



**The Electronic Provision Measures Matters
(The Matters Omitted from the Document for Delivery)**

for

The 62nd Ordinary General Meeting of Shareholders

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Pursuant to the relevant law and ordinance, and Article 16, Paragraph 2 of the Articles of Incorporation of SECOM CO., LTD., the aforementioned Matters are not included in the document that is to be issued to a shareholder who requested the issuance of such a document.

Notes to Consolidated Financial Statements

Notes to Significant Items for Preparation of Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 158

Names of major consolidated subsidiaries:

Secom Joshinetsu Co., Ltd., Asahi Security Co., Ltd., Nohmi Bosai Ltd., Nittan Co., Ltd., Secom Medical System Co., Ltd., Secom General Insurance Co., Ltd., Pasco Corporation, Secom Trust Systems Co., Ltd., At Tokyo Corporation, TMJ, Inc., The Westec Security Group, Inc., Secom Plc, Secom Medical System (Singapore) Pte. Ltd., Takshasila Hospitals Operating Pvt. Ltd.

(2) Descriptions of Non-Consolidated Subsidiaries:

Eishin Denshi Co., Ltd., Kyoudou Setubi Ltd. and 8 other companies

(The reason for exclusion from scope of consolidation)

All of these 10 non-consolidated subsidiaries are of a small size, so that the aggregate amounts of total assets, revenue, net income/loss (an amount prorated to ownership) and retained earnings (an amount prorated to ownership) and others do not have a significant effect on the consolidated financial statements.

(3) Names of Other Companies Owing Majority of Voting Rights not Regarded as Subsidiaries:

Katzkin Holdings, LLC, United Tactical Systems Holdings, LLC, CLP Legal Services, LLC, PF Holdco, LLC, Austin Fitness Holdings, LLC, Handel's Holdco, LLC, CLP ICS Holdings, LLC.

(The reason for not regarded as subsidiaries)

These companies were acquired by subsidiaries of The Westec Security Group, Inc. through normal course of business with the objective of investment, not with the objective of control.

2. Equity Method

(1) Number of equity method affiliates: 16

Names of major affiliates accounted for under the equity method:
S1 Corporation, Toyo Tec Co., Ltd., Taiwan Secom Co., Ltd.

(2) Number of non-equity method non-consolidated subsidiaries and affiliates: 18

Eishin Denshi Co., Ltd., Kyoudou Setubi Ltd. and 16 other companies

(The reason for not applying the equity method)

These 10 non-consolidated subsidiaries and 8 non-equity method affiliates are not accounted for under the equity method because their effect on net income/loss (an amount prorated to ownership) and retained earnings (an amount prorated to ownership) is insignificant and immaterial as a whole.

3. Changes in Scope of Consolidation and Companies Accounted for under the Equity Method

Consolidation

Newly consolidated subsidiaries: 5

Senon Ltd. and 4 other companies (Share acquisition)

Excluded from consolidation: 8

Nittan Denko Co., Ltd. and another company (Merger)

Value Communication Services (Shanghai), Inc. and another company (Divesture)

Secom Vietnam Co., Ltd. and 3 other companies (Liquidation)

Equity Method: None

4. Closing Dates of Consolidated Subsidiaries and Equity Method Affiliates

With respect to overseas consolidated subsidiaries, 5 U.S. subsidiaries such as The Westec Security Group Inc., 7 Australia and New Zealand subsidiaries such as Secom Australia Pty., Ltd., , 5 U.K. subsidiaries such as Secom Plc, 14 Chinese subsidiaries such as Secom (China) Co., Ltd., 5 Vietnam subsidiaries such as Secom Vietnam Security Service JSC, Secom (Singapore) Pte. Ltd., Secom Medical System (Singapore) Pte. Ltd., Takshasila Hospitals Operating Pvt. Ltd., Takshasila Healthcare and Research Service Pvt. Ltd., PT. Nusantara Secom Infotech, PT. Secom Indonesia, PT. Secom Bhayangkara, PT. Secom Realty Indonesia, Pasco Thailand Co., Ltd., Thai Secom Security Co., Ltd., Pasco Philippines Corp., Nohmi Taiwan Ltd., TMJP BPO SERVICES, INC., Secom Aktif Güvenlik Yatirim A.S., Secom Aktif Elektronik Güvenlik Çözümleri A.S., and Scan Alarms and Security Systems (Ireland) Ltd. close their book as of December 31 each year, and the financial statements as of this date are used for preparation of the consolidated financial statements. Also, while Secom Smart (Malaysia) Sdn. Bhd., Secom Smart (Singapore) Pte. Ltd. and ADT Alarm Monitoring Hong Kong Limited closes its book as of September 30, the financial statements prepared pursuant to the provisional closing of books conducted as of December 31 are used.

With respect to equity method affiliates, 6 companies such as S1 Corporation and Taiwan Secom Co., Ltd. close their book as of December 31 each year, and the financial statements as of this date are used for preparation of the consolidated financial statements. While Koatsu Co., Ltd. closes its book as of September 30 each year, the financial statements prepared pursuant to the provisional closing of books conducted as of March 31 are used for preparation of the consolidated financial statements.

The necessary adjustments related to the consolidation are made for any major transactions which arise between the consolidated closing dates. The closing dates of other consolidated subsidiaries and equity method affiliates are the same as the consolidated closing date.

5. Significant Accounting Policies

(1) Valuation Policies and Methods for Significant Assets

1) Securities

a. Held-to-maturity debt securities are carried at amortized cost.

[English Translation]

- b. Available-for-sale
 - Securities other than shares that do not have a market value
 - At fair value
 - Net unrealized gains and losses of securities are primarily reported directly in net assets. The cost of securities sold is primarily calculated by the moving average method.
 - Shares that do not have a market value
 - At cost, principally based on the moving average method

2) Derivatives
Derivatives are stated at fair value.

3) Inventories
Inventories are principally stated at cost based on the moving average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

4) Real estate for sale
Stated at cost by the specific cost method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

(2) Depreciation and Amortization of Depreciable and Amortizable Fixed Assets

1) Tangible Assets (except for leased assets)

a. Security equipment and control stations
Security equipment and control stations are depreciated over their average estimated useful lives (5-8 years) by the declining-balance method.

b. Other tangible fixed assets
Other tangible fixed assets are depreciated by the straight-line method.
Their main useful lives are as follows:
Buildings and improvements: 33-50 years
Tools and equipment: 2-20 years

2) Intangible Assets (except for leased assets)
Intangible fixed assets are amortized by the straight-line method.
The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (5 years).

3) Leased Assets

a. Leased assets related to ownership-transfer finance lease transactions
Depreciated, using the same depreciation method applied to fixed assets in possession.

b. Leased assets related to non-ownership-transfer finance lease transactions
Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.
In addition, non-ownership-transfer finance leases entered into on or before March 31, 2008 are treated using the method applicable to operating lease transactions.

- 4) Long-term Prepaid Expenses
Long-term prepaid expenses are amortized by the straight-line method.

(3) Basis for Significant Allowances

- 1) Allowance for Doubtful Accounts
To prepare for losses from bad debts such as losses on trade receivables and loans, the allowance for doubtful accounts provides an estimated amount of uncollectables. It is determined based on the historical loss rate with respect to ordinary accounts, and an estimate of uncollectable amounts respectively determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.
- 2) Accrued Bonuses
The accrued bonuses are provided for the bonus payments to employees, at an amount incurred during the current fiscal year.
- 3) Provision for Loss on Construction Contracts
To prepare for future losses on construction contracts etc., an accrual is provided based on the estimated losses on construction contracts etc. that are undelivered at the end of the current fiscal year.
- 4) Accrued Retirement Benefits for Directors and Audit & Supervisory Board Members
To prepare for payment for retirement benefits of Directors and Audit & Supervisory Board Members of domestic consolidated subsidiaries, a necessary amount at the end of the current fiscal year is accrued based on the rules of the Directors and Audit & Supervisory Board Members' retirement benefits.

