FINANCIAL SECTION

CONTENTS

Operating Results

Overview

In the fiscal year ended March 31, 2003, SECOM and its consolidated subsidiaries (collectively "the Company") took decisive steps to enhance their operations—which encompass security services, medical services, insurance services, information services, GIS services, education services, real estate sales and real estate leasing—by improving services and expanding marketing, system construction and product development.

Owing to these and other efforts, consolidated revenue and other income rose 5.5%, or ¥27.2 billion, to ¥520.7 billion. This was attributable to solid results in all operating segments. Nonetheless, net income declined 11.2%, or ¥3.8 billion, to ¥30.3 billion, owing to the absence of a gain on sale of securities, net, recorded in the previous period.

Revenue and Other Income

Revenue and other income amounted to ¥520.7 billion, an increase of 5.5%, or ¥27.2 billion, owing to increased sales in all operating segments. Net sales advanced 6.2%, or ¥29.7 billion, to ¥512.7 billion. This increase reflected higher sales in the security services segment, which focuses on centralized security systems; expansion of the medical services segment to include home medical services and leasing of real estate for medical institutions; and contributions from a real estate leasing subsidiary acquired in the previous fiscal year. Interest and other amounted to ¥8.0 billion, up 6.1%, or ¥464 million.

Costs and Expenses

Costs and expenses rose 9.1%, or ¥39.1 billion, to ¥467.9 billion. This increase is due to a higher cost of sales, a consequence of a rise in revenue, and increases in loss on other-than-temporary impairment of investment securities and interest.

Cost of sales advanced 8.7%, or ¥25.4 billion, to ¥317.5 billion, and represented 61.9% of net sales, up from 60.5% the preceding term. This rise was largely a consequence of higher sales in the real estate sales business and other businesses with high cost-of-sales ratios, and of valuation losses on inventories.

Selling, general and administrative expenses edged up 4.2%, or ¥4.8 billion, to ¥120.0 billion. Owing to cost-cuttings efforts, however, these expenses accounted for 23.0% of revenue and other income, down 0.3 percentage point.

Flagging conditions in the Japanese stock market underscored an ¥11.5 billion loss on other-than-temporary impairment of investment securities, up 28.2%, or ¥2.5 billion. Owing to an increase in bank loans for the acquisition of a real estate leasing firm at the end of the previous period and purchase of treasury stock, interest expenses climbed 133.6%, or ¥2.1 billion, to ¥3.7 billion. Other expenses jumped 38.9%, or ¥4.2 billion, to ¥15.1 billion, primarily owing to the recognition of impairment losses of long-lived assets and loss on disposal of security equipment.

Income

The aforementioned increase in the cost-of-sales ratio, higher loss on other-than-temporary impairment of investment securities and absence of a ¥3.0 billion gain on sales of securities, net—present in the preceding period—pushed income before income taxes down 18.4%, or ¥11.9 billion, to ¥52.9 billion. Income taxes declined 20.3%, or ¥6.1 billion, to ¥24.0 billion, representing 45.5% of income before income taxes, down from 46.6%. Net income slipped 11.2%, or ¥3.8 billion, to ¥30.3 billion, and accounted for 5.8% of consolidated revenue and other income, down from 6.9%. Basic net income per share was ¥132.87, down from ¥146.19, while diluted net income per share was also ¥132.87, down from ¥146.11. Cash dividends of ¥40.00 per share were approved at the general shareholders' meeting held on June 27, 2003.

Segment Information

For detailed segment information, please see Note 28 of the accompanying Notes to Consolidated Financial Statements.

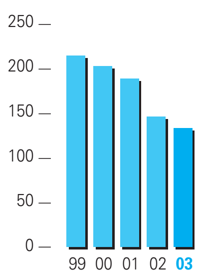
Revenue and other income in the security services segment amounted to ¥357.0 billion, an increase of 3.6%, or ¥12.4 billion. Excluding inter-segment transactions, segment revenue and other income totaled ¥355.7 billion, equivalent to 68.3% of total revenue and other income, down from 69.3% in the preceding period. Commercial security and home security services generated ¥254.9 billion of this total, up 4.3%, or ¥10.4 billion. Large-scale proprietary systems accounted for ¥3.5 billion, an increase of 0.7%, or ¥23 million. Static guard services contributed ¥35.9 billion, up 5.3%, or ¥1.8 billion. Armored car services represented ¥17.3 billion, rising 1.5%, or ¥260 million. Merchandise and other generated ¥44.1 billion, advancing 2.3%, or ¥1.0 billion. Income before income taxes in the security services segment decreased 3.5%, or ¥2.9 billion, to ¥80.1 billion, equivalent to 22.4% of segment revenue and other income, compared with 24.1% in the previous period, owing to valuation losses on inventories and a loss on disposal of security equipment.

Revenue and other income in the medical services segment climbed 47.2%, or ¥6.4 billion, to ¥20.1 billion. This rise was primarily attributable to firm results in the home medical services business and contributions from the medical services operations of Arai & Co. and Ryomay Royal Life Co., Ltd., which manages senior citizens' residences. Both of these companies became consolidated subsidiaries in the preceding period. Income before income taxes was ¥1.8 billion for the segment, up from a loss before income taxes of ¥698 million in the preceding period.

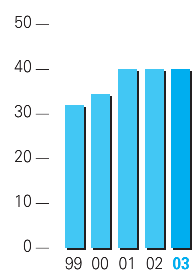
The insurance services segment recorded revenue and other income of ¥31.2 billion, up 1.6%, or ¥491 million. Despite this improvement, the segment posted a loss before income taxes of ¥9.2 billion, compared with income before income taxes of ¥304 million in the previous period, reflecting a loss on other-than-temporary impairment of investment assets, particularly investment securities.

The information and communication related and other services segment, which encompasses information-related services, GIS services, real estate sales and real estate leasing, reported revenue and other income of ¥116.0 billion, a rise of 7.9%, or ¥8.5 billion. This increase largely reflected the inclusion of the full-year results of consolidated subsidiary Arai & Co.'s real estate leasing operations as well as brisk sales of condominiums. The segment's loss before income taxes mushroomed to ¥2.0 billion, from ¥130 million, however, owing to a loss on other-than-temporary impairment of investment securities.

Basic Net Income per Share
(In yen)



Cash Dividends Paid per Share
(In yen)



Financial Position

Total assets of the Company as of March 31, 2003, amounted to ¥1,158.1 billion, down 0.7%, or ¥8.0 billion, from the previous fiscal year-end.

Total current assets fell 7.9%, or ¥37.1 billion, to ¥431.0 billion, as cash and cash equivalents declined 14.8%, or ¥31.2 billion, to ¥179.2 billion, and inventories fell 25.1%, or ¥14.0 billion, to ¥41.8 billion. The decline in inventories was attributable to a rush of condominium sales in March 2003, which resulted in a decline in real estate inventories. Short-term investments soared 77.8%, or ¥9.8 billion, to ¥22.5 billion, as an increase in held-to-maturity debt securities due within one year resulted in their shift to current assets, from investments and long-term receivables. The decline in total current assets, coupled with an increase in total current liabilities, pushed the current ratio down to 1.5 times, from 1.9 times a year earlier.

Investments and long-term receivables rose 21.5%, or ¥45.7 billion, to ¥258.4 billion. This increase reflected a restructuring of our investment portfolio, which resulted in an increase in the weight of investment securities and long-term receivables.

Property, plant and equipment, less accumulated depreciation, amounted to ¥368.0 billion, down 5.5%, or ¥21.3 billion, owing to the sale of real estate for lease. Other assets rose 4.8%, or ¥4.7 billion, to ¥100.8 billion.

Total liabilities edged up 2.9%, or ¥21.4 billion, to ¥757.3 billion. Total current liabilities rose 16.0%, or ¥39.2 billion, to ¥284.5 billion, as bank loans increased 82.4%, or ¥56.0 billion, to ¥124.0 billion, a consequence of new loans undertaken to fund purchases of treasury stock and the conversion of long-term debt into short-term bank loans. Accrued income taxes fell 53.0%, or ¥12.2 billion, to ¥10.8 billion.

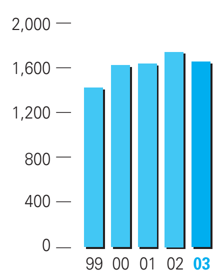
Long-term debt declined 22.8%, or ¥30.3 billion, to ¥102.8 billion, also owing to the conversion of long-term debt into short-term bank loans and repayments of long-term debt. Investment deposits by policyholders totaled ¥231.1 billion and accounted for 20.0% of total liabilities and shareholders' equity.

Total shareholders' equity decreased 7.2%, or ¥28.8 billion, to ¥372.5 billion. This decrease was primarily attributable to the purchase of treasury stock, which boosted common stock in treasury, at cost, ¥44.1 billion, to ¥44.3 billion. As a consequence, the equity ratio was 32.2%, down from 34.4% a year earlier.

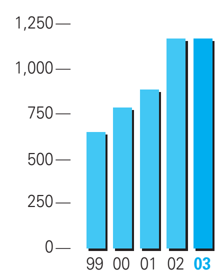
Cash Flows

The Company remains committed to maintaining sufficient liquidity to ensure flexibility in its operations and guarantee a solid financial foundation. Accordingly,

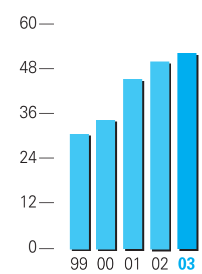
Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Depreciation and Amortization
(In billions of yen)



wherever possible, the Company finances strategic investments with cash generated by its operating activities.

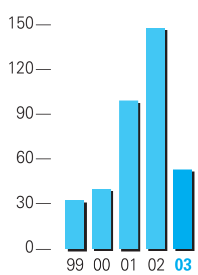
In the period under review, net cash provided by operating activities amounted to ¥95.2 billion, a decrease from ¥174.8 billion in the previous period. This total, which included net income of ¥30.3 billion and depreciation and amortization of ¥52.1 billion, represented a decline of ¥79.6 billion from the previous period. The primary factor behind the decrease in net cash provided by operating activities was a sharp decline in increase in investment deposits by policyholders, to ¥4.7 billion, from ¥96.2 billion, as hard market conditions, including low interest rates, prompted the Company to suspend sales of funded personal accident insurance policies.

Net cash used in investing activities totaled ¥84.7 billion, down ¥63.3 billion from ¥148.0 billion in the preceding period. Principal components of this total included payments for purchases of investment securities of ¥80.2 billion, owing to a restructuring of the Company's investment portfolio, and payments for purchases of property, plant and equipment of ¥50.2 billion, mainly reflecting outlays for security equipment and control stations necessitated by an increase in the number of security system subscribers. The aforementioned restructuring of the Company's investment portfolio was also reflected in proceeds from sales of investment securities of ¥16.5 billion, while proceeds from sales of property, plant and equipment amounted to ¥25.5 billion. The decrease in net cash used in investing activities during the period was attributable to the decline in net cash provided by operating activities.

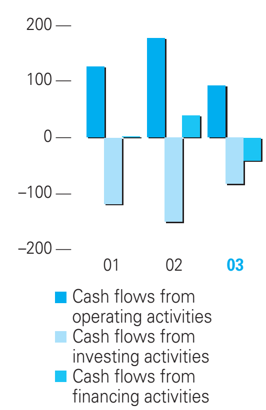
Net cash used in financing activities amounted to ¥41.4 billion, compared with ¥38.6 billion provided by financing activities in the previous period. This total reflected a ¥44.1 billion increase in treasury stock, net, and dividends paid of ¥9.3 billion. Repayments of long-term debt amounted to ¥53.8 billion, while proceeds from long-term debt totaled ¥10.8 billion. Increase in bank loans totaled ¥56.8 billion. Proceeds from long-term debt, repayments of long-term debt and increase in bank loans provided net proceeds of ¥13.7 billion, compared with ¥47.5 billion in the preceding period.

