FINANCIAL REVIEW

Operating Results

Overview
In the year ended March 31, 2012, SECOM CO., LTD. and its subsidiaries (collectively, "the Company") sought to provide high-quality products and services that respond to the needs of customers in the core security services segment, as well as in the fire protection services, medical services, insurance services, geographic information services, real estate development and sales, and information and communication related and other services segments.

Consolidated net sales and operating revenue rose 2.7%, or ¥20.6 billion, to ¥772.5 billion. This result reflected higher net sales and operating revenue in the security services segment—due to increases in revenue from subscriptions for the Company's core electronic security services and in sales of merchandise—as well as in the medical services, geographic information services and fire protection services segments. In contrast, operating income declined 21.5%, or ¥21.6 billion, to ¥78.8 billion, as the Company wrote down real estate inventories in light of dwindling demand in the condominium market, which prompted a dramatic reorganization of its related business, while flagging economic conditions resulted in the recognition of an impairment loss on long-lived assets, principally real estate. Net income attributable to SECOM CO., LTD. fell 34.2%, or ¥21.4 billion, to ¥41.2 billion, a consequence mainly of the decline in operating income.

Net Sales and Operating Revenue
Consolidated net sales and operating revenue rose 2.7%, or ¥20.6 billion, to ¥772.5 billion. Net sales and operating revenue increased in the security services, medical services, insurance services, geographic information services, and information and communication related and other services segments, but declined in the real estate development and sales segment. (For further details, please see Segment Information below.)

Costs and Expenses
Total costs and expenses increased 6.5%, or ¥42.2 billion, to ¥693.7 billion. Cost of sales, at ¥536.3 billion, was up 7.5%, or ¥37.3 billion, and was equivalent to 69.4% of net sales and operating revenue, up from 66.4% in the previous period. This was due mainly to an increase in the write-down on real estate inventories, to ¥20.7 billion, from ¥1.5 billion, as the Company wrote down real estate inventories in light of dwindling demand in the condominium market, which prompted a dramatic reorganization of its related business.

Selling, general and administrative (SG&A) expenses edged down 0.7%, or ¥1.0 billion, to ¥146.7 billion. SG&A expenses were equivalent to 19.0% of net sales and operating revenue, an improvement from 19.6% in the previous period. These results were attributable primarily to declines in research and development expenses and advertising costs. Having taken into account flagging economic conditions, the Company also recognized an impairment loss on long-lived assets, principally real estate, of ¥8.1 billion.

Operating Income
Operating income declined 21.5%, or ¥21.6 billion, to ¥78.8 billion, equivalent to 10.2% of net sales and operating revenue, down from 13.4% in the previous period. This result was due mainly to increases in the write-down on real estate inventories and impairment loss on long-lived assets, principally real estate, which countered the positive impact of higher net sales and operating revenue and lower SG&A expenses. Segments contributing to operating income were—in order of size of contribution—security services, medical services, fire protection services and geographic information services. (For further details, please see Segment Information below.)

Other Income and Expenses
Other income decreased ¥4.3 billion, to ¥7.5 billion, while other expenses rose ¥775 million, to ¥5.2 billion, resulting in net other income of ¥2.3 billion, down ¥5.1 billion from the previous period. Principal factors behind this result included a ¥2.5 billion decline in gain on private equity investments, to ¥3.5 billion, and an increase in loss on other-than-temporary impairment of investment securities.

Income from Continuing Operations before Income Taxes and Equity in Net Income of Affiliated Companies
Income from continuing operations before income taxes and equity in net income of affiliated companies fell 24.8%, or ¥26.7 billion, to ¥81.1 billion, reflecting declines in operating income and net other income.

Income Taxes
Income taxes declined ¥5.1 billion, to ¥38.2 billion, equivalent to 47.1% of income from continuing operations before income taxes and equity in net income of affiliated companies, up from 40.1% in the previous period. This result was due primarily to changes to Japanese tax regulations, which resulted in decreases in certain components of net deferred tax assets.

Equity in Net Income of Affiliated Companies
Equity in net income of affiliated companies slipped ¥148 million, to ¥4.9 billion.

