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CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 2006 and 2005

ASSETS	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	2006	2005	2006
Current assets:			
Cash and cash equivalents (Note 5)	¥ 231,044	¥ 197,012	$ 1,974,735
Time deposits	4,548	4,614	38,872
Cash deposits (Note 6)	65,187	60,806	557,154
Short-term investments (Note 7)	82,135	71,598	702,009
Notes and accounts receivable, trade	55,195	55,827	471,752
Due from subscribers	26,192	23,638	223,863
Inventories (Notes 8 and 12)	64,531	41,152	551,547
Short-term receivables (Note 20)	21,468	46,449	183,487
Allowance for doubtful accounts	(1,622)	(1,297)	(13,863)
Deferred insurance acquisition costs (Note 13)	4,885	1,066	41,752
Deferred income taxes (Note 16)	14,659	13,951	125,291
Other current assets	10,423	11,338	89,085
Total current assets	578,645	526,154	4,945,684
Investments and long-term receivables:			
Investment securities (Note 7)	194,174	203,432	1,659,607
Investments in affiliated companies (Note 9)	38,075	39,915	325,427
Long-term receivables (Note 20)	67,657	61,051	578,265
Lease deposits	12,513	12,897	106,949
Other investments	8,927	6,444	76,299
Allowance for doubtful accounts	(10,636)	(9,746)	(90,906)
	310,710	313,993	2,655,641
Property, plant and equipment (Notes 10, 12, 19 and 20):			
Land	71,270	71,992	609,145
Buildings and improvements	131,995	118,812	1,128,162
Security equipment and control stations	222,398	213,807	1,900,838
Machinery, equipment and automobiles	59,922	56,045	512,154
Construction in progress	8,164	3,916	69,778
	493,749	464,572	4,220,077
Accumulated depreciation	(250,660)	(233,140)	(2,142,393)
	243,089	231,432	2,077,684
Other assets:			
Deferred charges (Note 2 (11))	41,109	38,578	351,359
Goodwill (Note 11)	20,333	18,070	173,786
Other intangible assets (Note 11)	17,273	19,462	147,632
Prepaid pension and severance costs (Note 14)	10,929	11,165	93,410
Deferred income taxes (Note 16)	3,140	5,350	26,838
	92,784	92,625	793,025
Total assets	¥1,225,228	¥1,164,204	$10,472,034

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	2006	2005	2006
Current liabilities:			
Bank loans (Notes 6 and 12)	¥ 105,750	¥ 102,228	$ 903,846
Current portion of long-term debt (Notes 12 and 19)	44,714	10,492	382,171
Notes and accounts payable, trade	19,180	16,026	163,932
Other payables	26,434	19,722	225,932
Deposits received (Note 6)	41,297	37,038	352,966
Deferred revenue (Note 2 (3))	41,773	39,193	357,034
Accrued income taxes	22,372	16,803	191,214
Accrued payrolls	16,058	15,427	137,248
Other current liabilities (Note 16)	10,566	10,773	90,307
Total current liabilities	328,144	267,702	2,804,650
Long-term debt (Notes 12 and 19)	35,782	65,815	305,829
Guarantee deposits received	27,479	28,099	234,863
Accrued pension and severance costs (Note 14)	12,583	13,261	107,547
Deferred revenue (Note 2 (3))	20,338	18,832	173,829
Unearned premiums and other insurance liabilities (Note 13)	53,330	46,452	455,812
Investment deposits by policyholders (Note 13)	187,785	227,719	1,605,000
Other liabilities (Note 16)	15,167	6,056	129,632
Total liabilities	680,608	673,936	5,817,162
Minority interest in subsidiaries	35,924	32,431	307,043
Commitments and contingent liabilities (Note 23)			
Shareholders' equity (Note 17):			
Common stock (Note 24):			
Authorized 900,000,000 shares;			
issued 233,288,717 shares in 2006 and 2005	66,378	66,378	567,333
Additional paid-in capital (Note 24)	79,996	79,996	683,727
Legal reserve	9,825	9,787	83,974
Retained earnings	386,558	347,516	3,303,915
Accumulated other comprehensive income (loss):			
Unrealized gains on securities (Note 7)	11,127	5,586	95,103
Unrealized gains (losses) on derivative instruments (Note 22)	30	(85)	256
Minimum pension liability adjustments (Note 14)	(388)	(358)	(3,316)
Foreign currency translation adjustments	(80)	(6,425)	(684)
	10,689	(1,282)	91,359
Common stock in treasury, at cost:			
8,301,997 shares in 2006 and 8,266,043 shares in 2005	(44,750)	(44,558)	(382,479)
Total shareholders' equity	508,696	457,837	4,347,829
Total liabilities and shareholders' equity	¥1,225,228	¥1,164,204	$10,472,034

CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2006

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Net sales and operating revenue	¥580,526	¥552,354	¥517,435	$4,961,761
Costs and expenses:				
Cost of sales	364,932	349,212	320,950	3,119,077
Selling, general and administrative (Notes 2 (17) and 18)	128,226	120,206	123,019	1,095,949
Impairment loss on long-lived assets (Note 10)	821	4,568	8,420	7,017
Loss on sales and disposal of property, plant and equipment, net	2,164	2,810	2,217	18,496
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 14)	2,490	—	4,555	21,282
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 14)	—	—	4,209	—
	498,633	476,796	463,370	4,261,821
Operating income	81,893	75,558	54,065	699,940
Other income:				
Interest and dividends	2,209	2,119	2,425	18,880
Gain on sales of securities, net (Notes 7 and 9)	10,044	276	347	85,846
Other (Note 15)	3,683	4,171	2,900	31,479
	15,936	6,566	5,672	136,205
Other expenses:				
Interest	1,877	1,488	1,991	16,043
Loss on other-than-temporary impairment of investment securities	2,263	227	231	19,342
Other (Note 15)	3,961	6,136	4,151	33,854
	8,101	7,851	6,373	69,239
Income from continuing operations before income taxes	89,728	74,273	53,364	766,906
Income taxes (Note 16):				
Current	34,931	32,188	29,791	298,556
Deferred	2,973	(247)	(3,648)	25,410
	37,904	31,941	26,143	323,966
Income from continuing operations before minority interest in subsidiaries and equity in net income of affiliated companies	51,824	42,332	27,221	442,940
Minority interest in subsidiaries	(3,927)	(2,917)	(462)	(33,564)
Equity in net income of affiliated companies	3,298	2,334	927	28,188
Income from continuing operations	51,195	41,749	27,686	437,564
Income (loss) from discontinued operations, net of tax (Note 25)	—	9,877	(4,207)	—
Income before cumulative effect of accounting change	51,195	51,626	23,479	437,564
Cumulative effect of accounting change, net of tax (Notes 2 (2) and (10))	(864)	507	—	(7,385)
Net income	¥ 50,331	¥ 52,133	¥ 23,479	$ 430,179

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Per share data (Note 4):				
Income from continuing operations—				
—Basic	¥227.53	¥185.52	¥123.01	$ 1.94
—Diluted	¥227.53	¥185.52	¥123.01	$ 1.94
Income (loss) from discontinued operations—				
—Basic	¥ —	¥ 43.89	¥ (18.69)	$ —
—Diluted	¥ —	¥ 43.89	¥ (18.69)	$ —
Cumulative effect of accounting change—				
—Basic	¥ (3.84)	¥ 2.25	¥ —	$(0.03)
—Diluted	¥ (3.84)	¥ 2.25	¥ —	$(0.03)
Net income—				
—Basic	¥223.69	¥231.66	¥104.32	$ 1.91
—Diluted	¥223.69	¥231.66	¥104.32	$ 1.91

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2006

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, at cost	Total
Balance, March 31, 2003	233,281,133	¥66,369	¥79,987	¥9,672	¥291,149	(¥30,372)	(¥44,287)	¥372,518
Comprehensive income:								
Net income	—	—	—	—	23,479	—	—	23,479
Other comprehensive income (loss), net of tax (Note 17):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	7,729	—	7,729
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(425)	—	(425)
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	87	—	87
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(40)	—	(40)
Minimum pension liability adjustments	—	—	—	—	—	25,921	—	25,921
Foreign currency translation adjustments	—	—	—	—	—	(4,300)	—	(4,300)
Total comprehensive income								52,451
Cash dividends	—	—	—	—	(9,003)	—	—	(9,003)
Transfer to legal reserve	—	—	—	43	(43)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(114)	(114)
Balance, March 31, 2004	233,281,133	66,369	79,987	9,715	305,582	(1,400)	(44,401)	415,852
Comprehensive income:								
Net income	—	—	—	—	52,133	—	—	52,133
Other comprehensive income (loss), net of tax (Note 17):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	2,880	—	2,880
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(1,840)	—	(1,840)
Unrealized losses on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(91)	—	(91)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(83)	—	(83)
Minimum pension liability adjustments	—	—	—	—	—	(164)	—	(164)
Foreign currency translation adjustments	—	—	—	—	—	(584)	—	(584)
Total comprehensive income								52,251
Cash dividends	—	—	—	—	(10,127)	—	—	(10,127)
Transfer to legal reserve	—	—	—	72	(72)	—	—	—
Conversion of convertible bonds	7,584	9	9	—	—	—	—	18
Purchase of treasury stock	—	—	—	—	—	—	(157)	(157)
Balance, March 31, 2005	233,288,717	66,378	79,996	9,787	347,516	(1,282)	(44,558)	457,837
Comprehensive income:								
Net income	—	—	—	—	50,331	—	—	50,331
Other comprehensive income (loss), net of tax (Note 17):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	8,896	—	8,896
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(3,356)	—	(3,356)
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	97	—	97
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	18	—	18
Minimum pension liability adjustments	—	—	—	—	—	(30)	—	(30)
Foreign currency translation adjustments	—	—	—	—	—	6,346	—	6,346
Total comprehensive income								62,302
Cash dividends	—	—	—	—	(11,251)	—	—	(11,251)
Transfer to legal reserve	—	—	—	38	(38)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(192)	(192)
Balance, March 31, 2006	**233,288,717**	**¥66,378**	**¥79,996**	**¥9,825**	**¥386,558**	**¥10,689**	**(¥44,750)**	**¥508,696**

