AUDITED FINANCIAL STATEMENTS

Contents

Consolidated Balance Sheets

SECOM CO., LTD. and Subsidiaries
March 31, 2019 and 2018

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
ASSETS	**2019**	2018	**2019**
Current assets:			
Cash and Cash equivalents (Notes 5 and 22)	**¥ 349,730**	¥ 316,729	**$ 3,150,721**
Time deposits (Note 13)	**10,619**	9,593	**95,667**
Cash deposits for armored car services (Note 6)	**142,336**	135,809	**1,282,306**
Short-term investments (Notes 7 and 22)	**25,294**	17,211	**227,874**
Notes and accounts receivable, trade	**156,869**	144,657	**1,413,234**
Due from subscribers	**63,012**	49,789	**567,676**
Inventories (Note 8)	**65,945**	82,058	**594,099**
Short-term receivables (Notes 9, 13, 20 and 21)	**27,111**	27,930	**244,243**
Allowance for doubtful accounts (Note 9)	**(1,738)**	(1,807)	**(15,658)**
Deferred insurance acquisition costs (Note 14)	**6,809**	6,540	**61,342**
Other current assets	**24,301**	19,368	**218,927**
Total current assets	**870,288**	807,877	**7,840,431**
Investments and long-term receivables:			
Investment securities (Notes 2 (7), 7, 13 and 22)	**212,641**	227,255	**1,915,685**
Investments in affiliated companies (Note 10)	**63,697**	64,620	**573,847**
Long-term receivables (Notes 9, 13, 20 and 21)	**40,095**	43,281	**361,216**
Lease deposits	**17,245**	17,264	**155,360**
Other investments	**11,952**	10,086	**107,676**
Allowance for doubtful accounts (Note 9)	**(4,218)**	(4,298)	**(38,000)**
	341,412	358,208	**3,075,784**
Property, plant and equipment (Notes 11, 13, 19 and 20):			
Land	**116,540**	113,916	**1,049,910**
Buildings and improvements	**351,947**	340,822	**3,170,694**
Security equipment and control stations	**337,756**	329,655	**3,042,847**
Machinery, equipment and automobiles	**155,944**	150,528	**1,404,901**
Construction in progress	**6,759**	7,479	**60,892**
	968,946	942,400	**8,729,244**
Accumulated depreciation	**(552,719)**	(530,052)	**(4,979,450)**
	416,227	412,348	**3,749,794**
Other assets:			
Deferred charges (Note 2 (12))	**25,220**	42,325	**227,207**
Goodwill (Note 12)	**108,122**	106,512	**974,072**
Other intangible assets (Notes 12, 13, 19 and 20)	**57,892**	57,027	**521,549**
Prepaid pension and severance costs (Note 15)	**38,489**	41,409	**346,748**
Deferred income taxes (Note 17)	**22,060**	13,239	**198,739**
	251,783	260,512	**2,268,315**
Total assets	**¥1,879,710**	¥1,838,945	**$16,934,324**

See accompanying notes to consolidated financial statements.

LIABILITIES AND EQUITY	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	2019	2018	**2019**
Current liabilities:			
Bank loans (Notes 6 and 13)	**¥ 38,658**	¥ 38,969	**$ 348,270**
Current portion of long-term debt (Notes 13, 19 and 21)	**18,447**	19,632	**166,189**
Notes and accounts payable, trade	**46,606**	44,901	**419,874**
Other payables	**44,208**	41,546	**398,270**
Deposits received (Note 6)	**127,619**	118,897	**1,149,721**
Deferred revenue	**35,947**	38,395	**323,847**
Accrued income taxes	**22,904**	25,994	**206,342**
Accrued payroll	**37,987**	36,531	**342,225**
Other current liabilities (Note 17)	**32,992**	34,792	**297,225**
Total current liabilities	**405,368**	399,657	**3,651,963**
Long-term liabilities:			
Long-term debt (Notes 13, 19 and 21)	**45,342**	50,299	**408,486**
Guarantee deposits received	**31,887**	32,109	**287,270**
Accrued pension and severance costs (Note 15)	**30,913**	29,384	**278,495**
Long-term deferred revenue	**11,623**	15,194	**104,712**
Unearned premiums and other insurance liabilities (Note 14)	**124,309**	114,814	**1,119,901**
Investment deposits by policyholders (Notes 14 and 21)	**23,615**	25,208	**212,748**
Deferred income taxes (Note 17)	**16,041**	26,530	**144,514**
Other long-term liabilities (Notes 21, 22 and 23)	**14,710**	14,445	**132,523**
Total long-term liabilities	**298,440**	307,983	**2,688,649**
Total liabilities	**703,808**	707,640	**6,340,612**
Commitments and contingent liabilities (Note 24)			
Equity:			
SECOM CO., LTD. shareholders' equity (Note 18):			
Common stock			
Authorized—900,000,000 shares, issued 233,292,219 shares in 2019			
Authorized—900,000,000 shares, issued 233,290,441 shares in 2018	**66,393**	66,385	**598,135**
Additional paid-in capital	**73,166**	73,133	**659,153**
Legal reserve	**10,783**	10,733	**97,144**
Retained earnings	**967,679**	896,586	**8,717,829**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities (Note 7)	**2,309**	22,797	**20,802**
Pension liability adjustments (Note 15)	**(742)**	1,578	**(6,685)**
Foreign currency translation adjustments	**(1,645)**	2,814	**(14,820)**
	(78)	27,189	**(703)**
Common stock in treasury, at cost:			
15,031,867 shares in 2019 and 15,030,573 shares in 2018	**(73,759)**	(73,749)	**(664,495)**
Total SECOM CO., LTD. shareholders' equity	**1,044,184**	1,000,277	**9,407,063**
Noncontrolling interests	**131,718**	131,028	**1,186,649**
Total equity	**1,175,902**	1,131,305	**10,593,712**
Total liabilities and equity	**¥1,879,710**	¥1,838,945	**$16,934,324**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2019

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Net sales and operating revenue (Notes 14 ,18 and 22)	¥1,111,600	¥1,082,792	¥1,031,261	$10,014,414
Costs and expenses:				
Cost of sales (Note 8)	784,918	751,944	711,511	7,071,333
Selling, general and administrative expenses (Notes 2 (17), 2 (18), 2 (19) and 4)	200,932	191,389	185,721	1,810,198
Impairment loss on long-lived assets (Note 11)	595	841	2,689	5,360
Impairment loss on goodwill (Note 12)	—	11	1,193	—
Gain and loss on sales and disposal of fixed assets, net	1,444	(1,504)	2,752	13,009
	987,889	942,681	903,866	8,899,900
Operating income	123,711	140,111	127,395	1,114,514
Other income:				
Interest and dividends	1,807	1,637	1,286	16,278
Gain and loss on sales of securities, net (Notes 7 and 18)	—	237	391	—
Gain on private equity investments (Note 22)	4,673	5,884	13,887	42,099
Other (Notes 15, 16, 18 and 23)	4,766	5,696	5,354	42,937
	11,246	13,454	20,918	101,314
Other expenses:				
Interest	1,184	1,236	1,369	10,666
Gain and loss on sales of securities, net (Notes 7 and 18)	115	—	—	1,036
Loss on other-than-temporary impairment of investment securities (Notes 18 and 22)	3,959	57	77	35,667
Other (Note 16)	1,136	1,482	1,644	10,234
	6,394	2,775	3,090	57,603
Income from continuing operations before income taxes and equity in net income of affiliated companies	128,563	150,790	145,223	1,158,225
Income taxes (Note 17)**:**				
Current	47,210	54,225	43,449	425,315
Deferred	(12,086)	(6,118)	3,563	(108,883)
	35,124	48,107	47,012	316,432
Income from continuing operations before equity in net income of affiliated companies	93,439	102,683	98,211	841,793
Equity in net income of affiliated companies (Note 18)	7,002	7,179	5,178	63,081
Net income	100,441	109,862	103,389	904,874
Less: Net income attributable to noncontrolling interests	(10,755)	(13,239)	(12,002)	(96,892)
Net income attributable to SECOM CO., LTD.	¥ 89,686	¥ 96,623	¥ 91,387	$ 807,982

	In yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Per share data (Note 2 (21))**:**				
Net income attributable to SECOM CO., LTD.	¥410.91	¥442.70	¥418.71	$3.70
Cash dividends per share (Note 18)	¥160.00	¥150.00	¥140.00	$1.44

Consolidated Statements of Comprehensive Income

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2019

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Comprehensive income:				
Net income	¥100,441	¥109,862	¥103,389	$904,874
Other comprehensive income (loss), net of tax:				
Unrealized gains on securities	274	256	4,600	2,468
Pension liability adjustments	(2,566)	5,376	4,675	(23,117)
Foreign currency translation adjustments	(4,908)	1,952	(5,726)	(44,216)
Total comprehensive income	93,241	117,446	106,938	840,009
Less: Comprehensive income attributable to noncontrolling interests	(10,060)	(13,710)	(12,388)	(90,631)
Comprehensive income attributable to SECOM CO., LTD.	¥ 83,181	¥103,736	¥ 94,550	$749,378

