Infrastructure to Support Value Creation

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

CSR Management

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

Approach to CSR Management

The azbil Group takes a broad view of the responsibilities that a company should fulfill toward stakeholders and society, and takes a twofold approach to CSR management across the entire Group, as explained in the diagram below. First, there is what we call “basic CSR,” which involves fulfilling the azbil Group’s fundamental obligations as a member of society. This includes thorough compliance with laws and regulations; risk management and preventative measures in such fields as disaster mitigation, information security, product quality, product liability, and accounting; strengthening of risk management measures and internal controls; and improvement of workplace environments to ensure the welfare of the people who work in them. The azbil Group believes that there are no shortcuts to earning the trust of society, so our aim is to implement fair and honest management and to strengthen our corporate governance. The second approach is what we term “proactive CSR,” which consists of contributions to society through our business operations, as well as employees’ voluntary participation in activity that benefits society, as an outgrowth of the culture and atmosphere of the company.

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

Fulfilling Our Responsibility to Society

Two core management strategies for continuous maximization of corporate value

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Our CSR management is described in greater depth on the following pages.

- Compliance, Risk Management, Internal Control P55 – P58
- CSR Procurement P59
- Quality Assurance and Safety of Products and Services P60 – P61
- Human Resources P62 – P65
- Environmental Initiatives P66 – P69
- Social Contribution Activities P83
Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to promote CSR activities across the entire azbil Group. The committee consists of officers in charge of CSR at each Group company and is led by the executive officer in charge of CSR at Azbil Corporation. In addition to formulating Group-wide action plans and monitoring progress, the committee provides guidance to subsidiaries. Subject to the approval of Azbil Corporation’s Board of Directors, the committee formulates and implements plans, evaluates and analyzes the results, and reports to management, following a plan-do-check-act (PDCA) cycle.

Compliance

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

Business Conduct Policy and Code of Conduct

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

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

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

Each year, we conduct a survey of all Group employees to gauge compliance awareness and the status of internal compliance. The results are used to identify problems and implement measures to address them. In fiscal year 2018, we surveyed a total of approx. 11,000 employees in Japan and overseas, including temporary and other employees, and found that more than 99% of them recognize the importance of compliance, an even higher number than the previous year’s 98%. To educate employees about compliance, in addition to face-to-face training provided by lecturers, we launched a new e-learning program. In this way, we not only fully familiarize employees with the basic matters, such as the code of conduct’s guidelines and priority measures, but also deepen their understanding of ever-changing compliance issues. Going forward, we will continue to step up our efforts to raise compliance awareness.

Preventing Legal Risk

The entire azbil Group strives to ensure complete compliance with external laws. In addition to promoting full legal compliance in business activities, the Group provides education related to the law and also addresses legal risk overseas, which is increasing as our global expansion accelerates. Every effort is made to ensure timely and appropriate response to important laws and associated matters, as we endeavor to prevent problems from occurring.

Risk Management

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

Risk Management

The azbil Group makes extensive efforts to uncover risks that could potentially have a serious impact on its operations. The azbil Group Comprehensive Risk Committee, led by the executive officer in charge of risk management, identifies “risks deemed important to the azbil Group,” which may then be determined to be key risks by the Board of Directors.

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

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

Enhancing Disaster Preparedness and Business Continuity Planning

The azbil Group takes disaster prevention measures aimed at minimizing damage to the Group and protecting people’s lives. These measures include making buildings earthquake-resistant, performing hazard inspections, stockpiling, deploying an emergency communication infrastructure, and providing education and training. We also have a business continuity plan (BCP) in place to ensure ongoing provision of products and services at predetermined levels after a disaster. This includes preparing the required funds, product and part stockpiles, personnel, and production facilities. To prepare for crises, we review our emergency contact network and emergency headquarters manual and work to strengthen systems so that the right decisions can be made on policies and important matters.
Upgrading and Reinforcing the Information Management System

We conduct an educational program on information security for all Group employees every year, and also address information management issues that emerge in the course of compliance awareness surveys. In addition, we have a framework to ensure proper protection of personal and other important information in compliance with the EU General Data Protection Regulation (GDPR) and other regulations. In these ways, we are upgrading and reinforcing the Group’s information management system.

Business-Related and Other Risks

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

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

2. Risk related to growth in a competitive environment
   (1) Risk related to business management
       Risk that inadequate response to business opportunities that may arise from changes in social conditions and technological innovation, etc., could lead to the loss of competitive advantage.
   (2) Risk related to technology
       Risk that the loss of competitiveness led by misreading of technological trends, slow R&D progress, or failure to respond to open innovation and technological development, etc., delay in launching new products, and sluggish sales, etc., could affect operations or business results.

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

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

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

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

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

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

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

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

In order to ensure proper reporting during an emergency or critical event, such as an illegal or unethical act of major proportions at a domestic or overseas subsidiary, in fiscal year 2018 we established a system for more quickly and reliably implementing measures to prevent recurrence.

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

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

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

Improvements in Accounting in Response to the Internal Control Reporting System Mandated by “J-SOX”
To improve our response to the internal control reporting system requirement (“J-SOX”) prescribed by the Financial Instruments and Exchange Act, we conduct periodic reviews of the scope of internal audit and review risks and controls in light of changing business conditions. The core information system operating at Azbil Corporation was extended to Azbil Korea Co., Ltd., and Azbil Production (Thailand) Co., Ltd., in January 2019. We will continue to introduce the system and revise our administrative processes at other Group companies in Japan and overseas.

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

Management of Group Companies under “J-SOX”
CSR Procurement

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

azbil Group Basic Procurement Policy

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

To ensure full consideration of our corporate social responsibility (CSR) throughout the supply chain, we ask our suppliers familiarize themselves with the azbil Group’s Basic Procurement Policy, which includes the following.

