azbil

azbil report 2020

Azbil Corporation

Creating Value through Automation

The azbil Group's "human-centered automation" pursues collaboration of humans and machines and also of human ingenuity and technology. By leveraging advanced measurement and control and incorporating technological innovations such as IoT, AI, big data and the cloud, we create value unique to the azbil Group in various scenes, from office buildings, plants and factories, to everyday life.

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azbil's Value Creation

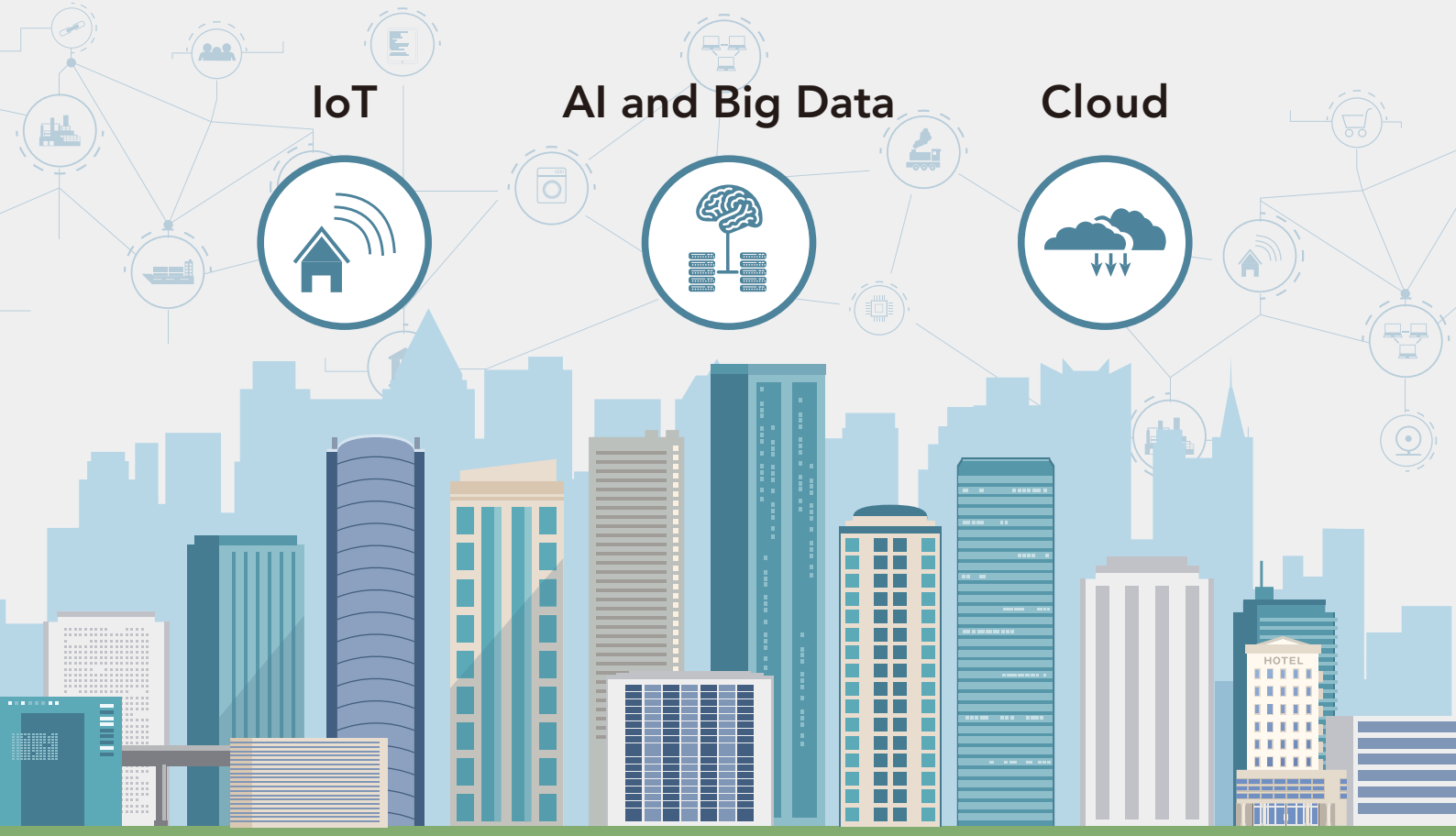
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BA Business
Building Automation

In Large-scale Buildings Such as Office Buildings



AA Business
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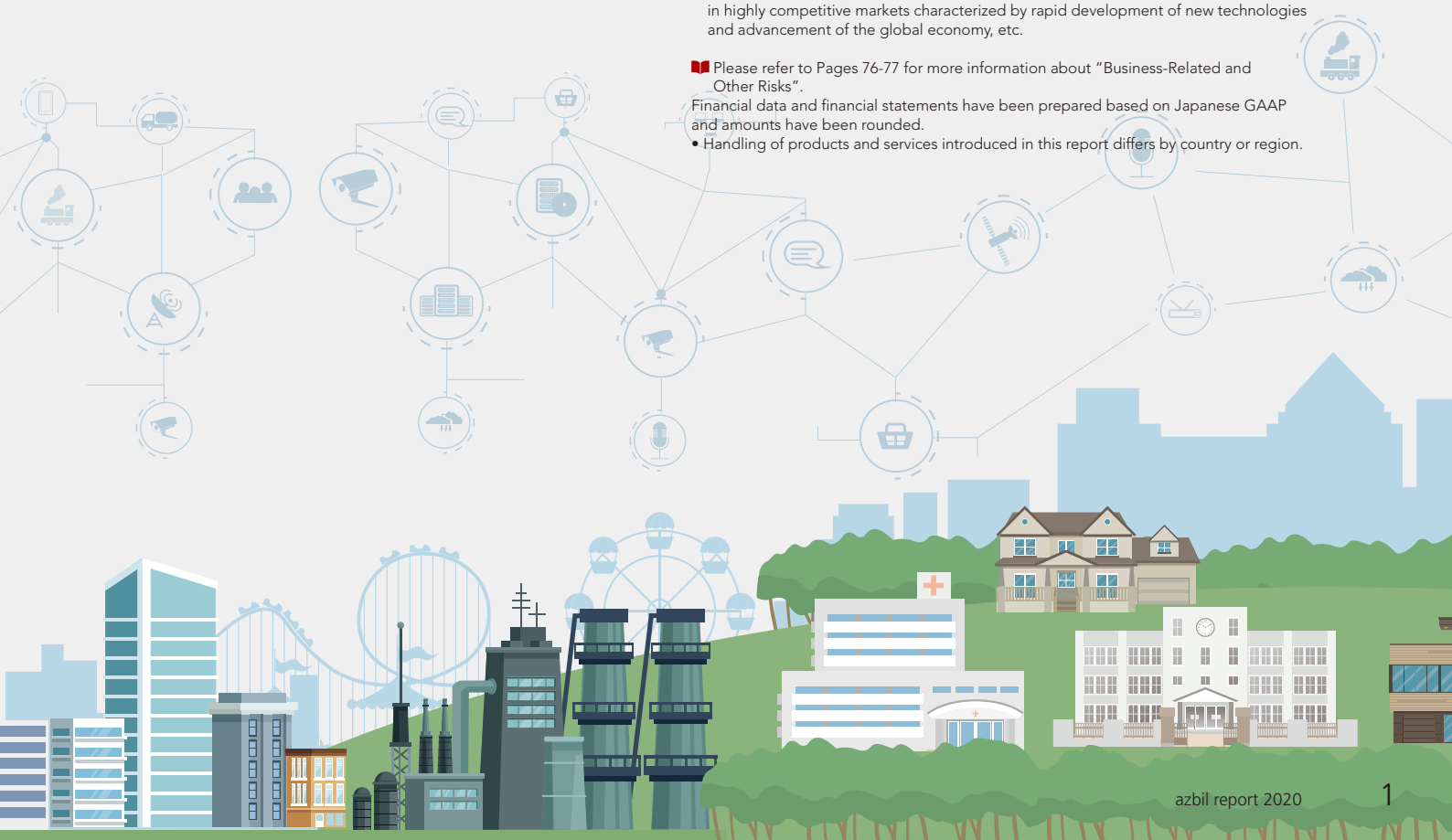
Editorial Policy
The azbil report combines the azbil Group's annual and CSR reports into a single volume. The publication of azbil report 2014 marked the beginning of our efforts to use our annual report to provide more substantial information concerning ESG (Environment, Social, and Governance), to enable a wide range of stakeholders, including not only our shareholders and investors, but also our customers, suppliers, employees, and partners, to understand our efforts to create value in the long term. In addition, this report was edited with reference to an international framework for integrated reporting which had been issued by the International Integrated Reporting Council in December 2013.

Organizations Covered
Azbil Corporation and its consolidated subsidiaries

Period of Coverage
April 1, 2019 to March 31, 2020 (Contains some information of the fiscal year beginning April 2020)

Cautionary Statement
Statements made in this report with regards to the azbil Group's plans, targets, and strategies and other statements without historical facts are forward-looking statements about future performance. These projections are based on management's assumptions, intent, and expectations in light of the information currently available to it, and therefore these statements are not guarantees of future performance. Due to various factors, actual results may differ from those discussed in this document. Such factors affecting the results of Azbil Corporation and its subsidiaries include the following (but are not limited to these):
1) General economic conditions, exchange rate fluctuations, levels of capital investments, etc. in the azbil Group's markets.
2) Ability to continually provide products and services that are accepted by our customers in highly competitive markets characterized by rapid development of new technologies and advancement of the global economy, etc.

Please refer to Pages 76-77 for more information about "Business-Related and Other Risks".
Financial data and financial statements have been prepared based on Japanese GAAP and amounts have been rounded.
• Handling of products and services introduced in this report differs by country or region.



Greetings



Hirozumi Sone
Representative Director,
Executive Chairperson
Azbil Corporation

Kiyohiro Yamamoto
Representative Director,
President and Group Chief Executive Officer
Azbil Corporation

In pursuit of "human-centered automation," our aim is to be a corporate group that solves a wide range of problems to contribute to the development of a sustainable society.

Since our establishment in 1906, we have pursued measurement and control technologies, delivering unique solutions to our customers. In April 2012, we changed our company name from Yamatake to Azbil, making the azbil brand familiar to many people. Today, the azbil Group is aiming to provide customers with its unique value in offices, production sites, and daily life all over the world through its three business segments: Building Automation, Advanced Automation, and Life Automation.

Management restructuring in fiscal year 2020 has led to Kiyohiro Yamamoto taking over as Representative Director, President, and Group Chief Executive Officer, and he will steer our efforts to improve corporate value. Mr. Yamamoto brings a wealth of experience to his new position, having served in development through to business planning and front-end sales activities in a core business of the azbil Group, as well as, having worked in business planning involving new technologies such as IoT and AI, and in business promotion overseas. Hirozumi Sone takes on the role of Representative Director and Executive Chairperson, and he will put in every effort towards strengthening the corporate governance system and ensuring that the transition to the new management structure is a smooth one.

We have started in a difficult situation where economic activities are stagnating globally under the spread of COVID-19. However, the business field where "human-centered automation" provides solutions will expand in response to various challenges in the business environment, technological innovation, the falling birthrate and aging population, the implementation of work style reforms, and climate change, in addition to telecommuting, Business Continuity Plan (BCP), etc., caused by the spread of the COVID-19. We view these changes as opportunities to expand the azbil Group's business and further promote our strategic initiatives for global development and accelerated growth of our business fields.

We are determined to make every effort to ensure the achievement of our goals by being a long-term partner for our customers and the community by offering solutions based on our technologies and products; by taking global operations to the next level through 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. Taking inspiration from our slogan "Azbil — Going Beyond Automation," we are using advanced technology such as AI to continually provide new products and services that contribute to the safety, productivity, and value enhancement of production sites where such technology is used, and we are expanding our business by solving environmental and energy-related problems in buildings and in the local community using that same technology. Through these efforts as well as strengthening our business and corporate foundations, we are also working on the Sustainable Development Goals (SDGs) that are consistent with our Group philosophy, with the aim of being a corporate group that contributes to the sustainable development of society.

August 2020



Hirozumi Sone
Representative Director,
Executive Chairperson
Azbil Corporation



Kiyohiro Yamamoto
Representative Director,
President and Group Chief Executive Officer
Azbil Corporation

azbil's History of Value Creation

Our founder, Takehiko Yamaguchi, originally started his company in the hopes of harnessing technology to contribute to people's happiness and to social progress. That principle has continued to be passed down uninterrupted for more than 110 years, and it now serves as the origin of azbil. It lies at the core of our corporate DNA.



Takehiko Yamaguchi, Founder

1906

DNA

The Spirit of our Founder

Free People from Drudgery

Takehiko Yamaguchi founded Yamatake Shokai in Tokyo in December 1906 as an import company dealing in machine tools produced in the West. It was the first step in realizing his dream of harnessing advanced technologies to free the workers of Japan from heavy labor. The company later eventually entered into a partnership with the Brown Instrument Company (later Honeywell), and as it improved its own in-house measurement and control technologies, it continued to import various types of advanced industrial machinery and instruments. This resulted in the company contributing greatly to the development of Japanese industry, and it evolved into a comprehensive manufacturer of automation equipment.

azbil: Automation, Zone, Builder

azbil

Creating a better future for individuals and society through human-centered automation

The azbil Group name was created as a unifying symbol for all Group employees — a manifestation of the Group philosophy — namely, to realize safety, comfort and fulfillment in people's lives and contribute to global environmental preservation through "human-centered automation." In other words, using automation technology, we will construct zones in which safety, comfort, and human fulfillment can flourish.

2006

Philosophy

Establishing a New Group Philosophy

Human-centered automation

The collaboration of human ingenuity and technology is an idea that is gaining traction around the world. Our founder's original goal was to free people from drudgery, and That spirit still echoes within our principles of using automation to contribute to society to make people happier. In 2006, the 100th anniversary of the Company's founding, we built upon that tradition by establishing a new Group philosophy of achieving "human-centered automation." We continue to create and develop automation technology that works in accordance with the principles of environmental preservation, energy conservation, and other societal values.

azbil's History of Value Creation

Our goal was to keep the spirit and corporate DNA created by our founder and offer new value tailored to our changing times and changing world. In 2012, we changed our name to azbil (automation/zone/builder) as an expression of both our intent and the method by which we would achieve our goals, and this led to the further promotion of our automation business. After implementing our two-stage medium-term plan, we increased profitability and fortified our business foundation. Based on these achievements, we are aiming for even greater growth in 2020 and beyond.

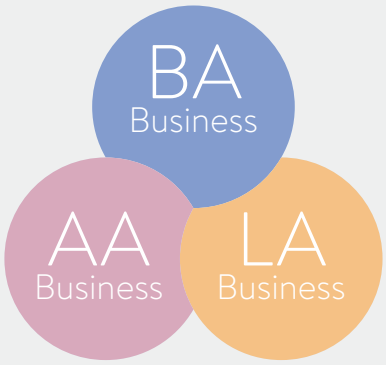
Fiscal Year 2012

- Company name changed to Azbil Corporation
- Three fundamental policies formulated
- Long-term targets established

Medium-term Plan (Fiscal Years 2013-2016)

Medium-term Plan (Fiscal Years 2017-2019)

Further pursue automation and develop our three automation businesses
Help resolve the issues faced by customers and communities, establish our three fundamental policies, and take up the challenge of achieving sustainable growth



Three Fundamental Policies

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

Long-term Targets (Ten-year plan, ten years 2012 to 2021)

- ROE of 10% or higher
- Net sales in the ¥300 billion range, operating income of ¥30 billion or higher

2012 — 2013 — 2019

Evolution

Two-Stage Medium-term Plan

We established our two-stage Medium-term plan (for fiscal years 2013-2016 and fiscal years 2017-2019), with the goal of focusing on people and realizing a world of automation co-created by human ingenuity and technology. In the seven years since the plan was implemented, we have made great leaps forward in business profitability by reforming both our business and performance structures, have strengthened our global business foundation, the engine of our growth, and have improved our financial base and our crisis management systems. With our focus on the next era, we will continue to push forward by improving our structure of management team and corporate governance framework to implement CSR management unique to azbil.

azbil Group's Targets for the SDGs



Please refer to Pages 24-31 for more information about the Essential Goals of azbil Group for SDGs

Working towards greater growth with the new management team starting in fiscal year 2020

Please refer to Pages 88-89 for more information.

Major Changes in the Business Environment

- Increased globalization & the responsibility to achieve sustainable growth
- Revising business models in line with technological change

Technological Innovation Trends

- Changes in technology fields such as IoT and AI

Changes in Societal Structure

- Lower birth rates, aging populations, work style reform, and changing values
- Responding to climate change
- Co-existing with viral pandemics

With the emergence of new social issues,

we believe the role of automation expands and its value increases.



Our Vision

By focusing on people and realizing a world of automation created by human ingenuity and technology, we will become a top-class global corporate group that improves the safety and security of our customers, helps to increase their corporate value, and contributes to solving global environmental issues.

2020 *Challenge*

FY2019 Performance

Net sales: **¥259.4** billion

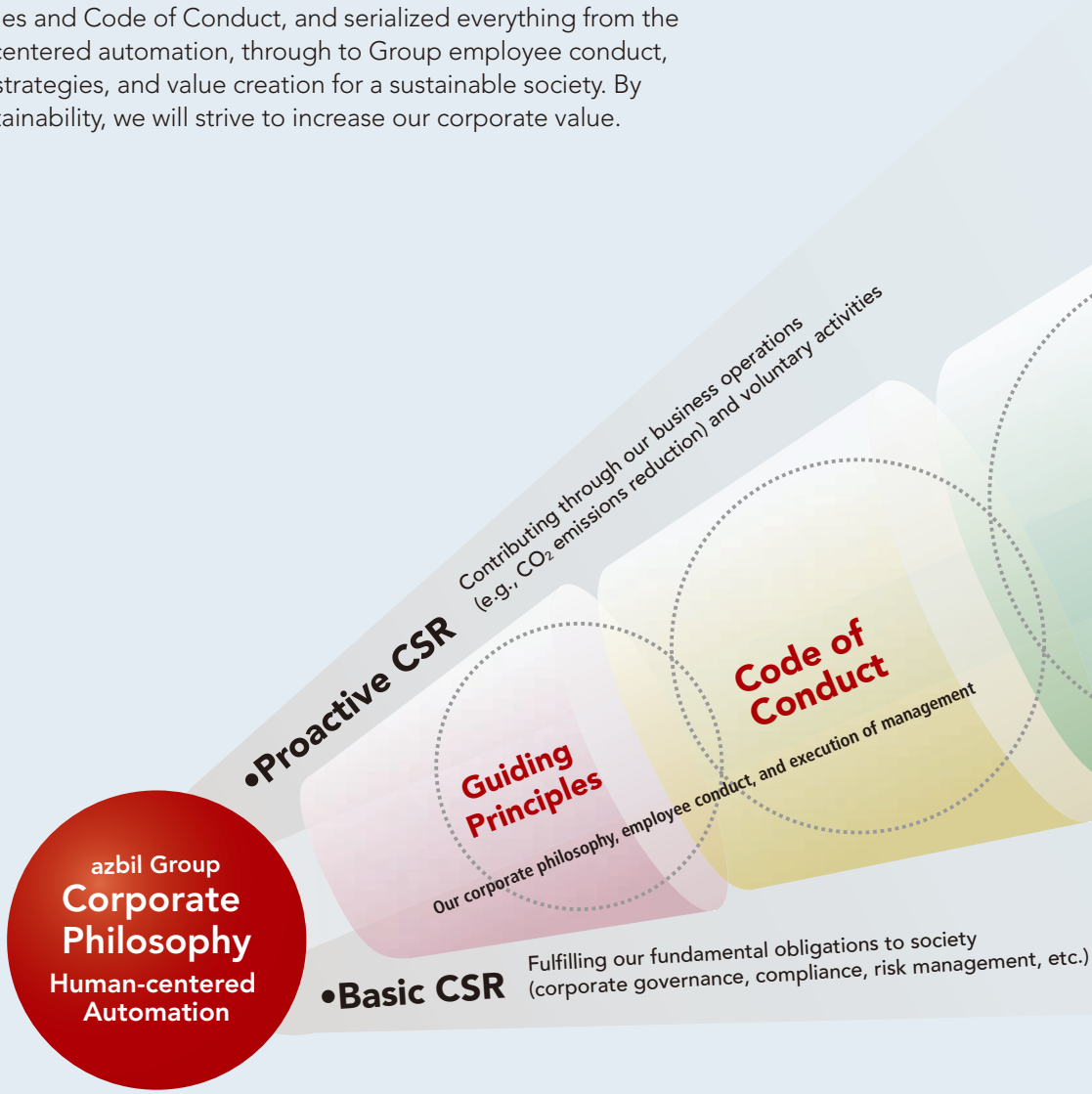
Operating income: **¥27.3** billion

New Challenges to Contribute "In Series" to a Sustainable Society

Societal structures and values are seeing drastic changes, and those changes are being accelerated by people adapting their behavior in response to the spread of viruses. This has led to the emergence of a variety of new problems that require solutions. The future will see an expansion in the number of areas in which automation can be applied, and an expansion of its scope of control, and that is expected to lead to an increase in the value of automation and an increase in demand. Anticipating such potential changes in the business environment, we aim to introduce products and services that harness and are compatible with new technologies like IoT, AI, cloud computing, and big data. By formulating a new style of management contributing to our SDGs and a sustainable society, we aim achieve a balance between helping to resolve social issues and realizing sustainable growth.

azbil's History of Value Creation

In order to face new challenges and contribute to a sustainable society, the azbil Group has put in place a new framework upon which it can achieve sustainable growth. We revised our Guiding Principles and Code of Conduct, and serialized everything from the Group philosophy, human-centered automation, through to Group employee conduct, execution of management strategies, and value creation for a sustainable society. By contributing to societal sustainability, we will strive to increase our corporate value.



Implementation

Practicing the "human-centered" Group philosophy every day

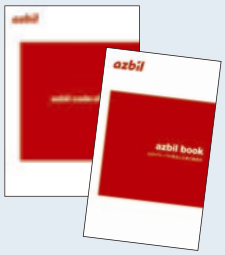
Group Philosophy

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

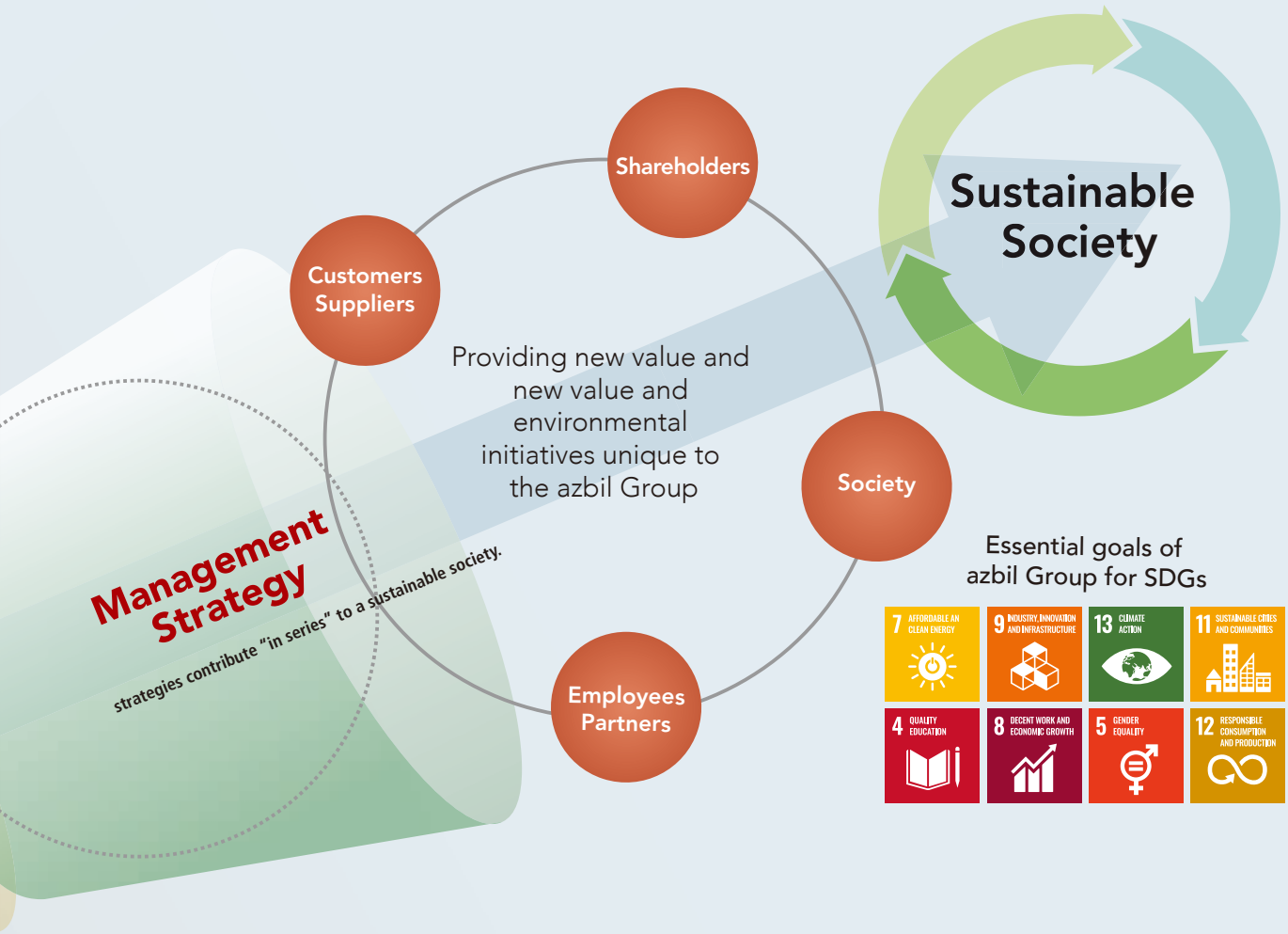
Guiding Principles

In order to implement our corporate philosophy, we will take action based on the five guideposts (Guiding Principles) aiming to serve as a guiding bridge that connects our customers worldwide to the future.

1. Realizing a safe and comfortable social environment through cooperative creation by human ingenuity and technology
2. Contributing in series to the achievement of a sustainable society
3. Building long-term partnerships with stakeholders
4. Creating dynamic value through diverse human resources and teamwork
5. Growing constantly through innovation and a corporate culture of continual learning



The azbil book (containing the Group Philosophy and Guiding Principles for azbil Group business) and the azbil code of conduct (containing the azbil Group Code of Conduct)



Sustainability

Providing our unique value and solutions tailored to meet the needs of customers throughout their life cycle, and growing together with society

The azbil Group's strength and competitiveness lie in the measurement and control technologies it has refined over time, in the knowledge it has gained on site, and in its use of IoT, AI, big data, cloud computing and other advanced technologies. These allow us to help resolve new social issues and to contribute to realizing a sustainable society. By integrating these strengths and mutually increasing their value, we will provide unique and new solutions that only azbil can offer in the two areas of Systems and Solutions Services, and also Sensors, Actuators, and Field Instruments. By harnessing automation, the azbil Group will create new value with customers at their site, in our three core business fields of Building Automation, Advanced Automation, and Life Automation.

azbil's Value Creation — Towards Realizing a Sustainable Society

Responding to problems faced by customers and society in line with the changing times, we have been refining our technologies and solutions by drawing on our "measurement and control" automation technologies based on the idea of constantly solving problems by focusing mainly on people. The azbil

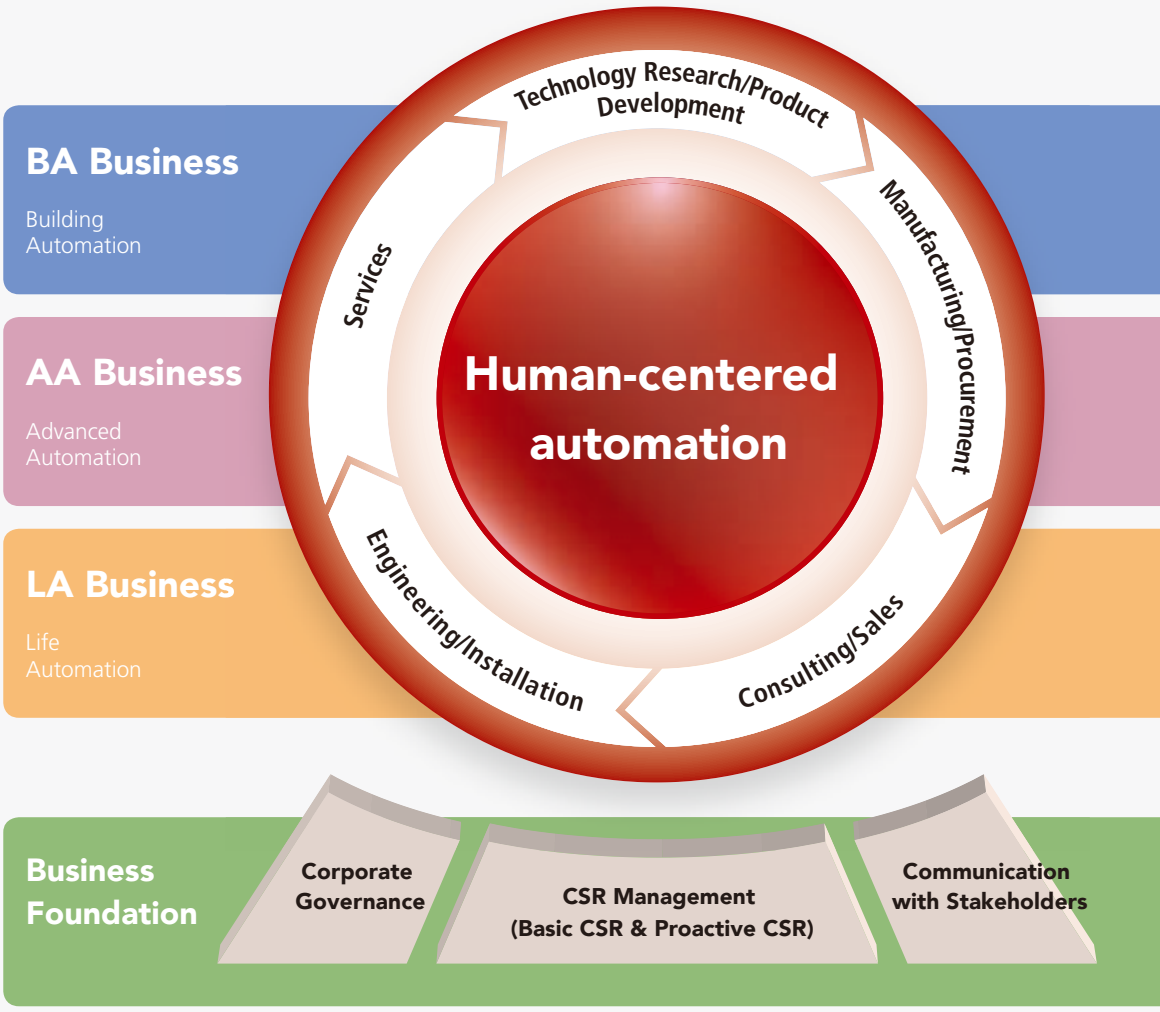
Operating Environment → **azbil Group's Operations**

Changes in the Operating Environment & New Social Issues

- Reduction in the domestic labor force; change in values due to work-style reform
- Maintenance of various types of industrial machinery and maintenance of aging infrastructure; increased importance of ensuring safety
- Frequent natural disasters, increasing need to respond to climate change and other environmental conservation considerations
- Changes in societal and individual behavior to better adapt to the presence of COVID-19 (telecommuting, BCP, supply chains, digitalization)

Value Creation through the Automation Business

Providing solutions via an integrated structure that extends from development and production, to sales, engineering and services



The business foundation foundation that supports the azbil Group's value creation

Group is unique in its ability to promote value creation with customers using its integrated system of working closely with customers at their site. Our efforts, including our response to the "new normal" due to the spread of COVID-19, aim to contribute "in series" to realizing a sustainable society and the SDGs in 2030 through our BA, AA, and LA businesses.

Solutions based on our measurement and control technologies and products

Social value created through our operating activities

Development and provision of devices and applications compatible with various technological innovations



Accelerating autonomy and labor-saving efforts in building and production management; working in harmony with people

Smart security and other advanced services

Improved environmental and energy solutions utilizing IoT technologies

Offering a new business model harnessing cloud computing technologies as a Service*1

Flexible operations for BCP*2-compatible buildings and production facilities

Management/Monitoring

Applications & The Cloud

The azbil Group's forte: Connecting field operations to management and monitoring

Field Instruments & Devices

Customers' Sites



Our engineers familiar with the customer's site and our various devices and field instruments that meet on-site needs create value with customers throughout the life cycle of the customers' facilities.

*1. As the term suggests, "as a Service" Serves as a catch-all term referring to all conventional product functionality offered as services through the internet. Whereas such products would originally have required purchases, system construction, and the provision of adequate infrastructure, these services allow Azbil to use internet connectivity to offer customers only the elements they need.

*2. BCP (Business Continuity Plan) : BCPs help companies to minimize the damage to business assets even in the case of natural disaster or acts of terror. The plan sets out the activities to be performed during normal operations, and provides methods and actions that need to be performed in times of emergency to continue operation of core businesses or to restore operations in as little time as possible.

Value Creation Based on the Group Philosophy

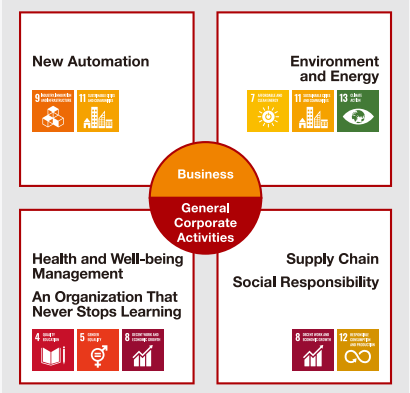








Essential Goals of azbil Group for SDGs



The Guiding Principles and Code of Conduct

azbil Group Philosophy

Past Year

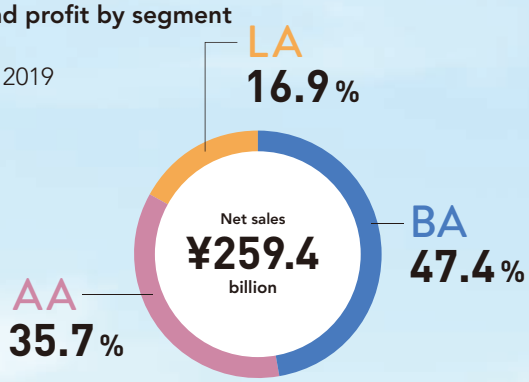
Here, we introduce some of the activities and results of azbil's efforts to create value in fiscal year 2019.

Fiscal Year 2019 Results

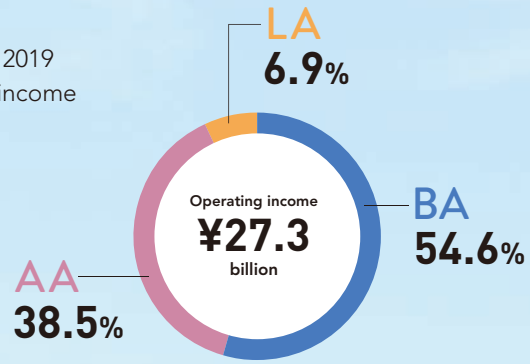
- Orders **¥258.1 billion**
- Net sales **¥259.4 billion**
- Operating income **¥27.3 billion**
- Return on equity (ROE) **10.9%**
- Operating income margin **10.5%**

Sales and profit by segment

Fiscal Year 2019 net sales



Fiscal Year 2019 operating income



Highlights (* Dates refers to dates of announcement)

May 13, 2019
Added model with measuring range of 0.5–50 mL/min to our range of thermal micro flow rate liquid flow meters; launched products with enhanced functions across all model numbers; expanded measurement range and switched correction values to enable measurement of two different liquids with a single unit

May 31, 2019
Completed construction of new production building at the Shonan Factory, which now serves as the azbil Group's mother factory

August 6, 2019
Launched a version of online anomaly monitoring system with enhanced batch processing functionality that can be deployed regardless of business type/format or factory size

August 30, 2019
Azbil Corporation included in the JPX Nikkei Index 400

September 19, 2019
Started sales of photoelectric switches with improved environmental resistance, as well as enhanced coolant resistance to reduce frequency of production line outages

October 16, 2019
Exhibited at Industrial Transformation ASIA PACIFIC (ITAP), the largest exhibition for industrial digitization-related technologies in the Asia-Pacific region

October 21, 2019
Received "DC Excellent Company Award" from NPO 401k Educational Society

November 1, 2019
Announced agreement to consider alliance between the azbil Group and Takaoka Toko Group to advance new initiatives for the next generation in energy management

November 13, 2019
Started selling ceiling temperature sensors for overseas office buildings, featuring designs that blend into space, easy installation, and high precision

December 26, 2019
Launched heating/cooling air-conditioning system for office buildings; this system helps improve comfort and productivity by enabling workers to make adjustments according to individual comfort levels

January 31, 2020
Launched building automation system for small buildings to promote energy conservation aimed at realizing a sustainable society

SDGs and ESG/IR Highlights

Index status

Azbil Corporation is included in the following indices:

- FTSE4Good Index Series
- FTSE Blossom Japan Index
- MSCI Japan ESG Select Leaders Index
- MSCI Japan Empowering Women Index (WIN)
- S&P/JPX Carbon Efficient Index
- JPX-Nikkei Index 400

FTSE4Good

FTSE Blossom Japan

JPX-NIKKEI 400

2020 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

2020 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

THE INCLUSION OF Azbil Corporation IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Azbil Corporation BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

February 13, 2020

Launched infrared array sensor system for buildings that delivers comfortable air conditioning by using infrared detection to detect indoor conditions in real time and control air-conditioning accordingly

February 28, 2020

Managing Executive Officer Kiyohiro Yamamoto appointed Representative Director, President and Group Chief Executive Officer, ushering in a new era of growth that reflects changes in business conditions and trends in technological innovation

March 3, 2020

Started selling an adjustable proximity sensor featuring two outputs and easy installation, contributing to reduced adjustment processes and improved equipment capacity utilization

March 4, 2020

Received "iF Design Award 2020" (international design award)

GOLD AWARD 2020

DESIGN AWARD 2020

Environmental Initiatives

Azbil's 2030 greenhouse gas reduction targets certified as "Science Based Targets (SBTs)" (May 8, 2019)

Announced support for recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (November 25, 2019)

Announced long-term vision aimed at reaching "Substantially Zero Greenhouse Emissions" by 2050 (January 28, 2020)

Announced participation in Keidanren's "Challenge Zero" declaration (June 8, 2020)

Strengthening Corporate Governance

Made partial revision of criteria for determining independence of outside officers
(resolved by Board of Directors on May 13, 2020)

Appointed two female directors to enhance diversity (resolved at 98th Ordinary General Meeting of Shareholders on June 24, 2020)

Human Resource Initiatives

Announced "azbil Group Health and Well-being Declaration" to further promote health management and create healthy, happy, and lively workplaces and people
(July 1, 2019)

Certified as a Health & Productivity Management Outstanding Organization (White 500)
(March 2, 2020)

CSR Management

Revised the azbil Group's Guiding Principles and Code of Conduct
(October 1, 2019)

Interview with the CEO



We aim to both resolve social issues and achieve sustainable growth through management that is contributing "in series" to a sustainable society and the SDGs

We took the time to sit down with the azbil Group's Chief Executive Officer, Kiyohiro Yamamoto. Based on the Group's business foundation and profitability that have been strengthened to date, Mr. Yamamoto's goal is to put more effort into automation tailored to changes in the business environment and social structure and to trends in technological innovation, and to bring about stable and sustainable growth through management that is contributing "in series" to the United Nation's Sustainable Development Goals.

Q1 Regarding the final year of the Medium-term Plan (2019)

Q2 Regarding financial results for fiscal year 2019

Q3 Regarding COVID-19 response

Q4 Regarding shareholder returns

Q5 Regarding long-term management policy

Q6 Regarding new technologies and products

Q7 Regarding efforts to strengthen the management foundation

Q8 Regarding contributions "in series" to the SDGs

Q9 Regarding azbil's response to social issues



Kiyohiro Yamamoto
Representative Director,
President and Group Chief Executive Officer
Azbil Corporation

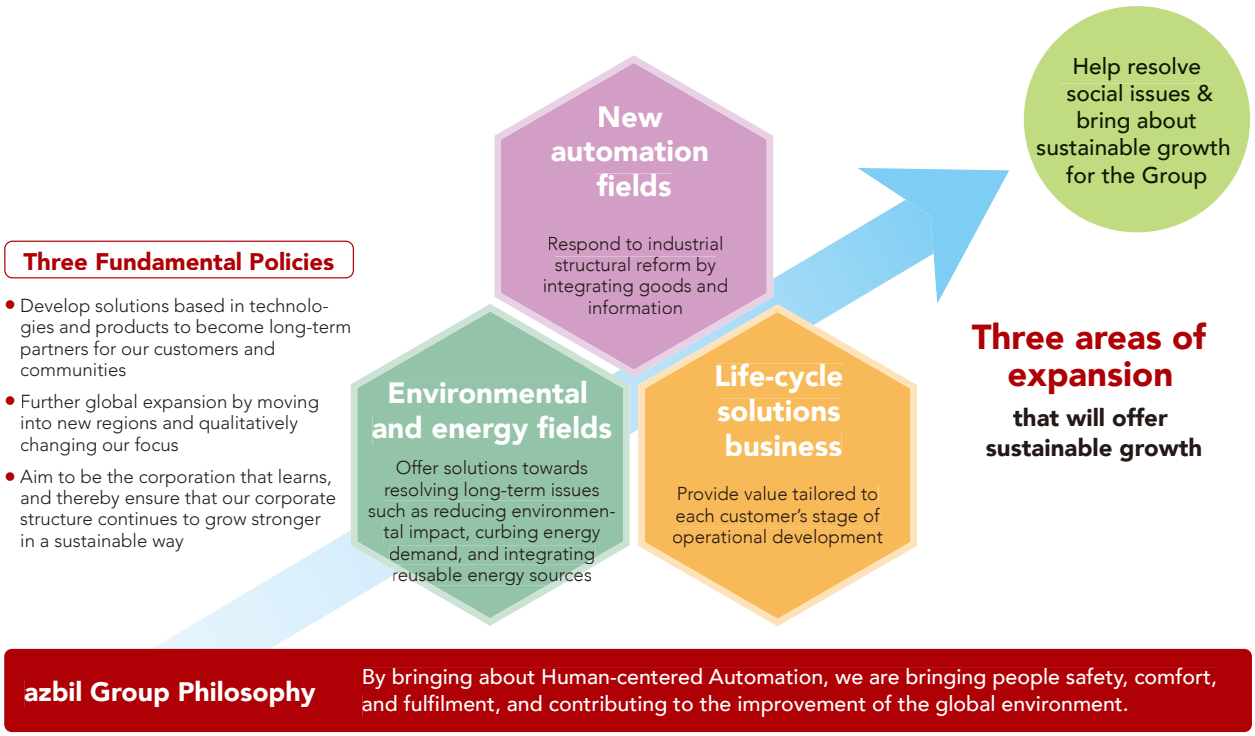
Q1 Fiscal year 2019 was the final year of your medium-term plan. How do you view the Group's performance?

In addition to strengthening business profitability through reforms of our business and operational structures, we improved our business foundation and management system.

The azbil Group has been working to establish solid foundations for business, global expansion, and human resource development, guided by the Group philosophy of "human-centered automation," formulated in 2006 and the three fundamental policies, set in 2012. Each of the Group's businesses—Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)—operates on a different business cycle. Under our three fundamental policies, we have implemented various measures, such as the selective concentration of business, organizational reform, and profitability enhancement in the three businesses in response to changes in the business environment, and have realized stable growth. In our medium-term plan from fiscal year 2017 to 2019, we identified three growth fields earmarked for sustainable growth and implemented measures aimed at enhancing business sustainability and growth potential. Thanks to these efforts, our businesses have developed into ones that provide life-cycle solutions to customers and society and delivered greater value to customers, while also making significant progress in strengthening business profitability.

Likewise, we are also building a base on which to expand our businesses worldwide. By establishing a foothold with local subsidiaries and service bases, we have created a tripolar global framework that includes systems for technological development and production. Leveraging these technology development and production systems, we develop, manufacture and deliver products incorporating AI and cloud technologies to our customers. In addition, we have built a personnel system befitting "a corporate organization that never stops learning," while optimally allocating human resources in response to changes in the business environment. We also strengthened a business continuity plan (BCP) and our financial structure, and established a management foundation for sustainable growth.

Meanwhile, we made steady progress in strengthening our management and corporate governance systems. We put a new structure of the management team in place to facilitate deployment of future long-term policies. With the view to enhancing corporate governance, we increased the ratio of independent outside directors, with the result that five of our 11-member Board are now independent outside directors. In addition, we are also making efforts to improve capital efficiency through pushing forward with the appropriate sale of strategic shareholdings for which we have little rationale for owning.



Q2 How did the Group perform financially in fiscal year 2019?

Thanks to further progress in strengthening business profitability, we achieved record-high operating income for the third consecutive year.

As I previously mentioned, we saw great improvements in profitability during the fiscal year 2017-2019 Medium-term Plan. In fiscal year 2019, the last year of the plan, net sales decreased 1.0% year on year to ¥259.4 billion, mainly from a drop in revenue in our AA business due to a slump in the manufacturing equipment market. However, operating income surpassed the initial target of ¥25.0 billion announced at the launch of the Medium-term Plan (May 2017) and even exceeded the initial target for fiscal year 2019, reaching a level of ¥27.3 billion, breaking sales records three fiscal years running. While the spread of the novel coronavirus disease (COVID-19) led to a deterioration of business sentiment in the fourth quarter, the impact on the azbil Group's business results has been limited.

Q3 Please tell us about the impact of the spread of COVID-19 on your business and how you are dealing with it.

Leveraging our reinforced business and financial foundations, we will undertake rigorous crisis management to swiftly address changing conditions.

The spread of COVID-19 has led to a slump in global consumption and stagnation of economic and production activities, resulting in decreased capital investments and delays and suspensions of construction projects. For these reasons, there are major concerns about the future outlook. Nevertheless, the azbil Group has steadily reinforced its business foundation through reforms of its business and operational structures taken to date, with such initiatives as reassessment of the portfolios of its three business segments and strengthening of profitability. With respect to crisis management, moreover, we are developing a business continuity plan (BCP) and building a solid financial base, including by strengthening and diversifying our capital-raising capabilities. These efforts have strengthened the Group's ability to respond to emergencies.