As a consequence of the Company's operating, investing and financing activities during the period under review, cash and cash equivalents at end of year amounted to ¥179.2 billion, down ¥31.2 billion from ¥210.5 billion a year earlier.

Capital Expenditures
(In billions of yen)



Cash Flows
(In billions of yen)



CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 2003 and 2002

ASSETS	In millions of yen, March 31, 2003	In millions of yen, March 31, 2002	Translation into thousands of U.S. dollars (Note 3), March 31, 2003
Current assets:			
Cash and cash equivalents (Note 6)	¥ 179,228	¥ 210,477	$ 1,493,567
Time deposits	4,432	4,880	36,933
Cash deposits (Note 7)	45,251	40,750	377,092
Short-term investments (Note 8)	22,463	12,635	187,192
Notes and accounts receivable, trade	47,028	49,132	391,900
Due from subscribers	21,329	21,226	177,742
Inventories (Notes 9 and 13)	41,801	55,824	348,342
Short-term receivables	46,796	51,912	389,967
Allowance for doubtful accounts	(1,558)	(1,522)	(12,983)
Deferred insurance acquisition cost (Note 14)	2,921	2,762	24,342
Deferred income taxes (Note 17)	12,851	11,201	107,092
Other current assets	8,420	8,764	70,164
Total current assets	430,962	468,041	3,591,350
Investments and long-term receivables:			
Investment securities (Note 8)	152,406	122,247	1,270,050
Investments in affiliated companies (Note 10)	34,942	34,943	291,183
Long-term receivables	45,516	30,105	379,300
Lease deposits	11,746	11,707	97,883
Other investments	19,599	18,979	163,325
Allowance for doubtful accounts	(5,836)	(5,296)	(48,633)
	258,373	212,685	2,153,108
Property, plant and equipment (Notes 11, 13, 20 and 21):			
Land	157,230	155,624	1,310,250
Buildings and improvements	167,303	157,097	1,394,192
Security equipment and control stations	198,651	183,998	1,655,425
Machinery, equipment and automobiles	53,921	55,040	449,342
Construction in progress	3,456	31,167	28,800
	580,561	582,926	4,838,009
Accumulated depreciation	(212,587)	(193,651)	(1,771,559)
	367,974	389,275	3,066,450
Other assets:			
Deferred charges (Note 2 (8))	38,374	38,187	319,784
Goodwill (Notes 5 and 12)	12,491	10,836	104,092
Intangibles and other (Note 12)	22,958	21,873	191,316
Deferred income taxes (Note 17)	26,950	25,216	224,584
	100,773	96,112	839,776
Total assets	¥1,158,082	¥1,166,113	$ 9,650,684

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	2003	2002	2003
Current liabilities:			
Bank loans (Notes 7 and 13)	¥ 124,048	¥ 68,003	$1,033,733
Current portion of long-term debt (Notes 13 and 20)	20,507	32,703	170,892
Notes and accounts payable, trade	15,554	16,401	129,617
Other payables	19,869	20,337	165,575
Deposits received (Note 7)	28,838	22,744	240,317
Deferred revenue	39,067	37,196	325,558
Accrued income taxes	10,813	23,003	90,108
Accrued payrolls	15,200	14,946	126,667
Other current liabilities	10,582	9,961	88,183
Total current liabilities	284,478	245,294	2,370,650
Long-term debt (Notes 13 and 20)	102,767	133,047	856,392
Guarantee deposits received	36,758	33,635	306,316
Accrued pension and severance costs (Note 15)	41,704	36,622	347,533
Deferred revenue	18,719	18,461	155,992
Unearned premiums and other insurance liabilities (Note 14)	37,410	37,268	311,750
Investment deposits by policyholders (Note 14)	231,109	226,407	1,925,908
Deferred income taxes (Note 17)	1,613	2,813	13,442
Other liabilities	2,721	2,298	22,675
Total liabilities	757,279	735,845	6,310,658
Minority interest in subsidiaries	28,285	28,942	235,708
Commitments and contingent liabilities (Note 24)			
Shareholders' equity:			
Common stock (Notes 18 and 25):			
Authorized 900,000,000 shares in 2003 and 2002;			
issued 233,281,133 shares in 2003 and 233,274,769 shares in 2002	66,369	66,360	553,075
Additional paid-in capital (Notes 18 and 25)	79,987	79,979	666,558
Legal reserve (Note 18)	9,672	9,663	80,600
Retained earnings (Note 18)	300,529	279,593	2,504,409
Accumulated other comprehensive income (loss):			
Unrealized losses on securities (Note 8)	(2,758)	(4,481)	(22,983)
Unrealized gains on derivative instruments (Note 23)	42	43	350
Minimum pension liabilities adjustments (Note 15)	(26,115)	(23,109)	(217,625)
Foreign currency translation adjustments	(10,921)	(6,581)	(91,008)
	(39,752)	(34,128)	(331,266)
Common stock in treasury, at cost (Note 18);			
8,200,245 shares in 2003 and 22,512 shares in 2002	(44,287)	(141)	(369,058)
Total shareholders' equity	372,518	401,326	3,104,318
Total liabilities and shareholders' equity	¥1,158,082	¥1,166,113	$9,650,684

CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2003

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Revenue and other income:				
Net sales	¥512,734	¥483,014	¥433,817	$4,272,783
Gain on sale of securities, net (Notes 8 and 26)	—	2,967	2,569	—
Gain on securities contribution to employee retirement benefit trust (Note 8)	—	—	21,366	—
Interest and other (Note 16)	8,009	7,545	10,541	66,742
	520,743	493,526	468,293	4,339,525
Costs and expenses:				
Cost of sales	317,457	292,092	260,720	2,645,475
Selling, general and administrative (Notes 2 (15) and 19)	119,999	115,158	107,141	999,992
Loss on other-than-temporary impairment of investment securities	11,546	9,004	1,851	96,217
Interest	3,729	1,596	1,925	31,075
Other (Notes 8 and 11)	15,140	10,903	14,112	126,166
	467,871	428,753	385,749	3,898,925
Income before income taxes	52,872	64,773	82,544	440,600
Income taxes (Note 17)**:**				
Current	27,877	37,096	30,011	232,308
Deferred	(3,829)	(6,913)	5,740	(31,908)
	24,048	30,183	35,751	200,400
Income before minority interest in subsidiaries, equity in net income of affiliated companies and cumulative effect of accounting change	28,824	34,590	46,793	240,200
Minority interest in subsidiaries	(950)	(1,862)	(408)	(7,917)
Equity in net income of affiliated companies	1,244	1,354	1,310	10,367
Income before cumulative effect of accounting change	29,118	34,082	47,695	242,650
Cumulative effect of accounting change, net of tax (Notes 2 (10) and 2 (13))	1,157	—	(3,699)	9,642
Net income	¥ 30,275	¥ 34,082	¥ 43,996	$ 252,292

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Per share data (Note 4)**:**				
Income before cumulative effect of accounting change—				
Basic	¥127.79	¥146.19	¥204.63	$1.07
Diluted	¥127.79	¥146.11	¥204.46	$1.07
Cumulative effect of accounting change—				
Basic	¥ 5.08	¥ —	(¥ 15.87)	$0.04
Diluted	¥ 5.08	¥ —	(¥ 15.85)	$0.04
Net income—				
Basic	¥132.87	¥146.19	¥188.76	$1.11
Diluted	¥132.87	¥146.11	¥188.61	$1.11

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2003

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 2000	233,075,442	¥66,097	¥79,713	¥7,587	¥222,238	(¥ 1,787)	(¥ 42)	¥373,806
Comprehensive income:								
Net income	—	—	—	—	43,996	—	—	43,996
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized losses on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(6,496)	—	(6,496)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(13,105)	—	(13,105)
Minimum pension liabilities adjustments	—	—	—	—	—	(16,345)	—	(16,345)
Foreign currency translation adjustments	—	—	—	—	—	4,670	—	4,670
Total comprehensive income								12,720
Cash dividends	—	—	—	—	(9,323)	—	—	(9,323)
Transfer to legal reserve	—	—	—	1,031	(1,031)	—	—	—
Conversion of convertible bonds	24,302	30	30	—	—	—	—	60
Purchase of treasury stock	—	—	—	—	—	—	(801)	(801)
Reissuance of treasury stock	—	—	2	—	—	—	840	842
Balance, March 31, 2001	233,099,744	66,127	79,745	8,618	255,880	(33,063)	(3)	377,304
Comprehensive income:								
Net income	—	—	—	—	34,082	—	—	34,082
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized losses on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(6,082)	—	(6,082)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	3,930	—	3,930
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	135	—	135
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(92)	—	(92)
Minimum pension liabilities adjustments	—	—	—	—	—	(5,999)	—	(5,999)
Foreign currency translation adjustments	—	—	—	—	—	7,043	—	7,043
Total comprehensive income								33,017
Cash dividends	—	—	—	—	(9,324)	—	—	(9,324)
Transfer to legal reserve	—	—	—	1,045	(1,045)	—	—	—
Conversion of convertible bonds	175,025	233	234	—	—	—	—	467
Purchase of treasury stock	—	—	—	—	—	—	(264)	(264)
Reissuance of treasury stock	—	—	0	—	—	—	126	126
Balance, March 31, 2002	233,274,769	66,360	79,979	9,663	279,593	(34,128)	(141)	401,326
Comprehensive income:								
Net income	—	—	—	—	**30,275**	—	—	**30,275**
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized losses on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	**(4,315)**	—	**(4,315)**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	**6,038**	—	**6,038**
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	**105**	—	**105**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	**(106)**	—	**(106)**
Minimum pension liabilities adjustments	—	—	—	—	—	**(3,006)**	—	**(3,006)**
Foreign currency translation adjustments	—	—	—	—	—	**(4,340)**	—	**(4,340)**
Total comprehensive income								**24,651**
Cash dividends	—	—	—	—	**(9,330)**	—	—	**(9,330)**
Transfer to legal reserve	—	—	—	**9**	**(9)**	—	—	—
Conversion of convertible bonds	**6,364**	**9**	**8**	—	—	—	—	**17**
Purchase of treasury stock	—	—	—	—	—	—	**(44,146)**	**(44,146)**
Balance, March 31, 2003	**233,281,133**	**¥66,369**	**¥79,987**	**¥9,672**	**¥300,529**	**(¥39,752)**	**(¥44,287)**	**¥372,518**

Translation into thousands of U.S. dollars (Note 3)

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 2002	$553,000	$666,492	$80,525	$2,329,942	($284,400)	($ 1,175)	$3,344,384
Comprehensive income:							
Net income	—	—	—	**252,292**	—	—	**252,292**
Other comprehensive income (loss), net of tax (Note 18):							
Unrealized losses on securities—							
Unrealized holding gains or losses arising during the period	—	—	—	—	**(35,958)**	—	**(35,958)**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	**50,317**	—	**50,317**
Unrealized gains on derivative instruments—							
Unrealized holding gains or losses arising during the period	—	—	—	—	**875**	—	**875**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	**(883)**	—	**(883)**
Minimum pension liabilities adjustments	—	—	—	—	**(25,050)**	—	**(25,050)**
Foreign currency translation adjustments	—	—	—	—	**(36,167)**	—	**(36,167)**
Total comprehensive income							**205,426**
Cash dividends	—	—	—	**(77,750)**	—	—	**(77,750)**
Transfer to legal reserve	—	—	**75**	**(75)**	—	—	—
Conversion of convertible bonds	**75**	**66**	—	—	—	—	**141**
Purchase of treasury stock	—	—	—	—	—	**(367,883)**	**(367,883)**
Balance, March 31, 2003	**$553,075**	**$666,558**	**$80,600**	**$2,504,409**	**($331,266)**	**($369,058)**	**$3,104,318**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2003

