Azbil Corporation and Consolidated Subsidiaries

Consolidated Financial Statements for the Year Ended March 31, 2023, and Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi
Chiyoda-ku, Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Azbil Corporation:

Opinion

We have audited the consolidated financial statements of Azbil Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

<table>
<tr><th colspan="2">Revenue recognition for construction contracts</th></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>The Group sells automatic control systems, which utilize measurement technology and control technology, in the building markets and the factory/industrial plant markets. The Group recognizes revenue over time based on the stage of completion because the Group believes that performance obligations for construction contracts will be satisfied as engineering services progress, in accordance with the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan, or "ASBJ" Statement No. 29, March 31, 2020) and the "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020) as stated in Note 2, "Summary of Significant Accounting Policies, k. Revenue Recognition," to the consolidated financial statements. With regard to the calculation of stage of completion, the cost proportional method is used, which calculates it by the proportion of construction costs incurred for work performed by the balance sheet date to the estimated total construction costs.

Of the total net sales of ¥278,406 million for the year ended March 31, 2023, ¥75,926 million was revenue recognized in accordance with this accounting policy and it accounts for 27.3% of the total net sales.

The construction costs mainly consist of (1) costs of in-house products such as measuring instruments and central monitoring systems, (2) subcontracted costs such as wiring, and (3) direct labor costs for site management. In principle, costs incurred to date and estimated total construction costs are controlled by job order costing per project order.

The percentage-of-completion method recognizes revenue by reference to the stage of completion of a contract and is not supported by the objective fact such as inspection by the customer. Therefore, in establishing estimated total construction costs and aggregating costs incurred, which are the basis for calculating the stage of completion of the contract, the following situations could be anticipated and the degree of uncertainty in accounting estimates may increase and the amount of sales recorded may be incorrect. As those are especially important for our audit of the consolidated financial statements for the current year, we determined they are the key audit matter.</td>
<td>Our audit procedures for both costs incurred and estimated total construction costs, which are the basis for calculating the stage of completion of the contract, included the following, among others:

• We evaluated the design and operating effectiveness of internal controls over establishing estimated total construction costs. In particular, with regard to estimation of total construction costs we examined whether in the working budget meetings work hours, unit labor costs, and expenses are revised in alignment with design specifications and the construction environment.

• In order to determine whether total construction costs were estimated with a high level of accuracy, we continually obtained estimates of total construction costs by each cost item from the beginning of construction and tested for any irregularities in the changes in total construction costs by each cost item. In the procedure, we inquired of the appropriate personnel in-charge about the changes of estimated total costs by each cost item in order to understand if there were any unreasonable changes.

• With regards to the probability of expected additional costs not being reflected in the estimated total construction costs in a timely and appropriate manner when a customer requires a change of specifications, we inspected the monthly construction progress report documents and meeting minutes where important projects were discussed and business results were reported to examine whether additional costs were reflected in estimated total construction costs in a timely and appropriate manner for projects in which additional costs were expected to be incurred.

• We evaluated the design and operating effectiveness of internal controls over the aggregation of costs incurred. In particular, we examined whether the appropriate approval authorities evaluated if costs incurred in construction were consistent with monthly estimated costs by each cost item. Regarding the costing systems for both product costs and costs per project order, with the assistance of our IT specialists, we obtained an understanding of the costing process, then examined whether the system logic is appropriate, whether the system is appropriately designed to aggregate the actual cost, and whether the system settings are consistent with the stipulated segregation of duty to prevent fraudulent cost transfers to other project order.</td></tr>
</table>

• There are cases where it is difficult to select an appropriate construction method and determine the details of the specifications depending on the details of the design such as where relatively new technology is used to execute a construction project. In those cases, the total construction costs are not appropriately estimated. • The situations in which additional costs are expected to be incurred due to the request to change its specifications from customers are not reflected in the estimated total contraction costs in a timely and appropriate manner. • For example, work undertaken by a subcontractor is not accepted in a timely and appropriate manner and costs are not aggregated in an accurate amount, or costs not related to the project order.	• In order to determine that costs incurred are appropriately aggregated, we inspected cost transfer application forms to identify any irregular cost transfers. Regarding projects with significant progress near the year-end, we tested details of costs incurred and inspected the site and checked the consistency with the work schedule by understanding the progress of in-house product installations and wiring construction etc., inspecting monthly construction progress reports and examining consistency between the initial and most recent estimated total construction costs. • With regard to subcontracting costs which were one of the major costs incurred to date with significant amounts, in order to examine the consistency with the project orders, we sent confirmation letters to subcontractors and tested (1) the order details, including the name of the project, (2) the amount of orders received by the subcontractors, and (3) the amount already inspected which the subcontractors recognized. • Regarding significant consolidated subsidiary that applies the percentage-of-completion method, we instructed the subsidiary's auditor of the consolidated subsidiary to perform the following procedures for the projects to which the percentage-of-completion method was applied, then we evaluated by discussing with the subsidiary's auditor as needed. —Understanding of the operational flow including IT systems —Understanding of relevant internal controls —Risk assessment —Evaluation of the validity of estimated total construction costs and an individual examination of aggregated costs incurred to date

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Seiji Oguchi
Designated Engagement Partner
Certified Public Accountant

Koji Kusano
Designated Engagement Partner
Certified Public Accountant

Deloitte Touche Tohmatsu LLC
August 4, 2023

Azbil Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2023

ASSETS	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 71,233	¥ 77,891	$ 531,589
Marketable securities (Note 4)	5,000	9,700	37,313
Notes and accounts receivable:			
Trade notes (Notes 3 and 14)	15,903	14,971	118,676
Trade accounts (Notes 3 and 14)	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 (Note 5)	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 (Note 13)	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 (Notes 4 and 14)	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 (Note 9)	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

