

# Infrastructure to Support Value Creation

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

## Corporate Governance

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

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### Efforts to Strengthen Corporate Governance

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Although Azbil Corporation has long emphasized the importance of corporate governance in its management, as evidenced by the appointment of outside directors which began in June 2007, we have stepped up efforts in this area following the establishment of Japan's Corporate Governance Code.

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

Independent outside directors play an important role in the structure and operation of corporate governance. In order to strengthen our corporate governance, we increased the number of independent outside directors by one, to a total of four, at our 96th annual Ordinary General Meeting of Shareholders in June 2018. Independent outside directors now account for more than one-third of the 10-member Board of Directors, contributing to the Board's rich diversity in such areas as nationality and gender.

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

strated leadership as a prosecutor for many years.

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

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

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

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

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

### ■ Nomination and Remuneration Committee

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

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

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

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

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

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

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

## ■ Changes to Improve Corporate Governance

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

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

## Executive Compensation

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

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

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

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

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

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

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

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

## Corporate Governance Framework

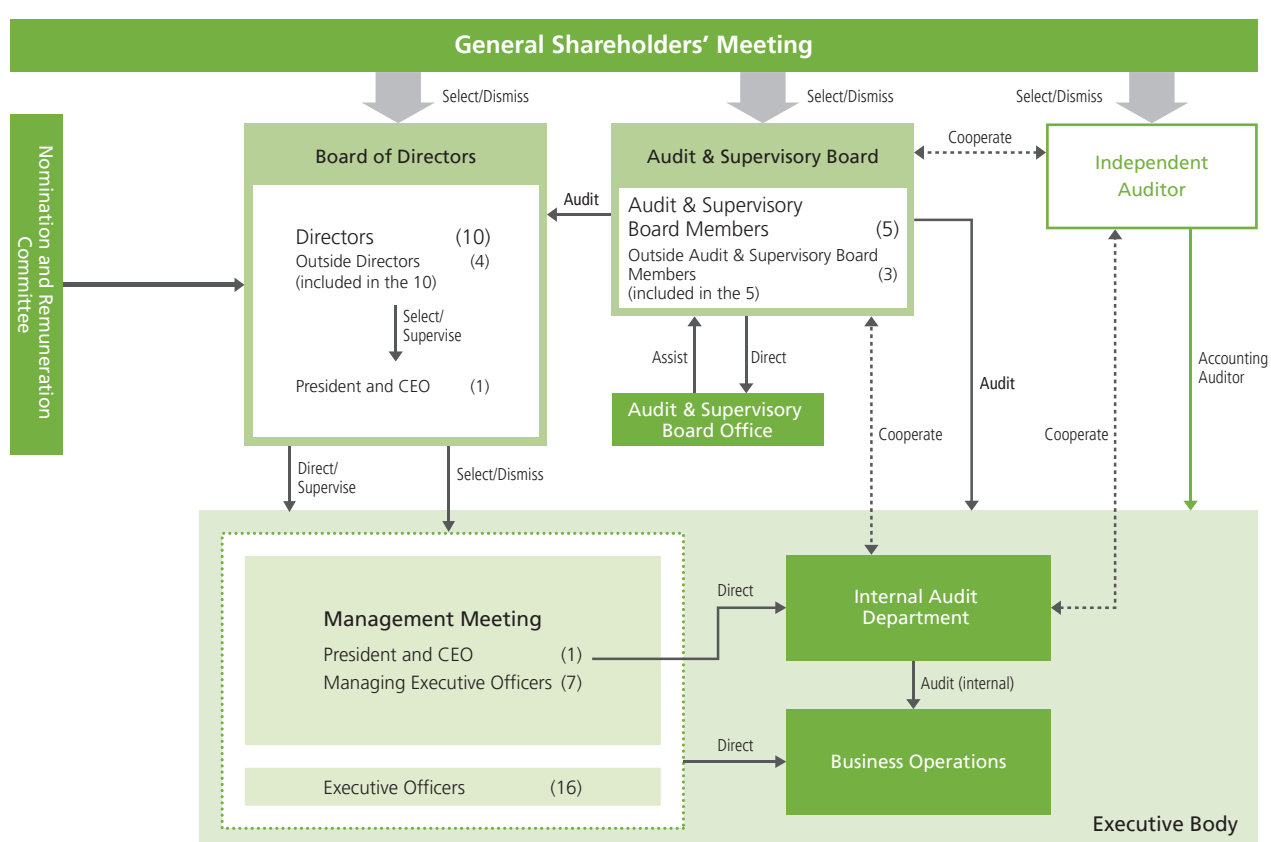
The company has selected the “Company with Board of Corporate Auditors” model for its corporate governance system under the Companies Act.

