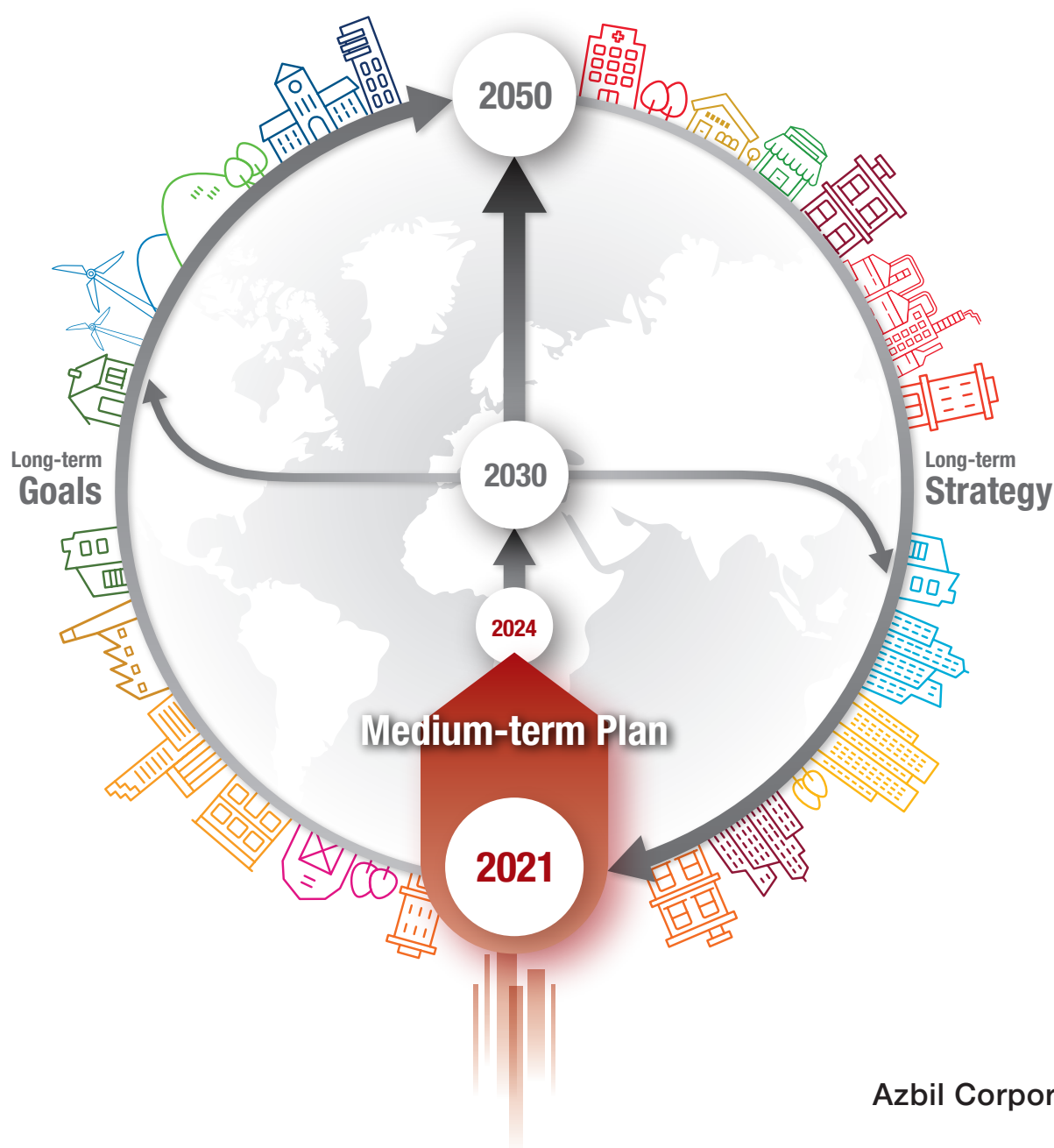


azbil report 2021





We want to communicate our value creation story entitled “automation.”

The azbil Group’s philosophy is “human-centered automation” that pursues collaboration between humans and machines and between human ingenuity and technology by leveraging advanced measurement and control. Based on this philosophy, by incorporating technological innovations such as IoT, AI, big data, and the cloud, we continuously propose value unique to the azbil Group in various environments, from office buildings to plants and factories to everyday life.

In this integrated report, we introduce our financial and non-financial capital that form the source of this value creation and our growth story to realize our long-term vision with an eye on 2030.

Contents

Message from Managementp. 3	Practice of Value Creation —Provision of Value to our Customersp. 33	Essential Goal I: Environment and Energy..... p. 59	Corporate Governancep. 79
azbil's Value Creationp. 5	At a Glance..... p. 33	Essential Goal II: New Automation p. 62	Board of Directors, Executive Officers, and Audit & Supervisory Board Members.....p. 89
History of Value Creation p. 5	Building Automation Business..... p. 35	Essential Goal III: Supply Chain, Social Responsibility p. 63	Communication with Stakeholders that Connects to Co-creating Valuep. 91
Value Creation Model p. 9	Advanced Automation Business p. 39	Essential Goal IV: Health and Well-being Management, An Organization That Never Stops Learning..... p. 64	Financial and Non-Financial Data p. 93
2020 Highlights p. 11	Life Automation Business..... p. 43		11-Year Key Financial and Non-Financial Figuresp. 93
Financial and Non-Financial Highlights..... p. 13	Global Network..... p. 47		Consolidated Balance Sheetp. 95
Interview with the CEOp. 15	Technological Research and Product Development p. 49	Strengthening the Foundation for Value Creation—ESG Initiatives p. 65	Consolidated Statement of Income.....p. 97
Establishing New Long-term Targets and the New Medi- um-term Planp. 23	Manufacturing and Procurement..... p. 53	CSR Management of the azbil Group p. 65	Consolidated Statement of Comprehensive Incomep. 98
Results of the Previous Medium-term Plans ... p. 23	Sales, Engineering, Installation, and Service p. 55	Environmental Initiatives..... p. 67	Consolidated Statement of Changes in Equityp. 99
Outline of New Long-term Targets and the New Medium-term Plan p. 25		Quality Assurance and Safety p. 71	Consolidated Statement of Cash Flows.....p. 103
Initiatives to Realize the New Medium-term Plan (FY2021–2024)..... p. 27	Practice of Value Creation —Contributing to the SDGsp. 57	CSR Procurement p. 72	Notes to Consolidated Financial Statementsp. 105
Message from the Executive Officer in Charge of Finance and Business Management..... p. 29	azbil Group's Value Creation and Approach to Realizing the SDGs..... p. 57	HR Initiatives: Achieving Human Capital Management..... p. 73	Independent Auditor's Reportp. 136
		Intellectual Property Strategy and Brand Management p. 75	Corporate Datap. 141
		Compliance and Internal Control..... p. 76	azbil Group Company Data.....p. 141
		Risk Management p. 77	Corporate Data/Stock Informationp. 142

◆ Editorial policy
The azbil report is an integrated report that summarizes the value creation story of the azbil Group. The report combines financial and non-financial information that was previously printed in the annual report and CSR report in a readily comprehensible manner. It is circulated to various stakeholders such as investors and shareholders, business partners, employees, and local communities where we do business.

In editing the report, we have referred to the “International Integrated Reporting Framework” of the International Integrated Reporting Committee (IIRC) and the “Value Co-creation Guidance” of the Ministry of Economy, Trade and Industry. Detailed financial information is available in the “Securities Report” while governance information is provided in the “Corporate Governance Report.”

◆ Reporting range:
Azbil Corporation and its consolidated subsidiaries

◆ Reporting period:
From April 1, 2020 through March 31, 2021 (Some information post-April 2021 is included.)

◆ Additional notes:
Plans, objectives, strategies, and other statements in the azbil report are not facts from past operations but forward-looking statements and plans at the time of compilation based on the assumptions and beliefs of management considering the information available. Thus, the statements do not guarantee future performance and may differ materially depending on various important factors. Factors that may affect actual results include, but are not limited to, the following.

- (1) Economic conditions surrounding the azbil Group, exchange rate fluctuations, capital investment trends, etc.
- (2) Changes in our ability to provide products and services that are acceptable to our customers continuously and to thrive in market competition amid rapid technological innovation and global economic development.

For details, please refer to “Business-Related and Other Risks” on page 78.

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.



Message from Management

Through the pursuit of “human-centered automation,” we aim to become a corporate group that contributes to the sustainable development of society.

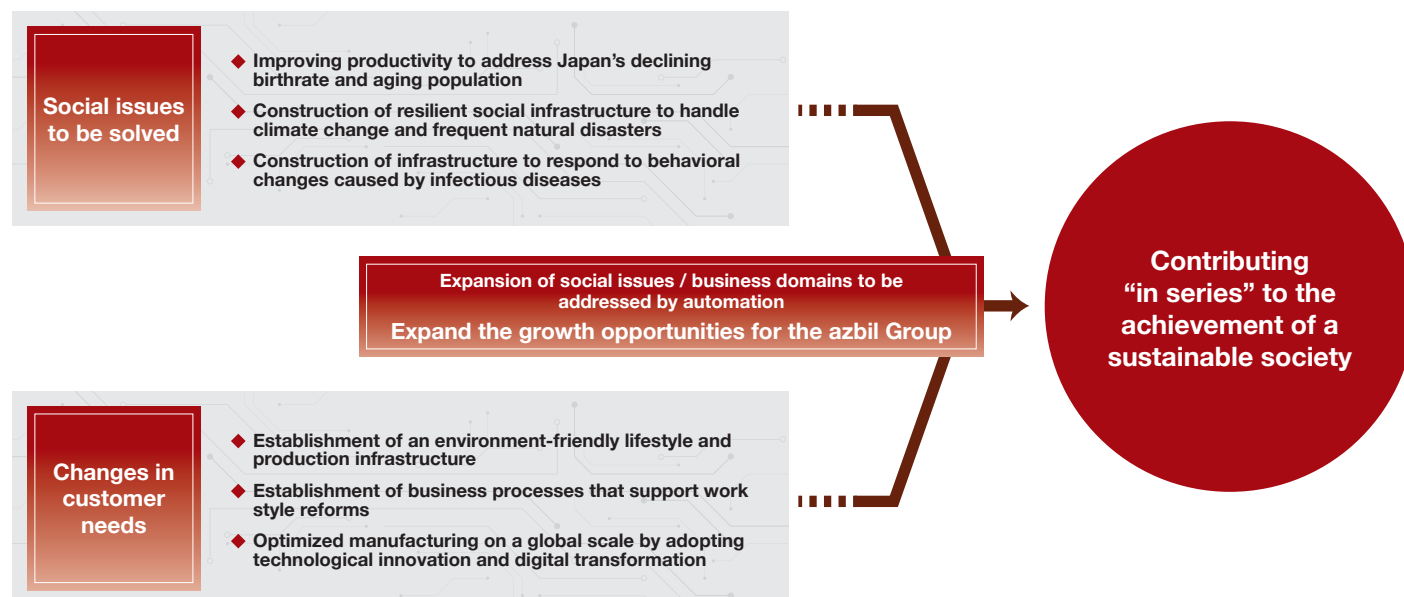
Since our foundation in 1906, we have pursued measurement and control technologies, delivering unique solutions to our customers. In April 2012, we changed our company name from Yamatake to Azbil Corporation. Today, the azbil Group is aiming to provide customers with its unique value in offices, production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

Since 2020, the spread of COVID-19 and the resulting global economic slowdown have created challenging conditions for the Group. However, in the medium to long term, we believe that automation will take on a greater role. These issues include changes in the business environment such as progressing globalization and fulfilling our responsibility to contribute to the sustainable growth of society, technological innovation, Japan’s aging society, progressing work style reforms, the response to climate change, remote work as a result of the spread of COVID-19, and business continuity

planning (BCP). We believe that our response to these issues will further expand the business areas that automation can support. We see these changes as business opportunities for the azbil Group and plan to advance further both our global development and initiatives in our business fields and to accelerate growth.

We plan to promote initiatives toward the Sustainable Development Goals (SDGs), which are compatible with our Group philosophy. To this end, we will further provide new products and services that contribute to the safety, productivity, and value enhancement of production sites by using advanced technologies such as AI and various sensing technologies and expand our business by solving environmental energy-related problems in buildings and in the local community, while strengthening our business and corporate foundations. Through the pursuit of “human-centered automation,” we aim to become a corporate group that contributes to the sustainable development of society.

Contributing to the Creation of a Sustainable Society



Hirozumi Sone
Representative Director,
Executive Chairperson

Kiyohiro Yamamoto
Representative Director,
President and Group Chief Executive Officer

The Spirit of our Founder

“Free People from Drudgery” as our DNA

azbil's history began with the founder's dream to “free people from drudgery.” Since then, the azbil Group has responded to the changing demands of the times and our customers' needs through repeated innovation and a constant awareness of our starting point, and in 2006, we celebrated the 100th anniversary of our founding.

1906

Yamatake Shokai founded as a machine tool import company

The azbil Group's history began in 1906 as Yamatake Shokai, a machine tool import company founded by Takehiko Yamaguchi out of his dream to “free people from drudgery.” Thereafter, Yamatake Shokai began to handle industrial instruments, transitioned to a manufacturer and seller of machine tools and instruments, and focused on the domestic production of automatic control valves. By understanding and quickly commercializing the need for automation, Yamatake Shokai made large contributions to the development of Japanese industry from the post-war recovery period through the high-growth period.



Takehiko Yamaguchi, Founder

1978

Contributing to an energy- saving society through the “savemation” concept

In 1953, Yamatake Shokai entered into a 50/50 capital alliance with the US-based Honeywell, which at the time had the world's leading measurement and control technologies. In 1956, it changed its company name to Yamatake-Honeywell. From here, it began its journey as a comprehensive automation manufacturer and contributed to Japan's high-level economic growth through air-conditioning control for large-scale buildings and process control for petrochemical plants. Furthermore, during the first oil crisis in 1973, it began developing a range of products and services to respond to the energy-saving and power-saving needs of society and in 1978 established a new corporate philosophy known as “savemation.” We have been highly evaluated by many stakeholders for our corporate stance of proactively responding to resource and energy saving that connects to global environmental preservation through automation.



Expanded alongside the development of Japanese industries

2006

Proposing “human- centered automation” through the azbil brand

In 1998, we reviewed our partnership with Honeywell, and in 2002, we dissolved our capital alliance. In 2006, to welcome the 100th anniversary of Yamatake's founding, we launched our new group philosophy of “human-centered automation.” This group philosophy is founded on the technology and know-how that we have cultivated over many years in advanced measurement and control technologies and energy management. Based on this foundation, “human-centered automation” is an expression of our desire to be a group that contributes to the achievement of a sustainable society by realizing “safety, comfort, and fulfillment” for people in offices, factories, and houses and “global environmental preservation.”

azbil Group Philosophy

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

azbil

Meaning of our symbol and the company name

azbil: automation, zone, builder

In other words, using automation technology, we will build zones in which safety, comfort, and fulfillment can flourish.

Toward the next 100 years

Pursuing new value creation through “automation”

While evolving the spirit of our foundation, the azbil Group continues to challenge itself to create new value. To do so, in 2006, we created a new Group philosophy, “human-centered automation,” and our Group symbol of “azbil.” In 2008, we changed our Group name to the “azbil Group.” In 2012, we changed our company name from Yamatake to Azbil.

2012

Established the “three fundamental policies” for sustainable growth

In 2012, to respond quickly to changes in the business environment, global social issues, and our customers’ needs while pursuing sustainable growth, the azbil Group established “Three Fundamental Policies.” Based on these policies, we have established a two-stage medium-term plan (FY2013–2016, and FY2017–2019) focusing on three businesses with different business cycles: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). Under these targets and policies, we have implemented various measures, such as the selection and concentration of business, organizational reform, profitability enhancement, global development, and human resource development in the three businesses. In doing so, we have continuously strengthened our management base.

As a result, we greatly strengthened our earning power, including a rise in the ratio of business in line with the life cycles of our customers’ buildings and plants. We also developed a global business infrastructure that will serve as an engine for growth and strengthened our financial base, crisis management system, and corporate governance system.

■ Three Fundamental Policies

Being a long-term partner for the customer and the community by offering solutions based on azbil’s 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

2020

Started contributing “in series” to the achievement of a sustainable society

With the effects of global warming becoming more apparent and the COVID-19 pandemic changing behavior patterns in 2020, the interest in sustainability of business, global environment and society is increasing at an unprecedented rate. This means that high productivity using measurement and control technologies and frontline knowledge, as well as the realization of comfortable, safe, and secure spaces while minimizing resource and energy consumption over the long term will be demanded more and more in the future. It also means that the role of automation will grow and that its value will increase. In response, the azbil Group is expanding further the scope of automation and control by applying the latest technologies such as IoT, AI, cloud computing, and big data, enhancing our ability to solve problems through automation and accelerating our pursuit of new value creation.

The azbil Group aims to contribute “in series” to

the achievement of a sustainable society by responding to the expanding roles demanded of automation and by enhancing our skills to help problem solving of our customers and society. To this end, in 2019, we revised our Guiding Principles and Code of Conduct, which serve as guideposts for the azbil Group. The goal of the revisions was to develop business activities aligned with a sustainable society by aligning everything from our philosophy to the actions of every employee and the implementation of our management strategies. Also, in 2020, we set out quantitative targets such as the effective CO₂ reduction of 3.40 million metric tons per year at our customers’ sites in environmental and energy fields as part of the azbil Group’s SDG targets.

The azbil Group aims to achieve solutions for social issues such as SDGs as well as sustainable growth and contributes “in series” to the achievement of a sustainable society through its automation business.

■ Guiding Principles

In order to implement our corporate philosophy, we will take action based on the 5 Guideposts (guiding principles for business), aiming to serve as a Guiding bridge that interconnects our worldwide customers and leads us all into 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



azbil's Value Creation | Value Creation Model

To address issues faced by customers and society in line with changes over time, 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 Group is unique in its ability to promote value creation with customers through its integrated system of working closely with customers at their sites.

The azbil Group delivers products and services and works with its customers to solve social issues, thereby contributing “in series” to a sustainable society and achieving sustainable growth for our business and increased corporate value. Under our new long-term targets and medium-term plan, we are

strengthening the foundations of our business that underpin sustainability and making further operating capital investments in order to utilize our integrated system that extends from development through to services and accelerate expansion in three growth fields.

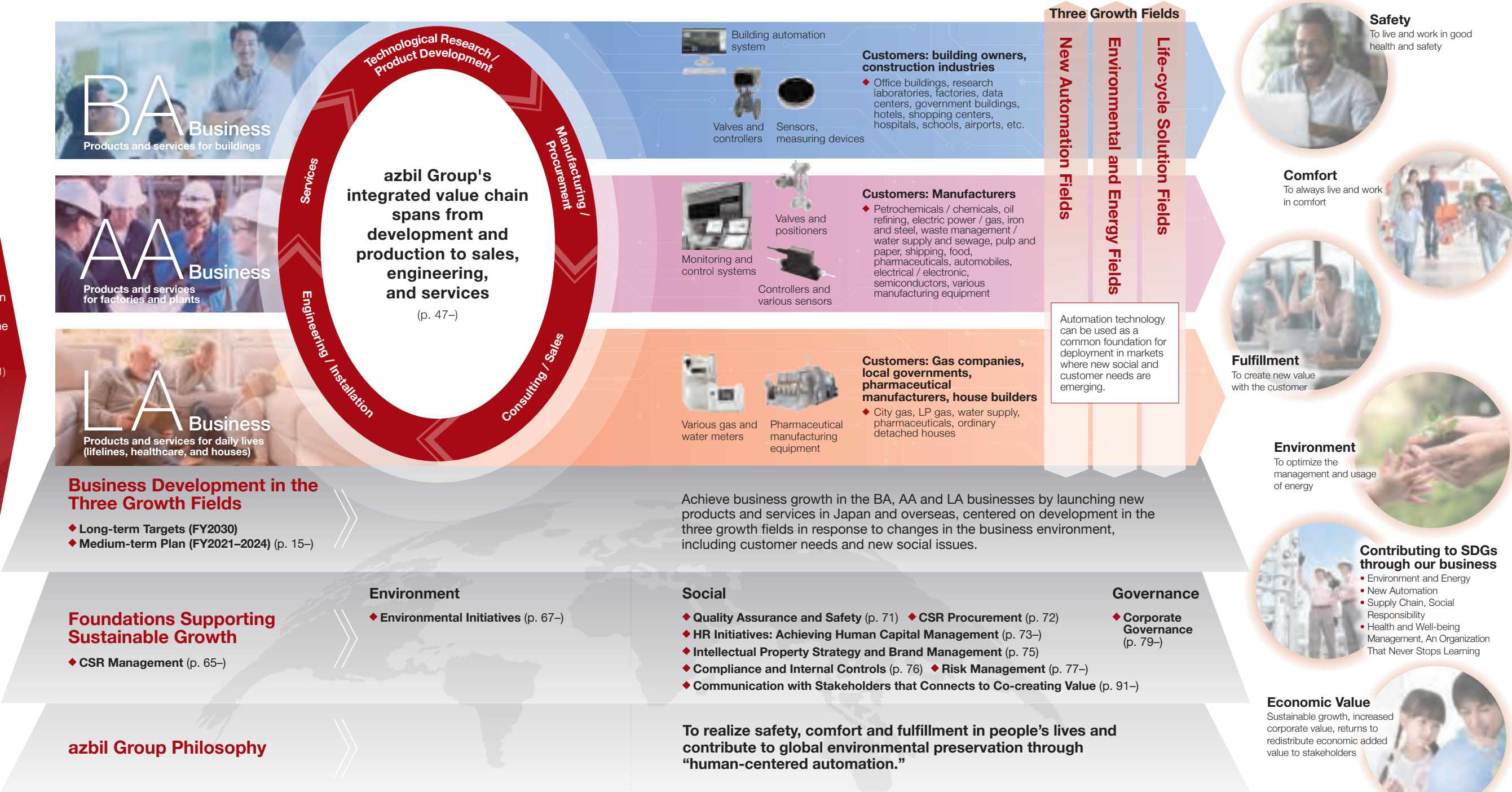
Operating Capital (Inputs)

- Human capital**
No. of employees 10,003 people (As of March 31, 2021)
Annual no. of attendees at azbil academy sessions (Total number of attendees)*1 74,800 people
No. of individuals obtaining official qualifications *2 2,618 people
- Social and relationship capital**
Sales and service bases 23 countries
Domestic: 14 companies
Overseas: 46 companies
- Intellectual capital**
R&D expenses approx. ¥56 billion (FY2021–2024 plan)
Capital investment to enhance the capabilities of R&D sites
Approx. ¥7 billion (FY2021–2022)
Patents 2,784 (As of March 31, 2021)
- Manufactured capital**
Production bases
Domestic: 10 factories
Overseas: 6 factories
- Natural capital**
Total energy usage*3 58,481 MWh
Total water usage*4 1.07 million L
- Financial capital**
Issuer rating A+ (R&I) (As of March 31, 2021)

*1 Lectures include general courses such as CSR and other elective online courses and the number of lecturers includes personnel of group companies such as cooperating companies or retailers
*2 Of the official qualifications, no. of qualifications obtained that are considered important for business operations
*3 Scope of calculation: Azbil Corporation and its affiliated companies
*4 Scope of calculation: Azbil Corporation, domestic affiliates, and overseas major production bases

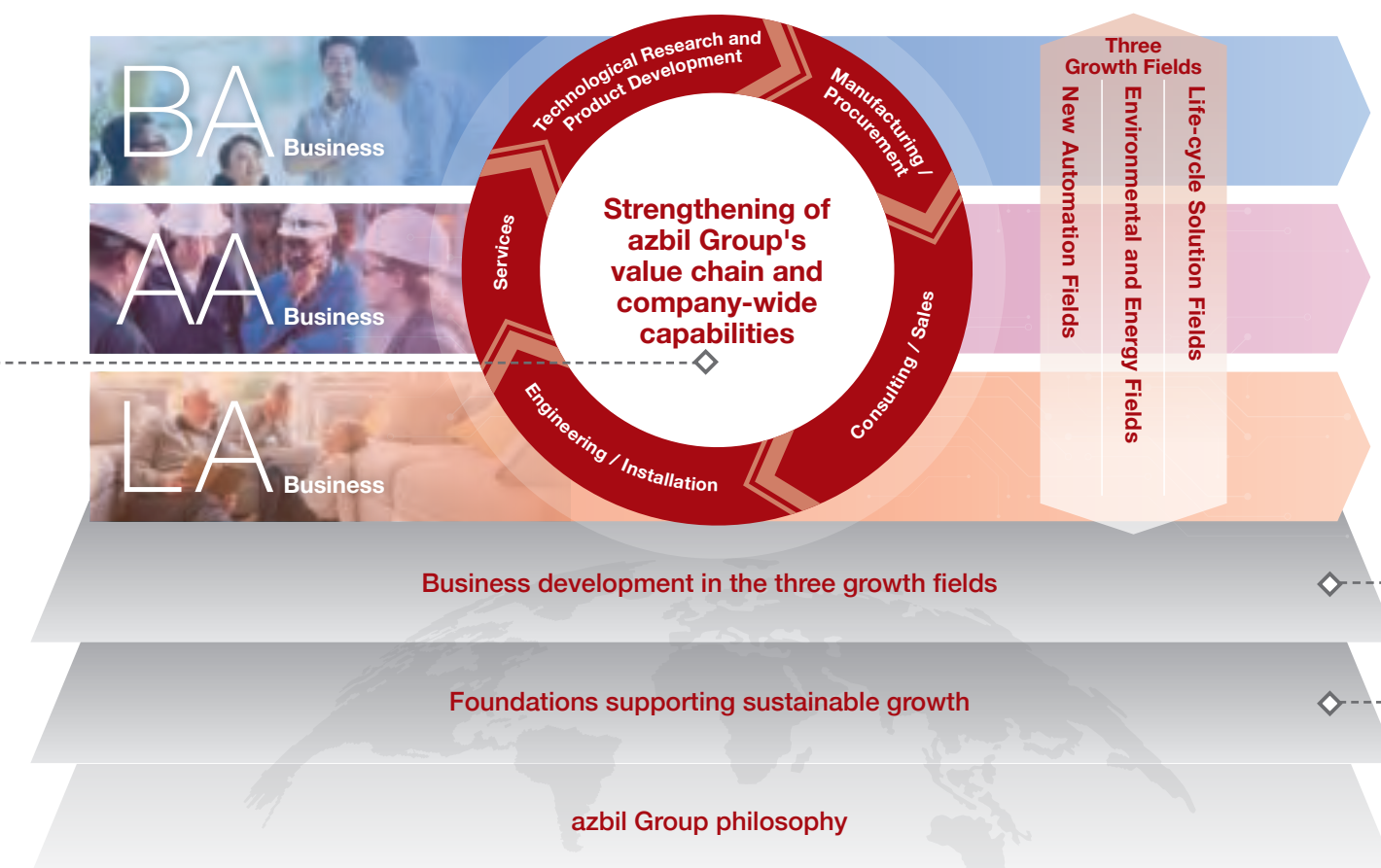
Main Product Lines (Outputs)

Value Provided by the azbil Group (Outcomes)



azbil's Value Creation | 2020 Highlights

Here, we introduce the initiatives that azbil has pursued in the past year to capture changes in the social and business environment and to create value.



Strengthening the value chain and company-wide capabilities

- Decided to construct a new factory at a Dalian production subsidiary in China—expanding and strengthening the scale of the global production system (July 2020)
- azbil subsidiary in Thailand opens Solution and Technology Center—established to provide next-generation intelligent services using IoT and AI (August 2020)



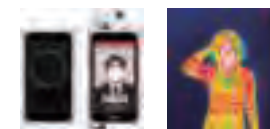
Conceptual image of the factory building

- Participated in the Smart Urban Co-Innovation Lab led by Singapore's CapitaLand (January 2021)
- Started constructing two laboratory buildings at Fujisawa Technology Center, our central R&D base—These facilities will serve as a core base of R&D to respond to the demand of new automation (April 2021)

Progress in Three Growth Fields

■ Products and services

- azbil to strengthen the business for pandemic-ready airflow control systems—contributing to safety and comfort of medical personnel (June 2020)
- Launched sales of the AI Temperature Detection Solution that immediately recognizes faces and detects temperature with high accuracy—contributing to preventing the spread of infection in the post-COVID society (June 2020)
- Launched sales of the official version of cloud services that easily digitalize handwritten recording tasks—contributing to operational digitalization in the post-COVID society (July 2020)
- The enhanced functionality of communications gateway allowing data interchange between control devices without programming—and adds IoT support for industrial furnace burners (October 2020)
- Launched sales of the valve analysis and diagnosis service to monitor the condition of valves operating in plants through the cloud—contributing to the stability and enhanced security of manufacturing facilities (November 2020)
- Launched global sales of early warning system for time series data—enhancing oversight capabilities of manufacturing sites by predicting future events (December 2020)
- Launched sales of licenses with attached installation support to makers of manufacturing equipment for our online anomaly detection system (March 2021)
- Promoted new initiatives toward the next generation in the energy management field with our DX-EGA, a cooperative business concept in the field (March 2021)
- Launched sales of new air-conditioning systems to respond to diversifying workstyles and office uses geared toward the “new normal” era (March 2021)



- Began developing digital solutions for intelligent building management systems overseas with the support of the Singapore Economic Development Board (June 2021)
- Recognized as an “energy management support service provider” that facilitates energy savings at plants and business sites, for eight consecutive years (June 2021)

■ Record of delivering results

- Delivered online anomaly detection system for batch processes to Kaneka Corporation—received orders for 10 systems in six months mostly from chemical manufacturers (June 2020)
- Began providing cloud-based valve analysis and diagnosis service to Mitsubishi Chemical Corporation (March 2021)

■ Product and service evaluations

- Received the “Red Dot Award 2020,” a global design award (April 2020)
- azbil's Cloud Operation Center acquired the Information Security Management System (ISMS) international standard certification (July 2020)
- azbil's control valve maintenance support system received award from Chinese automation and smart manufacturing media company gongkong® (November 2020)
- azbil received Frost & Sullivan 2020 Southeast Asia Building Automation Systems Customer Value Leadership Award (December 2020)



■ SDG initiatives

- Established new numerical targets of essential goals for SDGs (August 2020)
- Established new targets for SDGs (May 2021)

Foundations Supporting Sustainable Growth — ESG Initiatives

■ Environmental initiatives

- Announced participation in Keidanren's “Challenge Zero” declaration (June 2020)
- Announced support for Keidanren's Declaration of Biodiversity and its revised action policies (June 2020)
- CDP Climate Change 2020 (B valuation)
- Conducted evaluations and test calculations on main risks and opportunities in line with the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD)
- Strengthened greenhouse gas (GHG) reduction targets (2030) Reduced the amount of GHG emissions from our business activities (scopes 1+2) from 30% to 55% (2017)—approved as science based targets (SBTs) in August 2021

■ Health and well-being management initiatives

- azbil Global Executive Member Anju Jaswal selected for Singapore 100 Women in Tech List (November 2020)
- azbil's whistleblowing system certified by Japan's Consumer Affairs Agency—advancing health and well-being management through our CSR Hotline (December 2020)
- Received the highest mark of *Eruboshi* certified company based on the Act on Promotion of Women's Participation and Advancement in the Workplace (December 2018)
- Received *Kurumin* certification as a company supporting child-raising (February 2021)
- Certified as a Health & Productivity Management outstanding organization in 2021 (March 2021)

■ Social and human rights initiatives

- Provided relief funds both in Japan and overseas for the COVID-19 pandemic and for damage from heavy rains (June and July 2020)
- As a voluntary social contribution initiative with employee participation, the azbil Honey Bee Club supported social welfare organizations (November 2020)
- Signed the “United Nations Global Compact” (April 2021)

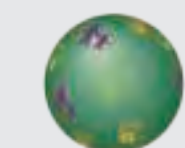


■ Strengthening corporate governance

- Announced our skills matrix (June 2021)
- Expanded disclosure based on revisions to Japan's Corporate Governance Code and the revised Companies Act

Inclusion in major indices

- Four indices chosen by the Government Pension Investment Fund (GPIF):
 - FTSE Blossom Japan Index
 - MSCI Japan ESG Select Leaders Index
 - MSCI Japan Empowering Women Index (WIN)
 - S&P/JPX Carbon Efficient Index
- Included in the 2021 Bloomberg Gender-Equality Index



FTSE4Good

- [Inclusion in other indices]
- FTSE4Good Japan Index
 - MSCI Japan Index
 - JPX-Nikkei Index 400



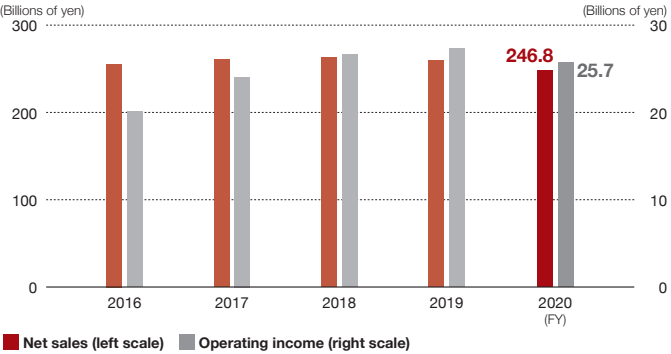
Note: The dates within parentheses are when the announcements were made.

azbil's Value Creation | Financial and Non-Financial Highlights

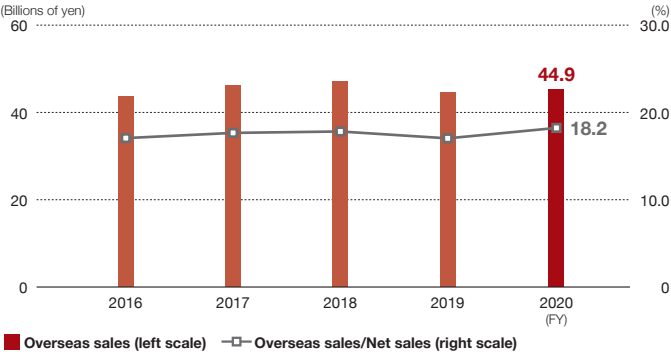
Azbil Corporation and its consolidated subsidiaries

Financial Highlights

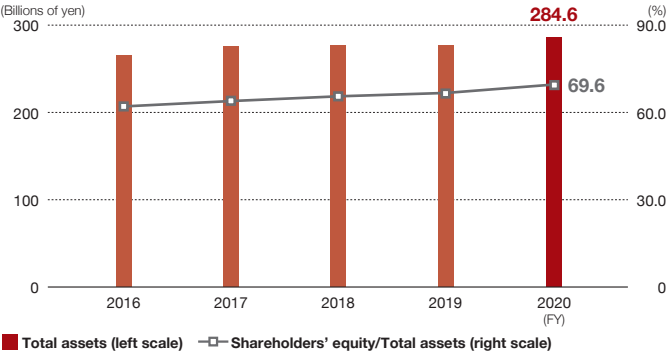
Net Sales, Operating Income



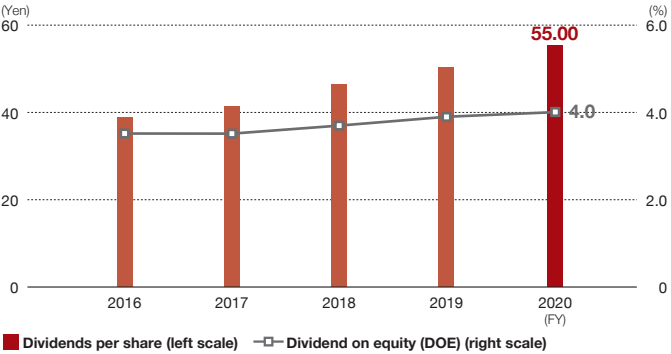
Overseas Sales, Overseas Sales/Net Sales



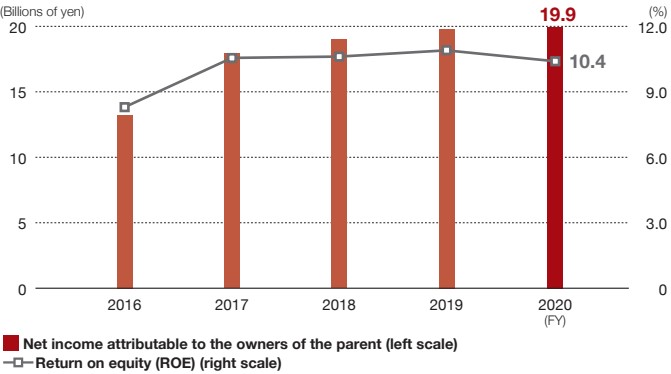
Total Assets, Shareholders' Equity/Total Assets



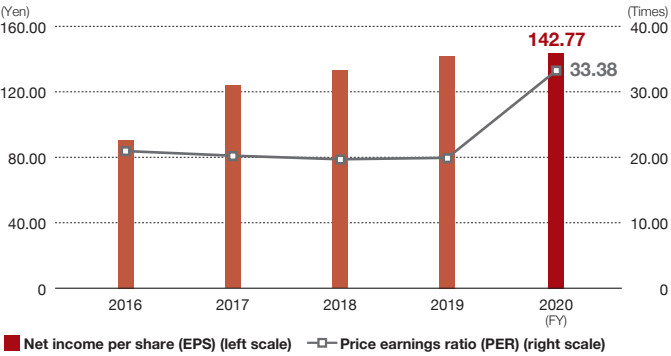
Dividends per Share, Dividend on Equity (DOE)



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

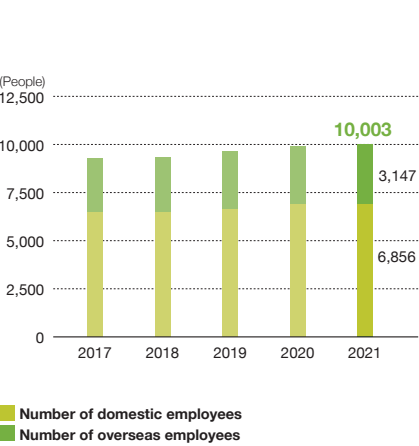


Net Income per Share (EPS), Price Earnings Ratio (PER)

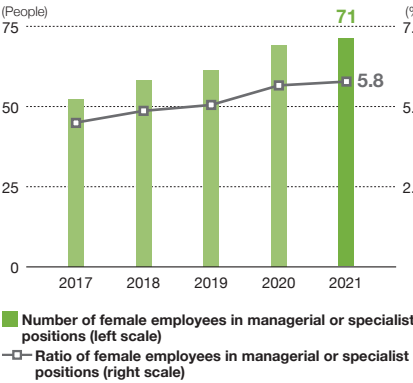


Non-Financial Highlights

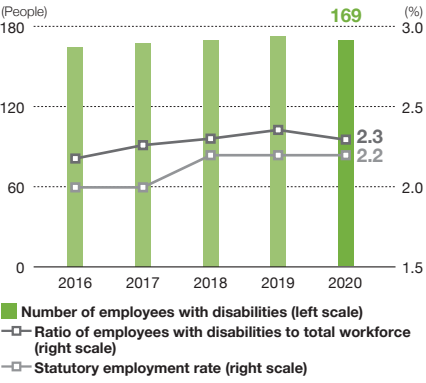
Number of Employees (as of March 31)



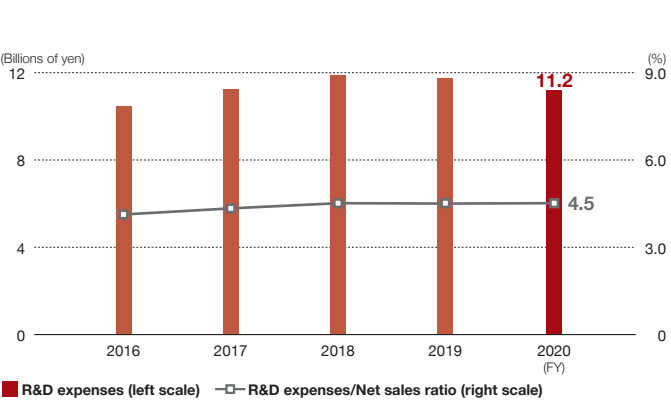
Number of Female Employees in Managerial or Specialist Positions, Ratio of Female Employees in Managerial or Specialist Positions Azbil Corporation (as of April 1)



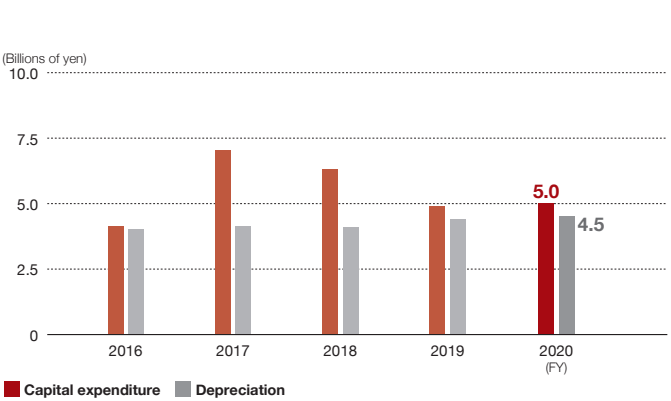
Ratio of Employees with Disabilities to Total Workforce (as of June)



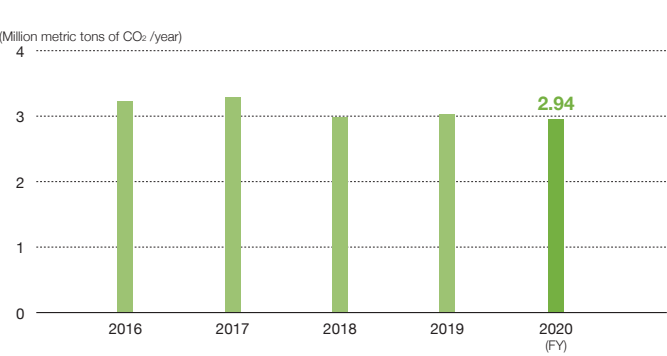
R&D Expenses, R&D Expenses/Net Sales Ratio



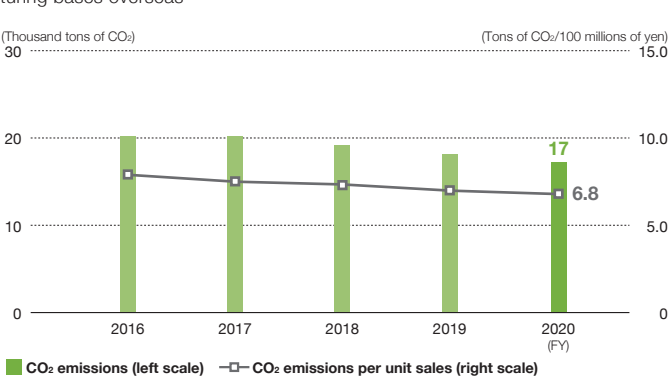
Capital Expenditure, Depreciation



Effective Reduction of CO₂ at Customers' Sites Azbil Corporation and its overseas subsidiaries



CO₂ Emissions (Scopes 1+2) and CO₂ Emissions per Unit Sales Azbil Corporation, its consolidated subsidiaries in Japan and its main manufacturing bases overseas



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.