LIABILITIES AND EQUITY	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 14)	¥ 8,812	¥ 8,032	$ 65,762
Current portion of long-term debt (Notes 6 and 14)	643	521	4,801
Notes and accounts payable:			
Trade (Note 14)	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 (Notes 6 and 14)	5,802	1,803	43,299
Liability for retirement benefits (Note 7)	1,854	1,890	13,838
Deferred tax liabilities (Note 9)	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
COMMITMENTS AND CONTINGENT LIABILITIES (Note 16)			
EQUITY (Note 8):			
Common stock—authorized, 559,420,000 shares; issued, 143,700,884 shares	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 2023 and 7,912,745 shares in 2022	(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

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
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 (Note 12)	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 (Note 4)	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 (Note 11)	(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 (Note 9):			
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 (Note 1)
PER SHARE OF COMMON STOCK (Note 2.t):			
Net income	¥168.27	¥150.79	$1.26
Cash dividends applicable to the year	66.00	60.00	0.49

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET INCOME	¥23,306	¥21,421	$173,927
OTHER COMPREHENSIVE INCOME (Note 17):			
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

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2023

	Thousands	Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	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	Noncontrolling Interests	Total Equity
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

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Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2023

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	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	Noncontrolling Interests	Total Equity
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

See notes to consolidated financial statements.

Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
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 (Note 3)	(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)
FORWARD	¥11,142	¥ 6,129	$ 83,144

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Azbil Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
FORWARD	¥11,142	¥ 6,129	$ 83,144
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

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2022 consolidated financial statements to conform to the classifications used in 2023.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Azbil Corporation ("Azbil") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥134 to $1, the approximate rate of exchange as of March 31, 2023. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***—The consolidated financial statements as of March 31, 2023, include the accounts of Azbil and its 46 (46 in 2022) significant subsidiaries (together, the "Azbil Group").

Under the control and influence concepts, those companies in which Azbil, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Azbil Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in 1 (1 in 2022) associated company is accounted for by the equity method.

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Azbil Group is eliminated.

b. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, beneficiary securities of trust under resale agreements and commercial paper, all of which mature or become due within three months of the date of acquisition.

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

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

e. ***Marketable and Investment Securities***—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities for which there is a positive intent and ability to hold to maturity are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

   Effective April 1, 2021, the Azbil Group applied Accounting Standards Board of Japan ("ASBJ") Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the previous accounting standards, nonmarketable available-for-sale securities are stated at cost. The Azbil Group applied the New Accounting Standards prospectively. As a result, the consolidated financial statements are unaffected.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation for Azbil and its consolidated domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and to facilities attached to buildings and structures acquired after April 1, 2016. Depreciation of consolidated foreign subsidiaries is mainly computed by the straight-line method. Equipment held for lease is depreciated by the straight-line method over the respective lease periods.

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

g. ***Software***—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 to 10 years.

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

i. ***Retirement and Pension Plans***—Azbil and certain subsidiaries have defined benefit pension plans and defined contribution pension plans covering retired employees.

   Some of the consolidated subsidiaries have defined benefit pension plans, unfunded retirement benefit plans and defined contribution pension plans.

   The liability for employees' retirement benefits is provided at the amount based on the projected benefit obligation and plan assets at the balance sheet date.

Azbil accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over 13 years, which is no longer than the expected average remaining service period of the employees.

Retirement benefits to directors and Audit & Supervisory Board members are provided at the amount which would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. ***Asset Retirement Obligations***—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. ***Revenue Recognition***—The Azbil Group recognizes revenue based on the following five-step model.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at the time when the performance obligation is satisfied by determining whether control over the goods or services is transferred to the customer over time or at a point in time.

The Azbil Group is engaged in its Building Automation business in building market, Advanced Automation business in industrial market, and Life Automation business in markets closely related to lifelines and everyday life. In each of these businesses, the Azbil Group sells products, such as measurement and control equipment, performs contract work including instrumentation and engineering, and provides maintenance and other services.

Regarding the sale of products, the Azbil Group principally recognizes revenue at the time of delivery of products to the customer based on the understanding that this is when control over products is transferred to the customer and the performance obligation is thus satisfied (goods transferred at a point in time).

Regarding contract work undertaken, the Azbil Group supplies equipment and systems based on customer specifications and recognizes revenue over time based on the understanding that its performance obligation is satisfied as the engineering progresses (goods transferred over time). Revenue is recognized based on the degree of progress at any point in time; this is estimated primarily based on the costs incurred to date as a percentage of the total costs expected to be incurred to satisfy performance obligation.

Regarding services rendered, if the performance obligation is satisfied over the period of a contract, whether for maintenance or other service, revenue is recognized based on the time elapsed as a percentage of the period for which the service is to be rendered (services transferred over time). For services such as installation, adjustment and commissioning, revenue is recognized when the provision of said service to the customer is completed (services transferred at a point in time).

Revenue from each business is measured at the amount of promised consideration less discounts, sales returns and the like. For contracts which consist of any combination of merchandise, products, services and other items, each element is treated as a separate performance obligation and revenue is allocated to each element in promotion to its stand-alone selling price when the merchandise, products, services and other items provided have a stand-alone value as a single item. Consideration is received primarily within one year and does not include significant financing components.

The Azbil Group provides product warranties to cover free replacements and/or repairs on defects found for a certain period after the sale. The warranties generally guarantee to customers the performance of the products sold according to product specifications or services rendered according to an intention of service, which the Azbil Group and its customers have mutually agreed on. The Azbil Group recognizes provisions for product warranties.

l. ***Research and Development Expenses***—Research and development expenses are charged to income as incurred.

m. ***Provision for Stock Payment***—Provision for stock payment is stated in amounts considered to be appropriate based on the provisions of Azbil's employee stock ownership plan.