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

Working with Suppliers to Ensure CSR Procurement

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

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

We also conduct onsite surveys of our suppliers, and certify them as our subcontractors only if they satisfy the conditions. For subcontractors, we require completed environmental conservation questionnaires every year and conduct onsite information security and safety inspections every two years. We issue correction requests when improvements are necessary, and we subsequently check whether corrections have been made. In addition, we provide instruction for subcontractors on adjustment technique, basic air conditioning, and the like. When our factory purchases parts from a supplier, we provide guidance if quality is inadequate or improvement is necessary based on the results of our chemical substance management system audit.

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

Green Procurement

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

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

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

Green Procurement Standard

azbil report 2019

Infrastructure to Support Value Creation
Quality Assurance and Safety of Products and Services

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

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

(1) azbil Group’s Quality Assurance and Safety System

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

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

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

The Quality of Our Products and Services

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

Prevention of Problems and Recurrence

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

Quality-related Crisis Management

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

Safety and Dependability of Our Products and Services

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

Safe Design Standards

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

Safety Assessment

The development and service departments of each Group company and business line are responsible for ensuring the safety and reliability of their products. The Department of Safety Assessment audits each company and business line to ensure compliance with relevant laws.

azbil Group’s Quality Assurance and Safety Activities

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<th>(2) Quality assurance and safety of Group companies and business lines</th>
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<td>Domestic Group companies</td>
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<tr>
<td>• Monitoring of quality target achievement progress and quality improvement activity for each company and business line;</td>
<td>Overseas Group companies</td>
</tr>
<tr>
<td>• Quick-response crisis management for emergency incidents; Communication of countermeasures to address shared problems within the Group</td>
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Quality Assurance and Safety of Our Products and Services

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

(1) Design Quality

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

(2) Production Quality

At production sites, we have standard procedures in place for each product, aimed at ensuring that nonconforming parts are not put on the manufacturing line, nonconforming products are not made, and if made they do not enter the marketplace. To this end, we practice continuous quality management and 4M* change management, as do our subcontractors and suppliers, and we implement rigorous quality improvement and daily management efforts at production sites. We have also established process implementation guidelines to ensure correct measurements using carefully controlled measuring instruments, so that inspections are performed properly.

* Man, machine, material, and method

(3) Service Quality (Engineering and Other Services)

For engineering and other services, we have established operational standards and quality control systems similar to those for our products, so that nonconforming elements are not introduced or output. At construction sites, for example, when selecting construction materials and designing work processes, we take appropriate measures and conduct internal inspections at appropriate junctures. At the operation stage after a building’s completion, we provide maintenance services to ensure comfortable working spaces for building users and also to save energy and ensure safety. In addition, our remote monitoring center monitors our customers’ facilities 24 hours a day, 365 days a year, to prevent problems from occurring. We also have a training center that provides regular education and training for engineers so that the aforementioned services are delivered properly.
By promoting “health and well-being management” and fostering human resources through a combination of “work-style reforms” and diversity promotion, we emphasize business management that values people, aiming to be a corporate group that allows everyone to realize their potential.

**Health and Well-being Management**

**Management that Values People**

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

**New Salary System for Employees**

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

**Work-Style Reforms**

Our efforts at work-style reforms, which we introduced in fiscal year 2016, include company-wide initiatives in three areas: (1) reduction in the total working hours of individual employees, (2) realization of healthy lives, both physically and mentally, and (3) creation of harassment-free workplaces.

**azbil Group Health and Well-being Declaration**

Making workplaces and employees healthy, happy, and lively

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

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

**The Health and Well-being Management Concept**

- **People (the engine)**
  - Employee satisfaction
  - Motivation, organizational energy, etc.
  - Innovative change

- **Work-style reforms and diversity promotion**
  - Work-life balance
  - Elimination of harassment
  - Total work hour reduction

- **Safety and health**
  - Worker safety; physical & mental health
employees who suffer from anxiety, and we take preventative action, providing individual care for high-stress employees in consultation with industrial physicians.

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

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

(2) Worker safety management

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

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

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

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

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

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

Diversity Promotion Our code of conduct emphasizes respect for basic human

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

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

Expanding Human Resource Diversity

(1) Promoting the advancement of women

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

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

(2) Helping people with disabilities to flourish

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

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

(3) Promoting an active role for seniors

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

We view the age of 55 as the starting point for a second career stage, and have a system which provides a smooth
career transition to “veteran” status (reemployment upon retirement) for employees aged 55 or older. By continuing to play an active role and using their abilities, these employees can benefit from our bonus system, in which performance is evaluated and reflected in compensation.

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

(5) Diverse ways of working according to life events
We are upgrading our systems to enable employees to work and also raise children or care for an elderly family member at the same time. This reflects our commitment to provide a comfortable workplace where all employees, including men, can work on a continuing basis. Under our action plan, which is designed to improve work satisfaction, we have formulated and are implementing the following.

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

The Azbil Academy: Human Resource Development

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

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

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

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

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

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

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

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

Results of the manager training program were announced at Azbil Vietnam’s 10th anniversary ceremony.
Cultivating Diverse Personnel

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

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

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

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

Human Resource Development for the Solutions Business

To foster personnel for the solutions business, in keeping with our policy of being “a long-term partner for the customer and the community,” we are intensifying training related to technology, products, and business skills, and introducing it at an earlier stage. We have also established an accreditation system for technical professionals in order to nurture top-class engineers and the engineers of the next generation. Those engineers who are certified as a “Meister” do supervisory work related to safety and quality.

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

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

With the aim of achieving a sustainable society, based on our Group philosophy, we work proactively to reduce society’s impact on the Earth’s environment, both by cutting CO₂ emissions at our customers’ sites through our core businesses, and by reducing the environmental impact of our own business activities.

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

Overview of Environmental Initiatives

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

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

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

Achieving a Sustainable Society

CO₂ emission reduction at customers’ sites
2,980,000 tons of CO₂ (in FY 2018)
For details, please refer to “Environment” on page 11.

azbil value creation
• Comfortable indoor environments through our control technology
• Optimal equipment and facility operation through our measurement and control technology

azbil tour of energy-efficient factory

Design for the Environment
• Consideration of life cycle
• 8 environment-related categories

Nature conservation work

CO₂ reduction of own environmental impact
• Group-wide conservation of electricity and energy using our own systems
• Waste reduction and promotion of the 3 Rs* (reduce, reuse, and recycle) in order to effectively use resources.