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

ernance system with effective checks and balances.

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

Corporate Governance Framework (as of June 26, 2018)







## Contribution of Outside Officers

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

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

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

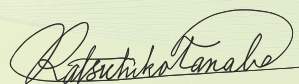
Position	Name	Qualifications and participation
Outside Directors	<b>Eugene H. Lee</b> 	<p>Mr. Eugene H. Lee brings a high level of expertise in international law and international business, as well as a wealth of experience and achievement in the management of global companies. In addition, he has an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

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

Comment by an Outside Director

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

Outside Directors **Katsuhiko Tanabe**




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

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

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

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



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

(As of June 26, 2018)



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

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

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



**Executive Director, Managing Executive Officer**  
**Masato Iwasaki**

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

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



**Executive Director, Managing Executive Officer**  
**Yoshimitsu Hojo**

Responsible for azbil Group (aG) production, aG purchasing, the Advanced Automation business, Production Management Headquarters  
President of Advanced Automation Company, Manager of Production Management Headquarters

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



**Executive Director, Managing Executive Officer**  
**Takayuki Yokota**

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

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



**Executive Director, Managing Executive Officer**  
**Kazuyasu Hamada**

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

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



**Chairman**  
**Tadayuki Sasaki**

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



#### Outside Director

### Eugene H. Lee

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



#### Outside Director

### Takeshi Ito

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



#### Outside Director

### Katsuhiko Tanabe

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



#### Outside Director

### Waka Fujiso

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

#### Audit & Supervisory Board Members

Standing Audit & Supervisory Board Members

Tomohiko Matsuyasu Hisaya Katsuta

Outside Audit & Supervisory Board Members

Kinya Fujimoto Mitsuhiro Nagahama Shigeru Morita

#### Managing Executive Officers

#### Hiroshi Arai

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

#### Junya Nishimoto

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

#### Kiyohiro Yamamoto

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

#### Executive Officers

#### Yoshifumi Suzuki

Responsible for aG environmental load innovation, the Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department  
General Manager of the Department of Safety Assessment, General Manager of aG Quality Assurance Department

