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# *Our Performance*

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## Financial Section

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For general information on our financial results and investor relations,  
please refer to  
<http://www.azbil.com/ir/index.html>

## Consolidated Results

### Net Sales

In fiscal year 2011, ended March 31, 2012, sales rose ¥4,283 million, or 2.0%, year on year to ¥223,499 million amid the continuing uncertain outlook in the business environment for the azbil Group. This result comes from the azbil Group's emphasis on activities aimed at securing and expanding sales and its efforts to minimize the impact on the Group's business from the Great East Japan Earthquake and the Fukushima Daiichi nuclear power plant accident. Detailed breakdowns are available in the "Our Operations" section starting on page 29, but summaries are as follows.

### Building Automation Business

In the domestic market, there was a drop in sales for the business related to new buildings as well as for the business targeting existing buildings; in the business for existing buildings there had been several large-scale projects in the previous fiscal year. However, the service business grew steadily, and as a result there was an increase in overall sales for the domestic market compared to the previous fiscal year.

In the business related to existing buildings, owing to concerns about possible power supply shortages and increases in the cost of electricity, there has continued to be a strong demand for energy-saving measures; the number of customer inquiries has been correspondingly high. Nevertheless, because of a sense of uncertainty regarding future business conditions, there is still a tendency among many customers to postpone large-scale investments aimed at upgrading their facilities. In the service field, however, business performance benefited from staff making proactive energy-saving proposals to generate add-on contract work and also expanding business into new areas.

Abroad, the azbil Group has traditionally had an advantage in the overseas market for factories operated by Japanese companies, but it is now also engaged in developing the non-Japanese market by forming tie-ups with local enterprises, making use of the fact that in Japan the azbil Group has unrivalled experience and energy-saving expertise. This approach has resulted in steady sales growth.

As a result, sales in the Building Automation business rose ¥1,772 million, or 1.7%, year on year to ¥103,896 million.

### Advanced Automation Business

In Japan, sales of control products for the factory automation (FA) market took a downward turn, resulting in less sales than the previous

fiscal year. It is true that at the start of the fiscal year there was rapid growth in domestic demand in such markets as semiconductor manufacturing equipment; this was helped in part by recovery efforts in the wake of the March 11 disaster. However, midway through the fiscal year, demand fell as a result of a weakening in capital investment and inventory cutbacks. On the other hand, sales increased for such field instruments as transmitters as well as for system products in the energy- and functional materials-related markets. Consequently, in the domestic market as a whole sales grew.

Overseas, there was a fall in sales for control products in the FA market, but sales of valves and field instruments expanded and, despite the negative impact of exchange rates, overall sales increased. With their potential for growth, these overseas markets are of special importance to the azbil Group, and it is striving to upgrade local engineering and maintenance capabilities. As part of this initiative, progress has been made in bolstering the valve maintenance facilities at key locations in China, Thailand, and Taiwan, as well as in other countries. For example, in October 2011 the Technical Service Center in Singapore was relocated and enlarged.

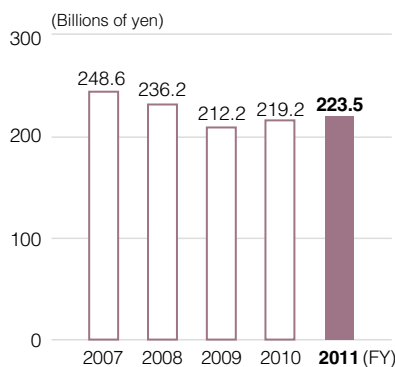
As a result, sales in the Advanced Automation business were up ¥3,159 million, or 3.9%, year on year to ¥84,134 million.

### Life Automation Business

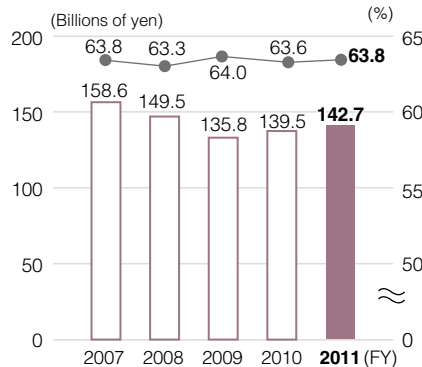
The Life Automation business covers a wide variety of fields closely connected with people's everyday lives: it markets lifeline-related measuring equipment; it provides health and welfare and nursing care; and it also sells central air-conditioning systems for homes that ensure a comfortable and healthy environment while contributing to energy saving. Azbil Kimmon Co., Ltd. – a company that plays a central role in the lifeline field and accounts for the bulk of Life Automation business sales – produces and sells gas and water meters. The Fukushima Daiichi nuclear power plant accident did mean that operations at some of the company's production facilities in the Tohoku region had to be temporarily suspended. Although the company's situation has now returned to normal, sales figures fell as a result of the accident and the fact that LP gas meter sales are depressed in the off-demand season.

Turning to the Life Assist field – with its nursing care and emergency alert response services – demand is steadily growing as Japan's population ages. However, with cutbacks in welfare budgets by local governments, etc., the business environment is challenging. In response, various measures have been adopted, such as launching new products, increasing the number of service sites, and expanding the scope of

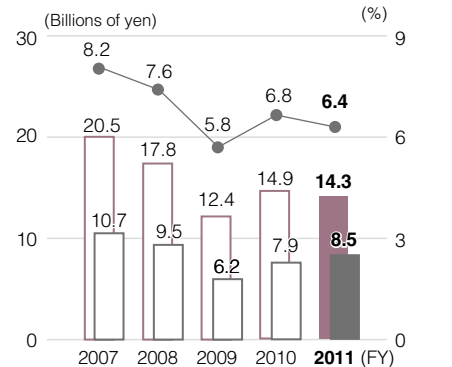
### Net Sales



### Cost of Sales/ Ratio to Net Sales



### Operating Income/Net Income/ Operating Income to Net Sales



services offered. This approach has succeeded in increasing sales.

As regards the market for residential central air-conditioning systems, the sales force has been reinforced and an aggressive strategy targeting both house builders and individual owners has been adopted. As an example of the latter, a showroom (Platz Kikubar) has been set up inside one of Japan's largest permanent housing exhibitions, tvk Housing Plaza Yokohama. These efforts have led to increased sales.

While the Great East Japan Earthquake and the Fukushima Daiichi nuclear power plant accident did affect Azbil Kimmon, thanks to vigorous efforts aimed at a quick operational recovery, the impact was relatively small. There was also sales growth in the Life Assist field (nursing care, lifestyle support services, etc.) as well as for residential central air-conditioning systems.

As a result, sales in the Life Automation business fell ¥78 million, or 0.2%, year on year to ¥32,543 million.

### Other

Sales decreased ¥214 million, or 4.2%, year on year to ¥4,909 million.

### Operating Income

Cost of sales totaled ¥142,659 million, and the cost of sales ratio increased 0.2 percentage points to 63.8%. The increase was largely due to increased outlays for social insurance premiums (rate changes for employee pensions and health insurance) and retirement benefits expenses, etc., as well as price pressures, which were only partially offset by the Company's efforts to rationalize and curb expenditures while enhancing the business structure.

Selling, general and administrative expenses increased ¥1,674 million to ¥66,492 million, also due to higher social insurance premiums and retirement benefit expenses and other expenses. The ratio of selling, general and administrative expenses to sales increased 0.2 percentage points to 29.8%.

