AUDITED FINANCIAL STATEMENTS

SECOM

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 2005 and 2004

ASSETS	In millions of yen March 31 2005	In millions of yen March 31 2004	Translation into thousands of U.S. dollars (Note 3) March 31 2005
Current assets:			
Cash and cash equivalents (Note 5)	¥ 197,012	¥ 192,892	$ 1,841,234
Time deposits	4,614	3,912	43,121
Cash deposits (Note 6)	60,806	60,930	568,280
Short-term investments (Note 7)	71,598	35,933	669,140
Notes and accounts receivable, trade	55,827	50,044	521,748
Due from subscribers	23,638	23,931	220,916
Inventories (Notes 8 and 12)	41,152	45,698	384,598
Short-term receivables	46,449	47,855	434,103
Allowance for doubtful accounts	(1,297)	(4,925)	(12,122)
Deferred insurance acquisition costs (Note 13)	1,066	2,963	9,963
Deferred income taxes (Note 16)	13,951	14,716	130,383
Other current assets	11,338	11,029	105,963
Total current assets	526,154	484,978	4,917,327
Investments and long-term receivables:			
Investment securities (Note 7)	203,432	170,429	1,901,234
Investments in affiliated companies (Note 9)	39,915	39,314	373,037
Long-term receivables	61,051	55,272	570,570
Lease deposits	12,897	11,917	120,533
Other investments	6,444	19,274	60,224
Allowance for doubtful accounts	(9,746)	(10,220)	(91,084)
	313,993	285,986	2,934,514
Property, plant and equipment (Notes 10, 12, 19 and 20):			
Land	71,992	111,800	672,822
Buildings and improvements	118,812	148,961	1,110,393
Security equipment and control stations	213,807	209,505	1,998,196
Machinery, equipment and automobiles	56,045	54,410	523,785
Construction in progress	3,916	4,429	36,598
	464,572	529,105	4,341,794
Accumulated depreciation	(233,140)	(226,169)	(2,178,879)
	231,432	302,936	2,162,915
Other assets:			
Deferred charges (Note 2 (11))	38,578	38,772	360,542
Goodwill (Note 11)	18,070	15,598	168,879
Other intangible assets (Note 11)	19,462	19,740	181,888
Prepaid pension and severance costs (Note 14)	11,165	8,801	104,346
Deferred income taxes (Note 16)	5,350	8,294	50,000
	92,625	91,205	865,655
Total assets	¥1,164,204	¥1,165,105	$10,880,411

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen March 31 2005	 2004	Translation into thousands of U.S. dollars (Note 3) March 31 2005
Current liabilities:			
Bank loans (Notes 6 and 12)	¥ 102,228	¥ 111,764	$ 955,402
Current portion of long-term debt (Notes 12 and 19)	10,492	13,439	98,056
Notes and accounts payable, trade	16,026	18,460	149,776
Other payables	19,722	17,782	184,318
Deposits received (Note 6)	37,038	38,590	346,150
Deferred revenue (Note 2 (3))	39,193	39,075	366,290
Accrued income taxes	16,803	18,010	157,037
Accrued payrolls	15,427	14,522	144,178
Other current liabilities (Note 16)	10,773	12,554	100,682
Total current liabilities	267,702	284,196	2,501,889
Long-term debt (Notes 12 and 19)	65,815	91,095	615,093
Guarantee deposits received	28,099	35,039	262,607
Accrued pension and severance costs (Note 14)	13,261	12,813	123,935
Deferred revenue (Note 2 (3))	18,832	19,287	176,000
Unearned premiums and other insurance liabilities (Note 13)	46,452	41,364	434,131
Investment deposits by policyholders (Note 13)	227,719	230,316	2,128,215
Other liabilities (Note 16)	6,056	4,934	56,597
Total liabilities	673,936	719,044	6,298,467
Minority interest in subsidiaries	32,431	30,209	303,093
Commitments and contingent liabilities (Note 23)			
Shareholders' equity:			
Common stock (Notes 17 and 24):			
Authorized 900,000,000 shares;			
issued 233,288,717 shares in 2005 and 233,281,133 shares in 2004	66,378	66,369	620,355
Additional paid-in capital (Notes 17 and 24)	79,996	79,987	747,626
Legal reserve (Note 17)	9,787	9,715	91,467
Retained earnings (Note 17)	347,516	305,582	3,247,813
Accumulated other comprehensive income (loss):			
Unrealized gains on securities (Note 7)	5,586	4,546	52,206
Unrealized gains (losses) on derivative instruments (Note 22)	(85)	89	(794)
Minimum pension liability adjustments (Note 14)	(358)	(194)	(3,346)
Foreign currency translation adjustments	(6,425)	(5,841)	(60,046)
	(1,282)	(1,400)	(11,980)
Common stock in treasury, at cost (Note 17):			
8,266,043 shares in 2005 and 8,228,652 shares in 2004	(44,558)	(44,401)	(416,430)
Total shareholders' equity	457,837	415,852	4,278,851
Total liabilities and shareholders' equity	¥1,164,204	¥1,165,105	$10,880,411

CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2005

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Net sales and operating revenue	¥552,354	¥517,435	¥497,691	$5,162,187
Costs and expenses:				
Cost of sales	349,212	320,950	312,794	3,263,663
Selling, general and administrative (Notes 2 (17) and 18)	120,206	123,019	119,434	1,123,420
Impairment loss on long-lived assets (Note 10)	4,568	8,420	—	42,692
Loss on sales and disposal of property, plant and equipment, net	2,810	2,217	3,541	26,262
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 14)	—	4,555	—	—
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 14)	—	4,209	—	—
	476,796	463,370	435,769	4,456,037
Operating income	75,558	54,065	61,922	706,150
Other income:				
Interest and dividends	2,119	2,425	2,888	19,803
Other (Notes 7 and 15)	4,447	3,247	3,740	41,561
	6,566	5,672	6,628	61,364
Other expenses:				
Interest	1,488	1,991	3,009	13,907
Loss on other-than-temporary impairment of investment securities	227	231	4,283	2,121
Other (Note 15)	6,136	4,151	5,096	57,346
	7,851	6,373	12,388	73,374
Income from continuing operations before income taxes	74,273	53,364	56,162	694,140
Income taxes (Note 16):				
Current	32,188	29,791	27,805	300,822
Deferred	(247)	(3,648)	(2,489)	(2,308)
	31,941	26,143	25,316	298,514
Income from continuing operations before minority interest in subsidiaries and equity in net income of affiliated companies	42,332	27,221	30,846	395,626
Minority interest in subsidiaries	(2,917)	(462)	(1,207)	(27,262)
Equity in net income of affiliated companies	2,334	927	1,244	21,813
Income from continuing operations	41,749	27,686	30,883	390,177
Income (loss) from discontinued operations, net of tax (Note 25)	9,877	(4,207)	(1,765)	92,309
Income before cumulative effect of accounting change	51,626	23,479	29,118	482,486
Cumulative effect of accounting change, net of tax (Notes 2 (2) and (13))	507	—	1,157	4,738
Net income	¥ 52,133	¥ 23,479	¥ 30,275	$ 487,224

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Per share data (Note 4):				
Income from continuing operations—				
—Basic	¥185.52	¥123.01	¥135.54	$1.74
—Diluted	¥185.52	¥123.01	¥135.54	$1.74
Income (loss) from discontinued operations—				
—Basic	¥ 43.89	¥ (18.69)	¥ (7.75)	$0.41
—Diluted	¥ 43.89	¥ (18.69)	¥ (7.75)	$0.41
Cumulative effect of accounting change—				
—Basic	¥ 2.25	¥ —	¥ 5.08	$0.02
—Diluted	¥ 2.25	¥ —	¥ 5.08	$0.02
Net income—				
—Basic	¥231.66	¥104.32	¥132.87	$2.17
—Diluted	¥231.66	¥104.32	¥132.87	$2.17