(4) Recognition Policies for Significant Revenue and Cost

- 1) Recognition Policies for Revenue and Cost from Contracts with Customers
In the major businesses of the Company and its consolidated subsidiaries related to revenue from contracts with customers, the details of major performance obligations, as well as the normal point in time when such performance obligations are satisfied (i.e., the normal point in time when revenue is recognized) are as follows:
 - a. Revenues from Security Services are mainly from centralized systems for businesses and homes, static guard services, and armored car services, and the Company identifies the performance obligation to provide services based on the security contract with the customer.
As such security contracts represent contracts in which services are continuously provided over the contract period, based on the contract with the customer, and it has been determined that the performance obligations are satisfied over a certain period, the Company recognizes revenue through allocation on a straight line over the period stipulated by the contract in which the service is provided. Equipment installation work fees received in a lump sum at the start of services for centralized systems and other points in time are allocated on a straight-line basis over the same period as the period in which the service is provided and revenue is recognized in the amount

corresponding to the current fiscal year, if the customer is thought to receive the benefits as the performance obligations in the security contract are satisfied.

It should be noted that equipment installation work expenses are allocated on a straight line over the same period as the period in which the service is provided and recognized as expenses in the amount corresponding to the current fiscal year.

Additionally, consideration for these performance obligations is generally collected within one year from the time the performance obligations are satisfied, unless they are received as contract liabilities prior to the satisfaction of the performance obligations, and the amount of consideration contains no significant financing components.

- b. Revenues from construction for the Fire Protection Services are mainly related to fire protection equipment, and the Company recognizes revenue over time by measuring the progress towards complete satisfaction of the performance obligation, as it has been determined that the performance obligation is satisfied over a certain period. As it has been determined that the cost of construction incurred is proportionate to the progress towards complete satisfaction of the performance obligation, progress is measured based on the cost of construction incurred by the end of each reporting period as a percentage of the total estimated cost of construction.

It should be noted that in cases where the expenses incurred are expected to be recovered despite not being able to reasonably estimate the degree of completion of the satisfaction of performance obligations, revenue is recognized using the cost recovery method.

Additionally, consideration for performance obligations of construction contracts is generally collected within one year from the time the performance obligations are satisfied, unless they are received as contract liabilities prior to the satisfaction of the performance obligations, and the amount of consideration contains no significant financing components.

- 2) Recognition Policies for Revenue and Cost of Finance Leases
Revenue and cost are recognized upon receipt of lease payments.

(5) Other Significant Items for Preparation of Consolidated Financial Statements

1) Accounting for Major Hedge

a. Hedge Accounting Policy

The Company principally applies deferred hedging accounting. The interest rate swaps that fulfill requirements for exceptional treatments permitted for interest rate swaps are accounted for using exceptional treatments.

b. Hedging Instruments and Hedged Items

<u>Hedging instruments:</u>	<u>Hedged items:</u>
Interest rate swap	Loans payable

c. Hedging Policy

The risks for forward interest rate fluctuations are to be hedged principally pursuant to the risk management policy of the Company.

d. Assessment of Hedge Effectiveness

Hedge effectiveness is assessed by comparing the cumulative totals of price fluctuations of the hedged items and hedging instruments from the beginning of hedging to the effective point of assessment, taking the changes of both the hedged items and hedging instruments into account. However, when an item is judged to fulfill requirements for exceptional treatments, the assessment of hedge effectiveness is omitted.

2) Accounting for Retirement Benefit

To prepare for the retirement benefits of employees, the Company and its domestic consolidated subsidiaries recognize a net defined benefit asset and a net defined benefit liability for the amount calculated by deducting plan assets from retirement benefit obligations, based on the estimated amount of these items at the end of the current fiscal year.

Prior service cost is recognized as profit or loss in the year of occurrence.

Actuarial gains and losses are amortized from the following fiscal year of occurrence, using the straight-line method over certain years within the average remaining service period (mainly 10 years).

Unrecognized actuarial gains and losses are included in the line item "Remeasurements of defined benefit plans, net of taxes" of accumulated other comprehensive income in the net assets section.

3) Amortization of Goodwill and Negative Goodwill

Goodwill is amortized by the straight-line method over 5-20 years.

6. Notes on Changes in Accounting Policies

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement, etc.)

From the beginning of the current fiscal year, we have applied "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No.31, June 17, 2021; hereinafter, "Implementation Guidance on Fair Value Accounting Standards"), etc. In accordance with the transitional treatment set forth in Article 27-2 of "Implementation Guidance on Accounting Standard for Fair Value Measurement", we have applied prospectively new accounting policies prescribed by the Implementation Guidance on Fair Value Accounting Standards, etc. There is no impact of this application on the consolidated financial statements.

7. Notes on Accounting Estimates

(1) Allowance for Doubtful Accounts

1) Amounts stated in the consolidated financial statements

The Company has recognized short-term loans receivable of YEN 2,408 million, long-term loans receivable of YEN 25,692 million, an allowance for doubtful accounts of YEN 2,163 million for current assets, and an allowance for doubtful accounts of YEN

10,900 million for fixed assets in the consolidated balance sheet for the current fiscal year.

2) Other information to facilitate the understanding of accounting estimates

As stated in the above 5. (3) 1) Allowance for Doubtful Accounts, to provide for doubtful accounts such as trade accounts receivable and loans receivable, provisions are recognized as allowance for doubtful accounts. The amount of such an allowance for general receivables is determined based on historical default rates and the amount for specific receivables such as delinquent claims is determined as the expected non-recoverable amount based on recoverability assessment on an individual basis.

In identifying specific loans that are required to be assessed for recoverability on an individual basis, the Company takes into consideration the status of delinquency in repaying debts as well as the financial condition, past operating results, and future business plans of the debtors.

Among these factors, business plans are subject to uncertainty as they are affected by unforeseeable changes in business assumptions.

The non-recoverable amount of specific loans identified is estimated based on the debtors' financial condition and future business plans and involves significant judgment of the management on whether the plans for future revenue and expenses developed as part of the business plans are feasible, including whether the impact of unforeseeable changes in business assumptions is properly considered in these plans.

(2) Goodwill and Other Intangible Assets

1) Amounts stated in the consolidated financial statements

The Company has recognized goodwill of YEN 70,496 million and other intangible assets of YEN 41,256 million in the consolidated balance sheet for the current fiscal year.

2) Other information to facilitate the understanding of accounting estimates

Goodwill and other intangible fixed assets are amortized in a regular manner. However, if there is an indication of impairment for the asset group containing these intangible assets, they need to be tested to determine whether an impairment loss needs to be recognized by comparing the total amount of undiscounted future cash flows arising from the asset group with their carrying amount. If it is determined that an impairment loss needs to be recognized as a result of such a test, the Company writes down the carrying amount to the recoverable amount and recognizes the amount of write-down as an impairment loss.

An indication of impairment is considered to exist, for example, when operating activities continue to make losses or when there has been or there is expected to be a significant deterioration in the business environment.

The carrying amounts of goodwill and other intangible fixed assets reflect the consolidated subsidiaries' excess earnings power, value of their customer base, etc., based on the expectations for the future growth of their business as at the time of the acquisition of each consolidated subsidiary. For this reason, in such cases where the business growth expected at the time of acquisition of each consolidated subsidiary is not achieved or where there has been or there is expected to be a significant deterioration in the business

environment on which the business plan was based, an indication of impairment is considered to exist and goodwill and other intangible assets may need to be tested for the recognition of an impairment loss, even if its operating activities in which the asset group containing these intangible fixed assets is used are not making continuous losses.

Notes to Consolidated Balance Sheet

1. Cash on Hand and in Banks, and “Other” in Investments and others

Under certain provisions on sales agreements for investment securities that apply to certain consolidated subsidiaries, restrictions are imposed on the use of part of cash on hand and in banks (YEN 66 million) and other (YEN 52 million) in investments and others.

2. Cash Deposits for Armored Car Services and Short-term Bank Loans, and Deposits Received for Armored Car Services

For financial institutions, the Company and some of the domestic consolidated subsidiaries provide cash collection from and cash filling to cash dispensers located outside of financial institution facilities, and cash collection and delivery. The balance of cash deposits for armored car services includes cash on hand and cash in banks representing a total of YEN 16,009 million connected with cash filling services, which is restricted in use by the Group. The short-term bank loan balance includes YEN 34 million financed for the cash filling services.

