Communication with Stakeholders

Through our corporate communication activities vital to improve corporate value, the azbil Group aims to improve communication with our various stakeholders and deepen the mutual sharing of value.

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 Group. At the same time, we use feedback from our stakeholders to create new value. Collaboration with our stakeholders and the development of a relationship of trust through dialogue are important assets for the sustainable growth of the azbil Group. As such, we appointed an executive officer in charge of corporate communication, who is putting in place systems to facilitate dialogue with stakeholders, in partnership with various departments in the Group.

Enhancing Dialogue with Shareholders and Other Investors

Under the direction of the executive officer in charge of corporate communications, our various departments—the Corporate Sustainability Headquarters, and those in charge of accounting and finance, general affairs, human resources, 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 Chairperson and President and Group CEO, 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 briefings of the Company's financial results, where the President and Group CEO explains our performance and management plan and, together with executive officers, welcomes questions from institutional investors. For the disclosure of 2019 financial results, we held the briefing online in order to ensure the timeliness of the information disclosure while also avoiding the risk of the spread of COVID-19 and maintaining the safety of our shareholders and investors. A video of this briefing was later released in both Japanese and English. We also hold individual meetings and join conferences with our institutional investors in Japan and overseas. The President and Group CEO, executive officer in charge of corporate communications, other officers, and the IR officers participate in these meetings. In fiscal year 2019 (ended March 2020), we engaged in such dialogue with shareholders and other investors on more than 250 occasions. In fiscal year 2020 (ending March 2021), we are utilizing an online conferencing system to continue to maintain a sufficient level of dialogue. 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.

The FY2019 financial results briefing was held online in order to ensure safety of investors and timeliness of information disclosure.

General Meeting of Shareholders, Early Disclosure Efforts, and Global Information Dissemination

Regarding the General Meeting of Shareholders, we include a message from the President and Group CEO 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 announce 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 offering 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.

Considering the safety of all of our shareholders, we conducted the 98th Ordinary General Meeting of Shareholders (held on June 24, 2020) by utilizing the internet. Officers who spoke at the meeting participated from Japan and overseas through an online conferencing systems.

Furthermore, in the 98th Ordinary General Meeting of Shareholders held in June 2020, we utilized the internet after taking into consideration the importance of holding the General Meeting of Shareholders and briefing on business operations from the perspective of preventing the spread of COVID-19 and ensuring the safety of all of our shareholders.

Dialogue with Individual Shareholders and Investors

In addition to institutional investors, we work to expand opportunities for dialogue with individual shareholders and investors. In addition to enhancing the information available on our website, we are participating in exhibitions and briefings for individual investors as appropriate, despite having to suspend our planned briefings due to the impact of the spread of COVID-19. We are also publishing articles which explain the azbil Group's businesses and management strategy in publications for individual investors.


azbil
アズビル株式会社
山本社長に個人投資家が質問!
アズビルのココが知りたい
アズビルという会社名の意味を教えて!
azbil
人を中心としたオートメーション
「オートメーション」による製品やサービスには、どんなものがありますか?
ビルディングオートメーション事業
アドバンスオートメーション事業
ライフオートメーション事業

In a magazine for individual investors we explain the azbil Group with a Q&A format. (IR magazine No. 115)

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 exhibitions in which the azbil Group participates and explain our business and products. In

We leverage exhibitions at IIFES (left) and Smart Building EXPO (right) as opportunities to help deepen understandings of azbil Group businesses and products.

Sharing Value with Our Shareholders

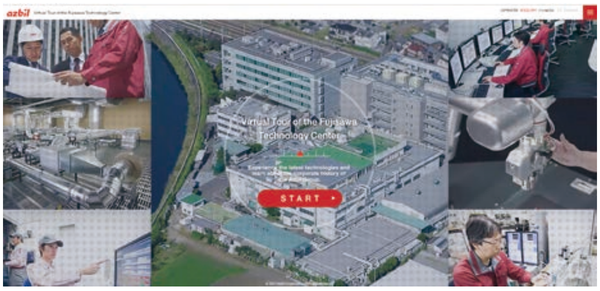
Disciplined Capital Policy

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 dividend level while striving to raise it, also includes flexible share buybacks.

Employee Stock Incentive System: Sharing Values with Shareholders and Employees

To promote shared value, 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 are motivated to increase the Company's stock price and improve business performance. We aim for our employees to understand our management strategy and share the same values throughout the Company, while also performing their roles with the same values held by shareholders.

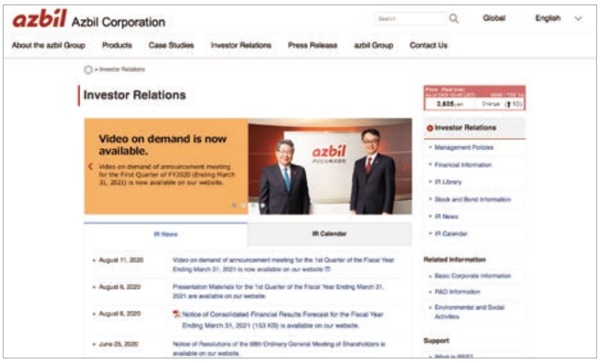
Japan we participated in the Major Exhibition of Cutting-Edge Technologies for Automation and Measurement IIFES/Smart Building EXPO, etc. while overseas we participated in Industrial Transformation ASIA PACIFIC (ITAP), the largest industrial digitalization technology exhibition in the Asia Pacific region, etc. 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.



Start screen for the online virtual tour of the azbil Group's main R&D base, the Fujisawa Technology Center

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. In fiscal year 2019, we expanded the entry of MD&A (Management Discussion and Analysis) in our securities report based on the order by Japan's Cabinet Office. 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.



Home screen of the Investor Relations page. This section includes briefings information and various IR tools.
https://www.azbil.com/ir/index.html

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 azbil Group received a grade of 3.4 (out of 5) from FTSE and an A- from CDP (leadership level), as well as inclusion into various ESG indices, including the FTSE4Good Index Series, FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index (WIN), and the S&P/JPX Carbon Efficient Index, etc.

Providing Information to Society Via Media

Global Distribution of Press Releases

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 contributions, which we post on our English language 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 Group and convey accurate information to the public. For example, in fiscal year 2019, we held a tour upon the completion of the new building of the Shonan Factory based on the theme of the azbil Group's "mother factory." We also pursue these initiatives overseas. We held an exhibition at the previously mentioned Industrial Transformation ASIA PACIFIC (ITAP),

Media reporters tour the azbil Group's cutting-edge technology production line utilizing AI at our major production hub, Shonan Factory, which produces field devices such as valves.

which was held in October 2019 in Singapore, where we engaged in proactive communication activities, such as distributing press releases and responding to interview requests from local media. 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 Group.

Sharing Value with Customers

Share Value with Customers and Create Value with Customers at their Sites

Creating value with customers at their sites is a key activity that reflects our Group philosophy. To this end, we introduce products, services, and solutions offered by our three busines segments—Building Automation, Advanced Automation, and Life Automation. We have also set aside space at our Fujisawa Technology Center to share problems and search for solutions by engaging in discussions with customers. In fiscal year 2019, we welcomed 1,515 people from 166 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. We have also utilized online conferencing to communicate with customers in various regions and expand our communication activities globally.

azbil Techno Plaza, a showroom in the Fujisawa Technology Center. This place exhibits the azbil Group's major products and strategic products to share information about cutting-edge technology with local customers and allow for communication.

The Management Room, a space inside Fujisawa Technology Center for collaborative creation with customers (above); Showroom inside the Strategic Planning & Development Office for Southeast Asia in Singapore (below). Connected by a video conferencing system, these spaces make it possible to communicate the newest technological information to local customers.

Brand Communication

Conveying and Sharing Value Provided by azbil Group to the World

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. We are utilizing the advertising catchphrases and designs we produced in 2018 (English catchphrases: "Azbil – Going Beyond Automation") to launch corporate advertising and participate in major exhibitions in Japan and overseas. We created design guidelines as we aim to rigorously disseminate information based on a unified design and build our brand globally.

Communication with Stakeholders

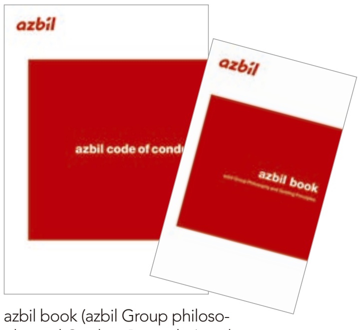
Constructed exhibition booth based on the design guidelines. Exhibition at ITAP in Singapore

We launched a new corporate advertising globally in October 2020. It represents the idea that we take our customers to a bright future with our automation technology.

Sharing Value with Employees

Sharing Value to Achieve Group Philosophy

Aiming to practice our Group philosophy for achieving a sustainable society, the azbil Group has created the azbil book (azbil Group philosophy and Guiding Principles) and the code of conduct book (azbil Group's Code of Conduct) and distributed them to employees to deepen their understanding. For global employees, we have translated these publications to ten languages and distributed them globally.



azbil book (azbil Group philosophy and Guiding Principles) and the code of conduct book (azbil Group's Code of Conduct)

Guiding Principles for azbil Group Business

In order to implement our corporate philosophy, we will take action based on the 5 Guideposts* (guiding principles for business), aiming to serve as a guiding bridge that interconnects our worldwide customers and leads us all into the future.

