

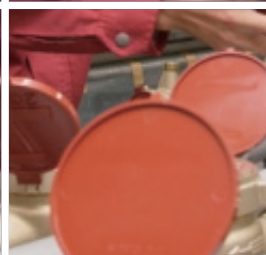
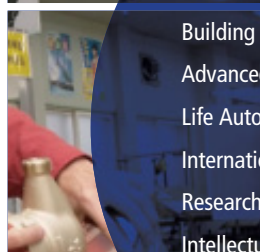
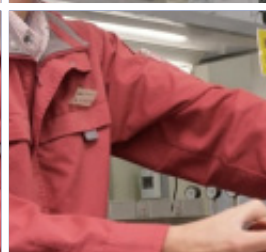
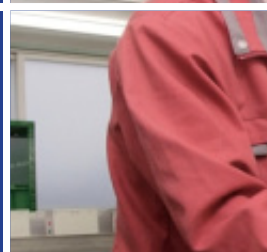
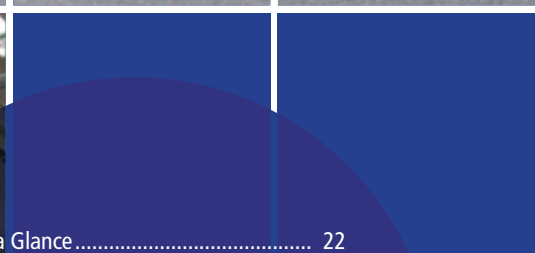
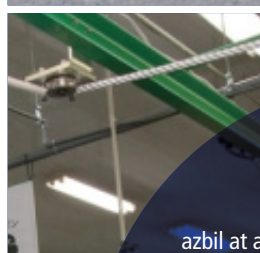
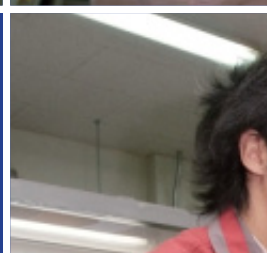
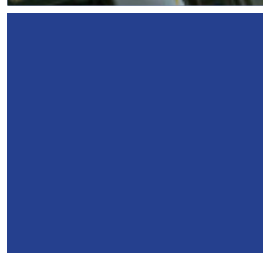
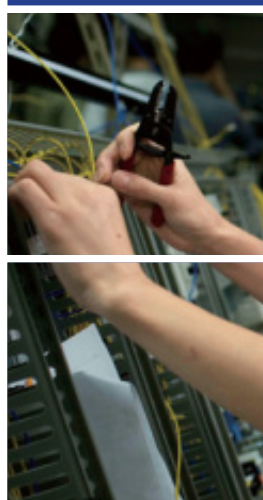
1. Business Overview

The "period of growth" in the medium-term plan entails creating a new business structure. The Building Automation business is establishing next-generation environmental controls. The Advanced Automation business delivers value globally, and the Life Automation business aims to contribute to peace of mind and safety in daily life.

This section presents the market environment, performance and outlook for each of the businesses.



Business Overview



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azbil at a Glance

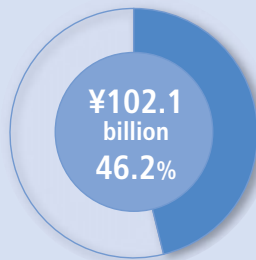
Net Sales by Business/
Share of Total Sales

Business Outline

Markets



BA Building Automation Business

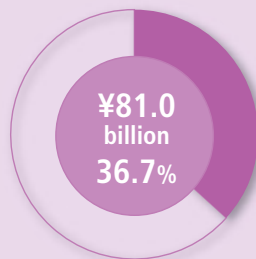


The azbil Group provides high performance and high quality through its in-house development and manufacturing of a full product lineup from building automation systems and security systems to application software, controllers, valves, and sensors. We offer integrated systems from instrumentation design to sales, engineering, services, energy-saving solutions, and facility operation management. With our original environmental control technologies, we contribute to creating spaces where people can work efficiently and comfortably while reducing the environmental impact.

- Office buildings
- Manufacturing facilities
- Research facilities
- Clean rooms
- Hospitals
- Data centers
- Government and institutional buildings
- Schools
- Hotels
- Department stores
- Shopping centers, etc.



AA Advanced Automation Business

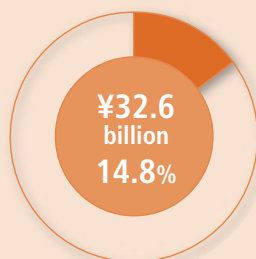


The azbil Group provides products, solutions, instrumentation, engineering, and maintenance services to support the optimum operation of equipment and facilities throughout their life cycle in order to resolve issues in materials, manufacturing, and assembly industries. Through collaboration with customers in industry, we aim to develop advanced measurement and control technologies in order to enable production facilities that can safely deploy human capabilities, as well as to create new value for customers.

- Petrochemical/chemical
- Water supply and sewerage
- Oil refining
- Electric power and gas
- Iron and steel
- Pulp and paper
- Shipping and marine
- Semiconductor/semiconductor manufacturing equipment
- Electrical/electronic components
- Machine tools
- Automobiles
- Pharmaceuticals
- Food/beverage packaging
- Industrial furnace controls

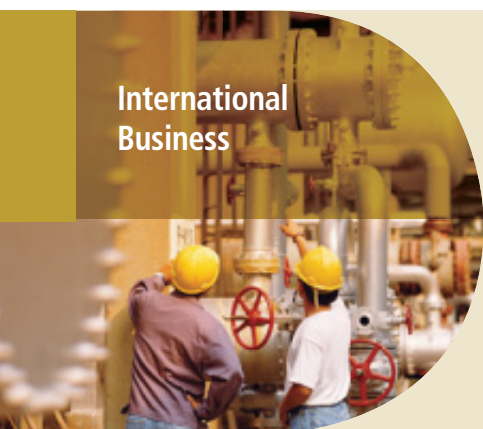


LA Life Automation Business



At the azbil Group, we possess measurement and control technologies cultivated over many years in the building, factory, and plant markets as well as a personal commitment to customers through our services. In the Life Automation business, we are supporting people's active lives through operations related to lifelines such as gas and water, and lifestyle support such as nursing care and healthcare.