#### Michihiro Tomonaga

Chairman and General Manager of Azbil Taiwan Co., Ltd

#### Akihiko Naruse

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

#### Masashi Hirano

Responsible for development for new business of Factory Automation

#### Seiichiro Hayashi

Responsible for BSC's BA Engineering Headquarters

#### Kenichi Hayashi

General Manager of the BSC's Business Planning Department

#### Tetsuya Maruyama

Manager of BSC's Chubu Regional Division

#### Tomoyuki Takeda

Manager of BSC's Kansai Regional Division

#### Hiroshi Shimizu

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

#### Tetsuo Takamura

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

#### Tadayoshi Itoh

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

#### Hideaki Ishii

Responsible for aG production innovation, AA Development and Quality Assurance

#### Takahiro Sakamoto

Deputy General Manager of Technology Development Headquarters

#### Takashi Sawada

Manager of BSC's Tokyo Head Office

#### Taro Sento

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

#### Toshiyasu Sumitomo

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

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

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

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



# CSR-focused Management

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

## Approach to CSR-focused Management

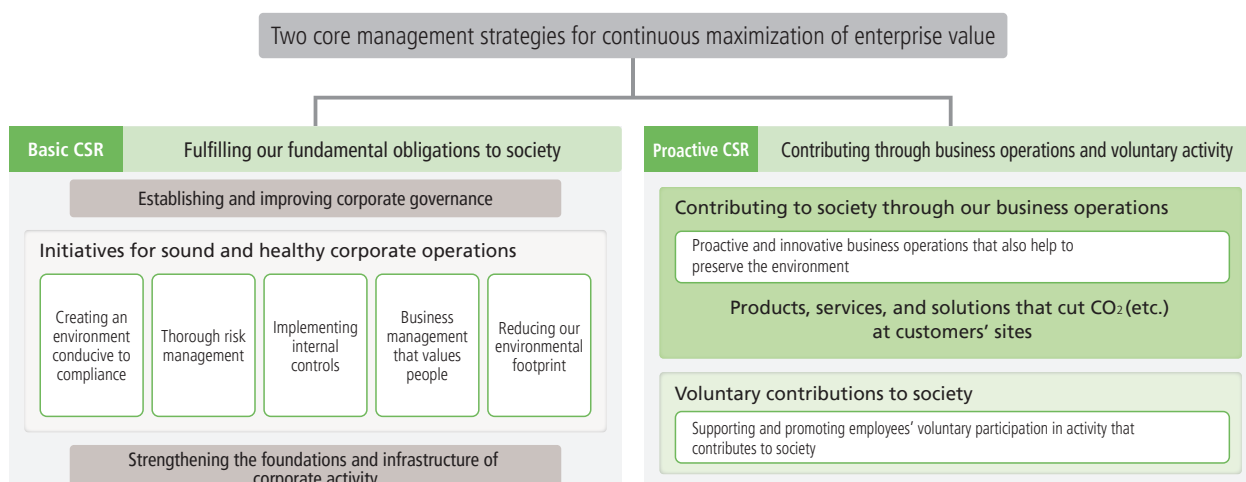
The azbil Group takes a broad view of the responsibilities that a company should fulfill toward stakeholders and society, and takes a twofold approach to CSR-focused management across the entire Group, as explained in the diagram below. First, there is what we call “basic CSR,” which involves fulfilling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

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

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

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

## Initiatives to Fulfill Our Responsibilities to Society



## Framework for Promoting CSR

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

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

### CSR Promotion Framework



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## Compliance

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

### ■ Business Conduct Policy and Code of Conduct

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

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

### ■ Maintaining and Improving Awareness of Compliance Issues

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

Each year, we conduct a survey of all Group employees to gauge compliance awareness and the status of internal compliance, using the results to identify problems and implement measures to address them. In fiscal year 2017, we surveyed a total of 11,000 people, including domestic and overseas employees, and found that more than 98% of these employees recognize the importance of compliance. In our compliance education for employees, we are stepping up efforts to raise compliance awareness through measures that include checking the code of conduct's guidelines and important countermeasures, and disseminating information.

