

A MESSAGE TO SHAREHOLDERS

SECOM



Makoto Iida
Founder

Consolidated Operating Results

Despite rising crude oil prices and other causes for concern, the Japanese economy appeared on track for recovery, as a rise in corporate profits and capital investment was accompanied by a rally in consumer spending.

In the year ended March 31, 2005, SECOM continued to forge ahead with measures aimed at taking the Social System Industry to the next level. These measures included stepping up efforts in our various businesses to offer services and products that respond to evolving customer needs, as well as to expand sales channels. We also sought to combine products and services into comprehensive packages that meet the demands of our customers. Solid results in all business segments, including our core security services segment, contributed to consolidated net sales and operating revenue of ¥552.4 billion, up 6.7% from the previous fiscal year. Steady sales gains and the absence of a loss resulting from a revision of pension plans in the previous period supported a 39.8% increase in operating income, to ¥75.6 billion. Net income increased 122.0%, to ¥52.1 billion. Net income per share was ¥231.66.

Calculated using Japanese GAAP, we recorded consolidated revenue of ¥547.2 billion, an increase of 3.8%; operating profit and ordinary profit of ¥83.0 billion and ¥83.5 billion, respectively—both record highs; and net income of ¥48.5 billion, up 18.0%. Net income per share was ¥214.41. In light of this performance, cash dividends per share of ¥50.00 were proposed and approved at the general shareholders' meeting held on June 29, 2005, up ¥5.00 from the previous period.

Management Changes

At a meeting of the Board of Directors on November 25, 2004, several changes to the positions and responsibilities of directors were approved. As a consequence, effective April 1, 2005, Kanemasa Haraguchi replaced Shohei Kimura as President and Representative Director and Mr. Kimura assumed the position of Chairman.

The Current Business Environment

In recent years, we have witnessed significant qualitative changes in the operating environment in our core security services business in Japan. Basically, people's perceptions of security are beginning to change. In the past, customers sought security services "just in case." Today, however, many customers accept there is a significantly high chance they will at some point face an emergency situation. Public security has deteriorated, as shown by the increasing frequency of brutal muggings and child abductions. We are also seeing a rise in the number of incidents involving personal information leaks, further highlighting the increasingly diverse needs of customers for security and peace of mind. These changes are transforming the commercial and home security service markets.

In the market for commercial security services, contract cancellations and pressure to discount—owing to the integration of financial institutions and other outlets—has run its course, and the economic recovery in Japan has prompted a turnaround in capital investment by businesses. In this environment, customers today need protection for more than just cash and other tangible assets. Crimes involving the theft of information are on the rise and businesses must be vigilant both night and day to ensure information assets are protected. The Law Concerning Protection of Personal Information ("Personal Information Protection Law"), which came into effect on April 1, 2005, has triggered an increase in the need for companies to have superior-quality security systems.

The market for home security services is expanding to encompass a wide range of customers, including ordinary families, elderly couples, young condominium residents and individuals of all ages living alone. We are also seeing growth in demand for security not only when homes are empty but also when the occupants are present. The market has thus recently expanded from services designed simply to protect homes from break-ins when the occupants are absent toward those that also protect occupants at home against intruders. Paralleling this shift,

demand is expanding rapidly for comprehensive solutions that combine, for example, on-line home security with image monitoring cameras, high-impact breakage-resistant window glass and other products and services designed to prevent crimes.

Against this background of change, we are facing intensified competition from companies in the security services industry, as well as from new market entrants from other industries. The nature of the security services industry makes it difficult to achieve viability in the short term. This has long been a barrier to new market entrants to both the commercial and home security services markets. It is difficult for commercial security services firms to enter the home security services market, owing to the more meticulous service requirements of the latter and the need for new investment to accommodate a different service area. Home security services specialists face an equally difficult situation, as the modest size of residential contracts and a lack of experience in commercial security services—effectively precluding participation in this market—continue to hinder sales growth and profitability. The home security services market has expanded, however, leading to the emergence of generic home security systems at lower prices, which have often been realized by reducing the number of sensors installed at customers' homes.