- Measuring/metering equipment, such as gas and water meters, flowmeters, and instrumentation systems
- Residential air-conditioning
- Elderly nursing care (preventive care)
- Lifestyle support for the elderly
- Specific counseling guidance, etc.



International Business



The azbil Group is expanding its Building Automation, Advanced Automation, and Life Automation businesses internationally, backed by the technologies and expertise accumulated from domestic operations. The Group currently has overseas subsidiaries, affiliates, business offices, factories, and maintenance centers in 13 countries and 27 locations, principally in Asia. We deliver best-fit solutions for the differing problems and needs of customers in each region.

- International business (overseas sales) figures are included within the sales of the Building Automation, Advanced Automation, and Life Automation businesses. Sales statistics denote figures from overseas subsidiaries and affiliates and direct exports. Indirect exports are not included.

Note: Segment sales include intersegment sales.

Main Products and Services

- Building management systems
- User terminals
- Controllers
- Sensors
- Valves and actuators
- Security systems
- Building preventative maintenance service
- Total energy management service
- Building operations support service
- CO₂ reduction solutions, etc.

Building Management Systems



Our systems provide overall building management and enable optimal control over building environments while reducing costs. We offer and build flexible systems that are tailored to specific applications as well as size and scope.

Security Systems



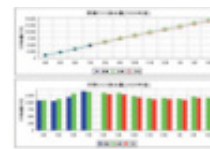
Our security systems offer integrated and consolidated control of security data and access data. By integrating building management systems, we make building management and security more effective.

ACTIVAL™ PLUS



ACTIVAL PLUS is an all-in-one control valve with built-in temperature sensor, pressure sensors, and flowmeter functions, which collects valuable but previously unavailable control data for more energy savings.

CO₂ Management Systems



These systems are internet services that provide support for measuring the volume of and managing all greenhouse gases emitted by an enterprise.

- Monitoring and control systems and controllers
- Solution packages
- Field instruments
- Valves and actuators
- Digital indicating controllers
- Recorders
- Sensors and switches
- Combustion control equipment
- Facility diagnosis equipment
- Maintenance services
- Plant energy conservation solutions, etc.

Monitoring and Control Systems



We offer open, highly reliable systems tailored to the size and circumstances of the production facility, from large-scale systems to on-site operational supervision systems.

Digital Indicating Controllers



Our controllers consistently afford the best possible control of equipment and facilities on site. We have developed a product lineup meeting multiple application needs.

Smart Field Instruments



Smart field instruments are high-performance devices with built-in microprocessors. Our product lineup includes flowmeters, temperature transmitters, valve positioners, pressure transmitters, and other products.

Sensors and Switches



Our sensors and switches provide reliable detection on the production site, with superior resistance to tough environments. A wide variety of models meet the many priorities of customers.

- Various gas meters, safety and security equipment, regulators, system devices, various water meters, flowmeters, etc.
- Residential central air-conditioning systems
- Lifestyle support services
- Nursing care support services, etc.

City Gas and LP Gas Businesses



We offer intelligent gas meters, gas safety equipment such as gas leak alarms and automatic shut-off valves, and gas regulators, etc.

Water Meter Business



Based on know-how gained through long experience, we provide accurate water metering products that are environment-friendly and also promote safety.

Lifestyle Support Services



Services include emergency alert response, health consultation, specific counseling guidance, etc.

Nursing Care Support Services

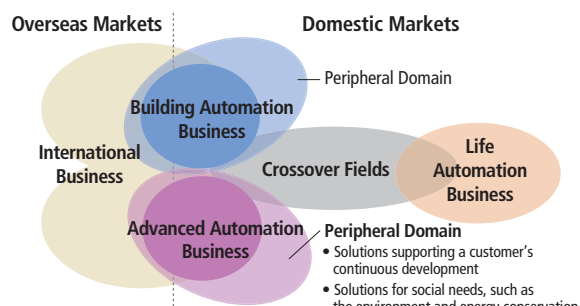


We offer nursing care services, in-home care services, the sale and rental of nursing care equipment, adult day service, an elderly group home, etc.

Core Business Structure

The azbil Group strives to realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through "human-centered automation" in the building market through the Building Automation business, in industrial markets through the Advanced Automation business, and in the lifeline-related, health, and other lifestyle-related markets through the Life Automation business.

The markets of these three businesses have significantly different characteristics. Combining them and promoting synergies will support the long-term growth of the Group.





“ Faced with a forecast of chronic electrical power shortages, we will leverage our long-standing track record to meet customer needs with energy-saving solutions unique to azbil. ”

Kiyofumi Saito

Executive Director
Senior Managing Executive Officer
Building Systems Company President
Yamatake Corporation

BUILDING AUTOMATION BUSINESS

In fiscal year 2010, ended March 31, 2011, although the operating environment has yet to make a strong recovery, overall results of the Building Automation business grew in Japan, from the markets for new and existing buildings to the service business, and performance overseas was firm. As a result, sales were ¥102.1 billion, an increase of 5.6% over the previous fiscal year, while segment profit (operating income) increased 2.0% to ¥11.7 billion as intensifying competition impacted our profit margin.

Operating Environment

Although indications were visible of a recovery from the impact of the global economic recession in fiscal year 2009, ended March 31, 2010, the footing of this recovery remained fragile. Growth in the market for existing buildings, which had been expected due to the start of a period of practical reductions in emissions with the enforcement of stricter regulations to decrease environmental load (CO₂ emissions) that began in fiscal year 2010 turned out to be limited in scope. In the aftermath of the Great East Japan Earthquake, investments are likely to prioritize restoration and recovery efforts over the short term. However, in the domestic market, where chronic power supply shortages have become a reality, we expect the operating environment to remain steady in the existing building business and service business, both of which provide continuous support for energy conservation efforts throughout a building's life cycle.

