

# **Azbil Corporation** RIC: 6845.T, Sedol: 6985543

## **Presentation Materials**

For the Fiscal Year Ended March 31, 2018 (Japanese GAAP)

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5. The azbil Group's CSR-focused Management and Corporate Governance

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# Notes:



1. Financial data and financial statements have been prepared based on Japanese GAAP and the amounts have been rounded down.
2. Segment names are abbreviated as follows:
  - B A : Building Automation
  - A A : Advanced Automation
  - L A : Life Automation
3. The financial plan is based on management's assumptions, intent and expectations in light of the information currently available to it, and therefore this plan is not a guarantee of future performance. Due to various factors, actual results may differ from those discussed in this material.
4. Revision in how orders received are calculated

Previously, in addition to the amounts recorded for orders received in the current period, figures for orders received included translation gains & losses associated with contracts denominated in foreign currencies\* incorporated within the order backlog at the end of the previous consolidated fiscal year and at the end of the current consolidated fiscal year. However, in order to give a clearer picture of orders received, from which the results of our business activities are gauged, from this fiscal year figures for orders received do not include the aforesaid translation gains and losses. Nevertheless, for the purpose of comparison, these materials also include the figures for orders received in the current consolidated fiscal year and in the previous consolidated fiscal year calculated using the previous method.

This revision is aimed at providing investors with useful information for their investment judgement, by reporting our business performance in a manner to conform with the azbil Group's business activities in each local currency, as our overseas business strategies are increasingly implemented.

\* Translation gains and losses associated with contracts denominated in foreign currencies:

In addition to the impact of exchange conversions following order backlog reevaluation, this includes any increase or reduction in the order backlog that results from adding/removing a company from the scope of consolidation.

# 1. Financial Results for FY2017 (Ended March 31, 2018)

## 1. Financial Results for FY2017 (Ended March 31, 2018)

# Consolidated Financial Results



- Overall orders received increased compared with the previous fiscal year. The BA business maintained a high level of orders received, while the AA and LA businesses achieved significant growth.
- Net sales increased compared with the previous fiscal year and achieved the plan, with contributions from the BA and AA businesses.
- Owing to further progress made with business measures and initiatives aimed at improving the profit structure that started in the previous fiscal year, operating income increased in all three businesses. Both BA and AA businesses achieved significant increases compared to the previous fiscal year. Operating income has now increased for five consecutive years and has set a new record. Overall it exceeded the plan. Owing mainly to this improvement in operating income, ordinary income also increased compared to the previous fiscal year and achieved the plan.
- Net income attributable to owners of parent increased significantly, thanks in part to a reduction in subsidiary's tax expenses, and exceeded the plan. ROE was 10.5%. \*1

[Billions of yen]

	Current fiscal year				Previous fiscal year		
	(A)	Plan (11/2/2017) (B)	Difference		(C)	Difference	
			(A) - (B)	% Change		(A) - (C)	% Change
Orders received *2	266.2				254.9	11.2	4.4
(See: previous calculation method)	266.9				252.3	14.5	5.8
Net sales	260.3	260.0	0.3	0.1	254.8	5.5	2.2
Japan	214.5				211.4	3.1	1.5
Overseas	45.7				43.3	2.4	5.6
Gross profit	97.4				91.4	5.9	6.5
%	37.4				35.9	1.5P	
SG & A	73.4				71.3	2.1	3.0
Operating income (loss)	24.0	23.5	0.5	2.2	20.1	3.8	19.3
%	9.2	9.0	0.2P		7.9	1.3P	
Ordinary income (loss)	24.3	23.5	0.8	3.5	20.4	3.8	18.8
Income (loss) before income taxes	24.1				18.6	5.5	29.8
Net income (loss) attributable to owners of parent	17.8	16.5	1.3	8.4	13.1	4.7	36.0
%	6.9	6.3	0.5P		5.2	1.7P	

\*1 In addition to the increase in operating income and the fact that, compared to the previous fiscal year, loss on liquidation of subsidiaries and affiliates was lower, this result was due to the recording of gain on sales of investment securities, and to a reduction in tax expenses following a reappraisal of the recoverability of a subsidiary's deferred tax assets (Azbil Kimmon's deferred tax assets increased by 1.2 billion yen). ROE excluding the temporary factor of the recording of gain on sales of investment securities and a reduction in tax expenses of a subsidiary was approximately 9.5% as a trial calculation.

\*2 From the current fiscal year, orders received figures do not include translation gains and losses associated with currency conversions following order backlog reevaluation. For details, refer to page 2.

# 1. Financial Results for FY2017 (Ended March 31, 2018)



## Segment Information - ■ BA Business

- Because large-scale multi-year contracts\*<sup>1</sup> had been recorded in the previous fiscal year, overall orders received were down, but the business environment has continued to be robust and orders received remained at a high level. Notable was a significant increase for the existing buildings field.
- Continued progress was made with the job fulfilment system that was upgraded in the previous fiscal year and sales grew for new buildings, a field in which steady progress has been made with on-site construction. At the same time, the growing number of proposals for solutions led to increased sales for existing buildings and service. Sales also grew overseas, so overall sales increased compared with the previous fiscal year. Sales exceeded the plan.
- Segment profit increased compared to the previous fiscal year and achieved the plan. An initiative to improve profits was successful and temporary expenses for provision were lower this year, and this was enough to offset increased expenses associated with upgrading systems and developing new products.

[Billions of yen]

	Current fiscal year				Previous fiscal year		
	(A)	Plan (11/2/2017) (B)	Difference		(C)	Difference	
			(A) - (B)	% Change		(A) - (C)	% Change
Orders received * <sup>2</sup>	117.8				120.0 * <sup>1</sup>	(2.2)	(1.8)
(See: previous calculation method)	117.6				117.6 * <sup>2</sup>	(0.0)	(0.0)
Sales	120.2	119.0	1.2	1.0	116.4	3.8	3.3
Segment profit (loss)	12.5	12.5	0.0	0.7	11.5	1.0	9.3
%	10.5	10.5	(0.0P)		9.9	0.6P	

\*<sup>1</sup> Large-scale multi-year contracts ("market testing"):

The total value of an order for a multi-year service project is recorded as a lump sum in the first year of the contract. In the previous fiscal year, orders were recorded for large-scale service projects with multi-year contracts received through the system of public-private competitive tendering called "market testing". The principal contractor decided by such market testing is then responsible for providing a variety of services related to the building in question using vendors selected for the purpose. Also, the contracts won through market testing cover periods ranging from 3 to 5 years, and thus they can significantly increase the orders received by the principal contractor, although these contracts have limited impact on profits for any individual fiscal year.

\*<sup>2</sup> From the current fiscal year, orders received figures do not include translation gains and losses associated with currency conversions following order backlog reevaluation. For details, refer to Page 2. Regarding the BA business orders received figures for the previous fiscal year calculated using the previous method, there was a significant impact to the reversal of the order backlog resulting from the removal of the overseas subsidiary Beijing YTYH Intelli-Technology Co., Ltd. from the scope of consolidation.

# 1. Financial Results for FY2017 (Ended March 31, 2018)



## Segment Information - ■ AA Business

- From the previous fiscal year, we have enhanced operating systems for the three AA business sub-segments\*1 and we have implemented measures for realizing business growth and strengthening business profitability. Progress has also been made with developing new automation fields with new products.
- The business environment has been relatively robust in Japan. Overseas, increasing demand for controllers and sensors primarily for semiconductor manufacturing equipment also led to increased sales. Conditions have thus continued to be generally favorable. Thanks in part to the success of the abovementioned measures, both orders received and sales grew compared to the previous fiscal year, achieving the plan.
- Owing to initiatives designed to strengthen business profitability, the profit structure for each of the three sub-segments improved significantly, leading to a segment profit that exceeded both the previous fiscal year's figure and the plan.

