Operating Results

Overview
In the year ended March 31, 2008, the parent company and its consolidated subsidiaries (collectively "the Company") sought to respond to the needs of its customers by taking steps aimed at reinforcing its security services business—including strengthening the performance features of its on-line security systems and products, and enhancing its lineup. At the same time, the Company promoted the expansion of its fire protection services, medical services, insurance services, geographic information services, and information and communication related and other services. Reflecting a full year of contributions from the fire protection services segment—newly established for the operations of Nohmi Bosai, which became a consolidated subsidiary in December 2006—and favorable increases in security services, medical services, geographic information services and insurance services, consolidated net sales and operating revenue rose 11.0%, or ¥70.0 billion, from the previous period, to ¥706.7 billion. Higher net sales and operating revenue, together with a decline in impairment losses on long-lived assets and goodwill, supported an 11.9%, or ¥11.2 billion, increase in operating income, to ¥105.6 billion. Net income rose 10.5%, or ¥5.9 billion, to ¥61.8 billion.

Net Sales and Operating Revenue
Net sales and operating revenue rose 11.0%, or ¥70.0 billion, from the previous period, to ¥706.7 billion, reflecting a full year of contributions from the fire protection services segment—newly established for the operations of Nohmi Bosai, which became a consolidated subsidiary in December 2006—and favorable increases in security services, medical services, geographic information services and insurance services. Net sales and operating revenue in the information and communication related and other services segment decreased. (For more details, please see Segment Information below.)

Costs and Expenses
Total costs and expenses increased 10.8%, or ¥58.8 billion, to ¥601.1 billion. Cost of sales rose 10.7%, or ¥43.9 billion, to ¥454.2 billion, equivalent to 64.3% of net sales and operating revenue, edging down from 64.4% in the previous period. Selling, general and administrative expenses were up 13.9%, or ¥17.7 billion, to ¥144.8 billion, or 20.5% of net sales and operating revenue, up from 20.0% in the previous period. This increase was primarily attributable to the inclusion of a full year of sales of the fire protection services segment, net sales and operating revenue of which tend to be concentrated in the fourth quarter. Impairment loss on long-lived assets declined ¥1.2 billion, to ¥16 million, and impairment loss on goodwill decreased ¥1.8 billion, to ¥1.1 billion. Loss on sales and disposal of property, plant and equipment, net rose ¥195 million, to ¥976 million.

Operating Income
Operating income increased 11.9%, or ¥11.2 billion, to ¥105.6 billion, and represented 14.9% of net sales and operating revenue, up slightly from 14.8% in the previous period. This was attributable to the increase in net sales and operating revenue and declines in the cost of sales ratio and impairment losses on long-lived assets and goodwill, although these factors were partially countered by higher selling, general and administrative expenses. In terms of segment results, increases in operating income in the security services segment, the geographic information services segment and the fire protection services segment, as well as a decrease in the operating loss in the medical services segment, were the primary contributors to the overall increase. (For more details, please see Segment Information below.)

Other Income and Expenses
Other income rose ¥4.6 billion, to ¥13.0 billion, and other expenses increased ¥857 million, to ¥8.4 billion, resulting in net other income of ¥4.6 billion, up from ¥918 million in the previous period. The increase in other income was due primarily to a gain on private equity investments.

Income before Income Taxes
Income before income taxes amounted to ¥110.3 billion, up 15.7%, or ¥14.9 billion, from the previous period, owing to increases in operating income and net other income.

Income Taxes
Income taxes rose ¥6.5 billion, to ¥47.1 billion, reflecting the increase in income before income taxes, and were equivalent to 42.7% of income before income taxes, compared with 42.6% in the previous period.

Minority Interests in Subsidiaries and Equity in Net Income of Affiliated Companies
Minority interests in subsidiaries amounted to ¥6.6 billion, an increase of ¥2.0 billion from the previous period, owing to the inclusion of a full year of results for the fire protection services segment. Equity in net income of affiliated companies declined ¥530 million, to ¥5.2 billion.

Net Income
As a consequence of the aforementioned factors, net income increased 10.5%, or ¥5.9 billion, to ¥61.8 billion, and was equivalent to 8.7% of net sales and operating revenue, compared with 8.8% in the previous period. Net income per share was ¥274.51. A resolution to raise annual cash dividends by ¥5.00, to ¥85.00 per share, was approved at the general shareholders' meeting on June 26, 2008. The increase in dividends reflected the Company's aim of ensuring returns to shareholders that closely reflect its operating performance by determining dividends based on consolidated results calculated using accounting principles generally accepted in Japan, rather than on nonconsolidated results, an approach that was adopted in and has been in use since the previous period.

