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Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2024 (Based on Japanese GAAP)

November 7, 2023

Company name: Azbil Corporation
 Stock exchange listing: Tokyo Stock Exchange Prime market (Code 6845)
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 Scheduled date to file Quarterly Securities Report: November 10, 2023
 Scheduled date to commence dividend payments: December 8, 2023
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated financial results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	131,885	9.0	12,980	58.6	14,314	45.5	11,937	97.3
Six months ended September 30, 2022	121,006	4.9	8,181	(12.9)	9,836	(0.4)	6,050	(12.5)

Note: Comprehensive income Six months ended September 30, 2023 16,181 million yen 58.3%
 Six months ended September 30, 2022 10,220 million yen 9.1%

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2023	89.89	—
Six months ended September 30, 2022	44.77	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	285,365	207,672	71.7
As of March 31, 2023	296,873	205,880	68.3

Reference: Shareholders' equity As of September 30, 2023 204,687 million yen
 As of March 31, 2023 202,819 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, 2023	—	32.50	—	33.50	66.00
Year ending March 31, 2024	—	36.50	—	—	—
Year ending March 31, 2024 (forecast)	—	—	—	36.50	73.00

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

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
Full year	284,000	2.0	33,700	7.8	35,200	9.5	27,000	19.5	205.12

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

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): No
- (2) Application of special accounting methods for preparing consolidated quarterly financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements
- a. Changes in accounting policies accompanying revision of accounting standards, etc.: No
- b. Changes in accounting policies other than (a) above: No
- c. Changes in accounting estimates: No
- d. Retrospective restatements: No

(4) Number of issued shares (common stock)

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

As of September 30, 2023	143,700,884 shares	As of March 31, 2023	143,700,884 shares
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b. Number of treasury shares at the end of the period

As of September 30, 2023	12,070,630 shares	As of March 31, 2023	10,091,552 shares
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c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	132,802,735 shares	Six months ended September 30, 2022	135,163,823 shares
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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 (2,729,198 shares as of September 30, 2023; 2,943,331 shares as of March 31, 2023). 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 (2,847,901 shares for the six months ended September 30, 2023; 2,865,625 shares for the six months ended September 30, 2022). For details, please see “Additional information” in “2. Consolidated quarterly financial statements and related notes (4) Notes to the consolidated quarterly financial statements” on page 19 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 8 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

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1. Qualitative information on consolidated quarterly financial results

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 aiming to achieve net sales in the 400.0 billion yen range, operating income in the 60.0 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 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, an operating income of 36.0 billion yen, an operating income margin of 12%, and an ROE of approximately 12%. In addition, from the perspective of advancing sustainability management and contributing “in series” to the achievement of a sustainable society, the azbil Group has identified materiality as ten material issues across five areas^{Note 1} to be tackled over the long term. Of these areas, we have been focusing on the environment, innovation, society, and human resources, and have thus established four essential goals of the azbil Group for the SDGs^{Note 2} to promote initiatives to achieve these goals.

As we work toward achieving a sustainable society, various societal and customer issues are emerging—ranging from responses to climate change and decarbonization, to ensuring safety and peace of mind in an environment where people are learning to live with the virus. Other issues include supply chain disruptions, soaring energy costs, and inflation. We believe that the value of the automation business lies in its ability to support customers and a changing society as they address these challenges. We will therefore focus on the three growth fields—namely, new automation, environment and energy, and life-cycle solutions—that can particularly benefit from our unique technologies, products, and services. By providing solutions to these new issues, we will realize growth for our Building Automation (BA), Advanced Automation (AA) and Life Automation (LA) businesses.

Going forward, while continuing to actively invest in technology development, facilities and equipment, we will advance initiatives to enhance product competitiveness; these may involve collaborative value creation with external partners. As for production, we will continue to strengthen our global foundation with such projects as the construction of a new factory building at our manufacturing subsidiary in Thailand. In addition, while continuing to assure safety, we will accelerate our initiatives for transformation to achieve further growth by promoting internal digital transformation (DX) to improve productivity as well as our products, and by expanding both customer coverage in our overseas business and product lineups. At the same time, practicing sustainability management, we will actively engage in strengthening our governance system and investing in human capital—the driving force behind corporate growth—and thus make steady progress toward achieving the goals of our medium-term plan.

