



Makoto Iida
Founder

Consolidated Operating Results

Despite high oil prices and other causes for concern, Japan's economy remains on a recovery trend. Overseas economic expansion continues to stimulate exports. Capital investment is rising, bolstered by rising corporate profits, and personal consumption is steady. In this environment, SECOM continues to cater to the needs of its customers with high-value-added services and products that are aimed at realizing the Social System Industry. In addition to expanding our core security services business with new offerings and by building or relocating branch offices, we continue to expand our medical, insurance, geographic information, and information and communication related and other services businesses.

In the fiscal year ended March 31, 2006, firm gains in all segments supported a 5.1% increase in consolidated net sales and operating revenue, to ¥580.5 billion. Operating income rose 8.4%, to ¥81.9 billion, owing to buoyant sales and a decline in impairment loss on long-lived assets. Higher operating income and a gain on sale of securities, net, supported a 22.6% increase in income from continuing operations. Nonetheless, net income slipped 3.5%, to ¥50.3 billion, primarily owing to the inclusion in the previous period of ¥9.9 billion in income from discontinued operations, net of tax, generated by the sale of our education services business and certain real estate properties for lease. Net income per share was ¥223.69.

Calculated according to accounting principles generally accepted in Japan, consolidated net sales and revenue was ¥567.3 billion, up 3.7%, while operating profit, ordinary profit and net income reached ¥94.1 billion, ¥96.7 billion and ¥53.0 billion, respectively—all record highs. Net income per share was ¥234.28. As a consequence, a resolution to raise cash dividends ¥10.00, to ¥60.00 per share, was approved at the general shareholders' meeting on June 27, 2006.

At a meeting held on May 9, 2006, the Board of Directors resolved to lower our minimum trading unit from 500 shares to 100 shares, effective from August 1, 2006, in light of current share price trends and market expectations.

Responding to a Changing Environment

During the period under review, we witnessed several notable changes in the operating environment for our core security business in Japan. First, we saw a high frequency of changes in the businesses of tenants in the commercial districts. We perceive this not just as a reflection of the economic climate, but also as evidence of structural changes in Japan's economy. To seize the opportunities afforded by these changes, we are striving to identify and concentrate marketing activities on growth industries and companies, with the aim of achieving greater efficiency.

The second change was the emergence of a trend among existing security service customers to reexamine their security needs, with the aim of ensuring systems are up-to-date. As these needs increase in complexity, it is essential to ensure an accurate grasp of our customers' expectations so that we can respond promptly with appropriate solutions. Earning the ongoing trust of our customers depends on the speed of our emergency response personnel and the effectiveness of their actions.

We have built up an extensive infrastructure to support our security services in Japan that encompasses 47 control centers and approximately 2,100 emergency depots. In addition, we have accumulated expertise in the design, development and operation of security systems that are backed round-the-clock by highly trained emergency response personnel. This, together with know-how gained through the provision of security services to customers in various specialized industries, has provided us with a formidable capacity to lead the nation's security industry in delivering security and peace of mind to customers.

Toward Heightened Growth and Efficiency

We are pursuing numerous initiatives aimed at further enhancing growth and efficiency. In the security services business, we are implementing organizational improvements designed to reinforce our marketing capabilities and add further value to our security services. In metropolitan areas, where our subscriber base is expanding, we are building new offices and relocating existing ones to create operating units of optimal scale for efficient marketing and prompt customer service. To better tap the market for security systems for large-scale buildings, we are locating System Design Centers in regional as well as metropolitan headquarters. This will enhance our sales and proposal development capabilities and provide us with an edge in serving this sector of the market. As another measure to boost sales, we have shifted the focus of our internal evaluation system from subscription volume to subscription value, thereby encouraging sales staff to target large contracts. We also enhanced our ability to win contracts and provide higher-value-added services by acquiring shares in a major property management company.

