

azbil

azbil report
2013



Azbil Corporation

Leaders' Message



Hirozumi Sone
President and
Chief Executive Officer



Seiji Onoki
Chairman

In fiscal year 2012, ended March 31, 2013, we changed the company name to Azbil Corporation as well as our management team. We also began implementing three basic policies: 1) become a long-term partner for both the customer and the community by offering solutions based on azbil technologies and products; 2) implement global initiatives aimed at expansion into new regions and a qualitative change of focus; and 3) aim to become a corporate organization that never stops learning so that it can continuously strengthen its corporate structure.

Our operating environment changed rapidly during fiscal year 2012. Consolidated net sales increased 1.8% compared with the previous fiscal year to ¥227.6 billion, while operating income decreased 6.5% to ¥13.4 billion and net income decreased 2.5% to ¥8.3 billion. While the challenging environment caused income to decrease year on year, we achieved virtually all of our planned performance targets. At the same time, we maintained stable shareholder returns by paying dividends per share of ¥63, as planned. We qualitatively improved our management foundations in Japan and overseas under our three basic policies. Initiatives included building relationships with new business partners through equity alliances, enhancing overseas bases, and reorganizing production structures. We also promoted awareness and understanding of the azbil brand by taking advantage of opportunities to communicate the azbil name and the concepts it represents. The start of the new Azbil Corporation made fiscal year 2012 particularly fruitful.

Issues such as the financial problems in Europe and slowing economic growth in the enormous Chinese market suggest that the structure of the global economy has been changing rapidly. Given the improvement of our business foundation and structure during fiscal year 2012, we decided the timing was right for revising strategies to accurately address change in our operating environment. We therefore launched a new medium-term plan at the start of fiscal year 2013, ending March 2014, which was formerly the final year of our previous medium-term plan.

The new medium-term plan is a strategy for delivering value in a new dimension globally. We designed it to help us achieve our long-term target of becoming a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to resolving global environmental issues by focusing on humans and realizing a world of automation created by human ingenuity and technology. We are aiming to achieve our long-term target in fiscal year 2021, ending March 31, 2022, 10 years after the start of the new azbil and the 115th anniversary of our founding. The new medium-term plan is the first step. The plan covers the four years ending in fiscal year 2016, ending March 31, 2017, which is when we will celebrate the 110th anniversary of our founding.

In fiscal year 2013, the first year of the new medium-term plan, the azbil Group will continue to create value with customers at their sites and help them to solve diverse challenges through our pursuit of “human-centered automation,” while focusing on our long-term target.

We want to thank all of our stakeholders, including shareholders, customers, and local communities, for their steady support and guidance.

July 2013



Seiji Onoki
Chairman
Azbil Corporation



Hirozumi Sone
President and Chief Executive Officer
Azbil Corporation

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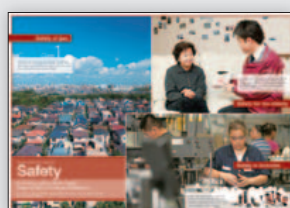
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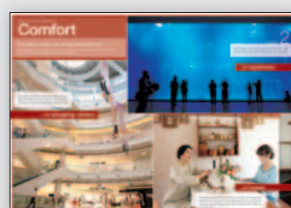
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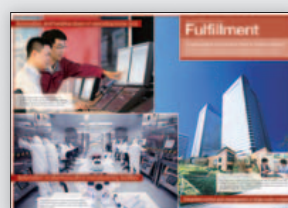
The sections of azbil report 2013 are separated by two-page spreads with case studies exemplifying the four types of value the azbil Group provides.



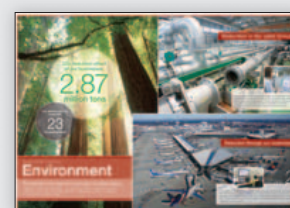
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Cautionary Statement

Statements made in this report with regards to the azbil Group's plans, targets, and strategies and other statements without historical facts are forward-looking statements about the future performance of Azbil Corporation and its subsidiaries. These projections are based on management's assumptions, intent, and expectations in light of the information currently available to it, and therefore these statements are not guarantees of future performance. Due to various factors, actual results may differ from those discussed in this document. Such factors include but are not limited to:

- 1) General economic conditions in azbil's markets, particularly levels of capital investments.
- 2) Exchange rates, particularly between the Japanese yen and U.S. dollar and other currencies in which Azbil makes significant sales or Azbil's assets and liabilities are denominated.
- 3) Continued acceptance of azbil's products and services offered in highly competitive markets characterized by development of new technologies and the advancement of the global economy.

- Financial data and financial statements have been prepared based on Japanese GAAP and amounts have been rounded.
- Handling of products and services introduced in this report differs by country or region.

This is the azbil Group

A Company Shaping the Future with Automation



Group Philosophy

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

To realize this, we create value
together with customers at their sites.

We pursue our unique value based on the idea of “human-centered.”

We think towards the future and act progressively.

Making Automation More and More Human-Centered

The word *automation* brings a cold, mechanical impression to mind. But at the heart of the automation provided by the azbil Group, there are always people. The azbil Group is growing and changing so by working together with you, we can continue to provide new value by bringing the benefits of automation closer to people than ever before.

Four Core Values

provided through human-centered automation

1 Safety

To live and work in good health and in safety.

- Measuring equipment that detects malfunctions invisible to the naked eye, emergency response programs, and facility monitoring systems play a role in the safe, accident-free operation of manufacturing facilities in plants and factories.
 - Various systems, including those that manage access, automate dangerous work processes, and detect microorganisms, enable the safe operation of facilities and safeguard people who work in offices, shopping centers, or factories.
-

2 Comfort

To always live and work in comfort.

- Measuring and analyzing indoor air environments in offices, factories, and homes, then adjusting temperature and humidity and removing dust and pollen create comfortable living conditions with minimal temperature differences between areas.
 - Automation technologies boost work quality and efficiency, which in turn improve productivity and quality and lead to enhanced customer satisfaction.
-

3 Fulfillment

To create new value with the customer.

- We create new value by working with customers at their sites to improve the operation of buildings and factories, enhance quality, conserve energy, and reduce environmental impact, which help to solve customers' problems.
 - We craft optimal solutions with comprehensive support throughout the facilities' life cycle by promptly responding to each customer's needs using our integrated structure that combines consulting, development, production, and maintenance.
-

4 Environment

To optimize the management and usage of energy and reduce environmental impact.

- In buildings, energy is conserved by improving the operating methods of cooling or heating equipment, modifying air-conditioning or heating to match a building's scale and purpose, and upgrading or renewing facilities.
 - In the manufacturing process in factories, the key to reducing waste is maintaining a constant temperature and minimizing electricity, steam, and compressed air used in production facilities.
-

azbil's Operations

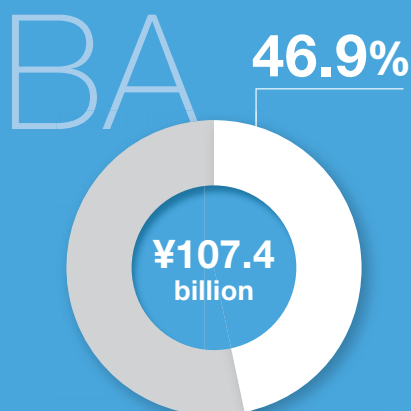
The azbil Group provides safety, comfort, and fulfillment and contributes to global environmental preservation through its three core businesses.

Net Sales by Business/Share of Total Sales

Business Outline

Markets

Products and Services

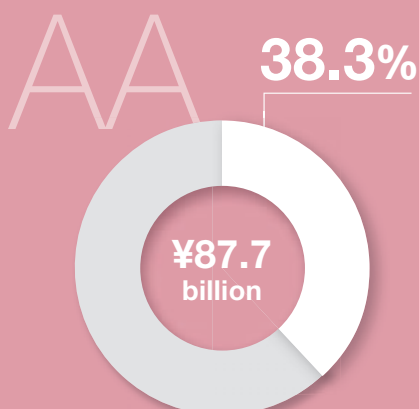


Building Automation Business

The azbil Group realizes high performance and high quality through its in-house development and manufacture of a full product lineup, from building automation systems and security systems to application software, controllers, valves, and sensors. We offer solutions through an integrated structure extending from instrumentation design to sales, engineering, services, energy-saving solutions, and facility operation management. We are applying our original environmental control technologies to create comfortable and productive office and manufacturing spaces and contribute to environmental load reduction.

- Commercial buildings
- Plants and factories
- Research laboratories
- Clean rooms
- Hospitals
- Data centers
- Government and institutional buildings
- Schools
- Hotels
- Department stores
- Shopping centers
- Airports

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

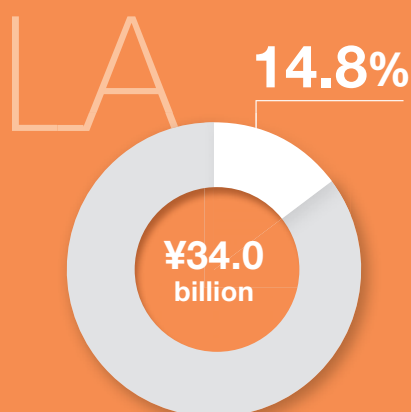


Advanced Automation Business

The azbil Group is solving issues in the materials, manufacturing, and assembly industries through the provision of products, solutions, instrumentation, engineering, and maintenance services to support the optimum operation of equipment and facilities throughout their life cycle. Through collaboration with customers in manufacturing, we develop advanced measurement and control technologies, aim to realize production spaces that are safe and bring out human capabilities, and create new value for customers.

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

- Monitoring and control systems and controllers
- Solution packages
- Field instruments
- Valves and actuators
- Digital indicating controllers
- Recorders
- Sensors and switches
- Flame safeguard systems
- Dual valves, regulators, and lubricators
- Facility diagnosis equipment
- Maintenance services
- Factory energy conservation solutions, etc.



Life Automation Business

The azbil Group applies measurement, control, and metering technologies cultivated over many years in the building, factory, and plant markets, as well as heartfelt, attentive services to lifelines such as gas and water, living spaces, nursing care and health support, life science research, pharmaceutical manufacturing, health care, and other fields.

- Gas business operators
- Municipal waterworks departments, factories, commercial building and condominium management companies
- Housing construction companies, individuals
- The elderly, nursing care providers, municipalities, health insurance associations
- Pharmaceutical plants, laboratories, and hospitals

- Various gas meters, safety and security equipment, regulators, system devices, various water meters, flowmeters, etc.
- Residential central air-conditioning systems
- Health and welfare services
- Nursing care services, etc.
- Facilities and equipment for research laboratories and hospitals
- Equipment and services for pharmaceutical production plants

⇒ For more detailed information on each business, see “Business Overview” on pages 20-33.

Main Products and Services



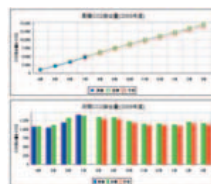
Building Management Systems

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



ACTIVAL™ PLUS

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



CO₂ Management Systems

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



Security Systems

Our security systems are useful in managing building access, ensuring risk preparedness and safety, and improving the efficiency and convenience of building management and security.



Total Building Management Service BOSS-24™

This service uses round-the-clock remote monitoring and control to provide total building management and security by connecting customer buildings to the BOSS Center via communication circuits.



ENEOPT topview Display Package for Key Energy Performance Indicators

An energy-savings solution package designed to engage all employees in actively reducing energy consumption using a new energy-saving concept called *miseruka*, or “visualizing.”



Instrumentation Network Modules

A controller with Ethernet communication functions in each module to allow a distributed layout. It uses cooperative control to achieve improved productivity and energy savings.



GasCVD™ Calorimeter

A natural gas calorimeter that supports fair transactions. Compatible with various distribution applications in the increasingly important gas market.



HP7 Series Photoelectric Sensor

Self-contained sensor usable in a wide range of applications, including conveyance systems and processing machinery. Detects the presence of objects by reflection or diffusion of light.



ISOPT™ (Industrial Services Operation Program)

A program that provides fast, reliable maintenance services for customers to enable safe operation of factories and plants.



City Gas and LP Gas Meters and Equipment

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



Water Meters

We use our well-established know-how in supporting water and sewage infrastructure to provide safe, environmentally friendly products that accurately measure tap water.



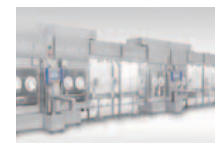
Personal Emergency Response Service

A service where professional staff including nurses provide emergency response and health counseling 24 hours a day, 365 days a year for elderly people living alone.



Kikubari Residential Central Air-Conditioning Systems

These systems provide comfortable temperatures throughout the home year-round and use an electronic air cleaner to remove house dust and pollen.



Life Science Engineering Business

This business provides new solutions to achieve safer manufacturing environments and higher productivity, mainly for the pharmaceutical market.

Highlights

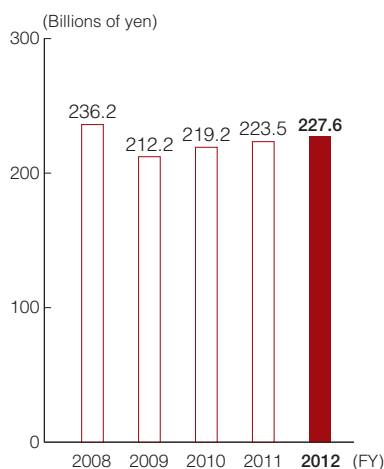
Overview of Consolidated Results for Fiscal Year 2012, Ended March 31, 2013

While results in the Advanced Automation business were affected by weak market demand, growth in the Building Automation business and Life Automation business drove a 1.8% year-on-year increase in consolidated net sales to ¥227.6 billion. Operating income, however, decreased 6.5% to ¥13.4 billion due to the sales decrease in the Advanced Automation business and lower profitability in the Building Automation business, which reflected the smaller scale of investments in the building market. These factors outweighed the azbil Group's efforts to reduce selling, general and administrative expenses. As for environmental indicators, the Group continued to make steady progress toward achieving its CO₂ reduction targets.

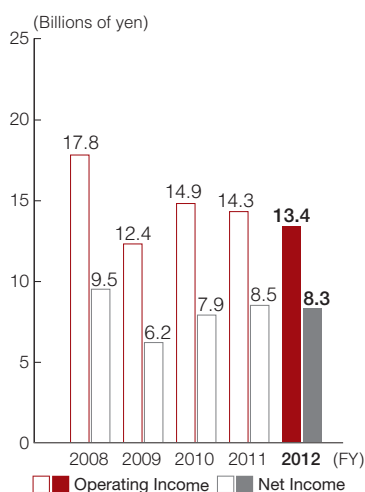
Fiscal years	2008	2009	2010	2011	(Millions of yen) 2012
For the year:					
Net sales	236,173	212,213	219,216	223,499	227,585
Operating income	17,832	12,385	14,896	14,348	13,411
Net income	9,525	6,242	7,928	8,519	8,309
Capital expenditures	6,414	2,704	3,302	3,010	3,120
Depreciation	4,503	4,751	4,460	4,027	3,621
R&D costs	9,636	8,640	8,953	8,816	7,824
At year-end:					
Total assets	220,846	218,472	217,501	223,476	243,419
Total equity	124,984	129,278	131,362	135,077	141,197
Per share data (yen):					
Net income per share	127.87	84.52	107.35	115.35	112.50
Net assets per share	1,672.91	1,728.64	1,754.86	1,808.48	1,882.66
Cash dividends per share	62.00	62.00	63.00	63.00	63.00
Financial indicators:					
Shareholders' equity ratio (%)	55.9	58.4	59.6	59.8	57.1
Return on equity (ROE) (%)	7.8	5.0	6.2	6.5	6.1
Dividend on equity (DOE) (%)	3.7	3.6	3.6	3.5	3.4
Environmental indexes:					
CO ₂ emissions (Tons CO ₂)	30,138	26,581	26,831	23,572	22,890
CO ₂ emissions per unit sales (Tons CO ₂ /100 Millions of yen)	12.8	12.5	12.2	10.5	10.1
Total volume of waste generated (Tons)	1,484	1,215	1,111	1,086	1,002
Final disposal rate (%)	0.6	0.6	0.8	0.3	0.3

Scope of financial data:	Azbil Corporation and its consolidated subsidiaries
Scope of CO ₂ emission volumes:	Azbil Corporation and its major consolidated subsidiaries in Japan
Scope of total volume of waste generated:	Azbil Corporation's four main facilities (Fujisawa Technology Center, Shonan, Isehara, and Hadano factories), Azbil Kyoto, and Azbil Taishin

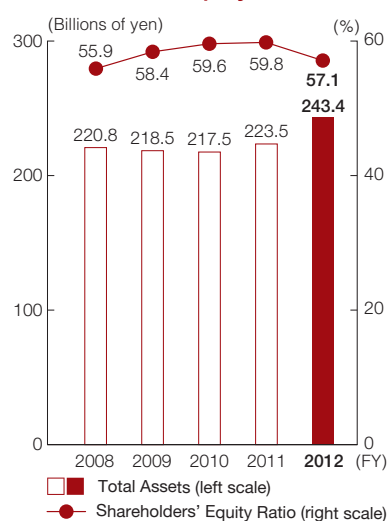
Net Sales



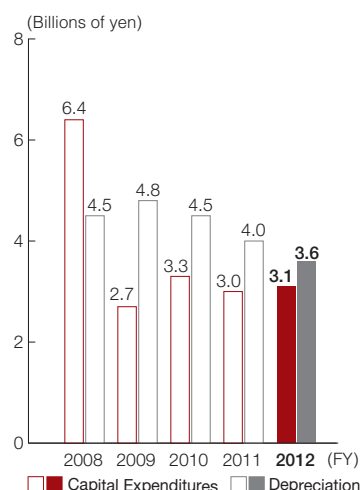
Operating Income/Net Income



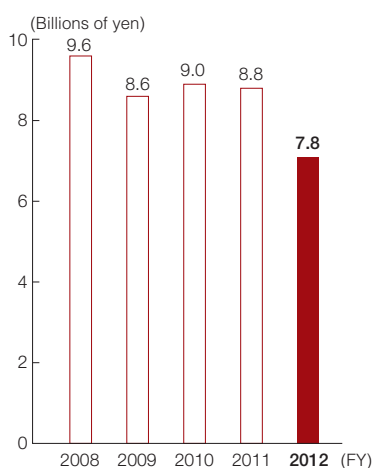
Total Assets/Shareholders' Equity Ratio



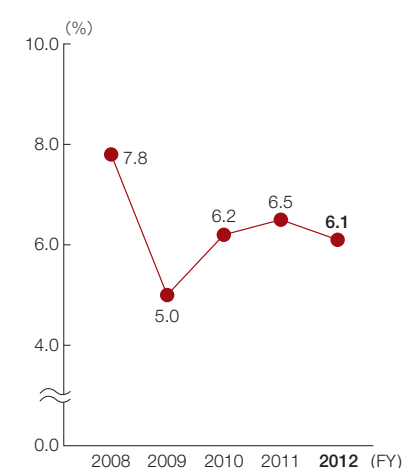
Capital Expenditures/Depreciation



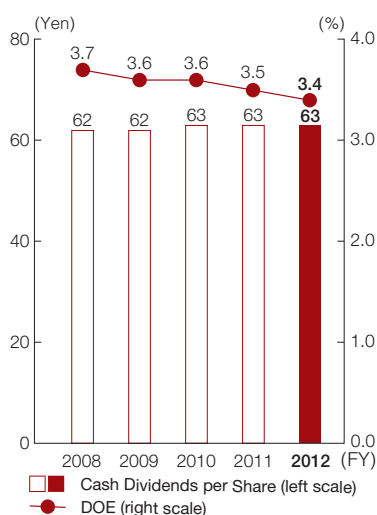
R&D Costs



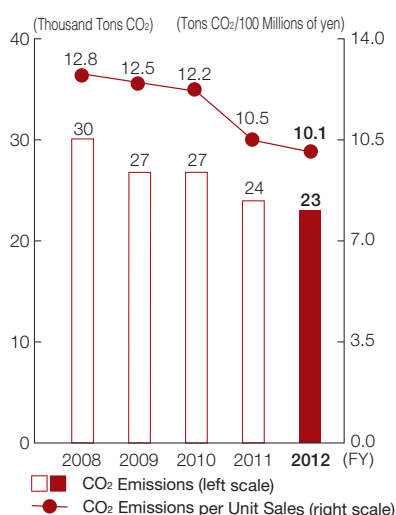
ROE



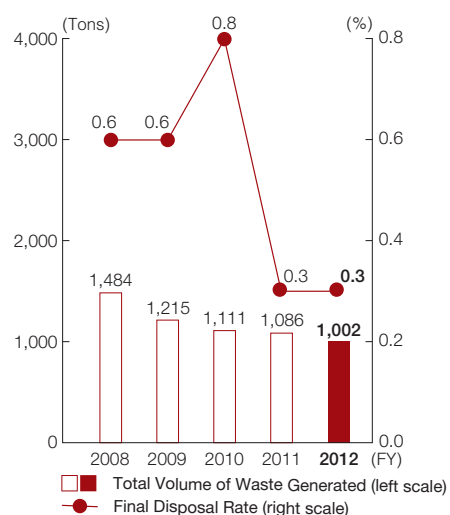
Cash Dividends per Share/DOE



CO₂ Emissions/CO₂ Emissions per Unit Sales



Waste Disposal and Final Disposal Rate



Safety of gas

Case 1

Natural gas is used in both industry and residences. From LNG tanker control systems and LNG storage tanks to factories and homes, from upstream energy sources to terminals, azbil supplies systems and products that protect the safety of gas and ensure its reliability.



Value Provided by the azbil Group

Safety

Protecting Safety and Providing Peace of Mind in a Range of Situations

The azbil Group protects safety and provides peace of mind in a wide range of settings, from industry to the home.





Case 2

For elderly people who live alone, a personal emergency response service provides a sense of reassurance that their call will get through, day or night, and the encouragement of knowing that someone will respond to their worries or concerns. azbil is always there to offer support.

Safety for the elderly



Safety in factories

Case 3

A safety switch instantly shuts off a machine when someone tries to enter a hazardous area. By securing safety on the manufacturing floor where there are numerous industrial robots and machine tools, azbil creates safe and secure work environments.



The azbil Group's New Medium-Term Plan and Its Relevance to Stakeholders



The objective of the new medium-term plan is to deliver value in a new dimension globally. In this section, President and Chief Executive Officer Hirozumi Sone explains the new plan and its relevance to stakeholders.

Q1 Please discuss the reason behind the timing of unveiling a new medium-term plan.

A1 **We realized that the rapid change in our operating environment and the business structure improvements made thus far required us to create a new strategy for accurately responding to change.**

Guided by the azbil Group philosophy of human-centered automation, our long-term target is “to become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to resolving global environmental issues by focusing on humans and realizing a world of automation created by human ingenuity and technology.”

We will achieve this target through the Building Automation business, which delivers products and services for HVAC and security primarily to offices and other commercial buildings; the Advanced Automation business, which provides products and solutions for production sites such as plants and factories; and the Life Automation business, which offers products and services related to lifelines such as gas and water meters, lifestyle support through health, welfare, nursing care, and other services,

and products and services for the life science field, such as the pharmaceutical and medical markets.

We made excellent progress in strengthening our management foundation by focusing on business and operational structure reforms in these three businesses during our previous medium-term plan. Yet we still must deal with accelerating change and increasing complexity. Sustained growth in sales of existing products and services has become more challenging as some of the markets we serve have matured, while other markets are growing rapidly. We decided the timing was right for a new and innovative strategy that provides the clear and specific approaches we need to sustain further growth by responding accurately to change. The result is our new medium-term plan.

