



**SECOM**<sup>®</sup>



**Semiannual Report  
2003**



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**For the Six Months  
ended September 30, 2003**

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## ■ PROFILE

**E**stablished in 1962 as Japan's first security services firm, SECOM CO., LTD., has earned a reputation as a pioneer in the market by developing innovative products and services that truly benefit society. The Company's achievements to date have supported solid growth and transformed SECOM into a provider of security and peace of mind.

In 1989, SECOM introduced its vision for the future—the Social System Industry, a new social framework created through the provision of comprehensive, integrated products and services that make life more secure, convenient and comfortable. To achieve this vision, SECOM has expanded its focus beyond security services to include medical, insurance, information, geographic information system (GIS) and education services. From this foundation, SECOM is now aiming to take the Social System Industry to the next level, the focus of which will be to maximize synergies among its diverse businesses and develop groundbreaking new products and services.

In addition to establishing itself as a market leader in Japan, SECOM has expanded into key markets overseas through a network of security service subsidiaries and joint ventures. This network encompasses companies in Taiwan, the Republic of Korea, Thailand, Malaysia, Singapore, Indonesia, the People's Republic of China (PRC), the United States, the United Kingdom and Australia.

### Note:

Comparisons of operating results in this semiannual report are between the six months ended September 30, 2003, and the six months ended September 30, 2002.

# NONCONSOLIDATED FINANCIAL HIGHLIGHTS

SECOM CO., LTD.

Six months ended September 30, 2003, 2002 and 2001

	In millions of yen			In thousands of U.S. dollars
	2003	2002	2001	2003
Revenue	<b>¥141,964</b>	¥137,436	¥135,575	<b>\$1,278,955</b>
Income before income taxes	<b>32,180</b>	29,672	28,826	<b>289,910</b>
Net income	<b>19,692</b>	17,714	17,325	<b>177,405</b>
Net income per share (yen and U.S. dollars)	<b>¥ 87.49</b>	¥ 76.82	¥ 74.32	<b>\$ 0.79</b>

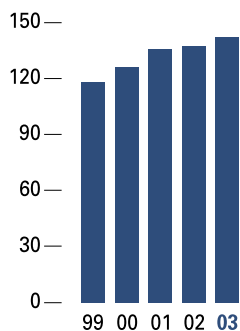
Notes: 1. Net income per share figures are in exact yen and U.S. dollars.

2. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥111=US\$1, the rate prevailing on the Tokyo Foreign Exchange Market on September 30, 2003.

3. Net income per share amounts are based on the average number of shares outstanding during each period.

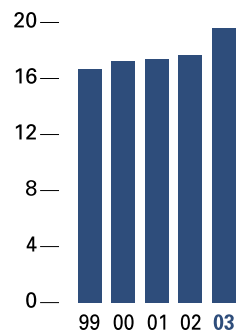
## Nonconsolidated Revenue

(In billions of yen)



## Nonconsolidated Net Income

(In billions of yen)



## ■ TO OUR SHAREHOLDERS

### **Operating Results**

SECOM continued to operate in a challenging environment during the six months ended September 30, 2003. While personal consumption and the employment situation remained unfavorable, Japan's economy exhibited signs of improvement toward the end of the period.

In this environment, SECOM pressed forward in its drive to take its Social System Industry vision to the next level by enhancing the quality of existing services, strengthening marketing capabilities, improving efficiency and developing new products and services that respond to society's changing needs. These and other efforts contributed to record-high nonconsolidated revenue, operating income and net income. Revenue amounted to ¥142.0 billion, an increase of 3.3%. Operating income was ¥32.4 billion, up 11.3%, while net income was ¥19.7 billion, a gain of 11.2%. Net income per share rose to ¥87.49, from ¥76.82.

### **Electronic Security Services**

The electronic security services category, which comprises the provision of commercial and home security services and large-scale proprietary systems, posted revenue of ¥105.6 billion, a 1.9% increase and equivalent to 74.4% of nonconsolidated revenue. Commercial and home security services generated ¥103.9 billion of this total, an increase of 1.9%.

### **Other Security Services**

Revenue in this category increased 5.4%, to ¥21.8 billion, and accounted for 15.4% of nonconsolidated revenue. Revenue from static guard services advanced 2.0%, to ¥9.0 billion, while revenue from armored car services rose 8.0%, to ¥7.9 billion.