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, at cost	Total
Balance, March 31, 2005	$567,333	$683,727	$83,650	$2,970,222	($10,957)	($380,838)	$3,913,137
Comprehensive income:							
Net income	—	—	—	430,179	—	—	430,179
Other comprehensive income (loss), net of tax (Note 17):							
Unrealized gains on securities—							
Unrealized holding gains or losses arising during the period	—	—	—	—	76,034	—	76,034
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	(28,684)	—	(28,684)
Unrealized gains on derivative instruments—							
Unrealized holding gains or losses arising during the period	—	—	—	—	829	—	829
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	154	—	154
Minimum pension liability adjustments	—	—	—	—	(256)	—	(256)
Foreign currency translation adjustments	—	—	—	—	54,239	—	54,239
Total comprehensive income							532,495
Cash dividends	—	—	—	(96,162)	—	—	(96,162)
Transfer to legal reserve	—	—	324	(324)	—	—	—
Purchase of treasury stock	—	—	—	—	—	(1,641)	(1,641)
Balance, March 31, 2006	**$567,333**	**$683,727**	**$83,974**	**$3,303,915**	**$91,359**	**($382,479)**	**$4,347,829**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2006

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Cash flows from operating activities:				
Net income	¥ 50,331	¥ 52,133	¥ 23,479	$ 430,179
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred charges	52,339	51,450	52,943	447,342
Accrual for pension and severance costs, less payments	(3,209)	(2,619)	(870)	(27,427)
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 14)	2,490	—	4,555	21,282
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 14)	—	—	4,209	—
Deferred income taxes, including discontinued operations	2,973	3,979	(6,045)	25,410
Loss on sales and disposal of property, plant and equipment, net	2,164	2,810	2,217	18,496
Impairment loss on long-lived assets, including discontinued operations (Note 10)	821	5,215	15,095	7,017
Gain on sales of securities, net	(14,514)	(3,457)	(1,603)	(124,051)
Loss on other-than-temporary impairment of investment securities	3,444	722	963	29,436
Equity in net income of affiliated companies	(3,298)	(2,334)	(927)	(28,188)
Minority interest in subsidiaries, including discontinued operations	3,927	3,368	540	33,564
Gain on sales of discontinued operations, net (Note 25)	—	(13,637)	(6,367)	—
Cumulative effect of accounting change, net of tax (Notes 2 (2) and (13))	864	(507)	—	7,385
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits	(4,381)	123	(15,678)	(37,445)
(Increase) decrease in receivables and due from subscribers, net of allowances	(668)	(9,234)	10,721	(5,709)
(Increase) decrease in inventories	(24,146)	4,830	(5,279)	(206,376)
Increase in deferred charges	(16,804)	(14,123)	(14,347)	(143,624)
Increase (decrease) in deposits received	4,175	(2,718)	9,768	35,684
Increase in deferred revenue	3,804	334	556	32,513
Increase (decrease) in accrued income taxes	5,590	(1,067)	7,321	47,778
Decrease in guarantee deposits received	(20)	(5,140)	(427)	(171)
Increase in unearned premiums and other insurance liabilities	6,878	5,088	3,954	58,786
Other, net	5,701	9,898	4,421	48,726
Net cash provided by operating activities	78,461	85,114	89,199	670,607
Cash flows from investing activities:				
(Increase) decrease in time deposits	101	(638)	522	863
Proceeds from sales of property, plant and equipment	10,995	88,507	32,271	93,974
Payments for purchases of property, plant and equipment	(44,272)	(43,872)	(40,511)	(378,393)
Proceeds from sales of investment securities	99,889	66,534	32,959	853,752
Payments for purchases of investment securities	(68,597)	(96,945)	(61,712)	(586,299)
(Increase) decrease in short-term investments	868	(26,623)	7,603	7,419
(Increase) decrease in short-term receivables, net	3,065	(6,670)	(547)	26,197
Payments for long-term receivables	(11,338)	(14,946)	(11,349)	(96,906)
Proceeds from long-term receivables	18,365	16,836	19,258	156,965
Other, net	(5,220)	(6,205)	(7,094)	(44,615)
Net cash provided by (used in) investing activities	3,856	(24,022)	(28,600)	32,957
Cash flows from financing activities:				
Proceeds from long-term debt	10,575	10,163	10,523	90,385
Repayments of long-term debt	(11,400)	(43,695)	(28,944)	(97,436)
Increase (decrease) in bank loans	4,387	(9,669)	(17,438)	37,496
Decrease in investment deposits by policyholders	(39,934)	(2,597)	(793)	(341,316)
Dividends paid	(11,251)	(10,127)	(9,003)	(96,162)
Increase in treasury stock, net	(192)	(157)	(114)	(1,641)
Other, net	(940)	(916)	(991)	(8,035)
Net cash used in financing activities	(48,755)	(56,998)	(46,760)	(416,709)
Effect of exchange rate changes on cash and cash equivalents	470	26	(175)	4,017
Net increase in cash and cash equivalents	34,032	4,120	13,664	290,872
Cash and cash equivalents at beginning of year	197,012	192,892	179,228	1,683,863
Cash and cash equivalents at end of year	¥231,044	¥197,012	¥192,892	$1,974,735

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2006

1. Nature of Operations

The parent company and its subsidiaries (collectively "the Company") are engaged in the areas of security services, medical services, insurance services, geographic information services, and information and communication related and other services. With these services combined, the Company is focusing on its "Social System Industry," a network of integrated systems and services, targeted at the needs of people and business.

The Company's principal business activities are security services including on-line centralized security services for commercial and residential premises, static guard services, armored car services for cash collection and deposit, and the development, manufacturing and sale of various security equipment. The Company also has been diversifying the operation of its services covering: home and other medical services; non-life insurance services; geographic information services using aerial surveying technology; information and communication related services, including cyber security services, software development and system integration activities; development and sale of real estate; lease of real estate and other services.

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 the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of inventories, investment securities, investments, property, plant and equipment, goodwill and other intangible assets; valuation allowances for receivables and deferred income taxes; valuation of derivative instruments; and assets and obligations related to employee benefits. 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 subsidiaries. The consolidated financial statements also include variable interest entities to which the Company is primary beneficiary. All significant 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) Consolidation of Variable Interest Entities

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003) ("FIN No. 46R"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN No. 46R addresses the consolidation and disclosure by business enterprise of a variable interest entity ("VIE") as defined in the Interpretation. FIN No. 46R requires that the primary beneficiary—a party that absorbs a majority of the entity's expected loss and receives a majority of the entity's expected residual returns, or both, as a result of holding variable interests—consolidates the VIE and an enterprise that holds significant variable interests but is not the primary beneficiary discloses certain required information about the VIE. FIN No. 46R was 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. 46R was effective for the Company on April 1, 2004.

The Company adopted the provisions of FIN No. 46R for VIEs created or acquired prior to February 1, 2003 on April 1, 2004. Under FIN No. 46R, any difference between the net amount added to the consolidated balance sheet and any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting change. As a result of the adoption of FIN No. 46R, one organization managing hospitals and health care-related institutions was consolidated and the Company recognized a one-time income of ¥507 million as a cumulative effect of accounting change and the Company's assets and liabilities increased by ¥3,636 million and ¥3,119 million, respectively, on April 1, 2004.

The Company provides loans and guarantees to organizations managing hospitals and health care-related institutions. Certain organizations are considered as VIEs under FIN No. 46R. In March 2006, the Company provided additional loans and acquired additional variable interests on three organizations. As a result of the acquisitions, the Company became the primary beneficiary of these organizations and consolidated these organizations since March 2006. The aggregated fair value of current assets, goodwill, and the other non-current assets acquired are ¥1,894 million ($16,188 thousand), ¥1,711 million ($14,624 thousand), and ¥6,795 million ($58,077 thousand), respectively, and liabilities assumed are ¥4,144 million ($35,419 thousand). The results of their operations have been included in the consolidated statements of income for the year ended March 31, 2006 since the date of acquisition. The consolidated pro forma information that would show the Company's consolidated results of operations for the years ended March 31, 2006, 2005 and 2004 has not been disclosed based on materiality considerations.

Total assets held by the VIEs to which the Company is primary beneficiary were ¥21,003 million ($179,513 thousand) and ¥7,276 million at March 31, 2006 and 2005, respectively. Total assets held by the VIEs to which the Company holds significant variable interests but is not primary beneficiary at March 31, 2006 and 2005 were ¥28,359 million ($242,385 thousand) and ¥26,951 million, respectively. The Company's maximum exposure to losses related to the VIEs at March 31, 2006 and 2005 were ¥12,552 million ($107,282 thousand) and ¥17,243 million, respectively.

The Company also provides loans and guarantees to real estate investment companies. Certain investment companies are considered as VIEs under FIN No. 46R. Total assets held by the VIEs to which the Company is primary beneficiary at March 31, 2006 and 2005 were ¥10,638 million ($90,923 thousand) and ¥18,543 million, respectively. There are no VIEs to which the Company holds significant variable interests but is not primary beneficiary at March 31, 2006. Total assets held by the VIEs to which the Company holds significant variable interests but is not primary beneficiary and the Company's maximum exposure to losses related to the VIEs at March 31, 2005 were ¥6,328 million and ¥5,941 million, respectively.

(3) Revenue Recognition

The Company generates revenue principally through sales of security services, merchandise and software, and insurance services under separate contractual arrangements. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, title and risk of loss have been transferred to the customer, the sales price is fixed or determinable, and collectibility is probable.

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. Revenue from installation services of security equipment related to on-line centralized security services is deferred and 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 (Note 2 (11)).

The Company enters into arrangements with multiple elements, which may include any combination of security equipment, installation and security service. The Company allocates revenue to each element based on its relative fair value if such element meets criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangement with Multiple Deliverables." Otherwise, revenue is deferred until the undelivered elements are fulfilled as a single unit of accounting. EITF No. 00-21 was effective for revenue arrangements entered into after March 31, 2004. The adoption of EITF No. 00-21 did not have a material effect on the Company's financial position and results of operations.

Revenue from sales of merchandise and software is recognized when the merchandise and software are received by the customer and, in the case of installations, when such installations are completed.

Revenue from long-term contracts for geographic information 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.

Revenue from the sale of equipment under sales-type leases is recognized at the inception of the lease. Unearned income on sales-type leases and direct-financing leases is recognized over the life of each respective lease using the interest method. Leases not qualifying as sales-type leases or direct-financing leases are accounted for as operating leases and the related revenue is recognized over the lease term.

(4) Foreign Currency Translation

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the rates of exchange in effect at year-end 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.

(5) 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.

(6) 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." "Held-to-maturity" securities are those securities in which the company has the ability and intent to hold the security until maturity. All securities not included in "trading" or "held-to-maturity" are classified as "available-for-sale" securities. 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 classified as "held-to-maturity" are reported at amortized cost.

