

Management's Discussion and Analysis

Analysis of Business Performance

Operating Environment

Consolidated Financial Results for the Fiscal Year Ended March 31, 2015 (April 1, 2014 – March 31, 2015) In the year under review, in Japan, certain sectors of the economy were weak due to the impacts of the consumption tax hike on consumer spending as well as the effects of natural disasters. However, a modest recovery trend was seen centered on the corporate sector as a result of improvements in corporate performance, the job market, and personal income. Overseas, the overall trend was that of recovery, but there remains a need to carefully monitor the impacts of political conditions in the United States and deteriorating public safety in principal Middle Eastern countries.

In regard to public safety in Japan, there seems to be no end to the occurrence of crimes targeting women and children, scams aimed at senior citizens, and issues involving confidential information. At the same time, there is a pressing need to prepare for natural disasters. For these reasons, the safety and security needs of society are growing more diverse.

Operating Results

In this environment, the ALSOK Group continued working to strengthen its mainstay security services operations while also expanding businesses in peripheral fields that are highly compatible with security services, such as nursing care and building maintenance. At the same time, we pursued cost reductions by consolidating functions in back-office and operating divisions.

Due to the above factors, net sales rose 11.4% year on year, to ¥365,749 million; operating income was up 21.3%, to ¥22,971 million; ordinary income was up 19.1%, to ¥24,700 million; and net income increased 23.5%, to ¥13,534 million.

Sales by Business Segment

Security Services

Electronic Security Services

In services for corporate clients, the Company worked to promote sales of 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 the premises to be viewed online while also providing Internet-based remote control functionality for equipment. Furthermore, in May 2014, we added ALSOK-FM SUPPORT to our lineup. This product features enhanced facility management functions for medium- to large-scale facilities and thereby enables facility value to be boosted for only a small cost. Sales of ALSOK-FM SUPPORT were aggressively promoted throughout the year.

In services for individual users, we witnessed an increase in orders for the HOME ALSOK APARTMENT AND CONDOMINIUM PLAN, a service for housing complexes, as well as for HOME ALSOK MIMAMORI SUPPORT, an emergency report and consultation service for senior citizens. HOME ALSOK ALBO eye, which was launched in September 2014, performed favorably as well. At the same time, we continued to reinforce alliances with housing developers and real estate companies while also strengthening ties with financial institutions and insurance companies to promote sales of HOME ALSOK PREMIUM, a service for standard households.

As a result, net sales in the Electronic Security Services segment rose 5.6% year on year, to ¥160,409 million, due in part to the sales increases stemming from the consolidation of ALSOK Souei Co., Ltd., and ALSOK Care & Support Co., Ltd.

Stationed Security Services

In the year under review, we made smooth progress in acquiring new orders, and there was an increase in orders for temporary, large-scale stationed security operations. Accordingly, net sales in the Stationed Security Services segment increased 14.4% year on year, to ¥88,429 million.

Transportation Security Services

In the year under review, we saw favorable performance for the Cash Deposit Machine On-line System, which utilizes the Company's Internet-based information management functions as well as its transportation security network to provide comprehensive support for managing the sales revenues and change of distributors and retailers. In addition, contracts increased for the Total ATM Management System, a total operation and management support system for ATMs installed in financial institutions and convenience stores. Due to these factors, net sales in the Transportation Security Services segment increased 2.5% year on year, to ¥52,328 million.

General Property Management and Fire Protection Services

In the year under review, the benefits of the consolidation of ALSOK Souei Co., Ltd., and Nippon Building Maintenance Co., Ltd., appeared in the form of sales increases. At the same time, we strengthened our system for providing a one-stop response to customer needs related to the maintenance, management, and operation of buildings, condominiums, and other facilities. As a result, net sales in the General Property Management and Fire Protection Services segment increased 30.1% year on year, to ¥58,309 million.

Long-Term Care Services Services / Other Services

The Company views services for senior citizens as representing an important business field and has therefore been developing operations in the area since 2013. In the year under review, HCM Corporation and ALSOK Care & Support Co., Ltd., were consolidated into the Group. As a result, net sales in the Long-Term Care Services / Other Services segment amounted to ¥6,273 million, representing a massive increase from the performance of the former Other Services segment in the fiscal year ended March 31, 2014.

Going forward, the Group will fully leverage its management resources to develop its conventional nursing care service operations while also creating new hybrid services by fusing security services and nursing care.

Analysis of Individual Items

In the year under review, net sales increased ¥37,540 million year on year, to ¥365,749 million.

Cost of sales was ¥276,116 million, primarily due to a ¥4,119 million increase in cost of sales from procurement of products and installation of equipment and a ¥13,264 million increase in labor costs.

