Operating Results

Overview
In the year ended March 31, 2015, 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, information and communication related services, and real estate and other services segments.

Consolidated net sales and operating revenue advanced 2.6%, or ¥24.1 billion, to ¥945.2 billion. Principal contributing factors included higher net sales and operating revenue in the security services and medical services segments—the former underpinned by increased revenue from on-line security systems and higher sales of large-scale security systems and security camera systems and the latter by the expansion and rebuilding of hospitals and a robust performance by the pharmaceuticals dispensing services business—and the inclusion of a full year of operating results for a subsidiary newly consolidated in the fourth quarter of the fiscal year ended March 31, 2014. Operating income rose 1.6%, or ¥1.9 billion, to ¥122.0 billion, bolstered by gains in the insurance services and the security services segments ascribed to, respectively, a decline in losses incurred due to damage caused by natural disasters and the increase in net sales and operating revenue. Net income attributable to SECOM CO., LTD., was up 8.4%, or ¥6.2 billion, to ¥80.2 billion, owing mainly to the increase in operating income and to lower income taxes, which primarily reflected a statutory tax rate reduction that resulted from tax reform in Japan.

Net Sales and Operating Revenue
Consolidated net sales and operating revenue increased 2.6%, or ¥24.1 billion, to ¥945.2 billion, bolstered by increases in the security services, medical services, real estate and other services, insurance services and information and communication related services segments, although the geographic information services and fire protection services segments reported declines. (For further details, please see Segment Information below.)

Costs and Expenses
Total costs and expenses were up 2.8%, or ¥22.2 billion, to ¥823.2 billion. Cost of sales, at ¥644.2 billion, was up 2.4%, or ¥15.3 billion, and was equivalent to 68.2% of net sales and operating revenue, an improvement from 68.3% in the previous fiscal year.

Selling, general and administrative (SG&A) expenses rose 1.5%, or ¥2.5 billion, to ¥168.6 billion. SG&A expenses were equivalent to 17.8% of net sales and operating revenue, an improvement from 18.0% in the previous fiscal year.

Due to the recognition of impairment losses on certain business-related assets in the information and communication related services segment, impairment loss on long-lived assets rose to ¥6.6 billion, an increase of ¥3.8 billion, while an impairment loss on goodwill in the medical services business pushed impairment loss on goodwill up ¥1.2 billion, to ¥1.3 billion. In contrast, loss on sales and disposal of fixed assets, net, declined ¥627 million, to ¥2.6 billion.

Operating Income
Operating income rose 1.6%, or ¥1.9 billion, to ¥122.0 billion, equivalent to 12.9% of net sales and operating revenue, compared with 13.0% in the previous fiscal year. The Company's segments, in order of size of contribution to operating income, were security services, fire protection services, insurance services, real estate and other services, geographic information services, medical services, and information and communication related services. (For further details, please see Segment Information below.)

Other Income and Expenses
Other income declined ¥2.4 billion, to ¥9.3 billion, while other expenses increased ¥448 million, to ¥3.4 billion, resulting in net other income of ¥5.9 billion, down ¥2.8 billion from the previous fiscal year. Principal factors behind this result included decreases of ¥1.5 billion in gain on private equity investments, to ¥4.1 billion, and ¥879 million in loss on gain on sales of securities, net, to ¥56 million.

Income Before Income Taxes and Equity in Net Income of Affiliated Companies
Income before income taxes and equity in net income of affiliated companies decreased 0.7%, or ¥884 million, to ¥127.9 billion, reflecting the gain in operating income and the decline in net other income.

Income Taxes
Income taxes were down ¥3.7 billion, to ¥46.0 billion, equivalent to 36.0% of income before income taxes and equity in net income of affiliated companies, compared with 38.6% in the previous fiscal year. This result was due mainly to a decline in the statutory tax rate as a consequence of tax reform in Japan.

Equity in Net Income of Affiliated Companies
Equity in net income of affiliated companies increased ¥1.7 billion from the previous fiscal year, to ¥5.8 billion, owing primarily to increases in equity in the net income of certain overseas affiliates.