Fiscal Year 2010 Performance

In Japan, sales for new buildings increased significantly, with a firm market for new large-scale office buildings, particularly in metropolitan areas. In the market for existing buildings, expanded investment in refurbishment of buildings for energy conservation (CO₂ emission reduction) was expected, and signs of growth gradually began to appear from the start of the third quarter. An aggressive sales expansion initiative that focused on providing customers with attractive energy-saving proposals met with success, leading to sales growth. However, competition in the market for existing buildings further intensified, impacting the profitability of individual projects. In the service field, sales grew as a result of efforts to generate new investment projects with energy-saving proposals as well as an initiative to expand the scope of business. While the Great East Japan Earthquake caused some instances of delivery postponement, overall it had a minor impact on fiscal year 2010 performance.

In overseas markets, sales grew significantly. In addition to azbil's traditional advantage in the market for

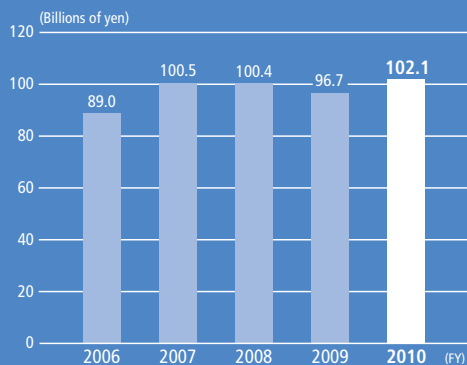
HVAC for factories operated by Japanese companies, we made active efforts to develop the local building markets.

Fiscal Year 2011 Outlook

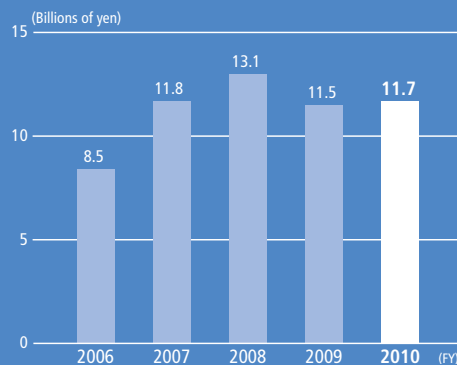
We have already taken the necessary steps to address electrical power shortages and potential shortages of materials and components resulting from the Great East Japan Earthquake, and we therefore believe it will not exert a significant, direct impact on the performance of the Building Automation business. However, the extent to which electrical power shortages expected during summer 2011 or supply chain interruptions will affect economic activities, such as manufacturing, distribution, and sales, and specifically the performance of the Building Automation business, remains unclear. In addition, intensifying competition from an increased number of competitors in the market for existing buildings, where demand is

expected to grow, as well as the increase in social insurance premiums will likely affect profitability. However, we will work to maintain and grow the business by cultivating new domains while focusing efforts first and foremost on helping our customers restore damaged facilities. In particular, we will propose various energy-saving solutions for refurbishments of existing buildings and services such as power demand control in response to peak cuts in electrical power usage expected in summer 2011. Additionally, we will continue to propose other energy-saving solutions that can contribute over the mid to long term in preparing for anticipated chronic electrical power shortages in the future. Overseas, we will accelerate development of the Building Automation business by cultivating the local building markets through tie-ups with local companies and other methods, backed by our proven track record in energy conservation in Japan.

Sales



Operating Income



Pioneering Energy-Saving Solutions in China's Private Sector with a Joint China-Japan Model Project



Okura Garden Hotel Shanghai (China)

Okura Garden Hotel Shanghai became the first in China's private sector to be selected for an energy-saving model project for countries in the Asia-Pacific region implemented by Japan's New Energy and Industrial Technology Development Organization. The hotel has installed Yamatake's savic-net™ FX building management system as its energy management system (BEMS*) at the core of its energy conservation measures. Linked to its existing monitoring system, savic-net FX enables the hotel to collect, manage and analyze energy data to optimize its energy consumption. This has helped the hotel reduce energy costs and CO₂ emissions.

The customer selected us based on the good reputation of the azbil Group's business experience in China, in addition to the Group's track record in energy-saving technologies and businesses. To generate business value for the customer, after providing simple explanations of the azbil Group's superior products and technologies, we worked to deepen communication with project stakeholders and took care to resolve issues together with the customer while moving the project forward smoothly. As a result, we were able to beat the targeted energy-saving rate of 16%, which earned us a high evaluation from the customer.



Gu Song

Sales Section, Building Automation Department
Azbil Control Solutions (Shanghai) Co., Ltd.

*BEMS: Building Energy Management System



“ We will work to provide on-site support at our customers’ facilities for recovery from the earthquake. In addition, we aim to grow by providing solutions for production sites facing electrical power shortages and by expanding our business overseas. ”

Masaaki Inozuka

Executive Director
Senior Managing Executive Officer
Advanced Automation Company President
Yamatake Corporation

ADVANCED AUTOMATION BUSINESS

In fiscal year 2010, ended March 31, 2011, the Advanced Automation business achieved growth in sales in Japan and overseas, as control products for factory automation continued their strong performance from the previous fiscal year. As a result, sales increased 5.2% year on year to ¥81.0 billion. Segment profit (operating income) rose five-fold, or ¥2.7 billion, to ¥3.2 billion with the effect of increased sales and our ongoing efforts to control expenditures and strengthen our business structure.

Operating Environment

The Advanced Automation business provides comprehensive solutions ranging from automation components and systems to services for manufacturing equipment and facilities in factories and plants. Our customers span a wide range of industries, from material-related industries, such as oil refining and chemicals, to manufacturing and assembly industries, such as automobiles and electronic components. Although an improvement in the market conditions of domestic material-related industries did not materialize in fiscal year 2010, demand from manufacturers of semiconductor manufacturing equipment, industrial furnaces and machine tools expanded substantially both in Japan and overseas.

Fiscal Year 2010 Performance

In Japan, market conditions for azbil’s factory automation control products meant that cyclical fluctuations in demand led to a dip in sales of components for semiconductor and

flat panel display manufacturing equipment from the second quarter. Consequently, growth slowed, but overall sales were robust. As regards sales of automation systems in the materials-related market, despite some evidence of investment aimed at energy saving, in general the pace of recovery in market conditions was modest. In particular, the number of orders for systems declined significantly in the previous fiscal year as a result of the global economic recession, and the lower order backlog at the beginning of fiscal year 2010 led to a decrease in sales. The effect of the Great East Japan Earthquake on performance was modest in fiscal year 2010.