Chemical substance management & compliance with environmental laws
Reducing CO₂ Emissions from the Group’s Business Activities and our Entire Supply Chain

Greenhouse Gas Emission Reduction Targets for 2030
To reduce CO₂ emissions over the long term pursuant to the Paris Agreement, we set targets for reduction of greenhouse gas (GHG) emissions by 2030 and are working to achieve them.

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

**CO₂ Emissions (Scopes 1+2+3)** in FY 2018
(Thousand Tons of CO₂)

<table>
<thead>
<tr>
<th>Category</th>
<th>Quantity (Thousand Tons of CO₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>End-of-life treatment of sold products</td>
<td>1.4</td>
</tr>
<tr>
<td>Use of sold products</td>
<td>571.5</td>
</tr>
<tr>
<td>Purchased goods and services</td>
<td>355.1</td>
</tr>
<tr>
<td>Fuel and energy-related activities not included in Scopes 1-2</td>
<td>8.1</td>
</tr>
<tr>
<td>Waste generated in operations</td>
<td>1.7</td>
</tr>
<tr>
<td>Business travel</td>
<td>1.4</td>
</tr>
<tr>
<td>Scope 1</td>
<td>4.2</td>
</tr>
<tr>
<td>Scope 2</td>
<td>14.9</td>
</tr>
<tr>
<td>Scope 3 total</td>
<td>967.1</td>
</tr>
</tbody>
</table>

**CO₂ Emissions from the Group’s Business Activities (Scopes 1+2)**
CO₂ emissions (Scopes 1+2) from business activities of azbil Group bases in fiscal year 2018 totaled 19,000 tons, down 44% from the FY 2006 level.

Using knowledge gained over many years, we are making continuous efforts to reduce CO₂ emissions, a key theme of our medium-term plan. Our efforts include the Group-wide introduction of an energy visualization system aimed at making improvements in both operations and equipment.

**CO₂ Emissions Throughout the Supply Chain (Scope 3)**
Addressing CO₂ emissions across the supply chain (Scope 3) has a major impact on our efforts to reduce the emissions of our Group-wide activities over the long term. In fiscal 2018, the CO₂ emissions (Scope 3) of the Group’s entire supply chain totaled 967,000 tons.

Because more than 90% of these emissions derive from the use of products sold and from products and services we purchased, we focus strongly on Design for the Environment (DfE), including designs that enhance energy efficiency and conserve resources. In these ways, we are working to reduce CO₂ emissions throughout the supply chain.

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

Environmentally Friendly Design of Products and Services

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

<table>
<thead>
<tr>
<th>Environmental Aspects</th>
<th>Results of Environmental Design Assessment (FY 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing CO₂ emissions</td>
<td>Setting of LC-CO₂ reduction targets throughout the supply chain for all new products</td>
</tr>
<tr>
<td>Using resources wisely</td>
<td>Stepping up the use of original indexes so that numerical targets can be set for reducing the consumption of resources and resource recycling</td>
</tr>
<tr>
<td>Coexisting with nature</td>
<td>Ensuring compliance with chemical substance regulations for domestic and overseas products</td>
</tr>
</tbody>
</table>

Environmental Design Assessment and the azbil Group’s Environmental Label
At the development stage of all new products, we carry out environmental design assessments in eight environmental categories. We also perform comprehensive life-cycle assessments for the product. If the results of the evaluation satisfy our internal standards, the product receives the azbil Group’s Environmental Label, indicating that it is an environmentally friendly product.

In the DfE results for fiscal year 2018, our environmental design assessment overall showed a 15.2% improvement. Moreover, all of our new products satisfied the certification standards for the azbil Group’s Environmental Label.

*1. A relative assessment in which a new product is compared with previous similar products on a four-point scale based on the degree of improvement across eight environmental categories.
*2. A Type II environmental label (self-declared)
*3. The sum of all environmental design assessment results.

Examples of products that meet the azbil Group’s Environmental Label certification standard
* Based on results of environmental assessments of overall degree of improvement, energy efficiency, and resource conservation

Fiscal 2018
History Station
Overall improvement: 30%
Energy conservation: up 42%
Resource conservation: up 17%

Fiscal 2017
PLC Linker
Overall improvement: 40%
Energy conservation: up 60%
Resource conservation: up 56%

Fiscal 2017
Distance-Setting Photoelectric Switch
Overall improvement: 20%
Energy conservation: up 60%
Resource conservation: up 62%

Fiscal 2015
Advanced Controller (High-Speed Remote I/O Module)
Overall improvement: 24%
Energy conservation: up 27%
Resource conservation: up 33%

Fiscal 2018
Contactless IC Card Reader (Slim-II Voice Model)
Overall improvement: 24%
Energy conservation: up 42%
Resource conservation: up 28%

Fiscal 2017
Small Remote I/O Module
Overall improvement: 30%
Energy conservation: up 50%
Resource conservation: up 35%

Environmental Initiatives
**Biodiversity Initiatives**

Employees of the azbil Group help to conserve nature in the communities where our business sites and bases are located. It is hoped that this kind of activity will make employees more environmentally conscious, which in turn will have a positive impact on the value of the corporation. As part of a Group-wide initiative, a total of 110 employees and family members participated in environmental conservation activities held at three different locations on six occasions in FY 2018.

► **Green-space conservation (Fujisawa)**

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

► **Himesayuri conservation (Minamiaizu)**

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

► **Environmental work at Azbil Kyoto**

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

**Dealing with Water-Related Risk**

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

**Compliance with Environmental Laws and Regulations**

Again in fiscal year 2018, the azbil Group did not violate, and was not penalized, fined, or sued in connection with major environmental laws or regulations.
To be worthy of the trust placed in us by all of our stakeholders, we strive not only to comply with laws and regulations and our Articles of Incorporation, but also to fulfill our social responsibilities and contribute to the welfare of the community based on corporate ethics. Our aim is to realize sustainable corporate growth and to enhance corporate value over the medium and long terms by means of highly efficient and transparent management.

