

## Management's Discussion and Analysis

### Analysis of Business Performance

#### Operating Environment

##### Consolidated Financial Results for the Fiscal Year Ended March 31, 2017 (April 1, 2016–March 31, 2017)

In the year under review, the general trend toward modest recovery continued in Japan as improvements were seen in corporate business sentiment, investment, and exports during the second half of the fiscal year as the inauguration of the Trump administration in the United States stimulated yen depreciation, all in the midst of ongoing improvements in the job market and wages. Despite the steady recovery of the U.S. economy, the global economy became increasingly opaque as a result of rising geopolitical risks, such as those associated with terrorist attacks by ISIS and the issues surrounding North Korea, as well as concerns regarding the United Kingdom's decision to leave the European Union and the trend toward protectionism. Accordingly, the current operating environment requires ongoing caution, and this need for caution extends to the economic policies to be implemented by the Trump administration in the United States.

In regard to public safety in Japan, the number of reported crimes is declining rapidly and has set a new record for post-World War II lows each year since 2015, coming to approximately 990,000 in 2016. However, there seems to be no end to the occurrence of crimes that affect people's everyday lives, such as malicious crimes and special-case scams targeting senior citizens and differently abled individuals as well as crimes aimed at women and children. At the same time, the range of risks faced by society is diversifying, now including such threats as natural disasters, cybercrimes, information leaks, and frequently occurring acts of 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 service operations while also growing businesses in peripheral fields that are highly compatible with security services, such as long-term care and facility management and other building maintenance service. At the same time, we pursued cost reductions through efficiency improvements in security operation divisions realized by having human resources handle a broader range of functions as well as through the consolidation of Guard Centers.

Due to the above factors, consolidated net sales rose 8.3% year on year, to ¥413,343 million, and profit attributable to owners of parent increased 2.6%, to ¥18,330 million. These increases were also due in part to new M&A activities conducted in long-term care service operations. Meanwhile, operating income was down 2.1%, to ¥28,422 million, and ordinary income declined 1.2%, to ¥30,309 million, due to the impacts of higher retirement benefit expenses and labor shortages.

### Sales by Business Segment

#### Security Services

##### Electronic Security Services

In Security Services, the Electronic Security Services segment promoted sales of various services for corporate clients. These services included 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. Another promoted offering was Control System S-860, a standard security system that is equipped with comprehensive monitoring and management services related to intrusions, natural disasters, and equipment. In services for individual users, trends in contract numbers were favorable for HOME ALSOK Premium, a sophisticated security system that provides a fine-tuned response to customer needs, as well as for Home Security Basic, the new standard of home security services boasting cutting-edge features.

#### Stationed Security Services

In the Stationed Security Services segment, the operating environment was characterized by a rising need for high-quality security and security augmentation services to address frequently occurring acts of terrorism and various other risks. Against this backdrop, sales contributions came from contracts for large-scale security operations at the G7 Ise-Shima Summit and other meetings of government leaders as well as for security operations related to new office buildings constructed as part of urban redevelopment efforts and to the 2017 Sapporo Asian Winter Games. In addition, we began offering Net de Security Guard in December 2016. This new service is an industry-first in that it allows customers to request security guards with ease via the Internet. Through this service, we aim to increase the scale of the market for temporary security services and thereby serve customers other than those that use ALSOK services on an ongoing basis, a group of customers that has previously faced difficulty placing direct requests.

#### Transportation Security Services

In the Transportation Security Services segment, solid orders for the Total ATM Management System buoyed sales amid a growing trend toward outsourcing operation and management of ATMs installed both inside and outside of financial institutions as well as an increase in ATMs that are compatible with overseas bank cards. In addition, sales contributions came from outsourcing orders for financial institution business center operations.

Also, with the aim of further expanding overseas markets, we converted partnered local security companies in Vietnam and Indonesia into consolidated subsidiaries and thereby enhanced our systems for deploying full-fledged security services operations in these countries.

Due to the above as well as to the conversion of ALSOK SHOJITSU SECURITY SERVICE CO., LTD., formerly Hitachi Security Service Co., Ltd., into a consolidated subsidiary, net sales in the Security Services segment amounted to ¥329,027 million, up 4.2% year on year. However, operating income decreased 0.9%, to ¥32,291 million, due to the impacts of higher retirement benefit expenses and labor shortages.

#### General Property Management and Fire Protection Services

In the General Property Management and Fire Protection Services segment, we focused on comprehensive management services that encompass the maintenance, management, and operation services for various facilities provided through enhanced intra-Group coordination, and orders for general property management, cleaning services, and repair work contributed to sales accordingly. Other contributions came from sales of disaster preparedness items as well as from sales of sprinklers and other fire extinguishing equipment, which were stimulated by the revision of the Fire Service Act. As a result, net sales in the General Property Management and Fire Protection Services segment increased 1.8% year on year, to ¥55,961 million, and operating income rose 12.7%, to ¥4,916 million.

