FINANCIAL SECTION

CONTENTS

Operating Results

Overview

In the fiscal year ended March 31, 2002, SECOM and its subsidiaries (collectively “the Company”) pressed forward with efforts to enhance their security services as well as their operations in all fields of medical services, insurance, information systems, GIS services, education services and real estate development by expanding marketing, system construction and product development.

Reflecting these efforts, we recorded solid results in all operating segments. As a consequence, consolidated revenue and other income rose 5.4% from the previous period, to ¥493.5 billion. Net income fell 22.5%, to ¥34.1 billion, owing to the absence of a gain on securities contribution to employee retirement benefit trust, which was ¥21.4 billion in the previous period. Effective from the period under review, the Company consolidated real estate investment companies to which it had extended loans. The Company has restated its consolidated financial statements for prior periods to reflect this change. (See Note 2 of the accompanying notes to consolidated financial statements.)

Revenue and Other Income

Revenue and other income amounted to ¥493.5 billion, up 5.4%, or ¥25.2 billion. This was attributable to increased sales in all business segments, including brisk sales in the security services segment and higher sales of condominiums in the real estate development area, and was despite the aforementioned absence of a gain on securities contribution to employment retirement benefit trust. Net sales advanced 11.3%, or ¥49.2 billion, to ¥483.0 billion. Gain on sale of securities, net, totaled ¥3.0 billion, while interest and other amounted to ¥7.5 billion.

Costs and Expenses

Higher revenue and other income increased costs and expenses 11.1%, or ¥43.0 billion, to ¥428.8 billion. Cost of sales climbed 12.0%, or ¥31.4 billion, to ¥292.1 billion. This increase was attributable to the increase in condominium sales, which pushed up the cost of real estate; and to the higher cost of merchandise, a consequence of higher sales of safety-related and medical equipment. Cost of sales was equivalent to 60.5% of net sales, edging up from 60.1% in the previous period.

Selling, general and administrative expenses climbed 7.5%, or ¥8.0 billion, to ¥115.2 billion, and accounted for 23.3% of revenue and other income, up from 22.9% in the previous period. This increase reflected higher personnel costs and an increase in research and development expenses. Other expenses climbed 24.7%, or ¥3.9 billion, to ¥19.9 billion, owing mainly to the effect of losses on other-than-temporary impairment of investment securities.

Income

Owing to the aforementioned absence of ¥21.4 billion generated by a gain on securities contribution to employee retirement benefit trust in the previous period, income before income taxes fell 21.5%, or ¥17.8 billion, to ¥64.8 billion. Income taxes fell 15.6%, or ¥5.6 billion, to ¥30.2 billion, but accounted for 46.6% of income before income taxes, up from 43.3% in the previous period. Net income declined 22.5%, or ¥9.9 billion, to ¥34.1 billion. Basic net income per share was ¥146.19, down from ¥188.76, while diluted net income per share was ¥146.11, compared with ¥188.61. Cash dividends of ¥40 were approved at the general shareholders’ meeting held on June 27, 2002.

Segment Information

For detailed segment information, see Note 26 of the accompanying notes to consolidated financial statements.

Revenue and other income in the security services segment totaled ¥344.6 billion, up 8.6%, or ¥27.2 billion. Excluding intersegment transactions, security services segment revenue and other income amounted to ¥342.1 billion, equivalent to 69.3% of total revenue and other income, up from 67.5% in the previous period. Commercial security and home security accounted for ¥244.5 billion of this total, up 6.0%, or ¥13.7 billion; large-scale proprietary systems represented ¥3.4 billion, a decrease of 5.7%, or ¥209 million; static guard services produced revenue and other income of ¥34.1 billion, an increase of 5.9%, or ¥1.9 billion; armored car services generated ¥17.0 billion, up 12.5%, or ¥1.9 billion; and merchandise and other contributed ¥43.1 billion, up 25.3%, or ¥8.7 billion. Income before income taxes in the security services segment advanced 7.2%, or ¥5.6 billion, to ¥83.0 billion. Nonetheless, income before income taxes as a percentage of segment revenue and other income edged down to 24.1%, from 24.4%, owing to the considerable increase in sales of merchandise and other accompanying a higher cost percentage than in commercial security and home security.

Revenue and other income in the medical services segment soared 2.1 times, or ¥7.2 billion, to ¥13.7 billion. This rise reflected the inclusion of a full year of results of recently acquired medical instruments and supplies firm Mac Corporation, compared with only six months of results included in the previous period, as well as an increase in sales prompted by the expansion of our network of visiting nurse stations. Although the segment once again recorded a loss before income taxes, it shrank to ¥698 million, from ¥1.5 billion in the previous period, paralleling the rise in revenue and other income.

The insurance services segment generated revenue and other income of ¥30.7 billion, rising 21.1%, or ¥5.3 billion, as subsidiary Secom General Insurance recorded a substantial increase in policies sold. Segment income before income taxes was ¥304 million, accompanying the increase in revenue and other income, compared with a loss before income taxes of ¥1.6 billion in the previous period.

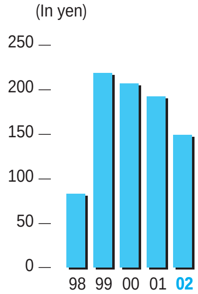
In the information and communication related and other services segment, which encompasses information-related and GIS services as well as real estate development, revenue and other income amounted to ¥107.5 billion, up 9.4%, or ¥9.3 billion. This climb was largely attributable to brisk sales of condominiums. Nevertheless, the segment recorded a loss before income taxes of ¥130 million, compared with income before income taxes of ¥366 million in the previous period, largely as a consequence of higher losses on other-than-temporary impairment of investment securities.

Financial Position

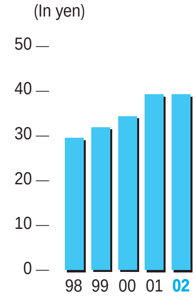
Total assets of the Company amounted to ¥1,166.1 billion as of March 31, 2002, an increase of 32.2%, or ¥283.8 billion, from the previous fiscal year-end. This increase was primarily the consequence of an increase in policies sold by Secom General Insurance, prompting a rise in investment assets, and the acquisition in March 2002 of Arai & Co., Ltd., which has real estate for lease services.

Total current assets climbed 25.8%, or ¥95.9 billion, to ¥468.0 billion, spurred by an increase in cash and cash equivalents of 45.7%, or ¥66.0 billion, to ¥210.5 billion, and a 2.3 times, or ¥29.2 billion,

Basic Net Income per Share
(In yen)



Cash Dividends Paid per Share
(In yen)



rise in short-term loans and receivables, to ¥51.9 billion, which reflected increases in loans to medical institutions and the current portion of long-term receivables of Secom General Insurance. Reflecting the increase in current assets, the current ratio rose to 1.9 times, from 1.7 times at the end of the previous fiscal year.

Investments and long-term receivables advanced 7.4%, or ¥14.6 billion, to ¥212.7 billion, owing to increases in investments and long-term receivables in the medical services segment.

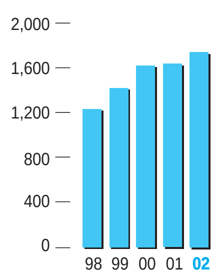
Property, plant and equipment, less accumulated depreciation, rose 57.9%, or ¥155.3 billion, to ¥423.7 billion. Land soared 87.6%, or ¥72.7 billion, to ¥155.6 billion. Buildings and improvements climbed 87.8%, or ¥73.4 billion, to ¥157.1 billion. Security equipment and control stations increased 9.8%, or ¥26.2 billion, to ¥294.5 billion. The increases in land and buildings and improvements were largely attributable to the acquisition of Arai & Co., and the purchase of properties on operating leases through real estate investment companies.

Other assets advanced 40.9%, or ¥17.9 billion, to ¥61.7 billion. This increase was primarily a consequence of an increase in deferred income taxes, which reflected increases in minimum pension liability and unrealized losses on securities.

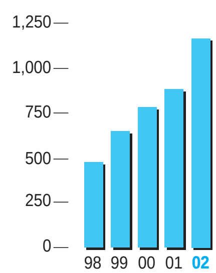
Total liabilities climbed 53.7%, or ¥257.1 billion, to ¥735.8 billion. Current portion of long-term debt climbed nearly 2.3 times, or ¥18.2 billion, to ¥32.7 billion, owing largely to the acquisition of Arai & Co. As a consequence, total current liabilities rose 12.2%, or ¥26.7 billion, to ¥245.3 billion. Long-term debt soared 3.7 times, or ¥97.0 billion, to ¥133.0 billion, spurred by the issuance of ¥30.0 billion in bonds of SECOM, the acquisition of Arai & Co., and an increase in loans of real estate investment companies for the purchase of real estate. Paralleling the aforementioned increase in insurance policies sold, investment deposits by policyholders soared 73.9%, or ¥96.2 billion, to ¥226.4 billion. Accrued pension and severance costs increased 71.6%, or ¥15.3 billion, to ¥36.6 billion, owing to the increase in the aforementioned minimum pension liability. This increase in minimum pension liability resulted from an increase in accrued pension liabilities, which followed a change in the discount rate, and a decline in the fair value of plan assets, attributable to the harsh market conditions. Guarantee deposits received totaled ¥33.6 billion, up 67.6%, or ¥13.6 billion, owing to the acquisition of Arai & Co., and the receipt of guarantee deposits from Ryomei Royal Life Co., Ltd., a newly consolidated subsidiary which manages a nursing home for senior citizens and was formerly accounted for under the equity method.

Total shareholders' equity rose 6.4%, or ¥24.0 billion, to ¥401.3 billion, bolstered by an increase in retained earnings of 9.3%, or ¥23.7 billion, to ¥279.6 billion. Higher liabilities, primarily attributable to the increase in investment deposits by insurance policyholders and in long-term debt, pushed the equity ratio down to 34.4%, from 42.8% a year earlier.