A decline in the fair value of any available-for-sale securities below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to income and a new cost basis for the securities is established. To determine whether an impairment is other-than-temporary, the Company periodically reviews the fair value of available-for-sale securities for possible impairment by taking into consideration the financial and operating conditions of the issuer, the general market conditions in the issuer's industry, the degree and period of the decline in fair value and other relevant factors.

Other investments in non-public companies are recorded at cost as fair value is not readily determinable. The Company periodically evaluates the values of other investments in non-public companies for possible impairment by taking into consideration the financial and operating conditions of the issuer, the general market conditions in the issuer's industry and the period of the decline in the estimated fair value and other relevant factors. If the impairment is determined to be other-than-temporary, other investments in non-public companies are written down to their impaired value through a charge to income.

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

(7) Inventories

Inventories, consisting of security-related products, real estate and information and other related products, are stated at the lower of cost or market. 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.

(8) Allowance for Doubtful Accounts

The Company recognizes allowance for doubtful accounts to ensure trade and other receivables are not overstated due to uncollectibility. Allowance for doubtful accounts is maintained for all customers based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Company becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

(9) 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.

(10) Property, Plant and Equipment and Depreciation

Property, plant and equipment, including significant betterments, are carried at cost. 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 ¥33,042 million ($282,410 thousand), ¥33,465 million and ¥34,943 million for the years ended March 31, 2006, 2005 and 2004, 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

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB statement No. 143." FIN No. 47 clarifies that the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation of an entity to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Such an obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability for the value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 is effective no later than the end of fiscal years ended after December 15, 2005 and required to be adopted by the Company on March 31, 2006. The Company has determined that conditional legal obligations exist for certain of its leased facilities. As a result of adoption of FIN No. 47, on March 31, 2006, the Company recognized a one-time expense of ¥864 million ($7,385 thousand) as a cumulative effect of accounting change, and the Company's buildings and improvements, and liabilities increased by ¥694 million ($5,932 thousand) and ¥2,162 million ($18,479 thousand), respectively.

(11) Deferred Charges

Deferred charges primarily consist of costs related to installation services of security equipment related to on-line centralized security services. 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 expense was ¥14,045 million ($120,043 thousand), ¥13,583 million and ¥13,323 million for the years ended March 31, 2006, 2005 and 2004, respectively.

(12) Impairment or Disposal of Long-Lived Assets

The Company 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.

(13) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of business acquired. Pursuant to SFAS No. 142, “Goodwill and Other Intangible Assets,” goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” The Company conducts its annual impairment test at the end of each fiscal year.

(14) 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.

(15) 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 and operating loss carryforwards. 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.

(16) Research and Development

Research and development costs are charged to income as incurred.

(17) 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, 2006, 2005 and 2004 were ¥6,746 million ($57,658 thousand), ¥5,186 million and ¥5,366 million, respectively.

(18) Derivative Financial Instruments

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 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.

(19) Discontinued Operations

SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” broadened the scope of discontinued operations to include the operating results of any component of an entity with its own identifiable operations and cash flows which is disposed of or is classified as held for sale, and with which the Company will not have significant continuing involvement. Included in reported discontinued operations are the operating results of certain businesses and properties sold in the years ended March 31, 2005 and 2004, without significant continuing involvement, and the results of operations for the presented periods were reclassified in the accompanying consolidated financial statements.

(20) 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.

(21) Recent Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance in Accounting Research Bulletin ("ARB") No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company on April 1, 2006. The adoption of SFAS No. 151 is not expected to have a material impact on the consolidated results of operations and financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29." SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21 (b) of Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a results of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company on April 1, 2006. The adoption of SFAS No. 153 is not expected to have a material impact on the consolidated results of operations and financial condition.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and the FASB statement No. 3." SFAS No. 154 replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 requires retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and is required to be adopted by the Company on April 1, 2006. The impact of SFAS No. 154 will depend on the change, if any, in a future period.

(22) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the presentation used for the year ended March 31, 2006.

3. U.S. Dollar Amounts

U.S. dollar amounts have been included in these financial statements solely for the convenience of the reader. The translations of yen into U.S. dollars have been made at the rate of ¥117=US$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006. 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 at that rate.

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, 2006, 2005 and 2004 is as follows:

	In millions of yen	Thousands of shares	In yen
	Income from continuing operations	Weighted-average shares	EPS
For the year ended March 31, 2006:			
Basic EPS—			
Income from continuing operations	**¥51,195**	**225,002**	**¥227.53**
Effect of dilutive securities—			
Convertible bonds	**—**	**—**	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	**¥51,195**	**225,002**	**¥227.53**
For the year ended March 31, 2005:			
Basic EPS—			
Income from continuing operations	¥41,749	225,039	¥185.52
Effect of dilutive securities—			
Convertible bonds	—	3	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	¥41,749	225,042	¥185.52
For the year ended March 31, 2004:			
Basic EPS—			
Income from continuing operations	¥27,686	225,066	¥123.01
Effect of dilutive securities—			
Convertible bonds	0	8	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	¥27,686	225,074	¥123.01

	In thousands of U.S. dollars	Thousands of shares	In U.S. dollars
	Income from continuing operations	Weighted-average shares	EPS
For the year ended March 31, 2006:			
Basic EPS—			
Income from continuing operations	**$437,564**	**225,002**	**$1.94**
Effect of dilutive securities—			
Convertible bonds	**—**	**—**	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	**$437,564**	**225,002**	**$1.94**

5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2006 and 2005 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Cash	¥144,024	¥166,920	$1,230,974
Time deposits	60,345	18,438	515,769
Call loan	25,000	10,000	213,675
Investment securities	1,675	1,654	14,316
	¥231,044	¥197,012	$1,974,735

Investment securities include commercial papers and money management funds. 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 default of any outstanding agreements.

6. Cash Deposits

The Company operates cash collection and deposit services for financial institutions relating to cash dispensers located outside of financial institution facilities and also operates cash collection service for entities other than financial institutions. Cash deposit balances of ¥65,187 million ($557,154 thousand) and ¥60,806 million at March 31, 2006 and 2005, 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. Bank loans and deposits received, which relate to these operations, were ¥26,069 million ($222,812 thousand) and ¥38,511 million ($329,154 thousand), respectively, at March 31, 2006, and ¥25,573 million and ¥34,556 million, respectively, at March 31, 2005. As part of its fee arrangement, the Company is reimbursed for the interest cost of the related overdrafts.

7. 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, 2006 and 2005 were as follows:

	In millions of yen			
	March 31, 2006			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	¥ 60,495	¥27,463	¥1,981	¥ 85,977
Debt securities	152,253	376	2,067	150,562
Total	¥212,748	¥27,839	¥4,048	¥236,539
Held-to-maturity:				
Debt securities	¥ 3,909	¥ —	¥ 33	¥ 3,876

	In millions of yen			
	March 31, 2005			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	¥ 49,897	¥13,948	¥ 702	¥ 63,143
Debt securities	170,146	994	547	170,593
Total	¥220,043	¥14,942	¥1,249	¥233,736
Held-to-maturity:				
Debt securities	¥ 6,112	¥ 20	¥ —	¥ 6,132

	In thousands of U.S. dollars			
	March 31, 2006			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	$ 517,051	$234,726	$16,931	$ 734,846
Debt securities	1,301,308	3,214	17,667	1,286,855
Total	$1,818,359	$237,940	$34,598	$2,021,701
Held-to-maturity:				
Debt securities	$ 33,410	$ —	$ 282	$ 33,128

Gross unrealized losses on, and fair value of, "available-for-sale" and "held-to-maturity" securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2006 were as follows:

	In millions of yen			
	March 31, 2006			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	¥ 11,482	¥1,637	¥ 3,405	¥344
Debt securities	104,781	1,864	7,579	203
Total	¥116,263	¥3,501	¥10,984	¥547
Held-to-maturity:				
Debt securities	¥ 2,876	¥ 33	¥ —	¥ —

	In thousands of U.S. dollars			
	March 31, 2006			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	$ 98,137	$13,991	$29,103	$2,940
Debt securities	895,564	15,932	64,778	1,735
Total	$993,701	$29,923	$93,881	$4,675
Held-to-maturity:				
Debt securities	$ 24,581	$ 282	$ —	$ —

At March 31, 2006, 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.

The cost and fair value of "available-for-sale" and "held-to-maturity" debt securities by contractual maturity at March 31, 2006 are as follows:

	In millions of yen			
	March 31, 2006			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥ 82,200	¥ 82,135	¥ —	¥ —
Due after 1 year through 5 years	33,329	32,891	2,909	2,876
Due after 5 years through 10 years	28,082	27,456	—	—
Due after 10 years	8,642	8,080	1,000	1,000
	¥152,253	¥150,562	¥3,909	¥3,876

	In thousands of U.S. dollars			
	March 31, 2006			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$ 702,564	$ 702,009	$ —	$ —
Due after 1 year through 5 years	284,863	281,120	24,863	24,581
Due after 5 years through 10 years	240,017	234,667	—	—
Due after 10 years	73,864	69,059	8,547	8,547
	$1,301,308	$1,286,855	$33,410	$33,128

During the years ended March 31, 2006, 2005 and 2004, the net unrealized gains on "available-for-sale" securities included as part of other comprehensive income (loss), net of tax, increased by ¥5,541 million ($47,359 thousand) and ¥1,040 million and ¥7,304 million, respectively.

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 2006, 2005 and 2004 were ¥74,869 million ($639,906 thousand), ¥17,826 million and ¥20,791 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, 2006, 2005 and 2004 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Gross realized gains	¥5,716	¥3,612	¥2,175	$48,855
Gross realized losses	74	102	556	632

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 ¥35,861 million ($306,505 thousand) and ¥35,182 million at March 31, 2006 and 2005, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

8. Inventories

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

Inventories at March 31, 2006 and 2005 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Security-related products	¥ 7,310	¥ 7,877	$ 62,478
Real estate	53,112	28,007	453,949
Information and other-related products	4,109	5,268	35,120
	¥64,531	¥41,152	$551,547

Work in process real estate inventories at March 31, 2006 and 2005, amounting to ¥48,500 million ($414,530 thousand) and ¥21,700 million, respectively, are included in real estate.