Net Income Attributable to Noncontrolling Interests
Net income attributable to noncontrolling interests amounted to ¥6.6 billion, down ¥369 million.

Net Income Attributable to SECOM CO., LTD.
Net income attributable to SECOM CO., LTD. fell 34.2%, or ¥21.4 billion, to ¥41.2 billion, equivalent to 5.3% of net sales and operating revenue, compared with 8.3% in the previous period. Net income attributable to SECOM CO., LTD. per share was ¥188.97, down from ¥287.41. A proposal to pay cash dividends of ¥90.00 per share, level with the previous period, was approved at the general shareholders' meeting held on June 26, 2012.

Segment Information

(For further information, please see Note 28 of the accompanying Notes to the Consolidated Financial Statements)

Security Services

The security services segment comprises electronic security services, other security services, and merchandise and other. In the period under review, net sales and operating revenue in this segment increased 2.3%, or ¥9.7 billion, to ¥436.5 billion. Excluding intersegment transactions, net sales and operating revenue in this segment amounted to ¥434.7 billion, representing 56.3% of overall net sales and operating revenue, down slightly from 56.5% in the previous period.

Electronic security services include on-line commercial and home security systems (centralized 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 the Company's electronic security services, use sensors installed at the subscriber's premises to detect events, including intrusions, fires and equipment malfunctions. Sensors are linked to a SECOM control center via telecommunications circuits to facilitate around-the-clock remote monitoring. Should an irregularity be detected, relevant information is relayed to the control center, where staff dispatch emergency response personnel to take appropriate measures. Control center employees also notify the police or fire department, if necessary. The Company has established an integrated approach, whereby it takes full responsibility for all aspects of its on-line commercial and home security systems, from R&D through to equipment manufacturing, sales, security planning, installation, monitoring, emergency response services and equipment maintenance. Net sales and operating revenue from electronic security services rose 0.6%, or ¥1.9 billion, to ¥304.4 billion, owing to, among others, the inclusion of the net sales and operating revenue of newly consolidated subsidiaries overseas.

Other security services include static guard services and armored car services. The former is provided by highly trained professional security guards for situations requiring human judgment and flexible responsiveness. The latter involves the transport of cash, securities and other valuables using specially fitted armored cars and security professionals. Net sales and operating revenue from static guard services edged up 0.7%, or ¥317 million, to ¥46.7 billon, and that from armored car services rose 2.4%, or ¥480 million, to ¥20.6 billion.

The merchandise and other category encompasses sales of a wide range of security products, including access control systems, CCTV surveillance systems, automated fire extinguishing systems and external monitoring systems, which can be freestanding or linked to on-line security systems. Net sales and operating revenue in this category increased 13.1%, or ¥7.3 billion, to ¥63.0 billion, mainly reflecting efforts to expand sales of security systems for rental apartments and an increase in sales of CCTV surveillance systems.

Operating income in the security services segment rose 1.6%, or ¥1.6 billion, to ¥101.4 billion, owing to the increase in segment net sales and operating revenue. The operating margin edged down to 23.2%, from 23.4% in the previous period.

Fire Protection Services

This segment focuses on tailored 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.

Net sales and operating revenue from the fire protection services segment advanced 5.9%, or ¥4.7 billion, to ¥84.8 billion, primarily reflecting higher sales of specialized fire protection systems for plants, factories and other facilities, and of fire extinguishing systems for roads, as well as the increase in revenue from inspection and maintenance services. Operating income was ¥4.4 billion, an increase of 40.7%, or ¥1.3 billion, and the operating margin, 3.9% in the previous period, improved to 5.2%. These results were due mainly to the increase in segment net sales and operating revenue, as well as to efforts to reduce cost of sales and an improvement in the segment SG&A ratio.

Medical Services

The medical services segment encompasses home medical services, comprising pharmaceutical dispensing and home nursing services, as well as the operation of residences for seniors, electronic medical report systems, sales of medical equipment, personal care services, the leasing of real estate for hospitals and health care-related institutions and others. The segment also includes the operations of variable interest entities of which the Company is the primary beneficiary, which manage hospitals and health care-related institutions.

