

The cover features a large, glowing blue sphere with binary code (0s and 1s) floating around it. Inside the sphere, there are silhouettes of a person in a hard hat and another person. A horizontal strip of five grayscale images is positioned across the middle of the sphere. The first image shows a woman at a computer terminal. The second shows a SECOM security device. The third shows a woman on a mobile phone. The fourth shows a woman in a white uniform, possibly a nurse. The fifth shows a man at a computer workstation.

## Annual Report 2004

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In response to changing customer needs,  
SECOM is working to realize its vision for the future—  
the Social System Industry—by providing comprehensive,  
integrated services and systems that make life  
more secure, convenient and comfortable.

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**E**stablished in 1962 as Japan's first security services firm, SECOM CO., LTD., has earned a reputation as a pioneer in the market by developing innovative products and services that truly benefit society. The Company's achievements to date have supported solid growth and transformed SECOM into a provider of security and peace of mind.

In 1989, SECOM introduced its vision for the future—the Social System Industry, a new framework of services created by integrating its products and services into distinctive, comprehensive packages that make life more secure, convenient and comfortable. To achieve this vision, SECOM has expanded its focus beyond security services to include medical, insurance, information, geographic information system (GIS) and education services. From this foundation, SECOM is now aiming to take the Social System Industry to the next level, the focus of which will be to maximize synergies among its diverse businesses and develop groundbreaking new products and services, thereby positioning the Company for further growth.

SECOM has also established an extensive network of security services subsidiaries and joint ventures overseas. This network currently encompasses companies in Taiwan, the Republic of Korea, Thailand, Malaysia, Singapore, Indonesia, the People's Republic of China, the United States, the United Kingdom and Australia.

We are  
SECOM.

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## HIGHLIGHTS

SECOM CO., LTD. and Subsidiaries  
Three years ended March 31, 2004

This table shows key financial highlights calculated using accounting principles generally accepted in the United States (U.S. GAAP).

### U.S. GAAP

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
Revenue and other income.....	¥ 537,859	¥ 520,743	¥ 493,526	\$ 5,074,141
Net income .....	23,479	30,275	34,082	221,500
Total assets.....	1,165,105	1,158,082	1,166,113	10,991,557
Total shareholders' equity.....	415,852	372,518	401,326	3,923,134
Per share of common stock:	In yen			In U.S. dollars
Net income (basic).....	¥ 104.32	¥ 132.87	¥ 146.19	\$ 0.98
Cash dividends paid.....	40.00	40.00	40.00	0.38
Shareholders' equity.....	1,847.80	1,655.04	1,720.57	17.43

Notes: 1. Yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥106=US\$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004.

2. Net income per share of common stock is based on the average number of shares outstanding during each period.

3. Shareholders' equity per share of common stock is based on the number of shares outstanding at the end of each period, minus treasury stock.

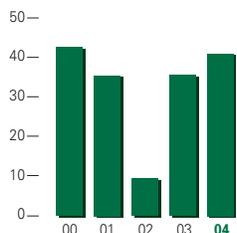
4. Subsequent to March 31, 2004, cash dividends per share of ¥45.00 were approved at the general shareholders' meeting on June 29, 2004 (see Note 18 of the accompanying notes to the consolidated financial statements).

Accounting principles generally accepted in Japan (Japanese GAAP) yield significantly different results for net income. Accordingly, key financial highlights calculated using Japanese GAAP are shown below for reference.

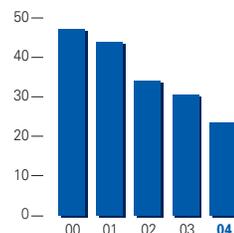
### Japanese GAAP

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
Revenue.....	¥ 527,409	¥ 523,271	¥ 497,921	\$ 4,975,557
Operating profit.....	81,286	72,902	43,022	766,849
Ordinary profit.....	76,243	70,063	41,541	719,274
Net income .....	41,111	35,583	9,583	387,840
Total assets.....	1,092,067	1,090,131	1,071,190	10,302,519
Total shareholders' equity.....	403,257	369,753	392,149	3,804,311
Per share of common stock:	In yen			In U.S. dollars
Net income (basic).....	¥ 181.40	¥ 154.96	¥ 41.11	\$ 1.71
Cash dividends paid.....	40.00	40.00	40.00	0.38
Shareholders' equity.....	1,790.58	1,641.53	1,681.23	16.89

**Net Income (Japanese GAAP)**  
(In billions of yen)



**Net Income (U.S. GAAP)**  
(In billions of yen)



The Company reported record-high revenue, operating profit and ordinary profit based on Japanese GAAP in the year ended March 31, 2004. Cash dividends of ¥45.00 per share were declared in the year ended March 31, 2005, an increase of ¥5.00 from the year ended March 31, 2004.

Note: Japanese GAAP were amended in the year ended March 31, 2001, with the adoption of accounting standards for pension benefits.

In the year ended March 31, 2002, the Company revised its pension plans and changed the accounting method for unrecognized actuarial gains and losses. Unrecognized actuarial gains and losses, which had been amortized using the straight-line method over the average remaining service period prior to the year ended March 31, 2002, were charged to income on an "as-incurred" basis. The Company also recorded unrecognized transition assets/obligations as a one-time charge to income. In addition, prior service costs were charged to income on an as-incurred basis. This resulted in a decrease in income before income taxes of ¥35.0 billion.

One-time recognition on an as-incurred basis for pension benefits is not permitted under U.S. GAAP. Accordingly, unrecognized actuarial gains and losses, unrecognized transition assets/obligations and prior service costs were amortized in the accompanying consolidated financial statements prepared under U.S. GAAP.

In the year ended March 31, 2000, the Company recorded a ¥4.3 billion gain on sales of securities resulting from an initial public offering by a subsidiary.

## TO OUR SHAREHOLDERS

The Japanese economy has begun to show some encouraging signs of improvement, despite muted personal consumption, as exports and private-sector capital investment picked up. Against this backdrop, the SECOM Group is forging ahead with measures to take the Social System Industry to the next level.

In the year ended March 31, 2004, we concentrated on enhancing existing services while developing and offering new services and products to satisfy emerging needs. We also strove to capitalize on Group synergies to create innovative service packages. These efforts resulted in a 3.3% increase in consolidated revenue and other income, to ¥537.9 billion. Net income amounted to ¥23.5 billion, owing to such factors as an impairment loss on property, plant and equipment and a revision of our pension plans. Net income per share was ¥104.32.

Calculated using Japanese GAAP, SECOM recorded consolidated revenue of ¥527.4 billion, an increase of 0.8%; operating profit and ordinary profit of ¥81.3 billion and ¥76.2 billion—both record highs; and net income of ¥41.1 billion, an increase of 15.5%. Net income per share was ¥181.40. Cash dividends per share of ¥45.00, an increase of ¥5.00, were proposed and approved at the general shareholders' meeting on June 29, 2004.

### **Taking the Social System Industry to the Next Level**

The vision of the SECOM Group is to help build a society that is free from concerns about safety and security, through the establishment of the Social System Industry. The foundation of the Social System Industry is the network we have created to deliver our security services. To



**Makoto Iida**  
Founder

this network we are adding layers of services and systems that make life more secure, convenient and comfortable. Rather than providing services individually, we offer them in comprehensive packages that increase security and convenience. We are committed to ensuring SECOM is a company to which people can turn with confidence to meet a wide range of needs.

To this end, we are communicating with customers to learn what would help them in their daily lives, and using their perspectives to develop creative new offerings.

As society's needs diversify, we have responded by expanding from security services, our starting point, to encompass medical, insurance, information, GIS and education services. Now we are devoting our full energies into tapping the synergies of the emerging Social System Industry to achieve further growth. New products and services must be competitive and unique, and must complement the Group's existing offerings to contribute to the provision of peace of mind to customers.

### **Service Differentiation and Packaging**

During the period under review, we continued to use our accumulated expertise and leading-edge technologies in the security services segment to offer distinctive product and service packages. We provided security services for commercial establishments by stepping up efforts to market centralized systems SECOM AX and SECOM IX, which employ advanced image monitoring; SECOM DX, a centralized system that features monitoring functions; and the fully digital D-CCTV surveillance camera system.

In the home security area, we made real progress toward evolving SECOM Home Security into a

comprehensive residential system that provides peace of mind. We augmented our home security lineup by releasing such physical safeguards as SECOM *Anshin* Glass, a high-impact window glass with built-in sensors, and the SECURIFACE intercom system, which employs face detection technologies to alert occupants to unauthorized visitors. We also launched Tomahawk Jet Alpha, an automated fire extinguishing system for home kitchens; SECOM Medical Club, a membership-based service for home security subscribers that offers access to the latest preventive treatments and health care-related services; and SECOM *Anshin* My Home, a comprehensive fire insurance policy that offers a discount for home security subscribers.

We began selling SECOM MS-3, a security system for condominiums that can be used for buildings of various types and sizes as a retrofit or a new installation. In addition, we added a safety-confirmation function to COCO-SECOM with Emergency Call, which helped to expand our menu of COCO-SECOM mobile security services.

In our medical services segment, we focused on making our core home medical care services more efficient, launched SECOM Medical Club as noted above, and in May 2004 began offering adult day services for senior citizens. We continued to expand sales of the SECOM Ubiquitous Electronic Medical Report (EMR) system for medical institutions. This system combines our medical, information security and IT expertise to secure and efficiently manage large volumes of medical report data.



**Toshitaka Sugimachi**  
Chairman



**Shohei Kimura**  
President and  
Representative Director

Medical institutions are also the target market for a medical personnel solutions service, as well as Medical Risk Management System, a new system that helps analyze risks associated with providing medical care.

Insurance is another area in which we are capitalizing on synergies between multiple fields to offer precedent-setting products. Our insurance services lineup includes New SECOM *Anshin* My Car, a comprehensive automobile insurance policy; Security Discount Fire Policy for commercial users of security systems; SECOM *Anshin* My Home for residential security system subscribers; and MEDCOM, an unrestricted cancer treatment policy.

Our information and communication related and other services segment includes cyber security and other information-related services, GIS services, education services, real estate sales and real estate leasing. To enhance our information product lineup, we launched sales of a noncontact integrated circuit (IC) card-based security system that combines

office access control with cyber security using the same card. We also augmented our Secure Data Center, which offers high-level security for both the physical and cyber realms, by launching a new service that prevents customer information and insider information leaks. In the area of GIS services, we promoted sales of packaged systems to the private sector. We also used the concept of packaging products and services together in our real estate sales, offering attractive condominiums that include security systems, management services and telephone-based home-related consulting services.

### **A New Executive System and Enhanced Compliance**

At its meeting on May 13, 2004, the Board of Directors of SECOM passed a resolution to adopt an executive officer system, a move that will clarify administrative responsibilities and authority, thereby strengthening the Company's management structure and ultimately improving customer services. In addition, we established a Compliance Division to oversee compliance issues throughout the SECOM Group. We also produced and distributed the SECOM Group Compliance Manual, which sets out internal guidelines for employee conduct, and set up a hotline to handle queries and provide information and advice on related issues.

### **Security and Peace of Mind Professionals**

The SECOM Group has entered various business areas—including security, medical, insurance, information, GIS and education services—in pursuit of its vision of contributing to a society in which all people can live safely and with peace of mind. The principal factor binding these disparate disciplines is the unwavering SECOM

philosophy. We firmly believe in breaking through stereotypes, shedding old practices and continually nurturing radical new business ideas, while also asking, "Is this good for society?" This philosophy and these high standards of conduct, universal among our personnel, have made it possible for SECOM to create the services and systems that solve problems in society that were previously considered intractable.

As security and peace of mind professionals, the future is bright for the SECOM Group. We will continue to grow our various business segments by seeking new synergies among them and developing integrated packages that inspire customers to turn to us for solutions to a wide range of problems.

Our pledge is to accurately grasp the diverse needs of society, swiftly roll out services that satisfy those needs, and in doing so, continue to create value for our shareholders. We ask for your continued understanding and support as we transform our vision into reality.

July 31, 2004



**Makoto Iida**  
Founder



**Toshitaka Sugimachi**  
Chairman



**Shohei Kimura**  
President and Representative Director

## SPECIAL FEATURE

### Systems that Provide Security and Peace of Mind— The Next Step toward the Social System Industry



**S**ECOM started as a security services company that offered security and peace of mind. It subsequently expanded services to meet customer demand for security, convenience and comfort by entering the medical, insurance, information, GIS and education fields.

The SECOM Group's mission is to establish the Social System Industry, and in doing so contribute to a society free from apprehension. To this end, we must offer innovative products and services that respond to society's needs and have the potential to generate synergy. This is important because we provide our products and services as packages or systems, rather than individually—an approach that enables us to offer peace of mind, convenience and comfort at appropriate prices. We can achieve this because of the wide scope of our operations.

By further integrating products and services into coordinated systems and offering them to the world, we will ensure SECOM is a company to which people can turn with confidence to meet a wide range of needs.

The following pages introduce some of the main steps we have taken in recent years to develop these synergies.

## SPECIAL FEATURE

### ■ Peace of Mind for the Home

The SECOM Group strives to contribute toward a society free from anxiety. We aim to provide solutions to all the apprehensions that may exist in a home and earn the trust of householders so they will turn to us when they have concerns. This is why we broadened our focus from narrowly defined “security systems,” such as crime prevention and fire prevention systems, to products and services that enable us to provide peace of mind.

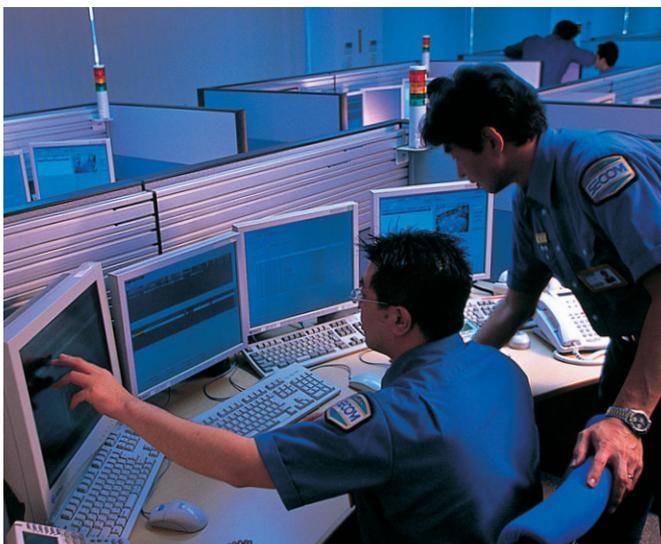
The centerpiece of such a system for the home is our SECOM Home Security systems, which provide on-line monitoring around-the-clock to respond to intruders, fires, gas leaks and medical emergencies. We also offer additional anti-intrusion devices and fire detection and extinguishing systems. Further protection is afforded by our insurance policies, as well as a

variety of home medical services to protect family health. Together, these services offer a comprehensive system that aims to provide subscribers with peace of mind at home.

### Residential Anti-Crime Solutions

Public security has eroded in recent years and planned robberies and new types of home intrusion are occurring more frequently. To protect homes from crimes such as these, SECOM has launched a rapid succession of new crime prevention products.

One such product is SECOM *Anshin* Glass, a high-impact window glass with built-in sensors developed to prevent thieves from breaking windows and gaining entry into homes. The window’s breakage-resistant glass and sensor functions have combined to make it extremely effective against intrusions. If



SECOM control center



SECOM Home Security

an attempt to break the glass is made, not only does it make a loud sound but breaking it takes an extended period of time. If the homeowner is a subscriber to SECOM Home Security, a SECOM control center will be alerted the instant the breakage occurs and will dispatch emergency response personnel. SECOM Anshin Glass has been highly evaluated by purchasers, particularly SECOM Home Security subscribers.

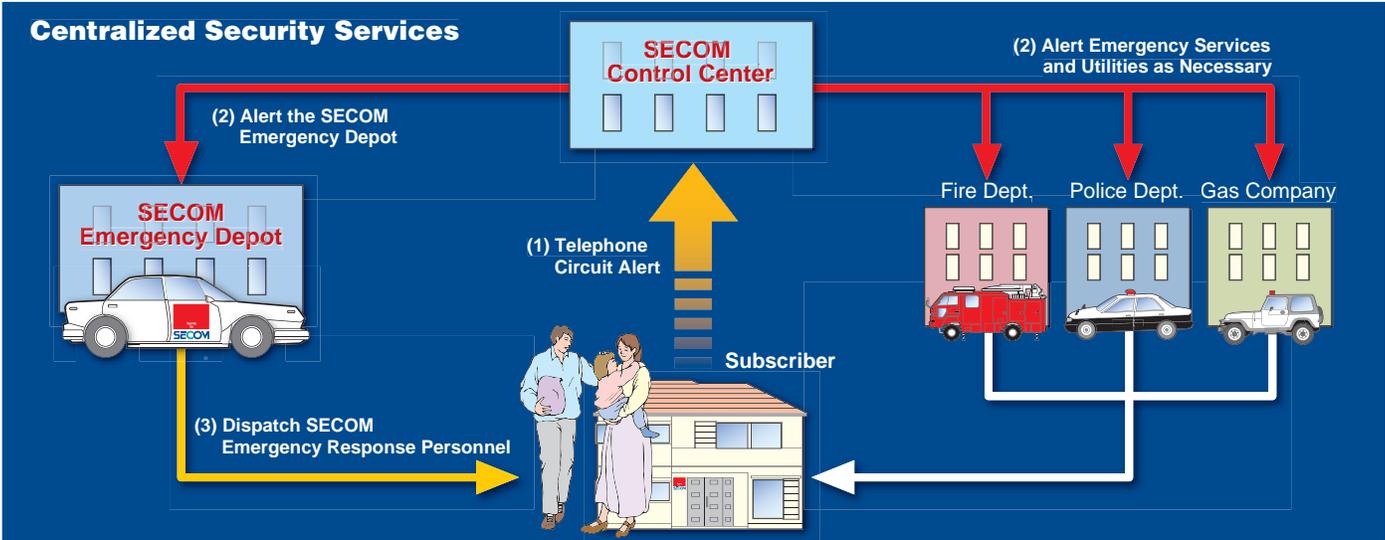
Criminals are demonstrating increasingly sophisticated methodology, such as impersonating delivery personnel to gain entry or using a home’s intercom to confirm the occupants’ absence. To combat resourceful criminals such as these, we released SECURIFACE. This intercom system combines an interphone



SECURIFACE

featuring built-in face detection technology with SECOM’s Home Camera System to create a complete image monitoring system with alert, monitoring, recording and control functions. The face detection function recognizes whether or not a person’s face appears in the field of

the camera in the interphone. If the person intentionally hides his or her face or stays out of the camera’s field of view, suspicious intent is assumed and the occupants are alerted to exercise diligence at the door. The know-how gained through operating security services and the advanced image processing technologies that went into the creation of this unique system illustrates how SECOM solves the challenges of modern life for its customers.



## SPECIAL FEATURE

To combat forced entries, we came up with Strong Door, a reinforced door that can withstand an assault for an extended period of time. If bedroom doors are replaced with Strong Door, customers are protected from intruders while they are asleep.

Similarly, SECOM Window Frame can be installed on window exteriors to prevent entry. These attractive reinforced stainless bars are designed to resist tampering for an extended period of time and if they are broken or removed, their integrated sensors alert a SECOM control center.

In this way, SECOM has taken decisive steps to provide products and services to protect customers and their families at home from rapidly increasing incidence of intrusion.

We have also directed our creativity to fire prevention. Tomahawk Jet Alpha is an automatic fire extinguishing system attached to range hoods in residential kitchens. This system does not require pipes to be installed and protects the home from stove-top fires by directing a jet of fire suppressant on the burners if its sensors detect temperatures above 96°C (205°F).



Tomahawk Jet Alpha

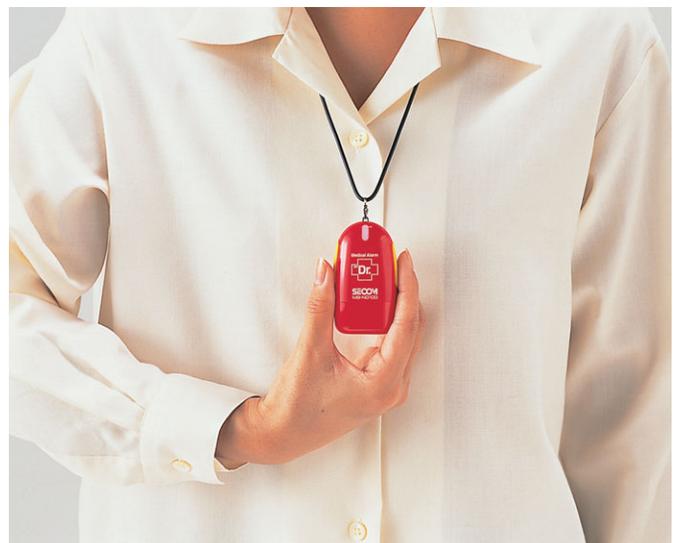
### ■ Ground-Breaking Medical Services

#### SECOM Medical Club—Easing Anxiety about Health Issues

Eliminating fears about family health is one aspect of how we are offering security and peace of mind in the home. This is why we combined aspects of our security business with

the medical business to create SECOM Medical Club in November 2003. To date, we have offered My Doctor, an emergency medical alert system, as an option to SECOM Home Security subscribers. SECOM Medical Club is offered to subscribers as part of an integrated service package.

SECOM Medical Club offers three main services—preventive medical services, emergency medical



My Doctor emergency medical alert system

services and referral services for medical institutions and specialists—to accommodate family health management needs. Subscribers can evaluate their health status and living habits over the Internet or by mail with an easy-to-use Living Habits Check function, which includes a health checklist, a questionnaire on living habits to assess health and provide advice, and a prevention and treatment program for osteoporosis. These services are well utilized by subscribers.



