11-Year Key Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Ended March 31)	2008	2009	2010	2011
Financial Results (for the year):				
Net sales	248,551	236,173	212,213	219,216
Gross profit	89,946	86,655	76,420	79,714
Operating income	20,484	17,832	12,385	14,896
Net income attributable to owners of the parent	10,709	9,525	6,242	7,928
Capital expenditures	4,488	6,414	2,704	3,351
Depreciation	4,387	4,503	4,751	4,460
R&D expenses	9,844	9,636	8,640	8,953
Cash Flows (for the year):				
Net cash provided by operating activities	21,086	21,372	15,714	15,223
Net cash provided by (used in) investing activities	(612)	(16,606)	1,960	(2,276)
Free cash flow	20,474	4,766	17,674	12,947
Net cash used in financing activities	(6,433)	(8,575)	(6,757)	(8,001)
Financial Position (at year-end):				
Total assets	228,844	220,846	218,472	217,501
Net assets	121,721	124,984	129,278	131,362
Per Share Data:				
Net income (yen)	145.63	127.87	84.52	107.35
Net assets (yen)	1,641.73	1,672.91	1,728.64	1,754.86
Cash dividends (yen)	60.00	62.00	62.00	63.00
Ratios:				
Gross profit/Net sales (%)	36.2	36.7	36.0	36.4
Operating income/Net sales (%)	8.2	7.6	5.8	6.8
R&D expenses/Net sales (%)	4.0	4.1	4.1	4.1
Shareholders' equity/Total assets (%)	52.6	55.9	58.4	59.6
Return on equity (ROE) (%)	9.0	7.8	5.0	6.2
Dividend on equity (DOE) (%)	3.7	3.7	3.6	3.6
Dividend payout ratio (%)	41.2	48.5	73.4	58.7

(Millions of yen)

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

Consolidated Balance Sheet

Azbil Corporation and its consolidated subsidiaries
March 31, 2018

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

See notes to consolidated financial statements.

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

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Income

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

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

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, APRIL 1, 2016	73,251	¥ 10,523	¥ 12,334	¥ 128,476	¥ (4,651)	¥ 7,641	¥ (1)	¥ 2,212	¥ (1,529)	¥ 155,005	¥ 1,961	¥ 156,966
Net income attributable to owners of the parent				13,154						13,154		13,154
Cash dividends, ¥77 per share				(5,164)						(5,164)		(5,164)
Purchase of treasury stock	(1)				(1)					(1)		(1)
Net change in the year						1,912	33	(908)	(208)	829	(32)	797
BALANCE, MARCH 31, 2017	73,250	10,523	12,334	136,466	(4,652)	9,553	32	1,304	(1,737)	163,823	1,929	165,752
Net income attributable to owners of the parent				17,890						17,890		17,890
Cash dividends, ¥82 per share				(5,944)						(5,944)		(5,944)
Change in ownership interest of parent due to transactions with noncontrolling interests			(664)							(664)		(664)
Purchase of treasury stock	(715)				(6,973)					(6,973)		(6,973)
Disposal of treasury stock	2		1,476		2,500					3,976		3,976
Retirement of treasury stock			(2,159)		2,159							
Transfer from retained earnings to capital surplus			683	(683)								
Net change in the year						3,353	13	533	(12)	3,887	39	3,926
BALANCE, MARCH 31, 2018	72,537	¥ 10,523	¥ 11,670	¥ 147,729	¥ (6,966)	¥ 12,906	¥ 45	¥ 1,837	¥ (1,749)	¥ 175,995	¥ 1,968	¥ 177,963

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2017	$ 99,271	$ 116,358	$ 1,287,412	$ (43,893)	$ 90,130	$ 308	$ 12,302	$ (16,396)	$ 1,545,492	$ 18,203	$ 1,563,695
Net income attributable to owners of the parent			168,780						168,780		168,780
Cash dividends, $0.77 per share			(56,086)						(56,086)		(56,086)
Change in ownership interest of parent due to transactions with noncontrolling interests		(6,262)							(6,262)		(6,262)
Purchase of treasury stock				(65,781)					(65,781)		(65,781)
Disposal of treasury stock		13,926		23,590					37,516		37,516
Retirement of treasury stock		(20,366)		20,366							
Transfer from retained earnings to capital surplus		6,439	(6,439)								
Net change in the year					31,631	122	5,037	(111)	36,679	354	37,033
BALANCE, MARCH 31, 2018	$ 99,271	$ 110,095	$ 1,393,667	$ (65,718)	$ 121,761	$ 430	$ 17,339	$ (16,507)	$ 1,660,338	$ 18,557	$ 1,678,895

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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

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

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange as of March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2018, include the accounts of Azbil and its 50 significant (53 in 2017) subsidiaries (together, the "Azbil Group").