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Cash flows from operating activities:				
Net income	¥ 30,275	¥ 34,082	¥ 43,996	$ 252,292
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred charges	52,067	49,891	45,020	433,892
Accrual for pension and severance costs, less payments	188	3,736	4,190	1,567
Deferred income taxes	(3,829)	(6,913)	5,740	(31,908)
Net loss on sales and disposal of property, plant and equipment	2,778	1,448	1,941	23,150
Impairment loss on property, plant and equipment (Note 11)	3,012	—	—	25,100
(Gain) loss on sales of investment securities	507	(2,095)	(1,998)	4,225
Gain on securities contribution to employee retirement benefit trust (Note 8)	—	—	(21,366)	—
Gain on sales of subsidiaries' shares (Note 26)	(330)	(872)	(571)	(2,750)
Loss on other-than-temporary impairment of investment securities	11,546	9,004	1,851	96,217
Equity in net income of affiliated companies	(1,244)	(1,354)	(1,310)	(10,367)
Minority interest in subsidiaries	950	1,862	408	7,917
Cumulative effect of accounting change, net of tax (Notes 2 (10) and 2 (13))	(1,157)	—	3,699	(9,642)
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits	(4,502)	(4,152)	895	(37,516)
(Increase) decrease in receivables and due from subscribers, net of allowances	1,483	(6,727)	(2,010)	12,358
(Increase) decrease in inventories	10,073	(5,533)	4,027	83,942
(Increase) decrease in other current assets	(1,586)	(3,017)	6,305	(13,217)
Increase in deferred charges	(13,668)	(14,295)	(13,881)	(113,900)
Decrease in payables	(869)	(1,015)	(24,279)	(7,242)
Increase (decrease) in deposits received	4,771	6,708	(3,503)	39,758
Increase in deferred revenue	2,129	1,737	3,788	17,742
Increase (decrease) in accrued income taxes	(12,375)	5,145	4,249	(103,125)
Increase in guarantee deposits received	3,588	6,012	2,588	29,900
Increase in other current liabilities	1,700	853	1,713	14,167
Increase in unearned premiums and other insurance liabilities	142	3,184	8,201	1,183
Increase in investment deposits by policyholders	4,702	96,221	54,084	39,183
Other, net	4,895	929	(155)	40,791
Net cash provided by operating activities	95,246	174,839	123,622	793,717
Cash flows from investing activities:				
Decrease in time deposits	430	7,950	3,976	3,583
Proceeds from sales of property, plant and equipment	25,512	3,693	1,543	212,600
Payments for purchases of property, plant and equipment	(50,171)	(144,229)	(95,441)	(418,092)
Proceeds from sales of investment securities	16,492	10,149	5,663	137,433
Payments for purchases of investment securities	(80,170)	(22,602)	(16,802)	(668,083)
(Increase) decrease in short-term investments	10,292	15,459	(2,478)	85,767
Proceeds from sales of subsidiaries' shares (Note 26)	90	2,654	2,088	750
Payments for purchases of subsidiaries' shares, net of cash acquired (Note 5)	(18)	1,270	(2,410)	(150)
Acquisition of Mac Corporation, net of cash acquired	—	—	(3,203)	—
Increase in short-term receivables, net	(3,362)	(10,301)	(9,522)	(28,016)
Payments for long-term receivables	(10,910)	(8,346)	(3,561)	(90,917)
Proceeds from long-term receivables	12,147	1,654	10,689	101,225
Increase in other assets	(3,772)	(5,371)	(6,768)	(31,433)
Other, net	(1,278)	—	—	(10,650)
Net cash used in investing activities	(84,718)	(148,020)	(116,226)	(705,983)
Cash flows from financing activities:				
Proceeds from long-term debt	10,803	69,773	31,770	90,025
Repayments of long-term debt	(53,817)	(15,948)	(16,202)	(448,475)
Increase (decrease) in bank loans	56,753	(6,284)	(4,516)	472,941
Proceeds from minority shareholders	135	1,137	21	1,125
Dividends paid	(9,330)	(9,324)	(9,323)	(77,750)
(Increase) decrease in treasury stock, net (Note 18)	(44,146)	(138)	39	(367,883)
Other, net	(1,754)	(585)	(530)	(14,617)
Net cash provided by (used in) financing activities	(41,356)	38,631	1,259	(344,634)
Effect of exchange rate changes on cash and cash equivalents	(421)	525	239	(3,508)
Net increase (decrease) in cash and cash equivalents	(31,249)	65,975	8,894	(260,408)
Cash and cash equivalents at beginning of year	210,477	144,502	135,608	1,753,975
Cash and cash equivalents at end of year	¥179,228	¥ 210,477	¥ 144,502	$1,493,567

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2003

1. Nature of Operations

The parent company and its subsidiaries (collectively "the Company") are engaged in security services, medical services, non-life insurance services, information and communication related services and other services. The Company's principal business activities are security services including on-line centralized security services for commercial and residential premises, as well as large-scale proprietary security services, static guard services, armored car services for money collection and deposit, and the development, manufacturing and sale of various security equipment.

The Company is focusing on its "Social System Industry", a network of integrated systems and services centered on the fields of security, medical care, non-life insurance, and information and communication related services, targeted at the needs of people and business. To develop this Social System Industry concept, the Company has been diversifying the operation of its services covering: home and other medical services; non-life insurance services; information and communication services, including cyber security services, software development and system integration activities; Geographic Information System services using aerial surveying technology; school education systems; development and sale of real estate; lease of real estate and other services. Moreover, the Company is currently expanding its business into broadband services using cable television networks through its affiliated companies.

2. Significant Accounting Policies

The parent company and its Japanese subsidiaries maintain their records and prepare their statutory financial statements in accordance with accounting principles generally accepted in Japan. Certain adjustments and reclassifications have been incorporated in the accompanying financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies followed in the preparation of the accompanying consolidated financial statements are summarized below:

(1) Basis of Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the parent company and those of its majority owned subsidiary companies. All intercompany transactions and accounts have been eliminated in consolidation.

Investments in 20 to 50 percent owned companies, in which the ability to exercise significant influence exists, are accounted under the equity method. Consolidated income includes the Company's current equity in the net income of affiliated companies, after elimination of intercompany profits.

The excess of cost over underlying identifiable net assets at acquisition dates of investments in subsidiaries and affiliated companies is recorded as goodwill.

On occasion, a consolidated subsidiary or affiliated company accounted for using the equity method may issue its shares to third parties as either a public or private offering or upon conversion of convertible bonds to common stock at amounts per share in excess of or less than the Company's average per share carrying value. With respect to such transactions, where the sale of such shares is not a part of a broader corporate reorganization contemplated or planned by the Company, the resulting gains or losses arising from the change in ownership interest are recorded in income for the year the transaction occurs.

(2) Foreign Currency Translation

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at average rates of exchange during the year. The resulting translation adjustments are accumulated and reported as part of other comprehensive income (loss).

Foreign currency receivables and payables of the Company are translated into yen at the rate in effect at the balance sheet date and the resulting translation gains and losses are credited or charged to income for the year.

(3) Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments purchased with initial maturities of three months or less to be cash equivalents.

(4) Investments in Debt and Equity Securities

The Company classifies investments in debt and equity securities as "available-for-sale" or "held-to-maturity". The Company has no securities classified as "trading". Marketable debt and equity securities which are classified as "available-for-sale" are recorded at fair value. Unrealized gains and losses on securities classified as "available-for-sale" are reported as part of other comprehensive income (loss), net of tax. Debt securities that are expected to be "held-to-maturity" are reported at amortized cost. Other investments in non-public companies are recorded at cost net of other-than-temporary impairment.

Realized gains or losses on the sale of investments are based on the moving-average cost method and are credited or charged to income.

(5) Inventories

Inventories, consisting of security-related products, real estate, and information and other related products, are stated at lower of cost or net realizable value. Cost is determined, in the case of real estate, based on a specific identification method and, in the case of other inventories, using the moving-average method.

(6) Deferred Insurance Acquisition Costs

Costs that vary with and are primarily related to acquiring new insurance policies are deferred and are being amortized principally over the premium-paying period of the related insurance policies applying a percentage relationship of cost incurred to premiums from contracts issued to applicable unearned premiums throughout the period of the contract.

(7) Property, Plant and Equipment and Depreciation

Property, plant and equipment, including significant betterments, are carried at cost. When assets are retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts and the net difference, less any amounts realized on disposition, is reflected in income. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. Assets leased to others under operating leases are primarily depreciated using the straight-line method over the estimated useful lives. Depreciation expense was ¥34,735 million ($289,458 thousand), ¥32,084 million and ¥28,582 million for the years ended March 31, 2003, 2002 and 2001, respectively. Maintenance, repairs and renewals are charged to income as incurred.

The estimated useful lives of depreciable assets are as follows:

Buildings	22 to 50 years
Security equipment and control stations	5 years
Machinery, equipment and automobiles	3 to 15 years

(8) Deferred Charges

Deferred charges primarily consist of costs related to installation services of security equipment. The installation costs are deferred and amortized using the straight-line method over the contractual period of security services after completion of the installation. Amortization was ¥13,197 million ($109,975 thousand), ¥12,490 million and ¥11,566 million for the years ended March 31, 2003, 2002 and 2001, respectively. Previously, the installation costs had been capitalized as property, plant and equipment and depreciated using the straight-line method over the contractual period. The related reclassifications of previously reported amounts have been made to conform with current classifications.

(9) Impairment or Disposal of Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which superseded both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The Company adopted the provisions of SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial position and results of operations.

The Company periodically reviews the carrying amount of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. Long-lived assets to be held and used are reviewed for impairment by comparing the carrying amount of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between the asset carrying amount and the fair value. Long-lived assets that are to be disposed of other than by sale are considered held and used until they are disposed of. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying amount or fair value less cost to sell. Reductions in carrying amount are recognized in the period in which the long-lived assets are classified as held for sale.

(10) Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS No. 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 requires that goodwill no longer be amortized. SFAS No. 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead reviewed for impairment in accordance with SFAS No. 142 until its life is determined to no longer be indefinite.

The Company adopted the provisions of SFAS No. 141 and No. 142 on April 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. SFAS No. 141 required the Company to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, the Company reassessed the useful lives and residual values of all intangible assets and made necessary amortization period adjustments. In connection with the transitional impairment evaluation, SFAS No. 142 required an assessment of goodwill impairment as of April 1, 2002. To accomplish this, the Company was required to (1) identify its reporting units, (2) determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (3) determine the fair value of each reporting unit. To the extent the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company compared the implied fair values of the reporting units' goodwill. The implied fair values of goodwill were determined by allocating the fair values of the reporting units to all of the assets (recognized and unrecognized) and liabilities of the reporting units in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation was the implied fair values of the reporting units' goodwill.

On April 1, 2002, as a result of the adoption of SFAS No. 141, the Company recorded a transition gain, as a cumulative effect of accounting change, due to the write-off of unamortized deferred credits of ¥1,157 million (¥9,642 thousand) which existed at March 31, 2002. The Company recognized an impairment loss amounting to ¥161 million ($1,342 thousand) in the year ended March 31, 2003 since the carrying amounts of goodwill exceeded their implied fair values.