The balance of cash deposits for armored car services includes YEN 18,559 million connected with cash collection administration services, which is also restricted in use by the Group. Also, the short-term bank loan balance includes YEN 16,145 million financed for the cash collection administration services.

The balance of cash deposits for armored car services includes cash on hand and cash in banks representing a total of YEN 100,891 million connected with cash collection and delivery services, which is restricted in use by the Group and also the balance of deposits received for armored car services includes deposits received representing a total of YEN 100,549 million connected with cash collection and delivery services.

3. Assets Pledged as Collateral and Collateral-related Liabilities:

(1) Assets Pledged as Collateral

	(Millions of Yen)
Short-term loans receivables	6
Buildings and improvements	14,946
Land	25,967
Other - intangible assets (leasehold)	507
Investment securities	1,398
Long-term loans receivable	570
<u>Total</u>	<u>43,396</u>

(2) Collateral-related Liabilities

	(Millions of Yen)
Bank loans	1,086
Current portion of straight bonds	398
Straight bonds	3,081
Long-term loans	8,662
<u>Total</u>	<u>13,228</u>

[English Translation]

In addition to the above liabilities, short-term loans receivable, investment securities and long-term loans receivable are pledged as collateral for the debts of affiliates and other debts.

4. Receivables from Contracts with Customers and Contract Assets and Contract Liabilities

- (1) The amounts of receivables from contracts with customers and contract assets included in notes and accounts receivable-trade and contract assets, due from subscribers, and other of current assets are as follows.

	(Millions of Yen)
Notes receivable	12,722
Accounts receivable	122,091
Due from subscribers	37,404
Other	948
Contract assets	22,476

- (2) The amount of contract liabilities included in deferred revenue, other of current liabilities, and long-term deferred revenue is as follows.

Contract liabilities YEN 55,052 million

(Note) The amounts of contract liabilities included in deferred revenue, other of current liabilities, and long-term deferred revenue are YEN 37,170 million, YEN 1,760 million, and YEN 16,121 million, respectively.

5. Accumulated Depreciation of Tangible Assets

YEN 582,086 million

6. Investment in Non-Consolidated Subsidiaries and Affiliates:
(Fixed assets)

Investment securities (stocks) YEN 68,942 million

7. Contingent Liabilities:

Guarantees of liabilities of entities and individuals YEN 316 million

Notes to Consolidated Statement of Income

1. Revenue from Contracts with Customers

Revenue stated in the Consolidated Statements of Income has not been classified into revenue from contracts with customers and other revenue.

The amount of revenue from contracts with customers has been stated in “1. Information on the breakdown of revenue from contracts with customers” of “Notes on Revenue Recognition” of “Notes to Consolidated Financial Statements.”

2. Impairment Losses

The Group recognized impairment losses (YEN 3,182 million) in the following groups of assets for the current fiscal year. The Company and its subsidiaries determine the grouping of assets in accordance with the categories used for management accounting purposes for operating assets and on the basis of individual assets for idle assets. With regard to operating assets and idle assets whose profitability fell significantly for the current fiscal year due to sluggish business performance, etc., the Group reduced their book values to the recoverable amounts.

Use	Type	Region	Impairment loss (Millions of Yen)
Operating assets	Software and goodwill, etc.	Kanto 5	3,027
		Other 2	
Idle assets	Buildings and land	Kanto 1	154
		Other 1	

The net realized value of the asset groups is measured at net selling price or value in use. Net selling price is determined based on the disposal price or the appraisal value provided by real estate appraisers. Value in use is calculated mainly based on future cash flows discounted by the rate of 5.0%.

Notes to Consolidated Statement of Changes in Net Assets

1. Items Related to Issued Shares and Treasury Stocks

(Unit : 1 share)

	Number of shares at the beginning of the fiscal year	Increase in the number of shares in the fiscal year	Decrease in the number of shares in the fiscal year	Number of shares at the end of the fiscal year
Issued shares				
Common stocks	233,298,049	1,849	-	233,299,898
Treasury stocks				
Common stocks	15,215,218	3,547,936	44	18,763,110

(Outline of reasons for change)

The increase of 1,849 in the number of common stocks of issued shares is due to the issuance of restricted shares.

The increase of 3,547,936 in the number of common stocks of treasury stocks is due to the repurchase of 3,547,000 own shares resolved by the Board of Directors and the purchase of 936 shares constituting less than one unit.

The decrease of 44 in the number of common stocks of treasury stocks is due to requests to sell 44 shares constituting less than one unit.

2. Items Related to Dividends

(1) Amount of Dividends Paid

Resolution	Classes of Shares	Total amount of cash dividend (Millions of Yen)	Cash dividend per share(Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 28, 2022	Common stock	19,627	90	March 31, 2022	June 29, 2022
Board of Directors Meeting on November 10, 2022	Common stock	19,433	90	September 30, 2022	December 8, 2022

(2) Of the dividends whose record date belongs to the current fiscal year, the following are those dividends whose effective date belongs to the next fiscal year.

The matters planned to be resolved on the general meeting of shareholders are as follows:

Resolution	Classes of Shares	Source of dividend	Total amount of cash dividend (Millions of Yen)	Cash dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 27, 2023	Common stock	Retained earnings	20,380	95	March 31, 2023	June 28, 2023

[English Translation]

Notes to Financial Instruments

1. Items Related to Status of Financial Instruments

The Group (excluding its insurance services segment) raises necessary funds, with the aim of establishing “Social System Industry,” by means of procuring funds from markets and borrowing money from financial institutions. The Group also holds financial instruments for promoting its business and investment. Derivatives are primarily used for averting market risks associated with loans, etc., and it is the Group’s policy not to perform speculative transactions.

The Group’s insurance services segment manages funds using financial instruments for the purpose of safely and carefully holding and managing insurance premiums received from policyholders for underwriting insurance policies as a source of funds for paying for future insurance claims. As the financial instruments in which the Group’s insurance services segment invests are exposed to market risks including interest rate fluctuation risks, the Group’s insurance services segment performs asset-liability management (ALM) to prevent any adverse impact of such risks from arising.

2. Items Related to Fair Values of Financial Instruments etc.

The amounts recognized on the consolidated balance sheet, fair values and corresponding differences as of March 31, 2023 are listed below.

(Millions of Yen)

	Amount recognized on the consolidated balance sheet	Fair value	Difference
(1)Short-term investments and investment securities			
(i) Held-to-maturity debt securities	11,788	12,381	592
(ii) Investment securities in affiliates	57,624	116,913	59,288
(iii) Available-for-sale securities	237,038	237,038	-
(2)Lease receivables and investment in leased assets	41,120	40,984	(135)
(3)Long-term loans receivable	25,692		
Allowance for doubtful accounts (*3)	(10,156)		
	15,535	15,557	21
(4)Lease deposits	18,579	18,461	(117)
Total assets	381,687	441,336	59,649
(1)Straight bonds	3,489	3,489	(0)
(2)Long-term loans	12,349	12,336	(12)
(3)Guarantee deposits received	23,662	23,661	(1)
Total liabilities	39,501	39,487	(13)

*1 “Cash on hand and in banks,” “Cash deposits for armored car services,” “Notes and accounts receivable-trade and contract assets,” “Due from subscribers,” “Short-term loans receivable,” “Notes and accounts payable, trade,” “Bank loans,” “Payables - other,” “Accrued income taxes,” and “Deposits received for armored car services” are not included, as they fall under cash or they are settled in a short period of time and their fair values approximate their book values.

*2 Shares that do not have a market value are not included in “(1) Short-term investments and investment securities”. The amounts of these financial instruments recognized on the Consolidated Balance Sheet are as follows

[English Translation]

(Millions of Yen)

Item	Amount recognized on the consolidated balance sheet
Unlisted stock	5,411
Unlisted stock of affiliates	11,318

*3 Allowance for doubtful accounts for long-term loans receivable is deducted.

*4 The Company's shares in Investments in partnerships and similar entities, which are recognized in net amounts in the Consolidated Balance Sheet are not included. The amount of such investments recognized in the Consolidated Balance Sheet is YEN 1,508 million.

