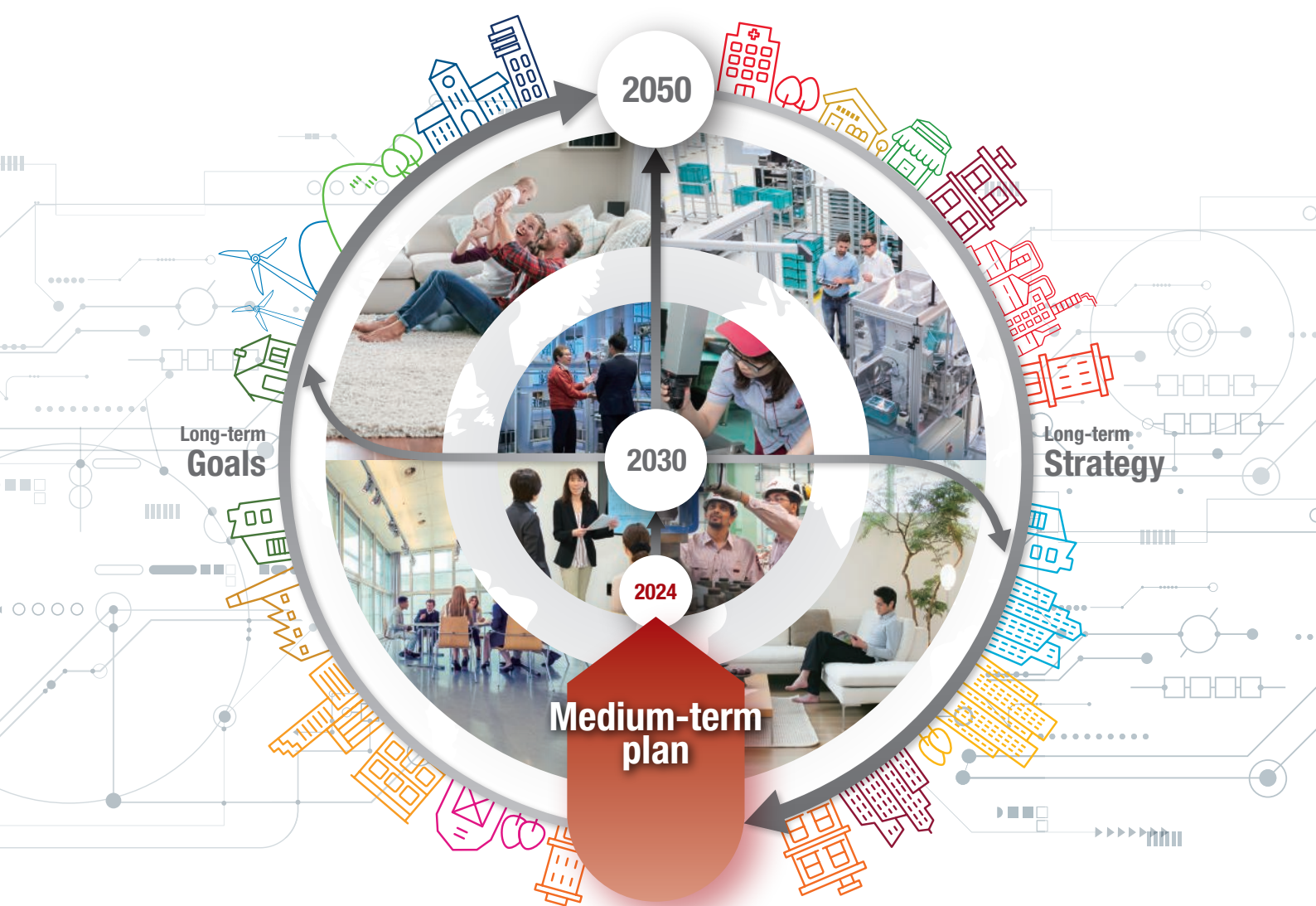


azbil report 2023



We would like to tell you our value creation story entitled “Automation.”

The azbil Group’s philosophy of “human-centered automation” seeks harmony between humans and machines and between human ingenuity and technology through the use of advanced measurement and control. Following our philosophy, and incorporating technological innovations like the IoT, AI, big data, and cloud computing, we continuously provide unique azbil Group value in various environments, from office buildings to plants and factories, and in people’s everyday lives.

In this integrated report we describe the financial and non-financial capital that is the source of our value creation, and we tell the story of our growth along the path to realizing our long-term vision for the year 2030.



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To Our Stakeholders

We create value through dialogue and collaborative creation at our customers' sites, as the role of automation expands.

Since the azbil Group's founding in 1906, we have been pursuing measurement and control technologies and delivering unique solutions to our customers. For more than a century, while facing various challenges in society and at our customers' sites, we have also grown through the process of solving these issues.

In April 2012, we changed the name of the company from Yamatake Corporation to Azbil Corporation. Today, the azbil Group's aim is to provide its unique value to customers in offices, production sites, and in daily life all over the world through its three business segments: Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). In the last few years, the COVID-19 pandemic, the disruption of global supply chains triggered by geopolitical factors, and soaring energy

prices and other effects of inflation have created challenging conditions for the azbil Group. However, we believe that automation will take on a greater role in the medium to long term.

Changes in the business environment, including progressive globalization and greater social responsibility toward the sustainable growth of society, as well as technological innovation, changes in society like declining birthrate, aging population, new ways of working, climate change, and customers' own ongoing restructuring of global supply chains and switching of energy sources, will further expand the areas addressed by automation. With growth in the three growth fields of *new automation, environment and energy, and life-cycle solutions* at the core, where the azbil Group can



Kiyohiro Yamamoto

Director, Representative Corporate Executive,
President & Group Chief Executive Officer



leverage its unique technologies, products, and services, we will further promote global development and business field initiatives and aim to accelerate transformation and growth through dialogue and collaboration with our diverse stakeholders.

In this integrated report, we explain the strategies and measures of the azbil Group's unique sustainability management, which aims to contribute "in series" to the achievement of a sustainable society through such value creation efforts by automation. We ensure our sustainable growth by continuing to provide new products and services that contribute to safety, productivity, and enhanced value at production sites by using advanced technology like AI and various types of advanced sensing, and we expand our business by solving environmental and energy-

related problems in buildings and in the local community while strengthening our business and corporate foundations as well as investing in human resources. We direct progress toward a sustainable society by aiming for specific targets related to the Sustainable Development Goals (SDGs) that resonate with our Group philosophy.

Additionally, to further improve our corporate governance, we transitioned to a company with three-committee Board structure in FY2022. This change increased the transparency and soundness of our management. With employees and management all working together in pursuit of "human-centered automation," we aim to be a corporate group that contributes to the sustainable development of society.

Forms of Value Creation

The azbil Group's Philosophy and History

Contributing to the sustainability of industry and society for over a century with value creation through automation as our DNA

The azbil Group, founded in 1906, has established a Group philosophy that inherits the founder's spirit. We seek both to create new value through automation and to contribute to the sustainability of industry and society by developing our business.

Helping to develop Japanese industry and society with our founder's spirit of "freeing people from drudgery"

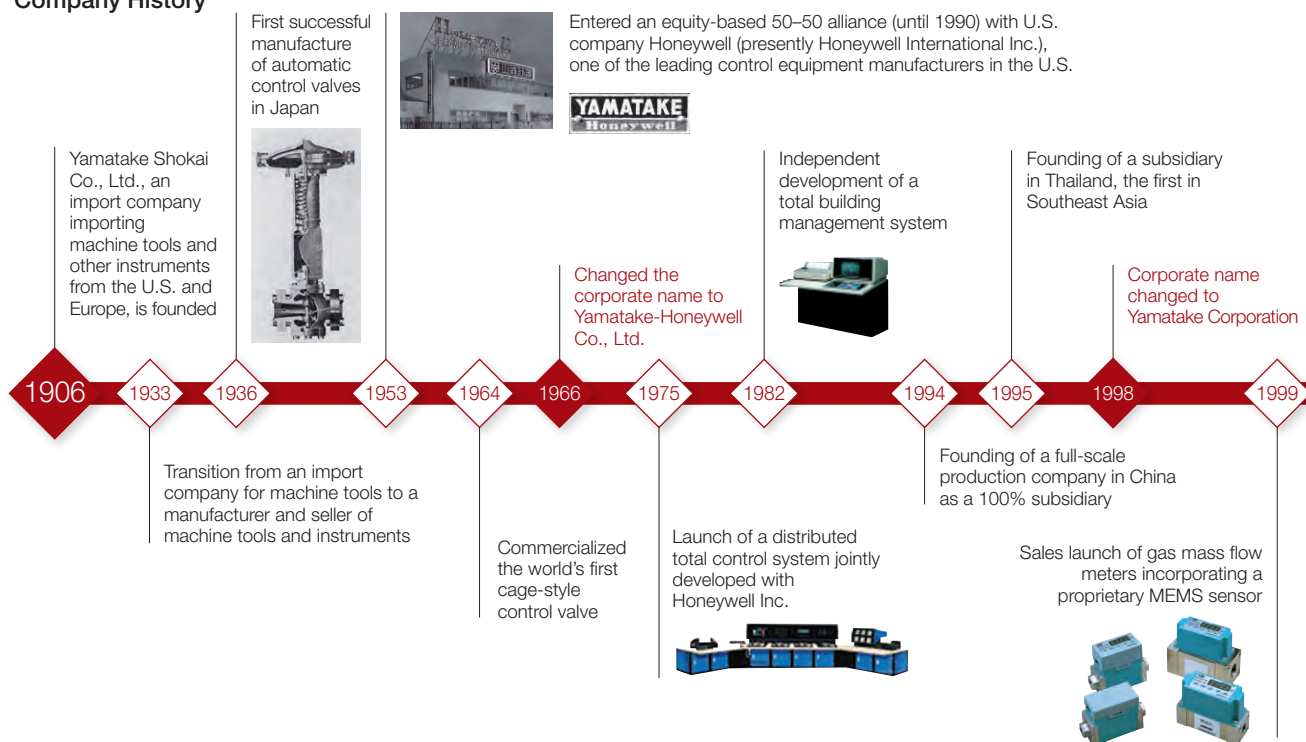
The azbil Group has inherited the spirit of its founder, Takehiko Yamaguchi, to "freeing people from drudgery," and with this as its DNA, has provided solutions to the challenges facing industry and society through the provision of automation-related products and services. The Group's history began in 1906 as an importer of machine tools, and

subsequently expanded its scope of business to industrial instruments. In the 1950s, Yamatake (now Azbil Corporation) sold air conditioning control equipment and micro-switches, while at the same time focusing on the in-house development and domestic production of equipment. Yamatake understood the need for automation and was quick to commercialize it, making significant contributions to the development of Japanese industry from the post-war recovery period to the period of rapid economic growth.

Continuously creating new value in response to changes in the environment

As a comprehensive automation supplier, Yamatake-Honeywell (now Azbil Corporation) grew and contributed to Japan's rapid economic growth through its air conditioning

Company History



1906-1950s

Freeing people from drudgery

Importation of industrial instruments to domestic production

Yamatake Shokai was founded in 1906. The company began importing and selling machine tools from Germany, subsequently transforming itself into a manufacturer and seller of industrial machinery and instruments for the U.S.-based Braun Corporation (later Honeywell). As Japan's materials industry developed, Yamatake Shokai expanded its production of industrial instruments, contributing to Japan's postwar reconstruction and the development of heavy industry.

1950s-1970s

First in control

Contribution to rapid economic growth through automation

In 1952, the company entered into a technical license agreement with Honeywell Inc. of the U.S., introducing Honeywell's air conditioning control technology, combustion safety control technology, microswitches, and the like to Japan. The company has since evolved into a comprehensive automation manufacturer, introducing its innovative compact electric instruments based on proprietary technology and a central monitoring system designed to address the needs of large-scale buildings.

control systems for large buildings, process control systems for petrochemical plants, etc. However, since the 1970s, to meet society's need to save energy and labor, the company developed products and services that provide a range of value, such as energy efficiency through automation technology, which meet the requirements of industry and society and have been rated highly.

Aiming to make contributions “in series” to the achievement of a sustainable society through value creation by automation

As the effects of global warming are becoming more apparent and the COVID-19 pandemic is causing changes in behavior, there is a further increase in interest in sustainable business, the global environment, and society. The azbil Group has evolved its founding spirit over the century to “contributing ‘in series’ to the achievement of a sustainable society” and continues to take on the challenge

of creating new value by providing new solutions that respond to changes in the business environment, while also recognizing its strengths in improving productivity and curbing resource and energy use in buildings and factories throughout their life cycles.

azbil Group philosophy

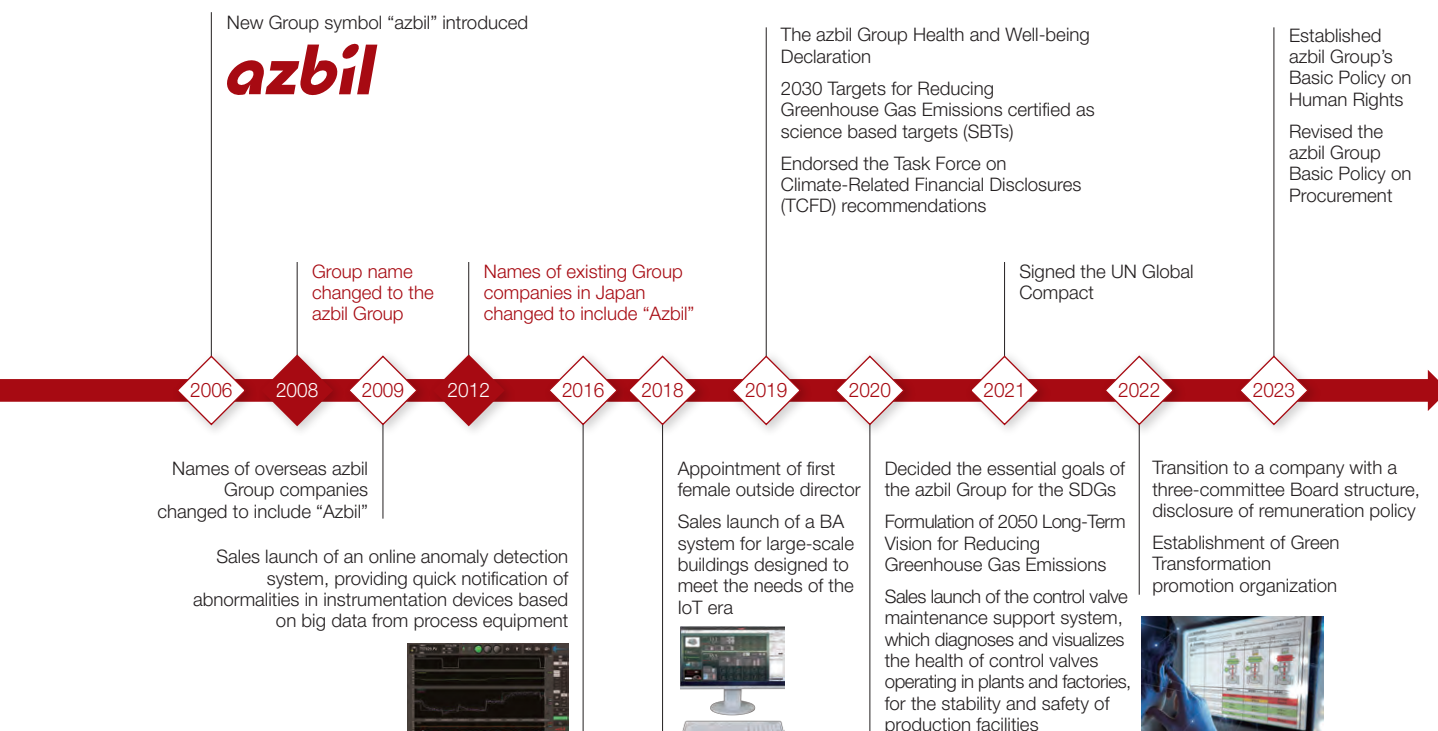
To realize safety, comfort, and fulfillment in people's lives and contribute to global environmental preservation through “human-centered automation.”

azbil

Meaning of “azbil”

automation · zone · builder

Using automation technology, we build zones in which safety, comfort, and fulfillment can flourish.



1970s–2000s

Savemation*

Contribution to high-functionality, high-precision and energy saving

With the oil crisis triggering a trend toward energy saving and labor conservation in all industries, the company's corporate philosophy clearly states that it will achieve “saving” in a range of fields and contribute to the global environment. The company offers a variety of products addressing the requirements for high-functionality, high-precision industrial instruments, as well as total building management services that utilize communications technology.

* Save + Automation = “Savemation”

From 2006

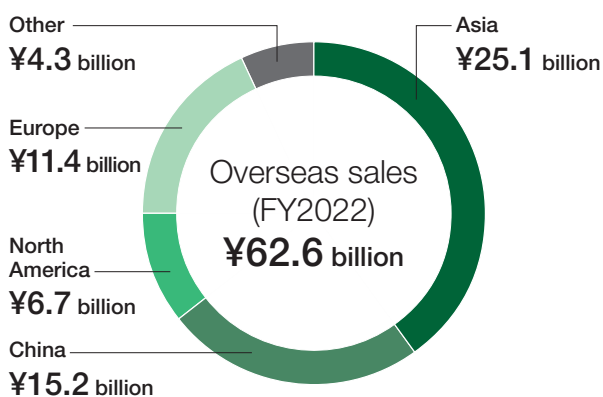
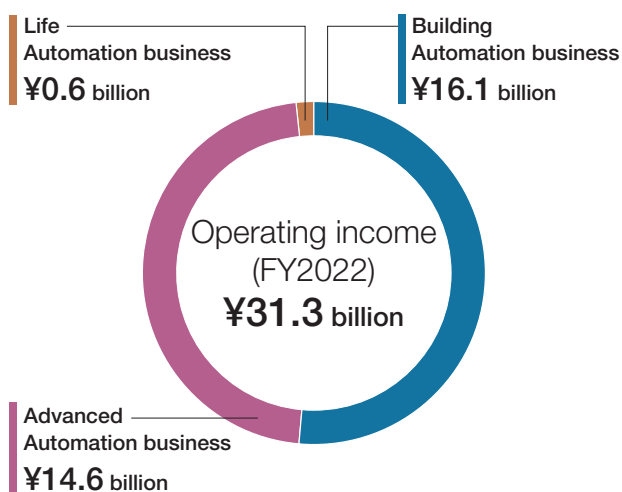
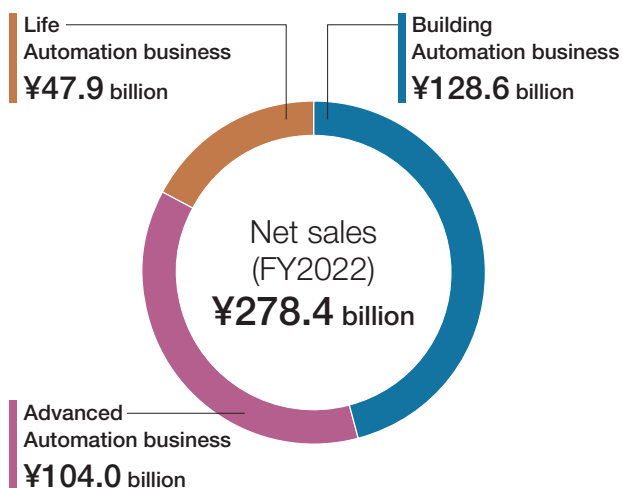
Human-centered automation

Contribution “in series” to the achievement of a sustainable society

Addressing the growing social requirements for environmental protection and energy conservation and providing sustainable solutions. Based on the evolving Group philosophy of realizing safety, comfort, and fulfillment in people's lives through automation, we are developing products and solutions in various fields addressing various technological innovations such as AI and big data, along with the advancement of network technology. We aim to solve social issues with our customers on a global scale and achieve sustainable development.

The azbil Group's Business

The azbil Group pursues “human-centered automation,” which aims to provide people with safety, comfort and fulfillment, and to contribute to the global environment. Based on our measurement and control technologies, we are developing the Building Automation (BA) business in the building market,



Building Automation business



Advanced Automation business



Life Automation business



the Advanced Automation (AA) business in the factory and plant market, and the Life Automation (LA) business in the lifeline utilities, life science, pharmaceutical, and other markets.

We control facilities and instruments in many large-scale buildings, including offices, hotels, shopping centers, and factories, using our original environmental control technologies to deliver comfort, functionality, and energy efficiency. We contribute to the creation of comfortable and efficient work and production spaces and the reduction of environmental impact. The required role of the Group is also dramatically expanding to address the diversification of work styles and adjusting the power demand of many buildings using cloud and IoT technologies.

- **Control systems**

The BA system monitors and manages the indoor environment, security, energy status, etc. of entire buildings



- **Automatic control instruments**

Provision of high-performance valves, sensors, controllers, etc. to optimally regulate the flow of cold and hot water and steam through buildings



- **Services**

Provision of comprehensive management services to manage building operations on behalf of the client through remote monitoring



We develop advanced measurement and control technologies for factories and plants to support the resolution of various manufacturing issues and to help create production sites in which people can safely fulfill their potential. In plants, we contribute to safe operations through online diagnosis of instrument/facility status and early detection of signs of abnormalities by AI learning of operational data, etc. We also contribute to the advanced sensing technology of components for semiconductor manufacturing equipment, etc.

- **Process automation field**

Provision of control valves to regulate the flow of gases and liquids, process sensors to measure flow and pressure, and monitoring and control systems to achieve safe and stable production for a variety of plants in the chemical, steel, electric power and gas, and other industries



- **Factory automation field**

Provision of controllers, sensors, and switches that optimally control various manufacturing equipment



We apply our measurement and control technologies and services cultivated over many years from buildings, factories, plants, and living infrastructure, to lifeline utilities such as gas and water, residential central air-conditioning systems, life science research, and pharmaceuticals. We help people to enjoy safe, secure, healthy, and comfortable lifestyles. In the lifeline field, in addition to the automation of meter-reading operations using communication-equipped meters, we are working to develop new services that combine data on electricity, gas, and water.

- **Lifeline field**

Provision of city and LP gas meters and water meters for the general public, as well as safety and security equipment, regulators and other products for industry



- **Life science engineering field**

Provision of pharmaceutical manufacturing equipment such as lyophilizers and sterilizers to pharmaceutical companies and research laboratories



- **Residential central air-conditioning systems field**

Provision of residential central air-conditioning systems for homes that make the whole house comfortable



Business Structure

Providing optimal solutions to customers and society under an integrated business structure from research and product development to services

The azbil Group adopts an integrated system that extends from research and product development, manufacturing, and procurement to consulting, sales, engineering, installation, and post-delivery services on a global basis. In this way, we accurately identify onsite issues and continuously create and deliver solutions through automation over the long term. As new societal issues emerge and customer requirements become more diverse and sophisticated, we

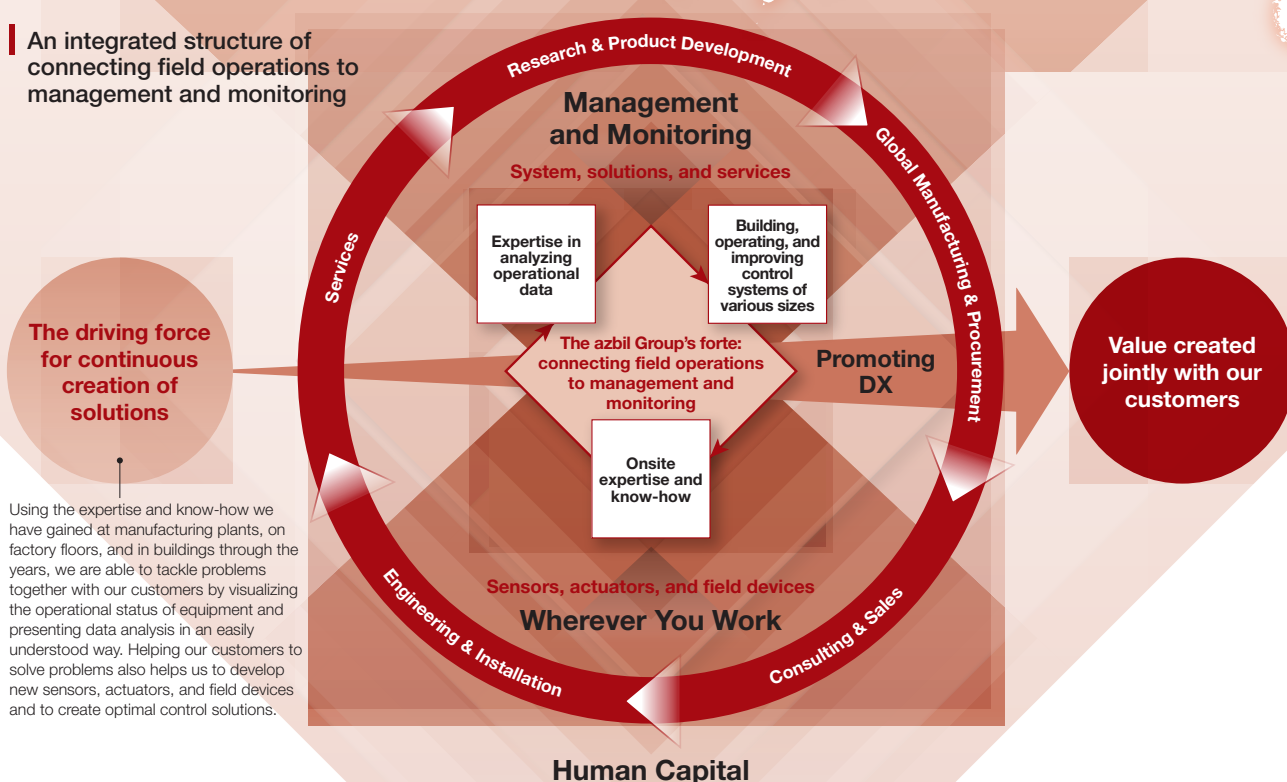
are responding to these changes and contributing to realizing a sustainable society. In order for ourselves also to grow, together with proactive R&D and capital investment, we are promoting digital transformation (DX) in sales, service, and engineering, investing in human capital, and strengthening our research and product development capabilities and our integrated structure by leveraging the strengths of the azbil Group.

Global network

- Overseas subsidiaries and affiliates
- ◆ Azbil Corporation overseas branches



An integrated structure of connecting field operations to management and monitoring



Research and product development

The azbil Group focuses on the development of core technology in two areas: field instruments in buildings, plants, and factories; and applications that bring added value to the information collected by the instruments. Our development personnel are expanding their knowledge in new technological areas such as AI applications, networks, and system architecture with the aim of solving social issues and supporting transformation and growth at our customers' sites. We are also leveraging the strengths of the Group to create competitive products, and it is essential to improve the performance of our unique microelectromechanical systems (MEMS) sensors and ensure a stable supply of these sensors. The azbil Group is working to improve the performance of MEMS sensors through further miniaturization, as well as to boost product value by exploring new detection principles and developing devices using new materials. To strengthen our development capabilities for such system solutions, devices, and field instruments, we constructed new buildings equipped with the latest facilities and development environment at our R&D base, Fujisawa Technology Center, in 2022. We are also implementing organizational reforms in our technological development and production departments. (See pp. 59–64 Research and Product Development)

Global manufacturing and procurement

We have established a three-base manufacturing system with bases in Japan, China, and Thailand, and we are working to fulfill our responsibilities to society in our supply chain, while also building an optimal production system for global business development. With the Shonan Factory and Fujisawa Technology Center as the “mother factories” at the core, we are working to raise the level of our production engineering, etc. In addition, as part of our efforts to expand production capacity to meet growing global demand, we constructed a new factory building at Azbil Control Instruments (Dalian) Co., Ltd. in China. We will continue to expand the production capacity of Azbil Production (Thailand) Co., Ltd. Moreover, in FY2022, we strengthened our manufacturing and procurement capabilities to address parts shortages and procurement difficulties, and were able to achieve effective results. (See pp. 65–66 Manufacturing and Procurement)

Consulting and sales, engineering and installation and services

We have bases that provide sales and services in 23 countries and regions. Sales engineers, system engineers, field engineers, and service engineers are each working to provide optimal solutions at each site to address the various needs of customers at each stage of their life cycle, including planning, operation, maintenance, improvement, and renewal. We are further strengthening our sales and service network by increasing the number of personnel and offices overseas, as well as promoting DX and strengthening our service infrastructure by utilizing cloud computing for remote maintenance and other services.

Promoting digital transformation (DX)

Recognizing that the role and opportunities for automation are expanding, we aim to accelerate our business development and further enhance the value we provide by utilizing the latest digital technologies. For example, we are promoting the use of IoT, cloud technology and AI in development departments, introducing cloud MES in production sites and expanding production DX in the field, and promoting cyber security measures and management by a specialized organization. We are also strengthening our human resources by enhancing training in DX and recruiting DX-capable human resources. (See pp. 57–58 Digital Transformation (DX))

Human capital

In order to understand the issues at our customers' sites and deliver optimal solutions to our customers, we require, for example, engineers possessing high skills and extensive knowledge. For this reason, we are proactively pursuing investments in human capital, from appropriate human resource development, such as reskilling, to securing human resources consistent with our business strategies in order to grow and expand our business. At the same time, we are also promoting the reform and enhancement of employee incentive plans and various personnel systems that are linked to our financial measures. From this perspective, we have also established human resource development targets in our unique essential SDG goals, aiming for the development and growth of all employees. (See pp. 69–72 Human Capital)

Interview with the CEO



Kiyohiro Yamamoto

Director, Representative
Corporate Executive,
President & Group Chief
Executive Officer

As expectations increase for automation to play a vital role in a sustainable society, we are accelerating our transformation so we can deliver solutions that only the azbil Group can provide.

Q1

How do you evaluate the company's performance in FY2022, the second year of the medium-term plan?

A1 The diligent effort we put into overcoming difficulties, such as procuring parts, was a key factor that enabled us to post record profits. Our performance also demonstrates that the automation business has more growth potential.

The azbil Group's core automation business improves the quality of indoor spaces and productivity while also enabling control of the energy and resource consumption in buildings, factories, and lifeline utilities. Both of these contribute to the sustainability of society and the Earth, which means that expanding our Group business increases our contribution to achieving sustainability. Our medium-term plan for FY2021 to 2024 is the first step toward fulfilling our FY2030 target to be contributing "in series" to the achievement of a sustainable society. The plan also includes material issues that we must address to ensure our own long-term sustainability along with essential goals of

the azbil Group for the SDGs to serve as key performance indicators (KPIs) for monitoring our progress.

During the first two years of the plan, the demand and expectations for automation have increased dramatically. Around the world, automation is increasingly being seen as a key component for achieving carbon neutrality to address climate change and for meeting the needs for safety and security and viable remote working environments that emerged during the COVID-19 pandemic. In addition to enabling the most efficient use of energy and resources, automation is also expected to save labor in areas where labor supply is diminishing.

FY2022 was certainly a challenging year for our business, as we had to deal with disruptions to global supply chains from the pandemic and geopolitical risk along with harsh economic conditions from soaring energy costs and inflation. Nevertheless, even in those conditions, demand for automation continued to steadily grow. We responded by radically overhauling our procurement and manufacturing processes, which enabled us to effectively overcome difficulties in procuring parts and to maintain our

Long-term targets and medium-term plan

The azbil Group defines three growth fields—*new automation, environment and energy, and life-cycle solutions*—which share a common foundation of automation technology. Focusing on the growth of these fields, we will achieve growth globally in each of our three businesses: BA, AA and LA.

Three growth fields

- New automation
- Environment and energy
- Life-cycle solutions

Transformation

Safety

Period of the medium-term plan for FY2021-2024

	FY2019	FY2020	FY2021	FY2022	FY2023*1 (Plan)	FY2024*2 (Plan)
Net sales (billions of yen)	259.4	246.8	256.6	278.4	282.0	300.0
[Overseas sales] (billions of yen)	[44.2]	[44.9]	[52.2]	[62.6]	[63.5]	[66.0]
Operating income (billions of yen)	27.3	25.7	28.2	31.3	32.0	36.0
Operating income margin (%)	10.5	10.4	11.0	11.2	11.3	12
ROE (%)	10.9	10.4	10.4	11.2	11.6	approx. 12

Long-term targets

Sustainable society

2030
SDGs



Growth

Contribution "in series" to the achievement of a sustainable society
Continuous enhancement of enterprise value

FY2030*2
(Target)

400.0 range

[100.0 range]

60.0 range

approx. 15

approx. 13.5

*1 Plan (as of May 12, 2023) *2 The medium-term plan (as of May 14, 2021)

production activity. The Group also effectively passed on the higher costs to our product prices. These efforts paid off as the Building Automation (BA), Advanced Automation (AA), and Life Automation (LA) all increased orders and sales from the previous fiscal year and reached record highs.

Based on this performance and the future business outlook, management determined to boost shareholder return. Following our basic capital policy and in consideration of the need to retain funds to invest in R&D and human capital for our future growth, management resolved to distribute a year-end dividend of ¥33.50 per share, bringing the full-year dividend payment to ¥66 per share for FY2022, which is ¥1 higher than initially planned. Management also announced its intention to raise the ordinary dividend by ¥7 to ¥73 per share in FY2023. In addition, while following our disciplined capital policy, we plan to repurchase and cancel up to ¥10.0 billion worth (or a maximum of 4.0 million shares) of the company's outstanding common stock. (See pp. 33–36 Message from the Corporate Executive for Finance, Business Management, and Sustainability)

Q2 How will the company meet the growing demand for automation?

A2 We will continue measures to bring about our transformation and ensure we fully meet the increasing demand for our future growth.

I believe that the steady progress in our business performance, the growing role that automation is playing in a sustainable society, and the uniqueness of the azbil Group's technologies are all reasons to believe that we can

continue growing our business.

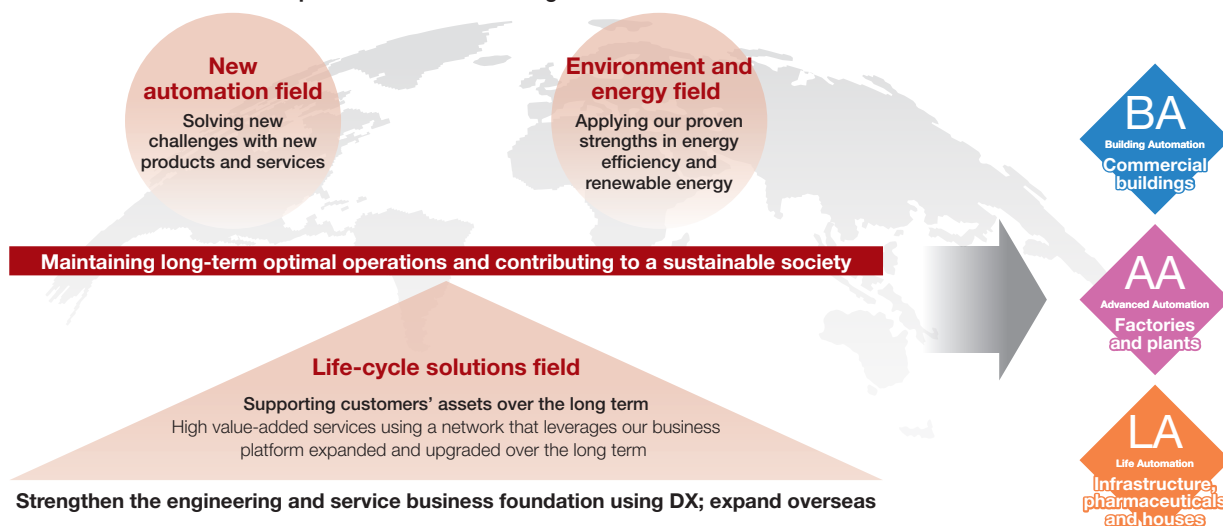
One of the major advantages of the Group's automation business is the value we provide for automating air conditioning and production operations, improving the quality of indoor spaces and productivity, and controlling the consumption of resources and energy. On top of that, our automation provides those benefits throughout the complete building and factory life cycles from construction through operation, maintenance, and renovation. Recognizing the distinct areas where our automation systems provide value, we have set *new automation*, *environment and energy*, and *life-cycle solutions* as the three growth fields that the BA, AA, and LA businesses will pursue to bring about our transformation.

We also recognize that the needs of our clients are changing. They are responding to the pandemic, growing geopolitical risk, and climate change by restructuring their global supply chains, converting to new energy sources, and changing their business models at an unprecedented pace. The azbil Group's automation business offers a wealth of technologies, products, and services for the new business models and a sustainable society. I believe we can continue augmenting our products and services and fortifying our business structure to offer value that clearly sets us apart from other companies.

As time goes on, business conditions will surely become more challenging and our clients will need increasingly sophisticated equipment. While working to establish sustainable growth for our business, I am renewing my commitment to accelerate our transformation and to steadily progress toward fulfilling the targets of the medium-term plan.

Three growth fields that share a common foundation of automation technology

Providing distinctive solutions that leverage the azbil Group's strengths and unique solutions in the three growth fields



Q3

What is the company doing to bring about a transformation?

A3 While conducting sustainability management, we are actively advancing R&D, investing in our production facilities and product lines, and cultivating our human capital.

Business conditions are changing at an ever-faster pace. For us to continue growing our business, we must have a strong and resilient business structure capable not only of identifying and adapting to changing business conditions but also of providing innovative solutions to our clients and society. Our sustainability management gives us a strong footing, but we also must have the agility to respond to major unexpected developments, such as a pandemic, geopolitical risk, and disruptions in energy supply. In addition to our current strategies, we will also strengthen our ability to respond to risk and emergency situations and ensure we have the strongest possible business continuity plan. As we fortify our own resilience, we are also improving our ability to support client efforts to transform their business models. The cornerstones of our transformation and our future growth will be the strategic allocation of resources, particularly of personnel and financial resources, the enhancement of our product lines, and the development of the human capital that energizes our businesses. The ultimate objective of all of these is to expand our business both domestically and worldwide.

Fortifying our technology and product development capabilities led by the Fujisawa Technology Center

The fundamental framework for the growth initiatives in the three growth fields is for each core business to deploy its own business model centered on strengthening their technology development capabilities and boosting product competitiveness.

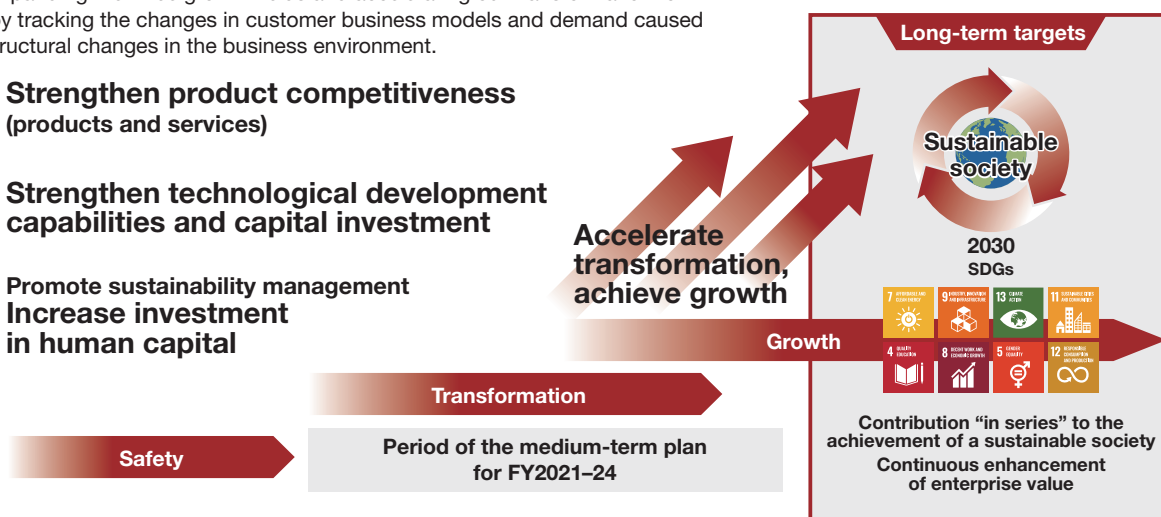
The state-of-the-art R&D and testing capabilities of our new laboratory facility constructed at the Fujisawa Technology Center in FY2022 enable development of advanced cloud and AI (including generative AI) system solutions and high-performance, high-precision devices and actuators using microelectromechanical systems (MEMS) technologies, which are the pivotal elements that enable our products to deliver value at our clients' sites.

Also critical to our growth is the digital transformation (DX) of our internal processes. We are integrating digital technologies into every aspect of our operations from the development of products and services to processes that will improve the efficiency and enhance the value of our operations, which will create new business and new ways of working. We also see the promise of generative AI services, which could be huge for our operating efficiency. We are working toward integrating generative AI into our systems while preparing guidelines for its safe use and preparing the necessary support tools. The DX will encompass every aspect of our operations from R&D to product development, sales and services, engineering, maintenance, and operation, and we will actively invest in the human resources and equipment that will be needed. This transformation will give us the ability to develop more

Accelerating transformation for further growth

We are expanding the three growth fields and accelerating our transformation for growth by tracking the changes in customer business models and demand caused by the structural changes in the business environment.

- 1 Strengthen product competitiveness**
(products and services)
- 2 Strengthen technological development capabilities and capital investment**
- 3 Promote sustainability management**
Increase investment in human capital



sophisticated and competitive products to drive our business growth into the future.

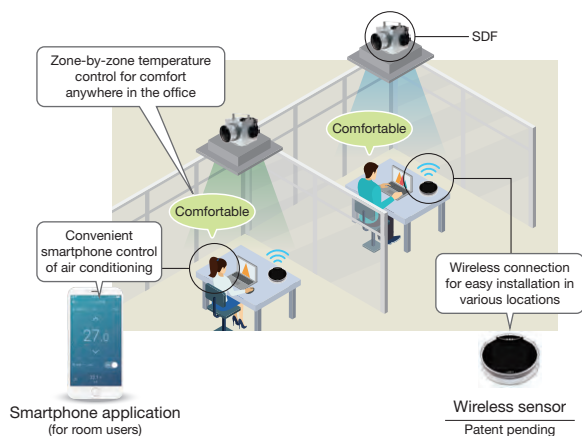
(See pp. 57–58 Digital Transformation (DX) and pp. 59–64 Research and Product Development)

Strengthening our product lines in three growth fields

New automation field

● Delivering new products applying advanced measurement, digitalization, and autonomy for solving issues

The *new automation* field provides solutions to demand arising from social issues and changes in client business models. A prime example of a product meeting new demand is our sapphire capacitance diaphragm gauges. The gauges incorporate MEMS technology to dramatically enhance the productivity of film formation and etching processes for semiconductor manufacturing equipment. Other examples are our new line of cell-type air conditioning systems that improve comfort as well as support wellness in office spaces, and the automated AI systems for factories and plants that perform various processes and free workers to focus on tasks that benefit from human skill and creativity. (See pp. 27–28 Special Feature: New Automation)



Environment and energy field

● New businesses for green transformation (GX)

As the drive to achieve a carbon neutral society gains

momentum, our clients are increasingly investing to reduce their carbon footprint. We are meeting that demand by augmenting our most competitive products and services and by working with outside partners to develop new value and expand the scope of solutions we offer. The BA business is currently focusing on providing solutions for its extensive portfolio of existing clients, from which we expect equipment retrofit demand as their facilities reach the refurbishment stage of their life cycles. We are also collaborating with partner companies to develop equipment for GX to be an energy service provider offering systems that run on renewable energy sources. We provide value by offering comprehensive energy solutions customized to each client's individual specifications in all aspects from arranging renewable energy supply sources to ensuring optimized systems management.

Life-cycle solutions field

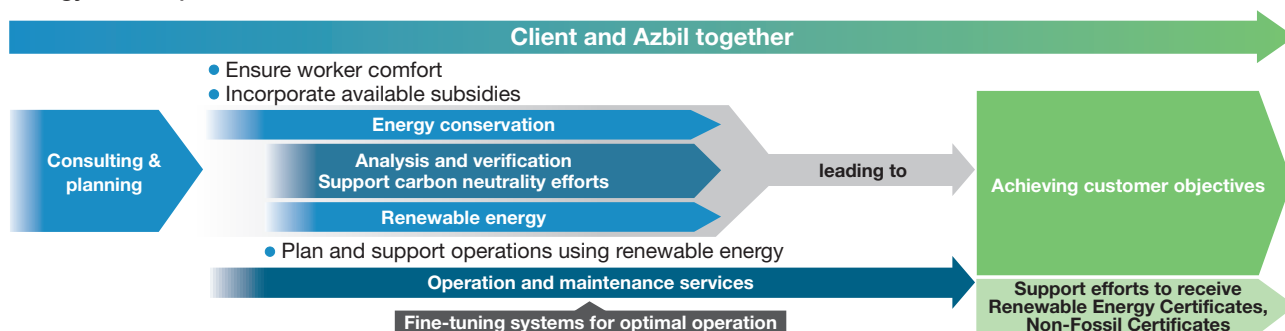
● DX to maintain and improve client asset value

The *life-cycle solutions* field provides high value-added services for maintaining consistent quality, operating performance, and productivity of factories, office buildings, lifelines utilities, and other assets. Clients are requiring increasingly higher value-added services, and we will need to deftly integrate cloud and digital technologies into our services to continue providing the system efficiency and value they need. We have been integrating cloud technologies to all of our businesses and have introduced several new products, such as the BA business's building management system with remote monitoring and the AA business's cloud-based valve analysis and diagnosis service. The Group infrastructure we introduced in April



2023 for fully integrated cloud services will provide a solid foundation for developing and offering additional cloud businesses in the future.

Energy service provider business



Q4

How will the company expand its products and solutions in the three growth fields?

A4 Co-creation with external partners will be a key way we will broaden our product spectrum.

We will need to continue developing our products and services to keep pace with the increasingly varied and sophisticated needs of our clients. One way we will keep pace is by participating in more co-creation activities with external partners, such through collaborations and capital participation with startups with compelling technologies and industry, government, and academia groups.

In FY2022, we invested in the Japan Green Investment Corporation for Carbon Neutrality (JICN), a public-private fund newly established by the Ministry of the Environment, with the aim of creating new business opportunities in decarbonization and joining in decarbonization partnerships in fields that have been outside our reach. Our recent capital and business alliance with Clean Energy Connect Inc. (CEC) combining the company's green power solutions with our energy-saving solutions has created a one-stop GX service that is making a significant contribution to GX and a decarbonized society. In FY2023 we signed a memorandum with the Indian Institute of Technology Roorkee to collaborate in research for innovative digital solutions (see p. 62). Partnerships such as these are a way that we can multiply the benefits of our technologies and products, and we will continue collaborating with partners to pursue new ways to address environmental issues and extend the positive impact of our products and services.

Q5

How will you bring about transformation related to human capital?

A5 We are increasing investment in our human capital and expanding the DX education program.

Fulfilling our mission to be contributing "in series" to a

sustainable society will require steadily developing the human resources that are the source of value creation and forming a carefully mapped out plan for resource allocation that looks five and ten years in the future.

The azbil Group's basic principles of human resource development has fostered a culture in which we view our people as having multiple assets, or capabilities, that they would develop and cultivate on their own in accordance with changing needs. This approach to developing human resources therefore relied on both on- and off-the-job training, or what is now called reskilling. We are currently revising and updating our personnel systems by building on the successful elements of that approach and integrating new features, such as incentive plans linked to financial measures. After implementing the revisions, we will continue improving the systems by closely monitoring outcomes with the essential SDG goals we have set for employee satisfaction and sense of growth through their jobs.

We are also increasing investment in the human capital needed to advance our business strategies in the three growth fields. This encompasses carefully organizing our human resources, using our talent management system and learning management system to optimally train and allocate engineers, recruiting specialist personnel, engaging in joint research and development with universities and research institutes, and dispatching employees to R&D partners. (See pp. 69–72 Human Capital)

Q6

What is the plan for expanding business overseas?

A6 We are strengthening our overseas sales and service networks and developing distinctive products and services tailored to each region.

The growth of the azbil Group will largely depend on increasing our business overseas. Our plan is to expand our customer reach by fortifying our sales structures in strategic regions and by using DX to enhance the effectiveness of our

Business development initiatives involving alliances and investments with other companies

	Contents	Partner/investment
2021	Next-generation energy management business DX-EGA	TAKAOKA TOKO Group (electricity meters)
2022	GX solutions to reduce CO ₂ emissions from office buildings and other large facilities	Four NTT Group companies, Daikin Industries
2022	Creating partnerships, etc. with businesses engaged in decarbonization	Japan Green Investment Corp. for Carbon Neutrality
2022	Developing a business model combining our energy-saving solutions and CEC's green power solutions	Clean Energy Connect, Inc. (CEC)
2023	Acquiring market information in new business areas as well as information on innovative technologies; building relationships with portfolio companies; business discovery	JAFECO Group Co., Ltd. (JAFECO SV7 fund)

sales activities. We are also strengthening our ability to develop and offer high value-added products and solutions catered to the market specifics in each country and region. One example of that is the digital twin product we developed for an integrated building management system (IBMS) with the support of the Singapore Economic Development Board. We established the Strategic Planning & Development Office for Southeast Asia in Singapore to provide cross-organization support for business promotion, strategic plans, and management of subsidiaries in the region. The office also serves as a central link for promoting collaborative technology development in the three regions of Japan, the Americas, and Asia.
(See pp. 55–56 Overseas Business)

Q7 What are you doing about the deteriorating performance of the LA business?

A7 We are reviewing the business to optimize the business portfolio.

The LA business posted a profit decline in FY2022 and earnings ended up substantially below expectations. Various factors were involved, but the biggest impact came from the rapid inflation in Europe, which increased our costs and caused a profit drop in the Life Science Engineering (LSE) field. We have closely examined each LA business operation for the causes and issues that contributed to the weaker earnings and plan to directly address each point. This year, we are reviewing and optimizing the business portfolio and adjusting individual business strategies. In addition, we are taking steps to pass on the higher costs to

our product prices, improve quality control, and strengthen project management.

(See pp. 33–36 Message from the Corporate Executive for Finance, Business Management, and Sustainability and pp. 49–54 Life Automation Business)

Q8 What ESG initiatives is the company implementing?

A8 Our sustainability management includes actively engaging in ESG activities with an awareness of materiality for both growth opportunities and management risks.

In August 2022, we identified 10 material issues that we must tackle over the long term to ensure the azbil Group's sustainability management and activities to contribute "in series" to a sustainable society remain relevant and effective. The issues of materiality reflect the significant changes in the social environment and in societal needs. The issues of materiality also provide us with perspective on the opportunity and risk for the Group's philosophy in the changing business environment. We will proactively address the issues of materiality in each area of the environment, society, and governance.

(See pp. 19–20 Sustainability and pp. 21–22 Materiality)

I also believe that a fundamental part of our ESG initiatives must focus on protecting our business continuity, and we should be fully prepared for any risk that could arise to threaten our sustainability. A global corporation is especially obligated to ensure its business complies with all legal regulations and respects human rights. As our business grows and we extend our supply chain into more countries and regions, we will need to strengthen our efforts for human rights due diligence. Moreover, full cooperation throughout the supply chain will be critical to ensuring we are resilient to disruptions in the supply chain as occurred during the pandemic and due to geopolitical risk. We continue to examine and prioritize the material risks to the azbil Group to ensure our management system remains robust and resilient.
(See pp. 81–84 Supply Chain and pp. 85–87 Risk Management)

Taking a medium- to long-term perspective for strengthening our ESG measures, applying a defensive approach, and being fully prepared for risk can open the door for the Group to find new business opportunities. I believe that when we are recognized as a corporate entity that values non-financial elements such as human rights, diversity, and its relations with stakeholders, we will attract business opportunities and talent both in Japan and overseas, which will lead to growing business and ultimately manifest in financial value.



Environment

The azbil Group's identity became strongly linked to environmental action in the 1970s when it introduced the concept of "Savemation" (Save + Automation). Our current environmental efforts are primarily focused on reducing greenhouse gas emissions from our activities (scopes 1+ 2) and from our supply chain (scope 3). We have also positioned the environment and energy business as a growth field for our business where we will offer products and services to reduce the environmental impact of our clients. To spur our efforts, we have set our own essential SDG goal for reducing CO₂ emissions from our clients' sites.