SECOM Medical Club nurse center

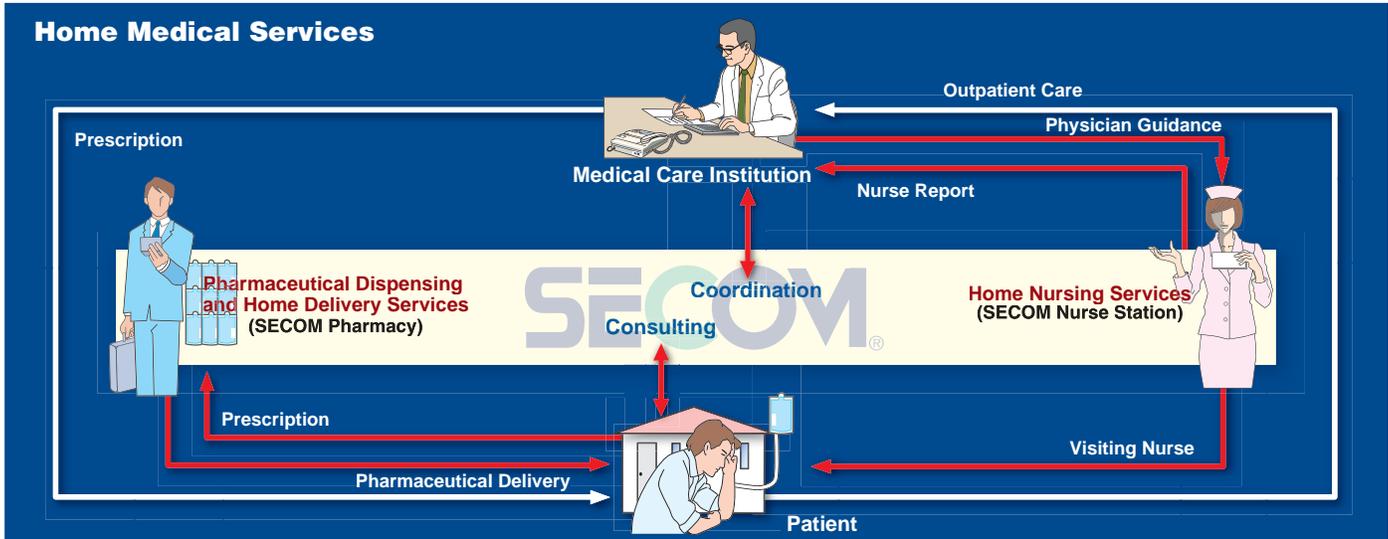
In addition, we offer a toll-free hotline staffed by qualified nurses, who provide telephone health consultation, health check referral and medical institution information search services.

For those who may be experiencing symptoms of a medical ailment or condition, we offer advice on possible causes. People who are anxious about whether they have a heart condition can use our electrocardiogram service to rent a self-administered mobile electrocardiograph and

send in their data, which is converted to an electrocardiogram and faxed back. We will continue to add new services that help people maintain and promote their health as we evolve our SECOM Medical Club services.

Quality Home Medical Services

The SECOM Group is keeping an eye firmly on the future of medical care in Japan while rolling out a precedent-setting series of medical services. Patients



## SPECIAL FEATURE

convalescing at home, for example, can obtain 24-hour peace of mind with our nursing care and home personal care services. SECOM was the first company in Japan to offer a full-fledged home nursing service employing highly skilled and experienced nurses to attend to patients at their homes at regular intervals. With patients expressing much appreciation for these services, we have expanded the nationwide network of SECOM visiting nurse stations to 32. Home personal care services for individuals include assistance with daily activities, such as bathing, exercising, meal preparation and housework.

Using the experience gained in home medical services, in May 2004 we opened the SECOM Senior Club Tama Plaza, an adult day service facility for senior citizens. As with the visiting nurse and home care services, adult day services are covered by the

long-term care insurance scheme. The SECOM Senior Club Tama Plaza was conceived to provide seniors who require care with an enhanced lifestyle through the opportunity to meet others and enjoy various programs while providing respite to family members during the day.

### ■ The Ever-Expanding COCO-SECOM Lineup

SECOM began offering security services to corporate clients and then expanded to the home. We are now going one step further to focus on individuals, through our precedent-setting COCO-SECOM mobile security services, which combine security, information and GIS services. These services use Global Positioning System (GPS) satellites and cellular telephone base stations to pinpoint locations with high precision, providing a solution to people concerned about automobile or motorcycle theft, elderly family members who may wander and get lost or children who might be abducted.



SECOM Senior Club Tama Plaza

Since we launched COCO-SECOM in April 2001, we have continually added to the menu of services in response to customer needs. We presently offer services for people, motorcycles, automobiles, cash and valuables cases, construction machinery, safes, automated teller machines (ATMs), pets and motorized bicycles. The COCO-SECOM



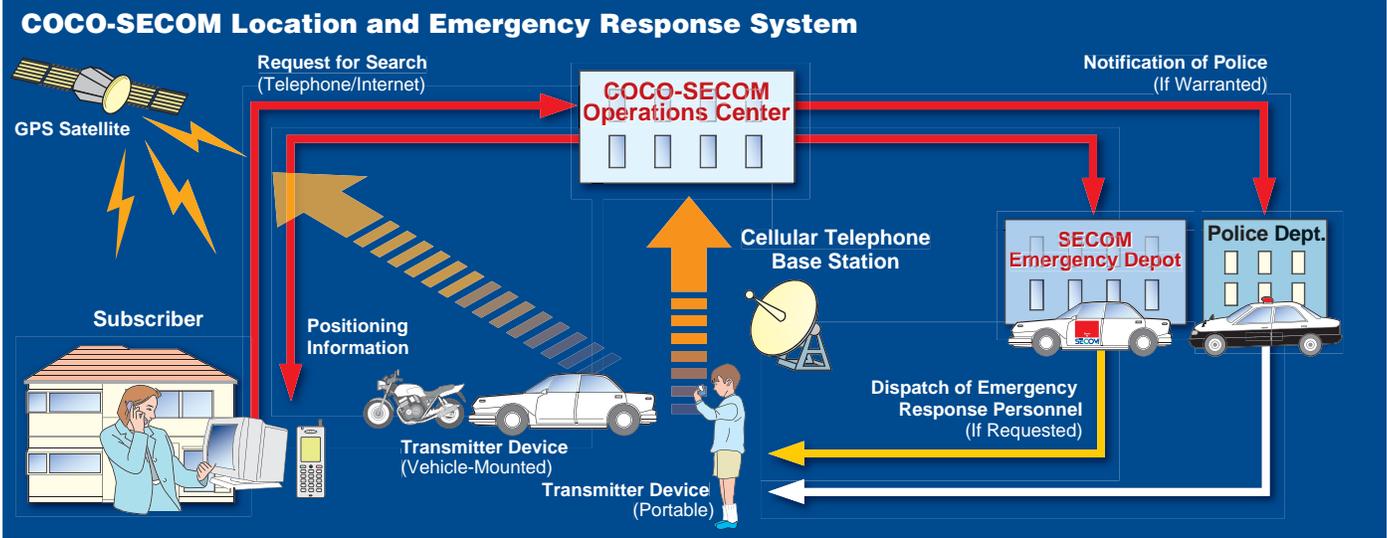
COCO-SECOM

lineup also includes a service that enables subscribers to pinpoint the location of several vehicles or individuals simultaneously, making it suitable for tracking commercial vehicle fleets and employees.

Child abductions and assaults on women are increasing. To counter this, we began offering new COCO-SECOM services with enhanced communication options. In addition to being able to alert and

summon SECOM to an emergency situation with the press of a single button, users can opt to use the services COCO-SECOM Inquiry Call or COCO-SECOM Watch Me Call. With COCO-SECOM Inquiry Call, for example, a parent can confirm the safety of a child carrying the special transmitter by using the Internet to send a signal to the trans-

mitter, which vibrates when it receives the signal. The child can then reassure the parent that they are safe simply by activating a switch on the transmitter. With COCO-SECOM Watch Me Call, a woman walking alone down a dark road, for example, can activate the transmitter and if she does not activate it again within a set period of time, an emergency signal is automatically transmitted to SECOM.



## SPECIAL FEATURE

When we first launched COCO-SECOM services, communication was only possible in one direction, that is, it enabled someone at home to confirm the location of a family member carrying a transmitter when that person was out. Now, we offer interactive security, providing location data and a response by the person carrying the transmitter.

### ■ Business Synergies for Unique Insurance Policies

At SECOM, we believe combining on-line security systems with non-life insurance represents the ideal in seamless services that provide security and peace of



Heavy ion radiation therapy  
© NIRS

mind. This is because our on-line security systems provide prior protection, while non-life insurance protects customers in the event of misfortune. The combination offers customers an enhanced level of reassurance. We are using this approach to develop a series of products that combines elements of

security and insurance.

Security Discount Fire Policy, for example, takes into account the lowered risk of an office that subscribes to on-line security systems to offer discounted premiums. The customer therefore not only breathes more easily knowing that a security system is protecting them, but also gains the peace of mind of being insured against loss for less cost. The same concept underlies the SECOM *Anshin My Home* policy for households. This policy offers lower premiums to home security subscribers.

The New SECOM *Anshin My Car* policy has several features. If the car is in an accident, at the request of the insured party we send emergency response personnel to the site to assist at any hour, any day of the year. In addition, the policy offers safe-driving discounts for families and a discount for using an anti-theft service, such as COCO-SECOM.



MEDCOM consultants

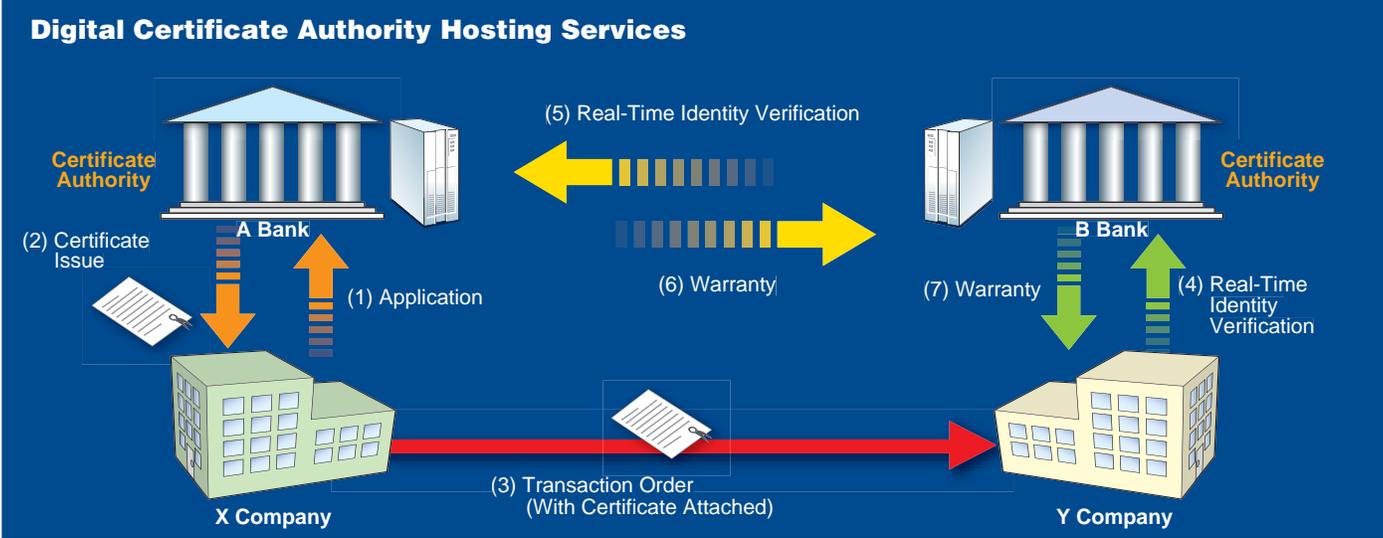
Our approach has also given birth to MEDCOM, an unrestricted cancer treatment policy that combines medical and insurance features. MEDCOM insures against the costs involved with cancer treatments. Until MEDCOM, in many cases patients could not take advantage of optimal cancer treatments that were not covered by the national health insurance scheme because of the prohibitive cost. This, in turn, slowed down the adoption of new treatments. With this product, the policyholder is referred to the best medical institution for their particular needs and Secom General Insurance Co., Ltd., covers all of the treatment costs.

In November 2003, we substantially upgraded the policy in response to user demand by having it cover the portion of cancer treatment costs (30%) that individuals must meet under the national health insurance

scheme. With guaranteed coverage, our customers can focus on getting better without having to worry about money issues or forgo treatment.

**Security Needs for the Information Age**

As the role of information increases in modern society, so too does the importance of information security. Information security involves physical protection and access control as well as cyber protection against interception and tampering perpetrated by hackers or malicious computer programs, such as viruses. By combining its expertise in physical and cyber security, SECOM is responding to the needs of its clients in the information age.



## SPECIAL FEATURE

### The Secure Data Center— Integrated Physical and Cyber Security

The Secure Data Center was inaugurated in December 2000. Access to the building is guarded around the clock with static guards and zero-blind-spot cameras, applying all the years of know-how that SECOM has accumulated in the realm of physical security. In the area of cyber security, our customers' servers are guarded ceaselessly by highly secure monitoring services that protect against unauthorized access and viruses, and by digital authentication services.



Secure Data Center storage area

The Secure Data Center operates the digital certificate authorities for a number of Japan's preeminent financial institutions. It also operates the extranet and servers of the Japanese subsidiary of a major U.K. pharmaceuticals firm, and is entrusted with their repair and

maintenance. As of May 2004, we also began offering a key activation report service and procedural services to help prevent and combat the recent spate of customer information and insider information leaks. With the key activation report service, a SECOM guard records the date and time, company name, title and name of any person who opens or closes a server rack. This information is relayed to the owner's IT contact. Under the procedural service, a SECOM guard accompanies the owner's IT staff or maintenance vendor at all times to prevent improper actions. As with bricks and mortar assets, SECOM ensures its customers' cyber assets are secure too.



Secure Data Center procedural services

### Noncontact IC Card Systems— Security for the Information Age

Demand has risen for security systems that offer more reliability and convenience as public safety erodes and technologies progress. We have responded with our access-control systems. Our noncontact IC card systems control access to a building and each of its floors, provide definitive identification of individuals and control access to multiple servers—all with a single card. These systems blend physical and cyber security at an advanced level, providing security countermeasures that satisfy the demanding requirements of the information age.



Noncontact IC card system

### ■ Toward a World Free from Apprehension

The SECOM Group's growth to date reflects its adherence to its vision of building the infrastructure for a society in which people can enjoy security, convenience and comfort.

The fields of security, medical, insurance, information, GIS and education services are all part of the social infrastructure and essential to realizing the Social System Industry vision.

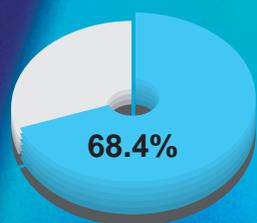
As we develop the various integrated products and services that will make the Social System Industry a reality, we will keep in mind the vital importance of offering high-value-added systems that serve the diverse needs of society. We will continue to adhere to a philosophy that seeks to transcend accepted boundaries and provide products and services that are truly beneficial to society. Last but not least, the employees of the SECOM Group will work to create and deliver the services and products that ensure customers are satisfied they chose SECOM.

Over the coming years, the SECOM Group will strengthen the SECOM brand and rise to the challenge of taking the Social System Industry to the next step by introducing revolutionary new products and services. We urge you to expect the best from the SECOM Group.

# REVIEW OF OPERATIONS

## Percentage of Revenue and Other Income\*

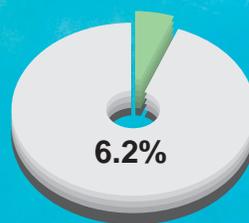
Security Services



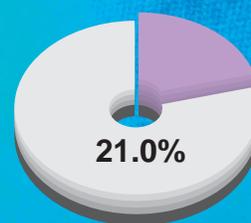
Medical Services



Insurance Services



Information and Communication Related and Other Services



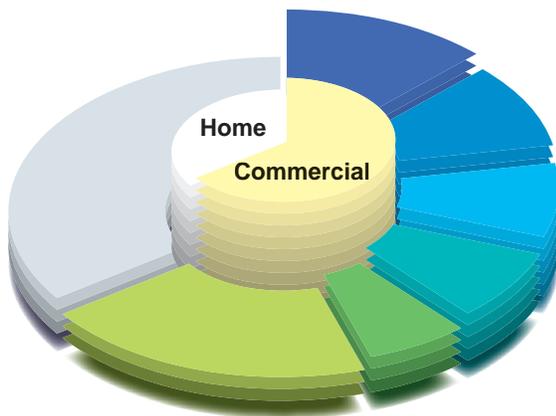
\*Excluding intersegment transactions

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## Commercial and Home Security Service Subscribers by Category (At March 31, 2004)



● Service industries	12.7%
● Retailing/wholesaling	9.5%
● Financial services	8.3%
● Manufacturing	8.0%
● Government agencies	6.5%
● Others	20.2%
● Households	34.8%

## ■ Security Services

### Electronic Security Services

For the year ended March 31, 2004, revenue from electronic security services, comprising commercial and home security and large-scale proprietary systems, grew 2.7%, to ¥265.3 billion, and accounted for 49.3% of consolidated revenue and other income, compared with 49.6% in the previous period.

To provide quality security services, the SECOM Group has established an integrated process that enables it to maintain control of every aspect of its services, from the research and development of centralized systems and equipment to manufacturing, sales and marketing, installation, 24-hour monitoring, emergency dispatches, and maintenance and repairs. Centralized systems use SECOM sensors installed at customers' premises to detect events, such as intrusions, fires and equipment malfunctions. The sensors are linked to SECOM control centers via telecommunications circuits to facilitate remote monitoring. When an event is detected,

the relevant information is relayed to the control center, where the staff dispatch emergency response personnel, who take the appropriate measures, and notify the police or fire department as required.

During the period under review, we continued to market SECOM AX, a centralized system that employs advanced image monitoring, to commercial users. We heightened the competitive advantages of the versatile SECOM DX centralized security system by adding DX Monitor, which incorporates a function that enables, through the image display screen on the site, individuals operating the system and security controls to guard against ambush or forced entry. For condominiums, we launched sales of SECOM MS-3, which can be used for existing and new buildings of all sizes.

We continued to offer SECOM Home Security systems to the residential market. For subscribers to these systems, we monitor homes for intruders, fires, gas leaks, emergency calls and medical alerts from our control centers, dispatch emergency response personnel and notify the police, fire department or gas company as required. Subscriptions increased steadily during the period.

Our large-scale proprietary systems are self-contained, enabling monitoring to be performed at the subscribers' premises, rather than remotely, through the combination of on-site patrols and electronic security and equipment management systems. The SECOM TOTAX ZETA system combines our security expertise in large-scale applications with the latest network technologies to protect major industrial and commercial facilities.

### Other Security Services

For security situations that require human judgment and flexible responses, we provide static guard services staffed by highly trained professionals. We also offer armored car services to transport cash and other valuables. Together, these services generated revenue of ¥56.2 billion, 5.6% higher than the prior period, and accounted for 10.5% of consolidated revenue and other income, up slightly from 10.2%.

## REVIEW OF OPERATIONS

### Merchandise and Other

We offer a variety of security products, including closed-circuit television (CCTV) monitoring systems, access-control systems, fire detection and extinguishing systems, and internal and external monitoring systems, which can be used alone or connected to on-line security systems, as well as COCO-SECOM mobile security services. For the period, these products and services yielded revenue of ¥46.1 billion, an increase of 4.5%, and provided 8.6% of consolidated revenue and other income, compared with 8.5% in the previous period.

In the CCTV area, the D-CCTV fully digital surveillance camera system again enjoyed steady sales, owing to its clarity and ability to display or record video images without deterioration. We released a stream of new products for the home security market to thwart increasingly bold and resourceful criminal behavior. This included SECOM *Anshin* Glass, a high-impact window glass with built-in sensors, and SECURIFACE, an intercom system that employs an innovative face detection function to alert people to exercise diligence at the door.

We strengthened the line-up of COCO-SECOM mobile security services in response to consumer demand. During the period, we launched COCO-SECOM with Emergency Call, a new package with an added feature that can confirm the safety of a person carrying a COCO-SECOM transmitter, and we introduced services for pets and motorized bicycles.

### ■ Medical Services

Revenue from medical services amounted to ¥21.2 billion, a 6.4% rise, and represented 3.9% of consolidated revenue and other income, up from 3.8% in the previous period.

In the period under review, this segment continued to offer home medical care services, institutional services and medical equipment for sale, as well as operate residential facilities for seniors and lease real estate to medical

institutions. Our home medical care services include home nursing, personal care and pharmaceutical dispensing and delivery, while institutional services feature remote image diagnosis support and medical information systems.

Home medical care services performed strongly, and we expanded our network of visiting nurse stations to 32 nationwide. We also continued to market the Hospinet remote image diagnosis support service to medical institutions. This service relays images from advanced imaging equipment, such as magnetic resonance imaging (MRI) and computerized tomography (CT) scanners, to our Hospinet center for examination by our diagnostic experts, who then provide consultation to the primary physician. We also stepped up sales efforts for the SECOM Ubiquitous EMR system, which allows hospitals and clinics to effectively and securely manage large volumes of medical report data.

During the period, we introduced SECOM Medical Club, a membership-based service primarily aimed at SECOM Home Security subscribers, effectively combining security and medical services in an innovative package. In addition, we began sales of Medical Risk Management System to assist institutional users in analyzing and minimizing the risk of medical accidents.

### ■ Insurance Services

Revenue from insurance services increased 14.5%, to ¥33.4 billion, and provided 6.2% of consolidated revenue and other income, compared with 5.6% in the preceding period.

Secom General Insurance offers specialized non-life insurance policies that draw on synergies with other SECOM Group businesses. During the term, we continued to aggressively market the attractively priced Security Discount Fire Policy to commercial subscribers to on-line security systems, as well as the residential version, SECOM *Anshin* My Home, to home security subscribers. Both policies offer reduced premiums to security system subscribers,

recognizing these systems as risk-lowering factors. New SECOM *Anshin My Car* is a comprehensive automobile insurance policy that offers on-site support services of our emergency response personnel in the event of an automobile accident and lower premiums if the vehicle is equipped with COCO-SECOM or other anti-theft devices. We also renewed efforts to market MEDCOM, an unrestricted cancer treatment policy that covers the entire medical cost of advanced treatments not covered by national health insurance as well as the patient's portion of the cost of medical care covered by the national scheme.

## ■ Information and Communication Related and Other Services

Revenue in this segment fell 0.2%, to ¥112.8 billion, and accounted for 21.0% of consolidated revenue and other income, compared with 21.7% in the prior period.

