

# Infrastructure to Support Value Creation

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

## Corporate Governance

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

### Efforts to Strengthen Corporate Governance

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

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

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

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

Two-way communication between independent outside directors and top management is considered to be very important, and there is a meeting every month between the independent outside directors and the president to exchange opinions. In the course of management, top company

executives make every effort to incorporate outside directors' suggestions and insights into problems.

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

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

We work to ensure the diversity of the Board of Corporate Auditors. In addition to full-time corporate auditors who are well versed in the firm's accounting, financial, and business aspects from an in-house perspective, we have an outside corporate auditor who is qualified as a certified public accountant and another with deep insight into corporate governance. In addition, we have established a system to ensure that full-time corporate auditors can properly conduct audits without hindrance and a system enabling internal information to be reported to corporate auditors in a timely and accurate manner. Corporate auditors also hold information-exchange forums to ensure that information is shared effectively between

corporate auditors and outside directors, and they hold regular information-exchange meetings with the president to share their views on problems and deepen communication with top management. In these and other ways, we operate with a strong emphasis on strengthening corporate governance.

#### ■ Voluntary Advisory Body: Nomination and Remuneration Committee

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

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

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

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

Regarding matters to be deliberated by the Board of Directors, prior briefing meetings about the matters for discussion, mainly for outside officers, is arranged before the day of the Board meeting so that members will have a full understanding of the

details. We work hard to ensure that important matters are discussed and debated properly by a fully informed Board of Directors. This enables the Board to freely and actively discuss points related to the substance of matters under deliberation.

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

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

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

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

## Executive Compensation

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

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

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

Outside directors who do not concurrently perform executive duties receive only basic remuneration to ensure that they perform their management supervision function adequately.

We have established the "Nomination and Remuneration Committee" consisting of outside directors who perform oversight of management and execution from an external perspective and representative directors (Independent outside directors form a majority) in accordance with our internal rules for director remuneration to ensure transparency and objectivity in the remuneration determination process. Under this process, the basic remuneration amounts paid to individual executive directors and the total amounts of bonuses and the amounts of bonus to be paid to individual executive directors who concurrently perform executive duties shall be kept within the remuneration limits set at the Ordinary General Meeting, and subjected to review and advisory input by this "Nomination and Remuneration Committee."