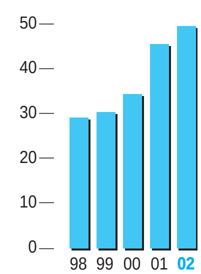
Shareholders' Equity per Share
(In yen)



Total Assets
(In billions of yen)



Depreciation and Amortization
(In billions of yen)



Cash Flows

SECOM remains committed to maintaining sufficient liquidity to ensure flexibility in its operations and guarantee a solid financial foundation. Accordingly, to the best of our ability we finance strategic investments with cash generated by our operating activities.

Net cash provided by operating activities amounted to ¥189.9 billion in the period under review, an increase of ¥51.7 billion, from ¥138.2 billion in the previous period. This change primarily reflected a ¥96.2 billion increase in investment deposits by policyholders, up from a ¥54.1 billion increase in the previous period. Depreciation and amortization was ¥49.9 billion, up from ¥45.0 billion.

Net cash used in investing activities totaled ¥163.0 billion, an increase of ¥32.2 billion, from ¥130.8 billion in the previous period. This change was primarily a consequence of a ¥49.2 billion increase in payments for purchases of property, plant and equipment, to ¥159.2 billion, from ¥110.0 billion in the previous period. These funds were applied primarily to the purchase of security equipment and control stations, necessitated by an increase in subscribers to our commercial and home security systems, and to the purchase of rental real estate as an investment asset.

Net cash provided by financing activities totaled ¥38.6 billion, up ¥37.3 billion, from ¥1.3 billion. Proceeds from long-term debt, including bonds issued during the period, totaled ¥69.8 billion, while repayments of long-term debt amounted to ¥15.9 billion and decrease in bank loans totaled ¥6.3 billion, resulting in net proceeds from long-term debt and bank loans of ¥47.5 billion, compared with ¥11.1 billion in the previous period. Dividends paid amounted to ¥9.3 billion.

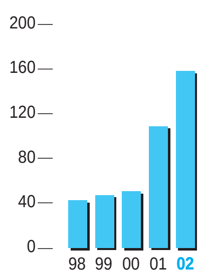
As a consequence of our operating, investing and financing activities during the period under review, cash and cash equivalents at end of year amounted to ¥210.5 billion, up ¥66.0 billion, from ¥144.5 billion a year earlier.

Subsequent Events

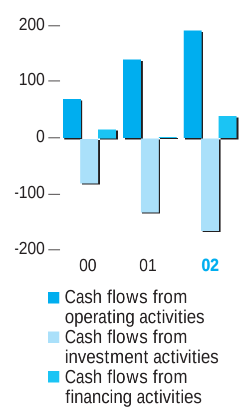
On April 23, 2002, following the enactment of Japan's new Welfare Pension Insurance Law, SECOM and certain of its subsidiaries obtained approval from the Ministry of Health, Labour and Welfare for exemption from future benefit obligation with respect to the portion of the Employees Pension Funds that SECOM and certain of its subsidiaries operate on behalf of the Japanese government.

In accordance with a proposal approved at its general meeting of shareholders on June 27, 2002, on August 13, 2002, SECOM repurchased 8.0 million shares of its common stock for ¥43.4 billion.

Capital Investment
(In billions of yen)



Cash Flows
(In billions of yen)



CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 2002 and 2001

ASSETS	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	2002	2001	2002
Current assets:			
Cash and cash equivalents (Note 6)	¥ 210,477	¥ 144,502	$ 1,582,534
Time deposits	4,880	12,460	36,692
Cash deposits (Note 7)	40,750	36,597	306,391
Short-term investments (Note 8)	12,635	21,993	95,000
Notes and accounts receivable, trade	49,132	48,917	369,413
Due from subscribers	21,226	16,951	159,594
Inventories (Note 9)	55,824	49,715	419,729
Short-term receivables	51,912	22,731	390,316
Allowance for doubtful accounts	(1,522)	(1,096)	(11,444)
Deferred insurance acquisition cost (Note 12)	2,762	2,044	20,767
Deferred income taxes (Note 15)	11,226	7,379	84,406
Other current assets	8,739	9,929	65,707
Total current assets	468,041	372,122	3,519,105
Investments and long-term receivables:			
Investment securities (Note 8)	122,247	119,438	919,150
Investments in affiliated companies (Note 10)	34,943	32,349	262,729
Long-term receivables	30,105	27,761	226,353
Lease deposits	11,707	11,631	88,023
Other investments	18,979	14,481	142,699
Allowance for doubtful accounts	(5,296)	(7,567)	(39,819)
	212,685	198,093	1,599,135
Property, plant and equipment (Notes 11, 18 and 19):			
Land	155,624	82,970	1,170,105
Buildings and improvements	157,097	83,648	1,181,181
Security equipment and control stations	294,533	268,332	2,214,534
Machinery, equipment and automobiles	55,040	50,615	413,835
Construction in progress	31,167	18,623	234,338
	693,461	504,188	5,213,993
Accumulated depreciation	(269,809)	(235,884)	(2,028,639)
	423,652	268,304	3,185,354
Other assets:			
Telephone and telegraph utility rights	3,560	3,681	26,767
Deferred income taxes (Note 15)	29,026	16,388	218,240
Goodwill (Note 5)	10,836	10,169	81,474
Intangibles and other	18,313	13,577	137,692
	61,735	43,815	464,173
Total assets	¥1,166,113	¥ 882,334	$ 8,767,767

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen March 31 2002	2001	Translation into thousands of U.S. dollars (Note 3) March 31 2002
Current liabilities:			
Bank loans (Notes 7 and 11)	¥ 68,003	¥ 72,527	$ 511,301
Current portion of long-term debt (Notes 11 and 18)	32,703	14,471	245,887
Notes and accounts payable, trade	16,401	15,855	123,316
Other payables	20,337	19,287	152,910
Deposits received (Note 7)	22,744	17,103	171,007
Deferred revenue (Note 2 (12))	37,196	36,662	279,669
Accrued income taxes	23,003	18,264	172,955
Accrued payrolls	14,946	14,264	112,376
Other current liabilities	9,961	10,146	74,895
Total current liabilities	245,294	218,579	1,844,316
Long-term debt (Notes 11 and 18)	133,047	36,035	1,000,353
Guarantee deposits received	33,635	20,066	252,895
Accrued pension and severance costs (Note 13)	36,622	21,340	275,353
Deferred revenue (Note 2 (12))	18,461	17,206	138,805
Unearned premiums and other insurance liabilities (Note 12)	37,268	34,085	280,211
Investment deposits by policyholders (Note 12)	226,407	130,187	1,702,308
Deferred income taxes (Note 15)	2,813	645	21,150
Other liabilities	2,298	641	17,278
Total liabilities	735,845	478,784	5,532,669
Minority shareholders' interest in subsidiaries	28,942	26,246	217,609
Shareholders' equity:			
Common stock (Notes 16 and 23):			
Authorized 900,000,000 shares in 2002 and 2001;			
issued 233,274,769 shares in 2002 and 233,099,744 shares in 2001	66,360	66,127	498,948
Additional paid-in capital (Notes 16 and 23)	79,979	79,745	601,346
Legal reserve (Note 16)	9,663	8,618	72,654
Retained earnings (Note 16)	279,593	255,880	2,102,203
Accumulated other comprehensive income (loss):			
Unrealized losses on securities (Note 8)	(4,481)	(2,329)	(33,692)
Unrealized gains on derivative instruments (Note 21)	43	—	323
Minimum pension liabilities adjustments (Note 13)	(23,109)	(17,110)	(173,752)
Foreign currency translation adjustments	(6,581)	(13,624)	(49,481)
	(34,128)	(33,063)	(256,602)
Common stock in treasury, at cost;			
22,512 shares in 2002 and 510 shares in 2001	(141)	(3)	(1,060)
Total shareholders' equity	401,326	377,304	3,017,489
Commitments and contingent liabilities (Note 22)			
Total liabilities and shareholders' equity	¥1,166,113	¥882,334	$8,767,767

CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2002

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Revenue and other income:				
Net sales	¥483,014	¥433,817	¥398,205	$3,631,684
Gain on sale of securities, net (Notes 8 and 24)	2,967	2,569	5,454	22,308
Gain on securities contribution to employee retirement benefit trust (Notes 8 and 13)	—	21,366	—	—
Interest and other (Note 14)	7,545	10,541	8,765	56,730
	493,526	468,293	412,424	3,710,722
Costs and expenses:				
Cost of sales	292,092	260,720	230,936	2,196,180
Selling, general and administrative (Notes 2 (14) and 17)	115,158	107,141	99,137	865,850
Interest	1,596	1,925	1,231	12,000
Other (Note 14)	19,907	15,963	8,431	149,677
	428,753	385,749	339,735	3,223,707
Income before income taxes	64,773	82,544	72,689	487,015
Income taxes (Note 15)**:**				
Current	37,096	30,011	27,396	278,917
Deferred	(6,913)	5,740	(4,707)	(51,977)
	30,183	35,751	22,689	226,940
Income before minority interest, equity in net income of affiliated companies and cumulative effect of accounting change	34,590	46,793	50,000	260,075
Minority interest in subsidiaries	(1,862)	(408)	(3,805)	(14,000)
Equity in net income of affiliated companies	1,354	1,310	1,131	10,181
Income before cumulative effect of accounting change	34,082	47,695	47,326	256,256
Cumulative effect of accounting change, net of tax (Note 2 (12))	—	(3,699)	—	—
Net income	¥ 34,082	¥ 43,996	¥ 47,326	$ 256,256

