Operating Results

Overview

In the year ended March 31, 2011, 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 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 12.1%, or ¥81.2 billion, to ¥751.9 billion, a result that was attributable to newly consolidated organizations managing hospitals and health care-related institutions, which were determined to be variable interest entities, as well as to robust sales of units in large-scale condominium complexes in the real estate development and sales segment. Operating income increased 3.3%, or ¥3.3 billion, to ¥100.4 billion, owing to operating income in the real estate development and sales segment, compared with an operating loss in the previous period, and to an increase in operating income in the geographic information services segment, reflecting efforts to promote in-house manufacturing and stringent process control. Net income attributable to SECOM CO., LTD., advanced 33.4%, or ¥15.7 billion, to ¥62.7 billion, bolstered by the increase in operating income, as well as by a gain on private equity investments, compared with a loss in the previous period, and by an increase in equity in net income of affiliated companies.

Net Sales and Operating Revenue

Consolidated net sales and operating revenue increased 12.1%, or ¥81.2 billion, to ¥751.9 billion. Increases in net sales and operating revenue were reported in the security services, medical services, real estate development and sales, insurance services and geographic information services segments, while the fire protection services and information and communication related and other services segments saw declines. (For more details, please see Segment Information below.)

Costs and Expenses

Total costs and expenses, at ¥651.4 billion, were up 13.6%, or ¥78.0 billion. Cost of sales increased 15.2%, or ¥65.8 billion, to ¥499.0 billion, equivalent to 66.4% of net sales and operating revenue, up from 64.6% in the previous period. Among factors behind this increase were newly consolidated organizations managing hospitals and health care-related institutions and restoration-related costs incurred in the wake of the Great East Japan Earthquake.

Selling, general and administrative (SG&A) expenses increased 7.2%, or ¥9.9 billion, to ¥147.7 billion. SG&A expenses were equivalent to 19.6% of net sales and operating revenue, improving from 20.5% in the previous period. The increase in SG&A expenses was a result of such factors as an increase in research and development costs, while the improvement in SG&A expenses as a percentage of net sales and operating revenue was due to efforts to reduce costs, including lowering advertising costs. The Company also recognized a ¥3.2 billion loss on settlement of pre-existing relationship, owing to the settlement of a lease contract between the Company and newly consolidated organizations managing hospitals and health care-related institutions in the medical services segment.

Operating Income

Operating income rose 3.3%, or ¥3.3 billion, to ¥100.4 billion, equivalent to 13.4% of net sales and operating revenue, down from 14.5% in the previous period. The increase in operating income was attributable primarily to operating income in the real estate development and sales segment, compared with an operating loss in the previous period, coupled with an increase in operating income in the geographic information services segment and a decrease in the operating loss in the insurance services segment, although these factors were partially offset by declines in operating income in the security services, fire protection services, information and communication related and other services and medical services segments. Segments contributing to operating income were—in order of size of contribution—security services, geographic information services, information and communication related and other services, fire protection services, medical services and real estate development and sales. (For more details, please see Segment Information below.)

Other Income and Expenses

Other income advanced ¥6.5 billion, to ¥11.9 billion, while other expenses fell ¥3.4 billion, to ¥4.5 billion, resulting in net other income of ¥7.4 billion, compared with net other expenses of ¥2.5 billion in the previous period. Principal factors behind this result included a gain on private equity investments of ¥6.0 billion, compared with a loss of ¥1.4 billion in the previous period; a loss on other-than-temporary impairment of investment securities of ¥84 million, down ¥1.7 billion from the previous period; and the absence of a ¥1.3 billion loss related to spectrum reallocation recognized in the previous period.

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 rose 13.9%, or ¥13.2 billion, to ¥107.8 billion, reflecting the increase in operating income and the fact that other income exceeded other expenses.

Income Taxes

Income taxes declined ¥2.4 billion, to ¥43.3 billion, equivalent to 40.1% of income from continuing operations before income taxes and equity in net income of affiliated companies, down from 48.2% in the previous period. This result was due mainly to the fact that unrecognized tax benefits from subsidiaries in loss positions were higher in the previous period.

Equity in Net Income of Affiliated Companies

Equity in net income of affiliated companies, at ¥5.0 billion, was up ¥2.4 billion. The principal factor behind this result was an increase in equity in net income of overseas affiliated companies.