As a result, operating income decreased ¥548 million, or 3.7%, year on year to ¥14,348 million. By business segment, segment profit (operating income) for the Building Automation business decreased ¥1,421 million, or 12.1%, year on year to ¥10,328 million, and segment profit (operating income) for the Advanced Automation business increased ¥772 million, or 23.9%, year on year to ¥4,006 million. For the Life Automation business, segment loss (operating loss) was ¥128 million, compared with segment loss (operating loss) of ¥227 million in the previous fiscal year. Segment profit (operating income) for the Other segment decreased ¥1 million, or 1.4%, year on year to ¥143 million.

### Net Income

#### Other Income (Expenses)

Other income-net was ¥459 million, compared with other expenses-net of ¥1,170 million in the previous fiscal year. Major factors were dividend income totaling ¥277 million, a decrease of ¥193 million compared with the previous fiscal year, and gain on sales of investment securities-net of ¥2 million, a decrease of ¥174 million compared with the previous fiscal year, offset by foreign currency exchange loss of ¥38 million, a decrease of ¥435 million compared with the previous fiscal year. Others-net included compensation income of ¥318 million, profits from negative goodwill of ¥197 million, and gain on transfer of business of ¥184 million. In addition, non-recurring expenses including environmental expenses of ¥572 million and loss on adjustment for changes of accounting standard for asset retirement obligations of ¥266 million were recorded in other expenses in the previous fiscal year.

#### Income before Income Taxes and Minority Interests / Income Taxes

Income before income taxes and minority interests increased ¥1,081 million, or 7.9%, year on year to ¥14,807 million. Total income taxes increased ¥466 million, or 8.4%, to ¥5,983 million. The actual effective income tax rate on income before income taxes and minority interests was 40.4%, an increase of 0.2 percentage points from the previous fiscal year, while minority interests in net income increased ¥24 million, or 8.6%, to ¥305 million.

As a result of the above factors, net income increased ¥591 million, or 7.5%, year on year to ¥8,519 million.

### Financial Position

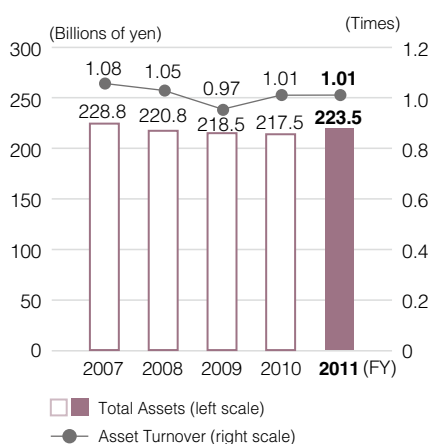
#### Assets

Total assets at March 31, 2012 increased ¥5,975 million, or 2.7%, from the previous fiscal year-end to ¥223,476 million. This was primarily due to an increase in notes and accounts receivable-trade of ¥9,496 million.

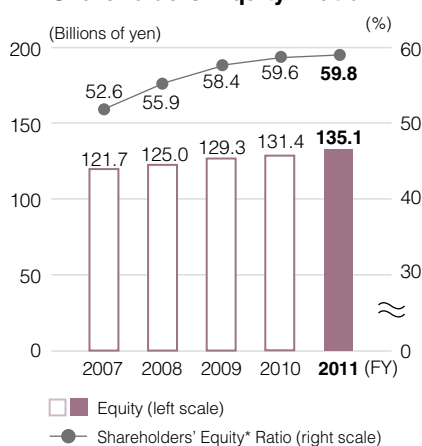
#### Liabilities

Total liabilities at March 31, 2012 increased ¥2,260 million, or 2.6%, from the previous fiscal year-end to ¥88,399 million. This was primarily due to an increase of ¥3,239 million in notes and accounts payable-trade.

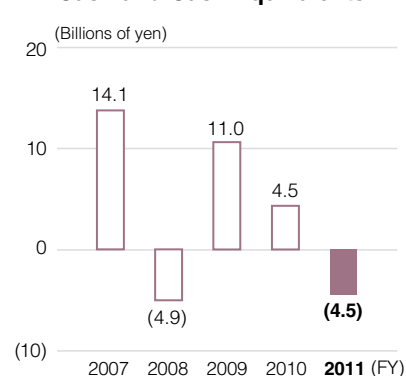
#### Total Assets/Asset Turnover



#### Equity/Shareholders' Equity\* Ratio



#### Net Change in Cash and Cash Equivalents



\* Shareholders' Equity = Total equity - Minority interests

## Equity

Total equity at March 31, 2012 increased ¥3,715 million, or 2.8%, from the previous fiscal year-end to ¥135,077 million. This was primarily the result of an increase in retained earnings due to net income recorded for fiscal year 2011.

A year-on-year comparison of asset performance indicators (simple average at beginning and end of year) is as follows.

**Receivables/sales (days):** Increased 7 days to 132 days\*

**Inventories/cost of sales (days):** Decreased 2 days to 38 days

**Asset turnover (times):** 1.01 times (same as in the previous fiscal year)

**Shareholders' equity ratio:** Increased 0.2 percentage points to 59.8%

\* This was mainly owing to an increase in notes and accounts receivable-trade related to sales growth and the closing day falling on a holiday.

## Per Share Data

Net income per share increased ¥8.00 year on year to ¥115.35, and net assets\* per share rose ¥53.62 to ¥1,808.48.

\* Net assets are presented as total equity in the consolidated balance sheet.

## Cash Flows

Cash and cash equivalents (hereafter, net cash) provided by operating activities in fiscal year 2011, ended March 31, 2012, decreased ¥9,589 million, or 63.0%, year on year to ¥5,634 million. This was primarily due to an increase in notes and accounts receivable, mainly reflecting sales growth and the closing day falling on a holiday, as well as an increase in income taxes-paid.

Net cash used in investing activities was ¥3,549 million, an increase of ¥1,273 million from the previous fiscal year. This was primarily due to a decrease in proceeds from sales of investment securities.

Net cash used in financing activities decreased ¥1,608 million year on year to ¥6,393 million. The primary reason was a decrease in cash outflow from the repayment of debt.

As a result of the above factors, cash and cash equivalents on March 31, 2012, the end of fiscal year 2011, decreased ¥4,488 million, or 7.5%, from the previous fiscal year-end to ¥55,356 million.

## Outlook for Fiscal Year 2012, Ending March 31, 2013

For fiscal year 2012, we forecast a year-on-year increase of 2.9% in sales to ¥230,000 million, an increase of 4.5% in operating income to ¥15,000 million, and an increase of 5.6% in net income to ¥9,000 million.

By business segment, in the Building Automation business, we forecast year-on-year increases of ¥3,104 million, or 3.0%, in sales to ¥107,000 million, and ¥172 million, or 1.7%, in segment profit (operating income) to ¥10,500 million. In the Advanced Automation business, we forecast year-on-year increases of ¥7,866 million, or 9.4%, in sales to ¥92,000 million, and ¥994 million, or 24.8%, in segment profit (operating income) to ¥5,000 million. In the Life Automation business, we forecast a year-on-year increase of ¥457 million, or 1.4%, in sales to ¥33,000 million, and a segment loss (operating loss) of ¥500 million. For the Other segment, we forecast a year-on-year decrease of ¥4,809 million, or 98.0%, in sales to ¥100

million and segment loss (operating loss) of ¥0 million. From fiscal year 2012, some operations within the Other segment will be transferred to the Advanced Automation business.