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, 2005

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 2002	233,274,769	¥66,360	¥79,979	¥9,663	¥270,213	(¥24,748)	(¥ 141)	¥401,326
Comprehensive income:								
Net income	—	—	—	—	30,275	—	—	30,275
Other comprehensive income (loss), net of tax (Note 17):								
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)
Balance, March 31, 2003	233,281,133	66,369	79,987	9,672	291,149	(30,372)	(44,287)	372,518
Comprehensive income:								
Net income	—	—	—	—	23,479	—	—	23,479
Other comprehensive income (loss), net of tax (Note 17):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	7,729	—	7,729
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(425)	—	(425)
Unrealized gains on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	87	—	87
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	(40)	—	(40)
Minimum pension liability adjustments	—	—	—	—	—	25,921	—	25,921
Foreign currency translation adjustments	—	—	—	—	—	(4,300)	—	(4,300)
Total comprehensive income								52,451
Cash dividends	—	—	—	—	(9,003)	—	—	(9,003)
Transfer to legal reserve	—	—	—	43	(43)	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(114)	(114)
Balance, March 31, 2004	233,281,133	66,369	79,987	9,715	305,582	(1,400)	(44,401)	415,852
Comprehensive income:								
Net income	—	—	—	—	**52,133**	—	—	**52,133**
Other comprehensive income (loss), net of tax (Note 17):								
Unrealized gains on securities—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	**2,880**	—	**2,880**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	**(1,840)**	—	**(1,840)**
Unrealized losses on derivative instruments—								
Unrealized holding gains or losses arising during the period	—	—	—	—	—	**(91)**	—	**(91)**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	—	**(83)**	—	**(83)**
Minimum pension liability adjustments	—	—	—	—	—	**(164)**	—	**(164)**
Foreign currency translation adjustments	—	—	—	—	—	**(584)**	—	**(584)**
Total comprehensive income								**52,251**
Cash dividends	—	—	—	—	**(10,127)**	—	—	**(10,127)**
Transfer to legal reserve	—	—	—	**72**	**(72)**	—	—	—
Conversion of convertible bonds	**7,584**	**9**	**9**	—	—	—	—	**18**
Purchase of treasury stock	—	—	—	—	—	—	**(157)**	**(157)**
Balance, March 31, 2005	**233,288,717**	**¥66,378**	**¥79,996**	**¥9,787**	**¥347,516**	**(¥ 1,282)**	**(¥44,558)**	**¥457,837**

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury stock, at cost	Total
Balance, March 31, 2004	$620,271	$747,542	$90,794	$2,855,906	($13,081)	($414,963)	$3,886,469
Comprehensive income:							
Net income	—	—	—	**487,224**	—	—	**487,224**
Other comprehensive income (loss), net of tax (Note 17):							
Unrealized gains on securities—							
Unrealized holding gains or losses arising during the period	—	—	—	—	**26,915**	—	**26,915**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	**(17,196)**	—	**(17,196)**
Unrealized losses on derivative instruments—							
Unrealized holding gains or losses arising during the period	—	—	—	—	**(851)**	—	**(851)**
Less: Reclassification adjustment for gains or losses included in net income	—	—	—	—	**(776)**	—	**(776)**
Minimum pension liability adjustments	—	—	—	—	**(1,533)**	—	**(1,533)**
Foreign currency translation adjustments	—	—	—	—	**(5,458)**	—	**(5,458)**
Total comprehensive income							**488,325**
Cash dividends	—	—	—	**(94,644)**	—	—	**(94,644)**
Transfer to legal reserve	—	—	**673**	**(673)**	—	—	—
Conversion of convertible bonds	**84**	**84**	—	—	—	—	**168**
Purchase of treasury stock	—	—	—	—	—	**(1,467)**	**(1,467)**
Balance, March 31, 2005	**$620,355**	**$747,626**	**$91,467**	**$3,247,813**	**($11,980)**	**($416,430)**	**$4,278,851**

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, 2005

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Net income	**¥ 52,133**	¥ 23,479	¥ 30,275	**$ 487,224**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred charges	**51,450**	52,943	52,067	**480,841**
Accrual for pension and severance costs, less payments	**(2,619)**	(870)	188	**(24,476)**
Settlement loss of benefit obligation on transfer to defined contribution pension plan (Note 14)	**—**	4,555	—	**—**
Loss on transfer of the substitutional portion of Employees' Pension Fund (Note 14)	**—**	4,209	—	**—**
Deferred income taxes, including discontinued operations	**3,979**	(6,045)	(3,829)	**37,187**
Loss on sales and disposal of property, plant and equipment, net	**2,810**	2,217	3,541	**26,262**
Impairment loss on long-lived assets, including discontinued operations (Note 10)	**5,215**	15,095	3,012	**48,739**
(Gain) loss on sales of securities, net	**(3,457)**	(1,603)	177	**(32,308)**
Loss on other-than-temporary impairment of investment securities	**722**	963	11,546	**6,747**
Equity in net income of affiliated companies	**(2,334)**	(927)	(1,244)	**(21,813)**
Minority interest in subsidiaries, including discontinued operations	**3,368**	540	950	**31,477**
Gain on sales of discontinued operations, net (Note 25)	**(13,637)**	(6,367)	(770)	**(127,449)**
Cumulative effect of accounting change, net of tax (Notes 2 (2) and (13))	**(507)**	—	(1,157)	**(4,738)**
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits	**123**	(15,678)	(4,502)	**1,150**
(Increase) decrease in receivables and due from subscribers, net of allowances	**(9,234)**	10,721	1,483	**(86,299)**
(Increase) decrease in inventories	**4,830**	(5,279)	10,073	**45,140**
Increase in deferred charges	**(14,123)**	(14,347)	(13,668)	**(131,991)**
Increase (decrease) in deposits received	**(2,718)**	9,768	4,771	**(25,402)**
Increase in deferred revenue	**334**	556	2,129	**3,121**
Increase (decrease) in accrued income taxes	**(1,067)**	7,321	(12,375)	**(9,972)**
Increase (decrease) in guarantee deposits received	**(5,140)**	(427)	3,588	**(48,037)**
Increase in unearned premiums and other insurance liabilities	**5,088**	3,954	142	**47,551**
Other, net	**9,898**	4,421	4,147	**92,504**
Net cash provided by operating activities	**85,114**	89,199	90,544	**795,458**
Cash flows from investing activities:				
(Increase) decrease in time deposits	**(638)**	522	430	**(5,963)**
Proceeds from sales of property, plant and equipment	**88,507**	32,271	25,512	**827,168**
Payments for purchases of property, plant and equipment	**(43,872)**	(40,511)	(50,171)	**(410,019)**
Proceeds from sales of investment securities	**66,534**	32,959	16,492	**621,813**
Payments for purchases of investment securities	**(96,945)**	(61,712)	(80,170)	**(906,028)**
(Increase) decrease in short-term investments	**(26,623)**	7,603	10,292	**(248,813)**
Increase in short-term receivables, net	**(6,670)**	(547)	(3,362)	**(62,336)**
Payments for long-term receivables	**(14,946)**	(11,349)	(10,910)	**(139,682)**
Proceeds from long-term receivables	**16,836**	19,258	12,147	**157,346**
Other, net	**(6,205)**	(7,094)	(4,978)	**(57,991)**
Net cash used in investing activities	**(24,022)**	(28,600)	(84,718)	**(224,505)**
Cash flows from financing activities:				
Proceeds from long-term debt	**10,163**	10,523	10,803	**94,981**
Repayments of long-term debt	**(43,695)**	(28,944)	(53,817)	**(408,365)**
Increase (decrease) in bank loans	**(9,669)**	(17,438)	56,753	**(90,364)**
Increase (decrease) in investment deposits by policyholders	**(2,597)**	(793)	4,702	**(24,271)**
Dividends paid	**(10,127)**	(9,003)	(9,330)	**(94,644)**
Increase in treasury stock, net (Note 17)	**(157)**	(114)	(44,146)	**(1,467)**
Other, net	**(916)**	(991)	(1,619)	**(8,561)**
Net cash used in financing activities	**(56,998)**	(46,760)	(36,654)	**(532,691)**
Effect of exchange rate changes on cash and cash equivalents	**26**	(175)	(421)	**243**
Net increase (decrease) in cash and cash equivalents	**4,120**	13,664	(31,249)	**38,505**
Cash and cash equivalents at beginning of year	**192,892**	179,228	210,477	**1,802,729**
Cash and cash equivalents at end of year	**¥197,012**	¥192,892	¥179,228	**$1,841,234**

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, 2005

1. Nature of Operations

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

The Company's principal business activities are security services including on-line centralized security services for commercial and residential premises, static guard services, armored car services for cash collection and deposit, and the development, manufacturing and sale of various security equipment. The Company also has been diversifying the operation of its services covering: home and other medical services; non-life insurance services; information and communication related services, including cyber security services, software development and system integration activities; Geographic Information System services using aerial surveying technology; 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. The consolidated financial statements also include variable interest entities to which the Company is primary beneficiary. 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) Consolidation of Variable Interest Entities

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003) ("FIN No. 46R"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN No. 46R addresses the consolidation and disclosure by business enterprise of a variable interest entity ("VIE") as defined in the Interpretation. FIN No. 46R requires that the primary beneficiary—a party that absorbs a majority of the entity's expected loss and receives a majority of the entity's expected residual returns, or both, as a result of holding variable interests—consolidates the VIE and an enterprise that holds significant variable interests but is not the primary beneficiary discloses certain required information about the VIE. FIN No. 46R 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 adopted the provisions of FIN No. 46R for VIEs created or acquired prior to February 1, 2003 on April 1, 2004. Under FIN No. 46R, any difference between the net amount added to the consolidated balance sheet and any previously recognized interest in the VIE shall be recognized as a cumulative effect of accounting change. As a result of the adoption of FIN No. 46R, one organization managing hospitals and health care-related institutions was consolidated and the Company recognized a one-time income of ¥507 million ($4,738 thousand) as a cumulative effect of accounting change, and the Company's assets and liabilities increased by ¥3,636 million ($33,981 thousand) and ¥3,119 million ($29,150 thousand), respectively.