9. Investments in Affiliated Companies

The Company has investments in affiliated companies that are accounted for under the equity method. Investments principally consist of investments in Nohmi Bosai Ltd., a 28.6 percent owned affiliate, which is the largest Japanese manufacturer of fire alarms and listed on the First Section of the Tokyo Stock Exchange; Taiwan Secom Co., Ltd., a 28.1 percent owned affiliate, which is listed on the Taiwan Stock Exchange; and S1 Corporation, a 26.7 percent owned affiliate, which is listed on the Korea Stock Exchange.

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
	2006	2005	2006
Current assets	¥ 89,410	¥ 95,697	$ 764,188
Non-current assets	117,499	142,730	1,004,265
Total assets	¥206,909	¥238,427	$1,768,453
Current liabilities	¥ 51,740	¥ 51,013	$ 442,222
Non-current liabilities	31,622	61,216	270,274
Shareholders' equity	123,547	126,198	1,055,957
Total liabilities and shareholders' equity	¥206,909	¥238,427	$1,768,453

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Net sales	¥213,967	¥201,253	¥188,570	$1,828,778
Gross profit	¥ 71,863	¥ 65,276	¥ 59,894	$ 614,214
Net income	¥ 15,371	¥ 11,362	¥ 9,751	$ 131,376

Dividends received from affiliated companies for the years ended March 31, 2006, 2005 and 2004 were ¥2,068 million ($17,675 thousand), ¥1,524 million and ¥1,140 million, respectively.

Three affiliated companies accounted for under the equity method with an aggregated carrying amount of ¥28,839 million ($246,487 thousand) and ¥24,593 million at March 31, 2006 and 2005, respectively, had a quoted market value of ¥82,385 million ($704,145 thousand) and ¥65,601 million at March 31, 2006 and 2005, respectively.

The unamortized amounts of goodwill were ¥1,556 million ($13,299 thousand) and ¥1,698 million at March 31, 2006 and 2005, respectively.

On March 30, 2006, the parent company sold 23.8 percent of the outstanding shares of Japan Cablenet Holdings Limited, a 26.0 percent owned affiliate, to KDDI Corporation for ¥12,393 million ($105,923 thousand). The sale resulted in a gain of ¥6,710 million (¥57,350 thousand).

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
	2006	2005	2004	2006
Sales	¥1,926	¥1,740	¥1,840	$16,462
Purchases	¥6,077	¥5,574	¥7,858	$51,940

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Notes and accounts receivable, trade	¥ 751	¥ 448	$ 6,419
Loan receivables	¥ 75	¥ 671	$ 641
Notes and accounts payable	¥ 594	¥ 857	$ 5,077
Guarantees for bank loans	¥1,633	¥1,850	$13,957

10. Long-Lived Assets

The Company has assessed the potential impairment for its long-lived assets. As a result of significant decreases in rental rates, market prices and revenue forecasts, and changes of assumptions regarding useful lives before sale, the Company principally recognized impairment losses on idle properties for the year ended March 31, 2006, properties of hotel business for the year ended March 31, 2005, properties held for lease and properties held by real estate investment companies as part of investment assets of the insurance services segment for the year ended March 31, 2004. Fair value used was determined mainly based on appraisal value.

Impairment loss on long-lived assets by business segment for the years ended March 31, 2006, 2005 and 2004 was as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Continuing operations:				
Security services	¥ 63	¥1,350	¥ —	$ 539
Medical services	—	25	511	—
Insurance services	—	647	407	—
Geographic information services	—	—	650	—
Information and communication related and other services	59	2,724	5,475	504
Corporate items	699	469	1,784	5,974
	821	5,215	8,827	7,017
Discontinued operations (Note 25):				
Insurance services	—	—	3,312	—
Information and communication related and other services	—	—	2,956	—
	—	—	6,268	—
Total	¥821	¥5,215	¥15,095	$7,017

Impairment loss on long-lived assets of the insurance service segment was recorded in net sales and operating revenue, which included net realized investment gains and losses of the segment.

11. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2006 and 2005 were as follows:

In millions of yen

	March 31, 2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥27,391	(¥14,020)	¥13,371
Other	3,787	(2,580)	1,207
Total	¥31,178	(¥16,600)	¥14,578
Unamortized intangible assets	¥ 2,695	¥ —	¥ 2,695

In millions of yen

	March 31, 2005		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥23,561	(¥10,517)	¥13,044
Other	4,055	(2,599)	1,456
Total	¥27,616	(¥13,116)	¥14,500
Unamortized intangible assets	¥ 4,962	¥ —	¥ 4,962

In thousands of U.S. dollars

	March 31, 2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	$234,111	($119,829)	$114,282
Other	32,368	(22,052)	10,316
Total	$266,479	($141,881)	$124,598
Unamortized intangible assets	$ 23,034	$ —	$ 23,034

Aggregate amortization expense for the years ended March 31, 2006, 2005 and 2004 was ¥5,251 million ($44,880 thousand), ¥4,324 million and ¥4,537 million, respectively. The weighted average amortization period for internal use software is approximately five years.

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
2007	¥4,313	$36,863
2008	3,148	26,906
2009	2,402	20,530
2010	1,480	12,650
2011	701	5,991

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2006 and 2005 were as follows:

In millions of yen

	Security services	Medical services	Geographic information services	Information and communication related and other services	Total
March 31, 2004	¥1,231	¥4,813	¥3,853	¥5,701	¥15,598
Effect of adopting FIN No. 46R	—	2,514	—	—	2,514
Impairment losses	—	(93)	—	—	(93)
Translation adjustment	51	—	—	—	51
March 31, 2005	1,282	7,234	3,853	5,701	18,070
Goodwill acquired during the year	—	2,298	—	176	2,474
Disposal	—	—	(82)	—	(82)
Impairment losses	—	(149)	—	—	(149)
Translation adjustment	20	—	—	—	20
March 31, 2006	¥1,302	¥9,383	¥3,771	¥5,877	¥20,333

In thousands of U.S. dollars

	Security services	Medical services	Geographic information services	Information and communication related and other services	Total
March 31, 2005	$10,957	$61,829	$32,932	$48,726	$154,444
Goodwill acquired during the year	—	19,641	—	1,504	21,145
Disposal	—	—	(701)	—	(701)
Impairment losses	—	(1,274)	—	—	(1,274)
Translation adjustment	172	—	—	—	172
March 31, 2006	$11,129	$80,196	$32,231	$50,230	$173,786

12. Bank Loans and Long-Term Debt

Bank loans of ¥105,750 million ($903,846 thousand) and ¥102,228 million at March 31, 2006 and 2005, respectively, are generally comprised of 30 to 365 day notes. Their interest rates ranged from 0.57 to 5.37 percent and from 0.52 to 5.25 percent at March 31, 2006 and 2005, respectively. Substantially all of these loans are with banks. The Company has entered into basic agreements with these banks which 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.

At March 31, 2006, Pasco Corporation ("PASCO"), a subsidiary of the parent company, had unused committed lines of credit from short-term arrangements aggregating ¥2,000 million ($17,094 thousand). The lines of credit expire in July 2006. PASCO has the ability and intent to extend these lines of credit under similar terms and conditions in July 2006. Under the agreements, PASCO is required to pay committed fees at an annual rate of 0.40 percent on the unused portion of the lines of credit.

Long-term debt at March 31, 2006 and 2005 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	2006
Loans, principally from banks due 2006–2025 with interest rates ranging from 0.00 to 6.60% in 2006 and 2005:			
Secured	¥20,202	¥17,249	$172,666
Unsecured	4,281	6,159	36,590
0.53% unsecured bonds due 2006	30,000	30,000	256,410
0.46% unsecured bonds due 2007	1,500	1,500	12,821
0.48% unsecured bonds due 2007	1,000	1,000	8,547
0.61% unsecured bonds due 2010	1,350	—	11,538
0.91% unsecured bonds due 2010	1,100	—	9,402
Unsecured bonds due 2009–2012 with floating interest rates based on 6-month TIBOR plus 0.15%–0.20%	8,440	9,130	72,137
Obligations under capital leases, due 2006–2026 (Note 19)	12,623	11,269	107,889
	80,496	76,307	688,000
Less:			
Portion due within one year	44,714	10,492	382,171
	¥35,782	¥65,815	$305,829

Property, plant and equipment with a carrying amount of ¥48,698 million ($416,222 thousand), inventories with a carrying amount of ¥37,529 million ($320,761 thousand), investment securities with a carrying amount of ¥1,169 million ($9,991 thousand), time deposits of ¥420 million ($3,590 thousand) and other intangible assets and other with a carrying amount of ¥1,976 million ($16,889 thousand) were pledged as collateral for bank loans and long-term debt at March 31, 2006.

The aggregate annual maturities on long-term debt after March 31, 2006 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥44,714	$382,171
2008	8,348	71,351
2009	5,154	44,051
2010	9,037	77,239
2011	4,857	41,513
Thereafter	8,386	71,675
	¥80,496	$688,000

13. 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 certain 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 accident 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, 2006 and 2005 were ¥29,847 million ($255,103 thousand) and ¥23,444 million, respectively.

Net sales and operating revenue of Secom Insurance include net realized investment gains and losses, including the results on sales of securities, loss on other-than-temporary impairment of investment securities and impairment loss on long-lived assets. Net realized investment gains for the years ended March 31, 2006, 2005 and 2004 were ¥3,290 million ($28,120 thousand), ¥2,039 million and ¥117 million, respectively.

14. Pension and Severance Costs

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

The parent company and certain of its Japanese subsidiaries maintained 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 was composed of the substitutional portion and the corporate portion. The pension benefits for the substitutional portion were determined based on standard remuneration scheduled by the Japanese Welfare Pension Insurance Law and the length of participation. The corporate portion is a cash balance pension plan. 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.

In April 2003, the parent company and certain of its Japanese subsidiaries transferred the 20 percent portion of their cash balance pension plan for the eligible employees having three years or more of service to a newly established defined contribution pension plan. In addition, these companies transferred a part of their cash balance pension plan to the defined contribution pension plan in April 2005. The contributions from the cash balance pension plan to the defined contribution plan, which were equivalent to the benefits transferred to the defined contribution pension plan, were ¥4,257 million ($36,385 thousand) and ¥7,091 million in April 2005 and 2003, respectively. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Company accounted for these transfers as a partial settlement of benefit obligation and recognized settlement losses of ¥2,490 million ($21,282 thousand) and ¥4,555 million as "Settlement loss of benefit obligation on transfer to defined contribution pension plan" in the consolidated statements of income for the years ended March 31, 2006 and 2004, respectively.