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2019

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, 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
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
Comprehensive income:										
Net income	—	—	—	—	96,623	—	—	96,623	13,239	109,862
Other comprehensive income (loss), net of tax (Note 18):										
Unrealized gains on securities	—	—	—	—	—	268	—	268	(12)	256
Pension liability adjustments	—	—	—	—	—	5,070	—	5,070	306	5,376
Foreign currency translation adjustments	—	—	—	—	—	1,775	—	1,775	177	1,952
Total comprehensive income								103,736	13,710	117,446
Issuance of new stocks	1,724	7	7	—	—	—	—	14	—	14
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	—	(32,738)	—	—	(32,738)	—	(32,738)
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(5,381)	(5,381)
Transfer to legal reserve	—	—	—	101	(101)	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Note 18)	—	—	24	—	—	—	—	24	473	497
Changes in the scope of application of the equity method	—	—	—	—	17	—	—	17	—	17
Gains on disposal of treasury stock	—	—	0	—	—	—	—	0	—	0
Net changes in treasury stock	—	—	—	—	—	—	(18)	(18)	—	(18)
Balance, March 31, 2018	233,290,441	66,385	73,133	10,733	896,586	27,189	(73,749)	1,000,277	131,028	1,131,305
Cumulative effect adjustments resulting from adoption of new accounting standards, net of tax (Note 2 (23))	—	—	—	—	16,379	(20,762)	—	(4,383)	(421)	(4,804)
Comprehensive income:										
Net income	—	—	—	—	89,686	—	—	89,686	10,755	100,441
Other comprehensive income (loss), net of tax (Note 18):										
Unrealized gains on securities	—	—	—	—	—	274	—	274	—	274
Pension liability adjustments	—	—	—	—	—	(2,320)	—	(2,320)	(246)	(2,566)
Foreign currency translation adjustments	—	—	—	—	—	(4,459)	—	(4,459)	(449)	(4,908)
Total comprehensive income								83,181	10,060	93,241
Issuance of new stocks	1,778	8	7	—	—	—	—	15	—	15
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	—	(34,922)	—	—	(34,922)	—	(34,922)
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(6,252)	(6,252)
Transfer to legal reserve	—	—	—	50	(50)	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Note 18)	—	—	26	—	—	—	—	26	(2,697)	(2,671)
Changes in the scope of application of the equity method	—	—	—	—	—	—	—	—	—	—
Gains on disposal of treasury stock	—	—	—	—	—	—	—	—	—	—
Net changes in treasury stock	—	—	—	—	—	—	(10)	(10)	—	(10)
Balance, March 31, 2019	233,292,219	¥66,393	¥73,166	¥10,783	¥967,679	(¥ 78)	(¥73,759)	¥1,044,184	¥131,718	¥1,175,902

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, 2018	$598,063	$658,856	$96,694	$8,077,351	$244,946	($664,405)	$9,011,505	$1,180,432	$10,191,937
Cumulative effect adjustments resulting from adoption of new accounting standards, net of tax (Note 2 (23))	—	—	—	147,559	(187,045)	—	(39,486)	(3,793)	(43,279)
Comprehensive income:									
Net income	—	—	—	807,982	—	—	807,982	96,892	904,874
Other comprehensive income (loss), net of tax (Note 18):									
Unrealized gains on securities	—	—	—	—	2,468	—	2,468	—	2,468
Pension liability adjustments	—	—	—	—	(20,901)	—	(20,901)	(2,216)	(23,117)
Foreign currency translation adjustments	—	—	—	—	(40,171)	—	(40,171)	(4,045)	(44,216)
Total comprehensive income							749,378	90,631	840,009
Issuance of new stocks	72	63	—	—	—	—	135	—	135
Cash dividends paid to SECOM CO., LTD. shareholders	—	—	—	(314,613)	—	—	(314,613)	—	(314,613)
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	—	(56,324)	(56,324)
Transfer to legal reserve	—	—	450	(450)	—	—	—	—	—
Equity transactions with noncontrolling interests and other (Notes 18)	—	234	—	—	—	—	234	(24,297)	(24,063)
Changes in the scope of application of the equity method	—	—	—	—	—	—	—	—	—
Gains on disposal of treasury stock	—	—	—	—	—	—	—	—	—
Net changes in treasury stock	—	—	—	—	—	(90)	(90)	—	(90)
Balance, March 31, 2019	$598,135	$659,153	$97,144	$8,717,829	($ 703)	($664,495)	$9,407,063	$1,186,649	$10,593,712

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2019

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2019	2018	2017	**2019**
Cash flows from operating activities:				
Net income	**¥100,441**	¥109,862	¥103,389	**$ 904,874**
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)	**75,300**	78,955	78,183	**678,378**
Accrual for pension and severance costs, less payments	**614**	977	754	**5,532**
Deferred income taxes	**(12,086)**	(6,118)	3,563	**(108,883)**
Gain and loss on sales and disposal of fixed assets, net	**1,444**	(1,541)	2,712	**13,009**
Impairment loss on long-lived assets (Note 11)	**595**	841	2,689	**5,360**
Write-down on real estate inventories (Note 8)	**580**	865	1,164	**5,225**
Gain on private equity investments (Note 22)	**(4,673)**	(5,884)	(13,887)	**(42,099)**
Impairment loss on goodwill (Note 12)	**—**	11	1,193	**—**
Gain on sales of securities, net (Notes 7 and 14)	**(901)**	(1,073)	(1,500)	**(8,117)**
Loss on other-than-temporary impairment of investment securities (Notes 14 and 22)	**8,991**	199	182	**81,000**
Equity in net income of affiliated companies	**(7,002)**	(7,179)	(5,178)	**(63,081)**
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits for armored car services	**(6,527)**	(5,189)	(2,352)	**(58,802)**
(Increase) decrease in receivables and due from subscribers, net of allowances	**(17,404)**	(8,292)	(1,268)	**(156,793)**
(Increase) decrease in inventories	**4,285**	(18,639)	187	**38,604**
Increase in deferred charges	**(10,716)**	(15,902)	(15,887)	**(96,541)**
Increase (decrease) in notes and accounts payable	**3,388**	(378)	3,435	**30,523**
Increase (decrease) in deposits received	**8,690**	5,962	6,627	**78,288**
Decrease in deferred revenue	**938**	(779)	(1,560)	**8,450**
Increase (decrease) in accrued income taxes	**(4,914)**	(2,441)	4,334	**(44,270)**
Increase (decrease) in guarantee deposits received	**(164)**	(474)	(1,023)	**(1,477)**
Increase in unearned premiums and other insurance liabilities	**9,495**	4,796	4,449	**85,541**
Increase (decrease) in accrued consumption tax	**(831)**	1,924	(879)	**(7,486)**
Other, net	**8,784**	2,754	9,296	**79,134**
Net cash provided by operating activities	**158,327**	133,257	178,623	**1,426,369**
Cash flows from investing activities:				
(Increase) decrease in time deposits	**(1,251)**	172	(70)	**(11,270)**
Proceeds from sales of property, plant and equipment	**3,379**	6,166	1,465	**30,441**
Payments for purchases of property, plant and equipment	**(56,401)**	(53,751)	(51,222)	**(508,117)**
Payments for purchases of intangible assets	**(11,454)**	(7,859)	(7,338)	**(103,189)**
Proceeds from sales and redemptions of investment securities (Note 7)	**43,597**	69,365	43,290	**392,766**
Payments for purchases of investment securities	**(36,686)**	(51,098)	(32,613)	**(330,505)**
(Increase) decrease in short-term investments	**(4,256)**	(1,150)	(2,283)	**(38,342)**
Acquisitions, net of cash acquired (Note 4)	**(3,133)**	(23,283)	(167)	**(28,225)**
(Increase) decrease in short-term receivables, net	**62**	(457)	(62)	**559**
Payments for long-term receivables	**(1,024)**	(840)	(760)	**(9,225)**
Proceeds from long-term receivables	**1,685**	1,224	1,721	**15,180**
Other, net	**1,052**	50	839	**9,477**
Net cash used in investing activities	**(64,430)**	(61,461)	(47,200)	**(580,450)**
Cash flows from financing activities:				
Proceeds from long-term debt	**7,161**	9,613	8,407	**64,514**
Repayments of long-term debt	**(20,184)**	(20,582)	(20,059)	**(181,838)**
Increase (decrease) in bank loans, net	**(1,789)**	(3,378)	(13,528)	**(16,117)**
Increase (decrease) in investment deposits by policyholders	**(1,592)**	(2,483)	(2,112)	**(14,342)**
Dividends paid to SECOM CO., LTD. shareholders	**(34,922)**	(32,738)	(30,557)	**(314,613)**
Dividends paid to noncontrolling interests	**(6,263)**	(5,426)	(3,556)	**(56,423)**
Payments for acquisition of shares of consolidated subsidiaries from noncontrolling interest holders	**(3,033)**	(120)	(489)	**(27,324)**
Proceeds from sales of shares of consolidated subsidiaries to noncontrolling interest holders	**—**	—	618	**—**
Increase in treasury stock, net	**(10)**	(17)	(13)	**(90)**
Other, net	**331**	94	1,464	**2,982**
Net cash used in financing activities	**(60,301)**	(55,037)	(59,825)	**(543,251)**
Effect of exchange rate changes on cash and cash equivalents	**(595)**	370	(980)	**(5,361)**
Net increase in cash and cash equivalents	**33,001**	17,129	70,618	**297,307**
Cash and cash equivalents at beginning of year	**316,729**	299,600	228,982	**2,853,414**
Cash and cash equivalents at end of year	**¥349,730**	¥316,729	¥299,600	**$3,150,721**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

SECOM CO., LTD. and Subsidiaries
Three years ended March 31, 2019

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, geospatial information services, BPO and ICT 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; geospatial information services using geospatial information systems (GIS) and surveying and measuring technology; BPO and ICT services, including data center services, business continuity plan support, information security services and cloud-based services; as well as Business Process Outsourcing ("BPO") related 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 ¥73,396 million ($661,225 thousand) and ¥82,725 million ($745,270 thousand), respectively, at March 31, 2019, and ¥74,539 million and ¥84,029 million, respectively, at March 31, 2018. 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 ¥28,531 million ($257,036 thousand) and ¥26,610 million ($239,730 thousand), respectively, at March 31, 2019, and ¥29,232 million and ¥27,699 million, respectively, at March 31, 2018. The Company's assets in the consolidated balance sheets and the Company's maximum exposure to losses related to VIEs at March 31, 2019 and 2018 were ¥6,851 million ($61,721 thousand) and ¥6,415 million, respectively.

(3) Revenue Recognition

The Company recognizes revenue based on the following five steps in accordance with ASC 606, "Revenue from Contracts with Customers."

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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, geospatial information services, BPO and ICT services, and real estate and other services under separate contractual arrangements.

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 606, "Revenue from Contracts with Customers." 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 recognized on the basis of the progress of the performance obligation, which is mainly measured by input methods based on costs incurred.

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

Excluding the aforementioned policy, the policies as specifically described hereinafter are applied for each of revenue items.