Note: Estimations for each fiscal year's performance from 2018 are based on the methods reviewed by third parties.

Interview with the CEO



“We are aiming to enhance our unmatched ability to provide unique automation solutions for our customers and society as we transform the Group for sustaining growth.”

Kiyohiro Yamamoto
Representative Director,
President and Group Chief Executive Officer



The Shonan Factory (top) and Fujisawa Technology Center (bottom)

Q1

Your first year as Company President was challenging with the worldwide COVID-19 pandemic. How do you view the Group's performance in FY2020?

A1

The azbil Group's meaningful contribution to creating a sustainable society became clear during the year. Our automation technologies and installation, engineering, and service businesses, particularly the services we provide to medical facilities and other key institutions of social infrastructure, all played important roles during the challenging situation.

Throughout the pandemic, our priorities have been on the safety of our employees and customers and on ensuring that we continue to provide customers with the essential services needed to maintain uninterrupted operation of important facilities and social infrastructure in FY2020. We were able to do so largely because of the reforms to our business and operating structures that we completed under the previous two medium-term plans.

The relevancy of our automation products and services to a sustainable society became abundantly evident as more people began working from home during the year. The technologies we offer, such as those enabling work to be done online and from remote locations and providing carefully controlled air conditioning and ventilation, create living and work environments that are both safe and secure.

Our products and services are also playing an important role in mitigating the effects of climate change. The Group's measurement and control technologies help to reduce carbon dioxide emissions from large buildings, factories, and plants, and many of our customers are using our products and services

to help them achieve carbon neutrality. The azbil Group as a whole emits about 17 thousand tons of CO₂ per year, but the total effective reduction of CO₂ that our technologies are producing at our customers is about 2.94 million tons annually, or about 170 times our own emission volume (Data from FY2020).

During the year, I was also reassured about the Group's potential for future growth into the long term from the increasing demand for automation technologies at the core to address social issues. We believe that integrating the latest IoT, AI, and sensing technologies to create innovative products that can provide significant contributions to addressing societal problems, such as the challenges Japan is facing with a graying population and declining birthrate, new work styles, and aging infrastructure.

I also believe the Group's proactive efforts to implement and enable work-at-home and remote work are allowing our employees to use their time and workspaces more efficiently. This is increasing productivity, which I think will be key asset in the future.

Q2

Please discuss your view on the Company's performance in FY2020 and the results of the previous two medium-term plans.

A2

The business and operating structure reforms under the recently completed two medium-term plans limited the impact on our performance from the severe business conditions.

In Japan, the numerous urban redevelopment projects supported solid demand for equipment and systems for large buildings, and the capital investment activity drove steady demand for advanced manufacturing systems. The labor

shortage in Japan led to strong demand for equipment maintenance and for rationalization and labor-saving technologies. At the same time, our business was impacted to some extent by the global economic contraction during the pandemic, as many companies inevitably postponed investment plans due to the reduced business activity. As a result, we recorded moderate year-on-year declines in both sales and profit in FY2020, with sales amounting to ¥246.8 billion and operating income of ¥25.7 billion.

Despite the harsh business conditions, our improved operational efficiency enabled us to hold the operating income margin at 10.4%, very near the 10.5% in FY2019, while a rise in net income helped maintain return on equity (ROE) above 10%, at 10.4% compared to 10.9% last year. The improvement in operational efficiency was achieved under the medium-term plans from FY2013 to FY2016 and from FY2017 to FY2019. During that time, we nearly doubled operating income from ¥13.9 billion to ¥27.3 billion and expanded the operating income margin from 5.6% to 10.5%. ROE similarly rose from 5.4% to 10.9%. I believe these results demonstrate the success of our profit-oriented management since the global financial crisis of 2007–2008, which has enabled us to significantly limit the potential damage to our performance compared to past times of economic crisis. The business and operating structure reforms and steps to improve profitability are guided by three fundamental policies: being a long-term partner for the customer and community by offering solutions based on azbil's technologies and products; taking global operations to the next level by expansion into new regions and a qualitative change of focus; and being a corporation that

never stops learning so that it can continuously grow stronger.

These policies guide all of our efforts to strengthen our product and service offerings. They were also behind our strategic decision to raise the business ratio of the life cycle solutions businesses in the Group's three segments of Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). The measures we have implemented have increased the value we provide to customers and improved our profitability. We have also been expanding our global operations with the aim of developing them into another engine for business growth. We currently have sales and service operations in 23 countries, and in 2018 we established the Strategic Planning & Development Office for Southeast Asia in Singapore.

In addition, we are upgrading our production capabilities. We are introducing state-of-the-art technology to our lead development site at the Fujisawa Technology Center and the Shonan Factory, which together serve as a combined mother factory for the Group's global operations. We are also investing in technology development as another source for business growth. Our focus is on developing sensor technology, which is a key component of the booming IoT field, and on new products and services integrating AI, IT, and cloud technologies.

The new medium-term plan sets a course for ongoing reform and strengthening of our business and operational structures. The plan also provides a clear roadmap for further expanding our global business and harnessing the power of digital transformation (DX) as we systematically and methodically continue to improve our operations and enhance our business performance and potential.

Q3 What are the main objectives and initiatives of the new medium-term plan, and what will be the biggest challenges?

A3 The current medium-term plan has several initiatives designed to apply the Group philosophy of “human-centered automation” and to steadily and swiftly bring about the transformation needed to deliver us to our next phase of growth to FY2030.

I think it is important in these business conditions to reaffirm our business character and strengths. Management must also be steadfastly committed to making quick and bold decisions to change what we need to make our business better in the future.

What should not change is our “human-centered automation” philosophy and the unique business model it gives us. The azbil Group’s core assets are not just its ability to develop, manufacture, and sell equipment and systems with state-of-the-art measurement and control technology. We also have the ability to provide long-term solution services with high-level safety, security, and efficiency, including advanced engineering technology for onsite equipment installation and maintenance.

A suitable environment requires more than steady



New Long-term Targets and Medium-term Plan

The new medium-term plan (FY2021-2024) will move us beyond the focus on business continuity and prioritizing employee safety during the pandemic to the growth phase for achieving our targets for FY2030
* Ref: pp. 23-28

temperature control; it also needs to create air and space quality that harmonize with various factors and conditions. We provide equipment for buildings, plants and factories, houses, and societal lifelines. To create the optimal conditions for the people who live and work at each site, we must not only offer a broad menu of products, but also have the ability to tailor the products to each site’s unique conditions. In addition, providing maintenance and other services during 10- or 20-year equipment life cycles requires us to continually make our products and systems more competitive and constantly improve our onsite engineering and service capabilities.

At this moment, many Group employees are hard at work inside customer factories trying to find solutions to complex problems. I know their dedication because I myself did similar work when I was helping launch an energy management business. It’s true that “The solution always exists at the worksite.” That’s why our employees are side by side with our customers worrying, thinking, and devising ingenious solutions. These employees are the fundamental source of the azbil Group’s competitive advantage.

I believe that setting clear targets and key performance indicators and carrying out the PDCA cycle as quickly as possible will be critical. When business conditions and technologies are changing as rapidly as they are, this speed is absolutely essential and will go a long way to determining our competitiveness in the years ahead.

The new medium-term plan was designed for these conditions. It was purposely designed to provide easy visualization of our objectives for the three business segments and for the Group’s development, production, and human resource

functions that support the segments. The plan’s objectives are based on long-term targets that we updated to take into account the changing business climate, new technology trends, and structure of society, as well as what we want the Group to be three and 10 years in the future. The aim of the plan is to set the Group’s growth on an upward trajectory with all Group employees using their originality and ingenuity at onsite locations and feeling proud about contributing to the sustainability of society.

The concept of office workspace is evolving, and this is creating a whole new panoply of demand for the changes in customers’ needs in accommodating to the new ways people work, such as to ensuring safe ventilation. New opportunities for business growth are also surfacing, such as from the growing demand for sophisticated air conditioning technology that focuses on segmented spaces and provides a balance of comfort and energy efficiency.

The medium-term plan was formulated for the Group to thrive in this environment. Under the plan we aim to transform the Group to be able to meet customer needs and respond to societal problems in Japan and overseas and to generate Group synergies while developing customized business models for each segment. The plan also sets specific performance goals of reaching ¥300.0 billion in net sales and ¥36.0 billion in operating income, with an operating income margin of approximately 12%, in FY2024. At that point, the plan will deliver us from a transformation phase to a growth phase propelling us toward ¥400.0 billion range in net sales and ¥60.0 billion range in operating income, with an operating income margin of approximately 15%, in FY2030.

Building out three growth fields to propel segment growth

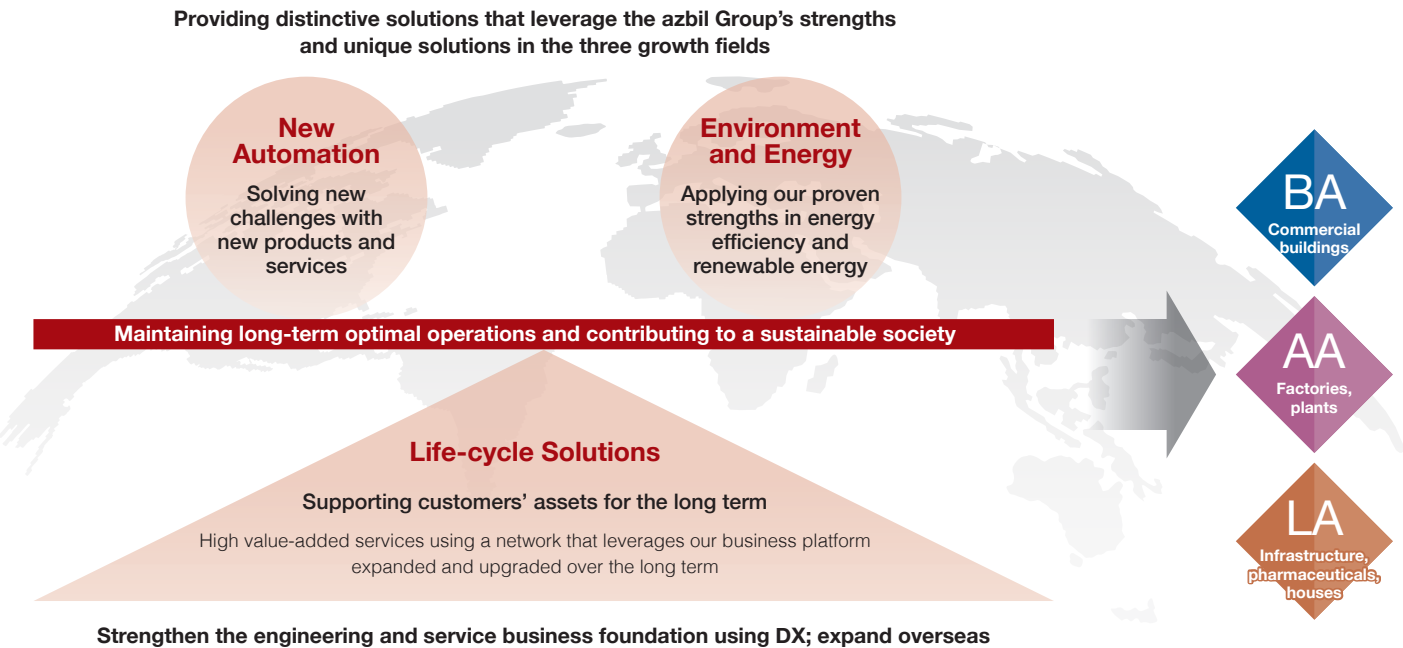
To keep pace with the changes in customer needs and society, we are focusing on expanding business by fully leveraging the azbil Group’s strengths and unique solutions to develop the three growth fields of new automation, environment and energy, and life-cycle solutions. Building out our business in these three fields will open up new avenues for growth in the BA, AA, and LA businesses.

The growth potential in the new automation fields has become increasingly apparent over the past year. Our approach to expanding the new automation fields is to directly boost our customers’ competitive advantages by providing the added value of “improved quality of space and productivity” at their facilities. Improvements in these areas normally lead to increased consumption of energy and resources, but we will provide another layer of added value by developing highly energy efficient equipment, which strategically overlaps with the environment and energy business fields.

Technology in the new automation fields will have the dual challenge of tackling social issues, which will no doubt be a very competitive field, while also being more environmentally friendly. Our onsite experience, specialized expertise, and extensive data will be our differentiating factors and will be the resources that will enable us to improve both quality and environmental performance. In short, I believe the azbil Group has the perfect set of unique strengths for success.

The added value of a life-cycle business is the continuous provision of value over long periods. For customers, the provided value becomes a foundational element for their operations and businesses; for us, providing the value be-

Three Growth Fields That Share a Common Foundation of Automation Technology



comes a recurring business that will infuse a steadily growing flow of profits to the Group into the future.

Over time, as we broaden our presence in the three growth fields, our business scale will steadily grow along with our contribution to a sustainable society.

These fields already have presences in the BA, AA, and LA businesses that can be further developed with automation technology as a core. We will be advancing five initiatives to meet changes in needs and markets as they emerge around the world, such as the changes caused by the COVID-19 pandemic. The ultimate objectives of the five initiatives that follow are to generate business growth and establish steadily rising profits in all three business segments.

■ Increase investment to strengthen our product and service development capabilities

We will meet new needs for automation and develop new products and services to drive growth in each business by augmenting our product sensor, actuator, and other offerings with edge computing services located close to customers' sites and by improving our cloud computing applications for optimally using and controlling big data gathered from custom-

ers' sites. Guided by our technology development strategies to meet changing customer needs and provide new added value, we will aggressively invest to strengthen our abilities to develop new products and services. Part of this will be to construct a new testing center with state-of-the-art facilities at the Fujisawa Technology Center, our lead site for research and development.

■ Increase contact points with customers

The new social issues and changing business environment are creating the need for new solutions through new automation at our existing customers and opening up business opportunities in new markets and business fields. While using DX to strengthen and streamline our sales capabilities, we will invest resources in our focus markets in Japan and overseas to build on our connections with current customers and to continue cultivating new customers around the world.

■ Expand business by actively addressing social issues

To alleviate the pressing social issues of climate change, aging infrastructure, the prevention of contagious diseases, and Japan's shrinking labor force, we will create safe and secure

office and production spaces and develop new solutions, such as virtual power plants, that reduce energy demand and enable conversion to alternative renewable energy sources.

■ Boost DX and strengthen employee DX proficiency

Cloud and application software technology is a common element in boosting the added value of our services with AI and big data and in developing business related to virtual power plants and other emerging technology fields. We will train employees and hire dedicated DX staff to ensure we have a fully developed DX structure for our onsite engineering services, which are a key Group strength.

■ Form strategies to establish continuous profit margin growth

As we develop strategies for business growth, we will continue and expand the strategies of the previous medium-term plans that have improved our ability to generate profit. Management will emphasize profit improvement, which will include lowering costs by introducing new products and using DX to improve business efficiency, as we actively work to attain our FY2030 target of operating income margin of 15%.

Q4

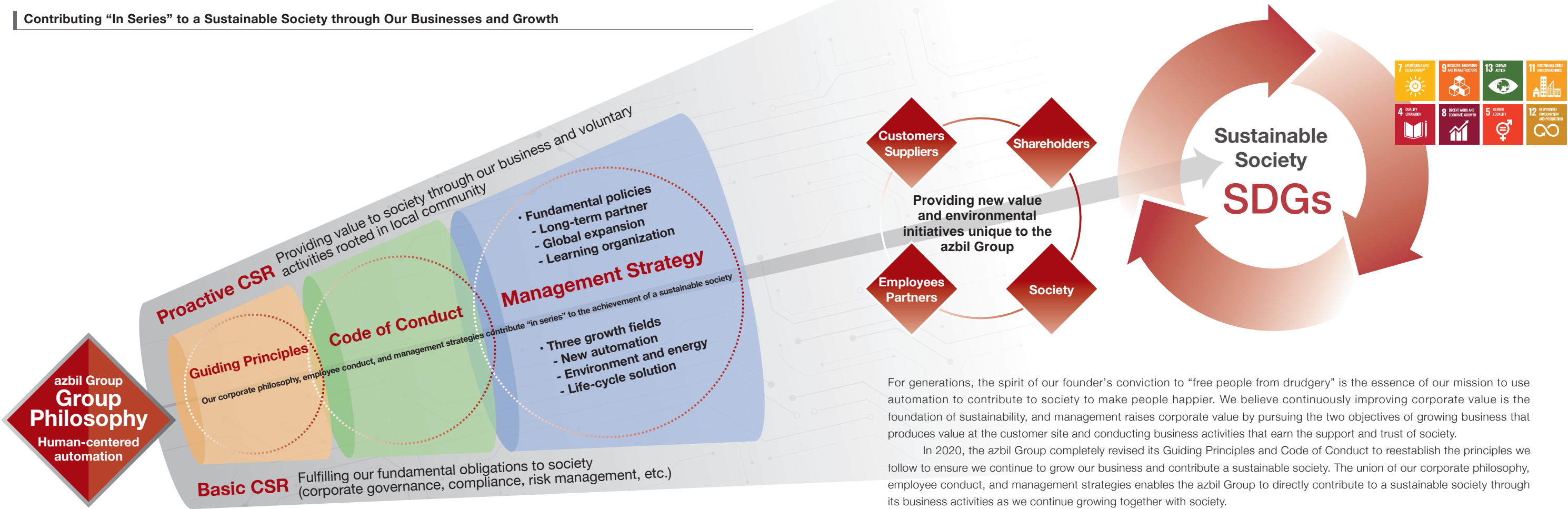
Companies are increasingly being evaluated in terms of the United Nations' Sustainable Development Goals and environmental, social, and governance criteria. How is the azbil Group incorporating social responsibility into its business operations?

A4

Management is using the SDGs as guideposts for our mission to contribute "in series" to the achievement of a sustainable society.

The medium-term plan sets taking action on social issues as one of the primary means for expanding our business, and we are harnessing the azbil Group's unique capabilities to address social issues. In the environmental and energy fields, for example, we are reducing the environmental impact that is usually associated with "improved quality of spaces and productivity" and supporting customer efforts to attain carbon neutrality. In FY2020, we set four essential goals of the Group for SDGs along with specific targets. The core categories are the two businesses of environment and energy and new automation, and two areas of general corporate activities, which are supply chain and social responsibility along with health and well-being management and an organization that never stops learning.

Contributing "In Series" to a Sustainable Society through Our Businesses and Growth



For generations, the spirit of our founder's conviction to "free people from drudgery" is the essence of our mission to use automation to contribute to society to make people happier. We believe continuously improving corporate value is the foundation of sustainability, and management raises corporate value by pursuing the two objectives of growing business that produces value at the customer site and conducting business activities that earn the support and trust of society.

In 2020, the azbil Group completely revised its Guiding Principles and Code of Conduct to reestablish the principles we follow to ensure we continue to grow our business and contribute a sustainable society. The union of our corporate philosophy, employee conduct, and management strategies enables the azbil Group to directly contribute to a sustainable society through its business activities as we continue growing together with society.

Among these, the most concerned with great passion is about global warming and environmental issues. Our automation technologies contribute in two ways, by reducing energy waste through efficient energy usage and in turn by reducing demand for energy. Product recycling and renewable energy technologies also contribute greatly. The value of our automation technology is that it can lower energy demand while providing quality of space and maintaining productivity at living, office, and production sites. This is one of the ways that azbil is contributing “in series” to the achievement of a sustainable society. I find this extremely motivating and hope to inspire Group employees in Japan and around the world to take action on the SDGs.

We are also engaging in several measures to improve our non-financial reporting of the Group’s environmental, social, and governance status. Fortifying our corporate foundation is a priority as it will support not only sustaining growth for the Group, but will enable us contribute meaningfully to realizing a sustainable society. Our investment in business growth will be aggressive in the areas of technology (intellectual capital), manufacturing equipment (manufacturing capital),

and human resources (human capital). Our CSR management practices focus on contributing to a sustainable society through our business activities founded on our Group philosophy of “human-centered automation,” and putting people first. On the most fundamental level, in all of our operations, we will continue actively applying and enforcing the Ten Principles of the United Nations Global Compact in the four areas of human rights, labor, environment and anti-corruption. Our CSR management also prioritizes risk management, thorough ethical and legal compliance, and environmental and social contribution.

Our efforts to strengthen our CSR activities were recognized by the Government Pension Investment Fund, which in FY2020 selected four ESG indexes in which azbil is a constituent. Yet, it is imperative that we continue diligently strengthening our corporate governance to continue ensuring fairness, neutrality, and transparency in our management practices. Recent measures include steps to establish a structure to facilitate constructive dialogue with all stakeholders, which is essential to realizing sustaining business growth and continuing to increase our corporate value into the long term.

Essential Goals of azbil Group for SDGs

We are taking steps to achieve the targets set in the following four categories. We constantly review the targets and indicators with the aim of continuing to improve our environmental performance. (See page 58 for details about the targets and our initiatives.)

Business	
Essential Goals	Targets
<div>I</div> <div>Preserving the Earth’s environment and solving energy-related problems through cooperative creation</div> <div>Environment and Energy</div>	<div>→ Solutions for energy (toward a decarbonized society)</div> <div>→ Environmental preservation (realization of Integrated Environmental Corporate Management)</div> <div>Lower our greenhouse gas emissions and help reduce CO₂ at our customer sites to advance decarbonization, and incorporate resource recycling, biodiversity conservation, and other environmental activities into our business activities</div>
<div>II</div> <div>Realizing a safe and comfortable society through new automation</div> <div>New Automation</div>	<div>→ Providing productivity and higher value that lead to customer’s peace of mind and comfort</div> <div>Automate manufacturing and operations to improve the quality of customer living, production, and shared spaces and create new value</div>
General corporate activities	
Essential Goals	Targets
<div>III</div> <div>Fulfilling our responsibilities to society across our supply chain and contributing to local communities</div> <div>Supply Chain, Social Responsibility</div>	<div>→ Fulfilling social responsibilities with customers and business partners</div> <div>→ Invigorating local communities</div> <div>Work with our business partners toward common SDGs and share the value of CSR in the supply chain</div> <div>Promote local social contribution activities</div>
<div>IV</div> <div>Strengthening our foundations to solve societal problems through health and well-being management and continuous learning</div> <div>Health and Well-being Management, An Organization That Never Stops Learning</div>	<div>→ Implementing health and well-being management (job satisfaction, health, diversity and inclusion)</div> <div>→ Developing and strengthening “an organization that never stops learning”</div> <div>Flexibly accommodate work styles, reduce total work hours, support and promote employee mental and physical health, create opportunities for diverse personnel to demonstrate their abilities, and provide learning opportunities to develop human resources who can contribute to solving social issues</div>

Q5 How will the Company return profit from its business growth to shareholders and investors?

A5 We raised the FY2020 year-end dividend and the planned total annual dividend for FY2021 in accordance with our commitment to a disciplined capital policy and strategically investing to increase our corporate value. We have also supplemented shareholder return through share buybacks. As part of our disciplined capital policy, we apply an internal control index for capital investment activities that includes our own formula for ROIC reflecting the specific conditions of our business investments. Management practices an active awareness of capital costs and is geared toward achieving targets for ROE.

I stress the importance of keeping long-term objectives in mind even when dealing with the immediate situation. Shareholder return is a key part of this and remains a management priority. Our basic policy is to maintain a stable dividend and seek to raise dividends while considering the overall circumstances of our consolidated business performance, dividend on equity ratio (DOE), ROE, and the strategic need to ensure adequate internal reserves for current and future business development and a sound financial foundation.

Following this basic policy and in consideration of our business performance, which even in the harsh operating environment exceeded our projections, we raised the FY2020 year-end dividend payment to ¥30 per share, a ¥5 increase from our original plan, which brought the full-year dividend payment to ¥55 per share. The DOE ratio was thus 4.0% for FY2020, and we will continue advancing the medium-term plan to continue steadily increasing DOE. Looking ahead to FY2021, based on our outlooks for business growth and our earnings performance, we plan to raise the ordinary dividend by ¥5, which will increase the full-year dividend to ¥60 per share.

As mentioned earlier, we will be aggressively investing in technology, equipment, human resources, and other areas necessary for sustaining growth and raising corporate value. In keeping with a disciplined capital policy, we also acted on our commitment to returning value to shareholders by improving ROE and distributing dividends by flexibly repurchasing 2.25 million outstanding azbil shares, valued at approximately ¥10.0 billion.

In FY2021, we began using ROIC as an additional key management indicator with ROE to further strengthen our corporate governance and as an additional guide for raising our corporate value and maintaining a disciplined capital policy. I believe strong awareness of capital costs is increasingly critical and plan to emphasize its importance in our management activities.

Q6 Do you have a message for stakeholders?

A6 The azbil Group is engaging in a concerted effort to transform itself by pursuing the substantial opportunities for long-term growth in the automation business. The Company and its stakeholders will share the benefits of the growth we achieve and maintain good relationships.

We fully embrace the idea of stakeholder capitalism as it reflects the values that the azbil Group has adhered to since its inception.

We have always had strong relationships with our stakeholders, and I wish to continue engaging in constructive dialogue, which is essential for maintaining the business environment and our business performance.

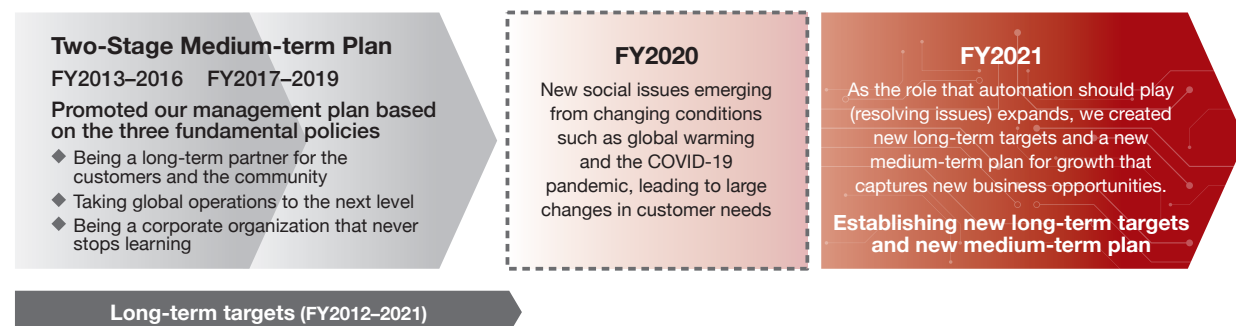
How business conditions will be in the aftermath of the COVID-19 pandemic is still anything but certain, but I think there will be an exponential increase in demand for the Group’s core competencies in automation technology, installation, services, and engineering. It is truly rewarding and I take pride in the fact that our drive to increase the use of automation directly contributes to a sustainable society. At the same time, the increasingly fierce competition in all markets means that we need to mobilize the full power of our capabilities to succeed. The azbil Group is putting all of its energy into transforming itself for future growth, and I look forward to pursuing the significant opportunities ahead.



Establishing New Long-term Targets and the New Medium-term Plan

Results of the Previous Medium-term Plans —background of formulating new long-term targets and new medium-term plan

Anticipating business opportunities from the growing role of automation, we formulated new long-term targets and a new medium-term plan to contribute the achievement of a sustainable society to achieve the Group's growth.



Results of the previous two medium-term plans (FY2013–2016, FY2017–2019)

In 2012, to respond quickly to changes in the business environment, customer needs, and global social issues while pursuing sustainable growth, we established our “long-term targets” and “three fundamental policies” for 10 years through FY2021.

In line with these targets and policies, in FY2013, we began our two-stage medium-term plan (FY2013–2016, FY2017–2019). By strengthening products and services focusing on people and realizing a world of automation co-created by human ingenuity and technology and evolving our three businesses— Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)—into a life-cycle solutions business with customers and society, we increased the value provided to customers and our profitability.

By advancing reforms of business and operational structures as measures in the past medium-term plans, we greatly enhanced profitability and made progress in developing our global business foundation as a growth engine. We also made progress in implementing CSR management, strengthening our governance system and financial structure, and building risk management systems including improving our business continuity plan (BCP).

In terms of strengthening profitability, we faced a challenging business environment due to decreased capital investment and other factors with the spread of COVID-19 starting in 2020. Consequently, in FY2020 (ended March 31, 2021), orders received and net sales declined year on year, and operating income was also forced into decline. However, we maintained almost the same level of operating income margin as the previous fiscal year at 10.4% (down 0.1 points from the previous year), which we believe demonstrated the effective-

ness of our continuous measures. Furthermore, we steadily enhanced our management foundation toward the Group's sustainable growth, including strengthening and diversifying our capital-raising abilities on the finance side.

Formulating new long-term targets and a new medium-term plan based on issues in the previous medium-term plan

During our two-stage medium-term plan, Japan experienced an increasingly aging society and progress in work-style reforms, while economic globalization advanced and demands to respond to climate change and the SDGs increased. There was also more change in business models with technological innovations such as IoT, AI, big data, and cloud technology, and the business environment surrounding the azbil Group changed on a global scale.

The azbil Group formulated a new medium-term plan starting in FY2020 based on these changes. However, with the unexpected rapid spread of COVID-19, both the business environment and economic conditions changed significantly. At the same time, global needs for safe and secure living and production spaces increased, thus expanding the role of automation in resolving social issues. In other words, business opportunities for the azbil Group are growing rapidly, leading us to revise our plan.

In May 2021, while considering the target date to achieve the SDGs, based on the theme of “management that contributes ‘in series’ to the achievement of a sustainable society,” we established long-term targets for FY2030 that aim to balance sustained corporate growth (enhanced corporate value) and sustainability of society. At the same time, as the first step toward that vision, we announced the new medium-term plan (FY2021–2024).

Main results based on the three fundamental policies and two-stage medium-term plan

Fundamental Policy (1)

Being a long-term partner for the customer and community by offering solutions based on our technologies and products

In developing technologies and products that allow us to provide solutions to our customers, we improved our R&D hub and strengthened its capabilities, developed new sensors that are the basis of metering and measurement, and developed products and services using AI, IT, and cloud technology. We made progress in these initiatives in our BA, AA, and LA businesses. We expanded our maintenance service and life-cycle solutions business, maintained and improved profitability, and strengthened our resilience to downturns in the business environment.

established the Strategic Planning & Development Office for Southeast Asia in Singapore. In regard to production, we established production bases in China, Thailand, and Japan to streamline production and strengthen systems including our BCP. In FY2019, we upgraded the Shonan Factory, which began operations as the azbil Group's mother factory for global production in collaboration with the Fujisawa Technology Center.

Fundamental Policy (2)

Taking global operations to the next level by expanding into new regions and a qualitative change of focus

We improved our global network as a growth platform. In terms of sales and service, we have expanded to 23 countries. In 2018, as our first regional organization leading our regional strategy, we

Fundamental Policy (3)

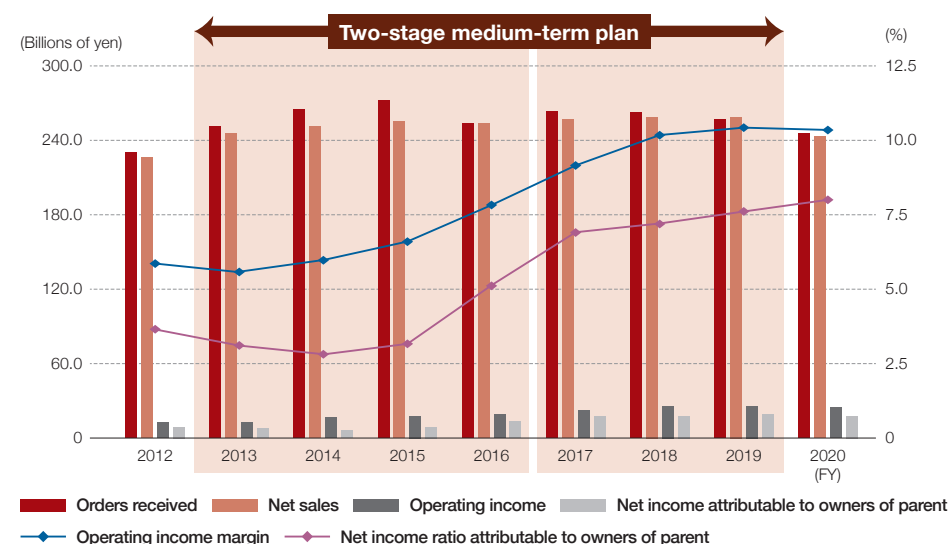
Being a corporate organization that never stops learning, so that we can continuously grow stronger

In terms of human capital, we made progress in initiatives to “be a corporate organization that never stops learning” to respond to changes in the business environment and advances in globalization. Employees improved their skills through the Azbil Academy, and we optimally allocated human resources by transferring around 630 employees to departments engaged in our growth strategy. Additionally, we revamped our human resource system to motivate employees, allow them to exercise diverse capabilities, and improve productivity.

As a result of the two-stage medium-term plan, our business profitability improved greatly, and we maintained profit levels even amid the COVID-19 pandemic

We maintained a thorough crisis management system and prioritized safety and security in our business operations. Through measures to strengthen profitability that produced results as initiatives in our medium-term plan as well as growth of

our life-cycle business centered on the service field for which stable demand is expected, we succeeded in limiting the negative effects from the business environment caused by the spread of COVID-19.



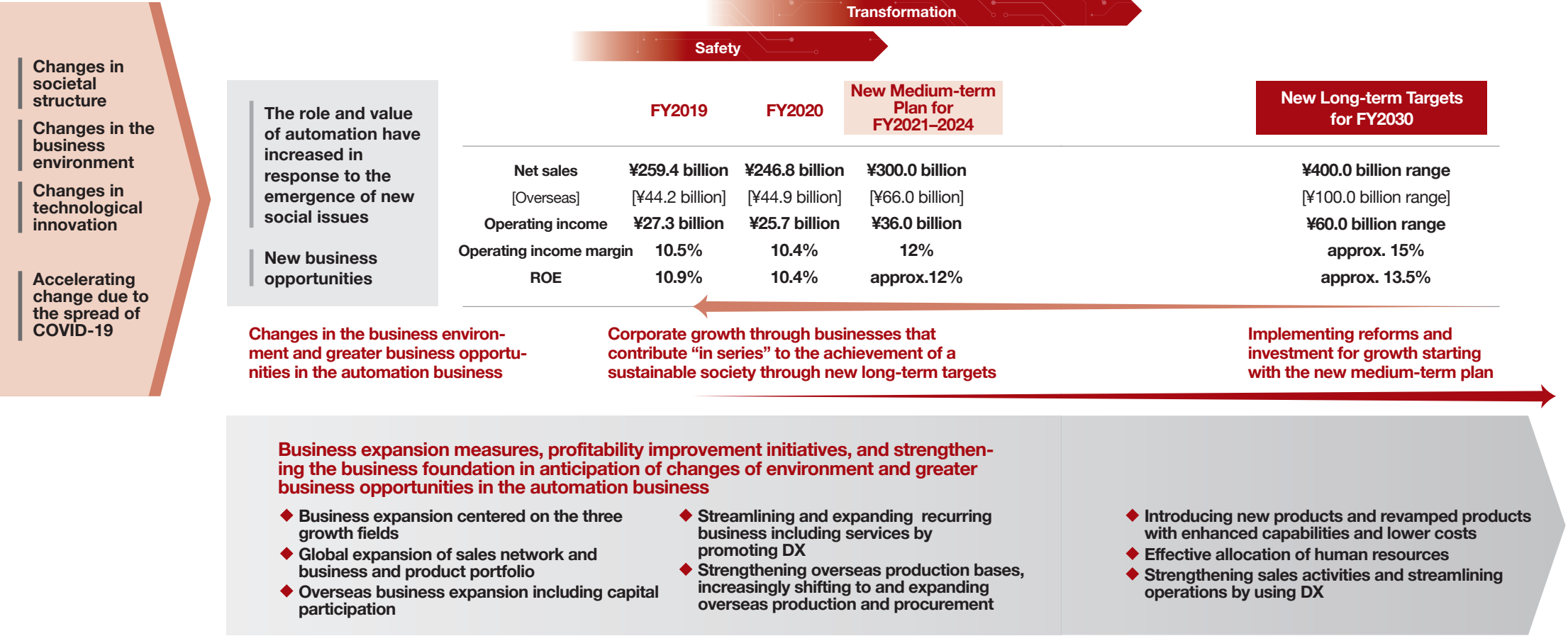
Responding to the COVID-19 pandemic

To respond to the spread of COVID-19, which began in spring of 2020, based on our BCP system that we have continuously strengthened, the azbil Group improved its crisis response system by promoting telecommuting internally and reconfirming our supply chain on the operations side. By quickly enacting policies prioritizing the safety and security of our employees, customers, and business partners, we responded to requests for engineering and service provision to maintain our customers' important facilities as well as businesses that are essential for the continued safety of social infrastructure.

Outline of New Long-term Targets and the New Medium-term Plan

Through our automation business, we will achieve growth by contributing “in series” to the achievement of a sustainable society and proactively implement reforms and investment for growth.

Establishing a New Medium-term Plan and New Long-term Targets That Anticipate Business Environment Changes and Business Opportunities



achievement of a sustainable society” and balancing our own growth with sustainability of society, we established new long-term targets as guidelines to continuously pursue growth measures and investments through FY2030, while continuing to strengthen profitability and build up our global business foundation from the previous medium-term plans. As the first stage in that process, in May 2021 we announced our new medium-term plan (FY2021–2024).

Establishing a new medium-term plan based on the theme of “transformation”

To achieve our new long-term targets, while continuing business operations that prioritize safety as we have done since FY2020 with the COVID-19 pandemic, we will rise to the challenge of transformation that leads to growth as we anticipate changes in the business environment and greater opportunities in the automation business. In FY2030, the final year of our new long-term targets, we aim to increase net sales by ¥150 billion or more from the current level to ¥400 billion range, to double operating income to ¥60 billion range, to increase operating income margin by 5 points from FY2019 to approximately 15%, and to increase ROE from the current around 10% to approximately 13.5%.

Furthermore, during the period of the new medium-term plan for FY2021–2024, we see the pillar of transformation as a deeper pursuit of “the three growth fields that share a common foundation of automation technology (p. 27),” which has been our focus since FY2017 during the previous medium-term plan, and we will develop products and services that respond to diverse needs. Through automation that will enable us to continually carry out “improvements to the quality of space and productivity” in customers’ assets as well as “curb energy usage,” we will contribute to resolving social issues and helping customer companies achieve their SDGs while capturing new demand.

Anticipating changes in the automation business environment and greater business opportunities

At present, the nature of society and industry and consumers’ needs are experiencing significant changes, and new issues to be resolved are emerging globally. These changes and issues include the global issue of climate change, changes in the structure of society such as the aging population in Japan, increased demand in the industrial world for new products and

services to realize a smart society, increased global needs for safety and security due to the spread of COVID-19, and accelerating needs for telework environments.

There are many other roles for the diverse capabilities of automation including labor saving, energy saving, and resource saving. With the number of variables to control growing and becoming increasingly complex each year, the value of automation is continuing to rise.

Establishing new long-term targets that contribute “in series” to the achievement of a sustainable society

azbil sees these changes in the business environment as new growth opportunities to add to stable demand in our existing business areas, such as maintenance and efficiency improvement. These changes also represent large opportunities to contribute to realizing the SDGs through our business. To that end, based on the theme of “contributing ‘in series’ to the

Implementing investments in “growth”

To realize transformation and achieve growth with an eye on FY2030, azbil will continuously implement investment in advanced technological development as well as capital investment to create a global production and product/service supply system. We will proactively introduce new products and services born from this process both in Japan and overseas and maximize the value that we provide to our customers. At the same time, we will enhance productivity and create new workstyles by improving and streamlining our own business activities and further increase profitability and margins.

Initiatives to Realize the New Medium-term Plan (FY2021–2024)

Centered on development in the three growth fields founded on automation technology, we will grasp new changes in the business environment that reflect changing customer needs and new social issues, and introduce new products and services in Japan and overseas.

Progress in the three growth fields

The azbil Group is transforming its business model centered on “the three growth fields that share a common foundation of automation technology.”

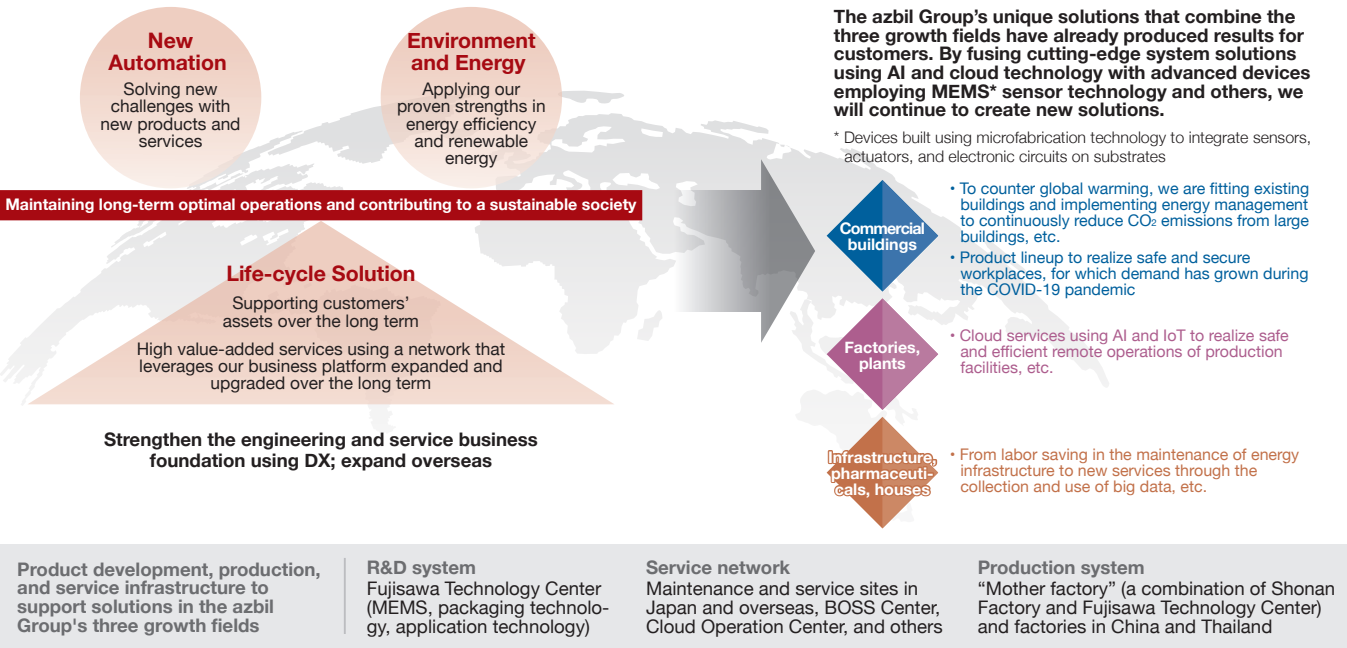
The new automation fields will quickly respond to global social issues and changes in customers’ needs born from changes in the societal structure and business environment including responding to climate change, co-existing with viruses, work-style reform, aging infrastructure, and more sophisticated manufacturing. Through automation, we will provide value including high quality, safety, remote environments, and decarbonization. These are the fields in which we will carry out “improvements to the quality of space and productivity” in customers’ assets.

