Operating Results

Overview

In the year ended March 31, 2007, the parent company and its consolidated subsidiaries (collectively "the Company") took a variety of steps aimed at reinforcing mainstay security services—including offering new products and services, as well as establishing new offices and relocating existing offices—and promoting the expansion of fire protection services, medical services, insurance services, geographic information services, information and communication related services, real estate development and sales, and real estate leasing. Favorable increases in all segments, notably security services, and the inclusion of a new business, fire protection services, in the Company's consolidated results during the period under review, supported an increase in net sales and operating revenue of 9.7%, or ¥56.2 billion, from the previous period, to ¥636.7 billion. Higher net sales and operating revenue, together with a decline in selling, general and administrative expenses and the absence of a settlement loss of benefit obligation on transfer to defined contribution pension plan recorded in the previous period, pushed operating income up 15.3%, or ¥12.5 billion, to ¥94.4 billion. Net income advanced 11.0%, or ¥5.6 billion, to ¥55.9 billion.

In December 2006, SECOM acquired shares newly offered by Nohmi Bosai, until then an affiliated company accounted for under the equity method, which provides automatic fire alarm, fire extinguishing and other fire protection systems. As a consequence, Nohmi Bosai became a consolidated subsidiary, and the results of Nohmi Bosai and its subsidiaries were included in a newly established segment, fire protection services. (For more details, please see Notes 5 and 27 of the accompanying Notes to Consolidated Financial Statements.)

Net Sales and Operating Revenue

Net sales and operating revenue amounted to ¥636.7 billion, an increase of 9.7%, or ¥56.2 billion. This result reflected increases in net sales and operating revenue in all segments and the inclusion of the new fire protection services business. (For more details, please see Segment Information below.)

Costs and Expenses

Total costs and expenses rose 8.7%, or ¥43.6 billion, to ¥542.3 billion. Cost of sales increased 12.4%, or ¥45.3 billion, to ¥410.3 billion, equivalent to 64.4% of net sales and operating revenue, up from 62.9% in the previous period. The increase in the cost-of-sales ratio was due primarily to the inclusion of the new fire protection services business, and the consolidation at the previous fiscal year-end of three variable interest entities engaged in the management of hospitals and health care-related institutions.

Selling, general and administrative expenses decreased 0.8%, or ¥1.0 billion, to ¥127.1 billion, equivalent to 20.0% of net sales and operating revenue, down from 22.1% in the previous period. This decline was mainly the result of a decrease in the provision for the allowance for doubtful accounts.

Impairment loss on long-lived assets rose ¥355 million, to ¥1.2 billion, and impairment loss on goodwill increased ¥2.8 billion, to ¥3.0 billion, while losses on sales and disposal of property, plant and equipment, net, declined ¥1.4 billion, to ¥781 million. In the previous period, the transfer of a portion of the cash balance pension plan maintained by the parent company and certain domestic subsidiaries to a defined contribution pension plan resulted in recognition of a portion of an unrecognized actuarial loss, which was included as a settlement loss of benefit obligation on transfer to defined contribution pension plan of ¥2.5 billion.

Operating Income

Operating income rose 15.3%, or ¥12.5 billion, to ¥94.4 billion, and represented 14.8% of net sales and operating revenue, up from 14.1% in the previous period. This reflected such factors as an increase in net sales and operating revenue, declines in selling, general and administrative expenses and losses on sales and disposal of property, plant and equipment, net, and the absence of the settlement loss of benefit obligation on transfer to defined contribution pension plan recorded in the previous period. The impact of these factors was partially offset by an increase in cost of sales and an increase in impairment loss on goodwill. The security services segment, the information and communication related and other services segment and the newly established fire protection services segment, contributed to the increase in operating income. (For more details, please see Segment Information below.)

Other Income and Expenses

Other income declined ¥7.5 billion, to ¥8.4 billion, and other expenses decreased ¥582 million, to ¥7.5 billion, resulting in net other income of ¥918 million, compared with ¥7.8 billion in the previous period. The decline in other income was due primarily to the absence of a net gain on the sale of outstanding shares of a cable television holding company accounted for under the equity method, which was recorded in the previous period.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes amounted to ¥95.3 billion, an increase of 6.3%, or ¥5.6 billion, as an increase in operating income was partially offset by a decrease in net other income, that is, the net of other income minus other expenses.

Segment Information

For detailed segment information, please see Note 27 of the accompanying Notes to the Consolidated Financial Statements.