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 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 equity securities classified as "available-for-sale" are measured at fair value with unrealized gains and losses included in income. Marketable debt securities classified as "available-for-sale" are measured at fair value, and unrealized holding gains and losses 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 marketable debt securities classified as "available-for-sale" 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.

Realized gain or losses on the sale of marketable debt securities classified as "available-for-sale" are based on the moving-average cost method and are credited or charged to income.

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.

(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 ¥13,372 million ($120,468 thousand) and ¥29,815 million at March 31, 2019 and 2018, 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 ¥54,474 million ($490,757 thousand), ¥54,127 million and ¥53,677 million for the years ended March 31, 2019, 2018 and 2017, 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, 2018 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 ¥10,310 million ($92,882 thousand), ¥15,529 million and ¥15,596 million for the years ended March 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017 were ¥7,345 million ($66,171 thousand), ¥6,383 million and ¥6,491 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, 2019, 2018 and 2017 were ¥5,374 million ($48,414 thousand), ¥5,011 million and ¥5,072 million, respectively.

(19) Shipping and Handling Costs

Shipping and handling costs included in selling, general and administrative expenses for the years ended March 31, 2019, 2018 and 2017 were ¥1,430 million ($12,883 thousand), ¥1,380 million and ¥1,220 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, 2019, 2018 and 2017 was 218,261 thousand shares, 218,260 thousand shares and 218,261 thousand shares, respectively. There were no potentially dilutive shares outstanding during the years ended March 31, 2019, 2018 or 2017.

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. Therefore, this accounting standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2018, using the cumulative-effect method, for only those contracts that are not completed at the date of initial adoption. The effect of adopting this accounting standard on the Company's consolidated financial statements at the adoption date was a decrease of ¥18,044 million ($162,559 thousand) in assets, a decrease of ¥13,408 million ($120,793 thousand) in liabilities, and a decrease of ¥4,353 million ($39,216 thousand) in retained earnings. The difference compared to the results of applying the previous guidance was a decrease of ¥3,333 million ($30,027 thousand) in net sales and operating revenue, a decrease of ¥2,911 million ($26,225 thousand) in costs and expenses, and a decrease of ¥185 million ($1,667 thousand) in net income attributable to noncontrolling interests on the Company's consolidated financial statements for the year ended at March 31, 2019.

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 was adopted by the Company in the fiscal year beginning April 1, 2018. The Company recognized cumulative-effect adjustment from unrealized gains on securities of ¥20,762 million ($187,045 thousand) at March 31, 2018 which had been recognized as other comprehensive income as a transfer to retained earnings.

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. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

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. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

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 was adopted by the Company in the fiscal year beginning April 1, 2018. The adoption did not have a material impact on the Company's consolidated results of operations or financial position.

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. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This accounting standard requires an entity to disaggregate the service cost component from the other components of net benefit cost, and present the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component, such as in other income (expenses). This accounting standard allows only the service cost component to be eligible for capitalization. This accounting standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and was adopted by the Company in the fiscal year beginning April 1, 2018. The adoption of this accounting standard resulted in reclassification of ¥1,522 million from cost of sales and ¥1,202 million from selling, general and administrative expenses into other income for the year ended March 31, 2018, and ¥1,549 million from cost of sales and ¥1,234 million from selling, general and administrative expenses into other income for the year ended March 31, 2017. Please refer to note 15 for further information. The adoption of the capitalization of the service cost component of net benefit cost did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-12, "Targeted Improvements to the Accounting for Long-Duration Contracts." This accounting standard changes the recognition, measurement, presentation and disclosure requirements for long-duration contracts. This accounting standard is effective for fiscal years beginning after December 15, 2020, and will be adopted by the Company in the fiscal year beginning April 1, 2021. The Company is currently evaluating the effect of adopting this accounting standard on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." This accounting standard adds, removes and modifies the disclosure requirements for fair value measurements. This accounting standard is effective for fiscal years beginning after December 15, 2019, and will be adopted by the Company in the fiscal year beginning April 1, 2020. Early adoption is permitted, and the Company is currently evaluating the timing of its adoption. As this accounting standard is a provision for presentation only, the adoption will not have an impact on the Company's consolidated financial statements..

In August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." This accounting standard adds, removes and clarifies the disclosure requirements for defined benefit pension or other postretirement plans. This accounting standard is effective for fiscal years beginning after December 15, 2020, and will be adopted by the Company in the fiscal year beginning April 1, 2021. Early adoption is permitted, and the Company is currently evaluating the timing of its adoption. As this accounting standard is a provision for presentation only, the adoption will not have an impact on the Company's consolidated financial statements.

(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.

(25) Reclassifications

Certain amounts in the accompanying consolidated financial statements for the years ended March 31, 2018 and 2017 have been reclassified to conform to the presentation used for the year ended March 31, 2019.

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 ¥111=US$1, the approximate rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2019. 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 TMJ, Inc.

On October 2, 2017, the Company acquired 100% of common shares outstanding of TMJ, Inc. for ¥26,550 million in cash. The purpose of this acquisition is to increase corporate value through generating various synergies including further improvements in quality of existing business and development and provision of new BPO (Business Process Outsourcing) services by taking full advantage of the collective strengths of SECOM and TMJ.

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	¥ 2,654
Cash deposits for armored car services	3,803
Other current assets	290
Investments and long-term receivables	1,642
Property, plant and equipment	1,262
Intangible assets, including goodwill	24,919
Total assets acquired	34,570
Current liabilities	5,075
Long-term liabilities	2,945
Total liabilities assumed	8,020
Net assets acquired	¥26,550

Intangible assets of ¥7,448 million subject to amortization include customer relationships of ¥6,796 million with a 15-year useful life. The goodwill of ¥17,471 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 BPO and ICT services segment.

The Company recorded the acquisition costs of ¥274 million related to this acquisition in selling, general and administrative expenses for the year ended March 31, 2018.

The following unaudited pro forma information shows the Company's consolidated results of operations for the years ended March 31, 2018 and 2017 as if the newly consolidated subsidiaries acquired in the year ended March 31, 2018, were consolidated on April 1,2016.

	In millions of yen	
	Years ended March 31	
Unaudited	2018	2017
Pro forma net sales and operating revenue	¥1,099,655	¥1,066,938
Pro forma net income attributable to SECOM Co., Ltd.	97,714	92,070

	In yen	
	Years ended March 31	
Unaudited	2018	2017
Pro forma net income attributable to SECOM Co., Ltd. per share	¥447.69	¥421.83

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, 2016, 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, 2019 and 2018 comprise the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Cash	**¥337,195**	¥304,415	**$3,037,793**
Time deposits	**12,447**	12,165	**112,135**
Call loans	**—**	—	**—**
Investment securities	**88**	149	**793**
	¥349,730	¥316,729	**$3,150,721**

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 ¥21,211 million ($191,090 thousand) and ¥121,087 million ($1,090,874 thousand), respectively, at March 31, 2019, and ¥21,940 million and ¥113,830 million, respectively, at March 31, 2018. 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, 2019 and 2018 are as follows:

	In millions of yen			
	March 31, 2019			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	**¥ 24,460**	**¥ 865**	**¥ 31**	**¥ 25,294**
Held-to-maturity:				
Debt securities	**—**	**—**	**—**	**—**
	¥ 24,460	**¥ 865**	**¥ 31**	**¥ 25,294**
Investment securities:				
Available-for-sale:				
Equity securities*	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Debt securities	**111,534**	**2,644**	**320**	**113,858**
Held-to-maturity:				
Debt securities	**12,954**	**1,743**	**—**	**14,697**
	¥124,488	**¥ 4,387**	**¥ 320**	**¥128,555**

*After the adoption of ASU No. 2016-01, equity investments are measured at fair value with changes in the fair value recognized in net income at March 31, 2019.

	In millions of yen			
	March 31, 2018			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	¥ 16,319	¥ 902	¥ 10	¥ 17,211
Held-to-maturity:				
Debt securities	—	—	—	—
	¥ 16,319	¥ 902	¥ 10	¥ 17,211
Investment securities:				
Available-for-sale:				
Equity securities	¥ 35,071	¥31,714	¥ 175	¥ 66,610
Debt securities	105,423	2,799	913	107,309
Held-to-maturity:				
Debt securities	13,006	1,546	—	14,552
	¥153,500	¥36,059	¥1,088	¥188,471

	In thousands of U.S. dollars			
	March 31, 2019			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Short-term investments:				
Available-for-sale:				
Debt securities	**$ 220,360**	**$ 7,793**	**$ 279**	**$ 227,874**
Held-to-maturity:				
Debt securities	**—**	**—**	**—**	**—**
	$ 220,360	**$ 7,793**	**$ 279**	**$ 227,874**
Investment securities:				
Available-for-sale:				
Equity securities	**$ —**	**$ —**	**$ —**	**$ —**
Debt securities	**1,004,811**	**23,820**	**2,883**	**1,025,748**
Held-to-maturity:				
Debt securities	**116,703**	**15,702**	**—**	**132,405**
	$1,121,514	**$39,522**	**$2,883**	**$1,158,153**

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, 2019 are as follows:

In millions of yen

	March 31, 2019			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Debt securities	¥33,725	¥351	¥—	¥—
	¥33,725	¥351	¥—	¥—
Held-to-maturity:				
Debt securities	¥ —	¥ —	¥—	¥—

In thousands of U.S. dollars

	March 31, 2019			
	Less than 12 months		12 months or longer	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Available-for-sale:				
Debt securities	$303,829	$3,162	$—	$—
	$303,829	$3,162	$—	$—
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, 2019.

