Notice: This document is a translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023 (Based on Japanese GAAP)

November 8, 2022

Company name:	Azbil Corporation
Stock exchange listing:	Tokyo Stock Exchange Prime market (Code 6845)
URL:	https://www.azbil.com/
Representative:	Kiyohiro Yamamoto, Director, President and Group Chief Executive Officer
Contact:	Kazuhisa Yamazaki, General Manager, Accounting Department, Group Management Headquarters
Phone:	+81-3-6810-1009
Scheduled date to file Quarterly Securities Report:	November 10, 2022
Scheduled date to commence dividend payments:	December 9, 2022
Preparation of supplementary materials on quarterly financial results:	Yes
Holding of quarterly financial results meeting:	Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) Consolidated financial results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2022	121,006	4.9	8,181	(12.9)	9,836	(0.4)	6,050	(12.5)
Six months ended September 30, 2021	115,388	3.6	9,390	12.5	9,872	18.7	6,917	13.4

Note: Comprehensive income Six months ended September 30, 2022 10,220 million yen 9.1%
Six months ended September 30, 2021 9,371 million yen 23.5%

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2022	44.77	―
Six months ended September 30, 2021	49.98	―

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	269,980	194,094	70.9
As of March 31, 2022	280,052	203,141	71.5

Reference: Shareholders' equity As of September 30, 2022 191,448 million yen
As of March 31, 2022 200,314 million yen

2. Dividends

	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	―	30.00	―	30.00	60.00
Year ending March 31, 2023	―	32.50			
Year ending March 31, 2023 (forecast)			―	32.50	65.00

Note: Revisions to the dividend forecast most recently announced: No

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	277,500	8.2	29,800	5.6	31,000	5.0	21,800	4.9	163.44

Note: Revisions to the consolidated financial results forecast most recently announced: Yes

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): No

(2) Application of special accounting methods for preparing consolidated quarterly financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

a. Changes in accounting policies accompanying revision of accounting standards, etc.: No

b. Changes in accounting policies other than (a) above: Yes

c. Changes in accounting estimates: Yes

d. Retrospective restatements: No

Note: These correspond to Article 10-5 of the "Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements". For details, please see "Changes in accounting policies" in "2. Consolidated quarterly financial statements and related notes (4) Notes to the consolidated quarterly financial statements" on page 19 of the Accompanying document.

(4) Number of issued shares (common stock)

a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2022	143,700,884 shares	As of March 31, 2022	145,200,884 shares

b. Number of treasury shares at the end of the period

As of September 30, 2022	10,319,879 shares	As of March 31, 2022	7,912,745 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2022	135,163,823 shares	Six months ended September 30, 2021	138,393,011 shares

Note: Azbil Corporation ("the Company") has introduced an employee stock ownership plan, a Trust-Type Employee Shareholding Incentive Plan, and a stock compensation plan. The number of treasury shares at the end of the period includes the Company's stock held by trust accounts of these plans (3,171,901 shares as of September 30, 2022; 1,935,100 shares as of March 31, 2022). Also, the Company's stock held by these trust accounts is included in treasury shares that are deducted in the calculation of the average number of shares during the period (2,865,625 shares for the six months ended September 30, 2022; 1,953,401 shares for the six months ended September 30, 2021). For details, please see "Additional information" in "2. Consolidated quarterly financial statements and related notes (4) Notes to the consolidated quarterly financial statements" on page 20 of the Accompanying document.

* This consolidated quarterly financial results report is not subject to the quarterly review procedures by certified public accountants or auditing firms.

* Regarding the appropriate use of forecast, etc.

Net sales for the azbil Group tend to be low in the first quarter of the consolidated accounting period and highest in the fourth quarter. However, fixed costs are generated constantly. This means that profits are typically lower in the first quarter and higher in the fourth quarter.

The forecast of the azbil Group is based on currently available information and some reasonable assumptions. Due to various factors, actual results may differ from those discussed in this document. For information on the forecast of financial results, please see "1. Qualitative information on consolidated quarterly financial results (3) Forecast of consolidated financial results" on page 9 of the Accompanying document.

* How to obtain supplementary materials on quarterly financial results

Supplementary materials on quarterly financial results are available on the Company's website.

Accompanying document

Contents

1. Qualitative information on consolidated quarterly financial results

Based on the philosophy of "human-centered automation," the azbil Group strives—through its business operations—to contribute "in series" to the achievement of a sustainable society. In this way we ensure our own medium- to long-term development and continuously improve enterprise value.

We are aiming to achieve net sales in the 400.0 billion yen range, operating income in the 60.0 billion yen range, operating income margin of approximately 15%, and ROE of approximately 13.5%; these are the Group's long-term targets for FY2030. Toward achieving these long-term targets, our four-year medium-term plan sets out as targets, for FY2024, the final year of the plan, net sales of 300.0 billion yen, operating income of 36.0 billion yen, operating income margin of 12%, and ROE of approximately 12%. In addition, from the perspective of sustainability and contribution "in series" to the achievement of a sustainable society, we are actively addressing environmental, social and governance (ESG) issues—which are also societal requirements—and we are promoting initiatives to realize the four essential goals of the azbil Group for the SDGs [Note 1].