Income Taxes

Income taxes increased ¥2.7 billion, to ¥40.6 billion, and were equivalent to 42.6% of income from continuing operations before income taxes, up from 42.2% in the previous period.

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

Minority interests in subsidiaries amounted to ¥4.6 billion, an increase of ¥722 million, owing mainly to the inclusion of the new fire protection services business.

Equity in net income of affiliated companies increased ¥2.5 billion, to ¥5.8 billion, owing partially to solid performances by affiliated companies accounted for under the equity method in Taiwan and the ROK.

Net Income

Income from continuing operations and income before cumulative effect of accounting change were both ¥55.9 billion, an increase of 9.2%, or ¥4.7 billion, and equivalent to 8.8% of net sales and operating revenue, the same as in the previous period.

As a consequence of these and other factors, net income rose 11.0%, or ¥5.6 billion, to ¥55.9 billion. Net income per share was ¥248.42. A resolution to raise cash dividends by ¥20.00, to ¥80.00 per share, was approved at the general shareholders' meeting on June 27, 2007. This increase in dividends reflected solid operating results, and was in line with the Company's aim of ensuring returns to shareholders that accurately reflect its operating performance by shifting the basis for determining dividends—calculated using Japanese accounting principles—to consolidated results, from nonconsolidated results, which it previously used.

Security Services

The security services segment encompasses electronic security services, other security services and merchandise and other. In the period under review, net sales and operating revenue in the segment rose 3.9%, or ¥15.5 billion, to ¥416.9 billion. Excluding intersegment transactions, segment sales and operating revenue was ¥415.4 billion, equivalent to 65.3% of total net sales and operating revenue, down from 68.9% in the previous period.

Electronic security services include centralized systems (on-line commercial and home security systems) and large-scale proprietary security systems, which center on surveillance services at the subscriber's premises. Commercial and home on-line security systems, the core of the Company's electronic security services business, use sensors installed at the customer's premises to detect events, such as intrusions, fires and equipment malfunctions. Sensors are linked to a SECOM control center via telecommunications circuits to enable remote monitoring around-the-clock. Should an event be detected, the relevant information is relayed to the control center, where control center staff dispatch emergency response personnel. Control center staff also notify the police or fire department if required, while emergency response personnel take other appropriate measures,. To ensure its ability to deliver the level of quality customers expect, the Company has established an integrated process that allows it to maintain control over every aspect of its electronic security services, from centralized systems research and development (R&D) to equipment manufacturing, sales, installation, 24-hour monitoring, dispatch of emergency response personnel and maintenance.

In the period under review, net sales and operating income from electronic security services amounted to ¥285.9 billion, an increase of 2.9%, or ¥8.0 billion. Commercial subscriptions for on-line security systems suited to a wide range of buildings and applications continued to increase steadily. In the area of home security systems, the Company enhanced its product lineup, thereby enabling customers to choose the most appropriate system based on the size and configuration of their home, as well as positioning the Company to serve a broader range of customers.

Other security services include static guard services, staffed by highly trained professionals, for security situations that require human judgment and flexible responses, and armored car services, for the transport of cash and valuables by specially fitted armored cars and security professionals. In the period under review, net sales and operating revenue from static guard services increased 1.6%, or ¥664 million, to ¥42.1 billion, and that from armored car services rose 4.8%, or ¥939 million, to ¥20.3 billion.

The merchandise and other category encompasses a wide range of security products, including access-control systems, CCTV surveillance systems, fire extinguishing systems and external monitoring systems, which can be used alone or connected to on-line security systems. In the period under review, these products and services generated net sales and operating revenue of ¥67.1 billion, an increase of 9.5%, or ¥5.8 billion. Increasing awareness of the need to ensure protection against crime, as well as to properly manage information assets, continued to support brisk sales of access-control systems and CCTV surveillance systems.

Operating income in the security services segment advanced 11.0%, or ¥9.5 billion, to ¥96.2 billion, and the operating margin rose to 23.1%, from 21.6% in the previous period. The increase in segment operating income was due mainly to the absence of a settlement loss of benefit obligation on transfer to defined contribution pension plan recorded in the previous period, and to a decline in advertising costs.

Fire Protection Services

Fire protection services include automatic fire alarm systems, fire extinguishing systems and other fire protection systems for a wide range of applications, including office buildings, plants, tunnels, cultural properties, ships and residences.

In the period under review, net sales and operating revenue in the fire protection services segment amounted to ¥28.4 billion. Operating income was ¥1.8 billion, while the operating margin was 6.4%. Results for this segment include the operating results of Nohmi Bosai and its subsidiaries subsequent to its acquisition in December 2006.

