11-Year Key Financial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Millions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	**FY2020**
Financial information											
Financial Results (for the year):											
Net sales	219,216	223,499	227,585	248,417	254,469	256,890	254,811	260,384	262,055	259,411	**246,821**
(Overseas sales)*1		19,837	22,956	46,135	46,756	48,991	43,380	45,797	46,710	44,195	**44,888**
Gross profit	79,714	80,840	77,872	86,550	89,884	91,089	91,492	97,481	102,338	103,642	**99,369**
Selling, general and administrative expenses	64,818	66,492	64,461	72,646	74,546	73,953	71,347	73,454	75,648	76,386	**73,649**
Operating income	14,896	14,348	13,411	13,904	15,337	17,136	20,145	24,027	26,690	27,256	**25,720**
Net income attributable to owners of the parent	7,928	8,519	8,309	7,669	7,169	8,268	13,154	17,890	18,951	19,793	**19,918**
Capital expenditure	3,351	3,010	3,121	5,303	6,302	3,413	4,160	7,038	6,363	4,934	**5,039**
Depreciation	4,460	4,027	3,621	3,723	3,785	4,148	4,075	4,112	4,167	4,462	**4,484**
R&D expenses	8,953	8,816	7,824	8,767	10,124	11,012	10,446	11,262	11,897	11,788	**11,182**
Cash Flows (for the year):											
Net cash provided by operating activities	15,223	5,634	15,010	15,836	13,698	11,073	19,949	19,481	16,111	29,812	**22,602**
Net cash provided by (used in) investing activities	(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	4,262	(9,061)	(48)	(4,075)	(4,171)	**284**
Free cash flow	12,947	2,085	2,294	5,166	226	15,334	10,889	19,433	12,036	25,641	**22,886**
Net cash used in financing activities	(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	(18,768)	**(6,996)**
Financial Position (at year-end):											
Total assets*2	217,501	223,476	243,419	253,448	265,719	259,127	263,317	273,805	275,518	274,559	**284,597**
Interest-bearing debt	11,848	10,230	17,920	17,687	16,673	12,605	11,175	10,686	10,028	8,576	**9,350**
Shareholders' equity	129,605	133,565	139,042	143,316	158,273	155,006	163,822	175,996	181,143	183,190	**198,191**
Net assets	131,362	135,077	141,197	144,978	160,294	156,966	165,752	177,963	183,098	185,302	**200,608**
Per Share Data*3:											
Net income (yen)	53.67	57.67	56.25	51.93	48.53	56.36	89.78	123.08	132.03	140.80	**142.77**
Net assets (yen)	877.43	904.24	941.33	970.28	1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	1,313.17	**1,420.52**
Cash dividends (yen)	31.50	31.50	31.50	31.50	31.50	33.50	38.50	41.00	46.00	50.00	**55.00**
Financial Ratios:											
Gross profit/Net sales (%)	36.4	36.2	34.2	34.8	35.3	35.5	35.9	37.4	39.1	40.0	**40.3**
SG&A expenses/Net sales (%)	29.6	29.8	28.3	29.2	29.3	28.8	28.0	28.2	28.9	29.4	**29.8**
Operating income/Net sales (%)	6.8	6.4	5.9	5.6	6.0	6.7	7.9	9.2	10.2	10.5	**10.4**
R&D expenses/Net sales (%)	4.1	3.9	3.4	3.5	4.0	4.3	4.1	4.3	4.5	4.5	**4.5**
Shareholders' equity/Total assets (%)*2	59.6	59.8	57.1	56.5	59.6	59.8	62.2	64.3	65.7	66.7	**69.6**
Return on equity (ROE) (%)	6.2	6.5	6.1	5.4	4.8	5.3	8.3	10.5	10.6	10.9	**10.4**
Dividend on equity (DOE) (%)	3.6	3.5	3.4	3.3	3.1	3.1	3.5	3.5	3.7	3.9	**4.0**
Dividend payout ratio (%)	58.7	54.6	56.0	60.7	64.9	59.4	42.9	33.3	34.8	35.5	**38.5**
Debt-equity ratio	0.09	0.08	0.13	0.12	0.11	0.08	0.07	0.06	0.06	0.05	**0.05**
Non-Financial Information											
CO_2 emissions (scopes 1+2) (metric tons of CO_2)*4	26,678	23,549	22,890	22,295	21,577	20,650	20,242	19,610	19,125	18,130	**16,754**
Number of employees (people)	8,215	8,331	9,585	9,712	9,408	9,464	9,290	9,328	9,607	9,897	**10,003**
Number of domestic employees	7,063	7,056	7,085	7,026	6,679	6,551	6,463	6,444	6,618	6,862	**6,856**
Number of overseas employees	1,152	1,275	2,500	2,686	2,729	2,913	2,827	2,884	2,989	3,035	**3,147**
Number of female employees in managerial or specialist positions (people)	22	23	29	33	35	40	47	52	58	61	**71**
Ratio of female employees in managerial or specialist positions (%)	2.1	2.1	2.6	3.0	3.2	3.6	4.2	4.5	4.9	5.1	**5.8**
Ratio of employees with disabilities to total workforce (%)*5	1.93	2.19	2.08	2.10	2.11	2.20	2.18	2.26	2.29	2.35	**2.32**