Net Income Attributable to Noncontrolling Interests

Net Income attributable to noncontrolling interests amounted to ¥6.9 billion, up ¥900 million.

Net Income Attributable to SECOM CO., LTD.

Net income attributable to SECOM CO., LTD., climbed 33.4%, or ¥15.7 billion, to ¥62.7 billion, equivalent to 8.3% of net sales and operating revenue, compared with 7.0% in the previous period. Net income attributable to SECOM CO., LTD., per share was ¥287.41, up from ¥215.51. A proposal to pay cash dividends of ¥90.00 per share, an increase of ¥5.00 per share from the previous period, was approved at the general shareholders' meeting held on June 24, 2011.

Segment Information

(For more detailed 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 0.1%, or ¥441 million, to ¥426.8 billion. Excluding intersegment transactions, net sales and operating revenue in this segment amounted to ¥424.7 billion, representing 56.5% of overall net sales and operating revenue, down from 63.3% 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, 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 staff also notify the police or fire department, if necessary. We have established an integrated approach, whereby we take full responsibility for all aspects of our on-line security 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 slipped 0.4%, or ¥1.3 billion, to ¥297.8 billion, owing primarily to declines in the installation of both on-line commercial and home security systems and large-scale proprietary security systems.

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 0.3%, or ¥159 million, to ¥46.4 billon, and that from armored car services rose 1.5%, or ¥306 million, to ¥20.1 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 free-standing or linked to on-line security systems. Net sales and operating revenue in this category increased 1.9%, or ¥1.1 billion, to ¥60.4 billion, mainly reflecting an increase in sales of large-scale equipment.

Operating income in the security services segment declined 1.7%, or ¥1.8 billion, to ¥99.9 billion. The operating margin slipped to 23.4%, from 23.8% in the previous period, owing primarily to an increase in operating expenses, a result of restoration efforts in areas affected by the Great East Japan Earthquake, and to an increase in R&D expenses.

Fire Protection Services

The fire protection services 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 declined 5.2%, or ¥4.4 billon, to ¥80.1 billion. Operating income was ¥3.2 billion, down 24.7%, or ¥1.0 billion, while the operating margin was 3.9%, compared with 5.0% in the previous period. These results were attributable largely to the absence of large-scale replacement sales of fire protection systems, which bolstered results in the previous period, despite efforts to enhance the segment's earnings base by securing renovations-related orders, as persistently unfavorable economic conditions further intensified competition for orders.

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 climbed 121.8%, or ¥68.7 billion, to ¥125.2 billion. The principal factor behind this result was the newly consolidated organizations managing hospitals and health care-related institutions, which were determined to be variable interest entities. Operating income declined 21.4%, or ¥483 million, to ¥1.8 billion, owing primarily to 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 newly consolidated organizations.

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 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 our 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.

Net sales and operating revenue in the insurance services segment rose 11.3%, or ¥3.6 billion, to ¥35.8 billion. The segment's operating loss improved to ¥180 million, from ¥1.5 billion in the previous period. This result was due primarily to a decrease in loss on other-than-temporary impairment of investment securities.

Geographic Information Services

This segment includes the use of highly advanced measuring equipment and surveying technologies to provide a variety of geospatial information services to national and local governments and public- and private-sector entities in Japan. We also provide geospatial information services to foreign countries, including emerging economies and developing countries. During the period, we procured high-resolution data and, leveraging our 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. We also provided a variety of pertinent information in the wake of the Great East Japan Earthquake.

Net sales and operating revenue in this segment rose 3.9%, or ¥1.6 billion, to ¥43.7 billion, reflecting increased sales to overseas customers, as well as contributions from newly consolidated subsidiaries. Operating income advanced 55.9%, or ¥1.2 billion, to ¥3.4 billion, bolstered by efforts to promote in-house manufacturing and stringent process control. The operating margin was 7.8%, up from 5.2% in the previous period.

Real Estate Development and Sales

This segment comprises the development and sales of condominiums equipped with advanced security and contingency planning features. Amidst a slump in the market for condominiums, we actively promoted sales to customer groups we had not been able to approach in the past. For condominiums on the market since the previous period, we also sought to adjust prices in response to flagging market conditions.

Net sales and operating revenue in this segment climbed 85.1%, or ¥11.5 billion, to ¥24.9 billion, bolstered by an increase in sales of units in large-scale condominium complexes. Operating income was ¥525 million, compared with a ¥3.7 billion operating loss in the previous period, owing to an increase in net sales and operating revenue and other factors.

