

# Management’s Discussion and Analysis

## Analysis of Business Performance

### Operating Environment

Consolidated Financial Results for the Fiscal Year Ended March 31, 2016 (April 1, 2015 – March 31, 2016)

In the year under review, the general trend toward modest recovery continued in Japan, but the sense of opaqueness in the economy grew slightly during the second half of the fiscal year. Moreover, several trends appeared that present the risk of placing downward pressure on the domestic economy. These trends included stagnant consumer spending stemming from poor growth in wages as well as increased uncertainty in the global economy arising from economic slowdown and geopolitical risks in China, Europe, and emerging countries.

In regard to public safety in Japan, crime is declining rapidly, as indicated by the fact that the number of reported crimes in 2015 reached a new post-World War II low. However, there seems to be no end to the occurrence of crimes that affect people’s everyday lives, such as crimes targeting women and children and special-case scams aimed at senior citizens. As the same time, the range of risks faced by society is diversifying, now including such threats as cybercrimes, information leaks, natural disasters, and frequently occurring international terrorism. ALSOK thus realizes the need for it to provide a wide range of services that respond to social needs as a company responsible for an important piece of social infrastructure supporting the safety and security of society.

### Operating Results

In this environment, based on its policy of “responding accurately to customers’ various risks and outsourcing needs,” the ALSOK Group continued working to strengthen and expand its mainstay security services operations while also growing businesses in peripheral fields that are highly compatible with security services, such as long-term care and building maintenance. At the same time, we pursued cost

reductions by improving efficiency in security operation divisions by having human resources handle a broader range of functions.

Due to the above factors, net sales rose 4.4% year on year, to ¥381,818 million; operating income was up 26.4%, to ¥29,036 million; ordinary income rose 24.2%, to ¥30,667 million; and profit attributable to owners of parent increased 32.0%, to ¥17,868 million.

## Sales by Business Segment

### Security Services

#### Electronic Security Services

In Security Services, the Electronic Security Services segment promoted sales of Control System S-860 as well as ALSOK-GV (read as “ALSOK G-five”), a service that combines Internet-based security services utilizing image monitoring with ALSOK Information Service, which allows for information regarding when employees arrive at or leave premises to be viewed online while also providing Internet-based remote control functionality for equipment. In addition, October 2015 saw the launch of the new ALSOK Image Cloud Service. This affordable yet highly functional service provides safe, cloud-based storage for images recorded by security cameras and enables the stored images to be viewed via the Internet on a smartphone or PC. We also deployed wide-ranging initiatives to respond to demand for stronger security to protect against leakage of confidential information, which included taking steps to address the Social Security and Tax Number System (“My Number” system).

These initiatives resulted in higher revenues from sales of access management systems, security cameras, and other equipment.

In services for individual users, we witnessed smooth progress in orders for the HOME ALSOK APARTMENT AND CONDOMINIUM PLAN, a service for housing complexes, as well as services for protecting the safety of senior citizens provided to municipal governments. Also during the year under review, we enhanced our

product lineup with the launch of Home Security Basic, the new standard of home security services equipped with cutting-edge features that respond to such trends as the rapid spread of smart-phones and the diversification of the communication methods available to different homes.

### Stationed Security Services

In the Stationed Security Services segment, orders for stationed security at commercial complexes as well as orders for temporary security at events contributed to higher sales. At the same time, we realized further sales growth by acquiring orders in new fields, such as train station management and wholesale market security.

### Transportation Security Services

In the Transportation Security Services segment, orders for the Total ATM Management System buoyed sales amid a growing trend toward outsourcing operation and management of ATMs installed in financial institutions and convenience stores.

Due to the above, net sales in the Security Services segment increased 4.8% year on year, to ¥315,730 million, and operating income rose 21.5%, to ¥32,707 million.

### General Property Management and Fire Protection Services

In the General Property Management and Fire Protection Services segment, we bolstered intra-Group coordination in order to strengthen our system for providing one-stop response to customer needs related to the maintenance, management, and operation of buildings, condominiums, and other facilities, resulting in the smooth acquisition of facility-related orders. In addition, sales were up for ALSOK Aerial Photography Services, which utilize aerial robots to efficiently manage large-scale solar power installations and help maintain high levels of generation efficiency, as well as for fire extinguishing equipment and charging facilities for electric vehicles. However, revenue from installation work was down. As a result, net

sales in the General Property Management and Fire Protection Services segment decreased 5.7% year on year, to ¥54,976 million, while operating income increased 10.1%, to ¥4,376 million.