### Information Services

Secom Information System Co., Ltd., which builds and operates information network systems for the SECOM Group, also uses its know-how and technological expertise to offer these services to corporate customers. Secom Trust.net Co., Ltd., offers high-quality protection for e-business and on-line operations, including the cyber security essential for IT systems and broadband systems; advanced digital authentication services crucial to e-commerce and electronic application systems; and the Secure Data Center, which provides a secure network environment and outsourcing of the operation and maintenance of servers. During the term, the Secure Data Center secured a major contract to maintain and operate the extranet and servers of a major U.K. pharmaceutical company's Japanese subsidiary. We also launched sales of a noncontact IC card-based security system that combines physical and cyber security to control building, floor and computer access using a single access card for each authorized person.

### GIS Services

Pasco Corporation, Japan's leader in GIS and aerial mapping services, continued to cultivate new markets by using its leading-edge sensor technologies and GIS expertise to develop innovative information services. During the period, we continued to promote sales of PasCAL, a comprehensive GIS service integrating various data with digital maps that is marketed to regional public agencies to increase efficiency and share information. We also introduced a series of management systems for public facilities.

In the commercial area, we concentrated on marketing the Management-Navigation series of packaged GIS systems. We also introduced MarketPlanner, an Internet-compatible area marketing product.

### Education Services

Secom Lines Co., Ltd., a pioneer in computer-aided learning in Japan, develops and provides local area network (LAN)-based learning systems for classrooms, Internet-based learning support software and Web-based educational content primarily for elementary and middle schools.

### Real Estate Sales

Secom Home Life Co., Ltd., develops and sells highly innovative condominiums based on the concept of "safe and secure condominiums" that incorporate value-added elements, such as the latest SECOM Group security systems, medical services, personal care services, information services and insurance products. During the term, Secom Home Life continued to develop and market quality condominiums that emphasize security and peace of mind.

### Real Estate Leasing

Arai & Co., Ltd., continued to build on the expertise in property management it has accumulated in the real estate leasing business. In the period, the company focused on expanding its office leasing business.

## REVIEW OF OPERATIONS

### ■ Overseas Operations

Security is a universal requirement for people and society. With this concept in mind, in 1978 SECOM launched operations in Taiwan. Soon after, we branched out into the Republic of Korea and the United States. We then secured access to the markets of Europe and Oceania by setting up operations in the United Kingdom and Australia, and extended our presence in Asia by expanding into Thailand, Malaysia, Singapore, Indonesia and the People's Republic of China, bringing the total number of countries and territories in which we operate, outside Japan, to 10.

The distinguishing characteristic of SECOM security operations around the world is that we customize our systems and services to the needs of the particular country or region while drawing on know-how gained in Japan. Pursuit

of this strategy has let SECOM security services transcend cultural differences to gain favor with subscribers world-wide. We hope to make SECOM a brand trusted globally as we work to contribute to the security and peace of mind of people everywhere.



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### Operating Results

#### Overview

In the fiscal year ended March 31, 2004, the parent company and its consolidated subsidiaries (collectively, "the Company") implemented a variety of assertive measures aimed at enhancing their operations—which center on security services and also encompass medical, insurance, information, GIS and education services, real estate sales and real estate leasing—by improving services and expanding marketing, system construction and product development.

Firm revenue in security services and certain other areas supported an increase in consolidated revenue and other income of 3.3%, or ¥17.1 billion, to ¥537.9 billion. Owing to such factors as an impairment loss on property, plant and equipment of ¥15.1 billion and losses on a revision of our pension plans amounting to ¥8.8 billion, however, net income was ¥23.5 billion.

#### Revenue and Other Income

Owing to an increase in net sales and a gain on sales and disposal of property, plant and equipment, net, revenue and other income increased 3.3%, or ¥17.1 billion, to ¥537.9 billion. Net sales increased 2.5%, or ¥12.8 billion, to ¥525.5 billion, due to higher sales in the security services segment, which focuses on centralized security systems. The gain on sales and disposal of property, plant and equipment, net, which amounted to ¥4.1 billion, was largely attributable to gains on the sale of real estate for lease, held as investment assets (insurance services business) and for lease (real estate leasing business).

#### Costs and Expenses

Despite a sharp decline in loss on other-than-temporary impairment of investment securities, costs and expenses rose 4.5%, or ¥21.0 billion, to ¥488.8 billion, owing to increases in cost of sales, selling, general and administrative expenses and impairment loss on property, plant and equipment, together with a settlement loss of benefit obligation on transfer to defined contribution pension plan and a loss on transfer of the substitutional portion of Employees' Pension Fund.

Expanded net sales pushed cost of sales up 2.8%, or ¥8.9 billion, to ¥326.4 billion, equivalent to 62.1% of net sales, up from 61.9% in the previous period. The higher cost-of-sales ratio was primarily a consequence of a decline in sales in the area of GIS services, which reflected ongoing budget cuts by national and local government agencies—the principal customers for these services—and intensifying price competition.

Selling, general and administrative expenses increased 6.6%, or ¥8.0 billion, to ¥128.0 billion. Despite cost reduction efforts, these expenses accounted for 23.8% of revenue and other income, up from 23.0%, owing to, among others, an increase in the allowance for doubtful accounts.

Although the Company registered a gain on sales and disposal of property, plant and equipment, net, compared with a loss of ¥2.8 billion in the previous period, the Company recorded an impairment loss on property, plant and equipment of ¥15.1 billion, up ¥12.1 billion.

To reinforce its financial foundation, the Company revised its pension plan by partially shifting to a defined contribution pension plan and transferring the substitutional portion of the Employees' Pension Fund to the government. This resulted in a ¥4.6 billion settlement loss of benefit obligation on transfer to defined contribution pension plan and a ¥4.2 billion loss on transfer of the substitutional portion of Employees' Pension Fund.

Modest gains in the Japanese stock market underscored a decline of 91.7%, or ¥10.6 billion, in loss on other-than-temporary impairment of investment securities, to ¥963 million.

#### Income

Notwithstanding the positive impact of higher net sales and a decline in loss on other-than-temporary impairment of investment securities, income before income taxes slipped 7.3%, or ¥3.8 billion, to ¥49.0 billion, primarily reflecting the aforementioned impairment loss on property, plant and equipment, settlement loss of benefit obligation on transfer to defined contribution pension plan and loss on transfer of the substitutional portion of Employees' Pension Fund.

Income taxes rose 7.9%, or ¥1.9 billion, to ¥25.9 billion. Income taxes were equivalent to 52.9% of income before income taxes, compared with 45.5% in the previous period—an increase due largely to an increase in unrecognized tax benefits from subsidiaries in loss positions.

Owing to these and other factors, net income was ¥23.5 billion and represented 4.4% of revenue and other income. Both basic net income per share and diluted net income per share amounted to ¥104.32.

### Segment Information

For detailed segment information, please see Note 28 of the accompanying notes to the consolidated financial statements.

Revenue and other income in the security services segment rose 3.3% from the previous period, or ¥11.8 billion, to ¥368.8 billion. Excluding intersegment transactions, segment revenue and other income amounted to ¥367.6 billion, equivalent to 68.4% of total revenue and other income, up from 68.3%. Revenue and other income from mainstay commercial and home security services amounted to ¥261.8 billion, an increase of 2.7%, or ¥6.8 billion. Large-scale proprietary systems accounted for ¥3.6 billion, an increase of 3.6%, or ¥123 million. Static guard services generated ¥37.5 billion, an increase of 4.5%, or ¥1.6 billion. Armored car services

represented ¥18.6 billion, up 7.9%, or ¥1.4 billion. Merchandise and other contributed ¥46.1 billion, up 4.5%, or ¥2.0 billion. Despite higher revenue and other income, segment income before income taxes decreased 4.8%, or ¥3.9 billion, to ¥76.2 billion, and accounted for 20.7% of segment revenue and other income, down from 22.4%. This was largely attributable to the settlement loss of benefit obligation on transfer to defined contribution pension plan and loss on transfer of the substitutional portion of Employees' Pension Fund.

In the medical services segment, revenue and other income advanced 6.4%, or ¥1.3 billion, to ¥21.4 billion. Sales gains notwithstanding, the segment registered a loss before income taxes of ¥1.2 billion, compared with income before income taxes of ¥1.8 billion in the previous period, owing primarily to the increase in the allowance for doubtful accounts and impairment loss on property, plant and equipment.

The insurance services segment generated revenue and other income of ¥35.8 billion, up 14.8%, or ¥4.6 billion, and income before income taxes of ¥3.2 billion, compared with a loss of ¥9.2 billion in the previous period. This segment's improved performance reflected a gain on the sale of real estate for lease held as investment assets, and the decline in loss on other-than-temporary impairment of investment securities, underscored by an improved investment environment.

In the information and communication related and other services segment, which encompasses information-related services, GIS services, real estate sales and real estate leasing, revenue and other income edged up 0.5%, or ¥561 million, to ¥116.6 billion. The segment posted an ¥11.9 billion loss before income taxes, compared with a loss of ¥2.0 billion in the previous period. The greater loss was attributable to ongoing budget cuts by national and local government agencies—the principal customers for GIS services—and intensifying price competition for these services, as well as to the impairment loss on property, plant and equipment used exclusively in real estate leasing and an increase in the allowance for doubtful accounts.

### Financial Position

Total assets of the Company as of March 31, 2004, amounted to ¥1,165.1 billion, up 0.6%, or ¥7.0 billion, from the previous fiscal year-end.

Total current assets increased 12.5%, or ¥54.0 billion, to ¥485.0 billion, as cash and cash equivalents advanced 7.6%, or ¥13.7 billion, to ¥192.9 billion; the expansion of armored car services boosted cash deposits 34.6%, or ¥15.7 billion, to ¥60.9 billion; and a restructuring of the investment portfolio of our insurance services business raised short-term investments 60.0%, or ¥13.5 billion, to ¥35.9 billion. A significant increase in total current assets, coupled with a slight decrease in total current liabilities, pushed the current ratio up to 1.7 times, from 1.5 times a year earlier.

Investments and long-term receivables rose 10.7%, or ¥27.6 billion, to ¥286.0 billion. This increase reflected a review of our insurance business's investment portfolio, which resulted in the acquisition of investment securities.

Property, plant and equipment, less accumulated depreciation, declined 17.7%, or ¥65.0 billion, to ¥302.9 billion. This decline reflected the sale of real estate for lease in line with a review of our insurance business's investment portfolio, and an impairment loss on property, plant and equipment.

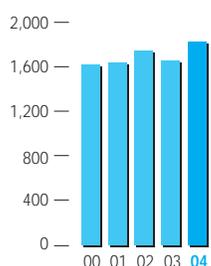
Other assets were down 9.5%, or ¥9.6 billion, to ¥91.2 billion, as a decrease in accrued pension and severance costs prompted a decline in deferred income taxes.

Total liabilities amounted to ¥719.0 billion, a decrease of 5.0%, or ¥38.2 billion, from a year earlier.

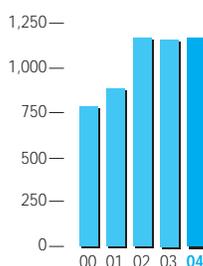
Total current liabilities came to ¥284.2 billion, edging down 0.1%, or ¥282 million. Bank loans declined 9.9%, or ¥12.3 billion, to ¥111.8 billion. In contrast, the expansion of the Company's armored car services boosted deposits received 33.8%, or ¥9.8 billion, to ¥38.6 billion.

Long-term debt decreased 11.4%, or ¥11.7 billion, to ¥91.1 billion. Accrued pension and severance costs fell 69.3%, or ¥28.9 billion, to ¥12.8 billion. This reflected the parent company and certain of its Japanese subsidiaries obtaining approval to separate the remaining benefit obligation of the substitutional portion of the Employees' Pension Fund (EPF), which is related to past employee services and which it subsequently transferred to the government, and

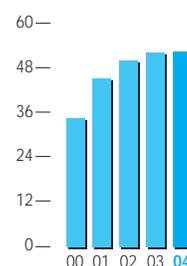
**Shareholders' Equity per Share**  
(In yen)



**Total Assets**  
(In billions of yen)



**Depreciation and Amortization**  
(In billions of yen)



the adoption of a defined contribution pension plan. As a result, plan assets of the EPF exceeded the accumulated benefit obligation, prompting a decline in minimum pension liability adjustments. Investment deposits by insurance policyholders amounted to ¥230.3 billion and accounted for 19.8% of total liabilities and shareholders' equity.

Total shareholders' equity rose 11.6%, or ¥43.3 billion, to ¥415.9 billion. Retained earnings increased 4.8%, or ¥14.4 billion, to ¥315.0 billion. For the reasons explained in the preceding paragraph, minimum pension liability adjustments fell to ¥194 million, from ¥26.1 billion. The equity ratio rose to 35.7%, from 32.2% a year earlier.

### Cash Flows

The Company is committed to maintaining sufficient liquidity to ensure flexibility in its operations and guarantee a solid financial foundation. To the best of its ability, the Company is also committed to financing related strategic investments with cash generated by its operating activities.

In the period under review, net cash provided by operating activities amounted to ¥89.2 billion and included net income of ¥23.5 billion and depreciation and amortization of ¥52.9 billion. Operating activities provided ¥1.3 billion less than in the previous period, partially owing to an increase in inventories—compared with a decrease in the previous period—prompted by a rise in inventories of real estate for sale.

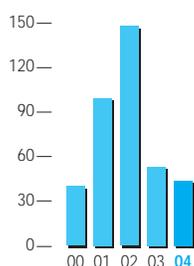
Net cash used in investing activities amounted to ¥28.6 billion. Principal components were ¥40.5 billion in payments for purchases of property, plant and

equipment, primarily security equipment and control stations; a net ¥21.2 billion applied to short-term investments and the purchase of investment securities; and ¥32.3 billion in proceeds from sales of property, plant and equipment, notably real estate for lease. Investing activities used ¥56.1 billion less than in the previous period, primarily owing to a smaller increase in the combined net outlay for short-term investments and the purchase of investment securities. This reflected a decline in proceeds from sales of funded personal accident insurance policies, which led to a decrease in payments for purchases of investment securities.

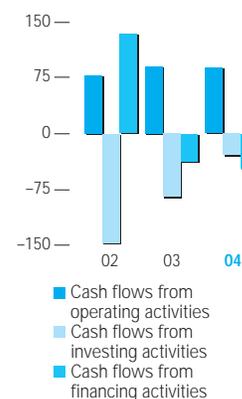
Net cash used in financing activities came to ¥46.8 billion. This amount included a net outlay of ¥35.9 billion for repayments of debt—that is, net repayments of long-term debt and decrease in bank loans—resulting from efforts to lower interest-bearing debt, and dividends paid of ¥9.0 billion. Despite a significantly smaller increase in treasury stock, net, of ¥114 million, compared with ¥44.1 billion in the previous period, net cash used in financing activities rose ¥10.1 billion, largely as a consequence of the aforementioned net outlay for repayments of debt of ¥35.9 billion, representing repayments of long-term debt and decrease in bank loans, compared with net proceeds from long-term debt and increase in bank loans of ¥13.7 billion in the previous period.

As a consequence of the Company's operating, investing and financing activities during the period under review, cash and cash equivalents at end of year amounted to ¥192.9 billion, up ¥13.7 billion from ¥179.2 billion a year earlier.

**Capital Expenditures**  
(In billions of yen)



**Cash Flows**  
(In billions of yen)



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries  
March 31, 2004 and 2003

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	2004	March 31 2003	March 31 2004
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 6).....	¥ 192,892	¥ 179,228	\$ 1,819,736
Time deposits .....	3,912	4,432	36,906
Cash deposits (Note 7) .....	60,930	45,251	574,811
Short-term investments (Note 8).....	35,933	22,463	338,991
Notes and accounts receivable, trade .....	50,044	47,028	472,113
Due from subscribers .....	23,931	21,329	225,764
Inventories (Notes 9 and 13).....	45,698	41,801	431,113
Short-term receivables .....	47,855	46,796	451,462
Allowance for doubtful accounts .....	(4,925)	(1,558)	(46,462)
Deferred insurance acquisition costs (Note 14) .....	2,963	2,921	27,953
Deferred income taxes (Note 17).....	14,716	12,851	138,830
Other current assets .....	11,029	8,420	104,048
<b>Total current assets .....</b>	<b>484,978</b>	<b>430,962</b>	<b>4,575,265</b>
<b>Investments and long-term receivables:</b>			
Investment securities (Note 8).....	170,429	152,406	1,607,821
Investments in affiliated companies (Note 10).....	39,314	34,942	370,887
Long-term receivables .....	55,272	45,516	521,434
Lease deposits .....	11,917	11,746	112,425
Other investments .....	19,274	19,599	181,830
Allowance for doubtful accounts .....	(10,220)	(5,836)	(96,415)
	<b>285,986</b>	<b>258,373</b>	<b>2,697,982</b>
<b>Property, plant and equipment (Notes 11, 13, 20 and 21):</b>			
Land .....	111,800	157,230	1,054,717
Buildings and improvements .....	148,961	167,303	1,405,292
Security equipment and control stations .....	209,505	198,651	1,976,462
Machinery, equipment and automobiles.....	54,410	53,921	513,302
Construction in progress.....	4,429	3,456	41,783
	<b>529,105</b>	<b>580,561</b>	<b>4,991,556</b>
Accumulated depreciation .....	(226,169)	(212,587)	(2,133,670)
	<b>302,936</b>	<b>367,974</b>	<b>2,857,886</b>
<b>Other assets:</b>			
Deferred charges (Note 2 (10)) .....	38,772	38,374	365,774
Goodwill (Notes 5 and 12) .....	15,598	12,491	147,151
Intangibles and other (Note 12).....	19,740	22,958	186,226
Prepaid pension and severance costs (Note 15).....	8,801	—	83,028
Deferred income taxes (Note 17).....	8,294	26,950	78,245
	<b>91,205</b>	<b>100,773</b>	<b>860,424</b>
<b>Total assets .....</b>	<b>¥1,165,105</b>	<b>¥1,158,082</b>	<b>\$10,991,557</b>

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	2004	2003	March 31 2004
<b>Current liabilities:</b>			
Bank loans (Notes 7 and 13) .....	¥ 111,764	¥ 124,048	\$ 1,054,377
Current portion of long-term debt (Notes 13 and 20) .....	13,439	20,507	126,783
Notes and accounts payable, trade .....	18,460	15,554	174,151
Other payables .....	17,782	19,869	167,755
Deposits received (Note 7) .....	38,590	28,838	364,057
Deferred revenue (Note 2 (2)) .....	39,075	39,067	368,632
Accrued income taxes .....	18,010	10,813	169,906
Accrued payrolls .....	14,522	15,200	137,000
Other current liabilities (Note 17) .....	12,554	10,582	118,432
Total current liabilities .....	284,196	284,478	2,681,093
Long-term debt (Notes 13 and 20) .....	91,095	102,767	859,387
Guarantee deposits received .....	35,039	36,758	330,557
Accrued pension and severance costs (Note 15) .....	12,813	41,704	120,877
Deferred revenue (Note 2 (2)) .....	19,287	18,719	181,953
Unearned premiums and other insurance liabilities (Note 14) .....	41,364	37,410	390,226
Investment deposits by policyholders (Note 14) .....	230,316	231,109	2,172,792
Other liabilities (Note 17) .....	4,934	4,334	46,547
Total liabilities .....	719,044	757,279	6,783,432
Minority interest in subsidiaries .....	30,209	28,285	284,991
Commitments and contingent liabilities (Note 24)			
<b>Shareholders' equity:</b>			
Common stock (Notes 18 and 25):			
Authorized 900,000,000 shares;			
issued 233,281,133 shares in 2004 and 2003 .....	66,369	66,369	626,123
Additional paid-in capital (Notes 18 and 25) .....	79,987	79,987	754,594
Legal reserve (Note 18) .....	9,715	9,672	91,651
Retained earnings (Note 18) .....	314,962	300,529	2,971,340
Accumulated other comprehensive income (loss):			
Unrealized gains (losses) on securities (Note 8) .....	4,546	(2,758)	42,887
Unrealized gains on derivative instruments (Note 23) .....	89	42	840
Minimum pension liability adjustments (Note 15) .....	(194)	(26,115)	(1,830)
Foreign currency translation adjustments .....	(15,221)	(10,921)	(143,594)
	(10,780)	(39,752)	(101,697)
Common stock in treasury, at cost (Note 18):			
8,228,652 shares in 2004 and 8,200,245 shares in 2003 .....	(44,401)	(44,287)	(418,877)
Total shareholders' equity .....	415,852	372,518	3,923,134
Total liabilities and shareholders' equity .....	¥1,165,105	¥1,158,082	\$10,991,557

## CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries  
Three years ended March 31, 2004

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
<b>Revenue and other income:</b>				
Net sales .....	¥525,534	¥512,734	¥483,014	\$4,957,868
Gain on sales and disposal of property, plant and equipment, net...	4,143	—	—	39,085
Gain on sales of securities, net (Notes 8 and 26) .....	1,389	—	2,967	13,104
Interest and other (Note 16) .....	6,793	8,009	7,545	64,084
	<b>537,859</b>	<b>520,743</b>	<b>493,526</b>	<b>5,074,141</b>
<b>Costs and expenses:</b>				
Cost of sales .....	326,367	317,457	292,092	3,078,934
Selling, general and administrative (Notes 2 (16) and 19) .....	127,959	119,999	115,158	1,207,160
Loss on sales and disposal of property, plant and equipment, net	—	2,778	1,448	—
Impairment loss on property, plant and equipment (Note 11) .....	15,095	3,012	—	142,406
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 15).....	4,555	—	—	42,972
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 15) .....	4,209	—	—	39,708
Loss on other-than-temporary impairment of investment securities .....	963	11,546	9,004	9,085
Interest .....	3,297	3,729	1,596	31,104
Other (Notes 8 and 16).....	6,385	9,350	9,455	60,234
	<b>488,830</b>	<b>467,871</b>	<b>428,753</b>	<b>4,611,603</b>
Income before income taxes .....	<b>49,029</b>	<b>52,872</b>	<b>64,773</b>	<b>462,538</b>
<b>Income taxes (Note 17):</b>				
Current .....	31,982	27,877	37,096	301,717
Deferred .....	(6,045)	(3,829)	(6,913)	(57,028)
	<b>25,937</b>	<b>24,048</b>	<b>30,183</b>	<b>244,689</b>
Income before minority interest in subsidiaries, equity in net income of affiliated companies and cumulative effect of accounting change .....	<b>23,092</b>	<b>28,824</b>	<b>34,590</b>	<b>217,849</b>
<b>Minority interest in subsidiaries</b> .....	<b>(540)</b>	<b>(950)</b>	<b>(1,862)</b>	<b>(5,094)</b>
<b>Equity in net income of affiliated companies</b> .....	<b>927</b>	<b>1,244</b>	<b>1,354</b>	<b>8,745</b>
Income before cumulative effect of accounting change.....	<b>23,479</b>	<b>29,118</b>	<b>34,082</b>	<b>221,500</b>
<b>Cumulative effect of accounting change, net of tax</b> (Note 2 (12)).....	<b>—</b>	<b>1,157</b>	<b>—</b>	<b>—</b>
Net income.....	<b>¥ 23,479</b>	<b>¥ 30,275</b>	<b>¥ 34,082</b>	<b>\$ 221,500</b>