### ■ Preventing Legal Risk

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

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## Internal Control

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

### ■ Improving the Internal Control Systems

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

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

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

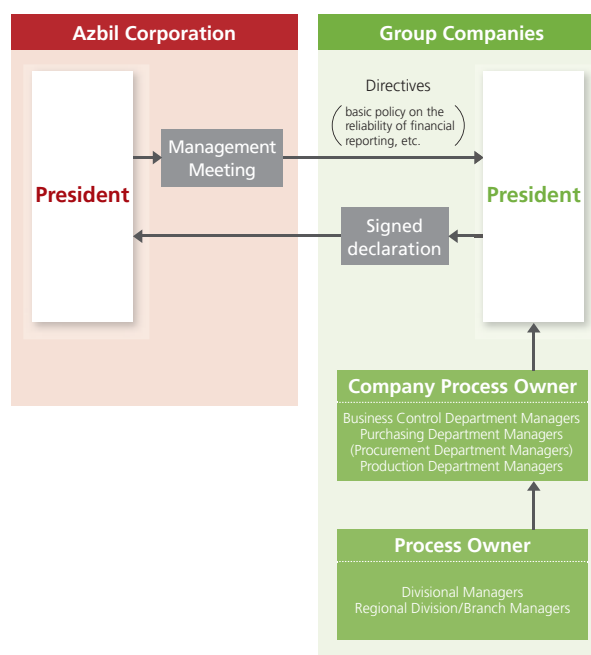
### ■ Response to Employee Concerns and Internal Issues

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

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

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

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



## Business Risks

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

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

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

#### (2) Risks Related to Competition

Competition is becoming severe in the azbil Group's business segments, which are the building automation (BA) business, advanced automation (AA) business, and the life automation (LA) business.

In this environment, the azbil Group believes that its products and services offer high added value superior to that of other companies in terms of technology, quality, and cost. While the Group is taking measures to prepare for situations such as intensifying competition or the entry of new competitors, unexpected changes in relationships among competitors could have an impact on the Group's business results and financial position.

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

The azbil Group's products, systems, and services are used for vital measurements and control related to safety and quality in a variety of plants and buildings.

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

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

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

energy, and labor; safety; preservation of the environment; and the provision of comfortable indoor environments. The azbil Group is strengthening its efforts to deliver appealing products and services to its customers in a timely fashion based on an accurate perception of their needs. However, a misreading of these needs or of technological trends, delays in research and development, insufficient technological capabilities, or other factors could delay the market launch of new products and have an adverse impact on the Group's operations, business results, and financial position.

### (5) Risks Related to Global Operations

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

As the ratio of overseas sales increases, the Group is decentralizing production, including the establishment of manufacturing bases abroad. The Group continues to expand its business globally, with a view to distributing country risk, but delays in its expansion plans, unexpected changes in political and economic conditions, local legal, regulatory, and other changes, natural disasters, terrorism, strikes, and other developments in countries where it operates could have an impact on the Group's manufacturing and procurement activities in whole or in part and thus affect the Group's business results and financial position.

## Risk Management

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

### ■ Risk Management

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

To minimize key risks, we are building a management structure extending from the proposal of countermeasures to their implementation and the reporting of outcomes to the Board of Directors.

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

### ■ Enhancing Disaster Preparedness and Business Continuity Planning

Under the leadership of the azbil Disaster Preparedness Liaison Committee, we are endeavoring to improve our disaster preparedness by conducting regular inspections at all of the azbil Group’s domestic business establishments and overseas production sites to identify risks and consider and implement countermeasures. Our continuing efforts to strengthen the azbil Group’s overall disaster preparedness include the development of a manual to guide the initial responses to a major earthquake, improvement of our system for checking

the safety of employees, establishment of a workplace emergency contact network, enhancement of our communications infrastructure for disasters, and regular emergency drills. In

addition, our ongoing business continuity planning aims to ensure that in the aftermath of a major disaster, manufacturing function links between Japan and overseas bases are restored at the earliest possible time and that maintenance services continue to be provided at customers’ sites.



Regular emergency drills are conducted.

### ■ Upgrading and Reinforcing the Information Management System

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

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

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

The azbil Group is endeavoring to mitigate risk resulting from exchange rate fluctuations by expanding its overseas production, but sudden fluctuations in exchange rates affect sales, the cost of raw materials and components, sales expenses, general expenses, and administrative expenses. These fluctuations have the potential to adversely impact the Group’s business results and financial position.

### 2. Other Risks

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

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

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

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

The Group is taking measures to strengthen its handling and management of important information, including compliance with relevant laws, and to increase employees’ knowledge of information management. However, leakage of important information due to unforeseeable circumstances could have an impact on the Group’s business results and financial position.