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

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

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

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

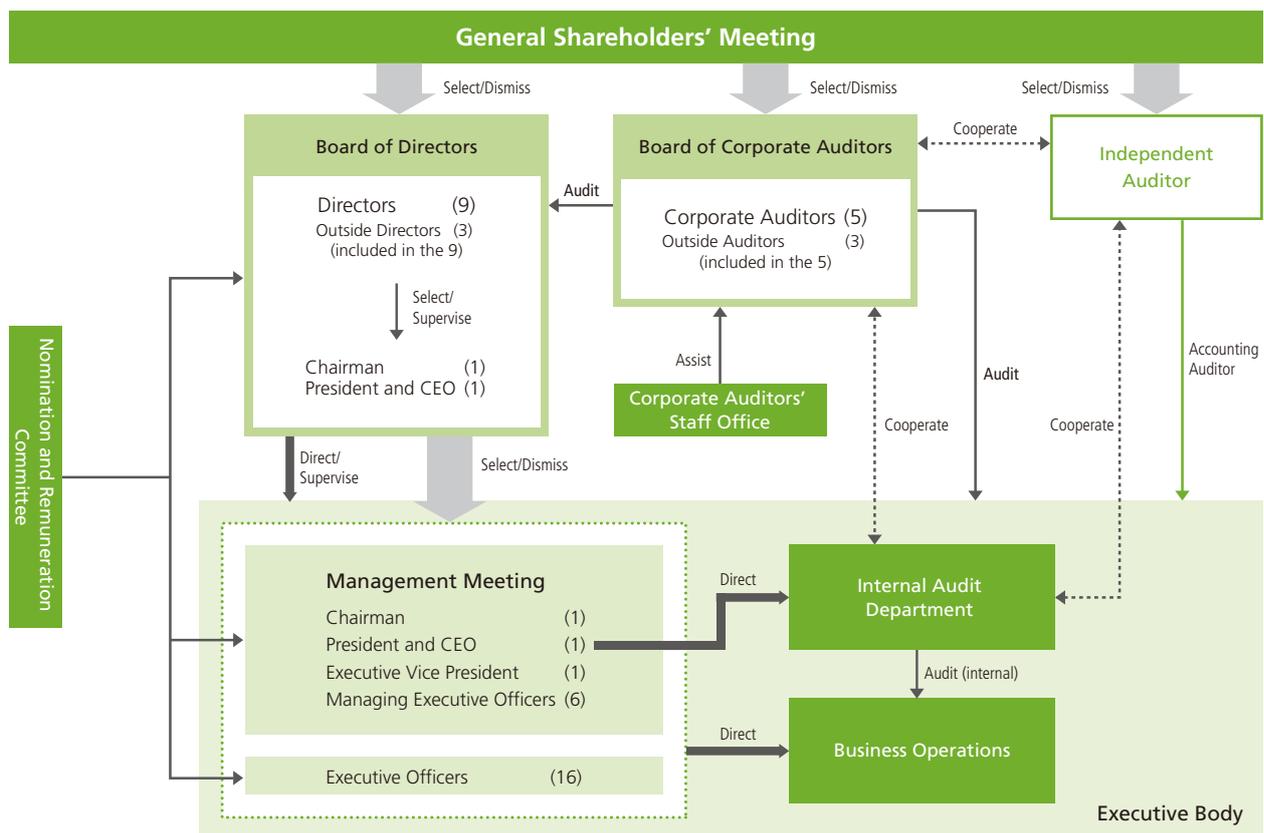
## Corporate Governance Framework

Azbil Corporation has selected the “company with board of corporate auditors” system as its institutional framework under Japan’s Companies Act and has established its corporate governance system accordingly. The Board of Corporate Auditors consists of three independent outside auditors with abundant experience and two full-time corporate auditors with experience in financial affairs and auditing work. Members properly fulfill their duties in supervising the Board of Directors from their standpoint as corporate auditors. Three highly independent outside directors work together with the corporate auditors and the Board of Corporate Auditors to

effectively monitor business operations, forming a governance system with proper checks and balances.

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

Corporate Governance Framework (as of June 27, 2017)



## Contribution of Outside Officers

Concerning the outside officers stipulated by the Companies Act, in addition to the Tokyo Stock Exchange's requirements for independent officers, Azbil Corporation has its own criteria for evaluating their independence. Moreover, candidates who are appointed as outside directors are believed to have the ability to provide constructive suggestions and accurate observations and to offer advice concerning business issues and the improvement of corporate value over the medium

and long terms. Candidates who are knowledgeable about finance, accounting, and/or key aspects of auditing and are independent of company executives are appointed as outside corporate auditors. All of the outside officers actively pose questions and make suggestions at Board meetings based on their respective knowledge and experience, contributing to the company's sustainable growth and improvement of corporate value over the medium and long terms.

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

Position	Name	Qualifications and Participation	Attendance
Outside Directors	<b>Eugene H. Lee</b> 	Mr. Eugene H. Lee brings a high level of expertise in international law and international business, as well as a wealth of experience and achievement in the management of global companies. In addition, he has an in-depth knowledge of Japan, Japanese business practices, and Japanese companies derived from his lengthy professional experience in Japan. The company secured his services in order to benefit from his advanced knowledge, business experience, and global perspective, and in order that corporate governance might be strengthened by virtue of his independent position. At Board of Directors meetings, Mr. Lee draws on his experience and knowledge to pose questions and make suggestions about the company's business development and strategies, speaking from a global perspective with a view to medium-to-long-term business strategies.	12 of 12 Board of Directors meetings
	<b>Katsuhiko Tanabe</b> 	As a lawyer who has held important positions of responsibility in the legal profession and has a considerable record of achievement as an expert in corporate legal affairs, Mr. Katsuhiko Tanabe brings to the company an expert viewpoint and deep insight into management. The company secured his services in order to benefit from his expert legal knowledge and deep insight into corporate governance, and in order that corporate governance might be strengthened by virtue of his independent position. At Board of Directors meetings, Mr. Tanabe draws on his expert point of view and wide-ranging knowledge as a lawyer, as well as abundant experience as an outside officer, to pose questions and make suggestions not only about legal matters, but also concerning compliance-related issues and risk reduction.	12 of 12 Board of Directors meetings
	<b>Takeshi Ito</b> 	Mr. Takeshi Ito brings experience as an executive and analyst at Japanese and overseas investment banks and investment advisory companies. In addition, he has a substantial record of achievement in advanced analysis of companies and economic outlook, based on his lengthy experience of working overseas and financing business operations, and his consulting work related to M&As and other matters. The company secured his services in order to benefit from his advanced knowledge as an expert in international finance and investment, and in order that corporate governance might be strengthened by virtue of his independent position. At Board of Directors meetings, Mr. Ito draws on his financial knowledge and experience to pose questions and make suggestions about business development and strategies, as well as financial and capital strategies, particularly as they relate to capital markets and medium-to-long-term business strategies.	12 of 12 Board of Directors meetings

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

Comment by an Outside Director

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

Outside Director  
Eugene H. Lee




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

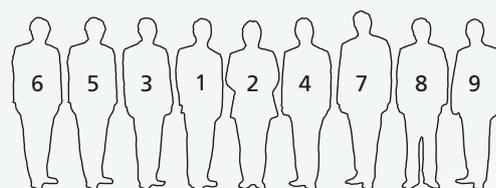
Corporate governance compliance is regularly monitored at Azbil Board of Directors' meetings which assures that management, directors and auditors have a common understanding and unity of purpose. Regularly scheduled

meetings between the independent directors and the auditors also provide an opportunity to discuss governance and other topics of importance to try to assure smooth functioning of their respective roles.

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

# Board of Directors, Executive Officers, and Corporate Auditors

(As of June 27, 2017)



## 1. Chairman

**Seiji Onoki**

Responsible for the azbil Group (aG) overall

Apr 1970 Joined the Company  
 Nov 1994 Systems Development Manager of Industrial Systems Division of the Company  
 Jun 1996 Executive Director of the Company  
 Jun 2000 President of Yamatake Industries Systems Co., Ltd. (Present: The Company's Advanced Automation Company)  
 Apr 2003 Executive Director and Managing Executive Officer of the Company, President of Advanced Automation Company  
 Jun 2004 President and Chief Executive Officer of the Company  
 Apr 2012 Chairman of the Company (present post)