Our view of the business environment that forms the basis of this outlook, and measures we will take to adapt to this business environment, are as follows.

Even as economic conditions continue to be challenging, a gradual pickup is envisaged. Nevertheless, there will still be concern regarding the debt crisis in Europe; this, combined with worries about the uncertain U.S. economic recovery and an economic slowdown in China, means that business sentiment will reflect a heightened sense of caution. Moves to correct the high value of the yen have proved to have only a limited effect, and sluggish foreign demand and concerns about the yen appreciating again will serve to dampen any recovery in the performance of Japan's export-related industries. The business environment of the azbil Group will continue to be uncertain. While there are expectations for growth – such as a recovery in capital investment by manufacturing industries in Japan and abroad, and increased investment in energy-saving measures by businesses facing constraints on their power consumption as well as increases in the cost of electricity – it is also expected that severe price pressures will continue to beset the Building Automation business in the market for new buildings.

Taking these conditions into account, and aiming to achieve its earnings forecast for fiscal year 2012, the azbil Group will work toward the steady realization of measures designed to ensure profits.

Leveraging the achievements already made in the reforms of business and operational structures, we will push forward with the transformation to a robust business structure that can cope with such changes in market structure as downward pressure on prices. And we will aim to expand the scope of our businesses from a global perspective.

## Risk Management

The following are some of the risks that could affect the azbil Group's business results and financial position. Assessments of these risks are conducted annually, and management and relevant divisions take measures to reduce risks and to respond when the risks materialize. Forward-looking statements are based on the Group's judgments at the end of fiscal year 2011, ended March 31, 2012.

### Risks Related to the Business Environment and Business Activities

#### Effect of Economic Downturn or Stagnation

Structural factors make demand for the azbil Group's products and services susceptible to fluctuations in the economy and their effects on markets related to the Group, including the construction, manufacturing, and equipment manufacture markets. A large-scale downturn in business conditions and a decrease in demand from these markets could have an adverse impact on the Group's operations, business results, and financial position.

#### Risks Related to Competition

Competition is becoming severe in the azbil Group's business fields, which are the Building Automation business, Advanced Automation business, and Life Automation business. Under the circumstances, the azbil Group believes that its products and services offer high added value unmatched by other companies in terms of technology, quality,

and cost. While the Group is taking measures to prepare for situations such as intensifying competition or the entry of new competitors, unexpected changes in relationships among competitors could have an impact on the Group's business results and financial position.

### Risks Related to the Group's Product Quality

The azbil Group's products, systems, and services are used for vital measurement and control related to safety and quality in a variety of plants and buildings. The Group has established a committee to oversee quality assurance and has enhanced its quality control system through sharing and transparency of quality information. Furthermore, the Group has taken out insurance policies, giving due consideration to damages for product liability. However, an incident caused by defects in the Group's products, systems, or services could result in substantial costs and severely damage the Group's credibility with customers. This in turn could have an impact on the Group's operations, business results, and financial position.

### Risks Related to R&D Activities

The azbil Group has positioned the management of research and development activities as one of its top priorities. Based on the Group philosophy of "human-centered automation," the Group is carrying out research and development activities aimed at the conservation of resources, energy and labor; safety; environmental preservation; and the realization of comfortable environments.

The azbil Group is strengthening its efforts to deliver appealing products and services to its customers in a timely fashion based on an accurate perception of their needs. However, a misreading of these needs or technological trends, postponement of research and development, insufficient technological capabilities, or other factors could delay the market launch of new products and have an adverse impact on the Group's operations, business results, and financial position.

### Risks Related to Global Operations

The azbil Group conducts business overseas, mainly in Asia, through 25 local subsidiaries and two branches. In the rapidly growing Chinese market, the Group conducts product sales, manufacturing, instrumentation work, and other businesses locally through 10 subsidiaries. The Group has established manufacturing bases in Dalian and Shenzhen, where products are manufactured for the Japanese market. While the Group continues to expand its business globally, being mindful of the decentralization of country risk, delays in its expansion plans, unexpected changes in the political and economic condition, currency fluctuations, local legal, regulatory, and other reforms, natural disasters, terrorism, strikes, and other developments in countries where it has advanced could have an impact on the Group's business results and financial position.

### Other Risks

#### Risks Related to Securing and Developing Human Resources

Since its founding, the azbil Group has focused on developing human resources based on the view that its employees are a valued asset, the source of corporate cultural renewal, and the creative source of its corporate value. However, possible future issues such as ensuring the safety and health of employees, measures to deal with the ageing of the workforce, the succession of technologies, expertise, and know-how, cross-training for multifunctional workers, and the retention and

development of human resources for domestic and international business expansion could have an impact on the Group's business results and financial position.

#### Risks Related to Information Leakage

The azbil Group possesses critical information on businesses and confidential information including personal information and information on business partners that is obtained in the course of business. The Group is taking measures to strengthen its handling and management of information and increase employees' informational literacy. However, leakage of this type of information due to unforeseen reasons could have an impact on the Group's business results and financial position.

#### Risks Related to Disasters

Four of the six domestic production bases (including manufacturing subsidiaries) of the azbil Group's Building Automation and Advanced Automation businesses are concentrated in Kanagawa Prefecture. In addition, four of the seven domestic production bases of Azbil Kimmon Co., Ltd. involved in the Life Automation business are concentrated in Fukushima Prefecture. The Group has taken actions as necessary including implementing safety precautions, taking out insurance, and establishing a business continuity plan (BCP) to maintain operations and/ or quickly return operations to normal. However, any direct or indirect effect due to a large-scale disaster or other incident in these areas could have an impact on the Group's business results and financial position. In fiscal year 2011, the temporary shutdown of the azbil Group's factories due to the earthquake and nuclear power plant accident had an impact on the Group's profits, but the Group minimized the impact by taking the measures mentioned above.

#### Risks Related to Laws and Regulations

The azbil Group is subject to laws and regulations in the countries where it operates, including licensing for operations and investment, environmental and safety standards, and product standards. Unexpected changes in these laws or regulations, or the establishment of new laws or regulations, could have an impact on the Group's business results and financial position.

In particular, although the azbil Group is proceeding with a variety of measures to reduce its environmental impact, in part to comply with stricter environmental regulations, difficulty in complying with environmental regulations may result in the cessation of certain business activities or damage to the trust placed in the Group. This could have an impact on the Group's business results and financial position.

#### Risks Related to Intellectual Property Rights

The azbil Group accumulates differentiated technologies and know-how in the development of products and services within the Group and works to protect its intellectual property rights, in order to ensure and maintain its competitive edge. In addition, the Group works to secure licensing rights from third parties where necessary in product development and production. However, inadequate execution of these processes could have an impact on the Group's business results and financial position.



