Materiality

Environmental, societal, and business structural changes—resulting from such factors as the need for action on climate change and the SDGs, as well as the declining birth rate, the aging population, and changes in the way people work—have led to the emergence of various new issues that need to be addressed. At the same time, automation—which can serve in a variety of ways, such as mechanization, labor saving, energy saving, and resource conservation—is playing an increasingly essential role in solving these challenges, further enhancing its value and the expectations placed upon it. Amid these changes, in August 2022, to achieve sustainable growth for the azbil Group, we incorporated double materiality (a concept that evaluates materiality from two aspects: financial evaluation of the impact of the environment and society on the company, and the impact of corporate activities on the environment and society) from the perspective of both opportunity and risk, based on the azbil Group philosophy. We have identified 10 material issues across five areas to be tackled over the long term. In FY2023, with advice from external experts, the following process for identifying materiality was reassessed, and its validity was reaffirmed. The materiality identification process for the azbil Group can be broadly divided into three steps.

The diagram on the right side of the page shows materiality and our aim, based on each materiality identified from issues of particular importance to the azbil Group and/or stakeholders, as well as the azbil Group's initiatives. Among those items not included in the 10 material issues mentioned above, natural capital (e.g., biodiversity, water resources) is of relatively high priority.

Materiality identification process

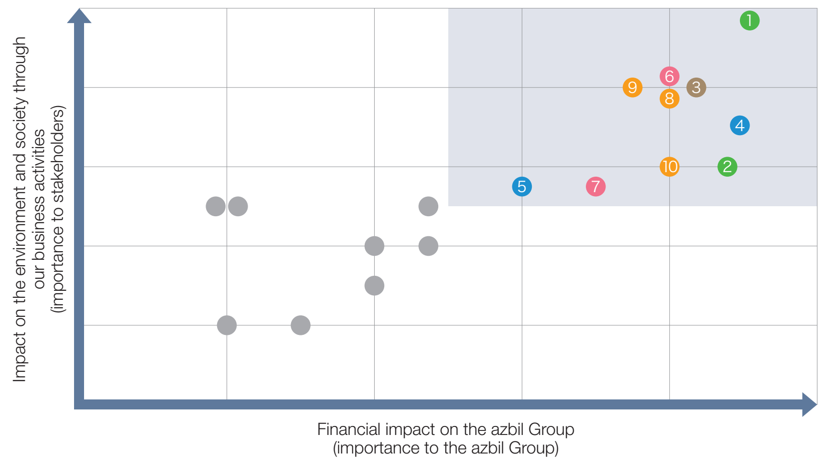
STEP 1 Based on various guidelines (e.g., SDGs, GRI Standards, SASB Standards), societal issues were comprehensively identified as materiality candidates.

STEP 2 For the materiality candidates, we identified opportunities and risks from the perspective of double materiality and evaluated their level of importance, taking into account several key issues that emerged through stakeholder engagement and advice from external experts. Across five areas, we have identified materiality as 10 material issues of particular importance to the azbil Group and/or stakeholders.

STEP 3 Following conferral with external experts, the Management Meeting and Board of Directors confirmed the validity of the 10 material issues and reaffirmed the azbil Group's materiality in FY2023.

Going forward, we will further assess and validate our approach in light of changes in the environment, society, and business structures, as well as their financial impact. To appropriately understand the effects and dependencies, as well as business risks and opportunities associated with natural capital, we are advancing nature-positive initiatives aligned with the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). In August 2024, Azbil registered as a TNFD Adopter and declared our commitment to report on the results of our initiatives in FY2025 in accordance with the disclosure recommendations.

Evaluation of importance



Materiality		Our aim
Environment	① Climate change	Help to solve environmental problems to achieve a decarbonized society
	② Resource recycling	Provide environmentally friendly products and services
Innovation	③ Innovation	Continuously seek new forms of automation to achieve a safe and comfortable society
Social	④ Supply chain	Share CSR values (e.g., environment, human rights) within the supply chain
	⑤ Contribution to local communities	Contribute to viable communities through community-based action
Human resources	⑥ Human rights, safety, and health	Promote corporate activities based on "human-centered" values, and health and well-being management
	⑦ Learning and employee development	Develop the corporate culture as "an organization that never stops learning" and strengthen the foundation for education
Governance	⑧ Product safety and quality	Provide high-quality products and services that prioritize customer safety and security
	⑨ Corporate governance	Continuously raise enterprise value through highly transparent management
	⑩ Compliance	Fulfill our social responsibilities based on high corporate ethics