## 2. President and Chief Executive Officer

**Hirozumi Sone**

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

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

## 3. Executive Director, Executive Vice President

**Tadayuki Sasaki**

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

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

## 4. Executive Director, Managing Executive Officer

**Keiichi Fuwa**

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

Apr 1974 Joined the Company  
 Oct 1998 Transferred to Yamatake Building Systems Co., Ltd. (Present: The Company's Building Systems Company), Manager of Security System Department of the Tokyo Head Office, of the Company  
 Apr 2006 Executive Officer of the Company, Manager of Osaka Branch, Building Systems Company  
 Apr 2011 Managing Executive Officer of the Company, Manager of Business Headquarters and Manager of Tokyo Head Office, Building Systems Company  
 Apr 2012 Managing Executive Officer of the Company, President of Building Systems Company (present post)  
 Jun 2012 Executive Director of the Company and Managing Executive Officer of the Company, President of Building Systems Company (present post)

## 5. Executive Director, Managing Executive Officer

**Masato Iwasaki**

Responsible for business in North America and South America supervision, develop for new business model in North America

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

## 6. Executive Director, Managing Executive Officer

**Yoshimitsu Hojo**

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

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



**7. Outside Director****Eugene H. Lee**

Sep 1970 Professor of International Business and International Law at Sophia University  
 Feb 1973 President of International Investment Consultants Ltd.  
 Jan 1982 President of Siemens Medical Systems (Present: Siemens Healthcare K.K.)  
 Dec 1990 Vice Chairman of Siemens K.K. (Representative of Siemens AG in Japan)  
 Jun 2007 Outside Director of the Company (present post)

**8. Outside Director****Katsuhiko Tanabe**

Apr 1973 Registered as a Lawyer  
 Sep 1979 Established TANABE & PARTNERS (present post)  
 Apr 1998 Managing Director of Japan Federation of Bar Associations  
 Jun 2000 Outside Audit & Supervisory Board Member of Sanwa Shutter Corporation (Present: Sanwa Holdings Corporation) (present post)  
 Jun 2007 Outside Audit & Supervisory Board Member of the Company  
 Jun 2010 Outside Director of the Company (present post)  
 Oct 2010 Outside Director of MIRAIT Holdings Corporation  
 Jun 2015 Outside Audit & Supervisory Board Member of JSP Corporation (present post)

**9. Outside Director****Takeshi Ito**

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

**Corporate Auditors****Standing Audit & Supervisory Board Members**

Tomohiko Matsuyasu Hisaya Katsuta

**Outside Audit & Supervisory Board Members**

Kinya Fujimoto Mitsuhiro Nagahama Shigeru Morita

**Managing Executive Officers****Takayuki Yokota**

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

**Kazuyasu Hamada**

Manager of Building Systems Company (BSC)'s Tokyo Head Office

**Hiroshi Arai**

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

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

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

**Michihiro Tomonaga**

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

**Akihiko Naruse**

Responsible for Human Resources Department, aG Safety Management Department  
 President of the Azbil Academy

**Junya Nishimoto**

Responsible for aG research and development, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department  
 General Manager of Technology Development Headquarters

**Haruo Tamura**

General Manager of the BSC's Integrated Business Headquarters

**Seiichiro Hayashi**

General Manager of the BSC's BA Engineering Headquarters

**Kenichi Hayashi**

General Manager of the BSC's Business Planning Department

**Tetsuya Maruyama**

Manager of BSC's Chubu Regional Division

**Tomoyuki Takeda**

Manager of BSC's Kansai Regional Division

**Kenji Okumura**

Responsible for Sales Department of AA business  
 General Manager of the Advanced Automation Company (AAC)'s Business Development Group

**Hiroshi Shimizu**

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

**Tetsuo Takamura**

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

**Tadayoshi Ito**

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

**Hideaki Ishii**

Responsible for aG production innovation, AA Development and Quality Assurance

**Masashi Hirano**

President of Azbil TA Co., Ltd.

**Kiyohiro Yamamoto**

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

\*1 Control Products

\*2 Solution and Service

# CSR-focused Management

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

## Approach to CSR-focused Management

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

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

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

The second approach is what we term “proactive CSR,” which consists of (1) the contributions that the azbil Group makes to society through our business operations, which leverage our strengths in technology and business; and (2) employees’ voluntary participation in activity that benefits society, which is rooted in the culture and atmosphere of the company. Through activities such as these we hope to make a positive contribution to sustainable development and live up to the expectations of society.

### ■ Initiatives to Fulfill Our Responsibilities to Society



### ■ Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to coordinate CSR-related activity throughout the Group and promote a wide range of activities. The Committee consists of senior managers in charge of CSR at each Group company and department managers responsible for individual

initiatives. Subject to the approval of Azbil Corporation’s Board of Directors, the committee formulates and implements plans, evaluates and analyzes the results, and reports to management, following a plan-do-check-act (PDCA) cycle.

#### CSR Promotion Framework



## Compliance

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

### ■ Business Conduct Policy and Code of Conduct

The azbil Group has instituted a Business Conduct Policy for Group companies, consisting of five elements: (1) fulfilling the Group's public and social responsibilities; (2) compliance with antitrust and other fair trade regulations; (3) respect for human rights; (4) proper management of corporate assets; and (5) protection of the environment. We have also established a Code of Conduct for all employees, consisting of 50 specific guidelines covering all aspects of our business activities.

In cases where a breach of the Code of Conduct is discovered, the code imposes a mandatory reporting requirement and forbids reprisals for reporting, thereby putting in place an environment in which checks can function effectively.

