indicators	Relative TSR (relative to TOPIX, including dividends)	50%
	Operating income margin	30%
Non-financial indicators	Effective CO ₂ reduction	20%

- As a way to further encourage value sharing with shareholders, the non-performance-linked component is paid as stock-based compensation with vesting of a fixed number of shares.
- Stock-based compensation is paid through a Trust-type Stock Compensation Plan. Under this plan, points corresponding to an officer's position are awarded annually, and company shares equivalent to the number of points accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

Directors

(1) Basic remuneration

- Basic remuneration is paid as a fixed monthly monetary sum based on the responsibilities of the position.

(2) Stock-based compensation

- In principle, stock-based compensation is paid to the director following retirement from the current position, with the aim of continuously enhancing enterprise value while sharing value with shareholders.
- A base amount of stock-based compensation is determined, which is entirely non-performance-linked.
- Stock-based compensation is paid through a trust-type stock compensation plan. Under this plan, a certain number of points are awarded annually to those eligible, and company shares equivalent to the number of points

accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

■ Process for determining remuneration

The Remuneration Committee determines the remuneration of directors and corporate executives. The majority of the members of the Remuneration Committee, including the chairperson, are outside directors, which ensures objectivity and transparency.

The Remuneration Committee has the authority to determine the details of remuneration for individual directors and corporate executives. It arrives at evaluation decisions based primarily on (1) the policy governing remuneration details for individual directors and corporate executives; (2) the details of remuneration for individual directors and corporate executives; and (3) in the case of corporate executives, the degree of achievement of both company-wide performance targets and the individual targets set for each corporate executive for the purpose of determining performance-based remuneration.

In the event of a substantial change in the external environment of the company, the Remuneration Committee, after carefully deliberating on the appropriateness of the target values and calculation methods used for determining performance-linked remuneration, may take exceptional measures.

■ Non-payment of stock-based compensation

If it is determined that an officer is responsible for serious misconduct or a serious violation, the company can deny all or part of the company shares, etc., that were to be transferred to the officer under the stock-based compensation plan.

■ Disclosure policy

In accordance with our disclosure policy and applicable laws and regulations, details of the executive remuneration system are compiled and disclosed promptly and proactively through the annual Securities Report, reference materials for the General Meeting of Shareholders, the Business Report, Corporate Governance Report, company website, etc. The company also implements a policy of active engagement with shareholders and investors.

Total remuneration for directors and Audit & Supervisory Board members in FY2021

The table below shows remuneration paid according to the remuneration determination policy in effect before the transition to a company with a three-committee Board structure.

Category	Amount of remuneration 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)	450(65)	353(65)	97(-)	-	-	11(5)
Audit & Supervisory Board members (outside)	82(30)	82(30)	- (-)	-	-	5(3)
Total (outside)	532(95)	435(95)	97(-)	-	-	16(8)

Determining the management structure for FY2022

The company's transition to a three-committee Board structure, which was approved on June 23, 2022, at the 100th Ordinary General Meeting of Shareholders resulted in a new management structure. This structure was determined by the Nomination and Remuneration Committee, a voluntary advisory committee which had an outside director as chair and outside directors as the majority of the members. Going forward, the Nomination Committee, which is also chaired by an outside director and has a majority of outside directors, will ensure fairness, transparency, and objectivity and continue to strive for appropriate selection of directors and officers and education of their successors.

■ Appointment of directors

In terms of basic qualifications, a candidate director is to be a person with excellent character and insight who contributes to the growth of the company and the Group and helps to enhance enterprise value. Directors involved in business execution need to have a high level 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 and must also have the ability to proactively express opinions and raise issues from outside perspectives and diverse backgrounds. Candidates must be appointed after the company confirms that there are no problems regarding their independence based on our criteria for judging the independence of outside directors.

A decision on the candidates listed on the next page was made by the Board of Directors after deliberations by the Nomination and Remuneration Committee.

■ Selection and dismissal of senior executives

The Board of Directors made decisions on selecting or dismissing the CEO and other senior executives (president & CEO, vice president, and the like) in FY2022 based on selection criteria standards and the desired composition of the Board of Directors after deliberations by the Nomination and Remuneration Committee.

Criteria for nominating directors

To be nominated, candidates must have a full understanding of our Group philosophy, deep knowledge of corporate management, and wide-ranging experience

both inside and outside Japan, as well as good insight 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 insight, a selfless attitude, a person who earns the trust of others;
2. The ability to think and judge from an international perspective and from the standpoint of the entire Group;
3. Exceptional insights, the ability to implement change and innovation and anticipate the future, and the willingness to embrace the challenges of a results-oriented approach;
4. Healthy, energetic, physically sound, and mentally resilient.

Criteria for proposing dismissal of directors

Concerning policies and procedures for dismissing the CEO and other senior executives (president & CEO, vice president, and the like), the candidate for dismissal undergoes a fair and rigorous process of examination and deliberation based on the following criteria. If the Nomination and Remuneration Committee judges that the dismissal is appropriate, it is sent to the Board of Directors for approval.

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

■ Succession planning

Concerning succession planning for the company's senior management, the Nomination and Remuneration Committee deliberates concerning the status of training and selection of successors and records the results of these deliberations as well as the discussion process itself. It ensures that succession planning was done appropriately and objectively, and the chairperson of the committee, an independent outside director, reports the results of the discussions to the Board of Directors as appropriate.

This system is designed to ensure that the Board of Directors can be actively involved in succession planning with sufficient time and resources allocated for the training of successor candidates.

