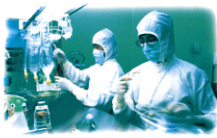


# annual report



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In a constantly changing world, SECOM is working daily to establish the Social System Industry—high-quality, innovative services designed to promote peace of mind.

9

9

**SECOM**



## PROFILE

*In the 37 years since its establishment, SECOM CO., LTD., has earned a reputation as a pioneer in the development of entirely new industries. SECOM's on-line security system, introduced in 1966, marked a turning point, transforming SECOM from a vendor of manpower-intensive security services into a provider of security systems combining computerized remote monitoring and human support and enabling it to expand the scope of its security services. SECOM has also utilized its security and network capabilities to diversify into areas such as medical care, educational and information services.*

*The Company has also expanded its security services worldwide through a network of subsidiaries and joint ventures. This global network currently encompasses operations in the United States, the Republic of Korea, Taiwan, Thailand, Malaysia, Singapore, Indonesia, the People's Republic of China, the United Kingdom and Australia.*

*SECOM has also broadened the scope of its operations to include non-life insurance, real estate development, cyber security and geographic information services. In line with its core objective of providing peace of mind to people everywhere, SECOM will continue to upgrade its existing products and services and apply its expertise to diversify into high-potential new business areas.*

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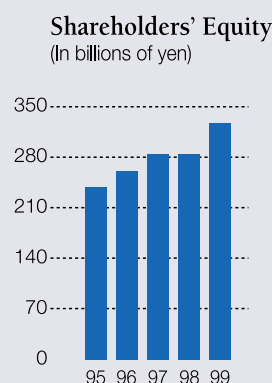
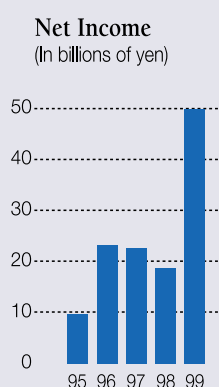
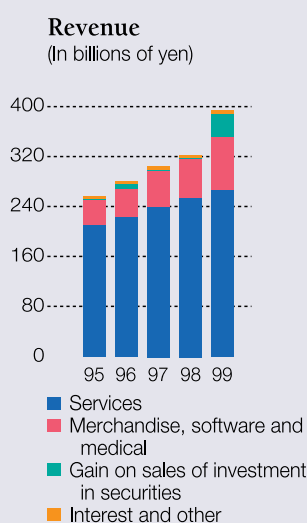


# HIGHLIGHTS

SECOM CO., LTD. and Subsidiaries  
Years ended March 31, 1999, 1998 and 1997

	In millions of yen			In thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	1999	1998	1997	1999
Revenue	¥ 394,146	¥ 322,804	¥ 303,796	\$3,257,405
Net income	49,918	18,990	22,798	412,545
Total assets	643,454	479,841	461,071	5,317,802
Shareholders' equity	327,147	283,840	284,634	2,703,695
	In yen			In U.S. dollars
Per share of common stock:				
Net income (basic)	¥ 429.03	¥ 163.40	¥ 197.37	\$ 3.55
Cash dividends paid during the period	65.00	60.00	50.00	0.54
Shareholders' equity	2,811.02	2,442.05	2,449.50	23.23

Notes: 1. Japanese yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥121=US\$1. *Billion* is used in the American sense of one thousand million.  
2. Per share amounts are based on the average number of shares outstanding during each period.  
3. Per share amounts of shareholders' equity are based on the number of shares outstanding at the end of each period, minus treasury stock.  
4. Subsequent to March 31, 1999, cash dividends per share of ¥70.00 were approved at the general shareholders' meeting on June 29, 1999 (see Note 16 of the accompanying Notes to Consolidated Financial Statements).



## Operating Results

The Japanese economy remained sluggish during the period, with few signs that a recovery was in sight. Instability in the financial system and unclear economic prospects continued to weaken corporate profitability, slow capital investment and hinder consumer spending, while stagnant corporate results caused the employment situation to deteriorate further and lowered individual earnings.

Against this subdued economic backdrop, we continued our advance on several business fronts, focusing on expanding further our “Social System Industry,” a network of integrated systems and services centered on the fields of security, education, communication, information and medical care, targeted at the needs of people and businesses. We actively expanded operations by strengthening marketing, improving service quality and developing new systems and products that respond to the needs of society and brought us closer to realizing the “Social System Industry.” As a consequence, our operating results for the period were largely in line with expectations. Consolidated revenue amounted to ¥394.1

billion, up 22.1% from the previous year. By business category, revenue from services totaled ¥266.3 billion, while merchandise, software and medical activities generated revenue of ¥85.6 billion. We recorded a gain on sales of investment in securities of ¥35.7 billion, while interest and other totaled ¥6.5 billion. Net income soared 162.9%, to ¥49.9 billion, owing partly to extraordinary gains on the sale of a subsidiary. Accordingly, net income per share rose to ¥429.03, from ¥163.40 in the previous period.

Recognizing the importance of shareholder support, cash dividends of ¥70.00 per share were approved at the annual general shareholders’ meeting in June 1999, up from ¥65.00 for the previous period.

## A Look at the Year

During the period under review, we continued to take steps aimed at ensuring the realization of our “Social System Industry” vision in the 21st century. The phrase “Social System Industry” describes a system combining a wide range of services designed to ensure safety, convenience and comfort that are provided through our information network—a network cultivated through the provision of security services to date. In particular, we continue to focus on security services, medical, education, information, non-life insurance services and real estate development, thereby reinforcing our reputation for providing reliable and convenient services when and where they are needed.

In the security service field, we introduced SECOM HOME SECURITY PLUS, a ground-breaking home security system that offers integrated security and



Makoto Iida

Founder



information services. Incorporating an easy-to-use liquid crystal display (LCD) touch panel with a voice navigation system, this system features not only home security, but also an extensive range of other services, such as lifestyle information, home shopping services, home banking and medical assistance.

Other new products in the security services field include SECOM AX, an innovative security system for businesses that features an image sensor incorporating the latest image processing technology, enabling it to detect unauthorized entry. We also introduced SESAMO-IDs, an upgraded version of our fingerprint-based individual identification system that is easier to operate and produced at a considerably lower cost than its predecessor; TOMAHAWK MACH I, specifically designed to meet the needs of customers for compact and affordable fire extinguishers; and TOMAHAWK MACH II, a unit for home use.

In the medical services field, Secom Home Medical System Co., Ltd., launched an in-home medical treatment support service called Medidata, which aims to assist patients during their convalescence by connecting them on-line with their physicians, and an artificial voice box activated by electronic impulse. Subsidiary Secom Kampo System Co., Ltd., began mail-order sales of health food products.

In the area of home education services, subsidiary Secom Lines Co., Ltd., a leader in the computer-aided learning field, launched Lines Sensei Denjyuku, a highly effective Internet and compact disc read-only memory (CD-ROM)-based educational system, and the School Internet Series of materials designed to assist schools to maximize the benefits of Internet access.

In the information and communications sector, SECOM established Entrust Japan Co., Ltd., which is the sole distributor for Public Key Infrastructure (PKI) digital identification certification technologies, developed by U.S.-based Entrust Technologies in conjunction with 15 Japanese companies.

SECOM also entered the non-life insurance business during the period by making an equity investment in Toyo Fire and Marine Insurance Co., Ltd., which subsequently changed its name to Secom Toyo General Insurance Co., Ltd. The combination of non-life insurance services with SECOM's existing business lines will enable the Company to provide a complete range of services for assurance against the risk of property loss or bodily injury due to crime or accident.

## New Initiatives

Recent months have seen us expand operations in several promising new areas. To facilitate the launch of cyber security operations, we established the Cyber Security Division and in April 1999 launched computer virus detection, security assessment and cyber crime prevention



Toshitaka Sugimachi

*President and  
Representative Director*

services. In August 1999, SECOM became the majority shareholder in Pasco Corporation, a leading survey company, by acquiring shares through a third-party allotment. We anticipate significant synergies between Pasco's operations, notably its Geographic Information System (GIS) services, and our services.

In the firm belief that responding to the rapidly evolving needs of society today demands fundamental adjustments in our organization and in the mindset of our employees, we sought to encourage greater flexibility by emphasizing change and accelerated responsiveness.

We continue to respond to the diverse needs of customers for security services, medical, education, information services, non-life insurance and real estate development operations by anticipating these needs and offering attractive products and services. We are promoting intensive research and development to facilitate the extension of high-quality security systems, equipment and services. We recognize considerable untapped demand in our core existing businesses, and will thus focus on enhancing capabilities and improving efficiency in these areas. At the same time, we will further expand

our operations by entering promising new businesses. In these and other endeavors, we look forward to the continued support of our shareholders.

August 31, 1999



Makoto Iida  
Founder



Toshitaka Sugimachi  
President and Representative Director





### At the Threshold: The “Social System Industry”

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In the decade following its announcement of the “Social System Industry” concept in January 1989, the SECOM Group has used its security network to launch successive new services and systems as part of the social infrastructure for this new industry. We have expanded from security services to include medical, educational, information, non-life insurance and real estate development services providing vital assistance to people and companies in their everyday activities. Moreover, we have established the capability to offer these services as integrated packages, not merely isolated services.