**Efforts to Strengthen Corporate Governance**

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

**The Important Role of Independent Outside Directors on the Board**

Independent outside directors play an important role in the structure and operation of corporate governance. In order to strengthen our corporate governance, we increased the number of independent outside directors by one, to a total of five, at our 97th annual General Meeting of Shareholders in June 2019. Independent outside directors continue to account for more than one-third of the 11-member Board of Directors, contributing to the Board’s rich diversity in such areas as nationality and gender. Currently, the chairperson of the Board of Directors does not concurrently perform executive duties, thereby enhancing the supervisory function of the Board of Directors.

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

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

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

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

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

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

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

(As of June 25, 2019)
provides year-end evaluation of audit activities, and deliberates the assessments of the accounting auditor.

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

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

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

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

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

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

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

Appointment of Audit & Supervisory Board Members
Candidates for Audit & Supervisory Board members must be

Composition of Nomination and Remuneration Committee
(since April 1, 2018)
have the appropriate experience and ability, as well as knowledge about finance, accounting, and legal matters. We also consider independence from the executive side to be another eligibility requirement. For outside Audit & Supervisory Board members, our policy is to first confirm that there are no issues about independence. Among Audit & Supervisory Board member candidates, we require at least one person with sufficient knowledge of finance and accounting. Such candidates are first discussed by full-time Audit & Supervisory Board members and the representative director, then considered and agreed upon by the Audit & Supervisory Board, before approval at a Board of Directors’ meeting.

**Appointment/dismissal of CEO and Subordinate Officers**

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

**(Appointment Criteria)**

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

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

**(Dismissal Criteria)**

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

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

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

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

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

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

As a result, we have confirmed that the Board of Directors overall is performing effectively and appropriately. For example, the size, composition, and operating status of the Board of Directors are generally appropriate, and systems are in place to make important management decisions and supervise business execution. Also, members of the Board—both internal and external officers with wide-ranging
experience and expertise—have a deep understanding of their roles and engage in open, active, and constructive discussions based on adequate communication.

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

We will continue striving to increase the effectiveness of the Board of Directors in order to achieve sustainable growth and enhance corporate value over the medium and long terms.

Complying with the Corporate Governance Code

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

Changes to Improve Our Corporate Governance

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

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

Changes to Improve Corporate Governance

| Strengthening of oversight and auditing | • Number of independent outside directors increased (1 in 2007 → 2 in 2010 → 3 in 2014 → 4 in 2018 → 5 in 2019)  
| | • Number of independent outside Audit & Supervisory Board members increased (2 in 1994 → 3 in 2011)  
| | • Established criteria for judging the independence of outside officers (2016)  
| | • Started evaluating the effectiveness of the Board of Directors (2016)  
| | • Appointed a director who does not concurrently perform executive duties as Chairperson of the Board (2018) |

| Strengthening of management transparency and soundness | • Nomination and Remuneration Committee established with independent outside directors as a majority (2016)  
| | • Revised the officer remuneration system; strengthened performance-linking and introduced medium-term business perspectives, etc. (2017)  
| | • Abolished the “counselor and advisor system” (2018)  
| | • Appointed an outside director as chairperson of the Nomination and Remuneration Committee (2018) |

| Clarification of responsibilities, encouragement of dialogue, etc. | • Introduced the executive officer system (2000)  
| | • Formulated the Corporate Governance Guidelines (2016)  
| | • Appointed executive officer in charge of corporate communications (2016)  
| | • Formulated guidelines on strategic shareholdings (2016; revised 2018) |
Executive Compensation

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

The basic remuneration amounts paid to individual directors and the total amounts of bonuses paid to directors concurrently performing executive duties, as well as individual payments to concurrently performing directors, are kept within limits set at the General Shareholders’ Meeting. The president and CEO, appointed by resolution of the Board of Directors, produces a draft proposal of individual compensation amounts based on our Director Remuneration Regulations and Nomination and Remuneration Committee Regulations. The Nomination and Remuneration Committee makes the final decision after deliberating on the proposed amounts. Decisions on the remuneration amount for the representative director, who is a member of Nomination and Remuneration Committee, are made by the Committee without participation by the representative director in question.

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

To encourage commonality of interest between directors concurrently performing executive duties on the one hand, and shareholders on the other, and to provide the directors and officers with ongoing incentives to enhance corporate value, we have an officer stock ownership plan to which they can contribute fixed annual amounts. They can purchase and continue to hold company stock in an amount proportional with each officer’s position and responsibilities through the officer stock ownership plan. Directors (internal) who do not concurrently perform executive duties and outside directors receive only basic, fixed remuneration to ensure that they perform their management supervision function effectively. At the 84th Ordinary General Meeting of Shareholders, held on June 29, 2006, the total remuneration limit for directors was set at ¥450 million per year (total of eight directors; remuneration does not include employee portion of director’s salary).

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

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

* We also take into consideration the degree of achievement of qualitative targets assigned individually to each role. These include objectives set at the beginning of each period for CSR and other activities and human resource succession training.
### Remuneration of Officers in FY 2018 (year ended March 2019)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of remunerations paid (millions of yen)</th>
<th>Total amount by type (millions of yen)</th>
<th>Number of persons remunerated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic remuneration</td>
<td>Performance-linked remuneration</td>
<td>Stock options</td>
</tr>
<tr>
<td>Directors (Outside Directors)</td>
<td>404 (48)</td>
<td>315 (48)</td>
<td>89 (—)</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members (Outside Members)</td>
<td>77 (27)</td>
<td>77 (27)</td>
<td>— (—)</td>
</tr>
<tr>
<td>Total (Outside Members)</td>
<td>482 (75)</td>
<td>392 (75)</td>
<td>89 (—)</td>
</tr>
</tbody>
</table>

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

### Corporate Governance Framework

The company has selected the “Company with Audit & Supervisory Board” model for its corporate governance system under the Companies Act. The Audit & Supervisory Board effectively performs a supervisory function for the Board of Directors from the standpoint of Audit & Supervisory Board members. The company's highly independent outside directors interact with the Audit & Supervisory Board and its members to properly monitor the execution of business. In these ways, we are striving for a governance system with effective checks and balances. In order to respond swiftly to the rapidly changing business environment, we have functionally separated the Board of Directors, which is involved in making important decisions, from the executive officer system, which is in charge of business execution. Thus, we have transferred the business execution process to the executive body, based on resolution of the Board, to create a system that allows fast and efficient management.