1. Realizing a safe and comfortable social environment through cooperative creation by human ingenuity and technology
2. Contributing in series to the achievement of a sustainable society
3. Building long-term partnerships with stakeholders
4. Creating dynamic value through diverse human resources and teamwork
5. Growing constantly through innovation and a corporate culture of continual learning

We, the azbil Group, fulfill our corporate social responsibility (CSR) by respecting the Group Philosophy and Guideposts (Guiding Principles) as well as our Code of Conduct, and thereby continue to be a corporate organization that has value for society.

* The Guiding Principles for azbil Group Business are referred to as "the Guideposts" internally.

10

Excerpt from the azbil book (azbil Group philosophy and Guiding Principles) that explains the five guideposts (Guiding Principles)

Enhancing and Reforming Corporate Communication Activities to Improve Corporate Value

Takayuki Yokota
Director, Senior Managing Executive Officer Responsible for Corporate Communication

Changes in the social environment and technological trends increase the opportunities to create value through measurement and control. Based on our Group philosophy of "human-centered automation," the azbil Group's important management policy is to contribute "in series" to the creation of a sustainable society through efforts to solve problems facing society while also achieving our own sustainable growth.

It is my sincere hope that the many stakeholders who support us each day can understand the direction the azbil Group wishes to create enterprise value and our business activities, which are the source of this value creation, through our corporate communication activities, including this azbil report. 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. The speed of digital transformation in our corporate communications, which stemmed from various technological innovations, has been accelerated even further due to the changes in our society and lifestyles as a result of the spread of COVID-19, forming a new normal. In order to achieve better communication as we aim to produce value through the Group's unique activities that contribute "in series" with the SDGs for sustainable society, we will continue to take efforts to enhance the transparent disclosure of information in an appropriate and timely manner based on laws, regulations, and guidelines. Furthermore, we will take proactive efforts to generate new communication that utilizes ICT as we strive for a mutual sharing of value with our stakeholders.

Exchanges with Society and Social Contribution Activities

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.

Donations due to Spread of COVID-19

Representing the azbil Group, Azbil Corporation made the following donation in June 2020 in response to the massive damage caused both in Japan and overseas by this virus.

Domestic and overseas donations (total of ¥50 million)

- Japanese Red Cross Society: ¥15 million
- Central Community Chest of Japan (Red feather community chest): ¥15 million
- UNICEF* "COVID-19 Emergency Fund": ¥20 million

*United Nations Children's Fund

Please visit the link below for more information.
https://www.azbil.com/press/200624.html

Participation in the Shonan International Marathon

Azbil Corporation sponsored the 14th Shonan International Marathon held on December 1, 2019. The azbil Group has participated in this marathon since the first time the race was run. Since the beginning, we have been a leader of Eco Friendship and promoted efforts to lighten the environmental impact of this marathon.

This year, over 220 azbil Group employees ran in the race while 70 Group employees from all across Japan and their family members, including employees at overseas companies, served as volunteers.

Eco Runner created to raise awareness of the environment among the runners

Please visit the link below for more information.
https://www.azbil.com/corporate/pr/sponsorship/shonan-marathon.html

azbil Honey Bee Club

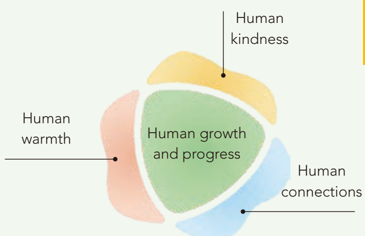
The azbil Honey Bee Club has around 1,100 employees and officers of the azbil Group as its members. A distinct feature of the club is the ability of members to apply for support of activities. The destination of the donation is determined by a vote. Azbil Corporation supports the club in the form of matching donations for activities that members themselves participate. In fiscal year 2019, the club provided a total of ¥6.7 million to 43 organizations. As a new initiative in the tenth year of the club, it sponsored 30 external organizations for a total of ¥2.57 million based on a member votes.

Please visit the link below for more information.
https://www.azbil.com/csr/contribution-to-society/mitsubachi.html

March, the azbil Honey Bee Club's mascot

Azbil Yamatake General Foundation

The Azbil Yamatake General Foundation was established with the aim of providing systems and educational opportunities for children, who represent our future, to 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 year 2019, it expanded its activities to Kanagawa Prefecture. Also, the foundation donated to the central community chest (designating Kanagawa Prefecture) and Ashinaga, organizations which support students and families who are in a vulnerable social position, such as single-parent families or students who lost education opportunities due to the spread of COVID-19.



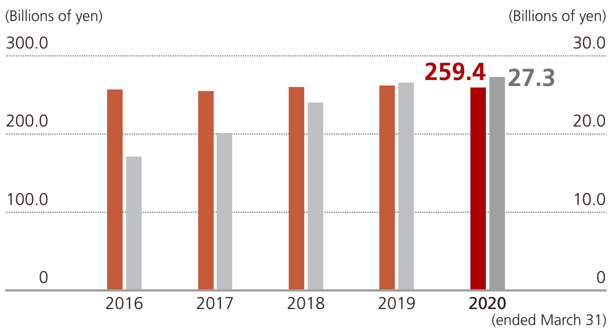
Azbil Yamatake General Foundation Symbol

Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

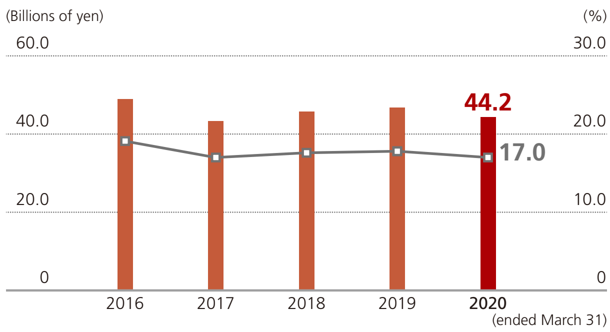
Financial Highlights

Net Sales, Operating Income



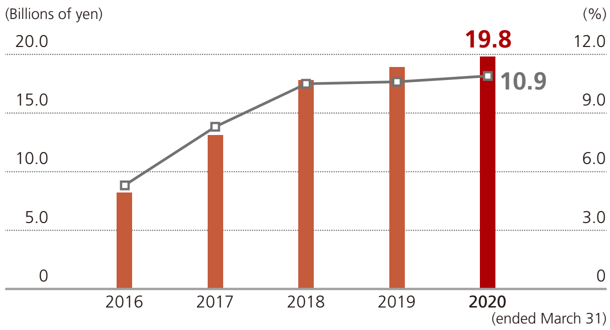
Net sales (left scale)
Operating income (right scale)

Overseas Sales, Overseas Sales/Net Sales



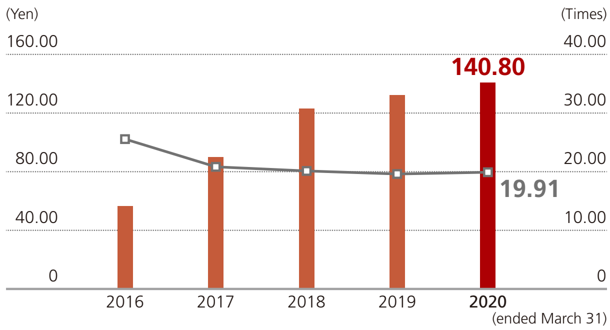
Overseas sales (left scale)
Overseas sales/Net sales (right scale)

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



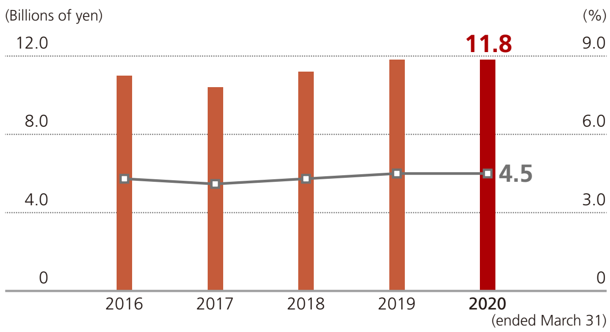
Net income attributable to the owners of the parent (left scale)
Return on equity (ROE) (right scale)

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



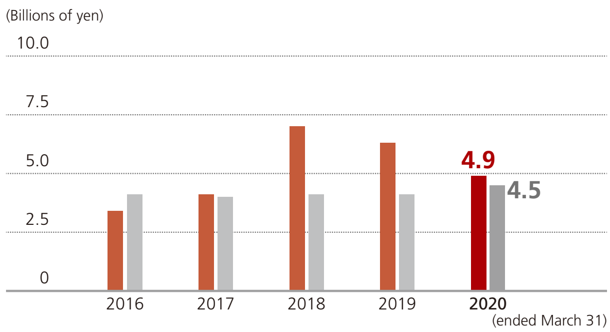
Net income per share (EPS) (left scale)
Price earnings ratio (PER) (right scale)