We have used the past decade to prepare the groundwork. Our next challenge is to pick up the pace to complete the establishment of our “Social System Industry.”

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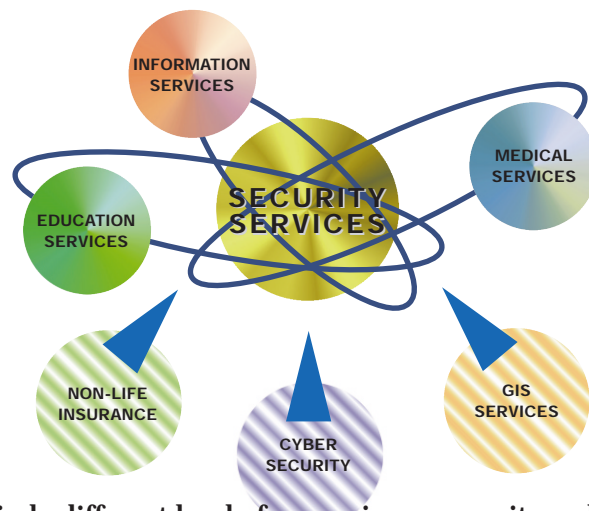
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The SECOM Group offers more than 100 different types of services worldwide. Each service must satisfy strict conditions—i.e., be judged innovative, valuable to society and a service that SECOM can provide better than any other company—before it is added to our

lineup. These services are used in homes, offices, commercial buildings, banks, schools, hospitals, supermarkets, department stores, temples, museums, factories, amusement parks, airports and hundreds of other settings throughout society.





Although we began by offering security services exclusively, we now offer a myriad of services in the medical, educational, information, non-life insurance and real estate development fields. For the workplace, we provide on-line centralized security systems, static guard services, armored car services, access-control systems, fire extinguishing systems, monitoring systems, intranet integration services, network security and groupware for schools, to list but a few.

For the home, we offer SECOM HOME SECURITY PLUS, an emergency information system for elderly persons, fire extinguishers, fireproof safes, in-home medical treatment, home-visit nursing services, self-administered health management systems, artificial voice boxes, traditional Chinese medicine prescription services, health foods, mineral water filtration systems, on-line educational services, cable TV broadcasting, automobile insurance and many other services.

Although these services and systems are valuable to individuals or society as stand-alone items, when they are presented in integrated packages they represent an

entirely different level of convenience, security and cost-effectiveness. This is the aim of the “Social System Industry.” The introduction in June 1998 of SECOM HOME SECURITY PLUS was a giant step toward our goal of integrating a large number of services in a single, easily operated system. By creating new services and systems that satisfy peoples’ needs and integrating them with our existing services, we are coming closer to establishing the “Social System Industry,” an achievement that will enable us to contribute significantly to a higher quality of life into the 21st century.





## New Synergies with Three Businesses

The SECOM Group is steadily expanding the suite of services and systems that will form the “Social System Industry.” We recently launched cyber security services as an extension of our core security services and acquired a non-life insurance company and a GIS-related systems and services provider, which will enjoy significant synergies with our existing portfolio of services.

## Cyber Security Services

As demonstrated by the explosive growth of the Internet in Japan, this island nation is rapidly adapting to the information age. Today, telecommunications-based information networks are indispensable to corporate activities and home life. Many companies use complex computer networks to manage critical information assets, including confidential customer and product development information. However, inadequate network security means that such assets may be highly vulnerable to theft, tampering and damage.

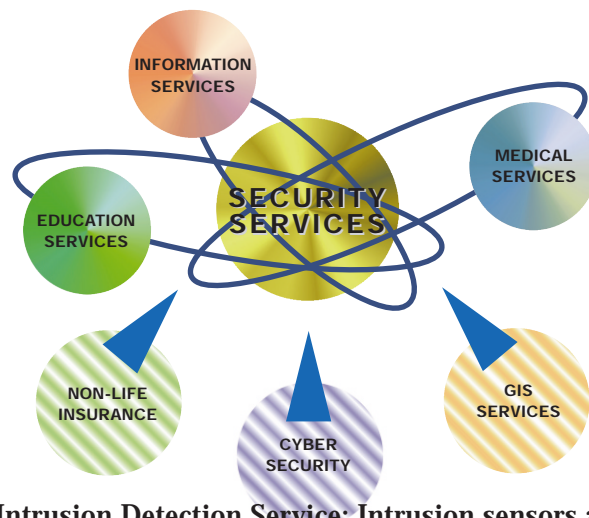
As the undisputed leader in the security field, SECOM is particularly well positioned to respond to the growing need for effective cyber security. To facilitate our expansion into this promising field, we marketed the IntraVerse line of security software for e-commerce and corporate intranets. We also set up Entrust Japan, to serve as the exclusive distributor in Japan of the products of Entrust Technologies, a leading digital certificate developer with operations throughout North America. In addition, we formed an alliance with Trend Micro Co.,





Ltd., to offer 24-hour virus monitoring services, and created the Cyber Security Division within the parent company to begin offering the following four services:

- **Security Consulting Service:** This service analyzes and tests to find security holes in firewalls and other weaknesses in corporate networks, and formulates tailored security policies and procedures for customers.
- **Virus Monitoring Service:** The Cyber Security Service Center monitors customer systems for viruses 24 hours a day, 365 days a year, and takes appropriate measures to safeguard customer data. This service is offered as part of a package that also includes insurance against damage caused by viruses.



- **Intrusion Detection Service:** Intrusion sensors are installed in corporate networks or servers to detect unauthorized access and take appropriate measures.
- **Certificate Authorization:** Verification of personal identity through a digital I.D. is indispensable to e-commerce or information exchanges over the Internet.

We are confident that these new services, coupled with our existing security services, will be the vehicle required to pave the way to future growth in the security business.

## Non-Life Insurance Services

In September 1998, we entered the non-life insurance field by taking an equity stake in Toyo Fire and Marine Insurance. The firm's name was subsequently changed to Secom Toyo General Insurance and additional shares were purchased in March 1999 to make SECOM the majority shareholder of this subsidiary.

Our purpose in entering the non-life insurance business is not to sell the conventional types of products currently offered by other insurers, but to integrate



insurance products with the services we offer as part of the “Social System Industry.” In other words, we view this as an opportunity to offer comprehensive security services that encompass everything from the prevention of crime and fire to insurance against damage and loss.

In December 1998, we launched sales of a new product, Cost-Reduced Automobile Insurance. This product incorporates an on-site emergency-response feature. When an accident occurs, the policyholder can opt to have SECOM emergency-response staff dispatched to the scene at any time of the day or night from the closest of our emergency service depots around the country.

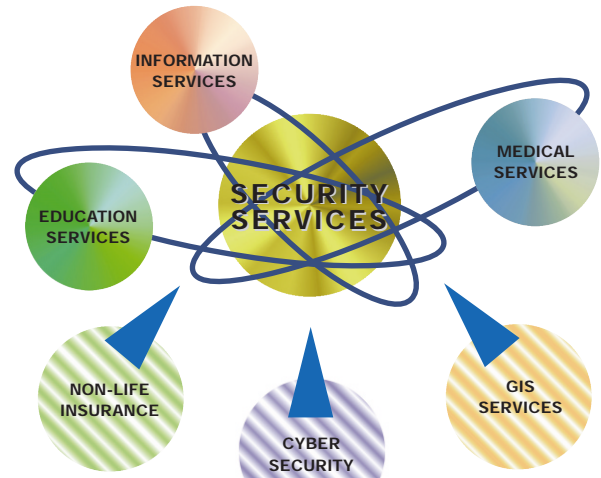
Cost-Reduced Automobile Insurance is also sold directly to the public, enabling us to offer it at a price that is roughly 20% below conventional car insurance. Cost savings are reflected in reduced premiums for all age groups and categories.

By combining elements of insurance with the services being developed by other members of the SECOM Group, Secom Toyo General Insurance will seek to meet society's needs with innovative products that set new standards.

## GIS Services

SECOM has taken a majority stake in Pasco, Japan's leading provider of survey and GIS services, bringing it into the SECOM Group in August 1999. Our main purpose in taking a stake in this company, which is listed on the First Section of the Tokyo Stock Exchange, is to realize synergies between its GIS component and our other “Social System Industry” services. Pasco anticipated the development of the information society well in advance and was quick to establish its GIS services on a commercial basis, making it an attractive acquisition.





GIS services involve the superimposition of data onto topographic images to provide high-quality visual aids. The same data can be used effectively in a variety of applications on personal computers (PCs). Information, such as land usage, population, land prices and road networks, can be superimposed upon the base map and then displayed, searched and analyzed. The output can be presented as maps to assist governmental authorities or private sector companies as planning tools.

Pasco uses its GIS capabilities and the high-quality maps generated by its aerial surveying division to engage in three main business segments primarily aimed at public-sector clients. The first generates land survey charts for use in city planning and public facility construction. The second is a construction consulting service used in emergency preparedness planning, environmental and disaster response inspections, city planning, as well as in civil engineering designs for roads, parks, waterworks, sanitation systems and flood control. The third develops and markets GIS based on the know-how generated through the other two business segments.