Q2 Please outline the new medium-term plan.

A2 We will generate sustained growth in Japan and around the world with the theme of delivering value in a new dimension globally.

The azbil Group is aiming to achieve its long-term target in fiscal year 2021, ending March 31, 2022, which will be 10 years after the start of the new azbil. The new medium-term plan is the first step. Beginning in what would have been the final year of our previous medium-term plan, the plan covers the four years from fiscal year 2013, ending March 31, 2014, through fiscal year 2016, ending March 31, 2017.

Long-Term Targets (Fiscal Year 2021)

azbil's Vision for the Future

By focusing on humans and realizing a world of automation created by human ingenuity and technology, we will become a top-class global corporate group that enhances the safety and security of its customers, helps to improve their corporate value, and contributes to resolving global environmental issues.

Net sales: **¥300.0 billion**

Operating income: **¥30.0 billion**

ROE: **Over 10%**

The theme of the new medium-term plan is delivering value in a new dimension globally. The three basic policies formulated in fiscal year 2012, ended March 31, 2013, provide the framework for the plan: 1) become a long-term partner for both the customer and the community by offering solutions based on azbil technologies and products; 2) implement global initiatives aimed at expansion

into new regions and a qualitative change of focus; and 3) aim to become a corporate organization that never stops learning so that it can continuously strengthen its corporate structure. We will shift to strategic execution under these three basic policies, supported by the management foundation improvement we achieved in fiscal year 2012.

To become a long-term partner for both the customer and the community, we have designated our growth fields as next-generation solutions for production and working/living spaces, energy management solutions that meet needs now and in the future, and safety solutions. We will globally provide products, technologies, and services that are unique to the azbil Group in these fields to drive our evolution into a long-term partner. These three fields will also figure prominently in customers' business development, and the azbil Group is able to deliver proprietary value in them.

Implementing global initiatives will involve regional expansion and a qualitative change in focus. We will leverage the competitive advantages of our business model in the three growth fields above to drive the growth of the azbil Group as a whole.

Our policy to be a corporate organization that never stops learning will enable sustained success in implementing our policies and autonomous reform of our business and operations that strengthens the azbil Group. We will concentrate on structural reforms for global production and development and for engineering and the service business as well as human resources reform.

Overview of the New Medium-Term Plan (Fiscal Years 2013 to 2016)

Three Basic Policies

- 1 Aiming to become **a long-term partner for both the customer and the community** through offering solutions based on azbil technologies and products

Deploy business models suited to regional characteristics

- 2 Taking global operations to the next level
Global initiative: Expansion into new regions and a qualitative change of focus

- 3 Aiming to become **a corporate organization that never stops learning so that it can continuously strengthen its corporate structure**

Japan

FY2016 Plan Net sales: **¥223.0 billion**

Overseas

FY2016 Plan Net sales: **¥58.0 billion**

Plan Targets

	FY2012 (A)	FY2013 Plan
Net sales	227.6	250.0
Operating income	13.4	14.2
(Operating margin)	6%	6%
Building Automation	107.4	111.0
Advanced Automation	87.7	93.0
Life Automation	34.0	48.0
Overseas sales / Net sales:	10.1%	Over 15%

(Billions of yen)

FY2016 Plan (B)	Difference (B) - (A)
280.0	52.4
22.0	8.6
8%	2 points
120.0	12.6
105.0	17.3
56.0	22.0
Over 20%	

Q3 What led the azbil Group to select the three growth fields that will drive its evolution into a long-term partner for both the customer and the community, and how will the Group serve them?

A3 These fields have long-term value and growth potential, and we will serve them with new products and services.

The process of selecting growth fields involved the use of business growth and continuity as benchmarks that we applied to determine markets in which our customers base their operations and create value – and also how we could provide value to them. Basically, we focused on supporting the growth of our customers' core businesses. This perspective led us to select next-generation solutions for production and working/living spaces as our first growth field.

Environmental protection is in demand. We therefore decided that the energy management solutions field is essential because it contributes to society and has growth potential.

We then chose safety solutions as a growth field because they will become increasingly important to business continuity and peaceful communities and lifestyles in the future. This choice was backed by exceptional growth in global safety needs, which was exemplified by the entirely new level of demand for business continuity planning (BCP) after the Great East Japan Earthquake.

All three of these fields feature both strong growth potential and pronounced social significance that are aligned with the azbil Group's long-term target. I would like to explain the azbil Group's specific approaches in each of these fields.

The first is next-generation solutions for production and working/living spaces. In the industrial market, we will further enhance the global value we deliver with solutions that integrate our engineering capabilities with improved production control systems and components that have a track record in an array of markets. In the building market, we will leverage our proven business models in Japan and extend them internationally. We intend to strengthen our ability to serve customers' mission-critical facilities such as data centers and research facilities that leverage azbil

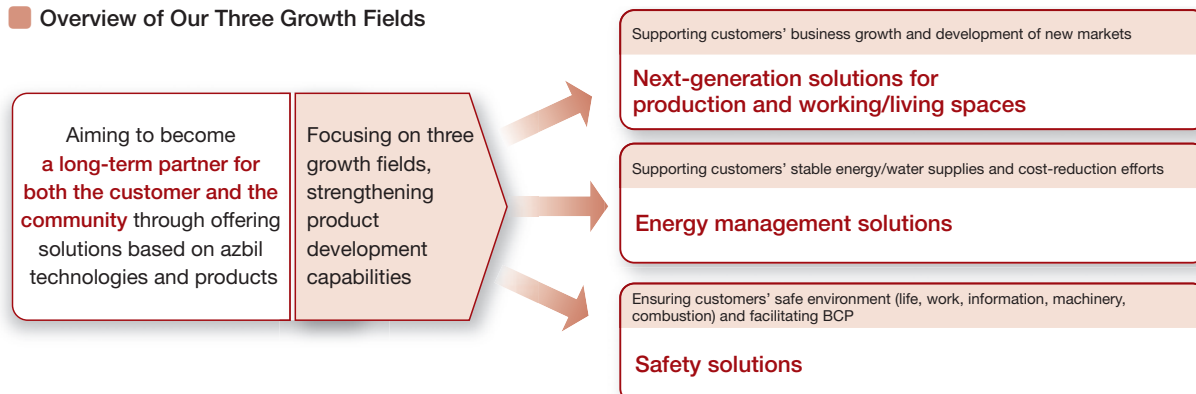
Group technologies and services. We have also launched the Life Science Engineering business to provide next-generation solutions that integrate manufacturing equipment with environmental systems, inspired by automation technologies, for pharmaceutical plants, laboratories, and hospitals.

Energy management solutions are a characteristic azbil Group strength that will serve a broad range of fields from industry and buildings to lifestyles. In fiscal year 2012, we unified products and services related to environmental and energy conservation solutions under the ENEOPT™ brand to support a comprehensive solutions business in this field. ENEOPT™ is an acronym for energy optimization. This concept will guide us as we upgrade and add to our lineup of products, services, and technologies to deliver energy management systems that are unique to the azbil Group. In Japan, we will leverage our experience in building energy management systems (BEMS) to develop energy management into a business that ranges from production lines to factories and entire communities. Our energy management solutions will contribute to protecting the global environment by conserving energy and reducing CO₂ emissions, and by supporting stable supply and lowering the cost of utilities such as energy and water that are essential to customer operations. Thus we will also directly contribute to society and customers worldwide.

In the safety solutions field, we already have experience in building security and machinery and flame safeguards. We will therefore expand business in building, industrial, and lifestyle markets by ensuring safe environments for life, work, and information, while also growing by serving the BCP solutions field.

Note: Please refer to pages 20 to 25 (BA, AA, LA) in the Review of Operations for more details on business segments.

Overview of Our Three Growth Fields



Q4 What key points will define global initiative?

A4 We will expand into new regions and qualitatively change our focus to the solutions business to become a long-term partner for both the customer and the community.

Our global operations will involve expanding into new regions and qualitatively changing our focus.

Expanding into new regions entails complementing our business in China and other Asian countries by establishing subsidiaries in India, the Middle East, and South America to broaden our structure for directly providing products and services. We also intend to strengthen our structure through equity investments in companies in North America and Europe, which are bases for global business models and technological innovation.

Qualitatively changing our focus involves transforming businesses such as field instruments and control valves into a solutions business unique to the azbil Group to provide from product development to production, engineering, and services tailored to local customer needs. Our goal is to become a long-term partner for both the customer and the community.

In emerging country markets, economic and social development is driving rapidly growing need for consulting services in businesses such as energy management and facility operation and management in the Building Automation business, and plant asset management and maintenance and advanced energy efficient control in the

Advanced Automation business. China is representative of our drive to enter relevant markets. Leveraging our BEMS and energy conservation technology, we entered the Chinese market for providing solutions for existing buildings by establishing a joint venture, CECEP Building Energy Management Co., Ltd., with a company that is partially owned by the Chinese government. We also established a joint venture, Azbil Saudi Arabia Limited, with the local firm Tharawat Development Co. This move expands our business in the Middle East, which includes valve manufacturing and maintenance services.

We will develop our global operations by building an optimal international development and production structure and enhancing its effectiveness. At the same time, we need to configure the supply of products and services according to regional characteristics and growth stage. The azbil Group will therefore enhance its proposal capabilities in each region it serves as well as its capabilities in areas including product customization, engineering, and services to raise competitiveness.

Note: Please refer to pages 26 to 28 of the Review of Operations (Business Foundation/Accelerate Global Growth—Partnerships) for more details on global expansion.

Q5 Please describe how the azbil Group aims to strengthen its structure as a corporate organization that never stops learning.

A5 We will continue to transform our business foundation to create new value that contributes to sustained growth while raising efficiency.

We have consistently – and successfully – improved our corporate structure. The new medium-term plan, however, places particular emphasis on structural reforms of global production and development, engineering and the service business, as well as human resource reform.

Restructuring global production and development will entail optimizing global development, manufacturing, procurement, and logistics. While the Japanese market is mature, structural reforms of global production and development will allow us to participate in the economies of emerging countries that are leading overseas growth markets. We will therefore reorganize our manufacturing bases with a global perspective. The February 2013 establishment of Azbil Production (Thailand) Co., Ltd. is representative. We will reorganize our production structures in Japan and China in conjunction with the start of production at this company. We will also enhance our global development structure including equity alliance

partners to accelerate technology and product development. To realize a qualitative change of focus in our global initiative and enhance responsiveness to customer needs, we established development bases in Europe and the United States to develop solutions for equipment manufacturers, adding to bases in Japan and Asia.

We will implement structural reforms of engineering and the service business, which are core strengths that make the azbil Group a long-term partner for customers by providing life cycle support. We will leverage these strengths to provide engineering and services that offer even higher levels of the sophistication and added value we need to generate sustained growth in the mature Japanese market and develop new business overseas. The azbil Group possesses an extensive database accumulated as a result of its vast experience, along with know-how and skilled human resources. We will create a framework that allows the Group to leverage these strengths and create

new value in areas such as energy management and operational support, thus enabling growth in existing businesses and expansion into new markets.

The expansion of business in growth markets and the improvements to our business foundation I have been discussing will require us to change our organization so that we can take on appropriate roles in new businesses by transforming the skill sets of each and every employee and enhancing their sophistication. This will allow us to accommodate our operating environment while maximizing corporate value. Human resource reform will therefore involve upgrading various human resource systems to ensure that we deploy our people systematically but flexibly, cultivating the global human resources that will be

indispensable for future business development, and enhancing the ability of our employees to provide solutions. We established the Azbil Academy in November 2012 to support these reforms as an institution that empowers employees to maximize their performance. We will implement initiatives including systemic adjustments to further strengthen our organization.

Thus we will create a more efficient business foundation to raise productivity while implementing a variety of initiatives to empower the azbil Group to autonomously create new value.

Note: Please refer to pages 29 to 33 of the Review of Operations (Business Foundation/Research and Development—Intellectual Property) for more details on strengthening the corporate structure as an organization that never stops learning.

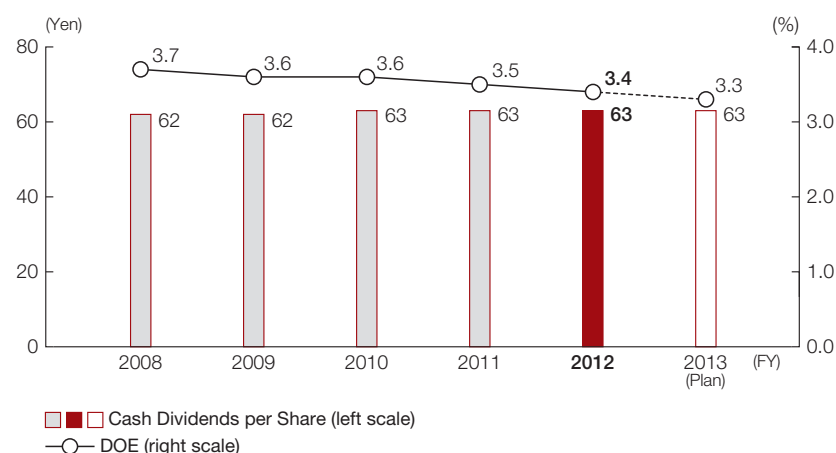
Q6 Please discuss stable dividends, shareholder returns, and the Group's financial policies.

A6 We are committed to maintaining shareholder returns while ensuring sound finances.

The azbil Group places priority on generating shareholder returns and ensuring sound finances that support growth.

Our basic policy is to maintain stable dividends while striving to increase the dividend payout, taking into account

■ Cash Dividends per Share and DOE



consolidated performance, return on equity (ROE), and dividends on equity (DOE) as well as retained earnings for strengthening the corporate structure and developing future businesses. For fiscal year 2012, dividends per share were ¥63.00, as announced at the beginning of the fiscal year. For fiscal year 2013, we plan to maintain dividends at ¥63.00 per share.

Q7 What are the features of the CSR management that the azbil Group advocates?

A7 In addition to fulfilling the corporate social responsibility (CSR) required of us as a corporation, we will energetically – and successfully – implement CSR initiatives through our business operations in areas such as safety and the environment while embracing a human-centered perspective.

The azbil Group aims for sustained social and corporate development that benefits all stakeholders through human-centered CSR categorized into basic and proactive CSR activities.

We define basic CSR as areas such as compliance and environmental preservation that involve fulfilling fundamental

obligations and are essential for the azbil Group as a corporate citizen. We are responding to major changes in our operating environment and our businesses with due consideration of ensuring even more sophisticated CSR. The azbil Group is energetically preserving the global environment, which is one of these themes. In fiscal year

2012, the azbil Group's CO₂ emissions were 31% lower than in fiscal year 2006.

Proactive CSR involves employing our capabilities to contribute to society through business operations and voluntary social contribution activities. The unique, high-value-added solutions that the azbil Group provides reduce energy use at customer buildings, factories, and plants and contribute to lowering CO₂ emissions. In fiscal year 2012, we calculate that these solutions reduced CO₂ emissions at customer facilities by an annual aggregate 2.87 million tons CO₂. Thus we reduced CO₂ emissions through our operations by an amount that corresponds to 0.2% of Japan's total annual CO₂ emissions, a level that is more than 120 times the CO₂ emissions of the azbil Group. The azbil Group employees participate in various activities with a view to contributing to environmental preservation and communities. Voluntary contributions to society include an ongoing initiative to preserve biodiversity by protecting the endangered

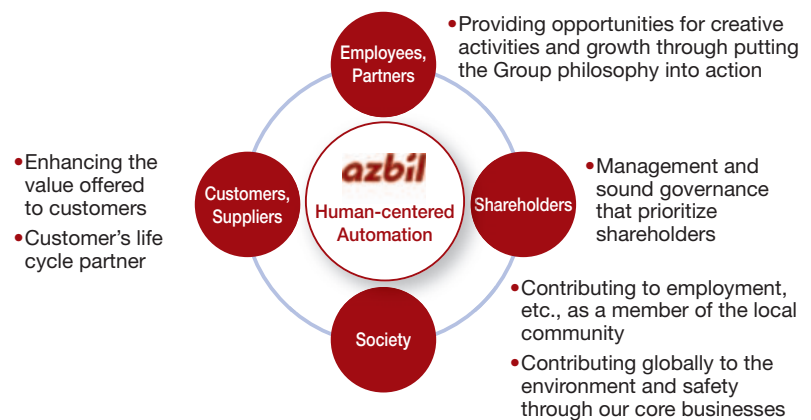
flower species *himesayuri* (*Lilium rubellum*), or maiden lily, and sponsorship of the environmentally friendly Shonan International Marathon.

We intend to provide even greater value in the future through both basic CSR and expanded proactive CSR to make even more meaningful contributions to society through our businesses.

Note: Please refer to pages 36 to 51 for more details on CSR topics from the azbil Group's Management of CSR to Relationship with the Environment.

■ azbil Group CSR Management

Presenting all stakeholders with the "human-centered" azbil Group



Q8 What are your ambitions for the new medium-term plan?

A8 I pledge to continue our pursuit of human-centered automation and to generate sustainable growth by creating new value at customer sites worldwide.

The azbil Group's operating environment is changing significantly. Competition is intensifying on a global level, and current conditions hardly justify optimism. However, we believe automation is becoming increasingly valuable as the scale of change expands. In this operating environment, the azbil Group can rely on its concept of human-centered automation, technology capabilities acquired over many years, data based on experience, and qualified human resources. We will use these advantages to create the future of the azbil Group by delivering a new dimension of value through automation.

After I became president and chief executive officer, many customers shared their high expectations for the

azbil Group. I also visited many azbil Group companies and divisions in Japan and overseas and talked with more than 5,000 employees. I was impressed by the motivation of azbil Group employees to provide human-centered automation. My responsibility is to generate success by linking our new strategy and employee motivation to meet the expectations of shareholders, customers, and all of our other stakeholders.

The azbil Group will continue to cooperate seamlessly in its pursuit for human-centered automation to increase the scope and quality of the value it provides all around the world. Look for the azbil Group to grow in the future.

Value Provided by the azbil Group

Comfort

Providing Comfort According to Building Use

azbil provides the most suitable environment and achieves energy savings in all types of buildings, including offices, hotels, shopping centers, and hospitals.

Case 1

In large-scale complexes with vast open spaces that are bustling with people, comfortable climate control is difficult to achieve. But even in places such as these, azbil saves energy while maintaining the comfort of customers who visit the facilities. (Photo: Dream Mall, Taiwan)

...in shopping centers



Case 2

Optimal operation of heating systems not only ensures the comfort of visitors but also maintains constant water temperatures in the tanks. azbil considers the people, the fish, and the planet. (Photo: Aqua Planet Jeju, South Korea)

...in aquariums



Case 3

...in homes

azbil provides products that keep the whole house comfortable with minimal temperature differences in living spaces as well as hallways and washrooms. An electronic air cleaner keeps the air throughout the house clean at all times to provide a healthy and comfortable home for all occupants, from children to the elderly. (Photo: Residence of Shoko Sakai, Japan)

Building Automation Business

While implementing further measures to improve the profit structure, we are deploying a business model to deliver sophisticated, high-value-added solutions in Japan and internationally.



Keiichi Fuwa
Executive Director
Managing Executive Officer
Building Systems Company President
Azbil Corporation

Operating Environment

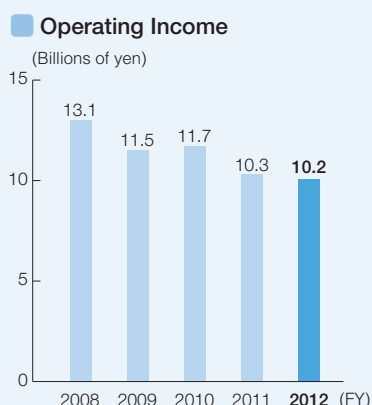
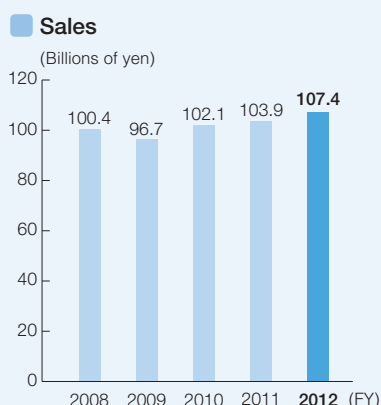
Overall, Japan's economy continued to recover moderately during fiscal year 2012, ended March 31, 2013, with a new administration and aggressive monetary easing by the Bank of Japan driving economic improvement in the fourth quarter. Limited confidence in the future of the economy restrained investment in the construction market, and competition was intense. The resulting pressure on prices impacted profitability. The market for existing buildings was expected to grow because of stricter CO₂ emission regulations. However, this market improved little during fiscal year 2012, as the uncertain economic conditions caused investment to decrease and the emphasis was on funding business continuity plans. The depreciation of the yen, nevertheless, led to a sharp increase in fuel prices, causing electricity rates to rise. The framework of energy

supply and demand and use is changing significantly as a result, which is creating new business opportunities ranging from balancing energy conservation and comfort to wide-area community energy management systems (CEMS). Regional differences notwithstanding, increasing need for energy conservation in overseas markets plays to the azbil Group's strengths.

Fiscal Year 2012 in Review

In Japan, sales increased year on year, even though the operating environment remained challenging. Sales were essentially unchanged in the new building market but rose steadily in the existing building market and the service business. While investment has yet to expand significantly in these markets, rising electricity rates are creating demand for electricity and energy conservation. The azbil Group succeeded in making energy conservation proposals backed by its onsite maintenance experience and accumulated data spanning many years along with proven construction and engineering capabilities.

In overseas markets, the azbil Group has established a track record for supplying factory HVAC systems and other equipment to Japanese manufacturers, but emphasis is also being placed on developing the local, non-Japanese building market. Examples from fiscal year 2012 include the newly established CECEP Building Energy Management Co., Ltd., a joint venture with a company partially owned by the Chinese government that carries the azbil Group into the enormous Chinese local construction market. We also invested in Beijing YTYH Intelli-Technology Co., Ltd., a Chinese construction and engineering firm that provides light electrical equipment for buildings, and made it a subsidiary. Sales increased in China because of these equity investments and other initiatives and the consolidation of Beijing YTYH Intelli-Technology, while sales also rose in Singapore and elsewhere. In Thailand, sales increased as a result of reconstruction demand resulting from flood damage.



In fiscal year 2012, ended March 31, 2013, sales increased 3.4% year on year to ¥107.4 billion because of growth in the existing building market and service business in Japan and also in overseas business. Segment profit (operating income) decreased 1.7% year on year to ¥10.2 billion because improved profitability in the second half of the fiscal year did not fully compensate for lower first-half profits due to reduced investment in the construction market and intensified competition.

Outlook

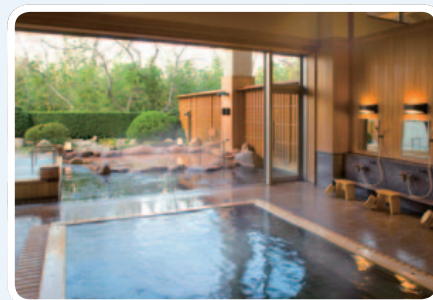
Overseas markets have strong growth potential, while the domestic market is mature. We will aggressively develop business overseas while focusing on securing profits and expanding the business domain in Japan in order to achieve the targets of our new medium-term plan. We succeeded in reducing costs at construction sites and improving job management during fiscal year 2012 and will focus on enhancing these initiatives to strengthen the azbil Group's business structure. In the service business, we will improve our lineup of value-added, knowledge-intensive services including remote maintenance while implementing

process improvements. We will also expand the business domain with comprehensive renovations of customer facilities to increase energy efficiency, newly developed products for small and medium-sized buildings, solutions for high sensible heat environments such as data centers, and solutions for clean environments for laboratories. Moreover, we will integrate energy management, safety, and security to provide solutions for customers' core competencies to create value. Overseas, the azbil Group will collaborate with partner companies according to regional characteristics and will expand business by leveraging the strength of its energy conservation business model to deliver sophisticated, high-value-added solutions.

