CONTENTS

Operating Results

In the fiscal year ended March 31, 1999, SECOM endeavored to broaden its business activities by enhancing its services, particularly in the area of security services, as well as in such fields as information systems, medical services, home education, non-life insurance and real estate development, expanding marketing, and improving system and product development capabilities. Consolidated revenue climbed 22.1% from the preceding period, to ¥394.1 billion, mainly because of a gain on sale of investment in securities and full consolidation of Eclairer. Revenue from services, which includes revenue from centralized and other security services, advanced 4.7%, to ¥266.3 billion, and accounted for 67.6% of total revenue, down from 78.8% in the previous fiscal year. Revenue generated by merchandise, software, medical operations and real estate development amounted to ¥85.6 billion, an increase of 37.6%, and accounted for 21.7% of the total, up from 19.3%. The net gain on sale ofinvestment in securities totaled ¥35.7 billion, of which ¥35.9 billion was generated by the sale of all shares held in three subsidiaries, comprising ¥13.1 billion generated by the saleof shar es in Tokyo Internet Corporation, in Japan, and¥22.8 billion on the sale of shar es in U.S. subsidiaries Westec Residential Security, Inc., and Valley Burglar and Fire Alarm Co., Inc. Interest and other was ¥6.5 billion.

Costs and expenses were ¥311.5 billion, an increase of 15.0%, primarily due to rises in the cost of services and the cost of merchandise, software, medical operations and real estate development, paralleling the increase in revenues in both categories. Cost ofser vices rose 6.2%, to ¥139.8 billion, or 52.5% of revenue from services, primarily due to increases in personnel, depreciation and communication expenses. Cost of merchandise, software, medical operations and real estate development climbed 50.2%, to ¥65.7 billion, equivalent to 76.7% of revenue in this category. Selling, general and administrative (SGA) expenses increased 7.7%, to ¥96.8 billion, and corresponded to 24.6% of revenue, down from 27.8% the previous period. SGA expenses include ¥4.8 billion invested in research and development, down from ¥5.4 billion. Other expenses rose 74.0%, to ¥8.1 billion.

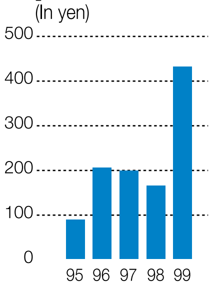
Income taxes rose ¥1.5 billion, to ¥32.4 billion (see Note 15). Net income soared 2.6 times, to ¥49.9 billion. Return on revenue was 12.7%, compared with 5.9% the preceding year. Basic net income per share was ¥429.03, upfr om ¥163.40, and fully diluted net income per share rose to ¥428.17, from ¥162.96. Cash dividends per share of ¥70.00 were approved at the general shareholders' meeting on June 29, 1999.

Financial Position

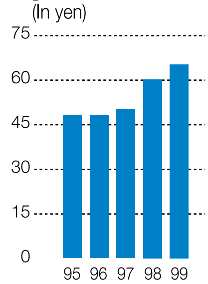
Total assets of SECOM amounted to ¥643.5 billion on March 31, 1999, an increase of 34.1% from the previous fiscal year-end. Total current assets were ¥362.9 billion, up58.2%. Cash and cash equivalents climbed 40.9%, to ¥149.0 billion. Short-term investments soared 142.5%, to ¥87.6 billion, owing to reinvestment of cash earned on the sale of shares in subsidiaries and the addition of securities held by newly consolidated subsidiary Secom Toyo General Insurance. Short-term receivables soared 165.0%, to ¥20.6 billion. The current ratio was 2.4 times, compared to 1.8 times in the preceding period, indicating a level of liquidity sufficient for the Company to cover all of its debt obligations and pursue active investment programs.

Property, plant and equipment, less accumulated depreciation, rose 3.9%, to ¥155.8 billion. This gain is primarily attributable to increases in buildings and improvements, control station signal equipment and signal equipment on subscribers' premises. Other assets declined 67.0%, to ¥7.4billion.

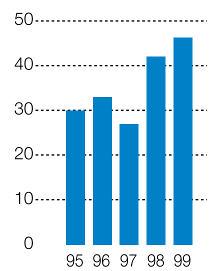
Basic Net Income per Share
(In yen)



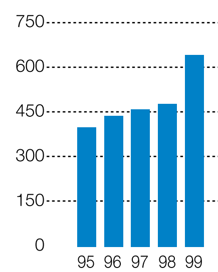
Cash Dividends Paid per Share
(In yen)



Capital Investment
(In billions of yen)



Total Assets
(In billions of yen)



Total current liabilities were ¥151.3 billion, up 19.1%, due largely to an increase in bank loans to cover investment costs for real estate subsidiary Eclairer Co., Ltd., and cash for replenishing cash dispensers for which SECOM provides security services. Long-term liabilities also expanded, as the consolidation of Secom Toyo General Insurance added ¥30.1 billion in unearned premiums and other insurance liabilities and ¥57.5 billion in investment deposits by policyholders.

Shareholders' equity rose 15.3%, to ¥327.1 billion, owing primarily to a ¥41.6 billion increase in retained earnings and to a ¥6.0 billion net unrealized gain in debt and equity securities. The equity ratio was 50.8%. down from 59.2% a year earlier, reflecting the increase in liabilities, which was caused by the consolidation of the account of Secom Toyo General Insurance for the first time.

Cash Flows

SECOM maintains ample liquidity to ensure flexibility in its operations and support a sound financial foundation. Tothis end, the Company finances its various investing activities with cash generated by its operating activities.

During the period under review, net cash provided by operating activities declined ¥25.5 billion, to ¥31.9 billion, primarily owing to increases in inventories of real estate for sales by Eclairer and receivables and due from subscribers, net of allowances. Depreciation and amortization increased ¥0.8 billion, to ¥30.5 billion.

Although payments for purchases of property, plant and equipment rose ¥3.9 billion, to ¥46.3 billion, an increase in proceeds from sales of shares in three subsidiaries and cash provided by the acquisition of Secom Toyo General Insurance contributed to ¥3.3 billion in net cash provided by investing activities, compared with ¥50.1 billion in cash used in these activities in the preceding period.

Net cash provided by financing activities amounted to ¥8.7billion, owing to an incr ease in bank loans related to the investments by subsidiary Eclairer. In the previous fiscal year, these activities used ¥16.3 billion.

Dividends paid climbed ¥0.6 billion for the year under review, owing to a per share dividend increase to ¥65.00, up from ¥60.00 a year earlier.

As a consequence of SECOM's operating, investing and financing activities, cash and cash equivalents at the end of the year amounted to ¥149.0 billion, an increase of ¥43.2 billion from ayear earlier .

Subsequent Event

On August 11, 1999, SECOM acquired a 67.5% stake in Pasco. The total amount of SECOM's investment was ¥15.0billion.

The Year 2000 Issue

SECOM recognized the importance of dealing with the Year2000 Issue at an early stage of its appearance, and has taken steps to ensure compliance. The Company has concluded reconstruction of its centralized security service and accounting and personnel systems, and has completed both the modification of systems used by customers, including monitoring systems for automatic teller machines, andthe installation of adjusted systems. In Januar y 1999, SECOM launched a Year 2000 Action Program and established a Year 2000 Compliance Committee, which is chaired by the president and comprises directors of the Company and presidents of subsidiaries andaf filiates. The committee is responsible for overseeing research, the determination and implementation of modifications, and follow-up activities, and reports directly to the Board of Directors.

Priority modifications to all customer rental systems and equipment, as well as internal computer systems, external interfaces and building facilities, were concluded in June 1999. The Company expects to complete all other modifications by September 1999, in line with the schedule set out inits Y ear 2000 Action Program.

Measures aimed at achieving Year 2000 compliance for existing systems and equipment have been implemented as part of regular modification and redevelopment, while Year 2000 compliance has been built into new product development and internal system reconstruction procedures. Accordingly, itis impossible to separate costs exclusively for Year 2000 compliance.

SECOM does not expect costs incurred in the future to achieveY ear 2000 compliance to have any significant effect on itsconsolidated operations or financial condition.

SECOM is currently formulating contingency plans tominimize pr oblems should unforeseen circumstances related to the Year 2000 Issue cause a system breakdown orother wise interrupt the Company's services.

SECOM is making every possible effort to ensure Year 2000 compliance. However, because the potential impact ofthe Y ear 2000 Issue involves not only the SECOM Group's own systems, but also those of its customers, communications and other general infrastructure, and because unforseen circumstances may develop, there is noguarantee that Y ear 2000 problems will not materially affect SECOM's operations and financial results.

CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 1999 and 1998

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
ASSETS	**1999**	1998	**1999**
Current assets:			
Cash and cash equivalents (Notes 6 and 19)	**¥149,046**	¥105,808	**$1,231,785**
Cash deposits (Notes 7 and 19)	**43,703**	33,030	**361,182**
Short-term investments (Note 8)	**87,597**	36,119	**723,942**
Notes and accounts receivable, trade (Note 19)	**17,621**	12,715	**145,628**
Due from subscribers (Note 19)	**11,905**	10,263	**98,389**
Inventories (Note 9)	**24,186**	17,592	**199,884**
Short-term receivables (Note 19)	**20,559**	7,757	**169,909**
Allowance for doubtful accounts	**(1,590)**	(1,317)	**(13,141)**
Deferred insurance acquisition cost (Note 12)	**2,034**	—	**16,810**
Deferred income taxes (Note 15)	**986**	1,388	**8,149**
Other current assets	**6,860**	6,067	**56,694**
Total current assets	**362,907**	229,422	**2,999,231**
Investments and long-term receivables:			
Investment securities (Note 8)	**46,468**	28,976	**384,033**
Investments in affiliated companies (Note 10)	**23,631**	21,098	**195,297**
Long-term receivables (Note 19)	**27,546**	7,691	**227,653**
Lease deposits	**8,526**	8,171	**70,463**
Other investments	**12,847**	12,470	**106,174**
Allowance for doubtful accounts	**(1,620)**	(208)	**(13,388)**
	117,398	78,198	**970,232**
Property, plant and equipment (Notes 11 and 18):			
Land	**41,240**	38,593	**340,826**
Buildings and improvements	**54,276**	52,079	**448,562**
Control station signal equipment	**80,540**	77,922	**665,620**
Signal equipment on subscribers' premises	**124,981**	113,066	**1,032,901**
Machinery, equipment and automobiles	**34,450**	36,651	**284,711**
Construction in progress	**3,163**	4,040	**26,140**
	338,650	322,351	**2,798,760**
Accumulated depreciation	**(182,857)**	(172,453)	**(1,511,215)**
	155,793	149,898	**1,287,545**
Other assets:			
Telephone and telegraph utility rights	**4,514**	4,956	**37,306**
Deferred income taxes (Note 15)	**—**	8,537	**—**
Goodwill (Note 5)	**321**	3,252	**2,653**
Intangibles and other	**2,521**	5,578	**20,835**
	7,356	22,323	**60,794**
	¥643,454	¥479,841	**$5,317,802**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen March 31 1999	1998	Translation into thousands of U.S. dollars (Note 3) March 31 1999
Current liabilities:			
Bank loans (Notes 7, 11 and 19)	¥ 32,704	¥ 18,790	$ 270,281
Current portion of long-term debt (Notes 11 and 19)	9,849	5,637	81,397
Notes and accounts payable, trade (Note 19)	9,692	8,114	80,099
Other payable	11,032	9,025	91,174
Deposits received (Note 19)	28,617	19,089	236,504
Deferred revenue	23,750	25,683	196,281
Accrued liabilities—			
Taxes on income	16,941	19,106	140,008
Payrolls (Note 19)	10,373	11,938	85,727
Other current liabilities	8,293	9,662	68,537
Total current liabilities	151,251	127,044	1,250,008
Long-term liabilities:			
Long-term debt (Notes 11 and 19)	21,511	23,227	177,777
Guarantee deposits received from subscribers	17,325	16,208	143,182
Accrued pension and severance cost (Note 13)	21,238	16,975	175,521
Unearned premiums and other insurance liabilities (Note 12)	30,110	—	248,843
Investment deposits by policyholders	57,532	—	475,471
Deferred income taxes (Note 15)	1,828	—	15,107
	149,544	56,410	1,235,901
Minority shareholders' equity in subsidiaries	15,512	12,547	128,198
Shareholders' equity:			
Common stock, ¥50 par value (Notes 16 and 21)—			
Authorized—300,000,000 shares			
Issued—1999—116,392,109 shares	65,710	—	543,058
1998—116,233,393 shares	—	65,327	—
Additional paid-in capital (Notes 16 and 21)	79,318	78,928	655,520
Legal reserve (Note 16)	6,677	5,956	55,182
Retained earnings	183,968	142,326	1,520,397
Net unrealized gain in debt and equity securities (Note 8)	13,068	7,083	108,000
Additional minimum pension liabilities adjustments (Note 13)	(8,819)	(7,931)	(72,884)
Cumulative foreign currency translation adjustments	(12,656)	(7,824)	(104,595)
	327,266	283,865	2,704,678
Less—Common stock in treasury, at cost; 11,817 shares in 1999 and 3,185 shares in 1998	119	25	983
	327,147	283,840	2,703,695
Commitments and contingent liabilities (Note 20)			
	¥643,454	¥479,841	$5,317,802

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries
The three years ended March 31, 1999

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Revenue:				
Services	**¥266,346**	¥254,493	¥240,523	**$2,201,207**
Merchandise, software and medical	**85,580**	62,184	57,459	**707,273**
Gain on sale of investment in securities (Note 22)	**35,700**	570	732	**295,041**
Interest and other (Note 14)	**6,520**	5,557	5,082	**53,884**
	394,146	322,804	303,796	**3,257,405**
Costs and expenses:				
Cost of services	**139,764**	131,633	122,709	**1,155,075**
Cost of merchandise, software and medical	**65,677**	43,726	40,809	**542,785**
Selling, general and administrative (Note 17)	**96,837**	89,877	80,642	**800,306**
Interest	**1,078**	1,051	1,195	**8,909**
Other (Note 14)	**8,097**	4,654	4,150	**66,917**
	311,453	270,941	249,505	**2,573,992**
Income before income taxes	**82,693**	51,863	54,291	**683,413**
Income taxes (Note 15):				
Current	**34,946**	31,533	29,707	**288,810**
Deferred	**(2,573)**	(683)	514	**(21,265)**
	32,373	30,850	30,221	**267,545**
Income before minority interest in subsidiaries	**50,320**	21,013	24,070	**415,868**
Minority interest in subsidiaries	**1,241**	1,676	971	**10,256**
Income from consolidated operations	**49,079**	19,337	23,099	**405,612**
Equity in net gains/(losses) of affiliated companies	**839**	(347)	(301)	**6,933**
Net income	**¥ 49,918**	¥ 18,990	¥ 22,798	**$ 412,545**

	In exact yen			Translation into U.S. dollars (Note 3)
	Year ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Per share data (Note 4):				
Net income — Basic	**¥429.03**	¥163.40	¥197.37	**$3.55**
— Diluted	**¥428.17**	¥162.96	¥197.03	**$3.54**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SECOM CO., LTD. and Subsidiaries
The three years ended March 31, 1999

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	TOTAL
Balance, March 31, 1996	114,378,620	¥59,865	¥73,462	¥4,536	¥114,649	¥ 8,355	¥260,867
Comprehensive income—							
Net income	—	—	—	—	22,798	—	22,798
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding loss arising during period	—	—	—	—	—	(3,287)	(3,287)
Minimum pension liabilities adjustments	—	—	—	—	—	(3,954)	(3,954)
Translation adjustments	—	—	—	—	—	3,172	3,172
Total comprehensive income							18,729
Cash dividends	—	—	—	—	(5,719)	—	(5,719)
Transfer to legal reserve	—	—	—	652	(652)	—	—
Conversion of convertible bonds	1,825,204	5,388	5,387	—	—	—	10,775
Sale of treasury stock, net of tax	—	—	1	—	—	—	1
Balance, March 31, 1997	116,203,824	65,253	78,850	5,188	131,076	4,286	284,653
Comprehensive income—							
Net income	—	—	—	—	18,990	—	18,990
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding loss arising during period	—	—	—	—	—	(9,541)	(9,541)
Minimum pension liabilities adjustments	—	—	—	—	—	(3,977)	(3,977)
Translation adjustments	—	—	—	—	—	560	560
Total comprehensive income							6,032
Cash dividends	—	—	—	—	(6,972)	—	(6,972)
Transfer to legal reserve	—	—	—	768	(768)	—	—
Conversion of convertible bonds	29,569	74	74	—	—	—	148
Sale of treasury stock, net of tax	—	—	4	—	—	—	4
Balance, March 31, 1998	116,233,393	65,327	78,928	5,956	142,326	(8,672)	283,865
Comprehensive income—							
Net income	—	—	—	—	49,918	—	49,918
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding gains arising during period	—	—	—	—	—	6,000	6,000
Less: Reclassification adjustment for gains included in net income	—	—	—	—	—	(15)	(15)
Minimum pension liabilities adjustments	—	—	—	—	—	(888)	(888)
Translation adjustments	—	—	—	—	—	(4,832)	(4,832)
Total comprehensive income							50,183
Cash dividends	—	—	—	—	(7,555)	—	(7,555)
Transfer to legal reserve	—	—	—	721	(721)	—	—
Conversion of convertible bonds	158,716	383	383	—	—	—	766
Sale of treasury stock, net of tax	—	—	7	—	—	—	7
Balance, March 31, 1999	**116,392,109**	**¥65,710**	**¥79,318**	**¥6,677**	**¥183,968**	**¥(8,407)**	**¥327,266**

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	TOTAL
Balance, April 1, 1998	$539,893	$652,297	$49,223	$1,176,248	$(71,669)	$2,345,992
Comprehensive income—						
Net income	—	—	—	412,545	—	412,545
Other comprehensive income, net of tax (Note 16):						
Unrealized gains on securities—						
Unrealized holding gains arising during period	—	—	—	—	49,587	49,587
Less: Reclassification adjustment for gains included in net income	—	—	—	—	(124)	(124)
Minimum pension liabilities adjustments	—	—	—	—	(7,339)	(7,339)
Translation adjustments	—	—	—	—	(39,934)	(39,934)
Total comprehensive income						414,735
Cash dividends	—	—	—	(62,437)	—	(62,437)
Transfer to legal reserve	—	—	5,959	(5,959)	—	—
Conversion of convertible bonds	3,165	3,165	—	—	—	6,330
Sale of treasury stock, net of tax	—	58	—	—	—	58
Balance, March 31, 1999	**$543,058**	**$655,520**	**$55,182**	**$1,520,397**	**$(69,479)**	**$2,704,678**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SECOM CO., LTD. and Subsidiaries
The three years ended March 31, 1999