(11) Unearned Premiums and Other Insurance Liabilities

Unearned premiums are related to unexpired periods of insurance contracts and are earned on a pro-rata basis over the remaining contract period. Other insurance liabilities consist principally of liabilities for unpaid claims and adjustment expenses, which are estimates of payments to be made on reported claims, and incurred but not reported claims, which are computed based on past experience for unpaid losses.

(12) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(13) Revenue Recognition

During the year ended March 31, 2001, the Company adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" issued by the United States of America Securities and Exchange Commission retroactively to April 1, 2000. As a result, the Company has changed its method of accounting for revenues from installation services of security equipment. Effective April 1, 2000, revenues from installation services of security equipment are recognized over the contractual period of security services after completion of the installation. The related installation costs are also deferred and amortized over the contractual period. Previously, installation revenues for security equipment were recognized when the Company had substantially completed all of its obligations pursuant to the terms of the installation services contract. The Company viewed its obligation under the installation services contract to be substantially completed when installation services of security equipment were completed and recognized revenues at that time.

At April 1, 2000, the Company recorded a one-time non-cash charge of ¥3,699 million, net of tax, representing the effect of adoption of SAB No. 101. The charge has been reflected as a cumulative effect of accounting change in the accompanying consolidated statements of income. The accounting change did not have a material effect on the Company's consolidated statement of income for the year ended March 31, 2001.

Revenue from security services is recognized over the contractual period or, in the case of specific services, when such services are performed. Subscribers are generally requested to prepay a portion of service charges which are credited to deferred revenue and taken into income ratably over the covered service period.

Merchandise and software sales are recognized when persuasive evidence of an arrangement including title transfer exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable, and in the case of installations, when such installations are completed.

Revenue from long-term contracts for Geographic Information System services is recognized under the percentage-of-completion method.

Property and casualty insurance premiums are earned ratably over the terms of the related insurance contracts. Unearned premiums are earned ratably over the terms of the unexpired portion of premiums written.

(14) Research and Development

Research and development costs are charged to income as incurred.

(15) Advertising Costs

Advertising costs are charged to income as incurred, except for the costs related to insurance policies. Advertising costs for acquiring new insurance policies are deferred and amortized as part of insurance acquisition costs. Advertising expenses included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 were ¥5,315 million ($44,292 thousand), ¥5,602 million and ¥4,885 million, respectively.

(16) Derivative Financial Instruments

Effective on April 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133". Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The cumulative effect adjustment upon the adoption of SFAS No. 133 and No. 138, net of the related income tax effect, resulted in an increase to other comprehensive income of ¥129 million.

The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of other comprehensive income (loss) depending on whether the derivative financial instruments qualify for hedge accounting, and if so, whether they qualify as a fair value hedge or a cash flow hedge. Changes in the fair values of derivative financial instruments accounted for as a fair value hedge are recorded in income along with the portion of the change in the fair value of the hedged item that relates to the hedged risk. Changes in the fair value of derivative financial instruments accounted for as a cash flow hedge, to the extent it is effective as a hedge, are recorded in other comprehensive income (loss), net of tax. Changes in the fair value of derivative financial instruments not qualifying as a hedge are reported in income.

The Company meets the documentation requirements as prescribed by SFAS No. 133 and No. 138, which include their risk management objective and strategy for undertaking various hedge transactions. In addition, formal assessment is made at the hedge's inception and periodically on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in off-setting changes in fair values or cash flow of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Discontinued hedges are recognized in current income.

Prior to adoption of SFAS No. 133 and No. 138, the Company used derivative financial instruments to limit its exposure to loss in relation to underlying debt instruments resulting from adverse fluctuation in interest rates or to provide higher interest income to the Company. The related interest differentials paid or received under these agreements were recognized over the terms of the agreements in interest expense.

(17) Earnings Per Share

Basic Earnings per Share ("EPS") is computed based on the average number of shares of common stock outstanding for the period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock.

(18) Free Distribution of Common Stock

A corporation in Japan may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Free share distributions are accounted for either by (i) a transfer from additional paid-in capital to the common stock account, or (ii) no entry if free shares are distributed from the portion of previously issued shares in the common stock account. Under the Japanese Commercial Code, stock dividends are effected by an appropriation of retained earnings to the common stock account by a resolution of the shareholders and an issuance of additional shares by way of a stock split with respect to the amount appropriated by resolution of the Board of Directors.

A corporation in the United States of America issuing shares, comparable to less than 25 percent free share distributions, would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to the appropriate capital accounts. Such transfers, however, would have no effect on total shareholders' equity (Note 25).

Free distributions of common stock are included in the EPS calculation in accordance with accounting principles generally accepted in the United States of America.

(19) Recent Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of long-lived assets, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Company adopted the provisions of SFAS No. 143 on April 1, 2003. The adoption of SFAS No. 143 did not have a material effect on the Company's consolidated financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force Issue ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the Statements of Financial Accounting Concepts No. 6, "Elements of Financial Statements". SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial position and results of operations.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB statement No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN No.45 requires disclosures about the guarantees that an entity has issued. The Company adopted the recognition provisions of FIN No. 45 prospectively to guarantees issued after December 31, 2002. The disclosure provisions of FIN No. 45 are effective for consolidated financial statements at March 31, 2003. The adoption of FIN No. 45 did not have a material effect on the Company's consolidated financial position and results of operations.

In January 2003, the FASB issued FIN No. 46, ''Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.'' FIN No. 46 addresses the consolidation and disclosures by business enterprise of a variable interest entity ("VIE") as defined in the Interpretation. FIN No. 46 requires that the primary beneficiary, an enterprise that holds a majority of variable interests in the VIE, consolidate the VIE and an enterprise that holds significant variable interests but is not the primary beneficiary disclose the information about the VIE. FIN No. 46 is effective immediately for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, FIN No. 46 is applicable no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003 (effective for the Company the beginning of the year ending March 31, 2005). The Company did not enter into any new arrangements with VIEs during the period from February 1, 2003 through March 31, 2003.

The Company provides loans and guarantees to organizations managing hospitals and related institutions. Certain organizations are considered as VIEs under FIN No. 46, and the Company holds a majority of or significant variable interests in the VIEs. Total assets held by the VIEs at March 31, 2003 were ¥34,869 million ($290,575 thousand). The Company's maximum exposure to loss would be ¥26,150 million ($217,917 thousand). In relation to these VIEs, the Company is currently in the process of evaluating the effects of the adoption of FIN No. 46 on the Company's consolidated financial position and results of operations.

The Company also provides loans and guarantees to real estate investment companies. Certain investment companies are considered as VIEs under FIN No. 46. As the Company has been consolidating these companies, the adoption of FIN No. 46 will have no material effect on the Company's consolidated financial position and results of operations.

In January 2003, the Emerging Issues Task Force reached a final consensus on EITF No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". EITF No. 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan which is a defined benefit pension plan established under the Japanese Welfare Pension Insurance Law. EITF No. 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. In April 2002, following the enactment of the Japanese Welfare Pension Insurance Law, the parent company and certain of its Japanese subsidiaries obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the EPF plan. The Company will recognize the relevant gain or loss in accordance with EITF No. 03-2 when the past benefit obligation and related plan assets are transferred to the government. The effect of the completion of the transaction has not yet been determined because the benefit obligation and the related plan assets to be transferred may change significantly.

(20) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

3. U.S. Dollar Amounts

U.S. dollar amounts have been included in these financial statements solely for the convenience of the reader. These translations should not be construed as representing that the yen amounts actually represent, or have been or could be converted into U.S. dollars. The translations of yen into U.S. dollars have been made at the rate of ¥120=US$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.

4. Reconciliation of the Differences between Basic and Diluted Net Income Per Share ("EPS")

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2003, 2002 and 2001 is as follows:

	In millions of yen	Thousands of shares	In yen	In U.S. dollars
	Income before cumulative effect of accounting change	Weighted-average shares	EPS	
For the year ended March 31, 2003:				
Basic EPS—				
Income before cumulative effect of accounting change	**¥29,118**	**227,849**	**¥127.79**	**$1.07**
Effect of dilutive securities—				
Convertible bonds	**0**	**9**		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation	**¥29,118**	**227,858**	**¥127.79**	**$1.07**
For the year ended March 31, 2002:				
Basic EPS—				
Income before cumulative effect of accounting change	¥34,082	233,138	¥146.19	
Effect of dilutive securities—				
Convertible bonds	3	150		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation	¥34,085	233,288	¥146.11	
For the year ended March 31, 2001:				
Basic EPS—				
Income before cumulative effect of accounting change	¥47,695	233,081	¥204.63	
Effect of dilutive securities—				
Convertible bonds	5	211		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation	¥47,700	233,292	¥204.46	

5. Acquisitions

In December 2000, the parent company acquired all issued shares of Mac Corporation, which engages in sales and maintenance services for medical equipment, for an aggregate amount of ¥3,980 million.

In August 2001, the parent company acquired all issued shares of Yoshikikaku Co., Ltd., which engages in sales and lease services for medical facilities and equipment, for an aggregate amount of ¥3,457 million. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

	In millions of yen
Current assets	¥1,088
Investments and long-term receivables	7,154
Other	743
Total assets acquired	8,985
Current liabilities	1,430
Long-term debt	2,295
Other	1,803
Total liabilities assumed	5,528
Net assets acquired	¥3,457

In March 2002, the parent company acquired all issued shares of Arai & Co., Ltd., which engages in sales and leasing services of real estate, for an aggregate amount of ¥1,500 million. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

	In millions of yen
Current assets	¥ 7,282
Property, plant and equipment	41,762
Goodwill	2,743
Other	13,172
Total assets acquired	64,959
Current liabilities	23,494
Long-term debt	34,008
Other	5,944
Total liabilities assumed	63,446
Minority interest in subsidiaries	13
Net assets acquired	¥ 1,500

The acquisitions referred to above have been accounted for under the purchase method of accounting, and the identifiable assets and liabilities of the acquired companies have been recorded at their fair value at the date of acquisition. The results of their operations have been included in the consolidated statements of income since the date of acquisition of the majority of outstanding shares. The difference between the purchase price and the value assigned to the underlying net assets acquired is included in goodwill and amounted to ¥12,491 million ($104,092 thousand) and ¥10,782 million at March 31, 2003 and 2002, respectively.

The consolidated pro forma information that would show the results of the Company's consolidated operations for the years ended March 31, 2002 and 2001 has not been disclosed based on materiality considerations.

6. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2003 and 2002 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Cash	¥106,949	¥115,947	$ 891,242
Time deposits	28,339	35,843	236,158
Call loan	30,000	40,000	250,000
Investment securities	13,940	18,687	116,167
	¥179,228	¥210,477	$1,493,567

Investment securities include marketable bonds of the Japanese government and deposits with financial institutions, most of which are held for safekeeping in the name of the relevant company by financial institutions such as banks and securities companies. These agreements mature within three months and the carrying values approximate market. The Company has never experienced any losses through default of the financial institutions and does not anticipate any default on agreements outstanding.

7. Cash Deposits

The Company operates cash collection and deposit services for financial institutions relating to cash dispensers located outside of financial institution facilities. Cash deposit balances, mostly in cash dispensers, of ¥45,251 million ($377,092 thousand) and ¥40,750 million at March 31, 2003 and 2002, respectively, are segregated from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the necessary cash through bank overdrafts and deposits from the related financial institutions. Bank loans and deposits received include ¥17,203 million ($143,358 thousand) and ¥26,738 million ($222,817 thousand), respectively, at March 31, 2003, and ¥15,234 million and ¥20,560 million, respectively, at March 31, 2002, relating to this operation. As part of its fee arrangement for such services, the Company is reimbursed for the interest cost of the related overdrafts.

