AUDITED FINANCIAL STATEMENTS

Contents

Consolidated Financial Statements

Consolidated Balance Sheets

SECOM CO., LTD. and Subsidiaries
March 31, 2017 and 2016

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
ASSETS	**2017**	2016	**2017**
Current assets:			
Cash and Cash equivalents (Notes 5 and 22)	**¥ 299,600**	¥ 228,982	**$ 2,675,000**
Time deposits (Note 13)	**9,562**	9,764	**85,375**
Cash deposits for armored car services (Note 6)	**130,620**	128,267	**1,166,250**
Short-term investments (Notes 7 and 22)	**29,224**	31,412	**260,929**
Notes and accounts receivable, trade	**134,794**	136,619	**1,203,518**
Due from subscribers	**46,467**	43,748	**414,884**
Inventories (Note 8)	**62,686**	63,780	**559,696**
Short-term receivables (Notes 9, 13, 20 and 21)	**26,074**	30,035	**232,804**
Allowance for doubtful accounts (Note 9)	**(1,821)**	(1,782)	**(16,259)**
Deferred insurance acquisition costs (Note 14)	**6,440**	6,766	**57,500**
Deferred income taxes (Note 17)	**12,611**	12,082	**112,598**
Other current assets	**17,595**	15,862	**157,098**
Total current assets	**773,852**	705,535	**6,909,393**
Investments and long-term receivables:			
Investment securities (Notes 2 (7), 7, 13 and 22)	**227,245**	212,485	**2,028,973**
Investments in affiliated companies (Note 10)	**57,922**	56,699	**517,161**
Long-term receivables (Notes 9, 13, 20 and 21)	**42,407**	40,851	**378,634**
Lease deposits	**15,675**	15,753	**139,956**
Other investments	**10,510**	15,234	**93,839**
Allowance for doubtful accounts (Note 9)	**(4,178)**	(4,625)	**(37,304)**
	349,581	336,397	**3,121,259**
Property, plant and equipment (Notes 11, 13, 19 and 20)**:**			
Land	**115,210**	114,970	**1,028,661**
Buildings and improvements	**329,631**	316,581	**2,943,134**
Security equipment and control stations	**317,352**	317,814	**2,833,500**
Machinery, equipment and automobiles	**143,789**	154,796	**1,283,830**
Construction in progress	**7,683**	5,696	**68,598**
	913,665	909,857	**8,157,723**
Accumulated depreciation	**(499,597)**	(495,705)	**(4,460,687)**
	414,068	414,152	**3,697,036**
Other assets:			
Deferred charges (Note 2 (12))	**42,606**	43,147	**380,411**
Goodwill (Note 12)	**88,950**	90,282	**794,196**
Other intangible assets (Notes 12, 13, 19 and 20)	**50,726**	53,924	**452,911**
Prepaid pension and severance costs (Note 15)	**35,282**	30,797	**315,018**
Deferred income taxes (Note 17)	**8,213**	7,098	**73,330**
	225,777	225,248	**2,015,866**
Total assets	**¥1,763,278**	¥1,681,332	**$15,743,554**

See accompanying notes to consolidated financial statements.

LIABILITIES AND EQUITY	In millions of yen March 31 2017	2016	Translation into thousands of U.S. dollars (Note 3) March 31 2017
Current liabilities:			
Bank loans (Notes 6 and 13)	¥ 42,099	¥ 55,659	$ 375,884
Current portion of long-term debt (Notes 13, 19 and 21)	19,615	17,926	175,134
Notes and accounts payable, trade	46,280	42,905	413,214
Other payables	38,612	39,635	344,750
Deposits received (Note 6)	112,053	104,996	1,000,473
Deferred revenue	38,732	39,737	345,821
Accrued income taxes	27,615	22,410	246,563
Accrued payroll	32,084	31,506	286,464
Other current liabilities (Note 17)	36,822	32,991	328,768
Total current liabilities	393,912	387,765	3,517,071
Long-term liabilities:			
Long-term debt (Notes 13, 19 and 21)	54,149	61,640	483,473
Guarantee deposits received	32,529	33,637	290,438
Accrued pension and severance costs (Note 15)	29,636	30,068	264,607
Long-term deferred revenue	15,444	16,350	137,893
Unearned premiums and other insurance liabilities (Note 14)	110,018	105,569	982,304
Investment deposits by policyholders (Notes 14 and 21)	27,691	29,802	247,241
Deferred income taxes (Note 17)	33,815	25,982	301,920
Other long-term liabilities (Notes 21, 22 and 23)	14,616	13,922	130,500
Total long-term liabilities	317,898	316,970	2,838,376
Total liabilities	711,810	704,735	6,355,447
Commitments and contingent liabilities (Note 24)			
Equity:			
SECOM CO., LTD. shareholders' equity (Note 18):			
Common stock			
Authorized—900,000,000 shares, issued 233,288,717 shares in 2017 and 2016	66,378	66,378	592,661
Additional paid-in capital	73,102	73,118	652,696
Legal reserve	10,632	10,526	94,929
Retained earnings	832,785	772,061	7,435,580
Accumulated other comprehensive income (loss):			
Unrealized gains on securities (Note 7)	22,529	18,152	201,152
Unrealized gains on derivative instruments (Note 23)	—	—	—
Pension liability adjustments (Note 15)	(3,492)	(7,891)	(31,179)
Foreign currency translation adjustments	1,039	6,652	9,277
	20,076	16,913	179,250
Common stock in treasury, at cost: 15,028,470 shares in 2017 and 15,026,824 shares in 2016	(73,731)	(73,718)	(658,313)
Total SECOM CO., LTD. shareholders' equity	929,242	865,278	8,296,803
Noncontrolling interests	122,226	111,319	1,091,304
Total equity	1,051,468	976,597	9,388,107
Total liabilities and equity	¥1,763,278	¥1,681,332	$15,743,554

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2017

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Net sales and operating revenue (Notes 14 ,18 and 22)	¥1,031,261	¥983,428	¥945,238	$9,207,688
Costs and expenses:				
Cost of sales (Note 8)	709,962	674,533	644,196	6,338,946
Selling, general and administrative expenses (Notes 2 (17), 2 (18), 2 (19) and 4)	184,487	176,269	168,563	1,647,205
Impairment loss on long-lived assets (Note 11)	2,689	11,814	6,591	24,009
Impairment loss on goodwill (Note 12)	1,193	—	1,314	10,652
Loss on sales and disposal of fixed assets, net	2,752	1,907	2,567	24,572
	901,083	864,523	823,231	8,045,384
Operating income	130,178	118,905	122,007	1,162,304
Other income:				
Interest and dividends	1,286	1,440	1,412	11,483
Gain on sales of securities, net (Notes 7 and 18)	391	1,480	56	3,491
Gain on private equity investments (Note 22)	13,887	1,718	4,062	123,991
Other (Notes 16, 18 and 23)	2,571	3,041	3,763	22,955
	18,135	7,679	9,293	161,920
Other expenses:				
Interest	1,369	1,388	1,394	12,223
Loss on other-than-temporary impairment of investment securities (Notes 18 and 22)	77	402	154	688
Other (Note 16)	1,644	2,333	1,895	14,679
	3,090	4,123	3,443	27,590
Income from continuing operations before income taxes and equity in net income of affiliated companies	145,223	122,461	127,857	1,296,634
Income taxes (Note 17)**:**				
Current	43,449	39,135	46,837	387,937
Deferred	3,563	1,177	(865)	31,813
	47,012	40,312	45,972	419,750
Income from continuing operations before equity in net income of affiliated companies	98,211	82,149	81,885	876,884
Equity in net income of affiliated companies (Note 18)	5,178	7,162	5,759	46,232
Income from continuing operations	103,389	89,311	87,644	923,116
Income (loss) from discontinued operations, net of tax (Note 25)	—	—	814	—
Net income	103,389	89,311	88,458	923,116
Less: Net income attributable to noncontrolling interests	(12,002)	(5,239)	(8,274)	(107,161)
Net income attributable to SECOM CO., LTD.	¥ 91,387	¥ 84,072	¥ 80,184	$ 815,955

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Per share data (Note 2 (21))**:**				
Income from continuing operations attributable to SECOM CO., LTD.	¥418.71	¥385.19	¥363.64	$3.74
Income (loss) from discontinued operations attributable to SECOM CO., LTD.	—	—	3.73	—
Net income attributable to SECOM CO., LTD.	418.71	385.19	367.37	3.74
Cash dividends per share (Note 18)	¥140.00	¥130.00	¥175.00	$1.25

Consolidated Statements of Comprehensive Income

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2017

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Comprehensive income:				
Net income	¥103,389	¥89,311	¥ 88,458	$923,116
Other comprehensive income (loss), net of tax:				
Unrealized gains on securities	4,600	(7,823)	13,588	41,072
Unrealized gains on derivative instruments	—	(9)	(8)	—
Pension liability adjustments	4,675	(6,402)	7,194	41,741
Foreign currency translation adjustments	(5,726)	(3,234)	12,179	(51,125)
Total comprehensive income	106,938	71,843	121,411	954,804
Less: Comprehensive income attributable to noncontrolling interests	(12,388)	(3,820)	(9,986)	(110,608)
Comprehensive income attributable to SECOM CO., LTD.	¥ 94,550	¥68,023	¥111,425	$844,196

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2017

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury, at cost	Total SECOM CO., LTD. shareholders' equity	Noncontrolling interests	Total
Balance, March 31, 2014	233,288,717	¥66,378	¥73,781	¥10,316	¥674,585	¥ 1,721	(¥73,682)	¥753,099	¥107,257	¥ 860,356
Comprehensive income:										
Net income	—	—	—	—	80,184	—	—	80,184	8,274	88,458
Other comprehensive income (loss), net of tax (Note 18):										
Unrealized gains on securities	—	—	—	—	—	13,004	—	13,004	584	13,588
Unrealized gains on derivative instruments	—	—	—	—	—	(4)	—	(4)	(4)	(8)
Pension liability adjustments	—	—	—	—	—	6,814	—	6,814	380	7,194
Foreign currency translation adjustments	—	—	—	—	—	11,427	—	11,427	752	12,179
Total comprehensive income								111,425	9,986	121,411
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	—	(38,197)	—	—	(38,197)	—	(38,197)
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(3,763)	(3,763)
Transfer to legal reserve	—	—	—	85	(85)	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Note 18)	—	—	(339)	—	—	—	—	(339)	(282)	(621)
Gains on disposal of treasury stock	—	—	0	—	—	—	—	0	—	0
Net changes in treasury stock	—	—	—	—	—	—	(19)	(19)	—	(19)
Balance, March 31, 2015	233,288,717	66,378	73,442	10,401	716,487	32,962	(73,701)	825,969	113,198	939,167
Comprehensive income:										
Net income	—	—	—	—	84,072	—	—	84,072	5,239	89,311
Other comprehensive income (loss), net of tax (Note 18):										
Unrealized gains on securities	—	—	—	—	—	(7,411)	—	(7,411)	(412)	(7,823)
Unrealized gains on derivative instruments	—	—	—	—	—	(5)	—	(5)	(4)	(9)
Pension liability adjustments	—	—	—	—	—	(5,752)	—	(5,752)	(650)	(6,402)
Foreign currency translation adjustments	—	—	—	—	—	(2,881)	—	(2,881)	(353)	(3,234)
Total comprehensive income								68,023	3,820	71,843
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	—	(28,373)	—	—	(28,373)	—	(28,373)
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(2,943)	(2,943)
Transfer to legal reserve	—	—	—	125	(125)	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Note 18)	—	—	(324)	—	—	—	—	(324)	(2,756)	(3,080)
Gains on disposal of treasury stock	—	—	0	—	—	—	—	0	—	0
Net changes in treasury stock	—	—	—	—	—	—	(17)	(17)	—	(17)
Balance, March 31, 2016	233,288,717	66,378	73,118	10,526	772,061	16,913	(73,718)	865,278	111,319	976,597
Comprehensive income:										
Net income	—	—	—	—	**91,387**	—	—	**91,387**	**12,002**	**103,389**
Other comprehensive income (loss), net of tax (Note 18):										
Unrealized gains on securities	—	—	—	—	—	**4,376**	—	**4,376**	**224**	**4,600**
Unrealized gains on derivative instruments	—	—	—	—	—	—	—	—	—	**0**
Pension liability adjustments	—	—	—	—	—	**4,400**	—	**4,400**	**275**	**4,675**
Foreign currency translation adjustments	—	—	—	—	—	**(5,613)**	—	**(5,613)**	**(113)**	**(5,726)**
Total comprehensive income								**94,550**	**12,388**	**106,938**
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	—	**(30,557)**	—	—	**(30,557)**	—	**(30,557)**
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	**(2,941)**	**(2,941)**
Transfer to legal reserve	—	—	—	**106**	**(106)**	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Note 18)	—	—	**(16)**	—	—	—	—	**(16)**	**1,460**	**1,444**
Gains on disposal of treasury stock	—	—	**0**	—	—	—	—	**0**	—	**0**
Net changes in treasury stock	—	—	—	—	—	—	**(13)**	**(13)**	—	**(13)**
Balance, March 31, 2017	**233,288,717**	**¥66,378**	**¥73,102**	**¥10,632**	**¥832,785**	**¥20,076**	**(¥73,731)**	**¥929,242**	**¥122,226**	**¥1,051,468**