*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.

*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 2012 and Azbil TA Co., Ltd. from 2016 were consolidated as group companies.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 90,653	¥ 74,744	$ 816,691
Marketable securities (Note 4)	12,200	13,700	109,910
Notes and accounts receivable:			
Trade (Note 13)	82,143	85,245	740,023
Other	1,987	1,746	17,897
Allowance for doubtful receivables	(369)	(376)	(3,325)
Inventories (Note 5)	24,514	25,339	220,847
Prepaid expenses and other current assets	8,472	8,792	76,326
Total current assets	219,600	209,190	1,978,369
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,411	6,708	57,761
Buildings and structures	41,417	47,638	373,123
Machinery and equipment	18,520	18,601	166,850
Furniture and fixtures	20,233	20,263	182,275
Lease assets (Note 12)	2,742	2,337	24,698
Construction in progress	825	462	7,437
Total	90,148	96,009	812,144
Accumulated depreciation	(63,086)	(67,791)	(568,341)
Net property, plant and equipment	27,062	28,218	243,803
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	22,215	19,865	200,139
Investments in and advances to unconsolidated subsidiaries and associated companies	659	336	5,936
Deposits	3,059	2,952	27,562
Deferred tax assets (Note 9)	2,382	4,287	21,468
Software	4,144	4,165	37,330
Other assets	5,476	5,546	49,333
Total investments and other assets	37,935	37,151	341,768
TOTAL	¥284,597	¥274,559	$2,563,940

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥ 8,997	¥ 8,197	$ 81,053
Current portion of long-term debt (Notes 6 and 13)	462	433	4,160
Notes and accounts payable:			
Trade (Note 13)	31,951	38,482	287,855
Other	2,521	1,751	22,713
Income taxes payable	6,071	6,699	54,690
Accrued bonuses	9,989	10,830	89,989
Other accrued expenses and current liabilities	16,468	16,284	148,367
Total current liabilities	76,459	82,676	688,827
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	1,749	1,611	15,752
Liability for retirement benefits (Note 7)	1,830	2,322	16,491
Deferred tax liabilities (Note 9)	181	181	1,633
Provision for stock payment	1,635	1,319	14,730
Other long-term liabilities	2,135	1,148	19,234
Total long-term liabilities	7,530	6,581	67,840
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
EQUITY (Note 8):			
Common stock—authorized, 559,420,000 shares; issued, 145,200,884 shares	10,523	10,523	94,799
Capital surplus	11,671	11,671	105,142
Retained earnings	177,900	165,055	1,602,706
Treasury stock—at cost, 5,681,473 shares in 2021 and 5,699,112 shares in 2020	(13,709)	(13,740)	(123,505)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	11,108	8,843	100,074
Deferred gain (loss) on derivatives under hedge accounting	25	(28)	223
Foreign currency translation adjustments	699	893	6,300
Defined retirement benefit plans	(26)	(27)	(237)
Total	198,191	183,190	1,785,502
Noncontrolling interests	2,417	2,112	21,771
Total equity	200,608	185,302	1,807,273
TOTAL	¥284,597	¥274,559	$2,563,940

