azbil

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

May 12, 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 of ordinary general meeting of shareholders:	June 27, 2023
Scheduled date to file Securities Report:	June 27, 2023
Scheduled date to commence dividend payments:	June 28, 2023
Preparation of supplementary materials on financial results:	Yes
Holding of financial results meeting:	Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(1) Consolidated financial results

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	%
Year ended March 31, 2023	278,406	8.5	31,251	10.7	32,140	8.9	22,602	8.8
Year ended March 31, 2022	256,551	3.9	28,231	9.8	29,519	12.1	20,784	4.3

Note: Comprehensive income Year ended March 31, 2023 25,645 million yen 20.2%
Year ended March 31, 2022 21,334 million yen (5.3)%

	Net income per share	Diluted net income per share	Return on equity	Ordinary income/ total assets	Operating income/ net sales
	Yen	Yen	%	%	%
Year ended March 31, 2023	168.27	—	11.2	11.1	11.2
Year ended March 31, 2022	150.79	—	10.4	10.5	11.0

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2023	296,873	205,880	68.3	1,518.01
As of March 31, 2022	280,052	203,141	71.5	1,459.08

Reference: Shareholders' equity As of March 31, 2023 202,819 million yen
As of March 31, 2022 200,314 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2023	13,118	(1,977)	(19,694)	71,232
Year ended March 31, 2022	10,120	(3,990)	(20,584)	77,891

2. Dividends

	Dividend per share					Total amount of cash dividends (annual)	Payout ratio (consolidated)	Dividend on equity (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2022	—	30.00	—	30.00	60.00	8,353	39.8	4.2
Year ended March 31, 2023	—	32.50	—	33.50	66.00	9,012	39.2	4.4
Year ending March 31, 2024 (forecast)	—	36.50	—	36.50	73.00		41.0	

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 total amount of cash dividends includes the dividends for the stock of the Company held by trust accounts of these plans (116 million yen for the year ended March 31, 2022; 201 million yen for the year ended March 31, 2023).

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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
First half	129,300	6.9	9,700	18.6	9,700	(1.4)	7,600	25.6	56.88
Full year	282,000	1.3	32,000	2.4	32,100	(0.1)	23,800	5.3	178.13

Note: The Company has resolved, at the Board of Directors meeting held on May 12, 2023, to repurchase its own stock and cancel its treasury shares. For "Net income per share" in the forecast of consolidated financial results, the impact of these matters is not considered.

* Notes

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

(2) 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 14-7 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements". For details, please see "Changes in accounting policies" in "5. Consolidated financial statements and related notes (5) Notes to the consolidated financial statements" on page 28 of the Accompanying document.

(3) Number of issued shares (common stock)

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

As of March 31, 2023	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 March 31, 2023	10,091,552 shares	As of March 31, 2022	7,912,745 shares

c. Average number of shares during the period

Year ended March 31, 2023	134,327,071 shares	Year ended March 31, 2022	137,838,954 shares

Note: 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 (2,943,331 shares as of March 31, 2023; 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 (2,966,059 shares for the year ended March 31, 2023; 1,947,530 shares for the year ended March 31, 2022). For details, please see "Additional information" in "5. Consolidated financial statements and related notes (5) Notes to the consolidated financial statements" on page 29 of the Accompanying document.

* This consolidated financial results report is not subject to the audit 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. Overview of financial results and others (1) Overview of financial results 3) Forecast for the next period" on page 7 of the Accompanying document.

* How to obtain supplementary materials on financial results

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

Accompanying document

Contents

1. Overview of financial results and others

(1) Overview of financial results

1) Overview for the current fiscal year

Regarding the business environment for the azbil Group, 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 measurement and control equipment/systems for production facilities, from the third quarter conditions deteriorated in some markets, such as semiconductor manufacturing equipment, but thanks to a gradual recovery from the slump in capital investment caused by the COVID-19 pandemic, and the growing demand for the adoption of DX at factories, etc., capital investment demand has continued at a high level throughout the fiscal year.

As a result, financial results for the current consolidated fiscal year were as follows.

Orders received increased for the Building Automation (BA) business, driven mainly by urban redevelopment projects in the Tokyo metropolitan area and a recovery in demand overseas. The Advanced Automation (AA) business experienced a slowdown in some manufacturing equipment markets, but, in the manufacturing industry as a whole, demand continued, and orders increased. The Life Automation (LA) business also saw growth, primarily due to increased orders in the gas/water meter fields. Consequently, overall orders received were 296,930 million yen, up 3.5% on the 286,950 million yen recorded in the previous consolidated fiscal 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 recovery and growth in sales from the second quarter thanks to the handling of parts procurement difficulties and strengthening of production capacity. Thus, overall net sales were 278,406 million yen, an increase of 8.5% from the 256,551 million yen recorded in the previous consolidated fiscal 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 31,251 million yen, up 10.7% on the 28,231 million yen recorded in the previous consolidated fiscal year. Ordinary income was 32,140 million yen, up 8.9% on the 29,519 million yen in the previous consolidated fiscal year. As for net income attributable to owners of parent, this was 22,602 million yen, up 8.8% on the 20,784 million yen in the previous consolidated fiscal year. This was due to the recording of gain on sale of investment securities despite the recording of an extraordinary loss as provision for product warranties [Note 1].

Note 1: 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, 2,495 million yen was recorded as an extraordinary loss for the current consolidated fiscal year.

(Millions of yen)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)	Difference	
			Amount	Rate
Orders received	286,950	296,930	9,979	3.5%
Net sales	256,551	278,406	21,854	8.5%
Operating income [Margin]	28,231 [11.0%]	31,251 [11.2%]	3,020 [0.2pp]	10.7%
Ordinary income	29,519	32,140	2,621	8.9%
Net income attributable to owners of parent [Margin]	20,784 [8.1%]	22,602 [8.1%]	1,818 [0.0pp]	8.8%

2) Financial results by segment

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

<u>Building Automation (BA) Business</u>

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 COVID-19 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 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 current consolidated fiscal year were as follows.

As regards orders received, while orders in the previous consolidated fiscal 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 in 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 135,311 million yen, up 2.1% on the previous consolidated fiscal year, when a figure of 132,511 million yen was recorded. As regards sales, results benefitted primarily from revenue growth in the field related to new large-scale buildings, reflecting the buildup in the order backlog at the end of the previous consolidated fiscal year, and also growth in the overseas business; revenue also increased in the fields related to existing buildings and service. This resulted in sales of 128,561 million yen, up 7.3% on the 119,764 million yen recorded in the previous consolidated fiscal 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 16.0% at 16,074 million yen compared with the 13,862 million yen recorded in the previous consolidated fiscal 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 COVID-19 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 engage in business process reforms and other initiatives to further ensure that a high-profit structure is established.