In order to achieve a sustainable society, a variety of societal and customer issues are emerging from responses to climate change and decarbonization, to ensuring safety and peace of mind while humanity learns to live with the coronavirus. There is a growing need for automation that can provide long-term solutions to these issues, and demand is expected to increase for automation. We will focus on the three growth fields—namely, new automation, environment and energy, and life-cycle solutions—that can particularly benefit from our unique technologies, products, and services. By providing solutions to these new issues, we will realize growth for our Building Automation (BA), Advanced Automation (AA) and Life Automation (LA) businesses.

While demand is expected to increase for automation, the spread of COVID-19 has yet to be contained, and we continue to see the global disruption of supply chains and parts procurement difficulties. Moreover, the world economy is being impacted as geopolitical risks become reality in Europe and elsewhere, by soaring energy prices, and by inflation, making the business outlook uncertain.

Amidst these sweeping changes in the Group's business environment, we continue our efforts to achieve sustained growth and enhanced profitability while identifying and rapidly responding to business opportunities related to solving issues through automation as well as to risks that arise from changes in our business environment. To this end, aiming to ensure that decision-making is transparent and sound, and that business operations are executed promptly, we transitioned to a company with a three-committee board structure, following approval at the Ordinary General Meeting of Shareholders held on June 23, 2022. This has enabled a significant delegation of authority for business execution to corporate executives with clear legal responsibilities from the Board of Directors, at the same time as strengthening governance, with outside directors now representing a majority of the Board.

With this new company structure, the azbil Group will respond rapidly and appropriately to any changes, aiming to reduce risks to its businesses. We will continue to implement thorough pandemic safety management, further develop crisis management countermeasures including our business continuity planning (BCP), and work to reduce the impact of parts shortages by both improving production operations and collaborating with other companies in the supply chain. Furthermore, to achieve sustainable improvement in profitability we will continue implementing measures to strengthen profitability while promoting digital transformation (DX), thus improving operational efficiency on a global scale.

In addition, to ensure that we attain our long-term targets and medium-term plan, we will continue to make those investments necessary for future growth, capturing new business opportunities by harnessing advanced technologies—such as IoT, AI, cloud computing, and big data—for our products and services.

Note 1: Essential goals of the azbil Group for the SDGs:

- The areas that we tackle through our business: 1) Environment and energy and 2) New automation
- The areas that we tackle through our general corporate activities: 3) Supply chain and social responsibility and 4) Health and well-being management, and an organization that never stops learning

(1) Consolidated business performance

The business environment for the azbil Group for the six months ended September 2022 was as follows.

In the field of heating, ventilation, and air conditioning (HVAC) control equipment/systems for large-scale buildings in Japan, strong demand driven by urban redevelopment plans has continued while growing interest in solutions for improved ventilation, energy saving, and lower CO_2 emissions has meant that retrofit demand steadily increased. As for equipment/systems for production equipment in the manufacturing industry, due to the gradual recovery from the COVID-19 pandemic, and the growing adoption of DX at factories, etc., overall capital investment demand has continued to be robust.

As a result, financial results for the six months ended September 2022 were as follows.

Orders received increased in Japan and overseas for the BA business, driven by urban redevelopment projects in the Tokyo metropolitan area, and in the AA business, due to robust demand in the manufacturing equipment market and overseas business expansion. The LA business also increased in orders received. Consequently, overall orders received were 164,861 million yen, up 5.0% on the 156,980 million yen recorded for the same period last year. Mainly due to sales growth in the BA and LA businesses, which had both received increased orders in the previous fiscal year, overall net sales were 121,006 million yen, an increase of 4.9% from the 115,388 million yen recorded for the same period last year.

As regards profits, with the recording of R&D expenses related to measures stipulated by the medium-term plan, as well as increased costs resulting from difficulties in parts procurement and increased expenses, operating income was down 12.9% at 8,181 million yen (compared with the 9,390 million yen for the same period last year). As for ordinary income, this was 9,836 million yen, on a par with the 9,872 million yen recorded for the same period last year, due to the recording of foreign exchange gains. As for net income attributable to owners of parent, however, this was down 12.5% at 6,050 million yen (compared with the 6,917 million yen for the same period last year) due to the recording of an extraordinary loss as provision for product warranties[Note2], as well as increased income taxes.

Note 2: Provision for product warranties:

To meet anticipated expenses resulting from defects in some of the LP gas meters (in the LA business) manufactured by the azbil Group, 537 million yen was recorded as an extraordinary loss.

(Millions of yen)

	Six months ended Sep. 30, 2021 (Apr. 1, 2021 to Sep. 30, 2021)	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Difference	
			Amount	Rate
Orders received	156,980	164,861	7,880	5.0%
Net sales	115,388	121,006	5,618	4.9%
Operating income [Margin]	9,390 [8.1%]	8,181 [6.8%]	(1,208) [(1.4)pp]	(12.9)%
Ordinary income	9,872	9,836	(36)	(0.4)%
Net income attributable to owners of parent [Margin]	6,917 [6.0%]	6,050 [5.0%]	(866) [(1.0)pp]	(12.5)%

What follows are management's assessment of the results for each segment, together with our analysis and conclusions.

Building Automation (BA) Business

Regarding the BA business environment, in the domestic market demand has continued for urban redevelopment projects in the Tokyo metropolitan area and HVAC equipment/systems for factories. With the continuing demand for ventilation improvement, energy savings, and CO_2 reduction, there is growing interest in solutions that meet emerging building environmental needs in this "new normal" era. As regards overseas markets, we have observed signs of recovery from the impact of the postponed construction projects and construction delays caused by the pandemic.

