Azbil Corporation RIC: 6845.T, Sedol: 6985543

azbil
Human-centered automation

Presentation Materials

For the First Half Ended September 30, 2019 (Based on Japanese GAAP)

Contents

November 1, 2019

We would like to express our deepest sympathy for all those who have suffered as a result of the recent storms, heavy rain and flooding in Japan – including typhoons Faxai (No.15) and Hagibis (No.19). We sincerely hope that the affected regions will be able to achieve a rapid recovery.
The entire azbil Group is committed to ensuring a rapid response, as part of our operations, to facilitate a quick restoration of business for our customers whose buildings, factories, infrastructure, etc. were affected by these storms and typhoons.

Notes

1. Financial data and financial statements have been prepared based on Japanese GAAP and the amounts have been rounded down.

2. The following are the azbil Group's segments (each identified by abbreviation) together with the various sub-segments and their principal business fields.

   B A：Building Automation
   A A：Advanced Automation
   - CP (Control Product) business: Supplying factory automation products such as controllers and sensors
   - IAP (Industrial Automation Product) business: Supplying process automation products such as differential pressure transmitters, pressure transmitters, and control valves
   - SS (Solution and Service) business: Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.

   L A：Life Automation
   - Lifeline field: Provision of gas meters and water meters, safety equipment such as alarms and automatic shut-off valves, regulators and other products for industry
   - Life Science Engineering (LSE) field: Provision of integrated solutions from the development, engineering, installation, and sale of lyophilizers, sterilizers, and clean environment equipment to after-sales services for pharmaceutical companies and research laboratories
   - Lifestyle-related field: Provision of residential central air-conditioning systems for houses

3. Net sales for the azbil Group tend to be concentrated in the second half of the consolidated accounting period, while fixed costs are generated constantly. This means that profits in the first half are typically lower than the second half.

4. The financial plan is based on management's assumptions, intent and expectations in light of the information currently available to it, and therefore is not a guarantee of future performance. Due to various factors, actual results may differ from those discussed in this document.

5. Change in accounting policy (adoption of International Financial Reporting Standard 16 Leases; hereafter, "IFRS 16")

   Subsidiaries which apply IFRS have adopted IFRS 16 from the first quarter of FY2019. Accordingly, lessees recognize all leases, in principle, as assets and liabilities on the balance sheet. On adopting of IFRS 16, in accordance with transitional measures, the subsidiaries recorded an adjustment to retained earnings as the cumulative effect of this change at the beginning of the first quarter. As a result, property, plant and equipment increased by 1.082 billion yen, "Other" under current liabilities increased by 0.272 billion yen, and "Other" under non-current liabilities increased by 0.874 billion yen, while the effect of this change on the consolidated statements of income for the current consolidated cumulative second quarter is immaterial. Additionally, retained earnings at the beginning of the first quarter decreased by 0.064 billion yen.

1. Financial Results for the First Half Ended September 30, 2019

Consolidated Financial Results

- Orders received were lower for the AA business owing to adverse market conditions, but the BA and LA businesses achieved increases, so overall orders received were on a par with the same period last year.
- Sales were down for the AA and LA businesses, but increased for the BA business, which has made steady progress in carrying out the numerous projects on its order book. Overall net sales were on a par with the same period last year and surpassed the plan.
- Owing to the success of measures to strengthen business profitability, operating income was up on the same period last year, surpassing the plan.
- Thanks to the increase in operating income, ordinary income and net income attributable to owners of parent were both on a par with the same period last year, despite the recording of foreign exchange losses on appreciation of the yen. As with operating income, the plan was surpassed by a large margin.

(Billions of yen)

	FY2019 H1 (A)	Plan (May 10, 2019) (B)	Difference (A) - (B)	Difference % Change	FY2018 H1 (C)	Difference (A) - (C)	Difference % Change
Orders received	145.1				145.0	0.0	*0.0*
Net sales	118.6	117.0	1.6	*1.4*	119.7	(1.1)	*(0.9)*
Japan	97.9				96.0	1.9	*2.0*
Overseas	20.6				23.7	(3.0)	*(12.9)*
Gross profit	45.5				44.6	0.9	*2.1*
%	*38.4*				*37.3*	*1.1pp*	
SG&A	36.7				36.4	0.2	*0.7*
Operating income (loss)	8.8	7.7	1.1	*15.1*	8.1	0.6	*8.5*
%	*7.5*	*6.6*	*0.9pp*		*6.8*	*0.6pp*	
Ordinary income (loss)	9.0	7.6	1.4	*18.5*	8.8	0.1	*1.3*
Income (loss) before income taxes	8.9				8.8	0.1	*1.6*
Net income (loss) attributable to owners of parent	5.9	4.9	1.0	*21.3*	5.8	0.1	*1.9*
%	*5.0*	*4.2*	*0.8pp*		*4.9*	*0.1pp*	

Segment Information - ■ BA Business

Thanks to urban redevelopment plans for the Tokyo metropolitan area, the market environment continued to be robust. There was a focus on securing orders with a view to enhanced profitability. Additionally, efforts were made to ensure enhanced capabilities and efficiencies of job execution, particularly on site, resulting in improved profitability.

- There was an increase in overall orders received, with growth achieved in fields related to equipment/system sales and installation for new large-scale buildings, reflecting a robust market environment. This was more than sufficient to compensate for the large-scale service projects covering several years that were recorded in the same period last year.
- Sales also increased in the field for new large-scale buildings. Overall sales were up on the same period last year, achieving the plan.
- Segment profit rose significantly compared to the same period last year, benefiting not only from increased revenue and the success of initiatives designed to improve profitability, but also from the fact that in the same period last year temporary expenses for provision were recorded. In addition, the plan was surpassed thanks to the increased revenue and improved profitability.

(Billions of yen)

	FY2019 H1	Plan (May 10, 2019)	Difference		FY2018 H1	Difference	
	(A)	(B)	(A) - (B)	*% Change*	(C)	(A) - (C)	*% Change*
Orders received	76.5				75.2	1.2	*1.7*
Sales	52.1	51.0	1.1	*2.2*	49.5	2.5	*5.2*
Segment profit (loss)	2.9	2.1	0.8	*42.4*	1.1	1.7	*150.1*
%	*5.7*	*4.1*	*1.6pp*		*2.4*	*3.3pp*	

Segment Information - ■ AA Business

Focusing on the three AA business sub-segments,* we have implemented measures to achieve business growth and strengthen profitability. Sales and segment profit were impacted by the downturn in markets related to manufacturing equipment in Japan and overseas, resulting in lower sales and profit than the same period last year. However, the plan was beat in both cases, resulting in a double-digit profit margin.

- As regards orders received and sales, although results for the IAP and SS businesses – which mainly target the process automation market – remained relatively robust, there was a sharp fall for the CP business due to the sluggish manufacturing equipment markets in Japan and overseas.
- Segment profit fell compared to the same period last year owing to the market downturn and resulting fall in revenue, but the plan was exceeded thanks to continuing measures to strengthen profitability. The segment profit margin – which serves as an index of profitability – remains exceeding 10%.
- Progress was made with securing new customers, in Japan and overseas, and with developing new automation fields.

(Billions of yen)

	FY2019 H1 (A)	Plan (May 10, 2019) (B)	Difference (A) - (B)	Difference % Change	FY2018 H1 (C)	Difference (A) - (C)	Difference % Change
Orders received	45.0				50.3	(5.2)	*(10.4)*
Sales	44.8	44.0	0.8	*2.0*	47.7	(2.9)	*(6.1)*
Segment profit (loss)	4.9	4.4	0.5	*11.4*	5.8	(0.9)	*(15.7)*
%	*10.9*	*10.0*	*0.9pp*		*12.2*	*(1.2)pp*	

* Three AA business sub-segments:
CP (Control Product) business, IAP (Industrial Automation Product) business, and SS (Solution and Service) business.
For details, refer to page 2 of this document.

Segment Information - ■ LA Business

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The Lifeline field (gas/water meters, etc.) is a relatively stable business environment since it is focused on meeting cyclical meter replacement demand, as required by law. In the two other fields – Life Science Engineering (LSE) and Lifestyle-related (residential central air-conditioning systems) – stable profits have been realized through implementing business structure reforms.