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



R&D expenses (left scale)
R&D expenses/Net sales ratio (right scale)

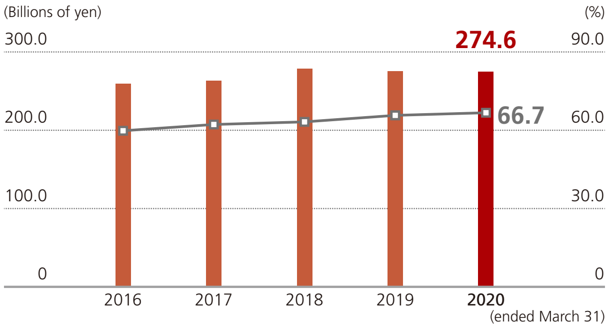
Capital Expenditure, Depreciation



Capital expenditure
Depreciation

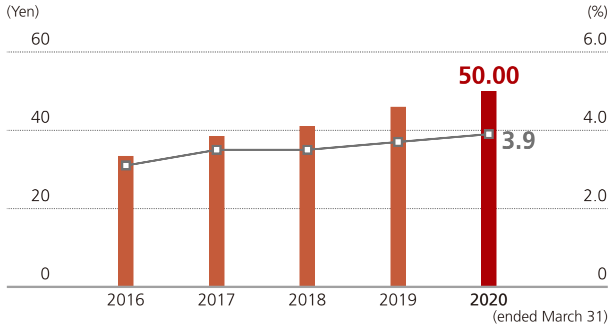
The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018.
Figures for net income per share (EPS) and dividends per share have been recalculated to reflect the number of shares after the stock split.

Total Assets, Shareholders' Equity/Total Assets



Total assets (left scale)
Shareholders' equity/Total assets (right scale)

Dividends per Share, Dividend on Equity (DOE)

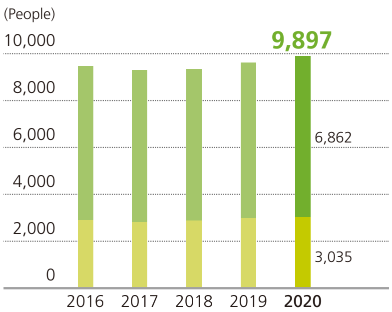


Dividends per share (left scale)
Dividend on equity (DOE) (right scale)

Non-Financial Highlights

Number of Employees

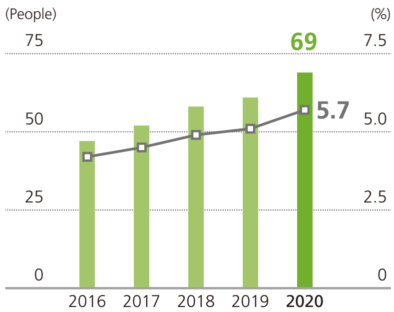
(as of March 31)



Number of domestic employees
Number of overseas employees

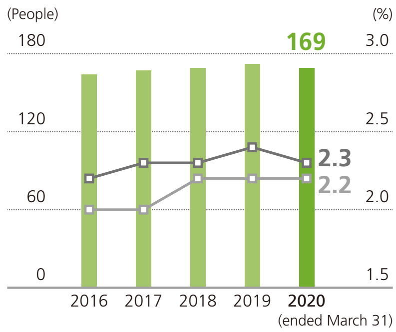
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions

Azbil Corporation (as of April 1)



Number of female employees in managerial or specialist positions (left scale)
Ratio of female employees in managerial or specialist positions (right scale)

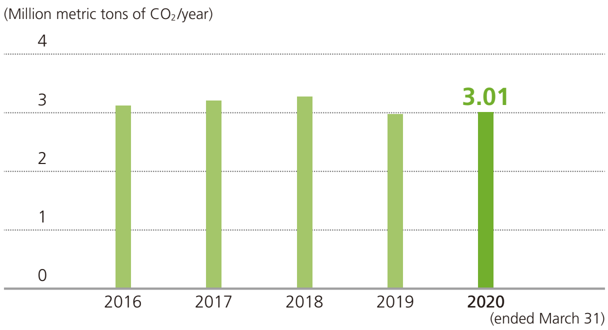
Ratio of Employees with Disabilities to Total Workforce



Number of employees with disabilities (left scale)
Ratio of employees with disabilities to total workforce (right scale)
Statutory employment rate (right scale)

Effective Reduction of CO_2 at Customers' Sites

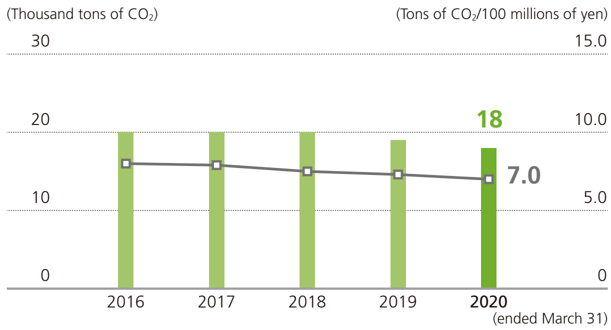
Azbil Corporation and its overseas subsidiaries



* Estimations method for the fiscal year ended March 31, 2019 is based on third-party review.

CO_2 Emissions (Scope 1+2) and CO_2 Emissions per Unit Sales

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



CO_2 emissions (left scale)
CO_2 emissions per unit sales (right scale)

11-Year Key Finanial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

	2010	2011	2012	2013
Financial information				
Financial Results (for the year):				
Net sales	212,213	219,216	223,499	227,585
(Overseas sales)*1			19,837	22,956
Gross profit	76,420	79,714	80,840	77,872
Selling, general and administrative expenses	64,035	64,818	66,492	64,461
Operating income	12,385	14,896	14,348	13,411
Net income attributable to owners of the parent	6,242	7,928	8,519	8,309
Capital expenditure	2,704	3,351	3,010	3,121
Depreciation	4,751	4,460	4,027	3,621
R&D expenses	8,640	8,953	8,816	7,824
Cash Flows (for the year):				
Net cash provided by operating activities	15,714	15,223	5,634	15,010
Net cash provided by (used in) investing activities	1,960	(2,276)	(3,549)	(12,716)
Free cash flow	17,674	12,947	2,085	2,294
Net cash used in financing activities	(6,757)	(8,001)	(6,393)	(2,487)
Financial Position (at year-end):				
Total assets*2	218,472	217,501	223,476	243,419
Interest-bearing debt	15,190	11,848	10,230	17,920
Shareholders' equity	127,669	129,605	133,565	139,042
Net assets	129,278	131,362	135,077	141,197
Per Share Data*3:				
Net income (yen)	42.26	53.67	57.67	56.25
Net assets (yen)	864.32	877.43	904.24	941.33
Cash dividends (yen)	31.00	31.50	31.50	31.50
Financial Statement Related Ratio:				
Gross profit/Net sales (%)	36.0	36.4	36.2	34.2
SG&A expenses/Net sales (%)	30.2	29.6	29.8	28.3
Operating income/Net sales (%)	5.8	6.8	6.4	5.9
R&D expenses/Net sales (%)	4.1	4.1	3.9	3.4
Shareholders' equity/Total assets (%)*2	58.4	59.6	59.8	57.1
Return on equity (ROE) (%)	5.0	6.2	6.5	6.1
Dividend on equity (DOE) (%)	3.6	3.6	3.5	3.4
Dividend payout ratio (%)	73.4	58.7	54.6	56.0
Debt-equity ratio	0.12	0.09	0.08	0.13
Non-Financial information				
CO_2 Emissions (Scope 1+2) (Metric tons of CO_2)*4	27,460	26,678	23,549	22,890
Number of Employees(People)	8,220	8,215	8,331	9,585
Number of Domestic Employees	7,151	7,063	7,056	7,085
Number of Overseas Employees	1,069	1,152	1,275	2,500
Number of Female Employees in Managerial or Specialist Positions (People)	17	22	23	29
Ratio of Female Employees in Managerial or Specialist Positions (%)	1.6	2.1	2.1	2.6
Ratio of Employees with Disabilities to Total Workforce (%)*5	1.93	2.19	2.08	2.10

*1 The Company has disclosed overseas sales figures since fiscal year 2012, when overseas sales first accounted for more than 10% of consolidated net sales. The figure for fiscal year 2011 (¥19,837 million), shown as a comparison information, reflects the aggregate of sales in the same regions used for overseas sales calculations in fiscal year 2012 and thereafter.
*2 Effective from the beginning of fiscal year 2018, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. Figures for total assets and shareholders' equity/total assets in fiscal year 2017 have been changed retrospectively to reflect the amended standard as a comparison information.
*3 The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Per share data are based on the number of shares after the stock split.