The Company provides loans and guarantees to organizations managing hospitals and health care-related institutions. Certain organizations are considered as VIEs under FIN No. 46R. Total assets held by the VIE to which the Company is primary beneficiary at March 31, 2005 were ¥7,276 million ($68,000 thousand). Total assets held by the VIEs to which the Company holds significant variable interests but is not primary beneficiary and the Company's maximum exposure to loss related to the VIEs at March 31, 2005 were ¥26,951 million ($251,879 thousand) and ¥17,243 million ($161,150 thousand), respectively.

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 before April 1, 2004, 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. Total assets held by the VIEs to which the Company is primary beneficiary at March 31, 2005 were ¥18,543 million ($173,299 thousand). Total assets held by the VIEs to which the Company holds significant variable interests but is not primary beneficiary and the Company's maximum exposure to loss related to the VIEs at March 31, 2005 were ¥6,328 million ($59,140 thousand) and ¥5,941 million ($55,523 thousand), respectively.

(3) Revenue Recognition

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

Revenue from security services is recognized over the contractual period or, in the case of specific services, when such services are performed. Subscribers are generally requested to prepay a portion of service charges which are credited to deferred revenue and taken into income ratably over the covered service period. Revenue from installation services of security equipment related to on-line centralized security services is deferred and recognized over the contractual period of security services after completion of the installation. The related installation costs are also deferred and amortized over the contractual period (Note 2 (11)).

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

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

Revenue from long-term contracts for Geographic Information 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.

(4) 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.

(5) Cash Equivalents

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

(6) Investments in Debt and Equity Securities

The Company classifies investments in debt and equity securities as "available-for-sale" or "held-to-maturity". The Company has no securities classified as "trading". 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.

(7) 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.

(8) Allowance for Doubtful Accounts

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

(9) Deferred Insurance Acquisition Costs

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

(10) Property, Plant and Equipment and Depreciation

Property, plant and equipment, including significant betterments, are carried at cost. Depreciation is computed primarily using the declining-balance method at rates based on the estimated useful lives of the assets. Assets leased to others under operating leases are primarily depreciated using the straight-line method over the estimated useful lives. Depreciation expense was ¥33,465 million ($312,757 thousand), ¥34,943 million and ¥34,735 million for the years ended March 31, 2005, 2004 and 2003, 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

(11) Deferred Charges

Deferred charges primarily consist of costs related to installation services of security equipment related to on-line centralized security services. The installation costs are deferred and amortized using the straight-line method over the contractual period of security services after completion of the installation. Amortization was ¥13,583 million ($126,944 thousand), ¥13,323 million and ¥13,197 million for the years ended March 31, 2005, 2004 and 2003, respectively.

(12) Impairment or Disposal of Long-Lived Assets

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.

(13) 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 cumulative effect of accounting change on April 1, 2002 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".

(14) Unearned Premiums and Other Insurance Liabilities

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

(15) Income Taxes

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

(16) Research and Development

Research and development costs are charged to income as incurred.

(17) Advertising Costs

Advertising costs are charged to income as incurred, except for the costs related to insurance policies. Advertising costs for acquiring new insurance policies are deferred and amortized as part of insurance acquisition costs. Advertising expenses included in selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003 were ¥5,186 million ($48,467 thousand), ¥5,366 million and ¥5,315 million, respectively.

(18) Derivative Financial Instruments

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

The Company meets the documentation requirements which include their risk management objective and strategy for undertaking various hedge transactions. In addition, formal assessment is made at the hedge's inception and periodically on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in off-setting changes in fair values or cash flow of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Discontinued hedges are recognized in current income.

(19) Discontinued Operations

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", broadened the scope of discontinued operations to include the operating results of any component of an entity with its own identifiable operations and cash flows which is disposed of or is classified as held for sale, and with which the Company will not have significant continuing involvement. Included in reported discontinued operations are the operating results of certain businesses and properties sold in the years ended March 31, 2005, 2004 and 2003, without significant continuing involvement, and the results of operations for the presented periods were reclassified in the accompanying consolidated financial statements.

(20) Earnings per Share

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

(21) Recent Pronouncements

In March 2004, EITF reached a consensus on EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF No. 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", and non-marketable equity securities accounted for under the cost method. EITF No. 03-1 developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The FASB issued FASB Staff Position EITF 03-1-1 in September 2004, which delayed the effective date of the recognition and measurement provisions of EITF No. 03-1. The adoption of EITF No. 03-1 is not expected to have a material effect on the Company's consolidated results of operations and financial position.

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

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

(22) Reclassifications

During the year ended March 31, 2005, the Company reclassified the consolidated statements of income. Certain reclassifications of previously reported amounts have been made to conform to the presentation used for the year ended March 31, 2005. These reclassifications had no effect on net income and total shareholders' equity in the accompanying consolidated financial statements.

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 ¥107=US$1, the rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2005. 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, 2005, 2004 and 2003 is as follows:

	In millions of yen	Thousands of shares	In yen
	Income from continuing operations	Weighted-average shares	EPS
For the year ended March 31, 2005:			
Basic EPS—			
Income from continuing operations	**¥41,749**	**225,039**	**¥185.52**
Effect of dilutive securities—			
Convertible bonds	**—**	**3**	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	**¥41,749**	**225,042**	**¥185.52**
For the year ended March 31, 2004:			
Basic EPS—			
Income from continuing operations	¥27,686	225,066	¥123.01
Effect of dilutive securities—			
Convertible bonds	0	8	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	¥27,686	225,074	¥123.01
For the year ended March 31, 2003:			
Basic EPS—			
Income from continuing operations	¥30,883	227,849	¥135.54
Effect of dilutive securities—			
Convertible bonds	0	9	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	¥30,883	227,858	¥135.54

	In thousands of U.S. dollars	Thousands of shares	In U.S. dollars
	Income from continuing operations	Weighted-average shares	EPS
For the year ended March 31, 2005:			
Basic EPS—			
Income from continuing operations	**$390,177**	**225,039**	**$1.74**
Effect of dilutive securities—			
Convertible bonds	**—**	**3**	
Diluted EPS—			
Income from continuing operations for diluted EPS computation	**$390,177**	**225,042**	**$1.74**

5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2005 and 2004 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Cash	¥166,920	¥124,855	$1,560,000
Time deposits	18,438	18,626	172,318
Call loan	10,000	38,000	93,458
Investment securities	1,654	11,411	15,458
	¥197,012	¥192,892	$1,841,234

Investment securities include commercial papers and money management funds. These agreements mature within three months and the carrying values approximate market. The Company has never experienced any losses through default of the financial institutions and does not anticipate default of any outstanding agreements.

6. Cash Deposits

The Company operates cash collection and deposit services for financial institutions relating to cash dispensers located outside of financial institution facilities and also operates cash collection service for entities other than financial institutions. Cash deposit balances of ¥60,806 million ($568,280 thousand) and ¥60,930 million at March 31, 2005 and 2004, 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 ¥25,573 million ($239,000 thousand) and ¥34,556 million ($322,953 thousand), respectively, at March 31, 2005, and ¥24,263 million and ¥36,512 million, respectively, at March 31, 2004, relating to these operations. As part of its fee arrangement, the Company is reimbursed for the interest cost of the related overdrafts.