For overseas markets, our efforts to enhance our ability to provide solutions during each stage of a plant or factory’s life cycle included the establishment of the Asia Solutions Center. We worked to provide a finely-tuned response to specific customer needs in each region, and posted growth in sales despite the impact of the strong yen.

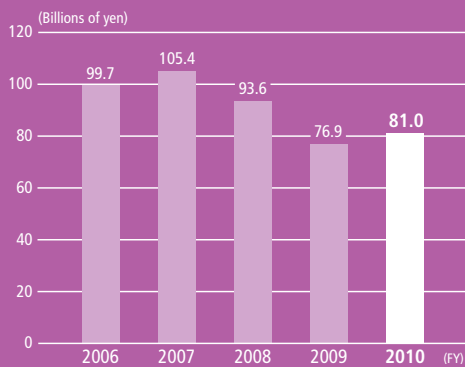
Fiscal Year 2011 Outlook

We have already taken the necessary steps to address electrical power shortages and potential shortages of materials and components resulting from the Great East Japan Earthquake, and we therefore forecast that it will not exert a significant impact on the performance of the Advanced Automation business. However, the extent to which electrical power shortages expected during summer 2011 or interruptions in the supply of materials and components will affect manufacturing and capital investment by customers, as well as economic activities, remains unclear. On the other hand, continued growth can be expected in our international business, mainly in emerging countries.

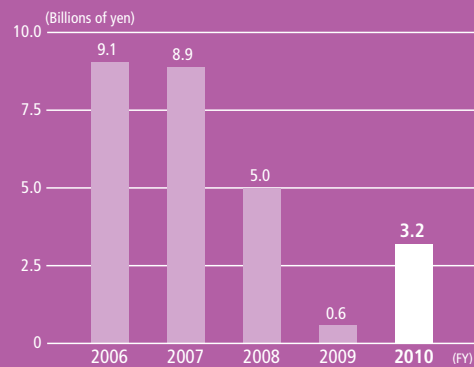
In fiscal year 2011, ending March 31, 2012, while focusing efforts first and foremost on helping our

customers restore damaged facilities, we will also provide energy-saving solutions unique to azbil, based on our long-standing expertise in the field spanning from products to engineering, to address the issue of electrical power shortages. We have already brought products to market such as a meteorological data-based power usage guidance package. In addition, we will actively expand our presence in global markets by further enhancing the entire business structure, including engineering, maintenance, and manufacturing, as well as launching products such as a device management system that maximizes the use of HART® and Foundation™ fieldbus communications. Through these initiatives, we aim to increase both sales and profits of the Advanced Automation business, despite factors such as the increase in social insurance premiums.

Sales



Operating Income



Promoting Energy-Saving Air Supply with Optimized Compressor Operation Control Tailored to On-Site Demand Volume¹



Anjo Plant, Denso Corporation

Denso Corporation develops its business operations to maintain harmony with the global environment. The company's Anjo Plant has incorporated our "ENEOPT™ comp" factory energy-saving solution for optimized compressor control into its existing system to conserve energy in air supply used in production under its "Energy JIT" concept.² This creates a framework for optimized control of the necessary combination of compressor units in operation in accordance with the amount of air required for production. This has yielded significant results in improving the company's specific energy consumption.

As a result of our efforts to optimize control in order to actualize the JIT concept together with the customer, we were able to achieve energy savings of 9%. In addition, visualizing energy use allowed us to consider a new control improvement plan and facility operations plan, thus enabling a framework for saving energy throughout the life cycle. In addition to our products and technical capabilities, we received a high evaluation from the customer for our proposals from the customer's perspective, such as system design that takes operations and movement into account, and production facility operation.



Sachihiko Yamaguchi

Chubu Instrumentation System Department
Engineering Headquarters, Advanced Automation Company
Yamatake Corporation

1. This project received a technology award from Denso Corporation in 2011.

2. "Energy JIT" concept: A concept that employs a just-in-time production system in the energy management and operation of production processes.



“ To transform the Life Automation business into a business that contributes to living with peace of mind, we are aggressively implementing a number of measures such as global expansion and the launch of new products. ”

Ichio Kunii

Managing Executive Officer
Yamatake Corporation

Hirozumi Sone

Executive Director
Managing Executive Officer
Yamatake Corporation
President, Yamatake Care-Net Co., Ltd./
Safety Service Center Co., Ltd.

Kanichiro Shimoda

President
Kimmon Manufacturing Co., Ltd.

LIFE AUTOMATION BUSINESS

The results of the Life Automation business were affected by the Great East Japan Earthquake since the factories that manufacture gas and water meters, which account for the bulk of Life Automation business sales, were damaged. As a result, sales for fiscal year 2010, ended March 31, 2011, were ¥32.6 billion, a decrease of 6.0% year on year. Despite continued efforts to curb expenditure and strengthen the business structure, segment loss (operating loss) was ¥0.2 billion, compared with segment profit of ¥0.4 billion in the previous fiscal year, owing to the severe impact of the Great East Japan Earthquake and a ¥1.3 billion charge for amortization of goodwill.

Operating Environment

Covering the fields of lifeline and lifestyle facilities, and nursing care and lifestyle support, the Life Automation business comprises several companies in different business environments. Kimmon Manufacturing, which accounts for the bulk of Life Automation business sales, operates under a cycle of demand for the periodic replacement of gas and water meters that is based on regulations. In addition to market factors including being in an off-demand season for LP gas meters, the company sustained direct damage from the Great East Japan Earthquake.

The nursing care and lifestyle support fields, where Yamatake Care-Net and Safety Service Center operate, are affected by factors including cutbacks in local governments' welfare budgets. However, there is high potential demand in these fields due to changes in social structure such as the aging of society. Demand for the residential central air-conditioning business Yamatake operates is expected to grow in the future due to increasing needs for health and comfort in residences.

Fiscal Year 2010 Performance

For Kimmon Manufacturing, which accounts for the bulk of sales in the Life Automation business, sales decreased because LP gas meter sales are lower in the off-demand season, and also because increased competition has depressed water meter bid prices. Additionally, Kimmon Manufacturing has a number of factories in the Tohoku region, which were affected by the 2011 earthquake and tsunami. Since operations were unavoidably suspended, this had an impact on business performance. All affected facilities are now back in operation.