Pasco has offices in nearly every prefecture and its extensive technological capabilities allow it to provide services carefully tailored to local needs. Although its current focus is primarily on the public sector market, Pasco plans to expand its services for the private sector. We thus plan to promote GIS-based information services as new components of our “Social System Industry.”



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Subscribers by Category  
Year Ended March 31, 1999



Commerce	17.6%
Manufacturing	15.6%
Banking and Financial Services	12.3%
Service Industries	19.3%
Government Agencies	9.7%
Others	25.5%

Electronic Security Services



Percentage of  
Revenue

**56.8%**

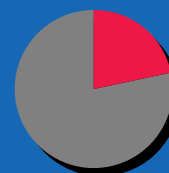
Other Security Services



Percentage of  
Revenue

**10.8%**

Merchandise, Software, Medical  
and Real Estate Development



Percentage of  
Revenue

**21.7%**

## SERVICES

### Electronic Security Services

In fiscal 1999, revenue from electronic security services, including commercial, home and large-scale proprietary security systems increased 4.6%, to ¥223.9 billion. This represented 56.8% of total revenue, compared with 66.3% a year earlier.

On-line centralized security systems, the main component of revenue and operating profit for this division, use SECOM equipment located on the subscriber's premises to monitor for fires, gas leaks, intruders, emergency situations and equipment malfunctions around the clock from a control center, which is linked via telecommunications circuits. If an alarm is triggered, staff at the control center use the system data to judge whether to take any or all the measures of dispatching a patrol team, notifying the appropriate authorities, such as ambulances or the police, and taking other measures as required.

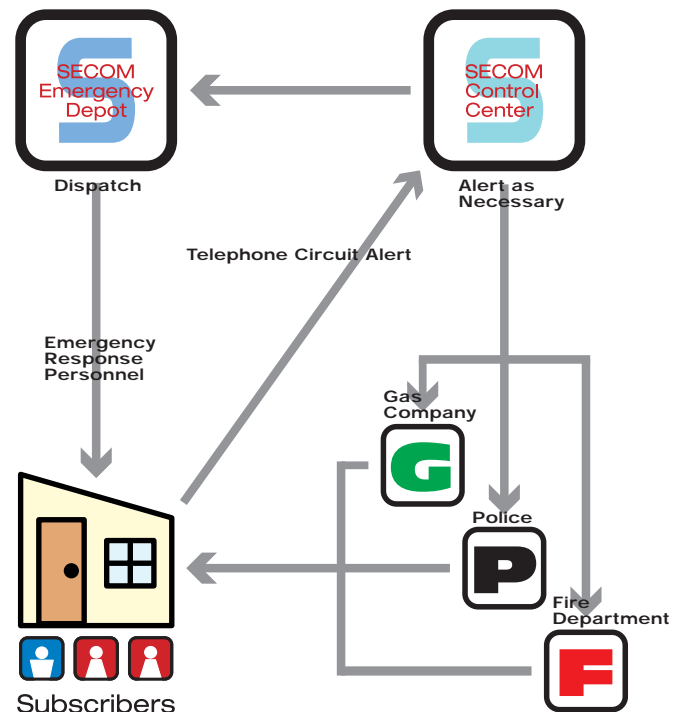
During the fiscal period, we introduced several new centralized security systems. Foremost among them is the SECOM HOME SECURITY PLUS system, which combines the standard features of our centralized security systems with lifestyle support services, such as home shopping, home banking and medical consultation, made possible by a built-in multimedia Super Terminal. We also released the SECOM AX on-line security system for corporate subscribers, which utilizes image sensors incorporating the latest image processing technology to detect unauthorized entry with high accuracy. It works by having the image sensors detect an anomaly, which is digitally reported to the control center by the SECOM AX controller. If the alarm is caused by an intruder, the image shot at the time of the trigger event and the 10 still frames shot by the monitoring camera immediately before and after the trigger event are transmitted to the control center. If the alarm is triggered by the pressing of an emergency button, an image

shot at the time of the pressing of the button and the 10 still frames shot immediately before that and ongoing images are transmitted to the control center. The images are then visually scanned by the control center staff who promptly assess the situation and take the appropriate action. The system also includes an on-site microphone, which enables our staff to monitor the sounds from the premises, as well as a speaker, which permits the staff to issue warning to the intruder.

### Other Security Services

These services are chiefly centered on static guard and armored car services, which generated revenues of ¥42.5 billion, a 5.1% gain over the prior period, and constituted 10.8% of total revenue compared with 12.5% last term.

### CENTRALIZED SECURITY SERVICES





## MERCHANDISE, SOFTWARE, MEDICAL AND REAL ESTATE DEVELOPMENT

Revenue for this division reached ¥85.6 billion, a 37.6% advance, accounting for 21.7% of total revenue, up from 19.3% a year earlier.

### Merchandise

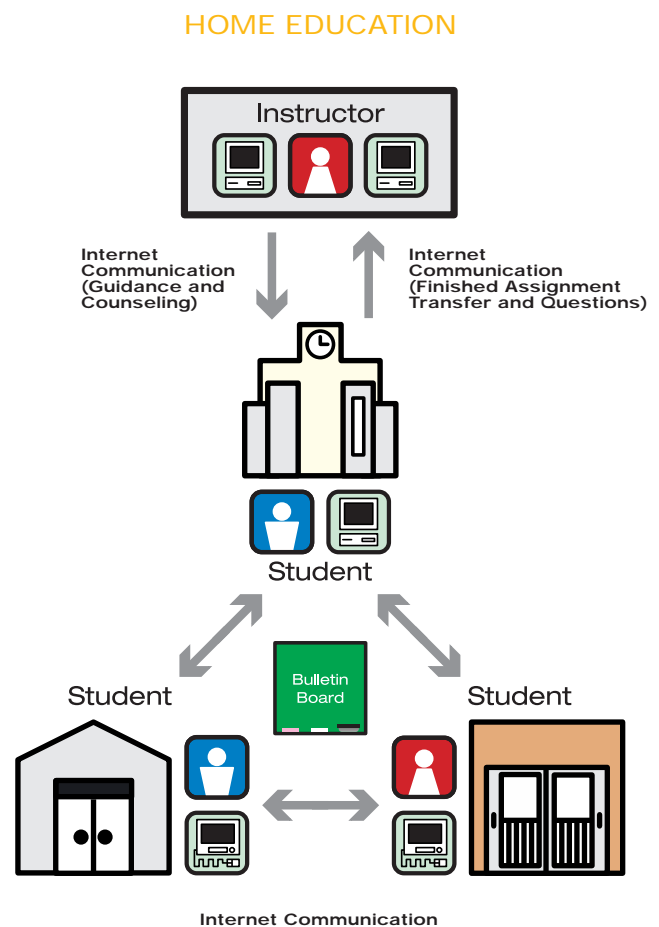
SECOM merchandise primarily consists of access-control systems, fire-detection and extinguishing systems, and intruder detection systems that can be purchased as stand-alone equipment or incorporated into a centralized system.

During the term, we released SESAMO-IDs, an upgraded version of this fingerprint-based access-control system that is faster and more accurate. Unlike systems using keys, cards or code numbers, fingerprint-based access-control systems are not subject to the problems of duplication, loss or inappropriate disclosure, which has positioned them as a strong selling item. However, customers have also asked for less expensive versions, to which we have responded with SESAMO-IDs. We redesigned the system to be more compact and suitable for outdoor installations, while significantly reducing the cost. As a consequence, this unit has become popular for use in ordinary offices, shops and other small facilities.

Our TOMAHAWK MACH I fire extinguishing systems and TOMAHAWK MACH II home-use models have received extensive praise for features such as an extendible hose that eliminates the need to carry the entire system around to reach a wide area, and for ease of operation, which is accomplished simply by pointing the nozzle at the base of the fire and pressing a button. We introduced updated versions of both systems during the term that are smaller, lighter and less expensive than their predecessors.

## Software and Information and Communications-Related Services

We recently joined 15 Japanese companies in forming Entrust Japan as the sole distributor in Japan of PKI digital identification (ID) certification technologies developed by Entrust Technologies of the United States, a leading developer for the corporate market. We also formed an alliance with the anti-virus software giant, Trend Micro, to start a cyber security service aimed at private- and public-sector companies and organizations.