(Additional Information)

(1) *Employee stock ownership plan*

Azbil has introduced an employee stock ownership plan (hereinafter referred to as "the Plan"), an incentive plan, offering Azbil's stock to its employees in order to enhance the motivation and morale of employees for increasing the stock price and business performance of Azbil by sharing economic effects with shareholders. This will hopefully enhance the correlation between the stock price and business performance of Azbil.

(a) Outline of the transaction

Under the Plan, Azbil offers Azbil's stock to its employees who satisfy certain requirements specified in Azbil's predetermined stock granting regulations. Azbil awards points to employees according to their contribution level, and grants Azbil's stock proportionate to the awarded points when employees obtain the right to receive the stock by meeting certain conditions. The stock to be granted to employees is acquired with money previously placed in the trust, including stock to be granted in the future, and is separately managed as assets in the trust.

(b) Azbil's stock remaining in the trust

Regarding the accounting treatments for the trust contract, Azbil has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (Practical Issue Task Force No. 30, March 26, 2015), and Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of Azbil's stock in the trust and the number of shares are as follows:

As of March 31, 2022

Book value: ¥3,841 million
Number of shares: 1,935,100 shares

As of March 31, 2023

Book value: ¥3,782 million ($28,223 thousand)
Number of shares: 1,905,231 shares

(2) *Trust-Type Employee Shareholding Incentive Plan*

Azbil has introduced a "Trust-Type Employee Shareholding Incentive Plan" (hereinafter "the plan"), aiming to incentivize employees of Azbil and domestic group companies to, among other things, improve the corporate value of the Azbil group on a mid/long-term basis.

(a) Outline of the transaction

The plan is an incentive plan for all employees in the stock ownership association. The plan authorizes the Azbil Group Employee Stock Ownership Association Trust Fund (hereinafter "the Fund") through a trust bank fund and the Fund acquires Azbil's stock in advance for a certain period of time during which the Stock Ownership Association purchases those stock from the Fund. The Fund consistently sells Azbil's stock to the Stock Ownership Association. If the Fund has accrued the amount of money equivalent to profit on sales of stock at the end of its term, such amount is distributed as residuary assets to eligible recipients. On the other hand, as Azbil becomes a guarantor to the loan to purchase stock for the Fund, if the Fund accrues losses due to reductions in Azbil's stock price, Azbil is responsible for the liquidation of all debts from the loan associated with the loss from sales at the end of the term of the Fund.

(b) Azbil's stock remaining in the trust

Regarding the accounting procedures for the trust contract, Azbil has applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (PITF No. 30, March 26, 2015), and Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of Azbil's stock in the trust and the number of shares are as follows:

As of March 31, 2023

Book value: ¥3,365 million ($25,111 thousand)
Number of shares: 936,000 shares

(c) The book value of long-term borrowings recorded in accordance with the adoption of the gross accounting method is as follows:

As of March 31, 2023

Book value: ¥3,302 million ($24,646 thousand)

(3) *Stock compensation plan*

Azbil has introduced a stock compensation plan for its directors (including outside directors, but excluding non-residents of Japan; the same shall apply hereinafter unless otherwise noted), as well as for its corporate executives and executive officers (excluding non-residents of Japan and collectively referred to hereinafter as "Executive Officers, etc." Directors and Executive Officers, etc. are collectively referred to hereinafter as "Beneficiary Officers"), aiming to achieve sustainable improvement of the Company's enterprise value while sharing value with the shareholders.

(a) Outline of the transaction

Board Benefit Trust (BBT) established pursuant to the stock compensation plan acquires Azbil's shares using money entrusted by Azbil. The trust distributes Azbil's shares and any money equivalent to the value of Azbil's shares calculated based on market value (the "Company's Shares, etc.") to Beneficiary Officers in accordance with the Officers' Stock Benefit Rules established by Azbil. The Company's shares, etc. shall be distributed to Beneficiary Officers upon their retirement, in principle.

Regarding the accounting procedures for the trust contract, Azbil has accordingly applied "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc. through Trusts" (PITF No. 30, March 26, 2015)."

In order to provide for the distribution of Azbil's shares to Beneficiary Officers in accordance with the Officers' Stock Benefit Rules, provisions are recorded with the estimated amount of the distribution as of the period end. The amounts of "Provision for share awards for directors (and other officers)" for Azbil's directors and corporate executives, and "Provision for share awards" for Azbil's executive officers are as follows:

As of March 31, 2023

Provision for share awards for directors (and other officers):	¥42 million ($316 thousand)
Provision for share awards:	¥72 million ($539 thousand)

(b) Azbil's stock remaining in the trust

Azbil's stock in the trust is recorded as treasury shares under net assets at book value in the trust.

The book value of the Azbil's stock in the trust and the number of shares are as follows.

As of March 31, 2023

Book value:	¥419 million ($3,129 thousand)
Number of shares:	102,100 shares

n. ***Leases***—Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

All other leases are accounted for as operating leases

o. ***Bonuses to Directors***—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable. The balance of such accrued bonuses as of March 31, 2023 and 2022, was ¥143 million ($1,066 thousand) and ¥125 million, respectively.

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

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

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

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

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

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

t. ***Per Share Information***—Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

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

The weighted-average number of shares of common stock used in the computation was 134,327,071 shares for 2023 and 137,838,954 shares for 2022.