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 the Japanese Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the EPF plan. After obtaining the approval, in October 2003, these companies obtained another approval for separation of the remaining benefit obligation of the substitutional portion that is related to past employee services. The transfer to the Government was completed in February 2004.

The Company accounted for the transfer in accordance with EITF No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." As a result of the transfer, the Company recognized a loss of ¥4,209 million as "Loss on transfer of the substitutional portion of Employees' Pension Fund" in the consolidated statement of income for the year ended March 31, 2004. This consists of a ¥24,272 million subsidy from the Government calculated as the difference between accumulated benefit obligation settled and the amount transferred to the Government, ¥7,719 million of derecognition of previously accrued salary progression and ¥36,200 million of recognition of related unrecognized actuarial loss, at the time when the past benefit obligation was transferred.

The corporate portion of the EPF, which is a cash balance pension plan, continues to exist exclusively as a corporate pension fund.

Net pension and severance costs for the years ended March 31, 2006, 2005 and 2004 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Net pension and severance costs:				
Service cost	**¥3,629**	¥3,473	¥3,360	**$31,017**
Interest cost	**1,097**	1,237	3,083	**9,376**
Expected return on plan assets	**(1,550)**	(1,767)	(2,678)	**(13,248)**
Amortization of transition assets	**—**	(40)	(44)	**—**
Amortization of prior service benefit	**(1,715)**	(1,654)	(1,642)	**(14,658)**
Recognized actuarial loss	**962**	907	2,509	**8,222**
Net pension and severance costs	**¥2,423**	¥2,156	¥4,588	**$20,709**

The changes in benefit obligation and plan assets, funded status and composition of the amounts 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
	2006	2005	2006
Change in benefit obligation:			
Benefit obligation at beginning of year	¥61,634	¥62,460	$526,787
Service cost	3,629	3,473	31,017
Interest cost	1,097	1,237	9,376
Actuarial gain	(291)	(1,599)	(2,487)
Benefits paid	(3,958)	(4,542)	(33,829)
Acquisition	247	195	2,111
Divestiture	(126)	—	(1,077)
Effect of adopting FIN No. 46R	—	410	—
Settlement	(4,257)	—	(36,385)
Benefit obligation at end of year	57,975	61,634	495,513
Change in plan assets:			
Fair value of plan assets at beginning of year	51,695	49,561	441,837
Actual return on plan assets	8,100	1,703	69,231
Employer contribution	4,137	4,229	35,359
Benefits paid	(2,496)	(3,997)	(21,333)
Acquisition	—	199	—
Divestiture	(61)	—	(521)
Settlement	(4,257)	—	(36,385)
Fair value of plan assets at end of year	57,118	51,695	488,188
Funded status	857	9,939	7,325
Unrecognized actuarial loss	(17,649)	(27,944)	(150,846)
Unrecognized prior service benefit	17,757	19,472	151,769
Net amount recognized	¥ 965	¥ 1,467	$ 8,248
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs	(¥10,929)	(¥11,165)	($ 93,410)
Accrued pension and severance costs	12,583	13,261	107,547
Accumulated other comprehensive income (loss)	(689)	(629)	(5,889)
Net amount recognized	¥ 965	¥ 1,467	$ 8,248

The accumulated benefit obligation for the pension plan was ¥53,804 million ($459,863 thousand) and ¥56,939 million at March 31, 2006 and 2005, respectively.

The Company recognizes a minimum pension liability in the consolidated balance sheets 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 ¥388 million ($3,316 thousand) and ¥358 million at March 31, 2006 and 2005, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were ¥16,215 million ($138,590 thousand), ¥15,082 million ($128,906 thousand) and ¥4,261 million ($36,419 thousand), respectively, at March 31, 2006, and ¥16,255 million, ¥15,002 million and ¥3,324 million, respectively, at March 31, 2005.

The Company uses March 31 as the measurement date for the domestic pension plan.

Weighted-average assumptions used to determine the benefit obligation at March 31, 2006 and 2005 were as follows:

	March 31	
	2006	2005
Discount rate	1.9%	2.0%
Rate of compensation increase	2.7	2.7

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Years ended March 31		
	2006	2005	2004
Discount rate	2.0%	2.0%	2.5%
Expected return on plan assets	3.0	3.0	3.0
Rate of compensation increase	2.7	2.7	2.7

The Company determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The Company considers the current expectations for future returns and the actual historical returns of each plan asset category.

The weighted-average asset allocation of the Company's pension plans at March 31, 2006 and 2005 were as follows:

	March 31	
	2006	2005
Asset category:		
Equity securities	39.5%	33.8%
Debt securities	30.9	35.6
Call loan	10.3	21.2
Other	19.3	9.4
Total	100.0%	100.0%

The Company's investment policy is designed to ensure that sufficient plan assets are available to provide future payments of pension benefits to the eligible plan participants. The policy does not use target allocations for the individual asset categories. Plan assets are invested primarily in equity and debt securities, and mutual funds with the objective to minimize risk and achieve the expected rate of return. The investment results are periodically monitored and asset allocation is adjusted as necessary.

The Company expects to contribute ¥4,316 million ($36,889 thousand) to its domestic defined benefit plans in the year ending March 31, 2007.

The following benefit payments, which reflect future services, as appropriate, are expected to be paid.

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ 3,466	$ 29,624
2008	4,315	36,880
2009	4,271	36,504
2010	4,054	34,650
2011	3,814	32,598
2012–2016	19,151	163,684

The parent company and certain subsidiaries have defined contribution pension plans. The contributions to the defined contribution pension plans for the years ended March 31, 2006, 2005 and 2004 were ¥1,365 million ($11,667 thousand), ¥892 million and ¥865 million, respectively.

15. Exchange Gains and Losses

Other income for the year ended March 31, 2006 includes net exchange gains of ¥664 million ($5,675 thousand). Other expenses for the years ended March 31, 2005 and 2004 include net exchange losses of ¥177 million and ¥469 million, respectively.

16. Income Taxes

Total income taxes for the years ended March 31, 2006, 2005 and 2004 were allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Income from continuing operations	¥37,904	¥31,941	¥26,143	$323,966
Income (loss) from discontinued operations	—	931	(206)	—
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized gains on securities	3,672	621	4,640	31,385
Unrealized gains (losses) on derivative instruments	79	(118)	30	675
Minimum pension liabilities	(27)	(105)	17,226	(231)
Foreign currency translation adjustments	971	(904)	72	8,299
	¥42,599	¥32,366	¥47,905	$364,094

The parent company and its subsidiaries in Japan were subject to a corporate tax of 30 percent, an inhabitants tax of approximately 20.3 percent, and a deductible enterprise tax of approximately 9.9 percent, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.9 percent for the year ended March 31, 2004.

Amendments to Japanese tax regulations, which reduced a deductible enterprise tax rate from approximately 9.9 percent to approximately 7.4 percent, were enacted on March 24, 2003. As a result of this amendment, the statutory tax rate was reduced from approximately 41.9 percent to 40.5 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 40.5 percent.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Income taxes computed at statutory tax rate of 40.5% in 2006 and 2005 and 41.9% in 2004	¥36,340	¥30,081	¥22,360	$310,598
Increase (decrease) resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	1,366	387	3,355	11,675
Reversal of valuation allowance due to utilization of operating loss carryforwards	(642)	(316)	(321)	(5,487)
Other, net	840	1,789	749	7,180
Consolidated income taxes from continuing operations	¥37,904	¥31,941	¥26,143	$323,966

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Deferred tax assets:			
Deferred revenue	**¥12,727**	¥11,945	**$108,778**
Operating loss carryforwards	**10,417**	9,518	**89,034**
Adjustment of book value at the date of acquisition—			
Land and buildings	**4,130**	4,541	**35,299**
Other assets	**2,583**	2,607	**22,077**
Accrued pension and severance costs	**5,358**	5,426	**45,795**
Property, plant and equipment	**4,677**	3,992	**39,974**
Accrued bonus	**3,715**	3,585	**31,752**
Allowance for doubtful accounts	**3,547**	5,220	**30,316**
Investment securities	**3,318**	3,636	**28,359**
Intangible assets	**2,037**	1,256	**17,410**
Vacation accrual	**2,017**	1,932	**17,239**
Other	**7,258**	5,458	**62,035**
Gross deferred tax assets	**61,784**	59,116	**528,068**
Less: Valuation allowance	**(15,346)**	(12,592)	**(131,162)**
Total deferred tax assets	**46,438**	46,524	**396,906**
Deferred tax liabilities:			
Unrealized gains on securities	**(9,427)**	(5,680)	**(80,573)**
Deferred installation costs	**(8,286)**	(7,897)	**(70,821)**
Adjustment of book value at the date of acquisition—			
Land and buildings	**(5,554)**	(5,543)	**(47,470)**
Long-term receivables	**(1,764)**	(1,817)	**(15,077)**
Investments in affiliated companies	**(5,748)**	(3,069)	**(49,128)**
Prepaid pension and severance costs	**(4,470)**	(4,553)	**(38,205)**
Unearned premiums and other insurance liabilities	**(1,194)**	(1,278)	**(10,205)**
Other	**(3,649)**	(1,579)	**(31,188)**
Gross deferred tax liabilities	**(40,092)**	(31,416)	**(342,667)**
Net deferred tax assets	**¥ 6,346**	¥15,108	**$ 54,239**

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, 2006 and 2005 was an increase of ¥2,754 million ($23,538 thousand) and a decrease of ¥4,169 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, 2006 and 2005.

Net deferred tax assets at March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Deferred income taxes (Current assets)	**¥14,659**	¥13,951	**$125,291**
Deferred income taxes (Other assets)	**3,140**	5,350	**26,838**
Other current liabilities	**(972)**	—	**(8,309)**
Other liabilities	**(10,481)**	(4,193)	**(89,581)**
Net deferred tax assets	**¥ 6,346**	¥15,108	**$ 54,239**

The Company has not recognized deferred tax liabilities of ¥536 million ($4,581 thousand) for a portion of undistributed earnings of foreign subsidiaries totaling ¥5,730 million ($48,974 thousand) at March 31, 2006 because they are not expected to be remitted in the foreseeable future.

At March 31, 2006, the operating loss carryforwards of domestic subsidiaries amounted to ¥18,386 million ($157,145 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to seven years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ —	$ —
2008	—	—
2009	1,788	15,282
2010	3,067	26,214
2011	5,000	42,735
2012	5,996	51,248
2013	2,535	21,666
	¥18,386	$157,145

The operating loss carryforwards of overseas subsidiaries at March 31, 2006 amounted to ¥6,474 million ($55,333 thousand), a part of which will begin to expire in the year ending March 31, 2007.