[Billions of yen]

	Current fiscal year  (A)	Plan (11/2/2017) (B)	Difference		Previous fiscal year  (C)	Difference	
			(A) - (B)	% <i>Change</i>		(A) - (C)	% <i>Change</i>
Orders received *2	101.7				93.4	8.3	8.9
(See: previous calculation method)	101.9				93.7	8.2	8.8
Sales	97.2	97.0	0.2	0.2	95.4	1.7	1.8
Segment profit (loss)	9.9	9.2	0.7	7.9	7.2	2.7	37.9
%	10.2	9.5	0.7P		7.5	2.7P	

\*1 Three AA business sub-segments (CP, IAP & SS):

CP (Control Products) business:

Supplying factory automation products such as controllers and sensors, etc.

IAP (Industrial Automation Products) business:

Supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.

SS (Solution & Service) business:

Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.

\*2 From the current fiscal year, order received figures do not include translation gains and losses associated with currency conversions following order backlog reevaluation. For details, refer to page 2.

# 1. Financial Results for FY2017 (Ended March 31, 2018)



## Segment Information - ■ LA Business

- LA business orders received increased in all fields, and the total was significantly higher than the previous fiscal year, thanks mainly to growth in the Life Science Engineering (LSE) field, in which business structural reforms were carried out.
- Sales were similar to the previous fiscal year and almost in line with the plan.
- Segment profit increased compared to the previous fiscal year thanks to the improvement achieved in the profit structure of the LSE field. Overall LA business profit fell short of the plan affected by profit in the gas and water meter field which failed to achieve the plan.

[Billions of yen]

	Current fiscal year				Previous fiscal year		
	(A)	Plan (11/2/2017) (B)	Difference		(C)	Difference	
			(A) - (B)	% Change		(A) - (C)	% Change
Orders received *	48.0				42.6	5.3	12.5
(See: previous calculation method)	48.6				42.0	6.5	15.6
Sales	44.2	44.5	(0.2)	(0.7)	44.1	0.0	0.2
Segment profit (loss)	1.5	1.8	(0.2)	(16.6)	1.4	0.0	5.7
%	3.4	4.0	(0.6P)		3.2	0.2P	

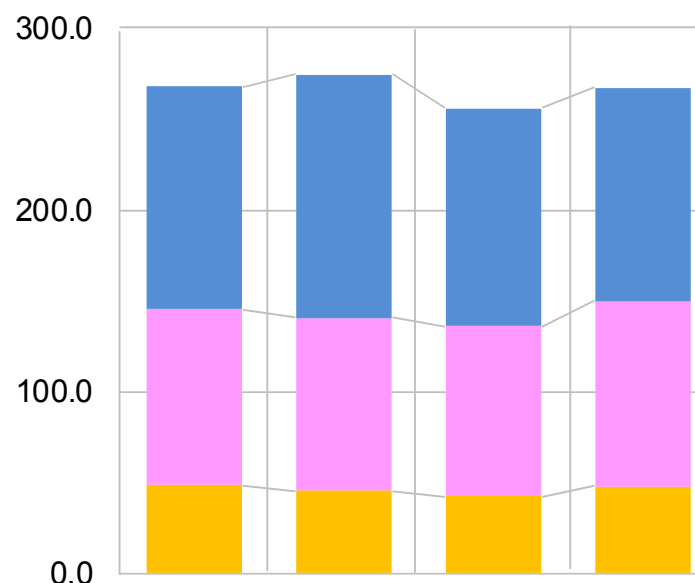
\* From the current fiscal year, order received figures do not include translation gains and losses associated with currency conversions following order backlog reevaluation. For details, refer to page 2. The figures for LA business orders received are affected by exchange conversion involving the euro because Azbil Telstar is based in Europe.

# 1. Financial Results for FY2017 (Ended March 31, 2018)



## [Reference] Orders Received by Segment

[Billions of yen]



	FY2014	FY2015	FY2016	<sup>*4</sup> FY2017 <sup>*4</sup>
■ B A	122.3 <sup>*1</sup>	133.8 <sup>*3</sup>	120.0 <sup>*2</sup>	117.8
■ A A	97.0	94.8	93.4	101.7
■ L A	48.4 <sup>*2</sup>	45.7	42.6	48.0
Consolidated	266.9	273.6	254.9	266.2

<sup>\*1</sup> Orders received resulting from the renewal of a number of large-scale service contracts that span several years have been included.

<sup>\*2</sup> Figures for the following domestic and overseas subsidiaries have been removed from the scope of consolidation.

• 2015 Feb. Azbil Care & Support Co., Ltd.

• 2016 Dec. Beijing YTYH Intelli-Technology Co., Ltd.

<sup>\*3</sup> A revision was made to the way domestic orders received for multi-year contracts are recorded. This revision led to a transient jump in the value of orders received for multi-year contracts recorded in the fiscal year ended March 31, 2016.

<sup>\*4</sup> Figures for FY2017 orders received do not include translation gains and losses associated with exchange conversion following order backlog reevaluation. FY2016 orders received have been recalculated using this method to facilitate comparison. For details, refer to page 2.

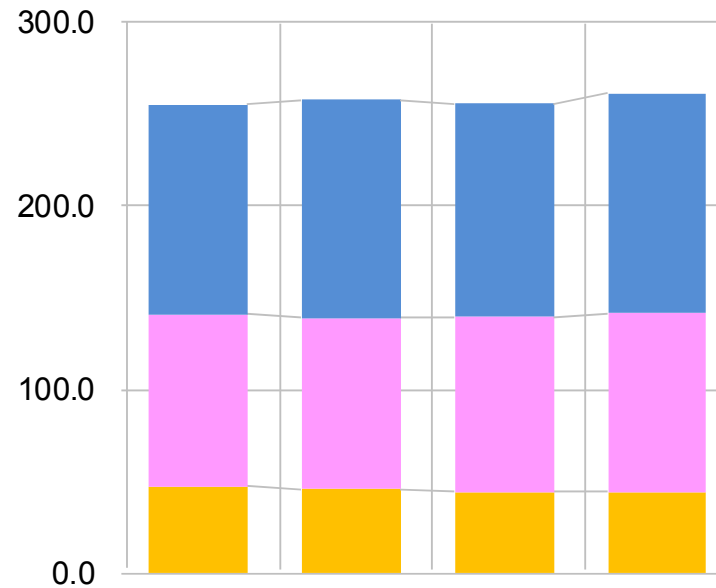


# 1. Financial Results for FY2017 (Ended March 31, 2018)



## [Reference] Sales by Segment

[Billions of yen]



	FY2014	FY2015	FY2016	FY2017
■ B A	114.3	118.8	116.4*	120.2
■ A A	93.6	93.5	95.4	97.2
■ L A	47.3*	45.6	44.1	44.2
Consolidated	254.4	256.8	254.8	260.3

\* Figures for the following domestic and overseas subsidiaries have been removed from the scope of consolidation.

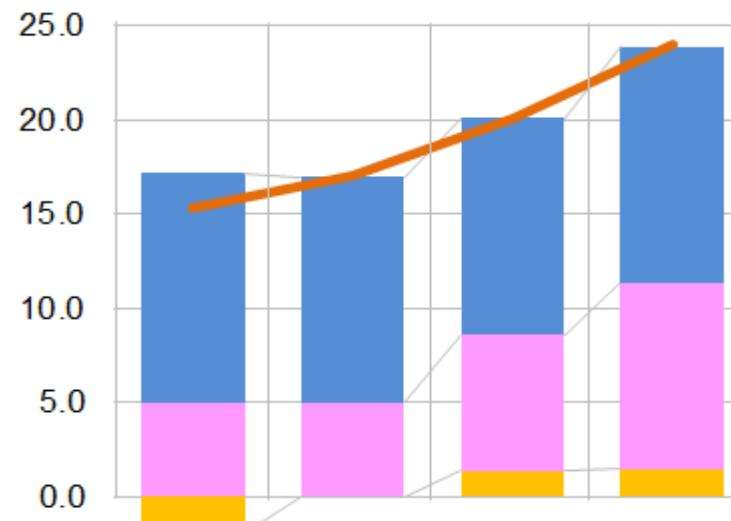
- 2015 Feb. Azbil Care & Support Co., Ltd.
- 2016 Dec. Beijing YTYH Intelli-Technology Co., Ltd.