(Millions of yen)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)	Difference	
			Amount	Rate
Orders received	132,511	135,311	2,800	2.1%
Sales	119,764	128,561	8,796	7.3%
Segment profit [Margin]	13,862 [11.6%]	16,074 [12.5%]	2,211 [0.9pp]	16.0%

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 industry as a whole, thanks to a gradual recovery from the slump caused by the COVID-19 pandemic, although from the third quarter, there was some recoil owing to the number of advance orders that had been received up to the second quarter, and conditions in the semiconductor manufacturing equipment market deteriorated.

Amidst this business environment, orders received remained high. 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), an 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) and the fourth quarter (January–March 2023), we achieved a significant improvement and exceeded the same period last year. Consequently, the financial results of the AA business for the current consolidated fiscal year were as follows.

Overall orders received were 113,968 million yen, up 4.0% on the previous consolidated fiscal year, when a figure of 109,562 million yen was recorded This was due to a recovery in capital investment demand in the manufacturing industry as a whole and continued 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. Consequently, sales were 103,988 million yen, up 10.3% on the 94,276 million yen recorded in the previous consolidated fiscal year. While parts price hikes have had an impact throughout the current consolidated fiscal year, segment profit was 14,579 million yen, up 10.1% on the 13,236 million yen recorded in the previous consolidated fiscal 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 a worsening trend has been observed in market conditions over the short term, especially in the semiconductor manufacturing equipment market, with the recovery in production, reflecting a large order backlog, both sales and segment profit are expected to improve from now on. Also, in the medium to long term, continued business growth is expected through expansion of overseas customer coverage, as well as through growth in the factory automation market, reflecting increasing investment to automate 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 2], we will continue our efforts to achieve further business growth by offering advanced automation that meets customers' expectations for new automation, such as enabling progress toward a decarbonized society.

(Millions of yen)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)	Difference	
			Amount	Rate
Orders received	109,562	113,968	4,406	4.0%
Sales	94,276	103,988	9,711	10.3%
Segment profit [Margin]	13,236 [14.0%]	14,579 [14.0%]	1,342 [(0.0)pp]	10.1%

Note 2: 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 transmitters, pressure transmitters, and control valves)
SS business:	Solution and Service business (offering control systems, engineering service, maintenance service, energy-saving solution service, etc.)

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 current consolidated fiscal year were as follows.

Overall orders received increased by 6.0% to 49,646 million yen (compared with the 46,845 million yen recorded in the previous consolidated fiscal year), mainly due to an increase in the Lifeline field. As regards sales, revenue grew in the Lifeline field thanks to this increase in orders received; there was similar growth in the LSE field, reflecting an increase in orders received in the previous consolidated fiscal year. Consequently, overall sales were 47,915 million yen, up 8.3% on the 44,238 million yen recorded in the previous consolidated fiscal year. However, despite this increase in revenue, segment profit was down 48.9% at 588 million yen (compared with the 1,151 million yen recorded in the previous consolidated fiscal 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 in the LSE field driven by the rapid inflation in Europe, but we will respond by implementing such measures as appropriate cost management and cost pass-through. Regarding the defects found in some of the 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)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)	Difference	
			Amount	Rate
Orders received	46,845	49,646	2,801	6.0%
Sales	44,238	47,915	3,677	8.3%
Segment profit [Margin]	1,151 [2.6%]	588 [1.2%]	(562) [(1.4)pp]	(48.9)%

<u>Other</u>

In Other business, principally our insurance agent business, orders received in the current consolidated fiscal year were 56 million yen (compared with the 54 million yen recorded in the previous consolidated fiscal year), sales were 56 million yen (compared with the 54 million yen in the previous consolidated fiscal year), and segment loss was 1 million yen (compared with the segment profit of 6 million yen in the previous consolidated fiscal year).

3) Forecast for the next period

The azbil Group has set out its long-term targets for FY2030, and as the first step toward achieving them we have created a four-year medium-term plan (FY2021–FY2024). Based on this, we are making progress with initiatives to achieve our goals. As we work toward realizing a sustainable society, we are currently witnessing the emergence of various issues confronting society and our customers. Automation is expected to play an increasing role in providing solutions to these issues, so demand for automation is expected to increase. Following our medium-term plan, we aim to achieve sustainable growth by seizing such business opportunities and providing solutions to these new challenges by leveraging the azbil Group's unique technologies, products, and services.

Uncertainty is expected to continue in the business environment of the azbil Group in FY2023; this outlook is based on the lingering effects of some parts shortages and price hikes, growing inflation, and heightened geopolitical risks. Demand for HVAC control equipment/systems for large-scale buildings is expected to remain strong. However, as regards demand for manufacturing equipment for factories and plants, the downturn in the semiconductor manufacturing equipment market is expected to continue.

Regarding business performance in FY2023, while acknowledging these uncertainties in the business environment, we plan to continue increasing revenue by making use of the improved procurement and production processes achieved in FY2022 to steadily convert into sales the large order backlog at the start of FY2023. As regards profits, in addition to the measures previously implemented to strengthen business profitability, we aim to increase profits—more than the increase in expenses for growth investments in R&D, facilities and equipment, and human capital—through improvements in operational efficiency, achieved with DX promotion, and through appropriate cost pass-through.

In the BA business, demand for HVAC control equipment/systems for large-scale buildings has remained at a high level. Given this business environment, we expect overall revenue to increase throughout FY2023—though sales for the second half will be slightly lower compared with the same period last year—thanks to the buildup in the order backlog for new buildings at the beginning of FY2023, as well as demand for the profitable business of refurbishing existing buildings and expanding services. Segment profit, however, is expected to decrease slightly due to an increase in subcontracting and other costs.

As regards the AA business, while there is uncertainty regarding capital investment demand in the manufacturing industry, increased revenue is expected thanks to the steady recording of sales backed by a large order backlog and the improvements in procurement and production processes that were made in FY2022. Segment profit is also expected to increase thanks to higher revenue and initiatives to strengthen profitability, including cost pass-through.

As for the LA business, judging from the order backlog at the start of FY2023 and demand trends for gas and water meters, sales are expected to be on a par with the FY2022. Segment profit, however, is expected to improve thanks to an emphasis on sweeping cost management to address changes in the market environment, enhanced project management and cost pass-through.

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)

		Fiscal year 2022 results	Fiscal year 2023 forecast	Difference	
				Amount	Amount
Building Automation	Sales	128.5	130.0	1.4	1.1%
	Segment profit [Margin]	16.0 [12.5%]	15.6 [12.0%]	(0.4) [(0.5)pp]	(2.9)%
Advanced Automation	Sales	103.9	106.0	2.0	1.9%
	Segment profit [Margin]	14.5 [14.0%]	15.5 [14.6%]	0.9 [0.6pp]	6.3%
Life Automation	Sales	47.9	48.0	0.0	0.2%
	Segment profit [Margin]	0.5 [1.2%]	0.9 [1.9%]	0.3 [0.6pp]	52.8%
Other	Sales	0.0	0.1	0.0	75.7%
	Segment profit [Margin]	(0.0) [(2.6)%]	0.0 [0.0%]	0.0 [2.6pp]	-
Consolidated	Net sales	278.4	282.0	3.5	1.3%
	Operating income [Margin]	31.2 [11.2%]	32.0 [11.3%]	0.7 [0.1pp]	2.4%
	Ordinary income	32.1	32.1	(0.0)	(0.1)%
	Net income attributable to owners of parent [Margin]	22.6 [8.1%]	23.8 [8.4%]	1.1 [0.3pp]	5.3%

(2) Overview of financial position

Analysis of assets, liabilities, net assets and cash flows

Assets

Total assets at the end of the current consolidated fiscal year-end stood at 296,873 million yen, an increase of 16,821 million yen from the previous consolidated fiscal year-end. This was mainly due to an increase of 10,964 million yen in trade receivables and an increase of 8,482 million yen in inventories.