3. Matters Related to the Breakdown of the Fair Value of Financial Instruments by Level

The fair value hierarchy of financial instruments is categorized into the following three levels according to the degree of observability and importance of the inputs used in the calculation of fair value.

Level 1 fair value: The fair value calculated based on quoted market prices of assets and liabilities for fair values in active markets among the observable inputs for calculating fair value

Level 2 fair value: The fair value calculated using inputs other than those included in Level 1 inputs, among the observable inputs for calculating fair value

Level 3 fair value: The fair value calculated using unobservable inputs

If multiple inputs with significant impact are used for the fair value measurement of a financial instrument, the financial instrument is classified into the lowest priority level of fair value measurement to which each input belongs.

(1) Financial instruments at fair value on the Consolidated Balance Sheet

(Millions of Yen)

Item	Fair value			
	Level1	Level2	Level3	Total
Short-term investments and investment securities				
Available-for-sale securities				
Stocks	58,028	-	-	58,028
Government bonds and Municipal bonds	12,074	35,981	-	48,055
Straight bonds	-	64,994	-	64,994
Other	37,321	3,327	25,310	65,959
Total assets	107,423	104,304	25,310	237,038

(2) Financial instruments which other than stated at fair value on the Consolidated Balance Sheet

(Millions of Yen)

Item	Fair value			
	Level1	Level2	Level3	Total
Short-term investments and investment securities				
Held-to-maturity debt securities				
Government bonds and Municipal bonds	11,350	-	-	11,350
Straight bonds	-	-	591	591
Other	-	439	-	439
Investment securities in affiliates	116,913	-	-	116,913
Lease receivables and investment in leased assets	-	40,984	-	40,984
Long-term loans receivable	-	7,027	8,530	15,557
Lease deposits	-	18,461	-	18,461
Total assets	128,263	66,913	9,121	204,298
Straight bonds	-	3,489	-	3,489
Long-term loans	-	12,336	-	12,336
Guarantee deposits received	-	23,661	-	23,661
Total liabilities	-	39,487	-	39,487

(Note 1) Description of the valuation techniques and inputs used to measure fair value

Assets:

Short-term investments and investment securities

The fair value of stocks is based on the price quoted on the exchange whereas the fair value of straight bonds, investment trusts, etc. is based on the price quoted on the exchange or the price presented by the corresponding financial institution. As listed stock, government bonds and exchange-traded funds are traded on active markets, they are classified into Level 1 fair value. Other bonds, etc. are less frequently traded on the market and their prices are not deemed to be quoted prices on an active market, and their fair values are, therefore, classified into Level 2 fair value. For investment trusts which do not have prices quoted on the market, the net asset value per unit is deemed their fair value and they are classified into Level 2 fair value provided that there are no significant restrictions to the extent that compensation for risks is demanded by market participants concerning a cancellation or a buyback request. If their values are calculated using techniques such as the present value technique based on significant unobservable inputs, they are classified into Level 3 fair value.

Lease receivables and investment in leased assets

These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar lease transaction is performed, and classified into Level 2 fair value.

Long-term loans

Long-term loans are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar loan transaction is performed with respect to each category based on type, internal rating and period of the loans receivable, and are therefore classified into Level 2 fair value. The fair value of doubtful accounts is approximately the same as the value on the balance sheet as of the fiscal year-end less the current estimated losses from the loan, as the estimated losses from the loan

[English Translation]

are calculated based on the discounted present value of the estimated cash flow or upon separately considering the expected recoverable amount; therefore, the said value is stated as fair value, and their fair values are, therefore, classified into Level 3 fair value. Certain consolidated subsidiaries calculate the present value of future cash flow by discounting the future cash flow at an interest rate equal to an appropriate index such as the yield of government bonds plus the credit spread according to the residual period, and their fair values are, therefore, classified into Level 2 fair value.

Lease deposits

Lease deposits are stated at present value calculated by discounting the future cash flow at risk-free interest rate and classified into Level 2 fair value.

Liabilities:

Straight bonds

These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when new similar straight bonds are issued, according to the residual period of the straight bonds, and classified into Level 2 fair value.

Long-term loans

These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar debt is taken on, and classified into Level 2 fair value.

Guarantee deposits received

Guarantee deposits received are stated at present value calculated by discounting the future cash flow at risk-free interest rate, and classified into Level 2 fair value.

(Note 2) Information about financial assets and liabilities measured and stated on the consolidated balance sheet at fair value and classified into Level 3

(1) Quantitative information on significant unobservable inputs

Item	Valuation Technique	Significant Unobservable Inputs	Scope of Input
Short-term investments and investment securities			
Available-for-sale securities			
Other	Present value Technique	Discount rate	15% - 30%
		Year of disposal	2023 - 2025
		EBITDA multiples	5 - 8.4x

(2) Reconciliation from beginning balance to ending balance, and net evaluation gains or losses recognized in profit or loss for the current fiscal year

(Millions of Yen)

	Short-term investments and investment securities
	Available-for-sale securities
	Others
Beginning balance	15,500
Profit or loss or other comprehensive income for the current fiscal year	
Profit or loss (*2)	7,312
Other comprehensive income	2,114
Net changes due to purchases, sales, issues and settlements	383
Ending balance	25,310
Of the amounts recorded as gains or losses for the current fiscal year, net evaluation gains or losses on financial assets and liabilities held on the date of consolidated balance sheet (*2)	6,740

(*1) Investment trusts have been included from the beginning of the fiscal year in conjunction with the application of the Implementation Guidance on Accounting Standard for Fair Value Measurement

(*2) Included in loss or gain on investment partnerships in the Consolidated Statements of Income

(3) Description of the fair value valuation process

The Group has established policies and procedures for measuring the fair value approved by an appropriate person of authority. In the measurement of fair value, the validity of the valuation technique and inputs used in the measurement of fair value, and the appropriateness of the classification of the fair value level are verified. The verification results are reported in an appropriate manner to the person of authority, thereby ensuring the appropriateness of the policies and procedures for measuring fair value.

In the measurement of fair value, a valuation model that most suitably reflects the nature, characteristics and risks of the individual assets is used. In addition, when using the quoted market prices obtained from a third party as fair value, the validity of the prices is verified by appropriate methods such as confirmation of the valuation technique and inputs used and comparison with the fair value of similar financial instruments.

(4) Description of the impact on fair values where significant unobservable inputs are varied

Significant unobservable inputs include the discount rate, the time of disposal, and EBITDA multiples. Generally, fair values decrease when the discount rate is raised, the time of disposal is extended, and the EBITDA multiples are lowered. Fair values increase when the discount rate is lowered, the time of disposal is shortened, and the EBITDA multiples are raised.

Notes to Rental Property and Other Real Estate

The Company and some of its consolidated subsidiaries own rental office buildings and medical facilities such as hospitals, in addition to rental housing etc. mainly in Tokyo and other major cities across the country.

The amount recognized on the consolidated balance sheet, the amount of increase/decrease during the current fiscal year and the fair value of such rental properties are as follows:

(Millions of Yen)

	Amount recognized on the consolidated balance sheet			Fair value at the end of the fiscal year
	Balance at the beginning of the fiscal year	Increase/decrease during the fiscal year	Balance at the end of the fiscal year	
Office buildings	47,113	181	47,294	87,443
Medical facilities	51,164	(1,564)	49,600	64,589
Other	9,787	147	9,934	12,167
Total	108,065	(1,235)	106,829	164,200

(Note 1) The amount recognized on the consolidated balance sheet equals the acquisition cost less accumulated depreciation and accumulated impairment loss.

(Note 2) The fair value at the end of the current fiscal year is, in the case of major properties, the amount based on real-estate appraisal by an external real-estate appraiser, and in the case of other properties, the amount calculated in-house based on the Real Estate Appraisal Standard. However, if no significant fluctuations have occurred in a certain valuation or an index that is deemed to properly reflect the market price since the acquisition of the property from a third party or the most recent external valuation, the fair value is based on such valuation or the amount adjusted by using the index.