## Consolidated Balance Sheet

Azbil Corporation (Formerly, Yamatake Corporation)  
and Consolidated Subsidiaries  
March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Notes 3, 6 and 14)	¥ 55,356	¥ 59,844	\$ 675,072
Notes and accounts receivable:			
Trade (Note 14)	85,546	76,050	1,043,248
Other	1,479	839	18,037
Allowance for doubtful receivables	(295)	(358)	(3,598)
Inventories (Note 4)	16,135	13,785	196,764
Deferred tax assets (Note 10)	5,225	5,487	63,718
Prepaid expenses and other current assets	9,541	8,739	116,352
<b>Total current assets</b>	<b>172,987</b>	<b>164,386</b>	<b>2,109,593</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Note 5)	6,293	6,334	76,743
Buildings and structures (Note 6)	38,096	38,135	464,589
Machinery and equipment (Note 5)	17,500	17,258	213,416
Furniture and fixtures (Note 5)	19,067	19,278	232,528
Construction in progress	152	351	1,848
<b>Total</b>	<b>81,108</b>	<b>81,356</b>	<b>989,124</b>
Accumulated depreciation	(56,962)	(55,645)	(694,658)
<b>Net property, plant and equipment</b>	<b>24,146</b>	<b>25,711</b>	<b>294,466</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 14)	12,573	12,202	153,324
Investments in unconsolidated subsidiaries and associated companies	654	517	7,975
Goodwill	2,604	3,879	31,762
Deposits (Note 2.u)	2,724	2,732	33,217
Deferred tax assets (Note 10)	1,638	1,585	19,977
Other assets (Note 5)	6,150	6,489	75,004
<b>Total investments and other assets</b>	<b>26,343</b>	<b>27,404</b>	<b>321,259</b>
<b>TOTAL</b>	<b>¥223,476</b>	<b>¥217,501</b>	<b>\$2,725,318</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 6 and 14)	¥ 4,076	¥ 4,055	\$ 49,702
Current portion of long-term debt (Notes 6 and 14)	1,542	1,699	18,809
Notes and accounts payable:			
Trade (Note 14)	37,185	33,946	453,480
Other	1,249	941	15,230
Income taxes payable	5,105	5,810	62,253
Accrued bonuses	8,213	8,119	100,159
Other accrued expenses and current liabilities	11,920	10,923	145,371
Total current liabilities	69,290	65,493	845,004
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 6 and 14)	4,769	6,284	58,155
Liabilities for retirement benefits (Note 7)	12,582	12,582	153,438
Deferred tax liabilities (Note 10)	872	963	10,637
Other long-term liabilities	886	817	10,809
Total long-term liabilities	19,109	20,646	233,039
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 13, 15 and 16)			
<b>EQUITY</b> (Notes 8, 9 and 18):			
Common stock—authorized, 279,710,000 shares; issued, 75,116,101 shares	10,523	10,523	128,326
Capital surplus	17,198	17,198	209,729
Stock acquisition rights	2	2	28
Retained earnings	107,538	103,678	1,311,442
Treasury stock—at cost, 1,261,480 shares in 2012 and 1,261,417 shares in 2011	(2,643)	(2,643)	(32,232)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,452	2,119	29,898
Deferred loss on derivatives under hedge accounting	(1)	(1)	(11)
Foreign currency translation adjustments	(1,502)	(1,269)	(18,315)
Total	133,567	129,607	1,628,865
Minority interests	1,510	1,755	18,410
Total equity	135,077	131,362	1,647,275
<b>TOTAL</b>	<b>¥223,476</b>	<b>¥217,501</b>	<b>\$2,725,318</b>

### Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>NET SALES</b>	¥223,499	¥219,216	\$2,725,602
<b>COST OF SALES</b> (Notes 7 and 13)	142,659	139,502	1,739,745
Gross profit	80,840	79,714	985,857
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 7, 12 and 13)	66,492	64,818	810,876
Operating income	14,348	14,896	174,981
<b>OTHER INCOME (EXPENSES):</b>			
Interest income	109	107	1,334
Dividend income	277	470	3,374
Interest expense	(106)	(159)	(1,296)
Foreign currency exchange loss	(38)	(473)	(469)
Gain (loss) on sales of property, plant and equipment-net	13	(58)	164
Gain on sales of investment securities-net (Note 3)	2	176	23
Loss on impairment of long-lived assets (Note 5)	(178)	(245)	(2,171)
Others-net (Note 11)	380	(988)	4,634
Other income (expenses)-net	459	(1,170)	5,593
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	14,807	13,726	180,574
<b>INCOME TAXES</b> (Note 10):			
Current	5,601	6,077	68,300
Deferred	382	(560)	4,667
Total income taxes	5,983	5,517	72,967
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	8,824	8,209	107,607
<b>MINORITY INTERESTS IN NET INCOME</b>	(305)	(281)	(3,720)
<b>NET INCOME</b>	¥ 8,519	¥ 7,928	\$ 103,887

	Yen		U.S. dollars
	2012	2011	2012
<b>PER SHARE OF COMMON STOCK</b> (Note 2.s):			
Net income	¥115.35	¥107.35	\$1.41
Cash dividends applicable to the year	63.00	63.00	0.77

See notes to consolidated financial statements.

### Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	¥8,824	¥ 8,209	\$107,607
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b> (Note 17):			
Unrealized gain (loss) on available-for-sale securities	323	(1,023)	3,937
Deferred loss on derivatives under hedge accounting		(2)	(1)
Foreign currency translation adjustments	(238)	(422)	(2,904)
Total other comprehensive income (loss)	85	(1,447)	1,032
<b>COMPREHENSIVE INCOME</b>	¥8,909	¥ 6,762	\$108,639
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Azbil Corporation	¥8,618	¥ 6,550	\$105,099
Minority interests	291	212	3,540

See notes to consolidated financial statements.

Azbil Corporation (Formerly, Yamatake Corporation)  
and Consolidated Subsidiaries  
Years Ended March 31, 2012 and 2011

## Consolidated Statement of Changes in Equity

	Thousands			Millions of yen								
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total	Minority Interests	Total Equity
							Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
<b>BALANCE, APRIL 1, 2010</b>	73,855	¥10,523	¥17,198	¥2	¥100,363	¥(2,643)	¥3,149	¥ 2	¥ (923)	¥127,671	¥1,607	¥129,278
Adjustment of retained earnings for newly consolidated subsidiaries					3					3		3
Net income					7,928					7,928		7,928
Cash dividends, ¥63 per share					(4,616)					(4,616)		(4,616)
Purchase of treasury stock												
Disposal of treasury stock												
Net change in the year							(1,030)	(3)	(346)	(1,379)	148	(1,231)
<b>BALANCE, MARCH 31, 2011</b>	73,855	10,523	17,198	2	103,678	(2,643)	2,119	(1)	(1,269)	129,607	1,755	131,362
Adjustment of retained earnings for newly consolidated subsidiaries					(5)					(5)		(5)
Net income					8,519					8,519		8,519
Cash dividends, ¥63 per share					(4,654)					(4,654)		(4,654)
Purchase of treasury stock						(1)				(1)		(1)
Disposal of treasury stock						1				1		1
Transfer from retained earnings to capital surplus												
Net change in the year							333		(233)	100	(245)	(145)
<b>BALANCE, MARCH 31, 2012</b>	73,855	¥10,523	¥17,198	¥2	¥107,538	¥(2,643)	¥2,452	¥(1)	¥(1,502)	¥133,567	¥1,510	¥135,077

Thousands of U.S. dollars (Note 1)

	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total	Minority Interests	Total Equity
						Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
	<b>BALANCE, MARCH 31, 2011</b>	\$128,326	\$209,729	\$28	\$1,264,360	\$(32,232)	\$25,846	\$ (10)	\$ (15,476)	\$1,580,571	\$21,400
Adjustment of retained earnings for newly consolidated subsidiaries				(62)					(62)		(62)
Net income				103,887					103,887		103,887
Cash dividends, \$0.77 per share				(56,742)					(56,742)		(56,742)
Purchase of treasury stock					(8)				(8)		(8)
Disposal of treasury stock			(1)		8				7		7
Transfer from retained earnings to capital surplus		1		(1)							
Net change in the year						4,052	(1)	(2,839)	1,212	(2,990)	(1,778)
<b>BALANCE, MARCH 31, 2012</b>	\$128,326	\$209,729	\$28	\$1,311,442	\$(32,232)	\$29,898	\$ (11)	\$ (18,315)	\$1,628,865	\$18,410	\$1,647,275