We also see potential to meaningfully address environmental issues in other ways and have strengthened and expanded our initiatives to address various environmental issues in addition to reducing CO₂ emissions. As part of this, we have set specific recycling and sustainability design targets. New products are designed for recycling to ensure natural resources are used efficiently and waste generation is minimized, and for sustainability to ensure our products and services are environmentally friendly. In addition, we have endorsed the international Task Force on Climate-related Financial Disclosures (TCFD) framework and actively disclose information on governance, strategy, risk management, and metrics and targets in our Securities Report.
(See pp. 73–80 Environment)

Society

We endorsed the United Nations Global Compact on human rights, labor, the environment, and anti-corruption and our medium-term plan includes stronger initiatives related to human capital and intellectual property. Our health and well-being management encompasses a variety of initiatives and programs designed to encourage employees to engage with their work actively and enthusiastically. We intend to make diversity a strength of the Group and have formally declared our commitment to diversity and inclusion with goals to hire international and mid-career talent. We also implement measures to ensure our supply chain complies with the expectations of society. We apply the azbil Group Basic Policy on Procurement and the azbil Group CSR Procurement Guidelines to our supply chain, and we hold information briefings and actively engage in dialogue with all business partners. We are also encouraging our suppliers to strengthen their human rights due diligence and reduce CO₂ emissions.
(See pp. 69–72 Human Capital and pp. 81–84 Supply Chain)

Governance

In June 2022, Azbil Corporation transitioned to a company with a three-committee Board structure for the purpose of clearly separating supervisory and business execution functions and to increase the speed and transparency of our decision-making processes. To further enhance the Board of Directors effectiveness, we created a system of the Liaison Meeting for Directors and Corporate Executives for more active and frequent discussion about important issues such as the identification and disclosure of materiality, disclosure of numerical figures for climate change risk and profit opportunities, and the formulation and disclosure of basic policies for the Group. We also revised our officer remuneration system by initiating a stock-based remuneration plan and disclosing the remuneration policy.

I believe that the growth of the azbil Group and the strengthening of corporate governance are two sides of the same coin, and it is in our best interests to continuously seek to improve and fortify our governance. In the year ahead, we will further improve the quality of discussions at Board of Directors meetings and continue our efforts to enhance our enterprise value and share that value with shareholders and stakeholders.
(See pp. 93–102 Corporate Governance)

Q9

What message would you like to share with stakeholders?

A9 We believe that transforming our company is an urgent matter and the decisions we make now will be critical both to the Group's growth and to the realization of a sustainable society.

To ensure the sustainability of our planet and the ongoing growth of the azbil Group and all of our shareholders and stakeholders, the Group must quickly transform and evolve in new directions. We are working toward the long-term targets we set for FY2030. We fully recognize, however, that it is the management decisions we make now and the actions of our group companies now, not years in the future, that will accelerate our transformation and lead to our growth into the long term. We appreciate the support of all of our shareholders as the azbil Group applies our philosophy of "human-centered automation" and seeks to contribute "in series" to the achievement of a sustainable society.

I. Vision

Sustainability

The azbil Group's philosophy is to contribute to achieving a sustainable society through the azbil Group's core automation business.

The azbil Group has announced the following sustainability policy, which is uniquely described as "in series," meaning that the Group can contribute to achieving a sustainable society through its business activities and that such contribution will lead to the sustainable growth of the Group.

Sustainability in the azbil Group is in line with this policy, and we consider meeting the expectations of society as a whole to be the foundation of our sustainability management. We have identified materiality issues (materiality) to be tackled over the long term from the perspective of their importance to stakeholders and the azbil Group.



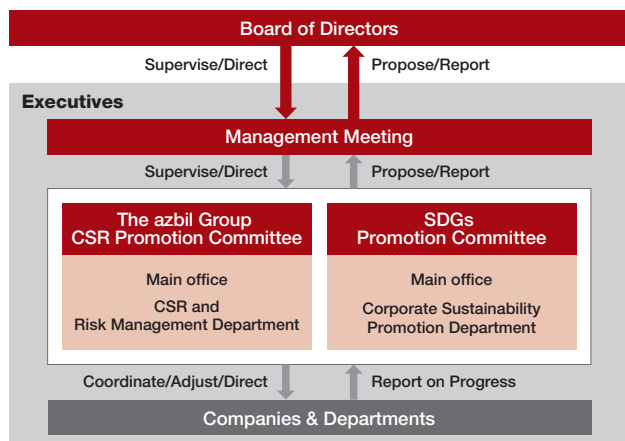
The azbil Group's Sustainability Policy

The azbil Group is committed to continuously enhancing enterprise value based on mutual trust with stakeholders, to realizing "safety, comfort, and fulfillment in people's lives" and contributing to global environmental preservation, and to contributing "in series" to a sustainable society. These are achieved through practicing the azbil Group's philosophy of "human-centered automation" and respecting the values to contribute to society for people's well-being based on the founding spirit of "freeing people from drudgery."

Structures to advance sustainability

The azbil Group has placed a corporate executive in charge of all aspects of sustainability, and has established dedicated organizations for each of these to serve as secretariats for the azbil Group CSR Promotion Committee and the SDGs Promotion Committee, reporting the status and issues identified at these meetings to the Board of Directors and the Management Meeting. As shown in the diagram below, we have established a system to consider and promote sustainability initiatives throughout the Group as a whole.

Structures to advance sustainability management

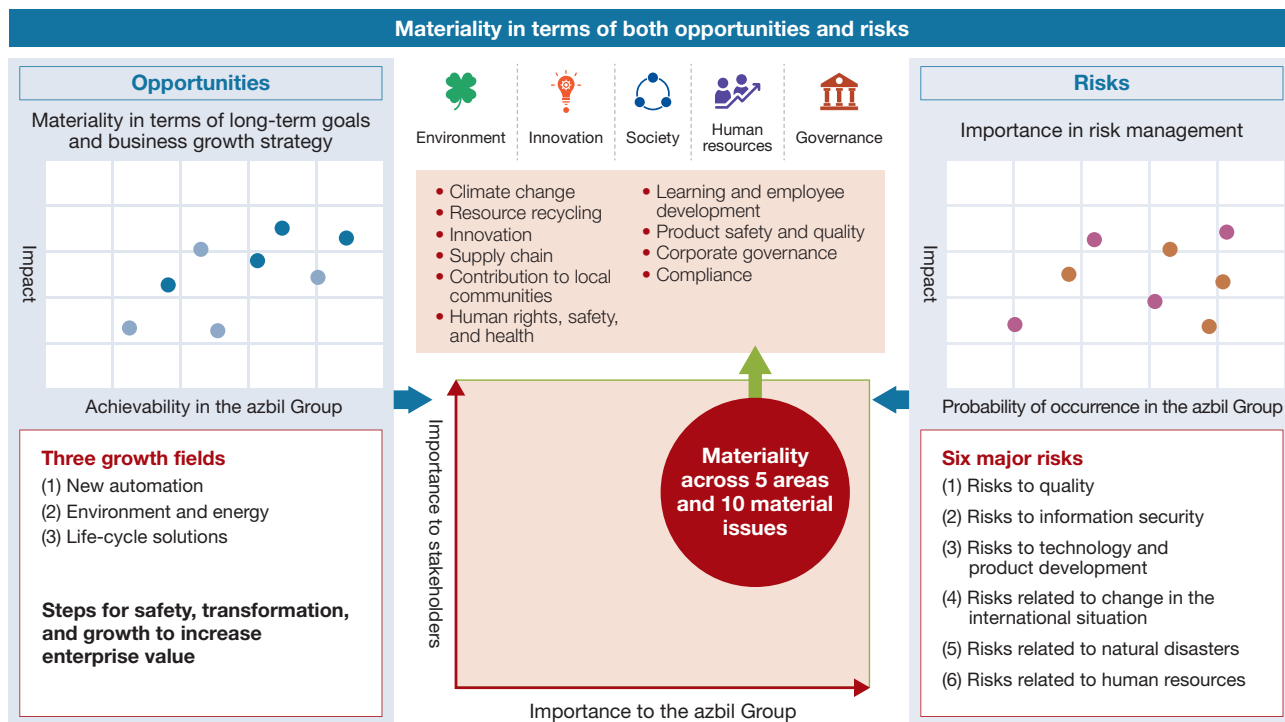


Note: The azbil Group CSR Promotion Committee and SDGs Promotion Committee are concerned with the azbil Group as a whole.

Toward contributing "in series" to the achievement of a sustainable society—azbil Group's materiality

In August 2022, the azbil Group, which has set long-term goals for FY2030, identified materiality across five areas and 10 material issues for clearer implementation and promotion of sustainability management.

Environment	Climate change; resource recycling Business expansion to meet society's needs and contribute to a sustainable global environment
Innovation	Innovation Expanding our automation business and achieving a safe and comfortable society
Society	Supply chain; contribution to local communities Increasing enterprise value, coexisting with stakeholders, and invigorating local communities
Human resources	Human rights, safety, and health; learning and employee development Promoting health and well-being management, increasing enterprise value, and achieving a harmonious society in which human rights and other rights are protected
Governance	Product safety and quality; corporate governance; compliance Enhancing trust in and enterprise value of the corporate Group and achieving a fair and happy society

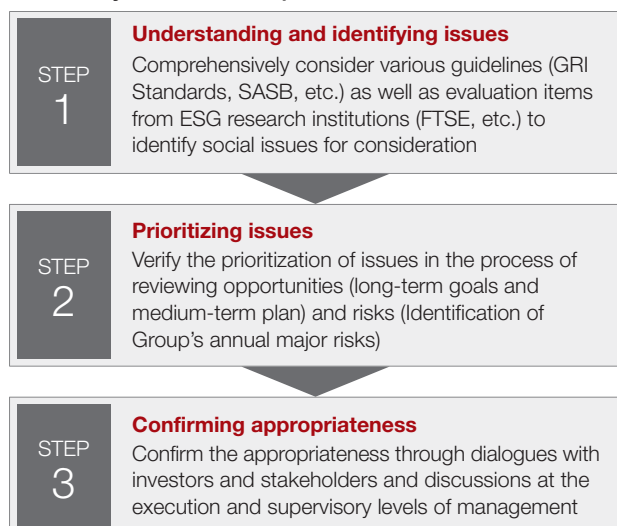


The Group regards materiality as a sustainability issue that affects enterprise value within society as a whole, and will continue to work diligently on this issue over the long term.

Materiality identification process

The Group's materiality identification process is divided into three major steps. First, in STEP 1, we comprehensively select social issues to be considered based on guidelines such as the GRI, and in STEP 2, we review our long-term goals and medium-term plan as "opportunities" and the

Materiality identification process



Group's major risks as "risks." Through each consideration process, we prioritize the issues from the perspective of whether or not they can contribute "in series" to a sustainable society based on the Group's philosophy and guiding principles. In STEP 3, we confirm and identify the appropriateness through dialogue with investors and stakeholders and discussions at Board of Directors meetings.

Double materiality






The azbil Group follows the double materiality approach of the Corporate Sustainability Reporting Directive (CSRD) and evaluates the Group's business activities in consideration of their impact on the environment and society over the long term. The materiality across 5 areas and 10 material issues identified are management issues that reflect the expectations of society as a whole and an extensive range of stakeholders, and at the same time are the Group's activities that have a significant impact on the environment and society. Among these issues are those that we promote as our main business, those that we address in our overall corporate activities, and those that we must fulfill as a member of society in terms of our fundamental obligations and corporate governance. These specific targets and KPIs are explained on pp. 21–22. Aiming to achieve a sustainable society as stated in the Group's philosophy and guiding principles, the azbil Group will strive to enhance its enterprise value by sincerely tackling the issues set forth in the materiality, and continue to be of value to the world at all times.

Materiality

Materiality and Essential Goals of azbil Group for SDGs

The azbil Group has established materiality as priority issues to be tackled over the long term in order to contribute “in series” to a sustainable society. In order to achieve our materiality targets, the Group has formulated goals in the four areas of the Sustainable Development Goals (SDGs) as the “essential goals of the azbil Group for the SDGs,” and places the plan on a management cycle that includes

formulation, implementation, progress management, reporting to the Board of Directors, supervision and direction. The areas that we address as a business are Environment and Energy and New Automation, and the areas that we address in our general corporate activities are Supply Chain and Social Responsibility and Health and Well-being Management, An Organization That Never Stops

	Materiality			Essential Goals of azbil Group for SDGs	
			Our aim	Essential goals	
Business	Environment 	Climate change	Help to solve environmental problems to achieve a decarbonized society	I Preserving the Earth's environment and solving energy-related problems through cooperative creation	Environment and Energy
		Resource recycling	Provide environmentally friendly products and services		
		Innovation 		Seek new forms of automation to achieve a safe and comfortable society	II Realizing sustainable production sites, work environments, and a safe and comfortable society through new automation
General corporate activities	Society 	Supply chain	Share CSR values (environment, human rights, etc.) within the supply chain	III Fulfilling our responsibilities to society across our supply chain and contributing to local communities	Supply Chain Social Responsibility
		Contribution to local communities	Contribute to livable communities through community-based action		
	Human resources 	Human rights, safety, and health	Promote corporate activities based on “human-centered” values and health and well-being management	IV Strengthening our foundation to solve societal problems through health and well-being management and continuous learning	Health and Well-being Management An Organization That Never Stops Learning
		Learning and employee development	Develop a corporate culture as “an organization that never stops learning” and strengthen the foundations for education		
Our fundamental obligations	Governance 	Product safety and quality	Provide high-quality products and services that prioritize customer safety and security	Fulfilling our fundamental obligations to society	
		Corporate governance	Continuously raise enterprise value through highly transparent management		
		Compliance	Fulfill our social responsibilities based on high corporate ethics		

*1 Science-based target: A greenhouse gas emission reduction target based on scientific evidence

*2 Design aimed at creating and providing products that contribute to solving global environmental issues (decarbonization, resource recycling, and biodiversity conservation).

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

*4 As of April 2022, 530 business sites are in operation, aiming to increase 15-fold to 8,000 by 2030

*5 As of April 2022, has been provided to 600,000 people, aiming to increase tenfold to 6 million people by 2030

*6 A unique framework and evaluation system based on external ESG assessments such as FTSE

Learning. We have positioned these as important guideposts of our sustainability policy and are promoting a variety of activities.

On the other hand, with respect to product safety and quality and compliance, which are fundamental obligations that a company must fulfill in order to exist in society, the azbil Group CSR Promotion Committee, as mentioned in the previous page, is working to maintain and improve these areas through risk management and by

formulating and checking the progress of CSR activity plans set by each department. Also, with regard to corporate governance, in 2022 the company transitioned to a three-committee Board structure, and is working to ensure appropriate supervision function and effectiveness of the Board of Directors under a system of a Board of Directors with a majority of outside directors and three statutory committees.

	Targets	FY2022 results, initiatives, and topics
	<ul style="list-style-type: none"> Effective reduction of CO₂ at customers' sites: 3.40 million metric tons of CO₂/year (FY2030) Reduction targets in GHG emissions (SBT*¹ approved) (FY2030) 55% reduction in GHG emissions from our business activities (scopes 1+2) compared to 2017 20% reduction in GHG emissions across the entire supply chain (scope 3) compared to 2017 Creation and provision of eco-friendly products and services Design all new products to meet the azbil Group's own sustainability standards*² (FY2030) Effective use of natural resources and reduction of waste generation Design all new products to be 100% recyclable*³ (FY2030) 	<ul style="list-style-type: none"> Effective reduction of CO₂ at customers' sites: 2.76 million metric tons of CO₂/year 36% reduction in GHG emissions (scopes 1+2) compared to 2017 8% reduction in GHG emissions (scope 3) compared to 2017 Implemented the azbil Group's unique sustainable design in approximately 70% of new products Implemented a 100% recyclable design for approximately 20% of new products and 75% for approximately 70% of new products
	<p>So that customers can benefit from sustainable production sites and workplace environments—as well as greater safety, comfort, and fulfillment—we will solve occasional issues as required by society and create added value through advanced measurement, a data-driven approach, and autonomy in production spaces, office spaces (buildings) and living spaces.</p> <ul style="list-style-type: none"> We will achieve a state of resilience to changes in the business environment at 8,000 business sites by 2030.*⁴ We will provide environments that support stress-free and diverse work styles to 6 million people by 2030.*⁵ 	<ul style="list-style-type: none"> Established two new quantitative indicators Promoted the introduction of a valve diagnostic service that predicts equipment life and contributes to the reduction of excessive work. Also, strengthened functionality through joint development of anomaly detection system for equipment, and offered new services that contribute to more efficient building management and operations.
	<ul style="list-style-type: none"> Working with our business partners on achieving the SDGs as a common goal and creating shared CSR value across the supply chain; Evaluating policies, systems, initiatives, and effectiveness using our own evaluation indicators*⁶ Social contribution activities rooted in local communities are run at all our business sites,*⁷ with the active participation of every employee*⁸ 	<ul style="list-style-type: none"> Conducted briefing sessions on CSR Procurement Guidelines for business partners of the azbil Group companies. Implementation of outreach to business partners on the priority themes of human rights due diligence and CO₂ emissions reduction. Promoted employee participation in community and sponsored events and educational support activities while ensuring the safety and security of the community and employees
	<ul style="list-style-type: none"> Implementing health and well-being management (job satisfaction, health, diversity and inclusion) Women's advancement points*⁹ in FY2024: Double versus 2017 Employees expressed satisfaction with working at azbil Group companies in FY2030: 65% or more*¹⁰ Developing and strengthening "an organization that never stops learning" Training opportunity points*¹¹ in FY2024: Double versus 2012 Employees have experienced personal growth through their work in FY2030: 65% or more*¹⁰ 	<ul style="list-style-type: none"> Women's advancement points: 2.1 times Employees expressed satisfaction with working at azbil Group companies: 58% Training opportunity points: 1.7 times (In recent years, online training has been increasing in terms of training opportunities, with the number of participants taking online training courses increasing 5.6 times) Employees have experienced personal growth through their work: 59%
<ul style="list-style-type: none"> With regard to product safety and quality and compliance, the azbil Group CSR Promotion Committee sets indicators and goals directly related to business as a CSR activity plan for each department. With regard to corporate governance, in 2022 the company transitioned to a three-committee Board structure, and is working to ensure appropriate supervision and effectiveness under a system of a Board of Directors with a majority of outside directors and three statutory committees. 		

*7 All offices, in Japan and overseas

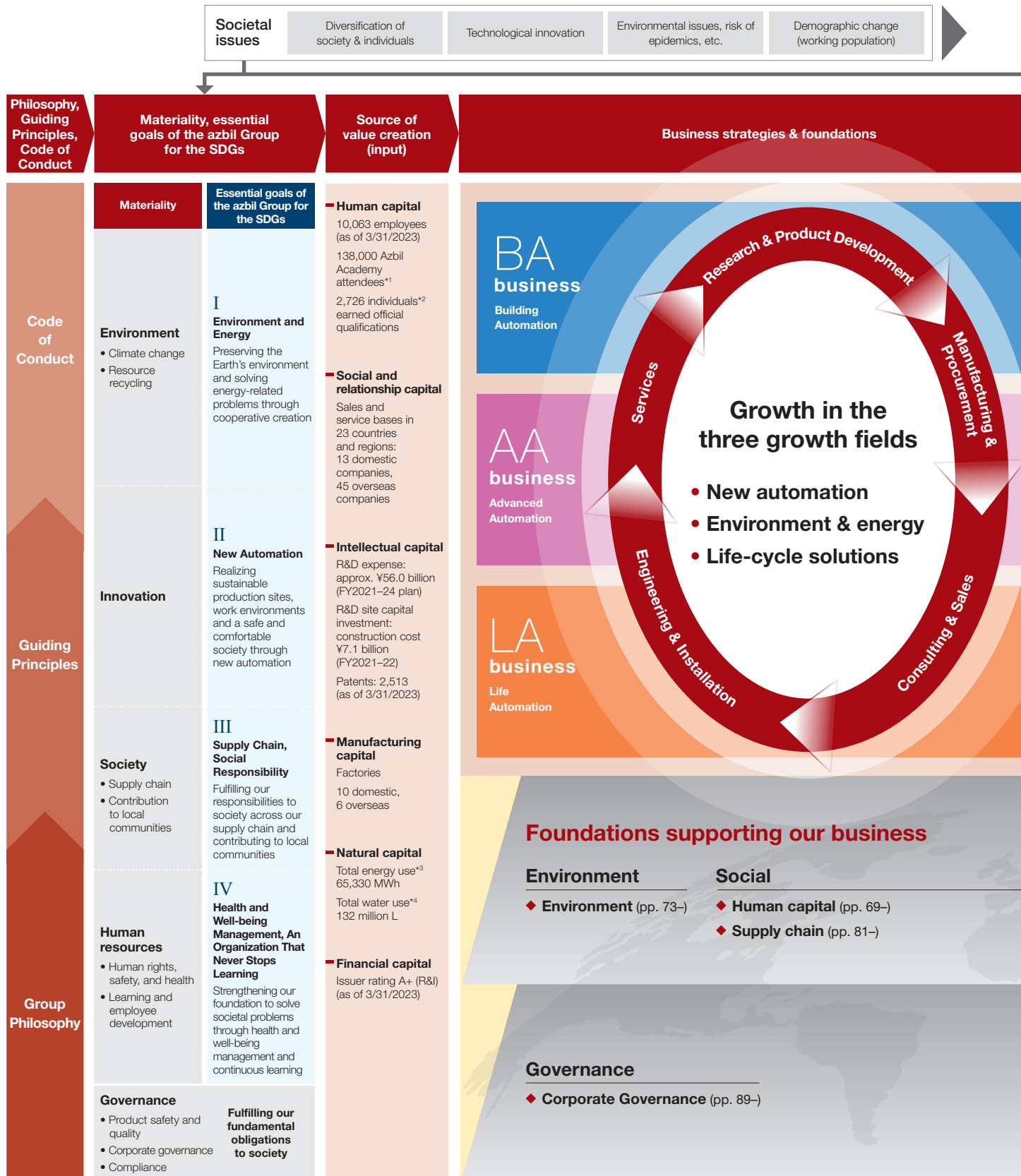
*8 The azbil Group aims to participate in activities of a scale that can accommodate the total number of employees.

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

*10 We aim to achieve 65%, which is considered a high level in the azbil Group's annual employee satisfaction survey conducted in Japan, or, in other words, 2/3 of all employees.

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

Value Creation Model



*1 Courses include general subjects like CSR and online electives. The student total includes personnel of business partners, etc., in addition to Group companies.

*2 The total given for official qualifications obtained includes only qualifications considered to be important for business operations.

Changes in customers

Changes in office use;
wellness concerns

Advances and diversification
in buildings, production
facilities, & infrastructure

Expanded need to save
energy & cut CO₂ emissions

Fewer skilled workers,
need for skill transfer

Aging infrastructure,
safety assurance

Main product lines (output)

Medium-term plan focus

Value creation (outcomes)



BA systems



Sensors,
measuring devices



Valves,
controllers

For: building owners, construction industry

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



Valves,
positioners



Controllers,
sensors



Monitoring &
control
systems

For: manufacturers

Petrochemicals, chemicals, oil
refining, electric power & gas, iron
& steel, waste management, water
supply & sewage, pulp & paper,
ships, food, pharmaceuticals,
automobiles, electrical &
electronics, semiconductors,
various manufacturing equipment

Pharmaceutical
manufacturing
equipment



For: gas companies, local governments, pharmaceutical manufacturers, house builders

City gas, LP gas, water supply,
pharmaceuticals, homes



Gas & water
meters

In FY2021–24 accelerate transformation by strengthening:

Product competitiveness

Tech. development, capital investment

Investment in human capital

Contributing to the SDGs through our business

- Effective reduction of CO₂ at customers' sites
- Reduce GHG emissions
Reduction targets (scopes 1+2) (scope 3)

- Design all new products
- to meet the azbil Group's own sustainability standards
- to be 100% recyclable

- Achieve a state of resilience to changes in the business environment at 8,000 business sites
- Provide environments that support stress-free and diverse work styles to 6 million people

Safety

Living and
working with
health and safety

Comfort

Always living
and working
in comfort

Fulfillment

Creating new
value with the
customer

Environment

Optimizing the
management and
usage of energy

Financial goals (FY2030)

- Net sales
¥400 billion range
(Overseas: ¥100 billion range)
- Operating income
¥60 billion range
- Operating income margin
Approx. 15%
- ROE
Approx. 13.5%

Economic value

Redistributing
added value to
stakeholders
through sustainable
growth, increased
enterprise value,
and returns

◆ Risk management (pp. 85–)

Contributing to a sustainable society

*3 Scope: Azbil Corporation and consolidated subsidiaries

*4 Scope: Azbil Corporation, domestic consolidated subsidiaries, and major overseas production bases

Growth Strategies

Initiatives in three growth fields have been progressing. We are focusing on investment in technological development and human resources for further transformation and growth.

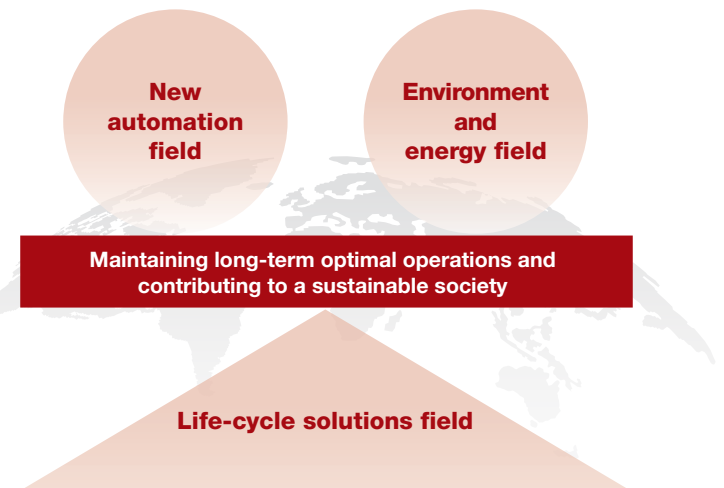
Aiming for growth by capitalizing on the expanding roles and business opportunities of automation and developing in three growth fields

In recent years, as the environment surrounding us has been changing dramatically, from climate change, an aging population with a declining birthrate, and diversification of society and individuals, including work styles, to the growing need for safety and peace of mind resulting from the spread of COVID-19, our customers have been reforming their business models and responding to new challenges that have emerged. We believe that the value and role of the automation business is to be able to support such customers and society in solving problems and transforming themselves. As new challenges emerge and the role that automation can play expands, so do the opportunities for our business. The azbil Group will focus on three growth fields of *new automation*, *environment and energy*, and *life-cycle solutions*, where we can leverage our unique products and services based on automation technology. We expect proactive investment in the *new automation* field, which provides solutions to meet new needs, such as wellness in building environments and advanced manufacturing in production. In the *environment and energy* field, investments are forecast in addition to conventional energy-saving investments, etc., such as carbon-neutral measures. By promoting initiatives in these growth fields, we will achieve growth in the Building Automation (BA), Advanced Automation (AA), and Life Automation (LA) businesses.

Professional human resources with extensive knowledge of the field propose solutions based on an integrated system from development to maintenance services

To deliver optimal solutions to society and customers in our three growth fields, it is essential not only to have advanced automation equipment and systems, but also to have advanced engineering and maintenance service capabilities. The azbil Group is a pioneer in the field of air conditioning control for large-scale buildings and has extensive experience, know-how, and expertise in measurement and control technologies for production sites for over 100 years. Our professional human resources, who possess a number of official qualifications (e.g., qualified person for energy management) and who are familiar with the customer's sites and can propose solutions according to the individual site's status, deliver optimal solutions based on an accurate understanding of the customers' onsite needs. The manner of solutions also varies widely depending on the challenges

Providing distinctive solutions that leverage the azbil Group's strengths and unique solutions in the three growth fields



of society and the customer. We not only deliver new products, but also need to maintain and renovate them over several decades, depending on the status of the customer's assets (facilities and equipment). Our integrated system of development, manufacturing, design, installation, engineering, and maintenance allows us to continuously deliver the optimal solution at any given moment, tailored to the status of customer assets.

Proactive investment in technological development and human resources aimed at growth

To accelerate growth in our three growth fields, we are proactively investing in technological development and human resources. In FY2022, we constructed two new buildings at our R&D base, Fujisawa Technology Center, to strengthen its technological development functions. We have established a development system for advanced system solutions utilizing cloud computing and AI, and, with regard to product offering, we have strengthened facilities and equipment, including clean rooms for development and production of high-performance, high-precision microelectromechanical systems (MEMS)* sensor technologies. Regarding human resources, we are securing and developing human resources consistent with our business strategy for the expansion of our three growth fields. In addition to promoting DX, we are utilizing the digital tools like talent management system (TMS), the learning management system (LMS), and other systems as well as developing HR systems, such as the engineer professional/meister system.

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

Our aims and initiatives in the three growth fields

New automation field

Aims

Realizing improvements of the quality of indoor spaces and productivity at customers' sites

The diversification of office use, the increasing sophistication, diversity, and complexity of buildings, production facilities, and infrastructure, aging infrastructure, and labor shortages have created a variety of challenges. These factors that hinder sustainability, which cannot be solved by conventional automation alone, are solved through advanced measurement, a data-driven approach, and autonomy. Thus, we help our customers improve the sustainability of their production sites and work environments and gain a competitive advantage.

The azbil Group's Essential Goal II for the SDGs (for FY2030)

New Automation

Totals in 2030

- We will achieve a state of resilience to changes in the business environment at **8,000 business sites**.
- We will provide environments that support stress-free and diverse work styles to **6 million people**.

Environment and energy field

Aims

Improving the quality of indoor spaces and productivity at customers' sites with minimum consumption of resources and energy

Amid the demand to realize carbon neutrality as an environmental measure to mitigate climate change, we will utilize our on-site responsiveness, technical capabilities, and accumulated proprietary data, expertise, and know-how, which have supported corporate energy conservation and environmental responsiveness. By minimizing resources and energy while improving productivity and enhancing comfort and wellness, which generally consume energy and resources, we will contribute to energy conservation and CO₂ emissions reduction.

The azbil Group's Essential Goal I for the SDGs (for FY2030)

Environment and Energy

- Effective reduction of CO₂ at customers' sites **3.40 million metric tons CO₂/year**

Life-cycle solutions field

Aims

Realizing a balance between improvement of the quality of indoor spaces and productivity while minimizing resource and energy consumption at customers' sites over the long term

We contribute to maintaining optimal conditions throughout

the life cycles of customers' sites through a maintenance service system with an extensive delivery track record and human resources. We provide further high-value-added services by utilizing cloud computing, etc.

Initiatives and strategies

- ★ New automation field
- ◆ Environment and energy field
- Life-cycle solutions field

★ Providing advanced measuring instruments featuring MEMS technology

- Micro flow rate liquid flow meter

★● Cloud-based services that contribute to the optimization of valve maintenance and the sophistication of BA systems

- Cloud-based valve analysis and diagnosis service
- Cloud-based services for large buildings
- Smart metering as a service (SMaaS)

★ Providing autonomous systems through the use of AI and data

- Online anomaly detection system

◆● GX solutions

- GX solutions to reduce CO₂ emissions from office buildings and other large-scale facilities

◆● Energy service provider business

- Combining energy efficiency solutions and renewable energy solutions

◆ Energy resource aggregation business (ERAB)

- Virtual power plant (VPP)/Auto demand response system

★◆ Balancing carbon neutrality and wellness

- Cell-type air conditioning system

◆ Promoting collaboration on energy management business

- Promoting collaboration on energy management business, DX-EGA
- Investing in Clean Energy Connect, INC. (CEC) and forming a business alliance
- Investing in Japan Green Investment Corp. for Carbon Neutrality

Growth Strategies

Special
Feature

New Automation

Realizing a Safe and Comfortable Society
with New Automation

Guided by its philosophy of “human-centered automation,” the azbil Group is contributing “in series” to the achievement of a sustainable society.

In today's rapidly changing business environment, there is demand for data-backed management, operations and environmental measures.

New automation improves the sustainability of customers' production sites and work environments by resolving the impacts of factors that impede sustainability (e.g. equipment malfunction, a declining workforce, etc.) that cannot be solved by conventional automation alone.

Specific target products and services will range from the provision of advanced measurement equipment

featuring MEMS* technology to the provision of cloud-based services in offices and plants, as well as autonomous systems utilizing AI and data.

By expanding partnerships with companies involved in a variety of fields as well as various research institutes, and by fully implementing our technologies and knowledge in society, we will achieve business growth and contribute to realizing the SDGs.

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

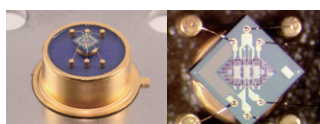
New
AutomationProviding productivity and higher value that lead to
our customers' peace of mind and comfort

So that customers can benefit from sustainable production sites and work environments—as well as greater safety, comfort and fulfillment—we will solve occasional issues as required by society and create added value through **advanced measurement, a data-driven approach, and autonomy** in production spaces and office spaces (buildings) and living spaces.

Office building cloud services that pursue optimal operation and wellness of facilities, valve diagnostic services, and LP gas remote meter reading cloud services



Advanced measurement devices featuring MEMS technology



Autonomous systems such as an online anomaly detection system based on AI and historical data



New solutions realized through new automation

We will contribute to the creation of a foundation for sustainable production sites and work environments through the expansion and growth of our new automation business activities. We will also set KPIs as essential goals of the azbil Group for the SDGs and ensure their progress and achievements (contributions).

New automation contribution areas

1. Realizing automation that is resilient to changes in
the business environment

- Prediction/diagnosis of the effects of changes in the internal environment (equipment malfunction, raw material quality, etc.); autonomous decision-making and control
- Prediction/diagnosis of the effects of changes in the external environment (natural disasters, social conditions, etc.); autonomous decision-making and control

2. Realizing a stress-free work environment

- Reduction of work errors and unscheduled work through data-based work support

- Creation of a comfortable and energy-efficient environment that enhances labor productivity

3. Realizing an environment conducive to diverse
work styles

- Creation of optimal working environments suited to different times and locations
- Creation of work environments that are neutral (re. age, gender, skills, etc.)

The azbil Group's Essential Goal II for the SDGs (for FY2030)

New Automation

Totals in 2030

- We will achieve a state of resilience to changes in the business environment at **8,000 business sites**.^{*1}
- We will provide environments that support stress-free and diverse work styles to **6 million people**.^{*2}

^{*1} As of April 2022, the number of sites in operation was 530; by 2030 we are aiming to increase this number by 15 times to 8,000.

^{*2} As of April 2022, the number of people was 0.6 million; by 2030 we are aiming to increase this number by 10 times to 6 million.

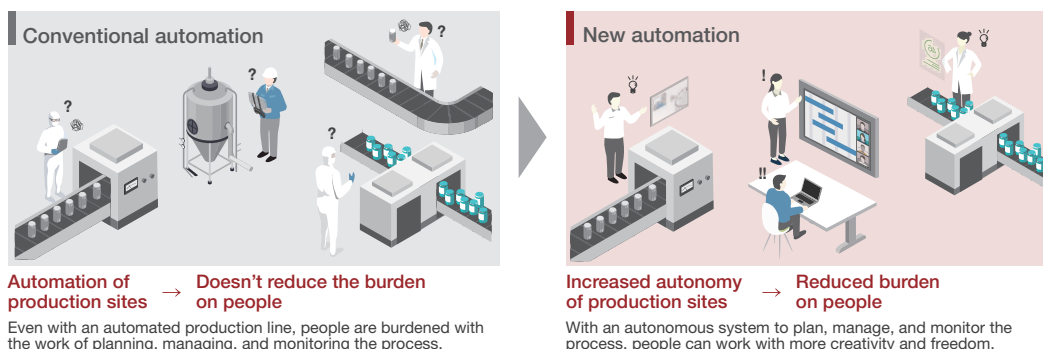


Case study on new automation to enhance the sustainability of production sites and work environments

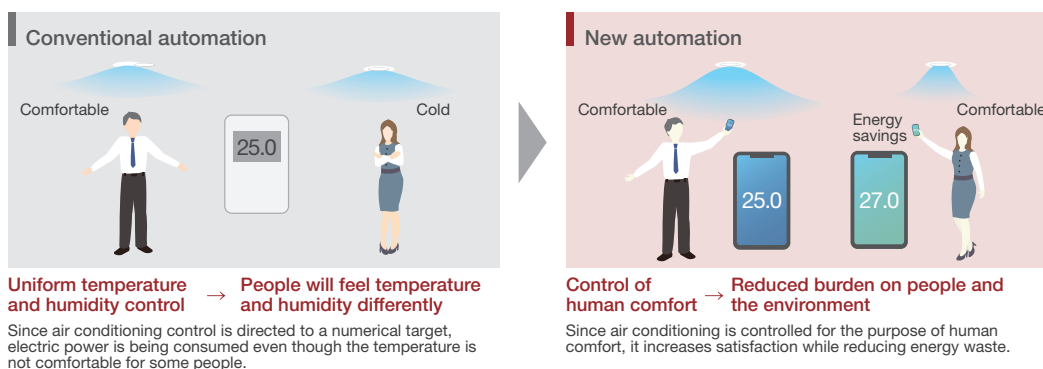
Realizing production sites and offices that are more responsive to changes in the business environment and support stress-free and diverse work styles through new automation has now begun. The azbil Group's sensor

technology and AI-based system solutions, combined with our on-site know-how and engineering capabilities, enable us to solve complex problems through automation.

People can work in more creative ways through increased autonomy



Improved comfort and health for people through the pursuit of wellness



Case study

An online anomaly detection system employing AI and data that is progressively being adopted and co-developed by customers

A system that employs AI to continuously monitor factory/building processes, equipment, product quality, and environmental variables such as wastewater and air quality online, and detect unusual activity at the predictive stage. Over 8,000 AI monitoring models are in operation in various markets. Also, in a joint development project with Kansai Electric Power Company, Incorporated on functional expansion, we have developed a business alliance for sales to thermal power plants and large-scale factories. We are also expanding our initiatives for collaborative creation with our customers.

Case study of customer implementation

Kao Corporation, Wakayama Plant

An online anomaly detection system employing AI, contributes to reduction of the workload at production sites, and to human resource development and skill transfer. It received the 16th Responsible Care Award presented by the Japan Chemical Industry Association.

In recent years, the operators at manufacturing sites have been getting younger and the numbers have been decreasing. There are concerns about the increased burden and stress of monitoring operations and the impact on delayed detection of problems such as leaks and quality anomalies. Kao's Wakayama Plant has introduced our online anomaly detection system for multi-product batch processes. As a result, it has achieved a reduction in the workload of the operation monitoring operators, as well as improved productivity and stabilized quality. Moreover, through the operation of this system, review/standardization of operations has progressed, eliminating the dependency on individual skills, and the transfer of manufacturing technology through the creation of AI monitoring models has also been achieved.



Operators are now able to review the visualized AI-estimated trend data from this system with other operators, allowing them to consider and discuss causes and remedies before a major problem arises.

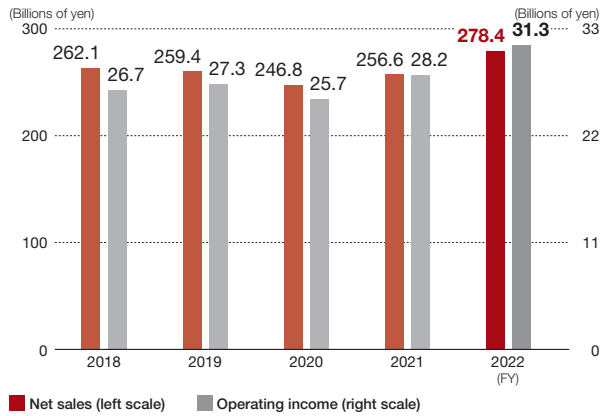
Financial and Non-Financial Highlights

Azbil Corporation and its consolidated subsidiaries

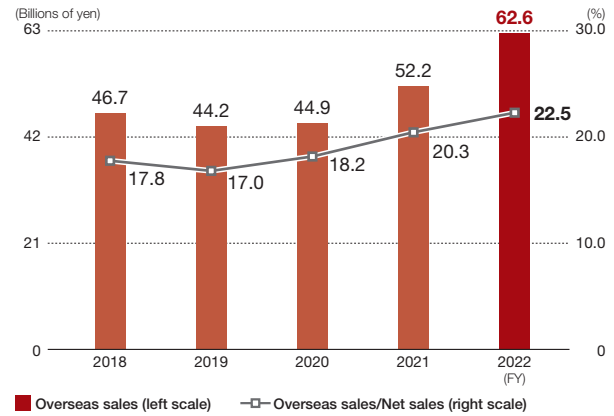
The company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Figures for net income per share (EPS) and dividends per share have been recalculated to reflect the number of shares after the stock split.

Financial highlights

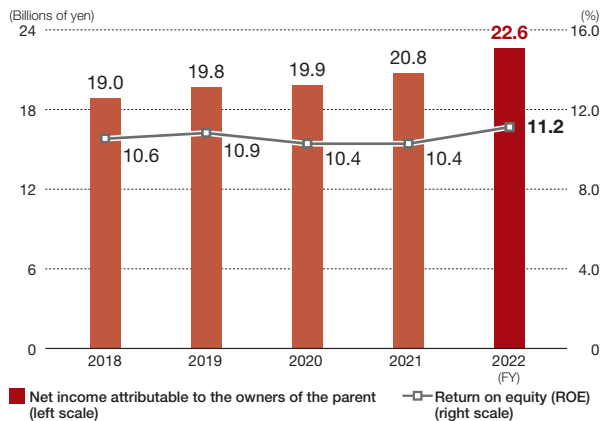
Net sales, operating income



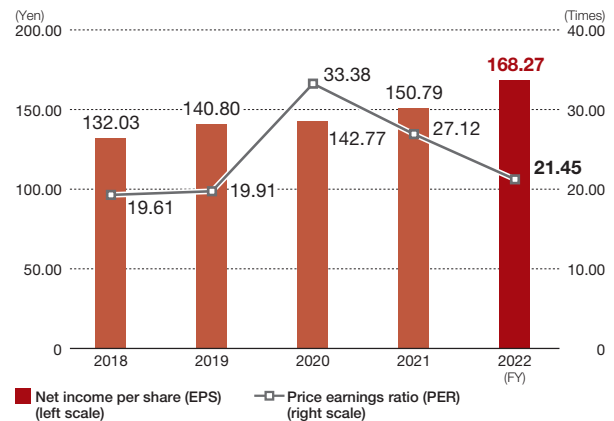
Overseas sales, overseas sales/net sales



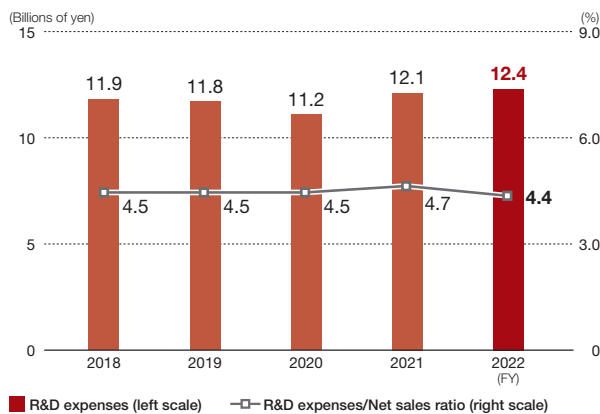
Net income attributable to the owners of the parent, return on equity (ROE)



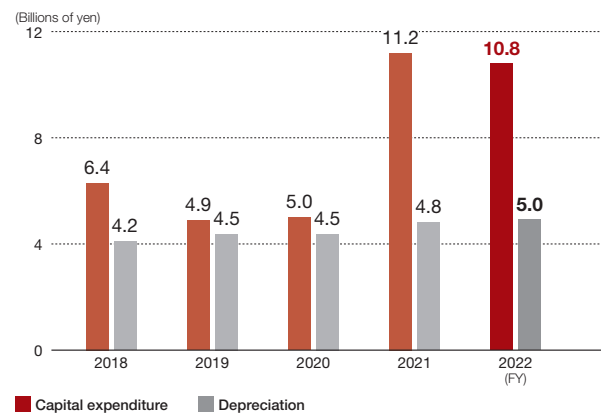
Net income per share (EPS), price earnings ratio (PER)



R&D expenses, R&D expenses/net sales ratio

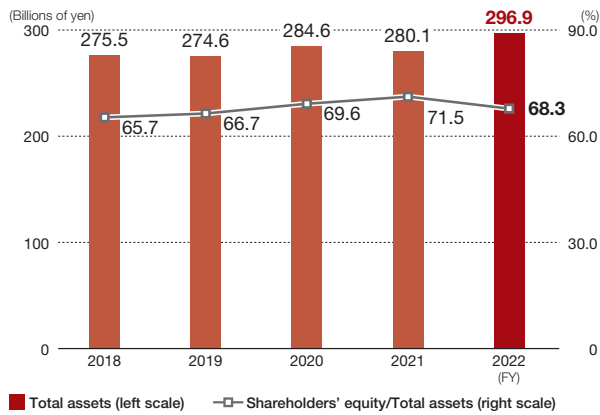


Capital expenditure, depreciation

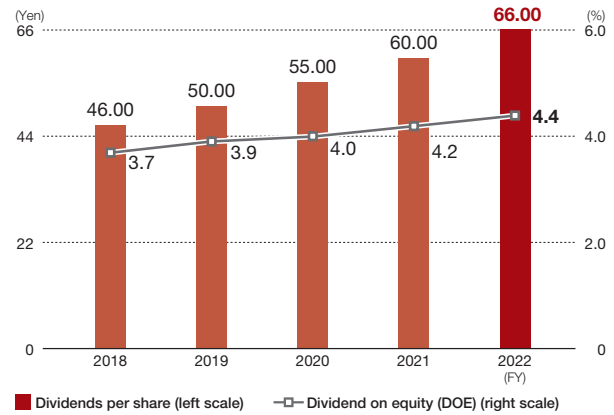


Note: Capital expenditure increased in FY2021 and FY2022 for upgrading the Fujisawa Technology Center.

Total assets, shareholders' equity/total assets

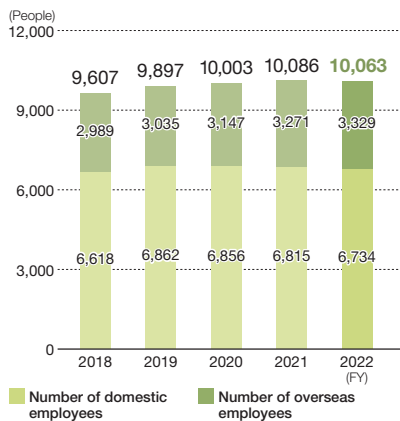


Dividends per share, dividend on equity (DOE)



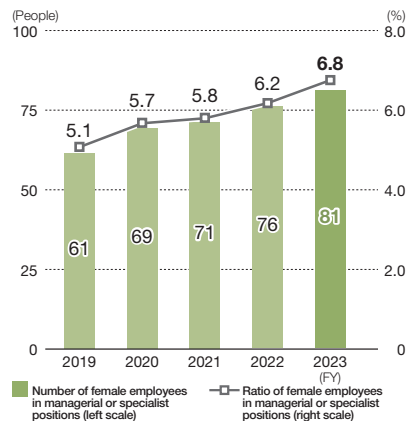
Non-financial highlights

Number of employees



Number of female employees in managerial or specialist positions, ratio of female employees in managerial or specialist positions

Azbil Corporation (as of April 1)

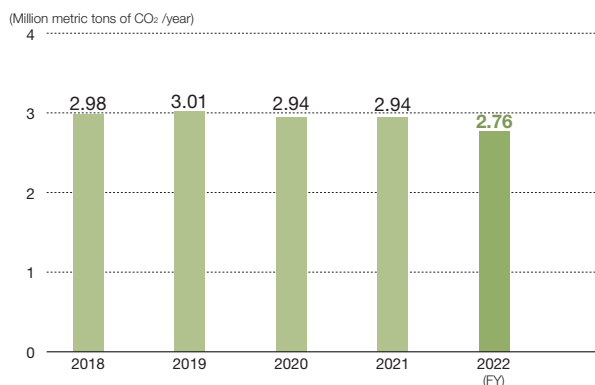


Ratio of employees with disabilities to total workforce



Effective reduction of CO₂ at customers' sites

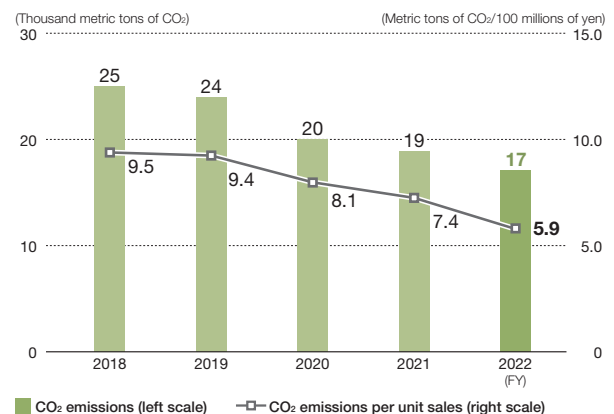
Azbil Corporation and its overseas subsidiaries and affiliates



Note: Estimations for each fiscal year's performance from 2018 are based on the methods reviewed by third parties. CO₂ reduction decreased compared to the previous year due to factors such as the correction of an excessive calculation in the domestic plant market due to an error in FY2021, and changes in the types of buildings ordered in the domestic building market.

CO₂ emissions (Scopes 1+2) and CO₂ emissions per unit sales

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



Note: The market-based method was used to calculate CO₂ emissions.

II. Strategy & Business

Medium-term Plan (FY2021–24)

Responding to changes in the business environment, we achieved record earnings for the second consecutive years with increases in both sales and profit. We work to “transform” and strengthen our business foundation to contribute “in series” to the achievement of a sustainable society through further growth.

In FY2022 following the COVID-19 pandemic, global supply chain disruptions, soaring energy prices, and inflation triggered by geopolitical risks increased uncertainty in the business environment. Meanwhile, as efforts toward carbon neutrality accelerate and building environmental requirements adapt to new work styles and demands for higher productivity, safety, and stable operations in production facilities expand, technological innovations such as AI and cloud computing are advancing, further expanding the roles of automation. The azbil Group is diligently responding to these environmental changes, aiming for growth and contributing “in series” to a sustainable society, while promoting initiatives aimed at becoming a corporate group that is trusted by its customers, shareholders, and various other stakeholders.