Materiality and the Essential Goals of the azbil Group for the SDGs

Based on the identified materiality, we have formulated specific targets for FY2030 for seven material issues, related to our business and general corporate activities, within the domain of the SDGs as the essential goals of the azbil Group for the SDGs. For the other three material issues, which are fundamental obligations that a company must fulfill to be a member of society, we have established specific goals as part of our CSR activities. We are promoting sustainability management through various initiatives to achieve these goals.

Materiality		Essential goals of the azbil Group for the SDGs				
		Essential goals		Targets	FY2024 results	References
Environment	Climate change Resource recycling	I	Environment and Energy	**Solving energy-related problems (toward a decarbonized society)** ■Effective reduction of CO_2 at customers' sites: **3.40 million metric tons of CO_2/year***1 ■Reduction targets in GHG*2 emissions - **55% reduction***3 in GHG emissions from our business activities - **33% reduction***4, *5 in GHG emissions across the entire supply chain **Environmental preservation (realization of integrated environmental corporate management*6)** ■Creation and provision of eco-friendly products and services - Design all new products to meet **the azbil Group's own sustainability standards***7 - Increase the number of **skilled professionals***8 for supporting sustainable services*9 provided by the azbil Group **to a total of 1,800***10—**triple the number** in FY2021 ■Effective use of natural resources*11 and reduction of waste generation - Design all new products to be **100% recyclable***12	· Effective reduction of CO_2 at customers' sites: 2.72 million metric tons of CO_2/year · GHG emissions (Scope 1 + 2): 56% reduction from FY2017 (base year) · GHG emissions (Scope 3): 25% reduction from FY2017 (base year) · The azbil Group's unique sustainable design implemented for all new products · Total of 943 employees with professional skills · 100% recyclable design implemented for nearly 10% of new products, and 75% recyclable design for nearly 80% of new products	p.59- Environment
Innovation	Innovation	II	New Automation	**So that customers can benefit from sustainable production sites and workplace environments—as well as greater safety, comfort, and fulfillment—we will solve occasional issues as required by society and create added value through advanced measurement, a data-driven approach, and autonomy in production spaces, office spaces (buildings) and living spaces.** ■We will achieve a state of resilience to changes in the business environment at **8,000 business sites***13 by 2030. ■We will provide environments that support stress-free and diverse work styles to **6 million people***14 by 2030.	Introduced a control valve maintenance support system, an online anomaly detection system, cloud-based services for large buildings, smart metering as a service, etc. · Contributed to the business environment of a total of 1,223 business sites (+296 sites YoY) · Contributed to the residential and office environments of 926,000 people (+65,000 ppl. YoY)	p.34 Control valve maintenance support system p.36 Smart metering as a serivce p.40 AI-driven navigation system for quality management
Social	Supply chain Contribution to local communities	III	Supply Chain, Social Responsibility	**Fulfilling social responsibilities with customers and business partners (expansion of azbil CSR activities aimed at sharing value)** ■Working with our business partners on achieving the SDGs as a common goal and creating **shared CSR value across the supply chain** **Invigorating local communities (contributions around our business sites)** ■Social contribution activities rooted in local communities are run at all our business sites,*15 with the **active participation of every employee**.*16	· Completed activities to reduce the risk of human rights violations at important business partners of the azbil Group, and conducting such activities at secondary business partners. Supported business partners in solving issues related to the reduction of CO_2 emissions · Promoted employee participation in sponsored events and educational support activities in neighborhoods near business sites, in Japan and overseas, and conducted collaborative activities with the Azbil Yamatake General Foundation and other organizations	p.67- Supply Chain p.87 Stakeholder Engagement