Liabilities

Total liabilities at the end of the current consolidated fiscal year-end stood at 90,993 million yen, an increase of 14,082 million yen from the previous consolidated fiscal year-end. This was mainly due to an increase of 3,302 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 as well as an increase of 2,435 million yen for provision of product warranties, an increase of 1,934 million yen in income taxes payable, and an increase of 1,714 million yen in notes and accounts payable-trade.

Net assets

Net assets at the end of the current consolidated fiscal year-end stood at 205,880 million yen, an increase of 2,738 million yen from the previous consolidated fiscal year-end. This was mainly due to an increase of 22,602 million yen due to the recording of net income attributable to owners of parent, despite a reduction in shareholders' equity resulting from a decrease of 9,999 million yen by repurchasing own stock based on a Board resolution, a decrease of 8,614 million yen as the payment of dividends, and a decrease of 3,364 million yen through the acquisition and sale of the Company's stock for Trust-Type Employee Shareholding Incentive Plan.

As a result, the shareholders' equity ratio was 68.3%, 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 current consolidated fiscal year were 13,118 million yen, an increase of 2,997 million yen compared to the previous consolidated fiscal year-end. This was mainly due to an increase in income before income taxes, and also to a transitory increase in the payment of trade payables following changes to the Company's standard payment terms in the previous consolidated fiscal year, despite an increase in the recording of trade receivables and in inventories in the current fiscal year, reflecting higher sales and orders received.

Net cash flow from investing activities

Net cash used in investment activities (expenditure) in the current consolidated fiscal year was 1,977 million yen, a decrease of 2,013 million yen in expenditure compared with the previous consolidated fiscal year-end. This was primarily due to an increase in the proceeds from sale of investment securities.

Net cash flow from financing activities

Net cash used in financing activities (expenditure) in the current consolidated fiscal year was 19,694 million yen, a decrease of 890 million yen in expenditure compared with the previous consolidated fiscal year-end. This was mainly due to an increase as a result of the proceeds from short-term borrowings at some of our overseas subsidiaries.

As a result of the above factors, net cash at the end of the current consolidated fiscal year was 71,232 million yen, a decrease of 6,658 million from the previous consolidated fiscal year-end.

(3) Basic policy regarding profit sharing and the dividends for the current and next periods

For the azbil Group, returning profits to our shareholders is an important priority for management. While striving to raise the level of dividends, our basic policy is to maintain dividend stability, taking into consideration the consolidated financial results and such indicators as levels of dividend on equity (DOE), return on equity (ROE), and retained earnings required for actively investing in growth to ensure future business development, and for ensuring a healthy financial foundation.

Under the medium-term plan (FY2021–2024), as strategic investments for future business development and growth, we are planning to actively engage in collaborative projects with other companies and invest in other companies to expand our business; to upgrade and reinforce our advanced global development and production systems; to expand our lineup of products and services; and to invest in human capital. Additionally, we are striving to ensure business continuity necessary to meet unexpected contingencies such as natural disasters. From FY2021 to FY2022, we have increased our R&D expenses, made the necessary capital investment to enhance the functions of our R&D base (Fujisawa Technology Center), and constructed a new factory building at our Dalian production subsidiary in China. Going forward, as well as making steady progress with such investments for growth, we will continue to promote shareholder returns, in accordance with the basic policy above, while ensuring that we maintain a healthy financial foundation.

As to specifics regarding the distribution of profits to our shareholders, regarding the dividend for the fiscal year ended March 31, 2023, it had been planned to make the annual dividend 65 yen per share, an increase of 5 yen per share compared with FY2021. Despite the impact of parts shortages and price hikes, progress has been made with strengthening corporate profitability and financial results for the fiscal year ended March 31, 2023, have exceeded the financial plan announced on November 8, 2022. Reflecting our robust financial results, including record profits in both operating income and net income attributable to owners of parent, it is planned to increase the year-end dividend by 1 yen above the level previously announced, and pay an annual dividend of 66 yen per share, representing an increase of 6 yen. A year-end dividend for FY2022 will be paid after the approval of the Ordinary General Meeting of Shareholders on June 27, 2023. Consequently, DOE for the fiscal year ended March 31, 2023 is expected to improve to 4.4%.

Also regarding dividends for the fiscal year ending March 31, 2024, based on our policy of enhancing shareholder returns and raising the level of stable dividends, it is planned to increase the ordinary dividend by 7 yen to make an annual dividend of 73 yen per share. This is possible because, although the global economic environment is expected to remain uncertain for the time being, in the FY2023 we expect to increase revenue, steadily converting the large order backlog into sales based on further improvements in procurement and production processes. We also expect to increase profits by implementing measures to strengthen profitability, such as appropriate cost pass-through, while investing in R&D, DX, and human capital to realize sustainable growth. Furthermore, from a medium- to long-term perspective, we expect stable and sustainable growth based on the strategic development and business environment outlook of each business, including initiatives in the three growth fields.

In addition to the above, based on the present status and outlook for our businesses and financial results, we plan to execute a disciplined capital policy, further increasing capital efficiency, and providing higher shareholder returns, while implementing a flexible capital policy able to respond to a changing business environment. For this purpose, we will repurchase the Company's own stock up to a maximum of 10.0 billion yen (or maximum of 400 million shares) between May 15, 2023 and September 22, 2023. Also, to allay concerns about future dilution, on October 31, 2023, we will cancel all of the treasury shares thus acquired. (For details of the repurchase of own stock and cancellation of treasury shares, please refer to "Significant subsequent events" in "(5) Notes to the consolidated financial statements" on page 38).

As mentioned above, the azbil Group will continue its ongoing efforts to improve the return of profits to our shareholders.

2. Management policy

(1) Basic policy

Based on the Group 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 thus committed to meeting the expectations of all our stakeholders.

Therefore, while strengthening business profitability and developing a global business foundation, we are implementing business growth measures based on our three fundamental policies—namely, being a long-term partner for the customer and the community by offering solutions based on our technologies and products; taking global operations to the next level by expansion into new regions and a qualitative change of focus; and being a corporate organization that never stops learning, so that it can continuously grow stronger. Specifically, in our three businesses—Building Automation (BA), Advanced Automation (AA), and Life Automation (LA)—we are supplying products and services based on the concept of human-centered automation and with a focus on measurement and control technologies, thus contributing to meeting the needs of our customers and finding solutions to the issues facing society. This is how we aim to achieve sustainable growth for ourselves as well as for our customers and society in general.