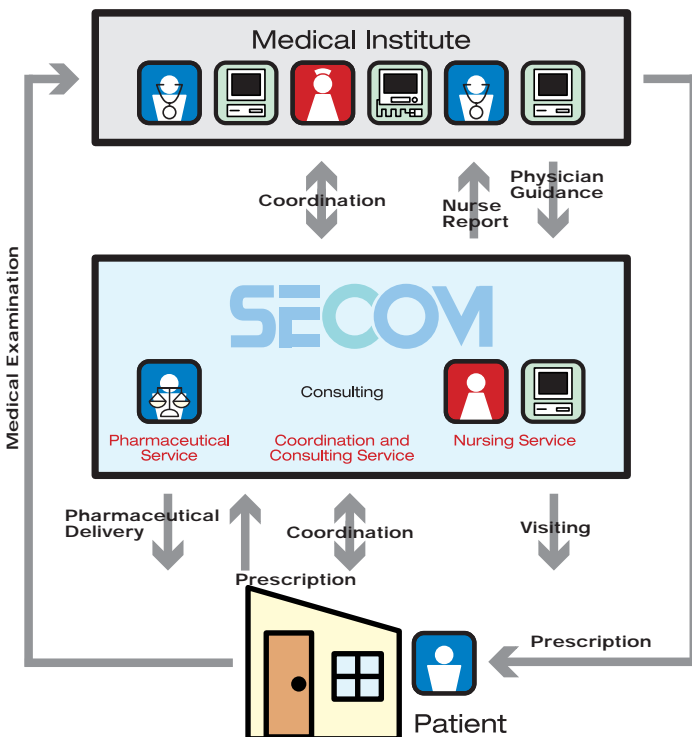
In our home education segment, Secom Lines launched sales of the Lines Sensei Denjyuku home education service, which is delivered via the Internet and CD-ROM. It also began offering the Internet Series for Schools educational software, which enables access to unsuitable sites for children to be blocked.

### Medical Services

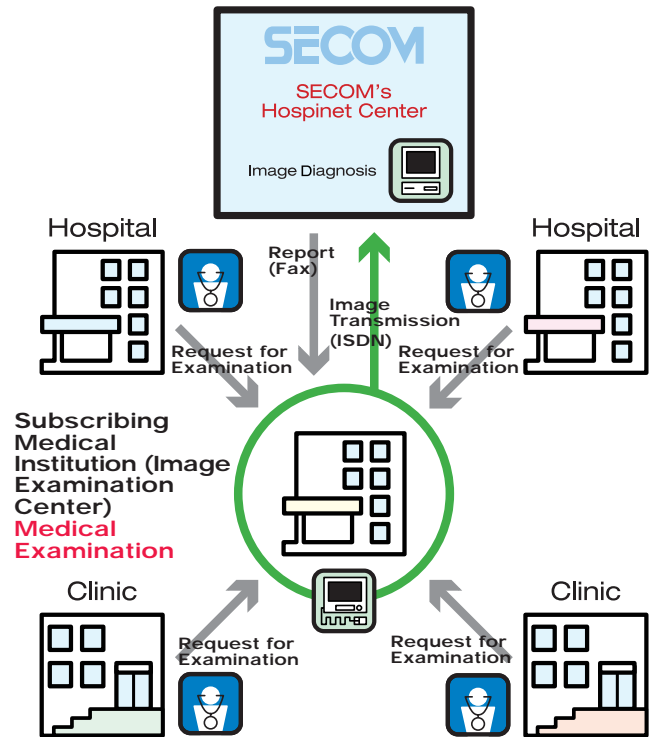
SECOM is promoting its home-based medical services as an alternative to more costly and less comfortable extended hospital sojourns. We launched the Medidata

service package as part of the Secom Home Medical System to allow patients at home to relay test results, conducted with self-administered analytical equipment rented as part of the service, to their primary physicians on-line. We also released the SECOM Group's first health and welfare product, an electronically operated artificial voice box marketed as My Voice. This device is better than previously available products because its speech synthesis produces a more natural sounding intonation and it is easy to wear and operate, and the SecomNurse Center, which operates around-the-clock

### HOME MEDICAL SERVICES



### HOSPINET SERVICE



throughout the year, responds promptly if the device malfunctions.

Secom Kampo System launched mail-order sales of its health food products during the year. These products are made from natural ingredients and are recommended by doctors in leading university hospitals.

We continued to promote sales of the “Hospinet” service, which enables high-speed transmission of medical data between subscribing medical institutions and SECOM’s Hospinet Center, an image diagnosis facility, via integrated services digital network (ISDN).

## Real Estate Development

Subsidiary Eclairer Co., Ltd., develops and sells high-grade condominiums. Synergies between the company’s residential real estate know-how and SECOM’s comprehensive home security services are enabling the SECOM Group to offer more convenient and safer living environments.

## NON-LIFE INSURANCE

Secom Toyo General Insurance, which began operations during the period, offers a wide range of innovative and affordably priced products. These include Cost-Reduced Automobile Insurance. Rates for Cost-Reduced Automobile Insurance are roughly 20% cheaper than those for conventional car insurance, regardless of the age or license class of the insured party. This product also features an emergency response feature, which enables policyholders to summon assistance from any one of SECOM’s emergency service depots around-the-clock in the event of an accident.

Secom Toyo General Insurance will continue to focus on the development and marketing of groundbreaking non-life insurance products that distinguish it from its competitors.

## OVERSEAS OPERATIONS

The SECOM overseas security network now serves subscribers in 10 foreign countries: the United States,

Taiwan, the Republic of Korea, Thailand, Malaysia, Singapore, Indonesia, China, the United Kingdom and Australia. Our operations in the United States and other Asian markets have turned in steady sales increases in recent years despite a difficult operating environment. In Asia, our subsidiaries in Taiwan and the Republic of Korea have established strong presences in their local markets and listed their shares on their respective stock exchanges.

During the period, the Westec Security Group, Inc., in the United States reorganized its operations, selling off its residential customer base in order to concentrate on the commercial market with on-line security systems incorporating remote imaging functions.





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## Operating Results

In the fiscal year ended March 31, 1999, SECOM endeavored to broaden its business activities by enhancing its services, particularly in the area of security services, as well as in such fields as information systems, medical services, home education, non-life insurance and real estate development, expanding marketing, and improving system and product development capabilities. Consolidated revenue climbed 22.1% from the preceding period, to ¥394.1 billion, mainly because of a gain on sale of investment in securities and full consolidation of Eclairer. Revenue from services, which includes revenue from centralized and other security services, advanced 4.7%, to ¥266.3 billion, and accounted for 67.6% of total revenue, down from 78.8% in the previous fiscal year. Revenue generated by merchandise, software, medical operations and real estate development amounted to ¥85.6 billion, an increase of 37.6%, and accounted for 21.7% of the total, up from 19.3%. The net gain on sale of investment in securities totaled ¥35.7 billion, of which ¥35.9 billion was generated by the sale of all shares held in three subsidiaries, comprising ¥13.1 billion generated by the sale of shares in Tokyo Internet Corporation, in Japan, and ¥22.8 billion on the sale of shares in U.S. subsidiaries Westec Residential Security, Inc., and Valley Burglar and Fire Alarm Co., Inc. Interest and other was ¥6.5 billion.

Costs and expenses were ¥311.5 billion, an increase of 15.0%, primarily due to rises in the cost of services and the cost of merchandise, software, medical operations and real estate development, paralleling the increase in revenues in both categories. Cost of services rose 6.2%, to ¥139.8 billion, or 52.5% of revenue from services, primarily due to increases in personnel, depreciation and communication expenses. Cost of merchandise, software, medical operations and real estate development climbed 50.2%, to ¥65.7 billion,

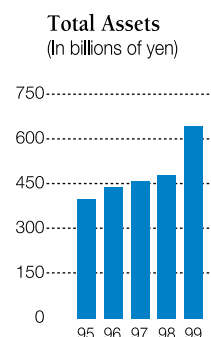
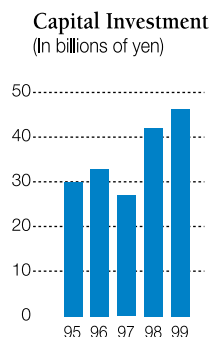
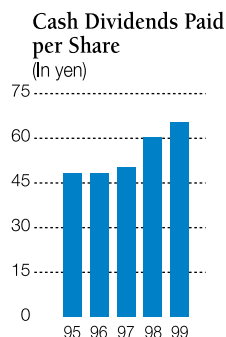
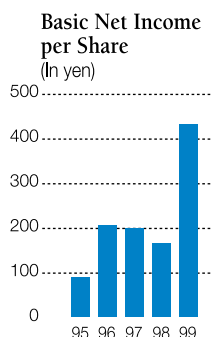
equivalent to 76.7% of revenue in this category. Selling, general and administrative (SGA) expenses increased 7.7%, to ¥96.8 billion, and corresponded to 24.6% of revenue, down from 27.8% the previous period. SGA expenses include ¥4.8 billion invested in research and development, down from ¥5.4 billion. Other expenses rose 74.0%, to ¥8.1 billion.

Income taxes rose ¥1.5 billion, to ¥32.4 billion (see Note 15). Net income soared 2.6 times, to ¥49.9 billion. Return on revenue was 12.7%, compared with 5.9% the preceding year. Basic net income per share was ¥429.03, up from ¥163.40, and fully diluted net income per share rose to ¥428.17, from ¥162.96. Cash dividends per share of ¥70.00 were approved at the general shareholders' meeting on June 29, 1999.