### Long-Term Care Services Services / Other Services

In the Long-term Care Services / Other Services segment, net sales increased 77.1% year on year, to ¥11,110 million, and operating income rose 40.7%, to ¥729 million, as a result of the improved performance of HCM Corporation and ALSOK Care & Support Co., Ltd., which were both consolidated in the fiscal year ended March 31, 2015. Going forward, the Group will fully leverage its management resources to develop its conventional long-term care service operations while also creating new hybrid services by fusing security services and long-term care.

### Analysis of Individual Items

In the year under review, net sales increased ¥16,068 million, or 4.4%, year on year, to ¥381,818 million.

Cost of sales was ¥282,880 million, primarily due to a ¥3,978 million increase in labor costs and a ¥5,601 million increase in miscellaneous expenses.

Selling, general and administrative expenses amounted to ¥69,901 million due to a ¥1,053 million increase in salaries and allowances.

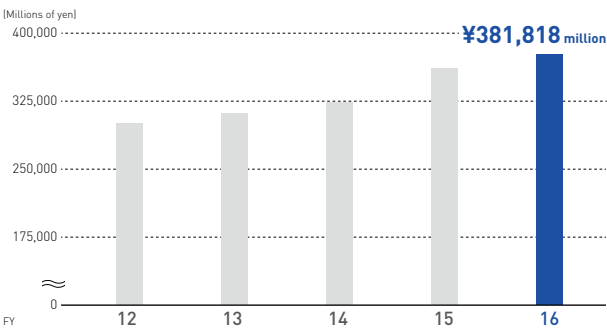
Ordinary income rose ¥5,966 million, or 24.2%, to ¥30,667 million.

Extraordinary income was up due to a ¥58 million increase in gain on sales of investment securities and a ¥19 million increase in compensation income.

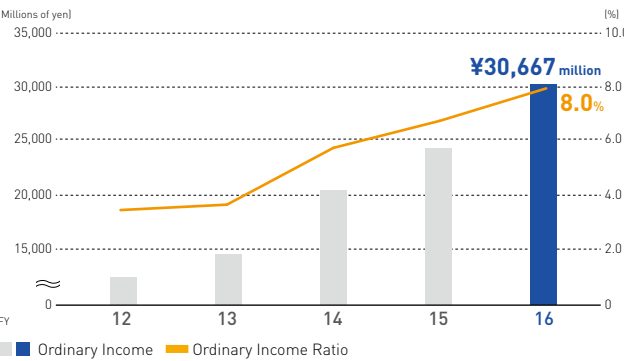
Extraordinary loss rose as a result of a ¥75 million increase in impairment loss.

Profit attributable to owners of parent increased ¥4,334 million, or 32.0%, to ¥17,868 million.

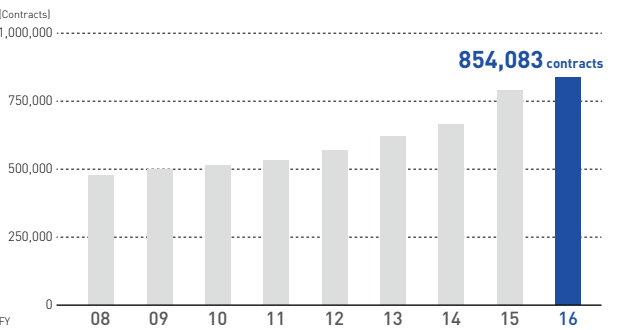
### Net Sales



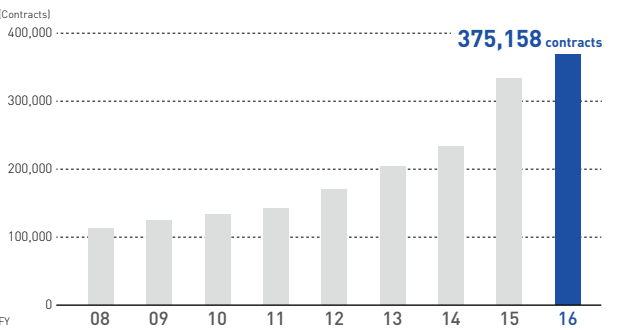
### Ordinary Income / Ordinary Income Margin



### Number of Electronic Security Services Contracts



### Number of Contracts for Individual Users



Forecast for the Fiscal Year Ending March 31, 2017

In the fiscal year ending March 31, 2017, the benefits of various government measures will be felt in the Japanese economy.