### ■ Maintaining and Improving Awareness of Compliance Issues

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

Each year, we conduct surveys of all Group employees to

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

### ■ Preventing Legal Risk

The Legal and Intellectual Property Department of Azbil Corporation bears primary responsibility for ensuring complete compliance with external laws throughout the azbil Group. In addition to promoting full legal compliance in business activities, it provides education related to the law and also addresses the Group's legal risk overseas, which is increasing as our global expansion accelerates. The department makes every effort to ensure timely and appropriate responses to important new laws and associated issues, and endeavors to prevent problems from occurring.

## Internal Control

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

### ■ Improving Internal Control Systems

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

In the year ended March 2017, we expanded the coverage of our notification and advice system, the CSR Hotline,

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

**■ Response to Employee Concerns and Internal Issues**

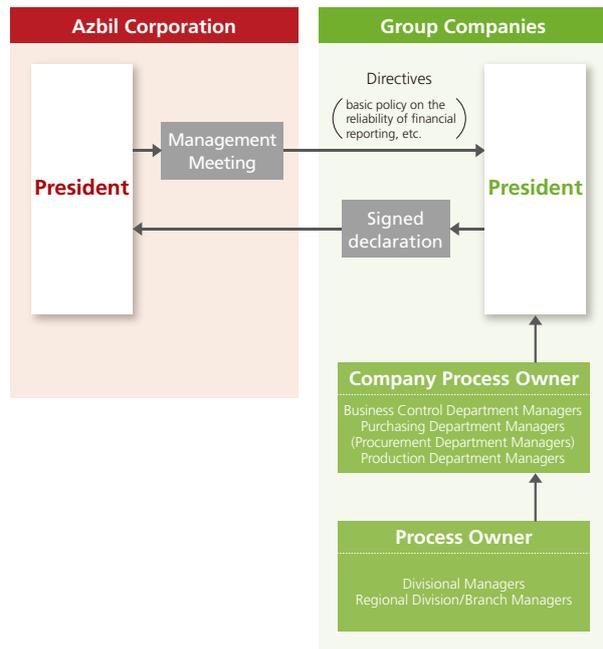
The azbil Group has set up a notification and advice system, the CSR Hotline, to identify internal issues, including compliance problems, in a timely manner. Its scope includes such matters as improper accounting, fraudulent commercial transactions, legal violations, and human rights issues. In Japan,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

**■ Response to the Financial Instruments and Exchange Act (“J-SOX”), and Efforts to Improve Accounting Quality**

To improve our response to internal control system reporting requirements prescribed by the Financial Instruments and Exchange Act (popularly known as “J-SOX”), we conduct periodic reviews of the scope of internal audit by our internal control organization and we review our risks and controls in light of changing business conditions. Our core information system, which went into operation at Azbil Corporation in the year ended March 2016, will be installed at Azbil Trading Co., Ltd., in the year ending in March 2018. We will continue introducing the system to other Group companies in an effort to improve the reliability of our internal control system.

Along with our continuing initiative to provide all Group employees with training aimed at improving accounting quality, we will strive globally to further improve the level of internal control and maintain the appropriateness of our operations through the Internal Control Office at Azbil Corporation’s Group Management Headquarters, together with the internal control departments of all Group companies.

**Management of Group Companies under “J-SOX”**



**Risk Management**

We are striving to construct a system that prevents risk so that we do not lose corporate value or the trust of the public.

**■ Risk Management**

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

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

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

**■ Enhancing Disaster Preparedness and Business Continuity Planning (BCP)**

Under the leadership of the azbil Disaster Preparedness Liaison Committee, we are endeavoring to improve our disaster preparedness by conducting regular inspections at all of the azbil Group’s domestic business establishments, identifying risks and considering and implementing countermeasures. Our continuing efforts to strengthen the azbil Group’s overall disaster preparedness include the development of a manual to guide the initial responses to a major earthquake, improvement of our system for checking the safety of employees, establishment of a workplace emergency contact network, enhancement of our communications infrastructure for disasters, and regular emergency drills.

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



Regular emergency drills are conducted.

## Business Risks

### 1. Risks Related to the Business Environment and Business Activities

#### (1) Effect of Economic Downturn or Stagnation

Structural factors make the demand for the azbil Group's products and services susceptible to fluctuations in the economy and their effects on markets related to the Group, including the construction, manufacturing, and equipment manufacturing markets. A large-scale downturn in business conditions in the regions where we do business and a decrease in demand from these markets could have an adverse impact on the Group's operations, business results, and financial position.

#### (2) Risks Related to Competition

Competition is becoming severe in the azbil Group's business segments, which are the Building Automation (BA) business, Advanced Automation (AA) business, and Life Automation (LA) business. Under the circumstances, the azbil Group believes that its products and services offer high added value superior to that of other companies in terms of technology, quality, and cost. While the Group is taking measures to prepare for situations such as intensifying competition or the entry of new competitors, unexpected changes in relationships among competitors could have an impact on the Group's business results and financial position.

#### (3) Risks Related to the Group's Product Quality

The azbil Group's products, systems, and services are used for vital measurement and control related to safety and quality in a variety of plants and buildings. The Group has put a committee in place to lead the Group to oversee quality assurance and has enhanced its quality control system through sharing and transparency of quality information. To ensure that we are prepared in the event of problems related to damages arising from product liability, we have taken out insurance policies, as well as enhancing our other precautions. However, an incident caused by defects in the Group's products,

systems, or services could result in substantial costs and severely damage the Group's credibility with customers. This in turn could have an impact on the Group's operations, business results, and financial position.