Materiality		Essential goals of the azbil Group for the SDGs			
		Essential goals	Targets	FY2024 results	References
Human resources	Human rights, safety, and health Learning and employee development	IV Health and Well-being Management, An Organization That Never Stops Learning	**Implementing health and well-being management (job satisfaction; health; and diversity, equity and inclusion)** **(Creating workplaces that allow flexible work styles and a reduction in total work hours, maintaining and promoting employees' mental and physical health, and creating opportunities for diverse personnel to demonstrate their abilities)** ■ **65% or more** employees*17 expressed satisfaction with working at azbil Group companies. ■ **Double** women's advancement points*18 by FY2024 (versus FY2017) **New targets from FY2025** ■ Percentage of female employees at managerial or specialist positions to be **10% or more***19 ■ Approximately **double** the percentage of female employees at managerial or specialist positions across the azbil Group in Japan by FY2027 (versus FY2017)*20 **Developing and strengthening "an organization that never stops learning"** **(Expanding opportunities for globally active employees to continue education and opportunities to learn with stakeholders)** ■ **65% or more** employees*17 experienced personal growth over the past year. ■ **Double** training opportunity points*21 by FY2024 (versus FY2012)	· Achieved 59% of employees who find satisfaction in working in the azbil Group · Increased women's advancement points by 2.3 times (as of April 1, 2024) · Achieved 61% of employees who have experienced personal growth over the previous year · Increased training opportunity points by 6.1 times (breakdown: in-person training: × 1.7; online training, e-learning, and others: × 9.0) Note: We achieved our initial targets for "women's advancement points" and "training opportunity points," so in FY2025, we set new targets, as shown on the left.	p.52- Human Capital
Governance	Product safety and quality Corporate governance Compliance	Fulfilling our fundamental obligations to society	■ With regard to product safety and quality, and compliance, each department sets indicators and goals directly related to business as a CSR activity plan. The plan includes compliance enhancement, strengthening of response to legal requirements, disaster prevention and business continuity planning, information leak prevention, proper accounting practices, creation of a healthy workplace, enhanced occupational health and safety, assurance of customer safety from product incidents, and respect for human rights. Progress on these initiatives is monitored through the azbil Group CSR Promotion Committee, ensuring the maintenance and improvement of such initiatives. ■ With regard to corporate governance, in 2022 the company transitioned to a three-committee board structure, and is working to ensure appropriate supervision and effectiveness under a system of a Board of Directors with a majority of outside directors and three statutory committees.		p.46 Quality Assurance p.86 Compliance and Internal Control p.77- Corporate Governance

*1 The FY2030 emission factor from electricity generation is our own estimated value based on the Japanese government's Energy Basic Plan in 2019.
*2 Greenhouse gases (e.g., CO_2)
*3 Base year: 2017
*4 Base year: 2017
*5 In October 2024, our new target to reduce GHG emissions by 33% by 2030 (compared with 2017) was certified by the SBTi.
*6 Management that integrates into business operations such environmental activities as decarbonization, resource recycling, and biodiversity conservation
*7 Design aimed at creating and providing products that contribute to solving global environmental issues (decarbonization, resource recycling, and biodiversity conservation)
*8 We have set up an in-house qualification system for employees with the following specialized skills, which are considered vital for realizing solutions to issues in our three environmental priority areas:
· Professionals licensed for network services, such as remote maintenance of large-scale buildings, energy management, and cloud services
· Certified professionals in the fields of advanced plant/factory control, energy-saving solution technologies, and valve maintenance
*9 As well as contributing, through our automation technologies, to productivity improvements and stable operations at our customers' sites, we offer field engineering services that can contribute to the realization of a sustainable society by solving environmental challenges that face our customers and society in all three of our environmental priority areas (decarbonization, resource recycling, and biodiversity conservation).
*10 Total number of qualified personnel including those who have acquired multiple professional skills (counted separately for this purpose) to adapt to emerging technological innovation in field engineering service
*11 A general term for materials and energy found in nature that can be used to support human lifestyles and production activities
*12 Design that scores 100% on the azbil Group's proprietary scale for resource recycling. Our aim is to enable proper disassembly and sorting when a product has been disposed of by the customer.
*13 As of April 2022, 530 business sites were in operation. The aim is to increase this 15-fold to 8,000 sites by 2030.
*14 Provided to 600,000 people, as of April 2022. The aim is to increase this 10-fold to 6 million people by 2030.
*15 All offices, both in Japan and overseas
*16 The azbil Group aims to participate in activities of a scale that can accommodate the total number of employees.
*17 We aim to achieve 65%, which is considered a high level, in the azbil Group's annual employee satisfaction survey conducted in Japan—or, in other words, 2/3 of all employees.
*18 Points tallied internally, with weight given based on the role, such as company executive, officer, and manager
*19 Azbil Corporation's target is for female employees in managerial or specialist positions to represent at least 10% of all employees in managerial or specialist positions.
*20 The base year for our target is FY2017 because in FY2018 we revised our personnel system to incorporate measures for women's advancement.
*21 Points tallied internally for participating in opportunities to learn with stakeholders (frequency or number of employees)