Skills expected in directors (skills matrix)

Azbil Corporation has determined the skills, etc., expected of directors in light of its management strategy, including the realization of the medium-term plan, and has confirmed the independence, diversity, and expected skills (as given below) of the current Board of Directors.

Regarding the skills, in May 2021, the Board of Directors and the Nomination and Remuneration Committee conducted an objective review considering the azbil Group philosophy, business model, growth strategy,

etc., and selected seven important items expected of the directors to support growth toward making contributions leading “in series” to a sustainable society as outlined in the medium-term plan. Of these, “corporate management/ sustainability,” “global business,” and “IT/technology/ control and automation business” are particularly relevant to the Group’s sustainable growth over the medium and long term.

Of the 12 directors, two are women (one of whom is a foreign national).

Name (age)	Current position(s)	Independence	Diversity	Expected skills						
		Independent director	Gender	Corporate management/ sustainability*	Global business	Financial affairs, accounting, finance	IT, technology/control and automation business	Sales, marketing	Manufacturing, research, and development	Legal, risk management, compliance
Hirozumi Sone (67)	Director and chairperson Chairperson of the Board		M	○			○	○		○
Kiyohiro Yamamoto (57)	Director Representative corporate executive President & Group CEO Nomination Committee member		M	○	○		○	○	○	
Takayuki Yokota (61)	Director Representative senior managing corporate executive Remuneration Committee member		M	○	○	○				○
Hisaya Katsuta (64)	Director Audit Committee member		M			○			○	○
Takeshi Itoh (78)	Outside director Nomination Committee chairperson	○	M		○	○				
Waka Fujiso (73)	Outside director Remuneration Committee member	○	F	○						○
Mitsuhiro Nagahama (68)	Outside director Remuneration Committee chairperson	○	M	○	○	○				
Anne Ka Tse Hung (58)	Outside director Nomination Committee member	○	F		○					○
Minoru Sakuma (73)	Outside director Audit Committee member	○	M		○	○				
Fumitoshi Sato (68)	Outside director Audit Committee chairperson	○	M	○		○				○
Shigeaki Yoshikawa (69)	Outside director Nomination Committee member	○	M	○	○			○		
Tomoyasu Miura (60)	Outside director Remuneration Committee member	○	M	○			○	○		

* This includes human resources and human capital development relevant for sustainability. (As of June 23, 2022)

Management and Board of Directors

(As of June 23, 2022)



Director and Chairperson

Hirozumi Sone

Chairperson of the Board
Section: Board Effectiveness Enhancement

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., General Manager of Marketing Department of the company
Apr 2005 Executive Officer, General Manager of the Corporate Planning Department
Apr 2008 Managing Executive Officer, General Manager of the Corporate Planning Department
Jun 2010 Director and Managing Executive Officer
Apr 2012 Representative Director, President and Chief Executive Officer
Apr 2020 Representative Director, Executive Chairperson, President and Group Chief Executive Officer
May 2020 Chairman, Japan Electric Measuring Instruments Manufacturers' Association (Present post)
Jun 2020 Representative Director and Chairperson, Executive Chairperson of the Company
Jun 2021 Outside Director of Yasuda Logistics Corporation (Present post)
Jun 2022 Director and Chairperson (Present post)



Director, Representative Corporate Executive, President & Group Chief Executive Officer

Kiyohiro Yamamoto the Nomination Committee Member

Section: Internal Audit, Corporate Planning Department

Apr 1989 Joined the Company
Apr 2007 General Manager of Environmental Marketing Department, Marketing Headquarters, Building Systems Company of the Company
Apr 2011 Head of Marketing Headquarters, Building Systems Company
Apr 2012 Senior Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2014 Senior Officer, General Manager of Corporate Planning Department
Apr 2017 Executive Officer, General Manager of Corporate Planning Department and Head of Marketing Headquarters, Building Systems Company
Apr 2018 Managing Executive Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2020 Executive Vice President
Jun 2020 Representative Director, President and Group Chief Executive Officer
Jun 2022 Director, Representative Corporate Executive, President & Group Chief Executive Officer (Present post)



Director, Representative Senior Managing Corporate Executive

Takayuki Yokota the Remuneration Committee Member

Section: Assistant to President, Corporate Administration (including Finance and Business Management, Corporate Communication, azbil Group CSR, Internal Control), International Business

Apr 1983 Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.)
Nov 2005 Chief IR Officer at Investor Relations, Mizuho Financial Group, Inc.
Apr 2010 Executive Officer and Head of the Investment Banking Business Management Department, Mizuho Corporate Bank, Limited (Present: Mizuho Bank, Ltd.)
Jun 2012 Audit & Supervisory Board Member of Mizuho Research Institute Ltd.
Apr 2013 Joined the Company (Senior Officer)
Apr 2014 Executive Officer, Head of Group Management Headquarters
Apr 2016 Managing Executive Officer, Head of Group Management Headquarters
Apr 2017 Managing Executive Officer, Head of Group Management Headquarters and Head of International Business Headquarters
Apr 2018 Managing Executive Officer
Jun 2018 Director (Present post)
Apr 2020 Representative Senior Managing Corporate Executive (Present post)



Director

Hisaya Katsuta the Audit Committee Member

Apr 1983 Joined the Company
Apr 2005 General Manager of Production Planning Department
Feb 2010 General Manager of Internal Audit Department
Apr 2011 Senior Officer, General Manager of Internal Audit Department
Apr 2012 Senior Officer, Manager of Production Management Department, Production Management Headquarters
Apr 2014 Senior Officer, Manager of Purchasing Department, Production Management Headquarters
Jun 2015 Audit & Supervisory Board Member
Jun 2022 Director (Present post)