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income	¥ 49,918	¥ 18,990	¥ 22,798	$ 412,545
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	30,542	29,709	28,917	252,413
Pension and severance costs	1,733	2,229	892	14,323
Deferred income taxes	(2,573)	(683)	514	(21,265)
Net loss on sales and disposal of fixed assets and investment securities	1,988	1,627	887	16,430
Gain on sales of Tokyo Internet Corporation	(13,054)	—	—	(107,884)
Gain on sales of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	(22,828)	—	—	(188,661)
Equity in undistributed (income) losses of affiliated companies	(839)	347	301	(6,933)
Minority interest in income of consolidated subsidiaries	1,241	1,676	971	10,256
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
Increase in cash deposits (Note 7)	(10,673)	(5,935)	(3,963)	(88,206)
Increase in receivables and due from subscribers, net of allowances	(5,215)	(2,174)	(2,958)	(43,099)
(Increase) decrease in inventories	(7,203)	38	(848)	(59,529)
(Increase) decrease in other current assets	(419)	(701)	365	(3,463)
Increase in payables and deferred revenue	1,284	2,690	1,891	10,611
Increase (decrease) in deposits received	9,529	1,526	(590)	78,752
Increase (decrease) in accrued taxes on income	(2,120)	2,211	257	(17,521)
Increase in guarantee deposits received	462	1,471	1,083	3,818
Increase (decrease) in other current liabilities	(343)	4,507	799	(2,835)
Other	461	(106)	46	3,810
Net cash provided by operating activities	31,891	57,422	51,362	263,562
Cash flows from investing activities:				
Proceeds from sales of property, plant and equipment	1,774	399	245	14,661
Payments for purchases of property, plant and equipment	(46,332)	(42,389)	(27,033)	(382,909)
Proceeds from sales of investment in securities	606	5,208	862	5,008
Payments for investments in securities	(13,214)	(12,589)	(13,205)	(109,206)
Decrease in short-term investments	3,993	4,017	4,982	33,000
Proceeds from sales of Tokyo Internet Corporation	11,757	—	—	97,165
Proceeds from sales of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	33,503	—	—	276,884
Acquisition of Secom Toyo General Insurance Co., Ltd., net of cash acquired	14,166	—	—	117,075
Payments for acquisition of Eclairer Co., Ltd.	—	(1,990)	—	—
Increase in other assets	(4,866)	(5,494)	(2,256)	(40,215)
Other	1,913	2,758	1,557	15,810
Net cash provided by (used in) investing activities	3,300	(50,080)	(34,848)	27,273
Cash flows from financing activities:				
Proceeds from long-term debt	7,445	10,351	393	61,529
Repayments of long-term debt	(5,016)	(8,210)	(7,727)	(41,454)
Increase (decrease) in bank loans	13,908	(11,488)	(323)	114,942
Dividends paid	(7,555)	(6,972)	(5,718)	(62,438)
Increase in treasury stock	(94)	(6)	(6)	(777)
Net cash provided by (used in) financing activities	8,688	(16,325)	(13,381)	71,802
Effect of exchange rate changes on cash and cash equivalents	(641)	(571)	620	(5,298)
Net increase (decrease) in cash and cash equivalents	43,238	(9,554)	3,753	357,339
Cash and cash equivalents at beginning of year	105,808	115,362	111,609	874,446
Cash and cash equivalents at end of year	¥149,046	¥105,808	¥115,362	$1,231,785

The accompanying notes are an integral part of these statements.

1. Nature of operations

The Company is engaged in security services, information and communication related services, insurance services and medical services. The Company's principal business activities are security services including on-line centralized security services for commercial and residential premises, as well as large-scale proprietary security systems, static guard services, armored car services for money collection and deposit, and the development, manufacturing and sale of various security equipment.

To grow the Social System Industry concept, the Company is diversifying its operations to cover information and communication services, including software development and system integration activities, on-line home education services, and home medical services and other medical services. Furthermore, the Company also provides non-life insurance and real estate development 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 financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

(1) Basis of consolidation and investments in affiliated companies

The consolidated financial statements include those of the parent company and its subsidiaries ("the Company"). All intercompany transactions and accounts have been eliminated in consolidation.

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

The excess of the cost over the underlying net equity of investments in subsidiaries as well as companies accounted for on an equity basis, is recognized as goodwill, and is amortized on a straight-line basis over periods not exceeding 10 years.

(2) Foreign currency translation

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end exchange rates and all income and expense accounts are translated at average rates of exchange during the year. The resulting translation adjustments are accumulated and reported as a separate component of shareholders' equity.

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

(3) Cash equivalents

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

(4) Investments in debt and equity securities

The Company classifies investments in debt and equity securities as "available-for-sale" or "held-to-maturity". The Company has no securities classified as "trading". Marketable debt and equity securities which are classified as "available-for-sale" are recorded at current market value. Unrealized gains and losses on securities classified as "available-for-sale" are reported in a separate component ofshareholders' equity , net of tax. Debt securities that are expected to be "held-to-maturity" are reported at amortized cost. Other investments in nonpublic companies are recorded at cost.

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

(5) Inventories

Inventories are stated at cost not in excess of net realizable value. Cost is determined principally by the moving-average method.

(6) Deferred insurance aquisition costs

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

(7) Property, plant and equipment and depreciation

Property, plant and equipment, including significant betterments, are carried at cost. When retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts and the net difference, less any amounts realized on disposition, is reflected in earnings. Depreciation is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets. Depreciation expense was ¥28,838 million ($238,331 thousand), ¥27,054 million and ¥26,243 million for the years ended March 31, 1999, 1998 and 1997, respectively. Maintenance, repairs and renewals are charged to income as incurred.

The estimated useful lives of depreciable assets are as follows:

Buildings	15 to 50 years
Signal equipment	5 years
Machinery, equipment and automobiles	3 to 15 years

(8) Telephone and telegraph utility rights

These rights are shown at the net amount of their original cost less amortization thereof using the straight-line method over a period of 20 years.

(9) Intangibles and other

Intangibles, which mainly consist of customer contracts, are amortized on a straight-line basis over their useful lives which are not in excess of 10 years. The Company's long-lived assets, including goodwill and identifiable intangibles, held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

(10) 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 periods. 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.

(11) Income taxes

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

(12) Revenue recognition

Revenue is recognized from security services over the contractual period or, in the case of specific services, when such services are performed. Merchandise and software sales are recognized as products are shipped or, in the case of installations, when such installations are completed.

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

Subscribers are generally requested to prepay a portion of service charges which are credited to deferred revenue and taken into income as earned.

(13) Research and development

Research and development costs are charged to expense as incurred.

(14) Interest rate swap and currency swap agreement

The Company enters into interest rate swap or currency swap agreements in order to limit the Company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuations in interest rates or foreign currency exchange rates. The related interest differentials paid or received under these agreements are recognized over the terms of the agreements in interest expense.

(15) 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. All prior-period EPS data presented have been restated to conform with FAS 128.

(16) Distribution of common stock

A corporation in Japan may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Free share distributions are accounted for either by (i) a transfer equal to par value or more from additional paid-in capital to the common stock account or (ii) issuance of new shares without any change in the common stock account if the common stock account exceeds the aggregate par value of all issued shares including the newly issued shares. Such free share distributions are clearly distinguished from "stock dividends" which, under the Commercial Code of Japan, as amended effective April 1, 1991, are effected by an appropriation of retained earnings to the common stock account by a resolution of the shareholders and an issuance of additional shares by way of stock split with respect to the amount appropriated by resolution of the Board of Directors.

A corporation in the United States of America issuing shares, comparable to less than 25 percent free share distributions, would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to the appropriate capital accounts. Such transfers, however, would have no effect on total shareholders' equity (Note 21).

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

(17) Comprehensive income

In the fiscal year ended March 31, 1999, the Company adopted Statement of Financial Accounting Standards 130 (“FAS 130”), “Reporting Comprehensive Income.” Comprehensive income is defined in this standard as total change in stockholders’ equity excluding capital transactions. The Company's comprehensive income comprises net income plus other comprehensive income representing changes in cumulative foreign currency translation adjustments, net unrealized gain in debt and equity securities and additional minimum pension liability adjustment. The Company has elected to disclose comprehensive income and its components in the consolidated statements of changes in shareholders’ equity.

(18) Recent pronouncements

In June 1998, FASB issued Statement of Financial Accounting Standards 133 (“FAS 133”), “Accounting for Derivative Investments and Hedging Activities.” In June 1999, FASB issued Statement of Financial Accounting Standards 137 (“FAS 137”), “Deferral of the Effective Date of FASB statement No. 133.”

FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those investments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of aforecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, anunrecognized firm commitment, an available-for -sale security, or a foreign-currency-denominated forecasted transaction. The effective date of FAS 133 has been delayed for one year by FAS 137. In the case of the Company, this statement is effective for the fiscal year beginning April 1, 2001.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (“SOP”) 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” This SOP, which is effective for financial statements for fiscal years beginning after December 15, 1998, provides guidance on accounting for the costs of computer software developed or obtained solely to meet the Company's internal needs. At this stage, it is not possible to estimate the impact of adoption of this SOP on the Company’s financial position or results of operations.

(19) Reclassifications

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

3. U.S. dollar amounts

U.S. dollar amounts have been included in these financial statements, solely for convenience of the reader. These translations should not be construed as representing that theyen amounts actually represent, or have been or could be converted into U.S. dollars. The translations of yen into U.S. dollars have been made at the rate at March 31, 1999, ¥121=US$1.

4. Reconciliation of the differences between basic and diluted EPS

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 1997, 1998, and 1999, is as follows:

	In millions of yen	Thousands of shares	In yen
	Income	Weighted-average shares	EPS
For the year ended March 31, 1997			
Basic EPS			
Net income available to common stockholders	¥22,798	115,509	¥197.37
Effect of dilutive securities			
Convertible bonds	48	444	
Diluted EPS			
Net income for computation	¥22,846	115,953	¥197.03
For the year ended March 31, 1998			
Basic EPS			
Net income available to common stockholders	¥18,990	116,218	¥163.40
Effect of dilutive securities			
Convertible bonds	16	414	
Diluted EPS			
Net income for computation	¥19,006	116,632	¥162.96

	In millions of yen	Thousands of shares	In yen	In dollars
	Income	Weighted-average shares	EPS	EPS
For the year ended March 31, 1999				
Basic EPS				
Net income available to common stockholders	**¥49,918**	**116,350**	**¥429.03**	**$3.55**
Effect of dilutive securities				
Convertible bonds	**9**	**255**		
Diluted EPS				
Net income for computation	**¥49,927**	**116,605**	**¥428.17**	**$3.54**

5. Acquisition

In December 1997 and January 1998, the parent company subscribed, in two installments, to new shares issued by Eclairer Co., Ltd. (“Eclairer”), a real estate development company in Japan, for an aggregate amount of ¥1,990 million ($16,446 thousand). As a result, the parent company now owns 99.8 percent of the outstanding shares of Eclairer.

In September 1998 and March 1999, the parent company subscribed, in two installments, to new shares issued by Secom Toyo General Insurance Co., Ltd. ("Secom Toyo"), anon-life insurance company in Japan, for an aggregate amount of ¥9,029 million ($74,620 thousand). As a result, the parent company now owns 75.9 percent of the outstanding shares of Secom Toyo.

The acquisitions referred to above have been accounted for as a purchase and the assets and liabilities of the acquired company have been consolidated at their fair value. The results of its operations have been included in the consolidated statements of income since the date of acquisition of the majority of outstanding shares. The excess of the purchase price over the value assigned to the underlying net assets acquired is included in goodwill at March 31, 1999 and 1998 amounting to ¥300 million ($2,479 thousand) and ¥3,252 million, respectively. The goodwill is being amortized on astraight-line basis over periods not exceeding 10 years.

The consolidated pro forma information which would show the results of the Company's consolidated operations for the years ended March 31, 1999, 1998 and 1997, have not been disclosed because prior year comparative accounting figures for the acquired companies are not available.

6. Cash and cash equivalents

Cash and cash equivalents as of March 31, 1999 and 1998, were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Cash	¥ 65,673	¥ 43,388	$ 542,752
Time deposits	42,260	37,422	349,256
Investment securities	41,113	24,998	339,777
	¥149,046	¥105,808	$1,231,785

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

7. Cash deposits

The Company operates cash collection and deposit services for banks relating to cash dispensers outside of bank facilities. Cash deposit balances, mostly in cash dispensers, of ¥43,703 million ($361,182 thousand) and ¥33,030 million asof March 31, 1999 and 1998, 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 by use of bank overdrafts with the related banks. Bank loans include ¥21,058 million ($174,033 thousand) and ¥10,193 million as of March 31, 1999 and 1998, respectively, relating to this operation. As part of its fee arrangement for such services, the Company is reimbursed for the interest cost of the related overdrafts.

8. Short-term investments and investment securities

Short-term investments (current) and investment securities (noncurrent) include debt and equity securities, of which the aggregate fair value, gross unrealized gains, gross unrealized losses and cost pertaining to "available-for-sale" and "held-to-maturity" investments as of March 31, 1999 and 1998, were as follows:

	In millions of yen			
	March 31, 1999			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available for sale:				
Equity securities	¥37,286	¥29,288	¥3,461	¥ 63,113
Debt securities	45,880	330	469	45,741
Total	¥83,166	¥29,618	¥3,930	¥108,854
Held to maturity:				
Debt securities	¥20,000	¥ 1,220	¥ —	¥ 21,220

	In thousands of U.S. dollars			
	March 31, 1999			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available for sale:				
Equity securities	$308,149	$242,049	$28,603	$521,595
Debt securities	379,174	2,727	3,876	378,025
Total	$687,323	$244,776	$32,479	$899,620
Held to maturity:				
Debt securities	$165,289	$ 10,083	$ —	$175,372

	In millions of yen			
	March 31, 1998			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available for sale:				
Equity securities	¥11,576	¥18,099	¥3,434	¥26,241
Debt securities	23,008	347	675	22,680
Total	¥34,584	¥18,446	¥4,109	¥48,921
Held to maturity:				
Debt securities	¥10,000	¥ 376	¥ —	¥10,376

At March 31, 1999, debt securities mainly 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, 1999, are as follows:

	In millions of yen			
	March 31, 1999			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	¥15,425	¥15,416	¥ —	¥ —
Due after one year through five years	20,470	20,563	20,000	21,220
Due after five years through ten years	7,938	7,660	—	—
Due after ten years	2,047	2,102	—	—
	¥45,880	¥45,741	¥20,000	¥21,220

	In thousands of U.S. dollars			
	March 31, 1999			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	$127,479	$127,405	$ —	$ —
Due after one year through five years	169,174	169,942	165,289	175,372
Due after five years through ten years	65,603	63,306	—	—
Due after ten years	16,918	17,372	—	—
	$379,174	$378,025	$165,289	$175,372

During the years ended March 31, 1999 and 1998, the net unrealized gain on "available-for-sale" securities included in the separate component of shareholders' equity, net of applicable taxes, increased by ¥5,985 million ($49,463 thousand) and decreased by ¥9,541 million, respectively.

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 1999, 1998 and 1997, were ¥1,282 million ($10,595 thousand), ¥2,584 million and ¥1,471 million, respectively. On those sales, the gross realized gains and gross realized losses on a specifically identified moving-average cost basis for the years ended March 31, 1999, 1998 and 1997, were as follows:

	In millions of yen			In thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	1999	1998	1997	1999
Gross realized gains	¥350	¥791	¥ 86	$2,893
Gross realized losses	690	340	141	5,702

The Company maintains long-term investment securities, included as investment securities, issued by a number of nonpublic companies. The aggregate carrying amount of the investments in nonpublic companies, generally at cost, was ¥5,211 million ($43,066 thousand) and ¥6,174 million at March 31, 1999 and 1998, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

9. Inventories

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

Inventories comprise as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Security-related products	¥ 5,703	¥ 5,162	$ 47,132
Software	2,145	3,138	17,727
Real estate	14,590	7,350	120,579
Other	1,748	1,942	14,446
	¥24,186	¥17,592	$199,884

10. Investments in affiliated companies

The Company has investments in affiliates that are accounted for under the equity method. The principal investments are Nohmi Bosai Ltd., a 28.6 percent owned affiliate, which is Japan's largest manufacturer of fire alarms and listed on the First Section of the Tokyo Stock Exchange; Taiwan Secom Co., Ltd., a 24.9 percent owned affiliate, which is listed on the Taiwan Stock Exchange Corp.; S1 Corporation, a 25.1 percent owned affiliate, which is listed on the Korea Stock Exchange; Japan Image Communications Co., Ltd., a 27.3 percent owned affiliate; and Musashino-Mitaka Cable Television Inc., a 39.0 percent owned affiliate.

Summarized financial information of 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
	1999	1998	1999
Current assets	¥ 77,465	¥ 78,271	$ 640,207
Noncurrent assets	90,293	82,872	746,223
Total assets	¥167,758	¥161,143	$1,386,430
Current liabilities	¥ 50,463	¥ 53,118	$ 417,050
Noncurrent liabilities	39,724	40,549	328,297
Shareholders' equity	77,571	67,476	641,083
Total liabilities and shareholders' equity	¥167,758	¥161,143	$1,386,430

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Net sales	¥155,293	¥162,967	¥150,908	$1,283,413
Gross profit	¥ 38,722	¥ 37,938	¥ 37,155	$ 320,017
Net income	¥ 3,943	¥ 262	¥ 1,207	$ 32,587

Dividends received from affiliated companies for the years ended March 31, 1999, 1998 and 1997, were ¥562 million ($4,645 thousand), ¥703 million and ¥475 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥17,456 million ($144,264 thousand) and ¥14,785 million at March 31, 1999 and 1998, respectively had a quoted market value of ¥40,005 million ($330,620 thousand) and ¥43,234 million at March 31, 1999 and 1998, respectively.