Information and Communication Related and Other Services

This segment consists primarily of information and communication 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 declined 4.5%, or ¥1.5 billion, to ¥32.0 billion, owing primarily to the impact of the Great East Japan Earthquake. Operating income fell 15.9%, or ¥611 million, to ¥3.2 billion. The operating margin was 10.1%, compared with 11.5% in the previous period. These results were largely attributable to the opening of a new Secure Data Center facility, which began providing services in August 2010.

Financial Position

Total assets as of March 31, 2011, amounted to ¥1,171.2 billion, 2.9%, or ¥33.0 billion, higher than at the end of the previous period.

Total current assets, at ¥521.4 billion, increased ¥20.6 billion. The principal factors behind this result were increases in cash and cash equivalents (for more details, please see Cash Flows, which follows this section), time deposits and notes and accounts receivable, trade, the latter due to newly consolidated organizations managing hospitals and health care-related institutions, which were determined to be variable interest entities. These increases were partially offset by a decline in inventories, owing to favorable sales of condominiums in the real estate development and sales segment. With both current assets and current liabilities up, the current ratio remained level at 2.1 times.

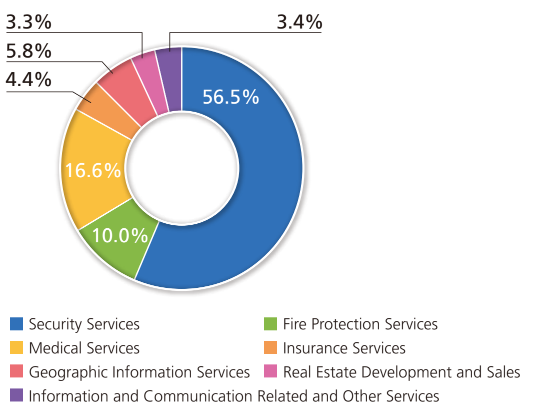
Investments and long-term receivables were down ¥30.3 billion, to ¥246.3 billion, a consequence primarily of a decline in long-term receivables. Long-term loans receivable to organizations managing hospitals and health care-related institutions were eliminated, as these entities were newly consolidated.

Property, plant and equipment less accumulated depreciation, rose ¥39.2 billion, to ¥302.5 billion. This was due mainly to increases in land, buildings and improvements, and machinery, equipment and automobiles related to newly consolidated organizations managing hospitals and health care-related institutions; in buildings and improvements as a result of the opening of a new Secure Data Center facility in the information and communication related and other services segment; and in land as a result of the purchase of land for the new hospital facilities in the medical services segment. Additionally, an increase in the number of security services subscribers necessitated an increase in security equipment and control stations, although this was offset by depreciation.

Other assets were up ¥3.5 billion, to ¥101.0 billion. This primarily reflected increases in prepaid pension and severance costs—a result of the investment of plan assets—as well as in deferred charges and goodwill, the latter due to acquisitions in the security services and geographic information services segments. These increases were partially offset by a decline in deferred income taxes.

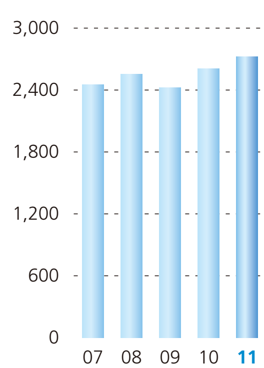
Total liabilities rose 2.5%, or ¥12.7 billion, to ¥516.3 billion. Total current liabilities amounted to ¥242.6 billion, up ¥7.1 billion. Long-term debt, at ¥53.0 billion, was up ¥11.4 billion. These increases were attributable largely to newly consolidated organizations managing hospitals and health care-related institutions. In addition, unearned premiums and other insurance liabilities increased ¥9.1 billion. These factors were offset to a certain extent by a ¥20.6 billion decline in investment deposits by policyholders.