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Common stock in treasury, at cost	Total SECOM CO., LTD. shareholders' equity	Noncontrolling interests	Total
Balance, March 31, 2016	$592,661	$652,839	$93,982	$6,893,402	$151,009	($658,196)	$7,725,697	$ 993,920	$8,719,617
Comprehensive income:									
Net income	—	—	—	**815,955**	—	—	**815,955**	**107,161**	**923,116**
Other comprehensive income (loss), net of tax (Note 18):									
Unrealized gains on securities	—	—	—	—	**39,071**	—	**39,071**	**2,001**	**41,072**
Unrealized gains on derivative instruments	—	—	—	—	—	—	—	—	—
Pension liability adjustments	—	—	—	—	**39,286**	—	**39,286**	**2,455**	**41,741**
Foreign currency translation adjustments	—	—	—	—	**(50,116)**	—	**(50,116)**	**(1,009)**	**(51,125)**
Total comprehensive income							**844,196**	**110,608**	**954,804**
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	**(272,830)**	—	—	**(272,830)**	—	**(272,830)**
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	**(26,259)**	**(26,259)**
Transfer to legal reserve	—	—	**947**	**(947)**	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Notes 18)	—	**(143)**	—	—	—	—	**(143)**	**13,035**	**12,892**
Gains on disposal of treasury stock	—	**0**	—	—	—	—	**0**	—	**0**
Net changes in treasury stock	—	—	—	—	—	**(117)**	**(117)**	—	**(117)**
Balance, March 31, 2017	**$592,661**	**$652,696**	**$94,929**	**$7,435,580**	**$179,250**	**($658,313)**	**$8,296,803**	**$1,091,304**	**$9,388,107**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2017

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Cash flows from operating activities:				
Net income	**¥103,389**	¥ 89,311	¥ 88,458	**$ 923,116**
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization, including amortization of deferred charges (Notes 2 (11), 2 (12) and 12)	**78,183**	72,481	68,864	**698,063**
Accrual for pension and severance costs, less payments	**754**	(2,246)	(4,495)	**6,732**
Deferred income taxes, including discontinued operations	**3,563**	1,177	2,505	**31,813**
Loss on sales and disposal of fixed assets, net, including discontinued operations	**2,712**	1,815	958	**24,214**
Impairment loss on long-lived assets, including discontinued operations (Note 11)	**2,689**	11,814	6,591	**24,009**
Write-down on real estate inventories (Note 8)	**1,164**	1,463	1,565	**10,393**
Gain on private equity investments (Note 22)	**(13,887)**	(1,718)	(4,062)	**(123,991)**
Impairment loss on goodwill (Note 12)	**1,193**	—	1,314	**10,652**
Gain on sales of securities, net (Notes 7 and 14)	**(1,500)**	(2,101)	(243)	**(13,393)**
Loss on other-than-temporary impairment of investment securities (Notes 14 and 22)	**182**	549	172	**1,625**
Equity in net income of affiliated companies	**(5,178)**	(7,162)	(5,759)	**(46,232)**
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits for armored car services	**(2,352)**	3,642	8,202	**(21,000)**
(Increase) decrease in receivables and due from subscribers, net of allowances	**(1,268)**	(9,741)	1,731	**(11,321)**
(Increase) decrease in inventories	**187**	(2,445)	(11,120)	**1,670**
Increase in deferred charges	**(15,887)**	(15,501)	(17,248)	**(141,848)**
Increase (decrease) in notes and accounts payable	**3,435**	646	(3,900)	**30,670**
Increase (decrease) in deposits received	**6,627**	2,985	(1,601)	**59,170**
Decrease in deferred revenue	**(1,560)**	(515)	(251)	**(13,929)**
Increase (decrease) in accrued income taxes	**4,334**	959	(6,862)	**38,696**
Increase (decrease) in guarantee deposits received	**(1,023)**	(1,070)	(147)	**(9,134)**
Increase in unearned premiums and other insurance liabilities	**4,449**	5,984	865	**39,723**
Increase (decrease) in accrued consumption tax	**(879)**	(7,003)	8,891	**(7,848)**
Other, net	**9,296**	(473)	479	**82,998**
Net cash provided by operating activities	**178,623**	142,851	134,907	**1,594,848**
Cash flows from investing activities:				
(Increase) decrease in time deposits	**(70)**	(517)	538	**(625)**
Proceeds from sales of property, plant and equipment	**1,465**	3,030	3,580	**13,080**
Payments for purchases of property, plant and equipment	**(51,222)**	(59,454)	(56,303)	**(457,339)**
Payments for purchases of intangible assets	**(7,338)**	(8,409)	(8,409)	**(65,518)**
Proceeds from sales and redemptions of investment securities (Note 7)	**43,290**	55,036	38,237	**386,518**
Payments for purchases of investment securities	**(32,613)**	(49,361)	(51,573)	**(291,188)**
(Increase) decrease in short-term investments	**(2,283)**	(241)	2,039	**(20,384)**
Acquisitions, net of cash acquired (Note 4)	**(167)**	(73,540)	(58)	**(1,491)**
(Increase) decrease in short-term receivables, net	**(62)**	(7)	20	**(554)**
Payments for long-term receivables	**(760)**	(639)	(1,076)	**(6,786)**
Proceeds from long-term receivables	**1,721**	1,218	3,164	**15,366**
Other, net	**839**	190	553	**7,492**
Net cash used in investing activities	**(47,200)**	(132,694)	(69,288)	**(421,429)**
Cash flows from financing activities:				
Proceeds from long-term debt	**8,407**	9,357	17,470	**75,063**
Repayments of long-term debt	**(20,059)**	(15,197)	(16,029)	**(179,098)**
Increase (decrease) in bank loans, net	**(13,528)**	8,691	(8,636)	**(120,786)**
Increase (decrease) in investment deposits by policyholders	**(2,112)**	(469)	740	**(18,857)**
Dividends paid to SECOM CO., LTD. shareholders	**(30,557)**	(28,373)	(38,197)	**(272,830)**
Dividends paid to noncontrolling interests	**(3,556)**	(2,208)	(3,763)	**(31,750)**
Payments for acquisition of shares of consolidated subsidiaries from noncontrolling interest holders	**(489)**	(846)	(735)	**(4,366)**
Proceeds from sales of shares of consolidated subsidiaries to noncontrolling interest holders	**618**	—	—	**5,518**
Increase in treasury stock, net	**(13)**	(16)	(19)	**(116)**
Other, net	**1,464**	65	24	**13,070**
Net cash used in financing activities	**(59,825)**	(28,996)	(49,145)	**(534,152)**
Effect of exchange rate changes on cash and cash equivalents	**(980)**	(806)	1,401	**(8,749)**
Net increase in cash and cash equivalents	**70,618**	(19,645)	17,875	**630,518**
Cash and cash equivalents at beginning of year	**228,982**	248,627	230,752	**2,044,482**
Cash and cash equivalents at end of year	**¥299,600**	¥228,982	¥248,627	**$2,675,000**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2017

1. Nature of Operations

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

The Company's principal business activities are security services, including on-line security systems for commercial and residential premises, static guard services, armored car services for cash collection and deposit and sales of security merchandise. The Company has also been diversifying its services covering: fire protection services, including automatic fire alarm systems and fire extinguishing systems; medical services, including home and other medical services and the operations of variable interest entities of which the Company is the primary beneficiary through managing hospitals and health care-related institutions; non-life insurance services; geographic information services using geographic information systems (GIS) and surveying and measuring technology; information and communication related services, which center on data center services and also include business continuity plan support, information security services and cloud-based services; real estate and other services, including the development and sale of condominiums equipped with security and contingency planning features, lease of real estate, construction and installation services and other services.

2. Significant Accounting Policies

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

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

(1) Basis of Consolidation and Investments in Affiliated Companies

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

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

(2) Consolidation of Variable Interest Entities

The consolidated financial statements also include variable interest entities ("VIEs") of which the Company is the primary beneficiary.

The Accounting Standards Codification ("ASC") 810, "Consolidation," issued by the Financial Accounting Standards Board ("FASB") requires the reporting entity to consolidate a variable interest entity ("VIE") as its primary beneficiary when it is deemed to have a controlling financial interest in a VIE, meeting both of the following characteristics:

- The power to direct activities of a VIE that most significantly impact the VIE's economic performance.
- The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company provides investments, loans and guarantees to organizations managing hospitals and health care-related institutions, to a company holding real estate, and to a PFI (Private Finance Initiative) organization which was established to build, maintain and operate correctional facilities. Certain of these organizations are considered VIEs under ASC 810.

Total assets and liabilities held by VIEs of which the Company is the primary beneficiary were ¥73,742 million ($658,411 thousand) and ¥85,325 million ($761,830 thousand), respectively, at March 31, 2017, and ¥75,847 million and ¥84,809 million, respectively, at March 31, 2016. The creditors of VIEs do not have recourse to the Company's general credit with the exception of debts guaranteed by the Company. Total assets and liabilities held by VIEs of which the Company holds significant variable interests but is not the primary beneficiary were ¥29,778 million ($265,875 thousand) and ¥28,628 million ($255,607 thousand), respectively, at March 31, 2017, and ¥30,315 million and ¥29,631 million, respectively, at March 31, 2016. The Company's assets in the consolidated balance sheets and the Company's maximum exposure to losses related to VIEs at March 31, 2017 and 2016 were ¥5,997 million ($53,545 thousand) and ¥5,558 million, respectively.

(3) Revenue Recognition

The Company generates revenue principally through the sales of merchandise and services in the areas of security services, fire protection services, medical services, insurance services, geographic information services, information and communication related services, and real estate and other services under separate contractual arrangements. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, title and risk of loss have been transferred to the customer, the sales price is fixed or determinable, and collectibility is probable.

Revenue from term service contracts, including security services, is recognized over the contractual period or, in the case of specific services, when such services are rendered. Subscribers are generally requested to prepay a portion of service charges, especially for security services, which are credited to deferred revenue and recognized in income ratably over the covered service period. Revenue from the installation of security equipment used to provide 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 (12)).

The Company enters into arrangements with multiple elements, which may include any combination of security equipment, installation and security services. 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 ASC 605, "Revenue Recognition." Otherwise, revenue is deferred until the undelivered elements are fulfilled as a single unit of accounting.

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 construction contracts is principally recognized when construction is completed.

Revenue from long-term contracts for fire protection services and geographic information services is principally recognized under the percentage-of-completion method.

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

Revenue from sales of real estate is recognized when the title of the real estate is transferred to the customer.

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

Taxes collected from customers and remitted to governmental authorities on revenue-producing transactions are accounted for on a net basis and therefore are excluded from net sales and operating revenue in the consolidated statements of income.

(4) Foreign Currency Translation

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

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

(5) Cash Equivalents

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

(6) Investments in Debt and Equity Securities

The Company classifies investments in debt and equity securities as "available-for-sale" or "held-to-maturity." The Company has no securities classified as "trading." "Held-to-maturity" securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in "trading" or "held-to-maturity" are classified as "available-for-sale" securities. Marketable debt and equity securities which are classified as "available-for-sale" are recorded at fair value. Unrealized holding gains and losses on securities classified as "available-for-sale" are reported as part of accumulated other comprehensive income (loss), net of tax. Debt securities classified as "held-to-maturity" are reported at amortized cost.

A decline in the fair value of any available-for-sale securities below cost that is deemed to be other-than-temporary results in a reduction in the 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 considers the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, other specific factors affecting the market value, deterioration of the credit condition of the issuers, and whether or not the Company is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

Other investments in non-public companies, except for private equity investments, 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) Private Equity Investments

The Company accounts for private equity investments in accordance with ASC 946, "Financial Services—Investment Companies," in which investments are accounted for at fair value based on the Company's assessment of each underlying investment. The investments, by their nature, have little or no price transparency.

Investments are initially carried at cost as an approximation of fair value. Adjustments to carrying value are made if there is evidence of a change in fair value. Downward adjustments are also made, in the absence of third-party transactions, if it is determined that the expected realizable value of the investment has declined below the carrying value.

The carrying value of private equity investments was ¥49,738 million ($444,089 thousand) and ¥34,852 million at March 31, 2017 and 2016, respectively.

Private equity investments are included in investment securities in the consolidated balance sheets.

(8) Inventories

Inventories, consisting of security-related products, fire protection-related products, real estate and other related products, are stated at the lower of cost or market. Cost is determined, in the case of real estate, based on the specific identification method and, in the case of other inventories, primarily using the moving-average method.

(9) Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to ensure trade, short-term and long-term receivables, 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.

(10) Deferred Insurance Acquisition Costs

Costs that vary with and are primarily related to acquiring new insurance policies are deferred and 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.

(11) Property, Plant and Equipment and Depreciation

Property, plant and equipment, including significant leasehold improvements, are carried at cost and depreciated at rates based on the estimated useful lives of the assets. Depreciation is computed using the straight-line method for assets other than security equipment and control stations. Security equipment and control stations are depreciated using the declining-balance method. Assets leased to others under operating leases are depreciated using the straight-line method over the estimated useful lives. Depreciation expense was ¥53,677 million ($479,259 thousand), ¥50,098 million and ¥47,582 million for the years ended March 31, 2017, 2016 and 2015, 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 to 8 years
Machinery, equipment and automobiles	2 to 20 years

The Company recognizes asset retirement obligations if the fair value of the obligations can be reasonably estimated. Asset retirement obligations include those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and/or method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

Performance of a contractual asset retirement obligation is required for the building leased by a certain subsidiary when the lease matures and the Company returns the leased building to its owner. However, the Company plans not to relocate from the building and to continue to use it until it will be demolished without restoration. As such, the execution of such obligation is not expected. The Company evaluated all the available evidence as of March 31, 2017 and performed efforts to establish the best estimate. However, the scope and the amount of execution of the obligation cannot be reasonably estimated. Therefore, an asset retirement obligation for that building lease is not recognized.