#### Long-Term Care Services

In the Long-Term Care Services segment, net sales increased 228.5% year on year, to ¥24,921 million, as a result of the development of long-term care service operations at HCM Corporation and ALSOK Care & Support Co., Ltd., as well as of the expansion of the Company's operations following the conversion of Wisnet Co., Ltd., into a consolidated subsidiary. However, as we are still in the process of reforming the management at Wisnet, operating loss of ¥354 million was recorded, compared with operating loss of ¥1 million recorded in the previous fiscal year. 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

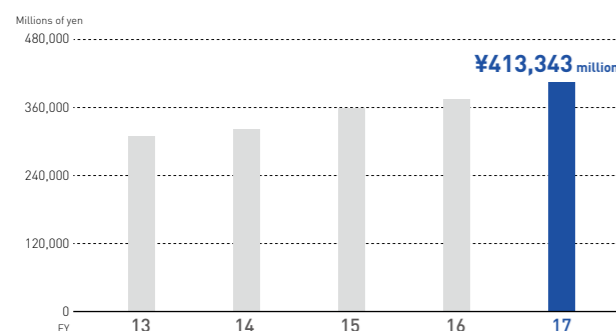
In the year under review, net sales increased ¥31,525 million, or 8.3%, year on year, to ¥413,343 million.

Cost of sales was ¥310,704 million, primarily due to a ¥14,934 million increase in labor costs and a ¥12,677 million increase in miscellaneous expenses.

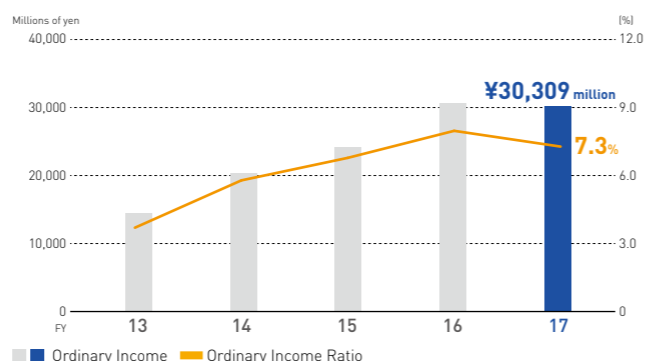
Selling, general and administrative expenses amounted to ¥74,217 million due to a ¥1,148 million increase in taxes and dues and a ¥972 million increase in retirement benefit expenses.

Ordinary income decreased ¥357 million, or 1.2%, to ¥30,309 million.

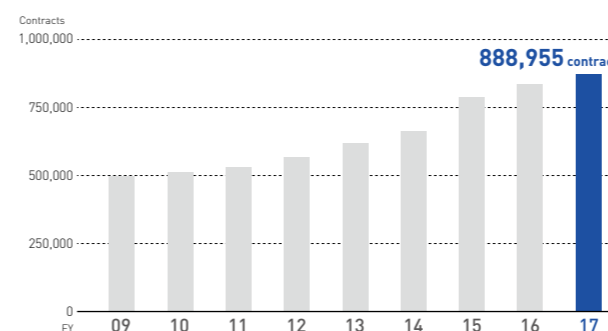
#### Net Sales



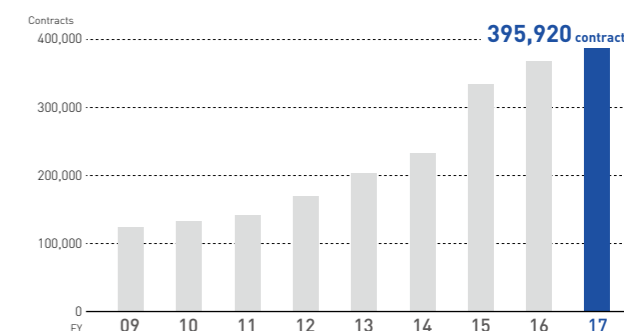
#### Ordinary Income / Ordinary Income Margin



#### Number of Electronic Security Services Contracts



#### Number of Contracts for Individual Users



Financial Section

Extraordinary income was down due to a ¥33 million decrease in compensation income.

Extraordinary loss rose following the recording of a ¥95 million provision for loss on dissolution of the employees' pension fund.

Profit attributable to owners of parent increased ¥461 million, or 2.6%, to ¥18,330 million.

