



*Note: This English translation is an abridged version of the original notice in Japanese.  
In the event of discrepancies, the Japanese version shall prevail.*

**Azbil Corporation**

**June 4, 2018**

**Notice of the 96th Ordinary General Meeting of Shareholders**

## **Table of Contents**

Notice of the 96th Ordinary General Meeting of Shareholders.....	2
Reference Materials for the General Meeting of Shareholders.....	4
Business Report.....	28
Consolidated Financial Statements/Non- Consolidated Financial Statements.....	61
Auditors' Report.....	68

**In pursuit of "human-centered automation," our aim is to be a corporate group that helps to solve the problems faced by our customers.**



**President & Group CEO**

A handwritten signature in black ink, appearing to read 'Shirohiko', written in a cursive style.

Since our establishment in 1906, we have focused on measurement and control technologies, delivering unique solutions to our customers. In April 2012, we changed our company name from Yamatake Corporation to Azbil Corporation. Now with products bearing the azbil brand, which thanks to our customers has achieved wide recognition, we aim to provide “the unique value” offered by the azbil Group to customers around the world in a variety of settings, including offices, production sites, and homes, by promoting our Building Automation, Advanced Automation, and Life Automation businesses.

In 2018, as the company reaches the halfway point of the three-year medium-term management plan started last year, we are determined to continue making every effort to ensure the achievement of our goals by being a long-term partner for the customer and the community by offering solutions based on our technologies and products; by taking global operations to the next level by expansion into new regions and a qualitative change of focus; and by being a corporate organization that never stops learning, so that it can continuously grow stronger. Around the world, in order to achieve sustainable growth for our company, we are strengthening our life-cycle business, while at the same time exploring new areas for the automation business and expanding our operations in environmental and energy fields

Through the pursuit of human-centered automation, automation that creates human happiness and a sense of fulfillment, the azbil Group will press forward together as a unified Group with the aim of being a corporate group that continues to create new value on work sites together with our customers and helps them to meet the wide variety of challenges that they face.

# **Azbil Corporation**

**June 4, 2018**

2-7-3 Marunouchi, Chiyoda-ku, Tokyo

## **Notice of the 96th Ordinary General Meeting of Shareholders**

Dear Shareholders:

I would like to express my thanks for your loyal patronage.

You are cordially invited to the Ordinary General Meeting of Shareholders of Azbil Corporation.  
The meeting will be held as described on the next page.

Yours faithfully,

Hirozumi Sone  
President and Group CEO

## Details

1. Date and Time: Tuesday, June 26 at 10 a.m., 2018 (Japan Time)
2. Place: The Hall, 4th Floor of the JP TOWER Hall & Conference,  
2-7-2 Marunouchi, Chiyoda-ku, Tokyo
3. Purpose:

### **Items to be Reported**

Item 1: Business Reports, Consolidated Financial Statements, and Audit Reports covering Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 96th term from April 1, 2017 to March 31, 2018

Item 2: Non-Consolidated Financial Statements for the 96th term from April 1, 2017 to March 31, 2018

### **Items to be Resolved**

Item 1: Appropriation of Surplus

Item 2: Partial Amendment to the Articles of Incorporation

Item 3: Election of ten (10) Executive Directors

## Reference Materials for the General Meeting of Shareholders

### Item 1 : Appropriation of Surplus

The Company regards the distribution of profit to shareholders as one of the most important management issues. Taking comprehensive account of consolidated business results, the levels of return on equity and dividend on equity ratio, as well as internal reserves for future business development and the reinforcement of corporate strength, management strives towards improving dividend levels while maintaining stable dividends. Based on this policy, year-end dividends for the 96th term are proposed as follows.

(1) Type of dividend

Cash

(2) Allocation of dividends to shareholders, and total amount

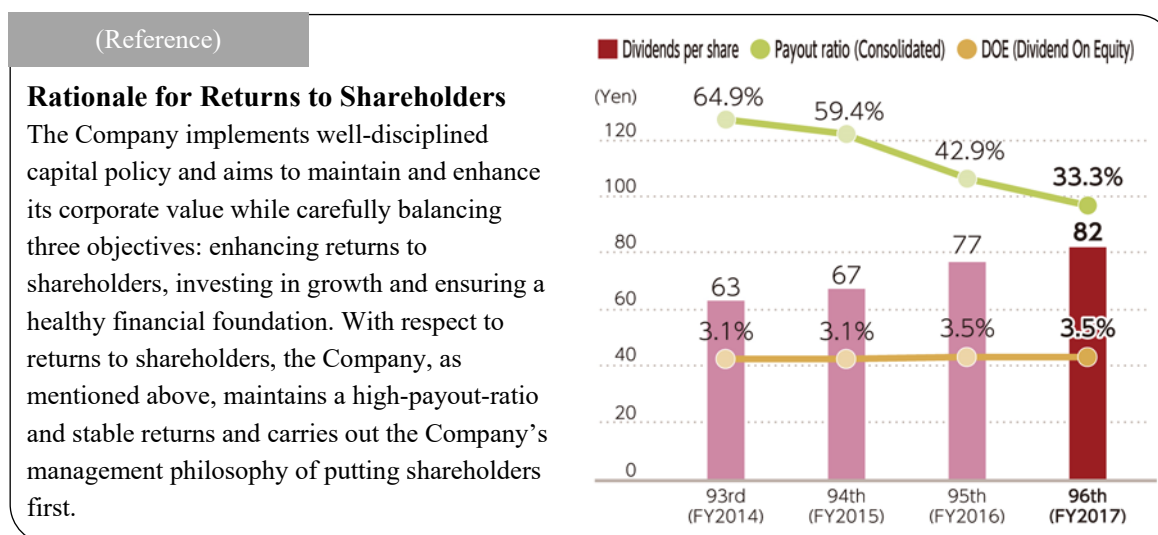
¥41 per share of Company common stock

Total amount: ¥3,014,952,958

As the interim dividend of ¥41 per share was paid in December 2017, the total dividend for full year is ¥82 per share.

(3) Effective date of payments for dividends from surplus

June 27, 2018



**Item 2: Partial Amendment to the Articles of Incorporation**

1) Reason for the Amendment

As the Company no longer recognizes any need to appoint counselors and advisors who report to the President on certain matters, we have decided to abolish the counselor/advisor system in order to strengthen the Company’s corporate governance. Thus, we propose to delete the provision concerning the counselor/advisor system set forth in Article 29 of the current Articles of Incorporation and renumber the subsequent articles accordingly.

2) Details of the Amendment

The details of the amendment are as stated below:

\*Amended points are underlined


Current Articles of Incorporation	Proposed Amendment
<p><u>(Counselor and Advisor)</u> <u>Article 29.</u> <u>By resolution of the Board of Directors, this</u> <u>Company shall have counselors and advisors.</u></p> <p>Article <u>30</u> to <u>41</u> [Provisions Omitted]</p>	<p>[Deleted]</p> <p>Article <u>29</u> to <u>40</u> [Same as the current Article 30-41]</p>

### **Item 3: Election of ten (10) Executive Directors**

The terms of office for all nine (9) current Executive Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the election of ten (10) Executive Directors with addition of one (1) Outside Director is proposed to further strengthen corporate governance.

The following individuals are candidates for Executive Directors. In selection of these candidates, the Board of Directors of the Company made decisions after screening by the “Nomination and Remuneration Committee,” a voluntary advisory body for nomination and remuneration of officers. Furthermore, candidates for Independent Outside Director were judged to have sufficient independence with no potential conflict of interest occurring them and the general shareholders in accordance with the “Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members” prescribed by the Company on its own. In addition, since they meet the independent requirements established by the Tokyo Stock Exchange, for the four (4) candidates for Outside Director, the Company has already reported the three (3) current Outside Directors and will report one (1) newly nominated candidate for Outside Director as Independent Directors to the Tokyo Stock Exchange.



No.	Name (Date of birth)	Biography	Number of shares of the Company held
1	 Hirozumi Sone (January 16, 1955)	April 1979    Joined the Company April 1996    Systems Marketing Manager of Systems Development Group, Industrial Systems Division October 1998   Transferred to Yamatake Industries Systems Co., Ltd. (Present: The Company's Advanced Automation Company), Marketing Manager of the company June 2000    Executive Director of the company, Marketing Manager April 2003    Vice Executive Officer of the Company, Manager of Engineering Department, Advanced Automation Company April 2005    Executive Officer of the Company, Manager of the Corporate Planning Department April 2008    Managing Executive Officer of the Company, Manager of the Corporate Planning Department April 2009    Managing Executive Officer of the Company June 2010    Executive Director of the Company and Managing Executive Officer of the Company April 2012    President and Chief Executive Officer of the Company (Present post)	14,300

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position and section of which the candidate is in charge in the Company

Position: President and Chief Executive Officer of the Company

Section: Group CEO, Internal Audit Department, Corporate Planning Department


■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Executive Director

Hirozumi Sone has been involved in development and marketing for industrial market products both domestically and abroad, successively serving as the head of marketing and engineering of the Advanced Automation business, the president of a subsidiary, and the Manager of the Corporate Planning Department. Later he became the President and Chief Executive Officer of the Company from 2012 and provided direction for management as CEO. He has worked to expand business and enhance sustainable corporate value, including rebuilding the business portfolio and entering into new business fields through implementation of the corporate philosophy: "human-centered automation." Since he has

extensive business experience at the Company and possesses strong leadership skills as CEO, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value. Therefore, the Company has proposed that he continue serving as Executive Director and has put him forward as a candidate.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
2	 Masato Iwasaki (March 26, 1960)	April 1982    Joined the Company April 2003    Manager of Marketing 2nd Department, and Information Systems Department, Advanced Automation Company April 2005    Manager of Solution Marketing Department, Advanced Automation Company April 2010    Director of the Company, Manager of Marketing Department, Advanced Automation Company April 2011    Executive Officer of the Company, Manager of Marketing Department, Advanced Automation Company April 2012    Managing Executive Officer of the Company, President of Advanced Automation Company June 2012    Executive Director of the Company and Managing Executive Officer of the Company, President of Advanced Automation Company April 2016    Executive Director of the Company and Managing Executive Officer of the Company April 2018    Executive Director of the Company and Managing Executive Officer of the Company, General Manager of Life Science Engineering Department (Present post)	10,400

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position, section, and commission of which the candidate is in charge in the Company

Position: Executive Director of the Company and Managing Executive Officer of the Company

Section: Life Automation (LA) business, Strategy for LA business growth, Promotion and Development of business in North America

Commission: General Manager of Life Science Engineering Department

■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Executive Director

Masato Iwasaki was engaged in the Advanced Automation business for a long time, and his experience includes serving as Manager of the Marketing Department of the business. He assumed the post of Executive Director in 2012, and he worked on business growth, structural reforms and profit base reinforcement of the Advanced Automation business as the

head of this business. In addition, he worked on development of new business areas in the Americas and expansion of the business as the top executive management of a local subsidiary. Moreover, from this April, as the head of Life Automation business, he is working on further development of the foundation and its business growth. In addition to his outstanding marketing ability and experience, which is appropriate for a leader, he has extensive business experience at the Company and the Company has judged him to be an appropriate and necessary person for enhancing sustainable corporate value. Therefore, the Company has proposed that he continue serving as Executive Director and has put him forward as a candidate.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
3	 Yoshimitsu Hojo (July 17, 1962)	August 1990    Joined the Company April 2011    Director of the Company, Manager of Company Business Control Department, Advanced Automation Company April 2012    Director of the Company, Vice Manager of Production Management Headquarters April 2013    Executive Officer of the Company, Manager of Production Management Headquarters April 2014    Managing Executive Officer of the Company, Manager of Production Management Headquarters June 2014    Executive Director of the Company and Managing Executive Officer of the Company, Manager of Production Management Headquarters April 2016    Executive Director of the Company and Managing Executive Officer of the Company, President of Advanced Automation Company, Manager of Production Management Headquarters (Present post)	6,400

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position, section, and commission of which the candidate is in charge in the Company

Position: Executive Director of the Company and Managing Executive Officer of the Company

Section: azbil Group (aG) production, aG purchasing, the Advanced Automation business, Production Management Headquarters

Commission: President of Advanced Automation Company, Manager of Production Management Headquarters

■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Executive Director

Yoshimitsu Hojo has been successively serving as the head of Regional Sales, the Manager of the Company Business Control Department, etc. of the Advanced Automation business. In 2014, he assumed the post of Executive Director, and as the head of production, he worked to augment the profit base through promoting production structural reform and production innovation. Also, from April 2016, in addition to assuming the role of administering production, as the head of the Advanced Automation business, he has worked on the business growth and the strengthening the profit base, etc. and led the growth and profit expansion of

this business, including overseas deployment. Therefore, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, has proposed that he continue serving as Executive Director and has put him forward as a candidate.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
4	 Takayuki Yokota (November 1, 1960)	April 1983    Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.) November 2005    Director of the Investor Relations Department, Mizuho Financial Group, Inc. April 2010    Executive Officer and Director of the Investment Banking Business Management Department, Mizuho Corporate Bank, Limited (Present: Mizuho Bank, Ltd.) April 2013    Joined the Company (Director) April 2014    Executive Officer of the Company, General Manager of Group Management Headquarters April 2016    Managing Executive Officer of the Company, General Manager of Group Management Headquarters April 2017    Managing Executive Officer of the Company, General Manager of Group Management Headquarters and General Manager of International Business Headquarters April 2018    Managing Executive Officer of the Company (Present post)	4,900

■ Number of meetings of the Board of Directors attended

-

■ Position and section of which the candidate is in charge in the Company

New candidate

[Reference]

Position: Managing Executive Officer of the Company

Section: Corporate Communication, Overall Administrative Function, azbil Group (aG)  
 -CSR, Internal control, Facilities/Business sites, Group Management Headquarters,  
 International Business Headquarters, General Affairs Department, Legal &  
 Intellectual Property Department, Secretary Office

■ Important concurrent positions outside the Company


None

■ Reasons for nomination as a candidate for Executive Director

Takayuki Yokota has been successively serving as the head of Group Management Headquarters and the head of International Business Headquarters. He has been trying to keep the Company on a firm footing and to realize active returns to shareholders as well as appropriate compliance in accounting, and working on improvement of the structure of overseas subsidiaries as well as development of foundation for overseas business growth. Also, as the chief officer in charge of Corporate Communication, he is making use of his

experience with global operations and IR activities, gained at a financial institution, to actively promote constructive communication with stakeholders. From this April, he has come to be responsible for Overall Administrative Function, and he is working on effective risk management on global level, corporate governance, CSR initiatives and promotion of contribution to society. Since he possesses broad knowledge and leadership concerning business management overall, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, and has newly proposed him as a candidate for Executive Director.