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥246,821	¥259,411	$2,223,613
COST OF SALES	147,452	155,769	1,328,395
Gross profit	99,369	103,642	895,218
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	73,649	76,386	663,503
Operating income	25,720	27,256	231,715
OTHER INCOME (EXPENSES):			
Interest income	131	168	1,184
Dividend income	546	599	4,928
Interest expense	(136)	(142)	(1,225)
Foreign currency exchange gain (loss)	92	(128)	826
Gain (loss) on sales of property, plant, equipment and others—net	196	(46)	1,762
Gain on sales of investment securities—net (Note 4)	1,486	776	13,388
Loss on impairment of long-lived assets		(22)	
Loss on abolishment of retirement benefit plan (Note 7)		(243)	
Loss on valuation of shares of subsidiaries and associates		(42)	
Others—net (Note 10)	(26)	(41)	(239)
Other income (expenses)—net	2,289	879	20,624
INCOME BEFORE INCOME TAXES	28,009	28,135	252,339
INCOME TAX EXPENSE (Note 9):			
Current	6,722	7,620	60,561
Deferred	890	313	8,020
Total income tax expense	7,612	7,933	68,581
NET INCOME	20,397	20,202	183,758
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(479)	(409)	(4,312)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,918	¥ 19,793	$ 179,446

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥142.77	¥140.80	$1.29
Cash dividends applicable to the year	55.00	50.00	0.50

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥20,397	¥20,202	$ 183,758
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain (loss) on available-for-sale securities	2,265	(884)	20,401
Deferred gain (loss) on derivatives under hedge accounting	53	(33)	484
Foreign currency translation adjustments	(170)	(58)	(1,540)
Defined retirement benefit plans	(9)	64	(78)
Total other comprehensive income	2,139	(911)	19,267
COMPREHENSIVE INCOME	¥22,536	¥19,291	$ 203,025
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥22,044	¥18,897	$ 198,592
Noncontrolling interests	492	394	4,433

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands	Millions of Yen				Millions of Yen						
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
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, ¥48 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
Net income attributable to owners of the parent				19,918						19,918		19,918
Cash dividends, ¥50 per share				(7,073)						(7,073)		(7,073)
Purchase of treasury stock	(1)				(6)					(6)		(6)
Disposal of treasury stock	19				37					37		37
Retirement of treasury stock												
Transfer from retained earnings to capital surplus												
Net change in the year						2,265	53	(194)	1	2,125	305	2,430
BALANCE, MARCH 31, 2021	139,520	¥10,523	¥11,671	¥177,900	¥(13,709)	¥11,108	¥25	¥699	¥(26)	¥198,191	¥2,417	¥200,608

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands of U.S. Dollars (Note 1)				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	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	$94,799	$105,142	$1,486,989	$(123,787)	$79,673	$(261)	$8,045	$(244)	$1,650,356	$19,028	$1,669,384
Net income attributable to owners of the parent			179,446						179,446		179,446
Cash dividends, $0.45 per share			(63,729)						(63,729)		(63,729)
Purchase of treasury stock				(57)					(57)		(57)
Disposal of treasury stock				339					339		339
Retirement of treasury stock											
Transfer from retained earnings to capital surplus											
Net change in the year					20,401	484	(1,745)	7	19,147	2,743	21,890
BALANCE, MARCH 31, 2021	$94,799	$105,142	$1,602,706	$(123,505)	$100,074	$223	$6,300	$(237)	$1,785,502	$21,771	$1,807,273

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
OPERATING ACTIVITIES:			
Income before income taxes	¥28,009	¥28,135	$ 252,339
Adjustments for:			
Income taxes—paid	(7,312)	(8,664)	(65,875)
Depreciation and amortization	4,484	4,462	40,394
Reversal of doubtful receivables	(7)	(296)	(65)
(Decrease) increase in accrued bonuses	(848)	248	(7,639)
Foreign currency exchange (gain) loss	(53)	135	(481)
(Gain) loss on sales of property, plant, equipment and others—net	(196)	46	(1,762)
Gain on sales and valuation of investment securities—net	(1,476)	(776)	(13,295)
Loss on impairment of long-lived assets		22	
Loss on abolishment of retirement benefit plan		243	
Loss on valuation of shares of subsidiaries and associates		42	
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	3,169	8,557	28,552
Decrease (increase) in inventories	779	(428)	7,022
Decrease in notes and accounts payable	(6,486)	(1,563)	(58,434)
(Decrease) increase in liability for retirement benefits	(485)	64	(4,368)
(Increase) decrease in net defined benefit assets		3	(2)
Increase in provision for stock payment	354	354	3,193
Decrease in other assets	395	114	3,555
Increase (decrease) in other liabilities	2,303	(860)	20,749
Others—net	(28)	(26)	(249)
Total adjustments	(5,407)	1,677	(48,704)
Net cash provided by operating activities	22,602	29,812	203,634
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	1,163	63	10,479
Purchases of property, plant and equipment	(3,260)	(3,781)	(29,372)
Purchases of intangible assets	(1,227)	(908)	(11,057)
Proceeds from sales of investment securities	2,373	1,108	21,375
Purchases of investment securities		(6)	(1)
Proceeds from sales of beneficiary securities of trust	8,786	9,224	79,150
Purchases of beneficiary securities of trust	(8,136)	(9,353)	(73,293)
Proceeds from sales of marketable securities	23,700	33,806	213,514
Purchases of marketable securities	(22,200)	(34,200)	(200,000)
Purchases of shares of subsidiaries and associates	(451)		(4,067)
Proceeds from liquidation of subsidiaries and associates	147		1,321
Others—net	(611)	(124)	(5,493)
Net cash provided by (used in) investing activities	284	(4,171)	2,556
FORWARD	¥22,886	¥25,641	$ 206,190