In nursing care and lifestyle support, our emergency alert response service for the elderly has approximately 64,000 customers (as of March 31, 2011), making us one of Japan's largest private-sector services in this field. Nevertheless, the operating environment was challenging, with factors such as cutbacks in welfare budgets by local governments. To address this situation, we worked on enhancing our services for the private sector, including specific counseling guidance as a solution for health insurance issues at corporations, as well as increasing the

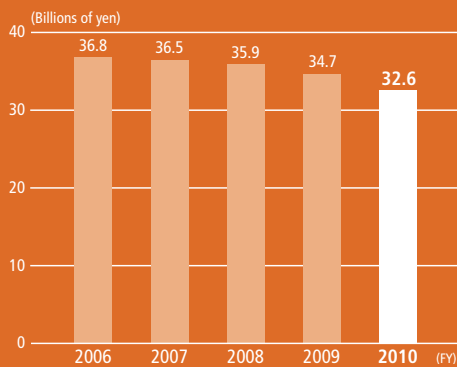
locations of nursing care facilities. In the market for residential central air-conditioning systems, although there are challenges such as the delayed improvement in housing market conditions, there has been a steady upturn in product recognition thanks to the implementation of aggressive sales measures targeting both home builders and individual clients.

Fiscal Year 2011 Outlook

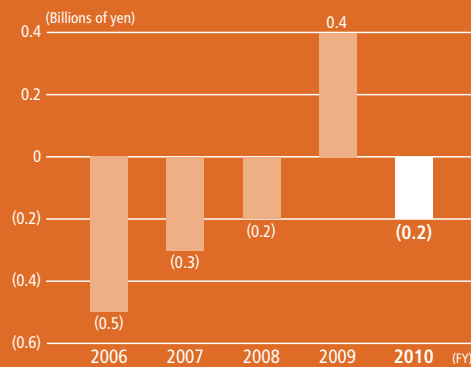
For fiscal year 2011, ending March 31, 2012, overall sales of the Life Automation business are forecast to decrease by around 5% from the previous fiscal year due to the effect of the Great East Japan Earthquake on the supply of gas meter parts in the first half of the fiscal year. However, we will aggressively carry out measures for the steady growth of the Life Automation business. In the gas meter business, we established a joint venture

company in Taiwan, where demand for intelligent meters with safety features is expected to grow due to a change in the law. Using this as a bridgehead, we plan to expand the scope of the Life Automation business away from exclusively domestic demand. In the nursing care and lifestyle support business, in addition to further enhancing our services, we will continue to work to renew our PrivacyMark in the field of health, medicine, and welfare, and ISO 9001 certification of our quality management system, and to expand the scope of our qualifications. As for the residential central air-conditioning systems business, we will launch new products for houses of between 99 and 115 square meters, which account for approximately half of Japan's detached housing market. In doing so, we aim for aggressive expansion as a business that contributes to active lifestyles that let people live with peace of mind.

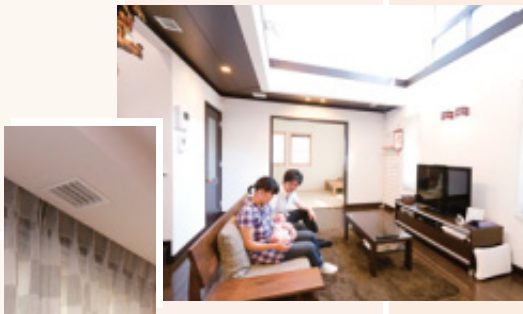
Sales



Operating Income (Loss)



Installing a Central Air-Conditioning System within Virtually the Same Budget for a Standard New Home



Residence of Manabu Nozaki

In his 30s and living in Ibaraki City in Osaka Prefecture, Mr. Nozaki installed our "Kikubari ecs" central air-conditioning system to go along with his home's vaulted ceiling and as a means to combat pollen allergies and yellow dust pollutants. His initial concerns about the installation cost and the restrictions imposed by the construction method were resolved with the choice of "Kikubari ecs," which made it possible to install within virtually the same budget for a standard new home. In addition, the system constantly maintains the same temperature in the house, including hallways and stairs, throughout the entire year and within his planned electricity budget. This enables his family to enjoy a comfortable lifestyle without worrying about heating or cooling throughout the year.

Central air-conditioning has an image of high installation and operating costs, with a unit that is hard to find space for. While Mr. Nozaki had the same worries, I made sure that I addressed his questions and concerns by demonstrating the features of the "Kikubari ecs" system. Since installing the unit, his family has been able to enjoy the comfort of living without temperature differences between rooms, and the alleviation of seasonal yellow dust pollutants and pollen allergies. As such, the family provided us with highly positive feedback regarding the comfort that only central air-conditioning can provide.



Yusuke Kanematsu
Home Comfort Department
Yamatake Corporation



“ We will continue strengthening our business infrastructure, as well as seize business opportunities in rapidly growing emerging nations, and aim to expand business in all our domains of Building Automation, Advanced Automation and Life Automation. ”

Toshitsune Okubo
Managing Executive Officer
Yamatate Corporation

INTERNATIONAL BUSINESS

The recovery from the second half of fiscal year 2009, ended March 31, 2010, continued in fiscal year 2010, ended March 31, 2011, and with the success of our measures to expand sales, we achieved sales growth on a local currency basis exceeding the previous peak in fiscal year 2007, ended March 31, 2008. As a result, even with the impact of the rapid appreciation of the yen, overseas sales increased 24.3% year on year to ¥18.1 billion.

Note: International business (overseas sales) figures are included within the sales of the Building Automation, Advanced Automation, and Life Automation businesses. Sales statistics denote figures from overseas subsidiaries and affiliates and direct exports. Indirect exports are not included.

Operating Environment

It is thought that the emerging nations of the China-led BRICs, Next 11, and elsewhere will continue to drive global economic growth, and demand is expected to increase as capital investment rises in these regions. Moreover, demand is forecast for replacements, high-value-added upgrades, and maintenance for the numerous systems in the Middle East and Asia that the azbil Group delivered in the 1980s and 1990s. In addition, as interest in energy conservation rises, we will promote business development that leverages our track record in the domestic market.

