Operating Results

Overview

In the year ended March 31, 2009, the parent company, SECOM Co., Ltd., and its consolidated subsidiaries (collectively "the Company") sought to provide high-quality products and services that respond to the needs of customers in its core security services business, as well as in its fire protection services, medical services, insurance services, geographic information services, real estate development and sales, and information and communication related and other services businesses. While net sales and operating revenue increased steadily in the security services, fire protection services, medical services and geographic information services businesses, net sales and operating revenue declined in the insurance services business, due to an increase in loss on other-than-temporary impairment of investment securities, reflecting a stagnant stock market; the real estate development and sales business, owing to flagging conditions in the condominium market; and the information and communication related and other services business, a consequence of efforts to scale back lower-margin services. Consolidated net sales and operating revenue slipped 2.5%, or ¥17.9 billion, to ¥688.8 billion.

The decline in net sales and operating revenue, together with the write-down on real estate inventories in the real estate development and sales business, pushed operating income down 27.4%, or ¥28.9 billion, to ¥76.7 billion. Net income fell 50.5%, or ¥31.2 billion, to ¥30.6 billion, owing mainly to an increase in loss on other-than-temporary impairment of investment securities.

During the year ended March 31, 2009, the Company decided to separately disclose real estate development and sales, which was previously included in information and communication related and other services, due to the fact that the reporting loss exceeded the quantitative threshold. Accordingly, segment information of all prior periods has been restated to conform to the presentation used for the year ended March 31, 2009.

Net Sales and Operating Revenue

Despite increases in the security services, fire protection services, medical services and geographic information services businesses, net sales and operating revenue slipped 2.5%, or ¥17.9 billion, to ¥688.8 billion, owing to decreases in the insurance services, real estate development and sales and information and communication related and other services businesses. (For more details, please see Segment Information below.)

Costs and Expenses

Total costs and expenses were up 1.8%, or ¥11.0 billion, to ¥612.1 billion. Cost of sales rose 2.2%, or ¥10.0 billion, to ¥464.2 billion, equivalent to 67.4% of net sales and operating revenue, up from 64.3% in the previous period. This increase was due mainly to the write-down on real estate inventories in the real estate development and sales business.

Selling, general and administrative (SG&A) expense edged down 0.4%, or ¥512 million, to ¥144.3 billion. SG&A expense was equivalent to 20.9% of net sales and operating revenue, up from 20.5% in the previous period, owing mainly to the decline in net sales and operating revenue.

Loss on sales and disposal of property, plant and equipment, net, rose ¥1.0 billion, to ¥2.0 billion. Impairment loss on goodwill, at ¥1.6 billion, was up ¥450 million.

Operating Income

Operating income, at ¥76.7 billion, was down 27.4%, or ¥28.9 billion, and was equivalent to 11.1% of net sales and operating revenue, down from 14.9% in the previous period. This was due largely to the decline in net sales and operating revenue, and to increases in cost of sales and loss on sales and disposal of property, plant and equipment, net. Segments contributing to operating income were—in order of size of contribution—security services, fire protection services, information and communication related and other services, geographic information services and medical services. (For more details, please see Segment Information below.)

Other Income and Expenses

Other income fell ¥7.2 billion, to ¥5.8 billion, while other expenses rose ¥10.8 billion, to ¥19.2 billion, resulting in net other expenses of ¥13.4 billion, down from net other income of ¥4.6 billion in the previous period. This result was due primarily to an increase in loss on other-than-temporary impairment of investment securities and a net loss on sales of securities, compared with a net gain in the previous period, both owing to a stagnant stock market; a decline in gain on private equity investments and a provision for loss on litigation.

Income before Income Taxes

Income before income taxes fell 42.6%, or ¥46.9 billion, to ¥63.3 billion, reflecting the decrease in operating income, as well as net other expenses, compared with net other income in the previous period.

Income Taxes

Income taxes amounted to ¥36.6 billion, down ¥10.5 billion, and were equivalent to 57.8% of income before income taxes, up from 42.7% in the previous period. This was largely attributable to an increase in unrecognized tax benefits from subsidiaries in loss positions.