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
FORWARD	¥22,886	¥25,641	$ 206,190
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	726	(1,178)	6,541
Proceeds from long-term debt		300	
Repayment of long-term debt	(28)	(442)	(250)
Proceeds from sales of treasury stock			1
Purchases of treasury stock	(6)	(9,923)	(57)
Cash dividends paid	(7,073)	(6,888)	(63,729)
Dividends paid to noncontrolling interests	(192)	(232)	(1,728)
Others—net	(423)	(405)	(3,812)
Net cash used in financing activities	(6,996)	(18,768)	(63,034)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	19	(263)	170
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,909	6,610	143,326
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	74,744	68,134	673,365
CASH AND CASH EQUIVALENTS, END OF YEAR	¥90,653	¥74,744	$ 816,691

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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 2020 consolidated financial statements to conform to the classifications used in 2021.

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 ¥111 to $1, the approximate rate of exchange as of March 31, 2021. 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, 2021, include the accounts of Azbil and its 47 (47 in 2020) 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.

Investment in 1 (1 in 2020) associated company is 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 certain subsidiaries 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 ¥3,887 million ($35,016 thousand) for 1,958,084 shares as of March 31, 2021, and ¥3,924 million for 1,977,024 shares as of March 31, 2020.

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, and 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 12, "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, 2021 and 2020, was ¥135 million ($1,221 thousand) and ¥130 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.

The weighted-average number of shares of common stock used in the computation was 139,511,724 shares for 2021 and 140,579,440 shares for 2020.

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 26, 2021)

—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.

3. ACCOUNTING CHANGE

Not applicable

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Certificate of deposit		¥ 4,700	
Trust fund investments and other	¥12,200	9,000	$ 109,910
Total	¥12,200	¥13,700	$ 109,910
Noncurrent:			
Equity securities	¥22,205	¥19,855	$ 200,045
Other	10	10	94
Total	¥22,215	¥19,865	$ 200,139

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2021 and 2020, were as follows:

	Millions of Yen				Millions of Yen				Thousands of U.S. Dollars			
	2021				2020				2021			
	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	¥ 3,759	¥17,906	¥2	¥21,663	¥4,630	¥14,769	¥102	¥19,297	$ 33,864	$ 161,315	$18	$ 195,162
Certificate of deposit					4,700			4,700				
Trust fund investments and other	12,200			12,200	9,000			9,000	109,910			109,910
Other												

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2021 and 2020, is disclosed in Note 13.

The information for available-for-sale securities which were sold during the years ended March 31, 2021 and 2020, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2021			2020			2021		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥2,373	¥1,573	¥87	¥1,108	¥780	¥4	$21,375	$14,171	$783
Other				106					

The impairment loss on valuation of shares of subsidiaries and associates for the year ended March 31, 2021, were ¥10 million ($93 thousand).

5. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Merchandise	¥ 1,070	¥ 1,128	$ 9,642
Finished products	4,291	4,385	38,652
Work in process	6,987	7,640	62,946
Raw materials	12,166	12,186	109,607
Total	¥24,514	¥25,339	$ 220,847

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2021 and 2020, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 6.0% as of March 31, 2021, and from 0% to 7.5% as of March 31, 2020.

Long-term debt as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 5.7% in 2021 and 0.0% to 5.7% in 2020—Unsecured	¥ 353	¥ 380	$ 3,177
Obligations under finance leases	1,858	1,664	16,735
Total	2,211	2,044	19,912
Less current portion	(462)	(433)	(4,160)
Long-term debt, less current portion	¥1,749	¥1,611	$15,752

As of March 31, 2021, Azbil had an unused line of credit amounting to ¥30,000 million ($270,270 thousand), of which ¥10,000 million ($90,090 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($180,180 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2021, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 462	$ 4,160
2023	368	3,314
2024	293	2,640
2025	537	4,834
2026	128	1,154
2027 and thereafter	423	3,810
Total	¥2,211	$19,912

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.