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
<b>Per share data (Note 4):</b>				
Income before cumulative effect of accounting change—				
Basic .....	¥104.32	¥127.79	¥146.19	\$0.98
Diluted .....	¥104.32	¥127.79	¥146.11	\$0.98
Cumulative effect of accounting change—				
Basic .....	¥ —	¥ 5.08	¥ —	\$ —
Diluted .....	¥ —	¥ 5.08	¥ —	\$ —
Net income—				
Basic .....	¥104.32	¥132.87	¥146.19	\$0.98
Diluted .....	¥104.32	¥132.87	¥146.11	\$0.98

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, 2004

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other com- prehensive income (loss)	Common stock in treasury stock, at cost	Total
<b>Balance, March 31, 2001</b>	233,099,744	¥66,127	¥79,745	¥8,618	¥255,880	(¥33,063)	(¥ 3)	¥377,304
Comprehensive income:								
Net income	—	—	—	—	34,082	—	—	34,082
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized losses on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(6,082)	—	(6,082)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	3,930	—	3,930
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	135	—	135
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(92)	—	(92)
Minimum pension liability 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
<b>Balance, March 31, 2002</b>	233,274,769	66,360	79,979	9,663	279,593	(34,128)	(141)	401,326
Comprehensive income:								
Net income	—	—	—	—	30,275	—	—	30,275
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized losses on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	(4,315)	—	(4,315)
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	6,038	—	6,038
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	105	—	105
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(106)	—	(106)
Minimum pension liability adjustments	—	—	—	—	—	(3,006)	—	(3,006)
Foreign currency translation adjustments	—	—	—	—	—	(4,340)	—	(4,340)
Total comprehensive income	—	—	—	—	—	—	—	24,651
Cash dividends	—	—	—	—	(9,330)	—	—	(9,330)
Transfer to legal reserve	—	—	—	9	(9)	—	—	—
Conversion of convertible bonds	6,364	9	8	—	—	—	—	17
Purchase of treasury stock	—	—	—	—	—	—	(44,146)	(44,146)
<b>Balance, March 31, 2003</b>	233,281,133	66,369	79,987	9,672	300,529	(39,752)	(44,287)	372,518
Comprehensive income:								
Net income	—	—	—	—	23,479	—	—	23,479
Other comprehensive income (loss), net of tax (Note 18):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	7,729	—	7,729
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(425)	—	(425)
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	87	—	87
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(40)	—	(40)
Minimum pension liability adjustments	—	—	—	—	—	25,921	—	25,921
Foreign currency translation adjustments	—	—	—	—	—	(4,300)	—	(4,300)
Total comprehensive income	—	—	—	—	—	—	—	52,451
Cash dividends	—	—	—	—	(9,003)	—	—	(9,003)
Transfer to legal reserve	—	—	—	43	(43)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(114)	(114)
<b>Balance, March 31, 2004</b>	233,281,133	¥66,369	¥79,987	¥9,715	¥314,962	(¥10,780)	(¥44,401)	¥415,852

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other com- prehensive income (loss)	Common stock in treasury stock, at cost	Total
<b>Balance, March 31, 2003</b>	\$626,123	\$754,594	\$91,245	\$2,835,179	(\$375,019)	(\$417,802)	\$3,514,320
Comprehensive income:							
Net income	—	—	—	221,500	—	—	221,500
Other comprehensive income (loss), net of tax (Note 18):							
Unrealized gains on securities—							
Unrealized holding gains or losses arising during the period	—	—	—	—	72,915	—	72,915
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	(4,009)	—	(4,009)
Unrealized gains on derivative instruments—							
Unrealized holding gains or losses arising during the period	—	—	—	—	821	—	821
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	(377)	—	(377)
Minimum pension liability adjustments	—	—	—	—	244,538	—	244,538
Foreign currency translation adjustments	—	—	—	—	(40,566)	—	(40,566)
Total comprehensive income	—	—	—	—	—	—	494,822
Cash dividends	—	—	—	(84,933)	—	—	(84,933)
Transfer to legal reserve	—	—	406	(406)	—	—	—
Purchase of treasury stock	—	—	—	—	—	(1,075)	(1,075)
<b>Balance, March 31, 2004</b>	\$626,123	\$754,594	\$91,651	\$2,971,340	(\$101,697)	(\$418,877)	\$3,923,134

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, 2004

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
<b>Cash flows from operating activities:</b>				
Net income.....	¥ 23,479	¥ 30,275	¥ 34,082	\$ 221,500
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred charges .....	52,943	52,067	49,891	499,462
Accrual for pension and severance costs, less payments .....	(870)	188	3,736	(8,208)
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 15).....	4,555	—	—	42,972
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 15).....	4,209	—	—	39,708
Deferred income taxes.....	(6,045)	(3,829)	(6,913)	(57,028)
(Gain) loss on sales and disposal of property, plant and equipment, net.....	(4,143)	2,778	1,448	(39,085)
Impairment loss on property, plant and equipment (Note 11).....	15,095	3,012	—	142,406
(Gain) loss on sales of securities, net (Note 26) .....	(1,389)	177	(2,967)	(13,104)
Loss on other-than-temporary impairment of investment securities .....	963	11,546	9,004	9,085
Equity in net income of affiliated companies .....	(927)	(1,244)	(1,354)	(8,745)
Minority interest in subsidiaries .....	540	950	1,862	5,094
Cumulative effect of accounting change, net of tax (Note 2 (12)).....	—	(1,157)	—	—
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
Increase in cash deposits.....	(15,678)	(4,502)	(4,152)	(147,906)
(Increase) decrease in receivables and due from subscribers, net of allowances .....	10,721	1,483	(6,727)	101,141
(Increase) decrease in inventories .....	(5,279)	10,073	(5,533)	(49,802)
Increase in deferred charges .....	(14,347)	(13,668)	(14,295)	(135,349)
Increase in deposits received.....	9,768	4,771	6,708	92,151
Increase in deferred revenue .....	556	2,129	1,737	5,245
Increase (decrease) in accrued income taxes .....	7,321	(12,375)	5,145	69,066
Increase (decrease) in guarantee deposits received .....	(427)	3,588	6,012	(4,028)
Increase in unearned premiums and other insurance liabilities .....	3,954	142	3,184	37,302
Other, net .....	4,200	4,140	(2,250)	39,623
Net cash provided by operating activities.....	89,199	90,544	78,618	841,500
<b>Cash flows from investing activities:</b>				
Decrease in time deposits .....	522	430	7,950	4,925
Proceeds from sales of property, plant and equipment .....	32,271	25,512	3,693	304,443
Payments for purchases of property, plant and equipment .....	(40,511)	(50,171)	(144,229)	(382,179)
Proceeds from sales of investment securities .....	32,959	16,492	10,149	310,934
Payments for purchases of investment securities.....	(61,712)	(80,170)	(22,602)	(582,189)
Decrease in short-term investments.....	7,603	10,292	15,459	71,726
Proceeds from sales of subsidiaries' shares (Note 26) .....	16	90	2,654	151
Payments for purchases of subsidiaries' shares, net of cash acquired (Note 5) .....	(86)	(18)	1,270	(811)
Increase in short-term receivables, net .....	(547)	(3,362)	(10,301)	(5,160)
Payments for long-term receivables.....	(11,349)	(10,910)	(8,346)	(107,066)
Proceeds from long-term receivables .....	19,258	12,147	1,654	181,679
Other, net .....	(7,024)	(5,050)	(5,371)	(66,264)
Net cash used in investing activities .....	(28,600)	(84,718)	(148,020)	(269,811)
<b>Cash flows from financing activities:</b>				
Proceeds from long-term debt .....	10,523	10,803	69,773	99,273
Repayments of long-term debt .....	(28,944)	(53,817)	(15,948)	(273,057)
Increase (decrease) in bank loans.....	(17,438)	56,753	(6,284)	(164,510)
Increase (decrease) in investment deposits by policyholders.....	(793)	4,702	96,221	(7,481)
Proceeds from minority shareholders.....	7	135	1,137	66
Dividends paid.....	(9,003)	(9,330)	(9,324)	(84,933)
Increase in treasury stock, net (Note 18) .....	(114)	(44,146)	(138)	(1,075)
Other, net .....	(998)	(1,754)	(585)	(9,415)
Net cash provided by (used in) financing activities .....	(46,760)	(36,654)	134,852	(441,132)
Effect of exchange rate changes on cash and cash equivalents .....	(175)	(421)	525	(1,651)
Net increase (decrease) in cash and cash equivalents .....	13,664	(31,249)	65,975	128,906
Cash and cash equivalents at beginning of year .....	179,228	210,477	144,502	1,690,830
Cash and cash equivalents at end of year .....	¥192,892	¥179,228	¥ 210,477	\$1,819,736

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, 2004

**1. Nature of Operations**

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

The Company is focusing on its "Social System Industry", a network of integrated systems and services centered on the fields of security, medical care, non-life insurance, and information and communication related services, targeted at the needs of people and business. To develop this Social System Industry concept, the Company has been diversifying the operation of its services covering: home and other medical services; non-life insurance services; information and communication services, including cyber security services, software development and system integration activities; Geographic Information System services using aerial surveying technology; school education systems; development and sale of real estate; lease of real estate and other services. The Company is also 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 the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of inventories, investment securities, investments, property, plant and equipment, goodwill and other intangible assets; valuation allowances for receivables and deferred income taxes; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

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

**(1) Basis of Consolidation and Investments in Affiliated Companies**

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

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

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

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

**(2) Revenue Recognition**

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

Revenue from security services is recognized over the contractual period or, in the case of specific services, when such services are performed. Subscribers are generally requested to prepay a portion of service charges which are credited to deferred revenue and taken into income ratably over the covered service period. Revenue from installation services of security equipment related to on-line centralized security services is deferred and recognized over the contractual period of security services after completion of the installation. The related installation costs are also deferred and amortized over the contractual period (Note 2 (10)).

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

Revenue from long-term contracts for Geographic Information 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.

### **(3) 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.

### **(4) 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.

### **(5) 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.

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

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

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

### **(6) Inventories**

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

### **(7) Allowance for Doubtful Accounts**

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

### **(8) 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.

### **(9) Property, Plant and Equipment and Depreciation**

Property, plant and equipment, including significant betterments, are carried at cost. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. Assets leased to others under operating leases are primarily depreciated using the straight-line method over the estimated useful lives. Depreciation expense was ¥34,943 million (\$329,651 thousand), ¥34,735 million and ¥32,084 million for the years ended March 31, 2004, 2003 and 2002, 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

### **(10) Deferred Charges**

Deferred charges primarily consist of costs related to installation services of security equipment related to on-line centralized security services. The installation costs are deferred and amortized using the straight-line method over the contractual period of security services after completion of the installation. Amortization was ¥13,323 million (\$125,689 thousand), ¥13,197 million and ¥12,490 million for the years ended March 31, 2004, 2003 and 2002, respectively.

### **(11) Impairment or Disposal of Long-Lived Assets**

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", on April 1, 2002. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial position and results of operations.

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

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of".

#### **(12) Goodwill and Other Intangible Assets**

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", on April 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all business combinations completed after June 30, 2001. As a result of the adoption of SFAS No. 141, the Company recorded a transition gain, as a cumulative effect of accounting change, due to the write-off of unamortized deferred credits of ¥1,157 million which existed at March 31, 2002.

Pursuant to SFAS No. 142, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

#### **(13) 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.

#### **(14) Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of

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

#### **(15) Research and Development**

Research and development costs are charged to income as incurred.

#### **(16) 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, 2004, 2003 and 2002 were ¥5,366 million (\$50,623 thousand), ¥5,315 million and ¥5,602 million, respectively.

#### **(17) Derivative Financial Instruments**

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", on April 1, 2001. Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. The cumulative effect adjustment upon the adoption of SFAS No. 133 and No. 138, net of the related income tax effect, resulted in an increase to other comprehensive income of ¥129 million.

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

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

#### **(18) 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.

#### **(19) 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 (1) a transfer from additional paid-in capital to the common stock account, or (2) no entry if free shares are distributed from the portion of previously issued shares in the common stock account. Under the Japanese Commercial Code, stock dividends are effected by an appropriation of retained earnings to the common stock account by a resolution of the shareholders and an issuance of additional shares by way of a stock split with respect to the amount appropriated by resolution of the Board of Directors.

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

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

#### **(20) Recent Pronouncements**

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003) ("FIN No. 46R"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN No. 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51", which was issued in January 2003. FIN No. 46R addresses the consolidation and disclosure by business enterprise of a variable interest entity ("VIE") as defined in the Interpretation. FIN No. 46R requires that the primary beneficiary—a party that absorbs a majority of the entity's expected loss and receives a majority

of the entity's expected residual returns, or both, as a result of holding variable interests—consolidates the VIE and an enterprise that holds significant variable interests but is not the primary beneficiary discloses certain required information about the VIE. FIN No. 46R is effective immediately for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, FIN No. 46R is effective for the Company on April 1, 2004. The Company did not enter into any new arrangements with VIEs during the period from February 1, 2003 through March 31, 2004.

The Company provides loans and guarantees to organizations managing hospitals and related institutions. Certain organizations are considered as VIEs under FIN No. 46R, and the Company is either a primary beneficiary of the VIEs or holds significant variable interests but is not the primary beneficiary of the VIEs. Total assets held by the VIEs at March 31, 2004 were ¥35,076 million (\$330,906 thousand). The Company's maximum exposure to loss is ¥27,220 million (\$256,792 thousand) at March 31, 2004.

The Company also provides loans and guarantees to real estate investment companies. Certain investment companies are considered as VIEs under FIN No. 46R. As the Company has been consolidating these companies, the adoption of FIN No. 46R for these entities did not have a material effect on the Company's consolidated financial position and results of operations.

The Company adopted the provisions of FIN No. 46R for VIEs created or acquired prior to February 1, 2003 on April 1, 2004. Under FIN No. 46R, any difference between the net amount added to the consolidated balance sheet and any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting change. As a result of the adoption of FIN No. 46R, one organization managing hospitals and related institutions was consolidated and the Company recognized a one-time income of ¥507 million (\$4,783 thousand) as a cumulative effect of accounting change, and the Company's assets and liabilities increased by ¥3,636 million (\$34,302 thousand) and ¥3,119 million (\$29,425 thousand), respectively.

In May 2003, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables", which addresses (1) how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and (2) how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangements. EITF No. 00-21 does not change otherwise applicable revenue recognition criteria. EITF No. 00-21 is effective for the Company on April 1, 2004. The adoption of EITF No. 00-21 did not have a material effect on the Company's consolidated financial position and results of operations.

#### **(21) Reclassifications**

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

### 3. U.S. Dollar Amounts

U.S. dollar amounts have been included in these financial statements solely for the convenience of the reader. The translations of yen into U.S. dollars have been made at the rate of ¥106=US\$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004. These translations should not be construed as representing that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

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

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2004, 2003 and 2002 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	
<b>For the year ended March 31, 2004:</b>				
Basic EPS—				
Income before cumulative effect of accounting change..	¥23,479	225,066	¥104.32	\$0.98
Effect of dilutive securities—				
Convertible bonds .....	0	8		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation .....	¥23,479	225,074	¥104.32	\$0.98
<b>For the year ended March 31, 2003:</b>				
Basic EPS—				
Income before cumulative effect of accounting change..	¥29,118	227,849	¥127.79	
Effect of dilutive securities—				
Convertible bonds .....	0	9		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation .....	¥29,118	227,858	¥127.79	
<b>For the year ended March 31, 2002:</b>				
Basic EPS—				
Income before cumulative effect of accounting change..	¥34,082	233,138	¥146.19	
Effect of dilutive securities—				
Convertible bonds .....	3	150		
Diluted EPS—				
Income before cumulative effect of accounting change for diluted EPS computation .....	¥34,085	233,288	¥146.11	

### 5. Acquisitions

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

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

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

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

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 statement 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.

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

## 6. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2004 and 2003 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2004	2003	2004
Cash .....	¥124,855	¥106,949	\$1,177,877
Time deposits.....	18,626	28,339	175,717
Call loan.....	38,000	30,000	358,491
Investment securities .....	11,411	13,940	107,651
	¥192,892	¥179,228	\$1,819,736

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 and also operates cash collection service for entities other than financial institutions. Cash deposit balances of ¥60,930 million (\$574,811 thousand) and ¥45,251 million at March 31, 2004 and 2003, respectively, are segregated from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the necessary cash through bank overdrafts and deposits. Bank loans and deposits received include ¥24,263 million (\$228,896 thousand) and ¥36,512 million (\$344,453 thousand), respectively, at March 31, 2004, and ¥17,203 million and ¥26,738 million, respectively, at March 31, 2003, relating to these operations. As part of its fee arrangement, 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, 2004 and 2003 were as follows:

	In millions of yen			
	March 31, 2004			
	Cost	Gross unrealized		Fair value
		Gains	Losses	
Available-for-sale:				
Equity securities ...	¥ 42,296	¥12,117	¥ 926	¥ 53,487
Debt securities .....	118,190	760	164	118,786
Total .....	¥160,486	¥12,877	¥1,090	¥172,273
Held-to-maturity:				
Debt securities .....	¥ 5,755	¥ 0	¥ 5	¥ 5,750

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

	In thousands of U.S. dollars			
	March 31, 2004			
	Cost	Gross unrealized		Fair value
		Gains	Losses	
Available-for-sale:				
Equity securities ...	\$ 399,019	\$ 114,311	\$ 8,736	\$ 504,594
Debt securities .....	1,115,000	7,170	1,547	1,120,623
Total .....	\$1,514,019	\$121,481	\$10,283	\$1,625,217
Held-to-maturity:				
Debt securities .....	\$ 54,293	\$ 0	\$ 46	\$ 54,245

Gross unrealized losses on, and fair value of, "available-for-sale" and "held-to-maturity" securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2004 were as follows:

	In millions of yen			
	March 31, 2004			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities .....	¥ 4,359	¥ 87	¥4,311	¥839
Debt securities .....	7,841	50	1,036	114
Total .....	¥12,200	¥137	¥5,347	¥953
Held-to-maturity:				
Debt securities .....	¥ 1,500	¥ 4	¥2,198	¥ 1

	In thousands of U.S. dollars			
	March 31, 2004			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities .....	\$ 41,123	\$ 820	\$40,670	\$7,916
Debt securities .....	73,971	472	9,773	1,075
Total .....	\$115,094	\$1,292	\$50,443	\$8,991
Held-to-maturity:				
Debt securities .....	\$ 14,151	\$ 37	\$20,736	\$ 9

At March 31, 2004, debt securities principally consisted of short-term investments in monetary trusts, Japanese government bonds, corporate bonds, U.S. treasury securities and U.S. Government Agency Bonds.

The cost and fair value of “available-for-sale” and “held-to-maturity” debt securities by contractual maturity at March 31, 2004 are as follows:

	In millions of yen			
	March 31, 2004			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year .....	¥ 34,373	¥ 34,472	¥1,451	¥1,451
Due after 1 year through 5 years .....	60,489	60,922	3,504	3,499
Due after 5 years through 10 years ....	19,723	19,810	—	—
Due after 10 years ...	3,605	3,582	800	800
	<b>¥118,190</b>	<b>¥118,786</b>	<b>¥5,755</b>	<b>¥5,750</b>

	In thousands of U.S. dollars			
	March 31, 2004			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year .....	\$ 324,274	\$ 325,208	\$13,689	\$13,689
Due after 1 year through 5 years .....	570,651	574,736	33,057	33,009
Due after 5 years through 10 years ....	186,066	186,887	—	—
Due after 10 years ...	34,009	33,792	7,547	7,547
	<b>\$1,115,000</b>	<b>\$1,120,623</b>	<b>\$54,293</b>	<b>\$54,245</b>

During the years ended March 31, 2004, 2003 and 2002, the net unrealized gains on “available-for-sale” securities included as part of other comprehensive income (loss), net of tax, increased by ¥7,304 million (\$68,906 thousand) and ¥1,723 million, and decreased by ¥2,152 million, respectively.

Proceeds from the sale of “available-for-sale” securities for the years ended March 31, 2004, 2003 and 2002 were ¥20,791 million (\$196,142 thousand), ¥8,228 million and ¥5,126 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, 2004, 2003 and 2002 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
Gross realized gains.....	¥2,175	¥ 759	¥2,556	\$20,519
Gross realized losses ...	556	1,266	470	5,245

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 ¥28,334 million (\$267,302 thousand) and ¥23,241 million at March 31, 2004 and 2003, 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, 2004 and 2003 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2004	2003	2004
Security-related products .....	¥ 6,655	¥ 7,504	\$ 62,783
Real estate.....	33,410	28,662	315,189
Information and other-related products .....	5,633	5,635	53,141
	<b>¥45,698</b>	<b>¥41,801</b>	<b>\$431,113</b>

Work in process real estate inventories at March 31, 2004 and 2003, amounting to ¥32,170 million (\$303,491 thousand) and ¥20,931 million, respectively, are included in real estate.