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

Minority interests in subsidiaries were down ¥1.7 billion, to ¥4.9 billion, owing to a decline in income in the insurance services business. Equity in net income of affiliated companies advanced ¥3.5 billion, to ¥8.7 billion, owing to a reversal of long-term deferred tax liabilities related to undistributed earnings of overseas affiliated companies, resulting from the revision of Japanese tax regulations.

Net Income

As a consequence of the aforementioned factors, net income fell 50.5%, or ¥31.2 billion, to ¥ 30.6 billion, and was equivalent to 4.4% of net sales and operating revenue, down from 8.7% in the previous period. Net income per share was ¥137.42. A proposal to leave annual cash dividends unchanged at ¥85.00 per share was approved at the general shareholders' meeting on June 25, 2009.

Segment Information

For detailed information, please see note 26 of the accompanying Notes to the Consolidated Financial Statements.

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 edged up 0.4%, or ¥1.8 billion, to ¥438.4 billion. Excluding intersegment transactions, net sales and operating revenue in the segment amounted to ¥436.9 billion, equivalent to 63.5% of overall net sales and operating revenue, up from 61.6% 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. On-line commercial and home security systems, the core of our electronic security services business, use sensors installed at the subscriber'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 irregularity be detected at the subscriber's premises, the relevant information is relayed to the control center, where staff dispatch emergency response personnel. Control center staff also notify the police or fire department if required while the emergency response personnel take other appropriate measures. To ensure our ability to deliver the level of quality subscribers expect, we have established an integrated approach, whereby we take full responsibility for maintaining control over every aspect of our electronic security services, from R&D to manufacturing, sales, security planning, installation, monitoring, emergency response services and equipment maintenance. In the period under review, net sales and operating revenue from electronic security services amounted to ¥303.5 billion, an increase of 2.5%, or ¥7.3 billion, owing to efforts to reinforce the Company's sales activities, which included making visits to potential customers.

Other security services include static guard services—which are 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 advanced 2.9%, or ¥1.4 billion, to ¥48.0 billion, and that from armored car services rose 3.9%, or ¥763 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 free-standing or connected to on-line security systems. Net sales and operating revenue in this category decreased 10.7%, or ¥7.8 billion, to ¥65.1 billion, owing to the absence of one-time orders received in the previous period.

Operating income in the security services segment edged down 0.6%, or ¥662 million, to ¥102.5 billion. The operating margin slipped to 23.4%, from 23.6% in the previous period, owing to an increase in costs aimed at improving service quality.

Fire Protection Services

The fire protection services segment includes 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, segment net sales and operating revenue amounted to ¥89.8 billion, up 3.7%, or ¥3.2 billion, from the previous period, as a partial revision of Japan's Fire Services Act boosted sales of fire alarm systems for residential applications, while orders remained firm for the replacement of fire protection systems from the office renovations market. Operating income rose 8.2%, or ¥405 million, from the previous period, to ¥5.4 billion, reflecting higher net sales and operating revenue, while the operating margin was 6.0%, up from 5.7% in the previous period.

Medical Services

The medical services segment includes home medical services, comprising pharmaceutical dispensing and delivery and home nursing services, remote image diagnosis support services, electronic medical report systems, sales of medical equipment, the operation of residences for seniors, personal care services, the leasing of real estate for medical institutions, and others.

Net sales and operating revenue in the medical services segment increased 2.9%, or ¥1.5 billion, to ¥52.3 billion. This increase was primarily due to higher net sales and operating revenue from home medical services and the operation of residences for seniors. Operating income amounted to ¥11 million, up from an operating loss of ¥1.1 billion in the previous period. This was attributable largely to improved results from the operation of residences for seniors.

Insurance Services

In addition to security services, which are preventative by nature, we offer non-life insurance, which looks after customers in the event of misfortune. We have developed and marketed a broad range 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 households—both of which offer discounts on premiums to customers who have installed home security systems, recognizing this as a risk-mitigating factor. Other offerings include New SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers on-site support services—provided by our on-line emergency response personnel—should the subscriber be involved in an accident, and MEDCOM, an unrestricted cancer treatment policy that covers the entire cost of medical treatment for cancer.

