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

February 7, 2023

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:	February 9, 2023
Scheduled date to commence dividend payments:	—
Preparation of supplementary materials on quarterly financial results:	Yes
Holding of quarterly financial results meeting:	No

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	%
Nine months ended December 31, 2022	191,078	6.6	15,927	(0.5)	16,717	(1.1)	10,539	(12.0)
Nine months ended December 31, 2021	179,330	2.9	16,010	5.6	16,905	10.9	11,971	2.4

Note: Comprehensive income
Nine months ended December 31, 2022 14,241 million yen 3.0%
Nine months ended December 31, 2021 13,828 million yen 1.8%

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended December 31, 2022	78.32	—
Nine months ended December 31, 2021	86.74	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	274,029	194,174	69.8
As of March 31, 2022	280,052	203,141	71.5

Reference: Shareholders' equity
As of December 31, 2022 191,328 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: No

* 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 (3) Notes to the consolidated quarterly financial statements” on page 17 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 December 31, 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 December 31, 2022	10,180,202 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)

Nine months ended December 31, 2022	134,580,241 shares	Nine months ended December 31, 2021	138,020,198 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 (3,032,047 shares as of December 31, 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 (2,955,214 shares for the nine months ended December 31, 2022; 1,950,579 shares for the nine months ended December 31, 2021). For details, please see “Additional information” in “2. Consolidated quarterly financial statements and related notes (3) Notes to the consolidated quarterly financial statements” on page 18 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 10 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].

Currently, in order to achieve a sustainable society, a variety of societal and customer issues are emerging—from addressing 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 thus 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 emerging issues, we will realize growth for our Building Automation (BA), Advanced Automation (AA) and Life Automation (LA) businesses.

While demand for automation is expected to increase in the future, currently the world economy is being impacted by COVID-19, the global disruption of supply chains and parts procurement difficulties due to geopolitical risks in Europe and elsewhere, soaring energy prices, and inflation. As a result, the business outlook is uncertain. Moreover, this situation has been also affected by changes in the global interest rate environment, particularly since last year, leading to significant fluctuations in exchange rate trends.

Amidst these sweeping changes in the Group's business environment, we continue our efforts to achieve sustainable 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. At the same time, from the perspective of sustainable growth, we will ensure that we attain our long-term targets and medium-term plan, continuing to make those investments necessary for future growth, while securing 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:
  - −Environment and energy
  - −New automation
- The areas that we tackle through our general corporate activities:
  - −Supply chain and social responsibility
  - −Health and well-being management; an organization that never stops learning

(1) Consolidated business performance

The business environment for the azbil Group for the nine months ended December 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 facilities, due to a gradual recovery from the slump in capital investment caused by 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 nine months ended December 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 growth was achieved in the AA business, reflecting robust demand in the manufacturing sector as a whole. The LA business also saw increased orders received. Consequently, overall orders received were 231,931 million yen, up 4.4% on the 222,124 million yen recorded for the same period last year. Sales growth was achieved in all three businesses—the BA and LA businesses, which had both received increased orders in the previous fiscal year, and the AA business, which saw a recovery in sales thanks to successful handling of parts procurement difficulties and strengthening of production capacity. Thus, overall net sales were 191,078 million yen, an increase of 6.6% from the 179,330 million yen recorded for the same period last year.

As regards profits, despite the recording of R&D expenses related to measures stipulated by the medium-term plan, as well as higher costs resulting from difficulties in parts procurement and increased expenses, thanks to increased revenue and an improvement in profitability, operating income was 15,927 million yen, on a par with the 16,010 million yen for the same period last year. Due to the recording of foreign exchange gains, ordinary income was 16,717 million yen, which was also on a par with the same period last year, when 16,905 million yen was recorded.

As for net income attributable to owners of parent, however, despite recording gain on sale of investment securities, this was down 12.0% at 10,539 million yen (compared with the 11,971 million yen for the same period last year) due to the recording of an extraordinary loss as provision for product warranties [Note 2], 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, 2,421 million yen was recorded as an extraordinary loss in the nine months ended December 2022. From the time it became clear what had occurred, repeated discussions were held with each customer regarding how to settle the problem; as a consequence, an additional sum—based on a reasonable, conservative estimate—was recorded as an extraordinary loss in the third quarter to cover the total cost of resolving this issue.

