



Shigeaki Yoshikawa
Outside Director
Nomination Committee Chairperson



Fumitoshi Sato
Outside Director
Audit Committee Chairperson



Mitsuhiro Nagahama
Outside Director
Remuneration Committee Chairperson

Interviews with Three Committee Chairpersons

Azbil Corporation changed its organizational design in June 2022 and transitioned to a company with a three-committee board structure. We strive to improve the transparency and soundness of management through the Board of Directors, of which the majority are outside directors, and the Nomination, Audit, and Remuneration Committees, each of which is chaired by an outside director. The Chairpersons of the three committees speak about how each committee functions to improve the governance of the Group.

Encouraging medium- to long-term growth via the selection of directors

You assumed your position as Nomination Committee chairperson in June 2024. How does this change your way of thinking or the roles that you take on in the company?

The company transitioned to a company with a three-committee board structure in June 2022. That is when I became an outside director, and since then I have been involved in building the foundations for committee administration and formulating new guidelines as a member of the Nomination Committee working under Takeshi Itoh, the previous Committee chairperson. From FY2024, I have set milestones for each theme to be addressed by the Nomination Committee as its chairperson, and I believe that we have entered the phase for steadily executing these goals.

What specific things do you focus on at the Nomination Committee?

First, we focus on clarifying the policies and procedures for selecting and dismissing the CEO. I am aiming to clarify the procedures that enable us to select a person that is suitable as the CEO by clearly stating the qualities and experience that we require and identifying possible candidates at a periodic interval. In recent years, scandals have occurred even at companies that were praised for strong corporate governance. I believe that we must decide upon effective criteria in advance for determining the situations in which the CEO should be dismissed. Second, we are creating a CEO successor training plan. This is related to efforts for clarifying the CEO selection process and involves providing training and other required experience to the candidates for CEO. Third, I am clarifying the board structure. I hope to investigate the optimal member structure of the Board in terms of head count, skills, and diversity, and define certain criteria. For outside directors, it is important to have an appropriate amount of independence from and tension with the execution side, so I am setting estimates for terms of office and moving to execute board refreshment. Fourth, we are considering the promotion of outside human resources to executive positions. As we aim to expand our business and move more into the overseas market, we can promote outside human resources with expert knowledge and experience, depending on the business and position. I believe that it is necessary to decide upon criteria in advance.

I hope that we can implement such measures in accordance with their relation to the medium-term plan of the company.

What functions does the Board of Directors need to have to achieve medium- to long-term growth?

We have set long-term targets, and we need to take on new challenges in order to achieve the growth required to achieve these targets. Such challenges inevitably entail risks. We are growing and balancing challenges and risks, but this process has pitfalls in terms of compliance and governance.

Even if rules are made, they might not function well, and some companies fail to avoid such risks. To make sure that the supervisory role of the Board of Directors functions properly, it is important that our risk management system functions and its transparency is ensured. It is also important that anybody can freely express opinions on any problems that are found. It is up to the Board of Directors to maintain such an environment. In particular, outside directors are in a position to voice opinions based on knowledge from outside the industry. I hope that I can personally contribute to strengthening the supervisory role of the Board of Directors by appropriately fulfilling my duties.

Ensuring diversity and expertise at the Board of Directors

The Board of Directors now has a higher ratio of female directors. Will the Board of Directors further evolve in terms of diversity?

Sachiko Ichikawa joined the Nomination Committee this year. In addition to her qualifications as a lawyer both in Japan and in the State of New York, the United States, she is qualified as a Certified Public Accountant in the State of New York and brings a global perspective, experience, knowledge, and expertise to the Board. Although the diversity of our Board is steadily improving, we will still need to ensure future candidates are more diverse including in terms of gender and of a high level of expertise. I hope that we can consider such measures as we focus on enriching the board structure, as I previously mentioned.

Shigeaki Yoshikawa
Outside Director
Nomination Committee Chairperson



We will support the company's medium- to long-term growth through systematic audits

How has the state of audits changed since the company became a company with a three-committee board structure in June 2022?

The company changed its organizational design and moved from having an Audit and Supervisory Board to having an Audit Committee. With the previous Audit and Supervisory Board, auditors (mainly the company's full-time auditors) carried out audits on their own responsibility. The current Audit Committee, however, is chaired by an outside auditor and committee member, and audits are carried out by the committee as a whole. Based on this structure, we are strengthening collaboration with the independent accounting auditor, the Internal Audit Department, and the auditors of individual group companies while performing systematic audits with a risk-based approach. The outside committee members are playing a more forward role in audit activities, such as by making site visits to overseas subsidiaries and by exchanging ideas with corporate executives, executive officers, and the presidents of group companies.

In June 2024, one of the outside audit committee members was replaced by Hiroshi Yoshida, who has experience working as a corporate executive and auditor at a listed chemical manufacturer that is active internationally. We will enhance the quality of audits through this new structure.

What role should the Audit Committee play in achieving continued growth in enterprise value?