#### (3) Risks Related to Disasters

Two of the six main domestic production bases (including manufacturing subsidiaries) of the azbil Group’s building automation (BA) and advanced automation (AA) businesses are located in Kanagawa Prefecture.

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

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

The azbil Group is subject to the laws and regulations of the countries where it operates, including licensing for operations and investment, environmental and safety standards, and product standards. Unexpected changes in these laws or regulations, or the establishment of new laws or regulations, could have an impact on the Group’s business results and financial position.

In particular, although the azbil Group is proceeding with a variety of measures to reduce its environmental impact, in part to comply with stricter environmental regulations, any difficulty in complying with environmental regulations could result in the cessation of certain business activities or other problems, potentially having an impact on the Group’s business results and financial position.

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

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



# SDG Initiatives

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

## Group Philosophy

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



### 2006- azbil “Human-centered Automation”

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

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



1970s-2000s

Savemation



1950s-1970s

First in  
Control

1906-1950s

“Freeing  
People from  
Drudgery”



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

### The SDGs

### Our Initiatives

**7 AFFORDABLE AND CLEAN ENERGY**



#### Promote energy savings together with customers

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

**9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**



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

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

**11 SUSTAINABLE CITIES AND COMMUNITIES**



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

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

**13 CLIMATE ACTION**



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

In addition to identifying energy conservation issues in buildings, factories, and plants, we propose and implement solutions to them. We also verify the outcomes and provide support for subsequent improvements in order to encourage an upward spiral. In addition, we monitor the amount of CO<sub>2</sub> emissions from our business activities and are strategically reducing the environmental impact of our activities through a system in which our internal departments work together. We will use technologies and know-how derived from these efforts to solve further environmental issues.

**4 QUALITY EDUCATION**



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

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

**5 GENDER EQUALITY**



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

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

**8 DECENT WORK AND ECONOMIC GROWTH**



#### Aim to realize healthy and happy lives for employees

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

**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**



#### Promote Design for the Environment that consider whole life cycles

We are promoting Design for the Environment based on eight environmental viewpoints that consider the entire life cycles of products and services. We are now implementing "Environmental Design Assessments" that quantify and evaluate the degree of improvement vis-à-vis equivalent products, as well as "Life-Cycle Assessments" to calculate environmental impacts across the entire life cycles of individual products. We conduct reviews of Design for the Environment according to the development stage, and we are making efforts to achieve targets for reducing CO<sub>2</sub> emissions across the life cycles of each product. (Please see page 73.)

Based on our Group philosophy, and with the aim of achieving a sustainable society, we work proactively to reduce society's impact on the Earth's environment, both by cutting CO<sub>2</sub> emissions and conserving resources at our customers' sites through our core businesses, and by reducing the environmental impact of our own business activities.

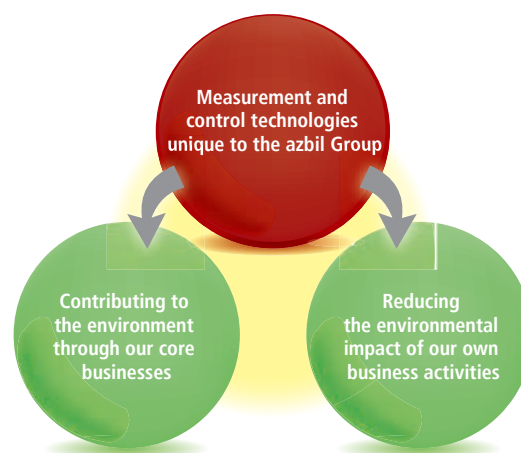
Please refer to our website for details on our environmental initiatives.  
<https://www.azbil.com/csr/basic/environment/index.html>