No.	Name (Date of birth)	Biography	Number of shares of the Company held
5	 Kazuyasu Hamada (February 1, 1964)	April 1987    Joined the Company August 2006    Manager of Security Business Planning Department, Security Business Headquarters, Building Systems Company of the Company April 2008    General Manager of Security Business Headquarters, Building Systems Company of the Company April 2011    Director of the Company, General Manager of Security System Headquarters, Building Systems Company April 2013    Executive Officer of the Company, Vice Manager of Environmental Facility Solution Headquarters, Building Systems Company April 2015    Executive Officer of the Company, General Manager of Environmental Facility Solution Headquarters and General Manager of Environmental Particle Solution Department, Building Systems Company April 2016    Managing Executive Officer of the Company, General Manager of Tokyo Head Office, Building Systems Company April 2018    Managing Executive Officer of the Company, President of Building Systems Company (Present post)	2,200

■ Number of meetings of the Board of Directors attended

-

■ Position, section, and commission of which the candidate is in charge in the Company

New candidate

[Reference]

Position: Managing Executive Officer of the Company

Section: Building Automation business, azbil Group (aG) Sales Synergy

Commission: President of Building Systems Company

■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Executive Director

Kazuyasu Hamada has been engaged in the Building Automation business for a long time, and he has been successively serving as the head of Security Business Headquarters and the General Manager of Tokyo Head Office. From this April, as the head of the Building Automation business, he is making efforts toward the growth and expansion of profits, and

strengthening the profit base, etc. of the Building Automation business. In addition, he is in charge of the azbil Group sales synergies, which are the entire Group-wide sales activities through collaboration of sales departments within the azbil Group, supervising the direction of overall sales beyond the Building Automation business. As he has extensive business experience in the Company and leadership, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, and has newly proposed him as a candidate for Executive Director.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
6	 Tadayuki Sasaki (October 29, 1948)	April 1972    Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.) October 1999    Manager of Project Finance Department of the Bank May 2002    Joined the Company (Director) April 2003    Executive Officer of the Company and Manager of the Accounting & Finance Department April 2006    Managing Executive Officer of the Company June 2007    Executive Director of the Company and Managing Executive Officer of the Company April 2009    Executive Director of the Company and Senior Managing Executive Officer of the Company April 2016    Executive Director of the Company and Vice President of the Company April 2018    Executive Director, Member of the Board of the Company (Present post)	18,600

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position and section of which the candidate is in charge in the Company

Position: Executive Director, Member of the Board of the Company

Section: None


■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Executive Director

Tadayuki Sasaki has been engaged in financial and accounting affairs, serving as Manager of the Accounting & Financing Department, assuming the post of Executive Director in 2007. From his experience in project finance domestic and overseas in a financial institution, he promoted planning and guidance related to the overall business management of the azbil Group. Until the end of this March, he supervised Overall Administrative Function and conducted effective risk management and group governance on the global level, promotion of CSR initiatives including internal control and compliance. Currently, as a non-executive director of the Company, he fulfills the roles of supervision of management focused on achievement of management goals, with extensive discernment of corporate governance and internal control, etc. If his reappointment is approved at this Ordinary General Meeting of Shareholders, he will assume the position of the Chairman of the Board. Therefore, the Company has judged him to be an appropriate and necessary person for the enhancement of

sustainable corporate value, has proposed that he continue serving as Executive Director and has put him forward as a candidate.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
7	 Eugene H. Lee (December 23, 1941)	September 1970 Professor of International Business and International Law at Sophia University February 1973 President of International Investment Consultants Ltd. January 1982 President of Siemens Medical Systems (Present: Siemens Healthcare K.K.) December 1990 Vice Chairman of Siemens K.K. (Representative of Siemens AG in Japan) June 2007 Outside Director of the Company (Present post)	0

■ Number of meetings of the Board of Directors attended

11 of 12

■ Position and section of which the candidate is in charge in the Company

Position: Outside Director

■ Important concurrent positions outside the Company

None

■ Reasons for nomination as a candidate for Outside Director

Eugene H. Lee is a candidate for Outside Director, as set forth in Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act.

He has outstanding expert knowledge of international law and international business, as well as extensive experience and a performance record as executives at global companies. Further, he also has deep understanding of Japan, Japanese trading customs, and Japanese companies from his long-term work experience in Japan. In addition, from his management experience at global companies, at Board of Directors of the Company, he not only supervises business execution, but also proactively offers opinions from his advanced knowledge and viewpoints acquired through his management experience at global companies, in order to increase transparency and fairness of management, thus fulfilling such appropriate roles as supervision and advising, etc. on business execution. Therefore, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, has proposed that he continue serving as Outside Director and has put him forward as a candidate.

■ The term of office as Outside Director


The term of office of Eugene H. Lee as Outside Director shall be eleven (11) years from the conclusion of this Ordinary General Meeting of Shareholders.

■ Independence of the candidate for Outside Director of the Company

The Company does not conduct monetary or other transactions with Eugene H. Lee except the remuneration he receives as Outside Director of the Company, and there are no vested interests between him and the management of the Company, and the Company judges there to be no possibility of the occurrence of conflict of interest with general shareholders and that he has sufficient independence, in accordance with the “Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members” prescribed by the Company on its own. The Company has reported him as an Independent Director to the Tokyo Stock Exchange.

■ Limited liability contract with Outside Director

In order to enable functions the Company expects from its Outside Directors, Article 25 of the existing Articles of Incorporation prescribes the conclusion of contracts which limit legal liability of Outside Directors under Article 423, Paragraph 1 of the Companies Act. Accordingly, Eugene H. Lee, a candidate for Outside Director, has signed a limited liability contract with the Company and if his reappointment is approved, the Company will renew this contract with him. Under this contract, the limit of liability shall be set at the minimum level prescribed by the relevant laws and ordinances.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
8	 Katsuhiko Tanabe (August 14, 1942)	April 1973 Registered as a Lawyer September 1979 Established TANABE & PARTNERS (Present post) April 1995 Deputy Chairman of Dai-ichi Tokyo Bar Association April 1997 Vice-Chairman of Kanto Bar Association April 1998 Managing Director of Japan Federation of Bar Associations June 2000 Outside Audit & Supervisory Board Member of Sanwa Shutter Corporation (Present: Sanwa Holdings Corporation) June 2007 Outside Audit & Supervisory Board Member of the Company June 2010 Outside Director of the Company (Present post) October 2010 Outside Director of MIRAIT Holdings Corporation June 2015 Outside Audit & Supervisory Board Member of JSP Corporation (Present post)	1,600

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position and section of which the candidate is in charge in the Company

Position: Outside Director

■ Important concurrent positions outside the Company


Lawyer, Outside Audit & Supervisory Board Member of JSP Corporation

■ Reasons for nomination as a candidate for Outside Director

Katsuhiko Tanabe is a candidate for Outside Director, set forth in Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act. He has outstanding expert viewpoints as a lawyer and insights on management, as he has successively served in important posts in the legal field, and has a record of superior performance in corporate legal affairs based on his expert views. In addition, by utilizing his experience as an outside officer at several companies, at Board of Directors meetings of the Company, he not only supervises business execution but also proactively offers his opinions based on his broad knowledge as an legal expert and keen insight on corporate governance, in order to increase transparency and fairness of management, thus fulfilling such appropriate roles as supervision and advising, etc. on business execution. Therefore, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, and has proposed that he continue serving as Outside Director and has put him forward as a candidate.

- Reasons the Company judges Katsuhiko Tanabe can appropriately perform functions as Outside Director even though he does not have experience in company management  
Katsuhiko Tanabe has extensive experience and expertise in corporate legal affairs as a lawyer and has a profound insight in management. Therefore, the Company has judged that he will be able to properly execute duties from an objective perspective as Outside Director.
- The term of office as Outside Director  
The term of office of Katsuhiko Tanabe as Outside Director shall be eight (8) years from the conclusion of this Ordinary General Meeting of Shareholders.
- Independence of the candidate for Outside Director of the Company  
The Company does not conduct monetary or other transactions with Katsuhiko Tanabe except the remuneration he receives as Outside Director of the Company, and there are no vested interests between him and the management of the Company, and the Company judges there to be no possibility of the occurrence of conflict of interest with general shareholders and that he has sufficient independence, in accordance with the “Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members” prescribed by the Company on its own. The Company has reported him as an Independent Director to the Tokyo Stock Exchange.
- Limited liability contract with Outside Director  
In order to enable functions the Company expects from its Outside Directors, Article 25 of the existing Articles of Incorporation prescribes the conclusion of contracts which limit legal liability of Outside Directors under Article 423, Paragraph 1 of the Companies Act. Accordingly, Katsuhiko Tanabe, a candidate for Outside Director, has signed a limited liability contract with the Company and if his reappointment is approved, the Company will renew this contract with him. Under this contract, the limit of liability shall be set at the minimum level prescribed by the relevant laws and ordinances.



No.	Name (Date of birth)	Biography	Number of shares of the Company held
9	 Takeshi Itoh (August 19, 1943)	September 1969 Entered Burnham & Company October 1983 Director of The First Boston Corporation (Present: Credit Suisse Group AG) October 1993 Managing Director and Vice Manager of Tokyo Branch, Smith Barney (Present: Citi Group Global Markets Japan Inc.) October 1998 President of UBS Asset Management Inc. (Present: UBS Asset Management (Japan) Ltd.) December 2010 Supreme advisor of Japan Wealth Management Securities, Inc. (Present: Aozora Securities Co., Ltd.) February 2012 Vice Chairman and Chief Operating Officer of Aozora Securities Co., Ltd. June 2013 Senior Advisor of Aozora Securities Co., Ltd (Present post) June 2014 Outside Director of the Company (Present post)	5,000

■ Number of meetings of the Board of Directors attended

12 of 12

■ Position and section of which the candidate is in charge in the Company

Position: Outside Director

■ Important concurrent positions outside the Company

Senior Advisor of Aozora Securities Co., Ltd.

■ Reasons for nomination as a candidate for Outside Director

Takeshi Itoh is a candidate for Outside Director, set forth in Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act.

In addition to management experience and experience as an analyst in investment banks and investment advisory companies, etc. domestically and abroad, with his long-term overseas work experience and experience in the consulting business including fundraising and M&A advice, he has a record of superior performance in advanced corporate analysis, etc.

In addition, by utilizing his experience as executive officer in investment management companies domestically and abroad, at Board of Directors meetings of the Company, he not only supervises business execution but also proactively offers his opinions based on his advanced knowledge and experience as an expert in the fields of international financing and investment, in order to increase transparency and fairness of management, thus fulfilling such appropriate roles as supervision and advising, etc. on business execution. Therefore, the Company has judged him to be an appropriate and necessary person for the enhancement of sustainable corporate value, has proposed that he continue serving as Outside Director and

has put him forward as a candidate.

■ The term of office as Outside Director


The term of office of Takeshi Itoh as Outside Director shall be four (4) years from the conclusion of this Ordinary General Meeting of Shareholders.

■ Independence of the candidate for Outside Director of the Company

The Company does not conduct monetary or other transactions with Takeshi Itoh except the remuneration he receives as Outside Director of the Company, and there are no vested interests between him and the management of the Company, and the Company judges there to be no possibility of the occurrence of conflict of interest with general shareholders and that he has sufficient independence, in accordance with the “Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members” prescribed by the Company on its own. The Company has reported him as an Independent Director to the Tokyo Stock Exchange.

■ Limited liability contract with Outside Director

In order to enable functions the Company expects from its Outside Directors, Article 25 of the existing Articles of Incorporation prescribes the conclusion of contracts which limit legal liability of Outside Directors under Article 423, Paragraph 1 of the Companies Act. Accordingly, Takeshi Itoh, a candidate for Outside Director, has signed a limited liability contract with the Company and if his reappointment is approved, the Company will renew this contract with him. Under this contract, the limit of liability shall be set at the minimum level prescribed by the relevant laws and ordinances.

No.	Name (Date of birth)	Biography	Number of shares of the Company held
10	 Waka Fujiso (January 6, 1949)	April 1980 Public prosecutor of Tokyo District Public Prosecutor's Office April 2001 Public prosecutor of Tokyo High Public Prosecutor's Office December 2007 Public prosecutor of Supreme Public Prosecutors Office March 2008 Resigned from Public prosecutor of Supreme Public Prosecutors Office April 2009 Professor of Rikkyo University's Law School September 2011 Member of council of Ministry of Health, Labor and Welfare (Present post) March 2014 Resigned from Professor of Rikkyo University's Law School June 2015 Substitute Audit & Supervisory Board Member of the Company (Present post)	100

■ Number of meetings of the Board of Directors attended

-

■ Position and section of which the candidate is in charge in the Company

New Candidate

■ Important concurrent positions outside the Company

Member of council of Ministry of Health, Labor and Welfare

■ Reasons for nomination as a candidate for Outside Director

Waka Fujiso is a candidate for Outside Director, as set forth in Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act.

She possesses extensive knowledge and experience that she gained mainly during her activities over many years as a public prosecutor, and, after retiring from the position of public prosecutor at the Supreme Public Prosecutors Office, during her service as a council member at a government agency at which time she also taught at a law school. The Company appointed her as substitute auditor in June 2015, but this time, the Company expects that she utilize her knowledge and experience as Outside Director of the Company to supervise and offer advices on the execution of business in order not only for the supervision of business executions for the Board of Directors but also for more thorough compliance management and the enhancement of transparency and fairness of business management. In addition, since she has been playing a pioneering role for the empowerment of women in the world of prosecutors, the Company thinks she can make a contribution to promoting appropriate personnel utilization and diversity at the Company by introducing her outsider's view. Based on those points, the Company has judged her to be an appropriate and necessary person for the enhancement of sustainable corporate value, and has newly proposed her as a candidate

for Outside Director.

- Reasons the Company judges Waka Fujiso can appropriately perform functions as Outside Director even though he does not have experience in company management

Waka Fujiso has extensive experience and expertise in corporate legal affairs and compliance as a public prosecutor and a professor of graduate school, and has a profound insights in management. Therefore, the Company has judged that she will be able to properly execute duties from an objective perspective as Outside Director.

- Independence of the candidate for Outside Director of the Company

The Company does not conduct monetary or other transactions with Waka Fujiso, and there are no vested interests between her and the management of the Company, and the Company judges there to be no possibility of the occurrence of conflict of interest with general shareholders and that she has sufficient independence, in accordance with the “Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members” prescribed by the Company on its own. The Company will report her as an Independent Director to the Tokyo Stock Exchange.

- Limited liability contract with Outside Director

In order to enable functions the Company expects from its Outside Directors, Article 25 of the existing Articles of Incorporation prescribes the conclusion of contracts which limit legal liability of Outside Directors under Article 423, Paragraph 1 of the Companies Act. Accordingly, Waka Fujiso, a candidate for Outside Director, has signed a limited liability contract with the Company and if her reappointment is approved, the Company will renew this contract with her. Under this contract, the limit of liability shall be set at the minimum level prescribed by the relevant laws and ordinances.

(Note) 1 There are no vested interests between each candidate and the Company.

(Note) 2 The above biographies, positions and sections of which they are in charge in the Company, and important concurrent positions outside the Company are effective as of the date of publication of this Notice.