8. Short-Term Investments and Investment Securities

Short-term investments (current) and investment securities (non-current) include debt and equity securities. The related aggregate fair value, gross unrealized gains, gross unrealized losses and cost pertaining to "available-for-sale" and "held-to-maturity" investments at March 31, 2003 and 2002 were as follows:

	In millions of yen			
	March 31, 2003			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	¥ 51,251	¥1,592	¥4,180	¥ 48,663
Debt securities	87,946	1,243	475	88,714
Total	¥139,197	¥2,835	¥4,655	¥137,377
Held-to-maturity:				
Debt securities	¥ 14,251	¥ 10	¥ 42	¥ 14,219

	In millions of yen			
	March 31, 2002			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities ...	¥ 59,311	¥3,444	¥8,038	¥ 54,717
Debt securities	50,345	714	894	50,165
Total	¥109,656	¥4,158	¥8,932	¥104,882
Held-to-maturity:				
Debt securities	¥ 17,500	¥ —	¥ 90	¥ 17,410

	In thousands of U.S. dollars			
	March 31, 2003			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities.....	$ 427,092	$13,267	$34,834	$ 405,525
Debt securities	732,883	10,358	3,958	739,283
Total..........................	$1,159,975	$23,625	$38,792	$1,144,808
Held-to-maturity:				
Debt securities	$ 118,759	$ 83	$ 350	$ 118,492

At March 31, 2003, debt securities principally consisted of short-term investments in monetary trusts, Japanese government bonds, corporate bonds, U.S. treasury securities and U.S. Government Agency Bonds.

In September 2000, the parent company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥21,550 million. Upon contribution of these securities, net unrealized gains amounting to ¥21,366 million were realized and included in the consolidated statement of income for the year ended March 31, 2001.

The cost and fair value of "available-for-sale" and "held-to-maturity" debt securities by contractual maturity at March 31, 2003 are as follows:

	In millions of yen			
	March 31, 2003			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥12,257	¥11,963	¥10,500	¥10,510
Due after 1 year through 5 years	67,962	68,900	3,451	3,409
Due after 5 years through 10 years	4,284	4,328	—	—
Due after 10 years	3,443	3,523	300	300
	¥87,946	¥88,714	¥14,251	¥14,219

	In thousands of U.S. dollars			
	March 31, 2003			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$102,142	$ 99,692	$ 87,500	$ 87,584
Due after 1 year through 5 years	566,350	574,167	28,759	28,408
Due after 5 years through 10 years	35,700	36,066	—	—
Due after 10 years	28,691	29,358	2,500	2,500
	$732,883	$739,283	$118,759	$118,492

During the years ended March 31, 2003, 2002 and 2001, the net unrealized losses on "available-for-sale" securities included as part of other comprehensive income (loss), net of tax, decreased by ¥1,723 million ($14,359 thousand), and increased by ¥2,152 million and ¥19,601 million, respectively.

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 2003, 2002 and 2001 were ¥8,228 million ($68,567 thousand), ¥5,126 million and ¥3,749 million, respectively. On those sales, the gross realized gains and gross realized losses, using a specifically identified moving-average cost basis, for the years ended March 31, 2003, 2002 and 2001 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Gross realized gains.....	¥ 759	¥2,556	¥1,491	$ 6,325
Gross realized losses ...	1,266	470	255	10,550

The Company maintains long-term investment securities, included as investment securities, issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies, at cost net of other-than-temporary impairment, was ¥23,241 million ($193,675 thousand) and ¥12,500 million at March 31, 2003 and 2002, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

9. Inventories

Inventories principally consist of operational equipment and certain merchandise, including security-related products, software and real estate for sale.

Inventories at March 31, 2003 and 2002 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Security-related products	¥ 7,504	¥10,493	$ 62,534
Real estate..................................	28,662	39,154	238,850
Information and other-related products	5,635	6,177	46,958
	¥41,801	¥55,824	$348,342

Work in process real estate inventories at March 31, 2003 and 2002, amounting to ¥20,931 million ($174,425 thousand) and ¥35,682 million, respectively, are included in real estate.

10. Investments in Affiliated Companies

The Company has investments in affiliated companies that are accounted for under the equity method. The principal investments are Nohmi Bosai Ltd., a 28.6 percent owned affiliate, which is Japan's largest manufacturer of fire alarms and listed on the First Section of the Tokyo Stock Exchange; Taiwan Secom Co., Ltd., a 27.6 percent owned affiliate, which is listed on the Taiwan Stock Exchange; S1 Corporation, a 25.6 percent owned affiliate, which is listed on the Korea Stock Exchange; Japan Image Communications Co., Ltd., a 30.6 percent owned affiliate; and Japan Cablenet Holdings Limited, a 23.0 percent owned affiliate.

Summarized financial information regarding the affiliated companies accounted for under the equity method was as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Current assets	¥102,363	¥106,123	$ 853,025
Non-current assets	139,396	129,402	1,161,633
Total assets	¥241,759	¥235,525	$2,014,658
Current liabilities	¥ 63,570	¥ 58,303	$ 529,750
Non-current liabilities	64,458	59,985	537,150
Shareholders' equity	113,731	117,237	947,758
Total liabilities and shareholders' equity	¥241,759	¥235,525	$2,014,658

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Net sales	¥178,397	¥158,770	¥150,005	$1,486,642
Gross profit	¥ 55,179	¥ 45,621	¥ 42,441	$ 459,825
Net income	¥ 6,996	¥ 7,384	¥ 4,318	$ 58,300

Dividends received from affiliated companies for the years ended March 31, 2003, 2002 and 2001 were ¥924 million ($7,700 thousand), ¥655 million and ¥419 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥22,457 million ($187,142 thousand) and ¥22,302 million at March 31, 2003 and 2002, respectively, had a quoted market value of ¥33,884 million ($282,367 thousand) and ¥40,643 million at March 31, 2003 and 2002, respectively.

The unamortized amounts of goodwill were ¥729 million ($6,075 thousand) and ¥415 million at March 31, 2003 and 2002, respectively. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", this equity-method goodwill is no longer amortized, but is being analyzed for impairment. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over periods not exceeding 10 years.

A summary of transactions and balances with the affiliated companies accounted for using the equity method is presented below:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Sales	¥ 1,862	¥1,595	¥1,637	$15,517
Purchases	¥10,061	¥9,704	¥9,764	$83,842

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Notes and accounts receivable, trade	¥ 606	¥ 940	$ 5,050
Loan receivables	¥ 987	¥ 268	$ 8,225
Notes and accounts payable	¥ 2,672	¥2,901	$22,267
Guarantees for bank loans	¥10,101	¥8,765	$84,175

11. Long-Lived Assets

The Company recognized impairment losses on property, plant and equipment of ¥3,012 million ($25,100 thousand) for the year ended March 31, 2003, which were included in other expenses in the accompanying consolidated statements of income. The impaired assets included the properties held by real estate investment companies as part of investment assets of the insurance service segment. Fair value was determined based on appraisal value.

12. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2003 and April 1, 2002 were as follows:

	In millions of yen		
	March 31, 2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥ 22,065	(¥ 6,311)	¥ 15,754
Other	5,560	(2,959)	2,601
Total	¥ 27,625	(¥ 9,270)	¥ 18,355
Unamortized intangible assets	¥ 4,603	¥ —	¥ 4,603

	In millions of yen		
	April 1, 2002		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥ 19,029	(¥ 3,980)	¥ 15,049
Other	6,445	(4,174)	2,271
Total	¥ 25,474	(¥ 8,154)	¥ 17,320
Unamortized intangible assets	¥ 4,553	¥ —	¥ 4,553

	In thousands of U.S. dollars		
	March 31, 2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	$183,875	($52,592)	$131,283
Other	46,333	(24,658)	21,675
Total	$230,208	($77,250)	$152,958
Unamortized intangible assets	$ 38,358	$ —	$ 38,358

Aggregate amortization expense for the year ended March 31, 2003, was ¥4,134 million ($34,450 thousand).

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥4,650	$38,750
2005	4,385	36,542
2006	3,820	31,833
2007	2,929	24,408
2008	1,360	11,333

The changes in the carrying amount of goodwill by business segment for the year ended March 31, 2003 were as follows:

	In millions of yen				
	Security services	Medical services	Insurance services	Information and communication related and other services	Total
April 1, 2002	¥1,239	¥5,063	¥—	¥5,637	¥11,939
Goodwill acquired during the year	—	—	—	708	708
Impairment losses	—	(161)	—	—	(161)
Translation adjustment	5	—	—	—	5
March 31, 2003	¥1,244	¥4,902	¥—	¥6,345	¥12,491

	In thousands of U.S. dollars				
	Security services	Medical services	Insurance services	Information and communication related and other services	Total
April 1, 2002	$10,325	$42,192	$—	$46,975	$ 99,492
Goodwill acquired during the year	—	—	—	5,900	5,900
Impairment losses	—	(1,342)	—	—	(1,342)
Translation adjustment	42	—	—	—	42
March 31, 2003	$10,367	$40,850	$—	$52,875	$104,092

Reconciliations of reported income before cumulative effect of accounting change and net income and basic and diluted Earnings per Share ("EPS") to the amounts adjusted for the exclusion of goodwill amortization for the years ended March 31, 2002 and 2001 were as follows:

	In millions of yen	
	Years ended March 31	
	2002	2001
Reported income before cumulative effect of accounting change	¥34,082	¥47,695
Addback: Goodwill amortization	2,197	1,897
Adjusted income before cumulative effect of accounting change	¥36,279	¥49,592
Reported net income	¥34,082	¥43,996
Addback: Goodwill amortization	2,197	1,897
Adjusted net income	¥36,279	¥45,893

Per share data:

	In yen	
	Years ended March 31	
	2002	2001
Income before cumulative effect of accounting change:		
Reported basic EPS	¥146.19	¥204.63
Addback: Goodwill amortization	9.42	8.14
Adjusted basic EPS	¥155.61	¥212.77
Reported diluted EPS	¥146.11	¥204.46
Addback: Goodwill amortization	9.42	8.13
Adjusted diluted EPS	¥155.53	¥212.59
Net income:		
Reported basic EPS	¥146.19	¥188.76
Addback: Goodwill amortization	9.42	8.14
Adjusted basic EPS	¥155.61	¥196.90
Reported diluted EPS	¥146.11	¥188.61
Addback: Goodwill amortization	9.42	8.13
Adjusted diluted EPS	¥155.53	¥196.74

13. Bank Loans and Long-Term Debt

Bank loans of ¥124,048 million ($1,033,733 thousand) and ¥68,003 million at March 31, 2003 and 2002, respectively, are generally comprised of 30 to 365 day notes. Their interest rates ranged from 0.49 to 1.88 percent at March 31, 2003 and from 0.4 to 2.41 percent at March 31, 2002. Substantially all of these loans are with banks. The Company has entered into basic agreements with these banks that state that, with respect to all present or future loans with such banks, collateral (including sums on deposit with such banks) or guarantors shall be provided immediately upon request. Further, any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks. The Company has never been requested to submit such additional security.

