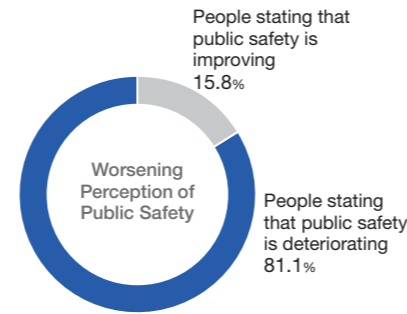


# Security Services Industry and the ALSOK Group

## Operating Environment for the Security Services Industry

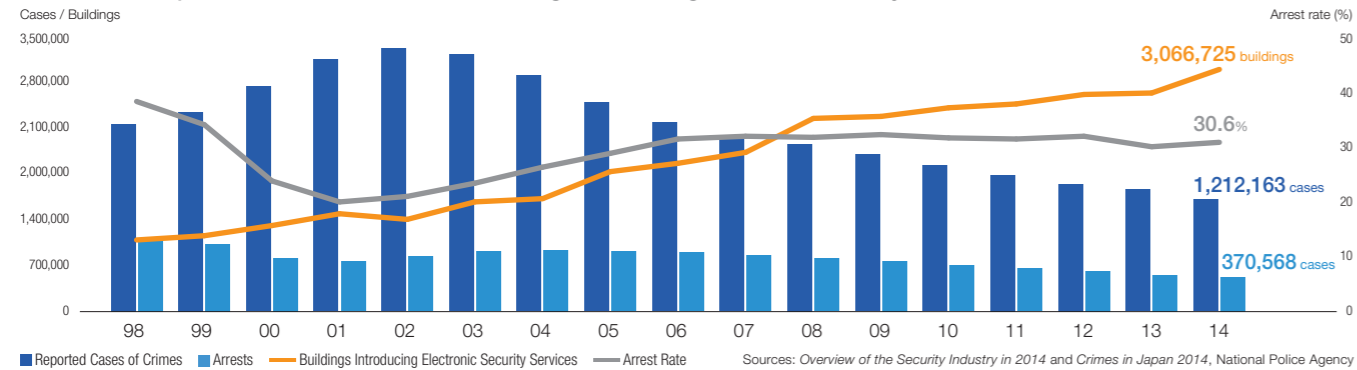
The number of reported crimes in Japan has been declining for 12 straight years and had dropped to 1.21 million in 2014, less than half the peak figure of 2.85 million in 2002. One factor behind this decline is, of course, government crime prevention initiatives. However, another contributing factor is undoubtedly the fact that security services companies have become commonly recognized as providers of services that protect the safety and security of society, which has led to a more-than-twofold increase in the number of house and other buildings introducing electronic security services, from 1.16 million in 2002 to 3.06 million in 2014.

Regardless, many people still feel that public safety is deteriorating, a sentiment that is accentuated by the rise in ever-more menacing crimes by minors, special-case scams targeting senior citizens, and cybercrimes.



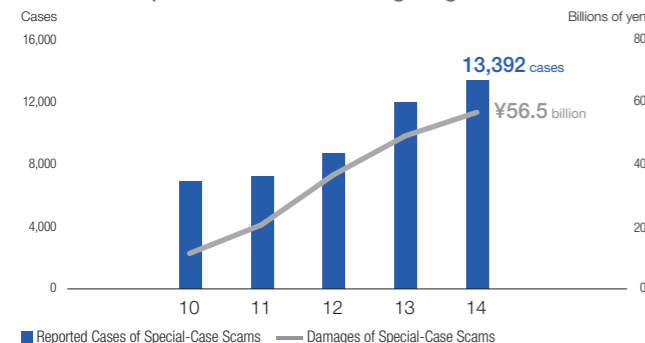
Source: Special Public Perception Survey on Public Safety, Cabinet Office (2012)

## Numbers of Reported Cases of Crimes and Buildings Introducing Electronic Security Services



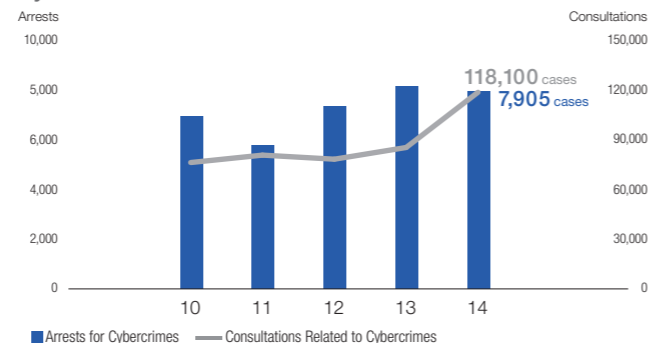
Sources: Overview of the Security Industry in 2014 and Crimes in Japan 2014, National Police Agency