Profit or loss on rental properties and other real estate for the fiscal year ended March 31, 2023 is as follows:

(Millions of Yen)

	Rental income	Rental expenses	Difference	Other (gains/losses on sale etc.)
Office buildings	4,079	1,908	2,171	428
Medical facilities	7,049	3,292	3,756	-
Other	451	244	206	(154)
Total	11,580	5,445	6,134	273

(Note 1) The rental expenses include depreciation, repair costs, insurance premium, taxes and public imposts, etc.

(Note 2) Other includes gain on tangible assets recognized as extraordinary profit, etc.

Notes on Revenue Recognition

1. Information on the Breakdown of Revenue from Contracts with Customers

(Millions of Yen)

	Reportable segments				
	Security services	Fire protection services	Medical services	Insurance services	Geospatial information services
Revenue from security contracts	495,314	-	-	-	-
Other	79,497	145,662	70,189	664	62,085
Revenue from contracts with customers	574,812	145,662	70,189	664	62,085
Other revenue	8,526	-	7,433	54,896	-
Revenue from customers	583,338	145,662	77,623	55,560	62,085

	Reportable segments		Other services	Total
	BPO and ICT services	Subtotal		
Revenue from security contracts	-	495,314	-	495,314
Other	128,082	486,182	32,248	518,431
Revenue from contracts with customers	128,082	981,497	32,248	1,013,745
Other revenue	-	70,856	16,705	87,562
Revenue from customers	128,082	1,052,353	48,953	1,101,307

(Note) “Other services” is an operating segment not designated as a reportable segment, and comprises real estate leasing, construction and installation services, etc.

2. Basic Information for Understanding Revenue from Contracts with Customers

Please refer to “5. (4) Recognition Policies for Significant Revenue and Cost” of “Notes to Significant Items for Preparation of Consolidated Financial Statements” of “Notes to Consolidated Financial Statements.”

3. Information for Understanding the Amounts of Revenue in and after the Fiscal Year Ended March 31, 2023

(1) Balance, etc. of contract assets and contract liabilities

(Millions of Yen)

	Fiscal year ended March 31, 2023
Claims arising from contracts with customers (beginning balance of the year)	160,023
Claims arising from contracts with customers (ending balance of the year)	173,166
Contract assets (beginning balance of the year)	23,434
Contract assets (ending balance of the year)	22,476
Contract liabilities (beginning balance of the year)	56,158
Contract liabilities (ending balance of the year)	55,052

Contract assets comprise rights to claim consideration on construction contracts, etc., by the Company and its consolidated subsidiaries that have been completed by the fiscal year-end but remain unclaimed. Contract assets are transferred to receivables from contracts with customers at the point in time when the rights to claim consideration by the Company and its consolidated subsidiaries become unconditional.

Contract liabilities mainly comprise deferred revenue received from customers concerning service contracts, etc., and are reversed upon the recognition of revenue.

For the fiscal year ended March 31, 2023, most of the YEN 39,613 million of the beginning balance of contract liabilities of one year or less has been recognized as revenue in the current fiscal year.

(2) Transaction price allocated to remaining performance obligations

In the notes to the transaction price allocated to remaining performance obligations, the Company and its consolidated subsidiaries apply the practical expedient, and contracts with terms initially expected to be one year or less are not included in the notes.

The total transaction price allocated to remaining performance obligations and the expected time of revenue recognition are as follows.

(Millions of Yen)

	Fiscal year ended March 31, 2023
One year or less	148,801
More than one year	186,547
Total	335,348

Notes to Deferred Income Tax Accounting

1. The Significant Components of Deferred Income Tax Assets and Deferred Income Tax Liabilities:

Deferred income tax assets:	(Millions of Yen)
Investment deposits by policyholders, unearned premiums and other insurance liabilities	17,201
Net defined benefit liability	7,239
Accrued bonuses	6,118
Eliminations of unrealized gain	5,368
Impairment loss	4,856
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	4,681
Write-down on fixed assets	4,579
Allowance for doubtful accounts	4,175
Operating loss carryforwards	3,043
Effect from the application of Accounting Standard for Revenue Recognition (deferred revenue)	1,888
Effect from the application of Accounting Standard for Revenue Recognition (prepaid expenses)	1,259
Other	11,483
<hr/> Gross deferred income tax assets	<hr/> 71,896
Valuation allowance	(14,702)
<hr/> Total deferred income tax assets	<hr/> 57,193

Deferred income tax liabilities:

Net defined benefit asset	(17,002)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (intangible assets)	(8,447)
Unrealized gains on securities	(7,299)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	(4,607)
Effect from the application of Accounting Standard for Revenue Recognition (prepaid expenses)	(1,282)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (other fixed assets)	(978)
Other	(1,055)
<hr/> Total deferred income tax liabilities	<hr/> (40,673)
Net deferred income tax assets	16,520

2. Summary of the Reconciliation between the Statutory Tax Rate and the Effective Tax Rate after the Application of Deferred Income Tax Accounting

In the current fiscal year, difference between the statutory tax rate and the effective tax rate after the application of deferred income tax accounting accounted for less than 5% to the statutory tax rate. Accordingly the note is omitted.

Notes to Retirement Benefits

1. Outline of the Retirement Benefit Plan Adopted:

Employees of the Company and its consolidated domestic subsidiaries whose services are terminated are, under most circumstances, eligible for lump-sum severance indemnities and/or eligible for pension benefits.

[English Translation]

The Company and its domestic consolidated subsidiaries with the same retirement benefit plan have adopted a severance indemnity plan and a defined contribution pension plan, and have also implemented a matching contribution plan since July 2012. The method of calculating the severance indemnity under the severance indemnity plan is to pay out to the employees an amount equal to a certain percentage of their annual income over their period of service, plus interest which is calculated as the 3-year average yield of applicants for 10-year government bonds. The defined contribution pension plan was established in April 2003, a portion equivalent to 20 % of the severance indemnity plan so far accumulated was transferred to the new plan, and a specified percentage of annual income is contributed thereto. The Company transferred an additional portion of the severance indemnity plan funds to the defined contribution pension plan in April 2005, and accordingly, the ratio of the accumulated amount in the severance indemnity plan and the amount of contributions to the defined contribution pension plan, including the past reserve, changed to 70 % and 30 %, respectively.

The majority of the consolidated overseas subsidiaries have adopted a variety of pension plans that essentially cover all employees. Most of these plans are defined contribution pension plans.

In defined benefit pension plans and lump-sum severance indemnity plans for some consolidated subsidiaries, net defined benefit liabilities and retirement benefit expenses are calculated using the simplified method.

2. Defined Benefit Plans

- (1) Reconciliation of beginning and ending balances of retirement benefit obligations (excluding those pertaining to plans to which the simplified method is applied)

	(Millions of Yen)
Beginning balance of retirement benefit obligations	104,693
Service cost	6,177
Interest cost	485
Actuarial gains and losses incurred	(3,660)
Retirement benefits paid	(5,931)
Increment by recent consolidation	2,885
Increase due to merger	18
<u>Ending balance of retirement benefit obligations</u>	<u>104,667</u>

- (2) Reconciliation of beginning and ending balances of plan assets (excluding those pertaining to plans to which the simplified method is applied)

	(Millions of Yen)
Beginning balance of plan assets	133,603
Expected rate of return	3,829
Actuarial gains and losses incurred	(2,616)
Contributions from the employer	5,180
Retirement benefits paid	(4,881)
Increment by recent consolidation	4,274
Increase due to merger	7
<u>Ending balance of plan assets</u>	<u>139,398</u>

(3) Reconciliation of beginning and ending balances of net defined benefit liability pertaining to plans to which the simplified method is applied

	(Millions of Yen)
Beginning balance of net defined benefit liability	2,955
Retirement benefit expenses	664
Retirement benefits paid	(375)
Contributions to the plan	(142)
Increment by recent consolidation	22
Decrease due to merger	(10)
Ending balance of net defined benefit liability	3,114

(4) Reconciliation of ending balances of retirement benefit obligations and plan assets with net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheet

	(Millions of Yen)
Retirement benefit obligations of funded plans	87,995
Plan assets	(142,069)
	(54,074)
Retirement benefit obligations of non-funded plans	22,457
Net amount of assets and liabilities recognized in the consolidated balance sheet	(31,616)

	(Millions of Yen)
Net defined benefit liability	23,935
Net defined benefit asset	(55,551)
Net amount of assets and liabilities recognized in the consolidated balance sheet	(31,616)

(Note) Including plans to which the simplified method is applied.