## Financial Position

Total assets of SECOM amounted to ¥643.5 billion on March 31, 1999, an increase of 34.1% from the previous fiscal year-end. Total current assets were ¥362.9 billion, up 58.2%. Cash and cash equivalents climbed 40.9%, to ¥149.0 billion. Short-term investments soared 142.5%, to ¥87.6 billion, owing to reinvestment of cash earned on the sale of shares in subsidiaries and the addition of securities held by newly consolidated subsidiary Secom Toyo General Insurance. Short-term receivables soared 165.0%, to ¥20.6 billion. The current ratio was 2.4 times, compared to 1.8 times in the preceding period, indicating a level of liquidity sufficient for the Company to cover all of its debt obligations and pursue active investment programs.

Property, plant and equipment, less accumulated depreciation, rose 3.9%, to ¥155.8 billion. This gain is primarily attributable to increases in buildings and improvements, control station signal equipment and signal equipment on subscribers' premises. Other assets declined 67.0%, to ¥7.4 billion.



Total current liabilities were ¥151.3 billion, up 19.1%, due largely to an increase in bank loans to cover investment costs for real estate subsidiary Eclairer Co., Ltd., and cash for replenishing cash dispensers for which SECOM provides security services. Long-term liabilities also expanded, as the consolidation of Secom Toyo General Insurance added ¥30.1 billion in unearned premiums and other insurance liabilities and ¥57.5 billion in investment deposits by policyholders.

Shareholders' equity rose 15.3%, to ¥327.1 billion, owing primarily to a ¥41.6 billion increase in retained earnings and to a ¥6.0 billion net unrealized gain in debt and equity securities. The equity ratio was 50.8%, down from 59.2% a year earlier, reflecting the increase in liabilities, which was caused by the consolidation of the account of Secom Toyo General Insurance for the first time.

## Cash Flows

SECOM maintains ample liquidity to ensure flexibility in its operations and support a sound financial foundation. To this end, the Company finances its various investing activities with cash generated by its operating activities.

During the period under review, net cash provided by operating activities declined ¥25.5 billion, to ¥31.9 billion, primarily owing to increases in inventories of real estate for sales by Eclairer and receivables and due from subscribers, net of allowances. Depreciation and amortization increased ¥0.8 billion, to ¥30.5 billion.

Although payments for purchases of property, plant and equipment rose ¥3.9 billion, to ¥46.3 billion, an increase in proceeds from sales of shares in three subsidiaries and cash provided by the acquisition of Secom Toyo General Insurance contributed to ¥3.3 billion in net cash provided by investing activities, compared with ¥50.1 billion in cash used in these activities in the preceding period.

Net cash provided by financing activities amounted to ¥8.7 billion, owing to an increase in bank loans related to the investments by subsidiary Eclairer. In the previous fiscal year, these activities used ¥16.3 billion.

Dividends paid climbed ¥0.6 billion for the year under review, owing to a per share dividend increase to ¥65.00, up from ¥60.00 a year earlier.

As a consequence of SECOM's operating, investing and financing activities, cash and cash equivalents at the end of the year amounted to ¥149.0 billion, an increase of ¥43.2 billion from a year earlier.

## Subsequent Event

On August 11, 1999, SECOM acquired a 67.5% stake in Pasco. The total amount of SECOM's investment was ¥15.0 billion.

## The Year 2000 Issue

SECOM recognized the importance of dealing with the Year 2000 Issue at an early stage of its appearance, and has taken steps to ensure compliance. The Company has concluded reconstruction of its centralized security service and accounting and personnel systems, and has completed both the modification of systems used by customers, including monitoring systems for automatic teller machines, and the installation of adjusted systems. In January 1999, SECOM launched a Year 2000 Action Program and established a Year 2000 Compliance Committee, which is chaired by the president and comprises directors of the Company and presidents of subsidiaries and affiliates. The committee is responsible for overseeing research, the determination and implementation of modifications, and follow-up activities, and reports directly to the Board of Directors.

Priority modifications to all customer rental systems and equipment, as well as internal computer systems, external interfaces and building facilities, were concluded in June 1999. The Company expects to complete all other modifications by September 1999, in line with the schedule set out in its Year 2000 Action Program.

Measures aimed at achieving Year 2000 compliance for existing systems and equipment have been implemented as part of regular modification and redevelopment, while Year 2000 compliance has been built into new product development and internal system reconstruction procedures. Accordingly, it is impossible to separate costs exclusively for Year 2000 compliance.

SECOM does not expect costs incurred in the future to achieve Year 2000 compliance to have any significant effect on its consolidated operations or financial condition.

SECOM is currently formulating contingency plans to minimize problems should unforeseen circumstances related to the Year 2000 Issue cause a system breakdown or otherwise interrupt the Company's services.

SECOM is making every possible effort to ensure Year 2000 compliance. However, because the potential impact of the Year 2000 Issue involves not only the SECOM Group's own systems, but also those of its customers, communications and other general infrastructure, and because unforeseen circumstances may develop, there is no guarantee that Year 2000 problems will not materially affect SECOM's operations and financial results.



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries  
March 31, 1999 and 1998

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	1999	1998	1999
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Notes 6 and 19)	¥149,046	¥105,808	\$1,231,785
Cash deposits (Notes 7 and 19)	43,703	33,030	361,182
Short-term investments (Note 8)	87,597	36,119	723,942
Notes and accounts receivable, trade (Note 19)	17,621	12,715	145,628
Due from subscribers (Note 19)	11,905	10,263	98,389
Inventories (Note 9)	24,186	17,592	199,884
Short-term receivables (Note 19)	20,559	7,757	169,909
Allowance for doubtful accounts	(1,590)	(1,317)	(13,141)
Deferred insurance acquisition cost (Note 12)	2,034	—	16,810
Deferred income taxes (Note 15)	986	1,388	8,149
Other current assets	6,860	6,067	56,694
Total current assets	362,907	229,422	2,999,231
<b>Investments and long-term receivables:</b>			
Investment securities (Note 8)	46,468	28,976	384,033
Investments in affiliated companies (Note 10)	23,631	21,098	195,297
Long-term receivables (Note 19)	27,546	7,691	227,653
Lease deposits	8,526	8,171	70,463
Other investments	12,847	12,470	106,174
Allowance for doubtful accounts	(1,620)	(208)	(13,388)
	117,398	78,198	970,232
<b>Property, plant and equipment</b> (Notes 11 and 18):			
Land	41,240	38,593	340,826
Buildings and improvements	54,276	52,079	448,562
Control station signal equipment	80,540	77,922	665,620
Signal equipment on subscribers' premises	124,981	113,066	1,032,901
Machinery, equipment and automobiles	34,450	36,651	284,711
Construction in progress	3,163	4,040	26,140
	338,650	322,351	2,798,760
Accumulated depreciation	(182,857)	(172,453)	(1,511,215)
	155,793	149,898	1,287,545
<b>Other assets:</b>			
Telephone and telegraph utility rights	4,514	4,956	37,306
Deferred income taxes (Note 15)	—	8,537	—
Goodwill (Note 5)	321	3,252	2,653
Intangibles and other	2,521	5,578	20,835
	7,356	22,323	60,794
	¥643,454	¥479,841	\$5,317,802

The accompanying notes are an integral part of these statements.

	In millions of yen		Translation into thousands of U.S. dollars (Note 3)
	March 31		March 31
	1999	1998	1999
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Bank loans (Notes 7, 11 and 19)	¥ 32,704	¥ 18,790	\$ 270,281
Current portion of long-term debt (Notes 11 and 19)	9,849	5,637	81,397
Notes and accounts payable, trade (Note 19)	9,692	8,114	80,099
Other payable	11,032	9,025	91,174
Deposits received (Note 19)	28,617	19,089	236,504
Deferred revenue	23,750	25,683	196,281
Accrued liabilities—			
Taxes on income	16,941	19,106	140,008
Payrolls (Note 19)	10,373	11,938	85,727
Other current liabilities	8,293	9,662	68,537
Total current liabilities	151,251	127,044	1,250,008
<b>Long-term liabilities:</b>			
Long-term debt (Notes 11 and 19)	21,511	23,227	177,777
Guarantee deposits received from subscribers	17,325	16,208	143,182
Accrued pension and severance cost (Note 13)	21,238	16,975	175,521
Unearned premiums and other insurance liabilities (Note 12)	30,110	—	248,843
Investment deposits by policyholders	57,532	—	475,471
Deferred income taxes (Note 15)	1,828	—	15,107
	149,544	56,410	1,235,901
<b>Minority shareholders' equity in subsidiaries</b>	<b>15,512</b>	<b>12,547</b>	<b>128,198</b>
<b>Shareholders' equity:</b>			
Common stock, ¥50 par value (Notes 16 and 21)—			
Authorized—300,000,000 shares			
Issued—1999—116,392,109 shares	65,710	—	543,058
1998—116,233,393 shares	—	65,327	—
Additional paid-in capital (Notes 16 and 21)	79,318	78,928	655,520
Legal reserve (Note 16)	6,677	5,956	55,182
Retained earnings	183,968	142,326	1,520,397
Net unrealized gain in debt and equity securities (Note 8)	13,068	7,083	108,000
Additional minimum pension liabilities adjustments (Note 13)	(8,819)	(7,931)	(72,884)
Cumulative foreign currency translation adjustments	(12,656)	(7,824)	(104,595)
	327,266	283,865	2,704,678
Less—Common stock in treasury, at cost;			
11,817 shares in 1999 and 3,185 shares in 1998	119	25	983
	327,147	283,840	2,703,695
<b>Commitments and contingent liabilities (Note 20)</b>			
	¥643,454	¥479,841	\$5,317,802

