FINANCIAL REVIEW

Operating Results

Overview

In the year ended March 31, 2005, the parent company and its consolidated subsidiaries (collectively, "the Company") took a variety of decisive steps aimed at enhancing their operations—which center on security services and also include medical, insurance, information and GIS services, real estate development and sales, and real estate leasing—by improving services and expanding marketing and product development. Firm gains in revenue in all segments, particularly security services, supported a rise in net sales and operating revenue of 6.7%, or ¥34.9 billion, to ¥552.4 billion. Operating income increased 39.8%, or ¥21.5 billion, to ¥75.6 billion, reflecting higher net sales and operating revenue for the period under review, as well as the absence of ¥8.8 billion in losses recorded a year earlier owing to a revision of pension plans. Net income totaled ¥52.1 billion, up 122.0%, or ¥28.7 billion, as a result of such factors as improved operating income and ¥9.9 billion in income from discontinued operations, net of tax, compared with a ¥4.2 billion loss a year earlier.

In the period under review, the consolidated statements of income were reclassified. Furthermore, the operating results of certain businesses and real estate properties that were sold and with which the Company will not have significant and continuing involvement were expressed as "income (loss) from discontinued operations, net of tax."

Net Sales and Operating Revenue

Net sales and operating revenue amounted to ¥552.4 billion, up 6.7%, or ¥34.9 billion. Net sales and operating revenue rose in all segments, including security services. (For more details, please see Segment Information below.)

Costs and Expenses

Costs and expenses edged up 2.9%, or ¥13.4 billion, to ¥476.8 billion. Cost of sales grew 8.8%, or ¥28.3 billion, to ¥349.2 billion, equivalent to 63.2% of net sales and operating revenue, up from 62.0% in the previous period. The higher cost-of-sales ratio was primarily a result of a less favorable loss ratio in the insurance services segment due to damages sustained in typhoons and other natural disasters, as well as the consolidation of an organization that manages hospitals and health care-related institutions. The consolidation was made in line with FASB Interpretation No. 46 (revised December 2003) ("FIN No. 46R"), "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51," issued by the Financial Accounting Standards Board (FASB) of the United States.

Selling, general and administrative expenses fell 2.3%, or ¥2.8 billion, to ¥120.2 billion, representing 21.8% of net sales and operating revenue, down from 23.8% a year earlier. This reflected cost reduction efforts as well as decreases in net pension and severance costs and in the provision to allowance for doubtful accounts.

Impairment loss on long-lived assets shrank ¥3.9 billion, to ¥4.6 billion. Loss on sales and disposal of property, plant and equipment, net, amounted to ¥2.8 billion. In the previous fiscal year, the Company revised its pension plan to strengthen its financial condition. This resulted in a ¥4.6 billion settlement loss of benefit obligation on transfer to defined contribution pension plan and a ¥4.2 billion loss on transfer of the substitutional portion of Employees' Pension Fund.

Operating Income

Operating income climbed 39.8%, or ¥21.5 billion, to ¥75.6 billion, equivalent to 13.7% of net sales and operating revenue, compared with 10.4% the previous year. Factors influencing the increase included a rise in net sales and operating revenue, a decrease in selling, general and administrative expenses, a drop in impairment loss on long-lived assets, and the absence of settlement loss of benefit obligation on transfer to defined contribution pension plan and loss on transfer of the substitutional portion of Employees' Pension Fund, both of which were recorded in the previous year. Higher cost of sales, however, partially offset these positive factors. Operating income from the security services segment remained firm. The medical services segment and information and communication related and other services segment both recorded operating income, in contrast to the operating losses recorded the previous fiscal year. These improvements contributed to the overall increase in operating income, despite an operating loss from the insurance services segment. (For more details, please see Segment Information below.)

Other Income and Expenses

Other income rose 15.8%, or ¥894 million, to ¥6.6 billion. Other expenses totaled ¥7.9 billion, up 23.2%, or ¥1.5 billion. The total of other income and expenses was net other expenses of ¥1.3 billion, compared with net other expenses of ¥701 million the previous fiscal year.

Income Taxes

Income taxes increased ¥5.8 billion, to ¥31.9 billion, reflecting higher income from continuing operations before income taxes. Income taxes were equivalent to 43.0% of income from continuing operations before income taxes, down from 49.0% a year earlier, owing mainly to a decrease in unrecognized tax benefits from subsidiaries in loss positions.

Minority Interest in Subsidiaries and Equity in Net Income of Affiliated Companies

Minority interest in subsidiaries amounted to ¥2.9 billion, up ¥2.5 billion, mainly because of improved income from GIS services. Equity in net income of affiliated companies was ¥2.3 billion, up ¥1.4 billion, owing primarily to solid performances by Taiwanese and South Korean equity-method affiliates and improved income in the cable television (CATV) business.