When providing this added value, in general, more energy and resources are consumed. However, azbil is developing business with both accumulated data and factors for differentiation including products, services, and knowhow that

are effective in saving energy and resources. The environmental and energy fields will respond to both the demands of society and customers’ needs.

Furthermore, the life-cycle solution fields provide maintenance services over the long term that balance “improvements to the quality of space and productivity” with “resource and energy minimization” to match the life cycle of customers’ assets.

The ability to engage in these three areas of value as business fields is a business value unique to the azbil Group, which has pursued the optimization of human-centered spaces through an integrated structure ranging from concept to design, construction, installation, engineering, and maintenance. Going forward, by strengthening our engineering and service platform using DX, we will provide these three growth fields to society and our customers as a common automation value that goes beyond national borders and business sectors.



New Automation Fields

By providing “improvements to the quality of space and productivity” as added value in customers’ assets, we will support customers to enhance their competitiveness (high productivity, provision of comfortable, safe, and secure spaces, etc.).

Environmental and Energy Fields

As we head for the carbon-neutral age, we will provide technologies, products, and services that balance “improvements to the quality of space and productivity” in customers’ assets with “minimal usage of resources and energy.”

Life-cycle Solution Fields

Using our cultivated knowhow and advanced technologies, while maintaining customers’ assets over the long term, we will continuously realize “improvements to the quality of space and productivity” and “minimal usage of resources and energy.”

Investments and measures for continuous creation of solutions

We will carry out proactive research and development and capital investment to accelerate the development and market introduction of new products and services to achieve our long-term targets in FY2030. Additionally, we will implement DX measures in sales, service and engineering and network infrastructure enhancement measures that are both required to create high added value in our services and to streamline our business.

(1) Technological research and product development

We will strengthen our marketing and development capabilities to reinforce new product and service development to create new solutions continuously. In terms of development, we will strengthen our development capabilities in system solutions, devices, and field instruments to respond to increasingly polarized customer needs (p. 49). To that end, we will upgrade and strengthen the Fujisawa Technology Center, our research and development hub, to reinforce our development capabilities for cutting-edge system solutions and high-performance, high-precision devices (construction to be completed in May 2022).

R&D expenses

Total of approximately ¥56 billion from FY2021 to FY2024 (plan)

Investment for functionality improvements of the Fujisawa Technology Center

Approximately ¥7 billion for construction costs from FY2021 to FY2022 (plan)



Conceptional image of the laboratory building (Image courtesy of Nikken Sekkei Ltd.)



Improving development and manufacturing facilities for MEMS sensors, the key to sensing technology

(2) Strengthening sales, engineering, and service networks and promoting DX

We will undertake initiatives to further strengthen domestic and overseas sales and service networks, including introducing and globally developing sales force automation (SFA, a sales support system) and increasing overseas personnel and bases. Additionally, we will improve the provision of high value-added services by using cloud services such as remote maintenance (p. 55), promote business partnerships, and carry out overseas regional business development with the Strategic Planning & Development Office for Southeast Asia taking a central role.

(3) Strengthening global production and procurement system

As for fulfilling our social responsibility in our supply chain and building an optimal production system to support global business development, our Shonan Factory and Fujisawa Technology Center have collaborated in building a next-generation production system. We are also aiming to expand our production capacity overseas in response to growing global demand and to upgrade and further automate our production processes by constructing a new factory building at Azbil Control Instruments (Dalian). (p. 53)



Azbil Control Instruments (Dalian) New factory building image (scheduled for completion in 2022)

Realizing sustainability through CSR management unique to azbil

We will pursue “management that contributes ‘in series’ to the achievement of a sustainable society” through our core businesses. Additionally, we will continue to strengthen CSR management with priorities for action such as promoting Group management and improving governance systems, strengthening risk management and compliance, promoting management with emphasis on people, and contributing to the global environment and society.

(1) CSR management system

We have established a specialized organization and an executive officer in charge of our sustainability initiatives, hold azbil Group CSR Promotion Committee meetings, and provide reports at Management Meetings and Board of Directors meetings (p. 65). We proactively disclose risks and opportunities related to climate change.

(2) Disclosing our skills matrix

To support growth toward the goal of “contributing ‘in series’ to achieving a sustainable society” in our medium-term plan, we set the skills expected in Directors and disclose a skills matrix (p. 87).

(3) Pursuing “health and well-being management”

In terms of human resources, we are promoting “health and well-being management (p. 73),” diversity and inclusion, and optimal personnel allocations.

(4) Establishing SDG goals

Regarding the SDGs, we have established our own four essential goals and concrete targets (p. 57). We will implement continuous revisions to ensure steady execution and boost our activity level.

(5) Signing the United Nations Global Compact

In April 2021, we became a signatory to the “United Nations Global Compact,” underlining our commitment to strengthen our existing initiative for human rights protection on a global level.

(6) Introducing ROIC

In terms of management control, we implemented management with an awareness of the cost of capital and introduced return on invested capital (ROIC) to achieve our ROE targets in our new long-term targets and new medium-term plan (p. 31).

Message from the Executive Officer in Charge of Finance and Business Management



“Based on our new long-term targets and medium-term plan, we will work to enhance corporate value by further improving capital efficiency and by implementing a disciplined capital policy.”

Takayuki Yokota
Director,
Senior Managing Executive Officer

Q1 Please tell us about your role.

A1 We will steadily implement our new long-term targets and medium-term plan and ensure the achievement of our targets from the standpoint of both management and finance. To respond to the expectations of all our stakeholders, we will make consistent growth investments and realize highly efficient business portfolio management.

As Assistant to President, the executive officer in charge of overall corporate administration, I am responsible for business management and financial strategy. To improve the Group’s business management and capital efficiency to support global business development and strengthen governance, I manage the azbil Group’s business performance, develop and operate accounting systems and internal controls, and formulate and execute financial and capital strategies.

In our previous medium-term plans (FY2013–2016, FY2017–2019), we advanced various measures to strengthen our management and finances. Specifically, in addition to strengthening our business foundation by introducing an accounting system in anticipation of the introduction of International Financial Reporting Standards (IFRS) and global internal controls, we have been steadily raising the level of dividends and flexibly repurchasing our shares based on the idea of a disciplined capital policy, taking into account the perspective of capital efficiency as well as investment for growth and maintenance of a sound financial base. For the shares that we bought back, in addition to introducing an employee stock incentive system to increase employees’ awareness of our stock price and performance and drive motivation and morale, we disposed of treasury shares in a disciplined fashion.

We have formulated and revised the guidelines on strategic shareholdings in light of the objectives of the Corporate Governance Code and have also been working to accelerate the reduction of our existing shareholdings. (We held 71 issues as of the end of March 2015 and 41 issues as of the end of March 2021.) In terms of our business portfolio, we evaluate the effects of our investments and future business viability. In addition to the acquisition of overseas businesses in our LA business, we sold our elderly care and emergency call system business.

Looking back, since the start of the 2000s, the business environment of the azbil Group changed significantly with the bursting of the IT bubble. We introduced ROE targets with an awareness of capital efficiency in management. From a business perspective, while maintaining our basic approach of placing automation at the core of our business, we established our LA

business in addition to our existing BA and AA businesses. While alleviating the effects of changes in the business environment, we created three main business portfolios to realize sustainable growth and worked to improve the profitability of each of our businesses. As a result of these efforts, we succeeded in increasing our ROE from 6.1% in FY2012 to 10.4% in FY2020 after two medium-term plans.

In our new long-term targets and medium-term plan, we have established the necessary investment plan to achieve future growth, as well as even higher ROE targets. Going forward, in addition to developing existing initiatives, we will steadily make growth investments and realize highly efficient business portfolio management to respond to the expectations of all our stakeholders.

Q2 Please tell us about your approach to your financial strategy and capital policy.

A2 Our basic policy is to implement a disciplined capital policy including shareholder returns to sustainably maintain and enhance corporate value.

Our core policy in establishing and executing a capital policy is to balance maintaining a financial foundation, investments in growth, and shareholder returns to maintain and increase our corporate value.

The azbil Group is engaged in businesses essential in maintaining our customers’ important facilities and social infrastructure. To ensure that these facilities and infrastructure do not shut down in the event of a natural disaster or an event that affects our business operations, such as the recent outbreak of

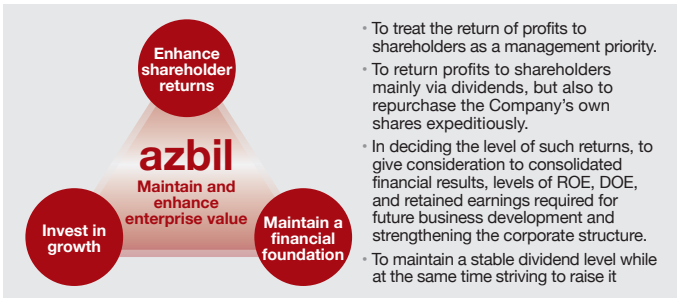
COVID-19, we must continue to operate our businesses for a certain period. To do so, in addition to securing capital for its BCP on top of regular operating capital, the azbil Group is strengthening its financial foundation to conduct flexible investments, including M&A, for future growth. Furthermore, the azbil Group positions shareholder returns as an important management policy. While steadily increasing dividend levels, we will flexibly incorporate stock buybacks.

Dividends will be determined through comprehensive consideration of consolidated performance, dividend on equity (DOE), and ROE levels. Our policy is to work to increase dividends while maintaining stable dividend levels. In FY2020, our DOE was 4.0%. While securing capital for a sound foundation and investments in growth, we flexibly repurchase our shares with a focus on increasing capital efficiency.

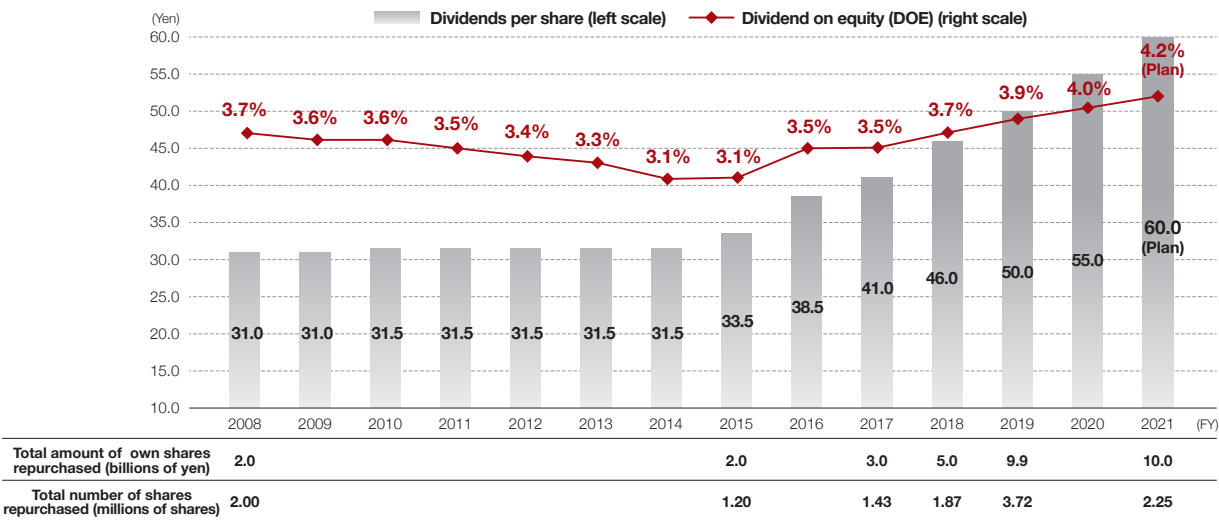
In FY2020, we postponed the repurchase of our shares in preparation for the COVID-19 disaster, but have repurchased our shares for three consecutive fiscal years since FY2017. In FY2021, we repurchased approximately 10 billion yen of our shares through the second quarter.

Basic Policy

Developing a disciplined capital policy and maintaining and enhancing the azbil Group’s corporate value, while carefully balancing three key elements: promoting shareholder returns, investment in growth, and maintaining a financial foundation.



Dividends and DOE



The dividend per share and the amount of shares repurchased have been retroactively revised to take into account the effect of the 2-for-1 common stock split. The amounts have been rounded.

Q3 How did you respond to the changes in the business environment caused by COVID-19?

A3 We strengthened our responsiveness to the changes by securing a solid financial foundation and reinforcing and diversifying our capital-raising capabilities.

In FY2020, the spread of COVID-19 initially made forecasts difficult and we were forced to conduct our operations, including our safety measures, in an extremely challenging business environment. However, due to policies to improve profitability implemented over several years, we managed to maintain stable profitability. After the 2008 financial crisis, our operating income margin fell to 5% when the business environment deteriorated sharply. In FY2020, we recorded a year-on-year sales decrease, however, we were able to maintain profitability. This was because of not only our initiatives to strengthen profitability in our BA, AA, and LA businesses but also our consistent efforts to reform our business structure, such as reviewing the portfolios of the individual businesses that compose each business.

In addition to the business side, from the finance side, we secured a stable financial foundation and strengthened our capital-raising capabilities to support the continued business operations of our customers' important facilities and social infrastructure. Specifically, while securing liquid funds on-hand in Japan and overseas, we maintained a total of ¥10 billion in commitment credit lines concluded with multiple financial institutions. On top of our corporate bond issuance limit of ¥20 billion, we established a commercial paper issuance limit of ¥20 billion, maintaining capital-raising capabilities to respond to unforeseen contingencies such as the COVID-19 pandemic.

In particular, in October 2020, Rating and Investment Information, Inc. (R&I) upgraded our corporate bond rating to "Single A+ (Stable)" and our commercial paper rating to "a-1."

Shareholders' Equity Ratio, Cash and Cash Equivalents (as of March 31, 2021), and Capital-Raising Methods

End of FY2020 (March 31, 2021)	
◆ Shareholders' equity ratio (consolidated)	69.6%
◆ Cash and cash equivalents (consolidated)	¥90.7 billion
Capital-raising methods	
◆ Overdraft facility account limit	¥10 billion
◆ Commitment credit lines	¥10 billion
◆ Corporate bond issuance limit (issuer rating A+)	¥20 billion
◆ Commercial paper issuance limit (short-term rating a-1)	¥20 billion

The ratings reflect the evaluations of our business structure, which has a high ratio of stable revenue sources such as maintenance and services capable of generating profits continuously even in a unfavorable business environment such as the COVID-19 pandemic.

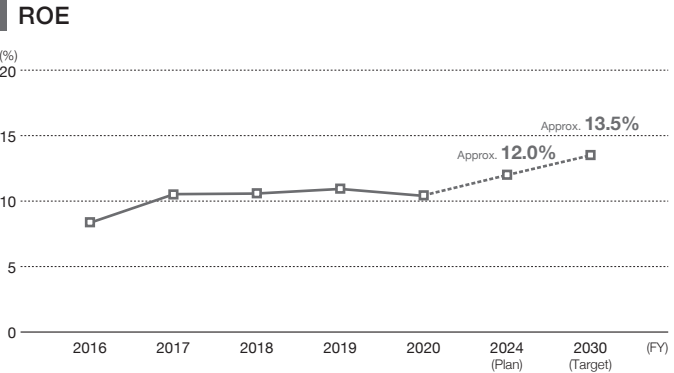
Q4 Please tell us about the key policies and KPIs to achieve the targets in the new long-term targets and medium-term plan.

A4 Our ROE targets are approximately 12% for FY2024 and approximately 13.5% for FY2030. To achieve this, we will proactively invest mainly in research and development, take steps toward management with a greater awareness of capital efficiency, and execute management of the azbil Group centered on ROIC.

We recently established new long-term targets with FY2030 as the final fiscal year and set an ROE target of approximately 13.5%. As the first step, we aim to achieve ROE of approximately 12% in the new medium-term plan ending in FY2024.

For strategic growth investments, for the time being, we plan to make capital investments to enhance the capabilities of our research and development hub, the Fujisawa Technology Center (construction costs of approximately ¥7 billion), and to expand factories at our overseas production hubs for the improvement and strengthening of our cutting-edge global development and production system. We plan to invest a total of approximately ¥56 billion over four years in research and development.

Starting in FY2021, to advance management with an awareness of capital costs to improve ROE, we will implement azbil Group management using return on invested capital (ROIC), which we began preparing during the previous medium-term plan. While steadily making investments for business



growth, as a form of Group management, we will implement a PDCA cycle of confirming and improving the elements from the ROIC tree breakdown. In doing so, we will promote business portfolio management aimed at improving the total ROIC levels and maximizing the use of management resources.

Q5 Please tell us about your approach to profit returns in FY2020 and FY2021.

A5 Against the backdrop of earnings that exceeded our performance plan and having secured a strong financial foundation, in FY2020, we increased the year-end dividend. We plan to increase annual dividends further in FY2021 as we expect stable, sustainable growth. In addition to paying dividends, we will enact a disciplined capital policy by implementing own shares repurchased.

Regarding dividends for FY2020, it was difficult to predict the effects of the COVID-19 pandemic on our business. As such, at the time of the financial results announcement in May 2020, we made public our plans to pay a dividend of ¥50 per share, maintaining the same level as the previous fiscal year. However, as we worked toward business continuity placing safety first, throughout FY2020, we recorded profits that exceeded the earnings forecast released on November 5, 2020, by strengthening our business profitability and our financial structure. Having secured a strong financial foundation, we increased our year-end dividend by ¥5, bringing our annual dividend to ¥55 per share.

As the first fiscal year for our new long-term targets and medium-term plan, in FY2021, we expect increases in both sales and profits based on the effects of our efforts to strengthen business profitability and the business foundation



that we have built. From a long-term standpoint, we also envision stable, sustainable growth underpinned by strategic development and our outlook for the business environment in each of our businesses. Therefore, we will further promote profit return to our shareholders, and based on our policy of working to increase stable dividend levels further, for FY2021, we plan to increase the ordinary dividend by a further ¥5 to annual dividends of ¥60 per share. As a result, DOE, which we consider one of our key indicators, is expected to be 4.0% in FY2020 and 4.2% in FY2021, as mentioned earlier.

In addition to these dividend increases, based on our status and outlook for current business and performance, we plan to increase capital efficiency further, return more profits to our shareholders, and enact a flexible capital policy to respond to changes in the corporate environment. To do so, by the second quarter of FY2021, we repurchased 2.25 million shares worth approximately 10 billion yen (repurchase period: May 17, 2021 through August 13, 2021).

Going forward, we will work to improve the return of profits to shareholders, enact a disciplined capital policy, conduct management that is even more aware of the cost of capital, and enhance our corporate value. We ask for your continued support of the azbil Group in this process.

Dividends, Payout Ratio, and DOE for FY2020 and FY2021

	FY2019	FY2020		FY2021
	Results	Initial plan (May 2020)	Revision (May 2021)	Plan (May 2021)
Dividend per share (annual)	¥50	¥50	→ ¥55	→ ¥60
Compared to the previous fiscal year	+¥4		+¥5 Year-end dividend increased by ¥5	+¥5
Interim Year-end	¥25 ¥25	¥25 ¥25	¥25 ¥30	¥30 ¥30
Payout ratio	35.5%	35.0%	38.5%	41.3%
Dividend on equity (DOE)	3.9%	3.7%	4.0%	4.2%

Practice of Value Creation

— Provision of Value to our Customers

Creating new value together with customers at their sites

Automation is playing a growing role as a solution for addressing various social issues and meeting changing customer needs.

The azbil Group combines the measurement and control technologies it has cultivated to date, the knowledge it has gained working on site, and advanced IoT, AI, and big data technology to create new value through its business while working together with customers at their sites.

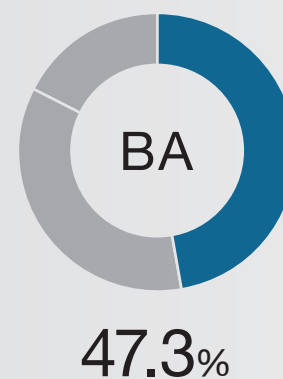
At a Glance

BA

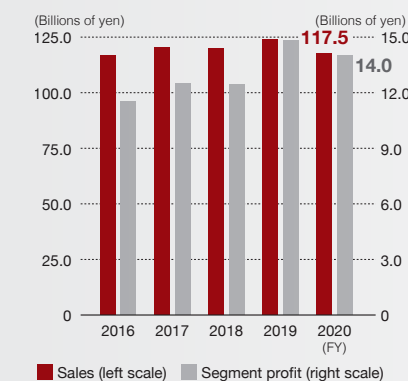
Building Automation Business

We create comfortable and efficient office and production spaces and reduce the environmental burden by using our original environmental control technologies to deliver comfort, functionality, and energy efficiency for all types of buildings.

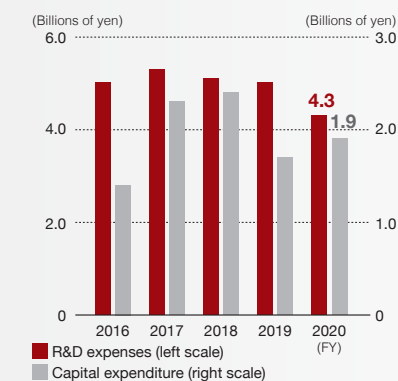
Share of Net Sales
by Segment



Sales, Segment Profit
(Operating Income)



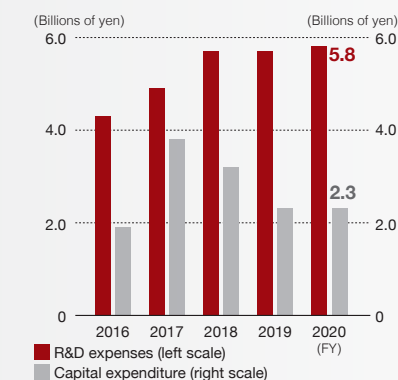
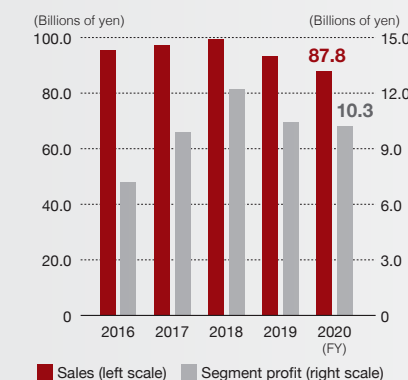
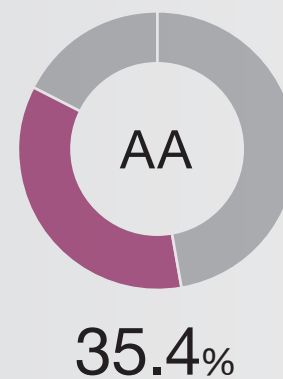
R&D Expenses,
Capital Expenditure



AA

Advanced Automation Business

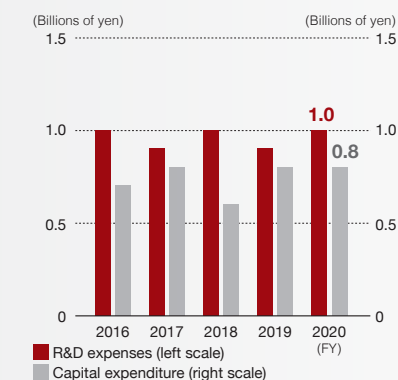
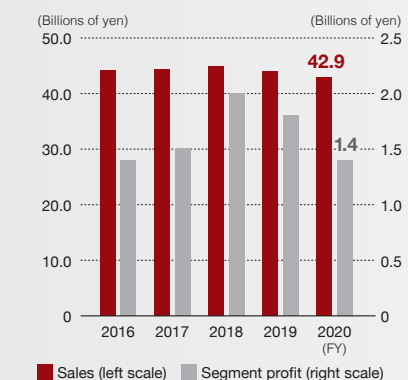
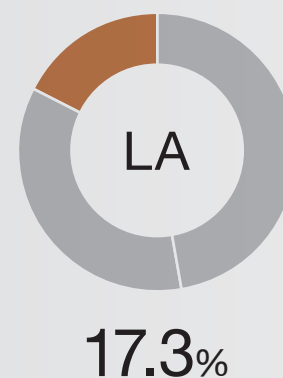
We develop advanced measurement and control technologies for factories and plants to help create production sites in which people can safely fulfill their potential. We create new value in collaboration with our customers.



LA

Life Automation Business

We apply our measurement and control technologies and services cultivated over many years for buildings, factories, plants, and basic infrastructure to lifeline utilities such as gas and water, residential central air-conditioning systems, life science research, and pharmaceuticals. We help people to enjoy active lifestyles.



BA

Building Automation Business

We create building environments that balance comfort and energy saving, and provide long-term services throughout building life cycles.

The Building Automation (BA) business provides products and systems necessary for air conditioning control of office buildings and all types of large-scale buildings through an integrated framework, ranging from the development, manufacture, and sales of products and systems to engineering, installation, and maintenance services.

We deploy our advanced automated air-conditioning control technology combining control systems and application software for air-conditioning facilities with various devices (controllers, valves, and sensors) along with our proprietary

environmental control technologies. With these technologies, we create business and production spaces designed for comfort and health as well as overall “wellness” that help boost business efficiency and labor productivity while minimizing environmental impact.

Using our strength in providing total solutions covering the life cycles of buildings, we support stable operation and increasing the asset value of customer buildings over the long term, beginning with building construction and through maintenance services, renovation, and energy-saving solutions.

Features and Strength

Presence **Pioneer in the air conditioning control field**
Pioneer in Japan in air conditioning control for large buildings

Technical capability **Environmental control technology utilizing cloud computing and AI**
Original environmental control technology using networks and operating data to improve safety, comfort, and environmental performance

Earning power **Life-cycle business**
Stable business model aligned to building life cycles from construction planning to providing daily services and supporting renovation projects

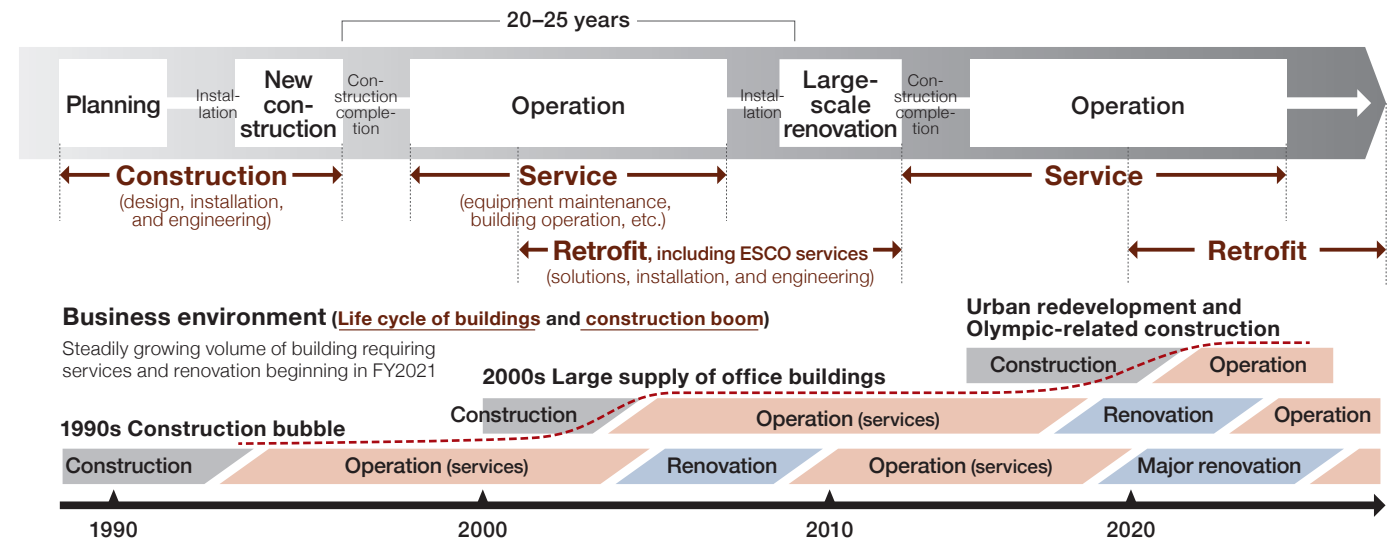
Product strength **Full lineup of products**
Respond quickly to social issues by in-house development and manufacture of sensors, valves, controllers, and systems, including open innovation

Execution ability **Total solutions / Integrated framework**
Integrated framework for instrumentation design, installation and engineering, maintenance services, energy-saving solutions, and building management and operation

Business Fields

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

Building Life cycle



Building complex management and maintenance

Maintenance

Energy management

Building operation optimization proposals

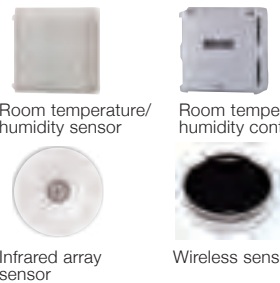
Building renovation proposals

Provide services catering to building life cycles by integrating building automation and IoT and other new technologies

Detecting

Sensor and measurement devices

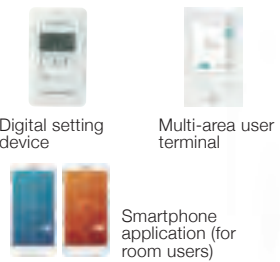
Sensing and measurement of room temperature/humidity



Settings

User-operated devices

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



Monitoring and Managing

Building automation (BA) systems

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



Protecting

Security systems

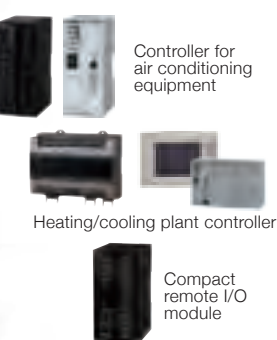
Controlling access to building commons and interiors



Controlling

Regulators and controllers

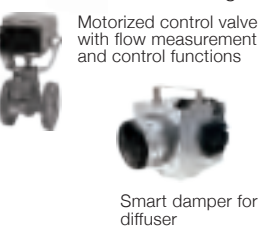
Control of building facilities and instruments to keep them in an optimal state



Adjusting

Valves and actuators

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



Development and manufacture of building automation systems, automatic control equipment, and application software for building management

BA

Building Automation Business

Medium-term plan | Vision and growth strategy for the BA business

Becoming an Asia-based world-class supplier of building systems

“ The BA business is pursuing ongoing business growth by actively integrating new technologies and providing solutions for modern needs such as decarbonization and the “new normal.” ”

Changes in the business environment and customer needs

- ◆ Major construction projects in Japan and Asia
- ◆ Increasing demand for building renovation in Japan
- ◆ Decarbonization spurring energy-saving and CO₂ emission reduction needs
- ◆ Pandemic creating need for advanced safety and security including improved ventilation and access control
- ◆ Rising demand for safe and comfortable offices leading to improving productivity in the “new normal” era

Core Strategies

- ◆ Use our accumulated data and expertise to provide energy efficiency solutions
- ◆ Integrate our BA system, IoT devices, and field equipment to optimize energy usage, air quality, and temperature quality
- ◆ Introduce cloud-based energy efficiency and virtual power plant (VPP) services
- ◆ Develop proven energy-saving apps and engineering services meeting safety and comfort needs overseas

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

Fiscal Year 2020 Performance Review

Operating environment

The BA business had several projects that were delayed because of the COVID-19 pandemic, but the overall impact during the year was limited in Japan. Demand continued from urban redevelopment projects in the Tokyo metropolitan area and included growing interest in solutions for improving ventilation, saving energy, reducing CO₂, and lowering operational costs. Overseas, the sluggish demand and delayed projects caused by the pandemic adversely impacted our business performance.

FY2020 business review

In these business conditions, we diligently worked to secure orders while maintaining and enhancing profitability and strengthen our job execution capabilities and efficiencies primarily at our construction and service sites with a view to responding to the Japanese government’s workstyle reforms while giving due consideration to the safety of our employees and customers.

The BA business recorded a 3.6% decline in orders received from FY2019 to ¥118.503 billion. Demand remained steady for sales and installation of air conditioning control equipment and systems for new large-scale buildings and was strong for renovation and services related to ventilation, energy saving, and CO₂ emissions reduction solutions. However, the

service business declined owing to a low volume of multi-year service contracts coming up for renewal during the fiscal year. In addition, scrutiny of project profitability led to a temporary decline in orders received from existing buildings during the first half of the fiscal year.

Sales declined 5.1% year on year and fell short of our plan. While sales had continued at a high level, due to project completion concentrated in FY2019, sales for new large-scale buildings declined, as did sales for existing buildings (for the aforementioned reason). Overseas sales were also impacted by project delays caused by the pandemic. We controlled costs and took steps to improve profitability, but the decline in sales resulted in segment profit declining 5.8% year on year.

Fiscal Year 2021 Performance Plan

We aim to increase both sales and profits in FY2021 by capturing the strong demand for air conditioning control equipment and systems for large buildings, working through the order backlog for new building construction, and responding to the rising demand for building renovation.

Initiatives to Accomplish the Medium-term Plan

Longer-term outlook

In the medium and long term, we plan to leverage our solid track record to fully respond to the expected rising demand from major redevelopment projects and for renovation of numerous large buildings beginning in FY2021.

We expect growing demand for optimal automated air-conditioning control to realize comfortable environments and increasing need for energy saving and CO₂ reduction accompanying the movement toward decarbonization. Although the increase in remote work due to the pandemic could reduce demand related to office buildings, we expect the “new normal” to increase demand in Japan and overseas for solutions for the highest S-class and A-class large-scale office buildings with ventilation, room access control, and other functions offering safety, security, and wellness.

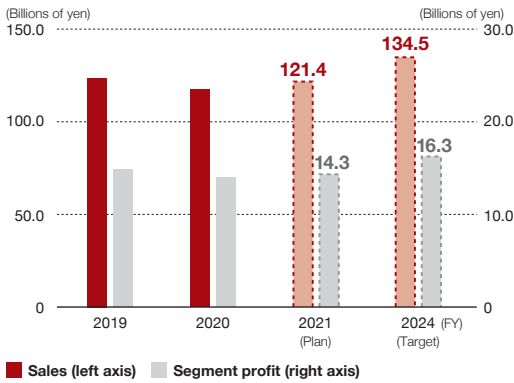
To respond to the growth in demand, the azbil Group will continue expanding its business by continuing to provide solutions built on its established engineering, installation, and service structure and extensive data and expertise while also offering innovative solutions for remote maintenance, cloud-based services, and cell air conditioning systems. We are also advancing internal measures, including reforming our business processes, to establish a more robust profit structure.

Initiatives to attain the medium-term plan performance targets

Expand the three growth fields / Respond to new social issues

The areas of the retrofit business that we expect to expand in Japan are environmental and energy and life-cycle business. We will capture demand in those areas by offering solutions incorporating our vast store of operating data. We expect to see an increasing number of VPPs come into operation for the advantages they offer of using renewable energy and curbing demand, and plan to support the use of VPPs by devising solutions unique

Sales and Segment Profit



to the azbil Group that will utilize BA systems already installed in large buildings.

Develop and launch new products and services

We plan to introduce new cell air conditioning systems and other new products, systems and services incorporating cloud computing and AI to meet the needs for new office environments accommodating the diverse workstyles under the “new normal.” We also plan to actively promote collaborative creation and open innovation with companies outside the Group.

Increasing overseas customer contact points (coverage)

We will expand our overseas business by introducing products for overseas markets and building relationships with leading companies.

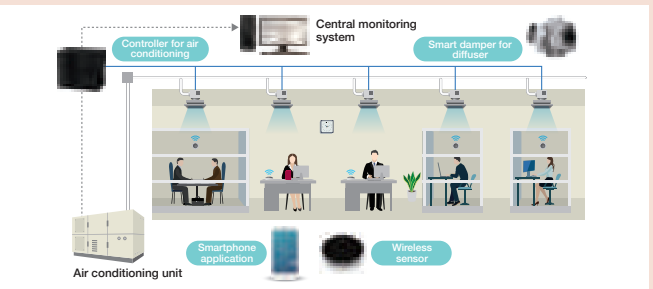
Digital transformation (DX) and increasing profitability

We are introducing revamped products and building a structure using building information modeling (BIM)* and other technologies to support ongoing profit creation. The structure will also be used for our businesses overseas in the future.

* Building information modeling is a method of using databases to enhance the productivity of the building design and construction by enabling real-time, three-dimensional management throughout a building life cycle

Close Up

Cell type air conditioning system — A new air conditioning system for the diverse work styles and offices in the “new normal” era



New work styles demand more personalized air conditioning systems. The azbil Group helps create healthy and attractive offices with comfortable, energy-saving, and ideal work layouts.

- ◆ Temperature control for each cell (air outlet unit) in a zone
- ◆ Ability to control indoor CO₂ concentration and ventilation using air from an outside source is effective for preventing the spread of infection
- ◆ Workers use a smartphone application to make their space comfortable

Advanced Automation Business

We work with our customers to solve problems at manufacturing sites and create 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. The azbil Group structures its activities in the PA and FA fields into the three business sub-segments of control products (CP), industrial automation products (IAP), and solution and service (SS). We make full use of our high degree of expertise and familiarity with specific market needs and product characteristics of each

sub-segment to provide a variety of solutions enabling advanced control and optimized operation throughout the life cycles of customer equipment and facilities, from systems, products, and software to instrumentation and engineering and maintenance services. Incorporating the latest technological innovations such as IoT, big data, cloud computing, and AI, we create new value at the manufacturing site by working with customers seeking safe and stable operations, improvements in productivity, and innovation in production processes.

Features and Strengths

Presence

Leading the industrialization of Japan

Unmatched ability to generate new value backed by over a century of developing measurement and control technology at production sites and substantiated by abundant success and expertise in a wide variety of industries

Technical capability

Combining on-site knowledge and the latest measurement control technologies and information technologies

Field professionals combine their skills and knowledge to provide measurement and control solutions optimized for production sites and smart IoT services using big data and AI

Execution ability

Total solutions / integrated framework

Developing business in the three AA business sub-segments based on market characteristics; providing solutions tailored to customer needs through an integrated framework from the development of products and applications to instrumentation, engineering, and maintenance services

Product strength

Sensors and field instruments incorporating advanced technology

Sensors and field instruments incorporating MEMS and other advanced technologies for quick and accurate on-site capture of information critical to sophisticated control

Business Fields and Business Units

Factory Automation
(processing and assembly industries)

Electrical and electronic devices, semiconductors, food, pharmaceuticals, and other industries handling or using automation in production processes

Process Automation
(materials industries)

Petrochemical, chemical, steel, and other industries that supply materials used in production processes

Three AA Business Sub-segments	Main Products and Services
Control Product (CP) Business Supplying factory automation products such as controllers and sensors	<ul style="list-style-type: none">◆ 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	<ul style="list-style-type: none">◆ Control valves and actuators◆ Measuring instruments and transmitters (Flow rate, temperature, pressure, liquid surface, etc.)
Solution and Service (SS) Business Offering control systems, engineering services, maintenance services, energy-saving solution services, etc.	<ul style="list-style-type: none">◆ Industrial automation control and monitoring systems, applications, and software◆ Maintenance service

Diagnosing

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



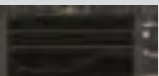
Control valve maintenance support system



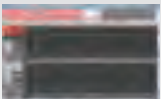
Device management system

Predicting

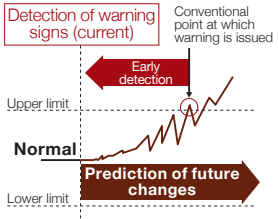
Using big data and AI to detect anomalies beforehand, predict the future status, and optimize operational plans



Online anomaly detection system



Early warning system for time series data



Using big data and AI at manufacturing sites to facilitate 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

Detecting

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



High-accuracy position sensor



Photoelectric switch



Advanced ultraviolet flame sensor



Intelligent earthquake sensor



Limit switch



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

Mass flow controllers
Control flow rates of gases to a set value



Digital mass flow controller

Measuring

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



Differential pressure and pressure transmitter



Electro-magnetic flow meter



Vortex flow meter



Natural gas calorimeter

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

Advanced Automation Business

Medium-term plan | Vision and growth strategy for the AA business
Developing a globally competitive business to become a high-profit business entity that contributes to a sustainable society



“ The AA business is developing products and services integrating AI, cloud computing, MEMS*, and other technologies and accelerating entry into new markets, and creating the new automation field unique to the azbil Group. ”

Changes in the business environment and customer needs

- ◆ Growing demand for manufacturing equipment and production line automation for new products and services
- ◆ Growing demand for energy-efficient, GHG-controlled production facilities for decarbonization
- ◆ Growing demands to ensure safe, efficient operation of facilities, respond to labor shortages, and for products and high value-added services for the “new normal”

Core strategies

- ◆ Develop new products using MEMS technology and expand the measurement field
- ◆ Develop new products, systems and services for anomaly detection and prediction and AI equipment diagnosis that integrate cloud computing, AI technology, and IoT devices
- ◆ Develop proven and competitive products and services offered in Japan for overseas markets

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

Fiscal Year 2020 Performance Review

Operating environment

Regarding FY2020 market conditions affecting the AA business in Japan and overseas, there has been demand growth in markets for semiconductor manufacturing equipment, due to expanding investment in 5G and other areas. There are signs of economic recovery from the COVID-19 pandemic. Although the effects of the pandemic remain unpredictable, we expect demand to continue to grow in manufacturing equipment and other markets in Japan and overseas.

FY2020 business review

In this business environment, we continued steadily implementing measures, such as cultivating customers and developing our overseas bases and structures, in anticipation of further recovery in demand and future growth. We also thoroughly implemented and expanded measures to enhance profitability that have produced tangible results.

AA business orders received ultimately declined by 4.8% from FY2019 to ¥87.524 billion. Although orders turned upward year on year in the fourth quarter, overall orders received for the full year were impacted by the global economic slowdown due to the pandemic and an overall decline in capital investment for plant and factory production lines and manufacturing equipment.

Sales were supported by the expansion of our overseas business and the improvement in manufacturing equipment markets, but ultimately declined 5.8% year on year overall due to the decrease in capital investment caused by sluggish market conditions. Sales exceeded our plan, buoyed by accelerated business growth overseas and the recovery in manufacturing equipment markets.

Segment profit declined 2.2% year on year due to the decrease in sales, however profit margins exceeded our plan, fueled by ongoing progress with growth strategies and measures to enhance profitability.

Fiscal Year 2021 Performance Plan

We aim to increase both revenues and profits in FY2021 by harnessing the recovery in capital investment accompanying improving conditions in the manufacturing equipment markets in Japan and overseas, aggressively developing customers and introducing new products overseas, and implementing measures to further enhance profitability.

Initiatives to Accomplish the Medium-term Plan

Longer-term outlook

In the medium and long term, we anticipate growing investment demand to respond to labor shortages, the decarbonization of society, remote work and the “new normal,” and to advance the continuous automation of manufacturing equipment and production lines to increase productivity by introducing new technologies.