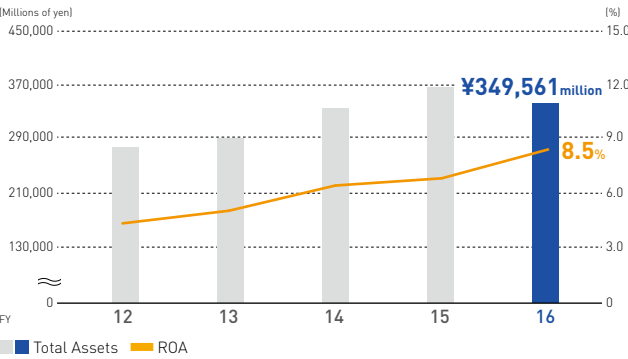
However, we will need to remain wary of the opaque nature of overseas markets as well as developments in the financial market and trends in corporate business confidence.

In the security industry, traditional security needs will remain present. At the same time, we expect to see expanding business opportunities resulted from the accelerated development of both tangible and intangible social infrastructure as part of post-earthquake reconstruction efforts, national resilience improvement plans, and preparations for large-scale events. However, intensified competition, due in part to decreases in earnings among financial institutions resulted from Japan’s negative interest rate policy, is forecast to create a harsh operating environment for the security industry during the fiscal year ending March 31, 2017. Success under these difficult conditions will require that we promote the further differentiation of our products and services.

ALSOK has always been a company that protects the bodies, lives, and assets of its customers, and it has continued to build upon its security services track record since its establishment. In addition to growing its security services operations, the entire Group will actively develop businesses in peripheral fields going forward as it creates products and services that live up to customer expectations and improve its business performance.

In the fiscal year ending March 31, 2017, the ALSOK Group forecasts net sales of ¥425,000 million, up 11.3% year on year; operating income of ¥32,800 million, up 13.0%; ordinary income of ¥35,000 million, up 14.1%; and profit attributable to owners of parent of ¥22,000 million, up 23.1%, results that will be achieved through the implementation of initiatives such as those described above.

Total Assets / ROA



Financial Position

Assets

Total assets at the end of the year under review decreased ¥24,301 million, or 6.5%, from the previous fiscal year-end, to ¥349,561 million. Total current assets decreased ¥22,432 million, or 10.7%, to ¥188,013 million, and total noncurrent assets decreased ¥1,869 million, or 1.1%, to ¥161,548 million.

The ¥22,432 million decrease in current assets was primarily due to a ¥3,363 million decrease in cash and deposits, and a ¥23,617 million decrease in cash for Transportation Security Services, which offset a ¥1,623 million increase in notes and accounts receivable–trade.

The ¥1,869 million decrease in noncurrent assets was mainly attributable to a ¥1,022 million decrease in goodwill and a ¥9,173 million decrease in net defined benefit asset, which offset a ¥4,175 million increase in buildings and structures, net and a ¥5,222 million increase in deferred tax assets.

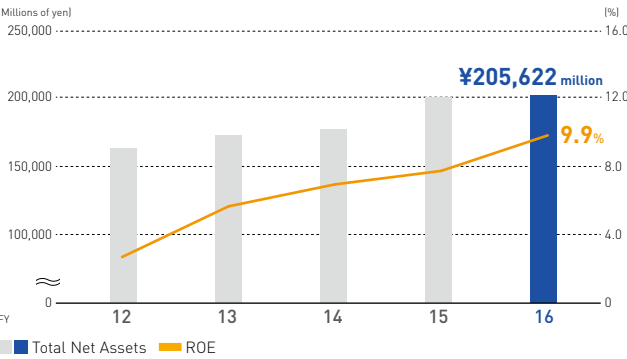
Liabilities

Total liabilities at the end of the year under review decreased ¥25,560 million, or 15.1%, from the previous fiscal year-end, to ¥143,939 million. Total current liabilities decreased ¥43,242 million, or 33.1%, to ¥87,222 million, and total noncurrent liabilities increased ¥17,681 million, or 45.3%, to ¥56,717 million.

The ¥43,242 million decrease in current liabilities was a result of factors such as a ¥38,415 million decrease in short-term loans payable and a ¥5,501 million decrease in accrued consumption taxes.