(Millions of yen)

2014	2015	2016	2017	2018	2019	2020
248,417	254,469	256,890	254,811	260,384	262,055	259,411
46,135	46,756	48,991	43,380	45,797	46,710	44,195
86,550	89,884	91,089	91,492	97,481	102,338	103,642
72,646	74,546	73,953	71,347	73,454	75,648	76,386
13,904	15,337	17,136	20,145	24,027	26,690	27,256
7,669	7,169	8,268	13,154	17,890	18,951	19,793
5,303	6,302	3,413	4,160	7,038	6,363	4,934
3,723	3,785	4,148	4,075	4,112	4,167	4,462
8,767	10,124	11,012	10,446	11,262	11,897	11,788
15,836	13,698	11,073	19,949	19,481	16,111	29,812
(10,670)	(13,472)	4,262	(9,061)	(48)	(4,075)	(4,171)
5,166	226	15,334	10,889	19,433	12,036	25,641
(6,940)	(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	(18,768)
253,448	265,719	259,127	263,317	273,805	275,518	274,559
17,687	16,673	12,605	11,175	10,686	10,028	8,576
143,316	158,273	155,006	163,822	175,996	181,143	183,190
144,978	160,294	156,966	165,752	177,963	183,098	185,302
51.93	48.53	56.36	89.78	123.08	132.03	140.80
970.28	1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	1,313.17
31.50	31.50	33.50	38.50	41.00	46.00	50.00
34.8	35.3	35.5	35.9	37.4	39.1	40.0
29.2	29.3	28.8	28.0	28.2	28.9	29.4
5.6	6.0	6.7	7.9	9.2	10.2	10.5
3.5	4.0	4.3	4.1	4.3	4.5	4.5
56.5	59.6	59.8	62.2	64.3	65.7	66.7
5.4	4.8	5.3	8.3	10.5	10.6	10.9
3.3	3.1	3.1	3.5	3.5	3.7	3.9
60.7	64.9	59.4	42.9	33.3	34.8	35.5
0.12	0.11	0.08	0.07	0.06	0.06	0.05
22,295	21,577	20,650	20,242	19,610	19,125	18,130
9,712	9,408	9,464	9,290	9,328	9,607	9,897
7,026	6,679	6,551	6,463	6,444	6,618	6,862
2,686	2,729	2,913	2,827	2,884	2,989	3,035
33	35	40	47	52	58	61
3.0	3.2	3.6	4.2	4.5	4.9	5.1
2.11	2.20	2.18	2.26	2.29	2.35	2.32

*4 Scope 1: Direct Greenhouse Gas (GHG) emissions from a business (from fuel burning, industrial process)
Scope 2: Indirect Greenhouse Gas (GHG) emissions from using electricity, heat, or steam provided by another business

*5 Includes: Azbil Corporation, Azbil Yamatake Friendly Co., Ltd., Azbil Kimmon Co., Ltd., Azbil Trading Co., Ltd., Azbil TA Co., Ltd. Azbil Trading Co., Ltd. and Azbil Kimmon Co., Ltd. from 2011 and Azbil TA Co., Ltd. from 2015 were consolidated as group companies.

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2020	2019	2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 74,744	¥ 68,134	$ 685,720
Marketable securities (Note 4)	13,700	13,306	125,688
Notes and accounts receivable:			
Trade (Note 14)	85,245	93,748	782,067
Other	1,746	1,565	16,022
Allowance for doubtful receivables	(376)	(379)	(3,449)
Inventories (Note 5)	25,339	24,914	232,470
Prepaid expenses and other current assets	8,792	8,619	80,664
Total current assets	209,190	209,907	1,919,182
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,708	6,660	61,543
Buildings and structures (Notes 6 and 7)	47,638	44,324	437,046
Machinery and equipment (Note 6)	18,601	18,671	170,658
Furniture and fixtures (Note 6)	20,263	20,292	185,898
Lease assets (Note 13)	2,337	240	21,436
Construction in progress (Note 6)	462	2,894	4,236
Total	96,009	93,081	880,817
Accumulated depreciation	(67,791)	(66,115)	(621,938)
Net property, plant and equipment	28,218	26,966	258,879
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	19,865	21,425	182,245
Investments in and advances to unconsolidated subsidiaries and associated companies	336	418	3,086
Deposits	2,952	3,016	27,081
Deferred tax assets (Note 10)	4,287	4,278	39,326
Software (Note 6)	4,165	4,530	38,212
Other assets	5,546	4,978	50,882
Total investments and other assets	37,151	38,645	340,832
TOTAL	¥ 274,559	¥ 275,518	$ 2,518,893

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2020	2019	2020
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 8,197	¥ 9,498	$ 75,199
Current portion of long-term debt (Notes 7 and 14)	433	482	3,975
Notes and accounts payable:			
Trade (Note 14)	38,482	40,102	353,047
Other	1,751	1,954	16,068
Income taxes payable	6,699	7,667	61,460
Accrued bonuses	10,830	10,599	99,358
Other accrued expenses and current liabilities	16,284	16,670	149,390
Total current liabilities	82,676	86,972	758,497
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,611	640	14,780
Liability for retirement benefits (Note 8)	2,322	2,096	21,305
Deferred tax liabilities (Note 10)	181	182	1,664
Provision for stock payment	1,319	988	12,100
Other long-term liabilities	1,148	1,542	10,532
Total long-term liabilities	6,581	5,448	60,381
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 9):			
Common stock—authorized, 559,420,000 shares; issued, 145,200,884 shares	10,523	10,523	96,539
Capital surplus	11,671	11,671	107,071
Retained earnings	165,055	160,325	1,514,273
Treasury stock—at cost, 5,699,112 shares in 2020 and 5,291,816 shares in 2019	(13,740)	(11,952)	(126,059)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,843	9,727	81,135
Deferred (loss) gain on derivatives under hedge accounting	(28)	4	(265)
Foreign currency translation adjustments	893	936	8,193
Defined retirement benefit plans	(27)	(91)	(249)
Total	183,190	181,143	1,680,638
Noncontrolling interests	2,112	1,955	19,377
Total equity	185,302	183,098	1,700,015
TOTAL	¥ 274,559	¥ 275,518	$ 2,518,893

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥ 259,411	¥ 262,055	$ 2,379,922
COST OF SALES	155,769	159,717	1,429,076
Gross profit	103,642	102,338	950,846
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	76,386	75,648	700,791
Operating income	27,256	26,690	250,055
OTHER INCOME (EXPENSES):			
Interest income	168	150	1,540
Dividend income	599	552	5,495
Interest expense	(142)	(135)	(1,303)
Foreign currency exchange (loss) gain	(128)	249	(1,171)
Loss on sales of property, plant, equipment and others—net	(46)	(143)	(424)
Gain on sales of investment securities—net (Note 4)	776	2,219	7,123
Loss on impairment of long-lived assets (Note 6)	(22)	(87)	(202)
Loss on abolishment of retirement benefit plan (Note 8)	(243)	(3,211)	(2,232)
Loss on valuation of shares of subsidiaries and associates	(42)		(390)
Others—net (Note 11)	(41)	159	(372)
Other income (expenses)—net	879	(247)	8,064
INCOME BEFORE INCOME TAXES	28,135	26,443	258,119
INCOME TAX EXPENSE (BENEFIT) (Note 10):			
Current	7,620	8,643	69,906
Deferred	313	(1,416)	2,867
Total income tax expense	7,933	7,227	72,773
NET INCOME	20,202	19,216	185,346
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(409)	265	(3,756)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,793	¥ 18,951	$ 181,590

	Yen		U.S. Dollars (Note 1)
	2020	2019*	2020
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 140.80	¥ 132.03	$ 1.29
Cash dividends applicable to the year	50.00	46.00	0.46

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 20,202	¥ 19,216	$ 185,346
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized loss on available-for-sale securities	(884)	(3,179)	(8,109)
Deferred loss on derivatives under hedge accounting	(33)	(42)	(299)
Foreign currency translation adjustments	(58)	(967)	(537)
Defined retirement benefit plans	64	1,666	589
Total other comprehensive income	(911)	(2,522)	(8,356)
COMPREHENSIVE INCOME	¥ 19,291	¥ 16,694	$ 176,990
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 18,897	¥ 16,486	$ 173,376
Noncontrolling interests	394	208	3,614

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding*	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2018	145,074	¥ 10,523	¥ 11,670	¥ 147,729	¥ (6,966)	¥ 12,906	¥ 45	¥ 1,837	¥ (1,749)	¥ 175,995	¥ 1,968	¥ 177,963
Net income attributable to owners of the parent				18,951						18,951		18,951
Cash dividends, ¥46 per share*				(6,355)						(6,355)		(6,355)
Change in ownership interest of parent due to transactions with noncontrolling interests			1							1		1
Purchase of treasury stock	(1,873)				(5,003)					(5,003)		(5,003)
Disposal of treasury stock	8				17					17		17
Net change in the year						(3,179)	(41)	(901)	1,658	(2,463)	(13)	(2,476)
BALANCE, MARCH 31, 2019	143,209	10,523	11,671	160,325	(11,952)	9,727	4	936	(91)	181,143	1,955	183,098
Cumulative effects of changes in accounting policies				(62)						(62)		(62)
Restated balance	143,209	10,523	11,671	160,263	(11,952)	9,727	4	936	(91)	181,081	1,955	183,036
Net income attributable to owners of the parent				19,793						19,793		19,793
Cash dividends, ¥50 per share				(6,888)						(6,888)		(6,888)
Purchase of treasury stock	(3,718)				(9,923)					(9,923)		(9,923)
Disposal of treasury stock	11				22					22		22
Retirement of treasury stock			(8,113)		8,113							
Transfer from retained earnings to capital surplus			8,113	(8,113)								
Net change in the year						(884)	(32)	(43)	64	(895)	157	(738)
BALANCE, MARCH 31, 2020	139,502	¥ 10,523	¥ 11,671	¥ 165,055	¥ (13,740)	¥ 8,843	¥ (28)	¥ 893	¥ (27)	¥ 183,190	¥ 2,112	¥ 185,302

* Shares and per share figures have been restated, as appropriate, to reflect a two for one stock split effected on October 1, 2018.