## 10. Investments in Affiliated Companies

The Company has investments in affiliated companies that are accounted for under the equity method. The principal investments are Nohmi Bosai Ltd., a 28.6 percent owned affiliate, which is Japan's largest manufacturer of fire alarms and listed on the First Section of the Tokyo Stock Exchange; Taiwan Secom Co., Ltd., a 28.1 percent owned affiliate, which is listed on the Taiwan Stock Exchange; S1 Corporation, a 25.6 percent owned affiliate, which is listed on the Korea Stock Exchange; and Japan Cablenet Holdings Limited, a 26.0 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
	2004	2003	2004
Current assets .....	¥ 99,233	¥102,363	\$ 936,160
Non-current assets .....	142,588	139,396	1,345,170
<b>Total assets .....</b>	<b>¥241,821</b>	<b>¥241,759</b>	<b>\$2,281,330</b>
Current liabilities.....	¥ 57,846	¥ 63,570	\$ 545,717
Non-current liabilities.....	63,326	64,458	597,415
Shareholders' equity .....	120,649	113,731	1,138,198
<b>Total liabilities and shareholders' equity.....</b>	<b>¥241,821</b>	<b>¥241,759</b>	<b>\$2,281,330</b>

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
Net sales.....	¥188,570	¥178,397	¥158,770	\$1,778,962
Gross profit .....	¥ 59,894	¥ 55,179	¥ 45,621	\$ 565,038
Net income.....	¥ 9,751	¥ 6,996	¥ 7,384	\$ 91,991

Dividends received from affiliated companies for the years ended March 31, 2004, 2003 and 2002 were ¥1,140 million (\$10,755 thousand), ¥924 million and ¥655 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥24,088 million (\$227,245 thousand) and ¥22,457 million at March 31, 2004 and 2003, respectively, had a quoted market value of ¥44,026 million (\$415,340 thousand) and ¥33,884 million at March 31, 2004 and 2003, respectively.

The unamortized amounts of goodwill were ¥979 million (\$9,236 thousand) and ¥729 million at March 31, 2004 and 2003, respectively. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", this equity-method goodwill is no longer amortized, but is being analyzed for impairment. Prior to the adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over periods not exceeding 10 years.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2004	2003	2002	2004
Sales .....	¥1,840	¥ 1,862	¥1,595	\$17,358
Purchases .....	¥7,858	¥10,061	¥9,704	\$74,132

	In millions of yen		In thousands of U.S. dollars
	March 31	March 31	March 31
	2004	2003	2004
Notes and accounts receivable, trade.....	¥ 645	¥ 606	\$ 6,085
Loan receivables .....	¥ 992	¥ 987	\$ 9,358
Notes and accounts payable.....	¥1,750	¥ 2,672	\$16,509
Guarantees for bank loans .....	¥3,824	¥10,101	\$36,075

## 11. Long-Lived Assets

The Company has assessed the potential impairment for all material long-lived assets. As a result of significant decreases of rental rates and market prices, and changes of assumptions regarding useful lives before sale, the Company recognized impairment losses on properties held for lease and properties held by real estate investment companies as part of investment assets of the insurance services segment. Fair value used was determined mainly based on appraisal value.

Impairment losses on property, plant and equipment by business segment for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2004	2003	2004
Medical services .....	¥ 511	¥ —	\$ 4,821
Insurance services .....	3,719	3,012	35,085
Information and communication related and other services .....	9,081	—	85,670
Corporate items .....	1,784	—	16,830
<b>Total .....</b>	<b>¥15,095</b>	<b>¥3,012</b>	<b>\$142,406</b>

## 12. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2004 and 2003 were as follows:

	In millions of yen		
	March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
<b>Amortized intangible assets:</b>			
Software .....	¥ 22,133	(¥ 9,304)	¥ 12,829
Other .....	4,569	(2,348)	2,221
<b>Total .....</b>	<b>¥ 26,702</b>	<b>(¥11,652)</b>	<b>¥ 15,050</b>

Unamortized intangible assets ... ¥ 4,690 ¥ — ¥ 4,690

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

Unamortized intangible assets ... ¥ 4,603 ¥ — ¥ 4,603

	In thousands of U.S. dollars		
	March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
<b>Amortized intangible assets:</b>			
Software .....	\$208,802	(\$ 87,774)	\$121,028
Other .....	43,104	(22,151)	20,953
<b>Total .....</b>	<b>\$251,906</b>	<b>(\$109,925)</b>	<b>\$141,981</b>

Unamortized intangible assets ... \$ 44,245 \$ — \$ 44,245

Aggregate amortization expense for the years ended March 31, 2004 and 2003 was ¥4,537 million (\$42,802 thousand) and ¥4,134 million, respectively.

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

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2005 .....	¥4,191	\$39,538
2006 .....	4,017	37,896
2007 .....	3,069	28,953
2008 .....	1,738	16,396
2009 .....	777	7,330

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2004 and 2003 were as follows:

	In millions of yen				
	Security services	Medical services	Insurance services	Information and communication related and other services	Total
April 1, 2002 .....	¥1,239	¥5,063	¥—	¥5,637	¥11,939
Goodwill acquired during the year .....	—	—	—	708	708
Impairment losses .....	—	(161)	—	—	(161)
Translation adjustment .....	5	—	—	—	5
March 31, 2003 .....	1,244	4,902	—	6,345	12,491
Goodwill acquired during the year .....	—	—	—	3,549	3,549
Impairment losses .....	—	(89)	—	(340)	(429)
Translation adjustment .....	(13)	—	—	—	(13)
<b>March 31, 2004 .....</b>	<b>¥1,231</b>	<b>¥4,813</b>	<b>¥—</b>	<b>¥9,554</b>	<b>¥15,598</b>

	In thousands of U.S. dollars				
	Security services	Medical services	Insurance services	Information and communication related and other services	Total
March 31, 2003 .....	\$11,736	\$46,246	\$—	\$59,858	\$117,840
Goodwill acquired during the year .....	—	—	—	33,481	33,481
Impairment losses .....	—	(840)	—	(3,207)	(4,047)
Translation adjustment .....	(123)	—	—	—	(123)
<b>March 31, 2004 .....</b>	<b>\$11,613</b>	<b>\$45,406</b>	<b>\$—</b>	<b>\$90,132</b>	<b>\$147,151</b>

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

	In millions of yen
	Year ended March 31
	2002
Reported income before cumulative effect of accounting change.....	¥34,082
Addback: Goodwill amortization.....	2,197
Adjusted income before cumulative effect of accounting change.....	¥36,279
Reported net income.....	¥34,082
Addback: Goodwill amortization.....	2,197
Adjusted net income.....	¥36,279
Per share data:	
	In yen
	Year ended March 31
	2002
Income before cumulative effect of accounting change:	
Reported basic EPS.....	¥146.19
Addback: Goodwill amortization.....	9.42
Adjusted basic EPS.....	¥155.61
Reported diluted EPS.....	¥146.11
Addback: Goodwill amortization.....	9.42
Adjusted diluted EPS.....	¥155.53
Net income:	
Reported basic EPS.....	¥146.19
Addback: Goodwill amortization.....	9.42
Adjusted basic EPS.....	¥155.61
Reported diluted EPS.....	¥146.11
Addback: Goodwill amortization.....	9.42
Adjusted diluted EPS.....	¥155.53

### 13. Bank Loans and Long-Term Debt

Bank loans of ¥111,764 million (\$1,054,377 thousand) and ¥124,048 million at March 31, 2004 and 2003, respectively, are generally comprised of 30 to 365 day notes. Their interest rates ranged from 0.49 to 2.36 percent at March 31, 2004 and from 0.49 to 1.88 percent at March 31, 2003. 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, 2004 and 2003 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2004	2003	2004
Loans, principally from banks due 2004 to 2016 with interest rates ranging from 0.00 to 6.60% in 2004 and 2003:			
Secured.....	¥ 46,787	¥ 53,032	\$441,387
Unsecured.....	12,784	27,343	120,604
1.60% unsecured convertible bonds due 2004, convertible currently at ¥2,372.4 (\$22.38) for one common share, redeemable before due date.....	18	18	169
0.53% unsecured bonds due 2006..	30,000	30,000	283,019
0.46% unsecured bonds due 2007..	1,500	1,500	14,151
0.48% unsecured bonds due 2007..	1,000	—	9,434
1.80% secured bonds due 2004.....	200	200	1,887
1.21% secured bonds due 2006.....	300	300	2,830
Obligations under capital leases, due 2004 to 2026 (Note 20).....	11,945	10,881	112,689
	104,534	123,274	986,170
Less:			
Portion due within one year.....	13,439	20,507	126,783
	¥ 91,095	¥102,767	\$859,387

Property, plant and equipment with a carrying amount of ¥67,995 million (\$641,462 thousand), inventories with a carrying amount of ¥28,503 million (\$268,896 thousand), investment securities with a carrying amount of ¥772 million (\$7,283 thousand), time deposits of ¥192 million (\$1,811 thousand) and intangibles and other with a carrying amount of ¥1,593 million (\$15,028 thousand) were pledged as collateral for bank loans and long-term debt at March 31, 2004.

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 ¥1,597 million (\$15,066 thousand) with such banks at March 31, 2004.

The aggregate annual maturities on long-term debt after March 31, 2004 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2005.....	¥ 13,439	\$126,783
2006.....	27,545	259,858
2007.....	49,445	466,462
2008.....	2,974	28,057
2009.....	3,022	28,510
Later years.....	8,109	76,500
	¥104,534	\$986,170

#### 14. Insurance-Related Operations

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

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

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

The amounts of net equity of Secom Insurance at March 31, 2004 and 2003 were ¥23,154 million (\$218,434 thousand) and ¥15,902 million, respectively.

#### 15. Pension and Severance Costs

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

The parent company and certain of its Japanese subsidiaries maintain an Employees’ Pension Fund (“EPF”) plan which is a defined benefit pension established under the Japanese Welfare Pension Insurance Law, covering substantially all of their employees. The EPF plan is composed of the substitutional portion and the corporate portion. The pension benefits for the substitutional portion are determined based on standard

remuneration scheduled by the Japanese Welfare Pension Insurance Law and the length of participation. The pension benefits of the corporate portion are determined based on current basic rates of pay, length of service and conditions under which the termination occurs. The EPF plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law.

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

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

In March 2003, the parent company and certain of its Japanese subsidiaries decided to transfer the 20 percent portion of their cash balance pension plan for the eligible employees having three years or more of service to a newly established defined contribution pension plan and amend the calculation method of a market-related interest rate for the remaining 80 percent portion, effective April 1, 2003. With the decision of the transfer to the defined contribution pension plan, the EPF plan made contributions of ¥7,091 million (\$66,896 thousand), which was equivalent to the benefit transferred to the defined contribution pension plan in April 2003. In accordance with Statement of Financial Accounting Standards No. 88, “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits”, the Company accounted for this transfer as a partial settlement of benefit obligation and recognized a settlement loss of ¥4,555 million (\$42,972 thousand) as “Settlement loss of benefit obligation on transfer to defined contribution pension plan” in the consolidated statement of income for the year ended March 31, 2004. The amendment for the remaining 80 percent portion was accounted for as a plan amendment in March 2003 and the resulting prior service benefit is amortized based on the remaining service period.

In April 2002, following the enactment of changes to the Japanese Welfare Pension Insurance Law, the parent company and certain of its Japanese subsidiaries obtained approval from the Japanese Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the substitutional portion of the EPF plan. After obtaining the approval, in October 2003 these companies obtained another approval for separation of the remaining benefit obligation of the substitutional portion that is related to past employee services. The transfer to the Government was completed in February 2004.

The Company accounted for the transfer in accordance with the Emerging Issues Task Force No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". As a result of the transfer, the Company recognized a loss of ¥4,209 million (\$39,708 thousand) as "Loss on transfer of the substitutional portion of Employees' Pension Fund" in the consolidated statement of income for the year ended March 31, 2004. This consists of ¥24,272 million (\$228,981 thousand) of a subsidy from the Government calculated as the difference between accumulated benefit obligation settled and the amount transferred to the Government, ¥7,719 million (\$72,821 thousand) of derecognition of previously accrued salary progression and ¥36,200 million (\$341,510 thousand) of recognition of related unrecognized actuarial loss, at the time when the past benefit obligation was transferred.

Net pension and severance costs for the years ended March 31, 2004, 2003 and 2002 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31	2003	2002	Year ended March 31
	2004			2004
Net pension and severance costs:				
Service cost .....	¥3,360	¥4,200	¥ 8,032	\$31,698
Interest cost .....	3,083	3,449	3,930	29,085
Expected return on plan assets .....	(2,678)	(2,749)	(3,488)	(25,264)
Amortization of transition assets .....	(44)	(46)	(46)	(415)
Amortization of prior service benefit .....	(1,642)	(1,172)	(85)	(15,491)
Recognized actuarial loss .....	2,509	3,336	1,872	23,670
Net pension and severance costs .....	¥4,588	¥7,018	¥10,215	\$43,283

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

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31	2003	Year ended March 31
	2004		2004
Change in benefit obligation:			
Benefit obligation			
at beginning of year .....	¥135,488	¥137,867	\$1,278,189
Service cost .....	3,360	4,200	31,698
Interest cost .....	3,083	3,449	29,085
Plan participants' contributions .....	—	7	—
Actuarial (gain) loss .....	(2,086)	554	(19,679)
Amendments .....	(344)	(6,786)	(3,245)
Benefits paid .....	(3,922)	(3,803)	(37,000)
Settlement .....	(7,091)	—	(66,896)
Transfer of the substitutional portion of EPF .....	(66,028)	—	(622,906)
Benefit obligation at end of year .....	62,460	135,488	589,246
Change in plan assets:			
Fair value of plan assets			
at beginning of year .....	82,717	88,249	780,349
Actual return on plan assets .....	6,172	(8,521)	58,226
Employer contribution .....	5,043	6,414	47,576
Plan participants' contributions .....	—	7	—
Benefits paid .....	(3,243)	(3,432)	(30,594)
Settlement .....	(7,091)	—	(66,896)
Transfer of the substitutional portion of EPF .....	(34,037)	—	(321,104)
Fair value of plan assets at end of year .....	49,561	82,717	467,557
Funded status .....	12,899	52,771	121,689
Unrecognized actuarial loss .....	(30,395)	(79,511)	(286,745)
Unrecognized transition assets .....	40	89	377
Unrecognized prior service benefit .....	21,127	22,425	199,311
Net amount recognized .....	¥ 3,671	(¥ 4,226)	\$ 34,632
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs .....	(¥ 8,801)	¥ —	(\$ 83,028)
Accrued pension and severance costs .....	12,813	41,704	120,877
Accumulated other comprehensive income (loss) .....	(341)	(45,930)	(3,217)
Net amount recognized .....	¥ 3,671	(¥ 4,226)	\$ 34,632

The accumulated benefit obligation for the pension plan was ¥58,249 million (\$549,519 thousand) and ¥123,916 million at March 31, 2004 and 2003, respectively.

The Company recognizes a minimum pension liability in the consolidated balance sheets for pension plans with an accumulated benefit obligation in excess of plan assets. The minimum pension liability which exceeded the unrecognized prior service cost was recorded as a component of accumulated other comprehensive income (loss), net of tax, of ¥194 million (\$1,830 thousand) and ¥26,115 million at March 31, 2004 and 2003, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were ¥15,890 million (\$149,906 thousand), ¥14,987 million (\$141,387 thousand) and ¥2,832 million (\$26,717 thousand), respectively, at March 31, 2004, and ¥135,488 million, ¥123,916 million and ¥82,717 million, respectively, at March 31, 2003.

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

Weighted-average assumptions used to determine benefit obligation at March 31, 2004 and 2003 were as follows:

	March 31	
	2004	2003
Discount rate .....	2.0%	2.5%
Rate of compensation increase .....	2.7	2.7

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Years ended March 31		
	2004	2003	2002
Discount rate.....	2.5%	2.5%	3.0%
Expected return on plan assets .....	3.0	3.0	4.0
Rate of compensation increase .....	2.7	2.7	2.7

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

The weighted-average asset allocation of the Company's pension plans at March 31, 2004 and 2003 were as follows:

Asset category:	March 31	
	2004	2003
Equity securities .....	32.1%	27.1%
Debt securities.....	35.3	30.3
Call loan .....	23.6	32.7
Other .....	9.0	9.9
Total .....	100.0%	100.0%

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

The Company expects to contribute ¥4,073 million (\$38,425 thousand) to its domestic defined benefit plans in the year ending March 31, 2005.

The parent company and certain subsidiaries have defined contribution pension plans. The contributions to the defined contribution pension plans for the years ended March 31, 2004, 2003 and 2002 were ¥865 million (\$8,160 thousand), ¥22 million and ¥20 million, respectively.

## 16. Exchange Gains and Losses

Other expenses for the year ended March 31, 2004 include net exchange losses of ¥469 million (\$4,425 thousand). Interest and other revenue for the years ended March 31, 2003 and 2002 includes net exchange gains of ¥389 million and ¥321 million, respectively.

## 17. Income Taxes

Total income taxes for the years ended March 31, 2004, 2003 and 2002 were allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	2004	2003	2002	Year ended March 31 2004
Income .....	¥25,937	¥24,048	¥30,183	\$244,689
Shareholders' equity— accumulated other comprehensive income (loss):				
Unrealized gains (losses) on securities .....	4,640	439	(1,273)	43,774
Unrealized gains on derivative instruments .....	30	6	24	283
Minimum pension liability adjustments.....	17,226	(1,379)	(3,633)	162,509
Foreign currency translation adjustments.....	72	(279)	—	679
	¥47,905	¥22,835	¥25,301	\$451,934

The parent company and its subsidiaries in Japan are subject to a corporate tax of 30 percent, an inhabitants tax of approximately 20.3 percent, and a deductible enterprise tax of approximately 9.9 percent, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.9 percent for the years ended March 31, 2004, 2003 and 2002.

Amendments to Japanese tax regulations were enacted on March 24, 2003. As a result of this amendment, the statutory tax rate was reduced from approximately 41.9 percent to 40.5 percent effective from April 1, 2004. Deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2004 were calculated at the rate of approximately 40.5 percent.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31	2003	2002	Year ended March 31
	2004			2004
Income taxes computed at statutory tax rate of 41.9% .....	¥20,543	¥22,153	¥27,140	\$193,802
Increase (decrease) resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions .....	5,725	2,537	2,081	54,009
Reversal of valuation allowance due to utilization of operating loss carryforwards .....	(1,330)	(1,545)	(670)	(12,547)
Amortization of non-deductible goodwill .....	—	—	763	—
Other, net .....	999	903	869	9,425
Consolidated income taxes .....	¥25,937	¥24,048	¥30,183	\$244,689

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31	2003	March 31
	2004		2004
Deferred tax assets:			
Deferred revenue .....	¥12,110	¥11,880	\$114,245
Loss carryforwards .....	11,567	23,019	109,123
Adjustment of book value at the date of acquisition—			
Land and buildings .....	8,906	9,432	84,019
Other assets .....	2,581	2,593	24,349
Property, plant and equipment .....	7,338	1,897	69,226
Allowance for doubtful accounts .....	4,309	2,399	40,651
Investment securities .....	4,156	2,650	39,208
Accrued bonus .....	3,429	3,116	32,349
Vacation accrual .....	1,641	1,953	15,481
Accrued pension and severance costs .....	1,533	17,081	14,462
Other .....	8,493	8,771	80,123
Gross deferred tax assets .....	66,063	84,791	623,236
Less: Valuation allowance ..	(16,761)	(21,889)	(158,123)
Total deferred tax assets .....	49,302	62,902	465,113
Deferred tax liabilities:			
Deferred installation costs .....	(8,060)	(8,076)	(76,038)
Adjustment of book value at the date of acquisition—			
Land and buildings .....	(6,529)	(6,589)	(61,594)
Other investments .....	(2,523)	(2,523)	(23,802)
Long-term receivables .....	(1,897)	(1,955)	(17,896)
Unrealized gains on securities ..	(4,841)	(469)	(45,670)
Unearned premiums and other insurance liabilities .....	(1,748)	(1,454)	(16,491)
Capitalization of property acquisition tax .....	(868)	(1,592)	(8,189)
Other .....	(2,894)	(2,056)	(27,301)
Gross deferred tax liabilities .....	(29,360)	(24,714)	(276,981)
Net deferred tax assets .....	¥ 19,942	¥ 38,188	\$188,132

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, 2004 and 2003 was a decrease of ¥5,128 million (\$48,377 thousand) and an increase of ¥633 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, 2004 and 2003.

Net deferred tax assets at March 31, 2004 and 2003 are reflected in the accompanying consolidated balance sheets under the following captions:

	In millions of yen		In thousands of U.S. dollars
	March 31 2004	2003	March 31 2004
Deferred income taxes (Current assets) .....	<b>¥14,716</b>	¥12,851	<b>\$138,830</b>
Deferred income taxes (Other assets) .....	<b>8,294</b>	26,950	<b>78,245</b>
Other current liabilities .....	<b>(360)</b>	—	<b>(3,396)</b>
Other liabilities .....	<b>(2,708)</b>	(1,613)	<b>(25,547)</b>
Net deferred tax assets .....	<b>¥19,942</b>	¥38,188	<b>\$188,132</b>

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totaling ¥3,092 million (\$29,170 thousand) at March 31, 2004 because they are not expected to be remitted in the foreseeable future.

At March 31, 2004, tax loss carryforwards of domestic subsidiaries amounted to ¥23,764 million (\$224,189 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to seven years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2005 .....	¥ 2,557	\$ 24,123
2006 .....	2,238	21,113
2007 .....	544	5,132
2008 .....	—	—
2009 .....	1,640	15,472
2010 .....	5,827	54,972
2011 .....	10,958	103,377
	<b>¥23,764</b>	<b>\$224,189</b>

The tax loss carryforwards of overseas subsidiaries at March 31, 2004 amounted to ¥5,255 million (\$49,575 thousand), a part of which will begin to expire in the year ending March 31, 2005.

## 18. Shareholders' Equity

### (1) Treasury Stock

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

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

### (2) Retained Earnings

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

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

Subsequent to March 31, 2004, the parent company's Board of Directors declared an annual cash dividend of ¥10,127 million (\$95,538 thousand) to shareholders of record on March 31, 2004. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 29, 2004. 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, 2004, 2003 and 2002 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>For the year ended March 31, 2004:</b>			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period.....	¥12,639	(¥ 4,910)	¥ 7,729
Less: Reclassification adjustment for gains or losses included in net income.....	(695)	270	(425)
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year.....	145	(58)	87
Less: Reclassification adjustment for gains or losses included in net income.....	(68)	28	(40)
Minimum pension liability adjustments.....	43,147	(17,226)	25,921
Foreign currency translation adjustments.....	(4,228)	(72)	(4,300)
Other comprehensive income (loss).....	¥50,940	(¥21,968)	¥28,972
<b>For the year ended March 31, 2003:</b>			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period.....	(¥ 7,053)	¥ 2,738	(¥ 4,315)
Less: Reclassification adjustment for gains or losses included in net income.....	9,215	(3,177)	6,038
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year.....	177	(72)	105
Less: Reclassification adjustment for gains or losses included in net income.....	(172)	66	(106)
Minimum pension liability adjustments.....	(4,385)	1,379	(3,006)
Foreign currency translation adjustments.....	(4,619)	279	(4,340)
Other comprehensive income (loss).....	(¥ 6,837)	¥ 1,213	(¥ 5,624)

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
<b>For the year ended March 31, 2002:</b>			
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 liability 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)
<b>For the year ended March 31, 2004:</b>			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period.....	\$119,236	(\$ 46,321)	\$ 72,915
Less: Reclassification adjustment for gains or losses included in net income.....	(6,556)	2,547	(4,009)
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year.....	1,368	(547)	821
Less: Reclassification adjustment for gains or losses included in net income.....	(641)	264	(377)
Minimum pension liability adjustments.....	407,047	(162,509)	244,538
Foreign currency translation adjustments.....	(39,887)	(679)	(40,566)
Other comprehensive income (loss).....	\$480,567	(\$207,245)	\$273,322

### 19. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2004, 2003 and 2002 were ¥4,088 million (\$38,566 thousand), ¥5,003 million and ¥5,121 million, respectively.