7. Short-Term Investments and Investment Securities

Short-term investments (current) and investment securities (non-current) include debt and equity securities. The related aggregate fair value, gross unrealized gains, gross unrealized losses and cost pertaining to "available-for-sale" and "held-to-maturity" investments at March 31, 2005 and 2004 were as follows:

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

	In millions of yen			
	March 31, 2004			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
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 thousands of U.S. dollars			
	March 31, 2005			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available-for-sale:				
Equity securities	$ 466,327	$130,356	$ 6,561	$ 590,122
Debt securities	1,590,150	9,289	5,112	1,594,327
Total	$2,056,477	$139,645	$11,673	$2,184,449
Held-to-maturity:				
Debt securities	$ 57,121	$ 187	$ —	$ 57,308

Gross unrealized losses on, and fair value of, "available-for-sale" securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2005 were as follows:

	In millions of yen			
	March 31, 2005			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	¥ 6,557	¥241	¥1,823	¥461
Debt securities	55,360	520	332	27
Total	¥61,917	¥761	¥2,155	¥488

	In thousands of U.S. dollars			
	March 31, 2005			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	$ 61,280	$2,252	$17,037	$4,309
Debt securities	517,383	4,860	3,103	252
Total	$578,663	$7,112	$20,140	$4,561

At March 31, 2005, 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, 2005 are as follows:

	In millions of yen			
	March 31, 2005			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥ 69,500	¥ 69,506	¥2,000	¥2,003
Due after 1 year through 5 years	47,701	47,702	2,912	2,929
Due after 5 years through 10 years	45,163	45,653	—	—
Due after 10 years	7,782	7,732	1,200	1,200
	¥170,146	¥170,593	¥6,112	¥6,132

	In thousands of U.S. dollars			
	March 31, 2005			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$ 649,533	$ 649,589	$18,692	$18,720
Due after 1 year through 5 years	445,804	445,813	27,215	27,374
Due after 5 years through 10 years	422,084	426,664	—	—
Due after 10 years	72,729	72,261	11,214	11,214
	$1,590,150	$1,594,327	$57,121	$57,308

During the years ended March 31, 2005, 2004 and 2003, the net unrealized gains on “available-for-sale” securities included as part of other comprehensive income (loss), net of tax, increased by ¥1,040 million ($9,720 thousand) and ¥7,304 million and ¥1,723 million, respectively.

Proceeds from the sale of “available-for-sale” securities for the years ended March 31, 2005, 2004 and 2003 were ¥17,826 million ($166,598 thousand), ¥20,791 million and ¥8,228 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, 2005, 2004 and 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Gross realized gains	¥3,612	¥2,175	¥ 759	$33,757
Gross realized losses	102	556	1,266	953

The Company maintains long-term investment securities, included as investment securities, issued by a number of non-public companies. The aggregate carrying amount of the investments in non-public companies, at cost net of other-than-temporary impairment, was ¥35,182 million ($328,804 thousand) and ¥28,334 million at March 31, 2005 and 2004, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

8. Inventories

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

Inventories at March 31, 2005 and 2004 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Security-related products	¥ 7,877	¥ 6,655	$ 73,617
Real estate	28,007	33,410	261,748
Information and other-related products	5,268	5,633	49,233
	¥41,152	¥45,698	$384,598

Work in process real estate inventories at March 31, 2005 and 2004, amounting to ¥21,700 million ($202,804 thousand) and ¥32,170 million, respectively, are included in real estate.

9. Investments in Affiliated Companies

The Company has investments in affiliated companies that are accounted for under the equity method. 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 26.2 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
	2005	2004	2005
Current assets	¥ 95,697	¥ 99,233	$ 894,365
Non-current assets	142,730	142,588	1,333,925
Total assets	¥238,427	¥241,821	$2,228,290
Current liabilities	¥ 51,013	¥ 57,846	$ 476,757
Non-current liabilities	61,216	63,326	572,112
Shareholders' equity	126,198	120,649	1,179,421
Total liabilities and shareholders' equity	¥238,427	¥241,821	$2,228,290

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Net sales	¥201,253	¥188,570	¥178,397	$1,880,869
Gross profit	¥ 65,276	¥ 59,894	¥ 55,179	$ 610,056
Net income	¥ 11,362	¥ 9,751	¥ 6,996	$ 106,187

Dividends received from affiliated companies for the years ended March 31, 2005, 2004 and 2003 were ¥1,524 million ($14,243 thousand), ¥1,140 million and ¥924 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥24,593 million ($229,841 thousand) and ¥24,088 million at March 31, 2005 and 2004, respectively, had a quoted market value of ¥65,601 million ($613,093 thousand) and ¥44,026 million at March 31, 2005 and 2004, respectively.

The unamortized amounts of goodwill were ¥1,698 million ($15,869 thousand) and ¥979 million at March 31, 2005 and 2004, respectively.

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
	2005	2004	2003	2005
Sales	¥1,740	¥1,840	¥ 1,862	$16,262
Purchases	¥5,574	¥7,858	¥10,061	$52,093

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Notes and accounts receivable, trade	¥ 448	¥ 645	$ 4,187
Loan receivables	¥ 671	¥ 992	$ 6,271
Notes and accounts payable	¥ 857	¥1,750	$ 8,009
Guarantees for bank loans	¥1,850	¥3,824	$17,290

10. 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, market prices and forecasts of future revenue, and changes of assumptions regarding useful lives before sale, the Company principally recognized impairment losses on properties of hotel business for the year ended March 31, 2005 and properties held for lease and properties held by real estate investment companies as part of investment assets of the insurance services segment for the years ended March 31, 2004 and 2003. Fair value used was determined mainly based on appraisal value.

Impairment loss on long-lived assets by business segment for the years ended March 31, 2005, 2004 and 2003 was as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Continuing operations:				
Security services	¥1,350	¥ —	¥ —	$12,617
Medical services	25	511	—	234
Insurance services	647	407	—	6,047
Information and communication related and other services	2,724	6,125	—	25,458
Corporate items	469	1,784	—	4,383
	5,215	8,827	—	48,739
Discontinued operations (Note 25):				
Insurance services	—	3,312	3,012	—
Information and communication related and other services	—	2,956	—	—
	—	6,268	3,012	—
Total	¥5,215	¥15,095	¥3,012	$48,739

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

11. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2005 and 2004 were as follows:

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

	In millions of yen		
	March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥22,133	(¥ 9,304)	¥12,829
Other	4,569	(2,348)	2,221
Total	¥26,702	(¥11,652)	¥15,050
Unamortized intangible assets	¥ 4,690	¥ —	¥ 4,690

	In thousands of U.S. dollars		
	March 31, 2005		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	**$220,196**	**($ 98,290)**	**$121,906**
Other	**37,898**	**(24,290)**	**13,608**
Total	**$258,094**	**($122,580)**	**$135,514**
Unamortized intangible assets	**$ 46,374**	**$ —**	**$ 46,374**

Aggregate amortization expense for the years ended March 31, 2005, 2004 and 2003 was ¥4,324 million ($40,411 thousand), ¥4,537 million 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
2006	¥4,595	$42,944
2007	3,865	36,121
2008	2,628	24,561
2009	1,735	16,215
2010	815	7,617

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2005 and 2004 were as follows:

	In millions of yen			
	Security services	Medical services	Information and communication related and other services	Total
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)
March 31, 2004	1,231	4,813	9,554	15,598
Effect of adopting FIN No. 46R	**—**	**2,514**	**—**	**2,514**
Impairment losses	**—**	**(93)**	**—**	**(93)**
Translation adjustment	**51**	**—**	**—**	**51**
March 31, 2005	**¥1,282**	**¥7,234**	**¥9,554**	**¥18,070**

	In thousands of U.S. dollars			
	Security services	Medical services	Information and communication related and other services	Total
March 31, 2004	$11,505	$44,981	$89,290	$145,776
Effect of adopting FIN No. 46R	**—**	**23,495**	**—**	**23,495**
Impairment losses	**—**	**(869)**	**—**	**(869)**
Translation adjustment	**477**	**—**	**—**	**477**
March 31, 2005	**$11,982**	**$67,607**	**$89,290**	**$168,879**

12. Bank Loans and Long-Term Debt

Bank loans of ¥102,228 million ($955,402 thousand) and ¥111,764 million at March 31, 2005 and 2004, respectively, are generally comprised of 30 to 365 day notes. Their interest rates ranged from 0.52 to 5.25 percent and from 0.49 to 2.36 percent at March 31, 2005 and 2004, respectively. 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, 2005 and 2004 comprised the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	**2005**
Loans, principally from banks due 2005 to 2025 with interest rates ranging from 0.00 to 6.60% in 2005 and 2004:			
Secured	**¥17,249**	¥ 46,787	**$161,205**
Unsecured	**6,159**	12,784	**57,561**
1.60% unsecured convertible bonds due 2004, convertible at ¥2,372.4 ($22.17) for one common share, redeemable before due date	**—**	18	**—**
0.53% unsecured bonds due 2006	**30,000**	30,000	**280,374**
0.46% unsecured bonds due 2007	**1,500**	1,500	**14,018**
0.48% unsecured bonds due 2007	**1,000**	1,000	**9,346**
Unsecured bonds due 2009 to 2012 with floating interest rates based on 6-month TIBOR plus 0.15% to 0.20%	**9,130**	—	**85,327**
1.80% secured bonds due 2004	**—**	200	**—**
1.21% secured bonds due 2006	**—**	300	**—**
Obligations under capital leases, due 2005 to 2026 (Note 19)	**11,269**	11,945	**105,318**
	76,307	104,534	**713,149**
Less:			
Portion due within one year	**10,492**	13,439	**98,056**
	¥65,815	¥ 91,095	**$615,093**

Property, plant and equipment with a carrying amount of ¥41,470 million ($387,570 thousand), inventories with a carrying amount of ¥18,745 million ($175,187 thousand), investment securities with a carrying amount of ¥1,138 million ($10,636 thousand), time deposits of ¥730 million ($6,822 thousand) and other intangible assets and other with a carrying amount of ¥1,593 million ($14,888 thousand) were pledged as collateral for bank loans and long-term debt at March 31, 2005.

