Financial Review

Operating Results

Overview
In the year ended March 31, 2016, 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 rose 4.0%, or ¥38.2 billion, to ¥983.4 billion. Principal factors behind this result included higher net sales and operating revenue in the security services segment—underpinned by an upsurge in revenue from on-line security systems and an increase in the number of consolidated subsidiaries—as well as in the fire protection services and medical services segments, the former due to higher orders and the latter to elevated sales of pharmaceuticals and rising patient numbers at hospitals. Despite gains in the security services, medical services and fire protection services segments, operating income slipped 2.5%, or ¥3.1 billion, to ¥118.9 billion, with contributing factors including an increase in impairment losses on long-lived assets. Nonetheless, net income attributable to SECOM CO., LTD., was up 4.8%, or ¥3.9 billion, to ¥84.1 billion, owing to, among others, a decrease in income taxes resulting from a decline in the statutory tax rate, a consequence of tax reform in Japan.

Net Sales and Operating Revenue
Net sales and operating revenue rose 4.0%, or ¥38.2 billion, to ¥983.4 billion. The security services, fire protection services, medical services, insurance services and information and communication related services segments reported increases, while the geographic information services and real estate and other services segments posted declines. (For further details, please see Segment Information below.)

Costs and Expenses
Total costs and expenses rose 5.0%, or ¥41.3 billion, to ¥864.5 billion. Cost of sales, at ¥674.5 billion, was up 4.7%, or ¥30.3 billion, and was equivalent to 68.6% of net sales and operating revenue, compared with 68.2% in the previous fiscal year, owing largely to an increase in the cost of sales ratio in the geographic information services segment.

Selling, general and administrative (SG&A) expenses rose 4.6%, or ¥7.7 billion, to ¥176.3 billion. SG&A expenses were equivalent to 17.9% of net sales and operating revenue, compared with 17.8% in the previous fiscal year.

Impairment loss on long-lived assets increased ¥5.2 billion, to ¥11.8 billion, as the Company recognized impairment losses on certain business assets in the information and communication related services segment and on certain real estate assets, the use of which it had reconsidered. Loss on sales and disposal of fixed assets, net, decreased ¥660 million, to ¥1.9 billion. Despite impairment loss on goodwill of ¥1.3 billion in the previous fiscal year, the Company did not report such a loss in the period under review.

Operating Income
Operating income slipped 2.5%, or ¥3.1 billion, to ¥118.9 billion, equivalent to 12.1% of net sales and operating revenue, down from 12.9% 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, medical services, and information and communication related services. (For further details, please see Segment Information below.)

Other Income and Expenses
Other income declined ¥1.6 billion, to ¥7.7 billion, while other expenses rose ¥680 million, to ¥4.1 billion, resulting in net other income of ¥3.6 billion, down ¥2.3 billion from the previous fiscal year. Principal factors behind this result include a decrease of ¥2.3 billion in gain on private equity investments, to ¥1.7 billion.

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, at ¥122.5 billion, was down 4.2%, or ¥5.4 billion, owing to declines in operating income and net other income.

Income Taxes
Income taxes amounted to ¥40.3 billion, a decrease of ¥5.7 billion from the previous fiscal year, and were equivalent to 32.9% of income from continuing operations before income taxes and equity in net income of affiliated companies, compared with 36.0% in the previous fiscal year. This result was due mainly to a decline in the statutory tax rate, a consequence of tax reform in Japan.

Equity in Net Income of Affiliated Companies
Equity in net income of affiliated companies rose ¥1.4 billion, to ¥7.2 billion. This result primarily reflected increases in equity in the net income of certain overseas affiliates.

Net Income Attributable to Noncontrolling Interests
Net Income attributable to noncontrolling interests amounted to ¥5.2 billion, down ¥3.0 billion from the previous fiscal year.