Fiscal Year 2010 Performance

In fiscal year 2010, we promoted measures to ensure the future growth of the International business. One measure was the preliminary establishment of local subsidiaries for expansion of our business area, and we established new overseas subsidiaries in India and Brazil. At the

same time, we strengthened alliances with local companies emphasizing speed and local commercial distribution. We also moved forward with glocal operation reform to optimize our business operations. In addition, we secured superior human resources and reinforced training programs to enhance the ability of our local subsidiaries to provide solutions.

These initiatives have already begun to yield results. In the Building Automation business, we worked to develop local building HVAC markets through tie-ups with local enterprises, leveraging our expertise and track record as a top provider of energy-saving solutions in Japan. As a result, we won a number of local projects, mainly in the markets of Indonesia, Korea, and China. In the Advanced Automation business, efforts to strengthen our infrastructure included establishing the Asia Solutions Center in Thailand to bolster our engineering functions. We also worked to enhance our customization capabilities for customers. As a result of these initiatives, we

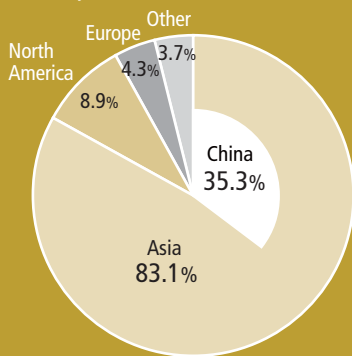
succeeded in expanding sales in the Asian region, including China, and in North America, mainly in the factory automation market.

Fiscal Year 2011 Outlook

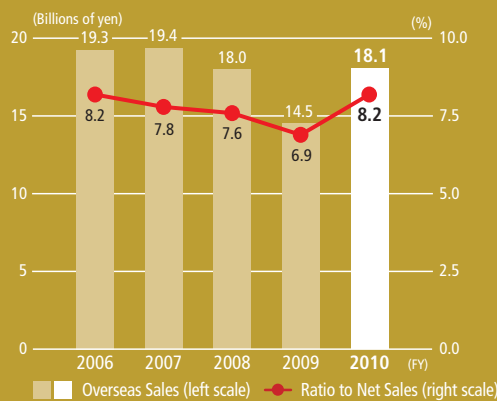
We forecast growth in business results, mainly in emerging nations, in fiscal year 2011, ending March 31, 2012. As such, we will continue to develop and strengthen our business base for further growth of the International business. We enhanced our structure to bolster our engineering and maintenance capabilities in order to expand a solution business that maximizes the value of customers' facilities throughout their life cycles in various countries. Going forward, we will enhance our structure so that we can precisely and promptly respond to local needs, including production. In addition, we will

accelerate the development and launch of products for global markets. We plan to actively launch new products and systems including various field instruments and valves, an area of strength for the azbil Group, and we will enhance our product development structure for this purpose. Even in the Life Automation business, which traditionally has been driven by domestic demand, we plan to enhance our structure in order to take advantage of the anticipated expansion in exports of Japanese infrastructure, such as gas- and water-related systems and products that have gained attention for safe and stable supply. As part of this initiative, we set up a joint venture company in Taiwan for the manufacture of gas meters, and plan to commence production and sales.

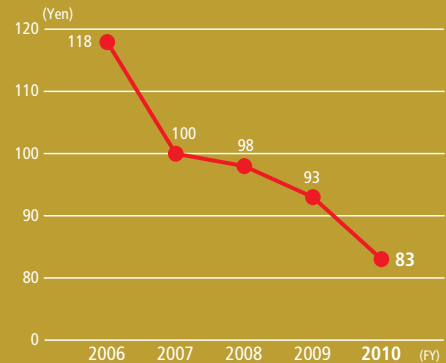
Overseas Sales by Region (Fiscal year 2010)



Overseas Sales/Ratio to Net Sales



Fiscal Year-End Exchange Rate (vs. U.S. dollar)



Promoting Integration of Monitoring and Control Processes for More Efficient Plant Operations

SK energy Co., Ltd. (South Korea)

SK energy was looking to replace its aging distributed control system (DCS) used to control and monitor the production of petrochemical products. We successfully won a bid to replace its conventional DCS, which used systems from multiple vendors to monitor and control production facilities, with the Advanced-PS™ 5000 next-generation plant automation system, which served to integrate SK energy's monitoring and control processes. As a result, the company was able to improve operating efficiency and drastically expand the scope of operations that each operator can monitor and control. Our system enabled SK energy to fulfill its goal of optimizing human resources and enhancing the efficiency of its production facilities.



The main point in updating the system was to make a proposal that followed the customer's renovation guidelines, which call for making effective use of existing equipment wherever possible. We were able to shorten the work time and cut costs by retaining the Yamatake controllers the company purchased 20 years ago while installing the latest system. We also used our ingenuity in areas such as providing a gray background for the control screen for better visibility and to prevent eye strain of the operators who spend a lot of time monitoring the screens. With these upgrades, we were praised for our results in optimizing deployment of the customer's human resources by dramatically expanding the scope of operations that each operator can monitor and control.

Lee Young Ju
 Assistant Manager, Technical Team
 Azbil Korea Co., Ltd.

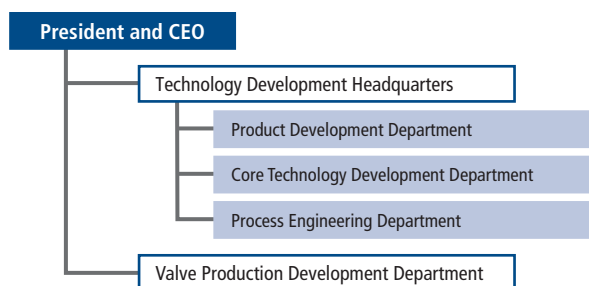
Research and Development

The azbil Group is working to develop new technological domains that contribute to global environmental preservation and the sustainable development of society, with a focus on products and on-site solutions that understand the changing needs of society. This represents our commitment to deliver high-quality, high-value-added products and services speedily and globally by consolidating our resources and taking a glocal approach to our operations.¹

Consolidation and Integration of Development Resources

From 2006, Yamatake consolidated its development resources (the marketing, product development, and engineering functions of the Building Automation and Advanced Automation businesses as well as corporate research and development functions) at the Fujisawa Technology Center, where we established an advanced technology laboratory building in 2009. In addition to enhancing the productivity of development, this restructuring and subsequent promotion of advanced technology research and development across departments allows us to comprehensively display the strengths of each business in order to generate value that only azbil can provide.