The unamortized amounts of goodwill represent the excess of the carrying amount of investments in affiliated companies under the equity method over the amount of underlying equity in net assets. The unamortized amounts of goodwill, ¥728 million ($6,017 thousand) and ¥805 million at March 31, 1999 and 1998, respectively, are being amortized on a straight-line basis over periods not exceeding 10 years.

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

	In millions of yen			In thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Sales	**¥1,394**	¥1,647	¥1,895	**$11,521**
Purchases	**¥1,692**	¥2,020	¥1,353	**$13,983**

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	**1999**
Notes and accounts receivable, trade	**¥ 520**	¥ 539	**$ 4,298**
Loan receivables	**¥1,528**	¥1,319	**$12,628**
Notes and accounts payable	**¥ 204**	¥ 195	**$ 1,686**
Guarantees for bank loans	**¥8,531**	¥6,453	**$70,504**

11. Bank loans and long-term debt

Bank loans of ¥32,704 million ($270,281 thousand) at March 31, 1999, are represented generally by 90- to 365-day notes with interest rates ranging from 0.5 to 7.0 percent per annum. Substantially all of these loans are with banks. The Company has entered into basic agreements with these banks that state that, with respect to all present or future loans with such banks, collateral (including sums on deposit with such banks) or guarantors shall be provided immediately upon request. Further, any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks. The Company has never been requested to submit such additional security.

Long-term debt at March 31, 1999 and 1998, was comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	**1999**
Loans, principally from banks due 1999 to 2015 with interest ranging from 1.0 to 4.40%:			
Secured	**¥ 9,401**	¥ 3,884	**$ 77,694**
Unsecured	**1,015**	1,889	**8,389**
5.00% convertible U.S. dollar bonds ($- thousand) due 1998, convertible currently at ¥1,939.4 ($8.33 calculated at ¥232.80=$1) for one common share, redeemable before due date	**—**	0	**—**
3.75% convertible U.S. dollar bonds ($20 thousand) due 1999, convertible currently at ¥3,609.2 ($14.93 calculated at ¥241.70=$1) for one common share, redeemable before due date	**2**	3	**17**
1.60% convertible bonds due 2002, convertible currently at ¥5,335.6 ($44.10) for one common share, redeemable before due date	**1,283**	1,405	**10,603**
1.60% convertible bonds due 2004, convertible currently at ¥4,744.7 ($39.21) for one common share, redeemable before due date	**64**	314	**529**
1.50% convertible bonds due 1998, convertible currently at ¥4,744.7 ($39.21) for one common share, redeemable before due date	**—**	393	**—**
1.85% floating rate notes due 2002	**5,000**	5,000	**41,322**
2.05% floating rate notes due 2003	**5,000**	5,000	**41,322**
Obligations under capital leases, due 1999 to 2026 (Note 18)	**9,595**	10,976	**79,298**
	31,360	28,864	**259,174**
Less—Portion due within one year	**9,849**	5,637	**81,397**
	¥21,511	¥23,227	**$177,777**

Property, plant and equipment with a book value of ¥4,291 million ($35,463 thousand) and inventories with a book value of ¥13,939 million ($115,198 thousand) were pledged as collateral for short-term and long-term debt at March 31, 1999.

The Company has no compensating balance arrangements with any lending bank. However, as is the customary practice in Japan, the Company had time deposits aggregating ¥1,788 million ($14,777 thousand) with such banks at March 31, 1999.

The convertible bonds can be converted into common stock atany time by the bondholders. Under the terms of each subscription and underwriting agreement for convertible bonds, the conversion price of convertible bonds is subject to adjustment in certain instances, such as for stock dividends, stock splits or free distributions of common stock, and an acceleration clause may be invoked if the Company experiences ordinary losses (as defined in each agreement) for three consecutive years.

Under the terms of the agreement for the 1.60 percent convertible bonds due 2002, the cumulative amount of cash dividends may not exceed ¥3,500 million ($28,926 thousand) plus the aggregate amount of ordinary income after income taxes (as defined in the agreement) of the Company, beginning with the fiscal year ended November 30, 1987.

An acceleration clause and limitation of cash dividends will not be applied if the Company provides collateral which is accepted by the trustees.

Under the terms of the agreements for the 1.60 percent convertible bonds due 2002, a sinking fund payment is required.

The aggregate annual maturities and sinking fund requirements on long-term debt during the five years ending March 31, 2004, are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥9,849	$81,397
2001	2,213	18,289
2002	6,610	54,628
2003	7,228	59,736
2004	412	3,405

12. Insurance-related operations

Secom Toyo maintains accounting records as noted in Note2 in accordance with the accounting principles and practices prescribed by the Japanese Financial Supervisory Agency ("FSA"), which vary in some respects from accounting principles generally accepted in the United States of America. Those differences are mainly; that insurance acquisition costs are charged to income when incurred in Japan whereas in the U.S. those costs are deferred and amortized generally over the premium-paying period of the insurance policies; that liabilities estimated unpaid claims for the incurred but not reported claims are computed based on related regulations in Japan whereas in the U.S. those liabilities are computed based on past experience for unreported losses; and that unearned premiums are calculated based onthe documents authorized by the supervisory authority in Japan whereas in theU.S. unearned premiums are reflected based on the lapseand surrender , assumed interest rate and certain other assumptions in the calculation formula.

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 net equity of Secom Toyo as of March 31, 1999, was ¥15,506 million ($128,149 thousand).

13. Pension and severance costs

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

The parent company and certain Japanese subsidiaries maintain a contributory defined benefit welfare pension plan, covering substantially all of their employees. The pension benefits thereunder are determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law.

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

Net pension and severance costs under Statement of Financial Accounting Standards 87 ("FAS 87"), "Employers' Accounting for Pensions" for the years ended March 31, 1999, 1998 and 1997, were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Net pension and severance cost (credit):				
Service cost	**¥5,413**	¥4,619	¥3,703	**$ 44,735**
Interest cost	**2,952**	2,724	2,470	**24,397**
Expected return on plan assets	**(2,463)**	(2,214)	(2,010)	**(20,355)**
Amortization of transition assets	**(46)**	(46)	(46)	**(380)**
Amortization of prior service cost	**105**	105	105	**868**
Recognized actuarial loss	**1,200**	695	246	**9,917**
Net periodic benefit cost	**¥7,161**	¥5,883	¥4,468	**$ 59,182**

The changes in benefit obligation and plan assets, funded status, composition of amounts recognized in the consolidated balance sheet and assumptions used were as follows:

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	1999	1998	**1999**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥ 84,343**	¥ 68,110	**$ 697,050**
Service cost	**5,413**	4,619	**44,736**
Interest cost	**2,952**	2,724	**24,396**
Plan participants' contributions	**2,209**	1,674	**18,256**
Actuarial (gain) loss	**(2,292)**	8,754	**(18,942)**
Benefits paid	**(1,362)**	(1,538)	**(11,256)**
Benefit obligation at end of year	**91,263**	84,343	**754,240**
Benefit obligation for Secom Toyo at end of year	**3,113**	—	**25,727**
Total benefit obligation at end of year	**94,376**	84,343	**779,967**
Change in plan assets:			
Fair value of plan assets at beginning of year	**58,259**	53,575	**481,480**
Actual return on plan assets	**28**	1,326	**231**
Employer contribution	**4,474**	3,131	**36,975**
Plan participants' contributions	**2,209**	1,674	**18,256**
Benefits paid	**(1,338)**	(1,447)	**(11,058)**
Fair value of plan assets at end of year	**63,632**	58,259	**525,884**
Fair value of plan assets for Secom Toyo at end of year	**398**	—	**3,289**
Total fair value of plan assets at end of year	**64,030**	58,259	**529,173**
Funds status	**30,346**	26,084	**250,793**
Unrecognized actuarial loss	**(23,192)**	(24,249)	**(191,669)**
Unrecognized transition assets	**274**	320	**2,264**
Unrecognized prior service cost	**(852)**	(957)	**(7,041)**
Net amount recognized	**¥ 6,576**	¥ 1,198	**$ 54,347**
Amounts recognized in the statement of financial position consists of:			
Accrued pension and severance costs	**¥ 22,608**	¥ 17,263	**$ 186,843**
Intangible asset	**(852)**	(957)	**(7,041)**
Accumulated other comprehensive income	**(15,180)**	(15,108)	**(125,455)**
Net pension liability recognized in the balance sheet	**¥ 6,576**	¥ 1,198	**$ 54,347**

	Years ended March 31	
	1999	1998
Assumptions in determination of pension costs and obligations at March 31:		
Discount rate	**3.5%**	3.5%
Long-term rate of salary increase	**2.5–2.8%**	2.5–2.9%
Long-term rate of return on funded assets	**4.0%**	4.0%

As of March 31, 1999, approximately 44 percent of plan assets were invested in equity securities. The remainder was mainly invested in fixed income securities.