In this business environment, we have not only engaged in securing orders with a view to enhanced profitability, but have also striven to ensure enhanced capabilities and efficiencies of job execution—particularly on construction and service sites—that meet the requirements of the Japanese government's work-style reforms, while also paying sufficient attention to the safety of both customers and employees. Moreover, we have made progress with the expansion of our products and services to better meet the needs of customers, in Japan and abroad, who are interested in harnessing such technologies as IoT. Consequently, the financial results of the BA business for the six months ended September 2022 were as follows.

As regards orders received, although orders in the same period last year benefitted from the renewal of multi-year service contracts, thanks to a robust business environment, orders increased for sales and installation of equipment/systems for new large-scale buildings, for overseas business, and also for the refurbishment of existing buildings, reflecting increased demand for solutions offering ventilation improvement, energy savings, and CO_2 reduction. Accordingly, overall orders received were 80,233 million yen, up 2.1% on the same period last year, when a figure of 78,557 million yen was recorded. As regards sales, revenue grew in the fields related to new large-scale buildings and existing buildings, reflecting the buildup in order backlog at the end of the previous fiscal year, and there was also growth in the overseas business. This resulted in sales of 52,035 million yen, up 6.8% on the 48,701 million yen recorded for the same period last year. Owing to increased revenue and the success of measures for improving profitability, despite higher expenses, segment profit was up 29.2% at 2,456 million yen (compared with the 1,902 million yen recorded for the same period last year).

As for the medium- to long-term outlook, large-scale redevelopment projects and several retrofit projects for large-scale buildings are being planned. Building on its track record, the BA business aims to tap into this demand. Moreover, there have been growing requirements for energy savings and CO_2 reduction as part of decarbonization, as well as rising office demand in the “new normal” era, triggered by the COVID-19 pandemic, for the enhanced safety and peace of mind offered by improved ventilation and access control. In response to this demand, we will supply solutions such as remote maintenance, cloud services and a new HVAC system; we are thus aiming to achieve sustainable growth. Additionally, we will promote DX and employ business process reforms and other initiatives to further ensure that a high-profit structure is established.

(Millions of yen)

	Six months ended Sep. 30, 2021 (Apr. 1, 2021 to Sep. 30, 2021)	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Difference	
			Amount	Rate
Orders received	78,557	80,233	1,676	2.1%
Sales	48,701	52,035	3,333	6.8%
Segment profit [Margin]	1,902 [3.9%]	2,456 [4.7%]	554 [0.8pp]	29.2%

Advanced Automation (AA) Business

Regarding market trends in Japan and abroad surrounding the AA business, overall capital investment has continued at a high level, especially in the manufacturing equipment market, although there has been some evidence of weakness in the semiconductor manufacturing equipment market owing to customers having previously placed advance orders.

Amidst this business environment, we have made progress with measures to achieve growth for the overseas business—which has been a focus—but in the first quarter (April–June 2022), sales and segment profit were greatly impacted by the parts procurement difficulties that had been continueing from the previous fiscal year. However, in the second quarter (July–September 2022), a gradual improvement in the parts procurement situation was evident, and, thanks to such countermeasures as product design changes, a moderate recovery in production was achieved. Consequently, the financial results of the AA business for the six months ended September 2022 were as follows.

Overall orders received were 58,597 million yen, up 10.1% on the same period last year, when a figure of 53,227 million yen was recorded; this was mainly due to a recovery in demand in the manufacturing equipment market and business growth overseas. As regards sales, although there was some impact from parts procurement difficulties, thanks to measures implemented in production and procurement, there has been a gradual recovery from the second quarter (July–September). Consequently, sales were 46,163 million yen, on a par with the 45,778 million yen recorded for the same period last year. While profits improved with the recovery in production from the second quarter (July–September 2022), due to the price hikes of parts throughout the six months ended September 2022, segment profit was down 22.5% at 5,414 million yen (compared with the 6,987 million yen for the same period last year).

In the AA business, although there are concerns about a deterioration in the semiconductor market, with the recovery in production, sales and segment profit are expected to improve in the second quarter of this fiscal year. Also, in the medium to long term, investment is expected to grow, reflecting the continuing drive to automate manufacturing equipment and production lines. This investment is required to cope with the challenges posed by labor shortages and decarbonization, and to improve productivity through the introduction of new technologies. Based on the three AA business sub-segments (CP, IAP, and SS) [Note 3], we will continue our efforts to achieve business growth with high competitiveness by promoting expansion into growth fields, particularly our overseas business; developing new products and services that harness such technologies as AI, cloud computing, and MEMS [Note 4]; accelerating market launches; and creating the new automation field, unique to the azbil Group.

(Millions of yen)

	Six months ended Sep. 30, 2021 (Apr. 1, 2021 to Sep. 30, 2021)	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Difference	
			Amount	Rate
Orders received	53,227	58,597	5,370	10.1%
Sales	45,778	46,163	385	0.8%
Segment profit [Margin]	6,987 [15.3%]	5,414 [11.7%]	(1,572) [(3.5)pp]	(22.5)%

Notes 3: Three AA business sub-segments (management accounting sub-segments)

CP business: Control Product business (supplying factory automation products such as controllers and sensors)

IAP business: Industrial Automation Product business (supplying process automation products such as differential pressure and pressure transmitters, and control valves)

SS business: Solution and Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

4: Microelectromechanical systems (MEMS): devices built using microfabrication technology to integrate sensors, actuators and electronic circuits on substrates.