The figures presented on the consolidated statement of income consolidated the financial information of the entity until the third quarter of the current consolidated accounting period.

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

Investments in 2 (2 in 2017) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill is amortized on a straight-line basis over five years, with the exception of minor amounts which are charged to income in the period of the acquisitions.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Azbil Group is eliminated.

b. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the period in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, beneficiary securities of trust under resale agreements and commercial paper, all of which mature or become due within three months of the date of acquisition.

d. Inventories—Inventories, other than raw materials, are principally stated at the lower of cost, determined by the specific identification method, or net selling value. Raw materials are principally stated at the lower of cost, determined by the moving-average method, or net selling value.

e. Allowance for Doubtful Receivables—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Azbil Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation for Azbil and its consolidated domestic subsidiaries is computed by the declining balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and to facilities attached to buildings and structures acquired after April 1, 2016. Depreciation of consolidated foreign subsidiaries is mainly computed by the straight-line method. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

The range of useful lives is from 15 to 50 years for buildings and structures, from 4 to 9 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

h. Long-Lived Assets—The Azbil Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and the eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and the eventual disposition of the asset or the net selling price at disposition.

i. Retirement and Pension Plans—Azbil and a certain subsidiary have defined benefit pension plans and defined contribution pension plans covering retired employees.

Some of the consolidated subsidiaries have defined benefit pension plans, unfunded retirement benefit plans and defined contribution pension plans.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date.

Azbil accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 13 years, which is no longer than the expected average remaining service period of the employees.

Retirement benefits to directors and Audit & Supervisory Board members are provided at the amount which would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. Asset Retirement Obligations—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. Research and Development Expenses—Research and development expenses are charged to income as incurred.

l. Provision for Stock Payment—Provision for stock payment is stated in amounts considered to be appropriate based on the provisions of Azbil's employee stock ownership plan.

(Additional Information)

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

(1) Outline of the transaction

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

(2) Azbil's stock remaining in the trust

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

m. Leases—In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

Azbil and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, Azbil and its consolidated domestic subsidiaries continue to account for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

n. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2018 and 2017, was ¥157 million ($1,483 thousand) and ¥115 million, respectively.

o. Construction Contracts—Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

p. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences and tax loss carryforwards.

q. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements—The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. Derivatives Financial Instruments—The Azbil Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Azbil Group to reduce foreign currency exchange and interest rate risks. The Azbil Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, hedge accounting is applied.

Foreign exchange forward contracts are utilized to hedge foreign exchange exposures for export sales and import purchases. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts related to forecasted (or committed) transactions are measured at fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

t. Per Share Information—Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares of common stock used in the computation was 72,677,586 shares for 2018 and 73,250,697 shares for 2017.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

Diluted net income per share is not disclosed because it is antidilutive.

u. Accounting Changes and Error Corrections—Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in accounting policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

v. New Accounting Pronouncements

Azbil and Domestic Subsidiaries

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

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

(1) Overview
The treatment of taxable temporary differences related to subsidiaries occurring in nonconsolidated financial statements is being revised. Additionally, the treatment of the recoverability of deferred tax assets for companies that fall into category 1 is clarified.

(2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2018.

(3) Impact of adoption of this accounting standard
The amount of the impact on consolidated financial statements is currently under review.

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

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

(1) Overview
This is a comprehensive accounting standard for revenue recognition. Revenue recognition is conducted through these five steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2021.

(3) Impact of adoption of this accounting standard
The amount of the impact on consolidated financial statements is currently under review.

Foreign Consolidated Subsidiaries

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

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

3. ACCOUNTING CHANGE

Not applicable.

4. MARKETABLE AND INVESTMENT SECURITIES

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

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

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

	Millions of Yen								Thousands of U.S. Dollars			
	2018				2017				2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥ 5,562	¥ 20,446		¥ 26,008	¥ 5,822	¥ 15,653	¥ 37	¥ 21,438	$ 52,473	$ 192,886	$ 4	$ 245,355
Certificate of deposit	11,500			11,500	9,500			9,500	108,491			108,491
Trust fund investments and other	1,000			1,000	5,001			5,001	9,434			9,434
Other	106			106	106			106	999			999

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

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

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

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

5. INVENTORIES

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

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

6. LONG-LIVED ASSETS AND GOODWILL

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

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

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

For the year ended March 31, 2018, Azbil TA Co., Ltd., a consolidated subsidiary of Azbil decided to sell land for office relocation. As a result, the carrying amount of the asset was written down by ¥32 million ($303 thousand) to the recoverable amount, and this reduction was recognized as an impairment loss. The recoverable amount was calculated on the basis of net realizable value, evaluated based on the estimated price if sold.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥310 million ($2,925 thousand) to the recoverable amount, and this reduction was recognized as an impairment loss. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 8.1%.