Financial performance

We addressed parts procurement difficulties by strengthening systems and capacity of procurement and production, and both net sales and operating income reached record highs. Although impacted by soaring parts prices, steady progress in various measures to strengthen profitability, combined with the effect of cost pass-through, resulted in operating income of ¥31.3 billion, or 11.2% of total income. Focusing our efforts in the three growth fields, we will continue to pursue initiatives to grow and improve profitability in the three core businesses. (See pp. 37–54 BA, AA, LA Businesses)

Three growth fields

For the expansion of the *new automation* field, *environment and energy* field, and *life-cycle solutions* field, we are advancing in forming business alliances and building relationships with external partners to expand our solution capabilities as well as development and launching of new products. In addition to the establishment of the GX Solution Department, progress has also been made in strengthening a series of business foundations, including reinforcing the sensor device/actuator development organization and the cloud service infrastructure. (See pp. 25–28 Growth Strategies)

Overseas business

The Group is strengthening its proposals for new products and solutions with high added value and characteristics that respond to the market environment in each region. The

Strategic Planning & Development Office for Southeast Asia is in charge of business promotion and strategic planning in the region, and product development with support from the Singapore Economic Development Board is underway. (See pp. 55–56 Overseas Business)

Research and product development

In addition to expanding investment in R&D, we constructed new buildings in the Fujisawa Technology Center to strengthen our development capabilities for advanced system solutions, and devices utilizing MEMS technology. (See pp. 59–64 Research and Product Development)

Global manufacturing and procurement

We are working to establish an optimal global production system. In Japan, we have consolidated production functions into a single production center at the Shonan Factory, and we are working to strengthen the functionality of the Fujisawa Technology Center in conjunction with its development function to make it the mother factory. In order to expand our production capacity, we constructed a new building in our factory in Dalian, China, followed by a new building in our factory in Thailand, for completion in 2024. (See pp. 65–66 Manufacturing and Procurement)

Promoting digital transformation (DX)

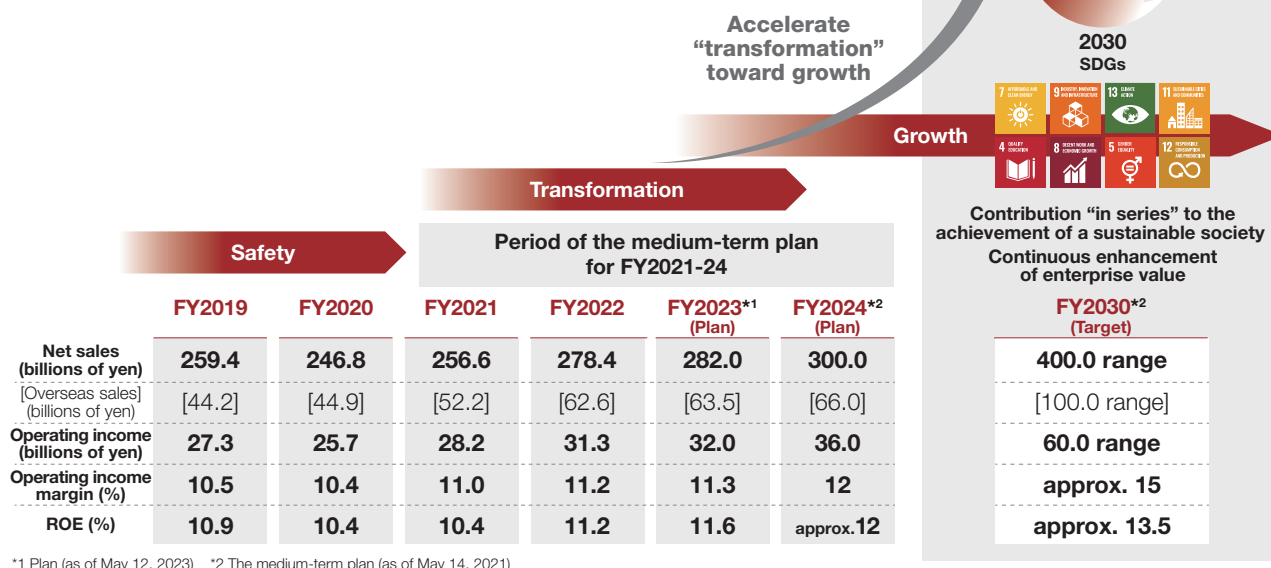
We are developing businesses through expanded partnerships, promoting DX in engineering and services, and enhancing efficiency and value in response to changes in the way we work. (See pp. 57–58 DX)

Business management

We are promoting sustainability management. We identified materiality as a priority issue to be tackled over the long term, and incorporated KPIs into our own essential SDG goals. We also proactively promoted initiatives from environment, social and governance (ESG) perspectives. In addition to greenhouse gas emission reduction and initiatives in our supply chain and for human capital, in June 2022 we transitioned to have a three-committee Board structure and strengthened our governance. (See pp. 69–108 Human Capital, Environment, Supply Chain, Risk Management and Compliance, Corporate Governance, Dialogue—Engagement)

Long-term targets and medium-term plan (FY2021-24)

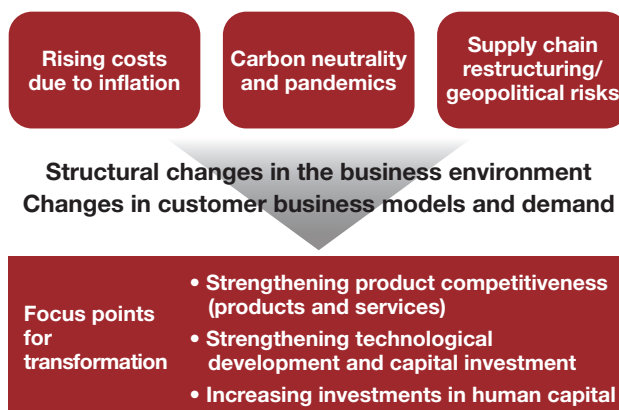
The azbil Group defines three growth fields—*new automation, environment and energy, and life-cycle solutions*—which share a common foundation of automation technology. Focused on growth in these fields, we will achieve growth globally in each of our three businesses: BA, AA and LA.



Strategy and targets			Progress and evaluation
Growth potential	Net sales	FY2024: ¥300.0 billion, growth in each of our three businesses: BA, AA, and LA, centered on three growth fields	FY2022: Net sales of ¥278.4 billion, record-high sales Growth in each of our three businesses: BA, AA, and LA
Profitability	Operating income and operating income margin	FY2024: ¥36.0 billion (12%)	FY2022: ¥31.3 billion (11.2%), record high profit However, LA business recorded lower profit, delaying the plan.
Efficiency	ROE	FY2024: approx. 12%	FY2022: 11.2%
Capital policy	Shareholder returns Sound financial base Investment for growth	Developing a disciplined capital policy while carefully balancing three key elements: promoting shareholder returns, investing in growth, and maintaining a sound financial base.	Continuous dividend increase, 66 yen per share in FY2022 (DOE 4.4%) Flexible repurchase of the company's own stock and introduce an incentive plan using the company's own stock Business alliances and investments with other companies to expand three growth fields Maintain a long-term rating of A+ (R&I: Rating and Investment Information, Inc.)
Technological development	R&D expenses	Strengthen system solutions and device development capabilities. 4-year cumulative total of approx. ¥56.0 billion	R&D expenses and R&D expenses/net sales ratio: FY2021: ¥12.1 billion (4.7%), FY2022: ¥12.4 billion (4.4%)
Capital investment	Strengthen technological development, production and procurement systems	Investment in strengthening the functionality of R&D centers: construction cost ¥7.1 billion Expand Japan and overseas production bases	Expand our R&D center (Fujisawa Technology Center) by adding two new buildings Expand our production base in China Plan to expand our production base in Thailand

Focus points of our medium-term plan Accelerating transformation for further growth

As the azbil Group approaches the turning point of its medium-term plan, we reviewed the efforts and progress of management strategies taken to date and will work on the reforms listed on the right to strengthen our business foundation and resources for growth with a view to our long-term targets for FY2030. Through these efforts, we will capture changes in our customers' business models and demands resulting from structural changes in the environment, and achieve expansion and growth in our three growth fields.

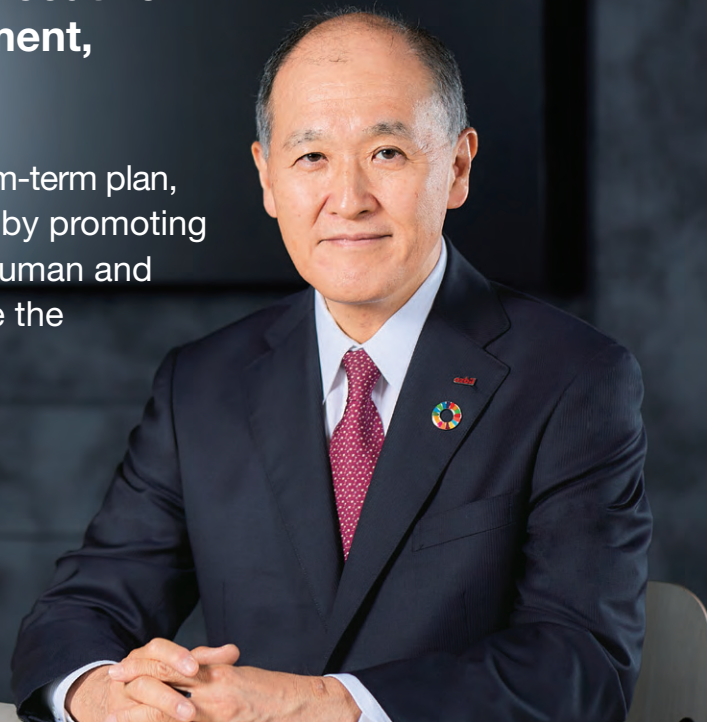


Message from the Corporate Executive for Finance, Business Management, and Sustainability

Based on our long-term targets and medium-term plan, we will work to enhance enterprise value by promoting sustainable management and investing human and capital resources to support it, to achieve the specific set targets based on materiality.

Takayuki Yokota

Director, Representative Corporate Executive
Deputy President



Q1

Please tell us about the measures you worked on in FY2022 and the progress and results of those measures.

A1 We achieved record profits by quickly addressing changes in the business environment and implemented the strategic measures set forth in our medium-term plan.

In FY2022, worldwide parts shortages and procurement difficulties continued in the supply chain that exceeded those of the previous fiscal year. At the same time, the impact of inflation and rising interest rates made for a difficult and unpredictable business environment for the azbil Group.

In response to this uncertain environment, we engaged in discussions on many fronts, from business, production, and technology to accounting, finance, and human resources, in order to achieve steady growth toward the realization of our medium-term plan. We worked to understand the impact on our management, to allocate funds appropriately, and to steadily implement various measures to respond to the difficulties in procuring parts, dealing with inflation and other factors. We placed particular emphasis on addressing the issue of securing parts and materials and using alternative ones to respond to an increase in orders from customers in anticipation of parts shortages. At the same time, we worked to improve the flexibility and mobility of our production system and increase production capacity by introducing variable work shifts to our production lines and strengthening our facilities. To respond to the rising prices of energy and materials, with the consent of our customers, we revised and optimized prices

in each of our businesses beginning in the second half of FY2022. We have also strengthened our solution proposals to meet customers' challenges, and promoted pricing strategies in conjunction with value-added improvements.

As a result of these efforts, both production and price response capabilities have been enhanced, and we were able to achieve record profits in FY2022. On the other hand, we still have a large backlog of orders, and we must continue to address the difficulty in procuring parts and materials. Also, with respect to the AA business, market conditions change rapidly, and it is particularly important to keep a close watch on changes in demand trends along the cycle, especially in the semiconductor business. In FY2022, the midpoint of our medium-term plan, we were able to achieve both growth in business performance and progress in our business strategies. We will continue to strengthen our business foundation for transformation and growth by steadily implementing each strategy with a sense of urgency.

FY2021 and FY2022 performance review

(Billions of yen)

	FY2021	FY2022	Year on year	
			Change	Change %
Orders received	287.0	296.9	10.0	3.5
Net sales	256.6	278.4	21.9	8.5
Operating Income	28.2	31.3	3.0	10.7
Margin (%)	11.0	11.2	0.2pp	—
Net income*	20.8	22.6	1.8	8.8
Margin (%)	8.1	8.1	0.0pp	—
ROE	10.4	11.2	0.8pp	—

*Net income attributable to owners of the parent

Q2

Please tell us about your strategic investment policy and progress toward the second half of the medium-term plan.

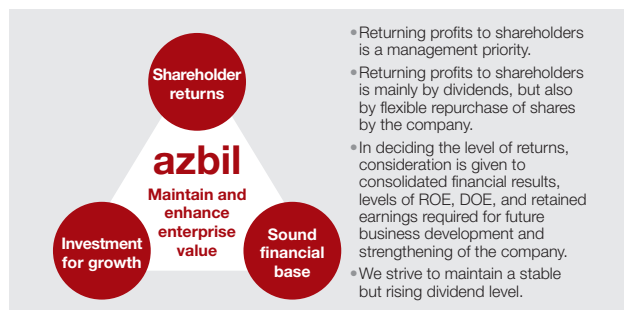
A2 To reinforce our business foundation for transformation and growth, we will prioritize strategic investment in business growth, specifically in business, R&D, capital investment, DX, human resources. At the same time, we give due consideration to the balance between these investment, enhancement of shareholder returns, and maintaining a sound financial base.

Our basic capital policy is to build and maintain a sound financial base while making strategic investments and enhancing returns to shareholders. Strategic investments will be focused on expanding growth areas, strengthening product competitiveness, and enhancing technological development and capital investment, as well as strengthening investment in human capital, which also goes hand in hand with the promotion of sustainability management. Amidst the drastic changes in the business environment, our customers' business models and domains are also changing. However, our measurement and control technologies are a sought-after technology in any field. That is why it is important that we continue to enhance our technological capabilities and provide products and solutions that meet the customer's needs. The value of our business lies not only in our products, but also in our engineering and maintenance capabilities to effectively meet our customers' requirements, and in our solutions by analyzing and utilizing the data obtained through our products, which we will certainly continue to strengthen.

On the other hand, investments in technological development and facility can also be positioned as investments in human resources. This leads to the creation of an attractive company in terms of nurturing engineers for the

Basic policy on capital strategies

Developing a disciplined capital policy and maintaining and enhancing the azbil Group's enterprise value, while carefully balancing three key elements: promoting shareholder returns, investing in growth, and maintaining a sound financial base.



Consolidated cash flows

(Billions of yen)

	FY2021	FY2022
Cash flows from operating activities	10.1	13.1
Cash flows from investing activities	(4.0)	(2.0)
Free cash flow	6.1	11.1
Cash flows from financing activities	(20.6)	(19.7)

future. We also value employee engagement, so that we create an environment in which employees can work with a sense of purpose and motivation. In addition, we will actively pursue business development initiatives through business alliances and investments with other companies.

Furthermore, in FY2022, we also allocated expenses for variable operations to address supply chain disruptions and to ensure steady availability of parts. Throughout this process, the company's inventories increased and working capital was required to secure inventories of parts and materials that are greater than usual. Although this was a necessary temporary operation to overcome the difficulties and other changes, we believe it is necessary to efficiently manage and deal with the balance sheet, including the cash turnover cycle (circularization period), in the future.

Consolidated balance sheet

(Billions of yen)

as of the end of FY2021		as of the end of FY2022	
Assets	280.1	Assets	296.9
Current assets	210.8	Current assets	219.7
Non-current assets	69.3	Non-current assets	77.2
Liabilities and net assets	280.1	Liabilities and net assets	296.9
Current liabilities	69.5	Current liabilities	79.0
Net assets	203.1	Net assets	205.9
Non-current liabilities	7.5	Non-current liabilities	12.0

- Trade receivables and inventories increased (including an increase due to parts shortage).
- Non-current assets increased as a result of capital investment for enhancing the R&D environment, such as for new buildings within the Fujisawa Technology Center.
- Liabilities increased as a result of increases in long-term borrowings (funds for E-ship®) and trade payables.

Q3

Please tell us what direction you will take for achieving sustainable growth amid a drastically changing business environment.

A3 We are working to strengthen sustainability from both “business” and “general corporate activities and fundamental obligations to society” in line with our materiality.

I oversee the sustainability management of the azbil Group. Our purpose is very clear: we believe that the sustainability of society is an extension of contributing to people's safety, comfort, and fulfillment through “human-centered automation.” We aim to create a sustainable status for our business, company management, and relationship with society. We consider this as a key theme for sustainability management. Last year, we identified 10 material issues in 5 areas. Now, we are taking concrete actions based on materiality in two aspects, “business” and “general corporate activities and fundamental obligation to society,” in line with our own SDG goals established as specific indicators and other goals of CSR and governance.

“Business” means addressing customer needs and social issues by strengthening product and service capabilities. We will utilize the various measurement and control data accumulated through our engineering,

Message from the Corporate Executive for Finance, Business Management, and Sustainability

maintenance services, and other activities in the development of technologies to propose new products with high added value, such as energy-saving functions, for carbon neutrality. We will also strengthen the provision of solutions that achieve not only energy savings but also safety and cost reductions, such as early warning system for plant operations.

Another “general corporate activities and fundamental obligation to society” is to improve the sustainability of the business foundation. In FY2022, we reviewed overall framework of our risk management. In the past, risk management was based on a bottom-up list of risks reported from the field, but this time, risks were identified from the management perspective as well, and major risks were appointed. We have also clearly defined procedures and responsibilities, including who is responsible for which risks and how operations are managed (see pp. 85-86). Furthermore, we are currently focused on the aspect of growth opportunities, and we are discussing which countries and regions can be risk-takers for each business.

To support sustainable growth, we also proactively investing in human capital, specifically from hiring of new graduates and mid-career workers to focusing on human resource development for engineers, service staff, and other personnel. Also, in order to link business growth with a sense of accomplishment for employees, we have introduced the Employee Stock Ownership Plan. This plan allows employees to exchange points for shares at retirement based on their contribution level. The azbil Group Employee Stock Ownership Association has introduced the trust-type Employee Shareholding Incentive Plan (E-Ship®*) that allows employees to share in the profits of any share price increase if the share price exceeds the company’s previously procured share price, providing an incentive for officers and employees to work together. Furthermore, employee engagement has been strengthened by invigorating internal communication with digital tools and by increasing opportunities for direct dialogue between officers and employees.

* E-Ship® is a registered trademark of Nomura Securities Co., Ltd.

Q4

What are your thoughts on the progress of ROIC management for capital efficiency and business portfolio reforms?

A4 We are promoting segment management using ROIC with cost of capital in mind. We have started to address profit improvement issues, starting with the LA business, to optimize our business portfolio.

We are promoting a disciplined financial strategy with an awareness of the cost of capital, with a commitment of an

ROE target of approximately 12.0% in FY2024, the final year of the medium-term plan, and a long-term ROE target of approximately 13.5% in FY2030. Moreover, we are now in the process of implementing business management that incorporates ROIC for the rational allocation of limited capital.

To optimize our business portfolio, the BA and AA businesses are aiming to further improve their profitability in the medium-term plan, while on the other hand, the current declining profitability of the LA business is an issue. The main factor behind the decline was the impact of soaring material prices and rising energy and transportation costs due to rapid inflation in Europe in the life science engineering field of this business. Nevertheless, there needs a path toward resolving the issues in our business portfolio, and we are committed to thoroughly reforming our cost structure and management methods one by one within our business fields in the LA business. Meanwhile, the lifeline field for gas and water meters, for instance, has the potential to provide an indispensable service in the era of smart meters, and the company will persevere to increase its profitability by expanding its business base (see pp. 49-54).

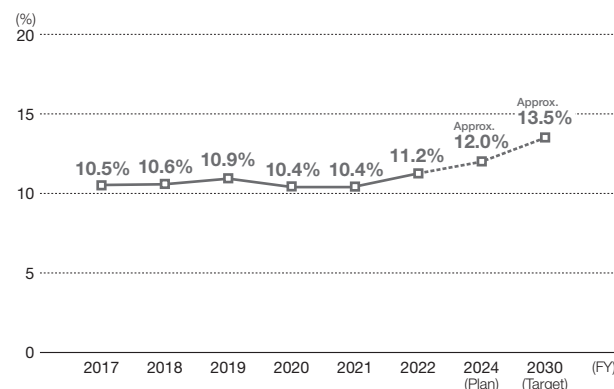
Q5

What is your approach to shareholder returns and the background behind the decision for the latest returns?

A5 Based on a stable financial base, we are focused on DOE, and we are flexible in disciplined dividend payouts and the repurchase and cancellation of own shares.

Having built a sound financial base, we believe it is important how we use cash flow effectively and in a disciplined manner. I mentioned earlier about the cash turnover cycle from this point of view. Since our business model generates relatively stable cash flows, with respect to dividends, we have clearly stated that we will operate in a manner that “aims to stabilize and increase the level of

ROE



dividends over the long term,” with a focus on dividend on equity ratio (DOE). Over the past five-six years, our DOE level has steadily improved, and we are planning to increase dividends for 9 consecutive fiscal years, including FY2023. Over the medium to long term, we have set a medium-term ROE target of 12% and a long-term target of 13.5%, and we intend to steadily improve the DOE level (4.4% in FY2022).

Also, in addition to steadily increasing the level of dividends, we will flexibly repurchase our own shares as needed. In FY2023, we plan a share buyback for the third consecutive fiscal year, and plan to cancel all shares repurchased for this time (on October 31, 2023) to avoid dilution. Thus, we practice a disciplined capital policy, improve capital efficiency, and increase shareholder returns.



Q6

Is there anything you would like to communicate to the azbil Group stakeholders?

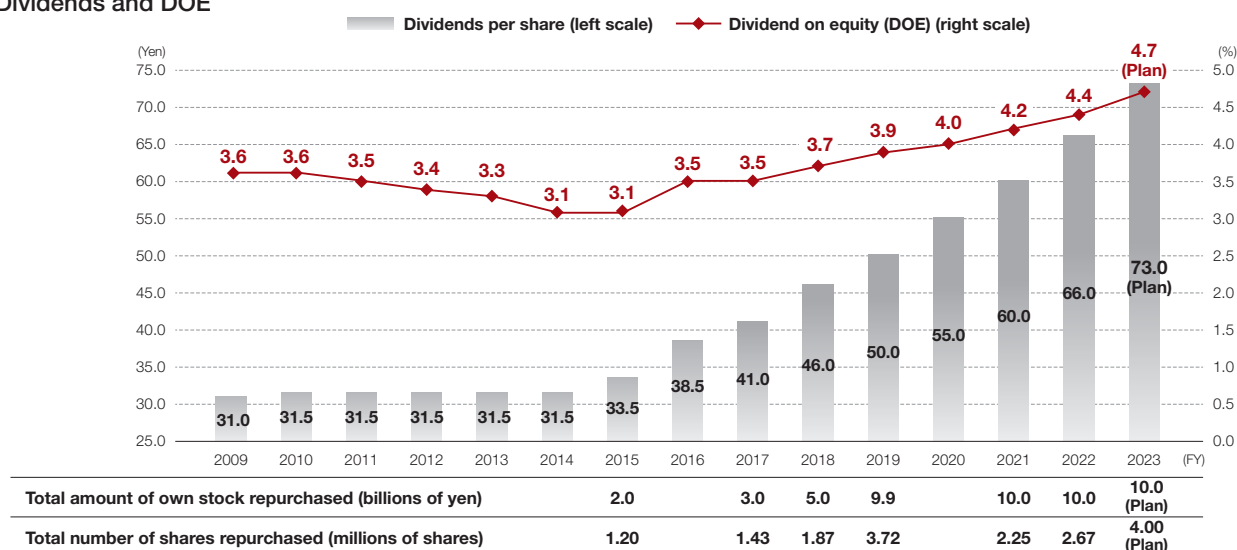
A6 We will continue to work to realize the evolution of sustainability management.

We see the uncertain business environment, including geopolitical risks and inflation, to increase further in the future. In FY2022, even in a difficult environment, the Group's ability to respond to parts shortages was strengthened by leveraging its business continuity plan related to its supply chain and the mobility of its production functions. However, to achieve the transformation and growth, it is important to continually strengthen our product competitiveness, technological development and production systems, as well as our human resources and financial base. We also intended to ensure prompt transparent decision-making in these uncertain

circumstances, and transitioned to having a three-committee Board structure from FY2022, increasing the number of outside directors from five to eight. Fortunately, we are receiving various opinions from outside directors at the Board of Directors meetings, and the question now becomes how well we can manage both the supervisory function of the Board of Directors as a monitoring board and the business executive side, to which we have been transferred significant authority, to execute our duties.

We ask all of our stakeholders for their continued support of the azbil Group as we continue to strategically develop disciplined capital policy and human resource investment while striking a balance between investment for growth, enhanced shareholder returns, and a sound financial base in order to maintain and enhance our enterprise value as outlined in our sustainability management.

Dividends and DOE



Note: A 2-for-1 common stock split was implemented effective on October 1, 2018. The dividend per share and the amount of shares repurchased have been retroactively revised to take into account the effect of the 2-for-1 common stock split.

Building Automation (BA) Business

We create building environments that balance comfort with energy saving, and we provide long-term services tailored for a building's life cycle.



The Building Automation (BA) business provides the products and systems necessary for heating, ventilation, and air conditioning (HVAC) control in office buildings and all types of large-scale buildings; this is achieved through an integrated system, ranging from development, manufacture, and sales to engineering, installation, and maintenance services. We deploy our advanced automated HVAC control technologies—combining air-conditioning control systems and application software with multiple devices (controllers, valves, and sensors)—along with our proprietary environmental control technologies. We thus create office and production spaces designed for comfort and health, as well as overall wellness, helping to boost business efficiency and labor productivity while minimizing environmental impact. Leveraging our strengths in providing total solutions covering the life cycle of customer buildings, we support stable operation while increasing asset value over the long term, providing new building installation and maintenance services as well as retrofits and energy-saving solutions for existing buildings.

Features and Strengths

Presence Pioneer in the HVAC control field

- Leading company in Japan in the field of HVAC control for large-scale buildings

Technical capabilities Environmental control technology utilizing cloud computing and AI

- Original environmental control technology using networks and operating data to improve safety, comfort, and environmental performance

Earning power Life-cycle business

- Stable business model aligned to a building's life cycle, from construction planning to provision of daily services and support for retrofit projects

Product strength Full lineup of products

- Responding quickly to societal changes through open innovation and in-house development/manufacture of sensors, valves, controllers, and systems

Execution ability Total solutions / Integrated framework

- Integrated framework for instrumentation design, installation & engineering, maintenance services, energy-saving solutions, and building management/operation

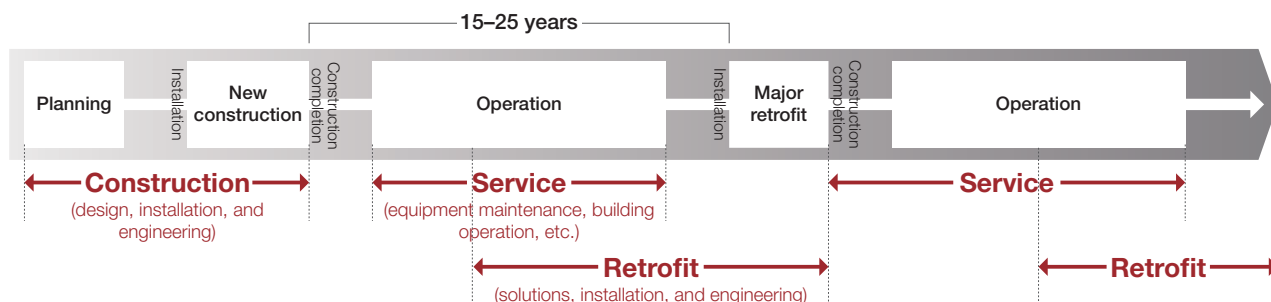
Business Fields

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

Building life-cycle management and the BA business

In the BA business, we become involved in new construction projects from the building planning stage, with our sales staff receiving orders following approaches to prospective clients, including construction companies. To maintain the functionality of buildings, a preventive maintenance service for company products delivered at the time of construction is required, with retrofitting being carried out after a period of 15 to 25 years. Demand is expected to increase for the retrofitting of buildings constructed in the 1990s and 2000s, and also for the servicing of buildings erected as part of urban redevelopment projects around 2020.

Building life cycle



**Management
&
maintenance
for building
complex**

Maintenance

**Energy
management**

**Building
operation
optimization
proposals**

**Building
retrofit
proposals**

**Wellness
offerings for
cloud-based
users**

We provide life-cycle appropriate services by combining building automation systems with new technologies like IoT.

● Detecting

Sensors and measurement devices

Sensing and measurement of room temperature and humidity



Room temperature/humidity sensor



Ceiling-mounted temperature sensor



Room temperature/humidity controller



Infrared array sensor



Wireless sensor

● Settings

User-operated devices

Users can set room temperature, humidity, and other variables.



Digital user terminal



Multi-area user terminal



Smartphone application (for room users)



Integrated user device

● Managing

Building automation (BA) systems

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



BA system



Wall-mounted BA system



BA system for small buildings

● Protecting

Security systems

Controlling access to building commons and interiors



Contactless smartcard reader



Biometric authentication

● Controlling

Regulators and controllers

Control to maintain optimal state of building facilities and instruments



Controller for air conditioning equipment



Heating/cooling plant controller



Compact remote I/O module

● Adjusting

Valves/actuators

Optimal flow rate adjustment for building's hot/cold water and steam



Motorized control valve with flow measurement and control functions



VAV damper

We develop and produce building automation systems, automatic control instruments, and applications that facilitate building management.

Building Automation (BA) Business

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

Becoming the No. 1 BA supplier in Asia

The BA business is promoting the development of products and services, and collaborating with other companies to develop businesses, so as to provide solutions for today's needs, such as decarbonization, wellness, and adapting to the "new normal."

Changes in the business environment and customer needs

- Major construction projects in Japan and Asia
- Increasing demand for retrofitting buildings in Japan
- Decarbonization increasing energy-saving and CO₂ emission reduction needs
- In the "new normal" era, with new building environmental needs emerging, cell-based air-conditioning systems enhance safety and productivity. Business opportunities are expanding to meet the demand for both carbon neutrality and wellness.

Core strategies

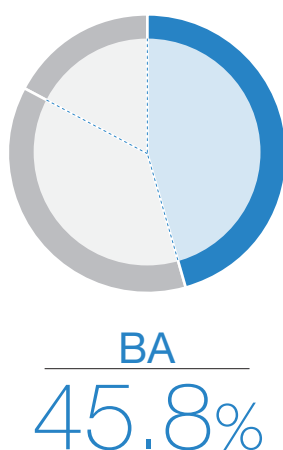
- Provide energy savings and wellness based on the integration of our BA systems, IoT devices, and field instruments, as well as accumulated data and know-how
- Strengthen solutions capabilities and expand business fields, including collaboration with other companies
- Offer cloud-based energy efficiencies and energy services with environmental value
- Provide proven energy-saving apps and engineering services that meet safety and comfort needs overseas



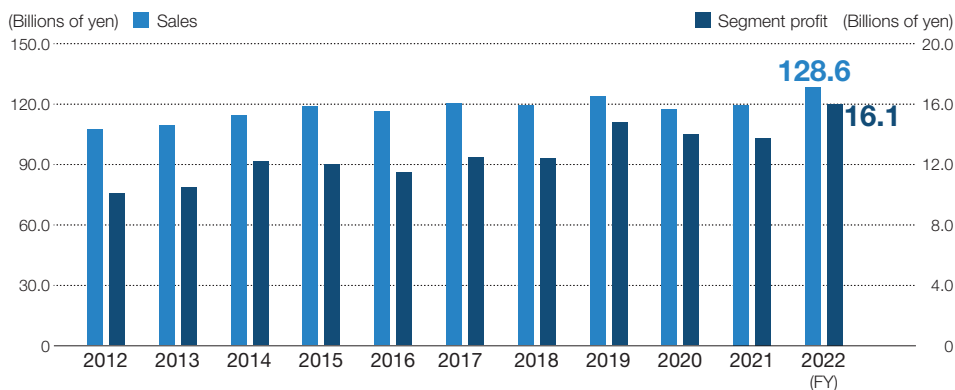
Kazuyasu Hamada

Managing Corporate Executive
President of Building Systems Company, Azbil Corporation

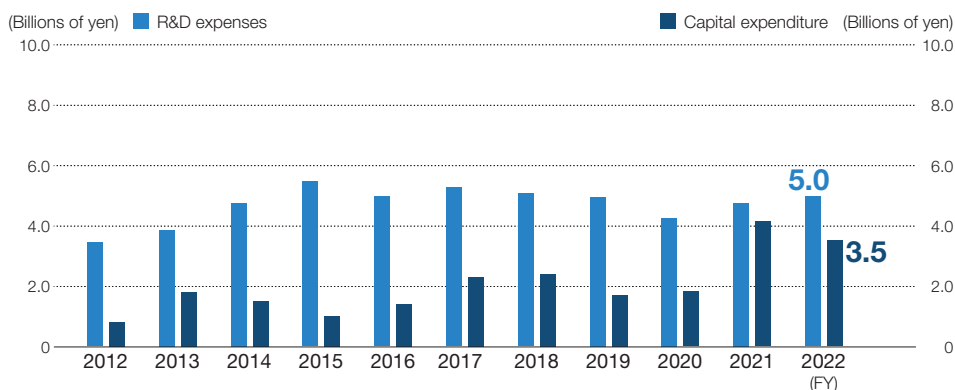
Share of net sales by segment



Sales, segment profit (operating income)



R&D expenses, capital expenditure



On achieving our long-term targets and medium-term plan

In the medium term, as we move beyond the COVID-19 pandemic, demand for large-scale construction in Japan is growing to the point that supply is becoming tight. Overseas, construction work is rapidly recovering, and planning for new projects is on the rise. Even in this busy environment, the BA business will continue to offer higher-quality products and field services that satisfy our customers. We will provide new products, unique to the azbil Group, to meet new requirements, especially in the areas of carbon neutrality and wellness. We also intend to meet our targets by achieving growth overseas through providing the same level of quality as we do in Japan, thus fostering growth in our business.

From the long-term perspective, the BA business has progressed from being primarily engaged in the manufacture and sale of automatic control equipment to the current business of providing solutions to customers through engineering and services. Essential for our ability to consistently deliver solutions is information, static and dynamic, that allows us to understand building characteristics, qualitatively and quantitatively; also important are the human resources with which we continue to create value together with our clients. By strengthening these two core assets, both in Japan and overseas, and by further combining them organically and efficiently, we will continue to be a reliable partner for our customers.

Business environment and forecasts

In the domestic market, large-scale redevelopment projects are progressing as planned, and in the manufacturing and data center sectors there is continued growth in the number of new large-scale projects. Furthermore, we are in a period that overlaps with the scheduled retrofitting of buildings that were completed around 2000, making the business environment very robust over the medium term. In overseas markets as well, our sustained efforts to win projects from local and non-domestic cross-border companies are gaining traction. Also, as in Japan, there continues to be a strong momentum behind the resumption of construction projects that had been suspended due to the COVID-19 pandemic. Nevertheless, we will continue to strengthen our overseas business, as its growth rate is not yet satisfactory. Also, in the domestic market, following completion of both ongoing and planned large-scale redevelopment projects, we will be cautiously watching developments in the office building sector, as there are concerns about the rising vacancy rate.

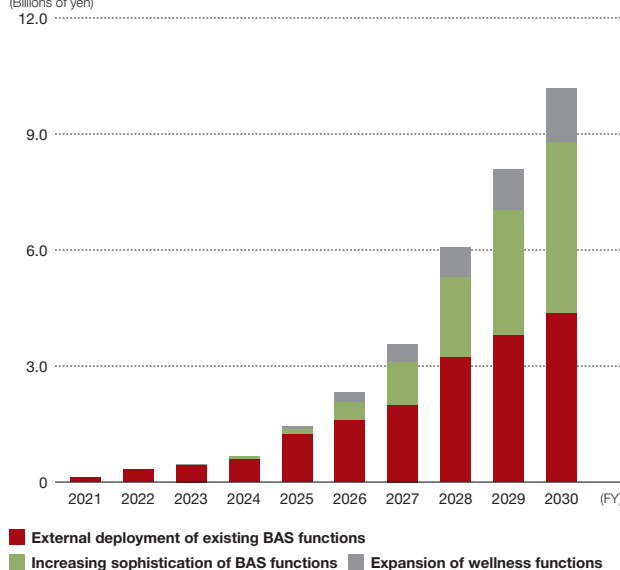
Business strategies

Against the backdrop of a robust business environment, we will accelerate internal DX to strengthen our operational structure and to promote more efficient operations. By taking our business to the next level through consolidation of the in-house know-how and data we have accumulated as an industry leader, we will strengthen our highly profitable business structure and accelerate the growth of our overseas business.

As regards product offerings, we will significantly broaden our lineup in the field of cloud-based applications, beyond the conventional provision of goods and engineering services. It has not been easy to make outside use of information managed by building automation systems (BAS) due to cost and security concerns. However, with the help of rapidly evolving cloud technologies, we can now address such issues and offer even higher value-added services. We aim to provide building users and operators access to some BAS functions through their smart devices (external deployment of existing BAS functions); access to advanced computing functions for operational assistance that contributes to laborsaving, energy-saving, and CO₂ emissions reduction (increasing sophistication of BAS functions); and access to more information that can help improve the wellness of occupants.

Expansion of cloud-based services for buildings

(Billions of yen)



Initiatives and progress in attaining our medium-term plan targets

In our BA business, we are targeting sales of ¥134.5 billion, segment profit of ¥16.3 billion, and a segment profit margin

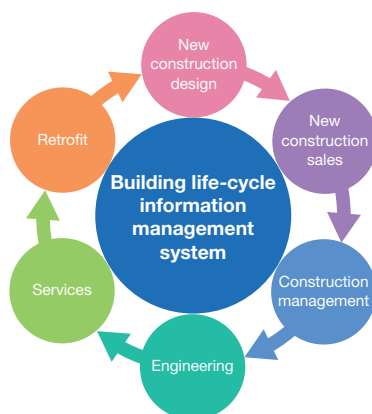
Building Automation (BA) Business

of 12.1% in FY2024, the final year of our medium-term plan. We are making steady progress toward achieving these performance targets, both quantitatively and qualitatively. In order to achieve further transformation in FY2023, we plan to achieve additional growth in the three growth fields of *environment and energy*, and *life-cycle solutions*. In addition to ramping up external collaborations, in April 2023 we established a new department dedicated to GX business within Building Systems Company and a new department on the corporate side to support advanced operations in the cloud service business. We plan for these to become major pillars of the BA business over the medium to long term.

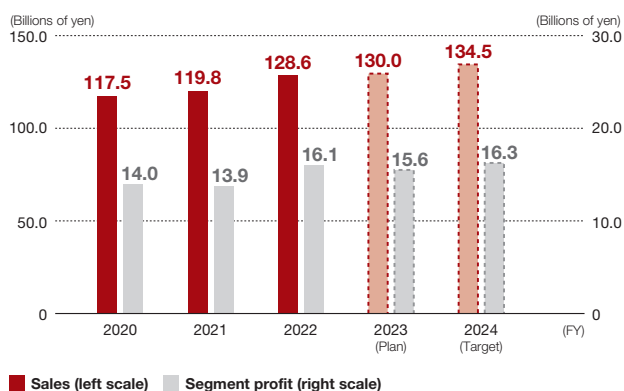
Meanwhile, there are concerns that there will be a mid- to long-term shortage of human resources within the company and at partner companies in Japan. We will therefore make steady progress with developing human resources while increasing efficiency with our building life-cycle information management system (a new in-house system) and promoting the introduction of new commercial products designed to raise efficiency in the field.

Building life-cycle information management system

By centrally managing information that is generated or modified at each stage of a building's life cycle, from construction planning to retrofit, we provide higher-quality solutions to our building stakeholders.



Sales, segment profit (operating income)



FY2022 performance review

While steadily securing orders, without compromising profitability, we have been strengthening our job execution capabilities and efficiencies, primarily at our construction and service sites, while giving due consideration to the safety of our employees and customers, and responding to the Japanese government's work-style reforms. We have also been expanding our products and services to meet the needs of domestic and overseas customers who are seeking to leverage technologies such as IoT and cloud computing.

Reflecting robust market conditions, orders received increased for sales and installation of equipment and systems for new large-scale buildings and in the overseas business, although there was some pullback from the renewal of multi-year service contracts in the previous fiscal year. Moreover, due to increased demand for solutions providing ventilation improvement, energy conservation and CO₂ emissions reduction, the field related to retrofitting existing buildings also saw increased orders, resulting in an overall increase of 2.1% YoY to ¥135,312 million (FY2021: ¥132,511 million). Sales grew 7.3% YoY to ¥128,561 million (FY2021: ¥119,765 million) due mainly to an increase in the field for new large-scale buildings, reflecting the backlog of orders at the end of the previous fiscal year, and growth in the overseas business, as well as increases in the fields related to existing buildings and services. Segment profit increased 16.0% YoY to ¥16,074 million (FY2021: ¥13,863 million) as a result of increased revenue and measures to improve profitability, and despite an increase in R&D expenses and other costs.

FY2023 plan

For FY2023, we project a 1.1% YoY increase in sales to ¥130.0 billion and a 2.9% YoY decrease in segment profit to ¥15.6 billion.

The business environment of the BA business has ensured that demand for HVAC control equipment and systems for large-scale buildings remains high. With these business conditions, we expect revenue to increase throughout the fiscal year, although second-half sales will be slightly below the level of the same period of the previous year; this is due to the large order backlog at the beginning of the fiscal year for new building projects as well as expanded demand for the profitable retrofitting of existing buildings and for services. On the other hand, we expect that segment profit will decrease slightly and temporarily due to continued investment in product development and systems to consolidate internal know-how and knowledge, as well as increased outsourcing expenses to facilitate shared growth with our business partners.

Close Up

Energy service provider business—contributing to customers' efforts to become carbon neutral Strengthening our ability to provide solutions by forming partnerships

As part of the expansion of the environment and energy business, which the azbil Group has designated as one of its growth fields, we are working to develop and provide solutions that advance GX—the transformation of economic and social systems toward achieving carbon neutrality. One example of this is the energy service provider (ESP) business that integrates the Group's strengths in energy management systems (EMS) and other energy-saving solutions with solutions for renewable energy. In developing this business, we have concluded a business alliance agreement with Clean Energy Connect, Inc. (CEC) to provide a one-stop service that combines CEC's green power solutions with our proven expertise in energy-saving solutions as an energy management business,^{*1} thereby contributing to the

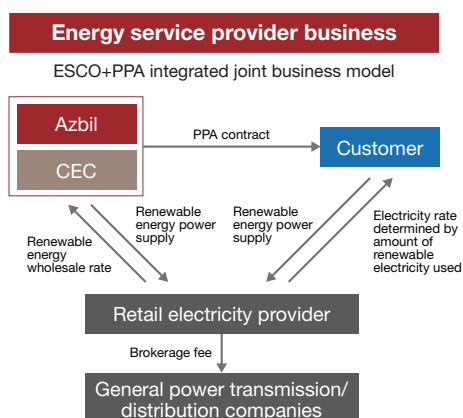
future realization of a decarbonized society.

The azbil Group is contributing to efforts to realize a decarbonized society, while maintaining building comfort, through the integrated use of the Group's strengths in building automation technology, remote monitoring services, and consulting know-how cultivated in the ESCO business. In this way, we are aiming to achieve multi-billion-yen sales in FY2024 and beyond.

I am involved as a strategic planner and sales promoter for the development of this ESP business, and in the context of this alliance with CEC, I am considering how to build and develop a business that leverages our mutual strengths. What society and our customers demand is an effective plan to achieve a decarbonized society. In this ESP business, we aim to realize carbon neutrality by optimizing facilities, especially those that are aging, to achieve thorough energy savings. Subsequently, we will be delivering continuous decarbonization strategies through long-term contracts, and providing renewable energy. We are developing a business that will be preferentially chosen, by society and our customers, as the optimal solution to meet their requirements.



Hisayuki Daike
Environmental GX
Solution Dept.
Environmental Solution
Headquarters
Building Systems Company



^{*1} An energy management support service provider registered with the Sustainable Innovation Initiative (SII), providing support for EMS installations and subsidy applications.

Investing in CEC and forming a business alliance: Providing one-stop services that combine energy-saving solutions with renewable energy solutions

Energy-saving solutions

- As a manufacturer specializing in measurement and control, Azbil provides products and services for factories, plants, buildings, etc. in a wide range of fields.
- Azbil has experience operating virtual power plants (VPPs) by demand response using its systems that have been installed in a large number of buildings.
- Azbil has been registered as an Energy Management Business Operator for ten consecutive years, supporting energy-saving projects at factories and other business sites.

Green power solutions

- For such clients as carbon-free management companies and companies participating in RE100,^{*2} CEC provides a one-stop service for green power solutions—from planning the introduction of green power to supporting implementation and verifying effectiveness, right through to goal achievement.
- At locations throughout Japan, CEC has developed several non-FIT small-scale solar power plants, for the exclusive use of its clients, and provided off-site corporate power purchase agreement (PPA) services^{*3} using green power with additionality.

^{*2} Renewable Energy 100%, an international initiative whose aim is for companies to power 100% of their operations with renewable energy

^{*3} This involves developing and building a non-FIT solar power plant, for the exclusive use of the client company but located at a distance from the facility that will use the power, and concluding a long-term contract for the transmission of the power generated, with its environmental value, to the target facility.

Advanced Automation (AA) Business

We create new value at the manufacturing site by working with our customers.



Our Advanced Automation (AA) business is broadly divided into the process automation (PA) field, related to the materials industry, and the factory automation (FA) field, related to the processing and assembly industry. The azbil Group structures its activities in the PA and FA fields into three sub-segments: Control Product (CP) business, Industrial Automation Product (IAP) business, and Solution and Service (SS) business (refer to the figure below). We make full use of our considerable expertise and familiarity with specific market needs and product characteristics in each sub-segment to provide a range of solutions to support optimal operation of production facilities. We offer various sensors, control valves, control systems, and solution packages for production processes, providing support throughout the life cycle—from introduction to operation and maintenance services. We achieve new value creation at the manufacturing site by working with customers seeking safe operations and innovation in production processes.

Features and Strengths

Presence Leading the automation of production sites

- Unmatched ability to generate new value, with over a century of experience in developing measurement and control technologies at production sites, and backed by a successful track record and unrivaled expertise in a wide variety of industries

Execution capability Total solutions / Integrated framework

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

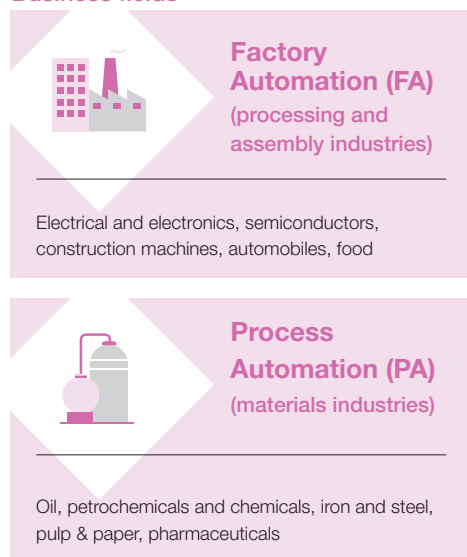
Technical capabilities Combining on-site knowledge and the latest measurement and control technologies with information technologies

- Experienced field staff draw on all their skills and knowledge to provide measurement and control solutions optimized for production sites and smart IoT services using big data and AI.
- Sensors and field instruments incorporating MEMS* and other advanced technologies for quick and accurate on-site acquisition of the information essential for sophisticated control

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

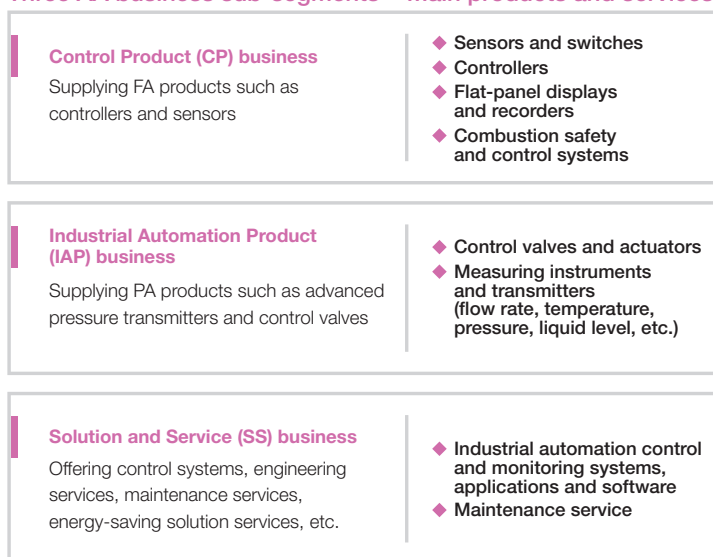
Business Fields and Business Units

Business fields



Three AA business sub-segments

Main products and services

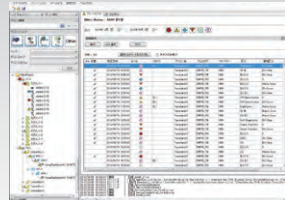


Diagnosing

Visualization and diagnosis of production status and equipment operation status through digitization and advanced measurement using high-performance sensors



Control valve maintenance support system



Device management system

Predicting

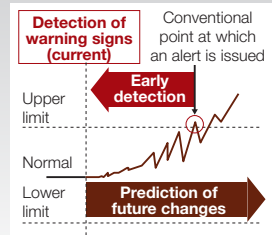
Autonomous systems using AI and data to detect anomalies in advance, predict future status, and optimize operational plans



Online anomaly detection system



Early warning system for time series data



Utilizing AI and data, we are contributing to safe, reliable operations at production sites.

Adjusting

Control valves

Optimal adjustment of gas and liquid flow rates at production sites



Control valves and smart valve positioners

Detecting

Sensors and switches

Precise detection and high reliability to meet a wide range of needs at production sites



High-accuracy position sensor



Photoelectric switch with built-in amplifier



Advanced ultraviolet flame detector



Limit switch



Adjustable proximity sensor



Micro flow rate liquid flow meter

Controlling

Controllers

Optimal control of processes, equipment, and facilities



Multi-loop controllers with multifunction display



Network instrumentation module



Process controller

Measuring

Process sensors

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



Differential/pressure transmitter



Electromagnetic flow meter



Vortex flow meter

Mass flow controllers

Gas flow rate control (set value)



Digital mass flow controller

Providing automation that solves problems on site

Advanced Automation (AA) Business

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

Developing a globally competitive business to become a high-profit business entity that contributes to a sustainable society

The AA business is creating a new automation field unique to the azbil Group that responds to changes in the social environment and technological trends.

Changes in the business environment and customer needs

- Increasing demand for higher productivity and safer, more stable equipment operation as market growth continues globally
- Further growth in demand for energy-efficient production facilities with greenhouse gas (GHG) controls required for decarbonization
- Start of reforms in various production processes for resource conservation and the circular economy

Core strategies

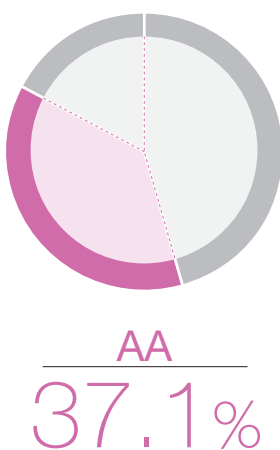
- Develop new products using MEMS technology unique to the azbil Group
- Develop new products, systems and services for anomaly prediction/detection and AI-based equipment diagnosis that integrate cloud computing, AI, measurement and control technologies
- Accelerate overseas business development with products and services that have a successful track record and are highly competitive



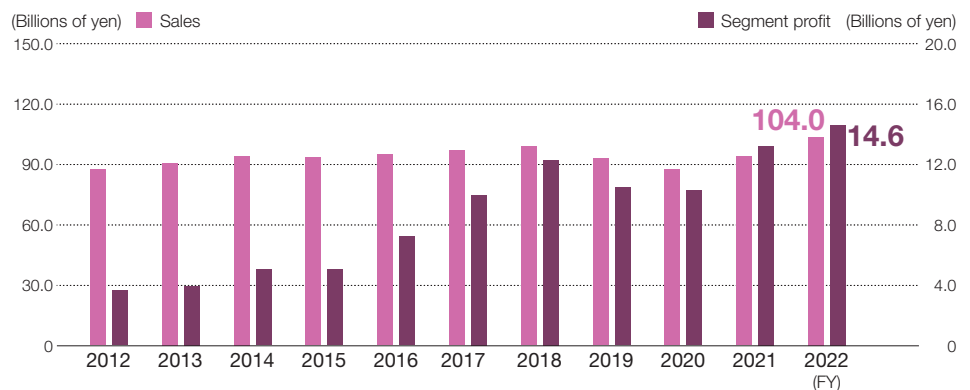
Yoshimitsu Hojo

Managing Corporate Executive
President of Advanced Automation Company, Azbil Corporation

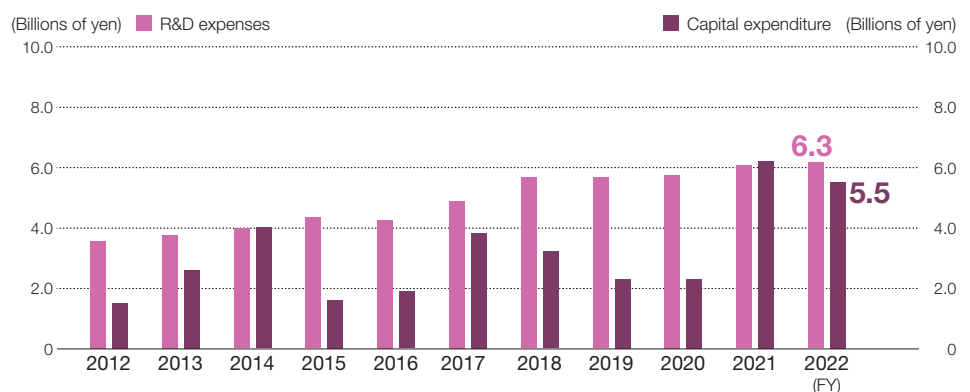
Share of net sales by segment



Sales, segment profit (operating income)



R&D expenses, capital expenditure



On achieving our long-term targets and medium-term plan

Our AA business has often been praised as the “power behind the scene.” It is a great honor for us to have been able to contribute, over many years, to the field of measurement and control in factories, working together with our customers. I believe that this is why we have won such a reputation.