Outside Director

Takeshi Itoh the Nomination Committee Chairperson

Sep 1969 Entered Burnham & Company
Oct 1983 Director of The First Boston Corporation (Present: Credit Suisse Group AG)
Oct 1993 Managing Director and Vice Manager of Tokyo Branch, Smith Barney (Present: Citi Group Global Markets Japan Inc.)
Oct 1998 President of UBS Asset Management Inc. (Present: UBS Asset Management (Japan) Ltd.)
Dec 2010 Supreme Advisor of Japan Wealth Management Securities, Inc. (Present: Aozora Securities Co., Ltd.)
Feb 2012 Vice Chairman and Chief Operating Officer of Aozora Securities Co., Ltd.
Jun 2013 Senior Advisor of Aozora Securities Co., Ltd.
Jun 2014 Outside Director of the Company (Present post)
Jun 2018 Retired from Senior Advisor of Aozora Securities Co., Ltd.



Outside Director

Waka Fujiso the Remuneration Committee Member

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 2008 Member of Information Disclosure and Personal Information Protection Review Board, Cabinet Office
Nov 2008 Retired from a member of Information Disclosure and Personal Information Protection Review Board, Cabinet Office
Apr 2009 Professor of Rikkyo University's Law School
Sep 2011 Member of the Medical Ethics Council of Ministry of Health, Labor and Welfare
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)
Oct 2019 Retired from a member of the Medical Ethics Council of Ministry of Health, Labor and Welfare

Managing Corporate Executives

Yoshimitsu Hojo

Advanced Automation Business, azbil Group (aG) Product Business Portfolio Enhancement
President of Advanced Automation Company (AAC)

Kazuyasu Hamada

Building Automation Business, aG System Business Portfolio Enhancement, aG Work Style Creation (aG Synergy)
President of Building Systems Company (BSC)

Managing Executive Officers

Masato Iwasaki

Life Automation Business, Home Comfort Headquarters, General Manager of Life Science Engineering Department

Junya Nishimoto

aG Research and Development, Product Safety/Quality/Environment, Smart Robots, aG Environmental Protection Innovation, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Environment Promotion Department, Document Production Department

Akihiko Naruse

aG Safety Management (Occupational Health and Safety), Human Resources Department, aG Safety Management Department, Azbil Academy

Tadayoshi Ito

aG Marketing (in three growth fields), aG Digital Transformation Promotion, aG IT (aG Cyber Security) Enhancement, aG Service Engineering Enhancement, aG System Business Portfolio Enhancement, Information Systems Department, Service Headquarters, Cloud Operation Center, IT Development Headquarters, Cyber Security Office, AI Solution Department, General Manager of GX Solution Department

Hideaki Ishii

aG Production, aG Purchasing, aG Product Business Portfolio Enhancement, Advance Automation (AA) Development and Quality Assurance, Production Management Headquarters

Executive Officers

Masashi Hirano

Smart Robot Business Development

Takahiro Sakamoto

Head of Technology Development Headquarters

Toshiyasu Sumitomo

aG Marketing Support, General Manager of the Corporate Planning Department

Masatoshi Yamada

Auditing Functions Enhancement, Internal Audit Department

Masahiko Fujikawa

aG Quality and Safety Enhancement, General Manager of Department of Safety Assessment, General Manager of aG Quality Assurance Department



Outside Director

Mitsuhiro Nagahama

the Remuneration Committee Chairperson

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 Chairman of the Board of Mizuho Securities Co., Ltd. & Mizuho Securities USA Inc.
 Apr 2015 Advisor of Mizuho Securities Co., Ltd.
 Jun 2015 Outside Audit & Supervisory Board Member of the Company
 Mar 2018 Outside Audit & Supervisory Board Member of KURARAY Co., Ltd. (Present post)
 Mar 2019 Outside Director of Tokyo Tatemono Co., Ltd.
 Jun 2019 Outside Director of the Company (Present post)
 Jun 2019 Representative Director of Japan Economic Research Institute (Present post)
 Mar 2020 Retired from Advisor of Mizuho Securities Co., Ltd.
 Jun 2020 Outside Director of NSK Ltd. (Present post)
 Mar 2021 Retired from Outside Director of Tokyo Tatemono Co., Ltd.



Outside Director

Anne Ka Tse Hung

the Nomination Committee Member

Jul 1987 Joined Baker McKenzie
 Jul 1991 Moved to Baker McKenzie Tokyo
 Jul 1999 Partner of the firm
 Jul 2018 Senior Counsel of the firm
 Mar 2019 Retired from Senior Counsel of the firm
 Jun 2020 Outside Director of the Company (Present post)



Outside Director

Minoru Sakuma

the Audit Committee Member

April 1971 Joined Export-Import Bank of Japan (Present: Japan Bank for International Cooperation)
 May 1998 Director General of Information Systems Department, Export-Import Bank of Japan
 Oct 1999 Director General of Research Institute for Development and Finance, Japan Bank for International Cooperation
 May 2000 Retired from Japan Bank for International Cooperation
 May 2000 Managing Director of Cabiunas Investment Corporation
 Jun 2009 Retired from Cabiunas Investment Corporation
 Jun 2009 Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) of JGC Corporation (Present: JGC HOLDINGS CORPORATION)
 Jun 2016 Retired from JGC Corporation
 Jun 2019 Outside Audit & Supervisory Board Member of the Company
 Jun 2022 Outside Director of the Company (Present post)