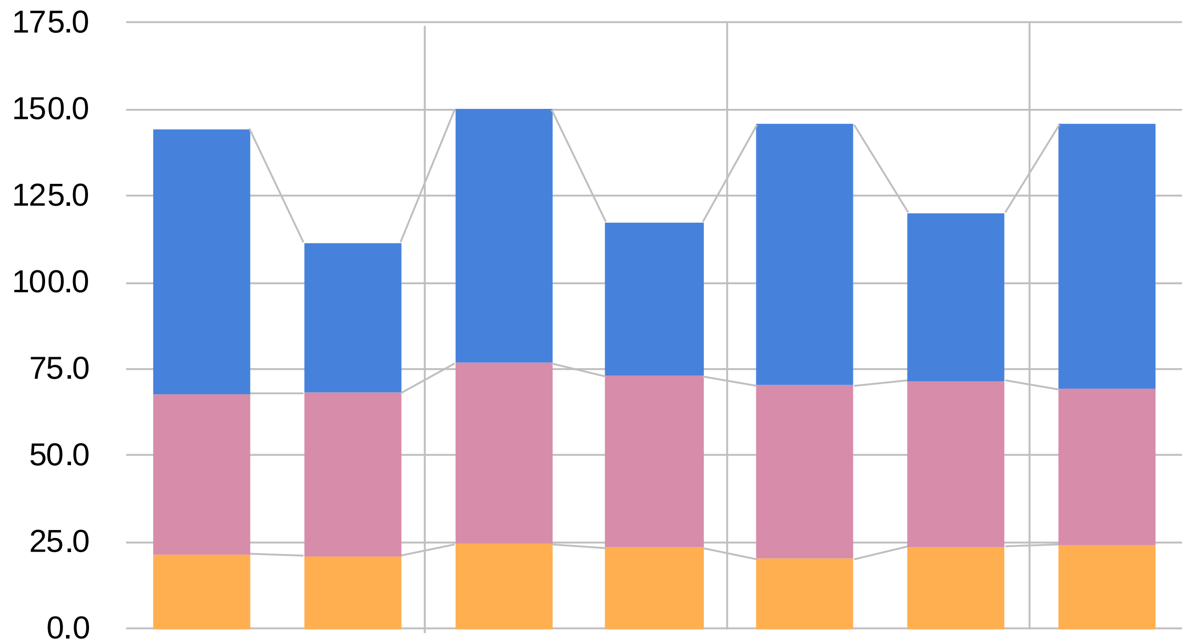
- Orders received jumped, mainly due to growth in the LSE field.
- Sales were down on the same period last year and fell short of the plan, despite increased sales in the Lifeline and Lifestyle-related fields; this was because orders received in the LSE field decreased last year.
- Segment profit was lower than the same period last year owing mainly to reduced revenue. The plan was not achieved.

(Billions of yen)

	FY2019 H1 (A)	Plan (May 10, 2019) (B)	Difference (A) - (B)	Difference % Change	FY2018 H1 (C)	Difference (A) - (C)	Difference % Change
Orders received	24.2				20.1	4.0	*20.0*
Sales	22.3	23.0	(0.6)	*(2.9)*	23.0	(0.7)	*(3.3)*
Segment profit (loss)	0.9	1.2	(0.2)	*(20.0)*	1.1	(0.2)	*(17.3)*
%	*4.3*	*5.2*	*(0.9)pp*		*5.0*	*(0.7)pp*	

Reference: Orders Received by Segment

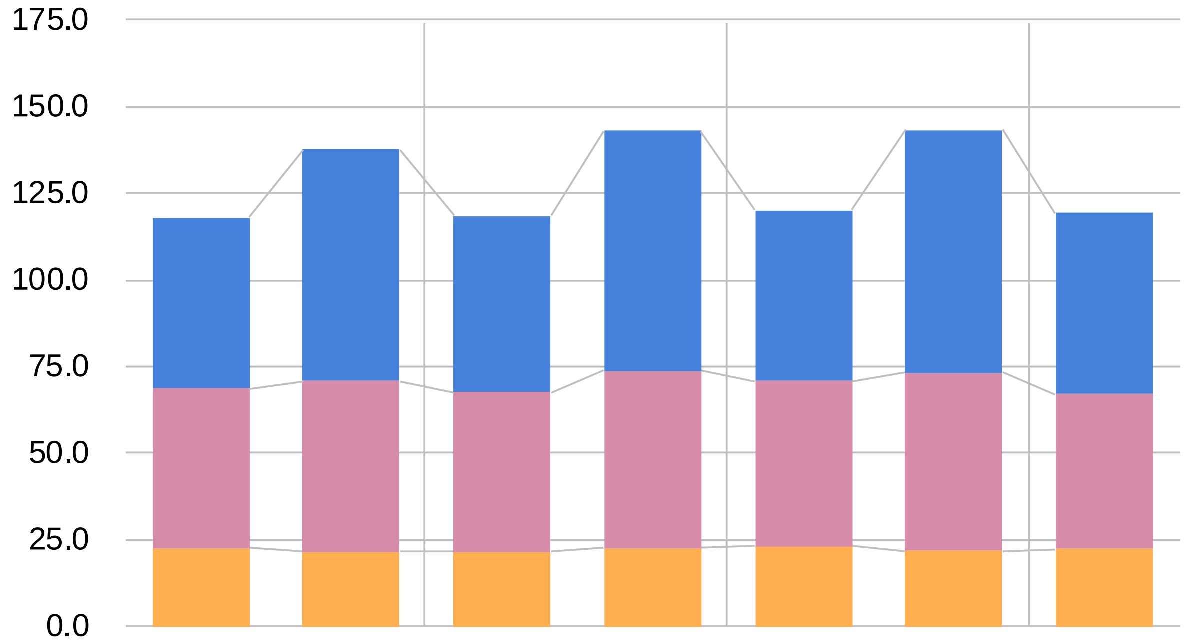
(Billions of yen)



	FY2016		FY2017		FY2018		**FY2019**
	H1	H2	H1	H2	H1	H2	**H1**
BA	76.6	43.4	73.2	44.5	75.2	48.5	**76.5**
AA	46.3	47.0	52.2	49.5	50.3	48.0	**45.0**
LA	21.5	21.1	24.5	23.4	20.1	23.6	**24.2**
Consolidated	143.8	111.1	149.4	116.8	145.0	119.1	**145.1**

Reference: Sales by Segment

(Billions of yen)

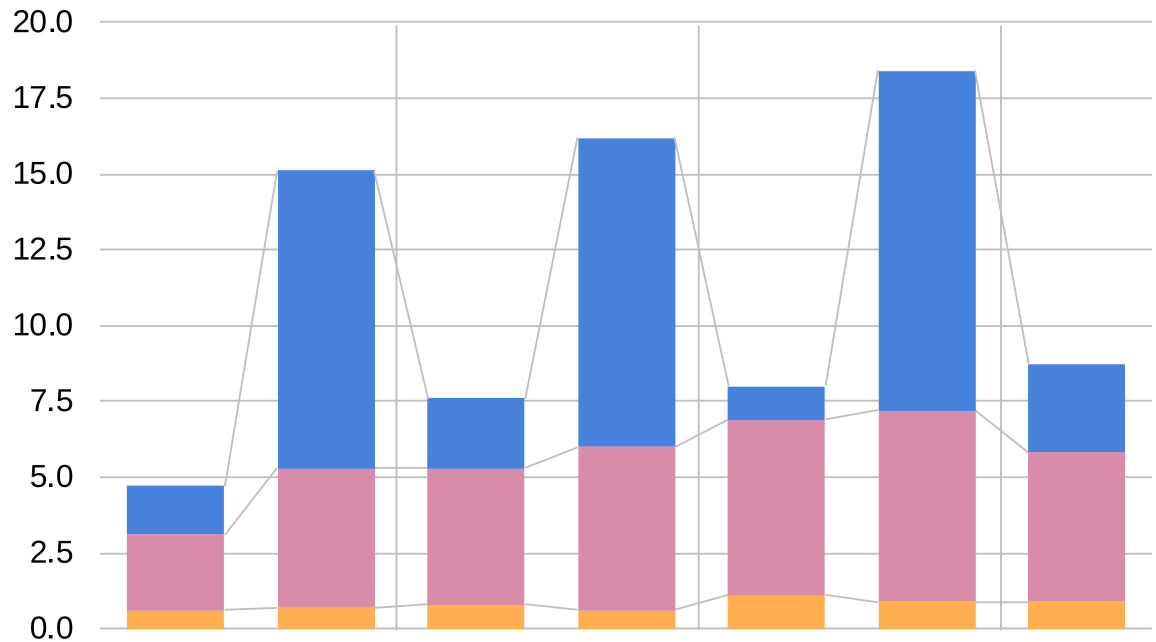


	FY2016		FY2017		FY2018		**FY2019**
	H1	H2	H1	H2	H1	H2	**H1**
B A	49.4	66.9*	50.8	69.3	49.5	69.9	**52.1**
A A	46.0	49.4	46.2	51.0	47.7	51.6	**44.8**
L A	22.6	21.4	21.4	22.7	23.0	21.7	**22.3**
Consolidated	117.6	137.2	117.8	142.4	119.7	142.3	**118.6**

* In December 2016, the Chinese subsidiary Beijing YTYH Intelli-Technology Co., Ltd. was removed from consolidation. The consolidated figures include the subsidiary until the third quarter of FY2016.