(Millions of yen)

	Nine months ended Dec. 31, 2021 (Apr. 1, 2021 to Dec. 31, 2021)	Nine months ended Dec. 31, 2022 (Apr. 1, 2022 to Dec. 31, 2022)	Difference	
			Amount	Rate
Orders received	222,124	231,931	9,806	4.4%
Net sales	179,330	191,078	11,748	6.6%
Operating income [Margin]	16,010 [8.9%]	15,927 [8.3%]	(82) [(0.6)pp]	(0.5)%
Ordinary income	16,905	16,717	(188)	(1.1)%
Net income attributable to owners of parent [Margin]	11,971 [6.7%]	10,539 [5.5%]	(1,431) [(1.2)pp]	(12.0)%

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 energy savings and CO_2 reduction, there is growing interest in new solutions that create building environments offering post-pandemic safety and suited to new work styles. As regards overseas markets, we have observed a steady 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 and cloud computing.

Consequently, the financial results of the BA business for the nine months ended December 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 this year increased in the field related to sales and installation of equipment/systems for new large-scale buildings and for the overseas business. Orders grew in the field related to the refurbishment of existing buildings as well, reflecting increased demand for solutions offering ventilation improvement, energy savings, and CO_2 reduction. Accordingly, overall orders received were 108,280 million yen, up 3.2% on the same period last year, when a figure of 104,880 million yen was recorded. As regards sales, revenue grew in the field related to new large-scale buildings, reflecting the buildup in the order backlog at the end of the previous fiscal year, and there was also growth in the overseas business. This resulted in sales of 83,339 million yen, up 5.3% on the 79,151 million yen recorded for the same period last year. Owing to increased revenue and the success of measures for improving profitability, and despite higher R&D and other expenses, segment profit was up 10.5% at 5,988 million yen (compared with the 5,419 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. Taking advantage of its track record, the BA business aims to tap into these demands. Moreover, there have been growing requirements for energy savings and CO_2 reduction as part of decarbonization, as well as rising office demand brought about by the pandemic for the enhanced safety and peace of mind offered by improved ventilation and access control, plus convenience and comfort, and adaptability to new work styles. 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)

	Nine months ended Dec. 31, 2021 (Apr. 1, 2021 to Dec. 31, 2021)	Nine months ended Dec. 31, 2022 (Apr. 1, 2022 to Dec. 31, 2022)	Difference	
			Amount	Rate
Orders received	104,880	108,280	3,399	3.2%
Sales	79,151	83,339	4,188	5.3%
Segment profit [Margin]	5,419 [6.8%]	5,988 [7.2%]	569 [0.3pp]	10.5%

Advanced Automation (AA) Business

Regarding market trends in Japan and abroad surrounding the AA business, capital investment has continued at a high level in the manufacturing sector as a whole, although there has been some recent evidence of deteriorating conditions in the semiconductor market, including a decrease in advance orders.

Amidst this business environment, there was a significant increase in orders received, but in the first quarter (April–June 2022), sales and segment profit were greatly impacted by the parts procurement difficulties that had been continuing from the previous fiscal year. However, from 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 steady recovery in production was achieved. In the third quarter (October–December 2022), we achieved a significant improvement and exceeded the same period last year. Consequently, the financial results of the AA business for the nine months ended December 2022 were as follows.

Overall orders received were 87,056 million yen, up 7.0% on the same period last year, when a figure of 81,366 million yen was recorded; this was due to a recovery in capital investment demand in the manufacturing sector as a whole 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 2022). Consequently, sales for the nine months ended December 2022 were 73,936 million yen, up 6.8% on the 69,220 million yen recorded for the same period last year. While price hikes of parts have had an impact throughout the consolidated cumulative third quarter, segment profit was 9,649 million yen, on a par with the 9,982 million yen recorded for the same period last year. This was due to initiatives undertaken to enhance profitability, and also the increased revenue that resulted from the recovery in production from the second quarter (July–September 2022).