Outside Director

Fumitoshi Sato

the Audit Committee Chairperson

Apr 1976 Joined Bank of Japan
 Apr 1998 General Manager of Aomori Branch, Bank of Japan
 May 2001 General Manager of Fukuoka Branch, Bank of Japan
 Apr 2004 Retired from the Bank
 Apr 2004 Senior Corporate Officer of HORIBA, Ltd.
 Jun 2005 Managing Director of HORIBA, Ltd., General Manager of General Administration Division
 Mar 2017 Retired from Managing Director of HORIBA, Ltd.
 Mar 2017 Adviser of HORIBA, Ltd.
 May 2018 Retired from HORIBA, Ltd.
 May 2018 Auditor of Tokyo Scientific Instrument Association
 Jun 2019 Outside Board Director of TOMY Company, Ltd. (Present post)
 Jun 2019 Outside Audit & Supervisory Board Member of the Company
 May 2020 Retired from Auditor of Tokyo Scientific Instrument Association
 Jun 2022 Outside Director of the Company (Present post)



Outside Director

Shigeaki Yoshikawa

the Nomination Committee Member

Apr 1977 Joined Mitsubishi Corporation
 Jun 2004 General Manager of Singapore Branch
 Jul 2006 General Manager of Regional Strategy & Coordination Dept.
 Apr 2008 Senior Vice President, General Manager of Global Strategy & Coordination Dept.
 Apr 2010 Senior Vice President, Chief Regional Officer for the Middle East
 Apr 2013 Executive Vice President, Regional CEO for the Middle East & Central Asia
 Mar 2016 Retired from Executive Vice President
 Apr 2016 Corporate Advisor
 Aug 2016 Retired from Mitsubishi Corporation
 Sep 2016 Corporate Advisor of Mitsubishi Research Institute, Inc.
 Oct 2016 Executive Vice President
 Dec 2016 Representative Member of the Board, Executive Vice President & COO
 Dec 2020 Senior Corporate Advisor (Present post)
 Apr 2021 Advisor to the Chancellor, Visiting Professor (Department of Business Design), Research Fellow (Institute of Current Business Studies) of Showa Women's University, Tokyo (Present post)
 Jun 2021 Vice Chairman & Executive Director of The Japan Singapore Association (Present post)
 Jun 2022 Outside Director of the Company (Present post)



Outside Director

Tomoyasu Miura

the Remuneration Committee Member

Apr 1986 Joined Nomura Research Institute, Ltd.
 Apr 2001 Manager of Financial Consulting Service Department II of Nomura Research Institute, Ltd.
 Apr 2008 Manager of Financial Strategic Consulting Service Department of Nomura Research Institute, Ltd.
 Apr 2009 Senior Managing Director, Deputy Manager of Management Consulting Service Division of Nomura Research Institute, Ltd.
 Apr 2010 Senior Managing Director, Deputy Manager of System Consulting Service Division of Nomura Research Institute, Ltd.
 Apr 2011 Senior Managing Director, Manager of Center for Corporate Planning Division of Nomura Research Institute, Ltd.
 Apr 2013 Senior Managing Director, Deputy Manager of Financial System Solution Service Division of Nomura Research Institute, Ltd.
 Apr 2017 Counselor of Nomura Research Institute, Ltd. Deputy Dean of Nomura School of Advanced Management
 Jun 2018 Executive Director & Dean of Nomura School of Advanced Management
 Aug 2019 Auditor of Research Institute of Science for Education (Present post)
 May 2021 Representative Director of Design Innovation Consortium, Kyoto University (Present post)
 May 2022 Retired from Nomura School of Advanced Management
 Jun 2022 Retired from Nomura Research Institute, Ltd.
 Jun 2022 Outside Director of the Company (Present post)

Akiko Sekino

General Manager of Legal & Intellectual Property Department

Kenichi Hayashi

General Manager of BSC Business Planning Department

Tomoyuki Takeda

aG Work Style Creation Support (Domestic), Manager of BSC Tokyo Head Office

Takashi Sawada

Supervision of BSC Regional Divisions & Branches

Tetsuya Iwasaki

aG System Business Portfolio Enhancement Support, Head of IT Development Headquarters, Head of BSC Development Headquarters

Kanichiro Tsuruta

Head of BSC Engineering Headquarters

Toshihisa Murayama

Building Automation International Business, Head of BSC Marketing Headquarters, Promotion Member of Strategic Planning & Development Office for Southeast Asia

Yukiya Kitaura

aG Service Engineering Enhancement Support, BSC Environmental Solution Headquarters, Head of BSC Facility Management Headquarters

Tetsuo Takamura

General Manager of AA CP Business*1

Taro Sento

General Manager of AA IAP Business*2

Tetsuo Kobayashi

Head of AAC Business Development Headquarters, Promotion Member of Strategic Planning & Development Office for Southeast Asia

Takashi Igarashi

aG Work Style Creation Support (Domestic), Manager of AAC Tokyo Head Office

Tomohiro Takano

aG Product Business Portfolio Enhancement Support, General Manager of Valve Product Development Department

Shigeru Wada

aG Work Style Creation Support (Overseas), Head of International Business Headquarters

Kenji Sudo

aG System Business Portfolio Enhancement Support, General Manager of AA SS Business,*3 General Manager of AAC SS Marketing Department

*1 Control Products Business (supplying factory automation products such as controllers and sensors, etc.)