(12) Deferred Charges

Deferred charges primarily consist of costs related to installation services of security equipment used to provide on-line security systems. The installation costs are deferred and amortized using the straight-line method over the contractual period of security services after completion of the installation. Amortization expense was ¥15,596 million ($139,250 thousand), ¥15,129 million and ¥14,759 million for the years ended March 31, 2017, 2016 and 2015, respectively.

(13) Impairment or Disposal of Long-Lived Assets

In accordance with ASC 360, "Property, Plant and Equipment," the Company reviews the carrying amount of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of, whenever events or changes in circumstances indicate 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, and calculated as the difference between the assets' 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 the carrying amount are recognized in the period in which the long-lived assets are classified as held for sale.

(14) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over the fair value of assets of business acquired. Pursuant to ASC 350, "Intangibles—Goodwill and Other," 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. This accounting standard 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 ASC 360. The Company conducts its annual impairment test each fiscal year.

(15) 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.

(16) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be realized or settled. 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. 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 Company recognizes in the consolidated financial statements the impact of a tax position, if any, based on the technical merits of the position, when that position is more likely than not to be sustained upon examination. The benefit of the tax position is measured at the largest amount of benefit that has greater than 50 percent likelihood of being realized upon settlement with the appropriate tax authority.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of income.

(17) Research and Development

Research and development costs are charged to income as incurred. Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2017, 2016 and 2015 were ¥6,491 million ($57,955 thousand), ¥6,771 million and ¥7,354 million, respectively.

(18) 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, 2017, 2016 and 2015 were ¥5,072 million ($45,286 thousand), ¥4,388 million and ¥3,550 million, respectively.

(19) Shipping and Handling Costs

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2017, 2016 and 2015 were ¥1,220 million ($10,893 thousand), ¥1,213 million and ¥1,223 million, respectively.

(20) Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with ASC 815, "Derivatives and Hedging."

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 equity as a component of accumulated 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 accumulated 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 necessary for effective hedges which include the risk management objective and strategy for undertaking various hedge transactions. In addition, formal assessment is made at inception of the hedge and periodically on an on-going basis, as to whether the derivatives used in hedging activities are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Changes in fair value of discontinued hedges are recognized in income.

(21) Per Share Data

Basic Earnings per Share ("EPS") is computed based on the average number of shares of common stock outstanding for the period. The average number of shares of common stock outstanding for the years ended March 31, 2017, 2016 and 2015 was 218,261 thousand shares, 218,263 thousand shares and 218,265 thousand shares, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2017, 2016 or 2015.

Cash dividends per share shown in the accompanying consolidated statements of income are computed based on dividends approved and paid in each fiscal year.

(22) Use of Estimates

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, the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amounts of inventories, deferred insurance acquisition costs, investment securities, other investments, property, plant and equipment, goodwill, other intangible assets, unearned premiums and other insurance liabilities, valuation of receivables, valuation allowances for deferred income taxes, valuation of derivative instruments, assets and obligations related to employee benefits, asset retirement obligations, income tax uncertainties, and other contingencies.

(23) Recent Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This accounting standard requires an entity to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This accounting standard also requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Both qualitative and quantitative information is required. This accounting standard was originally planned to be effective for fiscal years beginning after December 15, 2016, however, in August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 for one year. Early adoption as of the original effective date is permitted. This accounting standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized at the date of initial application. The Company is currently evaluating the transition method, the timing of its adoption and the effect of adopting this accounting standard on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." This accounting standard modifies the evaluation of whether reporting entities should consolidate limited partnerships and similar legal entities, and addresses whether fees paid to a decision maker or service provider are variable interests in a VIE, and whether variable interests in a VIE held by related parties of the reporting entity require the reporting entity to consolidate the VIE. A reporting entity may choose a modified retrospective approach or a full retrospective approach to applying the amendments. This accounting standard is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2016. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This accounting standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This accounting standard is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2016. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In May 2015, the FASB issued ASU No. 2015-09, "Disclosures about Short-Duration Contracts." This accounting standard requires an entity to disclose liability for unpaid claims, claim adjustment expenses, significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. This accounting standard is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2016. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments." This accounting standard requires an acquirer in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This accounting standard is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2016. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes." This accounting standard requires deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This accounting standard is effective for fiscal years beginning after December 15, 2016, and will be adopted by the Company in the fiscal year beginning April 1, 2017. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This accounting standard significantly changes the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value is elected. This accounting standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and will be adopted by the Company in the fiscal year beginning April 1, 2018. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This accounting standard requires lessees to recognize almost all lease assets and lease liabilities on the balance sheet that arise from lease contracts which are classified as operating leases. This accounting standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period, and will be adopted by the Company in the fiscal year beginning April 1, 2019.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments." This accounting standard replaces the current incurred loss methodology that delays recognition of the full amount of credit losses until the loss was probable of occurring with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This accounting standard is effective for fiscal years beginning after December 15, 2020, including interim periods within that reporting period, and will be adopted by the Company in the fiscal year beginning April 1, 2021.

In October 2016, the FASB issued ASU No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory." This accounting standard eliminates the exception for an intra-entity transfer of an asset other than inventory which prohibits the recognition of current and deferred income tax until the asset has been sold to an outside party and requires an entity to recognize the income tax consequences when the transfer occurs. This accounting standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and will be adopted by the Company in the fiscal year beginning April 1, 2018.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." This accounting standard eliminates Step 2 from the goodwill impairment test. Instead, the amendments require an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This accounting standard is effective for fiscal years beginning after December 15, 2020, including interim periods within that reporting period, and will be adopted by the Company in the fiscal year beginning April 1, 2021.

(24) Discontinued Operations

ASC 205-20, "Discontinued Operations," requires 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 to be reported in discontinued operations. The results of operations related to certain businesses classified as discontinued operations in the year ended March 31, 2015 was reclassified in the accompanying consolidated financial statements.

(25) Reclassifications

Certain amounts in the accompanying consolidated financial statements for the years ended March 31, 2016 and 2015 have been reclassified to conform to the presentation used for the year ended March 31, 2017.

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 ¥112=US$1, the approximate rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2017. These translations should not be construed as representing that the yen amounts actually constitute, or have been or could be converted into U.S. dollars at that rate.

4. Acquisitions

Acquisition of Asahi Security Co., Ltd.

On December 1, 2015, the Company acquired 100% of common shares outstanding of Asahi Security Co., Ltd. for ¥81,000 million in cash. Asahi Security Co., Ltd. has built diversified client networks, service infrastructure and operational know-how through provision of cash collection and delivery services for its clients, mainly retailers and restaurants and operation of 24-hour centers for those services. The purpose of this acquisition is to provide higher quality services for a wider range of clients and enhance corporate value through collaboration utilizing the business infrastructure of the SECOM Group.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	In millions of yen
Cash and cash equivalents	¥ 11,565
Cash deposits for armored car services	81,514
Other current assets	5,247
Investments and long-term receivables	2,270
Property, plant and equipment	15,562
Intangible assets, including goodwill	71,978
Total assets acquired	188,136
Current liabilities	92,764
Long-term liabilities	14,372
Total liabilities assumed	107,136
Net assets acquired	¥ 81,000

Intangible assets of ¥13,922 million subject to amortization include customer relationships of ¥13,214 million with a 15-year useful life. The goodwill of ¥58,056 million represents expected excess earnings power based on the future business operations. It is not deductible for tax purposes and has been assigned to the security services segment.

The Company recorded acquisition costs of ¥296 million related to this acquisition in selling, general and administrative expenses for the year ended March 31, 2016.

The following unaudited pro forma information shows the Company's consolidated results of operations for the years ended March 31, 2016 and 2015 as if the newly consolidated subsidiaries acquired in the year ended March 31, 2016, were consolidated on April 1, 2014.

	In millions of yen	
	Years ended March 31	
Unaudited	2016	2015
Pro forma net sales and operating revenue	¥1,017,642	¥990,295
Pro forma net income attributable to SECOM Co., Ltd.	85,524	81,635

	In yen	
	Years ended March 31	
Unaudited	2016	2015
Pro forma net income attributable to SECOM Co., Ltd. per share	¥391.84	¥374.02

The unaudited pro forma data is not necessarily indicative of the Company's consolidated results of operations that would actually have been reported if the transaction in fact had occurred on April 1, 2014, and is not necessarily representative of the Company's consolidated results of operations for any future period.

5. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2016 comprise the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Cash	**¥281,433**	¥213,752	**$2,512,795**
Time deposits	**18,004**	12,194	**160,750**
Call loan	**—**	—	**—**
Investment securities	**163**	3,036	**1,455**
	¥299,600	¥228,982	**$2,675,000**

Investment securities include negotiable certificates of deposit and money management funds. These agreements mature within three months and their carrying values approximate fair value. The Company has not experienced any losses through default of the financial institutions and does not anticipate default of any outstanding agreements.

6. Cash Deposits for Armored Car Services

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 and delivery services for entities other than financial institutions. Cash deposit for armored car services balances are segregated from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the cash for such operations through bank overdrafts and deposits. Bank loans and deposits received, which relate to these operations, were ¥22,704 million ($202,714 thousand) and ¥107,878 million ($963,196 thousand), respectively, at March 31, 2017, and ¥26,923 million and ¥101,306 million, respectively, at March 31, 2016. 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 (noncurrent) include debt and equity securities. The related aggregate fair value, gross unrealized gains, gross unrealized losses and costs pertaining to "available-for-sale" and "held-to-maturity" investments at March 31, 2017 and 2016 are as follows:

	In millions of yen			
	March 31, 2017			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	**¥ 28,051**	**¥ 1,174**	**¥ 1**	**¥ 29,224**
Held-to-maturity:				
Debt securities	**—**	**—**	**—**	**—**
	¥ 28,051	**¥ 1,174**	**¥ 1**	**¥ 29,224**
Investment securities:				
Available-for-sale:				
Equity securities	**¥ 33,892**	**¥27,885**	**¥ 57**	**¥ 61,720**
Debt securities	**88,199**	**5,347**	**231**	**93,315**
Held-to-maturity:				
Debt securities	**13,058**	**1,404**	**—**	**14,462**
	¥135,149	**¥34,636**	**¥288**	**¥169,497**

	In millions of yen			
	March 31, 2016			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	¥ 27,336	¥ 1,071	¥ 3	¥ 28,404
Held-to-maturity:				
Debt securities	3,006	2	—	3,008
	¥ 30,342	¥ 1,073	¥ 3	¥ 31,412
Investment securities:				
Available-for-sale:				
Equity securities	¥ 31,333	¥20,878	¥461	¥ 51,750
Debt securities	101,098	7,020	153	107,965
Held-to-maturity:				
Debt securities	8,667	1,607	—	10,274
	¥141,098	¥29,505	¥614	¥169,989

	In thousands of U.S. dollars			
	March 31, 2017			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	$ 250,455	$ 10,483	$ 9	$ 260,929
Held-to-maturity:				
Debt securities	—	—	—	—
	$ 250,455	$ 10,483	$ 9	$ 260,929
Investment securities:				
Available-for-sale:				
Equity securities	$ 302,607	$248,973	$ 508	$ 551,072
Debt securities	787,491	47,742	2,062	833,171
Held-to-maturity:				
Debt securities	116,587	12,538	—	129,125
	$1,206,685	$309,253	$2,570	$1,513,368

Gross unrealized losses on, and fair value of, "available-for-sale" and "held-to-maturity" securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2017 are as follows:

	In millions of yen			
	March 31, 2017			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	¥ 836	¥ 42	¥—	¥—
Debt securities	15,596	232	—	—
	¥16,432	¥274	¥—	¥—
Held-to-maturity:				
Debt securities	¥ —	¥ —	¥—	¥—

	In thousands of U.S. dollars			
	March 31, 2017			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Equity securities	$ 7,464	$ 375	$—	$—
Debt securities	139,250	2,071	—	—
	$146,714	$2,446	$—	$—
Held-to-maturity:				
Debt securities	$ —	$ —	$—	$—

Based on the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a recovery of fair value, the credit condition of the issuers and other relevant factors, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2017.

At March 31, 2017, 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, 2017 are as follows:

	In millions of yen			
	March 31, 2017			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥ 28,051	¥ 29,224	¥ —	¥ —
Due after 1 year through 5 years	59,622	63,174	1,510	1,577
Due after 5 years through 10 years	10,878	11,396	—	—
Due after 10 years	17,699	18,745	11,548	12,885
	¥116,250	¥122,539	¥13,058	¥14,462

	In thousands of U.S. dollars			
	March 31, 2017			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$ 250,455	$ 260,929	$ —	$ —
Due after 1 year through 5 years	532,339	564,054	13,482	14,080
Due after 5 years through 10 years	97,125	101,750	—	—
Due after 10 years	158,027	167,367	103,105	115,045
	$1,037,946	$1,094,100	$116,587	$129,125

During the years ended March 31, 2017, 2016 and 2015, the net unrealized gains and losses on "available-for-sale" securities included as part of accumulated other comprehensive income (loss), net of tax, increased by ¥4,377 million ($39,080 thousand), decreased by ¥7,412 million and increased by ¥13,004 million, respectively.