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

Azbil Corporation (Formerly, Yamatake Corporation)  
and Consolidated Subsidiaries  
Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 14,807	¥ 13,726	\$ 180,574
Adjustments for:			
Income taxes—paid	(6,302)	(3,866)	(76,856)
Depreciation and amortization	5,301	5,789	64,649
(Reversal of) provision for doubtful receivables	(31)	8	(372)
Increase in accrued bonuses	98	213	1,194
(Gain) loss on sales of property, plant and equipment—net	(13)	58	(164)
Gain on sales of investment securities—net	(2)	(176)	(23)
Loss on impairment of long-lived assets—trade	178	245	2,171
Increase in notes and accounts receivable	(9,574)	(1,610)	(116,762)
(Increase) decrease in inventories	(2,416)	2,500	(29,462)
Increase (decrease) in notes and accounts payable	3,335	(906)	40,666
Increase (decrease) in liabilities for retirement benefits	2	(532)	23
Others—net	251	(226)	3,069
Total adjustments	(9,173)	1,497	(111,867)
Net cash provided by operating activities	5,634	15,223	68,707
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	150	176	1,831
Purchases of property, plant and equipment	(2,377)	(2,532)	(28,989)
Purchase of intangible assets	(340)	(675)	(4,141)
Proceeds from sales of investment securities	5	1,262	65
Purchases of investment securities	(347)	(83)	(4,227)
Proceeds from sales of beneficiary securities of trust	14,468	13,793	176,440
Purchases of beneficiary securities of trust	(14,445)	(14,082)	(176,157)
Others—net	(663)	(135)	(8,105)
Net cash used in investing activities	(3,549)	(2,276)	(43,283)
<b>FINANCING ACTIVITIES:</b>			
Net (decrease) increase in short-term borrowings	15	(8,409)	181
Proceeds from long-term debt		7,050	
Repayment of long-term debt	(1,590)	(1,893)	(19,387)
Disposal of treasury stock	1		7
Purchase of treasury stock	(1)	(1)	(8)
Dividends paid	(4,647)	(4,613)	(56,675)
Others—net	(171)	(135)	(2,082)
Net cash used in financing activities	(6,393)	(8,001)	(77,964)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	(180)	(466)	(2,189)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,488)</b>	<b>4,480</b>	<b>(54,729)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>59,844</b>	<b>55,364</b>	<b>729,801</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 55,356</b>	<b>¥ 59,844</b>	<b>\$ 675,072</b>

See notes to consolidated financial statements.

## 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 conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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 2011 consolidated financial statements to conform to the classifications used in 2012.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥82 to \$1, the approximate rate of exchange as of March 31, 2012. Such translation should not be construed as representation 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, 2012 include the accounts of Azbil and its 35 significant (35 in 2011) subsidiaries (collectively, the "azbil Group").

Under the control or influence concept, those companies in which Azbil, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in 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 the net assets of the acquired subsidiary and associated company at the date of acquisition. Goodwill from the acquisition of Azbil Kimmon Co., Ltd. ("Azbil Kimmon") is being amortized over 7 years. Other goodwill is being amortized on a straight-line basis over 5 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. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are 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.

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

**d. 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.

**e. 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 the 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.

Non-marketable 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.

**f. 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. 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.

**g. 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 would be 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.

**h. Retirement and Pension Plans**—Azbil has a non-contributory funded pension plan and a defined contribution pension plan covering substantially all of its employees.

Most of the consolidated subsidiaries have non-contributory funded pension plans and unfunded retirement benefit 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.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

**i. Asset Retirement Obligations**—In March 2008, the Accounting Standards Board of Japan (the "ASBJ") published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**j. Stock Options**—In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

**k. Research and Development Costs**—Research and development costs are charged to income as incurred.

**l. Leases**—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the

previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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 note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

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 which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

**m. Bonuses to Directors**—Bonuses to directors are accrued at the year-end to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2012 and 2011 was ¥115 million (\$1,408 thousand) and ¥103 million, respectively.

**n. Construction Contracts**—In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be 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 can 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 construction contracts.

**o. 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 tax laws to the temporary differences and tax loss carryforwards.

**p. 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.

**q. 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 (loss) in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**r. Derivatives Financial Instruments**—The azbil Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the azbil Group to reduce foreign currency exchange 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.

**s. Per Share Information**—Net income per share is computed by dividing net income available to shareholders of common stock by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighted-average number of shares of common stock used in the computation was 73,854,722 shares for 2012 and 73,854,684 shares for 2011.

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

Diluted net income per share is not disclosed because it is anti-dilutive.

**t. Accounting Changes and Error Corrections**—In December 2009, the ASBJ issued 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 under this standard and guidance are as follows:

(1) Changes in accounting policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentations

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.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**u. Presentation Changes (Reclassifications)**

**Deposits**—Prior to April 1, 2012, deposits were included in the other assets among the investments and other assets section of the consolidated balance sheet. Since during this fiscal year ended March 31, 2012, the amount of ¥2,724 million (\$33,217 thousand) became to have significance in the investments and other assets section due to total amount of the investments and other assets section decreasing. As such, deposits are disclosed separately in the investments and other assets section of the consolidated balance sheet as of March 31, 2012. The amount included in the other assets as of March 31, 2011 was ¥2,732 million.

**v. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The revised accounting standard would not change how to

recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the

end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

Azbil expects to apply the revised accounting standard from the beginning of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current—Other	¥12,400	¥12,900	\$151,220
Total	¥12,400	¥12,900	\$151,220
Non-current:			
Equity securities	¥12,516	¥12,128	\$152,635
Other	57	74	689
Total	¥12,573	¥12,202	\$153,324

The costs and aggregate fair values of marketable and investment securities whose fair value is readily determinable as of March 31, 2012 and 2011, were as follows:

	Millions of yen								Thousands of U.S. dollars			
	2012				2011				2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥ 5,844	¥6,020	¥131	¥11,733	¥ 5,708	¥5,944	¥103	¥11,549	\$ 71,273	\$73,402	\$1,593	\$143,082
Other	12,459	1	4	12,456	12,958	3	4	12,957	151,945	11	50	151,906

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2012 and 2011, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2012 and 2011 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥5	¥2		¥1,796	¥194	¥18	\$65	\$25	\$2

The impairment losses on available-for-sale equity securities for the years ended March 31, 2012 and 2011 were ¥28 million (\$341 thousand) and ¥71 million, respectively.

### 4. INVENTORIES

Inventories at March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥ 1,775	¥ 1,370	\$ 21,646
Finished products	2,352	2,327	28,681
Work in process	5,526	4,745	67,384
Raw materials	6,482	5,343	79,053
Total	¥16,135	¥13,785	\$196,764

### 5. LONG-LIVED ASSETS

The azbil Group reviewed its long-lived assets for impairment as of March 31, 2012 and 2011, and recognized an impairment loss of ¥178 million (\$2,171 thousand) and ¥245 million for certain assets of Azbil Kimmon and an idle asset of the former Futaba Plant (Futaba County, Fukushima Prefecture) within the Fukushima nuclear disasters evacuation zone (surrounding Tokyo Electric Power Company's Fukushima Nos. 1 and 2 nuclear plants), respectively.