## Overview of Environmental Initiatives

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

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

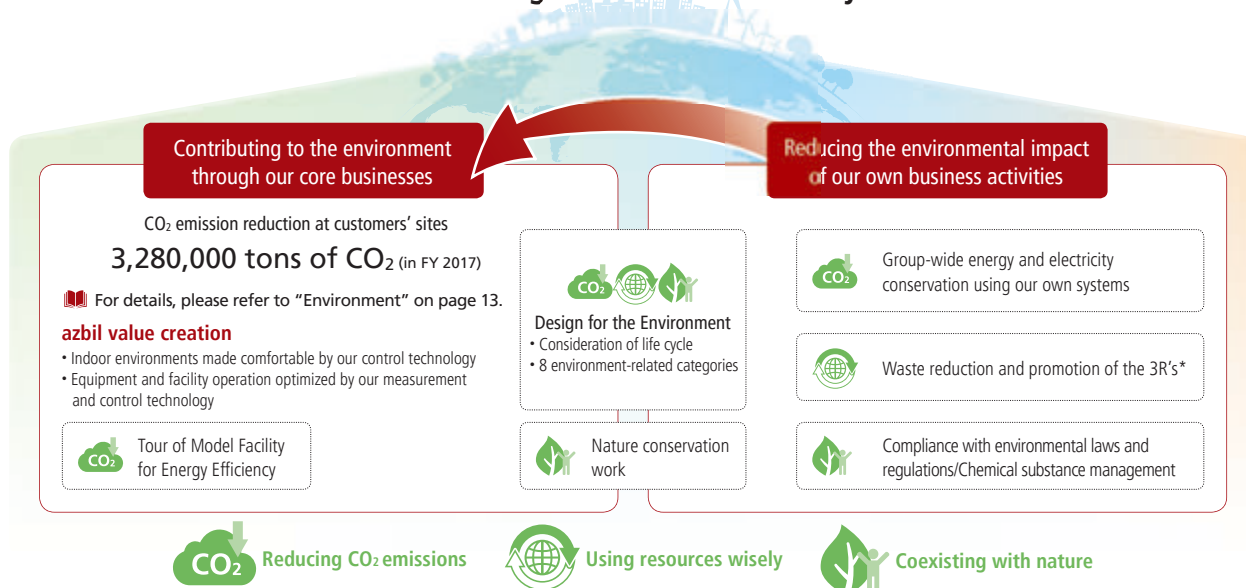
The company's Fujisawa Technology Center serves as an experimental site for energy management solutions and as a