Income from Continuing Operations

Reflecting the above factors, income from continuing operations rose 50.8%, or ¥14.1 billion, to ¥41.7 billion, amounting to 7.6% of net sales and operating revenue, compared with 5.4% a year earlier.

Income (Loss) from Discontinued Operations

Discontinued operations include any component of an entity with its own identifiable operations and cash flows which is disposed of or is classified as held for sale, and with which the Company will not have significant continuing involvement. During the period, the Company sold its education services operations, and its security services operations in the United States. The Company also sold certain real estate properties under operating leases. Income from discontinued operations, net of tax, totaled ¥9.9 billion, mainly as a consequence of the gain on sales of discontinued operations, compared with a loss of ¥4.2 billion in the previous period. (For more information, please refer to Note 25 of the accompanying Notes to Consolidated Financial Statements.)

Net Income

Net income totaled ¥52.1 billion. Both basic and diluted net income per share were ¥231.66. Cash dividends per share of ¥50.00 were approved at the general shareholders' meeting held on June 29, 2005.

Segment Information

For detailed segment information, please see Note 27 of the Notes to Consolidated Financial Statements. Net sales and operating revenue in the security services segment climbed 4.1%, or ¥15.1 billion, to ¥383.7 billion. Excluding intersegment transactions, segment net sales and operating revenue amounted to ¥382.4 billion, equivalent to 69.2% of total net sales and operating revenue, down from 71.0%. Net sales and operating revenue from mainstay commercial and home security services totaled ¥268.4 billion, up 3.1%, or ¥8.1 billion. Large-scale proprietary systems accounted for ¥3.5 billion, a decrease of 2.5%, or ¥91 million. Static guard services represented ¥38.3 billion, a rise of 2.0%, or ¥765 million. Armored car services generated ¥18.5 billion, a decrease of 0.8%, or ¥156 million. Merchandise and other contributed ¥53.7 billion, up 13.3%, or ¥6.3 billion. Operating income in the security services segment totaled ¥90.4 billion, an increase of 19.2%, or ¥14.6 billion. The operating margin rose from 20.6% to 23.6%, mainly owing to firm net sales and operating revenue in the commercial and home security category and the merchandise and other category. The improved operating margin was also attributable to the absence of settlement loss of benefit obligation on transfer to defined contribution pension plan and loss on transfer of the substitutional portion of Employees' Pension Fund, both of which were recorded in the previous year.

The medical services segment generated net sales and operating revenue of ¥34.9 billion, up 63.5%, or ¥13.6 billion. This reflected the consolidation of an organization that manages hospitals and health care-related institutions—a change in line with FIN No. 46R. Segment operating income was ¥1.6 billion, compared with an operating loss of ¥1.5 billion a year earlier, owing mostly to a decrease in provision to allowance for doubtful accounts and the contribution of the newly consolidated organization.

In the insurance services segment, net sales and operating revenue grew 12.7%, or ¥3.3 billion, to ¥29.2 billion, mainly owing to an increase in net realized investment gains. Segment operating losses amounted to ¥3.0 billion, in contrast with operating income of ¥2.4 billion the previous fiscal year, reflecting a higher loss ratio due to damages sustained in typhoons and other natural disasters.

In the information and communication related and other services segment, which encompasses information-related services, GIS services, real estate development and sales, and real estate leasing, net sales and operating revenue rose 4.3%, or

¥4.7 billion, to ¥113.7 billion. This was mainly the result of increased revenue from GIS services and the recent consolidation of Japan Image Communications Co., Ltd., a provider of commissioned broadcasting services, which only contributed to three months of consolidated financial results in the previous fiscal period. Segment operating income amounted to ¥420 million, compared with an operating loss of ¥8.2 billion, primarily owing to improved operating income from GIS services and a decrease in impairment loss on long-lived assets.

Financial Position

Total assets of the Company as of March 31, 2005, stood at ¥1,164.2 billion, down 0.1%, or ¥901 million, from the previous fiscal year-end.

Total current assets rose 8.5%, or ¥41.2 billion, to ¥526.2 billion. This mainly reflected a ¥35.7 billion increase in short-term investments, to ¥71.6 billion, in line with a shift in the Company's insurance business investment portfolio to assets with higher liquidity. The current ratio was 2.0 times, compared with 1.7 times a year earlier, owing to an increase in total current assets and a decrease in total current liabilities, mentioned below.

Investments and long-term receivables amounted to ¥314.0 billion, up 9.8%, or ¥28.0 billion, mostly following the purchase of investment securities as part of the aforementioned review of the Company's insurance business investment portfolio.