Moreover, after the appearance and subsequent spread of COVID-19, we quickly established a countermeasures headquarters to work with group companies in Japan and overseas in order to ensure business continuity while placing the upmost priority on ensuring the safety of our customers and employees. In concrete terms, we reviewed how the offices of each Group company were working, and promoted telecommuting and other measures there. At the same time, we have been providing our customers with the engineering teams and other services they need to maintain equipment and infrastructure that are critical to both them and their communities. Regarding production, we have implemented appropriate safety measures to allow for uninterrupted operations, and to continue to fulfill our social responsibilities as a company. The COVID-19 outbreak does not seem to be settling down any time soon and it is expected to continue long-term, but we will continue to implement thorough crisis management measures and to quickly respond to any changes arising from the spread of COVID-19. Additionally, we have implemented thorough safety measures to prevent the spread of COVID-19 among our customers and employees, and are taking the situation as an opportunity to proactively explore new ways of working, including telecommuting, with the goal of improving productivity.

Reference: azbil's Financial Foundation and Capital Raising Capability

Equity ratio at the close of FY 2019	**66.7%**
Commitment Credit Line:	**¥10.0 billion**
Cash and cash equivalents Balance at end of FY 2019:	**¥74.7 billion**
Long-term Issuer Rating (Rating and Investment Information, Inc.)	**A, Affirmed (Stable)** **Registered bond issue limit: ¥20.0 billion**

* Commitment credit line: A fixed credit line set and maintained by a financial institution for a certain period of time. The contract states that the financial institution promises to provide a loan at the company's request. Commitment credit lines are used to provide stable sources of operating capital, to secure the means needed to respond to unexpected conditions such as temporary changes in markets, etc.

Q4 The Company has maintained dividend payments despite the uncertain business environment.

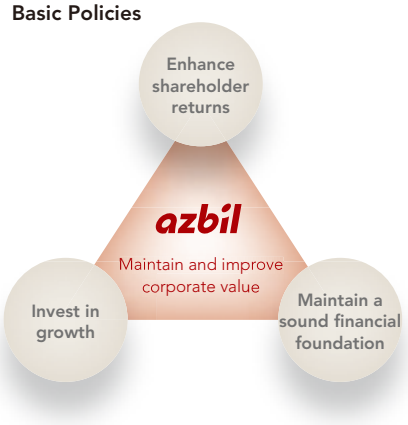
We will continue to follow our basic policy to maintain stable dividend payments regardless of short-term changes in the business environment and overall performance.

The azbil Group regards the return of profits to shareholders as an important management priority. We comprehensively evaluate our consolidated business performance, dividends on equity (DOE), and return on equity (ROE), as well as the need to retain internal reserves to develop future businesses and maintain a sound financial base. Our aim is to maintain stable dividends while striving to raise the dividend level. We have consistently adhered to this policy even in the face of major changes in business conditions.

Year-end dividends for fiscal year 2019 were set at ¥25 per share based on business performance and the basic policy for shareholder returns, and the annual dividend for fiscal year 2019 was, as previously announced, set at ¥50.

The business environment for fiscal year 2020 remains uncertain due to the spread of COVID-19, but we have secured the funds needed for sustainable growth through internal reserves accumulated through structural reforms and profitability enhancement measures. From that, in order to maintain a stable dividend level, we plan to offer a record-high dividend of ¥50 per share in line with our basic policy on profit distribution. Although we remain uncertain about the future business environment, we will work to implement disciplined capital policies, in line with our basic policies, that include flexible options on stock buybacks while continuing to focus on dividends. We will also continue to invest in expanding products and services and implementing structural reform for advanced global production and development, and in other investments needed for sustainable growth.

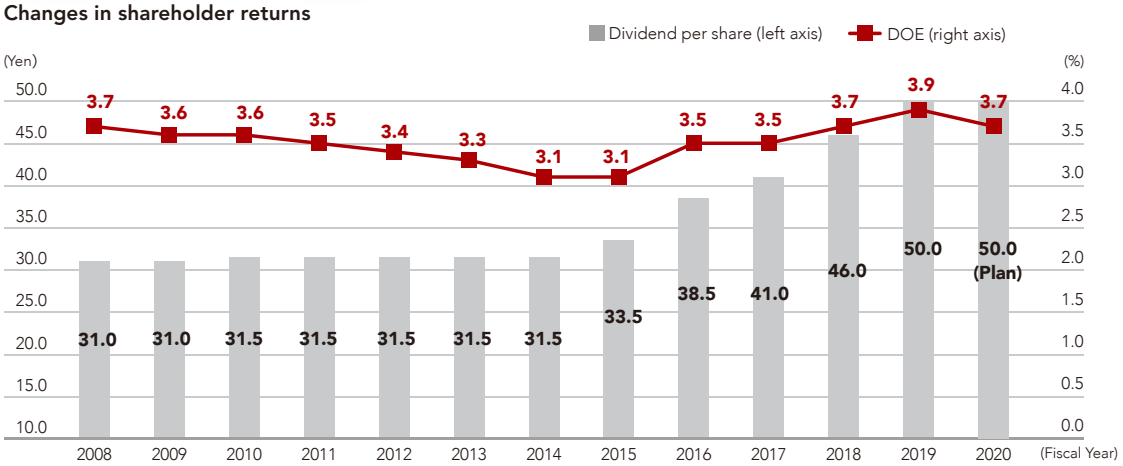
Basic Policies



Developing disciplined capital policies and maintaining and improving azbil's corporate value, while maintaining a balance between improving shareholder returns, investment for growth, and keeping a sound financial foundation.

- We will position profit returns to shareholders as an important management issue.
- Shareholder returns will focus on dividends, while flexibly incorporating stock buybacks.
- Shareholder returns will be determined through comprehensive consideration of consolidated performance, DOE and ROE levels, and on internal reserves earmarked for future business development and strengthening the corporate structure.
- We will continue to maintain stable dividends while striving to increase them.

Changes in shareholder returns



Dividends per share and stock buyback totals have been retroactively adjusted to account for the stock split.



The number of areas in which automation can contribute to solving new social issues is increasing daily.

Q5 Is sustainable growth possible when faced with drastic environmental changes? Could you describe the Group's long-term management policy?

We are confident that changes in social structure will bring new demand for automation that leads to sustainable growth.

At present, we predict the spread of COVID-19 to result in global economic slowdown and deterioration of business conditions. With the expectation that medium- and long-term demand for automation will increase, however, we believe that sustainable growth is possible.

Automation is becoming better able at resolving problems through the utilization of IoT, AI, cloud computing, and other advanced technologies. We believe that automation will play an ever-increasing role in solving various challenges. These include the need to address new needs arising from changing value perceptions due to the ageing population, globalization, work style reforms, and the like. We also must tackle issues crucial to a sustainable society, such as climate change and ageing infrastructure.

And there are behavioral changes stemming from the spread of COVID-19 as well, such as putting various activities online, telecommuting, and remote working. The areas where automation can help resolve new social issues are increasing day by day, and we expect this trend to provide new opportunities for business development and growth.

Recognizing the need for new automation, the azbil Group will advance its business from long-term perspectives targeting the next generation. Under our new structure of the management team, we will continue reinforcing our basic management policy and business foundation, improving the profit structure, and meeting other challenges.

Q6 Please tell us about azbil technologies and products that can meet new demand.

By integrating products that incorporate IoT, AI, cloud, and other advanced technologies with engineering and service know-how accumulated on site, we will deliver products and value unique to the azbil Group.

The azbil Group's strengths lie in its portfolio of products and applications that incorporate advanced technologies, as well as its system for providing engineering and services at customers' sites, together with big data and know-how collected and cultivated over the years. By integrating products that incorporate IoT, AI, cloud, and other advanced technologies with engineering and service know-how accumulated on site, we promote digital transformation unique to the azbil Group and deliver new levels of value to customers.

For example, we offer field instruments and other devices that use MEMS* and sensor packaging technology that expand the range of automation solutions we can offer, and can even meet new demand for measurement and control that couldn't be achieved before. We are also developing a next-generation smart robot with torque sensors in each joint that enable precise detection and control of applied forces.

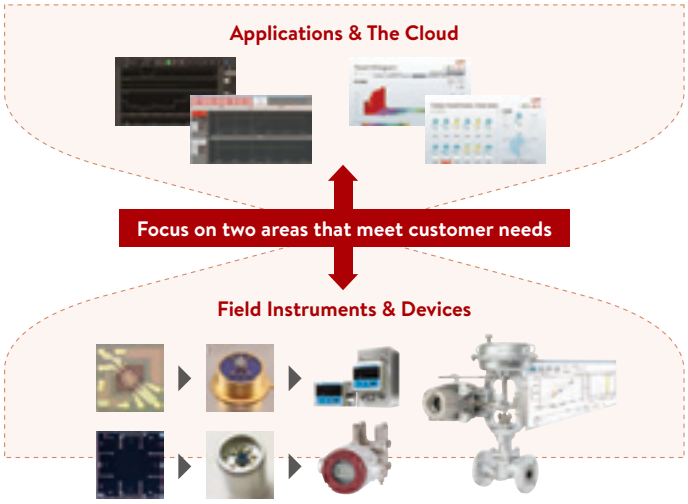
In customer plants, we have created an advanced operations service that can replace skilled operators, by means of a knowledge-intensive system that allows for remote anomaly detection and maintenance. This Smart Security Solution harnesses the wealth of big data through AI and cloud computing.

One solution that takes us closer to having a society adapted to co-existing with viruses is an air volume control system that can transform a normal hospital room into an infectious disease isolation room in emergencies by using negative pressure and increasing ventilation. This ensures that the hospital beds can be available during regular operations, avoids cost increases for customers, and provides a safe working environment for medical staff.

Our Building Automation (BA) systems not only improve office comfortability and allow for new working styles, but they also offer the level of advanced control required by hospitals, cloud computing centers, and other such facilities. In addition, our Virtual Power Plant (VPP) technology not only optimizes energy use in individual buildings, but it also provides solutions to curbing energy demand across entire cities, and can integrate reusable energy sources. Such technologies will be absolutely essential for future smart cities, and it is a new field of automation for which our Group's BA business can harness our know-how and record of delivering results.

* MEMS (Microelectromechanical Systems): Devices built using microfabrication technology to integrate mechanical components, sensors, actuators, and electronic circuits on silicon substrates.

Improving products offered by azbil Group — Accelerating automation, autonomy, and labor-saving measures, while maintaining harmony with the people using them



Improve system and solution development capabilities

- Develop new systems & create new businesses
- Strengthen cybersecurity measures

Improve development of measurement and control devices

- Develop new sensing devices
- Intelligent actuators and sensors

Q7 What is the Group doing to fortify the management base to support mid to long-term growth?

In addition to preparing a global business foundation, we have established three new organizations to strengthen our framework for sustainable growth.

We are moving forward with preparing our global business foundation as an engine for growth, and in sales and services, we have expanded operations into 23 countries and launched our first regional organization for strategic growth in Singapore in 2018. In terms of production, we have set up three hubs in China, Thailand, and Japan, and have moved forward with measures to improve product manufacturing efficiency, our BCP, and more. This was particularly true in 2019, when we consolidated domestic production at our Shonan Factory, positioning it as a "mother factory" to lead business development worldwide. We have achieved similar results in technological development. We are promoting maintenance and capital investment at group development hubs, have begun capital investment in the sensor development that forms the core of measurement and control systems and other areas, and are engaged in developing products and sales frameworks using IoT, AI, and cloud computing in each of our business areas.

As a part of our efforts to become a corporate organization that never stops learning, we have implemented a variety of personnel initiatives through the human resources department and our Azbil Academy, and have implemented planning and preparation of personnel training and qualification systems. As a result, we have been able to move forward with cultivating solutions personnel such as field engineers and software engineers who are needed to ensure the azbil Group can serve as long-term partners to our customers and communities. We have also made progress in improving workforce diversity by cultivating employees who can work globally, regardless of nationality, and by promoting the active participation of women in the workforce. In addition, we have carried out business strength improvement and allocation for 630 employees (cumulative total) by matching our management strategy with individual employee abilities.

Furthermore, we founded three new organizations in April 2020. First is our IT Solution Department, which will work to expand our operations into new fields of automation and enhance our competitiveness harnessing IT. Next, we established the Cloud Operations Center as a platform to accelerate how IT is used throughout the Group in a unified way. Finally, the Corporate Sustainability Headquarters will work on efforts to achieve the SDGs and fortify internal control both in Japan and overseas.

- **The organizations below were founded as a part of the azbil Group's efforts to fortifying the system for continuous growth needed to promote product development in new automation fields, and to ensure it contributes "in series" to contributions to sustainable society.**



IT Solution Department

- Established to vigorously promote IT product planning, development, and use throughout the azbil Group to respond to the recent and drastic technological innovations that have produced major changes in the business environment.



Cloud Operations Center

- Established to fortify cloud operations throughout the azbil Group in a unified way.



Corporate Sustainability Headquarters

- Established to link management goals to our contributions to realizing a sustainable society through problem resolution based in human-centered automation. It will also further promote the azbil Group's SDG efforts and CSR activities, and improve domestic and overseas internal controls that support the foundation on which value is created, all based in our Guiding Principles and Code of Conduct designed to fulfill our social responsibilities.

Q8 Exactly how is the Group contributing "in series" to the Sustainable Development Goals?

Through our own business activities we have begun helping our customers reduce energy use in their own facilities, and have also begun efforts to reduce our own greenhouse gas emissions to zero.

The azbil Group has accumulated much experience and know-how through our work in installing measurement and control systems in high-rise buildings, factories, and hospitals, and in offering sensors, controllers, and other devices and services. Harnessing that field experience and know-how allows us to offer our customers effective solutions for better energy and power conservation. Our businesses are contributing "in series" with our efforts to achieve the SDGs, and at the time, aimed at achieving sustainable growth for the group itself. In fiscal year 2019, our products, services, and solutions were harnessed to reduce CO_2 emissions by 3.01 million metric tons, which is almost 1/400 of Japan's total CO_2 emissions.

We are also accelerating our efforts to reduce CO_2 emissions in our own companies. We formulated our 2050 Long-term Vision for Reducing Greenhouse Gas Emissions, which lays out our goal to achieve zero emissions (Scopes 1+2)*1 by 2050, and are a part of the Japan Business Federation (Keidanren) proposal titled, "Actions by the Business Community on Long-term Global Warming Countermeasures up to 2050." To reach this long-term goal, we have set emission reduction targets (SBT certified*2) for 2030 in order to reduce greenhouse gas emissions through our entire supply chain, and efforts to achieve this have begun.

*1 Scope 1: Direct greenhouse gas emissions from owned or controlled sources (fuel combustion, industrial processes, etc.)
Scope 2: Indirect greenhouse gas emissions produced by use of electricity, heat, and steam purchased from outside sources.
*2 SBT(Science Based Targets): This initiative was launched in May 2019 to set greenhouse gas emission targets based on scientific evidence in order to keep global temperature rise at less than 2 degrees Celsius compared to pre-industrial revolution levels.



Effective CO_2 reduction at customer facilities

Fiscal year 2019 (ended March 2020) **Total: 3.01 million metric tons of CO_2**	Through automation:	**2.71** million metric tons of CO_2/year
	Through energy management:	**0.25** million metric tons of CO_2/year
	Through maintenance and services:	**0.05** million metric tons of CO_2/year



Q9 How are you tackling social issues that the azbil Group is now asked to address?

Through business activities that are contributing "in series" to a sustainable society, we will help resolve social issues and also facilitate our own sustainable growth.

The azbil Group philosophy is "to realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through human-centered automation," and we are expanding our business globally. The measures we will undertake to reduce environmental impact and achieve the SDGs are born within this Group philosophy.

Based on relationships of trust with our customers, as well as experience and knowledge cultivated to date, we are promoting product development focused on new automation. At the same time, we are advancing activities that are contributing "in series" to a sustainable society by promoting business in the environmental/energy fields and life-cycle solutions business, thus helping address the SDGs and other social issues and deliver steady business growth.

The azbil Group believes that mechanisms for its own sustainable growth are essential for making a direct contribution to a sustainable society. For this reason, we significantly reassessed the azbil Group Guiding Principles and Code of Conduct in fiscal year 2019. Placing importance on the newly set principles, we will strengthen mechanisms for continuous growth and increase corporate value.

In addition, our management and business activities are contributing "in series" to our 2030 targets aimed at achieving the SDGs and realizing a sustainable society. In order to use them as guideposts for the Group, we laid out the essential goals and targets for the azbil Group to meet the SDGs, and the new Corporate Sustainability Headquarters will play a central role in promoting initiatives in every department.

The business environment will remain uncertain for the foreseeable future, and difficult conditions are expected. However, we believe that we will see an increase in demand for the Group's core business of automation in the mid and long-term. We will overcome the impact of the spread of COVID-19 with prompt responses enabled by our stronger corporate structure and business foundation, and thorough crisis management measures. All Group employees will work boldly to tackle new issues that arise out of the changes to social structure and personal values through our corporate framework, from the Group Philosophy to employee activities and management strategy, that contributes "in series" to solutions for social issues and to our Group's goals for sustainable growth.

With respect to the azbil Group's management and businesses, we look forward to the ongoing, long-term understanding and support of shareholders and all other stakeholders.

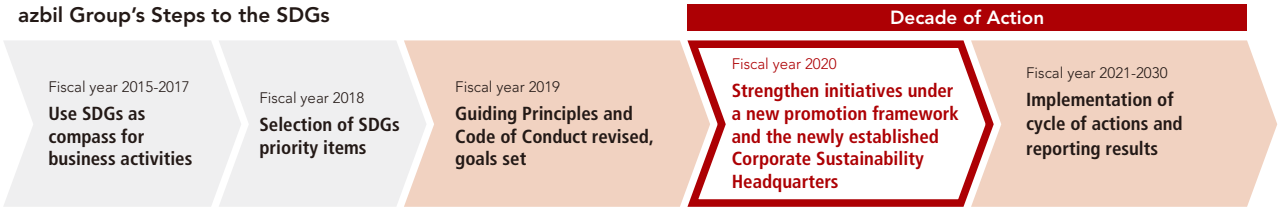
azbil Group's Value Creation & Approach to Realizing the SDGs

The azbil Group will strives to share value with society, achieve sustainable growth, and improve enterprise value through business activities in accordance with the SDGs.

The Steps azbil Group is Taking to Achieve the SDGs

Since the UN's adoption of the SDGs in 2015, the azbil Group has been setting them as a compass to direct our own business activities and promoting those efforts. In fiscal 2018, we selected SDGs priority issues for the Group, and in fiscal year 2019, set Essential Goals of azbil Group for SDGs. In April 2020, the Corporate Sustainability Headquarters was newly established, and with it at the core of the Group's new promotion framework, we are strengthening our efforts as we launch our "Decade of Action" from 2020 to 2030. From fiscal year 2021 onwards, we will implement a cycle of both actions and reporting results and enhance communication with stakeholders in order to contribute to the sustainable growth of society as a whole.

azbil Group's Steps to the SDGs



SDGs Promotion Framework

Achieving Corporate Sustainability of the Group

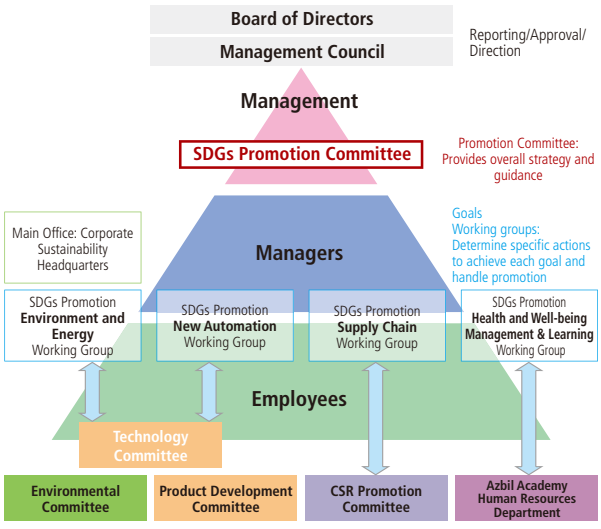
In order to achieve Essential Goals of azbil Group for SDGs and contribute to the realization of sustainable society, we believe that we need a framework to discipline ourselves and achieve our own sustainable growth. To that end, in April 2020 we established the Corporate Sustainability Headquarters to serve as a specialized organization within the Group for comprehensively promoting sustainability measures. The headquarters will base its efforts on the CSR management initiatives and frameworks unique to the azbil Group and built up over the years, and in coordination with relevant departments, it will promote a variety of SDGs measures which contributes "in series" to realization of sustainable society. Simultaneously, we will also increase our efforts both domestically and overseas to improve systems connected to our ESG (Environment, Society, Governance) initiative, including improved internal control, corporate governance, risk management, and more.

SDGs Promotion Framework

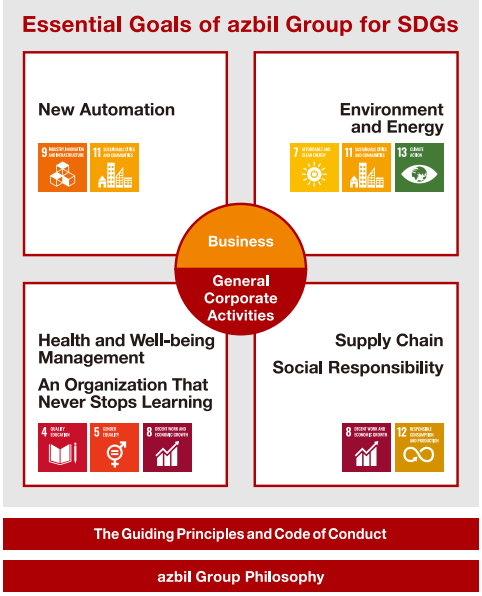
In order to specifically promote the SDGs, the Corporate Sustainability Headquarters functions as the main office for arranging and running the SDGs Promotion Committee. The formulation, execution, and evaluation of SDGs plans will be reported to management, and the PDCA cycle will be harnessed to ensure those plans are in line with achieving our goals for 2030.

To achieve Essential Goals of azbil Group for SDGs, four working groups with different themes are set up under the umbrella of the SDGs Promotion Committee. These working groups are working closely with bodies such as the azbil Group CSR Promotion Committee and the azbil Group Technology Committee, which serve as a cross-organization function of the Group and are guiding issue resolution and SDGs realization efforts on a Group-wide basis. In collaboration with Human Resources Department and Azbil Academy, a specialized organization dedicated to personnel development, the working groups are promoting penetration of the SDGs throughout the Group and focusing on awareness and educational activities that will encourage proactive participation on the part of every employee. At the same time, by working closely with the Corporate Communication Task Force, they are promoting the dissemination of ESG information that responds to social demand.

SDGs Promotional Framework



Essential Goals of azbil Group for SDGs



The azbil Group's objectives for the SDGs consist of four essential goals and the targets that will lead to their achievement.

In the areas that we tackle through our business, where the focus is on automation technology, our goals are preserving the Earth's environment and solving energy-related problems through cooperative creation, and realizing a safe and comfortable society through new automation. In both cases our aim is to contribute to the sustainable growth of our customers and to create environmental and societal value.

In the areas that we tackle through our general corporate activities, our goals are fulfilling our responsibilities to society throughout our supply chain, a goal that we will realize together with our business partners and local communities, and strengthening our corporate foundation to solve societal problems through health and well-being management and continuous learning. In so doing, we aim to contribute to the creation of a sustainable society.

By ensuring that all of our employees understand and act in line with our goals, we can collaborate with our customers, partners, and local communities to solve societal problems through cooperative creation and contribute to achieving the SDGs.

Essential Goals		Targets	SDGs
Business I Preserving the Earth's environment and solving energy-related problems through cooperative creation	Environment and Energy	**Solutions for energy (toward a decarbonized society)** • Further effective reduction of GHG*1 emissions at customers' sites • 30% reduction in GHG emissions from our business activities*2 • 20% reduction in GHG emissions across our entire supply chain*3 **Environmental preservation (realization of Integrated Environmental Corporate Management*4)** • Creation and provision of eco-friendly products and services • Effective use of natural resources*5 and reduction of waste generation	
II Realizing a safe and comfortable society through new automation	New Automation	**Providing productivity and higher value that lead to customers' peace of mind and comfort** • Realization of a smart society through technological innovation • Providing solutions based on new ideas	
General Corporate Activities III Fulfilling our responsibilities to society across our supply chain and contributing to local communities	Supply Chain Social Responsibility	**Fulfilling social responsibilities with customers and partners** • Expantion of azbil CSR activities to share value **Invigorating local communities** • Contributions around azbil Group bases	
IV Strengthening our foundations to solve societal problems through health and well-being management and continuous learning	Health and Well-being Management An Organization That Never Stops Learning	**Implementing health and well-being management (job satisfaction, health, diversity & inclusion)** • Flexible methods of working and reduction of total work hours • Maintaining and promoting employees' mental and physical health • Creating opportunities for diverse personnel to demonstrate their abilities **Developing and strengthening "an organization that never stops learning"** • Expanding opportunities for the continuing education of globally active employees and opportunities to learn with stakeholders	

*1 Greenhouse gases (CO_2, etc.). *2 Compared with base year 2013. *3 Compared with base year 2017. *4 Management that integrates environmental activity such as decarbonization, resource recycling, and biodiversity conservation into its business. *5 A general term for material and energy that exists naturally and can be used for people's daily lives and in production activities.

The azbil Group believes that azbil's business contributes "in series" to the achievement of the SDGs and a sustainable society. We strive to meet society's expectations through our business, and will work to solve the issues we face while training personnel who will support our business contributing to the achievement of the SDGs. Information on these efforts and goals can be found on the following pages.

azbil Group's Value Creation & Approach to Realizing the SDGs

I Environment and Energy
Preserving the Earth's environment and solving energy-related problems through cooperative creation

Solving global environmental problems is a prerequisite for achieving a sustainable society, and it is one of the key issues of the SDGs. The azbil Group recognizes that climate change is a major issues, and we have set solutions for energy and realizing environment-integrated management as our targets for the SDGs.

Solutions for energy (toward a decarbonized society)

Please turn to Pages 59-61 for more information.

• Further effective reduction of GHG*1 emissions at customers' sites

We offer products, services, and solutions that help our customers reduce CO_2 emission at their sites, and thereby contribute to solving global environmental and energy issues. In the past, we reported actual values regarding CO_2 reduction at customers' sites, but currently we have established numerical targets for fiscal year 2030 as an index to our goal of continuously contributing to the SDGs.

*1 Greenhouse gases (i.e. CO_2)

Fiscal Year 2030 Targets

Target of effective CO_2 reduction at customers' sites

3.4
million metric tons of CO_2

Effective reduction of CO_2 at customers' sites through our products, services, and solutions

We contribute to reducing society's environmental impact by providing automation equipment and systems, energy management and other solutions, through to maintenance and services on those systems after delivery.

Total annual effective reduction of CO_2 at customers' sites for fiscal year 2019 (ended March 2020) was 3.01 million metric tons. This corresponds to approximately 1/400 of the total CO_2 emitted in Japan each year (approx. 1.2 billion metric tons). By fiscal year 2030, we aim to increase this effective reduction to 3.4 million metric tons of CO_2. In line with our global business expansion, we have included overseas customer sites in this estimates.

* In order to assess the contribution to the reduction of environmental impact quantitatively, the effects were classified into the three categories of 1) effects from automation, 2) effects from energy management, and 3) effects from maintenance services. Global reduction impact is partially based on original methods.
* A third party reviewed estimation method.

Automation effects

Utilizing our measurement and control technologies, we contribute to reducing environmental impact with our advanced control solutions that deliver stability and optimization of automatic control systems and process equipment for buildings.



2.71
million metric tons of CO_2

Energy management effects

We have reduced environmental impact, taking advantage of our energy management solution, to achieve reduction in electricity consumption, energy consumption, and CO_2 emissions.



0.25
million metric tons of CO_2

Maintenance service effects

We have reduced environmental impact by providing the high value-added services of the azbil Group, taking advantage of the knowledge and know-how acquired at customers' sites.



0.05
million metric tons of CO_2

Total Effective Reduction of CO_2 at Customers' Sites (Fiscal Year 2019)

3.01 Million Metric Tons of CO_2

Case study on GHG reduction at customer's site

The azbil Group offers various products, services, and solutions to our BA, AA, and LA customers to reduce global CO_2 emissions. For example, for our BA customers, we reducing energy consumption and lowering costs by refurbishing a variety of equipment or refining their operations, i.e. through optimal air conditioning energy source management and by tailoring services to building scale and usage. In our AA business, we are lowering energy waste by reducing the amount of energy used in plant and factory processes by harnessing automation to handle the usage of electricity, steam, compressed air and other resources to production equipment. Below you will find case study on how we used products and solutions in Indonesia to achieve a major reduction in CO_2.

Close Up

Azbil Reduces Nearly 35,000 Metric Tons of CO_2 Emissions at Largest Indonesian Refinery by Using Advanced Control Technology

Azbil participated in one of the demonstration projects (commissioned by New Energy and Industrial Technology Development Organization)of the Joint Crediting Mechanism (JCM),*1 which was organized by the government of Japan and the Indonesian government, and improved the energy efficiency of a refinery for Indonesia's largest gas and oil company, PT Pertamina (Persero). In particular, Azbil 's Advanced Control Technology was installed at a boiler plant of refinery unit IV PT Pertamina (Persero), and achieved saving energy and a reduction of 35,000 metric tons of CO_2 in 10 months.



*1 Joint Crediting Mechanism (JCM): A program in which Japan and a partner country engage in projects to reduce greenhouse gas emissions. Based on the results, issued credits are shared by both countries for emissions reduction targets.

- **Reducing GHG emissions from business activities, including the supply chain**

To reduce greenhouse gas (GHG) emissions (Scopes 1+2) from our own business activities, we have begun efforts to realize our 2050 Long-term Vision for Reducing Greenhouse Gas Emissions, which lays out our goal to achieve substantially zero emissions by 2050. Fiscal year 2030 stands as a transition point within that plan, and we have set emission reduction targets for GHG emitted through our business activities and throughout the entire supply chain. These GHG reduction targets were set to keep global temperature rise less than 2 degrees Celsius above pre-industrial revolution levels, and are based on the Science Based Targets (SBT) laid out by the Science Based Targets Initiative (SBTi)*3 in May 2019.

Fiscal Year 2030 Targets

GHG emission reduction goal

GHG emissions from business activities (Scopes 1+2)*1

30% Reduction
(from 2013)

GHG emissions throughout the entire supply chain (Scope 3)*2

20% Reduction
(from 2017)

Environmental preservation (realization of Integrated Environmental Corporate Management*4)

Please refer to Page 62 for more information.

- **Creation and provision of eco-friendly products and services**
- **Effective use of natural resources and reduction of waste**

The azbil Group has directly linked its business to achieving the SDGs, by creating and providing more environmentally friendly products and services, and by fortifying our 3R (reduce, reuse, recycle) efforts through environmentally conscious design when developing those new products and services.

*1 Scope 1: Direct greenhouse gas emissions from owned or controlled sources (fuel combustion, industrial processes, etc.)
Scope 2: Indirect greenhouse gas emissions produced by use of electricity, heat, and steam purchased from outside sources.
*2 Scope 3: All indirect greenhouse gas emissions (not included in Scope 1 or Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
*3 An organization jointly established by the CDP (a coalition of institutional investors that promotes disclosure of information regarding corporate measures taken to address climate change), the World Resources Institute (WRI), the World Wide Fund for Nature (WWF), and the UN Global Compact (UNGC), in order to achieve the greenhouse gas reduction targets delineated above.
*4 Management that comprehensively incorporates a wide range of environmental activities including decarbonization, resource circulation, and biodiversity conservation into business operations.

azbil Group's Value Creation & Approach to Realizing the SDGs

II New Automation

Realizing a safe and comfortable society with new automation

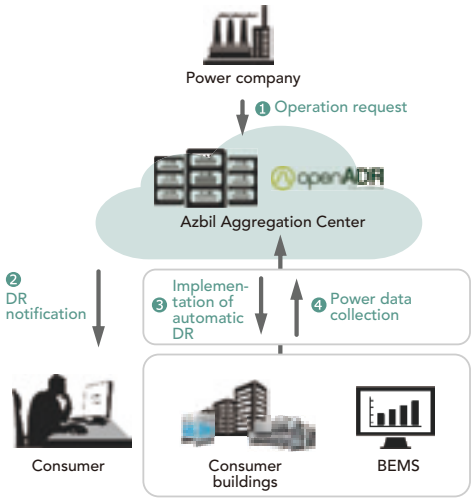
Changes in social structure and technological trends have steadily expanded the role and the value offered by the azbil Group's philosophy of human-centered automation. The Group's target of achieving the SDGs through its business is "realizing a safe and comfortable society with new automation," and we are striving to respond to the constantly changing needs of society by improving productivity and increasing value, thereby helping customers feel safe and comfortable.

Providing productivity and higher value that lead to customers' peace of mind and comfort

- **Realization of a smart society through technological innovation**
- **Providing solutions based on new ideas**

Realizing a smart society – Contributing to comfort, work style reform, and to the introduction of renewable energy

The azbil Group utilizes advanced technologies such as IoT, cloud computing, big data, and AI to offer new products and services that provide added value, and in addition to increased comfort, we are contributing to finding solutions to the various issues faced in office buildings and urban areas. For example, our infrared sensor array system measures infrared emissions to determine changes in the number of people in a room, the amount of solar radiation, and surface temperatures on office automation equipment, thereby allowing it to determine and control room temperature fluctuations. This not only provides greater comfort, but it also gains information on office and other space usage, responds to work style reforms, and helps avoid the so-called "3Cs" of the new normal – closed, crowded, and close-contact – and therefore helps preserve social distancing norms. In addition, our cloud services have evolved to allow for the reduction of building management personnel and increase tenant company safety and BCP support. To address overall urban energy demand, we developed our automatic demand response system which automatically controls power demand by harnessing the data and know-how collected over many years of operations, and it helps realize a virtual power plant (VPP) function, which is one of the keys to introducing and promoting renewable energy sources. The azbil Group aims to not only optimize energy use in individual buildings, but to offer solutions that can control energy demand across entire urban areas and integrate reusable energy into those systems, in order to realize the idea of smart cities in the near future.

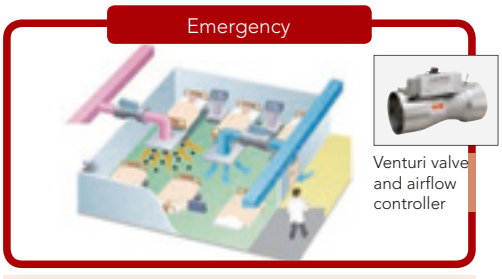


Easily installed by utilizing infrastructure technologies included in existing Azbil BEMS or the BOSS-24 comprehensive building management service

New solutions that can handle the spread of COVID-19

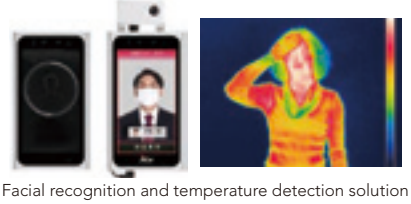
In times of pandemic, a simple operation performable on a PC can change the internal pressure of a room from "isobaric pressure" to "negative pressure," thereby transforming it into an isolated space that prevents viral exposure outside the room. This is achieved through our Pandemic Response Air Conditioning System, the first of its kind in Japan, which allows for the creation of temporary infectious disease isolation rooms. Ventilation volume is doubled to ensure the peace of mind and safety of patients and medical staff, and to provide support for management and operational aspects of the medical facility. We also offer an entry-exit management solution for offices and more, which uses a facial recognition system installed with a high-resolution thermographic camera, providing non-contact, safe, and hygienic entry and exit management. Utilizing AI, facial recognition technology determines the location of an individual's forehead, and within 0.5s it can obtain a precise measurement of body temperature without coming in contact.

In addition, the Group company Azbil Telstar is contributing to the development and manufacturing of pharmaceutical products through the production and sale of the lyophilizers and other devices required in vaccine production, and by doing so, is helping respond to the high demand for a COVID-19 vaccine as soon as possible.



✔ **Used as an emergency-response ward for infectious disease**
✔ **Ventilation rate (outside air): at least 12 air changes per hour**

Pandemic Response Air Conditioning System for hospitals



Facial recognition and temperature detection solution

III Supply Chains, Social Responsibilities
Fulfilling our responsibilities to society across our supply chain and contributing to local communities

One of the Guiding Principles is our desire to build long-term partnerships with stakeholders. Regarding the supply chain, we act in line with our Group philosophy and Guiding Principles, understanding and complying with all laws and regulations, and expanding worldwide in an equitable way with due consideration given to human rights and the environment. We are working to implement CSR throughout the supply chain so that our business partners can understand our philosophy and the efforts we undertake. Regarding our contributions to communities and society as a whole, we support all types of initiatives, from grass-roots efforts undertaken voluntarily by employees, to offering donations to areas affected by disaster as a corporation.

Fulfilling social responsibilities with customers and partners

Please refer to Pages 64-65 for more information.

- **Expansion of azbil CSR activities to share value**
  General CSR activities, CSR procurements, etc.

Invigorating local communities

Please refer to Page 95 for more information.

- **Contributions around azbil Group bases**
  General social contributions, support for COVID-19 countermeasures assistance for recovery from natural disasters etc.



Participation in the Osaka Marathon clean-up operation (aimed at community cleanup)

IV Health and Well-being Management, an Organization that Never Stops Learning
Strengthening our foundation to solve societal problems through health and well-being management and continuous learning

One of our targets to realizing the SDGs through our general corporate activities is our hope to strengthen our foundation to solve societal problems through health and well-being management and continuous learning. We hope to encourage people with various personalities, abilities, and knowledge to have the motivation to engage in their work, and through continuous education and growth, create even more value.

Implementing health and well-being management (job satisfaction, health, diversity & inclusion)

Please refer to Pages 68-71 for more information.

- **Flexible methods of working and reduction of total work hours**
- **Maintaining and promoting employees' mental and physical health**
- **Creating opportunities for diverse personnel to demonstrate their abilities**

Health and Well-being Management is our means of fulfilling our Health and Well-being Declaration made in 2019 to proactively help manage not only the physical and mental health of our employees, but to also help them achieve happiness. This is a comprehensive effort to reduce total working hours, reform work styles by eradicating workplace harassment, increasing workplace diversity and more. As an index by which we can evaluate our efforts to create a healthy, happy and vibrant place for people to work, we have set a new numerical target to increase the number of employees who find satisfaction in working at Azbil to 65% or more by 2030.

Developing and strengthening an organization that never stops learning

Please refer to Pages 72-73 for more information.

- **Expanding opportunities for continuing education of globally active employees and opportunities to learn with stakeholders**

As an organization that never stops learning, the azbil Group is implementing various initiatives that will enable us to reach our goals of strengthening our foundation to solve societal problems through continuous learning, and in response to changes in and outside of the Group, help employees continue to learn and grow through the work they do. In order to measure how these efforts lead to a sense of growth, we have set a numerical target measured by the ratio of employees who experienced personal growth over the past year.

Fiscal Year 2030 Targets

Ratio of employees who find satisfaction in working at Azbil

65% or more

Ratio of employees who experienced personal growth over the past year

65% or more

* Aiming for 65% or 2/3 of employees, a considerably high target for the annual employee satisfaction survey conducted within domestic azbil Group companies. (Both values were 57% for fiscal year 2019.)

azbil Group's Value Creation & Approach to Realizing the SDGs

Sustainability and SDGs Supporting Value Creation

A measure to combat climate change —work to understand and disclose the impact

In November 2019, the azbil Group declared to support the TCFD*1 recommendations on gaining an accurate understanding of the impact of climate change on business operations, and disclosing that impact in an appropriate manner, in order to combat climate change, which is one of the 17 SDGs and is thought to have a major effect on achieving a sustainable society. After making that announcement, we began organizing tasks within the Group, and summarized azbil Group governance, opportunities and risks connected to climate change as shown in the table below. Going forward, we will continue to disclose the impact of climate change on our Group operations in line with the recommendations of TCFD.

<table>
<tr><th>Item</th><th>Initiative Details</th><th>Reference Page</th></tr>
<tr><td>Governance</td><td>The azbil Group recognizes that climate change is a major issue in the practical application of the azbil Group philosophy, and it will be discussed at Azbil's Management Meeting and supervised by the Board of Directors.</td><td>P.76-87</td></tr>
<tr><td>Strategy</td><td>The azbil Group promotes reducing the environmental impact of our own business activities, and harnessing the technologies and know-how accumulated through those initiatives. We contribute to the environment through our core businesses by utilizing our measurement and control technologies to help customers solve their environmental issues, which will lead to the realization of a sustainable society.
<table>
<tr><th colspan="2"></th><th>Building Automation (BA)</th><th>Advanced Automation (AA)</th><th>Life Automation (LA)</th></tr>
<tr><td rowspan="2">If temperature rise is controlled*2</td><td>Opportunity</td><td>Expanding demand for energy-savings solutions and services that meet global needs</td><td>Increased demand for solutions, and for sensors and other measurement instruments designed for new industries</td><td>Increased SMaaS business for gas meters using IoT technologies and other such products</td></tr>
<tr><td>Risk</td><td colspan="3">(Shared by all core businesses)
• Increased development costs for products and services to meet new regulations
• Increased production and procurement costs due to rising energy prices
• Reduced customer investment from increased burden due to introduction of carbon taxes and other costs</td></tr>
<tr><td rowspan="2">If temperature rise continues*3</td><td>Opportunity</td><td>Increased demand for products, services, and solutions that enable buildings to adapt to climate-related disaster</td><td>Increased demand for products, services, and solutions that offer anomaly prediction function</td><td>Increased demand for products, services and solutions adapted to handle climate-related disasters</td></tr>
<tr><td>Risk</td><td colspan="3">(Shared by all core businesses)
• Operational stoppages due to abnormal weather events, inability to provide products, services, and solutions
• Large reduction in customer investment due to business instability caused by abnormal weather</td></tr>
</table>
BA Business P.34-37
AA Business P.38-41
LA Business P.42-45
Technological Research and Product Development P.47-51
Manufacturing and Procurement P.52-53
Contributions to the environment through our core businesses P.22, 26-27, 59</td></tr>
<tr><td>Risk Management</td><td>The azbil Group comprehensively works to identify risks that may have a significant impact on operations, including those connected to climate change. (1) After issues are extracted and analyzed by the Comprehensive Risk Subcommittee (consisting of department managers, etc.), those issues are sent to the (2) Comprehensive Risk Committee (headed by the Risk Management Officer), where those issues deemed to be major risks to the azbil Group are sent to the Board of Directors for discussion and deliberation. The Management Meeting then plans out and implements countermeasures and reports the results to the Board. In this way, the Group is able to manage such issues in order to reduce risk.</td><td>P.76-77</td></tr>
<tr><td>Indicators and Goals</td><td>We promote efforts to combat climate change through our business activities directly linked to the goal of achieving a sustainable society, by considering indicators and goals that take into account all azbil Group customers, the Group itself, and its entire supply chain.
• Further reduction in GHG (i.e.CO_2) emissions at customers' sites
• Implementation of the 2050 Long-term Vision for Reducing Greenhouse Gas Emissions, which lays out our goal to achieve zero emissions by 2050 by reducing greenhouse gas emissions (Scope 1+2) within our own companies
• Formulation of (SBT certified) emission reduction targets for 2030 to reduce greenhouse gas emissions throughout the supply chain and help achieve the Long-Term Vision</td><td>P.26-27, 60</td></tr>
</table>

*1 TCFD (Task Force on Climate-related Financial Disclosure): The task force and corresponding framework designed to promote disclosure of the impact of climate change, comprised of central banks and financial institutions from the world's leading countries. It requires the disclosure of potential impact of climate change on business operations in the context of at least two potential scenarios.

*2 If temperature rise is controlled (the scenario assuming a rise of approximately 2 degrees Celsius): This scenario assumes that temperature rise is contained within a sustainable range due to the implementation of stricter regulations and introduction of technological innovations that lead towards a decarbonized society.

*3 If temperature rise continues (the scenario assuming a rise of approximately 4 degrees Celsius): This scenario assumes that no effective measures to reduce CO_2 emissions are implemented, resulting in continued temperature rise and an increase in abnormal weather and natural disasters.

azbil Group's main initiatives towards achieving sustainability

The azbil Group is actively promoting its initiatives based on the ESG (Environment, Society, Governance) framework with a view to achieving sustainability, and the table below summarizes how we are tackling important ESG issues. Through our ESG initiatives, the azbil Group will ensure our own sustainability while realizing the creation of value unique to azbil, in order to contribute "in series" to achieving a sustainable society and the SDGs.

ESG	Major ESG Issues	azbil Group's Main Initiatives	Reference Page	Related SDGs
E Environment	Climate change (GHG, energy)	Contribute to CO_2 reduction at customer sites	P.22, 26-27	
		Reduce mid to long-term CO_2 emissions in own operations (Scopes 1+2)	P.27, 60-61	
		Offer energy management solutions	P.34-35, 54-55	
		Promote introduction of renewable energy with Virtual Power Plant	P.28	
	Environmental considerations for products and services	Promote environmentally conscious design	P.62	
		Promote compliance with regulations regarding inclusion of chemical substances in products both in Japan and overseas		
	Pollution & resources (Atmosphere, wastewater, hazardous waste, waste reduction, raw materials, etc.)	Prevent environmental pollution, promote effective use of resources (including waste reduction)	P.59, 63	
	Water security & water risk	Popularize use of water meters utilizing IoT	P.42-45	
		Respond to water risk, reduce usage	P.63	
	Biodiversity	Provide equipment and other solutions for treating ballast water in large ships	P.63	
		Natural environmental conservation efforts centered on business bases	P.63	
	Environmental supply chain	Reduce mid to long-term CO_2 emissions across the entire supply chain (Scope 3)	P.27, 60-62	
		Promote green procurement	P.65	
	Environmental management	Promote environmental management based in ISO14001	P.59	
S Society	Labor practices	Promote diversity and prevent the spread of COVID-19	P.70-71	
	Health and safety	Promote health and well-being management and work style reform	P.68-69	
	Human rights	Respect for fundamental human rights, and in accordance with laws and compliance regulations in each country	P.70-71	
	Communities	Sponsor community events, run volunteer efforts, and donate to social contribution organizations	P.29, 95	
	Social supply chain	Conduct purchases in consideration of CSR	P.64-65	
	Quality & customers	Ensure quality assurance and safety by maintaining quality through innovative production processes	P.53, 66-67	
		Offer total solutions through an integrated system including development, production, sales, engineering, and services	P.46-57	
G Governance	Corporate governance	Fortify supervisory and audit functions (through appointment of independent outside offices, setting criteria to judge independence, etc.)	P.78-87	
		Bolster management transparency and health (through nomination and remuneration committees, etc.)		
		Clarify responsibility system and promote dialogue (in accordance with the Corporate Governance Code, with corporate communications officers, etc.)	P.90-94	
	Risk management	Expand the comprehensive risk management system (Comprehensive Risk Management Subcommittee and Comprehensive Risk Committee)	P.76-77	
	Compliance	Increase awareness of the Group philosophy, Guiding Principles, and Code of Conduct	P.8-9, 74, 94	
		Enhance compliance training, conduct and analyze the results of regular company-wide awareness surveys, improve hotline function	P.74-75	

Active social contributions achieved through the support of the Azbil Yamatake General Foundation

Value Creation Initiatives

The azbil Group's business units are committed to the ceaseless creation of value through automation. The pages that follow introduce the Group's business segments and the current status of their activities, and provide an overview of the Group's unique initiatives focused on the entire value chain—from development to manufacturing, sales, engineering and installation, and maintenance service—which is deployed globally.