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 2017, 2016 and 2015 were ¥15,574 million ($139,054 thousand), ¥21,397 million and ¥13,800 million, respectively. On those sales, the gross realized gains and gross realized losses, using a moving-average cost basis, for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Gross realized gains	¥1,623	¥1,921	¥269	$14,491
Gross realized losses	72	110	1	643

The Company maintains long-term investment securities, issued by a number of non-public companies, included as investment securities in the consolidated balance sheets. The aggregate carrying amount of the investments in non-public companies, at cost net of other-than-temporary impairment, was ¥9,414 million ($84,054 thousand) and ¥9,251 million at March 31, 2017 and 2016, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable and no significant events or changes that might have affected the fair value of the investments were observed.

8. Inventories

Inventories at March 31, 2017 and 2016 comprise the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	2017
Security-related products	¥ 6,961	¥ 8,888	$ 62,152
Fire protection-related products	18,135	18,178	161,920
Real estate	27,507	26,552	245,598
Other-related products	10,083	10,162	90,026
	¥62,686	¥63,780	$559,696

Work in process for real estate inventories at March 31, 2017 and 2016, amounting to ¥22,284 million ($198,964 thousand) and ¥23,025 million, respectively, are included in real estate.

Costs on uncompleted construction contracts at March 31, 2017 and 2016, amounting to ¥9,053 million ($80,830 thousand) and ¥9,083 million, respectively, are included in fire protection-related products.

The amount of write-down on real estate inventories included in cost of sales for the years ended March 31, 2017, 2016 and 2015 were ¥1,164 million ($10,393 thousand), ¥1,463 million and ¥1,565 million, respectively.

9. Credit Quality of Financing Receivables and Allowance for Doubtful Accounts

The Company has financing receivables and classifies them into four categories: "lease receivables," "loans receivable resulting from medical services," "other loans receivable" and "other." Financing receivables classified as "lease receivables" are resulting from lease transactions of security merchandise and security systems.

The Company continuously monitors overdue financing receivables which, the Company considers, have a risk of uncollectability. For financing receivables with specific customer collection issues, the Company individually evaluates their collectability in order to determine the amount of allowance for doubtful accounts. For other financing receivables, the Company categorizes these receivables into groups by their nature and characteristics. The Company collectively evaluates the collectability of each group, using its historical experience of write-offs and determines the amount of allowance for doubtful accounts.

Financing receivables and allowance for doubtful accounts at March 31, 2017 and 2016 are as follows:

	In millions of yen				
	Year ended March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	¥ 368	¥1,995	¥ 705	¥1,688	¥ 4,756
Provision (Reversal)	(71)	395	64	(124)	264
Charge off	59	—	(7)	(714)	(662)
Other*	—	—	(64)	0	(64)
Balance at end of year	356	2,390	698	850	4,294
Individually evaluated	133	2,390	698	850	4,071
Collectively evaluated	¥ 223	¥ —	¥ 0	¥ —	¥ 223
Financing receivables:					
Individually evaluated	¥ 152	¥5,856	¥ 803	¥1,098	¥ 7,909
Collectively evaluated	52,287	546	932	149	53,914
	¥52,439	¥6,402	¥1,735	¥1,247	¥61,823

* "Other" principally includes the effect of changes in foreign currency exchange rates and the scope of consolidation.

	In millions of yen				
	Year ended March 31, 2016				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	¥ 423	¥2,204	¥3,102	¥1,618	¥ 7,347
Provision (Reversal)	9	(0)	(33)	25	1
Charge off	(64)	—	(2,133)	—	(2,197)
Other*	—	(209)	(231)	45	(395)
Balance at end of year	368	1,995	705	1,688	4,756
Individually evaluated	80	1,995	705	1,688	4,468
Collectively evaluated	¥ 288	¥ —	¥ 0	¥ —	¥ 288
Financing receivables:					
Individually evaluated	¥ 96	¥6,098	¥ 847	¥3,898	¥10,939
Collectively evaluated	48,167	1,009	1,381	152	50,709
	¥48,263	¥7,107	¥2,228	¥4,050	¥61,648

* "Other" principally includes the effect of changes in foreign currency exchange rates and the scope of consolidation.

In thousands of U.S. dollars

	Year ended March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	$ 3,286	$17,812	$ 6,295	$15,071	$ 42,464
Provision (Reversal)	(634)	3,527	571	(1,107)	2,357
Charge off	527	—	(63)	(6,375)	(5,911)
Other*	—	—	(571)	0	(571)
Balance at end of year	3,179	21,339	6,232	7,589	38,339
Individually evaluated	1,188	21,339	6,232	7,589	36,348
Collectively evaluated	$ 1,991	$ —	$ 0	$ —	$ 1,991
Financing receivables:					
Individually evaluated	$ 1,357	$52,286	$ 7,170	$ 9,803	$ 70,616
Collectively evaluated	466,848	4,875	8,321	1,331	481,375
	$468,205	$57,161	$15,491	$11,134	$551,991

* "Other" principally includes the effect of changes in foreign currency exchange rates and the scope of consolidation.

The Company considers receivables are past due and the financial position of the debtor to be credit quality indicators and classifies financing receivables into Overdue and Current. Financing receivables determined to have no prospects for collecting contractual interest on the basis of being past due and other factors are placed on nonaccrual status.

The aging analysis of the recorded financing receivables and financing receivables on nonaccrual status at March 31, 2017 and 2016 are as follows:

In millions of yen

	March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	¥52,287	¥6,362	¥ 989	¥ 880	¥60,518
Overdue	152	40	746	367	1,305
Total: Financing receivables	¥52,439	¥6,402	¥1,735	¥1,247	¥61,823
Financing receivables on nonaccrual status	¥ —	¥ 7	¥ 803	¥ —	¥ 810

In millions of yen

	March 31, 2016				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	¥48,167	¥7,068	¥1,433	¥1,154	¥57,822
Overdue	96	39	795	2,896	3,826
Total: Financing receivables	¥48,263	¥7,107	¥2,228	¥4,050	¥61,648
Financing receivables on nonaccrual status	¥ —	¥ 7	¥ 847	¥ —	¥ 854

In thousands of U.S. dollars

	March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	$466,848	$56,804	$ 8,830	$ 7,857	$540,339
Overdue	1,357	357	6,661	3,277	11,652
Total: Financing receivables	$468,205	$57,161	$15,491	$11,134	$551,991
Financing receivables on nonaccrual status	$ —	$ 63	$ 7,169	$ —	$ 7,232

Impaired receivables and the related allowance for doubtful accounts at March 31, 2017 and 2016 are as follows:

In millions of yen

	March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	¥152	¥5,856	¥803	¥1,098	¥7,909
Related allowance for doubtful accounts	133	2,390	698	850	4,071

In millions of yen

	March 31, 2016				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	¥96	¥6,098	¥847	¥3,898	¥10,939
Related allowance for doubtful accounts	80	1,995	705	1,688	4,468

In thousands of U.S. dollars

	March 31, 2017				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	$1,357	$52,286	$7,170	$9,803	$70,616
Related allowance for doubtful accounts	1,188	21,339	6,232	7,589	36,348

The average amounts of impaired receivables for the year ended March 31, 2017 are as follows:

In millions of yen

	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Average amounts of impaired receivables	¥124	¥5,977	¥825	¥2,498	¥9,424

In thousands of U.S. dollars

	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Average amounts of impaired receivables	$1,107	$53,366	$7,366	$22,303	$84,142

10. Investments in Affiliated Companies

The Company has investments in affiliated companies that are accounted for under the equity method. Investments principally consist of Taiwan Secom Co., Ltd., a 28.7 percent owned affiliate, which is listed on the Taiwan Stock Exchange; S1 Corporation, a 28.8 percent owned affiliate, which is listed on the Korea Exchange; and Toyo Tech Co., Ltd., a 27.4 percent owned affiliate, which is listed on the Second Section of the Tokyo Securities Exchange.

Combined financial information for the affiliated companies accounted for under the equity method is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Current assets	**¥104,780**	¥ 94,932	**$ 935,536**
Noncurrent assets	**183,063**	194,312	**1,634,491**
Total assets	**¥287,843**	¥289,244	**$2,570,027**
Current liabilities	**¥ 68,683**	¥ 74,724	**$ 613,241**
Long-term liabilities	**39,477**	35,674	**352,473**
Equity	**179,683**	178,846	**1,604,313**
Total liabilities and equity	**¥287,843**	¥289,244	**$2,570,027**

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Net sales	**¥255,263**	¥289,131	¥262,726	**$2,279,134**
Gross profit	**¥ 78,246**	¥ 89,152	¥ 82,753	**$ 698,625**
Net income attributable to affiliated companies	**¥ 17,320**	¥ 25,012	¥ 17,825	**$ 154,643**

Dividends received from affiliated companies for the years ended March 31, 2017, 2016 and 2015 were ¥3,036 million ($27,107 thousand), ¥3,614 million and ¥3,160 million, respectively.

Three listed affiliated companies accounted for under the equity method with an aggregated carrying amount of ¥48,971 million ($437,241 thousand) and ¥49,290 million at March 31, 2017 and 2016, respectively, had a quoted market value of ¥133,190 million ($1,189,196 thousand) and ¥130,157 million at March 31, 2017 and 2016, respectively.

The amounts of goodwill included in the carrying amount of investments in affiliated companies were ¥4,600 million ($41,071 thousand) and ¥4,763 million at March 31, 2017 and 2016, respectively.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Sales	**¥1,455**	¥1,398	¥1,774	**$12,991**
Purchases	**¥4,749**	¥5,527	¥4,417	**$42,402**

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Notes and accounts receivable, trade	**¥ 526**	¥ 559	**$ 4,696**
Loans receivable	**¥ 693**	¥ 737	**$ 6,188**
Notes and accounts payable	**¥2,668**	¥2,245	**$23,821**
Guarantees for bank loans	**¥ 50**	¥ 100	**$ 446**

The Company's equity in undistributed income of affiliates at March 31, 2017 and 2016 included in retained earnings was ¥34,888 million ($311,500 thousand) and ¥32,634 million, respectively.

11. Long-Lived Assets

The Company has assessed the potential impairment of its long-lived assets. As a result of a significant decrease in revenue forecasts, the Company principally recognized impairment losses on certain idle assets of the geographic information services segment for the year ended March 31, 2017, on certain business assets of the information and communication related services segment and certain real estate included as corporate items for the year ended March 31, 2016, and on certain business assets of the information and communication related services segment for the year ended March 31, 2015. The fair value was determined based on the estimated present value of future cash flows or appraisal value.

Impairment losses on long-lived assets by business segment for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Security services	**¥ 42**	¥ —	¥ 111	**$ 375**
Fire protection services	**62**	—	—	**554**
Medical services	**556**	329	—	**4,964**
Insurance services	**—**	—	—	**—**
Geographic information services	**1,473**	1,152	154	**13,152**
Information and communication related services	**485**	5,637	4,796	**4,330**
Real estate and other services	**71**	—	132	**634**
Corporate items	**—**	4,696	1,398	**—**
Total	**¥2,689**	¥11,814	¥6,591	**$24,009**

12. Goodwill and Other Intangible Assets

The components of acquired intangible assets, excluding goodwill, at March 31, 2017 and 2016 are as follows:

	In millions of yen		
	March 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	**¥50,386**	**(¥29,699)**	**¥20,687**
Other	**33,115**	**(7,299)**	**25,816**
	¥83,501	**(¥36,998)**	**¥46,503**
Unamortized intangible assets	**¥ 4,223**	**¥ —**	**¥ 4,223**

	In millions of yen		
	March 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥47,816	(¥26,321)	¥21,495
Other	34,030	(5,723)	28,307
	¥81,846	(¥32,044)	¥49,802
Unamortized intangible assets	¥ 4,122	¥ —	¥ 4,122

	In thousands of U.S. dollars		
	March 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	**$449,875**	**($265,170)**	**$184,705**
Other	**295,670**	**(65,170)**	**230,500**
	$745,545	**($330,340)**	**$415,205**
Unamortized intangible assets	**$ 37,706**	**$ —**	**$ 37,706**

Aggregate amortization expense for the years ended March 31, 2017, 2016 and 2015 was ¥8,910 million ($79,554 thousand), ¥7,254 million and ¥6,522 million, respectively. Amortized intangible assets are amortized using the straight-line method over their estimated useful lives. The weighted average amortization period for internal use software is approximately five years.