17. Shareholders' Equity

(1) Retained Earnings

The Japanese Commercial Code 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 the aggregate amount of additional paid-in capital and legal reserve equals 25 percent of the common stock account.

The Japanese Corporate Law, which has been in force since May 1, 2006, provides that an amount equal to 10 percent of surplus (newly defined by the Japanese Corporate Law) distributed by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until the aggregate amount of additional paid-in capital and legal reserve equals 25 percent of the common stock account.

The amount available for dividends under the Japanese Commercial Code is based on the amount recorded in the parent company's nonconsolidated statutory financial statements in accordance with the accounting principle generally accepted in Japan. Such amount was ¥297,581 million ($2,543,427 thousand) at March 31, 2006.

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, 2006, the parent company's Board of Directors declared an annual cash dividend of ¥13,499 million ($115,376 thousand) to shareholders of record on March 31, 2006. The dividend declared was approved at the general shareholders' meeting held on June 27, 2006. Dividends are recorded in the period they are declared.

The Japanese Corporate Law provides that a company can make dividends of surplus anytime with resolution of the shareholders. The Japanese Corporate Law imposes limitation on an amount of surplus available for dividends which is different from that under the Japanese Commercial Code. The Japanese Commercial Code was applied to the limitation on the amount available for dividends for the year ended March 31, 2006.

(2) Accumulated Other Comprehensive Income (Loss)

An analysis of the changes in accumulated other comprehensive income (loss) for the years ended March 31, 2006, 2005 and 2004 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2006:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	**¥14,660**	**(¥5,764)**	**¥ 8,896**
Less: Reclassification adjustment for gains or losses included in net income	**(5,448)**	**2,092**	**(3,356)**
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	**163**	**(66)**	**97**
Less: Reclassification adjustment for gains or losses included in net income	**31**	**(13)**	**18**
Minimum pension liability adjustments	**(57)**	**27**	**(30)**
Foreign currency translation adjustments	**7,317**	**(971)**	**6,346**
Other comprehensive income (loss)	**¥16,666**	**(¥4,695)**	**¥11,971**
For the year ended March 31, 2005:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	¥4,579	(¥1,699)	¥2,880
Less: Reclassification adjustment for gains or losses included in net income	(2,918)	1,078	(1,840)
Unrealized losses on derivative instruments—			
Unrealized holding gains or losses arising during the year	(152)	61	(91)
Less: Reclassification adjustment for gains or losses included in net income	(140)	57	(83)
Minimum pension liability adjustments	(269)	105	(164)
Foreign currency translation adjustments	(1,488)	904	(584)
Other comprehensive income (loss)	(¥ 388)	¥ 506	¥ 118

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2004:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	¥12,639	(¥ 4,910)	¥ 7,729
Less: Reclassification adjustment for gains or losses included in net income	(695)	270	(425)
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	145	(58)	87
Less: Reclassification adjustment for gains or losses included in net income	(68)	28	(40)
Minimum pension liability adjustments	43,147	(17,226)	25,921
Foreign currency translation adjustments	(4,228)	(72)	(4,300)
Other comprehensive income (loss)	¥50,940	(¥21,968)	¥28,972

	In thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2006:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	**$125,299**	**($49,265)**	**$ 76,034**
Less: Reclassification adjustment for gains or losses included in net income	**(46,564)**	**17,880**	**(28,684)**
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	**1,393**	**(564)**	**829**
Less: Reclassification adjustment for gains or losses included in net income	**265**	**(111)**	**154**
Minimum pension liability adjustments	**(487)**	**231**	**(256)**
Foreign currency translation adjustments	**62,538**	**(8,299)**	**54,239**
Other comprehensive income (loss)	**$142,444**	**($40,128)**	**$102,316**

18. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 were ¥4,061 million ($34,709 thousand), ¥4,470 million and ¥4,088 million, respectively.

19. 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. The 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 ($43,470 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, 2006 were ¥6,575 million ($56,197 thousand).

A summary of leased assets under capital leases at March 31, 2006 and 2005 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Buildings and improvements	**¥ 5,185**	¥ 5,185	**$ 44,316**
Machinery, equipment and automobiles	**14,599**	12,993	**124,778**
Other intangible assets	**407**	147	**3,479**
Accumulated depreciation	**(8,532)**	(7,954)	**(72,923)**
	¥11,659	¥10,371	**$ 99,650**

Depreciation expenses under capital leases for the years ended March 31, 2006, 2005 and 2004 were ¥3,576 million ($30,564 thousand), ¥3,146 million and ¥3,186 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, 2006:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ 3,419	$ 29,222
2008	2,991	25,564
2009	2,048	17,504
2010	1,302	11,128
2011	642	5,487
Thereafter	5,465	46,710
Total minimum lease payments	15,867	135,615
Less: Amount representing interest	3,244	27,726
Present value of net minimum lease payments (Note 12)	12,623	107,889
Less: Current portion	3,023	25,838
Long-term capital lease obligations	¥ 9,600	$ 82,051

Rental expenses under operating leases for the years ended March 31, 2006, 2005 and 2004 were ¥15,415 million ($131,752 thousand), ¥14,616 million and ¥14,540 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 ($11,444 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, 2006 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ 2,325	$ 19,872
2008	2,245	19,188
2009	2,218	18,957
2010	2,185	18,675
2011	2,181	18,641
Thereafter	24,960	213,334
Total future minimum lease payments	¥36,114	$308,667

20. Lessor

The Company's leasing operations consist principally of leasing of security equipment and real estate for office and medical institutions. Most of the security equipment and certain real estate for medical institutions on lease are classified as sales-type leases or direct-financing leases. The other leases are classified as operating leases.

A summary of lease receivables under sales-type and direct-financing leases at March 31, 2006 and 2005 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Total minimum lease payments to be received	**¥29,574**	¥30,887	**$252,769**
Estimated executory cost	**(1,926)**	(2,241)	**(16,461)**
Estimated unguaranteed residual value	**2,160**	3,254	**18,461**
Unearned income	**(6,559)**	(9,901)	**(56,060)**
Lease receivables, net	**23,249**	21,999	**198,709**
Less: Current portion	**(5,122)**	(4,095)	**(43,777)**
Long-term lease receivables, net	**¥18,127**	¥17,904	**$154,932**

The following is a schedule by year of future minimum lease payments to be received under sales-type leases and direct-financing leases at March 31, 2006:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ 6,044	$ 51,658
2008	4,988	42,632
2009	4,234	36,188
2010	3,274	27,983
2011	1,676	14,325
Thereafter	9,358	79,983
Total future minimum lease payments to be received	¥29,574	$252,769

A summary of investment in property on operating leases and property held for lease at March 31, 2006 and 2005 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2006	2005	**2006**
Land	**¥20,928**	¥21,185	**$178,872**
Buildings and improvements	**25,737**	21,888	**219,974**
Other intangible assets	**1,158**	840	**9,897**
Accumulated depreciation	**(6,324)**	(5,430)	**(54,051)**
	¥41,499	¥38,483	**$354,692**

The future minimum rentals on non-cancelable operating leases at March 31, 2006 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2007	¥ 2,757	$ 23,564
2008	760	6,496
2009	740	6,325
2010	740	6,325
2011	740	6,325
Thereafter	13,874	118,580
Total future minimum rentals	¥19,611	$167,615

21. 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 of each instrument at the Company's current incremental borrowing rates for similar liabilities.

(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) Derivatives

The fair values of interest rate swaps are estimated using current market pricing models 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 7 at March 31, 2006 and 2005 are as follows:

	In millions of yen			
	March 31			
	2006		2005	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Liabilities—				
Long-term debt including current portion	¥ 80,496	¥ 80,465	¥ 76,307	¥ 76,489
Investment deposits by policyholders	187,785	192,002	227,719	236,214
Derivatives:				
Assets—				
Interest rate swaps	32	32	10	10
Liabilities—				
Interest rate swaps	5	5	343	343

	In thousands of U.S. dollars	
	March 31	
	2006	
	Carrying amount	Estimated fair value
Non-derivatives:		
Liabilities—		
Long-term debt including current portion	$ 688,000	$ 687,735
Investment deposits by policyholders	1,605,000	1,641,043
Derivatives:		
Assets—		
Interest rate swaps	274	274
Liabilities—		
Interest rate swaps	43	43

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.

22. 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 rate. The Company assesses interest rate risk by continually monitoring changes in the exposure 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 makes fixed interest rate payments, thereby effectively 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 2010. 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 gains or losses excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2006, 2005 and 2004. Approximately ¥1 million ($9 thousand) of net derivative losses included in other comprehensive income (loss), net of tax at March 31, 2006, will be reclassified into current income within 12 months from that date. At March 31, 2006 and 2005, the notional principal amounts of interest rate swap agreements designated as cash flow hedges were ¥25,462 million ($217,624 thousand) and ¥27,833 million, respectively.

(4) Derivative Instruments Not Designated as Hedges

Certain subsidiaries enter into interest rate swap agreements to change the effective interest rates on debt securities held as investments with the objective of increasing current interest income. Changes in fair value of the above noted derivative financial instruments, which are not designated as hedges, are reported in current income.

23. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment approximated ¥14,756 million ($126,120 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 the guarantee, if the affiliated companies and other entities default on a payment within the guaranteed period of one to 13 years. The maximum amount of undiscounted payments the Company would have to make in the event of default amounts to ¥10,207 million ($87,239 thousand) at March 31, 2006. The carrying amounts of the liabilities recognized for the Company's obligations under these guarantees at March 31, 2006 and 2005 were insignificant.

In July 2004, Fujitsu Ltd. filed a lawsuit against Secom Insurance in the Tokyo District Court, claiming compensation for costs related to a systems development order in the amount of ¥2,500 million ($21,368 thousand). Secom Insurance is not only contesting this lawsuit on the grounds that it is without merit, but has also filed a countersuit claiming damages in the amount of ¥1,000 million ($8,547 thousand), which is pending at March 31, 2006.