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 ¥2,038 million ($19,047 thousand) with such banks at March 31, 2005.

The aggregate annual maturities on long-term debt after March 31, 2005 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2006	¥10,492	$ 98,056
2007	42,851	400,477
2008	5,599	52,327
2009	2,516	23,514
2010	6,751	63,093
Thereafter	8,098	75,682
	¥76,307	$713,149

13. Insurance-Related Operations

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

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

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

The amounts of net equity of Secom Insurance at March 31, 2005 and 2004 were ¥23,444 million ($219,103 thousand) and ¥23,154 million, respectively.

Net sales and operating revenue of Secom Insurance include net realized investment gains and losses, including the results on sales of securities, loss on other-than-temporary impairment of investment securities and impairment loss on long-lived assets. Net realized investment gains and losses for the years ended March 31, 2005, 2004 and 2003 were gains of ¥2,039 million ($19,056 thousand), ¥117 million and losses of ¥7,897 million, respectively.

14. Pension and Severance Costs

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

The parent company and certain of its Japanese subsidiaries maintained an Employees' Pension Fund ("EPF") plan which is a defined benefit pension established under the Japanese Welfare Pension Insurance Law, covering substantially all of their employees. The EPF plan was composed of the substitutional portion and the corporate portion. The pension benefits for the substitutional portion were determined based on standard remuneration scheduled by the Japanese Welfare Pension Insurance Law and the length of participation. The corporate portion is a cash balance pension plan. Under the cash balance pension plan, each participant has an account which is credited annually based on the current rate of pay and market-related interest rate.

In 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, which was equivalent to the benefit transferred to the defined contribution pension plan in April 2003. In accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", the Company accounted for this transfer as a partial settlement of benefit obligation and recognized a settlement loss of ¥4,555 million 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 EITF No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". As a result of the transfer, the Company recognized a loss of ¥4,209 million as "Loss on transfer of the substitutional portion of Employees' Pension Fund" in the consolidated statement of income for the year ended March 31, 2004. This consists of ¥24,272 million 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 of derecognition of previously accrued salary progression and ¥36,200 million of recognition of related unrecognized actuarial loss, at the time when the past benefit obligation was transferred.

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

Net pension and severance costs for the years ended March 31, 2005, 2004 and 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Net pension and severance costs:				
Service cost	**¥3,473**	¥3,360	¥4,200	**$32,458**
Interest cost	**1,237**	3,083	3,449	**11,561**
Expected return on plan assets	**(1,767)**	(2,678)	(2,749)	**(16,514)**
Amortization of transition assets	**(40)**	(44)	(46)	**(374)**
Amortization of prior service benefit	**(1,654)**	(1,642)	(1,172)	**(15,458)**
Recognized actuarial loss	**907**	2,509	3,336	**8,477**
Net pension and severance costs	**¥2,156**	¥4,588	¥7,018	**$20,150**

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

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2005	2004	2005
Change in benefit obligation:			
Benefit obligation at beginning of year	¥62,460	¥135,488	$583,738
Service cost	3,473	3,360	32,458
Interest cost	1,237	3,083	11,561
Actuarial gain	(1,599)	(2,086)	(14,944)
Amendments	—	(344)	—
Benefits paid	(4,542)	(3,922)	(42,448)
Acquisition	195	—	1,822
Effect of adopting FIN No. 46R	410	—	3,832
Settlement	—	(7,091)	—
Transfer of the substitutional portion of EPF	—	(66,028)	—
Benefit obligation at end of year	61,634	62,460	576,019
Change in plan assets:			
Fair value of plan assets at beginning of year	49,561	82,717	463,187
Actual return on plan assets	1,703	6,172	15,916
Employer contribution	4,229	5,043	39,523
Benefits paid	(3,997)	(3,243)	(37,355)
Acquisition	199	—	1,860
Settlement	—	(7,091)	—
Transfer of the substitutional portion of EPF	—	(34,037)	—
Fair value of plan assets at end of year	51,695	49,561	483,131
Funded status	9,939	12,899	92,888
Unrecognized actuarial loss	(27,944)	(30,395)	(261,159)
Unrecognized transition assets	—	40	—
Unrecognized prior service benefit	19,472	21,127	181,981
Net amount recognized	¥ 1,467	¥ 3,671	$ 13,710
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension and severance costs	(¥11,165)	(¥ 8,801)	($104,346)
Accrued pension and severance costs	13,261	12,813	123,935
Accumulated other comprehensive income (loss)	(629)	(341)	(5,879)
Net amount recognized	¥ 1,467	¥ 3,671	$ 13,710

The accumulated benefit obligation for the pension plan was ¥56,939 million ($532,140 thousand) and ¥58,249 million at March 31, 2005 and 2004, 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 ¥358 million ($3,346 thousand) and ¥194 million at March 31, 2005 and 2004, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were ¥16,255 million ($151,916 thousand), ¥15,002 million ($140,206 thousand) and ¥3,324 million ($31,065 thousand), respectively, at March 31, 2005, and ¥15,890 million, ¥14,987 million and ¥2,832 million, respectively, at March 31, 2004.

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, 2005 and 2004 were as follows:

	March 31	
	2005	2004
Discount rate	2.0%	2.0%
Rate of compensation increase	2.7	2.7

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Years ended March 31		
	2005	2004	2003
Discount rate	2.0%	2.5%	2.5%
Expected return on plan assets	3.0	3.0	3.0
Rate of compensation increase	2.7	2.7	2.7

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

The weighted-average asset allocation of the Company's pension plans at March 31, 2005 and 2004 were as follows:

	March 31	
	2005	2004
Asset category:		
Equity securities	33.8%	32.1%
Debt securities	35.6	35.3
Call loan	21.2	23.6
Other	9.4	9.0
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 ¥4,156 million ($38,841 thousand) to its domestic defined benefit plans in the year ending March 31, 2006.

The following benefit payments, which reflected future service, as appropriate, are expected to be paid.

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2006	¥ 2,610	$ 24,393
2007	3,249	30,364
2008	3,982	37,215
2009	3,968	37,084
2010	3,839	35,879
2011–2015	17,938	167,645

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, 2005, 2004 and 2003 were ¥892 million ($8,336 thousand), ¥865 million and ¥22 million, respectively.

15. Exchange Gains and Losses

Other expenses for the years ended March 31, 2005 and 2004 include net exchange losses of ¥177 million ($1,654 thousand) and ¥469 million, respectively. Other income for the year ended March 31, 2003 includes net exchange gains of ¥389 million.

16. Income Taxes

Total income taxes for the years ended March 31, 2005, 2004 and 2003 were allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Income from continuing operations	**¥31,941**	¥26,143	¥25,316	**$298,514**
Income (loss) from discontinued operations	**931**	(206)	(1,268)	**8,701**
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized gains on securities	**621**	4,640	439	**5,804**
Unrealized gains (losses) on derivative instruments	**(118)**	30	6	**(1,103)**
Minimum pension liabilities	**(105)**	17,226	(1,379)	**(981)**
Foreign currency translation adjustments	**(904)**	72	(279)	**(8,449)**
	¥32,366	¥47,905	¥22,835	**$302,486**

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

Amendments to Japanese tax regulations, which reduced a deductible enterprise tax rate from approximately 9.9 percent to approximately 7.4 percent, were enacted on March 24, 2003. As a result of this amendment, the statutory tax rate was reduced from approximately 41.9 percent to 40.5 percent effective from April 1, 2004. Deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2004 were calculated at the rate of approximately 40.5 percent.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Income taxes computed at statutory tax rate of 40.5% in 2005, 41.9% in 2004 and 2003	**¥30,081**	¥22,360	¥23,532	**$281,131**
Increase (decrease) resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	**387**	3,355	2,274	**3,617**
Reversal of valuation allowance due to utilization of operating loss carryforwards	**(316)**	(321)	(1,420)	**(2,953)**
Other, net	**1,789**	749	930	**16,719**
Consolidated income taxes from continuing operations	**¥31,941**	¥26,143	¥25,316	**$298,514**