Diluted net income per share is not disclosed because it is antidilutive.

u. Accounting Changes and Error Corrections—Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) *Changes in accounting policies*

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

(2) *Changes in presentation*

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in accounting estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of prior-period errors*

When an error in prior-period financial statements is discovered, those statements are restated.

v. Changes in Presentation of Financial Information

"Increase (decrease) in provision for product warranties," which was previously included in "Decrease in other liabilities" in "OPERATING ACTIVITIES" on a net basis for the fiscal year ended March 31, 2022, is presented separately on a disaggregated basis for the fiscal year ended March 31, 2023, due to the increased significance in the recorded amount. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2022, have been reclassified.

As a result, "Decrease in other liabilities" in "OPERATING ACTIVITIES" of ¥149 million ($1,111 thousand) previously presented in the consolidated statement of cash flows for the fiscal year ended March 31, 2022, has been disaggregated and reclassified into "Increase (decrease) in provision for product warranties" of ¥11 million ($79 thousand) and "Decrease in other liabilities" of ¥138 million ($1,032 thousand).

w. New Accounting Pronouncements

—Accounting Standard for Current Income Taxes (ASBJ Statement No. 27 of October 28, 2022)

—Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, of October 28, 2022)

—Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 of October 28, 2022)

(1) *Overview*

In the course of deliberations on the transfer of the practical guidelines on tax effect accounting by the Japanese Institute of Certified Public Accountants to the ASBJ, the results of the deliberations on the following two issues that were decided to be reviewed after the publication of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28), etc. in February 2018 were published.

- Classification of tax expenses (taxation on other comprehensive income)

- Tax effect on the sales of shares of subsidiaries (shares of subsidiaries and affiliates) when the group corporation taxation is applied

(2) *Schedule date of adaption*

This standard will be applied for the fiscal year beginning on April 1, 2024.

(3) *Impact of adoption of this accounting standard*

The amount of the impact on the consolidated financial statements is currently under review.

3. ACCOUNTING CHANGE

Previously, Azbil and its domestic consolidated subsidiaries depreciated property, plant and equipment (excluding any leased assets) using the declining-balance method. The exception has been buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. For such assets, the straight-line method has been adopted. However, effective from the year ended on March 31, 2023, Azbil and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment to the straight-line method.

Implementing the capital investment plan laid out in our medium-term plan, the Azbil Group has been strengthening its global production system, aiming to enhance our business foundation. Thus, the Azbil Group is striving to spot emerging trends in technological innovation—such as IoT, AI, and cloud computing—so that we can respond to new needs for automation of production lines and manufacturing equipment that can meet the demand for new products and services. Taking this opportunity, the Azbil Group has reexamined the depreciation method adopted for property, plant and equipment. Since its operation is expected to be stable throughout its use, the Azbil Group has determined that the straight-line method—resulting in an even depreciation over the useful life of an asset—represents a more reasonable allocation of expenses.

As a result of this change, operating income and income before income taxes for the year ended on March 31, 2023, each increased by ¥618 million ($4,612 thousand) compared with the previous method.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Current:			
Trust fund investments and other	¥ 5,000	¥ 9,700	$ 37,313
Total	¥ 5,000	¥ 9,700	$ 37,313
Noncurrent:			
Equity securities	¥19,496	¥19,060	$145,495
Other	12	11	87
Total	¥19,508	¥19,071	$145,582

The costs and aggregate fair values of marketable and investment securities whose fair values are readily determinable as of March 31, 2023 and 2022, were as follows:

	Millions of Yen								Thousands of U.S. Dollars			
	2023				2022				2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:												
Equity securities	¥2,779	¥15,290	¥17	¥18,052	¥3,377	¥15,147	¥9	¥18,515	$20,740	$114,101	$127	$134,714
Trust fund investments and other	5,000			5,000	9,700			9,700	37,313			37,313

The information for available-for-sale securities whose fair values are not readily determinable as of March 31, 2023 and 2022, is disclosed in Note 14.

The information for available-for-sale securities which were sold during the years ended March 31, 2023 and 2022, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2023			2022			2023		
	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥3,290	¥2,677		¥1,240	¥861	¥3	$24,550	$19,980	$3

5. INVENTORIES

Inventories at March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Merchandise	¥ 1,380	¥ 1,238	$ 10,297
Finished products	6,710	4,903	50,077
Work in process	6,846	6,089	51,089
Raw materials	22,230	16,454	165,899
Total	¥37,166	¥28,684	$277,362

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2023 and 2022, mainly consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0% to 6.7% as of March 31, 2023, and from 0% to 4.6% as of March 31, 2022.

Long-term debt as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Loans from banks and other financial institutions, due serially through 2025 with interest rates ranging from 0.5% to 1.1% in 2023 and 0.0% to 5.7% in 2022—Unsecured	¥3,603	¥ 314	$26,885
Obligations under finance leases	2,842	2,010	21,215
Total	6,445	2,324	48,100
Less current portion	(643)	(521)	(4,801)
Long-term debt, less current portion	¥5,802	¥1,803	$43,299

As of March 31, 2023, Azbil had an unused line of credit amounting to ¥30,000 million ($223,881 thousand), of which ¥10,000 million ($74,627 thousand) was related to the unused portion of commitment lines with four banks and ¥20,000 million ($149,254 thousand) was related to a medium-term notes program.

Annual maturities of long-term debt as of March 31, 2023, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 643	$ 4,801
2025	891	6,647
2026	3,791	28,291
2027	335	2,500
2028	252	1,882
2029 and thereafter	533	3,979
Total	¥6,445	$48,100

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

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by the lending banks and that certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Azbil Group has never received any such requests.

7. RETIREMENT AND PENSION PLANS

Azbil and certain subsidiaries have defined benefit pension plans for the pension beneficiaries (i.e., closed pension plans), lump-sum payment plans, and also maintain defined contribution plans for the participating employees.