# 1. Financial Results for FY2017 (Ended March 31, 2018)

## [Reference] Segment Profit (Operating Income)

**azbil**

[Billions of yen]



	FY2014	FY2015	FY2016	FY2017
■ B A	12.2	12.0	11.5*	12.5
■ A A	5.0	5.0	7.2	9.9
■ L A	(1.9)*	0.0	1.4	1.5
Consolidated	15.3	17.1	20.1	24.0

\* Figures for the following domestic and overseas subsidiaries have been removed from the scope of consolidation.  
 •2015 Feb. Azbil Care & Support Co., Ltd.  
 •2016 Dec. Beijing YTYH Intelli-Technology Co., Ltd.

# 1. Financial Results for FY2017 (Ended March 31, 2018)

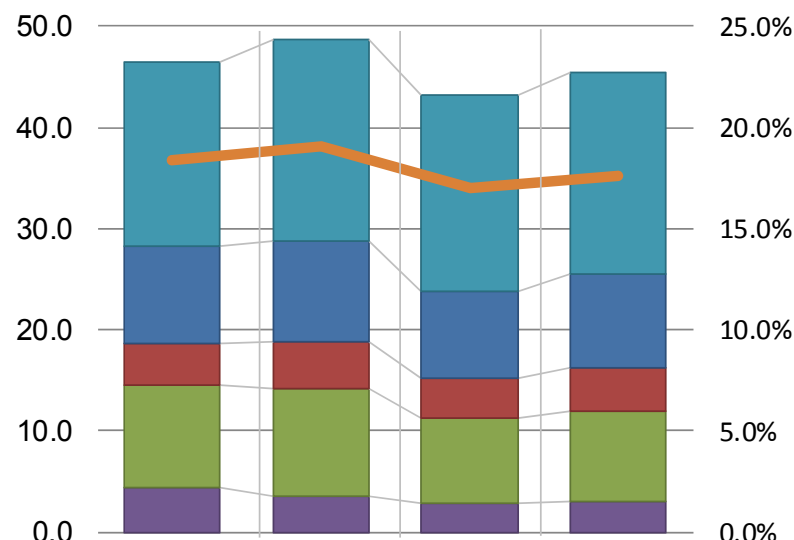


## Overseas Sales by Region

Overseas sales grew in the AA business thanks mainly to increased demand for semiconductor manufacturing equipment and an initiative to develop the customer base in China, North America and Europe. BA business sales also grew as a result of progress made with market development in several Asian countries.

- In the Asian region, overall sales increased thanks to AA business marketing targeted at equipment manufacturers and the success of the BA business in winning more local projects.
- In China, BA business sales fell owing to the impact of transferring all shares in a subsidiary, but AA business sales grew, resulting in overall growth in sales.
- In North America, AA business marketing targeted at equipment manufacturers was successful, leading to increased sales.
- In Europe, sales were up owing to LA business (LSE field) improvement and AA business sales growth.

[Billions of yen]



	FY2014	FY2015	FY2016	FY2017
Asia	18.3	20.0	19.5	20.0
China	9.6	9.9	8.5	9.3
North America	4.1	4.7	3.9	4.2
Europe	10.2	10.6	8.4	9.0
Others	4.3	3.5	2.9	3.0
Consolidated	46.7	48.9	43.3	45.7

### [Reference information]

Overseas sales/ Net sales	18.4%	19.1%	17.0%	17.6%
Average exchange rate - USD/JPY	105.79	121.11	108.81	112.17
Average exchange rate - EUR/JPY	140.35	134.31	120.30	126.70

\* Overseas sales figures include only the sales of overseas affiliates and direct exports; indirect exports are excluded.

\* The fiscal year used by overseas affiliates mainly ends on December 31.

# 1. Financial Results for FY2017 (Ended March 31, 2018)



## Consolidated Financial Position

### ■ Assets

Total assets increased by 15.3 billion yen compared to the end of the previous fiscal year despite a decrease in cash and deposits. This was due to an increase in securities for short-term investment and investment securities\* following a rise in the value of shares, as well as increases in notes and accounts receivable-trade, and in property, plant and equipment reflecting investment in the integration of domestic production facilities and the construction of the mother factory. \* we are continuing to implement the policy of reducing the number of shares held.

### ■ Liabilities

Total liabilities increased by 3.1 billion yen compared to the end of the previous fiscal year due to increases in income taxes payable and notes and accounts payable-trade.

### ■ Net assets

Net assets grew overall by 12.2 billion yen compared to the end of the previous fiscal year despite the payment of dividends and repurchase of own shares. This was due to the recording of net income attributable to owners of parent in the current period as well as an increase in valuation difference on available-for-sale securities following a rise in the value of shares.

[Billions of yen]

	As of Mar. 31, 2018 (A)	As of Mar. 31, 2017 (B)	Difference (A) - (B)		As of Mar. 31, 2018 (A)	As of Mar. 31, 2017 (B)	Difference (A) - (B)
<b>Current assets</b>	<b>212.4</b>	<b>204.1</b>	<b>8.2</b>	<b>Liabilities</b>	<b>100.6</b>	<b>97.5</b>	<b>3.1</b>
Cash and deposits	46.1	53.9	(7.8)	<b>Current liabilities</b>	<b>87.5</b>	<b>84.0</b>	<b>3.4</b>
Notes and accounts receivable-trade	91.4	88.5	2.9	Notes and accounts payable-trade	41.4	40.4	1.0
Inventories	23.8	22.1	1.6	Short-term loans payable	10.1	10.6	(0.4)
Others	51.0	39.4	11.5	Others	35.8	32.9	2.9
<b>Non-current assets</b>	<b>66.2</b>	<b>59.2</b>	<b>7.0</b>	<b>Non-current liabilities</b>	<b>13.1</b>	<b>13.4</b>	<b>(0.3)</b>
Property, plant and equipment	25.4	23.2	2.2	Long-term loans payable	0.5	0.5	0.0
Intangible assets	5.2	5.3	(0.1)	Others	12.6	12.9	(0.3)
Investments and other assets	35.4	30.5	4.8	<b>Net assets</b>	<b>177.9</b>	<b>165.7</b>	<b>12.2</b>
				<b>Shareholders' equity</b>	<b>162.9</b>	<b>154.6</b>	<b>8.2</b>
				Capital stock	10.5	10.5	-
				Capital surplus	11.6	12.3	(0.6)
				Retained earnings	147.7	136.4	11.2
				Treasury shares	(6.9)	(4.6)	(2.3)
				Accumulated other comprehensive income	13.0	9.1	3.8
				Non-controlling interests	1.9	1.9	0.0
<b>Total assets</b>	<b>278.6</b>	<b>263.3</b>	<b>15.3</b>	<b>Total liabilities and net assets</b>	<b>278.6</b>	<b>263.3</b>	<b>15.3</b>

(Reference) Shareholders' equity ratio: 63.2%(as of Mar. 31, 2018), 62.2%(as of Mar. 31, 2017)

## 1. Financial Results for FY2017 (Ended March 31, 2018)



# Consolidated Cash Flows

- Cash flows from operating activities were virtually unchanged from the previous fiscal year. Cash flows from investing activities were impacted by increased outgoings for the purchase of property, plant and equipment required for the integration of domestic production facilities and starting construction of the mother factory. There were also increased outgoings for financial activities including capitalization strategy. However, as a result of assigning some funds from time deposits and securities for short-term investment, free cash flow was up by 8.5 billion yen from the previous fiscal year.
- Cash flow from financing activities was 4.4 billion yen more in outgoings than the previous fiscal year owing mainly to an increase in outgoings resulting from the repurchase of own shares and increased dividends payments.