Creating and offering new products and services is another key part of our growth equation. In May 2006, we released four new SECOM Home Security systems targeted at dwellings of specific sizes and types. These systems provide optimal solutions to the security needs of homes that range in size from studio apartment to large detached house. In conjunction, we launched SECOM Home Services, a suite of value-added support services designed to complement SECOM Home Security systems. We are rolling out these new services, which have received a favorable market response, initially targeting home security customers in the Tokyo and Osaka metropolitan areas.

We are also taking steps to improve efficiency. For example, we absorbed security services subsidiary Chuo Bohan Co., Ltd., which operates primarily in Shizuoka Prefecture, allowing us to consolidate local offices and relocate staff, thereby significantly improving operational efficiency. We also improved efficiency by introducing a control system for keys entrusted to us by customers that has improved control precision and greatly reduced the time required for daily key inspections.

In addition, we are focusing on expanding security services for commercial customers overseas. Within Asia, our focus is currently on the PRC, which is experiencing rapid economic growth. To date, we have established subsidiaries in the economic centers of Shanghai, Dalian, Qingdao, Beijing and Shenzhen. These subsidiaries are serving an increasing number of local companies, as well as foreign corporations. We view Asia, particularly the PRC, as one of the most promising growth markets for SECOM and will continue to build on our already strong business foundation there to capture increasing demand.

Among our other businesses, medical services have grown steadily, becoming a major pillar of our operations. In addition to our expanding home medical services business, we have diversified into such areas as nursing home management, as part of our goal to extend peace of mind to all members of society. Our SECOMFORT private nursing homes introduce a proactive approach to wellness, which is a new concept in Japan's caregiver industry.

To broaden our insurance services business, we are reinforcing our marketing capabilities, offering seamless systems encompassing security services, which offer prior protection, and insurance, which protects customers in the event of misfortune.

In our geographic information services business, we are establishing a system that enables us to promptly provide highly accurate geographic information services by making use of commercial satellites for various mapping purposes. We have also taken this expertise abroad to countries in Southeast Asia where there is significant demand for updated mapping information. We expect overseas sales to contribute to growth in this segment in the years ahead.



Shohei Kimura
Chairman



Kanemasa Haraguchi
President and
Representative Director

We improved the efficiency of our information and communication related and other services business in May 2006 by merging subsidiaries Secom Trust.net Co., Ltd., and Secom Information System Co., Ltd. This move consolidates the operating resources of the two companies in the information security and information services markets, thereby eliminating redundancies and bolstering marketing capabilities, and will pave the way for the newly merged entity to become a comprehensive information services provider with information security and major disaster response services at its core.

Among other initiatives this period, we divested a cable television affiliate as part of a long-term strategy to build a business portfolio that will position SECOM on track for further growth going forward.

The Next Step

With the aim of accelerating growth, we will seek to capitalize on the opportunities created by changes in the business environment and increasing appreciation for security services by stepping up marketing activities. At the same time, we will continue to exploit opportunities to raise efficiency and further enhance profitability.

In today's aging society, demand for security and medical services is on the increase. We intend to draw upon our long-standing expertise and extensive infrastructure to develop and deliver the services and products that protect people and companies from new dangers and anxiety.

The most important prerequisite for continued growth is trust of our customers. Accordingly, we will do all in our power to remain a company deserving of this trust. To strive always to do what is right is a fundamental principle of SECOM. This principle guides employees to judge their work on the basis of what is right and equitable for society. The basic concept behind our corporate ethics, this principle will continue to guide our efforts to earn the trust of our customers.

We continue to promote the realization of the Social System Industry as a comprehensive framework of services provided by group companies. Our goal is to be a company that makes people's lives safe, convenient and comfortable, thereby ensuring people are confident in turning to SECOM. With this goal in mind, we will continue to expand our businesses and enhance corporate value. We look forward to your continued support in these endeavors.

June 27, 2006



Makoto Iida
Founder



Shohei Kimura
Chairman



Kanemasa Haraguchi
President and Representative Director