*2 Industrial Automation Product Business (supplying process automation products such as differential pressure & pressure transmitters, control valves, etc.)

*3 Solution & Service Business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

Communication with Stakeholders for Co-creation of Value

The azbil Group aims to contribute “in series” to the achievement of a sustainable society through its businesses. To accomplish this goal, it is extremely important to comprehend the various issues in each country and region, propose solutions, and co-create value toward sustainable growth through interactive communication with our stakeholders. From this perspective, management promotes proactive dialogue and works to create more transparent and trusting relationships with our stakeholders.

System to co-create value and initiatives to enhance stakeholder dialogue

■ Corporate communication structure

The azbil Group has appointed a corporate executive in charge of corporate communications who, in coordination with multiple departments within the Group, has set up a system (Corporate Communication Task Force) to facilitate dialogue with stakeholders and engage in discussions aimed at enhancing communication activities.

With this system, we implement fair and highly transparent disclosure of information in accordance with laws and regulations. In addition to financial information, we also proactively disseminate non-financial information, including the management plan, ESG initiatives, and product and service information.

■ Compliance with requirement for prime market companies and with the Corporate Governance Code

We are improving our disclosures to comply with the revised Corporate Governance Code, including rules that apply to the new market category (prime market) from April 2022. Specifically, we have disclosed a remuneration policy (new remuneration system for directors and officers), a skills matrix (skills expected of directors), our sustainability policy and initiatives, and our response to climate change in the Corporate Governance Report and Securities Report.

■ Actively communicating our medium-term plan

We actively communicate information about our financial affairs as well as our management strategies, management issues and non-financial information, such as ESG issues, to our shareholders and other stakeholders through a variety of means. In addition to improving disclosures in

our integrated reports and website, we have made presentations at events such as the Nikkei SDGs Festival and published interviews in newspapers.

■ ESG perception study to improve ESG information disclosures

To help us provide appropriate information about issues related to the SDGs and ESG, we conducted a perception study by interviewing around 40 investors from companies in Japan and abroad, asking them to evaluate the azbil Group's ESG initiatives. We plan to use this feedback to improve our ESG information disclosures.

■ Communicating information through diverse means for a variety of stakeholders

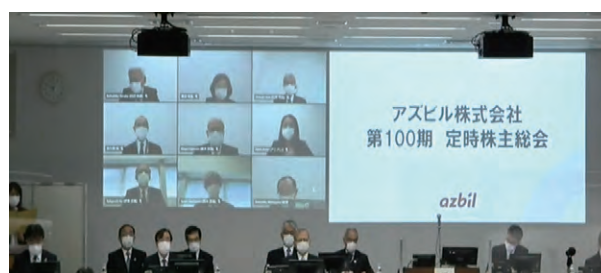
To deliver information appropriately to each of our stakeholders, we use various methods including the Tokyo Stock Exchange's Timely Disclosure network (TDnet); our website; press releases in newspapers, and other media; and exhibitions/facility tours leveraging digital content.

Live/on-demand online broadcasts—general shareholders' meetings, financial results briefings, company briefings

To maintain the fairness of our information disclosures and to expand them while also protecting against the spread of COVID-19, we provide early disclosures about the general meeting of shareholders, employing an electric voting system platform. We also broadcast the general meeting in a live/on-demand format. Similarly, in the disclosure of our financial results and the medium-term plan, and at press conferences, we have used the Internet to hold briefings and Q&A sessions, so as to improve the quality of stakeholder dialogue. We also held an online IR briefing session in March 2022 for individual investors, with approximately 600 attending.



Feature article, Haruhiro Imizu, CEO of Nikkan Kogyo Shimbun, Ltd. (left), and Kiyohiro Yamamoto, President, Azbil Corporation (right) (pub. Sept. 24, 2021)



The 100th Ordinary General Meeting of Shareholders held on June 23rd, 2022, was live-streamed. Company executives who attended the meeting took advantage of the video conferencing software so they could participate while still observing physical distancing.

Communicating globally with digital content

The azbil Group is actively engaged in using digital content and improving its global communication activities. For exhibitions in Japan and abroad, in addition to the physical exhibits, we prepare exhibition booths virtually and webinars to allow people to experience the same content online. Furthermore, the Strategic Planning & Development Office for Southeast Asia in Singapore held a presentation on contributing “in series” to a sustainable society, for which it won the Singapore Apex Corporate Sustainability Awards 2021. This is one of many ways in which the azbil Group communicates its unique sustainability initiatives.

In addition to this, we have added video content and special feature pages to our website to provide in-depth information on our business and our technical capabilities.



Introducing the azbil Group's technologies, products and services contributing to the realization of a smart society

Details of stakeholder dialogues (initiatives and communication methods)