(2) Management targets

The azbil Group's basic goal is to improve consolidated return on equity (ROE) and thus increase shareholder value. Through improvements in profitability and capital efficiency, we are aiming to achieve net sales in the 400 billion yen range, operating income in the 60 billion yen range, an operating income margin of approximately 15%, and an ROE of approximately 13.5%; these are the Group's long-term targets [Note 1] 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, an operating income margin of 12%, and an ROE of approximately 12%.

The azbil Group has thus set its long-term targets for FY2030, aiming to contribute "in series" to the achievement of a sustainable society and to our own sustainable growth. To this end, we have positioned the Sustainable Development Goals (SDGs) as an important guidepost for management and we are promoting various initiatives designed to achieve the essential goals of the azbil Group for the SDGs: those to be achieved through our business activities are (1) environment and energy, and (2) new automation, while those to be achieved through our corporate activities are (3) supply chain and social responsibility, and (4) health & well-being management [Note 2] and an organization that never stops learning.

(3) Medium- to long-term management strategy

Fiscal year 2022 was a year in which the global economy was severely impacted by soaring energy prices and inflation as well as the disruption of global supply chains triggered by the COVID-19 pandemic and heightened geopolitical risks. Amidst such challenging circumstances, the azbil Group worked to increase sales by making steady progress with securing orders from customers who need to enhance productivity, at the same time as improving our procurement and production processes. Moreover, the Group strengthened profitability by such means as appropriately passing on higher costs resulting from inflation, etc., giving consideration to the supply chain, and also by improving operational efficiency. In these ways we were able to set a new record for business results. Assuming that some structural changes in the business environment continues in FY2023, we are convinced that the value of our automation business lies in its ability to support those changes that involve our customers and society as a whole. We will thus focus on the three growth fields—namely, new automation, environment and energy, and life-cycle solutions—that can particularly benefit from azbil's unique technologies, products, and services. By providing solutions to new challenges, we will realize growth for our BA, AA and LA business.

From FY2023 onward, in order to contribute "in series" to the achievement of a sustainable society, we will build on our past initiatives, accelerating transformation aimed at achieving further growth while continuing to emphasize safety. Specifically, in addition to actively investing in product development and production to enhance product competitiveness, we will also be proactively investing in co-creation in partnership with other companies. Our overseas business is a growth area, and we will be expanding coverage and strengthening our product lineup. Through these initiatives, we will strengthen our governance system and actively invest in human capital, the engine of corporate growth, aiming to make progress toward sustainability management, a policy objective. In this way, we will steadily achieve our medium-term plan.

As regards specific activities undertaken in FY2022, new testing facilities were completed within the Fujisawa Technology Center, enhancing our capability to develop advanced system solutions and high-function, high-performance devices that harness MEMS [Note 3] technology. We have thus upgraded the environment for technological development. We have also been strengthening our global production base: having completed a new factory building at our Dalian production subsidiary in China, we are planning to construct a new factory building at our Thai production subsidiary, which is due to be completed in early 2024. Furthermore, aiming to expand business in growth areas we have set up and invested in co-creation in partnership with other companies, and by promoting Green Transformation (GX) [Note 4], we have contributed to the realization of a decarbonized society.

As regards profitability, in addition to implementing ongoing measures—such as improving profitability at the point of order receipt, expanding overseas production and procurement, and implementing cost pass-through—we have further strengthened our profitability by improving operational efficiency globally through the promotion of DX. Additionally, as part of focusing on capital cost-conscious management, we have introduced return on invested capital (ROIC). Also, by maximizing the efficiency of management resource utilization based on profitability from invested capital, and by enhancing business portfolio management, we have improved enterprise value for the entire Group (raise ROE).

(4) Initiatives to strengthen corporate governance

An important management issue is the enhancement of corporate governance as the foundation for sustainable growth in enterprise value. The azbil Group has therefore been working to strengthen the supervisory and auditing functions of the Board of Directors, to improve the transparency and soundness of management, and to clarify the system of executive responsibility. One way in which we have achieved this is by transitioning to a company with a three-committee board structure, following the approval of the 100th Ordinary General Meeting of Shareholders held on June 23, 2022; each of the three committees is chaired by an outside director. Making use of this opportunity, the Remuneration Committee established a policy for determining executive remuneration in line with the new structure following the transition and revised the executive remuneration system; this included the introduction of a stock compensation plan. The new remuneration policy has been disclosed. We have thus been able to further raise the awareness of directors and corporate executives as regards increasing enterprise value and further motivate them to maximize shareholder value. This has fostered value sharing with our shareholders.

Assuming that the business environment continues to be somewhat unstable, we are aware that it will become yet more important to strengthen our initiatives aimed at creating a sustainable society. Our core automation business enables us to curb the use of resources and energy appropriately while at the same time improving the quality of space for buildings, factories, and lifelines. The expansion of our business is itself linked “in series” to reducing the burden placed on the global environment. In order to realize a sustainable society, it is essential to establish a system that restrains resource and energy consumption appropriately, and thus, through the Group’s business, we will contribute “in series” to a sustainable society.

Notes 1: On May 14, 2021, the azbil Group published its long-term targets and the medium-term plan (FY2021–2024).

2: Health & well-being management is azbil's unique approach to fostering healthy, happy, and vibrant workplaces and people.