The carrying amount of the relevant property, plant and the idle asset and equipment was written down to the net selling price. However, as the net selling price of the idle asset cannot be quoted reasonably, the net selling price is based on the memorandum value.

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2012 and 2011, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.5% to 6.1% as of March 31, 2012 and from 0.5% to 3.8% as of March 31, 2011.

Long-term debt as of March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.8% to 2.0% in 2012 and from 0.9% to 2.1% in 2011:			
Collateralized	¥ 22	¥ 82	\$ 272
Unsecured	6,132	7,650	74,781
Bonds due serially through 2012 with interest rates ranging from 0.6% to 1.5% in 2011:			
Collateralized		50	
Unsecured		10	
Obligations under finance leases	157	191	1,911
Total	6,311	7,983	76,964
Less current portion	(1,542)	(1,699)	(18,809)
Long-term debt, less current portion	¥ 4,769	¥ 6,284	\$ 58,155

As of March 31, 2012, Azbil had an unused line of credit amounting to ¥30,000 million (\$365,853 thousand), of which ¥10,000 million (\$121,951 thousand) related to the unused portion of commitment lines with four banks and ¥20,000 million (\$243,902 thousand) related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2012, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥1,542	\$18,809
2014	1,533	18,690
2015	1,742	21,246
2016	1,431	17,454
2017	25	309
2018 and thereafter	38	456
Total	¥6,311	\$76,964

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2012, which include the amount for short-term debt of ¥50 million were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposit	¥ 55	\$ 671
Buildings and structures	148	1,808
Total	¥203	\$2,479

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 retirement and pension plans for employees, and certain domestic subsidiaries have retirement benefit plans for directors and corporate auditors.

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 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.

The liability for retirement benefits at March 31, 2012 and 2011, for directors and corporate auditors is ¥189 million (\$2,306 thousand) and ¥227 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2012 and 2011, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥ 42,379	¥ 42,843	\$ 516,816
Fair value of plan assets	(26,349)	(24,788)	(321,324)
Unrecognized prior service costs	1,935	2,156	23,603
Unrecognized actuarial loss	(5,573)	(7,872)	(67,969)
Prepaid pension expense	1	16	6
Net liability	¥ 12,393	¥ 12,355	\$ 151,132

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥1,821	¥1,799	\$22,201
Interest cost	824	820	10,052
Expected return on plan assets		(478)	
Amortization of prior service costs	(220)	(220)	(2,688)
Recognized actuarial loss	1,014	980	12,366
Payment for defined contribution pension plan and other	843	828	10,283
Net periodic benefit costs	¥4,282	¥3,729	\$52,214

Assumptions used for the years ended March 31, 2012 and 2011, are set forth as follows:

	2012	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.0%	2.0%
Amortization period of prior service cost	10–15 years	10–15 years
Recognition period of actuarial gain/loss	10–15 years	10–15 years

## 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. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal 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 cannot do so because it does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 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 total aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of 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 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 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. STOCK OPTIONS

A director and employees of BioVigilant Systems, Inc. were granted options for new common stock. The stock options outstanding as of March 31, 2012, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price (U.S. dollars)	Exercise Period
2007 Stock Option	1 employee	6,000 shares	2007.1.23	\$1.00	From January 23, 2007 to January 23, 2017
2007 Stock Option	2 employees	10,450 shares	2007.1.24	1.00	From January 24, 2007 to January 24, 2017
2007 Stock Option	5 employees	34,500 shares	2007.5.4	1.00	From May 4, 2007 to May 4, 2017
2007 Stock Option	2 employees	24,000 shares	2007.8.13	1.00	From August 13, 2007 to August 13, 2017
2007 Stock Option	1 director	20,000 shares	2007.11.20	1.00	From November 20, 2007 to November 20, 2017
2008 Stock Option	1 director	10,000 shares	2008.4.25	0.38	From April 25, 2008 to April 25, 2018
2008 Stock Option	1 director and 9 employees	70,000 shares	2008.6.13	0.38	From June 13, 2008 to June 13, 2018
2008 Stock Option	3 employees	19,000 shares	2008.8.19	0.38	From August 19, 2008 to August 19, 2018
2009 Stock Option	1 director and 8 employees	14,000 shares	2009.6.22	1.46	From June 22, 2010 to June 22, 2019
2009 Stock Option	4 employees	11,000 shares	2009.9.30	1.46	From September 30, 2009 to May 7, 2012

The stock option activity is as follows:

Year Ended March 31, 2011	2003 Stock Option	2004 Stock Option	2005 Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option
	(Shares)					
<b>Non-vested</b>						
April 1, 2010—Outstanding				36,498	93,668	20,000
Granted						
Canceled						(2,000)
Vested				(36,498)	(46,834)	(6,001)
March 31, 2011—Outstanding					46,834	11,999
<b>Vested</b>						
April 1, 2010—Outstanding	3,000	6,000	10,000	175,452	46,832	11,000
Vested				36,498	46,834	6,001
Exercised						
Canceled				(60,000)		
March 31, 2011—Outstanding	3,000	6,000	10,000	151,950	93,666	17,001
<b>Year Ended March 31, 2012</b>						
<b>Non-vested</b>						
March 31, 2011—Outstanding					46,834	11,999
Granted						
Canceled					(13,834)	(2,666)
Vested					(33,000)	(4,671)
March 31, 2012—Outstanding						4,662
<b>Vested</b>						
March 31, 2011—Outstanding	3,000	6,000	10,000	151,950	93,666	17,001
Vested					33,000	4,671
Exercised						
Canceled	(3,000)	(6,000)	(10,000)	(57,000)	(27,666)	(1,334)
March 31, 2012—Outstanding				94,950	99,000	20,338
Exercise price (U.S. dollars)				\$1.00	\$0.38	\$1.46
Average stock price exercise (U.S. dollars)						
Fair value price at grant date (U.S. dollars)						

## 10. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in statutory tax rate of approximately 40.4% for the years ended March 31, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Pension and severance costs	¥ 4,464	¥ 4,782	\$ 54,435
Accrued expenses	4,056	4,278	49,460
Depreciation	1,071	1,143	13,056
Loss on impairment of property, plant and equipment	308	306	3,751
Allowance for doubtful receivables	838	642	10,216
Tax loss carryforwards	1,624	2,923	19,806
Others	2,491	2,610	30,402
Less valuation allowance	(5,036)	(6,155)	(61,416)
Total	9,816	10,529	119,710
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	2,063	2,327	25,155
Special advanced depreciation	1,434	1,711	17,482
Others	328	382	4,015
Total	3,825	4,420	46,652
Net deferred tax assets	¥ 5,991	¥ 6,109	\$ 73,058

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the statutory tax rate from approximately 40.4% to 37.9% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.5% afterwards. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012, by ¥169 million (\$2,062 thousand), to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥457 million (\$5,577 thousand) and to increase unrealized gain on available-for-sale securities in the consolidated balance sheet as of March 31, 2012, by ¥288 million (\$3,516 thousand).