Comprehensive income increased ¥17,073 million, or 296.9%, to ¥22,823 million. This increase was due to a ¥13,834 million upward adjustment attributable to remeasurements of defined benefit plans, net of tax, a result of the absence of the impacts of the reduction in the discount rate applied to retirement benefit obligations in the fiscal year ended March 31, 2016, as well as a ¥2,543 million boost stemming from valuation difference on available-for-sale securities, which itself was a result of stock price trends that were more favorable than those seen in the previous fiscal year.

**Forecast for the Fiscal Year Ending March 31, 2018**

In the fiscal year ending March 31, 2018, 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 resulting from increased outsourcing needs arising from ever-more severe labor shortfalls and the accelerated development of both tangible and intangible social infrastructure as part of preparations for large-scale events. However, decreases in earnings among financial institutions resulting from Japan's negative interest rate policy coupled with labor shortages are forecast to create a harsh operating environment in the security services market during the fiscal year ending March 31, 2018. 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 improves its business performance.

In the fiscal year ending March 31, 2018, the ALSOK Group forecasts net sales of ¥440,000 million, up 6.4% year on year; operating income of ¥33,400 million, up 17.5%; ordinary income of ¥35,000 million, up 15.5%; and profit attributable to owners of parent of ¥21,500 million, up 17.3%, results that will be achieved through the implementation of initiatives such as those described above.

**Financial Position**

**Assets**

Total assets at the end of the year under review increased ¥36,315 million, or 10.4%, from the previous fiscal year-end, to ¥385,877 million. Total current assets increased ¥11,613 million, or 6.2%, to ¥199,627 million, and total noncurrent assets increased ¥24,701 million, or 15.3%, to ¥186,250 million.

The increase in current assets was primarily due to a ¥12,836 million increase in cash and deposits and a ¥4,475 million increase in notes and accounts receivable-trade, which offset a ¥6,397 million decrease in cash for Transportation Security Services.

The increase in noncurrent assets was mainly attributable to a ¥9,249 million increase in lease assets, a ¥8,465 million increase in goodwill, and a ¥2,667 million increase in investment securities.

**Liabilities**

Total liabilities at the end of the year under review increased ¥19,707 million, or 13.7%, from the previous fiscal year-end, to ¥163,647 million. Total current liabilities increased ¥10,882 million, or 12.5%, to ¥98,104 million, and total noncurrent liabilities increased ¥8,824 million, or 15.6%, to ¥65,542 million.

The increase in current liabilities was a result of factors such as a ¥6,315 million increase in short-term loans payable and a ¥1,702 million increase in accounts payable-other.

The increase in noncurrent liabilities was due to a ¥11,194 million increase in lease obligations.

**Net Assets**

Total net assets at March 31, 2017, were up ¥16,607 million, or 8.1%, from the previous fiscal year-end, to ¥222,230 million.

**Cash and Cash Equivalents**

The balance of cash and cash equivalents (hereafter referred to as "cash") at March 31, 2017, was ¥47,549 million, up from ¥35,630 million at March 31, 2016. This increase was because net cash provided by operating activities was ¥54,561 million, net cash used in investing activities was ¥22,055 million, and net cash used in financing activities was ¥20,582 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 177.3% year on year, to ¥54,561 million. Principal items increasing cash included ¥30,215 million in income before income taxes, a decrease of 1.5% year on year; ¥18,157 million in increase in assets and liabilities for Transportation Security Services, compared with ¥3,538 million in decrease in assets and liabilities for Transportation Security Services in the previous fiscal year; and ¥13,773 million in depreciation and amortization, an increase of 13.7%. Conversely, major items decreasing cash included ¥10,617 million in income taxes paid, an increase of 26.7%.

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 ¥22,055 million, a 72.2% year-on-year increase. The primary factors were ¥11,006 million in purchase of property, plant and equipment, down 19.9% from the previous fiscal year; ¥6,424 million in purchase of shares in subsidiaries resulting in change in scope of consolidation, an item not present in the previous fiscal year; and ¥2,899 million in purchase of investment securities, an increase of 7.7%.

**Cash flows from financing activities**

Net cash used in financing activities was ¥20,582 million, an increase of 124.3% year-on-year. Major items decreasing cash included ¥5,989 million in net decrease in short-term loans payable, a decrease of 45.0%; ¥5,780 million in cash dividends paid, an increase of 42.0%; ¥4,265 million in repayments of lease obligations, an increase of 46.9%; and ¥3,826 million in repayment of long-term loans payable, an increase of 8.7%.

**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, 2017, 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 ¥55.00 per share, including an interim dividend of ¥27.50 per share, for a consolidated payout ratio of 33.2%.