More than a hundred years ago, the company's founder expressed our mission as “freeing people from drudgery.” The idea was to use automation to save people from the harsh conditions of worksites in those days. I believe that this philosophy has been carried on to this day and that, guided by our management philosophy of “human-centered automation,” we have been able to develop our business by putting each and every customer first.

Furthermore, the development of the measurement and control field for factories forms part of the history of industrialization, and it continues to develop. I believe that there are numerous domains in which these developments can make a significant contribution to achieving a decarbonized and sustainable society of the future.

Intent on creating new value on-site together with our customers, the AA business will continue to be a business entity that contributes to a future sustainable society through developing as a globally competitive presence.

Business environment and forecasts

While there are cycles of boom and bust, global market growth continues. And because of this, demand is increasing even further for energy saving and GHG emissions reduction in production facilities to address decarbonization. Additionally, reforms have been initiated in various production processes for resource conservation and the circular economy. There are also increasing demands for more sophisticated production facilities, safer and more stable operations, and means to cope with labor shortages.

Given these expectations of continued global market expansion, we believe there are large areas in which the AA business can contribute, particularly in the field of measurement and control, in response to needs related to decarbonization, the circular economy, production sophistication, safe and stable operations, and labor shortage solutions. And through pioneering new automation domains and creating new automation, we can look forward to further expansion of our business domains and business growth.

Business strategies

The AA business aims to become a high-profit business entity that contributes to a sustainable society by developing a globally competitive business. Since the AA revival plan was initiated in 2016, the AA business has achieved significant improvements. Going forward, we will consolidate these gains and aim to achieve even greater business growth.

There are three key initiatives in our business strategy.

The first key initiative is “business growth overseas.” With our extensive track record and highly competitive products and services, our overseas business development has been a success. Over the past few years, we have continued to achieve double-digit annual growth, expanding our overseas sales to ¥30 billion, or about 30% of our whole business, and achieving a high profit margin. The number of our customers has also expanded significantly. Going forward, we will accelerate this growth by further enhancing our sales and sales engineering support.

The second key initiative is “creation of new automation.” With the everchanging social environment and new technological trends, we have been creating several new types of automation to address emerging issues. We will achieve business growth through the development of the azbil Group's unique new automation.

The third key initiative is “boosting profitability.” In our AA business, we handle a large volume of factory automation (products and services), and an appropriate business mix is very important in terms of improving profitability. We are implementing business mix reforms alongside cost reductions, project risk management, and other initiatives to boost profitability.

Also, in addition to the three key initiatives mentioned above, we are also working on strengthening our risk response capabilities as a way to reinforce our defenses. In recent memory, there have been several disruptions due to heightened geopolitical risks or increasingly complex global supply chains. To contribute to the safe operation of our customers' factories through the stable supply of high-quality products and services, we will further strengthen our ability to respond to various risks with BCP and other measures, and thus improve the resilience of our business.

Advanced Automation (AA) Business

Initiatives and progress in attaining our medium-term plan targets

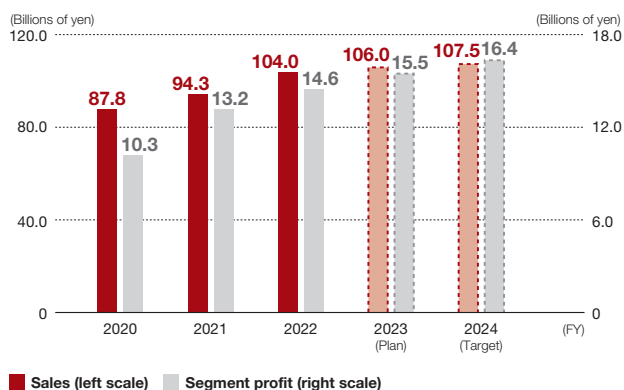
The four-year medium-term plan from FY2021 to FY2024 is showing good progress.

In FY2020, sales were ¥87.8 billion, segment profit was ¥10.3 billion, and our profit margin was 11.7%. By FY2024, we are aiming for sales of ¥107.5 billion, a segment profit of ¥16.4 billion, and a profit margin of 15.2%.

In FY2022, the second year of the medium-term plan, we achieved record-high sales of ¥104.0 billion, segment profit of ¥14.6 billion, and a profit margin of 14.0%.

“Business growth overseas,” one of the three key initiatives mentioned before, continued to be successful in FY2022, achieving steady growth through strategies to expand customer coverage. The second key initiative, “creation of new automation,” involved the launch of several new products and services, as well as the development of a number of new applications that address environmental issues. Also, a new development structure (AAC Strategic Products Development Dept.) has been established to further expand the development of these new products and applications in accordance with the spiral model. The third key initiative, “boosting profitability,” has not only contributed significantly to the improvement in our business performance over the past few years, but has also greatly reduced the impact of various significant cost increases associated with inflation since last year. We expect to see continued improvement in the business structure as various measures to strengthen profitability—such as cost reductions, business mix reforms, and optimization of selling prices—continue to have an effect.

Sales, segment profit (operating income)



FY2022 performance review

In FY2022, from the third quarter onward there was some pullback following previous advanced orders, and conditions in the semiconductor manufacturing equipment market deteriorated. Nevertheless, the manufacturing industry in general enjoyed a relatively favorable environment for capital investment, partly due to a gradual recovery from the COVID-19 pandemic, and orders remained at a high level. Sales and segment profit were significantly affected in the first quarter by difficulties in procuring parts, which had continued from the previous fiscal year. From the second quarter onwards, however, there was an improvement in parts availability, and as a result of various measures, including product design changes, there was a steady recovery in production, leading to a significant improvement in the third and fourth quarters over the same period of FY2021. As a result, AA business results for FY2022 were as follows.

Orders received increased 4.0% YoY to ¥113,969 million (FY2021: ¥109,562 million) due to a recovery in capital investment demand in the manufacturing industry overall and to continued overseas business expansion. Sales were affected by parts procurement difficulties, but gradually recovered as a result of production and procurement countermeasures, increasing 10.3% YoY to ¥103,988 million (FY2021: ¥94,276 million). Segment profit increased 10.1% YoY to ¥14,579 million (FY2021: ¥13,237 million), setting a new record, thanks to initiatives to improve profitability and an increase in revenue due to the recovery in production from the second quarter, and despite the impact of soaring parts prices throughout FY2022.

FY2023 plan

For FY2023, although there are signs of a market downturn in the semiconductor manufacturing equipment market, improvements in sales and segment profit are expected to result from a recovery in production, sustained by a large order backlog. Also, given that we have seen further progress in the three key initiatives of the medium-term plan (“business growth overseas,” “creation of new automation,” and “boosting profitability”), we expect to continue to expand business, especially overseas, and further improve our profit structure.

In FY2023, despite difficulties in procuring parts and materials, and the expected increase in various costs, ongoing initiatives will bear fruit and we are aiming for sales of ¥106.0 billion, up 1.9% YoY, and segment profit of ¥15.5 billion, up 6.3% YoY, which would represent record highs.

Development of model V8 Sapphire Capacitance Diaphragm Gauge

Semiconductor manufacturing processes are continuously evolving, and increasingly a wider variety of gases are being used in the front-end deposition and etching processes. These new gases can affect the measurement accuracy of a vacuum gauge by depositing material on the inside. For example, the unintended formation of a thin film on the sensor diaphragm will lead to zero-point shift, a phenomenon in which the reference point for measurement is shifted. This necessitates more frequent vacuum gauge adjustments and interferes with production plans. It has become a major challenge for users of semiconductor deposition and etching equipment.

To address this problem, Azbil has launched the model V8 Sapphire Capacitance Diaphragm Gauge, which significantly reduces zero-point shift (as little as one-tenth of the shift on our current model). This is achieved, in part, by using MEMS technology to form fine grooves (approx. 6 μm width) on the surface of the sensor diaphragm.

In developing the model V8 Sapphire Capacitance Diaphragm Gauge, we faced a number of difficulties. First, while monocrystalline sapphire is a durable material, it is also extremely difficult to process. A meticulous examination of the processing technology was needed to bring our product to market. Also, during the initial stages of development, as we did not have the in-house capability to evaluate the growth of deposits, we had to rely on feedback from our customers. We therefore built an in-house evaluation environment to speed up the design

and evaluation loop, resulting in the development of a sensor that is far less affected by film deposits.

Also, we have added a new isolated model to our lineup, which can be used at temperatures of up to 250°C. There were

concerns that it might not be possible to measure minute sensor capacitance values over several meters of cable. However, recognizing that the development of a high-temperature-specification model was essential to accommodate new process gases, we succeeded in creating an isolation type product through the creative efforts of the development teams working on circuit design and mechanical structure. Furthermore, by developing new flat sensors as well as convexo-concave sensors, we have enhanced the adaptability of our product lineup, which can accommodate changes in the gas used for the etching process.

We will continue to seek solutions to the ever-changing issues faced by our customers as semiconductor technologies evolve, working with them to solve problems one by one, based on our commitment to “create value at the customer’s worksite.”

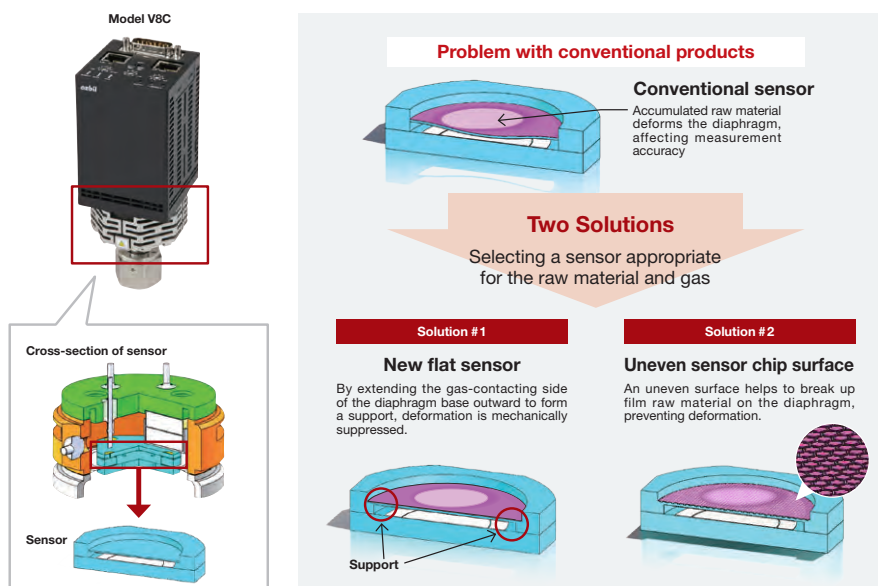


Yasuhide Yoshikawa
Strategic Products
Development Dept.
Advanced
Automation
Company, Azbil
Corporation



Takuya Ishihara
Strategic Products
Development Dept.
Advanced
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Company, Azbil
Corporation

Solutions incorporated into sapphire capacitance diaphragm gauge models V8C and V8S



Life Automation (LA) Business

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



The Life Automation (LA) business makes use of automation technologies to meet a wide variety of needs in people's everyday lives, including realizing safe and secure living conditions, supporting fulfilling lives, and helping to address environmental issues. Through our business, we contribute to safer and more secure lifestyles, improved comfort, and greater energy saving in numerous fields, ranging from gas/water lifelines and living spaces, including residential air-conditioning systems, to pharmaceuticals and medical facilities.

Features and Strengths

Stability and progress

Lifeline innovations

- Smartification of gas and water meters, while meeting replacement demand as required by law, and use of smart meters to develop our Smart Metering as a Service (SMaaS) business

Growth potential

Increasing sophistication of entire pharmaceutical processes

- Engineering services and safe, high-quality equipment for pharmaceutical R&D and manufacturing, and medical applications

Uniqueness

Living space comfort

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

Business Fields

Lifeline field (gas and water meters)

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

Life Science Engineering (LSE) field

Our total solutions for pharmaceutical manufacturers encompass the development, engineering, installation, sales, and after-sales services for lyophilizers, sterilizers, clean environment equipment, and other equipment.

In January 2013, the azbil Group's LSE field benefited from the addition of Spanish company Telstar S.A. (now Azbil Telstar, S.L.U.), a supplier of process equipment and environmental systems for pharmaceutical companies and laboratories with operations in Europe, Latin America, and South Asia. Telstar has an extensive track record and experience in engineering, providing equipment and services related to the life science field.

Residential Central Air-conditioning Systems field

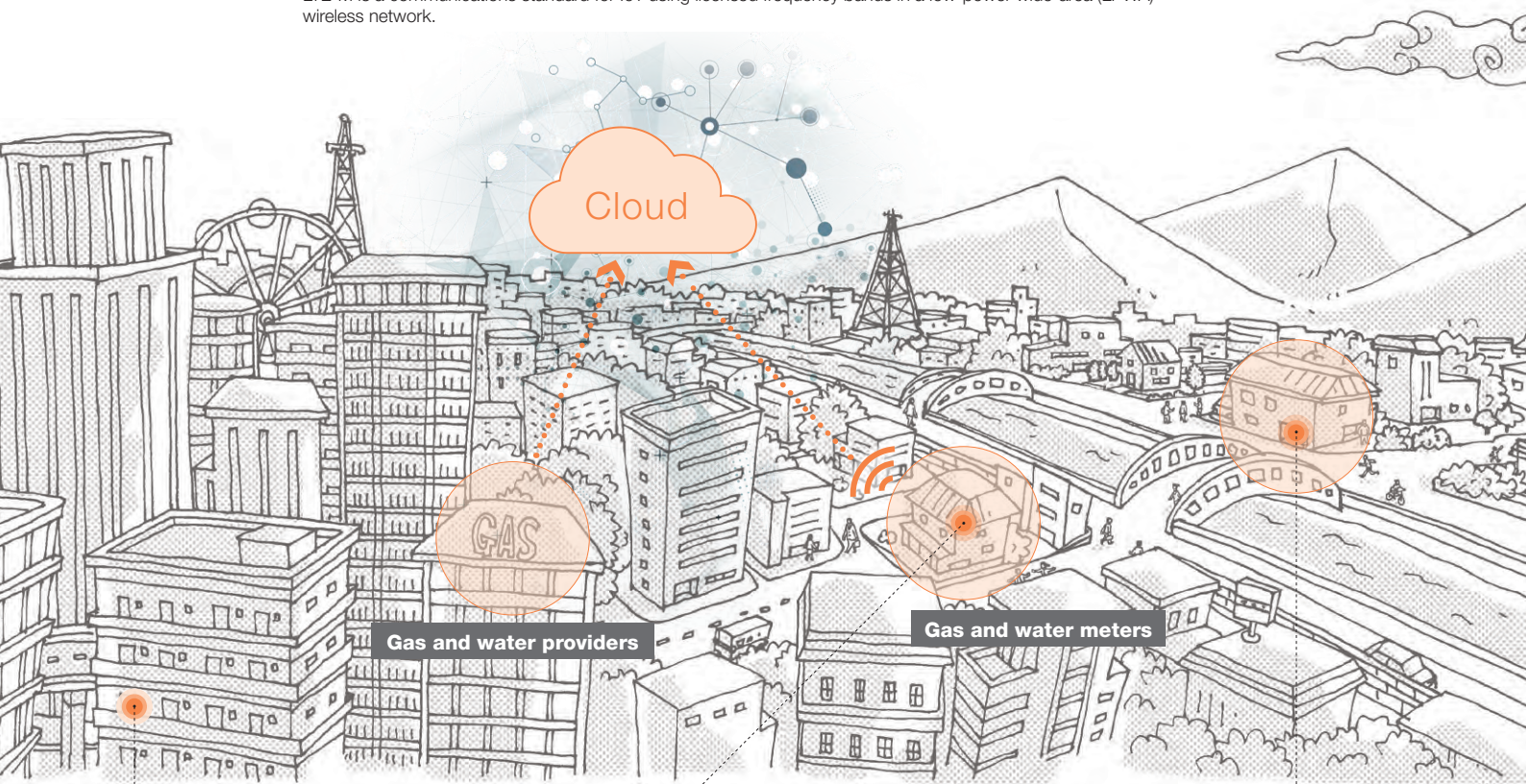
Drawing on our building HVAC control technology, we offer residential central air-conditioning systems for general detached houses: a single system provides cooling, heating, ventilation, air cleaning, and dehumidification to ensure the entire house is comfortable. We also provide central air cleaning & ventilation systems. To deliver comfortable and healthy living spaces, our central air-conditioning system uses an electronic air cleaner—capable of removing pollen, PM2.5 particles, and viruses*—and automated variable air volume (VAV) control that allows individual temperature settings for each room.

* See our press release for details of a virus removal demonstration test.
<https://www.azbil.com/jp/news/220406.html>
 (Japanese only)

Meter data services harnessing IoT

The LA business is increasingly harnessing IoT for its water and gas meters. In the LP gas market, we are expanding sales of our cloud-based service for meter reading, security, and monitoring of alarm conditions using the LTE-M* standard for IoT communications. Similar services for city gas and water are also being launched. Anticipating the coming era of SMaaS, we are accelerating the development of businesses applying automation to new fields and services that will create new value by combining electricity, gas, and water data acquired from meters.

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



Lifeline field (gas and water meters)

Azbil Kimmon Co., Ltd.

Gas meters



City gas smart diaphragm meter



Ultrasonic gas meter



High-pressure regulator



LP gas
K-SMa, LP gas smart diaphragm meter



Ultrasonic gas meter

Water meters



Electronic counter type water meter



Battery-operated electromagnetic water meter

Life Science Engineering field (pharmaceutical manufacturing equipment)

Azbil Telstar, S.L.U.

Pharmaceutical manufacturing equipment



Barrier systems



Lyophilizer

Solutions for the life science field

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

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

Residential Central Air-conditioning Systems field

Azbil Corporation

Air quality: ventilation and central air-conditioning systems

Ventilation is important in enclosed spaces. Unlike ordinary room air conditioners, our residential central air-conditioning system features a heat-exchange ventilator that refreshes the air in the entire house every two hours. This energy-efficient air-conditioning system also features an electronic air cleaner that removes contaminants—pollen, PM2.5 particles, and viruses—to further improve air quality.



Indoor unit and electronic air cleaner



Outdoor unit



Outlet



Heat exchange ventilator

Life Automation (LA) Business

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

Structural reforms to evolve from being “new businesses” to “growth businesses”

Gearing up to execute our transformation plan, we are newly organized to conduct rapid reviews of the strategy and cost structure of each business, with the ultimate aim of offering customers safe, secure, comfortable, and healthy living.

Changes in the business environment and customer needs

- Growing demand for living infrastructure maintenance, greater safety, and improved efficiency
- Achieving a decarbonized society through the use of IoT for water & gas meters and leveraging big data from smart meters
- Continuing regional diversification of pharmaceutical production facilities and infectious disease-related investments in global markets
- Increased demand for comfort in living spaces and reduced environmental impact

Core strategies

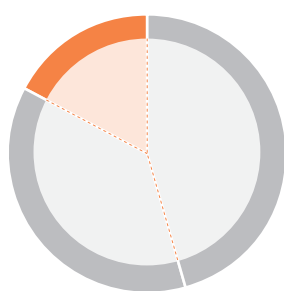
- Advance energy management and SMaaS business
- Promote energy management for realizing a decarbonized society, and strengthen business alliances to achieve this goal
- Support overseas pharmaceutical manufacturing facilities related to infectious disease prevention, etc.
- Develop new market with the e-kikubari system specialized for energy saving and air quality improvement



Takayuki Yokota

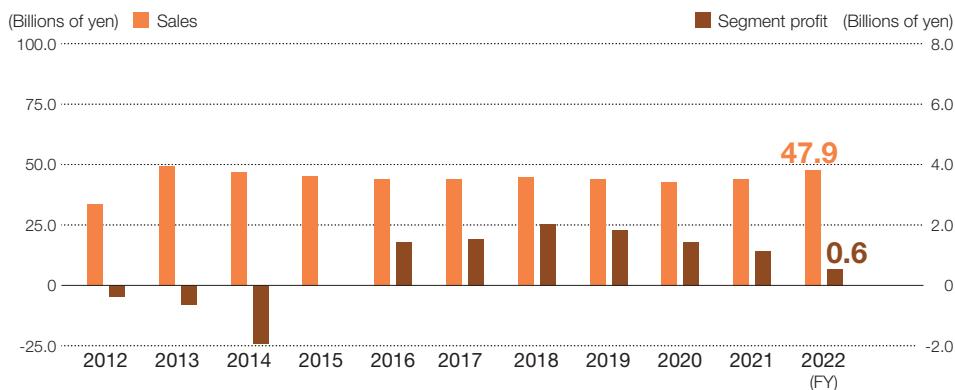
Director, Representative Corporate Executive Deputy President
Life Automation Business

Share of net sales by segment

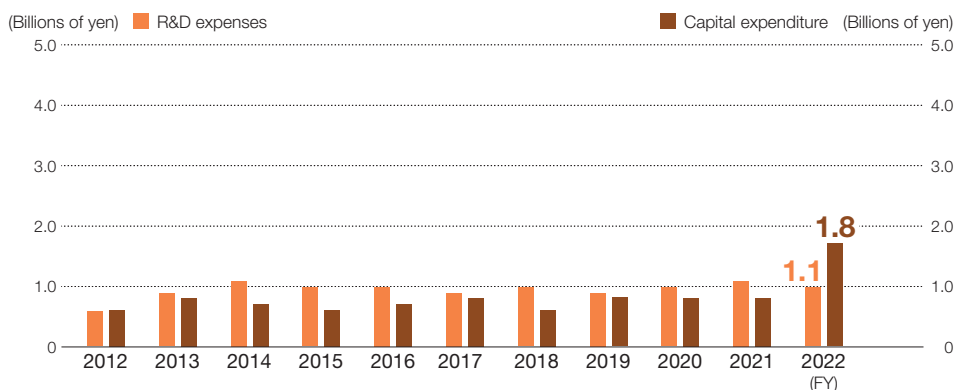


LA
17.1%

Sales, segment profit (operating income)



R&D expenses, capital expenditure



On achieving our long-term targets and medium-term plan

The LA business consists of the Lifeline field, which focuses on meters for maintaining the social infrastructure, the Life Science Engineering (LSE) field for equipment used in pharmaceutical manufacturing, and the Residential Central Air-conditioning Systems field.

With the recent rise in geopolitical risks, soaring material prices, and inflation, the changing global business environment is drawing attention to the value of our automation business, which facilitates the transformation of our customers' business models, and the product quality that underpins our business. This is leading to the expansion of domains in which the LA business can contribute through its products and services.

Although we have been actively promoting various strategies to respond to the changing environment, in FY2022 the overall profitability of our business decreased: it was a period of low demand for domestic LP gas meters, and in the LSE field performance overseas was impacted by rising labor costs and other expenses due to increased geopolitical risks and inflation in Europe. Thus, although the LA business is undergoing structural reforms—transforming it from being a “new business” to a “growth business”—to stabilize and improve profits in each field, there remain challenges in terms of profitability.

In FY2023, to ensure the proper execution of our transformation plan, a new executive structure will direct management swiftly. In each field, we will re-examine the causes of change and the challenges, review strategies, and work to stabilize profits with radical cost control and quality control.

By implementing these reforms, the LA business will revitalize value creation through its automation business. In the medium to long term, we will achieve higher value creation by pursuing the following growth strategies: in the Lifeline field, business transformation from meter supplier to meter data service provider; in the LSE field, business expansion as a service provider for facilities; and in the Residential Central Air-conditioning Systems field, business expansion as a comfortable living space provider.

Business environment and forecasts

The LA business environment differs for each of its three core fields.

Demand in the Lifeline field, in which gas and water meters account for the majority of sales, is primarily driven by demand for meter replacement, as required by law, so demand is expected to remain basically stable. However, the cyclical demand for LP gas meters, which account for a

portion of our sales, is currently at a low ebb. It should be noted that, due to customers' increasing needs for tackling labor shortages and improving operational efficiency, there is an accelerating trend toward fully smart meters.

In the LSE field, demand for pharmaceutical manufacturing is projected to remain strong, and investment in pharmaceutical plant facilities continues to increase. There also continues to be demand for products used for tackling infectious diseases.

In the Residential Central Air-conditioning Systems field, the net zero-energy house (ZEH) business is expanding. An increasing number of homes are taking advantage of subsidies, accelerating the trend toward improved air quality and energy conservation, and we anticipate demand for systems that can satisfy these needs.

However, due to the current heightened geopolitical risks in Europe, soaring material prices, and persistently high inflation, the European and other markets that are important for LSE field development require our constant attention regarding appropriate cost pass-through and cost management.

Business strategies

In the LA business, in each of the three fields we will examine our business structure and business portfolio and advance a reform plan to adopt a business strategy appropriate to the business environment. By implementing appropriate measures, we will make progress with value creation.

In the Lifeline field, we are addressing the steady replacement demand for gas and water meters, which is our primary business. In addition to our conventional business of providing products, however, in order to expand sales and improve profits, we are taking advantage of the changing business environment in the energy supply market to create new business as a service provider, utilizing IoT and other technologies to generate meter data. We are promoting SMaaS business, which integrates a service-type business with a smart meter business to provide new value to customers and society. By further strengthening cloud-based services, we will enhance our solution-providing capabilities.

In the LSE field, we will respond to strong investment, backed by robust demand for pharmaceuticals, in R&D and pharmaceutical manufacturing. Since capital investment related infectious disease prevention is continuing, we will continue to offer solutions.

In the Residential Central Air-conditioning Systems field, we will develop our business providing an extensive range of comfort-enhancing systems—for new buildings as well as existing buildings and small-scale buildings—as we aim to realize comfort that improves the quality of life for our customers.

Life Automation (LA) Business

While promoting business strategies tailored to each field, we will swiftly respond to changes in the competitive environment, customer needs, and technological innovations by optimizing our business portfolio in order to achieve further growth.

Initiatives and progress in attaining our medium-term plan targets

In the LA business, we are targeting sales of ¥58.0 billion, segment profit of ¥3.3 billion, and a profit margin of 5.7% in FY2024, the final year of our medium-term plan.

Lifeline field

We will build on our stable product sales—a business supported by meter replacement, as required by law—to further develop SMaaS, our IoT-based service business. As for DX-EGA, our next-generation energy management business, we have begun providing our technology for a cloud-based service, operated by another company, for calculating and visualizing greenhouse gas (GHG) emissions. In the smart meter business, we are expanding from the supply of meters and other products to the provision of data solutions by expanding our lineup and utilizing both carrier and cloud-based networks. As a service provider, we are thus transforming our business.

Life Science Engineering field

We will respond to the growing global demand for pharmaceuticals by promoting an IoT-supported service business, taking advantage of our integrated services ranging from pharmaceutical process consulting to cleanroom design, construction, and after-sales service.

Residential Central Air-conditioning Systems field

We will expand our target market to include not only conventional detached houses, but also small-scale non-residential buildings such as care centers for senior citizens. For

new detached houses, we will begin selling the new e-kikubari (heat exchange ventilator + electronic air cleaner), which contributes to energy saving and improvement of air quality, thus helping to ensure residents enjoy a healthy environment.

FY2022 performance review

The Lifeline field, in which gas (city gas, LP gas) and water meters account for the bulk of sales, is expected to continue to experience a certain level of demand, mainly due to legally mandated meter replacements. However, due to its cyclical nature, the LP gas meter market is currently in a period of subdued demand. In contrast, in the LSE field there is continued investment in pharmaceutical plant facilities, including those related to infectious disease prevention. Against the backdrop of this business environment, LA business results are as follows.

Orders received increased 6.0% YoY to ¥49,647 million (FY2021: ¥46,845 million), due to growth in the Lifeline field.

Overall sales increased by 8.3% YoY to ¥47,915 million (FY2021: ¥44,238 million). Revenue increased in the Lifeline field reflecting a rise in orders, and in the LSE field, which saw a rise in orders in the previous fiscal year.

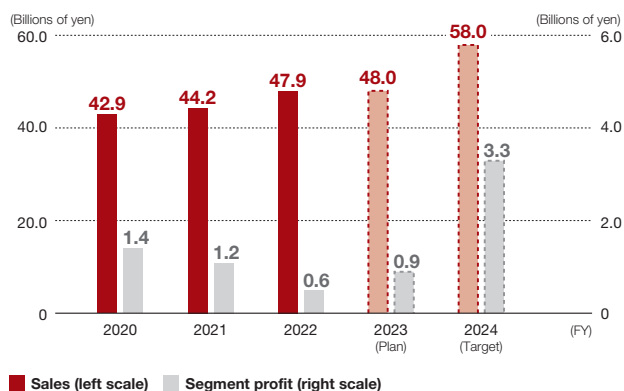
A segment profit of ¥589 million was recorded, down 48.9% YoY (FY2021: ¥1,151 million), principally due to higher personnel and other expenses, mainly driven by inflation in Europe, as well as higher material prices, energy costs, and transportation costs.

FY2023 plan

Although the LP gas meter market is currently in a period of declining demand, overall sales are expected to increase 0.2% YoY to ¥48.0 billion owing to higher sales of city gas and water meters in the Lifeline field. Although we forecast that the business environment will continue to be challenging due to soaring prices for materials, as well as the effects of accelerating inflation in Europe, we expect segment profit to increase 52.8% YoY to ¥0.9 billion, owing to improved profitability.

We will continue to engage in appropriate cost management and selling price optimization in each field, while promoting fundamental reform plans, such as strengthening business strategies, to stabilize profits. At the same time, we will promote various strategies to respond to changes in the business environment. For example, in the Lifeline field, in order to respond changes in the energy supply market, we will work to create new business as a service provider, based on meter data generated by IoT and other technologies, in addition to supplying products to the energy supply market.

Sales, segment profit



Close Up

Contributing to the realization of a smart society through our SMaaS business

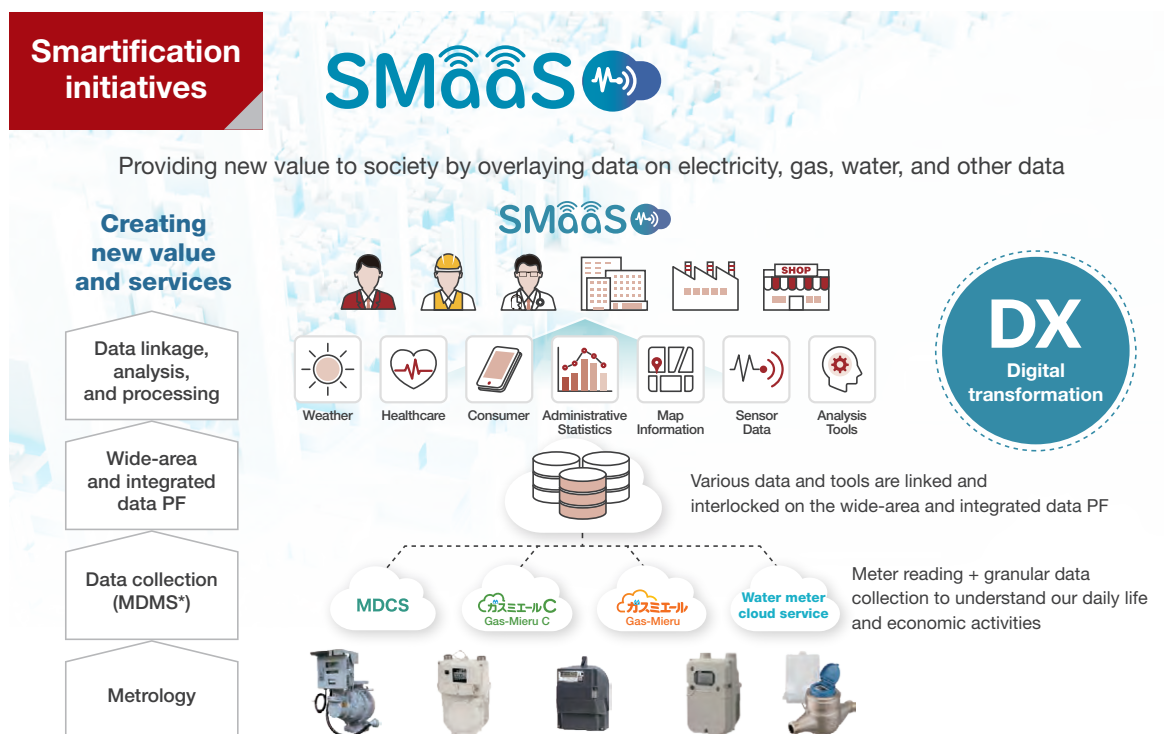
The SMaaS business we are advocating aims to offer new added value derived from “measuring,” in addition to the conventional function of meters. For example, we provide support for LP gas utilities to improve the efficiency of cylinder delivery. We also enable city gas utilities to better evaluate the capacity of their pipeline networks using sophisticated pressure data, a service which has already earned a good reputation from our customers. Additionally, we are contributing to disaster preparedness and environmental improvement by providing weather and other information, in addition to lifestyle visualization, and promoting DX-EGA, a next-generation energy management business.

In our cloud business, we are offering Gas-Mieru, a remote meter-reading cloud service, to LP gas utilities. Our service uses mobile carrier networks, but this makes it difficult to achieve 100% customer coverage. From 2022, we began offering this service over the telecommunication networks used by electricity smart

meters. By utilizing the smart meter communication network, we have been able to significantly improve customer coverage. We were delighted to hear from our customers, LP gas utilities, that “Thanks to Gas-Mieru, we no longer have to travel long distances to read meters, which has improved our efficiency.” It is very encouraging to realize that our strategies and actions are making a difference to our customers’ businesses. Going forward, we will continue to take on challenges from diverse perspectives and strive to create even more value-added products and services.



Tomoki Masuda
Executive Officer, Azbil Kimmon
Co., Ltd.



*MDMS: Meter Data Management Service

Overseas Business



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

Promptly responding to changing customer requirements and further expanding the overseas business

Through the reinforcement of business promotion and management systems that leverage regional characteristics, we aim to accelerate the growth of our overseas business, enhance our global competitiveness, and achieve sustainable development.

Changes in the business environment and customer needs

- Growing requirements for decarbonization, energy saving, and automation
- Improved productivity and efficiency through digital transformation (DX)
- Contributing to a sustainable society with a focus on ESG and SDGs
- Increasing labor costs and expenses resulting from parts procurement difficulties and global inflation

Core strategies

- Plan/review measures for expanding the overseas business to realize further growth, with the ultimate goal of achieving our long-term targets
- Pursue business development focused on the BA and AA businesses that leverages regional characteristics
- Strengthen our global, efficient management systems coordinated with each business and functionality line



Shigeru Wada

Managing Executive Officer
aG International Business

On achieving our long-term targets and medium-term plan

The azbil Group is reviewing and implementing measures to expand its overseas business and strengthen its global management foundation in order to realize growth and thus achieve our long-term targets. To further accelerate the transformation of our overseas business, we will establish business promotion and management systems that take advantage of regional characteristics. And to serve our customers in each country and region, we will make available the azbil Group's unique solutions worldwide, leveraging the technologies and know-how we have built up in Japan. Specifically, we will strive to increase our market share overseas, expand our product lineup to meet market requirements, and enter new domains of business with the aim of achieving sales growth.

such issues as decarbonization, energy conservation, automation, autonomy, and the “new normal.”

In our BA business, although the market for new buildings in Japan is forecast to gradually decline, overseas we expect to see continued progress in urbanization and the upgrading of office spaces, particularly in the non-Japanese building market in Asia. For our AA business, from a medium- to long-term perspective there will be cyclical economic fluctuations, but we foresee continued global economic growth, demand for further productivity improvements, and growing requirements to address production-site labor shortages, aging facilities, expanding environmental regulations, and the anticipated use of new technologies—all of which will lead to continued expansion of investment in the automation of production facilities. In our LA business, we project that rapid inflation in Europe will lead to cost increases.

Business environment and forecasts

In the medium to long term, we will develop and deploy competitive products and services to meet the increasingly diversified and sophisticated needs of our customers at a time when a speedy global response is required to address

Business strategies

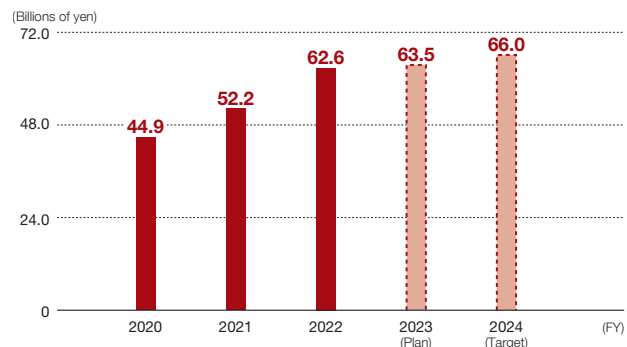
As regards the further expansion of our overseas business, in the BA business we will do more to provide products and services that leverage the strengths of our domestic business model in energy-saving applications, engineering

and service capabilities. In our AA business, we will continue to develop *new automation* field, such as anomaly detection and AI-based equipment diagnosis, as well as expanded product lineups for new markets in response to the shift in industrial structure toward a decarbonized society adapted for the “new normal.” In our LA business, against a backdrop of robust demand for pharmaceutical manufacturing, we will respond to the opportunities presented by investments in pharma facilities, while continuing appropriate cost management, selling price optimization, and other measures. Furthermore, we will take the following three approaches to solving business management issues that influence our global growth: (1) Promote standardization, commonization, and efficiency of business operations in coordination with business lines; (2) Emphasize a strong management foundation and administrative structure with a view to sustainability management that is effective as regards governance, including internal controls, and valued by society and the local community; and (3) Promote the development of human resources and human resource infrastructure necessary to prevail against global competition.

Initiatives and progress in attaining our medium-term plan targets

The target for overseas sales in the final year of the medium-term plan is ¥66.0 billion. In order to achieve this target, we have been reviewing the business management structure, optimizing the allocation of resources across regions, and strengthening the business promotion system. In April 2022, the International Business Planning & Promotion Dept. was established in the International Business Headquarters, and in April 2023, the Strategic

Sales



Planning & Development Office for Southeast Asia (Singapore) was also transferred within this headquarters. Using this organizational reform as an opportunity to further strengthen cooperation among our business lines, we are advancing such measures as promoting the development of engineering and service businesses through DX, launching products tailored for overseas markets to expand our overseas customer base (coverage), and building relationships with influential business entities.

FY2022 performance review

With revenue growth achieved in all areas of our overseas business, sales grew 20% YoY to ¥62,635 million, representing 22.5% of net sales. Looked at geographically, both BA and AA businesses grew substantially in Asia, with China showing signs of recovery from the fourth quarter, and LA business sales also grew thanks to increased orders in Europe and other regions in the previous fiscal year. We will continue to expand our overseas business in order to steadily achieve our long-term targets and medium-term plan.

Close Up

Accelerating overseas business across regions

Seeking to develop and grow cross-regional business in Southeast Asia and India, Azbil established the Strategic Planning & Development Office for Southeast Asia in Singapore in April 2018. Currently, in collaboration with local subsidiaries in seven countries (Vietnam, Thailand, the Philippines, Malaysia, Singapore, Indonesia, and India), we are making progress with strategic planning, business promotion, and business management strengthening in order to supply the azbil Group's products and services. Furthermore, by creating synergies within this region, the Group aims to build a globally competitive advantage. With a view to achieving medium- and long-term growth, the Group is also working to build new partnerships, utilize digital content,

participate in joint innovation labs, and expand its sales network, based on three pillars: expanding regional footprint, improving brand awareness, and strengthening product portfolio. Going forward, we will continue to contribute to the further expansion of our overseas business in order to satisfy the requirements of our customers and to achieve a sustainable society.



Anju Jaswal
Executive Officer
Deputy Head of International Business Headquarters
Managing Director of Strategic Planning & Development Office for Southeast Asia

III. Innovation

Digital Transformation (DX)



Tadayoshi Ito

Managing Executive Officer
aG Digital Transformation Promotion

Strengthening the business foundations and expanding the three growth fields by DX

In promoting DX, the azbil Group recognizes that changes in the natural environment, business environment, evolving technology, and new requirements of society are expanding the role and opportunities for automation, which is based on digitalization. The azbil Group aims to contribute to solving social issues in business activities and further enhance the value it provides by creating new business and new ways of working through digitalization.

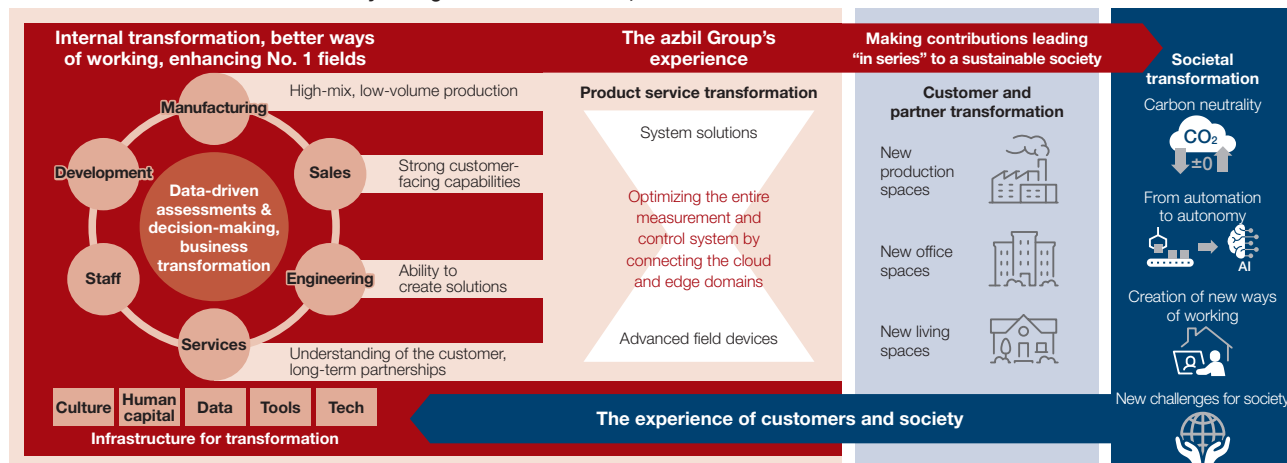
In our business activities, we have identified three growth fields: *new automation*, which enables us to further enhance the sustainability of production sites and building

operation sites; *environment and energy*, which promotes decarbonization by providing solutions to reduce environmental impact, curb energy demand, and integrate renewable energy; and *life-cycle solutions*, which supports a recycling-oriented society by providing value tailored to each stage of our customers' business development. We will accelerate the use of the latest digital technologies in these fields.

Also, as part of our efforts of creating new business and new ways of working, our sales and engineering divisions are responding to the different challenges faced by our customers in each region, such as maintenance using

Overview of the azbil Group's DX

Contributing "in series" to the transformation of customers, partners, and society through self-transformation, with feedback for our next transformation



cloud computing, while providing world-class solutions, collecting data remotely in service operations, analyzing events, and improving efficiency through digitization of control operation inspections by experts off-site, etc.

In our development departments we are putting the IoT, cloud computing, and AI to practical use and strengthening the network and system solutions we use between field devices and control and monitoring centers. Sensing information received from field devices is aggregated and processed by our systems, facilitating site control planning and monitoring, and allowing the entire measurement and control system to be optimized.

As part of our efforts to digitalize our production sites, we have introduced an advanced cloud-based manufacturing execution system (MES) to the core system at production sites of the azbil Group companies and have begun operating it. Using the benefits of cloud computing, we are expanding production DX efforts centered on onsite personnel. This includes introducing systems through remote work, improving the accuracy of inventory control, eliminating dependence on individual skills, reducing paperwork, and visualizing the progress of production in real time.

In addition, we are promoting the use of generative AI as an indispensable tool for future business development by issuing usage guidelines, launching tools for its safe use exclusively for the azbil Group, and applying it to business operations.

At the same time, along with these advances in DX, cyber security measures and management are important. The Cyber Security Office, a specialized organization, is promoting measures and management in an integrated way for everything from products and services to business systems.

By expanding partnerships with companies working in a variety of fields and with various research institutes (see p. 28), we are achieving business growth by implementing our technology and knowledge more widely in society and contributing to the achievement of the SDGs, along with promoting DX.

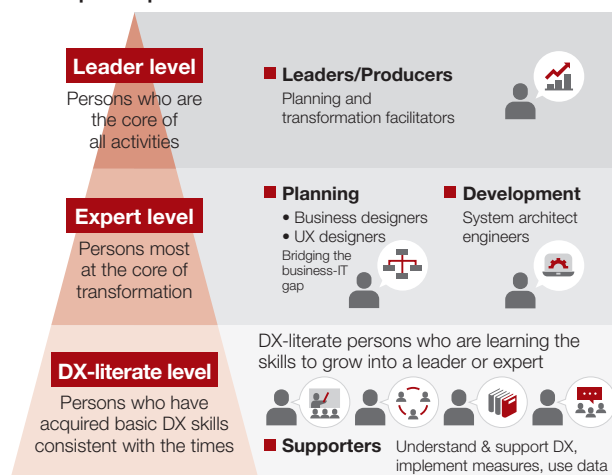
Developing human resources for DX

DX provides support for the expansion and deepening of the azbil Group's three growth fields. For sustainable growth, it is essential to train personnel to have the necessary skills in business, data science, and data engineering. By gaining the needed knowledge and skills and applying them to produce DX, we will make them truly useful capabilities that expand and deepen the three growth fields.

The azbil Group classifies DX-capable personnel into three levels: DX-literate, expert, and leader. We are implementing a human resource development program with the aim of having 1,000 experts by 2030. We plan to demonstrate the DX skills acquired through education by implementing DX measures, and developing practical skills.

In FY2022, group training sessions were held to develop business skills. In addition to this, DX basic education incorporating case studies was held by various departments (staff and production, sales and engineering services, and development), with a total of 1,500 participants.

DX-capable personnel and their roles



Employee comment

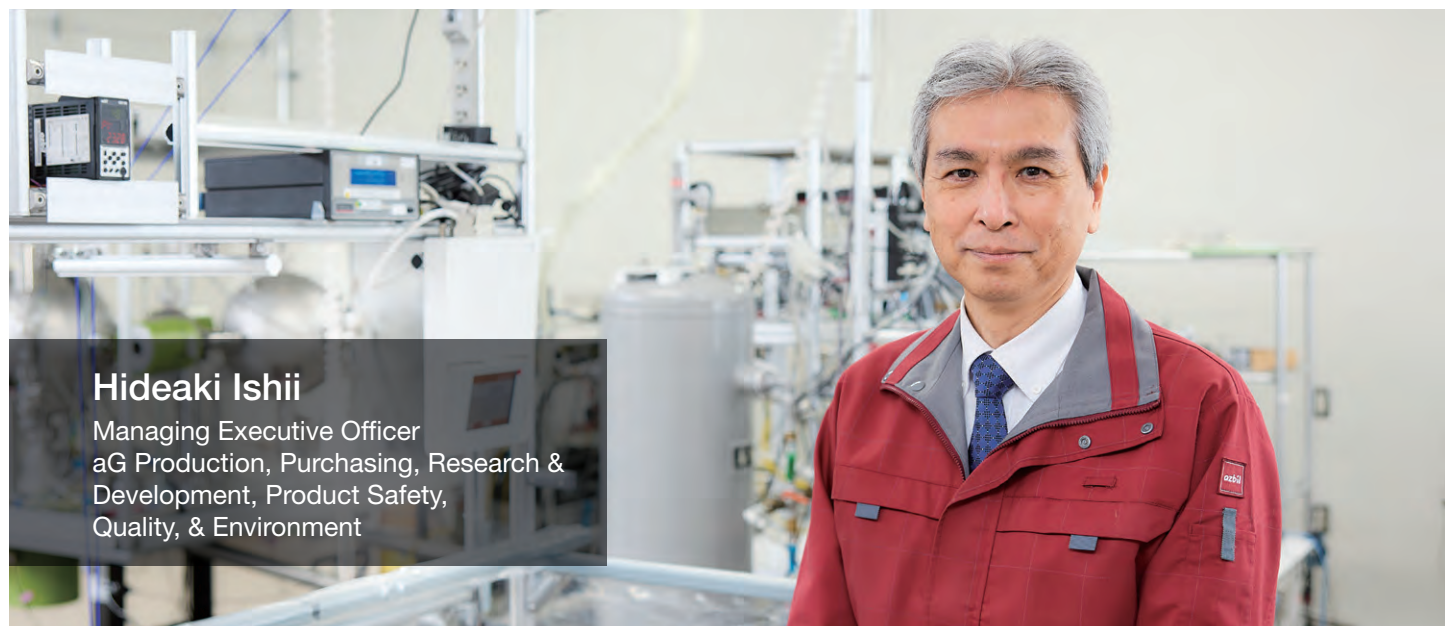
Production DX efforts



Yorihiisa Tamaoki
IT Development
Headquarters
IT Development Dept. 2,
Group 1

In the area of production DX, we introduced an advanced cloud-based MES, which is an IT platform for the production floor, at the Group's production sites. Since it went online in May 2021, multiple production sites have been able to evaluate quality and production methods using the same production standards, evaluation criteria, and indexes, and the tacit knowledge of managers about plants and lines has become common knowledge. This has led to an increased awareness of improvement at these sites. Also, since the system operates completely in the cloud, we were able to confirm the effectiveness of the cloud system for purposes such as sharing accurate information with remote locations. Going forward, we aim for further DX by visualizing the accumulated manufacturing information using BI tools and the like and by transforming manufacturing sites so that they can be evaluated using data, with the MES serving as the hub for information at the sites.

Research and Product Development



Hideaki Ishii

Managing Executive Officer
aG Production, Purchasing, Research &
Development, Product Safety,
Quality, & Environment

The azbil Group focuses on strengthening its product competitiveness and R&D infrastructure to quickly identify changes in markets and in customers and to develop products based on automation technology.

Strengthening product competitiveness

We are emphasizing research and development based on automation technology, which is the azbil Group's strong point, in order to expand our business in response to technological trends and changes in the market and in our customers.

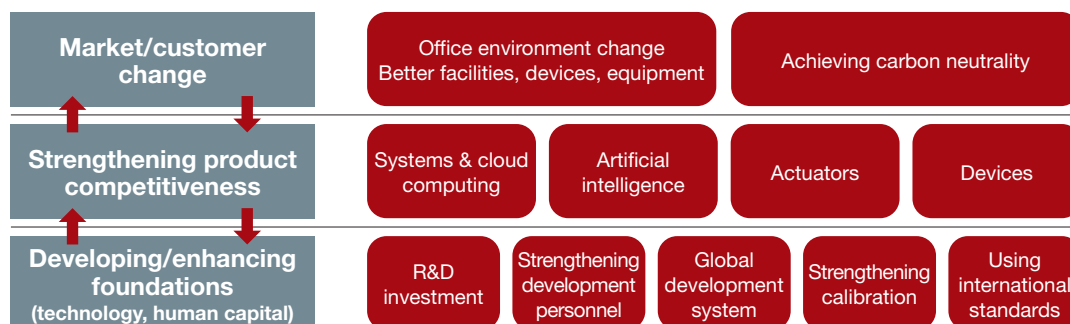
For example, we are accelerating research and development to meet the requirements for further energy conservation and energy conversion to achieve carbon neutrality, to respond to changes in offices, such as the pursuit of wellness and optimal working environments, and to make improvements in the performance of facilities, equipment, and devices.