	Initiatives	Communication methods
Customers	Developing better products and services: providing consulting, quality assurance, high value-added engineering and maintenance services	<ul style="list-style-type: none"> Sales and quality assurance activities Offering safe, dependable, and valuable products and services Providing information through our website Providing an inquiry form on our website Exhibitions, webinars
Shareholders and investors	Timely and appropriate information disclosure: gathering authentic valuations from the capital markets, and understanding the requirements of the capital markets	<ul style="list-style-type: none"> General shareholders' meetings, financial results briefings, facility tours, and exhibitions (including live streaming) Individual meetings with Japanese and overseas institutional investors and analysts, briefings for individual investors (management participation, establishing the IR Office as a dedicated unit) Information disclosure through the integrated report (azbil Report), business reports, and information disclosure on the Company's website (Investor Relations page) for shareholders and investors Establishment of a disclosure policy and dialogue based on the policy
Business partners and suppliers	Ensuring opportunities for fair transactions and building good partnerships	<ul style="list-style-type: none"> Briefings on the CSR Procurement Guidelines ESG-oriented implementation of and feedback from business suppliers' self-evaluation surveys Initiatives to achieve the azbil Group's targets for the SDGs in our supply chain (see p. 68)
Local and international communities	Proactive communication to respond to the needs and expectations of local and international communities: engaging in responsible corporate activities through declarations, initiatives, and activities	<ul style="list-style-type: none"> Inviting local residents and institutions to seasonal events (such as summer evening festivals hosted by the Company) Note: Events are currently postponed due to the COVID-19 pandemic Volunteer activities (community cleanup activities, azbil Honey Bee Club) Participation in international initiatives (UN Global Compact, TCFD, and others), communication of information through webinars, etc. Biodiversity conservation initiatives (in cooperation with Japanese and international NPOs and NGOs)
Employees	Creating systems to enable all employees to work comfortably and exercise their full potential, and promoting internal communications in order to achieve our stated goal of “health and well-being management”	<ul style="list-style-type: none"> Information dissemination through the intranet and Group newsletter Direct dialogue between officers and employees (online dialogue at the individual workplace level and with management) Implementing an annual employee satisfaction survey and establishing/pursuing initiatives to achieve high satisfaction levels as a target for the SDGs (see p. 70) Regular dialogue between the labor union and management (joint management council)

Main declarations and initiatives in which we have participated and supported, external evaluations

Participation and support for declarations and initiatives

- Declaring our support for the Task Force on Climate-related Financial Disclosures (TCFD)
- Signing the United Nations Global Compact
- Climate Change Initiative and the Japan Climate Leaders' Partnership Endorsement

Status of inclusion in ESG indices and external evaluations

- Five indices chosen by the Government Pension Investment Fund (GPIF): FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, FTSE Blossom Japan Sector Relative Index, MSCI Japan Empowering Women Index (WIN), S&P/JPX Carbon Efficient Index
- CDP Climate Change (A List score) / Water (A- score), supplier engagement leader
- Received the highest level for the *Eruboshi* certification that recognizes leading companies based on Japan's Act on Promotion of Women's Participation and Advancement in the Workplace; acquired *Kurumin* certification; certified as a Health & Productivity Management Outstanding Organization in 2022

Status of inclusion in other indices

- FTSE4Good Japan Index, MSCI Japan Index, JPX-Nikkei Index 400



2022 CONSTITUENT MSCI JAPAN
ESG SELECT LEADERS INDEX

2022 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)

THE INCLUSION OF Azbil Corporation IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Azbil Corporation BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.



FTSE4Good



11-Year Key Financial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

	FY2011	FY2012	FY2013
Financial Information			
Financial Results (for the year):			
Net sales	223,499	227,585	248,417
(Overseas sales)* ¹	19,837	22,956	46,135
Gross profit	80,840	77,872	86,550
Selling, general and administrative expenses	66,492	64,461	72,646
Operating income	14,348	13,411	13,904
Net income attributable to owners of the parent	8,519	8,309	7,669
Capital expenditure	3,010	3,121	5,303
Depreciation	4,027	3,621	3,723
R&D expenses	8,816	7,824	8,767
Cash Flows (for the year):			
Net cash provided by operating activities	5,634	15,010	15,836
Net cash provided by (used in) investing activities	(3,549)	(12,716)	(10,670)
Free cash flow	2,085	2,294	5,166
Net cash used in financing activities	(6,393)	(2,487)	(6,940)
Financial Position (at year-end):			
Total assets* ²	223,476	243,419	253,448
Interest-bearing debt	10,230	17,920	17,687
Shareholders' equity	133,565	139,042	143,316
Net assets	135,077	141,197	144,978
Per Share Data*³:			
Net income (yen)	57.67	56.25	51.93
Net assets (yen)	904.24	941.33	970.28
Cash dividends (yen)	31.50	31.50	31.50
Financial Ratios:			
Gross profit/Net sales (%)	36.2	34.2	34.8
SG&A expenses/Net sales (%)	29.8	28.3	29.2
Operating income/Net sales (%)	6.4	5.9	5.6
R&D expenses/Net sales (%)	3.9	3.4	3.5
Shareholders' equity/Total assets (%)* ²	59.8	57.1	56.5
Return on equity (ROE) (%)	6.5	6.1	5.4
Dividend on equity (DOE) (%)	3.5	3.4	3.3
Dividend payout ratio (%)	54.6	56.0	60.7
Debt-equity ratio	0.08	0.13	0.12
Non-Financial Information			
CO ₂ emissions (scopes 1+2) (metric tons of CO ₂)* ^{4,5,6}	23,549	22,890	23,726
Number of employees (people)	8,331	9,585	9,712
Number of domestic employees	7,056	7,085	7,026
Number of overseas employees	1,275	2,500	2,686
Number of female employees in managerial or specialist positions (people)	23	29	33
Ratio of female employees in managerial or specialist positions (%)	2.1	2.6	3.0
Ratio of employees with disabilities to total workforce (%)* ⁷	2.19	2.08	2.10

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

*2 Effective from the beginning of fiscal year 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 year 2017 have been changed retrospectively to reflect the amended standard as comparison information.