Income from Discontinued Operations
Discontinued operations include any component of an entity with its own identifiable operations and cash flows that has been disposed of or is to be sold and in which the Company has no significant continuous involvement. As a result of the divestiture of a business in the real estate and other services segment, the Company reported income from discontinued operations, net of tax, of ¥814 million, compared with a loss from such operations of ¥132 million in the previous fiscal year.

Net Income Attributable to Noncontrolling Interests
Net income attributable to noncontrolling interests amounted to ¥8.3 billion, down ¥678 million from the previous fiscal year.

Net Income Attributable to SECOM CO., LTD.
Net income attributable to SECOM CO., LTD., advanced 8.4%, or ¥6.2 billion, to ¥80.2 billion, equivalent to 8.5% of net sales and operating revenue, up from 8.0% in the previous fiscal year. Net income attributable to SECOM CO., LTD. per share was ¥367.37, up from ¥338.94. At the general shareholders meeting held on June 25, 2015, a proposal to pay a year-end cash dividend of ¥65.0 per share was approved. Dividends for the year ended March 31, 2015—¥125.00 per share, an increase of ¥10.00 from the previous fiscal year—comprise the year-end dividend and a newly inaugurated interim dividend of ¥60.00, determined by the Board of Directors. However, because both the ¥115.0 per share annual dividend for the year ended March 31, 2014, approved at the general shareholders' meeting held on June 25, 2014, and the ¥60.00 fiscal 2014 interim dividend for the year ended March 31, 2015, determined by the Board of Directors and paid to shareholders of record as of September 30, 2014, were paid during the period, dividends paid to shareholders in the period under review amounted to ¥175.0 per share.

Segment Information

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

Security Services

The security services segment comprises electronic security services, which center on on-line security systems; other security services; and merchandise and other. In the period under review, net sales and operating revenue in this segment increased 3.1%, or ¥14.8 billion, to ¥490.0 billion. Excluding intersegment transactions, net sales and operating revenue in this segment amounted to ¥487.1 billion, representing 51.5% of overall net sales and operating revenue, up from 51.3% in the previous fiscal year.

In addition to on-line commercial and home security systems, electronic security services include large-scale proprietary security systems, which center on surveillance services for the subscriber's premises. On-line commercial and home security systems use sensors, controllers and other equipment installed at the subscriber's premises to detect events, including intrusions, fires and equipment malfunctions. Equipment is 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. The Company has established an integrated approach, whereby it takes full responsibility for all aspects of its on-line 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 rose 2.6%, or ¥8.2 billion, to ¥326.3 billion, owing to an increase in net sales and operating revenue in this segment in Japan, reflecting an expanded lineup of value-added services that respond to diverse security needs, as well as to the positive impact of yen depreciation and higher sales of large-scale security systems on the net sales and operating revenue of overseas subsidiaries.

Other security services include static guard services and armored car services. Static guard services, which are provided by highly trained professional security guards for situations requiring human judgment and flexible responsiveness, generated net sales and operating revenue of ¥53.8 billion, up 4.1%, or ¥2.1 billion, as legal and regulatory changes reinforced needs for effective security. Armored car services, which involve the transport of cash, securities and other valuables using specially fitted armored cars and security professionals, reported net sales and operating revenue of ¥21.0 billion, up 1.2%, or ¥243 million.

The merchandise and other category encompasses sales of a wide range of security products, including security camera systems, access control systems, automated fire extinguishing systems and external monitoring systems, which can be freestanding or linked to on-line security systems. Net sales and operating revenue in this category increased 5.0%, or ¥4.1 billion, to ¥86.0 billion, bolstered by increases in leases of large-scale security systems and sales of security camera systems.

Operating income in the security services segment increased 2.9%, or ¥3.0 billion, to ¥107.1 billion. The operating margin was level at 21.9%. This result was attributable to the increase in net sales and operating revenue for on-line security systems in Japan and the positive impact of yen depreciation and higher sales of large-scale security systems on the operating income of overseas subsidiaries.

Fire Protection Services

This segment focuses on high-grade, 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. In the period under review, Nohmi Bosai and Nittan, two of Japan's leading domestic fire protection services providers, sought to leverage their respective business foundations and product development capabilities to secure orders for fire protection systems.