We will continue advancing our business expansion into growth fields, particularly overseas, centered on the CP, IAP, and SS businesses. We will accelerate the development and market launches of products and services incorporating AI, cloud computing, and MEMS technologies, create the new automation field unique to azbil, and aim for business growth with high competitiveness.

Initiatives to attain the medium-term plan performance targets

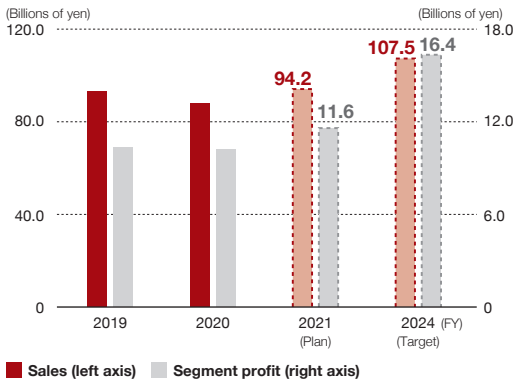
Expand the three growth fields / Respond to new social issues

The AA business covers a wide range of business fields and a variety of markets through its CP, IAP, and SS businesses and within each of these sub-segments we are focusing in further detail and leveraging azbil’s unique characteristics to develop business in the three growth fields. We will efficiently establish a number of business fields with a competitive advantage and strengthen our business portfolio.

Measures to boost profitability

We will further advance measures to strengthen profitability tailored to the characteristics of each business sub-segment. Measures will include expanding overseas production and procurement, redesigning products to reduce product costs (revamping core products), improving the cost of products and services by improving engineering methods, improving the order amount by revising selling prices and strengthening job risk management, and improving the product and service mix by shifting to high-profit offerings.

Sales and Segment Profit



Develop and launch new products and services

We will increase R&D investment and take a balanced approach of developing products and services from a long-term perspective while exploring new technologies. In the near term, we will revamp our product offerings in each business sub-segment’s primary business field. We have set creation of the “new automation fields” to be the main driver of our business growth and where we will introduce new products and services that leverage azbil’s strengths in MEMS and other technologies. To grow the fields, we will restructure our product development process and acquire new development methods.

Increase domestic and overseas customer contact points (coverage)

We see abundant room to expand our customer base in overseas markets and are accordingly reinforcing our overseas business structure by increasing our sales staff, strengthening their skills, and increasing the number of distributors in overseas markets. In Japan, we will revise our sales structure and continue expanding our customer coverage. We will also introduce DX to our sales functions, such as for sales force automation, in Japan and overseas.

* Devices built using microfabrication technology to integrate sensors, actuators, and electronic circuits on substrates

Close Up

The valve analysis and diagnosis service
—A cloud-based service for safe and stable operation and maintenance optimization



Cloud-based monitoring has enabled early detection and prediction of valve anomalies that had previously been possible only by dismantling equipment to inspect a valve’s internal condition. Cloud-based monitoring prevents trouble caused by valves and contributes to stable production equipment operation.

- ◆ Automatically sends valve operation data to the cloud for analysis
- ◆ Enables users to confirm the results of a valve “health checkup” by visualization when needed in the right format and in the right situation.
- ◆ Facilitates optimal maintenance plans taking into account condition-based maintenance and without requiring special analytic or diagnostic technology or expertise; enables stable operation and strengthens safety capabilities of production equipment

LA

Life Automation Business

Measurement and control technologies for safe, secure, comfortable, and healthy living

The Life Automation (LA) business leverages automation technologies to meet a vast variety of needs in people's every-day lives including realizing safe and secure living conditions, supporting fulfilling lives, and helping to address environmental issues. Through our business we enhance safety, security,

comfort, and energy saving in various fields ranging from lifelines such as gas and water, living spaces including our residential air-conditioning systems, to research, pharmaceutical, and medical facilities that contribute to people's health.

Business Field Overview

■ Lifeline (gas and water meters) field

The LA business provides household meters for city gas, LP gas, and water as well as products for industrial use, including regulators and safety equipment, such as alarm units and automatic shut-off valves. The azbil Group's meter business took a huge step in its development in December 2005 with the acquisition of Kimmon Manufacturing Co., Ltd. (now Azbil Kimmon Co., Ltd.), a pioneer in metering instruments that introduced Japan's first domestically produced gas meter in 1904. The company currently offers city gas, LP gas, and water meters and enjoys a stable business foundation benefitting from legal requirements that support steady replacement demand for gas and water meters. Kimmon Manufacturing is currently developing smart meters with IoT technology.

■ Life science engineering (LSE) field

Our total solutions for pharmaceutical manufacturers encompass development, engineering, installation, sales, and after-sale services for lyophilizers, sterilizers, and clean environment equipment, and other equipment. The azbil Group's LSE business was boosted in January 2013 with the addition of Spanish company Telstar S.A. (now Azbil Telstar, S.L.U.), a supplier of process equipment and environmental systems for pharmaceutical companies and laboratories with operations in Europe, Latin America, and South Asia. Telstar has a long track record and extensive experience in engineering and providing equipment and services related to the life science field.

■ Residential central air-conditioning systems

We adapt our air-conditioning technology for large-scale buildings to central air-conditioning systems for detached houses, with a single system for cooling, heating, ventilation, air purification, and dehumidification that provides a comfortable environment throughout the house. These systems also deliver comfortable and healthy living spaces through features including electronic air cleaners with pollen and PM2.5 particle removal technology and variable air volume (VAV) control enabling temperature settings for each room.

Features and Strengths

Stability and growth potential Meeting replacement demand

Meters for replacement demand as required by law, smartification of gas and water meters, and use of smart meters to develop an "as a service" business model

Growth potential Contributing to advanced medical care

Engineering services and safe and high-quality equipment for pharmaceutical research and development, manufacturing sites, and medical institutions

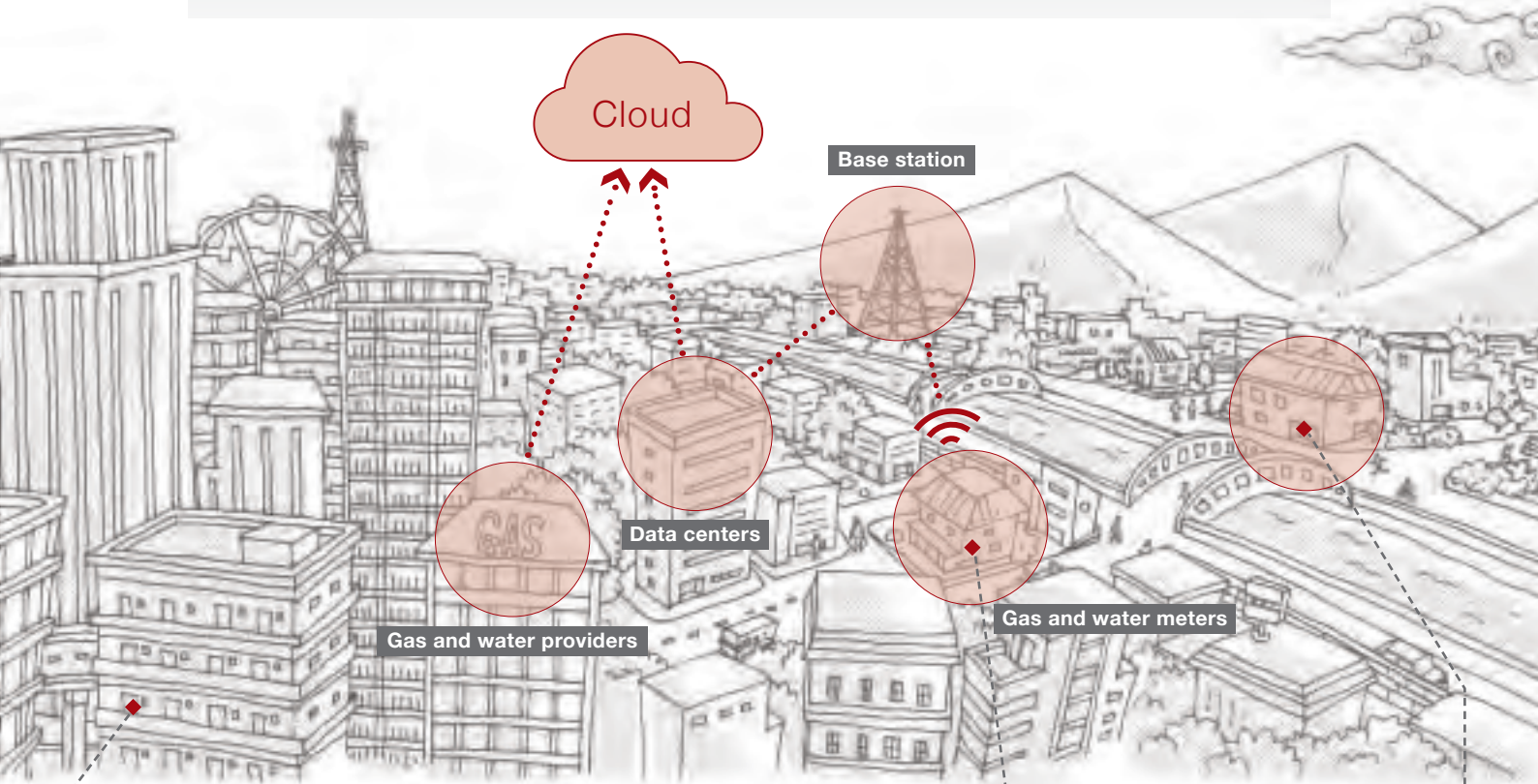
Uniqueness Whole building air conditioning

Centralized air-conditioning systems equipped with comfort features provide high level air quality, ventilation, and comfort

Meter data services incorporating IoT

The LA business is advancing the incorporation of IoT to water and gas meters. In the LP gas market, we are expanding sales of our cloud-based data service for monitoring meter reading, security, and alarm conditions using LTE-M* standard IoT communications technology. We are also introducing a similar data service for city gas and water and exploring services that will offer new value by combining electricity, gas, and water data as we accelerate development of businesses applying automation to new fields for the era of Smart Metering as a Service (SMaaS).

* LTE-M is a communication standard for IoT using licensed frequency bands in a low-power wide-area (LPWA) wireless communications network.



Lifeline Field (Gas and Water Meters)

Azbil Kimmon Co., Ltd.

Gas meters



Intelligent city gas meter



Ultrasonic gas meter



LPWA capable intelligent LP gas meter



Ultrasonic LP gas meter



High pressure regulator

Water Meters



LPWA capable electronic water meter



Battery-operated electromagnetic water meter

Lifestyle-related Field (Residential Central Air-conditioning Systems)

Azbil Corporation

Air quality—ventilation and central air-conditioning systems

Ventilation is important in enclosed spaces. Unlike ordinary room air conditioners, our residential central air-conditioning system features a heat exchange ventilation system that refreshes the air in the entire house every two hours. These energy efficient air-conditioning systems also have electronic air cleaners that remove pollen and PM2.5 particles to further enhance air quality.



Indoor unit and electronic air cleaner



Outdoor unit



Outlet



Heat exchange ventilator

Life Science Engineering Field (Pharmaceutical Manufacturing Equipment)

Azbil Telstar, S.L.U.

Pharmaceutical manufacturing equipment



Barrier system



Lyophilizer

Total solutions for life science

Azbil Telstar offers solutions comprising design, engineering, and manufacturing processes backed by automation technology for life science companies. Teams of experts oversee the entire manufacturing process, including the design and manufacture of process equipment and facilities using original technologies for decontamination, pure water, pure steam, and freeze-drying. Delivered as turnkey projects*, these solutions contribute to efficient, environmental, and safe factory operations.

* Contracts in which a single contractor is responsible for the delivery date, assurance, and performance guarantee for all steps of development from design and the procurement of equipment, materials, and services, to the installation and test runs.

Life Automation Business

Medium-term plan | Vision and growth strategy for the LA business
Structural reform to transform from a “new” to a “growth” business group

“ We are transforming from a group of “new businesses” to a group of “growth businesses” as a data-driven service provider offering new services for the changing business conditions in the energy market. ”

Changes in the business environment and customer needs

- ◆ Growing demand for energy management, infrastructure maintenance, and safe and efficient operations
- ◆ Growing demand for IoT-compatible meters in a changing energy market, such as deregulation of gas
- ◆ Big data from smart meters to improve quality of life and for corporate environmental management
- ◆ Increasingly sophisticated medical safety and security needs

Core Strategies

- ◆ Advance the energy management and Smart Metering as a Service (SMaaS) businesses
- ◆ Develop pharmaceutical manufacturing solutions, such as for vaccines overseas
- ◆ Offer space comfort solutions featuring our variable air volume and clean air technology for small buildings

Masato Iwasaki
Director, Managing Executive Officer
Life Automation Business, Azbil Corporation

Fiscal Year 2020 Performance Review

Operating environment

The LA business’s three core fields each have a different business environment.

Sales in the lifeline field of gas and water meters, which account for the majority of sales, are primarily driven by demand for meter replacement as required by law and remained steady for the year. Demand for LP gas meters, which account for part of sales for the lifeline field, entered a slow period, and demand for water meters was sluggish due to the extension of calibration expiration periods during the pandemic. Demand fluctuated in the LSE field and the lifestyle-related field for residential central air-conditioning systems; however, the structural reform of businesses in these fields is making progress in stabilizing and improving profits.

FY2020 business review

Against the background of these business conditions and initiatives, overall orders received declined 3.2% from the previous fiscal year to ¥43.351 billion. Although there was an increase in the LSE field due to growing demand for R&D equipment in the pharmaceutical market in response to the pandemic, orders received declined in the lifeline field due to weak cyclical demand for LP gas meters and other factors.

Sales declined 2.5% year on year due to lower sales in the lifeline field, which more than offset higher sales in the LSE field following the increase in orders received in the previous fiscal year, and fell short of the plan. Primarily due to profits being impacted by lower revenues in the lifeline field, segment profit fell 23.1% year on year and fell short of the plan.

Fiscal Year 2021 Performance Plan

We aim to increase both revenues and profits in FY2021 by expanding our cloud-based services in the lifeline field and by working through the increased backlog in orders in the LSE field due to demand growth in the pharmaceutical market.

Initiatives to Accomplish the Medium-term Plan

Longer-term outlook

The LA business has a portfolio of businesses strongly associated with society, such as the meter business contributing to social infrastructure, equipment and engineering businesses supporting pharmaceutical manufacturing, and residential central air-conditioning systems. These business fields are also strongly related to the environmental and energy fields and two other growth fields. We will continue taking steps to stabilize and improve profits in each of the business fields.

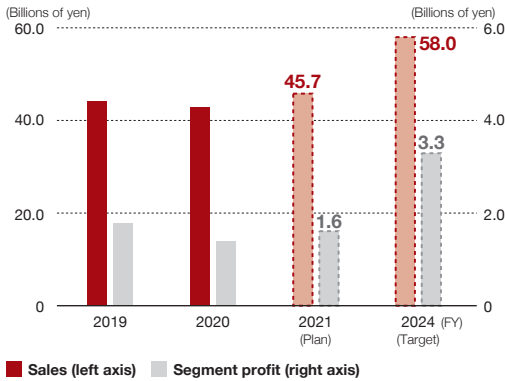
At the same time, we will augment our existing product-driven business by pursuing opportunities brought about by business environmental change in the energy supply market. For example, we will create new businesses as a service provider using IoT and other technologies and the data collected from our meters to boost sales and profits in the lifeline field. As we promote initiatives in each business field to generate business growth, we will transform the LA business from a group of “new businesses” to a group of “growth businesses.”

Initiatives to attain the medium-term plan performance targets

Lifeline field

We will build on our stable product sales supported by meter replacement as required by law by further developing our service business using IoT and our SMaaS. We also collaborate with the Takaoka Toko Group to expand the DX-EGA, next-generation energy management business which uses energy data for raising the quality of life and for transforming to a data service business for corporate business environments. We will also expand our lineup of smart meters for this new business.

Sales and Segment Profit



Life science engineering field

We will develop an IoT-supported service business with a main on designing sterile spaces and designing and manufacturing pharmaceutical production equipment through an integrated framework, from equipment layout design for the pharmaceutical production process, to equipment design, manufacture, and installation and after service. In this way, we will respond to the increasing demand worldwide for pharmaceuticals centering on regions with population growth.

Residential central air-conditioning systems field

As a business that improves the quality of life by helping realize comfortable spaces, we provide equipment and systems that create comfortable living conditions in a wide range of houses big and small, new, and old. We will also support our customers’ healthy living through air quality in their houses by offering equipment that improves ventilation using heat exchange ventilation and electronic air cleaners.

Close Up

DX-EGA, next-generation energy management business
— Creating new value by using measurement/metering data for decarbonization and addressing environmental problems



The DX-EGA is the concept of a collaborative business combining various business data and services with current data collection methods. Business conditions in the energy market are undergoing major changes amid the quickly growing movements for decarbonization and to address environmental issues. The azbil Group is responding by leveraging its existing platform to broaden its business from product sales to becoming a provider of services using the power of big data.

- ◆ SMaaS business combining the Takaoka Toko Group’s collaborative meter reading system and the azbil Group’s existing cloud-based data collection method for buildings and gas meters
- ◆ Providing added value in the energy and environmental fields, such as single household energy data analysis and supporting corporate ESG and carbon pricing. We are also planning to develop services for finance, distribution, healthcare, and other fields

Global Network

Through our global value chain, we aim to increase customer satisfaction and contribute to the resolution of social issues faced by society.

The azbil Group is creating an integrated value chain that includes technological research and product development, production and procurement, sales, engineering, installation, and services. While sharing case studies for advanced solutions and initiatives in Japan, the U.S., Europe, and Asia, we are working to improve customer satisfaction throughout the world and aim to resolve environmental and other global social issues.



Technological Research and Product Development p. 49

Promoting research and global development in through our three main hubs in Japan, the U.S., and Europe

We have constructed a new building and introduced advanced facilities at our Fujisawa Technology Center, our core base for technological research and product development, working to enhance our capabilities by building an optimal research and development environment. We focus on research into cutting-edge technologies, such as next-generation measuring technology and IoT at our U.S. Silicon Valley location, and on the development of pharmaceutical manufacturing equipment in Europe. While pursuing initiatives that leverage the special strengths of each region, we are also creating synergies among our global locations.

R&D Bases

Japan Azbil Corporation's Fujisawa Technology Center, and other locations

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

Azbil Corporation (Fujisawa Technology Center), Japan

Manufacturing and Procurement p. 53

Building a highly efficient production system centered on our mother factory

We have established our main manufacturing bases in Japan, China, and Thailand to create and build a production system that combines global competitiveness with responsiveness to risks and changes in the market environment. Centered on our Shonan Factory and Fujisawa Technology Center, which function together as a mother factory, all Group companies and departments collaborate to maintain optimal costs and achieve production of high-performance, high-quality products that incorporate cutting-edge technology.

Main Production Factories

Japan Azbil Corporation's Shonan Factory, etc.

China Azbil Control Instruments (Dalian) Co., Ltd., etc.

Thailand Azbil Production (Thailand) Co., Ltd.

Azbil Control Instruments (Dalian) Co., Ltd. China

Sales, Engineering, Installation, and Services p. 55

We work with our customers worldwide to create value rooted in their sites

Based on our global service network, we conduct integrated business activities that combine sales, engineering, installation, and maintenance. We promote DX maintenance using cloud technology. In response to the different problems faced by our customers in each region, we provide world-class solutions and maximize the value of our customers' facilities throughout their life cycles.

Main Sales and Services Locations

Japan Azbil Corporation; Azbil Trading Co., Ltd.; Azbil Kimmon Co., Ltd.; and others

Asia Pacific Azbil Control Solutions (Shanghai) Co., Ltd.; Shanghai Azbil Automation Co., Ltd.; Azbil Korea Co., Ltd.; Azbil Singapore Pte. Ltd.; PT. Azbil Berca Indonesia; and others

USA/Europe Azbil North America, Inc.; Azbil Europe NV; Azbil Telstar, S.L.U.; and others

Azbil (Thailand) Co., Ltd., Rayong Office (Solution & Technology Center), Thailand

Technological Research and Product Development

Promoting research and development of products and services based on our management strategy to capture the changing needs of the market

Technological development policy

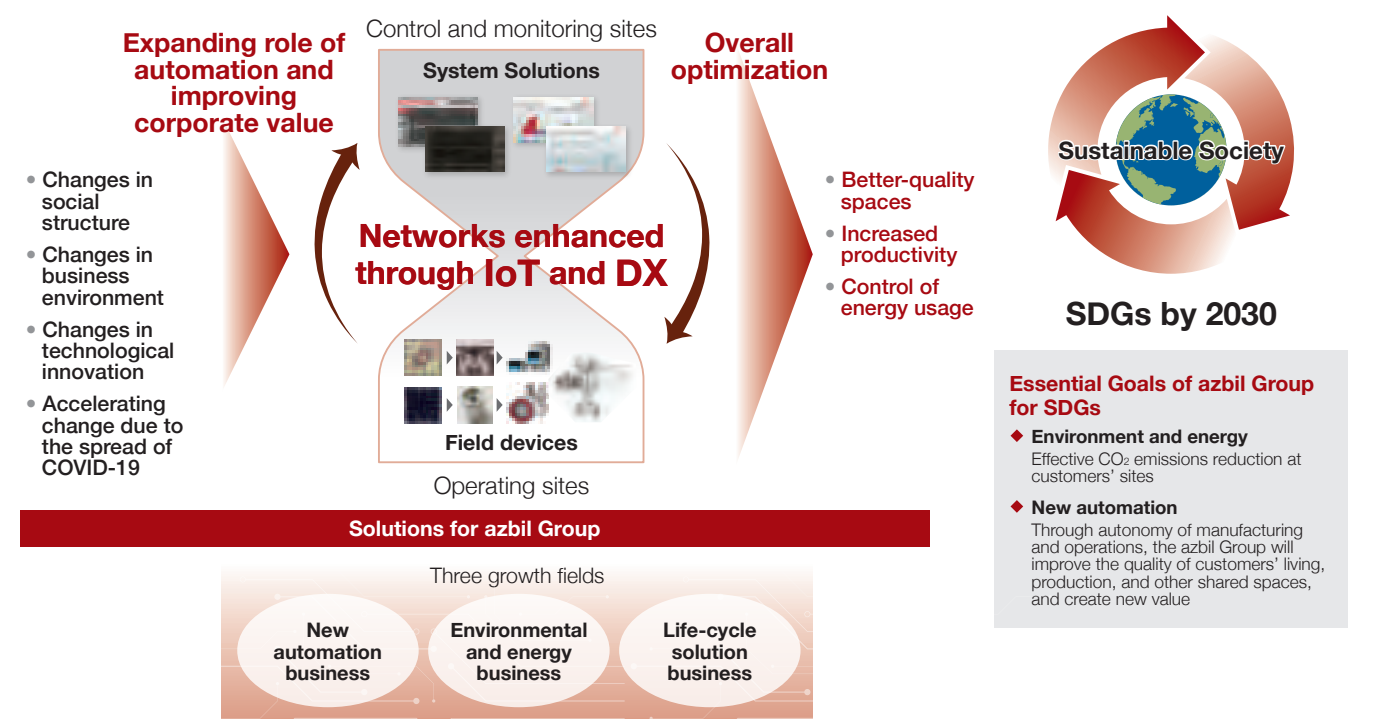
The azbil Group is introducing new, competitive products and services in the three growth fields of “new automation,” “environment and energy” and “life-cycle solutions,” which are positioned as the three growth business areas. For this purpose, we are working to further strengthen its measurement and control technologies for field devices and system solutions (figure below) in order to take advantage of changes in the business environment and in technology.

Specifically, we are promoting IoT and DX and our network between field devices in operating sites and our system solutions in control and monitoring sites. Through this network, sensing information received by field devices is aggregated and processed in our systems, which facilitates control planning and monitoring of sites, allowing for optimization of the entire measurement and control system. By promoting these initiatives, we aim to build optimal operating systems even for large-scale, complex control targets.

We are also simultaneously promoting the development of various individual technologies. For our field devices, we are incorporating MEMS, advanced measurement principles, and AI capabilities to pursue sensing devices with independent processing capabilities. In the area of system solutions, we are applying cutting-edge technology such as cloud systems and AI to process the big data received from operating sites as we work to build the entire system for optimal communication of complex phenomena. Through these initiatives, based on information that has been optimized using system solutions, we aim for more precise control of field devices by making them more user friendly and compatible with control devices.

tion of the entire measurement and control system. By promoting these initiatives, we aim to build optimal operating systems even for large-scale, complex control targets.

Direction of R&D



In doing so, we are developing the three growth fields to realize improvements to the quality of space and productivity of customers’ assets as well as curbing energy usage as put forth in the new long-term targets to contribute to the resolution of social issues and realize our own sustainable growth.

To improve the quality of interior spaces at our customers’ sites, it is important to understand which aspects of the interior environment create discomfort or negatively affect people’s sensitivity or intellectual productivity, and then to control air circulation globally and locally based on whether (and how many) people are present. We are working to capture the necessary information on environmental factors to achieve this goal, and continually developing new technology to provide indoor environments in which everyone in the facility feels comfortable.

To increase productivity at operating sites, we are working to help our customers stabilize their operation quality by making complex processes more understandable in the interests of smart maintenance at manufacturing sites and by formalizing and automating human skills.

To minimize resource and energy use, in addition to using energy-saving technologies we have developed through extensive experience, we are working toward further optimization by understanding the best methods for saving energy without decreasing productivity or the quality of the indoor environment, and by learning from changes in the environment and understanding both current and predicted energy consumption.

Developing products by combining the three growth fields

While building unique solutions at our customers’ sites, the azbil Group is pursuing the following initiatives in its three main businesses to continuously create new solutions.

Building Automation business

To counter global warming, we are doing retrofits for existing buildings and developing energy management technology to achieve a continuous reduction in the CO₂ emitted from large buildings. We are also developing a product group to provide safer and more secure workplaces, which are increasingly in demand during the COVID-19 pandemic.

Advanced Automation business

Using AI and IoT, we are developing cloud services to provide safe and efficient remote operations of manufacturing facilities.

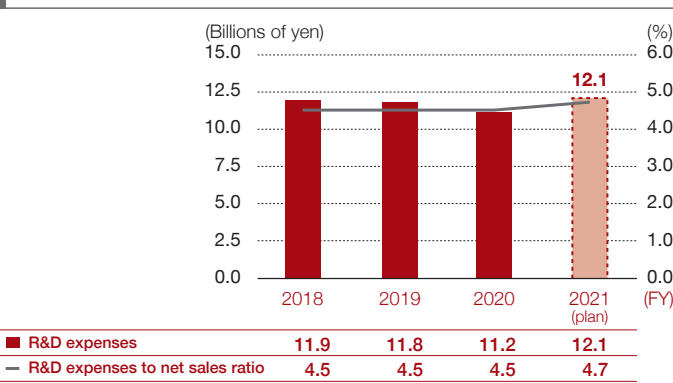
Life Automation business

We are developing new services ranging from labor saving in energy infrastructure maintenance to the collection and use of big data.

KPI for technological and product development

The azbil Group has set out quantitative indicators (KPIs) for technological development and product development, including the patent application counts, the ratio of R&D expenses to net sales, product sales respectively, and the ratio of new products to total product sales. Additionally, by understanding on an annual basis the results of the technologies and products that we have developed, we revise our technological development strategy and product development strategy accordingly.

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



Global development framework

We have a trilateral system of developing technology and products in Japan, the U.S., and Europe. These locations include our research and development center in Silicon Valley and our European companies.

At our U.S. research and development company, we are developing next-generation measurement technology, conducting research on the latest technological innovations, including those related to IoT and international standardization.

In Europe, through cooperation with companies such as Azbil Telstar, S.L.U., we are strengthening our product line for pharmaceutical manufacturing facilities and medical facilities.

R&D Bases



■ Strengthening of calibration capabilities

With “correct measurement” as the starting point, the azbil Group provides safety, comfort, and fulfillment for our customers. To confirm that the sensors and measurement devices that are key to this end goal are functioning correctly, calibration is essential. The Measurement Standards Section at Azbil’s Fujisawa Technology Center is registered as a JCSS Accredited Laboratory for the functions of temperature, humidity, electricity, pressure (vacuum), liquid microflow, and time (frequency). The Calibration Service Center (for gas flow) of Azbil Kimmon and the Calibration Group (for liquid flow) of Azbil Kyoto are also certified as JCSS Accredited Laboratories, maintaining calibration capabilities that are top-class in Japan. We plan to strengthen our calibration capabilities in close coordination with our businesses as part of our efforts to create new business.



Top-class precision vacuum calibration system in Japan

■ azbil Group Calibration Locations

Company	Location	Calibration capacity capabilities
Azbil Corporation	Fujisawa Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage), fluid flow (gas, liquid), pressure (vacuum), time (frequency), length, weight, torque
	Kawara Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage), pressure (vacuum), time (frequency), length, weight, torque
Azbil Kimmon Co., Ltd.	Calibration Service Center	<u>Flow rate (gas)</u>
Azbil Kyoto Co., Ltd.	Calibration Group	<u>Flow rate (liquid)</u>

* Underline indicates JCSS registered business certification.



■ Production technology

We are working to strengthen the production technology for our next-generation MEMS sensors, an area where we have the competitive edge of an unrivaled advanced packaging technology. Through the development of new production lines using smart machines and systems and AI-powered automation, we are developing production including high-mix low-volume production, customized production, and other high value-added types of production to meet our customer needs. At the Group’s mother factory, the Shonan Factory, and at our other production bases, our in-house production lines are working to use IoT to strengthen our global production system through the remote management of production information related to product quality and equipment maintenance.

■ R&D investment

At the Fujisawa Technology Center, the azbil Group’s core research and development hub, which is located in Fujisawa, Kanagawa Prefecture, we plan to build two new laboratory buildings by May 2022 to further strengthen our ability to offer cutting-edge solutions using cloud technology and AI, and our ability to develop high-performance, high-precision MEMS sensors.

By creating cutting-edge R&D facilities to accelerate the development of system solutions and devices for the next stage of growth, and by creating innovative workspaces that facilitate the creation of ideas for new technology and new value, we are improving the efficiency of our research and development in order to further create new value for customers.



Conceptual image of the laboratory building, which is scheduled for completion by the end of May 2022 (images courtesy of Nikken Sekkei Ltd.)

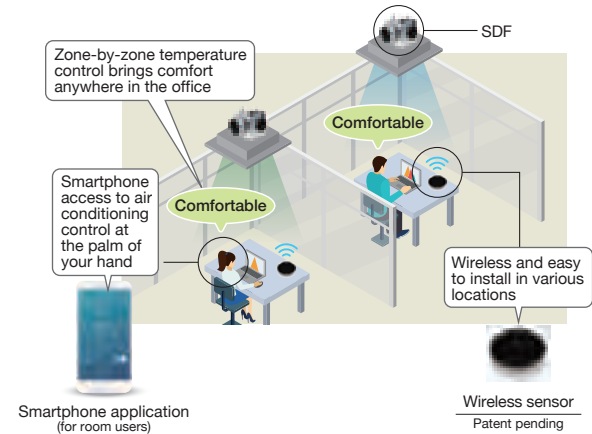
■ Human resource development for R&D personnel

We are focused on training personnel who can create high added value using AI and big data for our services, and using DX for our engineering services (which are the backbone of the azbil Group’s business), and who can achieve the timely market introduction of new products. Specifically, we are working to develop human resources for project management, software development, and electronic circuit and machinery design, and for the overall strengthening of our technological and development capabilities.

Examples of devices and applications for solutions combining the three growth fields

New air-conditioning system for “new-normal” ways of working

This system, which is compatible with more personal work environments and highly convertible layouts, including layouts for infection prevention, provides temperature control in finely divided zones with cells (outlet units). Through the linked operation and individualization of smart damper for diffuser (SDF), air conditioning can be turned on and off by zone, and the temperature can be set with a smartphone. The air conditioning can be adjusted responsively even as persons are nearby are feeling different levels of hot and cold. These air conditioning controls were developed based on know-how gained from experiments performed with volunteers from the company.



Early warning system for time series data

This system is a software package that immediately identifies deviations in monitored values and issues alarms. This system constantly monitors changes in the trends of time-series data for critical measurement values (process variables like temperature, pressure, flow rate, liquid level, etc.). Monitoring that uses the predictive alarm of this system, which makes predictions and activates alarms, affords faster awareness of problems than alarm monitoring using a monitoring and control systems (DCS) that activates an alarm only if the measured value reaches the trigger point for the alarm.

Early Warning System for Time Series Data



Model NX-SVG communications gateway model, providing program-less information sharing between different control devices

In attempts to make production more efficient using IoT, in about 50% of the cases where IoT adoption stalls, the problem is in the device data collection process. Device manufacturers have responded by writing communication programs to match the devices that collect data using a PLC*. However, this involves an immense amount of development processes, and there is a shortage of human resources with the required skills to perform these functions. To resolve this issue, azbil devised the concept of the “multi-vendor IoT gateway (model NX-SVG),” which greatly reduces the development time model.

* PLC (programmable logic controller)

Model NX-SVG



Burner controller

Burner diagnosis information can be easily acquired from models AUR355 and AUR455



Humidity element miniaturization and sensor units

Duct temperature and humidity sensors require regular maintenance to maintain product performance, and there has been a demand to reduce the number of maintenance tasks. To respond to this demand, we developed a compact humidity element, and modularized the sensor so that the temperature and humidity sensing parts can be swapped out. To compensate for a lower S/N ratio due to miniaturization of the humidity element, we digitalized the measurement signal processing, which also allowed us to resolve issues and make improvements in product design and production management.

Duct Temperature and Humidity Sensor



Manufacturing and Procurement

Aiming to Establish an Optimal Production System to Support Global Business Development

Basic approach

The azbil Group aims to build an optimal production system that supports global business development. In addition to the expected considerations of quality, cost, delivery deadlines, and manufacturing efficiency, we seek production process innovation, expanded production scale, and expanded ratio of overseas production, while also considering the environmental impact of production, the continuing physical and mental health of workers, and the promotion of work style reform.

Improving the global production system

With the expansion of our business globally, we have established three production centers in Japan, China, and Thailand. At each production center, we are strengthening our procurement network, improving our sales and distribution channels for direct sales and shipment to various markets, and working to enhance productivity and expand production volume while lowering costs.

At our Thailand production center, we continue to expand the scale of production with a focus on component products using our newly built second factory, which began operations in 2018. To manufacture field instruments, we plan to enhance our production capacity further with measures that include factory expansion. At our production base in the Chinese city of Dalian, we increased our production capacity of control valves and differential pressure transmitters, and to further expand production volume, we are now building a new

factory scheduled to begin operations in mid-2022. We are simultaneously automating production processes to strengthen our manufacturing platform.

The Group's new main factory

As part of the optimization of our global production system, the new Shonan Factory and our technology R&D facility, the Fujisawa Technology Center, work in close collaboration, functioning together as a mother factory for the Group.

To rise to the challenge of next-generation production, our goal is to achieve a "4M revolution" for the basic elements of manufacturing (man, machine, material, and method), further enhancing the three functions below and the strength of the azbil Group's production.

Create We aim to create and expand competitive advantages in our manufacturing departments that competitors cannot rival, by developing cutting-edge technology with advanced MEMS sensor packaging, and production processes that harness the power of AI and IoT and automatic precision processing.

Demonstrate One of the azbil Group's strengths 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.

Lead The role of our Shonan Factory is to lead the entire azbil Group in production, distribution, and procurement, and

to promote standardization in the Group's factories worldwide. Moreover, the factory systematically trains personnel in the production and management technology used in Japan and overseas, and which forms the foundation of those efforts. Training focuses on developing personnel who can manage production in a global context.

BCP for manufacturing and procurement

There is no shortage of production and logistical risks, domestic and foreign, including damage from natural disasters or other unexpected situations such as the COVID-19 pandemic. To minimize the impact of emergencies on our customers, we do the following with the aim of restoring production within an optimal time frame.

- Production line BCP: planning for restart of production lines
- Product BCP: planning for alternate acquisition of parts and for maintaining inventory
- Countermeasures for activity restrictions in the capital area: securing alternate factory production and logistical capacity

We also continue to implement preventive maintenance for natural disasters such as earthquakes and floods, etc., install seismic countermeasures and employee safety measures, and increase office and factory disaster prevention capabilities.

Contributing to a sustainable society and corporate growth

The azbil Group has announced SDG goals and is strengthening efforts in the area of manufacturing to contribute to a sustainable society and to grow continuously as a company.

We are improving energy efficiency using IT, AI, and other technologies. With regard to products, we are employing energy-saving design to reduce the amount of material used, make greater use of reusable materials, and reduce the number of parts used. Furthermore, to fulfill our responsibilities for the supply chain, we cooperate with our business partners on achieving the SDGs as a shared goal that will help to realize a sustainable society. We continue to work on the optimization of our global production framework, providing high-quality advanced technologies, products, and services worldwide in a timely manner. In so doing, we strive to meet the various needs of our customers and contribute to a sustainable society and sustainable business operations (Reference: Essential goal III: Supply Chain, Social Responsibility on page 63).

Innovative production processes

The azbil Group aims to innovate its production processes and to construct competitive production lines through improved production technology.

Specifically, we promote the development and application of production line technology that allows us to create products few other companies can. We pursue unique and highly advanced manufacturing processes such as the connection, bonding, and assembly of micro parts and other precision processes exemplified by our MEMS sensor assembly,

bly, which utilizes new materials and the use of innovative material processing techniques.

In addition, to improve manufacturing process efficiency and quality, we are systematically moving toward further automation and systemization of processes based on the azbil Group's own HCA-MS*1 concept. By combining the latest in AI and IoT technology with the precise assembly, product processing, and image processing know-how 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 working to expand the scope of application of these initiatives from our mother factory to production sites in Japan and overseas, to maintain and improve quality globally, and to strengthen our competitiveness.

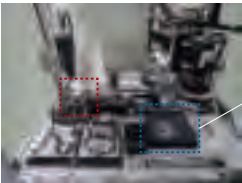
Example of Flame Detector Glass Assembly Process

Flame detector

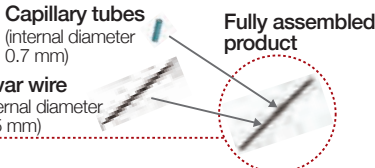
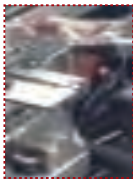


We succeeded in automating the assembly of easily breakable miniature glass capillaries with zero losses by using force-control (active compliance) technology*2 that we developed for every part of the process.

Glass capillary tube assembly device



Through the use of our image recognition and force-control technology, we can pick up randomly scattered glass capillaries one by one.



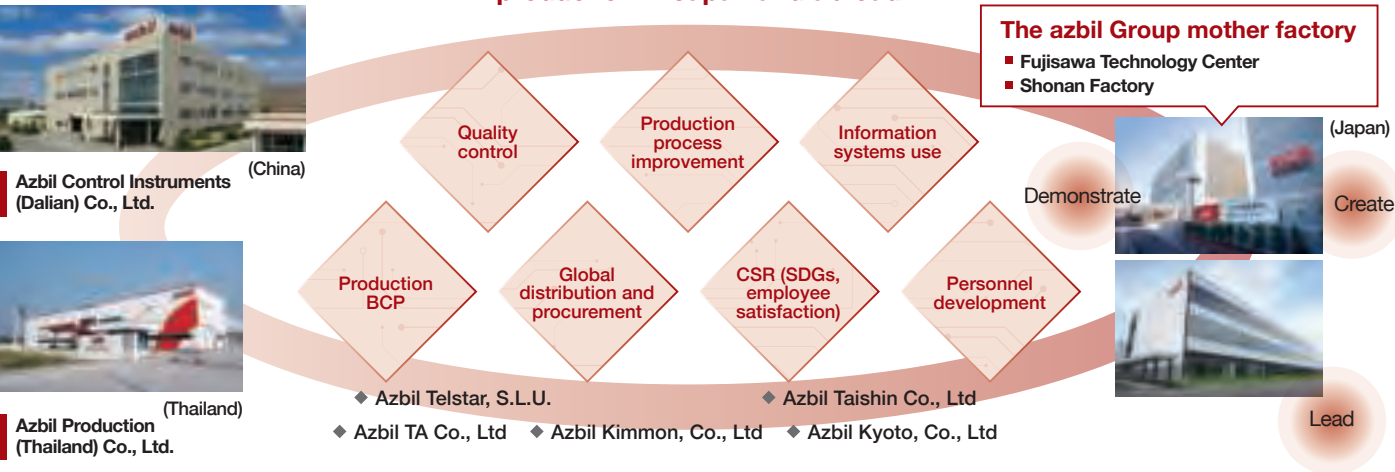
A Kovar wire with a 0.65 mm external diameter is inserted into a glass capillary with a 0.7 mm internal diameter. The gap between the two is only 0.05 mm. This technique is made possible by azbil's force-control technology, which does not shock or put a load on the easily breakable glass capillaries.

*1 Human-centered automation for manufacturing systems (HCA-MS) are systems that realize the Group philosophy to aim for human-centered automation. Such a system mechanizes human capabilities such as kinesthetic sense, eyesight, and intelligence, combining the accuracy of machinery with the flexibility of human beings, 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.

*2 With force-control (active compliance) technology, when a robot grasps an object, the amount of force placed on the object is measured, and the measurement is used to control the drive motor for the grip. The assembly of fragile glass capillaries is achieved by combining force control with positional control.

azbil Group's Production System

Our mother factory leads azbil Group production, creating a strong global system and raising the level of production in Japan and abroad.



Sales, Engineering, Installation, and Service

Maximization of Life-cycle Value through an Integrated System that Covers Sales, Engineering, Installation, and Service

■ Providing total solutions worldwide

In order to maximize life-cycle value in our customers' buildings, factories, and plants, the azbil Group has a uniquely integrated framework that allows us to offer total solutions incorporating everything from consulting and sales proposals to engineering, installation, and services. Our sales engineers, systems engineers, field engineers, 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 of problems and proposal of solutions, to system design and actual onsite installation and adjustment.

Building Automation (BA)

In the air conditioning control systems in buildings handled by our BA business, there are differing challenges depending on the nature of the facility (offices, etc.) and the regional characteristics. Based on its know-how and actual operating data accumulated over many years, the azbil Group can recommend optimal products ranging from BA systems to energy-saving solutions, depending on the use of the facility and the type of operations. In addition, we provide onsite engineering and manage the safety, quality, and cost of our installations, providing the level of control that our customers request.

Advanced Automation (AA)

Customers at the manufacturing sites handled by our AA business also have a wide range of requests, which change greatly in line with evolving technology, such as IoT. We constantly work together with our customers to pursue solutions, ranging from creating systems for factories and plants to improving manufacturing processes, providing energy-saving solutions, and proposing optimal products and applications.

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. To ensure the safety of these products, there are technologically complex and highly distinct requirements for the manufacturing equipment and services, which must also comply with very strict legal regulations in their design and fabrication. We use our deep knowledge in this area to propose optimal solutions that satisfy both our customers and the legal requirements.