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Deferred tax assets:			
Deferred revenue	¥11,945	¥12,110	$111,636
Loss carryforwards	9,518	11,567	88,953
Adjustment of book value at the date of acquisition—			
Land and buildings	4,541	8,906	42,439
Other assets	2,607	2,581	24,364
Accrued pension and severance costs	5,426	5,045	50,710
Allowance for doubtful accounts	5,220	4,309	48,785
Property, plant and equipment	3,992	7,338	37,309
Investment securities	3,636	4,156	33,981
Accrued bonus	3,585	3,429	33,505
Vacation accrual	1,932	1,641	18,056
Other	6,714	8,493	62,748
Gross deferred tax assets	59,116	69,575	552,486
Less: Valuation allowance	(12,592)	(16,761)	(117,682)
Total deferred tax assets	46,524	52,814	434,804
Deferred tax liabilities:			
Deferred installation costs	(7,897)	(8,060)	(73,804)
Adjustment of book value at the date of acquisition—			
Land and buildings	(5,543)	(6,529)	(51,804)
Long-term receivables	(1,817)	(1,897)	(16,981)
Other investments	(62)	(2,523)	(579)
Unrealized gains on securities	(5,680)	(4,841)	(53,084)
Prepaid pension and severance costs	(4,553)	(3,512)	(42,551)
Unearned premiums and other insurance liabilities	(1,278)	(1,748)	(11,944)
Other	(4,586)	(3,762)	(42,860)
Gross deferred tax liabilities	(31,416)	(32,872)	(293,607)
Net deferred tax assets	¥15,108	¥19,942	$141,196

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, 2005 and 2004 was a decrease of ¥4,169 million ($38,963 thousand) and ¥5,128 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, 2005 and 2004.

Net deferred tax assets at March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	2005
Deferred income taxes (Current assets)	¥13,951	¥14,716	$130,383
Deferred income taxes (Other assets)	5,350	8,294	50,000
Other current liabilities	—	(360)	—
Other liabilities	(4,193)	(2,708)	(39,187)
Net deferred tax assets	¥15,108	¥19,942	$141,196

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totaling ¥5,475 million ($51,168 thousand) at March 31, 2005 because they are not expected to be remitted in the foreseeable future.

At March 31, 2005, tax loss carryforwards of domestic subsidiaries amounted to ¥17,519 million ($163,729 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
2006	¥ 1,289	$ 12,047
2007	443	4,140
2008	—	—
2009	1,064	9,944
2010	4,853	45,355
2011	5,471	51,131
2012	4,399	41,112
	¥17,519	$163,729

The tax loss carryforwards of overseas subsidiaries at March 31, 2005 amounted to ¥4,781 million ($44,682 thousand), a part of which will begin to expire in the year ending March 31, 2006.

17. 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, 2005, the parent company's Board of Directors declared an annual cash dividend of ¥11,251 million ($105,150 thousand) to shareholders of record on March 31, 2005. The dividend declared was approved at the general shareholders' meeting held on June 29, 2005. 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, 2005, 2004 and 2003 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2005:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	**¥4,579**	**(¥1,699)**	**¥2,880**
Less: Reclassification adjustment for gains or losses included in net income	**(2,918)**	**1,078**	**(1,840)**
Unrealized losses on derivative instruments—			
Unrealized holding gains or losses arising during the year	**(152)**	**61**	**(91)**
Less: Reclassification adjustment for gains or losses included in net income	**(140)**	**57**	**(83)**
Minimum pension liability adjustments	**(269)**	**105**	**(164)**
Foreign currency translation adjustments	**(1,488)**	**904**	**(584)**
Other comprehensive income (loss)	**(¥ 388)**	**¥ 506**	**¥ 118**
For the year ended March 31, 2004:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	¥12,639	(¥ 4,910)	¥ 7,729
Less: Reclassification adjustment for gains or losses included in net income	(695)	270	(425)
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	145	(58)	87
Less: Reclassification adjustment for gains or losses included in net income	(68)	28	(40)
Minimum pension liability adjustments	43,147	(17,226)	25,921
Foreign currency translation adjustments	(4,228)	(72)	(4,300)
Other comprehensive income (loss)	¥50,940	(¥21,968)	¥28,972

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2003:			
Unrealized losses on securities—			
Unrealized holding gains or losses arising during the period	(¥ 7,053)	¥ 2,738	(¥ 4,315)
Less: Reclassification adjustment for gains or losses included in net income	9,215	(3,177)	6,038
Unrealized gains on derivative instruments—			
Unrealized holding gains or losses arising during the year	177	(72)	105
Less: Reclassification adjustment for gains or losses included in net income	(172)	66	(106)
Minimum pension 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 thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2005:			
Unrealized gains on securities—			
Unrealized holding gains or losses arising during the period	**$42,794**	**($15,879)**	**$26,915**
Less: Reclassification adjustment for gains or losses included in net income	**(27,271)**	**10,075**	**(17,196)**
Unrealized losses on derivative instruments—			
Unrealized holding gains or losses arising during the year	**(1,421)**	**570**	**(851)**
Less: Reclassification adjustment for gains or losses included in net income	**(1,309)**	**533**	**(776)**
Minimum pension liability adjustments	**(2,514)**	**981**	**(1,533)**
Foreign currency translation adjustments	**(13,907)**	**8,449**	**(5,458)**
Other comprehensive income (loss)	**($ 3,628)**	**$ 4,729**	**$ 1,101**

18. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2005, 2004 and 2003 were ¥4,470 million ($41,776 thousand), ¥4,088 million and ¥5,003 million, respectively.

19. 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 ($47,533 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, 2005 were ¥6,903 million ($64,514 thousand).

A summary of leased assets under capital leases at March 31, 2005 and 2004 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	**2005**
Buildings and improvements	**¥ 5,185**	¥ 5,185	**$ 48,458**
Machinery, equipment and automobiles	**12,993**	13,273	**121,430**
Other intangible assets	**147**	151	**1,374**
Accumulated depreciation	**(7,954)**	(7,498)	**(74,337)**
	¥10,371	¥11,111	**$ 96,925**

Depreciation expenses under capital leases for the years ended March 31, 2005, 2004 and 2003 were ¥3,146 million ($29,402 thousand), ¥3,186 million and ¥2,991 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, 2005:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2006	¥ 3,101	$ 28,982
2007	2,274	21,252
2008	1,829	17,093
2009	1,020	9,533
2010	620	5,794
Thereafter	5,821	54,402
Total minimum lease payments	14,665	137,056
Less: Amount representing interest	3,396	31,738
Present value of net minimum lease payments (Note 12)	11,269	105,318
Less: Current portion	2,741	25,617
Long-term capital lease obligations	¥ 8,528	$ 79,701

Rental expenses under operating leases for the years ended March 31, 2005, 2004 and 2003 were ¥14,616 million ($136,598 thousand), ¥14,540 million and ¥15,182 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 ($12,514 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, 2005 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2006	¥ 2,322	$ 21,701
2007	2,276	21,271
2008	2,209	20,645
2009	2,197	20,533
2010	2,175	20,327
Thereafter	27,113	253,392
Total future minimum lease payments	¥38,292	$357,869

20. 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, 2005 and 2004 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2005	2004	**2005**
Land	**¥21,185**	¥ 66,093	**$197,991**
Buildings and improvements	**21,888**	70,163	**204,561**
Construction in progress	**—**	901	**—**
Other intangible assets	**840**	1,711	**7,850**
Accumulated depreciation	**(5,430)**	(12,498)	**(50,748)**
	¥38,483	¥126,370	**$359,654**

The future minimum rentals on non-cancelable operating leases at March 31, 2005 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2006	¥ 3,162	$ 29,551
2007	1,335	12,477
2008	1,335	12,477
2009	1,335	12,477
2010	1,335	12,477
Thereafter	20,699	193,448
Total future minimum rentals	¥29,201	$272,907

21. Fair Value of Financial Instruments

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

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

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

(2) Long-Term Receivables

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

(3) Long-Term Debt Including Current Portion

The fair value of long-term debt including the current portion was estimated based on the discounted amounts of future cash flows 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 7 at March 31, 2005 and 2004 are as follows:

	In millions of yen			
	March 31			
	2005		2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Liabilities—				
Long-term debt including current portion	¥ 76,307	¥ 76,489	¥104,534	¥104,792
Investment deposits by policyholders	227,719	236,214	230,316	241,423
Derivatives:				
Assets—				
Interest rate swaps	10	10	19	19
Embedded derivatives	—	—	16	16
Liabilities—				
Interest rate swaps	343	343	536	536