The provisions of FAS 87 require recognition in the balance sheet of an additional minimum pension liability and related intangible asset for pension plans with an accumulated benefit obligation in excess of plan assets. The additional minimum pension liability which exceeded the unrecognized prior service cost was recorded as a component of accumulated other comprehensive income, net of tax, of ¥7,847 million ($64,851 thousand) and ¥7,931 million as of March 31, 1999 and 1998, respectively.

Most subsidiaries outside Japan have various retirement plans covering substantially all of their employees, which are primarily defined contribution plans. The funding policy for the defined contribution plans is to annually contribute an amount equal to a certain percent of the participants' annual salaries. The contributions to the defined contribution pension plans for the years ended March 31, 1999, 1998 and 1997, were ¥19 million ($157 thousand), ¥38 million and ¥28 million, respectively.

14. Exchange gains and losses

Other expenses for the years ended March, 1999 and 1997, include net exchange losses of ¥178 million ($1,471 thousand) and ¥29 million, respectively. Interest and other revenue for the year ended March 31, 1998, include net exchange gains of ¥609 million.

15. Income taxes

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 51 percent for the years ended March 31, 1998 and 1997, and approximately 47.5 percent forthe year ended March 31, 1999, respectively . Due to the changes in Japanese income tax regulations, a normal statutory tax rate in Japan was reduced to approximately 47.5 percent for the year beginning on April 1, 1998, and was further reduced to approximately 41.9 percent for the year beginning on April 1, 1999. The respective revised tax rates were used inthe measurement of deferred tax assets and liabilities at March 31, 1998 and 1999.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Income taxes computed at statutory tax rate of 47.5% in 1999, 51.0% in 1998 and 1997	¥39,279	¥26,450	¥27,688	$324,620
Increase resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	1,936	4,603	2,149	16,000
Amortization of non-deductible goodwill	1,213	147	145	10,024
Utilization of tax loss carryforwards	(8,713)	(423)	(224)	(72,008)
Effect of change in normal statutory tax rate in Japan	(4)	203	—	(33)
Other	(1,338)	(130)	463	(11,058)
Consolidated income taxes	¥32,373	¥30,850	¥30,221	$267,545

The significant components of deferred tax assets and liabilities at March 31, 1999 and 1998, were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Deferred tax assets:			
Loss carryforwards	¥ 8,949	¥ 14,681	$ 73,959
Accrued pension and severance costs	8,158	7,462	67,422
Intercompany profit	4,280	4,731	35,372
Insurance reserve	3,303	—	27,298
Research and development expenses	2,727	3,164	22,537
Enterprise and state income taxes	2,160	1,994	17,851
Allowance for doubful accounts	2,212	783	18,281
Vacation accrual	680	807	5,620
Accrued bonus	513	10	4,240
Inventory devaluation	371	653	3,066
Amortization of subsidiary's goodwill not yet deductible	160	363	1,322
Other	3,420	1,925	28,264
Gross deferred tax assets	36,933	36,573	305,232
Less: Valuation allowance	(17,926)	(17,405)	(148,149)
Total deferred tax assets	19,007	19,168	157,083
Deferred tax liabilities:			
Unrealized gain on securities	(13,264)	(6,661)	(109,620)
Unearned premiums and other insurance liabilities	(3,777)	—	(31,215)
Reversal of securities devaluation	(1,569)	(1,737)	(12,967)
Convertible bond issue expense	(65)	(104)	(537)
Other	(1,174)	(741)	(9,702)
Gross deferred tax liabilities	(19,849)	(9,243)	(164,041)
Net deferred tax assets / (liabilities)	¥ (842)	¥ 9,925	$ (6,958)

The valuation allowance mainly relates to deferred tax assets of the subsidiaries with temporary differences and operating loss carryforwards for tax purposes that are not expected to be realized. A full valuation allowance has been provided for these subsidiaries. The net change in the total valuation allowance for the year ended March 31, 1999, was an increase of ¥521 million ($4,306 thousand).

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totalling ¥1,467 million ($12,124 thousand) at March 31, 1999, because they are not expected to be remitted in the foreseeable future.

At March 31, 1999, tax loss carryforwards of domestic subsidiaries amounted to ¥16,668 million ($137,752 thousand) and are available for offset against future taxable earnings of such subsidiaries for up to five years, as follows:

Expires in the year ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥ 1,324	$ 10,942
2001	1,853	15,314
2002	5,678	46,926
2003	2,284	18,876
2004	5,529	45,694
	¥16,668	$137,752

The tax loss carryforwards of overseas subsidiaries at March 31, 1999, amounted to ¥9,367 million ($77,413 thousand), a part of which will begin to expire in the year 2000.

16. Shareholders' equity

Retained earnings

The Commercial Code of Japan 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 such reserve equals 25 percent of the common stock account. The only changes in the legal reserve during the years ended March 31, 1999, 1998 and 1997, consisted of such appropriations made by the parent company and its Japanese subsidiaries.

The Commercial Code of Japan 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 accounting period.

Subsequent to March 31, 1999, the Company's Board of Directors declared an annual cash dividend of ¥8,147 million ($67,331 thousand) to shareholders of record on March 31, 1999. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 29, 1999. Dividends are recorded in the period they are declared.

Accumulated other comprehensive income/(loss)

An analysis of the changes in accumulated other comprehensive income/(loss) for the years ended March 31, 1997, 1998 and 1999, was as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 1997:			
Unrealized gains on securities—			
Unrealized holding losses arising during the period	¥ (6,501)	¥ 3,214	¥ (3,287)
Minimum pension liability adjustment	(8,070)	4,116	(3,954)
Foreign currency translation adjustments	3,172	—	3,172
Other comprehensive income	¥(11,399)	¥ 7,330	¥ (4,069)
For the year ended March 31, 1998:			
Unrealized gains on securities—			
Unrealized holding losses arising during the period	¥(19,546)	¥10,005	¥ (9,541)
Minimum pension liability adjustment	(7,037)	3,060	(3,977)
Foreign currency translation adjustments	560	—	560
Other comprehensive income	¥(26,023)	¥13,065	¥(12,958)
For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**¥ 11,381**	**¥ (5,381)**	**¥ 6,000**
Less: Reclassification adjustment for gains included in net income	**(29)**	**14**	**(15)**
Minimum pension liability adjustment	**(73)**	**(815)**	**(888)**
Foreign currency translation adjustments	**(4,832)**	**—**	**(4,832)**
Other comprehensive income	**¥ 6,447**	**¥ (6,182)**	**¥ 265**

	Translation into thousands of U.S.dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	**$94,058**	**$(44,471)**	**$49,587**
Less: Reclassification adjustment for gains included in net income	**(240)**	**116**	**(124)**
Minimum pension liability adjustment	**(603)**	**(6,736)**	**(7,339)**
Foreign currency translation adjustments	**(39,934)**	**—**	**(39,934)**
Other comprehensive income	**$53,281**	**$(51,091)**	**$ 2,190**

17. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 1999, 1998 and 1997, were ¥4,820 million ($39,835 thousand), ¥5,405 million and ¥5,090 million, respectively.

18. Leased assets

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

On April 23, 1996, the Company entered into a long-term lease agreement for a building and land in Mitaka, Tokyo. The lease agreement extends for thirty years beginning May 1, 1996. For financial reporting purposes, the portion of the lease relating to the building has been classified as capital lease; accordingly, an asset of approximately ¥5,086 million ($42,033 thousand) has been recorded in the building and improvements account. The portion of the lease relating to the land has been classified as operating lease. The future minimum lease payments for the site at March 31, 1999, were ¥8,867 million ($73,281 thousand) payable equally over a thirty years period.

Total assets under capital leases at March 31, 1999 and 1998, amounted to ¥13,774 million ($113,835 thousand) and ¥15,427 million; accumulated depreciation thereon amounted to ¥4,574 million ($37,802 thousand) and ¥4,736 million, respectively. Depreciation expenses under capital leases for the years ended March 31, 1999, 1998 and 1997, were ¥2,426 million ($20,050 thousand), ¥2,555 million and ¥2,536 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 as of March 31, 1999:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥ 2,280	$ 18,843
2001	1,862	15,388
2002	1,358	11,223
2003	766	6,331
2004	437	3,612
Later years	7,866	65,008
Total minimum lease payments	14,569	120,405
Less—Amount representing interest	4,974	41,107
Present value of net minimum lease payments	9,595	79,298
Less—Current obligations	1,889	15,612
Long-term capital lease obligations	¥ 7,706	$ 63,686

Rental expenses under operating leases for the years ended March 31, 1999, 1998 and 1997, were ¥10,458 million ($86,430 thousand), ¥10,378 million and ¥10,364 million, respectively. A significant portion of such rentals relate to cancelable short-term leases for office space and employee residential facilities, many of which are renewed upon expiration.

19. Financial instruments

The Company has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. Although the Company may be exposed to losses in the event of nonperformance by counterparties, it does not anticipate significant losses due to the nature of its counterparties.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments excluding debt and equity securities which are disclosed in Note 8.