[Billions of yen]

	Current fiscal year (A)	Previous fiscal year (B)	Difference	
			(A) - (B)	%
Cash flows from operating activities	19.4	19.9	(0.4)	(2.3)
Cash flows from investing activities	(0.0)	(9.0)	9.0	-
Free Cash Flow (FCF)	19.4	10.8	8.5	78.5
Cash flows from financing activities	(10.8)	(6.4)	(4.4)	-
Effect of exchange rate change on cash and cash equivalents	0.2	(0.5)	0.7	-
Net increase in cash and cash equivalents	8.8	3.8	4.9	126.3
Cash and cash equivalents at beginning of period	59.8	55.9	3.8	7.0
Cash and cash equivalents at end of period	68.6	59.8	8.8	14.7

## 2. Progress in Implementing the Medium-term Plan (FY2017-FY2019)

## 2. Progress in Implementing the Medium-term Plan

### Policies & Goals of the Medium-term Plan (FY2017-FY2019)



At the same time as attaining the current medium-term plan goals, we will invest in sustainable growth that includes starting up new business fields, aiming to achieve the growth required to meet our long-term (FY2021) goals.

- ✓ Promoting business structure reforms and upgrading systems, we will ensure that the measures are carried out in each business segment.
- ✓ Aiming to expand new business fields, we will make the investments necessary for strengthening systems for business development, product/service development and production.

#### Group philosophy “human-centered automation”

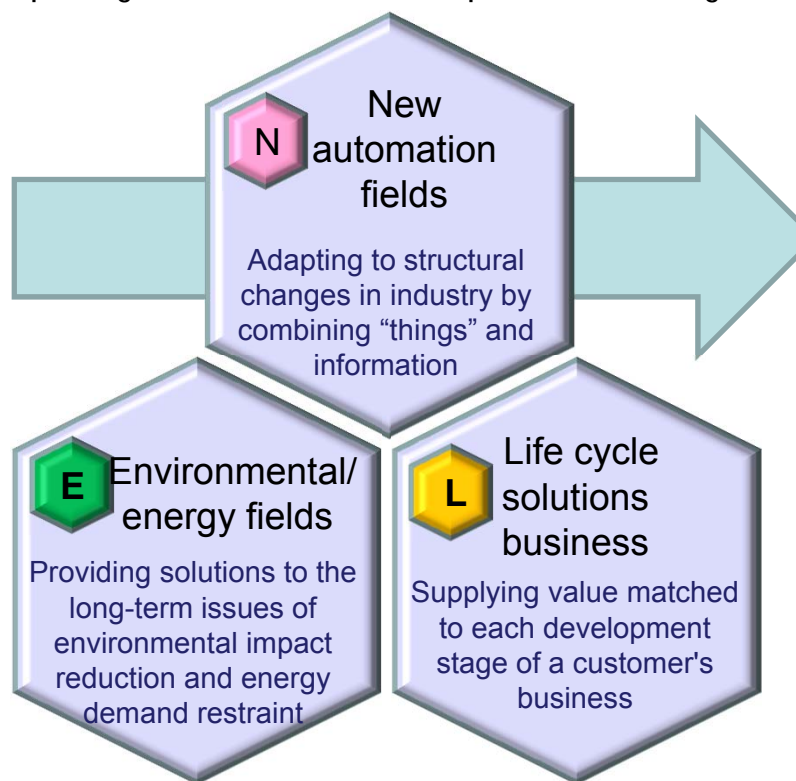
#### Three fundamental policies

- Being a long-term partner for the customer and the community by offering solutions based on our technologies and products
- Taking global operations to the next level by expansion into new regions and a qualitative change of focus
- Being a corporate organization that never stops learning, so that it can continuously grow stronger

#### Previous medium-term plan (FY2013-FY2016)

- Results of business structure reforms, infrastructure improvement, and growth area development

Expanding the 3 business fields to expedite sustainable growth



The current medium-term plan (FY2017-FY2019) has been drawn up to promote corporate operations based on the philosophy of “human-centered automation”, and as a second step toward achieving our long-term goals (FY2021).

#### Performance targets

##### ● Medium-term plan (FY2017–FY2019)

**FY2019 (final fiscal year)**

**Operating income:**

**25.0 billion yen**

**Net sales: 270.0 billion yen**

**ROE: 9% or more**

##### ● Long-term goals

**FY2021**

**Operating income:**

**30.0 billion yen or more**

**Net sales:**

**about 300.0 billion yen**

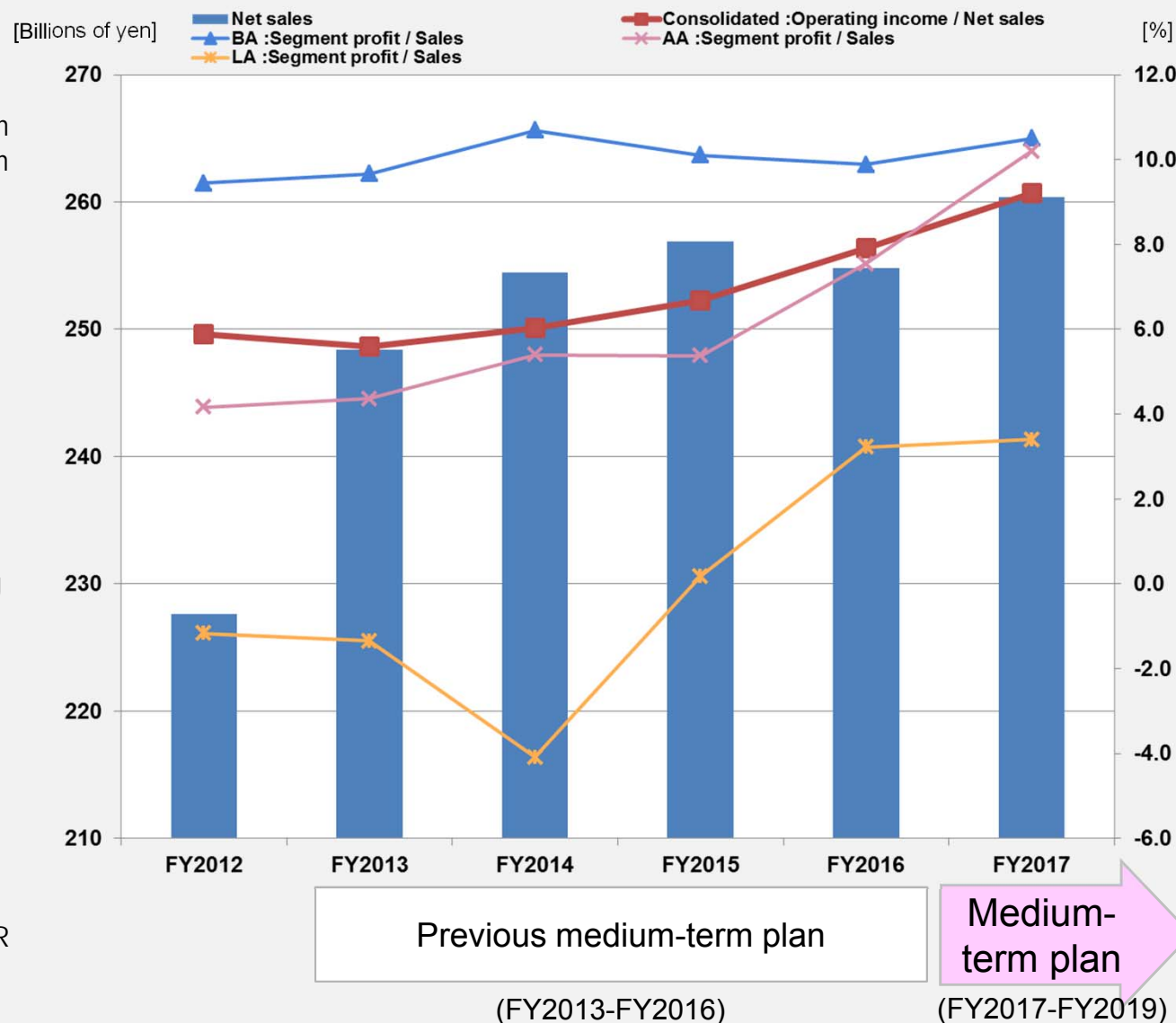
**ROE: 10% or more**

## 2. Progress in Implementing the Medium-term Plan

### Progress Achieved with the Medium-term Plan



- Upgrading LA business systems has been completed, and the profit structure of the AA business has been bolstered with the business promotion system based on the three sub-segments.
- With its job fulfillment system able to handle continuing demand, the BA business has realized growth and ensured profits.
- The following investments have been made to ensure sustainable growth:
  - ✓ Product development (including new fields such as IoT, etc.) aimed at developing and expanding the three business fields
  - ✓ Building an advanced global production system
  - ✓ Reassignment & training of human resources
  - ✓ Investing in core information system and upgrading infrastructure to expedite CSR