Reference: Segment Profit (Operating Income)

(Billions of yen)



	FY2016 H1	FY2016 H2	FY2017 H1	FY2017 H2	FY2018 H1	FY2018 H2	**FY2019 H1**
BA	1.6	9.8*	2.3	10.2	1.1	11.2	**2.9**
AA	2.5	4.6	4.5	5.4	5.8	6.3	**4.9**
LA	0.6	0.7	0.8	0.6	1.1	0.9	**0.9**
Consolidated	4.9	15.2	7.7	16.2	8.1	18.5	**8.8**

* In December 2016, the Chinese subsidiary Beijing YTYH Intelli-Technology Co., Ltd. was removed from consolidation. The consolidated figures include the subsidiary until the third quarter of FY2016.

Overseas Sales by Region

Compared to the same period last year

Owing to the downturn in markets for manufacturing equipment, which has resulted mainly in lower revenues in the CP business, overseas sales were down in China, Asia and North America. Overall sales decreased by 12.9% on the same period last year.

BA Business

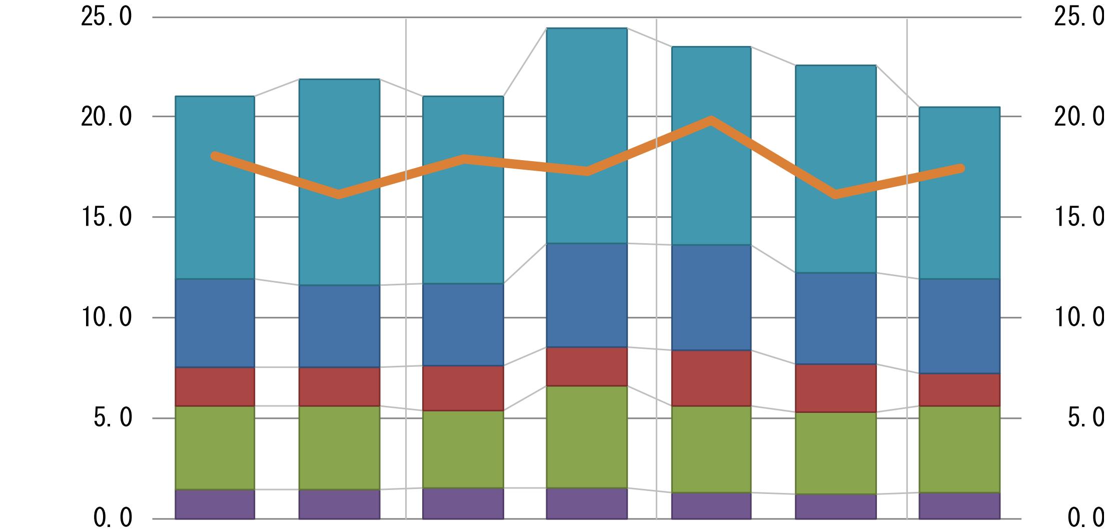
The Asian region was almost unchanged from the same period last year, but, mainly due to lower sales in China, overall sales were lower.

AA Business

The process automation market in China and Asia remained robust, but this was not enough to compensate for the lower sales in manufacturing equipment markets and thus overall sales were down.

LA Business

Due to the fall in orders received in the Life Science Engineering (LSE) field last year, overall sales decreased.



	FY2016 H1	FY2016 H2	FY2017 H1	FY2017 H2	FY2018 H1	FY2018 H2	FY2019 H1
Asia (ex-China)	9.1	10.3	9.3	10.7	9.9	10.4	**8.6**
China	4.4	4.1	4.1	5.2	5.2	4.5	**4.7**
North America	1.9	1.9	2.2	1.9	2.8	2.4	**1.6**
Europe	4.2	4.2	3.9	5.1	4.3	4.1	**4.3**
Others	1.4	1.4	1.5	1.5	1.3	1.2	**1.3**
Consolidated	21.2	22.1	21.1	24.6	23.7	22.9	**20.6**

Reference information

	FY2016 H1	FY2016 H2	FY2017 H1	FY2017 H2	FY2018 H1	FY2018 H2	FY2019 H1
Overseas sales/ Net sales	18.0%	16.1%	17.9%	17.3%	19.8%	16.1%	**17.4%**
Average exchange rate - USD/JPY	111.74	108.81	112.34	112.17	108.68	110.45	**110.06**
Average exchange rate - EUR/JPY	124.58	120.30	121.66	126.70	131.55	130.35	**124.32**

• Overseas sales figures include only the sales of overseas subsidiaries and direct exports; indirect exports are excluded.
• The accounting year used by overseas subsidiaries mainly ends on December 31.

Consolidated Financial Position

Seasonal factors affecting business typically lead to a decrease in the azbil Group's assets and liabilities at the end of the first half when compared to the end of the previous fiscal year.

- **Assets** Owing to a fall in notes and accounts receivable-trade, total assets decreased by 22.7 billion yen compared to the end of the previous fiscal year.
- **Liabilities** In addition to a fall in notes and accounts payable-trade, there was a decrease in income taxes payable and a decrease in provision for bonuses. Thus, total liabilities decreased by 17.2 billion yen compared to the end of the previous fiscal year.
- **Net assets** Net assets saw a decrease of 5.5 billion yen compared to the end of the previous fiscal year, despite an increase from the recording of net income attributable to owners of parent. This decrease was due to the payment of dividends and the repurchase of own shares.

(Billions of yen)

	As of Sep. 30, 2019 (A)	As of Mar. 31, 2019 (B)	Difference (A) - (B)
Current assets	**186.4**	**209.9**	**(23.4)**
Cash and deposits	44.2	46.4	(2.2)
Notes and accounts receivable-trade	74.7	93.7	(19.0)
Inventories	25.9	24.9	1.0
Other	41.5	44.7	(3.2)
Non-current assets	**66.2**	**65.6**	**0.6**
Property, plant and equipment	28.0	26.9	1.0
Intangible assets	5.2	5.1	0.0
Investments and other assets	32.9	33.4	(0.5)
Total assets	**252.7**	**275.5**	**(22.7)**

	As of Sep. 30, 2019 (A)	As of Mar. 31, 2019 (B)	Difference (A) - (B)
Liabilities	**75.1**	**92.4**	**(17.2)**
Current liabilities	**68.8**	**86.9**	**(18.1)**
Notes and accounts payable-trade	34.1	40.1	(5.9)
Short-term borrowings	8.7	9.8	(1.1)
Other	26.0	37.0	(10.9)
Non-current liabilities	**6.2**	**5.4**	**0.8**
Long-term borrowings	0.0	0.1	(0.0)
Other	6.2	5.2	0.9
Net assets	**177.5**	**183.0**	**(5.5)**
Shareholders' equity	**164.4**	**170.5**	**(6.0)**
Share capital	10.5	10.5	-
Capital surplus	11.6	11.6	-
Retained earnings	154.7	160.3	(5.5)
Treasury shares	(12.4)	(11.9)	(0.5)
Accumulated other comprehensive income	**11.2**	**10.5**	**0.6**
Non-controlling interests	**1.8**	**1.9**	**(0.0)**
Total liabilities and net assets	**252.7**	**275.5**	**(22.7)**

Reference
Shareholders' equity ratio: 69.5% (as of Sep. 30, 2019), 65.7% (as of Mar. 31, 2019)

Consolidated Cash Flows

- Cash flows from operating activities increased compared to the same period last year owing to increased collection of notes and accounts receivable-trade, despite an increase in income taxes paid. Cash flows from investing activities saw a decrease in expenditures compared to the same period last year, when there were outlays for capital investment related to the integration and upgrading of production facilities in Japan. Consequently, free cash flow (FCF) increased by 7.8 billion yen compared to the same period last year.
- Cash flows from financing activities saw an increase in expenditures of 5.4 billion compared to the same period last year, mainly due to increased expenditures for the repurchase of own shares (8.6 billion yen in the current period, 4.9 billion yen in the same period last year).

(Billions of yen)

	FY2019 H1 (A)	FY2018 H1 (B)	Difference	
			(A) - (B)	*% Change*
Cash flows from operating activities	9.8	4.7	5.1	*110.0*
Cash flows from investing activities	(4.1)	(6.7)	2.6	-
Free Cash Flow (FCF)	5.7	(2.0)	7.8	-
Cash flows from financing activities	(13.5)	(8.0)	(5.4)	-
Effect of exchange rate change on cash and cash equivalents	(0.3)	(0.2)	(0.0)	-
Net increase (decrease) in cash and cash equivalents	(8.1)	(10.4)	2.3	-
Cash and cash equivalents at beginning of period	68.1	68.6	(0.5)	*(0.7)*
Cash and cash equivalents at end of period	60.0	58.1	1.8	*3.1*

Reference

Capital expenditure	2.4	3.7	(1.2)	*(33.2)*
Depreciation	2.1	2.0	0.0	*2.8*

2. Financial Plan for the Fiscal Year Ending March 31, 2020

Consolidated Financial Plan

While the downturn in certain markets have some impact, thanks to a diverse business portfolio, we will achieve net sales of the same level as the previous fiscal year. As regards profits, building on the success of our initiatives to strengthen the profitability of each segment, and ensuring investment for strengthening our business foundation in order to achieve sustainable growth, we anticipate setting yet again a new record for operating income of 27.0 billion yen, which surpasses the initial plan.