Percentage of Consolidated Net Sales and Operating Revenue*
(Year ended March 31, 2011)

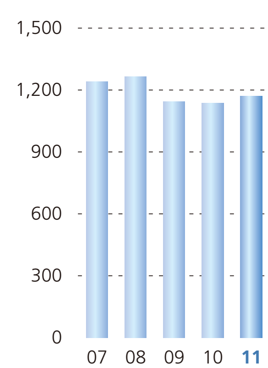


* Pie chart shows percentage of consolidated net sales and operating revenue (Excluding intersegment transactions)

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



Total Assets
(In billions of yen)



Total SECOM CO., LTD. shareholders' equity rose 4.2%, or ¥23.7 billion, to ¥593.5 billion. This was due primarily to an increase in retained earnings, which was partially offset by an increase in the loss resulting from foreign currency translation adjustments—owing to the appreciation of the yen—and by a decrease in additional paid-in capital resulting from a tender offer to acquire shares of common stock issued by consolidated subsidiary Secom Techno Service Co., Ltd. As a consequence, the shareholders' equity ratio rose to 50.7%, from 50.1% 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 related strategic investments with cash generated by its operating activities.

Net cash provided by operating activities amounted to ¥112.6 billion. Cash provided by operating activities included net income of ¥69.6 billion, depreciation and amortization of ¥57.0 billion and a decrease in inventories of ¥14.6 billion. Cash used in operating activities included increases of ¥15.1 billion in deferred charges, ¥7.7 billion in cash deposits and ¥6.9 billion in receivables and due from subscribers, net of allowances. The decrease in inventories was attributable largely to favorable sales of condominiums in the real estate development and sales segment, which pushed down inventories of real estate for sale. The increase in deferred charges was due to the deferral of installation service charges for security equipment related to on-line security systems, which are recognized over the contractual period for the security services. The increase in cash deposits primarily reflected the Company's business expansion efforts. The increase in receivables and due from subscribers, net of allowances, arose mainly as a result of newly consolidated organizations managing hospitals and health-care institutions, which were determined to be variable interest entities. Net cash provided by operating activities was ¥4.1 billion lower than in the previous period, owing principally to the increases in cash deposits and in receivables and due from subscribers, net of allowances, which were partially offset by the increase in net income.

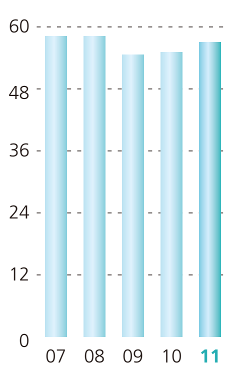
Net cash used in investing activities came to ¥46.9 billion. Principal uses of cash included payments for purchases of property, plant and equipment of ¥41.7 billion—a result of the purchase of security equipment and control stations necessitated by an increase in the number of security services subscribers—and increase in time deposits of ¥9.7 billion. Cash was provided mainly by net proceeds from sales and redemption of short-term investments and investment securities of ¥3.2 billion. This was due mainly to a reassessment of investment assets in the insurance services segment and investment results of U.S. investment companies. The increase in time deposits was attributable to the expansion of short-term deposits, the purpose of which was to reinforce relations with subscribers. Net cash used in investing activities was ¥36.3 billion higher than in the previous period, owing to net proceeds from sales and redemption of short-term investments and investment securities of ¥3.2 billion, down considerably from ¥24.0 billion in the previous period, and an increase in time deposits of ¥9.7 billion, compared with a decrease of ¥1.4 billion.

Net cash used in financing activities amounted to ¥55.3 billion. This included a decrease in investment deposits by policyholders of ¥20.6 billion, dividends paid to SECOM CO., LTD. shareholders of ¥18.5 billion and payments for acquisition of shares of consolidated subsidiaries from noncontrolling interest holders of ¥13.7 billion, the result of a tender offer to acquire shares of common stock issued by consolidated subsidiary Secom Techno Service. Net cash used in financing activities was down ¥30.4 billion, a consequence of efforts to reduce both bank loans and long-term debt implemented in earlier periods.

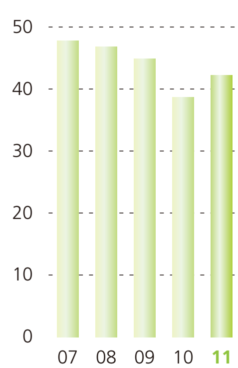
The Company also posted cumulative effect adjustments resulting from the adoption of a new accounting standard on variable interest entities of ¥3.9 billion, owing to newly consolidated organizations managing hospitals and health care-related institutions.

As a result of the aforementioned factors, net cash and cash equivalents at end of year were ¥193.9 billion, an increase of ¥13.8 billion from net cash and cash equivalents at beginning of year of ¥180.1 billion.

Depreciation and Amortization
(In billions of yen)



Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)