

FINANCIAL REVIEW

Operating Results

Overview

In the year ended March 31, 2010, 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 its core security services segment, 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 segments. Nonetheless, consolidated net sales and operating revenue for the period slipped 2.0%, or ¥13.4 billion, to ¥670.6 billion, owing to decreased sales of security merchandise in its core security services segment, combined with declines in net sales and operating revenue at its overseas subsidiaries due to foreign currency rate fluctuations, and efforts to restrict its selection of properties for development and sales in the real estate development and sales segment.

In contrast, operating income rose 27.4%, or ¥20.9 billion, to ¥97.2 billion, reflecting decreases in loss on other-than-temporary impairment of investment securities in the insurance services segment and write-down on real estate inventories in the real estate development and sales segment. Net income attributable to SECOM CO., LTD., advanced 53.8%, or ¥16.4 billion, to ¥47.0 billion.

Net Sales and Operating Revenue

Despite increases in the medical services, insurance services and geographic information services segments, net sales and operating revenue slipped 2.0%, or ¥13.4 billion, to ¥670.6 billion, owing to decreases in the security services, real estate development and sales, fire protection services, and information and communication related and other services segments. (For more details, please see Segment Information below.)

Costs and Expenses

Total costs and expenses, at ¥573.5 billion, were down 5.6%, or ¥34.3 billion. Cost of sales declined 6.3%, or ¥29.0 billion, to ¥433.1 billion, equivalent to 64.6% of net sales and operating revenue, an improvement from 67.6% in the previous period. This result primarily reflected a decrease in write-down on real estate inventories in the real estate development and sales segment.

Selling, general and administrative (SG&A) expense dipped 3.0%, or ¥4.2 billion, to ¥137.7 billion. SG&A expense was equivalent to 20.5% of net sales and operating revenue, a slight improvement from 20.8% in the previous period, attributable primarily to the reduction of costs, particularly personnel expenses and advertising costs. In addition, impairment loss on goodwill amounted to ¥245 million, a decrease of ¥1.3 billion.

Operating Income

Operating income rose 27.4%, or ¥20.9 billion, to ¥97.2 billion, equivalent to 14.5% of net sales and operating revenue, up from 11.1% in the previous period. This was due largely to an increase in net sales and operating revenue in the insurance services segment, owing to the decrease in loss on other-than-temporary impairment of investment securities, and to declines in cost of sales and SG&A expense. Segments contributing to operating income were—in order of size of contribution—security services, fire protection services, information and communication related and other services, medical services and geographic information services. (For more details, please see Segment Information below.)

Other Income and Expenses

Other income slipped ¥407 million, to ¥5.4 billion, and other expenses fell ¥11.0 billion, to ¥7.9 billion, resulting in net other expenses of ¥2.5 billion, down substantially from ¥13.1 billion in the previous period. Factors behind this result included a ¥7.1 billion decrease in loss on other-than-temporary impairment of investment securities, to ¥1.8 billion, the reversal of reserve for litigation loss, and a net exchange gain compared with a net exchange loss in the previous period. These were partially offset by a ¥1.4 billion loss on private equity investments, compared with a ¥1.4 billion gain in the previous period. The Company also incurred a ¥1.3 billion loss related to spectrum reallocation, for disposal and replacement of equipments, since the allotted spectrum currently used for COCO-SECOM will no longer be available after July 2012 as a result of spectrum reallocation by the Japanese government.

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 climbed 49.9%, or ¥31.5 billion, to ¥94.7 billion, bolstered by the increase in operating income and decline in net other expenses.

Income Taxes

Reflecting the increase in income from continuing operations before income taxes and equity in net income of affiliated companies, income taxes increased ¥9.4 billion, to ¥45.6 billion. Income taxes were equivalent to 48.2% of income from continuing operations before income taxes and equity in net income of affiliated companies, down from 57.4% in the previous period, due mainly to the fact that unrecognized tax benefits from subsidiaries in loss positions increased in the previous period.

Segment Information

(For detailed information, please see Note 27 of the accompanying Notes to the Consolidated Financial Statements)

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies was down ¥6.1 billion, to ¥2.6 billion. This reflected declines in equity in net income of overseas affiliated companies attributable to currency exchange rate fluctuations. Another factor was a reversal of long-term deferred tax liabilities related to undistributed earnings of overseas affiliated companies arising from the revision of Japanese tax regulations in the previous period.

Income (Loss) from Discontinued Operations

The Company sold Japan Image Communications Co., Ltd., and Asia Pacific Business Link Ltd. in August and December 2009, respectively. Income from these companies is included in discontinued operations. Prior period figures have been restated. Income from discontinued operations amounted to ¥1.4 billion, compared with a loss from discontinued operations of ¥149 million in the previous period. This was due primarily to the gain on sales of discontinued operations. (For more details, please see Note 25 of the accompanying Notes to the Consolidated Financial Statements.)

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests rose ¥1.1 billion, to ¥6.0 billion.

Net Income Attributable to SECOM CO., LTD.