- The downturn in markets related to makers of manufacturing equipment is expected to continue, but conditions in the building market, etc., continue to be robust and overall net sales are projected to be at the same level as the previous fiscal year.
- The successful strengthening of profitability has resulted in adjusting upwards the figure for operating income in the initial plan to 27.0 billion yen – substantially higher than the 25.0 billion yen set as the goal for the final year of the medium-term plan. This means we will achieve record-breaking profits.
- In order to realize sustained growth from FY2019 onwards and achieve our long-term goals, we will accelerate business growth by continuing investments such as in development and production systems aimed at strengthening the business foundation.

(Billions of yen)

	FY2019 (revised plan)			Initial plan (May 10, 2019)	Difference		FY2018	Difference	
	H1 (results)	H2 (plan)	Full year (A)	(B)	(A) - (B)	% Change	(C)	(A) - (C)	% Change
Net sales	118.6	143.3	262.0	262.0	-	-	262.0	(0.0)	*(0.0)*
Operating income	8.8	18.1	27.0	26.5	0.5	*1.9*	26.6	0.3	*1.2*
%	*7.5*	*12.7*	*10.3*	*10.1*	*0.2pp*		*10.2*	*0.1pp*	
Ordinary income	9.0	17.9	27.0	26.2	0.8	*3.1*	27.6	(0.6)	*(2.4)*
Net income attributable to owners of parent	5.9	13.0	19.0	18.5	0.5	*2.7*	18.9	0.0	*0.3*
%	*5.0*	*9.1*	*7.3*	*7.1*	*0.2pp*		*7.2*	*0.0pp*	

Plan by Segment (1)

(Billions of yen)

		FY2019 (revised plan)			Initial plan (May 10, 2019)	Difference		FY2018	Difference	
		H1 (results)	H2 (plan)	Full year (A)	(B)	(A) - (B)	*% Change*	(C)	(A) - (C)	*% Change*
B A	Sales	52.1	72.8	125.0	125.0	-	-	119.5	5.4	*4.6*
	Segment profit	2.9	11.4	14.4	13.7	0.7	*5.1*	12.4	1.9	*15.9*
	%	*5.7*	*15.7*	*11.5*	*11.0*	*0.6pp*		*10.4*	*1.1pp*	
A A	Sales	44.8	49.1	94.0	94.0	-	-	99.3	(5.3)	*(5.4)*
	Segment profit	4.9	5.6	10.6	10.6	-	-	12.2	(1.6)	*(13.2)*
	%	*10.9*	*11.6*	*11.3*	*11.3*	-		*12.3*	*(1.0)pp*	
L A	Sales	22.3	22.6	45.0	45.0	-	-	44.8	0.1	*0.4*
	Segment profit	0.9	1.0	2.0	2.2	(0.2)	*(9.1)*	2.0	(0.0)	*(3.0)*
	%	*4.3*	*4.6*	*4.4*	*4.9*	*(0.4)pp*		*4.6*	*(0.2)pp*	
Consolidated	Net sales	118.6	143.3	262.0	262.0	-	-	262.0	(0.0)	*(0.0)*
	Operating income	8.8	18.1	27.0	26.5	0.5	*1.9*	26.6	0.3	*1.2*
	%	*7.5*	*12.7*	*10.3*	*10.1*	*0.2pp*		*10.2*	*0.1pp*	

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Plan by Segment (2)

BA

We will make steady progress with the handling of orders, expecting to achieve record-breaking profits.

- Thanks to the robust business environment in Japan, orders received and the order backlog remain at high levels. There is also improved profitability.
- In H2 too, by efficiently and steadily handling orders with the upgraded system for job execution, it is expected that we will achieve record-breaking sales and profits in FY2019.

AA

It is uncertain when market conditions will recover, but by continuing to implement our growth strategy and strengthen profitability, we will secure profits at a high level, in line with the initial plan.

- We will further streamline operations for the three business sub-segments (CP, IAP, and SS), aiming to achieve continued progress with our growth strategy for the future and measures to strengthen profitability.
- Business conditions remain uncertain, but there are signs of recovery in certain markets.

LA

We will continue to improve profits and expand into new service areas.

- Supported by the relatively stable demand for gas and water meters whose replacement is required by law, we expect to achieve increased sales in H2 for the LA business as a whole by expanding a new data service business.
- While we expect a decline in profits for the full fiscal year, reflecting H1 results, by continuing with initiatives aimed at improving the profit structure, in H2 we are aiming to increase revenue and achieve results in line with the plan.

3. Returning Profits to Shareholders

Based on the basic policy below, we aim for stable and improved returns to shareholders while making steady progress with investments to drive future growth and thus increase enterprise value.

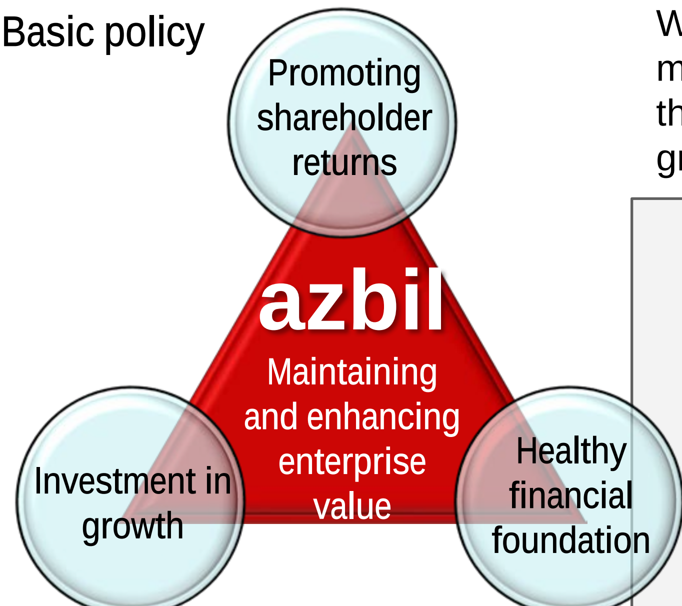
FY2019

- Ordinary dividends increased by 4 yen per year, for a total annual dividend of **50** yen per share (25 yen interim, 25 yen at year-end)
- Repurchase of own shares **9.9 billion** yen (3.71 million shares)

As announced on May 10, 2019

Repurchase concluded

Basic policy



We will develop well-disciplined capital policies and aim to maintain/enhance azbil's enterprise value while carefully balancing 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

FY2019 Dividend plan (No change from the initial plan as announced on May 10, 2019)

As previously announced on May 10, 2019, it is planned to issue an annual dividend of 50 yen per share (both interim and year-end dividends to be 25 yen per share), representing an ordinary dividend increase of 4 yen.

Owing to the success of business structure reforms and measures to strengthen the profit structure, in FY2019 it is planned to achieve record-level profits, as in FY2018. Since steady progress is being made with business measures aimed at achieving our long-term goals (FY2021)[*1], in accordance with azbil's basic policies we are planning to increase the dividends to further enhance the return to our shareholders. (No change from the initial plan.)

(Yen)

	FY2018			FY2019		
	Interim	Year-end	Annual	Interim	Year-end (plan)	Annual (plan)
Dividend per share (Post-split conversion)	46[*2] (23)	23[*2] (23)	– (46)	25	25	50
(Pre-split conversion)	(46)	(46)	(92)	(50)	(50)	(100)
Payout ratio	34.8%			36.7%[*3]		
Dividend on equity (DOE)	3.7%			3.9%[*4]		

[*1] Long-term goals (FY2021 financial results): net sales of 300.0 billion yen, operating income of at least 30.0 billion yen, and ROE of 10% or more.

[*2] A 2-for-1 common stock split was implemented on October 1, 2018. The interim dividend per share for FY2018 was issued based on the number of shares held prior to the stock split, while the year-end dividend was issued based on the number of shares held after the stock split. If the stock split were not taken into account, the year-end dividend for FY2018 would be 46 yen (pre-split conversion), and the annual dividend (ditto) for FY2018 including the interim dividend would be 92 yen. Therefore, this effectively represents no change to the dividend level in the initial plan announced on May 11, 2018.

[*3] The effects of own share repurchases concluded in FY2019 are taken into account for a trial calculation of net income per share, and accordingly payout ratio for FY2019.

[*4] The following factors have been taken into account for the trial calculation, which is based on shareholders' equity on March 31, 2019: own share repurchases concluded in FY2019, year-end dividends for FY2018, interim dividends for FY2019, and net income attributable to owners of parent in consolidated financial plan for FY2019.

Reference: Dividend yield 1.7% (as of September 30, 2019)

Cancellation of Treasury Shares and Repurchase of Own Shares

Along with cancellation of treasury shares held on March 31, 2019, in order to improve capital efficiency and to further enhance shareholder return:

Repurchase of the Company's own shares of 9.9 billion yen (3.71 million shares) has been concluded.