Life Automation (LA) Business

The LA business covers three fields: Lifeline (gas/water meters, etc.), Life Science Engineering (LSE: pharmaceutical/laboratory market), and Lifestyle-related (residential central air-conditioning systems). The business environment differs in each field.

The Lifeline field, in which gas (city gas, LP gas) and water meters account for the bulk of sales, depends on cyclical demand for meter replacement as required by law. Though demand can be expected to remain basically stable, certain changes in some markets have been observed, such as that for LP gas meters, for which cyclical demand is currently at a low ebb. Also, in the LSE field, investment in equipment for pharmaceutical plants continues to grow. Reflecting these business conditions, the financial results of the LA business for the six months ended September 2022 were as follows.

Overall orders received increased by 3.8% to 27,107 million yen (compared with the 26,122 million yen recorded for the same period last year). This was due to an increase in the Lifeline field as well as to demand remaining at a high level in the LSE field against the backdrop of robust investment in pharmaceutical equipment. As regards sales, thanks to growth in the LSE field, reflecting the increase in orders received in the previous consolidated fiscal year, and also in the Lifeline field, overall sales were 23,733 million yen, up 9.3% on the 21,716 million yen recorded for the same period last year. However, despite this increase in revenue, segment profit was down 42.3% at 309 million yen (compared with the 535 million yen recorded for the same period last year). In addition to increased expenses, this was due to the rising cost of materials, higher energy and transportation costs.

While there are concerns about increasing expenses driven by the rapid inflation in Europe, we will respond by implementing such measures as appropriate cost control and selling price optimization. In addition, to meet anticipated expenses resulting from defects in some of the LP gas meters, approximately 500 million yen was recorded as an extraordinary loss. We will continue with efforts to achieve stable revenue through cost control and quality control. In parallel with this, in order to grasp the opportunities provided by changes in the business environment for the energy supply market, in addition to our traditional business of supplying products, we will strive to create a new business that provides services based on data collected from meters by utilizing IoT and other technologies.

(Millions of yen)

	Six months ended Sep. 30, 2021 (Apr. 1, 2021 to Sep. 30, 2021)	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Difference	
			Amount	Rate
Orders received	26,122	27,107	984	3.8%
Sales	21,716	23,733	2,017	9.3%
Segment profit [Margin]	535 [2.5%]	309 [1.3%]	(226) [(1.2)pp]	(42.3)%

Other

In Other business, principally our insurance agent business, orders received in the six months ended September 2022 were 35 million yen (compared with the 33 million yen for the same period last year), sales were 35 million yen (compared with the 33 million yen for the same period last year), and segment profit was 6 million yen (compared with the 7 million yen for the same period last year).

(2) Consolidated financial position

Assets

Total assets at the end of the second quarter of fiscal year 2022 stood at 269,980 million yen, a decrease of 10,071 million yen from the previous fiscal year-end. This was mainly due to a decrease of 9,262 million yen in notes and trade, and contract assets, 7,300 million yen in securities, 5,506 million yen in cash and deposits, despite an increase of 7,489 million yen in inventories as well as an increase in property, plant and equipment of 3,805 million yen resulting from capital investment in our R&D base.

Liabilities

Total liabilities at the end of the second quarter of fiscal year 2022 stood at 75,886 million yen, a decrease of 1,023 million yen from the previous fiscal year-end. This was mainly due to a decrease of 5,127 million yen in income taxes payable, despite an increase of 4,131 million yen in long-term borrowings as a fund for Trust-Type Employee Shareholding Incentive Plan borrowed the necessary amount of money for obtaining the Company's stock at the introduction of the plan.

Net assets

Net assets at the end of the second quarter of fiscal year 2022 stood at 194,094 million yen, a decrease of 9,047 million yen from the previous fiscal year-end. This was mainly due to the reduction in shareholders' equity, which was attributed to a decrease of 4,800 million yen by obtaining the Company's stock by the fund for Trust-Type Employee Shareholding Incentive Plan and a decrease of 9,999 million yen by repurchasing own stock based on a decision in the Board of Directors meeting as well as a decrease of 4,176 million yen as the payment of dividends, despite an increase of 6,050 million yen by the recording of net income attributable to owners of parent.

As a result, the shareholders' equity ratio was 70.9% compared with 71.5% at the previous fiscal year-end.

Net cash flow from operating activities

Cash and cash equivalents (hereinafter "net cash") provided by operating activities in the six months ended September 2022 were 3,622 million yen, a decrease of 11,574 million yen compared to the same period last year. This was mainly due to a significant recording of trade receivables as well as an increase in inventories, with a backdrop of an increase in orders received.

Net cash flow from investing activities

Net cash provided by investing activities (proceeds) in the six months ended September 2022 was 1,416 million yen (in the same period last year net cash used in these activities (expenditure) was 2,543 million yen). This was mainly due to the allocated funds from securities for short-term investment for implementing capital policy and preparing to make capital investment to enhance our R&D base.