At a Glance

BA Building Automation Business

Using original environmental control technologies to deliver comfort, functionality, and energy savings required by all buildings, we help create comfortable and efficient office and production spaces and reduce environmental impacts.



AA Advanced Automation Business

We develop advanced measurement and control technologies for factories and plants to help create production sites in which people can safely demonstrate their abilities. Through collaboration with our customers, we will create new levels of value.

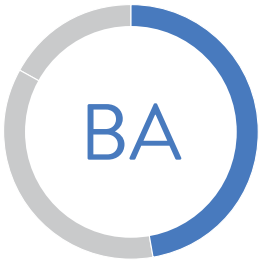


LA Life Automation Business

We apply our measurement and control technologies and services, amassed over many years in the BA and AA fields, to lifeline utilities such as gas and water, residential central air-conditioning systems, life science research, pharmaceuticals, and other sectors to help people enjoy active lifestyles.

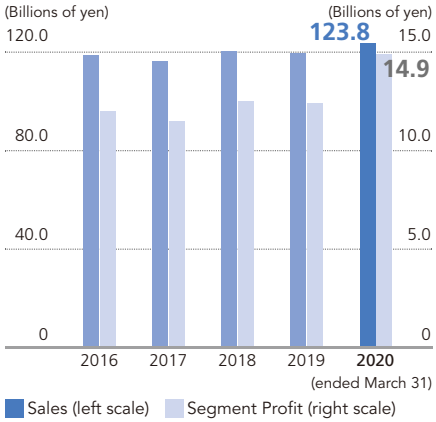


Share of Net Sales by Segment

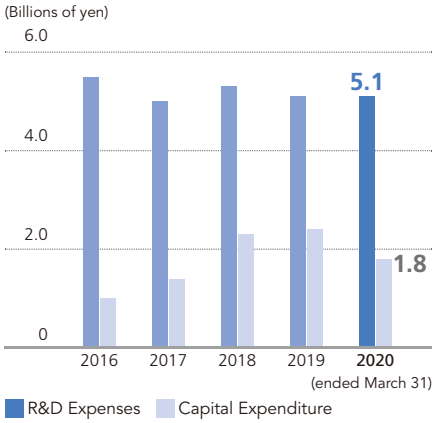


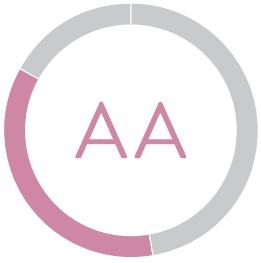
47.4%

Sales, Segment Profit (Operating Income)

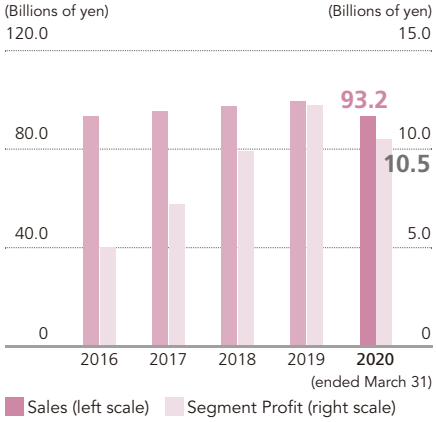


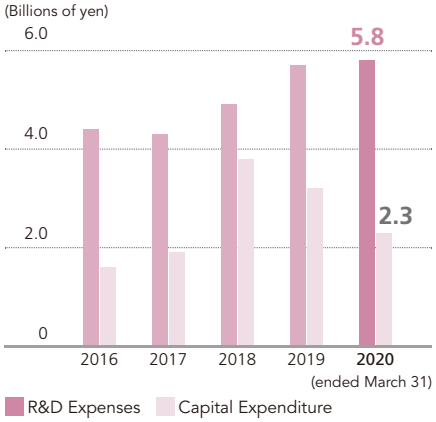
R&D Expenses, Capital Expenditure





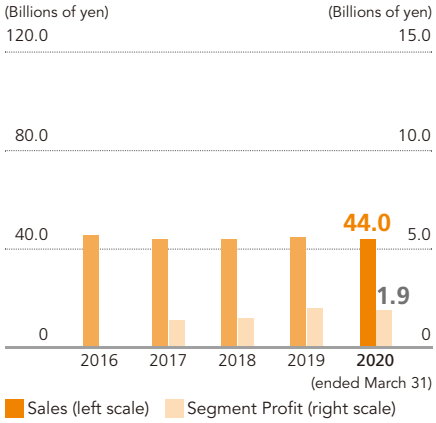
35.7%

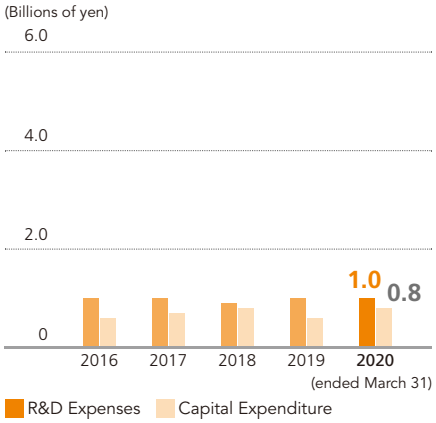






16.9%





Business Introduction, Business Overview

Building Automation (BA) Business

Business Fields: Office buildings, hotels, shopping centers, hospitals, schools, research laboratories, factories, data centers, government offices, airports, etc.

Spreading BA systems throughout Japan

A pioneer in the field of air-conditioning control systems for Japanese large-scale buildings

New installation | Service | Retrofit of buildings

Service lineup tailored to the life cycles of buildings

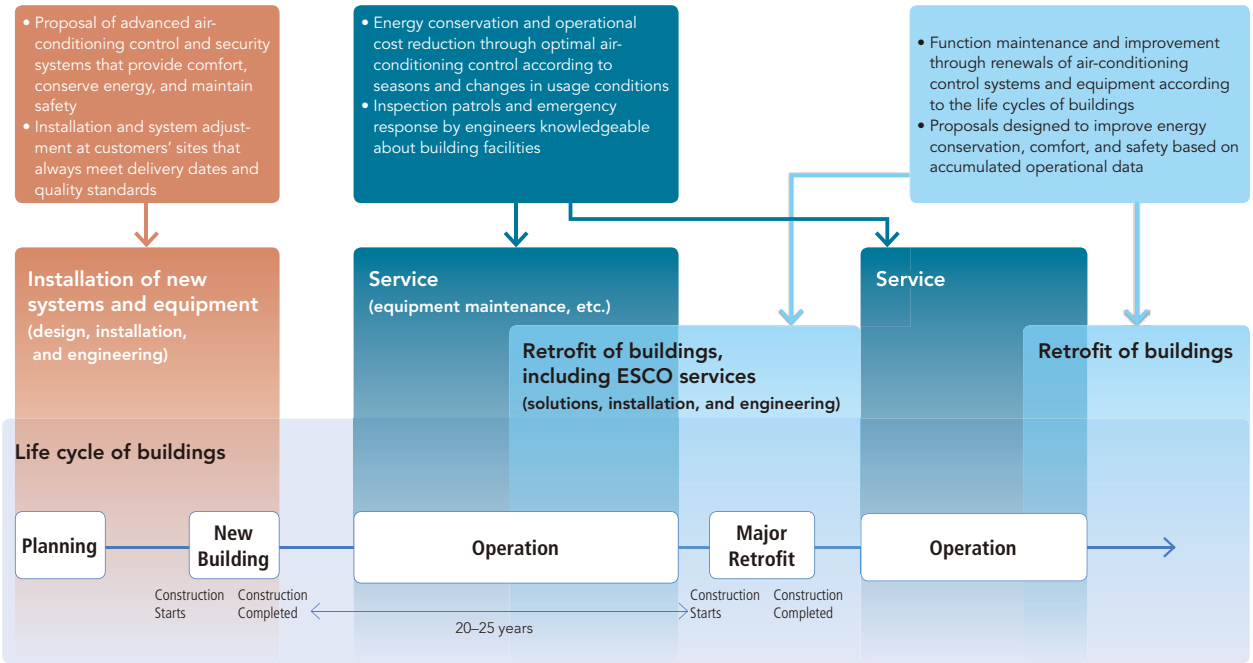
Analysis using cloud and AI

Comfort and energy savings based on networks and accumulated data

Using advanced air-conditioning control technologies to provide indoor environments that combine comfort and energy conservation

Our Building Automation (BA) business provides a variety of products and services necessary for air-conditioning control of office buildings and other large-scale buildings, based on an integrated system ranging from development, manufacture, and sales of products and systems to engineering, installation, and maintenance services. We deploy our advanced automated air-conditioning control—combining control systems and application software for air-conditioning facilities with various devices (controllers, valves, and sensors)—and our proprietary environmental control technologies that create business and production spaces where people can work safely, efficiently, and in comfort, and that contribute to reducing environmental impacts. Using our strength in providing total solutions covering the life cycles of buildings, we foster safe operation and increasing the asset value of our customers' buildings over the long term. Our solutions range from construction of new buildings to maintenance services, retrofit of existing buildings, and energy-saving solutions.

Life Cycle of Buildings and Values Delivered by Building Automation Business



Management and maintenance of wide-area building clusters

Maintenance

Energy management

Proposal of optimal operation of buildings

Proposal of building renovation

Provision of services customized for life cycles by integrating building automation with new technology such as IoT





Cloud service for buildings

Detecting

Sensor and Measurement Devices

Sensing and measurement of room temperature/humidity



Room temperature/humidity sensor



Room temperature/humidity controller



Ceiling-mounted temperature sensor (Round-type)

Setting

User-operated Devices

Building users can set the temperature, humidity, and other variables



Digital setting device



Digital central control

Managing

Building Automation Systems

Monitoring and management of the indoor environment, security, equipment, and energy usage throughout the building



Building Automation (BA) system



Wall-mounted BA system



BA system for small buildings

Protecting

Security Systems

Controlling access to building commons and interiors



Access control system



Contactless smartcard reader

Controlling

Regulators and Controllers

Control of building facilities and instruments to keep them in an optimal state



Controller for air conditioning equipment



Heating/cooling plant controller



Compact remote I/O module

Adjusting

Valves/Actuators

Optimal adjustment of the flow rates of hot/cold water or steam used in buildings



Motorized control valve with flow measurement and control functions



Direct coupled damper actuator

Development and production of central monitoring systems and automatic control instruments for buildings, as well as applications that support the management of buildings

BA

Aiming to further increase profits, we will promote business process reforms and other initiatives while providing solutions that contribute "in series" to the SDGs in response to the "new normal" era.



Sales

¥123.8 billion

(up 3.6% year on year)

Segment profit

¥14.9 billion

(up 19.9% year on year)
(Segment profit ratio 12.0%)

- Sales for new large buildings made a solid contribution to segment sales.
- Segment profit increased significantly thanks to higher profitability, as well as the absence of one-time provisional expenses recorded in the previous year.

Kazuyasu Hamada
Director
Managing Executive Officer
President of Building Systems Company
Azbil Corporation

Building Automation

Operating Environment

In fiscal year 2019, ended March 31, 2020, the domestic market environment for our BA business remained healthy. In addition to urban redevelopment plans for the Tokyo metropolitan area, we enjoyed strong demand for solutions related to saving energy and reducing operational costs. In overseas markets, we benefited from continued investment of domestic and foreign capital in large-scale buildings in the Asian region, but there were signs of some investment reticence triggered by U.S.-China trade friction and other factors.

Review for fiscal year 2019

In this environment, we worked hard to secure orders with an emphasis on profitability. At the same time, we sought to enhance our job execution capabilities and efficiency, especially on sites, to meet the requirements of the Japanese government's work style reforms. We also made progress in developing and strengthening our products and services to better meet the needs of domestic and overseas clients who are keen to harness IoT and other technologies.

For the year, orders received totaled ¥122.9 billion, down 0.7% from the previous year when large-scale service projects covering multiple years were recorded. This was despite growth in orders in fields related to sales and installation of equipment and systems for new large-scale buildings, reflecting a robust market environment. Sales rose 3.6% year on year, buoyed by an increase in the field related to new large-scale buildings. Segment profit jumped 19.9%, benefitting from increased revenue and the success of initiatives designed to improve profitability, as well as the absence of one-time provisional expenses recorded in the previous fiscal year.

Outlook

As for the medium- to long-term outlook for the BA business environment, plans are under way for large-scale redevelopment projects, as well as numerous retrofit projects for large-scale buildings, in 2020 and thereafter. Leveraging our track record, we will aim to capture and translate this demand into increased revenue through our steady job execution. We will also implement business process reforms and other initiatives aimed at further solidifying our high profit structure. In addition, we will reorganize our job execution processes and promote the adoption of IT using BIM* and other technologies, while emphasizing efficient and systematic deployment of human and various other resources. At the same time, we will strengthen our products and functions and differentiate ourselves by integrating our products and services—the key strengths of the azbil Group—to further reinforce our competitiveness. To strengthen our products, we will promote open innovation, including collaboration with other companies, to build a new business model utilizing cloud, AI, and other innovative technologies.

Overseas, we will aim to expand our share of the Asian market. Here, we will demonstrate the strengths of our domestic business model (energy-saving applications and engineering and service capabilities), centered on our building automation system, while implementing measures according to the business environment and infrastructure of each country. We will also focus on the market for our stock business as a way to gradually strengthen our life cycle business model.

The onslaught of COVID-19 in 2020 led to temporary delays in some construction work in our BA business. However, the impact has been limited, so we will continue forging ahead while giving full consideration to the safety of customers and employees. The spread of COVID-19 has given rise to a new social challenge, which is how to balance economic activities while facing a pandemic. We believe that the role of the azbil Group's BA business should be to provide highly productive environments where people can work with peace of mind in response to the "new normal" era. One example of the Group's value creation is a centralized air conditioning system that provides high ventilation efficiency and safety in indoor environments, a technology capable of delivering both comfort and energy efficiency. In addition to this technology, we will also roll out various other offerings, including a non-contact face authentication and temperature detection system for safety assurance and an infrared array sensor system to ensure social distancing.

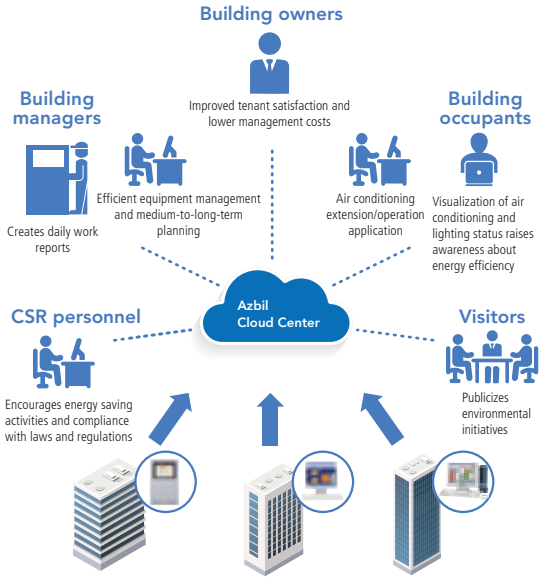
* BIM (building information modeling): A solution that utilizes information in every process of a building project, from architectural design and construction to maintenance. It uses a digital model of a three-dimensional building, created on a computer, to compile a building database covering costs, finishing requirements, management information, and other attribute data. It enables the construction business operations to be streamlined by drawing on information stored in the model covering the entire building life cycle—from design to construction and maintenance.

Close Up

Cloud service for buildings

Using the latest IoT technology to streamline building management operations while also improving convenience and work environments for tenants

Our cloud service for buildings enables everyone involved in a building—not only owners but also tenants and building managers—to access services that meet their specific purposes. For building owners and managers, it helps increase efficiency of the energy and equipment management operations, thus reducing the cost of building management. It is also convenient for tenants, who can use the service to turn air conditioning and lighting on or off, or change the settings, via PC, tablet, or smartphone. Temperature settings can be changed based on the tenant's feeling of warmth and coldness, which helps improve working environments. It also permits visualization of energy use, which is helpful when pursuing energy saving activities and raising awareness.



Advanced Automation (AA) Business

Business Fields: [Process Automation] Petrochemicals and chemicals, oil refining, electric power and gas, iron and steel, waste management, water supply and sewerage, paper and pulp, ships, etc.
[Factory Automation] Food, pharmaceuticals, automobiles, electrical and electronics, semiconductors, manufacturing equipment (industrial furnaces, machine tools and others), etc.

Leader in Japan's industrialization

100-plus-year history in measurement and control advances and rich experience and know-how in wide-ranging markets

Long-term partner of customers and society

Total life-cycle support, from development and production to maintenance, done in-house

Applying technological innovation to measurement and control

Solutions-driven business with advanced measurement and control technology

Helping to solve problems at manufacturing sites to realize safe, comfortable, and ideal work environments

Our Advanced Automation (AA) business fields are broadly divided into the process automation (PA) field, related to the materials industry, and the factory automation (FA) field, related to the processing and assembly industry. In these fields, we have three business sub-segments based on market and product characteristics: CP, IAP, and SS. Each sub-segment has a high level of expertise and uses an integrated framework to achieve customer satisfaction. To solve problems at various manufacturing sites, including plants and factories, we offer products, solutions, instrumentation and engineering, and maintenance services that support increasing sophistication and optimal operation of equipment and facilities throughout their life cycles.

Seizing technological innovations in such areas as IoT, big data, and AI as opportunities, we develop advanced measurement and control technologies to support the creation of new value in the manufacturing industry, together with our customers who aim for not only stable and safe operations but also improvements in productivity and innovations in production processes.

Three Business Sub-segments	Main Products/Services
Control Product (CP) Business Supplying factory automation products such as controllers and sensors	• Sensors and switches • Controllers • Flat-panel displays and recorders • Combustion safety and control systems
Industrial Automation Product (IAP) Business Supplying process automation products such as differential pressure & pressure transmitters, and control valves	• Control valves and actuators • Measuring instruments and transmitters (Flow rate, temperature, pressure, liquid surface, etc.)
Solution and Service (SS) Business Offering control systems, engineering service, maintenance service, energy-saving solution service, etc.	• Industrial automation control and monitoring systems, applications, and software • Maintenance service

Business Fields

Factory Automation (the processing and assembly industry)

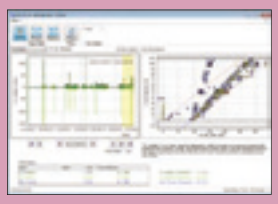
Sectors that handle or utilize automation of production processes, such as electrical/electronic devices, semiconductors, food, and pharmaceuticals

Process Automation (the materials industry)

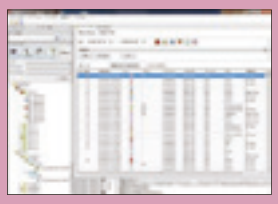
Sectors that supply production materials to the petrochemical, chemical, steel, and other industries

Diagnosis

Visualization and diagnosis of the status of production and equipment operation using high-performance sensors



Control valve maintenance support system



Device management system

Prediction

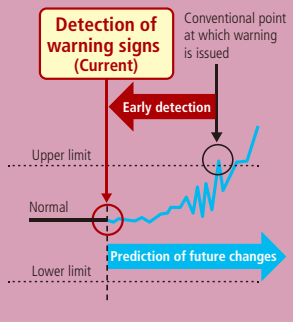
Using big data and AI to detect problems beforehand, predict the future status, and optimize operational plans



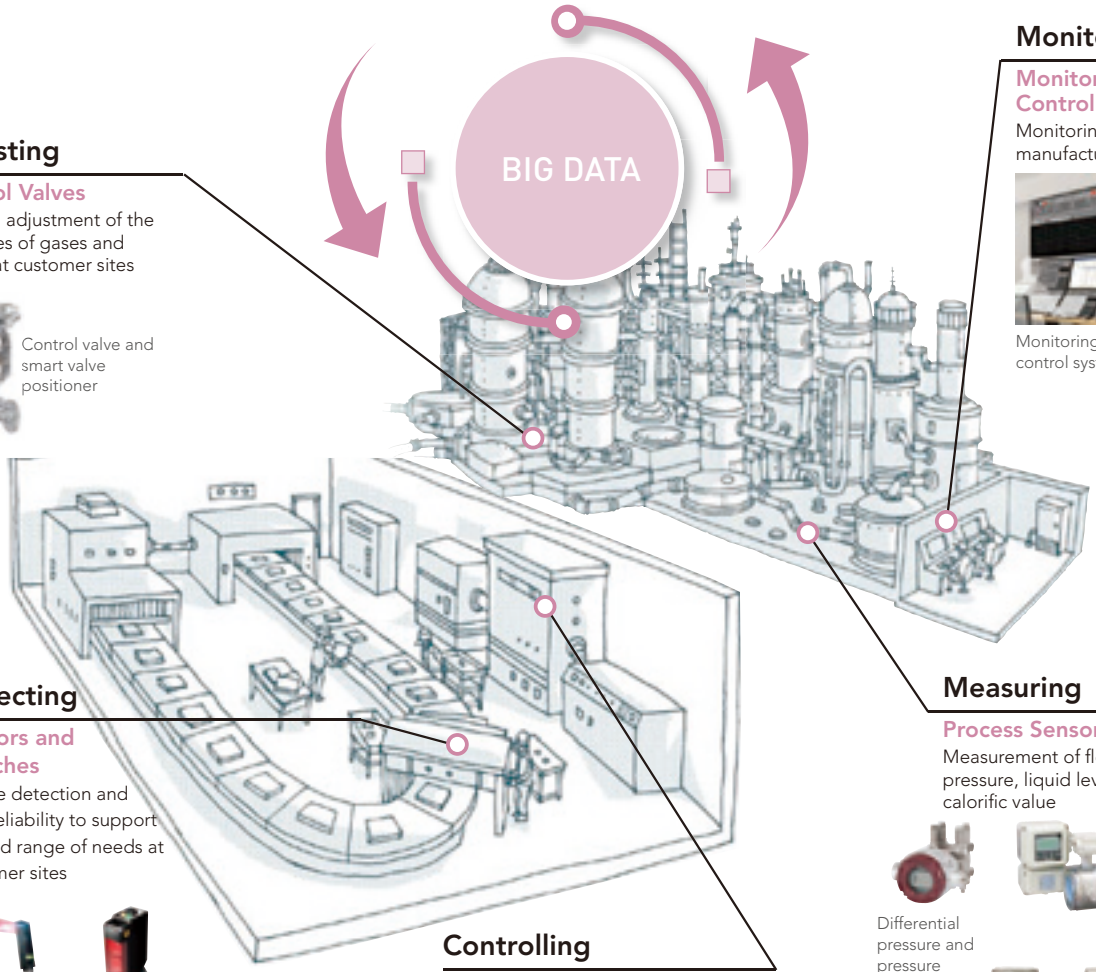
Online anomaly monitoring system



Early warning system for time series data



Using big data and AI at manufacturing sites to support safer and more stable operations



Adjusting

Control Valves

Optimal adjustment of the flow rates of gases and liquids at customer sites



Control valve and smart valve positioner

Monitoring

Monitoring and Control Systems

Monitoring of manufacturing processes

Monitoring and control system

Detecting

Sensors and Switches

Precise detection and high reliability to support a broad range of needs at customer sites



Laser sensor

Photoelectric switch



Advanced ultraviolet flame detector



Limit switch



Earthquake sensor



Micro flow rate liquid flow meter

Controlling

Controllers

Optimal control of processes, equipment, and facilities



Multi-loop controllers with multifunction display



Network instrumentation module



Process controller

Measuring

Process Sensors

Measurement of flow rates, pressure, liquid level, and calorific value

Differential pressure and pressure transmitter

Electromagnetic flow meter



Vortex flowmeter



Natural gas calorimeter

Development and production of measurement and control instruments, monitoring and control systems, and applications that solve problems at production sites

AA

We will continue working relentlessly to strengthen profitability, centered on our three business sub-segments, while responding quickly to changes in the business environment. At the same time, we will leverage products and services unique to azbil to develop and expand our business domains.



Sales

¥93.2 billion

(down 6.3% year on year)

Segment profit

¥10.5 billion

(down 14.1% year on year)
(Segment profit ratio 11.3%)

- Sales declined, mainly due to a sluggish manufacturing equipment market.
- Ongoing measures to strengthen segment profit, including a reassessment of low-profit businesses, were successful.

Yoshimitsu Hojo
Director
Managing Executive Officer
President of Advanced Automation Company
Azbil Corporation

Advanced Automation

Operating Environment

In fiscal year 2019, ended March 2020, despite signs of recovery in the semiconductor manufacturing equipment market, overall investments in the manufacturing equipment market were sluggish both in Japan and overseas. Meanwhile, the impact of the COVID-19 pandemic gradually materialized in the fourth quarter, resulting in growing uncertainty about the markets in general. Nevertheless, medium- and long-term demand is expected to remain solid for automation solutions aimed at addressing labor shortages and environmental issues and achieving further increases in productivity.

Review for fiscal year 2019

Responding to these changing business conditions, we sought to strengthen our global competitiveness by leveraging our three business sub-segments*—Control Product (CP), Industrial Automation Product (IAP), and Solution and Service (SS)—to implement rigorous operations through our integrated framework, covering everything from marketing to sales and services. In addition, we pursued growth strategies for the three business sub-segments and took steps to strengthen their profitability.

As a result, with respect to orders received and sales, our IAP and SS businesses, which mainly target the process automation market, performed relatively well. However, there was a sharp decline in the CP business due to sluggish manufacturing equipment markets in Japan and overseas. As a result, orders received decreased 6.5% year on year, to ¥91.9 billion, and segment sales were down 6.3%. Impacted by lower sales, segment profit fell 14.1% year on year. Thanks to ongoing measures to strengthen profitability, however, the segment profit margin, which serves as an indicator of profitability, remained above 10%.

Outlook

In the AA business, we will continue deepening and entrenching measures to strengthen profitability that have proved successful to date, in order to maintain solid business earnings. At the same time, we will pursue overseas business expansion and other strategies targeting future growth. While monitoring changing technology trends in varying markets, we will select, create, and concentrate on businesses with future growth potential where we can provide added value. At the same time, we will strengthen competitiveness by concentrating our management resources on a global common business model. We will steadily implement these growth strategies and profitability enhancement measures in our CP, IAP, and SS business sub-segments. Specifically, we will reinforce our sales system to expand customer coverage in Japan and overseas while accelerating product development to facilitate creation of new automation. In strategic regions and markets, including overseas markets with high growth potential, we will strengthen our sales systems, reassess our sales structures, and introduce sales support tools in order to improve the quality and quantity of our activities. In addition, we will aim to further expand our business by creating new automation solutions, such as anomaly monitoring and AI-based equipment diagnosis.

Due to the COVID-19 pandemic, we expect the business environment to deteriorate in the short term in the wake of stagnating economic activity and uncertainty about the future. In response, we will engage in rigorous crisis management and respond swiftly to changes in the business environment. Looking at the AA business from a medium-to-long-term perspective, we foresee ongoing increases in demand for automation as a solution to meet diversified work styles and the needs of the "new normal" era, in addition to addressing existing issues related to labor shortages and the environment. While stepping up measures to optimize production, the AA business will create a new manufacturing environment and propose advanced automation solutions that help people play more creative roles. We will also achieve sustainable growth with solutions based on technological innovations and new ideas that contribute "in series" to achievement of the SDGs.

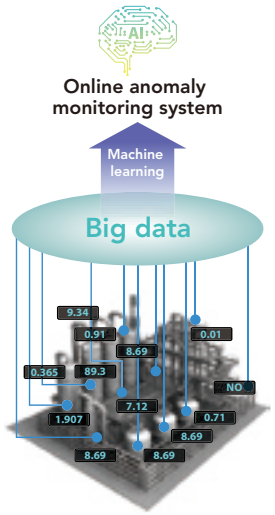
* Three AA business sub-segments (for management accounting):
Control Product (CP) business: Supplying factory automation products, such as controllers and sensors
Industrial Automation Product (IAP) business: Supplying process automation products, such as differential pressure and pressure transmitters and control valves
Solution and Service (SS) business: Offering control systems, engineering services, maintenance services, energy-saving solution services, etc.

Close Up

Online anomaly monitoring system

Utilizing AI to realize a "new manufacturing environment"

Our online anomaly monitoring system uses artificial intelligence (AI) to learn about normal operations from big data stored in the plant, and undertakes constant online monitoring of environmental variables—such as processes, equipment, product quality, wastewater, and atmosphere—to detect unusually small deviations from the normal at an early predictive stage. This helps prevent unexpected equipment outages and production problems, such as raw material loss and delays in delivery, thus contributing to stable production. It also allows unattended remote monitoring of equipment and condition-based maintenance (CBM), which helps reduce equipment maintenance and operation costs and improve capacity utilization rates. The system can handle all elements of process automation — combining not only sensor data but also additional information obtained from control systems as well as manufacturing execution systems (MES) — from continuous processes to high-mix low-volume production batch process, regardless of business type/format or factory size. Accordingly, it can meet the needs of numerous manufacturing companies.



Life Automation (LA) Business

Business Fields: [Gas and Water Meters] City gas (for homes/industries), LP gas, water supply (local government), etc.
[LSE] Pharmaceutical manufacturing, life science research & development
[Residential Central Air-conditioning Systems] Ordinary detached houses

Measuring instrument pioneer and innovator

Gas and water meters: Deploying IoT technologies for smarter gas and water meters based on stable meter replacement demand

Life sciences and automation

Life Science Engineering (LSE): Delivering integrated products and services based on proprietary technologies to the pharmaceutical market

Advanced air conditioning for detached houses

Residential central air-conditioning systems: Providing comfortable, healthy living spaces

Supporting safe, secure, comfortable, and healthy living through measurement and control technologies

We are advancing our Life Automation (LA) business by deploying measurement, control, and metering technologies, cultivated over many years in the building and industrial markets, to expand our presence in new business domains that support people's lives. Specifically, the LA business focuses on the following three fields.

Gas and Water Meters (Lifelines)

Provision of city gas/LP gas meters and water meters for the household market, as well as products for industries, including regulators, and also safety equipment in the form of alarms and automatic shut-off valves.

In December 2005, Kimmon Manufacturing Co., Ltd. (now Azbil Kimmon Co., Ltd.), which manufactures and sells city gas meters, LP gas meters, and water meters, became an azbil Group member. That company is a pioneer in metering instruments, having developed the first Japan-produced gas meter in 1904. It has a stable business foundation that benefits from replacement demand for gas and water meters as required by law, and is also using IoT technologies to develop smart meters.

Life Science Engineering (LSE)

Provision of integrated solutions for pharmaceutical manufacturing, from the development, engineering, installation, and sale of lyophilizers, sterilizers, and clean environment equipment to after-sales services.

Spain-based Telstar S.A. (now Azbil Telstar, S.L.U.), which supplies process equipment and environmental systems for pharmaceutical companies and laboratories, became a member of the azbil Group in January 2013. That company is advancing its operations globally, including in Europe, Latin America, and South Asia. For many years, it has built a track record and experience in engineering and the development of equipment and services related to life sciences.

Residential Central Air-conditioning Systems

Provision of residential central air-conditioning systems for detached houses, whereby cooling, heating, ventilation, air purification, and dehumidification are handled by a single system, ensuring comfort for the entire house.

In this field, we apply air-conditioning technologies for large-scale buildings to central air conditioning of detached houses. We provide comfortable, healthy living spaces via our central air-conditioning systems, which feature electronic air cleaners with PM2.5 pollen-removal performance, as well as variable air volume (VAV) control enabling temperature settings for each room.

Life Science Engineering

[Azbil Telstar, S.L.U.]

Pharmaceutical Manufacturing Equipment



Barrier systems



Lyophilizer

Total Solutions for Life Sciences



Provision of comprehensive solutions covering the design, engineering, and manufacturing processes that integrate automation technologies for companies engaged in life sciences. These solutions are achieved as turnkey projects* in which expert teams are involved in the entire manufacturing process. We design and manufacture process equipment and facilities which apply our original technologies, such as decontamination, pure water and pure steam, and freeze drying, in order to contribute to the construction of factories that take into account efficiency, the environment, and safety.

* Contracts under which each single contractor assumes responsibility for delivery dates, assurance, and performance guarantee collectively for all operations, ranging from design to procurement of equipment, materials, and services, construction, and test run.

Residential Central Air-conditioning Systems

[Azbil Corporation]

Air Quality —Ventilation and Central Air-conditioning Systems

Ventilation is important to protect people in enclosed spaces. Unlike ordinary room air conditioners, azbil's residential air conditioning system uses a heat exchange ventilation system to change the air in the entire house once every two hours. It also features an electronic air cleaner that removes pollen and PM2.5 particles to enhance air quality while saving energy.





Outdoor unit



Indoor unit and electronic air cleaner



Outlet



Energy Recovery Ventilator

Gas and Water Meters

[Azbil Kimmon Co., Ltd.]

Water Meter



LPWA capable electronic water meter



Battery-operated electromagnetic water meter

Gas Meter



[City gas]

Intelligent city gas meters



Ultrasonic LP gas meter



[LP gas]

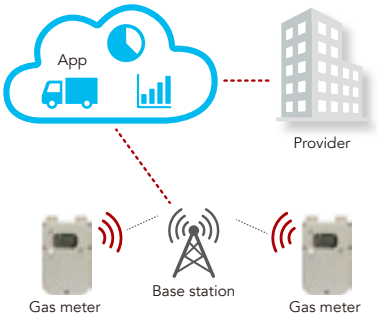
LPWA capable intelligent LP gas meter



Ultrasonic LP gas meter



High pressure regulator

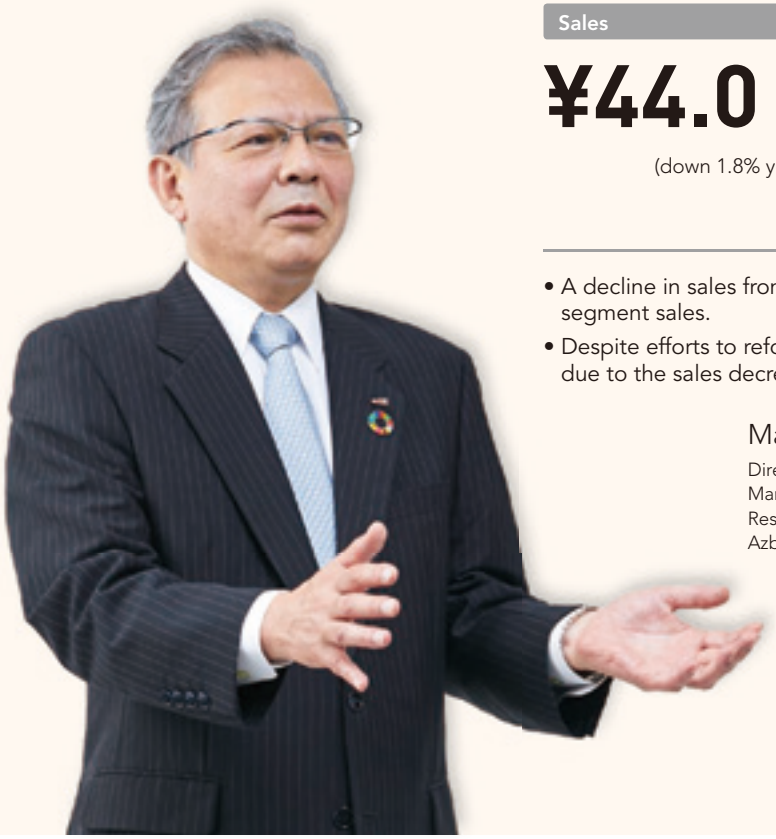


LP gas cloud service using IoT

Various information obtained from consumers' meters is transmitted wirelessly to the cloud, which is connected to gas providers, dramatically increasing the efficiency of day-to-day tasks, such as meter reading, security provision, and delivery planning. In this way, information from meters is used to provide higher added value than ever before to both gas providers and users.

LA

In addition to fostering the safety and security of energy infrastructure, medical care, and living spaces, we aim to grow our business with products and services incorporating IoT and other technologies.



Sales

¥44.0 billion

(down 1.8% year on year)

Segment profit

¥1.9 billion

(down 9.4% year on year)
(Segment profit ratio 4.2%)

- A decline in sales from our LSE business led to a slight decrease in segment sales.
- Despite efforts to reform our business structure, segment profit declined due to the sales decrease.

Masato Iwasaki
Director
Managing Executive Officer
Responsible for the Life Automation Business
Azbil Corporation

Life Automation

Operating Environment

The Life Automation (LA) business operates in three fields: lifeline field for gas and water meters; Life Science Engineering (LSE) field for pharmaceutical manufacturers and research laboratories; and lifestyle-related field for residential central air-conditioning systems. Each field has a different business environment.

In fiscal year 2019 (ended March 2020), our lifeline business in gas and water meters, which accounts for the majority of segment revenue, continued benefiting from robust cyclical replacement demand as required by law, although the business environment was impacted somewhat by liberalization of the gas market. The LSE and lifestyle-related fields saw fluctuations in demand. In the LSE field, however, demand for manufacturing equipment for pharmaceuticals, such as vaccines and generics, remained firm, especially in emerging countries. In the lifestyle-related field, we benefited from steady ongoing demand for whole-building air-conditioning systems for detached houses from the perspective of comfort and health.

Review for fiscal year 2019

In this business environment, orders received in this segment rose 2.1% year on year, to ¥44.8 billion, owing to an increase in orders received in the LSE field. Due to a decline in orders received in the LSE field in the previous fiscal year, however, segment sales in fiscal year 2019 slipped 1.8%, to ¥44.0 billion. Segment profit fell 9.4%, to ¥1.9 billion, reflecting the decrease in sales.

Outlook

In the LA business, we will continue working to improve the profitability of each field. At the same time, we will target business growth in various ways. For example, we will monitor changes in demand in the energy markets, resulting from liberalization of gas sales, to seize new business opportunities while developing and launching new products and high-value-added services that incorporate IoT and other technologies.

In the lifeline field for gas and water meters, there is a growing need for high-value-added services to address labor shortages and enhance efficiency. Utilizing azbil Group synergies derived from our dedicated meter sales system, we will work to increase the added value of our products and expand our lineup, including through collaborations with other companies, with the aim of transitioning from dealing mainly in meter sales into the Smart Metering as a Service (SMaaS) business. In the LSE field, we will continue engaging in rigorous business management while reforming our services and other elements of our business structure to build a foundation that can steadily generate profits. At the same time, we will target business growth in the market for pharmaceutical manufacturing equipment, in which vaccines, etc. are earmarked for future expansion, by incorporating the azbil Group's technological capabilities to add value to our equipment lineup. In the lifestyle-related field, we will continue working to broaden our sales channels while launching new products and strengthening our life-cycle-related business in order to achieve business growth.

Although the spread of COVID-19 had a temporary impact on our sales activities, we were able to continue our business, which plays an indispensible role in the maintenance and health of society. Through our LA business, we contribute to the safety and security of energy infrastructure, medical care, and living spaces—all of which are essential to people's lives. As a socially responsible business that contributes "in series" to the achievement of the SDGs, we will strive to achieve steady earnings and sustainable growth.

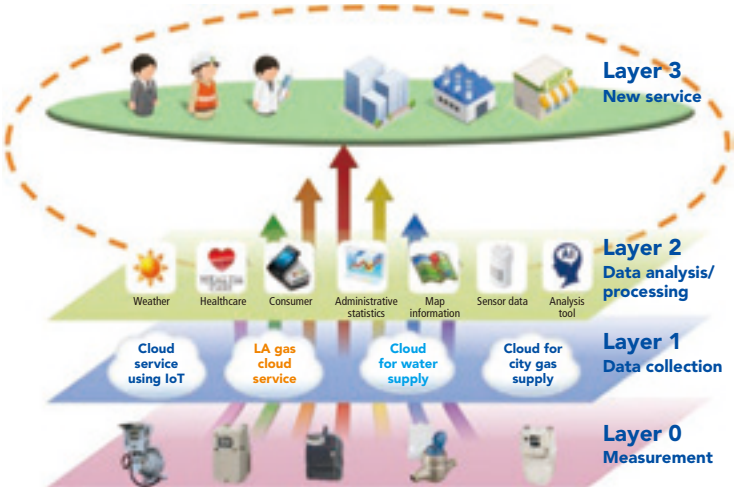
Close Up

Social infrastructure as a service

Making gas and water meters smarter with cloud service using IoT

In the LA business, we are using IoT technologies to enhance our water and gas meters. In the LP gas market, we are expanding sales of LA gas cloud service, a service that provides data on meter reading, security, and various alarm statuses via a cloud system. This service uses the LTE-M* communication standard for IoT. We have also started field-testing a smart system for reading meter and alarm system data that can be used for both gas and water meters. In addition, we are accelerating business development in new automation areas with a view to the approaching SMaaS era.

For example, we are examining services that combine data related to electricity, gas, and water usage to create new levels of value.



* LTE-M: A communication standard for IoT that uses a licensed frequency band. It is a type of LPWA (low power wide area) wireless communication technology that saves power across wide areas.

A Robust Global Value Chain

The azbil Group is focusing its efforts on expanding worldwide to achieve greater value creation and growth. Based in our Group philosophy of human-centered automation, we are proactively working towards overseas deployment of the technologies, products, and services honed in Japan, and are working with our customers to create value on-site. Here we introduce you to the hub of those efforts, the azbil Group's integrated framework (i.e., our value chain) comprising of product development, manufacturing, sales, engineering, installation, and services.







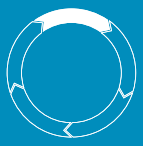






We plan and develop technology and products in our five strategic technology areas to further advance human-centered automation, while simultaneously strengthening our global R&D framework and design and development base and support business expansion.

Technological Research & Product Development



Technological Research & Product Development Policies and Framework

In order to quickly provide our customers with next-generation products built upon the Group philosophy, we operate under a system that emphasizes collaboration between the marketing and R&D departments. We conduct our own research and development based in the five strategic technology areas we have established to enable us to provide wide-ranging value over the medium and long terms and we are stepping up product development in areas of business growth.

Our technology and product development system has three main hubs located in Japan, the US, and Europe. In Japan, research facilities and personnel engaged in research, development, and engineering are consolidated at the Fujisawa Technology Center, where we are working on cutting-edge technology and products that transcend the boundaries of our businesses.

In the US, we have established an R&D base in Silicon Valley, where we are working to bolster our basic technological capabilities and product development, harnessing advanced technology through collaboration with American research institutions and universities. In Europe, we are primarily conducting fundamental technological research and product development of equipment meant for pharmaceutical companies in the life science engineering industry.

The Five Strategic Technology Areas

We must always be ready to provide widely applicable value to respond to the varied and changing business environment faced by our diverse customer base in the office building and housing markets, in industry, and in societal infrastructure. In order to achieve this, we need a mid- to long-term understanding of trends in society, problems faced by customers, and advances in technology, so we have defined the following five strategic areas for technological and product development.

1. Machine systems with humanlike abilities
Intelligent system technology that gives machines humanlike senses, cognitive abilities, and skills, enabling them to work well with people.

2. Flexible measurement and control
Technology that allows for measurement and control where it was previously difficult because of installation location, delay, or environmental conditions.

3. Advanced technology that clarifies complex systems
Information technology that takes complex processes beyond the stage of "visualization" to that of "clarification" of status and problems, to enable advanced system control and system enhancement.

4. Systems enabling us to live in harmony with nature
Control technologies that learn from environmental changes in order to supply just the right amount of energy, bringing human activity (energy consumption) and environmental preservation into harmony.

5. Individualized environmental comfort systems
Technology that maintains the optimal temperature distribution within a space, taking into account the location of human beings and other sources of heat to swiftly provide a safe, high-quality indoor environment.

Initiatives for Product Expansion

Product development in the five strategic technology areas involves working towards installation and use (through applications and cloud computing) of IoT, AI, big data, 5G and other cutting-edge technologies. This will accelerate automation, autonomy, and saving of labor and enhance the integration of machine and human labor, assisting buildings and factories to meet the various challenges of this era of digital transformation. We are developing next-generation air conditioning systems that use IoT and AI, and equipment maintenance systems that use big data and AI in the cloud to diagnose equipment and predict abnormalities, while also fortifying the cybersecurity of our products.

More specifically, in terms of products, we are developing a variety of devices and field instruments aimed at expanding the applicable scope of our solutions using next-generation MEMS technology and sensor packaging technology. We are also developing field instruments and intelligent actuators that harness AI and IoT technologies. In addition, we are working on developing smart robots capable of precise repetitive work and work requiring highly delicate control of applied forces, jobs that had to previously be left to human hands.

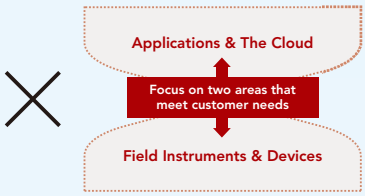
Production Technology

We aim to bolster global production through remote management of product data on quality and equipment maintenance by developing a new type of production line that utilizes machine systems with humanlike abilities, and by introducing IoT to our own production lines. In addition, we are working to improve domestic productivity through the introduction of AI-based automation and other means. We are also looking into production technologies that will make use of the next-generation MEMS sensors that will be developed in the future.

Please refer to Pages 48-49 for specific example.

Technological Research and Development Examples

1. Machine systems with humanlike abilities
2. Flexible measurement and control
3. Advanced technology that clarifies complex systems
4. Systems enabling us to live in harmony with nature
5. Individualized environmental comfort systems



1. Machine systems with humanlike abilities

▶ Next-generation Smart Robots

Value Provided Equipped with force sensors and force control functionality, robots can have a human-like kinesthetic sense, delicacy, dexterity, flexibility and more. Work that previously had to be done by people (e.g., press copying, precise fitting insertion, carrying of flexible and fragile objects) can be handled by robots, resulting in improved automation, productivity, and quality.