Net Income Attributable to SECOM CO., LTD.
Net income attributable to SECOM CO., LTD., rose 4.8%, or ¥3.9 billion, to ¥84.1 billion, equivalent to 8.5% of net sales and operating revenue. Net income attributable to SECOM CO., LTD. per share was ¥385.19, up from ¥367.37 in the previous fiscal year. At the Ordinary General Meeting of Shareholders held on June 24, 2016, a proposal to pay a year-end cash dividend of ¥70.00 was approved. As a consequence, cash dividends for the year, which also included an interim dividend—inaugurated in the previous fiscal year—of ¥65.00, increased ¥10.00, to ¥135.00 per share. However, because both the ¥65.00 per share year-end dividend for the year ended March 31, 2015, approved at the Ordinary General Meeting of Shareholders held on June 25, 2015, and the ¥65.00 per share interim dividend for the previous fiscal year, determined by the Board of Directors and paid to shareholders of record as of September 30, 2015, were paid during the period, cash dividends paid to shareholders in the period under review—the figure that appears in the financial statements—amounted to ¥130.00 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 advanced 3.7%, or ¥18.1 billion, to ¥508.1 billion. Excluding intersegment transactions, net sales and operating revenue in this segment amounted to ¥505.1 billion, equivalent to 51.4% of overall net sales and operating revenue, compared with 51.5% 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 1.4%, or ¥4.5 billion, to ¥330.8 billion, primarily reflecting an expanded lineup of value-added services that respond to diverse security needs.

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 ¥55.9 billion, up 3.9%, or ¥2.1 billion. 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 ¥33.0 billion, up 57.0%, or ¥12.0 billion, owing principally to the inclusion of results for Asahi Security, newly consolidated on December 1, 2015.

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 edged down 0.8%, or ¥647 million, to ¥85.3 billion, owing to the absence of leases of large-scale security systems, which pushed up sales in the previous fiscal year, although this was partially offset by an increase in sales of security camera systems and the inclusion of results for Kumalift, newly consolidated on August 31, 2015.

Operating income in the security services segment rose 3.6%, or ¥3.8 billion, to ¥110.9 billion. The operating margin was 21.8%, compared with 21.9% in the previous fiscal year. This increase was attributable to higher net sales and operating revenue for on-line security systems in Japan.

Fire Protection Services

The fire protection services 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 increased 7.3%, or ¥9.2 billion, to ¥135.5 billion, bolstered by a number of major orders. Operating income was up 9.1%, or ¥1.1 billion, to ¥13.7 billion, and the operating margin improved to 10.1%, from 9.9%, a consequence largely of the increase in net sales and operating revenue and efforts to constrain SG&A expenses.

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 4.9%, or ¥7.7 billion, to ¥163.7 billion. The principal factors behind this result were an increase in sales of pharmaceuticals, among others, and a rise in patient numbers accompanying the expansion and modification of hospitals operated by the aforementioned variable interest entities. Operating income climbed 92.0%, or ¥1.4 billion, to ¥2.9 billion, while the operating margin improved to 1.8%, from 1.0%, owing mainly to the recognition of an impairment loss on goodwill of certain variable interest entities in the previous fiscal year.

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 advanced 5.1%, or ¥2.1 billion, to ¥43.6 billion, spurred by higher insurance premiums due to expanded sales of fire insurance policies and the MEDCOM unrestricted cancer treatment policy. Operating income was down 14.9%, or ¥1.2 billion, to ¥6.8 billion, while the operating margin declined to 15.7%, from 19.4% in the previous fiscal year, owing to an increase 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/ground and other types of 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 edged down 0.4%, or ¥201 million, to ¥52.7 billion, despite an increase in net sales and operating revenue from services for overseas customers, as that from services for the public and private sectors in Japan declined. The segment reported an operating loss of ¥268 million, compared with operating income of ¥2.4 billion in the previous fiscal year, reflecting a higher cost ratio for services for the public sector and a provision against anticipated future losses, as well as the recognition of impairment losses on software and other assets.

Information and Communication Related Services

The information and communication related services segment focuses 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 advanced 3.5%, or ¥1.9 billion, to ¥55.8 billion, bolstered by the launch of the SECOM *Anshin* My Number service, among others. Operating income fell 65.5%, or ¥586 million, to ¥308 million, and the operating margin declined to 0.6%, from 1.7% in the previous fiscal year, with the recognition of impairment losses on certain business assets among factors behind these results.