(1) Cash and cash equivalents, cash deposits, notes and accounts receivable, trade, due from subscribers, short-term receivables, long-term receivables, bank loans, notes and accounts payable, trade, deposits received and accrued payrolls

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

(2) Long-term debt including current portion

The fair value of long-term debt including the current portion was estimated based on the discounted amounts of future cash flows using the Company's current incremental borrowing rates for similar liabilities. The estimated fair values of total long-term debt, including the current portion and excluding obligations under capital lease, at March 31, 1999 and 1998, were ¥23,290 million ($192,479 thousand) and ¥19,197 million, respectively. As long-term interest rates have not fluctuated significantly in recent years in Japan, the carrying amounts of obligations under capital lease approximate estimated fair value.

(3) Interest rate swap agreements

An overseas subsidiary enters into interest rate swap agreements to manage interest rate exposures arising in the normal course of business. These agreements are designed to limit exposures tolosses resulting from fluctuations in interest rates related to investment securities and floating rate notes debt. The notional value of interest rate swap agreements in effect at March 31, 1999 and 1998, totaled

¥10,000 million ($82,645 thousand) and ¥10,000 million, respectively, of which ¥5,000 million will mature by 2002 and ¥5,000 million will mature by 2003. The amounts to be paid or received under the interest rate swap agreements are recognized over the terms of the agreements. The estimated fair values of such agreements, based on the discounted future cash flows of the differentials, were insignificant at March 31, 1999 and 1998, respectively.

20. Commitments and contingent liabilities

Commitments outstanding at March 31, 1999, for the purchase of property, plant and equipment approximated ¥1,236 million ($10,215 thousand).

Contingent liabilities at March 31, 1999, for guarantees given in the ordinary course of business amounted to approximately ¥10,143 million ($83,826 thousand).

On December 8, 1998, the Company entered into a lease agreement for land and a new building which will be completed in December 2000 in Harajuku, Tokyo. The lease agreement extends for twenty years beginning after delivery of the new building, expected in December 2000. Based on the agreement, annual lease payments for the site are expected to be approximately ¥1,339 million ($11,066 thousand) over the twenty years period.

21. Free share distributions of less than 25 percent

The method of accounting for the Company's less than 25percent free share distributions is described in Note 2. Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America,¥98,388 million ($813,124 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on totalshareholders' equity .

22. Sale of subsidiaries

On August 31, 1998, The Westec Security Group, Inc., a wholly owned subsidiary in the United States of America, sold all of the outstanding shares of Westec Residential Security, Inc., and all of the outstanding shares of Valley Burglar & Fire Alarm Company, Inc., to Edison Select for an aggregate sales price of ¥37,025 million ($305,992 thousand) in cash. The sale resulted in a gain in the aggregate of ¥22,828 million ($188,661 thousand). The sales price is subject to a final salesprice adjustment.

On October 1, 1998, the parent company sold all of the outstanding shares of Tokyo Internet Corporation, to PSINet Japan Inc. for ¥17,834 million ($147,388 thousand). The sale resulted in a gain of ¥13,054 million ($107,884 thousand). The sales price is subject to a final sales price adjustment.

23. 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
	1999	1998	1997	1999
Cash paid during the year:				
Interest	¥ 1,599	¥ 1,409	¥ 1,454	$ 13,215
Income taxes	¥37,209	¥29,514	¥29,242	$307,512
Noncash investing and financing activities:				
Conversion of long-term debt to common stock and additional paid-in capital	¥ 766	¥ 148	¥10,775	$ 6,330
Addition to obligations under capital leases	¥ 2,032	¥ 2,489	¥10,132	$ 16,793
Liabilities assumed in conjunction with acquisition	¥99,594	¥ 9,285	¥ —	$823,091

24. Segment information

Effective for the year ended March 31, 1999, the Company adopted FAS 131, "Disclosures about Segments of an Enterprise and Related Information," which requires disclosure offinancial and descriptive information about the Company' s reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and assessing performance.

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

The security services segment provides various types of security services by utilizing the Company's unique security systems and manufactures and sells security equipment. The information and communication related and other services segment represents the Company's network business which utilizes its proprietary computer network and develops and sells computer software and other products. The insurance services segment represents non-life insurance-related underwriting business in the Japanese market. The medical services segment provides intravenous solutions topatients at home, home-based nursing care services, andmedical data transmission services by utilizing the Company's network.

Revenues by segment include interest income and other revenue reasonably allocated to the segments. Corporate revenues include interest income, investment income and dividend income from companies unaffiliated with the parent company or The Westec Security Group, Inc., a wholly owned subsidiary in the United States of America. Corporate expenses include general and administrative expenses, amortization of deferred assets and net exchange losses of these two companies.

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

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

Information by business and geographic segments for the years ended March 31, 1999, 1998 and 1997, follows:

(1) Business segment information

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Revenue:				
Security services—				
Customers	**¥293,104**	¥282,066	¥266,209	**$2,422,347**
Intersegment	**975**	877	896	**8,058**
Subtotal	**294,079**	282,943	267,105	**2,430,405**
Information and communication related and other services—				
Customers	**55,367**	30,910	29,301	**457,579**
Intersegment	**2,989**	1,337	1,311	**24,702**
Subtotal	**58,356**	32,247	30,612	**482,281**
Insurance services—				
Customers	**4,775**	5,365	4,633	**39,463**
Intersegment	**2,099**	2,156	1,985	**17,347**
Subtotal	**6,874**	7,521	6,618	**56,810**
Medical services—				
Customers	**1,075**	855	681	**8,884**
Intersegment	**117**	100	90	**967**
Subtotal	**1,192**	955	771	**9,851**
Total	**360,501**	323,666	305,106	**2,979,347**
Eliminations	**(6,180)**	(4,470)	(4,282)	**(51,074)**
Corporate items	**39,825**	3,608	2,972	**329,132**
Consolidated revenue	**¥394,146**	¥322,804	¥303,796	**$3,257,405**
Income (loss) before income taxes:				
Security services	**¥ 69,890**	¥ 69,003	¥ 69,117	**$ 577,603**
Information and communication related and other services	**(978)**	(3,517)	(3,130)	**(8,083)**
Insurance services	**265**	291	202	**2,190**
Medical services	**(1,053)**	(987)	(716)	**(8,702)**
Total	**68,124**	64,790	65,473	**563,008**
Corporate items	**15,647**	(11,876)	(9,987)	**129,314**
Interest expense	**(1,078)**	(1,051)	(1,195)	**(8,909)**
Consolidated income before income taxes	**¥ 82,693**	¥ 51,863	¥ 54,291	**$ 683,413**

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Assets:				
Security services	**¥311,339**	¥299,774	¥261,932	**$2,573,050**
Information and communication related and other services	**51,396**	37,637	30,007	**424,760**
Insurance services	**113,210**	1,773	1,717	**935,620**
Medical services	**1,462**	1,314	1,393	**12,083**
Total	**477,407**	340,498	295,049	**3,945,513**
Corporate items	**141,037**	117,059	143,252	**1,165,595**
Investments in and loans to affiliated companies	**25,010**	22,284	22,770	**206,694**
Total assets	**¥643,454**	¥479,841	¥461,071	**$5,317,802**

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Depreciation and amortization:				
Security services	**¥28,913**	¥27,620	¥27,166	**$238,950**
Information and communication related and other services	**1,315**	1,861	1,374	**10,868**
Insurance services	**3**	3	1	**25**
Medical services	**69**	56	159	**570**
Total	**30,300**	29,540	28,700	**250,413**
Corporate items	**242**	169	217	**2,000**
Total depreciation and amortization	**¥30,542**	¥29,709	¥28,917	**$252,413**
Capital expenditures:				
Security services	**¥42,758**	¥45,770	¥38,410	**$353,372**
Information and communication related and other services	**1,119**	1,526	2,836	**9,248**
Insurance services	**—**	—	10	**—**
Medical services	**79**	99	14	**653**
Total	**43,956**	47,395	41,270	**363,273**
Corporate items	**1,542**	535	128	**12,744**
Total capital expenditures	**¥45,498**	¥47,930	¥41,398	**$376,017**

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

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

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Electronic security services:				
Commercial security and home security	**¥219,670**	¥209,855	¥199,498	**$1,815,455**
Large-scale proprietary systems	**4,223**	4,264	3,980	**34,901**
Other security services:				
Static guard services	**30,178**	28,852	26,487	**249,405**
Armored car services	**12,275**	11,522	10,558	**101,446**
Merchandise and other	**26,758**	27,573	25,686	**221,140**
Total security services	**¥293,104**	¥282,066	¥266,209	**$2,422,347**

(2) Geographic segment information

Revenues which are attributed to countries based on location of customers and long-lived assets for the years ended March 31, 1999, 1998 and 1997, are as follows:

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	**1999**
Revenue:				
Japan	**¥349,702**	¥300,459	¥285,988	**$2,890,099**
United States	**33,580**	11,234	8,562	**277,521**
Others	**10,864**	11,111	9,246	**89,785**
Total	**¥394,146**	¥322,804	¥303,796	**$3,257,405**
Long-lived assets:				
Japan	**¥169,737**	¥161,171	¥149,992	**$1,402,785**
United States	**584**	8,231	4,780	**4,826**
Others	**6,627**	6,784	6,473	**54,769**
Total	**¥176,948**	¥176,186	¥161,245	**$1,462,380**

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

25. Subsequent events

On August 11, 1999, the parent company purchased newly issued shares of Pasco Corporation ("Pasco") for ¥15,000 million ($123,967 thousand), subsequent to approval by Pasco's general shareholders' meeting held on June 29, 1999. As a result, the parent company now owns 67.5 percent of the outstanding shares of Pasco. The acquisition will be accounted for as a purchase, and accordingly, the purchase price will be allocated to the underlying assets and liabilities based on their respective estimated fair values at the date of the acquisition. Pasco operates an aviation photograph measurement business and Geographic Information System in Japan, and has been listed on the first section of the Tokyo Stock Exchange. Total revenue of Pasco for the year ended March 31, 1999, was ¥52,984 million ($437,884 thousand).