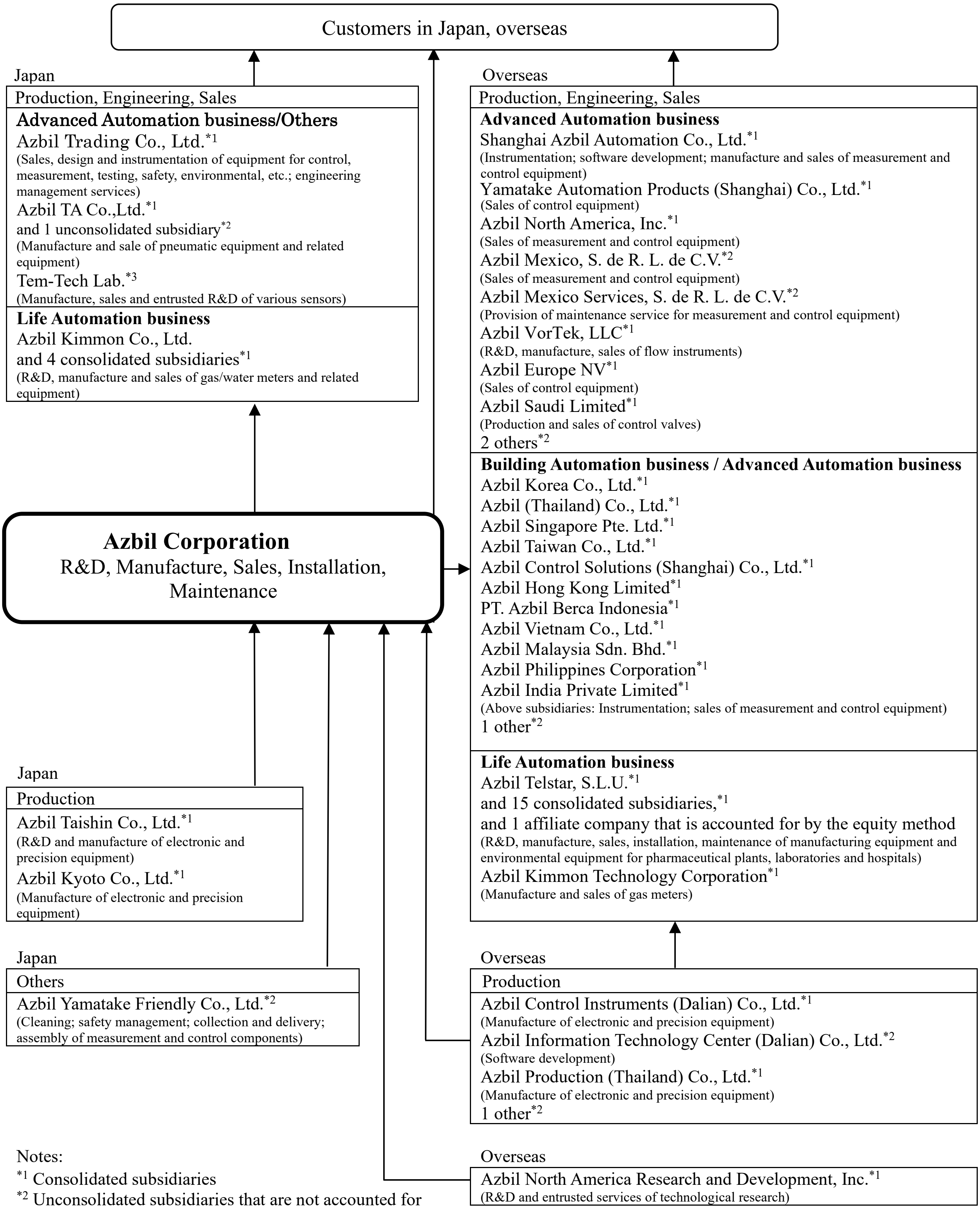
3: Micro Electro Mechanical Systems (MEMS) are devices built using microfabrication technology to integrate sensors, actuators, and electronic circuits on substrates.

4: Green Transformation (GX) is the transformation of the entire economic and social system to transition to carbon neutrality.

3. Activities (present situation) of the azbil Group

The azbil Group consists of the Company, 55 subsidiaries and 2 affiliates, and is pursuing human-centered automation that aims to realize safety, comfort and fulfillment in people's lives and contribute to global environmental preservation. The Group operates in three core businesses: the Building Automation (BA) business in the building market, the Advanced Automation (AA) business in the industrial market, and the Life Automation (LA) business in markets closely related to lifelines and everyday life. The BA business develops and manufactures a comprehensive lineup, from building management and security systems to application software, controllers, valves and sensors; it also provides instrumentation design, sales, engineering, maintenance, energy-saving solutions, and facility operation and management. Moreover, the Group draws on its original environmental control technologies to create comfortable and productive office and factory spaces and to develop business that contributes to environmental load reduction. The AA business is focused on solving issues in the materials industries—such as oil, chemicals, steel, and pulp and paper—as well as in the processing and assembly industries—including automobiles, electrical and electronics, semiconductors, and food—through the provision of products, solutions, instrumentation, engineering and maintenance to support the optimum operation of equipment and facilities throughout their lifecycle. The Group develops advanced measurement and control technologies, aims to create production spaces that are safe and enhance human capabilities, and conducts business to create new value through collaboration with customers. The LA business applies measurement, control and metering technologies cultivated over many years in the building and industrial markets, as well as to lifelines such as gas and water, living spaces, the pharmaceutical and medical fields, and life science research. The Group conducts this business to support active lifestyles.

As for the previously mentioned business contents, our company and related companies are positioned as shown in the following business chart.



Notes:
[*1] Consolidated subsidiaries
[*2] Unconsolidated subsidiaries that are not accounted for by the equity method
[*3] Affiliate companies that are not accounted for by the equity method

4. Basic rationale for selection of accounting standards

Group consolidated financial statements are prepared according to Japanese standards. We are currently continuing reviewing procedures, including the possibility of voluntarily applying International Financial Reporting Standards (IFRS).

5. Consolidated financial statements and related notes

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	58,954	62,006
Notes receivable - trade	14,971	15,902
Accounts receivable - trade	54,988	65,431
Contract assets	16,176	15,765
Securities	30,800	16,700
Merchandise and finished goods	6,141	8,090
Work in process	6,088	6,845
Raw materials	16,454	22,230
Other	6,644	7,129
Allowance for doubtful accounts	(423)	(391)
Total current assets	210,794	219,710
Non-current assets		
Property, plant and equipment		
Buildings and structures	42,136	51,181
Accumulated depreciation	(28,578)	(29,345)
Buildings and structures, net	13,558	21,835
Machinery, equipment and vehicles	18,897	20,419
Accumulated depreciation	(16,721)	(16,714)
Machinery, equipment and vehicles, net	2,176	3,704
Tools, furniture and fixtures	20,541	20,818
Accumulated depreciation	(18,343)	(18,144)
Tools, furniture and fixtures, net	2,197	2,673
Land	6,441	6,514
Leased assets	3,049	4,373
Accumulated depreciation	(1,336)	(1,770)
Leased assets, net	1,713	2,603
Construction in progress	7,082	932
Total property, plant and equipment	33,169	38,265
Intangible assets		
Software	4,944	4,631
Other	792	1,535
Total intangible assets	5,737	6,167
Investments and other assets		
Investment securities	19,635	19,620
Deferred tax assets	3,316	5,116
Retirement benefit asset	3	5
Other	7,481	8,140
Allowance for doubtful accounts	(87)	(152)
Total investments and other assets	30,350	32,730
Total non-current assets	69,257	77,163
Total assets	280,052	296,873

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,990	24,705
Short-term borrowings	8,046	8,812
Income taxes payable	6,758	8,692
Contract liabilities	6,078	6,748
Provision for bonuses	10,762	12,024
Provision for bonuses for directors (and other officers)	125	142
Provision for product warranties	512	2,947
Provision for loss on orders received	93	83
Other	14,086	14,859
Total current liabilities	69,452	79,015
Non-current liabilities		
Long-term borrowings	300	3,602
Deferred tax liabilities for land revaluation	181	181
Retirement benefit liability	1,690	1,670
Provision for retirement benefits for directors (and other officers)	199	183
Provision for share awards	1,927	2,291
Provision for share awards for directors (and other officers)	—	42
Other	3,158	4,006
Total non-current liabilities	7,457	11,978
Total liabilities	76,910	90,993
Net assets		
shareholders’equity		
Share capital	10,522	10,522
Capital surplus	11,670	11,670
Retained earnings	190,263	199,249
Treasury shares	(23,667)	(32,391)
Total shareholders’equity	188,789	189,051
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,173	9,270
Deferred gains or losses on hedges	(74)	(100)
Foreign currency translation adjustment	2,442	4,546
Remeasurements of defined benefit plans	(16)	51
Total accumulated other comprehensive income	11,524	13,768
Non-controlling interests	2,827	3,060
Total net assets	203,141	205,880
Total liabilities and net assets	280,052	296,873