Responding to Change and Enhancing Growth and Efficiency

SECOM believes it is impossible to compromise on quality when it comes to security. Our commitment to quality has earned us the support of customers and enabled us to achieve steady growth. In addition to the aforementioned changes in the business environment, the purchasing inclinations of today's consumers have reaffirmed our conviction that customers today demand quality products and services that deliver value.

We are endeavoring to take advantage of the opportunities afforded by changes in the security services market by emphasizing two key priorities that will underpin strategies going forward: growth and efficiency.

In promoting growth, we will seek to further enhance the quality of our security services, thereby strengthening our competitive edge.

Our ability to offer distinctive, high-quality services reflects our accumulated expertise and management resources in the security services business. SECOM boasts outstanding people, systems and communication networks—key management assets unmatched in the industry. These include our well-trained employees, in-house research and development (R&D) and manufacturing departments that enable us to develop and offer products and services that respond promptly to customers' needs, and our information infrastructure comprising both stationary (using telecommunications circuits) and mobile (COCO-SECOM) services. Moreover, having a non-life insurance company in the SECOM Group enables us to offer seamless services encompassing security systems, which offer prior protection, and insurance, which protects customers in the event of misfortune—something only SECOM can do. These capabilities are enabling us to develop an ever-expanding range of services.

Of course, we recognize growth depends on being able to grasp and respond promptly to the needs of customers. In the area of commercial security services, for example, we are stepping up efforts to assist existing customers to respond to changes in security requirements arising from Japan's new Personal Information Protection Law and at the same time identify latent demand. In the home security services market, we are responding to our increasingly diverse customers, each of whom has different security needs, by offering carefully tailored systems. We are also accommodating demand for more rigorous home security systems by rolling out new residential security products and offering solutions that combine such products with on-line security systems.

We also believe growth must be accompanied by corresponding improvements in efficiency. To this end, we will strive to break down tired conventions by implementing key reforms designed to overhaul outdated practices and eliminating



Shohei Kimura
Chairman



Kanemasa Haraguchi
President and
Representative Director

structural redundancies. For example, we will strive to enhance the efficiency of sales by making more effective use of the vast wealth of data available to us. Greater efficiency will in turn free up funds for strategic investments aimed at enhancing and accelerating growth.

Attracting new customers in overseas markets will be another key to expanding our operations. Other Asian markets, notably the PRC, are of particular importance. We have operated in the PRC for more than a decade now, primarily providing security services for foreign-owned firms, including subsidiaries of other Asian companies that are SECOM customers and seek a similar level of security as they enjoy outside of the PRC. Enhancing our operations in the PRC will also depend on expanding commercial security services for local firms.

Toward a Society Free of Apprehension

By implementing strategies based on our twin priorities of growth and efficiency, we will reinforce our already significant competitive advantage in the security services business. We will also pursue strategic mergers and acquisitions to enhance our capabilities not only in our core businesses but

also in other areas, thereby cultivating a lineup of services that contribute to security and peace of mind in the home and the workplace.

As part of our mission to realize our Social System Industry vision and contribute to a world in which people can enjoy security, convenience and peace of mind, we have entered various business areas, including security, medical, insurance, information and GIS services. Our expansion has been fueled not only by a desire to exploit potential synergies but also by the need to combine these various businesses into a single, coherent service framework. To this end, management strives to ensure SECOM employees share a common understanding and dedication.

By accelerating our growth strategies, we will seek to reinforce the trust of our customers and respond to their evolving needs. Moreover, by shedding old practices to enhance efficiency we will put SECOM on a new course for the future and ensure it remains a company to which people turn for solutions to security and related problems. We look forward to your continued support in these endeavors.

August 31, 2005



Makoto Iida
Founder

Shohei Kimura
Chairman

Kanemasa Haraguchi
President and Representative Director