## 2. Progress in Implementing the Medium-term Plan

### Progress in Implementing Business Measures (1)



# BA Building Automation Business

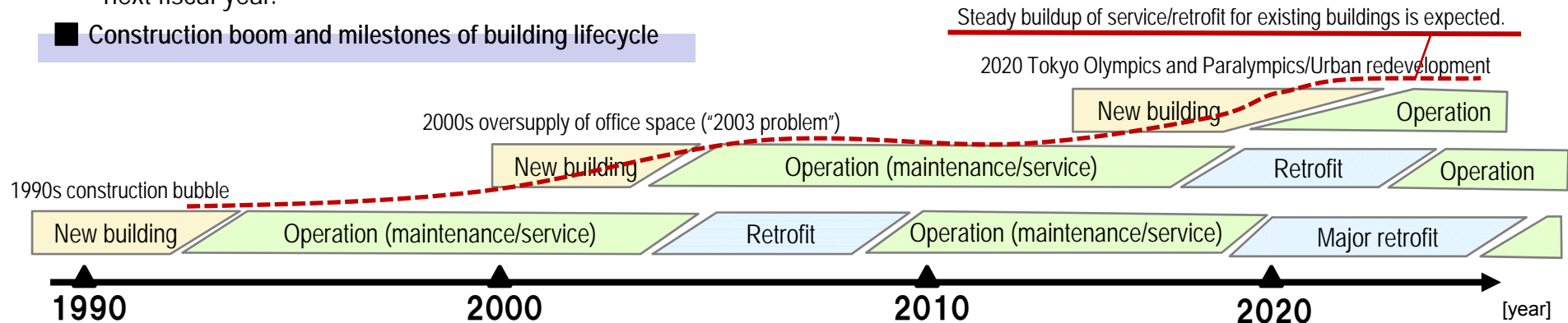
## Strengthening our relationship with customers in Japan and abroad throughout the lifecycle

- Jobs are being fulfilled with an upgraded system that is better suited to the market for new buildings, which continues to be brisk, ensuring that such jobs are accomplished within reasonable work hours. Once a project is won, the job can lead to profitable service and retrofit work throughout the building's lifecycle.

Note: As a result of new urban redevelopment plans and rescheduling of projects in order to avoid the steep rise in construction costs caused by labor shortages, etc., demand is less volatile. Thus, demand in the market for new buildings is expected to continue largely the same after the 2020 Tokyo Olympics and Paralympics. Any fall in demand will be limited.

- Proposals are actively being made for existing buildings that were put up during the construction bubble of the 1990s or the early 2000s. Retrofit is being planned for these buildings from 2020 onwards. We are preparing for business growth from the next fiscal year.

### Construction boom and milestones of building lifecycle



- We will start providing practical energy control solutions employing the fusion of "things" with information.
  - ✓ Incorporating IoT, and enhancing compatibility with open networking, we will globally launch the new BA system, savic-net<sup>TM</sup>G5, to meet customer needs throughout a building's lifecycle.
  - ✓ These solutions and products will contribute to establishing the position of our overseas business.



▲ Building Automation System:  
savic-net<sup>TM</sup>G5

## 2. Progress in Implementing the Medium-term Plan

### Progress in Implementing Business Measures (2)

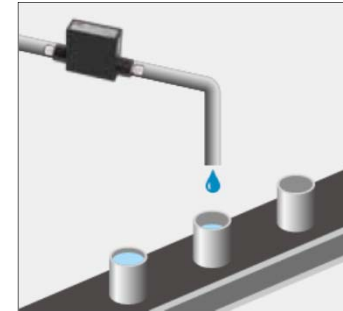
## AA Advanced Automation Business

#### Generating profits in mature markets and accelerating the shift to growth areas

- Leveraging the business promotion system based on the three sub-segments (CP, IAP & SS), further improvements have been made to the profit structure. Additional improvement is expected.
- Developing and cultivating the automation field in which the azbil Group has the unique strengths will bear fruit in the domestic/overseas markets for semiconductor manufacturing equipment and other markets.
- The AA business aims to increase sales by launching new products that meet customer needs and strengthening its sales system.

**azbil**

Model F7M thermal micro flow rate liquid flowmeter uses MEMS sensing technology.



It can continuously make in-line measurements of liquid flow rates of less than 30mL/min -- so small that hitherto it has proved very challenging to make stable measurements -- virtually unaffected by such factors as temperature, bubbles, and pulsating flow.

## LA Life Automation Business

#### From establishing the profit structure to expanding the business

- In the market for gas and water meters, where market liberalization is ongoing, there is demand for the adoption of new technologies such as IoT. We are taking part in the testing of various LPWA (Low Power Wide Area) network applications with a view to developing an automatic meter-reading system.
- There is continued improvement in profits for the Life Science Engineering (LSE) field. A stable business foundation has been established as a result of business structure reforms. Progress is being made with strengthening/expanding the manufacturing equipment and service businesses.
- While continuing to engage in stabilizing/improving profits, we will move ahead with creating business opportunities in the market for energy supply (gas, etc.), and develop new products and service offerings aimed at selectively focused business growth in the LSE field.

New LP gas meter can be adapted to various communications infrastructures

**IK-SMα™**



Embedded communications module

SIGFOX, LoRA, etc.



## 2. Progress in Implementing the Medium-term Plan

### Upgrading/strengthening the business foundation (1)



Creating an advanced global production system - Creating the mother factory for realizing next-generation production and expanding overseas production

#### The azbil Group's mother factory

- We are integrating the production functions of our Shonan and Isehara factories in Kanagawa Prefecture into a single facility (Shonan factory). Setting our sights on next-generation production, we will thus realize the mother factory of the azbil Group, which will be in the vanguard of the 4M\* revolution, which focuses on the essentials of production. \* 4M: Man, Machine, Method & Material
- By enhancing the facilities and equipment at the Fujisawa Technology Center, we will be on the leading edge of elemental technologies. We also aim to take the azbil Group's unique manufacturing technology to the next level.

#### Azbil Production (Thailand): Thai factory

- We have established production facilities in China – Azbil Control Instruments (Dalian) – and Thailand – Azbil Production (Thailand). Production has been transferred to these facilities. We have thus created a three-pronged production system based in Japan, China and Thailand.
- In 2017 we expanded the production capacity of the Thai factory and bolstered its functions. It will become a core factory overseas for the Group, expanding product supply to not only Thailand but also ASEAN and neighboring Asian countries.



▲ Artist's impression of the Shonan factory  
(to be completed in 2019)



▲ Fujisawa Technology Center  
(upgrading to be completed in 2021)



▲ Thai factory extension  
(completed in 2017)

## 2. Progress in Implementing the Medium-term Plan

### Upgrading/strengthening the business foundation (2)

Strengthening our ability to meet the needs for industrial innovation that makes use of IoT and AI applications - Establishment of IT Solutions HQ, development of a smart robot

- Gearing up for anticipated growth in demand for products & services that employ IoT, AI, big data, etc. – and to ensure we make the most of this business opportunity – we set up an IT Solutions HQ charged with development and marketing focused on these advanced technologies, and with a focus on new product development. (Example: AutoDR: Demand Response)
- We are also exploring innovative approaches to manufacturing that combine robotics with advanced devices, developing smart robots that incorporate our unique actuator technologies.