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

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥8,767	$78,277
2019	7,678	68,554
2020	6,490	57,946
2021	4,793	42,795
2022	3,056	27,286

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2017 and 2016 are as follows:

	In millions of yen						
	Security services	Fire protection services	Medical services	Geographic information services	Information and communication related services	Real estate and other services	Total
Goodwill	¥ 4,296	¥1,942	¥9,399	¥4,580	¥17,643	¥1,962	¥39,822
Accumulated impairment losses	(1,723)	—	(5,350)	(738)	(175)	(135)	(8,121)
March 31, 2015	2,573	1,942	4,049	3,842	17,468	1,827	31,701
Goodwill acquired during the year	58,646	—	—	—	—	—	58,646
Disposal	—	—	—	—	—	—	—
Impairment losses	—	—	—	—	—	—	—
Translation adjustment	(65)	—	—	—	—	—	(65)
Goodwill	62,877	1,942	9,399	4,580	17,643	1,962	98,403
Accumulated impairment losses	(1,723)	—	(5,350)	(738)	(175)	(135)	(8,121)
March 31, 2016	61,154	1,942	4,049	3,842	17,468	1,827	90,282
Goodwill acquired during the year	**110**	**—**	**—**	**—**	**—**	**—**	**110**
Disposal	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment losses	**(1,156)**	**—**	**—**	**(37)**	**—**	**—**	**(1,193)**
Translation adjustment	**(246)**	**—**	**—**	**(3)**	**—**	**—**	**(249)**
Goodwill	**62,741**	**1,942**	**9,399**	**4,577**	**17,643**	**1,962**	**98,264**
Accumulated impairment losses	**(2,879)**	**—**	**(5,350)**	**(775)**	**(175)**	**(135)**	**(9,314)**
March 31, 2017	**¥59,862**	**¥1,942**	**¥4,049**	**¥3,802**	**¥17,468**	**¥1,827**	**¥88,950**

	In thousands of U.S. dollars						
	Security services	Fire protection services	Medical services	Geographic information services	Information and communication related services	Real estate and other services	Total
Goodwill	$561,402	$17,339	$83,920	$40,893	$157,527	$17,518	$878,599
Accumulated impairment losses	(15,384)	—	(47,768)	(6,589)	(1,563)	(1,205)	(72,509)
March 31, 2016	546,018	17,339	36,152	34,304	155,964	16,313	806,090
Goodwill acquired during the year	**982**	**—**	**—**	**—**	**—**	**—**	**982**
Disposal	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment losses	**(10,321)**	**—**	**—**	**(331)**	**—**	**—**	**(10,652)**
Translation adjustment	**(2,197)**	**—**	**—**	**(27)**	**—**	**—**	**(2,224)**
Goodwill	**560,187**	**17,339**	**83,920**	**40,866**	**157,527**	**17,518**	**877,357**
Accumulated impairment losses	**(25,705)**	**—**	**(47,768)**	**(6,920)**	**(1,563)**	**(1,205)**	**(83,161)**
March 31, 2017	**$534,482**	**$17,339**	**$36,152**	**$33,946**	**$155,964**	**$16,313**	**$794,196**

Impairment losses on goodwill recognized in the above table are mainly due to decreases in the estimated fair value of reporting units in each segment mainly caused by decreases in projected cash flows. The fair value is determined based on the estimated present value of future cash flows.

13. Bank Loans and Long-Term Debt

Bank loans of ¥42,099 million ($375,884 thousand) and ¥55,659 million at March 31, 2017 and 2016, respectively, are generally comprised of 30 to 365 day notes. The weighted average interest rate was 0.87 percent and 0.84 percent at March 31, 2017 and 2016, respectively. Substantially all of these loans are borrowed from banks. The Company has entered into basic agreements with these banks which state that, with respect to all present or future loans with such banks, collateral (including sums on deposit with such banks) or guarantors shall be provided immediately upon request. Further, any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks. The Company has not been requested to submit such additional security.

At March 31, 2017, Nohmi Bosai Ltd., a subsidiary of the parent company, had an unused committed line of credit from a short-term arrangement of ¥4,000 million ($35,714 thousand). The line of credit expires in March 2021. Under the agreement, Nohmi Bosai Ltd. is required to pay commitment fees, at an annual rate of 0.15 percent, on the unused portion of the line of credit. At March 31, 2017, the Company had overdraft agreements with 35 banks and its unused lines of credit amounted to ¥54,914 million ($490,304 thousand). The Company incurs no fee on the unused portion of these overdraft agreements. The overdraft agreements expire in the period from April 2017 to March 2018. The Company has the ability and intent to extend these overdraft agreements under similar terms and conditions.

Long-term debt at March 31, 2017 and 2016 comprises the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Loans, principally from banks due 2016–2033 with interest rates ranging from 0.01% to 14.00%:			
Secured	**¥16,799**	¥21,123	**$149,991**
Unsecured	**24,435**	22,728	**218,170**
0.81% unsecured bonds due 2016	**—**	100	**—**
0.52% unsecured bonds due 2016	**—**	40	**—**
0.43% unsecured bonds due 2018	**100**	100	**893**
0.38% unsecured bonds due 2021	**486**	500	**4,339**
Unsecured bonds due 2016–2027 with floating interest rates based on 6-month Japanese yen TIBOR	**7,752**	10,094	**69,214**
Obligations under capital leases, due 2016–2043 (Note 19)	**24,192**	24,881	**216,000**
	73,764	79,566	**658,607**
Less: Portion due within one year	**(19,615)**	(17,926)	**(175,134)**
	¥54,149	¥61,640	**$483,473**

Assets pledged as collateral for bank loans and long-term debt at March 31, 2017 and 2016 are as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Time deposits	**¥ 1,654**	¥ 1,592	**$ 14,768**
Short-term and long-term receivables	**6,209**	5,943	**55,438**
Investment securities	**1,321**	1,289	**11,795**
Property, plant and equipment	**49,575**	53,854	**442,634**
Other intangible assets	**¥ 818**	¥ 818	**$ 7,304**

The aggregate annual maturities on long-term debt at March 31, 2017 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥19,615	$175,134
2019	16,845	150,402
2020	12,105	108,080
2021	9,160	81,786
2022	3,935	35,134
Thereafter	12,104	108,071
	¥73,764	$658,607

14. Insurance-Related Operations

Secom General Insurance Co., Ltd. (“Secom Insurance”), a subsidiary of the parent company, maintains accounting records as noted in Note 2 in accordance with Japanese GAAP, which vary in certain respects from U.S. GAAP. Those differences are principally, (a) that insurance acquisition costs are charged to expense when incurred under Japanese GAAP whereas under U.S. GAAP, 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 under U.S. GAAP, 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 under U.S. GAAP, 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 U.S. GAAP.

The net equity of Secom Insurance at March 31, 2017 and 2016 was ¥73,757 million ($658,545 thousand) and ¥67,193 million, respectively.

Net sales and operating revenue of Secom Insurance include net realized investment gains and losses, including gains and losses on sales of securities, losses on other-than-temporary impairment of investment securities and impairment losses on long-lived assets. Net realized investment gains and losses, including losses on other-than-temporary impairments, for the years ended March 31, 2017, 2016 and 2015 were gains of ¥1,004 million ($8,964 thousand), ¥473 million and ¥194 million, respectively. Losses on other-than-temporary impairments of investment securities for the years ended March 31, 2017, 2016 and 2015 were ¥105 million ($938 thousand), ¥147 million and ¥18 million, respectively.

15. Pension and Severance Costs

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

The parent company and certain domestic subsidiaries have adopted a cash balance pension plan and a defined contribution pension plan. Benefits under the cash balance pension plan are calculated as a certain percentage of employees' annual income over their period of service, plus interest calculated as the 3-year average yield for 10-year government bonds. The defined contribution pension plan was established in April 2003, by transferring a portion equivalent to 20 percent of the cash balance pension plan, including portions funded in prior periods. A specified percentage of employees' annual income is contributed to the defined contribution pension plan.

In April 2005, the parent company and certain domestic subsidiaries transferred an additional portion of the cash balance pension plan to the defined contribution pension plan. Accordingly, the ratio of the accumulated amount in the cash balance pension plan and the amount of contributions to the defined contribution pension plan changed to 70 percent and 30 percent, including portions funded in prior periods.

Net periodic pension and severance costs for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Net periodic pension and severance costs:				
Service cost	**¥7,889**	¥7,739	¥5,357	**$70,438**
Interest cost	**349**	718	936	**3,116**
Expected return on plan assets	**(2,919)**	(2,756)	(2,533)	**(26,063)**
Amortization of prior service benefit	**(966)**	(1,504)	(1,584)	**(8,625)**
Recognized actuarial loss	**754**	714	989	**6,732**
Net periodic pension and severance costs	**¥5,107**	¥4,911	¥3,165	**$45,598**

The changes in benefit obligation, plan assets and funded status are as follows:

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2017	2016	**2017**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥111,032**	¥101,161	**$ 991,357**
Service cost	**7,889**	7,739	**70,438**
Interest cost	**349**	718	**3,116**
Actuarial (gain) loss	**(2,189)**	5,176	**(19,545)**
Benefits paid	**(5,449)**	(5,511)	**(48,652)**
Acquisition	**—**	1,749	**—**
Benefit obligation at end of year	**111,632**	111,032	**996,714**
Change in plan assets:			
Fair value of plan assets at beginning of year	**111,761**	110,524	**997,866**
Actual return on plan assets	**6,797**	(440)	**60,688**
Employer contribution	**2,343**	5,553	**20,920**
Benefits paid	**(3,623)**	(3,876)	**(32,349)**
Fair value of plan assets at end of year	**117,278**	111,761	**1,047,125**
Funded status at the end of year	**¥ 5,646**	¥ 729	**$ 50,411**

Amounts recognized in the consolidated balance sheets at March 31, 2017 and 2016 consist of:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Prepaid pension and severance costs	**¥35,282**	¥30,797	**$315,018**
Accrued pension and severance costs	**(29,636)**	(30,068)	**(264,607)**
Net amount recognized	**¥ 5,646**	¥ 729	**$ 50,411**

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the year ended March 31, 2017 are summarized as follows:

	In millions of yen	In thousands of U.S. dollars
Current year actuarial gain	**(¥6,067)**	**($54,170)**
Amortization of actuarial loss	**(754)**	**(6,732)**
Amortization of prior service benefit	**966**	**8,625**
	(¥5,855)	**($52,277)**

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2017 and 2016 consist of:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Actuarial loss	**¥8,635**	¥15,456	**$77,098**
Prior service benefit	**(79)**	(1,045)	**(705)**
Net amount recognized	**¥8,556**	¥14,411	**$76,393**

The estimated prior service benefit and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are ¥303 million ($2,705 thousand) and ¥272 million ($2,429 thousand), respectively.

The accumulated benefit obligation for the pension plan was ¥111,278 million ($993,554 thousand) and ¥110,544 million at March 31, 2017 and 2016, 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 ¥47,779 million ($426,598 thousand), ¥47,425 million ($423,438 thousand) and ¥25,367 million ($226,491 thousand), respectively, at March 31, 2017, and ¥46,761 million, ¥46,450 million and ¥23,971 million, respectively, at March 31, 2016.

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

Weighted-average assumptions used to determine the benefit obligation at March 31, 2017 and 2016 are as follows:

	March 31	
	2017	2016
Discount rate	**0.4%**	0.3%
Rate of compensation increase	**2.7%**	2.6%

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2017, 2016 and 2015 are as follows:

	Years ended March 31		
	2017	2016	2015
Discount rate	**0.3%**	0.8%	1.1%
Expected return on plan assets	**3.0%**	3.0%	3.0%
Rate of compensation increase	**2.6%**	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 Company's investment policy is designed to ensure that sufficient plan assets are available to provide future payments of pension benefits to the eligible plan participants. The policy uses target allocations for the individual asset categories. Plan assets are invested primarily in equity and debt securities, and pooled funds with the objective to minimize risk and achieve the expected rate of return. The investment results are periodically checked and asset allocation is adjusted as necessary.

The following table represents the fair value of the Company's pension plan assets at March 31, 2017 and 2016. The three levels of inputs used to measure fair value are more fully described in Note 22.

	In millions of yen			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**¥ 6,482**	**¥ —**	**¥ —**	**¥ 6,482**
Equity securities				
Japanese companies	**25,495**	**424**	**—**	**25,919**
Foreign companies	**3,626**	**—**	**—**	**3,626**
Debt securities				
Government bonds	**2,128**	**571**	**—**	**2,699**
Non-government bonds	**—**	**2,055**	**—**	**2,055**
Pooled funds	**731**	**32,977**	**26,273**	**59,981**
Call loans	**—**	**3,256**	**—**	**3,256**
Insurance contracts	**—**	**12,251**	**—**	**12,251**
Other	**—**	**231**	**778**	**1,009**
	¥38,462	**¥51,765**	**¥27,051**	**¥117,278**

*The plan's government bonds include approximately 5% Japanese bonds and 95% foreign bonds. The non-goverment bonds are all foreign bonds.
*The pension investment trust fund included in the plan's pooled funds is classified as Level 2, and invests approximately 60% in equity securities, 30% in debt securities and 10% in other investments. The unquoted beneficial certificate of security investment trust included in the plan's pooled funds is classified as Level 3.

	In millions of yen			
	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	¥ 1,359	¥ —	¥ —	¥ 1,359
Equity securities				
Japanese companies	22,479	424	—	22,903
Foreign companies	2,544	—	—	2,544
Debt securities				
Government bonds	2,325	983	—	3,308
Non-government bonds	—	2,120	—	2,120
Pooled funds	1,555	28,696	26,749	57,000
Call loans	—	10,330	—	10,330
Insurance contracts	—	11,351	—	11,351
Other	—	381	465	846
	¥30,262	¥54,285	¥27,214	¥111,761

*The plan's government bonds include approximately 5% Japanese bonds and 95% foreign bonds. The non-goverment bonds are all foreign bonds.
*The pension investment trust fund included in the plan's pooled funds is classified as Level 2, and invests approximately 60% in equity securities, 30% in debt securities and 10% in other investments. The unquoted beneficial certificate of security investment trust included in the plan's pooled funds is classified as Level 3.