Net sales and operating revenue in this segment edged down 0.7%, or ¥841 million, to ¥126.3 billion. In contrast, operating income advanced 19.5%, or ¥2.0 billion, to ¥12.5 billion, and the operating margin improved to 9.9%, from 8.2%, a consequence largely of efforts to boost operating efficiency, which reduced both cost of sales and SG&A expenses, and to a decrease in loss-making orders thanks to an improved order environment.

Medical Services

The medical services segment encompasses home medical services, which center on home nursing and pharmaceutical dispensing services, as well as the operation of residences for seniors, electronic medical report systems, sales of medical equipment, personal care services, and support for the management of hospitals and health care-related institutions. 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 rose 3.6%, or ¥5.4 billion, to ¥156.0 billion. The principal factors behind this result were an increase in contributions from operations of the aforementioned variable interest entities arising from the expansion and modification of hospitals, and a robust performance in the pharmaceuticals dispensing services business. Operating income fell 43.8%, or ¥1.2 billion, to ¥1.5 billion, while the operating margin slipped to 1.0%, from 1.8%, owing mainly to the aforementioned expansion and refurbishment of hospitals and to the recognition of impairment losses on goodwill of certain variable interest entities.

Insurance Services

The insurance services segment offers an extensive lineup that includes the 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—and SECOM *Anshin* My Car, a comprehensive automobile insurance policy that offers onsite support services provided by SECOM emergency response personnel should the policyholders be involved in an accident. Other offerings include MEDCOM, an unrestricted cancer treatment policy that covers the entire cost of medical treatment for cancer.

Net sales and operating revenue in this segment increased 3.9%, or ¥1.5 billion, to ¥41.5 billion, despite a decline in net realized investment gains, spurred by an increase in insurance premiums due to expanded sales of fire insurance policies and the MEDCOM unrestricted cancer treatment policy. Operating income climbed 300.7%, or ¥6.0 billion, to ¥8.0 billion, and the operating margin improved to 19.4%, from 5.0% in the previous fiscal year, thanks to a decline in losses incurred as a result of damage caused by natural disasters.

Geographic Information Services

The geographic information services segment includes the collection of geographic data from satellite images, aerial photography and vehicle-based ground surveying, which it integrates, processes and analyzes to provide a variety of geospatial information services to public sector entities, including national and local governments, and private sector customers in Japan. The Company also extends geospatial information services to government agencies overseas, including in emerging economies and developing countries.

Segment net sales and operating revenue declined 3.3%, or ¥1.8 billion, to ¥52.9 billion, reflecting declines in net sales and operating revenue from services for the public sector in Japan and for overseas customers. Operating income fell 34.4%, or ¥1.3 billion, to ¥2.4 billion, as the cost ratio increased. The operating margin was 4.6%, compared with 6.8% in the previous fiscal year.

Information and Communication Related Services

Information and communication related services focus on data center services, as well as uniquely SECOM BCP support services, information security services and cloud-based services.

Net sales and operating revenue in this segment rose 1.1%, or ¥566 million, to ¥53.9 billion. In contrast, operating income dropped 86.0%, or ¥5.5 billion, to ¥894 million, pushing the operating margin down to 1.7%, from 11.9% in the previous fiscal year, owing to the recognition of impairment losses on certain business-related assets and an increase in operating costs for data center facilities.

Real Estate and Other Services

The real estate and other services segment encompasses the development and sales of condominiums equipped with sophisticated security and disaster-preparedness features, as well as real estate leasing, construction and installation and other services.

Segment net sales and operating revenue increased 13.2%, or ¥5.3 billion, to ¥44.9 billion, despite falling sales of condominiums, thanks to the inclusion of a full year of results for a construction and installation subsidiary consolidated in the fourth quarter of the preceding period. Owing to an increase in operating income in the construction and installation business, segment operating income advanced 8.6%, or ¥402 million, to ¥5.1 billion, although the operating margin edged down to 11.3%, from 11.8% in the previous fiscal year.