### General Shareholders’ Meeting

(As of June 25, 2019)

**Board of Directors**
- Directors (11)
  - Outside Directors (5) (included in the 11)
  - President and CEO (1) (Representative Director)

**Audit & Supervisory Board**
- Audit & Supervisory Board Members (5)
- Outside Audit & Supervisory Board Members (3) (included in the 5)

**Internal Audit Department**

**Business Operations**

**Management Meeting**
- President and CEO (1)
- Managing Executive Officers (5)
- Executive Officers (16)

**Nomination and Remuneration Committee**

**Independent Auditor**

**Accounting Audit**

**Audit (internal)**

**Executive Body**

(As of June 25, 2019)
Contribution of Outside Officers

In addition to the requirements for independent officers stipulated by the Tokyo Stock Exchange, we follow criteria for independence that we have formulated when appointing outside officers as prescribed by the Companies Act. Candidates deemed capable of providing constructive suggestions and accurate observations and advice concerning the company’s business and the improvement of corporate value in the medium and long terms are appointed as outside directors. Candidates who are knowledgeable about key aspects of finance, legal matters, and auditing and who are independent of company executives are appointed as outside members of the Audit & Supervisory Board. And each of our outside officers, from his/her diverse backgrounds and external perspectives, is active in asking questions and giving suggestions at Board of Directors meetings, thereby contributing to sustainable corporate growth and the enhancement of enterprise value over the medium and long terms.

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Qualifications and participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eugene H. Lee</td>
<td>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. Attendance: 12 of 12 Board of Directors meetings</td>
</tr>
<tr>
<td>Takeshi Itoh</td>
<td>Mr. Takeshi Itoh brings experience as an executive and analyst at Japanese and overseas investment banks and investment advisory companies. In addition, he has a substantial record of achievement in the sophisticated analysis of companies based on his lengthy experience of working overseas and his consulting work related to M&amp;As, financing business operations and other matters. He not only utilizes his experience as an executive of investment management companies in and outside of Japan to monitor business execution as a member of the Board of Directors but also utilizes advanced knowledge and experience as an expert in international finance and investment fields to make active suggestions aimed at increasing management transparency and fairness. In these ways, Mr. Itoh fulfills his role in supervising and giving advice on business execution. Attendance: 12 of 12 Board of Directors meetings</td>
</tr>
<tr>
<td>Waka Fujiso</td>
<td>Ms. Waka Fujiso brings a high level of expertise and a wealth of experience gained over many years as a prosecutor. After retiring from the Supreme Public Prosecutor’s Office, she taught at law school and served as a committee member for government agency councils. She uses her wide range of insight on legal matters and compliance to monitor business execution as a member of the Board of Directors and also gives assertive opinions from the perspectives of compliance and CSR, in addition to mentioning existence of legal issues, for enhancing management transparency and fairness. In these ways, Ms. Fujiso fulfills her role of supervising and giving advice on business execution. Attendance: 9 of 10 Board of Directors meetings (appointed at the 96th General Meeting of Shareholders held on June 26, 2018)</td>
</tr>
<tr>
<td>Mitsuhiro Nagahama</td>
<td>Mr. Mitsuhiro Nagahama possesses broad knowledge and extensive experience in the financial/securities sectors and abroad, as he has successively served in important posts at financial institutions. As an Outside Audit &amp; Supervisory Board member of the Company, he has audited all aspects of the company’s business, utilizing his excellent insights on corporate governance and corporate management, while helping improve the corporate governance and internal control systems from an independent standpoint. This time, utilizing his deep insights, we would like him not only to monitor the execution of business as a member of the Board of Directors, but also to provide impartial remarks and advice aimed at enhancing management transparency and fairness from wide-ranging perspectives. Based on these points, the company elected him as a new outside director. Attendance: 12 of 12 Board of Directors meetings; 14 of 14 Audit &amp; Supervisory Board meetings</td>
</tr>
<tr>
<td>Katsuhiko Tanabe</td>
<td>Mr. Katsuhiko Tanabe provides an expert viewpoint 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. Attendance: 12 of 12 Board of Directors meetings</td>
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Independent Outside Audit & Supervisory Board Members

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

Comment by an Outside Director

The Status and Direction of Azbil’s Corporate Governance

Outside Directors  Takeshi Itoh

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

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

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

(As of June 25, 2019)