7. 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, 2021, certain domestic consolidated subsidiaries have transferred from lump-sum payment plans as defined benefit pension plans to defined contribution plans on August 1, 2020. This is 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, 2021 and 2020, for directors and Audit & Supervisory Board members is ¥170 million ($1,531 thousand) and ¥148 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥5,548	¥5,281	$49,976
Current service cost	335	488	3,019
Interest cost	21	39	186
Actuarial losses (gains)	23	(12)	205
Benefits paid	(239)	(457)	(2,150)
Decrease with transfer to the defined contribution	(3,409)		(30,710)
Estimated increase due to transfer to the defined contribution pension plans		201	
Others	(182)	8	(1,642)
Balance at end of year	¥2,097	¥5,548	$18,884

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥3,378	¥3,313	$30,428
Expected return on plan assets	2		14
Actuarial gains	1		11
Contributions from the employer	84	97	753
Benefits paid	(29)	(22)	(260)
Decrease with transfer to the defined contribution	(3,000)		(27,027)
Others	5	(10)	47
Balance at end of year	¥ 441	¥3,378	$ 3,966

(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
	2021	2020	2021
Funded defined benefit obligation	¥ 559	¥3,902	$ 5,031
Plan assets	(441)	(3,378)	(3,966)
Total	118	524	1,065
Unfunded defined benefit obligation	1,538	1,646	13,853
Net liability arising from defined benefit obligation	¥1,656	¥2,170	$14,918

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥1,660	¥2,174	$14,960
Asset for retirement benefits	(4)	(4)	(42)
Net liability arising from defined benefit obligation	¥1,656	¥2,170	$14,918

(4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥335	¥488	$3,019
Interest cost	21	39	186
Expected return on plan assets	(2)		(14)
Recognized actuarial losses	12	37	112
Others	65	123	581
Net periodic benefit costs	¥431	¥687	$3,884
Loss on abolishment of retirement benefit plan		¥243	

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial (gains) losses	¥(8)	¥91	$(73)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains	¥(54)	¥(46)	$(487)

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Cash and cash equivalents	99%	100%
Others	1	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, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	1.5%	0.9%
Expected rate of return on plan assets	0.1	0.0

8. 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.

9. 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, 2021, and 30.5% for the year ended March 31, 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Pension and severance costs	¥ 705	¥ 1,837	$ 6,348
Accrued expenses	4,364	3,981	39,311
Depreciation	1,405	1,448	12,662
Loss on impairment of long-lived assets	200	200	1,800
Allowance for doubtful receivables	76	87	690
Tax loss carryforwards	1,966	1,968	17,715
Others	2,948	2,860	26,560
Total of tax loss carryforwards and temporary differences	11,664	12,381	105,086
Less valuation allowance for tax loss carryforwards	(1,868)	(1,855)	(16,833)
Less valuation allowance for temporary differences	(697)	(736)	(6,278)
Total valuation allowance	(2,565)	(2,591)	(23,111)
Deferred tax assets	9,099	9,790	81,975
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	5,447	4,464	49,071
Special advanced depreciation	1,015	839	9,147
Others	255	201	2,289
Deferred tax liabilities	6,717	5,504	60,507
Net deferred tax assets	¥ 2,382	¥ 4,286	$ 21,468

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

	Millions of Yen						
March 31, 2021	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		¥55	¥109	¥89	¥8	¥1,705	¥1,966
Less valuation allowances for tax loss carryforwards		(55)	(96)	(89)	(8)	(1,620)	(1,868)
Net deferred tax assets relating to tax loss carryforwards			13			85	98
March 31, 2020							
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

	Thousands of U.S. Dollars						
March 31, 2021	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		$500	$985	$800	$72	$15,358	$17,715
Less valuation allowances for tax loss carryforwards		(500)	(871)	(800)	(72)	(14,590)	(16,833)
Net deferred tax assets relating to tax loss carryforwards			114			768	882

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, 2021, and ¥181 million at March 31, 2020.

