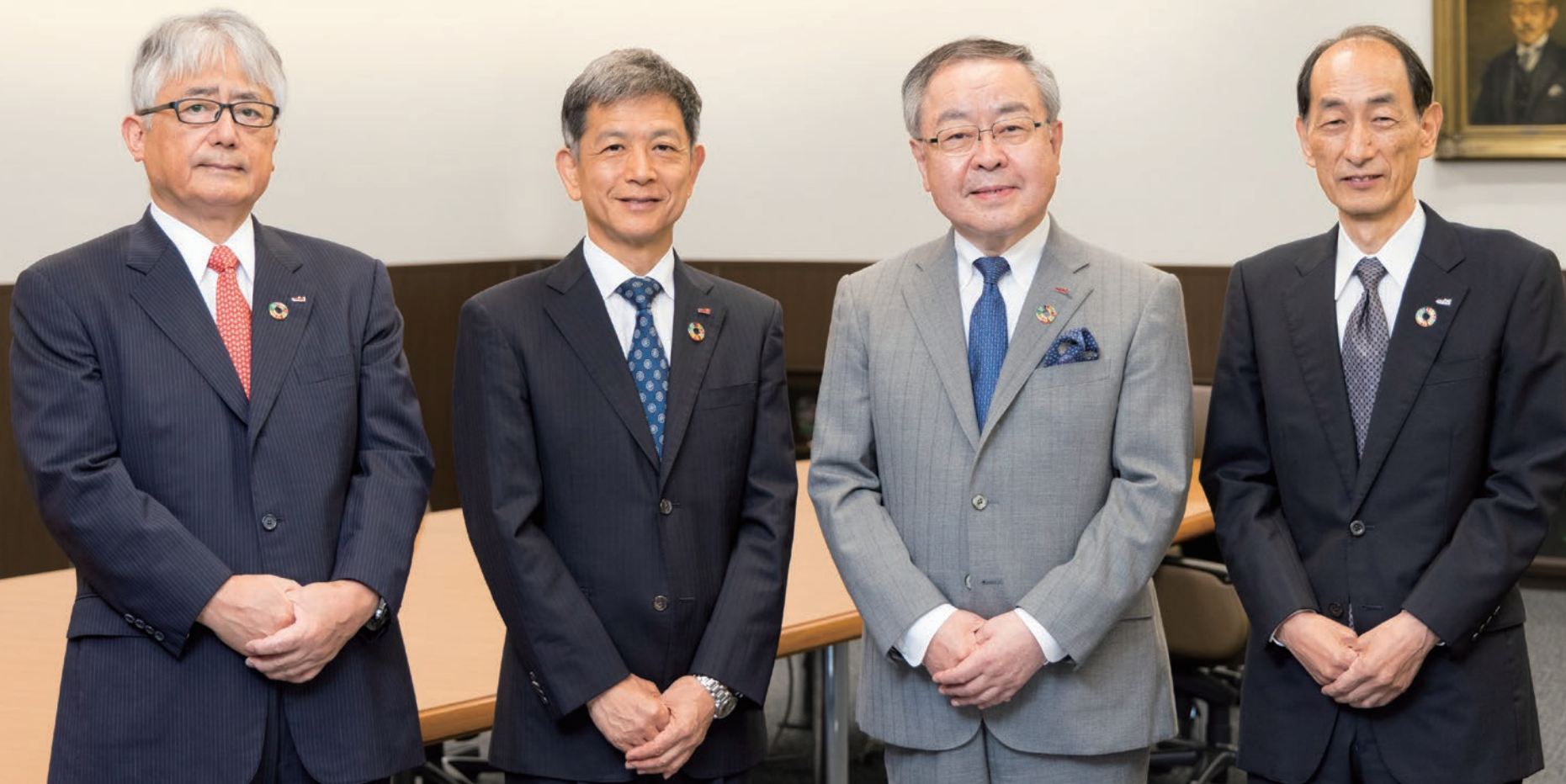


Outside Directors' Roundtable

Steady evolution of the governance system following changes in organizational design

It has been three years since the company transitioned to a company with a three-committee board structure in 2022. This year, we have continued initiatives to strengthen our governance system, including appointing an outside director as Chairperson of the Board and revising our remuneration system. We interviewed four outside directors—the Chairperson of the Board and the Chairpersons of each committee—about past initiatives and future developments.



Mitsuhiro Nagahama
Outside Director,
Remuneration Committee chairperson



Tomoyasu Miura
Outside Director,
Chairperson of the Board



Shigeaki Yoshikawa
Outside Director,
Nomination Committee chairperson



Hiroshi Yoshida
Outside Director,
Audit Committee chairperson

As a company with a three-committee board structure, our approaches to discussions are evolving while we strengthen our systems.

Q How do you view the evolution of governance systems following changes to the organizational design in 2022?