Development Details We have developed high-accuracy, high-rigidity force sensors using microelectromechanical systems (MEMS) technology. Mounting this technology on a robotic arm allows for gentle movements through fast, accurate force control technologies using the signals sent by the sensors. Such a robot can detect the forces applied in pressing, surface copying, shaft insertion and other actions

2. Flexible measurement and control

▶ Model F7M Micro Flow Rate Liquid Flow Meter

Value Provided Previously it was difficult to measure flows as low as a few milliliters per minute, but our technology allows for accurate measurement of micro flows. The in-line and real-time measurement of micro flows can improve process quality, shorten production time, and allow for remote management in fields such as sterilization, general industry, semiconductor manufacturing, pharmaceuticals, and chemical analysis.

Development Details We were able to achieve a high precision flow measurement accuracy of ±5% of the reading by combining a thermal MEMS sensor that has a proven track record in gas flowmeters with a flow path made of highly corrosion-resistant fused quartz glass and fluororesin. The

3. Advanced technology that clarifies complex systems

▶ Online AI Anomaly Monitoring System for batch processes (enhanced version designed for batch processes)

Value Provided AI is used to detect signs of abnormaly in equipment, devices, processes, and quality in batch process operations, preventing unplanned outages or other impact on production due to equipment or process problems. This product also can help uncover factors contributing to quality problems.

Development Details We developed a hybrid AI that operates using two different Azbil-developed algorithms using different principles, allowing for accurate and comprehensive detection capabilities. Developed with factories in mind, it provides a one-stop solution for executing a series of different operations, including definition of detection models, machine learning, and model evaluation.

4. Systems enabling us to live in harmony with nature

▶ BA system for small buildings

Value Provided This facility-management/monitoring system for small and medium-sized buildings on the order of 5,000 m^2 of floor space can be operated not only with a specialized terminal, but also with a tablet computer in a mobile environment. It also serves as a base for energy management applications in the cloud computer and IoT era.

Development Details We developed a new model of BA management system for small buildings designed to enhance energy management functionality. It is equipped with various functions for the creation of daily/monthly/annual reports and graphs and allows for equipment monitoring and energy management through the specialized terminal or tablet computer. Moreover, through the network, it can

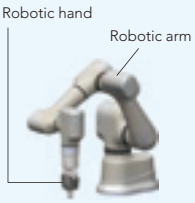
5. Individualized environmental comfort systems

▶ Infrared Array Sensor System

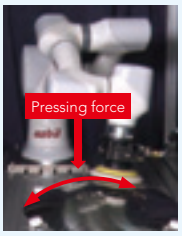
Value Provided Floor, wall, and ceiling temperatures can be measured without contact and displayed as a thermal image. In addition, the presence of people can be detected as heat sources. Using this information, new applications can be developed for air conditioning and lighting control.

Development Details We have developed a lineup of seven different infrared array sensors that can measure surface temperatures in different types of buildings. Up to 200 infrared array sensors can be linked in a single system that uses surface temperatures in a feedforward pathway to immediately determine what air volume and temperature to provide within a space. The presence of humans in real

in the same way as a human and can adjust the force being applied to the appropriate level. Using the technology in a robotic hand makes it possible to control grip force, allowing for the appropriate force to be applied in gripping and carrying objects, even when the objects being handled are of different hardness and size.



Next-generation Smart Robot

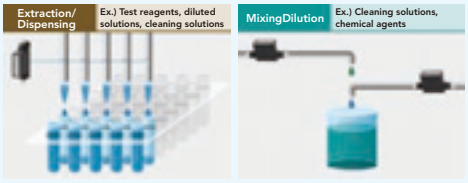


Surface copy operation


Carrying flexible and fragile objects

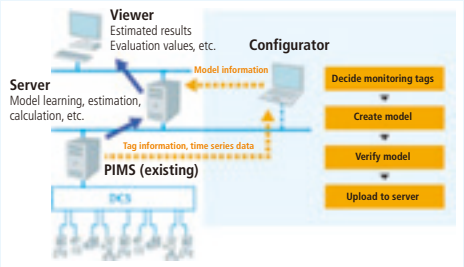
flow channel is straight for low pressure loss and easy cleaning, and there are no moving parts inside.


Model F7M



Example Application

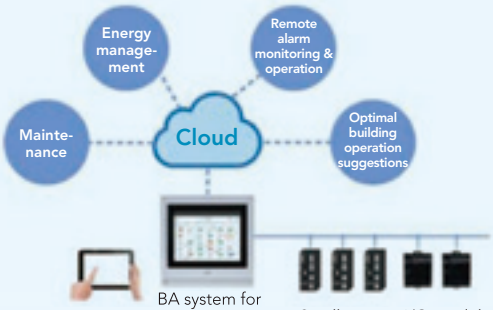
As a result, functions can be built, user-focused systems can be installed, and operations can be maintained even by users with no experience using AI. Universal design elements honed in our control systems were adopted in the user interface such that human users can intuitively interpret the AI-produced results.



Configuration Environment


Online Anomaly Monitoring System Monitoring Screen

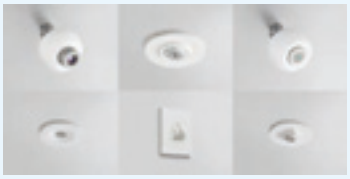
be used to create visualizations of essentially all data in the system, making it possible to support services aimed at reducing the burden on the global environment and comprehensive building management through cloud computing.



BA system for small buildings

Small remote I/O modules, FCU controllers

time based on surface temperature measurements on a floor space of up to 2,000 m^2. The outputs from each sensor can be combined into a single thermal image of the floor space, over which the furniture layout diagram and results of human detection can be superimposed.


Infrared array sensor


Thermal image of floor space with the results of human detection superimposed

Using Standards to Fortify the azbil Group Structure

We are strengthening the Group's corporate structure and increasing business competitiveness by improving productivity and improving the quality and reliability of our products and services through the three standardization efforts described below.

1. Standardizing Development and Design Operations and Integrating Digital Transformation (DX)

We have introduced a product life-cycle managment (PLM) system with the goal of standardizing development and design processes at the azbil Group. Using that system along with process automation technologies such as robotic process automation (RPA), we are promoting the standardization of our development and design work and DX integration, thereby reducing manual work complexity and improving productivity.

2. Utilizing Standards

We actively support the use of international standards (e.g., ISO and IEC) and domestic standards (JIS) in business operations and strive to accurately grasp both the risks and the opportunities of domestic and overseas standardization trends and respond appropriately. We continue to honor the Group's corporate "DNA" through continued use of the internal standards born from our own accumulated wisdom and know-how.

3. Measurement Standards Management

The azbil Group's calibration capabilities are some of the best in Japan, and we harness them to improve product and service quality and reliability by maintaining and managing measurement instrumentation at production facilities and customer sites to a high standard. We are also increasing our training and guidance efforts for the correct use of measurement instruments within the azbil Group. Furthermore, we continue to harness our advanced technological capabilities, which we have cultivated in realizing a broad range of calibration types and ranges, as we research and develop of new methods of measurement.

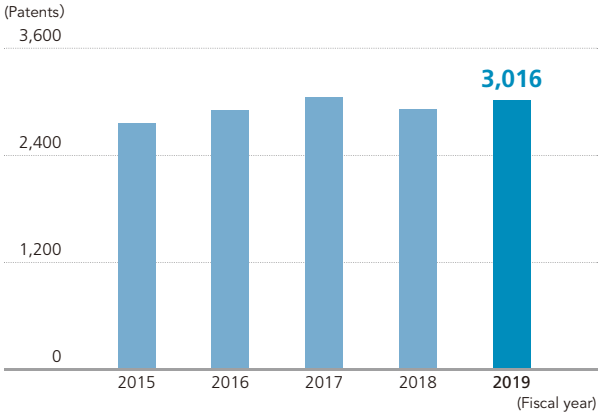


A product using a new measurement method:
the model F7M microflow rate liquid flow meter

Intellectual Property Strategy

We respect the intellectual property of third parties and consider our own intellectual property an important operational resource, which is why we work to acquire and protect patents, design rights, and other intellectual property rights. Our goal is to maintain and expand existing markets as we create new businesses. Based in the collaborative framework created by our business and R&D departments, we work to support decision-making within those departments by actively mining intellectual property data to gain an understanding of technological trends in other companies and around the world. In the business areas we are looking to strengthen and in important R&D areas, we are striving for market dominance with our eyes firmly on global expansion. Accordingly, we take a proactive stance in acquiring intellectual property rights for fundamental and peripheral technologies. At the same time, we are working to improve our overall investment efficiency by abandoning patent rights that contribute little to our competitiveness or business potential.

Number of patents owned



Data on patents and R&D

Fiscal year	2015	2016	2017	2018	**2019**
Patents					
Number of applications	506	506	562	537	**423**
Number owned	2,762	2,902	3,049	2,911	**3,016**
R&D expenses (billions of yen)	11.0	10.4	11.2	11.8	**11.7**
R&D expenses/ net sales (%)	4.3	4.1	4.3	4.5	**4.5**

Brand Management

With the aim of fostering a unified corporate image, we have laid out Group-wide rules for the use of company names and logos under the azbil brand and have implemented them worldwide. One goal is to increase the azbil Group's presence in the global market and promote domestic and overseas business expansion in a more effective way, so we are currently looking for the ideal means of design for everything from the communication tools we use to remain in contact with stakeholders to our products.

Our businesses are all based on our philosophy, which is aimed at achieving human-centered automation, and our goal is to continue to evolve to meet the needs of the future by harnessing the high technological capabilities and problem-resolution skills we have demonstrated in all fields of operation. In order to communicate that goal to even more people, we have set guidelines for the design of catalogues, websites, exhibition booths, and other avenues of communication, and the effect of those guidelines can be seen in our corporate publications and exhibition booths, both in Japan and overseas.

Aiming for "a world of automation created by human ingenuity and technology" as a vision for the future, the azbil Group is establishing design guidelines common to the entire company. These guidelines are intended to inculcate human-centered design and encourage thinking about design during development.

The azbil Group's businesses are diverse, including buildings, factories, industrial plants, and homes, and everything from products and systems, to sensors and valves. We work hard not only to unify the appearance of our offerings, but also to design our functionally complex products to be easy to understand. We strive to understand where and how our products will be used in order to design them optimally for users. We see it as our mission to create products and services based on our "human-centered" philosophy. The various products created through these efforts have been honored with prominent design awards in Japan and Germany.

Examples of our design guidelines in use



Publications: azbil Group Profile and azbil report 2019



Exhibition booth at Industrial Transformation Asia-Pacific (ITAP) in Singapore

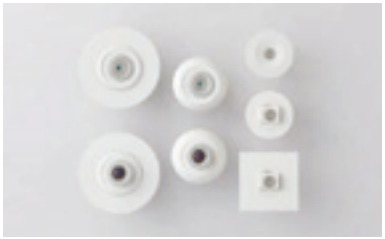


Exhibition booth at Manufacturing Expo in Thailand

Design Awards Received



Ceiling temperature sensor



Infrared array sensor



Controller for air conditioning equipment & I/O module product line

The iF Design Award
A prestigious international award given annually to superbly designed products, buildings, and concepts by the iF International Forum Design GmbH in Germany.

The Red Dot Design Award
It is another international award for design presented by Germany's Design Zentrum Nordrhein Westfalen.

Accelerating the establishment of the ideal global production and distribution system Group-wide, and moving ever closer to meeting the challenge of next-generation production aimed at innovative manufacturing

Manufacturing & Procurement

Improving Production Systems Overseas

Our goal is to create the ideal production system to support expansion of our business globally. We are working to improve production capacity and procurement overseas and have continued our efforts to maintain sales and distribution channels, all while fortifying our three production centers in Japan, China, and Thailand. At our production base in Thailand, we continue to expand production scale with a focus on component products and have successfully expanded production by increasing the types of products we produce utilizing a newly built second factory, which began operations in 2018. In our production base in the Chinese city of Dalian, we are expanding production capacity for valves and differential pressure / pressure transmitters and have begun work on a new factory to be completed in late 2022 that will allow us to increase production capacity even more. Simultaneously, we are also working on process automation, to build a better foundation for improving production scale and productivity.

We have also moved forward with establishing sales and distribution channels that will allow our overseas production bases to sell and ship directly to other countries. Along with the increased overseas production capacity, we are also expanding overseas material procurement capabilities, thereby promoting better quality assurance and environmental consciousness. We are also redoubling our efforts to lower material costs, both in Japan and abroad.

Building the Group's New Main Factory

As a part of our efforts to optimize our global production framework, we completed the integration of our Isehara Factory into the Shonan Factory to create a single production base in Japan in May 2019. The new Shonan Factory and the technology R&D facility, the Fujisawa Technology Center, work in close collaboration with each other, functioning together as a "mother factory" for the Group. Our new challenge for next-generation production is our "4M Revolution" concept (man, machine, material, and method), which we will implement through the three functionality improvements listed below.

▶ **Produce** We will take up the challenge of developing cutting-edge technology with advanced MEMS sensor packaging, automatic precision processing, and production processes harnessing AI and ICT, facilitating high value-added products and advanced production processes unrivalled by any other company.

▶ **Demonstrate** The azbil Group's specialty is the development of highly automated lines that support high-mix low-volume production and other types of customization in which humans and machinery work in harmony. That is where we demonstrate our competitive production capabilities, which are both flexible and powerful. We will apply and verify new advanced machinery and procedures in actual mass production processes, such as the automation of processes used for multiple types of products and mechanization of products that previously depended on human workers, and thereby construct the foundations for their application worldwide.

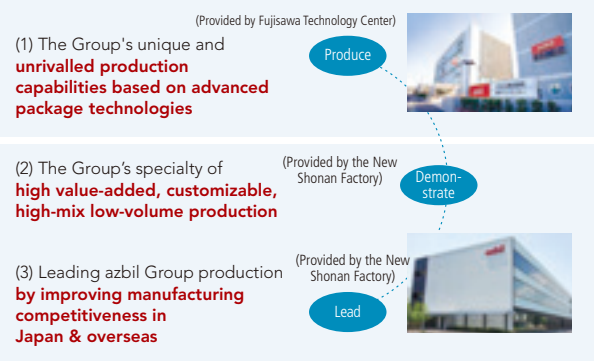
▶ **Lead** Our Shonan Factory leads the production, distribution, and production efforts for the entire azbil Group, and is also promoting standardization in the Group's factories around the world with the aim of improving global production. We are also implementing programs around the world to train personnel in the use of our production and management technologies.

We intend to continue building advanced production lines, improving production processes, and raising operational efficiency, in order to promote innovation leading to the type of high value-added manufacturing that only the azbil Group can offer. With our "mother factory" in the lead, we will continue to develop new measures to bolster the manufacturing capacity of each production company in the azbil Group.

azbil Group Mother Factory

Bringing to life the "mother factory" that will lead the Group's 4M Revolution

(4M stands for "man, machine, material, and method.")



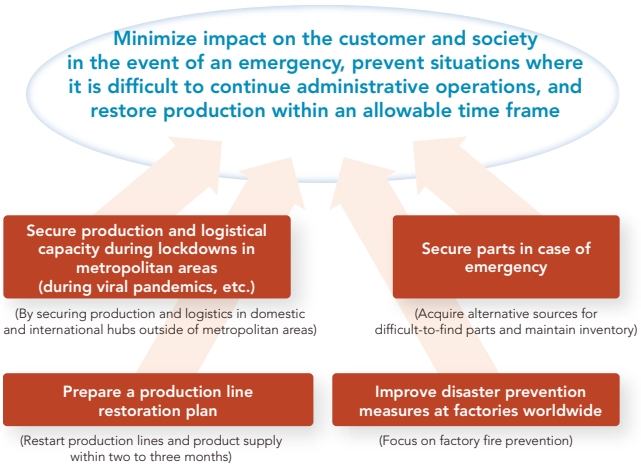
Creating a BCP for Manufacturing and Procurement

Production and logistical risks abound and can include major damage from natural disasters or other unexpected situations in other countries, and the spread of COVID-19. We equip our customers with production and procurement BCP frameworks to address those risks and minimize the impact of emergencies. We apply the following approaches to restore production within an allowable period of time when operations are interrupted by an emergency.

- A restart plan in the case of difficult production line recovery due to factory fires, natural disasters, etc. (production line BCP)
- Alternative parts acquisition and inventory maintenance plans in cases where parts are difficult to obtain due to fires at manufacturer factories, natural disasters, etc. (product BCP)
- Securing alternate production and logistical capacity in Japan and overseas when strict restrictions are placed on production operations in the Greater Tokyo area due to the spread of viruses, etc. (response to restrictions placed on activities in a metropolitan area)

We also continue to implement preventative maintenance against natural disasters (such as earthquakes and fires), installing seismic countermeasures and employee safety measures, and increasing factory disaster prevention capabilities.

Manufacturing and Procurement BCP Countermeasures



Contributing to a Sustainable Society and Ensuring Continued Corporate Growth

In line with our thinking about the SDGs, we are also strengthening our efforts toward achieving a sustainable society and continuous corporate growth. In production, we are improving energy efficiency through the use of IT, AI, and other technologies; in products, we are employing energy-saving design to reduce the amount of material used, to make greater use of renewable materials, and to reduce the number of parts used. After learning that our targets were SBT-certified,*1 we have further expanded and increased our efforts in the supply chain as well.

The azbil Group will continue to promote the optimization of our global production framework, providing high-quality advanced technologies, products, and services worldwide in a timely manner. By so doing, we will be able to meet the various needs of our customers and contribute to a sustainable society and sustainable business operations.

Innovative Production Processes

By pursuing increasingly sophisticated production technologies, we are able to promote innovation in production processes and build competitive production lines. As a part of that effort, we promote the development and application of technologies in production lines that allow us to create products few other companies can, an effort that can be seen in the connection, bonding, and assembly of fine parts and precision processing exemplified by our MEMS*2 sensor assembly technologies, and in our pursuit of unique, advanced manufacturing processes using new materials and innovative material processing technologies.

In addition, in order to improve manufacturing process efficiency and quality, we are systematically moving towards further automation and systemization of processes based on the azbil Group's own HCA-MS*3 concept. By combining the latest in AI and IoT technologies with the precise assembly, product processing, and image processing technologies of the azbil Group, we are working towards an advanced level of automation by mechanizing processes that were once difficult to automate, such as those that required the skill and experience of workers, and by automating inspection processes that once needed a certain level of experience and judgment.

We are expanding the application of our technological advances from our domestic factories to our factories overseas as we strive to maintain and improve quality worldwide and increase the competitiveness of our businesses.

*1 Science Based Targets (SBT) is an initiative that was launched in May 2019 to set greenhouse gas emission targets based on scientific evidence in order to keep global temperature rise under 2 degrees Celsius compared to pre–industrial revolution levels.
*2 Microelectromechanical systems (MEMS) are devices built using microfabrication technology to integrate mechanical components, sensors, actuators, and electronic circuits on silicon substrates.
*3 Human-centered Automation for Manufacturing Systems (HCA-MS) are systems that realize the Group philosophy's aim of human-centered automation. Such a system mechanizes human capabilities such as kinesthetic sense, eyesight, and intelligence, combining the accuracy of machinery with human flexibility and automating processes that were difficult to automate using previous technology. Functionality is modular, allowing reuse and flexible response to production facility expansion or other changes.


Automated assembly process for a MEMS sensor

Our unified framework spans everything from consulting and sales operations to engineering, installation, and services, allowing us to offer high value-added solutions and services worldwide, all of which harness the wisdom and know-how we have gained through working with our customers.

Sales, Engineering, Installation, and Service

Providing Total Solutions Worldwide

In order to maximize life-cycle value in our customers' buildings, factories, and plants, the uniquely integrated framework of the azbil Group allows us to offer total solutions that include everything from consulting and sales proposals to engineering, installation, and services. Our sales, systems, field, and service engineers work around the world to provide optimized solutions tailored to each site in order to meet the different requirements at various stages of the life cycle — planning, operation, maintenance, improvement, and refurbishing.

Sales, Engineering, and Installation

We work in an integrated framework to share the various needs and problems faced by our customers in their buildings, plants, and factories, from analysis to proposal of solutions, to system design and actual onsite installation and coordination.



Business begins by determining each customer's individual needs

▶ Building Automation (BA)

The building air conditioning control systems developed by our BA business face a variety of challenges depending on how the facilities are (e.g., as an office, hotel, or hospital) and on regional characteristics. The azbil Group conducts consultations with our customers to determine which BA system, control equipment, energy-saving solutions and services are right for them, applying the know-how and real data we have gathered over our many years of operation. Our field engineers use their deep knowledge of the products and ability to adapt to provide customers with the level of control they need, meeting the onsite engineering needs and providing process safety, quality, and cost management throughout the construction process. In addition, there is a growing demand in overseas markets for precise temperature control that maintains comfort and for environment-conservation measures. We harness the know-how we have gained working in Japan to propose and provide life-cycle solutions tailored to the regional characteristics of each site.

▶ Advanced Automation (AA)

The needs at production sites operated by the customers of our AA business are also diverse, and they are rapidly changing in line with technological developments such as the IoT, AI, and cloud computing. For example, our sales engineers provide energy-conservation solutions after diagnosing where energy use can be reduced and performing test calculations on the effectiveness of investment. When looking to improve production processes, engineers visit facilities to work with customers to look for and share potential solutions. We meet customer needs not only with our own products, but also with the azbil Group's comprehensive capabilities, including applications that incorporate products from other companies. Our systems engineers use their familiarity with IoT, AI, and other advanced technologies to design and build high-performance, high-quality systems. For customers in equipment manufacturing, we offer high value-added solutions worldwide based on the relationship of trust we have built, supplying not only products, but also proposals for applications and customization at the equipment design and development stages.

▶ Life Automation (LA)

Life science engineering is one component of our LA business. We provide the equipment used to produce vaccines and other pharmaceutical products. In order to ensure the safety of pharmaceutical products, product manufacturing equipment and services have technologically complex and highly distinct requirements, and they must meet extremely strict legal regulation in terms of design and fabrication. In the azbil Group, Azbil Telstar stands at the heart of our efforts in this field, making use of its approximately 60 years of experience and achievements. Sales and field engineers with a wealth of knowledge regarding pharmaceutical fabrication listen to our customers' needs and propose optimal solutions that comply with all regulations for design, fabrication and construction of freeze dryers, sterilizers, and barrier systems.

Maintenance Service

Our service engineers are specialists in the equipment and systems used in buildings, plants, factories, and other facilities. They provide optimized operation, regular inspections, and maintenance services, and they respond quickly in the event of an urgent problem. In addition, by promptly and faithfully sharing customer feedback within the Group, and by reflecting that feedback in our products and services, we aim to provide increased value and efficiency. Also, we are transitioning from conventional labor-intensive services to knowledge-intensive services centered on solutions proposals based on our wealth of data and proven results. We are also working to improve systems and personnel training overseas in order to offer the same services we offer in Japan.

▶ Providing Knowledge-Intensive Services

We are pushing forward with the use of tools for service operations, based in the advanced technologies and rich know-how available only to control and management professionals like those in the azbil Group. In addition to using tools to improve the efficiency of onsite inspections, we conduct appropriate maintenance of automated control equipment through remote data collection, event analysis, and control operation inspections conducted by offsite experts. Additionally, we collect and analyze self-diagnostic information and provide proposals on preventative maintenance for better reliability to ensure that systems are always operating properly and to allow for prompt recovery if problems arise.

▶ Global Expansion of Services

In our BA business, we are bolstering our remote maintenance capabilities to allow for remote monitoring of buildings overseas, in addition to offering solutions for effective maintenance and energy conservation. Our AA business provides solutions-based valve operations, including control valve product supply and maintenance, through our primary bases in China, Taiwan, Thailand, Singapore, and Indonesia, and also in the Middle East and North America. In the future, we plan to offer smart security solutions worldwide alongside our IoT services that harness AI and big data to detect warning signs of anomalies and predict fluctuations.

The azbil Group's Service Business





We faithfully deliver the value we have created through marketing, technological research, and product development and build trust by transforming onsite challenges into increased value.

The azbil Group's service business helps to keep the environment safe at medical facilities

An important part of the azbil Group's operations is the maintenance of air conditioning in hospitals that are working hard every day to protect the lives of those affected by COVID-19. While paying close attention to ensure the safety of our dispatched employees and to eliminate the possibility of infection, we stay in close communication with the hospital and implement the appropriate measures so that the medical staff can concentrate on medical care for those affected by the virus, and general patients can have peace of mind. The employees we send to work in hospital wards are selected based on their wealth of experience and infection-prevention know-how, and they put various measures in place to ensure the safety of all involved.



Development, production, sales, and service centers in Japan and overseas are organically linked to support problem resolution for our customers and society as a whole. Our unique integrated framework provides optimal solutions to problems and supports the creation of new value.

The azbil Group's Global Network
to Support its Value Chain













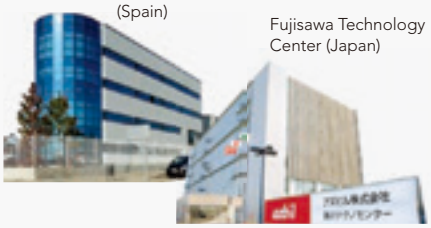
Global Development Framework

Technological research and product development system to meet various customer needs, both locally and globally

We have established R&D bases for product and solution development in Japan, the U.S., and Europe. Bases collaborate by utilizing the characteristics of each region, and under our philosophy of achieving human-centered automation, we promote the development of advanced technology and new products that can respond to customer value creation needs and changes in the environment.

Azbil Telstar, S.L.U. (Spain)

Fujisawa Technology Center (Japan)



R&D Bases

Japan
- Azbil Corporation Fujisawa Technology Center and four other companies

USA
- Azbil North America Research and Development, Inc.
- Azbil North America, Inc.
- Azbil VorTek, LLC

Europe
- Azbil Europe NV (Belgium)
- Azbil Telstar, S.L.U. (Spain)

Global Production Framework

With bases in Japan, China, and Thailand, a framework providing advanced and flexible production and logistical capabilities

We have established a production framework located both in Japan and abroad that is responsive to market environment changes and globally competitive. By strengthening collaboration between azbil Group companies and departments, we are reducing the time from development to production and providing uniformly high-level products at optimal cost to our customers around the world.

Azbil Control Instruments (Dalian) Co., Ltd.



Azbil Production (Thailand) Co., Ltd.



Main Production Factories

Japan
- Azbil Corporation Shonan Factory, and four other companies

China
- Azbil Control Instruments (Dalian) Co., Ltd. and one other company

Thailand
- Azbil Production (Thailand) Co., Ltd.

Global Sales and Service Framework

A sales and maintenance service framework creating value with and by customers worldwide

Utilizing our global service network, we have developed a integrated business framework to offer everything from consulting to engineering, construction, and maintenance services. We develop new equipment and solutions using the knowledge we have gained through facility operations worldwide, as we strive to maximize the life cycle value of customer facilities.



Remote monitoring center for comprehensive management and maintenance of buildings and factories (Japan)

Azbil Saudi Limited, automatic control valve manufacturing and maintenance facility



Japan
- Azbil Corporation, Azbil Trading Co., Ltd., Azbil Kimmon Co., Ltd., and two other companies

China
- Azbil Control Solutions (Shanghai) Co., Ltd., Shanghai Azbil Automation Co., Ltd., and three other companies

Asia
- Azbil Korea Co., Ltd., Azbil Singapore Pte. Ltd., PT. Azbil Berca Indonesia, and seven other companies

USA/Europe
- Azbil North America, Inc., Azbil Europe NV, Azbil Telstar, S.L.U., and three other companies

CSR Management of the azbil Group

Making azbil Group philosophy "human-centered automation" the foundation for its business activities, the azbil Group works to fulfill its corporate social responsibility (CSR) by assisting in the continuous development of society. By actively putting people first as we contribute to the economy, environment, and society, we strive to substantialize the values that we hold in common with society, such as the UN's Sustainable Development Goals (SDGs).

CSR Management of the azbil Group
— Infrastructure to Support for Value Creation That Contributing "In Series" to a Sustainable Society

Approach to CSR Management

The azbil Group takes a broad view of the responsibilities that a company should fulfill toward stakeholders and society, and takes a twofold approach to CSR management across the entire Group, as explained in the diagram below. First, there is what we call "basic CSR," which involves fulfilling the azbil Group's fundamental obligations as a member of society. This includes thorough compliance with laws and regulations; risk management and preventative measures in such fields as disaster mitigation, information security, product quality, product liability, and accounting; strengthening of risk management measures and internal controls; and improvement of workplace environments to ensure the welfare of the people who work in them. The azbil Group believes that there are no shortcuts to earning the trust of society, so our aim is to implement fair and honest management and to strengthen our corporate governance. The second approach is what we term "proactive CSR," which consists of contributions to society through our business operations, as well as employees' voluntary participation in activity that benefits society, as an outgrowth of the culture and atmosphere of the company. By managing the company on the basis of the Group philosophy, the azbil Group proactively contributes to the development of a sustainable society.

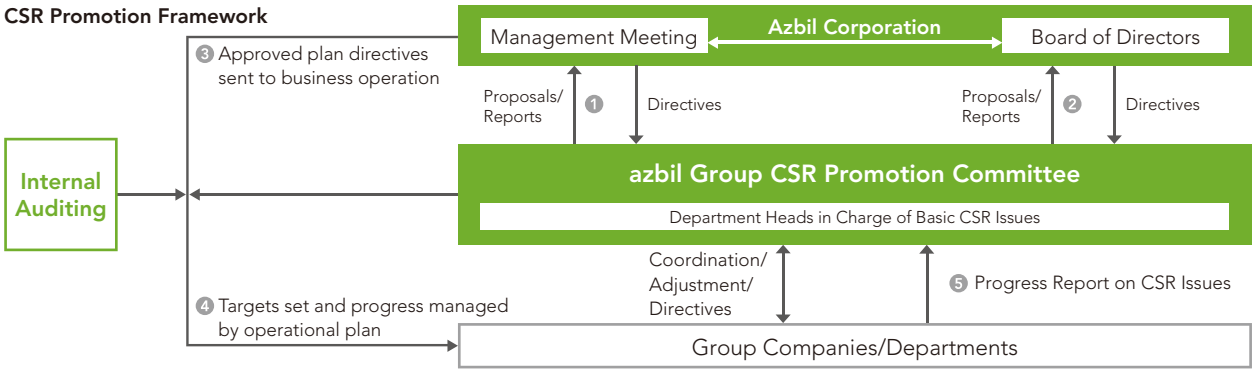
Two Core Management Strategies for Continuous Maximization of Corporate Value

Basic CSR	Fulfilling our fundamental obligations to society					
	Establishing and improving corporate governance	Initiatives for sound and healthy corporate operations				Strengthening the foundations and infrastructure of corporate activity
		Compliance	Risk management	Internal control	Business management that values people	Reducing our environmental footprint
Proactive CSR	Contributing through business operations and voluntary activity					
	Contributing to society through our business operations (Products, services, and solutions that cut CO_2 at customers' sites (etc.))					
	Voluntary contributions to society (Supporting and promoting employees' voluntary participation in activity that contributes to society)					

Framework for Promoting CSR

The azbil Group CSR Promotion Committee has been established to promote CSR activities across the entire azbil Group. The committee consists of officers in charge of CSR at each Group company and is led by the executive officer in charge of CSR at Azbil Corporation. In addition to formulating Group-wide action plans and monitoring progress, the committee provides guidance to subsidiaries. Subject to the approval of Azbil Corporation's Board of Directors, the committee formulates and implements plans, evaluates and analyzes the results, and reports to management, following a plan-do-check-act (PDCA) cycle. The CSR Promotion Committee, in cooperation with the SDGs Promotion Committee, promotes corporate activities that contribute "in series" to a sustainable society, including initiatives to achive the Essencial Goals of azbil Group for SDGs.

CSR Promotion Framework



Environmental Initiatives

In order to realize the goal of building a sustainable society, we actively contribute to protecting the Earth's environment based on the azbil Group philosophy, reducing the environmental impact of our own business activities, as we actively promote the reduction of CO_2 emissions at customer facilities through our business.

Please visit the link below for more information about our environmental initiatives.
https://www.azbil.com/csr/basic/environment/index.html

Overview of Environmental Initiatives

Conscious of global trends such as the adoption of the Sustainable Development Goals (SDGs) and the enactment of the Paris Agreement, we too are looking to identify environmental problems and have taken a long-term perspective to promote the implementation of environmental initiatives.

The azbil Group works to reduce the burden on the environment caused by our own business activities, and at the same time we utilize the technologies and know-how gleaned from those efforts. By harnessing measurement and control technology to help our customers to find solutions for their environmental challenges, we promote greater efforts to conserve the environment through our core businesses, thereby leading to the realization of sustainable society.

The azbil Group Environmental Committee is convened three times a year as a framework for promoting environmental policy under the eye of the Group's executive officer in charge of the environmental load innovation, and the relevant offices at each Group company consider risks and opportunities while conducting planning, deliberation, and reviews.

In June 2020, the azbil Group announced its participation in the Japan Business Federation (Keidanren) Challenge Zero proposal aimed at promoting innovation that will contribute to achieve a decarbonized society.* The world has seen many changes in society with the spread of COVID-19, from new ways of living to new ways of working, so we are reviewing and examining how to respond to the changing conditions with measures to deal with energy consumption, solutions to society's problems through products and services, and implementation of environmental conservation activities.

* Visit Keidanren's Challenge Zero website for two examples of our efforts, our virtual power plant (VPP) business, which integrates and controls various energy resources using our automatic demand response system, and our effort to reduce global CO_2 emissions through the development and spread of our RENKEI control technology.
https://www.challenge-zero.jp/en/



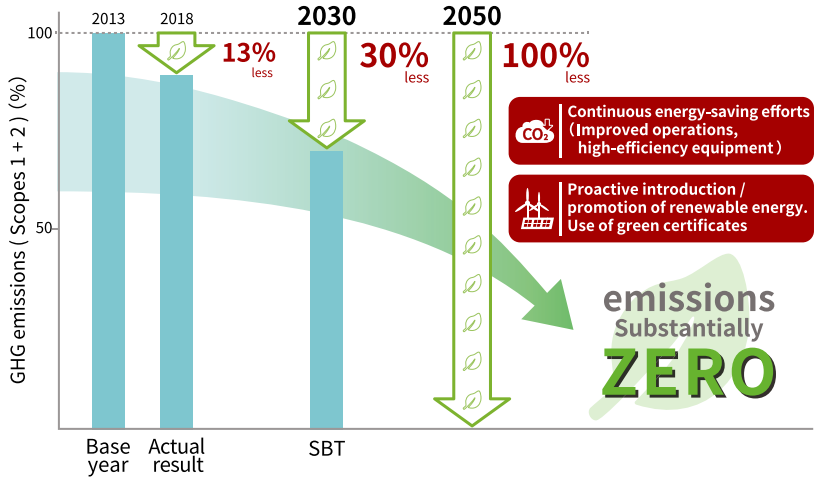
Efforts to Reduce CO_2 Emissions from Our Business Operations and Throughout the Supply Chain

The 2050 Long-term Vision for Reducing Greenhouse Gas Emissions

The azbil Group has formulated a 2050 long-term vision for reducing greenhouse gas emissions, which lays out our goal to achieve substantially zero emissions by 2050 by reducing greenhouse gas (GHG) emissions (Scopes 1+2) within our own companies, and we are participating in the Keidanren proposal titled, "Actions by the Business Community on Long-term Global Warming Countermeasures up to 2050."

In addition to promoting and bolstering energy-saving measures within the azbil Group, we are reviewing and implementing new measures that include increasing the ratio of our power taken from solar power and other renewable energy sources.

Our Targets for GHG Emission Reduction (Scopes 1 + 2) from Business Activities



Setting greenhouse gas emission reduction targets for 2030

In order to reach our goal laid out in our 2050 long-term vision for reducing greenhouse gas emissions, we have set emission reduction targets (SBT- certified) for 2030 to reduce greenhouse gas emissions through our entire supply chain, and concrete efforts have begun.

2030 Greenhouse Gas (GHG)*1 Emission Reduction Targets

- 30% reduction in GHG emissions due to operational activities (Scopes 1+2)*2 compared to 2013
- 20% reduction in GHG emissions throughout the entire supply chain (Scope 3)*2 compared to 2017

The reduction targets laid out in the panel on the left were certified as Science Based Targets (SBT) aimed at keeping global temperature rise under 2 degrees Celsius compared to pre–industrial revolution levels by the Science Based Targets initiative (SBTi)*3 in May 2019.

*1 Greenhouse gases is a generic term for atmospheric gases that increase the greenhouse effect by partially absorbing infrared light reflected from the Earth's surface.
*2 Scope 1 refers to direct greenhouse gas emissions from owned or controlled sources (fuel combustion, industrial processes, etc.)
Scope 2 is indirect greenhouse gas emissions produced by the use of electricity, heat, or steam purchased from outside sources.
Scope 3 includes all indirect greenhouse gas emissions (not included in Scopes 1 or 2) that occur in the value chain of the company.
*3 The Science Based Targets initiative (SBTi) is an organization jointly established by the CDP (a coalition of institutional investors that promotes disclosure of information regarding corporate measures taken to address climate change), the World Resources Institute (WRI), the World Wide Fund for Nature (WWF), and the UN Global Compact (UNGC), in order to achieve the greenhouse gas reduction targets delineated above.

Results of CO_2 Emission Reduction Efforts

We are working to reduce CO_2 emissions throughout our entire supply chain in line with our 2050 long-term vision for reducing greenhouse gas emissions and our greenhouse gas emission reduction targets for 2030. In addition to evolving and fortifying our conventional energy-saving measures, we are also working on reducing CO_2 emissions through the use of renewable energy and environmentally conscious design for our own products. Our various climate change initiatives, including the efforts above, were given an A– evaluation in the CDP Climate Change 2019 report. Regarding changes in energy consumption due to changes in ways of working due to the spread of COVID-19, our understanding of the impact of these changes on our own company (Scopes 1+2) and total supply chain (Scope 3) is leading to new measures.

CO_2 emissions from our own business activities (Scopes 1+2)

CO_2 emissions produced by azbil Group bases during our business operations in fiscal year 2019 (ended March 2020) were 18,000 metric tons, a 47% drop from 2006. We are actively introducing energy visualization systems into our operations that run continuously, harnessing many years of accumulated knowledge, and are working on improving both the operational and equipment-related aspects of our business. Through streamlining of the production and development processes and administrative streamlining by changing the ways we work, we are seeking to further reduce energy consumption, introducing renewable energy generation facilities, high-efficiency procurement of renewable energy, and utilization of Green Power Certificates.

Initiatives for reducing CO_2 emissions at Azbil Telstar



Sergi Escorihuela Ribas,
Global Industrial & Customer Services Operations Manager

As part of efforts to reduce CO_2 emissions associated with our own business activities, we began procuring green power for our production plants in Spain starting in 2020. This will lead to a significant reduction in CO_2 emissions. In Spain, regional characteristics such as long sunlight hours are driving the relatively widespread use of green power, thus promoting procurement initiatives. We proactively introduce LED lighting to reduce power consumption. We are also reducing fuel consumption by changing our company cars to hybrid or electric vehicles. In addition, we will iinstall new air conditioners that use refrigerants with low global warming potential. In these ways, we are working to meet our CO_2 emissions reduction targets from 2020 to 2023, which are within the CO_2 emissions reduction framework of the entire azbil Group.

As for reducing CO_2 emissions through our products, our Research and Development Department is spearheading the development of high-efficiency equipment that contributes to reduced energy consumption, the increase in the percentage of recyclable materials, and the use of refrigerants with low global warming potential as much as possible.

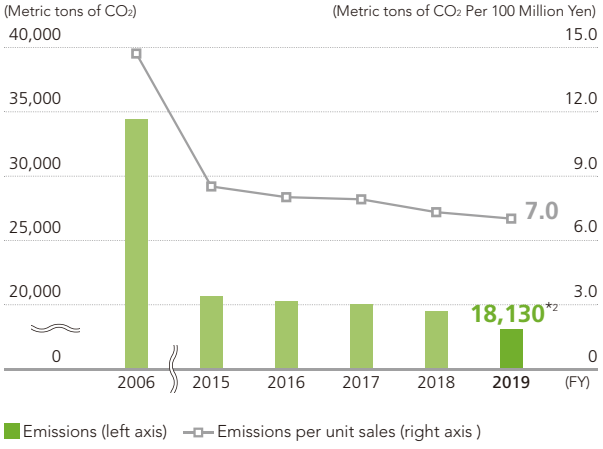
We at Azbil Telstar are fully committed to reducing the environmental impact of our business activities. All employees are working in unison to promote environmental initiatives, as well as to provide customers and society with environmentally friendly products.

CO_2 emissions for the entire supply chain (Scope 3)

Total CO_2 emissions for the the entire supply chain in fiscal year 2019 amounted to 838,000 metric tons. More than 90% of those CO_2 emissions came from the use of products sold and purchased products and services, so we are focusing on environmentally conscious design aimed at conserving energy and reducing resource use.

CO_2 Emissions (Scope 1+2)*1 and CO_2 Emissions per Unit Sales

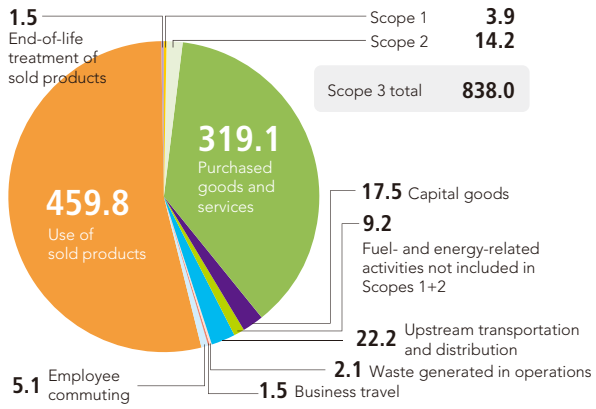
(Azbil Corp., consolidated subsidiaries in Japan, and main manufacturing bases overseas)



*1 Electric power CO_2 emissions factor is calculated using a constant value of 0.378 kg CO_2/kWh. Totals include values estimated for tenant office air conditioning energy use, etc.
*2 We have received third-party verification of CO_2 emissions (Scopes 1+2) since fiscal year 2015.

CO_2 Emissions (Scopes 1+2+3)* in FY 2019

(Thousand Metric Tons of CO_2)



Range of Calculations
Scopes 1+2: Azbil Corporation, consolidated subsidiaries in Japan, and main manufacturing bases overseas
Scope 3: Azbil Corporation and consolidated subsidiaries
*Third-party verification has been obtained for CO_2 emissions (Scopes 1+2+3)

Initiatives to Implement Environmentally Conscious Design in Products and Services

Environmentally conscious design aims

In order to reduce the environmental impact of products and services throughout the life cycle, the entire azbil Group is working on implementing environmentally conscious design.

Reducing CO_2 emissions
Setting targets for reducing LC-CO_2*1 throughout the supply chain for all new products

Using resources wisely
Devising and stepping up the use of indexes so numerical targets can be set for reducing resource consumption & increasing resource recycling

Coexisting with nature
Ensuring compliance with chemical substance regulations for products both in Japan and abroad

Environmental assessment and azbil Group Environment Labels

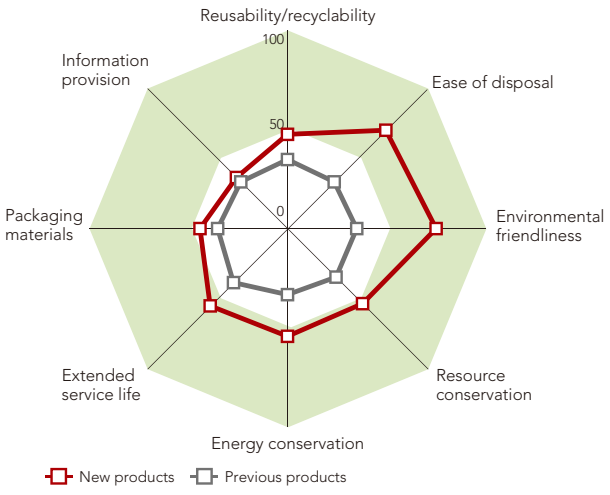
At the product development stage for all new products, we conduct environmental design assessments*2 in eight environment categories, and carry out life-cycle assessments to gain a comprehensive evaluation of the entire life cycle of the product. When an evaluation meets the in-house standards, the product obtains the azbil Group Environmental Label*3 as an environmentally friendly product. Products receiving particularly high evaluations are presented with the azbil Group Environmentally Conscious Design Award.

Environmentally conscious design results for fiscal year 2019 (ended March 2020) saw the overall*4 environmental design assessment improve by 20.6%. In addition, almost 90% of new products have reached azbil Group Environmental Label certification standards. We are also reviewing initiatives to implement environmentally conscious design in finding solutions to difficulties arising from the spread of COVID-19.

*1 CO_2 emissions throughout the product's life cycle
*2 Our own four-step scoring method that results in a comparative evaluation in eight environmental categories relative to equivalent conventional products
*3 Display of self-declared Type II Environmental Label
*4 Sum total of each environmental design assessment

azbil Group Environmental Label

Environmental Design Assessment Results (fiscal year 2019)



Example of environmentally conscious design product

Dual Valve TX

Significantly reduced power consumption using a specially designed solenoid



Overall improvement: 33.6%
Energy conservation: up 33.3%
Resource conservation: up 41.4%

LC-CO_2/year: down 51.7%

Mechanical press for clutch/brake control
3-way solenoid Dual Valve TX

Azbil TA's dual valve has undergone a major evolution. The new Dual Valve TX was developed to offer world-class performance and environmentally friendly manufacturing. The newly designed pilot valve shortens response time, and its unprecedented flow path design produces high-velocity exhaust and low residual pressure during failures. The Dual Valve TX offers even higher performance than before and provides, now more than ever, the reliable stopping ability required for safe press machinery.

In terms of environmentally conscious design, we have reduced weight by 22% by actively utilizing molded plastic and die-cast aluminum in the product, and specially designed solenoids reduce power consumption by as much as 50%.

Since its launch in 1979, our Dual Valve TX has been exported worldwide by Asian press machinery manufacturers. The new Dual Valve TX will contribute to improving customer safety and the global environment with world-leading quality.

Biodiversity Initiatives

We are a promotional partner in the Japan Business Federation's Declaration of Biodiversity by Keidanren and support its revised action policies. Based on our Group philosophy's concept of human-centered automation, we are using the SDGs as guideposts for achieving a sustainable society and are expanding our environment-integrated management policies around the world.

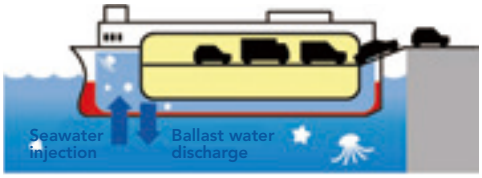
Specific Initiatives

We continue to promote biodiversity conservation through our operations, and work with our partners to promote initiatives throughout the supply chain as a part of our concrete efforts to help build a society that exists in harmony with nature. We are also fortifying our efforts aimed at preserving the natural environment by collaborating with various organizations working on similar efforts around the world.