Taking into consideration the status and future outlook for our business and financial results, and while ensuring a disciplined capital policy, we aim to further improve capital efficiency. In order to make possible further enhancement to shareholder return and the pursuit of a flexible capital policy that can accommodate changes in the business environment, we have cancelled treasury shares and repurchased own shares.

■ Cancellation of treasury shares (finished)

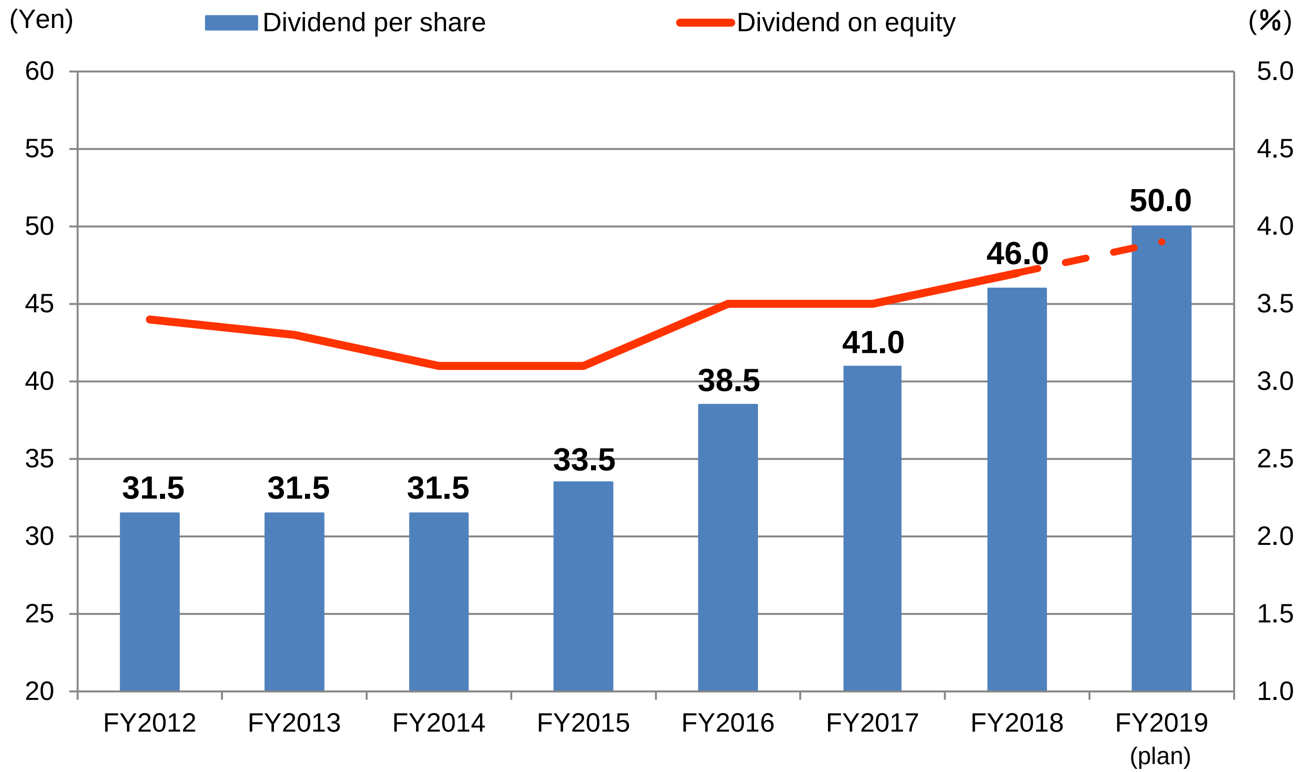
- Type of shares cancelled: Common stock of the Company
- Number of shares cancelled: 3,300,000 shares
  - 2.2% of total number of issued shares before cancellation
  - Company's treasury shares as of March 31, 2019: 3,303,558 shares*
- Total number of issued shares after cancellation: 145,200,884 shares
- Date of cancellation: May 31, 2019

■ Repurchase of own shares (finished)

- Type of shares repurchased: Common stock of the Company
- Total number of shares repurchased: 3,717,700 shares
- Total amount of repurchase: 9,921,154,782 yen
- Period of repurchase: From May 13, 2019 to October 31, 2019 (based on trade date)
- Method of repurchase: Market transactions on the Tokyo Stock Exchange

* The above number of treasury shares, 3,303,558 shares, does not include shares owned by the trust account for Trust for Employee Stock Ownership Plan (J-ESOP), which owned 1,988,258 shares as of March 31, 2019.

Reference: Trends of Shareholders' Returns



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (plan)
Dividend per share (yen)	31.5	31.5	31.5	33.5	38.5	41.0	46.0	50.0
Dividend on equity (DOE, %)	3.4	3.3	3.1	3.1	3.5	3.5	3.7	3.9

Repurchase of own shares Total amount (billions of yen)				1.9		2.9	4.9	9.9
(Number of own shares repurchased (million shares))				(1.20)		(1.42)	(1.87)	(3.71)

Note:
The dividend per share and the number of own shares repurchased have been retroactively revised, taking into account the effects of the stock split.

4. Final Year of the Medium-term Plan (FY2017-FY2019)

- Progress of Measures and Initiatives Aimed at Future Growth -

azbil

Policies and Targets of the Medium-term Plan (FY2017-FY2019)

- By implementing business strategies based on the three fundamental policies as well as measures to strengthen profitability, we expect operating income to surpass 27.0 billion yen for FY2019, which, as in FY2018, will exceed the performance goal originally set for the final year of the medium-term plan (published in May 2017).
- Aiming to achieve growth under the next medium-term plan, we will continue to invest in strengthening the business foundation (developing products and services, reinforcing the production system, etc.), steadily deploying measures for each business segment.

Details of the current medium-term plan published in May 2017

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 three business fields to expedite sustainable growth

N New automation fields

Adapting to structural changes in industry by combining "things" and information

E Environmental/energy fields

Providing solutions to the long-term issues of environmental impact reduction and energy demand restraint

L Life-cycle solutions business

Supplying value matched to each development stage of a customer's business

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

Medium-term Plan Performance Goals: Progress by Segment

- We are upgrading business systems in each of the three segments – BA, AA and LA – and making progress with improving profitability.
- Progress is being made with developing new automation fields.
- There has been some impacts due to downturn in some markets, but we will steadily implement measures to attain our long-term goals and achieve further growth.

(Billions of yen)

		FY2016 (results) (A)	FY2017 (results)	FY2018 (results)	FY2019 (plan)		Difference	
					Original goals set for the medium-term plan (announced on May 12, 2017)	**Plan for FY2019 performance** (announced on Nov 1, 2019) (B)	(B) - (A)	*% Change*
BA	Sales	116.4	120.2	119.5	124.0	125.0	8.5	*7.4*
	Segment profit	11.5	12.5	12.4	13.0	14.4	2.8	*25.1*
	%	*9.9*	*10.5*	*10.4*	*10.5*	*11.5*	*1.6pp*	
AA	Sales	95.4	97.2	99.3	100.0	94.0	(1.4)	*(1.6)*
	Segment profit	7.2	9.9	12.2	9.5	10.6	3.3	*47.1*
	%	*7.5*	*10.2*	*12.3*	*9.5*	*11.3*	*3.7pp*	
LA	Sales	44.1	44.2	44.8	48.0	45.0	0.8	*2.0*
	Segment profit	1.4	1.5	2.0	2.5	2.0	0.5	*40.8*
	%	*3.2*	*3.4*	*4.6*	*5.2*	*4.4*	*1.2pp*	
Consolidated	Net sales	254.8	260.3	262.0	270.0	262.0	7.1	*2.8*
	Operating income	20.1	24.0	26.6	25.0	27.0	6.8	*34.0*
	%	*7.9*	*9.2*	*10.2*	*9.3*	*10.3*	*2.4pp*	

BA Business: Progress of Measures and Initiatives Aimed at Future Growth

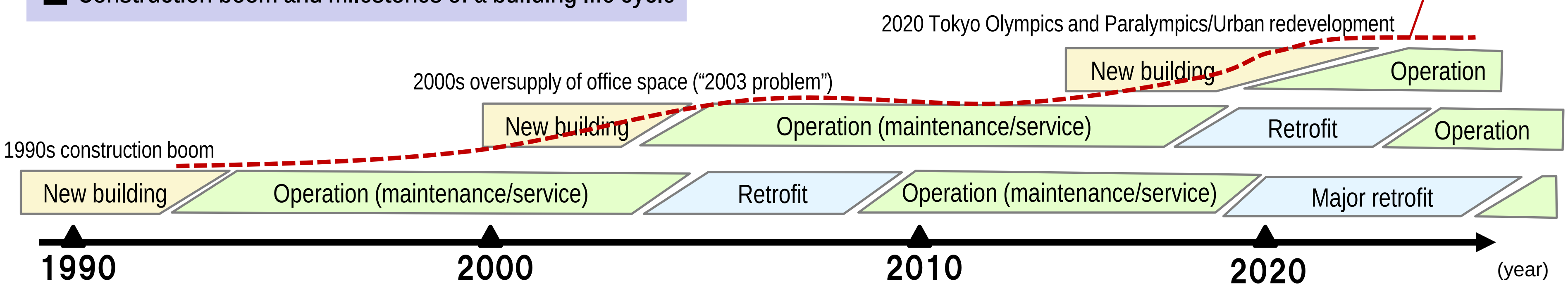
Strengthening our relationship with customers in Japan and abroad throughout building life cycles

Outlook for business environment and progress in implementing business measures

- The domestic business environment will continue to be robust. From FY2020 onwards urban redevelopment projects are planned, so demand related to new buildings will continue. Growth is also expected in retrofit demand for existing systems supplied by azbil in the past.
- We are upgrading systems to ensure steady job fulfillment is achieved without exceeding the appropriate number of working hours, and we are implementing measures for actively securing orders. Additionally, with a view to securing the retrofit demand that is expected to increase from FY2020 onwards, we are focusing more on proactively making retrofit proposals.
- As well as launching our latest building automation system (savic-net G5) and enhancing its features, we are building on our track record for the supply of cloud-based BEMS functionality.
- By offering steady installation and such high added-value services as energy saving, we are building a solid track record in the Asian region and finding new partners.