Net cash flow from financing activities

Net cash used in financing activities (expenditure) in the six months ended September 2022 was 14,260 million yen, a decrease of 1,697 million yen in expenditure compared with the same period last year. This was mainly due to an increase in proceeds resulting from short-term borrowings at some of our overseas subsidiaries.

As a result of the above factors, net cash at the end of the second quarter stood at 71,428 million yen, a decrease of 6,462 million from the previous consolidated fiscal year-end.

(3) Forecast of consolidated financial results

Based on the consolidated financial results for the six months ended September 2022, as well as the progress of ongoing measures, and in the light of currently available information regarding trends in the business environment, we have revised upward our initial forecast (announced on May 13, 2022) for the fiscal year ending March 31, 2023.

We aim to achieve net sales of 277.5 billion yen, up 2.5 billion yen on the initial forecast. Regarding profits, forecast of segment profit for the BA business and AA businesses has been revised upward; however, a fall in segment profit is anticipated for the LA business, so overall operating income is expected to be 29.8 billion yen, in line with the initial forecast. We also plan for ordinary income to increase by 0.8 billion yen to 31.0 billion yen reflecting the recording of foreign exchange gains in the first half, and for net income attributable to owners of parent to increase by 0.3 billion yen to 21.8 billion yen from the initial forecast.

In the six months ended September 2022, orders remained robust, and the order backlog has been steadily growing. Demand for HVAC control equipment/systems for large-scale buildings remains at a high level for both new and existing buildings. Also, as for demand for production equipment for factories and plants, capital investment in the overall manufacturing industry is expected to continue at the same level, thanks to the gradual economic recovery from the COVID-19 pandemic and growing investment in DX for factories and plants, although there are concerns about a slowdown in investment in semiconductor manufacturing equipment.

The domestic and overseas business environments for the azbil Group remain uncertain owing to such factors as the COVID-19 pandemic, supply chain disruptions, difficulties in procuring parts, inflation, and geopolitical risks. While the shortages and rising cost of parts had an impact on the Group's consolidated financial results for the first quarter (April–June), particularly in the AA business, in the second quarter (July–September), a gradual recovery in production has been achieved by implementing various countermeasures. These include expanding our procurement system to secure parts; switching to alternative parts and implementing design changes; and developing flexible production systems that can respond to a changing procurement situation as well as increasing production capacity. In the second half, based on the success of the above, further impetus will be given to such measures to ensure production volume exceeds the first half level; this will enable us to steadily convert the accumulated order backlog into sales. At the same time, we will also optimize selling prices, with the understanding of our customers, so as to achieve the plan for sales and profits announced in our forecast.

The business environment for each segment is as follows.

In the BA business, demand for HVAC control equipment/systems for large-scale buildings for urban redevelopment projects and retrofit projects remains robust. Against the backdrop of expanding orders received in the field of new buildings and the profitable business of refurbishing existing buildings, by implementing thorough job execution management and by steadily converting the accumulated order backlog into sales, we expect to achieve, in line with the initial forecast, sales of 129.0 billion yen, an increase on the previous fiscal year. In the initial forecast, segment profit was also set to increase from the previous fiscal year, although the figure has now been revised upward to 14.7 billion yen.

In the AA business, the order backlog has been steadily growing, mainly because of continued capital investment, driven by the domestic and overseas manufacturing equipment markets. By actively developing new customers overseas, promoting sales expansion that includes new product launches, and implementing the aforementioned measures to address the shortages and price hikes of parts, the AA business is expected to achieve higher sales and profits than the previous fiscal year as initially announced, although the figures have now been revised upward to sales of 102.0 billion yen and segment profit of 14.3 billion yen.

In the LA business, sales of LP gas meters, a part of the Lifeline field, will decrease owing to the cyclical decline in demand, but sales of city gas and water meters are expected to increase. Also, revenue growth is expected in the LSE field, reflecting growing global demand for pharmaceutical equipment. Consequently, sales will be 46.5 billion yen, in line with the initial forecast. Segment profit, however, is expected to be 0.8 billion yen; this is lower than the initial forecast owing to the rise in material costs that will continue on from the first half and also to an anticipated increase in expenses, partly reflecting accelerating inflation in Europe and elsewhere.

The azbil Group is aiming to achieve its forecast for the current consolidated fiscal year by promptly identifying and rapidly responding to any changes in the business environment for each of our businesses. At the same time, despite these uncertainties in the business environment, in order to achieve our long-term targets for FY2030 (net sales of 400.0 billion yen range, operating income of 60.0 billion yen range, and ROE of approximately 13.5%), this year too we will steadily invest for future growth—in R&D, facilities and equipment, and DX—in line with the current medium-term plan (FY2021–FY2024).

The forecast of the azbil Group is based on currently available information and some reasonable assumptions. Due to various factors, actual results may differ from those discussed in this document.