Long-term debt at March 31, 2003 and 2002 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Loans, principally from banks due 2003 to 2016 with interest rates ranging from 0.00 to 6.60% in 2003 and 2002:			
Secured	¥ 53,032	¥ 61,565	$ 441,934
Unsecured	27,343	57,237	227,858
1.60% unsecured convertible bonds due 2002, convertible currently at ¥2,667.8 ($22.23) for one common share, redeemable before due date	—	33	—
1.60% unsecured convertible bonds due 2004, convertible currently at ¥2,372.4 ($19.77) for one common share, redeemable before due date	18	18	150
2.05% unsecured notes due 2003	—	5,000	—
0.53% unsecured bonds due 2006	30,000	30,000	250,000
0.46% unsecured bonds due 2007	1,500	—	12,500
1.80% secured bonds due 2004	200	200	1,667
1.21% secured bonds due 2006	300	300	2,500
Obligations under capital leases, due 2003 to 2026 (Note 20)	10,881	11,397	90,675
	123,274	165,750	1,027,284
Less:			
Portion due within one year	20,507	32,703	170,892
	¥102,767	¥133,047	$ 856,392

Property, plant and equipment with a carrying amount of ¥72,804 million ($606,700 thousand), inventories with a carrying amount of ¥24,097 million ($200,808 thousand), investment securities with a carrying amount of ¥695 million ($5,792 thousand), time deposits of ¥192 million ($1,600 thousand) and intangibles and other with a carrying amount of ¥1,616 million ($13,467 thousand) were pledged as collateral for short-term and long-term debt at March 31, 2003.

The Company has no compensating balance arrangements with any lending bank. However, as is the customary practice in Japan, the Company had time deposits aggregating ¥1,228 million ($10,233 thousand) with such banks at March 31, 2003.

The aggregate annual maturities on long-term debt after March 31, 2003 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥ 20,507	$ 170,892
2005	16,349	136,242
2006	28,927	241,058
2007	43,543	362,858
2008	3,215	26,792
Later years	10,733	89,442
	¥123,274	$1,027,284

14. Insurance-Related Operations

Secom General Insurance Co., Ltd. ("Secom Insurance"), a subsidiary of the parent company, maintains accounting records as noted in Note 2 in accordance with the accounting principles and practices generally accepted in Japan, which vary in some respects from accounting principles generally accepted in the United States of America. Those differences are principally, (a) that insurance acquisition costs are charged to income when incurred in Japan whereas in the United States of America those costs are deferred and amortized generally over the premium-paying period of the insurance policies, (b) that liabilities related to incurred but not reported claims are computed based on related regulations in Japan whereas in the United States of America those liabilities are computed based on past experience for unreported losses, and (c) that unearned premiums are calculated based on the documents authorized by the Supervisory Authorities in Japan whereas in the United States of America unearned premiums are reflected based on the lapse and surrender over the contract period.

In addition, under certain property and casualty insurance contracts with a refund clause and long-term insurance policies that provide refunds at maturity, such as personal injury and fire, the policyholder receives a refund if premiums have been fully paid unless a substantial settlement (as defined in the policy) has occurred. The Company has provided for such refundable amounts by classifying a portion of the net premiums written, together with interest thereon, as investment deposits by policyholders. Contract and policy terms are principally five years.

For purposes of preparing the consolidated financial statements, appropriate adjustments have been made to reflect such items in accordance with accounting principles generally accepted in the United States of America.

The amounts of net equity of Secom Insurance at March 31, 2003 and 2002 were ¥15,902 million ($132,517 thousand) and ¥19,653 million, respectively.

15. Pension and Severance Costs

Employees of the parent company and its Japanese subsidiaries whose services are terminated are, under most circumstances, entitled to lump-sum severance indemnities or eligible for pension benefits. Lump-sum severance indemnities are provided to employees with three to 10 service years and are determined based on current basic rates of pay, length of service and conditions under which the termination occurs.

The parent company and certain of its Japanese subsidiaries maintain an Employees' Pension Fund ("EPF") plan which is a defined benefit pension established under the Japanese Welfare Pension Insurance Law, covering substantially all of their employees. The EPF plan is composed of the substitutional portion and the corporate portion. The pension benefits for the substitutional portion are determined based on standard remuneration scheduled by the Japanese Welfare Pension Insurance Law and the length of participation. The pension benefits of the corporate portion are determined based on current basic rates of pay, length of service and conditions under which the termination occurs. The EPF plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law.

To supplement the EPF plan, the parent company and its major Japanese subsidiaries act as trustees for non-contributory defined benefit pension plans which cover substantially all of the eligible employees having 10 years or more of service. The benefits are in the form of lump-sum and (or) pension payments and are determined by formula based upon length of service and age at time of termination. The Company contributes amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to limitations on deductibility imposed by Japanese income tax laws.

In March 2002, the parent company and certain of its Japanese subsidiaries integrated and amended three pension plans as described above, comprised of a lump-sum payment plan, the corporate portion of the EPF plan and a non-contributory defined benefit pension plan, to a cash balance pension plan, effective April 1, 2002. Under the cash balance pension plan, each participant has an account which is credited annually based on the current rate of pay and market-related interest rate. With this plan amendment, the benefit obligation decreased and the resulting prior service benefit is amortized based on the remaining service period.

In April 2002, following the enactment of changes to the Japanese Welfare Pension Insurance Law, the parent company and certain of its Japanese subsidiaries obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the EPF plan. The Company will recognize the relevant gain or loss in accordance with the Emerging Issues Task Force No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," when the past benefit obligation and related plan assets are transferred to the government.

In March 2003, the parent company and certain of its Japanese subsidiaries decided to transfer the 20 percent portion of their cash balance pension plan for the eligible employees having three years or more of service to a defined contribution pension plan and amend the calculation method of a market-related interest rate for the remaining 80 percent portion, effective April 1, 2003. With this plan amendment, the benefit obligation decreased and the resulting prior service benefit is amortized based on the remaining service period.

Net pension and severance costs under Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions", for the years ended March 31, 2003, 2002 and 2001 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Net pension and severance costs (credit):				
Service cost	¥ 4,200	¥ 8,032	¥ 6,898	$ 35,000
Interest cost	3,449	3,930	3,755	28,742
Expected return on plan assets	(2,749)	(3,488)	(3,962)	(22,908)
Amortization of transition assets	(46)	(46)	(46)	(384)
Amortization of prior service benefit	(1,172)	(85)	(37)	(9,767)
Recognized actuarial loss	3,336	1,872	606	27,800
Net periodic benefit cost	¥ 7,018	¥10,215	¥ 7,214	$ 58,483

The changes in benefit obligation and plan assets, funded status and composition of amount recognized in the consolidated balance sheets were as follows:

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2003	2002	2003
Change in benefit obligation:			
Benefit obligation at beginning of year	¥137,867	¥131,087	$1,148,892
Service cost	4,200	8,032	35,000
Interest cost	3,449	3,930	28,742
Plan participants' contributions	7	1,612	58
Actuarial loss	554	12,482	4,616
Amendments	(6,786)	(15,671)	(56,550)
Benefits paid	(3,803)	(3,698)	(31,692)
Acquisition	—	93	—
Benefit obligation at end of year	135,488	137,867	1,129,066
Change in plan assets:			
Fair value of plan assets at beginning of year	88,249	95,719	735,408
Actual return on plan assets	(8,521)	(11,876)	(71,008)
Employer contribution	6,414	5,880	53,450
Plan participants' contributions	7	1,612	58
Benefits paid	(3,432)	(3,086)	(28,600)
Fair value of plan assets at end of year	82,717	88,249	689,308
Funded status	52,771	49,618	439,758
Unrecognized actuarial loss	(79,511)	(71,023)	(662,592)
Unrecognized transition assets	89	135	742
Unrecognized prior service benefit	22,425	16,852	186,875
Net amount recognized	(¥ 4,226)	(¥ 4,418)	($ 35,217)

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2003	2002	2003
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥41,704	¥36,622	$347,533
Accumulated other comprehensive income (loss)	(45,930)	(41,040)	(382,750)
Net amount recognized	(¥ 4,226)	(¥ 4,418)	($ 35,217)

The assumptions used in computing the information above are as follows:

	March 31		
	2003	2002	2001
Discount rate	2.5%	2.5%	3.0%
Expected long-term rate of return on plan assets	3.0%	3.0%	4.0%
Long-term rate of salary increase	2.7%	2.7%	2.2–3.5%

The plan assets consist principally of corporate equity securities, government securities and corporate debt securities.

The provisions of SFAS No. 87 require recognition in the balance sheet of a minimum pension liability and related intangible assets for pension plans with an accumulated benefit obligation in excess of plan assets. The minimum pension liability which exceeded the unrecognized prior service cost was recorded as a component of accumulated other comprehensive income (loss), net of tax, of ¥26,115 million ($217,625 thousand) and ¥23,109 million at March 31, 2003 and 2002, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with accumulated benefit obligation in excess of plan assets were ¥135,488 million ($1,129,066 thousand), ¥123,916 million ($1,032,633 thousand) and ¥82,717 million ($689,308 thousand), respectively, at March 31, 2003, and ¥137,867 million, ¥124,127 million and ¥88,249 million, respectively, at March 31, 2002.

Most overseas subsidiaries have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. The funding policy for the defined contribution plans is to annually contribute an amount equal to a certain percentage of the participants' annual salaries. The contributions to the defined contribution pension plans for the years ended March 31, 2003, 2002 and 2001 were ¥22 million ($183 thousand), ¥20 million and ¥19 million, respectively.

16. Exchange Gains and Losses

Interest and other revenue for the years ended March 31, 2003, 2002 and 2001 includes net exchange gains of ¥389 million ($3,242 thousand), ¥321 million and ¥313 million, respectively.

17. Income Taxes

Total income taxes for the years ended March 31, 2003, 2002 and 2001 were allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Income	¥24,048	¥30,183	¥ 35,751	$200,400
Cumulative effect of accounting change	—	—	(3,528)	—
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized losses on securities	439	(1,273)	(13,419)	3,658
Unrealized gains on derivative instruments	6	24	—	50
Minimum pension liabilities adjustments	(1,379)	(3,633)	(11,788)	(11,492)
Foreign currency translation adjustments	(279)	—	—	(2,325)
	¥22,835	¥25,301	¥ 7,016	$190,291

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.9 percent for the years ended March 31, 2003, 2002 and 2001.

Amendments to Japanese tax regulations were enacted on March 24, 2003. As a result of this amendment, the statutory tax rate was reduced from approximately 41.9 percent to 40.6 percent effective from April 1, 2004. Deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2004 were calculated at the rate of approximately 40.6 percent.

Reconciliations of the differences between income taxes computed at statutory tax rates and consolidated income tax expense were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Income taxes computed at statutory tax rate of 41.9%	¥22,153	¥27,140	¥34,586	$184,608
Increase (decrease) resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	2,537	2,081	1,305	21,142
Reversal of valuation allowance due to utilization of operating loss carryforwards	(1,545)	(670)	(2,504)	(12,875)
Amortization of non-deductible goodwill	—	763	699	—
Other, net	903	869	1,665	7,525
Consolidated income taxes	¥24,048	¥30,183	¥35,751	$200,400

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Deferred tax assets:			
Loss carryforwards	¥ 23,019	¥ 22,062	$ 191,825
Accrued pension and severance costs	17,081	17,611	142,342
Deferred revenue	11,880	11,850	99,000
Adjustment of book value at the date of acquisition—			
Land and buildings	9,432	10,245	78,600
Other assets	2,593	2,676	21,608
Accrued bonus	3,116	2,453	25,967
Investment securities	2,650	805	22,083
Allowance for doubtful accounts	2,399	1,627	19,992
Vacation accrual	1,953	1,873	16,275
Property, plant and equipment	1,897	—	15,808
Enterprise and state income taxes	916	2,020	7,633
Other	7,855	7,136	65,458
Gross deferred tax assets	84,791	80,358	706,591
Less: Valuation allowance	(21,889)	(21,256)	(182,408)
Total deferred tax assets	62,902	59,102	524,183
Deferred tax liabilities:			
Deferred installation costs	(8,076)	(8,052)	(67,300)
Adjustment of book value at the date of acquisition—			
Land and buildings	(6,589)	(7,012)	(54,908)
Other investments	(2,523)	(2,603)	(21,025)
Long-term receivables	(1,955)	(2,021)	(16,292)
Capitalization of property acquisition tax	(1,592)	(1,540)	(13,267)
Unearned premiums and other insurance liabilities	(1,454)	(1,291)	(12,117)
Other	(2,525)	(2,979)	(21,040)
Gross deferred tax liabilities	(24,714)	(25,498)	(205,949)
Net deferred tax assets	¥ 38,188	¥ 33,604	$ 318,234

The valuation allowance principally relates to deferred tax assets of the subsidiaries with operating loss carryforwards, for tax purposes, that are not expected to be realized. The net change in the total valuation allowance for the years ended March 31, 2003 and 2002 was an increase of ¥633 million ($5,275 thousand) and ¥1,296 million, respectively.