(2) Consolidated statements of income and consolidated statements of comprehensive income
(Consolidated statements of income)

(Millions of yen)

	Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Net sales	256,551	278,406
Cost of sales	150,845	166,467
Gross profit	105,705	111,938
Selling, general and administrative expenses	77,474	80,687
Operating income	28,231	31,251
Non-operating income		
Interest income	156	233
Dividend income	646	638
Foreign exchange gains	632	413
Rental income from real estate	26	27
Reversal of allowance for doubtful accounts	0	―
Other	253	192
Total non-operating income	1,715	1,504
Non-operating expenses		
Interest expenses	123	147
Commitment fees	19	19
Expenses of real estate	38	38
Office relocation expenses	136	249
Provision of allowance for doubtful accounts	―	59
Other	109	100
Total non-operating expenses	428	616
Ordinary income	29,519	32,140
Extraordinary income		
Gain on sale of non-current assets	2	6
Gain on sale of investment securities	860	2,677
Total extraordinary income	863	2,683
Extraordinary losses		
Loss on sale and retirement of non-current assets	116	204
Provision for product warranties	―	2,495
Loss on sale of shares of subsidiaries and associates	―	5
Loss on sale of investment securities	3	0
Loss on business restructuring	218	―
Total extraordinary losses	338	2,705
Income before income taxes	30,044	32,118
Income taxes - current	8,372	10,279
Income taxes - deferred	250	(1,466)
Total income taxes	8,623	8,812
Net income	21,421	23,306
Net income attributable to non-controlling interests	637	703
Net income attributable to owners of parent	20,784	22,602

(Consolidated statements of comprehensive income)

(Millions of yen)

	Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Net income	21,421	23,306
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,935)	97
Deferred gains or losses on hedges	(99)	(25)
Foreign currency translation adjustment	1,937	2,194
Remeasurements of defined benefit plans, net of tax	9	72
Total other comprehensive income	(87)	2,339
Comprehensive income	21,334	25,645
Comprehensive income attributable to:		
Owners of parent	20,502	24,846
Non-controlling interests	831	798

(3) Consolidated statements of changes in net assets
Fiscal year 2021 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,522	11,670	177,900	(13,709)	186,384
Changes during period					
Dividends of surplus			(8,421)		(8,421)
Net income attributable to owners of parent			20,784		20,784
Purchase of treasury shares				(10,003)	(10,003)
Disposal of treasury shares				45	45
Cancellation of treasury shares					–
Transfer from retained earnings to capital surplus					–
Net changes in items other than shareholders' equity					
Total changes during period	–	–	12,363	(9,958)	2,405
Balance at end of period	10,522	11,670	190,263	(23,667)	188,789

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	11,108	24	699	(26)	11,805	2,416	200,607
Changes during period							
Dividends of surplus							(8,421)
Net income attributable to owners of parent							20,784
Purchase of treasury shares							(10,003)
Disposal of treasury shares							45
Cancellation of treasury shares							–
Transfer from retained earnings to capital surplus							–
Net changes in items other than shareholders' equity	(1,935)	(99)	1,742	9	(281)	410	129
Total changes during period	(1,935)	(99)	1,742	9	(281)	410	2,534
Balance at end of period	9,173	(74)	2,442	(16)	11,524	2,827	203,141

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,522	11,670	190,263	(23,667)	188,789
Changes during period					
Dividends of surplus			(8,614)		(8,614)
Net income attributable to owners of parent			22,602		22,602
Purchase of treasury shares				(15,221)	(15,221)
Disposal of treasury shares		0		1,495	1,495
Cancellation of treasury shares		(5,002)		5,002	—
Transfer from retained earnings to capital surplus		5,002	(5,002)		—
Net changes in items other than shareholders' equity					
Total changes during period	—	(0)	8,986	(8,724)	261
Balance at end of period	10,522	11,670	199,249	(32,391)	189,051

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	9,173	(74)	2,442	(16)	11,524	2,827	203,141
Changes during period							
Dividends of surplus							(8,614)
Net income attributable to owners of parent							22,602
Purchase of treasury shares							(15,221)
Disposal of treasury shares							1,495
Cancellation of treasury shares							—
Transfer from retained earnings to capital surplus							—
Net changes in items other than shareholders' equity	97	(25)	2,104	67	2,243	233	2,477
Total changes during period	97	(25)	2,104	67	2,243	233	2,738
Balance at end of period	9,270	(100)	4,546	51	13,768	3,060	205,880

(4) Consolidated statements of cash flows

(Millions of yen)

	Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Cash flows from operating activities		
Profit before income taxes	30,044	32,118
Depreciation	4,847	4,954
Increase (decrease) in allowance for doubtful accounts	26	(1)
Increase (decrease) in retirement benefit liability	33	53
Decrease (increase) in retirement benefit asset	0	(1)
Increase (decrease) in provision for share awards	339	424
Increase (decrease) in provision for share awards for directors (and other officers)	—	42
Increase (decrease) in provision for bonuses	841	1,196
Increase (decrease) in provision for bonuses for directors (and other officers)	(10)	17
Increase (decrease) in provision for product warranties	(10)	2,422
Interest and dividend income	(803)	(872)
Interest expenses	123	147
Foreign exchange losses (gains)	(504)	(475)
Loss (gain) on sale and retirement of non-current assets	113	197
Loss (gain) on sale and valuation of investment securities	(857)	(2,676)
Loss (gain) on sale of shares of subsidiaries and associates	—	5
Loss on business restructuring	218	—
Decrease (increase) in trade receivables and contract assets	(3,055)	(9,722)
Decrease (increase) in inventories	(3,729)	(7,736)
Increase (decrease) in trade payables	(9,541)	943
Decrease (increase) in other assets	(560)	(208)
Increase (decrease) in other liabilities	(225)	(43)
Subtotal	17,291	20,786
Interest and dividends received	802	859
Interest paid	(127)	(124)
Income taxes paid	(7,845)	(8,402)
Net cash provided by (used in) operating activities	10,120	13,118

(Millions of yen)