At March 31, 2012, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,307 million (\$101,301 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 35	\$ 431
2014	3,183	38,818
2015	673	8,202
2016	410	4,996
2017	3	38
2018 and thereafter	4,003	48,816
Total	¥8,307	\$101,301

## 11. OTHER INCOME (EXPENSES)—NET

Other income (expenses)—net for the years ended March 31, 2012 and 2011, mainly consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on compensation from Tokyo Electric Power Company caused by claim for damage of Fukushima nuclear disasters	¥ 318		\$ 3,877
Loss on disaster caused by the Great East Japan Earthquake:			
Equipment restoration costs	(108)	¥ (68)	(1,320)
Charitable donations		(53)	
Production suspensions caused by natural disasters—fixed costs during the suspension period	(25)	(16)	(302)
Loss on destruction of inventory		(14)	
Others	(81)		(985)
<b>Total</b>	<b>¥ 104</b>	<b>¥(151)</b>	<b>\$ 1,270</b>

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,816 million (\$107,515 thousand) and ¥8,953 million for the years ended March 31, 2012 and 2011, respectively.

## 13. LEASES

### (1) Financing Leases as a Lessee

The azbil Group leases certain machinery, computer equipment, office space and other assets as a lessee.

Total rental expenses under the above leases for the years ended March 31, 2012 and 2011, were ¥5,180 million (\$63,176 thousand) and ¥5,401 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. Pro forma information of leased property whose lease inception was before March 31, 2008, was as follows:

	Millions of yen							
	2012				2011			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥511	¥220	¥140	¥871	¥621	¥553	¥337	¥1,511
Accumulated depreciation	332	212	118	662	386	511	289	1,186
Accumulated impairment loss	124		10	134	130		10	140
<b>Net leased property</b>	<b>¥ 55</b>	<b>¥ 8</b>	<b>¥ 12</b>	<b>¥ 75</b>	<b>¥105</b>	<b>¥ 42</b>	<b>¥ 38</b>	<b>¥ 185</b>

	Thousands of U.S. dollars			
	2012			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$6,227	\$2,692	\$1,702	\$10,621
Accumulated depreciation	4,054	2,583	1,435	8,072
Accumulated impairment loss	1,509		120	1,629
<b>Net leased property</b>	<b>\$ 664</b>	<b>\$ 109</b>	<b>\$ 147</b>	<b>\$ 920</b>

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 363	¥ 483	\$ 4,426
Due after one year	1,093	1,456	13,336
<b>Total</b>	<b>¥1,456</b>	<b>¥1,939</b>	<b>\$17,762</b>

The above obligations under finance leases include the imputed interest portion.

Allowance for impairment loss on leased property of ¥18 million (\$220 thousand) as of March 31, 2012, and ¥43 million as of March 31, 2011, is not included in the obligations under finance leases.

Depreciation expense and other information for finance leases:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Depreciation expense	¥107	¥234	\$1,299
Lease payments	202	366	2,468
Reversal of allowance for impairment loss on leased property	25	32	301

The above depreciation expense, which is not reflected in the accompanying consolidated statement of income, is computed mainly by the declining-balance method at rates based on the period of those financing leases with a remaining value of 10% of total lease payments.

The minimum rental commitments under noncancelable operating leases as of March 31, 2012 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥495	¥ 482	\$6,041
Due after one year	238	700	2,902
Total	¥733	¥1,182	\$8,943

## (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. Pro forma information of such leases existing at the transition date, such as receivables under the finance leases, on an "as if capitalized" basis for the years ended March 31, 2012 and 2011, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Receivables under finance leases:			
Due within one year	¥ 271	¥ 272	\$ 3,306
Due after one year	1,079	1,350	13,159
Total	¥1,350	¥1,622	\$16,465

## 14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Policy for Financial Instruments

The azbil Group makes safety 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 exchange rates, and interest rate swaps to hedge against the risks associated with fluctuating interest 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 also monitors the credit standing of the major customers on a yearly basis. Notes and accounts receivable–trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the azbil Group has business relationships, and are subject to

the risks associated with fluctuating stock prices. Such stock investments are managed by monitoring their fair values and the financial status of the companies on a regular basis, as well as conducting ongoing reviews of their holding status by taking into account the azbil Group's relationship with the issuing companies.

Notes and accounts payable–trade are liabilities due within one year. Although certain notes and accounts payable–trade denominated in foreign currencies are subject to the risks associated with fluctuating exchange rates, the majority of such instruments are constantly kept within the amount of the outstanding balance of accounts receivable denominated in the same foreign currency.

Interest-bearing debt mainly comprises short-term borrowings. While a portion of these borrowings, having floating interest rates, is subject to the risks associated with fluctuating interest rates, the effects of these risks are negligible as their terms are short and amounts minimal.

Derivative transactions are executed and managed in accordance with internal rules that have determined the authorization procedures of such transactions, are used for the purpose of mitigating credit risks, and are conducted solely with highly rated financial institutions as counterparties. Please see Note 15 for more detail about derivatives.

Additionally, notes and accounts payable–trade and short-term borrowings are subject to liquidity risks such as in the event the azbil Group cannot execute payment on the payment date. Liquidity risks are managed by such methods as having each group company draw up monthly cash flow plans.

### (3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 15 for the detail of fair value for derivatives.

#### (a) Fair value of financial instruments

	Millions of yen						Thousands of U.S. dollars		
	March 31, 2012			March 31, 2011			March 31, 2012		
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 55,356	¥ 55,356		¥ 59,844	¥ 59,844		\$ 675,072	\$ 675,072	
Notes and accounts receivable—trade	85,546	85,546		76,050	76,050		1,043,248	1,043,248	
Investment securities	11,789	11,789		11,605	11,605		143,768	143,768	
<b>Total</b>	<b>¥152,691</b>	<b>¥152,691</b>		<b>¥147,499</b>	<b>¥147,499</b>		<b>\$1,862,088</b>	<b>\$1,862,088</b>	
Short-term borrowings	¥ 4,076	¥ 4,076		¥ 4,055	¥ 4,055		\$ 49,702	\$ 49,702	
Current portion of long-term debt	1,542	1,542		1,699	1,699		18,809	18,809	
Notes and accounts payable—trade	37,185	37,185		33,946	33,946		453,480	453,480	
Long-term debt	4,769	4,777	¥(8)	6,284	6,302	¥(18)	58,155	58,250	\$(95)
<b>Total</b>	<b>¥ 47,572</b>	<b>¥ 47,580</b>	<b>¥(8)</b>	<b>¥ 45,984</b>	<b>¥ 46,002</b>	<b>¥(18)</b>	<b>\$ 580,146</b>	<b>\$ 580,241</b>	<b>\$(95)</b>

#### 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. The information of the fair value for investment securities by classification is included in Note 3.

#### Short-Term Borrowings, Current Portion of Long-Term Debt and Notes and Accounts Payable—Trade

The carrying values of short-term borrowings, current portion of long-term debt, and notes and accounts payable—trade approximate fair value because of their short maturities.

#### Long-Term Debt

The fair values of loans from banks and other financial institutions are determined by the present values calculated by discounting the total amount of principal and interest rates currently considered applicable to similar loans.

The fair values of bonds without market value price are determined by the present values calculated by discounting the total amount of principal and interest at a rate that takes into account the remaining term and credit risks.

#### Derivatives

The information of the fair value for derivatives is included in Note 15.