Selling, general and administrative expenses were ¥66,660 million, due to a ¥4,050 million increase in salaries and allowances.

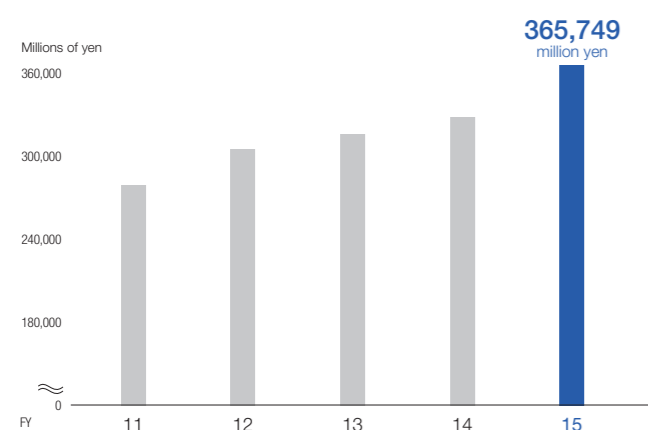
Ordinary income rose ¥3,955 million, or 19.1%, to ¥24,700 million.

Extraordinary income was down due to a ¥110 million decrease in compensation income and a ¥106 million decrease in gain on sales of investment securities.

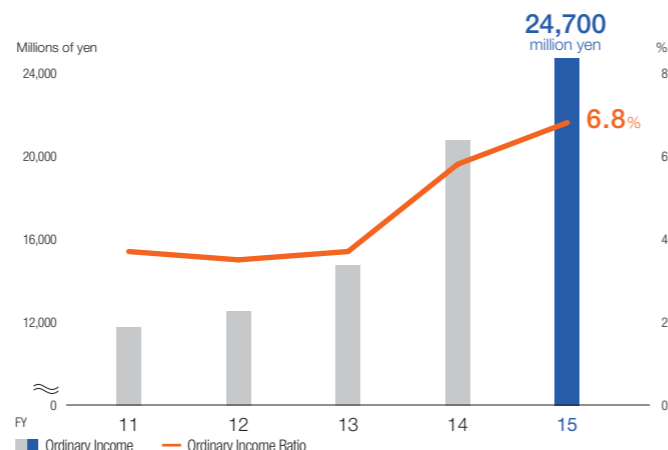
Extraordinary loss declined as a result of the absence of ¥66 million decrease in loss on retirement of noncurrent assets.

Net income increased ¥2,579 million, or 23.5%, to ¥13,534 million.