Case Study: Hyoe Koyokaku

The introduction of leading-edge, highly efficient equipment helps a hot spring resort to further reduce energy used for air-conditioning and hot water.

Hyoe Koyokaku is a spa with a proud history spanning 700 years, and is one of the famous Arima Onsen hot springs. It is classified as a Type 2 Designated Energy Management Factory, and Azbil was selected as its partner in energy-conservation programs. Hyoe Koyokaku updated its aging air-conditioning and hot-water supply facilities using Sustainable Open Innovation Initiative funding, which is available for companies wishing to improve energy efficiency. Additionally, we made effective use of existing equipment to maximize energy savings by optimizing the hot-water supply facilities and their operation to avoid increasing maximum electricity usage. As a result, we have already achieved the energy savings target stipulated in the funding application: a 7.3% reduction compared with the previous year, equivalent to 165,000 liters of crude oil. However, we expect that the new facilities will reduce crude oil equivalent usage by nearly 200,000 liters annually.



From the Account Representative

Akihiro Iijima

Sales Department 2
Kansai Division
Building Systems Company
Azbil Corporation



Our goal was to significantly reduce energy usage while maintaining guest comfort, so we proposed a low-cost equipment upgrade that would not take much time. The client entrusted us with the project because we provided a clear and detailed basis for calculating energy savings and demonstrated superior expertise in energy conservation techniques and application for funding. We will continue to leverage our extensive energy conservation experience to propose optimal solutions suited to client buildings and applications.

Advanced Automation Business

We will raise business efficiency and concentrate resources in growth markets to globally provide solutions unique to the azbil Group.



Masato Iwasaki

Executive Director
Managing Executive Officer
Advanced Automation Company President
Azbil Corporation

Operating Environment

In fiscal year 2012, ended March 31, 2013, Japan's economic outlook began to brighten as the yen reversed several years of strength and began to weaken from fall 2012 and the Bank of Japan implemented aggressive monetary easing. These factors were largely responsible for favorable developments including increased production in some manufacturing industries. Capital spending among domestic companies, however, remained restrained. Consequently, the azbil Group's operating environment was challenging, but investment was solid in areas in which Japanese companies excel, such as highly functional materials, and in energy-related markets including liquefied natural gas (LNG) facilities. Higher crude oil and electricity prices due to the depreciation of the yen sustained demand for energy conservation, an area of strength for the azbil Group. At the same time, demand remained depressed in

markets related to equipment manufacturers, including semiconductor manufacturing equipment and industrial furnaces.

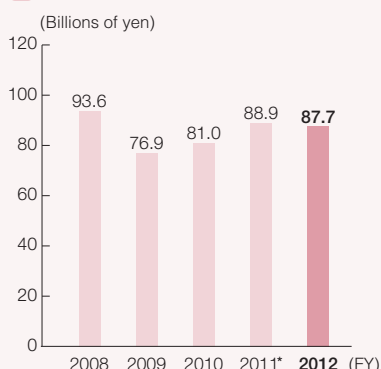
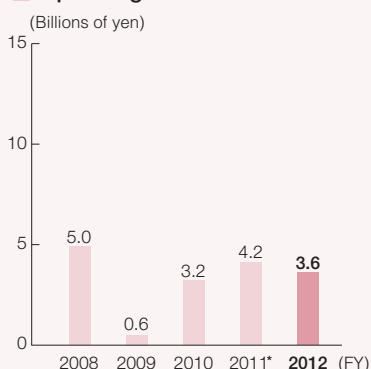
Overseas, demand in Asia was firm. The financial crisis in Europe and slower growth in emerging countries created uncertainty, but we expect overseas sales to steadily expand in the future.

Fiscal Year 2012 in Review

In the domestic market, as mentioned above, capital investment did not recover with any strength, but we did see demand in energy and highly functional materials markets. Azbil Corporation's strong reputation for providing comprehensive support from plant management to engineering and service led to increased sales of new equipment, field instruments such as transmitters, and control valves for plants. However, since fiscal year 2011, ended March 31, 2012, depressed demand among equipment manufacturers such as semiconductors and other markets has led to a decline in sales of azbil Group control products. As a result, overall sales in Japan decreased year on year.

In overseas markets, sales of control products were lower among equipment manufacturers, mainly in China. However, sales of field instruments such as transmitters and control valves increased, resulting in overall growth in overseas sales.

While the operating environment was challenging, in fiscal year 2012 we upgraded overseas bases and developed relationships with new business partners. These and other initiatives enabled significant progress. We established Azbil Saudi Arabia Limited to expand business in the Middle East. Also, to strengthen the flowmeter business, we acquired equity in U.S.-based VorTek Instruments, LLC and made it a subsidiary, Azbil VorTek, LLC. In Japan, to further strengthen our ability to provide solutions to equipment manufacturers, we acquired equity in TACO Co., Ltd. and made it a subsidiary, Azbil TA Co., Ltd. We also merged two Group companies as of April 2013 to create Azbil Trading Co., Ltd., a technology-specialized trading firm that has both a broad product lineup and system solutions capabilities.

Sales**Operating Income**

In fiscal year 2012, ended March 31, 2013, sales decreased 1.3% year on year to ¥87.7 billion due primarily to weakness in the market for control products for equipment manufacturers. Segment profit (operating income) decreased 12.3% year on year to ¥3.6 billion primarily because of the decrease in sales.

* From fiscal year 2012, some of the business (importing, buying-in, and marketing of inspection and measurement equipment, etc.) previously categorized as "Others" has been transferred to the Advanced Automation business segment. The figures for fiscal year 2011 have been reclassified to take account of the new segment divisions.

Outlook

In Japan, we will identify changing market potential and raise business efficiency to generate earnings to achieve the targets of the new medium-term plan. We will also provide solutions for highly innovative processes in growth markets such as research and development-based and value-added industries including highly functional materials, and pharmaceuticals. Moreover, we will capture opportunities in markets related to the shift to LNG and new energy sources. We intend to differentiate the azbil Group through unique initiatives in fields such as quality and productivity improvement, comprehensive maintenance from operations to facilities, and energy management. We will also expand the business domain by providing business continuity management solutions, which encompass business

continuity planning. These solutions include earthquake response systems equipped with proven earthquake sensors and control system security. Capital investment is likely to increase in emerging countries. We will therefore improve our structure for directly providing products and services in key emerging countries. We also intend to further enhance our structures for development, manufacturing, and maintenance tailored to regional needs and characteristics. One facet of this initiative will be fortifying and expanding our control valve business, which has strengths in maintenance and preventive maintenance. Meanwhile, we will enhance the custom design and development capabilities of local subsidiaries to serve the many leading equipment manufacturers in Europe and the United States, and implement a three-pronged structure including East Asia (Japan, Korea, and Taiwan) to support aggressive global initiatives.

Case Study: Nippon Kodoshi Corporation

We designed and built a control room environment with mechanisms that enhance situation awareness.

Nippon Kodoshi has a dominant global share of the market for insulating paper used for separators in electrolytic capacitors. In constructing its Yonago Plant, Nippon Kodoshi revised the design of the central control room that supervises and controls the factory floor. Totally committed to maximum efficiency, Nippon Kodoshi called on Azbil's control room design consulting services. We responded by creating "mechanisms that enhance the level of situation awareness." The result is an environment that integrates status information from the factory floor, information from distributed control systems, and communication between operators in the central control room, thus enabling accurate decisions and optimal responses.



From the Account Representative

Tsutomu Takai

Marketing Department
Advanced Automation Company
Azbil Corporation



Nippon Kodoshi selected us because it appreciated our original, futuristic control room design. Also, our extensive experience at existing factories and familiarity with the client's own facilities gave the client confidence. Detailed communication with Nippon Kodoshi throughout the project supported the objectives of open flow lines and information arrays that enable the degree of awareness required to permit effortless overall control, thus facilitating rapid decision making and creating open space where people can work energetically with the motivation to achieve continuous improvement. I look forward to collaborating with clients in the design of control rooms based on ergonomic principles.

Life Automation Business

With the addition of the Life Science Engineering business, we are transforming the Life Automation business into one that contributes to living with peace of mind.



Hidetoshi Miwa
President
Azbil Care & Support Co., Ltd.



Ichio Kunii
Managing Executive Officer
General Manager, Home
Comfort Headquarters
Azbil Corporation



Ton Capella
President and CEO
Azbil Telstar, S.L.



Kanichiro Shimoda
President
Azbil Kimmon Co., Ltd.

Operating Environment

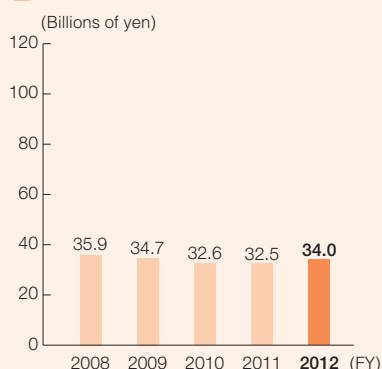
Covering the lifeline and lifestyle facilities, health and welfare, nursing care, life science, pharmaceutical, and medical fields, the Life Automation business comprises several companies in different business environments. Azbil Kimmon Co., Ltd., which accounts for the bulk of Life Automation business sales, operates under a cycle of demand for the periodic replacement of gas and water meters that is based on regulations. Fiscal year 2012, ended March 31, 2013, was an off-demand period for LP gas meters, but demand for town gas meters and other equipment in both residential and industrial markets was

firm. Azbil Care & Support Co., Ltd. serves the health and welfare and nursing care markets, where potential demand is substantial due to social structural change including the aging of society. Our emergency alert response service for the elderly had approximately 63,800 customers as of March 31, 2013, making us one of Japan's largest private-sector service providers in the field. However, the operating environment remained challenging during the year due largely to cutbacks in welfare budgets by local governments. In Azbil Corporation's residential central air-conditioning system business, demand in the custom home market remained steady. We expect this business to expand because rising need for health and comfort in living spaces is supporting increased use of central air-conditioning.

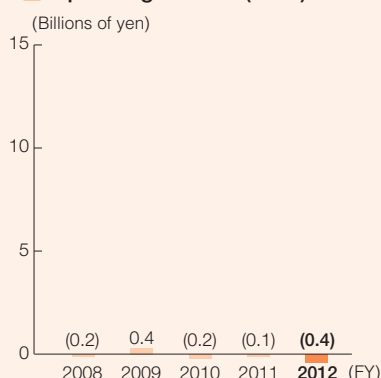
Fiscal Year 2012 in Review

The gas and water meter business accounts for the bulk of Life Automation business sales. In fiscal year 2011, ended March 31, 2012, the Fukushima Daiichi nuclear power plant accident limited production volume by forcing the company to temporarily suspend production at some of its facilities. However, from the start of fiscal year 2012, it was possible to implement vigorous sales activities. These activities, together with the robust market for town gas meters, resulted in increased sales of both gas and water meters. In the health and welfare and nursing care markets, the cutbacks in welfare budgets by local governments and other factors have created a challenging business environment. To respond to this situation and strengthen the business structure, we integrated two Group companies* in the health and welfare and nursing care fields. Moreover, initiatives such as increasing the number of care centers and enhancing service offerings supported higher sales. Sales of residential central air-conditioning systems remained at approximately the same level as in the previous year. We continued to strengthen sales and product development and aggressively executed sales initiatives targeting both home builders and owners to expand this business. To broaden the Life Automation business domain, we acquired an equity stake in Spain's Telstar, S.A. and made it a subsidiary, Azbil Telstar, S.L., during fiscal year 2012. Azbil Telstar develops, manufactures,

Sales



Operating Income (Loss)*



In fiscal year 2012, ended March 31, 2013, sales increased 4.5% year on year to ¥34.0 billion because of solid performance in the gas and water meter business and the health and welfare and nursing care businesses. Segment loss (operating loss) was ¥0.4 billion, primarily because of prior investments to develop residential central air-conditioning systems and strengthen sales. Segment loss (operating loss) of ¥0.1 billion was posted for the previous fiscal year.

* The purchase of Azbil Kimmon has generated expenses for amortization of goodwill.

and markets manufacturing equipment and environmental equipment for pharmaceutical plants, laboratories, and hospitals.

* Within the azbil Group, as of April 2012, a merger was effected between Safety Service Center Co., Ltd., which operated an emergency alert response service, and Yamatake Care-Net Co., Ltd., which ran a nursing care support business. The name of the new company is Azbil Care & Support Co., Ltd. By pooling and thus making maximum use of the two companies' combined technologies and know-how for emergency alert response and nursing care, the azbil Group can now offer a unique service to customers.

Outlook

The Life Automation business will generate stable earnings in existing businesses by strengthening business structures while developing and expanding in new business domains to achieve the targets of the new medium-term plan. In the

gas and water meter business, we will build up the solution business for energy supply lines. Our approaches in the health and welfare and nursing care markets will involve providing staff services and products in business domains where demand is emerging, such as serviced housing for the elderly and 24-hour regional comprehensive care services. In the field of residential central air-conditioning systems, we will raise our profile in the custom home market to increase the usage rate while introducing new products to improve and enhance earnings. In addition, Azbil Telstar has made breakthroughs in the field of manufacturing and environmental equipment for pharmaceutical plants, laboratories, and hospitals. By making Azbil Telstar a subsidiary, we have launched and are developing a Life Science Engineering business, which will provide next-generation solutions that integrate manufacturing equipment with environmental systems, inspired by automation technologies.

Case Study: Keiyo Gas Co., Ltd.

We facilitated and raised the efficiency of gas meter changeover by shifting to small, light gas meters.

Keiyo Gas was established in 1927. Since then, it has concentrated on providing city gas in northwest Chiba Prefecture. Recently built condominiums and other residences have increased their residential space by reducing the space required for the gas meter. Keiyo Gas therefore decided to use Azbil Kimmon's Type JB intelligent gas meter to facilitate gas meter installation and changeover. This model has the same internal structure as its predecessors but offers enhanced performance in a smaller package with a reduced weight of just 1.3 kg. It therefore requires less space during storage and transportation and is very easy to handle. Response from the field has been favorable because this gas meter requires less dedicated space in residences.



From the Account Representative

Hirofumi Watai

Chiba Business Office
Azbil Kimmon Co., Ltd.



The residential gas meter has evolved from an accurate measurement device into an intelligent microprocessor-based meter that has safety functions similar to an electrical circuit breaker. This new type of gas meter is becoming the industry standard, which is a key factor in Keiyo Gas's decision to adopt it. More than 50 companies have adopted the Type JB intelligent gas meter, making it the industry standard. The azbil Group will continue doing everything it can to exceed customer expectations.

Business Foundation

Accelerate Global Growth

The azbil Group is enhancing its business foundation with a global perspective in order to achieve growth in Japan and overseas. In fiscal year 2012, ended March 31, 2013, we strengthened the relationships with partners in Japan and overseas that will be key to accelerating the expansion of our business, while globally and throughout the Group we promoted the building of structures for the technology development, manufacturing, and engineering and services that support our business.

Target: An Overseas Sales Ratio of 20% or Higher

The azbil Group's overseas sales for fiscal year 2012 increased 15.7% year on year to ¥23.0 billion, supported by strong sales growth in Asia, mainly in China. Solid investment in emerging countries to construct plants, factories, and buildings and to reduce energy consumption offset reduced sales to equipment manufacturers resulting from decreased demand for semiconductors and other products. Consequently, the overseas sales ratio was 10.1%. Our target for fiscal year 2016, the year ending March 31, 2017, the final year of our new medium-term plan, is an overseas sales ratio of 20% or higher.

Both Expansion into New Regions and Qualitative Change of Focus Will Drive Growth

Overseas markets are key to generating sustained growth of the azbil Group. We are therefore building our business through expansion into new regions and a qualitative change of focus.

Expansion into new regions involved complementing our present operations in China and other Asian countries by establishing subsidiaries in India, the Middle East, and South America to broaden our organization for directly providing products and services. Qualitative change of focus entails business development using a life cycle model that consistently contributes to the growth and sustainability of client companies. Regional needs vary according to factors including relative economic maturity and regulatory regimes. We are therefore taking a country-based approach to identifying increasing needs for sophisticated, multifaceted solutions engendered by

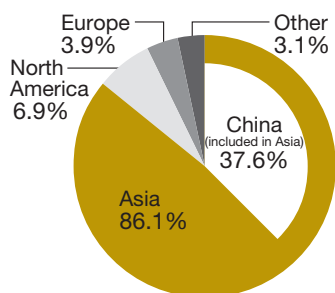
social and economic development. The azbil Group is developing its business of delivering characteristic products, such as field instruments and control valves, into a unique solutions business that only azbil can provide, tailoring product development, production, engineering, and services to local customer needs.

Building Structures for Global Growth and Strengthening Responsiveness Tailored to Regional Characteristics

We start with an understanding that needs and requirements for the value we provide are the same in global markets including Japan. We then deliver products and services globally in businesses and growth markets in which we have a proven track record, configuring the supply and contents of products and services according to regional characteristics and growth stage. The azbil Group is enhancing its competitiveness by building global structures for research and development, production, and sales, while strengthening its proposal capabilities, product customization, production structure, engineering, and service functions in each region.

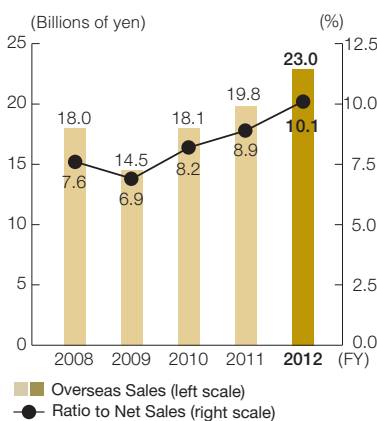
We strengthened our business foundation during fiscal year 2012. Initiatives included meeting regional needs by establishing and expanding the capabilities of valve maintenance centers while enhancing product customization and manufacturing. In addition, we built relationships with new business partners through equity alliances, established a technology development system, reorganized the production structure, and implemented structural reforms for engineering and services to support global expansion.

Overseas Sales* by Region

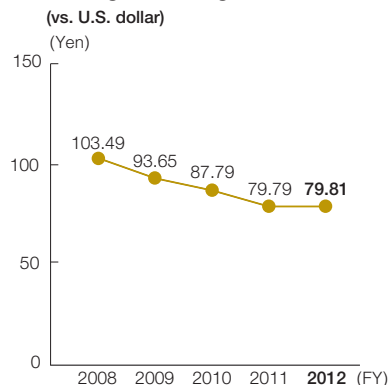


* Sales statistics denote figures from overseas subsidiaries and affiliates and direct exports. Indirect exports are not included. Most overseas subsidiaries and affiliates use a fiscal year ending on December 31.

Overseas Sales/Ratio to Net Sales



Average Exchange Rate



Partnerships: Equity Alliances in Each Business with Companies in Japan and Overseas

BA Building Automation Business

The Chinese government is strongly promoting increased energy efficiency for buildings. We are therefore enhancing operations in local Chinese construction markets with an emphasis on our energy-saving technologies. We supported this initiative by establishing a joint venture, CECEP Building Energy Management Co., Ltd., with a company that belongs to a corporate group that is financed by the Chinese government and is responsible for planning and implementing China's energy conservation policy for existing buildings. We also strengthened our position in the new building market by investing in the Chinese construction and engineering firm Beijing YTYH Intelli-Technology Co., Ltd.



CECEP Building Energy Management Co., Ltd.

Location: Beijing, China
Equity ownership: 20%
Business: Sales of building automation systems; energy management services



Beijing YTYH Intelli-Technology Co., Ltd.

Location: Beijing, China
Equity ownership: 60%
Business: Integrated design and light electrical work for intelligent buildings; other businesses include sales of related equipment

AA Advanced Automation Business

The azbil Group expanded operations in the Middle East. We also strengthened product capabilities by acquiring partner companies with unique technologies and products, thus enhancing our ability to deliver customer solutions.



Azbil Saudi Arabia Limited

We established Azbil Saudi Arabia Limited to expand business and strengthen our production structure in the Middle East. We also formed a product supply alliance with a partner in India. These moves strengthened the valve business, including supply chains from Asia to the Middle East.

Location: Dammam, Kingdom of Saudi Arabia
Equity ownership: 51%
Business: Manufacture, sales and exports of automatic control valves; maintenance, repairs, engineering, consulting, sales and training for measurement and control equipment and systems



Azbil TA Co., Ltd.

The azbil Group acquired 100% of Taco Co., Ltd., which manufactures and sells a variety of components and equipment that utilizes pneumatic technology. This company has changed its name to Azbil TA Co., Ltd.



Micron-Lub lubrication unit

The automobile industry in Japan and overseas is a major user of Azbil TA's oil mist lubrication equipment, which is supplied in such areas as Asia, Oceania, Europe, and America through its distributors. The azbil Group will strengthen its overseas operations with a multifaceted approach and generate greater synergy than ever before by making use of Azbil TA's distribution network.

Location: Tokyo, Japan
Equity ownership: 100%
Business: Manufacture and sales of pneumatic equipment and other products including component and equipment that utilizes pneumatic technology



Azbil VorTek, LLC

Azbil Corporation decided to acquire 70% of the equity of VorTek Instruments, LLC, a U.S. manufacturer and supplier of vortex flowmeters with a proven track record worldwide, through U.S. subsidiary Azbil North America, Inc. The addition of Azbil VorTek, LLC has complemented and strengthened the azbil Group's flowmeter product lineup, enabling solutions with higher added value and global business expansion.



AX Series vortex meter

Location: Longmont, Colorado, U.S.A.
Equity ownership: 70%
Business: Development, manufacture, sales, and engineering of products including vortex flowmeters with temperature and pressure compensation

LA Life Automation Business

The azbil Group acquired an 80% stake of Spain's Telstar, S.A. and renamed it Azbil Telstar, S.L. This company develops, manufactures and sells manufacturing equipment for pharmaceutical plants and hospitals. We invested in Azbil Telstar to launch a Life Science Engineering business that provides next-generation solutions that integrate manufacturing equipment with environmental systems to markets that contribute to people's lives and health. Azbil Telstar operates globally and has a total of 17 operating bases in Spain and other Western European countries, Eastern Europe, Central and South America, and North America.



Azbil Telstar, S.L.

Location: Terrassa, Catalonia, Spain

Equity ownership: 80%

Business: Development, manufacture, and sales of freeze drying systems, sterilizers, water treatment equipment, and steam generators for pharmaceutical formulation; consulting, engineering, and other services for clean rooms



Freeze drying system



Sterilization system

Case Study: Eastern Petrochemical Company (SHARQ)

Smart Valve Positioners Provide More Efficient Maintenance for Safer and More Reliable Production

Eastern Petrochemical Company (SHARQ*) operates petrochemical plants producing chemicals such as ethylene glycol in Jubail, the largest industrial city in the Middle East, located in Saudi Arabia's Eastern Province on the Persian Gulf. Formerly, the company's plants used conventional analog valve positioners, and at that time the operating status (valve opening, etc.) of positioners had to be visually checked and recorded. To reduce the maintenance burden and obtain a clearer and more detailed picture of the status of the valves, the company introduced digital AVP 3000 Alphaplus™ smart valve positioners with communications capabilities. Under harsh conditions, the positioners have improved maintenance efficiency and made a significant contribution to preventive maintenance.