(Millions of yen)

FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
254,469	256,890	254,811	260,384	262,055	259,411	246,821	256,552
46,756	48,991	43,380	45,797	46,710	44,195	44,888	52,191
89,884	91,089	91,492	97,481	102,338	103,642	99,369	105,706
74,546	73,953	71,347	73,454	75,648	76,386	73,649	77,474
15,337	17,136	20,145	24,027	26,690	27,256	25,720	28,232
7,169	8,268	13,154	17,890	18,951	19,793	19,918	20,784
6,302	3,413	4,160	7,038	6,363	4,934	5,039	11,245
3,785	4,148	4,075	4,112	4,167	4,462	4,484	4,847
10,124	11,012	10,446	11,262	11,897	11,788	11,182	12,109
13,698	11,073	19,949	19,481	16,111	29,812	22,602	10,120
(13,472)	4,262	(9,061)	(48)	(4,075)	(4,171)	284	(3,991)
226	15,334	10,889	19,433	12,036	25,641	22,886	6,129
(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	(18,768)	(6,996)	(20,584)
265,719	259,127	263,317	273,805	275,518	274,559	284,597	280,052
16,673	12,605	11,175	10,686	10,028	8,576	9,350	8,346
158,273	155,006	163,822	175,996	181,143	183,190	198,191	200,315
160,294	156,966	165,752	177,963	183,098	185,302	200,608	203,142
48.53	56.36	89.78	123.08	132.03	140.80	142.77	150.79
1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	1,313.17	1,420.52	1,459.08
31.50	33.50	38.50	41.00	46.00	50.00	55.00	60.00
35.3	35.5	35.9	37.4	39.1	40.0	40.3	41.2
29.3	28.8	28.0	28.2	28.9	29.4	29.8	30.2
6.0	6.7	7.9	9.2	10.2	10.5	10.4	11.0
4.0	4.3	4.1	4.3	4.5	4.5	4.5	4.7
59.6	59.8	62.2	64.3	65.7	66.7	69.6	71.5
4.8	5.3	8.3	10.5	10.6	10.9	10.4	10.4
3.1	3.1	3.5	3.5	3.7	3.9	4.0	4.2
64.9	59.4	42.9	33.3	34.8	35.5	38.5	39.8
0.11	0.08	0.07	0.06	0.06	0.05	0.05	0.04
22,379	21,423	21,013	20,431	19,912	19,304	18,062	18,145
9,408	9,464	9,290	9,328	9,607	9,897	10,003	10,086
6,679	6,551	6,463	6,444	6,618	6,862	6,856	6,815
2,729	2,913	2,827	2,884	2,989	3,035	3,147	3,271
35	40	47	52	58	61	69	71
3.2	3.6	4.2	4.5	4.9	5.1	5.7	5.8
2.11	2.20	2.18	2.26	2.29	2.35	2.32	2.25

*3 Azbil Corporation 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.

*4 Scope 1: Direct greenhouse gas (GHG) emissions from a business (from fuel burning, industrial process)

Scope 2: Indirect GHG emissions from using electricity, heat, or steam provided by another business

*5 Scope of calculation: Azbil Corporation, its consolidated subsidiaries in Japan, and its main manufacturing bases overseas. Azbil Telstar, S.L.U. was added in FY2013.

*6 A fixed value (0.378 Kg-CO₂/kWh) is used for the CO₂ emission factor from electricity generation.

*7 Includes: Azbil Corporation, Azbil Yamatake Friendly Co., Ltd., Azbil Kimmon Co., Ltd., Azbil Trading Co., Ltd., Azbil TA Co., Ltd.

Azbil Trading Co., Ltd. and Azbil Kimmon Co., Ltd. from 2012 and Azbil TA Co., Ltd. from 2016 were consolidated as group companies.



azbil Group Company Data

Japan

- **Azbil Corporation**
Head office: Chiyoda-ku, Tokyo
Founded: 1906
Established: 1949

- **Azbil Trading Co., Ltd.**
Head office: Toshima-ku, Tokyo
Established: 1964

- **Azbil Yamatake Friendly Co., Ltd.**
Head office: Fujisawa-shi, Kanagawa
Established: 1998

- **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
Established: 1999

- **Azbil Taiwan Co., Ltd.**
Head office: Taipei
Established: 2000

- **Azbil Kimmon Technology Corporation**
Head office: Miaoli
Established: 2011

- **Azbil Vietnam Co., Ltd.**
Head office: Hanoi
Established: 2008

- **Azbil India Private Limited**
Head office: Navi Mumbai
Established: 2010

- **Azbil (Thailand) Co., Ltd.**
Head office: Bangkok
Established: 1995

- **Azbil Production (Thailand) Co., Ltd.**
Head office: Chonburi
Established: 2013

- **Azbil Philippines Corporation**
Head office: Makati
Established: 1996

- **Azbil Malaysia Sdn. Bhd.**
Head office: Kuala Lumpur
Established: 1999

- **Azbil Singapore Pte. Ltd.**
Head office: Singapore
Established: 1998

- **PT. Azbil Berca Indonesia**
Head office: Jakarta
Established: 1997

- **Azbil Saudi Limited**
Head office: Dammam
Established: 2013

- **Azbil Control Instruments (Dalian) Co., Ltd.**
Head office: Dalian
Established: 1994

- **Azbil Information Technology Center (Dalian) Co., Ltd.**
Head office: Dalian
Established: 2006

- **Azbil Control Solutions (Shanghai) Co., Ltd.**
Head office: Shanghai
Established: 1994

- **Shanghai Azbil Automation Co., Ltd.**
Head office: Shanghai
Established: 1995