<table>
<thead>
<tr>
<th>President and Group Chief Executive Officer (Representative Director)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hirozumi Sone</td>
</tr>
<tr>
<td>Responsibility: Internal Audit Department, Corporate Planning Department</td>
</tr>
<tr>
<td>Apr 1979: Joined the Company</td>
</tr>
<tr>
<td>Apr 1996: Systems Marketing Manager of Systems Development Group, Industrial Systems Division</td>
</tr>
<tr>
<td>Oct 1998: Transferred to Yonatoke Industries Co., Ltd. as Marketing Manager of the Company</td>
</tr>
<tr>
<td>Apr 2005: Executive Officer of the Company, Manager of the Corporate Planning Department</td>
</tr>
<tr>
<td>Apr 2008: Managing Executive Officer of the Company, Manager of the Corporate Planning Department</td>
</tr>
<tr>
<td>Jun 2010: Director of the Company</td>
</tr>
<tr>
<td>Apr 2012: President and Chief Executive Officer of the Company (present post)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Director, Managing Executive Officer</th>
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</thead>
<tbody>
<tr>
<td>Masato Iwasaki</td>
</tr>
<tr>
<td>Responsibility: Life Automation business, General Manager of Life Science Engineering Department</td>
</tr>
<tr>
<td>Apr 1982: Joined the Company</td>
</tr>
<tr>
<td>Apr 2003: Manager of Marketing 2nd Department, and Information Systems Department, Advanced Automation Company</td>
</tr>
<tr>
<td>Apr 2011: Executive Officer of the Company, Manager of Marketing Department, Advanced Automation Company</td>
</tr>
<tr>
<td>Apr 2012: Managing Executive Officer of the Company, President of Advanced Automation Company</td>
</tr>
<tr>
<td>Jun 2012: Director of the Company (present post)</td>
</tr>
<tr>
<td>Apr 2016: Managing Executive Officer of the Company</td>
</tr>
<tr>
<td>Apr 2018: General Manager of Life Science Engineering Department (present post)</td>
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</tbody>
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<tr>
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</thead>
<tbody>
<tr>
<td>Yoshimitsu Hojo</td>
</tr>
<tr>
<td>Responsibility: azbil Group (AG) production, AG Purchasing, the Advanced Automation Business, Production Management Headquarters, President of Advanced Automation Company</td>
</tr>
<tr>
<td>Aug 1990: Joined the Company</td>
</tr>
<tr>
<td>Apr 2011: Manager of Company Business Control Department, Advanced Automation Company</td>
</tr>
<tr>
<td>Apr 2013: Executive Officer of the Company, Head of Production Management Headquarters</td>
</tr>
<tr>
<td>Apr 2014: Managing Executive Officer of the Company, Head of Production Management Headquarters</td>
</tr>
<tr>
<td>Jun 2014: Director of the Company (present post)</td>
</tr>
<tr>
<td>Apr 2016: Managing Executive Officer of the Company, President of Advanced Automation Company (present post)</td>
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<tr>
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<tbody>
<tr>
<td>Kazuyasu Hamada</td>
</tr>
<tr>
<td>Responsibility: Building Automation Business, azbil Group Sales Synergies, President of Building Systems Company</td>
</tr>
<tr>
<td>Apr 1987: Joined the Company</td>
</tr>
<tr>
<td>Apr 2008: Head of Security Business Headquarters, Building Systems Company of the Company</td>
</tr>
<tr>
<td>Apr 2011: Head of Security System Headquarters, Building Systems Company</td>
</tr>
<tr>
<td>Apr 2013: Executive Officer of the Company, Vice Head of Environmental Facility Solution Headquarters, Building Systems Company</td>
</tr>
<tr>
<td>Apr 2015: Executive Officer of the Company, Head of Environmental Facility Solution Headquarters and General Manager of Environmental Facility Solution Headquarters, Building Systems Company</td>
</tr>
<tr>
<td>Apr 2016: Managing Executive Officer of the Company, General Manager of Tokyo Head Office, Building Systems Company</td>
</tr>
<tr>
<td>Apr 2018: Managing Executive Officer of the Company, President of Building Systems Company (present post)</td>
</tr>
<tr>
<td>Jun 2018: Director of the Company (present post)</td>
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<table>
<thead>
<tr>
<th>Director, Chairperson of the Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tadayuki Sasaki</td>
</tr>
<tr>
<td>Apr 1972: Joined The Fuji Bank, Limited (present: Mizuho Bank, Ltd.)</td>
</tr>
<tr>
<td>Oct 1999: Manager of Project Finance Department</td>
</tr>
<tr>
<td>May 2002: Joined the Company (Senior Officer)</td>
</tr>
<tr>
<td>Apr 2003: Executive Officer and Manager of the Accounting &amp; Finance Department</td>
</tr>
<tr>
<td>Apr 2006: Managing Executive Officer of the Company</td>
</tr>
<tr>
<td>Jun 2007: Director of the Company (present post)</td>
</tr>
<tr>
<td>Apr 2009: Senior Managing Executive Officer of the Company</td>
</tr>
<tr>
<td>Apr 2016: Vice President of the Company</td>
</tr>
<tr>
<td>Jun 2018: Chairperson of the Board (present post)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Managing Executive Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiroshi Arai</td>
</tr>
<tr>
<td>Junya Nishimoto</td>
</tr>
<tr>
<td>Responsibility: AG Research and Development (AG Development Synergies), Smart Robots, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department, AG Solution Department, Head of Technology Development Headquarters</td>
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<th>Audit &amp; Supervisory Board Members</th>
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<tr>
<td>Tomohiko Matsuyasu</td>
</tr>
<tr>
<td>Hisaya Katsuta</td>
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<tr>
<th>Outside Audit &amp; Supervisory Board Members</th>
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</thead>
<tbody>
<tr>
<td>Kinya Fujimoto</td>
</tr>
<tr>
<td>Minoru Sakuma</td>
</tr>
<tr>
<td>Fumitoshi Sato</td>
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<tr>
<td>Kiyohiro Yamamoto</td>
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<tr>
<th>Executive Officers</th>
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<tbody>
<tr>
<td>Akihiko Naruse</td>
</tr>
<tr>
<td>Responsibility: AG Safety Management (Occupational Health and Safety), Human Resources Department, AG Safety Management Department, Azbil Academy, General Manager of Internal Audit Department</td>
</tr>
</tbody>
</table>
Manager of BSC Chubu Regional Division  
Tetsuya Maruyama  
General Manager of the BSC Business Planning Department  
Kenichi Hayashi  
Business Development in North America  
Toshiyasu Sumitomo  