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Per share data (Note 4)**:**				
Income before cumulative effect of accounting change—				
Basic	¥146.19	¥204.63	¥203.22	$1.10
Diluted	¥146.11	¥204.46	¥203.06	$1.10
Cumulative effect of accounting change—				
Basic	¥ —	(¥ 15.87)	¥ —	$ —
Diluted	¥ —	(¥ 15.85)	¥ —	$ —
Net income—				
Basic	¥146.19	¥188.76	¥203.22	$1.10
Diluted	¥146.11	¥188.61	¥203.06	$1.10

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2002

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 1999	116,392,109	¥65,710	¥79,318	¥6,677	¥183,968	(¥ 8,407)	(¥ 119)	¥327,147
Comprehensive income:								
Net income	—	—	—	—	47,326	—	—	47,326
Other comprehensive income (loss), net of tax (Note 16):								
Unrealized gains on securities:								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	4,879	—	4,879
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(675)	—	(675)
Minimum pension liabilities adjustments	—	—	—	—	—	8,054	—	8,054
Foreign currency translation adjustments	—	—	—	—	—	(5,638)	—	(5,638)
Total comprehensive income								53,946
Cash dividends	—	—	—	—	(8,146)	—	—	(8,146)
Transfer to legal reserve	—	—	—	910	(910)	—	—	—
Conversion of convertible bonds	273,686	387	387	—	—	—	—	774
Stock split (Note 16)	116,409,647	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(4,945)	(4,945)
Reissuance of treasury stock	—	—	8	—	—	—	5,022	5,030
Balance, March 31, 2000	233,075,442	66,097	79,713	7,587	222,238	(1,787)	(42)	373,806
Comprehensive income:								
Net income	—	—	—	—	43,996	—	—	43,996
Other comprehensive income (loss), net of tax (Note 16):								
Unrealized losses on securities:								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(6,496)	—	(6,496)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(13,105)	—	(13,105)
Minimum pension liabilities adjustments	—	—	—	—	—	(16,345)	—	(16,345)
Foreign currency translation adjustments	—	—	—	—	—	4,670	—	4,670
Total comprehensive income								12,720
Cash dividends	—	—	—	—	(9,323)	—	—	(9,323)
Transfer to legal reserve	—	—	—	1,031	(1,031)	—	—	—
Conversion of convertible bonds	24,302	30	30	—	—	—	—	60
Purchase of treasury stock	—	—	—	—	—	—	(801)	(801)
Reissuance of treasury stock	—	—	2	—	—	—	840	842
Balance, March 31, 2001	233,099,744	66,127	79,745	8,618	255,880	(33,063)	(3)	377,304
Comprehensive income:								
Net income	**—**	**—**	**—**	**—**	**34,082**	**—**	**—**	**34,082**
Other comprehensive income (loss), net of tax (Note 16):								
Unrealized losses on securities:								
Unrealized holding gains or losses arising during the period	**—**	**—**	**—**	**—**	**—**	**(6,082)**	**—**	**(6,082)**
Less: Reclassification adjustment for gains or losses included in net income	**—**	**—**	**—**	**—**	**—**	**3,930**	**—**	**3,930**
Unrealized gains on derivative instruments:								
Unrealized holding gains or losses arising during the period	**—**	**—**	**—**	**—**	**—**	**135**	**—**	**135**
Less: Reclassification adjustment for gains or losses included in net income	**—**	**—**	**—**	**—**	**—**	**(92)**	**—**	**(92)**
Minimum pension liabilities adjustments	**—**	**—**	**—**	**—**	**—**	**(5,999)**	**—**	**(5,999)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**7,043**	**—**	**7,043**
Total comprehensive income								**33,017**
Cash dividends	**—**	**—**	**—**	**—**	**(9,324)**	**—**	**—**	**(9,324)**
Transfer to legal reserve	**—**	**—**	**—**	**1,045**	**(1,045)**	**—**	**—**	**—**
Conversion of convertible bonds	**175,025**	**233**	**234**	**—**	**—**	**—**	**—**	**467**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(264)**	**(264)**
Reissuance of treasury stock	**—**	**—**	**0**	**—**	**—**	**—**	**126**	**126**
Balance, March 31, 2002	**233,274,769**	**¥66,360**	**¥79,979**	**¥9,663**	**¥279,593**	**(¥34,128)**	**(¥ 141)**	**¥401,326**

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 2001	$497,195	$599,587	$64,797	$1,923,910	($248,594)	($ 23)	$2,836,872
Comprehensive income:							
Net income	**—**	**—**	**—**	**256,256**	**—**	**—**	**256,256**
Other comprehensive income (loss), net of tax (Note 16):							
Unrealized losses on securities:							
Unrealized holding gains or losses arising during the period	**—**	**—**	**—**	**—**	**(45,730)**	**—**	**(45,730)**
Less: Reclassification adjustment for gains or losses included in net income	**—**	**—**	**—**	**—**	**29,549**	**—**	**29,549**
Unrealized gains on derivative instruments:							
Unrealized holding gains or losses arising during the period	**—**	**—**	**—**	**—**	**1,015**	**—**	**1,015**
Less: Reclassification adjustment for gains or losses included in net income	**—**	**—**	**—**	**—**	**(692)**	**—**	**(692)**
Minimum pension liabilities adjustments	**—**	**—**	**—**	**—**	**(45,105)**	**—**	**(45,105)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**52,955**	**—**	**52,955**
Total comprehensive income							**248,248**
Cash dividends	**—**	**—**	**—**	**(70,106)**	**—**	**—**	**(70,106)**
Transfer to legal reserve	**—**	**—**	**7,857**	**(7,857)**	**—**	**—**	**—**
Conversion of convertible bonds	**1,753**	**1,759**	**—**	**—**	**—**	**—**	**3,512**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(1,985)**	**(1,985)**
Reissuance of treasury stock	**—**	**0**	**—**	**—**	**—**	**948**	**948**
Balance, March 31, 2002	**$498,948**	**$601,346**	**$72,654**	**$2,102,203**	**($256,602)**	**($1,060)**	**$3,017,489**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2002

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Cash flows from operating activities:				
Net income	¥ 34,082	¥ 43,996	¥ 47,326	$ 256,256
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	49,891	45,020	34,255	375,120
Accrual for pension and severance costs, less payments	3,736	4,190	525	28,090
Deferred income taxes	(6,913)	5,740	(4,707)	(51,977)
Net loss on sales and disposal of property, plant and equipment	2,166	2,599	2,116	16,286
Gain on sales of investment securities	(2,095)	(1,998)	(1,163)	(15,752)
Gain on securities contribution to employee retirement benefit trust (Note 8)	—	(21,366)	—	—
Gain on sales of subsidiaries' shares (Note 24)	(872)	(571)	—	(6,556)
Gain on sales of shares of Secom Techno Service Co., Ltd.	—	—	(4,291)	—
Loss on other-than-temporary impairment of investment securities	9,004	1,851	1,711	67,699
Equity in net income of affiliated companies	(1,354)	(1,310)	(1,131)	(10,181)
Minority interest in subsidiaries	1,862	408	3,805	14,000
Cumulative effect of accounting change, net of tax (Note 2 (12))	—	3,699	—	—
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits	(4,152)	895	6,352	(31,218)
Increase in receivables and due from subscribers, net of allowances	(6,727)	(2,010)	(23,406)	(50,579)
(Increase) decrease in inventories	(5,533)	4,027	(26,350)	(41,602)
(Increase) decrease in other current assets	(3,017)	6,305	(1,112)	(22,684)
Increase (decrease) in payables	(1,015)	(24,279)	27,115	(7,632)
Increase (decrease) in deposits received	6,708	(3,503)	(8,232)	50,436
Increase in deferred revenue	1,737	3,788	871	13,060
Increase (decrease) in accrued income taxes	5,145	4,249	(3,445)	38,684
Increase in guarantee deposits received from subscribers	6,012	2,588	985	45,203
Increase in other current liabilities	853	1,713	3,079	6,414
Increase (decrease) in unearned premiums and other insurance liabilities	3,184	8,201	(4,226)	23,940
Increase in investment deposits by policyholders	96,221	54,084	18,571	723,466
Other, net	929	(155)	(71)	6,986
Net cash provided by operating activities	189,852	138,161	68,577	1,427,459
Cash flows from investing activities:				
Decrease in time deposits	7,950	3,976	1,619	59,774
Proceeds from sales of property, plant and equipment	3,693	1,543	1,607	27,767
Payments for purchases of property, plant and equipment	(159,242)	(109,980)	(50,146)	(1,197,308)
Proceeds from sales of investment securities	10,149	5,663	2,419	76,308
Payments for purchases of investment securities	(22,602)	(16,802)	(1,908)	(169,940)
(Increase) decrease in short-term investments	15,459	(2,478)	(26,855)	116,233
Proceeds from sales of subsidiaries' shares (Note 24)	2,654	2,088	—	19,955
Proceeds from sales of shares of Secom Techno Service Co., Ltd.	—	—	4,512	—
Payments for purchases of subsidiaries' shares, net of cash acquired (Note 5)	1,270	(2,410)	(825)	9,549
Acquisition of Mac Corporation, net of cash acquired	—	(3,203)	—	—
Acquisition of Pasco Corporation, net of cash acquired	—	—	(9,494)	—
Increase in short-term receivables, net	(10,301)	(9,522)	(779)	(77,451)
Payments for long-term receivables	(8,346)	(3,561)	(7,278)	(62,752)
Proceeds from long-term receivables	1,654	10,689	11,715	12,436
Increase in other assets	(5,371)	(6,768)	(3,434)	(40,383)
Other, net	—	—	197	—
Net cash used in investing activities	(163,033)	(130,765)	(78,650)	(1,225,812)
Cash flows from financing activities:				
Proceeds from long-term debt	69,773	31,770	5,064	524,609
Repayments of long-term debt	(15,948)	(16,202)	(4,480)	(119,910)
Increase (decrease) in bank loans	(6,284)	(4,516)	17,160	(47,248)
Proceeds from minority shareholders	1,137	21	5,451	8,549
Dividends paid	(9,324)	(9,323)	(8,147)	(70,106)
(Increase) decrease in treasury stock, net	(138)	39	77	(1,037)
Other, net	(585)	(530)	—	(4,398)
Net cash provided by financing activities	38,631	1,259	15,125	290,459
Effect of exchange rate changes on cash and cash equivalents	525	239	(630)	3,947
Net increase in cash and cash equivalents	65,975	8,894	4,422	496,053
Cash and cash equivalents at beginning of year	144,502	135,608	131,186	1,086,481
Cash and cash equivalents at end of year	¥ 210,477	¥ 144,502	¥135,608	$1,582,534