#### (4) Risks Related to R&D Activities

The azbil Group has positioned the management of research and development activities focused on the development of next-generation products that will maintain their technological superiority on an ongoing basis as one of its top priorities. Based on the Group philosophy of "human-centered automation," the Group is carrying out research and development activities aimed at the conservation of resources, energy and labor; safety; environmental preservation; and the realization of comfortable environments. The azbil Group is strengthening its efforts to deliver appealing products and services to its customers in a timely fashion based on an accurate perception of their needs. However, a misreading of these needs or of technological trends, delayed research and development, insufficient technological capabilities, or other factors could delay the market launch of new products and have an adverse impact on the Group's operations, business results, and financial position.

#### (5) Risks Related to Global Operations

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

## ■ Upgrading and Reinforcing the Information Management System

As well as conducting an educational program on information security for all Group employees every year, we are addressing information management issues that emerge in the course of compliance awareness surveys, and are upgrading and reinforcing our framework for managing important information and personal information to ensure tight control throughout the Group.

To ensure that the operational level of services will not be significantly compromised during a disaster, we are upgrading our backup systems, including relocation of our network equipment and servers and installation of emergency power supply equipment.

procurement activities in whole or in part and thus impact the Group's business results and financial position.

#### (6) Risks Related to Exchange Rate Fluctuations

The azbil Group is endeavoring to mitigate risk resulting from exchange rate fluctuations by expanding its overseas production, but sudden fluctuations affect net sales, the prices of raw materials and components, and costs and expenses, including selling, general and administrative expenses, so they have the potential to have an adverse impact on the Group's business results and financial position.

## 2. Other Risks

#### (1) Risks Related to Securing and Developing Human Resources

Since its founding, the azbil Group has focused on developing human resources based on the view that its employees are a valued asset, the source of corporate cultural renewal, and the creative source of its corporate value. However, failure to address issues such as employee safety, maintaining employee health, the aging of the workforce, the handing down of technology, expertise, and know-how, cross-training for multifunctional workers, and the retention and development of human resources for domestic and international business expansion could have an impact on the Group's business results and financial position.

#### (2) Risks Related to Information Leakage

The azbil Group possesses important information for business and confidential information, including personal information and information on business partners that is obtained in the course of business. The Group is taking measures to strengthen its handling and management of information and to increase employees' informational literacy. However, leakage of this type of information due to unforeseeable circumstances could have an impact on the Group's business results and financial position.

#### (3) Risks Related to Disasters

Two of the six domestic production bases (including manufacturing

subsidiaries) of the azbil Group's BA and AA businesses are concentrated in Kanagawa Prefecture. In addition, three of the six domestic production bases of Azbil Kimmon Co., Ltd., involved in the LA business are concentrated in Fukushima Prefecture. The Group has taken necessary actions, including the implementation of safety precautions, purchase of insurance, and establishment of a business continuity plan, to maintain operations and/or quickly return operations to normal. However, direct or indirect effects from a large-scale disaster or other incident in these areas could have an impact on the Group's business results and financial position.

#### (4) Risks Related to Laws and Regulations

The azbil Group is subject to the laws and regulations of the countries where it operates, including licensing for operations and investment, environmental and safety standards, and product standards. Unexpected changes in these laws or regulations, or the establishment of new laws or regulations, could have an impact on the Group's business results and financial position. In particular, although the azbil Group is proceeding with a variety of measures to reduce its environmental impact, in part to comply with stricter environmental regulations, difficulty in complying with environmental regulations may result in the cessation of certain business activities and other problems. This could have an impact on the Group's business results and financial position.

#### (5) Risks Related to Intellectual Property Rights

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

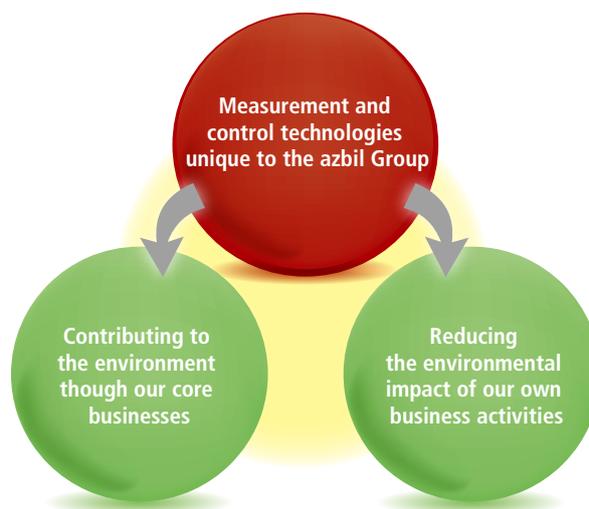
# Environmental Initiatives

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

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

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

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



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

## Reducing the Environmental Impact of Our Own Business Activities

Seeking to realize a sustainable society, the azbil Group formulated its Environmental Initiative Measures to approach this challenge from four angles: reducing CO<sub>2</sub> emissions, using resources wisely, coexisting with nature, and supplying

environmentally friendly products and services. Based on these measures, we are extending our efforts to reduce the environmental impact of our own business to cover our operations globally.