In April 2010, we substantially revised our corporate research and development functions and reorganized them under the Technology Development Headquarters. This has enabled us to build a unique, integrated structure from fundamental technological development to trial manufacture for commercial production. In addition, the development of control valves that occupy an important position in our product line, which was formerly undertaken by the Building Automation business and Advanced Automation business respectively, has now been integrated into a company-wide department.



Structure for Glocal Operations

In recent years, we have reorganized, reinforced, and expanded our overseas bases and service network to strengthen a structure for glocal operations that responds precisely to our customers' needs on a global scale. In 2010, we developed the AEP: azbil Evolution Program, a unique program to evolve existing plant automation systems and extend their service life, as a service and technology to be offered globally.

In addition, we established and strengthened the Asia Solutions Center in Thailand and valve maintenance centers in various regions to build a structure for providing finely-tuned on-site services.

We established a flow calibration base in China and gas meter production base in Taiwan to provide technologies and products to these regions effectively.

1. Glocal operations: Implementing strategies tailored to each individual local market based on a broader global strategy.

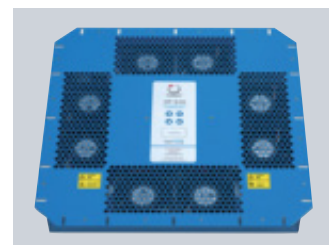
Examples of Research and Development Technologies

Technologies for the Environment and Energy Conservation

We are developing energy-saving technologies from new perspectives, including from the standpoint of creating smart cities, based on our long-standing expertise and track record in delivering energy-saving solutions to buildings and industry.

For example, a key element of building a smart city will be comprehensive energy management of local buildings. To this end, we are further enhancing the functions of our Building Energy Management System (BEMS), an all-inclusive energy management system for measuring and controlling the amount of energy in real time 24 hours a day. We are also working to strengthen the functions of ENEOPT™ energy-saving solutions for factories that contribute to reducing power consumption and CO₂ emissions.

From 2009 to 2010, we developed PARACONDUCTOR™, a controller for comprehensively managing a building's heat source equipment, and also introduced AdaptivCOOL™,² an environmental solution that is compliant with the Revised Act on the Rational Use of Energy, for data centers that typically consume 10 to 20 times the energy of an office. In addition, we are also working on energy harvesting technologies to foster the development of wireless equipment.



AdaptivCOOL received the Commerce and Information Policy Bureau Director-General's Award, Ministry of Economy, Trade and Industry, at the Green IT Awards 2010.

2. AdaptivCOOL is a registered trademark of Degree Controls, Inc.

Technologies for Peace of Mind and Safety

Ever since its foundation, the azbil Group has continually pursued comfortable spaces and safe work processes with the aim of "freedom from drudgery."

In recent years, we have moved forward with the development of technologies that make life and work safer, including building access management, handling of hazardous materials at plants, prevention of



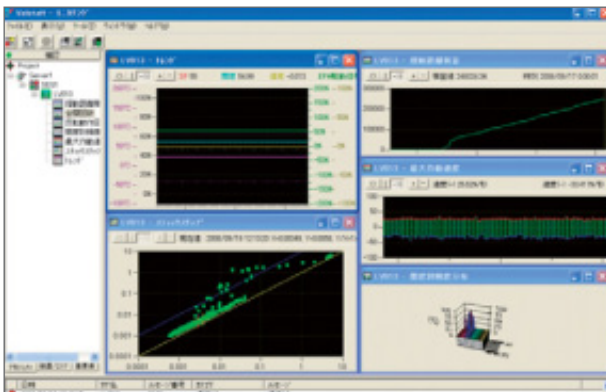
Electric & Electronic Component Award for UV Tube at 2010 "Cho" Monodzukuri Innovative Parts and Components Awards

pollution including bacteria, detection of earthquakes, gas supply shut-off during emergencies, prevention of illegal access to electronic files, and home-based systems for managing health and mental care.

For example, we were among the first in the industry to develop instrumentation engineering services that enable safe and simple combustion in industrial furnaces, advanced UV sensors and UV tubes that use ultraviolet rays to detect flames, and the RX series next-generation combustion control equipment for the safe operation of industrial furnace burners.

Technologies to Enhance Quality and Productivity

We have established an extensive track record as a leader in automation in terms of control and production management that enable a high level of productivity and quality on our customers' production floor. In addition, we were among the first to develop an integrated production management system that supports the business operations and strategic development of our customers, an operational support service for automation equipment that effectively and accurately executes maintenance, and a knowledge management service that systematically organizes, manages and utilizes expert knowledge.



Control valve diagnostic data

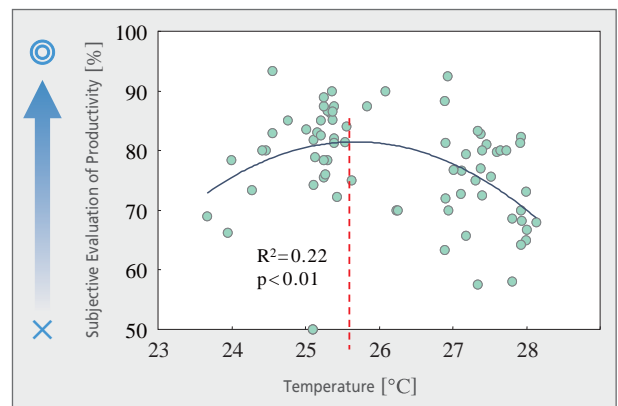
For example, in 2010 we developed InnovativeField Organizer™, a device management system that drastically streamlines instrumentation maintenance through the integrated monitoring and diagnostics of control valves and measuring instruments' operating conditions and the adjustment of settings accordingly.



Piston Prover, automatic water meter inspection equipment

These technologies are also used at the azbil Group's plants. For example, Yamatake took advantage of a revision to the regulations on water meters to develop Piston Prover, automatic water meter inspection equipment, together with Kimmon Manufacturing, which enabled us to establish a production structure to efficiently and accurately test meters for shipment.