* Sharq means "east" in Arabic, reflecting the company's location in the Eastern Province of Saudi Arabia as well as the company's joint venture status with Japanese companies from the East.



From the Account Representative

Adipong Sae-Sia

Global Business Department
Business Headquarters
Advanced Automation Company
Azbil Corporation



Since starting its plant operation in 1985, SHARQ has been using many Azbil Corporation control valves. Recently, SHARQ's trust in our products and support led to its decision to select our positioners. Because the positioner type was changed from analog to digital, a dramatic reduction was recorded in the amount of labor and time needed for maintenance. In Jubail's harsh summer conditions, with temperatures of almost 50 °C, our customers truly appreciate this improvement. In the future, I hope to keep a close relationship with our customers by meeting their needs and making suggestions that provide them with added value.

Technology Research and Development:

Accelerating Technology and Product Development with an Infrastructure Extending across Japan, the United States, and Europe

Guided by our philosophy of “human-centered automation,” the azbil Group is accelerating the establishment of an efficient and effective global R&D infrastructure that links the corporate and internal company R&D departments and supports continuous and consistent collaboration from technology development through to product development, manufacturing technology development, and mass-production trials.

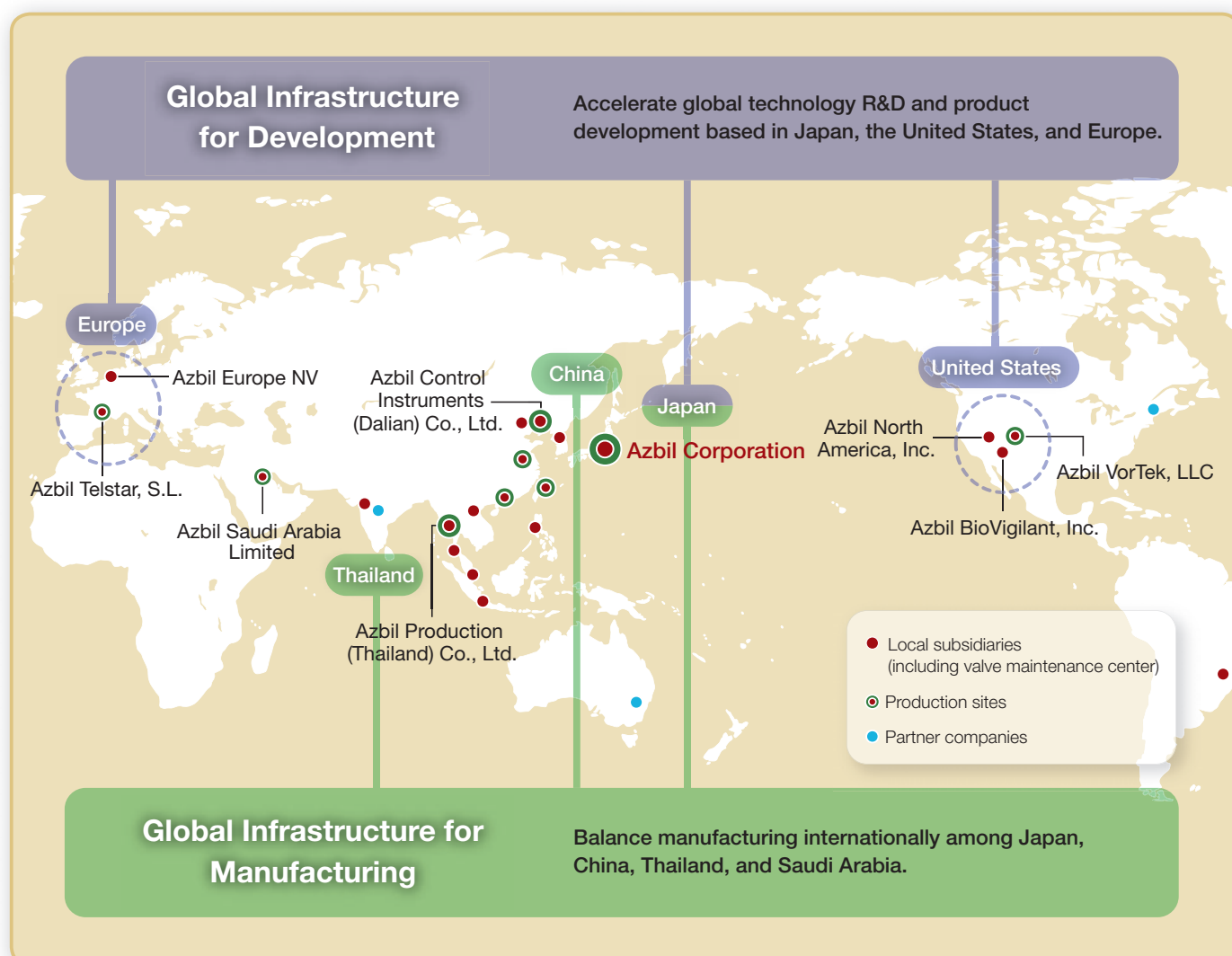
R&D Investment

In fiscal year 2012, ended March 31, 2013, the azbil Group's R&D costs were ¥7.8 billion, or 3.4% of net sales. R&D costs decreased 11.3% compared with the previous fiscal year, thanks mainly to successful consolidation within

Group-wide R&D departments and product development sections of internal companies.

In addition to development in the five strategic technology areas we specified in fiscal year 2012, we will make efficient and timely market launches of products in the growth fields defined in the new medium-term plan: next-generation solutions for production and working/living spaces; energy management solutions; and safety solutions. Moreover, we are strengthening the global R&D infrastructure of the Group and partner companies, which is based in Japan, the United States, and Europe, and plan to enhance collaboration between our development facilities in Japan and abroad in order to respond rapidly to a diverse array of customer requests.

■ Toward a Global Infrastructure for Development, Manufacturing, Engineering, and Service



Strategic Technology Areas/Examples of Key Themes in Fiscal Year 2012

1. Machine Systems with Humanlike Abilities

Technology incorporating humanlike abilities into machine systems (creation of intelligent machines)

Example:

- construction of a highly intelligent automated production line for optical sensors that incorporates human skills through the use of an active compliance device and visual servoing technology

2. Flexible Measurement and Control

Measurement and control technologies that are not constrained by time or location for a wide variety of manufacturing and living environments

Examples:

- development of technologies that enable the control of new sources of energy by verifying the principles relevant to steam energy measurement technology
- development of a temperature and humidity sensor that is highly resistant to atomized solvents and other chemicals prevalent in the manufacturing and R&D processes for semiconductors, pharmaceuticals, and other products

3. Advanced Technology That Clarifies Complex Systems

Technology that clarifies the status and problems of complex processes, allowing the development of highly evolved systems with advanced controllability

Examples:

- development of SORTIA-LQP, a solution for optimizing a large-scale continuous process with multiple process units
- development of the PLUG-IN Valstaff control valve diagnostic application

4. Systems Enabling Us to Live in Harmony with Nature

Use of control technology to harmonize human activity with nature by reducing environmental impact

Examples:

- development of the ENEOPTTMpers package, which supports optimal energy usage
- development of Web-InflexTM, a remote-control service that received a Minister of Economy, Trade and Industry Award at the Green IT Awards 2012 for showing HVAC energy use in visual form, and for reducing energy and electricity consumption
- development of GasCVDTM, a natural gas calorimeter that contributes to fair natural gas transactions

5. Individualized Environmental Comfort Systems

Technologies offering comfortable and high-quality living spaces

Example:

- construction of the azbil House, a facility that assists in the development of next-generation home air-conditioning by serving as a laboratory for research of air-conditioning and living conditions

Examples of Research and Development Technologies

1. Machine Systems with Humanlike Abilities

Development of Automation Technologies for Photoelectric Sensor Production Lines

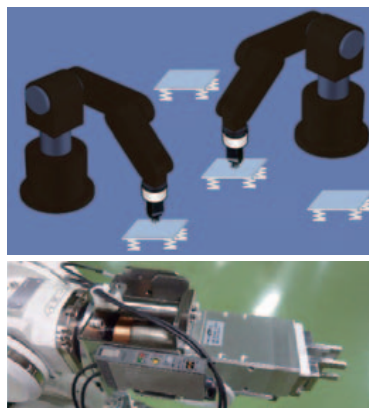
Automation of quality, cost, and delivery processes is important to realize stable production, whether in Japan or overseas. This requires intelligent machine systems that incorporate features such as the manual dexterity, sight recognition capabilities, and human experience of a skilled worker.

Specifically, the technological challenges for mechanization of photoelectric sensor production included enabling tactile softness recognition in order to achieve flexible response to changes in components and the environment while automating inspection to prevent defective parts from escaping detection; quality confirmation through gentle touching and handling; three-dimensional visual position confirmation; quality judgment; and recognition of dents and cracks. We met these challenges by developing active compliance devices that mimic some of the capabilities of the human hand by inspecting sensor components with the gentle touch of a person, and that raise operational quality and speed by repositioning themselves.

We also developed a visual servo system that mimics some of the abilities of the human eye. We consolidated

and standardized recognition processing algorithms through the use of pattern matching and other methods to automate the selection of actions in response to visual data for component shape, position, and operating status. We then applied these technologies as an intelligent platform for an automated production line for our HP7 series photoelectric sensors.

We achieved defect detection during assembly operations and increased the speed of operations that require subtle control of force, a problematic area for robots operating alone, while shortening cycle time and improving quality compared with automated facilities in the past. Our aim is to revive production in Japan and automate overseas production by continuing to give these technologies more humanlike abilities.



Active compliance devices

2. Flexible Measurement Control Technology

Environment-Resistant Temperature and Humidity Sensor for Production and Research Facilities

Humidity sensors installed in factories and research facilities are subject to accelerated aging and instances of significant humidity measurement error (drift) when atomized chemical agents such as organic solvents and disinfectants generated in production and research processes adhere to the sensor element used for temperature and humidity detection.

Humidity control in manufacturing and other environments is important because it directly affects product quality and productivity, but preventing the aging of humidity sensors due to chemical agents has been difficult, requiring early detection of degradation and proactive remedial action. This was the background as we developed an environment-resistant temperature and humidity sensor by using a sensor element that incorporates a regenerative heating element to enable recovery from and detection of deterioration by atmospheric agents. Specifically, in order to control aging caused by chemical agents and other factors, a drift recovery function periodically heats up the element (for a 10-minute interval every 24 hours) to vaporize and remove chemical residue, thus minimizing drift. In addition, a drift recognition function calculates the degree of deterioration by periodically comparing the present state with standard values, determining the extent of element deterioration compared with the earliest stages, and displaying the result on an LCD. The sensor's double-element configuration allows continuous 24-hour measurement even when one of the elements is undergoing drift recovery and detection. Moreover, the element itself can be cleaned, chemical residue adhering to the sensor can be washed off, and the element can be replaced.

The introduction of an environment-resistant temperature and humidity sensor enables long-term temperature and humidity measurement and control of drift caused by chemical agents, thus contributing to stable temperature and humidity control in production, research, and other environments.



Environment-resistant temperature and humidity sensor

3. Advanced Technology That Clarifies Complex Systems

PLUG-IN Valstaff, a Control Valve Maintenance Support System

A plant shutdown due to equipment malfunction is one of the situations that plant operators most want to avoid. Control valve abnormalities in particular may lead directly to a plant shutdown.

On the one hand, when an equipment malfunction or abnormality is detected, plant maintenance engineers must take immediate and appropriate action while the plant is in operation. Until now, however, if there was information indicating that equipment was in poor condition, the information had to be verified by going to the actual site. Because of the need to quickly detect equipment malfunctions from the large volume of data at giant, complex plants, a solution was sought that would clarify process status and problems.

PLUG-IN Valstaff provides online diagnostics of control valves 24 hours a day, 365 days a year, while the plant is operating. Improved maintenance efficiency using the monitoring data enables early detection of abnormalities and deterioration of control valves and positioners. Specifically, the system uses stick-slip diagnostics from control valve operational data to display diagnostic graphs that allow the progress of control valve deterioration or abnormalities to be estimated during operation. PLUG-IN Valstaff also provides indexed control valve conditions obtained from step response testing performed during shutdown maintenance. This enables the generation of a list of valves requiring further testing based on the degree of deterioration, and supports the creation of an appropriate maintenance plan.

The system sends an alert at the first sign of an abnormality in order to prompt action before the control valve can cause a problem. This helps to prevent unscheduled shutdowns and supports continuously safe and secure plant operation.



PLUG-IN Valstaff, a control valve maintenance support system

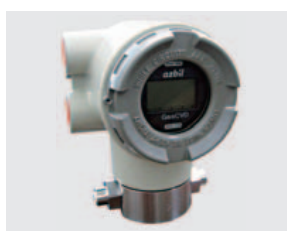
4. Systems Enabling Us to Live in Harmony with Nature

GasCVD™ Calorimeter for Natural Gas Trade

Natural gas, an increasingly important source of clean energy worldwide, generally refers to a mixture of hydrocarbon gases that is a naturally occurring fossil fuel. It includes the carbon compounds methane, ethane, propane, butane, and pentane as well as nitrogen, but the ratio of these components varies a little depending on where the gas is produced. Consequently, gas chromatographs have commonly been used in the natural gas trade to measure the calorific value (roughly, the heating power) of natural gas. However, the cost can be high and analysis may take a long time depending on the setup of the room used for analysis, preparation of sampling devices, and other factors. GasCVD™ is a natural gas calorimeter with a response time of less than 30 seconds, which is more than 10 times faster

than a typical gas chromatograph. Moreover, it offers high accuracy within 1.0% of the instrument reading, and assures precise measurement even with component variations, such as when nitrogen, carbon dioxide, or other non-combustible gases are mixed in. This unit has acquired certification as an OIML R 140 class B calorific value determining device (CVDD) for natural gas as well as WELMEC MID MI-002 certification for verifying fairness in trade.

Moreover, as it does not require a sample gas for calibration, GasCVD™ is compatible with simpler sampling devices than those used with gas chromatographs, enabling



GasCVD™, a natural gas calorimeter

a smaller footprint and lighter weight. In addition to its use in trading between natural gas suppliers and users, it will contribute to improved combustion efficiency in equipment such as gas turbines and furnaces.

5. Individualized Environmental Comfort Systems

The azbil House, a Laboratory for Indoor Air and Life

With the emergence of problems such as a low birthrate, aging population, warming climate, and air pollution, people in Japan have become more conscious of safety, peace of mind, and comfort in their lives. Demand has grown for

living environments that are free of pollen, house dust, and particulate matter at or below 2.5 microns in diameter. There is also increasing demand for single-family homes that do not have the risk of “heat shock” (when moving from the bath or heated room to an unheated room) in winter and heat stress in summer.

The azbil House, a laboratory for indoor air and life, opened at the Fujisawa Technology Center in January 2013. At the site, there are two houses built to identical specifications. One house is equipped with Azbil Corporation’s Kikubari residential central air-conditioning system, and the other has room air conditioners and air cleaners installed. The azbil House serves as an interactive model house for customers and is also used for purposes such as comparative experiments when developing new technologies related to air-conditioning.

The azbil Group, based on its extensive experience and know-how in air-conditioning control systems, as well as its R&D-related information technology, data on temperature and electric power consumption, analytical technologies, and other technologies, is working on a next-generation Kikubari system, and looks forward to offering a variety of configurations tailored to consumer preferences.



The azbil House

Manufacturing and Procurement:

Establishing Global Manufacturing Capabilities That Are Responsive to Regional and Product Characteristics

Change in the business environment has accelerated because of factors that include the move overseas of domestic customers and intensified global competition. To make a sustained and flexible response to these changes, the azbil Group is optimizing its global logistics on a regional and product basis and reorganizing its manufacturing facilities to improve its ability to design products that are responsive to regional characteristics.

Building an Infrastructure for Manufacturing Overseas

Allocating manufacturing capabilities in Japan and overseas, the azbil Group established Azbil Production (Thailand) Co., Ltd. in fiscal year 2012 to participate in Asian economic growth and strengthen the business continuity plan. This new manufacturing subsidiary is scheduled to begin operation in summer 2013. It will join key azbil Group manufacturing bases in Japan, China, and Saudi Arabia, helping the Group to support its customers’ globalization by providing local design, manufacturing, engineering, and services.

Structural Reform of Manufacturing and Procurement

The azbil Group’s manufacturing infrastructure in China will also be improved by strengthening design capabilities and

competitive procurement at Azbil Control Instruments (Dalian) Co., Ltd. in Dalian. Moreover, the manufacturing repertoire of Dalian will expand to include industrial and HVAC control valves, positioners, and limit switches, among others. In Thailand and China as well as in Japan, the Group will reorganize its production infrastructure so that the functions of all domestic and overseas factories will be optimized.

The Group plans to increase its overseas manufacturing ratio to 30% over the next few years by deploying production technology developed at domestic factories to overseas facilities, and by joint product development and manufacturing with new equity alliance partners overseas.



Azbil Control Instruments (Dalian)

Engineering and Services:

Shifting to Knowledge-Intensive Services and Expanding Business Globally

Leveraging the wealth of knowledge and expertise acquired at customer sites both in Japan and overseas, the azbil Group is constructing an infrastructure capable of providing unique and high-value-added services worldwide. We are working to further develop personnel, engineering, and service capabilities.

Service Business Structural Reform

The azbil Group is enhancing new and existing service businesses by making full use of its extensive service network of over 200 offices throughout Japan, as well as training Service Division personnel and accelerating internal Group synergies, all with the goal of being a long-term partner for both our customers and the community.

As we make the transformation from labor-intensive services to knowledge-intensive services that are based on our extensive data and experience, in fiscal year 2012 we used data obtained through remote maintenance to provide systematic services tailored to the life cycle of customers' facilities. We also strengthened operational support services designed to solve customers' problems.

We are taking steps to ensure that our service organization can support customers both in Japan and

overseas by moving to the use of service tools that raise the efficiency of onsite operations and by accelerating the provision of value-added offsite support in which specialists analyze data and events.

Global Business Development in the Service Business

We have upgraded our service organization and personnel training system to provide the same level of service overseas as we do in Japan. As we build our full-fledged overseas service organization, we are expanding service contracts with both Japanese-affiliated corporations and foreign companies for prestigious large-scale construction projects and district heating and cooling projects. The azbil Group has also constructed and expanded a new valve maintenance base in Saudi Arabia, which is bringing in maintenance work for not only our own valves but also the products of other companies, as well as laying the groundwork for future retrofit business.



Valve maintenance center (Taiwan)

Intellectual Property:

Supporting Business Operations by Applying Our IP Strategy and Strengthening Our Brand

The azbil Group considers intellectual property to be a vital business resource and a key component of its business strategy. The Group is therefore creating a patent portfolio covering its major product lines and technology fields and focusing on managing risks associated with the intellectual property rights of other companies. Intellectual property strategy is coordinated with operating strategy and R&D strategy.

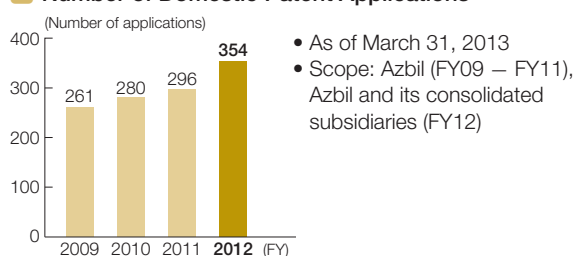
Strategy for Acquiring Intellectual Property Rights

The azbil Group's Technology Committee establishes quantitative Group-wide targets for inventions. R&D personnel refer to these targets and report inventions as part of their organization's R&D achievements. The Intellectual Property Department focuses on major product lines and technology fields as it identifies inventions and files patent applications to obtain advantageous patent rights.

The marketing and development departments and Intellectual Property Department meet periodically to decide which overseas patent applications the Group will file, based on business and R&D strategy and patentability.

As a result of the above activities, the azbil Group's patent applications and patent portfolio in fiscal year 2012 and the number of domestic patent applications are as shown on the right.

Number of Domestic Patent Applications



Fiscal Year 2012 Patent Applications / Portfolio

As of March 31, 2013

Number of Applications		Portfolio	
Japan	Overseas	Japan	Overseas
354	122	1,396	728

- Scope: Azbil and its consolidated subsidiaries

Intellectual Property Risk Management

Disputes related to the patents of other companies are avoided by using a workflow system that checks more than 1,000 official gazettes for patents from Japan, the United States, and China each month. This approach reduces operating risk and significantly increases freedom to conduct R&D.

Strengthening Our Brand

The azbil Group has aggressively registered its logo as a trademark in about 100 countries to strengthen its brand.

Automation and handing down of operating know-how

Case 1

The startup and shutdown of a plant is stressful even for an experienced plant operator. Extracting, accumulating, and automating the expertise of veterans in the unique operations of each system help to lessen the burden on the next generation of operators.

Automation of pharmaceutical manufacturing facilities

Case 2

azbil provides solutions for pharmaceutical manufacturers by automating freeze-drying, sterilization, and other pharmaceutical production processes. The result is a safer work environment and higher productivity.

Value Provided by the azbil Group

Fulfillment

Creating Value at Customer Sites to Achieve Targets

Even when a target seems difficult to achieve, we make constant efforts with our customers to overcome and solve the obstacles, and share the satisfaction of accomplishment with them.



Case 3



Even in large-scale complexes with various owners and uses, such as shopping centers, office buildings, and concert halls, azbil's operational management solutions integrate building facilities as a single system. We provide comfortable environments and energy savings according to the characteristics of each site. (Photo: Harumi Island Triton Square)

Integrated control and management of large-scale complexes

The azbil Group's Management of Corporate Social Responsibility

The azbil Group believes that corporate social responsibility (CSR) is a key issue of corporate management. As a global automation enterprise, we aim for “human-centered CSR” and work to establish and practice CSR management that actively contributes to the economy, the environment, and society.

Q What is meant by “the azbil Group’s CSR?”

Aiming for sustainable development of society and of our business, we contribute to society by means of both “proactive CSR” activities that are unique to the azbil Group and “basic CSR.” Proactive CSR includes contributing to society through business operations and voluntary social contribution activities. Basic CSR includes fulfilling obligations with regard to legal compliance, risk management, safety, quality, the environment, and other areas that are essential for the azbil Group as a corporate citizen.

Q What are your policies and targets for CSR management initiatives?

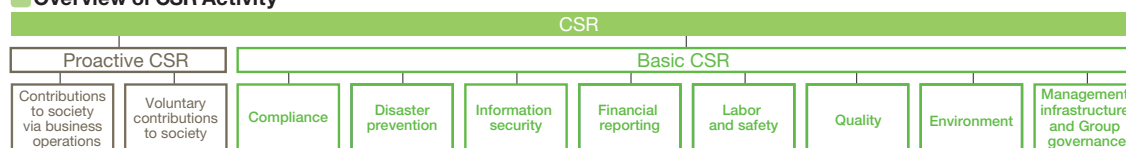
We have divided our CSR management initiatives into six themes, with targets for each.