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2002

1. Nature of Operations

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

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

2. Significant Accounting Policies

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

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

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

(1) Basis of Consolidation and Investments in Affiliated Companies

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

During the year ended March 31, 2002, the Company changed its reporting entity for specific entities. The consolidated financial statements of all prior periods presented have been restated as a result. The change in the reporting entity was due to the gradual increase in the materiality of real estate investment companies sponsored by Secom General Insurance Co., Ltd. ("Secom Insurance"), a subsidiary of the parent company, and to which the substantive risks and rewards of the assets rested. The Company decided to consolidate these entities in accordance with Emerging Issues Task Force ("EITF") Topic No. D-14, "Transactions involving Special-Purpose Entities". EITF Topic No. D-14 addresses accounting standards for consolidation of special-purpose entities.

The effect of the change in the reporting entity on income and related per share amounts as previously reported in the consolidated financial statements for the years ended March 31, 2001 and 2000 is as follows:

	In millions of yen	
	March 31	
	2001	2000
Income before cumulative effect of accounting change as previously reported	¥47,817	¥47,432
Effect of a change in the reporting entity	(122)	(106)
Income before cumulative effect of accounting change as restated	47,695	47,326
Cumulative effect of accounting change as previously reported	(3,699)	—
Net income as restated	¥43,996	¥47,326

	In yen	
	March 31	
	2001	2000
Earnings per share—Basic:		
Income before cumulative effect of accounting change as previously reported	¥205.15	¥203.67
Effect of a change in the reporting entity	(0.52)	(0.45)
Income before cumulative effect of accounting change as restated	204.63	203.22
Cumulative effect of accounting change as previously reported	(15.87)	—
Net income as restated	¥188.76	¥203.22
Earnings per share—Diluted:		
Income before cumulative effect of accounting change as previously reported	¥204.99	¥203.52
Effect of a change in the reporting entity	(0.53)	(0.46)
Income before cumulative effect of accounting change as restated	204.46	203.06
Cumulative effect of accounting change as previously reported	(15.85)	—
Net income as restated	¥188.61	¥203.06

The effect of the change in the reporting entity on financial position as previously reported in the consolidated financial statements as of March 31, 2001 is as follows:

	In millions of yen		
	March 31, 2001		
	Financial position as previously reported	Effect of a change in the reporting entity	Financial position as restated
Current assets	¥387,333	(¥ 15,211)	¥372,122
Investments and long-term receivables	238,772	(40,679)	198,093
Property, plant and equipment	198,353	69,951	268,304
Other assets	43,746	69	43,815
Total assets	¥868,204	¥ 14,130	¥882,334
Current liabilities	¥218,366	¥ 213	¥218,579
Long-term debt	24,065	11,970	36,035
Other	221,943	2,227	224,170
Total liabilities	464,374	14,410	478,784
Minority shareholders' interest in subsidiaries	26,298	(52)	26,246
Shareholders' equity	377,532	(228)	377,304
Total liabilities and shareholders' equity	¥868,204	¥ 14,130	¥882,334

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

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

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

(2) Foreign Currency Translation

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

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

(3) Cash Equivalents

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

(4) Investments in Debt and Equity Securities

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

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

(5) Inventories

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

(6) Deferred Insurance Acquisition Costs

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

(7) Property, Plant and Equipment and Depreciation

Property, plant and equipment, including significant betterments, are carried at cost. When assets are retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts and the net difference, less any amounts realized on disposition, is reflected in income. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. Assets leased to others under operating leases are primarily depreciated using the straight-line method over the estimated useful lives. Depreciation expense was ¥44,574 million ($335,143 thousand), ¥40,148 million and ¥31,240 million for the years ended March 31, 2002, 2001 and 2000, respectively. Maintenance, repairs and renewals are charged to income as incurred.

The estimated useful lives of depreciable assets are as follows:

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

(8) 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 principally consist of internal-use software, are amortized on a straight-line basis over their useful lives which are principally five years. The Company's long-lived assets, including goodwill and identifiable intangibles, 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 period. Other insurance liabilities consist principally of liabilities for unpaid claims and adjustment expenses, which are estimates of payments to be made on reported claims, and incurred but not reported claims, which are computed based on past experience for unpaid losses.

(11) Income Taxes

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

(12) Revenue Recognition

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

At April 1, 2000, the Company recorded a one-time non-cash charge of ¥3,699 million ($27,812 thousand), net of tax, representing the effect of adoption of SAB No. 101. The charge has been reflected as a cumulative effect of accounting change in the accompanying consolidated statements of income. The accounting change did not have a material effect on the Company's consolidated statement of income for the year ended March 31, 2001. The Company has not disclosed pro forma financial information for prior years as if SAB No. 101 had been applied retroactively due to immateriality.

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

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

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

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

(13) Research and Development

Research and development costs are charged to income as incurred.

(14) Advertising Costs

Advertising costs are charged to income as incurred, except for the costs related to insurance policies. Advertising costs for acquiring new insurance policies are deferred and amortized as part of insurance acquisition costs. Advertising expenses included in selling, general and administrative expenses for the years ended March 31, 2002, 2001 and 2000 were ¥5,602 million ($42,120 thousand), ¥4,885 million and ¥4,263 million, respectively.

(15) Derivative Financial Instruments

Effective on April 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133". Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The cumulative effect adjustment upon the adoption of SFAS No. 133 and No. 138, net of the related income tax effect, resulted in an increase to other comprehensive income of ¥129 million ($970 thousand).

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

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

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

(16) 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.

(17) Free Distribution of Common Stock

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

A corporation in the United States of America issuing shares, comparable to less than 25 percent free share distributions, would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to the appropriate capital accounts. Such transfers, however, would have no effect on total shareholders’ equity (Note 23).

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

(18) Recent Pronouncements

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

The Company adopted the provisions of SFAS No. 141 and No. 142 on April 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. However, any goodwill and intangible assets with an indefinite useful life that is acquired in a business combination completed after June 30, 2001, have not been amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 were amortized through March 31, 2002.

SFAS No. 141 requires the Company to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, the Company is required to reassess the useful lives and residual value of all intangible assets and make any necessary amortization period adjustments by June 30, 2002.

In connection with the transitional impairment evaluation, SFAS No. 142 will require to perform an assessment of whether there is an indication that goodwill is impaired as of April 1, 2002. To accomplish this, the Company must (1) identify its reporting units, (2) determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (3) determine the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by September 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than March 31, 2003. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the consolidated statements of income.

On April 1, 2002, as a result of the adoption of SFAS No. 141, the Company recorded a transition gain, as an effect of a change in accounting principle, due to the write-off of unamortized deferred credits of approximately ¥1,157 million ($8,699 thousand) which existed at March 31, 2002. The deferred credits related to an excess over cost arising from business combinations completed before July 1, 2001. The Company does not expect the adoption of SFAS No. 142 to have a material effect on the Company’s consolidated financial position and results of operations.

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations”. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of long-lived assets, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset’s useful life. The Company is required to adopt the provisions of SFAS No. 143 on April 1, 2003. The effect on the Company's consolidated financial statements of adopting SFAS No. 143 has not been determined.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unused and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The Company adopted the provisions of SFAS No. 144 on April 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material effect on the Company's consolidated financial position and 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 the yen amounts actually represent, or have been or could be converted into U.S. dollars. The translations of yen into U.S. dollars have been made at the rate of ¥133=US$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 29, 2002.

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

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2002, 2001 and 2000 is as follows:

	In millions of yen	Thousands of shares	In yen	In U.S. dollars
	Income before cumulative effect of accounting change	Weighted-average shares	EPS	
For the year ended March 31, 2002:				
Basic EPS—				
Income before cumulative effect of accounting change	**¥34,082**	**233,138**	**¥146.19**	**$1.10**
Effect of dilutive securities—				
Convertible bonds	**3**	**150**		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation	**¥34,085**	**233,288**	**¥146.11**	**$1.10**

	In millions of yen	Thousands of shares	In yen
	Income before cumulative effect of accounting change	Weighted-average shares	EPS
For the year ended March 31, 2001:			
Basic EPS—			
Income before cumulative effect of accounting change	¥47,695	233,081	¥204.63
Effect of dilutive securities—			
Convertible bonds	5	211	
Diluted EPS—			
Income before cumulative effect of accounting change for diluted EPS computation	¥47,700	233,292	¥204.46
For the year ended March 31, 2000:			
Basic EPS—			
Income before cumulative effect of accounting change	¥47,326	232,883	¥203.22
Effect of dilutive securities—			
Convertible bonds	9	220	
Diluted EPS—			
Income before cumulative effect of accounting change for diluted EPS computation	¥47,335	233,103	¥203.06

5. Acquisitions

In August 1999, the parent company subscribed to purchase new shares issued by Pasco Corporation ("Pasco"), which operates an aerial surveying and mapping business and Geographic Information System services in Japan, for an aggregate amount of ¥15,000 million ($112,782 thousand). As a result, the parent company owns 70.0 percent of the outstanding shares of Pasco at March 31, 2002.