#### (b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Investments in equity instruments that do not have a quoted market price in an active market	¥784	¥597	\$9,556

### (4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen				Thousands of U.S. dollars			
	March 31, 2012				March 31, 2012			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 55,356				\$ 675,072			
Notes and accounts receivable—trade	82,141	¥3,405			1,001,720	\$41,528		
<b>Total</b>	<b>¥137,497</b>	<b>¥3,405</b>			<b>\$1,676,792</b>	<b>\$41,528</b>		

Please see Note 6 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

## 15. DERIVATIVES

The azbil Group enters into foreign currency forward contracts to hedge foreign exchange 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.

	Millions of yen							
	March 31, 2012				March 31, 2011			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:								
Selling U.S. dollars	¥614		¥(19)	¥(19)	¥738		¥ (7)	¥ (7)
Selling KR won	64		(6)	(6)	142		(8)	(8)
Buying JP yen	2							
Buying U.S. dollars	307		4	4	216		(14)	(14)

	Thousands of U.S. dollars			
	March 31, 2012			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Selling U.S. dollars	\$7,488		\$(228)	\$(228)
Selling KR won	786		(78)	(78)
Buying JP yen	26			
Buying U.S. dollars	3,746		47	47

#### Derivative Transactions to Which Hedge Accounting Is Applied

Hedged Item		Millions of yen						Thousands of U.S. dollars		
		March 31, 2012			March 31, 2011			March 31, 2012		
		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	Accounts payables	¥47		¥1	¥47		¥(1)	\$570		\$17

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the azbil Group's exposure to credit or market risk.

## 16. COMMITMENT AND CONTINGENT LIABILITIES

At March 31, 2012, the azbil Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of loans	¥11	\$135

## 17. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012, were as follows:

	Millions of yen	Thousands of U.S. dollars
Unrealized gain on available-for-sale securities:		
Gains arising during the year	¥ 31	\$ 372
Reclassification adjustments to profit or loss	26	318
Amount before income tax effect	57	690
Income tax effect	266	3,247
Total	¥ 323	\$ 3,937
Deferred loss on derivatives under hedge accounting—Gains arising during the year		\$ (1)
Foreign currency translation adjustments—Adjustments arising during the year	(238)	(2,904)
Total other comprehensive income	¥ 85	\$ 1,032

The corresponding information for the year ended March 31, 2011, was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

## 18. SUBSEQUENT EVENT

### Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2012, was approved at Azbil's shareholders meeting held on June 26, 2012:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥31.5 (\$0.38) per share	¥2,326	\$28,371

## 19. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) Description of Reportable Segments

The reportable segments of the azbil Group—identifiable operating segments of the 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 HVAC control and security systems, including products, engineering, and related services. The advanced automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The life automation business supplies lifeline meters, as well as products and services related to nursing care/health support and emergency alert response services—all of which are intimately connected with the daily lives of the general public.

### (2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

### (3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items:

	Millions of yen							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Sales:								
Sales to external customers	¥103,400	¥83,031	¥32,266	¥218,697	¥4,802	¥223,499		¥223,499
Intersegment sales or transfers	496	1,103	277	1,876	107	1,983	¥ (1,983)	
Total	¥103,896	¥84,134	¥32,543	¥220,573	¥4,909	¥225,482	¥ (1,983)	¥223,499
Segment profit (loss)	¥ 10,328	¥ 4,006	¥ (128)	¥ 14,206	¥ 143	¥ 14,349	¥ (1)	¥ 14,348
Segment assets	61,444	61,959	26,681	150,084	2,280	152,364	71,112	223,476
Other:								
Depreciation	1,023	2,150	845	4,018	9	4,027		4,027
Increase in property, plant and equipment and intangible assets	741	1,672	593	3,006	4	3,010		3,010
Impairment losses of assets			178	178		178		178

	Millions of yen							
	2011							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Sales:								
Sales to external customers	¥101,872	¥80,202	¥32,248	¥214,322	¥4,894	¥219,216		¥219,216
Intersegment sales or transfers	252	773	373	1,398	229	1,627	¥ (1,627)	
Total	¥102,124	¥80,975	¥32,621	¥215,720	¥5,123	¥220,843	¥ (1,627)	¥219,216
Segment profit (loss)	¥ 11,749	¥ 3,234	¥ (227)	¥ 14,756	¥ 144	¥ 14,900	¥ (4)	¥ 14,896
Segment assets	55,592	58,308	26,196	140,096	2,138	142,234	75,267	217,501
Other:								
Depreciation	1,209	2,345	890	4,444	16	4,460		4,460
Increase in property, plant and equipment and intangible assets	1,059	1,619	659	3,337	14	3,351		3,351
Impairment losses of assets	191		54	245		245		245

	Thousands of U.S. dollars							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Sales:								
Sales to external customers	\$1,260,975	\$1,012,569	\$393,489	\$2,667,033	\$58,569	\$2,725,602		\$2,725,602
Intersegment sales or transfers	6,046	13,449	3,377	22,872	1,301	24,173	\$(24,173)	
Total	\$1,267,021	\$1,026,018	\$396,866	\$2,689,905	\$59,870	\$2,749,775	\$(24,173)	\$2,725,602
Segment profit (loss)	\$125,953	\$48,857	\$(1,556)	\$173,254	\$1,742	\$174,996	\$(15)	\$174,981
Segment assets	749,316	755,602	325,384	1,830,302	27,800	1,858,102	867,216	2,725,318
Other:								
Depreciation	12,470	26,217	10,308	48,995	114	49,109		49,109
Increase in property, plant and equipment and intangible assets	9,036	20,386	7,234	36,656	45	36,701		36,701
Impairment losses of assets			2,171	2,171		2,171		2,171

Note: Corporate assets of ¥71,112 million (\$867,216 thousand) for the year ended March 31, 2012 included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

### Related Information

#### (1) Information about Products and Services

The information disclosed is identical to the segment information and is therefore omitted.

#### (2) Information by Region

##### (a) Sales

Sales to domestic unaffiliated clients exceed 90% of the sales in the consolidated statement of income, so this information is omitted.

##### (b) Property, plant and equipment

The value of domestic property, plant and equipment exceeds 90% of the value of the property, plant and equipment on the consolidated balance sheet, so this information is omitted.

##### (c) Information about major customers

No clients accounted for more than 10% of sales in the consolidated statement of income, so this information is omitted.

### Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

	Millions of yen							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Amortization of goodwill		¥10	¥1,264	¥1,274		¥1,274		¥1,274
Goodwill at March 31, 2012		26	2,578	2,604		2,604		2,604

	Thousands of U.S. dollars							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Amortization of goodwill		\$122	\$15,418	\$15,540		\$15,540		\$15,540
Goodwill at March 31, 2012		315	31,447	31,762		31,762		31,762

### Information on Profits Resulting from Negative Goodwill by Reportable Segment

	Millions of yen							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Profits from negative goodwill		¥197		¥197		¥197		¥197

	Thousands of U.S. dollars							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
Building Automation	Advanced Automation	Life Automation	Total					
Profits from negative goodwill		\$2,405		\$2,405		\$2,405		\$2,405

With regard to Advanced Automation business, we acquired the additional shares of the consolidated subsidiary Royal Controls Co., Ltd. to make it a 100% consolidated subsidiary. Accordingly, gain on negative goodwill of ¥197 million (\$2,405 thousand) is posted for this consolidated fiscal year.

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

We have audited the accompanying consolidated balance sheet of Azbil Corporation (formerly, Yamatake Corporation) and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Azbil Corporation and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity 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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 18, 2012

Member of  
Deloitte Touche Tohmatsu Limited