For the year ended March 31, 2017, as a result of reviewing expected future earnings from a part of the Life Automation business of Azbil, the carrying amount of the relevant asset group was written down by ¥12 million in total, and this reduction was recognized as an impairment loss.

As a result of reviewing expected future earnings from the Advanced Automation business of Azbil Saudi Limited, a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥448 million to the recoverable amount, and this reduction was recognized as an impairment loss. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 9.8%.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Telstar Benelux, B.V., a consolidated subsidiary of Azbil, which was carried out in the process of revising and restructuring the business, the carrying amount of the relevant asset group was written down by ¥110 million in total, and this reduction was recognized as an impairment loss.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

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

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

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

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

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

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

As is customary in Japan, the Azbil Group maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Azbil Group has never received any such requests.

8. RETIREMENT AND PENSION PLANS

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

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payments, from the Azbil Group and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or by death, than in the case of voluntary termination at certain specific ages prior to the mandatory retirement age.

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

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

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

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

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

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

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

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

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

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

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

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

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

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

(7) Plan assets

a. Components of plan assets

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

	2018	2017
Life insurance company general accounts	61%	60%
Debt investments	25	15
Equity investments	7	8
Short-term assets	4	14
Others	3	3
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2018 and 2017, are set forth as follows:

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

9. EQUITY

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

a. Dividends

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

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

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

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

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

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

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017, is as follows:

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

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,364 million ($78,905 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 56	$ 531
2020	7	67
2021	42	401
2022	21	194
2023	9	80
2024 and thereafter	8,229	77,632
Total	¥ 8,364	$ 78,905

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

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

11. OTHER INCOME (EXPENSES)—OTHERS—NET

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

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

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,262 million ($106,244 thousand) and ¥10,446 million for the years ended March 31, 2018 and 2017, respectively.

13. LEASES

(1) Financing Leases as a Lessee

The Azbil Group leases certain machinery, computer equipment, office space and other assets as a lessee.

Total rental expenses under the above leases for the years ended March 31, 2018 and 2017, were ¥5,516 million ($52,034 thousand) and ¥5,420 million, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. However, disclosure is omitted as it is immaterial.

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

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

(2) Financing Leases as a Lessor

The Azbil Group leases certain machinery and equipment as a lessor.

Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. However, disclosure is omitted as it is immaterial.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The Azbil Group makes risk reduction the first priority in terms of its asset management and limits its investments to financial assets that consist mainly of short-term deposits, while the Azbil Group's financing needs are met by selecting the most suitable method of funding while taking into account such factors as the purpose of the loan, the terms and funding costs. The Azbil Group limits the use of derivatives to forward exchange contracts and currency option contracts to hedge against the risks associated with fluctuating foreign currency exchange rates, and interest rate swaps to hedge against the risks associated with fluctuating interest rates, and does not engage in transactions for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Notes and accounts receivable—trade are subject to the credit risks of the customers. The Azbil Group manages its credit risks on the basis of internal guidelines, which include keeping track of due dates and outstanding balances of the receivables for each transaction and monitoring the credit standing of major customers on a yearly basis. Notes and accounts receivable—trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the Azbil Group has business relationships, and are subject to the risks associated with fluctuating stock prices. Such stock investments are managed by monitoring their fair values and the financial status of the companies on a regular basis, as well as conducting ongoing reviews of their holding status by taking into account the Azbil Group's relationship with the issuing companies.

Notes and accounts payable—trade are liabilities due within one year. Although certain notes and accounts payable—trade denominated in foreign currencies are subject to the risks associated with fluctuating exchange rates, the majority of such instruments are constantly kept within the amount of the outstanding balance of accounts receivable denominated in the same foreign currency.

Interest-bearing debt mainly comprises short-term borrowings. While a portion of these borrowings, having floating interest rates, is subject to the risks associated with fluctuating interest rates, the effects of these risks are negligible as their terms are short and amounts are minimal.

Derivative transactions are executed and managed in accordance with internal rules that stipulate the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more details about derivatives.

Additionally, notes and accounts payable—trade and short-term borrowings are subject to liquidity risks in the event the Azbil Group cannot execute payment on the payment date. Liquidity risks are managed by such methods as having each group company draw up monthly cash flow plans.