In assessing the realizability of deferred tax assets, the Company management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 2003 and 2002.

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totaling ¥2,852 million ($23,767 thousand) at March 31, 2003 because they are not expected to be remitted in the foreseeable future.

At March 31, 2003, tax loss carryforwards of domestic subsidiaries amounted to ¥49,193 million ($409,942 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to five years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥32,758	$272,983
2005	2,068	17,233
2006	3,010	25,083
2007	3,584	29,867
2008	7,773	64,776
	¥49,193	$409,942

The tax loss carryforwards of overseas subsidiaries at March 31, 2003 amounted to ¥5,398 million ($44,983 thousand), a part of which will begin to expire in the year ending March 31, 2004.

18. Shareholders' Equity

(1) Treasury Stock

On August 13, 2002, the parent company repurchased its own stock, in accordance with the resolution approved by the shareholders' meeting held on June 27, 2002. The shares repurchased were 8,000,000 shares at ¥5,420 ($45.17) per share for an aggregate amount of ¥43,360 million ($361,333 thousand). The purchase price per share was determined based on the closing price on the Tokyo Stock Exchange on August 12, 2002.

The transaction for repurchase of treasury stock included a portion with related parties, Yugen Kaisha Iida Kosan and Yugen Kaisha Toda Zenken, which are asset management companies with a majority of voting interests held by the parent company's directors and their immediate families. The amounts purchased from these related parties, Yugen Kaisha Iida Kosan and Yugen Kaisha Toda Zenken, were ¥25,530 million ($212,750 thousand) and ¥16,512 million ($137,600 thousand), respectively.

(2) Retained Earnings

The Japanese Commercial Code, amended effective October 1, 2001, provides that an amount equal to at least 10 percent of cash dividends and other distributions from retained earnings paid in cash by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until an aggregate amount of additional paid-in capital and legal reserve equals 25 percent of the common stock account.

The Japanese Commercial Code requires that dividends at year-end, which the Board of Directors resolved to declare customarily in the first month following year-end, be approved at the general shareholders' meeting to be held within three months after the end of the accounting period.

Subsequent to March 31, 2003, the parent company's Board of Directors declared an annual cash dividend of ¥9,003 million ($75,025 thousand) to shareholders of record on March 31, 2003. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 27, 2003. Dividends are recorded in the period they are declared.

(3) Accumulated Other Comprehensive Income (Loss)

An analysis of the changes in accumulated other comprehensive income (loss) for the years ended March 31, 2003, 2002 and 2001 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2003:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	(¥ 7,053)	¥ 2,738	(¥ 4,315)
Less: Reclassification adjustment for gains or losses included in net income	9,215	(3,177)	6,038
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	177	(72)	105
Less: Reclassification adjustment for gains or losses included in net income	(172)	66	(106)
Minimum pension liabilities adjustments	(4,385)	1,379	(3,006)
Foreign currency translation adjustments	(4,619)	279	(4,340)
Other comprehensive income (loss)	(¥ 6,837)	¥ 1,213	(¥ 5,624)

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2002:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	(¥ 9,379)	¥ 3,297	(¥ 6,082)
Less: Reclassification adjustment for gains or losses included in net income	5,954	(2,024)	3,930
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	209	(74)	135
Less: Reclassification adjustment for gains or losses included in net income	(142)	50	(92)
Minimum pension liabilities adjustments	(9,632)	3,633	(5,999)
Foreign currency translation adjustments	7,043	—	7,043
Other comprehensive income (loss)	(¥ 5,947)	¥ 4,882	(¥ 1,065)

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2001:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	(¥10,490)	¥ 3,994	(¥ 6,496)
Less: Reclassification adjustment for gains or losses included in net income	(22,530)	9,425	(13,105)
Minimum pension liabilities adjustments	(28,133)	11,788	(16,345)
Foreign currency translation adjustments	4,670	—	4,670
Other comprehensive income (loss)	(¥56,483)	¥25,207	(¥31,276)

	In thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2003:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	**($58,775)**	**$22,817**	**($35,958)**
Less: Reclassification adjustment for gains or losses included in net income	**76,792**	**(26,475)**	**50,317**
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	**1,475**	**(600)**	**875**
Less: Reclassification adjustment for gains or losses included in net income	**(1,433)**	**550**	**(883)**
Minimum pension liabilities adjustments	**(36,542)**	**11,492**	**(25,050)**
Foreign currency translation adjustments	**(38,492)**	**2,325**	**(36,167)**
Other comprehensive income (loss)	**($56,975)**	**$10,109**	**($46,866)**

19. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 were ¥5,003 million ($41,692 thousand), ¥5,121 million and ¥3,921 million, respectively.

20. Leased Assets—Lessee

The Company leases certain office space, employee residential facilities, computer and transportation equipment. Some leased buildings and computer and transportation equipment are held under capital leases. Other leases are classified as operating leases.

On April 23, 1996, the Company entered into a long-term lease agreement for a building and land in Mitaka, Tokyo. The lease agreement extends for 30 years beginning May 1, 1996. For financial reporting purposes, the portion of the lease relating to the building has been classified as a capital lease; accordingly, an asset of approximately ¥5,086 million ($42,383 thousand) has been recorded in the building and improvements account. The portion of the lease relating to the land has been classified as an operating lease. The future minimum lease payments for the site at March 31, 2003 were ¥7,557 million ($62,975 thousand).

A summary of leased assets under capital leases at March 31, 2003 and 2002 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Buildings and improvements	¥ 5,185	¥ 5,185	$ 43,208
Machinery, equipment and automobiles	11,888	12,049	99,067
Intangibles and other	123	79	1,025
Accumulated depreciation	(7,076)	(6,606)	(58,967)
	¥10,120	¥10,707	$ 84,333

Depreciation expenses under capital leases for the years ended March 31, 2003, 2002 and 2001 were ¥2,991 million ($24,925 thousand), ¥3,195 million and ¥2,890 million, respectively.

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at March 31, 2003:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥ 2,916	$ 24,300
2005	2,212	18,433
2006	1,556	12,967
2007	879	7,325
2008	606	5,050
Later years	6,621	55,175
Total minimum lease payments	14,790	123,250
Less: Amount representing interest	3,909	32,575
Present value of net minimum lease payments (Note 13)	10,881	90,675
Less: Current obligations	2,535	21,125
Long-term capital lease obligations	¥ 8,346	$ 69,550

Rental expenses under operating leases for the years ended March 31, 2003, 2002 and 2001 were ¥15,182 million ($126,517 thousand), ¥12,961 million and ¥12,151 million, respectively. A significant portion of such rentals relates to cancelable short-term leases for office space and employee residential facilities, many of which are renewed upon expiration.

On December 8, 2000, the Company entered into a lease agreement for a building and land in Shibuya, Tokyo. The lease agreement extends for 20 years beginning December 8, 2000. For financial reporting purposes, the lease has been classified as an operating lease. Based on the agreement, annual lease payments for the site are approximately ¥1,339 million ($11,158 thousand) over a 20-year period.

The future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2003 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥ 1,778	$ 14,817
2005	1,723	14,358
2006	1,693	14,108
2007	1,677	13,975
2008	1,671	13,925
Later years	22,911	190,925
Total future minimum lease payments	¥31,453	$262,108

21. Property on Operating Leases—Lessor

The Company's leasing operations consist principally of leasing of certain office space and related properties. The properties on operating leases are primarily held by real estate investment companies as part of investment assets of the insurance services segment and by Arai & Co.,Ltd., which is engaged in leasing services of real estate.

A summary of investment in property on operating leases and property held for lease at March 31, 2003 and 2002 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2003	2002	2003
Land	¥105,052	¥102,655	$ 875,433
Buildings and improvements	86,540	80,835	721,167
Construction in progress	1,271	26,137	10,592
Intangibles and other	1,681	1,680	14,008
Accumulated depreciation	(10,712)	(9,263)	(89,267)
	¥183,832	¥202,044	$1,531,933

The future minimum rentals on non-cancelable operating leases at March 31, 2003 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2004	¥ 8,694	$ 72,450
2005	2,830	23,583
2006	1,287	10,725
2007	746	6,217
2008	651	5,425
Later years	12,035	100,292
Total future minimum rentals	¥26,243	$218,692

22. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable.

(1) Cash and Cash Equivalents; Time Deposits; Cash Deposits; Notes and Accounts Receivable, Trade; Due from Subscribers; Short-Term Receivables; Bank Loans; Notes and Accounts Payable, Trade; Other Payables; Deposits Received; and Accrued Payrolls

The carrying amounts approximate fair value because of the short maturities of such instruments.

(2) Long-Term Receivables

The fair values of long-term receivables are based on the present value of future cash flows through estimated maturity, discounted using estimated market discount rates. The carrying amount of long-term receivables approximates fair value.

(3) Long-Term Debt Including Current Portion

The fair value of long-term debt including the current portion was estimated based on the discounted amounts of future cash flows using the Company's current incremental borrowing rates for similar liabilities. As long-term interest rates have not fluctuated significantly in recent years in Japan, the carrying amounts of obligations under capital lease approximate estimated fair value.

(4) Investment Deposits by Policyholders

The fair values of investment deposits by policyholders are estimated by discounting future cash flows using the interest rates currently being offered for similar contracts.

(5) Interest Rate Swap Agreements

The fair values of interest rate swaps are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the financial instruments excluding debt and equity securities which are disclosed in Note 8 at March 31, 2003 and 2002 are as follows:

	In millions of yen			
	March 31			
	2003		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Liabilities—				
Long-term debt including current portion	¥123,274	¥123,628	¥165,750	¥165,840
Investment deposits by policyholders	¥231,109	¥246,057	¥226,407	¥243,916
Derivatives:				
Assets—				
Interest rate swaps	¥ 1	¥ 1	¥ 163	¥ 163
Liabilities—				
Interest rate swaps	¥ 921	¥ 921	¥ 1,127	¥ 1,127

	In thousands of U.S. dollars	
	March 31	
	2003	
	Carrying amount	Estimated fair value
Non-derivatives:		
Liabilities—		
Long-term debt including current portion	$1,027,284	$1,030,233
Investment deposits by policyholders	$1,925,908	$2,050,475
Derivatives:		
Assets—		
Interest rate swaps	$ 8	$ 8
Liabilities—		
Interest rate swaps	$ 7,675	$ 7,675

Limitation:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

23. Derivative Financial Instruments

(1) Risk Management Policy

The Company utilizes derivative financial instruments in the normal course of business to reduce exposure to fluctuations in interest and foreign currency rates. The Company assesses interest rate risk and foreign currency exchange risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. The Company does not hold or issue derivative financial instruments for trading purposes. The Company is also exposed to credit-related losses in the event of non-perfomance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified into a number of major financial institutions.