Takahiro Sakamoto  
Automation  
Responsible for New Business Development of Factory Department, Environment Promotion Department, General Department of Safety Assessment, aG Quality Assurance  
Yoshifumi Suzuki  
Executive Officers  
Masashi Hirano  
Responsible for New Business Development of Factory Automation  
Takahiromi Sakamoto  
Deputy Head of Technology Development Headquarters  
Toshiyasu Sumitomo  
Business Development in North America  
Kenichi Hayashi  
General Manager of the BSC Business Planning Department  
Tetsuya Maruyama  
Manager of BSC Chubu Regional Division  
Yoshifumi Suzuki  
Responsible for aG Environmental Lead Innovation, Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department, General Manager of Department of Safety Assessment, General Manager of aG Quality Assurance Department  
Outside Director  
Waka Fujiso  
Apr 1980  Public prosecutor of Tokyo District Public Prosecutor’s Office  
Apr 2001  Public prosecutor of Tokyo High Public Prosecutor’s Office  
Dec 2007  Public prosecutor of Supreme Public Prosecutors Office  
Mar 2008  Retired from Public prosecutor of Supreme Public Prosecutor’s Office  
Apr 2009  Professor of Rikkyo University’s Law School  
Sep 2011  Member of council of Ministry of Health, Labor and Welfare  
Jun 2014  Retired from Professor of Rikkyo University’s Law School  
Jun 2015  Substitute Audit & Supervisory Board Member of the Company  
Jun 2018  Outside Director of the Company (present post)  
Outside Director  
Mitsuhiro Nagahama  
Apr 1976  Joined The Fuji Bank Limited.  
Mar 2003  Executive Officer and General Manager of Dainichikai Corporate Banking Division No. 6 and Dainichikai Corporate Banking Division No. 7, Mitsui Corporate Bank, Ltd.  
Apr 2005  Senior Executive Officer in charge of Corporate Banking, Mitsui Corporate Bank, Ltd.  
Mar 2006  Senior Executive Officer and Head of the Americas, Mitsui Corporate Bank, Ltd.  
Apr 2010  Deputy President and Deputy President-Executive Officer and Head of the Americas, Mitsui Corporate Bank, Ltd.  
Mar 2013  Retired from Mitsui Corporate Bank, Ltd.  
Apr 2013  Chairman of the Board of Mitsui Securities Co., Ltd. & Mitsui Securities USA Inc.  
Apr 2015  Advisor of Mitsui Securities Co., Ltd. (present post)  
Jun 2015  Outside Audit & Supervisory Board Member of Azbil Corporation  
Mar 2018  Outside Audit & Supervisory Board Member of KURARAY Co., Ltd. (present post)  
Mar 2019  Outside Director of Tokyo Tatemono Co., Ltd. (present post)  
Jun 2019  Outside Director of the Company (present post)  
Outside Director  
Katsuhiko Tanabe  
Apr 1973  Registered as a Lawyer  
Sep 1979  Established TANABE & PARTNERS (present post)  
Apr 1998  Managing Director of Japan Federation of Bar Associations  
Jun 2000  Outside Audit & Supervisory Board Member of Sanwa Shutter Corporation (Present: Sanwa Holdings Corporation)  
Jun 2007  Outside Audit & Supervisory Board Member of the Company  
Jun 2010  Outside Director of the Company (present post)  
Oct 2010  Outside Director of MIRAIT Holdings Corporation  
Jun 2015  Outside Audit & Supervisory Board Member of JSP Corporation (present post)  
Outside Director  
Takeshi Itoh  
Sep 1969  Entered Burnham & Company  
Oct 1983  Director of The First Boston Corporation  
Oct 1993  Managing Director and Vice Manager of Tokyo Branch, Smith Barney (Present: CIB 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: Azusa Securities Co., Ltd.)  
Feb 2012  Vice Chairperson and Chief Operating Officer of Azusa Securities Co., Ltd.  
Jun 2013  Senior Advisor of Azusa Securities Co., Ltd.  
Jun 2014  Outside Director 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 Chairperson of Siemens K.K.  
(Representative of Siemens AG in Japan)  
Jun 2007  Outside Director of the Company (present post)  
Outside Director  
Takashi Itoh  
Apr 2019  Joined the Engineering Headquarters of Advanced Solutions Department in Advanced Automation Company (AAC) Engineering Headquarters  
Dec 2020  General Manager of Advanced Automation (AAC) CP Business**  
Takashi Itoh  
General Manager of the AAC SS business**  
General Manager of the AAC SS Marketing Department  
Hideaki Ishii  
Responsible for aG production innovation, AA Development and Quality Assurance  
Taro Sento  
General Manager of AA IAP Business*  
Takashi Iimamura  
Head of Production Management Headquarters  
Tetsuya Iwasaki  
Responsible for System Development, Head of BSC Development Headquarters  
Kanichiro Tsuruta  
Head of BSC Engineering Headquarters  
Tomoyuki Takeda  
Manager of BSC Kamai Regional Division  
Takashi Sawada  
Manager of BSC Tokyo Head Office  
Hiroshi Shimizu  
aG Advanced Control Business, General Manager of Advanced Solutions Department in Advanced Automation Company (AAC) Engineering Headquarters  
Tetsuo Takamura  
General Manager of Advanced Automation (AAC) CP Business**  
Tadayoshi Ishii  
General Manager of the AA SS business**  
General Manager of the AAC SS Marketing Department  
Hideaki Ishii  
Responsible for aG production innovation, AA Development and Quality Assurance  
Taro Sento  
General Manager of AA IAP Business*  
Takashi Iimamura  
Head of Production Management Headquarters  
Tetsuya Iwasaki  
Responsible for System Development, Head of BSC Development Headquarters  
Kanichiro Tsuruta  
Head of BSC Engineering Headquarters  
* 1. CP business: Control Product business (supplying factory automation products such as controllers and sensors)  
* 2. SS business: Solution and Service business (offering control systems, engineering service, maintenance service, energy saving solution service, etc.)  
* 3. IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure and pressure transmitters, and control valves)
The azbil Group strongly recognizes its own social responsibility with respect to its corporate activities. Based on our Group philosophy of “human-centered automation,” we work to create various types of value for shareholders and other investors, as well as customers, business partners, employees, and society. We will convey information about these efforts to share our values with society while enhancing understanding among people both inside and outside the Company. At the same time, we will use feedback from our stakeholders to create new value. To advance these efforts, we appointed an executive officer in charge of corporate communication, who is putting in place systems to facilitate dialogue with stakeholders and other investors, in partnership with various Azbil Corporation departments.