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2019	$ 96,539	$ 107,071	$ 1,470,875	$ (109,653)	$ 89,244	$ 34	$ 8,585	$ (836)	$ 1,661,859	$ 17,935	$ 1,679,794
Cumulative effects of changes in accounting policies			(572)						(572)		(572)
Restated balance	96,539	107,071	1,470,303	(109,653)	89,244	34	8,585	(836)	1,661,287	17,935	1,679,222
Net income attributable to owners of the parent			181,590						181,590		181,590
Cash dividends, $0.46 per share			(63,188)						(63,188)		(63,188)
Purchase of treasury stock				(91,043)					(91,043)		(91,043)
Disposal of treasury stock				205					205		205
Retirement of treasury stock		(74,432)		74,432							
Transfer from retained earnings to capital surplus		74,432	(74,432)								
Net change in the year					(8,109)	(299)	(392)	587	(8,213)	1,442	(6,771)
BALANCE, MARCH 31, 2020	$ 96,539	$ 107,071	$ 1,514,273	$ (126,059)	$ 81,135	$ (265)	$ 8,193	$ (249)	$ 1,680,638	$ 19,377	$ 1,700,015

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 28,135	¥ 26,443	$ 258,119
Adjustments for:			
Income taxes—paid	(8,664)	(7,324)	(79,489)
Depreciation and amortization	4,462	4,167	40,935
Reversal of doubtful receivables	(296)	(277)	(2,714)
Increase in accrued bonuses	248	263	2,274
Foreign currency exchange loss (gain)	135	(148)	1,238
Loss on sales of property, plant, equipment and others—net	46	143	424
Gain on sales and valuation of investment securities—net	(776)	(2,219)	(7,123)
Loss on impairment of long-lived assets	22	87	202
Loss on abolishment of retirement benefit plan	243	3,211	2,232
Loss on valuation of shares of subsidiaries and associates	42		390
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	8,557	(3,018)	78,504
Increase in inventories	(428)	(1,395)	(3,925)
Decrease in notes and accounts payable	(1,563)	(1,006)	(14,340)
Increase (decrease) in liability for retirement benefits	64	(3,306)	587
Decrease (increase) in net defined benefit assets	3	(227)	28
Decrease in accrued payments due to change in retirement benefit plan		(764)	
Increase in provision for stock payment	354	350	3,245
Decrease in other assets	114	91	1,041
(Decrease) increase in other liabilities	(860)	1,041	(7,890)
Others—net	(26)	(1)	(237)
Total adjustments	1,677	(10,332)	15,382
Net cash provided by operating activities	29,812	16,111	273,501
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	63	84	577
Purchases of property, plant and equipment	(3,781)	(5,706)	(34,690)
Purchases of intangible assets	(908)	(940)	(8,330)
Proceeds from sales of investment securities	1,108	2,838	10,162
Purchases of investment securities	(6)	(11)	(59)
Proceeds from sales of beneficiary securities of trust	9,224	10,649	84,622
Purchases of beneficiary securities of trust	(9,353)	(10,198)	(85,810)
Proceeds from sales of marketable securities	33,806	27,200	310,146
Purchases of marketable securities	(34,200)	(27,900)	(313,761)
Purchase of investments in capital of subsidiaries		(28)	
Others—net	(124)	(63)	(1,134)
Net cash used in investing activities	(4,171)	(4,075)	(38,277)
FORWARD	¥ 25,641	¥ 12,036	$ 235,224
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(1,178)	(293)	(10,805)
Proceeds from long-term debt	300	11	2,752
Repayment of long-term debt	(442)	(53)	(4,052)
Purchase of treasury stock	(9,923)	(5,003)	(91,042)
Cash dividends paid	(6,888)	(6,354)	(63,188)
Dividends paid to noncontrolling interests	(232)	(210)	(2,132)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation		(5)	
Others—net	(405)	(117)	(3,715)
Net cash used in financing activities	(18,768)	(12,024)	(172,182)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(263)	(518)	(2,408)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,610	(506)	60,634
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,134	68,640	625,086
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 74,744	¥ 68,134	$ 685,720

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥109 to $1, the approximate rate of exchange as of March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2020, include the accounts of Azbil and its 47 (48 in 2019) significant subsidiaries (together, the "azbil Group").

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

Investments in 1 (2 in 2019) associated companies are accounted for by the equity method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Additional Information)

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

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

(2) Azbil's stock remaining in the trust
Regarding the accounting treatments for the trust contract, Azbil has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issue Task Force No. 30, March 26, 2015), and Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of Azbil's stock in the trust is ¥3,924 million ($36,004 thousand) for 1,977,024 shares as of March 31, 2020, and ¥3,947 million for 1,988,258 shares as of March 31, 2019.

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

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

As for capitalized lease assets related to finance leases that do not transfer ownership of leased property, the azbil Group applies the straight-line method using the lease term as the useful life and a residual value of zero.

Foreign consolidated subsidiaries prepare their financial statements in accordance with IFRS. As stated in Note 3, "Accounting Change," they have adopted IFRS 16, Leases (hereafter referred to as "IFRS 16") starting from the year ended March 31, 2020. Under IFRS 16 in principle, lessees record all leases as assets and liabilities on their balance sheets, where the right-of-use assets recorded as assets are subject to depreciation and amortization under the straight-line method. Lease transactions under IFRS 16 are classified as "Financing Leases as a Lessee" in Note 13, "Leases."

All other leases are accounted for as operating leases.

n. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2020 and 2019, was ¥130 million ($1,196 thousand) and ¥131 million, respectively.

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

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

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

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

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

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

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

t. Per Share Information—Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

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

On October 1, 2018, Azbil effected a two-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors' meeting held on August 30, 2018. All prior-year share and per share figures have been restated to reflect the impact of the stock split and to provide data on a basis comparable to the year ended March 31, 2019. Such restatements include calculations regarding Azbil's weighted-average number of common shares, net income per share, and cash dividends per share.

The weighted-average number of shares of common stock used in the computation was 140,579,440 shares for 2020 and 143,535,250 shares for 2019.

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

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

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

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

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

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

v. New Accounting Pronouncements

Azbil and Domestic Subsidiaries

—Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020)
—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 of March 31, 2020)
—Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 of March 31, 2020)

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

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

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

—Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019)
—Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 of July 4, 2019)
—Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 of July 4, 2019)
—Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019)
—Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 of March 31, 2020)

(1) Overview
To improve comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter, "Accounting Standard for Fair Value Measurement, etc.") have been developed as guidance on how to measure fair value. Accounting Standard for Fair Value Measurement, etc. will be applied in determining the fair value of the following items:

- Financial instruments set forth in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes set forth "Accounting Standard for Measurement of Inventories"

Additionally, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised and notes to the breakdown, etc. of the fair value of financial instruments by level and other items have been established.

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

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

—Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24 of March 31, 2020)

(1) Overview
This standard is intended to provide an overview of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(2) Schedule date of adoption
This standard will be applied for the fiscal year ending on March 31, 2021.

—Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 of March 31, 2020)

(1) Overview
This standard requires to disclose information that enhances the understanding of the users of the financial statements, regarding the figures recorded in the financial statements for the current fiscal year based on accounting estimates that have a significant impact on the financial statements for the next fiscal year.

(2) Schedule date of adoption
This standard will be applied for the fiscal year ending on March 31, 2021.

3. ACCOUNTING CHANGE

Subsidiaries which apply IFRS have adopted IFRS 16 starting from the year ended March 31, 2020. Accordingly, lessees recognize all leases, in principle, as assets and liabilities on the balance sheet. In adopting IFRS 16, in accordance with transitional measures, the subsidiaries recorded an adjustment to retained earnings as the cumulative effect of this change at the beginning of the year ended March 31, 2020.

As a result, in the consolidated balance sheet as of March 31, 2020, "Lease assets" and "Accumulated depreciation" under property, plant and equipment, "Current portion of long-term debt" under current liabilities, and "Long-term debt" under long-term liabilities increased by ¥2,070 million ($18,987 thousand), ¥1,007 million ($9,238 thousand), ¥280 million ($2,570 thousand), and ¥846 million ($7,760 thousand), respectively.

The effect of this change on the consolidated statement of income is immaterial.

As the cumulative effect was reflected in equity at the beginning of the year ended March 31, 2020, the beginning balance of retained earnings decreased by ¥62 million ($567 thousand) in the consolidated statement of changes in equity.