PASCO filed a lawsuit against Sumitomo Mitsui Banking Corporation ("SMBC") for obtaining a confirmation judgment to the effect that it does not owe an obligation in the amount of ¥2,010 million ($17,179 thousand) to SMBC with the Tokyo District Court on October 31, 2005. SMBC alleged that it made a loan to a third party and acquired from the third party its claim against PASCO for an alleged sale of equipment to PASCO as a collateral for the loan, and demanded PASCO to pay such claim to SMBC. However, upon carefully investigating the case with counsel, the Company believes that the alleged transactions were null and void, and the Company's pleading should be admitted. Furthermore, on December 5, 2005, SMBC brought a cross action against PASCO for requesting payment of ¥1,846 million ($15,778 thousand) together with the delayed payment charge. Both actions had been consolidated and were pending at March 31, 2006.

24. Free Share Distributions of Less than 25 Percent

The Company may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Prior to October 1, 2001, free share distributions were accounted for either by (1) a transfer from additional paid-in capital to the common stock account, or (2) no entry if free shares are distributed from the portion of previously issued shares in the common stock account as required by the Japanese Commercial Code. Effective on October 1, 2001, the Japanese Commercial Code requires no accounting recognition for such free share distributions. 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.

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 ($840,923 thousand) would have been transferred from retained earnings to the appropriate capital accounts. The free share distributions would have no effect on total shareholders' equity.

25. Discontinued Operations

The Company accounted for the sale of certain businesses and properties in accordance with SFAS No. 144.

Real estate properties on operating leases are primarily held by real estate investment companies as part of investment assets of the insurance services segment and by the companies that engage in leasing services of real estate included in the information and communication related and other services segment. The Company reported the operating results related to these real estate properties which were disposed of or classified as held for sale without significant continuing involvement in discontinued operations for the years ended March 31, 2005 and 2004.

In January 2005, the Company sold the operation of its school education systems included in the information and communication related and other services segment. In October 2004, The Westec Security Group, Inc., a wholly owned subsidiary in the United States of America, sold all of the outstanding shares of Westec Interactive Security, Inc. included in the security services segment. Accordingly, the Company reported the operating results related to these operations in discontinued operations for the years ended March 31, 2005 and 2004.

There were no operating results which were reported in discontinued operations for the year ended March 31, 2006.

Discontinued operations for the years ended March 31, 2005 and 2004 were as follows:

	In millions of yen	
	Years ended March 31	
	2005	2004
Net sales and operating revenue	¥ 7,491	¥ 4,508
Loss from discontinued operations before income taxes, net	(2,378)	(10,702)
Gain on sales of discontinued operations, net	13,637	6,367
Income taxes	(931)	206
Minority interest in subsidiaries	(451)	(78)
Income (loss) from discontinued operations, net of tax	¥ 9,877	(¥ 4,207)

Income (loss) from discontinued operations, net of tax, by business segment for the years ended March 31, 2005 and 2004 were as follows:

	In millions of yen	
	Years ended March 31	
	2005	2004
Security services	¥ 439	(¥ 77)
Insurance services	2,164	370
Information and communication related and other services (Leasing services of real estate)	3,983	(244)
Information and communication related and other services (Education services)	3,291	(4,256)
Income (loss) from discontinued operations, net of tax	¥9,877	(¥4,207)

26. 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
	2006	2005	2004	2006
Cash paid during the year for:				
Interest	¥ 1,873	¥ 2,277	¥ 3,307	$ 16,009
Income taxes	28,959	31,530	24,718	247,513
Non-cash investing and financing activities:				
Conversion of convertible bonds	—	18	—	—
Additions to obligations under capital leases	2,253	2,350	4,173	19,256

27. Segment Information

The Company has applied SFAS 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 management in deciding how to allocate resources and assess performance.

The Company has five reportable business segments: security services, medical services, insurance services, geographic information services, and information and communication related and other services. During the year ended March 31, 2006, the Company decided to disclose the geographic information services, which was previously included in the information and communication related and other services segment, separately from the segment due to an increase in importance of its business. Accordingly, segment information of all prior periods has been restated to conform to the presentation used for the year ended March 31, 2006.

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. Also the VIEs to which the Company is primary beneficiary manage hospitals and health care-related institutions. The insurance services segment represents non-life insurance-related underwriting business in the Japanese market. The geographic information services segment represents aerial surveying and mapping services and geographic information system services. The information and communication related and other services segment represents the Company's network business, development and sales of real estate and leasing of real estate, and management of hotel business. 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.

Corporate expenses consist principally of general and administrative expenses of the planning, personnel and administrative departments of the parent company and administrative departments of the foreign holding company.

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 parent company and the foreign holding company 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, 2006, 2005 and 2004 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
	2006	2005	2004	2006
Net sales and operating revenue:				
Security services—				
Customers	¥400,044	¥382,360	¥367,482	$3,419,179
Intersegment	1,317	1,362	1,121	11,257
	401,361	383,722	368,603	3,430,436
Medical services—				
Customers	39,215	34,688	21,147	335,171
Intersegment	220	215	194	1,880
	39,435	34,903	21,341	337,051
Insurance services—				
Customers	29,537	26,465	23,536	252,453
Intersegment	2,496	2,776	2,420	21,333
	32,033	29,241	25,956	273,786
Geographic information services—				
Customers	35,271	34,915	32,346	301,462
Intersegment	113	253	178	966
	35,384	35,168	32,524	302,428
Information and communication related and other services—				
Customers	76,459	73,926	72,924	653,496
Intersegment	6,406	4,821	3,755	54,752
	82,865	78,747	76,679	708,248
Total	591,078	561,781	525,103	5,051,949
Eliminations	(10,552)	(9,427)	(7,668)	(90,188)
Total net sales and operating revenue	¥580,526	¥552,354	¥517,435	$4,961,761
Operating income (loss):				
Security services	¥ 86,660	¥ 90,414	¥ 75,833	$ 740,684
Medical services	(1,321)	1,641	(1,519)	(11,291)
Insurance services	5,061	(3,011)	2,396	43,256
Geographic information services—	900	1,236	(4,208)	7,692
Information and communication related and other services	5,643	(816)	(4,011)	48,231
Total	96,943	89,464	68,491	828,572
Corporate expenses and eliminations	(15,050)	(13,906)	(14,426)	(128,632)
Operating income	¥ 81,893	¥ 75,558	¥ 54,065	$ 699,940
Other income	15,936	6,566	5,672	136,205
Other expenses	(8,101)	(7,851)	(6,373)	(69,239)
Income from continuing operations before income taxes	¥ 89,728	¥ 74,273	¥ 53,364	$ 766,906

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2006	2005	2004	2006
Assets:				
Security services	¥ 438,989	¥ 445,576	¥ 428,034	$ 3,752,043
Medical services	102,838	91,574	73,573	878,957
Insurance services	284,911	310,159	317,102	2,435,137
Geographic information services	55,448	53,004	53,536	473,915
Information and communication related and other services	145,757	124,578	151,838	1,245,786
Total	1,027,943	1,024,891	1,024,083	8,785,838
Corporate items	159,210	99,398	101,708	1,360,769
Investments in and loans to affiliated companies	38,075	39,915	39,314	325,427
Total assets	¥1,225,228	¥1,164,204	¥1,165,105	$10,472,034

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	2006
Depreciation and amortization:				
Security services	¥44,942	¥44,042	¥44,833	$384,120
Medical services	1,629	1,531	1,164	13,923
Insurance services	1,143	1,175	1,586	9,769
Geographic information services	1,494	1,477	1,840	12,769
Information and communication related and other services	2,690	2,816	2,926	22,992
Total	51,898	51,041	52,349	443,573
Corporate items	441	409	594	3,769
Total depreciation and amortization	¥52,339	¥51,450	¥52,943	$447,342
Capital expenditures:				
Security services	¥29,351	¥30,255	¥33,205	$250,863
Medical services	8,474	8,647	1,625	72,427
Insurance services	1,733	1,380	3,859	14,812
Geographic information services	436	983	1,103	3,727
Information and communication related and other services	7,448	4,927	4,529	63,658
Total	47,442	46,192	44,321	405,487
Corporate items	120	1	7	1,026
Total capital expenditures	¥47,562	¥46,193	¥44,328	$406,513

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 revenues.

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
	2006	2005	2004	**2006**
Electronic security services	**¥277,892**	¥271,872	¥263,900	**$2,375,145**
Other security services:				
Static guard services	**41,480**	38,302	37,537	**354,530**
Armored car services	**19,369**	18,462	18,618	**165,547**
Merchandise and other	**61,303**	53,724	47,427	**523,957**
Total security services	**¥400,044**	¥382,360	¥367,482	**$3,419,179**

(2) Geographic Segment Information

Net sales and operating revenue attributed to countries based on location of customers and long-lived assets for the years ended March 31, 2006, 2005 and 2004 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2006	2005	2004	**2006**
Net sales and operating revenue:				
Japan	**¥564,803**	¥538,851	¥506,213	**$4,827,376**
Other	**15,723**	13,503	11,222	**134,385**
Total	**¥580,526**	¥552,354	¥517,435	**$4,961,761**

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2006	2005	2004	**2006**
Long-lived assets:				
Japan	**¥330,752**	¥316,358	¥445,632	**$2,826,940**
Other	**5,609**	6,079	5,528	**47,940**
Total	**¥336,361**	¥322,437	¥451,160	**$2,874,880**

There are no individually material countries with respect to net sales and operating revenue 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, 2006 and 2005, 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, 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 of the notes to the consolidated financial statements, SECOM CO., LTD. and subsidiaries changed their method of accounting for conditional asset retirement obligations in the year ended March 31, 2006, and their method of accounting for variable interest entities in the year ended March 31, 2005.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 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 AZSA & Co.