Note: To discover, with our clients, possible new solutions employing IoT, AI and other advanced technologies, we are opening a new facility within the azbil Techno Plaza at the Fujisawa Technology Center (opening scheduled for June).

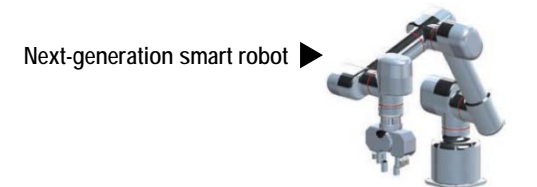
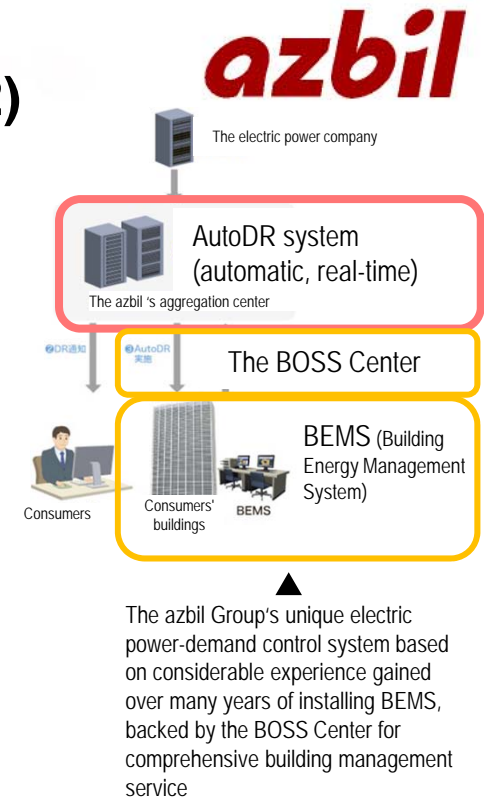
### Accelerating business development overseas

- Establishment of Strategic Planning & Development Office for Southeast Asia
- This new branch office in Singapore is being set up to promote business across the Southeast Asian region, reinforcing strategic planning and administrative functions. It will encourage synergy with overseas affiliates within the region and promote local supply of high value-added products/services similar to those in the domestic market\*.

\* Showroom will be opened and, by linking up with the azbil Techno Plaza, a permanent feature of the Fujisawa Technology Center, new proposals for products/services showcased in Japan can be replicated overseas, thus enhancing communication functions.

### Allocating and training human resources to achieve further business growth

- Comprehensive policy for human resource development
- There is a need to review our business processes and make rapid progress with business structure reforms, including working style reforms, so we will reinforce HR development by establishing a new personnel system based on a coherent concept which addresses everyone from new employees to senior staff and directors.



▲ Showroom in Singapore

### 3. Financial Plan for FY2018 (Ending March 31, 2019)

### 3. Financial Plan for FY2018 (Ending March 31, 2019)



## Consolidated Financial Plan

Net sales of 267 billion yen, operating income of 26 billion yen – Aiming for increased sales and profits\* by steadily implementing business measures while strengthening/upgrading the business foundation for sustainable growth, including production and technology development.

- Backed by a robust business environment, we will aim to achieve sales growth in all three segments by implementing measures to expand sales.
- Drawing on the success of the initiative taken in the previous fiscal year to improve the profit structure, we will implement further improvements aiming to achieve profits that exceed the goals for the final year of the current medium-term plan (FY2019).
- We will continue steadily investing to strengthen R&D and production systems with a view to achieving sustainable growth from FY2019 onwards as well as our long-term goals for FY2021.

[Billions of yen]

	FY2018 (Plan)			Previous fiscal year (B)	Difference	
	1st half	2nd half	(A)		(A) - (B)	% Change
Net sales	121.0	146.0	267.0	260.3	6.6	2.5
Operating income	8.3	17.7	26.0	24.0	1.9	8.2
%	6.9	12.1	9.7	9.2	0.5P	
Ordinary income	8.0	17.5	25.5	24.3	1.1	4.9
Net income attributable to owners of parent	5.0	12.5	17.5	17.8*	(0.3)	(2.2)
%	4.1	8.6	6.6	6.9	(0.3P)	

\* The figures for FY2017 net income attributable to owners of parent include effect of a reduction in tax expenses following a reappraisal of the recoverability of a subsidiary's deferred tax assets (Azbil Kimmon's deferred tax assets increased by 1.2 billion yen).



### 3. Financial Plan for FY2018 (Ending March 31, 2019)



## Segment Information

**BA**

Supported by a robust business environment, a high level of domestic sales will be maintained through steady job fulfillment with upgraded systems. Thanks to this, together with sales growth overseas by leveraging performance to date, the segment can expect increased sales/profits.




**AA**

Against a background of continued capital investment in Japan and abroad, the segment can expect increased sales/profits by further promoting the business growth policies and measures to strengthen profitability that were successful in the previous fiscal year.

**LA**

With continuing improvements to the profit structure, strengthening of selected business areas in the LSE field, and an expected increase in cyclic demand in the LP gas meter field, the segment can look forward to increased sales/profits.

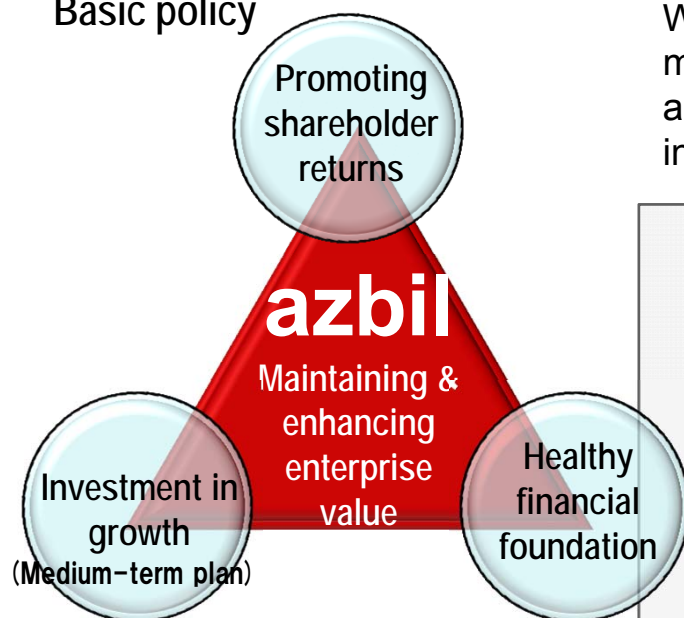
[Billions of yen]

	FY2018 (Plan)			Previous fiscal year (B)	Difference	
	1st half	2nd half	(A)		(A) - (B)	% Change
 B A Sales	50.0	72.0	122.0	120.2	1.7	1.5
Segment profit	2.0	11.0	13.0	12.5	0.4	3.3
%	4.0	15.3	10.7	10.5	0.2P	
 A A Sales	48.0	52.0	100.0	97.2	2.7	2.8
Segment profit	5.3	5.7	11.0	9.9	1.0	10.8
%	11.0	11.0	11.0	10.2	0.8P	
 L A Sales	23.5	23.0	46.5	44.2	2.2	5.2
Segment profit	1.0	1.0	2.0	1.5	0.4	33.2
%	4.3	4.3	4.3	3.4	0.9P	
Consolidated Net sales	121.0	146.0	267.0	260.3	6.6	2.5
Operating income	8.3	17.7	26.0	24.0	1.9	8.2
%	6.9	12.1	9.7	9.2	0.5P	

## 4. Returning Profits to Shareholders

● FY2017	The annual dividends as previously announced	82 yen
● FY2018	Ordinary dividends raised by 10 yen	92 yen
● FY2018	Repurchase of the Company's own shares	1 million shares

### Basic policy



We will develop well-disciplined capital policies and aim to maintain/enhance azbil's enterprise value while carefully balancing among three key elements: promoting shareholder returns, investing in growth, and maintaining a healthy financial foundation.