Note 1: Materiality as ten material issues across five areas

- Environment: climate change; resource recycling
- Innovation
- Society: supply chain; contribution to local communities
- Human resources: human rights, safety and health; learning and employee development
- Governance: product safety and quality; corporate governance; compliance

Note 2: 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 six months ended September 2023 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 interest in solutions for energy saving and lower CO₂ emissions has meant that retrofit demand has remained strong. As for equipment/systems for production facilities, demand has been sluggish in the manufacturing equipment market, though there has been continuing demand for the decarbonization of factories and plants, and for the adoption of DX.

As a result, financial results for the six months ended September 2023 were as follows.

Although orders received increased for the BA business thanks to robust market conditions, they decreased for the AA business owing to sluggish conditions in the manufacturing equipment market. Consequently, overall orders received were 159,142 million yen, down 3.5% on the 164,861 million yen recorded in the same period of FY2022. However, sales growth was achieved in all three segments—BA, AA and LA—thanks to the growth in orders received in FY2022 as well as the enhanced procurement and production systems. Thus, overall net sales were 131,885 million yen, up 9.0% on the 121,006 million yen recorded in the same period of FY2022.

As regards profits, there was an impact from higher expenses for R&D and DX required by the medium-term plan, as well as increases in other expenses; however, thanks to revenue growth and measures to enhance profitability, including cost pass-through, operating income was 12,980 million yen, significantly up by 58.6% on the 8,181 million yen recorded in the same period of FY2022. This growth in operating income led to higher ordinary income, which was 14,314 million yen, up 45.5% on the 9,836 million yen recorded in the same period of FY2022. In addition to higher operating income, gain on sale of investment securities was recorded, so net income attributable to owners of parent was 11,937 million yen, up 97.3% on the 6,050 million yen recorded in the same period of FY2022.

(Millions of yen)

	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Six months ended Sep. 30, 2023 (Apr. 1, 2023 to Sep. 30, 2023)	Difference	
			Amount	Rate
Orders received	164,861	159,142	(5,719)	(3.5)%
Net sales	121,006	131,885	10,878	9.0%
Operating income [Margin]	8,181 [6.8%]	12,980 [9.8%]	4,798 [3.1pp]	58.6%
Ordinary income	9,836	14,314	4,478	45.5%
Net income attributable to owners of parent [Margin]	6,050 [5.0%]	11,937 [9.1%]	5,886 [4.1pp]	97.3%

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 at high level for urban redevelopment projects and HVAC equipment/systems for factories. In addition to the demand for energy savings and CO₂ reduction, there is continuing interest in new solutions that create environments offering post-pandemic safety and suited to new work styles. As regards overseas markets, investment remains firm, having recovered from 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 six months ended September 2023 were as follows.

As regards orders received, the service field decreased due to the fact that in this period few multi-year service contracts were up for renewal. However, mainly due to growth in the field related to sales and installation of equipment/systems for large-scale buildings, both new and existing, reflecting the robust business environment, overall orders received were 83,252 million yen, up 3.8% on the same period of FY2022, when a figure of 80,233 million yen was recorded. As regards sales, in response to the robust market environment, there was growth in the fields related to existing buildings and service as a result of such measures as accelerated retrofit and service schedules, while overseas business grew and sales for new buildings remained at a high level. This resulted in sales of 56,043 million yen, up 7.7% on the 52,035 million yen recorded in the same period of FY2022. Despite increased labor costs as well as higher expenses for R&D,

DX, and other expenses, thanks to increased revenue and improved profitability, segment profit was 3,743 million yen, up 52.4% on the 2,456 million yen recorded in the same period of FY2022.