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, 2021 and 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.6	0.7
Tax credits for qualified expenses	(2.6)	(3.7)
Change of valuation allowance	(0.3)	1.4
Others—net	(1.0)	(0.7)
Actual effective tax rate	27.2%	28.2%

10. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2021 and 2020, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Expenses for office relocation	¥(114)	¥(54)	$(1,029)
Loss on valuation of investment securities	(10)		(93)
Gain on reversal of environmental expenses	21		189
Other	77	13	694
Total	¥ (26)	¥(41)	$ (239)

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,182 million ($100,735 thousand) and ¥11,788 million for the years ended March 31, 2021 and 2020, respectively.

12. 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, 2021 and 2020, were ¥5,631 million ($50,727 thousand) and ¥5,561 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, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥274	¥ 748	$2,469
Due after one year	42	284	374
Total	¥316	¥1,032	$2,843

(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.

13. 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. Moreover, the Azbil Group conducts ongoing reviews of the shareholdings at the meetings of the Board of Directors by regularly examining whether the shareholdings contribute to improvement in medium- to long-term corporate value, as well as periodically verifying the rationality of the shareholdings such as business and financial returns from the perspective whether the benefits of the shareholdings are commensurate with capital costs etc.

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 14 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 14 for the details of fair value for derivatives.

(*a*) *Fair value of financial instruments*

	Millions of Yen			Millions of Yen			Thousands of U.S. Dollars		
	March 31			March 31			March 31		
	2021			2020			2021		
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 90,653	¥ 90,653		¥ 74,744	¥ 74,744		$ 816,691	$ 816,691	
Notes and accounts receivable—trade	82,143	82,143		85,245	85,245		740,023	740,023	
Investment securities	21,663	21,663		19,297	19,297		195,162	195,162	
Total	¥194,459	¥194,459		¥179,286	¥179,286		$1,751,876	$1,751,876	
Short-term borrowings	¥ 8,997	¥ 8,997		¥ 8,197	¥ 8,197		$ 81,053	$ 81,053	
Current portion of long-term debt	462	462		433	433		4,160	4,160	
Notes and accounts payable—trade	31,951	31,951		38,482	38,482		287,855	287,855	
Long-term debt	1,749	1,749		1,611	1,612	¥(1)	15,752	15,752	
Total	¥ 43,159	¥ 43,159		¥ 48,723	¥ 48,724	¥(1)	$ 388,820	$ 388,820	

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.

(*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
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥552	¥568	$4,977

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

March 31, 2021	Millions of Yen				Thousands of U.S. Dollars			
	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	¥ 90,653				$ 816,691			
Notes and accounts receivable—trade	78,923	¥3,213	¥7	—	711,017	$28,946	$60	—
Total	¥169,576	¥3,213	¥7	—	$1,527,708	$28,946	$60	—

Please see Note 6 for annual maturities of long-term debt and Note 12 for obligations under finance leases.

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 14.

14. 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				Millions of Yen				Thousands of U.S. Dollars			
	March 31				March 31				March 31			
	2021				2020				2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:												
Selling U.S. dollars	¥659		¥(27)	¥(27)	¥498		¥9	¥9	$5,939		$(242)	$(242)
Buying U.S. dollars	251		(2)	(2)	309		(3)	(3)	2,265		(22)	(22)
Buying Japanese yen	3								23			

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen			Millions of Yen			Thousands of U.S. Dollars		
		March 31			March 31			March 31		
		2021			2020			2021		
	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	¥926	¥102	¥ 40	¥793		¥ (35)	$8,338	$923	$364
Selling Swedish krona	Receivables	114		(7)	292	¥ 3	(3)	1,025		(61)
Selling UAE dirham	Receivables	30		2	186	50		266		16
Buying U.S. dollars	Payables	84		(1)	8			755		(6)
Buying UAE dirham	Payables	30		(2)				266		(16)

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.

15. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥4,703	¥ (458)	$42,368
Reclassification adjustments to profit or loss	(1,455)	(777)	(13,111)
Amount before income tax effect	3,248	(1,235)	29,257
Income tax effect	(983)	351	(8,856)
Total	¥2,265	¥ (884)	$20,401
Deferred gain (loss) on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 71	¥ (44)	$ 645
Reclassification adjustments to profit or loss			
Amount before income tax effect	71	(44)	645
Income tax effect	(18)	11	(161)
Total	¥ 53	¥ (33)	$ 484
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (170)	¥ (67)	$ (1,540)
Reclassification adjustments to profit or loss		9	
Amount before income tax effect	(170)	(58)	(1,540)
Total	¥ (170)	¥ (58)	$ (1,540)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (20)	¥ 12	$ (185)
Reclassification adjustments to profit or loss	12	79	112
Amount before income tax effect	(8)	91	(73)
Income tax effect	(1)	(27)	(5)
Total	¥ (9)	¥ 64	$ (78)
Total other comprehensive income	¥2,139	¥ (911)	$19,267