REPORT OF INDEPENDENT ACCOUNTANTS

Yebisu Garden Place Tower
20-3, Ebisu 4-chome
Shibuya-ku, Tokyo 150-6013

Telephone 03-5424-8100

Price Waterhouse

To the Shareholders and Board of Directors
of Secom Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows, expressed in yen, present fairly, in all material respects, the financial position of Secom Co., Ltd. and its subsidiaries at March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

May 14, 1999, except as to Note 25, which is as of August 11, 1999.

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

In millions of yen

	1999	1998	1997	1996	1995	1994
Composition of consolidated revenue						
Revenue:	**¥394,146**	¥322,804	¥303,796	¥281,547	¥258,947	¥245,264
Services:	**266,346**	254,493	240,523	223,019	210,606	202,560
As a percent of revenue	***67.6%***	*78.8%*	*79.2%*	*79.2%*	*81.3%*	*82.6%*
Electronic security services—						
Commercial security and home security	**219,670**	209,855	199,498	184,657	174,375	167,323
As a percent of revenue	***55.7***	*65.0*	*65.7*	*65.6*	*67.3*	*68.2*
Large-scale proprietary systems	**4,223**	4,264	3,980	4,028	3,935	3,864
As a percent of revenue	***1.1***	*1.3*	*1.3*	*1.4*	*1.5*	*1.6*
Subtotal	**223,893**	214,119	203,478	188,685	178,310	171,187
Other security services—						
Static guard services	**30,178**	28,852	26,487	24,768	23,755	23,327
As a percent of revenue	***7.7***	*8.9*	*8.7*	*8.8*	*9.2*	*9.5*
Armored car services	**12,275**	11,522	10,558	9,566	8,541	8,046
As a percent of revenue	***3.1***	*3.6*	*3.5*	*3.4*	*3.3*	*3.3*
Subtotal	**42,453**	40,374	37,045	34,334	32,296	31,373
Merchandise, software, medical and real estate development	**85,580**	62,184	57,459	46,722	40,982	37,953
As a percent of revenue	***21.7***	*19.3*	*18.9*	*16.6*	*15.8*	*15.5*
Gain on sale of investment in securities	**35,700**	570	732	7,074	2,989	617
As a percent of revenue	***9.1***	*0.2*	*0.2*	*2.5*	*1.2*	*0.2*
Interest and other	**6,520**	5,557	5,082	4,732	4,370	4,134
As a percent of revenue	***1.6***	*1.7*	*1.7*	*1.7*	*1.7*	*1.7*
Net income, cash dividends and shareholders' equity						
Net income	**¥ 49,918**	¥ 18,990	¥ 22,798	¥ 23,264	¥ 9,896	¥ 10,566
Cash dividends (paid)(1)	**7,555**	6,972	5,719	5,459	5,438	4,784
Shareholders' equity	**327,147**	283,840	284,634	260,854	238,239	213,717
Consolidated financial ratios						
Percent of working capital accounted for by:						
Debt:						
Bank loans	**8.4**	5.7	8.3	8.8	9.9	10.6
Current portion of long-term debt	**2.5**	1.7	2.3	5.2	0.8	4.4
Convertible bonds	**0.3**	0.6	0.7	0.9	6.8	7.3
Other long-term debt	**5.2**	6.4	3.7	3.4	3.5	3.6
Total debt	**16.4**	14.4	15.0	18.3	21.0	25.9
Shareholders' equity	**83.6**	85.6	85.0	81.7	79.0	74.1
Total capitalization	**100.0**	100.0	100.0	100.0	100.0	100.0
Return on total assets (percent) (a)	**7.8**	4.0	4.9	5.3	2.5	2.8
Return on equity (percent) (b)	**15.3**	6.7	8.0	8.9	4.2	4.9
Percent of revenue absorbed by:						
Depreciation and amortization	**7.8**	9.2	9.5	11.5	10.4	12.4
Rental expense	**2.7**	3.2	3.4	3.7	4.1	4.9
Ratio of accumulated depreciation to depreciable assets (percent)	**62.1**	61.7	60.8	60.6	61.2	59.5
Net property turnover (times)	**2.53**	2.15	2.27	2.22	2.17	2.27
Before-tax interest coverage (times) (c)	**77.7**	50.3	46.4	37.8	26.4	16.8
Before-tax interest and rental coverage (times) (d)	**19.1**	12.5	12.7	11.6	9.6	6.7

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

	1999	1998	1997	1996	1995	1994
Number of shares outstanding						
Issued	**116,392,109**	116,233,393	116,203,824	114,378,620	113,766,167	113,289,040
Owned by the Company	**11,817**	3,185	2,926	2,016	24,941	10,086
Balance	**116,380,292**	116,230,208	116,200,898	114,376,604	113,741,226	113,278,954
Per share information						
Basic net income per share (in yen)(2)	**¥ 429.03**	¥ 163.40	¥ 197.37	¥ 204.18	¥ 87.14	¥ 96.71
Cash dividends paid per share (in yen)(1)	**65.00**	60.00	50.00	48.00	48.00	45.00
Shareholders' equity per share (in yen)(3)	**2,811.02**	2,442.05	2,449.50	2,280.66	2,094.57	1,886.64
Cash flow per share (in yen)(2)	**621.51**	354.02	387.35	438.27	275.57	325.84
Price/Book value ratio	**3.99**	3.34	2.84	3.06	2.55	3.60
Price/Earnings ratio	**26.15**	49.88	35.21	34.23	61.40	70.31
Price/Cash flow ratio	**18.05**	23.02	17.94	15.95	19.41	20.87
Stock price at year-end (in yen)	**11,220**	8,150	6,950	6,990	5,350	6,800

Notes: (a) Net income/Total assets
(b) Net income/Shareholders' equity
(c) Years ended March 31, 1999, 1998, 1997 and 1996
(Income before income taxes + Interest expense)/Interest expense
Year ended March 31, 1995 and 1994
(Income from continuing operations before income taxes + Interest expense)/Interest expense
(d) Years ended March 31, 1999, 1998, 1997 and 1996
(Income before income taxes + Interest expense + 1/3 Rental expense)/(Interest expense + 1/3 Rental expense)
Year ended March 31, 1995 and 1994
(Income from continuing operations before income taxes + Interest expense + 1/3 Rental expense)/(Interest expense + 1/3 Rental expense)

(1) Subsequent to March 31, 1999, cash dividends of ¥8,147 million (¥70 per share) were approved at the general shareholders' meeting on June 29, 1999, (see Note 16 of the accompanying Notes to Consolidated Financial Statements).
(2) Per share amounts are based on the average number of shares outstanding during each period.
(3) Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

COMMON STOCK DATA

SECOM CO., LTD.
Year ended March 31

SHAREHOLDER INFORMATION

	1999	1998	1997	1996	1995	1994
Number of shareholders	**9,458**	9,911	10,849	11,223	11,696	11,771
Common shares held by:						
Financial institutions	**45.71%**	44.26%	42.57%	40.00%	45.10%	42.74%
Securities firms	**0.90**	0.98	1.31	1.35	1.25	1.16
Other corporations	**13.67**	13.73	14.05	14.49	15.02	14.73
Foreign investors	**26.90**	27.40	27.03	28.04	21.65	24.26
Individuals and others	**12.82**	13.63	15.04	16.12	16.98	17.11
Total	**100.00%**	100.00%	100.00%	100.00%	100.00%	100.00%

PRICE INFORMATION (TOKYO STOCK EXCHANGE)

		Price per share		Nikkei stock average	
		High	Low	High	Low
1997	April–June	¥ 8,640	¥6,850	¥20,681.07	¥17,485.75
	July–September	9,000	7,860	20,575.26	17,683.27
	October–December	8,870	7,130	17,842.16	14,775.22
1998	January–March	8,930	7,520	17,264.34	14,664.44
	April–June	8,490	7,700	16,536.66	14,715.38
	July–September	8,660	7,630	16,731.92	13,406.39
	October–December	9,450	7,930	15,207.77	12,879.97
1999	January–March	11,770	8,800	16,378.78	13,232.74

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 (pertains to free distributions only)	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	Free distribution of shares
May 21, 1975	1,196	13,156	657,800	1 for 10	Free distribution of shares
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	Free distribution of shares
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	Free distribution of shares
Dec. 1, 1976	6,798	29,458	1,472,900	3 for 10	Free distribution of shares
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	Free distribution of shares
Dec. 1, 1978	7,560	45,360	2,268,000	2 for 10	Free distribution of shares
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	Free distribution of shares
Jan. 20, 1983	5,320	58,516	3,000,000	1 for 10	Free distribution of shares
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	Free distribution of shares
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	Free distribution of shares
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	Free distribution of shares
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

Note: 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.