Segment Information

For detailed segment information, please see Note 25 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 rose 4.7%, or ¥19.8 billion, to ¥436.7 billion. Excluding intersegment transactions, net sales and operating revenue in the segment amounted to ¥435.3 billion, equivalent to 61.6% of overall net sales and operating revenue, down from 65.3% 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 event 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 ¥296.2 billion, an increase of 3.6%, or ¥10.3 billion. In the area of on-line security systems for commercial subscribers, we focused on reinforcing performance features and enhancing our lineup in response to customer needs. In on-line security systems for the home, we worked to increase subscriptions for SECOM Home Security by carefully promoting products and services tailored to customers' requirements.

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 increased 10.7%, or ¥4.5 billion, to ¥46.6 billion, while that from armored car services declined 3.7%, or ¥761 million, to ¥19.5 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. In the period under review, net sales and operating revenue in this category amounted to ¥72.9 billion, an increase of 8.7%, or ¥5.8 billion. Favorable sales were supported by major orders for access-control systems.

Operating income in the security services segment rose 7.3%, or ¥7.0 billion, to ¥103.1 billion. The operating margin rose to 23.6%, from 23.1% in the previous period, as the increase in operating income outpaced that of costs and expenses.

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, net sales and operating revenue amounted to ¥86.6 billion, up from ¥28.4 billion in the previous period. Operating income was ¥4.9 billion, compared with ¥1.8 billion in the previous period, while the operating margin was 5.7%, down from 6.4% in the previous period. The principal factor behind the significant increases in net sales and operating revenue and operating income was the inclusion of a full year of results for Nohmi Bosai, which became a consolidated subsidiary in December 2006. The decline in operating margin reflects the fact that net sales and operating revenue for fire protection services from the construction industry tend to be concentrated in the fourth quarter.

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 nursing homes, personal care services, the leasing of real estate for medical institutions, and others.

Net sales and operating revenue in the medical services segment amounted to ¥50.9 billion in the period under review, an increase of 10.4%, or ¥4.8 billion. This increase was primarily due to higher net sales and operating revenue from medical equipment sales and the provision of home medical services.

The segment reported an operating loss of ¥1.1 billion, an improvement from the ¥2.9 billion loss posted in the previous period. This was attributable largely to declines in impairment losses on long-lived assets and goodwill.

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 market 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, thus 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.

In the period under review, the insurance services segment generated net sales and operating revenue of ¥36.1 billion, an increase of 4.2%, or ¥1.4 billion, as expanded marketing of non-life insurance policies boosted net premiums written and exceeded the impact of a decline in the net gain on sales of securities.

The insurance services segment registered operating income of ¥3.8 billion, edging up 0.4%, or ¥14 million. This result primarily reflected a decline in net claims paid, which had risen in the previous period owing to the impact of typhoons, which partially offset the impact of a decline in the net gain on sales of securities.

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 increased 8.5%, or ¥3.1 billion, to ¥39.7 billion. This result reflected firm revenues from the provision of map data to public agencies and government offices for use in the preparation of land development, preservation, urban planning and disaster prevention plans, and in the preparation and materials for the assessment and management of property taxes, as well as an increase in overseas orders.

Segment operating income amounted to ¥1.4 billion, an increase of 265.2%, or ¥1.0 billion, boosting the operating margin to 3.6%, from 1.1% in the previous period. This improvement was primarily attributable to the increase in net sales and operating revenue, and also reflected a decrease in selling, general and administrative expenses.

Information and Communication Related and Other Services

This segment comprises 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; real estate development and sales; and real estate leasing.

Net sales and operating revenue for the segment in the period under review amounted to ¥74.2 billion, a decline of 16.3%, or ¥14.5 billion. This result reflected such factors as rising condominium prices, a consequence of higher construction costs, and flagging consumer confidence, owing to the current unclear economic outlook, which combined to push down the condominium market in the second half of the period, hampering net sales and operating revenue from real estate development and sales.

Operating income declined 26.5%, or ¥1.9 billion, to ¥5.4 billion. The operating margin slipped to 7.3%, from 8.3% in the previous period.

Financial Position

Total assets as of March 31, 2008, amounted to ¥1,265.5 billion, up 2.0%, or ¥24.3 billion, from the end of the previous period.

Total current assets increased 4.7%, or ¥26.3 billion, to ¥580.5 billion. This was due primarily to increases in cash and cash equivalents (for more details, please see Cash Flows below), and an increase in inventories in the real estate development and sales business—a portion of which was offset by a decline in cash deposits and sales of short-term investment securities accompanying an increase in new investments by our U.S. investment company. While current assets increased, current liabilities declined (see below), as a consequence of which the current ratio rose only slightly to 1.7 times, from 1.6 times at the end of the previous period.

Investments and long-term receivables edged up 0.3%, or ¥1.0 billion, to ¥329.6 billion. An increase in investments in affiliated companies attributable to a transfer from investment securities—related to the acquisition of additional shares in Tokyo Biso Kogyo—and equity in net income of affiliated companies was offset by a decline in investment securities. The decline in investment securities was due to the fact that unrealized losses on securities—a consequence of flagging stock market conditions—and the aforementioned transfer exceeded the amount of new investments.