- **Yamatake Automation Products (Shanghai) Co., Ltd.**
Head office: Shanghai
Established: 2004

- **Azbil Hong Kong Limited**
Head office: Hong Kong
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: Leon
Established: 2017

- **Azbil Mexico Services, S. de R.L. de C.V.**
Head office: Leon
Established: 2017

- **Azbil Europe NV**
Head office: Zaventem, Belgium
Established: 2001

- **Azbil Telstar, S.L.U.**
Head office: Terrassa, Spain
Established: 1963



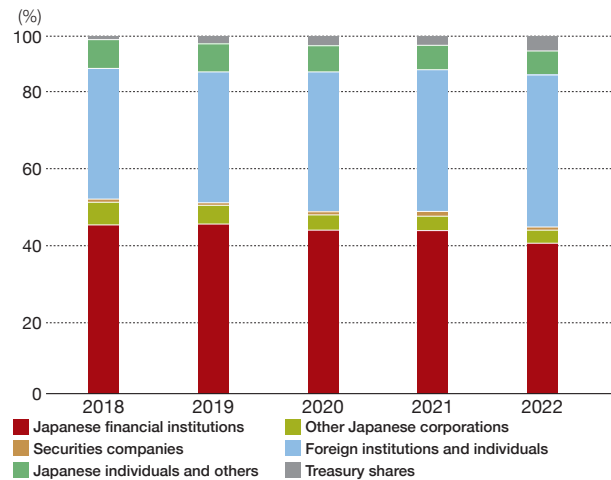
Corporate Data and Stock Information

(As of March 31, 2022)

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	10,086
Stock listing	Tokyo Stock Exchange Prime Market (transitioned from April 4, 2022)
Ticker symbol number	6845
Stock information	Shares of Common Stock Issued 143,700,884 (As of May 31, 2022) Share unit number 100 Shareholders 7,296
Transfer agent	Mizuho Trust & Banking Co., Ltd.

Composition of Shareholders

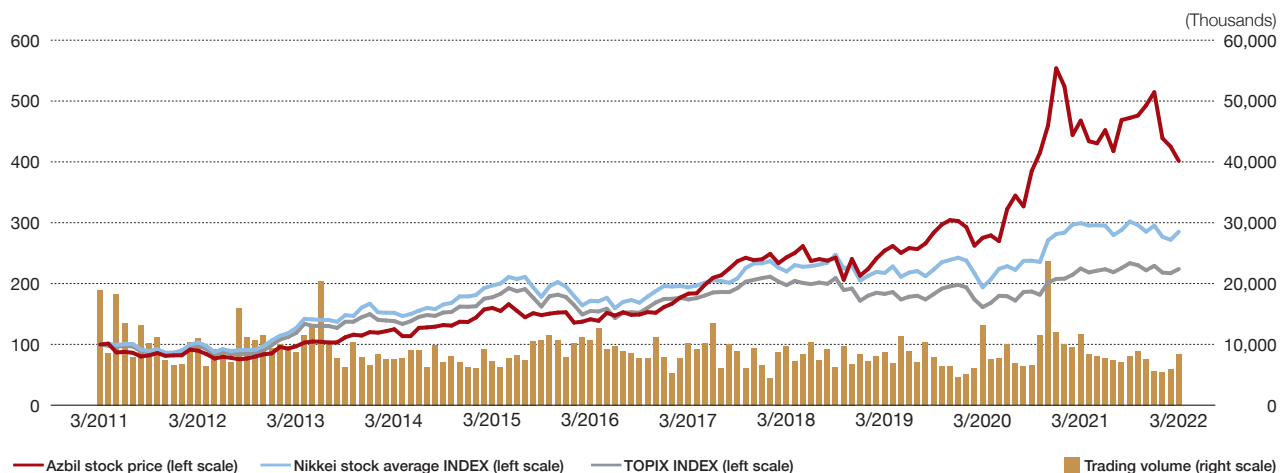


Major Shareholders (Top 10)

Shareholders	Number of shares held (thousands)	Percentage of total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,794	14.93
SSBTC CLIENT OMNIBUS ACCOUNT	10,968	7.87
Meiji Yasuda Life Insurance Company	10,428	7.49
Custody Bank of Japan, Ltd. (Trust account)	6,356	4.56
Northern Trust CO. (AVFC) Re Fidelity Funds	4,649	3.33
National Mutual Insurance Federation of Agricultural Cooperatives	3,356	2.41
Mizuho Bank, Ltd.	2,809	2.01
JP MORGAN CHASE BANK 385839	2,789	2.00
The azbil Group Employee Stock Ownership Association	2,599	1.86
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/ JASDEC/ FIM/LUXEMBOURG FUNDS/UCITS ASSETS	2,562	1.84

Note: The percentage of total shares issued is calculated excluding treasury shares (5,977,645 shares).

Stock Price and Trading Volume



* Azbil stock price, Nikkei stock average, and TOPIX: Value (100) based on the end of March 2011

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

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Year-end closing price (yen)	915.0	989.0	1,274.0	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0	2,804.0	4,765.0	4,090.0
Highest price (yen)	1,033.0	1,023.0	1,280.5	1,677.5	1,750.0	1,927.5	2,655.0	2,775.0	3,275.0	6,120.0	5,490.0
Lowest price (yen)	769.5	745.0	935.0	1,150.0	1,309.0	1,347.5	1,772.5	1,949.0	2,215.0	2,619.0	4,085.0

azbil



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