In December 2000, the parent company acquired all issued shares of Mac Corporation, which engages in sales and maintenance services for medical equipment, for an aggregate amount of ¥3,980 million ($29,925 thousand).

In August 2001, the parent company acquired all issued shares of Yoshikikaku Co., Ltd., which engages in sales and lease services for medical facilities and equipment, for an aggregate amount of ¥3,457 million ($25,992 thousand). The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

	In millions of yen	In thousands of U.S. dollars
Current assets	**¥1,088**	**$ 8,180**
Investments and long-term receivables	**7,154**	**53,790**
Other	**743**	**5,586**
Total assets acquired	**8,985**	**67,556**
Current liabilities	**1,430**	**10,752**
Long-term debt	**2,295**	**17,256**
Other	**1,803**	**13,556**
Total liabilities assumed	**5,528**	**41,564**
Net assets acquired	**¥3,457**	**$25,992**

In March 2002, the parent company acquired all issued shares of Arai & Co., Ltd., which engages in sales and leasing services of real estate, for an aggregate amount of ¥1,500 million ($11,278 thousand). The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

	In millions of yen	In thousands of U.S. dollars
Current assets	¥ 7,282	$ 54,752
Property, plant and equipment	41,762	314,000
Goodwill	2,743	20,624
Other	13,172	99,038
Total assets acquired	64,959	488,414
Current liabilities	23,494	176,647
Long-term debt	34,008	255,699
Other	5,944	44,692
Total liabilities assumed	63,446	477,038
Minority shareholders' interest	13	98
Net assets acquired	¥ 1,500	$ 11,278

The acquisitions referred to above have been accounted for under the purchase method of accounting, and the identifiable assets and liabilities of the acquired companies have been recorded at their fair value at the date of acquisition. The results of their operations have been included in the consolidated statements of income since the date of acquisition of the majority of outstanding shares. The difference between the purchase price and the value assigned to the underlying net assets acquired is included in goodwill and amounted to ¥10,782 million ($81,068 thousand) and ¥10,127 million at March 31, 2002 and 2001, respectively. Goodwill acquired in business combinations completed after June 30, 2001 has not been amortized, while business combinations completed before July 1, 2001 continued to be amortized through March 31, 2002.

The consolidated pro forma information that would show the results of the Company's consolidated operations for the years ended March 31, 2002, 2001 and 2000 has not been disclosed based on materiality considerations. The effort to provide comparative pro forma financial information would not be commensurate with the benefits derived from such information.

6. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2002 and 2001 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Cash	¥115,947	¥ 67,596	$ 871,782
Time deposits	35,843	21,944	269,496
Call loan	40,000	35,690	300,752
Investment securities	18,687	19,272	140,504
	¥210,477	¥144,502	$1,582,534

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

7. Cash Deposits

The Company operates cash collection and deposit services for financial institutions relating to cash dispensers located outside of financial institution facilities. Cash deposit balances, mostly in cash dispensers, of ¥40,750 million ($306,391 thousand) and ¥36,597 million at March 31, 2002 and 2001, respectively, are segregated from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the necessary cash through bank overdrafts and deposits from the related financial institutions. Bank loans and deposits received include ¥15,234 million ($114,541 thousand) and ¥20,560 million ($154,586 thousand), respectively, at March 31, 2002, and ¥20,157 million and ¥15,529 million, respectively, at March 31, 2001, relating to this operation. As part of its fee arrangement for such services, the Company is reimbursed for the interest cost of the related overdrafts.

8. Short-Term Investments and Investment Securities

Short-term investments (current) and investment securities (non-current) include debt and equity securities. The related aggregate fair value, gross unrealized gains, gross unrealized losses and cost pertaining to "available-for-sale" and "held-to-maturity" investments at March 31, 2002 and 2001 were as follows:

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

	In millions of yen			
	March 31, 2001			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	¥ 63,883	¥8,950	¥10,643	¥ 62,190
Debt securities	54,168	568	933	53,803
Total	¥118,051	¥9,518	¥11,576	¥115,993
Held-to-maturity:				
Debt securities	¥ 20,000	¥ 223	¥ —	¥ 20,223

	In thousands of U.S. dollars			
	March 31, 2002			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities.....	$445,947	$25,895	$60,436	$411,406
Debt securities	378,534	5,368	6,722	377,180
Total..........................	$824,481	$31,263	$67,158	$788,586
Held-to-maturity:				
Debt securities	$131,579	$ —	$ 677	$130,902

At March 31, 2002, debt securities principally consisted of short-term investments in monetary trusts, Japanese government bonds, corporate bonds, U.S. treasury securities and U.S. Government Agency Bonds.

In September 2000, the parent company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities at the time of contribution was ¥21,550 million ($162,030 thousand). Upon contribution of these securities, net unrealized gains amounting to ¥21,366 million ($160,647 thousand) were realized and included in the consolidated statement of income for the year ended March 31, 2001.

The cost and fair value of “available-for-sale” and ”held-to-maturity” debt securities by contractual maturity at March 31, 2002 are as follows:

	In millions of yen			
	March 31, 2002			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥11,982	¥11,755	¥ —	¥ —
Due after 1 year through 5 years	34,617	34,572	12,500	12,410
Due after 5 years through 10 years	618	644	—	—
Due after 10 years	3,128	3,194	5,000	5,000
	¥50,345	¥50,165	¥17,500	¥17,410

	In thousands of U.S. dollars			
	March 31, 2002			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$ 90,090	$ 88,383	$ —	$ —
Due after 1 year through 5 years	260,278	259,940	93,985	93,308
Due after 5 years through 10 years	4,647	4,842	—	—
Due after 10 years	23,519	24,015	37,594	37,594
	$378,534	$377,180	$131,579	$130,902

During the years ended March 31, 2002 and 2001, the net unrealized losses on “available-for-sale” securities included as part of other comprehensive income (loss), net of tax, increased by ¥2,152 million ($16,181 thousand) and ¥19,601 million, respectively.

Proceeds from the sale of “available-for-sale” securities for the years ended March 31, 2002, 2001 and 2000 were ¥5,126 million ($38,541 thousand), ¥3,749 million and ¥17,561 million, respectively. On those sales, the gross realized gains and gross realized losses, using a specifically identified moving-average cost basis, for the years ended March 31, 2002, 2001 and 2000 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Gross realized gains.....	¥2,556	¥1,491	¥6,993	$19,218
Gross realized losses ...	470	255	239	3,534

The Company maintains long-term investment securities, included as investment securities, issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies, at cost net of other-than-temporary impairment, was ¥12,500 million ($93,985 thousand) and ¥5,438 million at March 31, 2002 and 2001, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

9. Inventories

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

Inventories at March 31, 2002 and 2001 comprise as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Security-related products	¥10,493	¥ 7,672	$ 78,895
Real estate..................................	39,154	36,222	294,391
Information and other-related products	6,177	5,821	46,443
	¥55,824	¥49,715	$419,729

Work in process real estate inventories at March 31, 2002 and 2001, amounting to ¥35,682 million ($268,286 thousand) and ¥33,731 million, respectively, are included in real estate.

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 27.6 percent owned affiliate, which is listed on the Taiwan Stock Exchange; S1 Corporation, a 24.7 percent owned affiliate, which is listed on the Korea Stock Exchange; Japan Image Communications Co., Ltd., a 29.8 percent owned affiliate; and Japan Cablenet Holdings Limited, a 23.0 percent owned affiliate.

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

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Current assets	¥106,123	¥112,313	$ 797,917
Non-current assets	129,402	103,998	972,948
Total assets	¥235,525	¥216,311	$1,770,865
Current liabilities	¥ 58,303	¥ 65,492	$ 438,369
Non-current liabilities	59,985	35,964	451,015
Shareholders' equity	117,237	114,855	881,481
Total liabilities and shareholders' equity	¥235,525	¥216,311	$1,770,865

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Net sales	¥158,770	¥150,005	¥163,882	$1,193,759
Gross profit	¥ 45,621	¥ 42,441	¥ 42,617	$ 343,015
Net income	¥ 7,384	¥ 4,318	¥ 5,641	$ 55,519

Dividends received from affiliated companies for the years ended March 31, 2002, 2001 and 2000 were ¥655 million ($4,925 thousand), ¥419 million and ¥371 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥22,302 million ($167,684 thousand) and ¥19,372 million at March 31, 2002 and 2001, respectively, had a quoted market value of ¥40,643 million ($305,586 thousand) and ¥28,397 million at March 31, 2002 and 2001, respectively.