(Reference)

#### Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members

The Company formulated its own criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members for appointing Outside Directors and Outside Audit & Supervisory Board Members and judges that a person is not independent if he/she falls under any of the items below:

1. A person who serves as an executive <sup>(Note)</sup> of the Company or a consolidated subsidiary of the Company, or who served for ten (10) years prior to being appointed;  
(Note) "executive" refers to an executive director, an executive officer or a head of a department and other general employees.
2. A person who served as an executive of the Company or a consolidated subsidiary for ten (10) years prior to being appointed as a non-executive director or an audit & supervisory board member of the Company or a subsidiary of the Company;
3. A person who serves as an executive of a major business partner of the azbil Group (a business partner that makes a payment in the amount exceeding 2% of its annual consolidated sales for the latest fiscal year or any of the preceding three fiscal years or receives such a payment), or who has served in the last three (3) years;
4. A person who serves as an executive or an audit & supervisory board member of a major lender <sup>(Note)</sup> of the azbil Group or its parent company or its significant subsidiary, or who served in the last three (3) years;  
(Note) A major lender refers a financial institution group from which the azbil Group has borrowed funds where the outstanding aggregate of those borrowings exceeds 2% of consolidated total assets of the azbil Group as of the end of the Company's fiscal year in situations where the azbil group effectively has loans payable (net balance of loans exceeding current liquidity deposited to such lender).
5. A related party of the Accounting auditor or audit firm etc. of the azbil Group, or who has served in the last three (3) years in such position (including those who have already resigned from such position);
6. A lawyer, certified public accountant, or other consultant who does not fall under the above item 5 and who received money and other economic benefits in the annual average amount of 10 million yen or more over the past three years other than executive compensations from the azbil Group;
7. A member, partner, associate or employee of a law firm or an audit firm, etc. who does not fall under the above items 5 or 6 and for which the azbil Group is a major business partner (a company that received a payment from the Company or a consolidated subsidiary in the annual average amount of 2% or more of the consolidated net sales of the company over the past three (3) fiscal years);
8. A person who serves as an executive or an audit & supervisory board member of a current major shareholder of the Company (a shareholder that holds 10% or more of voting rights of the Company), its parent company or its significant subsidiary, or who served in the last five (5) years;
9. A person who serves as an executive or an audit & supervisory board member of a company that accepts a director seconded from the azbil Group, its parent company or its subsidiary;
10. A person who serves as an executive or an audit & supervisory board member of a company in which the Company is a major shareholder;
11. A person who has received as an executive of an organization such as public interest incorporated foundation, public interest incorporated association, non-profit organization that has received a donation or subsidy from the azbil Group in the annual average of 10 million yen or more over the past three fiscal years; and
12. A spouse, a person within the second degree of consanguinity or a relative residing in the same household of the above items from 1 to 11

## Business Report

(From April 1, 2017 to March 31, 2018)

### 1. Matters Concerning the Present State of the Corporate Group

#### (1) Financial results for the current fiscal year

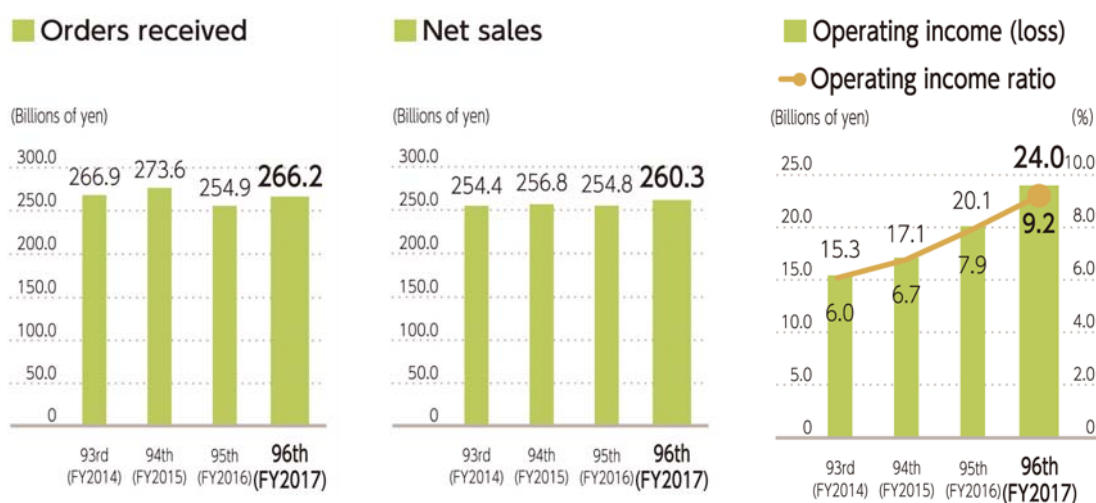
In the current consolidated fiscal year, Japan's economy continued its moderate recovery. Supported by global expansion in IT-related demand, domestic production and exports continued to improve. Capital investment too was encouraging: in addition to evidence of an upturn and growth in investment thanks to an improvement in corporate earnings in several markets, there have been signs of investment for rationalization and labor-saving in response to the current labor shortage.

Looking at overseas economies, there have been continued signs of a pickup in China's economy thanks to robust domestic and overseas demand. In Europe, despite concerns over the impact of exports weakening due to the strong euro, a gradual economic recovery is under way, and in the U.S., there continued to be a steady improvement in consumption and capital investment.

Guided by the philosophy of "human-centered automation", the azbil Group drew up its medium-term plan (FY2017–FY2019) based on the three fundamental policies<sup>\*1</sup> and we are currently implementing measures to realize sustainable growth. In the current consolidated fiscal year we have thus been actively engaged in those areas where sustainable growth is anticipated – providing solutions throughout the life cycle, developing new automation opportunities, and focusing on environmental and energy issues – while advancing further business structure reforms and improvements to the profit structure. Additionally, as a means of strengthening the business foundation to develop these fields and realize sustainable growth, we have been upgrading and expanding our R&D and production systems.

\* 1: 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



(Note) From the 96th term, we changed the method to show net orders received excluding special factors such as foreign exchange effects to order backlog. For the 95th term, we revised the figures for the previous fiscal term using the method following the change, but we made no changes to the 94th and prior terms.

The results for the current consolidated fiscal year are as follows.

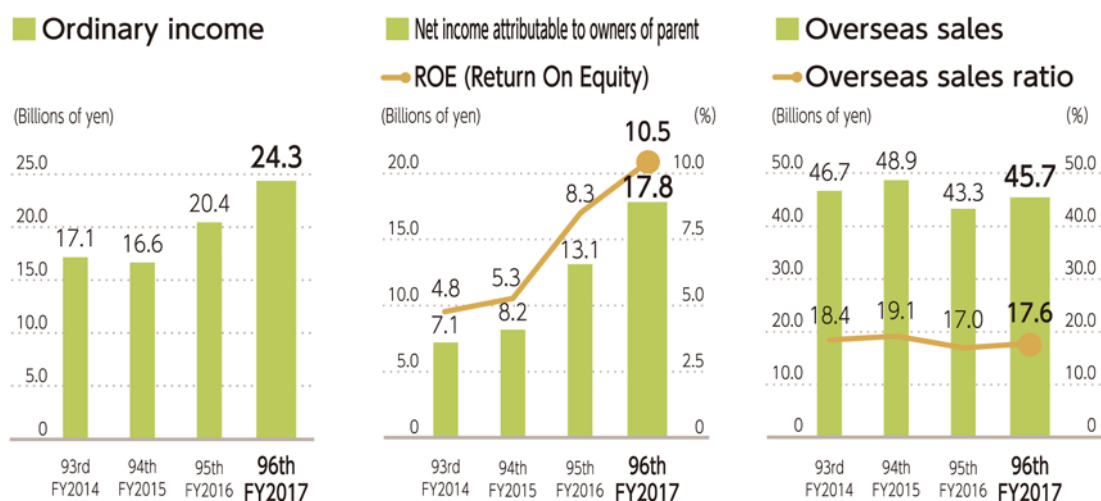
In Japan, with the brisk investment in urban redevelopment, demand has remained high for equipment and systems for large-scale buildings. Also, capital investment in production facilities has continued to be positive, both domestically and overseas. Given this business environment, we implemented measures to expand orders and, as a result, we achieved significant growth in orders received<sup>\*2</sup> for the Advanced Automation (AA) business and the Life Automation (LA) business. Overall orders received were 266,262 million yen, up 4.4% from 254,974 million yen recorded for the previous consolidated fiscal year. Sales grew in all segments, especially in the Building Automation (BA) business and the AA business. As a result, overall net sales were 260,384 million yen, up 2.2% from 254,810 million yen recorded for the previous consolidated fiscal year.

As regards profits, owing to further progress made with initiatives aimed at improving the profit structure that started in the previous consolidated fiscal year, operating income increased significantly to 24,026 million yen, up 19.3% from 20,145 million yen recorded for the previous consolidated fiscal year. Owing mainly to this increase in operating income, ordinary income increased to 24,316 million yen, up 18.8% from 20,475 million yen recorded for the previous consolidated fiscal year. Similarly, net income attributable to owners of parent rose to 17,890 million yen, up 36.0% from 13,153 million yen recorded for the previous consolidated fiscal year. In addition to this increase in operating income and the recording of gain on sales of investment securities, this result was partly due to decrease in loss on liquidation of subsidiaries and associates as well as reduction in tax expenses following a reappraisal of the recoverability of a subsidiary's deferred tax assets.

\*2: Orders received

Previously, the amount of orders received included the translation gains and 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, from this fiscal year, the amount of orders received excluding aforesaid translation gains and losses has been posted, and the figures for the previous fiscal year to be compared have been revised.

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.



The results for the individual reportable segments are as follows.

### Building Automation (BA) Business

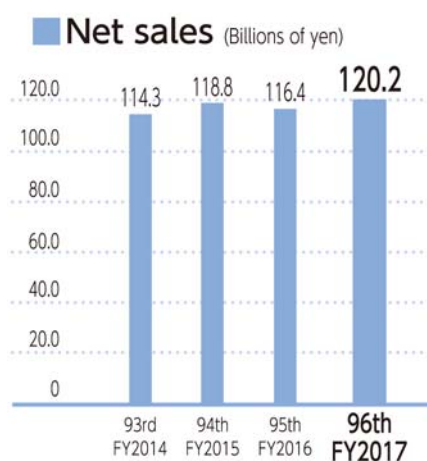
In the domestic market, in addition to urban redevelopment plans for the Tokyo metropolitan area, demand for solutions for energy saving and operational cost reduction has been high and the market environment for the BA business continued to be robust. Overseas, steady progress has been achieved in developing local markets in Asia and China.

Thanks to this business environment, orders received increased significantly for existing buildings. However, because large-scale multi-year contracts<sup>\*3</sup> had been recorded in the previous fiscal year, overall orders received were down. In the new construction field, progress at on-site construction was steady with efforts to reinforce structures continuing from the previous fiscal year, and this led to increased sales for new buildings. Sales for existing buildings and service also increased with the growing number of proposals for solutions based on intimate knowledge of on-site issues. Sales also grew overseas, despite the impact of transferring all shares in a subsidiary in the previous fiscal year.

Consequently, BA business sales in the current consolidated fiscal year were 120,233 million yen, up 3.3% from 116,421 million yen recorded for the previous consolidated fiscal year. Segment profit was 12,583 million yen, up 9.3% from 11,512 million yen recorded for the previous consolidated fiscal year despite an increased cost burden. An initiative to improve profits was successful while reduction in temporary expenses for provision compensated increase in expenses for putting in place improved structures and development for new products.

\* 3: 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 received 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.



\*Each figure above includes intersegment internal sales.



## Advanced Automation (AA) Business

In Japan and overseas, expansion continued in markets related to semiconductor manufacturing equipment, and including other markets, the business environment for the AA business has continued to be generally favorable. Based on these business environment, from the previous fiscal year we have engaged in strengthening operating systems for the three AA business sub-segments (CP, IAP, & SS)<sup>\*4</sup> aiming to achieve global competitiveness. We have also implemented measures for realizing business growth and strengthening profitability.

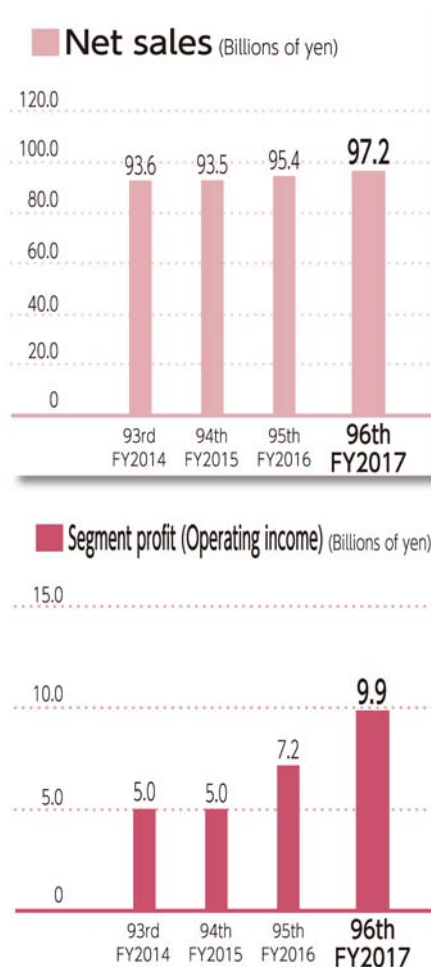
Consequently, progress has been made with developing new automation fields with new products. AA business orders received thus increased significantly. As regards sales, the domestic business continued to be relatively robust, while increasing demand overseas for controllers and sensors primarily for semiconductor manufacturing equipment also led to increased sales. AA business sales for the current consolidated fiscal year were 97,231 million yen, up 1.8% from 95,484 million yen recorded for the previous consolidated fiscal year. Thanks to the abovementioned initiatives designed to strengthen business profitability, the profit structure for each of the three sub-segments has significantly improved: segment profit was 9,931 million yen, up 37.9% from 7,204 million yen recorded for the previous consolidated fiscal year.

\*4: Three AA business sub-segments (management accounting sub-segments)

CP business: Control Product business (supplying factory automation products such as controllers and sensors, etc.)

IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.)

SS business: Solution & Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)



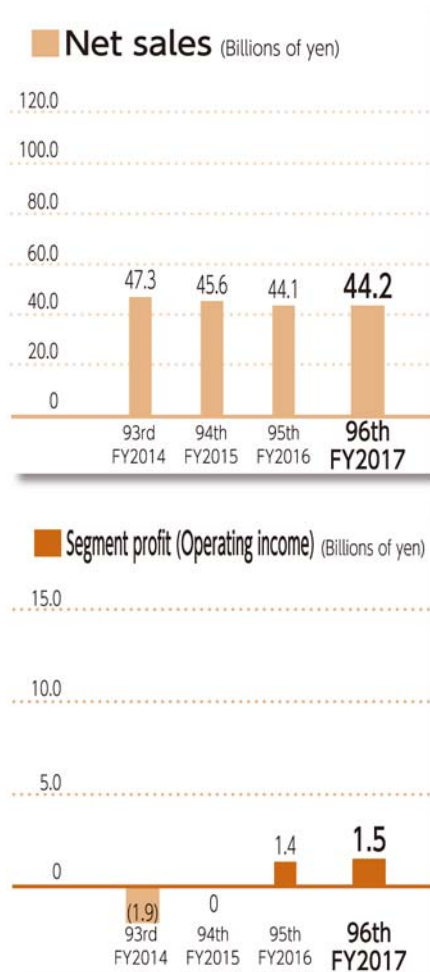
\*Each figure above includes intersegment internal sales.

### Life Automation (LA) Business

The LA business covers three fields: Lifeline (gas/water meters, etc.), Life Science Engineering (LSE: pharmaceutical/laboratory fields), and Lifestyle-related (residential central air-conditioning systems).

In the current consolidated fiscal year, there was a significant increase in LA business orders received. This was principally owing to a growth in the LSE field in which the selection and concentration of business areas was promoted in the previous fiscal year to improve profitability.

LA business sales were 44,208 million yen, up 0.2% from the previous consolidated fiscal year, when sales of 44,116 million yen were recorded. Segment profits increased mainly due to the improvement in the LSE field to 1,501 million yen, up 5.7% from 1,420 million yen recorded for the previous consolidated fiscal year.



\*Each figure above includes intersegment internal sales.

### Other

In Other business, sales of 65 million yen were recorded for the current consolidated fiscal year; in the previous consolidated fiscal year sales were 70 million yen. Segment profit was 9 million yen; in the previous consolidated fiscal year there was a segment profit of 18 million yen.