As for the medium- to long-term outlook, the situation continues that 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 this demand. Moreover, there have been growing requirements for energy savings and CO₂ reduction as part of decarbonization; for enhanced safety and peace of mind following the COVID-19 pandemic; as well as for offices and spaces to improve workplace wellness that not only offer convenience and comfort but are also suited to new work styles. In response to this demand, we will supply solutions such as cloud-based 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)

	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Six months ended Sep. 30, 2023 (Apr. 1, 2023 to Sep. 30, 2023)	Difference	
			Amount	Rate
Orders received	80,233	83,252	3,018	3.8%
Sales	52,035	56,043	4,008	7.7%
Segment profit [Margin]	2,456 [4.7%]	3,743 [6.7%]	1,287 [2.0pp]	52.4%

Advanced Automation (AA) Business

Regarding market trends in Japan and abroad surrounding the AA business, demand centering on maintenance and refurbishment remains strong in the process automation market, but in the factory automation market a decrease in demand has been observed; this was due to a downturn in the manufacturing equipment market and because of some recoil owing to the advance orders to the Company made in the same period of FY2022.

Amidst this business environment, we continued to implement our three main initiatives—for business growth overseas, creation of new automation, and boosting profitability. At the same time, we have worked on improving procurement and production processes to address parts procurement difficulties.

Consequently, the financial results of the AA business for the six months ended September 2023 were as follows.

Orders received were 52,101 million yen, significantly down by 11.1% compared to the same period of FY2022, when a figure of 58,597 million yen was recorded. This was mainly due to falling demand in the semiconductor manufacturing equipment market. Sales, however, increased significantly, thanks to a large order backlog and the progress made with production following the strengthening of procurement/production systems and the partial easing of parts procurement difficulties. Consequently, sales were 51,848 million yen, up 12.3% on the 46,163 million yen recorded in the same period of FY2022. Segment profit increased thanks to revenue growth and initiatives to enhance profitability, including cost pass-through, and despite higher DX-related expenses, R&D and other expenses. Consequently, segment profit was 8,487 million

yen, up 56.8% on the 5,414 million yen recorded in the same period of FY2022, and profit level also improved.

Although it is currently uncertain when the recovery in the factory automation market will start, steady progress is being made with the three main initiatives mentioned above. In the long term, we can expect the industrial automation market to expand globally, for there is strong customer demand for automation to facilitate the decarbonization of factories, to solve the challenges presented by labor shortages and aging facilities, and to introduce new production methods. Based on the three AA business sub-segments (CP, IAP and SS)^{Note 3}, and the development of advanced automation, we aim to become a high-profit business entity that contributes to a sustainable society.

(Millions of yen)

	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Six months ended Sep. 30, 2023 (Apr. 1, 2023 to Sep. 30, 2023)	Difference	
			Amount	Rate
Orders received	58,597	52,101	(6,496)	(11.1)%
Sales	46,163	51,848	5,684	12.3%
Segment profit [Margin]	5,414 [11.7%]	8,487 [16.4%]	3,073 [4.6pp]	56.8%

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.)

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, which accounts 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, there is continued demand for pharmaceutical plant equipment, but interest rates have been rising worldwide to counter inflation, and this is having an economic impact. Amidst this business environment, we have engaged in strengthening quality control and cost management, as well as improving profitability, including cost pass-through.

Consequently, the financial results of the LA business for the six months ended September 2023 were as follows.

Orders received decreased by 8.4% to 24,825 million yen (compared with the 27,107 million yen recorded in the same period of FY2022). Despite increased orders received in the Lifeline field for both city gas and water meters, in the LSE field orders received were lower because of

the high level achieved in the same period of FY2022. Overall sales were 25,014 million yen, up 5.4% on the 23,733 million yen recorded in the same period of FY2022, mainly due to a similar increase in the Lifeline field as seen for orders received. Owing to increased revenue and initiatives to improve profitability, segment profit was up 146.2% at 760 million yen (compared with the 309 million yen recorded in the same period of FY2022).