Solving Environmental Problems through Our Operations

An example of our work to conserve biodiversity:
Preserving ocean ecosystems

The Ballast Water Management Convention* requires large ships to carry ballast water treatment equipment, and we provide solutions for such equipment using the knowledge and know-how we have gained in the maritime shipping business, providing products that meet ship certification standards.



Ballast Water Use

* Ballast water is seawater stored in the bottom of large ships to stabilize them when empty of cargo. Ballast water can contain marine life such as plankton and fragments of seaweed that can be ejected with ballast water discharge, leading to the theory that ballast water is one of the causes of exotic species migration.

Developing Biodiversity Conservation Initiatives for Partners

Promoting efforts throughout the supply chain

We distribute to our partners requests related to our initiatives to conserve biodiversity, alongside documents that explain our thinking on biodiversity conservation, the relationship between business activities and biodiversity, concrete examples of efforts taken, and more.

Preserving the Natural Environment

Collaborating with relevant organizations around the world to take advantage of regional characteristics

We collaborate and cooperate with NPOs, universities, local governments, and other organizations in the familiar communities that are home to azbil Group bases such as Fujisawa in Kanagawa Prefecture and Minamiaizu in Fukushima Prefecture, and we work on natural environment conservation activities at corporate offices such as those of Azbil Kyoto Co., Ltd. A total of 90 employees and their family members participated in five events held at three locations in fiscal year 2019. We are currently reviewing what activities we will implement in response to the spread of COVID-19, including complementary measures based on conventional eco-activities.



Working in a forest in Fujisawa

Addressing Water Risks

The various azbil Group bases used 127 million liters of water in fiscal year 2019, a reduction of 7% over the previous year. We are continuing our efforts in consideration of operational continuity and are conducting risk assessments using the Aqueduct platform from the World Resources Institute (WRI). The CDP Water 2019 report gave azbil a B– evaluation.

Status of Compliance with Environmental Legal Regulations

In fiscal year 2019, the azbil Group continued its success in violating no important environmental laws, and was the target of no fines, fees, or lawsuits.

CSR Procurement

The azbil Group is working with our business partners to implement purchasing policies throughout the supply chain that are in line with Corporate Social Responsibility (CSR) goals.

Basic Procurement Policies of the azbil Group

Based on the Group philosophy and the azbil Group Guiding Principles, the azbil Group understands and complies with laws and regulations, with due consideration given to human rights and the environment, in order to conduct honest and fair purchasing in Japan and overseas. We help our partners understand the azbil Group Basic Procurement Policies and implement purchasing operations throughout the supply chain in line with our efforts to fulfill our CSR. Our policy covers:

1. The public nature of the company and the fulfillment of our societal responsibilities
2. Compliance with fair commerce
3. Social conduct that respects people
4. Promotion of environmental conservation

Please visit the link below for more information.
https://www.azbil.com/corporate/procurement/policy/index.html

Promoting CSR Procurement with Our Partners

By encouraging and working with our business partners, we engage in CSR-friendly procurement activities throughout the supply chain and contribute to the creation of a sustainable society.

In specific terms, we are working to ensure thorough awareness of our CSR procurement policies by sending our long-term partners and partners from whom we make high-value purchases a document on basic purchasing policy. In addition, we have established provisions for environmental conservation activities and other measures in our basic partner contracts.

When starting a relationship with new partners, we conduct a strict examination of whether or not a working relationship is possible by conducting audits of partner management, financial evaluation, quality, and product chemical substance management systems, and by having them fill out an environmental conservation questionnaire.*1 If the results show that the company does not meet a certain standard, but that improvement is possible, we encourage them to correct the problems in order to be able to conduct fair and proper procurement.

We conduct on-site surveys of our business partners, and when conditions are met, we certify them as cooperating companies. We conduct annual surveys of environmental conservation and societal aspects at cooperating companies, and information security field audits and safety audits are conducted every other year. We recommend corrective actions to partners when required and check that corrections have been implemented.

In addition, cooperating companies are provided technical training on basic air conditioning, adjustment techniques, etc., and we implement awareness-raising and educational activities on safety patrol reports and other safety-related matters. By so doing, we aim to improve partner productivity and profitability, and by extension, rectify any safety or health issues for employees at partner companies.

As declared in the third point of our Basic Procurement Policy, regarding social conduct that respects people, we ask our partners to avoid any behavior that violates human rights, such as inhumane treatment or illegal employment, including child labor, human trafficking, and forced labor.

Last fiscal year, we recommended that companies without "36 Agreement"*2 or labor regulations, implement such agreements in order to eliminate risks due to long working hours and overwork, and the majority have completed a 36 Agreement, and established working rules.

*1 Survey on management philosophy and policies on the environment, acquisition of ISO 14001 certification, employee training, and construction of an environmental management system.
*2 A labor-management agreement required when a company orders overtime work that exceeds the legal working hour limits (8 hours/day, 40 hours/week).



A lecture for one of azbil's cooperating companies

Supply Chain Response and Risk Management during the Spread of COVID-19

The azbil Group is also working on risk management as part of its CSR efforts.

The damage done by the spread of COVID-19 in 2020 has extended as far as material and parts procurement within the supply chain. Because our supply chain spans the world, international procurement has been particularly affected by national restrictions on social and economic activities in different countries.

When we share information with affiliated domestic production companies in Japan and with partners we deal with directly, we include information gathered from secondary and tertiary partners and partners at our production hubs overseas. We work hard to coordinate with affiliated azbil Group production companies and gain a thorough understanding of conditions everywhere and measures implemented to respond to them, which has enabled us to provide a stable supply of azbil products to our customers.

Although the impact of the current COVID-19 pandemic has been beyond the scope of expectation, we have

reviewed our business continuity plans dealing with impact on production-related facilities and are responding with measures that take into account the situations faced by our partners. We will use this experience to build an even stronger risk management system.

Reforming Work Methods in Partner Operations

We are working not only within the Group but also alongside our partners to implement new ways of working in the azbil Group. We share our ideas and initiatives with our partners, and promote changes based on the Group philosophy of achieving human-centered automation to bring people safety, comfort, and fulfilment and to help restore the Earth's environment. In so doing, we aim to be more productive and more creative than ever before, meeting our customer's expectations and contributing to society.

Promoting Green Procurement

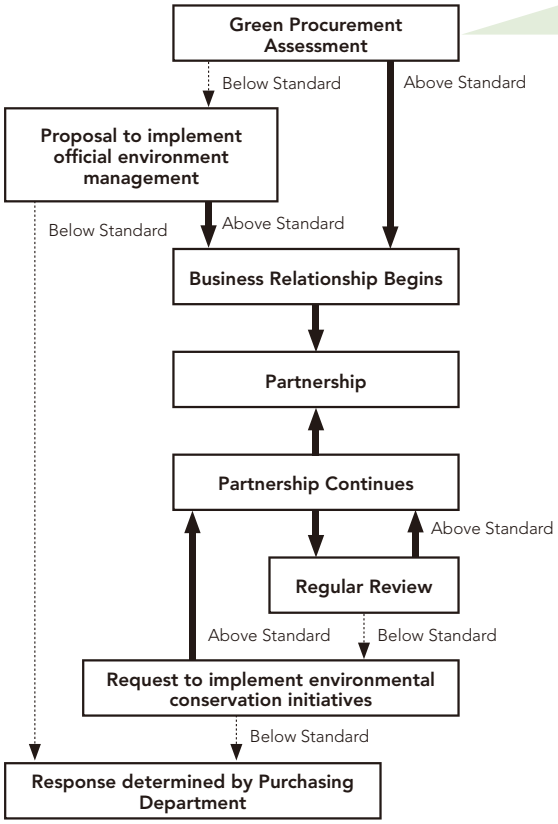
At the azbil Group, in order to provide environmentally friendly products and services to customers, when we procure product materials, parts, and other materials and services, we promote our Green Procurement policy, which prioritizes the selection of environmentally-friendly products that combat global warming and climate change, and we promote resource recycling and biodiversity conservation. In addition, we also ask our business partners to take measures to reduce their environmental load through implementation of environmental management standards and other efforts. We assess "green" procurement by asking all partners to submit a Green Procurement Evaluation, which covers their efforts towards environmental conservation and their results, and by conducting environmental activity evaluations once every three years. Partners given low marks in the three-rank assessment are asked to acquire official certifications and to implement environmental conservation efforts. We then check the progress of their efforts.

Please visit the link below for more information about CSR Procurement efforts.

Management of chemical substances in products
https://www.azbil.com/corporate/procurement/green/hazardous-substances.html

Policy on conflict minerals
https://www.azbil.com/corporate/procurement/conflict-minerals/

Summary of supplier procedures



Main Items in the azbil Group Green Procurement Assessment

Status of Efforts Aimed at ISO 14001 and Other Certifications

1) Acquisition of ISO 14001 certification

Status of Efforts Aimed at ISO 14001 and Other Certifications

2) Environmental philosophy and policies
3) Organization/system
4) Environmental law management/compliance
5) Resources and energy
6) Waste treatment
7) Environment education and awareness

Product Environmental Initiatives

8) Resource and energy conservation
9) Compliance with chemical substance management requirements
10) Resource conservation for product packaging
11) Chemical substances in product packaging management/compliance

Please visit the link below for more information.
https://www.azbil.com/corporate/procurement/green/pdf/green_procurement_evaluation_e.pdf

Quality Assurance and Safety of Products and Services

The azbil Group delivers safe and dependable products and services of assured quality to customers globally.

To safeguard the quality, safety, and dependability of our products and services, we established and operate a quality assurance system and work constantly to enhance the quality of our products. Through these activities, we ensure that customers can use the azbil Group's products safely and with a sense of security.

1. The azbil Group's Quality Assurance and Safety System

Two corporate functions of the azbil Group (quality assurance and safety inspection) are utilized to offer guidance, supervision, and auditing of our products and service quality and safety throughout the Group as a whole. We also ensure product safety and security through safety inspections.

2. Quality Assurance and Safety of Group Companies and Business Lines

By establishing a quality assurance system that is directly linked to our business requirements, we are able to guarantee the quality and safety of the products and services we provide.

The Quality of Our Products and Services

The azbil Group Quality Assurance Department, which is independent of the business departments, supervises and monitors the quality improvement activity of the Group as a whole. At the same time, through the azbil Group Quality Assurance Committee, we work to prevent the occurrence or recurrence of quality problems and to establish a crisis management system.

▶ Prevention of Problems and Recurrence

Incorporating quality is a key point in the process of developing products and providing services. To this end, we check the status of quality targets achieved by each Group company in each of its businesses. To improve quality, we use "near miss" incidents and other case studies to prevent problems from occurring and to provide guidance on avoiding recurrence. We distribute information on mutually relevant quality improvement matters to all Group companies and businesses as a preventive measure.

▶ Quality-related Crisis Management

In addition to promoting efforts to prevent quality problems and avoid recurrence, we are building a reporting and response system to anticipate the occurrence of emergencies and accidents, and we are training personnel to ensure the system's effectiveness.

Safety and Dependability of Our Products and Services

To make sure that customers can use our products safely and with a sense of security, our Safe Design Standards document promotes safe designs, and our Risk Assessment and Authorization System supports our product safety efforts.

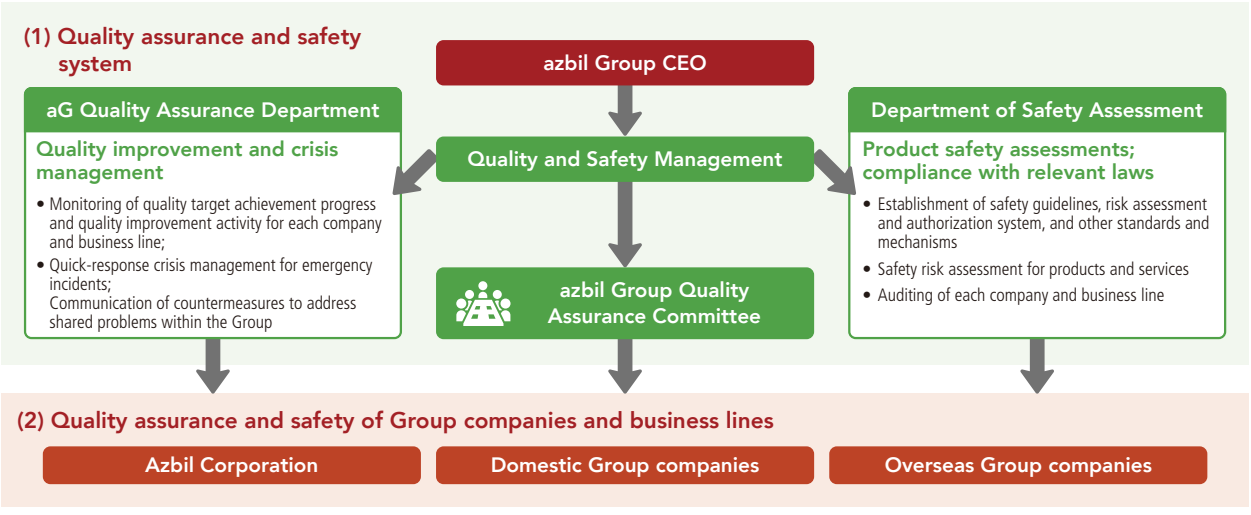
▶ Safe Design Standards

We have established a set of safety standards to guarantee user safety for the products we deliver to customers, and we are working on risk assessment and risk reduction in the course of product development.

▶ Safety Assessment

The development and service departments of each business segment conduct product risk assessments. Moreover, the Department of Safety Assessment, which is independent of the business departments, conducts product safety assessments and audits to ensure product safety.

azbil Group Quality Assurance and Safety Efforts



Quality Assurance and Safety of Our Products and Services

In each of the azbil Group companies and business lines, we have established a quality assurance system for legal compliance, quality assurance, and safety assurance, in order to safeguard the quality and safety of the products and services we provide.

1. Design Quality

The quality and safety of our products, which we guarantee as a manufacturer, have their origins already at the product development stage. In addition to incorporating reliability and safety in the product development process, our process design and equipment design procedures prevent the manufacture of products that do not meet our quality and safety standards. Moreover, knowledge obtained during development and design is entered into our design knowledge database and used for new product development.

2. Production Quality

At production sites, we have standard procedures in place for each product, aimed at ensuring that nonconforming parts are not put on the manufacturing line, nonconforming products are not made, and if made they do not enter the marketplace. To this end, we practice continuous quality management and 4M* change management, as do our subcontractors and suppliers, and we implement rigorous quality improvement and daily management efforts at production sites. We have also established process implementation guidelines to ensure correct measurements using carefully controlled measuring instruments so that inspections are performed properly.

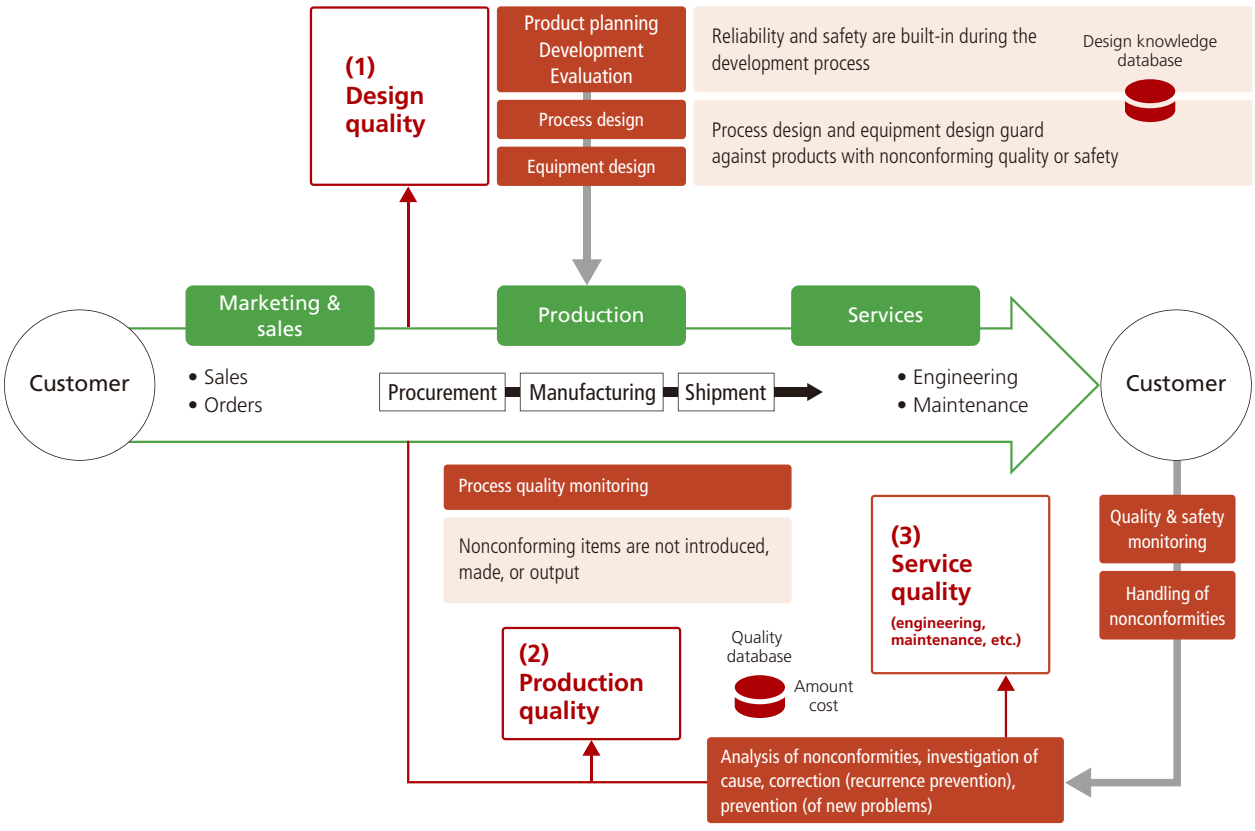
* Man, machine, material, and method

3. Service Quality (Engineering and Other Services)

For engineering and other services, we have established operational standards and quality control systems similar to those for our products, so that nonconforming elements are not introduced or output. At construction sites, for example, when selecting construction materials and designing work processes, we take appropriate measures and conduct internal inspections at appropriate junctures. At the operation stage after a building's completion, we provide maintenance services to ensure comfortable working spaces for building users and also to save energy and ensure safety. In addition, our remote monitoring center monitors our customers' facilities 24 hours a day, 365 days a year, to prevent problems from occurring. We also have a training center that provides regular education and training for engineers so that the aforementioned services are delivered properly.

Our management and business operations are run in a way that links them "in series" to the Sustainable Development Goals and to our efforts toward the achievement of a sustainable society, so even when faced with concerns about COVID-19, we are able to promote greater quality, safety, and security of products and services through the implementation of new ways of working and other initiatives.

Built-in Quality and Safety – From design and production to engineering, conservation and maintenance



Human Resource Initiatives

Our health and well-being management revolves around working style reform and diversity. With these, together with personnel training, the azbil Group is aiming to recreate itself as a place where all employees are able to fully demonstrate their abilities, encouraged by people-focused management.

Health and Well-being Management

People-Focused Management

The azbil Group strives to ensure that our employees are healthy and actively engaged in their work through our efforts to improve the working environment through work style reform reducing total working hours and preventing harassment, respecting the individuality of all employees, and promoting diversity that makes full use of staff individuality. We call our overall approach "health and well-being management," and we use it to promote people-focused corporate management. In July 2019, we publicized the azbil Group Health and Well-being Declaration.

Personnel System Reform

We revised our personnel system in fiscal year 2018 to enhance our efforts for work style reform and promoting diversity. Taking inspiration from our Group philosophy, we adopted the "human-centered" idea as the basis for our revised personnel system and established three common concepts by which to rebuild a unified personnel system and training framework that applies to all employees. Those concepts are: continuous personnel training, maximized demonstration of employee abilities, and enhancing employee lives and retaining personnel.

We are implementing a set of systems to open open positions earlier for younger individuals, to help rehired senior employees flourish, and to evaluate expertise as professionals, and we are revising it to promote personnel achievements and to help employees gain a better work-life balance.

By increasing awareness and application of the new personnel system, we can implement health and well-being management through our efforts to be a company that never stops learning, and that helps employees flourish and improve their work-life balance.

Work Style Reform

Fiscal year 2016 was our first year of work style reform, and we introduced three Group-wide initiatives: reducing the total working hours of employees; promoting mentally and physically healthy living; and creating a harassment-free workplace.

▶ Reducing Total Working Hours of Employees

Through our three-year plan starting in fiscal year 2016, we worked to reduce the total working hours of every employee and implement proper time management through such efforts as designating time management levels for each workplace.

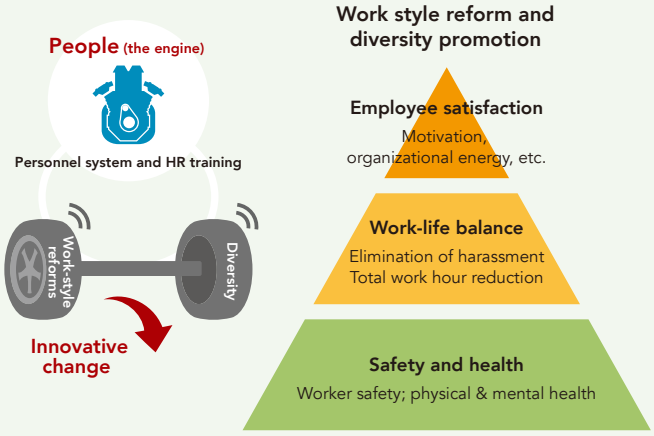
We established our Working Style Reform Headquarters led by the company president, with the goal of ensuring that no employee's monthly overtime ever exceeds 45 hours per month. This effort is spearheaded by management in each business division and department heads in view of improving productivity, balancing manpower, and upgrading personnel system. We have implemented a

The azbil Group Health and Well-being Declaration

The azbil Group works to create healthy, happy, and vibrant workplaces and people, and we recognize that the health of all our employees is an important part of our corporate operational foundation. We believe that we can improve productivity, performance, innovation, and contributions to society by ensuring that all the people who work in our companies can work in a healthy, safe, comfortable, vibrant environment that encourages individual expression, where they can demonstrate their various abilities, and have fulfilling public and private lives. We declare our intention that companies and employees proactively work together to create a comfortable work environment, to enhance the mental and physical health of employees, and to make workplaces and employees healthy, happy, and lively.

July 2019

Health and Well-being Management Overview



wide range of initiatives aimed at overall improvements. We conducted a review of our working system to improve back office functionality at facility sites, improve various systems to improve administrative efficiency, introduce new tools and enable flexible working conditions tailored to customer and site hours, offer support to busy departments and help with staff reinforcement. This allowed us to successfully reduce the number of employees exceeding 45 hours of overtime a month in fiscal year 2019 by 90% over 2016.

In order to make reduced overtime and enhanced work-life balance a part of the corporate culture, Wednesdays and Fridays have been designated "leisure-making days" when employees leave their workplaces at the designated quitting time, and we have established paid vacation incentive days. We also give awards for workplace administrative efficiency improvements, where employees can nominate themselves or others. In addition, we send out Group-wide messages, conduct surveys, and conduct individual follow-up through the Human Resources Department to prevent incorrect overtime reports, and we have a system in place to encourage proper reporting of working hours by logging entry and exit times at all worksites, as well as the amount of time employee computers are turned on.

Promoting Mentally and Physically Healthy Living

(1) Employee health management

As our Health and Well-being Declaration states, we believe that the health of all our employees is an important part of our corporate operational foundation, and our general industrial physician works with industrial physicians at each operational base, with workplace management, and with our Human Resources Department to promote physical and mental health programs.

In our physical health program, we work with the azbil Group's Health Insurance Union to promote better health among our employees by analyzing data on exercise, diet, smoking status, health checkups, workplace environment surveys, and more to clarify issues that need to be addressed. With regards to lifestyle-related disease prevention, to combat conditions such as hypertension and hyperglycemia, employees who exceed certain levels are actively encouraged to go for treatment through automatically assigned work restrictions. We are also developing seminars and improvement programs to help employees learn what lifestyle habits need revision. We are working to combat cancer primarily by raising the number of employees who have gynecological exams. In addition, we have systems in place to help employees to have peace of mind when affected by an illness. This includes allowing them to work as they are being treated and supporting their return to the workplace.

In our mental health program, we work hard to detect and prevent mental illness among employees at an early stage through continued training of supervisors to ensure they are aware of any changes among their subordinates as early as possible, and by conducting stress checks, after which employees who have high indicators for stress are contacting by an industrial physician for one-on-one care. As part of our effort to prevent recurrences, we require that reinstatement planning meetings be held before any return to work after leave has been taken, we review the timing of the return and check how work progresses afterward, and we continue to follow up on employee health afterwards.

In order to respond to cases that may be difficult to treat within the corporate structure, we have strengthened our ability to help those dealing with mental illness by utilizing the Employee Assistance Program (EAP), which can be used as an external mental health consultation service for both employees and supervisors. It provides careful support for employees on mental health leave.

These efforts have been well-received outside the company as well, and since 2018, we have been included on the Health and Productivity White 500 list for three years running.

(2) Occupational safety management

Improving azbil Group Health and Safety Standards

The azbil Group's goal of achieving zero occupational accidents is based in our Basic Health and Safety Policy, and we continue to work to improve the health and safety standards in each Group company through the use of the occupational health and safety management system, health and safety education, hazard prediction training, safety drills, and more.

Occupational Health and Safety Management System

We switched our occupational health and safety management system standard from OHSAS to ISO 45001 in fiscal year 2019. By acquiring ISO certification, we have created a work environment with high health and safety awareness, and we are implementing continuous health and safety standard improvements using the Plan, Do, Check and Act (PDCA) cycle.

Percentage of workplaces certified as ISO 45001 (Occupational Health and Safety): 39% in fiscal year 2019

Number of ISO 45001 certified workplaces

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	**2019**
Number of workplaces	5	23	27	37	43	44	44	**43***

* Amalgamation of production sites in June 2019 led to a decrease in certified workplaces.

Human Resource Initiatives

Promoting Health and Safety Education

A unique range of courses are offered throughout the azbil Group, including naturally legal education, in addition to courses on how to conduct effective safety patrols and emergency drills. In addition, we always offer health and safety education through e-learning. The e-learning completion rate for Azbil Corporation alone in fiscal year 2019 (ended March 2020) was 87.6%.

In order to prevent occupational accidents, we are working to improve health and safety standards by giving all workers, including temporary staff, the opportunity to take part in e-learning courses.

Creating Harassment-Free Workplaces

An annual compliance awareness survey is conducted among all employees, as are employee satisfaction surveys and stress checks. The results are all analyzed and evaluated, and countermeasures are taken by workplace management and Human Resources Department to help improve the working environment.

Based on the results of these surveys, we have implemented management education programs to reduce the risk of harassment. During company-wide CSR training conducted in fiscal year, we drew attention to the issues of power harassment, sexual harassment, and second harassment after filing harassment complaints, and reminded attendees of the CSR Hotline, which can be contacted from the workplace or outside of it if an employee experiences harassment. With an understanding of the various labor laws revised to combat harassment, we are conducting various harassment prevention training related to sexual and gender identities in fiscal year 2020.

Diversity Promotion

We work to promote a diverse workforce that capitalizes on employee individuality, based on our human-centered Group philosophy and our Code of Conduct, which respects basic human rights and does not discriminate against people for any reason, whether race, nationality, gender, sexuality, religion, creed, birth, age, or physique.

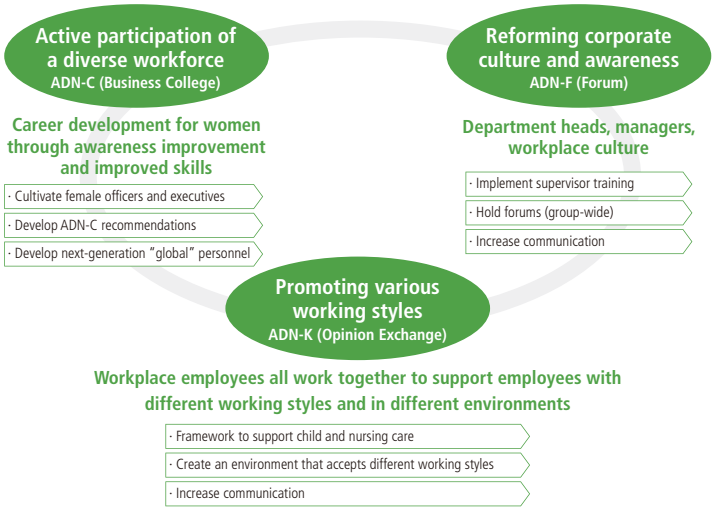
We believe that corporate growth is driven by respecting the individuality of each person, harnessing their uniqueness, and by working vigorously to improve results. In fiscal year 2017 we launched our diversity promotion task force, calling it the Azbil Diversity Network (ADN). The ADN is steadily working toward three goals: reforming corporate culture and awareness, helping a diverse workforce to flourish, and promoting a variety of ways of working.

(1) Initiatives to promote the success of women

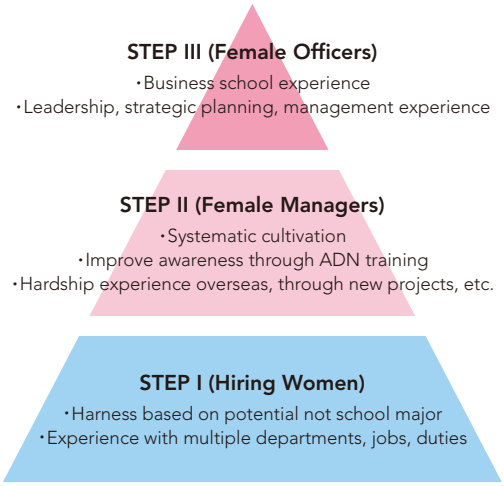
We aim to create a workplace in which women are long-term employees, play more important roles, and assume positions of responsibility. To increase the ratio of female employees and increase the number in positions of authority, we are providing opportunities for women to play more active roles in the Group, including efforts to make female employees and their supervisors aware of opportunities through the ADN. Our goal is to double the number of women in managerial positions as compared with the total of 35 in fiscal year 2014 by fiscal year 2021.

We received the Eruboshi certification's highest mark of three stars in October 2018 from the Minister of Health, Labour and Welfare, as a leading company in promoting the active participation of women in the workplace.

Azbil Diversity Network (ADN) Measures



Promoting the Success of Women



(2) Promoting disability inclusion

We are continuously working to create employment opportunities for individuals with disabilities, and employees with disabilities are already active in engineering, manufacturing, administration, and various other fields.

Azbil Yamatake Friendly Co., Ltd., is a special azbil Group subsidiary that employs individuals with learning disabilities, and it celebrated its 20th anniversary in 2018. Employees are in charge of a wide range of tasks such as organizing offices, cleaning, auxiliary work and precision processing on production lines, supporting experimental data entry, and preparing azbil Group public relations magazines and invoices for delivery; and the range of work is always expanding in variety and number. In fiscal year 2019, 33 employees were in charge of these various tasks, all matched to the job that best harnessed their unique abilities. Our goal is to help build a society in which people with disabilities can play an active role, and we are actively working to increase job opportunities for Azbil Yamatake Friendly employees by featuring them in posters and other materials hung in our company offices.

We will continue to promote the employment of individuals with disabilities and help build a good working environment by offering job opportunities and a place for people to achieve self-growth through work.

Number of employees with disabilities, ratio of employees with disabilities to total workforce
(Azbil Corporation and its major consolidated subsidiaries in Japan)

Fiscal Year	2015	2016	2017	2018	2019
Employees	164	167	169	172	169
Employment Ratio (%)	2.18	2.26	2.29	2.35	2.32

(3) Helping older employees flourish

Under our new personnel system, it is important for our employees over the age of 60 to remain healthy and motivated, and we believe it is important to offer older employees positions and roles that allow them to use their collected know-how and experience, and to demonstrate their abilities to the maximum extent.

When employees reach 55 years of age, we consider it the start of the second stage of their careers, and we have established a framework by which employees who are re-employed after official retirement can smoothly transition into this next career stage. We have introduced a bonus system and other renumeration for employees who continue to be active, to demonstrate their skills, and achieve good results.

(4) Hiring people from different cultures and internal globalization

We actively hire new personnel from within Japan and from overseas, including people of various nationalities and graduates of universities in other countries. By means of a diverse workforce, we are able to create new value and promote the "globalization" of personnel.

From application to hiring, we respect basic human rights and conduct recruitment activities in compliance with the laws and regulations of each country.

(5) Expanding the diversity of working styles to respond to major life events

We have expanded our support system so employees can balance work with childcare or family care, and can handle the occurrence of various other major life events. We aim to ensure that all employees, regardless of age or gender, can continue to have a comfortable working environment. Since fiscal year 2019, we have been actively supporting employees on childcare leave with monetary gifts and other congratulatory gifts.

We are developing and expanding the following systems to improve work-life balance.

- Accompaniment leave for spouses of employees on overseas transfer
- Leave system for those engaged in self-study
- Expansion of hourly paid leave
- Improvement of the club system

Preventative Response to the Spread of COVID-19

In order to help prevent the spread of COVID-19, we view operational continuity and employee safety to be of the upmost priority, and we have been able to respond by expanding the flexible work system and telecommuting option from what was once a limited number of employees to include almost all employees. In addition, during periods of government-declared emergency, we distribute masks and provide employee lodging to prevent potential transmission to other family members for those in jobs for which telecommuting is difficult, such as engineering services provided to medical facilities or to maintain societal infrastructure, factory manufacturing, etc. In this way, we have managed to continue our business operations and respond to customer needs, all while ensuring safety.

After emergency restrictions were lifted, we adopted a "new working style" that focus on telecommuting and staggered working hours. Through online meetings, supervisors and subordinates can share work progress and status of health, and meetings can be held with other departments, company sites, and customers, and they can be used for business negotiations. Telecommuting is improving and we are working ever harder to increase productivity. While this new method of working is in progress, we regularly survey all employees to make sure no one is suffering from communication or health problems, and in addition to offering access to both internal and external counselling services, we are analyzing and using the results of the surveys to further improve productivity, which will itself lead to even greater working style reform.

Personnel Development

Azbil Academy

In order to flexibly respond to changes in the business environment, the Azbil Academy, a specialized personnel training institution, plays a central role in cultivating personnel around the world who promote operational reforms through creation of new business and new ways of working.

Personnel Development for Business Activities That Contributes "In Series" to a Sustainable Society

As a company that never stops learning, we aim to contribute by solving problems in way that will achieve a sustainable society by our business activities that contribute "in series" to those goals, and at the same time, we work to cultivate the personnel who will make our own sustainable growth possible. That is why all Group companies promote a sense of speed within their own independently implemented training programs, and work to develop common skills that can be deployed throughout the Group, thereby strengthening our essential corporate structure.

Cultivating "Global" Personnel

Group companies in Japan and overseas are working together to promote the cultivation of leaders in international business. We have developed programs tailored to different job levels, including (1) training for managers and other leaders in various languages, (2) global training in English (to train executives in each countries), and (3) business school (attended by CEOs and CFOs in each countries).

In fiscal year 2019, we planned a joint manager training program for overseas subsidiaries in the Philippines and Malaysia, and we plan to implement it in this fiscal year.

In addition, we have run global training programs conducted in English for both Japanese and non-Japanese employees; and to improve the skills of young employees, we are planning implementation for employees at overseas subsidiaries and for Japanese employees using in-house instructors. The inaugural program for employees in Thailand has begun.

Internships

Azbil Corporation has accepted more than 100 student interns from overseas since 1996.

The student interns from last year will join the Company.

In this way, we are further strengthening our global network with universities by employing students and expanding collaboration with overseas universities through internships.

Internships at Overseas Subsidiaries

Since fiscal year 2016, we have been providing internships for Japanese students at subsidiaries in other countries through overseas universities. In fiscal year 2019, local subsidiaries in Thailand, Vietnam and the newly added Philippines accepted students from Hokkaido University.

Overseas Training for Young People

Since fiscal year 2018, to cultivate future global leaders, we have been sending employees who have been with the company for less than ten years and have no overseas study or work experience on three to six-month overseas work experience programs. By working in different cultures, they become better able to reflect upon their own jobs and can start thinking about the next steps they need to take to further their own careers.

In fiscal year 2019, one employee each was sent to Vietnam and Europe. The participants got a taste of what global business really means by experiencing the difference between working in Japan and in other areas of the world.

Cultivating Solutions Personnel

We are advancing and strengthening technology and product education and business skills training to help cultivate the solutions personnel who will be long-term partners with our customers and communities. In addition, we have established an accreditation system for technical professionals to train both top-class engineers and foster younger individuals, and our "Certified Meister" engineers conduct safety and quality audits.

In fiscal year 2019, we conducted the first renewal exam for the four top engineers in our Building Automation (BA) business, and all passed. We have also begun exams for top remote maintenance engineers in our service operations.

Software Engineer Training

Since fiscal year 2016, we have conducted software engineer training to enable employees to handle the development of products incorporating innovative technology (IoT, AI, big data, etc.), expansion of energy management and remote monitoring services harnessing IT infrastructure, the promotion of IT in improving work efficiency in engineering and design, and more. A total of 600 people including new hires and Group company employees have taken part over the last four years.

New Personnel Development Initiatives

Training In-house Instructors

Part of our educational efforts should involve the creation of a training system harnessing the in-house know-how and unique information we have accumulated, and traditionally, more than 80% of in-house training has been conducted by in-house instructors, but it has been focused on product and technology training. We have now begun training in-house instructors to promote our own educational framework for level-specific and solutions training available for all employees, as well as instruction to improve the skills of the instructors themselves.

In fiscal year 2019, we trained coaches who can conduct global training in English, instructors for beginner courses teaching the fundaments of IT for software engineer training, and class managers.*

We flexibly respond to the needs of the company while pursuing a personnel training program unique to azbil.

* Personnel who check on participant progress, split participants into groups, offer counselling, and more.



Software engineer training in-house instructor appointment ceremony

Next-Generation Personnel

In fiscal year 2019, we started a project to consider what the azbil Group will be like ten years on.

Using internal and external networks, participants analyzed the current situation objectively and were spontaneously asked to draw a picture of the company ten years in the future, and to make recommendations for business reform. It was a unique initiative, and participants were divided into three teams, each coached by a member of the management team. Discussions continued for six months, and presentations were made to the company president on team recommendations.

With an eye on the future of the company, we will continue to plan out personnel training, and conduct it in a way that ensures that personnel will be aware of the requirements for business continuity.

Initiatives for Training during a Pandemic

With the spread of COVID-19, people's working styles are changing, with many people working from home, and here in the azbil Group, we are also making efforts to conduct training remotely.

We are in the process of transforming our programs from the traditional group training focus in the past, to offering programs that to be accessed regardless of time or place.

One example can be seen in our new employees training for this fiscal year, for which we prepared a networked environment so that all training could be conducted online, except for safety training and practical machinery training.

We have been enhancing our previous e-learning, distance learning, and online self-study tool content to have a more global perspective, and are supporting employee growth by providing a training environment where it is easier to learn, at any time of day, and from any place.

Global Training System

Officers

Business school
Harvard University, Stanford University, etc.

Management

Azbil Globalization Seminar (AGS)
Logical communication and management

Leaders

AGS for Leaders
Management basics (including accounting theory and finance for employees in all job classifications)

Employees

AGS for Employees
Conceptual skills and human skills for workers

New employees

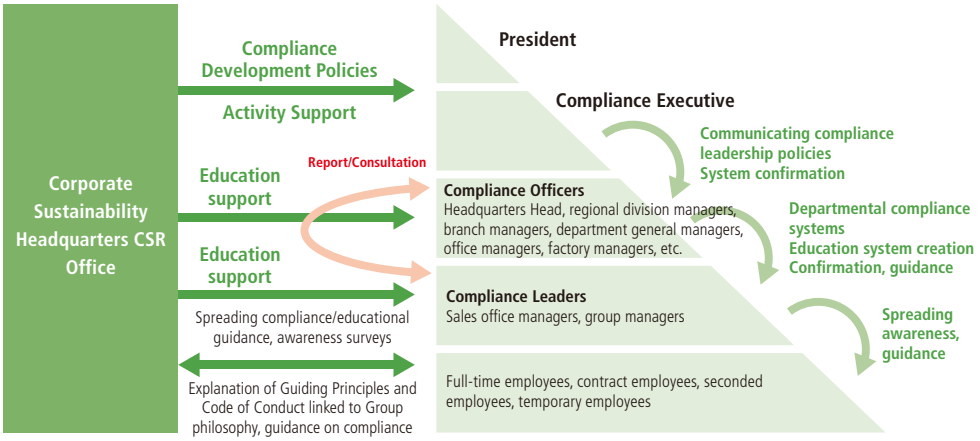
AGS for New Employees
Basic employee training

Technical education:
Product knowledge
+
Skills Training

Compliance

A part of our basic CSR as a member of society, we are working to raise awareness of compliance and thoroughly implement compliant conduct and activities in all of our group companies both in Japan and overseas.

Compliance System



System to Protect Compliance

At the azbil Group, compliance efforts are carried out systematically organization-wide by compliance officers and compliance leaders. The most substantial role in this system is played by the compliance leaders, who are responsible for instilling and guiding compliance in the workplace (through development and education on the Group philosophy, Guiding Principles, and Code of Conduct) and for discovering and reporting risks. In addition, they must correctly convey management's thinking to subordinates, and are required to comply with the Code of Conduct which emphasizes the importance of corporate ethics. Moreover, as a link between management and the workplace, they must cultivate in themselves the ability to detect issues through constant communication with subordinates, and are expected to respond quickly when issues arises by reiterating the importance of corporate ethics in the workplace.

Maintaining and Improving Compliance Awareness

The azbil Group conducts annual training for officers and department heads using external specialist instructors, and officers and department heads are responsible for the continued improvement of compliance awareness throughout the Group.

During the lecture provided to officers and department heads by an external specialist lecturer in October 2019, the themes were compliance and the Sustainable Development Goals (SDGs) needed to better respond to the changing world. The lecture was attended by 196 people.

Employee compliance education includes traditional face-to-face education by instructors, in addition to e-learning initiatives. Face-to-face instruction was held 92 times for 3,436 participants, while 6,899 people participated in e-learning.

These efforts allow us to familiarize attendees with the basics, such as the Code of Conduct and other important measures that must be followed, and they also deepen our understanding of the ever-changing issues that arise in connection with compliance.



The lecture provided to officers and department heads

Compliance Awareness Surveys

We conduct annual surveys among all Group employees on compliance awareness and on the state of internal compliance. Those results give us an understanding of the issues that need to be addressed and allow us to implement countermeasures. In fiscal year 2019 (ended March 2020), approximately 11,000 employees (including temporary workers) were surveyed in Japan and overseas. More than 99% of those surveyed recognized the importance of compliance.

We will continue our efforts to improve compliance awareness.

Internal Control

We aim to expand the internal control system throughout the entire azbil Group. We are striving to raise the standards of management, administration, monitoring, and the internal control system, while working to ensure proper accounting and stronger governance in the Group as a whole.

Efforts to Build the Internal Control System

In building the internal control system, we have clarified the basic policies governing officers and employees with our Basic Policy on Internal Control System Architecture, and we have disclosed a summary of current operational status.

In fiscal year 2019, we planned our Regional CL Conference to increase the skills of compliance leaders (CL) in charge of compliance education at overseas subsidiaries, and the first session was held for subsidiaries in China and Korea.

We will continue to work towards the construction of an efficient, legal, and highly transparent framework through which to improve our internal control system.

Mechanism to Obtain Employee Opinions and Uncover Internal Problems

The azbil Group has established a reporting and consultation system in order to ensure early detection and handling of problems such as compliance violations and working environments that threaten employees, in order to promote our policies on CSR management and health and well-being management.

The system is accessible to Group company officers and full-time employees, temporary employees and other workers employed at Group companies, and to our corporate partners. It can be used to report legal violations, human rights issues, improper accounting, and other actions and behavior that deviate from the azbil Group's Guiding Principles and Code of Conduct, violations of internal rules, harassment and other problems related to the work environment. Inquiries involving the personnel system, employee benefits, etc., are also welcome.

In Japan, we also provide consultation on personal issues and concerns employees have through our CSR Hotline.

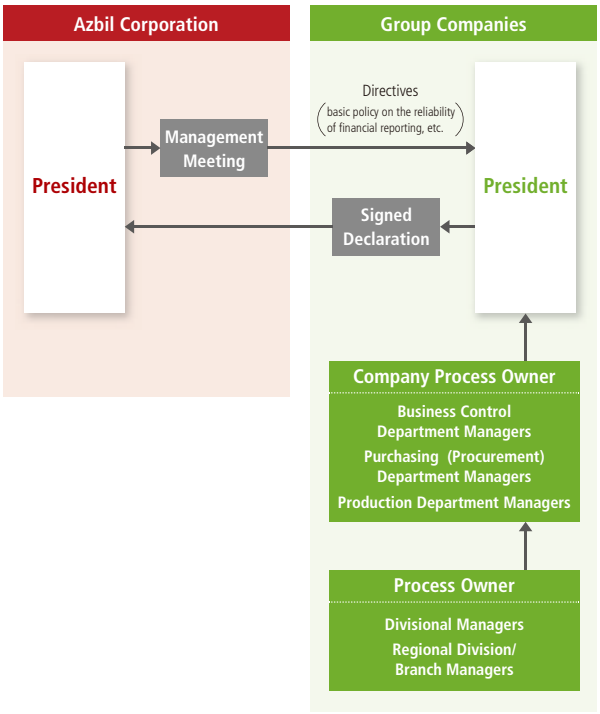
The utmost consideration is given to protecting the identity of those who report problems or ask for counselling, and to the confidentiality of the information communicated. We have also established rules to protect employees from retribution for contacting these services.

The consultation service is well-known throughout the Group, and two contact sites have been established for reporting and counselling, both inside and outside the company, and anonymous inquiries are accepted. We are working to inform our employees that they can make use of the system with complete peace of mind.

The Financial Instruments and Exchange Act, J-SOX Internal Control Reporting System, and Strengthened Accounting Standards

We regularly review the scope of assessment, risk, and control in response to changes in the business environment, and are strengthening our efforts to better respond based on the J-SOX Internal Control Reporting System under the Financial Instruments and Exchange Act. In addition, we are also gradually deploying a central information system at Azbil Corporation at other azbil Group companies with the goal of efficient and more accurate financial reporting. Moreover, we will continue to provide regular training to improve accounting standards among Group employees around the world, and we are striving to improve the standard of the azbil Group's internal control system and its reliability by raising the level of accounting and internal control at overseas subsidiaries.