## Orders received and Sales by segment

(Millions of yen)

Reportable segment	Orders received			Sales		
	95th term (Fiscal year ended March 31, 2017)	<b>96th term (Fiscal year ended March 31, 2018)</b>	Increase/ decrease ratio (%)	95th term (Fiscal year ended March 31, 2017)	<b>96th term (Fiscal year ended March 31, 2018)</b>	Increase/ decrease ratio (%)
Building Automation	120,017	<b>117,811</b>	(1.8)	116,421	<b>120,233</b>	3.3
Advanced Automation	93,424	<b>101,737</b>	8.9	95,484	<b>97,231</b>	1.8
Life Automation	42,684	<b>48,013</b>	12.5	44,116	<b>44,208</b>	0.2
Total of reportable segments	256,127	<b>267,562</b>	4.5	256,022	<b>261,673</b>	2.2
Other	68	<b>64</b>	(7.0)	70	<b>65</b>	(7.1)
Elimination	(1,222)	<b>(1,364)</b>	—	(1,281)	<b>(1,354)</b>	—
Consolidated	254,974	<b>266,262</b>	4.4	254,810	<b>260,384</b>	2.2

(Note) From the 96th term, we changed the method to show net orders received excluding special factors such as foreign exchange effects to order backlog. For the 95th term, we revised the figures for the previous fiscal term using the method following the change.

### (2) Principal Business (As of March 31, 2018)

—The azbil Group businesses—While realizing safety, comfort and fulfillment through our three businesses, contribute to the global environment preservation.

The azbil Group pursues “human-centered automation” for people’s safety, comfort and fulfillment and to contribute to the global environment, developing its Building Automation business in the building market and its Advanced Automation business in the industrial market, as well as its Life Automation business through lifeline and life sciences research in the lifestyle-focused market.

The azbil Group handles the following major products.

Segment	
BA: Building Automation Business	
Major Products	
<ul style="list-style-type: none"> <li>● Building automation system</li> <li>● Controllers</li> <li>● Sensors</li> <li>● Valves</li> <li>● User-operated devices</li> <li>● Security systems</li> </ul>	<ul style="list-style-type: none"> <li>● Building automation service</li> <li>● Cloud-based services for buildings</li> <li>● Total energy management services</li> <li>● Comprehensive building management services</li> <li>● Cell airflow control system</li> <li>● Environmental solutions for data centers, etc.</li> </ul>

---

**Segment**

---

AA: Advanced Automation Business

---

**Major Products**

---

- |                                  |   |
|----------------------------------|---|
| ● Monitoring and control systems | ● Combustion safety and control systems |
| ● Solution packages              | ● Facility diagnosis devices            |
| ● Field devices                  | ● Maintenance services                  |
| ● Valves/Positioner              | ● Energy-saving solutions for factories |
| ● Controllers                    | ● Lubricators, etc.                     |
| ● Sensors/Switches               |   |
- 

---

**Segment**

---

LA: Life Automation Business

---

**Major Products**

---

- |                       |  |
|-----------------------|--|
| ● Gas meters          | ● Flowmeters   |
| ● Safety equipment    | ● Residential central air-conditioning systems                     |
| ● Supplying equipment | ● Facilities and equipment for research laboratories and hospitals |
| ● System equipment    | ● Equipment and services for pharmaceutical plants, etc.           |
| ● Water meters        |  |
- 

---

**Segment**

---

Others

---

**Major Products**

---

- Insurance agent business
- 

(3) Capital Investment, etc.

Capital investment in the current fiscal year totaled ¥7,038 million, as we invested in new product development and streamlining.

(4) Fund Raising

There is no important fund raising to list for the current fiscal year.

## (5) Issues to be Tackled

In striving to ensure medium- to long- term business development and continuous enhancement of corporate value, the azbil Group is keen to meet the expectations of all stakeholders, not least the shareholders. We accordingly have established long-term goals for the azbil Group based on our philosophy of “human-centered automation.” To achieve these goals, we are implementing three key initiatives in our three core businesses (the BA business, the AA business, and the LA business): becoming 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 regional expansion and a qualitative change of focus; and to realize these goals by being a corporate organization that never stops learning, so that it can continuously strengthen its corporate structure. In this way, we have made progress with reforms to the business structure that can lead to business expansion.

However, giving due consideration to the domestic and overseas conditions and rapid environmental changes, expanding the past business operation is not enough. To achieve further continuous growth, we accelerate structural reforms for each business, in Japan and abroad, the creation of advanced research & development/production systems for the Group, and the development of technology and products that accommodate technological innovations (e.g. IoT, big data, AI, and robotics, etc.) We are also aiming to achieve continuous growth through strengthening corporate governance in addition to allocating management resources effectively and strategically, and working to accelerate these efforts and ensure they take root.

1) All three businesses are positioned domestically in mature industries, yet there are significant differences in the environment each finds itself in. For the BA business, in order to steadily tap into the demand that is growing with the urban redevelopment plans of the Tokyo metropolitan area, we have further strengthened capabilities that enable to complete the projects with appropriate working hours by efficiently and systematically allocating human resources, creating a structure that includes continuously transferring human resources and innovating the forms of education and operations, and pushing ahead with comprehensive work style reforms. In addition, we have introduced the next generation building automation system “savic-net G5”, which further accelerates openness, increases connectivity with existing systems, and dramatically increases job efficiency. As a result, we will provide continuous value matching the business development stage of our customers. By combining the system with cloud services for advanced buildings, we will also propose new facility management and corporate management support.

The AA business will promote growth by selecting and concentrating on business fields that can be expected to grow and offer added value in the future from a wide variety of different markets. Additionally, we will continue our implementing reforms aimed at achieving a highly profitable business structure by developing unique business models closely matching to customer needs and the market environments. One such initiative is our development of control solutions for liquid chemical addition utilizing the new product “F7M”, the micro flow rate liquid flow meter, which has been launched to semiconductor manufacturing equipment. It enables extremely small liquid flow measurements of no more than 30mL/min, which was hitherto extremely difficult.

In the LA business, we have been promoting IoT support for water meters and various types of gas meters. In the LP gas market, we introduced “K-SM  $\alpha$ ”, a new type of LP gas meter that can respond flexibly to a range of communications, initiated a verification

business, which includes meter reading via IoT utilizing new “LPWA\*<sup>1</sup>” technology and rationalized delivery using big data etc., and advanced preparations to expand into new business fields.

We will continue optimizing the allocation of resources within the azbil Group to match changes in the business environment, introducing new personnel and training systems based on the concept of a corporate organization that never stops learning in order to promptly implement changes in business processes and operational structures with the aim of creating firm business opportunities in mature fields at the same time as expanding further into new business fields through the introduction of new products and technologies.

\*1 LPWA: Low Power Wide Area (It is wireless communication technology which enables long-distance communication with far lower power than before and is expected to be utilized in IoT.)

2) In overseas markets, as one approach to further strengthen the business foundation so as to support business growth and earnings expansion, we will continuously strengthen new specialty products and solutions with high value added that respond to the market environment in each country and region with the aim of expanding the business globally. In particular, we have opened the Strategic Planning & Development Office for Southeast Asia in Singapore with the aim of further business growth in the region by supporting and unifying the management of the business in Southeast Asia, where cross-border business is expanding. Going forward, the office will take a regionwide role in promoting business, creating strategic plans, and managing business in the area. As to development of each business in overseas, in the BA business, with the aim of boosting our share in the Asian market, we will seek to strengthen our proposals for specific segments and large-scale projects in the commercial building market through the introduction of the next-generation building automation system “savic-net G5” released last year and the latest Japanese energy saving technology, in addition to reinforcing the life cycle business. In the AA business, as in Japan, we will accelerate its growth through exploitation and deep cultivation of strong automation area. Specifically, in addition to strengthening our sales capabilities, we will expand solutions focused on competitive products, working for further growth by incorporating services throughout the life cycle, such as diagnosis of customer facilities with utilization of IoT. In the LA business, we have conducted the reform of business structure in Europe-based Azbil Telstar, S.L.U., which is in charge of the Life Science Engineering field and have continued to improve profitability by enhancing project management systems and other means. Going forward, we will formulate a new growth strategy and work to realize it in an early stage. In addition to the aforementioned initiatives, in the area of business management at the azbil Group’s overseas subsidiaries, we will continue to develop robust systems at each company and promote the strengthening of our governance within the Group.

3) For azbil Group business expansion, we will reorganize the Group’s production structure and concentrate and strengthen its research & development resources to enhance product values. In Japan, we have been consolidating the production functions in Kanagawa Prefecture into the Shonan Factory, building and reorganizing it as the mother factory of the azbil Group to lead global business development. In addition, along with further boosting production capacity at our factory in Thailand and factory in Dalian, China and expanding overseas procurement of parts and materials, we will make our products even more cost competitive in addition to optimizing global customer support and global logistics. In our research & development activities, we will continue to invest in research

and development of products and services that keep up with technical innovation (IoT, big data, and AI, etc.) in order to expand our business into the industrial structural reform by the fusion of goods and information. Also, we will cultivate new fields of automation related to business processes that are closer to corporate management in the operation of customers' plants and buildings, etc. Moreover, by leveraging our proprietary measurement and control technology, we developed next-generation smart robots equipped with force sensing\*<sup>2</sup> and vision functions to achieve the gripping action for soft objects such as tofu and safety functions such as instantaneous stopping which have been problematic with conventional robots. In this way, we will explore their use in the new field of human-robot collaboration in which humans and robots coexist.

\*<sup>2</sup> force sensing: the sense of resistance received from the object when an object is touched

4) We will promote Group management and enhancement of corporate governance systems. At the same time, the entire azbil Group continues to be engaged in promotion of CSR management in a number of priority initiatives focusing on risk management (quality, product liability, disaster prevention, BCP and information security), compliance (corporate ethics and legal conformity), human-centric management, contributing to the global environment and the society. In particular, we are working to comply with Japan's Corporate Governance Code in order to enhance the integrity, neutrality and transparency of management. And we are actively progressing with measures to ensure a constructive dialog with all of our stakeholders so as to facilitate sustained growth and enhancement of corporate value over the medium- to long- term. The azbil Group has continued its initiatives to contribute to sustainable development of the society, and in fiscal year 2017, azbil Corporation was selected for the reference in the three ESG (environment, society, governance) indexes\*<sup>3</sup> which are adopted by the Government Pension Investment Fund (GPIF). The azbil Group also has a Group philosophy of "human-centered automation", established through developing the aspirations of our founder. We will continue to strive for SDGs (the Sustainable Development Goals) set out by the United Nations through promoting management which is based on this philosophy.

\*<sup>3</sup> three ESG indexes: FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index and MSCI Japan Empowering Women Index (WIN)

(6) Financial position and results of operations

Category	93rd term (Fiscal year ended March 31, 2015)	94th term (Fiscal year ended March 31, 2016)	95th term (Fiscal year ended March 31, 2017)	<b>96th term Fiscal year under review (Fiscal year ended March 31, 2018)</b>
Orders received (Millions of yen)	266,925	273,613	254,974	<b>266,262</b>
Net sales (Millions of yen)	254,469	256,889	254,810	<b>260,384</b>
Operating income (Millions of yen)	15,337	17,135	20,145	<b>24,026</b>
Ordinary income (Millions of yen)	17,141	16,627	20,475	<b>24,316</b>
Net income attributable to owners of parent (Millions of yen)	7,168	8,268	13,153	<b>17,890</b>
Net income per share (Yen)	97.07	112.73	179.57	<b>246.16</b>
Total assets (Millions of yen)	265,718	259,127	263,317	<b>278,629</b>
Net assets (Millions of yen)	160,294	156,966	165,751	<b>177,962</b>
Shareholders' equity ratio (%)	59.6	59.8	62.2	<b>63.2</b>
Net assets per share (Yen)	2,143.11	2,116.09	2,236.47	<b>2,426.29</b>

(Note) From the 96th term, we changed the method to show net orders received excluding special factors such as foreign exchange effects to order backlog. For the 95th term, we revised the figures for the previous fiscal term using the method following the change, but we made no changes to the 94th and prior terms.



(7) Significant subsidiaries (As of March 31, 2018)

Company	Capital Stock	The Company's Investment Ratio (%)	Principal Business
Azbil Trading Co., Ltd.	JPY Million 50	100.00	In the FA field, sales, design, and test operations of instruments and systems for control, measurement, inspection, safety, the environment, data recording and analysis, instrumentation work, various software production, technology service provision and insurance agent business, etc.
Azbil Kimmon Co., Ltd.	3,157	100.00	Manufacturing, development and sales of City Gas meters, LP gas meters, water meters and other related equipment, and related maintenance operations including meter replacement
Azbil Control Instruments (Dalian) Co., Ltd.	RMB Thousand 61,176	100.00	Manufacturing of control instruments, automatic control valves, and switches
Azbil North America, Inc.	USD Thousand 28,550	100.00	Sales of control instrument products and field instruments for the industrial market, engineering, maintenance services
Azbil Telstar, S.L.U.	EUR Thousand 5,709	100.00	Development, manufacturing and sales of equipment and facilities for pharmaceuticals, hospitals and research laboratories, and clean room consulting and engineering

## (8) Main offices and factories (As of March 31, 2018)

Azbil Corporation	Headquarters	2-7-3 Marunouchi, Chiyoda-ku, Tokyo		
	Building Systems Company Head Office /Regional Division/Branch	Chuo-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Chuo-ku, Saitama-shi
		Tsukuba-shi, Ibaraki	Chuo-ku, Chiba-shi	Shinagawa-ku, Tokyo
		Nishi-ku, Yokohama-shi	Nagano-shi, Nagano	Naka-ku, Nagoya-shi
		Kanazawa-shi, Ishikawa	Kita-ku, Osaka-shi	Higashi-ku, Hiroshima-shi
		Hakata-ku, Fukuoka-shi		
	Advanced Automation Company Regional Division/Branch	Chuo-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Chuo-ku, Saitama-shi
		Shinagawa-ku, Tokyo	Naka-ku, Nagoya-shi	Kita-ku, Osaka-shi
		Higashi-ku, Hiroshima-shi	Kokurakita-ku, Kitakyushu-shi	
	Fujisawa Technology Center	Fujisawa-shi, Kanagawa		
Factories	Isehara-shi, Kanagawa	Kouza-gun, Kanagawa		
Offices	Hadano-shi, Kanagawa			
Azbil Trading Co., Ltd.	Headquarters	Toshima-ku, Tokyo		
	Branch	Toshima-ku, Tokyo,	Chuo-ku, Saitama-shi,	Naka-ku, Nagoya-shi,
		Yodogawa-ku, Osaka-shi,	Higashi-ku, Hiroshima-shi,	Kokurakita-ku, Kitakyushu-shi
Azbil Kimmon Co., Ltd.	Headquarters	Toshima-ku, Tokyo		
	Local Branch/Sales Office	Higashi-ku, Sapporo-shi	Aoba-ku, Sendai-shi	Kiryu-shi, Gunma
		Toshima-ku, Tokyo	Naka-ku, Nagoya-shi	Higashiosaka-shi, Osaka
		Higashi-ku, Hiroshima-shi	Hakata-ku, Fukuoka-shi	
	Factories	Aomori-shi, Aomori (Azbil Kimmon Aomori Co., Ltd.) Gobo-shi, Wakayama (Azbil Kimmon Wakayama Co., Ltd.) Shirakawa-shi, Fukushima (Azbil Kimmon Shirakawa Co., Ltd.)* Motomiya-shi, Fukushima (Azbil Kimmon Shirasawa Co., Ltd.)*		
Research Laboratories	Kawagoe-shi, Saitama			
Azbil Control Instruments (Dalian) Co., Ltd.	Headquarters	Dalian, China		
Azbil North America, Inc.	Headquarters	Arizona, U.S.A.		
Azbil Telstar, S.L.U.	Headquarters	Catalonia, Spain		

(Note) For the two Azbil Kimmon Co., Ltd. factories listed with an asterisk, factory facilities are rented to the subsidiaries listed in parentheses, which operate them individually.