Financial Position

Total assets as of March 31, 2015, amounted to ¥1,525.9 billion, ¥85.2 billion higher than at the end of the previous fiscal year. Total current assets, at ¥616.0 billion, were up ¥38.0 billion, and accounted for 40.4% of total assets. Cash and cash equivalents totaled ¥248.6 billion, an increase of ¥17.9 billion, owing to the fact that net cash provided by operating activities exceeded net cash used in investing and financing activities. (For further details, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, decreased ¥8 million, to ¥128.0 billion. Inventories, at ¥60.6 billion, were up ¥8.8 billion, reflecting an increase in work in process in the real estate business and other factors. Short-term investments rose ¥15.0 billion, to ¥25.0 billion, as bonds due within one year formerly included in investment securities were reclassified to this category. The current ratio was 2.1 times as of March 31, 2015, compared with 2.0 times at the previous fiscal year-end.

Investments and long-term receivables rose ¥32.9 billion, to ¥357.6 billion, equivalent to 23.4% of total assets. Investment securities increased ¥26.1 billion to ¥230.7 billion, a consequence primarily of the purchase of bonds in the insurance services and other businesses, an upturn in the fair value of investment securities held and an increase in the fair value of private equity investments. Investments in affiliated companies, at ¥56.2 billion, were up ¥6.4 billion, underpinned by expanded earnings at overseas affiliated companies and the depreciation of the yen.

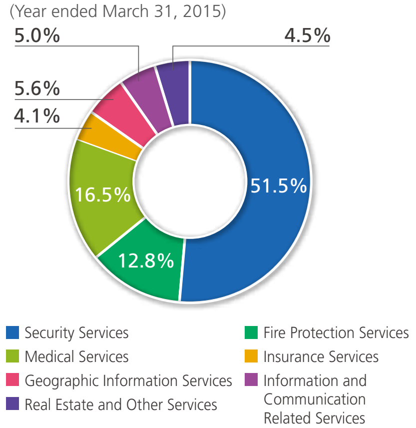
Property, plant and equipment, less accumulated depreciation, rose ¥2.3 billion, to ¥396.7 billion, or 26.0% of total assets. The purchase of real estate adjacent to a hospital operated as part of the medical services segment and of a site for a fire protection services segment production facility pushed land up ¥4.8 billion, to ¥118.0 billion. Security equipment and control stations advanced ¥10.5 billion, to ¥302.7 billion, owing to an increase in contract volume in the security services business. The completion of work to expand and modify certain hospitals managed by variable interest entities led to a decline in construction in progress and a commensurate increase in buildings and improvements as well as an increase in machinery, equipment and automobiles.

Other assets totaled ¥155.6 billion, up ¥12.0 billion, and represented 10.2% of total assets. Prepaid pension and severance costs rose ¥13.0 billion, to ¥35.0 billion, reflecting increases in the fair value of plan assets.

Total liabilities as of March 31, 2015, amounted to ¥586.7 billion, an increase of ¥6.3 billion, and accounted for 38.5%

Percentage of Consolidated Net Sales and Operating Revenue*

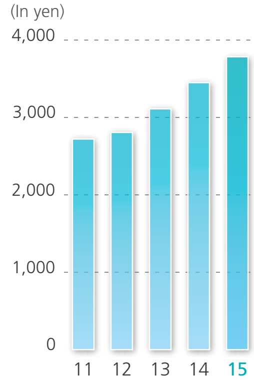
(Year ended March 31, 2015)



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

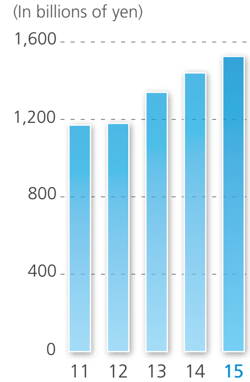
SECOM CO., LTD. Shareholders' Equity per Share

(In yen)



Total Assets

(In billions of yen)



of total liabilities and equity. Total current liabilities, at ¥286.6 billion, were down ¥8.6 billion, and represented 18.8% of total liabilities and equity. Bank loans declined ¥8.6 billion, to ¥43.9 billion, and deposits received decreased ¥1.5 billion, to ¥20.9 billion, largely because of a temporary shift in the balance of bank loans and deposits received for cash collection and deposit services. Notes and accounts payable, trade, declined ¥5.7 billion, to ¥44.3 billion, owing to the settlement of accounts related to the purchase of assets for lease and construction orders in the security services business, which rose at the previous fiscal year-end.