Segment net sales and operating revenue rose 7.6%, or ¥9.5 billion, to ¥134.7 billion. The principal factors behind this result were increases in revenue from variable interest entities, which manage hospitals and health care-related institutions, and from the pharmaceutical dispensing business. Owing largely to the improved results of these entities, operating income soared 345.2%, or ¥6.1 billion, to ¥7.9 billion. The segment's performance in the previous period reflected a loss of ¥3.2 billion on settlement of pre-existing relationship related to the settlement of a lease contract between the Company and the aforementioned variable interest entities.

Insurance Services

In addition to security services, which are preventative by nature, the Company offers non-life insurance, which looks after customers in the event of misfortune, and has 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 homes—both of which offer discounts on premiums to customers who have installed on-line security systems, recognizing this as a risk-mitigating factor. Other offerings include SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers on-site support services—provided by 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.

Despite a decline in net realized investment gains, net sales and operating revenue in this segment increased 1.5%, or ¥540 million, to ¥36.3 billion, owing primarily to firm sales of fire insurance policies and the MEDCOM unrestricted cancer treatment policy, which strengthened revenue from net premiums written. The segment's operating loss narrowed to ¥80 million, from ¥180 million in the previous period.

Geographic Information Services

The geographic information services segment includes the use of highly advanced measuring equipment and surveying technologies to provide a variety of GIS services to national and local governments, as well as to public- and private-sector entities in Japan. The Company also provides geospatial information services to government agencies in foreign countries, including emerging economies and developing countries. In the period under review, the Company procured high-resolution satellite data and, leveraging its processing technologies, provided geographic information services that responded to a wide variety of customer needs in areas ranging from map production to environmental monitoring and fire and disaster prevention. In the wake of the Great East Japan Earthquake, the Company analyzed data from several satellites to help pinpoint areas devastated by the disaster, enabling it to provide crucial information to the national government and related agencies in a timely manner.

Segment net sales and operating revenue rose 15.3%, or ¥6.7 billion, to ¥50.4 billion, owing to increased sales of satellite monitoring services to public-sector customers and the inclusion of a full year of net sales and operating revenue from a consolidated subsidiary acquired in December 2010, as well as to the progress of system development projects for overseas customers.

Operating income edged up 1.7%, or ¥56 million, to ¥3.4 billion. Despite higher production efficiency in services for public- and private-sector customers in Japan, the operating margin slipped to 6.8%, from 7.8% in the previous period, reflecting the impact of unfavorable weather conditions, which resulted in significant delays and cost increases for certain projects for overseas customers.

Real Estate Development and Sales

The real estate development and sales segment comprises the development and sales of condominiums equipped with advanced security and contingency planning systems. Amidst sluggish conditions in the condominium market, the Company continued to promote the careful selection of properties for development and sales.

Net sales and operating revenue in this segment dropped 50.8%, or ¥12.7 billion, to ¥12.3 billion, as the condominium market failed to improve noticeably. The segment reported an operating loss of ¥21.6 billion, compared with operating income of ¥525 million in the previous period, owing to a ¥20.7 billion write-down on real estate inventories, a consequence of dwindling demand in the condominium market, which prompted a dramatic reorganization of this business.

Information and Communication Related and Other Services

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

Segment net sales and operating revenue advanced 6.0%, or ¥1.9 billion, to ¥33.9 billion, shored up by an increase in subscriptions for Secure Data Center services, part of the information and communication related services business. Despite higher income in the information and communication related services category, the Company recognized an ¥8.1 billion impairment loss on long-lived assets, principally real estate, having reassessed the potential profitability of its businesses in light of flagging economic conditions. As a consequence, the segment reported an operating loss of ¥4.0 billion, compared with operating income of ¥3.2 billion in the previous period.

Financial Position

Total assets as of March 31, 2012, amounted to ¥1,179.8 billion, ¥8.7 billion higher than at the end of the previous period.