### Measures in Environmental Initiatives



## ■ Reducing CO<sub>2</sub>

### Environmental Performance Data

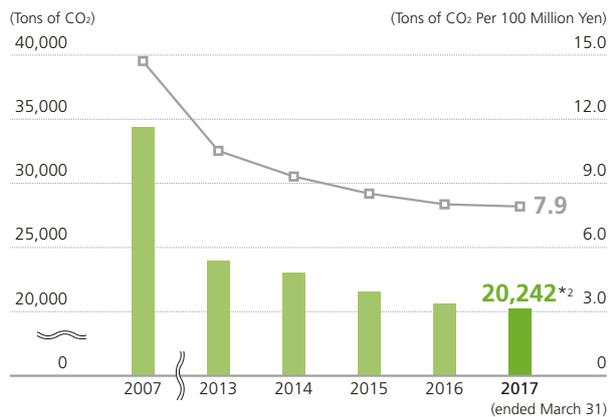
In the year ended March 2017, the volume of CO<sub>2</sub> emissions from the azbil Group's operations was 41% lower than the level ten years earlier.

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

In addition to CO<sub>2</sub> emissions under our control (Scope 1 and 2), we will pinpoint CO<sub>2</sub> emissions from corporate activities

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

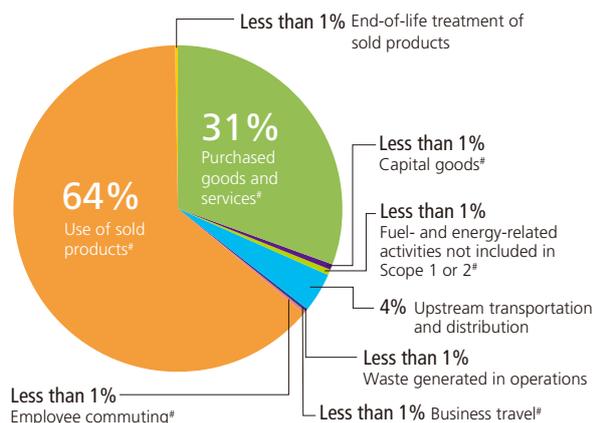
Azbil Corporation, its consolidated subsidiaries in Japan, and its main manufacturing bases overseas



\*1. The figures for CO<sub>2</sub> emissions use a fixed coefficient (0.378 kg CO<sub>2</sub>/kWh). The figures for CO<sub>2</sub> emissions include estimates of rented office air-conditioning energy and other figures.  
 \*2. Our CO<sub>2</sub> emissions (Scope 1 & 2) from fiscal year 2014 onwards have received third-party verification.

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

Azbil Corporation



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

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

### azbil Group's Energy-Saving Initiatives

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

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

### azbil Group Sites Using Our Visualization System



Visualization system at Azbil Control Instruments (Dalian)

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

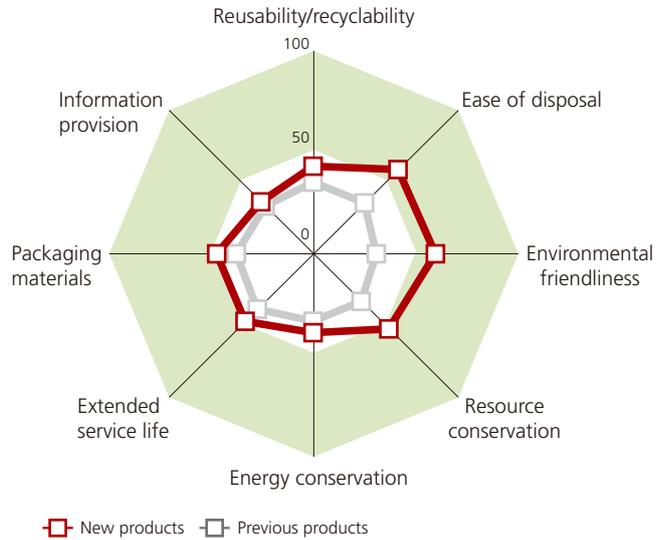
**■ Supplying Environmentally Friendly Products and Services, and Using Resources Wisely**

Since establishing our Guidelines for Development of Products with Reduced Environmental Impact in 1997, we have promoted Design for the Environment, which covers the entire life cycle of products and services, from the initial stages of development, planning, and design to materials procurement, production, logistics, sale, use, and disposal. Design for the Environment conforms to our environmental initiatives of supplying environmentally friendly products and services and using resources wisely. Below, we introduce two initiatives related to product development.

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

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

Overall Results of New Product Assessments in Eight Environmental Categories (Fiscal 2016)




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

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

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

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

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

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



For product specifications, please refer to the following site.

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

■ **Coexisting with Nature**  
**Biodiversity Initiatives**

As we utilize the bounties of nature in our business activities, we are aware at the same time that our activities affect ecosystems in various ways. Accordingly, as one of the partners promoting the Keidanren Declaration on Biodiversity, we work together with nonprofit organizations, universities, and local governments on various initiatives at the sites of azbil Group business establishments and in the surrounding communities.

As part of a Group-wide initiative, in the year ended March 2017 there were six occasions when employees and their families participated in environmental conservation activities. These included tree-thinning work in the city of Fujisawa in Kanagawa Prefecture; work to protect the maiden lily, a near-threatened species found in the town of Minamiaizu in Fukushima Prefecture; and surveying the trees at Azbil Kyoto Co., Ltd., whose facilities are built on land originally developed by the local government.