Total long-term liabilities increased ¥14.9 billion, to ¥300.1 billion, and represented 19.7% of total liabilities and equity. Deferred income taxes, at ¥28.4 billion, were up ¥9.3 billion, a consequence mainly of increases in the fair value of pension plan assets and investment securities. Long-term debt rose ¥6.0 billion, to ¥53.8 billion, with contributing factors including the purchase of assets for lease in the security services business.

Total SECOM CO., LTD. shareholders' equity advanced ¥72.9 billion, to ¥826.0 billion. Net income attributable to SECOM CO., LTD., less the payment of cash dividends, resulted in a ¥41.9 billion increase in retained earnings, to ¥716.5 billion. Accumulated other comprehensive income was ¥33.0 billion, up ¥31.2 billion from the previous fiscal year, as unrealized gains on securities rose ¥13.0 billion, to ¥25.6 billion, and foreign currency translation adjustments yielded income of ¥9.5 billion, compared with a loss of ¥1.9 billion in the previous fiscal year. As a result, the equity ratio was 54.1%, compared with 52.3% as of March 31, 2014.

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 strategic investments with cash generated by its operating activities.

In the period under review, net cash provided by operating activities amounted to ¥134.9 billion. Significant factors contributing to this result included net income of ¥88.5 billion and non-cash items, notably depreciation and amortization, including amortization of deferred charges, of ¥68.9 billion, which were partially offset by an increase in deferred charges of ¥17.2 billion, and an increase in inventories of ¥11.1 billion. Deferred charges consisted primarily of costs related to the installation of equipment as part of on-line security systems. (For further details, please see Note 2 (12) of the accompanying Notes to Consolidated Financial Statements.) Net cash provided by operating activities was ¥11.7 billion higher than in the previous fiscal year. Contributing factors included decreases in receivables and due from subscribers, net of allowances, owing to the collection of amount due, and in cash deposits for cash collection and deposit services, and an increase in accrued consumption tax arising from a consumption tax rate hike in the period under review.

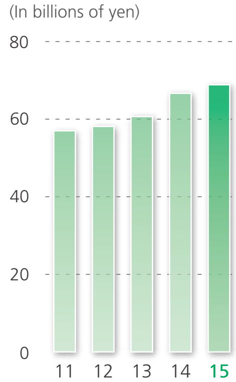
Net cash used in investing activities amounted to ¥69. 3 billion. This result reflected payments for purchases of property, plant and equipment of ¥56.3 billion—reflecting outlays for security equipment and control stations attributable to an increase in the number of security services subscribers and for the expansion and modification of hospitals managed by variable interest entities—and payments for purchases of investment securities of ¥51.6 billion, including outlays for purchases of investment securities in the insurance services business and for private equity investments in the United States, which was partially offset by proceeds from sales and redemption of investment securities of ¥38.2 billion. Net cash used in investing activities was down ¥26.0 billion from the previous fiscal year, owing mainly to a decrease in payments for purchases of investment securities.

Net cash used in financing activities amounted to ¥49.1 billion. In addition to dividends paid to SECOM CO., LTD. shareholders of ¥38.2 billion, this included a decrease in bank loans, net, of ¥8.6 billion. Net cash used in financing activities was ¥27.3 billion higher than in the previous fiscal year. Principal factors behind this result were a decrease in bank loans for cash collection and deposit services and the payment of an interim dividend—inaugurated in the period under review—and a year-end dividend.

The Company's operating, investing and financing activities in the period under review yielded net cash and cash equivalents at end of year of ¥248.6 billion, up ¥17.9 billion from net cash and cash equivalents at beginning of year, which were ¥230.8 billion.

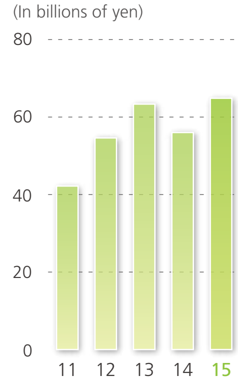
Depreciation and Amortization

(In billions of yen)



Capital Expenditures

(In billions of yen)



Cash Flows

(In billions of yen)