In the LA business, we will work to achieve stable profit through quality control and fundamental cost management, while continuing cost pass-through. In parallel with this, so as to grasp the opportunities provided by changes in the business environment for the energy supply market, in addition to our traditional business of supplying products, we will strive to create a new business that provides services based on data collected from meters by utilizing IoT and other technologies.

(Millions of yen)

	Six months ended Sep. 30, 2022 (Apr. 1, 2022 to Sep. 30, 2022)	Six months ended Sep. 30, 2023 (Apr. 1, 2023 to Sep. 30, 2023)	Difference	
			Amount	Rate
Orders received	27,107	24,825	(2,281)	(8.4)%
Sales	23,733	25,014	1,281	5.4%
Segment profit [Margin]	309 [1.3%]	760 [3.0%]	451 [1.7pp]	146.2%

Other

In Other business, principally our insurance agent business, orders received in the six months ended September 2023 were 34 million yen (compared with the 35 million yen for the same period of FY2022), sales were 34 million yen (compared with the 35 million yen for the same period of FY2022), and segment loss was 7 million yen (compared with the segment profit of 6 million yen for the same period of FY2022).

(2) Consolidated financial position

Assets

Total assets at the end of the second quarter of FY2023 stood at 285,365 million yen, a decrease of 11,508 million yen from the end of FY2022. This was mainly due to a decrease of 13,011 million yen in trade receivables as well as a decrease of 8,999 million yen in cash and deposits, and despite an increase of 8,827 million yen in inventories and an increase of 2,396 million yen in investment securities due to the increased market value of shareholdings.

Liabilities

Total liabilities at the end of the second quarter of FY2023 stood at 77,693 million yen, a decrease of 13,300 million yen from the end of FY2022. This was mainly due to a decrease of 6,080 million yen in income taxes payable as well as a decrease of 3,862 million yen in provision for bonuses, in addition to a decrease of 3,198 million yen in notes and accounts payable-trade.

Net assets

Net assets at the end of the second quarter of FY2023 stood at 207,672 million yen, an increase of 1,792 million yen from the end of FY2022. This was mainly due to an increase of 11,937 million yen by the recording of net income attributable to owners of parent, as well as an increase of 1,880 million yen from foreign currency translation adjustment and an increase of 1,826 million yen from valuation difference on available-for-sale securities, despite a decrease of 9,999 million yen by repurchasing own stock, pursuant to the resolution at the Board of Directors meeting and a decrease of 4,574 million yen as the payment of dividends.

As a result, the shareholders' equity ratio was 71.7% compared with 68.3% at the end of FY2022.

Net cash flow from operating activities

Cash and cash equivalents (hereinafter "net cash") provided by operating activities in the six months ended September 2023 were 6,901 million yen, an increase of 3,279 million yen compared to the same period of FY2022. This was mainly due to an increase in income before income taxes, despite an increase in income taxes paid.

Net cash flow from investing activities

Net cash used in investment activities (expenditure) in the six months ended September 2023 was 2,264 million yen due to expenditures for capital investment, etc., despite proceeds from sale of investment securities. In the same period of FY2022, funds were allocated from securities for short-term investment to cash on hand for implementing capital policy and preparing to make capital investment to strengthen the functions of our R&D base; this resulted in an increase in net cash of 1,416 million yen.

Net cash flow from financing activities

Net cash used in financing activities (expenditure) in the six months ended September 2023 was 15,049 million yen, a level similar to that for the same period of FY2022. This was despite an increase in expenditure resulting from the payment of dividends.

As a result of the above factors, net cash at the end of the second quarter stood at 62,307 million yen, a decrease of 8,925 million from the end of FY2022.

(3) Forecast of consolidated financial results

The forecast for consolidated financial results for the full fiscal year ending March 31, 2024 has been revised upwards from the initial forecast announced on May 12, 2023. This is based on the consolidated financial results for the six months ended September 2023, the progress made with various initiatives, and currently available information regarding trends in the business environment.