(2) Interest Rate Risk Management

The Company's exposure to the market risk of changes in interest rates relates primarily to its debt obligations. The Company principally enters into interest rate swap agreements to manage fluctuations in cash flows resulting from changes in interest rates. Interest rate swaps are used to change floating rates on debt obligations to fixed rates by entering into receive-floating, pay-fixed interest rate swaps under which the Company receives floating interest rate proceeds and make fixed interest rate payments, thereby creating fixed-rate debt.

(3) Cash Flow Hedge

The Company designates interest rate swap agreements as cash flow hedges for variability of cash flows originated from floating rate borrowings. The interest rate swap agreements mature at various dates through 2008. The effective portion of changes in fair values of derivative instruments designated as cash flow hedges of these debt obligations are reported in other comprehensive income (loss). These amounts are reclassified into current income in the same period as hedged items affect current income. The ineffective portion of changes in fair values are reported in income immediately. The sum of the amount of the hedge ineffectiveness and net gain or loss excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2003 and 2002. Approximately ¥8 million ($67 thousand) of net derivative gains included in other comprehensive income (loss), net of tax at March 31, 2003, will be reclassified into current income within 12 months from that date. At March 31, 2003 and 2002, the notional principal amounts of interest rate swap agreements designated as cash flow hedges were ¥36,093 million ($300,775 thousand) and ¥43,683 million, respectively.

(4) Non-Hedge Derivative Instuments

The parent company and its two subsidiaries entered into interest rate swap agreements whereby they pay a LIBOR-based floating rate of interest and receive a long-term based floating swap rate. The Company believes that the long-term based floating swap rate will provide higher interest income to the Company compared to the LIBOR-based floating rate. This swap agreement is designed to replace LIBOR-based interest income with long-term swap rate interest income for the investment securities. Changes in fair value of non-hedging derivative financial instruments are reported in income.

24. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2003 for the purchase of property, plant and equipment approximated ¥2,384 million ($19,867 thousand).

The Company provides guarantees to third parties with respect to bank loans extended to its affiliated companies and other entities. Such guarantees are provided to enhance the credit standing of the affiliated companies and other entities. For each guarantee provided, the Company would have to perform under guarantee, if the affiliated companies and other entities default on a payment within the guaranteed period of one to 14 years. The maximum amount of undiscounted payments the Company would have to make in the event of default amounts to ¥27,218 million ($226,817 thousand) at March 31, 2003. No amount has been accrued for the Company's obligations under its guaranty arrangement at March 31, 2003.

25. Free Share Distributions of Less than 25 Percent

The method of accounting for the Company's less than 25 percent free share distributions is described in Note 2. Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America, ¥98,388 million ($819,900 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on total shareholders' equity.

26. Gain on Sale of Subsidiaries' Shares

On April 28, 2000, The Westec Security Group, Inc. ("Westec"), a wholly owned subsidiary in the United States of America, sold all of the outstanding shares of Westec Business Security, Inc. to ADT Security Services, Inc. for an aggregate sales price of ¥1,016 million in cash. The sale resulted in a gain of ¥571 million.

On February 19, 2002, Secom Joshinetsu Co., Ltd. ("Secom Joshinetsu"), a 62.0 percent owned subsidiary, completed an initial public offering on the Second Section of the Tokyo Stock Exchange. In conjunction with the offering, the parent company sold 1,000,000 outstanding shares of Secom Joshinetsu for a sale price of ¥2,162 million. Through a secondary offering, Secom Joshinetsu issued an additional 500,000 shares for total proceeds of ¥1,081 million. As a result of these transactions, the parent company's ownership in Secom Joshinetsu declined to 52.1 percent. The resulting pre-tax gains on the sale of subsidiary shares and new issuance of Secom Joshinetsu's shares of ¥700 million and ¥160 million, respectively, are recognized in the consolidated statement of income for the year ended March 31, 2002. In the consolidated statement of cash flows for the year ended March 31, 2002, the gain on sale of subsidiary shares is excluded from cash flows from operating activities and the related cash proceeds are classified in cash flows from investing activities. The cash proceeds from the new issuance by Secom Joshinetsu to minority shareholders are classified in cash flows from financing activities.

27. Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Cash paid during the year for:				
Interest	¥ 3,527	¥ 1,568	¥ 1,996	$ 29,392
Income taxes	¥40,263	¥31,952	¥25,762	$335,525
Non-cash investing and financing activities:				
Conversion of convertible bond	¥ 17	¥ 467	¥ 60	$ 142
Additions to obligations under capital leases	¥ 2,739	¥ 3,959	¥ 2,654	$ 22,825
Acquisition—				
Fair value of assets acquired	¥ —	¥73,944	¥ 7,550	$ —
Cash paid for capital stock	—	(4,957)	(3,980)	—
Minority interest in subsidiaries	—	(13)	—	—
Net liabilities assumed	¥ —	¥68,974	¥ 3,570	$ —

28. Segment Information

The Company has applied Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", which requires disclosure of financial and descriptive information about the Company's reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and assess performance.

The Company has four reportable business segments: security services, medical services, insurance services, and information and communication related and other services.

The security services segment provides various types of security services by utilizing the Company's unique security systems and manufactures and sells security equipment. The medical services segment provides intravenous solutions to patients at home, home-based nursing care services, medical data transmission services by utilizing the Company's network and leasing of real estate for medical institutions. The insurance services segment represents non-life insurance-related underwriting business in the Japanese market. The information and communication related and other services segment represents the Company's network business, aerial surveying and mapping services, Geographic Information System services and development and sales of real estate as well as leasing of real estate. The Company develops real estate, principally condominiums, for consumers, to promote a network of integrated communication systems to create synergies with home security services. These communication services are considered a subset or an integrated part of the real estate package.

Revenue and other income by segment includes interest income and other revenue reasonably allocated to the segments. Corporate revenue includes interest income, investment income, net exchange gains and dividend income from companies unaffiliated with the parent company or Westec, a wholly owned subsidiary as a holding company in the United States of America. Corporate expenses include general and administrative expenses and net exchange losses of these two companies.

Intersegment sales are priced on a basis intended to approximate amounts charged to unaffiliated customers.

Identifiable assets are those assets used exclusively in the operations of each segment or which are allocated when used jointly. Corporate assets, which are held by the above two companies for general and administrative facilities, consist principally of cash and cash equivalents, short-term investments, investment securities, land, buildings, machinery and equipment.

Information by business and geographic segments for the years ended March 31, 2003, 2002 and 2001 is as follows:

(1) Business Segment Information

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Revenue and other income:				
Security services—				
Customers	¥355,702	¥342,169	¥316,139	$2,964,183
Intersegment	1,321	2,448	1,285	11,008
	357,023	344,617	317,424	2,975,191
Medical services—				
Customers	19,951	13,507	6,347	166,258
Intersegment	171	166	147	1,425
	20,122	13,673	6,494	167,683
Insurance services—				
Customers	29,144	28,759	23,303	242,867
Intersegment	2,026	1,920	2,030	16,883
	31,170	30,679	25,333	259,750
Information and communication related and other services—				
Customers	112,994	103,315	92,552	941,617
Intersegment	2,995	4,213	5,715	24,958
	115,989	107,528	98,267	966,575
Total	524,304	496,497	447,518	4,369,200
Eliminations	(6,513)	(8,747)	(9,177)	(54,275)
Corporate items	2,952	5,776	29,952	24,600
Consolidated revenue and other income	¥520,743	¥493,526	¥468,293	$4,339,525
Income (loss) before income taxes:				
Security services	¥ 80,108	¥ 82,984	¥ 77,389	$ 667,567
Medical services	1,810	(698)	(1,522)	15,082
Insurance services	(9,181)	304	(1,629)	(76,508)
Information and communication related and other services	(1,998)	(130)	366	(16,650)
Total	70,739	82,460	74,604	589,491
Corporate items and eliminations	(14,138)	(16,091)	9,865	(117,816)
Interest expense	(3,729)	(1,596)	(1,925)	(31,075)
Consolidated income before income taxes	¥ 52,872	¥ 64,773	¥ 82,544	$ 440,600

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2003	2002	2001	2003
Assets:				
Security services	¥ 396,850	¥ 408,657	¥369,582	$3,307,083
Medical services	67,214	61,615	11,241	560,117
Insurance services	319,750	352,454	213,438	2,664,583
Information and communication related and other services	209,954	179,383	137,362	1,749,617
Total	993,768	1,002,109	731,623	8,281,400
Corporate items	129,372	129,061	118,292	1,078,101
Investments in and loans to affiliated companies	34,942	34,943	32,419	291,183
Total assets	¥1,158,082	¥1,166,113	¥882,334	$9,650,684

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Depreciation and amortization:				
Security services	¥44,014	¥ 42,106	¥39,005	$366,783
Medical services	953	1,301	546	7,942
Insurance services	2,305	1,253	626	19,208
Information and communication related and other services	4,200	4,234	4,039	35,000
Total	51,472	48,894	44,216	428,933
Corporate items	595	997	804	4,959
Total depreciation and amortization	¥52,067	¥ 49,891	¥45,020	$433,892
Capital expenditures:				
Security services	¥29,586	¥ 37,152	¥33,681	$246,550
Medical services	5,115	2,717	376	42,625
Insurance services	12,899	104,398	58,247	107,492
Information and communication related and other services	4,726	2,928	3,634	39,383
Total	52,326	147,195	95,938	436,050
Corporate items	612	13	2,769	5,100
Total capital expenditures	¥52,938	¥147,208	¥98,707	$441,150

The capital expenditures in the above table represent the additions to property, plant and equipment of each segment.

The Company has no single customer that accounts for more than 10 percent of total revenue.

The following table is a breakdown of security services revenue to external customers by service category. The security services business is managed as a single operating segment by the Company's management.

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Electronic security services:				
Commercial security and home security	¥254,931	¥244,494	¥230,763	$2,124,425
Large-scale proprietary systems	3,461	3,438	3,647	28,842
Other security services:				
Static guard services	35,908	34,107	32,204	299,233
Armored car services	17,261	17,001	15,109	143,842
Merchandise and other	44,141	43,129	34,416	367,841
Total security services	¥355,702	¥342,169	¥316,139	$2,964,183

(2) Geographic Segment Information

Revenue and other income attributed to countries based on location of customers and long-lived assets for the years ended March 31, 2003, 2002 and 2001 was as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2003	2002	2001	2003
Revenue and other income:				
Japan	¥506,554	¥480,165	¥455,623	$4,221,283
Other	14,189	13,361	12,670	118,242
Total	¥520,743	¥493,526	¥468,293	$4,339,525

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2003	2002	2001	2003
Long-lived assets:				
Japan	¥445,632	¥463,144	¥302,366	$3,713,600
Other	5,528	6,384	6,421	46,067
Total	¥451,160	¥469,528	¥308,787	$3,759,667

There are no individually material countries with respect to the revenue and other income and long-lived assets included in other areas.

KPMG

The Board of Directors and Shareholders
SECOM CO., LTD.:

We have audited the accompanying consolidated balance sheets of SECOM CO., LTD. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SECOM CO., LTD. and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 of the notes to the consolidated financial statements, SECOM CO., LTD. and subsidiaries changed their method of accounting for goodwill and other intangible assets in the year ended March 31, 2003, and their method of revenue recognition in the year ended March 31, 2001.

The accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 3 of the notes to the consolidated financial statements.

KPMG

Tokyo, Japan
May 16, 2003