The ¥17,681 million increase in noncurrent liabilities was due to a ¥10,013 million increase in long-term loans payable and a ¥5,725 million increase in net defined benefit liability.

Total Net Assets / ROE



Net Assets

Total net assets at March 31, 2016, were up ¥1,258 million, or 0.6%, from the previous fiscal year-end, to ¥205,622 million.

Cash and Cash Equivalents

The balance of cash and cash equivalents (hereafter referred to as “cash”) at March 31, 2016, was ¥35,630 million, down from ¥37,976 million at March 31, 2015. This decrease was because net cash provided by operating activities was ¥19,678 million, net cash used in investing activities was ¥12,808 million, and net cash used in financing activities was ¥9,176 million.

Cash flows from operating activities

As a result of our operating activities in the year under review, net cash provided by operating activities increased 0.1% year on year, to ¥19,678 million. Principal items increasing cash included ¥30,682 million in income before income taxes, an increase of 24.5% year on year, and ¥12,109 million in depreciation and amortization, an increase of 6.9%. Conversely, major items decreasing cash included ¥3,538 million in decrease in assets and liabilities for Transportation Security Services, a decrease of 69.6%; ¥8,378 million in income taxes paid, a decrease of 2.3%; and ¥2,083 million in increase in net defined benefit asset, an increase of 5.8%.

Increase (decrease) in assets and liabilities for Transportation Security Services includes the increases and decreases in funds procured for transportation security services that are included in cash for Transportation Security Services and short-term loans payable.

Cash flows from investing activities

Net cash used in investing activities in the year under review was ¥12,808 million, a 47.3% year-on-year decrease. The primary factors were ¥13,736 million in purchase of property, plant and equipment, up 13.0% from the previous fiscal year, and ¥2,692 million in purchase of investment securities, up 192.9%.

Cash flows from financing activities

Net cash used in financing activities was ¥9,176 million, compared with net cash provided by financing activities of ¥6,596 million in the previous fiscal year. Principal items increasing cash included ¥12,690 million in proceeds from long-term loans payable, a year-on-year increase of 1,279.3%. Conversely, major items decreasing cash included ¥10,900 million in net decrease in short-term loans payable, compared with net increase in short-term loans payable of ¥15,802 million in the previous fiscal year; ¥4,071 million in cash dividends paid, an increase of 15.7%; and ¥3,519 million in repayment of long-term loans payable, an increase of 2.1%.

Dividend Policies

The ALSOK Group considers the return of earnings to shareholders to be a top management priority, and its basic policy is to distribute profits to shareholders based on its operating results while fortifying internal reserves. The Group uses internal reserves for investments in R&D required for future growth and development, qualitative upgrades to information systems, and capital investment for new businesses as it works to improve corporate value.

Also, it is the policy of the ALSOK Group to issue dividends from retained earnings twice a year as interim and year-end dividends. The year-end dividend is decided at the General Shareholders’ Meeting, while the interim dividend is decided by the Board of Directors.

Accordingly, for the fiscal year ended March 31, 2016, in consideration of results in the year under review, results forecasts for the current fiscal year, and capital investment plans, the Company paid an annual dividend of ¥50.00 per share, including an interim dividend of ¥20.00 per share, for a consolidated payout ratio of 28.1%.

Risk Information

In relation to the ALSOK Group’s business and accounting circumstances, the following items can potentially have significant effects on the judgment of investors. Future-related information mentioned below was deemed appropriate by the Group as of June 24, 2016, the date on which the 51th Securities Report was filed.

- 1. Sales Depending on a Specific Business Sector  
Sales from the financial institutions sector accounted for over 20% of the Group’s total sales in the fiscal year ended March 31, 2016. Consequently, trends in the economic environment surrounding financial institutions, including the possible cancellations of existing security service contracts due to the elimination or consolidation of branch locations, can have a considerable effect on the Group’s operating performance. Therefore, the Group will continue to aggressively advance sales promotion toward other business sectors in order to find new clients as well as maintain and develop the firm relationship with existing clients in the financial institutions sector.
- 2. Electronic Security Services Business  
Of the Group’s total sales, 43.8% are dependent on the Electronic Security Services business. The effective operation of the Electronic Security Services business requires continuous capital investment for structuring and maintaining operational infrastructures such as the preparation of Guard Centers and depots, vehicles for Electronic Security Services and communication systems, as well as personnel expenses for Guard Center staff and security staff. Should the Group fail to enter into a certain volume of Electronic Security Services contracts due to any of a wide range of factors associated with the Group’s Electronic Security Services business, the Group’s operating performance can be affected. Therefore, we have tried to diversify our business so that we can minimize business risks.