	In thousands of U.S. dollars	
	March 31	
	2005	
	Carrying amount	Estimated fair value
Non-derivatives:		
Liabilities—		
Long-term debt including current portion	$ 713,149	$ 714,850
Investment deposits by policyholders	2,128,215	2,207,607
Derivatives:		
Assets—		
Interest rate swaps	93	93
Embedded derivatives	—	—
Liabilities—		
Interest rate swaps	3,206	3,206

Limitation:

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

22. Derivative Financial Instruments

(1) Risk Management Policy

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

(2) Interest Rate Risk Management

The Company's exposure to the market risk of changes in interest rates relates primarily to its debt obligations. The Company principally enters into interest rate swap agreements to manage fluctuations in cash flows resulting from changes in interest rates. Interest rate swaps are used to change floating rates on debt obligations to fixed rates by entering into receive-floating, pay-fixed interest rate swaps under which the Company receives floating interest rate proceeds and 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, 2005, 2004 and 2003. Approximately ¥26 million ($243 thousand) of net derivative losses included in other comprehensive income (loss), net of tax at March 31, 2005, will be reclassified into current income within 12 months from that date. At March 31, 2005 and 2004, the notional principal amounts of interest rate swap agreements designated as cash flow hedges were ¥27,833 million ($260,121 thousand) and ¥35,909 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. At March 31, 2004, Secom Insurance held embedded derivatives that must be separated from the host debt securities and accounted for as derivative instruments, which were also to increase investment income. At March 31, 2005, Secom Insurance held no embedded derivatives. Changes in fair value of the above noted derivative financial instruments, which are not designated as hedges, are reported in current income.

23. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 2005 for the purchase of property, plant and equipment approximated ¥10,225 million ($95,561 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 ¥16,424 million ($153,495 thousand) at March 31, 2005. The carrying amounts of the liabilities recognized for the Company's obligations under these guarantees at March 31, 2005 and 2004 were insignificant.

In July 2004, Fujitsu Ltd. filed a lawsuit against Secom Insurance in the Tokyo District Court, claiming compensation for costs related to a systems development order in the amount of ¥2,500 million ($23,364 thousand). Secom Insurance is not only contesting this lawsuit on the grounds that it is unmerited, but has also filed a countersuit claiming damages in the amount of ¥1,000 million ($9,346 thousand), which is pending at March 31, 2005.

24. Free Share Distributions of Less than 25 Percent

The Company may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Prior to October 1, 2001, free share distributions were accounted for either by (1) a transfer from additional paid-in capital to the common stock account, or (2) no entry if free shares are distributed from the portion of previously issued shares in the common stock account as required by the Japanese Commercial Code. Effective on October 1, 2001, the Japanese Commercial Code requires no accounting recognition for such free share distribution. A corporation in the United States of America issuing shares, comparable to less than 25 percent free share distributions, would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to the appropriate capital accounts.

Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America, ¥98,388 million ($919,514 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on total shareholders' equity.

25. Discontinued Operations

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

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

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

Discontinued operations for the years ended March 31, 2005, 2004 and 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Net sales and operating revenue	**¥ 7,491**	¥ 4,508	¥ 716	**$ 70,009**
Loss from discontinued operations before income taxes, net	**(2,378)**	(10,702)	(4,060)	**(22,224)**
Gain on sales of discontinued operations, net	**13,637**	6,367	770	**127,449**
Income taxes	**(931)**	206	1,268	**(8,701)**
Minority interest in subsidiaries	**(451)**	(78)	257	**(4,215)**
Income (loss) from discontinued operations, net of tax	**¥ 9,877**	(¥ 4,207)	(¥1,765)	**$ 92,309**

Income (loss) from discontinued operations, net of tax, by business segment for the years ended March 31, 2005, 2004 and 2003 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Security services	**¥ 439**	(¥ 77)	(¥ 470)	**$ 4,103**
Insurance services	**2,164**	370	(1,218)	**20,225**
Information and communication related and other services (Leasing services of real estate)	**3,983**	(244)	(82)	**37,224**
Information and communication related and other services (Education services)	**3,291**	(4,256)	5	**30,757**
Income (loss) from discontinued operations, net of tax	**¥9,877**	(¥4,207)	(¥1,765)	**$92,309**

26. Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	**2005**
Cash paid during the year for:				
Interest	**¥ 2,277**	¥ 3,307	¥ 3,527	**$ 21,280**
Income taxes	**31,530**	24,718	40,263	**294,673**
Non-cash investing and financing activities:				
Conversion of convertible bond	**18**	—	17	**168**
Additions to obligations under capital leases	**2,350**	4,173	2,739	**21,963**

27. Segment Information

The Company has applied SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which requires disclosure of financial and descriptive information about the Company's reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by management in deciding how to allocate resources and assess performance. During the year ended March 31, 2005, the Company changed the segment measures of revenue and profit or loss evaluated by management from revenue and other income to net sales and operating revenue, and from income and loss before income taxes to operating income and loss, respectively. Accordingly, segment information of all prior periods has been restated to confirm to the presentation used for the year ended March 31, 2005.

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. Also the VIE to which the Company is primary beneficiary manages hospitals and health care-related 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, development and sales of real estate and leasing of real estate as well as management of hotel business. The Company develops real estate, principally condominiums, for consumers, to promote a network of integrated communication systems to create synergies with home security services. These communication services are considered a subset or an integrated part of the real estate package.

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

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

Identifiable assets are those assets used exclusively in the operations of each segment or which are allocated when used jointly. Corporate assets, which are held by the parent company and the holding company overseas 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, 2005, 2004 and 2003 is as follows:

(1) Business Segment Information

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Net sales and operating revenue:				
Security services—				
Customers	¥382,360	¥367,482	¥352,985	$3,573,458
Intersegment	1,362	1,121	1,252	12,729
	383,722	368,603	354,237	3,586,187
Medical services—				
Customers	34,688	21,147	19,637	324,187
Intersegment	215	194	171	2,009
	34,903	21,341	19,808	326,196
Insurance services—				
Customers	26,465	23,536	15,234	247,336
Intersegment	2,776	2,420	2,025	25,944
	29,241	25,956	17,259	273,280
Information and communication related and other services—				
Customers	108,841	105,270	109,835	1,017,206
Intersegment	4,889	3,723	2,988	45,692
	113,730	108,993	112,823	1,062,898
Total	561,596	524,893	504,127	5,248,561
Eliminations	(9,242)	(7,458)	(6,436)	(86,374)
Total net sales and operating revenue	¥552,354	¥517,435	¥497,691	$5,162,187
Operating income (loss):				
Security services	¥ 90,414	¥ 75,833	¥ 80,118	$ 844,991
Medical services	1,641	(1,519)	1,905	15,336
Insurance services	(3,011)	2,396	(6,677)	(28,140)
Information and communication related and other services	420	(8,219)	1,167	3,925
Total	89,464	68,491	76,513	836,112
Corporate expenses and eliminations	(13,906)	(14,426)	(14,591)	(129,962)
Operating income	75,558	54,065	61,922	706,150
Other income	6,566	5,672	6,628	61,364
Other expenses	(7,851)	(6,373)	(12,388)	(73,374)
Income from continuing operations before income taxes	¥ 74,273	¥ 53,364	¥ 56,162	$ 694,140

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2005	2004	2003	2005
Assets:				
Security services	¥ 445,576	¥ 428,034	¥ 396,850	$ 4,164,262
Medical services	91,574	73,573	67,214	855,832
Insurance services	310,159	317,102	319,750	2,898,682
Information and communication related and other services	177,582	205,374	209,954	1,659,645
Total	1,024,891	1,024,083	993,768	9,578,421
Corporate items	99,398	101,708	129,372	928,953
Investments in and loans to affiliated companies	39,915	39,314	34,942	373,037
Total assets	¥1,164,204	¥1,165,105	¥1,158,082	$10,880,411

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Depreciation and amortization:				
Security services	¥44,042	¥44,833	¥44,014	$411,607
Medical services	1,531	1,164	953	14,308
Insurance services	1,175	1,586	2,305	10,981
Information and communication related and other services	4,293	4,766	4,200	40,121
Total	51,041	52,349	51,472	477,017
Corporate items	409	594	595	3,824
Total depreciation and amortization	¥51,450	¥52,943	¥52,067	$480,841
Capital expenditures:				
Security services	¥30,255	¥33,205	¥29,586	$282,757
Medical services	8,647	1,625	5,115	80,813
Insurance services	1,380	3,859	12,899	12,897
Information and communication related and other services	5,910	5,632	4,726	55,234
Total	46,192	44,321	52,326	431,701
Corporate items	1	7	612	9
Total capital expenditures	¥46,193	¥44,328	¥52,938	$431,710