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

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

## Achieving a Sustainable Society



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

## Achievements of Key Initiatives in FY 2017

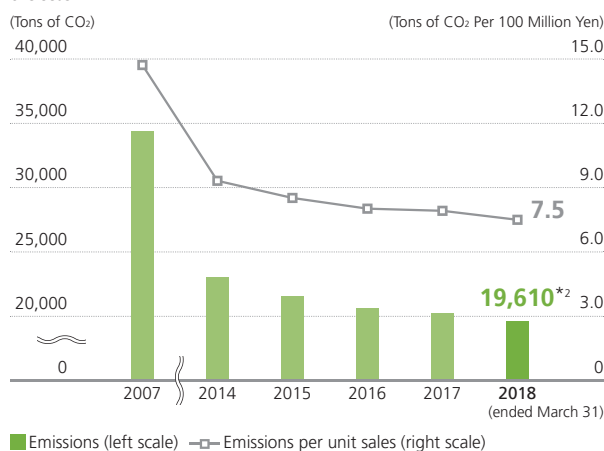
### ■ Reducing CO<sub>2</sub> Emissions

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

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

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

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

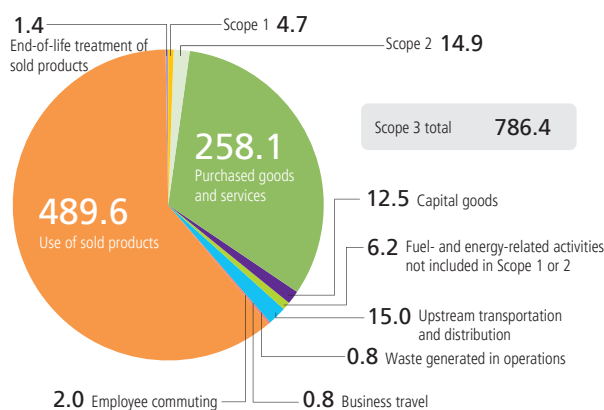


\*1. The figures for CO<sub>2</sub> emissions use a fixed coefficient (0.378 kg CO<sub>2</sub>/kWh). The figures for CO<sub>2</sub> emissions include estimates of rented office air-conditioning energy and other figures.

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

#### CO<sub>2</sub> Emissions (Scope 1, 2, 3)\* in FY 2017

Azbil Corporation  
(Thousand Tons of CO<sub>2</sub>)



Scope of calculation

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

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

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

### ■ Responding to Water-Related Risk

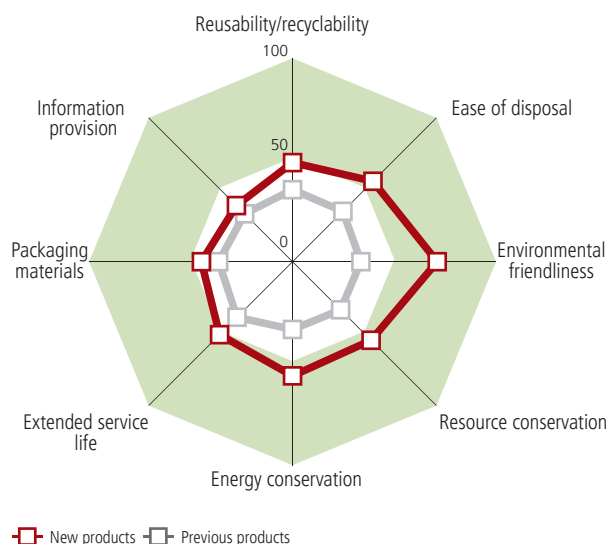
The azbil Group's bases used 142.2 million liters of water in fiscal year 2017, up 5.3% year on year. We continue to undertake

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

### ■ Design for the Environment

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

#### Results of Environmental Design Assessment (FY 2017)



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

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

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

\*4. A Type II Environmental Label.

### ■ Status of our Environmental Education Overseas

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

### ■ Compliance with Environmental Laws and Regulations

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

## Examples of Environmental Initiatives in FY 2017



### ■ Initiatives at the Fujisawa Technology Center

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

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

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

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

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

Please refer to our technical report in the *azbil Technical Review* (April 2018 issue) for details on the experiment.  
 [https://www.azbil.com/corporate/technology/review/pdf/rev2018E\\_3.pdf](https://www.azbil.com/corporate/technology/review/pdf/rev2018E_3.pdf)



Portable temperature sensation voting card

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

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

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

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

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

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

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

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



Solar panels

#### Tour of Model Facility for Energy Efficiency

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



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





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

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

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



azbil Group  
Environmental  
Label

Winner of a Good Design Award 2015



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

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

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

comes that exceed efficiency targets.

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



Guidance for improving heat source operation



Energy conservation project operation



## ■ Biodiversity Initiatives Nature Conservation by Employees in the Local Community

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



The maiden lily

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



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

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

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



The azbil Group pursues its business activities while maintaining a full awareness of its corporate social responsibilities and giving due consideration to its various stakeholders.

## Responsibility to Shareholders

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

### ■ Returning Profits to Shareholders

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

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

### ■ Enhancing Corporate Communication and Investor Relations

We have appointed an executive officer in charge of corporate communications, who is putting in place systems to facilitate dialogue with our shareholders and investors, in partnership with various Azbil Corporation departments. With efforts spearheaded by the Investor Relations (IR) Office, we are engaging in dialogue on a wide range of topics that include our business performance, business details, governance, and proposals made at the General Meeting of Shareholders. The IR office also creates the IR website, which provides information for shareholders and other investors, such as consolidated reports (this publication), and the like to actively release information valuable in making investment decisions, both financial information and non-financial information related to environment, society, and governance (ESG). In the fiscal year ended March 2018, we worked to enhance this information by adding online content that gives a virtual tour of our research and development center and our exhibits.