	In thousands of U.S. dollars			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	**$ 57,875**	**$ —**	**$ —**	**$ 57,875**
Equity securities				
Japanese companies	**227,634**	**3,786**	**—**	**231,420**
Foreign companies	**32,375**	**—**	**—**	**32,375**
Debt securities				
Government bonds	**19,000**	**5,098**	**—**	**24,098**
Non-government bonds	**—**	**18,348**	**—**	**18,348**
Pooled funds	**6,527**	**294,437**	**234,581**	**535,545**
Call loans	**—**	**29,071**	**—**	**29,071**
Insurance contracts	**—**	**109,384**	**—**	**109,384**
Other	**—**	**2,063**	**6,946**	**9,009**
	$343,411	**$462,187**	**$241,527**	**$1,047,125**

*The plan's government bonds include approximately 5% Japanese bonds and 95% foreign bonds. The non-goverment bonds are all foreign bonds.
*The pension investment trust fund included in the plan's pooled funds is classified as Level 2, and invests approximately 60% in equity securities, 30% in debt securities and 10% in other investments. The unquoted beneficial certificate of security investment trust included in the plan's pooled funds is classified as Level 3.

The following table represents the changes in Level 3 investments for the years ended March 31, 2017 and 2016.

Level 3 investments, mainly in unquoted certificates of beneficial interests in securities investment trust included in the plan's pooled funds, are at the discretion of the administrator of the fund. Their fair values are estimated based on unobservable inputs provided by the administrator of the fund.

In millions of yen

	Year ended March 31, 2017			
	Debt securities			
	Non-government bonds	Pooled funds	Other	Total
Balance at beginning of year	**¥—**	**¥26,749**	**¥465**	**¥27,214**
Actual return on plan assets:				
Relating to assets sold during the year	**—**	**595**	**54**	**649**
Relating to assets held at end of year	**—**	**(1,849)**	**(25)**	**(1,874)**
Purchases, sales and settlements, net	**—**	**473**	**284**	**757**
Transfer to Level 3, net	**—**	**305**	**—**	**305**
Balance at end of year	**¥—**	**¥26,273**	**¥778**	**¥27,051**

In millions of yen

	Year ended March 31, 2016			
	Debt securities			
	Non-government bonds	Pooled funds	Other	Total
Balance at beginning of year	¥613	¥26,276	¥323	¥27,212
Actual return on plan assets:				
Relating to assets sold during the year	(508)	262	42	(204)
Relating to assets held at end of year	534	(1,038)	101	(403)
Purchases, sales and settlements, net	(639)	1,207	(1)	567
Transfer to Level 3, net	—	42	—	42
Balance at end of year	¥ —	¥26,749	¥465	¥27,214

In thousands of U.S. dollars

	Year ended March 31, 2017			
	Debt securities			
	Non-government bonds	Pooled funds	Other	Total
Balance at beginning of year	**$—**	**$238,831**	**$4,151**	**$242,982**
Actual return on plan assets:				
Relating to assets sold during the year	**—**	**5,313**	**482**	**5,795**
Relating to assets held at end of year	**—**	**(16,509)**	**(223)**	**(16,732)**
Purchases, sales and settlements, net	**—**	**4,223**	**2,536**	**6,759**
Transfer to Level 3, net	**—**	**2,723**	**—**	**2,723**
Balance at end of year	**$—**	**$234,581**	**$6,946**	**$241,527**

The Company expects to contribute ¥2,200 million ($19,643 thousand) to its domestic defined benefit plans in the year ending March 31, 2018.

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

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥ 4,983	$ 44,491
2019	5,503	49,134
2020	5,213	46,545
2021	5,463	48,777
2022	5,551	49,563
2023–2027	29,118	259,982

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, 2017, 2016 and 2015 were ¥2,192 million ($19,571 thousand), ¥1,796 million and ¥1,772 million, respectively.

16. Exchange Gains and Losses

Other expenses for the years ended March 31, 2017 and 2016 include net exchange losses of ¥454 million ($4,054 thousand) and ¥557 million, respectively. Other income for the year ended March 31, 2015 include net exchange gains of ¥574 million.

17. Income Taxes

Total income taxes for the years ended March 31, 2017, 2016 and 2015 are allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Consolidated income taxes from continuing operations	**¥47,012**	¥40,312	¥45,972	**$419,750**
Consolidated income taxes from discontinued operations	**—**	—	651	**—**
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized gains on securities	**1,244**	(3,447)	6,240	**11,107**
Unrealized gains on derivative instruments	**—**	(5)	(5)	**—**
Pension liability adjustments	**1,876**	(2,926)	3,771	**16,751**
Foreign currency translation adjustments	**(358)**	(783)	1,020	**(3,196)**
	¥49,774	¥33,151	¥57,649	**$444,412**

The parent company and its domestic subsidiaries are subject to a number of income taxes. As a result of revisions to domestic laws during the third quarter ended December 31, and the fourth quarters ended March 31, 2014 and 2015, the statutory income tax rate in Japan, which was approximately 35.4 percent for the year ended March 31, 2015, decreased to approximately 32.9 percent and 30.7 percent for the years ended March 31, 2016 and 2017, respectively.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Income taxes computed at statutory tax rate	**¥44,584**	¥40,290	¥45,261	**$398,071**
Increase (decrease) resulting from:				
Reversal of valuation allowance	**(1,048)**	(3,697)	(927)	**(9,357)**
Per capita tax	**867**	845	863	**7,741**
Provision of valuation allowance	**714**	1,104	1,152	**6,375**
Net effect of changes in corporate tax rates	**512**	464	(648)	**4,572**
Other, net	**1,383**	1,306	271	**12,348**
Consolidated income taxes from continuing operations	**¥47,012**	¥40,312	¥45,972	**$419,750**

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Deferred tax assets:			
Loss carryforwards	**¥ 9,393**	¥ 8,274	**$ 83,866**
Accrued pension and severance costs	**8,851**	8,817	**79,027**
Property, plant and equipment	**8,300**	9,027	**74,107**
Deferred revenue	**7,328**	7,622	**65,429**
Adjustment of book value at the date of acquisition—			
Land and buildings	**5,995**	6,195	**53,527**
Other assets	**402**	242	**3,589**
Accrued bonus	**5,623**	5,617	**50,205**
Vacation accrual	**3,585**	3,231	**32,009**
Allowance for doubtful accounts	**1,831**	1,612	**16,348**
Intangible assets	**1,772**	1,563	**15,821**
Write-down on real estate inventories	**837**	1,000	**7,473**
Other	**10,975**	10,058	**97,991**
Gross deferred tax assets	**64,892**	63,258	**579,392**
Less: Valuation allowance	**(25,647)**	(25,048)	**(228,991)**
Total deferred tax assets	**39,245**	38,210	**350,401**
Deferred tax liabilities:			
Adjustment of book value at the date of acquisition—			
Intangible assets	**(7,858)**	(7,907)	**(70,161)**
Land and buildings	**(4,211)**	(4,175)	**(37,598)**
Other assets	**(868)**	(894)	**(7,750)**
Prepaid pension and severance costs	**(10,820)**	(9,413)	**(96,607)**
Unrealized gains on securities	**(9,419)**	(8,058)	**(84,098)**
Investments in affiliated companies	**(5,303)**	(5,856)	**(47,348)**
Deferred installation costs	**(5,276)**	(5,409)	**(47,107)**
Other	**(10,000)**	(4,958)	**(89,287)**
Gross deferred tax liabilities	**(53,755)**	(46,670)	**(479,956)**
Net deferred tax assets (liabilities)	**(¥ 14,510)**	(¥ 8,460)	**($129,555)**

The valuation allowance principally relates to deferred tax assets of 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, 2017, 2016 and 2015 was an increase of ¥599 million ($5,348 thousand), and a decrease of ¥1,514 million and ¥3,410 million, respectively.

In assessing the realizability of deferred tax assets, the Company's 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's 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's 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, 2017 and 2016.

Net deferred tax assets (liabilities) at March 31, 2017 and 2016 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
	2017	2016	**2017**
Deferred income taxes (Current assets)	**¥12,611**	¥12,082	**$112,598**
Deferred income taxes (Other assets)	**8,213**	7,098	**73,330**
Other current liabilities (Current liabilities)	**(1,519)**	(1,658)	**(13,563)**
Deferred income taxes (Long-term liabilities)	**(33,815)**	(25,982)	**(301,920)**
Net deferred tax assets (liabilities)	**(¥14,510)**	(¥ 8,460)	**($129,555)**

The Company has not recognized deferred tax liabilities for a portion of undistributed earnings of foreign subsidiaries of ¥30,161 million ($269,295 thousand) totaling ¥555 million ($4,955 thousand) at March 31, 2017 as they are not expected to be remitted in the foreseeable future.

At March 31, 2017, the operating loss carryforwards of domestic subsidiaries amounted to ¥19,810 million ($176,875 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to nine years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥ 961	$ 8,580
2019	5,791	51,705
2020	589	5,259
2021	221	1,973
2022	2,306	20,589
2023	1,293	11,545
2024	2,288	20,429
2025	3,620	32,321
2026	2,741	24,474
	¥19,810	$176,875

The operating loss carryforwards of overseas subsidiaries at March 31, 2017 amounted to ¥9,580 million ($85,536 thousand), a part of which will begin to expire in the year ending March 31, 2018.

The total amount of unrecognized tax benefits for the years ended March 31, 2017, 2016 and 2015 was insignificant. Also, there were no significant movements in the gross amounts of unrealized tax benefits and the amounts of interest and penalties recognized due to the unrecognized tax benefits during the years ended March 31, 2017, 2016 and 2015.

Although the Company believes its estimates of unrecognized tax benefits are reasonable, uncertainties regarding the final determination of income tax audit settlements and any related litigation could affect the total amount of unrecognized tax benefits in future periods. Based on the information available as of March 31, 2017, the Company does not expect significant changes to the unrecognized tax benefits within the next twelve months.

The Company files tax returns in Japan and various foreign jurisdictions. In Japan, the Company is no longer subject to regular income tax examinations by the tax authorities for years before 2012. In other foreign tax jurisdictions, major subsidiaries are no longer subject to income tax examinations by tax authorities for years before 2016, with some exceptions.

18. Shareholders' Equity

(1) Additional Paid-In Capital

The change in additional paid-in capital includes the effect of changes in the Company's ownership interest in its consolidated subsidiaries.

The net income attributable to SECOM CO., LTD. and transfers from (to) noncontrolling interests for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Net income attributable to SECOM CO., LTD.	**¥91,387**	¥84,072	¥80,184	**$815,955**
Net transfers from (to) noncontrolling interests	**(16)**	(324)	(339)	**(143)**
Change from net income attributable to SECOM CO., LTD. and transfers from (to) noncontrolling interests	**¥91,371**	¥83,748	¥79,845	**$815,812**

(2) Retained Earnings

The Japanese Companies Act provides that an amount equal to 10 percent of surplus distributed by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until the aggregate amount of additional paid-in capital and legal reserve equals 25 percent of the common stock account.

The amount available for dividends under the Japanese Companies Act is based on the amount recorded in the parent company's nonconsolidated statutory financial statements in accordance with Japanese GAAP. Such amount was ¥548,166 million ($4,894,339 thousand) at March 31, 2017.

Subsequent to March 31, 2017, the parent company's Board of Directors declared a year-end cash dividend of ¥75 ($0.67) per share, totaling ¥16,370 million ($146,161 thousand), to shareholders of record on March 31, 2017. The dividend declared was approved at the general shareholders' meeting held on June 27, 2017. Dividends are recorded in the year they are declared.

The Company has made it a basic policy to distribute dividends twice a year, the interim dividend whose record date is September 30 each year and commenced from the year ended March 31, 2015, and the year-end dividend whose record date is March 31 each year. The interim dividend is determined by the Board of Directors and the year-end dividend is determined by the General Meeting of Shareholders.

Cash dividends per share are computed based on dividends paid for the year.

(3) Common Stock in Treasury

The Company may repurchase its common stock from the market pursuant to the Japanese Companies Act. There are certain restrictions on payment of dividends in connection with the treasury stock repurchased.