(9) Employees (As of March 31, 2018)

1) Employees of the Group

Segment	Number of Employees	Year-on-year Increase/(Decrease)
Building Automation Business	3,045 [719] persons	8 persons
Advanced Automation Business	3,435 [548]	51
Life Automation Business	1,705 [285]	(49)
Total of reportable segments	8,185 [1,552]	10
Others	3 [1]	0
Corporate (Common)	1,140 [191]	28
Total	9,328 [1,744]	38

Notes: 1. The number of employees listed as Corporate (Common) refers to employees belonging to the administration and research and development division which cannot be categorized in the designated business segments.

2. The numbers of temporary employees (including part timers, employees rehired after the compulsory retirement age and contract employees, excluding temporary workers from temp agencies) are indicated in brackets separately from the total as the average yearly numbers of employees.

2) Employees of the Company

Number of Employees	Year-on-year Increase/(Decrease)	Average Age	Average Years of Service
5,043 [1,257] persons	(27) persons	45.1 years old	20.5years

(Note) The number of temporary employees (including part timers, employees rehired after the compulsory retirement age and contract employees, excluding temporary workers from temp agencies) is indicated in brackets separately from the total as the average yearly number of employees.

(10) Major Lenders (As of March 31, 2018)

Lenders	Loan Outstanding
Mizuho Bank, Ltd.	5,090 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,668

(Note) The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its legal name to MUFG Bank, Ltd. as of April 1, 2018.

(11) Transfer of important businesses, etc.

1) Business transfers, absorption-type company split or incorporation-type company split

Not applicable

2) Business transfers from other companies

Not applicable

3) Succession of rights and obligations relating to other entities' business as a result of absorption-type merger or company split

Not applicable

4) Acquisition or disposal of shares, other equities, or subscription rights to shares of other companies

Not applicable

(12) Other important matters regarding the current situation of the Group

Not applicable

## 2. Stock Information (As of March 31, 2018)

- (1) Total Number of Authorized Shares 279,710,000 shares
- (2) Shares of Common Stock Issued 74,250,442 shares  
(including treasury shares of 715,004 shares)
- (3) Number of Shareholders 7,851
- (4) Major Shareholders (Top 10)

Shareholder Name	Number of Shares (thousands)	Percentage of Total Shares Issued (%)
Meiji Yasuda Life Insurance Company	5,214	7.09
The Master Trust Bank of Japan, Ltd. (Trust account)	4,608	6.26
Japan Trustee Services Bank, Ltd. (Trust account)	3,731	5.07
Japan Trustee Services Bank, Ltd. (Trust account 9)	3,057	4.15
State Street Bank and Trust Company	2,945	4.00
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.14
JPMC Oppenheimer Jasdec Lending Account	1,909	2.59
Nippon Life Insurance Company	1,869	2.54
National Mutual Insurance Federation of Agricultural Cooperatives	1,550	2.10
azbil Group Employee Stock Ownership	1,410	1.91

Notes: 1. The percentage of total shares issued is calculated excluding treasury shares (715,004 shares). The number of treasury shares does not include shares (998,283 shares) owned by Trust & Custody Services Bank, Ltd. (Trust E) as trust assets for Employee Stock Ownership Plan (J-ESOP).

2. 3,858 thousand of the shares held by The Master Trust Bank of Japan, Ltd. (Trust account) and 1,933 thousand of the shares held by Japan Trustee Services Bank, Ltd. (Trust account) are the numbers of shares related to the trust business.
3. According to the Report on Large Shareholding dated May 9, 2017 which was made available for public inspection, the following shares are held by Marathon Asset Management LLP, Limited as of April 28, 2017. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2018, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
May 9, 2017	Marathon Asset Management LLP	2,986	3.97

4. According to the Report on Large Shareholding dated June 1, 2017 which was made available for public inspection, the following shares are held by International Value Advisers, LLC, Limited as of May 25, 2017. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2018, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
June 1, 2017	International Value Advisers, LLC	3,024	4.02

5. According to the Report on Large Shareholding dated July 21, 2017 which was made available for public inspection, the following shares are held by FMR LLC Limited as of July 14, 2017. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2018, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
July 21, 2017	FMR LLC	3,718	5.00

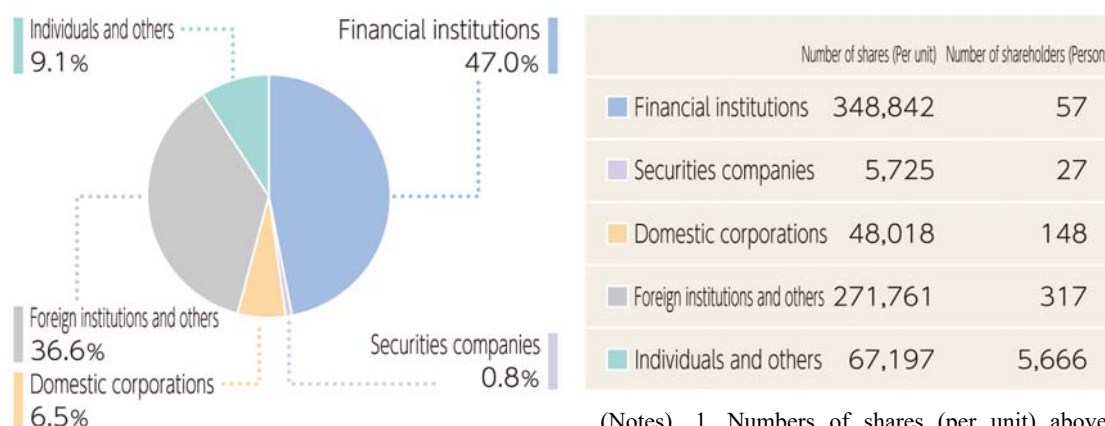
6. According to the Report on Large Shareholding dated November 22, 2017 which was made available for public inspection, the following shares are held by FIL Investment (Japan) Limited as of November 15, 2017. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2018, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
November 22, 2017	FIL Investment (Japan) Limited	4,202	5.66

7. According to the Report on Large Shareholding dated February 21, 2018 which was made available for public inspection, the following shares are held by BlackRock Japan Co., Ltd. and 6 other co-holders as of February 15, 2018. However, as the Company is not able to confirm the number of shares actually held as of March 31, 2018, the end of the fiscal year under review, the shares are not included in the above status of major shareholders.

Submission Date of Report on Large Shareholding	Shareholder Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (%)
February 21, 2018	BlackRock Japan Co., Ltd. and 6 co-holders	3,748	5.04

#### [Reference material] Distribution of Shares by Shareholder Type



- (Notes) 1. Numbers of shares (per unit) above exclude shares less than one unit.  
2. "Individuals and others" above includes treasury shares.

#### [Reference material] Share Price Trend



### 3. Matters Concerning Officers

#### (1) Executive Directors and Audit & Supervisory Board Members (As of March 31, 2018)

Positions	Name	Assignments in the Company and Important Concurrent Positions Outside the Company
Chairman	Seiji Onoki	Chairman, responsible for the azbil Group (aG) overall
President and Chief Executive Officer	Hirozumi Sone	President and Chief Executive Officer, responsible for the aG overall, Internal Audit Department, Corporate Planning Department
Executive Director	Tadayuki Sasaki	Executive Vice President, Assistant to President, responsible for overall administrative function, the life automation (LA) business, aG-CSR, Internal control, Facilities/Business sites, General Affairs Department, Legal & Intellectual Property Department, Secretary Office
Executive Director	Keiichi Fuwa	Managing Executive Officer, responsible for the building automation (BA) business, aG sales synergy President of Building Systems Company (BSC)
Executive Director	Masato Iwasaki	Managing Executive Officer, responsible for business in North America and South America supervision, develop for new business model in North America
Executive Director	Yoshimitsu Hojo	Managing Executive Officer, responsible for aG production, aG purchasing, the advanced automation (AA) business, Production Management Headquarters President of Advanced Automation Company (AAC), General Manager of Production Management Headquarters
Outside Director	Eugene H. Lee	Outside Director
Outside Director	Katsuhiko Tanabe	Outside Director Lawyer Outside Audit & Supervisory Board Member of JSP Corporation
Outside Director	Takeshi Itoh	Outside Director Senior Advisor of Aozora Securities Co., Ltd.
Standing Audit & Supervisory Board Member	Tomohiko Matsuyasu	
Standing Audit & Supervisory Board Member	Hisaya Katsuta	
Outside Audit & Supervisory Board Member	Kinya Fujimoto	Certified Public Accountant Outside Audit & Supervisory Board Member of Nihon Kajo Publishing Co., Ltd.
Outside Audit & Supervisory Board Member	Mitsuhiro Nagahama	Advisor of Mizuho Securities Co., Ltd. Outside Audit & Supervisory Board Member of KURARAY Co., Ltd
Outside Audit & Supervisory Board Member	Shigeru Morita	

- Notes: 1. Executive Directors Eugene H. Lee, Katsuhiko Tanabe and Takeshi Itoh are Outside Directors of the Company under Article 2, Item 15 of the Companies Act.
2. Audit & Supervisory Board Members Kinya Fujimoto, Mitsuhiro Nagahama and Shigeru Morita are Outside Audit & Supervisory Board Members of the Company under Article 2, Item 16 of the Companies Act.
3. Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with each of Outside Directors and Outside Audit & Supervisory Board

Members, as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum amount of the liability for damage based on said contracts is the minimum liability amount prescribed in laws and regulations.

4. Standing Audit & Supervisory Board Member Tomohiko Matsuyasu has served for many years in the Company's accounting division, carrying out accounting procedures and preparing financial statements, and Audit & Supervisory Board Member Kinya Fujimoto, as a certified public accountant, has a wealth of knowledge and experience concerning financial affairs and accounting.
5. The Company has notified each of Outside Directors and Outside Audit & Supervisory Board Members as Independent Officers to the Tokyo Stock Exchange.
6. As of April 1, 2018, the assignments of Directors have been changed as follows:

Positions	Name	Assignments in the Company and Important Concurrent Positions Outside the Company
Executive Director	Seiji Onoki	Executive Director, Chairman of the Board
President and Chief Executive Officer	Hirozumi Sone	President and Group Chief Executive Officer, responsible for Internal Audit Department, Corporate Planning Department
Executive Director	Tadayuki Sasaki	Executive Director
Executive Director	Keiichi Fuwa	Executive Director
Executive Director	Masato Iwasaki	Managing Executive Officer, responsible for Life Automation (LA) business, strategy for LA business growth, promotion and development of business in North America General Manager of Life Science Engineering Department



7. We have an Executive Officer System that facilitates the prompt decision making and execution of company policy. As of April 1, 2018, there were 24 Executive Officers, including the above three (3) Executive Directors who also serve as Executive Officers and the Executive Officers appointed below.

Position	Name	Assignments in the Company
Managing Executive Officer	Takayuki Yokota	Responsible for Corporate Communication, the overall administrative function, azbil Group (aG) -CSR, Internal control, Facilities/Business sites, Group Management Headquarters, International Business Headquarters, General Affairs Department, Legal & Intellectual Property Department, Secretary Office
Managing Executive Officer	Kazuyasu Hamada	Responsible for the building automation (BA) business, aG sales synergy President of Building Systems Company (BSC)
Managing Executive Officer	Hiroshi Arai	Responsible for Group IT, aG information systems, IT Solutions Headquarters General Manager of IT Solutions Headquarters
Managing Executive Officer	Junya Nishimoto	Responsible for aG research and development (Group development synergy), Smart Robot, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department General Manager of Technology Development Headquarters
Managing Executive Officer	Kiyohiro Yamamoto	Responsible for marketing, BA International Business, BA Environmental Solution, BSC's Development, BSC's marketing General Manager of BSC's Marketing Headquarters
Executive Officer	Yoshifumi Suzuki	Responsible for aG environmental load innovation, the Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department General Manager of the Department of Safety Assessment, General Manager of aG Quality Assurance Department
Executive Officer	Michihiro Tomonaga	Chairman and General Manager of Azbil Taiwan Co., Ltd
Executive Officer	Akihiko Naruse	Responsible for Human Resources Department, aG Safety Management Department President of the Azbil Academy
Executive Officer	Masashi Hirano	Responsible for development for new business of Factory Automation
Executive Officer	Seiichiro Hayashi	Responsible for BSC's BA Engineering Headquarters
Executive Officer	Kenichi Hayashi	General Manager of the BSC's Business Planning Department
Executive Officer	Tetsuya Maruyama	Manager of BSC's Chubu Regional Division
Executive Officer	Tomoyuki Takeda	Manager of BSC's Kansai Regional Division
Executive Officer	Hiroshi Shimizu	Responsible for the advanced control business General Manager of Advanced Solutions Department in the Advanced Automation Company (AAC)'s Engineering Headquarters
Executive Officer	Tetsuo Takamura	Responsible for the advanced automation (AA) CP business <sup>*1</sup> General Manager of the AAC CP Marketing Department
Executive Officer	Tadayoshi Itoh	Responsible for the AA SS business <sup>*2</sup> General Manager of the AAC SS Marketing Department
Executive Officer	Hideaki Ishii	Responsible for aG production innovation, AA Development and Quality Assurance
Executive Officer	Takahiro Sakamoto	Deputy General Manager of Technology Development Headquarters

Executive Officer	Takashi Sawada	Manager of BSC's Tokyo Head Office
Executive Officer	Taro Sento	Responsible for the AA IAP business <sup>*3</sup> General Manager of the AAC IAP Marketing Department
Executive Officer	Toshiyasu Sumitomo	Responsible for business development in North America, Life Science Engineering business development

\*1CP business: Control Product business (supplying factory automation products such as controllers and sensors, etc.)

\*2 SS business: Solution & Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

\*3 IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure & pressure transmitters, and control valves, etc.)

## (2) Total amounts of remuneration, etc., paid to Executive Directors and Audit & Supervisory Board Members

Category	Number of Persons Remunerated	Total Amount of Remunerations Paid (Millions of yen)
Executive Directors	9	448
Audit & Supervisory Board Members	5	75
Total (Outside Directors and Audit & Supervisory Board Members)	14 (6)	524 (62)

Notes: 1. The remuneration for Executive Directors excludes the salary to be paid for service as officer or employee for Executive Directors who concurrently hold a post of officer or employee of the Company.

2. The Company resolved that the maximum annual remuneration for Executive Directors shall be not more than 450 million yen (excluding amounts paid as salaries for officer or employee) at the 84th Ordinary General Meeting of Shareholders held on June 29, 2006.

3. The Company resolved that the maximum annual remuneration for Audit & Supervisory Board Members shall be not more than 120 million yen at the 85th Ordinary General Meeting of Shareholders held on June 28, 2007.

4. The remuneration for Executive Directors includes directors' bonuses (150 million yen for six (6) Executive Directors).

## (Reference) Policies on Determination of Remuneration, etc. for Executive Directors and Audit & Supervisory Board Members

The Company determines policies on determination of remuneration, etc. for officers for the purpose of strengthening corporate governance and achieving sustained enhancements in corporate value through meeting the azbil Group's management targets. The remuneration of Executive Directors is commensurate to their roles, responsibilities, and accomplishments and designed to contribute to sustainable growth and enhancements in corporate value.