Group Company Management under J-SOX



Risk Management

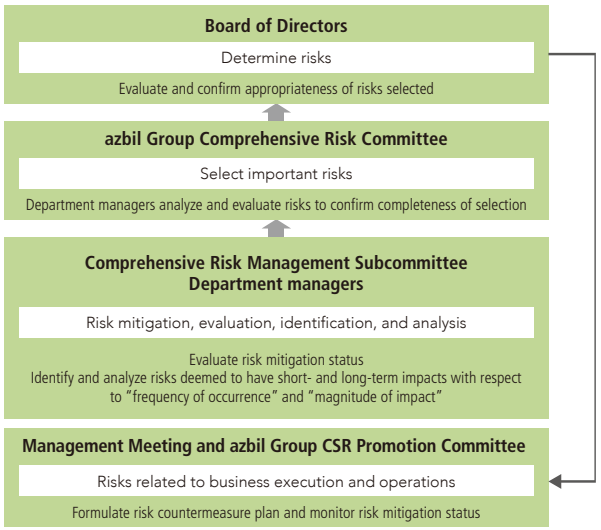
We strive to build systems and take preventative measures to protect against damage to social trust and corporate value.

Risk Management System

The azbil Group faces various risks that may have a significant impact on its operations. These risks are identified by the Comprehensive Risk Management Subcommittee, consisting of the heads of relevant departments. The azbil Group Comprehensive Risk Committee, headed by the executive officer in charge of risk management, then compiles a list of "risks deemed important to the azbil Group," which may then be determined to be key risks by the Board of Directors.

To minimize the key risks, we are building a management structure extending from the proposal of countermeasures to their implementation—handled by the Management Meeting and azbil Group CSR Promotion Committee—and the reporting of outcomes to the Board of Directors.

In addition to the above, the board of directors of each individual Group company determines its own important risks and implements measures to counteract them.



Business-Related and Other Risks

Risks that may affect the business results and financial position of the azbil Group are summarized below. These risks are discussed by the azbil Group Comprehensive Risk Committee and the Board of Directors, and are addressed by our comprehensive risk management system. We also take measures to mitigate and respond to risks in the related business departments. Information contained in the table that pertains to the future is deemed valid by the Company as of March 31, 2020. In addition, risks stated in the table are described in the 98th Annual Securities Report ("Business-Related and Other Risks"), and each potential risk event has been adequately analyzed, evaluated, and addressed.

Business-Related and Other Risks

Category	Risk Event Awareness
Business environment	• Risk that changing market conditions in specific regions and key business sectors, including construction and manufacturing, may have an impact on capital investments which, together with major economic recession, could have an adverse impact on the Group's operations, business results, or financial position
Growth in competitive environments	• Risk that inadequate responses to business opportunities that may arise from changes in societal conditions, technological innovations, and the like could lead to the loss of competitive advantage • Risk that the loss of competitiveness—caused by misreading of technological trends, slow R&D progress, or failure to respond to open innovation and technological developments, as well as delays in launching new products, sluggish sales, and the like—could affect the Group's operations or business results
Product quality	• Risk that costs incurred by defective products, systems, or services and the resulting damage to our corporate reputation could affect the Group's operations, business results, or financial position
Global operations	• Risk that unforeseen situations, such as regional political and economic upheaval, changes to laws, and terrorism, as well as differences in business practices and the like, could have an effect on the Group's operations, business results, or financial position • Risk that delays in planned business expansion due to regional peculiarities and the like could affect the Building Automation (BA) business • Risk that sharp foreign exchange fluctuations may impact net sales, prices of raw materials and parts, SG&A expenses, and the like
Securing and developing human resources	• Risk that obstacles to securing, educating, and smoothly deploying human resources needed to address business structural changes could lead to declines in productivity or other performance indicators • Risk that delays in securing, educating, or deploying personnel needed for overseas business development may inhibit achievement of business growth targets
Information leaks and IT security	• Risk that leaking of confidential business information or personal information due to unforeseen circumstances could affect the Group's business performance or financial position, or cause damage to its corporate reputation • Risk that terrorist events or unexpected cyber-attacks could affect the Group's business operations
Environment, climate change, and natural disasters	• Risk of damage to production and supply of products and services stemming from large-scale disasters or other unforeseen events • Risk that events beyond those assumed in the BCP will have a negative impact on business continuation, which could have a major effect on the Group's business results or financial position • Risk that climate change could lead to long-term market structural changes and impact the Group's core businesses • Risk that long-term market structural changes or decline in sales generated by customers in core businesses could affect the Group's business results
Compliance	• Risk that violations of laws (antitrust laws, construction industry regulations, labor standards, bribery laws, and the like), including violations resulting from failure to address characteristics of newly entered regions and industries and delays in responding to new laws and revisions of existing laws, may result in administrative penalties and fines; risk that inappropriate acts by the Company and/or its business partners will lead to harmful rumors and damage the Group's reputation

Responses and Risk Mitigation Measures
• Aim for growth in life-cycle business, demand for which is relatively resilient to economic fluctuations, to reduce their impact
• Recognize new risks, develop new subscription models, and the like, and engage in strategic collaborations • Emphasize business development by forming alliances with other companies, including M&As • Make appropriate technology R&D investments and build a new organizational structure dedicated to specialized fields, such as IT solutions and cloud services; take action to verify new business models; use the in-house educational organization (Azbil Academy) to help employees change jobs and establish an education-oriented system; continue pursuing M&A opportunities; update and strengthen core information system and roll out across Group; and take other measures to avoid delays in addressing changes in the environment and competitive disadvantages
• Use a dedicated organization to check quality at the product development and manufacturing stages • Apply production line management and improvement activities to maintain proper inspection work processes; check legal compliance status related to factory operation; strengthen quality control support such as construction management and the like • In addition to checking at the design and production stages, conduct inspections using a dedicated organization that specializes in safety
• Make preparations using BCP and other tools • In the BA business, establish bases mainly in Southeast Asia and China; secure in-house engineers and partner companies to establish a robust business execution system; start providing services aimed at launching life-cycle business overseas • Appropriately hedge against foreign exchange fluctuations and expand overseas production to mitigate risk
• Secure and allocate human resources necessary to address changes in business structure • Take steps to establish a new personnel system • Implement measures related to securing and training human resources for overseas business development • Strengthen bases and engage in other initiatives
• Ensure confidentiality of important information and comply with laws on personal information protection (establish and implement internal regulations and education for employees) • Develop a strong IT environment and implement employee education and the like • Establish a new inspection department that specializes in information security
• Decentralize the production network to reduce risk of concentration • Verify business continuity period (without limiting to specific events); prepare necessary funds, inventories of products and materials, personnel, production equipment, and the like • Formulate a long-term vision to reduce greenhouse gases associated with business activities to "net zero emissions" by 2050, and reduce our environmental impacts • Identify various events that may be caused by climate change, as well as the content of such risks and potential impacts on operations; undertake scenario analysis and respond accordingly
• Conduct regular monitoring in Japan and overseas to confirm compliance with laws and internal rules; engage in rigorous compliance education activities • Placing top priority on compliance, conduct regular monitoring in Japan and overseas to check compliance; strengthen system for concluding contracts; disseminate to and educate all employees

Risk management initiatives

Improving disaster prevention capabilities and business continuity plan (BCP)

The azbil Group takes various disaster prevention measures to minimize potential damage to its operations and improve its disaster response capabilities. For example, we regularly verify the earthquake resistance levels of our buildings and work to strengthen them. We also conduct hazard inspections, stockpile inspections, and disaster prevention drills, and we are developing an emergency communication infrastructure. Through our BCP, we aim to fulfill our responsibility to society by ensuring that the survival of the entire azbil Group is not threatened, while also preventing serious suspensions and delays in operations, with a top priority of guaranteeing the safety of human life. Our basic policy is to normalize corporate activities without causing delays to the restoration of society. We have created various disaster scenarios, based on which we analyze the current situation and formulate countermeasures for each business, production, and administrative function while conducting relevant training. We have also secured offices, restored important systems and networks, and performed financial simulations. With respect to the COVID-19 pandemic, we are making Group-wide responses based on plans that we have prepared so far, with a top priority on ensuring the safety and security of customers and employees. We will also continue working to improve our BCP responses.



Crisis training session

Reinforcing our information management system

We are using IT systems in various ways, such as enhancing the environments in which employees can work safely from external locations. Our aim is to maintain high levels of safety and security even for employees working from home. In addition, we conduct information security training annually for all Group employees. We also address information management issues identified via our compliance awareness survey, and we have a system to ensure proper compliance with laws and regulations on the protection of important information, including personal information, in each country/region. In these and other ways, we are working to improve and strengthen our Group-wide information management system.

Corporate Governance

In order to earn the trust of all stakeholders, we not only comply with laws and regulations and our Articles of Incorporation, but also fulfill our social responsibilities and social contribution responsibilities based on corporate ethics. We aim to realize sustainable corporate growth and improve corporate value over the medium to long term through highly transparent and efficient management.

Initiatives to Strengthen Corporate Governance and its Characteristics

We are continuing our efforts to establish a highly transparent, diversified, and effective Board of Directors and corporate governance system.

Outside Directors Play an Important Role in Board of Directors

Independent outside directors play an important role in the framework and operation of corporate governance in the Company. Of the 11 directors five are independent outside directors, and they continue to account for more than one third of the Board of Directors, contributing to the Board's rich diversity, such as in nationality and gender.

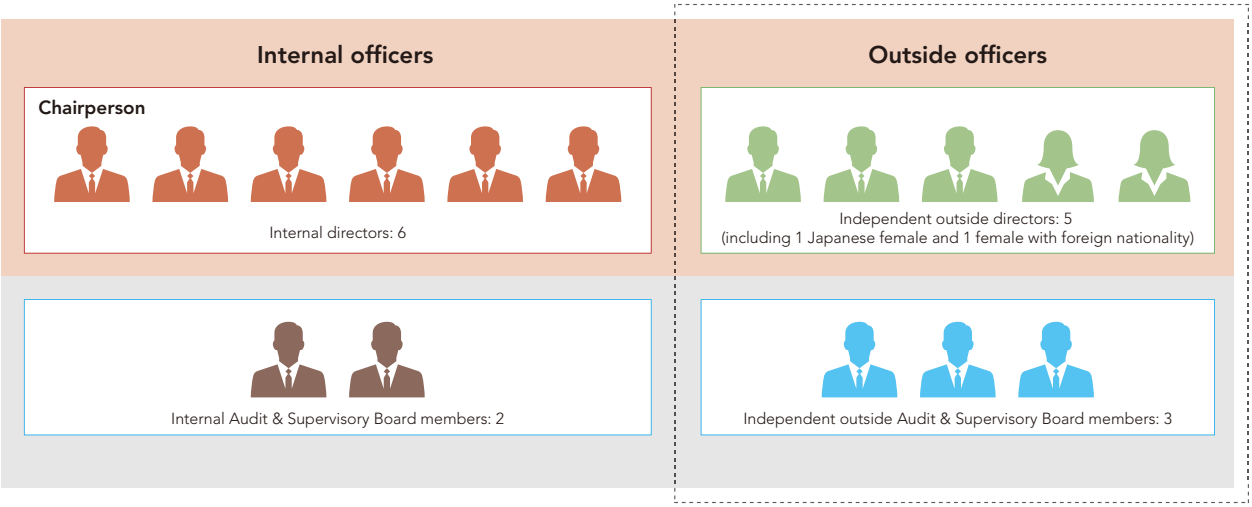
Our independent outside directors fulfill their responsibilities in a broad range of ways, such as providing advice on raising corporate value and providing oversight of management activities. They are independent and come from diverse backgrounds. One director possesses outstanding expert viewpoints as a lawyer and insights on management as well as experience as an outside officer at several companies. Another director has experience as an analyst in investment advisory companies and investment banks both in and outside Japan, has a wealth of experience in the consulting business and long-term overseas work experience, and has been involved in management at investment management companies in Japan and abroad. One female director has played a pioneering role in the advancement of women and demonstrated leadership as a public prosecutor many years, and, afterward served as a council member at a government agency at which time she also taught a law school. Another director has served in important posts at financial institutions and possesses extensive knowledge on and experience in the financial/ securities sectors and abroad. Lastly, Another female director, who is a foreign national, worked at an international law office as a partner attorney, supporting the conclusion of transaction agreements in international transactions for Japanese companies. She has ample business experience with Japan-based companies, and is familiar with Japanese business customs.

Communication between the independent outside directors and the management team is considered to be very important. We hold monthly meetings in which the independent outside directors exchange opinions with the representative director. Issues raised and suggestions made by the independent outside directors receive careful consideration by the management team and reflected in management practices.

Activities of the Audit & Supervisory Board and

Composition of Board of Directors (outside officers: 8 out of 16 members)

(As of June 24, 2020)



Initiatives to Enhance Its Effectiveness

The Company elected five member of the Audit & Supervisory Board, of whom three are independent outside members, and two are full-time members. The Audit & Supervisory Board members carefully audit, mainly from a legal standpoint, the execution of business by the Board of Directors. We also established the Audit & Supervisory Board Office as an organization to aid the duties of the Audit & Supervisory Board members in their execution of responsibilities.

The Audit & Supervisory Board deliberates on the annual audit plan at the beginning of each fiscal year, submits monthly and quarterly reports of its members' activities during the fiscal year, submits quarterly financial audit reports, provides year-end evaluation of audit activities, and deliberates the assessments of the independent auditor. Furthermore, the Audit & Supervisory Board holds regular discussions with the representative director as well as regular meetings with the independent outside directors to exchange opinions and information, mainly for reporting audit results and exchanging information on management issues. Additionally, an evaluation of the effectiveness of the Audit & Supervisory Board is performed at the end of the term, and in addition to reviewing the Audit & Supervisory Board's auditing activities for the current fiscal term, the evaluation results are reflected in the audit plan for the coming fiscal term, thereby increasing the effectiveness of the Audit & Supervisory Board.

Full-time Audit & Supervisory Board members conduct audit activities including attending Board of Directors and Management meetings, conducting on-site visits of main business locations and subsidiaries and interviews with key divisions, and reviewing important documents such as minutes from important meetings, and share those details when necessary with the outside Audit & Supervisory Board members. In addition to attending Board of Directors meetings and providing their opinions as independent officers, the outside Audit & Supervisory Board members also use their individual knowledge and experience, participating as necessary in visits to main business locations and subsidiaries by the full-time Audit & Supervisory Board members.

The Audit & Supervisory Board members attend regular meetings with the Accounting Auditor and Internal Audit Department, and in addition to sharing the audit plan and key audit items at the start of the fiscal year and the mutual audit results during the fiscal year and at the end of the fiscal year, they coordinate closely with the Audit & Supervisory Board members of the Group companies to confirm audit results for subsidiaries, working to enhance the effectiveness and efficiency of auditing.

Nomination and Remuneration Committee

Composition and deliberation items of the Nomination and Remuneration Committee

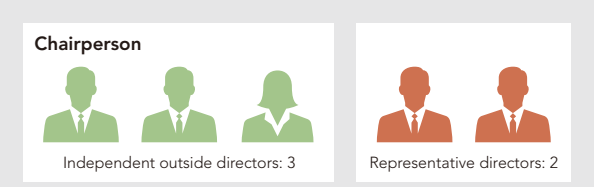
The Company established its Nomination and Remuneration Committee as an optional advisory body to the Board of Directors. This committee fulfills the function of both the Nomination Committee and Remuneration Committee. The role of the Committee is to ensure greater fairness, objectivity, and transparency of processes for nominating and remunerating officers, with the aim of fostering the enduring development of the Company and improving its medium- and long-term profitability and productivity.

The Committee selects candidates for directors and representative director, as well as candidates for president & CEO, chairperson of the Board of Directors, and managing executive officers. It also deliberates on the officer remuneration system and remuneration plan, as well as basic remuneration, individual performance evaluation, progress evaluation of qualitative items, bonus payments to individuals based on the officer remuneration system, and amendments to the director remuneration framework. In addition, it deliberates on matters relating to the dismissal of the president & CEO, directors, and managing executive officers; dismissal of the representative director and chairperson of the Board of Directors; and training of successors.

It is stipulated that independent outside directors make up the majority of Committee members and that an independent outside director is elected as its chairperson by the Committee members. Currently, Katsuhiko Tanabe (independent outside director) serves as chairperson, the other members being Takeshi Itoh (independent outside director), Waka Fujiso (independent outside director), Hirozumi Sone (representative director), and Kiyohiro Yamamoto (representative director). Independent outside directors thus constitute the majority.

Composition of Nomination and Remuneration Committee

(As of June 24, 2020)



Activities of the Nomination and Remuneration Committee

In fiscal year 2019, the Nomination and Remuneration Committee held five meetings. In May 2019, the Committee evaluated the results of individual performance targets and the amounts of bonuses to be paid to individual directors who concurrently performed executive duties in fiscal year 2018, and deliberated the basic remuneration to be paid to individual directors who concurrently perform executive duties in fiscal year 2019. The Committee also confirmed the state of progress on the plan to develop

successors. The progress in the plan to develop successors was confirmed at subsequent meetings of the Nomination and Remuneration Committee, and at the Committee meeting in February 2020, the structure of the fiscal year 2020 management team was deliberated based on the succession plan and reported to and approved by the Board of Directors. Furthermore, in addition to the specification of the terms of office from the viewpoint of the independence of outside officers, changes to regulations related to executive officers to clarify responsibilities based on position were deliberated at the Committee meeting and approved by the Board of Directors. Additionally, as part of the expansion of our plan to develop successors, the Committee reviewed and reported to the Board of Directors on our new system to respond to our global personnel who will play a part in our overseas business strategy and who exercises excellent capabilities and activities.

Appointment of Directors and Audit & Supervisory Board Members, and Appointment/Dismissal of Senior Management

Appointment of Directors

The basic criterion for director candidates is to be a person who has excellent character and insight, contributes to the growth of the Company and the Group, and helps improve corporate value. Directors involved in business execution need to have high levels of ability and knowledge about each business segment and important management functions. Outside director candidates must have wide-ranging experiences and excellent expertise and knowledge, as well as having no issues regarding independence. They must also come from diverse backgrounds and have the ability to proactively express opinions and raise issues from outside perspectives. These are our policies for the nomination and appointment of directors. Nomination and election of director candidates and management executives are decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee.

Appointment of Audit & Supervisory Board members

Candidates for Audit & Supervisory Board members must have the appropriate experience and ability, as well as knowledge about finance, accounting, and legal matters. We also consider independence from the executive side to be another eligibility requirement. For outside Audit & Supervisory Board members, our policy is to first confirm that there are no issues regarding their independence. Among Audit & Supervisory Board member candidates, at least one person must have extensive knowledge of finance and accounting. Such candidates are first discussed by full-time Audit & Supervisory Board members and the representative directors, then considered and agreed upon by the Audit & Supervisory Board, before approval at the Board of Directors meeting.

Appointment/Dismissal of CEO and Subordinate Officers

With respect to appointing the CEO and subordinate officers (president & CEO, vice president, and the like), the Board of Directors makes decisions, based on selection criteria and the desired composition of the Board of Directors, after deliberation by the Nomination and Remuneration Committee.

(Appointment Criteria)

Candidates must have a full understanding of the Group philosophy, deep knowledge of corporate management, and wide-ranging experiences both inside and outside Japan, as well as good insights on corporate governance, CSR, and compliance. They must meet the following criteria and be capable of leading the Group to sustainable growth.

1. Good character and insights, and selfless attitude, a person who earns the trust of others;
2. The ability to think and judge from a global perspective and from the standpoint of the entire Group;
3. Exceptional insights, the ability to implement change and innovation and predict the future, and the willingness to embrace challenges from a results-oriented approach;
4. Healthy, energetic, physically sound, as well as mentally resilient.

(Dismissal Criteria)

With respect to policies and procedures for dismissing the CEO and subordinate officers (president & CEO, vice president, and the like), the candidate for dismissal undergoes a fair and rigorous process of screening and deliberation by the Nomination and Remuneration Committee, based on the following criteria. If the Nomination and Remuneration Committee judges that the dismissal is appropriate, it will be sent to the Board of Directors for approval. Reasons for proposing dismissal include a serious business problem arising from a violation of the law or the Articles of Incorporation, an event that makes it difficult for the person to perform and continue in the job, and when it becomes evident that the person does not meet the appointment criteria.

Succession Planning that the Board of Directors is Involved in

With regard to succession planning for the Company's senior management, the Nomination and Remuneration Committee deliberates the status of training and selection of successors, and records the results of these deliberations as well as the discussion process itself. This ensures that the succession plan is implemented properly and objectively. The chairperson of the Nomination and Remuneration Committee reports on the Committee's deliberations to the Board of Directors when appropriate. The Board of Directors is thus actively involved in succession planning, a process that is undertaken systematically, ensuring that sufficient time and resources are allocated for the training of successor candidates.

Evaluation and Improvement of the Effectiveness of the Board of Directors

The Board of Directors makes appropriate decisions following open and constructive discussion and strives to improve corporate value over the medium-to long-term. To continue fulfilling its roles and responsibilities properly, the Board of Directors identifies issues and areas requiring improvement with the aim of enhancing the Board's effectiveness. As they did in the previous year, members of the Board of Directors and Audit & Supervisory Board have conducted annual self-evaluations and have collected views on the (1) Size and composition of the Board of Directors; (2) Management status of the Board of Directors; (3) Support systems and communication with outside directors and Audit & Supervisory Board members; and (4) Decision-making process of the Board of Directors. Based on this information, the Board of Directors made an assessment of its current effectiveness, shared information on issues, and engaged in constructive discussions on future action.

As a result, we have confirmed that the Board of Directors overall is performing effectively and appropriately. For example, the size, composition, and operating status of the Board of Directors are appropriate, and the systems are in place to make important management decisions and supervise business execution. Also, members of the Board, both internal and external officers with wide-ranging experience and expertise, have a profound understanding of their roles and engage in open, active, and constructive discussions based on adequate communication.

During fiscal year 2019, in the context of formulating a new management plan for the long-term growth and development of the Company, extensive discussions were conducted regarding the direction of the Group's future growth and the plans for each business. Technology, R&D and HR strategies supporting growth have also been discussed. In addition, to enhance the Group management supervision we regularly compile detailed reports on performance and strategy reviews of the major subsidiaries. Furthermore, the structure of the new management team for fiscal year 2020 and beyond was deliberated and agreed on by the Board of Directors following thorough discussion by the Nomination and Remuneration Committee in accordance with our corporate regulations. This Committee, which is an advisory body of the Board of Directors, features a majority of the independent outside directors, one of whom acts as chairperson.

Aiming to achieve a long-term growth, the Board of Directors has been actively deliberating management plans and business strategies, discussing issues resulting from the spread of COVID-19, such as the qualitative changes to the economic environment, new business opportunities, and business/operational reforms related to the Group's social contribution activities. As well as demonstrating the direction of the Group's management strategy, members of the Board are collectively mindful of the important of sustained supervisory functions, which include maintaining a keen awareness of the business conditions facing domestic and overseas subsidiaries.

We will continue striving to improve the effectiveness of the Board of Directors so as to achieve sustainable growth and enhance corporate value over the medium to long term.

Compliance with Corporate Governance Code

The Company complies with all of the principles set out in the Corporate Governance Code, which was revised in June 2018. Our Corporate Governance Report clarifies that all principles have been adopted and discloses in detail the 11 basic principles, principles, and supplementary principles require disclosure.

Our Corporate Governance Report is on the Company website.

https://www.azbil.com/csr/basic/governance.html

Changes to Improve Corporate Governance of the Company

We have launched initiatives to strengthen corporate governance ahead of other companies. We will continue working to enhance corporate governance in order to ensure the fairness, transparency, and impartiality of management.

Changes to Improve Corporate Governance

Strengthening of oversight and auditing	• Number of independent outside directors increased (1 in 2007 —> 2 in 2010 —> 3 in 2014 —> 4 in 2018 —> 5 in 2019) • Number of independent outside Audit & Supervisory Board members increased (2 in 1994 —> 3 in 2011) • Started evaluating the effectiveness of the Board of Directors (2016) • Established criteria for judging the independence of outside officers (2016; revised 2020) • Set an upper limit on the term of office of outside officers (2020)
Strengthening of management transparency and soundness	• Nomination and Remuneration Committee established with independent outside directors as a majority (2016) • Revised the officer remuneration system; strengthened performance-linking and introduced medium-term business perspectives, etc. (2017) • Abolished the "counselor and advisor system" (2018) • Appointed an outside director as chairperson of the Nomination and Remuneration Committee (2018)
Clarification of responsibilities, encouragement of dialogue, etc.	• Introduced the executive officer system (2000) • Formulated the Corporate Governance Guidelines (2016) • Appointed executive officer in charge of corporate communications (2016) • Formulated guidelines on strategic shareholdings (2016; revised 2018)

Executive Remuneration

Policy on Determination:

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

As to the basic remuneration amounts paid to individual Directors and the total amounts of bonuses and the amounts of bonus to be paid to individual Directors who concurrently perform executive duties, the President & CEO (Representative Director), who is delegated by resolution of the Board of Directors, prepares a draft of each remuneration based on Director Remuneration Regulations and Nomination and Remuneration Committee Regulations, within the remuneration limits set at the Ordinary General Meeting and decides after screening by the Nomination and Remuneration Committee. The remuneration of Representative Directors is ruled to be decided after the screening without the Representative Director who is the member of the Nomination and Remuneration Committee.

Composition, Approach and Remuneration Limits for Executive Remuneration:

Remuneration for Directors who concurrently perform executive duties comprises "basic remuneration" that is a fixed remuneration based on their roles and responsibilities and "bonuses" that are linked to business results for the fiscal year and are also determined in consideration of the degree of achievement of medium-term targets. "Basic remuneration" for Directors who concurrently perform executive duties comprised three forms of remuneration: director remuneration, executive position remuneration, and executive responsibility remuneration. The fixed amounts paid to the Representative Directors and Directors are determined in director remuneration. Executive position remuneration comprises fixed amounts determined by individual executive position. Executive responsibility remuneration is the amount of remuneration paid based on the individual responsibility grade that is determined based on the level of duties, scope of role, and quantitative and qualitative evaluations for each fiscal year. Such responsibility grades are revised each year based on a review by the Nomination and Remuneration Committee.

Furthermore, to share interests with the shareholders and to create a continuous incentive to enhance corporate value, for Directors who concurrently perform executive duties, they purchase the Company's stocks in the fixed annual contribution amount proportional with each officer's positions and responsibilities through the officer stock ownership plan and continually hold these stocks.

Directors who do not concurrently perform executive duties and Outside Directors are paid only basic remuneration that is fixed remuneration to ensure that they perform their management supervision function fully. The Company resolved that the maximum annual remuneration for Directors shall be not more than 450 million yen (for eight (8) Directors, excluding amounts paid as salaries for employees) at the 84th Ordinary General Meeting of Shareholders held on June 29, 2006.

Remuneration for Audit & Supervisory Board Members comprises only basic remuneration that is fixed remuneration considering their duties and responsibilities. The Company resolved that the maximum annual remuneration for Audit & Supervisory Board Members shall be not more than 120 million yen (for five (5) Audit & Supervisory Board Members) at the 85th Ordinary General Meeting of Shareholders held on June 28, 2007, and the individual remuneration amounts are determined through discussion held by the Audit & Supervisory Board Members.

Performance-linked Remuneration:

Directors who concurrently perform executive duties are paid a bonus in consideration of a performance evaluation and qualitative evaluation*1 as well as the degree of achievement of medium-term targets, etc., and the performance-linked portion of remuneration is designed to contribute to the Company's continuous growth and enhancement of corporate value. In the specific calculations, evaluations are performed from the standpoint of responsibility for the Group's consolidated management based on indicators such as increase in operating income and ratios such as ROE in light of both profitability and capital efficiency. Furthermore, the level of growth in the amount of operating income and other factors have been selected as indicators from the standpoint of working to enhance medium- to long-term corporate value, and performance-linked remuneration is reviewed individually by the Nomination and Remuneration Committee taking comprehensive account of these indicators.

*1: In the qualitative evaluation, the level of achievement for qualitative targets set individually at the beginning of the period based on individual roles, including initiatives in CSR activities and development of succeeding personnel, is considered.

Remuneration of Officers in FY 2019 (ended March 2020)

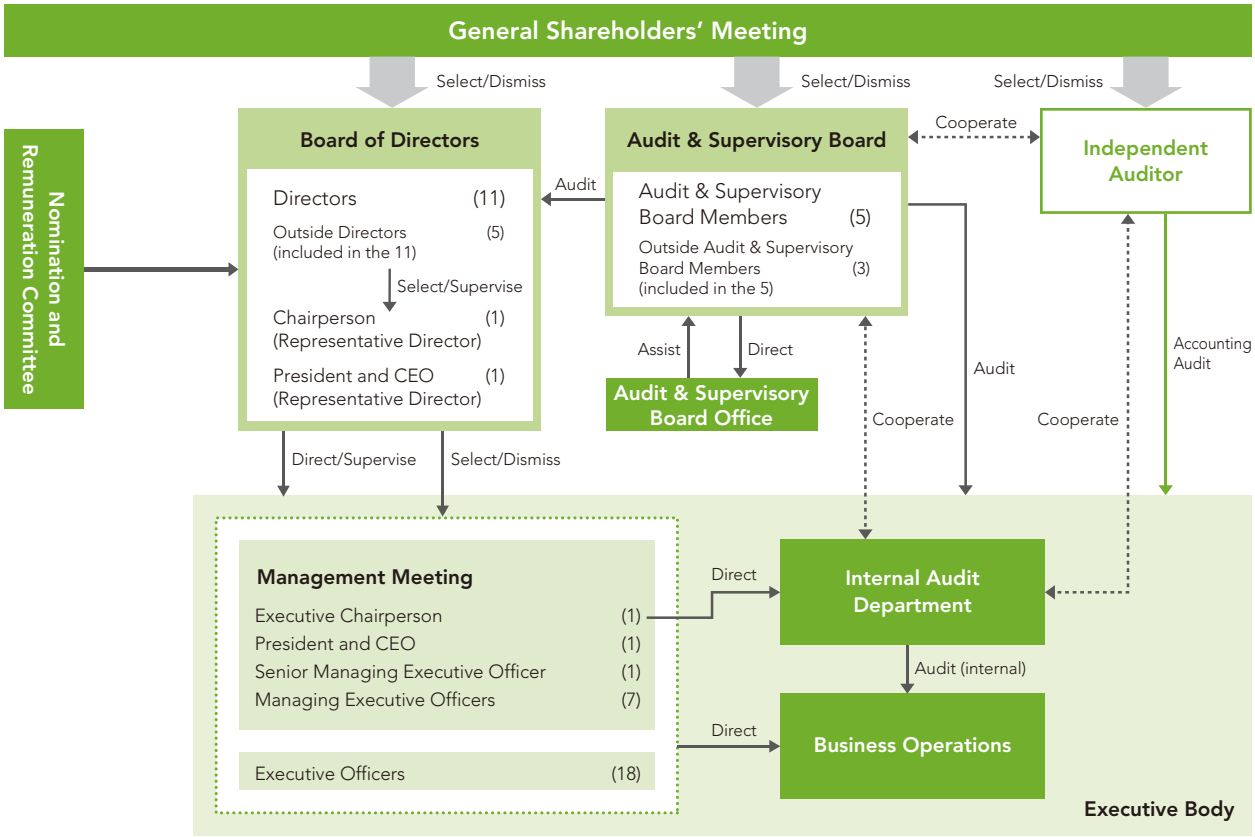
Category	Amount of remunerations paid (millions of yen)	Total amount by type (millions of yen)				Number of persons remunerated
		Basic remuneration	Performance-linked remuneration	Stock options	Retirement allowance	
Directors (Outside Directors)	411 (61)	318 (61)	93 (—)	—	—	11 (5)
Audit & Supervisory Board Members (Outside Members)	79 (27)	79 (27)	— (—)	—	—	7 (5)
Total (Outside Members)	491 (89)	398 (89)	93 (—)	—	—	18 (10)

* The above includes two Audit & Supervisory Board Members who retired at the conclusion of the 97th Ordinary General Meeting of Shareholders held on June 25, 2019.

Corporate Governance Framework

The Company has selected the Company with an Audit & Supervisory Board for its corporate governance framework under the Companies Act. The Audit & Supervisory Board sufficiently fulfills its supervisory function for the Board of Directors from the perspective of Audit & Supervisory Board members. The Company's highly independent outside directors interact with the Audit & Supervisory Board and its members to properly monitor the execution of business. In these ways, we are striving to establish a governance framework with effective checks. In order to respond swiftly to the rapidly changing business environment, we have functionally separated the Board of Directors, which is involved in making important decisions, from the executive officer system, which is in charge of business execution. Thus, we have transferred the business execution process to the executive body, based on resolution of the Board, to create a system that allows fast and efficient management.

Corporate Governance Framework (As of June 24, 2020)



Contribution of Independent Outside Officers

In addition to the requirements for independent officers stipulated by the Tokyo Stock Exchange, we follow criteria for independence that we have formulated when appointing outside officers as prescribed by the Companies Act. Candidates deemed capable of providing constructive suggestions and accurate observations and advice concerning the Company's business and the improvement of corporate value over the medium to long term are appointed as outside directors. Candidates who are knowledgeable about key aspects of finance, accounting, legal matters, and auditing and who are independent of company executives are appointed as outside members of the Audit & Supervisory Board. Our outside officers, from their diverse perspectives, are active in asking questions and giving suggestions at Board of Directors meetings, thereby contributing to sustainable corporate growth and the enhancement of corporate value over the medium to long term.

Reasons for appointing outside officers, status of remarks at the Board of Directors meetings, and attendance of Board of Directors and Audit & Supervisory Board meetings in FY2019

Independent Outside Directors

Name	Reasons for appointment and status of remarks at Board of Directors meetings
 Katsuhiko Tanabe	Mr. Katsuhiko Tanabe 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 of global business 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 a 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. [Attendance record: 13 of 13 Board of Directors meetings]
 Takeshi Itoh	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, Mr. Takeshi Itoh has a record of superior performance in advanced corporate analysis, etc. Furthermore, 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. [Attendance record: 13 of 13 Board of Directors meetings]
 Waka Fujiso	Ms. Waka Fujiso 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. At the Board of Directors meetings of the Company, she not only supervises business execution, but also proactively offers opinions from her extensive knowledge as a legal expert, aiming at more thorough compliance management and risk management as well as the enhancement of management transparency and fairness. In these ways, Ms. Fujiso fulfills such appropriate roles as supervision and advising on business execution. [Attendance record: 13 of 13 Board of Directors meetings]

Name	Reasons for appointment and status of remarks at Board of Directors meetings
 Mitsuhiro Nagahama	Mr. Mitsuhiro Nagahama possesses broad knowledge and extensive experience in the financial/securities sectors and abroad, as he has successively served in important posts at financial institutions. He was appointed as an Outside Audit & Supervisory Board member in 2015, and has audited the Company's overall business with his outstanding insights on corporate governance and ideal way of company management, contributing to the improvement of the Company's corporate governance and internal control from an independent perspective. Furthermore, as an Outside Director since 2019, he has not only supervised business execution, but also proactively offered opinions from wide-ranging perspectives, aiming at enhancing management transparency and fairness. In these ways, Mr. Nagahama fulfills such appropriate roles as supervision and advising on business execution. [Attendance record: 13 of 13 Board of Directors meetings] (He retired from the Audit & Supervisory Board, and he assumed the post of Director, at the conclusion of the 97th Ordinary General Meeting of Shareholders held on June 25, 2019, and the above number includes the number of times he attended Board of Directors meetings until retiring as an Audit & Supervisory Board Member.)
New appointment  Anne Ka Tse Hung Married name: Anne Hung Davis	Ms. Anne Ka Tse Hung has worked at an international law office as a partner attorney, and supported the conclusion of transaction agreements in international transactions for Japanese companies in addition to overseas corporate matters. She also has ample business experience with Japan-based companies, is familiar with Japanese business customs, and possesses knowledge in the industry to which the Company belongs. The Company expects that she will utilizes her abundant experience, insight, and global knowledge as Outside Director of the Company to offer objective indications and advice for the enhancement of management transparency and fairness from wide-ranging perspectives in addition to supervise business executions at Board of Directors meeting of the Company. As such, the Company appointed Ms. Hung as a new Outside Director.

Independent Outside Audit & Supervisory Board Members

Name	Reasons for appointment and status of remarks at Board of Directors meetings
 Kinya Fujimoto	Mr. Kinya Fujimoto has a wealth of knowledge and experience concerning financial affairs and accounting, having served as a certified public accountant for many years. As such, he possesses the necessary legal knowledge as an Audit & Supervisory Board member. Based on this knowledge and experience, he conducts audits of the Company's overall business from a viewpoint of finance and accounting, from a position of independence. He asks questions and makes recommendations from a perspective of strengthening corporate governance, internal controls, and management of the Company and Group companies. [Attendance record: 13 of 13 Board of Directors meetings; 14 of 14 Audit & Supervisory Board meetings]
 Minoru Sakuma	Mr. Minoru Sakuma has held key positions at a government financial agency and has wide-ranging knowledge about international finance and extensive experience overseas. He also has management experience at an investment company and experience at a business company that develops global activities. He possesses the required knowledge related to finance, accounting, and legal affairs as an Audit & Supervisory Board member. He also conducts audits of the overall Company business from an independent perspective. At the Board of DIrectors meetings, he raises questions and gives advice from the perspectives of the validity of the Company's business strategy and enhancing the Group's overall corporate governance. [Attendance record: 10 of 10 Board of Directors meetings; 10 of 10 Audit & Supervisory Board meetings] (He was elected at the 97th Ordinary General Meeting of Shareholders held on June 25, 2019. His attendance only applies to Board of Directors meetings and Audit & Supervisory Board meetings held after his appointment.)
 Fumitoshi Sato	Mr. Fumitoshi Sato has held key positions in Japan's central bank and has wide-ranging knowledge and abundant experience in the financial field. He also has work experience and management experience as a director of a company in the manufacturing field, where he served in the department overseeing accounting, legal, and personnel affairs. He possesses the required knowledge related to finance, accounting, and legal affairs as an Audit & Supervisory Board member. He also conducts audits of the overall Company business from an independent perspective. At the Board of DIrectors meetings of the company, he raises questions and gives advice from the perspectives of the validity of the Company's business and financial strategy and enhancing the Group's overall corporate governance. [Attendance record: 10 of 10 Board of Directors meetings; 10 of 10 Audit & Supervisory Board meetings] (He was elected at the 97th Ordinary General Meeting of Shareholders held on June 25, 2019. His attendance only applies to Board of Directors meetings and Audit & Supervisory Board meetings held after his appointment.)



Comment by an Outside Director

Azbil corporate governance, present and future

Outside Director　Waka Fujiso

Under Group philosophy of "human-centered automation" that reflects back to its founding spirit, Azbil has consistently emphasized compliance management and it has striven to create good governance. Since 2007 outside officers have been on the Board of Directors, the composition of which is currently half internal and half external. For matters of particular importance to governance – such as appointing and dismissing officers (including the president and CEO) and deciding on executive compensation – the Nomination and Remuneration Committee deliberates as an advisory body of the Board of Directors. Three of the five members of this committee, including the chairperson, are independent outside directors. What is even more significant is the diversity represented by the outside directors: there are now five, including two women and a foreign national, of varying ages and with differing specialties, careers, and domains of experience. Naturally, they are also unique in their awareness of issues, their perspectives, and their sense of values. When the Board is to meet, they are provided with relevant materials and explanations of issues in advance. They can therefore engage in frank and lively exchanges of opinion with the management and Audit & Supervisory Board members, who on their part benefit from fresh insights reflecting each individual's knowledge and experience. This encourages the exchange of opinions and recommendations that derive from differing viewpoints and assessments. It can be said that good governance results from the combination of such external voices, representing diverse values, and management that listens attentively to them. Going forward, diversity will continue to be of importance when making appointments.

Embarking on a new fiscal year in the midst of such unprecedented global disruption, the management is facing some difficult challenges. However, it can rely on the strong relationship of trust between management and employees that has been fostered by the "human-centered" Group philosophy. While implementing the governance, compliance, and risk management that form the basis of CSR management, and guided by Sustainable Development Goals, Azbil will continue to develop strategies and implement business activities in line with its Guiding Principles and Code of Conduct, which will foster initiatives for finding solutions to ESG issues. I am confident that Azbil will fully harness its fundamental strengths so as to be able to achieve sustainable growth.



Criteria for Independence of Outside Officers (revised on May 13, 2020)

The Company has formulated its own Criteria for Independence for appointing outside officers. It judges that a person is not independent if any of the items below apply:

1. A person who serves as an executive*1 of the Company or a consolidated subsidiary of the Company, or who served for ten (10) years prior to being appointed;
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 are served as a non-executive director of the Company or its consolidated subsidiary for more than twelve (12) years in principle*2;
4. A person who has served as an Audit & Supervisory Board Member of the Company or its consolidated subsidiary for more than twelve (12) years; three (3) terms in principle*2;
5. 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 (3) fiscal years or receives such a payment), or who has served in such a position in the last three (3) years;
6. A person who serves as an executive or an Audit & Supervisory Board member of a major lender*3 of the azbil Group or its parent company or its significant subsidiary, or who served in such a position in the last three (3) years;
7. 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 a position (including those who have already resigned from such a position);
8. A lawyer, certified public accountant, or other consultant who does not fall under item 7 above and who received money and other economic benefits in the annual average amount of 10 million yen or more over the past three (3) years other than executive compensations from the azbil Group;
9. A member, partner, associate, or employee of a law firm or audit firm, etc. who does not fall under items 7 or 8 above where the azbil Group is a major business partner of the said law firm, audit firm, etc. (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);
10. 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 such a position in the last five (5) years;
11. 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 subsidiary;
12. A person who serves as an executive or an Audit & Supervisory Board member of a company in which the Company is a major shareholder;
13. A person who has received as an executive of an organization such as a public interest incorporated foundation, a public interest incorporated association, or a 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 (3) fiscal years; and
14. A spouse, a person within the second degree of consanguinity, or a relative residing in the same household of a person for whom any of above items (1 to 13) are applicable.

*1 "Executive" refers to an executive director, an executive officer, or head of a department and other general employee.
*2 Criteria 3 and 4 above were newly established on May 13, 2020, and will be applied to the future appointment of outside officers.
*3 A "major lender" refers to a financial institution group from which the azbil Group has borrowed funds where the outstanding aggregate of those borrowings exceeds 2% of the 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 at such lender).