(5) Retirement benefit expenses and their breakdown

	(Millions of Yen)
Service cost	6,177
Interest cost	485
Expected rate of return	(3,829)
Amortization of actuarial gains and losses	(2,049)
Retirement benefit expenses calculated using the simplified method	664
Retirement benefit expenses pertaining to defined benefit plans	1,448

(6) Remeasurements of defined benefit plans

The breakdown of the amount recognized in remeasurements of defined benefit plans (before the tax effect) is as follows:

	(Millions of Yen)
Unrecognized actuarial gains and losses	(9,279)
Total	(9,279)

(7) Matters concerning actuarial assumptions

Major actuarial assumptions applied at the end of the current fiscal year

Discount rate	Mainly 0.9%
Long-term expected rate of return	Mainly 3.0%

3. Defined Contribution Plans

The amount of contribution required for the Company and its consolidated subsidiaries is YEN 2,332 million in total.

Notes to Asset Retirement Obligation

1. Asset Retirement Obligations Recognized in Consolidated Balance Sheet
Footnote information of asset retirement obligations recognized in the consolidated balance sheet is omitted as they are immaterial.
2. Asset Retirement Obligations not Recognized in Consolidated Balance Sheet
A certain building of a consolidated subsidiary must be restored to its original state under the building lease agreement upon returning the building at the expiry of the lease. However, the Company does not plan to relocate from the building in its business strategies and it is assumed to be used until the building is demolished through the renewal of the agreement. In cases where the building is demolished, it is not expected to execute the contractual obligation to restore the building to its original state. For this reason, though the Company tried to establish best estimates, considering evidence available as at the closing date, asset retirement obligations have not been recognized with respect to such obligations, since it is impracticable to forecast the probability regarding the scope and the amount of asset retirement obligations.

Notes to Business Combination

Business Combination by Share Acquisition

1. Outline of Business Combination
 - (1) Name and Business Description of the Acquired Company
Name : Senon Ltd.
Business Description : Security Services
 - (2) Purpose of Acquisition
Senon provides a wide range of security services nationwide as a total security company. Its business includes security guard services, electronic security services, airport security services, and vehicle fleet operation services. SECOM believes that Senon's strengths as a total security company combined with SECOM's technological advantages and expertise will enable us to provide more customers with higher quality and optimized security services.
 - (3) Date of Business Combination
July 1, 2022
 - (4) Legal Form of Business Combination
Share acquisition
 - (5) Name of Company after Business Combination
Senon Ltd.
 - (6) Percentage of Voting Rights Acquired
55.1%
 - (7) Principal Reason for Determining Acquiring Company
Since the Company delivered the consideration of the 55.1% of the voting rights consisted of cash only, the Company is determined as the acquiring company.
2. Period Included in Consolidated Financial Statements
July 1, 2022 – March 31, 2023

3. Acquisition Cost of Company Subject to Business Combination and Breakdown Thereof

Consideration for Acquisition	
<u>Cash on hand and in banks</u>	<u>26,999 million yen</u>
Acquisition Cost	26,999 million yen

4. Details and Amount of Acquisition Related Costs

Advisory fees etc.	63 million yen
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5. Amount and Cause of Goodwill, Amortization Method and Period

(1) Amount of Goodwill

17,497 million yen

(2) Cause of Goodwill

Estimated future excess earning power being expected based on the future business operation.

(3) Amortization Method and Period

Amortization by the straight-line method over 15 years

6. Amount of Assets Acquired and Liabilities Assumed on the Day of Business Combination

Current assets	12,874 million yen
Fixed assets	16,415 million yen
<u>Total assets</u>	<u>29,289 million yen</u>

Current liabilities	6,846 million yen
Long-term liabilities	5,195 million yen
<u>Total liabilities</u>	<u>12,041 million yen</u>

7. Amount and Amortization Period Allocated to Intangible Assets

	[Amount]	[Amortization Period]
Customer Relationships	7,685 million yen	10-15 years

Notes to Per-Share Information

Net assets per share:	YEN	5,427.63
Net income per share:	YEN	445.02

Notes to Significant Subsequent Events

(Tender offer for ARTERIA Networks Corporation)

As of May 11, 2023, the Company determined to enter into a Joint Tender Offer Agreement with Marubeni Corporation (“Marubeni” hereinafter and the Company together with Marubeni collectively referred to as the “Tender Offerors” hereinafter) and to implement a tender offer (the “Tender Offer” hereinafter) for the shares of common stock of ARTERIA Networks Corporation (the “Target Company” hereinafter), pursuant to the Financial Instruments and Exchange Act.

1. Purpose of the Tender Offer

The Tender Offer shall be implemented as part of a series of transactions (the “Transactions” hereinafter) aimed at making the Tender Offerors the only shareholders of the Target Company with the percentage of voting rights held by Marubeni and the Company in the Target Company after privatization to be

[English Translation]

66.66% and 33.34%, respectively. After the Transactions, the Target Company will become an equity-method affiliate of the Company.

2. Profile of the Target Company of the Tender Offer

Company Name	ARTERIA Networks Corporation
Address	6-9-8 Shimbashi, Minato-ku, Tokyo
Position and Name of Representative	Representative Director, President & CEO: Koji Kabumoto
Description of Business	Telecommunications business under the Telecommunications Business Law
Capital Stock	5,150 million yen (as of March 31, 2023)
Date of Establishment	February 12, 2016

3. Schedule, etc.

The Tender Offer will be implemented promptly after certain conditions such as the completion of certain necessary procedures and measures under domestic and foreign competition laws have been satisfied (or waived by the Tender Offerors). The Tender Offerors aim to commence the Tender Offer around August 2023, however, it is difficult to accurately estimate how long it will take to complete the procedures at the domestic and foreign competition regulators.

4. Price of Tender Offer

1,980 yen per common stock

5. Number of Shares, etc. to Be Purchased

Class of shares, etc.	Number of Shares to Be Purchased	Minimum Number of Shares to Be Purchased	Maximum Number of Shares to Be Purchased
Common stock	24,940,358	8,293,500	-
Total	24,940,358	8,293,500	-

(Note 1) Marubeni will purchase up to 8,293,500 shares of the Tendered Shares, while the remaining Tendered Shares will be purchased by the Company.

(Note 2) The “Number of Shares to Be Purchased” and “Minimum Number of Shares to Be Purchased,” indicated above, are provisional numbers relying on information available as of May 11, 2023, and the actual figures in the Tender Offer established based on the latest information available at the time of commencement of the Tender Offer may differ from the figures above due to changes, etc. thereafter. Prior to the commencement of the Tender Offer, the final “Number of Shares to Be Purchased” and “Minimum Number of Shares to Be Purchased” will be determined in consideration of the latest information available at the time of commencement of the Tender Offer.

6. Major Impact on the Company’s Profit/Loss of the Tender Offer

The impact on the Company’s profits and losses will be insignificant.

(Significant Events Regarding Investment)

On May 17, 2023, the Company reached agreements to make investments in Eagle Eye Networks, Inc. (“Eagle Eye Networks” hereinafter) and Brivo, Inc.

[English Translation]

(“Brivo” hereinafter) by way of a third-party allotment. Both companies are global leaders of cloud based physical security solution providers owned by Mr. Dean Drako, a US entrepreneur, which provide their solutions mainly in North America.

1. Purpose of the investment

In May 2023, the Company formulated the “SECOM Group Road Map 2027” in order to realize the goals of the “SECOM Group’s Vision for 2030” with the aim of striving to continuously deliver safety and peace of mind to its customers in an ever-changing society. Expansion of its overseas business is one of the important strategic initiatives on the Road Map and the Company has been exploring investment opportunities in United States with priority, which is one of the largest single markets for security services and incubates various new technologies.

Eagle Eye Networks and Brivo are the leading U.S. companies in Video Surveillance as a Service (“VSaaS”) and Access Control as a Service (“ACaaS”) industries. Using these investments, both companies will accelerate enhancing their Artificial Intelligence (“AI”) analytics capabilities and expanding their global business.