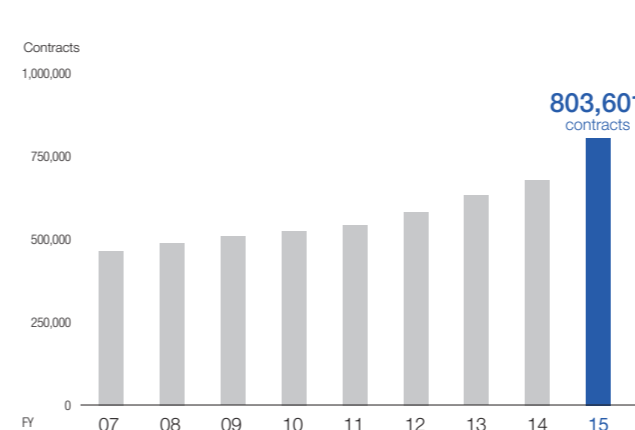
Net Sales



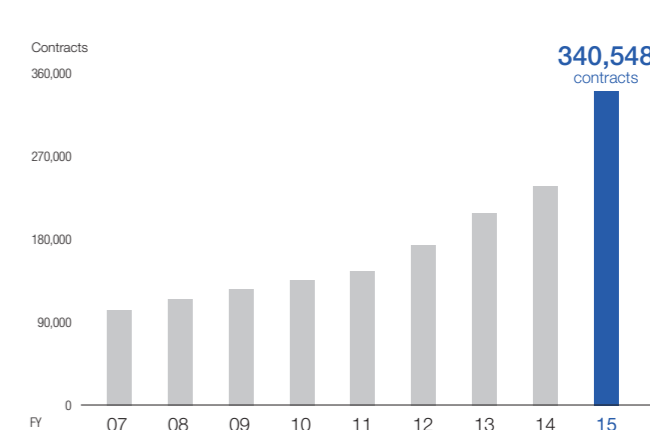
Ordinary Income / Ordinary Income Ratio



Number of Electronic Security Services Contracts



Number of Contracts for Individual Users



Forecast for the Fiscal Year Ending March 31, 2016

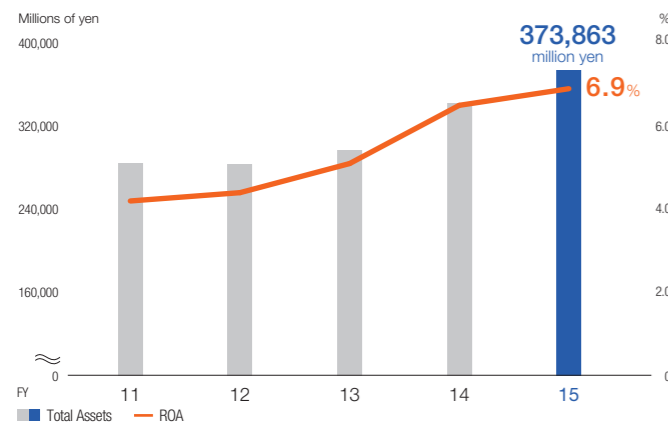
In the fiscal year ending March 31, 2016, there will be some concern with regard to the opaque nature of conditions overseas, but Japan will continue to see improvements in corporate performance, the job market, and personal income, and these improvements are anticipated to create a pronounced virtuous cycle in the domestic economy.

In the security services industry, traditional security needs will remain present. At the same time, we expect to see expanding business opportunities resulting from the accelerated development of social infrastructure as part of national resilience improvement plans, post-Great East Japan Earthquake reconstruction efforts, and preparations for large-scale events. However, intensified competition is forecast to create a harsh operating environment for the security services industry during the fiscal year ending March 31, 2016. 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, 2016, the ALSOK Group forecasts net sales of ¥405,000 million, up 10.7% year on year; operating income of ¥29,400 million, up 28.0%; ordinary income of ¥31,000 million, up 25.5%; and net income attributable to owners of the parent of ¥17,000 million, up 25.6%. These results 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 increased ¥31,368 million, or 9.2%, from the previous fiscal year-end, to ¥373,863 million. Total current assets increased ¥10,986 million, or 5.5%, to ¥210,445 million, and total noncurrent assets increased ¥20,381 million, or 14.2%, to ¥163,418 million.

The ¥10,986 million increase in current assets was primarily due to a ¥7,964 million increase in notes and accounts receivable-trade, a ¥2,951 million increase in cash and deposits, and a ¥1,121 million increase in lease receivables and investment assets, which offset a ¥1,819 million decrease in cash for Transportation Security Services.

The ¥20,381 million increase in noncurrent assets was mainly attributable to a ¥10,402 million increase in goodwill, a ¥9,463 million increase in net defined benefit asset, and a ¥4,162 million increase in investment securities.

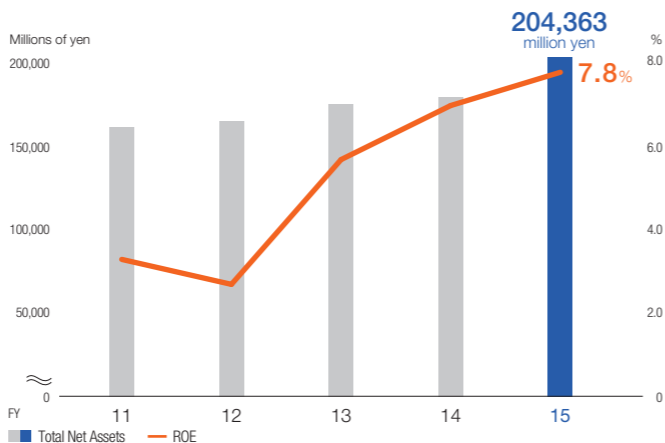
Liabilities

Total liabilities at the end of the year under review increased ¥7,209 million, or 4.4%, from the previous fiscal year-end, to ¥169,500 million. Total current liabilities increased ¥16,142 million, or 14.1%, to ¥130,464 million, and total noncurrent liabilities decreased ¥8,932 million, or 18.6%, to ¥39,035 million.

The ¥16,142 million increase in current liabilities was a result of factors such as a ¥6,864 million increase in accrued consumption taxes, a ¥3,065 million increase in short-term loans payable, and a ¥2,876 million increase in notes and accounts payable-trade.

The ¥8,932 million decrease in noncurrent liabilities was due to a ¥8,069 million decrease in net defined benefit liability and a ¥2,068 million decrease in long-term loans payable.

Total Net Assets / ROE



Net Assets

Total net assets at March 31, 2015, were up ¥24,158 million, or 13.4%, from the previous fiscal year-end, to ¥204,363 million.