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 slipped 1.9%, or ¥849 million, to ¥44.1 billion, as results in the real estate development and sales business flagged. Operating income, at ¥4.9 billion, was down 3.5%, or ¥180 million. The operating margin edged down to 11.1%, from 11.3% in the previous fiscal year.

Financial Position

Total assets as of March 31, 2016, amounted to ¥1,681.3 billion, ¥155.5 billion higher than at the end of the previous fiscal year. Total current assets, at ¥705.5 billion, were up ¥89.5 billion, and accounted for 42.0% of total assets. Cash and cash equivalents totaled ¥229.0 billion, a decline of ¥19.6 billion, owing to the fact that net cash used in investing and financing activities exceeded net cash provided by operating activities. (For further details, please see Cash Flows, which follows this section.) Notes and accounts receivable, trade, advanced ¥8.6 billion, to ¥136.6 billion. The consolidation of Asahi Security was the principal cause of an increase in cash deposits for armored car services of ¥77.9 billion, to ¥128.3 billion. Inventories, at ¥63.8 billion, were ¥3.2 billion higher, reflecting an increase in work in process and other factors. Due from subscribers was up ¥5.8 billion, to ¥43.7 billion, owing to the consolidation of Asahi Security. Short-term investments rose ¥6.4 billion, to ¥31.4 billion, as bonds due within one year formerly included in investment securities were reclassified to this category. The current ratio was 1.8 times, compared with 2.1 times at the previous fiscal year-end.

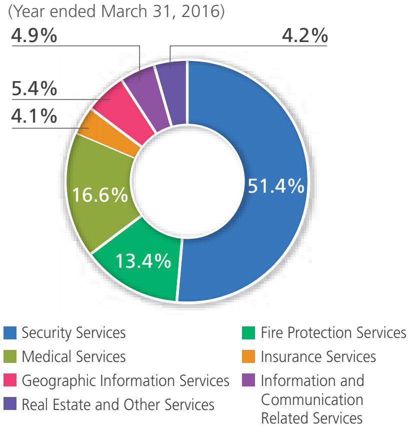
Investments and long-term receivables declined ¥21.2 billion, to ¥336.4 billion, equivalent to 20.0% of total assets. Investment securities, at ¥212.5 billion, were down ¥18.2 billion, a consequence of a downturn in the fair value of investment securities and the reclassification of bonds in current assets.

Property, plant and equipment, less accumulated depreciation, rose ¥17.5 billion, to ¥414.2 billion, and represented 24.6% of total assets. Machinery, equipment and automobiles rose ¥41.7 billion, to ¥154.8 billion owing primarily to the consolidation of Asahi Security. An increase in the number of consolidated subsidiaries and the expansion and modification of hospitals managed by variable interest entities were among factors that led to an increase in buildings and improvements up ¥15.8 billion, to ¥316.6 billion.

Other assets totaled ¥225.2 billion, up ¥69.7 billion, and accounted for 13.4% of total assets. This was largely attributable to increases of ¥58.6 billion in goodwill, to ¥90.3 billion, and ¥13.7 billion in other intangible assets, to ¥53.9 billion, arising from the consolidation of Asahi Security.

Percentage of Consolidated Net Sales and Operating Revenue*

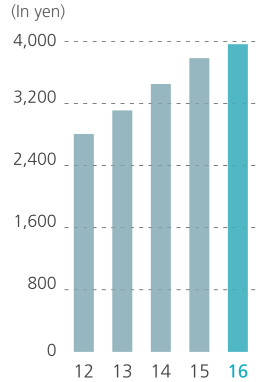
(Year ended March 31, 2016)



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

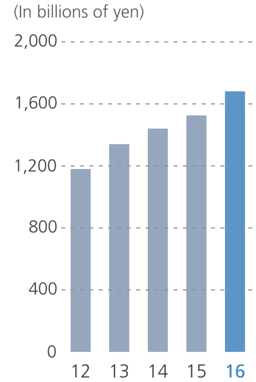
SECOM CO., LTD. Shareholders' Equity per Share

(In yen)



Total Assets

(In billions of yen)



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Total liabilities as of March 31, 2016, amounted to ¥704.7 billion, an increase of ¥118.0 billion, and represented 41.9% of total liabilities and equity. Total current liabilities, at ¥387.8 billion, were up ¥101.2 billion, accounting for 23.1% of total liabilities and equity. Deposits received climbed ¥84.1 billion, to ¥105.0 billion, owing primarily to the consolidation of Asahi Security, which resulted in an increase in deposits received for armored car services. Bank loans increased ¥11.7 billion, to ¥55.7 billion.