- Continued urban redevelopment from 2020 onwards
- Expected steady buildup of service/retrofit potential

■ Construction boom and milestones of a building life cycle



Initiatives aimed at future growth

- Expanding new automation fields centered around the latest building automation system (savic-net G5)
  - Enhance lineup of cloud-based products and edge devices
  - Promote value propositions based on cross-industry collaboration with other companies offering advanced technologies and products.
- Further promoting the Japanese government's work-style reforms and upgrading business processes to create a high profit structure for our domestic business

AA Business: Progress of Measures and Initiatives Aimed at Future Growth

Generating profits in mature fields and accelerating the shift to growth fields

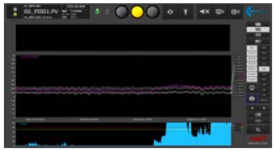
Outlook for business environment and progress in implementing business measures

- While demand does fluctuate cyclically, investment in production equipment and in automation is robust, both in Japan and overseas. A business environment that supports sustainable growth will continue for the medium to long term.
- Progress is being made with the growth strategy and strengthening of profitability for the three AA business sub-segments (CP, IAP, and SS), creating business structures that can maintain profit level even as market conditions fluctuate. And even though FY2019 has seen a worsening of the business environment, we expect to secure a profit level that is substantially higher than the goal set for the final year of the medium-term plan.

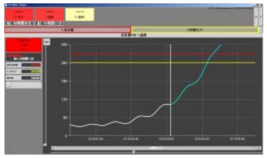
Initiatives aimed at future growth

- Accelerating business infrastructure reinforcement and product development for future business growth
  - Strengthen the overseas sales system. Make priorities of expanding customer coverage in China and Asia, and enhancing capabilities for making proposals to customers.
  - Develop highly competitive products and services. Expand offerings to customers of new automation products and services — such as those for early detection of anomalies and prediction of future changes in a plant — which benefit from azbil's distinctive R&D strengths, production technologies and engineering capabilities.
- Continuing focus on strengthening business profitability
  - Realize higher profit growth through developing business in each of the three sub-segments.
    - Shifting into high-profit businesses, strengthening our global production and procurement systems, and building a high added-value engineering system, etc.

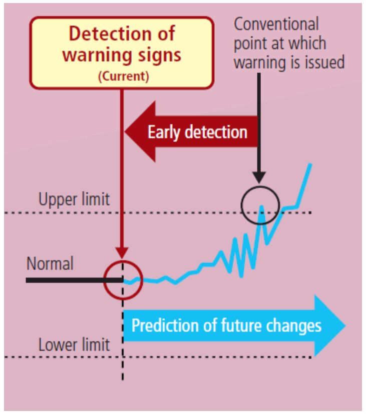
System that harnesses big data and AI to detect early signs of anomalies and predict the future status



▲Online anomaly monitoring system



▲Advanced critical trend monitoring for safety



LA Business: Progress of Measures and Initiatives Aimed at Future Growth

From establishing the profit structure to expanding the business

Outlook for business environment and progress in implementing business measures

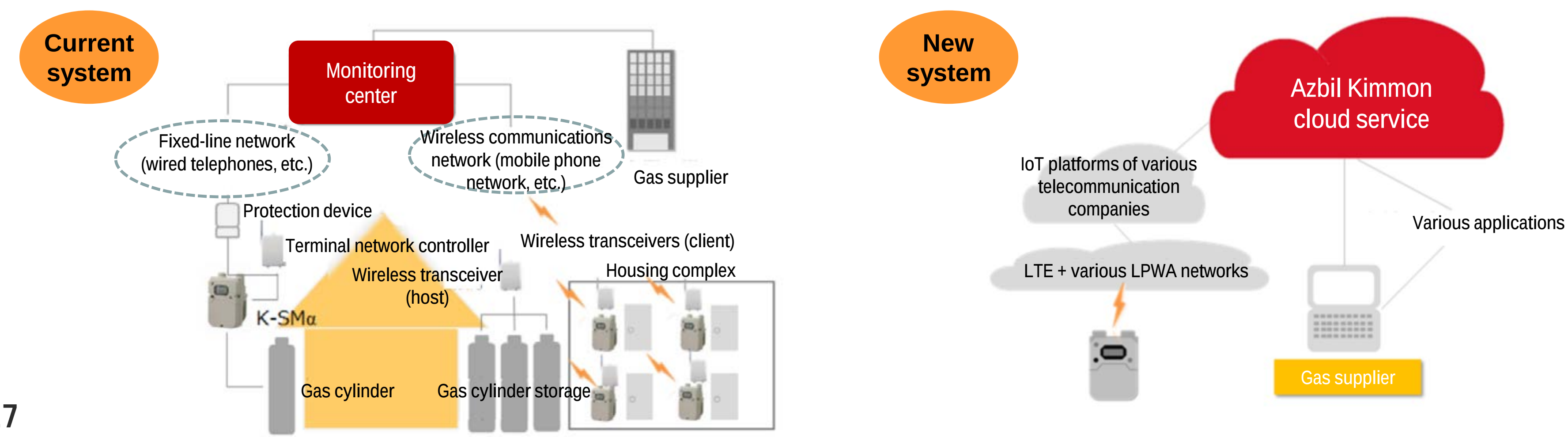
- In the fields that make up the LA business, the profit structure has been firmly established through initiatives aimed at improving it and through business structure reforms.
- Regarding the business environment of the Lifeline field (gas/water meters, etc.), the relatively stable demand for meter replacement, required by law, will continue.
- New needs and new business opportunities are arising in the energy supply market as a result of labor shortages and the liberalization of gas sales.
- In the market for LP gas meters, we are launching a cloud data service that employs LPWA (Low Power Wide Area)* networks. In the market for water meters, we are participating in a validation project involving smart meter-reading in Asahikawa City, Hokkaido.

* LPWA wireless communication networks combine low power consumption with extended range, making this technology suited for IoT/M2M applications.

Initiatives aimed at future growth

- Launch a new automation field (cloud data service business) that meets emerging needs in the Lifeline field.
- Develop advanced equipment and strengthen the equipment business using the synergy between Azbil Corp. and Azbil Telstar.
- Cultivate demand for replacement of residential air-conditioning systems and associated services.

Current centralized monitoring systems vs. cutting-edge cloud service



Progress with Upgrading and Strengthening the Business Foundation (1)

Establishing an advanced global production system

New Shonan Factory (mother factory)

- The production functions of the Shonan factory, the Isehara factory and the Fujisawa Technology Center have been consolidated in the Shonan factory.
- To realize our vision of next-generation production, we have created the azbil Group's mother factory to be in the vanguard of the 4M* revolution, which focuses on the essentials of production.

*4M: Man, Machine, Material and Method

Global Production System

- We are making progress with establishing a global, optimized production system, with Azbil Control Instruments (Dalian) in China and Azbil Production (Thailand) as our principal overseas production bases. Initiatives include expanding production and strengthening production functions at our overseas bases, expanding global procurement, and upgrading commercial and physical distribution.

Advanced Production Technology

- We have strengthened the technical development expertise and production technology strengths that are unique to azbil. We are engaged in building ultra-flexible production processes and developing the technology for advanced sensor packages.

Accelerating business development overseas

- We established the Strategic Planning and Development Office for Southeast Asia in Singapore. We foster the emergence of synergies among subsidiaries in the Southeast Asian region, and we are now able to supply the same high added-value products and services as we offer in Japan.
- Thanks to our solid reputation for supplying building life-cycle solutions (BA business), we are now developing new partnerships, such as our alliance with a major overseas design office with a global presence.