Remuneration for Executive Directors who concurrently perform executive duties comprises basic remuneration that is a fixed remuneration based on their roles, responsibilities, and other factors, and bonuses that are linked to business results and are also determined in consideration of the degree of achievement of medium-term targets.

Executive Directors who do not concurrently perform executive duties receive only basic remuneration to ensure that they perform their management supervision function adequately.

The Company has established the "Nomination and Remuneration Committee" consisting of

Outside Directors who perform oversight of management and execution from an external perspective and Representative Directors (Independent Outside Directors form a majority) in accordance with our internal rules for director remuneration to ensure transparency and objectivity in the remuneration determination process. Under this process, the basic remuneration amounts paid to individual Executive Directors and the total amounts of bonuses and the amounts of bonus to be paid to individual Executive Directors who concurrently perform executive duties shall be kept within the remuneration limits set at the Ordinary General Meeting, and subjected to review by this “Nomination and Remuneration Committee.”

Furthermore, to share interests with the shareholders and to create a continuous incentive to enhance corporate value for Executive Directors who also serve as Executive Officers, they purchase the Company’s stocks in the planned annual contribution amount proportional with each officer’s role and responsibilities through the officer stock ownership plan and continually hold these stocks.

The remuneration limit for Audit & Supervisory Board Members as a group is also set at the Ordinary General Meeting, while the remuneration of individual Audit & Supervisory Board Members is determined on the basis of discussions among the members.

### (3) Important Concurrent Positions Outside the Company of Outside Officers

Positions	Name	Important Concurrent Positions Outside the Company
Outside Director	Eugene H. Lee	
Outside Director	Katsuhiko Tanabe	Lawyer Outside Audit & Supervisory Board Member of JSP Corporation
Outside Director	Takeshi Itoh	Senior Advisor of Aozora Securities Co., Ltd.
Outside Audit & Supervisory Board Member	Kinya Fujimoto	Certified Public Accountant Outside Audit & Supervisory Board Member of Nihon Kajo Publishing Co., Ltd.
Outside Audit & Supervisory Board Member	Mitsuhiro Nagahama	Advisor of Mizuho Securities Co., Ltd. Outside Audit & Supervisory Board Member of KURARAY Co., Ltd
Outside Audit & Supervisory Board Member	Shigeru Morita	

Note: There is no particular relationship between the Company and each of the important concurrent positions outside the Company of Outside Directors and Audit & Supervisory Board Members.

(4) Major activities of Outside Officers

	Name	Number of attendance at the Board of Directors meeting	Number of attendance at the Audit & Supervisory Board meeting	Statements
Outside Director	Eugene H. Lee	11/12	–	Eugene H. Lee raised questions and made comments in view of the perspective of the Company's current business plan, the standpoint of medium- to long-term business expansion, strategies, etc., a global perspective, based on his in-depth knowledge of international business and experience and knowledge gained in the management of global companies.
	Katsuhiko Tanabe	12/12	–	Katsuhiko Tanabe raised questions and made comments from such standpoints as the presence of legal as well as compliance and CSR issues, and risk reduction, from his specialist knowledge and wide-ranging expertise as a lawyer, and abundant experience as an outside officer at other companies.
	Takeshi Itoh	12/12	–	Takeshi Itoh raised questions and made comments from his perspective on the capital markets, and from the standpoint of medium- to long-term business strategy and so forth, on business expansion, strategies, finance and capital policies of the Company including shareholder return, based on his knowledge and experience in the financial field developed in overseas securities and investment management companies.
Outside Audit & Supervisory Board Member	Kinya Fujimoto	12/12	14/14	Kinya Fujimoto raised questions and made comments from the standpoint of auditing the Company's overall business and enhancing the Group company management, based on his wealth of expertise and experience concerning financial affairs and accounting, as well as long-term experience as a certified public accountant.
	Mitsuhiro Nagahama	12/12	14/14	Mitsuhiro Nagahama raised questions and made comments from a global perspective on the appropriateness of the Company's business strategies and the improvement of Group company management and the further strengthening of the Company's corporate governance, based on his experience of serving in important positions in his native field of finance and in-depth knowledge and vantage point in financial services.
	Shigeru Morita	12/12	14/14	Shigeru Morita raised questions and made comments from the standpoint of improving risk management and risk reduction measures, the approach to CSR of the Company and the maintenance of good relationship with stakeholders, from his experience serving in important positions in insurance companies, which are his native field, as well as his management experience in real estate and facility management companies.

#### 4. Accounting Auditor

(1) Accounting Auditor's name: Deloitte Touche Tohmatsu LLC

(2) Amount of remuneration during the Fiscal Year Ended March 31, 2018

	Amount Paid
Amount of remuneration paid for services rendered as Accounting Auditor during the Fiscal Year Ended March 31, 2018	78 million yen
Total cash and other remuneration paid by the Company and its subsidiaries to the Accounting Auditor	109 million yen

Notes: 1. The audit agreement entered into by the Accounting Auditor and the Company does not clearly distinguish the amount being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Act, and the two amounts cannot be practically distinguished from each other. Therefore, the amount in above indicates the total of these two kinds of amounts.

2. The Audit & Supervisory Board gives consent regarding remunerations etc. for the Accounting Auditor as stipulated under Article 399, Item 1 of the Companies Act. The consent is given as a result of examining the validity of the expected auditing hours and the amount of remuneration, after comparing the audit plan of the previous business year with its performance, and reviewing the trend of the time spent for audit and the amount of remuneration by obtaining necessary materials and examining reports from the relevant departments of the Company and the Accounting Auditor.

3. Consolidated overseas subsidiaries of the Company are audited by Auditing firms other than the Accounting Auditor of the Company.

#### (3) Policy regarding decisions of dismissal or non-reappointment of Accounting Auditors

Where the Audit & Supervisory Board deems there are problems with the suitability or independence of an Accounting Auditor, it will decide the details of an item to be submitted to the General Meeting of Shareholders related to the dismissal or non-reappointment of the Accounting Auditor.

Furthermore, where the Audit & Supervisory Board deems the Accounting Auditor corresponds to the provisions of Article 340, Paragraph 1 of the Companies Act, based on the agreement of the all Audit & Supervisory Board Members, the Accounting Auditor will be dismissed. In this case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the fact that the Accounting Auditor was dismissed and the reason for such dismissal at the first General Meeting of Shareholders convened after the dismissal.

#### 5. System and Policies of the Company

(1) System to ensure the appropriateness of business activities and the operational status of that system

<Outline of resolution on system to ensure the appropriateness of business activities>

As decided at the Board of Directors meeting convened on May 16, 2006 and partially revised at the Board of Directors meetings convened on August 3, 2007, May 23, 2008, August 6, 2009 and May 13, 2015, the Basic Policy on Internal Control System Architecture is as follows.

This policy, based on Article 362, Paragraph 4, Item 6 of the Companies Act, stipulates an overall framework required to create an internal control system as stipulated by Article 100 of the Ordinance for Enforcement of the Companies Act, clarifying basic policies to be followed by Executive Directors, Executive Officers and Employees (hereafter, "the Officers and

Employees”) of Azbil Corporation (hereafter, “the Company”) and the Company’s subsidiaries<sup>\*1</sup> (hereafter, “Subsidiary” or “Subsidiaries”) in the building of internal control system architecture concretely implemented by the Company and Subsidiaries. The goal of the internal control system based on this policy is to create a corporate structure that is efficient, lawful, and highly transparent, based on improvement through constant review.

\*1: The Subsidiaries subject to basic policies are the consolidated Subsidiaries specified in “azbil Group Management Basic Policy” that also have annual net sales accounting for 1 % or more of the consolidated sales of the azbil Group.

1. System to ensure that the execution of duties of Officers and Employees of the Company and Subsidiaries complies with laws and regulations and the Articles of Incorporation

- 1) The Officers and Employees of the Company and Subsidiaries, aiming to be a corporate group that contributes to and is trusted by society, will comply with laws and regulations and the Articles of Incorporation, as well as the “azbil Group Business Conduct Policy” and the “azbil Group Business Conduct Guidelines,” maintaining high-level business ethics and conducting sound business activities. To do so, both the Company and Subsidiaries will designate an officer to be responsible for compliance promotion activities in each company, forming a constant approach throughout the entire company.
- 2) In addition to the above paragraph, the Company and the separately listed Subsidiaries will create individual action plans to promote compliance, including the compliance with laws and regulations and the Articles of Incorporation, and report the results of implementation to the Board of Directors of their own companies.
- 3) The Company, to promote compliance-related activities throughout the entire group, has formed the “azbil Group CSR Promotion Committee,” creating action plans for the overall group, managing progress, and providing guidance and advice to Subsidiaries.
- 4) The Company and Subsidiaries will create internal control systems to ensure the appropriateness of business activities. To do so, the Officers and Employees of the Company and Subsidiaries will endeavor to develop and implement the basic elements of internal control, including the control environment, and with regard to the performance of business, shall comply with relevant laws and regulations, business process manuals, etc., thereby ensuring, and seeking to maintain and improve appropriate control conditions.
- 5) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc audits as required on the status of the Company’s and Subsidiaries’ compliance promotion and internal control system architecture.
- 6) In the rare event the Company or Subsidiaries engage in serious illegal or unethical acts, or any event that might produce a serious impact on society, the Officers and Employees of the Company and the Subsidiaries will make a report using either the designated reporting route or the internal reporting system.
- 7) The Internal Auditing Department of the Company will maintain, develop and properly operate the internal reporting system and other systems. Expansions or changes to the coverage scope of the internal reporting system will be made following a report to the Board of Directors.

2. System for the storage and management of information relating to the execution of duties of the Executive Directors of the Company

- 1) The Officers and Employees of the Company will comply with the “Rules for Keeping Information Related to Directors’ Duties,” appropriately storing and managing information on the execution of duties.
- 2) The General Affairs Department will create, revise and abolish the above rules with the approval of the Board of Directors meetings or the management meetings, depending on the level of importance of the rules, and evaluate and review the management status as necessary.
- 3) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc audits as required on the status of operations and management of the Internal Audit Rules and others.

3. Rules and other systems for management of risk of loss at the Company and Subsidiaries

- 1) To properly manage risk of loss and ensure the continuity and stable development of business, based on the “azbil Group Risk Management Rules,” the Company will identify risks that could cause serious losses to the overall group management (serious risks for the azbil Group) at the Board of Directors meetings.
- 2) The Company will instruct Subsidiaries as necessary to implement and promote countermeasures against the serious risks that have been identified for the azbil Group.
- 3) In addition to the above paragraph, the separately listed Subsidiaries will independently identify serious risks at those Subsidiaries, and work to establish and promote policies addressing these serious risks.
- 4) The Internal Auditing Department of the Company, based on the “Internal Audit Rules,” will implement regular and ad-hoc internal audits as required on the status of the implementation of risk management systems at the Company and Subsidiaries.

4. System to ensure the efficient execution of duties of the Executive Directors of the Company and Subsidiaries

- 1) For the efficient and prompt execution of business activities without risking the soundness of the company, the Company and Subsidiaries will endeavor to develop an organizational system and prepare rules regarding administrative authority for the effective execution of business.
- 2) The Officers and Employees of the Company and Subsidiaries will take action to ensure the achievement of plans based on the medium-term plan and the annual plan, which are the central components of the management plan system, and conduct regular reviews to ensure the execution of business is progressing in line with the original plans.
- 3) Based on the “Rules for Division of Duties” and other rules, the Company will provide the required support and guidance to Subsidiaries to increase the work efficiency and work level of the overall group.
- 4) At both the Company and Subsidiaries, for items requiring the approval of the Board of Directors of the company, to ensure the thorough deliberation by the Board of Directors, materials related to the item will be distributed to all directors ahead of time.

5. System for the reporting of items related to the execution of the duties of the Officers and Employees of Subsidiaries to the Company

- 1) Based on the management control items to be submitted to the Board of Directors, etc. of the Company in the execution of duties of Subsidiaries as stipulated in the “azbil Group Management Basic Policy,” the Company’s approval will be received or a report made to the Company as required.
- 2) In addition to the items stated in the above paragraph, domestic Subsidiaries will, either directly or at the regular meeting of Group company presidents or other meetings, report to the Company on the state of business at their company and on important management items.
- 3) In addition to 1) above, overseas Subsidiaries will, either directly or through the pertinent administrative department of the Company, report to the Company on the state of business at their company and on important management items.

6. Items related to employees aiding the duties of the Audit & Supervisory Board Members of the Company, items related to the independence of these employees from the Executive Directors of the Company, and items to ensure the effectiveness of the instructions from the Audit & Supervisory Board Members of the Company to these employees

- 1) The Company will assign full-time personnel to aid the duties of the Audit & Supervisory Board Members.
- 2) To maintain the independence of the employees in question, the Company will receive the agreement of the Audit & Supervisory Board Members when making decisions on the personnel rotation and personnel evaluation of the employees aiding the duties of the Audit & Supervisory Board Members.
- 3) The full-time employees aiding the duties of the Audit & Supervisory Board Members will execute their duties under the reporting line of the Audit & Supervisory Board Members.

7. System for the reporting by the Officers and Employees of the Company and Subsidiaries and the Audit & Supervisory Board Members of Subsidiaries to the Audit & Supervisory Board Members of the Company and system to ensure unfair treatment is not received due to the reporting in question

- 1) Where the Officers and Employees of the Company or Subsidiaries discover items which could invite serious losses to the Company or Subsidiaries, serious defects in the internal control system or procedures, or the occurrence of serious legal violations or fraud, they will make a report to the top management of the Company, and where a division responsible for internal control is in place, to the division in question. The top management or internal control division at the Subsidiary receiving the report will make a report to the Executive Directors of the Company, and where Audit & Supervisory Board Members are appointed, to the Audit & Supervisory Board Members of the company in question, as well as to the top management and the internal control division of the Company. The top management of the Company and internal control division of the Company receiving the report will make a report to the Executive Directors and Audit & Supervisory Board Members of the Company.



- 2) Furthermore, in addition to the reporting system in the previous paragraph, the Company will maintain, develop and properly operate the Group's internal reporting system.
- 3) The department in charge of internal reporting system in the Company within the Company will make regular reports to the Audit & Supervisory Board Members of the Company regarding the state of internal reports from the Officers and Employees of the Company and Subsidiaries.
- 4) Regardless of the above paragraphs, the Audit & Supervisory Board Members of the Company may demand a report as required from the Officers and Employees of the Company and Subsidiaries and the Audit & Supervisory Board Members of Subsidiaries.
- 5) Internal rules will be developed to ensure the Company and Subsidiaries do not treat the Officers and Employees unfairly because of their reporting in question to the Audit & Supervisory Board Members of the Company or Subsidiaries.

8. Items related to the policy for the handling of Expenses or Financial Obligations by Audit & Supervisory Board Members of the Company in the execution of their duties

- 1) The Company will promptly handle expenses or financial obligations with respect to the costs incurred by the Audit & Supervisory Board Members in the execution of their duties and any costs incurred when they request the opinion of external experts such as attorneys in forming their own opinion. However, this excludes cases where the Company demonstrates the costs are not required for the Audit & Supervisory Board Members to execute their duties.
- 2) The Company will secure a budget ahead of time for the Audit & Supervisory Board Members and for the full-time employees who aid the Audit & Supervisory Board Members to execute their duties, and shall not interfere in the execution of that budget. However, this excludes cases where the Company demonstrates the costs are not required for the Audit & Supervisory Board Members to execute their duties.