SECOM will build a new business portfolio with high growth potential, realize mid- and long-term business synergies, and expand its global business in USA and other overseas markets through the investments. Furthermore, by collaborating with both companies which have state-of-the-art technologies and unique solutions, the Company will enhance the capability to provide solutions to its global customers.

2. Outline of the companies to be invested

Name	Eagle Eye Networks, Inc.	Brivo, Inc.
Business Description	Eagle Eye Networks, Inc. is the global leader in cloud video surveillance, delivering cyber-secure cloud-based video with artificial intelligence (AI) and analytics to make businesses more efficient and the world a safer place.	Brivo, Inc. created the cloud-based access control category over 20 years ago and remains the global leader serving commercial real estate, multifamily residential, and large distributed enterprises.
Location	Texas, USA	Maryland, USA
Name of Representative	Dean Drako (Founder & CEO)	Steve Van Till (Founder & CEO)
Year of Establishment	2012	1999

3. Outline of the investment

	Eagle Eye Networks, Inc.	Brivo, Inc.
Method of acquisition	Third-party allotment	Third-party allotment
Amount of investment	USD 192.5 million (total of the investments in the two companies)	

Notes to Non-Consolidated Financial Statements

Notes to Significant Accounting Policies

1. Valuation Policies and Methods for Assets
 - (1) Valuation Policies and Methods for Securities
 - 1) Held-to-maturity debt securities
Amortized cost method
 - 2) Investment Securities in Subsidiaries and Affiliates
At cost, based on the moving average method
 - 3) Available-for-sale Securities
Securities other than shares that do not have a market value
At fair value
Net unrealized gains and losses of securities are reported directly in net assets. The cost of securities sold is calculated by the moving average method.

Shares that do not have a market value
At cost, principally based on the moving average method.
 - (2) Valuation Policies and Methods for Inventories
Merchandise and supplies are stated at cost determined by the moving average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).
2. Depreciation and Amortization of Depreciable and Amortizable Fixed Assets
 - (1) Tangible Assets: (except for leased assets)
 - 1) Security equipment and control stations
Security equipment and control stations are depreciated over their average estimated useful lives (5-8 years) by the declining-balance method.
 - 2) Other tangible fixed assets
Other tangible fixed assets are depreciated by the straight-line method.
Their main useful lives are as follows:
Buildings and improvements: 33-50 years
 - (2) Intangible Assets
Intangible fixed assets are amortized by the straight-line method.
The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (5 years).
 - (3) Leased Assets
 - 1) Leased assets related to ownership-transfer finance lease transactions
Depreciated, using the same depreciation method applied to fixed assets in possession.
 - 2) Leased assets related to non-ownership-transfer finance lease transactions
Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.
In addition, non-ownership-transfer finance leases entered into on or before March 31, 2008 are treated using the method applicable to operating lease transactions.

- (4) Long-term Prepaid Expenses:
Long-term prepaid expenses are amortized by the straight-line method.

3. Basis for Significant Allowances

(1) Allowance for Doubtful Accounts

To prepare for losses from bad debts such as losses on trade receivables and loans, the allowance for doubtful accounts provides an estimated amount of uncollectables. It is determined based on historical loss rate with respect to ordinary accounts, and an estimate of uncollectable amounts, respectively determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.

(2) Accrued Bonuses

Accrued bonuses are provided for the bonus payments to employees, at an amount incurred during the current fiscal year.

(3) Accrued Pension and Severance Costs

To prepare for the retirement benefits of employees, the Company provides an amount of accrued pension and severance costs and prepaid pension and severance costs at the end of the current fiscal year, based on the estimated amount of projected benefit obligation and plan assets as of the end of the current fiscal year.

In calculating retirement benefit liabilities, the benefit formula basis is adopted to attribute the estimate amount of retirement benefit to the current fiscal year end.

Prior service liability is recognized as profit or loss in the year of occurrence.

Actuarial gains and losses are amortized from the following fiscal year of occurrence, using the straight-line method over certain years within the average remaining service period (10 years).

(4) Allowance for Loss on Contracts

To prepare for future losses relating to the performance of contracts, an accrual is provided in the amount of the estimated future loss for those contracts for which future losses are estimated at the end of the current fiscal year and for which the amount of such losses can be reasonably estimated.

4. Revenue and Cost Recognition Policies

In the Company's major businesses related to revenue from contracts with customers, the details of major performance obligations, as well as the normal point in time when such performance obligations are satisfied (i.e., the normal point in time when revenue is recognized) are as follows.

In Security Services including the centralized systems for businesses and homes, the static guard services, and the armored car services, the Company identifies the performance obligation to provide services based on the security contract with the customer.

As such security contracts represent contracts in which services are continuously provided over the contract period, based on the contract with the customer, and it has been determined that the performance obligations are satisfied over a certain period, the Company recognizes revenue through allocation on a straight line over the period stipulated by the contract in which the service is provided. Equipment installation work fees received in a lump sum at the start of services for centralized systems and other points in time are allocated on a straight-line basis over the same period as the period in which the service is provided and revenue is recognized in the amount corresponding to the current fiscal year, if the

customer is thought to receive the benefits as the performance obligations in the security contract is satisfied.

It should be noted that security equipment installation work expenses are allocated on a straight line over the same period as the period in which the service is provided and recognized as expenses in the amount corresponding to the current fiscal year.

Additionally, consideration for these performance obligations is generally collected within one year from the time the performance obligations are satisfied, unless they are received as contract liabilities prior to the satisfaction of the performance obligations, and the amount of consideration contains no significant financing components.

5. Other Significant Accounting Policies

Accounting for retirement benefits

The accounting for unrecognized actuarial gains and losses to retirement benefits is different from the accounting for those items in the consolidated financial statements.

6. Changes to Disclosure Method

(Notes to Statements of Income)

“Reversal of allowance for doubtful accounts,” which was included in “Other” under extraordinary profit in the previous fiscal year, is presented as a separate line item from the current fiscal year due to its increased importance. “Reversal of allowance for doubtful accounts” for the previous fiscal year was 3 million yen.

Notes on Changes in Accounting Policies

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement, etc.)

From the beginning of the current fiscal year, we have applied “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Statement No.31, June 17, 2021; hereinafter, “Implementation Guidance on Fair Value Accounting Standards”), etc. In accordance with the transitional treatment set forth in Article 27-2 of “Implementation Guidance on Accounting Standard for Fair Value Measurement”, we have applied prospectively new accounting policies prescribed by the Implementation Guidance on Fair Value Accounting Standards, etc. There is no impact of this application on the financial statements.

Notes on Accounting Estimates

Investment Securities in Subsidiaries and Affiliated Companies

(1) Amounts Stated in Financial Statements

The amount of investment securities in subsidiaries and affiliated companies of YEN 420,624 million stated in the balance sheet for the current fiscal year includes investments in unlisted subsidiaries that the Company has acquired through an acquisition transaction.

(2) Other Information to Facilitate the Understanding of Accounting Estimates

Shares for which market prices are not available acquired through investments in unlisted subsidiaries are stated in the balance sheet at acquisition costs. If the net asset value of an issuer of these shares is judged to have declined significantly due to the deterioration in the financial condition of the issuer, a valuation loss on these securities needs to be recognized unless the recoverability of the net asset value is

[English Translation]

supported by sufficient evidence.

In the case where the Company acquires shares of an investee at a price that is considerably higher than its net assets per share as per its financial statements reflecting the excess earnings power and the like of the investee, if the net asset value subsequently declines significantly due to a decline in excess earnings power and the like, a valuation loss on the investment in the investee needs to be recognized even if there has been no deterioration in its financial condition.

The acquisition cost of shares pertaining to the investment in unlisted subsidiaries acquired through an acquisition reflects their excess earnings power, value of their customer base, etc., based on the expectations for the future growth of their business as at the time of the acquisition of each subsidiary. For this reason, if the excess earnings power and the like has been impaired because the business growth expected at the time of acquisition is not achieved and/or there has been or there is expected to be a significant deterioration in the business environment on which the business plan was based, a valuation loss may need to be recognized on investments in these subsidiaries, even if there has been no deterioration in their financial condition since the acquisition.