Sales in the AA business will fall slightly short of the initial forecast due to such factors as the sluggish factory automation (FA) market, but will increase in the BA and LA businesses. Overall net sales are expected to be 284.0 billion yen, an increase of 2.0 billion yen from the initial

forecast. As regards profits, due to profitability improvements in the BA, AA and LA businesses, all segment profits will increase, and overall operating income is expected to rise by 1.7 billion yen to 33.7 billion yen. Ordinary income is expected to be 35.2 billion yen, an increase of 3.1 billion yen from the initial forecast, due to revenue growth and the recording of foreign exchange gains. Net income attributable to owners of parent is expected to be 27.0 billion yen, an increase of 3.2 billion yen from the initial forecast, due in part to the recording of extraordinary income in the six months ended September 2023.

Looking at the azbil Group's financial results for the six months ended September 2023, net sales increased compared to the same period of FY2022—exceeding both initial and revised forecasts (announced on September 29)—thanks to the steady conversion into sales of the large order backlog in each business, making use of our enhanced procurement and production capabilities, as well as the implementation of such measures as accelerated retrofit and service schedules in the BA business with a view to reducing workload in the second half. Profits also exceeded both initial and revised forecasts, owing to measures taken to strengthen profitability, such as cost pass-through, despite the continued impact of price hikes of certain parts/materials and an increase in selling, general and administrative expenses.

As regards financial results for the full fiscal year ending March 31, 2024, taking into account the aforementioned first-half results, and acknowledging the continued uncertainty regarding the FA market recovery, we still plan to achieve revenue growth by using our enhanced procurement and production systems to steadily convert our large order backlog in each business into sales, with each segment operating in a different business environment. Regarding profits, in addition to the measures already taken to strengthen profitability, we aim to increase profits by enhancing operational efficiency through promoting DX and by implementing appropriate cost pass-through, which will more than offset the increased expenses resulting from investment for growth made in R&D, facilities and equipment, and human capital, etc.

The business environment surrounding each business segment is as follows.

Demand remains robust throughout the BA business—from sales of HVAC control equipment/systems for large-scale buildings that form part of plans for urban redevelopment and renewal, to service. Sales will remain at a high level for new buildings, reflecting the buildup in the order backlog at the start of FY2023, while profitable retrofit sales for existing buildings and service will expand. So in the second half too, sales will be at about the same high level as achieved in FY2022, and thus full-year sales are expected higher than FY2022 to be 132.3 billion yen, an increase of 2.3 billion yen from the initial forecast. As regards segment profit, despite an increase in outsourcing costs, with revenue growth and the effect of measures to strengthen profitability continuing throughout the FY2023, the initial forecast has been revised upwards by 1.0 billion yen to 16.6 billion yen, which is now higher compared with FY2022.

In the AA business, relatively good conditions will continue in the process automation (PA) market, although the FA market (semiconductor manufacturing equipment, etc.) remains sluggish and it is uncertain when the recovery will start. Despite there being no significant deviations from our initial assumptions, in addition to this slump in the FA market, lack of stability in the procurement of parts/materials will continue. As a result, although higher than FY2022, sales are expected to be 105.2 billion yen, 0.8 billion yen lower than the initial forecast.

However, segment profit will benefit from continued implementation of measures to strengthen profitability, including cost pass-through. Consequently, we expect a full-year segment profit of 16.0 billion yen, exceeding both FY2022 and the initial forecast.

In the LA business, despite the periodic lull in the cyclical demand for LP gas meters, there was growth in sales of city gas and water meters in the first half. Moreover, we expect to record sales based on the order backlog in the LSE field. Thus, full-year sales are expected to increase to 48.6 billion yen, exceeding the initial forecast by 0.6 billion yen. Segment profit is expected to increase to 1.1 billion yen, exceeding the initial forecast by 0.2 billion yen, thanks to steady implementation of cost pass-through, quality control and project management.

The azbil Group is aiming to achieve its forecast for FY2023 by promptly identifying and rapidly responding not only to persistent inflation and increased geopolitical risks, but to any changes in the business environment for each of our businesses.