We hold our Ordinary General Meeting of Shareholders in convenient locations while avoiding dates when such meetings are concentrated, in order to attract as many shareholders as possible. In our notice about the shareholder meeting, which gives information for shareholders' decision making when they exercise their voting rights, we work to provide comprehensive information, including a message from the president and CEO, and strive to publish that information quickly in both Japanese and English. In the fiscal year ended March 2018, the azbil Group sent the notice to all the shareholders three weeks before the General Meeting of Shareholders and included the information on its website about

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

We also sought to encourage dialogue with shareholders and other investors through one-on-one meetings and conferences with our institutional investors in Japan and overseas. In these meetings, which were attended by the president, officers, and the IR Office, we entered into dialogue on more than 260 occasions in the fiscal year ended March 2018. We convey the opinions gathered through these discussions to our management team, including outside officers, and use them as a key source of information for making decisions on corporate management.

At our half-yearly briefings on the company's financial results, the president explains our results, and he and executive officers welcome questions from institutional investors. Following the announcement of our quarterly financial results, the responsible officers or staff provide briefings for securities company analysts in an effort to promote understanding of the company. We also work to expand dialogue with other shareholders who are not institutional investors by holding briefings for private investors.

### ■ Timely and Appropriate Disclosure

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

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

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

## Responsibility to Society

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

### ■ Participation in the Shonan International Marathon

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



® International Fairtrade Certification Mark

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

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

### ■ azbil Honey Bee Club

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

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

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

March, the azbil Honey Bee Club's mascot



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

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

### ■ Azbil Yamatake General Foundation

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

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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 to create value by delivering high-quality, safe and dependable products and services unique to the azbil Group.**

### ■ Responsibility to Customers

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

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

📖 Please refer to “Quality Assurance and Safety of Products and Services” on p.53 for more information about product quality and safety.

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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.”

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

Since fiscal year 2013, we have conducted employee satisfaction surveys with the aim of creating healthy, happy and positive workplaces, using the results to identify and analyze the current workplace situation and any problems in matters such as motivation for work, mutual communication between bosses and subordinates, and job performance. Through this repeated process of survey — analysis — improvement, we are endeavoring to raise the standard of workplace management.

In departments where employee satisfaction is relatively low, the Human Resources Department has worked with workplace managers to devise and implement corrective measures. Repeatedly carrying out this process has resulted in our satisfaction index\* improving yearly from 40% in fiscal year 2013 to 49% in fiscal year 2017.

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

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

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

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

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

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

We have extended the Azbil Corporation’s Basic Policy on Health and Safety, its Health and Safety Regulations, and its Health and Safety Committee Regulations to cover the entire azbil Group in an ongoing effort to raise the standard of health and safety among Group companies.

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

### Health and Safety Education through e-Learning

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

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

**Mental Health Measures** We provide self-care education to help employees notice their stress levels and deal with them effectively. We have also updated the content of our "line care training" in the fiscal year ended March 2017. A third round of the training is conducted to enable workplace managers to quickly identify mental illness among their subordinates. In addition, we conduct annual stress checks, the results of which are used to provide individual care for high-stress employees through interviews with industrial physicians. The results are also used to analyze the situation in the organization and, together with the results of separately conducted employee satisfaction surveys, provide valuable feedback for improving the workplace environment.

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

**Number of Azbil Corporation Business Establishments with OHSMS Certification**  
Azbil Corporation



### (3) Creation of Harassment-free Workplaces

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

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

### ■ Diversity Promotion

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

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

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

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

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

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