### 20. Leased Assets—Lessee

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

On April 23, 1996, the Company entered into a long-term lease agreement for a building and land in Mitaka, Tokyo. The lease agreement extends for 30 years beginning May 1, 1996. For financial reporting purposes, the portion of the lease relating to the building has been classified as a capital lease; accordingly, an asset of approximately ¥5,086 million (\$47,981 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, 2004 were ¥7,230 million (\$68,208 thousand).

A summary of leased assets under capital leases at March 31, 2004 and 2003 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31 2004	2003	March 31 2004
Buildings and improvements.....	¥ 5,185	¥ 5,185	\$ 48,915
Machinery, equipment and automobiles .....	13,273	11,888	125,217
Intangibles and other.....	151	123	1,425
Accumulated depreciation .....	(7,498)	(7,076)	(70,736)
	¥11,111	¥10,120	\$104,821

Depreciation expenses under capital leases for the years ended March 31, 2004, 2003 and 2002 were ¥3,186 million (\$30,057 thousand), ¥2,991 million and ¥3,195 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, 2004:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2005 .....	¥ 3,218	\$ 30,358
2006 .....	2,520	23,774
2007 .....	1,700	16,038
2008 .....	1,285	12,123
2009 .....	663	6,255
Later years .....	6,237	58,839
Total minimum lease payments .....	15,623	147,387
Less: Amount representing interest ...	3,678	34,698
Present value of net minimum lease payments (Note 13) .....	11,945	112,689
Less: Current portion .....	2,830	26,698
Long-term capital lease obligations ...	¥ 9,115	\$ 85,991

Rental expenses under operating leases for the years ended March 31, 2004, 2003 and 2002 were ¥14,540 million (\$137,170 thousand), ¥15,182 million and ¥12,961 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 (\$12,632 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, 2004 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2005 .....	¥ 1,763	\$ 16,632
2006 .....	1,737	16,387
2007 .....	1,686	15,906
2008 .....	1,674	15,792
2009 .....	1,667	15,726
Later years .....	21,244	200,415
Total future minimum lease payments .....	¥29,771	\$280,858

## 21. Property on Operating Leases—Lessor

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

A summary of investment in property on operating leases and property held for lease at March 31, 2004 and 2003 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31 2004	March 31 2003	March 31 2004
Land .....	¥ 66,093	¥105,052	\$ 623,519
Buildings and improvements.....	70,163	86,540	661,915
Construction in progress.....	901	1,271	8,500
Intangibles and other.....	1,711	1,681	16,142
Accumulated depreciation .....	(12,498)	(10,712)	(117,906)
	¥126,370	¥183,832	\$1,192,170

The future minimum rentals on non-cancelable operating leases at March 31, 2004 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2005 .....	¥ 6,721	\$ 63,406
2006 .....	1,708	16,113
2007 .....	739	6,972
2008 .....	739	6,972
2009 .....	739	6,972
Later years .....	12,556	118,453
Total future minimum rentals .....	¥23,202	\$218,888

## 22. Fair Value of Financial Instruments

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

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

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

### (2) Long-Term Receivables

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

### (3) Long-Term Debt Including Current Portion

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

### (4) Investment Deposits by Policyholders

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

### (5) Derivatives

The fair values of interest rate swaps and embedded derivatives 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, 2004 and 2003 are as follows:

	In millions of yen			
	2004		2003	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
March 31				
Non-derivatives:				
Liabilities—				
Long-term debt including current portion .....	¥104,534	¥104,792	¥123,274	¥123,628
Investment deposits by policyholders .....	230,316	241,423	231,109	246,057
Derivatives:				
Assets—				
Interest rate swaps ....	19	19	1	1
Embedded derivatives .....	16	16	—	—
Liabilities—				
Interest rate swaps ....	536	536	921	921

	2004	
	Carrying amount	Estimated fair value
	In thousands of U.S. dollars	
March 31		
Non-derivatives:		
Liabilities—		
Long-term debt including current portion .....	\$ 986,170	\$ 988,604
Investment deposits by policyholders .....	2,172,792	2,277,575
Derivatives:		
Assets—		
Interest rate swaps .....	179	179
Embedded derivatives .....	151	151
Liabilities—		
Interest rate swaps .....	5,057	5,057

#### Limitation:

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

## 23. Derivative Financial Instruments

### (1) Risk Management Policy

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

### (2) Interest Rate Risk Management

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

### (3) Cash Flow Hedge

The Company designates interest rate swap agreements as cash flow hedges for variability of cash flows originated from floating rate borrowings. The interest rate swap agreements mature at various dates through 2009. The effective portion of changes in fair values of derivative instruments designated as cash flow hedges of these debt obligations are reported in other comprehensive income (loss). These amounts are reclassified into current income in the same period as hedged items affect current income. The ineffective portion of changes in fair values are reported in income immediately. The sum of the amount of the hedge ineffectiveness and net gains or losses excluded from the assessment of hedge effectiveness is not material for the years ended March 31, 2004, 2003 and 2002. Approximately ¥73 million (\$689 thousand) of net derivative gains included in other comprehensive income (loss), net of tax at March 31, 2004, will be reclassified into current income within 12 months from that date. At March 31, 2004 and 2003, the notional principal amounts of interest rate swap agreements designated as cash flow hedges were ¥35,909 million (\$338,764 thousand) and ¥36,093 million, respectively.

#### (4) Derivative Instruments not Designated as Hedges

Certain subsidiaries enter into interest rate swap agreements to change the effective interest rates on debt securities held as investments with the objective of increasing current interest income. Secom Insurance holds embedded derivatives that must be separated from the host debt securities and accounted for as derivative instruments, which are also to increase investment income. Changes in fair value of the above noted derivative financial instruments, which are not designated as hedges, are reported in current income.

#### 24. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2004 for the purchase of property, plant and equipment approximated ¥3,491 million (\$32,934 thousand).

The Company provides guarantees to third parties with respect to bank loans extended to its affiliated companies and other entities. Such guarantees are provided to enhance the credit standing of the affiliated companies and other entities. For each guarantee provided, the Company would have to perform under the guarantee, if the affiliated companies and other entities default on a payment within the guaranteed period of one to 14 years. The maximum amount of undiscounted payments the Company would have to make in the event of default amounts to ¥19,101 million (\$180,198 thousand) at March 31, 2004. The carrying amounts of the liabilities recognized for the Company's obligations under these guarantees at March 31, 2004 and 2003 were insignificant.

#### 25. Free Share Distributions of Less than 25 Percent

The method of accounting for the Company's less than 25 percent free share distributions is described in Note 2. Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America, ¥98,388 million (\$928,189 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on total shareholders' equity.

#### 26. Gain on Sale of Subsidiaries' Shares

On February 19, 2002, Secom Joshinetsu Co., Ltd. ("Secom Joshinetsu"), a 62.0 percent owned subsidiary, completed an initial public offering on the Second Section of the Tokyo Stock Exchange. In conjunction with the offering, the parent company

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

#### 27. Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended			Year ended
	March 31			March 31
	2004	2003	2002	2004
Cash paid during the year for:				
Interest .....	¥ 3,307	¥ 3,527	¥ 1,568	\$ 31,198
Income taxes .....	24,718	40,263	31,952	233,189
Non-cash investing and financing activities:				
Conversion of convertible bond.....	—	17	467	—
Additions to obligations under capital leases .....	4,173	2,739	3,959	39,368
Acquisition—				
Fair value of assets acquired.....	¥ —	¥ —	¥73,944	\$ —
Cash paid for capital stock.....	—	—	(4,957)	—
Minority interest in subsidiaries.....	—	—	(13)	—
Net liabilities assumed .....	¥ —	¥ —	¥68,974	\$ —

## 28. Segment Information

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

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

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

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

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

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

Information by business and geographic segments for the years ended March 31, 2004, 2003 and 2002 is as follows:

### (1) Business Segment Information

	In millions of yen			In thousands of U.S. dollars
	2004	2003	2002	Year ended March 31
Revenue and other income:				
Security services—				
Customers .....	¥367,628	¥355,702	¥342,169	\$3,468,188
Intersegment .....	1,162	1,321	2,448	10,962
	368,790	357,023	344,617	3,479,150
Medical services—				
Customers .....	21,223	19,951	13,507	200,217
Intersegment .....	195	171	166	1,840
	21,418	20,122	13,673	202,057
Insurance services—				
Customers .....	33,362	29,144	28,759	314,735
Intersegment .....	2,420	2,026	1,920	22,830
	35,782	31,170	30,679	337,565
Information and communication related and other services—				
Customers .....	112,820	112,994	103,315	1,064,340
Intersegment .....	3,730	2,995	4,213	35,189
	116,550	115,989	107,528	1,099,529
Total .....	542,540	524,304	496,497	5,118,301
Eliminations .....	(7,507)	(6,513)	(8,747)	(70,821)
Corporate items .....	2,826	2,952	5,776	26,661
Total revenue and other income .....	¥537,859	¥520,743	¥493,526	\$5,074,141
Income (loss) before income taxes:				
Security services .....	¥ 76,229	¥ 80,108	¥ 82,984	\$ 719,142
Medical services .....	(1,181)	1,810	(698)	(11,142)
Insurance services .....	3,217	(9,181)	304	30,349
Information and communication related and other services .....	(11,865)	(1,998)	(130)	(111,934)
Total .....	66,400	70,739	82,460	626,415
Corporate items and eliminations .....	(14,074)	(14,138)	(16,091)	(132,773)
Interest expense .....	(3,297)	(3,729)	(1,596)	(31,104)
Total income before income taxes .....	¥ 49,029	¥ 52,872	¥ 64,773	\$ 462,538

	In millions of yen			In thousands of U.S. dollars
	2004	2003	2002	2004
<b>Assets:</b>				
Security services .....	¥ 428,034	¥ 396,850	¥ 408,657	\$ 4,038,057
Medical services .....	73,573	67,214	61,615	694,085
Insurance services .....	317,102	319,750	352,454	2,991,528
Information and communication related and other services....	205,374	209,954	179,383	1,937,491
<b>Total.....</b>	<b>1,024,083</b>	<b>993,768</b>	<b>1,002,109</b>	<b>9,661,161</b>
Corporate items....	101,708	129,372	129,061	959,509
Investments in and loans to affiliated companies .....	39,314	34,942	34,943	370,887
<b>Total assets .....</b>	<b>¥1,165,105</b>	<b>¥1,158,082</b>	<b>¥1,166,113</b>	<b>\$10,991,557</b>
<b>Depreciation and amortization:</b>				
Security services .....	¥44,833	¥44,014	¥ 42,106	\$422,953
Medical services .....	1,164	953	1,301	10,981
Insurance services....	1,586	2,305	1,253	14,962
Information and communication related and other services .....	4,766	4,200	4,234	44,962
<b>Total.....</b>	<b>52,349</b>	<b>51,472</b>	<b>48,894</b>	<b>493,858</b>
Corporate items.....	594	595	997	5,604
<b>Total depreciation and amortization ....</b>	<b>¥52,943</b>	<b>¥52,067</b>	<b>¥ 49,891</b>	<b>\$499,462</b>
<b>Capital expenditures:</b>				
Security services .....	¥33,205	¥29,586	¥ 37,152	\$313,255
Medical services .....	1,625	5,115	2,717	15,330
Insurance services....	3,859	12,899	104,398	36,406
Information and communication related and other services .....	5,632	4,726	2,928	53,132
<b>Total.....</b>	<b>44,321</b>	<b>52,326</b>	<b>147,195</b>	<b>418,123</b>
Corporate items.....	7	612	13	66
<b>Total capital expenditures .....</b>	<b>¥44,328</b>	<b>¥52,938</b>	<b>¥147,208</b>	<b>\$418,189</b>

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
	2004	2003	2002	2004
<b>Electronic security services:</b>				
Commercial security and home security .....	¥261,751	¥254,931	¥244,494	\$2,469,349
Large-scale proprietary systems .....	3,584	3,461	3,438	33,811
<b>Other security services:</b>				
Static guard services .....	37,537	35,908	34,107	354,123
Armored car services .....	18,618	17,261	17,001	175,642
Merchandise and other .....	46,138	44,141	43,129	435,263
<b>Total security services .....</b>	<b>¥367,628</b>	<b>¥355,702</b>	<b>¥342,169</b>	<b>\$3,468,188</b>

## (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, 2004, 2003 and 2002 was as follows:

	In millions of yen			In thousands of U.S. dollars
	2004	2003	2002	2004
<b>Revenue and other income:</b>				
Japan.....	¥523,321	¥506,554	¥480,165	\$4,936,990
Other .....	14,538	14,189	13,361	137,151
<b>Total .....</b>	<b>¥537,859</b>	<b>¥520,743</b>	<b>¥493,526</b>	<b>\$5,074,141</b>
<b>Long-lived assets:</b>				
Japan.....	¥384,423	¥445,632	¥463,144	\$3,626,632
Other .....	6,874	5,528	6,384	64,849
<b>Total .....</b>	<b>¥391,297</b>	<b>¥451,160</b>	<b>¥469,528</b>	<b>\$3,691,481</b>

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

## INDEPENDENT AUDITORS' REPORT



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, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2004, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SECOM CO., LTD. and subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

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

The accompanying consolidated financial statements as of and for the year ended March 31, 2004 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 3 of the notes to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
May 20, 2004

## SUMMARY OF SELECTED FINANCIAL DATA

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

In millions of yen

	2004	2003	2002	2001	2000	1999
<b>Composition of consolidated revenue and other income by segment</b>						
Revenue and other income .....	¥537,859	¥520,743	¥493,526	¥468,293	¥412,424	¥394,146
Security services:.....	367,628	355,702	342,169	316,139	295,834	293,104
As a percentage of revenue and other income .....	68.4%	68.3%	69.3%	67.5%	71.8%	74.4%
Electronic security services—						
Commercial security and home security.....	261,751	254,931	244,494	230,763	221,765	219,670
As a percentage of revenue and other income .....	48.6	48.9	49.5	49.3	53.8	55.7
Large-scale proprietary systems.....	3,584	3,461	3,438	3,647	3,773	4,223
As a percentage of revenue and other income .....	0.7	0.7	0.7	0.8	0.9	1.1
Subtotal.....	265,335	258,392	247,932	234,410	225,538	223,893
Other security services—						
Static guard services.....	37,537	35,908	34,107	32,204	31,663	30,178
As a percentage of revenue and other income .....	7.0	6.9	6.9	6.9	7.7	7.7
Armored car services.....	18,618	17,261	17,001	15,109	13,540	12,275
As a percentage of revenue and other income .....	3.5	3.3	3.5	3.2	3.3	3.1
Subtotal.....	56,155	53,169	51,108	47,313	45,203	42,453
Merchandise and other.....	46,138	44,141	43,129	34,416	25,093	26,758
As a percentage of revenue and other income .....	8.6	8.5	8.7	7.3	6.1	6.8
Medical services.....	21,223	19,951	13,507	6,347	1,326	1,075
As a percentage of revenue and other income .....	3.9	3.8	2.7	1.4	0.3	0.3
Insurance services.....	33,362	29,144	28,759	23,303	30,462	4,775
As a percentage of revenue and other income .....	6.2	5.6	5.8	5.0	7.4	1.2
Information and communication related and other services .....	112,820	112,994	103,315	92,552	72,684	55,367
As a percentage of revenue and other income .....	21.0	21.7	20.9	19.8	17.6	14.0
Corporate items.....	2,826	2,952	5,776	29,952	12,118	39,825
As a percentage of revenue and other income .....	0.5	0.6	1.3	6.3	2.9	10.1
<b>Net income, cash dividends and shareholders' equity</b>						
Net income.....	¥ 23,479	¥ 30,275	¥ 34,082	¥ 43,996	¥ 47,326	¥ 49,918
Cash dividends (paid) <sup>(3)</sup> .....	9,003	9,330	9,324	9,323	8,146	7,555
Shareholders' equity.....	415,852	372,518	401,326	377,304	373,806	327,147
<b>Consolidated financial ratios</b>						
Percentage of working capital accounted for by:						
Debt—						
Bank loans.....	17.7	20.0	10.7	14.5	15.6	8.4
Current portion of long-term debt.....	2.1	3.3	4.4	1.9	1.2	2.5
Convertible bonds.....	0.0	0.0	0.0	0.1	0.1	0.3
Straight bonds.....	5.2	5.2	5.6	2.0	2.1	2.6
Other long-term debt.....	9.2	11.4	16.1	6.1	3.2	2.6
Total debt.....	34.2	39.9	36.8	24.6	22.2	16.4
Shareholders' equity.....	65.8	60.1	63.2	75.4	77.8	83.6
Total capitalization.....	100.0	100.0	100.0	100.0	100.0	100.0
Return on total assets (percentage) (a).....	2.0	2.6	2.9	5.0	6.1	7.8
Return on equity (percentage) (b).....	5.6	8.1	8.5	11.7	12.7	15.3
Percentage of revenue and other income absorbed by:						
Depreciation and amortization.....	9.8	10.0	10.1	9.6	8.3	7.8
Rental expense.....	2.7	2.9	2.6	2.6	3.0	2.7
Ratio of accumulated depreciation to depreciable assets (percentage).....						
.....	54.8	50.6	48.9	54.0	60.0	59.3
Net property turnover (times).....	1.78	1.42	1.27	1.99	2.71	3.09
Before-tax interest coverage (times) (c).....	15.9	15.2	41.6	43.9	60.0	77.7
Before-tax interest and rental coverage (times) (d).....	7.0	7.0	11.9	14.8	14.4	19.1

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

	2004	2003	2002	2001	2000	1999
<b>Number of shares outstanding<sup>(1)</sup></b>						
Issued.....	233,281,133	233,281,133	233,274,769	233,099,744	233,075,442	116,392,109
Owned by the Company .....	8,228,652	8,200,245	22,512	510	4,840	11,817
Balance .....	225,052,481	225,080,888	233,252,257	233,099,234	233,070,602	116,380,292
<b>Per share information<sup>(1)</sup></b>						
Basic net income per share (in yen) <sup>(2)</sup> .....	¥ 104.32	¥ 132.87	¥ 146.19	¥ 188.76	¥ 203.22	¥ 214.51
Cash dividends paid per share (in yen) <sup>(3)</sup> .....	40.00	40.00	40.00	40.00	35.00	32.50
Shareholders' equity per share (in yen) <sup>(4)</sup> .....	1,847.80	1,655.04	1,720.57	1,618.64	1,603.83	1,405.51
Cash flow per share (in yen) <sup>(2)(e)</sup> .....	294.56	321.88	320.17	341.91	310.28	310.76
Price/Book value ratio.....	2.46	1.84	3.33	4.39	5.49	3.99
Price/Earnings ratio .....	43.52	22.88	39.20	37.61	43.30	26.15
Price/Cash flow ratio.....	15.41	9.44	17.90	20.77	28.36	18.05
Stock price at year-end (in yen).....	4,540	3,040	5,730	7,100	8,800	5,610

Notes: (a) Net income/Total assets  
 (b) Net income/Shareholders' equity  
 (c) (Income before income taxes + Interest expense)/Interest expense  
 (d) (Income before income taxes + Interest expense + 1/3 Rental expense)/(Interest expense + 1/3 Rental expense)  
 (e) (Net income + Depreciation and amortization - Dividend approved) / Average number of shares outstanding during each period

(1) Per share amounts have been adjusted to reflect the impact of a stock split on November 19, 1999. The number of shares outstanding at the end of each year ended March 31, has not been adjusted to reflect this stock split.  
 (2) Per share amounts are based on the average number of shares outstanding during each period.  
 (3) Subsequent to March 31, 2004, cash dividends of ¥10,127 million (¥45 per share) were approved at the general shareholders' meeting on June 29, 2004 (see Note 18 of the accompanying notes to consolidated financial statements).  
 (4) Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

## COMMON STOCK DATA

SECOM CO., LTD.  
 As of March 31

### SHAREHOLDER INFORMATION

	2004	2003	2002	2001	2000	1999
<b>Number of shareholders</b> .....	21,720	20,230	17,609	15,621	15,019	9,458
Common shares held by:						
Financial institutions .....	37.04%	46.14%	45.31%	44.44%	42.74%	45.71%
Securities firms .....	2.19	2.04	1.61	1.73	2.66	0.90
Other corporations .....	4.29	4.60	13.78	13.84	13.86	13.67
Foreign investors.....	37.22	28.64	24.64	25.76	25.96	26.90
Individuals and others.....	19.26	18.58	14.66	14.23	14.78	12.82
Total .....	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

## PRICE INFORMATION (TOKYO STOCK EXCHANGE)

		Price per share (in yen)		Nikkei Stock Average (in yen)	
		High	Low	High	Low
2002	April–June .....	¥6,780	¥5,550	¥11,979.85	¥10,074.56
	July–September.....	6,250	4,520	10,960.25	9,075.09
	October–December.....	4,950	3,780	9,215.56	8,303.39
2003	January–March .....	4,220	2,950	8,790.92	7,862.43
	April–June .....	3,900	2,655	9,137.14	7,607.88
	July–September.....	4,430	3,260	11,033.32	9,265.56
2004	October–December.....	5,120	3,620	11,161.71	9,614.60
	January–March .....	4,620	3,930	11,770.65	10,365.40