## Number of Special-Case Scams Targeting Senior Citizens



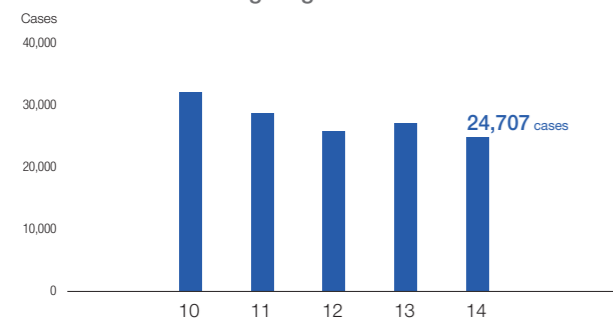
Source: Reported Cases of Special-Case Scams and Arrest Rates in 2014, National Police Agency

## Cybercrimes



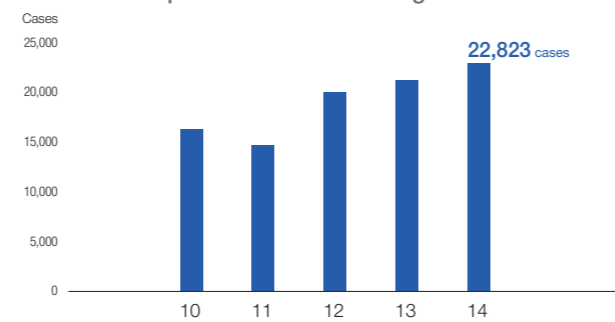
Source: Threats in Cyberspace in 2014, National Police Agency

## Number of Crimes Targeting Children



Source: The White Paper on Police 2014, National Police Agency

## Number of Reported Cases of Stalking

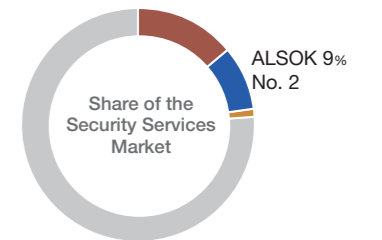


Source: Responses to Cases of Stalking and Domestic Violence in 2014, National Police Agency

## Trends in the Security Services Industry

Total annual sales in the Japanese security services industry exceeded ¥3.3 trillion.<sup>1</sup> In the fiscal year ended March 31, 2015. Presently, there are approximately 9,240<sup>1</sup> security services companies in Japan; however, including ALSOK, there are currently only two companies with annual sales of more than ¥300.0 billion. The third-largest company has sales of approximately ¥41.7 billion, and there is a wide gap between this company and ALSOK in terms of profitability. Moreover, the majority of security services companies primarily offer labor-intensive stationed security services, including traffic control<sup>2</sup>. Only a small percentage of these companies are capable of offering electronic and transportation security services, which require a large amount of capital investment. Contrary to the upward trend in the number of buildings introducing electronic security services, a trend driven by the worsening perception of public safety, the number of companies capable of providing these services is on the decline. Looking forward, we anticipate that the reorganization of small and medium-sized companies in the industry will continue to progress.

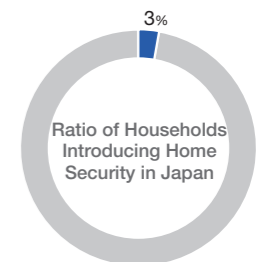
1. Source: Overview of the Security Industry in 2014, National Police Agency  
2. Some countries do not consider traffic control to be part of security services.



Source: Overview of the Security Industry in 2014, National Police Agency

## Characteristics of the Japanese Security Services Industry

In the United States, when a security alarm signal is transmitted, police generally receive the information directly from the security company's monitoring center and rush to the scene. Japan's system, however, is more centered on the security company as, after a disturbance is detected, it is the security company's security guards that rush to the scene. Working in conjunction with the company's guard centers, these security guards address the situation, contacting the police, fire, and other designated bodies as deemed necessary. For this reason, security companies hold the keys to their clients' premises. As such, Japan's system is significantly different from that of the United States.



Sources: Overview of the Security Industry in 2014, National Police Agency; Statistics of Japan 2012, Statistics Bureau, Ministry of Internal Affairs and Communications

## Numbers of Security Services Companies Providing and Buildings Introducing Electronic Security Services



Source: Overview of the Security Industry in 2014, National Police Agency

## ALSOK Group Business Model

With its electronic security services, which account for more than 40% of total net sales, and its stationed security services and transportation security services, the ALSOK Group provides a comprehensive lineup of products and services that contribute to safety and security. Moreover, we possess a nationwide network of sales offices and operating bases, and we have established unshakable trust among banks and other financial institutions, which account for approximately 25% of total net sales. Currently, we are entrusted with the management of approximately 52,000 ATMs located throughout Japan, making us the industry leader in this respect.

Furthermore, the Electronic Security Services segment operates a stock business model in which clients from the previous fiscal year generally continue their contracts, thus allowing the segment to grow on an ongoing basis. Presently, 463,053 corporate client facilities, up 5.2% year on year, and 340,548 residential households, up 43.3% year on year, are connected to ALSOK's Guard Centers through telecommunications lines, proving the stable growth potential of this business.