Total long-term liabilities rose ¥16.8 billion, to ¥317.0 billion, and represented 18.9% of total liabilities and equity. Unearned premiums and other insurance liabilities rose ¥6.0 billion, to ¥105.6 billion. Long-term debt, at ¥61.6 billion, was up ¥7.8 billion, a consequence of the consolidation of Asahi Security, which led to an increase in lease liabilities.

Total SECOM CO., LTD. shareholders' equity advanced ¥39.3 billion, to ¥865.3 billion. Net income attributable to SECOM CO., LTD., less the payment of cash dividends, resulted in a ¥55.6 billion increase in retained earnings, to ¥772.1 billion. Accumulated other comprehensive income was ¥16.9 billion, down ¥16.0 billion, as unrealized gains on securities declined ¥7.4 billion, to ¥18.2 billion, and pension liability adjustments yielded a loss of ¥7.9 billion, compared with ¥2.1 billion. As a result, the equity ratio was 51.5%, compared with 54.1% as of March 31, 2015.

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.

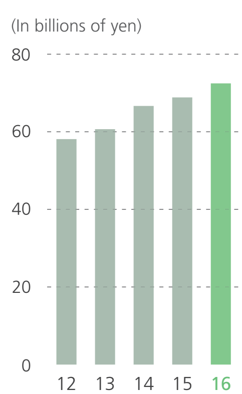
In the period under review, net cash provided by operating activities amounted to ¥142.9 billion. Factors behind this result included net income of ¥89.3 billion and depreciation and amortization, including amortization of deferred charges of ¥72.5 billion, a non-cash item, which were partially offset by an increase in deferred charges of ¥15.5 billion. Deferred charges consisted primarily of costs related to the installation of equipment for 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 ¥7.9 billion higher than in the previous fiscal year, despite a decrease in accrued consumption tax, which had increased in the previous period as a consequence of a consumption tax rate hike, owing to such factors as a smaller increase in inventories and increases in accrued income taxes, and unearned premiums and other insurance liabilities.

Net cash used in investing activities amounted to ¥132.7 billion. This result was due principally to acquisitions, net of cash acquired, of ¥73.5 billion, owing to the acquisition of Asahi Security, and payments for purchase of property, plant and equipment of ¥59.5 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, as well as to payments for purchases of investment securities of ¥49.4 billion, primarily in the insurance services business and through private equity investments in the United States. These were partially offset by proceeds from sales and redemptions of investment securities of ¥55.0 billion. Net cash used in investing activities was ¥63.4 billion higher than in the previous fiscal year, owing mainly to an increase in acquisitions, net of cash acquired.

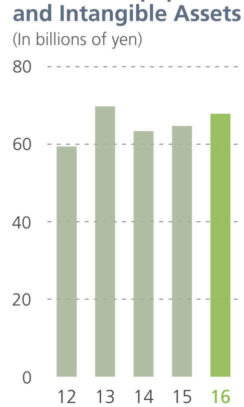
Net cash used in financing activities amounted to ¥29.0 billion. This result reflected dividends paid to SECOM CO., LTD. shareholders of ¥28.4 billion and repayments of long-term debt of ¥15.2 billion, which were partially offset by proceeds from long-term debt of ¥9.4 billion and an increase in bank loans, net, of ¥8.7 billion. Net cash used in financing activities was ¥20.1 billion lower than in the previous fiscal year. Factors contributing to this result include an increase in bank loans and a decline in dividends paid to SECOM CO., LTD. shareholders, which had increased in the previous year with the payment of a newly inaugurated interim dividend, as well as 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 ¥229.0 billion, down ¥19.6 billion from net cash and cash equivalents at beginning of year, which were ¥248.6 billion.

Depreciation and Amortization



Purchases of Property, Plant and Equipment and Intangible Assets



Cash Flows