(3) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2018		
	2018			2017					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 68,640	¥ 68,640		¥ 59,837	¥ 59,837		$ 647,548	$ 647,548	
Notes and accounts receivable—trade	91,420	91,420		88,500	88,500		862,455	862,455	
Investment securities	26,008	26,008		21,438	21,438		245,355	245,355	
Total	¥ 186,068	¥ 186,068		¥ 169,775	¥ 169,775		$ 1,755,358	$ 1,755,358	
Short-term borrowings	¥ 10,096	¥ 10,096		¥ 10,555	¥ 10,555		$ 95,248	$ 95,248	
Current portion of long-term debt	190	190		251	251		1,788	1,788	
Notes and accounts payable—trade	41,498	41,498		40,456	40,456		391,498	391,498	
Long-term debt	1,074	1,074		1,148	1,149	¥ (1)	10,129	10,132	$ (3)
Total	¥ 52,858	¥ 52,858		¥ 52,410	¥ 52,411	¥ (1)	$ 498,663	$ 498,666	$ (3)

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

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

Investment Securities

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

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

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

Long-Term Debt

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

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

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

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

Please see Note 7 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. DERIVATIVES

The Azbil Group enters into foreign currency forward contracts to hedge currency exchange rate risk associated with trade receivables and payables denominated in foreign currencies. The Azbil Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

It is the Azbil Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities, not to hold or issue derivatives for speculative or trading purposes.

Since all of the Azbil Group's foreign currency forward contracts and interest rate swap contracts are related to qualified hedges of underlying business exposures, market gain or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Azbil Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Azbil Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting Is Not Applied

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

Derivative Transactions to Which Hedge Accounting Is Applied

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

Note: The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 7 is included in that long-term debt.

The fair value of derivative transactions is measured at the quoted price, etc., obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Azbil Group's exposure to credit or market risk.

16. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

17. OTHER COMPREHENSIVE INCOME

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

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

18. SUBSEQUENT EVENTS

a. Repurchase of Treasury Shares

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

Repurchase of Azbil's own shares

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

(1) Reason for share repurchase:	Taking into consideration business result and the outlook for future business performance, Azbil aims not only to improve capital efficiency, but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
(2) Type of shares to be repurchased:	Common stock of Azbil
(3) Total number of shares to be repurchased:	Up to 1,000,000 shares (1.4% of total number of common stock issued, excluding treasury shares)
(4) Total amount of repurchase:	Up to ¥5,000 million ($47,170 thousand)
(5) Period of repurchase:	From May 14, 2018 to July 31, 2018
(6) Method of repurchase:	Purchase in the open market through a trust bank

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at Azbil's shareholders' meeting held on June 26, 2018:

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

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

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The reportable segments of the Azbil Group—identifiable operating segments of the Group's business structure for which financial information is made separately available—are subject to periodic review by the Board of Directors in order to make decisions on the distribution of management resources and to assess performance.

The Azbil Group identifies its operating segments using such criteria as business organization, product lines, service content, and markets. This approach results in three separate reportable segments: the Building Automation business, the Advanced Automation business, and the Life Automation business.

The Building Automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The Advanced Automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The Life Automation business supplies meters for lifelines, residential central air-conditioning systems, life science research, manufacture and sale of manufacturing equipment and environmental equipment for the pharmaceutical and medical fields as well as related services—all of which are intimately connected with everyday life.

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets and Other Items

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

	Millions of Yen							
	2017							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 116,154	¥ 94,820	¥ 43,775	¥ 254,749	¥ 62	¥ 254,811		¥ 254,811
Intersegment sales or transfers	268	664	342	1,274	8	1,282	¥ (1,282)	
Total	¥ 116,422	¥ 95,484	¥ 44,117	¥ 256,023	¥ 70	¥ 256,093	¥ (1,282)	¥ 254,811
Segment profit (loss)	¥ 11,512	¥ 7,204	¥ 1,420	¥ 20,136	¥ 19	¥ 20,155	¥ (10)	¥ 20,145
Segment assets	65,320	68,639	29,945	163,904	1	163,905	99,412	263,317
Other:								
Depreciation	1,177	2,030	868	4,075		4,075		4,075
Increase in property, plant and equipment and intangible assets	1,470	1,904	786	4,160		4,160		4,160
Impairment losses of assets		448	122	570		570		570

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

Note: Corporate assets of ¥106,444 million ($1,004,185 thousand) for the year ended March 31, 2018, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

(1) Information about Products and Services

This information is identical to the segment information and is therefore omitted.

(2) Information by Region

(a) Sales

Millions of Yen						
2018						
Japan	Asia	China	North America	Europe	Other	Total
¥ 214,587	¥ 20,048	¥ 9,366	¥ 4,200	¥ 9,087	¥ 3,096	¥ 260,384

Millions of Yen						
2017						
Japan	Asia	China	North America	Europe	Other	Total
¥ 211,431	¥ 19,501	¥ 8,574	¥ 3,983	¥ 8,419	¥ 2,903	¥ 254,811

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

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

(b) Property, plant and equipment

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

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

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

(3) Information about Major Customers

This information is omitted as no client accounted for more than 10% of sales in the consolidated statement of income.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

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

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

We have audited the accompanying consolidated balance sheet of Azbil Corporation and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Azbil Corporation and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

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

Member of
Deloitte Touche Tohmatsu Limited