It is essential to check that corporate governance is fully instilled in the company and that there are no misdeeds or other issues, because that is the foundation of the company's growth. Doing so is also important for keeping us from losing the trust of shareholders, investors, and creditors. The Audit Committee plays a major role on that score. When the Audit and Supervisory Board was active, it emphasized legal audits, but the Audit Committee places more emphasis on appropriateness audits. We hope to sharpen our perspective on not only whether the executors' decisions are legal but also whether the execution of those duties was appropriate from the viewpoint of efficiency and

other standards. It is also becoming more important for us to share information and cooperate with the Internal Audit Department, which handles the internal reporting hotline.

We will focus on verifying the internal control structure of overseas businesses and respond to the changing times by taking security measures.

Please tell us what the challenges are, based on your role and the current situation.

There have been quite a few cases of wrongdoing occurring at the overseas subsidiaries of other companies. As the company is currently expanding globally, I believe it is vital for us to verify our internal control structures and scrutinize our risk management overseas. When COVID-19 was widespread, we could not visit group companies overseas in person, so we held online business surveys instead. Since 2023, we have had more opportunities to visit offices and factories overseas and speak directly to local auditors as well as local executives and employees, and we are focusing on trying to understand problems and issues from a local perspective.

Furthermore, information security measures have become a major concern in society in recent years. As the company has a policy of actively using generative AI and social media, we will have to be attentive on such changes in the times.

FY2024 is the final year of the medium-term plan. As an outside director, how do you rate the current state of progress of the medium-term plan's initiatives?

Performance has continuously reached record high levels, so I believe that most things are going well according to the plan. However, on a personal basis, I think a perspective of comparing ourselves to other companies is needed as well. We should be asking how we are faring compared to the results of other companies in semiconductor-related businesses, for example. When formulating the next medium-term plan, we will need to consider how to meet the expectations of shareholders and investors.

Azbil Corporation is a wonderful company with a solid corporate culture and a thorough awareness of compliance. As an outside director, I would like to support the company even further from the mindset of trying to figure out how to further accelerate growth in light of the technical capabilities the company has accumulated over many years and the potential of its human resources.

Fumitoshi Sato
Outside Director
Audit Committee Chairperson



We will create an effective remuneration system to increase medium- to long-term enterprise value

What kind of remuneration system do you think is required to achieve a sustainable increase in enterprise value?

It should basically be a system that provides a healthy incentive for the business execution side to achieve targets set for a fixed period of time, such as medium-term plans. Focusing on the absolute level of remuneration, the ratio of performance-linked to non-performance linked remuneration, performance-linked remuneration KPIs, and other factors, in light of the fact that the company has a high ratio of overseas shareholders, we will consider how to improve the system to make it an effective one that is acceptable to the market and leads to a medium- to long-term increase in enterprise value.

Please tell us about the initiatives of the Remuneration Committee in FY2023.

When the company transitioned to a company with a three-committee board structure in June 2022, it also increased the ratio of performance-linked remuneration, introduced a stock compensation plan, and formulated a new remuneration system. In FY2023, based on the results of the necessary benchmarks, we revised the absolute level of remuneration and the ratio of performance-linked to non-performance linked remuneration, introduced a clawback system, and endeavored to develop and enhance the remuneration structure to make it contribute more to increasing enterprise value. In FY2024, we will improve the system and increase its sophistication in preparation for the new medium-term plan that will start in FY2025.

What issues are you facing right now as you attempt to further develop the remuneration structure?

The executive remuneration system must constantly be checked and improved to respond appropriately to increasingly complex business strategies and changing business environments as well as societal demands. Although we have updated it several times to date, this fiscal year when we draw up the next medium-term plan will be an extremely important turning point in that regard. In the course of our work, we have identified the following as major issues and themes that need to be addressed at the present time.

The first is increasing the appropriateness and relevance of our benchmarking. Right now, we set multiple comparator universes such as market capitalization, net sales, and industry type based on corporations listed in Japan and use those as our benchmarks. While continuing to keep trends and forecasts for the company's financial results and the target levels and goals of medium- to long-term

strategies in mind, we will narrow our focus to more relevant peers and set the optimum universes for the company.

The second issue is a revision of the ratio of performance-linked to non-performance linked remuneration. To put it simply, we need to increase the component ratios of performance-linked remuneration and adjust the relative ratios of short-term incentives (STI) to medium- to long-term incentives (LTI). Although we have gradually increased the ratio of performance-linked remuneration over time, we have judged that it is necessary to increase that ratio even further going forward.

The third issue is revising the KPIs for performance-linked remuneration. In full recognition of various changing societal demands, we will search for an ideal situation that suits the company's mission and medium- to long-term strategies. In particular, it has now become essential to reorganize non-financial indicators from an ESG viewpoint. There are many important themes such as greenhouse gas emissions, diversity, employee engagement, biodiversity and human rights, so we will endeavor to set KPIs that are highly socially acceptable and effectively support an increase in the company's enterprise value.

We will focus on building governance structures and risk management at the global level

As an outside director, what points would you like to focus on for the azbil Group to grow in the future?

I am aware that going forward, the company will need to build and deploy more proactive strategies such as not only enhancing existing businesses but also expanding businesses to extended fields and expanding overseas business. I hope to use my knowledge and experience as an outside director at other companies to go beyond the "skills expected of directors" in the directors' skill matrix and contribute further to the development and enhancement of global and group-based "governance," "business management," and "risk management" as business infrastructure to support proactive management strategies.

Mitsuhiro Nagahama
Outside Director
Remuneration Committee Chairperson