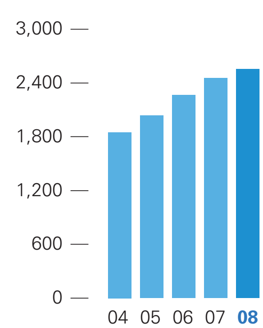
Property, plant and equipment, less accumulated depreciation, was also essentially level, rising 0.4%, or ¥1.0 billion, to ¥251.5 billion. This reflected an increase in security equipment and control stations necessitated by an increase in security systems subscribers and the purchase of land for the real estate leasing business, as well as an increase in accumulated depreciation resulting from the depreciation of assets.

Other assets were down 3.7%, or ¥4.0 billion, to ¥103.9 billion. This reflected declines in prepaid pension and severance costs, a consequence of a deteriorating investment environment, and other intangible assets—the impact of which was partially offset by an increase in deferred income taxes resulting from the aforementioned unrealized losses on securities.

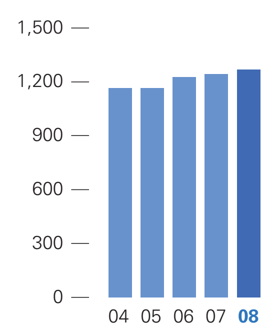
Total liabilities were level, edging up 0.1%, or ¥321 million, to ¥628.5 billion. Current liabilities edged down 0.3%, or ¥883 million, to ¥347.2 billion, as the decline in deposits received, including deposits related to armored car services, was largely offset by increases in bank loans related to the purchase of real estate for sale, accrued payrolls and notes and accounts payable, trade. Unearned premiums and other insurance liabilities rose, reflecting an increase in insurance contracts. Long-term debt rose, owing primarily to the opening of the Kitsuregawa Rehabilitation Program Center. Investment deposits by policyholders declined, as certain policies designed for payout at maturity came due.

Total shareholders' equity rose 4.1%, or ¥22.8 billion, to ¥574.6 billion. Retained earnings were ¥471.1 billion, an increase of ¥42.2 billion. This was partially offset by an accumulated other comprehensive loss of ¥8.0 billion, compared with income of ¥11.4 billion in the previous period, resulting primarily from unrealized losses on securities and losses from pension liability adjustments, a consequence of flagging stock market conditions. The equity ratio rose to 45.4%, from 44.5%.

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.

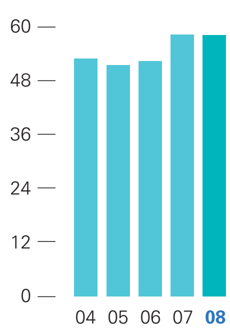
In the period under review, net cash provided by operating activities amounted to ¥92.6 billion. The principal items contributing to this total were net income of ¥61.8 billion and depreciation and amortization of ¥58.2 billion. Cash used in operating activities included an increase in inventories of ¥19.3 billion, owing to the purchase of real estate for sale, and an increase in deferred charges of ¥16.3 billion. Operating activities provided ¥24.7 billion more than in the previous period, owing mainly to higher net income, as well as to a considerably lower increase in receivables and due from subscribers, net of allowances. A decline in deposits received related to armored car services led to a decrease in cash deposits.

Net cash used in investing activities amounted to ¥52.1 billion. Significant factors included ¥45.3 billion in payments for purchases of property, plant and equipment, a result of the purchase of security equipment and control stations, necessitated by an increase in security systems subscribers, and a net total of ¥5.4 billion in payments for purchase of short-term investments and investment securities. In the previous period, investment activities provided a net total of ¥22.0 billion. The difference in the period under review was net payments for purchases of short-term investments and investment securities, compared with net proceeds from sales of short-term investments and investment securities in the previous period to fund the payout of investment deposits received from insurance policyholders. Similarly, net proceeds from short-term receivables and long-term receivables in the period under review decreased from the previous period.

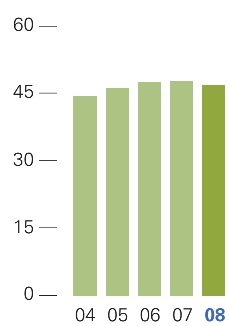
Net cash used in financing activities was ¥19.3 billion. This amount reflected ¥18.0 billion in dividends paid and a ¥6.1 billion decrease in investment deposits by policyholders, as well as net proceeds from bank loans and long-term debt of ¥6.2 billion. Financing activities used ¥109.0 billion less than in the previous period, owing to a ¥6.1 billion decrease in investment deposits by policyholders, compared with a ¥94.4 billion decrease in the previous period.

As a result of operating, investing and financing activities during the period under review, cash and cash equivalents at end of year amounted to ¥214.6 billion, up ¥21.4 billion from ¥193.2 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)