At March 31, 2019, 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, 2019 are as follows:

In millions of yen

	March 31, 2019			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	¥ 24,460	¥ 25,294	¥ —	¥ —
Due after 1 year through 5 years	90,477	91,589	1,510	1,540
Due after 5 years through 10 years	2,875	3,148	—	—
Due after 10 years	18,182	19,121	11,444	13,157
	¥135,994	¥139,152	¥12,954	¥14,697

In thousands of U.S. dollars

	March 31, 2019			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within 1 year	$ 220,360	$ 227,874	$ —	$ —
Due after 1 year through 5 years	815,108	825,126	13,604	13,874
Due after 5 years through 10 years	25,901	28,360	—	—
Due after 10 years	163,802	172,262	103,099	118,531
	$1,225,171	$1,253,622	$116,703	$132,405

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 2019, 2018 and 2017 were ¥11,603 million ($104,532 thousand), ¥26,488 million and ¥15,574 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, 2019, 2018 and 2017 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Gross realized gains	¥1,457	¥1,689	¥1,623	$13,126
Gross realized losses	53	268	72	477

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 ¥10,890 million ($98,108 thousand) and ¥10,515 million at March 31, 2019 and 2018, 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, 2019 and 2018 comprise the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	2019
Security-related products	¥ 8,611	¥ 7,433	$ 77,577
Fire protection-related products	12,160	20,476	109,549
Real estate	36,607	44,455	329,793
Other-related products	8,567	9,694	77,180
	¥65,945	¥82,058	$594,099

Work in process for real estate inventories at March 31, 2019 and 2018, amounting to ¥30,743 million ($276,964 thousand) and ¥39,689 million, respectively, are included in real estate.

The amount of write-down on real estate inventories included in cost of sales for the years ended March 31, 2019, 2018 and 2017 were ¥580 million ($5,225 thousand), ¥865 million and ¥1,164 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, 2019 and 2018 are as follows:

	In millions of yen				
	Year ended March 31, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	¥ 275	¥2,373	¥ 539	¥1,216	¥ 4,403
Provision (Reversal)	(70)	(6)	(55)	(54)	(185)
Charge off	32	—	—	(0)	32
Other	—	—	—	—	—
Balance at end of year	237	2,367	484	1,162	4,250
Individually evaluated	169	2,367	484	1,162	4,182
Collectively evaluated	¥ 68	¥ —	¥ 0	¥ —	¥ 68
Financing receivables:					
Individually evaluated	¥ 277	¥5,142	¥ 832	¥1,407	¥ 7,658
Collectively evaluated	50,374	579	1,277	199	52,429
	¥50,651	¥5,721	¥2,109	¥1,606	¥60,087

	In millions of yen				
	Year ended March 31, 2018				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	¥ 356	¥2,390	¥ 698	¥ 850	¥ 4,294
Provision (Reversal)	(133)	(17)	(143)	366	73
Charge off	52	—	—	(0)	52
Other*	—	—	(16)	0	(16)
Balance at end of year	275	2,373	539	1,216	4,403
Individually evaluated	119	2,373	539	1,216	4,247
Collectively evaluated	¥ 156	¥ —	¥ 0	¥ —	¥ 156
Financing receivables:					
Individually evaluated	¥ 197	¥5,666	¥ 948	¥1,404	¥ 8,215
Collectively evaluated	54,203	548	921	143	55,815
	¥54,400	¥6,214	¥1,869	¥1,547	¥64,030

* "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, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Allowance for doubtful accounts:					
Balance at beginning of year	$ 2,478	$21,378	$ 4,856	$10,954	$ 39,666
Provision (Reversal)	(631)	(54)	(496)	(486)	(1,667)
Charge off	288	—	—	(0)	288
Other	—	—	—	—	—
Balance at end of year	2,135	21,324	4,360	10,468	38,287
Individually evaluated	1,522	21,324	4,360	10,468	37,674
Collectively evaluated	$ 613	$ —	$ 0	$ —	$ 613
Financing receivables:					
Individually evaluated	$ 2,495	$46,324	$ 7,495	$12,676	$ 68,990
Collectively evaluated	453,820	5,217	11,505	1,792	472,334
	$456,315	$51,541	$19,000	$14,468	$541,324

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, 2019 and 2018 are as follows:

	In millions of yen				
	March 31, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	¥50,374	¥5,685	¥1,310	¥ 957	¥58,326
Overdue	277	36	799	649	1,761
Total: Financing receivables	¥50,651	¥5,721	¥2,109	¥1,606	¥60,087
Financing receivables on nonaccrual status	¥ —	¥ 3	¥ 833	¥ —	¥ 836

	In millions of yen				
	March 31, 2018				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	¥54,203	¥6,177	¥ 953	¥ 843	¥62,176
Overdue	197	37	916	704	1,854
Total: Financing receivables	¥54,400	¥6,214	¥1,869	¥1,547	¥64,030
Financing receivables on nonaccrual status	¥ —	¥ 4	¥ 948	¥ —	¥ 952

	In thousands of U.S. dollars				
	March 31, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Current	$453,820	$51,216	$11,802	$ 8,621	$525,459
Overdue	2,495	325	7,198	5,847	15,865
Total: Financing receivables	$456,315	$51,541	$19,000	$14,468	$541,324
Financing receivables on nonaccrual status	$ —	$ 27	$ 7,505	$ —	$ 7,532

Impaired receivables and the related allowance for doubtful accounts at March 31, 2019 and 2018 are as follows:

	In millions of yen				
	March 31, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	¥277	¥5,142	¥832	¥1,407	¥7,658
Related allowance for doubtful accounts	169	2,367	484	1,162	4,182

	In millions of yen				
	March 31, 2018				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	¥197	¥5,666	¥948	¥1,404	¥8,215
Related allowance for doubtful accounts	119	2,373	539	1,216	4,247

	In thousands of U.S. dollars				
	March 31, 2019				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Impaired receivables	$2,495	$46,324	$7,495	$12,676	$68,990
Related allowance for doubtful accounts	1,522	21,324	4,360	10,468	37,674

The average amounts of impaired receivables for the year ended March 31, 2019 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	¥214	¥5,499	¥818	¥1,253	¥7,784

	In thousands of U.S. dollars				
	Lease receivables	Loans receivable resulting from medical services	Other loans receivable	Other	Total
Average amounts of impaired receivables	$1,928	$49,541	$7,369	$11,288	$70,126

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 27.6 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
	2019	2018	2019
Current assets	¥133,699	¥127,793	$1,204,495
Noncurrent assets	188,009	196,908	1,693,775
Total assets	¥321,708	¥324,701	$2,898,270
Current liabilities	¥ 78,969	¥ 79,246	$ 711,432
Long-term liabilities	40,801	42,160	367,577
Equity	201,938	203,295	1,819,261
Total liabilities and equity	¥321,708	¥324,701	$2,898,270

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Net sales	¥289,172	¥283,066	¥255,263	$2,605,153
Gross profit	¥ 81,096	¥ 83,626	¥ 78,246	$ 730,595
Net income attributable to affiliated companies	¥ 20,435	¥ 25,266	¥ 17,320	$ 184,099

Dividends received from affiliated companies for the years ended March 31, 2019, 2018 and 2017 were ¥4,390 million ($39,550 thousand), ¥4,199 million and ¥3,036 million, respectively.

Three listed affiliated companies accounted for under the equity method with an aggregated carrying amount of ¥54,608 million ($491,964 thousand) and ¥51,410 million at March 31, 2019 and 2018, respectively, had a quoted market value of ¥138,854 million ($1,250,937 thousand) and ¥141,738 million at March 31, 2019 and 2018, respectively.

The amounts of goodwill included in the carrying amount of investments in affiliated companies were ¥4,665 million ($42,027 thousand) and ¥4,836 million at March 31, 2019 and 2018, 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
	2019	2018	2017	**2019**
Sales	**¥1,422**	¥1,371	¥1,455	**$12,811**
Purchases	**¥6,965**	¥6,293	¥4,749	**$62,748**

	In millions of yen		In thousands of U.S. dollars
		March 31	March 31
	2019	2018	**2019**
Notes and accounts receivable, trade	**¥ 490**	¥ 475	**$ 4,414**
Loans receivable	**¥ 331**	¥ 492	**$ 2,982**
Notes and accounts payable	**¥3,128**	¥2,406	**$28,180**
Guarantees for bank loans	**¥ —**	¥ —	**$ —**

The Company's equity in undistributed income of affiliates at March 31, 2019 and 2018 included in retained earnings was ¥39,466 million ($355,550 thousand) and ¥37,763 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 business assets of the geospatial information services segment for the year ended March 31, 2019, on certain business assets of the BPO and ICT services segment for the year ended March 31, 2018, and on certain business assets of the geospatial information services segment for the year ended March 31, 2017. 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, 2019, 2018 and 2017 are as follows:

	In millions of yen			In thousands of U.S. dollars
		Years ended March 31		Year ended March 31
	2019	2018	2017	**2019**
Security services	**¥ 11**	¥ 47	¥ 42	**$ 99**
Fire protection services	**23**	15	62	**207**
Medical services	**—**	—	556	**—**
Insurance services	**—**	—	—	**—**
Geospatial information services	**545**	364	1,473	**4,910**
BPO and ICT services	**16**	415	485	**144**
Real estate and other services	**—**	—	71	**—**
Corporate items	**—**	—	—	**—**
Total	**¥595**	¥841	¥2,689	**$5,360**

12. Goodwill and Other Intangible Assets

The components of acquired intangible assets, excluding goodwill, at March 31, 2019 and 2018 are as follows:

	In millions of yen		
			March 31, 2019
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	**¥ 63,865**	**(¥38,759)**	**¥25,106**
Other	**40,765**	**(12,156)**	**28,609**
	¥104,630	**(¥50,915)**	**¥53,715**
Unamortized intangible assets	**¥ 4,177**	**¥ —**	**¥ 4,177**

	In millions of yen		
			March 31, 2018
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	¥53,535	(¥33,380)	¥20,155
Other	40,228	(9,307)	30,921
	¥93,763	(¥42,687)	¥51,076
Unamortized intangible assets	¥ 5,951	¥ —	¥ 5,951

	In thousands of U.S. dollars		
			March 31, 2019
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets:			
Software	**$575,360**	**($349,180)**	**$226,180**
Other	**367,252**	**(109,514)**	**257,738**
	$942,612	**($458,694)**	**$483,918**
Unamortized intangible assets	**$ 37,632**	**$ —**	**$ 37,632**

Aggregate amortization expense for the years ended March 31, 2019, 2018 and 2017 was ¥10,516 million ($94,739 thousand), ¥9,299 million and ¥8,910 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
2020	¥10,898	$98,180
2021	9,006	81,135
2022	7,296	65,730
2023	5,862	52,811
2024	4,475	40,315