In the AA business, although some signs of deteriorating condition in the semiconductor market have been observed, with the recovery in production amidst the background of the large order backlog, sales and segment profit are expected to improve. 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 in our overseas business, and by creating a new automation field, unique to the azbil Group, that harnesses such technologies as AI, cloud computing, and MEMS [Note 4].

(Millions of yen)

	Nine months ended Dec. 31, 2021 (Apr. 1, 2021 to Dec. 31, 2021)	Nine months ended Dec. 31, 2022 (Apr. 1, 2022 to Dec. 31, 2022)	Difference	
			Amount	Rate
Orders received	81,366	87,056	5,689	7.0%
Sales	69,220	73,936	4,715	6.8%
Segment profit [Margin]	9,982 [14.4%]	9,649 [13.1%]	(333) [(1.4)pp]	(3.3)%

Note 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.)

Note 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 for each field.

The Lifeline field, in which gas (city gas, LP gas) and water meters account for the bulk of LA sales, depends on cyclical demand for meter replacement as required by law. Though demand can be expected to remain basically stable, the cyclical demand for LP gas meters is currently at a low ebb. 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 nine months ended December 2022 were as follows.

Overall orders received increased by 2.3% to 38,143 million yen (compared with the 37,294 million yen recorded for the same period last year), mainly due to an increase in the Lifeline field (city gas meters, water meters). 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 35,322 million yen, up 9.8% on the 32,165 million yen recorded for the same period last year. However, despite this increase in revenue, segment profit was down 56.8% at 271 million yen (compared with the 629 million yen recorded for the same period last year). This was due to increased expenses including personnel expenses, mainly caused by inflation in Europe, as well as price hikes for materials, and higher energy and transportation costs.

In the LA business, there are concerns about increasing expenses driven by the rapid inflation in Europe, but we will respond by implementing such measures as appropriate cost management and selling price optimization. Regarding the defects found in some LP gas meters, provision for product warranties was recorded as an extraordinary loss to cover costs related to resolving the issue. We will continue with efforts to achieve stable revenue through fundamental cost management 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)

	Nine months ended Dec. 31, 2021 (Apr. 1, 2021 to Dec. 31, 2021)	Nine months ended Dec. 31, 2022 (Apr. 1, 2022 to Dec. 31, 2022)	Difference	
			Amount	Rate
Orders received	37,294	38,143	848	2.3%
Sales	32,165	35,322	3,157	9.8%
Segment profit [Margin]	629 [2.0%]	271 [0.8%]	(357) [(1.2)pp]	(56.8)%

Other

In Other business, principally our insurance agent business, orders received in the nine months ended December 2022 were 45 million yen (compared with the 43 million yen for the same period last year), sales were 45 million yen (compared with the 43 million yen for the same period last year), and segment profit was 3 million yen (compared with the 6 million yen for the same period last year).

(2) Consolidated financial position

Assets

Total assets at the end of the third quarter of fiscal year 2022 stood at 274,029 million yen, a decrease of 6,022 million yen from the previous fiscal year-end. This was mainly due to a decrease of 13,283 million yen in cash and deposits and a decrease of 6,300 million yen in securities, despite an increase of 10,629 million yen in inventories as well as an increase in property, plant and equipment of 4,440 million yen resulting from capital investment in our R&D base.

Liabilities

Total liabilities at the end of the third quarter of fiscal year 2022 stood at 79,854 million yen, an increase of 2,943 million yen from the previous fiscal year-end. This was mainly due to an increase of 2,409 million yen in provision for product warranties and an increase of 3,576 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, despite a decrease of 4,090 million yen in income taxes payable.

Net assets

Net assets at the end of the third quarter of fiscal year 2022 stood at 194,174 million yen, a decrease of 8,966 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 8,614 million yen as the payment of dividends, despite an increase of 10,539 million yen by the recording of net income attributable to owners of parent.

As a result, the shareholders' equity ratio was 69.8% compared with 71.5% at the previous fiscal year-end.