### **Sales of Merchandise**

We sell a variety of security-related products, including closed-circuit television (CCTV) surveillance cameras, access-control systems, fire detection and extinguishing systems, and external and internal monitoring systems. Sales of merchandise advanced 10.7%, to ¥14.5 billion, and represented 10.2% of nonconsolidated revenue.

### **Business Developments**

Since 1989, we have worked to create the infrastructure for the Social System Industry by expanding our focus beyond security services to include medical, insurance, information, GIS and education services. With this infrastructure in place, we are now aiming to take the Social System Industry to the next level, the focus of which will be to maximize internal

synergies and develop innovative products and services. To this end, in the period under review we strove to enhance our responsiveness to emerging safety and security needs and integrate existing services and businesses to create comprehensive offerings.

In the area of security services, we continue to actively market on-line security systems, which form the core of this business. Systems for commercial customers include SECOM AX and SECOM IX, which employ advanced image monitoring, and SECOM DX, an on-line security system that uses integrated circuit (IC) sticks. During the period under review, we began offering SECOM Security Management Service, which involves the development of comprehensive, tailored packages for medium-size and large office buildings, combining on-line security with facility management services. Because it facilitates integrated building management, this service resolves many of the difficulties resulting from the use of separate security and facility management services.

For residential customers, we offer a variety of products that complement our SECOM Home Security system. These include SECOM *Anshin* Glass, a high-impact window glass with built-in sensors that alert SECOM the instant breakage occurs. In November 2003, we launched SECURIFACE, an intercom system that combines an innovative face-detection function—a first in Japan—with SECOM Home Camera System. When SECURIFACE fails to recognize a human face on a visitor—when, for example, the person is wearing a mask or helmet—it deactivates the doorbell or changes the sound to alert occupants to exercise diligence at the door. Another recent introduction is SECOM MS-3, a versatile security system for condominiums that can be adapted to new large-scale residential complexes as well as refurbished buildings.

In the medical services field, we continue to focus on home medical care services, in line with our belief that people should have access to home-based alternatives to hospital care. Building on our expertise in home medical care, we launched a consulting and support program for physicians starting up new home medical care clinics, an undertaking we hope will improve awareness of and access to home medical care services. Efforts to combine our know-how in medical services and security facilitated the launch in November 2003 of SECOM Medical Club, a membership-based service primarily aimed at our home security subscribers, which encompasses preventive treatment, health consultation and hospital referral services. We also continued to support the efforts of medical care professionals by developing and marketing a variety of

advanced information technology (IT)-based systems. These include SECOM Ubiquitous Electronic Medical Report (EMR), an application service provider (ASP)-based electronic report service for home medical care, and Medical Risk Management System, a system for analyzing and minimizing medical accident risk.

In the area of insurance services, we focused on marketing core products, including SECOM *Anshin* My Home, a comprehensive residential fire insurance policy that offers significant premium discounts to home security service subscribers, and New SECOM *Anshin* My Car, an automobile insurance policy that offers round-the-clock on-site emergency services. We also continued to integrate our medical and insurance services by expanding the coverage of MEDCOM, an unrestricted cancer treatment policy that provides access to cutting-edge treatments and medical consultation. MEDCOM also pays the entire portion of medical fees incurred by the patient for cancer treatment covered by national health insurance, as well as fees for advanced treatments, thereby greatly reducing the financial burden on patients undergoing treatment.

In information services, we stepped up efforts to synergize physical and cyber security services, such as by developing an integrated noncontact IC card-based security system that combines office security, including building and floor access control, with computer access-control and other cyber security features. This product joins such offerings as SECOM Data Safe, a high-security computer server-based repository that draws on our expertise in physical and cyber security, and Secure Data Center, built to provide physical and cyber security and network services.

In the GIS services area, we offer a broad selection of innovative products based on aerial mapping and GIS technologies. Products developed for the public sector include PasCAL, which uses digital maps to facilitate the provision of social services, and *Wagamachi* Guide, an interactive site that helps local governments improve services for residents. For customers in the private sector, our lineup includes the Management-Navigation series of products that provide digital maps superimposed with a company's own data and figures, thereby creating a valuable support tool for analysis and decision making tailored to customer needs.