Progress with Upgrading and Strengthening the Business Foundation (2)

Enhancing technologies and product appeal to create/expand new automation fields

Advanced the development of next-generation systems and services tailored to the IoT age, including cloud applications; started supplying them to customers

Enhanced our lineup of field instruments, such as sensors and actuators that make use of our distinctive MEMS (Micro Electro Mechanical Systems) technology

By networking these devices, aim to create and expand new automation fields that will generate new added value

- A specialized department was established for the development and marketing of products and services that employ new technologies. We are advancing the development of an AutoDR system for demand-response management, and cloud services for building energy management.
- We will strengthen the functions of the Fujisawa Technology Center that forms the core of the azbil Group's technical development – aiming to further enhance our MEMS technology, which is already an azbil specialty.
- We are developing smart robots that leverage our unique actuator technologies.

▲Compact, high-performance devices, packed with MEMS technologies, for use in azbil measuring instruments

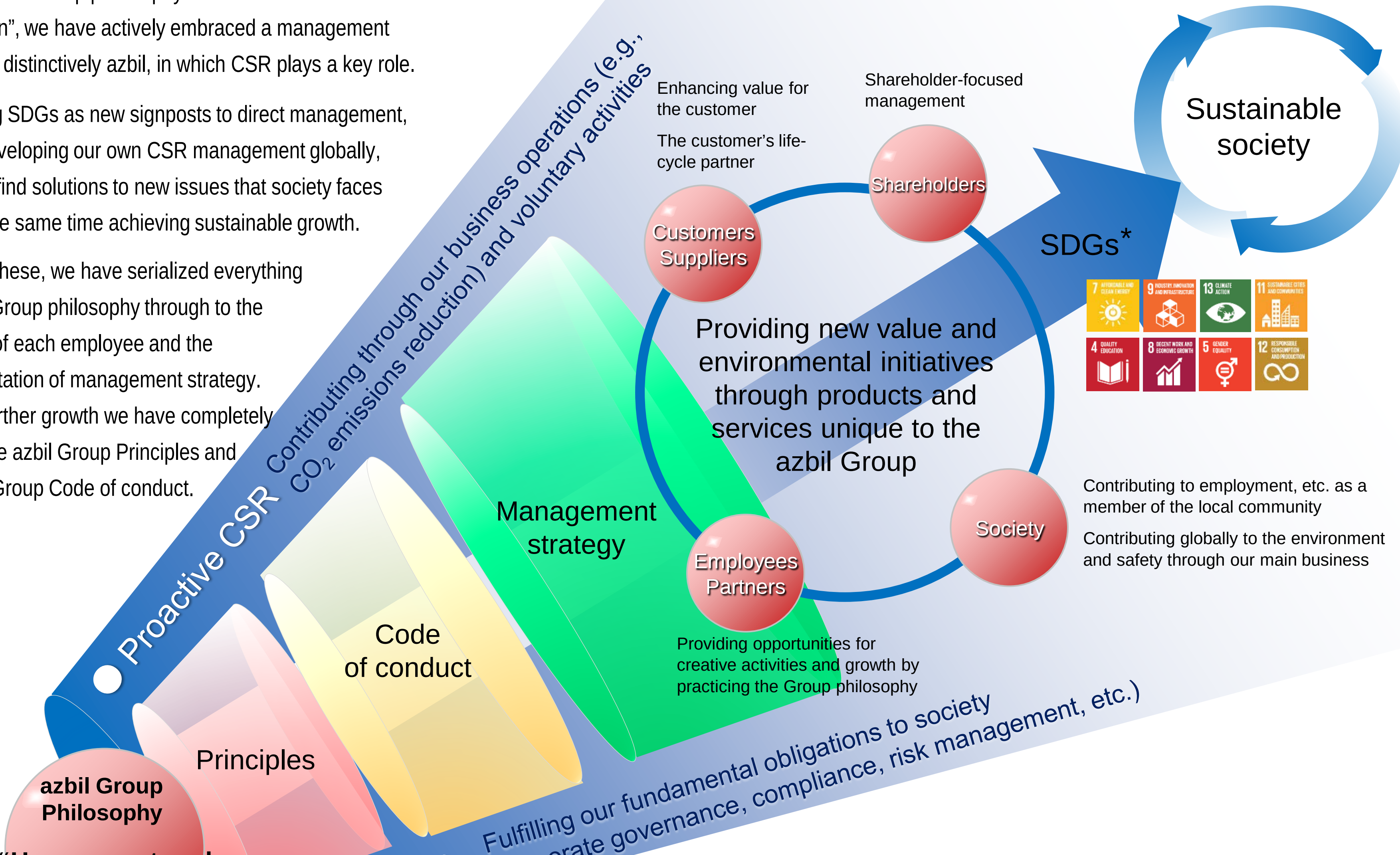
▲Next-generation smart robot

HR strategies for promoting business growth and "health and well-being management"

- We will take work-style reforms to the next level by promoting "health and well-being management" for a good work-life balance and both physical and mental health, and by making the "health and well-being declaration."
  - From reducing working hours to enhancing work satisfaction
- As "a corporate organization that never stops learning," we will shift from simply assigning staff in response to changes in the business environment to actively placing personnel in new business fields.
- In accordance with the new HR system, in addition to promoting rapid advancement opportunities for young staff and effective employment for veteran staff, we are dedicated to diversity and inclusion.

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

- Based on our Group philosophy of “human-centered automation”, we have actively embraced a management approach, distinctively azbil, in which CSR plays a key role.
- Employing SDGs as new signposts to direct management, we are developing our own CSR management globally, aiming to find solutions to new issues that society faces while at the same time achieving sustainable growth.
- To attain these, we have serialized everything from the Group philosophy through to the behavior of each employee and the implementation of management strategy. And for further growth we have completely revised the azbil Group Principles and the azbil Group Code of conduct.



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

azbil Group CSR management – progress of corporate governance reforms

Strengthening of supervisory/auditing functions

- Appointed and increased independent outside directors (from 1 in 2007 to 2 in 2010, 3 in 2014, 4 in 2018, and 5 in 2019)
- Increased independent outside audit & supervisory board members (3 in 2011)
- Established criteria for judging the independence of outside officers (2016)
- Initiated evaluation of effectiveness of the Board of Directors (2016)
- Assumed a non-executive director the position of Chairperson of the Board (2018)

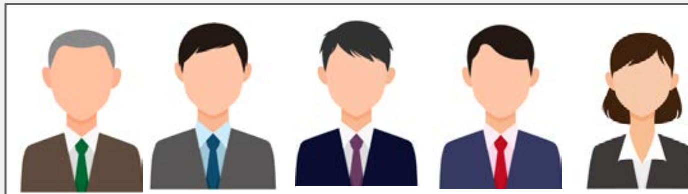
Composition of the Board of Directors

(re-elected at the Ordinary General Meeting of Stockholders on June 25, 2019)

Note: The Chairperson 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: 5
(including 1 of foreign nationality and 1 female)

Making management more transparent and sound

- Changed Remuneration Meeting to Nomination & Remuneration Meeting (2008)
- Further changed to Nomination & Remuneration Committee. Composed of more than 50% outside directors (2016) Appointed an outside director as chairperson of the Nomination and Remuneration Committee (2018)
- Revised directors' remuneration scheme, increasing the component linked to financial results and also adding a component linked to medium-/long-term financial results (2017)
- Abolished advisor/counselor system, entailing a partial amendment to the articles of association (2018)

Clarifying responsibilities, promoting dialog

- Introduced the executive officer system (2000)
- Formulated the Corporate Governance Guidelines (2016)
- Formulated guidelines on strategic shareholdings (2016), revised (2018)
- Appointed executive officer in charge of corporate communications (2016)

Appendix

New Initiatives in the Energy Management Field

The azbil Group and the TAKAOKA TOKO Group* have agreed on November 1, 2019 to proceed with discussions toward collaboration in solving social issues in the energy management field.

Social issues

- Countermeasures to global warming and reduction of environmental impact
- Response to social structural changes (labor shortage, declining birthrate and aging population)

Business environment changes

- Relaxing regulations such as energy liberalization
- Increasing demand for automatic meter reading using IoT
- Mechanism using measurement data
- Dissemination of renewable energy, smart grid, power storage, and demand response

Technological innovations

- Utilizing IoT, AI, and big data; cloud systems
- Digital transformation

New demand for energy management-related technologies and products is expanding

New activities utilizing the strengths of both groups and new technologies

- Enhancement of VPP (virtual power plant) functions and services
- Realization of “as a Service” model by sharing meter data
- New product development

* As a member of the TEPCO Group, the TAKAOKA TOKO Group provides power distribution systems through which it provides total support for the construction and operation of power networks, from power plants to every corner of society.

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Upcoming Trade Shows

New products and services can be seen at the following events.