## COMMON STOCK ISSUES

Date	Additional shares issued (In thousands)	Shares outstanding after issue (In thousands)	Share capital after issue (In thousands of yen)	Allotment ratio to shareholders	Remarks
June 15, 1974	1,968	9,200	¥ 460,000	—	Issue at market price (¥900)
Dec. 21, 1974	2,760	11,960	598,000	3 for 10	Stock split
May 21, 1975	1,196	13,156	657,800	1 for 10	Stock split
May 21, 1975	1,244	14,400	720,000	—	Issue at market price (¥1,134)
Dec. 1, 1975	4,320	18,720	936,000	3 for 10	Stock split
May 31, 1976	1,880	20,600	1,030,000	—	Issue at market price (¥2,570)
June 1, 1976	2,060	22,660	1,133,000	1 for 10	Stock split
Dec. 1, 1976	6,798	29,458	1,472,900	3 for 10	Stock split
Nov. 30, 1977	2,042	31,500	1,575,000	—	Issue at market price (¥1,700)
Dec. 1, 1977	6,300	37,800	1,890,000	2 for 10	Stock split
Dec. 1, 1978	7,560	45,360	2,268,000	2 for 10	Stock split
June 1, 1981	3,000	48,360	2,418,000	—	Issue at market price (¥2,230)
Dec. 1, 1981	4,836	53,196	2,659,800	1 for 10	Stock split
Jan. 20, 1983	5,320	58,516	3,000,000	1 for 10	Stock split
Nov. 30, 1983	194	58,710	3,280,942	—	Conversion of convertible bonds
Nov. 30, 1984	1,418	60,128	5,329,282	—	Conversion of convertible bonds
Nov. 30, 1985	186	60,314	5,602,945	—	Conversion of convertible bonds
Jan. 20, 1986	6,031	66,345	5,602,945	1 for 10	Stock split
Nov. 30, 1986	2,878	69,223	11,269,932	—	Conversion of convertible bonds
Nov. 30, 1987	1,609	70,832	15,021,200	—	Conversion of convertible bonds
Jan. 20, 1988	3,541	74,373	15,021,200	0.5 for 10	Stock split
Nov. 30, 1988	439	74,812	16,063,099	—	Conversion of convertible bonds
Nov. 30, 1989	1,808	76,620	21,573,139	—	Conversion of convertible bonds
Jan. 19, 1990	22,986	99,606	21,573,139	3 for 10	Stock split
Mar. 31, 1990	1,446	101,052	25,070,104	—	Conversion of convertible bonds
Mar. 31, 1991	2,949	104,001	32,244,732	—	Conversion of convertible bonds
Mar. 31, 1992	2,035	106,036	37,338,751	—	Conversion of convertible bonds
Mar. 31, 1993	267	106,303	37,991,568	—	Conversion of convertible bonds
Mar. 31, 1994	6,986	113,289	56,756,263	—	Conversion of convertible bonds
Mar. 31, 1995	477	113,766	58,214,178	—	Conversion of convertible bonds
Mar. 31, 1996	613	114,379	59,865,105	—	Conversion of convertible bonds
Mar. 31, 1997	1,825	116,204	65,253,137	—	Conversion of convertible bonds
Mar. 31, 1998	29	116,233	65,327,060	—	Conversion of convertible bonds
Mar. 31, 1999	159	116,392	65,709,927	—	Conversion of convertible bonds
Nov. 19, 1999	116,410	232,802	65,709,927	10 for 10*	Stock split
Mar. 31, 2000	273	233,075	66,096,852	—	Conversion of convertible bonds
Mar. 31, 2001	25	233,100	66,126,854	—	Conversion of convertible bonds
Mar. 31, 2002	175	233,275	66,360,338	—	Conversion of convertible bonds
Mar. 31, 2003	6	233,281	66,368,827	—	Conversion of convertible bonds
Mar. 31, 2004	—	233,281	66,368,827	—	—

Note: The above is a record of SECOM's common stock issues since the common stock was listed on the Tokyo Stock Exchange in June 1974.

\*One share was split into two.

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*SUPPLEMENTAL CONSOLIDATED FINANCIAL DATA  
(BASED ON JAPANESE GAAP)*

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# CONDENSED CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries  
As of March 31

In millions of yen

ASSETS	2004	2003	2002	2001	2000	1999
<b>Current assets:</b>						
Cash on hand and in banks.....	¥ 202,630	¥175,776	¥192,437	¥135,820	¥156,888	¥151,627
Call loans .....	38,000	30,000	40,000	35,690	11,000	—
Notes and accounts receivable, trade.....	46,813	43,922	46,048	45,904	45,112	15,334
Due from subscribers .....	17,561	16,336	14,395	12,137	11,713	11,588
Short-term investments .....	47,343	36,402	31,321	41,033	98,479	113,321
Inventories.....	45,477	41,339	55,387	49,860	52,400	24,186
Deferred income taxes .....	9,768	7,678	9,111	5,785	5,541	2,595
Short-term loans.....	58,793	51,355	90,610	36,682	—	—
Other current assets .....	17,205	19,650	17,441	14,334	38,707	27,593
Allowance for doubtful accounts.....	(4,925)	(1,558)	(1,501)	(1,092)	(973)	(1,590)
Total current assets.....	478,668	420,903	495,251	376,156	418,870	344,656
<b>Fixed assets:</b>						
Tangible assets:						
Buildings and improvements.....	79,072	90,823	68,804	34,835	33,180	30,291
Security equipment and control stations.....	65,315	65,026	78,328	73,169	68,521	64,658
Land.....	80,507	87,853	63,547	48,427	45,318	41,239
Other tangible assets .....	19,050	17,313	19,321	19,540	19,065	15,563
Intangible assets .....	33,820	34,544	37,460	32,225	23,193	14,711
Investments and others:						
Investment securities.....	207,654	188,880	158,438	153,553	70,170	51,482
Long-term loans .....	63,799	102,448	86,420	59,586	34,020	21,238
Deferred income taxes.....	22,523	38,056	38,299	12,214	12,736	5,954
Other investments.....	55,528	52,098	37,452	30,449	24,972	27,069
Allowance for doubtful accounts.....	(14,060)	(8,010)	(12,341)	(7,567)	(5,637)	(1,619)
Total fixed assets .....	613,211	669,034	575,731	456,435	325,541	270,589
Deferred assets.....	187	192	207	410	1,294	666
Foreign currency translation adjustments.....	—	—	—	—	18,784	11,153
Total assets .....	¥1,092,067	¥1,090,131	¥1,071,190	¥833,001	¥764,491	¥627,066

	In millions of yen					
LIABILITIES	2004	2003	2002	2001	2000	1999
<b>Current liabilities:</b>						
Notes and accounts payable, trade .....	¥ 18,460	¥ 15,529	¥ 16,401	¥ 15,854	¥ 16,342	¥ 9,691
Bank loans .....	119,344	135,540	90,194	79,409	77,896	40,676
Current portion of straight bonds .....	200	—	5,000	5,000	—	—
Current portion of convertible bonds.....	18	—	33	—	—	4
Payables—other .....	17,743	19,580	20,229	19,243	35,803	11,031
Accrued income taxes .....	17,083	10,756	23,002	18,263	13,647	16,940
Accrued consumption taxes .....	3,792	3,444	3,030	3,196	2,939	2,514
Accrued expenses.....	2,304	1,837	1,828	10,563	9,899	8,617
Deferred revenue .....	28,459	28,851	27,373	27,433	26,087	23,749
Accrued bonus .....	8,490	8,852	8,834	—	—	—
Other current liabilities.....	45,283	35,140	29,045	23,595	31,646	33,979
Total current liabilities.....	261,181	259,531	224,972	202,560	214,261	147,208
<b>Fixed liabilities:</b>						
Straight bonds.....	32,800	32,000	30,500	5,000	10,000	10,000
Convertible bonds.....	—	18	18	518	578	1,347
Long-term loans.....	43,530	48,301	48,671	10,742	4,934	2,468
Guarantee deposits received .....	29,160	28,304	26,174	17,938	17,086	16,410
Deferred income taxes .....	371	459	1	1,320	—	—
Accrued severance indemnities.....	—	—	—	—	2,651	2,191
Accrued pension and severance costs.....	12,899	45,210	49,617	7,181	—	—
Investment deposits by policyholders, unearned premiums and other insurance liabilities .....	276,979	274,476	268,519	168,648	112,831	95,320
Other fixed liabilities.....	2,117	4,033	3,164	2,448	1,932	1,051
Total fixed liabilities.....	397,858	432,803	426,666	213,799	150,014	128,790
Total liabilities .....	659,040	692,335	651,639	416,360	364,275	275,999
<b>MINORITY INTEREST IN SUBSIDIARIES .....</b>	<b>29,770</b>	<b>28,042</b>	<b>27,401</b>	<b>27,049</b>	<b>27,442</b>	<b>13,553</b>
<b>SHAREHOLDERS' EQUITY</b>						
Common stock .....	66,368	66,368	66,360	66,126	66,096	65,709
Capital surplus .....	82,544	82,544	82,536	82,302	82,272	81,781
Retained earnings.....	308,268	276,397	250,400	250,409	224,446	190,141
Unrealized gains (losses) on securities.....	6,079	116	(246)	4,846	—	—
Foreign currency translation adjustments.....	(15,603)	(11,386)	(6,759)	(14,089)	—	—
Common stock in treasury, at cost.....	(44,400)	(44,287)	(141)	(3)	(42)	(119)
Total shareholders' equity.....	403,257	369,753	392,149	389,592	372,773	337,513
Total liabilities, minority interest in subsidiaries and shareholders' equity .....	¥1,092,067	¥1,090,131	¥1,071,190	¥833,001	¥764,491	¥627,066

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

In millions of yen

	2004	2003	2002	2001	2000	1999
Revenue .....	<b>¥527,409</b>	¥523,271	¥497,921	¥454,960	¥410,492	¥352,361
<i>Percentage change from prior year.....</i>	<b>0.8%</b>	5.1%	9.4%	10.8%	16.5%	11.3%
Cost of revenue .....	<b>324,759</b>	325,952	319,826	278,911	245,317	204,203
<i>As a percentage of revenue.....</i>	<b>61.6</b>	62.3	64.2	61.3	59.8	58.0
Gross profit .....	<b>202,650</b>	197,319	178,094	176,049	165,174	148,157
<i>As a percentage of revenue.....</i>	<b>38.4</b>	37.7	35.8	38.7	40.2	42.0
Selling, general and administrative expenses.....	<b>121,363</b>	124,416	135,071	110,787	103,658	93,433
<i>As a percentage of revenue.....</i>	<b>23.0</b>	23.8	27.2	24.4	25.2	26.5
Operating profit.....	<b>81,286</b>	72,902	43,022	65,261	61,515	54,724
<i>As a percentage of revenue.....</i>	<b>15.4</b>	13.9	8.6	14.3	15.0	15.5
Non-operating income.....	<b>7,798</b>	8,672	8,088	11,333	15,894	6,738
Non-operating expenses .....	<b>12,841</b>	11,512	9,569	10,320	8,411	8,110
Ordinary profit.....	<b>76,243</b>	70,063	41,541	66,274	68,997	53,352
<i>As a percentage of revenue.....</i>	<b>14.5</b>	13.4	8.3	14.6	16.8	15.1
Extraordinary profit.....	<b>31,860</b>	13,587	33,491	24,618	6,739	36,017
Extraordinary loss .....	<b>24,892</b>	15,728	53,150	26,597	4,170	4,622
Income before income taxes.....	<b>83,211</b>	67,921	21,882	64,295	71,566	84,746
<i>As a percentage of revenue.....</i>	<b>15.8</b>	13.0	4.4	14.1	17.4	24.1
Income taxes—current.....	<b>30,962</b>	27,808	37,095	30,011	27,395	34,945
Income taxes—deferred .....	<b>8,985</b>	2,171	(23,550)	(2,057)	(1,757)	(531)
Minority interest in subsidiaries .....	<b>2,152</b>	2,358	(1,246)	801	3,111	1,238
Net income .....	<b>41,111</b>	35,583	9,583	35,540	42,817	49,093
<i>As a percentage of revenue.....</i>	<b>7.8</b>	6.8	1.9	7.8	10.4	13.9
<i>Percentage change from prior year.....</i>	<b>15.5</b>	271.3	(73.0)	(17.0)	(12.8)	145.4

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*SUPPLEMENTAL NONCONSOLIDATED FINANCIAL DATA  
(BASED ON JAPANESE GAAP)*

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## CONDENSED NONCONSOLIDATED BALANCE SHEETS

SECOM CO., LTD.  
As of March 31

In millions of yen

ASSETS	2004	2003	2002	2001	2000	1999
<b>Current assets:</b>						
Cash on hand and in banks.....	¥117,302	¥ 93,044	¥101,946	¥ 77,581	¥ 92,077	¥ 93,901
Notes receivable .....	292	365	741	538	324	458
Due from subscribers .....	8,856	8,311	7,726	7,072	6,242	5,564
Accounts receivable, trade.....	5,372	4,695	6,719	5,089	4,172	3,237
Receivables—other .....	5,680	3,047	3,536	3,123	3,457	1,242
Short-term investments .....	451	7,951	1,479	6,312	15,482	25,887
Common stock in treasury.....	—	—	—	3	42	119
Merchandise.....	5,673	6,738	9,563	6,625	5,524	4,805
Supplies .....	1,123	1,420	1,649	1,326	1,121	948
Prepaid expenses.....	1,610	1,507	1,857	1,605	1,369	1,241
Deferred income taxes .....	5,890	4,642	4,096	3,063	1,961	—
Short-term loans .....	38,398	53,111	40,659	28,897	33,189	29,030
Other current assets .....	2,526	2,367	2,458	2,683	4,274	1,512
Allowance for doubtful accounts.....	(5,216)	(3,602)	(2,959)	(2,245)	(137)	(146)
Total current assets.....	187,961	183,602	179,475	141,676	169,104	167,804
<b>Fixed assets:</b>						
Tangible assets:						
Buildings and improvements.....	25,836	28,777	20,576	23,006	23,696	24,294
Automobiles .....	145	525	634	679	578	737
Security equipment and control stations.....	60,684	60,220	75,216	70,511	65,825	62,686
Machinery and equipment .....	1,427	1,501	3,571	4,104	2,906	1,508
Tools, furniture and fixtures.....	3,990	3,678	3,383	3,316	2,335	2,166
Land.....	36,439	42,197	37,907	37,837	35,152	34,996
Construction in progress .....	2,862	1,463	2,011	2,327	1,616	1,693
Other.....	72	18	25	16	18	19
Intangible assets:						
Telephone rights and other .....	2,592	2,834	3,602	4,702	6,518	4,533
Telephone and telegraph utility rights.....	207	540	634	803	1,156	1,975
Software.....	8,935	10,957	10,535	11,422	3,313	—
Investments and other:						
Investment securities.....	23,874	20,796	23,578	27,284	10,706	12,519
Investments in subsidiaries and affiliated companies.....	158,279	159,901	160,870	145,227	129,771	112,714
Long-term loans .....	23,385	10,059	9,748	11,242	2,636	3,112
Lease deposits.....	8,533	8,489	8,504	8,697	6,802	6,889
Long-term prepaid expenses .....	19,889	19,709	1,025	1,263	1,540	9,436
Deferred income taxes.....	13,728	18,379	19,223	—	1,631	—
Other investments.....	13,007	10,650	11,555	11,423	9,428	6,670
Allowance for doubtful accounts.....	(11,306)	(1,596)	(1,311)	(1,205)	(13)	(14)
Total fixed assets .....	392,586	399,104	391,293	362,662	305,622	285,941
Total assets .....	¥580,547	¥582,707	¥570,769	¥504,339	¥474,726	¥453,745

	In millions of yen					
LIABILITIES	2004	2003	2002	2001	2000	1999
<b>Current liabilities:</b>						
Accounts payable.....	¥ 2,160	¥ 2,121	¥ 1,813	¥ 1,908	¥ 1,683	¥ 1,671
Bank loans .....	35,663	53,503	15,234	20,157	23,454	21,058
Current portion of straight and convertible bonds...	18	—	33	—	—	4
Payables—other .....	10,358	9,605	10,167	10,722	7,590	6,707
Accrued expenses.....	634	576	619	5,713	5,484	5,356
Deposits received.....	33,958	24,749	20,867	15,681	18,784	25,439
Deferred revenue—service charges .....	21,247	21,048	20,108	19,583	19,254	18,734
Accrued income taxes .....	10,570	6,806	18,163	13,904	9,858	13,771
Payables—construction.....	4,666	3,535	3,514	4,328	4,123	3,173
Accrued bonus .....	4,710	4,920	4,939	—	—	—
Other current liabilities.....	4,029	3,837	2,772	2,437	3,330	2,210
<b>Total current liabilities.....</b>	<b>128,019</b>	<b>130,706</b>	<b>98,234</b>	<b>94,436</b>	<b>93,564</b>	<b>98,127</b>
<b>Fixed liabilities:</b>						
Straight and convertible bonds .....	30,000	30,018	30,018	518	578	1,347
Long-term loans.....	2,300	3,700	—	—	—	—
Guarantee deposits received .....	17,009	16,721	16,445	15,784	15,046	14,606
Deferred income taxes .....	—	—	—	581	—	—
Accrued severance indemnities.....	—	—	—	—	368	378
Accrued pension and severance costs.....	5,356	30,378	31,341	1,999	—	—
Other fixed liabilities.....	—	—	—	120	—	557
<b>Total fixed liabilities.....</b>	<b>54,665</b>	<b>80,818</b>	<b>77,805</b>	<b>19,003</b>	<b>15,993</b>	<b>16,889</b>
<b>Total liabilities .....</b>	<b>182,684</b>	<b>211,524</b>	<b>176,039</b>	<b>113,439</b>	<b>109,557</b>	<b>115,016</b>
<b>SHAREHOLDERS' EQUITY</b>						
Common stock .....	66,368	66,368	66,360	66,126	66,096	65,709
<b>Capital surplus:</b>						
Additional paid-in capital.....	82,544	82,544	82,536	82,302	82,272	81,781
<b>Total capital surplus.....</b>	<b>82,544</b>	<b>82,544</b>	<b>82,536</b>	<b>82,302</b>	<b>82,272</b>	<b>81,781</b>
<b>Retained earnings:</b>						
Legal reserve .....	9,028	9,028	9,028	8,077	7,126	6,294
<b>Voluntary reserve:</b>						
Reserve for systems development.....	800	800	800	800	800	800
Reserve for tax deferral on asset replacement.....	26	27	28	30	31	56
General reserve.....	2,212	2,212	2,212	2,212	2,212	2,212
<b>Total voluntary reserve.....</b>	<b>3,038</b>	<b>3,039</b>	<b>3,040</b>	<b>3,042</b>	<b>3,043</b>	<b>3,068</b>
Unappropriated retained earnings .....	279,338	254,364	233,263	226,776	206,629	181,874
<b>Total retained earnings.....</b>	<b>291,405</b>	<b>266,431</b>	<b>245,332</b>	<b>237,895</b>	<b>216,799</b>	<b>191,237</b>
Unrealized gains on securities.....	1,944	124	642	4,575	—	—
Common stock in treasury, at cost.....	(44,400)	(44,287)	(141)	—	—	—
<b>Total shareholders' equity.....</b>	<b>397,862</b>	<b>371,182</b>	<b>394,729</b>	<b>390,899</b>	<b>365,169</b>	<b>338,729</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥580,547</b>	<b>¥582,707</b>	<b>¥570,769</b>	<b>¥504,339</b>	<b>¥474,726</b>	<b>¥453,745</b>

# CONDENSED NONCONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD.  
Years ended March 31

In millions of yen

	2004	2003	2002	2001	2000	1999
Revenue .....	<b>¥288,493</b>	¥278,610	¥274,669	¥257,008	¥242,461	¥231,505
<i>Percentage change from prior year</i> .....	<b>3.5%</b>	1.4%	6.9%	6.0%	4.7%	4.0%
Service charges .....	<b>256,883</b>	250,237	244,014	230,722	218,977	210,239
<i>Percentage change from prior year</i> .....	<b>2.7</b>	2.5	5.8	5.4	4.2	4.1
Sales of merchandise.....	<b>31,610</b>	28,373	30,654	26,285	23,484	21,265
<i>Percentage change from prior year</i> .....	<b>11.4</b>	(7.4)	16.6	11.9	10.4	3.2
Costs .....	<b>159,018</b>	155,499	162,427	141,310	130,585	123,180
<i>As a percentage of revenue</i> .....	<b>55.1</b>	55.8	59.1	55.0	53.9	53.2
Cost of service .....	<b>136,144</b>	135,315	140,000	122,456	113,815	108,349
<i>As a percentage of service charges</i> .....	<b>53.0</b>	54.1	57.4	53.1	52.0	51.5
Cost of sales.....	<b>22,873</b>	20,184	22,427	18,853	16,769	14,830
<i>As a percentage of merchandise sales</i> .....	<b>72.4</b>	71.1	73.2	71.7	71.4	69.7
Gross profit .....	<b>129,475</b>	123,111	112,241	115,698	111,876	108,324
<i>As a percentage of revenue</i> .....	<b>44.9</b>	44.2	40.9	45.0	46.1	46.8
Gross profit on service.....	<b>120,738</b>	114,921	104,013	108,266	105,161	101,889
<i>As a percentage of service charges</i> .....	<b>47.0</b>	45.9	42.6	46.9	48.0	48.5
Gross profit on sales .....	<b>8,736</b>	8,189	8,227	7,432	6,714	6,434
<i>As a percentage of merchandise sales</i> .....	<b>27.6</b>	28.9	26.8	28.3	28.6	30.3
Selling, general and administrative expenses.....	<b>65,244</b>	68,943	73,339	62,484	60,212	58,185
<i>As a percentage of revenue</i> .....	<b>22.6</b>	24.8	26.7	24.3	24.8	25.1
Operating profit.....	<b>64,231</b>	54,167	38,901	53,214	51,663	50,138
<i>As a percentage of revenue</i> .....	<b>22.3</b>	19.4	14.2	20.7	21.3	21.7
Other income (expenses):						
Interest, dividends and other income .....	<b>4,817</b>	4,288	4,661	7,211	5,210	5,198
Interest expense .....	<b>695</b>	494	354	269	15	18
Other expense.....	<b>6,196</b>	4,448	4,317	6,917	4,821	4,803
Ordinary profit.....	<b>62,156</b>	53,513	38,891	53,239	52,036	50,515
<i>As a percentage of revenue</i> .....	<b>21.5</b>	19.2	14.2	20.7	21.5	21.8
Extraordinary profit.....	<b>25,462</b>	6,543	28,211	23,246	5,427	12,072
Extraordinary loss.....	<b>29,860</b>	7,535	38,712	24,570	5,810	12,167
Income before income taxes.....	<b>57,758</b>	52,521	28,390	51,915	51,653	50,420
<i>As a percentage of revenue</i> .....	<b>20.0</b>	18.9	10.3	20.2	21.3	21.8
Provision for income taxes.....	<b>23,475</b>	21,736	11,441	21,319	21,381	24,343
<i>Effective tax rate</i> .....	<b>40.6</b>	41.4	40.3	41.1	41.4	48.3
Net income .....	<b>34,282</b>	30,784	16,948	30,595	30,272	26,077
<i>As a percentage of revenue</i> .....	<b>11.9</b>	11.0	6.2	11.9	12.5	11.3
<i>Percentage change from prior year</i> .....	<b>11.4</b>	81.6	(44.6)	1.1	16.1	8.7