Yoshikawa I was appointed an outside director when Azbil transitioned to a company with a three-committee board structure. Over these three years, I feel the company has steadily “taken shape” as a company with a three-committee board structure. Looking back, it was a bold board structure, with eight outside directors to four internal directors, from the start of the transition. Initially, there was some trial and error as we clarified the roles of directors and corporate executives, but their respective roles are gradually becoming clearer. Now, at meetings of the Board of Directors, we are able to hold discussions from a broad perspective, covering areas such as growth strategies and infrastructure development. Under these circumstances, in June 2025, we took a major step toward further evolution, with the appointment of an outside director as Chairperson of the Board.

Nagahama Looking back over the past three years, I mostly share Mr. Yoshikawa's view. Compared to more advanced companies in Japan and Western companies, however, I feel there are still many areas where we must improve. Specifically, I am referring to matters such as how decisions made by the executive side are reported, and how discussions are conducted at meetings of the Board of Directors. One challenge is how to ensure that discussions at meetings of the Board of Directors do not focus too much on the details of specific executive matters, and instead deepen discussions that take an overarching perspective.

Yoshida I was appointed a director in June 2024, so I cannot reflect on the process of this evolution, but I agree with Mr. Nagahama in some regards concerning future challenges. For example, in discussions of the portfolio and capital efficiency, I would like for us to increase opportunities

for substantive discussions that take an overarching view of the Group as a whole and consider long-term growth, not limited to just focusing on the current status of ROIC management in each business and individual measures.

Miura One thing that has left an impression on me with regard to the evolution of the governance system is the deepening of collaboration. I feel there has been a significant improvement in mutual understanding between internal and external directors, and between corporate executives and directors. The participation of outside directors from the early stages of discussions when formulating the medium-term plan was particularly symbolic in this regard. During this process, we broadly shared agenda items related to management, such as the business portfolio and overseas business strategy, capital policy, and relationships with each Group company. Going forward, I hope we can further deepen this type of collaboration, and reflect the viewpoints and discussion points that we obtain from this collaboration in discussions at meetings of the Board of Directors, thus contributing to more effective governance.

Revisions of the remuneration system and introduction of highly transparent and objective KPIs, aimed at sustainable enterprise value enhancement

Q What are your views on the aims of the increase in the proportion of performance-linked remuneration for corporate executives and the revision of KPIs, and how they relate to enhancing enterprise value?

Nagahama This year, the company revised its remuneration policy at the same time as the formulation of the new medium-term plan. As Azbil's systems and management as a company with a three-committee board structure were being established, we took the opportunity to make major changes to the previous remuneration system. The revisions were mainly based around two concepts. First, ensuring competitive remuneration levels to secure talented human resources. We identified a group of comparable companies

based on various factors, such as industry and size, and designed our system such that our remuneration exceeded a certain level within that group. Another element is creating a more advanced remuneration system that acts as a sound incentive for contributing to enhancing enterprise value over the medium to long term. Compared to major companies in the West, the proportion of performance-linked remuneration has generally been lower among Japanese companies. While prioritizing the soundness of management, we have set a higher proportion of performance-linked remuneration than Japanese companies in general, taking into consideration future competition with overseas companies, expectations among investors, and other factors. For example, the President & CEO's remuneration now consists of basic remuneration, bonuses, and stock-based compensation, in a 1:1:1 ratio.

At the same time, we comprehensively reviewed the KPIs used as benchmarks for evaluations, and revised them as necessary. Previously, the financial KPI for stock-based compensation, i.e., long-term performance-linked remuneration, was relative TSR + operating income margin, but we changed this to relative TSR + ROE to further align incentives with a shareholder perspective and enforce the idea that we are in the same boat as shareholders. Moreover, to further ensure the fairness and transparency of bonuses, i.e., short-term performance-linked remuneration, we have adopted new, highly objective KPIs, such as the disclosed ratio of female employees in managerial or specialist positions.

Appointment of an outside director as Chairperson of the Board as a turning point for stronger systems

Q Could you share the background and significance of the appointment of an outside director as the Chairperson of the Board?

Yoshikawa The transition to a company with a three-committee board structure in 2022 was a pioneering reform for a Japanese company, and I believe the recent



appointment of an outside director as Chairperson of the Board is also a bold decision. It is not unique to the company, but systems where former presidents with deep knowledge of business operations serve as Chairperson pose concerns from the perspective of separating supervisory

and executive functions, despite contributing to the smooth operation of the Board of Directors. From that perspective, I think it is highly significant that an outside director is leading the Board of Directors. On the other hand, for an outside director to fulfill the role of Chairperson of the Board, they must possess an understanding of the company, as well as advanced communication skills, and a sense of balance. Although he has limited experience in corporate management or overseas operations, Mr. Miura, the newly appointed Chairperson, has many years of experience in management consulting, as well as an understanding of internal issues and our corporate culture from his three years of experience as an outside director in the azbil Group, making him capable of smooth dialogue with corporate executives and directors. I think the fact that there was a person so well-qualified has supported this decision.