17. SUBSEQUENT EVENTS

a. *Repurchase of Treasury Shares*

The following repurchase of own shares pursuant to Article 156 and Article 165, paragraph 3 of the Companies Act was approved at Azbil's Board of Directors' meeting held on May 14, 2021:

(a) Reason for share repurchase:	Taking into consideration business results and the outlook for future business performance, Azbil aims not only to improve capital efficiency but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
(b) Type of stock to be repurchased:	Common stock of Azbil
(c) Total number of shares to be repurchased:	Up to 3,000,000 shares (2.1% of total number of common stock issued, excluding treasury shares)
(d) Total amount of repurchase:	Up to ¥10,000 million ($90,090 thousand)
(e) Period of repurchase:	From May 17, 2021 to September 30, 2021
(f) Method of repurchase:	Market transactions on the Tokyo Stock Exchange

b. *Appropriation of Retained Earnings*

The following appropriation of retained earnings at March 31, 2021, was approved at Azbil's shareholders' meeting held on June 24, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.0 ($0.27) per share	¥4,244	$38,237

The total cash dividends approved at Azbil's shareholders' meeting held on June 24, 2021, include the dividends of ¥59 million ($529 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)."

18. 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 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							
	2021							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥117,198	¥86,908	¥42,662	¥246,768	¥53	¥246,821		¥246,821
Intersegment sales or transfers	324	871	281	1,476	1	1,477	¥ (1,477)	
Total	¥117,522	¥87,779	¥42,943	¥248,244	¥54	¥248,298	¥ (1,477)	¥246,821
Segment profit	¥ 14,023	¥10,251	¥ 1,434	¥ 25,708	¥ 7	¥ 25,715	¥ 5	¥ 25,720
Segment assets	65,743	62,785	31,872	160,400	1	160,401	124,196	284,597
Other:								
Depreciation	1,420	2,209	855	4,484		4,484		4,484
Increase in property, plant and equipment and intangible assets	1,892	2,335	812	5,039		5,039		5,039

	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

	Thousands of U.S. Dollars				Thousands of U.S. Dollars			
	2021				2021			
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$1,055,839	$782,954	$384,340	$2,223,133	$480	$2,223,613		$2,223,613
Intersegment sales or transfers	2,918	7,845	2,533	13,296	14	13,310	$ (13,310)	
Total	$1,058,757	$790,799	$386,873	$2,236,429	$494	$2,236,923	$ (13,310)	$2,223,613
Segment profit	$ 126,334	$ 92,352	$ 12,925	$ 231,611	$ 61	$ 231,672	$ 43	$ 231,715
Segment assets	592,287	565,630	287,131	1,445,048	8	1,445,056	1,118,884	2,563,940
Other:								
Depreciation	12,792	19,898	7,704	40,394		40,394		40,394
Increase in property, plant and equipment and intangible assets	17,042	21,036	7,319	45,397		45,397		45,397

Note: Corporate assets of ¥124,196 million ($1,118,884 thousand) for the year ended March 31, 2021, 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						
2021						
Japan	Asia	China	North America	Europe	Other	Total
¥201,933	¥18,819	¥11,025	¥3,755	¥9,050	¥2,239	¥246,821

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

Thousands of U.S. Dollars						
2021						
Japan	Asia	China	North America	Europe	Other	Total
$1,819,220	$169,544	$99,326	$33,827	$81,528	$20,168	$2,223,613

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

(*b*) *Property, plant and equipment*

Millions of Yen						
2021						
Japan	Asia	China	North America	Europe	Other	Total
¥22,237	¥2,095	¥1,097	¥63	¥1,451	¥119	¥27,062

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

Thousands of U.S. Dollars						
2021						
Japan	Asia	China	North America	Europe	Other	Total
$ 200,337	$ 18,872	$ 9,885	$ 570	$ 13,069	$ 1,070	$ 243,803

(**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, 2021

Amortization of goodwill	Not applicable
Goodwill at March 31, 2021	Not applicable

March 31, 2020

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

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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, 2021, 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, 2021, 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.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
Deloitte Touche Tohmatsu Limited

<table>
<tr><th colspan="2">Revenue recognition for construction contracts</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>The Group sells automatic control systems, which utilize measurement technology and control technology, in the building markets and factory / industrial plant markets. The Group engages in construction contracts for its product wherein revenue is recognized using the percentage-of-completion method as per the cost proportional method, if the outcome of a construction contract can be reliably estimated, in accordance with the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan, or "ASBJ" Statement No. 15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007) as stated in Notes 2. "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, o. Construction Contracts," to the consolidated financial statements. With regard to the calculation of stage of completion, the cost proportional method is used, which calculates the stage of completion by the proportion of construction costs incurred for work performed by the balance sheet date to the estimated total construction costs.