3. Cash for Transportation Security Services  
The Group uses its own funds or funds financed through overdrafts as cash to be used in the CD machines installed by the subsidiaries of financial institutions in their business partners' stores and offices or cash used to deposit advances for Cash Deposit Machine On-line System contracts. For this reason, should there be an increase in interest rates associated with cash procured for these purposes, the Group's operational performance could be adversely affected. Consequently, the Group must renegotiate the pricing conditions defined in contracts between the Group and its clients. Furthermore, the Company has subscribed to cash securities transport insurance to cover any damage or loss that may occur during the transportation or storage of such cash.

4. Dependency on a Specific Equipment Supplier  
The Group mostly depends on specific companies for development and provision of the center equipment installed in the Guard Centers. Should any difficulty arise in the provision of such center equipment due to natural disasters or other reasons, the normal operation of the Guard Centers could be affected. As for provision involving the center equipment as well as main equipment used for the offer of Electronic Security Services, the Group enters into a master agreement for commodity purchases to provide for anticipated quantities of items. Furthermore, the Group holds certain levels of spare items for maintenance to allow for emergencies.

5. Adaptation to Changes in the Technological Environment  
The development of security-related equipment and the adoption of state-of-the-art ICT technologies are indispensable to the Group's adequate provision of security services, since we need to deal with "increasingly complicated and heinous crimes," "expansion in crime fields such as cyberattacks, etc.," "obsolescence of existing facilities due to the sophistication of information communication infrastructures," and "advances in a wide range of operations applying ICT technology". Should our adaption to technological progress fall behind the changes in the technological environment, the Group's operating performance could be negatively affected. Therefore, the ALSOK Group continues to make efforts in the development of security-related equipment and advanced ICT technologies principally in the R&D Department of the Group. At the same time, we work to avoid risk by staying abreast of the latest technology trends in communications, devices and, other technologies.

6. Management of Client Information  
In order to conclude a security service contract with clients, the Group obtains a significant amount of information about them including their names, addresses and phone numbers of related parties, as well as various information about the clients' premises where security services are to be provided, and utilizes that essential information for the execution of security services and business activities. If any problem, whether inevitable or not, should arise,

the Group may suffer for unfavorable reputation and legal claim for damages. We, therefore, manage client information properly through employee education and careful observation of subcontractors. These measures enable us to avoid leaking, losing, and deleting personal information. As a further precaution, the ALSOK Group has Leakage of Personal Information Insurance, which covers all Group companies.

7. Ensuring Human Resources  
In recent years, Japanese society has been rapidly aging due to a combination of extended average life expectancy and a plunge in the birthrate. Although it can be anticipated that these trends will lead to a rise in the need for ALSOK's security services, it could become more difficult to recruit younger workers in this labor-intensive industry. We established a recruitment association with the aim of strengthening the cooperative structure in recruitment of the Group companies. We also established a company to re-employ experienced retired workers to secure high-quality labor as a group whole. In addition, we correspond to demands such as applicants of homecoming as possible and will keep the environment for employees to continuously work in the Group. Furthermore we established a new company which reemploys experienced retired workers for the purpose of securing a high-quality labor force. In addition, formulation for more efficient operational structure is in progress by the introduction of security services and security robots which utilize ICT.

8. Legal Restrictions  
In order to provide our clients with various security and other services, the Group is subject to a variety of legal restrictions, including major ones stated in the table below. Should any of these legal restrictions be amended or abolished, or any new legal provisions established, the Group's operating performance could be affected.

9. Measures in Relation to Natural and Other Disasters  
In the event in which unprecedented natural disaster were to occur, normal signal transmission / reception from / to the clients would become unavailable, causing serious difficulties such as the suspension of our security services. In such cases, the resulting claims for damages and the decline in public trust of the Group could affect the operating performance and future business development of the Group. In addition, the Group may be compelled to pay huge expenses to recover damaged Guard Centers and other facilities. The Group has made backups for the Guard Centers through the Support Center to prepare for damage caused by natural disaster as a business continuity plan (BCP) of security system. Moreover, the Group established system servers, which receive a security alarm signal from throughout Japan, in two Network Centers and make a backup system according to the priority. Preparing for major wide-area natural disaster, the Group will reduce risk by taking measures for each stage.