Also, in order to strengthen the foundations for future business growth, we are making changes to establish

systems and mechanisms for the creation of competitive products, particularly at the Fujisawa Technology Center, our central R&D base.

Specifically, to further strengthen the area of measurement and control technology, we have established a new organization, Actuator Development Headquarters, to enhance our ability to create new value at customers' sites in the field of the actuator and its application. In addition, we are strengthening our application development system both in Japan and overseas using systems and cloud computing, artificial intelligence (including generative AI), etc. Also, in addition to last year's collaboration with external partners, in this fiscal year we will work to strengthen partnerships in the areas of renewable energy and new technology, both domestically and internationally.

Strengthening product competitiveness and linking R&D infrastructure



R&D investment

Technological trends, such as applying IoT and DX, are changing our environment dramatically in several fields, including measurement and control field we focus on. This change affects the expectation of society to contribute to environmental conservation, curb energy consumption, achieve people's wellness and so on.

To meet the requirements of society, respond to the needs of our customers, and expand our business through new products, we continue to focus on developing products and services that will become number one in areas like system and cloud computing, AI, devices, and actuators, as well as developing technology with a scope of the medium- to long-term growth. The new lab building (Building 103) and clean room and calibration office in Building 104 were completed at the Fujisawa Technology Center in September 2022. We will enhance our R&D for more sophisticated and advanced technology effectively with them.

In system and cloud computing, the control domain is expanding through the digitizing corresponding environmental changes in production facilities, office buildings, and living areas. Customer requirements are rapidly shifting from operation-oriented systems to management systems. It is therefore crucial to develop products and services that keep up with the latest technological trends, such as the use of generative AI. Viewing these trends as an opportunity to expand our business, we continue to develop system

New buildings at the Fujisawa Technology Center



Building 103

No. of floors	6
Building area:	2,320 m ²
Floor space:	10,721 m ²

- Better facilities for the development of central air conditioning technology that excels in comfort, energy efficiency, and harmony with the environment
- An innovative development environment that stimulates and activates creativity



Building 104

No. of floors	3
Building area:	1,336 m ²
Floor space:	4,217 m ²

- Expanded facilities for MEMS sensor development and production using world-class advanced MEMS technology as a base for developing measurement and control technology
- Enhanced facilities for developing measurement standardization technology, which is the basis for high-precision and high-reliability products

foundations and applications across the entire company.

With regard to actuators, in light of the importance of strengthening the Group's product business, we are enhancing our actuator technology development capabilities with the help of the knowledge we have cultivated on valve and robotics technology. The further development of actuator-related technology, which is used in all of our businesses, will strengthen our product development and product expansion.

For these purposes also, the new building for conducting experiments will be used as a field testing environment to verify value in the field.

On the subject of devices, we will continue to strengthen our development capabilities in microelectromechanical systems (MEMS) with the help of a new clean room and other development and production environment enhancements. The range of applications for MEMS is expanding due to changes in the external environment, including a shift to more advanced kinds of measurement where quality rather than quantity is measured, the emergence of synergies with AI and DX, and a move toward autonomy in automation. In this environment MEMS is a core measurement and control technology for measurement instruments and field devices, so we will continue developing it and taking on new R&D challenges.

With the technology in these areas we are strengthening at our core, we aim to make contributions "in series" to the achievement of a sustainable society.

Strengthening development personnel

We will focus further on training development-related personnel to increase product competitiveness. By fostering not only the diverse specialized skills of our developers, but also employees' ability to think, learn, collaborate, improve performance, and produce results independently, we aim to develop human resources who can create value in the field and take on the challenge of innovating. We are also working to train and acquire development-related personnel who are diverse, receptive to new ideas and technologies, and can collaborate with external partners in our global development system.

To achieve this, we have introduced and are now using a skills management system to visualize the technical and human skills of the approximately 1,000 engineers throughout the company, and to objectively and quantitatively identify and evaluate personnel who can accelerate development for growth. We also have in place an education system that uses diverse analytical methods based on individuals' skills to enhance career development and technical transfer capabilities. Furthermore, we have established an optimal development personnel structure by strengthening the hiring of individuals who share our Group philosophy and by mobilizing human resources in the development areas we are focusing on.

Research and Product Development

Global development system

With our research and development center in Silicon Valley in the U.S. and with our European group companies, our technology and product development has a global perspective.

Our U.S. R&D company works on the development of next-generation measurement technology, surveys the latest technological trends in areas like the IoT, engages in international standardization activity, and does collaborative research with local universities and start-up companies on subjects like AI-based technology development.

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

In addition, as the next step in revising our global R&D collaboration structure, we are establishing a new research and development center in Singapore. Strengthening cooperation between R&D functions in Japan and abroad, we aim to achieve rapid application development and test marketing through collaboration with our business lines, taking advantage of our proximity to the market.

We will continue to take the initiative at our regional centers in Japan, the Americas, Asia, Europe, and other regions, while at the same time collaborating with interregional research and development centers to identify market changes in each region in a timely manner and to collaborate with business lines in a flexible manner. Also, to facilitate rapid product development, we will further strengthen co-creation by using each regional center as a base for collaboration with external partners.

Global research and development bases



Enhancing calibration capabilities to support measurement reliability

With “correct measurement” as the foundation for measurement and control, the azbil Group provides safety, comfort, and fulfillment for its customers. To determine whether the sensors and measuring instruments that are key to this end goal are measuring correctly, calibration is applied. The measuring instruments and generators that themselves serve as the physical measurement standards

are managed with high precision. The Measurement Standards Section at Azbil Corporation’s Fujisawa Technology Center is certified by the Japanese government as a JCSS Accredited Laboratory*1 with excellent calibration capabilities for temperature, humidity, electricity, pressure, vacuum, liquid microflow, gas flow,*2 and time (frequency). The Calibration Service Center at Azbil Kimmon and the Calibration Group at Azbil Kyoto are also certified as JCSS Accredited Laboratories, maintaining calibration capabilities that are top-class in Japan. These top-notch calibration capabilities and high-precision physical standards undergird the azbil Group’s correct measurements.

The new calibration office (in Building 104) in the Fujisawa Technology Center, which began operation in September 2022, has been visited by many customers and others, who have been able to witness the high quality of the azbil Group’s measurement abilities. We will continue to communicate the importance of correct measurement internally and externally through tours of the new calibration office.



New calibration office and (center) high-precision vacuum calibration system

*1 Information on the categories registered and certified under JCSS is provided on the website of the National Institute of Technology and Evaluation (NITE).

*2 Certification for gas flow rate is expected this year.

azbil Group calibration locations



Company	Location	Calibration capabilities
Azbil Corporation	Fujisawa Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage, resistance), fluid flow (gas, liquid), pressure, vacuum, time (frequency), length, weight, torque
	Kawara Technology Center Calibration Office	Temperature, humidity, electricity (current, voltage, resistance), pressure, time (frequency), length, weight, torque
Azbil Kimmon Co., Ltd.	Calibration Service Center	Flow rate (gas)
Azbil Kyoto Co., Ltd.	Calibration Group	Flow rate (liquid)
Azbil Kimmon Energy Products Co., Ltd.	Shirakawa Factory Calibration Department	Flow rate (gas)

Utilization of international standards

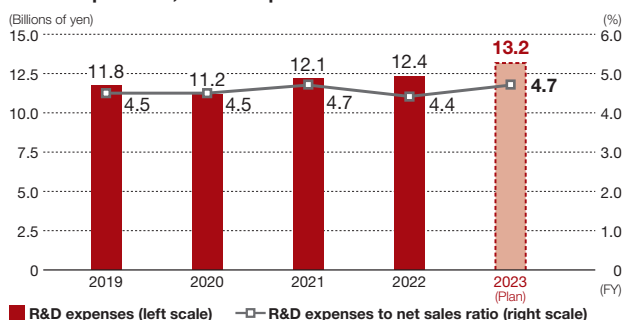
To promote global business, it is essential to utilize international standards as tools for market formation and certification of high quality. The azbil Group works on international standardization that is directly related to our business, and also has established a framework for discussing the use of international standards across the entire company in order to strengthen our global business. We continue to expand our utilization of international standards, viewing compliance with them not as a constraint but as a seed of innovation, and experimenting with initiatives to develop technology unconstrained by past limitations and free of preconceived ideas.

KPIs for technology and product development

The azbil Group has set out quantitative performance indicators (KPIs) for the development of technology and products, such as the ratio of R&D expense to net sales or product sales, as well as the ratio of new products to product sales. We also appropriately revise our strategies for development of technology and products by monitoring the effects of our developed technology and products over time.

For research and development, we invested ¥12.1 billion in FY2021 and ¥12.4 billion in FY2022, and plan to invest ¥13.2 billion in FY2023. We are steadily investing in technology and product development in order to systematically promote product development for growth.

R&D expenses, R&D expenses to net sales ratio



Design management

To achieve “a world of automation created by human ingenuity and technology,” we advance design development based on human-centered design standards in the product development process. Since the azbil Group’s automation technology directly affects people’s health and well-being, the design of our products and services must also align with people’s ways of working and lifestyles, and be comfortable to use and attractive. The design of products that people directly see and interact with, such as interfaces or products placed in office spaces and production sites, should be not only safe and convenient, but also conscious of well-being. Thus, while ensuring the functions necessary for long lasting products, we are also transforming our designs to meet changes in ways of working and lifestyles.

One of our activities is to have employees from various departments and positions come together to formulate a vision for the future of our business. We also provide design education to instill creative thinking within the company. We believe that the strength of our design capabilities lies in the ability of our diverse human resources to direct their creativity toward a single theme. In order to continue providing new value to the world, we approach our design management with the goal of own growth.

The various products developed through our efforts over the past few years have been honored with prestigious design awards both in Japan and abroad.



The model F4Q digital mass flow controller, which won the 2021 Good Design Award and 2022 iF Design Award



The cell-type air conditioning system, which won the 2021 Good Design Award

Hot topic

Using external collaboration in our global development system

At our research and development center in Silicon Valley, we collaborate with U.S. universities and startup companies to research the latest technology trends, develop new technology, and work on international standards in both the device/actuator area and the application area.

Furthermore, as part of our external collaboration in India, where future growth is expected, in May 2023 Azbil signed a memorandum of understanding with the Indian Institute of Technology Roorkee* (IIT Roorkee) for joint research on innovative digital solutions. Azbil and IIT Roorkee will conduct joint research and internship programs in areas of mutual interest. Plans include joint academic activities, digitization acceleration projects, sharing of expertise and human resources, and workforce development in specific fields of science, technology, engineering, and mathematics (STEM).

* An institution of national importance providing higher education in engineering, sciences, management, architecture and planning, humanities, and social sciences. Since its establishment in 1847, it has played an important role in providing technical manpower and know-how to India.



MoU signing ceremony between Azbil and IIT Roorkee

Research and Product Development

Special
FeatureResearch and Development Base
Fujisawa Technology Center

New laboratory building now open!

In September 2022, a new laboratory building, Building 103, opened at Fujisawa Technology Center, the azbil Group's central R&D base.

With the widespread adoption of teleworking and the shift to an era in which people can choose where to work, the role of the office and the importance of the work environment are being reevaluated. Building 103 is an ingenious showroom where customers can see firsthand what the future of the office will look like with the azbil Group's new technology.

Taking on the challenge of creating
comfortable office spaces

By attuning Building 103 to the people who work there, we are pursuing the office space of the future, where all people can work comfortably and with peace of mind.

For example, in large office spaces, we introduced a system whereby air conditioning settings can be adjusted for each small area, so that people can work in an environment that suits them best. In offices where there are people with different sensitivity to temperatures, the indoor environment that feels comfortable varies from person to person. In the café-style workspace on the first floor of Building 103, the room temperature control system takes people's sensations of heat or cold into consideration by allowing occupants to report that they feel hot, cold, or comfortable using an electronic temperature report card provided in the workspace or using their own PCs or digital devices. This allows individuals to create a personalized and pleasant working environment tailored to their comfort preferences.

In addition, by using infrared array sensors to accurately detect the presence of people for control of airflow and automatic turn-off of lights, people can benefit from technology that combines comfort and energy savings.

Also, in the second-floor cafeteria, we are testing a unique new system that links the lighting and air conditioning systems. Cooler temperature areas are illuminated with cooler color and higher intensity lighting, while warmer temperature areas are illuminated with warmer colors and lower intensity lighting, thus enhancing comfort by visualizing temperatures so that users can choose the space they prefer.

In Building 103, we are also experimenting with new ways to showcase azbil Group products so that customers can encounter them firsthand. We are presenting the effects

of the products used in places that are usually hidden from the public eye by means such as having visible facilities without a ceiling and using augmented reality (AR).

A solar thermal energy system is installed on the rooftop that stores the heat generated by the sun in a vertical heat storage tank. Since water of a higher temperature tends to move upward, cold water and warm water do not mix in the vertical thermal storage tank. Compared to conventional shallow pool-type thermal storage tanks, the water in the tank can be used more efficiently.

Improving the attractiveness of the Fujisawa
Technology Center

In addition to its functions as a showroom, Building 103 serves as a workplace that promotes innovation in ways of working. The café-style workspace includes areas where several people can hold meetings and individual booths where people can focus on their work. It can also be used as a satellite office and is designed for activity-based working (ABW), in which workers can choose the most suitable location for their work.

Offices must also be able to function as forums where people can gather, co-create, and innovate. Next to the café-style workspace on the first floor is a glass-enclosed co-creation area. Seeing collaboration there among other employees and with customers can stimulate employee interest, giving rise to new activities. The co-creation area is expected to become a driving force for generating innovation.

To foster a virtuous cycle for innovation, we have begun subcommittee work to improve the attractiveness of the Fujisawa Technology Center. The Center's value-creation potential is being enhanced through themes like employee



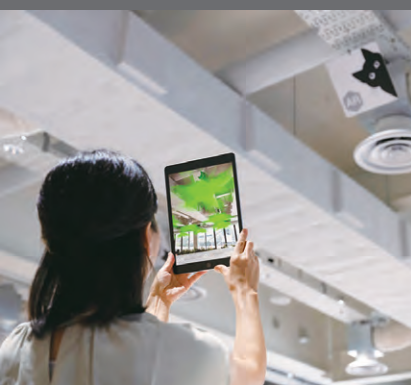
• **1st floor café-style workspace of Building 103**
A skeleton ceiling allows plumbing and equipment to be seen



• **2nd floor cafeteria of Building 103**
Occupants can choose their preferred place, with cool lighting for cooler spaces, warm lighting for warmer and more relaxing spaces.



• **The solar thermal energy system on the roof of Building 103**



The temperature and amount of airflow from the air-conditioning vents can be seen with AR.



The AR shows the temperature distribution in the vertical thermal storage tanks in an easy-to-understand way.

activation and open innovation, contribution to society and invigoration of local communities, surveys and research related to productivity improvement, promotion of new ways of working in existing buildings, promotion of Building 103 facility utilization, and health and well-being management.

Initiatives for employee activation

We are devising mechanisms to disseminate information on the subcommittees and the use of Building 103 so that people can gather together and share the joy of creating something new together. We will take steps toward implementation in 2023 and develop a concrete initiative.

New ways of working in existing buildings

Based on data about employee ways of working collected during the construction phase of Building 103, we reviewed the layout on all floors of the existing buildings after considering what characteristics and ways of working were appropriate for each department. As a result, we have selected the necessary fixtures and fittings. Next, we will conduct a post-implementation evaluation and promote office renovations.

Invigorating local communities

We have formulated a basic policy of “contributing to society through activities rooted in local communities at all our business sites, with active participation by every employee,” and are working on initiatives to that end. With the opening of Building 103, the Social Contribution Promotion Office and the subcommittee cooperated to develop new tour content based on the theme of energy conservation. With the cooperation of lecturers and support personnel from various departments of the Center, a tour was conducted for third graders from a nearby elementary school. The children and the teachers who led the outing expressed their appreciation, and participating employees had an opportunity to discover the significance of the company to society.

Initiatives for health and well-being management

In promoting work-style reforms, the azbil Group has advocated health and well-being management since July 2019 as a comprehensive approach to encouraging employee good health and liveliness. To foster safety, peace of mind, and wellness, six buildings at the Center, new and old, including Building 103, are enrolled in the WELL Health-Safety Rating® under the WELL Building Standard® (WELL Certification®), which evaluates buildings with a focus on human health and comfort.

* WELL Building Standard and WELL Health-Safety Rating are registered trademark of International WELL Building Institute (IWBI).

Manufacturing and Procurement

Improving the global production system

As the azbil Group expanded globally, a three-pronged production system with bases in Japan, China, and Thailand was established. At each location we are strengthening our production and procurement network, improving our sales and distribution channels for direct sales and shipment to various markets, and working to enhance productivity and expand production volume while lowering costs.

At our production center in Dalian, China, a new factory building was completed in April 2022, and we are working to automate various processes, including large body processing, painting, and inspection, in order to accommodate the expansion of production, especially for industrial valve production. We are also expanding the number of parts procured locally, and are working to reduce costs while expanding our procurement network.

At our Thailand production center, we have been expanding production models, focusing on component products, and improving the infrastructure of our production system. We are currently constructing a new factory to expand production models for products that require advanced production engineering, such as electromagnetic flowmeters and differential pressure transmitters for the industrial market.



The new factory building in Dalian, China, which has begun operation. An advanced control valve production system is under construction.



Artist's rendering of the factory building in Thailand now under construction. It will produce products for the industrial market.

Production upgrade initiatives

As part of the global production system development, we are strengthening the collaboration between the Shonan Factory, which is our core production facility, and the Fujisawa Technology Center's technology R&D functions. We continue to improve their function as the "mother factory" of the Group.

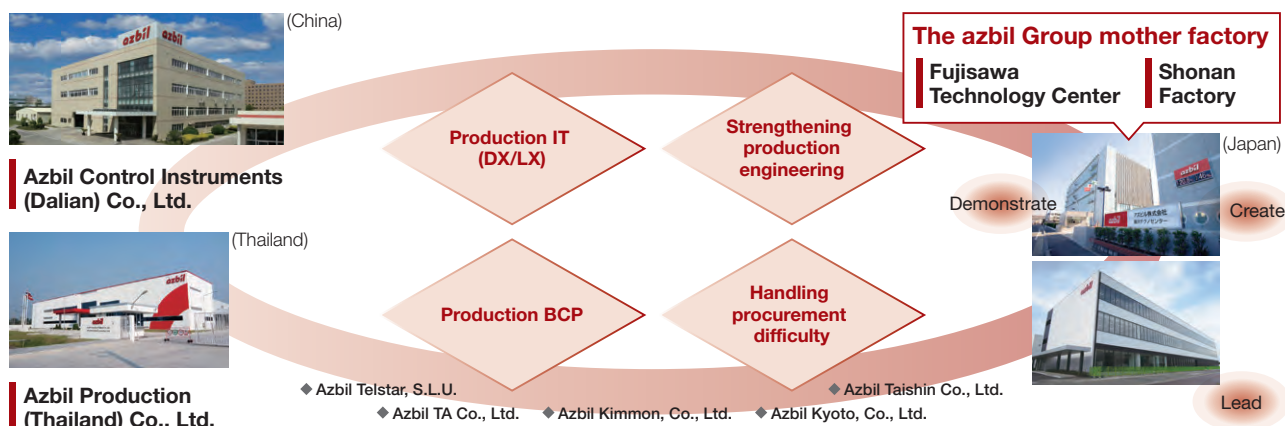
Production IT (DX/LX)

Year after year, the use of IT in production has been increasing due to the need to improve production process productivity and quality control and to address the shortage of human resources. The azbil Group is planning and implementing various IT initiatives at its Fujisawa Technology Center and Shonan Factory to improve their function as a mother factory. For example, to support Azbil's distinctive high-mix, low-volume production, IT is used to transmit the needed information to production equipment in a timely manner, to link PCs and projection mapping used in production, and to provide instructions on assembly locations and parts picking, which enhances the assembly process to prevent human error. We are also expanding IT-based quality control methods such as the collection and visual management of vast amounts of quality information which can then be used by people to devise and implement quality improvement strategies.

As part of our "production DX activity," relevant departments discuss approaches to these issues in the workplace and make improvements. At the same time, since the individual production management systems used by each product line are gradually aging, we are also implementing "production LX" (legacy transformation) to build entirely optimized systems that are linked to the core system while taking into consideration the characteristics of individual products.

The azbil Group's production system

The azbil Group's mother factory leads a strong global production system



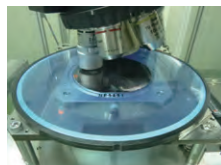
Strengthening production engineering

The azbil Group is innovating its production processes through the advancement of production engineering with the aim of building competitive production lines. Specifically, we are developing more advanced micro component bonding, adhesion, assembly, and precision machining technology, with a focus on MEMS sensor packaging. At the same time, we are promoting the development and application to production lines of construction methods that facilitate unique and advanced manufacturing, such as the utilization of new materials and innovative material processing.

We are also promoting the creation of more advanced processes and production lines by incorporating production IT engineering into our production. For example, we have switched from visual inspection to automatic inspection performed by high-resolution cameras and AI, and we are building a system that integrates information and materials by utilizing an IoT environment to link QR codes of products with production information.

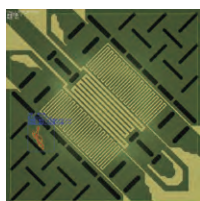
We are expanding the scope of application of these initiatives from our mother factory to production centers in Japan and overseas. We are striving to increase business competitiveness by maintaining and improving quality on a global basis.

MEMS sensor chip image inspection



By introducing an imaging device for inspection, accuracy has been improved and work time has been significantly reduced.

Many decisions can now be made automatically by AI-based image processing.



BCP for manufacturing and procurement

The azbil Group's business continuity planning (BCP) limits the impact on our customers of risks that threaten production or distribution in Japan and overseas, including natural disasters and other unexpected situations such as the COVID-19 pandemic or emergencies. To improve production robustness, we are implementing the following BCP initiatives with the aim of restoring production within an acceptable time period.

- Production line BCP: plans for restarting production lines
- Component BCP: plans for alternative acquisition of parts and for maintaining inventory

- Countermeasures for restrictions on work in the capital city area: securing alternative factory production and logistical capacity
- Disaster preparedness: strengthening the capacity of production sites to cope with natural disasters

Moreover, in response to the recent global shortage of semiconductors and the difficulty in procuring parts due to *force majeure* declarations by companies providing basic materials, we are implementing measures to minimize production stoppages through flexible responses involving the development of commercial distribution channels and design changes.

Response to parts procurement difficulties

In response to the prolonged global procurement difficulties for semiconductors and other parts, we are boosting our production BCP by focusing on the following three areas, in addition to coordinating with our suppliers.

(1) Cooperation among azbil Group companies

Leveraging its global production system with three main production bases Japan, China, and Thailand, Azbil is working to ensure parts availability by improving communication with its manufacturing subsidiaries in Dalian and Thailand to confirm market inventory in each country, especially in Asia.

(2) Obtaining and guaranteeing the quality of goods on the open market

We conduct searches for goods that are normally difficult to obtain. We have launched a search support system to greatly expand the scope of market inventory searches and enable appropriate acquisition, while at the same time ensuring the quality of parts by thorough quality-first authenticity checks, especially for semiconductors and other electrical and electronic components.

(3) Design changes due to selection of alternative parts

By adopting more readily available parts, our development department continues to rapidly identify and evaluate alternatives to ensure that products are delivered to our customers.

Enhancing governance for the global production system

We have been working on the development of production centers in Japan, the expansion of overseas production centers, and the development of a global production system in conjunction with the expansion of domestic production centers, and have secured a certain level of governance through various standardization measures at our mother factory. Going forward, we will further strengthen governance in order to continue providing products that customers recognize as having azbil quality.

Intellectual Property

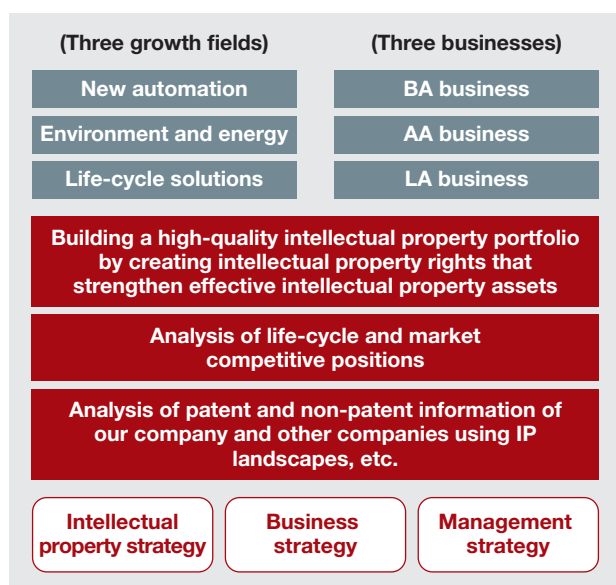
To ensure that Intellectual property is linked “in series” to the execution of the azbil Group’s management and business strategies, Azbil established its Intellectual Property Strategy Department in 2023.

This department, together with our business units and R&D departments, is strengthening and reforming the process of intellectual property creation so that intellectual property contributes to the azbil Group’s value creation. Specifically, in order to build a high-quality intellectual property portfolio, we analyze our own and other companies’ patent and non-patent information in each business and technology area utilizing IP landscapes, analyze life cycles and market competitiveness, and proactively acquire intellectual property assets that are judged to be effective.

Also, as part of our proactive intellectual property strategy, we verify business hypotheses by utilizing intellectual property information for technological and product development in the three growth fields defined in our medium-term plan, and as a defensive intellectual property strategy, we protect (deter and defend) existing intellectual property in business continuity/peripheral development in existing business areas, and maintain intellectual property of high importance that contributes to business strategies.

We are also notifying new IP creation processes and enhancing the content of intellectual property education for our business departments and R&D departments. In these efforts, we are promoting the training of professionals such as certified intellectual property analysts.

Initiatives for strengthening intellectual property capabilities



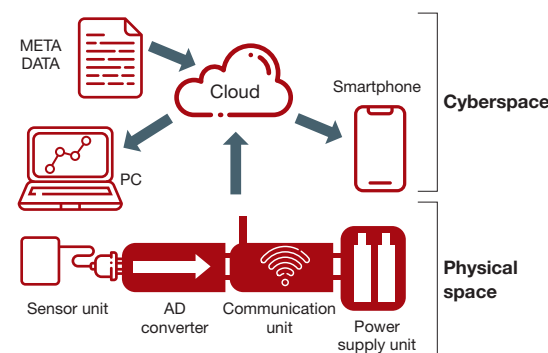
Proactive use of patents to achieve the DX of society through SUCS™*

Azbil Corporation holds a basic patent that allows for the easy construction of an IoT sensing system by connecting four units (sensor, AD converter, communication, and power supply) with a connector. The Japan Society of Next Generation Sensor Technology (Chairman: Akira Kobayashi, Professor Emeritus, Tokyo Institute of Technology) advocates the philosophy that sensing technology can solve technological problems in various fields and accelerate innovation in society. The company participates in the creation of the SUCS Consortium, which was established based on these patents in support of this philosophy, and provides these basic patents, which are indispensable to its activities, free of charge to member organizations.

By using SUCS to freely combine various units, even those without specialized knowledge can easily build and use a wide range of IoT sensing systems. By being able to use this technology, it is expected to contribute to the discovery of potential sensing-related requirements that cannot be solved by the company alone, DX in various fields, and ultimately the resolution of social issues that Society 5.0 aims to address. As a measurement and control enterprise, the azbil Group will continue to contribute to the DX of society.

* SUCS (SENSPiRE™ Universal Connecting System) is a registered trademark of the Japan Society of Next Generation Sensor Technology. SENSPiRE is a term coined from the words *sensor* and *inspire*, indicating the progressive advancement of sensors, and is a registered trademark of the Japan Society of Next Generation Sensor Technology.

SUCS Framework



Quality Assurance, Product Safety, and Product Reliability

We aim to ensure quality assurance, product safety and product reliability to satisfy customers and users throughout the product life cycle, from the planning of products that meet needs to final disposal.

For this reason, the azbil Group has established and implements the following basic policies.

The azbil Group Basic Policy on Quality

The azbil Group provides safety, comfort, and fulfillment in people's lives and helps to preserve the environment through "human-centered automation." Based on the azbil Group Philosophy, the Guiding Principles for azbil Group Business, and the azbil Group Code of Conduct, we work to satisfy our customers' expectations by supplying them with products and services of assured quality in the following three ways.

1. Using a quality management system
We use a quality management system to maintain and improve the quality of the products and services we provide.
2. Ensuring the anticipated level of quality
We always ensure the level of quality anticipated by our customers, and implement continuous quality improvement, striving to prevent the occurrence of any nonconformity in quality, reliability, or safety.
3. Aiming to offer appealing quality
We seek to provide attractive products and services that exceed customers' expectations.

The azbil Group Basic Policy on the Safety and Dependability of Products and Services

The azbil Group provides safety, comfort, and fulfillment in people's lives and helps to preserve the environment through "human-centered automation." Based on the azbil Group Philosophy, the Guiding Principles for azbil Group Business, and the azbil Group Code of Conduct, we work proactively to ensure the safety and dependability of our products and services for the safety and peace of mind of our customers.

1. Legal compliance
We comply with laws and regulations related to product safety and dependability, and strive to bring about the sort of society that the laws and regulations aim for.

2. Safe and dependable products and service
We ensure the safety and dependability of our products and services with advanced technology and proper management.
3. Customer safety and peace of mind
We strive to ensure customers' safe and confident use of our products and services by providing cautions, warnings, and other useful information.
4. Prompt response to problems
If there is an issue with a product or service, we respond promptly and appropriately.

Initiatives for quality assurance, safety, and reliability

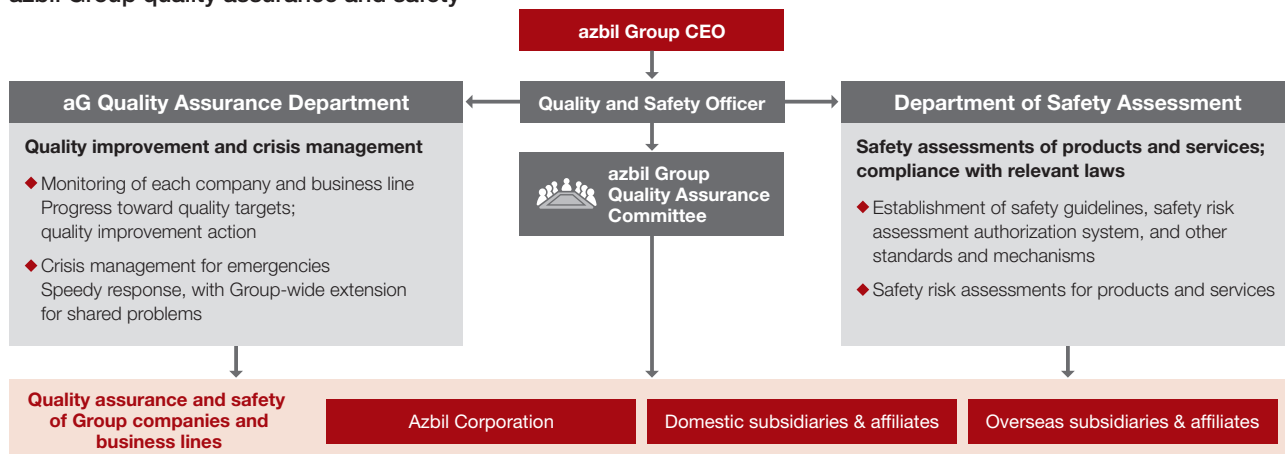
To ensure that our customers can use our products and services safely and with peace of mind, two corporate departments, the aG Quality Assurance Department and the Department of Safety Assessment, provide guidance and supervision of quality throughout the azbil Group and ensure product safety and reliability through safety audits.

Through the work of the azbil Group Quality Assurance Committee, we strive to prevent the occurrence or recurrence of quality problems, and we address major risks through mitigation strategies and the establishment of a crisis management system. We also endeavor to guarantee the safety of our products and services by promoting safe designs based on our Safe Design Standards document and by applying the mechanisms of our safety risk assessment system.

Quality assurance and safety of Group companies and business lines

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

azbil Group quality assurance and safety



IV. Human Capital

Efforts for Human Capital

The azbil Group is committed to continuously strengthening our human capital and enhancing enterprise value through people-oriented management.

Akihiko Naruse

Managing Corporate Executive
Human Resources & Education, SDGs



The azbil Group's approach to human capital

The azbil Group since its founding has regarded human capital as an essential asset that creates value, and it strengthens its human capital in order to continuously grow as a valuable presence in the world that makes contributions “in series” to the achievement of a sustainable society.

In our hiring process, we adopt the universal idea that employees are important assets and the source of new corporate culture and the creation of enterprise value, and we hire people with diverse value based on a variety of backgrounds who can respond to changes in our business structure in line with future technological developments and new developments in society. Moreover, to achieve our long-term targets and medium-term plan, in addition to preparing our personnel system so that employees will continue to play an active role, we systematically develop human resources who respond flexibly to change, and we assign the right people to the right positions, embodying our vision of being an organization that never stops learning. The azbil Group recognizes that every one of its more than 10,000 employees are human capital possessing some sort of talent. Based on a variety of human resource strategies, we create settings where individual capabilities can be fully realized, innovation can occur, and productivity can be further enhanced by increasing employee engagement, which will lead to the sustainable enhancement of enterprise value (i.e., we practice sustainability management).

Human resource strategy

The azbil Group defines *health and well-being management* as a comprehensive approach that enables all of our diverse employees to be healthy, active, and demonstrate their abilities, based on two strategies: innovating new ways of working and promoting diversity. In order to put this health and well-being management into practice, we are working to develop comfortable working environments for our employees and strengthening our human capital through measures such as “turning human resources into human capital” using the Azbil Academy, an institution specializing in human resource development, and thereby we are aiming for business expansion and growth in the three growth fields to achieve our long-term targets and medium-term plan.

① Human capital investment in the three growth fields

The azbil Group has organized the necessary human resource requirements to promote the three growth fields in which it has strengths: *new automation*, *environment and energy*, and *life-cycle solutions*, and we are making investments in human capital in line with our business strategy.

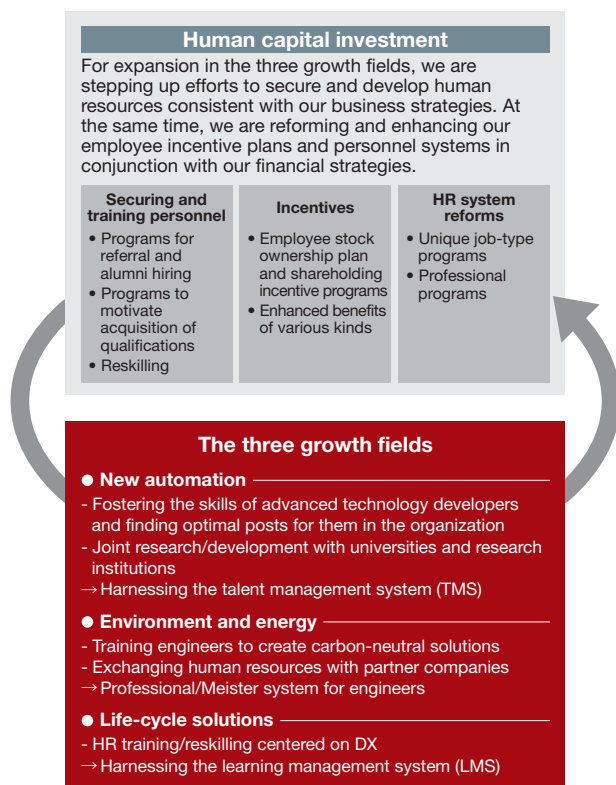
In the field of *new automation*, advanced technology development is necessary both in Japan and overseas. To this end, we are strengthening our training efforts by cultivating and optimally allocating engineers through our talent management system, hiring specialized personnel, and dispatching them to collaborative research sites.

In the field of *environment and energy*, we must strengthen our engineering capabilities and, in particular, further enhance our knowledge of renewable sources of energy. In addition to promoting human resource

development through mutual exchanges with partner companies, we are leading the azbil Group in strengthening its engineering capabilities by certifying high-level engineers as “Professionals” and “Meisters” under an in-house certification system.

As for the field of *life-cycle solutions*, it is essential to strengthen our engineering and service capabilities through DX and to enhance our global human resources. We are promoting reskilling across a wide range of areas, from production to service maintenance, engineering, and support staff departments, through DX education using the learning management system (LMS), etc., so that all engineers can acquire a basic knowledge of DX. The plan is to train all engineers to acquire basic knowledge of DX and to develop 1,000 or so specialists in the field.

Human capital investment for business growth



② Initiatives for human resource development

To sustain and develop azbil Group work that contributes “in series” to a sustainable society, the Azbil Academy is playing a central role in setting forth the Basic Principles of Human Resource Development, which call for: (1) teamwork and collaboration as work professionals, (2) a strong desire to be first class and the spirit to take on challenges, (3) high aspirations, a sense of ethics, and an international mindset. We are making systematic efforts to become “an organization that never stops learning” based on the

following human resource requirements.

Basic Principles of Human Resource Development

1. Human resources are the source of the azbil Group's growth, so the azbil Group cannot grow unless its employees grow.
2. Therefore, to optimize employee strength and organizational strength, the following are necessary.
 - (a) For individuals: Take responsibility for your own growth and the development of your abilities as much as possible
 - (b) For supervisors: Take responsibility for developing subordinates' abilities in the workplace
 - (c) For companies: Support individuals and organizations by providing opportunities fairly

To identify issues at customers' sites and deliver optimal solutions, engineers with advanced skills and extensive knowledge are the key. For example, to train next-generation engineers for the IoT and AI era, we have instituted an engineer education program covering the latest developments in technology and emphasizing practical examples. We are working to strengthen the knowledge and technical skills required to create high-value-added software and advanced engineering services.

At Azbil Academy, in addition to providing various training programs and LMS, we focus on developing global business leaders regardless of whether they are from domestic or overseas Group companies. In these advanced training programs, participants from local subsidiaries and affiliates around the world, including Japan, come together for English-based learning opportunities.

Also, we launched a diversity promotion initiative in FY2017 to implement strategies so that all employees can play an active role in the company. In order to enable employees with various backgrounds and values—including women, non-Japanese employees, and mid-career hires—to play an active role in the company, we are making efforts to develop leaders and change the workplace culture, as well as considering or introducing diverse ways of working.

③ Improvements in work environments

Based on the azbil Group Health and Well-being Declaration, which calls for collaboration between the company and employees to create comfortable and pleasant work environments and proactive efforts to promote mental and physical health, we encourage all personnel in various training programs to respect each other's different social and physical characteristics, ideologies, and values, and to take advantage of opportunities to play an active role.

Efforts for Human Capital

azbil Group Health and Well-being Declaration

The azbil Group believes that the health of each employee is an important basis for corporate action, and aims to create workplaces where each and every person at an azbil Group company works in a lively, healthy, and comfortable way, with a feeling of safety and peace of mind, and in a manner that suits each person. When each person is able to express his or her diverse abilities and to live a fulfilled life both at work and at home, productivity and performance will improve, resulting in innovation and contributions to society.

In our HR system, we have adopted the concepts of *permanent human resource development*, *maximizing employees' ability to demonstrate their abilities*, and *enriching employees' lives and securing human resources*, and we support the activities of our diverse employees through fair evaluation, treatment, and promotion based on demonstrated ability, regardless of age, nationality, gender, or any other factor. To enable employees to balance work and various life situations, including childcare and caregiving, we are also expanding programs that enable employees to remain active in the azbil Group over the long term throughout the course of their lives. These include a limited work area program, a flexible work schedule that includes shorter hours and shorter days, and a system of leave to accompany a spouse who is transferred overseas.

Other concepts include encouragement of all employees to create their daily work with an awareness of the need to enhance enterprise value. We expect employees to grow and develop themselves along with the company by practicing our Group philosophy. Similarly, the Employee Stock Ownership Plan aims to help employees build long-term assets by working together with the company to improve business performance. We are striving

to improve the work environment, including employee benefits, by introducing the Employee Stock Ownership Association and our own incentive plan for it.

We are also promoting the creation of new ways of working, starting from remote work during the COVID-19 environment. This is intended to provide employees with a new "office" environment by promoting hybrid work (working from home, or a combination of office work and remote work) and DX-based business innovation, while at the same time enhancing employee well-being and engagement by strengthening various occasions of communication (creating a forum for management and employees, and for employees to talk among themselves; a mentoring system; a system of short-term internship in another department; the development of internal communication tools, etc.).

Achieving essential goals of the azbil Group for the SDGs

With regard to human resource development and environmental improvement, we have set our own essential SDG goals for FY2030 as follows: "65% or more of employees have experienced personal growth over the past year" and "65% or more employees expressed satisfaction with working at azbil Group companies." This will lead to an increase in evaluation indices for areas like diversity, productivity, and well-being. We will continue to focus on health and well-being management, diversity promotion, development through reskilling, and other programs.

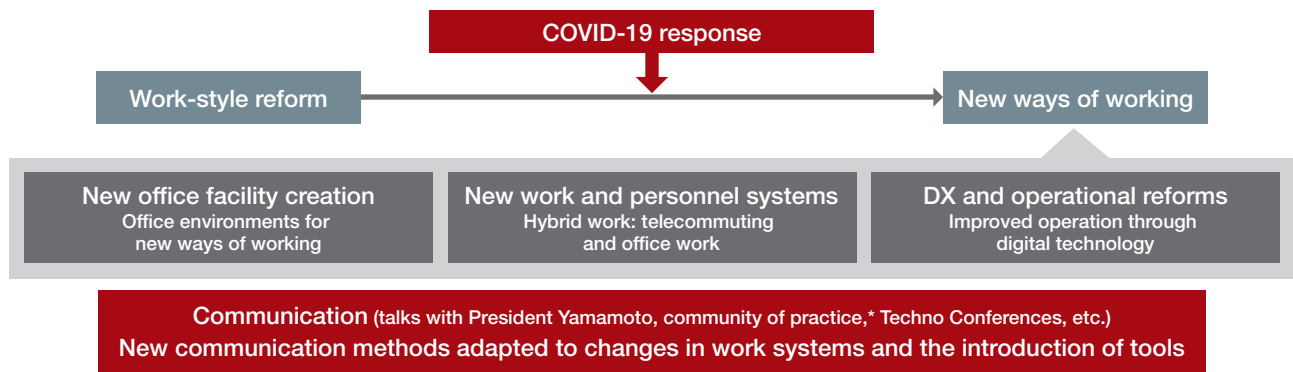
Using annual employee satisfaction surveys and other means, the status of each of these points is checked and analyzed, and problems are identified. By incorporating measures for improvement into our action plans, we further enhance employee job satisfaction and human resource development.

Human resources training program for leaders (for both domestic and overseas employees)



*Practical training at overseas subsidiaries and affiliates for three months to one year by the 10th year of employment, with an estimated 30 trainees each year

FY2022 creation of new ways of working: New work style



*Activities in which employees who are aware of and enthusiastic about a particular theme gather to deepen their knowledge and expertise through change



Office of Azbil Korea Co., Ltd.
Open area (left) and individual booths (right)



Tokyo Office of Azbil Corporation
Open meeting area (left) and communication area (right)



The azbil Group's Essential SDG Goal IV for the SDGs

Health and Well-being Management

65% or more*¹ employees expressed satisfaction with working at azbil Group companies (FY2030)

Double women's advancement points*² compared with 2017 (FY2024)

The azbil Group's Essential SDG Goal IV for the SDGs

An Organization That Never Stops Learning

65% or more*¹ employees have experienced personal growth over the past year (FY2030)

Double training opportunity points*³ compared with 2012 (FY2024)

*1 An employee satisfaction survey is conducted annually.

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

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

Employee comment

Initiatives related to our own essential SDG goals at overseas Group companies

At Azbil North America Research and Development, Inc. (ANAD), one of our R&D bases, we conducted team building activities called The Singing Tree™ Mural Project* for our own essential SDG goals. In this seminar, participants from diverse cultures shared their values and imagination. "Expanded Learning and Openness" emerged as a primary principle. We co-created a cherry tree mural, including each person's ideas and artwork. In this non-threatening environment, we were able to enjoy ourselves while recognizing each other's creativity and individuality and fostering a sense of unity.

At ANAD there is a strong philosophy in promoting collaboration. It is sometimes difficult for geographically and culturally diverse teams to work together, but we want to overcome this and promote collaboration. As a member of the azbil Group, we will continue to promote job satisfaction, diversity and inclusion, which will lead to the realization of health and well-being management.

* Courtesy of Unity Through Creativity. See the official website for more details about the training. ANAD's initiatives are also featured on YouTube.



Unity Through Creativity official website
<https://www.unitythroughcreativity.org>

Video posted on YouTube

<https://www.youtube.com/watch?v=vRq8VQVgDIY>



Jeremy Tole
 Vice President
 Azbil North America
 Research and
 Development, Inc.



Employees of ANAD



Wooden mural painting

V. Environment

Environmental Initiatives

Environmental Management

In line with the Group philosophy, the azbil Group regards efforts to protect the global environment as a key issue for management. We aim to be an environmentally progressive company that works proactively to reduce the environmental impact of our customers' sites and address society's environmental issues through our business, and to reduce the environmental impact of our entire supply chain to further the achievement of a sustainable society.

Environmental Initiatives



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

Our basic approach

The azbil Group, in light of international developments such as the adoption of the United Nations' SDGs and the rapid drive towards decarbonization across society, has made a long-term commitment to protect the environment by addressing both its own and society's environmental issues.

To achieve integrated environmental corporate management (integrating an extensive range of environmental activities, including decarbonization, resource recycling, and biodiversity conservation, which are global environmental issues as demanded by society, into our business operations), we work to reduce our own environmental footprint, and strive to gain know-how that enables us to better apply our measurement and control

technology to assist customers in overcoming their environmental challenges. In that way, we help to preserve the environment through our core businesses and contribute to the achievement of a sustainable society.










System for progress on the environment

As a system for advancing environmental measures, the international azbil Group Environmental Committee, headed by the executive officer for aG Environmental Protection Innovation, meets three times a year to plan, deliberate on, and review each Group company's environment-related systems, considering both risks and opportunities.

Key policies in the medium-term plan (FY2021–24)

We have set medium-term plan to help achieve the essential goals of the azbil Group for the SDGs. Through integrated environmental corporate management, which combines environmental action with business action, we are strengthening collaboration with our business units while expanding the scope of our initiatives and making progress on the issues we have identified as priorities, namely decarbonization, resource recycling, biodiversity conservation, and promotion of environmentally conscious design for our products and services.

Key policies in the medium-term plan (FY2021–24)

Key policies	Policy	Results in FY2022
 Decarbonization	Effective reduction of CO₂ at customers' sites	<ul style="list-style-type: none"> • Work with business departments to increase CO₂ effective reduction • Visualized effective reduction of CO₂ in tandem with business targets
	Reduce GHG emissions from our business activities	<ul style="list-style-type: none"> • Expand and intensify energy-saving measures and promote using renewable energy to meet 2030 targets • Formulated concrete plan for decarbonization by 2030 • Increased number of our sites using renewable energy
 Resource recycling	Effective utilization of resources	<ul style="list-style-type: none"> • Make the entire supply chain carbon neutral by 2050 • Understood the amount of emissions from business partners and engaged in dialogue
 Biodiversity conservation	Comply with environmental laws and regulations	<ul style="list-style-type: none"> • Continuously reduce resource consumption through efficiency in business activities • Implemented target tracking by azbil Group environmental meeting bodies for reducing the use of various resources. Final disposal rate: 0.86% (for the Group's production bases in Japan, etc.) • Evaluated water risk
	Nature conservation efforts	<ul style="list-style-type: none"> • Set up a system to track action on laws and regulations • Prevented major legal violations and thereby avoided penalties, administrative fines, and lawsuits
   Promotion of sustainable product design	<ul style="list-style-type: none"> • Intensify nature conservation efforts (including conservation through our business activities) • During new product development, help achieve the own essential SDG goals by using sustainable design 	<ul style="list-style-type: none"> • Held 4 online conservation activities (46 participants) and 2 onsite conservation activities (20 participants), totaling 66 participants • Designed a system for sustainable design, formulated internal standards, set targets • Made a new progress tracking system for the own essential SDG goals
   Strengthen integrated environmental corporate management	<ul style="list-style-type: none"> • Strengthen environmental initiatives linked to business activities • Integrated major environmental goals (the essential SDG goal: Environment and Energy) with business plans 	<ul style="list-style-type: none"> • Respond to requests from stakeholders (investors, customers, etc.) • External evaluation of our climate change and water risk initiatives
		<ul style="list-style-type: none"> - CDP Climate Change 2022: A score - CDP Water Security 2022: A- score

Achieving a sustainable society

Our essential SDG goals for FY2030

Effective reduction of CO₂ at customers' sites:

3.40 million metric tons of CO₂/year

GHG emissions from business activities (scopes 1+2):

55% reduction (from base year 2017)

GHG emissions across the entire supply chain (scope 3):

20% reduction (from base year 2017)

Design all new products to meet the **azbil Group's own sustainability standards**

Design all new products to be **100% recyclable**

Contributing through our core businesses



Effective reduction of CO₂ at customers' sites:
2.76 million metric tons of CO₂ in FY2022

(See p. 75)

The azbil Group's value creation

- Comfortable indoor environments through our control technology
- Optimized use of energy by equipment and facilities using advanced control technology



Sustainable product design

- Consideration of the environment throughout the supply chain
- Creation and provision of products that contribute to solving global environmental issues (decarbonization, resource recycling, and biodiversity conservation)



Nature conservation efforts

Reducing our own environmental impact



Initiatives toward carbon neutrality

- Promoting energy efficiency using our visualization system
- Proactive use of renewable energy



Effective use of resources (reduction of resource inputs and waste)



Compliance with environmental laws and regulations and chemical substance management



CO₂ reduction (decarbonization)



Wise use of resources (resource recycling)



Harmony with nature (biodiversity conservation)

	Medium-term plan (FY2024)	Aims for 2030	Relevance to the own SDG goals
	<ul style="list-style-type: none"> • Further expand effective reduction of CO₂ at customers' sites, enhance collaboration with business departments 	<ul style="list-style-type: none"> • Effective reduction of CO₂ at customers' sites: 3.40 million metric tons/year 	<ul style="list-style-type: none"> • Solving energy-related problems • Quantitative targets have already been set
	<ul style="list-style-type: none"> • Work with business departments to intensify energy-saving efforts at key business locations • Further increase the number of our sites adopting renewable energy 	<ul style="list-style-type: none"> • Reduce GHG emissions from business activities (scopes 1+2) by 55% (from base year 2017) 	<ul style="list-style-type: none"> • Solving energy-related problems • Quantitative targets have already been set
	<ul style="list-style-type: none"> • Plan and commence work on making the entire supply chain carbon neutral by 2050 	<ul style="list-style-type: none"> • Reduce GHG emissions across the entire supply chain (scope 3) by 20% (from base year 2017) 	<ul style="list-style-type: none"> • Solving energy-related problems • Quantitative targets have already been set
	<ul style="list-style-type: none"> • Strengthen initiatives to reduce waste and consumption of resources like water (including compliance with Japan's Act on Promotion of Resource Circulation for Plastics, a new law on plastic waste) • Relevance of the circular economy to business and response organization 	<ul style="list-style-type: none"> • Establish resource recycling and circular economy initiatives overseas 	<ul style="list-style-type: none"> • Contribution to solving environmental problems - Effective use of natural resources and reduction of waste generation
	<ul style="list-style-type: none"> • Continue and strengthen tracking of action on laws and regulations 	<ul style="list-style-type: none"> • Continue and strengthen tracking of action on laws and regulations 	<ul style="list-style-type: none"> • Contribution to solving environmental problems
	<ul style="list-style-type: none"> • Further help conserve biodiversity through business 	<ul style="list-style-type: none"> • Strengthen biodiversity conservation efforts linked to the SDGs 	<ul style="list-style-type: none"> • Contribution to solving environmental problems
	<ul style="list-style-type: none"> • Make a progress tracking system for fulfilling the own essential SDG goals 	<ul style="list-style-type: none"> • Design all new products to meet the azbil Group's own sustainability standards • Design all new products to be 100% recyclable 	<ul style="list-style-type: none"> • Contribution to solving environmental problems - Create and provide environmentally friendly products and services • Quantitative targets have already been set - Effective use of natural resources and reduction of waste generation • Quantitative targets have already been set
	<ul style="list-style-type: none"> • Establish an environmental target progress tracking system linked to business 	<ul style="list-style-type: none"> • Achieve 2030 business goals and environmental targets (the own essential SDG goals) at the same time 	<ul style="list-style-type: none"> • Contribute to the SDGs by integrating environmental activities such as decarbonization, resource recycling, and biodiversity conservation into our business
	<ul style="list-style-type: none"> • Maintain and improve communication with investors and customers on environmental issues 	<ul style="list-style-type: none"> • Create links between the requests of investors, customers, and other stakeholders and the company and its businesses and environmental initiatives through appropriate communication 	

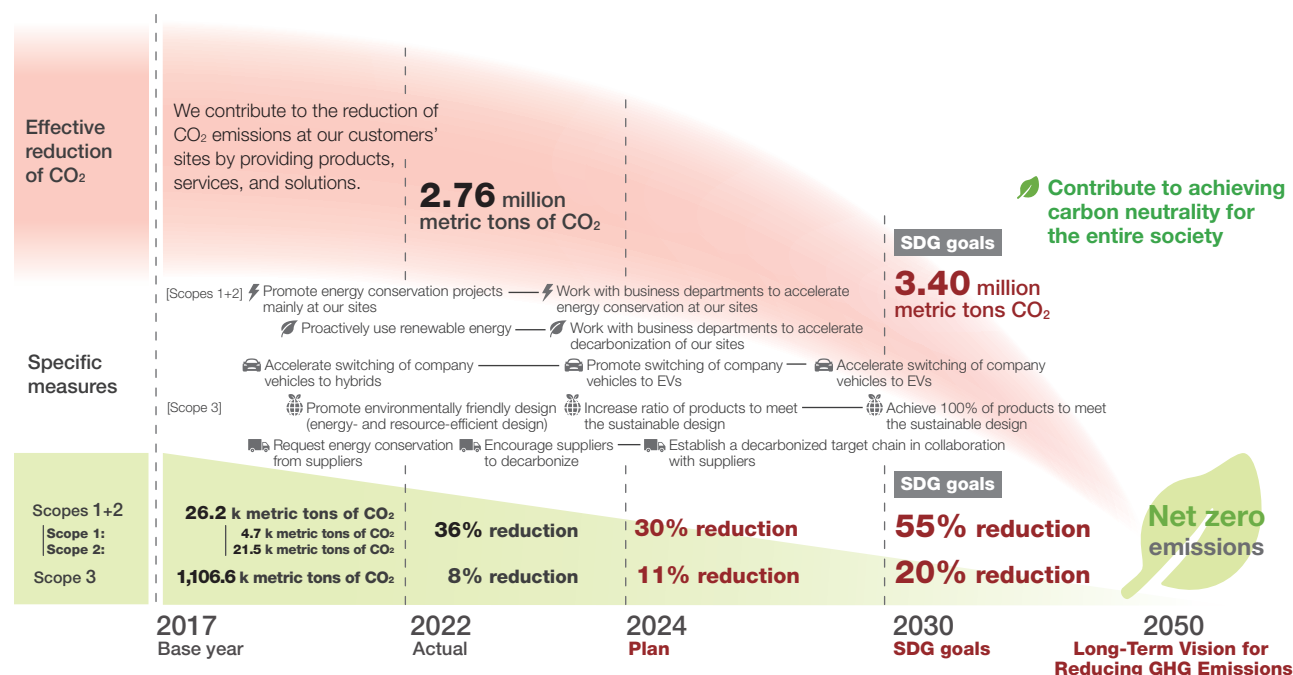
Environmental Initiatives

Decarbonization Initiatives

Plans and policies for decarbonization

In response to the movement toward decarbonization of society as a whole, we are helping to solve energy-related problems for our customers and society, and have

formulated and are forging ahead with plans and policies for reducing CO₂ based on the azbil Group's 2050 Long-Term Vision for Reducing GHG Emissions.