- 1 **Strengthening CSR through business operations and voluntary contributions to society**
Active promotion and support of social contributions through our unique, high-value-added solutions that combine products and services, and through employees’ voluntary participation in activities that contribute to society.
- 2 **Compliance control**
A culture of thorough compliance that includes not only awareness but also employees’ continuous execution of business activities in a manner that prevents the occurrence of serious compliance problems in the Group’s business activities.
- 3 **Operation with thorough risk management**
Full application of Group-wide risk management in areas including disaster preparedness, information security, quality, product liability, and accounting, under a comprehensive risk management system, as well as measures taken on an annual basis to ascertain and deal with key risks.
- 4 **Promotion of business management that values people**
Strengthening of the foundation for a CSR management that values people by promoting employee health and safety, better workplace environments, a more dynamic corporate culture, and improved motivation as well as establishing a human resource system to support these initiatives.
- 5 **Contributions to preserving our natural environment**
Reduction of our own CO₂ emissions and, through our business activities, proactively helping to reduce the CO₂ emissions of our partner companies and society. In addition, comprehensive promotion of energy conservation measures to address electric power supply shortages.
- 6 **Improvement of Group management**
Strengthening of governance at domestic and overseas subsidiaries by significantly raising the level of management-related practices in areas including internal control, risk management, and accounting at subsidiaries.

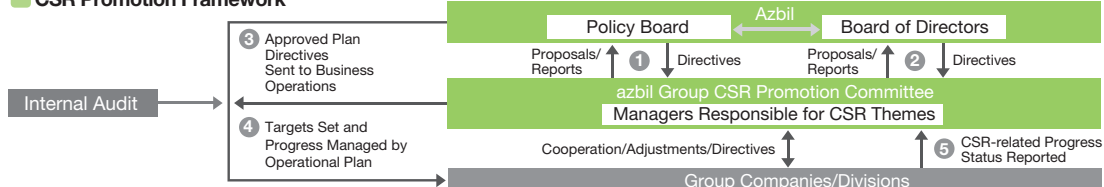
CSR Promotion Framework

The azbil Group’s CSR Promotion Committee was established in order to promote and enact CSR activities for the Group as a whole over a broad range of fields. The committee is composed of senior managers in charge of promoting CSR at individual Group companies and members of the lead departments for each initiative. The committee promotes and controls overall CSR activities (subject to the approval of the Board of Directors of Azbil Corporation), executing CSR initiatives, appraising their results, and reporting to management.

Overview of CSR Activity



CSR Promotion Framework



Corporate Governance

In order to strengthen corporate governance and facilitate the prompt implementation of policy initiatives, Azbil Corporation has introduced a system that separates decision making by the Board of Directors from the actual execution of Company policy by executive officers. In addition to decision making, the Board of Directors, together with the Board of Corporate Auditors, supervises and monitors the execution of duties.

Our Approach to Corporate Governance

Our basic policy on corporate governance is to promote policies that fulfill our social responsibilities based on good ethical practices and that contribute to the welfare of the community based on sound legal and regulatory compliance. We work to consistently increase enterprise value for the benefit of our shareholders and all stakeholders by strengthening policies and structures aimed at realizing highly efficient, fair, and transparent business practices.

Framework for Corporate Governance

Board of Directors and Executive Officer System

The Board of Directors makes decisions on operational basic policy, legal issues, and other important matters and oversees the status of execution. Functional separation between the executive officers and the Board of Directors enables swift policy execution and strengthens the auditing of execution. The Board of Directors is convened monthly, and management meetings for executive officers, with representatives of the Board of Corporate Auditors also attending, are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision making and strict execution.

Corporate Auditor System and Internal Audits

Azbil has a corporate auditor system in which five corporate auditors, including three auditors from outside the Company, are appointed, with two of these auditors serving on a full-time basis. The corporate auditors strictly audit the administrative decisions and management of the Board of Directors and executive officers, primarily from the perspective of legality. In addition, in order to strengthen the auditing function, the Company has established the Corporate Auditors' Staff Office under the direct control of the Board of Corporate Auditors, with full-time personnel who assist the corporate auditors in their duties. The corporate auditors maintain close ties with accounting auditors and the Internal Audit Office, exchanging information and opinions periodically in order

to improve the effectiveness and efficiency of the audits. The Internal Audit Department, which is directly under the President's control, regularly audits organizations and structures, the execution of business, business risks, compliance, and internal control systems, and it provides specific advice and proposals for operational control and business improvement.

Current Framework

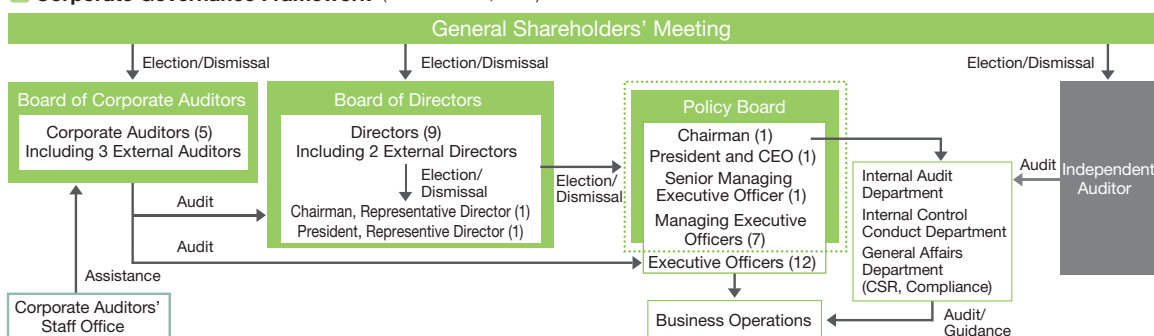
Azbil's Board of Directors was composed of nine members as of June 26, 2013, including six members that also have roles as executive officers, and two external directors. The remaining director is not an external director as defined in Japanese law by the Companies Act, but possesses abundant global management experience and wisdom accumulated over 40 years after leaving Azbil. These directors have the independence to provide oversight and business advice from an external perspective in order to increase the fairness, neutrality, and transparency of the Company's management.

Executive Compensation

Remuneration limits for directors and corporate auditors are set at the annual shareholders' meeting. Azbil has established a Nomination and Remuneration Committee based on its internal Rules for Director Remuneration to ensure transparency and objectivity in setting the amount of remuneration of individual directors. This committee deliberates and determines the remuneration of each director, including representative directors.

Azbil discloses the total remuneration of directors and corporate auditors in its annual securities report and in notices of annual shareholders' meetings. In fiscal year 2012, ended March 31, 2013, total remuneration paid to 11 directors (including two directors who retired at the close of the 90th general shareholders' meeting held on June 26, 2012) amounted to ¥391 million (maximum permissible under Company rules: ¥450 million). For the five corporate auditors, total remuneration amounted to ¥69 million (maximum permissible: ¥120 million).

Corporate Governance Framework (As of June 26, 2013)



Risk Management and Compliance

Risk management and compliance are essential components of management that is grounded in corporate social responsibility (CSR), and thus are key elements for the azbil Group if it is to maintain the trust of society and thereby continue to survive and thrive. We are working to manage a variety of risks.

Risk Management

The azbil Group's Total Risk Management

The azbil Group strives for meticulous risk management. Under our total risk management system, risks that could have a significant impact on our business are identified through comprehensive annual surveys of directors and managers of key departments, and then the Board of Directors determines the azbil Group's key risks. The purpose of these efforts is to facilitate the implementation of Group-wide measures to prevent key risks from materializing.

In addition, in fiscal year 2012, the azbil Group moved to mitigate risks by implementing a standard risk management system for the assessment of risks specific to each individual Group company in Japan.

Disaster Prevention and Business Continuity Planning

Since the Great East Japan Earthquake, we have conducted high-priority disaster preparedness inspections at all domestic business sites of the azbil Group. Problems have been identified and countermeasures implemented. In fiscal year 2012, we continued our efforts to strengthen the azbil Group's overall disaster preparedness with measures that included improving our system for checking the security of employees after a major earthquake; establishing a workplace emergency contact network; distributing an initial response manual for major earthquakes to all employees; enhancing our communications infrastructure for disasters; conducting emergency drills; and relocating offices to buildings that meet new earthquake-resistance standards.

Going forward, we will revise our business continuity plan to establish more robust disaster mitigation and business continuity measures in addition to further strengthening our disaster preparedness measures.



Information Security

To deal with information security risks, we have carried out a variety of initiatives such as using e-learning to thoroughly educate all employees about information security; responding to information security issues revealed through compliance awareness surveys; and upgrading our framework for managing important data and personal information.

We also relocated our network equipment and servers and upgraded our backup system, including emergency power supply, to ensure that the operational level of services will not be significantly compromised during a disaster.

Compliance

Business Conduct Policy and Business Conduct Guidelines

Our Business Conduct Policy is aligned with the azbil Group philosophy and consists of six items, including the Group's public responsibilities, social responsibilities, compliance with antitrust and other fair trade regulations, and respect for human rights.

Based on the Business Conduct Policy, we assembled and implemented specific business guidelines to serve as a code of conduct covering all business activities from the perspectives of legal compliance and ethical conduct.

In fiscal year 2012, we deepened our understanding of the content and application of the guidelines by presenting cases that could arise in the course of business and discussing what actions the department should take in following the code of conduct.

Compliance Promotion Framework

The General Affairs Department of Azbil Corporation is primarily responsible for ensuring the full and complete compliance of all employees throughout the azbil Group. The CSR Promotion Committee, chaired by the director in charge of CSR, determines policy and awareness initiatives to ensure legal compliance and ethical behavior. The heads of departments and business office managers are designated as compliance managers and the heads of sections as compliance leaders, each of whom works to heighten awareness and ensure thorough compliance in each workplace.

In addition, we conduct annual surveys of compliance awareness among all azbil Group officers and employees to identify issues and implement improvements.

Compliance Education

Compliance education sessions are held annually for all employees. In addition, training is provided to specific groups of employees, including directors, corporate auditors, newly appointed managers, employees assigned to overseas postings, and newly hired employees.

In fiscal year 2012, we incorporated real-life case studies tailored to each department into the education we provide to all employees in an effort to further increase compliance awareness. This addition improved the effectiveness of the education sessions.



Directors, Executive Officers



Seiji Onoki

Representative Director
Chairman
azbil Group General Management



Hirozumi Sone

Representative Director
President and Chief Executive Officer
azbil Group General Management,
Internal Audit Department,
Corporate Planning Department,
Azbil Academy



Tadayuki Sasaki

Executive Director
Senior Managing Executive Officer
Assistant to the President
azbil Group CSR, Internal Control, Facilities and Business
Institutions, Finance Department, Human Resources
Department, General Affairs Department,
Legal & Intellectual Property Department, Secretary Office



Makoto Kawai

Executive Director
Managing Executive Officer
azbil Group Production,
azbil Group Purchasing



Keiichi Fuwa

Executive Director
Managing Executive Officer
Building Systems Company President
Building Automation Business,
azbil Group Operating Synergy



Masato Iwasaki

Executive Director
Managing Executive Officer
Advanced Automation Company President
Advanced Automation Business



Makoto Yasuda

Director (Independent Non-Executive Director)*



Eugene H. Lee

Director (Independent Non-Executive Director)
(External Director)



Katsuhiko Tanabe

Director (Independent Non-Executive Director)
(External Director)

Corporate Auditors

Full-time Corporate Auditors

Tomohiko Matsuyasu

Kensei Sukizaki

Corporate Auditors (External Auditors)

Kinya Fujimoto

Jyunichi Asada

Hideo Sato

Mitsuharu Miyazawa
Service Business
General Manager, Tokyo Head Office
General Manager, Environmental Facility
Solution Headquarters
Building Systems Company

Executive Officers

Norio Murase
General Manager,
Legal & Intellectual Property Department

Hiroshi Arai
General Manager,
Information Systems Department
azbil Group Information Systems

Hirohiko Kazato
New Business Development,
Life Science Engineering Department

Yoshifumi Suzuki
General Manager,
International Business Headquarters
International Business;
Document Production Department

Haruo Tamura
General Manager, Kansai Regional Division
Building Systems Company

Seiichiro Hayashi
General Manager, Engineering Headquarters
Building Systems Company

Nobuo Shimizu
General Manager, Kansai Regional Division
Advanced Automation Company

Kenji Okumura
General Manager,
Business Sales Headquarters
Advanced Automation Company

Michihiro Tomonaga
Manager for China

Yoshimitsu Hojo
General Manager,
Production Management Headquarters

Kazuyasu Hamada
Environmental Solutions; Security Business
Vice General Manager, Environmental
Facility Solution Headquarters
Building Systems Company

Hiroshi Shimizu
Advanced Automation Control Business
General Manager, Advanced Solution
Department Engineering Headquarters,
Advanced Automation Company

Executive Officers

Managing Executive Officers

Ichio Kunii

General Manager,
Home Comfort Headquarters
Home Comfort Business

Yoshihide Sugino
General Manager,
Technology Development Headquarters
azbil Group Environmental Load Innovation,
azbil Group Technology Development, Marketing,
Corporate Quality Assurance Promotion,
Department of Safety Assessment

Kenji Hidaka
Advanced Automation Business Sales
General Manager, Tokyo Regional Division
Advanced Automation Company

* Not an external director as defined in the Japanese Companies Act, but a highly independent director who possesses abundant global management experience and wisdom accumulated over 40 years after leaving Azbil Corporation.

CSR Discussion

The azbil Group practices both “basic CSR” and “proactive CSR.” Here, five azbil Group employees discuss the approaches to CSR in their respective workplaces.



Participants (from left): H. Yoshida, M. Takemura, M. Kimura, T. Sadamori, T. Kanno, M. Takahashi (coordinator)

Takahashi: In practicing CSR management, the azbil Group conducts two types of CSR activities: basic CSR, which consists of obligations such as legal compliance and governance, and proactive CSR, which is the value we provide to society through our core businesses and our voluntary contributions as a corporate citizen. Today, I would like to ask about the CSR initiatives and awareness in your respective departments.

First, what is the situation at the Yokohama Branch?

Kimura: Our main CSR initiatives at the Yokohama Branch of the Building Systems Company are encouraging all employees to study for and pass the Certification Test for Environmental Specialists (known as the Eco-Test), and promoting energy savings through that process. Recently, we have turned our attention to the local community and are participating in various cleanup programs.

Takahashi: The Yokohama Branch has become practically synonymous with the Eco-Test in the azbil Group. What is the secret behind your success?

Kimura: It started with a comment by our former branch manager. He considered the Eco-Test to be quite a



Mikako Takahashi
(coordinator)

Group Manager
Public Relations Section
Corporate Planning
Department
Azbil Corporation

Mieko Kimura

Technology Department
Yokohama Branch
Building Systems Company
Azbil Corporation



meaningful qualification and thought all of us should try to pass it. At first, many employees were hesitant and took a wait-and-see approach, but after it became a branch-wide effort, we began to feel we might be left out if we didn't participate. So we all became more enthusiastic about obtaining the certification and began trying to pass the test. The experience and study tips of the first person who passed were shared among the rest of us. Even when we went out together after work, it seemed that all we talked about was the Eco-Test (*laughter*). It just gained momentum spontaneously.

As employees studied to obtain the qualification, their families also began to think more about the environment, and their efforts expanded to include activities such as collecting bottle caps for recycling and saving energy at home. In addition, our Eco-Test initiative gained recognition from customers after it was featured in a pamphlet of the Yokohama Chamber of Commerce & Industry, and this had a positive effect on our sales activities. Clients viewed our proposals as realistic and persuasive. This effort is going well because our employees, their families, and even customers are involved.

Earlier this year, we received a Yokohama Environmental Activity Award in honor of our achievements. This recognition expanded our horizons from the energy-saving efforts we made in studying for the Eco-Test, and we began to think about what we could do for Yokohama. We have set up a unit called the Eco Committee in the branch, and committee members are now involved in monthly community cleanup activities and are planning new initiatives.

Takahashi: Acquiring that certification must have been very useful for you, Mari, in your work with the Azbil Academy. Since the Azbil Academy was just established in 2012, could you briefly describe the academy and what it does?

Takemura: The Azbil Academy was launched in November 2012 as a step toward becoming “a corporate organization that never stops learning” – a goal that is also enshrined in the new medium-term plan. We are starting off by restructuring the various types of personnel training to expand learning opportunities. Having workplace support is essential for employees in upgrading their skills, so another important role we play is fostering an organizational climate in which individuals and their departments work together on skill development. We want the Azbil Academy to serve as an advisor that employees consult when they have questions about building their careers.

Takahashi: On a different subject, what is the Department of Safety Assessment doing?

Yoshida: The mission of my department is to help ensure the safety of the azbil Group's products by establishing safety-related practices such as risk assessments. The department was launched in response to the announcement of the Guidelines for Formulating Voluntary Action Plans on Product Safety by the Ministry of Economy, Trade and Industry. We thought we needed a department that was dedicated to safety assessment — after all, the term “safety” is in the azbil Group philosophy. Following the release of the Rules on the Safety and Dependability of azbil Group Products and Services, we have been formulating and reviewing product safety standards at the practical level in line with those rules.

We have also established courses at the Azbil Academy to promote a better understanding of safety, and are providing an introductory course on risk assessment. In the course, we approach the subject in terms of the azbil Group philosophy as well as the legal perspective, in order to help participants understand why risk assessment is necessary.



Mari Takemura

Azbil Academy
Azbil Corporation



Hiroyuki Yoshida

Department of Safety
Assessment
Azbil Corporation

Takahashi: Risk assessment is a current trend and something just about every company is doing. Is there anything special about the azbil Group in that respect?

Yoshida: It's true that every company is doing risk assessment, but the companies that are really committed to it are B2C businesses that sell consumer products, including the electrical appliance and distribution industries. We participate in a number of workshops and seminars, but nearly all of the participants are B2C companies. What distinguishes the azbil Group is that we are a B2B company that has focused on product safety from early on, as though we were a B2C company. I think that our approach is characterized by an emphasis on our philosophy, though that is generally true of companies known for excellence in this area.

Takahashi: I imagine that safety is a consideration every day in the Service Business, which works on the front lines at customers' sites.

Kanno: The role of the Service Business, where I work, is to monitor products through maintenance to make sure that they continue to function well. Sometimes this check includes the products of other companies. In connection with what has been said about safety, our domain includes the safety of not only our customers but also the people who visit their facilities. In that sense, the value we bring to customers, and their customers, goes beyond the concept of CSR. It is a matter of professional pride.

Right now, I'm working in the back-office operations of the Service Business, but I'm doing my job with a passion for supporting the value the azbil Group provides. For example, in terms of basic CSR, we look at whether there are any issues in

light of the changing legal systems, and disseminate that information to our field offices. And if any defect or problem occurs at one site, we can proactively prevent it at other sites.

Takahashi: Azbil Kyoto has been putting extensive effort into reducing its energy consumption. How is that effort progressing?

Sadamori: Azbil Kyoto's main business is the production and calibration of flowmeters. We became a subsidiary of Azbil Corporation in 2009 and have been focusing on saving energy since then. We anticipated that our energy use would rise after we completed our flowmeter calibration facility, one of the largest in Japan, and we felt a great responsibility to conserve electricity. However, this led us to set the positive goal of becoming a model energy-saving factory.

At first, we could only take steady, low-profile measures such as turning off unnecessary lights. But our energy-saving efforts accelerated after we introduced the azbil Group products ENEOPT™pers and EneSCOPE™ in 2011. Visualizing the energy consumption data helped us to comprehend exactly how we were using energy, and we implemented countermeasures. I feel that the rational approach we took was a major factor in our success. Seeing our energy consumption in visual form also increased the motivation of employees to conserve energy. Thanks to their efforts, we were able to achieve our goal of acquiring ISO 14001 certification in fiscal 2012.

Takahashi: It seems that each of your departments is making extensive efforts, but what points are you conscious of in promoting CSR?



Tatsuo Kanno

Service Planning Department
Headquarters
Azbil Corporation



Takahiko Sadamori

Group Manager
General Affairs, Environment,
and Safety Group
Azbil Kyoto Co., Ltd.

Kanno: I do not really think much about CSR activities. That's because I see CSR as a natural outcome of pursuing the higher-level philosophy of "providing good value." On the other hand, it is a fact that CSR has emerged as a well-organized concept. I do think that the concept of CSR has led to a definite decline in judgments that fall into the "gray area." Instead of saying, "Well, I guess it's okay," we can say unequivocally, "This is unacceptable under basic CSR standards." In that sense, I think CSR is important and useful.

Takemura: I also do not consciously think about CSR. In planning our training programs, the approach I take is to ask what is required of an azbil Group employee and what content we should provide to help employees achieve that. We want people who take the training courses to further raise their awareness of themselves as Azbil employees in addition to acquiring knowledge and skills.

Kimura: Likewise, I am not specifically conscious of what we do as CSR activities. The Eco-Test initiative has sparked communication in the whole branch, and I genuinely feel good that our effort has created a sense of unity, including unity with family members. I feel it has been worthwhile. Also, receiving the award from the city of Yokohama broadened our outlook and led to a sincere desire to contribute more to the community. I would like to keep the situation the way it is now, undertaking initiatives because we want to and not because we are forced to. To me, that's what makes a true CSR activity.

Sadamori: Since we visualized our energy use, a culture of thinking about what we can do to save energy has taken root in our company. This has created a virtuous cycle: when we do something and see results from it, we become even more motivated. I intend to continue promoting activities to build Azbil Kyoto's reputation as a model factory and keep the level of enthusiasm high.

Yoshida: When I first heard about the concept of CSR, I thought it was a term that could encapsulate many different ideas. We provide comprehensive safety solutions to offer people peace of mind, which the azbil Group values very highly. Therefore, my interpretation of CSR is that it is not simply knowing the rules, such as laws and so on, but providing comprehensive safety while understanding the "peace of mind" aspect reflected in our Group philosophy.

Takahashi: So what you are all saying is that the azbil Group philosophy and CSR are not two separate things.

Takemura: That's right. I always ask new employees whether their words and actions are consistent with what's expected of azbil people. I was doing this spontaneously, but I now realize that I asked this question because we have the azbil Group philosophy and I have internalized it.

Yoshida: I think we employees always have the Group philosophy's keywords in our minds. Since many of us are serious by nature, we naturally make the connection between "what we should do" and the philosophy, and then we carry it out. Since most people here think in this way, even if there were some who did not, they would naturally be influenced by others. I think this type of openness and positive acceptance of things is embedded in the azbil Group culture, and is a strength that cannot be imitated easily.

Kanno: The culture here is that when something needs to be done, someone will take the initiative to do it. And when they do, their colleagues don't look the other way; they always help. I believe this culture has its roots in our Group philosophy and is the azbil Group's greatest strength.

Takahashi: Thank you all for participating in this discussion. It confirmed my impression that CSR has permeated your workplaces, that you think about how to deliver a high level of value to stakeholders, and that the CSR culture is rooted in the azbil Group's philosophy of "human-centered automation." Let's treasure that philosophy and continue our efforts to provide even greater value and make the azbil Group an indispensable presence in society.

Relationship with Customers and Suppliers

Relationship with Customers

Based on its Group philosophy, the azbil Group works proactively to ensure the safety and dependability of its products and services. We have established basic policies and rules to maintain our ability to deliver safe products and services that customers can trust.

Specifically, we promote systematic activity in three main areas: compliance with relevant laws and regulations, prevention of accidents, and provision of safe products.

Threefold Strategy for Providing Safe and Reliable Products

Compliance with Relevant Laws and Regulations

The Legal and Intellectual Property Department and azbil Group Quality Assurance Department collaborate in educating azbil Group employees on relevant laws such as the Product Liability Act and Consumer Product Safety Act, as well as accident prevention measures and response procedures in the event of an accident.