	Year ended March 31, 2022 (April 1, 2021 to March 31, 2022)	Year ended March 31, 2023 (April 1, 2022 to March 31, 2023)
Cash flows from investing activities		
Payments into time deposits	(3,056)	(3,743)
Proceeds from withdrawal of time deposits	3,221	3,574
Purchase of securities	(15,800)	(8,000)
Proceeds from sale of securities	18,300	12,700
Purchase of beneficial interests in trust	(5,077)	(1,035)
Proceeds from sale of beneficial interests in trust	7,412	889
Purchase of property, plant and equipment	(8,877)	(7,550)
Proceeds from sale of property, plant and equipment	12	13
Purchase of intangible assets	(1,368)	(1,631)
Purchase of investment securities	－	(858)
Proceeds from sale of investment securities	1,240	3,289
Proceeds from sale of shares of subsidiaries and associates	－	391
Other, net	3	(16)
Net cash provided by (used in) investing activities	(3,990)	(1,977)
Cash flows from financing activities		
Proceeds from short-term borrowings	42	2,378
Repayments of short-term borrowings	(1,171)	(1,881)
Proceeds from long-term borrowings	－	4,806
Repayments of long-term borrowings	(39)	(1,514)
Dividends paid	(8,419)	(8,613)
Repayments of lease liabilities	(571)	(568)
Dividends paid to non-controlling interests	(421)	(575)
Purchase of treasury shares	(10,003)	(15,221)
Proceeds from sale of treasury shares	－	1,495
Net cash provided by (used in) financing activities	(20,584)	(19,694)
Effect of exchange rate change on cash and cash equivalents	1,692	1,895
Net increase (decrease) in cash and cash equivalents	(12,761)	(6,658)
Cash and cash equivalents at beginning of period	90,652	77,891
Cash and cash equivalents at end of period	77,891	71,232

(5) Notes to the consolidated financial statements

Notes regarding going concern assumptions

Not applicable

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 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 fiscal year each increased by 618 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 March 31, 2023
Book value: 3,781 million yen
Number of shares: 1,905,231 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 March 31, 2023

Book value: 3,364 million yen

Number of shares: 936,000 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 March 31, 2023

Book value: 3,302 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 March 31, 2023

Provision for share awards for directors (and other officers):	42 million yen
Provision for share awards:	72 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 March 31, 2023

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

Segment information

Segment information

1. The summary of the reportable segments

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

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

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

2. Method of calculating sales, profit (loss), assets and other items in each segment

The accounting method for reportable segments is generally the same as the method adopted for preparation of the consolidated financial statements. Profits of reportable segments are calculated based on operating income. Internal sales among segments and transfers (Inter-segment) are based on market prices, etc.

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 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 fiscal year increased by 161 million yen in the Building Automation business, 315 million yen in the Advanced Automation business, and 141 million yen in the Life Automation business compared with the previous method.

3. Information on sales, profit (loss), assets, the other items in each segment and disaggregation of revenue
Fiscal year 2021 (April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Building Automation	Advanced Automation	Life Automation	Subtotal				
Sales								
Customers	119,383	93,214	43,900	256,498	53	256,551	—	256,551
Inter-segment	381	1,061	337	1,780	1	1,782	(1,782)	—
Total	119,764	94,276	44,238	258,279	54	258,334	(1,782)	256,551
Segment profit	13,862	13,236	1,151	28,251	6	28,257	(25)	28,231
Segment assets	71,513	71,080	32,805	175,398	1	175,400	104,652	280,052
Other items								
Depreciation and amortization	1,616	2,277	954	4,847	—	4,847	—	4,847
Increase in property, plant and equipment, and intangible assets	4,157	6,264	822	11,244	—	11,244	—	11,244
Disaggregation of revenue								
Goods or services transferred at a point in time	27,105	74,938	30,726	132,770	53	132,823		
Goods or services transferred over time	92,277	18,275	13,174	123,728	—	123,728		
Revenue from contracts with customers	119,383	93,214	43,900	256,498	53	256,551		

Notes: 1. “Other” includes insurance agent business, etc.
2. Adjustment details are as follows.
(1) The adjustment of segment profit of (25) million yen is elimination of inter-segment transactions.
(2) The adjustment of segment assets of 104,652 million yen includes primarily cash and deposits, investment securities, etc. which are not distributed to any reportable segment.
3. The segment profits are adjusted to operating income stated in the consolidated financial statements.

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Building Automation	Advanced Automation	Life Automation	Subtotal				
Sales								
Customers	128,122	102,624	47,605	278,352	53	278,406	—	278,406
Inter-segment	438	1,363	309	2,111	3	2,115	(2,115)	—
Total	128,561	103,988	47,915	280,464	56	280,521	(2,115)	278,406
Segment profit (loss)	16,074	14,579	588	31,242	(1)	31,240	11	31,251
Segment assets	82,857	84,909	36,194	203,962	2	203,965	92,908	296,873
Other items								
Depreciation and amortization	1,672	2,337	944	4,954	—	4,954	—	4,954
Increase in property, plant and equipment, and intangible assets	3,522	5,524	1,797	10,844	—	10,844	—	10,844
Disaggregation of revenue								
Goods or services transferred at a point in time	30,412	84,206	32,951	147,570	53	147,623		
Goods or services transferred over time	97,710	18,418	14,654	130,782	—	130,782		
Revenue from contracts with customers	128,122	102,624	47,605	278,352	53	278,406		

Notes: 1. “Other” includes insurance agent business, etc.

2. Adjustment details are as follows.

(1) The adjustment of segment profit (loss) of 11 million yen is elimination of inter-segment transactions.

(2) The adjustment of segment assets of 92,908 million yen includes primarily cash and deposits, investment securities, etc. which are not distributed to any reportable segment.

3. The segment profits are adjusted to operating income stated in the consolidated financial statements.

The Group is engaged in its Building Automation business in building market, Advanced Automation business in industrial market, and Life Automation business in markets closely related to lifelines and everyday life. In each of these businesses, 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).

Related information

Fiscal year 2021 (April 1, 2021 to March 31, 2022)

1. Information by product and service

The disclosed information is identical to the segment information. It is therefore omitted.

2. Information by region

(1) Sales

(Millions of yen)

Japan	Asia	China	North America	Europe	Others	Total
204,360	19,468	14,261	4,985	10,318	3,156	256,551

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

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia	China	North America	Europe	Others	Total
27,492	2,212	1,807	34	1,501	120	33,169

Note: Property, plant and equipment, based on the location, are classified by country or region.

3. Information by principal client

No clients accounted for more than 10% of net sales on the consolidated statement of income, so this information is omitted.

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

1. Information by product and service

The disclosed information is identical to the segment information. It is therefore omitted.

2. Information by region

(1) Sales

(Millions of yen)

Japan	Asia	China	North America	Europe	Others	Total
215,771	25,064	15,196	6,681	11,399	4,291	278,406

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

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia	China	North America	Europe	Others	Total
30,490	2,539	2,695	236	2,180	123	38,265

Note: Property, plant and equipment, based on the location, are classified by country or region.

3. Information by principal client

No clients accounted for more than 10% of net sales on the consolidated statement of income, so this information is omitted.