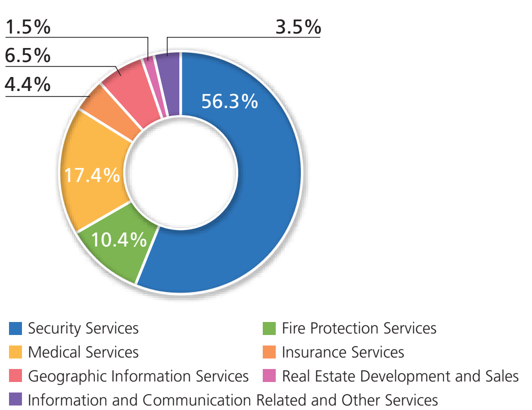
Total current assets, at ¥535.6 billion, rose ¥14.2 billion, and accounted for 45.4% of total assets. Cash and cash equivalents totaled ¥213.0 billion, an increase of ¥19.1 billion, owing to the fact that net cash provided by operating activities exceeded net cash used in investing and financing activities. (For further details, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, rose ¥13.2 billion, to ¥99.7 billion, pushed up primarily by increases in net sales and operating revenue in the fire protection services and geographic information services segments. Inventories, at ¥67.1 billion, were down ¥14.7 billion, reflecting a decline in real estate for sale, a consequence of sales of condominiums and the write-down on real estate inventories. Short-term investments amounted to ¥17.3 billion, up ¥10.9 billion, largely as a result of the reclassification of investment securities in the insurance services segment. Time deposits were ¥7.7 billion, a decline of ¥9.5 billion, as certain deposits reached maturity. With both current assets and current liabilities up, the current ratio remained level at 2.1 times.

Investments and long-term receivables were down ¥10.6 billion, to ¥235.7 billion, or 20.0% of total assets. This was mainly a consequence of the aforementioned reclassification of investment securities as short-term investments, which pushed investment securities down ¥9.0 billion, to ¥140.0 billion.

Property, plant and equipment, less accumulated depreciation, rose ¥8.3 billion, to ¥310.8 billion, equivalent to 26.3% of total assets. Land increased ¥6.7 billion, to ¥103.1 billion, a result of the purchase of a rental property in the information and communication related and other services segment. Additionally, a higher number of security services subscribers necessitated an increase in security equipment and control stations, although this was offset by depreciation.

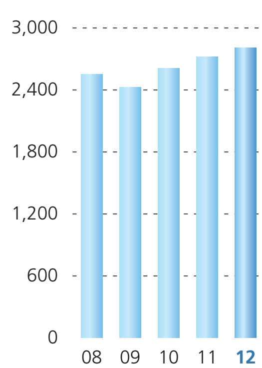
Other assets were down ¥3.3 billion, to ¥97.7 billion, and accounted for 8.3% of total assets. Deferred charges, that is, service charges for the installation of security equipment related to on-line security systems that have been deferred, declined ¥2.5 billion, to ¥43.1 billion.

Percentage of Consolidated Net Sales and Operating Revenue*
(Year ended March 31, 2012)

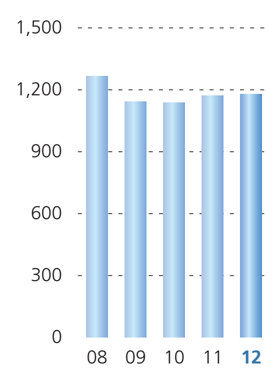


* Pie chart shows percentage of consolidated net sales and operating revenue (Excluding intersegment transactions)

SECOM CO., LTD. Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Total liabilities declined ¥14.2 billion, to ¥502.2 billion, equivalent to 42.6% of total liabilities and equity. Total current liabilities rose ¥13.7 billion, to ¥256.3 billion, and accounted for 21.7% of total liabilities and equity. This was due primarily to an increase in notes and accounts payable. Long-term debt, at ¥37.0 billion, was down ¥16.0 billion. Investment deposits by policyholders declined ¥10.9 billion, to ¥30.8 billion, as insurance policies with maturity refunds reached maturity.

Interest-bearing debt, comprising bank loans, long-term debt and the current portion of long-term debt, declined ¥12.8 billion, to ¥99.8 billion. This result reflected the effective use of available funds to reduce interest-bearing debt.