Notes to the Non-Consolidated Balance Sheet

1. Cash Deposits for Armored Car Services and Short-term Bank Loans

For financial institutions, the Company provides cash filling to and cash collection from cash dispensers located outside of financial institution facilities.

The balance of cash deposits for armored car services includes cash on hand and cash in banks of representing a total of YEN 13,541 million connected with cash filling services, which is restricted in use by the Company. The short-term bank loan balance includes YEN 34 million financed for the cash filling services.

The balance of cash deposits for armored car services includes YEN 18,546 million connected with cash collection administration services, which is also restricted in use by the Company. Also, the short-term bank loan balance includes YEN 16,145 million financed for the cash collection administration services.

2. Assets Pledged as Collateral and Collateral-related Liabilities

Assets Pledged as Collateral

	(Millions of Yen)
Short-term loans receivable	6
Investment securities	1,358
Investment securities in subsidiaries and affiliates	40
Long-term loans receivable	570
<u>Total</u>	<u>1,974</u>

Collateral-related Liabilities

—
Short-term loans receivables, investment securities, investment securities in subsidiaries and affiliates, and long-term loans receivable are pledged as collateral for the debts of subsidiaries and affiliates and other debts.

3. Accumulated Depreciation of Assets

Accumulated depreciation of tangible assets: YEN 311,060 million

4. Contingent Liabilities

(1) Guarantees

Liabilities of the below entities and employees are guaranteed.

	(Millions of Yen)
Secom Aktif Güvenlik Yatirim A.S.	1,084
Alive Medicare Co., Ltd.	936
Purchasers of real estate the Company sold	167
Employees	154
Secom Fort West Co., Ltd.	152
Purchasers of merchandises by leasing transactions etc.	72
Others	25
<u>Total</u>	<u>2,593</u>

(2) Net Assets Maintaining Agreement

The Company entered into a net assets maintaining agreement with Secom General Insurance Co., Ltd., under which the Company is obligated to provide funds to Secom General Insurance Co., Ltd. if and when the net assets of Secom General Insurance Co., Ltd. become lower than the specified amount or its current assets necessary for the payment of its liabilities are insufficient.

The total liabilities of Secom General Insurance Co., Ltd. at the end of the current fiscal year are YEN 197,263 million, including YEN 185,960 million of investment deposits by policyholders, unearned premiums and other insurance liabilities, and the total assets are YEN 234,045 million.

However, this agreement is not construed as the Company's guarantee with respect to payment obligations of Secom General Insurance Co., Ltd. Secom General Insurance Co., Ltd. maintained net assets above the required level, and its current assets were not insufficient at the end of the current fiscal year.

5. Financial Receivables/Payables to Subsidiaries and Affiliates (excluding those separately presented)

	(Millions of Yen)
Short-term receivables	21,258
Long-term receivables	37,655
Short-term payables	7,304
Long-term payables	2,472

Notes to Non-Consolidated Statement of Income

Operating Transactions and Non-operating Transactions with Subsidiaries and Affiliates

	(Millions of Yen)
Operating transactions (Revenue)	17,178
Operating transactions (Expense)	39,315
Non-operating transactions (Income)	19,872

Notes to Non-Consolidated Statements of Changes in Net Assets

Items Related to Classes and Total Number of Treasury Stocks

(Unit: 1 share)

Classes of shares	Number of shares at the beginning of the fiscal year	Increase in number of shares in the fiscal year	Decrease in number of shares in the fiscal year	Number of shares at the end of the fiscal year
Common stock	15,215,218	3,547,936	44	18,763,110

(Outline of reasons for change)

The increase of 3,547,936 in the number of common stocks of treasury stocks is due to the repurchase of 3,547,000 own shares resolved by the Board of Directors and the purchase of 936 shares constituting less than one unit.

The decrease of 44 in the number of common stocks of treasury stocks is due to requests to sell 44 shares constituting less than one unit.

Notes to Revenue Recognition

Basic Information for Understanding Revenue

Please refer to “4 Revenue and Cost Recognition Policies” of “Notes to Significant Accounting Policies.”

Notes to Deferred Income Tax Accounting

1. The Significant Components of Deferred Income Tax Assets and Deferred Income Tax Liabilities:

Deferred income tax assets:	(Millions of Yen)
Loss on impairment of investment securities in subsidiaries and affiliates	7,903
Impairment loss	2,307
Accrued bonuses	1,921
Write-down on fixed assets	1,298
Effect from the application of Accounting Standard for Revenue Recognition (prepaid expenses)	1,111
Effect from the application of Accounting Standard for Revenue Recognition (deferred revenue)	1,085
Write-down on inventories	606
Other	3,060
Gross deferred income tax assets	19,294
Valuation allowance	(1,264)
Total deferred income tax assets	18,030

Deferred income tax liabilities:	
Prepaid pension and severance costs	(10,372)
Other	(3,808)
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Total deferred income tax liabilities	(14,180)
Net deferred income tax assets (liabilities)	3,849
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2. Summary of the Reconciliation between the Statutory Tax Rate and the Effective Tax Rate after the Application of Deferred Income Tax Accounting:

Statutory tax rate (Reconciliation)	30.5 (%)
Permanently non-taxable income such as dividends income	(5.9)
Per capita levy of corporate inhabitant tax	0.6
Research and development tax credits	(0.5)
Permanently non-taxable expenses such as entertainment expenses	0.3
Other	0.0
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Effective tax rate after the application of deferred income tax accounting	25.0 (%)

Notes to Fixed Assets under Leases

Besides the ones booked as fixed assets on the balance sheet of the Company, some of buildings are used based on the finance lease contracts other than those deemed to transfer the ownership of the leased assets to the lessees.

Notes to Business Combination

Such notes are omitted because the same notes are described in Consolidated Financial Statements, "Consolidated Financial Statements (Notes to Business Combination)."

Notes to Transactions with Related Parties

1. Subsidiaries, affiliates etc.

Type	Name of Company	Voting Rights Held by the Company (%)	Relationship with the Related Party
Subsidiary	Secom Credit Co., Ltd.	100.0	Loan of funds
Subsidiary	Secom Medical System Co., Ltd.	100.0	Loan of funds Concurrent appointment of officers
Subsidiary	Arai & Co., Ltd.	92.5	Loan of funds Concurrent appointment of officers

Name of Company	Transactions	Amount of Transactions (Millions of Yen)	Account	Year-end Balance (Millions of Yen)
Secom Credit Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 1)	9,830 (21,120) 11	Short-term loans receivable	200
			Long-term loans receivable	1,730
Secom Medical System Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 1)	5,070 (8,742) 233	Short-term loans receivable	10,329
			Long-term loans receivable	17,968
Arai & Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 1)	1,567 (1,707) 183	Short-term loans receivable	2,201
			Long-term loans receivable	10,194

(Notes)

- The interest rates for the loans above are determined, referring to market interest rates etc.

2. Officers (Directors/audit and supervisory board members), major individual shareholders, etc.

Type	Name of Company	Voting Rights Held by the Company (%)	Relationship with the Related Party
Company whose majority voting rights are owned by an officer and his/her close relatives (including its subsidiary)	Watanabe Pipe Co., Ltd. (Note 1)	-	Provision of services such as security services Merchandise sales Concurrent appointment of an officer

Name of Company	Transactions	Amount of Transactions (Millions of Yen)	Account	Year-end Balance (Millions of Yen)
Watanabe Pipe Co., Ltd. (Note 1)	Electronic security service and maintenance, etc., and Merchandise sales (Note 2)	58	Accrued service fee	0
			Accounts receivable -trade and contract assets	13
			Unearned service fee	0

Notes:

1. A company 100% of whose voting rights are directly held by a company whose majority voting rights are held by Mr. Hajime Watanabe, a Director of the Company, and his close relatives.
2. The transactions are carried out under standard terms and conditions similar to those applied to arms-length transactions.

Notes to Per-Share Information

Net assets per share:	YEN	4,010.07
Net income per share:	YEN	317.95

[English Translation]

Notes to Significant Subsequent Events

Such notes are omitted because the same notes are described in Consolidated Financial Statements, “Consolidated Financial Statements (Notes to Significant Subsequent Events).”