(3) Forecast of consolidated financial results

As regards the outlook for the full year, no revisions are being made to the forecast of consolidated financial results for the fiscal year ending March 31, 2023, which was announced on November 8, 2022. Although the business environment during the consolidated cumulative third quarter varied depending on the market, orders received were generally robust, and our order backlog has grown steadily. Despite concerns about the impact on our business in Japan and overseas of such factors as the pandemic, parts procurement difficulties, and inflation etc., we will conduct our business operations with thorough safety management, and further develop measures for production and procurement that have already borne fruit in the second and third quarter. Consequently, taking advantage of our large order backlog, we expect to achieve net sales of 277.5 billion yen, up 8.2% from the previous fiscal year, in accordance with the forecast. Furthermore, by continuing to strengthen profitability and by achieving revenue growth in line with our forecast, we are aiming to increase operating income by 5.6% on the previous fiscal year, achieving a record high of 29.8 billion yen.

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. Given the large order backlog, by making steady progress with job execution, we expect to achieve sales of 129.0 billion yen and segment profit of 14.7 billion yen; these figures represent increases in both sales and profit compared with the previous fiscal year.

In the AA business, production has recovered as a result of the successful measures taken in the second and third quarter to address parts procurement difficulties and strengthen production capacity. The buildup in the order backlog is now being converted into sales. Additionally, efforts to actively develop overseas customers and launch new products have borne fruit. Consequently, we forecast sales of 102.0 billion yen and segment profit of 14.3 billion yen; these figures represent increases in both sales and profit compared with the previous fiscal year.

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 are expected to be 46.5 billion yen, an increase from the previous fiscal year. Segment profit, however, is expected to be 0.8 billion yen; this is lower than the previous fiscal year because of price hikes for materials that have continued from the first half, and also by expectations for a continuing severe business environment caused by 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 in the 400.0 billion yen range, operating income in the 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 in DX—as laid out in 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.

2. Consolidated quarterly financial statements and related notes

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	58,954	45,670
Notes and accounts receivable - trade, and contract assets	86,135	84,226
Securities	30,800	24,500
Merchandise and finished goods	6,141	7,238
Work in process	6,088	10,544
Raw materials	16,454	21,531
Other	6,644	7,627
Allowance for doubtful accounts	(423)	(442)
Total current assets	210,794	200,895
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,558	22,009
Other, net	19,610	15,600
Total property, plant and equipment	33,169	37,609
Intangible assets	5,737	6,017
Investments and other assets		
Investment securities	19,635	19,090
Other	10,801	10,504
Allowance for doubtful accounts	(87)	(87)
Total investments and other assets	30,350	29,507
Total non-current assets	69,257	73,134
Total assets	280,052	274,029

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,990	20,809
Short-term borrowings	8,046	9,137
Income taxes payable	6,758	2,667
Provision for bonuses	10,762	6,212
Provision for bonuses for directors (and other officers)	125	95
Provision for product warranties	512	2,921
Provision for loss on orders received	93	56
Other	20,165	26,088
Total current liabilities	69,452	67,989
Non-current liabilities		
Long-term borrowings	300	3,876
Retirement benefit liability	1,690	1,814
Provision for retirement benefits for directors (and other officers)	199	175
Provision for share awards	1,927	2,192
Provision for share awards for directors (and other officers)	—	31
Other	3,339	3,773
Total non-current liabilities	7,457	11,864
Total liabilities	76,910	79,854
Net assets		
Shareholders' equity		
Share capital	10,522	10,522
Capital surplus	11,670	11,670
Retained earnings	190,263	187,186
Treasury shares	(23,667)	(32,693)
Total shareholders' equity	188,789	176,686
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,173	8,895
Deferred gains or losses on hedges	(74)	(292)
Foreign currency translation adjustment	2,442	6,056
Remeasurements of defined benefit plans	(16)	(17)
Total accumulated other comprehensive income	11,524	14,641
Non-controlling interests	2,827	2,846
Total net assets	203,141	194,174
Total liabilities and net assets	280,052	274,029

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

(Millions of yen)