The construction costs mainly consist of (1) costs of in-house products such as measuring instruments and central monitoring systems, (2) subcontracted costs such as wiring, and (3) direct labor costs for site management. In principle, costs incurred to date and estimated total construction costs are controlled by job order costing per project order.

The percentage-of-completion method recognizes revenue by reference to the stage of completion of a contract and is not supported by the objective fact such as inspection by the customer, therefore, in establishing estimated total construction costs and aggregating costs incurred, which are the basis for calculating the stage of completion of the contract, the following situations could be anticipated. As establishing estimated total construction costs and aggregating costs incurred are especially important for our audit of the consolidated financial statements for the current year, we determined they are the key audit matter.</td>
<td>Our audit procedures for both costs incurred and estimated total construction costs, which are the basis for calculating the stage of completion of the contract, included the following, among others:

• We evaluated the effectiveness of internal controls over management's estimations of total construction costs, including those controls over whether work hours, unit labor costs, and expenses are appropriately estimated in alignment with design specifications and the construction environment in the working budget meetings.

• We obtained estimates of total construction costs by each cost item from the beginning of construction, and tested for any irregularities in the changes in total construction costs by each cost item throughout the year to determine whether management accurately estimated total construction costs. We also inquired of the appropriate personnel in-charge about the changes of estimated total costs by each cost item to understand if management estimated for any unreasonable changes.

• We inspected the monthly construction progress report documents and meeting minutes where important projects were discussed and business results were reported to examine whether additional costs were reflected in estimated total construction costs in a timely and appropriate manner for projects in which additional costs were expected to be incurred when a customer requires a change of specifications.

• We evaluated the effectiveness of internal controls over the aggregation of costs incurred. In particular, we examined whether the appropriate approval authorities evaluated if costs incurred in construction were consistent with monthly estimated costs by each cost item. Regarding the costing systems for both product costs and costs per project order, with the assistance of our IT specialists, we obtained an understanding of the costing process, then examined whether the system logic is appropriate, whether the system is appropriately designed that the actual cost is aggregated, and whether the system settings are consistent with the stipulated segregation of duty to prevent fraudulent cost transfers to other project order.

• In order to determine that costs incurred are appropriately aggregated, we inspected cost transfer application forms to identify any irregular cost transfers and tested details of costs incurred by understanding the progress of in-house product installations and wiring construction etc., inspecting monthly construction progress reports and examining consistency between the initial and most recent estimated total construction costs regarding projects with significant progress near the year-end.</td></tr>
</table>

<table>
<tr><td>• There are cases where it is difficult to select an appropriate construction method and determine the details of the specifications depending on the details of the design such as where relatively new technology is used to execute a construction project. In those cases, the amount of recorded revenue could be misstated because the total construction costs are not appropriately estimated and the calculated stage of completion of the contract could not represent the actual stage of completion of the contract.

• The calculated stage of completion of the contract could be erroneously high and revenue could be overstated, when additional costs are expected to be incurred due to the request to change its specifications from customers but are not reflected in the estimated total contraction costs in a timely and appropriate manner.

• Due to the inclusion of costs which are not related to the project order, the calculated stage of completion of the contract could be erroneously high and revenue could be overstated.</td>
<td>• We tested the consistency of subcontracting costs incurred to date against the respective project orders via confirmation letters sent to subcontractors confirming (1) the order details, including the name of the project, (2) the amount of orders received by the subcontractors, and (3) the amount already inspected which the subcontractors recognized.

• We involved the significant consolidated subsidiary's auditor to assist us in performing the following procedures for the projects applying the percentage-of-completion method.

—Understanding of the operational flow including IT systems

—Understanding of relevant internal controls

—Risk assessment

—Evaluation of the validity of estimated total construction costs and an individual examination of aggregated costs incurred to date.</td></tr>
</table>

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.

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 judgment. 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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 18, 2021
(June 24, 2021 as to Note 17)