The changes in the carrying amount of goodwill by business segment for the years ended March 31, 2019 and 2018 are as follows:

	In millions of yen						
	Security services	Fire protection services	Medical services	Geospatial information services	BPO and ICT services	Real estate and other services	Total
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
Goodwill acquired during the year	38	57	—	—	17,471	—	17,566
Disposal	—	—	—	—	—	—	—
Impairment losses	—	—	(11)	—	—	—	(11)
Translation adjustment	9	—	—	(2)	—	—	7
Goodwill	62,788	1,999	9,399	4,575	35,114	1,962	115,837
Accumulated impairment losses	(2,879)	—	(5,361)	(775)	(175)	(135)	(9,325)
March 31, 2018	59,909	1,999	4,038	3,800	34,939	1,827	106,512
Goodwill acquired during the year	**1,623**	**—**	**—**	**—**	**—**	**—**	**1,623**
Disposal	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Translation adjustment	**(12)**	**—**	**—**	**(1)**	**—**	**—**	**(13)**
Goodwill	**64,399**	**1,999**	**9,399**	**4,574**	**35,114**	**1,962**	**117,447**
Accumulated impairment losses	**(2,879)**	**—**	**(5,361)**	**(775)**	**(175)**	**(135)**	**(9,325)**
March 31, 2019	**¥61,520**	**¥1,999**	**¥4,038**	**¥3,799**	**¥34,939**	**¥1,827**	**¥108,122**

	In thousands of U.S. dollars						
	Security services	Fire protection services	Medical services	Geospatial information services	BPO and ICT services	Real estate and other services	Total
Goodwill	$565,658	$18,009	$84,675	$41,216	$316,343	$17,675	$1,043,576
Accumulated impairment losses	(25,937)	—	(48,297)	(6,982)	(1,577)	(1,216)	(84,009)
March 31, 2018	539,721	18,009	36,378	34,234	314,766	16,459	959,567
Goodwill acquired during the year	**14,622**	**—**	**—**	**—**	**—**	**—**	**14,622**
Disposal	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment losses	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Translation adjustment	**(108)**	**—**	**—**	**(9)**	**—**	**—**	**(117)**
Goodwill	**580,172**	**18,009**	**84,675**	**41,207**	**316,343**	**17,675**	**1,058,081**
Accumulated impairment losses	**(25,937)**	**—**	**(48,297)**	**(6,982)**	**(1,577)**	**(1,216)**	**(84,009)**
March 31, 2019	**$554,235**	**$18,009**	**$36,378**	**$34,225**	**$314,766**	**$16,459**	**$ 974,072**

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 ¥38,658 million ($348,270 thousand) and ¥38,969 million at March 31, 2019 and 2018, respectively, are generally comprised of 30 to 365 day notes. The weighted average interest rate was 0.68 percent and 0.76 percent at March 31, 2019 and 2018, 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, 2019, Nohmi Bosai Ltd. and Arai & Co., Ltd., subsidiaries of the parent company, had an unused committed line of credit from a short-term arrangement of ¥6,800 million ($61,261 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. The line of credit expires in April 2041. Under the agreement, Arai & Co., Ltd. is required to pay commitment fees, at an annual rate of 0.55 percent and Japanese yen one month Tokyo Interbank Offered Rate (tibor), on the unused portion of the line of credit. At March 31, 2019, the Company had overdraft agreements with 44 banks and its unused lines of credit amounted to ¥73,867 million ($665,468 thousand). The Company incurs no fee on the unused portion of these overdraft agreements. The overdraft agreements expire in the period from April 2019 to March 2020. The Company has the ability and intent to extend these overdraft agreements under similar terms and conditions.

Long-term debt at March 31, 2019 and 2018 comprises the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Loans, principally from banks due 2017–2033 with interest rates ranging from 0.10% to 10.90%:			
Secured	**¥12,270**	¥14,545	**$110,541**
Unsecured	**20,426**	25,106	**184,018**
0.38% unsecured bonds due 2021	**493**	490	**4,441**
0.26% unsecured bonds due 2021	**50**	70	**450**
0.25% unsecured bonds due 2021	**50**	70	**450**
0.31% unsecured bonds due 2023	**33**	40	**297**
0.40% unsecured bonds due 2024	**22**	26	**198**
0.29% unsecured bonds due 2022	**30**	40	**270**
Unsecured bonds due 2017–2027 with floating interest rates based on 6-month Japanese yen TIBOR	**5,946**	5,299	**53,568**
Obligations under capital leases, due 2017–2043 (Note 19)	**24,469**	24,246	**220,442**
	63,789	69,932	**574,675**
Less: Portion due within one year	**(18,447)**	(19,632)	**(166,189)**
	¥45,342	¥50,300	**$408,486**

Assets pledged as collateral for bank loans and long-term debt at March 31, 2019 and 2018 are as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Time deposits	**¥ 1,349**	¥ 1,437	**$ 12,153**
Short-term and long-term receivables	**6,166**	6,130	**55,550**
Investment securities	**1,319**	1,332	**11,883**
Property, plant and equipment	**43,637**	43,510	**393,126**
Other intangible assets	**¥ 818**	¥ 818	**$ 7,369**

The aggregate annual maturities on long-term debt at March 31, 2019 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥18,447	$166,189
2021	14,529	130,892
2022	9,137	82,315
2023	7,277	65,559
2024	3,716	33,477
Thereafter	10,683	96,243
	¥63,789	$574,675

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, 2019 and 2018 was ¥72,174 million ($650,216 thousand) and ¥75,968 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, 2019, 2018 and 2017 were losses of ¥4,016 million ($36,180 thousand), and gains of ¥694 million and ¥1,004 million, respectively. Losses on other-than-temporary impairments of investment securities for the years ended March 31, 2019, 2018 and 2017 were ¥5,032 million ($45,333 thousand), ¥142 million and ¥105 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, 2019, 2018 and 2017 are as follows.

The service cost component of net periodic pension cost and severance cost for the Company's cash balance pension plan is included in cost of sales and selling, general and administrative expenses in the consolidated statements of income. The components other than the service cost component are included in other income in the consolidated statements of income.

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	**2019**
Net periodic pension and severance costs:				
Service cost	**¥7,787**	¥7,996	¥7,889	**$70,152**
Interest cost	**398**	404	349	**3,586**
Expected return on plan assets	**(3,254)**	(3,109)	(2,919)	**(29,315)**
Amortization of prior service benefit	**(4)**	(306)	(966)	**(36)**
Recognized actuarial loss	**176**	287	754	**1,586**
Net periodic pension and severance costs	**¥5,103**	¥5,272	¥5,107	**$45,973**

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
	2019	2018	2019
Change in benefit obligation:			
Benefit obligation at beginning of year	¥113,324	¥111,632	$1,020,937
Service cost	7,787	7,996	70,152
Interest cost	398	404	3,586
Actuarial (gain) loss	(154)	(1,281)	(1,387)
Benefits paid	(6,586)	(6,018)	(59,334)
Acquisition	1,723	591	15,523
Transfer to the defined contribution pension plan	(140)	—	(1,261)
Transfer of the substitutional portion of the welfare pension fund	(205)	—	(1,847)
Benefit obligation at end of year	116,147	113,324	1,046,369
Change in plan assets:			
Fair value of plan assets at beginning of year	125,349	117,278	1,129,270
Actual return on plan assets	(142)	9,425	(1,279)
Employer contribution	2,256	2,396	20,324
Benefits paid	(4,572)	(4,139)	(41,189)
Acquisition	1,016	389	9,153
Transfer of the substitutional portion of the welfare pension fund	(260)	—	(2,342)
Other	76	—	685
Fair value of plan assets at end of year	123,723	125,349	1,114,622
Funded status at the end of year	¥ 7,576	¥ 12,025	$ 68,253

Amounts recognized in the consolidated balance sheets at March 31, 2019 and 2018 consist of:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	2019
Prepaid pension and severance costs	¥38,489	¥41,409	$346,748
Accrued pension and severance costs	(30,913)	(29,384)	(278,495)
Net amount recognized	¥ 7,576	¥12,025	$ 68,253

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for the year ended March 31, 2019 are summarized as follows:

	In millions of yen	In thousands of U.S. dollars
Current year actuarial loss	¥3,241	$29,199
Amortization of actuarial loss	(176)	(1,586)
Amortization of prior service benefit	4	36
	¥3,069	$27,649

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2019 and 2018 consist of:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	2019
Actuarial loss	¥3,816	¥751	$34,378
Prior service benefit	231	227	2,081
Net amount recognized	¥4,047	¥978	$36,459

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 ¥–1 million ($–9 thousand) and ¥207 million ($1,865 thousand), respectively.

The accumulated benefit obligation for the pension plan was ¥115,843 million ($1,043,631 thousand) and ¥113,039 million at March 31, 2019 and 2018, 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 ¥51,666 million ($465,459 thousand), ¥51,362 million ($462,721 thousand) and ¥18,580 million ($167,387 thousand), respectively, at March 31, 2019, and ¥49,470 million, ¥49,186 million and ¥29,006 million, respectively, at March 31, 2018.

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, 2019 and 2018 are as follows:

	March 31	
	2019	2018
Discount rate	0.3%	0.4%
Rate of compensation increase	2.2%	2.6%

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2019, 2018 and 2017 are as follows:

	Years ended March 31		
	2019	2018	2017
Discount rate	0.4%	0.4%	0.3%
Expected return on plan assets	3.0%	3.0%	3.0%
Rate of compensation increase	2.6%	2.7%	2.6%

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, 2019 and 2018. The three levels of inputs used to measure fair value are more fully described in Note 22.