(4) Other Comprehensive Income (Loss)

Components of other comprehensive income (loss) for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2017:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	**¥7,048**	**(¥1,586)**	**¥5,462**
Less: Reclassification adjustment for gains or losses realized in net income	**(1,204)**	**342**	**(862)**
Unrealized gains on derivative instruments—			
Unrealized gains or losses arising during the year	**—**	**—**	**—**
Less: Reclassification adjustment for gains or losses realized in net income	**—**	**—**	**—**
Pension liability adjustments—			
Unrealized gains or losses arising during the period	**6,656**	**(1,869)**	**4,787**
Less: Reclassification adjustment for gains or losses realized in net income	**(105)**	**(7)**	**(112)**
Foreign currency translation adjustments	**(6,084)**	**358**	**(5,726)**
Other comprehensive income (loss)	**¥6,311**	**(¥2,762)**	**¥3,549**

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2016:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	(¥ 9,756)	¥2,991	(¥ 6,765)
Less: Reclassification adjustment for gains or losses realized in net income	(1,514)	456	(1,058)
Unrealized gains on derivative instruments—			
Unrealized gains or losses arising during the year	—	—	—
Less: Reclassification adjustment for gains or losses realized in net income	(14)	5	(9)
Pension liability adjustments—			
Unrealized gains or losses arising during the period	(8,611)	2,551	(6,060)
Less: Reclassification adjustment for gains or losses realized in net income	(717)	375	(342)
Foreign currency translation adjustments	(4,017)	783	(3,234)
Other comprehensive income (loss)	(¥24,629)	¥7,161	(¥17,468)
For the year ended March 31, 2015:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	¥20,020	(¥ 6,295)	¥13,725
Less: Reclassification adjustment for gains or losses realized in net income	(192)	55	(137)
Unrealized gains on derivative instruments—			
Unrealized gains or losses arising during the year	12	(3)	9
Less: Reclassification adjustment for gains or losses realized in net income	(25)	8	(17)
Pension liability adjustments—			
Unrealized gains or losses arising during the period	11,461	(3,620)	7,841
Less: Reclassification adjustment for gains or losses realized in net income	(496)	(151)	(647)
Foreign currency translation adjustments	13,199	(1,020)	12,179
Other comprehensive income (loss)	¥43,979	(¥11,026)	¥32,953

	In thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2017:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	**$62,929**	**($14,161)**	**$48,768**
Less: Reclassification adjustment for gains or losses realized in net income	**(10,750)**	**3,054**	**(7,696)**
Unrealized gains on derivative instruments—			
Unrealized gains or losses arising during the year	**—**	**—**	**—**
Less: Reclassification adjustment for gains or losses realized in net income	**—**	**—**	**—**
Pension liability adjustments—			
Unrealized gains or losses arising during the period	**59,429**	**(16,688)**	**42,741**
Less: Reclassification adjustment for gains or losses realized in net income	**(937)**	**(63)**	**(1,000)**
Foreign currency translation adjustments	**(54,321)**	**3,196**	**(51,125)**
Other comprehensive income (loss)	**$56,350**	**($24,662)**	**$31,688**

Reclassification adjustments for gains or losses realized in net income (pre-tax amount) included in the consolidated statements of income for the years ended March 31, 2017, 2016 and 2015 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Unrealized gains on securities—				
Net sales and operating revenue	**(¥1,007)**	(¥981)	(¥306)	**($8,991)**
Gain on sales of securities, net	**(268)**	(929)	(33)	**(2,393)**
Loss on other-than-temporary impairment of investment securities	**71**	396	147	**634**
Unrealized gains on derivative instruments—				
Other income	**—**	(14)	(25)	**—**
Pension liability adjustments—				
Net periodic pension and severance costs (Note 15)	**(212)**	(790)	(595)	**(1,893)**
Equity in net income of affiliated companies	**¥ 107**	¥ 73	¥ 99	**$ 956**

19. Lessee

The Company leases certain office space, employee residential facilities, equipment for armored car services and transportation equipment. Some leased buildings, and equipment for armored car services 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 term is 30 years beginning May 1, 1996. On July 15, 2010, the Company also entered into a long-term lease agreement for the adjoining land and buildings. The lease term is also 30 years beginning July 15, 2010. For financial reporting purposes, the portion of these lease arrangements relating to the building has been classified as a capital lease; accordingly, an asset of approximately ¥7,209 million ($64,366 thousand) has been recorded in the buildings and improvements account. The portion of the lease relating to the land has been classified as an operating lease. The future minimum lease payment for the site at March 31, 2017 was ¥4,654 million ($41,554 thousand).

A summary of leased assets under capital leases at March 31, 2017 and 2016 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Buildings and improvements	**¥ 8,452**	¥ 8,452	**$ 75,464**
Machinery, equipment and automobiles	**31,930**	41,795	**285,089**
Other intangible assets	**125**	310	**1,116**
Accumulated depreciation and amortization	**(20,816)**	(30,040)	**(185,857)**
	¥19,691	¥20,517	**$175,812**

Depreciation and amortization expenses for assets under capital leases for the years ended March 31, 2017, 2016 and 2015 were ¥6,785 million ($60,580 thousand), ¥3,495 million and ¥2,746 million, respectively.

The following is a schedule by year of future minimum lease payments under capital leases and the present value of the net minimum lease payments at March 31, 2017:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥ 6,748	$ 60,250
2019	5,374	47,982
2020	4,096	36,571
2021	2,650	23,661
2022	1,576	14,071
Thereafter	11,804	105,394
Total minimum lease payments	32,248	287,929
Less: Amount representing interest	(8,056)	(71,929)
Present value of net minimum lease payments (Note 13)	24,192	216,000
Less: Current portion	(6,181)	(55,187)
Long-term capital lease obligations	¥18,011	$160,813

Rental expenses under operating leases for the years ended March 31, 2017, 2016 and 2015 were ¥25,359 million ($226,420 thousand), ¥24,619 million and ¥22,898 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 term is 20 years beginning December 8, 2000. For financial reporting purposes, the lease has been classified as an operating lease. Based on the agreement, the annual lease payment for the site is approximately ¥1,312 million ($11,714 thousand) over a 20-year period.

The future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 2017 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥ 9,467	$ 84,527
2019	8,536	76,214
2020	8,476	75,679
2021	7,848	70,071
2022	6,890	61,518
Thereafter	26,624	237,714
Total future minimum lease payments	¥67,841	$605,723

20. Lessor

The Company's leasing operations consist principally of leasing of security merchandise, security systems and real estate for offices and medical institutions. Most of the security merchandise and security systems on lease are classified as sales-type leases or direct-financing leases. Other leases are classified as operating leases.

A summary of lease receivables under sales-type and direct-financing leases at March 31, 2017 and 2016 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Total minimum lease payments to be received	**¥62,137**	¥56,952	**$554,795**
Estimated executory cost	**(4,787)**	(4,982)	**(42,741)**
Unearned income	**(4,911)**	(3,707)	**(43,849)**
Lease receivables, net	**52,439**	48,263	**468,205**
Less: Current portion	**(16,769)**	(15,344)	**(149,723)**
Long-term lease receivables, net	**¥35,670**	¥32,919	**$318,482**

The following is a schedule by year of future minimum lease payments to be received under sales-type leases and direct-financing leases at March 31, 2017:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥19,280	$172,143
2019	16,254	145,125
2020	12,266	109,518
2021	7,586	67,732
2022	4,369	39,009
Thereafter	2,382	21,268
Total future minimum lease payments to be received	¥62,137	$554,795

A summary of investment in property under operating leases and property held for lease at March 31, 2017 and 2016 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Land	**¥33,754**	¥34,715	**$301,375**
Buildings and improvements	**32,160**	32,293	**287,143**
Other intangible assets	**662**	662	**5,911**
Accumulated depreciation and amortization	**(12,572)**	(11,751)	**(112,250)**
	¥54,004	¥55,919	**$482,179**

The future minimum rentals under noncancelable operating leases at March 31, 2017 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2018	¥2,033	$18,152
2019	162	1,446
2020	162	1,446
2021	162	1,446
2022	162	1,446
Thereafter	2,909	25,975
Total future minimum rentals	¥5,590	$49,911

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. The three levels of inputs used to measure fair value are more fully described in Note 22.

(1) Cash and Cash Equivalents; Time Deposits; Cash Deposits for armored car services; Notes and Accounts Receivable, Trade; Due from Subscribers; Short-Term Receivables; Bank Loans; Notes and Accounts Payable, Trade; Other Payables; Deposits Received; Accrued Income Taxes; and Accrued Payroll

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

(2) Short-Term Investments; Investment Securities

The fair values of short-term investments and investment securities are principally based on quoted market prices.

(3) Long-Term Receivables Including Current Portion

Long-term receivables, including the current portion, are classified as Level 2 and fair value is estimated based on the present value of future cash flows through estimated maturity, discounted using estimated market discount rates.

(4) Long-Term Debt Including Current Portion

Long-term debt, including the current portion, is classified as Level 2 and fair value is estimated based on the present value of future cash flows of each instrument discounted using the Company's current incremental borrowing rates for similar liabilities.

(5) Investment Deposits by Policyholders

The fair values of investment deposits by policyholders are classified as Level 3 and estimated based on the present value of future cash flows, discounted using the interest rates currently being offered for similar contracts.

(6) Derivatives

The fair values of derivatives are estimated using current market pricing models by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of financial instruments, excluding, debt and equity securities, which are disclosed in Notes 2 (7) and 7, at March 31, 2017 and 2016 are as follows:

	In millions of yen			
	March 31			
	2017		2016	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Assets—				
Long-term receivables including current portion (Less allowance for doubtful accounts)	**¥56,638**	**¥57,440**	¥54,040	¥54,596
Liabilities—				
Long-term debt including current portion	**73,764**	**73,794**	79,566	79,612
Investment deposits by policyholders	**27,691**	**29,023**	29,802	31,402
Derivatives:				
Assets—				
Forward exchange contract (Other current assets)	**2**	**2**	—	—
Liabilities—				
Interest rate swaps (Other long-term liabilities)	**59**	**59**	97	97

	In thousands of U.S. dollars	
	March 31, 2017	
	Carrying amount	Estimated fair value
Non-derivatives:		
Assets—		
Long-term receivables including current portion (Less allowance for doubtful accounts)	**$505,696**	**$512,857**
Liabilities—		
Long-term debt including current portion	**658,607**	**658,875**
Investment deposits by policyholders	**247,241**	**259,134**
Derivatives:		
Assets—		
Forward exchange contract (Other current assets)	**18**	**18**
Liabilities—		
Interest rate swaps (Other long-term liabilities)	**527**	**527**

Limitation:

Fair value estimates are made at a specific point in time based on relevant market information and information about 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. Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures," defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This accounting standard establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1— Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2— Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3— Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

The following table represents the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2017 and 2016. Transfers between levels are recognized at the end of the respective reporting periods.

	In millions of yen			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	**¥ 163**	**¥ —**	**¥ —**	**¥ 163**
Short-term investments and investment securities	**152,088**	**31,746**	**49,738**	**233,572**
Derivatives (Other current assets)	**—**	**2**	**—**	**2**
Total assets	**¥152,251**	**¥31,748**	**¥49,738**	**¥233,737**
Liabilities:				
Derivatives (Other long-term liabilities)	**¥ —**	**¥ 59**	**¥ —**	**¥ 59**
Total liabilities	**¥ —**	**¥ 59**	**¥ —**	**¥ 59**

	In millions of yen			
	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	¥ 355	¥ 2,681	¥ —	¥ 3,036
Short-term investments and investment securities	157,309	30,405	34,852	222,566
Total assets	¥157,664	¥33,086	¥34,852	¥225,602
Liabilities:				
Derivatives (Other long-term liabilities)	¥ —	¥ 97	¥ —	¥ 97
Total liabilities	¥ —	¥ 97	¥ —	¥ 97

	In thousands of U.S. dollars			
	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	**$ 1,455**	**$ —**	**$ —**	**$ 1,455**
Short-term investments and investment securities	**1,357,928**	**283,446**	**444,089**	**2,085,463**
Derivatives (Other current assets)	**—**	**18**	**—**	**18**
Total assets	**$1,359,383**	**$283,464**	**$444,089**	**$2,086,936**
Liabilities:				
Derivatives (Other long-term liabilities)	**$ —**	**$ 527**	**$ —**	**$ 527**
Total liabilities	**$ —**	**$ 527**	**$ —**	**$ 527**

Cash Equivalents

All highly liquid investments with initial maturities of three months or less are considered to be cash equivalents, and principally valued using quoted prices for identical assets in markets that are not active.

Short-Term Investments and Investment Securities

Equity securities and debt securities classified as Level 1 assets are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions.

Level 2 assets comprise principally debt securities, which are valued using quoted prices for similar assets in active markets, or quoted prices for identical or similar assets in markets that are not active.

Non-marketable securities classified as Level 3 assets are valued based on unobservable inputs as the market for the assets was not active at the measurement date. The fair value is determined by using a valuation technique, such as the discounted cash flow model, which best reflects the nature, characteristics and risks of each asset. These significant unobservable inputs contain discount rates, exit timing and an EBITDA multiple. An increase (decrease) in the discount rates, the later (earlier) exit and a decrease (increase) in the EBITDA multiple would result in a decrease (increase) in the fair value of non-marketable securities.

The Company's Level 3 investment securities that are measured at fair value on a recurring basis at March 31, 2017 and 2016, amounting to ¥49,738 million ($444,089 thousand) and ¥34,852 million, respectively, are primarily private equity investments. The valuation technique and significant unobservable inputs are as follows:

		March 31, 2017
Valuation technique	Significant unobservable inputs	Range
Discounted cash flows	Discount rate	**20%–30%**
	Exit timing	**2017–2020**
	EBITDA multiple	**1.1x–42.2x**

		March 31, 2016
Valuation technique	Significant unobservable inputs	Range
Discounted cash flows	Discount rate	20%–30%
	Exit timing	2017–2020
	EBITDA multiple	5.0x–96.8x

Derivative Financial Investments
Derivative financial instruments comprise forward exchange contracts, interest rate swaps and others. These derivative instruments are valued using observable market data and classified as Level 2 liabilities.

The following table represents the changes in Level 3 assets measured on a recurring basis for the years ended March 31, 2017 and 2016.