- To treat the return of profits to shareholders as a management priority.
- To return profits to shareholders mainly via dividends, but also to repurchase the company's own shares expeditiously.
- In deciding the level of such returns, to give consideration to consolidated financial results, levels of return on equity (ROE), dividends on equity (DOE), and retained earnings required for future business development and strengthening the corporate structure.
- To maintain a stable dividend level while at the same time striving to raise it.



## Dividends Plan

### Dividends Plan for the fiscal year ending March 2019

~to enhance the return of profits to shareholders~

## Annual Dividends: 92 yen per share

(Ordinary dividends raised by 10 yen)

The annual dividends for FY2017 will be 82 yen per share as previously announced. The plan for FY2018 sees continued growth in profits, reflecting the business environment and the result of business structure reforms and measures to strengthen the profit structure. The medium-term plan is expected to produce sustainable growth. Consequently, in order to further the redistribution of profits to our shareholders, it is planned to again raise the dividends level, increasing the ordinary dividends by 10 yen to produce annual dividends of 92 yen per share.

- Dividends for FY2017 (year-end) and FY2018 (interim & year-end) will be as follows:

	FY2017		FY2018	
	Interim	Year-end	Interim	Year-end
Dividends per share [ Yen ]	41.0	41.0 (Plan)	46.0 (Plan)	46.0 (Plan)
Payout ratio	33.3%		38.1%	
Dividends on equity (DOE)	3.5%		3.7%	

(Reference) Dividends yield: 1.7% (as of March 31, 2018)

## Repurchase of the Company's Own Shares *azbil*

In addition to the dividends, taking into consideration business results and the outlook for future business performance, and striving to improve capital efficiency and further raise the return of profits to our shareholders, we will implement a repurchase of our own shares to enable the development of flexible capital policies responding to the changing corporate environment.

- Type of shares to be repurchased:  
Common stock of the Company
- Total number of shares to be repurchased:  
Up to 1,000,000 shares  
(1.4% of total number of common stock issued, excluding treasury shares)
- Total amount of repurchase:  
Up to 5 billion yen
- Period of repurchase:  
From May 14, 2018 to July 31, 2018
- Method of repurchase:  
Purchase in the open market through a trust bank

## 5. The azbil Group's CSR-focused Management and Corporate Governance

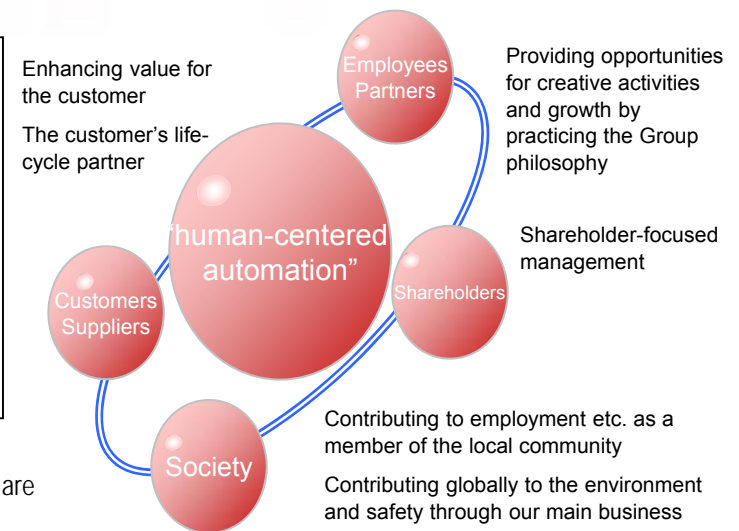
## 5. The azbil Group's CSR-focused Management and Corporate Governance



### azbil Group CSR-focused management – putting into practice our “human-centered” philosophy

- Establishment of internal controls and comprehensive risk management based on a culture of thorough compliance backed by the firm trust of society
  - Actively reducing CO<sub>2</sub> emissions and conserving resources in our own activities and operations; meeting society's expectations through a proactive social action program, and contributing to global environmental preservation
- By maintaining a good balance between these two wheels of management, we can ensure and operate an effective system that complies with the Corporate Governance Code.

- The azbil Group's CSR-focused management includes sustained measures that are closely tied to ESG (environmental, social and corporate governance) factors. Also, SDGs (sustainable development goals) are closely aligned with our own goals, so we consider them to be one compass for management.



## 5. The azbil Group's CSR-focused Management and Corporate Governance

### azbil Group Corporate Governance Reforms



#### Strengthening corporate governance in 2018: main points

(following the conclusion of the Ordinary General Meeting of Stockholders on June 26, 2018)

- One independent outside director added to the Board (Ms. Waka Fujiso, currently substitute audit & supervisory board members) \* Promoting diversity
- Advisor/counselor system abolished (requiring amendment to the articles of association)

In FY2018, complying with the spirit of the draft revision to the Corporate Governance Code, we will continuously strive for greater objectivity and transparency.

#### Composition of the Board of Directors

(following the conclusion of the Ordinary General Meeting of Stockholders on June 26, 2018)

Note: The Chairman of the Board does not concurrently hold an executive position.

More than 1/3  
of the Board  
are outside  
directors



Number of inside directors: 6



Number of independent outside directors: 4  
(including 1 of foreign nationality and 1 female)

#### Corporate governance reforms to date

Strengthening of  
supervisory/auditing  
functions

- Appointing & increasing outside directors (from 1 in 2007 to 2 in 2010, 3 in 2014, and 4 in 2018)
- Increasing outside audit & supervisory board members (3 in 2011)
- Establishing criteria for the independence of outside directors (2016)
- Initiating evaluation of effectiveness of the Board of Directors (2016)

Making management  
more transparent  
and sound

- Remuneration Meeting changed to Nomination & Remuneration Meeting (2008).
- Further changed to Nomination & Remuneration Committee. Composed of more than 50% outside directors (2016).
- Directors' remuneration scheme revised, increasing the component linked to financial results and also adding a component linked to medium/long-term financial results (2017).
- Advisor/counselor system abolished (2018).

Clarifying  
responsibilities,  
promoting dialog

- Executive officer system introduced (2000).
- Corporate governance operating guidelines drawn up (2016).
- Guidelines established for strategic shareholdings (2016).
- Executive officer appointed in charge of corporate communications (2016).