(Billions of yen)

		Revised forecast (Nov. 8, 2022)	Initial forecast (May 13, 2022)	Difference		(Reference) FY2021 results
				Amount	Rate	
Building Automation	Sales	129.0	129.0	-	-	119.7
	Segment profit [Margin]	14.7 [11.4%]	14.5 [11.2%]	0.2 [0.2pp]	1.4%	13.8 [11.6%]
Advanced Automation	Sales	102.0	99.5	2.5	2.5%	94.2
	Segment profit [Margin]	14.3 [14.0%]	14.0 [14.1%]	0.3 [(0.1)pp]	2.1%	13.2 [14.0%]
Life Automation	Sales	46.5	46.5	-	-	44.2
	Segment profit [Margin]	0.8 [1.7%]	1.3 [2.8%]	(0.5) [(1.1)pp]	(38.5)%	1.1 [2.6%]
Other	Sales	0.1	0.1	-	-	0.0
	Segment profit [Margin]	0.0 [0.0%]	0.0 [0.0%]	- -	-	0.0 [11.1%]
Consolidated	Net sales	277.5	275.0	2.5	0.9%	256.5
	Operating income [Margin]	29.8 [10.7%]	29.8 [10.8%]	- [(0.1)pp]	-	28.2 [11.0%]
	Ordinary income	31.0	30.2	0.8	2.6%	29.5
	Net income attributable to owners of parent [Margin]	21.8 [7.9%]	21.5 [7.8%]	0.3 [0.0pp]	1.4%	20.7 [8.1%]

2. Consolidated quarterly financial statements and related notes

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	58,954	53,447
Notes and accounts receivable - trade, and contract assets	86,135	76,873
Securities	30,800	23,500
Merchandise and finished goods	6,141	6,767
Work in process	6,088	9,055
Raw materials	16,454	20,350
Other	6,644	7,202
Allowance for doubtful accounts	(423)	(476)
Total current assets	210,794	196,719
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,558	22,126
Other, net	19,610	14,848
Total property, plant and equipment	33,169	36,974
Intangible assets	5,737	5,946
Investments and other assets		
Investment securities	19,635	20,650
Other	10,801	9,776
Allowance for doubtful accounts	(87)	(87)
Total investments and other assets	30,350	30,339
Total non-current assets	69,257	73,261
Total assets	280,052	269,980

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,990	21,754
Short-term borrowings	8,046	9,603
Income taxes payable	6,758	1,630
Provision for bonuses	10,762	7,384
Provision for bonuses for directors (and other officers)	125	87
Provision for product warranties	512	1,204
Provision for loss on orders received	93	77
Other	20,165	21,524
Total current liabilities	69,452	63,266
Non-current liabilities		
Long-term borrowings	300	4,431
Retirement benefit liability	1,690	1,786
Provision for retirement benefits for directors (and other officers)	199	166
Provision for share awards	1,927	2,094
Provision for share awards for directors (and other officers)	—	21
Other	3,339	4,119
Total non-current liabilities	7,457	12,620
Total liabilities	76,910	75,886
Net assets		
Shareholders' equity		
Share capital	10,522	10,522
Capital surplus	11,670	11,670
Retained earnings	190,263	187,135
Treasury shares	(23,667)	(33,191)
Total Shareholders' equity	188,789	176,137
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,173	9,970
Deferred gains or losses on hedges	(74)	(177)
Foreign currency translation adjustment	2,442	5,534
Remeasurements of defined benefit plans	(16)	(17)
Total accumulated other comprehensive income	11,524	15,310
Non-controlling interests	2,827	2,646
Total net assets	203,141	194,094
Total liabilities and net assets	280,052	269,980

(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income
(Consolidated quarterly statements of income)
(Consolidated cumulative second quarter)

(Millions of yen)

	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Net sales	115,388	121,006
Cost of sales	68,695	74,485
Gross profit	46,692	46,521
Selling, general and administrative expenses	37,301	38,339
Operating income	9,390	8,181
Non-operating income		
Interest income	53	86
Dividend income	418	350
Foreign exchange gains	96	1,331
Rental income from real estate	12	13
Reversal of allowance for doubtful accounts	0	—
Other	97	79
Total non-operating income	678	1,860
Non-operating expenses		
Interest expenses	62	60
Commitment fees	9	9
Expenses of real estate	17	20
Office relocation expenses	31	53
Other	75	61
Total non-operating expenses	196	206
Ordinary income	9,872	9,836
Extraordinary income		
Gain on sale of non-current assets	0	2
Gain on sale of investment securities	354	213
Total extraordinary income	355	216
Extraordinary losses		
Loss on sale and retirement of non-current assets	30	38
Provision for product warranties	—	537
Loss on sale of investment securities	3	—
Total extraordinary losses	33	575
Income before income taxes	10,194	9,476
Income taxes - current	1,794	1,736
Income taxes - deferred	1,142	1,501
Total income taxes	2,936	3,237
Net income	7,257	6,239
Net income attributable to non-controlling interests	340	188
Net income attributable to owners of parent	6,917	6,050

(Consolidated quarterly statements of comprehensive income)

(Consolidated cumulative second quarter)

(Millions of yen)

	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Net income	7,257	6,239
Other comprehensive income		
Valuation difference on available-for-sale securities	897	797
Deferred gains or losses on hedges	(46)	(103)
Foreign currency translation adjustment	1,265	3,288
Remeasurements of defined benefit plans, net of tax	(1)	(2)
Total other comprehensive income	2,113	3,980
Comprehensive income	9,371	10,220
Comprehensive income attributable to:		
Owners of parent	8,929	9,836
Non-controlling interests	441	383

(3) Consolidated quarterly statements of cash flows

(Millions of yen)