Board of Directors, Executive Officers, and Audit & Supervisory Board Members

(As of June 24, 2020)



Representative Director, Executive Chairperson

Hirozumi Sone

Chairperson, Responsible for Strengthening Group Governance

Apr 1979 Joined the Company
Apr 1996 Systems Marketing Manager of Systems Development Group, Industrial Systems Division
Oct 1998 Transferred to Yamatake Industries Systems Co., Ltd., as Marketing Manager of the company
Apr 2005 Executive Officer of the Company, Manager of the Corporate Planning Department
Apr 2008 Managing Executive Officer
Manager of the Corporate Planning Department
Jun 2010 Director
Apr 2012 Representative Director, President and Chief Executive Officer
Apr 2020 Representative Director, Executive Chairperson, President and Group Chief Executive Officer
Jun 2020 Representative Director, Executive Chairperson (Present post)



Representative Director, President and Group Chief Executive Officer

Kiyohiro Yamamoto

Responsible for Internal Audit Department, Corporate Planning Department

Apr 1989 Joined the Company
Apr 2007 General Manager of Environmental Marketing Department, Marketing Headquarters, Building Systems Company of the Company
Apr 2011 Head of Marketing Headquarters, Building Systems Company
Apr 2012 Senior Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2014 Senior Officer, General Manager of Corporate Planning Department
Apr 2017 Executive Officer, General Manager of Corporate Planning Department and Head of Marketing Headquarters, Building Systems Company
Apr 2018 Managing Executive Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2020 Executive Vice President
Jun 2020 Representative Director, President and Group Chief Executive Officer (Present post)



Director, Senior Managing Executive Officer

Takayuki Yokota

Assistant to President, Responsible for Corporate Administration (including Corporate Communication, azbil Group CSR, Internal Control), International Business

Apr 1983 Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.)
Nov 2005 General Manager of the Investor Relations Department, Mizuho Financial Group, Inc.
Apr 2010 Executive Officer and General Manager of the Investment Banking Business Management Department, Mizuho Corporate Bank, Limited (Present: Mizuho Bank, Ltd.)
June 2012 Audit & Supervisory Board Member of Mizuho Research Institute Ltd.
Apr 2013 Joined the Company (Senior Officer)
Apr 2014 Executive Officer, Head of Group Management Headquarters
Apr 2016 Managing Executive Officer, Head of Group Management Headquarters
Apr 2017 Managing Executive Officer, Head of Group Management Headquarters and Head of International Business Headquarters
Apr 2018 Managing Executive Officer
Jun 2018 Director (Present post)
Apr 2020 Senior Managing Executive Officer (Present post)



Director, Managing Executive Officer

Masato Iwasaki

Responsible for Life Automation Business, General Manager of Life Science Engineering Department

Apr 1982 Joined the Company
Apr 2003 Manager of Marketing 2nd Department, and Information Systems Department, Advanced Automation Company
Apr 2011 Executive Officer, Manager of Marketing Department, Advanced Automation Company
Apr 2012 Managing Executive Officer,
President of Advanced Automation Company
Jun 2012 Director (Present post)
Apr 2016 Managing Executive Officer
Apr 2018 Managing Executive Officer, General Manager of Life Science Engineering Department (Present post)



Director, Managing Executive Officer

Yoshimitsu Hojo

Responsible for azbil Group (aG) production, aG purchasing, Advanced Automation Business, Production Management Headquarters, President of Advanced Automation Company

Aug 1990 Joined the Company
Apr 2011 Manager of Company Business Control Department, Advanced Automation Company
Apr 2013 Executive Officer, Head of Production Management Headquarters
Apr 2014 Managing Executive Officer of the Company, Head of Production Management Headquarters
Jun 2014 Director (Present post)
Apr 2016 Managing Executive Officer,
President of Advanced Automation Company and Head of Production Management Headquarters
Apr 2019 Managing Executive Officer, President of Advanced Automation Company(Present post)



Director, Managing Executive Officer

Kazuyasu Hamada

Responsible for Building Automation Business, azbil Group Sales Synergy, President of Building Systems Company

Apr 1987 Joined the Company
Aug 2006 General Manager of Security Business Planning Department, Security Business Headquarters, Building Systems Company
Apr 2008 Head of Security Business Headquarters, Building Systems Company
Apr 2011 Head of Security System Headquarters, Building Systems Company
Apr 2013 Executive Officer, Vice Head of Environmental Facility Solution Headquarters, Building Systems Company
Apr 2015 Executive Officer, Head of Environmental Facility Solution Headquarters and General Manager of Environmental Particle Solution Department, Building Systems Company
Apr 2016 Managing Executive Officer, General Manager of Tokyo Head Office, Building Systems Company
Apr 2018 Managing Executive Officer, President of Building Systems Company (Present post)
Jun 2018 Director (Present post)

Audit & Supervisory Board Members

Audit & Supervisory Board Members

Hisaya Katsuta

Tomohiko Matsuyasu

Outside Audit & Supervisory Board Members

Kinya Fujimoto

Minoru Sakuma

Fumitoshi Sato

Managing Executive Officers

Hiroshi Arai

Responsible for azbil Group (aG) IT, aG Information Systems, aG Information Security, aG Cyber Security, IT Development Headquarters, Cloud Operation Center, Information Systems Department, Cyber Security Office, Head of IT Development Headquarters

Junya Nishimoto

Responsible for aG Research and Development, Product Safety, Quality, Environment, Smart Robots, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Document Production Department, AI Solution Department

Akihiko Naruse

Responsible for aG Safety Management (Occupational Health and Safety), Human Resources Department, aG Safety Management Department, Azbil Academy

Tadayoshi Ito

Responsible for aG Marketing, Service Business, Service Headquarters, IT Solution Department, General Manager of Advanced Automation (AA) SS Business*1

Executive Officers

Yoshifumi Suzuki

Responsible for aG Environmental Load Innovation, Department of Safety Assessment, aG Quality Assurance Department, Environment Promotion Department, General Manager of Department of Safety Assessment, General Manager of aG Quality Assurance Department

Masashi Hirano

Responsible for New Business Development of Factory Automation

Takahiro Sakamoto

Head of Technology Development Headquarters

Toshiyasu Sumitomo

Responsible for Business Development in North America

Takashi Imamura

Head of Production Management Headquarters



Outside Director

Katsuhiko Tanabe

Apr	1973	Registered as a Lawyer
Sep	1979	Established TANABE & PARTNERS (Present post)
Apr	1995	Deputy Chairperson of Dai-ichi Tokyo Bar Association
Apr	1997	Vice-Chairperson of Kanto Bar Association
Apr	1998	Managing Director of Japan Federation of Bar Associations
Jun	2000	Outside Audit & Supervisory Board Member of Sanwa Shutter Corporation (Present: Sanwa Holdings Corporation)
Jun	2007	Outside Audit & Supervisory Board Member of the Company
Jun	2010	Outside Director of the Company (Present post)
Oct	2010	Outside Director of MIRAIT Holdings Corporation
Jun	2014	Retired from Outside Director of MIRAIT Holdings Corporation
Jun	2015	Outside Audit & Supervisory Board Member of JSP Corporation (Present post)
Jun	2016	Retired from Outside Audit & Supervisory Board Member of Sanwa Holdings Corporation



Outside Director

Takeshi Itoh

Sep	1969	Entered Burnham & Company
Oct	1983	Director of The First Boston Corporation (Present: Credit Suisse Group AG)
Oct	1993	Managing Director and Vice Manager of Tokyo Branch, Smith Barney (Present: Citi Group Global Markets Japan Inc.)
Oct	1998	President of UBS Asset Management Inc. (Present: UBS Asset Management (Japan) Ltd.)
Dec	2010	Supreme Advisor of Japan Wealth Management Securities, Inc. (Present: Aozora Securities Co., Ltd.)
Feb	2012	Vice Chairperson and Chief Operating Officer of Aozora Securities Co., Ltd.
Jun	2013	Senior Advisor of Aozora Securities Co., Ltd.
Jun	2014	Outside Director of the Company (Present post)
Jun	2018	Retired from Senier Advisor of Aozora Securities Co., Ltd



Outside Director

Waka Fujiso

Apr	1980	Public Prosecutor of Tokyo District Public Prosecutor's Office
Apr	2001	Public Prosecutor of Tokyo High Public Prosecutor's Office
Dec	2007	Public Prosecutor of Supreme Public Prosecutors Office
Mar	2008	Retired from Public Prosecutor of Supreme Public Prosecutor's Office
Apr	2009	Professor of Rikkyo University's Law School
Sep	2011	Member of the Medical Ethics Council of Ministry of Health, Labor and Welfare
Mar	2014	Retired from Professor of Rikkyo University's Law School
Jun	2015	Substitute Audit & Supervisory Board Member of the Company
Jun	2018	Outside Director of the Company (Present post)
Oct	2019	Retired from a member of the Medical Ethics Council of Ministry of Health, Labor and Welfare



Outside Director

Mitsuhiro Nagahama

Apr	1976	Joined The Fuji Bank Limited. (Present: Mizuho Bank, Ltd.)
Mar	2003	Executive Officer and General Manager of Otemachi Corporate Banking Division No. 6 and Otemachi Corporate Banking Division No. 7, Mizuho Corporate Bank, Ltd. (Present: Mizuho Bank, Ltd.)
Apr	2005	Senior Executive Officer in charge of Corporate Banking, Mizuho Corporate Bank, Ltd.
Mar	2006	Senior Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.
Apr	2010	Deputy President and Deputy President-Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.
Mar	2013	Retired from Mizuho Corporate Bank, Ltd.
Apr	2013	Chairperson of the Board of Mizuho Securities Co., Ltd. & Mizuho Securities USA Inc.
Apr	2015	Advisor of Mizuho Securities Co., Ltd.
Jun	2015	Outside Audit & Supervisory Board Member of the Company
Mar	2018	Outside Audit & Supervisory Board Member of KURARAY Co., Ltd. (Present post)
Mar	2019	Outside Director of Tokyo Tatemono Co., Ltd. (Present post)
Jun	2019	Outside Director of the Company (Present post) Representative Director of Japan Economic Research Institute (Present post)
Mar	2020	Retired from Advisor of Mizuho Securities Co., Ltd.



Outside Director

Anne Ka Tse HUNG

(Married Name: Anne Hung Davis)

Jul	1987	Joined Baker McKenzie
Jul	1991	Moved to Baker McKenzie Tokyo
Jul	1999	Partner of the firm
Jul	2018	Senior Counsel of the firm
Mar	2019	Retired from Senior Counsel of the firm
Jun	2020	Outside Director of the Company (Present post)

Kenichi Hayashi
General Manager of the Building Systems Company (BSC) Business Planning Department

Tetsuya Maruyama
Manager of BSC Chubu Regional Division

Tomoyuki Takeda
Manager of BSC Kansai Regional Division

Takashi Sawada
Manager of BSC Tokyo Head Office

Tetsuya Iwasaki
Responsible for aG System Development, Head of BSC Development Headquarters

Kanichiro Tsuruta
Head of BSC Engineering Headquarters

Hiroshi Shimizu
Responsible for aG Advanced Control Business, General Manager of Advanced Solutions Department in Advanced Automation Company (AAC) Engineering Headquarters

Tetsuo Takamura
General Manager of AA CP Business*2

Hideaki Ishii
Responsible for aG production innovation, AA Development and Quality Assurance

Taro Sento
General Manager of AA IAP Business*3

Masatoshi Yamada
Head of Group Management Headquarters

Toshihisa Murayama
Responsible for Building Automation International Business, Head of BSC Marketing Headquarters

Tetsuo Kobayashi
Head of AAC Business Development Headquarters

*1. SS business: Solution and Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)
*2. CP business: Control Product business (supplying factory automation products such as controllers and sensors)
*3. IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure and pressure transmitters, and control valves)

Communication with Stakeholders

Through our corporate communication activities vital to improve corporate value, the azbil Group aims to improve communication with our various stakeholders and deepen the mutual sharing of value.

The azbil Group strongly recognizes its own social responsibility with respect to its corporate activities. Based on our Group philosophy of "human-centered automation," we work to create various types of value for shareholders and other investors, as well as customers, business partners, employees, and society. We will convey information about these efforts to share our values with society while enhancing understanding among people both inside and outside the Group. At the same time, we use feedback from our stakeholders to create new value. Collaboration with our stakeholders and the development of a relationship of trust through dialogue are important assets for the sustainable growth of the azbil Group. As such, we appointed an executive officer in charge of corporate communication, who is putting in place systems to facilitate dialogue with stakeholders, in partnership with various departments in the Group.

Enhancing Dialogue with Shareholders and Other Investors

Under the direction of the executive officer in charge of corporate communications, our various departments—the Corporate Sustainability Headquarters, and those in charge of accounting and finance, general affairs, human resources, and corporate planning and public relations, as well as our business divisions—work together to enhance dialogue with shareholders and other investors. To this end, we provide opportunities for executives, including the Chairperson and President and Group CEO, to communicate directly with shareholders and other investors. We also have in place an Investor Relations (IR) Office which is dedicated to enhancing such dialogue. With efforts spearheaded by the IR Office, we are engaging in dialogue on a wide range of topics that include our business performance, business details, governance, and proposals made at the General Meeting of Shareholders.

Proactive Dialogue by Officers (in Addition to Financial Results Briefings)

Regarding specific dialogue initiatives, we hold briefings of the Company's financial results, where the President and Group CEO explains our performance and management plan and, together with executive officers, welcomes questions from institutional investors. For the disclosure of 2019 financial results, we held the briefing online in order to ensure the timeliness of the information disclosure while also avoiding the risk of the spread of COVID-19 and maintaining the safety of our shareholders and investors. A video of this briefing was later released in both Japanese and English. We also hold individual meetings and join conferences with our institutional investors in Japan and overseas. The President and Group CEO, executive officer in charge of corporate communications, other officers, and the IR officers participate in these meetings. In fiscal year 2019 (ended March 2020), we engaged in such dialogue with shareholders and other investors on more than 250 occasions. In fiscal year 2020 (ending March 2021), we are utilizing an online conferencing system to continue to maintain a sufficient level of dialogue. We convey the opinions gathered through these discussions to our management team, including outside officers, and use them as a key source of information for making decisions on corporate management.



The FY2019 financial results briefing was held online in order to ensure safety of investors and timeliness of information disclosure.

General Meeting of Shareholders, Early Disclosure Efforts, and Global Information Dissemination

Regarding the General Meeting of Shareholders, we include a message from the President and Group CEO in the convocation notice, which is used as a basis for deciding on voting rights. We also work to enhance the content of the convocation notice and announce that information quickly in both Japanese and English. Our policy is to post the convocation notice on our website one month prior to the General Meeting of Shareholders, and to send the notice to all shareholders three weeks before the event. We are also offering an online means of enabling a wide range of shareholders to use an electronic voting platform, to quickly obtain information about the General Meeting of Shareholders, and to exercise their voting rights.



Considering the safety of all of our shareholders, we conducted the 98th Ordinary General Meeting of Shareholders (held on June 24, 2020) by utilizing the internet. Officers who spoke at the meeting participated from Japan and overseas through an online conferencing systems.

Furthermore, in the 98th Ordinary General Meeting of Shareholders held in June 2020, we utilized the internet after taking into consideration the importance of holding the General Meeting of Shareholders and briefing on business operations from the perspective of preventing the spread of COVID-19 and ensuring the safety of all of our shareholders.

Dialogue with Individual Shareholders and Investors

In addition to institutional investors, we work to expand opportunities for dialogue with individual shareholders and investors. In addition to enhancing the information available on our website, we are participating in exhibitions and briefings for individual investors as appropriate, despite having to suspend our planned briefings due to the impact of the spread of COVID-19. We are also publishing articles which explain the azbil Group's businesses and management strategy in publications for individual investors.



In a magazine for individual investors we explain the azbil Group with a Q&A format. (IR magazine No. 115)

Expanding Dialogue Opportunities and Enhancing Disclosure Content

To promote a deeper understanding of the azbil Group in terms of value provided and business content, we are working to expand dialogue opportunities and enhance disclosure content, in addition to holding financial results briefings. To increase opportunities for dialogue, for example we hold forums at exhibitions in which the azbil Group participates and explain our business and products. In



We leverage exhibitions at IIFES (left) and Smart Building EXPO (right) as opportunities to help deepen understandings of azbil Group businesses and products.

Sharing Value with Our Shareholders

Disciplined Capital Policy

To enhance constructive dialogue with our shareholders, we strive to improve disclosure of management policies and business content. In addition to delivering sustainable corporate growth and improving enterprise value, we regard the return of profits to shareholders as an important management priority. With this in mind, we maintain a disciplined capital policy while taking into consideration a good balance among the three fundamental objectives of (1) investing for growth, (2) maintaining a sound financial foundation, and (3) enhancing shareholder return. Regarding shareholder return, we comprehensively evaluate our consolidated business performance, dividends on equity (DOE), and return on equity (ROE), as well as the need to retain internal reserves to develop our future business and maintain a sound financial base. Our policy, which is to maintain stable dividend level while striving to raise it, also includes flexible share buybacks.

Employee Stock Incentive System: Sharing Values with Shareholders and Employees

To promote shared value, in March 2017 we introduced an employee stock ownership plan. This is an incentive plan for strengthening the connection between the Company's stock price and business performance on the one hand, and employee rewards on the other, so that employees are motivated to increase the Company's stock price and improve business performance. We aim for our employees to understand our management strategy and share the same values throughout the Company, while also performing their roles with the same values held by shareholders.

Japan we participated in the Major Exhibition of Cutting-Edge Technologies for Automation and Measurement IIFES/Smart Building EXPO, etc. while overseas we participated in Industrial Transformation ASIA PACIFIC (ITAP), the largest industrial digitalization technology exhibition in the Asia Pacific region, etc. In addition, we post content on our website where visitors can take virtual tours of our main R&D base and our exhibition display booths, to foster a broader understanding of the azbil Group among stakeholders.



Start screen for the online virtual tour of the azbil Group's main R&D base, the Fujisawa Technology Center

Timely and Appropriate Disclosure

To ensure the rights of all shareholders and other investors in a substantial and equal manner, we take appropriate measures and establish frameworks that conform to laws and regulations. We also strive to ensure the integrity and transparency of information disclosed to fulfill our corporate accountability obligation. We ensure that highly transparent and fair disclosure of information is carried out in a timely and appropriate manner, and have spelled out our basic approach to disclosure in our Disclosure Policy. In fiscal year 2019, we expanded the entry of MD&A (Management Discussion and Analysis) in our securities report based on the order by Japan's Cabinet Office. In addition, we have a "Investor Relations" section on our corporate website, and we publish and update information about such matters as shareholders' meetings, financial results, and IR materials in a timely manner. We also strive to disclose financial information in both Japanese and English on the same day so that there is no information gap between Japan and overseas.

Non-financial (ESG) Information Disclosure

For some time, we have published our annual azbil report (this publication) to actively release information valuable in making investment decisions. This contains both financial and non-financial information related to environmental, social, and governance (ESG) issues. Recent years have seen growing demand for non-financial (ESG) information disclosure, so we are working to improve information and other content on our website. Reflecting these efforts, the azbil Group received a grade of 3.4 (out of 5) from FTSE and an A- from CDP (leadership level), as well as inclusion into various ESG indices, including the FTSE4Good Index Series, FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index (WIN), and the S&P/JPX Carbon Efficient Index, etc.

Providing Information to Society Via Media

Global Distribution of Press Releases

In addition to shareholders and other investors, we communicate widely with other stakeholders in Japan and overseas through proactive public relations activities via the media. These include issuing press releases, holding press conferences, and conducting interviews. We also provide more detailed information about our products, business, and social contributions, which we post on our English language website as appropriate, and we utilize communication systems in each country to disseminate information to the media. For reporters, we augment our press releases with tours of our booths at major exhibitions and our business facilities to help them gain a deeper understanding of our Group and convey accurate information to the public. For example, in fiscal year 2019, we held a tour upon the completion of the new building of the Shonan Factory based on the theme of the azbil Group's "mother factory." We also pursue these initiatives overseas. We held an exhibition at the previously mentioned Industrial Transformation ASIA PACIFIC (ITAP),



Home screen of the Investor Relations page. This section includes briefings information and various IR tools.
https://www.azbil.com/ir/index.html



Media reporters tour the azbil Group's cutting-edge technology production line utilizing AI at our major production hub, Shonan Factory, which produces field devices such as valves.

which was held in October 2019 in Singapore, where we engaged in proactive communication activities, such as distributing press releases and responding to interview requests from local media. In addition to public relations activities, we conduct research to find out how the Group is perceived and recognized at home and abroad, and what we could do to enhance people's understanding of the Group.

Sharing Value with Customers

Share Value with Customers and Create Value with Customers at their Sites

Creating value with customers at their sites is a key activity that reflects our Group philosophy. To this end, we introduce products, services, and solutions offered by our three busines segments—Building Automation, Advanced Automation, and Life Automation. We have also set aside space at our Fujisawa Technology Center to share problems and search for solutions by engaging in discussions with customers. In fiscal year 2019, we welcomed 1,515 people from 166 companies. Specifically, we exchanged opinions on future technology scenarios and next-generation products, systems, and services that we could collaborate on. For customers outside of Japan, we have established a videoconferencing link with the showroom at our Strategic Planning & Development Office for Southeast Asia, which we set up in Singapore. We have also utilized online conferencing to communicate with customers in various regions and expand our communication activities globally.



The Management Room, a space inside Fujisawa Technology Center for collaborative creation with customers (above); Showroom inside the Strategic Planning & Development Office for Southeast Asia in Singapore (below). Connected by a video conferencing system, these spaces make it possible to communicate the newest technological information to local customers.

Brand Communication

Conveying and Sharing Value Provided by azbil Group to the World

The azbil Group is working to build a global brand in order to tell the world about the value it aims to provide through its philosophy of "human-centered automation" and share this value with stakeholders in Japan and overseas. We are utilizing the advertising catchphrases and designs we produced in 2018 (English catchphrases: "Azbil – Going Beyond Automation") to launch corporate advertising and participate in major exhibitions in Japan and overseas. We created design guidelines as we aim to rigorously disseminate information based on a unified design and build our brand globally.



azbil Techno Plaza, a showroom in the Fujisawa Technology Center. This place exhibits the azbil Group's major products and strategic products to share information about cutting-edge technology with local customers and allow for communication.

Communication with Stakeholders



Constructed exhibition booth based on the design guidelines. Exhibition at ITAP in Singapore



We launched a new corporate advertising globally in October 2020. It represents the idea that we take our customers to a bright future with our automation technology.

Sharing Value with Employees

Sharing Value to Achieve Group Philosophy

Aiming to practice our Group philosophy for achieving a sustainable society, the azbil Group has created the azbil book (azbil Group philosophy and Guiding Principles) and the code of conduct book (azbil Group's Code of Conduct) and distributed them to employees to deepen their understanding. For global employees, we have translated these publications to ten languages and distributed them globally.



azbil book (azbil Group philosophy and Guiding Principles) and the code of conduct book (azbil Group's Code of Conduct)



Excerpt from the azbil book (azbil Group philosophy and Guiding Principles) that explains the five guideposts (Guiding Principles)



Enhancing and Reforming Corporate Communication Activities to Improve Corporate Value

Takayuki Yokota
Director, Senior Managing Executive Officer Responsible for Corporate Communication

Changes in the social environment and technological trends increase the opportunities to create value through measurement and control. Based on our Group philosophy of "human-centered automation," the azbil Group's important management policy is to contribute "in series" to the creation of a sustainable society through efforts to solve problems facing society while also achieving our own sustainable growth.

It is my sincere hope that the many stakeholders who support us each day can understand the direction the azbil Group wishes to create enterprise value and our business activities, which are the source of this value creation, through our corporate communication activities, including this azbil report. We also welcome opinions and other feedback from stakeholders so we can further increase enterprise value while gaining an impartial understanding of our own issues. This is an important cycle, we believe. The speed of digital transformation in our corporate communications, which stemmed from various technological innovations, has been accelerated even further due to the changes in our society and lifestyles as a result of the spread of COVID-19, forming a new normal. In order to achieve better communication as we aim to produce value through the Group's unique activities that contribute "in series" with the SDGs for sustainable society, we will continue to take efforts to enhance the transparent disclosure of information in an appropriate and timely manner based on laws, regulations, and guidelines. Furthermore, we will take proactive efforts to generate new communication that utilizes ICT as we strive for a mutual sharing of value with our stakeholders.

Exchanges with Society and Social Contribution Activities

We work to entrench a culture of contribution to society through various voluntary initiatives in areas accessible to employee involvement and participation in local grassroots events. In these ways, we continue to help raise awareness about social issues and enliven local communities.

Donations due to Spread of COVID-19

Representing the azbil Group, Azbil Corporation made the following donation in June 2020 in response to the massive damage caused both in Japan and overseas by this virus.

Domestic and overseas donations (total of ¥50 million)

- Japanese Red Cross Society: ¥15 million
- Central Community Chest of Japan (Red feather community chest): ¥15 million
- UNICEF* "COVID-19 Emergency Fund": ¥20 million

*United Nations Children's Fund

Please visit the link below for more information.
https://www.azbil.com/press/200624.html

Participation in the Shonan International Marathon

Azbil Corporation sponsored the 14th Shonan International Marathon held on December 1, 2019. The azbil Group has participated in this marathon since the first time the race was run. Since the beginning, we have been a leader of Eco Friendship and promoted efforts to lighten the environmental impact of this marathon.

This year, over 220 azbil Group employees ran in the race while 70 Group employees from all across Japan and their family members, including employees at overseas companies, served as volunteers.



Eco Runner created to raise awareness of the environment among the runners

Please visit the link below for more information.
https://www.azbil.com/corporate/pr/sponsorship/shonan-marathon.html

azbil Honey Bee Club

The azbil Honey Bee Club has around 1,100 employees and officers of the azbil Group as its members. A distinct feature of the club is the ability of members to apply for support of activities. The destination of the donation is determined by a vote. Azbil Corporation supports the club in the form of matching donations for activities that members themselves participate. In fiscal year 2019, the club provided a total of ¥6.7 million to 43 organizations. As a new initiative in the tenth year of the club, it sponsored 30 external organizations for a total of ¥2.57 million based on a member votes.

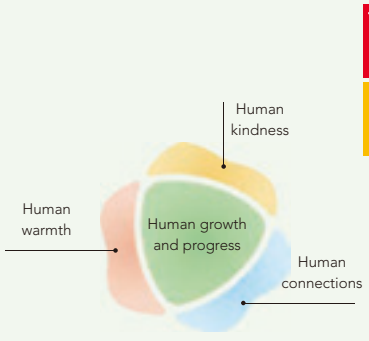
Please visit the link below for more information.
https://www.azbil.com/csr/contribution-to-society/mitsubachi.html



March, the azbil Honey Bee Club's mascot

Azbil Yamatake General Foundation

The Azbil Yamatake General Foundation was established with the aim of providing systems and educational opportunities for children, who represent our future, to learn without hindrances. The foundation also fosters research in science and technology and supports the development of new technology. The foundation's "Asunaro Friendship" program provides financial support for scholarships, educational awareness, and research activities. This program's aim is to promote a variety of activities in cooperation with local communities, schools, research institutes, and the like, in a way that brings happiness and a feeling of accomplishment to the recipients. To date, the foundation has supported a scholarship program established by Fujisawa City, Kanagawa Prefecture, provided scholarships to students from single-parent households who need economic assistance, and donated to childcare centers. In addition to its regular activities, in fiscal year 2019, it expanded its activities to Kanagawa Prefecture. Also, the foundation donated to the central community chest (designating Kanagawa Prefecture) and Ashinaga, organizations which support students and families who are in a vulnerable social position, such as single-parent families or students who lost education opportunities due to the spread of COVID-19.



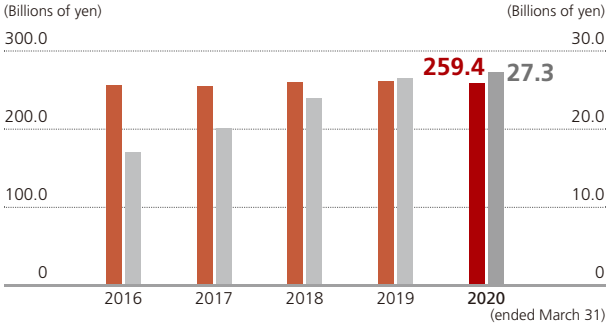
Azbil Yamatake General Foundation Symbol

Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

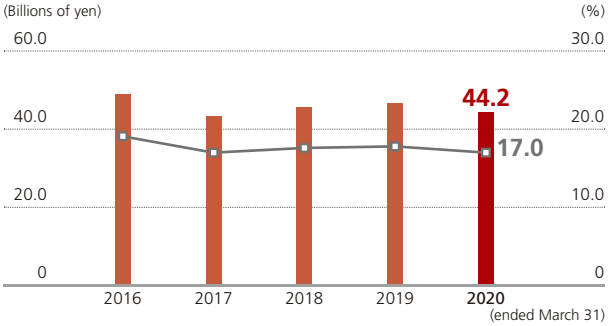
Financial Highlights

Net Sales, Operating Income



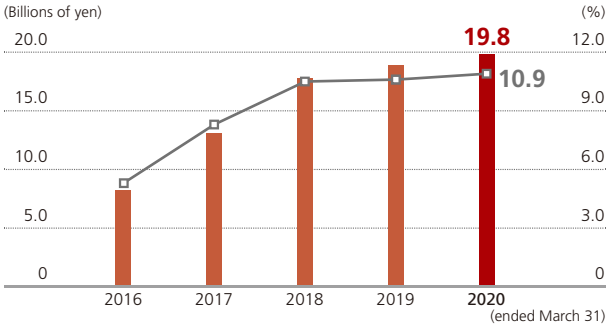
Net sales (left scale)
Operating income (right scale)

Overseas Sales, Overseas Sales/Net Sales



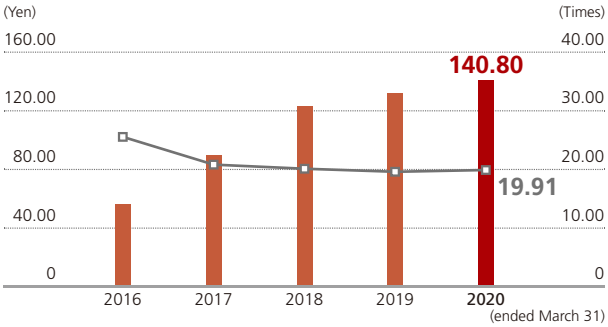
Overseas sales (left scale)
Overseas sales/Net sales (right scale)

Net Income Attributable to the Owners of the Parent, Return on Equity (ROE)



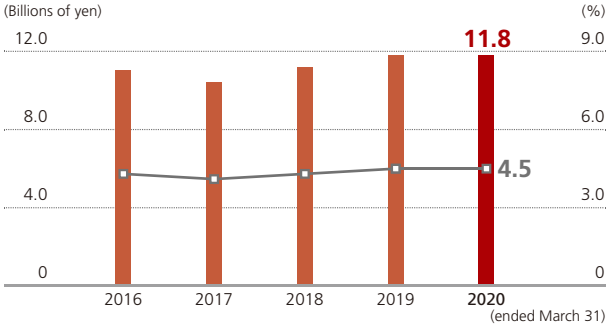
Net income attributable to the owners of the parent (left scale)
Return on equity (ROE) (right scale)

Net Income per Share (EPS), Price Earnings Ratio (PER)



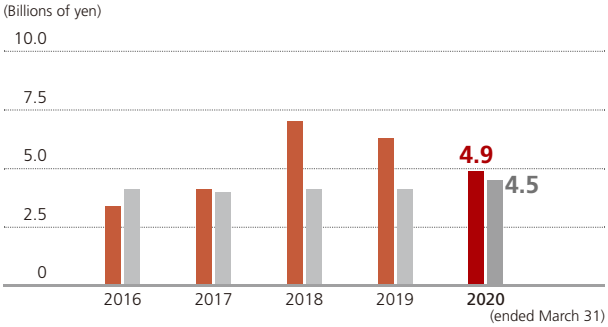
Net income per share (EPS) (left scale)
Price earnings ratio (PER) (right scale)

R&D Expenses, R&D Expenses/Net Sales Ratio



R&D expenses (left scale)
R&D expenses/Net sales ratio (right scale)

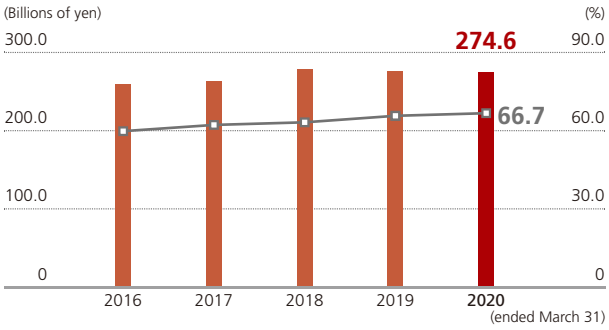
Capital Expenditure, Depreciation



Capital expenditure
Depreciation

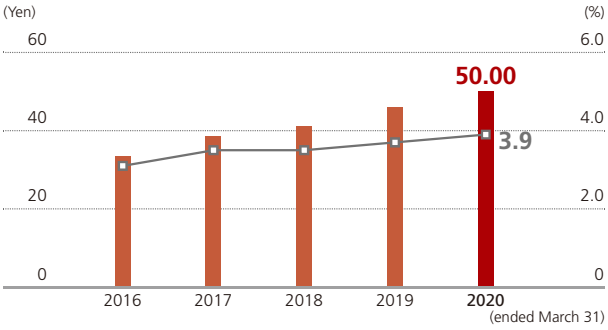
The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018.
Figures for net income per share (EPS) and dividends per share have been recalculated to reflect the number of shares after the stock split.

Total Assets, Shareholders' Equity/Total Assets



Total assets (left scale)
Shareholders' equity/Total assets (right scale)

Dividends per Share, Dividend on Equity (DOE)

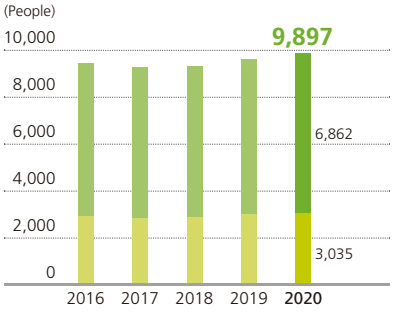


Dividends per share (left scale)
Dividend on equity (DOE) (right scale)

Non-Financial Highlights

Number of Employees

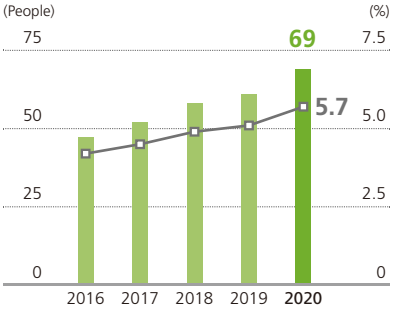
(as of March 31)



Number of domestic employees
Number of overseas employees

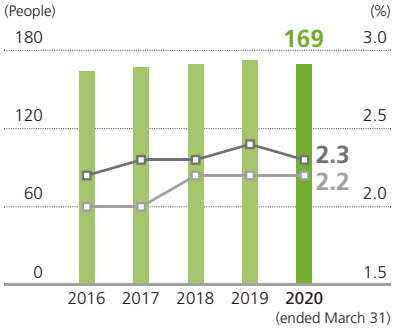
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions

Azbil Corporation (as of April 1)



Number of female employees in managerial or specialist positions (left scale)
Ratio of female employees in managerial or specialist positions (right scale)

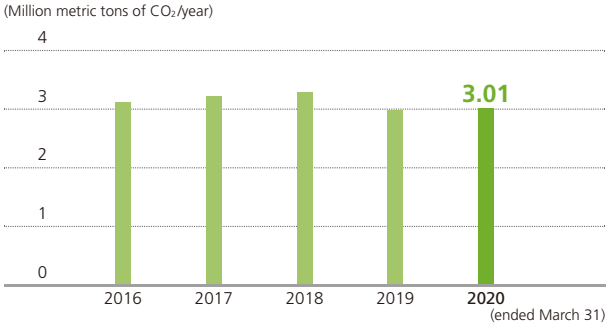
Ratio of Employees with Disabilities to Total Workforce



Number of employees with disabilities (left scale)
Ratio of employees with disabilities to total workforce (right scale)
Statutory employment rate (right scale)

Effective Reduction of CO_2 at Customers' Sites

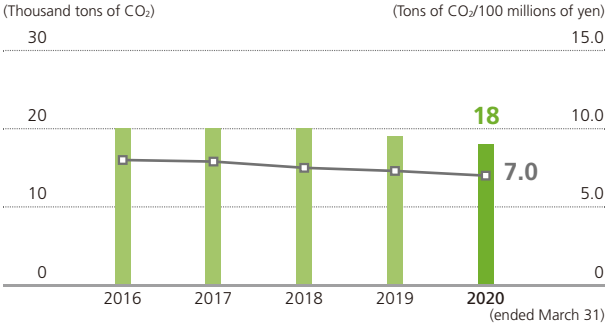
Azbil Corporation and its overseas subsidiaries



* Estimations method for the fiscal year ended March 31, 2019 is based on third-party review.

CO_2 Emissions (Scope 1+2) and CO_2 Emissions per Unit Sales

Azbil Corporation, its consolidated subsidiaries in Japan and its main manufacturing bases overseas



CO_2 emissions (left scale)
CO_2 emissions per unit sales (right scale)

11-Year Key Finanial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

	2010	2011	2012	2013
Financial information				
Financial Results (for the year):				
Net sales	212,213	219,216	223,499	227,585
(Overseas sales)*1			19,837	22,956
Gross profit	76,420	79,714	80,840	77,872
Selling, general and administrative expenses	64,035	64,818	66,492	64,461
Operating income	12,385	14,896	14,348	13,411
Net income attributable to owners of the parent	6,242	7,928	8,519	8,309
Capital expenditure	2,704	3,351	3,010	3,121
Depreciation	4,751	4,460	4,027	3,621
R&D expenses	8,640	8,953	8,816	7,824
Cash Flows (for the year):				
Net cash provided by operating activities	15,714	15,223	5,634	15,010
Net cash provided by (used in) investing activities	1,960	(2,276)	(3,549)	(12,716)
Free cash flow	17,674	12,947	2,085	2,294
Net cash used in financing activities	(6,757)	(8,001)	(6,393)	(2,487)
Financial Position (at year-end):				
Total assets*2	218,472	217,501	223,476	243,419
Interest-bearing debt	15,190	11,848	10,230	17,920
Shareholders' equity	127,669	129,605	133,565	139,042
Net assets	129,278	131,362	135,077	141,197
Per Share Data*3:				
Net income (yen)	42.26	53.67	57.67	56.25
Net assets (yen)	864.32	877.43	904.24	941.33
Cash dividends (yen)	31.00	31.50	31.50	31.50
Financial Statement Related Ratio:				
Gross profit/Net sales (%)	36.0	36.4	36.2	34.2
SG&A expenses/Net sales (%)	30.2	29.6	29.8	28.3
Operating income/Net sales (%)	5.8	6.8	6.4	5.9
R&D expenses/Net sales (%)	4.1	4.1	3.9	3.4
Shareholders' equity/Total assets (%)*2	58.4	59.6	59.8	57.1
Return on equity (ROE) (%)	5.0	6.2	6.5	6.1
Dividend on equity (DOE) (%)	3.6	3.6	3.5	3.4
Dividend payout ratio (%)	73.4	58.7	54.6	56.0
Debt-equity ratio	0.12	0.09	0.08	0.13
Non-Financial information				
CO_2 Emissions (Scope 1+2) (Metric tons of CO_2)*4	27,460	26,678	23,549	22,890
Number of Employees(People)	8,220	8,215	8,331	9,585
Number of Domestic Employees	7,151	7,063	7,056	7,085
Number of Overseas Employees	1,069	1,152	1,275	2,500
Number of Female Employees in Managerial or Specialist Positions (People)	17	22	23	29
Ratio of Female Employees in Managerial or Specialist Positions (%)	1.6	2.1	2.1	2.6
Ratio of Employees with Disabilities to Total Workforce (%)*5	1.93	2.19	2.08	2.10

*1 The Company has disclosed overseas sales figures since fiscal year 2012, when overseas sales first accounted for more than 10% of consolidated net sales. The figure for fiscal year 2011 (¥19,837 million), shown as a comparison information, reflects the aggregate of sales in the same regions used for overseas sales calculations in fiscal year 2012 and thereafter.
*2 Effective from the beginning of fiscal year 2018, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. Figures for total assets and shareholders' equity/total assets in fiscal year 2017 have been changed retrospectively to reflect the amended standard as a comparison information.
*3 The Company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Per share data are based on the number of shares after the stock split.

(Millions of yen)

2014	2015	2016	2017	2018	2019	**2020**
248,417	254,469	256,890	254,811	260,384	262,055	**259,411**
46,135	46,756	48,991	43,380	45,797	46,710	**44,195**
86,550	89,884	91,089	91,492	97,481	102,338	**103,642**
72,646	74,546	73,953	71,347	73,454	75,648	**76,386**
13,904	15,337	17,136	20,145	24,027	26,690	**27,256**
7,669	7,169	8,268	13,154	17,890	18,951	**19,793**
5,303	6,302	3,413	4,160	7,038	6,363	**4,934**
3,723	3,785	4,148	4,075	4,112	4,167	**4,462**
8,767	10,124	11,012	10,446	11,262	11,897	**11,788**
15,836	13,698	11,073	19,949	19,481	16,111	**29,812**
(10,670)	(13,472)	4,262	(9,061)	(48)	(4,075)	**(4,171)**
5,166	226	15,334	10,889	19,433	12,036	**25,641**
(6,940)	(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	**(18,768)**
253,448	265,719	259,127	263,317	273,805	275,518	**274,559**
17,687	16,673	12,605	11,175	10,686	10,028	**8,576**
143,316	158,273	155,006	163,822	175,996	181,143	**183,190**
144,978	160,294	156,966	165,752	177,963	183,098	**185,302**
51.93	48.53	56.36	89.78	123.08	132.03	**140.80**
970.28	1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	**1,313.17**
31.50	31.50	33.50	38.50	41.00	46.00	**50.00**
34.8	35.3	35.5	35.9	37.4	39.1	**40.0**
29.2	29.3	28.8	28.0	28.2	28.9	**29.4**
5.6	6.0	6.7	7.9	9.2	10.2	**10.5**
3.5	4.0	4.3	4.1	4.3	4.5	**4.5**
56.5	59.6	59.8	62.2	64.3	65.7	**66.7**
5.4	4.8	5.3	8.3	10.5	10.6	**10.9**
3.3	3.1	3.1	3.5	3.5	3.7	**3.9**
60.7	64.9	59.4	42.9	33.3	34.8	**35.5**
0.12	0.11	0.08	0.07	0.06	0.06	**0.05**
22,295	21,577	20,650	20,242	19,610	19,125	**18,130**
9,712	9,408	9,464	9,290	9,328	9,607	**9,897**
7,026	6,679	6,551	6,463	6,444	6,618	**6,862**
2,686	2,729	2,913	2,827	2,884	2,989	**3,035**
33	35	40	47	52	58	**61**
3.0	3.2	3.6	4.2	4.5	4.9	**5.1**
2.11	2.20	2.18	2.26	2.29	2.35	**2.32**

*4 Scope 1: Direct Greenhouse Gas (GHG) emissions from a business (from fuel burning, industrial process)
Scope 2: Indirect Greenhouse Gas (GHG) emissions from using electricity, heat, or steam provided by another business
*5 Includes: Azbil Corporation, Azbil Yamatake Friendly Co., Ltd., Azbil Kimmon Co., Ltd., Azbil Trading Co., Ltd., Azbil TA Co., Ltd. Azbil Trading Co., Ltd. and Azbil Kimmon Co., Ltd. from 2011 and Azbil TA Co., Ltd. from 2015 were consolidated as group companies.

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2020	2019	2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 74,744	¥ 68,134	$ 685,720
Marketable securities (Note 4)	13,700	13,306	125,688
Notes and accounts receivable:			
Trade (Note 14)	85,245	93,748	782,067
Other	1,746	1,565	16,022
Allowance for doubtful receivables	(376)	(379)	(3,449)
Inventories (Note 5)	25,339	24,914	232,470
Prepaid expenses and other current assets	8,792	8,619	80,664
Total current assets	209,190	209,907	1,919,182
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,708	6,660	61,543
Buildings and structures (Notes 6 and 7)	47,638	44,324	437,046
Machinery and equipment (Note 6)	18,601	18,671	170,658
Furniture and fixtures (Note 6)	20,263	20,292	185,898
Lease assets (Note 13)	2,337	240	21,436
Construction in progress (Note 6)	462	2,894	4,236
Total	96,009	93,081	880,817
Accumulated depreciation	(67,791)	(66,115)	(621,938)
Net property, plant and equipment	28,218	26,966	258,879
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 14)	19,865	21,425	182,245
Investments in and advances to unconsolidated subsidiaries and associated companies	336	418	3,086
Deposits	2,952	3,016	27,081
Deferred tax assets (Note 10)	4,287	4,278	39,326
Software (Note 6)	4,165	4,530	38,212
Other assets	5,546	4,978	50,882
Total investments and other assets	37,151	38,645	340,832
TOTAL	¥ 274,559	¥ 275,518	$ 2,518,893

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2020	2019	Thousands of U.S. Dollars (Note 1) 2020
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 14)	¥ 8,197	¥ 9,498	$ 75,199
Current portion of long-term debt (Notes 7 and 14)	433	482	3,975
Notes and accounts payable:			
Trade (Note 14)	38,482	40,102	353,047
Other	1,751	1,954	16,068
Income taxes payable	6,699	7,667	61,460
Accrued bonuses	10,830	10,599	99,358
Other accrued expenses and current liabilities	16,284	16,670	149,390
Total current liabilities	82,676	86,972	758,497
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,611	640	14,780
Liability for retirement benefits (Note 8)	2,322	2,096	21,305
Deferred tax liabilities (Note 10)	181	182	1,664
Provision for stock payment	1,319	988	12,100
Other long-term liabilities	1,148	1,542	10,532
Total long-term liabilities	6,581	5,448	60,381
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 16)			
EQUITY (Note 9):			
Common stock—authorized, 559,420,000 shares; issued, 145,200,884 shares	10,523	10,523	96,539
Capital surplus	11,671	11,671	107,071
Retained earnings	165,055	160,325	1,514,273
Treasury stock—at cost, 5,699,112 shares in 2020 and 5,291,816 shares in 2019	(13,740)	(11,952)	(126,059)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	8,843	9,727	81,135
Deferred (loss) gain on derivatives under hedge accounting	(28)	4	(265)
Foreign currency translation adjustments	893	936	8,193
Defined retirement benefit plans	(27)	(91)	(249)
Total	183,190	181,143	1,680,638
Noncontrolling interests	2,112	1,955	19,377
Total equity	185,302	183,098	1,700,015
TOTAL	¥ 274,559	¥ 275,518	$ 2,518,893

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥ 259,411	¥ 262,055	$ 2,379,922
COST OF SALES	155,769	159,717	1,429,076
Gross profit	103,642	102,338	950,846
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	76,386	75,648	700,791
Operating income	27,256	26,690	250,055
OTHER INCOME (EXPENSES):			
Interest income	168	150	1,540
Dividend income	599	552	5,495
Interest expense	(142)	(135)	(1,303)
Foreign currency exchange (loss) gain	(128)	249	(1,171)
Loss on sales of property, plant, equipment and others—net	(46)	(143)	(424)
Gain on sales of investment securities—net (Note 4)	776	2,219	7,123
Loss on impairment of long-lived assets (Note 6)	(22)	(87)	(202)
Loss on abolishment of retirement benefit plan (Note 8)	(243)	(3,211)	(2,232)
Loss on valuation of shares of subsidiaries and associates	(42)		(390)
Others—net (Note 11)	(41)	159	(372)
Other income (expenses)—net	879	(247)	8,064
INCOME BEFORE INCOME TAXES	28,135	26,443	258,119
INCOME TAX EXPENSE (BENEFIT) (Note 10):			
Current	7,620	8,643	69,906
Deferred	313	(1,416)	2,867
Total income tax expense	7,933	7,227	72,773
NET INCOME	20,202	19,216	185,346
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(409)	265	(3,756)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,793	¥ 18,951	$ 181,590

	Yen		U.S. Dollars (Note 1)
	2020	2019*	2020
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 140.80	¥ 132.03	$ 1.29
Cash dividends applicable to the year	50.00	46.00	0.46

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 20,202	¥ 19,216	$ 185,346
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized loss on available-for-sale securities	(884)	(3,179)	(8,109)
Deferred loss on derivatives under hedge accounting	(33)	(42)	(299)
Foreign currency translation adjustments	(58)	(967)	(537)
Defined retirement benefit plans	64	1,666	589
Total other comprehensive income	(911)	(2,522)	(8,356)
COMPREHENSIVE INCOME	¥ 19,291	¥ 16,694	$ 176,990
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 18,897	¥ 16,486	$ 173,376
Noncontrolling interests	394	208	3,614

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding*	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2018	145,074	¥ 10,523	¥ 11,670	¥ 147,729	¥ (6,966)	¥ 12,906	¥ 45	¥ 1,837	¥ (1,749)	¥ 175,995	¥ 1,968	¥ 177,963
Net income attributable to owners of the parent				18,951						18,951		18,951
Cash dividends, ¥46 per share*				(6,355)						(6,355)		(6,355)
Change in ownership interest of parent due to transactions with noncontrolling interests			1							1		1
Purchase of treasury stock	(1,873)				(5,003)					(5,003)		(5,003)
Disposal of treasury stock	8				17					17		17
Net change in the year						(3,179)	(41)	(901)	1,658	(2,463)	(13)	(2,476)
BALANCE, MARCH 31, 2019	143,209	10,523	11,671	160,325	(11,952)	9,727	4	936	(91)	181,143	1,955	183,098
Cumulative effects of changes in accounting policies				(62)						(62)		(62)
Restated balance	**143,209**	**10,523**	**11,671**	**160,263**	**(11,952)**	**9,727**	**4**	**936**	**(91)**	**181,081**	**1,955**	**183,036**
Net income attributable to owners of the parent				**19,793**						**19,793**		**19,793**
Cash dividends, ¥50 per share				**(6,888)**						**(6,888)**		**(6,888)**
Purchase of treasury stock	**(3,718)**				**(9,923)**					**(9,923)**		**(9,923)**
Disposal of treasury stock	**11**				**22**					**22**		**22**
Retirement of treasury stock			**(8,113)**		**8,113**							
Transfer from retained earnings to capital surplus			**8,113**	**(8,113)**								
Net change in the year						**(884)**	**(32)**	**(43)**	**64**	**(895)**	**157**	**(738)**
BALANCE, MARCH 31, 2020	**139,502**	**¥ 10,523**	**¥ 11,671**	**¥ 165,055**	**¥ (13,740)**	**¥ 8,843**	**¥ (28)**	**¥ 893**	**¥ (27)**	**¥ 183,190**	**¥ 2,112**	**¥ 185,302**

* Shares and per share figures have been restated, as appropriate, to reflect a two for one stock split effected on October 1, 2018.