Medical Services

The medical services segment encompasses home medical services, including pharmaceutical dispensing and delivery and home nursing services; remote image diagnosis support services; electronic medical report systems; sales of medical equipment; the operation of nursing homes; personal care services; and the leasing of real estate for medical institutions.

In the period under review, net sales and operating revenue in the medical services segment amounted to ¥46.1 billion, up 16.9%, or ¥6.7 billion. Key factors behind this result included an increase in net sales and operating revenue from the operation of nursing homes and the consolidation of three variable interest entities engaged in the management of hospitals and health care-related institutions at the previous fiscal year-end.

The segment registered an operating loss of ¥2.9 billion in the period under review, compared with an operating loss of ¥1.3 billion in the previous period. This primarily reflected an increase in impairment loss on goodwill and an impairment loss on long-lived assets.

Insurance Services

In addition to security services, which provide prior protection, the Company offers non-life insurance, which looks after customers in the event of misfortune. The Company has developed and markets a variety of distinctive non-life insurance policies, including Security Discount Fire Policy, a commercial fire insurance policy, and SECOM *Anshin* My Home, a comprehensive fire insurance policy for residences, which offer a discount on premiums to subscribers who have installed on-line security systems, recognizing this as a risk-lowering factor. Other offerings include New SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers on-site support services—provided by the Company's on-line emergency response personnel—in the event of an accident, and MEDCOM, an unrestricted cancer treatment policy that covers the entire cost of medical treatments for cancer.

In the period under review, net sales and operating revenue in the insurance services segment rose 8.3%, or ¥2.6 billion, to ¥34.7 billion, owing to expanded marketing of non-life insurance policies, which boosted net premiums written.

The insurance services segment posted operating income of ¥3.8 billion, down 25.9%, or ¥1.3 billion. This result primarily reflected an increase in net claims paid, owing to the impact of typhoons occurring during the period.

Geographic Information Services

This segment encompasses a variety of GIS services tailored to the needs of the public and private sectors, as well as surveying and measuring, and construction consulting, services.

In the period under review, net sales and operating revenue in the geographic information services segment amounted to ¥36.6 billion, an increase of 3.4%, or ¥1.2 billion. Efforts included the provision of high-precision national geospatial data using laser scanners and digital sensors. The Company also provided GIS services tailored to the needs of private-sector customers, primarily companies.

Segment operating income fell 56.2%, or ¥506 million, to ¥394 million, and the operating margin slipped to 1.1%, from 2.5%. This result was due primarily to an increase in the cost-of-sales ratio prompted by increasingly intense pricing competition in the market.

Information and Communication Related and Other Services

This segment includes information and communications related services, including cyber security and information network system operation services, real estate development and sales, and real estate leasing.

In the period under review, net sales and operating revenue in the information and communication related and other services segment rose 7.0%, or ¥5.8 billion, to ¥88.6 billion. This result primarily reflected a strong performance by the real estate development and sales business, bolstered by brisk sales of condominiums.

Robust results boosted operating income in the real estate development and sales business. As a consequence, segment operating income increased 30.0%, or ¥1.7 billion, to ¥7.3 billion, and the operating margin rose to 8.3%, from 6.8%.

Financial Position

Total assets of the Company as of March 31, 2007, amounted to ¥1,241.2 billion, up 1.3%, or ¥16.0 billion, from the previous fiscal year-end.

Total current assets declined 4.2%, or ¥24.4 billion, to ¥554.2 billion. This mainly reflected declines in cash and cash equivalents (for more details, please see Cash Flows below) and short-term investments, the latter a consequence of the redemption of public and corporate bonds in the insurance services business, which were partially offset by increases in inventories in the real estate development and sales business, and an increase in inventories and notes and accounts receivable, trade, in the fire protection services business, newly included in the Company's consolidated accounts. Owing to the decline in current assets and an increase in current liabilities, an explanation of which is presented below, the current ratio edged down to 1.6 times, from 1.8 times at the previous fiscal year-end.

Investments and long-term receivables rose 5.7%, or ¥17.8 billion, to ¥328.6 billion, owing primarily to an increase in investment securities in the insurance services business.