10. Risk of Massive Disasters  
Should a major earthquake occur, or there be wind and flood damage, and following disasters such as long-term power failure occur, the Group's networks or other operational infrastructure could stop functioning, which may disrupt its ability to provide security and other services. Moreover, such disasters could damage the Group's assets, such as security equipment located on clients' premises, forcing the Group to repair or replace those assets. As a result, the Group's operating performance or financial position could be adversely affected. Therefore, the Group has developed a number of precautionary measures based on its wealth of security-related experience and expertise. It has formulated disaster response rules in accordance with disaster response

regulations, established a BCP and other response manuals, stockpiled necessary disaster prevention items, and developed a flexible nationwide response network. It also conducts periodic disaster prevention training and education and other precautionary measures. As an approach to not let the ATMs suspend operation if at all possible in the event of natural disaster, we obtained ISO 22301 certification in March 20, 2014. This will be the nation's first as a security service targeting at Transportation Security Services which charges cash for ATMs the ALSOK Group manages and trouble-shooting operation for ATMs. Hereafter, the Group will enhance the structure and contribute to the preservation of social infrastructure.

Major Operation	Relevant Laws	Competent Authorities, etc.
Electronic Security Services Stationed Security Services Transportation Security Services	Security Business Law / Road Traffic Law	National Public Safety Commission
	Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors	Japan Fair Trade Commission, Small and Medium Enterprise Agency
	Telecommunications Business Law / Radio Law	Ministry of Internal Affairs and Communications
Electronic Security Services General Property Management and Fire Protection Services	Construction Business Act	Ministry of Land, Infrastructure, Transport and Tourism
	Act on Ensuring Fair Electric Business Practices	Ministry of Economy, Trade and Industry
Electronic Security Services	Electrical Appliance and Material Safety Act	Ministry of Economy, Trade and Industry
	The Specified Commercial Transaction Act	Ministry of Economy, Trade and Industry / Consumer Affairs Agency
	Consumer Contract Act	Consumer Affairs Agency
Transportation Security Services, Long-term Care, and Other Services	Truck Transport Business Law / Freight Forwarding Business Law / Road Trucking Vehicle Law	Ministry of Land, Infrastructure, Transport and Tourism
Transportation Security Services	Warehousing Business Law	Ministry of Land, Infrastructure, Transport and Tourism
Stationed Security Services	Act on Penal Detention Facilities and Treatment of Inmates and Detainees	Ministry of Justice
	Act on Special Districts for Structural Reform	Cabinet Office
General Property Management and Fire Protection Services	Fire and Disaster Management Act	Ministry of Internal Affairs and Communications
	Fire Prevention Ordinance	Each municipality
	Pharmaceutical and Medical Device Act / Act on Maintenance of Sanitation in Buildings	Ministry of Health, Labour and Welfare
	Waste Disposal Act	Ministry of the Environment
	Building Lots and Buildings Transaction Business Law / Architect Act / Act on Advancement of Proper Condominium Management	Ministry of Land, Infrastructure, Transport and Tourism
	Electricity Business Act / Law Concerning the Securing of Safety and the Optimization of Transaction of Liquefied Petroleum Gas	Ministry of Economy, Trade and Industry
Long-term Care and Other Services	Correspondence Delivery Act	Ministry of Internal Affairs and Communications
	Worker Dispatching Act / Employment Security Act	Ministry of Health, Labour and Welfare
	Long-Term Care Insurance Act	Ministry of Health, Labour and Welfare / Each prefecture / Each municipality
	Insurance Business Law / Financial Instruments and Exchange Act / Act on Prevention of Transfer of Criminal Proceeds	Financial Services Agency
	Law About the Adequacy of Duties of the Detective Business	National Public Safety Commission
	Personal Information Protection Law	Consumer Affairs Agency / Ministry of Economy, Trade and Industry / National Public Safety Commission
	Act on Special Measures to Prevent and Correct Shift for Consumption Tax	Japan Fair Trade Commission / Small and Medium Enterprise Agency / Consumer Affairs Agency / National Public Safety Commission
	Act Against Unjustifiable Premiums and Misleading Representations	Consumer Affairs Agency