In millions of yen				
	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	¥ 6,618	¥ —	¥ —	¥ 6,618
Equity securities				
Japanese companies	22,944	—	424	23,368
Foreign companies	5,240	—	—	5,240
Debt securities				
Government bonds	2,485	414	—	2,899
Non-government bonds	—	—	—	—
Pooled funds	411	47,345	19,545	67,301
Call loans	—	3,770	—	3,770
Insurance contracts	—	13,493	—	13,493
Other	2	448	584	1,034
	¥37,700	¥65,470	¥20,553	¥123,723

* The plan's government bonds include approximately 10% Japanese bonds and 90% foreign bonds.
* The pension investment trust fund included in the plan's pooled funds is classified as Level 2, and invests approximately 50% in equity securities, 40% 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, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	¥ 8,142	¥ —	¥ —	¥ 8,142
Equity securities				
Japanese companies	23,703	434	—	24,137
Foreign companies	3,837	—	—	3,837
Debt securities				
Government bonds	2,515	494	—	3,009
Non-government bonds	—	2,032	—	2,032
Pooled funds	595	39,134	24,433	64,162
Call loans	—	5,314	—	5,314
Insurance contracts	—	13,127	—	13,127
Other	—	355	1,234	1,589
	¥38,792	¥60,890	¥25,667	¥125,349

* 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 50% in equity securities, 40% 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, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 59,622	$ —	$ —	$ 59,622
Equity securities				
Japanese companies	206,703	—	3,820	210,523
Foreign companies	47,207	—	—	47,207
Debt securities				
Government bonds	22,387	3,730	—	26,117
Non-government bonds	—	—	—	—
Pooled funds	3,703	426,531	176,081	606,315
Call loans	—	33,964	—	33,964
Insurance contracts	—	121,559	—	121,559
Other	18	4,036	5,261	9,315
	$339,640	$589,820	$185,162	$1,114,622

* The plan's government bonds include approximately 10% Japanese bonds and 90% foreign bonds.
* The pension investment trust fund included in the plan's pooled funds is classified as Level 2, and invests approximately 50% in equity securities, 40% 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, 2019 and 2018.

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, 2019			
	Equity securities			
	Japanese companies	Pooled funds	Other	Total
Balance at beginning of year	¥ —	¥24,433	¥1,234	¥25,667
Actual return on plan assets:				
Relating to assets sold during the year	—	552	79	631
Relating to assets held at end of year	—	141	(1)	140
Purchases, sales and settlements, net	—	(1,533)	(728)	(2,261)
Transfer to (from) Level 3, net	424	(4,048)	—	(3,624)
Balance at end of year	¥424	¥19,545	¥ 584	¥20,553

	In millions of yen			
	Year ended March 31, 2018			
	Equity securities			
	Japanese companies	Pooled funds	Other	Total
Balance at beginning of year	¥—	¥26,273	¥ 778	¥27,051
Actual return on plan assets:				
Relating to assets sold during the year	—	(1,047)	68	(979)
Relating to assets held at end of year	—	615	(78)	537
Purchases, sales and settlements, net	—	(1,408)	466	(942)
Transfer to (from) Level 3, net	—	—	—	—
Balance at end of year	¥—	¥24,433	¥1,234	¥25,667

	In thousands of U.S. dollars			
	Year ended March 31, 2019			
	Equity securities			
	Japanese companies	Pooled funds	Other	Total
Balance at beginning of year	**$ —**	**$220,117**	**$11,117**	**$231,234**
Actual return on plan assets:				
Relating to assets sold during the year	**—**	**4,973**	**712**	**5,685**
Relating to assets held at end of year	**—**	**1,270**	**(9)**	**1,261**
Purchases, sales and settlements, net	**—**	**(13,811)**	**(6,559)**	**(20,370)**
Transfer to (from) Level 3, net	**3,820**	**(36,468)**	**—**	**(32,648)**
Balance at end of year	**$3,820**	**$176,081**	**$ 5,261**	**$185,162**

The Company expects to contribute ¥2,669 million ($24,045 thousand) to its domestic defined benefit plans in the year ending March 31, 2020.

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
2020	¥ 5,451	$ 49,108
2021	5,615	50,586
2022	5,806	52,306
2023	6,009	54,135
2024	6,177	55,649
2025–2029	31,347	282,405

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, 2019, 2018 and 2017 were ¥1,963 million ($17,685 thousand), ¥1,851 million and ¥2,192 million, respectively.

16. Exchange Gains and Losses

Other expenses for the years ended March 31, 2019, 2018 and 2017 includes net exchange losses of ¥169 million ($1,523 thousand), ¥213 million and ¥454 million, respectively.

17. Income Taxes

Total income taxes for the years ended March 31, 2019, 2018 and 2017 are allocated as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	**2019**
Consolidated income taxes from continuing operations	**¥35,124**	¥48,107	¥47,012	**$316,432**
Shareholders' equity—accumulated other comprehensive income (loss):				
Unrealized gains on securities	**139**	155	1,244	**1,253**
Pension liability adjustments	**(986)**	2,332	1,876	**(8,884)**
Foreign currency translation adjustments	**(662)**	662	(358)	**(5,964)**
	¥33,615	¥51,256	¥49,774	**$302,837**

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, 2015, and the fourth quarter ended March 31, 2016, the statutory income tax rate in Japan, which was approximately 30.7 percent for the years ended March 31, 2017 and 2018, decreased to approximately 30.5 percent for the year ended March 31, 2019.

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
	2019	2018	2017	**2019**
Income taxes computed at statutory tax rate	**¥39,212**	¥46,293	¥44,584	**$353,261**
Increase (decrease) resulting from:				
Provision of valuation allowance	**215**	2,116	714	**1,935**
Per capita tax	**882**	882	867	**7,946**
Reversal of valuation allowance	**(3,959)**	(835)	(1,048)	**(35,665)**
Net effect of changes in corporate tax rates	**139**	660	512	**1,252**
Other, net	**(1,365)**	(1,009)	1,383	**(12,297)**
Consolidated income taxes from continuing operations	**¥35,124**	¥48,107	¥47,012	**$316,432**

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Deferred tax assets:			
Accrued pension and severance costs	**¥ 8,354**	¥ 8,637	**$ 75,261**
Property, plant and equipment	**6,749**	7,448	**60,802**
Loss carryforwards	**6,527**	9,138	**58,802**
Adjustment of book value at the date of acquisition			
Land and buildings	**6,073**	6,153	**54,712**
Other assets	**399**	399	**3,595**
Accrued bonus	**6,181**	5,813	**55,685**
Deferred revenue	**5,382**	7,176	**48,486**
Vacation accrual	**4,441**	4,289	**40,009**
Investment securities	**4,307**	2,139	**38,802**
Unrealized intra-entity profit on assets	**3,521**	—	**31,721**
Allowance for doubtful accounts	**1,714**	1,774	**15,441**
Intangible assets	**1,549**	1,798	**13,955**
Write-down on real estate inventories	**595**	631	**5,360**
Other	**14,255**	12,003	**128,423**
Gross deferred tax assets	**70,047**	67,398	**631,054**
Less: Valuation allowance	**(20,649)**	(27,509)	**(186,027)**
Total deferred tax assets	**49,398**	39,889	**445,027**
Deferred tax liabilities:			
Adjustment of book value at the date of acquisition			
Intangible assets	**(8,826)**	(9,690)	**(79,514)**
Land and buildings	**(3,904)**	(4,117)	**(35,171)**
Other assets	**(920)**	(951)	**(8,288)**
Prepaid pension and severance costs	**(11,014)**	(12,646)	**(99,225)**
Unrealized gains on securities	**(7,494)**	(9,570)	**(67,514)**
Investments in affiliated companies	**(6,021)**	(6,458)	**(54,243)**
Deferred installation costs	**(888)**	(5,204)	**(8,000)**
Other	**(4,312)**	(4,544)	**(38,847)**
Gross deferred tax liabilities	**(43,379)**	(53,180)	**(390,802)**
Net deferred tax assets (liabilities)	**¥ 6,019**	(¥13,291)	**$ 54,225**

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, 2019, 2018 and 2017 was a decrease of ¥6,860 million ($61,802 thousand), and an increase of ¥1,862 million and ¥599 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, 2019 and 2018.

Net deferred tax assets (liabilities) at March 31, 2019 and 2018 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
	2019	2018	**2019**
Deferred income taxes (Other assets)	**¥22,060**	¥13,239	**$198,739**
Deferred income taxes (Long-term liabilities)	**(16,041)**	(26,530)	**(144,514)**
Net deferred tax assets (liabilities)	**¥ 6,019**	(¥13,291)	**$ 54,225**

The Company has not recognized deferred tax liabilities for a portion of undistributed earnings of foreign subsidiaries of ¥36,749 million ($331,072 thousand) totaling ¥646 million ($5,820 thousand) at March 31, 2019 as they are not expected to be remitted in the foreseeable future.

At March 31, 2019, the operating loss carryforwards of domestic subsidiaries amounted to ¥13,442 million ($121,099 thousand) and are available for offsetting against future taxable earnings of such subsidiaries for up to ten years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥ 249	$ 2,243
2021	116	1,045
2022	2,209	19,901
2023	1,419	12,784
2024	2,396	21,586
2025	3,473	31,288
2026	1,813	16,333
2027	1,615	14,550
2028	—	—
2029	152	1,369
	¥13,442	$121,099

The operating loss carryforwards of overseas subsidiaries at March 31, 2019 amounted to ¥8,736 million ($78,703 thousand), a part of which will begin to expire in the year ending March 31, 2020.

The total amount of unrecognized tax benefits for the years ended March 31, 2019, 2018 and 2017 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, 2019, 2018 and 2017.

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, 2019, 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 2018, 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, 2019, 2018 and 2017 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	**2019**
Net income attributable to SECOM CO., LTD.	**¥89,686**	¥96,623	¥91,387	**$807,982**
Net transfers from (to) noncontrolling interests	**26**	24	(16)	**234**
Change from net income attributable to SECOM CO., LTD. and transfers from (to) noncontrolling interests	**¥89,712**	¥96,647	¥91,371	**$808,216**

(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 ¥622,185 million ($5,605,270 thousand) at March 31, 2019.