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



Maiden lily conservation work (left) and the maiden lily (right)



■ **Disseminating Environmental Information**  
**“EcoBalance Award for Best Business Practices” Received**

At the 12th Biennial International Conference on EcoBalance, held October 3–6, 2016, representatives of Azbil Corporation made a presentation on LCA initiatives entitled “Application of organizational life-cycle assessment to define materiality in environmental initiatives of the azbil Group.” The company subsequently received an EcoBalance Award for



Best Business Practices in recognition of its practical approach, which was unparalleled among the presentations given.

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

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

☐ <http://www.ecobalance2016.org/submission/awardee.html>

**Information Disclosure on Environmental Initiatives**

**“In Pursuit of Human-Centered Automation: Preserving the Environment”**

Azbil Corporation has produced a brochure entitled “In Pursuit of Human-Centered Automation: Preserving the Environment” to coincide with the 110th anniversary of its founding and the 10th anniversary of the formulation of “azbil.”

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



Brochure produced in 2016

☐ Japanese  
<http://www.azbil.com/jp/news/pdf/161202.pdf>

☐ English  
[http://www.azbil.com/jp/news/pdf/20161202\\_en.pdf](http://www.azbil.com/jp/news/pdf/20161202_en.pdf)

☐ Chinese  
[http://www.azbil.com/jp/news/pdf/20161202\\_cn.pdf](http://www.azbil.com/jp/news/pdf/20161202_cn.pdf)

**Website**

The website below provides information on the azbil Group’s efforts to preserve the environment and its acquisition of ISO 14001 certification, as well as data on the environmental impact of our own global business activities (such as CO<sub>2</sub> emissions, electricity consumption, water consumption, waste volume, status of compliance with laws and ordinances, and chemical substance management) and third-party evaluations of our environmental initiatives.

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

## Contributing to the Environment through Our Core Businesses

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

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

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



#### In Buildings

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

in a wide range of fields, in office buildings, factories and plants, houses, and energy supply lines. One of our strengths is an integrated support system, which takes advantage of the azbil Group's accumulated know-how gained through abundant experience and achievements in automation technology, to handle everything from planning to development, production, consulting, engineering, and after-delivery maintenance services. Based on the concept of "creating value on site," we conduct meticulous onsite investigations, make accurate judgments on overall operations and equipment usage status, and make proposals tailored to various needs.

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

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



#### At Production Sites

Production sites use energy in diverse forms, including electricity, gas, heat, and steam. Through the overall optimization of energy usage, we provide customers with total life-cycle support that includes productivity improvement and facility management. To this end, we conduct onsite energy-efficiency diagnoses and use a "plan-do-see" procedure to make improvements. As an energy management service provider,\* Azbil Corporation offers energy management systems and support services that bolster the energy-saving

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

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

## Throughout Cities



Against the background of a tight power supply stemming from the Great East Japan Earthquake, as well as the expansion of renewable energy sources and the full liberalization of electricity retailing in Japan, authorities are encouraging reduced electricity consumption during peak hours while fostering the establishment of frameworks to ensure the reliable supply of power. Demand response (DR) services play an important role in these efforts. Since fiscal 2012, Azbil has participated in collaborative research and governmental proof-of-concept experiments in various locations and compiled a

strong track record in the aggregator business, which involves bundling electricity customers to provide DR services. Fiscal 2017 will see the full-scale launch in Japan of “negawatt” trading, which allows users to sell electricity saved (negawatts) through their DR services, and Azbil is participating in this initiative. Two of Azbil’s key strengths are its remote control technology, based on more than 30 years of BEMS use, and its automatic control using multiple energy sources. The use of cloud technology will enable us to connect a building’s BEMS with Azbil’s aggregation center to provide DR services automatically. As entire cities become “smarter,” Azbil will deploy its remote control technology to provide DR services that deliver new levels of value.

## Protecting the Earth’s Environment

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

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

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

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

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

#### Automation effects

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

**2,810,000**  
tons/year

#### Energy management effects

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

**280,000**  
tons/year

#### Maintenance services effects

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

**120,000**  
tons/year

Please refer to our website for details on the calculations.

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

# Responsibility to Stakeholders

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

## Responsibility to Shareholders

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

### ■ Returning Profits to Shareholders

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

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

### ■ Enhancing Corporate Communication and Investor Relations

We have appointed an executive officer in charge of corporate communications, who is putting in place systems to facilitate dialogue with shareholders and investors, in partnership with various departments at Azbil Corporation. In addition to establishing the Investor Relations (IR) Office and formulating plans for IR activities, we strive to improve communication by putting in place various tools to assist investment decisions, including the IR website, which provides information for shareholders and other investors, and our Integrated Report publication.

We hold our Ordinary General Meeting of Shareholders in convenient locations while avoiding dates when such meetings are concentrated, in order to attract as many shareholders as possible. In notices about the meeting, we include a message from our president and CEO and other information that shareholders can use for reference when exercising their voting rights. In addition to sending out notices three weeks before the general meeting and publishing them on our website in Japanese and English 10 days before they are sent, we have established an online environment that enables a wide range of investors to use an electronic voting platform to quickly obtain information about the general meeting and exercise their voting rights.

In the year ended March 2017, we sought to encourage dialog with shareholders and other investors. In addition to attending various meetings with institutional investors in Japan and overseas, company staff and officers, including the president and CEO, participated in conferences at home and abroad, engaging in dialog on more than 250 occasions. We convey the opinions gathered through these discussions to our management team, including outside directors, and use it as a key source of information for making decisions on corporate management.