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD. and Subsidiaries  
The three years ended March 31, 1999

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
<b>Revenue:</b>				
Services	¥266,346	¥254,493	¥240,523	\$2,201,207
Merchandise, software and medical	85,580	62,184	57,459	707,273
Gain on sale of investment in securities (Note 22)	35,700	570	732	295,041
Interest and other (Note 14)	6,520	5,557	5,082	53,884
	<b>394,146</b>	<b>322,804</b>	<b>303,796</b>	<b>3,257,405</b>
<b>Costs and expenses:</b>				
Cost of services	139,764	131,633	122,709	1,155,075
Cost of merchandise, software and medical	65,677	43,726	40,809	542,785
Selling, general and administrative (Note 17)	96,837	89,877	80,642	800,306
Interest	1,078	1,051	1,195	8,909
Other (Note 14)	8,097	4,654	4,150	66,917
	<b>311,453</b>	<b>270,941</b>	<b>249,505</b>	<b>2,573,992</b>
<b>Income before income taxes</b>	<b>82,693</b>	<b>51,863</b>	<b>54,291</b>	<b>683,413</b>
<b>Income taxes</b> (Note 15):				
Current	34,946	31,533	29,707	288,810
Deferred	(2,573)	(683)	514	(21,265)
	<b>32,373</b>	<b>30,850</b>	<b>30,221</b>	<b>267,545</b>
<b>Income before minority interest in subsidiaries</b>	<b>50,320</b>	<b>21,013</b>	<b>24,070</b>	<b>415,868</b>
<b>Minority interest in subsidiaries</b>	<b>1,241</b>	<b>1,676</b>	<b>971</b>	<b>10,256</b>
<b>Income from consolidated operations</b>	<b>49,079</b>	<b>19,337</b>	<b>23,099</b>	<b>405,612</b>
<b>Equity in net gains/(losses) of affiliated companies</b>	<b>839</b>	<b>(347)</b>	<b>(301)</b>	<b>6,933</b>
<b>Net income</b>	<b>¥ 49,918</b>	<b>¥ 18,990</b>	<b>¥ 22,798</b>	<b>\$ 412,545</b>

	In exact yen			Translation into U.S. dollars (Note 3)
	Year ended March 31			Year ended March 31
	1999	1998	1997	1999
<b>Per share data</b> (Note 4):				
Net income — Basic	¥429.03	¥163.40	¥197.37	\$3.55
— Diluted	¥428.17	¥162.96	¥197.03	\$3.54

The accompanying notes are an integral part of these statements.



# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SECOM CO., LTD. and Subsidiaries  
The three years ended March 31, 1999

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	TOTAL
<b>Balance, March 31, 1996</b>	114,378,620	¥59,865	¥73,462	¥4,536	¥114,649	¥ 8,355	¥260,867
Comprehensive income—							
Net income	—	—	—	—	22,798	—	22,798
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding loss arising during period	—	—	—	—	—	(3,287)	(3,287)
Minimum pension liabilities adjustments	—	—	—	—	—	(3,954)	(3,954)
Translation adjustments	—	—	—	—	—	3,172	3,172
Total comprehensive income							18,729
Cash dividends	—	—	—	—	(5,719)	—	(5,719)
Transfer to legal reserve	—	—	—	652	(652)	—	—
Conversion of convertible bonds	1,825,204	5,388	5,387	—	—	—	10,775
Sale of treasury stock, net of tax	—	—	1	—	—	—	1
<b>Balance, March 31, 1997</b>	116,203,824	65,253	78,850	5,188	131,076	4,286	284,653
Comprehensive income—							
Net income	—	—	—	—	18,990	—	18,990
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding loss arising during period	—	—	—	—	—	(9,541)	(9,541)
Minimum pension liabilities adjustments	—	—	—	—	—	(3,977)	(3,977)
Translation adjustments	—	—	—	—	—	560	560
Total comprehensive income							6,032
Cash dividends	—	—	—	—	(6,972)	—	(6,972)
Transfer to legal reserve	—	—	—	768	(768)	—	—
Conversion of convertible bonds	29,569	74	74	—	—	—	148
Sale of treasury stock, net of tax	—	—	4	—	—	—	4
<b>Balance, March 31, 1998</b>	116,233,393	65,327	78,928	5,956	142,326	(8,672)	283,865
Comprehensive income—							
Net income	—	—	—	—	49,918	—	49,918
Other comprehensive income, net of tax (Note 16):							
Unrealized gains on securities—							
Unrealized holding gains arising during period	—	—	—	—	—	6,000	6,000
Less: Reclassification adjustment for gains included in net income	—	—	—	—	—	(15)	(15)
Minimum pension liabilities adjustments	—	—	—	—	—	(888)	(888)
Translation adjustments	—	—	—	—	—	(4,832)	(4,832)
Total comprehensive income							50,183
Cash dividends	—	—	—	—	(7,555)	—	(7,555)
Transfer to legal reserve	—	—	—	721	(721)	—	—
Conversion of convertible bonds	158,716	383	383	—	—	—	766
Sale of treasury stock, net of tax	—	—	7	—	—	—	7
<b>Balance, March 31, 1999</b>	<b>116,392,109</b>	<b>¥65,710</b>	<b>¥79,318</b>	<b>¥6,677</b>	<b>¥183,968</b>	<b>¥(8,407)</b>	<b>¥327,266</b>

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	TOTAL
<b>Balance, April 1, 1998</b>	\$539,893	\$652,297	\$49,223	\$1,176,248	\$(71,669)	\$2,345,992
Comprehensive income—						
Net income	—	—	—	412,545	—	412,545
Other comprehensive income, net of tax (Note 16):						
Unrealized gains on securities—						
Unrealized holding gains arising during period	—	—	—	—	49,587	49,587
Less: Reclassification adjustment for gains included in net income	—	—	—	—	(124)	(124)
Minimum pension liabilities adjustments	—	—	—	—	(7,339)	(7,339)
Translation adjustments	—	—	—	—	(39,934)	(39,934)
Total comprehensive income						414,735
Cash dividends	—	—	—	(62,437)	—	(62,437)
Transfer to legal reserve	—	—	5,959	(5,959)	—	—
Conversion of convertible bonds	3,165	3,165	—	—	—	6,330
Sale of treasury stock, net of tax	—	58	—	—	—	58
<b>Balance, March 31, 1999</b>	<b>\$543,058</b>	<b>\$655,520</b>	<b>\$55,182</b>	<b>\$1,520,397</b>	<b>\$(69,479)</b>	<b>\$2,704,678</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SECOM CO., LTD. and Subsidiaries  
The three years ended March 31, 1999

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
<b>Cash flows from operating activities:</b>				
Net income	¥ 49,918	¥ 18,990	¥ 22,798	\$ 412,545
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	30,542	29,709	28,917	252,413
Pension and severance costs	1,733	2,229	892	14,323
Deferred income taxes	(2,573)	(683)	514	(21,265)
Net loss on sales and disposal of fixed assets and investment securities	1,988	1,627	887	16,430
Gain on sales of Tokyo Internet Corporation	(13,054)	—	—	(107,884)
Gain on sales of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	(22,828)	—	—	(188,661)
Equity in undistributed (income) losses of affiliated companies	(839)	347	301	(6,933)
Minority interest in income of consolidated subsidiaries	1,241	1,676	971	10,256
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
Increase in cash deposits (Note 7)	(10,673)	(5,935)	(3,963)	(88,206)
Increase in receivables and due from subscribers, net of allowances	(5,215)	(2,174)	(2,958)	(43,099)
(Increase) decrease in inventories	(7,203)	38	(848)	(59,529)
(Increase) decrease in other current assets	(419)	(701)	365	(3,463)
Increase in payables and deferred revenue	1,284	2,690	1,891	10,611
Increase (decrease) in deposits received	9,529	1,526	(590)	78,752
Increase (decrease) in accrued taxes on income	(2,120)	2,211	257	(17,521)
Increase in guarantee deposits received	462	1,471	1,083	3,818
Increase (decrease) in other current liabilities	(343)	4,507	799	(2,835)
Other	461	(106)	46	3,810
Net cash provided by operating activities	31,891	57,422	51,362	263,562
<b>Cash flows from investing activities:</b>				
Proceeds from sales of property, plant and equipment	1,774	399	245	14,661
Payments for purchases of property, plant and equipment	(46,332)	(42,389)	(27,033)	(382,909)
Proceeds from sales of investment in securities	606	5,208	862	5,008
Payments for investments in securities	(13,214)	(12,589)	(13,205)	(109,206)
Decrease in short-term investments	3,993	4,017	4,982	33,000
Proceeds from sales of Tokyo Internet Corporation	11,757	—	—	97,165
Proceeds from sales of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	33,503	—	—	276,884
Acquisition of Secom Toyo General Insurance Co., Ltd., net of cash acquired	14,166	—	—	117,075
Payments for acquisition of Eclairer Co., Ltd.	—	(1,990)	—	—
Increase in other assets	(4,866)	(5,494)	(2,256)	(40,215)
Other	1,913	2,758	1,557	15,810
Net cash provided by (used in) investing activities	3,300	(50,080)	(34,848)	27,273
<b>Cash flows from financing activities:</b>				
Proceeds from long-term debt	7,445	10,351	393	61,529
Repayments of long-term debt	(5,016)	(8,210)	(7,727)	(41,454)
Increase (decrease) in bank loans	13,908	(11,488)	(323)	114,942
Dividends paid	(7,555)	(6,972)	(5,718)	(62,438)
Increase in treasury stock	(94)	(6)	(6)	(777)
Net cash provided by (used in) financing activities	8,688	(16,325)	(13,381)	71,802
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(641)</b>	<b>(571)</b>	<b>620</b>	<b>(5,298)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>43,238</b>	<b>(9,554)</b>	<b>3,753</b>	<b>357,339</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>105,808</b>	<b>115,362</b>	<b>111,609</b>	<b>874,446</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥149,046</b>	<b>¥105,808</b>	<b>¥115,362</b>	<b>\$1,231,785</b>