Information on impairment losses in non-current assets in each segment

Fiscal year 2021 (April 1, 2021 to March 31, 2022)

Not applicable

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

Not applicable

Information on amortization of goodwill and unamortized balance in each segment

Fiscal year 2021 (April 1, 2021 to March 31, 2022)

Not applicable

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

Not applicable

Information on gain on negative goodwill in each segment

Fiscal year 2021 (April 1, 2021 to March 31, 2022)

Not applicable

Fiscal year 2022 (April 1, 2022 to March 31, 2023)

Not applicable

Per share information

Item	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)
Net assets per share (Yen)	1,459.08	1,518.01
Net income per share (Yen)	150.79	168.27

Notes: 1. Diluted net income per share after adjusting for latent shares is not presented.

2. The basis for calculating net income per share is as follows.

Item	Fiscal year 2021 (April 1, 2021 to March 31, 2022)	Fiscal year 2022 (April 1, 2022 to March 31, 2023)
Net income attributable to owners of parent (Millions of yen)	20,784	22,602
Amount not attributable to common stock holders (Millions of yen)	—	—
Net income attributable to owners of parent relevant to common stock (Millions of yen)	20,784	22,602
Average number of common stock (Thousands of shares)	137,838	134,327

3. The basis for calculating net assets per share is as follows.

Item	Fiscal year 2021 (As of March 31, 2022)	Fiscal year 2022 (As of March 31, 2023)
Total net assets (Millions of yen)	203,141	205,880
Amount deducted from the total of net assets (Millions of yen)	2,827	3,060
Of which non-controlling interests (Millions of yen)	2,827	3,060
Net assets at the end of the consolidated fiscal year relevant to common stock (Millions of yen)	200,314	202,819
Number of common stock used to determine net assets per share (Thousands of shares)	137,288	133,609

4. The Company's own stock held by Custody Bank of Japan, Ltd. (Trust E) as assets in the trust of "employee stock ownership plan" is recorded as treasury shares in shareholders' equity, and included in the number of treasury shares that are deducted from the total number of issued shares at the end of the period for determining net assets per share (1,935 thousand shares as of March 31, 2022; 1,905 thousand shares as of March 31, 2023).
It is also included in the number of treasury shares, which is deducted in the calculation of the average number of shares during the period for determining net income per share (1,947 thousand shares for fiscal year 2021; 1,920 thousand shares for fiscal year 2022).

5. The Company's own stock held by the azbil Group Employee Stock Ownership Association Trust Fund as assets in the trust of "Trust-Type Employee Shareholding Incentive Plan" is recorded as treasury shares in shareholders' equity, and included in the number of treasury shares that are deducted from the total number of issued shares at the end of the period for determining net assets per share (936 thousand shares as of March 31, 2023).
It is also included in the number of treasury shares, which is deducted in the calculation of the average number of shares during the period for determining net income per share (979 thousand shares for fiscal year 2022).

6. The Company's own stock held by Custody Bank of Japan, Ltd. (Trust E) as assets in the trust of stock compensation plan is recorded as treasury shares in shareholders' equity, and included in the number of treasury shares that are deducted from the total number of issued shares at the end of the period for determining net assets per share (102 thousand shares as of March 31, 2023).
It is also included in the number of treasury shares, which is deducted in the calculation of the average number of shares during the period for determining net income per share (65 thousand shares for fiscal year 2022).

Significant subsequent events

The Company has resolved the following matters at the Board of Directors meeting held on May 12, 2023.

1. Repurchase of the Company's own stock

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

(1) Reason for stock repurchase:

Taking into consideration business results and the outlook for future business performance, the Company aims not only to improve capital efficiency but also to enhance the return of profits to shareholders and develop flexible capital policies responding to changes in the corporate environment.

(2) Type of stock to be repurchased:	Common stock of the Company
(3) Total number of shares to be repurchased:	Up to 4,000,000 shares (2.9% of the total number of common shares issued, excluding treasury shares)
(4) Total amount of repurchase:	Up to 10 billion yen
(5) Period of repurchase:	From May 15, 2023 to September 22, 2023
(6) Method of repurchase:	Market transactions on the Tokyo Stock Exchange

2. Cancellation of treasury shares

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

(1) Type of stock to be cancelled:	Common stock of the Company
(2) Number of shares to be cancelled:	All shares of common stock to be repurchased pursuant to 1 above
(3) Scheduled cancellation date:	October 31, 2023

Reference

Status of treasury shares held as of March 31, 2023

Total number of issued shares (excluding treasury shares):	136,552,663 shares
Number of treasury shares:	7,148,221 shares

Note: The above number of treasury shares does not include shares owned by trust accounts of an employee stock ownership plan, a Trust-Type Employee Shareholding Incentive Plan and stock compensation plan, which owned 2,943,331 shares as of March 31, 2023.

6. Other

(1) Management changes (effective on June 27, 2023)

1) Promoted corporate executive

Representative Corporate Executive Deputy President: Takayuki Yokota

2) Newly appointed corporate executive

Managing Corporate Executive: Akihiko Naruse

Reference

Azbil Corporation New Management Structure (effective on June 27, 2023)

Directors

Position	Name	Changes
Director and Chairperson	Hirozumi Sone	Reappointed
Director	Kiyohiro Yamamoto	Reappointed
Director	Takayuki Yokota	Reappointed
Director	Hisaya Katsuta	Reappointed
Director	Takeshi Itoh	Reappointed
Director	Waka Fujiso	Reappointed
Director	Mitsuhiro Nagahama	Reappointed
Director	Anne Ka Tse Hung	Reappointed
Director	Minoru Sakuma	Reappointed
Director	Fumitoshi Sato	Reappointed
Director	Shigeaki Yoshikawa	Reappointed
Director	Tomoyasu Miura	Reappointed

Note: Takeshi Itoh, Waka Fujiso, Mitsuhiro Nagahama, Anne Ka Tse Hung, Minoru Sakuma, Fumitoshi Sato, Shigeaki Yoshikawa, and Tomoyasu Miura are candidates to become outside directors of the Company as prescribed in Article 2, paragraph 3, Item 7 of Ordinance for Enforcement of the Companies Act of Japan.

Corporate Executives

Position	Name	Changes
Representative Corporate Executive, President and Group CEO	Kiyohiro Yamamoto	Reappointed
Representative Corporate Executive Deputy President	Takayuki Yokota	Promoted
Managing Corporate Executive	Yoshimitsu Hojo	Reappointed
Managing Corporate Executive	Kazuyasu Hamada	Reappointed
Managing Corporate Executive	Akihiko Naruse	Newly appointed

(2) Status of orders received

(Millions of yen)

	Fiscal year 2021 (April 1, 2021 to March 31, 2022)		Fiscal year 2022 (April 1, 2022 to March 31, 2023)		Difference	
	Orders received	Backlog	Orders received	Backlog	Orders received	Backlog
Building Automation	132,511	75,120	135,311	82,877	2,800	7,757
Advanced Automation	109,562	42,374	113,968	53,427	4,406	11,053
Life Automation	46,845	17,267	49,646	20,125	2,801	2,858
Total of reportable segments	288,918	134,761	298,927	156,430	10,008	21,669
Other	54	0	56	0	2	0
Elimination	(2,022)	(464)	(2,053)	(401)	(30)	62
Consolidated	286,950	134,297	296,930	156,029	9,979	21,732