As a consequence of the aforementioned factors, net income attributable to SECOM CO., LTD., climbed 53.8%, or ¥16.4 billion, to ¥47.0 billion, and represented 7.0% of net sales and operating revenue, up from 4.5% in the previous period. Net income attributable to SECOM CO., LTD. per share was ¥215.51, up from ¥137.42. A proposal to pay annual cash dividends of ¥85.00 per share was approved at the general shareholders' meeting on June 25, 2010.

Security Services

The security services segment encompasses electronic security services, other security services, and merchandise and other. Net sales and operating revenue in the segment decreased 2.8%, or ¥12.1 billion, to ¥426.4 billion. Excluding intersegment transactions, the segment's net sales and operating revenue amounted to ¥424.4 billion, equivalent to 63.3% of overall net sales and operating revenue, down from 63.9% 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 our electronic security services, 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. 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. Net sales and operating revenue from electronic security services amounted to ¥299.1 billion, a decline of 1.5%, or ¥4.4 billion, owing to the impact of currency exchange rate fluctuations on the results of overseas subsidiaries.

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. Net sales and operating revenue from static guard services was down 3.7%, or ¥1.8 billion, to ¥46.2 billion, and that from armored car services slipped 2.4%, or ¥487 million, to ¥19.8 billion.

The merchandise and other category encompasses sales of 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 declined 9.0%, or ¥5.8 billion, to ¥59.3 billion.

Operating income in the security services segment edged down 0.8%, or ¥852 million, to ¥101.6 billion, while the operating margin rose to 23.8%, from 23.4%. The decline in segment operating income reflected lower net sales and operating revenue, while the improvement in the operating margin was attributable to successful cost-cutting efforts.

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. Segment net sales and operating revenue amounted to ¥84.4 billion, down 6.0%, or ¥5.4 billion, reflecting decreased sales of fire alarm systems for residences. Segment operating income fell 21.7%, or ¥1.2 billion, to ¥4.2 billion, and the operating margin declined to 5.0%, from 6.0% 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. The segment also includes the operations of variable interest entities to which the Company is primary beneficiary, which manage hospitals and health care-related institutions.

Net sales and operating revenue in the medical services segment increased 7.8%, or ¥4.1 billion, to ¥56.4 billion. Operating income amounted to ¥2.3 billion, up from ¥11 million in the previous period. This increase was attributable to improved results for the entities managing hospitals and health care-related institutions and contributions from a newly consolidated subsidiary.

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 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 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 climbed 31.4%, or ¥7.7 billion, to ¥32.1 billion. The segment generated an operating loss of ¥1.5 billion, compared with an operating loss of ¥8.2 billion in the previous period. This improvement was attributable largely to a decrease in loss on other-than-temporary impairment of investment securities, combined with an increase in net premiums written.

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 4.3%, or ¥1.7 billion, to ¥42.1 billion. This reflected steadily expanding sales of geospatial data-based services to national and local governments in Japan and government agencies in foreign countries, as well as operational support services for private-sector customers. Segment operating income rose 6.5%, or ¥132 million, to ¥2.2 billion, owing to strict process management and cost-cutting efforts. The operating margin was 5.2%, up from 5.1% in the previous period.

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 fell 44.9%, or ¥11.0 billion, to ¥13.5 billion, owing to efforts to restrict the selection of properties for development and sales in response to flagging market conditions. The segment reported an operating loss of ¥3.7 billion, compared with ¥17.6 billion in the previous period. This improvement was due mainly to a decrease in write-down on real estate inventories.

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 ¥33.5 billion, down 5.7%, or ¥2.0 billion, owing to a temporary dip in business conditions. Segment operating income declined 14.0%, or ¥628 million, to ¥3.9 billion, pushing the operating margin down to 11.5%, from 12.6% in the previous period.

Financial Position

Total assets as of March 31, 2010, amounted to ¥1,138.1 billion, 0.4%, or ¥5.0 billion, lower than at the end of the previous period.

Total current assets, at ¥500.8 billion, were up 1.7%, or ¥8.3 billion. This was attributable largely to increases in cash and cash equivalents (for more details, please see Cash Flows, which follows this section), although these were partially offset by a decline in cash deposits and collection of notes and accounts receivables, trade. Owing to the increase in total current assets, as well as to a decrease in total current liabilities (see below), the current ratio rose to 2.1 times, from 1.7 times at the end of the previous period.

Investments and long-term receivables declined 4.9%, or ¥14.4 billion, to ¥276.5 billion, reflecting sales of investment securities and the redemption of bonds to prepare for the payment of refunds on insurance policies at maturity.