9. Other systems to ensure the audits of the Audit & Supervisory Board Members of the Company are implemented effectively

- 1) The Audit & Supervisory Board Members will attend the Board of Directors meetings and other important meetings including the meetings of the management meeting, review key approval forms and other documents related to the execution of business, and may request explanations from the Officers and Employees.
- 2) The Audit & Supervisory Board Members will work to exchange information and cooperate with the Executive Directors, the Internal Auditing Department, the Audit & Supervisory Board Members of Subsidiaries and the Accounting Auditor to establish a system for the efficient implementation of the audits.

<Outline of the operational status of system to ensure the appropriateness of business activities>

The outline of the operational status of the system to ensure the appropriateness of business activities is as follows.

## 1. Compliance Systems

- Azbil Group, guided by the corporate philosophy of “human-centered automation, ” has formulated the “azbil Group Business Conduct Policy” and “azbil Group Business Conduct Guidelines,” making efforts toward creating a corporate culture in which compliance awareness is permeated. To do so, the Company and Subsidiaries have appointed officers who are responsible for controlling and promoting company-wide compliance related activities throughout the Company, and have designated compliance managers and compliance leaders to ensure thorough compliance, educate and supervise employees with the cooperation of the department of the Company in charge of compliance.
- To promote compliance-related activities throughout the azbil Group, the Company has formed the “azbil Group CSR Promotion Committee” where an officer of the Company in charge of compliance is appointed as chief officer and officers of each company in charge of compliance are appointed as committee members. Here, creating action plans for the overall group, managing progress, and providing guidance to Subsidiaries are conducted.
- The Officers and Employees of the Company and Subsidiaries may use the “CSR Hotline” in Japan and abroad to consult and report pursuant to the “Rules for the consultation and reporting system of aG employees.” The individuals making reports or consultations are not to be unfavorably treated pursuant to the “Rules for the consultation and reporting system of aG employees”, and efforts are made to ensure that the rules are fully informed within the azbil Group.
- In preparation for the occurrence of serious illegal or unethical acts, the Company and Subsidiaries have formulated the “Rules for Reporting in Emergency and Serious Situations.” In the event such emergency or serious situations occur, under the structure provided, reports will be made to the top management and Audit & Supervisory Board Members of Subsidiaries where they occur and the top management and Audit & Supervisory Board Members of the Company. During the fiscal year 2017, actions such as the clarification of the roles of each responsible manager and the review of the standards for situations which require such reports are carried out, so that reports at the time of emergency or serious situations are conducted more assuredly.
- The Company’s Internal Audit Department conducts audits of operating conditions by properly verifying the status relating to the promotion of compliance and the establishment of internal control procedures at the Company and Subsidiaries, the operations and management with respect to the regulations stipulated in 2) below, and the development of risk management systems in 3) below.

## 2. Storage and Management of Information

- The Company has created a department in charge pursuant to the “Rules for Keeping Information Related to Directors’ Duties” in which the Board of Directors’ minutes, the management meeting’s minutes, and other important documents and information are stored and managed.

### 3. Risk Management Systems

- Pursuant to the “azbil Group Risk Management Rules,” the Company identifies serious risks for azbil Group which may cause serious losses to the overall group management at the Board of Directors meetings after screening by the “Comprehensive Risk Management Department Meeting” and the “azbil Group Comprehensive Risk Committee,” the even higher level organization. While strengthening the comprehensive risk management system and the promotion of taking measures, the Company also instructs Subsidiaries, when necessary, to promote such measures.
- Subsidiaries identify serious risks particular to the relevant Subsidiary at the Board of Directors meetings of each Subsidiary, plan and promote measures. The execution results of such measures and the status of risk reduction are to be reported to the Board of Directors of each Subsidiary.

### 4. System of Efficient Execution of Duties

- The Officers and Employees of the Company and Subsidiaries develop a medium-term plan and an annual plan, take actions based on such plans, conduct regular reviews of status of duties, follow progress of the status of business execution and plan new measures.
- Based on the “Rules for Division of Duties” and other rules, the Company provides the required support and guidance to Subsidiaries to increase work efficiency and work level of the overall Group.
- To ensure the thorough deliberation by the Board of Directors, the Company and Subsidiaries bear in mind improvement of operation of the Board of Directors and operate such as distributing materials related to the agenda item before the meetings. In addition, the Company holds prior briefing meetings about the matters for discussion at the Board of Directors meetings for the benefit of its Outside Directors and Outside Audit & Supervisory Board Members.

### 5. Group Management System

- For certain important items, Subsidiaries report to or obtain approval from the Board of Directors meetings of the Company or the management meeting, which decides the execution of duties and other matters within the range of the authority of the President, pursuant to the “azbil Group Management Basic Policy.”
- Management reports from key Subsidiaries are conducted at Board of Directors meetings and the management meetings of the Company, while overseas subsidiaries report the status of their business and performance, as well as the important management items, etc. to the Company through the Group Global Meeting and other measures for overseas Subsidiaries.

### 6. System of Audit by Audit & Supervisory Board Members

- The Company has established an Audit & Supervisory Board Members’ Staff Office as an organization to aid the duties of the Audit & Supervisory Board Members. Personnel

belonging to the Audit & Supervisory Board Members' Staff Office are under the direct control of the Audit & Supervisory Board Members, aiding the duties of the Audit & Supervisory Board Members under their instructions. The personnel rotation and personnel evaluation are determined with the agreement of the Audit & Supervisory Board Members

- Items which have been consulted on or reported to the aforementioned hotline by the Officers and Employees of the Company and Subsidiaries are regularly reported to Audit & Supervisory Board Members of the Company by the Internal Audit Department.
- The expenses arising from executing duties of the Audit & Supervisory Board Member are borne by the Company and are promptly handled.
- Audit & Supervisory Board Members attend the Board of Directors meetings and other important meetings including the management meeting, review approval forms and other documents related to the execution of business and request explanations from the Officers and Employees, when necessary. In addition, Audit & Supervisory Board Members request the opinion of attorneys, with whom they have individually concluded advisory contracts, as appropriate.
- Audit & Supervisory Board Members regularly hold meetings with the Executive Directors, the internal audit department, Accounting Auditor and Audit & Supervisory Board Members of Subsidiaries, exchanging information and opinions to enhance efficacy of audit.

(2) Basic policy related to persons controlling interests in the Company

Not applicable

(Reference) Our approach to corporate governance

The Company's basic approach to corporate governance is to work not only toward compliance with laws and regulations and the Articles of Incorporation, but also to fulfill our social responsibilities based on corporate ethics and to contribute to the welfare of the community, and to consistently increase corporate value through highly efficient and transparent management, positioning Corporate Governance as our most important management issue.

#### Corporate Governance System

The Board of Directors makes decisions on basic operational policy, legal issues, and other important matters, and oversees the status of business execution. Functional separation between the Executive Officers and the Board of Directors enables swift business execution and strengthens the oversight of execution.

The Company has an Audit & Supervisory Board system in which five Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members, are appointed, with two of these Audit & Supervisory Board Members serving on a full-time basis as of March 31, 2018. The Audit & Supervisory Board Members carry out rigorous audits of the administrative decisions and execution of business by the Executive Directors and Executive Officers, primarily from the perspective of legal compliance.

The Board of Directors is convened monthly in principle, and meetings of the management meeting for Executive Officers with titles, with representatives of the Audit & Supervisory

Board Members also attending, are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision making and strict execution.

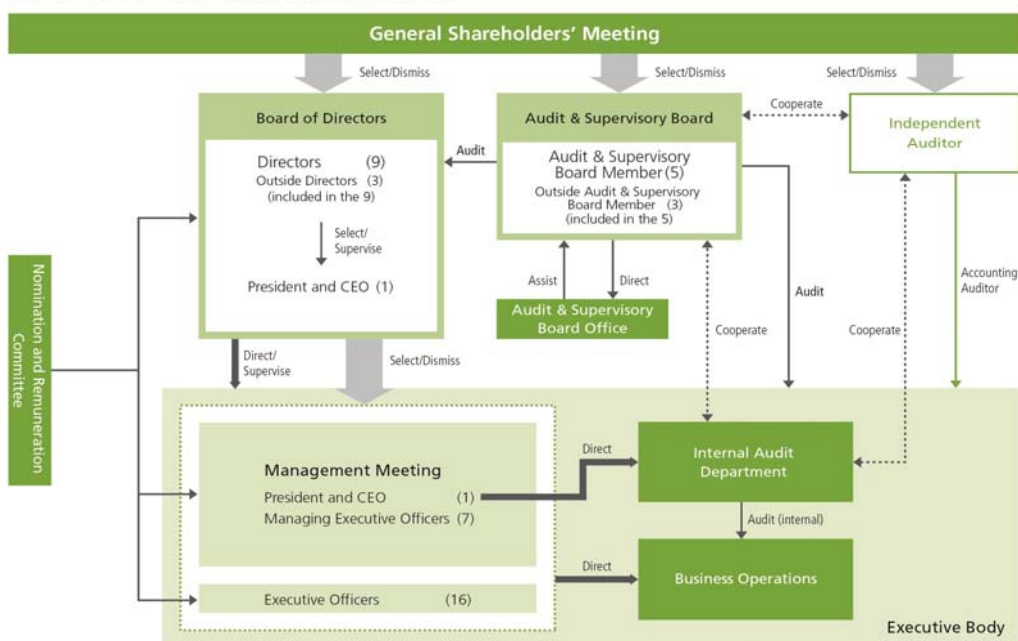
As of 31 March, 2018, The Company has nine Executive Directors, six of whom also serve as Executive Officers, and three of whom are Outside Directors. The three Outside Directors are not bound by the responsibilities or everyday duties of a full-time Director, and in addition to actively asking questions and offering suggestions at the Board of Directors Meetings, they regularly exchange opinions with the President and Chief Executive Officer as part of their oversight of the Company's management and execution of business, which they provide from an outside viewpoint. Moreover, to lead to efforts for the improvement of the effectiveness of the Board of Directors, each year, upon collecting the self-evaluations and opinions of the Directors and Audit & Supervisory Board Members, current evaluations and issues are shared at Board of Directors meetings, working to improve the operations of the Board of Directors, as we pursue further increase of the effectiveness of the Board of Directors.

In addition, the Company has established the "Nomination and Remuneration Committee," a voluntary committee consisting of independent Outside Directors and the Representative Executive Directors (independent Outside Directors form the majority), to serve as an advisory body concerning the nomination and remuneration of Executive Directors and Audit & Supervisory Board Members, and through this, the Company ensures greater fairness, objectivity, and transparency in the decision-making process concerning the nomination and remuneration of such officers.

Furthermore, in regard to the appointment of Outside Directors and Outside Audit & Supervisory Board Members, the Company has formulated its own criteria for independence. The Company's Outside Directors and Outside Audit & Supervisory Board members have satisfied these criteria for independence, and there to be no possibility of the occurrence of conflict of interest with general shareholders. As each of Outside Directors and Outside Audit & Supervisory Board Members has sufficient independence, the Company has reported them as Independent Officers to the Tokyo Stock Exchange.

Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with Outside Directors and Outside Audit & Supervisory Board Members, as provided for in Article 423, Paragraph 1 of the Companies Act. The limit amount of the liability for damage based on said contracts is the minimum liability amount prescribed in laws and regulations. However, such limitation of liability only applies when the Outside Directors and Outside Audit & Supervisory Board Members executed their duties that caused the liability in good faith and without gross negligence.

Corporate Governance Framework (as of April 1, 2018)



Furthermore, regarding the maintenance of the Compliance Systems of the Group as a whole, the Company aims to be a corporate group trusted by society, and including compliance with laws and regulations, has established “azbil Group Business Conduct Guidelines” as a guideline for the conduct of Officers and Employees in the interest of maintaining the public nature of the Company by first cutting off any relationships to antisocial forces, fulfilling our social responsibilities, compliance with antitrust and other fair trade regulations, respect for human rights, proper management of corporate assets, and protection of the environment, working toward sound business activities through the establishment of our corporate philosophy. For the proper and efficient execution of business operations, by establishing various internal rules relating to the decision making of the Company and implementation of business operations and other measures, the Company is maintaining a system which clarifies job authority and allows the appropriate checks to function. In terms of our internal control functions, the Internal Audit Department, which reports directly to the President, regularly performs internal audits that cover the overall management activities of headquarters divisions, each company and each group company, targeting the management and operations systems, the execution of business operations, business risks, compliance, and internal control systems, providing specific advice and proposals for improved oversight and business operations. The Company works to strengthen internal controls within the Financial Instruments and Exchange Act, and in the azbil Group CSR Promotion Committee, we are creating a system for compliance with laws and regulations and corporate ethics as well as thorough compliance, oversight, and business operations guidance. We also maintain a system for the early discovery of misconduct through our internal reporting system. Furthermore, we receive the advice and support from legal advisers, certified public accountants and external experts as necessary regarding the overall execution of business operations.

The business report is listed as follows.

1. For monetary values, fractional numbers are rounded down to the nearest whole unit.
2. Stock quantities listed in thousands are rounded down to the nearest thousand.
3. Figures, charts, and photos are added to business report for reference.

## Consolidated Financial Statements

### Consolidated Balance Sheet

(Millions of yen)

	96th term As of March 31, 2018		96th term As of March 31, 2018
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>212,405</b>	<b>Current liabilities</b>	<b>87,529</b>
Cash and deposits	46,128	Notes and accounts payable - trade	41,498
Notes and accounts receivable - trade	91,420	Short-term loans payable	10,171
Securities	36,406	Income taxes payable	6,313
Merchandise and finished goods	4,968	Advances received	3,914
Work in process	7,787	Provision for bonuses	10,211
Raw materials	11,079	Provision for directors' bonuses	157
Deferred tax assets	5,690	Provision for product warranties	552
Other	9,520	Provision for loss on order received	792
Allowance for doubtful accounts	(596)	Other	13,917
<b>Non-current assets</b>	<b>66,223</b>	<b>Non-current liabilities</b>	<b>13,136</b>
<b>Property, plant and equipment</b>	<b>25,479</b>	Long-term loans payable	514
Buildings and structures	11,439	Deferred tax liabilities	4,824
Machinery, equipment and vehicles	2,455	Deferred tax liabilities for land revaluation	181
Tools, furniture and fixtures	1,887	Net defined benefit liability	5,563
Land	6,600	Provision for directors' retirement benefits	122
Leased assets	129	Provision for stock payment	654
Construction in progress	2,966	Other	1,275
<b>Intangible assets</b>	<b>5,279</b>	<b>Total liabilities</b>	<b>100,666</b>
Right of using facilities	143	<b>Net assets</b>	
Software	4,411	<b>Shareholders' equity</b>	<b>162,955</b>
Other	724	Capital stock	10,522
<b>Investments and other assets</b>	<b>35,465</b>	Capital surplus	11,670
Investment securities	26,746	Retained earnings	147,728
Long-term loans receivable	102	Treasury shares	(6,966)
Claims provable in bankruptcy, claims provable in rehabilitation and other	268	<b>Accumulated other comprehensive income</b>	<b>13,040</b>
Deferred tax assets	1,379	Valuation difference on available-for-sale securities	12,906
Net defined benefit asset	3	Deferred gains or losses on hedges	45
Other	7,532	Foreign currency translation adjustment	1,837
Allowance for doubtful accounts	(566)	Remeasurements of defined benefit plans	(1,749)
<b>Total assets</b>	<b>278,629</b>	<b>Non-controlling interests</b>	<b>1,967</b>
		<b>Total net assets</b>	<b>177,962</b>
		<b>Total liabilities and net assets</b>	<b>278,629</b>

(Note) Amounts less than one million yen are rounded down.