In addition, in the consolidated statement of cash flows, cash flows from operating activities increased by ¥285 million ($2,618 thousand), and cash flows from financing activities decreased by the same amount.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Negotiable deposits	¥ 13,700	¥ 13,306	$ 125,688
Total	¥ 13,700	¥ 13,306	$ 125,688
Noncurrent:			
Equity securities	¥ 19,855	¥ 21,412	$ 182,151
Other	10	13	94
Total	¥ 19,865	¥ 21,425	$ 182,245

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2020 and 2019, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2020				2019				2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥ 4,630	¥ 14,769	¥ 102	¥ 19,297	¥ 4,954	¥ 15,902	¥ 10	¥ 20,846	$ 42,480	$ 135,491	$ 936	$ 177,035
Certificate of deposit	4,700			4,700	4,700			4,700	43,119			43,119
Trust fund investments and other	9,000			9,000	8,500			8,500	82,569			82,569
Other					106			106				

The information for available for sale securities whose fair values are not readily determinable as of March 31, 2020 and 2019, is disclosed in Note 14.

The information for available for sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2020			2019			2020		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥ 1,108	¥ 780	¥ 4	¥ 2,838	¥ 2,220	¥ 2	$ 10,162	$ 7,164	$ 41
Other	106						972		

The impairment loss on valuation of shares of subsidiaries and associates for the year ended March 31, 2020, were ¥42 million ($390 thousand).

5. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Merchandise	¥ 1,128	¥ 1,258	$ 10,345
Finished products	4,385	4,571	40,230
Work in process	7,640	7,418	70,093
Raw materials	12,186	11,667	111,802
Total	¥ 25,339	¥ 24,914	$ 232,470

6. LONG-LIVED ASSETS

The azbil Group recognized impairment losses for the years ended March 31, 2020 and 2019, as follows:

		Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020
Azbil TA Co., Ltd.	Buildings and structures		¥ 4	
	Land		17	
	Subtotal		21	
Azbil Kimmon Co., Ltd.	Machinery and equipment, etc.	¥ 5	35	$ 47
	Furniture and fixtures	17	31	155
	Subtotal	22	66	202
Total		¥ 22	¥ 87	$ 202

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

For the year ended March 31, 2020, as a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥22 million ($202 thousand) to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was measured on the basis of value in use, and future cash flows from operating activities were expected to be negative. Therefore value in use was calculated as zero.

For the year ended March 31, 2019, Azbil TA Co., Ltd., a consolidated subsidiary of Azbil decided to sell land and buildings for office relocation. As a result, the carrying amount of the assets was written down by ¥21 million to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was calculated on the basis of net realizable value, evaluated based on the estimated price if sold.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥66 million to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 7.9%.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2020 and 2019, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 7.5% as of March 31, 2020, and from 0% to 6.0% as of March 31, 2019.

Long-term debt as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 5.7% in 2020 and 0.0% to 4.6% in 2019—Unsecured	¥ 380	¥ 530	$ 3,482
Obligations under finance leases	1,664	592	15,273
Total	2,044	1,122	18,755
Less current portion	(433)	(482)	(3,975)
Long-term debt, less current portion	¥ 1,611	¥ 640	$ 14,780

As of March 31, 2020, azbil had an unused line of credit amounting to ¥30,000 million ($275,229 thousand), of which ¥10,000 million ($91,743 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($183,486 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2020, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 433	$ 3,975
2022	329	3,018
2023	259	2,373
2024	225	2,066
2025	494	4,535
2026 and thereafter	304	2,788
Total	¥ 2,044	$ 18,755

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

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

8. RETIREMENT AND PENSION PLANS

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

In addition to the plans above, certain subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid System.

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

For the year ended March 31, 2020, certain domestic consolidated subsidiaries will transfer from lump-sum payment plans as defined benefit pension plans to defined contribution plans on August 1, 2020, and the estimated loss related to this transfer was recorded as the loss on abolishment of retirement benefit plan in other expenses. Also, for the year ended March 31, 2019, regarding defined benefit corporate pension plans for the pension beneficiaries (i.e., closed pension plans) associated with Azbil and a domestic consolidated subsidiary, final settlement of retirement benefit plans for accounting purposes was completed, and the loss related to this settlement was recorded as the loss on abolishment of retirement benefit plan in other expenses. These are in accordance with the following two documents issued by the ASBJ: “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (ASBJ Practical Issues Task Force No. 2).

Azbil and certain subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members. The liability for retirement benefits at March 31, 2020 and 2019, for directors and Audit & Supervisory Board members is ¥148 million ($1,358 thousand) and ¥120 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 5,281	¥ 15,758	$ 48,453
Current service cost	488	483	4,479
Interest cost	39	36	354
Actuarial (gains) losses	(13)	25	(116)
Benefits paid	(457)	(1,550)	(4,194)
Decrease due to the final settlement of the defined benefit pension plan		(9,292)	
Estimated increase due to transfer to the defined contribution pension plans	201		1,848
Others	8	(179)	69
Balance at end of year	¥ 5,548	¥ 5,281	$ 50,893

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 3,313	¥ 10,198	$ 30,399
Expected return on plan assets		446	3
Actuarial gains (losses)		(342)	2
Contributions from the employer	97	81	888
Contributions to the retirement benefit trust		3,000	
Benefits paid	(22)	(921)	(209)
Decrease due to the final settlement of the defined benefit pension plan		(9,133)	
Others	(10)	(16)	(97)
Balance at end of year	¥ 3,378	¥ 3,313	$ 30,986

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 3,902	¥ 3,758	$ 35,798
Plan assets	(3,378)	(3,313)	(30,986)
Total	524	445	4,812
Unfunded defined benefit obligation	1,646	1,523	15,095
Net liability arising from defined benefit obligation	¥ 2,170	¥ 1,968	$ 19,907

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥ 2,174	¥ 1,976	$ 19,947
Asset for retirement benefits	(4)	(8)	(40)
Net liability arising from defined benefit obligation	¥ 2,170	¥ 1,968	$ 19,907

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 488	¥ 483	$ 4,479
Interest cost	39	36	354
Expected return on plan assets		(446)	(3)
Recognized actuarial losses	37	261	340
Amortization of prior service cost			
Others	123	184	1,132
Net periodic benefit costs	¥ 687	¥ 518	$ 6,302
Loss on abolishment of retirement benefit plan	¥ 243	¥ 3,211	$ 2,232

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost		¥ 1	
Actuarial losses	¥ 91	2,396	$ 838
Total	¥ 91	¥ 2,397	$ 838

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized actuarial gains	¥ (46)	¥ (137)	$ (422)
Total	¥ (46)	¥ (137)	$ (422)

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Cash and cash equivalents	100%	100%
Others	0	0
Total	100%	100%

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

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

(8) Assumptions used for the years ended March 31, 2020 and 2019, are set forth as follows:

	2020	2019
Discount rate	0.9%	0.9%
Expected rate of return on plan assets	0.0	4.5

9. EQUITY

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

a. Dividends

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

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.5% for the year ended March 31, 2020, and 30.5% for the year ended March 31, 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Pension and severance costs	¥ 1,837	¥ 1,929	$ 16,858
Accrued expenses	3,981	4,086	36,519
Depreciation	1,448	1,401	13,282
Loss on impairment of long-lived assets	200	200	1,833
Allowance for doubtful receivables	87	146	800
Tax loss carryforwards	1,968	1,976	18,057
Others	2,860	2,640	26,241
Total of tax loss carryforwards and temporary differences	12,381	12,378	113,590
Less valuation allowance for tax loss carryforwards	(1,855)	(1,499)	(17,022)
Less valuation allowance for temporary differences	(736)	(647)	(6,748)
Total valuation allowance	(2,591)	(2,146)	(23,770)
Deferred tax assets	9,790	10,232	89,820
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,464	4,842	40,953
Special advanced depreciation	839	883	7,698
Others	201	229	1,845
Deferred tax liabilities	5,504	5,954	50,496
Net deferred tax assets	¥ 4,286	¥ 4,278	$ 39,324

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	Millions of Yen						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards			**¥ 58**	**¥ 127**	**¥ 93**	**¥ 1,690**	**¥ 1,968**
Less valuation allowances for tax loss carryforwards			**(58)**	**(108)**	**(93)**	**(1,596)**	**(1,855)**
Net deferred tax assets relating to tax loss carryforwards				**19**		**94**	**113**

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 2	¥ 5	¥ 3	¥ 59	¥ 140	¥ 1,767	¥ 1,976
Less valuation allowances for tax loss carryforwards	(2)	(5)	(3)		(3)	(1,486)	(1,499)
Net deferred tax assets relating to tax loss carryforwards				59	137	281	477

	Thousands of U.S. Dollars						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards			**$ 532**	**$ 1,169**	**$ 854**	**$ 15,502**	**$ 18,057**
Less valuation allowances for tax loss carryforwards			**(532)**	**(992)**	**(854)**	**(14,644)**	**(17,022)**
Net deferred tax assets relating to tax loss carryforwards				**177**		**858**	**1,035**

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million ($1,633 thousand) at March 31, 2020, and ¥181 million at March 31, 2019.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	**30.5%**	30.5%
Expenses not deductible for income tax purposes	**0.7**	0.8
Tax credits for qualified expenses	**(3.7)**	(3.4)
Change of valuation allowance	**1.4**	(0.3)
Others—net	**(0.7)**	(0.3)
Actual effective tax rate	**28.2%**	27.3%

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2020 and 2019, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	**2020**
Expenses for office relocation	**¥ (54)**	¥ (8)	**$ (495)**
Other	**13**	167	**123**
Total	**¥ (41)**	¥ 159	**$ (372)**

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,788 million ($108,149 thousand) and ¥11,897 million for the years ended March 31, 2020 and 2019, respectively.