■ Maintenance service
Boosting QCDSE using DX and HR

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. Additionally, they make sure to promptly share feedback from customers with the Group. By incorporating customer feedback into our products and services we are able to raise the value and efficiency of our onsite operations.

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 globally that we offer in Japan.

Through our DX-powered platform for providing engineering and services and our highly experienced and skilled human resources, we help our customers to achieve their targets for quality, cost, delivery, safety, and environment (QCDSE).

Global expansion of the life-cycle solutions business

In our BA business, we are enhancing the remote maintenance technology that allows us to remotely monitor buildings overseas and to provide efficient maintenance services with high added value. In our AA business, we are expanding our Asian service area, including China, Thailand, Singapore, and Indonesia, by developing a comprehensive solutions-oriented valve business encompassing everything from the supply of control valve products to maintenance services. In addition to IoT-based services that use big data and AI, such as monitoring for anomalies and predicting future conditions, we provide added-value solutions services globally as we work to expand our life-cycle solutions business.

Improving service productivity and added value through DX

Based on the unique advanced technology and abundant know-how acquired by its control and management professionals, the azbil Group is working to create tools for its service operations. In addition to making site inspections more efficient, these tools allow us to more effectively maintain automated control devices by remotely collecting data and analyzing "event" outputs, and by having offsite experts examine control operations. Additional-

ly, through the collection and analysis of equipment self-diagnostic information, we can proactively propose preventive maintenance services that ensure system reliability.

While helping to solve a broad range of problems for customers by increasing the added value of these services, we are also transitioning to knowledge-intensive services through the sale of new products and services.

Human resource development to support global services

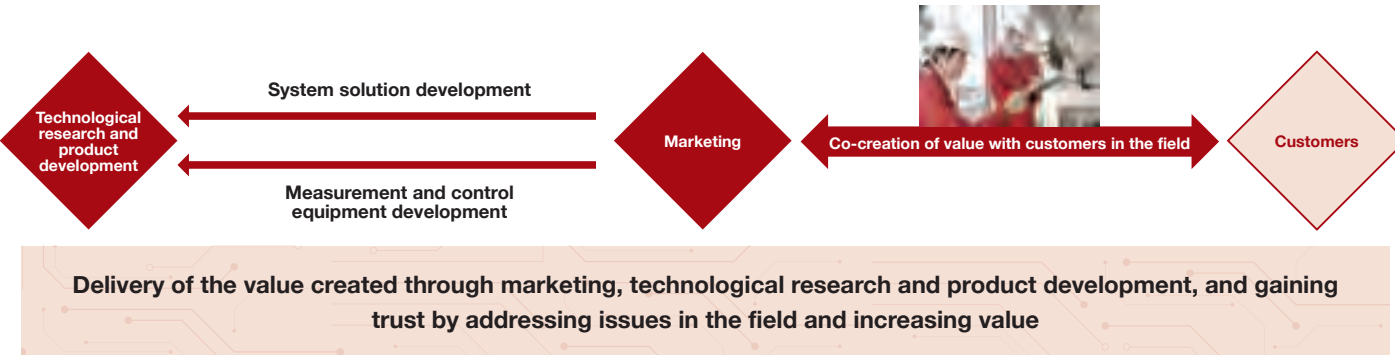
To support our global service business in adapting to the conditions of each country and to develop engineers who can propose added value to customers, we have established a systematic program to train measurement, control, and maintenance specialists and data scientists both in Japan and overseas.

Putting safety first in the maintenance of important facilities

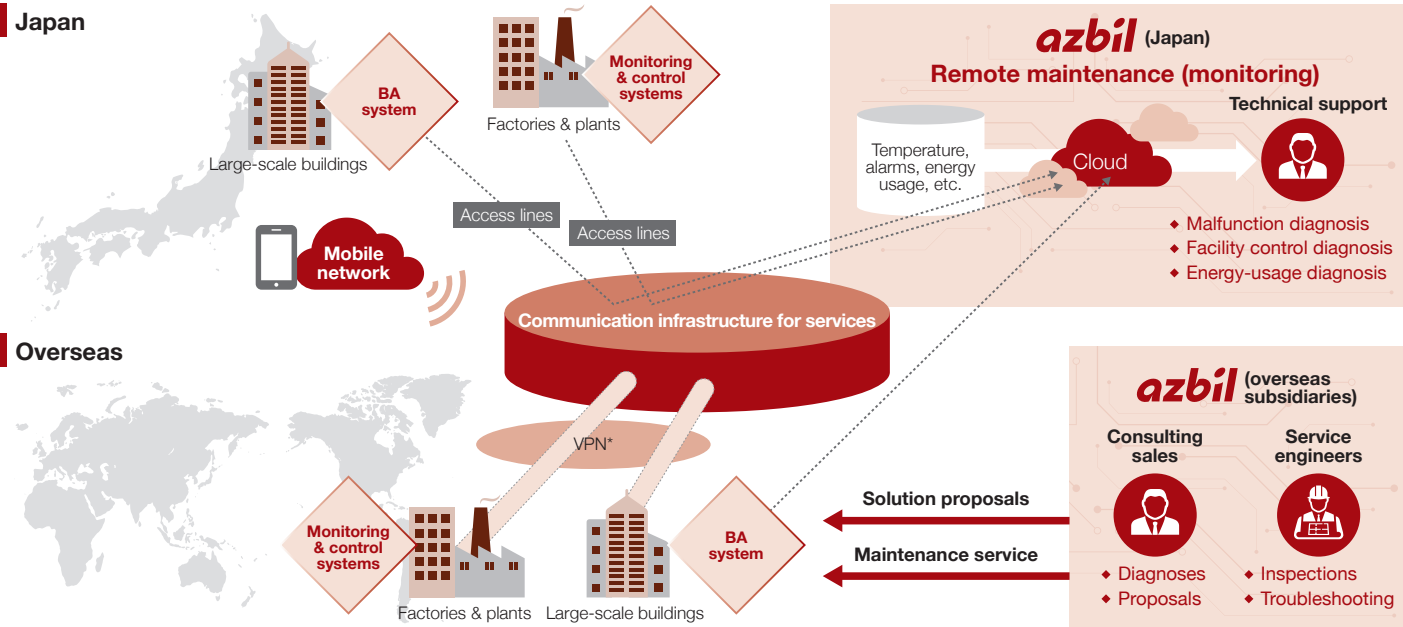
In its operations and maintenance work at hospitals and other facilities of importance for society and for customers, the azbil Group places top priority on employee and customer safety, and implements thorough safety measures to ensure the continuity of operations. Group personnel maintain air conditioning systems in hospitals where staff are working hard every day to save the lives of those affected by COVID-19. To ensure the safety of the hospital personnel and prevent the spread of infections within hospitals, we pay the utmost attention to our system of risk-level management* as we implement various measures in close communication with the hospital staff. Our onsite staff has a strong sense of mission in maintaining equipment and the indoor environment to allow the medical professionals to focus on treatment and to ensure the peace of mind of both COVID-19 patients and general patients.

* We define five stages of risk, and work to prevent infection and manage workflow at each risk level to ensure the safety of our employees and prevent the spread of infection.

The azbil Group Service Business



Remote Maintenance Service Platform (Examples of Use in Our BA and AA Businesses)



* Virtual organizational networks, which communication with distant locations makes possible as if it were within the company's own network

Practice of Value Creation – Contributing to the SDGs

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

The azbil Group shares the value of sustainability with society by working with stakeholders to promote activities that contribute to the SDGs.

This leads to our sustained growth and increased corporate value.

azbil Group's Approach to the SDGs

Since the UN adopted the SDGs in 2015, the azbil Group has used them as a compass to guide its business activities. Since then, we have engaged in SDG initiatives to achieve sustained

growth and contribute “in series” to a sustainable society. We established the Essential Goals of azbil Group for SDGs in 2019, positioning the period through FY2030 as a Decade of Action and stepping up our efforts, driven by the Corporate Sustainability Headquarters set up in 2020.

The Steps azbil Group is Taking to Achieve the SDGs

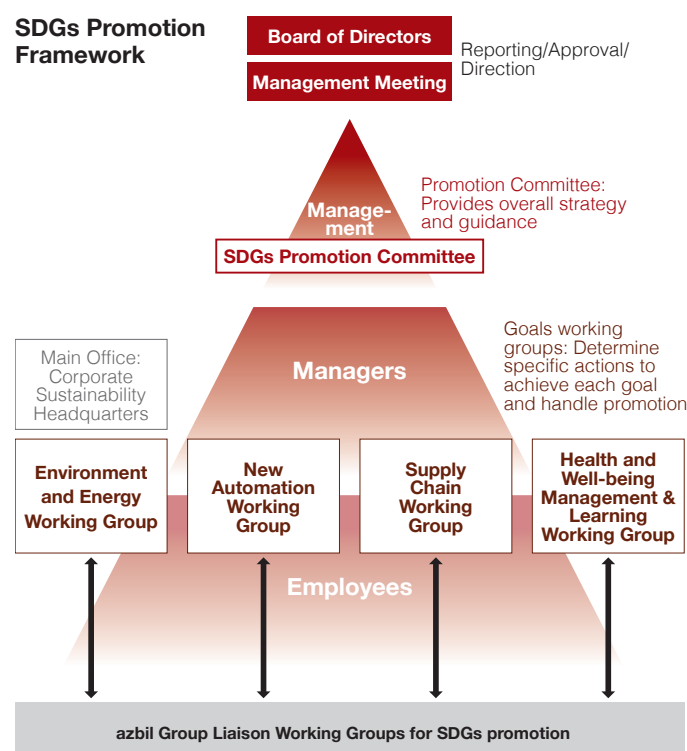


* Essential goals: I-IV goals listed on the right page. For each goal detailed qualitative and quantitative targets have been established.

SDGs Promotion Framework

The azbil Group's Corporate Sustainability Headquarters functions as the main office for running the SDGs Promotion Committee, which utilizes the PDCA cycle to step up the initiatives to achieve the Essential Goals of azbil Group for SDGs in FY2030. The Corporate Sustainability Headquarters formulates, executes, and evaluates plans relating to the SDGs, based on the discussions of the SDGs Promotion Committee, and reports on progress to the Board of Directors.

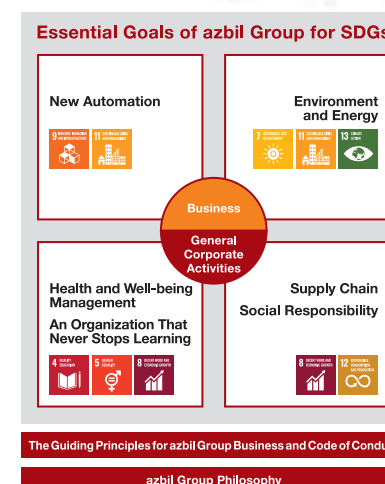
Four working groups with different themes have been set up under the umbrella of the SDGs Promotion Committee. These working groups are liaising closely through the azbil Group CSR Promotion Committee, which has a cross-organizational function, with bodies such as the azbil Group Technology Committee, as well as guiding issue resolution and SDG realization efforts on a Group-wide basis. For example, in collaboration with the Human Resources Department and Azbil Academy, a specialized organization dedicated to personnel development, the working groups are promoting greater awareness of the SDGs throughout the Group and focusing on education and training 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, the working groups are promoting SDG initiatives and disseminating ESG information that responds to the demands of society.













Essential Goals of azbil Group for SDGs

The essential goals of azbil Group for SDGs consist of targets relevant to achieving the four essential goals. We established new targets for the essential goals.

By ensuring that all of our employees understand the goals and communicate further with our stakeholders during the course of our activities, we can collaborate with our customers, business partners, and local communities to accelerate cooperative creation aimed at solving societal problems and contribute to sustained growth for society as a whole.



SDG Goals and Key Initiatives

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) ◆Effective reduction of CO ₂ at customers' sites 3.4 million metric tons of CO ₂ /year ◆55% reduction* ¹ in GHG* ² emissions from our business activities ◆20% reduction* ³ in GHG emissions across the entire supply chain 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 – design all new products to be 100% recyclable* ⁶	  
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 ◆Through autonomy of manufacturing and operations, the azbil Group will improve the quality of customers' living, production, and other shared spaces, and create new value ◆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 (Expansion of azbil CSR activities to share value) ◆Working with our business partners on achieving SDGs as a common goal and creating shared CSR value across the supply chain Invigorating local communities (Contributions around azbil Group bases) ◆Social contribution activities rooted in local communities are run at all our business sites,* ⁷ with active participation by every employee * ⁸	 
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) (Creating workplaces that allow flexible work styles and a reduction in total work hours, maintaining and promoting employees' mental and physical health, and creating opportunities for diverse personnel to demonstrate their abilities) ◆65% or more employees expressed satisfaction with working at azbil Group companies ◆Double women's advancement points* ⁹ by 2024 (versus 2017) Developing and strengthening "an organization that never stops learning" (Expanding opportunities for continuing education of globally active employees and opportunities to learn with stakeholders) ◆65% or more employees have experienced personal growth over the past year ◆Double training opportunity points* ¹⁰ by 2024 (versus 2012)	  

*1 Base year: 2017

*2 Greenhouse gases (i.e. CO₂)

*3 Base year: 2017

*4 Management that integrates environmental activity such as decarbonization, resource circulation, and biodiversity conservation into business operations.

*5 A general term for material and energy found in nature that can be used in daily human lives and that exists naturally and can be used for people's daily lives and in production activities

*6 Best available technology (BAT) refers to the most effective technology that is both economically and technologically viable.

*7 All offices both in Japan and overseas

*8 The azbil Group aims to participate in activities of a scale that can accommodate the total number of employees.

*9 Points tallied internally, with weight given based on the role, such as company executive, officer, and manager

*10 Points tallied internally for participating in opportunities (frequency or number of employees) to learn with stakeholders

Essential Goal 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 responding to

climate change is a priority, and we have set solutions for energy toward a decarbonized society and realizing environment-integrated management as our targets to achieve the SDGs. (Reference: Environmental Initiatives on pp. 67-70)

Solutions for Energy (Toward a Decarbonized Society)

Further Effective Reduction of CO₂ at Customers’ Sites
We offer products, services, and solutions that help our customers reduce CO₂ emissions at their sites.

We strive to reduce society’s environmental impacts by providing automation equipment and systems for process optimization and stabilization, energy management, and other solutions to achieve a reduction in energy use and CO₂ emissions by way of maintenance and services on those equipment and systems after delivery. We help to reduce environmental impacts throughout our customer’s product life cycles.

The total annual effective reduction of CO₂ at customers’ sites for the FY2020 was 2.94 million metric tons.^{*1} ^{*2} This corresponds to approximately 1/400 of the total CO₂ emitted in Japan each year (approx. 1.2 billion metric tons). The reduction in CO₂ is 0.07 million metric tons less than the

reduction of 3.01 million metric tons achieved in the FY2019, but this is because of business changes caused by the COVID-19 pandemic and a lower CO₂ emission factor for electric power due to the increased adoption of renewable energy sources. By FY2030, we aim to increase this effective reduction to 3.40 million metric tons of CO₂. We have included overseas customer sites in these estimates since FY2014 in line with our global business expansion.

Fiscal Year 2030 Targets

The target of effective CO₂ reduction at customers’ sites

3.40 million metric tons of CO₂/year

web Please visit the link below for more information.
(Contribution to the Environment: https://www.azbil.com/csr/basic/environment/core_business_activities/contribution/contribution-to-the-environment/index.html)

^{*1} 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.
^{*2} A third party reviewed the 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.



2.69 million metric tons of CO₂ / year

Energy management effects

We have reduced environmental impact, taking advantage of our energy management solution, to lower electricity consumption, energy consumption, and CO₂ emissions.



0.21 million metric tons of CO₂ / year

Maintenance and services effects

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



0.04 million metric tons of CO₂ / year

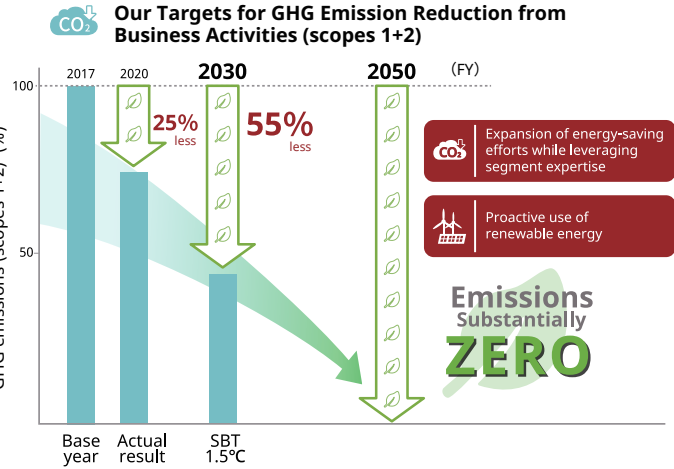
Total effective reduction of CO₂ at customers’ sites (FY2020)

2.94 million metric tons of CO₂ / year

GHG Emissions Reduction Target for Business Activities Reapproved by the SBT Initiative for Its 1.5°C Target

We have formulated our 2050 Long-term Vision for Reducing GHG Emissions, which lays out our goal to achieve substantially zero GHG emissions (scopes^{*1} 1+2) from our own business activities by 2050, and we propose to achieve carbon-neutral operations.

Moves are now being made to rapidly decarbonize all aspects of society, prompting us to update our target for reducing GHG emissions through business activities to a 55% reduction (from a 2017 base year), up from the 30% reduction (from a 2013 base year^{*2}) approved in 2019 by the Science Based Targets initiatives (SBTi)^{*3} for our goal of keeping the global temperature increase below 2°C compared with pre-industrial revolution levels (2°C target). This new target was reapproved as a 1.5°C target by the SBTi in August 2021.



Fiscal Year 2030 Targets^{*4}

GHG emissions from business activities (scopes 1+2)

55% reduction
(Ref: 2017 base year; reapproved August 2021^{*5})

GHG emissions throughout the entire supply chain (scope 3)

20% reduction
(Ref: 2017 base year; approved May 2019)

^{*1} The SBTi divides targets into three categories, or scopes.
Scope 1: Direct GHG emissions from a business (from fuel burning, industrial processes, etc.)
Scope 2: Indirect GHG emissions from using electricity, heat, or steam provided by another business.
Scope 3: Indirect GHG emissions related to business activities (indirect emissions not included in scopes 1 and 2)
^{*2} The targets officially approved by the SBT initiative refer to base years and target years as fiscal years. As such, all years stated above are fiscal years.
^{*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 UN Global Compact (UNGC), the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF), in order to achieve the GHG reduction targets delineated above. The SBTi is an international initiative that certifies company targets for reduced CO₂ emissions as being consistent with scientific evidence. The 1.5°C target is aimed at keeping the rise in global average temperatures due to climate change to no more than 1.5°C compared with pre-industrial revolution levels.
^{*4} The targets approved by the SBTi are as follows: Azbil Corporation commits to reduce absolute scope 1 and 2 GHG emissions 55% by FY2030 from a FY2017 base year. Azbil Corporation also commits to reduce absolute Scope 3 GHG emissions 20% within the same timeframe.
^{*5} In an azbil press release dated May 14, 2021, the revised target of a 60% reduction in GHG emissions was for a 2013 base year. An application was submitted to certify the SBTi’s goal of 1.5°C, and based on the reduction amount, the target was officially reapproved as a 55% reduction from a 2017 base year, which matches the base year for scope 3.

Environmental Preservation (Realization of Integrated Environmental Corporate Management^{*1})

Effective Use of Natural Resources^{*2} and Reduction in the Amount of Waste

As well as creating and supplying more eco-friendly products and services, we are also helping to promote the 3Rs (reduce, reuse, recycle) through more environmentally conscious design during new product development.

In FY2020, we set a new guideline to “design all new products to be 100% recyclable.” We are working on designs that can be appropriately disassembled/separated and recycled when a customer disposes of the product, within the scope of the BAT.

Fiscal Year 2030 Targets

Design all new products to be

100% recyclable

^{*1} Management that comprehensively incorporates a wide range of environmental activities including decarbonization, resource circulation, and biodiversity conservation into business operations.
^{*2} Refers to a general term for substances and energy that exist naturally and can be used for human life and production activities.

TCFD
– Initiative to Understand and Disclose Climate Change Impacts

In November 2019, the azbil Group endorsed the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD)*1 to gain an accurate understanding of the impact of climate change on business activities and disclose that impact. After this announcement, we summarized azbil Group governance, opportunities, and risks connected to climate change as shown in the table below. Current evalua-

tions of each of our businesses' opportunities and risks, based on a scenario where global temperatures are rising, indicate that the opportunities for business activities that contribute to reducing CO₂ greatly outweigh the risks.

In line with the instructions by TCFD, we will continue to disclose the impact of climate change on the management of the Group.

Item	Initiative Details			
Governance	The azbil Group recognizes that climate change is one of the top priorities in practicing the Group philosophy, and a cross-group task force led by designated officers was formed to deliberate in Management Meetings from the perspective of business and financial impacts under supervision of the Board of Directors.			
Strategy	The azbil Group promotes reducing the environmental impact of our business activities and harnessing the technologies and expertise 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.			
	(A) Disclosure of opportunities and risks			
	If the temperature rise is controlled (the scenario assuming a rise of between 1.5°C and 2°C)*2			
		Building Automation business	Advanced Automation business	Life Automation business
	Opportunity	Expanding demand for energy-savings solutions and services that meet global needs	Increased demand for solutions, and sensors and other measurement instruments designed for new industries	Increased SMaaS business for gas meters using IoT technologies
	Risk	• 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		
	If temperature rise continues (the scenario assuming a rise of approximately 4°C) *3			
		Building Automation business	Advanced Automation business	Life Automation business
	Opportunity	Increased demand for products, services, and solutions that enable buildings to adapt to climate-related disaster	Increased demand for products, services, and solutions that offer anomaly prediction function	Increased demand for products, services, and solutions adapted to handle climate-related disasters
	Risk	• 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		
(B) Impact of opportunities and risks on azbil Group financial plans, and countermeasures				
<div><div><div>• At this stage, we recognize that there are more opportunities than risks, as reduction of CO₂ emissions significantly outweighs CO₂ emissions from azbil Group business activities.</div><div><div><div>Main opportunity factors</div><div>Expansion of opportunities for the azbil Group's products, services, and solutions</div><div>• Expansion of CO₂ reduction benefits (Target: 3.40 million tons / 2030)</div><div>• Expansion of corporate needs due to stricter regulations (decarbonization and energy conservation laws)</div><div>• Increase in the VPP market to promote ZEBs, etc.</div></div><div>></div><div><div><div>Main risk factors</div><div>Increase in physical risk due to increase in CO₂ emissions from business activities and natural disasters</div><div>• CO₂ emissions from business activities (diminishing based on SBT target)</div><div>• Risk of shutdown due to abnormal weather, etc.</div></div></div></div><div><div>• We are actively investing in R&D and equipment to accelerate new products' and services' development and their launch onto the market, to enable the azbil Group to contribute to a sustainable society.</div><div>• The azbil Group is also working to decentralize the production network to reduce the risk of concentration.</div></div></div></div>				
Risk Management	The azbil Group comprehensively works to identify risks that may have a significant impact on operations, including those connected to climate change. (1) After risks are extracted and analyzed by the Comprehensive Risk Subcommittee, consisting mainly of the department managers, (2) the Comprehensive Risk Committee, headed by the executive officer in charge of risk management, identifies "risks deemed important to the azbil Group" for deliberation and decision-making by the Board of Directors. Once the risks are identified, the Company works to reduce the various types of risk by proposing countermeasures at the Management Meeting and other forums and reporting on the implementation status of measures as necessary to the Board of Directors.			
Indicators and Goals	We promote efforts to combat climate change through our business activities which contribute "in series" to the achievement of a sustainable society, by considering indicators and goals that take into account all azbil Group customers, the Group itself, and its entire supply chain. • Target setting for reduced GHG (CO ₂) emissions at customer sites • Implementation of the 2050 Long-term Vision for Reducing GHG Emissions, which lays out our goal to achieve substantially zero emissions by 2050 by reducing GHG emissions (scopes 1+2) within our own companies • Formulation of (SBT certified) emission reduction targets for 2030 to reduce GHG emissions throughout the supply chain and help achieve the Long-Term Vision			

*1 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 the potential impact of climate change on business operations in the context of at least two potential scenarios.

*2 This scenario assumes that temperature rise is contained within a sustainable range due to the implementation of stricter regulations and the introduction of technological innovations aimed at a decarbonized society.

*3 This scenario assumes that no effective measures to reduce CO₂ emissions are implemented, resulting in continued temperature rise and an increase in abnormal weather and natural disasters.

Essential Goal II New Automation



Realizing a Safe and Comfortable Society with New Automation

Our customers' business environments have undergone rapid change due to the COVID-19 pandemic and accelerating DX. As a result, the azbil Group has reviewed the social significance of automation in this new era and redefined the goal of new automation in the new medium-term plan (FY2021–2024) as: technology that, through autonomy* of manufacturing and operations, will improve the quality of customers' living, production, and other shared spaces and create new value.

By providing new solutions based on the concept of autonomy, the azbil Group will solve various societal problems.

* Automation is achieved through the four stages of: (1) monitoring; (2) control; (3) optimization; and (4) autonomy. Autonomy occurs at the highest level, and autonomous systems enable minimum human intervention and reduce problems caused by human error or equipment malfunctions. We also highlight New Automation as a technology that can help to solve a range of societal problems that have emerged in recent years, including resolving manpower shortages at worksites, reducing psychological burdens, promoting work-style reform, minimizing economic losses, maximizing energy efficiency, reducing industrial waste, and preventing accidents and disasters.

Providing Productivity and Higher Value That Lead to Customers' Peace of Mind and Comfort

Autonomous Systems in Production Spaces

The autonomous systems built by the azbil Group independently devise the most logical and efficient action plan for the assigned production target (production volume), and then execute the tasks optimally through coordination between existing automation equipment and control software. During this process, the autonomous system foresees malfunctions

(e.g., quality defects, equipment failure); devises revised production conditions or maintenance commands and other workarounds as needed; and works to minimize production costs, waste volumes, and CO₂ emissions. With the autonomous system actively repeating this sort of cycle, it is possible to reduce human intervention and achieve productivity on a completely different scale than before.

Development Example 1

Online Anomaly Detection System

Our online anomaly monitoring system utilizes big data from operations of production equipment at factories and plants for AI-driven learning. The system provides real-time monitoring of quality, equipment, utilities, and environmental load and detects minute changes that are warning signs of future problems. The system is currently installed at over 50 sites for manufacturing and power generation customers and is operating over 5,000 AI models. These systems have also contributed to promoting remote operations during the COVID-19 pandemic and cultivating technical skills at the production sites, as well as to reducing manpower.



AI detects signs of anomalies from minute changes in environmental variables

Development Example 2

Automatic Optimization Scheduling System

The system can satisfy production, inventory, and delivery capacity constraints; minimize costs and lead times; and rapidly devise automated plans. At a chemical plant, the system achieved a 95% reduction in the time required for instruction planning. The system can devise highly accurate production plans while managing various events each time they occur during manufacturing (including quality issues, equipment malfunctions, and last-minute orders). The system also reduces the psychological burden on employees at the production site caused by time constraints.



Automatically create a production plan suited to the situation

Essential Goal III

Supply Chain, Social Responsibility

8

SDG 8: DECENT WORK AND ECONOMIC GROWTH

12

SDG 12: RESPONSIBLE CONSUMPTION AND PRODUCTION

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. For 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. For our initiatives, we are working to implement corporate social responsibility

Fulfilling Social Responsibility with Customers and Business Partners

Sharing CSR Values across the Supply Chain
To fulfill our social responsibility across the supply chain, in 2021, the azbil Group reviewed and amended our Essential Goals of azbil Group for SDGs and developed original indicators in 10 major areas (see table at right), drawing on evaluations of ESG by the FTSE and other external institutions. We plan to share these indicators with our business partners and to implement CSR activities that the azbil Group is known for — ones that utilize the knowledge the Group has built up over many years in such areas as environment, quality, compliance, and health and well-being management.
We will evaluate the direction, framework, initiatives, and effectiveness of these activities using a four-tiered system to review independent achievement levels. We will also collect the results of customer questionnaires. Through this scheme that includes the four-tiered evaluation and the review, we aim

bility (CSR) throughout the supply chain by helping our business partners to understand our philosophy, principles, and the efforts we undertake.
Regarding our contributions to communities and societies where we operate, we engage in a wide range of initiatives, from grassroots efforts undertaken voluntarily by employees to offering donations to areas affected by the disasters. (Reference: CSR Procurement on page 72)

to promote ongoing collaboration and improvements with our business partners, as well as solutions to environmental and societal issues and other types of shared CSR value in the supply chain.

Main category	Sub-category
Environmental supply chain	Climate change Pollution & resources Water security & water risk Biodiversity Environmental management
Social supply chain	Labor practices Health and safety Human rights Communities (regional society) Quality & customers

Please visit the link below for more information about our initiatives.

web <https://www.azbil.com/csr/index.html>

Aims
We aim to achieve a sense of solidarity and accomplishment as the azbil Group by establishing a corporate culture that helps individual employees to plan and implement solutions to societal problems and achieve ongoing personal growth, and to participate in initiatives that bring individual employees together with various stakeholders.

Key themes

- Areas involving the global environment
- Areas involving people (particularly fostering the next generation)

Invigorating Local Communities
Implementing Community-Based Social Contribution Activities across All Offices
In conjunction with the revisions to the Essential Goals for the SDGs, the azbil Group has also formulated the “aims” and “key themes” for the initiatives being run under the essential goal of “Implementing community-based social contribution activities across all the azbil Group’s offices with each employee actively participating.” In addition, to facilitate the practice of continuous and systematic activities, the Social Contribution Promotion Office was established in April 2021. Our aim is to contribute “in series” to the achievement of a sustainable society, by training every employee to tackle social problems in Japan and overseas with a focus on issues such as preservation of the global environment and how we foster the next generation.

Essential Goal IV

Health and Well-being Management, An Organization That Never Stops Learning

4

QUALITY EDUCATION

5

DECENT WORK AND ECONOMIC GROWTH

8

DECENT WORK AND ECONOMIC GROWTH

Strengthening Our Foundation to Solve Societal Problems through Health and Well-being Management and Continuous Learning
Another of the azbil Group’s essential goals for the SDGs is to strengthen its foundation to solve societal problems through health and well-being management and continuous learning. We are developing various measures based on feedback from

employee satisfaction survey and are running a range of different human resource development programs to promote job satisfaction and personal growth in employees from diverse backgrounds, while also motivating staff to engage in business activities that contribute “in series” to a sustainable society. (Reference: HR Initiatives: Achieving Human Capital Management on page 73)

Implementing Health and Well-being Management (Job Satisfaction, Health, Diversity and Inclusion) Developing and Strengthening an Organization That Never Stops Learning

Implementing Health and Well-being Management That Revolves around Work Style Reform and Diversity and Inclusion
In 2019, we announced the azbil Group “Health and Well-being Declaration,” which revolves around work style reform and diversity. To make workplaces and employees healthy, happy, and lively, we are focusing on measures to improve job satisfaction for our employees and to promote greater diversity in the workforce so that women and other diverse human resources can play an active role.
The employee satisfaction survey conducted every year has demonstrated that for job satisfaction, there is a strong correlation between “the value of own work” and “trust and appraisal from supervisor.” We are therefore providing coaching & leadership training for employees in managerial roles across the azbil Group to improve subordinate recognition and motivational capabilities as well as organizational energy. We have changed the focus of our programs from the previous concept of “turning minus into zero” (measures on health and safety, and work-life balance) to “turning zero into plus” (measures to promote self-efficacy and organizational energy), which may help increase employee job satisfaction even further.

Developing Human Resources as an Organization That Never Stops Learning
An organization that never stops learning can respond flexibly to changes in the business environment and promote operational reforms through the creation of new business and new ways of working, so that each employee grows autonomously to become a globally engaged human resource.
To continuously develop such human resources, the azbil Group is adding to its existing training programs by expanding opportunities to learn with stakeholders, including technical training with distributors, partner companies, and customers, as well as site tours for local community members. We also offer employee training that allows employees to experience personal growth through diligent study.
To encourage career development through various experiences provided at work and foster employees’ personal growth, the azbil Group has defined two indicators of progress: a point system to log educational opportunities, and the ratio of employees who experienced personal growth over the past year. These benchmarks guide our activities as an organization that never stops learning.

Targets for FY2024 and FY2030

Double the points for promoting the success of women compared with 2017*1 (by FY2024)

Achieve a 65% or more*2 ratio of employees who find satisfaction in working at the azbil Group (by FY2030)

*1 Points tallied internally with weight given based on the role, such as company executive, officer, and manager.

*2 Employee satisfaction survey conducted annually.

Targets for FY2024 and FY2030

Double the points for educational opportunities compared with 2012*3 (by FY2024)

Achieve a 65% or more*4 ratio of employees who experienced personal growth over the past year (by FY2030)

*3 Points tallied internally (by frequency or number of participating employees) for opportunities to learn with stakeholders at internal training, internships, and training and briefings for customers.

*4 Employee satisfaction survey conducted annually.



Strengthening the Foundation for Value Creation – ESG Initiatives

CSR Management of the azbil Group

With “human-centered automation” as the Group philosophy at the foundation of its business activities, the azbil Group works to fulfill its corporate social responsibility (CSR) by assisting in the continuous development of society. By putting people first, respecting human rights, and actively contributing to the economy, environment, and society, we strive to not only achieve the SDGs but also share value with society.

Please visit the link below for more information on our CSR efforts.

web CSR efforts
<https://www.azbil.com/csr/index.html>

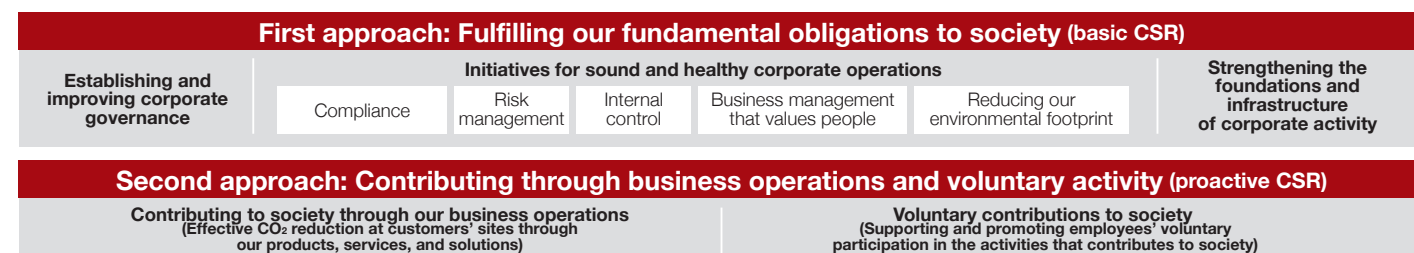
Approach to CSR Management

The azbil Group takes a broad view of the responsibilities that a company should fulfill for the benefit of stakeholders and society, and the Group as a whole takes a twofold approach to CSR management. First, there is what we call “basic CSR,” which involves fulfilling the azbil Group’s fundamental obligations as a member of society. Second is an approach that we named “proactive CSR,” consisting of contributing to solutions for society’s problems through our business operations, as well as employees’ voluntary participation in activities that

benefit society. These two pillars enable us to manage our CSR in a fair and sincere manner.

Human Rights Initiatives

In April 2021, we signed the United Nations Global Compact. By participating in this internationally recognized initiative, we will once again strengthen our global efforts in the areas of human rights, labor, the environment, and anti-corruption, and actively contribute to the development of a sustainable society based on the principle of “human-centered automation.”



CSR Promotion Framework

The azbil Group has established the azbil Group CSR Promotion Committee, comprising officers in charge of CSR at each Group company and led by the executive officer in charge of CSR at azbil Corporation. The committee formulates Group-wide CSR action plans, subject to the approval of azbil Corporation’s Board of Directors, and monitors progress, while also guiding subsidiaries.

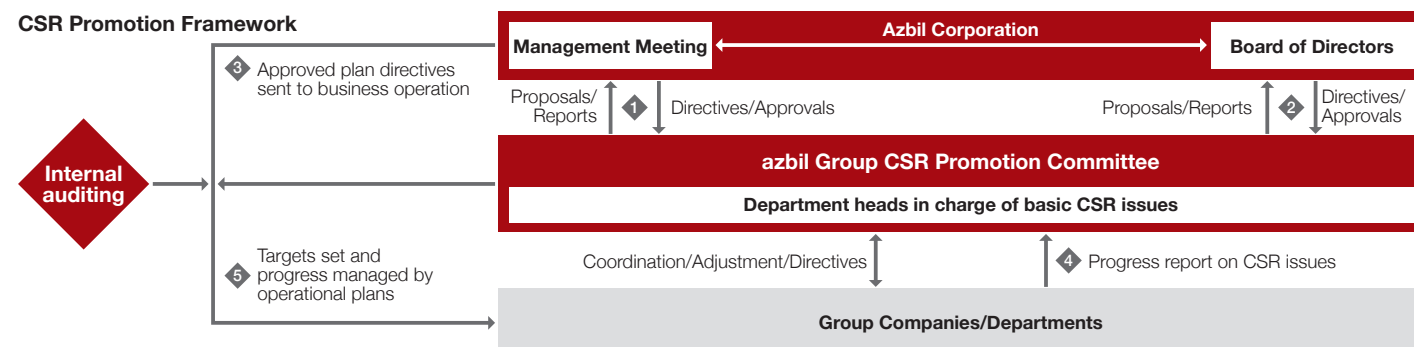
With the goal of continuously improving the level of its CSR activities, the committee formulates and implements plans, evaluates and analyzes the results, and reports to

management, following a PDCA cycle.

Another way the Group contributes to society is through its SDGs Promotion Committee, consisting primarily of other top-level management personnel, which works to achieve the Essential Goals of azbil Group for SDGs.

In addition to this framework, the azbil Group creates opportunities for dialogue with internal and external stakeholders as necessary and incorporates their opinions into the Group’s activities to make our programs more effective. (Reference: pp. 91–92)

CSR Promotion Framework



azbil Group’s Main Initiatives Toward Achieving Sustainability

The azbil Group actively promotes initiatives based on an environmental, social, and governance (ESG) framework to achieve sustainability, and the table below summarizes how we are tackling important ESG issues, based on standards

established by Sustainability Accounting Standards Board (SASB), among others.

Through our ESG initiatives, the azbil Group will ensure our sustainability while realizing the creation of value unique to azbil, in order to contribute “in series” to achieve a sustainable society and the SDGs.

ESG	Major ESG Issues	azbil Group's Main Initiatives	Corresponding SDG Targets	Related SDGs
E Environment	Climate change Carbon neutral	Contribute to decarbonization at customer sites	7.3, 13.2, 13.3	
		Reduce mid- to long-term CO ₂ emissions from business activities (scopes 1+2)	7.3, 13.2, 13.3	
		Offer energy management solutions	7.3, 13.2, 13.3	
		Promote the introduction of renewable energy with virtual power plant technology	7.2, 13.2, 13.3	
	Environmental considerations for products and services	Promote environmentally conscious design	8.4, 9.4, 12.2, 12.5	
	Pollution & resources	Promote compliance with regulations regarding the inclusion of chemical substances in products both in Japan and overseas	12.4	
		Prevent environmental pollution, promote effective use of resources (including waste reduction) Atmosphere, wastewater, hazardous waste, waste reduction, raw materials, etc.	12.2, 12.4, 12.5	
	Water security & water risk	Support waterworks infrastructure development and water resource management in developing countries, popularize remote monitoring systems for broad area water supply facilities using cloud services	6.1, 6.3, 6.4, 14.1	
		Respond to water withdrawal restrictions, strengthening of wastewater regulations, and natural disasters	6.4, 14.1	
	Biodiversity	Help conserve ecosystems through our operations (such as by providing equipment and other solutions for ballast water treatment systems in large ships)	14.1	
		Natural environmental conservation efforts centered on business bases	15.1, 15.4	
S Society	Environmental supply chain	Reduce mid- to long-term CO ₂ emissions across the entire supply chain (scope 3)	13.3	
	Environmental management	Promote environmental management based on ISO14001	12.2, 12.4, 12.5, 13.3, 14.1	
	Labor practices, health, and safety	Promote health and well-being management (work style reforms, diversity & inclusion), recruit and develop human resources, prevent the spread of COVID-19	3.3, 4.4, 5.5, 8.5	
	Human rights	Respect fundamental human rights, work to implement the 10 principles of the UN Global Compact, recruit personnel in accordance with each country's laws and compliance regulations, eliminate harassment, promote diversity	4.4, 4.7, 5.1, 5.2, 8.5, 8.7	
	Communities	Sponsor community events, volunteer, and donate to socially contributing organizations	4.4, 4.7, 5.5, 7.3, 8.5, 12.5, 13.3	
	Social supply chain	Consider CSR in our purchasing activities, share CSR values with business partners across the supply chain	5.1, 8.5, 8.7	
G Governance	Quality & customers	Provide products and services of high quality, long-term stability, high safety, environmental friendliness, and long-term stable supplies to meet the life cycles of the customers	9.4, 11.3	
		Offer total solutions through an integrated system including development, production, sales, engineering, and services	9.4, 11.3, 12.2, 12.4, 12.5	
	Corporate governance	Fortify supervisory and audit functions (by appointing independent outside offices, setting criteria to assess independence, etc.)	5.5	
		Bolster management transparency and health (through Nomination and Remuneration Committee, etc.), introduce a skill matrix	16.7	
	Risk management	Clarify responsibility system and promote dialogue (in accordance with the Corporate Governance Code, with corporate communications officer, etc.)	12.6	
		Expand the comprehensive key risk management system (Comprehensive Risk Management Subcommittee and Comprehensive Risk Committee), crisis response (BCP)	12.4, 13.1	
	Compliance	Increase awareness of the Group philosophy, Guiding Principles, and Code of Conduct	4.7	
		Enhance compliance training, conduct and analyze the results of regular company-wide awareness surveys, improve hotline function	4.4, 16.3, 16.5	

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



Environmental Initiatives

In keeping with the azbil Group philosophy, to help achieve a sustainable society and protect the Earth’s environment, we strive to reduce the burden on the environment caused by our own business activities and we work to reduce the CO₂ emissions from our customers’ facilities through our core businesses.

Please visit our website for further details on our environmental initiatives.

web Environmental Initiatives
https://www.azbil.com/csr/basic/environment/index.html

Our Basic Approach to the Environment

The azbil Group, in light of international developments such as adoption of the United Nations’ SDGs and the rapid drive towards decarbonization across society, has made a long-term commitment to working on the environmental issues that it can tackle in order to protect the environment.