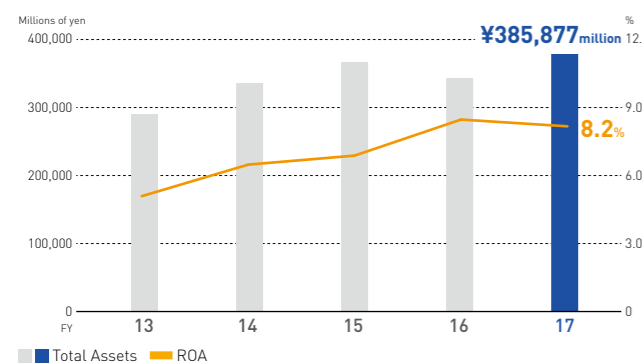
**Risk Information**

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 27, 2017, the date on which the 52nd Securities Report was filed.

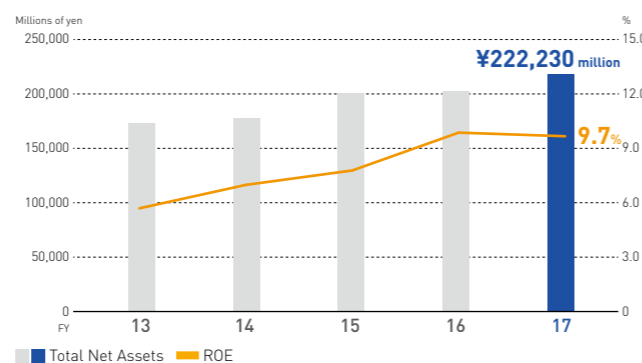
1. Sales Depending on a Specific Business Sector  
Sales from the financial institutions sector accounted for over 20% of the Group's total sales in the fiscal year ended March 31, 2017. Consequently, trends in the economic environment surrounding financial institutions, including the possible cancellations of existing security services 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 firm relationships with existing clients in the financial institutions sector.

2. Electronic Security Services Business  
Of the Group's total sales, 41.3% 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.

**Total Assets / ROA**



**Total Net Assets / ROE**



Financial Section

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, although the Group endeavors to use funds efficiently, 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 some 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 technologies such as ICT, IoT, and AI are indispensable to the Group's adequate provision of security services, since we need to deal with "sophisticated 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 technologies such as ICT, IoT, and AI". 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 technologies such as ICT, IoT, and AI 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 from an 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 responding to the hostile recruitment environment and strengthening cooperative structure in recruitment of the Group companies to enhance local recruitment and year-round recruitment. Moreover, we fixed the supply and demand of human resources between urban areas and regional areas to promote personnel exchanges and nurture the performance of employees. In addition, we established a company to re-employ experienced retired workers to secure high-quality labor for the Group as a whole. In addition, we respond to demands such as applicants of homecoming as possible and will keep the environment for employees so they continuously work in the Group. Furthermore we established a new company that reemploys experienced retired workers for the purpose of securing a high-quality labor force. In addition, formulation of a more efficient operational structure is in progress through the introduction of security services and security robots that 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 the major restrictions stated in the table on the right. Should any of these legal restrictions be amended or abolished, or any new legal provisions be established, the Group's operating performance could be affected.

9. Measures of System Failures Caused by Natural and Other Disasters

In the event in which an unprecedented natural disaster were to occur, information exchange with 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 monitoring centers and other facilities. The Group has made backup systems for the monitoring centers through the Support Center to prepare for damage caused by natural disasters as a business continuity plan (BCP) of the systems. Moreover, the Group established systems, which receive information from clients, in two Network Centers and make backup systems according to its

priorities. Preparing for major wide-area natural disaster, the Group will reduce risk by taking measures for each stage.

10. Risk Related to the Suspension of Infrastructure Function Caused by Massive Disasters

Should a major earthquake occur, or if there is wind and flood damage, and subsequent 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 to prevent ATMs suspension, if at all possible, even in the event of natural disasters, ALSOK acquired ISO 22301 certification in March 20, 2014, scoping Transportation Security Services and ATMs trouble-shooting operation within Tokyo District, with which made the Company to be nation's first certified security services provider. Hereafter, the Group will enhance the structure in order to 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 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
Long-term Care Services	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 Insurance Act / Act on Social Welfare for the Elderly	Ministry of Health, Labor and welfare / Each prefecture / Each municipality
Other Services	Correspondence Delivery Act	Ministry of Internal Affairs and Communications
	Worker Dispatching Act / Employment Security Act	Ministry of Health, Labour and Welfare
	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 Sized Enterprise Agency / Consumer Affairs Agency / National Public Safety Commission
	Act Against Unjustifiable Premiums and Misleading Representations	Consumer Affairs Agency