13. LEASES

(1) Financing Leases as a Lessee

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

Total rental expenses under the above leases for the years ended March 31, 2020 and 2019, were ¥5,561 million ($51,021 thousand) and ¥5,629 million, respectively.

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

The minimum rental commitments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 748	¥ 1,030	$ 6,866
Due after one year	284	1,858	2,608
Total	¥ 1,032	¥ 2,888	$ 9,474

(2) Financing Leases as a Lessor

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

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

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

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

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

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

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

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

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

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

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

(3) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2020		
	2020			2019					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 74,744	¥ 74,744		¥ 68,134	¥ 68,134		$ 685,720	$ 685,720	
Notes and accounts receivable—trade	85,245	85,245		93,748	93,748		782,067	782,067	
Investment securities	19,297	19,297		20,846	20,846		177,035	177,035	
Total	¥ 179,286	¥ 179,286		¥ 182,728	¥ 182,728		$ 1,644,822	$ 1,644,822	
Short-term borrowings	¥ 8,197	¥ 8,197		¥ 9,498	¥ 9,498		$ 75,199	$ 75,199	
Current portion of long-term debt	433	433		482	482		3,975	3,975	
Notes and accounts payable—trade	38,482	38,482		40,102	40,102		353,047	353,047	
Long-term debt	1,611	1,612	¥ (1)	640	640		14,780	14,789	$ (9)
Total	¥ 48,723	¥ 48,724	¥ (1)	¥ 50,722	¥ 50,722		$ 447,001	$ 447,010	$ (9)

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

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

Investment Securities

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

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

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

Long-Term Debt

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

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31, 2020
	2020	2019	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 568	¥ 579	$ 5,210

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

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 74,744				$ 685,720			
Notes and accounts receivable—trade	82,905	¥ 2,296	¥ 44		760,594	$ 21,067	$ 406	
Total	¥ 157,649	¥ 2,296	¥ 44		$ 1,446,314	$ 21,067	$ 406	

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

15. DERIVATIVES

The azbil Group enters into foreign currency forward contracts to hedge currency exchange rate risk associated with trade receivables and payables denominated in foreign currencies.

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen								Thousands of U.S. Dollars			
	March 31								March 31, 2020			
	2020				2019							
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Foreign currency forward contracts:												
Selling U.S. dollars	¥ 498		¥ 9	¥ 9					$ 4,567		$ 79	$ 79
Buying U.S. dollars	309		(3)	(3)	¥ 330		¥ 2	¥ 2	2,833		(26)	(26)

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2020		
		2020			2019					
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥ 793		¥ (35)	¥ 531		¥ 5	$ 7,273		$ (323)
Selling Swedish krona	Receivables	292	¥ 3	(3)				2,683	$ 32	(32)
Selling UAE dirham	Receivables	186	50					1,704	456	3
Buying U.S. dollars	Payables	8						74		(1)

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

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

16. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (458)	¥ (2,338)	$ (4,204)
Reclassification adjustments to profit or loss	(777)	(2,219)	(7,124)
Amount before income tax effect	(1,235)	(4,557)	(11,328)
Income tax effect	351	1,378	3,219
Total	¥ (884)	¥ (3,179)	$ (8,109)
Deferred loss on derivatives under hedge accounting:			
Adjustments arising during the year	¥ (44)	¥ (56)	$ (399)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(44)	(56)	(399)
Income tax effect	11	14	100
Total	¥ (33)	¥ (42)	$ (299)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (67)	¥ (967)	$ (620)
Reclassification adjustments to profit or loss	9		83
Amount before income tax effect	(58)	(967)	(537)
Total	¥ (58)	¥ (967)	$ (537)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ 12	¥ (366)	$ 114
Reclassification adjustments to profit or loss	79	2,763	724
Amount before income tax effect	91	2,397	838
Income tax effect	(27)	(731)	(249)
Total	¥ 64	¥ 1,666	$ 589
Total other comprehensive income	¥ (911)	¥ (2,522)	$ (8,356)

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at Azbil's shareholders' meeting held on June 24, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.0 ($0.23) per share	¥ 3,537	$ 32,449

The total cash dividends approved at Azbil's shareholders' meeting held on June 24, 2020, include the dividends of ¥49 million ($453 thousand) for the stock of Azbil held by Trust & Custody Services Bank, Ltd. (Trust E) as assets in the trust of "Employee Stock Ownership Plan (J-ESOP)."

19. SEGMENT INFORMATION

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

(1) Description of Reportable Segments

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

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

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

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

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

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

	Millions of Yen							
	2020							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 123,497	¥ 92,159	¥ 43,701	¥ 259,357	¥ 54	¥ 259,411		¥ 259,411
Intersegment sales or transfers	298	997	332	1,627	6	1,633	¥ (1,633)	
Total	¥ 123,795	¥ 93,156	¥ 44,033	¥ 260,984	¥ 60	¥ 261,044	¥ (1,633)	¥ 259,411
Segment profit	¥ 14,891	¥ 10,487	¥ 1,867	¥ 27,245	¥ 6	¥ 27,251	¥ 5	¥ 27,256
Segment assets	67,962	68,153	31,054	167,169	1	167,170	107,389	274,559
Other:								
Depreciation	1,422	2,204	836	4,462		4,462		4,462
Increase in property, plant and equipment and intangible assets	1,770	2,341	823	4,934		4,934		4,934
Impairment losses of assets			22	22		22		22

	Millions of Yen							
	2019							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 119,164	¥ 98,351	¥ 44,484	¥ 261,999	¥ 56	¥ 262,055		¥ 262,055
Intersegment sales or transfers	337	1,039	356	1,732	6	1,738	¥ (1,738)	
Total	¥ 119,501	¥ 99,390	¥ 44,840	¥ 263,731	¥ 62	¥ 263,793	¥ (1,738)	¥ 262,055
Segment profit (loss)	¥ 12,421	¥ 12,211	¥ 2,061	¥ 26,693	¥ 2	¥ 26,695	¥ (5)	¥ 26,690
Segment assets	68,622	75,679	29,746	174,047		174,047	101,471	275,518
Other:								
Depreciation	1,281	2,121	765	4,167		4,167		4,167
Increase in property, plant and equipment and intangible assets	2,408	3,255	700	6,363		6,363		6,363
Impairment losses of assets		21	66	87		87		87

	Thousands of U.S. Dollars							
	2020							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 1,132,996	$ 845,496	$ 400,927	$ 2,379,419	$ 503	$ 2,379,922		$ 2,379,922
Intersegment sales or transfers	2,733	9,149	3,047	14,929	52	14,981	$ (14,981)	
Total	$ 1,135,729	$ 854,645	$ 403,974	$ 2,394,348	$ 555	$ 2,394,903	$ (14,981)	$ 2,379,922
Segment profit	$ 136,611	$ 96,210	$ 17,126	$ 249,947	$ 59	$ 250,006	$ 49	$ 250,055
Segment assets	623,506	625,254	284,899	1,533,659	9	1,533,668	985,225	2,518,893
Other:								
Depreciation	13,046	20,223	7,666	40,935		40,935		40,935
Increase in property, plant and equipment and intangible assets	16,233	21,478	7,552	45,263		45,263		45,263
Impairment losses of assets			202	202		202		202

Note: Corporate assets of ¥107,389 million ($985,225 thousand) for the year ended March 31, 2020, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

(1) Information about Products and Services

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

(2) Information by Region

(a) Sales

Millions of Yen						
2020						
Japan	Asia	China	North America	Europe	Other	Total
¥ 215,216	¥ 18,784	¥ 9,827	¥ 3,781	¥ 9,177	¥ 2,626	¥ 259,411

Millions of Yen						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 215,345	¥ 20,415	¥ 9,763	¥ 5,397	¥ 8,512	¥ 2,623	¥ 262,055

Thousands of U.S. Dollars						
2020						
Japan	Asia	China	North America	Europe	Other	Total
$ 1,974,460	$ 172,331	$ 90,154	$ 34,690	$ 84,192	$ 24,095	$ 2,379,922

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

(b) Property, plant and equipment

Millions of Yen						
2020						
Japan	Asia	China	North America	Europe	Other	Total
¥ 23,470	¥ 2,399	¥ 953	¥ 90	¥ 1,168	¥ 138	¥ 28,218

Millions of Yen						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 23,445	¥ 1,948	¥ 869	¥ 103	¥ 450	¥ 151	¥ 26,966

Thousands of U.S. Dollars						
2020						
Japan	Asia	China	North America	Europe	Other	Total
$ 215,325	$ 22,013	$ 8,741	$ 821	$ 10,716	$ 1,263	$ 258,879