At our half-yearly briefings on the Company's financial results, the president explains our results, and he and executive officers welcome questions from institutional investors. In addition, following the announcement of our quarterly financial results, managers from each business segment and staff in charge of the company's financial affairs and accounting hold briefing sessions for analysts from securities companies to promote understanding of the company.

### ■ Timely and Appropriate Disclosure

We ensure that highly transparent and fair disclosure of information is carried out in a timely and appropriate manner, in order to build and develop a relationship of trust with stakeholders. In addition, we have spelled out our basic approach to disclosure in our Disclosure Policy. We also do our utmost to ensure prompt disclosure on the IR website, publishing and updating information about such matters as shareholders' meetings, financial results, and IR tools.

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

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

## Responsibility to Society

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

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

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



Experiment classroom

### ■ Participation in the Shonan International Marathon

Our involvement in the Shonan International Marathon, which aims to be an environmentally friendly race that promotes environmental awareness, dates back to the very first time the race was run. In the year ended March 2017, we supported it for the 11th time. Each year, we serve as an Eco

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

### ■ azbil Honey Bee Club

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

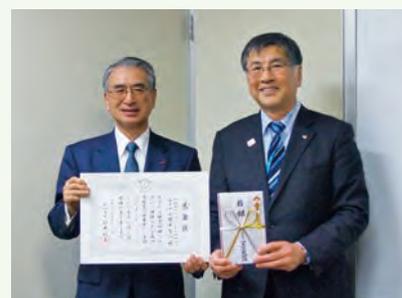
In the year ended March 2017, the club's seventh year of operation, 33 groups previously selected by vote received donations from the club, and donations were also made to another 17 groups engaged in activities benefitting society. Together, the groups received ¥6,630,000 in total from membership fees and matching donations from Azbil Corporation. This brought the total number of donations by the Club since its inception to 245, with cumulative donations amounting to ¥34,270,000. Azbil Corporation encourages active participation by each employee by providing matching donations.



March, the azbil Honey Bee Club's mascot

### ■ Azbil Yamatake General Foundation

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



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## Responsibility to Customers and Suppliers

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

### ■ Responsibility to Customers

Backed by our integrated framework, which covers everything from development to manufacturing, sales, engineering, installation, and service, we work with our customers at their sites to identify and understand their challenges and deliver solutions across the life cycles of their systems, while making every effort to ensure the quality, safety, and dependability of our products. We also make sure to appropriately manage

the information entrusted to us by customers through diligent adherence to information management and confidentiality protocols, reinforced by information security training for employees. In addition, the azbil Techno Plaza is available to provide customers with a deeper understanding of our technology, products, and services.

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

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## Responsibility to Employees and Business Partners

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

### ■ Business Management that Values People

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

### ■ Healthy, Highly Satisfactory Workplaces

**Invigorating the Corporate Culture** Since the year ended March 2014, we have conducted employee satisfaction surveys with the aim of creating healthy and positive workplaces, using the results to identify and analyze the current workplace situation and any problems in matters such as motivation for work, mutual communication between management and staff, and job performance. Through this repeated process of survey—analysis—improvement, we are endeavoring to raise the standard of workplace management.

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

In the year ended March 2016, we began conducting the satisfaction survey at all Group companies and are working

on creating healthy and positive workplaces throughout the azbil Group.

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

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

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

### ■ Employee Health and Safety

**Raising the Standard of Health and Safety among Group Companies** In the year ended March 2017, we extended the Azbil Corporation’s Basic Policy on Health and Safety,

its Health and Safety Regulations, and its Health and Safety Committee Regulations to cover the entire azbil Group in an ongoing effort to raise the standard of health and safety among Group companies.

**Progressive Expansion of OHSMS Certification** During the fifth year of our Occupational Health and Safety Management System certification, we continued to maintain highly safety-conscious workplace environments and are expanding the scope of our efforts to address workplace safety issues by increasing the number of our business establishments that have OHSMS certification.

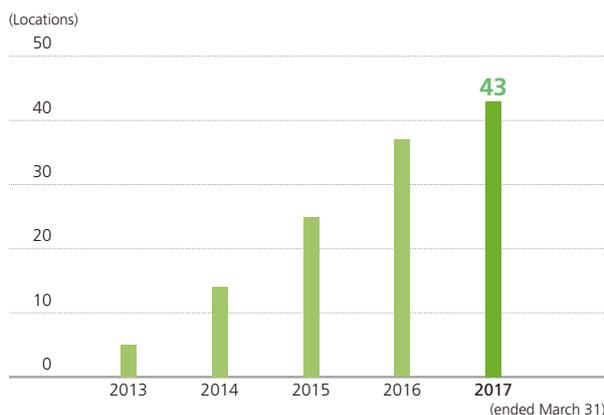
**Health and Safety Education through E-Learning** We educate all employees about safety through e-learning programs in order to prevent disasters caused by carelessness (human error), including accustomedness and disregard for danger. We also provide education on past occupational accidents to prevent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

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

When an employee is reinstated after taking a leave of

**Number of azbil Group Business Establishments with OHSMS Certification**

Azbil Corporation



■ Number of azbil Group business establishments with OHSMS certification

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

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

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

■ **Diversity Reforms**

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

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

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

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