Subsequent to March 31, 2019, the parent company's Board of Directors declared a year-end cash dividend of ¥85 ($0.77) per share, totaling ¥18,552 million ($167,135 thousand), to shareholders of record on March 31, 2019. The dividend declared was approved at the general shareholders' meeting held on June 26, 2019. 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, 2019, 2018 and 2017 are as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2019:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	**¥1,236**	**(¥ 359)**	**¥ 877**
Less: Reclassification adjustment for gains or losses realized in net income	**(823)**	**220**	**(603)**
Pension liability adjustments—			
Unrealized gains or losses arising during the period	**(3,756)**	**1,030**	**(2,726)**
Less: Reclassification adjustment for gains or losses realized in net income	**204**	**(44)**	**160**
Foreign currency translation adjustments	**(5,570)**	**662**	**(4,908)**
Other comprehensive income (loss)	**(¥8,709)**	**¥1,509**	**(¥7,200)**
For the year ended March 31, 2018:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	¥ 1,319	(¥ 413)	¥ 906
Less: Reclassification adjustment for gains or losses realized in net income	(908)	258	(650)
Pension liability adjustments—			
Unrealized gains or losses arising during the period	7,695	(2,315)	5,380
Less: Reclassification adjustment for gains or losses realized in net income	13	(17)	(4)
Foreign currency translation adjustments	2,614	(662)	1,952
Other comprehensive income (loss)	¥10,733	(¥3,149)	¥7,584

	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)
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 thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2019:			
Unrealized gains on securities—			
Unrealized gains or losses arising during the period	**$11,135**	**($ 3,235)**	**$ 7,900**
Less: Reclassification adjustment for gains or losses realized in net income	**(7,414)**	**1,982**	**(5,432)**
Pension liability adjustments—			
Unrealized gains or losses arising during the period	**(33,838)**	**9,280**	**(24,558)**
Less: Reclassification adjustment for gains or losses realized in net income	**1,837**	**(396)**	**1,441**
Foreign currency translation adjustments	**(50,180)**	**5,964**	**(44,216)**
Other comprehensive income (loss)	**($78,460)**	**$13,595**	**($64,865)**

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, 2019, 2018 and 2017 are as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	**2019**
Unrealized gains on securities—				
Net sales and operating revenue	**(¥825)**	(¥694)	(¥1,007)	**($7,432)**
Gain on sales of securities, net	**(2)**	(269)	(268)	**(18)**
Loss on other-than-temporary impairment of investment securities	**4**	55	71	**36**
Pension liability adjustments—				
Net periodic pension and severance costs (Note 15)	**172**	(19)	(212)	**1,550**
Equity in net income of affiliated companies	**¥ 32**	¥ 32	¥ 107	**$ 287**

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 ($64,946 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, 2019 was ¥3,854 million ($34,721 thousand).

A summary of leased assets under capital leases at March 31, 2019 and 2018 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Buildings and improvements	**¥ 8,504**	¥ 8,452	**$ 76,613**
Machinery, equipment and automobiles	**36,008**	32,664	**324,396**
Other intangible assets	**173**	298	**1,559**
Accumulated depreciation and amortization	**(23,107)**	(21,723)	**(208,171)**
	¥21,578	¥19,691	**$194,397**

Depreciation and amortization expenses for assets under capital leases for the years ended March 31, 2019, 2018 and 2017 were ¥6,856 million ($61,766 thousand), ¥6,313 million and ¥6,785 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, 2019:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥ 7,041	$ 63,432
2021	5,418	48,811
2022	4,093	36,874
2023	2,948	26,559
2024	1,795	16,171
Thereafter	10,329	93,054
Total minimum lease payments	31,624	284,901
Less: Amount representing interest	(7,155)	(64,459)
Present value of net minimum lease payments (Note 13)	24,469	220,442
Less: Current portion	(6,414)	(57,784)
Long-term capital lease obligations	¥18,055	$162,658

Rental expenses under operating leases for the years ended March 31, 2019, 2018 and 2017 were ¥27,924 million ($251,568 thousand), ¥25,513 million and ¥25,359 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 ($11,820 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, 2019 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥11,707	$105,468
2021	8,609	77,559
2022	7,326	66,000
2023	7,017	63,216
2024	2,872	25,874
Thereafter	21,975	197,973
Total future minimum lease payments	¥59,506	$536,090

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, 2019 and 2018 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Total minimum lease payments to be received	**¥59,332**	¥63,766	**$534,523**
Estimated executory cost	**(5,004)**	(5,839)	**(45,081)**
Unearned income	**(3,678)**	(3,527)	**(33,136)**
Lease receivables, net	**50,650**	54,400	**456,306**
Less: Current portion	**(17,257)**	(17,899)	**(155,468)**
Long-term lease receivables, net	**¥33,393**	¥36,501	**$300,838**

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, 2019:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥19,446	$175,189
2021	14,829	133,595
2022	11,638	104,847
2023	8,044	72,468
2024	4,004	36,072
Thereafter	1,371	12,352
Total future minimum lease payments to be received	¥59,332	$534,523

A summary of investment in property under operating leases and property held for lease at March 31, 2019 and 2018 is as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	**2019**
Land	**¥34,353**	¥31,499	**$309,486**
Buildings and improvements	**30,258**	30,578	**272,595**
Other intangible assets	**662**	662	**5,964**
Accumulated depreciation and amortization	**(13,398)**	(12,725)	**(120,703)**
	¥51,875	¥50,014	**$467,342**

The future minimum rentals under noncancelable operating leases at March 31, 2019 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2020	¥2,062	$18,577
2021	253	2,279
2022	162	1,459
2023	162	1,459
2024	162	1,459
Thereafter	2,586	23,299
Total future minimum rentals	¥5,387	$48,532

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, 2019 and 2018 are as follows:

	In millions of yen			
	March 31			
	2019		2018	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Non-derivatives:				
Assets—				
Long-term receivables including current portion (Less allowance for doubtful accounts)	¥54,995	¥55,414	¥58,996	¥59,356
Liabilities—				
Long-term debt including current portion	63,789	63,786	69,931	69,937
Investment deposits by policyholders	23,615	24,427	25,208	26,212
Derivatives:				
Assets—				
Forward exchange contract (Other current assets)	—	—	—	—
Liabilities—				
Interest rate swaps (Other long-term liabilities)	15	15	33	33

	In thousands of U.S. dollars	
	March 31, 2019	
	Carrying amount	Estimated fair value
Non-derivatives:		
Assets—		
Long-term receivables including current portion (Less allowance for doubtful accounts)	$495,450	$499,225
Liabilities—		
Long-term debt including current portion	574,676	574,649
Investment deposits by policyholders	212,748	220,063
Derivatives:		
Assets—		
Forward exchange contract (Other current assets)	—	—
Liabilities—		
Interest rate swaps (Other long-term liabilities)	135	135

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, 2019 and 2018. Transfers between levels are recognized at the end of the respective reporting periods.

In millions of yen

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	¥ 88	¥ —	¥ —	¥ 88
Short-term investments and investment securities	147,516	52,840	13,372	213,728
Derivatives (Other current assets)	—	—	—	—
Total assets	¥147,604	¥52,840	¥13,372	¥213,816
Liabilities:				
Derivatives (Other long-term liabilities)	¥ —	¥ 15	¥ —	¥ 15
Total liabilities	¥ —	¥ 15	¥ —	¥ 15

In millions of yen

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	¥ 149	¥ —	¥ —	¥ 149
Short-term investments and investment securities	149,365	41,433	29,815	220,613
Derivatives (Other current assets)	—	—	—	—
Total assets	¥149,514	¥41,433	¥29,815	¥220,762
Liabilities:				
Derivatives (Other long-term liabilities)	¥ —	¥ 33	¥ —	¥ 33
Total liabilities	¥ —	¥ 33	¥ —	¥ 33

In thousands of U.S. dollars

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 793	$ —	$ —	$ 793
Short-term investments and investment securities	1,328,972	476,036	120,468	1,925,476
Derivatives (Other current assets)	—	—	—	—
Total assets	$1,329,765	$476,036	$120,468	$1,926,269
Liabilities:				
Derivatives (Other long-term liabilities)	$ —	$ 135	$ —	$ 135
Total liabilities	$ —	$ 135	$ —	$ 135

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, 2019 and 2018, amounting to ¥13,372 million ($120,468 thousand) and ¥29,815 million, respectively, are primarily private equity investments. The valuation technique and significant unobservable inputs are as follows:

		March 31, 2019
Valuation technique	Significant unobservable inputs	Range
Discounted cash flows	Discount rate Exit timing EBITDA multiple	**15%–30%** **2019–2023** **3.4x–26.6x**

		March 31, 2018
Valuation technique	Significant unobservable inputs	Range
Discounted cash flows	Discount rate Exit timing EBITDA multiple	20%–30% 2018–2022 3.2x–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, 2019 and 2018.

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	2019	2018	**2019**
Balance at beginning of year	**¥29,815**	¥49,738	**$268,604**
Total gains or losses (realized and unrealized):			
Included in earnings	**5,285**	5,964	**47,612**
Included in other comprehensive income	**—**	—	**—**
Purchases	**6,048**	5,270	**54,486**
Sales	**(27,243)**	(29,479)	**(245,432)**
Redemptions	**—**	—	**—**
Cancellation of contract	**—**	—	**—**
Foreign currency translation adjustments	**(533)**	(1,678)	**(4,802)**
Balance at end of year	**¥13,372**	¥29,815	**$120,468**
Changes in unrealized gains or losses relating to instruments still held at end of year:			
Included in earnings	**(¥ 776)**	¥ 399	**($ 6,991)**

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 ¥10,891 million ($98,117 thousand) were written down to their fair value of ¥10,890 million ($98,108 thousand), resulting in an other-than-temporary impairment charge of ¥1 million ($9 thousand), which was included in earnings for the year ended March 31, 2019. For the year ended March 31, 2018, non-marketable equity securities with a carrying amount of ¥10,517 million were written down to their fair value of ¥10,515 million, resulting in an other-than-temporary impairment charge of ¥2 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 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.