For office buildings, we are also moving forward with research on indoor environments as well as productivity and comfort in the work place under a "human-centered" approach.

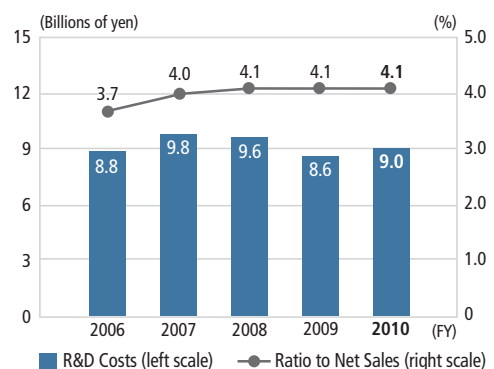


Impact of thermal environment on intellectual productivity

R&D Investment

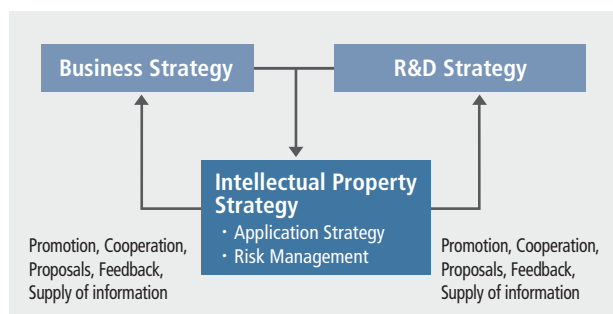
In fiscal year 2010, ended March 31, 2011, the azbil Group's total expenditures on R&D amounted to ¥9.0 billion, equivalent to 4.1% of net sales. Compared with the previous fiscal year, there were no major fluctuations in total costs, and investment in R&D continued at a steady pace. In fiscal year 2010, we actively invested in areas directly linked to product development. Going forward, investments will remain concentrated in core businesses, but we will also invest in growth businesses, new business domains, and cross-departmental business opportunities within the azbil Group. In particular, we have positioned research themes that will contribute significantly to reforming our business structure and can be expected to foster cooperation among Group companies as key themes. We conduct balanced activities in these areas, including formulating cross-business projects and promoting concentrated investment of resources.

R&D Costs/Ratio to Net Sales



Intellectual Property

The azbil Group believes intellectual property is an important business resource, and as such it ranks its intellectual property strategy as one of its key business strategies. The Group is carrying out its business strategy, R&D strategy, and intellectual property strategy in concert, with a focus on establishing an intellectual property portfolio in major product lines and technological fields, and managing risks from any infringements of intellectual properties of other companies.



Devising and Enacting the Intellectual Property Strategy

In fiscal year 2010, ended March 31, 2011, Yamatake continued to take the following measures to further strengthen its intellectual property strategy:

1. Established an intellectual property portfolio in major product lines and technological fields.
2. Minimized risks from patent infringements in azbil business areas.

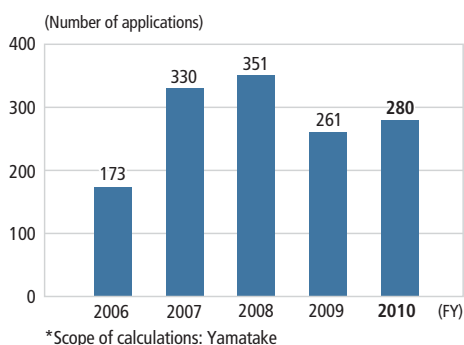
Establishing an Intellectual Property Portfolio in Major Product Lines and Technological Fields

Patent Applications in Japan

The number of patent applications filed in fiscal year 2010 increased by 19 from the previous fiscal year to 280.

In applying for patents, Yamatake conducts a patent technology appraisal, with the results presented in a visual format. Appropriate feedback for the business and R&D departments, and the resulting analysis, are crucial for developing new business and R&D strategies. We apply this methodology for intellectual property portfolio management and focus on achieving tangible results through the process.

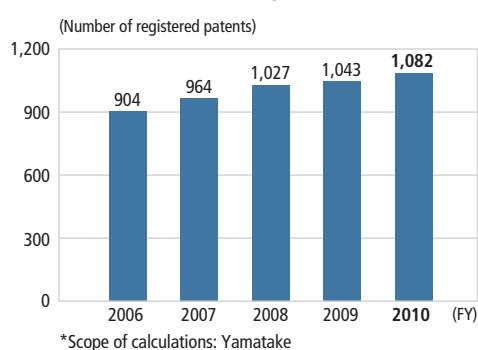
Number of Domestic Patent Applications



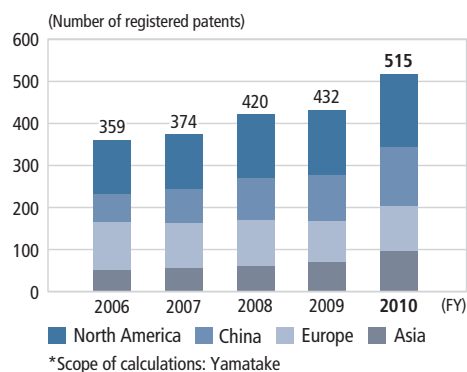
Number of Registered Patents

Yamatake holds 1,082 registered patents in Japan and 515 registered patents overseas, an increase of 39 and 83, respectively, from the previous fiscal year.

Number of Domestic Registered Patents



Number of Overseas Registered Patents



Regulations for Employee Inventions

Yamatake continues to pay various kinds of compensation to inventors based on revised regulations for employee inventions that aim to strengthen Company intellectual property rights and provide greater encouragement to inventors.

Minimizing Risks from Patent Infringements in azbil Business Areas

To avoid disputes related to other companies' patents involving our products, we use a work flow system to check more than 1,000 official open patent applications of other companies in Japan and the U.S. each month without omissions. This reduces business risks and greatly increases our freedom to promote R&D.

Trademark and Design Management

We are actively applying to register the "azbil" Group symbol as a trademark throughout the world in order to strengthen our brand. Further, we are bolstering our design applications in China with imitation countermeasures in mind.