Nagahama I think the role of the Chairperson of the Board is extremely significant, including ensuring a well-structured agenda and smooth facilitation at meetings of the Board of Directors. As outside directors, we will support the Chairperson of the Board, while also offering advice and working to invigorate the Board of Directors as a whole and enhance its effectiveness.

Ongoing updates to internal control systems and strengthening of audit departments, in anticipation of expanded overseas development



What are your thoughts on the current state of internal controls?

Yoshida The azbil Group has a history spanning about 120 years and corporate divisions at Azbil's headquarters have a deeply rooted awareness of managing the Group as a whole. I feel reassured by that point.

Internal control systems, however, are not something that a company completes by building once. It is essential that these systems are continuously reviewed in response to

changes in the environment, company size, and other factors. The importance of these systems for the development of our overseas business, a pillar of growth, might increase, but it will not decrease. From this perspective, I hope the people responsible for the second line of defense, i.e., compliance and risk management, will always be aware of factors such as whether appropriate internal control systems are in place and functioning effectively, and be ready to review these systems as necessary. The creation of an open system, where feedback from people on the first line of defense, i.e., those engaged in actual operations, can be shared smoothly, is also necessary.

The third line of defense, which is responsible for internal audits, includes a number of specialists with a diverse range of skill sets, but as our businesses develop, we will likely face the challenge of securing human resources. To begin with, auditing is a suitable position for refining one's management sense. If a system is in place where, as part of their career path, future senior management candidates can participate in audit operations early in their careers, I think it will contribute positively to the azbil Group, not just the Internal Audit Department.

Discussions at meetings of the Board of Directors when considering and formulating the new medium-term plan



What sort of discussions were held at meetings of the Board of Directors regarding the formulation of the new medium-term plan (FY2025–FY2027)?

Miura Two aspects that particularly left an impression on me were the discussions on overseas business strategy, and those related to the structure of core businesses and growth businesses, which together are positioned as the “azbil Group's unique business model.”

We deepened our discussions on setting quantitative targets for the expansion of the overseas business, a top priority challenge. We also discussed how to achieve a

balance between market share and profit margins in core businesses and growth businesses. We exchanged views on the level of risk to incorporate in profit margin targets for growth businesses, whereas for core businesses, we exchanged views on incorporating projected changes in profit margins into specific numerical targets, based on our strategy of increasing profit margins through digital transformation (DX) and other forms of innovation.

Yoshida The financial position of the azbil Group is extremely sound, so I think there is scope to hold deeper discussions related to capital efficiency. This theme will become increasingly important as we look to achieve our long-term targets for FY2030, and I look forward to the details of the proposals from the executive side.

Nagahama There was a time in the past when the azbil Group was forced to operate its businesses in difficult circumstances. Successive senior management teams worked to steadily expand operations within Japan as the company's core operational domain, through steady, sound management. These efforts have led to today's high profit margins and strong financial position. When considering future growth, however, the same conservative approach of the past alone will clearly not be enough. Taking into consideration the scale, industry, and operating environment of our businesses, it is clear that overseas business expansion will be key to the company's future growth. Unfortunately, partly for historical reasons, overseas businesses have generated less than 20% of our total net sales and profits. For this reason, expanding the scope of operations and increasing earnings overseas is a pressing strategic issue. In that sense, I feel it was significant that, as Mr. Miura stated, in the process of formulating our medium-term plan, we were able to engage in practical, in-depth discussions concerning the clarification of business domains to focus on and the establishment of specific numerical targets, including overseas.

Yoshikawa I share Mr. Nagahama's view regarding the size of the overseas business. Bold expansion overseas will

be essential for long-term growth beyond the scope of the new medium-term plan period. We considered these points when holding discussions related to the formulation of the new medium-term plan, but I feel there are still some aspects where we have a lot of work to do. I am aware that we must envision the big picture from a long-term perspective, while also considering the details in typical Azbil fashion, including portfolio restructuring with a bold forward-looking selection of business models.

Innovative measures and creation of systems to ensure substantive discussions as Chairperson of the Board



As Chairperson of the Board, how do you intend to manage the operations of the Board of Directors in the future?

Miura To enhance the quality of discussions at meetings of the Board of Directors, it will be important to manage meetings with a focus on the key discussion points of each agenda item. In our position of supervising business execution, we must identify how to explore each agenda item and clearly organize the discussion points. If directors remain conscious of those discussion points, we will be able to prevent discussions from losing focus and guide the Board toward more effective discussions. From this perspective, we can expect to see a further increase in opportunities to reexamine the points of debate concerning agenda items proposed by the executive side.

At the same time, we will also promote innovative measures to encourage mutual understanding and invigorate discussions, by creating opportunities for outside directors to exchange views among themselves prior to deliberations at meetings of the Board of Directors.

Furthermore, it will be essential that outside directors deepen their understanding of the azbil Group's management challenges and their priorities. As Chairperson of the Board, one of the important roles that I must fulfill is the creation of



an environment that facilitates this and the nurturing of the foundations for discussions.

Through these efforts, I aim to continuously enhance the overall quality of meetings of the Board of Directors.