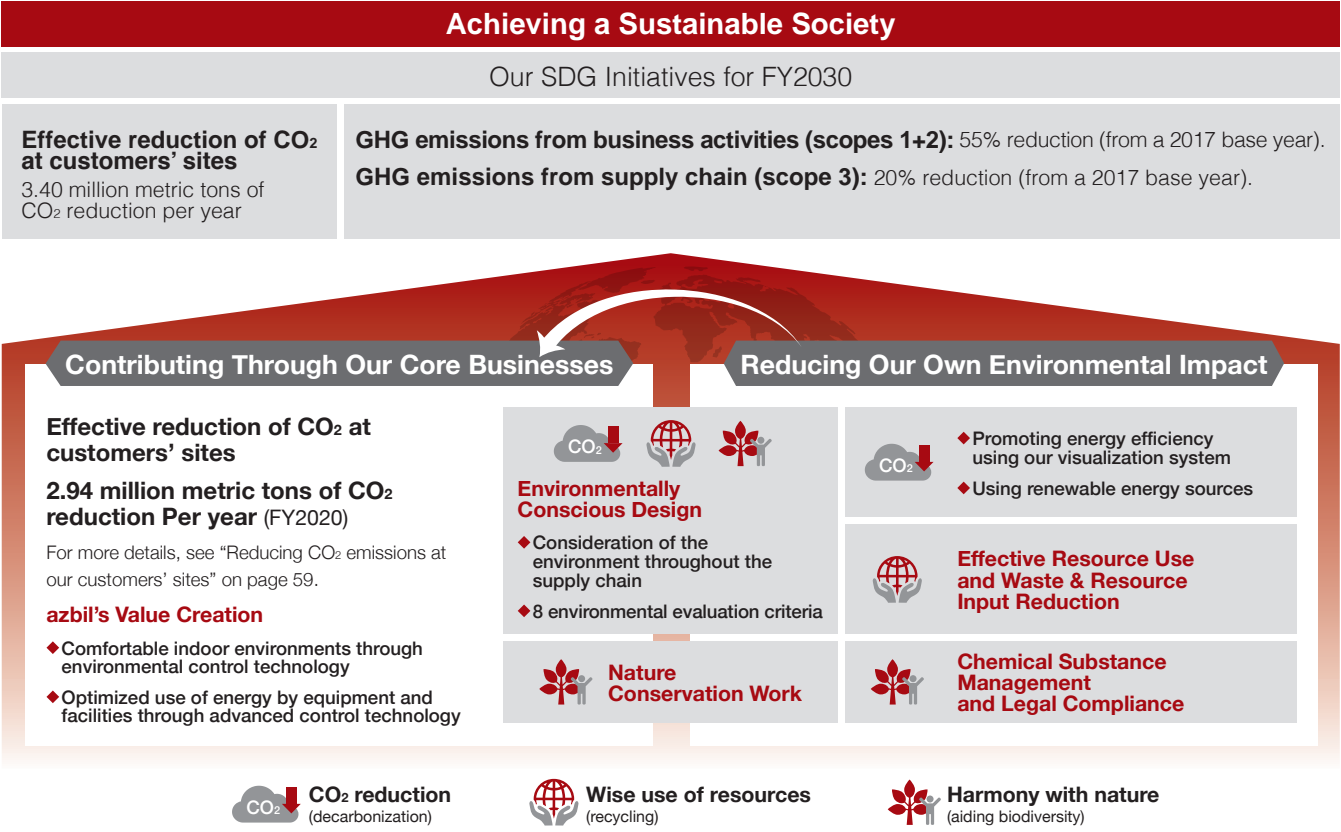
As a result of efforts to reduce our own environmental

footprint, we gain know-how that enables us to better apply our measurement and control technology so that we can assist our customers to find solutions for their environmental challenges. In that way, we help to preserve the environment through our core businesses and contribute to the achievement of a sustainable society.

System for Progress on the Environment

As a system for advancing environmental measures, the azbil Group Environmental Committee, headed by the executive officer for aG Environmental Load Innovation, meets three times a year to plan, deliberate on and review each Group company’s promotion systems while considering both risks and opportunities.

As a medium-term goal in preparation for FY2030, azbil aims to be a corporate entity that improves the Earth’s environment through unique initiatives and that is globally recognized for its environmental progressivism. To that end, we have set quantitative goals linked to our SDG initiatives that use the two-pronged approach of making contributions to the environment through our core businesses and reducing our own environmental impact.


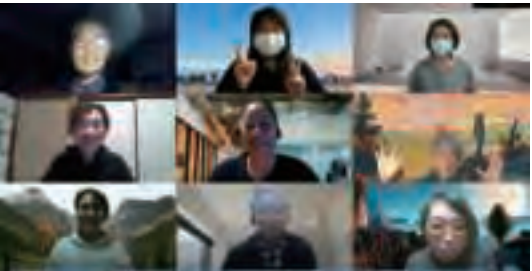


Key Policies in Medium-term Plan (FY2021–2024)

We have set medium-term policies that start in 2021 to help achieve the Group’s SDG goals. With “environmentally integrated” company management, which combines environmental action with business action, we are strengthening collabo-

ration with our business units while expanding the scope of our initiatives and making progress on the global environmental issues we have identified as priorities, namely decarbonization, resource recycling, biodiversity conservation, and promotion of environmentally conscious design for our products and services.

5 Strategic Policies

Environmentally Integrated Management Initiatives are pursued through increasing collaboration with business units Reference: pp. 59–60	The azbil Group endeavors to implement environmentally integrated management that combines environmental action with business action. The scope of our environmental initiatives is being expanded in collaboration with business units. In FY2020 we worked to make the effects of CO ₂ reduction associated with our sales plan visible as a step towards achieving our SDG target of 3.4 million metric tons of effective reduction of CO ₂ per year by 2030. We are continuing our efforts to connect the progress of CO ₂ reduction to our sales plans and increase awareness of the process.
Decarbonization Reduction of CO ₂ emissions throughout our business activities including entire supply chain Reference: pp. 59–60, p. 69	Having established a “2050 Long-Term Vision for Reducing Greenhouse Gas Emissions,” we are committed to reducing GHG emissions associated with our own business activities while also advancing product designs and solutions with decarbonization in mind, all with the aim of helping to reduce society’s GHGs. We updated the target we had set for reducing GHG emissions from our business activities from a 30% reduction (from a 2013 base year), which was certified as a 2°C target by the SBT Initiative*1 (SBTi) in 2019, to a 55% reduction (from a 2017 base year). This new target was recertified as a 1.5°C target by the SBTi in August 2021. *1. The SBT Initiative was jointly established by the CDP, United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It offers certification that a company’s CO ₂ emissions reduction targets are scientifically based. The 1.5°C target aims to hold the rise in global temperature below 1.5°C compared to the temperature level before the Industrial Revolution.
Resource Recycling • Reduction of resource input and waste output • Design for resource conservation and recycling Reference: p. 60	To reduce the amount of waste generated, we promote the 3Rs*2 striving to use less water and paper. By designing for conserving resources and recycling in our products and services, we help encourage our customers and society to circulate resources. In May 2021, the Group formulated its SDG target of “Design all new products to be 100% recyclable”. *2. An initiative that encourages the efficient use of resources in three ways: reduce (resource use), reuse, and recycle.
Environmentally Conscious Design Promotion of eco-friendly design across the azbil Group Reference: p. 70	The entire azbil Group is committed to pursuing environmentally conscious design. Working from three angles, namely reducing CO ₂ emissions, using resources wisely, and living in harmony with nature, we strive to reduce the environmental impact of our products and services across their entire life cycles.
Conservation of Biodiversity • Conservation of biodiversity through our business • Increasing our nature conservation work	As a partner in the Declaration of Biodiversity by the Japan Business Federation (Keidanren), we support the declaration’s revised action policies. As part of our specific policies to achieve a society that lives in harmony with nature, we will continue to conserve biodiversity through our business, encourage our supply chain including our business partners to undertake biodiversity initiatives, and cooperate with a number of organizations nationally and internationally to enhance our environmental protection activities. In FY2020, COVID-19 made it difficult to carry out nature conservation activities in forests with employees taking part as they had in the past, but instead we had online activities four times with a total of 50 employees participating.  An example of the explanatory material shared during an online nature conservation activity.  An online nature conservation activity with over 50 employees participating.

Decarbonization Initiatives

The azbil Group’s 2050 Long-Term Vision for Reducing GHG Emissions aims to cut GHGs emitted from our business activities (scopes 1+2)*1 to substantially zero by 2050 with the ultimate aim of achieving a carbon-neutral society. To achieve this long-term vision, we have set medium-term 2030 GHG

*1 Scope 1 refers to direct GHG emissions from owned or controlled sources (fuel combustion, industrial processes, etc.).
Scope 2 is indirect GHG emissions produced by the use of electricity, heat, or steam purchased from outside sources.
*2 A program to disclose corporate climate change risk, created by the international nonprofit organization CDP. It investigates the status of climate change initiatives carried out by participating corporations every year and officially publishes the aggregated results. It also gives each corporation an individual rating for the status of its initiatives in an eight-step evaluation with A as the highest rating.

■ Updating to Our 2030 Greenhouse Gas Emission Reduction Targets

In response to the rapid progress towards decarbonization across society, we have updated our 2030 target for reducing GHG emissions from business activity from the original 30% reduction (compared to 2013) to a 55% reduction (compared to 2017). This new target was recertified as a 1.5°C target by

2030 Greenhouse Gas Emission Reduction Targets

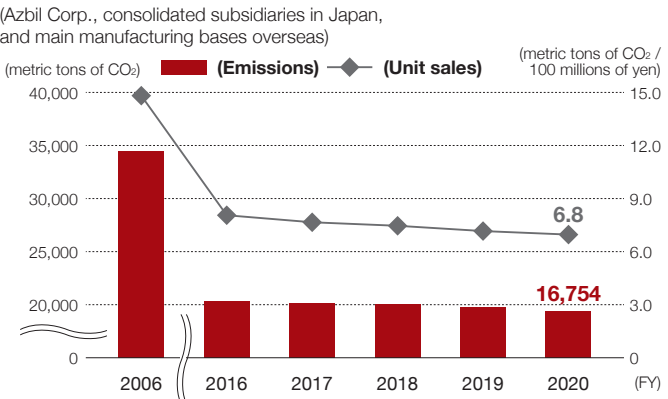
- Reduce GHG emissions from business activity (scopes 1+2) by 55% compared to 2017 [Recertified in August 2021].
- Reduce GHG emissions from the entire supply chain (scope 3)*3 by 20% compared to 2017 [Certified in May 2019].

*3: Scope 3 refers to all indirect GHG emissions related to business activities (indirect emissions not included in scopes 1 and 2).

■ Results of Initiatives in FY2020

In FY2020, CO₂ emissions from the azbil Group’s bases as a result of our own business activity (scopes 1+2) were 16,754 metric tons, down 51% from FY2006. As part of our continuous efforts to leverage the knowledge we have cultivated over many years, we have installed energy visualization systems across the azbil Group. We are also pursuing efforts to improve both our operations and our facilities while making use

CO₂ Emissions*1 (Scopes 1+2) / Unit Sales



*1 A fixed value (0.37 Kg-CO₂/kWh) is used for the CO₂ emission factor for electric power. Note also that part of the figure contains estimates such as energy for air conditioning at tenant offices.
*2 We have received third-party verification for our CO₂ emissions figures (scopes 1+2) from FY2016 onwards.

Emission Reduction Targets for our business activity and we are working on measures to cut CO₂ emissions across our entire supply chain. The azbil Group’s climate change initiatives were given a B rating by CDP’s Climate Change project*2 in 2020.

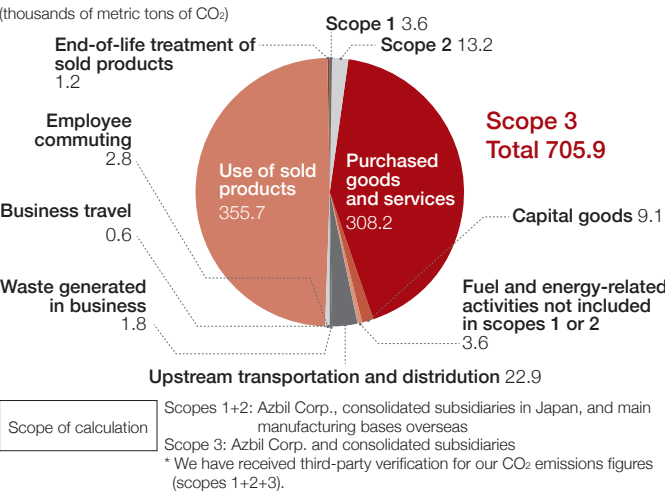
the SBT Initiative in August 2021.

To accomplish this goal, we are strengthening and expanding our in-house energy-saving efforts by applying the energy-efficiency technology cultivated by various business units, including proof-of-concept testing, and we are increasing our use of renewable energy sources. We intend to accelerate our initiatives in order to make our long-term vision a reality.

of renewable energy sources.

The CO₂ emissions from our entire supply chain (scope 3) amounted to 705.9 thousands of metric tons. Since CO₂ emissions from the use of products sold and from purchased products and services comprise over 90% of that total, we are concentrating our efforts on energy-saving design, resource-saving design, and other environmentally conscious design.

CO₂ Emissions (Scopes 1+2+3)* Status (FY2020)



Environmentally Conscious Design Initiatives for Our Products and Services

To create and provide environmentally friendly products and services, the azbil Group as a whole is committed to environmentally conscious design that seeks to reduce the environmental impact of products and services throughout their life cycle.

At the development stage, all new products undergo an environmental design assessment*1 in eight separate environment-related categories. We also conduct a life-cycle assessment that provides a comprehensive evaluation from manufacture to disposal. Products that meet our standards are classified as environmentally conscious products can be marked with the azbil Group Environment Label.*2 Products with particularly excellent evaluation results receive the azbil Group Environmentally Conscious Design Award as an incentive for developers.

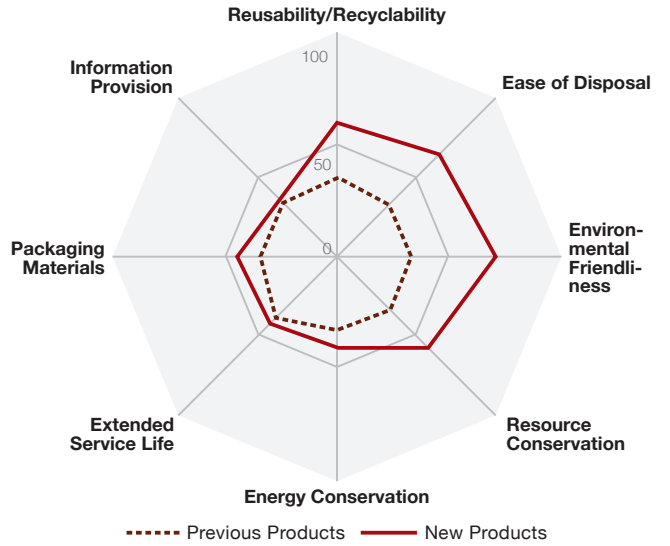
In FY2020, we devised our own indicators and set targets in resource consumption reduction and resource circulation and started making concrete efforts to achieve them. The results of the environmentally-focused designs showed a 20.6% improvement overall*3 in the environmental design assessments.

Also, in May 2021, the azbil Group added “Design all new products to be 100% recyclable” as one of the quantita-



tive targets for its 2030 SDG targets. Within the scope of the usable best available technology (BAT*4), we will create designs that can be adequately disassembled, separated and recycled by customers during disposal. Further initiatives are planned to help us promote environmentally-conscious design.

Results for Total Environmental Design Assessments (for FY2020)



*1 We carry out an original four-stage scoring process and evaluate products according to the degree of improvement in environmental performance compared with similar previous products in eight separate environment-related categories.
*2 Type II self-declared environmental labeling.
*3 A summation of the evaluation points for all products that received an environmental design assessment in FY2020.
*4 The most efficient technology that is executable from an economical and technical point of view.

Response to Water Risks

The azbil Group endeavors to understand and reduce the amount of water used by the Group’s bases and also uses WRI Aqueduct*1 to evaluate water risks at each location from a business continuity standpoint. Based on the results of the risk assessment, we recognize that we have water risks at our

China (Dalian) and Thailand bases, which account for about 20% of our total water usage.

In FY2020, the Group’s bases used 107 million liters of water, a year-on-year decrease of 18%. The azbil Group’s measures to mitigate water risk and reduce the amount of water used were rated B- by CDP Water 2020.*2

*1 Comprehensive maps provided by the World Resources Institute (WRI) about the state of water risks in all regions of the world.
*2 A disclosure program about corporate water risks, created by the international nonprofit organization CDP. It investigates the status of water-related initiatives of participating corporations every year and officially publishes the aggregated results. It also gives each corporation an individual rating for the status of its initiatives in an eight-step evaluation with A as the highest grade.

Compliance with Environmental Laws

In FY2020, there were no major legal violations by the azbil Group related to the environment, and consequently no resulting penalties, administrative fines, or lawsuits.

Quality Assurance and Safety

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

The azbil Group's Quality Assurance and Safety Assessment System

The azbil Group has established and operates a quality assurance system that works to constantly improve itself to allow its customers to use safe and secure products and services.

Based on this system, we have two corporate functions—quality assurance and safety assessment—to offer guidance and supervision of quality throughout the Group. We also ensure product safety and dependability through safety assessments.

The azbil Group's Quality Assurance Practice

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

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 guarantee the quality and safety of the products and services we provide.

Safety and Dependability of Products and Services

To make sure that customers can use our products and services safely with a sense of dependency, the Department

of Safety Assessment promotes safe designs based on our Safe Design Standards document while endeavoring to guarantee the safety of our products and services by applying the mechanisms in our safety risk assessment system.

Working towards 2030

To help achieve the SDGs, which have 2030 as their target year, the azbil Group aims for a level of quality of products and services that is both satisfying and attractive to customers and users throughout the life cycle of products and services (from understanding the customer's needs to the time of product disposal). We are also stepping up efforts to continually maintain and enhance quality of products and services to help to strengthen the azbil Group brand.

Providing Product Quality that Satisfies Users and Customers

We will further reinforce the expected quality needed to satisfy customers as we change our businesses and introduce new technologies.

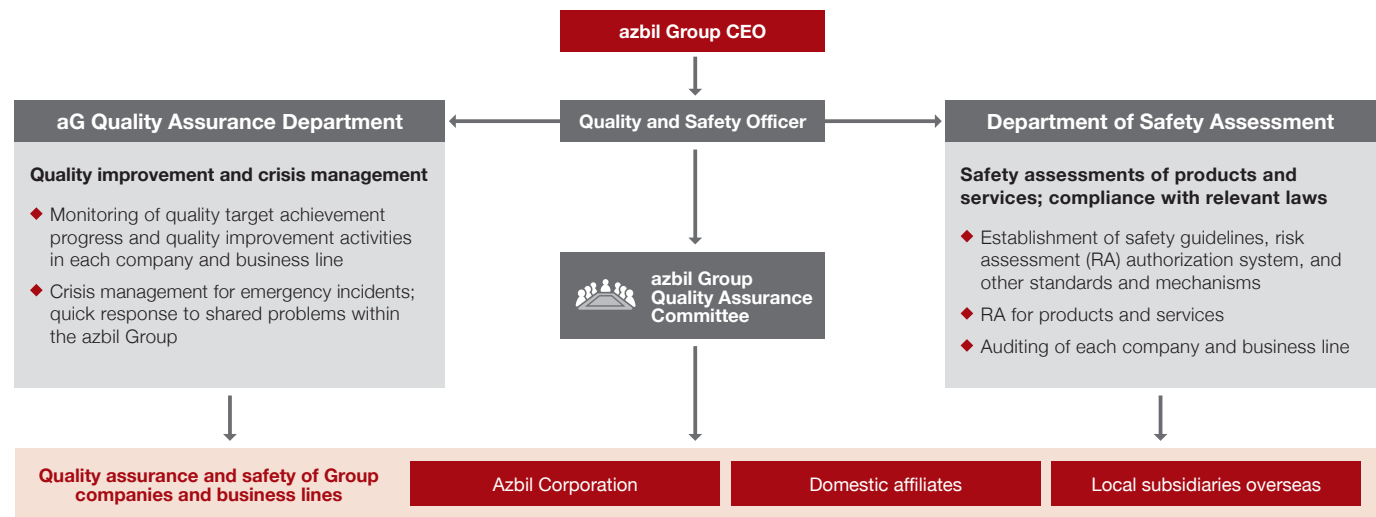
Providing Product Quality that Attracts to Users and Customers

In addition to reinforcing expected quality, we seek to break new ground in product planning and development by adding attractive quality features that appeal to customers.

Maintaining and Continuously Enhancing the Safety of Our Products (Peace of Mind)

We remain committed to maintaining our safety levels in products and services that are born from new technology and in service situations that change as people work with robots or drones.

The azbil Group's Quality Assurance and Safety Efforts



CSR Procurement

The azbil Group works with its business partners to undertake CSR-conscious purchasing activities throughout the supply chain.

Basic Procurement Policies of the azbil Group

In keeping with the azbil Group Philosophy and the azbil Group Guiding Principles, the azbil Group undertakes fair and honest purchasing activities in Japan and overseas, understanding and complying with legal regulations and acting with consideration for human rights and the environment. We ensure that our business partners understand the Basic Procurement Policies of the azbil Group as we endeavor to carry out purchasing throughout the supply chain with an awareness of our CSR.

1. Maintaining the aG's public nature and fulfilling social responsibility
2. Observance of fair commercial transactions
3. Social conduct characterized by respect for people
4. Promotion of environmental protection

Please visit the link below for more information.

web <https://www.azbil.com/corporate/procurement/policy/index.html>

The azbil Group intends to develop our CSR procurement activity in order to fulfill our CSR in the supply chain with a view to achieving our SDG goals.

In addition to topics we have already addressed, such as our efforts on green procurement, the management of chemical substances in products, and our handling of conflict minerals, in consideration of the SDGs, we are expanding our target areas to add topics that involve both the environment and society, such as climate change and labor practices.

We try to ensure that business partners are fully aware of and strictly comply with our Basic Procurement Policy and CSR Procurement Guidelines. We also encourage them to conduct even better procurement, centered on items collaborate with them to the target areas of the azbil Group's initiatives, and we work alongside with them on this as needed. We intend to evaluate these activities individually and disclose them and the results of evaluation externally in an easy-to-understand manner.

Through these new CSR-oriented procurement activities, we intend to strengthen our links with business partners and provide fresh value and contribute to society throughout our supply chain.

(Reference: Essential Goal III: Supply Chain, Social Responsibility on p. 63)

A New CSR Procurement Framework for Achieving the SDGs

We will work together with our business partners to realize shared CSR values in the supply chain with the SDGs as a common goal.

Influence on the supply chain, cooperation → **Evaluation*** (1. azbil Group self-evaluation, 2. Supplier self-evaluation) → **Publicity outside the company**

Feedback: requests and opinions from investors and shareholders

* azbil carries out a self-evaluation of its initiatives at four levels (Levels 1 to 4). Additionally, business partners are requested to answer a self-evaluation survey, which is collected and evaluated and added to create a comprehensive evaluation with a total of five levels.

Level 1	Level 2	Level 3	Level 4	Survey and analysis
Policies & Strategies Establishment/thorough dissemination of basic policies, etc	Systems & Structures Establishment of systems and structures within the Group.	Initiatives Encouragement of suppliers.	Evaluation of Effectiveness Evaluation by azbil Group of effects of initiatives and encouragement.	Survey of business partners, collection of survey to verify series of initiatives.
azbil's self-evaluation				Business partners' self-evaluations

Target Areas for CSR-Oriented Procurement		
Broad category	Intermediate category	Subcategory
E (Environment-related supply chain)	Climate change (GHG, energy)	◆Initiatives to address CO ₂ /GHG emissions and other climate change issues.
	Pollution, resources (atmosphere, waste water, hazardous waste, waste reduction, raw materials, etc.)	◆Green procurement ◆Management of chemical substances in products ◆Less use of resources ◆Less industrial waste ◆Reuse of resources ◆Use of renewable energy
	Water security, water risks	◆Less use of water, less waste water
	Biodiversity	◆Conservation
	Environmental mgmt.	◆Action in conformity with ISO14001
S (Society-related supply chain)	Labor practices	◆Elimination of child labor and forced labor, reduction of overwork ◆Equal opportunity, prohibition of discrimination ◆Promotion of diversity
	Health and safety	◆Health and safety management ◆Work-life balance, new ways of working
	Human rights	◆Respect for fundamental human rights (including rejection of antisocial forces and handling of conflict minerals)
	Community (local communities)	◆Action that encourages local development or contributes to society
	Quality, customers	◆Fair commerce (including legal compliance) ◆Quality management

HR Initiatives: Achieving Human Capital Management

(Reference: Essential Goal IV: Health and Well-Being Management, An Organization That Never Stops Learning on p. 64)

The azbil Group’s health and well-being management revolves around encouraging both work style reform and diverse personnel. In addition, we strive to transform human resources into human capital through training spearheaded by our specialized personnel training institution, Azbil Academy. Through these efforts we seek to become a corporation where all employees can display their abilities to the fullest. Through “people-focused” management based on the principle of “social conduct based on respect for human dignity” encapsulated in the azbil Group Code of Conduct, we are working on initiatives to utilize our human capital to produce sustained growth in corporate value.

Promoting Health and Well-being Management

In July 2019, we released the azbil Group Health and Well-being Declaration. It defined our overall direction as “health and well-being management,” and referred to initiatives such as new ways of working and diversity promotion that are intended to help employees stay healthy and actively engaged in their work. All azbil Group companies are transitioning from policies that merely seek to reduce risk to policies that increase job satisfaction.



Work Style Reform

To create highly satisfying work environments, we endeavor to reduce total employee working hours, create harassment-free workplace from the viewpoint of respect for fundamental human rights while also undertaking initiatives to ensure employee safety and health, maintain and increase physical and mental health, and encourage work-life improve. We conduct annual employee satisfaction surveys to learn about problems, and then incorporate the results into plans for the following year in order to improve. This helps to increase employee job satisfaction (Reference: p. 64).

Since FY2020, we have focused on expanding our options for flexible ways of working, such as telecommuting and staggered work hours, to prevent the spread of COVID-19. This has led to further changes in the way we work through the creation and enhancement of business infrastructure and DX functions related to remote working.

Promoting Diversity and Inclusion

In the azbil Group, we believe that having employees from different backgrounds who respect each other’s individuality and who utilize their talents to grow is the driving force for corporate growth. We are therefore committed to promoting initiatives with diversity and inclusion as the keywords. In FY2017 we launched our diversity promotion task force, the Azbil Diversity Network (ADN), and we are working on a variety of measures.

Azbil Diversity Network (ADN) Measures



Promoting Female Participation

To create a workplace where women play more important roles and assume positions of responsibility, we have established a rating system to evaluate our progress. It assigns points based on the number of female employees in positions of authority and their duties. Our goal is to double the FY2017 points by FY2024.

Helping Foreign Employees Succeed

As our business activities become increasingly global, we actively hire new personnel from within Japan and from overseas, including people of various nationalities and graduates of universities in other countries. We are producing employees who can succeed as core personnel by allowing them to gain work experience in other countries and interact with employees from a variety of backgrounds.

Continued Mid-Career Recruiting

Each azbil Group company recruits a certain number of mid-career employees every year. These employees can fully utilize their practical skills in a corporate culture where diversity is respected, and many of these mid-career hires are appointed to management positions in their organizations.

A Personnel System that Supports Participation by a Diverse Workforce

Working with the three concepts of continuous personnel training, maximizing the abilities of personnel, and securing sufficient personnel while helping them to live fulfilling lives, we support the success of a diverse workforce regardless of age, nationality or gender, conducting fair treatment, evaluation, and appointment for all employees based on the level of ability they display.

We have also expanded our support system so that employees can balance work with childcare, familycare, or various major life events by working in a limited geographical area, working for fewer hours per day or days per week, or by receiving leave if a spouse has been transferred overseas. Our intent is to create an environment that allows employees to work comfortably at Azbil throughout their lives.

External Evaluation

The azbil Group’s health and well-being management has received the “Kurumin” certification mark from Japan’s Ministry of Health, Labour and Welfare and was included in the Ministry of Economy, Trade and Industry’s Certified Health & Productivity Management Organizations for four years in a row as of FY2020. We were also selected for “Bloomberg’s 2021 Gender-Equality Index,” and we won the Toyo Keizai Award at the 3rd Platinum Career Awards from Mitsubishi Research Institute, Inc, in 2021.

Recruiting and Developing Personnel

The azbil Group focuses on recruiting and developing personnel who seek to help solve problems through business activity that lead “in series” to a sustainable society. As an organization that never stops learning, we also provide training, mainly through Azbil Academy.

Basic Principles of Human Resource Development

- 1. Human resources are the source of the azbil Group’s growth, so the azbil Group cannot grow unless the human resources grow.
- 2. Therefore, to optimize employee strength and organizational strength,
 - (1) Individuals: Take maximum responsibility for their own growth and development of capability
 - (2) Supervisors: Take responsibility for development of capability for subordinates in their organizations
 - (3) Companies: Support individuals and organizations by providing opportunities fairly.

Enhanced Recruitment of Development /DX Personnel

In the maturing Japanese market, we are enhancing our recruitment of personnel with product development and DX skills in response to changes in the market and in customer needs. Through the DX of our onsite engineering services, we will contribute to society and meet our customers’ expectations.

Developing Global Personnel

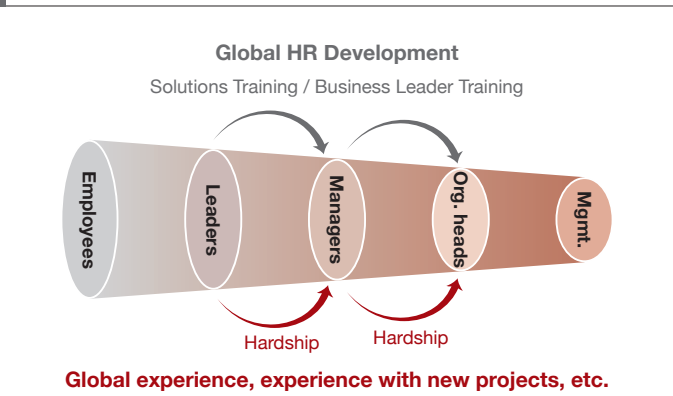
To increase our market share overseas, we are accelerating the development of personnel in Japan and overseas who can

succeed regardless of the countries or regions they are in. We have an active exchange program in which Japanese employees receive training overseas, and also employees from overseas subsidiaries undergo training in Japan.

Developing Next-Generation Leaders

In order to develop the leaders that will lead the next generation of the company, the whole azbil Group is making an effort to enhance the skills of young employees, while also providing training at leadership, management, and executive stages for mid-career and long-term workers.

Global HR Development



HR Development Rotation

We have developed mechanisms that allow employees to experience not only outside training and on-the-job training at workplaces, but also various career experiences in a range of tasks and regions. We also carry out strategic transfers and assignments to help employees build international business experience and experience with new business projects.

Creating an Environment for Developing Diverse Personnel

To help employees develop their careers, in addition to providing better career training for various age groups, we offer training for long-term workers on how to draw up a “100-year life” plan. Also, employees are interviewed by their supervisors every year for a career review and to check if they are interested in a career-building transfer. Opportunities such as the Open Challenge system for internal recruitment are also available to them.

Additionally, we are working on a unified platform with a portal where employees can learn efficiently through online lessons (e-learning) regardless of time or place.

We intend to continue providing a variety of training tools for a diverse group of personnel so that they can grow through various experiences in order to achieve the azbil Group’s SDG target of “doubling the points for promoting educational opportunities together with our various stakeholders by FY2024, and increasing the number of employees who feel a sense of growth to 65% or more by 2030.”

Intellectual Property Strategy and Brand Management

We consider our intellectual property rights to be an important management resource. As we strive to increase our brand value, we also take steps to acquire, protect, and apply those rights by means such as strengthening our global management systems for the product designs and communication tools that form our points of contact with customers.

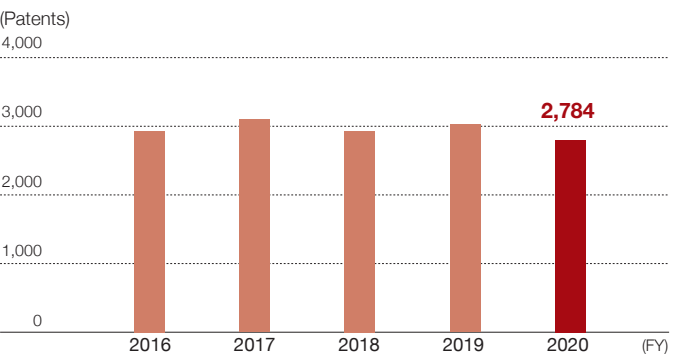
Intellectual Property Strategy

We respect the intellectual property of third parties and view our intellectual property as an important resource for maintaining and expanding existing markets and creating new businesses. We, therefore, work to acquire and protect patents, design rights, and other intellectual property rights.

More specifically, we work to support decision-making on business and R&D within our business units and research and development departments in the collaborative framework they have created. We actively mine both market data and intellectual property data in order to gain an understanding of technological trends in other companies and around the world.

We also manage our patent portfolios by business area. In areas we are looking to strengthen and in important R&D areas, we acquire intellectual property rights and strive for dominance with our eyes firmly on global expansion. At the same time, we endeavor 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	2016	2017	2018	2019	2020
Patents					
Number of applications	506	562	537	423	393
Number owned	2,902	3,049	2,911	3,016	2,784
R&D expenses (billions of yen)	10.4	11.3	11.9	11.8	11.2
R&D expenses / net sales (%)	4.1	4.3	4.5	4.5	4.5

Brand Management

To foster a unified corporate image, we have laid out Group-wide rules for the use of company names and logos, and other components of the azbil brand and have implemented them worldwide. One of our goals is to increase the azbil Group's presence in the global market and promote domestic and overseas business expansion more effectively. Thus, we are currently looking to optimize everything from our product designs to the communication tools we use to remain in contact with stakeholders.

When creating communication tools, we aim to showcase the advanced technological and problem-solving skills we display in the field while also interesting as many users as possible in sharing our desire to evolve towards the future. For our increasingly popular website and other digital tools, we give great consideration to appropriate design as well as tone of voice and style.

In the area of product design, to help realize the azbil Group's vision of "a world of automation created by human ingenuity and technology," we are establishing design guidelines, promoting the idea of human-centered design, and encouraging designers to think about design from the user's perspective. The various products developed through these efforts have been highly rated domestically and internationally and have been honored with prestigious design awards both in Japan and overseas.



A smart HART modem that won the Good Design Award and Red Dot Design Award

Compliance and Internal Control

As part of our efforts to fulfill our "basic CSR," which is our responsibility as a corporate member of society, we strive to ensure compliance and build internal control systems for the entire azbil Group throughout our operations in Japan and abroad.

Promotion System, Initiatives

■ Compliance System

The azbil Group has built an organizational compliance system where an executive officer is appointed to drive and oversee compliance efforts, as shown in the chart below. The most substantial role is played by the compliance leaders, who are responsible for instilling awareness and leading compliance in the workplace and for discovering and reporting problems to the compliance officers as quickly as possible.

Compliance System



■ Building Internal Control Systems and Complying with J-SOX

The basic policy that officers and employees are expected to adhere to is stated in the Basic Policy on Internal Control System Architecture, and we also disclose an overview of our performance. We are also strengthening efforts to comply with the Financial Instruments and Exchange Act and Internal Control Reporting System (J-SOX) and improving our accounting standards.

Maintaining and Increasing Compliance Awareness

The azbil Group conducts annual compliance training for officers and department heads inviting an external lecturer. In October 2020, we invited a lecturer specialized in CSR/SDGs for an online lecture, which was attended by 280 people. During FY2020, when COVID-19 made face-to-face training difficult, 6,844 employees attended lectures through e-learn-

ing. We also organized online training for compliance officers and leaders with in-house instructors 27 times, with 740 people participating in case discussions.

Additionally, we conduct an annual survey of all Group employees about the status of compliance within the company. The results help us to understand and extract problems that need to be tackled so that we can implement the necessary countermeasures.

Mechanisms for Employee Feedback and Problem Detection

To enhance its CSR-focused management and health and well-being management, the azbil Group has established a reporting and consultation system that allows it to quickly discover and appropriately handle compliance violations and issues that negatively affect the workplace environment.

This system is available to officers and employees (including temporary employees) working at Azbil Corporation and other Group companies. It is also open to our business partners. The system accepts reports and consultations about actions that deviate from the azbil Group Guiding Principles and Code of Conduct, including legal violations, human rights issues, improper accounting, and problems that affect the workplace environment such as harassment and violations of internal company rules. Consultation is also provided on human resource issues and employee benefits. We have created a reassuring and easy-to-use environment that accepts anonymous requests for consultation. To prevent retribution against whistleblowers and others seeking consultation, we have built protections into our labor regulations, and secrecy and confidentiality of information is guaranteed for those using the service.

Also, in Japan we set up a CSR Hotline accessible within and outside the company. It is internally accessible to azbil Group employees for consultation including personal worries and concerns. In this way, we strive to support physical and mental health and healthy lifestyles and working lives for employees.

In November 2020, the hotline was certified and registered under Japan's Consumer Affairs Agency's Whistleblower Compliance Management System (based on self-declaration of conformity).

Risk Management

To avoid losing corporate value and the trust of the public, the azbil Group strives to accurately understand and minimize risk factors having the potential for serious impact on operations.

Risk Management System

The azbil Group’s Comprehensive Risk Management Subcommittee, composed of department managers, conducts an exhaustive investigation to identify risks that may have a significant impact on operations. Following this, the azbil Group Comprehensive Risk Committee, headed by the executive officer in charge of risk management, compiles a list of risks that are especially in need of action, risks deemed important to the azbil Group, which are then deliberated on and confirmed by the Board of Directors. For the key risks, the Management Meeting and the azbil Group CSR Promotion Committee establishes systems with a PDCA cycle as a countermeasure, monitors their progress, and reports the outcomes to the Board of Directors.

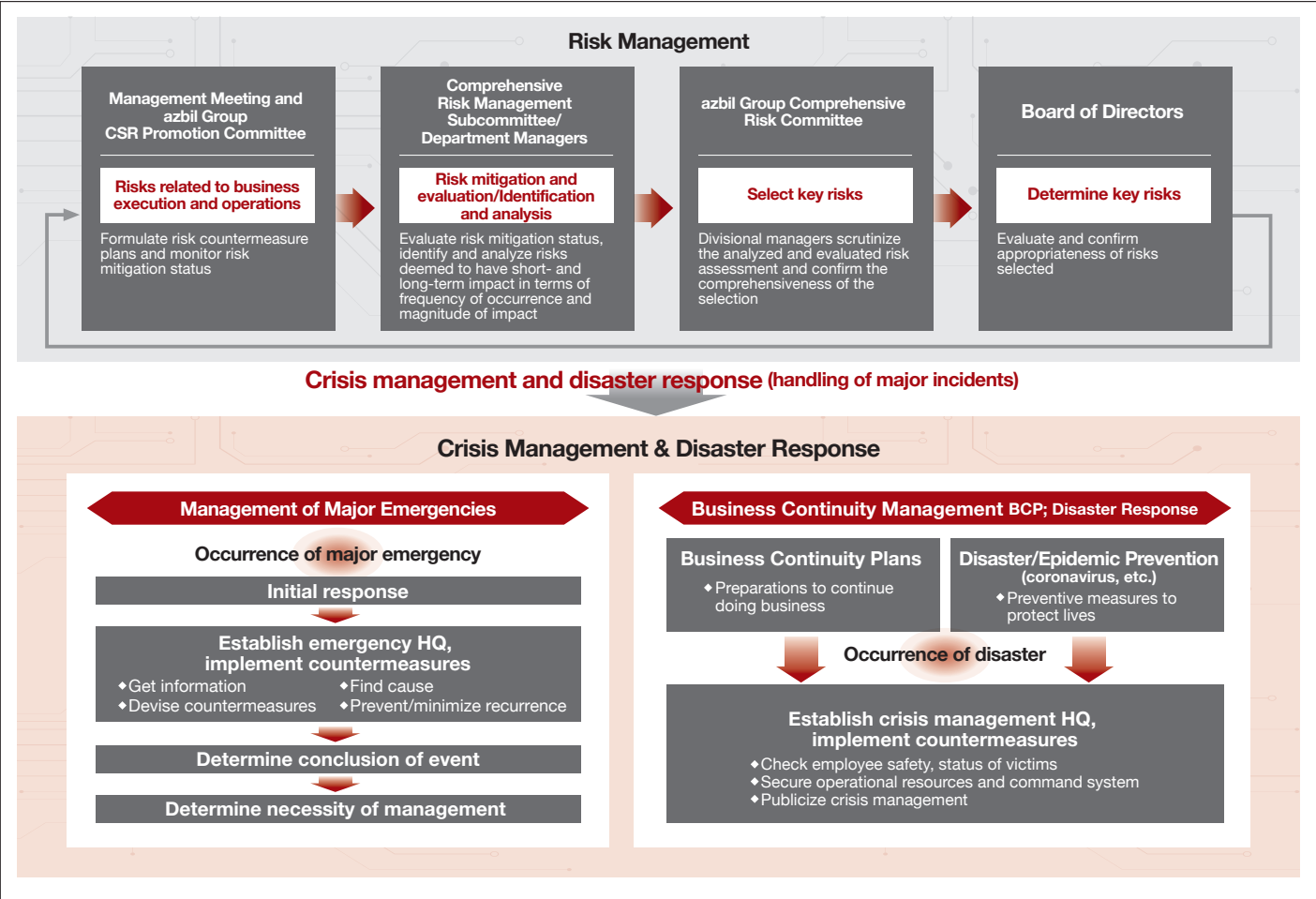
In addition to the above, the Board of Directors of each Group company determines its own important risks and implements measures to counteract them.

The azbil Group’s Risk Management

To minimize the risk from possible future events, we carefully review risks every year, identify the key risks, and construct a system for countermeasures incorporating the PDCA cycle. The state of progress is monitored within the framework of our CSR activity.

Also, we have established a crisis management response system to help us respond to crises and emergencies, with the aim of minimizing the impact of any crisis that occurs. We are also building and strengthening the response structures of our “management of major emergencies.” Furthermore, we have formulated many kinds of detailed BCP as we continuously strive to improve our systems as part of our business continuity management.

The azbil Group’s Risk Management



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 deliberated on by the azbil Group Comprehensive Risk Committee and the Board of Directors, and are managed comprehensively. In addition to this overall management, related departments also take measures to mitigate risk. Information

in the table that pertains to the future was judged by the company to be valid as of the end of FY2020. The risks that are listed are described in the 99th Annual Securities Report under “Business-Related and Other Risks.” Please refer to the securities report for details on how each potential risk was addressed and evaluated.