The unamortized amounts of goodwill were included in the carrying amount of investments in affiliated companies under the equity method. The unamortized amount of goodwill, ¥415 million ($3,120 thousand) and ¥187 million at March 31, 2002 and 2001, respectively, is 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 using the equity method is presented below:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Sales	¥1,595	¥1,637	¥1,748	$11,992
Purchases	¥9,704	¥9,764	¥6,984	$72,962

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Notes and accounts receivable, trade	¥ 940	¥ 860	$ 7,068
Loan receivables	¥ 268	¥ 119	$ 2,015
Notes and accounts payable	¥2,901	¥2,931	$21,812
Guarantees for bank loans	¥8,765	¥9,406	$65,902

11. Bank Loans and Long-Term Debt

Bank loans of ¥68,003 million ($511,301 thousand) at March 31, 2002 are represented generally by 30 to 365 day notes with interest rates ranging from 0.4 to 2.41 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, 2002 and 2001 was comprised of the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Loans, principally from banks due 2002 to 2020 with interest rates ranging from 0.00 to 6.60%:			
Secured	¥ 61,565	¥12,587	$ 462,895
Unsecured	57,237	17,128	430,353
1.60% unsecured convertible bonds due 2002, convertible currently at ¥2,667.8 ($20.06) for one common share, redeemable before due date	33	500	248
1.60% unsecured convertible bonds due 2004, convertible currently at ¥2,372.4 ($17.84) for one common share, redeemable before due date	18	18	135
1.85% unsecured notes due 2002	—	5,000	—
2.05% unsecured notes due 2003	5,000	5,000	37,594
0.53% unsecured bonds due 2006	30,000	—	225,564
1.80% secured bonds due 2004	200	—	1,504
1.21% secured bonds due 2006	300	—	2,255
Obligations under capital leases, due 2002 to 2026 (Note 18)	11,397	10,273	85,692
	165,750	50,506	1,246,240
Less:			
Portion due within one year	32,703	14,471	245,887
	¥133,047	¥36,035	$1,000,353

Property, plant and equipment with a carrying amount of ¥45,544 million ($342,436 thousand), inventories with a carrying amount of ¥34,973 million ($262,955 thousand), investment securities with a carrying amount of ¥695 million ($5,226 thousand), time deposits of ¥112 million ($842 thousand) and intangibles and other with a carrying amount of ¥1,616 million ($12,150 thousand) were pledged as collateral for short-term and long-term debt at March 31, 2002.

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 ¥1,423 million ($10,699 thousand) with such banks at March 31, 2002.

The convertible bonds can be converted into common stock at any 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 split 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 ($26,316 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 after March 31, 2002 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2003	¥ 32,703	$ 245,887
2004	30,696	230,797
2005	15,396	115,759
2006	13,112	98,587
2007	63,037	473,962
Later years	10,806	81,248
	¥165,750	$1,246,240

12. Insurance-Related Operations

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

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

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

The amounts of net equity of Secom Insurance at March 31, 2002 and 2001 were ¥19,653 million ($147,767 thousand) and ¥21,146 million, respectively.

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 eligible for pension benefits. Lump-sum severance indemnities are provided for employees with three to 10 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 of its 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 10 years or more of service. The benefits are in the form of lump-sum and/or pension payments and are determined by formula based upon length of service and age at time of termination. The Company contributes amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to limitations on deductibility imposed by Japanese income tax laws.

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

Net pension and severance costs under Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions", for the years ended March 31, 2002, 2001 and 2000 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Net pension and severance costs (credit):				
Service cost	¥ 8,032	¥ 6,898	¥ 5,638	$ 60,391
Interest cost	3,930	3,755	3,390	29,549
Expected return on plan assets	(3,488)	(3,962)	(2,712)	(26,225)
Amortization of transition assets	(46)	(46)	(46)	(346)
Amortization of prior service cost (benefit)	(85)	(37)	105	(639)
Recognized actuarial loss	1,872	606	804	14,075
Net periodic benefit cost	¥10,215	¥ 7,214	¥ 7,179	$ 76,805

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

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2002	2001	2002
Change in benefit obligation:			
Benefit obligation at beginning of year	¥131,087	¥109,529	$ 985,617
Service cost	8,032	6,898	60,391
Interest cost	3,930	3,755	29,549
Plan participants' contributions	1,612	1,266	12,120
Actuarial loss	12,482	14,427	93,850
Amendments	(15,671)	(2,049)	(117,827)
Benefits paid	(3,698)	(2,739)	(27,805)
Acquisition	93	—	699
Benefit obligation at end of year	137,867	131,087	1,036,594
Change in plan assets:			
Fair value of plan assets at beginning of year	95,719	86,948	719,692
Actual return on plan assets	(11,876)	(16,179)	(89,294)
Employer contribution	5,880	25,938	44,211
Plan participants' contributions	1,612	1,266	12,120
Benefits paid	(3,086)	(2,254)	(23,203)
Fair value of plan assets at end of year	88,249	95,719	663,526
Funded status	49,618	35,368	373,068
Unrecognized actuarial loss	(71,023)	(45,048)	(534,008)
Unrecognized transition assets	135	181	1,015
Unrecognized prior service benefit	16,852	1,266	126,707
Net amount recognized	(¥ 4,418)	(¥ 8,233)	($ 33,218)

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2002	2001	2002
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥36,622	¥21,340	$ 275,353
Intangible assets	—	(124)	—
Accumulated other comprehensive income (loss)	(41,040)	(29,449)	(308,571)
Net amount recognized	(¥ 4,418)	(¥ 8,233)	($ 33,218)

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

	March 31		
	2002	2001	2000
Discount rate	2.5%	3.0%	3.5%
Expected long-term rate of return on plan assets	3.0%	4.0%	5.0%
Long-term rate of salary increase	2.7%	2.2–3.5%	2.7–2.8%

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

The provisions of SFAS No. 87 require recognition in the balance sheet a minimum pension liability and related intangible asset for pension plans with an accumulated benefit obligation in excess of plan assets. The minimum pension liability which exceeded the unrecognized prior service cost was recorded as a component of accumulated other comprehensive income (loss), net of tax, of ¥23,109 million ($173,752 thousand) and ¥17,110 million at March 31, 2002 and 2001, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plan with accumulated benefit obligation in excess of plan assets were ¥137,867 million ($1,036,594 thousand), ¥124,127 million ($933,286 thousand) and ¥88,249 million ($663,526 thousand), respectively, at March 31, 2002, and ¥131,087 million, ¥114,622 million and ¥95,719 million, respectively, at March 31, 2001.

As discussed in Note 8, in September 2000, the parent company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in plan assets.

Most subsidiaries outside Japan have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. The funding policy for the defined contribution plans is to annually contribute an amount equal to a certain percent of the participants' annual salaries. The contributions to the defined contribution pension plans for the years ended March 31, 2002, 2001 and 2000 were ¥20 million ($150 thousand), ¥19 million and ¥25 million, respectively.

14. Exchange Gains and Losses

Interest and other revenue for the years ended March 31, 2002 and 2001 include net exchange gains of ¥321 million ($2,414 thousand) and ¥313 million, respectively. Other expenses for the year ended March 31, 2000 include net exchange losses of ¥631 million.

15. Income Taxes

Total income taxes for the years ended March 31, 2002, 2001 and 2000 were allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Income	¥ 30,183	¥ 35,751	¥22,689	$ 226,940
Cumulative effect of accounting change	—	(3,528)	—	—
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized gains (losses) on securities	(1,273)	(13,419)	3,070	(9,571)
Unrealized gains on derivative instruments	24	—	—	180
Minimum pension liabilities adjustments	(3,633)	(11,788)	5,809	(27,316)
	¥ 25,301	¥ 7,016	¥31,568	$ 190,233

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.9 percent for the years ended March 31, 2002, 2001 and 2000.

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
	2002	2001	2000	2002
Income taxes computed at statutory tax rate of 41.9%	¥27,140	¥34,586	¥30,457	$204,060
Increase (decrease) resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	2,081	1,305	1,412	15,647
Reversal of valuation allowance due to utilization of operating loss carryforwards	(670)	(2,504)	(8,689)	(5,038)
Amortization of non-deductible goodwill	763	699	118	5,737
Other, net	869	1,665	(609)	6,534
Consolidated income taxes	¥30,183	¥35,751	¥22,689	$226,940

The significant components of deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Deferred tax assets:			
Loss carryforwards	¥ 22,062	¥ 21,522	$ 165,879
Accrued pension and severance costs	17,611	17,327	132,414
Deferred revenue	11,850	11,076	89,098
Adjustment of book value at the date of acquisition—			
Land and buildings	10,245	1,291	77,030
Other assets	2,676	—	20,120
Intercompany profit	3,835	3,961	28,835
Accrued bonus	2,453	1,728	18,443
Enterprise and state income taxes	2,020	1,575	15,188
Vacation accrual	1,873	1,594	14,083
Allowance for doubtful accounts	1,627	1,209	12,233
Insurance reserve	701	1,300	5,271
Research and development expenses	694	1,213	5,218
Other	6,546	2,820	49,218
Gross deferred tax assets	84,193	66,616	633,030
Less: Valuation allowance	(21,256)	(19,960)	(159,819)
Total deferred tax assets	62,937	46,656	473,211
Deferred tax liabilities:			
Deferred installation costs	(8,052)	(7,404)	(60,541)
Adjustment of book value at the date of acquisition—			
Land and buildings	(7,012)	—	(52,722)
Other investments	(2,603)	—	(19,572)
Long-term receivables	(2,021)	—	(15,196)
Capitalization of property acquisition tax	(1,540)	(461)	(11,579)
Unearned premiums and other insurance liabilities	(1,291)	(1,235)	(9,707)
Unrealized gains on securities	(700)	(2,621)	(5,263)
Gain on securities contribution to employee retirement benefit trust	—	(8,952)	—
Reversal of securities devaluation	—	(1,558)	—
Other	(2,279)	(1,303)	(17,135)
Gross deferred tax liabilities	(25,498)	(23,534)	(191,715)
Net deferred tax assets	¥ 37,439	¥ 23,122	$ 281,496

The valuation allowance principally relates to deferred tax assets of the subsidiaries with operating loss carryforwards, for tax purposes, that are not expected to be realized. The net change in the total valuation allowance for the years ended March 31, 2002 and 2001 was an increase of ¥1,296 million ($9,744 thousand) and ¥51 million, respectively.

In assessing the realizability of deferred tax assets, the Company management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company management considered the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 2002 and 2001.

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totaling ¥3,387 million ($25,466 thousand) at March 31, 2002 because they are not expected to be remitted in the foreseeable future.