In addition to the plans above, certain subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid System.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payments, from the Azbil Group and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or by death, than in the case of voluntary termination at certain specific ages prior to the mandatory retirement age.

Azbil and certain subsidiaries have retirement benefit plans for directors and Audit & Supervisory Board members. The liability for retirement benefits at March 31, 2023 and 2022, for directors and Audit & Supervisory Board members is ¥184 million ($1,373 thousand) and ¥200 million, respectively.

(1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥2,208	¥2,096	$16,476
Current service cost	310	280	2,316
Interest cost	12	11	92
Actuarial losses	(106)	(14)	(792)
Benefits paid	(228)	(188)	(1,700)
Decrease with transfer to the defined contribution			
Others	40	22	298
Balance at end of year	¥2,236	¥2,207	$16,690

(2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥521	¥440	$3,890
Interest income	3	3	22
Actuarial losses	(1)	(1)	(8)
Contributions from the employer	114	95	848
Benefits paid	(112)	(33)	(836)
Decrease with transfer to the defined contribution			
Others	47	17	350
Balance at end of year	¥572	¥521	$4,266

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Funded defined benefit obligation	¥ 631	¥ 639	$ 4,706
Plan assets	(572)	(521)	(4,266)
Total	59	118	440
Unfunded defined benefit obligation	1,605	1,568	11,984
Net liability arising from defined benefit obligation	¥1,664	¥1,686	$12,424

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Liability for retirement benefits	¥1,670	¥1,690	$12,466
Asset for retirement benefits	(6)	(4)	(42)
Net liability arising from defined benefit obligation	¥1,664	¥1,686	$12,424

(4) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Service cost	¥310	¥280	$2,316
Interest cost	12	11	92
Interest income	(3)	(3)	(22)
Recognized actuarial losses	5	5	36
Others	77	163	573
Net periodic benefit costs	¥401	¥456	$2,995

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Actuarial gains	¥108	¥14	$804

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized actuarial gains (losses)	¥68	¥(40)	$506

(7) Plan assets

Notes have been omitted because the amount of plan assets is immaterial.

(8) Assumptions used for the years ended March 31, 2023 and 2022, are set forth as follows:

	2023	2022
Discount rate	2.4%	1.8%

8. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) a three-committee board structure (namely, nomination committee, remuneration committee and audit committee), and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if Azbil has prescribed so in its articles of incorporation. Azbil is organized as a company with a three-committee board structure, effective on June 23,2022. Azbil meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of Azbil so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. INCOME TAXES

Azbil and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% for the years ended March 31, 2023 and 2022.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets:			
Pension and severance costs	¥ 588	¥ 613	$ 4,391
Accrued expenses	5,391	4,668	40,231
Depreciation	1,322	1,405	9,865
Loss on impairment of long-lived assets	258	200	1,927
Allowance for doubtful receivables	86	81	639
Tax loss carryforwards	2,454	2,200	18,310
Others	4,286	3,077	31,986
Total of tax loss carryforwards and temporary differences	14,385	12,244	107,349
Less valuation allowance for tax loss carryforwards	(2,128)	(1,991)	(15,879)
Less valuation allowance for temporary differences	(1,814)	(1,253)	(13,537)
Total valuation allowance	(3,942)	(3,244)	(29,416)
Deferred tax assets	10,443	9,000	77,933
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	4,659	4,620	34,767
Special advanced depreciation	915	965	6,828
Others	370	373	2,762
Deferred tax liabilities	5,944	5,958	44,357
Net deferred tax assets	¥ 4,499	¥ 3,042	$ 33,576

Note: The valuation allowance has increased by ¥698 million. This increase is mainly due to an increase in the valuation allowance for provision for product warranties.

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2023 and 2022, were as follows:

	Millions of Yen						
March 31, 2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards					¥8	¥2,446	¥2,454
Less valuation allowances for tax loss carryforwards					(8)	(2,120)	(2,128)
Net deferred tax assets relating to tax loss carryforwards						326	326
March 31, 2022							
Deferred tax assets relating to tax loss carryforwards		¥80	¥84	¥9	¥8	¥2,019	¥2,200
Less valuation allowances for tax loss carryforwards		(80)	(84)	(9)	(8)	(1,810)	(1,991)
Net deferred tax assets relating to tax loss carryforwards						209	209

	Thousands of U.S. Dollars						
March 31, 2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards					$58	$18,252	$18,310
Less valuation allowances for tax loss carryforwards					(58)	(15,821)	(15,879)
Net deferred tax assets relating to tax loss carryforwards						2,431	2,431

In addition to the above, the Azbil Group recorded deferred tax liabilities on the revaluation surplus of ¥181 million ($1,352 thousand) at March 31, 2023, and ¥181 million at March 31, 2022.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2023 and 2022, is as follows:

	2023	2022
Normal effective statutory tax rate	30.5%	30.5%
Expenses not deductible for income tax purposes	0.6	0.5
Tax credits for qualified expenses	(3.3)	(3.3)
Change of valuation allowance	0.8	1.6
Others—net	(1.2)	(0.6)
Actual effective tax rate	27.4%	28.7%

10. REVENUE

(1) *Disaggregation of Revenue*

Revenues from contracts with customers on a disaggregated basis for the year ended March 31, 2023 and 2022, are disclosed in Note 19.

(2) *Basic Information to Understand Revenues from Contracts with Customers*

The information is disclosed in Note 2.k.

(3) *Contract Balances*

Of the amount of revenue recognized for the year ended March 31, 2023, the amount included in the contract liability balance as of the beginning of the period was ¥5,568 million ($41,551 thousand).