(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, 2019 and 2018 are as follows:

Derivatives not designated as hedging instruments

		In millions of yen		In thousands of U.S. dollars
		March 31		March 31
	Location	**2019**	2018	**2019**
Assets:				
Forward exchange contract	Other current assets	**¥—**	¥ 0	**$ —**
Liabilities:				
Interest rate swaps	Other long-term liabilities	**15**	33	**135**

Effects of derivative instruments on the consolidated statements of income for the years ended March 31, 2019, 2018 and 2017 are as follows:

Derivatives not designated as hedging instruments

		In millions of yen			In thousands of U.S. dollars
		Years ended March 31			Year ended March 31
	Location	**2019**	2018	2017	**2019**
Forward exchange contract	Other income	**¥—**	¥—	¥ 2	**$ —**
Interest rate swaps	Other income	**17**	27	38	**153**

24. Commitments and Contingent Liabilities

The Company has commitments outstanding at March 31, 2019 for the purchase of property, plant and equipment of approximately ¥8,316 million ($74,919 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 ¥969 million ($8,730 thousand) at March 31, 2019. The carrying amounts of the liabilities recognized as the Company's obligations under these guarantees at March 31, 2019 and 2018 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. Revenue

(1) Disaggregation of revenue

Revenue from contracts with customers and other sources for the year ended March 31, 2019 is as follows:

	In millions of yen	In thousands of U.S. dollars
	Year ended March 31	Year ended March 31
	2019	**2019**
Revenue recognized from contracts with customers	**¥1,045,995**	**$ 9,423,378**
Revenue recognized from other sources	**65,605**	**591,036**
Total	**¥1,111,600**	**$10,014,414**

The disaggregation of revenue by operating segments is described in Note 27.

Revenue recognized from other sources primarily comprises revenue recognized from lease contracts and insurance contracts.

(2) Contract balances

Contract balances arising from contracts with customers at March 31, 2019 and at April 1, 2018 are as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31	April 1	March 31
	2019	2018	**2019**
Receivables*1	**¥188,182**	¥173,603	**$1,695,333**
Contract assets*2	**31,699**	28,390	**285,577**
Contract liabilities*3	**50,116**	48,307	**451,495**

*1 Receivables are included in notes and accounts receivable, trade, due from subscribers in the accompanying consolidated balance sheets. These amounts are before deducting allowance for doubtful accounts.

*2 Contract assets are included in notes and accounts receivable, trade, in the accompanying consolidated balance sheets. These amounts are before deducting allowance for doubtful accounts.

*3 Contract liabilities are included in deferred revenue, other current liabilities and long-term deferred revenue in the accompanying consolidated balance sheets.

Revenue recognized for the fiscal year ended March 31, 2019 that was included in the contract liability balance as of April 1, 2018 was ¥37,129 million.

(3) Transaction price allocated to the remaining performance obligations

The aggregate amounts of transaction price allocated to unsatisfied performance obligations related to contracts that have original expected durations in excess of one year at March 31, 2019 are as follows:

	In millions of yen	In thousands of U.S. dollars
	March 31	March 31
	2019	**2019**
Due within 1 year	**¥156,933**	**$1,413,811**
Due after 1 year	**221,605**	**1,996,441**
	¥378,538	**$3,410,252**

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
	2019	2018	2017	**2019**
Cash paid during the year for:				
Interest	**¥ 1,114**	¥ 1,278	¥ 1,379	**$ 10,036**
Income taxes	**52,021**	55,970	40,165	**468,658**
Non-cash investing and financing activities:				
Additions to obligations under capital leases	**7,225**	6,355	6,035	**65,090**
Increase in land, buildings and improvements by offsetting long-term receivables	**—**	—	—	**—**
Significant acquisitions (Note 4)—				
Assets acquired	**—**	34,570	—	**—**
Liabilities assumed	**—**	(8,020)	—	**—**
Considerations for equity	**—**	26,550	—	**—**
Cash and cash equivalents on hand	**—**	(2,654)	—	**—**
Total considerations	**¥ —**	¥23,896	¥ —	**$ —**

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, geospatial information services, BPO and ICT services, and real estate and other services.

Pasco Corporation, the principal company in the geographic information services, released "Pasco Group's Medium-Term Management Plan 2018–2022" on May 9, 2018, expressing its aim to become a comprehensive company in geospatial information industry pursuing the business model that capitalizes positional information including various related events. Accordingly, the segment name was changed from geographic information services to geospatial information services from the year ended March 31, 2019. Reportable segments are not reclassified by this change.

The Company changed the designation of information and communication related services, which focused primarily on ICT related services and data center services, to BPO and ICT services with the acquisition of TMJ, Inc., a subsidiary newly consolidated from October 2017. The Company acquired all shares in TMJ, Inc. which provides various BPO related services including operation of call center services with the aim of expanding its business capabilities through integrating BPO related services with existing information and communication related services. Reportable segments are not reclassified by this change.

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 geospatial information services segment includes surveying and measuring services and GIS services. The BPO and ICT services segment includes various BPO related services, 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, 2019, 2018 and 2017 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
	2019	2018	2017	2019
Net sales and operating revenue:				
Security services—				
Customers	¥ 563,739	¥ 562,272	¥ 543,524	$ 5,078,730
Intersegment	3,428	3,144	2,968	30,883
	567,167	565,416	546,492	5,109,613
Fire protection services—				
Customers	140,139	136,559	126,232	1,262,514
Intersegment	3,942	4,170	3,459	35,514
	144,081	140,729	129,691	1,298,028
Medical services—				
Customers	181,705	175,318	168,819	1,636,981
Intersegment	168	185	182	1,514
	181,873	175,503	169,001	1,638,495
Insurance services—				
Customers	41,637	44,683	43,780	375,108
Intersegment	3,120	3,034	3,094	28,108
	44,757	47,717	46,874	403,216
Geospatial information services—				
Customers	51,510	50,906	51,609	464,054
Intersegment	386	176	231	3,477
	51,896	51,082	51,840	467,531
BPO and ICT services—				
Customers	88,065	69,569	49,681	793,378
Intersegment	13,209	7,275	7,126	119,000
	101,274	76,844	56,807	912,378
Real estate and other services—				
Customers	44,805	43,485	47,616	403,649
Intersegment	1,787	2,004	1,923	16,099
	46,592	45,489	49,539	419,748
Total	1,137,640	1,102,780	1,050,244	10,249,009
Eliminations	(26,040)	(19,988)	(18,983)	(234,595)
Total net sales and operating revenue	¥1,111,600	¥1,082,792	¥1,031,261	$10,014,414

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Operating income (loss):				
Security services	¥110,146	¥114,469	¥110,370	$ 992,306
Fire protection services	14,188	15,730	13,146	127,820
Medical services	5,782	4,034	1,680	52,090
Insurance services	(4,856)	6,221	7,268	(43,748)
Geospatial information services	1,878	1,676	(1,119)	16,919
BPO and ICT services	9,390	8,133	7,175	84,595
Real estate and other services	5,084	6,910	5,241	45,802
Total	141,612	157,173	143,761	1,275,784
Corporate expenses and eliminations	(17,901)	(17,062)	(16,366)	(161,270)
Operating income	¥123,711	¥140,111	¥127,395	$1,114,514
Other income	11,246	13,454	20,918	101,314
Other expenses	(6,394)	(2,775)	(3,090)	(57,603)
Income from continuing operations before income taxes	¥128,563	¥150,790	¥145,223	$1,158,225

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	2019
Assets:			
Security services	¥ 768,128	¥ 727,449	$ 6,920,072
Fire protection services	162,549	159,114	1,464,405
Medical services	178,755	180,594	1,610,405
Insurance services	235,773	233,618	2,124,081
Geospatial information services	67,768	69,306	610,523
BPO and ICT services	152,777	149,553	1,376,369
Real estate and other services	142,750	145,289	1,286,036
Total	1,708,500	1,664,923	15,391,891
Corporate items	107,513	109,402	968,586
Investments in affiliated companies	63,697	64,620	573,847
Total assets	¥1,879,710	¥1,838,945	$16,934,324

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Depreciation and amortization:				
Security services	¥49,409	¥54,091	¥54,770	$445,126
Fire protection services	2,375	2,128	1,837	21,396
Medical services	8,684	8,675	8,433	78,234
Insurance services	1,792	1,808	1,521	16,144
Geospatial information services	2,249	2,540	3,011	20,261
BPO and ICT services	9,075	7,813	6,824	81,757
Real estate and other services	953	1,066	868	8,586
Total	74,537	78,121	77,264	671,504
Corporate items	763	834	919	6,874
Total depreciation and amortization	¥75,300	¥78,955	¥78,183	$678,378
Capital expenditure:				
Security services	¥48,451	¥44,404	¥39,956	$436,495
Fire protection services	2,269	3,910	4,678	20,441
Medical services	4,750	5,276	9,646	42,793
Insurance services	2,972	1,900	2,087	26,775
Geospatial information services	2,420	1,701	1,904	21,802
BPO and ICT services	9,085	31,987	7,686	81,847
Real estate and other services	4,550	1,690	233	40,991
Total	74,497	90,868	66,190	671,144
Corporate items	1,291	349	856	11,631
Total capital expenditures	¥75,788	¥91,217	¥67,046	$682,775

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
	2019	2018	2017	2019
Electronic security services	¥344,297	¥341,157	¥338,744	$3,101,775
Other security services:				
Static guard services	66,265	59,030	56,417	596,982
Armored car services	62,417	61,089	57,873	562,315
Merchandise and other	90,760	100,996	90,490	817,658
Total security services	¥563,739	¥562,272	¥543,524	$5,078,730

(2) Geographic Segment Information

Net sales and operating revenue attributed to countries based on the geographical location of customers for the years ended 2019, 2018 and 2017 and long-lived assets as of March 31, 2019 and 2018 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2019	2018	2017	2019
Net sales and operating revenue:				
Japan	¥1,063,223	¥1,034,228	¥ 985,366	$ 9,578,585
Other	48,377	48,564	45,895	435,829
Total	¥1,111,600	¥1,082,792	¥1,031,261	$10,014,414

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2019	2018	2019
Long-lived assets:			
Japan	¥618,061	¥629,069	$5,568,117
Other	11,699	11,239	105,396
Total	¥629,760	¥640,308	$5,673,513

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 30, 2019, 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018 and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2019, 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, 2019 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 30, 2019