## CORPORATE INFORMATION

<b>Headquarters:</b>	5-1, Jingumae 1-chome, Shibuya-ku, Tokyo 150-0001, Japan
<b>Independent auditors:</b>	KPMG AZSA & Co.
<b>Transfer agent:</b>	The Mitsubishi Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

## MAJOR CONSOLIDATED SUBSIDIARIES

(As of July 31, 2004)

	Issued capital (In millions of yen)	Percentage of equity/ voting rights	Lines of business
Domestic			
<b>&lt;Security services&gt;</b>			
Secom Joshinetsu Co., Ltd.	¥3,530	(52.5)%	Security services
Secom Hokuriku Co., Ltd.	201	59.1	Security services
Secom Yamanashi Co., Ltd.	15	70.0	Security services
Secom Mie Co., Ltd.	50	51.0	Security services
Secom Sanin Co., Ltd.	175	60.2	Security services
Secom Miyazaki Co., Ltd.	30	68.3	Security services
Secom Jastic Co., Ltd.	210	100.0	Security services
Secom Jastic Joshinetsu Co., Ltd.	40	(100.0)	Security services
Secom Jastic Hokuriku Co., Ltd.	10	(100.0)	Security services
Secom Jastic Miyazaki Co., Ltd.	10	(100.0)	Security services
Secom Jastic Akita Co., Ltd.	10	100.0	Security services
Secom Jastic Sanin Co., Ltd.	10	(100.0)	Security services
Secom Jastic Yamanashi Co., Ltd.	10	(100.0)	Security services
Secom Static Hokkaido Co., Ltd.	50	100.0	Security services
Secom Static Tohoku Co., Ltd.	50	100.0	Security services
Secom Static Nishi-Nihon Co., Ltd.	50	100.0	Security services
Secom Static Kansai Co., Ltd.	50	100.0	Security services
Secom Sado Co., Ltd.	24	(52.3)	Security services
Chuo Bohan Co., Ltd.	308	82.5	Security services
Chuo Bohan Act Service Co., Ltd.	10	(100.0)	Security services
JK. Siress Co., Ltd.	10	(100.0)	Security services
Japan Safety Guard Co., Ltd.	100	60.0	Security services
Meian Co., Ltd.	30	51.0	Security services
Secom Techno Service Co., Ltd.	2,358	(67.8)	Installation and maintenance of security equipment
Secom Tech Sanin Co., Ltd.	23	(52.2)	Installation of security equipment
Secom Techno Joshinetsu Co., Ltd.	20	(76.6)	Installation of security equipment
Secom Win Co., Ltd.	15	(66.7)	Installation of security equipment and facilities
Secom Maintenance Joshinetsu Co., Ltd.	10	(100.0)	Maintenance of equipment
TES Co., Ltd.	20	(100.0)	Maintenance of equipment
Riken Maintenance Co., Ltd.	10	(100.0)	Maintenance of facilities
Secom Industries Co., Ltd.	499	100.0	Manufacturing of security equipment
Otec Electronics Co., Ltd.	200	76.0	Manufacturing and sales of security systems
Secom Alpha Co., Ltd.	271	100.0	Sales of security and water-treatment equipment
Secom Corporation	100	100.0	Printing services
Secom HGS Co., Ltd.	100	100.0	Specialized security services
Secom Auto Service Co., Ltd.	45	100.0	Car maintenance
<b>&lt;Medical services&gt;</b>			
Secom Medical System Co., Ltd.	200	100.0	Home health/nursing care and other medical-related services
Seisho Corporation	10	(100.0)	Maintenance of medical facilities
Koyu Co., Ltd.	10	(100.0)	Sales of medical and other supplies
Kyokushin Shoji Co., Ltd.	10	(100.0)	Management of real estate
Mac Corporation	95	(100.0)	Sales of medical equipment
Yoshikikaku Co., Ltd.	20	(100.0)	Operation of restaurants and shops at medical facilities
Kensei Co., Ltd.	100	(100.0)	Management of pharmacies
Ryomay Royal Life Co., Ltd.	210	51.8	Management of nursing homes
Central Medical Service Co., Ltd.	50	(100.0)	Management of nursing homes
Japan Life Plus Medical Co., Ltd.	10	(100.0)	Medical-related services
Secom Medical Resource Co., Ltd.	10	(100.0)	Medical staffing solutions
Japan Medical Information System Co., Ltd.	185	(100.0)	Development and sales of health-, medical-, and welfare-related software
<b>&lt;Insurance services&gt;</b>			
Secom Insurance Service Co., Ltd.	165	(100.0)	Non-life insurance agency
Secom General Insurance Co., Ltd.	5,611	82.6	Non-life insurance

Notes: 1. ( ) indicates the percentage of equity/voting rights held by both SECOM Co., Ltd., and certain of its subsidiaries, or by certain subsidiaries independently.  
2. Subsidiaries are categorized into segments above according to their major lines of business.

(Continued)

## MAJOR CONSOLIDATED SUBSIDIARIES

	Issued capital (In millions of yen)	Percentage of equity/ voting rights	Lines of business
<b>&lt;Information and communication related and other services&gt;</b>			
Secom Trust.net Co., Ltd.	¥1,469	76.0%	Information, communication and cyber security services
Secom Information System Co., Ltd.	350	100.0	Software development
Laboratory for Innovators of Quality of Life	100	(94.5)	Research and planning of social life
Cable Net Niigata Co., Ltd.	1,942	(91.1)	CATV broadcasting service
Japan Image Communications Co., Ltd.	487	94.8	Commissioned broadcasting service
Pasco Corporation	8,758	70.0	Geographic information system services
Pasco Road Center Co., Ltd.	50	(72.2)	Geographic information system services
GIS Tokyo Co., Ltd.	100	(100.0)	Geographic information system services
GIS Hokkaido Co., Ltd.	190	(100.0)	Geographic information system services
GIS Hokuriku Co., Ltd.	20	(100.0)	Geographic information system services
GIS Kyushu Co., Ltd.	50	(92.4)	Geographic information system services
GIS Tokai Co., Ltd.	10	(100.0)	Geographic information system services
Urban Environmental Improvement Center Co., Ltd.	50	(94.0)	Geographic information system services
ESRI Japan, Inc.	50	(75.0)	Geographic information system services
Environmental Information Technology Center Co., Ltd.	50	(70.9)	Geographic information system services
Tokyo Digital Map Co., Ltd.	60	(66.7)	Geographic information system services
Pasco Geographia Co., Ltd.	25	(100.0)	Geographic information system services
Secom Lines Co., Ltd.	1,398	97.6	Sales of educational systems
Masterpiece Co., Ltd.	21	(100.0)	Sales and development of software
Secom Home Life Co., Ltd.	3,700	99.9	Development of residential buildings
Arai & Co., Ltd.	2,000	(87.0)	Real estate leasing
Stappy, Inc.	5	100.0	Management of real estate
Arai Corporation, Inc.	10	(100.0)	Management of real estate
Secom Credit Co., Ltd.	400	100.0	Credit services
Wonder Dream Co., Ltd.	490	100.0	Employee welfare for SECOM Group
Secom Staff Service Co., Ltd.	50	(100.0)	Employment agency
Veggiefruit Co., Ltd.	300	100.0	Processing and marketing of agricultural and fisheries products
The Windsor Hotels International Co., Ltd.	165	90.0	Hotel management
Ena Urbane Properties Co., Ltd.	3	100.0	Real estate leasing
Overseas			
<b>&lt;Security services&gt;</b>			
The Westec Security Group, Inc.	US\$0.3 thousand	100.0	Holding company
Westec Security, Inc.	US\$95 thousand	(100.0)	Security services
Westec Interactive Security, Inc.	US\$9 thousand	(93.5)	Security services
Westec Franchising, Inc.	US\$100 thousand	(100.0)	Sales of franchises with Westec trademark
Secom Plc	£39,126 thousand	100.0	Security services
Secom (China) Co., Ltd.	Rmb312,968 thousand	100.0	Holding company
Dalian Secom Security Co., Ltd.	Rmb17,228 thousand	(95.0)	Security services
Shanghai Secom Security Co., Ltd.	Rmb29,122 thousand	(90.0)	Security services
Beijing Jingdun Secom Electronic Security Co., Ltd.	Rmb20,792 thousand	(80.0)	Security services
Qingdao Secom Security Co., Ltd.	Rmb8,298 thousand	(80.0)	Security services
P.T. Secom Indopratama	US\$3,950 thousand	94.9	Security services
Thaisecom Pitakkij Co., Ltd.	THB300 million	88.4	Security services
Secominter (Australia) Pty. Ltd.	AUD31.5 million	100.0	Holding company
Secom Australia Pty. Ltd.	AUD32.0 million	(100.0)	Security services
<b>&lt;Other services&gt;</b>			
Asia Pacific Business Link Ltd.	US\$9,670 thousand	78.3	Holding company; housing-related business
Shanghai Asia Pacific Property Co., Ltd.	US\$5,000 thousand	(100.0)	Housing-related business
P.T. Nusantara Secom Infotech	US\$3,304 thousand	(100.0)	Software development
Pasco Certeza Computer-Mapping Corporation	PHP8,400 thousand	(70.0)	Geographic information system services
Super Dimension Earth Science Research and Development Co., Ltd.	Rmb1,000 thousand	(52.0)	Geographic information system services
Pasco Thailand Co., Ltd.	THB26,179 thousand	(100.0)	Geographic information system services
Beijing Secom Information Technology Co., Ltd.	US\$2,500 thousand	(100.0)	Development of information systems
ClearLight Partners, LLC	US\$124,990 thousand	(99.7)	Investment
Gold Stone Investment Inc.	US\$3 thousand	(100.0)	Investment

Notes: 1. ( ) indicates the percentage of equity/voting rights held by both SECOM Co., Ltd., and certain of its subsidiaries, or by certain subsidiaries independently.  
2. Subsidiaries are categorized into segments above according to their major lines of business.

## SECOM GROUP'S BASIC BUSINESS AREAS

SECOM offers a wide range of services and products that help provide peace of mind in today's rapidly changing society.

### Security Services

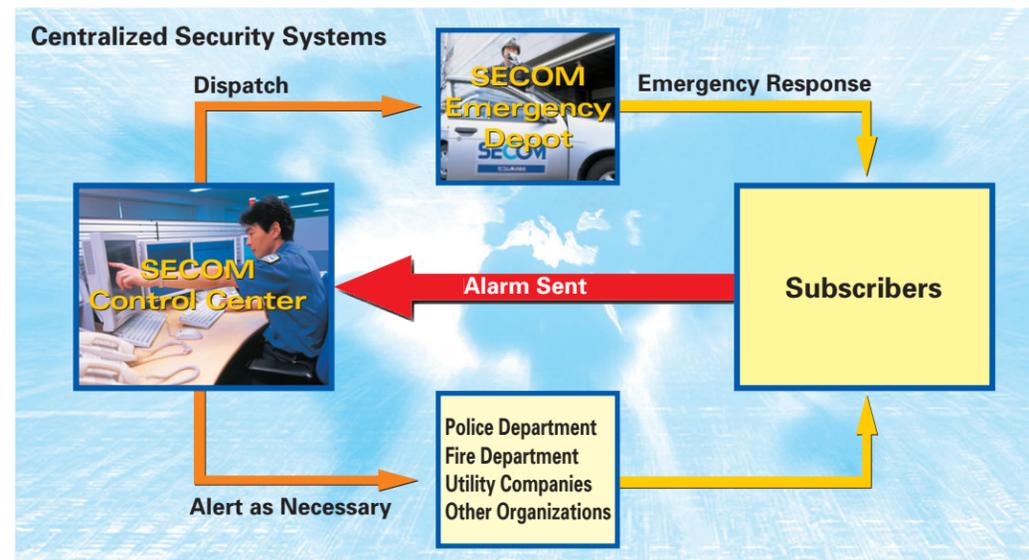
#### Centralized Security Systems

##### Commercial Use:

- **SECOM AX**  
SECOM AX is an on-line security control system with advanced on-site image sensors that incorporate microphones to enable the SECOM control center staff to visually check the subscriber's premises.
- **SECOM IX**  
SECOM IX is a remote imaging security system for commercial facilities offering around-the-clock services.
- **SECOM DX**  
SECOM DX is an on-line security system developed to meet the needs of shops, offices, warehouses, factories and other commercial and industrial establishments.
- **SECOM TX**  
SECOM TX provides on-line protection for commercial buildings with more than one tenant.
- **HANKS SYSTEM**  
HANKS SYSTEM is an on-line security control system for automated banking facilities.
- **SECOM CX**  
SECOM CX offers a comprehensive building management system that monitors and manages large building complexes.

##### Residential Use:

- **SECOM HOME SECURITY**  
SECOM Home Security is a comprehensive home security system combining basic intrusion- and fire-prevention services and emergency call services, as well as gas leak monitoring and medical emergency call service options. The system is linked around-the-clock with a SECOM control center, where personnel respond immediately in the event of a problem by dispatching emergency response personnel and, if necessary, contacting the appropriate authorities. Subscribers are also eligible for preventive treatment, health care and other services offered through SECOM Medical Club.



#### SECOM CONDOMINIUM SECURITY SYSTEMS

SECOM condominium security systems provide comprehensive building management functions for condominiums and total safety with a centralized security system for each unit in the building. SECOM MS-3, the top-of-the-line system, can be used for buildings of any size, either as a retrofit or a new installation.

#### Large-Scale Proprietary Systems

##### SECOM TOTAX ZETA

SECOM TOTAX ZETA integrates cutting-edge networking capabilities and a security system into a comprehensive local control system for industrial complexes and buildings.

#### COCO-SECOM

COCO-SECOM is an innovative system that uses signals from Global Positioning System (GPS) satellites and cellular telephone base stations to locate moving

subjects, such as people, vehicles and property. As an option, customers can also request to have emergency response personnel dispatched to the location of the subject or an emergency alert relayed to a predetermined telephone number. The services include COCO-SECOM EZ and COCO-SECOM-i, mobile phone-based medical emergency alert services; Automobile Emergency Monitoring Service, a car alarm service that monitors parked vehicles; COCO-SECOM G-Manager, a service with a group search function that allows the subscriber to pinpoint simultaneously the location of a number of automobiles or people; COCO-SECOM for Pets, featuring compact transmitters; and such options as COCO-SECOM Inquiry Call and COCO-SECOM Watch Me Call, which monitor customers' safety.

#### Static Guard Services

Static guard services are provided for facilities where customer needs are best served by professionally trained on-site personnel.

### Medical Services

#### HOME MEDICAL SERVICES

SECOM's medical services for patients at home include pharmaceutical services, encompassing the preparation—in the SECOM Pharmacy cleanroom—and delivery of prescription pharmaceuticals, and home nursing services provided through visiting nurse stations. SECOM also provides consulting and support services for physicians opening home medical care clinics.

#### HOME-BASED PERSONAL CARE SERVICES

SECOM provides patients recovering at home with helpers to assist with personal hygiene, bathing, exercise and other daily activities, as well as provide light housekeeping.

#### SECOM UBIQUITOUS ELECTRONIC MEDICAL REPORT (EMR)

SECOM Ubiquitous EMR is a medical report system for home medical care that enables the sharing of data among members of the home care team, including the primary physician, visiting nurse and pharmacy.

#### HOSPINET

Hospinet, a remote image diagnosis support service, transmits magnetic resonance imaging (MRI), computerized tomography (CT) and other images to SECOM's Hospinet center, where diagnostic experts examine them and provide consultation to the primary physician.

#### MY SPOON

My Spoon is a robot that enables people with impaired upper body mobility to eat with minimal assistance. This is the first robot of its kind in Japan.

#### CONDOMINIUMS WITH FULL-TIME PERSONAL CARE SERVICES

SECOM manages Sacrava Seijo and Royal Life Tama, condominiums in Tokyo for senior citizens (60 years of age and older) with full-time personal care services.

#### ADULT DAY SERVICES

SECOM manages SECOM Senior Club Tama Plaza, a facility that provides adult day services for senior citizens.

### Insurance Services

#### SECURITY DISCOUNT FIRE POLICY

Security Discount Fire Policy is a commercial fire insurance policy that features reduced premiums for subscribers to commercial security systems.

#### SECOM ANSHIN MY HOME

SECOM Anshin My Home is a comprehensive fire insurance policy that features reduced premiums for subscribers to home security systems.

#### MEDCOM

MEDCOM is an unrestricted treatment policy that covers the cost of cancer treatment not covered by Japan's national health insurance scheme, as well as the patient's portion of the cost of medical care covered by the national scheme. MEDCOM also provides hospital referrals and treatment-related consulting services.

#### NEW SECOM ANSHIN MY CAR

New SECOM Anshin My Car is a comprehensive automobile insurance policy that includes on-site emergency services in the event of an accident, as well as discounts for drivers without a traffic violation history or on cars equipped with antitheft devices.

### Information and Communication Related and Other Services

#### SECURE DATA CENTER

Secure Data Center provides a comprehensive service for e-business that combines SECOM's expertise in both physical and cyber security.

#### SECOM DATA SAFE

SECOM Data Safe is a high-security computer server repository that combines advanced physical and cyber security.

#### DIGITAL AUTHENTICATION SERVICES

SECOM offers public key infrastructure (PKI) services that provide an effective means of establishing credibility among Internet users, including issuance of digital certificates and a set-up and operating service for organizations that wish to establish their own digital certificate authority.

#### NETWORK SECURITY MONITORING SERVICES

SECOM provides security and stability for clients' IT systems around-the-clock. SECOM monitors and reports on threats to security, and on network operating status and network traffic.

#### GEOGRAPHIC INFORMATION SYSTEM (GIS) SERVICES

SECOM provides a range of services based on aerial mapping and GIS technologies, including PasCAL, a comprehensive service for local governments, and the Management-Navigation and MarketPlanner series of corporate management support services.

#### Armored Car Services

SECOM provides armored car services for the collection and transportation of cash and other valuables.

#### Merchandise

##### SECOM CCTV SYSTEM

SECOM CCTV system is a multifunctional, cost-effective closed-circuit surveillance camera system. The system is fully digital, eliminating the risk of image degradation. It is also capable of detecting attempts to disable or destroy the camera.

##### SECURILOCK

SECURILOCK uses identification numbers, integrated circuit (IC) pass cards and other methods to control access to restricted areas.

##### SESAMO SERIES

The SESAMO series comprises access-control systems for use in corporate offices, factories, parking facilities and any other security-sensitive areas. These systems employ such technologies as wireless IC pass cards, magnetic cards, personal identification numbers, microwave transmission and fingerprint identification.

##### TOMAHAWK SERIES

The TOMAHAWK series is an extensive lineup of innovative extinguishing systems, including TOMAHAWK MACH II residential-use fire extinguisher and TOMAHAWK III high-speed automated fire extinguishing system with gas suppression.

##### PYTHAGORAS SERIES

PYTHAGORAS is a series of security vaults with superior protection, heat resistance and performance.

##### SENSOR LIGHT

SENSOR LIGHT is a sensor-equipped light activated automatically when the sensor detects human body temperature.

##### SECURIFACE

SECURIFACE is a residential intercom system that combines a face detection function with SECOM Home Camera System, enhancing security for people at home.

##### PHYSICAL SECURITY PRODUCTS FOR HOMES

SECOM offers a broad range of physical security products for homes. These include SECOM Anshin Glass, a high-impact window glass designed to prevent intruders from entering through broken windows; SECOM Window Frame, a window frame with reinforced stainless bars; and Strong Door, a door that cannot be forced open for an extended period of time after it has been engaged.

#### COMPUTER EDUCATION SERVICES FOR SCHOOLS

SECOM promotes a better educational environment by providing a range of multimedia resources, including local area network (LAN) systems for classrooms, an educational groupware system and educational software.

#### SECOM FINE FOODS

SECOM Fine Foods is a line of quality food products marketed through mail order catalogs and the Internet.

#### REAL ESTATE DEVELOPMENT

SECOM offers Glorio condominiums.

#### CABLE TELEVISION

SECOM provides cable television (CATV)-based broadband services.

# DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS



Makoto Iida



Juichi Toda



Toshitaka Sugimachi



Shohei Kimura



Kanemasa Haraguchi



Nobuyuki Sasaki



Katsuhisa Kuwahara



Shuji Maeda



Katsuo Akiyama



Yoichi Tao



Fumio Obata

## Directors

### *Founder*

Makoto Iida

### *Co-Founder*

Juichi Toda

### *Chairman*

Toshitaka Sugimachi

### *Representative Director*

Shohei Kimura

### *Directors*

Kanemasa Haraguchi

Nobuyuki Sasaki

Katsuhisa Kuwahara

Shuji Maeda

Katsuo Akiyama

Yoichi Tao

Fumio Obata

## Corporate Auditors

Teruo Ogino

Ken Tsunematsu

Hiroshi Yasuda

Kohei Yamashita

## Executive Officers

### *President*

Shohei Kimura

### *Executive Vice President*

Kanemasa Haraguchi

### *Senior Managing Executive Officers*

Nobuyuki Sasaki

Shigemi Tanaka

### *Managing Executive Officers*

Katsuhisa Kuwahara

Seiichiro Kobayashi

Shoichi Kake

Shuji Maeda

Katsuo Akiyama

### *Executive Officers*

Yoichi Tao

Seiichi Mori

Seiji Yamanaka

Shinobu Iida

Yushiro Ito

Fumio Obata

Hiroshi Ito

Shunji Ogahara

Masaaki Saida

Kiyomasa Sugii

Koichi Sato

Minoru Takaoka

Yoshihiro Chino

Mamoru Sasaki

Akira Tsutsumi

Tomoo Toya

(As of July 31, 2004)