

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
 Effective reduction of CO₂ at customers' sites  Decarbonization Reduce GHG emissions from our business activities	<ul style="list-style-type: none"> Work with business departments to increase CO₂ effective reduction 	<ul style="list-style-type: none"> Visualized effective reduction of CO₂ in tandem with business targets
	<ul style="list-style-type: none"> Expand and intensify energy-saving measures and promote using renewable energy to meet 2030 targets Make the entire supply chain carbon neutral by 2050 	<ul style="list-style-type: none"> 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"> Continuously reduce resource consumption through efficiency in business activities 	<ul style="list-style-type: none"> 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
 Biodiversity conservation Comply with environmental laws and regulations Nature conservation efforts	<ul style="list-style-type: none"> Set up a system to track action on laws and regulations Intensify nature conservation efforts (including conservation through our business activities) 	<ul style="list-style-type: none"> Prevented major legal violations and thereby avoided penalties, administrative fines, and lawsuits Held 4 online conservation activities (46 participants) and 2 onsite conservation activities (20 participants), totaling 66 participants
 Promotion of sustainable product design	<ul style="list-style-type: none"> During new product development, help achieve the own essential SDG goals by using sustainable design 	<ul style="list-style-type: none"> 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 Respond to requests from stakeholders (investors, customers, etc.) 	<ul style="list-style-type: none"> Integrated major environmental goals (the essential SDG goal: Environment and Energy) with business plans 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

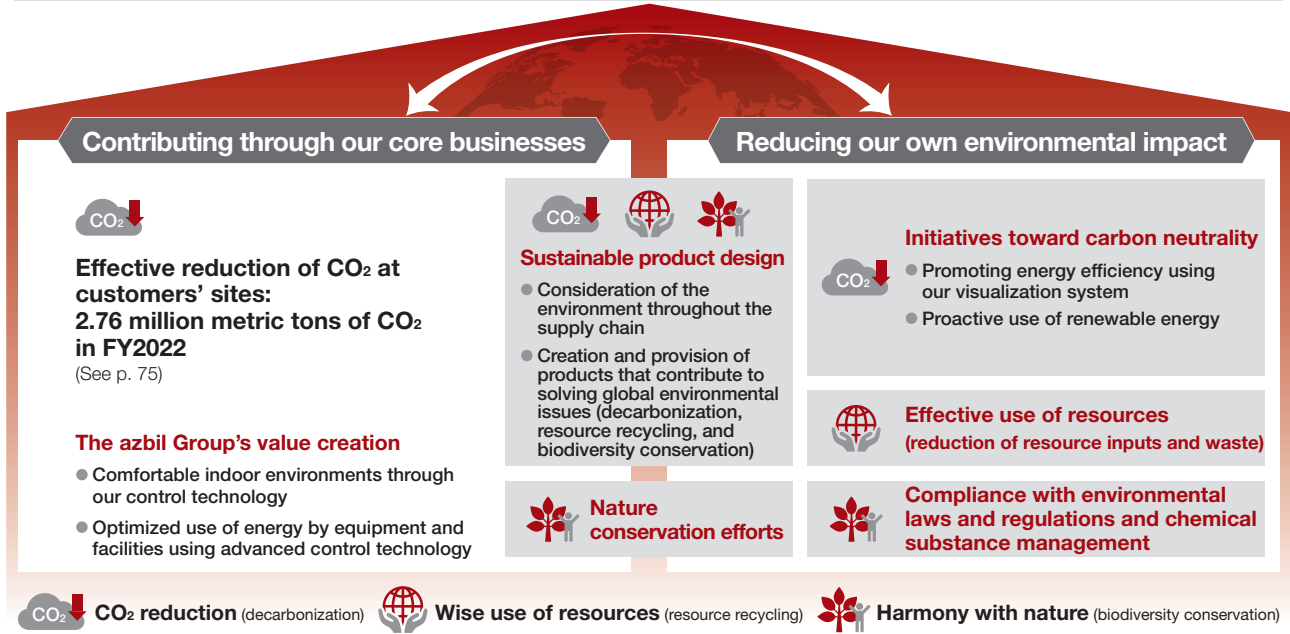
GHG emissions from business activities (scopes 1+2):