At March 31, 2002, tax loss carryforwards of domestic subsidiaries amounted to ¥47,105 million ($354,173 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to five years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2003	¥ 1,999	$ 15,030
2004	34,217	257,271
2005	2,338	17,579
2006	3,285	24,699
2007	5,266	39,594
	¥47,105	$354,173

The tax loss carryforwards of overseas subsidiaries at March 31, 2002 amounted to ¥6,235 million ($46,880 thousand), a part of which will begin to expire in the year ending March 31, 2003.

16. Shareholders' Equity

(1) Stock Split

On September 14, 1999, the Board of Directors approved a two-for-one stock split on the Company's common stock, which was distributed on November 19, 1999, to shareholders of record on September 30, 1999. The number of shares issued was 116,409,647. There was no increase in the common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code.

(2) Retained Earnings

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

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

Subsequent to March 31, 2002, the parent company's Board of Directors declared an annual cash dividend of ¥9,330 million ($70,150 thousand) to shareholders of record on March 31, 2002. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 27, 2002. Dividends are recorded in the period they are declared.

(3) Accumulated Other Comprehensive Income (Loss)

An analysis of the changes in accumulated other comprehensive income (loss) for the years ended March 31, 2002, 2001 and 2000 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2002:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	**(¥ 9,379)**	**¥ 3,297**	**(¥ 6,082)**
Less: Reclassification adjustment for gains or losses included in net income	**5,954**	**(2,024)**	**3,930**
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	**209**	**(74)**	**135**
Less: Reclassification adjustment for gains or losses included in net income	**(142)**	**50**	**(92)**
Minimum pension liabilities adjustments	**(9,632)**	**3,633**	**(5,999)**
Foreign currency translation adjustments	**7,043**	**—**	**7,043**
Other comprehensive income (loss)	**(¥ 5,947)**	**¥ 4,882**	**(¥ 1,065)**
For the year ended March 31, 2001:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	(¥10,490)	¥ 3,994	(¥ 6,496)
Less: Reclassification adjustment for gains or losses included in net income	(22,530)	9,425	(13,105)
Minimum pension liabilities adjustments	(28,133)	11,788	(16,345)
Foreign currency translation adjustments	4,670	—	4,670
Other comprehensive income (loss)	(¥56,483)	¥25,207	(¥31,276)

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2000:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	¥ 8,436	(¥ 3,557)	¥ 4,879
Less: Reclassification adjustment for gains or losses included in net income	(1,162)	487	(675)
Minimum pension liabilities adjustments	13,863	(5,809)	8,054
Foreign currency translation adjustments	(5,638)	—	(5,638)
Other comprehensive income (loss)	¥15,499	(¥ 8,879)	¥ 6,620

	In thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2002:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	**($70,519)**	**$24,789**	**($45,730)**
Less: Reclassification adjustment for gains or losses included in net income	**44,767**	**(15,218)**	**29,549**
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	**1,571**	**(556)**	**1,015**
Less: Reclassification adjustment for gains or losses included in net income	**(1,068)**	**376**	**(692)**
Minimum pension liabilities adjustments	**(72,421)**	**27,316**	**(45,105)**
Foreign currency translation adjustments	**52,955**	**—**	**52,955**
Other comprehensive income (loss)	**($44,715)**	**$36,707**	**($ 8,008)**

17. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2002, 2001 and 2000 were ¥5,121 million ($38,504 thousand), ¥3,921 million and ¥4,003 million, respectively.

18. Leased Assets—Lessee

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

On April 23, 1996, the Company entered into a long-term lease agreement for a building and land in Mitaka, Tokyo. The lease agreement extends for 30 years beginning May 1, 1996. For financial reporting purposes, the portion of the lease relating to the building has been classified as a capital lease; accordingly, an asset of approximately ¥5,086 million ($38,241 thousand) has been recorded in the building and improvements account. The portion of the lease relating to the land has been classified as an operating lease. The future minimum lease payments for the site at March 31, 2002 were ¥7,885 million ($59,286 thousand).

A summary of leased assets under capital leases at March 31, 2002 and 2001 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	**2002**
Buildings and improvements	**¥ 5,185**	¥ 5,086	**$ 38,985**
Machinery, equipment and automobiles	**12,049**	11,718	**90,594**
Intangibles and other	**79**	172	**594**
Accumulated depreciation	**(6,606)**	(7,308)	**(49,669)**
	¥10,707	¥ 9,668	**$ 80,504**

Depreciation expenses under capital leases for the years ended March 31, 2002, 2001 and 2000 were ¥3,195 million ($24,023 thousand), ¥2,890 million and ¥2,527 million, respectively.

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments at March 31, 2002:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2003	¥ 3,008	$ 22,617
2004	2,289	17,211
2005	1,637	12,308
2006	1,105	8,308
2007	619	4,654
Later years	6,965	52,368
Total minimum lease payments	15,623	117,466
Less: Amount representing interest	4,226	31,774
Present value of net minimum lease payments (Note 11)	11,397	85,692
Less: Current obligations	2,599	19,541
Long-term capital lease obligations	¥ 8,798	$ 66,151

Rental expenses under operating leases for the years ended March 31, 2002, 2001 and 2000 were ¥12,961 million ($97,451 thousand), ¥12,151 million and ¥12,534 million, respectively. A significant portion of such rentals relates to cancelable short-term leases for office space and employee residential facilities, many of which are renewed upon expiration.

On December 8, 2000, the Company entered into a lease agreement for a building and land in Shibuya, Tokyo. The lease agreement extends for 20 years beginning December 8, 2000. For financial reporting purposes, the lease has been classified as an operating lease. Based on the agreement, annual lease payments for the site are approximately ¥1,339 million ($10,068 thousand) over a 20-year period.

The future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2002 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2003	¥ 1,798	$ 13,519
2004	1,739	13,075
2005	1,685	12,669
2006	1,669	12,549
2007	1,667	12,534
Later years	24,577	184,789
Total future minimum lease payments	¥33,135	$249,135

19. Property on Operating Leases—Lessor

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

A summary of investment in property on operating leases and property held for lease at March 31, 2002 and 2001 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2002	2001	2002
Land	¥102,655	¥34,637	$ 771,842
Buildings and improvements	80,835	13,845	607,782
Construction in progress	26,137	16,191	196,519
Intangibles and other	1,680	65	12,632
Accumulated depreciation	(9,263)	(317)	(69,647)
	¥202,044	¥64,421	$1,519,128

The future minimum rentals on non-cancelable operating leases at March 31, 2002 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2003	¥ 9,071	$ 68,203
2004	3,589	26,985
2005	1,317	9,902
2006	1,022	7,684
2007	501	3,767
Later years	11,442	86,030
Total future minimum rentals	¥26,942	$202,571

20. Fair Value of Financial Instruments

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

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

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

(2) Long-Term Receivables

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

(3) Long-Term Debt including Current Portion

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

(4) Interest Rate Swap Agreements

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

The carrying amounts and estimated fair values of the financial instruments excluding debt and equity securities which are disclosed in Note 8 at March 31, 2002 and 2001 are as follows:

	In millions of yen			
	March 31			
	2002		2001	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Liabilities—				
Long-term debt including current portion	¥165,750	¥165,840	¥50,506	¥50,548
Derivatives:				
Assets—				
Interest rate swaps	¥ 163	¥ 163	¥ 42	¥ 260
Liabilities—				
Interest rate swaps	¥ 1,127	¥ 1,127	¥ 38	¥ 38

	In thousands of U.S. dollars	
	March 31	
	2002	
	Carrying amount	Estimated fair value
Non-derivatives:		
Derivatives—		
Long-term debt including current portion	$1,246,240	$1,246,917
Derivatives:		
Assets—		
Interest rate swaps	$ 1,226	$ 1,226
Liabilities—		
Interest rate swaps	$ 8,474	$ 8,474

Limitation:

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

21. Derivative Financial Instruments

(1) Risk Management Policy

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

(2) Interest Rate Risk Management

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

(3) Cash Flow Hedge

The Company designates interest rate swap agreements as cash flow hedges for variability of cash flows originated from floating rate borrowings. The interest rate swap agreements mature at various dates through 2008. Changes in fair values of derivative instruments designated as cash flow hedges of these debt obligations are reported in other comprehensive income (loss). These amounts are reclassified into current income in the same period as hedged items affect current income. Adoption of Statement of Financial Accounting Standards No. 133 and No. 138 resulted in an increase of other comprehensive income of ¥129 million ($970 thousand) at April 1, 2001. Of that amount, ¥92 million ($692 thousand) of net income was reclassified from other comprehensive income into current income for the year ended March 31, 2002 as net gains or losses relating to the hedged items affected current income. Approximately ¥43 million ($323 thousand) of net derivative income included in other comprehensive income, net of tax at March 31, 2002, will be reclassified into current income within 12 months from that date. At March 31, 2002 and 2001, the notional principal amounts of interest rate swap agreements were ¥43,683 million ($328,444 thousand) and ¥10,000 million, respectively.

(4) Non-Hedge Derivative Instuments

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

22. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2002 for the purchase of property, plant and equipment approximated ¥17,407 million ($130,880 thousand).

Contingent liabilities at March 31, 2002 for guarantees given in the ordinary course of business amounted to approximately ¥26,767 million ($201,256 thousand).

23. Free Share Distributions of Less than 25 Percent

The method of accounting for the Company's less than 25 percent free share distributions is described in Note 2. Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America, ¥98,388 million ($739,759 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on total shareholders' equity.