Of the amount of revenue recognized for the year ended March 31, 2022, the amount included in the contract liability balance as of the beginning of the period was ¥3,375 million.

(4) *Transaction Prices Allocated to Remaining Performance Obligations*

The following table shows the summary of the transaction prices allocated to remaining performance obligations that are unsatisfied as of March 31, 2023 and 2022:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥119,646	¥108,241	$ 892,880
Due after one year	36,384	26,056	271,520
Total	¥156,030	¥134,297	$1,164,400

11. OTHER INCOME (EXPENSES)—OTHERS—NET

Other income (expenses)—others—net for the years ended March 31, 2023 and 2022, mainly consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Expenses for office relocation	¥ (250)	¥ (137)	$ (1,866)
Gain on reversal of environmental expenses		3	
Other	1	109	5
Total	¥ (249)	¥ (25)	$ (1,861)

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses charged to income were ¥12,372 million ($92,328 thousand) and ¥12,109 million for the years ended March 31, 2023 and 2022, respectively.

13. LEASES

(1) *Financing Leases as a Lessee*

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

Total rental expenses under the above leases for the years ended March 31, 2023 and 2022, were ¥5,921 million ($44,188 thousand) and ¥5,911 million, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. Azbil and its consolidated domestic subsidiaries applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. However, disclosure is omitted as it is immaterial.

The minimum rental commitments under noncancelable operating leases as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 382	¥ 387	$2,848
Due after one year	929	1,305	6,935
Total	¥1,311	¥1,692	$9,783

(2) *Financing Leases as a Lessor*

Not applicable

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Policy for Financial Instruments*

The Azbil Group makes risk reduction the first priority in terms of its asset management and limits its investments to financial assets that consist mainly of short-term deposits, while the Azbil Group's financing needs are met by selecting the most suitable method of funding while taking into account such factors as the purpose of the loan, the terms and funding costs. The Azbil Group limits the use of derivatives to forward exchange contracts and currency option contracts to hedge against the risks associated with fluctuating foreign currency exchange rates and does not engage in transactions for speculative purposes.

(2) *Nature and Extent of Risks Arising from Financial Instruments and Risk Management*

Notes and accounts receivable—trade, such as trade notes and trade accounts, are subject to the credit risks of the customers. The Azbil Group manages its credit risks on the basis of internal guidelines, which include keeping track of due dates and outstanding balances of the receivables for each transaction and monitoring the credit standing of major customers on a yearly basis. Notes and accounts receivable—trade denominated in foreign currencies are subject to risks associated with fluctuating exchange rates; however, their net positions after deducting operating liabilities are, in principle, hedged through the use of forward exchange contracts.

Investment securities mainly comprise stocks of companies with which the Azbil Group has business relationships, and are subject to the risks associated with fluctuating stock prices. Such stock investments are managed by monitoring their fair values and the financial status of the companies on a regular basis. Moreover, the Azbil Group conducts ongoing reviews of the shareholdings at the meetings of the Board of Directors by regularly examining whether the shareholdings contribute to improvement in medium- to long-term corporate value, as well as periodically verifying the rationality of the shareholdings such as business and financial returns from the perspective whether the benefits of the shareholdings are commensurate with capital costs etc.

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

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

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

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

(**3**) ***Fair Values of Financial Instruments***

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, notes and accounts receivable—trade, notes receivable—trade, accounts receivable—trade, short-term borrowings, current portion of long-term debt and notes and accounts payable—trade are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 15 for details of the fair values of derivatives.

Fair value of financial instruments

	Millions of Yen						Thousands of U.S. Dollars		
	March 31						March 31, 2023		
	2023			2022					
	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss	Carrying Amount	Fair Value	Unrealized Loss
Investment securities	¥18,052	¥18,052		¥18,515	¥18,515		$134,714	$134,714	
Long-term debt	5,802	5,801	¥1	1,803	1,802	¥1	43,299	43,288	$11

Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31,
	2023	2022	2023
Unlisted equity instruments	¥1,456	¥556	$10,867

Maturity analysis for financial assets and securities with contractual maturities

	Millions of Yen				Thousands of U.S. Dollars			
March 31, 2023	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 71,233				$ 531,589			
Notes receivable—trade	15,903				118,676			
Accounts receivable—trade	65,309	¥108	¥15		487,376	$805	$114	
Total	¥152,445	¥108	¥15		$1,137,641	$805	$114	

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

Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) *The financial assets and liabilities measured at the fair values in the consolidated balance sheet*

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Investment securities:				
Available-for-sale securities:				
Equity securities	¥18,052			¥18,052
Total assets	¥18,052			¥18,052
Derivative transactions:				
Currency related		¥178		¥ 178
Total liabilities		¥178		¥ 178
March 31, 2022				
Investment securities:				
Available-for-sale securities:				
Equity securities	¥18,515			¥18,515
Total assets	¥18,515			¥18,515
Derivative transactions:				
Currency related		¥142		¥ 142
Total liabilities		¥142		¥ 142

	Thousands of U.S. Dollars			
March 31, 2023	Level 1	Level 2	Level 3	Total
Investment securities:				
Available-for-sale securities:				
Equity securities	$134,714			$134,714
Total assets	$134,714			$134,714
Derivative transactions:				
Currency related		$1,327		$ 1,327
Total liabilities		$1,327		$ 1,327

(2) *The financial assets and liabilities not measured at the fair values in the consolidated balance sheet*

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt		¥3,601		¥3,601
Total liabilities		¥3,601		¥3,601
March 31, 2022				
Long-term debt		¥1,802		¥1,802
Total liabilities		¥1,802		¥1,802

	Thousands of U.S. Dollars			
March 31, 2023	Level 1	Level 2	Level 3	Total
Long-term debt		$26,874		$26,874
Total liabilities		$26,874		$26,874

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment Securities

The fair values of listed equity securities are measured at the quoted market price. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1. Fair value information for investment securities by classification is included in Note 4.