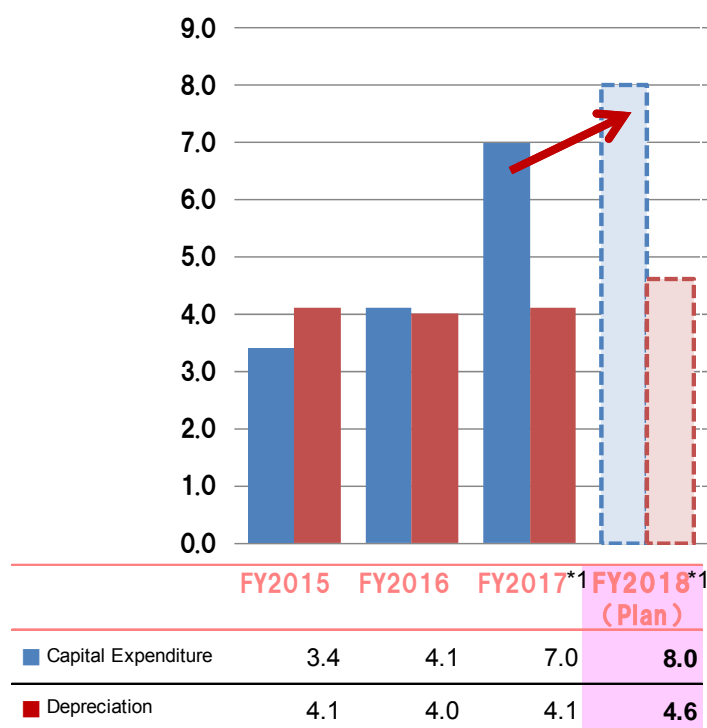
## Relevant Information

# Capital Expenditure, Depreciation and R&D Expenses

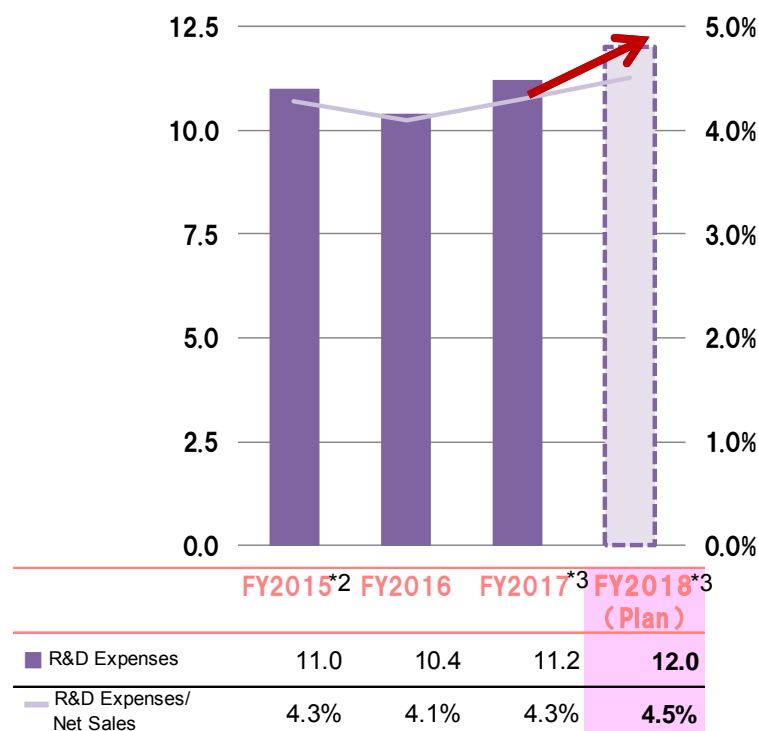


[Billions of yen]

## ■ Capital Expenditure, Depreciation



## ■ R&D Expenses, R&D Expenses/Net Sales

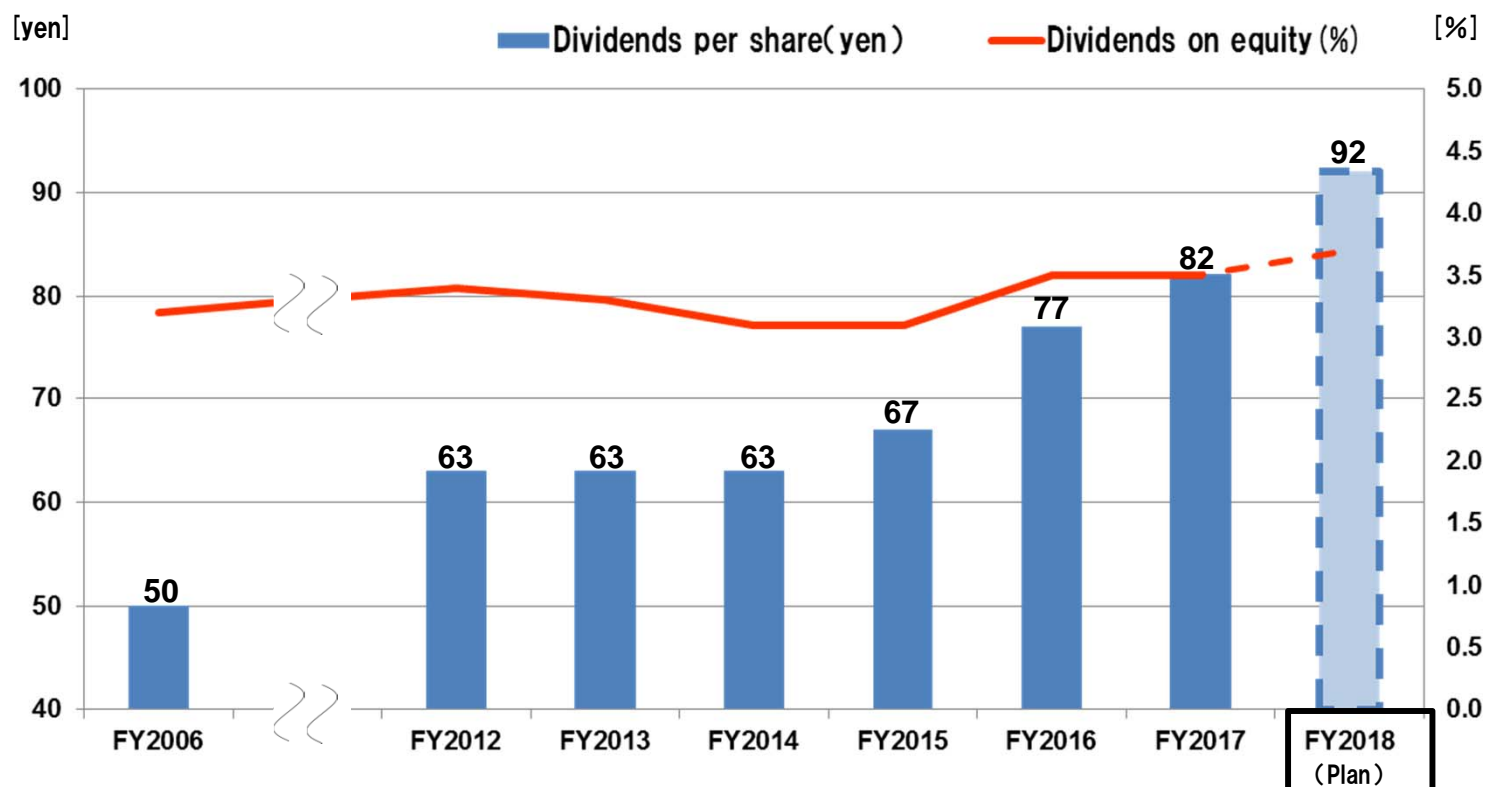


<sup>\*1</sup> Investments earmarked for the integration of the Shonan and Isehara factories, and for upgrading R&D facilities at the Fujisawa Technology Center have been incurred from the fiscal year ended March 2018.

<sup>\*2</sup> Most of the increase in R&D expenses was accounted for by development of next-generation BA system products.

<sup>\*3</sup> Product development expenses related to new technological innovations (IoT, big data, AI, etc.) have been increasing from the fiscal year ended March 2018.

# Trends of Return to Shareholders



Dividends per share(yen)	50	~	63	63	63	67	77	82	92
Dividends on equity (%)	3.2	~	3.4	3.3	3.1	3.1	3.5	3.5	3.7
Repurchase of own shares (million shares)		~				0.6		0.7	1.0



## Inclusion in ESG Indexes (FY2017)

Azbil corporation has been selected for inclusion in the FTSE4Good Index Series for the eleventh consecutive year, and additionally included in the 3 environmental, social and corporate governance (ESG) indexes newly adopted by the Government Pension Investment Fund (GPIF) of Japan.

<b>FTSE4Good Global Index</b>	884 constituents (including 148 Japanese companies)
<b>FTSE Blossom Japan Index*</b>	151 constituents
<b>MSCI Japan ESG Select Leaders Index*</b>	251 constituents
<b>MSCI Japan Empowering Women Index (WIN)*</b>	212 constituents

\*66 companies, including Azbil corporation, were selected to all of 3 ESG indexes.

**The founder's vision formed the basis for the azbil Group's philosophy “human-centered automation”. Through the management drawing on this philosophy, we are continuously pursuing sustainable development goals.**

< Group Philosophy >

To realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through “human-centered automation.”.



Our founder believed in “freeing people from drudgery using advanced technology” – and that spirit lives on, evolving over the years.

**azbil “Human-centered Automation”**  
 2006~  
 Open Network System to Fully-digitalized,  
 Seamless Network System  
 Adapting to the Surge in Social Needs for Environmental Conservation and  
 Energy Saving and Offering Solutions for Sustained Development



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## azbil Group Philosophy

To realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through  
**“human-centered automation”**

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