Despite these uncertainties in the business environment, in order to achieve our long-term targets for FY2030 and our medium-term plan (FY2021-FY2024), we will strengthen product competitiveness; make further investments in technology development, equipment and facilities, and human capital; and, while accelerating transformation for growth, we will continue our initiatives to achieve sustainable growth through our business portfolio, in which the three segments (BA, AA and LA) each operate in different market environments.

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

(Billions of yen)

		Revised forecast (Nov. 7, 2023)	Initial forecast (May 12, 2023)	Difference		(Reference) FY2022 results
				Amount	Rate	
Building Automation	Sales	132.3	130.0	2.3	1.8%	128.5
	Segment profit [Margin]	16.6 [12.5%]	15.6 [12.0%]	1.0 [0.5pp]	6.4%	16.0 [12.5%]
Advanced Automation	Sales	105.2	106.0	(0.8)	(0.8)%	103.9
	Segment profit [Margin]	16.0 [15.2%]	15.5 [14.6%]	0.5 [0.6pp]	3.2%	14.5 [14.0%]
Life Automation	Sales	48.6	48.0	0.6	1.3%	47.9
	Segment profit [Margin]	1.1 [2.3%]	0.9 [1.9%]	0.2 [0.4pp]	22.2%	0.5 [1.2%]
Other	Sales	0.1	0.1	-	-	0.0
	Segment profit [Margin]	0.0 [0.0%]	0.0 [0.0%]	- -	-	(0.0) [(2.6)%]
Consolidated	Net sales	284.0	282.0	2.0	0.7%	278.4
	Operating income [Margin]	33.7 [11.9%]	32.0 [11.3%]	1.7 [0.5pp]	5.3%	31.2 [11.2%]
	Ordinary income	35.2	32.1	3.1	9.7%	32.1
	Net income attributable to owners of parent [Margin]	27.0 [9.5%]	23.8 [8.4%]	3.2 [1.1pp]	13.4%	22.6 [8.1%]

2. Consolidated quarterly financial statements and related notes

(1) Consolidated quarterly balance sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	62,006	53,006
Notes and accounts receivable - trade, and contract assets	97,099	84,088
Securities	16,700	17,600
Merchandise and finished goods	8,090	9,538
Work in process	6,845	9,283
Raw materials	22,230	27,172
Other	7,129	6,510
Allowance for doubtful accounts	(391)	(361)
Total current assets	219,710	206,838
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,835	21,958
Other, net	16,429	17,974
Total property, plant and equipment	38,265	39,933
Intangible assets	6,167	6,186
Investments and other assets		
Investment securities	19,620	22,017
Other	13,262	10,549
Allowance for doubtful accounts	(152)	(159)
Total investments and other assets	32,730	32,407
Total non-current assets	77,163	78,527
Total assets	296,873	285,365

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,705	21,506
Short-term borrowings	8,812	9,332
Income taxes payable	8,692	2,611
Provision for bonuses	12,024	8,161
Provision for bonuses for directors (and other officers)	142	116
Provision for product warranties	2,947	2,419
Provision for loss on orders received	83	98
Other	21,607	21,406
Total current liabilities	79,015	65,652
Non-current liabilities		
Long-term borrowings	3,602	3,138
Retirement benefit liability	1,670	1,763
Provision for retirement benefits for directors (and other officers)	183	195
Provision for share awards	2,291	2,429
Provision for share awards for directors (and other officers)	42	75
Other	4,188	4,438
Total non-current liabilities	11,978	12,040
Total liabilities	90,993	77,693
Net assets		
Shareholders' equity		
Share capital	10,522	10,522
Capital surplus	11,670	11,670
Retained earnings	199,249	206,618
Treasury shares	(32,391)	(41,663)
Total shareholders' equity	189,051	187,149
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,270	11,096
Deferred gains or losses on hedges	(100)	(33)
Foreign currency translation adjustment	4,546	6,426
Remeasurements of defined benefit plans	51	48
Total accumulated other comprehensive income	13,768	17,538
Non-controlling interests	3,060	2,984
Total net assets	205,880	207,672
Total liabilities and net assets	296,873	285,365