Category	Risk Awareness	Countermeasures and Risk Mitigation
Business environment	<ul style="list-style-type: none">Risk that changing market conditions in specific regions and key business sectors, including construction and manufacturing, may have an impact on capital investments; risk of medium- to long-term decline in demand for offices due to changes in the environment; and a major economic recession could all have an adverse impact on the Group’s operations, business results, or financial position.	<ul style="list-style-type: none">Aim for business growth by expanding life-cycle business, the demand for which is relatively stable in the event of economic fluctuation.
Growth in competitive environments	<ul style="list-style-type: none">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—or delays in launching new products, sluggish sales, and the like could affect the Group’s operations or business results.	<ul style="list-style-type: none">Upon recognizing new risks, develop new subscription models and similar offerings and engage in strategic collaboration.Develop business by forming deeper alliances (including M&As) with other companies.Make appropriate technology R&D investments and create a new organizational structure dedicated to specialized fields, such as IT solutions and cloud services; take action to verify new business models; improve systems by using the Azbil Academy personnel training organization to help train employees and help them change jobs; continue pursuing M&A opportunities; update and strengthen core information system and roll out across the Group; and take other measures to avoid delays in addressing changes in the environment and competitive disadvantages.
Product quality	<ul style="list-style-type: none">Risk that costs incurred by accidents due to defective products, systems, or services, or the resulting damage to our corporate reputation, or the effects of the aforementioned could affect the Group’s operations, business results, or financial position.	<ul style="list-style-type: none">Use a dedicated organization to check quality at the product development and manufacturing stages.Manage and improve production lines to maintain proper inspection work processes; check legal compliance statuses related to factory operation; and strengthen quality control for construction management, etc.Conduct inspections using a dedicated organization that specializes in safety in addition to checks at the design and production stages.
Global operations	<ul style="list-style-type: none">Risk that unforeseen situations, such as regional political and economic upheaval, changes to laws, and terrorism, as well as differences in business practices or the occurrence of an epidemic such as COVID-19 could affect the Group’s operations, business results, or financial position.Risk that delays in planned business expansion for reasons such as regional peculiarities 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, etc.	<ul style="list-style-type: none">Prepare disaster response, BCPs, etc. Introduce flexible ways of working such as working from home.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; and start providing services aimed at launching life-cycle business overseas.Hedge against foreign exchange fluctuations appropriately and expand overseas production to mitigate risk.
Securing and developing human resources	<ul style="list-style-type: none">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.	<ul style="list-style-type: none">Secure and allocate the personnel necessary to address changes in business structure.Take steps to establish a new personnel system.Implement measures for securing and training human resources for overseas business development tailored to the situation of each business location.
Information leaks and IT security	<ul style="list-style-type: none">Risk that leaks 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 unexpected cyber-attacks, possibly using new methods, could affect the Group’s business operations.	<ul style="list-style-type: none">Ensure confidentiality of important information and comply with laws on personal information protection (establish and implement internal regulations and educate employees)Create a strong IT environment and implement employee training.Establish a new inspection department that specializes in information security.Thoroughly enhance information security management, including support for network transmissions to entities outside the company, limits on the sending and receiving of potentially dangerous e-mail attachments, and changes to VPN methods.
Environment, climate change, natural disasters	<ul style="list-style-type: none">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 or impact the Group’s core businesses.Risk that long-term market structural changes or a decline in sales generated by customers in core businesses could affect the Group’s business results.	<ul style="list-style-type: none">Decentralize the production network to reduce the risk of concentration.Verify business continuity period without limiting it to specific events; prepare the necessary funds, product inventories and materials, personnel, and production equipment.Formulate a long-term vision to achieve “substantially zero emissions” of greenhouse gases associated with our business activities by 2050; reduce our environmental impact (obtain Science Based Targets Initiative (SBTI) certification and formulate long-term vision aimed at “substantially zero emissions”).Identify various events that may be caused by climate change and check the details of the risks and potential impact on operations, then undertake scenario analysis and respond accordingly (disclosure according to the Task Force on Climate-related Financial Disclosures framework).
Compliance	<ul style="list-style-type: none">Risk that violations of laws (antitrust laws, construction industry laws, labor laws, bribery laws, etc.), 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.	<ul style="list-style-type: none">Conduct regular monitoring in Japan and abroad to check compliance with laws and internal rules; engage in rigorous compliance education.Place top priority on legal compliance and conduct regular monitoring in Japan and overseas to check compliance; strengthen system for concluding contracts while also informing and educating all employees.
Changes in how employees work	<ul style="list-style-type: none">Risk of undesirable changes in how employees work as a result of efforts to introduce new ways of working, increased telecommuting, and support for remote work as a countermeasure for infectious disease.Risk of regulatory problems.Risk of negative effects on employee health such as mental health problems, lack of exercise, etc.	<ul style="list-style-type: none">Revise various internal rules and standards in line with changes in systems and business processes.Conduct disease prevention seminars, health promotion programs, and employee surveys, and issue alerts.

Corporate Governance

In response to the trust and expectations of the stakeholders, we not only comply with laws and regulations and our Articles of Incorporation but also execute highly transparent and efficient management based on corporate ethics.

Basic Approach to Corporate Governance

In order to earn the trust of all stakeholders, we comply with laws and regulations and our Articles of Incorporation and work to avoid any conflict with corporate ethics, while also striving to realize sustainable corporate growth and improve corporate value over the medium and long term through highly transparent and efficient management.

We also comply with Japan's Corporate Governance Code released by the Financial Services Agency and Tokyo Stock Exchange and satisfy requirements for information disclosure by publishing corporate governance reports and

integrated reports (this report) on our company website. Given the update of the code on June 11, 2021, we have revised the content of our corporate governance report accordingly to promptly reflect the new information disclosure requirements and the approach and initiatives to our sustainability policy, climate change, respect for human rights, and ensuring the diversity of our core human resources. We will continue to respond in a timely and appropriate manner to comply through disclosure in this report.

Report on Corporate Governance is available at the following: <https://www.azbil.com/csr/basic/governance.html>

Changes to Improve Corporate Governance

Strengthening of oversight and auditing	<ul style="list-style-type: none">Appointed and increased the number of independent outside directors (1 in 2007 → 2 in 2010 → 3 in 2014 → 4 in 2018 → 5 in 2019)Appointed and increased the number of independent outside Audit & Supervisory Board members (2 in 1994 → 3 in 2011)Evaluation for the effectiveness of the Board of Directors initialized (2016)Established criteria for judging the independence of outside officers (2016; revised 2020)Set an upper limit on the term of office for outside officers (2020)
Strengthening of management transparency and soundness	<ul style="list-style-type: none">Replaced the Nomination and Remuneration Meeting with the Nomination and Remuneration Committee established with independent outside directors as a majority (2016)Revised the officer remuneration system (2017)Abolished the “counselor and advisor system” (2018)Appointed an independent outside director as chairperson of the Nomination and Remuneration Committee (2018)
Clarification of responsibilities, encouragement of dialogue, etc.	<ul style="list-style-type: none">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)Published skills matrix (2021)

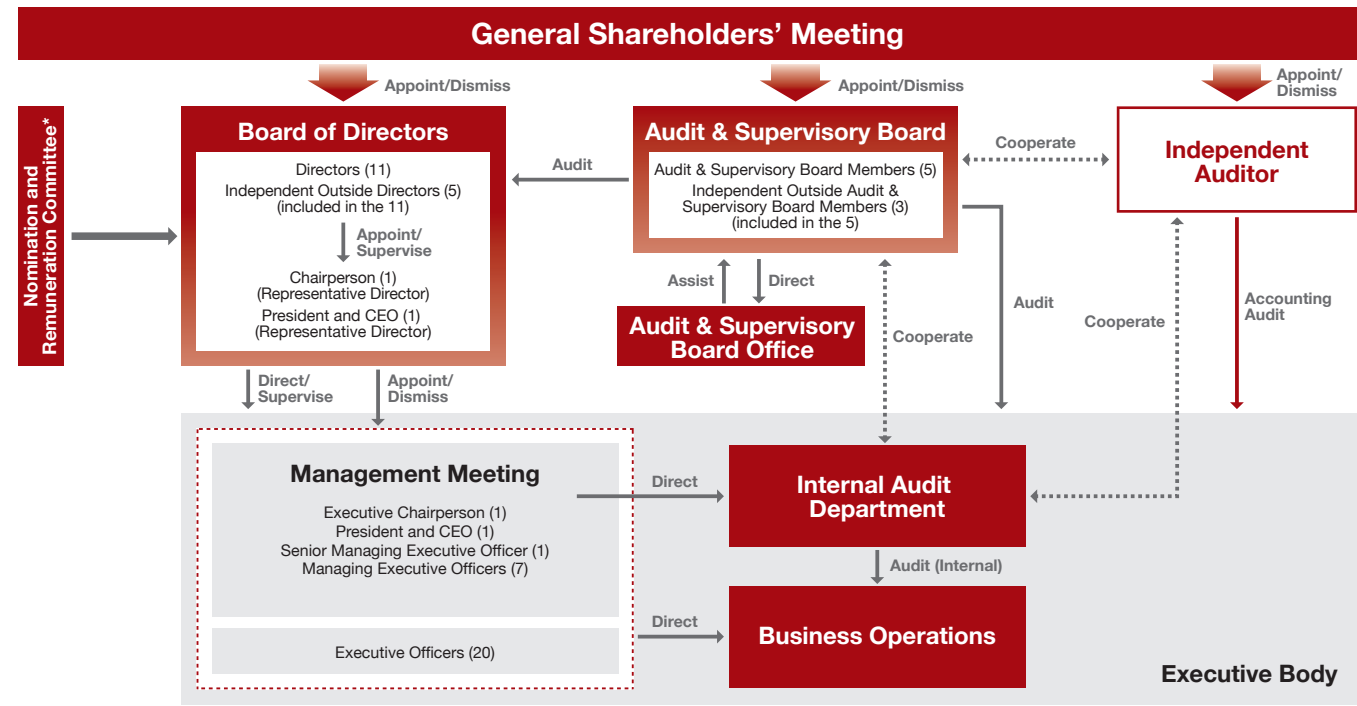
Corporate Governance Framework

We have established a corporate governance system with an Audit & Supervisory Board for its organizational design under the Companies Act. The Audit & Supervisory Board fulfills the supervisory function for the Board of Directors, and the Company's highly independent outside directors regularly interact with the Audit & Supervisory Board and its members for exchanges of opinion and other discussions to supervise the proper execution of business operations, thereby forming a governance system with effective fairness and transparency. In addition, we also disclose information in a timely manner and

have established various systems, including an effective internal control system and risk management system, to ensure transparent and fair management. 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. We have therefore transferred business execution authority to the executive body, based on the resolution of the Board, to allow business decisions to be executed in a fast and efficient manner.

Corporate Governance Structure

(As of June 24, 2021)



Board of Directors

The Board of Directors discusses and makes decisions on corporate management intending to achieve sustained growth and improved corporate value over the medium and long term as its basic mission. In particular, we regard matters related to management strategies and management plans as most important matters to be deliberated, and make appropriate decisions through open-minded and constructive discussions. As of June 2021, the Board of Directors comprises 11 members (including two women, of whom one is a foreign national.) For the details, please refer to page 85 regarding director appointments and dismissals.

Audit & Supervisory Board

Azbil is a company with an Audit & Supervisory Board. The Company elected five members to the Audit & Supervisory Board, of whom three are outside members, and two are full-time members. The Audit & Supervisory Board members carefully audit, mainly from a legal standpoint, the business decisions and operational execution by the Board of Directors and executive officers. Please refer to page 85 for details of Audit & Supervisory Board member appointments and dismissals.

Nomination and Remuneration Committee

The Company established its Nomination and Remuneration Committee as an voluntary advisory body to the Board of Directors. 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. 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.

Management Meeting

The Management Meeting comprises the managing executive officers and a representative from Audit & Supervisory Board members and meets twice a month in principle as an advisory body at the business execution level to support decision-making by the president. This allows for rapid decision-making and thorough execution, strengthening the Company's ability to drive its business forward and business management.

■ Main Activities of the Board of Directors

By separating the roles and functions of the Board Directors responsible for decision making on basic policies involved in management, issues stipulated by laws and regulations, other important matters, and supervision of the business execution and the executive officer system which takes on the role for business execution, we have established a swift execution system and strengthened the supervisory function of the status of business execution.

In principle, the Board of Directors’ meetings are held once a month. The Board meetings were held 13 times in FY2020, with full attendance by all directors and Audit & Supervisory Board members at all the meetings (Anne Ka Tse Hung, who was appointed director at the 98th Ordinary General Meeting of Shareholders on June 24, 2020, attended all 10 board meetings held after her appointment).

The Board discussed and decided on matters stipulated under the Companies Act and formulated a new medium-term plan for long-term growth and development. Upon formulating the plan, the Board of Directors held multiple rounds of discussions over plans for each business, reflecting on the direction for long-term growth by the Group, and combined this with deliberations on responding to changes in the business environment from a sustainability perspective, capturing new business opportunities, strategies for technology and R&D, and human resources strategy with the view to achieving the Company’s essential goals for the SDGs.

Main Topics for Discussion by Theme at Board of Directors’ Meetings in FY2020

Theme	Main topics
Management strategy and planning	<ul style="list-style-type: none">• Growth strategy at each business• Approach to formulating the new medium-term plan• Deliberations on new medium-term plan, etc.
Capital policy	<ul style="list-style-type: none">• Year-end dividend and dividend policy• Status of strategic shareholdings, etc.
Subsidiary management status	<ul style="list-style-type: none">• Business status reports at domestic subsidiaries• Business status reports at Chinese subsidiaries• Business status reports at Asian/North American subsidiaries
Governance	<ul style="list-style-type: none">• Evaluation of Effectiveness of Board of Directors• Compliance with Corporate Governance Code• Compliance with the Amendment of the Companies Act, etc.
Sustainability	<ul style="list-style-type: none">• CSR activity policy, reporting• Reporting on SDG initiatives, etc.

■ Evaluation of Effectiveness of Board of Directors

The Board of Directors aims to enhance the corporate value over the medium and long term through open-minded and constructive discussions.

To ensure the Board of Directors continues to fulfill its roles and responsibilities, the board identifies issues and areas requiring improvement and assesses its effectiveness each year intending to enhance the board’s effectiveness.

As in the previous year, for FY2020, the evaluations and views on the issues listed below were collected from all members of the Board of Directors and the Audit & Supervisory Board. Based on this information, the Board of Directors assessed its current effectiveness, shared information on issues, and engaged in discussions on future action.

- (1) Size and composition of the Board of Directors
- (2) Operating status of the Board of Directors
- (3) Support systems and communication with outside directors and outside Audit & Supervisory Board members
- (4) Decision-making process of the Board of Directors
- (5) Activities of the Nomination and Remuneration Committee

The results from the evaluation confirmed that 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, the composition and operation of the advisory Nomination and Remuneration Committee are appropriate; members of the board, both internal and external officers with wide-ranging experience and expertise, have a profound understanding of their roles; and members engage in open, active, and constructive discussions based on adequate communication, even when the meetings are run using online conferencing systems. As a result, we have confirmed that the Board of Directors overall is performing effectively and appropriately.

In FY2020, we formulated a new medium-term plan for long-term growth and development. Upon formulating the plan, we also held multiple rounds of discussions over plans for each business, reflecting on the direction for long-term growth by the Group, and combined this with deliberations on responding to changes in the business environment from a sustainability perspective, capturing new business opportunities, strategies for technology and R&D, and human resources strategy with the view to achieving the Company’s essential goals for the SDGs. We also conducted a self-evaluation of the appropriateness of the process for the appointment and dismissal of directors, including the replacement of the president, and evaluated the effectiveness of the Nomination and Remuneration Committee, an advisory body to the Board of Directors, which is now formed with the majority of its members being independent outside directors and chaired by an independent outside director. In addition, from the perspective of strengthening the supervision of Group management, we continue to provide detailed reports on the performance, strategy reviews and management control status of major subsidiaries.

At the same time, the Board of Directors shared and discussed the progress of the new medium-term plan, etc., and further enhanced discussions on business management and corporate governance, including compliance, etc. The members also shared the recognition that it is necessary to enhance reporting to the Board of Directors on the deliberations and decisions made by the Nomination and Remuneration Committee, as well as to expand deliberations by the Board of Directors based on the reports of the committee.

To live up to the trust of our stakeholders, achieve sustainable growth, and enhance our corporate value over the medium and long term, we will continue the efforts to enhance the effectiveness of the Board of Directors, including a more objective supervisory function.

■ Main Activities of the Audit & Supervisory Board

In principle, the Audit & Supervisory Board meeting is held once a month. In FY2020, the Audit & Supervisory Board meetings were held a total of 14 times with full attendance by all 5 members.

During this period, the Audit & Supervisory Board deliberated on the annual audit plan at the beginning of the fiscal year, submitted monthly and quarterly reports of its members’ activities through the fiscal year, submitted quarterly financial audit reports, provided the year-end evaluation of audit activities, considered key audit matters (KAM), and deliberated the assessments of the independent accounting auditor. The Audit & Supervisory Board also engaged in exchanges of opinion with the representative directors and regular information sharing with outside directors.

Additionally, an evaluation of the effectiveness of the Audit & Supervisory Board was performed at the end of the fiscal year, and in addition to reviewing the Audit & Supervisory Board’s auditing activities for FY2020, the evaluation results were reflected in the audit plan for FY2021.

■ Composition of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee serves as a voluntary advisory body to the Board of Directors that fulfills the function of both a nomination committee and a remuneration committee. 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. As of June 2021, the committee had the following members.

Name	Inside/Outside	Chairperson
Katsuhiko Tanabe	Independent Outside Director	✓
Takeshi Itoh	Independent Outside Director	
Waka Fujiso	Independent Outside Director	
Hirozumi Sone	Representative Director	
Kiyohiro Yamamoto	Representative Director	

■ Role and Authority of the Nomination and Remuneration Committee

Item	Role and Authority
Officer nomination	
Appointment	●Deliberates and decides on proposed candidates for directors, representative directors, chairperson of the Board of Directors, managing executive officers, and executive officers, and submits proposals to the Board of Directors ●Deliberates and decides on proposed candidates for the CEO and subordinate officers (president & CEO, vice president, and the like), and submits proposals to the Board of Directors
Dismissal	●Deliberates and decides on proposals relating to the dismissal of directors, representative directors, chairperson of the Board of Directors, and managing executive officers/executive officers, and submits proposals to the Board of Directors ●Deliberates and decides on proposals relating to the dismissal of the CEO and subordinate officers (president & CEO, vice president, and the like), and submits proposals to the Board of Directors
Remuneration	
Remuneration plan and remuneration system	Deliberates and decides on establishment and amendments/abolishment of remuneration plans and remuneration systems for the representative directors, directors, managing executive officers, and executive officers, and submits proposals to the Board of Directors
Remuneration limit amendments	Deliberates and decides on proposed amendments to director remuneration limits, and submits proposals to the Board of Directors
Evaluation, remuneration	●Deliberates and decides on responsibility grades, basic remuneration, individual performance evaluation, and bonus amounts for chairperson, president & CEO, directors who concurrently perform executive duties, managing executive officers, and executive officers ●Deliberates and decides on remuneration for outside directors and non-executive directors
Successor planning, successor development	
Successor development	●Creates, deliberates, decides on the overall plan for successor development ●Selects successor candidate(s), deliberates, and decides on individual development plans ●Periodically confirms progress updates on successor development

The committee also deliberates and decides on formulation/ amendments/abolishment of rules governing concurrent duties for officers, officer compensation, etc., and submits proposals to the Board of Directors.

In the deliberation and decision-making process for proposals concerning representative directors, the representative directors concerned do not participate in the deliberation and decision-making process.

■ Main Activities of the Nomination and Remuneration Committee in FY2020

In FY2020, the Nomination and Remuneration Committee met five times, with the meetings attended by all committee members. The main items discussed were as follows.

Date	Items of discussion
May 2020	●Evaluated the results of individual performance targets in FY2019 and deliberated the amounts of bonuses to be paid to individual directors who concurrently performed executive duties and executive officers ●Deliberated the basic remuneration to be paid in FY2020 to individual directors who concurrently perform executive duties and outside directors
June 2020	●Reconfirmed the duties of the committee under the new organization chaired by independent outside director Katsuhiko Tanabe ●Confirmed the outcomes from officer interviews in the successor development plan
January 2021	●Confirmed the evaluation results of the nomination process for management structure change and progress of successor development plans
February 2021	●Reported to the Board of Directors on deliberations over FY2021 executive structure and subsidiary management teams FY2021 management team decided at the Board of Directors' meeting
March 2021	●Confirmed management teams at overseas Group companies and the operational status of the global HR system ●Revised Nomination and Remuneration Committee regulations and deliberated on full-time executives taking on concurrent roles at other companies

* In May 2021, the Committee selected seven key skills expected of directors in light of the medium-term plan and other management strategies, organized them into a skills matrix, and proposed it to the Board of Directors.

Executive Remuneration

■ Basic Policy

The Company formulated its policy for the determination of individual director remuneration and other matters in 2017 and bases director remuneration decisions on this policy. Before

the enforcement of the revised Companies Act on March 1, 2021, this policy was clearly stated and confirmed at the Board of Directors' meeting held on February 26, 2021, after consulting the Nomination and Compensation Committee. The remuneration system for directors is commensurate to their

roles, responsibilities, and accomplishments, while the remuneration plan is designed to contribute to sustainable growth and enhance corporate value.

■ Composition and Approach for Executive Remuneration

Remuneration for directors who concurrently perform executive duties comprises “basic remuneration” and twice-yearly “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. The basic remuneration for directors who concurrently perform executive duties comprised three forms of remuneration: director remuneration, executive position remuneration, and executive respon-

sibility remuneration.

Furthermore, to share awareness with the shareholders and to create a continuous incentive to enhance corporate value, executive directors 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. Remuneration for Audit & Supervisory Board members comprises only basic remuneration that is fixed remuneration considering their duties and authority.

■ Remuneration of Executive Directors Who Concurrently Hold Other Positions

Basic remuneration (Monthly payments as fixed remuneration)	Director remuneration	Defined, fixed remuneration for representative directors and directors
	Executive position remuneration	Fixed remuneration for each position
	Executive responsibility remuneration	Remuneration based on the individual responsibility grade that is determined based on the level of duties, the scope of the role, and quantitative and qualitative evaluations for each fiscal year (responsibility grades are revised each year based on a review by the Nomination and Remuneration Committee)
Bonuses (Paid at specific times twice a year as performance-linked remuneration.)		

■ Performance-linked Remuneration

Directors who concurrently perform executive duties are paid a bonus in consideration of a performance evaluation and qualitative evaluation* 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 ROE in light of both profitability and capital efficiency. Furthermore, the level of growth in operating income and other factors are also set as indicators from the standpoint of working to enhance medium- to long-term corporate value. These indicators are considered in a comprehensive assessment of individual performance-linked remuneration by the Nomination and Remuneration Committee.

Operating income for FY2020 was 25.7 billion yen, compared to the target of 25.5 billion yen (on a consolidated basis).

Though the Company does not stipulate in advance the breakdown in remuneration for each of the different categories, performance-linked remuneration will account for a higher percentage of the total remuneration as the Company's performance rises or individuals make a greater contribution to company earnings.

* The evaluation will consider the degree of achievement of qualitative goals, as well as efforts in CSR activities, etc., and the development of human resources for successors, which were set at the beginning of the term, according to each role.

■ Remuneration Limits

The Company has resolved that the maximum annual remuneration for directors shall be no more than 450 million yen (for eight directors, excluding amounts paid as salaries for employees). The Company has also resolved that the maximum annual remuneration for Audit & Supervisory Board members shall be no more than 120 million yen (for five Audit & Supervisory Board members), with individual remuneration amounts determined through discussions held by the Audit & Supervisory Board members.

■ Allocations of Total Remuneration for Directors and Audit & Supervisory Board Members in FY2020 (Ended March 2021)

Classification	Total amount of remunerations paid (millions of yen)	Total amount by type (millions of yen)				Number of people remunerated
		Basic remuneration	Performance-linked remuneration	Stock options	Retirement allowance	
Directors (outside members)	446 (64)	343 (64)	103 (–)	–	–	13 (6)
Audit & Supervisory Board members (outside members)	81 (29)	81 (29)	– (–)	–	–	5 (3)
Total (outside members)	528 (94)	424 (94)	103 (–)	–	–	18 (9)

Appointment of Directors and Audit & Supervisory Board Members, and Appointment/Dismissal of CEO and Subordinate Officers

■ Appointment of Directors

The basic criteria for director candidates are 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 experience and excellent expertise and knowledge and must also have the ability to proactively express opinions and raise issues from outside perspectives and diverse backgrounds. The candidates must be appointed after we check they have no issues regarding their independence. We will utilize the skills matrix described below to appoint candidates for Board of Directors.

The Nomination and Remuneration Committee, which is an advisory body to the Board of Directors and is chaired by an independent outside director with majority of Committee member made up by independent outside directors, deliberates on these candidates before deciding at a meeting of the Board of Directors.

■ 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. Among Audit & Supervisory Board member candidates, at least one person must have extensive knowledge of finance and accounting. These 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 the final approval at the Board of Directors' meeting.

In addition, for outside Audit & Supervisory Board member candidates, our policy is to first confirm that there are no issues regarding their independence, based on the established criteria for judging the independence of outside officers.

■ Appointment/Dismissal of CEO and Subordinate Officers

Concerning the appointment and dismissal of 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 for Directors

To be appointed, candidates must have a full understanding of our corporate 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.

Criteria for Proposed Dismissal of Directors

Concerning 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.

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

The Company has formulated its 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 10 years prior to being appointed;
- 2. A person who served as an executive of the Company or a consolidated subsidiary for 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 has served as a non-executive director of the Company or a consolidated subsidiary for more than 12 years in principle*2;
- 4. A person who has served as an Audit & Supervisory Board member of the Company or a consolidated subsidiary for more than 12 year; three 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 fiscal years or receives such a payment), or who has served in such a position in the last three 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 a significant subsidiary, or who served in such a position in the last three 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 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 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 fiscal years);
- 10. A person who serves as an executive or as 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 a significant subsidiary, or who served in such a position in the last five 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 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 the 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 employees.
*2 3. and 4. above are new standards established on May 13, 2020, and will be applied to the election of future outside directors.
*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).

■ Succession Planning

Concerning 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. As explained, we ensure that succession planning is operated appropriately and objectively, and the chairperson of the Nomination and Remuneration Committee,

who is an independent outside director, reports the results of the discussions to the Board of Directors as appropriate. This system is designed to ensure that the Nomination and Remuneration Committee selects and trains successor candidates properly and objectively, and that the Board of Directors can be actively involved in succession planning with sufficient time and resources allocated for the training of successor candidates.

■ Skills Expected in Directors (Skills Matrix)

At a meeting of the Board of Directors held on May 14, 2021, the Company determined the skills, etc. expected of directors considering the Company’s management strategy, including the realization of the Company’s medium-term plan, and confirmed the independence, diversity, and expected skills of the current Board of Directors as follows.

Regarding the skill items, the Board of Directors and the Nomination and Remuneration Committee of the Company conducted an objective review considering the corporate

philosophy, business model, growth strategy, etc., and selected seven important items expected of the Directors to support growth toward the “contribution ‘in series’ to a sustainable society” outlined in the medium-term plan. Of these, “corporate management/sustainability,” “global business,” and “IT/technology/control and automation business” are particularly relevant to the Group’s sustainable growth over the medium and long term.

Of the 11 directors, two are women (one of whom is a foreign national).

■ Skills Expected in Directors (Skills Matrix)

Name (age)	Current position(s)	Independence	Diversity	Expected skills						
		Independent officer	Gender	Corporate management/Sustainability*	Global business	Financial affairs, accounting, finance	IT, technology/Control, and automation business	Sales, marketing	Manufacturing, research, and development	Legal, risk management, compliance
Hirozumi Sone (66)	Representative Director Executive Chairperson Chairperson of the Board Nomination and Remuneration Committee Member		M	✓			✓	✓		✓
Kiyohiro Yamamoto (56)	Representative Director President & CEO Nomination and Remuneration Committee Member		M	✓	✓		✓	✓	✓	
Takayuki Yokota (60)	Director Senior Managing Executive Officer		M	✓	✓	✓				✓
Masato Iwasaki (61)	Director Managing Executive Officer		M				✓	✓	✓	
Yoshimitsu Hojo (58)	Director Managing Executive Officer		M			✓	✓	✓	✓	
Kazuyasu Hamada (57)	Director Managing Executive Officer		M		✓		✓	✓		
Katsuhiko Tanabe (78)	Outside Director Nomination and Remuneration Committee Chairperson	✓	M	✓						✓
Takeshi Itoh (77)	Outside Director Nomination and Remuneration Committee Member	✓	M		✓	✓				
Waka Fujiso (72)	Outside Director Nomination and Remuneration Committee Member	✓	F	✓						✓
Mitsuhiro Nagahama (67)	Outside Director	✓	M	✓	✓	✓				
Anne Ka Tse Hung (57)	Outside Director	✓	F		✓					✓

* “Corporate management/sustainability” includes human resources and personnel development from the viewpoint of sustainability.

Comment by an Outside Director

Azbil corporate governance, present and future



Mitsuhiro Nagahama
Outside Director

Azbil is working to strengthen and enhance corporate governance and has developed a good reputation with external parties as a result. Here, I would like to talk about the Board of Directors that is at the heart of the Company’s governance framework.

In FY2019, the Company increased the proportion of outside directors on the Board such that five of the 11 members are independent outside directors. In FY2020, we have made further progress from the perspective of diversity, with two women serving as directors, one of whom is a foreign national.

To ensure the Board’s deliberations are effective, briefings are held before every Board meeting to discuss agenda items and help participants have a full understanding of the issues in advance. Regular opportunities are also provided for information sharing between outside directors and Audit & Supervisory Board members and exchanges of opinion among representative directors, outside directors, and outside Audit & Supervisory Board members. We are also actively implementing various other measures to improve the effectiveness of the Board of Directors, including creating opportunities separate from the Board of Directors’ meetings for free discussions on strategy among the Board members. The participants always engage in lively discussions at the Board of Directors’ meetings and the various other meetings described above. Both the outside directors and the outside Audit & Supervisory Board members have a broad range of expertise and business experience in a diverse array of fields, and

therefore create significant added value through their multifaceted approach to discussions.

The Nomination and Remuneration Committee is chaired by an independent outside director and the majority of members are independent outside directors to ensure that the decision-making processes for officer nomination and remuneration are fair, objective, and transparent. Like the Board of Directors’ meetings, this Committee engages in substantial deliberations.

While it is true that the spread of COVID-19 has led to major constraints on corporate governance, we still strive to ensure deliberations of a high caliber, employing, in tandem, a web conference system—featuring robust IT security—for the Board of Directors’ meetings, briefings, and other meetings. We believe that this arrangement means that our deliberations maintain an adequate level of effectiveness.

In the new post-COVID paradigm, sustainability (including ESG matters) will be the most important factor to increase corporate value over the medium and long term. The Company has developed strategies that contribute “in series” to achieving the SDGs, with the twin goals of solving social issues and achieving sustained growth. Our founder’s original idea was to “free people from drudgery,” and that spirit aligns with the true aim of the SDGs. We will continue to focus on advancing corporate governance as the key foundation for our business, all the while based on our Group philosophy and the corporate DNA since its establishment, to drive forward into the future.

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

(As of June 24, 2021)



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 Finance and Business Management, 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.)
Jun 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)



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 Senior 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



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
May 2018 Managing Executive Officer, General Manager of Life Science Engineering Department (Present post)
Apr 2021 Head of Home Comfort Headquarters (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, 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)



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 KUFARAY Co., Ltd. (Present post)
Mar 2019 Outside Director of Tokyo Tatemono Co., Ltd.
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.
Jun 2020 Outside Director of NSK Ltd. (Present Post)
Mar 2021 Retired from Outside Director of Tokyo Tatemono Co., Ltd.



Outside Director
Anne Ka Tse Hung

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)

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) Digital Transformation Promotion, aG Information Security, aG Cyber Security, Information Systems Department, Cloud Operation Center, IT Development Headquarters, Cyber Security Office, Head of IT Development Headquarters

Junya Nishimoto

Responsible for aG Research and Development, Product Safety/Quality/Environment, Smart Robot, aG Environmental Load Innovation, Technology Development Headquarters, Technology Standardization Department, Valve Production Development Department, Environment Promotion Department, Document Production 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 (in three growth fields), Service Business, Service Headquarters, IT Solution Department, AI Solution Department, General Manager of Advanced Automation (AA) SS Business*1

Executive Officers

Masashi Hirano

Responsible for Smart Robot Business Development

Takahiro Sakamoto

Head of Technology Development Headquarters

Toshiyasu Sumitomo

Responsible for aG Marketing Support

Takashi Imamura

Head of Production Management Headquarters

Masatoshi Yamada

Head of Group Management Headquarters

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

Toshihisa Murayama

Responsible for Building Automation International Business, Head of BSC Marketing Headquarters, Promotion Member of Strategic Planning & Development Office for Southeast Asia

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

Tetsuo Kobayashi

Head of Advanced Automation Company (AAC) Business Development Headquarters, Promotion Member of Strategic Planning & Development Office for Southeast Asia

Masahiko Fujikawa

Responsible for aG Quality and Safety Enhancement General Manager of Department of Safety Assessment, General Manager of aG Quality Assurance Department

Akiko Sekino

General Manager of Legal & Intellectual Property Department

Yukiya Kitaura

Responsible for aG Service Business Support, BSC Environmental Solution Headquarters, Head of BSC Facility Management Headquarters

Takashi Igarashi

Responsible for aG Work Style Creation Support, Manager of AAC Tokyo Head Office

*1. Solution and Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

*2. Control Product business (supplying factory automation products such as controllers and sensors)

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

Communication with Stakeholders that Connects to Co-creating Value

The azbil Group aims to contribute “in series” to the achievement of a sustainable society through its businesses. To accomplish this goal, it is extremely important to comprehend various issues in each country and region, propose solutions, and co-create value toward sustainable growth through interactive communication with our stakeholders. From this perspective, management promotes proactive dialogue and works to create more transparent and trusting relationships with our stakeholders. Recently, we used the opportunity of the an-

nouncement of new long-term targets and a new medium-term plan to explain the azbil Group’s direction and the value that our unique automation creates. We have also been working proactively to disclose non-financial information including matters related to ESG and the SDGs, and pursuing creative disclosure methods including remote disclosure using IT and DX to ensure that comprehensive information is delivered appropriately even during the COVID-19 pandemic.

System to Co-create Value and Initiatives to Enhance Dialogue

The azbil Group has appointed an executive officer in charge of corporate communication who is putting in place systems to facilitate dialogue with stakeholders in partnerships with various departments within the Group. Through this system, we disclose fair and highly transparent disclosure of information in accordance with laws and regulations. In addition to financial information, we also proactively disseminate non-financial information including the management plan, ESG initiatives, and product and service information.

Specifically, we promote expanded disclosure including the skills matrix to reflect the intentions of revisions to the Corporate Governance Code and the Companies Act. Regarding the disclosure of non-financial information including ESG issues such as climate change and human rights, which have strong interest from capital markets, we are improving disclosure in our integrated report and on our website. We also actively work to expand and improve communication opportunities, including our President and Group Chief Executive Officer giving a presentation on

our Group initiatives at Nikkei SDGs Festival and participating in exhibitions and speeches on the SDGs and ESG issues at trade shows and environmental seminars.

As for appropriate choice of information delivery to each of our stakeholders, we use various methods including the Tokyo Stock Exchange’s Timely Disclosure network (TDnet), our website, press releases in newspapers, and other media, and exhibitions and facilities tours using digital content. When disclosing information, in addition to accuracy and quality, we work to build our global brand through unified design imaging and copywriting.



President and Group CEO Yamamoto speaking at the Nikkei SDGs Festival and presenting materials on SDG initiatives

Even During the COVID-19 Pandemic, Continuing to Engage in Appropriate Communications

We expanded disclosure opportunities and maintained fairness by live-streaming our general shareholders’ meeting and financial results briefings online. At our general meeting of shareholders, we worked to ensure prompt disclosure and utilized our voting rights exercise platform. Additionally, at the 99th Ordinary General Meeting of



We conducted the 99th Ordinary General Meeting of Shareholders (on June 24, 2021) by utilizing the internet. Officers who spoke at the meeting participated from Japan and overseas through an online conferencing system.

Shareholders in 2021, to ensure social distancing, we continued to use our online conferencing system for officers’ participation and maintained transparency and fairness in our disclosure even amid the COVID-19 pandemic by live-streaming the contents of the meeting. In our financial results briefings, we provided disclosure of our medium-term plan, and at press conferences, we provided similar online briefings and Q&A sessions, working to ensure and improve the quality of dialogue.

We created opportunities for dialogue globally and improved digital content through online exhibitions and virtual facilities tours.

Exhibitions are the best opportunities to showcase of the azbil Group’s technologies, products, and services. Amid the COVID-19 pandemic, when participating in large exhibitions in

Japan and overseas, we engaged in meticulous operations with the safety of our customers in mind. We also provided exhibition booths in virtual spaces, allowing the same content to be viewed online. Through this initiative, customers were able to view the exhibition content and participate in seminars from anywhere in the world. We also provided virtual tours of the Fujisawa Technology Center, our R&D base in Japan, and the showroom at the Strategic Planning & Development Office for Southeast Asia in Singapore.



Virtual showroom in Singapore. Virtual showroom tours are possible from anywhere at any time. We plan to further expand the digital content that promotes understanding of the azbil Group’s capabilities.

Details of Stakeholder Dialogues (Initiatives and Communication Methods)

	Initiatives	Communication Methods
Customers	Developing better products and services, providing consulting, quality assurance, high value-added engineering, and maintenance services	<ul style="list-style-type: none">• Sales and quality assurance activities• Offering safe, dependable, and valuable products and services• Providing information through our website• Establishing an inquiry form on our website• Exhibitions
Shareholders and Investors	Timely and appropriate information disclosure; acquiring appropriate valuations, and providing feedback to the demands from the capital markets	<ul style="list-style-type: none">• General shareholders’ meetings, financial results briefings, facilities tours, and exhibitions (including live streaming)• Individual meetings with Japanese and overseas institutional investors and analysts (management participation, establishing the IR Office as a dedicated organization, and shifting to online meetings from FY2020)• Information disclosure through the integrated report (azbil report), business reports, and information disclosure on the Company’s website Investor Relations page for shareholders and investors• Establishment of a disclosure policy and dialogue based on the policy
Business partners and suppliers	Ensuring opportunities for fair transactions and building good partnerships	<ul style="list-style-type: none">• Communication through our purchasing operations and our CSR procurement survey• Establishing the azbil Group’s targets for the SDGs in our supply chain (Reference: p. 63)
The local and international communities	Proactive communication to respond to the needs and expectations of the local and international communities. Through various declarations, initiatives, and activities, we are engaged in responsible corporate activities	<ul style="list-style-type: none">• Invitations to seasonal events (such as summer evening festivals hosted by the Company) *Currently, the events have been postponed due to the COVID-19 pandemic• Volunteer activities (community cleanup activities, azbil Honey Bee Club)• Participation in international initiatives (UN Global Compact, TCFD, and others)• Biodiversity conservation initiatives (cooperation with Japanese and international NPOs and NGOs)
Employees	Toward our goal of “health and well-being management,” we have built various systems and promote internal communications to enable all employees to work comfortably and exercise their full potential	<ul style="list-style-type: none">• Information dissemination through the intranet and Group newsletter• Direct dialogue between officers and employees (global live streaming of messages from the president, Q&A sessions, and online dialogue on an individual workplace level)• Implementing an annual employee satisfaction survey and establishing satisfaction levels as a target for the SDGs (Reference: p. 64)• Regular dialogue between the labor union and management and issuance of joint declarations

Main Declarations and Initiatives in Which We Have Participated and Supported, External Evaluations

Participation and support for declarations and initiatives

- Declaring our support for the Task Force on Climate-related Financial Disclosures (TCFD)
- Signing the United Nations Global Compact
- Climate Change Initiative and the Japan Climate Leaders’ Partnership Endorsement

Status of inclusion in ESG indices and various external evaluations

- Four indices chosen by the Government Pension Investment Fund (GPIF): FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index (WIN), S&P/JPX Carbon Efficient Index
- 2021 Bloomberg Gender-Equality Index
- CDP Climate Change (B valuation) / Water (B-valuation)
- Received the highest level for the *Eruboshi* certification, which recognizes leading companies based on the Act on Promotion of Women’s Participation and Advancement in the Workplace; Acquired *Kurumin* certification; Certified as a Health & Productivity Management Outstanding Organization in 2021; Awarded the Toyo Keizai Award at the 3rd “Platinum Career Awards” in 2021.

Status of inclusion in other indices

- FTSE4Good Japan Index, MSCI Japan Index, JPX-Nikkei Index 400



11-Year Key Financial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

(Millions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Financial information											
Financial Results (for the year):											
Net sales	219,216	223,499	227,585	248,417	254,469	256,890	254,811	260,384	262,055	259,411	246,821
(Overseas sales)* ¹		19,837	22,956	46,135	46,756	48,991	43,380	45,797	46,710	44,195	44,888
Gross profit	79,714	80,840	77,872	86,550	89,884	91,089	91,492	97,481	102,338	103,642	99,369
Selling, general and administrative expenses	64,818	66,492	64,461	72,646	74,546	73,953	71,347	73,454	75,648	76,386	73,649
Operating income	14,896	14,348	13,411	13,904	15,337	17,136	20,145	24,027	26,690	27,256	25,720
Net income attributable to owners of the parent	7,928	8,519	8,309	7,669	7,169	8,268	13,154	17,890	18,951	19,793	19,918
Capital expenditure	3,351	3,010	3,121	5,303	6,302	3,413	4,160	7,038	6,363	4,934	5,039
Depreciation	4,460	4,027	3,621	3,723	3,785	4,148	4,075	4,112	4,167	4,462	4,484
R&D expenses	8,953	8,816	7,824	8,767	10,124	11,012	10,446	11,262	11,897	11,788	11,182
Cash Flows (for the year):											
Net cash provided by operating activities	15,223	5,634	15,010	15,836	13,698	11,073	19,949	19,481	16,111	29,812	22,602
Net cash provided by (used in) investing activities	(2,276)	(3,549)	(12,716)	(10,670)	(13,472)	4,262	(9,061)	(48)	(4,075)	(4,171)	284
Free cash flow	12,947	2,085	2,294	5,166	226	15,334	10,889	19,433	12,036	25,641	22,886
Net cash used in financing activities	(8,001)	(6,393)	(2,487)	(6,940)	(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	(18,768)	(6,996)
Financial Position (at year-end):											
Total assets** ²	217,501	223,476	243,419	253,448	265,719	259,127	263,317	273,805	275,518	274,559	284,597
Interest-bearing debt	11,848	10,230	17,920	17,687	16,673	12,605	11,175	10,686	10,028	8,576	9,350
Shareholders' equity	129,605	133,565	139,042	143,316	158,273	155,006	163,822	175,996	181,143	183,190	198,191
Net assets	131,362	135,077	141,197	144,978	160,294	156,966	165,752	177,963	183,098	185,302	200,608
Per Share Data*³:											
Net income (yen)	53.67	57.67	56.25	51.93	48.53	56.36	89.78	123.08	132.03	140.80	142.77
Net assets (yen)	877.43	904.24	941.33	970.28	1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	1,313.17	1,420.52
Cash dividends (yen)	31.50	31.50	31.50	31.50	31.50	33.50	38.50	41.00	46.00	50.00	55.00
Financial Ratios:											
Gross profit/Net sales (%)	36.4	36.2	34.2	34.8	35.3	35.5	35.9	37.4	39.1	40.0	40.3
SG&A expenses/Net sales (%)	29.6	29.8	28.3	29.2	29.3	28.8	28.0	28.2	28.9	29.4	29.8
Operating income/Net sales (%)	6.8	6.4	5.9	5.6	6.0	6.7	7.9	9.2	10.2	10.5	10.4
R&D expenses/Net sales (%)	4.1	3.9	3.4	3.5	4.0	4.3	4.1	4.3	4.5	4.5	4.5
Shareholders' equity/Total assets (%)** ²	59.6	59.8	57.1	56.5	59.6	59.8	62.2	64.3	65.7	66.7	69.6
Return on equity (ROE) (%)	6.2	6.5	6.1	5.4	4.8	5.3	8.3	10.5	10.6	10.9	10.4
Dividend on equity (DOE) (%)	3.6	3.5	3.4	3.3	3.1	3.1	3.5	3.5	3.7	3.9	4.0
Dividend payout ratio (%)	58.7	54.6	56.0	60.7	64.9	59.4	42.9	33.3	34.8	35.5	38.5
Debt-equity ratio	0.09	0.08	0.13	0.12	0.11	0.08	0.07	0.06	0.06	0.05	0.05
Non-Financial Information											
CO ₂ emissions (scopes 1+2) (metric tons of CO ₂)* ⁴	26,678	23,549	22,890	22,295	21,577	20,650	20,242	19,610	19,125	18,130	16,754
Number of employees (people)	8,215	8,331	9,585	9,712	9,408	9,464	9,290	9,328	9,607	9,897	10,003
Number of domestic employees	7,063	7,056	7,085	7,026	6,679	6,551	6,463	6,444	6,618	6,862	6,856
Number of overseas employees	1,152	1,275	2,500	2,686	2,729	2,913	2,827	2,884	2,989	3,035	3,147
Number of female employees in managerial or specialist positions (people)	22	23	29	33	35	40	47	52	58	61	71
Ratio of female employees in managerial or specialist positions (%)	2.1	2.1	2.6	3.0	3.2	3.6	4.2	4.5	4.9	5.1	5.8
Ratio of employees with disabilities to total workforce (%)** ⁵	1.93	2.19	2.08	2.10	2.11	2.20	2.18	2.26	2.29	2.35	2.32

*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.