	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Income before income taxes	10,194	9,476
Depreciation	2,337	2,276
Increase (decrease) in allowance for doubtful accounts	0	10
Increase (decrease) in retirement benefit liability	27	49
Decrease (increase) in retirement benefit asset	4	4
Increase (decrease) in provision for share awards	173	200
Increase (decrease) in provision for share awards for directors (and other officers)	―	21
Increase (decrease) in provision for bonuses	(2,731)	(3,467)
Increase (decrease) in provision for bonuses for directors (and other officers)	(67)	(37)
Interest and dividend income	(471)	(436)
Interest expenses	62	60
Foreign exchange losses (gains)	(84)	(982)
Loss (gain) on sale and retirement of non-current assets	29	35
Loss (gain) on sale and valuation of investment securities	(351)	(213)
Decrease (increase) in trade receivables and contract assets	12,845	10,959
Decrease (increase) in inventories	(398)	(6,255)
Increase (decrease) in trade payables	(2,424)	(2,352)
Decrease (increase) in other assets	353	(161)
Increase (decrease) in other liabilities	1,531	750
Subtotal	21,032	9,938
Interest and dividends received	476	433
Interest paid	(66)	(61)
Income taxes paid	(6,247)	(6,688)
Net cash provided by (used in) operating activities	15,196	3,622
Cash flows from investing activities		
Payments into time deposits	(1,465)	(1,841)
Proceeds from withdrawal of time deposits	1,754	1,722
Purchase of securities	(12,800)	(3,000)
Proceeds from sale of securities	12,200	9,700
Purchase of beneficial interests in trust	(4,072)	(502)
Proceeds from sale of beneficial interests in trust	4,056	383
Purchase of property, plant and equipment	(1,617)	(4,615)
Proceeds from sale of property, plant and equipment	7	3
Purchase of intangible assets	(663)	(767)
Proceeds from sale of investment securities	38	345
Other, net	18	(11)
Net cash provided by (used in) investing activities	(2,543)	1,416

(Millions of yen)

	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)
Cash flows from financing activities		
Proceeds from short-term borrowings	17	1,403
Repayments of short-term borrowings	(1,021)	(248)
Proceeds from long-term borrowings	—	4,806
Repayments of long-term borrowings	(28)	(674)
Dividends paid	(4,243)	(4,175)
Repayments of lease liabilities	(278)	(269)
Dividends paid to non-controlling interests	(401)	(574)
Purchase of treasury shares	(10,001)	(15,220)
Proceeds from sale of treasury shares	—	693
Net cash provided by (used in) financing activities	(15,957)	(14,260)
Effect of exchange rate change on cash and cash equivalents	874	2,758
Net increase (decrease) in cash and cash equivalents	(2,430)	(6,462)
Cash and cash equivalents at beginning of period	90,652	77,891
Cash and cash equivalents at end of period	88,222	71,428

(4) Notes to the consolidated quarterly financial statements

Notes regarding going concern assumptions

Not applicable

Notes regarding significant change in shareholders' equity

The Company conducted the following matters, based on the resolution at the Board of Directors meeting held on May 13, 2022.

1. Cancellation of treasury shares

The Company cancelled treasury shares pursuant to Article 178 of the Companies Act of Japan as follows. As a result, both retained earnings and treasury shares decreased by 5,002 million yen each.

Details of cancellation

(1) Type of shares cancelled: Common stock of the Company
(2) Number of shares cancelled: 1,500,000 shares
(1.0% of the total number of issued shares before the cancellation)
(3) Total number of issued shares after the cancellation: 143,700,884 shares
(4) Date of the cancellation: May 31, 2022

2. Trust establishment in connection with the introduction of Trust-Type Employee Shareholding Incentive Plan

The azbil Group Employee Stock Ownership Association Trust Fund, which was established in connection with the introduction of the Trust-Type Employee Shareholding Incentive Plan, acquired 1,335,400 shares of the Company's own stock for 4,800 million yen (excluding incidental expenses) during the current consolidated cumulative second quarter. The Company's stock is recorded as treasury shares under shareholders' equity.

3. Repurchase of the Company's own stock

The Company repurchased its own stock as follows, aiming 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, while taking into consideration business results and the outlook for future business performance.

Details of share repurchase

(1) Type of shares repurchased: Common stock of the Company
(2) Total number of shares repurchased: 2,670,100 shares
(3) Total amount of repurchase: 9,999,756,979 yen
(4) Period of repurchase: From May 16, 2022 to September 22, 2022 (based on trade date)
(5) Method of repurchase: Market transactions on the Tokyo Stock Exchange

Consequently, capital surplus amounted to 11,670 million yen, retained earnings amounted to 187,135 million yen, and treasury shares amounted to 33,191 million yen for 10,319,879 shares as of September 30, 2022. As described in "Additional information" treasury shares include the Company's stock remaining in the trust of employee stock ownership plan (3,808 million yen for 1,918,401 shares), in the trust of Trust-Type Employee Shareholding Incentive Plan (4,139 million yen for 1,151,400 shares) and in the trust of stock compensation plan (419 million yen for 102,100 shares).

Changes in accounting policies

Change in depreciation method for property, plant and equipment

Previously, the Company 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 these, the straight-line method has been adopted. However, effective from the first quarter of the current consolidated fiscal year, we 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. We are thus 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, we have reexamined the depreciation method adopted for property, plant and equipment. Since its operation is expected to be stable throughout its use, we have 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, ordinary income and income before income taxes for the current consolidated cumulative second quarter each increased by 236 million compared with the previous method.