The azbil Group's Value Creation Model

Philosophy, Guiding Principles, Code of Conduct | Societal issues, changes in customers | Materiality, essential goals for the SDGs | Source of value creation INPUT | Business strategies and foundations BUSINESS MODEL | Three businesses (products and services) OUTPUT | The value we provide OUTCOME

Code of Conduct

Guiding Principles

Group philosophy

Materiality	Essential goals of the azbil Group for the SDGs
Environment	I Environment and Energy
Innovation	II New Automation
Society	III Supply Chain, Social Responsibility
Human resources	IV Health and Well-being Management, An Organization That Never Stops Learning

pp.20–22

Governance

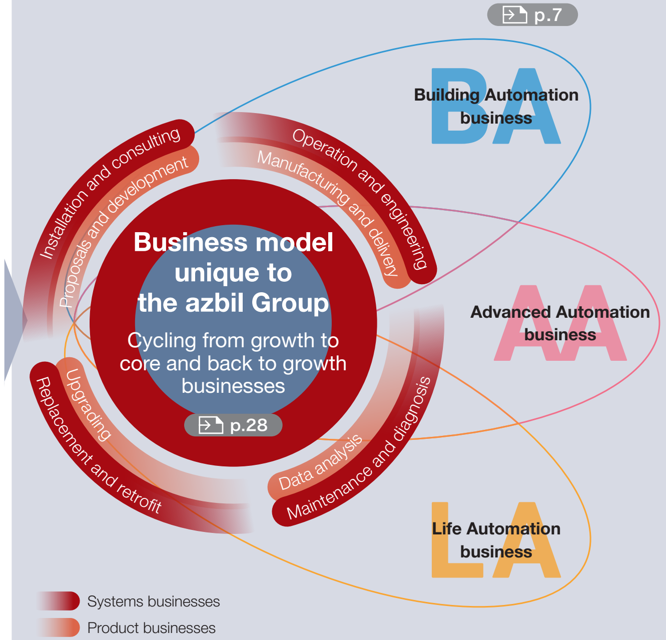
- Product safety and quality
- Corporate governance
- Compliance

Fulfilling our fundamental obligations to society

The six capitals

p.24

- Human capital
- Social and relationship capital
- Intellectual capital
- Manufacturing capital
- Natural capital
- Financial capital



Foundations supporting our business

Environment

Environment p.59–

Social

Human Capital p.52–

Supply Chain p.67–

Risk Management p.71–

Governance

Corporate Governance p.77–

Contributing to the SDGs through our business

p.20

- Promote effective reduction of CO_2 at customers' sites
- Achieve reduction targets for greenhouse gas emissions
- Design all new products
  - to meet the azbil Group's own sustainability standards
  - to be 100% recyclable
- Achieve a state of resilience to changes in the business environment at 8,000 business sites
- Provide environments that support stress-free and diverse work styles to 6 million people
- Increase the number of skilled professionals for supporting sustainable services provided by the azbil Group to a total of 1,800—triple the number in FY2021

Financial targets (FY2030)

- Net sales: ¥420.0 billion (Overseas: ¥100 billion)
- Operating income: ¥65.0 billion
- Operating income margin: 15.5%
- ROE: 15%

Value provided to stakeholders

Safety
Living and working with health and safety

Comfort
Always living and working in comfort

Environment
Optimizing the management and usage of energy

Fulfillment
Creating new value with customers

Economic value
Redistributing added value to stakeholders through sustainable growth, increased enterprise value, and shareholder returns

Contributing to a sustainable society

The Six Capitals

The azbil Group's Operational Resources and Source of Value Creation

The azbil Group leverages the capital accumulated over many years since its founding as an invaluable asset with which to develop its unique business model. By strengthening these six types of capital, we will create more value and expand our businesses, through which we aim to contribute "in series" to a sustainable society.