**Enhancing Dialogue with Shareholders and Other Investors**

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

To this end, we provide opportunities for executives, including the president, to communicate directly with shareholders and other investors. We also have in place an Investor Relations (IR) Office which is dedicated to enhancing such dialogue. With efforts spearheaded by the IR Office, we are engaging in dialogue on a wide range of topics that include our business performance, business details, governance, and proposals made at the General Meeting of Shareholders.

**Proactive Dialogue by Officers**

*(in Addition to Financial Results Briefings)*

Regarding specific dialogue initiatives, we hold semi-annual briefings on the Company's financial results, where the president explains our performance and management plan and, together with executive officers, welcomes questions from institutional investors. We also hold one-on-one meetings and conferences with our institutional investors in Japan and overseas. The president, executive officer in charge of corporate communications, other officers, and the IR Office participate in these meetings. In fiscal 2018, we engaged in such dialogue with shareholders and other investors on more than 250 occasions. We convey the opinions gathered through these discussions to our management team, including outside officers, and use them as a key source of information for making decisions on corporate management.

**Dialogue with Individual Shareholders and Other Investors**

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

**Sharing Values with Our Shareholders**

**Disciplined Capital Policy**

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

Regarding shareholder return, we comprehensively evaluate our consolidated business performance, dividends on equity (DOE), and return on equity (ROE), as well as the need to retain internal reserves to develop our future business and maintain a sound financial base. Our policy, which is to maintain stable dividends while improving performance and DOE and ROE levels, also includes flexible share buybacks.

**Employee Stock Incentive System:**

*Sharing Values with Shareholders and Employees*

To promote shared values, in March 2017 we introduced an employee stock ownership plan. This is an incentive plan for strengthening the connection between the Company’s stock price and business performance on the one hand, and employee rewards on the other, so that employees share the same values as shareholders and are motivated to increase the Company’s stock price and improve business performance.
General Meeting of Shareholders, Early Disclosure Efforts, and Global Information Dissemination

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

Expanding Dialogue Opportunities and Enhancing Disclosure Content

To promote a deeper understanding of the azbil Group in terms of value provided and business content, we are working to expand dialogue opportunities and enhance disclosure content, in addition to holding financial results briefings. To increase opportunities for dialogue, for example, we hold forums at the sites of investor exhibitions in which we participate, where we explain our business and products. In addition, we post content on our website where visitors can take virtual tours of our main R&D base and our exhibition display booths, to foster a broader understanding of the azbil Group among stakeholders.

Timely and Appropriate Disclosure

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

We ensure that highly transparent and fair disclosure of information is carried out in a timely and appropriate manner, and have spelled out our basic approach to disclosure in our Disclosure Policy. Responding to the establishment of Japan’s Fair Disclosure Rules (Articles 36–38, April 2018), in fiscal 2018 we reaffirmed our internal disclosure procedures and revised our internal rules. We also revised and published our Disclosure Policy. In addition, we have a “Investor Relations” section on our corporate website, and we publish and update information about such matters as shareholders’ meetings, financial results, and IR materials in a timely manner. We also strive to disclose financial information in both Japanese and English on the same day so that there is no information gap between Japan and overseas.

Non-financial (ESG) Information Disclosure

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

Providing Information to Society Via Media

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

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

In addition to public relations activities, we conduct research to find out how the Group is perceived and recognized at home and abroad, and what we could do to enhance people’s understanding of the company.
Sharing Values with Customers
Creating value with customers at their sites is a key activity that reflects our Group philosophy. In other words, we work to share values with our customers. To this end, we introduce the products, services, and solutions offered by our three business segments—Building Automation, Advanced Automation, and Life Automation. We have also set aside space at our Fujisawa Technology Center to engage in discussions with customers aimed at solving their problems. In fiscal 2018, we welcomed 180 people from 55 companies. Specifically, we exchanged opinions on future technology scenarios and next-generation products, systems, and services that we could collaborate on.

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

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

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

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

Corporate Communication is Essential for Improving Enterprise Value
Takayuki Yokota
Director, Managing Executive Officer
Responsible for Corporate Communication

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

To communicate our future value creation activities more effectively, we will work to disclose detailed information that complies with laws and guidelines in a timely, appropriate, and highly transparent manner. At the same time, we will strive to ensure a deeper mutual sharing of values with our stakeholders.
In addition to benefitting society through our core businesses, we work to entrench a culture of contribution to society through various voluntary initiatives in areas accessible to employee involvement and participation in local grassroots events. In these ways, we continue to help raise awareness about social issues and enliven local communities.

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

* International Fairtrade Certification Mark

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

* Fair trade

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

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

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

**Azbil Yamatake General Foundation**
The Azbil Yamatake General Foundation was established with the aim of providing systems and educational opportunities by which children, who represent our future, can learn without hindrances. The foundation also fosters research in science and technology and supports the development of new technology. The foundation’s “Asunaro Friendship” program provides financial support for scholarships, educational awareness, and research activities. This program’s aim is to promote a variety of activities in cooperation with local communities, schools, research institutes, and the like, in a way that brings happiness and a feeling of accomplishment to the recipients. To date, the foundation has supported a scholarship program established by Fujisawa City, Kanagawa Prefecture, provided scholarships to students from single-parent households who need economic assistance, and donated to childcare centers. In addition to its regular activities, in fiscal 2018 the foundation enhanced its programs aimed at helping children who need support to learn with peace of mind. These include addressing child poverty by providing support for a student volunteer group in Fujisawa City that runs a small school and manages a cafeteria for children in need. Going forward, we will donate to institutions that conduct cutting-edge research and otherwise build a foundation where young researchers—Japan’s future leaders—can devote themselves to research with peace of mind.