Segment net sales and operating revenue were ¥24.4 billion, down 32.3%, or ¥11.7 billion. The segment generated an operating loss of ¥8.2 billion, compared with operating income of ¥3.8 billion in the previous period. These results were largely attributable to a decline in net gain on sales of investment securities and an increase in loss on other-than-temporary impairment of investment securities.

Geographic Information Services

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

Net sales and operating revenue in the geographic information services segment rose 1.6%, or ¥627 million, to ¥40.3 billion. This result reflected steadily expanding sales of geospatial data-based services and merchandise to public- and private-sector customers and contributions from our new satellite image data business.

Operating income amounted to ¥2.0 billion, up 42.1%, or ¥606 million, lifting the operating margin to 5.1%, from 3.6% in the previous period. This improvement was due primarily to the increase in the segment's net sales and operating revenue, as well to improvements in, and exhaustive efforts to improve management of, production processes, which reduced cost of sales.

Real Estate Development and Sales

This segment comprises the development and sales of condominiums that are equipped with advanced security and contingency planning features. Net sales and operating revenue in the real estate development and sales segment declined 18.4%, or ¥5.5 billion, to ¥24.4 billion, as we have carefully selected our properties for development and sales in order to correspond with the flagging conditions in the condominium market. Sales price revisions, implemented to counter flagging market conditions, together with the selling off of units to reduce inventories and the write-down on real estate inventories, triggered an operating loss of ¥17.6 billion, down from operating income of ¥673 million in the previous period.

Information and Communication Related and Other Services

This segment consists primarily of information and communication related services—including information security systems and network system operations services, which protect subscribers' information security in the event of a major disaster—and real estate leasing.

Segment net sales and operating revenue amounted to ¥40.5 billion, a decline of 8.6%, or ¥3.8 billion. Nevertheless, operating income increased 4.2%, or ¥200 million, to ¥4.9 billion, and the operating margin rose to 12.1%, from 10.6% in the previous period. These results reflected efforts to scale back lower-margin services and expand high-margin, highly competitive services.

Total assets as of March 31, 2009, amounted to ¥1,143.1 billion, 9.7%, or ¥122.4 billion, lower than at the end of the previous fiscal year.

Total current assets, at ¥492.5 billion, were down 15.2%, or ¥88.0 billion. This was attributable largely to decreases in cash and cash equivalents (for more details, please see Cash Flows, which follows this section), as well as to decreases in inventories in the real estate development and sales business and notes and accounts receivable, trade. Despite a decrease in total current assets, the current ratio remained level at 1.7 times, as current liabilities also decreased (see below).

Investments and long-term receivables declined 11.7%, or ¥38.7 billion, to ¥290.9 billion, reflecting an increase in loss on other-than-temporary impairment of investment securities—owing to a stagnant stock market—and a decrease in foreign currency translation adjustments relating to investments in overseas affiliated companies, owing to the appreciation of the yen.

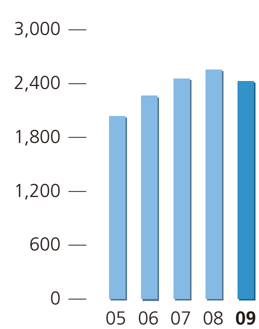
Property, plant and equipment, less accumulated depreciation, rose 3.1%, or ¥7.8 billion, to ¥259.3 billion. This was due primarily to an increase in land resulting from the purchase of land for the real estate leasing business. An increase in the number of security services subscribers also necessitated an increase in security equipment and control stations, but this was offset by an increase in accumulated depreciation resulting from the depreciation of assets.

Other assets were down 3.3%, or ¥3.5 billion, to ¥100.4 billion. This reflected decreases in prepaid pension and severance costs, a consequence of a deteriorating asset-management environment, and other intangible assets, both of which were partially countered by an increase in deferred income taxes prompted by increases in loss carryforwards and loss on other-than-temporary impairment of investment securities.