Prevention of Accidents

The Product Liability Committee meets regularly to promote prevention activities developed from case studies of “near-miss” incidents, and to develop and publicize the reporting and response system in order to be ready if an incident does occur.

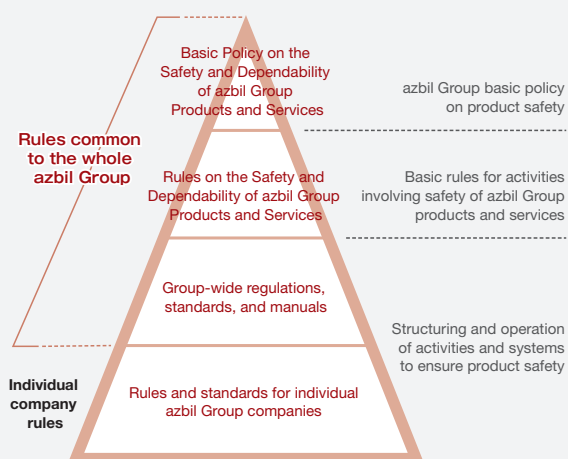
These activities are carried out in business, production, and service departments as well as at Group companies.

Provision of Safe Products

To ensure product safety, we have prepared design standards and safety guides, as well as a risk assessment and authorization system to conduct risk assessments of products and operating facilities. These assessments are performed by the development departments, service departments, and azbil Group companies under the guidance of the Department of Safety Assessment.

■ azbil Group Product Safety and Dependability System

The azbil Group has created the following system of policies, rules, standards, and manuals to consistently provide safe and dependable products and services.



Relationship with Suppliers

The azbil Group seeks to enhance the value it provides to clients by pursuing the ideal of “human-centered automation.” Our purchasing departments continue to benefit customers and our social environment through new technologies and services in an initiative called “Advanced Technology Proposals.”

Advanced Technology Proposals

Advanced Technology Proposals is a program that the azbil Group launched through which purchasing departments propose electrical, mechanical and environment-oriented solutions, high-quality overseas components, new materials, and excellent suppliers to relevant departments, such as development and production technology departments. Under this program, purchasing departments propose and introduce new technologies, production methods, supplies, and services.

Since they are in charge of purchasing and procurement, purchasing departments raise the Group's corporate value through the act of buying. Activities related to Advanced Technology Proposals have been carried out as part of the development support that purchasing departments provide.

In these activities, purchasing departments propose and present the latest information, the newest devices, and emerging technological trends in machinery and other areas to the azbil Group's R&D, production technology, design, engineering, and other departments through various events such as seminars, exhibitions, training workshops, and company visits.

Initially, the purchasing departments had no experience in planning, preparing, or holding these events and had to find their way. However, through cooperation with R&D staff and suppliers, they have developed programs with rich content.

These annual activities are now in their eighth year. Feedback continues to be positive, and more than 700 people participated in fiscal year 2012.

Moreover, by responding to the requests of participants and suppliers, the events have been helpful in establishing communication with production and service companies, suppliers, and other business partners, and in building good relationships of trust with them.

Purchasing departments will continue to promote efforts to advance the azbil Group's creation of value through their support for development (development purchasing), thus contributing to better product development and services for a global society.



Relationship with Employees and Local Communities

Relationship with Employees

We strive to create and maintain workplaces where all employees can work in good conditions with peace of mind for many years to come. We are committed to creating job opportunities as well as fostering and deploying employees with diverse viewpoints, including women, foreign staff, senior citizens, and persons with disabilities. In this way, we can enhance the value we provide to society by becoming a corporate group that never stops learning and that never stops adapting to a changing environment.

Azbil Yamatake Friendly Co., Ltd.: Employing Workers with Intellectual Disabilities



(From left)
Masako Kamiya
Deputy General Manager,
General Affairs Department
Hajime Morohoshi
Director and General Manager,
General Affairs Department
Minako Ito
General Affairs Section,
General Affairs Department

Azbil Yamatake Friendly was founded as an azbil Group company in April 1998 with the aim of creating a place where employees with intellectual disabilities can thrive and be active (*ikiiki*)¹ as integral members of the staff. The company's management policy is to support employees' skill enhancement and self-realization through their work, thus helping them to contribute to society. Company operations are based on the following three concepts:

- 1 Employ only people with intellectual disabilities in order to create a work environment where they can use their strengths while assisting each other.
- 2 Make the company a self-sustaining enterprise and reduce cash outflows from the azbil Group by taking on work that falls under subcontracting and outsourcing costs of the parent company and other Group companies, thus contributing to sound Group operations.
- 3 By cooperating with social service agencies and clarifying the respective roles of private businesses and social service agencies, work to help maintain and improve the overall quality of the lives of people with intellectual disabilities.

The company seeks to satisfy customers with quality, cost, and delivery as it strives for better work quality and speed, backed by the attitudes of its employees – cooperation with a smile, willingness to tackle any job, determination to achieve goals, and the aspiration to be employees that are appreciated by everyone.

All azbil Group companies are cooperating in expanding the business scale of Azbil Yamatake Friendly and supporting its efforts to establish self-sustaining operations. By doing so, the Group helps to maintain and increase employment opportunities for people with intellectual disabilities.²

Notes:

1. *Ikiiki* means “active,” but it is written with kanji characters in a way that suggests that the workplace is an important place in the lives of employees.
2. The azbil Group has received approval to use special criteria in calculating its ratio of employees with disabilities. (Businesses are required by law to employ persons with disabilities at or above a rate of 2.0% for private-sector companies.)

Relationship with Local Communities

As members of society, we strive to contribute to the welfare of our fellow citizens by applying our “human-centered” approach on behalf of individuals, livelihoods, society, and the environment. In addition to contributing to society through our business operations, our corporate culture is a stimulus for volunteer activity by our employees.

Seventh Shonan International Marathon

Every year since 2006, the azbil Group has co-sponsored the Shonan International Marathon, an event that makes a special effort to be environmentally friendly.

In the 2012 races, in addition to serving

as a race bib sponsor, we coordinated environmental activities with other companies as an “Eco Friendship Leader.”

We also operated an entire water station, No. 8, for the first time. Group employees and their families, who numbered 80 volunteers in all, supported the runners by supplying them with water. A total of 160 employees also participated as runners and volunteers at the event, helping to make it especially exciting.



Employees cheering for runners at the water station

azbil Honey Bee Club

The azbil Honey Bee Club is a volunteer organization established in 2009 to encourage participation in social contribution activities by azbil Group employees. Interested employees and officers can join the club with a donation of ¥100 or more. The club then makes donations to recipients selected by the members.

In fiscal year 2012, the club's third year of operation, members voted to provide donations to 33 organizations and groups involved in fields including social welfare, education and lifelong learning, social welfare and international relations, academic research, sports, the environment, historical sites, and the preservation of traditional culture. A total of ¥4.76 million in financial support from the azbil Honey Bee Club and the company's matching gift was donated to the organizations, which expressed their gratitude and delight.



Recipients of a donation from the azbil Honey Bee Club
(Photo by Junichi Tanabe)

To contribute to the preservation of the environment, the azbil Group has formulated the azbil Group Environmental Charter, which is based on its Group philosophy. We proactively work to reduce the environmental impact of our own business activities, and we also contribute to reducing society's impact on the environment.

Reducing the Environmental Impact of Society through Our Business Operations

The azbil Group helps to reduce the environmental impact of society through the products and solutions it provides. In fiscal year 2012, ended March 31, 2013, we calculated the effect of our businesses in reducing CO₂ emissions, and expanded the scope to include data for the Advanced Automation business in addition to the Building Automation business. The total CO₂ reduction for fiscal year 2012 comes to 2.87 million tons, equivalent to about 0.2% of the approximately 1.3 billion tons emitted during the year

in Japan. This is a quantitative assessment of the azbil Group's contribution to reducing the environmental impact of society.

For the calculations, we categorized CO₂ data into three areas—reduction resulting from automation, from energy management, and from maintenance and building management services—and calculated the amount of CO₂ reduction compared with the results if our products and services had not been used at our customers' sites.

1 Automation

We apply our measurement and control technologies to reduce environmental impact through our Building Automation, Advanced Automation, and Life Automation businesses.

BAS¹ and automated control in buildings



Optimal control of processes in manufacturing facilities



CO₂ reduction at customers' sites

2,560 thousand tons per year

2 Energy Management

The azbil Group contributes to reduced environmental impact through its ENEOPTTM energy management solutions for saving electricity, general energy conservation, and CO₂ reduction.

ESCO² and other energy management solutions



Optimal and cooperative control of energy systems with optimization and visualization solutions



CO₂ reduction at customers' sites

240 thousand tons per year

3 Maintenance and Building Management Services

Leveraging the knowledge and expertise developed at customers' sites in Japan and overseas, the azbil Group provides unique value-added services that help customers reduce their environmental impact.

Comprehensive building management services



Management of measurement and control instruments and systems in customers' facilities



CO₂ reduction at customers' sites

70 thousand tons per year

Notes: 1. BAS: building automation system

2. ESCO: energy service company

► Details are available on our website: <http://www.azbil.com/csr/eco/es/shakai/>

Scope: Azbil sales in Japan

Environmental Impact Reduction in the azbil Group's Business Activities

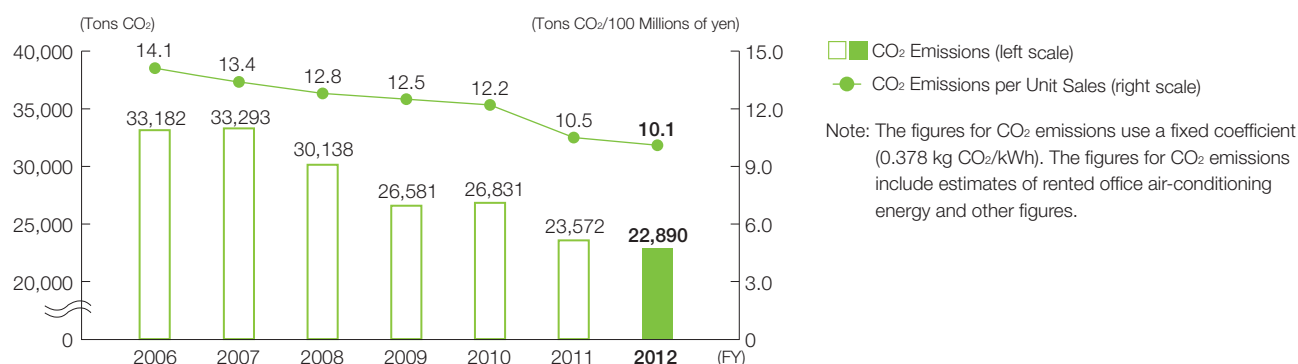
The azbil Group quantitatively assesses the environmental impact of its business operations and takes measures to preserve the environment in each of them.

We are focusing in particular on conserving energy to help combat global warming. The azbil Group has set a goal of cutting

its CO₂ emissions in fiscal 2013 by 10% or more from the level of fiscal 2006. All employees are involved in this effort, which is producing results.

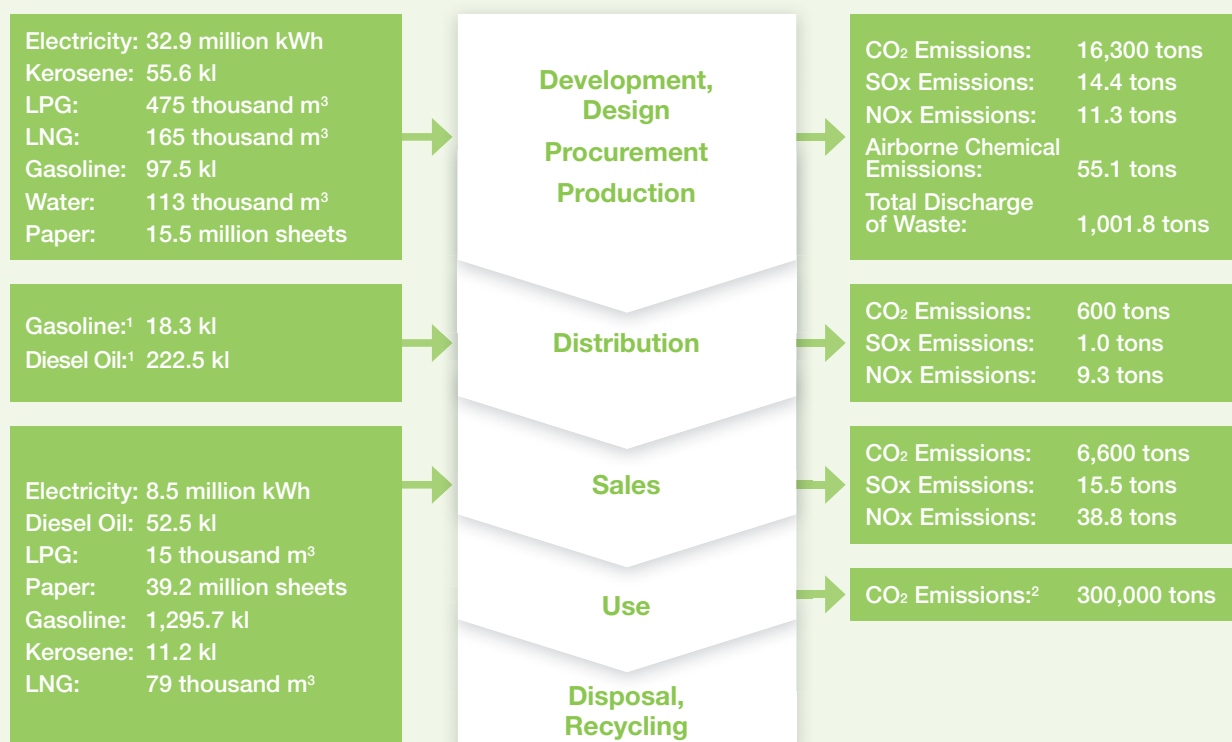
CO₂ Emissions

Scope: Azbil and its major consolidated subsidiaries in Japan



Summary of Environmental Performance Data (Fiscal Year 2012, Ended March 31, 2013)

Scope: Azbil and its major consolidated subsidiaries in Japan



Notes: 1. Includes charter services and services by commissioned transport companies. Shipping services on consignment are not included.

2. This figure is for estimated future emissions, when the products we have sold are used. The estimation is based on the guidelines for calculating greenhouse gas emissions from supply chains issued by Japan's Ministry of the Environment and Ministry of Economy, Trade and Industry.

Reducing CO₂ Emissions in Our Business Operations

Contributing to the preservation of the global environment is part of the azbil Group philosophy, so we are actively taking measures to reduce the CO₂ emissions of our business operations. In particular, with electricity in short supply in Japan, we have redoubled our efforts to save electricity and shift usage to off-peak hours.

Initiatives in the Fiscal Year Ended March 31, 2013

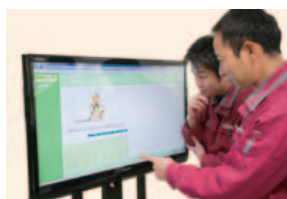
We have been working to enhance our existing energy conservation initiatives and to roll them out across the entire azbil Group. Systems we introduced at some of our facilities to make energy use visible are yielding concrete improvements in energy conservation. As a result of power-saving measures in the summer of 2012, electricity use for the entire azbil Group during peak demand hours decreased 22% compared with the same period in 2010, and total electricity use decreased approximately 19%. These summer efforts to save electricity also contributed to a reduction of 682 tons in our CO₂ emissions for fiscal year 2012 compared with the previous year. On the basis of per unit sales, CO₂ emissions decreased 28.9% compared with fiscal year 2006, ended March 31, 2007.

1

Conserving Energy through “Visualization”

Results Monitoring in Real Time

As part of the rollout of energy use visualization systems in the azbil Group, Azbil Kimmon Wakayama Co., Ltd. began utilizing Azbil Corporation's EneSCOPE™ energy management and analysis system and ENEOPT™pers, an energy control optimization package. Based on the information made available by these systems, the company planned and implemented numerous energy conservation measures in cooperation with Azbil's engineers to achieve significant energy savings. The ability to check the effects of these measures in real time has been useful in validating them and making adjustments, and has enabled the company to conserve energy without adversely affecting the indoor work environment or the comfort of employees. Specific measures included the establishment of rules for the startup time of air conditioners during office hours and the revision of operating schedules for air conditioners in testing laboratories. Steady progress by implementing such measures resulted in a substantial reduction in the use of electric power and liquid petroleum gas, and an 18% reduction in CO₂ emissions compared with fiscal year 2010. The company plans to further reduce CO₂ emissions by adopting other new Azbil energy-saving solutions such as technologies for forecasting heat demand and optimizing cold and hot water temperatures.



Making energy use visible

2

Summer Electricity-Saving Initiatives

We evaluated and awarded special recognition to azbil Group sites not only for the results of their summer electricity-saving initiatives but also for the processes they used to implement those initiatives and achieve their targets. Two of these sites in particular were recognized for excellence.

Production Site Initiatives

Located in Kita-Shinano in a region of lush greenery and abundant water, Azbil Taishin Co., Ltd. develops, designs, and manufactures electronic control systems, primarily for the azbil Group. The plentiful underground springs that bubble up from the premises have a stable temperature year-round, feeling cool in summer and warm in winter. Azbil Taishin takes advantage of this resource to save energy. For example, in 2012 it sprinkled the rooftops in summer, installed evaporative air coolers that use underground water instead of operating air conditioners, and used underground water to cool the high-temperature electric furnace (reflow furnace) that melts solder. The company also took various steps to reduce its power consumption during peak demand hours, including shutting down nitrogen



Underground water is used as cooling water in the reflow furnace

3

Initiatives to Balance the Conservation of Electricity with Workplace Productivity

generation equipment and switching over to liquefied nitrogen, dissipating heat from the reflow furnace and solder tanks, and installing reflective sheets on windows to filter out sunlight. These initiatives were effective, as the company achieved a 20% reduction in electricity use during peak demand hours and a 22% reduction in overall electricity use in summer 2012 compared with the same period in 2010.

Sales Office Initiatives

At the Nagano Branch's Suwa Sales Office of Azbil's Building Systems Company, electricity meter readings are recorded and posted daily to share electric power usage data with all employees. The staff members at the office have become more energy conscious, and in 2012 they took measures such as removing unnecessary lights, taking care to turn off lights, shutting off breakers when air conditioners were not in use, and promoting workdays without overtime. As the Suwa region has relatively low humidity even in summer, the office gives priority to the use of electric fans to pull in fresh air from outside and uses air conditioners only when the indoor temperature exceeds 28 °C. To conserve power while being mindful of employee health, the office is equipped with a heat stress meter, and the air-conditioning is turned on immediately if the alarm sounds. With these initiatives, the office reduced its electric power consumption in summer 2012 by 31% compared with the same period in 2010.

Measures designed to save electricity at the Fujisawa Technology Center (FTC) in Kanagawa Prefecture, one of the azbil Group's key facilities, aim to strike a balance with the need to maintain workplace productivity.

Monitoring and Responding to Building User Satisfaction Level

While implementing power-saving measures in common areas and controlling power demand, FTC has also operated a website since fiscal year 2011 where workers can express their satisfaction level and wishes concerning the indoor environment, allowing real-time reception of and response to opinions.

Responding to feedback, to improve building user satisfaction FTC in summer 2012 allowed small desktop items such as USB-powered fans and desk lights, installed insulated curtains, and modified the precooling of the building. The insulated curtains were hung on west-facing windows from the third floor to the top floor of the seven-story building and were effective in shielding offices from the heat of the afternoon sun. The entire building was precooled before the start of working hours in order to shift electricity use out of the peak demand period, and the majority of employees said that the cooler environment was more comfortable.



Sharing information on an electricity conservation website for building users

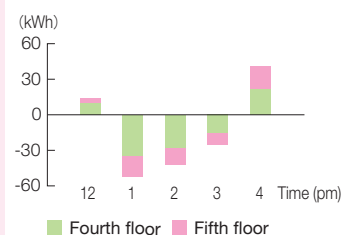
However, 30% said they felt cold or became cold after a while. Accordingly, the precooling settings were modified in the summer of 2012 to improve the indoor environment and achieve a more balanced shift to off-peak hours.

Experimental Automated Demand Response

In conjunction with the Central Research Institute of Electric Power Industry, automated demand response* was implemented on a trial basis on certain floors of buildings where a building energy management system (BEMS) was in use and where energy visualization had made sufficient progress. Currently, practical energy-saving technologies are being developed that include features to maintain the workplace productivity of occupants, with a view toward the widespread use of such technologies in office buildings in the future.

* Demand response is a mechanism by which end-use customers adjust their demand for electricity in response to electric power supply-and-demand conditions, such as shortages or surpluses. Amid nationwide power shortages since the March 2011 earthquake and tsunami, demand response has received attention as a way of curbing electricity use during peak hours.

Change in Electric Power Used (kWh)



Energy savings from implementing automated demand response (1–4 pm)

Environment Matters

We take a variety of environmental measures at each stage of our business operations, from product development and design to sale, disposal, and recycling. Here are some examples of how we are helping to improve the environment through our products and at our business sites.

HP7 Series Photoelectric Sensor: A Product Born from Life Cycle Assessment¹ of Environmental Impact

A photoelectric sensor detects the absence or presence of objects, using light as a medium, and emits an electrical on/off signal. The sensor consists of a light transmitter and a light receiver. The receiver detects whether the light emitted from the transmitter is being blocked or reflected by an object. It processes the light signal, and generates an output.

During the course of new product development, we conducted a life cycle assessment (LCA) of our existing photoelectric sensor and found that it consumed a significant amount of power during its service life.² We therefore identified the factors responsible for consuming a large amount of current and took four countermeasures: reducing the photoelectric current, reducing power consumption by using voltage to drive certain components of the sensor, reducing the current consumption of the integrated circuit, and adopting a new adaptable design. As a result, we were able to cut the product's power consumption by about one-half compared with our previous photoelectric sensor.



HP7 series photoelectric sensor



- Notes: 1. A method of quantitatively understanding and comprehensively evaluating the environmental impact of a product at each stage of its life cycle, including raw material procurement, manufacturing, shipment, use, and disposal.
2. It can be used 24 hours a day and has a service life of ten years.

► For details on energy-saving features, other environment-related features contributing to business solutions, and product features other than environmental benefits, please see the April 2013 edition of the azbil Technical Review (in Japanese with English abstracts).
→http://www.azbil.com/jp/library/review/pdf/2013_04_3.pdf

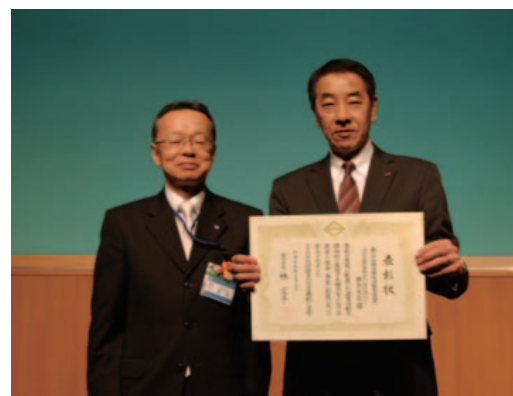
Azbil Wins Award for Environmental Activities from the City of Yokohama

The Yokohama Branch of Azbil's Building Systems Company received an achievement award at the 20th Yokohama Environmental Activity Awards* ceremony presented by the Environmental Planning Bureau, City of Yokohama.