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECOM CO., LTD. and Subsidiaries

### 1. Nature of operations

The Company is engaged in security services, information and communication related services, insurance services and medical services. The Company's principal business activities are security services including on-line centralized security services for commercial and residential premises, as well as large-scale proprietary security systems, static guard services, armored car services for money collection and deposit, and the development, manufacturing and sale of various security equipment.

To grow the Social System Industry concept, the Company is diversifying its operations to cover information and communication services, including software development and system integration activities, on-line home education services, and home medical services and other medical services. Furthermore, the Company also provides non-life insurance and real estate development 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. Certain adjustments and reclassifications have been incorporated in the accompanying financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

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

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

#### **(1) Basis of consolidation and investments in affiliated companies**

The consolidated financial statements include those of the parent company and its subsidiaries ("the Company"). All intercompany transactions and accounts have been eliminated in consolidation.

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

The excess of the cost over the underlying net equity of investments in subsidiaries as well as companies accounted for on an equity basis, is recognized as goodwill, and is

amortized on a straight-line basis over periods not exceeding 10 years.

#### **(2) Foreign currency translation**

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end exchange rates and all income and expense accounts are translated at average rates of exchange during the year. The resulting translation adjustments are accumulated and reported as a separate component of shareholders' equity.

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

#### **(3) Cash equivalents**

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

#### **(4) Investments in debt and equity securities**

The Company classifies investments in debt and equity securities as "available-for-sale" or "held-to-maturity". The Company has no securities classified as "trading". Marketable debt and equity securities which are classified as "available-for-sale" are recorded at current market value. Unrealized gains and losses on securities classified as "available-for-sale" are reported in a separate component of shareholders' equity, net of tax. Debt securities that are expected to be "held-to-maturity" are reported at amortized cost. Other investments in nonpublic companies are recorded at cost.

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

#### **(5) Inventories**

Inventories are stated at cost not in excess of net realizable value. Cost is determined principally by the moving-average method.

#### **(6) Deferred insurance acquisition costs**

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

#### **(7) Property, plant and equipment and depreciation**

Property, plant and equipment, including significant betterments, are carried at cost. When retired or otherwise disposed of, the cost and related depreciation are cleared from the

respective accounts and the net difference, less any amounts realized on disposition, is reflected in earnings. Depreciation is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets. Depreciation expense was ¥28,838 million (\$238,331 thousand), ¥27,054 million and ¥26,243 million for the years ended March 31, 1999, 1998 and 1997, respectively. Maintenance, repairs and renewals are charged to income as incurred.

The estimated useful lives of depreciable assets are as follows:

Buildings	15 to 50 years
Signal equipment	5 years
Machinery, equipment and automobiles	3 to 15 years

#### **(8) Telephone and telegraph utility rights**

These rights are shown at the net amount of their original cost less amortization thereof using the straight-line method over a period of 20 years.

#### **(9) Intangibles and other**

Intangibles, which mainly consist of customer contracts, are amortized on a straight-line basis over their useful lives which are not in excess of 10 years. The Company's long-lived assets, including goodwill and identifiable intangibles, held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

#### **(10) Unearned premiums and other insurance liabilities**

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

#### **(11) Income taxes**

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

#### **(12) Revenue recognition**

Revenue is recognized from security services over the contractual period or, in the case of specific services, when such services are performed. Merchandise and software sales are recognized as products are shipped or, in the case of installations, when such installations are completed.

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

Subscribers are generally requested to prepay a portion of service charges which are credited to deferred revenue and taken into income as earned.

#### **(13) Research and development**

Research and development costs are charged to expense as incurred.

#### **(14) Interest rate swap and currency swap agreement**

The Company enters into interest rate swap or currency swap agreements in order to limit the Company's exposure to loss in relation to underlying debt instruments resulting from adverse fluctuations in interest rates or foreign currency exchange rates. The related interest differentials paid or received under these agreements are recognized over the terms of the agreements in interest expense.

#### **(15) Earnings per share**

Basic Earnings per Share ("EPS") is computed based on the average number of shares of common stock outstanding for the period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock. All prior-period EPS data presented have been restated to conform with FAS 128.

#### **(16) Distribution of common stock**

A corporation in Japan may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Free share distributions are accounted for either by (i) a transfer equal to par value or more from additional paid-in capital to the common stock account or (ii) issuance of new shares without any change in the common stock account if the common stock account exceeds the aggregate par value of all issued shares including the newly issued shares. Such free share distributions are clearly distinguished from "stock dividends" which, under the Commercial Code of Japan, as amended effective April 1, 1991, are effected by an appropriation of retained earnings to the common stock account by a resolution of the shareholders and an issuance of additional shares by way of stock split with respect to the amount appropriated by resolution of the Board of Directors.

A corporation in the United States of America issuing shares, comparable to less than 25 percent free share distributions, would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to the appropriate capital accounts. Such transfers, however, would have no effect on total shareholders' equity (Note 21).



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

### (17) Comprehensive income

In the fiscal year ended March 31, 1999, the Company adopted Statement of Financial Accounting Standards 130 ("FAS 130"), "Reporting Comprehensive Income." Comprehensive income is defined in this standard as total change in stockholders' equity excluding capital transactions. The Company's comprehensive income comprises net income plus other comprehensive income representing changes in cumulative foreign currency translation adjustments, net unrealized gain in debt and equity securities and additional minimum pension liability adjustment. The Company has elected to disclose comprehensive income and its components in the consolidated statements of changes in shareholders' equity.

### (18) Recent pronouncements

In June 1998, FASB issued Statement of Financial Accounting Standards 133 ("FAS 133"), "Accounting for Derivative Investments and Hedging Activities." In June 1999, FASB issued Statement of Financial Accounting Standards 137 ("FAS 137"), "Deferral of the Effective Date of FASB statement No. 133."

FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those investments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The effective date of FAS 133 has been delayed for one year by FAS 137. In the case of the Company, this statement is effective for the fiscal year beginning April 1, 2001.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP, which is effective for financial statements for fiscal years beginning after December 15, 1998, provides guidance on accounting for the costs of computer software developed or obtained solely to meet the Company's internal needs. At this stage, it is not possible to estimate the impact of adoption of this SOP on the Company's financial position or results of operations.

### (19) Reclassifications

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

### 3. U.S. dollar amounts

U.S. dollar amounts have been included in these financial statements, solely for convenience of the reader. These translations should not be construed as representing that they represent amounts actually represent, or have been or could be converted into U.S. dollars. The translations of yen into U.S. dollars have been made at the rate at March 31, 1999, ¥121=US\$1.

### 4. Reconciliation of the differences between basic and diluted EPS

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 1997, 1998, and 1999, is as follows:

	In millions of yen	Thousands of shares	In yen	
	Income	Weighted- average shares	EPS	
For the year ended March 31, 1997				
Basic EPS				
Net income available to common stockholders	¥22,798	115,509	¥197.37	
Effect of dilutive securities				
Convertible bonds	48	444		
Diluted EPS				
Net income for computation	¥22,846	115,953	¥197.03	
For the year ended March 31, 1998				
Basic EPS				
Net income available to common stockholders	¥18,990	116,218	¥163.40	
Effect of dilutive securities				
Convertible bonds	16	414		
Diluted EPS				
Net income for computation	¥19,006	116,632	¥162.96	
	In millions of yen	Thousands of shares	In yen	In dollars
	Income	Weighted- average shares	EPS	EPS

### For the year ended March 31, 1999

Basic EPS				
Net income available to common stockholders	¥49,918	116,350	¥429.03	\$3.55
Effect of dilutive securities				
Convertible bonds	9	255		
Diluted EPS				
Net income for computation	¥49,927	116,605	¥428.17	\$3.54

### 5. Acquisition

In December 1997 and January 1998, the parent company subscribed, in two installments, to new shares issued by Eclairer Co., Ltd. ("Eclairer"), a real estate development company in Japan, for an aggregate amount of ¥1,990 million (\$16,446 thousand). As a result, the parent company now owns 99.8 percent of the outstanding shares of Eclairer.