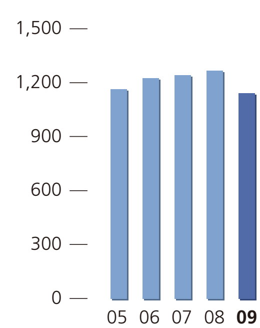
Total liabilities fell 12.0%, or ¥75.1 billion, to ¥553.4 billion. Total current liabilities amounted to ¥283.4 billion, down 18.4%, or ¥63.8 billion, owing to efforts to reinforce cash management, which resulted in a decrease in bank loans, as well as to a decrease in accrued income taxes. The decrease in total liabilities also reflected decreases in accrued pension and severance costs, and in deferred income taxes—the latter due to a reversal of long-term deferred tax liabilities related to undistributed earnings of overseas affiliated companies resulting from the revision of Japanese tax regulations.

Total shareholders' equity amounted to ¥528.7 billion, down 8.0%, or ¥45.8 billion. This primarily reflected a ¥30.0 billion increase in common stock in treasury, at cost, and a higher accumulated other comprehensive loss, which were partially offset by an increase in retained earnings. The increase in the accumulated other comprehensive loss was largely attributable to a decrease in foreign currency translation adjustments—a consequence of the strong yen—and an increase of losses in pension liability adjustments, owing to a deteriorating asset-management environment. The equity ratio rose to 46.3%, from 45.4%.

Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Cash Flows

SECOM is committed to maintaining sufficient liquidity to allow flexibility in its operations and ensure a solid financial foundation. To the best of our ability, we are also firmly committed to financing related strategic investments with cash generated by our operating activities.

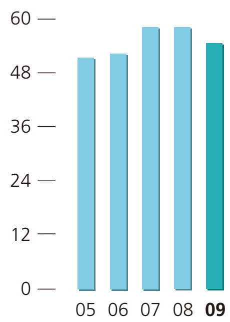
In the period under review, net cash provided by operating activities amounted to ¥107.4 billion. The principal items contributing to this total were net income of ¥30.6 billion, depreciation and amortization of ¥54.6 billion, loss on other-than-temporary impairment of investment securities of ¥19.5 billion, write-down on real estate inventories of ¥8.4 billion, and decrease in inventories of ¥10.1 billion accounted for largely by the reduction of real estate inventories. Cash used in operating activities included an increase in deferred charges of ¥16.0 billion. Operating activities provided ¥14.8 billion more cash than in the previous period. Despite the decline in net income, increases in non-cash expenses—including loss on other-than-temporary impairment of investment securities and write-down on real estate inventories—and decrease in inventories, due largely to the reduction of real estate inventories, contributed to the increase in net cash provided by operating activities.

Net cash used in investing activities was ¥49.9 billion. Significant factors included payments for purchases of property, plant and equipment of ¥44.8 billion, a result of the purchase of security equipment and control stations, necessitated by an increase in the number of security services subscribers, and payments for long-term receivables of ¥6.8 billion. Cash provided by investment activities included proceeds from long-term receivables of ¥7.2 billion. Investing activities in the period under review used ¥2.2 billion less cash than in the previous period, as net payments for sales and purchases of short-term investments and investment securities decreased, despite the decrease in proceeds from sales of property, plant and equipment.

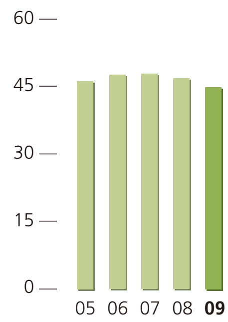
Net cash used in financing activities amounted to ¥109.9 billion. Contributing to this were a decrease in bank loans of ¥55.2 billion, an increase of treasury stock, net, of ¥30.0 billion, and dividends paid of ¥19.1 billion. Financing activities used ¥90.6 billion more cash than in the previous period, owing to a decrease in bank loans of ¥55.2 billion—compared with a ¥6.0 billion increase in bank loans in the previous period—and an increase in treasury stock, net, of ¥30.0 billion.

As a result of operating, investing and financing activities during the period under review, cash and cash equivalents at end of year totaled ¥159.4 billion, down ¥55.2 billion from ¥214.6 billion at the end of the previous period.

Depreciation and Amortization
(In billions of yen)



Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)