	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)
Net sales	179,330	191,078
Cost of sales	106,358	116,253
Gross profit	72,971	74,824
Selling, general and administrative expenses	56,960	58,896
Operating income	16,010	15,927
Non-operating income		
Interest income	96	147
Dividend income	627	616
Foreign exchange gains	241	227
Rental income from real estate	20	20
Reversal of allowance for doubtful accounts	0	—
Other	180	133
Total non-operating income	1,165	1,144
Non-operating expenses		
Interest expenses	90	91
Commitment fees	14	14
Expenses of real estate	28	30
Office relocation expenses	56	145
Other	81	73
Total non-operating expenses	270	355
Ordinary income	16,905	16,717
Extraordinary income		
Gain on sale of non-current assets	1	4
Gain on sale of investment securities	354	2,324
Total extraordinary income	355	2,329
Extraordinary losses		
Loss on sale and retirement of non-current assets	92	168
Provision for product warranties	—	2,421
Loss on sale of shares of subsidiaries and associates	—	5
Loss on sale of investment securities	3	0
Total extraordinary losses	95	2,595
Income before income taxes	17,165	16,451
Income taxes - current	3,413	3,984
Income taxes - deferred	1,276	1,521
Total income taxes	4,690	5,506
Net income	12,474	10,944
Net income attributable to non-controlling interests	503	404
Net income attributable to owners of parent	11,971	10,539

(Consolidated quarterly statements of comprehensive income)
(Consolidated cumulative third quarter)

(Millions of yen)

	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)	Nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022)
Net income	12,474	10,944
Other comprehensive income		
Valuation difference on available-for-sale securities	256	(278)
Deferred gains or losses on hedges	(82)	(217)
Foreign currency translation adjustment	1,181	3,794
Remeasurements of defined benefit plans, net of tax	(1)	(2)
Total other comprehensive income	1,354	3,296
Comprehensive income	13,828	14,241
Comprehensive income attributable to:		
Owners of parent	13,197	13,657
Non-controlling interests	631	584

(3) 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 third 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 187,186 million yen, and treasury shares amounted to 32,693 million yen for 10,180,202 shares as of December 31, 2022. As described in "Additional information", treasury shares include the Company's stock remaining in the trust of employee stock ownership plan (3,802 million yen for 1,915,647 shares), in the trust of Trust-Type Employee Shareholding Incentive Plan (3,646 million yen for 1,014,300 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 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 third quarter each increased by 411 million yen 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 December 31, 2022
Book value: 3,802 million yen
Number of shares: 1,915,647 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 December 31, 2022

Book value: 3,646 million yen

Number of shares: 1,014,300 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 December 31, 2022

Book value: 3,576 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 December 31, 2022

Provision for share awards for directors (and other officers):	31 million yen
Provision for share awards:	55 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 December 31, 2022

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

Segment information

1. Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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	78,869	68,481	31,937	179,288	41	179,330
Inter-segment	281	739	227	1,248	1	1,250
Total	79,151	69,220	32,165	180,537	43	180,580
Segment profit	5,419	9,982	629	16,031	6	16,038
Disaggregation of revenue						
Goods or services transferred at a point in time	17,591	55,347	22,715	95,654	41	95,696
Goods or services transferred over time	61,277	13,133	9,221	83,633	—	83,633
Revenue from contracts with customers	78,869	68,481	31,937	179,288	41	179,330

* "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	16,031
Profit in Other	6
Elimination	(27)
Operating income	16,010

2. Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	83,006	72,948	35,080	191,035	42	191,078
Inter-segment	333	987	242	1,563	2	1,565
Total	83,339	73,936	35,322	192,598	45	192,644
Segment profit	5,988	9,649	271	15,909	3	15,913
Disaggregation of revenue						
Goods or services transferred at a point in time	19,184	59,887	24,288	103,360	42	103,403
Goods or services transferred over time	63,821	13,060	10,792	87,674	—	87,674
Revenue from contracts with customers	83,006	72,948	35,080	191,035	42	191,078

* “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	15,909
Profit in Other	3
Elimination	14
Operating income	15,927

(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 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 third quarter increased by 106 million yen in the Building Automation business, 206 million yen in the Advanced Automation business, and 98 million yen in the Life Automation business compared with the previous method.