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2017	2016	**2017**
Balance at beginning of year	**¥34,852**	¥26,784	**$311,179**
Total gains or losses (realized and unrealized):			
Included in earnings	**14,016**	2,237	**125,142**
Included in other comprehensive income	**—**	(92)	**—**
Purchases	**1,132**	6,950	**10,107**
Sales	**(99)**	—	**(884)**
Redemptions	**—**	—	**—**
Cancellation of contract	**—**	(1,010)	**—**
Foreign currency translation adjustments	**(163)**	(17)	**(1,455)**
Balance at end of year	**¥49,738**	¥34,852	**$444,089**
Changes in unrealized gains or losses relating to instruments still held at end of year:			
Included in earnings	**¥15,051**	¥ 1,288	**$134,384**

Total gains or losses (realized or unrealized) related to short-term investments and investment securities are primarily included in net sales and operating revenue or gain/loss on private equity investments, in the consolidated statements of income.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis
Non-marketable equity securities with a carrying amount of ¥9,424 million ($84,143 thousand) were written down to their fair value of ¥9,414 million ($84,054 thousand), resulting in an other-than-temporary impairment charge of ¥10 million ($89 thousand), which was included in earnings for the year ended March 31, 2017. For the year ended March 31, 2016, non-marketable equity securities with a carrying amount of ¥9,257 million were written down to their fair value of ¥9,251 million, resulting in an other-than-temporary impairment charge of ¥6 million, which was included in earnings. All impaired non-marketable equity securities were classified as Level 3 assets as the Company uses unobservable inputs such as future cash flows to value these investments.

Long-lived assets (Note 11) and goodwill (Note 12) are also measured at fair value on a nonrecurring basis. All impaired long-lived assets and goodwill were classified as Level 3 assets as the Company uses unobservable inputs to value these assets. These Level 3 assets are not significant.

23. Derivative Financial Instruments

(1) Risk Management Policy

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

(2) Risk Management

The Company has exposure to the market risk of changes in interest rates which 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 Hedges

The Company designates interest rate swap agreements as cash flow hedges for variability of cash flows originating from floating rate borrowings. The interest rate swap agreements matured at various dates through 2015. 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 that hedged items affect current income. The ineffective portion of changes in fair values are reported in income immediately. The sum of the amount of hedge ineffectiveness and net gains or losses excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2015 as the critical terms of most of the interest rate swap agreements match the terms of the hedged debt obligations. At March 31, 2015, the notional principal amounts of interest rate swap agreements designated as cash flow hedges was ¥726 million. At March 31, 2017 and 2016, the Company did not enter into any interest rate swap agreements designated as cash flow hedges.

(4) Derivative Instruments Not Designated as Hedges

The Company enters into interest rate swap agreements to reduce exposure to fluctuations in interest rates relating primarily to debt obligations and other agreements. Changes in fair value of these derivative financial instruments, which are not designated as hedges, are reported in current income.

Fair values of derivative instruments reflected in the consolidated balance sheets as of March 31, 2017 and 2016 are as follows:

Derivatives not designated as hedging instruments

	Location	In millions of yen March 31 2017	2016	In thousands of U.S. dollars March 31 2017
Assets:				
Forward exchange contract	Other current assets	¥ 2	¥—	$ 18
Liabilities:				
Interest rate swaps	Other long-term liabilities	59	97	527

Effects of derivative instruments on the consolidated statements of income for the years ended March 31, 2017, 2016 and 2015 are as follows:

Derivatives designated as cash flow hedging instruments
Gains recognized in accumulated other comprehensive income (loss) (effective portion)

	In millions of yen Years ended March 31 2017	2016	2015	In thousands of U.S. dollars Year ended March 31 2017
Interest rate swaps	¥—	¥—	¥6	$—

Gains (losses) reclassified from accumulated other comprehensive income (loss) into income (effective portion)

	Location	In millions of yen Years ended March 31 2017	2016	2015	In thousands of U.S. dollars Year ended March 31 2017
Interest rate swaps	Other income	¥—	¥14	¥25	$—

Derivatives not designated as hedging instruments

	Location	In millions of yen Years ended March 31 2017	2016	2015	In thousands of U.S. dollars Year ended March 31 2017
Forward exchange contract	Other income	¥ 2	¥—	¥—	$ 18
Interest rate swaps	Other income	38	16	23	339

24. Commitments and Contingent Liabilities

The Company has commitments outstanding at March 31, 2017 for the purchase of property, plant and equipment of approximately ¥2,311 million ($20,634 thousand).

The Company provides guarantees to third parties mainly 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 five years. The maximum amount of undiscounted payments the Company would have to make in the event of default amounts to ¥2,344 million ($20,929 thousand) at March 31, 2017. The carrying amounts of the liabilities recognized as the Company's obligations under these guarantees at March 31, 2017 and 2016 were deemed insignificant.

It is not anticipated that damages, if any, resulting from legal actions will have a material impact on the Company's consolidated financial statements.

25. Discontinued Operations

The Company accounted for the sale of certain businesses in accordance with ASC 205-20, "Discontinued Operations."

The Company sold certain businesses included in the real estate and other services segment, during the year ended March 31, 2015. The Company reported the operating results related to these operations as discontinued operations. Prior period figures have been restated.

Discontinued operations for the year ended March 31, 2015 are as follows:

	In millions of yen Years ended March 31 2015
Net sales and operating revenue	¥ 598
Income (loss) from discontinued operations before income taxes	(149)
Gain on sales of discontinued operations	1,614
Income taxes	(651)
Attributable to SECOM CO., LTD.	¥ 814

Income (loss) from discontinued operations, net of tax, by business segment for the year ended March 31, 2015 is as follows:

	In millions of yen Years ended March 31 2015
Real estate and other services	¥814
Income (loss) from discontinued operations, net of taxes	¥814

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
	2017	2016	2015	**2017**
Cash paid during the year for:				
Interest	**¥ 1,379**	¥ 1,408	¥ 1,403	**$ 12,313**
Income taxes	**40,165**	38,832	50,673	**358,616**
Non-cash investing and financing activities:				
Additions to obligations under capital leases	**6,035**	2,543	2,318	**53,884**
Increase in land, buildings and improvements by offsetting long-term receivables	**—**	—	3,179	**—**
Significant acquisitions (Note 4)—				
Assets acquired	**—**	188,136	—	**—**
Liabilities assumed	**—**	(107,136)	—	**—**
Considerations for equity	**—**	81,000	—	**—**
Cash and cash equivalents on hand	**—**	(11,565)	—	**—**
Total considerations	**¥ —**	¥ 69,435	¥ —	**$ —**

27. Segment Information

The Company discloses financial and descriptive information about the Company's reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by management in deciding how to allocate resources and assess performance.

The Company has seven reportable business segments: security services, fire protection services, medical services, insurance services, geographic information services, information and communication related services, and real estate and other services.

The security services segment provides various types of security services by utilizing the Company's unique security systems and manufacturing and selling security merchandise. The fire protection services segment provides various types of fire protection equipment, such as automatic fire alarm and fire extinguishing and other fire protection systems for office buildings, plants, tunnels, ships, residences and cultural monuments. 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. In addition, the VIE, of which the Company is the primary beneficiary manage hospitals and health care-related institutions. The insurance services segment includes the non-life insurance-related underwriting business in the Japanese market. The geographic information services segment includes surveying and measuring services and GIS services. The information and communication related services segment includes data center services, business continuity plan support, information security services and cloud services. The real estate and other services segment includes development and sales of condominiums equipped with security and contingency planning features, leasing of real estate, construction and installation services and other services.

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

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

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

Information by business and geographic segments for the years ended and as of March 31, 2017, 2016 and 2015 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
	2017	2016	2015	**2017**
Net sales and operating revenue:				
Security services—				
External customers	**¥ 543,524**	¥ 505,058	¥487,063	**$4,852,893**
Intersegment	**2,968**	3,028	2,963	**26,500**
	546,492	508,086	490,026	**4,879,393**
Fire protection services—				
External customers	**126,232**	131,743	121,189	**1,127,071**
Intersegment	**3,459**	3,764	5,127	**30,884**
	129,691	135,507	126,316	**1,157,955**
Medical services—				
External customers	**168,819**	163,538	155,884	**1,507,313**
Intersegment	**182**	178	153	**1,625**
	169,001	163,716	156,037	**1,508,938**
Insurance services—				
External customers	**43,780**	40,654	38,259	**390,893**
Intersegment	**3,094**	2,945	3,226	**27,625**
	46,874	43,599	41,485	**418,518**
Geographic information services—				
External customers	**51,609**	52,553	52,760	**460,795**
Intersegment	**231**	183	177	**2,063**
	51,840	52,736	52,937	**462,858**
Information and communication related services—				
External customers	**49,681**	48,294	47,412	**443,580**
Intersegment	**7,126**	7,550	6,527	**63,625**
	56,807	55,844	53,939	**507,205**
Real estate and other services—				
External customers	**47,616**	41,588	42,671	**425,143**
Intersegment	**1,923**	2,479	2,245	**17,169**
	49,539	44,067	44,916	**442,312**
Total	**1,050,244**	1,003,555	965,656	**9,377,179**
Eliminations	**(18,983)**	(20,127)	(20,418)	**(169,491)**
Total net sales and operating revenue	**¥1,031,261**	¥ 983,428	¥945,238	**$9,207,688**

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	**2017**
Operating income (loss):				
Security services	**¥112,734**	¥110,919	¥107,073	**$1,006,555**
Fire protection services	**13,129**	13,654	12,510	**117,223**
Medical services	**1,732**	2,921	1,521	**15,464**
Insurance services	**7,289**	6,842	8,042	**65,080**
Geographic information services	**(944)**	(268)	2,442	**(8,429)**
Information and communication related services	**7,288**	308	894	**65,071**
Real estate and other services	**5,241**	4,900	5,080	**46,795**
Total	**146,469**	139,276	137,562	**1,307,759**
Corporate expenses and eliminations	**(16,291)**	(20,371)	(15,555)	**(145,455)**
Operating income	**¥130,178**	¥118,905	¥122,007	**$1,162,304**
Other income	**18,135**	7,679	9,293	**161,920**
Other expenses	**(3,090)**	(4,123)	(3,443)	**(27,590)**
Income before income taxes and equity in net income of affiliated companies	**¥145,223**	¥122,461	¥127,857	**$1,296,634**

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	**2017**
Assets:			
Security services	**¥ 707,640**	¥ 659,526	**$ 6,318,214**
Fire protection services	**148,642**	141,981	**1,327,161**
Medical services	**185,799**	186,068	**1,658,920**
Insurance services	**230,455**	219,635	**2,057,634**
Geographic information services	**69,042**	66,501	**616,446**
Information and communication related services	**115,537**	115,108	**1,031,580**
Real estate and other services	**130,365**	134,936	**1,163,973**
Total	**1,587,480**	1,523,755	**14,173,928**
Corporate items	**117,876**	100,878	**1,052,465**
Investments in affiliated companies	**57,922**	56,699	**517,161**
Total assets	**¥1,763,278**	¥1,681,332	**$15,743,554**

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Depreciation and amortization:				
Security services	¥54,770	¥ 50,007	¥47,425	$489,018
Fire protection services	1,837	1,663	1,694	16,402
Medical services	8,433	8,293	7,209	75,295
Insurance services	1,521	1,319	1,140	13,580
Geographic information services	3,011	2,998	3,022	26,884
Information and communication related services	6,824	6,592	6,746	60,929
Real estate and other services	868	951	992	7,750
Total	77,264	71,823	68,228	689,858
Corporate items	919	658	636	8,205
Total depreciation and amortization	¥78,183	¥ 72,481	¥68,864	$698,063
Capital expenditure:				
Security services	¥39,956	¥130,686	¥37,183	$356,750
Fire protection services	4,678	5,026	3,608	41,768
Medical services	9,646	14,908	20,372	86,125
Insurance services	2,087	2,307	1,897	18,634
Geographic information services	1,904	2,124	3,318	17,000
Information and communication related services	7,686	7,708	4,160	68,625
Real estate and other services	233	229	258	2,080
Total	66,190	162,988	70,796	590,982
Corporate items	856	409	1,098	7,643
Total capital expenditures	¥67,046	¥163,397	¥71,894	$598,625

The capital expenditures in the above table represent the additions to property, plant and equipment and intangible assets 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
	2017	2016	2015	2017
Electronic security services	¥338,744	¥330,843	¥326,300	$3,024,500
Other security services:				
Static guard services	56,417	55,907	53,788	503,723
Armored car services	57,873	32,990	21,010	516,723
Merchandise and other	90,490	85,318	85,965	807,947
Total security services	¥543,524	¥505,058	¥487,063	$4,852,893

(2) Geographic Segment Information

Net sales and operating revenue attributed to countries based on the geographical location of customers for the years ended 2017, 2016 and 2015 and long-lived assets as of March 31, 2017 and 2016 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2017	2016	2015	2017
Net sales and operating revenue:				
Japan	¥ 985,366	¥936,392	¥901,079	$8,797,911
Other	45,895	47,036	44,159	409,777
Total	¥1,031,261	¥983,428	¥945,238	$9,207,688

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2017	2016	2017
Long-lived assets:			
Japan	¥606,302	¥611,331	$5,413,411
Other	10,558	12,280	94,268
Total	¥616,860	¥623,611	$5,507,679

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

28. Subsequent Events

The Company has evaluated subsequent events through July 28, 2017, the date at which the financial statements were available to be issued, and determined there is no item to disclose.

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of SECOM CO., LTD. and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended March 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2017, in accordance with U.S. generally accepted accounting principles.

Convenience Translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan
July 28, 2017