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**



	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 	

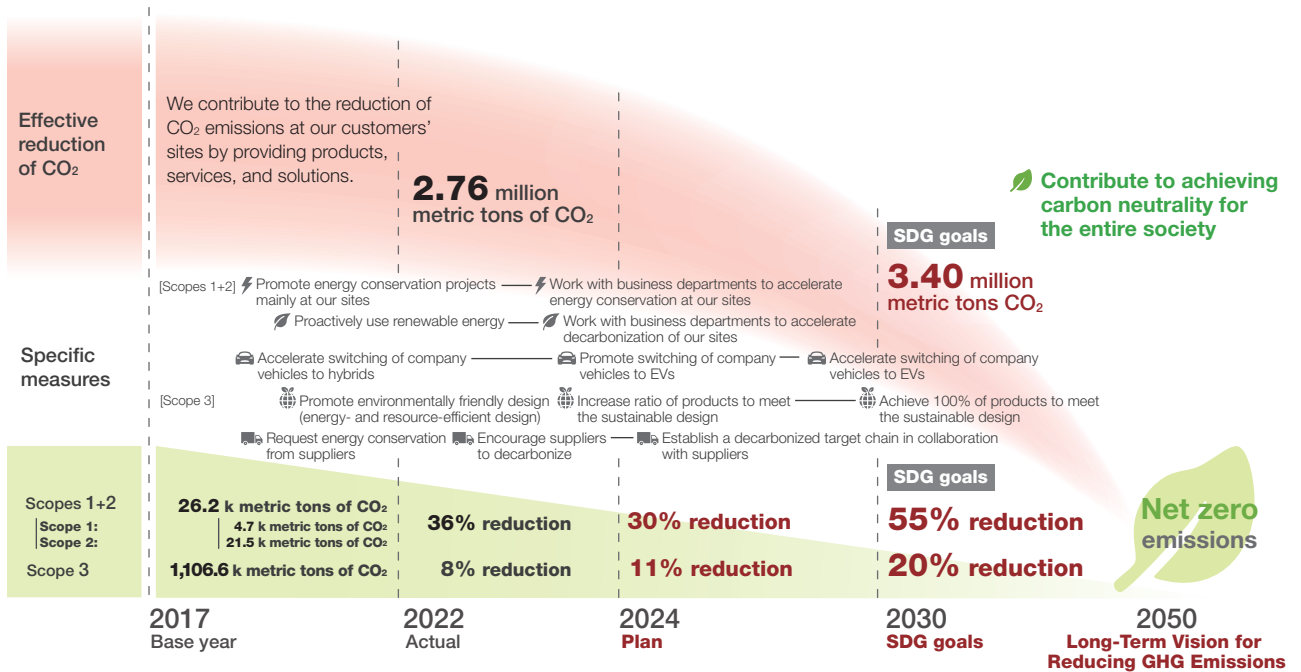
Environmental Initiatives

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)

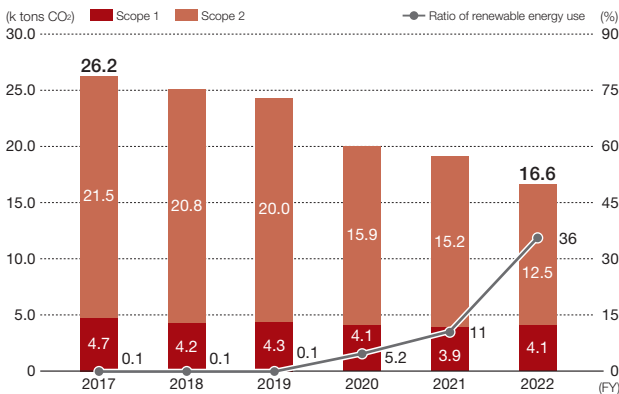
GHG emissions across the entire supply chain (scope 3):