*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 2012 and Azbil TA Co., Ltd. from 2016 were consolidated as group companies.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 90,653	¥ 74,744	\$ 816,691
Marketable securities (Note 4)	12,200	13,700	109,910
Notes and accounts receivable:			
Trade (Note 13)	82,143	85,245	740,023
Other	1,987	1,746	17,897
Allowance for doubtful receivables	(369)	(376)	(3,325)
Inventories (Note 5)	24,514	25,339	220,847
Prepaid expenses and other current assets	8,472	8,792	76,326
Total current assets	219,600	209,190	1,978,369
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,411	6,708	57,761
Buildings and structures	41,417	47,638	373,123
Machinery and equipment	18,520	18,601	166,850
Furniture and fixtures	20,233	20,263	182,275
Lease assets (Note 12)	2,742	2,337	24,698
Construction in progress	825	462	7,437
Total	90,148	96,009	812,144
Accumulated depreciation	(63,086)	(67,791)	(568,341)
Net property, plant and equipment	27,062	28,218	243,803
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 13)	22,215	19,865	200,139
Investments in and advances to unconsolidated subsidiaries and associated companies	659	336	5,936
Deposits	3,059	2,952	27,562
Deferred tax assets (Note 9)	2,382	4,287	21,468
Software	4,144	4,165	37,330
Other assets	5,476	5,546	49,333
Total investments and other assets	37,935	37,151	341,768
TOTAL	¥ 284,597	¥ 274,559	\$ 2,563,940

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 13)	¥ 8,997	¥ 8,197	\$ 81,053
Current portion of long-term debt (Notes 6 and 13)	462	433	4,160
Notes and accounts payable:			
Trade (Note 13)	31,951	38,482	287,855
Other	2,521	1,751	22,713
Income taxes payable	6,071	6,699	54,690
Accrued bonuses	9,989	10,830	89,989
Other accrued expenses and current liabilities	16,468	16,284	148,367
Total current liabilities	76,459	82,676	688,827
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 13)	1,749	1,611	15,752
Liability for retirement benefits (Note 7)	1,830	2,322	16,491
Deferred tax liabilities (Note 9)	181	181	1,633
Provision for stock payment	1,635	1,319	14,730
Other long-term liabilities	2,135	1,148	19,234
Total long-term liabilities	7,530	6,581	67,840
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
EQUITY (Note 8):			
Common stock—authorized, 559,420,000 shares; issued, 145,200,884 shares	10,523	10,523	94,799
Capital surplus	11,671	11,671	105,142
Retained earnings	177,900	165,055	1,602,706
Treasury stock—at cost, 5,681,473 shares in 2021 and 5,699,112 shares in 2020	(13,709)	(13,740)	(123,505)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	11,108	8,843	100,074
Deferred gain (loss) on derivatives under hedge accounting	25	(28)	223
Foreign currency translation adjustments	699	893	6,300
Defined retirement benefit plans	(26)	(27)	(237)
Total	198,191	183,190	1,785,502
Noncontrolling interests	2,417	2,112	21,771
Total equity	200,608	185,302	1,807,273
TOTAL	¥ 284,597	¥ 274,559	\$ 2,563,940

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥ 246,821	¥ 259,411	\$ 2,223,613
COST OF SALES	147,452	155,769	1,328,395
Gross profit	99,369	103,642	895,218
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	73,649	76,386	663,503
Operating income	25,720	27,256	231,715
OTHER INCOME (EXPENSES):			
Interest income	131	168	1,184
Dividend income	546	599	4,928
Interest expense	(136)	(142)	(1,225)
Foreign currency exchange gain (loss)	92	(128)	826
Gain (loss) on sales of property, plant, equipment and others—net	196	(46)	1,762
Gain on sales of investment securities—net (Note 4)	1,486	776	13,388
Loss on impairment of long-lived assets		(22)	
Loss on abolishment of retirement benefit plan (Note 7)		(243)	
Loss on valuation of shares of subsidiaries and associates		(42)	
Others—net (Note 10)	(26)	(41)	(239)
Other income (expenses)—net	2,289	879	20,624
INCOME BEFORE INCOME TAXES	28,009	28,135	252,339
INCOME TAX EXPENSE (Note 9):			
Current	6,722	7,620	60,561
Deferred	890	313	8,020
Total income tax expense	7,612	7,933	68,581
NET INCOME	20,397	20,202	183,758
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(479)	(409)	(4,312)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,918	¥ 19,793	\$ 179,446
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥ 142.77	¥ 140.80	\$ 1.29
Cash dividends applicable to the year	55.00	50.00	0.50

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥ 20,397	¥ 20,202	\$ 183,758
OTHER COMPREHENSIVE INCOME (Note 16):			
Unrealized gain (loss) on available-for-sale securities	2,265	(884)	20,401
Deferred gain (loss) on derivatives under hedge accounting	53	(33)	484
Foreign currency translation adjustments	(170)	(58)	(1,540)
Defined retirement benefit plans	(9)	64	(78)
Total other comprehensive income	2,139	(911)	19,267
COMPREHENSIVE INCOME	¥ 22,536	¥ 19,291	\$ 203,025
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 22,044	¥ 18,897	\$ 198,592
Noncontrolling interests	492	394	4,433

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2021

	Thousands	Millions of Yen				Millions of Yen						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Noncontrolling Interests	Total Equity
						Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
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, ¥48 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
Net income attributable to owners of the parent				19,918						19,918		19,918
Cash dividends, ¥50 per share				(7,073)						(7,073)		(7,073)
Purchase of treasury stock	(1)				(6)					(6)		(6)
Disposal of treasury stock	19				37					37		37
Retirement of treasury stock												
Transfer from retained earnings to capital surplus												
Net change in the year						2,265	53	(194)	1	2,125	305	2,430
BALANCE, MARCH 31, 2021	139,520	¥ 10,523	¥ 11,671	¥ 177,900	¥ (13,709)	¥ 11,108	¥ 25	¥ 699	¥ (26)	¥ 198,191	¥ 2,417	¥ 200,608

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity Year Ended March 31, 2021

	Thousands of U.S. Dollars (Note 1)				Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Noncontrolling Interests	Total Equity
					Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, MARCH 31, 2020	\$ 94,799	\$ 105,142	\$ 1,486,989	\$ (123,787)	\$ 79,673	\$ (261)	\$ 8,045	\$ (244)	\$ 1,650,356	\$ 19,028	\$ 1,669,384
Net income attributable to owners of the parent			179,446						179,446		179,446
Cash dividends, \$0.45 per share			(63,729)						(63,729)		(63,729)
Purchase of treasury stock				(57)					(57)		(57)
Disposal of treasury stock				339					339		339
Retirement of treasury stock											
Transfer from retained earnings to capital surplus											
Net change in the year					20,401	484	(1,745)	7	19,147	2,743	21,890
BALANCE, MARCH 31, 2021	<u>\$ 94,799</u>	<u>\$ 105,142</u>	<u>\$ 1,602,706</u>	<u>\$ (123,505)</u>	<u>\$ 100,074</u>	<u>\$ 223</u>	<u>\$ 6,300</u>	<u>\$ (237)</u>	<u>\$ 1,785,502</u>	<u>\$ 21,771</u>	<u>\$ 1,807,273</u>

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥28,009	¥28,135	\$ 252,339
Adjustments for:			
Income taxes—paid	(7,312)	(8,664)	(65,875)
Depreciation and amortization	4,484	4,462	40,394
Reversal of doubtful receivables	(7)	(296)	(65)
(Decrease) increase in accrued bonuses	(848)	248	(7,639)
Foreign currency exchange (gain) loss	(53)	135	(481)
(Gain) loss on sales of property, plant, equipment and others—net	(196)	46	(1,762)
Gain on sales and valuation of investment securities—net	(1,476)	(776)	(13,295)
Loss on impairment of long-lived assets		22	
Loss on abolishment of retirement benefit plan		243	
Loss on valuation of shares of subsidiaries and associates		42	
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	3,169	8,557	28,552
Decrease (increase) in inventories	779	(428)	7,022
Decrease in notes and accounts payable	(6,486)	(1,563)	(58,434)
(Decrease) increase in liability for retirement benefits	(485)	64	(4,368)
(Increase) decrease in net defined benefit assets		3	(2)
Increase in provision for stock payment	354	354	3,193
Decrease in other assets	395	114	3,555
Increase (decrease) in other liabilities	2,303	(860)	20,749
Others—net	(28)	(26)	(249)
Total adjustments	(5,407)	1,677	(48,704)
Net cash provided by operating activities	22,602	29,812	203,634
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	1,163	63	10,479
Purchases of property, plant and equipment	(3,260)	(3,781)	(29,372)
Purchases of intangible assets	(1,227)	(908)	(11,057)
Proceeds from sales of investment securities	2,373	1,108	21,375
Purchases of investment securities		(6)	(1)
Proceeds from sales of beneficiary securities of trust	8,786	9,224	79,150
Purchases of beneficiary securities of trust	(8,136)	(9,353)	(73,293)
Proceeds from sales of marketable securities	23,700	33,806	213,514
Purchases of marketable securities	(22,200)	(34,200)	(200,000)
Purchases of shares of subsidiaries and associates	(451)		(4,067)
Proceeds from liquidation of subsidiaries and associates	147		1,321
Others—net	(611)	(124)	(5,493)
Net cash provided by (used in) investing activities	284	(4,171)	2,556
FORWARD	¥22,886	¥25,641	\$ 206,190

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
FORWARD	¥22,886	¥25,641	\$ 206,190
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	726	(1,178)	6,541
Proceeds from long-term debt		300	
Repayment of long-term debt	(28)	(442)	(250)
Proceeds from sales of treasury stock			1
Purchases of treasury stock	(6)	(9,923)	(57)
Cash dividends paid	(7,073)	(6,888)	(63,729)
Dividends paid to noncontrolling interests	(192)	(232)	(1,728)
Others—net	(423)	(405)	(3,812)
Net cash used in financing activities	(6,996)	(18,768)	(63,034)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	19	(263)	170
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,909	6,610	143,326
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	74,744	68,134	673,365
CASH AND CASH EQUIVALENTS, END OF YEAR	¥90,653	¥74,744	\$ 816,691

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2021

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 2020 consolidated financial statements to conform to the classifications used in 2021.

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 ¥111 to \$1, the approximate rate of exchange as of March 31, 2021. 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, 2021, include the accounts of Azbil and its 47 (47 in 2020) 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.

Investment in 1 (1 in 2020) associated company is 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 certain subsidiaries 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 ¥3,887 million (\$35,016 thousand) for 1,958,084 shares as of March 31, 2021, and ¥3,924 million for 1,977,024 shares as of March 31, 2020.

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, and 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 12, "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, 2021 and 2020, was ¥135 million (\$1,221 thousand) and ¥130 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.

The weighted-average number of shares of common stock used in the computation was 139,511,724 shares for 2021 and 140,579,440 shares for 2020.

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 26, 2021)

—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.

3. ACCOUNTING CHANGE

Not applicable

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Current:			
Certificate of deposit		¥ 4,700	
Trust fund investments and other	¥ 12,200	9,000	\$ 109,910
Total	¥ 12,200	¥ 13,700	\$ 109,910
Noncurrent:			
Equity securities	¥ 22,205	¥ 19,855	\$ 200,045
Other	10	10	94
Total	¥ 22,215	¥ 19,865	\$ 200,139

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2021 and 2020, were as follows:

[illegible]

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2021 and 2020, is disclosed in Note 13.

The information for available-for-sale securities which were sold during the years ended March 31, 2021 and 2020, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2021			2020			2021		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥2,373	¥1,573	¥87	¥1,108	¥780	¥4	\$ 21,375	\$ 14,171	\$ 783
Other				106					

The impairment loss on valuation of shares of subsidiaries and associates for the year ended March 31, 2021, were ¥10 million (\$93 thousand).

5. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Merchandise	¥ 1,070	¥ 1,128	\$ 9,642
Finished products	4,291	4,385	38,652
Work in process	6,987	7,640	62,946
Raw materials	<u>12,166</u>	<u>12,186</u>	<u>109,607</u>
Total	¥24,514	¥25,339	\$ 220,847

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2021 and 2020, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 6.0% as of March 31, 2021, and from 0% to 7.5% as of March 31, 2020.

Long-term debt as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 5.7% in 2021 and 0.0% to 5.7% in 2020—Unsecured	¥ 353	¥ 380	\$ 3,177
Obligations under finance leases	1,858	1,664	16,735
Total	2,211	2,044	19,912
Less current portion	(462)	(433)	(4,160)
Long-term debt, less current portion	<u>¥1,749</u>	<u>¥1,611</u>	<u>\$ 15,752</u>

As of March 31, 2021, Azbil had an unused line of credit amounting to ¥30,000 million (\$270,270 thousand), of which ¥10,000 million (\$90,090 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million (\$180,180 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2021, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 462	\$ 4,160
2023	368	3,314
2024	293	2,640
2025	537	4,834
2026	128	1,154
2027 and thereafter	<u>423</u>	<u>3,810</u>
Total	<u>¥2,211</u>	<u>\$ 19,912</u>

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.

7. 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, 2021, certain domestic consolidated subsidiaries have transferred from lump-sum payment plans as defined benefit pension plans to defined contribution plans on August 1, 2020. This is 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, 2021 and 2020, for directors and Audit & Supervisory Board members is ¥170 million (\$1,531 thousand) and ¥148 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥5,548	¥5,281	\$ 49,976
Current service cost	335	488	3,019
Interest cost	21	39	186
Actuarial losses (gains)	23	(12)	205
Benefits paid	(239)	(457)	(2,150)
Decrease with transfer to the defined contribution	(3,409)		(30,710)
Estimated increase due to transfer to the defined contribution pension plans		201	
Others	<u>(182)</u>	<u>8</u>	<u>(1,642)</u>
Balance at end of year	<u>¥2,097</u>	<u>¥5,548</u>	<u>\$ 18,884</u>

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥3,378	¥3,313	\$ 30,428
Expected return on plan assets	2		14
Actuarial gains	1		11
Contributions from the employer	84	97	753
Benefits paid	(29)	(22)	(260)
Decrease with transfer to the defined contribution	(3,000)		(27,027)
Others	<u>5</u>	<u>(10)</u>	<u>47</u>
Balance at end of year	<u>¥ 441</u>	<u>¥3,378</u>	<u>\$ 3,966</u>

- (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
	2021	2020	2021
Funded defined benefit obligation	¥ 559	¥3,902	\$ 5,031
Plan assets	(441)	(3,378)	(3,966)
Total	118	524	1,065
Unfunded defined benefit obligation	1,538	1,646	13,853
Net liability arising from defined benefit obligation	¥1,656	¥2,170	\$ 14,918

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥1,660	¥2,174	\$ 14,960
Asset for retirement benefits	(4)	(4)	(42)
Net liability arising from defined benefit obligation	¥1,656	¥2,170	\$ 14,918

- (4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥335	¥488	\$3,019
Interest cost	21	39	186
Expected return on plan assets	(2)		(14)
Recognized actuarial losses	12	37	112
Others	65	123	581
Net periodic benefit costs	¥431	¥687	\$3,884
Loss on abolishment of retirement benefit plan		¥243	

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Actuarial (gains) losses	¥(8)	¥91	\$ (73)

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized actuarial gains	¥(54)	¥(46)	\$ (487)

- (7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Cash and cash equivalents	99%	100%
Others	1	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, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	1.5%	0.9%
Expected rate of return on plan assets	0.1	0.0

8. 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.

9. 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, 2021, and 30.5% for the year ended March 31, 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Pension and severance costs	¥ 705	¥ 1,837	\$ 6,348
Accrued expenses	4,364	3,981	39,311
Depreciation	1,405	1,448	12,662
Loss on impairment of long-lived assets	200	200	1,800
Allowance for doubtful receivables	76	87	690
Tax loss carryforwards	1,966	1,968	17,715
Others	2,948	2,860	26,560
Total of tax loss carryforwards and temporary differences	11,664	12,381	105,086
Less valuation allowance for tax loss carryforwards	(1,868)	(1,855)	(16,833)
Less valuation allowance for temporary differences	(697)	(736)	(6,278)
Total valuation allowance	(2,565)	(2,591)	(23,111)
Deferred tax assets	9,099	9,790	81,975
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	5,447	4,464	49,071
Special advanced depreciation	1,015	839	9,147
Others	255	201	2,289
Deferred tax liabilities	6,717	5,504	60,507
Net deferred tax assets	¥ 2,382	¥ 4,286	\$ 21,468

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

	Millions of Yen						
	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
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards		¥55	¥109	¥89	¥8	¥1,705	¥1,966
Less valuation allowances for tax loss carryforwards		(55)	(96)	(89)	(8)	(1,620)	(1,868)
Net deferred tax assets relating to tax loss carryforwards			13			85	98
March 31, 2020							
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
	Thousands of U.S. Dollars						
	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
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards		\$ 500	\$ 985	\$ 800	\$ 72	\$ 15,358	\$ 17,715
Less valuation allowances for tax loss carryforwards		(500)	(871)	(800)	(72)	(14,590)	(16,833)
Net deferred tax assets relating to tax loss carryforwards			114			768	882

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, 2021, and ¥181 million at March 31, 2020.

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, 2021 and 2020, is as follows:

	2021	2020
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.6	0.7
Tax credits for qualified expenses	(2.6)	(3.7)
Change of valuation allowance	(0.3)	1.4
Others—net	(1.0)	(0.7)
Actual effective tax rate	<u>27.2%</u>	<u>28.2%</u>

10. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2021 and 2020, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Expenses for office relocation	¥(114)	¥(54)	\$ (1,029)
Loss on valuation of investment securities	(10)		(93)
Gain on reversal of environmental expenses	21		189
Other	<u>77</u>	<u>13</u>	<u>694</u>
Total	<u>¥ (26)</u>	<u>¥(41)</u>	<u>\$ (239)</u>

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥11,182 million (\$100,735 thousand) and ¥11,788 million for the years ended March 31, 2021 and 2020, respectively.

12. 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, 2021 and 2020, were ¥5,631 million (\$50,727 thousand) and ¥5,561 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, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Due within one year	¥274	¥ 748	\$2,469
Due after one year	<u>42</u>	<u>284</u>	<u>374</u>
Total	<u>¥316</u>	<u>¥1,032</u>	<u>\$2,843</u>

(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.

13. 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. Moreover, the Azbil Group conducts ongoing reviews of the shareholdings at the meetings of the Board of Directors by regularly examining whether the shareholdings contribute to improvement in medium- to long-term corporate value, as well as periodically verifying the rationality of the shareholdings such as business and financial returns from the perspective whether the benefits of the shareholdings are commensurate with capital costs etc.

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.

(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 14 for the details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen			Millions of Yen			Thousands of U.S. Dollars		
	March 31			March 31			March 31		
	2021			2020			2021		
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 90,653	¥ 90,653		¥ 74,744	¥ 74,744		\$ 816,691	\$ 816,691	
Notes and accounts receivable—trade	82,143	82,143		85,245	85,245		740,023	740,023	
Investment securities	21,663	21,663		19,297	19,297		195,162	195,162	
Total	<u>¥ 194,459</u>	<u>¥ 194,459</u>		<u>¥ 179,286</u>	<u>¥ 179,286</u>		<u>\$ 1,751,876</u>	<u>\$ 1,751,876</u>	
Short-term borrowings	¥ 8,997	¥ 8,997		¥ 8,197	¥ 8,197		\$ 81,053	\$ 81,053	
Current portion of long-term debt	462	462		433	433		4,160	4,160	
Notes and accounts payable—trade	31,951	31,951		38,482	38,482		287,855	287,855	
Long-term debt	1,749	1,749		1,611	1,612	¥(1)	15,752	15,752	
Total	<u>¥ 43,159</u>	<u>¥ 43,159</u>		<u>¥ 48,723</u>	<u>¥ 48,724</u>	<u>¥(1)</u>	<u>\$ 388,820</u>	<u>\$ 388,820</u>	

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 14 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.

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.

(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
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥552	¥568	\$4,977

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2021				
Cash and cash equivalents	¥ 90,653			
Notes and accounts receivable—trade	78,923	¥3,213	¥7	—
Total	¥ 169,576	¥3,213	¥7	—

Please see Note 6 for annual maturities of long-term debt and Note 12 for obligations under finance leases.

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 14.

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
\$ 816,691				
711,017	\$28,946	\$60	—	
\$1,527,708	\$28,946	\$60	—	

14. 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				Millions of Yen				Thousands of U.S. Dollars			
	March 31				March 31				March 31			
	2021				2020				2021			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:												
Selling U.S. dollars	¥659		¥(27)	¥(27)	¥498		¥9	¥9	\$5,939		\$ (242)	\$ (242)
Buying U.S. dollars	251		(2)	(2)	309		(3)	(3)	2,265		(22)	(22)
Buying Japanese yen	3								23			

Derivative Transactions to Which Hedge Accounting Is Applied

	Hedged Item	Millions of Yen			Millions of Yen			Thousands of U.S. Dollars		
		March 31			March 31			March 31		
		2021			2020			2021		
		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	¥926	¥102	¥ 40	¥793		¥ (35)	\$8,338	\$923	\$364
Selling Swedish krona	Receivables	114		(7)	292	¥ 3	(3)	1,025		(61)
Selling UAE dirham	Receivables	30		2	186	50		266		16
Buying U.S. dollars	Payables	84		(1)	8			755		(6)
Buying UAE dirham	Payables	30		(2)				266		(16)

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.

15. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

16. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥4,703	¥ (458)	\$42,368
Reclassification adjustments to profit or loss	(1,455)	(777)	(13,111)
Amount before income tax effect	3,248	(1,235)	29,257
Income tax effect	(983)	351	(8,856)
Total	¥2,265	¥ (884)	\$20,401
Deferred gain (loss) on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 71	¥ (44)	\$ 645
Reclassification adjustments to profit or loss	71	(44)	645
Amount before income tax effect	(18)	11	(161)
Income tax effect			
Total	¥ 53	¥ (33)	\$ 484
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (170)	¥ (67)	\$ (1,540)
Reclassification adjustments to profit or loss		9	
Amount before income tax effect	(170)	(58)	(1,540)
Income tax effect			
Total	¥ (170)	¥ (58)	\$ (1,540)
Defined retirement benefit plans:			
Adjustment arising during the year	¥ (20)	¥ 12	\$ (185)
Reclassification adjustments to profit or loss	12	79	112
Amount before income tax effect	(8)	91	(73)
Income tax effect	(1)	(27)	(5)
Total	¥ (9)	¥ 64	\$ (78)
Total other comprehensive income	¥2,139	¥ (911)	\$19,267

17. SUBSEQUENT EVENTS

a. Repurchase of Treasury Shares

The following repurchase of own shares pursuant to Article 156 and Article 165, paragraph 3 of the Companies Act was approved at Azbil's Board of Directors' meeting held on May 14, 2021:

(a) Reason for share repurchase:	Taking into consideration business results and the outlook for future business performance, Azbil aims not only to improve capital efficiency but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
(b) Type of stock to be repurchased:	Common stock of Azbil
(c) Total number of shares to be repurchased:	Up to 3,000,000 shares (2.1% of total number of common stock issued, excluding treasury shares)
(d) Total amount of repurchase:	Up to ¥10,000 million (\$90,090 thousand)
(e) Period of repurchase:	From May 17, 2021 to September 30, 2021
(f) Method of repurchase:	Market transactions on the Tokyo Stock Exchange

b. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at Azbil's shareholders' meeting held on June 24, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.0 (\$0.27) per share	¥4,244	\$38,237

The total cash dividends approved at Azbil's shareholders' meeting held on June 24, 2021, include the dividends of ¥59 million (\$529 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)."

18. 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 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				Millions of Yen			
	2021				2021			
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 117,198	¥ 86,908	¥ 42,662	¥ 246,768	¥ 53	¥ 246,821		¥ 246,821
Intersegment sales or transfers	324	871	281	1,476	1	1,477	¥ (1,477)	
Total	<u>¥ 117,522</u>	<u>¥ 87,779</u>	<u>¥ 42,943</u>	<u>¥ 248,244</u>	<u>¥ 54</u>	<u>¥ 248,298</u>	<u>¥ (1,477)</u>	<u>¥ 246,821</u>
Segment profit	¥ 14,023	¥ 10,251	¥ 1,434	¥ 25,708	¥ 7	¥ 25,715	¥ 5	¥ 25,720
Segment assets	65,743	62,785	31,872	160,400	1	160,401	124,196	284,597
Other:								
Depreciation	1,420	2,209	855	4,484		4,484		4,484
Increase in property, plant and equipment and intangible assets	1,892	2,335	812	5,039		5,039		5,039
	Millions of Yen				Millions of Yen			
	2020				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	<u>¥ 123,795</u>	<u>¥ 93,156</u>	<u>¥ 44,033</u>	<u>¥ 260,984</u>	<u>¥ 60</u>	<u>¥ 261,044</u>	<u>¥ (1,633)</u>	<u>¥ 259,411</u>
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

	Thousands of U.S. Dollars				Thousands of U.S. Dollars			
	2021				2021			
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	\$ 1,055,839	\$ 782,954	\$ 384,340	\$ 2,223,133	\$ 480	\$ 2,223,613		\$ 2,223,613
Intersegment sales or transfers	2,918	7,845	2,533	13,296	14	13,310	\$ (13,310)	
Total	<u>\$ 1,058,757</u>	<u>\$ 790,799</u>	<u>\$ 386,873</u>	<u>\$ 2,236,429</u>	<u>\$ 494</u>	<u>\$ 2,236,923</u>	<u>\$ (13,310)</u>	<u>\$ 2,223,613</u>
Segment profit	\$ 126,334	\$ 92,352	\$ 12,925	\$ 231,611	\$ 61	\$ 231,672	\$ 43	\$ 231,715
Segment assets	592,287	565,630	287,131	1,445,048	8	1,445,056	1,118,884	2,563,940
Other:								
Depreciation	12,792	19,898	7,704	40,394		40,394		40,394
Increase in property, plant and equipment and intangible assets	17,042	21,036	7,319	45,397		45,397		45,397

Note: Corporate assets of ¥124,196 million (\$1,118,884 thousand) for the year ended March 31, 2021, 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						
2021						
Japan	Asia	China	North America	Europe	Other	Total
¥ 201,933	¥ 18,819	¥ 11,025	¥ 3,755	¥ 9,050	¥ 2,239	¥ 246,821
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
Thousands of U.S. Dollars						
2021						
Japan	Asia	China	North America	Europe	Other	Total
\$ 1,819,220	\$ 169,544	\$ 99,326	\$ 33,827	\$ 81,528	\$ 20,168	\$ 2,223,613

Note: Sales are classified by country or region based on the location of customers.

(b) *Property, plant and equipment*

Millions of Yen						
2021						
Japan	Asia	China	North America	Europe	Other	Total
¥22,237	¥2,095	¥1,097	¥63	¥1,451	¥119	¥27,062

Millions of Yen						
2020						
Japan	Asia	China	North America	Europe	Other	Total
¥23,470	¥2,399	¥953	¥90	¥1,168	¥138	¥28,218

Thousands of U.S. Dollars						
2021						
Japan	Asia	China	North America	Europe	Other	Total
\$ 200,337	\$ 18,872	\$ 9,885	\$ 570	\$ 13,069	\$ 1,070	\$ 243,803

(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, 2021

Amortization of goodwill	Not applicable
Goodwill at March 31, 2021	Not applicable

March 31, 2020

Amortization of goodwill	Not applicable
Goodwill at March 31, 2020	Not applicable

* * * * *

Deloitte

Deloitte Touche Tohmatsu LLC
 Menara Dai Nippon Building
 3-2-3 Akasaka
 Chiyoda-ku Tokyo 100-8303
 Japan
 Tel: +81 (3) 6213 1000
 Fax: +81 (3) 6213 1005
 www.deloitte.com/jp

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, 2021, 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, 2021, 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.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
 Deloitte Touche Tohmatsu Limited

Revenue recognition for construction contracts	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>The Group sells automatic control systems, which utilize measurement technology and control technology, in the building markets and factory / industrial plant markets. The Group engages in construction contracts for its product wherein revenue is recognized using the percentage-of-completion method as per the cost proportional method, if the outcome of a construction contract can be reliably estimated, in accordance with the "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan, or "ASBJ" Statement No. 15, December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007) as stated in Notes 2. "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, a. Construction Contracts," to the consolidated financial statements. With regard to the calculation of stage of completion, the cost proportional method is used, which calculates the stage of completion by the proportion of construction costs incurred for work performed by the balance sheet date to the estimated total construction costs.</p> <p>The construction costs mainly consist of (1) costs of in-house products such as measuring instruments and central monitoring systems, (2) subcontracted costs such as wiring, and (3) direct labor costs for site management. In principle, costs incurred to date and estimated total construction costs are controlled by job order costing per project order.</p> <p>The percentage-of-completion method recognizes revenue by reference to the stage of completion of a contract and is not supported by the objective fact such as inspection by the customer, therefore, in establishing estimated total construction costs and aggregating costs incurred, which are the basis for calculating the stage of completion of the contract, the following situations could be anticipated. As establishing estimated total construction costs and aggregating costs incurred are especially important for our audit of the consolidated financial statements for the current year, we determined they are the key audit matter.</p>	<p>Our audit procedures for both costs incurred and estimated total construction costs, which are the basis for calculating the stage of completion of the contract, included the following, among others:</p> <ul style="list-style-type: none"> • We evaluated the effectiveness of internal controls over management's estimations of total construction costs, including those controls over whether work hours, unit labor costs, and expenses are appropriately estimated in alignment with design specifications and the construction environment in the working budget meetings. • We obtained estimates of total construction costs by each cost item from the beginning of construction, and tested for any irregularities in the changes in total construction costs by each cost item throughout the year to determine whether management accurately estimated total construction costs. We also inquired of the appropriate personnel in-charge about the changes of estimated total costs by each cost item to understand if management estimated for any unreasonable changes. • We inspected the monthly construction progress report documents and meeting minutes where important projects were discussed and business results were reported to examine whether additional costs were reflected in estimated total construction costs in a timely and appropriate manner for projects in which additional costs were expected to be incurred when a customer requires a change of specifications. • We evaluated the effectiveness of internal controls over the aggregation of costs incurred. In particular, we examined whether the appropriate approval authorities evaluated if costs incurred in construction were consistent with monthly estimated costs by each cost item. Regarding the costing systems for both product costs and costs per project order, with the assistance of our IT specialists, we obtained an understanding of the costing process, then examined whether the system logic is appropriate, whether the system is appropriately designed that the actual cost is aggregated, and whether the system settings are consistent with the stipulated segregation of duty to prevent fraudulent cost transfers to other project order. • In order to determine that costs incurred are appropriately aggregated, we inspected cost transfer application forms to identify any irregular cost transfers and tested details of costs incurred by understanding the progress of in-house product installations and wiring construction etc., inspecting monthly construction progress reports and examining consistency between the initial and most recent estimated total construction costs regarding projects with significant progress near the year-end.

<ul style="list-style-type: none"> • There are cases where it is difficult to select an appropriate construction method and determine the details of the specifications depending on the details of the design such as where relatively new technology is used to execute a construction project. In those cases, the amount of recorded revenue could be misstated because the total construction costs are not appropriately estimated and the calculated stage of completion of the contract could not represent the actual stage of completion of the contract. • The calculated stage of completion of the contract could be erroneously high and revenue could be overstated, when additional costs are expected to be incurred due to the request to change its specifications from customers but are not reflected in the estimated total construction costs in a timely and appropriate manner. • Due to the inclusion of costs which are not related to the project order, the calculated stage of completion of the contract could be erroneously high and revenue could be overstated. 	<ul style="list-style-type: none"> • We tested the consistency of subcontracting costs incurred to date against the respective project orders via confirmation letters sent to subcontractors confirming (1) the order details, including the name of the project, (2) the amount of orders received by the subcontractors, and (3) the amount already inspected which the subcontractors recognized. • We involved the significant consolidated subsidiary's auditor to assist us in performing the following procedures for the projects applying the percentage-of-completion method. <ul style="list-style-type: none"> —Understanding of the operational flow including IT systems —Understanding of relevant internal controls —Risk assessment —Evaluation of the validity of estimated total construction costs and an individual examination of aggregated costs incurred to date.
---	--

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.

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 judgment. 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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 18, 2021

(June 24, 2021 as to Note 17)

azbil Group Company Data

Japan

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Corporation<div>Head office: Chiyoda-ku, Tokyo Founded: 1906 Established: 1949</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Trading Co., Ltd.<div>Head office: Toshima-ku, Tokyo Established: 1964</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Yamatake Friendly Co., Ltd.<div>Head office: Fujisawa-shi, Kanagawa Established: 1998</div></div>

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Kimmon Co., Ltd.<div>Head office: Toshima-ku, Tokyo Founded: 1904 Established: 1948</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Kyoto Co., Ltd.<div>Head office: Funai-gun, Kyoto Established: 2009</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil TA Co., Ltd.<div>Head office: Itabashi-ku, Tokyo Established: 1955</div></div>

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Taishin Co., Ltd.<div>Head office: Nakano-shi, Nagano Established: 1974</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Tem-Tech Lab.<div>Head office: Chuo-ku, Tokyo Established: 1982</div></div>

Overseas

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Korea Co., Ltd.<div>Head office: Seoul Established: 1999</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Taiwan Co., Ltd.<div>Head office: Taipei Established: 2000</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Kimmon Technology Corporation<div>Head office: Miaoli Established: 2011</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Vietnam Co., Ltd.<div>Head office: Hanoi Established: 2008</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil India Private Limited<div>Head office: Navi Mumbai Established: 2010</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil (Thailand) Co., Ltd.<div>Head office: Bangkok Established: 1995</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Production (Thailand) Co., Ltd.<div>Head office: Chonburi Established: 2013</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Philippines Corporation<div>Head office: Makati Established: 1996</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Malaysia Sdn. Bhd.<div>Head office: Kuala Lumpur Established: 1999</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Singapore Pte. Ltd.<div>Head office: Singapore Established: 1998</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>PT. Azbil Berca Indonesia<div>Head office: Jakarta Established: 1997</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Saudi Limited<div>Head office: Dammam Established: 2013</div></div>

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Control Instruments (Dalian) Co., Ltd.<div>Head office: Dalian Established: 1994</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Information Technology Center (Dalian) Co., Ltd.<div>Head office: Dalian Established: 2006</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Control Solutions (Shanghai) Co., Ltd.<div>Head office: Shanghai Established: 1994</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Shanghai Azbil Automation Co., Ltd.<div>Head office: Shanghai Established: 1995</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Yamatake Automation Products (Shanghai) Co., Ltd.<div>Head office: Shanghai Established: 2004</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Hong Kong Limited<div>Head office: Hong Kong Established: 2000</div></div>

<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil North America Research and Development, Inc.<div>Head office: Santa Clara, CA, U.S.A. Established: 2014</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil North America, Inc.<div>Head office: Phoenix, AZ, U.S.A. Established: 2000</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil VorTek, LLC<div>Head office: Longmont, CO, U.S.A. Established: 1995</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Mexico, S. de R.L. de C.V.<div>Head office: Leon Established: 2017</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Mexico Services, S. de R.L. de C.V.<div>Head office: Leon Established: 2017</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Brazil Limited<div>Head office: Sao Paulo Established: 2010</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Europe NV<div>Head office: Zaventem, Belgium Established: 2001</div></div>
<div><div><div><div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div><div><div><div></div></div><div><div></div></div></div><div><div><div></div></div><div><div></div></div></div></div></div> <div>Azbil Telstar, S.L.U.<div>Head office: Terrassa, Spain Established: 1963</div></div>

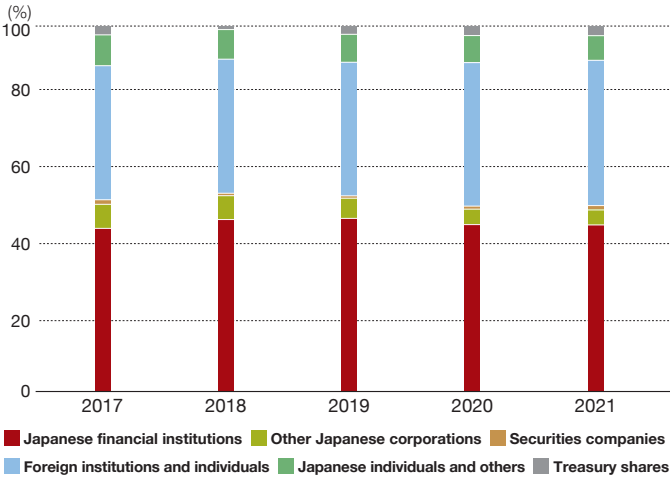
Corporate Data/Stock Information

(As of March 31, 2021)

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	10,003
Stock listing	Tokyo Stock Exchange, 1st Section
Ticker symbol number	6845
Stock information	Shares of Common Stock Issued 145,200,884 Share unit number 100 Shareholders 7,223
Transfer agent	Mizuho Trust & Banking Co., Ltd.

Composition of Shareholders

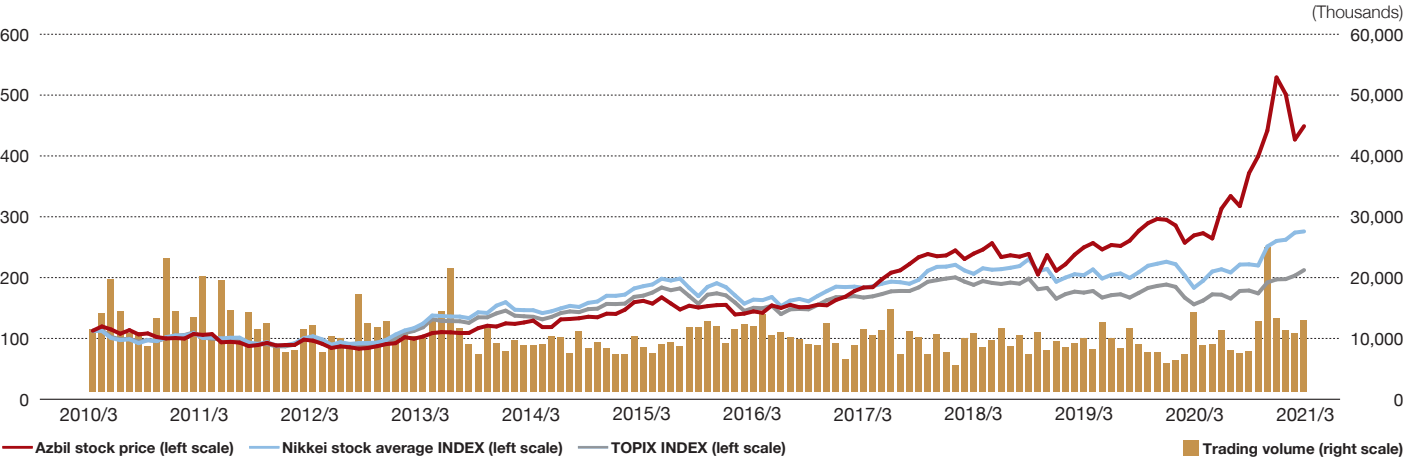


Major Shareholders (Top 10)

Shareholders	Number of shares held (thousands)	Percentage of total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	12,160	8.59
Meiji Yasuda Life Insurance Company	10,428	7.37
SSBTC CLIENT OMNIBUS ACCOUNT	8,890	6.28
Custody Bank of Japan, Ltd. (Trust account)	6,354	4.49
Custody Bank of Japan, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	4,631	3.27
Northern Trust CO. (AVFC) Re Fidelity Funds	4,272	3.02
Nippon Life Insurance Company	3,739	2.64
National Mutual Insurance Federation of Agricultural Cooperatives	3,356	2.37
Custody Bank of Japan, Ltd. (Trust account 7)	3,258	2.30
Mizuho Bank, Ltd.	2,809	1.98

Note: The percentage of total shares issued is calculated excluding treasury shares (3,723,389 shares).

Stock Price and Trading Volume



* Azbil stock price, Nikkei stock average, and TOPIX: Value (100) based on the end of March 2010
* On October 1, 2018, the Company implemented a 2-for-1 stock split for shares of common stock. Above figures for stock prices have been recalculated to take the stock split into account.

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Year-end closing price (yen)	1,019.0	915.0	989.0	1,274.0	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0	2,804.0	4,765.0
Highest price (yen)	1,185.0	1,033.0	1,023.0	1,280.5	1,677.5	1,750.0	1,927.5	2,655.0	2,775.0	3,275.0	6,120.0
Lowest price (yen)	817.0	769.5	745.0	935.0	1,150.0	1,309.0	1,347.5	1,772.5	1,949.0	2,215.0	2,619.0

azbil



All trademarks, logos, and company names mentioned are the property of Azbil Corporation or their respective owners.
Please note in advance that the contents of this report are subject to change without a prior notice.
This report is printed on FSC®-certified ink and paper.