Tokyo, Japan
June 27, 2006

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SECOM CO., LTD. and Subsidiaries
Years ended March 31

In millions of yen

	2006	2005	2004	2003	2002	2001
Composition of consolidated net sales and operating revenue by segment						
Net sales and operating revenue	¥580,526	¥552,354	¥517,435	¥497,691	¥475,151	¥430,999
Security services:	400,044	382,360	367,482	352,985	335,867	313,340
As a percentage of net sales and operating revenue	*68.9%*	*69.2%*	*71.0%*	*70.9%*	*70.7%*	*72.7%*
Electronic security services—	277,892	271,872	263,900	257,075	246,487	233,571
As a percentage of net sales and operating revenue	*47.9*	*49.2*	*51.0*	*51.6*	*51.8*	*54.2*
Other security services—						
Static guard services	41,480	38,302	37,537	35,908	34,107	32,204
As a percentage of net sales and operating revenue	*7.1*	*6.9*	*7.2*	*7.2*	*7.2*	*7.5*
Armored car services	19,369	18,462	18,618	17,261	17,001	15,109
As a percentage of net sales and operating revenue	*3.3*	*3.4*	*3.6*	*3.5*	*3.6*	*3.5*
Subtotal	60,849	56,764	56,155	53,169	51,108	47,313
Merchandise and other	61,303	53,724	47,427	42,741	38,272	32,456
As a percentage of net sales and operating revenue	*10.6*	*9.7*	*9.2*	*8.6*	*8.1*	*7.5*
Medical services	39,215	34,688	21,147	19,637	13,300	6,315
As a percentage of net sales and operating revenue	*6.7*	*6.3*	*4.1*	*3.9*	*2.8*	*1.5*
Insurance services	29,537	26,465	23,536	15,234	24,875	21,069
As a percentage of net sales and operating revenue	*5.1*	*4.8*	*4.5*	*3.1*	*5.2*	*4.9*
Geographic information services	35,271	34,915	32,346	39,525	38,106	41,948
As a percentage of net sales and operating revenue	*6.1*	*6.3*	*6.3*	*8.0*	*8.0*	*9.7*
Information and communication related and other services	76,459	73,926	72,924	70,310	63,003	48,327
As a percentage of net sales and operating revenue	*13.2*	*13.4*	*14.1*	*14.1*	*13.3*	*11.2*
Net income, cash dividends and shareholders' equity						
Net income	¥ 50,331	¥ 52,133	¥ 23,479	¥ 30,275	¥ 34,082	¥ 43,996
Cash dividends (paid)[2]	11,251	10,127	9,003	9,330	9,324	9,323
Shareholders' equity	508,696	457,837	415,852	372,518	401,326	377,304
Consolidated financial ratios						
Percentage of working capital accounted for by:						
Debt—						
Bank loans	15.2	16.1	17.7	20.0	10.7	14.5
Current portion of long-term debt	6.4	1.7	2.1	3.3	4.4	1.9
Convertible bonds	—	—	—	0.0	0.0	0.1
Straight bonds	1.6	6.4	5.2	5.2	5.6	2.0
Other long-term debt	3.6	3.9	9.2	11.4	16.1	6.1
Total debt	26.8	28.1	34.2	39.9	36.8	24.6
Shareholders' equity	73.2	71.9	65.8	60.1	63.2	75.4
Total capitalization	100.0	100.0	100.0	100.0	100.0	100.0
Return on total assets (percentage)[a]	4.1	4.5	2.0	2.6	2.9	5.0
Return on equity (percentage)[b]	9.9	11.4	5.6	8.1	8.5	11.7
Percentage of net sales and operating revenue absorbed by[c]:						
Depreciation and amortization	9.0	9.1	10.1	10.3	10.4	10.4
Rental expense	2.7	2.6	2.8	3.0	2.7	2.6
Ratio of accumulated depreciation to depreciable assets (percentage)	60.5	60.0	54.8	50.6	48.9	54.0
Net property turnover (times)[c]	2.39	2.43	1.74	1.37	1.23	1.84
Before-tax interest coverage (times)[c][d]	48.8	39.3	15.9	15.2	41.6	43.9

Note: Installation revenue is included in the corresponding electronic security services.

	2006	2005	2004	2003	2002	2001
Number of shares outstanding						
Issued	**233,288,717**	233,288,717	233,281,133	233,281,133	233,274,769	233,099,744
Owned by the Company	**8,301,997**	8,266,043	8,228,652	8,200,245	22,512	510
Balance	**224,986,720**	225,022,674	225,052,481	225,080,888	233,252,257	233,099,234
Per share information						
Basic net income per share (in yen) (1)	**¥ 223.69**	¥ 231.66	¥ 104.32	¥ 132.87	¥ 146.19	¥ 188.76
Cash dividends paid per share (in yen) (2)	**50.00**	45.00	40.00	40.00	40.00	40.00
Shareholders' equity per share (in yen) (3)	**2,261.00**	2,034.63	1,847.80	1,655.04	1,720.57	1,618.64
Cash flow per share (in yen) (1) (e)	**396.31**	410.29	294.56	321.88	320.17	341.91
Price/Book value ratio	**2.66**	2.19	2.46	1.84	3.33	4.39
Price/Earnings ratio	**26.91**	19.25	43.52	22.88	39.20	37.61
Price/Cash flow ratio	**15.19**	10.87	15.41	9.44	17.90	20.77
Stock price at year-end (in yen)	**6,020**	4,460	4,540	3,040	5,730	7,100

Notes: (a) Net income/Total assets
(b) Net income/Shareholders' equity
(c) Including discontinued operations
(d) (Income before income taxes + Interest expense)/Interest expense
(e) (Net income + Depreciation and amortization - Dividends approved) / Average number of shares outstanding during each period

(1) Per share amounts are based on the average number of shares outstanding during each period.
(2) Subsequent to March 31, 2006, cash dividends of ¥13,499 million (¥60.00 per share) were approved at the general shareholders' meeting on June 27, 2006 (see Note 17 of the accompanying notes to consolidated financial statements).
(3) Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

SECOM CO., LTD.
As of March 31

SHAREHOLDER INFORMATION

	2006	2005	2004	2003	2002	2001
Number of shareholders	**19,807**	21,327	21,720	20,230	17,609	15,621
Common shares held by:						
Financial institutions	**33.04%**	34.32%	37.04%	46.14%	45.31%	44.44%
Securities firms	**2.16**	1.99	2.19	2.04	1.61	1.73
Other corporations	**3.92**	4.13	4.29	4.60	13.78	13.84
Foreign investors	**43.40**	40.75	37.22	28.64	24.64	25.76
Individuals and others	**17.48**	18.81	19.26	18.58	14.66	14.23
Total	**100.00%**	100.00%	100.00%	100.00%	100.00%	100.00%

PRICE INFORMATION (TOKYO STOCK EXCHANGE)

		Price per share (in yen)		Nikkei Stock Average (in yen)	
		High	Low	High	Low
2004	April–June	¥4,850	¥4,130	¥12,163.89	¥10,505.05
	July–September	4,720	3,830	11,896.01	10,687.81
	October–December	4,190	3,730	11,488.76	10,659.15
2005	January–March	4,510	3,930	11,966.69	11,238.37
	April–June	4,830	4,060	11,874.75	10,825.39
	July–September	5,900	4,760	13,617.24	11,565.99
	October–December	6,470	5,480	16,344.20	13,106.18
2006	January–March	6,280	5,310	17,059.66	15,341.18

COMMON STOCK ISSUES

Date	Additional shares issued (In thousands)	Shares outstanding after issue (In thousands)	Share capital after issue (In thousands of yen)	Allotment ratio to shareholders	Remarks
June 15, 1974	1,968	9,200	¥ 460,000	—	Issue at market price (¥900)
Dec. 21, 1974	2,760	11,960	598,000	3 for 10	Stock split
May 21, 1975	1,196	13,156	657,800	1 for 10	Stock split
May 21, 1975	1,244	14,400	720,000	—	Issue at market price (¥1,134)
Dec. 1, 1975	4,320	18,720	936,000	3 for 10	Stock split
May 31, 1976	1,880	20,600	1,030,000	—	Issue at market price (¥2,570)
June 1, 1976	2,060	22,660	1,133,000	1 for 10	Stock split
Dec. 1, 1976	6,798	29,458	1,472,900	3 for 10	Stock split
Nov. 30, 1977	2,042	31,500	1,575,000	—	Issue at market price (¥1,700)
Dec. 1, 1977	6,300	37,800	1,890,000	2 for 10	Stock split
Dec. 1, 1978	7,560	45,360	2,268,000	2 for 10	Stock split
June 1, 1981	3,000	48,360	2,418,000	—	Issue at market price (¥2,230)
Dec. 1, 1981	4,836	53,196	2,659,800	1 for 10	Stock split
Jan. 20, 1983	5,320	58,516	3,000,000	1 for 10	Stock split
Nov. 30, 1983	194	58,710	3,280,942	—	Conversion of convertible bonds
Nov. 30, 1984	1,418	60,128	5,329,282	—	Conversion of convertible bonds
Nov. 30, 1985	186	60,314	5,602,945	—	Conversion of convertible bonds
Jan. 20, 1986	6,031	66,345	5,602,945	1 for 10	Stock split
Nov. 30, 1986	2,878	69,223	11,269,932	—	Conversion of convertible bonds
Nov. 30, 1987	1,609	70,832	15,021,200	—	Conversion of convertible bonds
Jan. 20, 1988	3,541	74,373	15,021,200	0.5 for 10	Stock split
Nov. 30, 1988	439	74,812	16,063,099	—	Conversion of convertible bonds
Nov. 30, 1989	1,808	76,620	21,573,139	—	Conversion of convertible bonds
Jan. 19, 1990	22,986	99,606	21,573,139	3 for 10	Stock split
Mar. 31, 1990	1,446	101,052	25,070,104	—	Conversion of convertible bonds
Mar. 31, 1991	2,949	104,001	32,244,732	—	Conversion of convertible bonds
Mar. 31, 1992	2,035	106,036	37,338,751	—	Conversion of convertible bonds
Mar. 31, 1993	267	106,303	37,991,568	—	Conversion of convertible bonds
Mar. 31, 1994	6,986	113,289	56,756,263	—	Conversion of convertible bonds
Mar. 31, 1995	477	113,766	58,214,178	—	Conversion of convertible bonds
Mar. 31, 1996	613	114,379	59,865,105	—	Conversion of convertible bonds
Mar. 31, 1997	1,825	116,204	65,253,137	—	Conversion of convertible bonds
Mar. 31, 1998	29	116,233	65,327,060	—	Conversion of convertible bonds
Mar. 31, 1999	159	116,392	65,709,927	—	Conversion of convertible bonds
Nov. 19, 1999	116,410	232,802	65,709,927	10 for 10*	Stock split
Mar. 31, 2000	273	233,075	66,096,852	—	Conversion of convertible bonds
Mar. 31, 2001	25	233,100	66,126,854	—	Conversion of convertible bonds
Mar. 31, 2002	175	233,275	66,360,338	—	Conversion of convertible bonds
Mar. 31, 2003	6	233,281	66,368,827	—	Conversion of convertible bonds
Mar. 31, 2005	8	233,289	66,377,829	—	Conversion of convertible bonds

Notes: 1. The above is a record of SECOM's common stock issues since the common stock was listed on the Tokyo Stock Exchange in June 1974.
2. As of March 31, 2006, the number of shares outstanding was 233,289 thousand and share capital was ¥66,377,829 thousand.
*One share was split into two.