Total SECOM CO., LTD. shareholders' equity rose ¥19.4 billion, to ¥612.9 billion, and was equivalent to 51.9% of total liabilities and equity. This was attributable to a ¥21.5 billion increase in retained earnings, to ¥572.7 billion, owing to net income attributable to SECOM CO., LTD. and to the payment of cash dividends. Accumulated other comprehensive loss, at ¥37.3 billion, was up ¥2.5 billion. The loss resulting from foreign currency translation adjustments rose ¥3.4 billion, to ¥28.5 billion, a consequence of the appreciation of the yen. As a result, the equity ratio increased to 51.9%, from 50.7% at the end of the previous period.

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 strategic investments with cash generated by its operating activities.

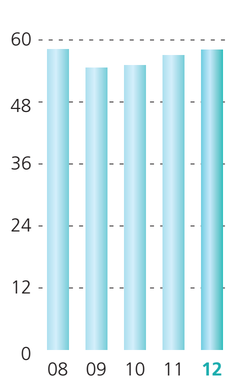
In the period under review, net cash provided by operating activities amounted to ¥112.2 billion. Significant factors contributing to this result included net income of ¥47.8 billion and non-cash items, notably depreciation and amortization of ¥58.1 billion, a ¥20.7 billion write-down on real estate inventories and an ¥8.1 billion impairment loss on long-lived assets. Cash used in operating activities included ¥15.7 billion in deferred charges and a ¥12.3 billion in receivables and due from subscribers, net of allowances. At ¥413 million less than in the previous period, net cash provided by operating activities was essentially level. This was despite an increase in the aggregate of net income and reconciliation items—namely, write-down on real estate inventories, impairment loss on long-lived assets and other gains and losses generated by operating activities—and reflected an increase in inventories, a consequence of condominium development, compared with a decrease in the previous period.

Net cash used in investing activities came to ¥45.0 billion. Principal items behind this result included payments for purchases of property, plant and equipment of ¥53.5 billion—namely, the purchase of a rental property, and security equipment and control stations, necessitated by an increase in the number of security services subscribers—and a decrease in time deposits of ¥9.2 billion, as certain deposits reached maturity. Owing to a review of investment assets in the insurance services segment, and to gains attributable to private equity investments in the United States, net proceeds from the sales and redemption of short-term investments and investment securities amounted to ¥3.1 billion. Despite the absence of proceeds from sales in investments in affiliated companies and an increase in payments for purchases of property, plant and equipment, the fact that time deposits reflecting efforts to strengthen relations with subscribers reached maturity resulted in a ¥1.9 billion decrease in net cash used in investing activities from the previous period.

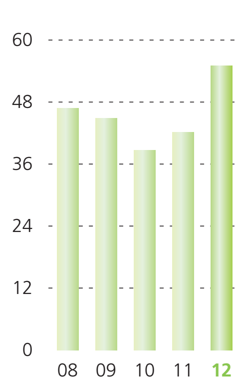
Net cash used in financing activities amounted to ¥47.7 billion. This included dividends paid to SECOM CO., LTD. shareholders of ¥19.6 billion, repayments of long-term debt of ¥11.7 billion, a decrease in investment deposits by policyholders of ¥10.9 billion and a decrease in bank loans, net, of ¥6.9 billion. Repayments of long-term debt and the decrease in bank loans reflected efforts during the period to reduce long-term debt by promoting the effective use of available funds. Net cash used in financing activities was down ¥7.6 billion from the previous period, when an increase in the use of cash to reduce interest-bearing debt was countered by payments for acquisition of shares of consolidated subsidiaries from noncontrolling interests, owing to a tender offer to acquire shares of common stock issued by consolidated subsidiary Secom Techno Service Co., Ltd., which has since been merged into SECOM CO., LTD.

The Company's operating, investing and financing activities in the period under review resulted in net cash and cash equivalents at end of year of ¥213.0 billion, an increase of ¥19.1 billion from net cash and cash equivalents at beginning of year, which were ¥193.9 billion.

Depreciation and Amortization
(In billions of yen)



Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)