## Consolidated Statement of Income

(Millions of yen)

96th term	
April 1, 2017 to March 31, 2018	
<b>Net sales</b>	<b>260,384</b>
<b>Cost of sales</b>	<b>162,903</b>
<b>Gross profit</b>	<b>97,480</b>
<b>Selling, general and administrative expenses</b>	<b>73,454</b>
<b>Operating income</b>	<b>24,026</b>
<b>Non-operating income</b>	<b>939</b>
Interest and dividend income	649
Other	290
<b>Non-operating expenses</b>	<b>650</b>
Interest expenses	165
Foreign exchange losses	295
Other	189
<b>Ordinary income</b>	<b>24,316</b>
<b>Extraordinary income</b>	<b>662</b>
Gain on sales of non-current assets	6
Gain on sales of investment securities	655
<b>Extraordinary losses</b>	<b>796</b>
Loss on sales and retirement of non-current assets	136
Impairment loss	342
Loss on liquidation of subsidiaries and associates	297
Loss on valuation of investment securities	19
Loss on sales of investment securities	0
<b>Income before income taxes</b>	<b>24,181</b>
Income taxes - current	7,211
Income taxes - deferred	(1,172)
<b>Net income</b>	<b>18,142</b>
Net income attributable to non-controlling interests	252
<b>Net income attributable to owners of parent</b>	<b>17,890</b>

(Note) Amounts less than one million yen are rounded down.



## Consolidated Statement of Changes in Net Assets

(Millions of yen)

96th term April 1, 2017 to March 31, 2018	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,522	12,333	136,465	(4,652)	154,669
Changes of items during period					
Dividends of surplus			(5,944)		(5,944)
Net income attributable to owners of parent			17,890		17,890
Change in ownership interest of parent due to transactions with non-controlling interests		(663)			(663)
Purchase of treasury shares				(6,972)	(6,972)
Disposal of treasury shares		1,476		2,500	3,976
Retirement of treasury shares		(2,158)		2,158	-
Transfer to capital surplus from retained earnings		682	(682)		-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	(663)	11,263	(2,313)	8,285
Balance at end of current period	10,522	11,670	147,728	(6,966)	162,955

(Millions of yen)

96th term April 1, 2017 to March 31, 2018	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	9,553	32	1,303	(1,737)	9,152	1,929	165,751
Changes of items during period							
Dividends of surplus							(5,944)
Net income attributable to owners of parent							17,890
Change in ownership interest of parent due to transactions with non-controlling interests							(663)
Purchase of treasury shares							(6,972)
Disposal of treasury shares							3,976
Retirement of treasury shares							-
Transfer to capital surplus from retained earnings							-
Net changes of items other than shareholders' equity	3,352	13	533	(11)	3,888	37	3,925
Total changes of items during period	3,352	13	533	(11)	3,888	37	12,211
Balance at end of current period	12,906	45	1,837	(1,749)	13,040	1,967	177,962

(Note) Amounts less than one million yen are rounded down.

## Non-Consolidated Financial Statements

### Non-consolidated Balance Sheet

		(Millions of yen)	
		96th term	96th term
		As of March 31, 2018	As of March 31, 2018
<b>Assets</b>			
<b>Current assets</b>	<b>164,016</b>	<b>Current liabilities</b>	<b>66,874</b>
Cash and deposits	31,562	Notes payable - trade	1,808
Notes receivable - trade	15,942	Account payable -factoring	14,688
Accounts receivable - trade	35,582	Accounts payable - trade	9,236
Accounts receivable from completed construction contracts	19,163	Accounts payable for construction contracts	2,678
Securities	36,300	Short-term loans payable	4,620
Merchandise and finished goods	2,840	Accounts payable - other	1,677
Work in process	2,640	Accrued expenses	4,531
Costs on uncompleted construction contracts	1,287	Income taxes payable	5,488
Raw materials	5,019	Accrued consumption taxes	877
Deferred tax assets	4,970	Advances received	803
Short-term loans receivable from subsidiaries and associates	1,112	Advances received on uncompleted construction contracts	1,427
Accounts receivable - other	1,180	Deposits received	2,391
Prepaid expenses	2,153	Deposits received from subsidiaries and associates	6,525
Other	4,382	Provision for bonuses	8,604
Allowance for doubtful accounts	(121)	Provision for directors' bonuses	110
<b>Non-current assets</b>	<b>67,267</b>	Provision for product warranties	465
<b>Property, plant and equipment</b>	<b>15,266</b>	Provision for loss on order received	773
Buildings	7,323	Notes payable - facilities	69
Structures	160	Other	96
Machinery and equipment	1,068	<b>Non-current liabilities</b>	<b>7,344</b>
Vehicles	4	Long-term loans payable	311
Tools, furniture and fixtures	1,160	Deferred tax liabilities	5,440
Land	2,765	Provision for stock payment	654
Leased assets	70	Other	937
Construction in progress	2,712	<b>Total liabilities</b>	<b>74,219</b>
<b>Intangible assets</b>	<b>4,803</b>	<b>Net assets</b>	
Right of using facilities	143	<b>Shareholders' equity</b>	<b>144,968</b>
Software	4,204	<b>Capital stock</b>	<b>10,522</b>
Other	455	<b>Capital surplus</b>	<b>17,197</b>
<b>Investments and other assets</b>	<b>47,196</b>	Legal capital surplus	17,197
Investment securities	22,443	<b>Retained earnings</b>	<b>124,213</b>
Shares of subsidiaries and associates	16,083	Legal retained earnings	2,519
Investments in capital of subsidiaries and associates	2,339	Other retained earnings	121,694
Long-term loans receivable from employees	12	Reserve for advanced depreciation of non-current assets	2,121
Long-term loans receivable from subsidiaries and associates	2,279	General reserve	51,811
Claims provable in bankruptcy, claims provable in rehabilitation and other	0	Retained earnings brought forward	67,761
Lease deposits	2,526	<b>Treasury shares</b>	<b>(6,966)</b>
Prepaid pension cost	1,758	<b>Valuation and translation adjustments</b>	<b>12,096</b>
Other	1,325	<b>Valuation difference on available-for-sale securities</b>	<b>12,096</b>
Allowance for doubtful accounts	(607)	<b>Total net assets</b>	<b>157,064</b>
Allowance for investment loss	(964)	<b>Total liabilities and net assets</b>	<b>231,284</b>
<b>Total assets</b>	<b>231,284</b>		

(Note) Amounts less than one million yen are rounded down.

## Non-consolidated Statement of Income

(Millions of yen)

	96th term April 1, 2017 to March 31, 2018
<b>Net sales</b>	<b>184,920</b>
Net sales of finished goods and others	124,999
Net sales of completed construction contracts	59,921
<b>Cost of sales</b>	<b>113,172</b>
Cost of sales of finished goods sold and others	74,681
Cost of sales of completed construction contracts	38,490
<b>Gross profit</b>	<b>71,747</b>
Gross profit - finished goods and others	50,317
Gross profit on completed construction contracts	21,430
<b>Selling, general and administrative expenses</b>	<b>53,777</b>
<b>Operating income</b>	<b>17,970</b>
<b>Non-operating income</b>	<b>2,336</b>
Interest income	114
Dividend income	1,812
Reversal of allowance for doubtful accounts	278
Real estate rent	2
Subsidy income	79
Other	48
<b>Non-operating expenses</b>	<b>543</b>
Interest expenses	28
Foreign exchange losses	439
Commitment fee	20
Rent expenses on real estates	7
Other	47
<b>Ordinary income</b>	<b>19,763</b>
<b>Extraordinary income</b>	<b>688</b>
Gain on sales of non-current assets	56
Gain on sales of investment securities	632
<b>Extraordinary losses</b>	<b>1,154</b>
Loss on sales and retirement of non-current assets	123
Provision of allowance for investment loss	964
Loss on valuation of investments in capital of subsidiaries and associates	47
Loss on valuation of investment securities	19
Loss on sales of investment securities	0
<b>Income before income taxes</b>	<b>19,297</b>
Income taxes - current	5,388
Income taxes - deferred	(101)
<b>Net income</b>	<b>14,010</b>

(Note) Amounts less than one million yen are rounded down.

## Non-consolidated Statement of Changes in Net Assets

(Millions of yen)

96th term April 1, 2017 to March 31, 2018	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for ad- vanced deprecia- tion of non-cur- rent assets	General reserve	Retained earnings brought forward
Balance at beginning of current period	10,522	17,197	0	17,197	2,519	2,233	51,811	60,266
Changes of items during period								
Reversal of reserve for advanced depreciation of non-current assets						(112)		112
Dividends of surplus								(5,944)
Net income								14,010
Purchase of treasury shares								
Disposal of treasury shares			1,476	1,476				
Retirement of treasury shares			(2,158)	(2,158)				
Transfer to capital surplus from retained earnings			682	682				(682)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	(0)	(0)	-	(112)	-	7,494
Balance at end of current period	10,522	17,197	-	17,197	2,519	2,121	51,811	67,761

(Note) Amounts less than one million yen are rounded down.

(Millions of yen)

96th term April 1, 2017 to March 31, 2018	Shareholders' equity			Valuation and translation adjustments		Total net assets
	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
	Total retained earnings					
Balance at beginning of current period	116,831	(4,652)	139,899	9,177	9,177	149,076
Changes of items during period						
Reversal of reserve for advanced depreciation of non-current assets	-		-			-
Dividends of surplus	(5,944)		(5,944)			(5,944)
Net income	14,010		14,010			14,010
Purchase of treasury shares		(6,972)	(6,972)			(6,972)
Disposal of treasury shares		2,500	3,976			3,976
Retirement of treasury shares		2,158	-			-
Transfer to capital surplus from retained earnings	(682)		-			-
Net changes of items other than shareholders' equity				2,919	2,919	2,919
Total changes of items during period	7,382	(2,313)	5,068	2,919	2,919	7,988
Balance at end of current period	124,213	(6,966)	144,968	12,096	12,096	157,064

(Note) Amounts less than one million yen are rounded down.

## **Independent Auditor's Report**

May 15, 2018

To the Board of Directors  
Azbil Corporation

Deloitte Touche Tohmatsu LLC  
Hiroyuki Motegi, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Keiji Koide, CPA  
Designated Limited Liability Partner,  
Engagement Partner

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and basis of preparation of the consolidated financial statements, and the related notes of Azbil Corporation. (the "Company") for the 96th fiscal term from April 1, 2017 to March 31, 2018.

The responsibility of management concerning the financial statements, etc.

The responsibility of management is to prepare consolidated financial statements in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of consolidated financial statements, free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

The responsibility of independent auditors

Our responsibility is to express an opinion independently on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the consolidated financial statements, due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

#### Audit opinion

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of corporate group consisting of the Company and its consolidated subsidiaries for the relevant term of the financial statements and the supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## **Independent Auditor's Report**

May 15, 2018

To the Board of Directors  
Azbil Corporation

Deloitte Touche Tohmatsu LLC  
Hiroyuki Motegi, CPA  
Designated Limited Liability Partner,  
Engagement Partner  
Keiji Koide, CPA  
Designated Limited Liability Partner,  
Engagement Partner

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, that is, the balance sheet, statement of income, statement of changes in net assets and notes to financial statements, significant accounting policies, and the related notes as well as the supplementary schedules of Azbil Corporation (the "Company") for the 96th fiscal term from April 1, 2017 to March 31, 2018.

The responsibility of management concerning the financial statements, etc.

The responsibility of management is to prepare financial statements and the supplementary schedules in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of financial statements, and the supplementary schedules, free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

The responsibility of independent auditors

Our responsibility is to express an opinion independently on the financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements and the supplementary schedules are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the financial statements and the supplementary schedules. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the financial statements, and the supplementary schedules, due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation of financial statements, and the supplementary schedules, and the appropriate presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that we have obtained sufficient and appropriate audit evidence to support our



audit opinion.

#### Audit opinion

In our opinion, the above financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the financial statements and the supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

## Audit Report

The Audit & Supervisory Board, following review and deliberations on the reports made by each Audit & Supervisory Board Member concerning the execution of duties by Executive Directors for the 96th fiscal term from April 1, 2017 to March 31, 2018, prepared this Audit Report and hereby submit it as follows:

### 1. Summary of auditing methods by Audit & Supervisory Board Members and the Audit & Supervisory Board

- (1) The Audit & Supervisory Board established auditing policies and the audit plan for the current fiscal term, received reports regarding the status of audits and the results thereof from each Audit & Supervisory Board Member, received reports regarding the status of the execution of duties from Executive Directors and the Accounting Auditor, and requested explanation as necessary.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, and in compliance with auditing policies and the audit plan for the current fiscal term, each Audit & Supervisory Board Member made efforts to collect information and establish auditing circumstances through communication with Executive Directors, Internal Audit Department and other employees, and conducted the audit by the following methods.
  - (i) Each Audit & Supervisory Board Member attended the Board of Directors meetings and other important meetings to receive reports regarding execution of duties from Executive Directors and employees, and requested explanations as necessary. Each Audit & Supervisory Board Member also inspected the approved documents and examined the status of operations and conditions of assets at the head office and principal offices.

With respect to subsidiaries, standing Audit & Supervisory Board Members concurrently held positions as Audit & Supervisory Board Members of some domestic subsidiaries. We also communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, visited the subsidiaries as necessary, and received reports from them.

- (ii) Each Audit & Supervisory Board Member verified the resolutions adopted by the Board of Directors regarding the establishment of a system for ensuring that the Executive Directors' duties, as stated in the business report, are executed in conformity of laws and regulations, and the Articles of Incorporation of the Company, and the establishment of a system necessary to ensure proper business operations of stock companies consisting of the Company and its subsidiaries set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act. It also regularly received reports from Executive Directors and employees on the status of the establishment and operation of the system (internal control system) established in accordance with such resolutions adopted by the Board of Directors, and requested explanations as necessary and expressed his/her opinions.
      - (iii) Audit & Supervisory Board Members monitored and verified that the Accounting Auditor maintains independence and conducts the audits appropriately. Each Audit & Supervisory Board Member also received reports on the status of the execution of duties from the Accounting Auditor and requested explanation as necessary. In

addition, we were informed of the arrangement of the “System for ensuring that the duties are performed appropriately” (matters stipulated in the items of Article 131 of the Ordinance on Accounting of Companies) in accordance with “Standards for the Quality Control of Audits” (Business Accounting Council, October 28, 2005) from the Accounting Auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the business report and the accompanying supplementary schedules, the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and consolidated tables of explanatory notes) and the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets and non-consolidated tables of explanatory notes), the supplementary schedules thereto, for the fiscal term ended March 31, 2018.

## 2. Results of audit

### (1) Results of audit of business report and other relevant documents

- (i) The business report and supplementary schedules present fairly the financial condition of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- (ii) Regarding the execution of duties by Executive Directors, there were no instances of misconduct or material matters in violation of laws and regulations, nor of the Articles of Incorporation of the Company.
- (iii) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional comment regarding the contents of the business report on such internal control and the execution of duties by Executive Directors.

### (2) Results of audit of consolidated financial statements

The auditing methods and results of the Accounting Auditor, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

### (3) Results of audit of non-consolidated financial statements and supplementary schedules

The auditing methods and results of the Accounting Auditor, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

May 17, 2018

The Audit & Supervisory Board, Azbil Corporation  
Tomohiko Matsuyasu,  
Standing Audit & Supervisory Board member  
Hisaya Katsuta,  
Standing Audit & Supervisory Board member  
Kinya Fujimoto,  
Outside Audit & Supervisory Board member  
Mitsuhiro Nagahama,  
Outside Audit & Supervisory Board member  
Shigeru Morita,  
Outside Audit & Supervisory Board member