Dialogue
Between Institutional Investors and Outside Directors

Discussion Summary

Date/time:	September 30, 2025, 3:15 – 4:00 pm
Venue:	Conference Square M+, 10th floor conference space “Middle 1+2” (Mitsubishi Bldg., Tokyo, Japan)
Attendees:	Mitsuhiro Nagahama, Remuneration Committee Chairperson, Outside Director
	Shigeaki Yoshikawa, Nomination Committee Chairperson, Outside Director
	Hitoshi Yoshida, Audit Committee Chairperson, Outside Director
Facilitator:	Takayuki Yokota, Director, Deputy President


Mitsuhiro Nagahama
Remuneration Committee Chairperson,
Outside Director


Shigeaki Yoshikawa
Nomination Committee Chairperson,
Outside Director


Hitoshi Yoshida
Audit Committee Chairperson,
Outside Director


Takayuki Yokota
Director,
Representative Corporate Executive Deputy President

As part of our engagement activities, a dialogue was held at which nine representatives from eight institutional investors met with Azbil’s outside directors to discuss a variety of topics on such governance matters as the appointment of an outside director as chairperson, the role of outside directors in formulating the new medium-term plan, overseas business expansion as a key to the azbil Group’s growth, human resource development, capital management, and changes to the executive remuneration system. The content of these discussions is summarized below.

Note: Where two or more directors answered a question, their responses have been consolidated.

1. Appointment of an outside director as chairperson of the Board

Investor:	At Azbil, Mr. Miura, an outside director, has assumed the position of chairperson of the Board of Directors. As an investor, my basic position is that this is a positive move, but depending on a company's circumstances, it seems that an outside director may not always be the most appropriate choice when it comes to the Board's functioning. I would like to ask about the background to Azbil's decision to appoint an outside director as chairperson of the Board.
Outside director:	Our belief is that having an outside director serve as chairperson is advantageous from a corporate governance perspective. However, as you point out, such an appointment does not in itself ensure the smooth and effective functioning of the Board; it is not an easy task. Smooth communication between the executive side and Board members is also crucial. Mr. Miura, who has now assumed the post, possesses exceptionally strong communication skills, and this is one of several qualities that were recognized and led to the decision. The company's commitment to improving corporate governance was a factor, but I believe it was the presence of directors possessing the right expertise and discernment that made it possible for an outside director to be appointed chairperson.

2. Formulation of the medium-term plan

Investor:	Outside directors are in a position to evaluate management plans and provide advice from their independent standpoint. Your new medium-term plan (FY2025–FY2027) appears to differ from the company's previous plans in some respects. In its formulation, what kind of discussions were held between the outside directors and the executive team?
Outside director:	As well as Board meeting discussions, we held company retreats and organized forums—the latter also attended by people outside the Board—in order to facilitate in-depth discussions. On these occasions, there was a particular focus on the azbil Group's growth strategy, overseas expansion measures and human resource development to realize that strategy. In addition to organic growth, this naturally included responding swiftly to opportunities resulting from changes in the business environment with initiatives to achieve growth above and beyond previous levels. These involve proactive investments, such as M&A leveraging our strong financial position, but central to the discussion was how to advance these initiatives. It is undeniable that in the past there was a difficult period following the dissolution of our equity-based alliance with Honeywell, but we have significantly improved the business structure of the azbil Group, as demonstrated by the Building Automation (BA) business. Yet there must be more that can be achieved, in our opinion as outside directors with overseas business experience. We have frankly expressed our view that, while making substantive progress with establishing a defensive governance framework, Azbil should

implement a number of initiatives with a sense of urgency. We are confident that the substance of our discussions is reflected throughout the new medium-term plan, including the overseas sales targets.

3. Overseas business development

Investor: When it comes to business strategy, providing advice based on their own expertise is also an important role of outside directors. Mr. Nagahama and Mr. Yoshikawa have extensive overseas business experience. Could you please explain what specific advice you are providing to promote the growth of the azbil Group's overseas business?