24. Gain on Sale of Subsidiaries' Shares

On October 15, 1999, Secom Techno Service Co., Ltd. ("Secom Techno"), a 98.3 percent owned subsidiary, completed an initial public offering on the Second Section of the Tokyo Stock Exchange. In conjunction with the offering, the parent company sold 2,000,000 outstanding shares of Secom Techno for a sales price of ¥4,512 million ($33,925 thousand). Through a secondary offering, Secom Techno issued an additional 2,000,000 shares for total proceeds of ¥4,512 million ($33,925 thousand). As a result of these transactions, the parent company's ownership in Secom Techno declined to 67.8 percent. The resulting pretax gain on the sale of subsidiary shares and new issuance of Secom Techno's shares of ¥2,313 million ($17,391 thousand) and ¥1,978 million ($14,872 thousand), respectively, are recognized in the consolidated statement of income for the year ended March 31, 2000. In the consolidated statement of cash flows for the year ended March 31, 2000, the gain on sale of subsidiary shares is excluded from cash flows from operating activities and the related cash proceeds are classified in the cash flows from investing activities. The cash proceeds from the new issuance by Secom Techno to minority shareholders are classified in the cash flows from financing activities.

On April 28, 2000, The Westec Security Group, Inc. ("Westec"), a wholly owned subsidiary in the United States of America, sold all of the outstanding shares of Westec Business Security, Inc. to ADT Security Services, Inc. for an aggregate sales price of ¥1,016 million ($7,639 thousand) in cash. The sale resulted in a gain of ¥571 million ($4,293 thousand).

On February 19, 2002, Secom Joshinetsu Co., Ltd. ("Secom Joshinetsu"), a 62.0 percent owned subsidiary, completed an initial public offering on the Second Section of the Tokyo Stock Exchange. In conjunction with the offering, the parent company sold 1,000,000 outstanding shares of Secom Joshinetsu for a sales price of ¥2,162 million ($16,256 thousand). Through a secondary offering, Secom Joshinetsu issued an additional 500,000 shares for total proceeds of ¥1,081 million ($8,128 thousand). As a result of these transactions, the parent company's ownership in Secom Joshinetsu declined to 52.1 percent. The resulting pretax gains on the sale of subsidiary shares and new issuance of Secom Joshinetsu's shares of ¥700 million ($5,263 thousand) and ¥160 million ($1,203 thousand), respectively, are recognized in the consolidated statement of income for the year ended March 31, 2002. In the consolidated statement of cash flows for the year ended March 31, 2002, the gain on sale of subsidiary shares is excluded from cash flows from operating activities and the related cash proceeds are classified in the cash flows from investing activities. The cash proceeds from the new issuance by Secom Joshinetsu to minority shareholders are classified in the cash flows from financing activities.

25. 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
	2002	2001	2000	**2002**
Cash paid during the year for:				
Interest	**¥ 1,568**	¥ 1,996	¥ 1,511	**$ 11,789**
Income taxes	**¥31,952**	¥25,762	¥ 30,841	**$240,241**
Non-cash investing and financing activities:				
Conversion of convertible bond to common stock and additional paid-in capital	**¥ 467**	¥ 60	¥ 774	**$ 3,512**
Additions to obligations under capital leases	**¥ 3,959**	¥ 2,654	¥ 3,344	**$ 29,767**
Acquisition—				
Fair value of assets acquired	**¥73,944**	¥ 7,550	¥ 48,579	**$555,970**
Cash paid for capital stock	**(4,957)**	(3,980)	(15,000)	**(37,270)**
Minority shareholders' interest	**(13)**	—	(4,541)	**(98)**
Net liabilities assumed	**¥68,974**	¥ 3,570	¥29,038	**$518,602**

26. Segment Information

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

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

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

Revenue and other income by segment includes interest income and other revenue reasonably allocated to the segments. Corporate revenue includes interest income, investment income, net exchange gains and dividend income from companies unaffiliated with the parent company or Westec, a wholly owned subsidiary as a holding company in the United States of America. Corporate expenses include general and administrative expenses, 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, 2002, 2001 and 2000 is as follows:

(1) Business Segment Information

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Revenue and other income:				
Security services—				
Customers	¥342,169	¥316,139	¥295,834	$2,572,699
Intersegment	2,448	1,285	3,305	18,406
	344,617	317,424	299,139	2,591,105
Medical services—				
Customers	13,507	6,347	1,326	101,557
Intersegment	166	147	140	1,248
	13,673	6,494	1,466	102,805
Insurance services—				
Customers	28,759	23,303	30,462	216,233
Intersegment	1,920	2,030	2,250	14,436
	30,679	25,333	32,712	230,669
Information and communication related and other services—				
Customers	103,315	92,552	72,684	776,804
Intersegment	4,213	5,715	1,821	31,677
	107,528	98,267	74,505	808,481
Total	496,497	447,518	407,822	3,733,060
Eliminations	(8,747)	(9,177)	(7,516)	(65,767)
Corporate items	5,776	29,952	12,118	43,429
Consolidated revenue and other income	¥493,526	¥468,293	¥412,424	$3,710,722
Income (loss) before income taxes:				
Security services	¥ 82,984	¥ 77,389	¥ 76,073	$ 623,940
Medical services	(698)	(1,522)	(566)	(5,248)
Insurance services	304	(1,629)	4,339	2,286
Information and communication related and other services	(130)	366	2,137	(978)
Total	82,460	74,604	81,983	620,000
Corporate items and eliminations	(16,091)	9,865	(8,063)	(120,985)
Interest expense	(1,596)	(1,925)	(1,231)	(12,000)
Consolidated income before income taxes	¥ 64,773	¥ 82,544	¥ 72,689	$ 487,015

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2002	2001	2000	2002
Assets:				
Security services	¥ 408,657	¥369,582	¥322,681	$3,072,609
Medical services	61,615	11,241	2,061	463,271
Insurance services	352,454	213,438	144,963	2,650,030
Information and communication related and other services	179,383	137,362	154,045	1,348,744
Total	1,002,109	731,623	623,750	7,534,654
Corporate items	129,061	118,292	133,522	970,384
Investments in and loans to affiliated companies	34,943	32,419	24,950	262,729
Total assets	¥1,166,113	¥882,334	¥782,222	$8,767,767

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	2002
Depreciation and amortization:				
Security services	¥ 42,106	¥39,005	¥31,361	$ 316,586
Medical services	1,301	546	94	9,782
Insurance services	1,253	626	(602)	9,421
Information and communication related and other services	4,234	4,039	3,234	31,835
Total	48,894	44,216	34,087	367,624
Corporate items	997	804	168	7,496
Total depreciation and amortization	¥ 49,891	¥45,020	¥34,255	$ 375,120
Capital expenditures:				
Security services	¥ 52,165	¥48,220	¥36,459	$ 392,218
Medical services	2,717	376	132	20,429
Insurance services	104,398	58,247	12,885	784,947
Information and communication related and other services	2,928	3,634	3,449	22,015
Total	162,208	110,477	52,925	1,219,609
Corporate items	13	2,769	983	98
Total capital expenditures	¥162,221	¥113,246	¥53,908	$1,219,707

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

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

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	**2002**
Electronic security services:				
Commercial security and home security	**¥244,494**	¥230,763	¥221,765	**$1,838,301**
Large-scale proprietary systems	**3,438**	3,647	3,773	**25,850**
Other security services:				
Static guard services	**34,107**	32,204	31,663	**256,443**
Armored car services	**17,001**	15,109	13,540	**127,827**
Merchandise and other	**43,129**	34,416	25,093	**324,278**
Total security services	**¥342,169**	¥316,139	¥295,834	**$2,572,699**

(2) Geographic Segment Information

Revenue and other income attributed to countries based on location of customers and long-lived assets for the years ended March 31, 2002, 2001 and 2000 was as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2002	2001	2000	**2002**
Revenue and other income:				
Japan	**¥480,165**	¥455,623	¥398,865	**$3,610,263**
Others	**13,361**	12,670	13,559	**100,459**
Total	**¥493,526**	¥468,293	¥412,424	**$3,710,722**

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2002	2001	2000	**2002**
Long-lived assets:				
Japan	**¥463,144**	¥302,366	¥204,234	**$3,482,286**
Others	**6,384**	6,421	6,670	**48,000**
Total	**¥469,528**	¥308,787	¥210,904	**$3,530,286**

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

27. Subsequent Event

On April 23, 2002, following the enactment of the Welfare Pension Insurance Law in Japan, the parent company and certain of its subsidiaries obtained approval from Japan's Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employees Pension Funds that the parent company and certain of its subsidiaries operate on behalf of the Japanese government.

On August 13, 2002, the parent company repurchased its own stock, in accordance with the resolution approved by the shareholders' meeting held on June 27, 2002. The shares repurchased were 8,000,000 shares at ¥5,420 ($40.75) per share for an aggregate amount of ¥43,360 million ($326,015 thousand).

KPMG

The Board of Directors and Shareholders
Secom Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Secom Co., Ltd. and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of Secom Co., Ltd. and subsidiaries for the year ended March 31, 2000, were audited by other auditors whose report dated May 15, 2000, expressed an unqualified opinion on those statements, before the restatement described in Note 2 (1) to the consolidated financial statements.

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

In our opinion, the consolidated financial statements for the years ended March 31, 2002 and 2001 referred to above present fairly, in all material respects, the financial position of Secom Co., Ltd. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 (1) to the consolidated financial statements, the Company changed its reporting entity in the year ended March 31, 2002. The consolidated financial statements of all periods presented have been restated.

As discussed in Note 2 (12) to the consolidated financial statements, the Company changed its method of revenue recognition in the year ended March 31, 2001.

We also audited the adjustments described in Note 2 (1) to the consolidated financial statements that were applied to restate the consolidated financial statements for the year ended March 31, 2000. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying consolidated financial statements as of and for the year ended March 31, 2002 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 3 to the consolidated financial statements.

KPMG

Tokyo, Japan
May 16, 2002, except as to the last paragraph of Note 27 to the consolidated financial statements, which is as of August 13, 2002.