■ IIFES (Innovative Industry Fair for E x E Solutions)

IIFES 2019 Innovative Industry Fair for E x E Solutions

- Dates: Nov. 27 (Wed.) to 29 (Fri.), 2019
- Hours: 10 am. to 5 pm.
- Venue: Tokyo Big Sight (West Halls 1-4, and Atrium)
- Azbil booth (West Hall 2, No.1-115) theme/exhibits

  "Raising the Curtain on a More Creative World with Productivity Reforms: Azbil and Smart IoT Take Off!"
  Exhibiting various solutions for realizing productivity improvements, such as AI-based systems and products harnessing IoT

▲ Azbil booth at the IIFES2019 (artist's impression)

■ Smart Building EXPO

- Dates: Dec. 11 (Wed.) to 13 (Fri.), 2019
- Hours: 10 am. to 6 pm. (5 pm. on Friday)
- Venue: Tokyo Big Sight (Aomi Exhibition Hall)
- Azbil booth (Hall B, No.16-40) theme/exhibits

  "Combining Buildings into a Smart City and into the Smart Society of the Future: Azbil and Smart IoT Take Off!"
  Introducing products and applications that harness the latest technologies, including savic-net G5 and cloud services for building management

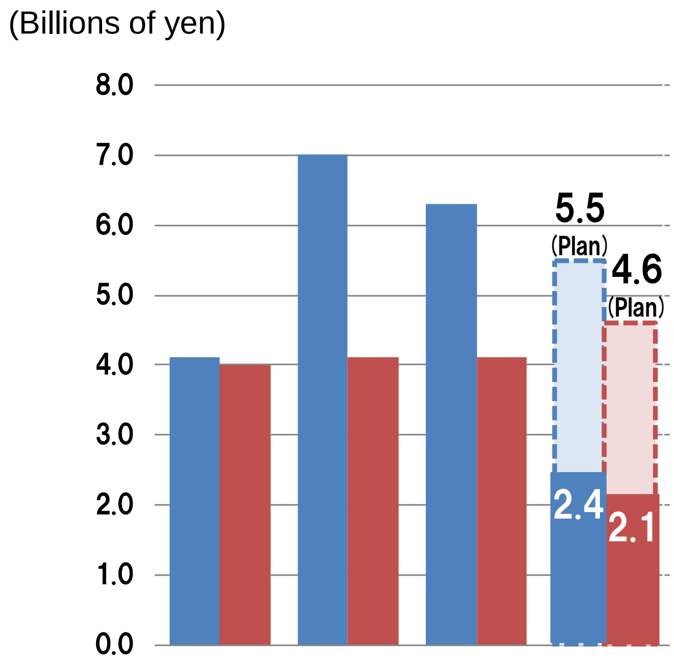
▲ Azbil booth at the Smart Building EXPO (artist's impression)

Appendix

Capital Expenditure, Depreciation and R&D Expenses

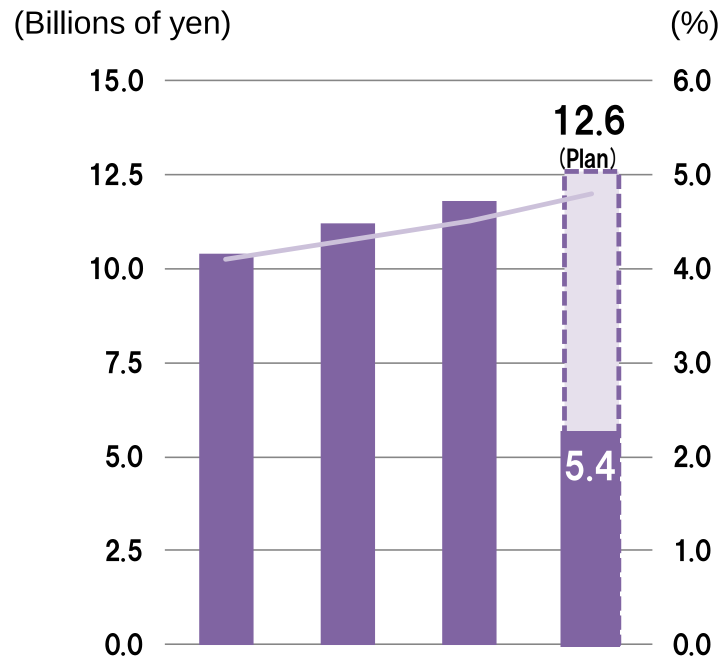
Full-year results/H1 results for FY2019
Full-year plan for FY2019

Capital expenditure, depreciation



	FY2016	FY2017*1	FY2018*1	FY2019*1 (Plan)
Capital expenditure	4.1	7.0	6.3	**5.5**
Depreciation	4.0	4.1	4.1	**4.6**

R&D expenses, R&D expenses/Net sales



	FY2016	FY2017*2	FY2018*2	FY2019*2 (Plan)
R&D expenses	10.4	11.2	11.8	**12.6**
R&D expenses/ Net sales	4.1%	4.3%	4.5%	**4.8%**

*1 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 FY2017.

*2 Product development expenses for IoT, big data, AI, robots, etc. have been increasing from FY2017.

Sustainable Development Goals and the azbil Group

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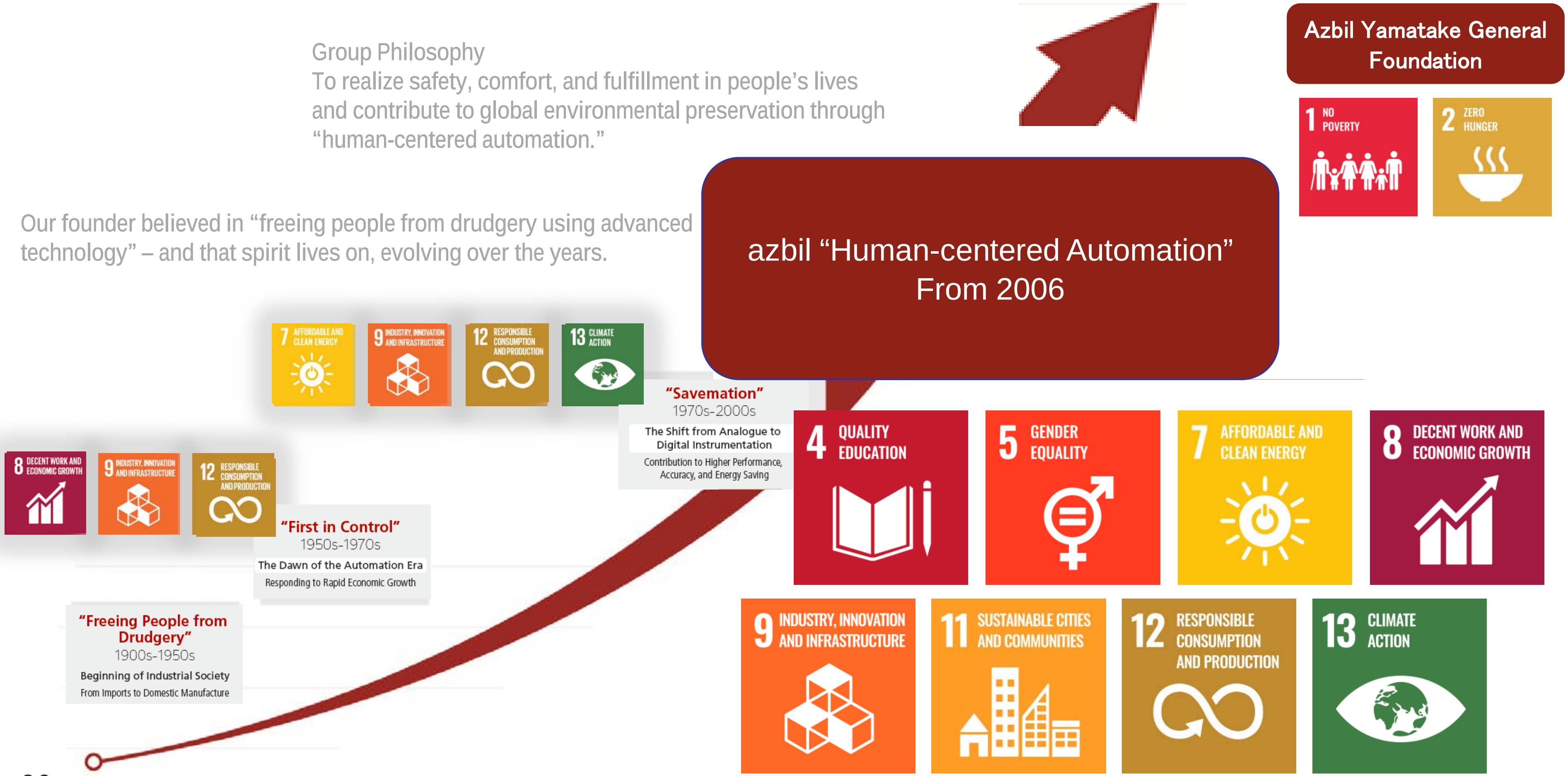
The founder’s vision formed the basis for the azbil Group’s philosophy of “human-centered automation.” Through management based on this philosophy, we are simultaneously pursuing sustainable development goals. By making continued, steady progress with initiatives aimed at creating shared value with society, we are striving to enhance enterprise value.



azbil Group Philosophy

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

Investor Relations,
Group Management Headquarters

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