Computer-aided learning systems form the core of our education services business. Early in the period under review, we expanded our product selection with the launch of Lines E-Library Advance, a virtual education platform that focuses on drills aimed at monitoring learning progress.

## Strategic Directions

SECOM's expansion to date has been facilitated by the relationship of trust we enjoy with our customers. Going forward, this relationship will continue to support our efforts by enabling us to maintain open lines of communication and keep abreast of customer needs.

We will continue to drive new growth by maximizing synergies among our various businesses, thereby creating new, comprehensive solutions for customers. Another ongoing priority will be to reinforce our competitive advantage by developing innovative offerings that anticipate customer needs and bringing them to market ahead of our competitors.

Through these and other efforts, we will continue to reinforce our emphasis on customer needs and fulfill our ultimate goal of providing security and peace of mind. As always, we will be guided by our commitment to ensuring SECOM is the company to which people can turn with confidence to meet a wide range of needs.

We look forward to your ongoing support as we strive to identify and seize new opportunities for growth and achieve greater shareholder value.

January 2004



Makoto Iida  
Founder



Toshitaka Sugimachi  
Chairman



Shohei Kimura  
President and Representative Director

## ■ NONCONSOLIDATED BALANCE SHEETS

SECOM CO., LTD.  
September 30, 2003 and 2002

ASSETS	In millions of yen		In thousands of U.S. dollars
	2003	2002	2003
<b>Current assets:</b>			
Cash on hand and in banks	<b>¥106,281</b>	¥ 94,075	<b>\$ 957,487</b>
Due from subscribers	<b>8,475</b>	8,271	<b>76,351</b>
Marketable securities	<b>7,951</b>	451	<b>71,631</b>
Other current assets	<b>73,021</b>	61,517	<b>657,847</b>
Total current assets	<b>195,728</b>	164,314	<b>1,763,316</b>
<b>Fixed assets:</b>			
Tangible assets:			
Security equipment and control stations	<b>61,758</b>	62,146	<b>556,378</b>
Other tangible assets	<b>77,606</b>	69,051	<b>699,153</b>
Intangible assets	<b>12,400</b>	13,951	<b>111,712</b>
Investments and other:			
Investments in subsidiaries	<b>134,397</b>	132,997	<b>1,210,784</b>
Long-term loans receivable	<b>10,619</b>	9,786	<b>95,667</b>
Lease deposits	<b>8,266</b>	8,494	<b>74,468</b>
Other	<b>93,476</b>	100,630	<b>842,126</b>
Total fixed assets	<b>398,522</b>	397,055	<b>3,590,288</b>
<b>Total assets</b>	<b>¥594,250</b>	¥561,369	<b>\$5,353,604</b>
Accumulated depreciation on tangible fixed assets	<b>¥158,099</b>	¥146,478	<b>\$1,424,315</b>

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	In millions of yen		In thousands of U.S. dollars
	<b>2003</b>	2002	<b>2003</b>
<b>Current liabilities:</b>			
Bank loans	¥ 49,055	¥ 51,132	\$ 441,937
Current portion of long-term debt	1,400	0	12,613
Accrued expenses	587	575	5,288
Deferred revenue—service charges	21,914	21,036	197,423
Income taxes payable	12,442	12,989	112,090
Other current liabilities	49,634	42,181	447,153
Total current liabilities	135,032	127,913	1,216,504
<b>Fixed liabilities:</b>			
Straight bonds	30,000	30,000	270,270
Convertible bonds	18	18	162
Guarantee deposits received	16,846	16,710	151,766
Other fixed liabilities	29,463	27,238	265,433
Total fixed liabilities	76,327	73,966	687,631
Total liabilities	211,359	201,879	1,904,135
<b>Shareholders' equity:</b>			
Common stock	66,369	66,369	597,919
Capital surplus:			
Additional paid-in capital	82,545	82,545	743,649
Retained earnings:			
Legal reserve	9,028	9,028	81,333
Voluntary reserve	3,039	3,040	27,378
Unappropriated retained earnings	264,902	241,465	2,386,505
Unrealized gains on securities	1,343	731	12,099
Common stock in treasury, at cost	(44,335)	(43,688)	(399,414)
Total shareholders' equity	382,891	359,490	3,449,469
<b>Total liabilities and shareholders' equity</b>	<b>¥594,250</b>	<b>¥561,369</b>	<b>\$5,353,604</b>

## NONCONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD.

Six months ended September 30, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars
	2003	2002	2003
Revenue	<b>¥141,964</b>	¥137,436	<b>\$1,278,955</b>
Costs	<b>76,853</b>	74,420	<b>692,370</b>
Selling, general and administrative expenses	<b>32,662</b>	33,854	<b>294,252</b>
Operating income	<b>32,449</b>	29,162	<b>292,333</b>
Other income—net	<b>138</b>	1,047	<b>1,243</b>
Ordinary income	<b>32,587</b>	30,209	<b>293,576</b>
Extraordinary income	<b>2,063</b>	6,399	<b>18,586</b>
Extraordinary loss	<b>2,470</b>	6,936	<b>22,252</b>
Income before income taxes	<b>32,180</b>	29,672	<b>289,910</b>
Income taxes—current	<b>12,448</b>	12,526	<b>112,144</b>
Income taxes—deferred	<b>40</b>	(568)	<b>361</b>
Net income	<b>¥ 19,692</b>	¥ 17,714	<b>\$ 177,405</b>
Net income per share (yen and U.S. dollars)	<b>¥ 87.49</b>	¥ 76.82	<b>\$ 0.79</b>
Average number of shares outstanding (thousands)	<b>225,074</b>	230,575	

## COMPOSITION OF NONCONSOLIDATED REVENUE

SECOM CO., LTD.

Six months ended September 30, 2003 and 2002

	In millions of yen		In thousands of U.S. dollars
	2003	2002	2003
Electronic security services:			
Commercial security and home security	<b>¥103,912</b>	¥102,015	<b>\$ 936,144</b>
Large-scale proprietary systems	<b>1,734</b>	1,629	<b>15,622</b>
Subtotal	<b>105,646</b>	103,644	<b>951,766</b>
Other security services:			
Static guard services	<b>9,048</b>	8,867	<b>81,513</b>
Armored car services	<b>7,867</b>	7,286	<b>70,874</b>
Other	<b>4,878</b>	4,523	<b>43,946</b>
Subtotal	<b>21,793</b>	20,676	<b>196,333</b>
Total service charges	<b>127,439</b>	124,320	<b>1,148,099</b>
Sales of merchandise	<b>14,525</b>	13,116	<b>130,856</b>
Revenue	<b>¥141,964</b>	¥137,436	<b>\$1,278,955</b>



# NOTES TO NONCONSOLIDATED FINANCIAL STATEMENTS ■

SECOM CO., LTD.

## **1. Basis of Financial Statements**

The accompanying nonconsolidated financial statements have been prepared in conformity with accounting practices ordinarily followed in connection with interim financial statements and translated from the financial statements that are prepared in Japanese and filed with the Prime Minister of Japan and the Tokyo Stock Exchange. Certain modifications as to the presentation of the accompanying financial statements were made to facilitate understanding by non-Japanese readers.

## **2. U.S. Dollar Amounts**

U.S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥111=US\$1, the rate prevailing on the Tokyo Foreign Exchange Market on September 30, 2003.

## ■ BOARD OF DIRECTORS

**Founder:**

Makoto Iida

**Co-Founder:**

Juichi Toda

**Chairman:**

Toshitaka Sugimachi

**President and Representative Director:**

Shohei Kimura

**Executive Vice President:**

Kanemasa Haraguchi

**Senior Executive Director:**

Nobuyuki Sasaki

**Corporate Auditors:**

Teruo Ogino

Ken Tsunematsu

Hiroshi Yasuda

Kohei Yamashita

**Executive Directors:**

Katsuhisa Kuwahara

Seiichiro Kobayashi

Shigemi Tanaka

Shoichi Kake

Shuji Maeda

Katsuo Akiyama

**Directors:**

Yoichi Tao

Seiichi Mori

Seiji Yamanaka

Shinobu Iida

Yushiro Ito

Fumio Obata

Hiroshi Ito

Shunji Ogahara

Masaaki Saida

Kiyomasa Sugii

(As of January 31, 2004)





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