Derivatives

The fair values of foreign currency forward contracts are measured by using discounted present value techniques considering observable inputs such as foreign currency exchange rate and are classified as Level 2. Fair value information for derivatives is included in Note 15.

Long-Term Debt

The fair values of long-term debt are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk and are classified as Level 2.

15. DERIVATIVES

The Azbil Group enters into foreign currency forward contracts to hedge currency exchange rate risk associated with trade receivables and payables denominated in foreign currencies.

It is the Azbil Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities, not to hold or issue derivatives for speculative or trading purposes.

Since all of the Azbil Group's foreign currency forward contracts are related to qualified hedges of underlying business exposures, market gain or loss risk in the derivative instruments is effectively offset by opposite movements in the value of the hedged assets or liabilities.

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen								Thousands of U.S. Dollars			
	March 31								March 31,			
	2023				2022				2023			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain (Loss)	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
Foreign currency forward contracts:												
Selling U.S. dollars	¥1,307		¥(22)	¥(22)	¥715		¥(44)	¥(44)	$9,751		$(162)	$(162)
Buying U.S. dollars	566		(22)	(22)	186		1	1	4,222		(167)	(167)
Buying Japanese yen	1				1				10			

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen						Thousands of U.S. Dollars		
		March 31						March 31,		
		2023			2022			2023		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:										
Selling U.S. dollars	Receivables	¥2,300	¥79	¥(136)	¥1,590		¥(104)	$17,168	$587	$(1,014)
Selling Swedish krona	Receivables	73		2	68		(3)	545		17
Selling GBP	Receivables	1						5		
Buying U.S. dollars	Payables				123		8			
Buying GBP	Payables				1					

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

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

16. COMMITMENT AND CONTINGENT LIABILITIES

Disclosure is omitted as it is immaterial.

17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥2,531	¥(1,911)	$18,891
Reclassification adjustments to profit or loss	(2,395)	(851)	(17,870)
Amount before income tax effect	136	(2,762)	1,021
Income tax effect	(38)	827	(292)
Total	¥ 98	¥(1,935)	$ 729
Deferred loss on derivatives under hedge accounting:			
Adjustments arising during the year	¥ (34)	¥ (132)	$ (256)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(34)	(132)	(256)
Income tax effect	8	33	64
Total	¥ (26)	¥ (99)	$ (192)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥2,195	¥ 2,037	$16,378
Reclassification adjustments to profit or loss		(99)	
Amount before income tax effect	2,195	1,938	16,378
Total	¥2,195	¥ 1,938	$16,378
Defined retirement benefit plans:			
Adjustment arising during the year	¥ 103	¥ 9	$ 768
Reclassification adjustments to profit or loss	5	5	36
Amount before income tax effect	108	14	804
Income tax effect	(35)	(5)	(262)
Total	¥ 73	¥ 9	$ 542
Total other comprehensive income	¥2,340	¥ (87)	$17,457

18. SUBSEQUENT EVENTS

Azbil implemented the following matters which was resolved at the Board of Directors' meeting held on May 12, 2023.

a. Repurchase of Treasury Shares

Repurchase of own stock pursuant to Article 156 and Article 165, paragraph 3 of the Companies Act

(a)	Reason for stock repurchase:	Taking into consideration business results and the outlook for future business performance, Azbil aims not only to improve capital efficiency but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.
(b)	Type of stock to be repurchased:	Common stock of Azbil
(c)	Total number of shares to be repurchased:	Up to 4,000,000 shares (2.9% of total number of common shares issued, excluding treasury shares)
(d)	Total amount of repurchase:	Up to ¥10,000 million ($74,627 thousand)
(e)	Period of repurchase:	From May 15, 2023 to September 22, 2023
(f)	Method of repurchase:	Market transactions on the Tokyo Stock Exchange

b. Cancellation of Treasury Shares

Cancellation of treasury shares pursuant to Article 178 of the Companies Act

(a)	Type of stock canceled:	Common stock of Azbil
(b)	Number of shares canceled:	All shares of common stock to be repurchased pursuant to "a. Repurchase of Treasury Shares" above
(c)	Cancellation date:	October 31, 2023

c. Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2023, was approved at Azbil's shareholders' meeting held on June 27, 2023:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥33.5 ($0.25) per share	¥4,575	$34,138

The total cash dividends approved at Azbil's shareholders' meeting held on June 27, 2023, include the dividends of ¥67 million ($502 thousand) for the stock of Azbil held by Trust & Custody Services Bank, Ltd. (Trust E) as assets in the trust of "Employee Stock Ownership Plan (J-ESOP)" and a stock compensation plan as well as ¥31 million ($234 thousand) for the stock of Azbil held by the Azbil Group Employee Stock Ownership Association Trust Fund as assets in the trust of "Trust-Type Employee Shareholding Incentive Plan."

19. SEGMENT INFORMATION

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

(1) *Description of Reportable Segments*

The reportable segments of the Azbil Group—identifiable operating segments of the Azbil Group's business structure for which financial information is made separately available—are subject to periodic review by the Board of Directors in order to make decisions on the distribution of management resources and to assess performance.

The Azbil Group identifies its operating segments using such criteria as business organization, product lines, service content, and markets. This approach results in three separate reportable segments: the Building Automation business, the Advanced Automation business, and the Life Automation business.