Effective reduction of CO₂ at customers' sites

We offer products, services, and solutions that help our customers reduce CO₂ emissions at their sites. By FY2030, we aim to increase this effective reduction to 3.40 million metric tons of CO₂.

The total annual effective reduction of CO₂ at customers' sites in FY2022 was 2.76 million metric tons.* This is equivalent to about 1/400th of Japan's CO₂ emissions (about 1.1 billion metric tons).

In the domestic plant market, CO₂ reduction decreased compared to the previous year due to factors such as the correction of an excessive calculation due to an error in FY2021, and changes in the types of buildings ordered in the domestic building market. In order to increase CO₂ reduction, we will continue to address changes in the market environment and implement measures linked to business growth, such as expanding the scope of our CO₂ reduction work.

* In order to quantitatively assess the contribution to the reduction of environmental impact, the effects were classified into the three categories of 1) effects from automation, 2) effects from energy management, and 3) effects from maintenance and services to theoretically estimate the difference between adopting and not adopting azbil Group products, services and solutions at customers' sites. Global reduction impact is partially based on original methods. A third party reviewed the estimation method.

The azbil Group's Essential Goal I for the SDGs (for FY2030)

Environment and Energy

Effective reduction of CO₂ at customers' sites
3.40 million metric tons of CO₂/year

* The FY2030 emission factor from electricity generation is our own estimated value based on the Japanese government's Energy Basic Plan in 2019.

Total effective reduction of CO₂ at customers' sites (FY2022)

2.76 million metric tons of CO₂/year

Automation effects

2.50 million metric tons of CO₂

Energy management effects

0.21 million metric tons of CO₂

Maintenance and services effects

0.05 million metric tons of CO₂

Greenhouse gas (GHG) emission reductions

In FY2022 the azbil Group emitted 17 thousand metric tons of CO₂ from its business activities at its own sites (scopes*¹ 1+2), a 36% reduction from FY2017, and its entire supply chain (scope 3) emitted 1.02 million tons of CO₂, an 8% reduction from FY2017. We are on track to achieve our SBT targets.

In an effort to reduce CO₂ emissions from our own business activities, we procured 100% of the electricity used at our mother factory, the Shonan Factory, and other locations, from renewable energy sources, and introduced a photovoltaic power generation system at the Azbil Kimmon Energy Products Wakayama Factory and at Azbil Taishin. As a result, 36% of the entire Group's electricity consumption in FY2022 came from renewable energy sources.

We are also working to reduce CO₂ emissions throughout the entire supply chain. Since CO₂ emissions from the use of products sold and from purchased products and services comprise over 90% of the total, we are concentrating our efforts on environmentally conscious design (e.g., energy-saving or resource-conserving design).

We are also making efforts to strengthen cooperation on decarbonization with our suppliers.

In June 2023, a commitment letter was submitted to SBTi for application within two years to set a net zero target for 2050 for all CO₂ emissions (scopes 1+2+3).

The azbil Group's Essential Goal I for the SDGs (for FY2030*2)

Environment and Energy

GHG emissions from business activities (scopes 1+2):

55% reduction

(Ref.: 2017 base year; reapproved August 2021)

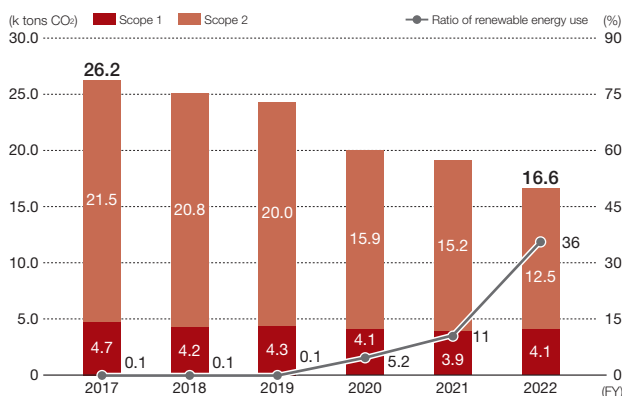
GHG emissions across the entire supply chain (scope 3):

20% reduction

(Ref.: 2017 base year; approved May 2019)

*1 Scope 1: Direct GHG emissions from a business (from fuel burning, industrial processes, etc.)
 Scope 2: Indirect GHG emissions from using electricity, heat, or steam provided by another business
 Scope 3: Indirect GHG emissions related to business activities (indirect emissions not included in scopes 1 and 2)
 *2 The targets approved by the SBTi are as follows: Azbil Corporation commits to reduce absolute Scope 1 and 2 GHG emissions 55% by FY2030 from a FY2017 base year. Azbil Corporation also commits to reduce absolute Scope 3 GHG emissions 20% within the same time frame.

CO₂ emissions (scopes 1+2) and ratio of renewable electricity use (% of electricity consumption)



* The market-based method was used to calculate CO₂ emissions.

* Part of the figures contain estimates of quantities such as energy for air conditioning at rented offices.

* We received third-party verification for our CO₂ emissions figures (scopes 1+2) for FY2017 onwards. Azbil Telstar, S.L.U. was added to the scope of verification in FY2021.

Scope of calculations

Azbil Corp., consolidated subsidiaries in Japan, and main production bases overseas

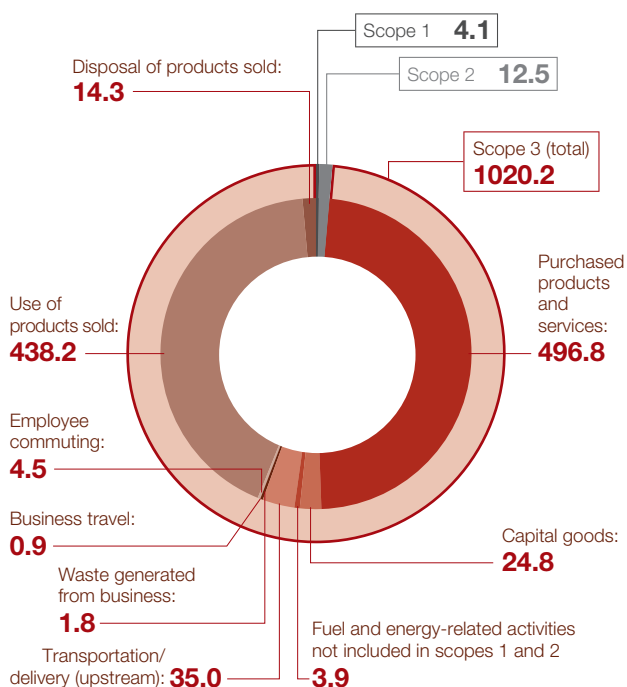
CO₂ emissions calculated from electric generation based on a fixed value of 0.378kg-CO₂/kWh

(unit: 1000 metric tons of CO₂)

	2017	2018	2019	2020	2021	2022
Scopes 1+2	20.4	19.9	19.3	18.0	18.2	20.0

* We also recognize the importance of reducing our overall energy consumption, and are working to do so with departments knowledgeable about the energy conservation business. Consumption has increased with the completion of the new buildings in the Fujisawa Technology Center and other projects.

Breakdown of CO₂ emissions (scopes 1+2+3) in FY2022 (thousand tons of CO₂)



Scope of calculations

• Scopes 1+2: Azbil Corp., consolidated subsidiaries in Japan, and main production bases overseas
 • Scope 3: Azbil Corp. and consolidated subsidiaries

Environmental Initiatives

TCFD-based Reporting

—Identifying and Disclosing Climate Change Impact



The azbil Group considers climate change to be one of the material issues to be tackled over the long term in order to make contributions “in series” to a sustainable society. Going forward, we will continue to disclose information proactively and continuously in line with recommendations of the Task Force on Climate-related Financial Information (TCFD).

In November 2019, the azbil Group endorsed the recommendation by the TCFD to gain an accurate understanding of the impact of climate change on its business activities and to properly disclose that impact. After this endorsement we considered both the opportunities and risks in each of our businesses based on rising temperature scenarios and realized that the opportunities for our businesses to contribute to CO₂ reduction significantly outweigh the risks. We disclose our governance, strategies, risk management, metrics and targets related to climate change as follows.

Governance

The azbil Group recognizes that climate change is one of the top priorities in practicing the Group philosophy, and a cross-Group task force led by a designated officer was formed to deliberate on the business and financial impact of climate change in the Management Meeting under the supervision of the Board of Directors.

Strategy

Based on information from the Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA) and other organizations, we have identified the long-

term business risks and opportunities for the azbil Group until 2030 according to a 1.5 or 2°C scenario*¹ and a 4°C scenario.*² We understand the 1.5°C scenario to have the same opportunity and risk trends as the 2°C scenario, but with a greater degree of impact.

*¹ This scenario assumes that temperature rise is contained within a sustainable range due to the implementation of stricter regulations and the introduction of technological innovations aimed at a decarbonized society.

*² This scenario assumes that no effective measures to reduce greenhouse gas (GHG) emissions are implemented, resulting in continued temperature rise and an increase in abnormal weather and natural disasters.

Impact of opportunities and risks on financial plans, and countermeasures

We perceive the opportunities for azbil Group business activity that help to reduce CO₂ emissions as outweighing the risks.

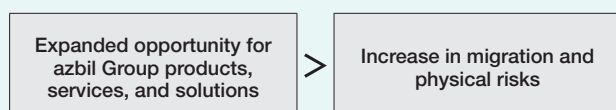
We divided risks into physical and migration risks and analyzed their impact on finances. Although we estimate physical risks based on a number of assumptions, we believe that their impact on business is limited due to the countermeasures we have in place, such as decentralizing our production network and formulating business continuity plans. For migration risks, we have formulated the 2030 Greenhouse Gas (GHG) Emission Reduction Targets based on SBTs to gradually reduce our GHG emissions, and we are putting systematic risk reduction measures in place. Emissions from the azbil Group's own business activities (scopes 1+2) were approximately 0.017 million metric tons, a figure that is roughly 1/170 of our 2.76 million metric tons of effective CO₂ reduction at our customers' sites,* a relatively low level. Even if carbon prices rise in the future and there is an

Disclosure of opportunities and risks

Type	Scenario	Building Automation business	Advanced Automation business	Life Automation business
Opportunity	1.5 / 2°C	Expanded demand for energy-saving and CO ₂ -reducing solutions and services that meet global needs	Increased demand for solutions, as well as sensors and other measuring instruments designed for new industries and processes that reduce environmental impact	Increased SMaaS business for gas meters using IoT technology
	4°C	Increased demand for products, services, and solutions that enable buildings to adapt to climate-related disasters	Increased demand for products, services, and solutions that offer anomaly prediction functions	Increased demand for products, services, and solutions adapted to handle climate-related disasters
Migration risk	1.5 / 2°C	<ul style="list-style-type: none"> Increased R&D costs for new products and services that target new markets and meet new regulations Increased production and procurement costs due to rising energy prices Increased cost of the azbil Group's CO₂ emissions and reduction in customers' fossil fuel-intensive capital investment in due to rising carbon prices 		
Physical risk	4°C	<ul style="list-style-type: none"> Operational stoppages due to abnormal weather events, inability to provide products, services, and solutions Large reduction in customer investment due to business instability caused by abnormal weather 		

increase of ¥5,000 to 10,000 per ton, the total financial burden would be limited to around ¥100–200 million. However, after a quantitative evaluation of the impact on the azbil Group's business in 2030 in the hypothetical 1.5 / 2°C scenario, we expect it will lead to an effective reduction of CO₂ at customers' sites and the expansion of new energy markets. We, therefore, estimated the contribution to the increase in sales to be at least on the scale of about ¥12 billion per year.

* Effective CO₂ reduction is estimated by the difference between customers' adopting and not adopting azbil Group products, services, and solutions at their sites (see p.75).



● **Building Automation (BA) business: approx. ¥7 billion**
Due to the increased installation of related equipment and of high-efficiency equipment caused by the spread of renewable energy sources and the increase in electricity rates, we assume an increase in demand for existing business related to energy conservation, such as our total energy management service (TEMS). We also assume an expansion in business opportunities for one-stop services that combine energy procurement and emissions-trading (such as from renewable energy sources) with an energy management system (EMS) that centrally manages everything from the visualization of CO₂ emissions to carbon offsets. Our estimates are based on a scenario with certain assumptions as well as past installation histories and customer needs in the hospital and hotel market, where energy use is high.

● **Advanced Automation (AA) business: approx. ¥5 billion**
We assume an increase in business opportunities related to markets that contribute to carbon neutrality (hydrogen, CO₂-free ammonia, carbon recycling / CCUS*). Our estimates are based on a scenario with certain assumptions arising from current trends, past installations in the target market, and the target market's growth rate according to third-party research organizations.

* Carbon dioxide capture, utilization and storage

The azbil Group is working on initiatives below to control the risks and expand the opportunities.

- **Main initiatives in FY2022 to control the risks**
- Initiated procurement of 100% renewable electricity for Shonan Factory and Hadano Distribution Center

- Introduced solar power generation at the Wakayama Factory of Azbil Kimmon Energy Products Co., Ltd. and Azbil Taishin Co., Ltd.



Solar power generation facilities at the Wakayama Factory

- **Main initiatives in FY2022 to expand the opportunities**
- Established the GX Solution Department as a new organization to lead green transformation (GX) on a company-wide basis
- Endorsed and invested in Japan Green Investment Corp. for Carbon Neutrality, a public-private fund
- Invested in Clean Energy Connect Inc. through a third-party allotment of new shares and formed a business alliance agreement with the company
- Launched an energy service provider business, which contributes to our customers' efforts to become carbon neutral

Risk management

The azbil Group works to comprehensively identify risks that may have a significant impact on operations, including those connected to climate change. Deliberations are held in the form of a workshop by management at the azbil Group General Risk Committee, to identify risks deemed important to the azbil Group and also departmental management risks. The selected risks are submitted to the Board of Directors for deliberation and final decision. Once the risks are identified, at the beginning of the fiscal year, we formulate an annual risk response plan and report the progress of the plan at the azbil Group General Risk Committee and other meetings held during and at the end of the fiscal year. Through this process, we continuously recognize and address any delays in or challenges to implementation of the plan, following the PDCA cycle (see pp. 85-86).

Metrics and targets

We promote efforts to combat climate change through our business activities, which contribute "in series" to the achievement of a sustainable society, by considering metrics and targets that take into account all azbil Group customers, the Group itself, and its entire supply chain (see pp. 75-76).

Environmental Initiatives

Initiatives for Resource Recycling

Through our business activity we are working to reduce the use of water and other resources and reduce waste, and we are also using sustainable product design to use natural resources efficiently and reduce the generation of waste. We have set a goal of designing all new products to be 100% recyclable* within the scope of the best available technology (BAT) by applying the 3Rs (reduce, reuse, recycle) through environmentally conscious design during new product development. We are working to design products that the customer can disassemble or separate and recycle at the time of disposal. In FY2022, we achieved this target for about 20% of our new products. However,

we are on track to achieve the interim target (75%) for the entire company, with about 70% of our products having achieved the target.

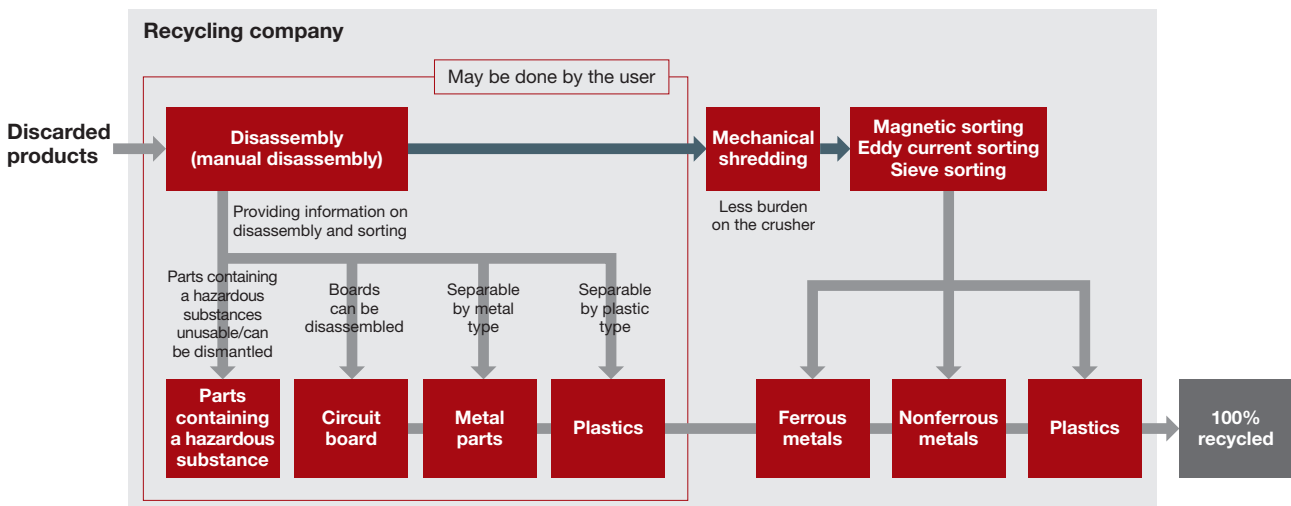
The azbil Group's Essential Goal I for the SDGs (for FY2030)

Environment and Energy

Design all new products to be **100% recyclable**

* We eliminate various factors that hinder recycling so that when customers dispose of azbil Group products, all parts can be properly disassembled and sorted to achieve 100% recycling.

General example of the recycling process



Message from a customer

Water management using an IoT of water meters at a resort villa



Hideki Fujimiya
Director and General
Manager
Resort Business Division
Towa Nasu Resort Co.

Towa Nasu Resort has approximately 5,000 resort villa lots on a site that is 171 times the size of the Tokyo Dome. After introducing Azbil Kimmon's cloud service, we are able to check water usage from the comfort of the office without having to go to each water meter scattered throughout the property. We also can now inspect the previous day's meter readings for all units the first thing in the morning every day to check for any abnormal readings. We have been able to streamline and improve our operations and gain peace of mind by no longer having to make major repairs as a result of waterlogged floors that were discovered too late when there was no occupant, and by having a system in place to prevent the wasteful use of tap water.



Initiatives for Biodiversity Conservation

The azbil Group continues to contribute to biodiversity conservation through our business operations, to promote initiatives with our business partners and throughout our supply chain, and to strengthen our conservation of the natural environment through collaboration with various relevant domestic and overseas organizations. To prevent the spread of COVID-19, onsite activities had been suspended. However, in FY2022, onsite activities were resumed in

addition to online activities. A total of 66 employees participated in activities on six occasions (four online and two onsite).



Himesayuri seed planting in the town of Minamiaizu, Fukushima Prefecture

Initiatives for Sustainable Product Design

To create and provide sustainable products aimed at solving problems in three environmental priority areas—decarbonization, resource recycling, and environmental pollution prevention—we set the new target of designing all new products to meet the azbil Group's own sustainability standards, and we are working on this as an SDG target. Also, we are contributing to the solution of society's

environmental problems by integrated environmental corporate management, which integrates environmental issues into business activities. The azbil Group Sustainable Product Label has been created for products that meet our sustainability standards. In FY2022, we confirmed that approximately 70% of new products meet the standards.



The azbil Group Sustainable Product Label

The azbil Group's Essential Goal I for the SDGs (for FY2030)




Environment and Energy

Design all new products to meet
the azbil Group's own sustainability standards*

* This is design that strives to help solve environmental problems (through decarbonization, resource recycling, and biodiversity conservation). It is comprehensively evaluated based on the following items.

- Product life-cycle CO₂
- Resource consumption reduction and resource recycling indicators
- Evaluation of decarbonization, resource recycling, environmental pollution prevention, and level of information disclosure

Three environmental issues, the value that sustainable products provide, and where we aim to achieve them

Environmental issue	Value provided	Aim to realize
 Decarbonization	Contribution to CO ₂ reduction at customer sites through energy-efficient design, achieving higher efficiency in equipment and facility operation, and maintenance that leads to these improvements	Carbon neutrality for all aspects of society
 Resource recycling	Resource-conserving design, recyclable design, and appropriate maintenance	Achieving effective use of resources for all aspects of society
 Environmental pollution prevention (biodiversity conservation)	Proposing solutions and performing appropriate maintenance for chemical substance management in products, compliance with environmental laws and regulations, and prevention of environmental pollution	Preventing pollution of the environment

Employee comment

For the launch of the sustainable product design system

We had previously been implementing eco-friendly product design, but now, in addition to that, to create sustainable products unique to the azbil Group, we have set new criteria and internal achievement standards which are written into a new Group standard. The criteria for achievement have been subdivided into environmental issues that should be achieved as part of product design, and related guidelines have been established. The evaluation standards for achieving these criteria were determined, taking into account references from various relevant organizations' evaluation criteria. In accordance with these criteria, all future development of new products that have already been initiated will meet the newly established criteria, thereby contributing to the achievement of integrated environmental management.



Isamu Ikeda
The chair of azbil Group
Environmental Design
Specialist Committee

VI. Supply Chain

Supply Chain Initiatives

Our Basic Approach

Fulfilling social responsibilities together with customers and partners

Based on its Group philosophy and Code of Conduct, the azbil Group is proactive in its efforts to achieve a sustainable society, including conservation of the environment, through its business activity. In particular, addressing climate change and human rights issues has become increasingly important in recent years.

For this reason, in our procurement activities, we continue to strengthen our supply chain initiatives to fulfill our responsibilities to society more proactively in response to growing demand from the international community, including the SDGs, based on the principle of building long-term relationships of trust with our business partners and enhancing added value for both the azbil Group and our business partners.

Focus areas in the supply chain

To fulfill our responsibilities to society across the supply chain, in 2021 the azbil Group reviewed and amended its essential goals of the azbil Group for the SDGs and established 10 target areas (intermediate categories), making reference to the way in which ESG initiatives are evaluated by external institutions.

We are encouraging our business partners in these areas, utilizing the knowledge the Group has built up over many years concerning the environment, quality, compliance, and health and well-being management. We are proceeding with CSR initiatives concerned with evaluating the initiatives of the azbil Group and its business partners.

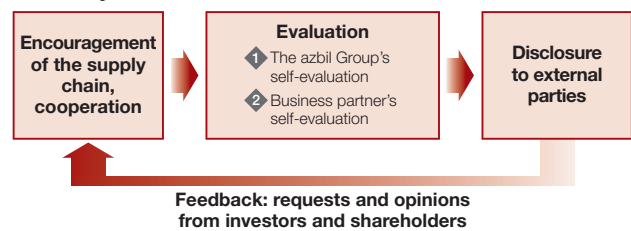
Broad category	Intermediate category	Subcategory
E (Environmental supply chain)	Climate change (GHG, energy)	<ul style="list-style-type: none"> Initiatives to address CO₂/GHG emissions and other climate change issues
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)	<ul style="list-style-type: none"> Green procurement Management of chemical substances in products Less use of resources Less industrial waste Reuse of resources Use of renewable energy
	Water security & water risks	<ul style="list-style-type: none"> Less use of water, less wastewater
	Biodiversity	<ul style="list-style-type: none"> Biodiversity conservation
	Environmental management	<ul style="list-style-type: none"> Environmental management in conformity with ISO 14001
S (Social supply chain)	Labor practices	<ul style="list-style-type: none"> Elimination of child labor and forced labor, reduction of overwork Prohibition of discrimination, equal opportunity Promotion of diversity
	Health and safety	<ul style="list-style-type: none"> Health and safety management New ways of working, work-life balance
	Human rights	<ul style="list-style-type: none"> Respect for fundamental human rights (including rejection of antisocial forces and dealing with conflict minerals)
	Community (local communities)	<ul style="list-style-type: none"> Action that encourages local development or contributes to society
	Quality & customers	<ul style="list-style-type: none"> Fair trade (including legal compliance) Quality management

The azbil Group's Essential Goal III for the SDGs (for FY2030)

Supply Chain

Working with our business partners on achieving the SDGs as a common goal and creating **shared CSR value across the supply chain**

PDCA cycle



By working together with our business partners on initiatives that comply with the four actions below, we aim to steadily improve the entire supply chain socially and environmentally.

Policies & strategies	Systems & structures	Initiatives	Evaluation of effectiveness	Business partner's self-evaluations
Establishment and thorough dissemination of the azbil Group Basic Policy on Procurement, etc.	Establishment of systems, structures and IT environments within the azbil Group	Encouragement of business partners	Evaluation by the azbil Group of the effects of initiatives and encouragement	Survey of business partners to verify series of actions

Evaluation

The azbil Group carries out a self-evaluation based on four items in 10 target areas (intermediate categories). Self-evaluations from business partners are added to this to create a comprehensive evaluation based on a total of five items.

Based on the results of this evaluation, we visualize the strengths and weaknesses of the azbil Group's initiatives and of our business partners and feed that into planning measures for the following fiscal year.

Broad category	Intermediate category	The azbil Group's self-evaluation				Business partners' self-evaluation
		Policies & strategies	Systems & structures	Initiatives	Evaluation of effectiveness	
E (Environmental supply chain)	Climate change (GHG, energy)					
	Pollution & resources (Air pollution, water pollution, hazardous waste, waste reduction, raw materials, etc.)					
	Water security & water risks					
Other, omitted						

(Notes) 1. Evaluation is performed on a 10-point scale for each .
2. See p. 83 for the results of business partners' self-evaluation (FY2022).

Priority Themes for FY2022 and Beyond

The azbil Group, in response to demand from society to act through the supply chain, has selected human rights due diligence from a societal perspective and CO₂ emissions reduction from an environmental perspective as priority themes for FY2022 and beyond, and has begun working with its business partners.

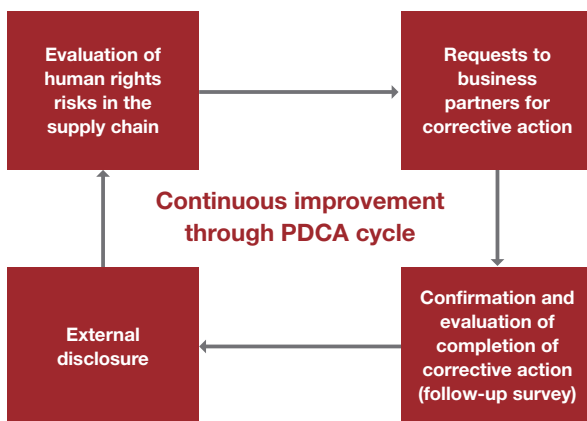
Human rights due diligence in the supply chain: Strategies to solidify “defense”

To ensure appropriate corporate conduct from a human rights perspective within our supply chain, the azbil Group conducts risk assessments related to human rights violations and strives to promptly correct any risks that may have occurred.

We have established criteria for human rights due diligence in our supply chain with reference to the UN Guiding Principles on Business and Human Rights. We have also taken into consideration the frequency and impact of human rights violations in azbil Group's operations, while referring to case studies of other leading companies.

As of the end of December 2022, we completed confirmation with about 300 of our major business partners that there is no risk of major human rights violations. At present, we are working to expand the scope of coverage.

Human rights due diligence process



Key human rights criteria

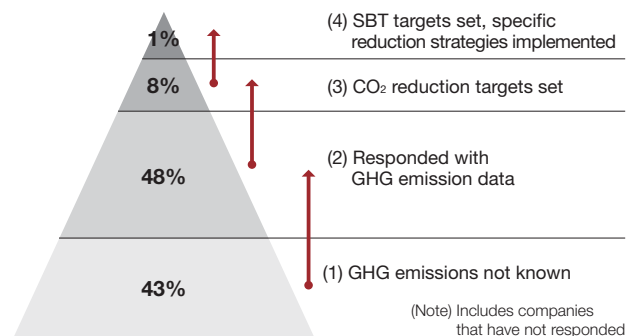
- Elimination of child labor
- Elimination of forced labor
- Reduction of overwork
- Wages (appropriate, duly paid)
- Migrant labor/foreign workers

CO₂ emissions reduction in the supply chain: Strategies to strengthen “offense”

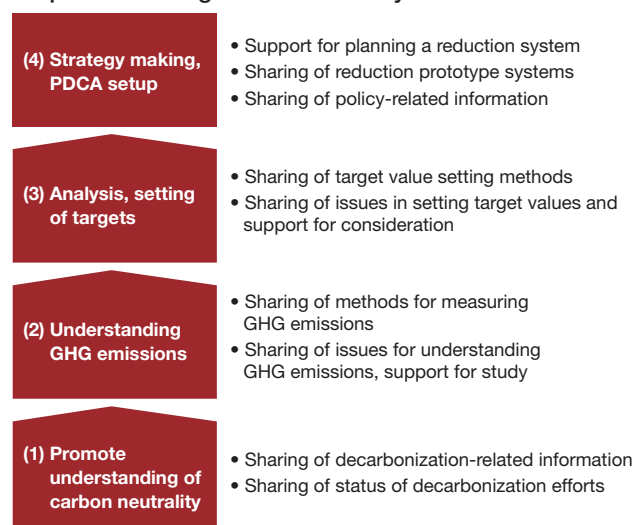
The azbil Group is working to reduce CO₂ emissions at its business partners to achieve a 20% GHG emission reduction across our entire supply chain (compared to FY2017). As of the end of December 2022, we have completed assessing the CO₂ emissions of approximately 300 major business partners and their current CO₂ reduction initiatives, and are implementing measures for further CO₂ emission reduction according to the status of each business partner.

Through communication with our business partners, we will share issues to be addressed, knowledge and know-how, and jointly promote initiatives to solve problems, thereby promoting independent initiatives toward carbon neutrality.

Status at about 300 business partners



Steps for realizing carbon neutrality



Supply Chain Initiatives

Encouraging our Business Partners

Based on the azbil Group Basic Policy on Procurement, we promote SDG initiatives in the supply chain. We also encourage our business partners through careful communication in order to build a foundation for effective collaboration.

The azbil Group Basic Policy on Procurement

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

1. The public nature of the company and the fulfillment of our responsibilities to society
2. Fairness in commercial transactions
3. Respect for human rights
4. Protection of the environment



The azbil Group Basic Policy on Procurement
<https://www.azbil.com/corporate/procurement/policy/>

Revisions to the azbil Group Basic Policy on Procurement

In June 2022, in light of internal and external requirements (such as the SDGs) the azbil Group Basic Policy on Procurement was revised based partly on policies of the United Nations Global Compact.

Points revised

- For supply chain management policy, items were added about climate change, prohibition of discrimination, elimination of excessive overtime, prohibition of forced labor, and saving water.
- An item about human rights was added in line with emphasis by the United Nations Global Compact, which we signed in April 2021.
- We added an item about environmentally conscious design, which is related to the azbil Group's SDG target of designing all new products to be 100% recyclable.
- An item on the management of chemical substances in products was added. This is an important means for conserving biodiversity, one of our environmental protection targets.
- An item was added about strengthened checking of compliance with laws and regulations regarding relationships with antisocial forces when selecting business partners and renewing contracts.

Briefings on the CSR Procurement Guidelines for the azbil Group

In order to motivate business partners to work toward achieving the SDGs and to promote specific initiatives, in 2022 briefing sessions were held by each azbil Group company for business partners on the Group's essential SDG goals and the CSR Procurement Guidelines for the azbil Group. After the briefings, we conducted a survey and 90% of our business partners responded that they would be willing to cooperate with the themes covered by the guidelines.



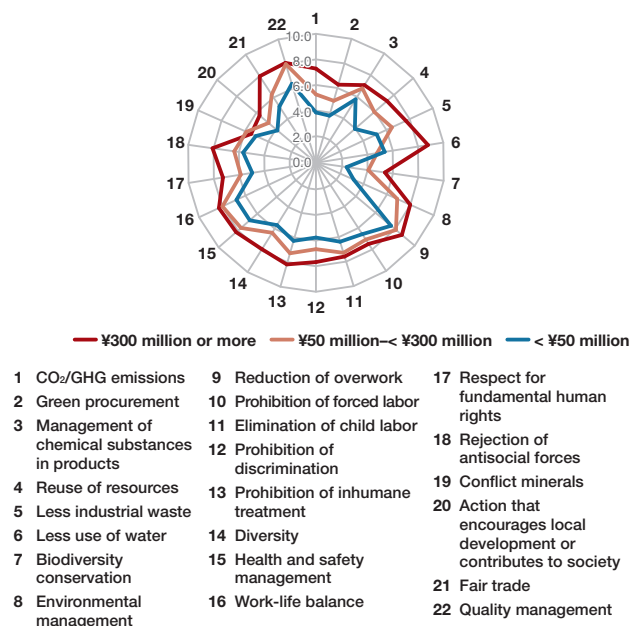
CSR Procurement Guidelines for the azbil Group
https://www.azbil.com/corporate/procurement/policy/csr_guideline/index.html

Business partner self-assessment and feedback to business partners

Every year, the azbil Group asks its business partners to carry out a self-evaluation of their organization's efforts from the perspective of the SDGs. Partners had been asked to make improvements at weak points as a result of the FY2021 evaluation, and the FY2022 self-evaluation showed that improvements had been made. This kind of feedback will be continued in the future.

Also, in the self-evaluation of business partners, when broken down by capitalization, the larger the size (capitalization) of the company, the more advanced the efforts. Accordingly, we will strengthen our efforts to reach out to small and medium-sized business partners.

Status of business partners' efforts by capitalization



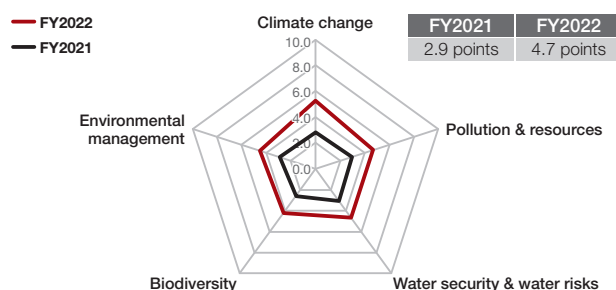
Evaluation for FY2022 and Future Plans

Overall evaluation of activities in FY2022

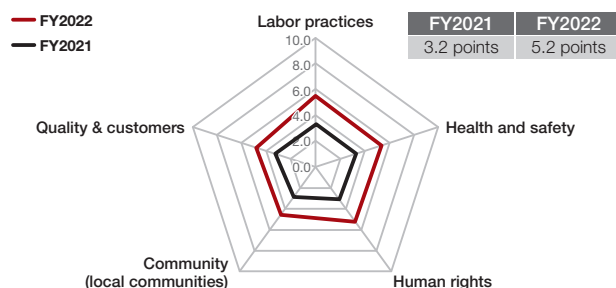
Based on the azbil Group's self-evaluation criteria, the azbil Group conducts an annual comprehensive evaluation of its initiatives in 10 target areas (intermediate categories), including self-evaluation by its business partners.

In FY2022, the various strategies were successful, with each criterion in the environmental/social supply chain generally increasing by about 2 points compared to the previous fiscal year.

Environmental supply chain



Social supply chain



Initiatives for FY2023

In FY2023, we will continue to pursue even greater results by focusing on human rights due diligence as a “defensive” strategy and CO₂ emissions reduction as an “offensive” strategy, with the entire azbil Group working together.

In FY2023, we will also expand our visits, interviews, and dialogues with individual business partners. By gathering information on a wide range of social and environmental topics other than human rights due diligence and CO₂ emission reduction, we plan to incorporate the intentions and requirements of our business partners and build a consensus to make our outreach and collaboration with them even more effective than ever before.



SDG Supply Chain Annual Report

<https://www.azbil.com/corporate/procurement/supplychain-annualreport/>

Message from a business partner

Yoshitaka Murata, Director, MURATA YOUHAKU & CO.,LTD



A trading company primarily engaged in sales and export of nonferrous metal materials and processed components. It delivers stainless steel and other materials to the azbil Group.

The azbil Group has established a medium- to long-term plan based on a solid promotion system for the advancement of SDG themes, and we have gained an in-depth understanding of the azbil Group's activities through a detailed explanation. Our company has also been aiming to add value to our core business in terms of the environment, and we are very much in agreement with the azbil Group's initiatives and will continue to cooperate with them as much as possible. We also received advice on initiatives for human rights from them, which we believe can be applied to our company's management, and we hope to continue to work on these issues going forward.

VII. Risk Management and Compliance

Risk Management

To avoid losing enterprise value and the trust of the public, the azbil Group strives to accurately understand and minimize risk factors with the potential for serious impact on operations, including unpredictable events and uncertainties.

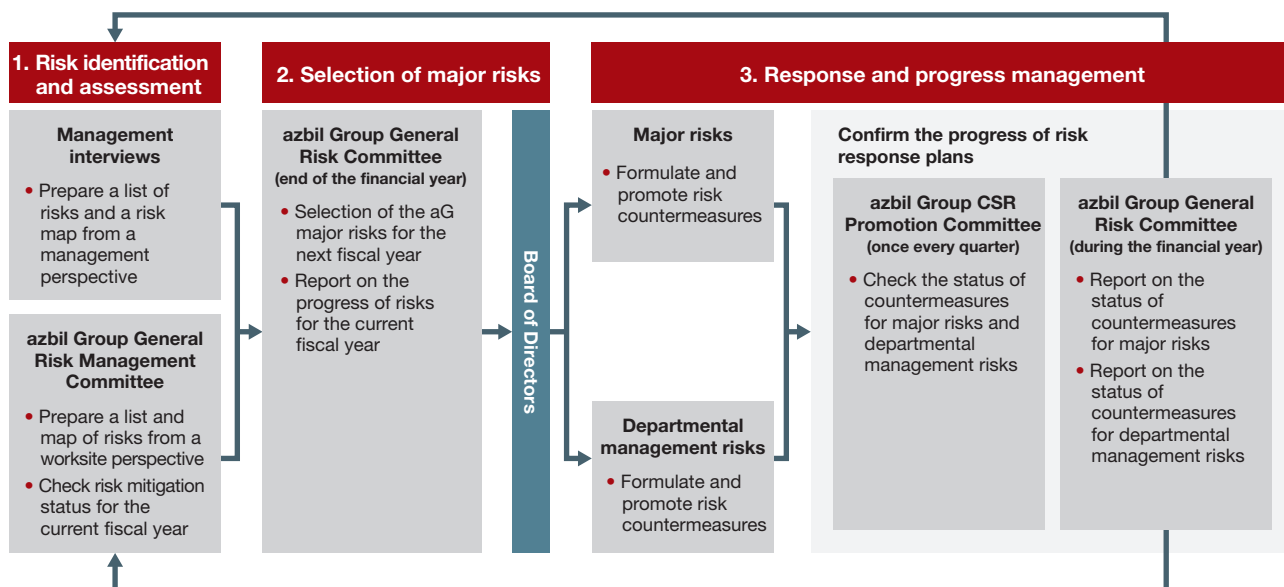
The azbil Group risk management

To minimize risk from possible future events, we carefully review risks every year. Starting from FY2023, we have selected major risks based on new criteria, judging that risk management must integrate bottom-up and top-down approaches. We have changed the procedure to ensure that top management has a full understanding of the

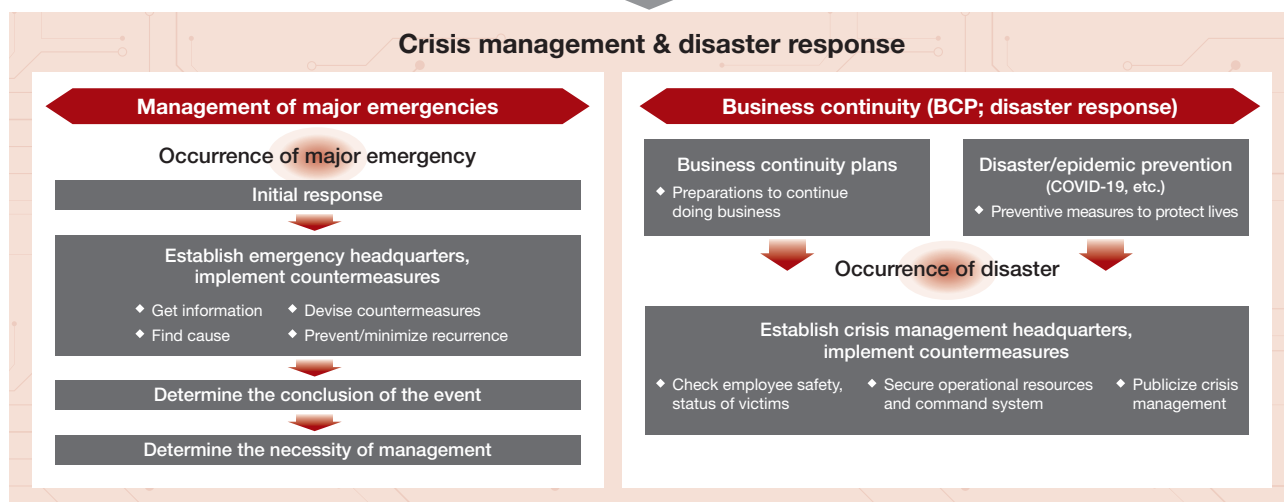
information from the bottom (departments handling onsite work), enabling more informed decision-making. The officer in charge of major risks and the head of the department in charge of departmental management risks implement strategies to mitigate the risks.

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

Risk management process



Crisis management and disaster response (handling of major incidents)

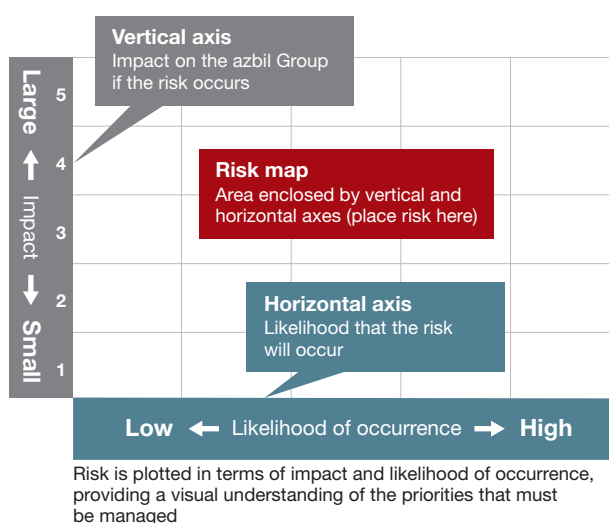


Risk management system

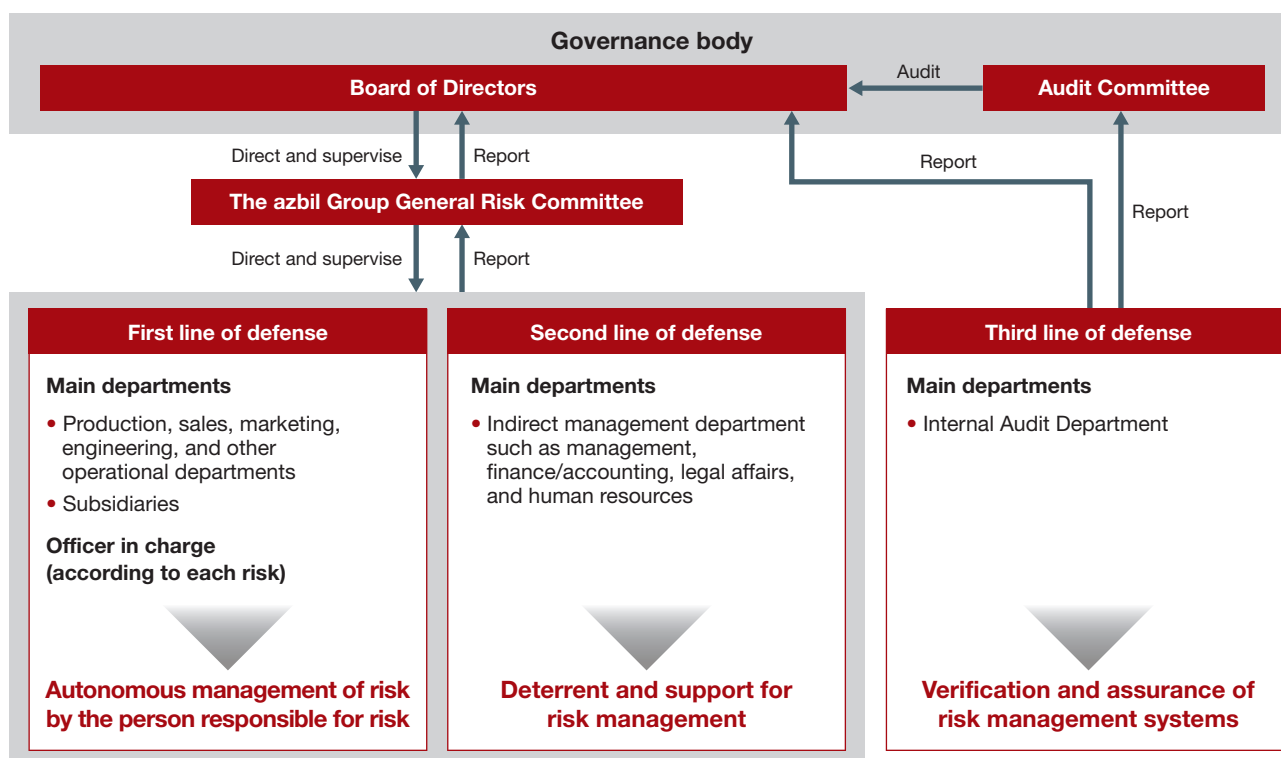
The company manages risk based on three lines of defense. In the azbil Group's overall activities, we are working to improve the organization's internal control and risk response functions through three lines of defense, with clearly defined responsibilities. As the first line of defense, we are strengthening autonomous management by clearly identifying an officer responsible for each risk. As the second line of defense, departments with indirect management are primarily responsible for developing and managing countermeasures and providing support for risks that should be addressed by the entire organization, thereby functioning to deter risk and support risk management. As the third line of defense, the Internal Audit Department verifies and ensures the risk management systems of the first and second lines of defense. We conduct a comprehensive identification of risks that may have a significant impact on management and assess their degree of impact and likelihood of occurrence. Interviews are conducted with management to identify and evaluate risks from management's perspective. The azbil Group General Risk Management Committee identifies and evaluates risks from the perspective of work sites and compiles the results of these two activities into a list of risks with evaluations and a risk map (a document in which risks are arranged in a 5 × 5 matrix based on impact and likelihood of occurrence).

Moreover, we have established quantitative evaluation criteria for evaluating the magnitude of impact and the frequency of occurrence of risk so that we can objectively compare and integrate the results of our evaluations. Based on these data, management deliberates in the azbil Group General Risk Committee and selects the aG major risks and also departmental management risks. These are then deliberated and finalized by the Board of Directors.

Risk map



Risk management system based on three-line defense



Risk Management

Business-related and other risks

Risks that may affect the business results and financial position of the azbil Group are summarized below. These risks are deliberated on by the azbil Group General Risk Committee and the Board of Directors, and are managed

comprehensively. In addition to this overall management, related departments also take measures to mitigate risk. Information in the table that pertains to the future was judged by the Group to be valid as of the end of FY2022.