The branch was recognized for two reasons. First, all employees at the site try to pass the Certification Test for Environmental Specialists (Eco-Test) administered by the Tokyo Chamber of Commerce and Industry, and consequently they have extensive knowledge about the environment. Currently, 113 employees—over 90% of the branch's staff—have acquired this qualification. Second, based on this knowledge, the branch is undertaking internal environmental activities that include recycling plastic bottle caps and using electric and hybrid cars in its fleet of company-owned vehicles.

At Azbil Corporation, we encourage employees to acquire Eco-Test certification by including it as part of our incentive program. As of March 2013, 716 employees, or approximately 10% of our workforce, had successfully passed the Eco-Test.

* Established to increase interest in environmental issues, promote "green" activities in Yokohama, and foster the creation of a more environmentally friendly city, these awards publicly acknowledge individuals, groups, and businesses actively involved in local environmental activities.



At the awards ceremony on March 3, 2013

(Left) **Takayuki Ogishima**
Director General of Environmental Planning Bureau,
City of Yokohama

(Right) **Masato Sugihara**
Then-Manager of the Yokohama Branch,
Building Systems Company, Azbil Corporation

Environmental Awareness and Initiatives for Local Communities

The azbil Group aims to further raise the environmental awareness of its employees and their families by helping them to understand that environmental issues have a direct impact on them. To this end, we base our activities in the communities where azbil Group business sites are located, and we conduct environmental preservation activities that are relevant to each community.

Biodiversity Initiatives

Raising employees' awareness of the environment is vital in reducing the azbil Group's own environmental impact in its business operations and in working through its core businesses to lessen the environmental impact of society. We have been taking measures toward that objective, such as providing environmental education for employees. Responding to the wishes of some employees to help the environment in their off-hours as well, we are conducting local biodiversity preservation initiatives in which employees as well as their families can participate. We expect these efforts to enhance the environmental awareness of employees and lead to changes in the business activities of the azbil Group itself.

In fiscal year 2012, ended March 31, 2013, in addition to continuing previous projects, we launched new initiatives in western Japan, thus broadening the geographic bases of our environmental activities.

A New Initiative at Azbil Kyoto Co., Ltd.

Azbil Kyoto is situated in the town of Kyotamba, near the center of Kyoto Prefecture. Located in an area surrounded by mountains, the company built a plant on property developed by the local government in part of a mountain forest.

Fifteen years have passed since the plant began operation. Red pine, clethra, longstalk holly, chestnut, and other tree species found in the surrounding mountain forest are starting to grow on the slope in front of the property, which was initially bare. In 2012, we began a vegetation survey to determine how best to take care of the trees on this cleared land. The survey is being conducted with guidance from Earthwatch Japan (an environmental NPO), along with Tadashi Nakashima, Doctor of Agriculture at the Field Science Education Research Center of Kyoto University. Students from the Faculty of Agriculture of Kyoto University are also cooperating in the survey.



Volunteers from the azbil Group listen to an explanation.

Protecting the Maiden Lily in Minamiaizu, Fukushima Prefecture

Since July 2011, the azbil Group has regularly participated in activities under an environmental protection agreement with the town of Minamiaizu, home of the Nango Factory of Azbil Kimmon Co., Ltd.

Located in southwestern Fukushima Prefecture, Minamiaizu is famous for clusters of *himesayuri* (*Lilium rubellum*), or maiden lily. This plant has been designated a near-threatened species on the Red List of the Ministry of the Environment of Japan, and the town is taking steps to preserve it. In October 2012, azbil Group employees and their families, totaling 44 participants, worked with members of the local community to clear underbrush, sow seeds and plant bulbs.

As it can take 10 years or more for a maiden lily to bloom after its seeds are sown, preservation activities are ongoing.



Planting maiden lily bulbs



Maiden lily

Greenery Preservation in Fujisawa

In January 2011, the azbil Group's largest facility, Fujisawa Technology Center (FTC), entered into a green space preservation agreement with the City of Fujisawa in Kanagawa Prefecture where it is located. As part of that agreement, FTC employees regularly participate in activities in the city's "green spaces."

One challenge facing Fujisawa has been the large number of green spaces in the city that have been left unmaintained. Under the guidance of Fujisawa Green Staff, a local nonprofit organization, we are helping to make more sustainable use of these areas. In December 2012, employees and their families, 20 people in all, thinned a wooded area and used the trees that were cut down to make a walking path.

Changes can now be seen in these previously dim green spaces as the work done by volunteers allows more sunlight to shine in and new vegetation to grow.



Greenery preservation work



CO₂ reduction effect
of our businesses:

2.87
million tons

The azbil Group's CO₂
emissions:

23
thousand tons

Value Provided by the azbil Group

Environment

Benefiting the Environment through Our Businesses

In addition to reducing CO₂ emissions by conserving energy in its own operations, azbil helps customers to save energy and conserve resources through its core businesses, thus lessening their environmental impact on society.



A large industrial facility with numerous large, silver-colored pipes and valves. A green walkway runs alongside the pipes. In the background, there are more industrial structures and a crane.

Reduction in the azbil Group

Case 1

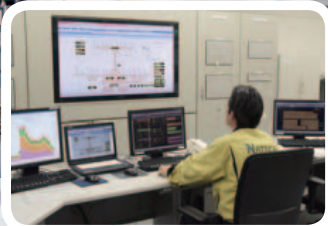
A person with short brown hair is sitting at a desk, looking at a computer monitor. The monitor displays a graph or data visualization.

We take advantage of our own products to create visual representations of the electricity and resources used at all major domestic sites of azbil Group companies. Azbil Kyoto has been working since 2011 to make its electricity, air, gas, and water use visible. The improvements it has made in its operations have resulted in more than a 20% reduction in CO₂ emissions compared with the level before the improvements.

An aerial view of a large airport terminal with a distinctive white, angular roof. Several airplanes are parked at gates, including a Thai Airways plane in the foreground. The surrounding area includes parking lots and other airport infrastructure.

Reduction through our businesses

Case 2

A person is sitting at a desk with multiple computer monitors. One monitor shows a map or data visualization, and another shows a graph.

The installation of a BEMS* allowed the collection of various operation data and energy consumption data. Narita International Airport Corporation has been trying to reduce energy consumption at its passenger terminal buildings by using this data and has achieved a substantial reduction in CO₂ emissions. The azbil Group supported the BEMS installation. (Photo: Narita International Airport Corporation)

*BEMS (Building Energy Management System)

A computer-based system that collects the monitored operation data and energy consumption data of mechanical equipment in buildings.

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	2012	2013
CURRENT ASSETS:			
Cash and cash equivalents (Notes 4, 7 and 15)	¥ 56,050	¥ 55,356	\$ 596,281
Notes and accounts receivable:			
Trade (Note 15)	88,875	85,546	945,478
Other	2,012	1,479	21,402
Allowance for doubtful receivables	(362)	(295)	(3,852)
Inventories (Notes 5 and 7)	16,503	16,135	175,562
Deferred tax assets (Note 11)	5,531	5,225	58,839
Prepaid expenses and other current assets	13,105	9,541	139,423
Total current assets	181,714	172,987	1,933,133
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 6 and 7)	6,699	6,293	71,269
Buildings and structures (Notes 6 and 7)	39,385	38,096	418,994
Machinery and equipment (Notes 6 and 7)	18,648	17,500	198,383
Furniture and fixtures (Note 6)	21,435	19,067	228,031
Construction in progress	188	152	2,000
Total	86,355	81,108	918,677
Accumulated depreciation	(61,678)	(56,962)	(656,155)
Net property, plant and equipment	24,677	24,146	262,522
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 15)	14,677	12,573	156,135
Investments in and advances to unconsolidated subsidiaries and associated companies	1,279	654	13,603
Goodwill	9,663	2,604	102,796
Deposits	2,740	2,724	29,149
Deferred tax assets (Note 11)	1,801	1,638	19,161
Other assets (Note 6)	6,868	6,150	73,065
Total investments and other assets	37,028	26,343	393,909
TOTAL	¥243,419	¥223,476	\$2,589,564

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	2013	2012	2013
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 15)	¥ 9,191	¥ 4,076	\$ 97,779
Current portion of long-term debt (Notes 7 and 15)	4,250	1,542	45,218
Notes and accounts payable:			
Trade (Note 15)	40,548	37,185	431,366
Other	1,221	1,249	12,984
Income taxes payable	5,626	5,105	59,848
Accrued bonuses	7,934	8,213	84,410
Other accrued expenses and current liabilities	14,058	11,920	149,550
Total current liabilities	82,828	69,290	881,155
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	4,602	4,769	48,953
Liabilities for retirement benefits (Note 8)	12,825	12,582	136,435
Deferred tax liabilities (Note 11)	946	872	10,068
Other long-term liabilities	1,021	886	10,853
Total long-term liabilities	19,394	19,109	206,309
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 16 and 17)			
EQUITY (Notes 9, 10 and 19):			
Common stock—authorized, 279,710,000 shares; issued, 75,116,101 shares	10,523	10,523	111,944
Capital surplus	17,198	17,198	182,955
Stock acquisition rights	2	2	25
Retained earnings	111,141	107,538	1,182,354
Treasury stock—at cost, 1,262,123 shares in 2013 and 1,261,480 shares in 2012	(2,644)	(2,643)	(28,129)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,776	2,452	40,171
Deferred gain (loss) on derivatives under hedge accounting		(1)	5
Foreign currency translation adjustments	(952)	(1,502)	(10,129)
Total	139,044	133,567	1,479,196
Minority interests	2,153	1,510	22,904
Total equity	141,197	135,077	1,502,100
TOTAL	¥243,419	¥223,476	\$2,589,564

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Azbil Corporation and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
NET SALES	¥227,585	¥223,499	\$2,421,113
COST OF SALES (Notes 8 and 14)	149,713	142,659	1,592,689
Gross profit	77,872	80,840	828,424
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 13 and 14)	64,461	66,492	685,755
Operating income	13,411	14,348	142,669
OTHER INCOME (EXPENSES):			
Interest income	128	109	1,372
Dividend income	285	277	3,034
Interest expense	(108)	(106)	(1,152)
Foreign currency exchange gain (loss)	955	(38)	10,156
Gain on sales of property, plant, equipment and others-net	587	13	6,246
Gain on sales of investment securities-net (Note 4)		2	2
Loss on impairment of long-lived assets (Note 6)	(95)	(178)	(1,010)
Others-net (Note 12)	(1,071)	380	(11,397)
Other income-net	681	459	7,251
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	14,092	14,807	149,920
INCOME TAXES (Note 11):			
Current	5,617	5,601	59,755
Deferred	(59)	382	(627)
Total income taxes	5,558	5,983	59,128
NET INCOME BEFORE MINORITY INTERESTS	8,534	8,824	90,792
MINORITY INTERESTS IN NET INCOME	(225)	(305)	(2,399)
NET INCOME	¥ 8,309	¥ 8,519	\$ 88,393

	Yen		U.S. dollars
	2013	2012	2013
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥112.50	¥115.35	\$1.20
Cash dividends applicable to the year	63.00	63.00	0.67

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥ 8,534	¥8,824	\$ 90,792
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gain on available-for-sale securities	1,325	323	14,090
Deferred gain on derivatives under hedge accounting	1		14
Foreign currency translation adjustments	681	(238)	7,242
Total other comprehensive income	2,007	85	21,346
COMPREHENSIVE INCOME	¥10,541	¥8,909	\$112,138
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Azbil Corporation	¥10,184	¥8,618	\$108,345
Minority interests	357	291	3,793

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

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 on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
BALANCE, APRIL 1, 2011	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
Net change in the year							333		(233)	100	(245)	(145)
BALANCE, MARCH 31, 2012	73,855	10,523	17,198	2	107,538	(2,643)	2,452	(1)	(1,502)	133,567	1,510	135,077
Adjustment of retained earnings for newly consolidated subsidiaries					(53)					(53)		(53)
Net income					8,309					8,309		8,309
Cash dividends, ¥63 per share					(4,653)					(4,653)		(4,653)
Purchase of treasury stock	(1)					(1)				(1)		(1)
Disposal of treasury stock												
Transfer from retained earnings to capital surplus												
Net change in the year							1,324	1	550	1,875	643	2,518
BALANCE, MARCH 31, 2013	73,854	¥10,523	¥17,198	¥2	¥111,141	¥(2,644)	¥3,776		¥ (952)	¥139,044	¥2,153	¥141,197

	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 on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments			
BALANCE, MARCH 31, 2012	\$111,944	\$182,955	\$25	\$1,144,024	\$(28,117)	\$26,080	\$ (9)	\$(15,977)	\$1,420,925	\$16,060	\$1,436,985
Adjustment of retained earnings for newly consolidated subsidiaries				(564)					(564)		(564)
Net income				88,393					88,393		88,393
Cash dividends, \$0.67 per share				(49,498)					(49,498)		(49,498)
Purchase of treasury stock					(14)				(14)		(14)
Disposal of treasury stock			(1)		2				1		1
Transfer from retained earnings to capital surplus		1		(1)							
Net change in the year						14,091	14	5,848	19,953	6,844	26,797
BALANCE, MARCH 31, 2013	\$111,944	\$182,955	\$25	\$1,182,354	\$(28,129)	\$40,171	\$ 5	\$(10,129)	\$1,479,196	\$22,904	\$1,502,100

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 14,092	¥ 14,807	\$ 149,920
Adjustments for:			
Income taxes—paid	(5,414)	(6,302)	(57,596)
Depreciation and amortization	4,980	5,301	52,983
Reversal of doubtful receivables	(98)	(31)	(1,045)
Increase (decrease) in accrued bonuses	(351)	98	(3,731)
Gain on sales of property, plant and equipment—net	(404)	(13)	(4,295)
Gain on sales of investment securities—net		(2)	(2)
Loss on impairment of long-lived assets—trade	95	178	1,010
(Increase) decrease in notes and accounts receivable	2,596	(9,574)	27,618
(Increase) decrease in inventories	1,982	(2,416)	21,083
Increase (decrease) in notes and accounts payable	(1,040)	3,335	(11,063)
Increase (decrease) in liabilities for retirement benefits	(172)	2	(1,834)
Others—net	(1,256)	251	(13,366)
Total adjustments	918	(9,173)	9,762
Net cash provided by operating activities	15,010	5,634	159,682
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	590	150	6,276
Purchases of property, plant and equipment	(2,513)	(2,377)	(26,732)
Purchase of intangible assets	(783)	(340)	(8,328)
Proceeds from sales of investment securities	4	5	40
Purchases of investment securities	(35)	(347)	(368)
Proceeds from sales of beneficiary securities of trust	13,890	14,468	147,762
Purchases of beneficiary securities of trust	(13,403)	(14,445)	(142,582)
Purchase of marketable securities	(3,000)		(31,915)
Payments for acquisition of a newly consolidated subsidiary	(7,575)		(80,580)
Others—net	109	(663)	1,149
Net cash used in investing activities	(12,716)	(3,549)	(135,278)
FINANCING ACTIVITIES:			
Net increase in short-term borrowings	3,896	15	41,449
Proceeds from long-term debt	140		1,489
Repayment of long-term debt	(1,628)	(1,590)	(17,316)
Disposal of treasury stock		1	2
Purchase of treasury stock	(1)	(1)	(14)
Dividends paid	(4,649)	(4,647)	(49,459)
Others—net	(245)	(171)	(2,603)
Net cash used in financing activities	(2,487)	(6,393)	(26,452)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	837	(180)	8,906
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	644	(4,488)	6,858
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	50		531
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	55,356	59,844	588,892
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 56,050	¥ 55,356	\$ 596,281
ADDITIONAL INFORMATION:			
Increase in assets and liabilities, cash paid for capital, goodwill and minority interests in the acquisition of Beijing YTYH Intelli-Tecnology Co., Ltd., TACO Co., Ltd., Azbil VorTek, LLC, Telstar, S.A. and its consolidated subsidiaries:			
Assets acquired	¥ 14,405		\$ 153,233
Liabilities assumed	12,642		134,487
Cash paid for capital	9,758		103,805
Goodwill	8,418		89,554
Minority interests	423		4,495

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 accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94 to \$1, the approximate rate of exchange as of March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2013, include the accounts of Azbil and its 64 significant (35 in 2012) subsidiaries (together, 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 and those companies over which azbil Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (0 in 2012) associated companies are accounted for by the equity method.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of 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 and Telstar, S.A. and its group is being amortized over 9 years from the next fiscal year. 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. Business Combinations—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

c. 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.

d. 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.

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

f. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on

management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is 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.

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

g. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation for Azbil and its consolidated domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998. Depreciation of consolidated foreign subsidiaries is mainly computed by the straight-line method. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

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

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

i. Retirement and Pension Plans—Azbil has a noncontributory funded pension plan and a defined contribution pension plan covering substantially all of its employees.

Most of the consolidated subsidiaries have noncontributory 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 Audit & Supervisory Board members are provided at the amount which would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. Asset Retirement Obligations—In March 2008, 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. 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 measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees 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.

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

m. 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.

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.

n. Bonuses to Directors—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2013 and 2012, was ¥96 million (\$1,025 thousand) and ¥115 million, respectively.

o. 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 is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

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

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

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

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

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

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

t. Per Share Information—Net income per share is computed by dividing net income available to common shareholders 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 73,854,399 shares for 2013 and 73,854,722 shares for 2012.

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 antilutive.

u. 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in 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.

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 an effective date of April 1, 2000, and the other related practical guidance, and 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, is 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

The revised accounting standard does 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 have not yet been 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. BUSINESS COMBINATION

Business Combination by Acquisition

a. Summary of Business Combination

(1) Name and business of the acquired company

Name of the acquired company:

Telstar, S.A. (wholly owned by Telstar Industrias e Inversiones, S.L.)

Telstar Industrias e Inversiones, S.L.

Business: Development, manufacturing, and sale of freeze-drying machines, sterilization devices, and pharmaceutical water/vapor production equipment, consulting and engineering for clean rooms, and other businesses.

(2) Major reason for business combination

The azbil Group will launch a life science engineering business for offering “comprehensive solutions with next-generation manufacturing equipment and environmental systems, which are based on life automation technology” in the human health market, in order to cultivate and expand the life automation business field. As the main part of this project, we have reorganized this company, which develops, manufactures, and sells production and environmental equipment for pharmaceutical plants, research institutes, and hospitals, into a consolidated subsidiary.

(3) Date of Business combination

January 10, 2013

(4) Legal form of business combination

Stock purchase for cash as consideration

(5) Company name after business combination

Not changed

(6) Acquired voting right

Telstar, S.A.: 96.8% (directness: 19.3%, indirectness: 77.5%)

Telstar Industrias e Inversiones, S.L.: 78.2% (directness 78.2%)

(7) Basis for determining the acquiring company

Stock purchase for cash as consideration by Azbil

b. Period of Operating Results of the Acquired Company Included in Consolidated Financial Statements.

As the acquired company is regarded as acquired at end of the current financial year, operating results were not included in the consolidated financial statements.

c. Details on the Acquisition Cost of the Acquired Company

	Millions of yen	Thousands of U.S. dollars
Stock purchase price:		
Telstar, S.A.	¥1,452	\$15,445
Telstar Industrias e Inversiones, S.L.	4,565	48,563
Acquisition related direct cost	446	4,746
Purchase price	¥6,463	\$68,754

d. Amount of Goodwill and Reason for Goodwill and Method and Term of Amortization

(1) Amount of goodwill: ¥6,264 million (\$66,642 thousand)

(2) Reason for goodwill: Anticipated future profitability as a result of expanding business

(3) Method and term of amortization: Straight-line method over 9 years

e. Details on Assets and Liabilities Acquired on the Date of Business Combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥7,002	\$ 74,490
Noncurrent assets	2,970	31,601
Total assets	¥9,972	\$106,091
Current liabilities	¥8,698	\$ 92,535
Noncurrent liabilities	811	8,623
Total liabilities	¥9,509	\$101,158

f. Effect on the Consolidated Statement of Income Assuming Business Combination Was Carried Out on April 1, 2012

Information is omitted due to difficulty of calculation of estimate.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current—Other	¥13,000	¥12,400	\$138,298
Total	¥13,000	¥12,400	\$138,298
Noncurrent:			
Equity securities	¥14,528	¥12,516	\$154,553
Other	149	57	1,582
Total	¥14,677	¥12,573	\$156,135

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2013 and 2012, were as follows:

	Millions of yen								Thousands of U.S. dollars			
	2013				2012				2013			
	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	¥ 5,874	¥7,904	¥81	¥13,697	¥ 5,844	¥6,020	¥131	¥11,733	\$ 62,488	\$84,093	\$866	\$145,715
Other	13,058	6	1	13,063	12,459	1	4	12,456	138,920	61	11	138,970

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2013 and 2012, is disclosed in Note 15.

The information for available-for-sale securities which were sold during the years ended March 31, 2013 and 2012, is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥4			¥5	¥2		\$40	\$2	

The impairment losses on available-for-sale equity securities for the years ended March 31, 2013 and 2012, were ¥10 million (\$108 thousand) and ¥28 million, respectively.

5. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise	¥ 1,720	¥ 1,775	\$ 18,294
Finished products	2,467	2,352	26,241
Work in process	5,263	5,526	55,994
Raw materials	7,053	6,482	75,033
Total	¥16,503	¥16,135	\$175,562

6. LONG-LIVED ASSETS

The azbil Group reviewed its long-lived assets for impairment, and recognized impairment losses of ¥95 million (\$1,010 thousand) and ¥178 million for the years ended March 31, 2013 and 2012, respectively, for certain assets of Azbil Kimmon and idle assets for the sites of the old Iwase Factory and the old Koriyama Factory.

The carrying amount of the relevant property, plant and the idle asset and equipment was written down to the net selling price.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2013 and 2012, 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 9.0% as of March 31, 2013, and from 0.5% to 6.1% as of March 31, 2012.

Long-term debt as of March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans from banks and other financial institutions, due serially through 2026 with interest rates ranging from 0.0% to 5.6% in 2013 and from 0.8% to 2.0% in 2012:			
Collateralized	¥ 1,221	¥ 22	\$ 12,985
Unsecured	7,338	6,132	78,063
Bonds due serially through 2016 with interest rates ranging from 0.7% to 1.5% in 2013—Collateralized	170		1,809
Obligations under finance leases	123	157	1,314
Total	8,852	6,311	94,171
Less current portion	(4,250)	(1,542)	(45,218)
Long-term debt, less current portion	¥ 4,602	¥ 4,769	\$ 48,953

As of March 31, 2013, Azbil had an unused line of credit amounting to ¥30,000 million (\$319,149 thousand), of which ¥10,000 million (\$106,383 thousand) related to the unused portion of commitment lines with four banks and ¥20,000 million (\$212,766 thousand) related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2013, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥4,250	\$45,218
2015	2,263	24,070
2016	1,806	19,211
2017	324	3,453
2018	93	986
2019 and thereafter	116	1,233
Total	¥8,852	\$94,171

The carrying amounts of assets pledged as collateral for the above collateralized debt at March 31, 2013, which include the amount for short-term debt of ¥20 million were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposit	¥ 55	\$ 585
Merchandise and finished goods	140	1,491
Land	466	4,952
Buildings and structures	261	2,776
Machinery, equipment and vehicles	123	1,310
Total	¥1,045	\$11,114

As is customary in Japan, the azbil Group maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case

of default and certain other specified events, against all other debt payable to the banks. The azbil Group has never received any such requests.