The Building Automation business supplies commercial buildings and production facilities with automatic heating ventilation, and air conditioning control and security systems, including products, engineering, and related services. The Advanced Automation business supplies automation control systems, switches and sensors, and engineering and maintenance services to industrial plants and factories. The Life Automation business supplies meters for lifelines, residential central air-conditioning systems, life science research, manufacture and sale of manufacturing equipment and environmental equipment for the pharmaceutical and medical fields as well as related services—all of which are intimately connected with everyday life.

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

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

(3) ***Information about Sales, Profit, Assets, Other Items and Disaggregation of Revenue***

	Millions of Yen							
	2023							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥128,123	¥102,625	¥47,605	¥278,353	¥53	¥278,406		¥278,406
Intersegment sales or transfers	438	1,363	310	2,111	4	2,115	¥(2,115)	
Total	¥128,561	¥103,988	¥47,915	¥280,464	¥57	¥280,521	¥(2,115)	¥278,406
Segment profit	¥ 16,074	¥ 14,579	¥ 589	¥ 31,242	¥ (1)	¥ 31,241	¥ 10	¥ 31,251
Segment assets	82,857	84,910	36,195	203,962	3	203,965	92,908	296,873
Other:								
Depreciation	1,672	2,338	945	4,955		4,955		4,955
Increase in property, plant and equipment and intangible assets	3,522	5,525	1,798	10,845		10,845		10,845
Disaggregation of revenue:								
Goods or services at a point in time	30,413	84,207	32,951	147,571	53	147,624		
Goods or services transferred over time	97,710	18,418	14,654	130,782		130,782		
Revenue from contracts with customers	128,123	102,625	47,605	278,353	53	278,406		

	Millions of Yen							
	2022							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥119,384	¥93,214	¥43,900	¥256,498	¥54	¥256,552		¥256,552
Intersegment sales or transfers	381	1,062	338	1,781	1	1,782	¥ (1,782)	
Total	¥119,765	¥94,276	¥44,238	¥258,279	¥55	¥258,334	¥ (1,782)	¥256,552
Segment profit	¥ 13,863	¥13,237	¥ 1,151	¥ 28,251	¥ 6	¥ 28,257	¥ (25)	¥ 28,232
Segment assets	71,514	71,080	32,805	175,399	1	175,400	104,652	280,052
Other:								
Depreciation	1,616	2,277	954	4,847		4,847		4,847
Increase in property, plant and equipment and intangible assets	4,158	6,264	823	11,245		11,245		11,245
Disaggregation of revenue:								
Goods or services at a point in time	27,106	74,938	30,726	132,770	54	132,824		
Goods or services transferred over time	92,278	18,276	13,174	123,728		123,728		
Revenue from contracts with customers	119,384	93,214	43,900	256,498	54	256,552		

	Thousands of U.S. Dollars							
	2023							
	Reportable Segment							
	Building Automation	Advanced Automation	Life Automation	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$956,138	$765,855	$355,266	$2,077,259	$400	$2,077,659		$2,077,659
Intersegment sales or transfers	3,273	10,175	2,312	15,760	25	15,785	$ (15,785)	
Total	$959,411	$776,030	$357,578	$2,093,019	$425	$2,093,444	$ (15,785)	$2,077,659
Segment profit	$119,956	$108,799	$ 4,395	$ 233,150	$ (11)	$ 233,139	$ 83	$ 233,222
Segment assets	618,342	633,654	270,111	1,522,107	20	1,522,127	693,350	2,215,477
Other:								
Depreciation	12,480	17,444	7,050	36,974		36,974		36,974
Increase in property, plant and equipment and intangible assets	26,289	41,228	13,416	80,933		80,933		80,933
Disaggregation of revenue:								
Goods or services at a point in time	226,958	628,406	245,907	1,101,271	400	1,101,671		
Goods or services transferred over time	729,180	137,449	109,359	975,988		975,988		
Revenue from contracts with customers	956,138	765,855	355,266	2,077,259	400	2,077,659		

Note: Corporate assets of ¥92,909 million ($693,350 thousand) for the year ended March 31, 2023, included in "Reconciliations" mainly consist of cash and cash equivalents and investment securities.

Related Information

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

This information is identical to the segment information and is therefore omitted.

(**2**) ***Information by Region***

(*a*) *Sales*

Millions of Yen						
2023						
Japan	Asia	China	North America	Europe	Other	Total
¥215,771	¥25,064	¥15,197	¥6,682	¥11,400	¥4,292	¥278,406

Millions of Yen						
2022						
Japan	Asia	China	North America	Europe	Other	Total
¥204,361	¥19,469	¥14,262	¥4,986	¥10,319	¥3,155	¥256,552

Thousands of U.S. Dollars						
2023						
Japan	Asia	China	North America	Europe	Other	Total
$ 1,610,237	$ 187,046	$ 113,410	$ 49,864	$ 85,072	$ 32,030	$ 2,077,659

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

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

Millions of Yen						
2023						
Japan	Asia	China	North America	Europe	Other	Total
¥30,491	¥2,539	¥2,696	¥236	¥2,180	¥124	¥38,266

Millions of Yen						
2022						
Japan	Asia	China	North America	Europe	Other	Total
¥27,493	¥2,212	¥1,808	¥35	¥1,501	¥120	¥33,169

Thousands of U.S. Dollars						
2023						
Japan	Asia	China	North America	Europe	Other	Total
$ 227,543	$ 18,950	$ 20,118	$ 1,762	$ 16,269	$ 923	$ 285,565

(**3**) ***Information about Major Customers***

This information is omitted as no customer accounted for more than 10% of sales in the consolidated statement of income.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

March 31, 2023

Amortization of goodwill	Not applicable
Goodwill at March 31, 2023	Not applicable

March 31, 2022

Amortization of goodwill	Not applicable
Goodwill at March 31, 2022	Not applicable

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