Major Risks	Countermeasures
1. Risks to quality	<ul style="list-style-type: none"> To reduce the occurrence of non-conforming products, implement standards related to the development process and safe design, implement standard procedures at each production work site, using an inspection system to provide safe products, manage and improve production lines to maintain proper inspection work processes, and work on business process inspections Standardize processes for checking regulations on chemical substances in products and checking product safety-related regulations and standards at the product development and mass production stages
2. Risks to information security	<p><u>Ensure confidentiality of important information and comply with laws on personal information protection</u></p> <ul style="list-style-type: none"> Install PC storage encryption and email mis-delivery prevention add-in software Restrict access to the internet from inside the company Education through azbil Group information security training <p><u>Cyber-attack countermeasures</u></p> <ul style="list-style-type: none"> Periodic training to create a strong IT environment and improve employees' information literacy (ability to use information) Network protection and monitoring Separate production facilities and office networks Malware countermeasures for the system and the PCs that use it
3. Risks to technology and product development	<p><u>Delay in responding to technological innovation</u></p> <ul style="list-style-type: none"> Understand trends in relevant technology, among competitors, and in international standards Check the status of initiatives in AI, cloud computing, telecommunications, custom ICs, etc., at development-related meetings, etc. <p><u>Lack of technology and product development themes</u></p> <ul style="list-style-type: none"> Needs and seeds matching activities for theme identification Address the creation of an ecosystem through collaboration with technology development partners both in Japan and abroad Strengthen the system for enhancing the competitive advantage of our technology in sensing devices (MEMS, etc.), actuators, and cloud computing in order to enhance our product-provision capabilities <p><u>Development delays, lack of human resources</u></p> <ul style="list-style-type: none"> Implement countermeasures against development delays due to inadequate management of R&D processes (improve development process standards) Secure resources through strengthened cooperation among development departments and proper allocation of human resources Create strategies for optimal allocation, training, and mobility of development personnel (introduce a talent management system)
4. Risks related to change in the international situation	<p>Collect information on changes in geopolitical risks in each country and region where the company operates</p> <ul style="list-style-type: none"> Assess risk by country and develop a manual for human safety Create BCPs that take into account changes in international conditions, etc. Focus consideration on events with lethal impact, such as scenario planning for specific regions Take note of changes in export control-related laws and regulations, international circumstances, and related domestic and overseas laws and regulations, and collect information and properly manage exports (conduct internal operational system reviews, etc., with respect to export transaction screening)
5. Risks related to natural disasters	<ul style="list-style-type: none"> Make major facilities and buildings, such as factories, etc., earthquake-proof, set up power and communication networks for emergencies, and stockpile emergency supplies. Implement an employee safety confirmation system, create initial response guidelines to ensure safety at each location, and conduct periodic disaster drills and initial firefighting drills Formulate and continuously refine BCPs to address business interruptions and impediments Secure necessary funds and inventories of products and parts, and establish alternative locations and systems for continuing the highest priority operations Reduce the risk of concentration by dispersing production bases through reorganization of production and R&D divisions and transferring major production items to other regions in Japan and to overseas factories in China and Thailand Formulate a production response plan that assumes a situation similar to a lockdown, such as restrictions on activities in the Tokyo metropolitan area, etc.
6. Risks related to human resources	<ul style="list-style-type: none"> Reassign and reskill the workforce in response to changes in business structure Survey the transfer intentions of all employees, introduce an open challenge program (a program for transferring employees to the department of their choice) and assign the right people to the right jobs Implement a succession plan for veteran employees with advanced skills and knowledge levels so that they can pass on their skills and know-how Strengthen recruiting activities based on a workforce plan that integrates the business and HR departments in response to changes in the recruiting environment Improve productivity by using DX for business restructuring, allocating workload appropriately using outsourcing, extending the employment of those aged 65 and above, re-skilling veteran employees, and introducing a system of shorter days and shorter working hours In addition to hiring new graduates and mid-career hires, hire persons recommended by employees, rehire experienced employees, and hire personnel from overseas as 10% of new graduate hires to secure the human resources needed to develop business overseas and new business Develop recruitment methods and know-how at the head office and acceptance of interns at home and abroad as measures to strengthen recruitment at overseas subsidiaries and affiliates

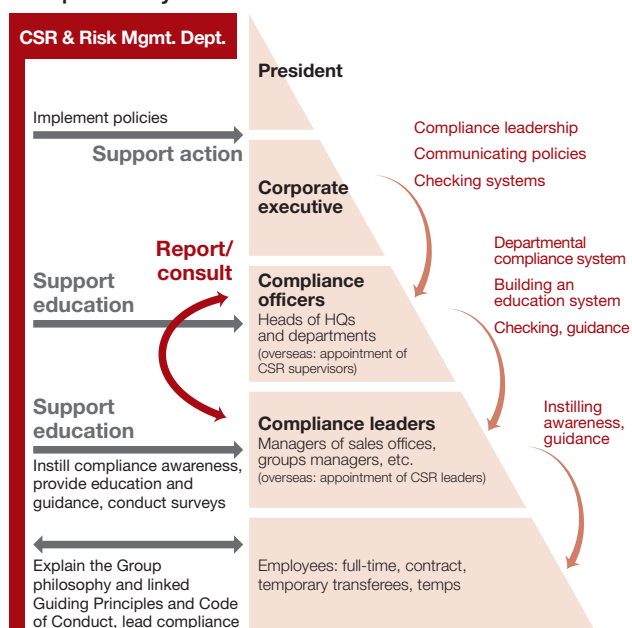
Compliance and Internal Control

As part of our efforts to fulfill our basic responsibilities as a member of society, we strive to establish a compliance and internal control system for the entire azbil Group in all our operations in Japan and abroad.

Promotion system, initiatives Compliance system

The azbil Group has built a compliance system in which a corporate executive is appointed to drive and oversee compliance efforts in Japan and overseas, as well as a compliance officers (overseas called CSR supervisors who are responsible for CSR including compliance), as shown in the chart below. Compliance leaders (overseas called CSR leaders = CLs) are responsible for spreading compliance in the workplace, identifying problems, and reporting to compliance officers.

Compliance system



Building internal control systems and complying with J-SOX

We have established the Basic Policy on Internal Control System Architecture, which officers and employees must comply with, and disclose the status of its operation. In FY2022 we revised the basic policy in line with our transition to a three-committee Board structure. In addition, we are working to improve our accounting standards and strengthen our internal controls with a view to complying with the Financial Instruments and Exchange Act and the internal control reporting system (J-SOX), and voluntarily applying the International Financial Reporting Standards (IFRS). In FY2022, we implemented internal control measures in preparation for the change in the fiscal year of

some overseas subsidiaries starting in FY2023. (Instead of December 31, their fiscal year will end on March 31, the same end date as Azbil Corporation).

Maintaining and increasing compliance awareness

We conduct annual training for officers and department heads, led by an external lecturer, and the management and department heads spearhead efforts to improve awareness throughout the Group. In FY2022, 266 people received this training. Training for compliance officers and leaders with in-house instructors was conducted with 753 participants. Overseas, “Regional CL meetings” are held regularly to raise the level of CLs. E-learning on compliance was implemented for employees (6,601 participated). There were 6,531 employees who learned about the Guiding Principles and Code of Conduct via e-learning, and a group discussion was also held, attended by 3,035 people. Additionally, we conduct an annual survey of all Group employees about the status of compliance within the Group. The results help us to understand problems that need to be tackled so that we can implement the necessary countermeasures.

Consultation service for early detection of internal problems and workplace environment problems

The azbil Group has established a reporting and consultation service for all officers and employees (including temps) working at Azbil Corporation and Group companies as well as business partners to prevent violations of laws and regulations, human rights problems, harassment, and other problems that may damage the workplace environment, or to detect them early and take appropriate action.

For this purpose, we are continuously working to improve the reliability of the reporting and consultation service and promote its use by enhancing education and by disclosing the number of reports and consultation cases in various languages.

In Japan, we are properly handling reports and consultations to comply with the revised Whistleblower Protection Act, which came into effect in 2022. Overseas, we are improving the convenience of the CSR Hotline (a dedicated contact point for overseas subsidiaries) and expanding the regions where it can be used in compliance with the personal information protection laws of each country.

We will continue working to further increase confidence in the reporting and consultation service as a means of receiving feedback from our stakeholders.

VIII. Corporate Governance

Roundtable Discussion among Outside Directors



Fumitoshi Sato

Audit Committee Chairperson

Takeshi Itoh

Nomination Committee Chairperson

Mitsuhiro Nagahama

Remuneration Committee Chairperson

To improve transparency and soundness of management

Azbil Corporation, which transitioned to a company having a three-committee Board structure in June 2022, strives to improve the transparency and soundness of management through the Board of Directors, of which the majority are outside directors, and the Nomination, Audit, and Remuneration Committees, which are led by outside directors. It has been one year since the new organizational structure was inaugurated. The three outside directors who chair the three committees speak about how the separation of supervisory and business execution functions has progressed, what discussions are taking place at Board meetings, and what issues have emerged.

— It has been one year since we transitioned to the new company structure. How do you evaluate the changes during this period?

Increasing the density of information needed for decision-making and deepening discussions

Itoh: The new organization clarifies the supervisory function of the Board of Directors, which basically delegates overall operations to the executive side, led by the president, while important issues are discussed by the Board.

Sato: I believe that a great deal of authority for matters related to the execution of business operations has been delegated to the executive side. As a result, the Board of Directors has been able to spend more time discussing major management issues such as the medium-term plan, corporate strategy, risk management, and sustainability strategy.

Itoh: Regarding medium- and long-term management plans and domestic and international strategies, the president

reports directly to us, and the Board of Directors thoroughly discusses what opportunities and risks will arise in the future, adding our knowledge to those of the azbil Group.

Sato: In discussing such major issues, since outside directors make up the majority of the Board, there are more opportunities to provide the information necessary for decision-making in advance. In addition, the Liaison Meeting for Directors and Corporate Executives is held almost every month to exchange opinions with the corporate executives. These opportunities for various brainstorming sessions are very meaningful, and I feel that the substance of the discussions is gradually deepening.

Nagahama: I believe that such advance briefings and meetings between corporate executives and directors are effectively functioning as measures to ensure a smooth transition to the new company structure.

Itoh: At the same time, we are also strengthening our initiatives designed to invigorate deliberations by, for example, having a meeting of eight outside directors after each Board

of Directors meeting, where one of them chairs the discussion on a specific theme. I believe it is valuable to further define the roles of each committee and form a more efficient Board of Directors through such discussions in the future.

— **As the effectiveness of the director's supervisory function is being requested, what kind of deliberations are being promoted by the Board of Directors?**

It is important to discuss the rules of governance.

Sato: Following the change in the organizational design, our first step was to confirm to what extent the authority for business execution would be delegated to the corporate executives, and what we, the directors, would discuss and judge. Of course, the basis of the Board of Directors is to understand the current status of the business portfolio, monitor medium- and long-term strategies, and evaluate the performance of the CEO and corporate executives, etc. I also feel there are still some points to be discussed, such as that we must consider the extent of a director's duty of care under the Companies Act.

Nagahama: What I emphasize is a governance framework. For example, when a loss is unavoidable due to an unforeseen defect in a product, the conventional Board of Directors discussion would focus on the individual issue of the product in question, such as “why, in what process, and how the defect occurred” and “how to minimize the loss.” Under the new structure, while such individual discussions are, of course, important, the main focus of deliberations will be on the overall governance, such as whether unified and consistent management rules have been established across the group organization and across products for development, production, and sales, whether such rules are being strictly observed, what risks, if any, are present in the process, and which department is in charge of such risks. The same applies to investment projects. While careful examination at the individual investment stage is important, periodic post-investment reviews, follow-up procedures, and the existence and quality of a PDCA framework are even more important. I believe it is a major responsibility of the Board of Directors to confirm that such a governance framework is firmly in place, and, if it is inadequate, to immediately expand it.

Sato: You are absolutely right. When acquiring a company, it is possible that the acquisition price is small, but the risks subsequently incurred are very high. At that time, how do we judge this? It is not an easy decision to make, but over the past year, we have received careful reports on each event and have confirmed what we are going to do about the governance framework.

Nagahama: For a company having a three-committee Board structure, “thorough and strengthened governance” is indeed the fundamental mission of the Board of Directors. Business execution is delegated to the executive side, and the Board of Directors, while supervising execution, is responsible for establishing and expanding a broad framework of internal control and group governance on a global basis. The origin of the perspective of executive supervision lies in whether a solid governance framework, including risk management, has been established and is effectively functioning. It is important that directors and corporate executives engage in a spirited dialogue based on the expected roles of each.

— **Three new committees: Nomination Committee, Audit Committee, and Remuneration Committee have been established. Please tell us about the deliberations, results, and issues that have been discussed there.**

To be efficient and effective committees

Itoh: In terms of a Nomination Committee, the company did have a non-binding Nomination and Remuneration Committee. While utilizing the favorable initiatives that have been taken to date, it is necessary for the Nomination Committee to further clarify its approach to the selection



Takeshi Itoh

Nomination Committee Chairperson

In 1969, he entered Burnham & Company, Inc. In addition to his management and analyst experience at domestic and foreign investment banks and investment advisory firms, he has a strong track record in high-level corporate analysis based on his long-term overseas work experience and consulting business experience, including fund-raising and M&A advisory services. In 2014, he was appointed as an outside director of Azbil Corporation, and in order to enhance transparency and fairness of management as well as supervision of business execution, he uses his advanced specialized knowledge in the fields of international finance and investment, and his experience as a management executive, including as Representative Director of an investment advisory company, to make proactive statements from the perspective of the capital markets.

Roundtable Discussion among Outside Directors

and appointment process and create a concrete succession plan. To this end, we need to expand the pool of human resources. Even now, I believe that diversity is progressing, as evidenced by the skill matrix of directors. However, going forward, we need to be more conscious of the need for a more extensive pool of candidates, including external candidates, with diverse and specialized skills and knowledge, regardless of gender. It is also necessary to draw up a skills matrix and examine what is lacking in order to develop and acquire the human resources in light of our future business strategy, in addition to the abilities and character of candidates.

Sato: With regard to the Audit Committee, the previous approach was for the Audit & Supervisory Board members to take turns going around to the sites and identifying problems, such as violations of rules. With the change in the design of the organization, we discussed organizational audit and risk-based approach to determine how to effectively perform the monitoring function with the new members and structure. For this purpose, it is more crucial that the Audit Committee, of which the majority is composed of outside Audit Committee members, Internal Audit Department, and the auditors of the azbil Group companies cooperate with each other, and we are deepening the exchange of information. For instance, as one example, we have the general manager of the Internal

Audit Department attend the Audit Committee meetings every month and report back to us, and we feel that this has deepened our cooperation. Also, the issue of the Audit Committee and internal audit systems having different time frames for the annual audit plan was unified with an April start date. We have made the audit plan consistent for the entire company. At the same time, we increased opportunities for direct discussions with corporate executives, executive officers, and top management of group companies, and our outside Audit Committee members have been directly visiting overseas group companies to conduct on-site inspections.

Itoh: We are taking a proactive approach throughout the entire azbil Group not only to improve efficiency, but also to ensure the effectiveness and increase functionality of the new corporate structure.

Nagahama: The activities of the Remuneration Committee began with the formulation of a new remuneration policy based on the deliberations that had been held prior to the transition to the new company structure. Since then, it has focused exclusively on the development and expansion of a fair, objective, and transparent compensation system based on the basic concept of “sound incentives that contribute to medium- to long-term improvement of enterprise value.” As a result, we believe that we have established a sound remuneration system that is thoroughly understood and accepted by our stakeholders. However, on the other hand, the level of disclosure requirements has been increasing year by year, and social demands on companies have been changing. While keeping pace with the work on the next medium-term plan, it will make constant efforts to improve the quality of the system, focusing on items to be considered, such as KPIs, the ratio of performance-linked vs. non-performance-linked compensation, the ratio of stock-based compensation, and other necessary items.

—What needs to be done in the future to further increase enterprise value?

Responding to stakeholder expectations through growth fields

Nagahama: In FY2022, net sales, operating income margin, and ROE all exceeded our financial plan, and we are highly evaluated for making steady progress despite the headwinds of the COVID-19 pandemic and the shortage of semiconductors.

Sato: The medium-term plan is progressing well. Although it is necessary to review and further refine the specifics of our long-term goals in light of changes in the business environment and other factors, I believe that our focus on strategy and concentration—on three growth fields—is not mistaken. However, given the azbil Group’s potential and human resource



Fumitoshi Sato

Audit Committee Chairperson

He entered the Bank of Japan in 1976, where he worked as a branch manager (Aomori, Fukuoka). In addition to his extensive knowledge and extensive experience in the financial field, he has 13 years of management experience as a director and in charge of accounting, legal, human resources, and general affairs at Horiba, Ltd. In 2019, he was appointed as an outside Audit & Supervisory Board member of Azbil Corporation to audit all aspects of the company’s business, and also as an outside director (Audit Committee member) from 2022, contributing to the improvement of the company’s corporate governance and internal controls. He has made remarks at Board of Directors meetings with respect to the appropriateness of the company’s business and financial strategies, as well as risk management and strengthening of corporate governance.



Mitsuhiro Nagahama

Remuneration Committee Chairperson

He entered The Fuji Bank, Limited. (currently Mizuho Bank, Ltd.) in 1976. He has served in important positions at financial institutions, such as Deputy President and Chairman of the Board and has extensive knowledge and rich experience in corporate management, the finance and securities sectors, and global business. He was appointed as an outside auditor of Azbil Corporation in 2015 and has audited all aspects of the company's business by utilizing his superior insight on corporate governance and corporate management, etc. From 2019, as an outside director of Azbil Corporation, he not only supervises the execution of business operations, but also makes active comments from a capital market perspective and a global perspective in order to enhance the transparency and fairness of the management.

power, it is also true that the market and our shareholders expect us to grow even higher. When we look ahead to the coming several years, we will need to re-examine whether we are missing out on new growth opportunities.

Itoh: I feel the same. We have a very talented group of people, especially in terms of technical capabilities, and they have the flexibility to address DX, including the use of AI, and I see growth potential in them. The Group has set a sales target of ¥400.0 billion by 2030, and has set growth fields. What is needed to achieve this goal from a more comprehensive perspective? I hear that the executive side is now considering various strategies for the next medium-term plan.

Nagahama: I think what is important is the next “method of placing the stone.” This is to determine the strategic domains in which to invest new management resources. Whether to open up completely new horizons, to expand outside of the Group's current business portfolio, or to dig deeper into existing operations, solid consideration is required. Personally, I believe that while launching new businesses is indeed important, in the case of the Group, strategies to further strengthen the existing advantages of the Group are also of considerable significance. I look forward to the formulation and development of strategies to maintain and strengthen the relationships with our valued customers that we have cultivated over more than 100 years,

and to deepen the Group's unique “retention marketing” while responding directly to the increasingly sophisticated and complex needs of our customers. On the other hand, in this day and age, the most important thing we must do is to keep a close eye on the emergence of so-called “game changers.” For example, I believe that we should be addressing head-on the possibility of fundamental and structural changes in customer requirements and industry structure due to AI evolution, etc., as a key issue for mid- to long-term management awareness.

Sato: For those start-ups that could be game changers, it will be necessary to compete with resilience and mobility, and at the same time, to collaborate more proactively as we are already working on.

— Lastly, what is your message to your stakeholders?

Supporting the azbil Group's management from a supervisory perspective, including growth by capitalizing on our strengths in contributing to the environment and meeting stakeholder expectations

Sato: As I mentioned earlier, I feel that stakeholders, starting with our customers, have high expectations of us. The question is how we can provide products and services that meet these requirements. The challenge for the future is how to manage the organization in a flexible manner while taking appropriate risks, and we hope that we can support them in this endeavor.

Nagahama: The azbil Group is a corporate group that makes a significant contribution to environmental issues, as our businesses themselves emit little greenhouse gas emissions and our products and services contribute to reducing environmental impact. This is a characteristic of the Group that is worth promoting more. We are also vigorously pursuing a variety of strategies to address SDG/ESG issues that go beyond environmental issues, paying close attention to our diverse stakeholders, including society, customers, employees, business partners, suppliers, shareholders, and investors. I personally experience this on a daily basis at meetings of the Board of Directors and in dialogues with the corporate executives. I hope that this integrated report will help everyone to better understand these efforts.

Itoh: Although our stakeholders are diverse, the azbil Group has long been a corporate group that balances investment in growth, such as human resources, technology, and environmental measures, with risk countermeasures, and has placed a great deal of emphasis on what we now call ESG. Going forward, we will continue to place emphasis on these factors and support decision-making so that we can achieve growth that exceeds expectations.

Corporate Governance

Basic approach to corporate governance

To ensure its own medium- to long-term development, respond to the trust of all its stakeholders, including its shareholders, and proceed with consistently increasing enterprise value, the azbil Group sets fortifying the underlying corporate governance as a management priority. Measures have included strengthening the supervisory and auditing functions of the Board of Directors, improving management transparency and soundness, and clarifying the structure of responsibility for the execution of duties.

We also comply with Japan's Corporate Governance Code, which was published by the Financial Services Agency and Tokyo Stock Exchange, and satisfy requirements for information disclosure by publishing corporate governance reports and integrated reports (such as this one) on our company website.



Corporate Governance Report
<https://www.azbil.com/csr/basic/governance.html>

Corporate governance framework

The company has transitioned from having an Audit & Supervisory Board to having a three-committee Board structure, following the approval of a proposal to amend its Articles of Incorporation at the 100th Ordinary General Meeting of Shareholders held on June 23, 2022. Accompanying this transition to a three-committee Board structure, three statutory committees—the Nomination Committee, Audit Committee, and Remuneration Committee—have been established, each consisting of a majority of independent outside directors and being chaired by an independent outside director. In addition, by substantially transferring business execution authority from the Board of Directors to corporate executives with clear legal responsibilities, we are clearly separating supervisory and execution functions to ensure a business execution system based on flexible and efficient decision-making, while at the same time enhancing the objective supervision of management.

Furthermore, as a company with a three-committee Board structure, to ensure the effectiveness of monitoring

Changes to improve corporate governance

Strengthening of supervision and auditing

- Appointed and increased the number of independent outside directors (1 in 2007, 2 in 2010, 3 in 2014, 4 in 2018, 5 in 2019, 8 in 2022)
- Appointed and increased the number of independent outside Audit & Supervisory Board members (2 in 1994, 3 in 2011)
- Evaluations of Board of Directors effectiveness began (2016) → Survey items were created and results were summarized by a third party (2023)
- Established criteria for judging the independence of outside directors (2016, revised 2020)
- Set an upper limit on the term of office for outside directors (2020)
- Transitioned to a company with a three-committee Board structure (2022)

Strengthening of management transparency and soundness

- Replaced the Nomination and Remuneration Meeting (set up in 2008) with the Nomination and Remuneration Committee, with independent outside directors as a majority (2016) → Appointed an independent outside director as chairperson of the Nomination and Remuneration Committee (2018) → Independent outside directors make up the majority of and are appointed as chairpersons of the statutory Nomination Committee and Remuneration Committee (2022)
- Abolished the counselor and advisor system (2018)
- Revised the remuneration system for officers: introduced a stock compensation plan for officers and disclosed the remuneration policy (2022, revised 2023)

Clarification of responsibilities, encouragement of dialogue, etc.

- Introduced the executive officer system (2000)
- Appointed an executive officer for corporate communications (2016)
- Formulated guidelines on cross-shareholdings (2016, revised 2018)
- Changed the type of contract for executive officers to an entrustment agreement (2020)
- Defined skills expected of directors (skills matrix) (2021)

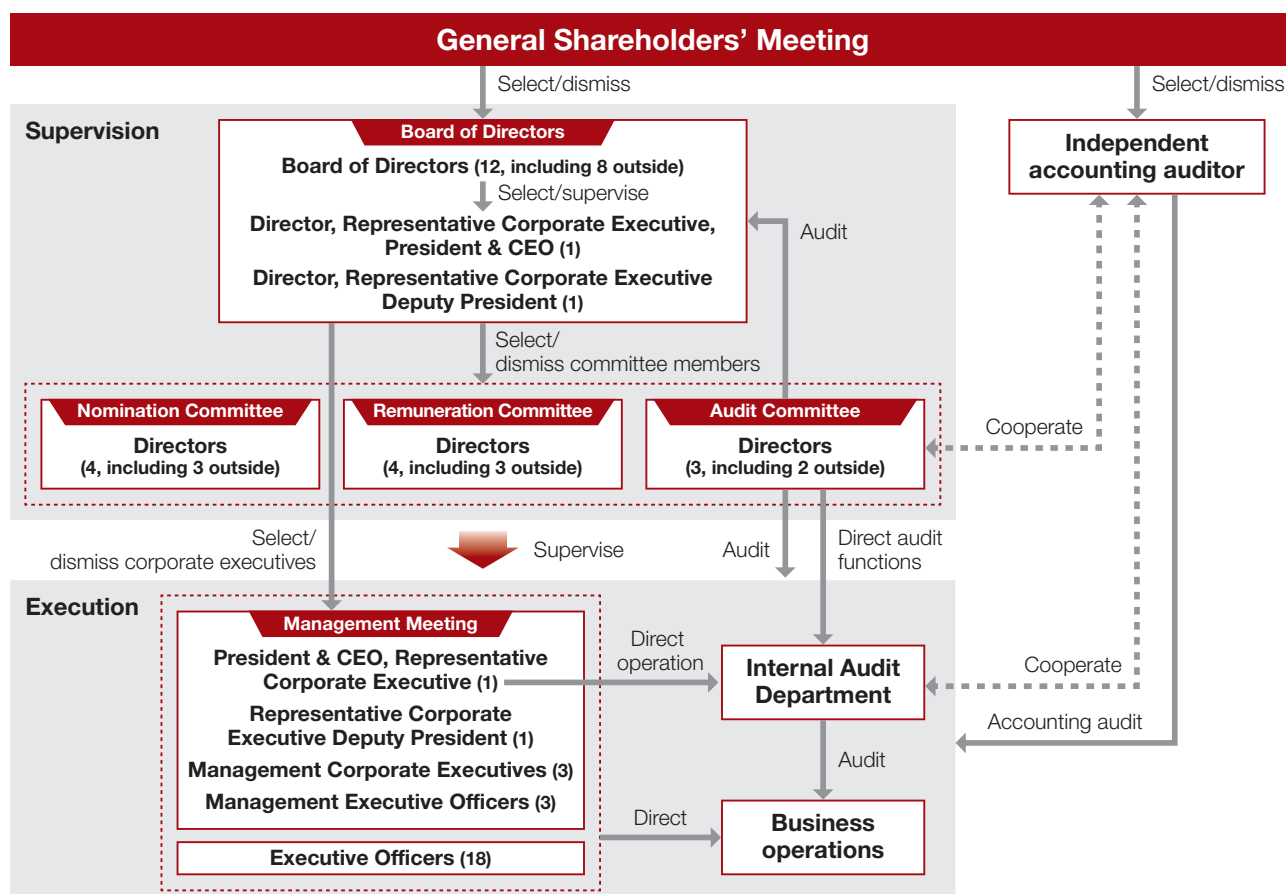
by the Board of Directors, we have established a forum for providing information to directors and exchanging opinions with corporate executives in the form of a Liaison Meeting for Directors and Corporate Executives. In addition, opinion exchange meetings are held regularly among outside directors. At the same time, we are continuing the system for executive officers charged with business execution, aiming to enhance the quality and speed of decision-making.

The Board of Directors is convened monthly, in principle, to discuss and consider legal issues, and other important managerial matters as the highest decision-making body for management and provide a major direction, and to exercise appropriate supervision over execution in order to reflect the opinions of stakeholders. In business execution, the Management Meetings, which corporate executives and executive officers with titles attend, have been established to serve as an executive-level advisory body to assist the President & Group CEO in making decisions, and are attended by the full-time Audit Committee member to ensure the effectiveness of

monitoring. The Management Meetings are held twice a month as part of ongoing initiatives to strengthen business operations through prompt decision-making and strict execution.

As of June 27, 2023, the company has appointed a total of 12 directors, including four who are involved in business execution and have accumulated experience in the company's business, management and audits (Hirozumi Sone, Kiyohiro Yamamoto, Takayuki Yokota, and Hisaya Katsuta), as well as eight who are independent outside directors and have independence, broad experience, a wealth of expertise and knowledge, and rich diversity in the form of nationality and gender (Takeshi Itoh, Waka Fujiso, Mitsuhiro Nagahama, Anne Ka Tse Hung, Minoru Sakuma, Fumitoshi Sato, Shigeaki Yoshikawa, and Tomoyasu Miura). Independent outside directors have made up the majority of the Board of Directors. They are working diligently to contribute to the enhancement of the company's enterprise value through appropriate oversight and advice during the decision-making process at Board of Directors meetings.

Corporate governance framework (as of June 27, 2023)



*Chairperson of the Board of Directors is a non-executive director.

Corporate Governance

Message from directors appointed for FY2022

**Shigeaki Yoshikawa**

**Nomination Committee Member
Outside Director**

In June 2022, I was appointed as an outside director at the very same time the company made the transition to a company with a three-committee Board structure. Only a fraction of listed companies in Japan have a majority of outside directors chairing all three committees: Nomination Committee, Audit Committee, and Remuneration Committee. In terms of improving corporate governance, the company is a front-runner.

When I was requested to become an outside director, I thought that my duties would amount to little more than attending the monthly Board of Directors meetings and their preliminary briefings, but that idea was soon betrayed in a positive way. There were plenty of opportunities to gain a better understanding of the company, including Nomination Committee meetings, Liaison Meetings for Directors and Corporate Executives, meetings of outside directors, visits to subsidiaries, visits to trade shows in which the company participated, and attendance at meetings of Group executives.

In particular, for the two newly appointed outside directors, including myself, the intensive three-month lecture on the company's business operations and strategies that we received immediately after our appointment was extremely beneficial to our understanding of the company.

I feel the strong determination of the company's management to steadily take concrete steps to embed its soul in the new institutional design, and I hope that each outside director will use the skills expected of them to further enhance the company's enterprise value.

I was appointed as an outside director and member of the Remuneration Committee in June 2022, when the company transitioned to a company with a three-committee Board structure. Over the past year, I have sought to understand the business and corporate culture through the lectures, documents prepared for me as well as visits to trade shows, etc., and to supervise and advise management as an outside director. I also came to understand that the azbil Group is one of the industry's top-class companies in terms of technological capabilities in the area of "measurement and control." In fact, the Group has earned the trust of its clients and established a high level of prestige by working on the creation of frameworks that clients struggle to achieve. In recent years, we have been striving to create even more innovative frameworks by integrating "sensors and actuators" and "software and hardware" technologies that have developed from "measurement and control."

Amid an uncertain business environment that necessitates bold risk-taking, the company is entering a period in which we must formulate a new medium-term plan. I intend to contribute to the establishment of risk-taking system that contributes to the azbil Group's development by drawing on my experience in management consulting, new business development, and management executive education, in addition to my objective perspective as an outside director. And I will strive to build a new team of "Board of Directors" so that the speed and quality of decision-making will not be compromised by an excessive focus on strengthening governance.

**Tomoyasu Miura**

**Remuneration Committee Member
Outside Director**

Main activities of the Board of Directors in FY2022

In FY2022, the Board of Directors met a total of 12 times. The 12 directors attended all of the meetings. Major items discussed at the Board of Directors meetings are as follows.

Main topics for discussion by the Board of Directors meetings in FY2022

Items resolved	Medium-term plan, budget development, CSR management plan, selection of major risks, establishment and revision of policies regarding corporate governance, capital policies including sale of strategic shareholdings, appointment of corporate executives, appointment of committee members, approval for financial results, and other matters
Items reported	Reports on execution of duties from each statutory committee, reports on execution of duties from corporate executives, reports on the status of operation of internal control systems, reports on the status of CSR management, reports on the status of management of group companies in Japan and overseas, business portfolio review, and other reports
Free discussion	Discussions on strategies toward medium- to long-term business growth, and other discussions

Evaluation of effectiveness of the Board of Directors

Through conducting objective and constructive deliberations, the company's Board of Directors decides on such matters as management strategy, supervises their execution, and strives to enhance enterprise value over the medium to long term. A survey was again carried out this year, like last year, to evaluate the effectiveness of the Board of Directors in properly fulfilling its roles and responsibilities, to identify issues and possible improvements, and to provide suggestions as to how the Board's effectiveness might be enhanced. We were thus able to confirm that, following the transition to a company with a three-committee Board structure, steady progress has been made in both strengthening governance and improving the effectiveness of the Board of Directors. In preparing for this evaluation, the chairperson led a review with outside directors of the approach and methodology to be used, and—so as to ensure objectivity and facilitate more effective initiatives in the future—an outside organization was tasked with compiling both the survey items and the results.

For this survey of FY2022, all directors were asked for their opinions and assessments of (1) the role and functions of the Board of Directors; (2) the size and composition of the Board of Directors; (3) the operation of the Board of Directors; (4) the composition, role and work of the Nomination Committee; (5) the composition, role and work of the Remuneration Committee; (6) the composition,

role and work of the Audit Committee; (7) the support provided for outside directors; (8) investor and shareholder relations; (9) the overall effectiveness of the governance system and Board of Directors; and (10) their own self-evaluations. Based on the above, the Board of Directors held constructive discussions on current effectiveness as well as issue-sharing and future steps.

It has thus been concluded that the Board of Directors is of an appropriate size and composition, and is properly fulfilling its role, with its members plainly sharing the Board's supervisory function for a company with a three-committee Board structure; that—thanks to the Liaison Meeting for Directors and Corporate Executives, a forum established so that directors can gather information and exchange opinions with corporate executives—there is sufficient communication between directors and corporate executives, as well as between internal directors and outside directors, and that this is contributing to the smooth transition to the new Board structure; that the size, composition, and deliberation topics of the three statutory committees for nomination, remuneration, and audit are all appropriate; and that the overall effectiveness of the Board of Directors is adequately ensured.

In last year's assessment of effectiveness, Board members all recognized the importance of sharing and discussing the progress of the medium-term plan. Consequently, in FY2022, in addition to being deliberate at Board meetings and at the above-mentioned Liaison Meeting for Directors and Corporate Executives, the medium-term plan was also the subject of intensive discussions at off-site meetings made possible following the lifting of restrictions related to the COVID-19 pandemic. These opportunities were used to review the plan and discuss business strategies to achieve long-term growth and long-term targets; topics included capital policy, overseas business strategy, development capabilities, DX and related businesses, and the business portfolio. These initiatives represented one of the items covered by this year's survey of effectiveness.

Going forward, members agreed that the Board of Directors will strive to make a clearer division of supervisory and executive roles, and to improve the reference materials prepared for meetings so that the Board can discuss more important management issues, and also that the Board of Directors and Nomination Committee will discuss the skills matrix required to maintain the appropriate composition of the Board of Directors, improving it where possible. In order to achieve sustainable growth and increase enterprise value over the medium to long term, the company will continue its efforts to enhance the effectiveness of the Board of Directors.

Corporate Governance

Training policy for directors

To ensure that the Board properly fulfills its functions and responsibilities, the company believes it is important to provide training opportunities tailored to each individual officer. Based on that awareness, new directors are given opportunities to train outside the company so that they can gain and update knowledge that they need to execute their duties, such as information on their legal authority and obligations. New outside directors also go through an orientation program where they are given an overview of the company, its business, and products it handles; are briefed on matters such as corporate governance; and also tour our factories so that they can deepen their understanding of the company. Moreover, after they assume office, all officers receive regular group training on compliance, and on occasion, outside instructors are invited to conduct training sessions. And in order to prepare the next generation of executives, we provide training opportunities for managers to acquire the leadership skills, knowledge of management strategies, and management competences required of top management.

Supporting system for outside directors

We have established a Corporate Secretariat Office, which performs secretarial duties for officers, handles special management orders, serves as the main office for the Board of Directors, and supports the Nomination Committee and Remuneration Committee. We have also established an Audit Committee Office within the Internal Audit Department. Through these offices, we are working to boost the support functions available to the Board of Directors and the statutory committees. Moreover, we distribute materials for Board of Directors' meetings in advance, and for outside directors we hold advance briefings on agenda items so that they can obtain any needed information.

Composition and main activities of each committee

The company has established statutory committees as a company with a three-committee Board structure. The composition of each committee and the status of its activities in FY2022 are as follows. Furthermore, each committee member is selected by resolution of the Board of Directors from among the directors, and the chairperson of each committee is then appointed by resolution passed by the Board of Directors from among the members who are outside directors.

Nomination Committee

Composition

	Status of attendance in FY2022
Takeshi Itoh, Chairperson (outside)	9/9
Anne Ka Tse Hung, member (outside)	9/9
Shigeaki Yoshikawa, member (outside)	9/9
Kiyohiro Yamamoto, member	8/9

Contents of consideration in FY2022

Items implemented	Specific contents of consideration
Action plans for the current fiscal year (FY2022)	While sharing information on the status of activities of the Nomination and Remuneration Committee, an optional committee that served until the previous fiscal year, the Nomination Committee considered and determined annual action plans for the committee in the current fiscal year, and other matters.
Determination of contents of proposals concerning candidates for directors for the next term	In considering the Board of Directors structure for the next term (FY2023), the Nomination Committee confirmed views on the selection and the state of consideration, and deliberated and determined candidates for directors for the next term.
Consideration of candidates for corporate executives for the next term and candidates for executive officers for the next term	As for the corporate executive structure and the executive officer structure for the next term (FY2023), the Nomination Committee confirmed views for the selection and the state of consideration, as well as the selection of candidates for corporate executives for the next term and candidates for executive officers for the next term.
Selection of successor candidates and confirmation of individual training plans	The Nomination Committee shared a profile of the needed successor and the judgment criteria for promotion and confirmed the selection and training process and the training status of successor candidates based on the development of leadership personnel.
Consideration regarding global personnel	The Nomination Committee confirmed the status of the promotion of overseas business, shared information and exchanged opinions on needed global personnel and the state and method of recruitment, while confirming the appointment of global executive officers and the structure of executives of overseas subsidiaries.

Audit Committee

Composition

	Status of attendance in FY2022
Fumitoshi Sato, Chairperson (outside)	11/11
Minoru Sakuma, member (outside)	11/11
Hisaya Katsuta, member	11/11

Contents of consideration in FY2022

Items implemented	Specific contents of consideration
Auditing policy, audit implementation plan, and task division for the current fiscal year (FY2022)	The Audit Committee considered the organizational auditing structure including the Internal Audit Department after the transition to a company with a three-committee Board structure, and determined the auditing policy, audit implementation plan, and task division.
Consideration of the Audit Committee Rules, establishment of the Audit Committee Auditing Standards, and other rules	The Audit Committee considered the Audit Committee Rules that fit the actual condition of the company, and set the Audit Committee Auditing Standards and others by reference to rules, standards and other regulations established by the Japan Audit & Supervisory Board Members Association.
Consideration of revision of the basic policy for establishing internal control systems	The Audit Committee considered incorporating measures to ensure the independence of the executive officer in charge of internal audits, the head of the Internal Audit Department, and the Audit Committee Offices from the corporate executives, and others.
Cooperation with the Internal Audit Department	The executive officer in charge of internal audits and the head of the Internal Audit Department also attended Audit Committee meetings to exchange information and opinions on the status of implementation of audits by the Audit Committee and internal audits.
Evaluation of the accounting auditor	Based on the evaluation criteria for the accounting auditor, the Audit Committee evaluated the appropriateness of the audits, the independence, audit quality, and other matters through listening to regular reports on audits, etc. and to evaluations of the accounting auditor by the Accounting Department, etc., witnessing audits, and other means.
Status of audit activities by the full-time Audit Committee Member	The full-time Audit Committee member shared information with outside Audit Committee members on audit activities including attending important meetings such as Management Meetings, reviewing important documents such as approval forms, investigation of operations of departments and business sites.

Remuneration Committee

Composition

	Status of attendance in FY2022
Mitsuhiro Nagahama, Chairperson (outside)	7/7
Waka Fujiso, member (outside)	7/7
Tomoyasu Miura, member (outside)	7/7
Takayuki Yokota, member	7/7

Contents of consideration in FY2022

Items implemented	Specific contents of consideration
Determination of policies for determining details of remuneration for directors and corporate executives	In line with the transition of organizational design to a company with a three-committee Board structure, the Remuneration Committee determined policies for determining details of remuneration for directors and corporate executives and a new remuneration plan for officers including the introduction of stock-based compensation.
Determination of individual remuneration for directors and corporate executives	Based on the above determination policies, the Remuneration Committee determined details of individual remuneration for directors and corporate executives during the period from July 2022 to June 2023.
Establishment of rules in line with the introduction of a stock compensation plan for officers	In line with the introduction of a stock compensation plan for officers, the Remuneration Committee considered and established the content of rules for stock-based compensation for officers.
Confirmation of the external environment as for officers' remuneration	The Remuneration Committee made regular confirmation of the current remuneration plan for officers and the remuneration level in light of information on other companies and general trends provided by external specialized institutions, etc.

Corporate Governance

Remuneration for officers, etc.

As a company with a three-committee Board structure, the company's Remuneration Committee, which a majority of the members, including the chairperson, are outside directors, sets policy on the determination of the individual remuneration of directors and corporate executives, which is disclosed as the Remuneration Policy.

Remuneration Policy

Basic policy regarding executive remuneration

Aiming to realize the Group philosophy, we have adopted the following basic policy for the remuneration of company officers to motivate them not only for short-term performance but also to achieve medium- and long-term performance goals and to enhance enterprise value.

- Taking into consideration the nature of our business, remuneration should encourage awareness of the necessity to enhance enterprise value from a medium- to long-term perspective and further promote value sharing with our shareholders.
- Remuneration should help to secure talented management personnel to realize the company's management philosophy and achieve the medium- to long-term performance goals.
- The remuneration system should be highly independent and objective, and should enable us to fulfill our duty of accountability to stakeholders.

Remuneration levels

Remuneration levels for company officers (corporate executives and directors) are set by resolution of the Remuneration Committee after it has verified their appropriateness using data supplied by an external research agency. Also, the committee reviews remuneration levels as necessary in response to changes in the external environment.

Remuneration structure

The remuneration structure for corporate executives (including those concurrently serving as directors; similarly hereafter) consists of basic remuneration, which is a fixed monthly amount based on their roles and responsibilities; bonuses, which are short-term incentives; and stock-based compensation, which is a medium- to long-term incentive. In order to ensure a remuneration structure that motivates officers to achieve the medium- and long-term performance goals and enhance enterprise value, the incentive component of remuneration has been increased, and the combined remuneration for corporate executives is expected to break down as follows: basic remuneration 50%, bonus (base amount) 30%, stock-based compensation (base amount) 20%. The remuneration for

directors (not including those concurrently serving as corporate executives; similarly hereafter) consists of basic remuneration and stock-based compensation.

Corporate executives

(1) Basic remuneration

- Basic remuneration is paid as a fixed monthly monetary amount based on the position of the officer.

(2) Bonus

- A bonus is paid as a performance-linked monetary remuneration that takes into consideration company performance and non-financial indicators for the single fiscal year.
- As regards financial indicators, to improve enterprise value over the medium to long term, we use net sales and operating income, which are the company's main management indices, as key performance indicators (KPIs). The amount of the bonus will fluctuate according to the degree by which these targets have been achieved, while taking into consideration also non-financial indicators.
- Non-financial indicators are based on the degree of achievement of the various roles of the corporate executive, such as implementing measures to realize the medium-term plan, engagement in CSR management, and the development of human resources (succession training). The Remuneration Committee determines the amount of remuneration based on such evaluation.
- Taking into account both financial and non-financial indicators, the final amount paid as a bonus will vary between 0% and 150%.
- Remuneration is designed so that the higher the officer's position, the higher the weighting of financial indicators. As an example, the KPIs and their respective evaluation weightings for the president and CEO are as follows.

Bonus KPIs		Evaluation weighting
Financial indicators	Net sales	45%
	Operating income	45%
Non-financial indicators	Improved customer satisfaction, increased efficiency and productivity, HR development and revitalization of the organization, CSR management	10%

(3) Stock-based compensation

- In principle, stock-based compensation is paid to the corporate executive following retirement from the current position, with the aim of continuous enhancement of enterprise value while sharing value with shareholders.
- A base amount for stock-based compensation is set for each position. Of this, 50% is performance-linked and 50% is not.

- As regards KPIs, the performance-linked component uses relative total shareholder return (TSR)—an indicator that evaluates our TSR relative to the Tokyo Price Index (TOPIX) by the Tokyo Stock Exchange—to ensure that officers and shareholders have a shared interest, and operating income margin, an indicator set forth in the medium-term plan. As a non-financial indicator, we use effective CO₂ reduction at customers' sites, which is one of the essential goals of the azbil Group for the SDGs. The performance-linked component will vary between 0% and 150% depending on the extent to which these targets have been achieved during the period covered by the medium-term plan. The evaluation weightings for each KPI are as follows.

Stock-based compensation KPIs		Evaluation weighting
Financial indicators	Relative TSR (relative to TOPIX, including dividends)	50%
	Operating income margin	30%
Non-financial indicators	Effective CO ₂ reduction	20%

- As a way to further encourage value sharing with shareholders, the non-performance-linked component is paid as stock-based compensation with vesting of a fixed number of shares.
- Stock-based compensation is paid through a Trust-type Stock Compensation Plan. Under this plan, points corresponding to an officer's position are awarded annually, and company shares equivalent to the number of points accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

Directors

(1) Basic remuneration

Basic remuneration is paid as a fixed monthly monetary sum based on the responsibilities of the position.

(2) Stock-based compensation

- In principle, stock-based compensation is paid to the director following retirement from the current position, with the aim of continuously enhancing enterprise value while sharing value with shareholders.
- A base amount of stock-based compensation is determined, which is entirely non-performance-linked.
- Stock-based compensation is paid through a Trust-type Stock Compensation Plan. Under this plan, a certain number of points are awarded annually to those eligible, and company shares equivalent to the number of points accumulated are transferred from the trust to the plan-eligible person following retirement from the current position.

Process for determining remuneration

The Remuneration Committee determines the remuneration of directors and corporate executives. The majority of the members of the Remuneration Committee, including the chairperson, are outside directors, which ensures objectivity and transparency.

The Remuneration Committee has the authority to determine the details of remuneration for individual directors and corporate executives. It arrives at evaluation decisions based primarily on (1) the policy governing remuneration details for individual directors and corporate executives; (2) the details of remuneration for individual directors and

Total remuneration of officers in FY2022

Before the transition to a company with a three-committee Board structure (From April 2022 to June 2022)

Category of officer	Amount of remunerations paid (millions of yen)	Total amount by type (millions of yen)		Number of persons remunerated
		Fixed remuneration	Performance-linked remuneration	
Directors (excluding outside directors)	88	64	24	6
Audit & Supervisory Board members (excluding outside members)	13	13	–	2
Outside officers	24	24	–	8

After the transition to a company with a three-committee Board structure (From July 2022 to March 2023)

Category of officer	Amount of remunerations paid (millions of yen)	Total amount by type (millions of yen)				Number of persons remunerated
		Fixed remuneration		Performance-linked remuneration		
		Cash remuneration	Non-cash remuneration (stock compensation)	Cash remuneration	Non-cash remuneration (stock compensation)	
Directors (excluding directors concurrently performing as outside directors or corporate executives)	58	56	2	–	–	2
Outside directors	92	84	8	–	–	8
Corporate executives (including those concurrently performing as directors)	236	118	16	86	16	4

Corporate Governance

corporate executives; and (3) in the case of corporate executives, the degree of achievement of both company-wide performance targets and the individual targets set for each corporate executive for the purpose of determining performance-based remuneration.

In the event of a substantial change in the external environment of the company, the Remuneration Committee, after carefully deliberating on the appropriateness of the target values and calculation methods used for determining performance-linked remuneration, may take exceptional measures.

Non-payment of stock-based compensation

If it is determined that an officer is responsible for serious misconduct or a serious violation, the company can deny all or part of the company shares, etc. that were to be transferred to the officer under the stock-based compensation plan.

Disclosure policy

In accordance with our disclosure policy and applicable laws and regulations, details of the executive remuneration system are compiled and disclosed promptly and proactively through the annual Securities Report, reference materials for the General Meeting of Shareholders, the Business Report, the Corporate Governance Report, company website, etc. The company also implements a policy of active engagement with shareholders and investors.

Selection and dismissal of directors, CEO and other senior executives

(1) Directors

In terms of basic qualifications, a candidate director is to be a person with excellent character and insight who contributes to the growth of the company and the Group and helps to enhance enterprise value. The company has a policy of appointing directors who are involved in business execution to be persons that have a high level of ability and knowledge about each business segment and important management functions, while outside directors must have wide-ranging experience, excellent expertise and knowledge, and must also have the ability to proactively express their opinions and raise issues from outside perspectives and diverse backgrounds. The Nomination Committee decides on the nomination and election of candidates for Board of Directors.

(2) CEO and other senior executives

The appointment of the CEO and other senior executives (president & CEO, deputy president, and the like) is decided by the Board of Directors after deliberation by

the Nomination Committee, based on appointment criteria standards and the desired composition of the Board of Directors.

Criteria for appointing directors

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

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

Criteria for proposing dismissal of directors

Concerning policies and procedures for dismissing the CEO and other senior executives (president & CEO, deputy president, and the like), the candidate for dismissal undergoes a fair and rigorous process of examination and deliberation by the Nomination Committee based on the following criteria. If the committee judges that the dismissal is appropriate, it is sent to the Board of Directors for approval.

Reasons for proposing dismissal include serious business problems arising from a violation of the law or the Articles of Incorporation, an event that makes it difficult for the person to perform and continue in the job, and confirmation that the person does not meet the appointment criteria.

Succession planning

Concerning succession planning for the company's senior management, the Nomination Committee deliberates concerning the status of training and selection of successors and records the results of these deliberations as well as the discussion process itself. It ensures that succession planning was done appropriately and objectively, and the chairperson of the committee, an independent outside director, reports the results of the discussions to the Board of Directors as appropriate, thereby creating a framework in which sufficient time and resources can be devoted to the development of potential successors.

Skills expected of directors (skills matrix)

The company has determined the skills, etc., expected of directors in light of its management strategy, including the realization of the medium-term plan, and has confirmed the independence, diversity, and expected skills (as given below) of the current Board of Directors. Regarding the skills, in May 2021, the Board of Directors and the Nomination and Remuneration Committee conducted an objective review considering the Group philosophy, business model, growth strategy, etc., and selected seven important

items expected of the directors to support growth toward making contributions leading “in series” to a sustainable society as outlined in the medium-term plan. Of these, “corporate management/ sustainability,” “global business,” and “IT/technology/ control and automation business” are particularly relevant to the Group’s sustainable growth over the medium to long term.

Of the 12 directors, two are women (one of whom is a foreign national).

Name (Age)	Current positions	Independence	Diversity	Expected skills						
		Independent director	Gender	Corporate management/ sustainability*	Global business	Financial affairs, accounting, finance	IT, technology/ control and automation business	Sales, marketing	Manufacturing, research and development	Legal, risk management, compliance
Hirozumi Sone (68)	Director and Chairperson Chairperson of the Board		M	○			○	○		○
Kiyohiro Yamamoto (58)	Director Representative Corporate Executive, President & Group CEO Nomination Committee member		M	○	○		○	○	○	
Takayuki Yokota (62)	Director Representative Corporate Executive Deputy President Remuneration Committee member		M	○	○	○				○
Hisaya Katsuta (65)	Director Audit Committee member		M			○			○	○
Takeshi Itoh (79)	Outside director Nomination Committee Chairperson	○	M		○	○				
Waka Fujiso (74)	Outside director Remuneration Committee member	○	F	○						○
Mitsuhiro Nagahama (69)	Outside director Remuneration Committee Chairperson	○	M	○	○	○				
Anne Ka Tse Hung (59)	Outside director Nomination Committee member	○	F		○					○
Minoru Sakuma (74)	Outside director Audit Committee member	○	M		○	○				
Fumitoshi Sato (69)	Outside director Audit Committee Chairperson	○	M	○		○				○
Shigeaki Yoshikawa (70)	Outside director Nomination Committee member	○	M	○	○			○		
Tomoyasu Miura (61)	Outside director Remuneration Committee member	○	M	○			○	○		

Note: This includes skills regarding human resources and personnel development from the viewpoint of sustainability.