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

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

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Electronic security services:				
Commercial security and home security	¥268,379	¥260,316	¥253,614	$2,508,215
Large-scale proprietary systems	3,493	3,584	3,461	32,645
Other security services:				
Static guard services	38,302	37,537	35,908	357,963
Armored car services	18,462	18,618	17,261	172,542
Merchandise and other	53,724	47,427	42,741	502,093
Total security services	¥382,360	¥367,482	¥352,985	$3,573,458

(2) Geographic Segment Information

Net sales and operating revenue attributed to countries based on location of customers and long-lived assets for the years ended March 31, 2005, 2004 and 2003 was as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2005	2004	2003	2005
Net sales and operating revenue:				
Japan	¥538,851	¥506,213	¥487,273	$5,035,991
Other	13,503	11,222	10,418	126,196
Total	¥552,354	¥517,435	¥497,691	$5,162,187

	In millions of yen			In thousands of U.S. dollars
	March 31			March 31
	2005	2004	2003	2005
Long-lived assets:				
Japan	¥316,358	¥445,632	¥463,144	$2,956,617
Other	6,079	5,528	6,384	56,813
Total	¥322,437	¥451,160	¥469,528	$3,013,430

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

INDEPENDENT AUDITORS' REPORT

KPMG

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

We have audited the accompanying consolidated balance sheets of SECOM CO., LTD. and subsidiaries as of March 31, 2005 and 2004, 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, 2005, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005, 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 variable interest entities in the year ended March 31, 2005, and 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, 2005 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 3 of the notes to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005

OTHER FINANCIAL DATA

SECOM

CONTENTS

SUMMARY OF SELECTED FINANCIAL DATA

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

In millions of yen

	2005	2004	2003	2002	2001	2000
Composition of consolidated net sales and operating revenue by segment						
Net sales and operating revenue	**¥552,354**	¥517,435	¥497,691	¥475,151	¥430,999	¥391,488
Security services:	**382,360**	367,482	352,985	335,867	313,340	294,903
As a percentage of net sales and operating revenue	***69.2%***	*71.0%*	*70.9%*	*70.7%*	*72.7%*	*75.3%*
Electronic security services—						
Commercial security and home security	**268,379**	260,316	253,614	243,049	229,924	221,353
As a percentage of net sales and operating revenue	***48.6***	*50.3*	*50.9*	*51.1*	*53.3*	*56.5*
Large-scale proprietary systems	**3,493**	3,584	3,461	3,438	3,647	3,773
As a percentage of net sales and operating revenue	***0.6***	*0.7*	*0.7*	*0.7*	*0.9*	*1.0*
Subtotal	**271,872**	263,900	257,075	246,487	233,571	225,126
Other security services—						
Static guard services	**38,302**	37,537	35,908	34,107	32,204	31,663
As a percentage of net sales and operating revenue	***6.9***	*7.2*	*7.2*	*7.2*	*7.5*	*8.1*
Armored car services	**18,462**	18,618	17,261	17,001	15,109	13,540
As a percentage of net sales and operating revenue	***3.4***	*3.6*	*3.5*	*3.6*	*3.5*	*3.4*
Subtotal	**56,764**	56,155	53,169	51,108	47,313	45,203
Merchandise and other	**53,724**	47,427	42,741	38,272	32,456	24,574
As a percentage of net sales and operating revenue	***9.7***	*9.2*	*8.6*	*8.1*	*7.5*	*6.3*
Medical services	**34,688**	21,147	19,637	13,300	6,315	1,316
As a percentage of net sales and operating revenue	***6.3***	*4.1*	*3.9*	*2.8*	*1.5*	*0.3*
Insurance services	**26,465**	23,536	15,234	24,875	21,069	26,209
As a percentage of net sales and operating revenue	***4.8***	*4.6*	*3.1*	*5.2*	*4.9*	*6.7*
Information and communication related and other services	**108,841**	105,270	109,835	101,109	90,275	69,060
As a percentage of net sales and operating revenue	***19.7***	*20.3*	*22.1*	*21.3*	*20.9*	*17.7*
Net income, cash dividends and shareholders' equity						
Net income	**¥ 52,133**	¥ 23,479	¥ 30,275	¥ 34,082	¥ 43,996	¥ 47,326
Cash dividends (paid)[(2)]	**10,127**	9,003	9,330	9,324	9,323	8,146
Shareholders' equity	**457,837**	415,852	372,518	401,326	377,304	373,806
Consolidated financial ratios						
Percentage of working capital accounted for by:						
Debt—						
Bank loans	**16.1**	17.7	20.0	10.7	14.5	15.6
Current portion of long-term debt	**1.7**	2.1	3.3	4.4	1.9	1.2
Convertible bonds	**0.0**	0.0	0.0	0.0	0.1	0.1
Straight bonds	**6.4**	5.2	5.2	5.6	2.0	2.1
Other long-term debt	**3.9**	9.2	11.4	16.1	6.1	3.2
Total debt	**28.1**	34.2	39.9	36.8	24.6	22.2
Shareholders' equity	**71.9**	65.8	60.1	63.2	75.4	77.8
Total capitalization	**100.0**	100.0	100.0	100.0	100.0	100.0
Return on total assets (percentage)[(a)]	**4.5**	2.0	2.6	2.9	5.0	6.1
Return on equity (percentage)[(b)]	**11.4**	5.6	8.1	8.5	11.7	12.7
Percentage of net sales and operating revenue absorbed by[(c)]:						
Depreciation and amortization	**9.1**	10.1	10.3	10.4	10.4	8.7
Rental expense	**2.6**	2.8	3.0	2.7	2.6	3.0
Ratio of accumulated depreciation to depreciable assets (percentage)	**60.0**	54.8	50.6	48.9	54.0	60.0
Net property turnover (times)[(c)]	**2.43**	1.74	1.37	1.23	1.84	2.59
Before-tax interest coverage (times)[(c)(d)]	**39.3**	15.9	15.2	41.6	43.9	60.0

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

	2005	2004	2003	2002	2001	2000
Number of shares outstanding						
Issued	**233,288,717**	233,281,133	233,281,133	233,274,769	233,099,744	233,075,442
Owned by the Company	**8,266,043**	8,228,652	8,200,245	22,512	510	4,840
Balance	**225,022,674**	225,052,481	225,080,888	233,252,257	233,099,234	233,070,602
Per share information						
Basic net income per share (in yen)[(1)]	**¥ 231.66**	¥ 104.32	¥ 132.87	¥ 146.19	¥ 188.76	¥ 203.22
Cash dividends paid per share (in yen)[(2)]	**45.00**	40.00	40.00	40.00	40.00	35.00
Shareholders' equity per share (in yen)[(3)]	**2,034.63**	1,847.80	1,655.04	1,720.57	1,618.64	1,603.83
Cash flow per share (in yen)[(1) (e)]	**410.29**	294.56	321.88	320.17	341.91	310.28
Price/Book value ratio	**2.19**	2.46	1.84	3.33	4.39	5.49
Price/Earnings ratio	**19.25**	43.52	22.88	39.20	37.61	43.30
Price/Cash flow ratio	**10.87**	15.41	9.44	17.90	20.77	28.36
Stock price at year-end (in yen)	**4,460**	4,540	3,040	5,730	7,100	8,800

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

(1) Per share amounts are based on the average number of shares outstanding during each period.
(2) Subsequent to March 31, 2005, cash dividends of ¥11,251 million (¥50 per share) were approved at the general shareholders' meeting on June 29, 2005 (see Note 17 of the accompanying notes to consolidated financial statements).
(3) Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

COMMON STOCK DATA

SECOM CO., LTD.
As of March 31

SHAREHOLDER INFORMATION

	2005	2004	2003	2002	2001	2000
Number of shareholders	**21,327**	21,720	20,230	17,609	15,621	15,019
Common shares held by:						
Financial institutions	**34.32%**	37.04%	46.14%	45.31%	44.44%	42.74%
Securities firms	**1.99**	2.19	2.04	1.61	1.73	2.66
Other corporations	**4.13**	4.29	4.60	13.78	13.84	13.86
Foreign investors	**40.75**	37.22	28.64	24.64	25.76	25.96
Individuals and others	**18.81**	19.26	18.58	14.66	14.23	14.78
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
2003	April–June	¥3,900	¥2,655	¥ 9,137.14	¥ 7,607.88
	July–September	4,430	3,260	11,033.32	9,265.56
	October–December	5,120	3,620	11,161.71	9,614.60
2004	January–March	4,620	3,930	11,770.65	10,365.40
	April–June	4,850	4,130	12,163.89	10,505.05
	July–September	4,720	3,830	11,896.01	10,687.81
	October–December	4,190	3,730	11,488.76	10,659.15
2005	January–March	4,510	3,930	11,966.69	11,238.37

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	—	—
Mar. 31, 2005	8	233,289	66,377,829	—	Conversion of convertible bonds

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