Cash and Cash Equivalents

The balance of cash and cash equivalents (hereafter referred to as "cash") at March 31, 2015, was ¥35,791 million, down from ¥40,541 million at March 31, 2014. This decrease was because net cash provided by operating activities was ¥19,666 million, net cash used in investing activities was ¥24,295 million, and net cash provided by financing activities was ¥6,596 million.

Cash flows from operating activities

As a result of our operating activities in the year under review, net cash provided by operating activities decreased 6.6% year on year, to ¥19,666 million. Principal items increasing cash included ¥24,653 million in income before income taxes, an increase of 17.9% year on year; ¥11,331 million in depreciation and amortization, an increase of 23.2%; and ¥2,676 million in increase in notes and accounts payable-trade, an increase of 48.6%. Conversely, major items decreasing cash included ¥11,624 million in increase in assets and liabilities for Transportation Security Services, compared with ¥2,329 million in decrease in assets and liabilities for Transportation Security Services in the previous fiscal year; ¥8,573 million in income taxes paid, a year-on-year increase of 8.5%; and ¥5,391 million in increase in notes and accounts receivable-trade, a year-on-year increase of 13.6%.

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 ¥24,295 million, a 45.5% year-on-year increase. The primary factors were ¥12,153 million in purchase of property, plant and equipment, down 20.2% from the previous fiscal year, and ¥11,435 million in purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash provided by financing activities was ¥6,596 million, compared with net cash used in financing activities of ¥9,142 million in the previous fiscal year. Principal items increasing cash included ¥15,802 million in net increase in short-term loans payable, compared with ¥439 million in net decrease in short-term loans payable in the previous fiscal year. Conversely, major items decreasing cash included ¥3,518 million in cash dividends paid, an increase of 32.1%; ¥3,447 million in repayment of long-term loans payable, an increase of 1.8%; and ¥2,700 million in repayments of lease obligations, a decrease of 3.3%.

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.

As the Company celebrated the 50th anniversary of its founding on July 16, 2015, we have decided to issue a special dividend of ¥3.0 per share to commemorate this momentous occasion and show our appreciation for the support of shareholders. Combined with the standard dividend of ¥17.5 per share, this will make for a total year-end dividend of ¥20.5 per share.

Accordingly, for the fiscal year ended March 31, 2015, 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 ¥38.0 per share, including an interim dividend of ¥17.5 per share, for a consolidated payout ratio of 23.9%.

Risk Information

In relation to the ALSOK Group's business and accounting circumstances, the following items could potentially have significant effects on the judgment of investors. Future-related information mentioned below was deemed appropriate by the Group as of June 25, 2015, the date on which the 50th 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 year ended March 31, 2015. 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, could have a considerable effect on the Group's operating performance. Therefore, the Group will continue to aggressively advance sales promotions in other business sectors in order to find new clients as well as maintain and develop firm relationship with existing clients in the financial institutions sector.

2. Electronic Security Services Business
Of the Group's total sales, 43.9% 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 could 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. Further, 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 companies such as NEC Corporation 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 offering 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 IT technologies are indispensable to the Group's adequate provision of security services, since it must deal with "increasingly complicated and heinous crimes," "expansion in crime fields, such as the increase of cyberattacks, etc.," "obsolescence of existing facilities due to the sophistication of information communication infrastructures," and "advance in a wide range of operations applying IT technology." Should our adaptation 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 IT 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 from an unfavorable reputation and legal claim for damages. We, therefore, have managed 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 super 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 in our aim to strengthen our cooperative structure in recruitment for Group companies. Furthermore, we established a new company that re-employs experienced retired workers for the purpose of securing a high-quality labor force. In addition, formulation a plan for 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 clients with various security and other services, the Group is subject to a variety of legal restrictions, including the 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 an unprecedented natural disaster were to occur, normal signal transmission/reception to and from 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 substantial 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 a natural disaster as a business continuity plan (BCP) of its security system. Moreover, the Group has established system servers, which receive a security alarm signal throughout Japan, in two

Network Centers and has made a backup system according to priority. Preparing for a 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 or flood damage, and should long-term power failure occur following such a disaster, 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. 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 business continuity plan 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 prevent the suspension of ATMs if at all possible in the event of a natural disaster, we obtained ISO 22301 certification in March 20, 2014. This represents the nation's first acquisition of this certification for Transportation Security Services that fill ALSOK-managed ATMs with cash as well as security services that target ATM troubleshooting operations. Hereafter, the Group will enhance the structure and contribute to the preservation of the 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
Other 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
	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	