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

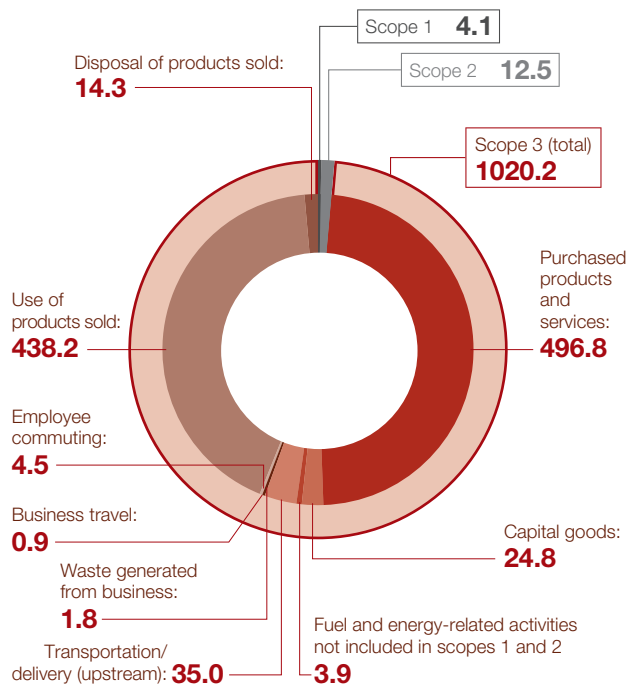
CO₂ emissions calculated from electric generation based on a fixed value of 0.378kg-CO₂/kWh

(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.

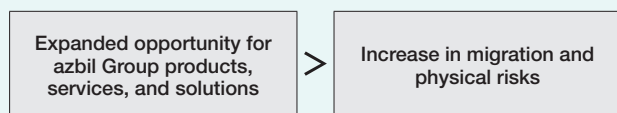
We divided risks into physical and migration risks and analyzed their impact on finances. Although we estimate physical risks based on a number of assumptions, we believe that their impact on business is limited due to the countermeasures we have in place, such as decentralizing our production network 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.

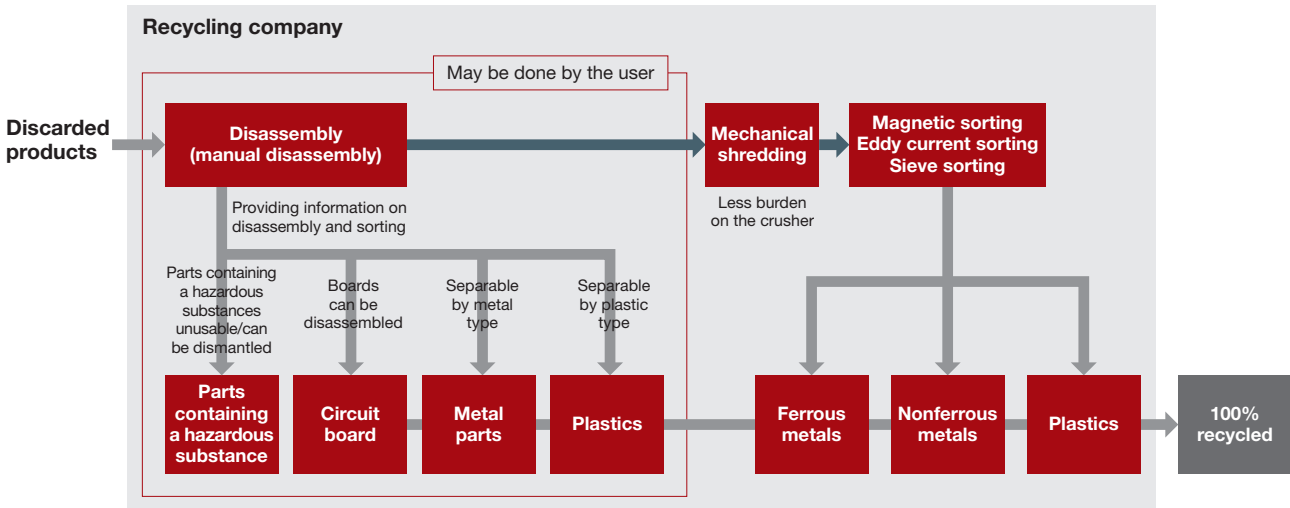
The azbil Group's Essential Goal I for the SDGs (for FY2030)

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