(as of June 27, 2023)

Management and Board of Directors

(As of June 27, 2023)

**Director and Chairperson****Hirozumi Sone**

Non-Executive Director, Chairperson of the Board
Section: Board Effectiveness Enhancement

Apr 1979 Joined the Company
Apr 1996 Systems Marketing Manager of Systems Development Group, Industrial Systems Division
Oct 1998 Transferred to Yamatake Industries Systems Co., Ltd., General Manager of Marketing Department of the company
Apr 2005 Executive Officer of the Company, General Manager of the Corporate Planning Department
Apr 2008 Managing Executive Officer, General Manager of the Corporate Planning Department
Jun 2010 Director and Managing Executive Officer
Apr 2012 Representative Director, President and Chief Executive Officer
Apr 2020 Representative Director, Executive Chairperson, President and Group Chief Executive Officer
Jun 2020 Representative Director, Chairperson, Executive Chairperson
Jun 2021 Outside Director of Yasuda Logistics Corporation (Present post)
Jun 2022 Director and Chairperson (Present post)
Jun 2023 Outside Director of Mizuho Leasing Co., Ltd. (Present post)

**Director, Representative Corporate Executive, President & Group Chief Executive Officer****Kiyohiro Yamamoto**

Nomination Committee Member
Section: Internal Audit

Apr 1989 Joined the Company
Apr 2007 General Manager of Environmental Marketing Department, Marketing Headquarters, Building Systems Company of the Company
Apr 2011 Head of Marketing Headquarters, Building Systems Company
Apr 2012 Senior Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2014 Senior Officer, General Manager of Corporate Planning Department
Apr 2017 Executive Officer, General Manager of Corporate Planning Department and Head of Marketing Headquarters, Building Systems Company
Apr 2018 Managing Executive Officer, Head of Marketing Headquarters, Building Systems Company
Apr 2020 Executive Deputy President
Jun 2020 Representative Director, President and Group Chief Executive Officer
Jun 2022 Director, Representative Corporate Executive, President & Group Chief Executive Officer (Present post)
May 2023 Chairperson, Japan Electric Measuring Instruments Manufacturers' Association (Present post)

**Director, Representative Corporate Executive, Deputy President****Takayuki Yokota**

Remuneration Committee Member

Section: Assistant to President, Corporate Administration, Management, Corporate Communication, azbil Group CSR, Sustainability, Life Automation Business

Apr 1983 Joined The Fuji Bank, Limited (Present: Mizuho Bank, Ltd.)
Nov 2005 Chief IR Officer at Investor Relations, Mizuho Financial Group, Inc.
Apr 2010 Executive Officer and Head of the Investment Banking Business Management Department, Mizuho Corporate Bank, Limited (Present: Mizuho Bank, Ltd.)
Jun 2012 Audit & Supervisory Board Member of Mizuho Research Institute Ltd. (Present: Mizuho Research & Technologies, Ltd.)
Apr 2013 Joined the Company (Senior Officer)
Apr 2014 Executive Officer, Head of Group Management Headquarters
Apr 2016 Managing Executive Officer, Head of Group Management Headquarters
Apr 2017 Managing Executive Officer, Head of Group Management Headquarters and Head of International Business Headquarters
Apr 2018 Managing Executive Officer
Jun 2018 Director and Managing Executive Officer
Apr 2020 Director and Senior Managing Executive Officer
Jun 2022 Director and Representative Senior Managing Corporate Executive
Jun 2023 Director, Representative Corporate Executive Deputy President (Present post)

**Director****Hisaya Katsuta**

Non-Executive Director, Audit Committee Member

Apr 1983 Joined the Company
Apr 2005 General Manager of Production Planning Department
Feb 2010 General Manager of Internal Audit Department
Apr 2011 Senior Officer, General Manager of Internal Audit Department
Apr 2012 Senior Officer, Manager of Production Management Department, Production Management Headquarters
Apr 2014 Senior Officer, Manager of Purchasing Department, Production Management Headquarters
Jun 2015 Audit & Supervisory Board Member
Jun 2022 Director (Present post)

**Outside Director****Takeshi Itoh**

Nomination Committee Chairperson

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

**Outside Director****Waka Fujiso**

Remuneration Committee Member

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

Managing Corporate Executives**Yoshimitsu Hojo**

Advanced Automation (AA) Business, azbil Group (aG) Product Business Portfolio Enhancement
President of Advanced Automation Company (AAC)

Kazuyasu Hamada

Building Automation (BA) Business, aG System Business Portfolio Enhancement, aG Work Style Creation (aG Synergy)
President of Building Systems Company (BSC)

Akihiko Naruse

Human Resources & Education, SDGs, General Affairs, aG Safety Management (Occupational Health and Safety)

Managing Executive Officers**Tadayoshi Ito**

aG Marketing (Three business fields to expand for sustainable growth), aG Digital Transformation Promotion, aG IT (aG Cyber Security) Enhancement, aG Service Engineering Enhancement, aG System Business Portfolio Enhancement

Hideaki Ishii

aG Production, aG Purchasing, aG Research and Development, aG Environmental Protection Innovation, aG Product Safety, Quality, & Environment, aG Product Business Portfolio Enhancement

Shigeru Wada

aG International Business, aG Work Style Creation Support (Overseas), Head of International Business Headquarter

Executive Officers**Masato Iwasaki**

Intellectual Property Strategy, Environment Promotion

Masashi Hirano

aG Marketing Support (Three business fields to expand for sustainable growth)

Toshiyasu Sumitomo

General Manager of the Corporate Planning Department

Masatoshi Yamada

Auditing Functions Enhancement, General Manager of Internal Audit Department

Akiko Sekino

General Manager of Legal Department

**Outside Director****Mitsuhiro Nagahama****Remuneration Committee Chairperson**

Apr 1976 Joined The Fuji Bank Limited. (Present: Mizuho Bank, Ltd.)
 Mar 2003 Executive Officer and General Manager of Otemachi Corporate Banking Division No. 6 and Otemachi Corporate Banking Division No. 7, Mizuho Corporate Bank, Ltd. (Present: Mizuho Bank, Ltd.)
 Apr 2005 Senior Executive Officer in charge of Corporate Banking, Mizuho Corporate Bank, Ltd.
 Mar 2006 Senior Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.
 Apr 2010 Deputy President and Deputy President-Executive Officer and Head of the Americas, Mizuho Corporate Bank, Ltd.
 Mar 2013 Retired from Mizuho Corporate Bank, Ltd.
 Apr 2013 Chairman of the Board of Mizuho Securities Co., Ltd. & Mizuho Securities USA Inc.
 Apr 2015 Advisor of Mizuho Securities Co., Ltd.
 Jun 2015 Outside Audit & Supervisory Board Member of the Company
 Mar 2018 Outside Audit & Supervisory Board Member of KURARAY Co., Ltd. (Present post)
 Mar 2019 Outside Director of Tokyo Tatemono Co., Ltd.
 Jun 2019 Outside Director of the Company (Present post)
 Mar 2020 Retired from Advisor of Mizuho Securities Co., Ltd.
 Jun 2020 Outside Director of NSK Ltd. (Present post)
 Mar 2021 Retired from Outside Director of Tokyo Tatemono Co., Ltd.

**Outside Director****Anne Ka Tse Hung****Nomination Committee Member**

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

**Outside Director****Minoru Sakuma****Audit Committee Member**

Apr 1971 Joined Export-Import Bank of Japan (Present: Japan Bank for International Cooperation)
 May 1998 Director General of Information Systems Department, Export-Import Bank of Japan
 Oct 1999 Director General of Research Institute for Development and Finance, Japan Bank for International Cooperation
 May 2000 Retired from Japan Bank for International Cooperation
 Managing Director of Cabunus Investment Corporation
 Retired from Cabunus Investment Corporation
 Jun 2009 Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) of JGC Corporation (Present: JGC HOLDINGS CORPORATION)
 Jun 2016 Retired from Audit & Supervisory Board Member of JGC Corporation
 Jun 2019 Outside Audit & Supervisory Board Member of the Company
 Jun 2022 Outside Director of the Company (Present post)

**Outside Director****Fumitoshi Sato****Audit Committee Chairperson**

Apr 1976 Joined Bank of Japan
 Apr 1998 General Manager of Aomori Branch, Bank of Japan
 May 2001 General Manager of Fukuoka Branch, Bank of Japan
 Apr 2004 Retired from the Bank
 Senior Corporate Officer of HORIBA, Ltd.
 Jun 2005 Managing Director of HORIBA, Ltd., General Manager of General Administration Division
 Mar 2017 Retired from Managing Director of HORIBA, Ltd.
 Advisor of HORIBA, Ltd.
 May 2018 Retired from Advisor of HORIBA, Ltd.
 Jun 2019 Outside Board Director of TOMY Company, Ltd. (Present post)
 Outside Audit & Supervisory Board Member of the Company
 Jun 2022 Outside Director of the Company (Present post)

**Outside Director****Shigeaki Yoshikawa****Nomination Committee Member**

Apr 1977 Joined Mitsubishi Corporation
 Jun 2004 General Manager of Singapore Branch
 Jul 2006 General Manager of Regional Strategy & Coordination Dept.
 Apr 2008 Senior Vice President, General Manager of Global Strategy & Coordination Dept.
 Apr 2010 Senior Vice President, Chief Regional Officer for the Middle East
 Apr 2013 Executive Vice President, Regional CEO for the Middle East & Central Asia
 Apr 2016 Corporate Advisor
 Aug 2016 Retired from Corporate Advisor of Mitsubishi Corporation
 Sep 2016 Corporate Advisor of Mitsubishi Research Institute, Inc.
 Oct 2016 Executive Vice President
 Dec 2016 Representative Member of the Board, Executive Vice President & COO
 Dec 2020 Senior Corporate Advisor (Present Post)
 Apr 2021 Visiting Professor (Department of Business Design), Research Fellow (Institute of Current Business Studies) of Showa Women's University, Tokyo (Present post)
 Jun 2022 Outside Director of the Company (Present post)
 Jun 2023 Chairman & Representative Director of The Japan Singapore Association (Present post)
 Outside Director of Mochida Pharmaceutical Co., Ltd. (Present post)

**Outside Director****Tomoyasu Miura****Remuneration Committee Member**

Apr 1986 Joined Nomura Research Institute, Ltd.
 Apr 2001 Manager of Financial Consulting Service Department II of Nomura Research Institute, Ltd.
 Apr 2008 Manager of Financial Strategic Consulting Service Department of Nomura Research Institute, Ltd.
 Apr 2009 Senior Managing Director, Deputy Manager of Management Consulting Service Division of Nomura Research Institute, Ltd.
 Apr 2010 Senior Managing Director, Deputy Manager of System Consulting Service Division of Nomura Research Institute, Ltd.
 Apr 2011 Senior Managing Director, Manager of Center for Corporate Planning Division of Nomura Research Institute, Ltd.
 Apr 2013 Senior Managing Director, Deputy Manager of Financial System Solution Service Division of Nomura Research Institute, Ltd.
 Apr 2017 Counselor of Nomura Research Institute, Ltd.
 Deputy Dean of Nomura School of Advanced Management
 Jun 2018 Executive Director & Dean of Nomura School of Advanced Management
 Aug 2019 Auditor of Research Institute of Science for Education (Present post)
 May 2022 Retired from Executive Director & Dean of Nomura School of Advanced Management
 Jun 2022 Retired from Counselor of Nomura Research Institute, Ltd.
 Outside Director of the Company (Present post)

Tomohiro Takano

aG Product Business Portfolio Enhancement Support, Head of Actuator Development Headquarters

Tomoyuki Takeda

aG Work Style Creation Support (Domestic), Manager of BSC Tokyo Head Office

Tetsuya Iwasaki

aG System Business Portfolio Enhancement Support, Head of IT Development Headquarters, Head of BSC Development Headquarters

Toshihisa Murayama

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

Yukiya Kitaura

aG Service Engineering Enhancement Support, Head of BSC Facility Management Headquarters

Taro Sento

General Manager of AA IAP Business^{*1}

Tetsuo Kobayashi

Head of AAC Business Development Headquarters, Promotion Member of Strategic Planning & Development Office for Southeast Asia

Takashi Igarashi

aG Work Style Creation Support (Domestic), Manager of AAC Tokyo Head Office

Kenji Sudo

aG System Business Portfolio Enhancement Support, General Manager of AA SS Business^{*2}

Tetsuya Kajita

Head of Technology Development Headquarters

Anju Jaswal

Deputy Head of International Business Headquarter, Managing Director of Strategic Planning & Development Office for Southeast Asia

Hiromitsu Yoshizawa

Head of BSC Engineering Headquarters

Eisuke Toyoda

General Manager of AA CP Business^{*3}

^{*1} Industrial Automation Product business (supplying process automation products such as differential pressure and pressure transmitters, and control valves)

^{*2} Solution and Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

^{*3} Control Product business (supplying factory automation products such as controllers and sensors)

IX. Dialogue—Engagement

Communication with Stakeholders for Co-creation of Value

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

Corporate communication structure

Under the guidance of the corporate executive in charge of corporate communications, we have set up a system (Corporate Communication Task Force) to facilitate dialogue with stakeholders through collaboration among internal departments, and have been discussing ways to enhance communication activities, including timely, appropriate, and integrated dissemination of information and the introduction

of new opportunities and tools, including digital tools. Also, starting in FY2023, we have integrated the major organizations involved in information dissemination into a new Communication Department which promotes global communication and branding. We engage in fair and highly transparent information disclosure in accordance with laws and regulations in a timely and appropriate manner, and proactively disseminate not only financial information but also non-financial information such as management plans, ESG information, and product and service information. Additionally, we actively seek feedback from all stakeholders, considering their opinions as valuable input for our management decisions.



Disclosure Policy

<https://www.azbil.com/ir/management/disclosure/index.html>

Details of dialogue with stakeholders

	Customers	Business partners and suppliers
Value creation through communication	<ul style="list-style-type: none">• Developing better products and services• Providing consulting, quality assurance, high value-added engineering and maintenance services	<ul style="list-style-type: none">• Ensuring opportunities for fair transactions• Building good partnerships• Sharing values and fulfilling social responsibilities with the SDGs as a common goal
Communication opportunities	<ul style="list-style-type: none">• Sales and quality assurance activities• Offering safe, dependable, and valuable products and services• Providing information through our website• Providing an inquiry form on our website• Exhibitions, webinars	<ul style="list-style-type: none">• Briefings on the CSR Procurement Guidelines• ESG-oriented implementation of and feedback from business partners' self-evaluation surveys• Initiatives to achieve our own essential SDG goals in our supply chain
Examples of activities for FY2022	<ul style="list-style-type: none">• Hybrid participation in Measurement and Control Show 2022 OSAKA / MCS 2022 Online+plus; booth at Industrial Transformation ASIA PACIFIC, Smart Building EXPO, etc., introducing advanced products and services as a contribution to DX, carbon neutrality, etc.	<ul style="list-style-type: none">• Conducted briefings to motivate and promote specific initiatives to achieve the SDGs• Carried out human rights due diligence (conducted on approximately 300 major business partners)

Proactive dissemination by top management

Top management proactively communicates on various fronts, including interviews in the Nikkei ESG magazine and the lecture at the Nikkei SDGs Festival, about the Group's efforts to solve issues onsite and within the Group through measurement and control technology toward achieving a sustainable society.



The lecture at the Nikkei SDGs Festival

Responding to requests for sustainability-related disclosures and communicating with suppliers

Guided by the Group philosophy, the azbil Group identifies materiality in terms of both opportunities and risks, taking into consideration medium- and long-term changes in the business environment. We have established the essential goals of the azbil Group for the SDGs as specific indicators and targets, and are working to achieve them.

In FY2022, we expanded our disclosure in our Annual Securities Report regarding our response to climate change and strengthening our investment in human capital, both of which are issues related to sustainability. In addition, we newly published the azbil ESG Databook that compiles a wide range of non-financial information. As part of fulfilling our social responsibilities to customers and business partners, we have shared our own essential SDG goals with our business partners and conducted questionnaires, briefing sessions, and human rights due diligence (see pp. 81–84).



azbil ESG Databook

<https://www.azbil.com/ir/library/esg/index.html>

	Employees	Local and international communities	Shareholders and investors
	<ul style="list-style-type: none"> Achieving health and well-being management so that all employees can work comfortably and exercise their full potential 	<ul style="list-style-type: none"> Proactive communication to respond to the needs and expectations of local and international communities; participation in activities contributing to society Engaging in responsible corporate action through declarations, initiatives, and activities 	<ul style="list-style-type: none"> Timely and appropriate information disclosure Improvement of enterprise value by gathering authentic valuations from the capital markets and understanding the requirements of the capital markets Initiatives and disclosure on social issues and sustainability
	<ul style="list-style-type: none"> Information dissemination through the intranet Direct dialogue between officers and employees (online dialogue at the individual workplace level and with managers) Implementing an annual employee satisfaction survey and establishing/pursuing initiatives to achieve high satisfaction levels as our own essential SDG goals Regular dialogue between the labor union and management (joint management council) 	<ul style="list-style-type: none"> Inviting local residents and institutions to seasonal events (such as summer evening festivals hosted by the company) and programs to contribute to society (such as educational support) Volunteer activities (community cleanup, azbil Honey Bee Club) Participation in international initiatives (UN Global Compact, TCFD, and others), communication of information through webinars, etc. Biodiversity conservation initiatives (in cooperation with Japanese and international NPOs and NGOs) 	<ul style="list-style-type: none"> General meetings of shareholders, financial results briefings, facility tours, and exhibitions Individual meetings with Japanese and overseas institutional investors and analysts, briefings for individual investors Information disclosure through the integrated report (azbil report), business reports for shareholders and investors, azbil ESG Databook, and information disclosure on the company's website (Investor Relations page) Establishment of a disclosure policy and dialogue based on the policy
	<ul style="list-style-type: none"> Conducted direct dialogue between officers and employees (promotion of employee engagement by the president) Carried out employee satisfaction surveys (measured the percentage of employees who have expressed satisfaction and experienced personal growth) Provided opportunities for cross-departmental exchanges and discussions to enhance expertise (communities of practice: CoP*) Group training in a hybrid format and invitation to employees at overseas sites to participate Conducted dialogue at joint management council meetings 	<ul style="list-style-type: none"> Continued support for contributions to society such as community cleanups, tree planting activities, and educational support, through the azbil Honey Bee Club Co-sponsored educational projects and sporting events for local children with Shonan Bellmare and Shonan United BC, and reduced environmental impact of the Shonan International Marathon through carbon offsets 	<ul style="list-style-type: none"> Held general meeting of shareholders in hybrid onsite and online meetings, and held a financial results briefing online (for the second quarter) and in a hybrid format (for the end of the fiscal year). Conducted meetings with domestic and overseas institutional investors, including senior management Participated in online presentations for individual investors (for the second consecutive year)

* Activities in which employees who are aware of and enthusiastic about a particular theme gather to deepen their knowledge and expertise through exchange

Communication with Stakeholders for Co-creation of Value

Initiatives for constructive dialogue with shareholders and investors and utilization of the internet

We have a system in place for dialogue with shareholders and investors in which senior management, the corporate executive in charge of corporate communications, and Investor Relations take the lead, depending on the purpose of the meeting. The dialogue is extensive, ranging from management strategies and business performance to sustainability and ESG-related initiatives and voting criteria, and includes proactive dialogue with ESG and voting staff from fund managers and analysts from shareholders and investors of various management styles. In FY2022, the frequent topics in the discussion were the status of and forecast for each business, how the company is responding to the business environment, growth investment areas and business opportunities, and strengthening of governance, such as the transition to a three-committee Board structure. The feedback obtained through these dialogues is shared with the company president and other members of the management team, as well as outside directors, at the Management Meeting and Board of Directors meeting, and are incorporated into capital policies, corporate strategies, and management as appropriate.

We are also using remote support such as web conferencing tools and enhancing and utilizing digital content. We also actively disseminate information and strive to

promote understanding, not only for domestic but also overseas shareholders, institutional investors, and individual investors, by means such as live and on-demand distribution of the content of general meetings of shareholders, on-demand distribution of results briefing videos in Japanese and English, online company briefings for individual investors, etc.



On-demand broadcast of the company briefing for individual investors

Communication with employees

The president of the company personally creates opportunities for direct dialogue with employees of the azbil Group in Japan and abroad to promote a free exchange of ideas, and shares the content of these discussions via the company intranet and other means to deepen ties between employees. Since the outbreak of the COVID-19 pandemic, we have also transitioned to a hybrid format of in-person and online group training, allowing employees at locations overseas to participate in the training. In addition, we are creating CoP opportunities mainly for young employees at each location for discussion of business issues and operational improvements, as well as self-reflection and growth. Through these efforts, we have improved the ratio of employees who have expressed satisfaction and employees who experienced personal growth, as measured by employee satisfaction surveys. Also, joint management council meetings are held seven times a year to address issues raised by the labor union regarding the work environment.



The 101st Ordinary General Meeting of Shareholders was held in a hybrid format.

Main declarations and initiatives we have joined or supported, and external evaluations

- Declaration of support for the Task Force on Climate-related Financial Disclosures (TCFD)
- Signatory of the United Nations Global Compact
- Climate Change Initiative and the Japan Climate Leaders' Partnership Endorsement
- Listing on six indices chosen by the Government Pension Investment Fund (GPIF): FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, FTSE Blossom Japan Sector Relative Index, MSCI Japan Empowering Women Index (WIN), S&P/JPX Carbon Efficient Index, Morningstar Japan ex-REIT Gender Diversity Tilt Index
- CDP Climate Change (A score) / Water Security (A- score), supplier engagement leader
- Highest level (*Eruboshi*) certification for leading companies based on Japan's Act on Promotion of Women's Participation and Advancement in the Workplace; *Platinum Kurumin* certification; certification as a Health & Productivity Management Outstanding Organization in 2023
- Selected as an "Environmentally Sustainable Enterprise" for the 4th ESG Finance Awards Japan
- FTSE4Good Japan Index, MSCI Japan Index, JPX-Nikkei Index 400



Invigorating local communities

As its own essential SDG goal, the azbil Group aims to contribute to society at all business sites through activities rooted in the local community, with active participation by every employee, and it is working to achieve this target. To facilitate the practice of continuing and systematic activity, we established a dedicated social contribution department in FY2021, and formulated aims and key themes for its initiatives. In FY2022, in line with global conditions, we promoted employee participation at our business locations and at sponsored events, while ensuring the safety and security of the local community and our employees. By strengthening the efforts of all employees to address social issues both in Japan and overseas, we will continue to aim to contribute “in series” to the achievement of a sustainable society.

Invigorating Local Communities



<https://www.azbil.com/csr/contribution-to-society/voluntary-activity/local.html>

The azbil Group's Essential Goal III for the SDGs (for FY2030)

Social Responsibility

Social contribution activities rooted in the local communities are run at all of our business sites, with **active participation by every employee**

Supporting education in elementary schools

The azbil Group provides educational support as part of our efforts to contribute to the local community. In FY2022, in conjunction with the completion of the buildings in the Fujisawa Technology Center, which is our R&D base, we conducted an energy conservation tour for third graders of Takaya Elementary School in the suburbs of Fujisawa. This

was the first time for the azbil Group to conduct an energy conservation tour for elementary school students, and our employees served as lecturers to the approximately 150 students, explaining the Group's activities connected to the achievement of the SDGs. As a result of the lesson, we received letters from the children, and we continue to interact with them.



Energy conservation tour (image courtesy of Townnews-Sha Co., Ltd.)

Support from the azbil Honey Bee Club

The azbil Honey Bee Club consists of about 1,100 employees and company officers of the azbil Group. In addition to donating a small amount from their salaries every month, the members propose recipients and vote to determine which ones to support in order to help provide solutions to society's problems. Since these activities involve collaborating with a variety of stakeholders, they foster a corporate culture of growing along with society, and they give the azbil Group a sense of solidarity and accomplishment. In FY2022 the club gave a total of ¥8.8 million to 58 organizations. Of that amount, ¥5.6 million was from club members, while ¥3.2 million was matching funds from Azbil Corporation.*



March, the azbil Honey Bee Club's mascot

* Azbil Corporation matches the club's donation if members themselves participate in the activities of the recipient.

The azbil Honey Bee Club



<https://www.azbil.com/csr/contribution-to-society/voluntary-activity/mitsubachi.html>



Azbil Yamatake General Foundation

The Azbil Yamatake General Foundation was established to provide educational opportunities and a stable learning system for promising children, to provide research grants in the fields of science and technology to support the development of new technology. We offer three programs—scholarships, support for education and awareness, and research grants—under the motto “For the future of youth.” Through these programs, we are working on a variety of activities in collaboration with local communities, schools, and research organizations so that those who receive support can gain a sense of happiness and fulfillment. For example, the foundation participated in and supported scholarship systems

established by local governments, helped needy youth from single-parent families to enroll in schools, and donated to orphanages. Additionally, it worked with local governments to support the establishment of new children's clubs, supported education at *terakoya* (voluntary prep schools), and supported student volunteers that manage cafeterias for children. These activities are aimed at tackling child poverty and creating an environment where children who need assistance can learn with peace of mind. In FY2021 we began offering grants for research activities through an open application process, and we expanded the area and scope of our activity in the following year.



X. Corporate Data

11-Year Key Financial and Non-Financial Figures

Azbil Corporation and its consolidated subsidiaries

	FY2012	FY2013
Financial Information		
Financial Results (for the year):		
Net sales	227,585	248,417
(Overseas sales)* ¹	22,956	46,135
Gross profit	77,872	86,550
Selling, general and administrative expenses	64,461	72,646
Operating income	13,411	13,904
Net income attributable to owners of the parent	8,309	7,669
Capital expenditure	3,121	5,303
Depreciation	3,621	3,723
R&D expenses	7,824	8,767
Cash Flows (for the year):		
Net cash provided by operating activities	15,010	15,836
Net cash provided by (used in) investing activities	(12,716)	(10,670)
Free cash flow	2,294	5,166
Net cash used in financing activities	(2,487)	(6,940)
Financial Position (at year-end):		
Total assets* ²	243,419	253,448
Interest-bearing debt	17,920	17,687
Shareholders' equity	139,042	143,316
Net assets	141,197	144,978
Per Share Data*³:		
Net income (yen)	56.25	51.93
Net assets (yen)	941.33	970.28
Cash dividends (yen)	31.50	31.50
Financial Ratios:		
Gross profit/Net sales (%)	34.2	34.8
Operating income/Net sales (%)	5.9	5.6
R&D expenses/Net sales (%)	3.4	3.5
Shareholders' equity/Total assets (%)* ²	57.1	56.5
Return on equity (ROE) (%)	6.1	5.4
Dividend on equity (DOE) (%)	3.4	3.3
Dividend payout ratio (%)	56.0	60.7
Non-Financial Information		
CO ₂ emissions (scopes 1+2/market-based) (metric tons of CO ₂)* ^{4,5,8}	—	—
CO ₂ emissions (scopes 1+2/fixed) (metric tons of CO ₂)* ^{4,6,7,8}	22,890	23,726
Number of employees (people)	9,585	9,712
Number of domestic employees	7,085	7,026
Number of overseas employees	2,500	2,686
Number of female employees in managerial or specialist positions (people)	29	33
Ratio of female employees in managerial or specialist positions (%)	2.6	3.0
Ratio of employees with disabilities to total workforce (%)* ⁹	2.08	2.10

*¹ The company has disclosed overseas sales figures since FY2012, when overseas sales first accounted for more than 10% of consolidated net sales.

*² Effective from the beginning of FY2018, the company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. Figures for total assets and shareholders' equity/total assets in FY2017 have been changed retrospectively to reflect the amended standard as a comparison information.

*³ The company conducted a two-for-one stock split for shares of common stock on October 1, 2018. Per share data are based on the number of shares after the stock split.

*⁴ Scope 1: Direct greenhouse gas (GHG) emissions from a business (from fuel burning, industrial process)
Scope 2: Indirect GHG emissions from using electricity, heat, or steam provided by another business



Audited Financial Report is available at the following:
<https://www.azbil.com/ir/library/audited-financial-reports/index.html>

(Millions of yen)

FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
254,469	256,890	254,811	260,384	262,055	259,411	246,821	256,552	278,406
46,756	48,991	43,380	45,797	46,710	44,195	44,888	52,191	62,635
89,884	91,089	91,492	97,481	102,338	103,642	99,369	105,706	111,938
74,546	73,953	71,347	73,454	75,648	76,386	73,649	77,474	80,687
15,337	17,136	20,145	24,027	26,690	27,256	25,720	28,232	31,251
7,169	8,268	13,154	17,890	18,951	19,793	19,918	20,784	22,603
6,302	3,413	4,160	7,038	6,363	4,934	5,039	11,245	10,845
3,785	4,148	4,075	4,112	4,167	4,462	4,484	4,847	4,955
10,124	11,012	10,446	11,262	11,897	11,788	11,182	12,109	12,372
13,698	11,073	19,949	19,481	16,111	29,812	22,602	10,120	13,118
(13,472)	4,262	(9,061)	(48)	(4,075)	(4,171)	284	(3,991)	(1,976)
226	15,334	10,889	19,433	12,036	25,641	22,886	6,129	11,142
(6,066)	(10,536)	(6,441)	(10,852)	(12,024)	(18,768)	(6,996)	(20,584)	(19,695)
265,719	259,127	263,317	273,805	275,518	274,559	284,597	280,052	296,873
16,673	12,605	11,175	10,686	10,028	8,576	9,350	8,346	12,415
158,273	155,006	163,822	175,996	181,143	183,190	198,191	200,315	202,820
160,294	156,966	165,752	177,963	183,098	185,302	200,608	203,142	205,880
48.53	56.36	89.78	123.08	132.03	140.80	142.77	150.79	168.27
1,071.56	1,058.05	1,118.23	1,213.14	1,264.88	1,313.17	1,420.52	1,459.08	1,518.01
31.50	33.50	38.50	41.00	46.00	50.00	55.00	60.00	66.00
35.3	35.5	35.9	37.4	39.1	40.0	40.3	41.2	40.2
6.0	6.7	7.9	9.2	10.2	10.5	10.4	11.0	11.2
4.0	4.3	4.1	4.3	4.5	4.5	4.5	4.7	4.4
59.6	59.8	62.2	64.3	65.7	66.7	69.6	71.5	68.3
4.8	5.3	8.3	10.5	10.6	10.9	10.4	10.4	11.2
3.1	3.1	3.5	3.5	3.7	3.9	4.0	4.2	4.4
64.9	59.4	42.9	33.3	34.8	35.5	38.5	39.8	39.2
—	—	—	26,183	25,015	24,320	20,019	19,066	16,552
22,379	21,423	21,013	20,378	19,869	19,265	18,027	18,182	20,022
9,408	9,464	9,290	9,328	9,607	9,897	10,003	10,086	10,063
6,679	6,551	6,463	6,444	6,618	6,862	6,856	6,815	6,734
2,729	2,913	2,827	2,884	2,989	3,035	3,147	3,271	3,329
35	40	47	52	58	61	69	71	76
3.2	3.6	4.2	4.5	4.9	5.1	5.7	5.8	6.2
2.11	2.20	2.18	2.26	2.29	2.35	2.32	2.25	2.38

*5 Scope of calculation: Azbil Corporation, its consolidated subsidiaries in Japan, and its main manufacturing bases overseas

*6 Scope of calculation: Azbil Corporation, its consolidated subsidiaries in Japan, and its main manufacturing bases overseas. Azbil Telstar, S.L.U. was added in FY2013. The data prior to FY2016 includes data for certain non-consolidated subsidiaries.

*7 A fixed value (0.378 kg-CO₂/kWh) is used for the CO₂ emission factor from electricity generation.

*8 The data from FY2017 onward differs from the data disclosed last fiscal year due to the consistency of some of the calculation ranges.

*9 Includes: Azbil Corporation, Azbil Yamatake Friendly Co., Ltd., Azbil Kimmon Co., Ltd., Azbil Trading Co., Ltd., Azbil TA Co., Ltd.

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

Consolidated Balance Sheet

Azbil Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of Yen		Thousands of U.S. Dollars
	FY2022	FY2021	FY2022
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 71,233	¥ 77,891	\$ 531,589
Marketable securities	5,000	9,700	37,313
Notes and accounts receivable:			
Trade notes	15,903	14,971	118,676
Trade accounts	65,432	54,988	488,295
Contract assets	15,766	16,176	117,654
Other	2,471	2,453	18,454
Allowance for doubtful receivables	(391)	(424)	(2,920)
Inventories	37,166	28,684	277,362
Prepaid expenses and other current assets	7,130	6,355	53,211
Total current assets	219,710	210,794	1,639,634
PROPERTY, PLANT AND EQUIPMENT:			
Land	6,515	6,441	48,618
Buildings and structures	51,181	42,137	381,951
Machinery and equipment	20,420	18,897	152,385
Furniture and fixtures	20,818	20,541	155,361
Lease assets	4,374	3,050	32,641
Construction in progress	933	7,082	6,962
Total	104,241	98,148	777,918
Accumulated depreciation	(65,975)	(64,979)	(492,353)
Net property, plant and equipment	38,266	33,169	285,565
INVESTMENTS AND OTHER ASSETS:			
Investment securities	19,508	19,071	145,582
Investments in and advances to unconsolidated subsidiaries and associated companies	221	665	1,650
Deposits	3,317	3,037	24,750
Software	4,632	4,944	34,565
Deferred tax assets	5,116	3,316	38,180
Other assets	6,103	5,056	45,551
Total investments and other assets	38,897	36,089	290,278
TOTAL	¥296,873	¥280,052	\$2,215,477

	Millions of Yen		Thousands of U.S. Dollars
	FY2022	FY2021	FY2022
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	¥ 8,812	¥ 8,032	\$ 65,762
Current portion of long-term debt	643	521	4,801
Notes and accounts payable:			
Trade	24,705	22,991	184,369
Other	2,163	2,016	16,138
Income taxes payable	8,693	6,758	64,869
Accrued bonuses	12,167	10,888	90,798
Other accrued expenses and current liabilities	21,832	18,246	162,928
Total current liabilities	79,015	69,452	589,665
LONG-TERM LIABILITIES:			
Long-term debt	5,802	1,803	43,299
Liability for retirement benefits	1,854	1,890	13,838
Deferred tax liabilities	798	454	5,956
Provision for stock payment	2,291	1,928	17,097
Provision for stock payment for directors (and other officers)	42		316
Other long-term liabilities	1,191	1,383	8,885
Total long-term liabilities	11,978	7,458	89,391
EQUITY:			
Common stock—authorized, 559,420,000 shares; issued, 143,700,884 shares in FY2022 and 145,200,884 shares in FY2021	10,523	10,523	78,528
Capital surplus	11,671	11,671	87,095
Retained earnings	199,249	190,263	1,486,938
Treasury stock—at cost, 10,091,552 shares in FY2022 and 7,912,745 shares in FY2021	(32,391)	(23,667)	(241,727)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	9,271	9,173	69,185
Deferred loss on derivatives under hedge accounting	(100)	(74)	(748)
Foreign currency translation adjustments	4,546	2,442	33,927
Defined retirement benefit plans	51	(16)	383
Total	202,820	200,315	1,513,581
Noncontrolling interests	3,060	2,827	22,840
Total equity	205,880	203,142	1,536,421
TOTAL	¥296,873	¥280,052	\$2,215,477

Consolidated Statement of Income

Azbil Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of Yen		Thousands of U.S. Dollars
	FY2022	FY2021	FY2022
NET SALES	¥278,406	¥256,552	\$2,077,659
COST OF SALES	166,468	150,846	1,242,295
Gross profit	111,938	105,706	835,364
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	80,687	77,474	602,142
Operating income	31,251	28,232	233,222
OTHER INCOME (EXPENSES):			
Interest income	234	157	1,745
Dividend income	639	646	4,767
Interest expense	(148)	(124)	(1,103)
Foreign currency exchange gain	413	632	3,083
Loss on disposals of property, plant and equipment, gain on sales of property, plant and equipment	(198)	(113)	(1,474)
Gain on sales of investment securities—net	2,677	858	19,977
Loss on business restructuring		(219)	
Provision for product warranties	(2,495)		(18,621)
Loss on sales of shares of subsidiaries and associates	(6)		(42)
Others—net	(249)	(25)	(1,861)
Other income—net	867	1,812	6,471
INCOME BEFORE INCOME TAXES	32,118	30,044	239,693
INCOME TAX EXPENSE:			
Current	10,279	8,373	76,712
Deferred	(1,467)	250	(10,946)
Total income tax expense	8,812	8,623	65,766
NET INCOME	23,306	21,421	173,927
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(703)	(637)	(5,248)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 22,603	¥ 20,784	\$ 168,679
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Net income	¥168.27	¥150.79	\$1.26
Cash dividends applicable to the year	66.00	60.00	0.49

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars
	FY2022	FY2021	FY2022
NET INCOME	¥23,306	¥21,421	\$173,927
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on available-for-sale securities	98	(1,935)	729
Deferred loss on derivatives under hedge accounting	(26)	(99)	(192)
Foreign currency translation adjustments	2,195	1,938	16,378
Defined retirement benefit plans	73	9	542
Total other comprehensive income	2,340	(87)	17,457
COMPREHENSIVE INCOME	¥25,646	¥21,334	\$191,384
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥24,847	¥20,503	\$185,424
Noncontrolling interests	799	831	5,960

Consolidated Statement of Changes in Equity

Azbil Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Thousands					Millions of Yen						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Noncon- trolling Interests	Total Equity
						Unrealized Gain (Loss) on Available- for- Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total		
BALANCE, MARCH 31, 2021	139,520	¥10,523	¥11,671	¥177,900	¥(13,709)	¥11,108	¥ 25	¥ 699	¥(26)	¥198,191	¥2,417	¥200,608
Net income attributable to owners of the parent				20,784						20,784		20,784
Cash dividends, ¥60 per share				(8,421)						(8,421)		(8,421)
Purchase of treasury stock	(2,254)				(10,004)					(10,004)		(10,004)
Disposal of treasury stock	23				46					46		46
Retirement of treasury stock												
Net change in the year						(1,935)	(99)	1,743	10	(281)	410	129
BALANCE, MARCH 31, 2022	137,289	10,523	11,671	190,263	(23,667)	9,173	(74)	2,442	(16)	200,315	2,827	203,142
Net income attributable to owners of the parent				22,603						22,603		22,603
Cash dividends, ¥62.5 per share				(8,615)						(8,615)		(8,615)
Purchase of treasury stock	(4,108)				(15,221)					(15,221)		(15,221)
Disposal of treasury stock	429				1,495					1,495		1,495
Retirement of treasury stock			(5,002)		5,002							
Transfer from retained earnings to capital surplus			5,002	(5,002)								
Net change in the year						98	(26)	2,104	67	2,243	233	2,476
BALANCE, MARCH 31, 2023	133,609	¥10,523	¥11,671	¥199,249	¥(32,391)	¥ 9,271	¥(100)	¥4,546	¥51	¥202,820	¥3,060	¥205,880

	Thousands of U.S. Dollars										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Noncontrolling Interests	Total Equity
					Unrealized Gain (Loss) on Available- for- Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total		
BALANCE, MARCH 31, 2022	\$78,528	\$87,095	\$1,419,877	\$(176,620)	\$68,456	\$(556)	\$18,225	\$(123)	\$1,494,882	\$21,099	\$1,515,981
Net income attributable to owners of the parent			168,679						168,679		168,679
Cash dividends, \$0.47 per share			(64,288)						(64,288)		(64,288)
Purchase of treasury stock				(113,595)					(113,595)		(113,595)
Disposal of treasury stock				11,158					11,158		11,158
Retirement of treasury stock		(37,330)		37,330							
Transfer from retained earnings to capital surplus		37,330	(37,330)								
Net change in the year					729	(192)	15,702	506	16,745	1,741	18,486
BALANCE, MARCH 31, 2023	\$78,528	\$87,095	\$1,486,938	\$(241,727)	\$69,185	\$(748)	\$33,927	\$383	\$1,513,581	\$22,840	\$1,536,421

Consolidated Statement of Cash Flows

Azbil Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of Yen		Thousands of U.S. Dollars
	FY2022	FY2021	FY2022
OPERATING ACTIVITIES:			
Income before income taxes	¥32,118	¥30,044	\$239,693
Adjustments for:			
Income taxes—paid	(8,403)	(7,846)	(62,708)
Depreciation and amortization	4,955	4,847	36,974
(Decrease) increase in allowance for doubtful receivables	(2)	27	(12)
Increase in accrued bonuses	1,214	831	9,059
Foreign currency exchange gain	(475)	(505)	(3,545)
Loss on sales of property, plant, equipment and others—net	198	113	1,474
Gain on sales and valuation of investment securities—net	(2,677)	(858)	(19,977)
Loss on sales of shares of subsidiaries and associates	6		42
Loss on business restructuring		219	
Changes in assets and liabilities:			
Increase in trade receivables, and contract assets	(9,722)	(3,055)	(72,553)
Increase in inventories	(7,737)	(3,729)	(57,736)
Increase (decrease) in notes and accounts payable	944	(9,541)	7,044
Increase in liability for retirement benefits	38	63	282
(Increase) decrease in net defined benefit assets	(1)	1	(11)
Increase in provision for stock payment	424	340	3,168
Increase in provision for stock payment for directors (and other officers)	42		316
Increase (decrease) in provision for product warranties	2,422	(11)	18,076
Increase in other assets	(208)	(561)	(1,554)
Decrease in other liabilities	(29)	(138)	(213)
Others—net	11	(121)	79
Total adjustments	(19,000)	(19,924)	(141,795)
Net cash provided by operating activities	13,118	10,120	97,898
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	13	12	97
Purchases of property, plant and equipment	(7,550)	(8,878)	(56,345)
Purchases of intangible assets	(1,632)	(1,368)	(12,177)
Proceeds from sales of investment securities	3,290	1,240	24,550
Proceeds from sales of beneficiary securities of trust	890	7,412	6,641
Purchases of investment securities	(858)		(6,403)
Purchases of beneficiary securities of trust	(1,035)	(5,078)	(7,727)
Proceeds from sales of marketable securities	12,700	18,300	94,776
Purchases of marketable securities	(8,000)	(15,800)	(59,701)
Others—net	206	169	1,535
Net cash used in investing activities	(1,976)	(3,991)	(14,754)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	497	(1,129)	3,709
Proceeds from long-term debt	4,806		35,866
Repayment of long-term debt	(1,515)	(39)	(11,302)
Proceeds from sales of treasury stock	1,496		11,163
Purchases of treasury stock	(15,222)	(10,004)	(113,595)
Cash dividends paid	(8,614)	(8,419)	(64,280)
Dividends paid to noncontrolling interests	(575)	(422)	(4,294)
Others—net	(568)	(571)	(4,242)
Net cash used in financing activities	(19,695)	(20,584)	(146,975)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,895	1,693	14,144
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,658)	(12,762)	(49,687)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	77,891	90,653	581,276
CASH AND CASH EQUIVALENTS, END OF YEAR	¥71,233	¥77,891	\$531,589

azbil Group Company Data

Japan

• Azbil Corporation

Head office: Chiyoda-ku, Tokyo
Founded: 1906
Established: 1949

• Azbil Trading Co., Ltd.

Head office: Minato-ku, Tokyo
Established: 1964

• Azbil Yamatake Friendly Co., Ltd.

Head office: Fujisawa-shi, Kanagawa
Established: 1998

• Azbil Kimmon Co., Ltd.

Head office: Shinjuku-ku, Tokyo
Founded: 1904
Established: 1948

• Azbil Kyoto Co., Ltd.

Head office: Funai-gun, Kyoto
Established: 2009

• Azbil TA Co., Ltd.

Head office: Itabashi-ku, Tokyo
Established: 1955

• Azbil Taishin Co., Ltd.

Head office: Nakano-shi, Nagano
Established: 1974

• Tem-Tech Lab.

Head office: Chuo-ku, Tokyo
Established: 1982

Overseas

• Azbil Korea Co., Ltd.

Head office: Seoul
Established: 1999

• Azbil Taiwan Co., Ltd.

Head office: Taipei
Established: 2000

• Azbil Kimmon Technology Corporation

Head office: Miaoli
Established: 2011

• Azbil Vietnam Co., Ltd.

Head office: Hanoi
Established: 2008

• Azbil India Private Limited

Head office: Navi Mumbai
Established: 2010

• Azbil (Thailand) Co., Ltd.

Head office: Bangkok
Established: 1995

• Azbil Production (Thailand) Co., Ltd.

Head office: Chonburi
Established: 2013

• Azbil Philippines Corporation

Head office: Makati
Established: 1996

• Azbil Malaysia Sdn. Bhd.

Head office: Kuala Lumpur
Established: 1999

• Azbil Singapore Pte. Ltd.

Head office: Singapore
Established: 1998

• PT. Azbil Berca Indonesia

Head office: Jakarta
Established: 1997

• Azbil Saudi Limited

Head office: Dammam
Established: 2013

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

Head office: Dalian
Established: 1994

• Azbil Information Technology Center (Dalian) Co., Ltd.

Head office: Dalian
Established: 2006

• Azbil Control Solutions (Shanghai) Co., Ltd.

Head office: Shanghai
Established: 1994

• Shanghai Azbil Automation Co., Ltd.

Head office: Shanghai
Established: 1995

• Yamatake Automation Products (Shanghai) Co., Ltd.

Head office: Shanghai
Established: 2004

• Azbil Hong Kong Limited

Head office: Hong Kong
Established: 2000

• Azbil North America Research and Development, Inc.

Head office: Santa Clara, CA, U.S.A.
Established: 2014

• Azbil North America, Inc.

Head office: Phoenix, AZ, U.S.A.
Established: 2000

• Azbil VorTek, LLC

Head office: Longmont, CO, U.S.A.
Established: 1995

• Azbil Mexico, S. de R.L. de C.V.

Head office: Leon
Established: 2017

• Azbil Mexico Services, S. de R.L. de C.V.

Head office: Leon
Established: 2017

• Azbil Europe NV

Head office: Zaventem, Belgium
Established: 2001

• Azbil Telstar, S.L.U.

Head office: Terrassa, Spain
Established: 1963

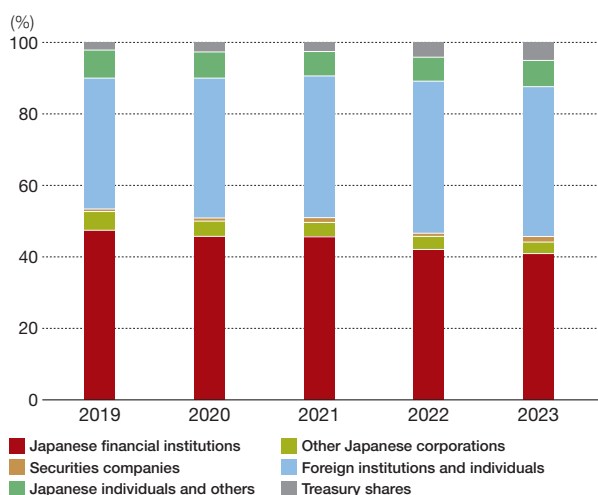
Corporate Data and Stock Information

(As of March 31, 2023)

Corporate Data

Founded	December 1, 1906
Incorporated	August 22, 1949
Paid-in capital	¥10,523 million
Accounting date	March 31
Annual shareholders' meeting	June
Head office	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo 100-6419, Japan
Consolidated number of employees	10,063
Stock listing	Tokyo Stock Exchange Prime Market
Ticker symbol number	6845
Stock information	Shares of Common Stock Issued 143,700,884 Share unit number 100 Shareholders 7,817
Transfer agent	Mizuho Trust & Banking Co., Ltd.

Composition of Shareholders

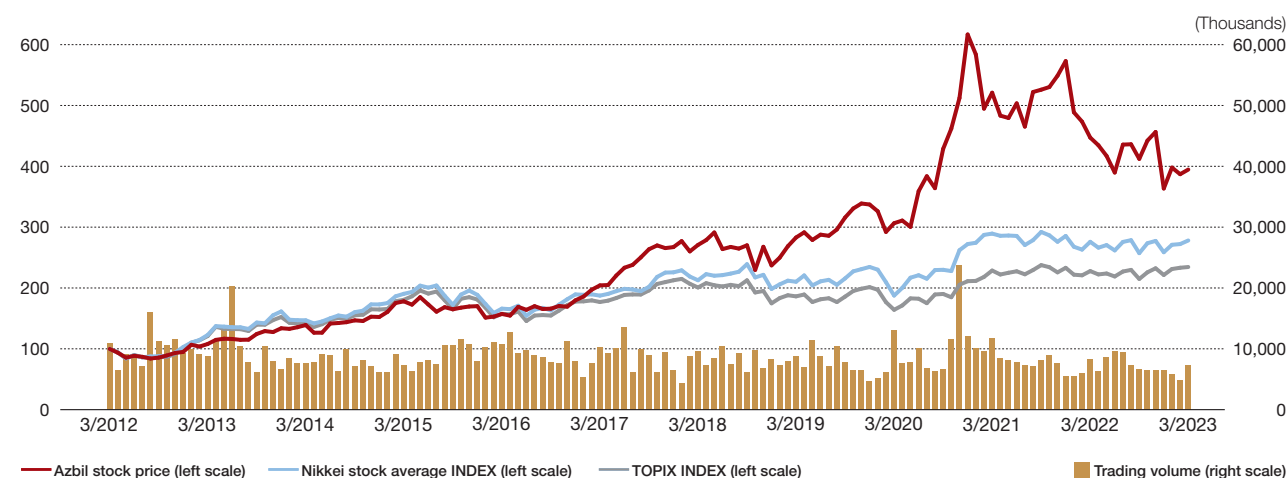


Major Shareholders (Top 10)

Shareholders	Number of shares held (thousands)	Percentage of total shares issued (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,330	14.88
SSBTC CLIENT OMNIBUS ACCOUNT	10,820	7.92
Meiji Yasuda Life Insurance Company	10,428	7.63
Custody Bank of Japan, Ltd. (Trust account)	9,075	6.64
Northern Trust CO. (AVFC) Re Fidelity Funds	5,015	3.67
National Mutual Insurance Federation of Agricultural Cooperatives	3,356	2.45
the azbil Group Employee Stock Ownership Association	2,806	2.05
BNP PARIBAS LUXEMBOURG/ 2S/ JASDEC/ FIM/LUXEMBOURG FUNDS/UCITS ASSETS	2,681	1.96
JP MORGAN CHASE BANK 385839	2,332	1.70
STATE STREET BANK WEST CLIENT – TREATY 505234	2,262	1.65

Note: The percentage of total shares issued is calculated excluding treasury shares (7,148,221 shares).

Stock Price and Trading Volume



* Azbil stock price, Nikkei stock average, and TOPIX: Value (100) based on the end of March 2012

* On October 1, 2018, the company implemented a 2-for-1 stock split for shares of common stock. Above figures for stock prices have been recalculated to take the stock split into account.

FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Year-end closing price (yen)	989.0	1,274.0	1,630.0	1,440.5	1,870.0	2,477.5	2,589.0	2,804.0	4,765.0	4,090.0	3,610.0
Highest price (yen)	1,023.0	1,280.5	1,677.5	1,750.0	1,927.5	2,655.0	2,627.0	3,275.0	6,120.0	5,530.0	4,410.0
Lowest price (yen)	745.0	935.0	1,150.0	1,309.0	1,347.5	1,772.5	1,949.0	2,215.0	2,619.0	3,900.0	3,190.0

Editorial Policy for azbil report 2023



This is an integrated report that summarizes the value creation story of the azbil Group.

The report combines, in an easily understandable way, financial and non-financial information of the sort that was previously published separately in an annual report and CSR report. This integrated report is circulated to various stakeholders, including investors and shareholders, customers, business partners, employees, and local communities where we do business.

In editing the report, we have referred to the International Integrated Reporting Framework by the former International Integrated Reporting Council (IIRC, now the IFRS Foundation) and Value Co-creation Guidance from Japan's Ministry of Economy, Trade and Industry. Detailed financial information is available in our Securities Report and governance information is provided in our Corporate Governance Report.

Scope of the report

Azbil Corporation and its consolidated subsidiaries

Period of the report

From April 1, 2022 through March 31, 2023 (although some information outside the applicable period has been included)

Additional notes

Plans, objectives, strategies, and other statements in this report that are not facts reflect the forecasts and plans of management at the time of editing based on the information available. Such statements do not guarantee future performance, and outcomes may differ materially depending on various important factors. These include, but are not limited to, the following.

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

For details, see p. 87 for business-related and other risks.

Financial data and financial statements were prepared based on the Japanese GAAP, and amounts have been rounded. Environmental data such as CO₂ emissions have also been rounded.

Azbil's Information Disclosure

Non-financial information

CSR efforts

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

Environmental initiatives

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

azbil ESG Databook

<https://www.azbil.com/ir/library/esg/index.html>

Corporate Governance

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

Financial information

azbil report (Integrated Report)

Investor Relations

<https://www.azbil.com/ir/index.html>

- Medium-term Plan
- Securities Report*
- Audited Financial Reports
- Financial Results
- Presentation Materials
- Fact Sheet
- Shareholder's Meeting

* In Japanese only

azbil



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