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

(Millions of yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Net sales	121,006	131,885
Cost of sales	74,485	78,060
Gross profit	46,521	53,824
Selling, general and administrative expenses	38,339	40,844
Operating income	8,181	12,980
Non-operating income		
Interest income	86	188
Dividend income	350	444
Foreign exchange gains	1,331	883
Rental income from real estate	13	14
Reversal of allowance for doubtful accounts	—	36
Other	79	65
Total non-operating income	1,860	1,633
Non-operating expenses		
Interest expenses	60	124
Commitment fees	9	10
Expenses of real estate	20	17
Office relocation expenses	53	84
Other	61	62
Total non-operating expenses	206	299
Ordinary income	9,836	14,314
Extraordinary income		
Gain on sale of non-current assets	2	1
Gain on sale of investment securities	213	2,306
Compensation income for damages	—	597
Total extraordinary income	216	2,905
Extraordinary losses		
Loss on sale and retirement of non-current assets	38	55
Provision for product warranties	537	—
Total extraordinary losses	575	55
Income before income taxes	9,476	17,164
Income taxes - current	1,736	2,885
Income taxes - deferred	1,501	1,983
Total income taxes	3,237	4,869
Net income	6,239	12,294
Net income attributable to non-controlling interests	188	357
Net income attributable to owners of parent	6,050	11,937

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

(Millions of yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Net income	6,239	12,294
Other comprehensive income		
Valuation difference on available-for-sale securities	797	1,826
Deferred gains or losses on hedges	(103)	66
Foreign currency translation adjustment	3,288	1,997
Remeasurements of defined benefit plans, net of tax	(2)	(3)
Total other comprehensive income	3,980	3,886
Comprehensive income	10,220	16,181
Comprehensive income attributable to:		
Owners of parent	9,836	15,707
Non-controlling interests	383	473

(3) Consolidated quarterly statements of cash flows

(Millions of yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Income before income taxes	9,476	17,164
Depreciation	2,276	2,901
Increase (decrease) in allowance for doubtful accounts	10	(53)
Increase (decrease) in retirement benefit liability	49	41
Decrease (increase) in retirement benefit asset	4	—
Increase (decrease) in provision for share awards	200	198
Increase (decrease) in provision for share awards for directors (and other officers)	21	32
Increase (decrease) in provision for bonuses	(3,467)	(4,003)
Increase (decrease) in provision for bonuses for directors (and other officers)	(37)	(26)
Increase (decrease) in provision for product warranties	676	(545)
Interest and dividend income	(436)	(633)
Interest expenses	60	124
Foreign exchange losses (gains)	(982)	(802)
Loss (gain) on sale and retirement of non-current assets	35	54
Loss (gain) on sale and valuation of investment securities	(213)	(2,306)
Decrease (increase) in trade receivables and contract assets	10,959	14,220
Decrease (increase) in inventories	(6,255)	(7,646)
Increase (decrease) in trade payables	(2,352)	(3,885)
Decrease (increase) in other assets	(161)	968
Increase (decrease) in other liabilities	73	(681)
Subtotal	9,938	15,121
Interest and dividends received	433	628
Interest paid	(61)	(134)
Income taxes paid	(6,688)	(8,713)
Net cash provided by (used in) operating activities	3,622	6,901
Cash flows from investing activities		
Payments into time deposits	(1,841)	(2,334)
Proceeds from withdrawal of time deposits	1,722	1,567
Purchase of securities	(3,000)	(1,000)
Proceeds from sale of securities	9,700	1,000
Purchase of beneficial interests in trust	(502)	(644)
Proceeds from sale of beneficial interests in trust	383	603
Purchase of property, plant and equipment	(4,615)	(3,340)
Proceeds from sale of property, plant and equipment	3	2
Purchase of intangible assets	(767)	(647)
Purchase of investment securities	—	(143)
Proceeds from sale of investment securities	345	2,661
Other, net	(11)	9
Net cash provided by (used in) investing activities	1,416	(2,264)