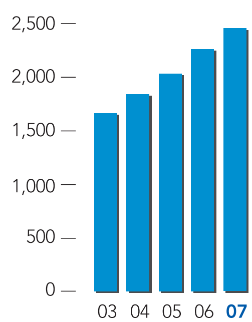
Property, plant and equipment, less accumulated depreciation, increased 3.1%, or ¥7.4 billion, to ¥250.5 billion. This was primarily attributable to the inclusion of the new fire protection services business in the Company's consolidated accounts and the acquisition of real estate for lease in the real estate leasing business.

Other assets rose 16.3%, or ¥15.1 billion, to ¥107.9 billion. This was mainly due to an increase in other intangible assets related to the inclusion of the new fire protection services business in the Company's consolidated accounts, an increase in prepaid pension and severance costs, and an increase in deferred charges attributable to an increase in the number of security services subscribers.

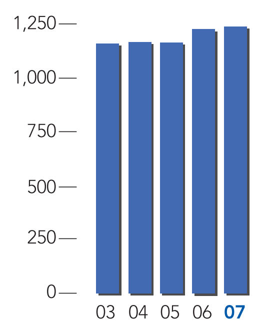
Total liabilities of the Company declined 7.7%, or ¥52.5 billion, to ¥628.1 billion. Total current liabilities were ¥348.1 billion, up 6.1%, or ¥20.0 billion, as increases in bank loans in the real estate development and sales business; notes and accounts payable, trade, in the fire protection services business, newly included in the Company's consolidated accounts; and deposits received related to armored car services, were partially offset by a decline in current portion of long-term debt prompted by the redemption of bonds. The decline in total liabilities also reflected a ¥94.4 billion decline in investment deposits by policyholders, to ¥93.4 billion, owing to the payout at maturity of insurance policies with fixed maturities.

Total shareholders' equity rose 8.5%, or ¥43.0 billion, to ¥551.7 billion. Retained earnings were ¥428.9 billion, up ¥42.3 billion. Accumulated other comprehensive income amounted to ¥11.4 billion, an increase of ¥744 million. The equity ratio rose to 44.5%, from 41.5%.

Shareholders' Equity per Share
(In yen)



Total Assets
(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 generated by its operating activities.

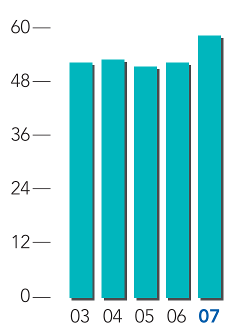
In the period under review, net cash provided by operating activities amounted to ¥67.9 billion. The principal items contributing to this total were net income of ¥55.9 billion and depreciation and amortization of ¥58.2 billion, which rose due to an increase in property, plant and equipment, while cash used in operating activities included an increase in deferred charges of ¥18.3 billion and an increase in inventories of ¥17.3 billion. Operating activities provided ¥10.6 billion less than in the previous period, owing mainly to an increase in receivables and due from subscribers, net of allowances, of ¥13.8 billion, up from ¥668 million in the previous period.

Net cash provided by investing activities amounted to ¥22.0 billion. Significant factors included net proceeds from sales of short-term investments and investment securities of ¥62.2 billion, net proceeds from short-term and long-term receivables of ¥8.4 billion. Payments for purchases of property, plant and equipment totaled ¥46.4 billion, partially as a result of the purchase of security equipment and control stations, prompted by an increase in the number of security service subscribers. Investing activities provided ¥18.2 billion more than in the previous period, primarily as a consequence of the sale of short-term investments and investment securities to fund the payout of investment deposits by insurance policyholders.

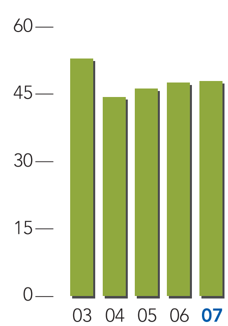
Net cash used in financing activities was ¥128.4 billion. This amount included a ¥94.4 billion decrease in investment deposits by policyholders, a consequence of the payout of insurance policies at maturity, and repayments of long-term debt—primarily the redemption of bonds—of ¥52.3 billion. Financing activities used ¥79.6 billion more than in the previous period, owing to the aforementioned decrease in investment deposits by policyholders of ¥94.4 billion, compared with a decrease of ¥39.9 billion in the previous period, and repayments of long-term debt of ¥52.3 billion, up from ¥11.4 billion in the previous period.

As a result of the operating, investing and financing activities of the Company during the period under review, cash and cash equivalents at end of year amounted to ¥193.2 billion, down ¥37.8 billion from ¥231.0 billion at the previous fiscal year-end.

Depreciation and Amortization
(In billions of yen)



Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)