(3) Information about Major Customers

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

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

March 31, 2020

Amortization of goodwill	Not applicable
Goodwill at March 31, 2020	Not applicable

March 31, 2019

Amortization of goodwill	Not applicable
Goodwill at March 31, 2019	Not applicable

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

Opinion

We have audited the consolidated financial statements of Azbil Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of
Deloitte Touche Tohmatsu Limited

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2020
(June 24, 2020 as to Note 18)

azbil Group Companies Data

Japan

- **Azbil Corporation**
  Head office: Chiyoda-ku, Tokyo
  Founded: 1906 Established: 1949
- **Azbil Trading Co., Ltd.**
  Head office: Toshima-ku, Tokyo
  Established: 1964
- **Azbil Yamatake Friendly Co., Ltd.**
  Head office: Fujisawa-shi, Kanagawa
  Established: 1998
- **Azbil Kimmon Co., Ltd.**
  Head office: Toshima-ku, Tokyo
  Founded: 1904 Established: 1948
- **Azbil Kyoto Co., Ltd.**
  Head office: Funai-gun, Kyoto
  Established: 2009
- **Azbil TA Co., Ltd.**
  Head office: Itabashi-ku, Tokyo
  Established: 1955
- **Azbil Taishin Co., Ltd.**
  Head office: Nakano-shi, Nagano
  Established: 1974
- **Tem-Tech Lab.**
  Head office: Chuo-ku, Tokyo
  Established: 1982

Overseas

- **Azbil Korea Co., Ltd.**
  Head office: Seoul
  Established: 1999
- **Azbil Taiwan Co., Ltd.**
  Head office: Taipei
  Established: 2000
- **Azbil Kimmon Technology Corporation**
  Head office: Miaoli
  Established: 2011
- **Azbil Vietnam Co., Ltd.**
  Head office: Hanoi
  Established: 2008
- **Azbil India Private Limited**
  Head office: Navi Mumbai
  Established: 2010
- **Azbil (Thailand) Co., Ltd.**
  Head office: Bangkok
  Established: 1995
- **Azbil Production (Thailand) Co., Ltd.**
  Head office: Chonburi
  Established: 2013
- **Azbil Philippines Corporation**
  Head office: Makati
  Established: 1996
- **Azbil Malaysia Sdn. Bhd.**
  Head office: Kuala Lumpur
  Established: 1999
- **Azbil Singapore Pte. Ltd.**
  Head office: Singapore
  Established: 1998
- **PT. Azbil Berca Indonesia**
  Head office: Jakarta
  Established: 1997
- **Azbil Saudi Limited**
  Head office: Dammam
  Established: 2012
- **Azbil Control Instruments (Dalian) Co., Ltd.**
  Head office: Dalian
  Established: 1994
- **Azbil Information Technology Center (Dalian) Co., Ltd.**
  Head office: Dalian
  Established: 2007
- **CECEP Building Energy Management Co., Ltd.**
  Head office: Beijing
  Established: 2012
- **Azbil Control Solutions (Shanghai) Co., Ltd.**
  Head office: Shanghai
  Established: 1994
- **Shanghai Azbil Automation Co., Ltd.**
  Head office: Shanghai
  Established: 1995
- **Yamatake Automation Products (Shanghai) Co., Ltd.**
  Head office: Shanghai
  Established: 2004
- **Azbil Hong Kong Limited**
  Head office: Hong Kong
  Established: 2000
- **Azbil North America Research and Development, Inc.**
  Head office: Santa Clara, CA, U.S.A.
  Established: 2014
- **Azbil North America, Inc.**
  Head office: Phoenix, AZ, U.S.A.
  Established: 2000
- **Azbil VorTek, LLC**
  Head office: Longmont, CO, U.S.A.
  Established: 1995
- **Azbil Mexico, S. de R.L. de C.V.**
  Head office: León
  Established: 2017
- **Azbil Brazil Limited**
  Head office: Sao Paulo
  Established: 2010
- **Azbil Europe NV**
  Head office: Zaventem, Belgium
  Established: 2001
- **Azbil Telstar, S.L.U.**
  Head office: Terrassa, Spain
  Established: 1963

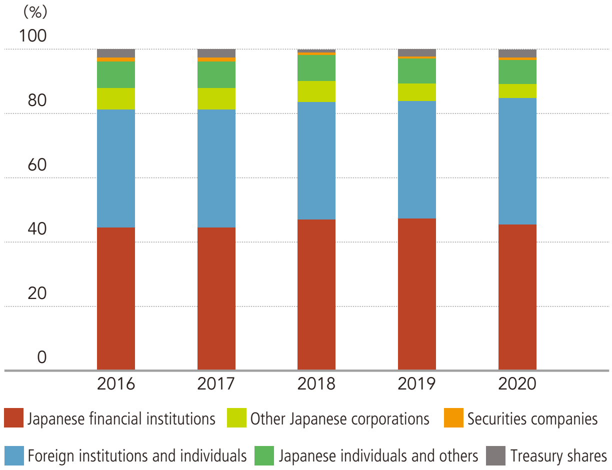
Corporate Data/Stock Information

(As of March 31, 2020)

Corporate Data

Founded	December 1, 1906	
Incorporated	August 22, 1949	
Paid-in capital	¥10,523 million	
Accounting date	March 31	
Annual shareholders' meeting	June	
Head office	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan	
Consolidated number of employees	9,897	
Stock listing	Tokyo Stock Exchange, 1st Section	
Ticker symbol number	6845	
Stock information	Shares of Common Stock Issued Share unit number Shareholders	145,200,884 100 7,348
Transfer agent	Mizuho Trust & Banking Co., Ltd.	

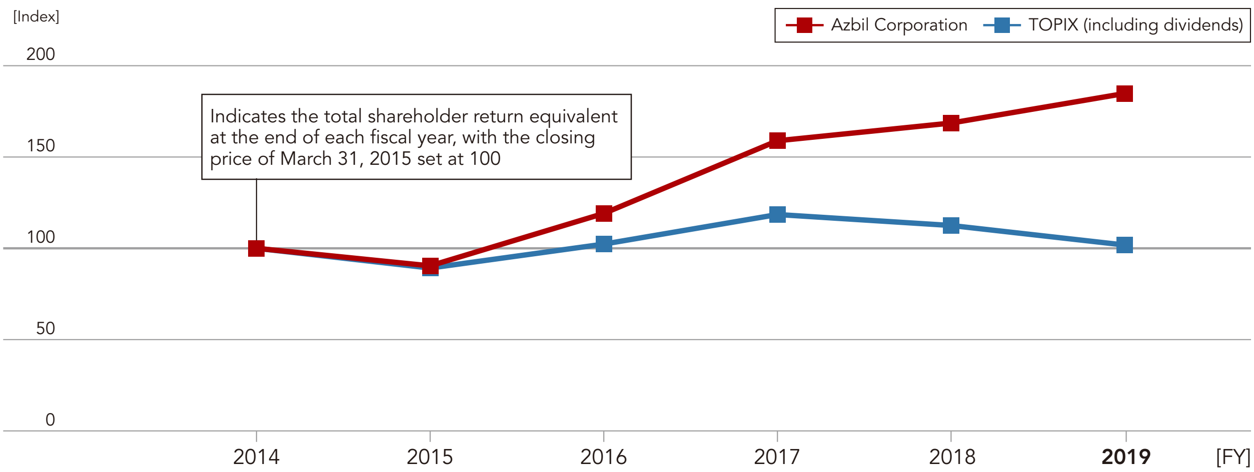
Composition of Shareholders



Major Shareholders (Top 10)

Shareholders	Number of shares held (thousands)	Percentage of Total Shares Issued (%)
Meiji Yasuda Life Insurance Company	**10,428**	**7.37**
The Master Trust Bank of Japan, Ltd. (Trust account)	**10,320**	**7.29**
SSBTC CLIENT OMNIBUS ACCOUNT	**6,943**	**4.90**
Japan Trustee Services Bank, Ltd. (Trust account)	**6,307**	**4.45**
Northen Trust CO. (AVFC) Re Fidelity Funds	**5,213**	**3.68**
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	**4,631**	**3.27**
Chase Nominees Re JASDEC Treaty Client A/C (General)	**4,243**	**2.99**
Nippon Life Insurance Company	**3,739**	**2.64**
State Street Bank and Trust Company 505025	**3,496**	**2.47**
Japan Trustee Services Bank, Ltd. (Trust account 9)	**3,459**	**2.44**

Total Shareholder Return/Common Stock Price Range



Fiscal Year	2014	2015	2016	2017	2018	**2019**
Year-end closing price (yen)	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0	**2,804.0**
Highest price (yen)	1,685.0	1,750.0	1,927.5	2,655.0	2,775.0	**3,275.0**
Lowest price (yen)	1,142.5	1,309.0	1,347.5	1,772.5	1,949.0	**2,215.0**

* On October 1, 2018, the Company implemented a 2-for-1 stock split for shares of common stock. Above figures for stock prices and total shareholder return have been recalculated to take the stock split into account.