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2019	$ 96,539	$ 107,071	$ 1,470,875	$ (109,653)	$ 89,244	$ 34	$ 8,585	$ (836)	$ 1,661,859	$ 17,935	$ 1,679,794
Cumulative effects of changes in accounting policies			(572)						(572)		(572)
Restated balance	**96,539**	**107,071**	**1,470,303**	**(109,653)**	**89,244**	**34**	**8,585**	**(836)**	**1,661,287**	**17,935**	**1,679,222**
Net income attributable to owners of the parent			**181,590**						**181,590**		**181,590**
Cash dividends, $0.46 per share			**(63,188)**						**(63,188)**		**(63,188)**
Purchase of treasury stock				**(91,043)**					**(91,043)**		**(91,043)**
Disposal of treasury stock				**205**					**205**		**205**
Retirement of treasury stock		**(74,432)**		**74,432**							
Transfer from retained earnings to capital surplus		**74,432**	**(74,432)**								
Net change in the year					**(8,109)**	**(299)**	**(392)**	**587**	**(8,213)**	**1,442**	**(6,771)**
BALANCE, MARCH 31, 2020	**$ 96,539**	**$ 107,071**	**$ 1,514,273**	**$ (126,059)**	**$ 81,135**	**$ (265)**	**$ 8,193**	**$ (249)**	**$ 1,680,638**	**$ 19,377**	**$ 1,700,015**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 28,135	¥ 26,443	$ 258,119
Adjustments for:			
Income taxes—paid	(8,664)	(7,324)	(79,489)
Depreciation and amortization	4,462	4,167	40,935
Reversal of doubtful receivables	(296)	(277)	(2,714)
Increase in accrued bonuses	248	263	2,274
Foreign currency exchange loss (gain)	135	(148)	1,238
Loss on sales of property, plant, equipment and others—net	46	143	424
Gain on sales and valuation of investment securities—net	(776)	(2,219)	(7,123)
Loss on impairment of long-lived assets	22	87	202
Loss on abolishment of retirement benefit plan	243	3,211	2,232
Loss on valuation of shares of subsidiaries and associates	42		390
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	8,557	(3,018)	78,504
Increase in inventories	(428)	(1,395)	(3,925)
Decrease in notes and accounts payable	(1,563)	(1,006)	(14,340)
Increase (decrease) in liability for retirement benefits	64	(3,306)	587
Decrease (increase) in net defined benefit assets	3	(227)	28
Decrease in accrued payments due to change in retirement benefit plan		(764)	
Increase in provision for stock payment	354	350	3,245
Decrease in other assets	114	91	1,041
(Decrease) increase in other liabilities	(860)	1,041	(7,890)
Others—net	(26)	(1)	(237)
Total adjustments	1,677	(10,332)	15,382
Net cash provided by operating activities	29,812	16,111	273,501
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	63	84	577
Purchases of property, plant and equipment	(3,781)	(5,706)	(34,690)
Purchases of intangible assets	(908)	(940)	(8,330)
Proceeds from sales of investment securities	1,108	2,838	10,162
Purchases of investment securities	(6)	(11)	(59)
Proceeds from sales of beneficiary securities of trust	9,224	10,649	84,622
Purchases of beneficiary securities of trust	(9,353)	(10,198)	(85,810)
Proceeds from sales of marketable securities	33,806	27,200	310,146
Purchases of marketable securities	(34,200)	(27,900)	(313,761)
Purchase of investments in capital of subsidiaries		(28)	
Others—net	(124)	(63)	(1,134)
Net cash used in investing activities	(4,171)	(4,075)	(38,277)
FORWARD	¥ 25,641	¥ 12,036	$ 235,224
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(1,178)	(293)	(10,805)
Proceeds from long-term debt	300	11	2,752
Repayment of long-term debt	(442)	(53)	(4,052)
Purchase of treasury stock	(9,923)	(5,003)	(91,042)
Cash dividends paid	(6,888)	(6,354)	(63,188)
Dividends paid to noncontrolling interests	(232)	(210)	(2,132)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation		(5)	
Others—net	(405)	(117)	(3,715)
Net cash used in financing activities	(18,768)	(12,024)	(172,182)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(263)	(518)	(2,408)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,610	(506)	60,634
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	68,134	68,640	625,086
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 74,744	¥ 68,134	$ 685,720

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Azbil Corporation and Consolidated Subsidiaries
Year Ended March 31, 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥109 to $1, the approximate rate of exchange as of March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2020, include the accounts of Azbil and its 47 (48 in 2019) significant subsidiaries (together, the "azbil Group").

Under the control and influence concepts, those companies in which Azbil, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the azbil Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 1 (2 in 2019) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill is amortized on a straight-line basis over five years, with the exception of minor amounts which are charged to income in the period of the acquisitions.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the azbil Group is eliminated.

b. Business Combinations—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the period in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, beneficiary securities of trust under resale agreements and commercial paper, all of which mature or become due within three months of the date of acquisition.

d. Inventories—Inventories, other than raw materials, are principally stated at the lower of cost, determined by the specific identification method, or net selling value. Raw materials are principally stated at the lower of cost, determined by the moving-average method, or net selling value.

e. Allowance for Doubtful Receivables—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the azbil Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation for Azbil and its consolidated domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and to facilities attached to buildings and structures

acquired after April 1, 2016. Depreciation of consolidated foreign subsidiaries is mainly computed by the straight-line method. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

The range of useful lives is from 15 to 50 years for buildings and structures, from 4 to 9 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.

h. Long-Lived Assets—The azbil Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and the eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and the eventual disposition of the asset or the net selling price at disposition.

i. Retirement and Pension Plans—Azbil and a certain subsidiary have defined benefit pension plans and defined contribution pension plans covering retired employees.

Some of the consolidated subsidiaries have defined benefit pension plans, unfunded retirement benefit plans and defined contribution pension plans.

The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date.

Azbil accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over 13 years, which is no longer than the expected average remaining service period of the employees.

Retirement benefits to directors and Audit & Supervisory Board members are provided at the amount which would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. Asset Retirement Obligations—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. Research and Development Expenses—Research and development expenses are charged to income as incurred.

l. Provision for Stock Payment—Provision for stock payment is stated in amounts considered to be appropriate based on the provisions of Azbil's employee stock ownership plan.

(Additional Information)

Azbil has introduced an employee stock ownership plan (hereinafter referred to as "the Plan"), an incentive plan, offering Azbil's stock to its employees in order to enhance the motivation and morale of employees for increasing the stock price and business performance of Azbil by sharing economic effects with shareholders. This will hopefully enhance the correlation between the stock price and business performance of Azbil.

(1) Outline of the transaction

Under the Plan, Azbil offers Azbil's stock to its employees who satisfy certain requirements specified in Azbil's predetermined stock granting regulations. Azbil awards points to employees according to their contribution level, and grants Azbil's stock proportionate to the awarded points when employees obtain the right to receive the stock by meeting certain conditions. The stock to be granted to employees is acquired with money previously placed in the trust, including stock to be granted in the future, and is separately managed as assets in the trust.

(2) Azbil's stock remaining in the trust

Regarding the accounting treatments for the trust contract, Azbil has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issue Task Force No. 30, March 26, 2015), and Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of Azbil's stock in the trust is ¥3,924 million ($36,004 thousand) for 1,977,024 shares as of March 31, 2020, and ¥3,947 million for 1,988,258 shares as of March 31, 2019.

m. Leases—In March 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

Azbil and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, Azbil and its consolidated domestic subsidiaries continue to account for leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee as operating lease transactions.

As for capitalized lease assets related to finance leases that do not transfer ownership of leased property, the azbil Group applies the straight-line method using the lease term as the useful life and a residual value of zero.

Foreign consolidated subsidiaries prepare their financial statements in accordance with IFRS. As stated in Note 3, "Accounting Change," they have adopted IFRS 16, Leases (hereafter referred to as "IFRS 16") starting from the year ended March 31, 2020. Under IFRS 16 in principle, lessees record all leases as assets and liabilities on their balance sheets, where the right-of-use assets recorded as assets are subject to depreciation and amortization under the straight-line method. Lease transactions under IFRS 16 are classified as "Financing Leases as a Lessee" in Note 13, "Leases."

All other leases are accounted for as operating leases.

n. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2020 and 2019, was ¥130 million ($1,196 thousand) and ¥131 million, respectively.

o. Construction Contracts—Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

p. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences and tax loss carryforwards.

q. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

r. Foreign Currency Financial Statements—The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. Derivatives Financial Instruments—The azbil Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the azbil Group to reduce foreign currency exchange rate risks. The azbil Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value with gains or losses on derivative transactions recognized in the consolidated statement of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, hedge accounting is applied.

Foreign exchange forward contracts are utilized to hedge foreign exchange exposures for export sales and import purchases. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Forward contracts related to forecasted (or committed) transactions are measured at fair value, but the unrealized gains/losses are deferred until the underlying transactions are completed.

t. Per Share Information—Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

On October 1, 2018, Azbil effected a two-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors' meeting held on August 30, 2018. All prior-year share and per share figures have been restated to reflect the impact of the stock split and to provide data on a basis comparable to the year ended March 31, 2019. Such restatements include calculations regarding Azbil's weighted-average number of common shares, net income per share, and cash dividends per share.

The weighted-average number of shares of common stock used in the computation was 140,579,440 shares for 2020 and 143,535,250 shares for 2019.

Diluted net income per share is not disclosed because it is antidilutive.

u. Accounting Changes and Error Corrections—Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in accounting policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

v. New Accounting Pronouncements

Azbil and Domestic Subsidiaries

—Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020)

—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 of March 31, 2020)

—Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 of March 31, 2020)

(1) Overview
This is a comprehensive accounting standard for revenue recognition. Revenue recognition is conducted through these five steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2021.

(3) Impact of adoption of this accounting standard
The amount of the impact on the consolidated financial statements is currently under review.

—Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019)
—Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 of July 4, 2019)
—Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 of July 4, 2019)
—Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019)
—Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 of March 31, 2020)

(1) Overview
To improve comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter, "Accounting Standard for Fair Value Measurement, etc.") have been developed as guidance on how to measure fair value. Accounting Standard for Fair Value Measurement, etc. will be applied in determining the fair value of the following items:
- Financial instruments set forth in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes set forth "Accounting Standard for Measurement of Inventories"

Additionally, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised and notes to the breakdown, etc. of the fair value of financial instruments by level and other items have been established.

(2) Schedule date of adoption
This standard will be applied for the fiscal year beginning on April 1, 2021.

(3) Impact of adoption of this accounting standard
The amount of the impact on the consolidated financial statements is currently under review.

—Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24 of March 31, 2020)

(1) Overview
This standard is intended to provide an overview of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(2) Schedule date of adoption
This standard will be applied for the fiscal year ending on March 31, 2021.

—Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 of March 31, 2020)

(1) Overview
This standard requires to disclose information that enhances the understanding of the users of the financial statements, regarding the figures recorded in the financial statements for the current fiscal year based on accounting estimates that have a significant impact on the financial statements for the next fiscal year.

(2) Schedule date of adoption
This standard will be applied for the fiscal year ending on March 31, 2021.

3. ACCOUNTING CHANGE

Subsidiaries which apply IFRS have adopted IFRS 16 starting from the year ended March 31, 2020. Accordingly, lessees recognize all leases, in principle, as assets and liabilities on the balance sheet. In adopting IFRS 16, in accordance with transitional measures, the subsidiaries recorded an adjustment to retained earnings as the cumulative effect of this change at the beginning of the year ended March 31, 2020.

As a result, in the consolidated balance sheet as of March 31, 2020, "Lease assets" and "Accumulated depreciation" under property, plant and equipment, "Current portion of long-term debt" under current liabilities, and "Long-term debt" under long-term liabilities increased by ¥2,070 million ($18,987 thousand), ¥1,007 million ($9,238 thousand), ¥280 million ($2,570 thousand), and ¥846 million ($7,760 thousand), respectively.

The effect of this change on the consolidated statement of income is immaterial.

As the cumulative effect was reflected in equity at the beginning of the year ended March 31, 2020, the beginning balance of retained earnings decreased by ¥62 million ($567 thousand) in the consolidated statement of changes in equity.

In addition, in the consolidated statement of cash flows, cash flows from operating activities increased by ¥285 million ($2,618 thousand), and cash flows from financing activities decreased by the same amount.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Negotiable deposits	¥ 13,700	¥ 13,306	$ 125,688
Total	¥ 13,700	¥ 13,306	$ 125,688
Noncurrent:			
Equity securities	¥ 19,855	¥ 21,412	$ 182,151
Other	10	13	94
Total	¥ 19,865	¥ 21,425	$ 182,245

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2020 and 2019, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2020				2019				2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	**¥ 4,630**	¥ 14,769	**¥ 102**	**¥ 19,297**	¥ 4,954	¥ 15,902	¥ 10	¥ 20,846	**$ 42,480**	**$ 135,491**	**$ 936**	**$ 177,035**
Certificate of deposit	**4,700**			**4,700**	4,700			4,700	**43,119**			**43,119**
Trust fund investments and other	**9,000**			**9,000**	8,500			8,500	**82,569**			**82,569**
Other					106			106				

The information for available for sale securities whose fair values are not readily determinable as of March 31, 2020 and 2019, is disclosed in Note 14.

The information for available for sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2020			2019			2020		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	**¥ 1,108**	**¥ 780**	**¥ 4**	¥ 2,838	¥ 2,220	¥ 2	**$ 10,162**	**$ 7,164**	**$ 41**
Other	**106**						**972**		

The impairment loss on valuation of shares of subsidiaries and associates for the year ended March 31, 2020, were ¥42 million ($390 thousand).

5. INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Merchandise	**¥ 1,128**	¥ 1,258	**$ 10,345**
Finished products	**4,385**	4,571	**40,230**
Work in process	**7,640**	7,418	**70,093**
Raw materials	**12,186**	11,667	**111,802**
Total	**¥ 25,339**	¥ 24,914	**$ 232,470**

6. LONG-LIVED ASSETS

The azbil Group recognized impairment losses for the years ended March 31, 2020 and 2019, as follows:

		Millions of Yen		Thousands of U.S. Dollars
		2020	2019	2020
Azbil TA Co., Ltd.	Buildings and structures		¥ 4	
	Land		17	
	Subtotal		21	
Azbil Kimmon Co., Ltd.	Machinery and equipment, etc.	**¥ 5**	35	**$ 47**
	Furniture and fixtures	**17**	31	**155**
	Subtotal	**22**	66	**202**
Total		**¥ 22**	¥ 87	**$ 202**

The azbil Group groups assets based on the classification of managerial accounting, and groups idle assets individually.

For the year ended March 31, 2020, as a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥22 million ($202 thousand) to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was measured on the basis of value in use, and future cash flows from operating activities were expected to be negative. Therefore value in use was calculated as zero.

For the year ended March 31, 2019, Azbil TA Co., Ltd., a consolidated subsidiary of Azbil decided to sell land and buildings for office relocation. As a result, the carrying amount of the assets was written down by ¥21 million to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was calculated on the basis of net realizable value, evaluated based on the estimated price if sold.

As a result of reviewing expected future earnings from the Life Automation business of Azbil Kimmon Co., Ltd., a consolidated subsidiary of Azbil, the carrying amount of the relevant asset group was written down by ¥66 million to the recoverable amount, and this reduction was recognized as the loss on impairment of long-lived assets. The recoverable amount was measured on the basis of value in use calculated by using a discount rate of 7.9%.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2020 and 2019, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 7.5% as of March 31, 2020, and from 0% to 6.0% as of March 31, 2019.

Long-term debt as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 5.7% in 2020 and 0.0% to 4.6% in 2019—Unsecured	¥ 380	¥ 530	$ 3,482
Obligations under finance leases	1,664	592	15,273
Total	2,044	1,122	18,755
Less current portion	(433)	(482)	(3,975)
Long-term debt, less current portion	¥ 1,611	¥ 640	$ 14,780

As of March 31, 2020, azbil had an unused line of credit amounting to ¥30,000 million ($275,229 thousand), of which ¥10,000 million ($91,743 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($183,486 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2020, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥ 433	$ 3,975
2022	329	3,018
2023	259	2,373
2024	225	2,066
2025	494	4,535
2026 and thereafter	304	2,788
Total	¥ 2,044	$ 18,755

As is customary in Japan, the azbil Group maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The azbil Group has never received any such requests.

8. RETIREMENT AND PENSION PLANS

Azbil and certain subsidiaries have defined benefit pension plans for the pension beneficiaries (i.e., closed pension plans), lump-sum payment plans, and also maintain defined contribution plans for the participating employees.

In addition to the plans above, certain subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid System.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payments, from the azbil Group and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or by death, than in the case of voluntary termination at certain specific ages prior to the mandatory retirement age.

For the year ended March 31, 2020, certain domestic consolidated subsidiaries will transfer from lump-sum payment plans as defined benefit pension plans to defined contribution plans on August 1, 2020, and the estimated loss related to this transfer was recorded as the loss on abolishment of retirement benefit plan in other expenses. Also, for the year ended March 31, 2019, regarding defined benefit corporate pension plans for the pension beneficiaries (i.e., closed pension plans) associated with Azbil and a domestic consolidated subsidiary, final settlement of retirement benefit plans for accounting purposes was completed, and the loss related to this settlement was recorded as the loss on abolishment of retirement benefit plan in other expenses. These are in accordance with the following two documents issued by the ASBJ: "Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Practical Issues Task Force No. 2).

Azbil and certain subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members. The liability for retirement benefits at March 31, 2020 and 2019, for directors and Audit & Supervisory Board members is ¥148 million ($1,358 thousand) and ¥120 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 5,281	¥ 15,758	$ 48,453
Current service cost	488	483	4,479
Interest cost	39	36	354
Actuarial (gains) losses	(13)	25	(116)
Benefits paid	(457)	(1,550)	(4,194)
Decrease due to the final settlement of the defined benefit pension plan		(9,292)	
Estimated increase due to transfer to the defined contribution pension plans	201		1,848
Others	8	(179)	69
Balance at end of year	¥ 5,548	¥ 5,281	$ 50,893

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥ 3,313	¥ 10,198	$ 30,399
Expected return on plan assets		446	3
Actuarial gains (losses)		(342)	2
Contributions from the employer	97	81	888
Contributions to the retirement benefit trust		3,000	
Benefits paid	(22)	(921)	(209)
Decrease due to the final settlement of the defined benefit pension plan		(9,133)	
Others	(10)	(16)	(97)
Balance at end of year	¥ 3,378	¥ 3,313	$ 30,986

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 3,902	¥ 3,758	$ 35,798
Plan assets	(3,378)	(3,313)	(30,986)
Total	524	445	4,812
Unfunded defined benefit obligation	1,646	1,523	15,095
Net liability arising from defined benefit obligation	¥ 2,170	¥ 1,968	$ 19,907

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥ 2,174	¥ 1,976	$ 19,947
Asset for retirement benefits	(4)	(8)	(40)
Net liability arising from defined benefit obligation	¥ 2,170	¥ 1,968	$ 19,907

(4) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥ 488	¥ 483	$ 4,479
Interest cost	39	36	354
Expected return on plan assets		(446)	(3)
Recognized actuarial losses	37	261	340
Amortization of prior service cost			
Others	123	184	1,132
Net periodic benefit costs	¥ 687	¥ 518	$ 6,302
Loss on abolishment of retirement benefit plan	¥ 243	¥ 3,211	$ 2,232

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	**2020**
Prior service cost		¥ 1	
Actuarial losses	**¥ 91**	2,396	**$ 838**
Total	**¥ 91**	¥ 2,397	**$ 838**

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	**2020**
Unrecognized actuarial gains	**¥ (46)**	¥ (137)	**$ (422)**
Total	**¥ (46)**	¥ (137)	**$ (422)**

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Cash and cash equivalents	**100%**	100%
Others	**0**	0
Total	**100%**	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2020 and 2019, are set forth as follows:

	2020	2019
Discount rate	**0.9%**	0.9%
Expected rate of return on plan assets	**0.0**	4.5

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, Azbil does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.5% for the year ended March 31, 2020, and 30.5% for the year ended March 31, 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Pension and severance costs	¥ 1,837	¥ 1,929	$ 16,858
Accrued expenses	3,981	4,086	36,519
Depreciation	1,448	1,401	13,282
Loss on impairment of long-lived assets	200	200	1,833
Allowance for doubtful receivables	87	146	800
Tax loss carryforwards	1,968	1,976	18,057
Others	2,860	2,640	26,241
Total of tax loss carryforwards and temporary differences	12,381	12,378	113,590
Less valuation allowance for tax loss carryforwards	(1,855)	(1,499)	(17,022)
Less valuation allowance for temporary differences	(736)	(647)	(6,748)
Total valuation allowance	(2,591)	(2,146)	(23,770)
Deferred tax assets	9,790	10,232	89,820
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,464	4,842	40,953
Special advanced depreciation	839	883	7,698
Others	201	229	1,845
Deferred tax liabilities	5,504	5,954	50,496
Net deferred tax assets	¥ 4,286	¥ 4,278	$ 39,324

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	Millions of Yen						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards			**¥ 58**	**¥ 127**	**¥ 93**	**¥ 1,690**	**¥ 1,968**
Less valuation allowances for tax loss carryforwards			**(58)**	**(108)**	**(93)**	**(1,596)**	**(1,855)**
Net deferred tax assets relating to tax loss carryforwards				**19**		**94**	**113**

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 2	¥ 5	¥ 3	¥ 59	¥ 140	¥ 1,767	¥ 1,976
Less valuation allowances for tax loss carryforwards	(2)	(5)	(3)		(3)	(1,486)	(1,499)
Net deferred tax assets relating to tax loss carryforwards				59	137	281	477

	Thousands of U.S. Dollars						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards			**$ 532**	**$ 1,169**	**$ 854**	**$ 15,502**	**$ 18,057**
Less valuation allowances for tax loss carryforwards			**(532)**	**(992)**	**(854)**	**(14,644)**	**(17,022)**
Net deferred tax assets relating to tax loss carryforwards				**177**		**858**	**1,035**

In addition to the above, the azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million ($1,633 thousand) at March 31, 2020, and ¥181 million at March 31, 2019.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	**30.5%**	30.5%
Expenses not deductible for income tax purposes	**0.7**	0.8
Tax credits for qualified expenses	**(3.7)**	(3.4)
Change of valuation allowance	**1.4**	(0.3)
Others—net	**(0.7)**	(0.3)
Actual effective tax rate	**28.2%**	27.3%

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2020 and 2019, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	**2020**
Expenses for office relocation	**¥ (54)**	¥ (8)	**$ (495)**
Other	**13**	167	**123**
Total	**¥ (41)**	¥ 159	**$ (372)**

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,788 million ($108,149 thousand) and ¥11,897 million for the years ended March 31, 2020 and 2019, respectively.

13. LEASES

(1) Financing Leases as a Lessee

The azbil Group leases certain machinery, computer equipment, office space and other assets as a lessee.

Total rental expenses under the above leases for the years ended March 31, 2020 and 2019, were ¥5,561 million ($51,021 thousand) and ¥5,629 million, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. However, disclosure is omitted as it is immaterial.

The minimum rental commitments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 748	¥ 1,030	$ 6,866
Due after one year	284	1,858	2,608
Total	¥ 1,032	¥ 2,888	$ 9,474

(2) Financing Leases as a Lessor

The azbil Group leases certain machinery and equipment as a lessor.

Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions. However, disclosure is omitted as it is immaterial.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for Financial Instruments

The azbil Group makes risk reduction the first priority in terms of its asset management and limits its investments to financial assets that consist mainly of short-term deposits, while the azbil Group's financing needs are met by selecting the most suitable method of funding while taking into account such factors as the purpose of the loan, the terms and funding costs. The azbil Group limits the use of derivatives to forward exchange contracts and currency option contracts to hedge against the risks associated with fluctuating foreign currency exchange rates, and does not engage in transactions for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Notes and accounts receivable—trade are subject to the credit risks of the customers. The azbil Group manages its credit risks on the basis of internal guidelines, which include keeping track of due dates and outstanding balances of the receivables for each transaction and monitoring the credit standing of major customers on a yearly basis. Notes and accounts receivable—trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the azbil Group has business relationships, and are subject to the risks associated with fluctuating stock prices. Such stock investments are managed by monitoring their fair values and the financial status of the companies on a regular basis, as well as conducting ongoing reviews of their holding status by taking into account the azbil Group's relationship with the issuing companies.

Notes and accounts payable—trade are liabilities due within one year. Although certain notes and accounts payable—trade denominated in foreign currencies are subject to the risks associated with fluctuating exchange rates, the majority of such instruments are constantly kept within the amount of the outstanding balance of accounts receivable denominated in the same foreign currency.

Interest-bearing debt mainly comprises short-term borrowings. While a portion of these borrowings, having floating interest rates, is subject to the risks associated with fluctuating interest rates, the effects of these risks are negligible as their terms are short and amounts are minimal.

Derivative transactions are executed and managed in accordance with internal rules that stipulate the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more details about derivatives.

Additionally, notes and accounts payable—trade and short-term borrowings are subject to liquidity risks in the event the azbil Group cannot execute payment on the payment date. Liquidity risks are managed by such methods as having each group company draw up monthly cash flow plans.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please see Note 15 for the details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2020		
	2020			2019					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 74,744	¥ 74,744		¥ 68,134	¥ 68,134		$ 685,720	$ 685,720	
Notes and accounts receivable—trade	85,245	85,245		93,748	93,748		782,067	782,067	
Investment securities	19,297	19,297		20,846	20,846		177,035	177,035	
Total	¥ 179,286	¥ 179,286		¥ 182,728	¥ 182,728		$ 1,644,822	$ 1,644,822	
Short-term borrowings	¥ 8,197	¥ 8,197		¥ 9,498	¥ 9,498		$ 75,199	$ 75,199	
Current portion of long-term debt	433	433		482	482		3,975	3,975	
Notes and accounts payable—trade	38,482	38,482		40,102	40,102		353,047	353,047	
Long-term debt	1,611	1,612	¥ (1)	640	640		14,780	14,789	$ (9)
Total	¥ 48,723	¥ 48,724	¥ (1)	¥ 50,722	¥ 50,722		$ 447,001	$ 447,010	$ (9)

Cash and Cash Equivalents, and Notes and Accounts Receivable—Trade

The carrying values of cash and cash equivalents and notes and accounts receivable—trade approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Short-Term Borrowings, Current Portion of Long-Term Debt and Notes and Accounts Payable—Trade

The carrying values of short-term borrowings, current portion of long-term debt, and notes and accounts payable—trade approximate fair value because of their short maturities.

Long-Term Debt

The fair values of loans from banks and other financial institutions are determined by the present values calculated by discounting the total amount of principal and interest rates currently considered applicable to similar loans.

The fair values of bonds without market value price are determined by the present values calculated by discounting the total amount of principal and interest at a rate that takes into account the remaining term and credit risks.

Derivatives

Fair value information for derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31, 2020
	2020	2019	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 568	¥ 579	$ 5,210

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 74,744				$ 685,720			
Notes and accounts receivable—trade	82,905	¥ 2,296	¥ 44		760,594	$ 21,067	$ 406	
Total	¥ 157,649	¥ 2,296	¥ 44		$ 1,446,314	$ 21,067	$ 406	

Please see Note 7 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. DERIVATIVES

The azbil Group enters into foreign currency forward contracts to hedge currency exchange rate risk associated with trade receivables and payables denominated in foreign currencies.

It is the azbil Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities, not to hold or issue derivatives for speculative or trading purposes.

Since all of the azbil Group's foreign currency forward contracts are related to qualified hedges of underlying business exposures, market gain or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the azbil Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the azbil Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen								Thousands of U.S. Dollars			
	March 31								March 31, 2020			
	2020				2019							
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain
Foreign currency forward contracts:												
Selling U.S. dollars	**¥ 498**		**¥ 9**	**¥ 9**					**$ 4,567**		**$ 79**	**$ 79**
Buying U.S. dollars	**309**		**(3)**	**(3)**	¥ 330		¥ 2	¥ 2	**2,833**		**(26)**	**(26)**

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31, 2020		
		2020			2019					
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	**¥ 793**		**¥ (35)**	¥ 531		¥ 5	**$ 7,273**		**$ (323)**
Selling Swedish krona	Receivables	**292**	**¥ 3**	**(3)**				**2,683**	**$ 32**	**(32)**
Selling UAE dirham	Receivables	**186**	**50**					**1,704**	**456**	**3**
Buying U.S. dollars	Payables	**8**						**74**		**(1)**

The fair value of derivative transactions is measured at the quoted price, etc., obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the azbil Group's exposure to credit or market risk.

16. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (458)	¥ (2,338)	$ (4,204)
Reclassification adjustments to profit or loss	(777)	(2,219)	(7,124)
Amount before income tax effect	(1,235)	(4,557)	(11,328)
Income tax effect	351	1,378	3,219
Total	¥ (884)	¥ (3,179)	$ (8,109)
Deferred loss on derivatives under hedge accounting:			
Adjustments arising during the year	¥ (44)	¥ (56)	$ (399)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(44)	(56)	(399)
Income tax effect	11	14	100
Total	¥ (33)	¥ (42)	$ (299)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (67)	¥ (967)	$ (620)
Reclassification adjustments to profit or loss	9		83
Amount before income tax effect	(58)	(967)	(537)
Total	¥ (58)	¥ (967)	$ (537)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ 12	¥ (366)	$ 114
Reclassification adjustments to profit or loss	79	2,763	724
Amount before income tax effect	91	2,397	838
Income tax effect	(27)	(731)	(249)
Total	¥ 64	¥ 1,666	$ 589
Total other comprehensive income	¥ (911)	¥ (2,522)	$ (8,356)

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at Azbil's shareholders' meeting held on June 24, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.0 ($0.23) per share	¥ 3,537	$ 32,449

The total cash dividends approved at Azbil's shareholders' meeting held on June 24, 2020, include the dividends of ¥49 million ($453 thousand) for the stock of Azbil held by Trust & Custody Services Bank, Ltd. (Trust E) as assets in the trust of "Employee Stock Ownership Plan (J-ESOP)."

19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The reportable segments of the azbil Group—identifiable operating segments of the azbil Group's business structure for which financial information is made separately available—are subject to periodic review by the Board of Directors in order to make decisions on the distribution of management resources and to assess performance.

The azbil Group identifies its operating segments using such criteria as business organization, product lines, service content, and markets. This approach results in three separate reportable segments: the Building Automation business, the Advanced Automation business, and the Life Automation business.

The Building Automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The Advanced Automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The Life Automation business supplies meters for lifelines, residential central air-conditioning systems, life science research, manufacture and sale of manufacturing equipment and environmental equipment for the pharmaceutical and medical fields as well as related services—all of which are intimately connected with everyday life.

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit, Assets and Other Items

	Millions of Yen							
	2020							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 123,497	¥ 92,159	¥ 43,701	¥ 259,357	¥ 54	¥ 259,411		¥ 259,411
Intersegment sales or transfers	298	997	332	1,627	6	1,633	¥ (1,633)	
Total	¥ 123,795	¥ 93,156	¥ 44,033	¥ 260,984	¥ 60	¥ 261,044	¥ (1,633)	¥ 259,411
Segment profit	¥ 14,891	¥ 10,487	¥ 1,867	¥ 27,245	¥ 6	¥ 27,251	¥ 5	¥ 27,256
Segment assets	67,962	68,153	31,054	167,169	1	167,170	107,389	274,559
Other:								
Depreciation	1,422	2,204	836	4,462		4,462		4,462
Increase in property, plant and equipment and intangible assets	1,770	2,341	823	4,934		4,934		4,934
Impairment losses of assets			22	22		22		22

	Millions of Yen							
	2019							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 119,164	¥ 98,351	¥ 44,484	¥ 261,999	¥ 56	¥ 262,055		¥ 262,055
Intersegment sales or transfers	337	1,039	356	1,732	6	1,738	¥ (1,738)	
Total	¥ 119,501	¥ 99,390	¥ 44,840	¥ 263,731	¥ 62	¥ 263,793	¥ (1,738)	¥ 262,055
Segment profit (loss)	¥ 12,421	¥ 12,211	¥ 2,061	¥ 26,693	¥ 2	¥ 26,695	¥ (5)	¥ 26,690
Segment assets	68,622	75,679	29,746	174,047		174,047	101,471	275,518
Other:								
Depreciation	1,281	2,121	765	4,167		4,167		4,167
Increase in property, plant and equipment and intangible assets	2,408	3,255	700	6,363		6,363		6,363
Impairment losses of assets		21	66	87		87		87

	Thousands of U.S. Dollars							
	2020							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 1,132,996	$ 845,496	$ 400,927	$ 2,379,419	$ 503	$ 2,379,922		$ 2,379,922
Intersegment sales or transfers	2,733	9,149	3,047	14,929	52	14,981	$ (14,981)	
Total	$ 1,135,729	$ 854,645	$ 403,974	$ 2,394,348	$ 555	$ 2,394,903	$ (14,981)	$ 2,379,922
Segment profit	$ 136,611	$ 96,210	$ 17,126	$ 249,947	$ 59	$ 250,006	$ 49	$ 250,055
Segment assets	623,506	625,254	284,899	1,533,659	9	1,533,668	985,225	2,518,893
Other:								
Depreciation	13,046	20,223	7,666	40,935		40,935		40,935
Increase in property, plant and equipment and intangible assets	16,233	21,478	7,552	45,263		45,263		45,263
Impairment losses of assets			202	202		202		202

Note: Corporate assets of ¥107,389 million ($985,225 thousand) for the year ended March 31, 2020, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

(1) Information about Products and Services

This information is identical to the segment information and is therefore omitted.

(2) Information by Region

(a) Sales

Millions of Yen						
2020						
Japan	Asia	China	North America	Europe	Other	Total
¥ 215,216	¥ 18,784	¥ 9,827	¥ 3,781	¥ 9,177	¥ 2,626	¥ 259,411

Millions of Yen						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 215,345	¥ 20,415	¥ 9,763	¥ 5,397	¥ 8,512	¥ 2,623	¥ 262,055

Thousands of U.S. Dollars						
2020						
Japan	Asia	China	North America	Europe	Other	Total
$ 1,974,460	$ 172,331	$ 90,154	$ 34,690	$ 84,192	$ 24,095	$ 2,379,922

Note: Sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

Millions of Yen						
2020						
Japan	Asia	China	North America	Europe	Other	Total
¥ 23,470	¥ 2,399	¥ 953	¥ 90	¥ 1,168	¥ 138	¥ 28,218

Millions of Yen						
2019						
Japan	Asia	China	North America	Europe	Other	Total
¥ 23,445	¥ 1,948	¥ 869	¥ 103	¥ 450	¥ 151	¥ 26,966

Thousands of U.S. Dollars						
2020						
Japan	Asia	China	North America	Europe	Other	Total
$ 215,325	$ 22,013	$ 8,741	$ 821	$ 10,716	$ 1,263	$ 258,879

(3) Information about Major Customers

This information is omitted as no customer accounted for more than 10% of sales in the consolidated statement of income.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

March 31, 2020

Amortization of goodwill	Not applicable
Goodwill at March 31, 2020	Not applicable

March 31, 2019

Amortization of goodwill	Not applicable
Goodwill at March 31, 2019	Not applicable

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

Opinion

We have audited the consolidated financial statements of Azbil Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Member of
Deloitte Touche Tohmatsu Limited

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2020
(June 24, 2020 as to Note 18)

azbil Group Companies Data

Japan

- **Azbil Corporation**
  Head office: Chiyoda-ku, Tokyo
  Founded: 1906 Established: 1949
- **Azbil Trading Co., Ltd.**
  Head office: Toshima-ku, Tokyo
  Established: 1964
- **Azbil Yamatake Friendly Co., Ltd.**
  Head office: Fujisawa-shi, Kanagawa
  Established: 1998
- **Azbil Kimmon Co., Ltd.**
  Head office: Toshima-ku, Tokyo
  Founded: 1904 Established: 1948
- **Azbil Kyoto Co., Ltd.**
  Head office: Funai-gun, Kyoto
  Established: 2009
- **Azbil TA Co., Ltd.**
  Head office: Itabashi-ku, Tokyo
  Established: 1955
- **Azbil Taishin Co., Ltd.**
  Head office: Nakano-shi, Nagano
  Established: 1974
- **Tem-Tech Lab.**
  Head office: Chuo-ku, Tokyo
  Established: 1982

Overseas

- **Azbil Korea Co., Ltd.**
  Head office: Seoul
  Established: 1999
- **Azbil Taiwan Co., Ltd.**
  Head office: Taipei
  Established: 2000
- **Azbil Kimmon Technology Corporation**
  Head office: Miaoli
  Established: 2011
- **Azbil Vietnam Co., Ltd.**
  Head office: Hanoi
  Established: 2008
- **Azbil India Private Limited**
  Head office: Navi Mumbai
  Established: 2010
- **Azbil (Thailand) Co., Ltd.**
  Head office: Bangkok
  Established: 1995
- **Azbil Production (Thailand) Co., Ltd.**
  Head office: Chonburi
  Established: 2013
- **Azbil Philippines Corporation**
  Head office: Makati
  Established: 1996
- **Azbil Malaysia Sdn. Bhd.**
  Head office: Kuala Lumpur
  Established: 1999
- **Azbil Singapore Pte. Ltd.**
  Head office: Singapore
  Established: 1998
- **PT. Azbil Berca Indonesia**
  Head office: Jakarta
  Established: 1997
- **Azbil Saudi Limited**
  Head office: Dammam
  Established: 2012
- **Azbil Control Instruments (Dalian) Co., Ltd.**
  Head office: Dalian
  Established: 1994
- **Azbil Information Technology Center (Dalian) Co., Ltd.**
  Head office: Dalian
  Established: 2007
- **CECEP Building Energy Management Co., Ltd.**
  Head office: Beijing
  Established: 2012
- **Azbil Control Solutions (Shanghai) Co., Ltd.**
  Head office: Shanghai
  Established: 1994
- **Shanghai Azbil Automation Co., Ltd.**
  Head office: Shanghai
  Established: 1995
- **Yamatake Automation Products (Shanghai) Co., Ltd.**
  Head office: Shanghai
  Established: 2004
- **Azbil Hong Kong Limited**
  Head office: Hong Kong
  Established: 2000
- **Azbil North America Research and Development, Inc.**
  Head office: Santa Clara, CA, U.S.A.
  Established: 2014
- **Azbil North America, Inc.**
  Head office: Phoenix, AZ, U.S.A.
  Established: 2000
- **Azbil VorTek, LLC**
  Head office: Longmont, CO, U.S.A.
  Established: 1995
- **Azbil Mexico, S. de R.L. de C.V.**
  Head office: León
  Established: 2017
- **Azbil Brazil Limited**
  Head office: Sao Paulo
  Established: 2010
- **Azbil Europe NV**
  Head office: Zaventem, Belgium
  Established: 2001
- **Azbil Telstar, S.L.U.**
  Head office: Terrassa, Spain
  Established: 1963

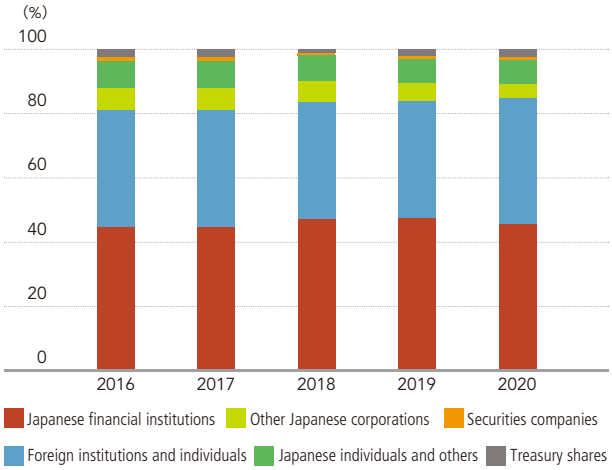
Corporate Data/Stock Information

(As of March 31, 2020)

Corporate Data

Founded	December 1, 1906	
Incorporated	August 22, 1949	
Paid-in capital	¥10,523 million	
Accounting date	March 31	
Annual shareholders' meeting	June	
Head office	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan	
Consolidated number of employees	9,897	
Stock listing	Tokyo Stock Exchange, 1st Section	
Ticker symbol number	6845	
Stock information	Shares of Common Stock Issued Share unit number Shareholders	145,200,884 100 7,348
Transfer agent	Mizuho Trust & Banking Co., Ltd.	

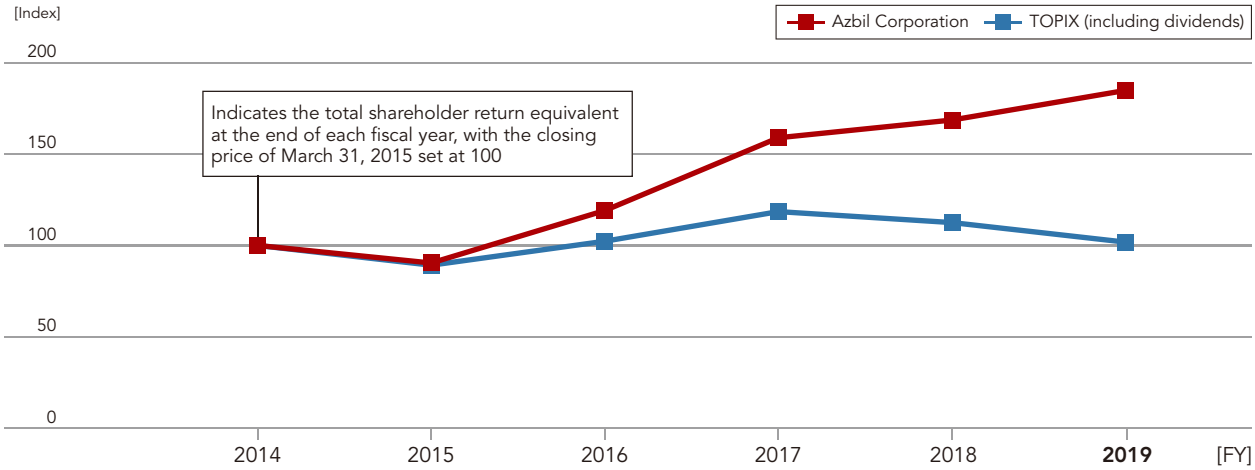
Composition of Shareholders



Major Shareholders (Top 10)

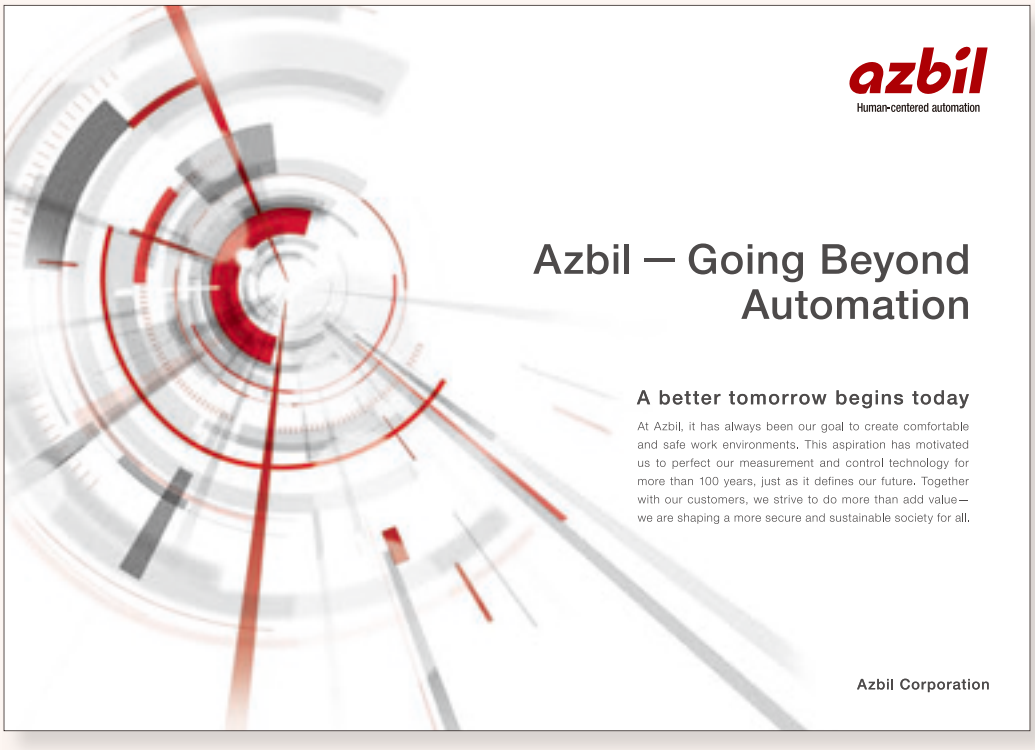
Shareholders	Number of shares held (thousands)	Percentage of Total Shares Issued (%)
Meiji Yasuda Life Insurance Company	**10,428**	**7.37**
The Master Trust Bank of Japan, Ltd. (Trust account)	**10,320**	**7.29**
SSBTC CLIENT OMNIBUS ACCOUNT	**6,943**	**4.90**
Japan Trustee Services Bank, Ltd. (Trust account)	**6,307**	**4.45**
Northen Trust CO. (AVFC) Re Fidelity Funds	**5,213**	**3.68**
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	**4,631**	**3.27**
Chase Nominees Re JASDEC Treaty Client A/C (General)	**4,243**	**2.99**
Nippon Life Insurance Company	**3,739**	**2.64**
State Street Bank and Trust Company 505025	**3,496**	**2.47**
Japan Trustee Services Bank, Ltd. (Trust account 9)	**3,459**	**2.44**

Total Shareholder Return/Common Stock Price Range



Fiscal Year	2014	2015	2016	2017	2018	2019
Year-end closing price (yen)	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0	**2,804.0**
Highest price (yen)	1,685.0	1,750.0	1,927.5	2,655.0	2,775.0	**3,275.0**
Lowest price (yen)	1,142.5	1,309.0	1,347.5	1,772.5	1,949.0	**2,215.0**

* On October 1, 2018, the Company implemented a 2-for-1 stock split for shares of common stock. Above figures for stock prices and total shareholder return have been recalculated to take the stock split into account.



Making full use of measurement and control automation technologies,
the azbil Group has been creating environments where people can live comfortably and work with peace of mind for more than 100 years.
We recently redesigned our corporate advertisement to coincide with the establishment of our new management system. Our catchphrase, "Azbil — Going Beyond Automation," symbolizes our use of automation technology as a starting point to move toward a better tomorrow together with our customers.

Azbil Corporation Website **https://www.azbil.com**



Contact
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azbil

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