(Millions of yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Cash flows from financing activities		
Proceeds from short-term borrowings	1,403	145
Repayments of short-term borrowings	(248)	(131)
Proceeds from long-term borrowings	4,806	400
Repayments of long-term borrowings	(674)	(832)
Dividends paid	(4,175)	(4,574)
Repayments of lease liabilities	(269)	(307)
Dividends paid to non-controlling interests	(574)	(564)
Purchase of treasury shares	(15,220)	(10,002)
Proceeds from sale of treasury shares	693	816
Net cash provided by (used in) financing activities	(14,260)	(15,049)
Effect of exchange rate change on cash and cash equivalents	2,758	1,741
Net increase (decrease) in cash and cash equivalents	(6,462)	(8,670)
Cash and cash equivalents at beginning of period	77,891	71,232
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of subsidiaries	—	(255)
Cash and cash equivalents at end of period	71,428	62,307

(4) Notes to the consolidated quarterly financial statements

Notes regarding going concern assumptions

Not applicable

Notes regarding significant change in shareholders' equity

Pursuant to the resolution at the Board of Directors meeting held on May 12, 2023, 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 stock repurchase

- | | |
|--|---|
| 1. Type of stock repurchased: | Common stock of the Company |
| 2. Total number of shares repurchased: | 2,192,700 shares |
| 3. Total amount of repurchase: | 9,999,895,783 yen |
| 4. Period of repurchase: | From May 15, 2023 to September 22, 2023 (based on trade date) |
| 5. Method of repurchase: | Market transactions on the Tokyo Stock Exchange |

Consequently, treasury shares amounted to 41,663 million yen for 12,070,630 shares as of September 30, 2023. As described in "Additional information" treasury shares include the Company's stock remaining in the trust of employee stock ownership plan (3,730 million yen for 1,879,498 shares), in the trust of Trust-Type Employee Shareholding Incentive Plan (2,703 million yen for 751,900 shares) and in the trust of stock compensation plan (401 million yen for 97,800 shares).

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, 2023

Book value: 3,781 million yen

Number of shares: 1,905,231 shares

As of September 30, 2023

Book value: 3,730 million yen

Number of shares: 1,879,498 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 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

As of September 30, 2023

Book value: 2,703 million yen

Number of shares: 751,900 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

As of September 30, 2023

Book value: 2,470 million yen

3. Stock compensation plan

The Company has introduced a stock compensation plan for its directors, corporate executives and executive officers (including outside directors, but excluding non-residents of Japan and hereinafter “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

As of September 30, 2023

Provision for share awards for directors (and other officers): 75 million yen

Provision for share awards: 82 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

As of September 30, 2023

Book value: 401 million yen

Number of shares: 97,800 shares

Segment information

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

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

(Millions of yen)

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

* "Other" includes insurance agent business, etc.

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

(Millions of yen)

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

2. Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(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	55,808	51,165	24,878	131,852	32	131,885
Inter-segment	234	682	136	1,054	1	1,056
Total	56,043	51,848	25,014	132,906	34	132,941
Segment profit (loss)	3,743	8,487	760	12,992	(7)	12,985
Disaggregation of revenue						
Goods or services transferred at a point in time	13,510	42,354	17,824	73,689	32	73,722
Goods or services transferred over time	42,297	8,811	7,053	58,162	—	58,162
Revenue from contracts with customers	55,808	51,165	24,878	131,852	32	131,885

* "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 (loss) and operating income

(Millions of yen)

Income	Amount
Total of Reportable Segment	12,992
Profit (Loss) in Other	(7)
Elimination	(5)
Operating income	12,980

Significant subsequent events

Cancellation of treasury shares

The Company cancelled treasury shares pursuant to Article 178 of the Companies Act of Japan on October 31, 2023, based on the resolution at the Board of Directors meeting held on September 29, 2023.

Details of cancellation

1. Type of stock cancelled: Common stock of the Company
2. Number of shares cancelled: 2,192,700 shares
(1.5% of the total number of issued shares before the cancellation)
3. Total number of issued shares after the cancellation: 141,508,184 shares
4. Date of the cancellation: October 31, 2023