Property, plant and equipment, less accumulated depreciation, rose 1.6%, or ¥4.0 billion, to ¥263.3 billion. This was due primarily to the addition of a subsidiary, engaged in the leasing of real estate to medical institutions, to the medical services segment, resulting in increases in buildings and improvements and in land. An increase in the number of security services subscribers also

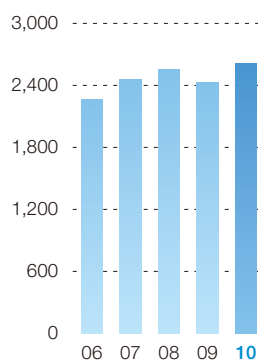
necessitated an increase in security equipment and control stations, although this was offset by an increase in accumulated depreciation resulting from the depreciation of assets.

Other assets were down 2.9%, or ¥2.9 billion, to ¥97.5 billion. This reflected such factors as a decline in deferred income taxes attributable to an increase in valuation allowances for certain subsidiaries, which was partially offset by an increase in software.

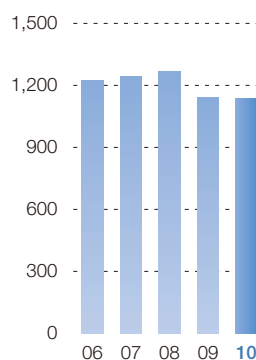
Total liabilities fell 9.0%, or ¥49.7 billion, to ¥503.7 billion. Total current liabilities amounted to ¥235.5 billion, down 16.9%, or ¥48.0 billion, owing to the application of firm cash flows to the repayment of bank loans. The decrease in total liabilities also reflected a decline in investment deposits by policyholders as insurance policies with maturity refunds reached maturity.

Total SECOM CO., LTD. shareholders' equity amounted to ¥569.8 billion, up 7.8%, or ¥41.1 billion, owing primarily to an increase in retained earnings, as well as to unrealized holding gains on securities—compared with unrealized holding losses on securities for the previous period—which reduced accumulated other comprehensive loss, a net figure. Shareholders' equity ratio rose to 50.1%, from 46.3% at the end of the previous period.

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



Total Assets
(In billions of yen)



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 related strategic investments with cash generated by its operating activities.

Net cash provided by operating activities amounted to ¥116.7 billion. The principal items contributing to this result were net income of ¥53.0 billion, depreciation and amortization of ¥55.1 billion, a decrease in cash deposits of ¥7.8 billion, loss on other-than-temporary impairment of investment securities of ¥6.3 billion. Cash used in operating activities included an increase in deferred charges of ¥14.5 billion. Net cash provided by operating activities was ¥9.3 billion higher than in the previous period, owing to the increase in net income, which was partially offset by decreases in non-cash expenses, including loss on other-than-temporary impairment of investment securities and write-down of real estate inventories, and to an increase in inventories, compared with a decrease in the previous period.

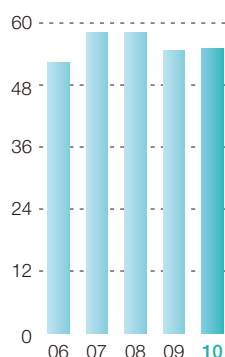
Net cash used in investing activities came to ¥10.6 billion. Significant factors included payments for purchase of property, plant and equipment of ¥38.3 billion, a result of the purchase of security equipment and control stations necessitated by an

increase in the number of security services subscribers, and payments for long-term receivables of ¥5.0 billion. Cash provided by investing activities included net proceeds from sales and redemption of short-term investments and investment securities of ¥24.0 billion and proceeds from long-term receivables of ¥6.0 billion. Investing activities used ¥39.3 billion less cash than in the previous period, as net proceeds from sales and redemptions of short-term investments and investment securities amounted to ¥24.0 billion, compared to net payments of ¥332 million in the previous period and purchases of property, plant and equipment decreased.

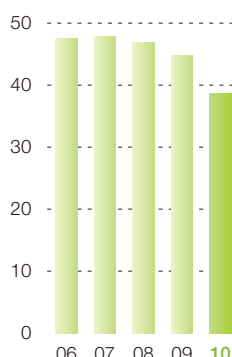
Net cash used in financing activities amounted to ¥85.7 billion. This included a decrease in bank loans, net, of ¥35.2 billion, a decrease in investment deposits by policyholders of ¥23.8 billion and dividends paid to SECOM CO., LTD. shareholders of ¥18.5 billion. Financing activities used ¥24.2 billion less than in the previous period. This was due largely to the absence of a ¥30.0 billion outlay for the purchase of treasury stocks in the previous period.

The Company's operating, investing and financing activities resulted in cash and cash equivalents at the end of the year of ¥180.1 billion, an increase of ¥20.8 billion from ¥159.4 billion at the end of the previous period.

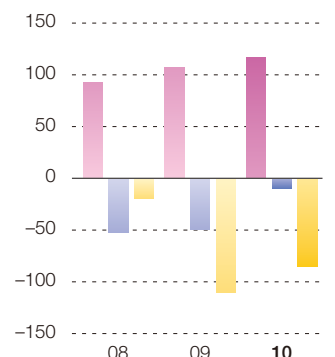
Depreciation and Amortization
(In billions of yen)



Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)



■ Cash flows from operating activities
■ Cash flows from investing activities
■ Cash flows from financing activities