Human capital

Assisting growth and creating value via diverse human resources

Number of employees (consolidated)
8,922
(as of March 31, 2025)

Azbil Academy attendees
189,000
(total)

Individuals who earned official qualifications
2,764
(total)

Human resources are the most important form of capital for the azbil Group, as we use an integrated system—covering everything from development, through manufacturing and engineering, to services—in order to provide solutions. We are focusing on ensuring that each and every employee can fully utilize their strengths.

- Promoting health and well-being management by creating new ways of working and DEI
- Developing human resources aligned with management and business strategies, as an organization that never stops learning
- Enhancing employee engagement in coordination with employee benefits and financial measures

p.52– Human Capital
p.87 Stakeholder Engagement

Social and relationship capital

Creating value through relationships of trust and cooperation with various stakeholders

Sales and service bases in
15 countries and regions:
13 companies in Japan
27 companies overseas

The activities of the azbil Group are supported by collaboration with customers, alliance partners, business partners (suppliers), and other stakeholders. We will work to further strengthen relationships of trust while expanding internal and external collaboration and ties.

- Promoting co-creation with customers and alliance partners
- Building networks, including investments in venture funds
- Establishing a sustainable supply chain by implementing initiatives focused on environmental conservation and respect for human rights

p.31– BA/AA/LA Global Strategy
p.67– Supply Chain

Intellectual capital

Strengthening our ability to produce products and services that address the issues facing society and our customers

R&D expenses:
¥49.5 billion
(FY2021–FY2024 results)

Capital investment to strengthen R&D site functions:
Construction expenses: ¥7.1 billion
(FY2021–FY2022 results)

Patents:
2,254
(as of March 31, 2025)

We are strengthening field device technologies, including MEMS and actuators, as well as system solutions incorporating AI, the cloud, and other technologies. Both of these approaches are important for the azbil Group's unique business model.

- Investing in R&D, strengthening the functions of R&D facilities, and enhancing our development environment
- Strengthening development personnel (using a talent management system and other measures)
- Creating added value and increasing efficiency by promoting DX

p.39– Digital Transformation (DX)
p.41– Research and Development

Manufacturing capital

Sharing advanced production technologies throughout the Group globally

Factories:
10 in Japan
4 overseas

To respond to customer demand and stably supply high-quality products around the world, we are focusing on the creation of manufacturing and procurement systems that incorporate a BCP perspective; we are also increasing the role of IT in production processes and promoting GX, while making improvements to the capabilities and efficiency of production technology.

- Upgrading production capabilities, led by our mother factory
- Improving and strengthening the global production system (China, Thailand, Vietnam)
- Promoting production IT (DX/LX)
- Strengthening procurement and manufacturing systems

p.47– Manufacturing and Procurement

Natural capital

Reducing our own environmental impact and assisting in efforts to reduce the environmental impact at customer sites

Total energy use
65,026 MWh

Total water use
121 million L

We are working to reduce the environmental impact from our own business activities. We have also formulated a decarbonization transition plan aimed at achieving our SBTi-certified net-zero target. Furthermore, we intend to reduce CO_2 emissions at customers' sites through our automation business. As a result of these efforts, the overall reduction in our customers' CO_2 emissions is 230 times that achieved for our own business activities.

- Implementing a decarbonization transition plan and reducing CO_2 emissions at customer sites
- Responding to the TCFD/TNFD recommendations
- Creating and providing sustainable products

p.59– Environment

Financial capital

Allocating resources with a focus on ensuring capital efficiency and maintaining a sound financial base

Total assets
¥315.1 billion
(as of March 31, 2025)

Credit rating:
A+
(from R&I, Rating and Investment Information, Inc.)

To sustainably provide value, a sound financial foundation and management with high capital efficiency are essential. Our focus is management conscious of the cost of capital and stronger profitability, achieved through the optimization and utilization of our balance sheet.

- Promoting ROIC management with a focus on the cost of capital
- Restructuring our business portfolio
- Achieving growth by utilizing our balance sheet; investing strategically to strengthen our business model

p.15– Message from the Deputy President
p.27– Key Points of the New Medium-term Plan (FY2025–FY2027)
p.30 Group Management Strategy