Property, plant and equipment, less accumulated depreciation, fell 23.6%, or ¥71.5 billion, to ¥231.4 billion. This was mainly attributable to the sale of real estate for lease—in line with the review of its insurance business investment portfolio and its real estate for lease holdings—and impairment loss on long-lived assets.

Other assets increased 1.6%, or ¥1.4 billion, to ¥92.6 billion. Factors leading to this rise included an increase in goodwill—due to the consolidation of an organization in line with FIN No. 46R—and a rise in prepaid pension and severance costs. These factors were partially offset by a decrease in deferred income taxes due to an impairment loss and pension and severance costs.

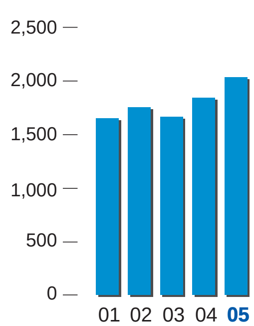
Total liabilities amounted to ¥673.9 billion, down 6.3%, or ¥45.1 billion, from a year earlier.

Total current liabilities fell 5.8%, or ¥16.5 billion, to ¥267.7 billion, primarily reflecting a ¥12.5 billion decline in bank loans and current portion of long-term debt, to ¥112.7 billion.

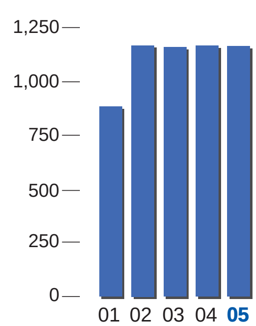
Long-term debt decreased ¥25.3 billion, to ¥65.8 billion. Guarantee deposits received amounted to ¥28.1 billion, down ¥6.9 billion, following the sale of real estate for lease. Investment deposits by policyholders totaled ¥227.7 billion and accounted for 19.6% of total liabilities and shareholders' equity.

Total shareholders' equity increased 10.1%, or ¥42.0 billion, to ¥457.8 billion. Retained earnings rose ¥41.9 billion, to ¥347.5 billion. The equity ratio edged up to 39.3%, from 35.7%.

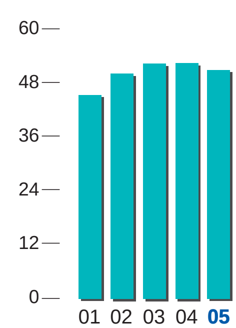
Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Depreciation and Amortization
(In billions of yen)



Cash Flows

The Company is committed to maintaining sufficient liquidity to allow flexibility in its operations and ensure a solid financial foundation. To the best of its ability, the Company is also firmly committed to financing related strategic investments with cash from its operating activities.

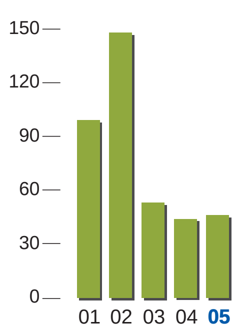
In the period under review, net cash provided by operating activities amounted to ¥85.1 billion. Important items contributing to this total were net income of ¥52.1 billion and depreciation and amortization, including amortization of deferred charges, of ¥51.5 billion. Operating activities provided ¥4.1 billion less cash than in the previous period. This was mainly attributable to decreases in losses of such non-cash items as impairment loss on long-lived assets, including discontinued operations, and an increase in receivables and due from subscribers, net of allowances, owing to stronger sales in the GIS services category. These two factors countered the improvement in net income.

Net cash used in investing activities amounted to ¥24.0 billion. Payments for purchases of property, plant and equipment totaled ¥43.9 billion, partly the result of purchases of security equipment and control stations due to growth in the number of security services subscribers. Other significant factors were increase in short-term investments and net payments for purchases of investment securities of ¥57.0 billion, reflecting a review of the Company's investment portfolio. The Company recorded proceeds from sales of property, plant and equipment of ¥88.5 billion, notably real estate for lease. Investing activities used ¥4.6 billion less than in the previous period, primarily as a result of an increase in proceeds from sales of property, plant and equipment, which limited the impact of increase in short-term investments and net payments for purchases of investment securities.

Net cash used in financing activities totaled ¥57.0 billion. This amount included a net outlay of ¥43.2 billion for repayments of debt—comprising net repayments of long-term debt and decrease in bank loans—and dividends paid of ¥10.1 billion. Net cash used in financing activities rose ¥10.2 billion, largely the result of intense efforts to reduce interest-bearing debt.

As a result of the operating, investing and financing activities described above, cash and cash equivalents at end of year amounted to ¥197.0 billion, up ¥4.1 billion from ¥192.9 billion a year earlier.

Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)