8. RETIREMENT AND PENSION PLANS

Azbil and certain subsidiaries have retirement and pension plans for employees, and certain domestic subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members.

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, 2013 and 2012, for directors and Audit & Supervisory Board members is ¥105 million (\$1,120 thousand) and ¥189 million, respectively. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥ 50,481	¥ 42,379	\$ 537,027
Fair value of plan assets	(29,926)	(26,349)	(318,357)
Unrecognized prior service costs	1,715	1,935	18,245
Unrecognized actuarial loss	(9,550)	(5,573)	(101,604)
Prepaid pension expense		1	4
Net liability	¥ 12,720	¥ 12,393	\$ 135,315

The components of net periodic retirement benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥1,775	¥1,821	\$18,882
Interest cost	814	824	8,664
Amortization of prior service costs	(220)	(220)	(2,345)
Recognized actuarial loss	920	1,014	9,790
Payment for defined contribution pension plan and other	867	843	9,226
Net periodic retirement benefit costs	¥4,156	¥4,282	\$44,217

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013	2012
Discount rate	0.8%	2.0%
Expected rate of return on plan assets	0.0%	0.0%
Amortization period of prior service cost	10–15 years	10–15 years
Recognition period of actuarial gain/loss	10–15 years	10–15 years

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors 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 (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

10. STOCK OPTIONS

A director and employees of Azbil BioVigilant, Inc. were granted options for new common stock.

The stock options outstanding as of March 31, 2013, 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	0.38	From June 22, 2010 to June 22, 2019

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts 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.

The stock option activity is as follows:

Year Ended March 31, 2012	2003 Stock Option	2004 Stock Option	2005 Stock Option	2007 Stock Option	2008 Stock Option	2009 Stock Option
	(Shares)					
Nonvested						
April 1, 2011—Outstanding					46,834	11,999
Granted						
Canceled					(13,834)	(2,666)
Vested					(33,000)	(4,671)
March 31, 2012—Outstanding						4,662
Vested						
April 1, 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
Year Ended March 31, 2013						
Nonvested						
March 31, 2012—Outstanding						4,662
Granted						
Canceled						
Vested						(4,662)
March 31, 2013—Outstanding						
Vested						
March 31, 2012—Outstanding				94,950	99,000	20,338
Vested						4,662
Exercised						
Canceled						(11,000)
March 31, 2013—Outstanding				94,950	99,000	14,000
Exercise price (U.S. dollars)				\$1.00	\$0.38	\$0.38
Average stock price at exercise (U.S. dollars)						
Fair value price at grant date (U.S. dollars)						

Estimate of Vested Number of Share Options

Only the actual number of forfeited share options is considered because it is difficult to rationally estimate the number of share options that will be forfeited in the future.

11. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in statutory tax rates of approximately 37.9% for the year ended March 31, 2013, and 40.4% for the year ended March 31, 2012.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Pension and severance costs	¥ 4,665	¥ 4,464	\$ 49,631
Accrued expenses	3,983	4,056	42,369
Depreciation	1,043	1,071	11,094
Loss on impairment of property, plant and equipment	336	308	3,573
Allowance for doubtful receivables	892	838	9,488
Tax loss carryforwards	2,282	1,624	24,271
Others	2,494	2,491	26,543
Less valuation allowance	(4,869)	(5,036)	(51,803)
Total	10,826	9,816	115,166
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	2,727	2,063	29,014
Special advanced depreciation	1,427	1,434	15,180
Others	289	328	3,069
Total	4,443	3,825	47,263
Net deferred tax assets	¥ 6,383	¥ 5,991	\$ 67,903

There is no material difference between the normal effective statutory tax rate for the years ended March 31, 2013 and 2012, and the actual effective tax rates reflected in the accompanying consolidated statement of income.

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.

At March 31, 2013, certain subsidiaries have tax loss carryforwards aggregating approximately ¥11,475 million (\$122,080 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
2014	¥ 2,314	\$ 24,618
2015	675	7,185
2016	9	101
2017	4	38
2018	394	4,194
2019 and thereafter	8,079	85,944
Total	¥11,475	\$122,080

12. OTHER INCOME (EXPENSES)—NET

Other income (expenses)—net for the years ended March 31, 2013 and 2012, mainly consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gain on compensation from Tokyo Electric Power Company caused by claim for damage of Fukushima nuclear disasters		¥ 318	
Loss on disaster caused by Tohoku-Pacific Ocean Earthquake:			
Equipment restoration costs		(108)	
Production suspensions caused by natural disasters—fixed costs during the suspension period		(25)	
Others		(81)	
Loss on lump-sum withdrawal from employees' pension funds	¥(800)		\$(8,512)
Total	¥(800)	¥ 104	\$(8,512)

Note: Azbil Trading Co., Ltd. has withdrawn from the Tokyo Instrument Employee's Pension Fund, and Azbil Royal Control Co., Ltd. has withdrawn from the Tokyo-to Electric Industry Employee's Pension Fund Organization. A lump-sum payment of ¥800 million was posted due to the withdrawal from the employees' pension funds.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥7,824 million (\$83,238 thousand) and ¥8,816 million for the years ended March 31, 2013 and 2012, respectively.

14. 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, 2013 and 2012, were ¥5,439 million (\$57,860 thousand) and ¥5,180 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							
	2013				2012			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥46		¥35	¥81	¥511	¥220	¥140	¥871
Accumulated depreciation	36		34	70	332	212	118	662
Accumulated impairment loss					124		10	134
Net leased property	¥10		¥ 1	¥11	¥ 55	¥ 8	¥ 12	¥ 75

	Thousands of U.S. dollars			
	2013			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$489		\$370	\$859
Accumulated depreciation	386		355	741
Accumulated impairment loss				
Net leased property	\$103		\$ 15	\$118

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥207	¥ 363	\$2,202
Due after one year	623	1,093	6,631
Total	¥830	¥1,456	\$8,833

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

Allowance for impairment loss on leased property of ¥18 million as of March 31, 2012, 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
	2013	2012	2013
Depreciation expense	¥42	¥107	\$450
Lease payments	92	202	977
Reversal of allowance for impairment loss on leased property	18	25	192

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, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥179	¥495	\$1,900
Due after one year	71	238	757
Total	¥250	¥733	\$2,657

(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, 2013 and 2012, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Receivables under finance leases:			
Due within one year	¥197	¥ 271	\$2,099
Due after one year	617	1,079	6,564
Total	¥814	¥1,350	\$8,663

15. 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 16 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 prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also please see Note 16 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen						Thousands of U.S. dollars		
	March 31, 2013			March 31, 2012			March 31, 2013		
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥ 56,050	¥ 56,050		¥ 55,356	¥ 55,356		\$ 596,281	\$ 596,281	
Notes and accounts receivable—trade	88,875	88,875		85,546	85,546		945,478	945,478	
Investment securities	13,760	13,760		11,789	11,789		146,386	146,386	
Total	¥158,685	¥158,685		¥152,691	¥152,691		\$1,688,145	\$1,688,145	
Short-term borrowings	¥ 9,191	¥ 9,191		¥ 4,076	¥ 4,076		\$ 97,779	\$ 97,779	
Current portion of long-term debt	4,250	4,250		1,542	1,542		45,218	45,218	
Notes and accounts payable—trade	40,548	40,548		37,185	37,185		431,366	431,366	
Long-term debt	4,602	4,610	¥(8)	4,769	4,777	¥(8)	48,953	49,044	\$(91)
Total	¥ 58,591	¥ 58,599	¥(8)	¥ 47,572	¥ 47,580	¥(8)	\$ 623,316	\$ 623,407	\$(91)

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 4.

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

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

Long-Term Debt

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

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

Derivatives

The information of the fair value for derivatives is included in Note 16.

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2012	March 31, 2013
Investments in equity instruments that do not have a quoted market price in an active market	¥917	¥784	\$9,749

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

	Millions of yen				Thousands of U.S. dollars			
	March 31, 2013				March 31, 2013			
	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	¥ 56,050				\$ 596,281			
Notes and accounts receivable—trade	86,162	¥2,713			916,612	\$28,866		
Total	¥142,212	¥2,713			\$1,512,893	\$28,866		

Please see Note 7 for annual maturities of long term debt and Note 14 for obligations under finance leases

16. 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. The azbil Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

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 and interest rate swap contracts are related to qualified hedges of underlying business exposures, market gain or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the azbil Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the azbil Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of yen							
	March 31, 2013				March 31, 2012			
	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	¥656		¥ (5)	¥ (5)	¥614		¥(19)	¥(19)
Selling KR won	81		(2)	(2)	64		(6)	(6)
Selling GB pound	2		1	1				
Buying JP yen					2			
Buying U.S. dollars	536		(18)	(18)	307		4	4
Buying BR real	734		(137)	(137)				
Interest rate swaps: (fixed rate payment, floating rate receipt)	¥804	¥667	¥ (14)	¥ (14)				

	Thousands of U.S. dollars			
	March 31, 2013			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:				
Selling U.S. dollars	\$6,979		\$ (58)	\$ (58)
Selling KR won	864		(20)	(20)
Selling GB pound	20		8	8
Buying JP yen				
Buying U.S. dollars	5,707		(190)	(190)
Buying BR real	7,806		(1,454)	(1,454)
Interest rate swaps: (fixed rate payment, floating rate receipt)	\$8,558	\$7,094	\$ (150)	\$ (150)

Derivative Transactions to Which Hedge Accounting Is Applied

Hedged Item	Millions of yen						Thousands of U.S. dollars		
	March 31, 2013			March 31, 2012			March 31, 2013		
	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
Interest rate swaps (fixed rate payment, floating rate receipt)	¥400	¥141					\$4,255	\$1,495	

Information on the foreign currency forward contracts for the years ended March 31, 2013 and 2012, is not disclosed as the amount are not material.

Note: The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 7 is included in that long-term debt.

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.

17. COMMITMENT AND CONTINGENT LIABILITIES

At March 31, 2013, the azbil Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees and similar items of loans	¥8	\$89

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥1,979	¥ 31	\$21,054
Reclassification adjustments to profit or loss	10	26	106
Amount before income tax effect	1,989	57	21,160
Income tax effect	(664)	266	(7,070)
Total	¥1,325	¥ 323	\$14,090
Deferred loss on derivatives under hedge accounting:			
Gains arising during the year	¥ 2		\$ 23
Income tax effect	(1)		(9)
Total	¥ 1		\$ 14
Foreign currency translation adjustments—Adjustments arising during the year	¥ 681	¥(238)	\$ 7,242
Total other comprehensive income	¥2,007	¥ 85	\$21,346

19. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2013, was approved at Azbil's shareholders' meeting held on June 26, 2013:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥31.5 (\$0.34) per share	¥2,326	\$24,749

20. 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 heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The advanced automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The life automation business supplies 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 with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

	Millions of yen							
	2013							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	¥107,138	¥86,534	¥33,851	¥227,523	¥62	¥227,585		¥227,585
Intersegment sales or transfers	289	1,143	143	1,575	11	1,586	¥(1,586)	
Total	¥107,427	¥87,677	¥33,994	¥229,098	¥73	¥229,171	¥(1,586)	¥227,585
Segment profit (loss)	¥ 10,153	¥ 3,646	¥ (399)	¥ 13,400	¥ 9	¥ 13,409	¥ 2	¥ 13,411
Segment assets	62,895	65,359	39,808	168,062	11	168,073	75,346	243,419
Other:								
Depreciation	1,028	1,845	747	3,620	1	3,621		3,621
Increase in property, plant and equipment and intangible assets	900	1,588	632	3,120	1	3,121		3,121
Impairment losses of assets			95	95		95		95

	Millions of yen							
	2012							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	¥103,400	¥87,770	¥32,266	¥223,436	¥63	¥223,499		¥223,499
Intersegment sales or transfers	496	1,103	277	1,876	31	1,907	¥(1,907)	
Total	¥103,896	¥88,873	¥32,543	¥225,312	¥94	¥225,406	¥(1,907)	¥223,499
Segment profit (loss)	¥ 10,328	¥ 4,158	¥ (128)	¥ 14,358	¥ (7)	¥ 14,351	¥ (3)	¥ 14,348
Segment assets	6,1444	64,220	26,681	152,345	9	152,354	71,122	223,476
Other:								
Depreciation	1,023	2,158	845	4,026	1	4,027		4,027
Increase in property, plant and equipment and intangible assets	741	1,675	593	3,009		3,009		3,009
Impairment losses of assets			178	178		178		178

	Thousands of U.S. dollars							
	2013							
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Sales:								
Sales to external customers	\$1,139,765	\$920,576	\$360,113	\$2,420,454	\$659	\$2,421,113		\$2,421,113
Intersegment sales or transfers	3,072	12,157	1,526	16,755	122	16,877	\$(16,877)	
Total	\$1,142,837	\$932,733	\$361,639	\$2,437,209	\$781	\$2,437,990	\$(16,877)	\$2,421,113
Segment profit (loss)	\$ 108,008	\$ 38,790	\$ (4,247)	\$ 142,551	\$104	\$ 142,655	\$ 14	\$ 142,669
Segment assets	669,096	695,311	423,493	1,787,900	115	1,788,015	801,549	2,589,564
Other:								
Depreciation	10,934	19,631	7,945	38,510	7	38,517		38,517
Increase in property, plant and equipment and intangible assets	9,570	16,893	6,723	33,186	6	33,192		33,192
Impairment losses of assets			1,010	1,010		1,010		1,010

Note: Corporate assets of ¥75,346 million (\$801,549 thousand) for the year ended March 31, 2013, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

As a result of the group corporations' restructuring, organizational reform and management changes, the "importing, buying-in and marketing of inspection and measurement equipment," which was previously categorized in "Other," now is included in "Advanced Automation" from the current fiscal year.

The disclosed segment information for the previous fiscal year is reclassified based on the new segmentation of the current fiscal year.

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**

Millions of yen						
2013						
Japan	Asia	China	North America	Europe	Other	Total
¥204,629	¥11,116	¥8,639	¥1,590	¥895	¥716	¥227,585

Thousands of U.S. dollars						
2013						
Japan	Asia	China	North America	Europe	Other	Total
\$2,176,901	\$118,253	\$91,908	\$16,913	\$9,526	\$7,612	\$2,421,113

Note: Sales, based on the location of customers, are classified by country or region.

(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								
2013								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill	¥ 79	¥ 16	¥1,264	¥1,359		¥1,359		¥1,359
Goodwill at March 31, 2013	713	1,371	7,579	9,663		9,663		9,663

Thousands of U.S. dollars								
2013								
	Reportable Segment				Other	Total	Reconciliations	Consolidated
	Building Automation	Advanced Automation	Life Automation	Total				
Amortization of goodwill	\$ 843	\$ 173	\$13,450	\$ 14,466		\$ 14,466		\$ 14,466
Goodwill at March 31, 2013	7,583	14,588	80,625	102,796		102,796		102,796



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

We have audited the accompanying consolidated balance sheet of Azbil Corporation and its consolidated subsidiaries as of March 31, 2013, 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 accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance 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 its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 17, 2013

Member of
Deloitte Touche Tohmatsu Limited

Corporate Data / Subsidiaries and Affiliates

Corporate Data (As of April 1, 2013)

Company Name	Azbil Corporation
Headquarters	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan
Founded	December 1, 1906
Incorporated	August 22, 1949
Paid-in Capital	¥10,522,716,817
Factories and R&D	Fujisawa Technology Center, Shonan, Isehara, and Hadano Factories
Employees	5,335 (As of March 31, 2013)

Subsidiaries and Affiliates (As of July 1, 2013)

* Consolidated subsidiary

Japan

Azbil Corporation	Azbil SecurityFriday Co., Ltd.	Azbil Taishin Co., Ltd. *
Azbil Trading Co., Ltd. *	Azbil Kimmon Co., Ltd. *	Tem-Tech Lab.
Azbil Yamatake Friendly Co., Ltd.	Azbil Kyoto Co., Ltd. *	Plus eight other consolidated subsidiaries and one non-consolidated subsidiary
Azbil Care & Support Co., Ltd. *	Azbil TA Co., Ltd. *	

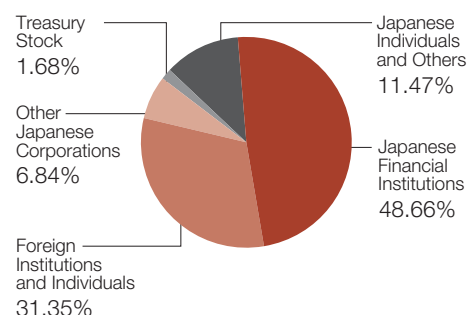
Overseas

Azbil Korea Co., Ltd. * Seoul, Korea	Azbil Saudi Arabia Limited Dammam, Saudi Arabia	Azbil North America, Inc. * Phoenix, AZ, U.S.A.
Azbil Taiwan Co., Ltd. * Taipei, Taiwan	Azbil Control Instruments (Dalian) Co., Ltd. * Dalian, China	Azbil VorTek, LLC * Longmont, CO, U.S.A.
Azbil Kimmon Technology Corporation * Miaoli, Taiwan	Azbil Information Technology Center (Dalian) Co., Ltd. Dalian, China	Azbil BioVigilant, Inc. * Tucson, AZ, U.S.A.
Azbil Vietnam Co., Ltd. * Hanoi, Vietnam	Yamatake Environmental Control Technology (Beijing) Co., Ltd. * Beijing, China	Azbil Brazil Limited * Sao Paulo, Brazil
Azbil India Pvt. Ltd. * Mumbai, India	Beijing YTYH Intelli-Technology Co., Ltd. * Beijing, China	Azbil Europe NV * Zaventem, Belgium
Azbil (Thailand) Co., Ltd. * Bangkok, Thailand	Azbil Control Solutions (Shanghai) Co., Ltd. * Shanghai, China	Azbil Telstar, S.L. * Terrassa, Spain
Azbil Production (Thailand) Co., Ltd. Bangkok, Thailand	Shanghai Azbil Automation Co., Ltd. * Shanghai, China	Plus 25 other consolidated subsidiaries, two non-consolidated subsidiaries, and six affiliates
Azbil Philippines Corporation * Makati, Philippines	Yamatake Automation Products (Shanghai) Co., Ltd. * Shanghai, China	
Azbil Malaysia Sdn. Bhd. * Kuala Lumpur, Malaysia	Azbil Hong Kong Limited * Hong Kong, China	
Azbil Singapore Pte. Ltd. * Singapore	CECEP Building Energy Management Co., Ltd. Beijing, China	
PT. Azbil Berca Indonesia * Jakarta, Indonesia		

Stock Information (As of March 31, 2013)

Total Number of Authorized Shares	279,710,000
Shares of Common Stock Issued	75,116,101
Shareholders	11,224
Fiscal Year	April 1 to March 31
Annual Shareholders' Meeting	June
Stock Listing	Tokyo Stock Exchange, 1st Section (6845)
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

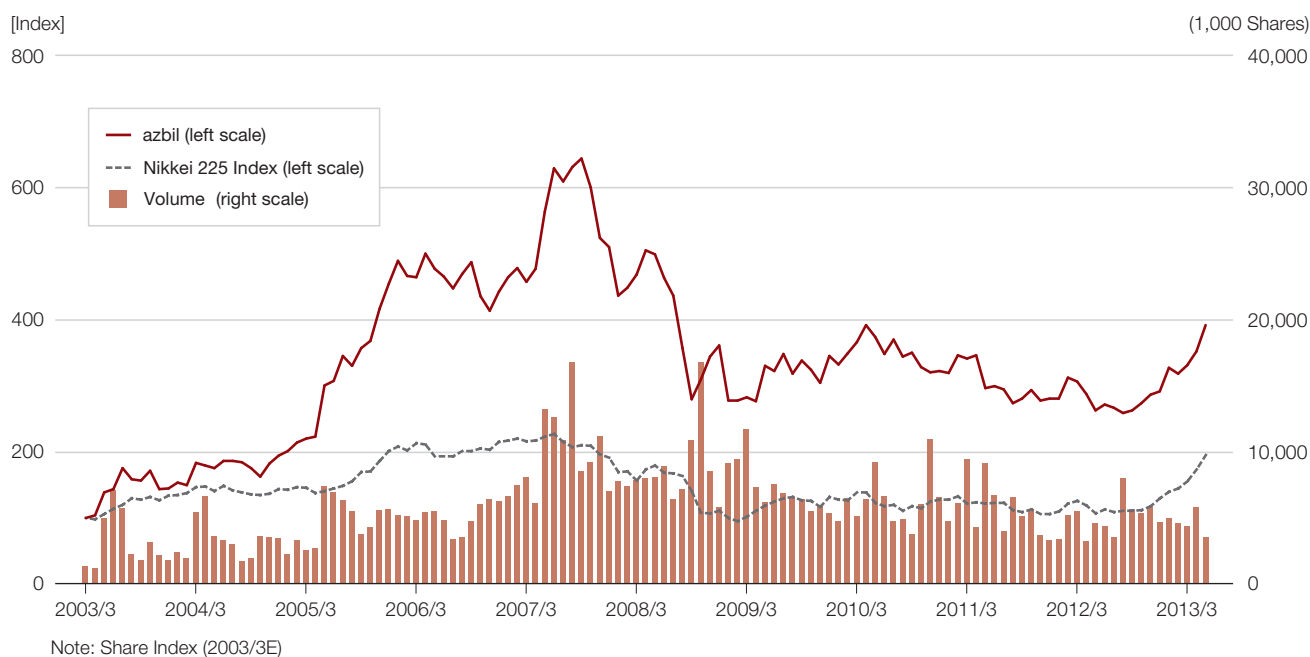
Composition of Shareholders



Major Shareholders (Top 10)

	Number of Shares Held (Thousands)	Percentage of Total Investment (%)
The Master Trust Bank of Japan, Ltd.	6,626	8.82
Meiji Yasuda Life Insurance Co.	5,214	6.94
Japan Trustee Services Bank, Ltd.	4,187	5.57
Nippon Life Insurance Co.	2,669	3.55
Trust & Custody Services Bank, Ltd. (Trustee for Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account)	2,315	3.08
National Mutual Insurance Federation of Agricultural Cooperatives	2,248	2.99
The Chase Manhattan Bank, N.A. London secs Lending Omnibus Account	1,948	2.59
Northern Trust Co. (AVFC) Sub A/C British Clients	1,800	2.39
The Nomura Trust and Banking Co., Ltd. (Trust Accounts)	1,678	2.23
azbil Group Employee Stock Ownership	1,554	2.06

Common Stock Price Range



Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Stock price at the end of the period (Yen)	1,091	1,310	2,775	2,730	2,795	1,689	2,186	2,038	1,830	1,978
High (Yen)	1,108	1,348	2,980	3,090	4,050	3,070	2,248	2,393	2,070	2,055
Low (Yen)	575	922	1,280	2,305	2,290	1,377	1,592	1,512	1,530	1,474

Azbil Corporation Website
<http://www.azbil.com/>

azbil Group Environmental and Social Website
<http://www.azbil.com/csr/index.html>

azbil Group Investor Relations Website
<http://www.azbil.com/ir/index.html>

Contact

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What is the azbil report?

As an important tool for the azbil Group in communicating with stakeholders, the azbil report combines the Group's annual and CSR reports into a single volume to enable deeper understanding of its business activities.

We edit the report to provide readers with an easy-to-understand overview of our approach to the environment and society, the value we provide through our businesses, and the challenges we face.

We believe that the azbil report is an important means for communicating with our many stakeholders. We welcome feedback, questions, or concerns from our readers.

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azbil

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