Additional information

Transactions of delivering the Company's own stock to employees, etc. through trusts

1. Employee stock ownership plan

The Company has introduced an employee stock ownership plan (hereinafter "the plan"), an incentive plan for offering the Company's stock to its employees, to boost the linkage between stock price and business performance of the Company on the one hand, and the benefit received by employees on the other hand, and to enhance the motivation and morale of employees for increasing stock price and business performance of the Company by sharing economic effects with shareholders.

(1) Outline of the transaction

Under the plan, the Company offers the Company's stock to its employees who satisfy certain requirements specified in the Company's predetermined stock granting regulations. The Company awards points to employees according to their contribution level and grants the Company's stock proportionate to the awarded points when employees obtain the right to receive 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.

(2) The Company's stock remaining in the trust

Regarding the accounting procedures for the trust contract, the Company 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 the Company's stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of the Company's stock in the trust and the number of shares are as follows.

As of March 31, 2022
Book value: 3,841 million yen
Number of shares: 1,935,100 shares

As of September 30, 2022
Book value: 3,808 million yen
Number of shares: 1,918,401 shares

2. Trust-Type Employee Shareholding Incentive Plan

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

(1) 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 the Company’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 the Company’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 the Company becomes a guarantor to the loan to purchase stock for the Fund, if the Fund accrues losses due to reductions in the Company’s stock price, the Company 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.

(2) The Company’s stock remaining in the trust

Regarding the accounting procedures for the trust contract, the Company 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 the Company’s stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of the Company’s stock in the trust and the number of shares are as follows.

As of September 30, 2022

Book value:	4,139 million yen
Number of shares:	1,151,400 shares

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

As of September 30, 2022

Book value:	4,131 million yen

3. Stock compensation plan

The Company 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.

(1) Outline of the transaction

Board Benefit Trust (BBT) established pursuant to the stock compensation plan acquires the Company’s shares using money entrusted by the Company. The trust distributes the Company’s shares and any money equivalent to the value of the Company’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 the Company. The Company’s shares, etc. shall be distributed to Beneficiary Officers upon their retirement, in principle.

Regarding the accounting procedures for the trust contract, the Company 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 the Company’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 the Company’s directors and corporate executives, and “Provision for share awards” for the Company’s executive officers are as follows.

As of September 30, 2022

Provision for share awards for directors (and other officers):	21 million yen
Provision for share awards:	35 million yen

(2) The Company’s stock remaining in the trust

The Company’s stock in the trust is recorded as treasury shares under net assets at book value in the trust. The book value of the Company’s stock in the trust and the number of shares are as follows.

As of September 30, 2022

Book value:	419 million yen
Number of shares:	102,100 shares

Segment information

1. Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(1) Information on sales and profit by each segment and disaggregation of revenue

(Millions of yen)

	Reportable Segment				Other*	Total
	Building Automation	Advanced Automation	Life Automation	Total		
Sales						
Customers	48,518	45,261	21,575	115,355	32	115,388
Inter-segment	183	516	140	840	0	841
Total	48,701	45,778	21,716	116,196	33	116,229
Segment profit	1,902	6,987	535	9,424	7	9,432
Disaggregation of revenue						
Goods or services transferred at a point in time	10,581	36,802	15,555	62,940	32	62,972
Goods or services transferred over time	37,936	8,458	6,019	52,415	—	52,415
Revenue from contracts with customers	48,518	45,261	21,575	115,355	32	115,388

* "Other" includes insurance agent business, etc.

(2) The main contents of the difference between reportable segment profit and operating income

(Millions of yen)

Income	Amount
Total of Reportable Segment	9,424
Profit in Other	7
Elimination	(41)
Operating income	9,390

2. Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) Information on sales and profit by each segment and disaggregation of revenue

(Millions of yen)

	Reportable Segment				Other*	Total
	Building Automation	Advanced Automation	Life Automation	Total		
Sales						
Customers	51,834	45,571	23,566	120,973	33	121,006
Inter-segment	200	591	166	959	1	961
Total	52,035	46,163	23,733	121,932	35	121,968
Segment profit	2,456	5,414	309	8,180	6	8,186
Disaggregation of revenue						
Goods or services transferred at a point in time	11,442	37,208	16,023	64,675	33	64,708
Goods or services transferred over time	40,391	8,363	7,542	56,297	—	56,297
Revenue from contracts with customers	51,834	45,571	23,566	120,973	33	121,006

* “Other” includes insurance agent business, etc.

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

Regarding the sale of products, the 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 Group supplies equipment and systems based on customer specifications and recognizes revenue over time, based on the understanding that its performance obligation will be 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).

(2) The main contents of the difference between reportable segment profit and operating income

(Millions of yen)

Income	Amount
Total of Reportable Segment	8,180
Profit in Other	6
Elimination	(5)
Operating income	8,181

(3) Notice on the changes of the reportable segment

Change in depreciation method for property, plant and equipment

As described in “Changes in accounting policies”, previously, the Company 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 these, the straight-line method has been adopted. However, effective from the first quarter of the current consolidated fiscal year, we have changed the depreciation method for property, plant and equipment to the straight-line method.

As a result of this change, segment profit for the current consolidated cumulative second quarter increased by 61 million yen in the Building Automation business, 118 million yen in the Advanced Automation business, and 56 million yen in the Life Automation business compared with the previous method.