Outside director: We have conveyed our opinion that, to succeed in overseas business, it is important to pursue many initiatives, without fear of failure, and to build up extensive experience from these. In addition, we have said that an urgent priority is cultivating global human resources capable of succeeding in an international arena; Azbil has taken this on board and is advancing recruitment and training. The number of executives with overseas business experience is increasing, and a Singaporean national has been appointed as Azbil's executive officer in charge of the Strategic Planning & Development Office for Southeast Asia (Singapore), so there is progress, but it is not enough. We have communicated the need for further strengthening to the executive side.

4. Succession planning

Investor: To change corporate culture and give impetus to business development, a company's management, including the top leadership, must also change. What qualities are the Nomination Committee looking for when considering management candidates, and how does succession planning feature in the process?

Outside director: President Yamamoto was relatively young when he took the helm, and we expect him to continue with efforts to reform corporate culture and implement various initiatives. Naturally, however, the Nomination Committee discusses the selection of his successor and what training might be necessary, so succession planning is a major item on our agenda this year.

5. Investment for growth and shareholder returns

Investor: As with the azbil Group, making significant improvements in gross profit margins does not necessarily mean expansions of valuation multiples. I think that a possible reason for this may be an apparent lack of urgency when it comes to proactive investment and business expansion. Dividends and share buybacks are welcome, but don't you think that the basic strategy should be to invest in growth first, and only then return profits to shareholders, providing there is the cash to do so? What are your thoughts on growth investments?

Outside director: The Board regularly discusses investments for growth and shareholder returns. The decision behind the recent repurchasing of the Company's own stock was made only after considering such investments. We do recognize that investments for growth are crucial. The executive side is prepared to make necessary investments at pace, and our new medium-term plan (FY2025-FY2027) stipulates that an additional sum of 50 billion yen be set aside for growth investments. The Board endorsed this during the formulation of the medium-term plan.

6. Reduction in cross-shareholdings

Investor: Azbil is involved in cross-shareholdings with certain companies. As an investor, and from the perspective of capital efficiency, I believe these should be dissolved. Hasn't the option of eliminating these holdings in the near future been discussed?

Outside director: There have indeed been extensive discussions regarding our cross-shareholdings. In fact, the executive side has already made significant progress in reducing such holdings. The economic rationality of holding each stock is verified, and each year the results are reported to the Board. But partly because of our business relationships, there are some difficulties involved in the unilateral selling of cross-shareholdings, so we are conducting appropriate discussions with the companies whose shares we hold. The progress we make in reducing these holdings is as stated in the securities report. We believe reduction will take a little time, but the Board has endorsed this policy, and it is laid out in our Corporate Governance Report.

7. Remuneration policy

Investor: As it did last year, Azbil has revised its remuneration policy again this year. Please explain the rationale behind this year's changes to the policy.

Outside director: This revision to the remuneration policy was made in conjunction with the formulation of our new medium-term plan. It aims to ensure remuneration levels that will attract talented executives, to motivate officers to enhance short-term performance by expanding the performance-linked component, and to enhance enterprise value over the medium to long term by setting the incentive component at a high yet sound level. So as to enhance clarity and alignment with shareholder perspectives, for medium- to long-term evaluation we have adopted ROE as a new KPI to be used in addition to relative total shareholder return (TSR) and effective CO_2 reduction at customers' sites.

8. Rapid response to business opportunities

Investor: There is a good understanding of the azbil Group's profitability, and what investors are now looking for is top-line growth. Data centers represent a considerable business opportunity, but we hear there are issues that need to be solved, such as a shortage of necessary human resources. Based on your experience at the management level, do you think the azbil Group can move with sufficient speed to capture this demand? Isn't there a risk of missing the train?

Outside director: The data center market differs from the conventional building air conditioning business and presents distinct challenges, but the executive side is making progress with upgrading operational bases as well as training engineers and other personnel. As one option, we are also considering seeking, where necessary, external resources. These initiatives have the support of the Board of Directors. Even as we develop the foundations for overseas business expansion, we have already successfully secured a large-scale order for a data center project involving local capital. We believe we can capture this growing demand and, at a certain scale, expand our business.

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