In September 1998 and March 1999, the parent company subscribed, in two installments, to new shares issued by Secom Toyo General Insurance Co., Ltd. ("Secom Toyo"), an on-life insurance company in Japan, for an aggregate amount of ¥9,029 million (\$74,620 thousand). As a result, the parent company now owns 75.9 percent of the outstanding shares of Secom Toyo.

The acquisitions referred to above have been accounted for as a purchase and the assets and liabilities of the acquired company have been consolidated at their fair value. The results of its operations have been included in the consolidated statements of income since the date of acquisition of the majority of outstanding shares. The excess of the purchase price over the value assigned to the underlying net assets acquired is included in goodwill at March 31, 1999 and 1998 amounting to ¥300 million (\$2,479 thousand) and ¥3,252 million, respectively. The goodwill is being amortized on a straight-line basis over periods not exceeding 10 years.

The consolidated pro forma information which would show the results of the Company's consolidated operations for the years ended March 31, 1999, 1998 and 1997, have not been disclosed because prior year comparative accounting figures for the acquired companies are not available.

## 6. Cash and cash equivalents

Cash and cash equivalents as of March 31, 1999 and 1998, were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Cash	¥ 65,673	¥ 43,388	\$ 542,752
Time deposits	42,260	37,422	349,256
Investment securities	41,113	24,998	339,777
	¥149,046	¥105,808	\$1,231,785

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

## 7. Cash deposits

The Company operates cash collection and deposit services for banks relating to cash dispensers outside of bank facilities. Cash deposit balances, mostly in cash dispensers, of ¥43,703 million (\$361,182 thousand) and ¥33,030 million as of March 31, 1999 and 1998, respectively, are segregated

from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the necessary cash by use of bank overdrafts with the related banks. Bank loans include ¥21,058 million (\$174,033 thousand) and ¥10,193 million as of March 31, 1999 and 1998, respectively, relating to this operation. As part of its fee arrangement for such services, the Company is reimbursed for the interest cost of the related overdrafts.

## 8. Short-term investments and investment securities

Short-term investments (current) and investment securities (noncurrent) include debt and equity securities, of which the aggregate fair value, gross unrealized gains, gross unrealized losses and cost pertaining to "available-for-sale" and "held-to-maturity" investments as of March 31, 1999 and 1998, were as follows:

	In millions of yen			
	March 31, 1999			
	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Available for sale:				
Equity securities	¥37,286	¥29,288	¥3,461	¥ 63,113
Debt securities	45,880	330	469	45,741
Total	¥83,166	¥29,618	¥3,930	¥108,854

Held to maturity:				
Debt securities	¥20,000	¥ 1,220	¥ —	¥ 21,220

	In thousands of U.S. dollars			
	March 31, 1999			
	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Available for sale:				
Equity securities	\$308,149	\$242,049	\$28,603	\$521,595
Debt securities	379,174	2,727	3,876	378,025
Total	\$687,323	\$244,776	\$32,479	\$899,620
Held to maturity:				
Debt securities	\$165,289	\$ 10,083	\$ —	\$175,372

	In millions of yen			
	March 31, 1998			
	Cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Available for sale:				
Equity securities	¥11,576	¥18,099	¥3,434	¥26,241
Debt securities	23,008	347	675	22,680
Total	¥34,584	¥18,446	¥4,109	¥48,921
Held to maturity:				
Debt securities	¥10,000	¥ 376	¥ —	¥10,376

At March 31, 1999, debt securities mainly 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, 1999, are as follows:

	In millions of yen			
	March 31, 1999			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	¥15,425	¥15,416	¥ —	¥ —
Due after one year through five years	20,470	20,563	20,000	21,220
Due after five years through ten years	7,938	7,660	—	—
Due after ten years	2,047	2,102	—	—
	¥45,880	¥45,741	¥20,000	¥21,220

	In thousands of U.S. dollars			
	March 31, 1999			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	\$127,479	\$127,405	\$ —	\$ —
Due after one year through five years	169,174	169,942	165,289	175,372
Due after five years through ten years	65,603	63,306	—	—
Due after ten years	16,918	17,372	—	—
	\$379,174	\$378,025	\$165,289	\$175,372

During the years ended March 31, 1999 and 1998, the net unrealized gain on “available-for-sale” securities included in the separate component of shareholders’ equity, net of applicable taxes, increased by ¥5,985 million (\$49,463 thousand) and decreased by ¥9,541 million, respectively.

Proceeds from the sale of “available-for-sale” securities for the years ended March 31, 1999, 1998 and 1997, were ¥1,282 million (\$10,595 thousand), ¥2,584 million and ¥1,471 million, respectively. On those sales, the gross realized gains and gross realized losses on a specifically identified moving-average cost basis for the years ended March 31, 1999, 1998 and 1997, were as follows:

	In millions of yen			In thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	1999	1998	1997	1999
Gross realized gains	¥350	¥791	¥ 86	\$2,893
Gross realized losses	690	340	141	5,702

The Company maintains long-term investment securities, included as investment securities, issued by a number of nonpublic companies. The aggregate carrying amount of the investments in nonpublic companies, generally at cost, was ¥5,211 million (\$43,066 thousand) and ¥6,174 million at March 31, 1999 and 1998, respectively. The corresponding fair value at that date was not computed as such estimation was not practicable.

## 9. Inventories

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

Inventories comprise as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Security-related products	¥ 5,703	¥ 5,162	\$ 47,132
Software	2,145	3,138	17,727
Real estate	14,590	7,350	120,579
Other	1,748	1,942	14,446
	¥24,186	¥17,592	\$199,884

## 10. Investments in affiliated companies

The Company has investments in affiliates that are accounted for under the equity method. The principal investments are Nohmi Bosai Ltd., a 28.6 percent owned affiliate, which is Japan’s largest manufacturer of fire alarms and listed on the First Section of the Tokyo Stock Exchange; Taiwan Secom Co., Ltd., a 24.9 percent owned affiliate, which is listed on the Taiwan Stock Exchange Corp.; S1 Corporation, a 25.1 percent owned affiliate, which is listed on the Korea Stock Exchange; Japan Image Communications Co., Ltd., a 27.3 percent owned affiliate; and Musashino-Mitaka Cable Television Inc., a 39.0 percent owned affiliate.

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

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Current assets	¥ 77,465	¥ 78,271	\$ 640,207
Noncurrent assets	90,293	82,872	746,223
Total assets	¥167,758	¥161,143	\$1,386,430
Current liabilities	¥ 50,463	¥ 53,118	\$ 417,050
Noncurrent liabilities	39,724	40,549	328,297
Shareholders’ equity	77,571	67,476	641,083
Total liabilities and shareholders’ equity	¥167,758	¥161,143	\$1,386,430

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Net sales	¥155,293	¥162,967	¥150,908	\$1,283,413
Gross profit	¥ 38,722	¥ 37,938	¥ 37,155	\$ 320,017
Net income	¥ 3,943	¥ 262	¥ 1,207	\$ 32,587

Dividends received from affiliated companies for the years ended March 31, 1999, 1998 and 1997, were ¥562 million (\$4,645 thousand), ¥703 million and ¥475 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥17,456 million (\$144,264 thousand) and ¥14,785 million at March 31, 1999 and 1998, respectively had a quoted market value of ¥40,005 million (\$330,620 thousand) and ¥43,234 million at March 31, 1999 and 1998, respectively.

The unamortized amounts of goodwill represent the excess of the carrying amount of investments in affiliated companies under the equity method over the amount of underlying equity in net assets. The unamortized amounts of goodwill, ¥728 million (\$6,017 thousand) and ¥805 million at March 31, 1999 and 1998, respectively, are being amortized on a straight-line basis over periods not exceeding 10 years.

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

	In millions of yen			In thousands of U.S. dollars
	Year ended March 31			Year ended March 31
	1999	1998	1997	1999
Sales	<b>¥1,394</b>	¥1,647	¥1,895	<b>\$11,521</b>
Purchases	<b>¥1,692</b>	¥2,020	¥1,353	<b>\$13,983</b>

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Notes and accounts receivable, trade	<b>¥ 520</b>	¥ 539	<b>\$ 4,298</b>
Loan receivables	<b>¥1,528</b>	¥1,319	<b>\$12,628</b>
Notes and accounts payable	<b>¥ 204</b>	¥ 195	<b>\$ 1,686</b>
Guarantees for bank loans	<b>¥8,531</b>	¥6,453	<b>\$70,504</b>

#### 11. Bank loans and long-term debt

Bank loans of ¥32,704 million (\$270,281 thousand) at March 31, 1999, are represented generally by 90- to 365-day notes with interest rates ranging from 0.5 to 7.0 percent per annum. Substantially all of these loans are with banks. The Company has entered into basic agreements with these banks that state that, with respect to all present or future loans with such banks, collateral (including sums on deposit with such banks) or guarantors shall be provided immediately upon request. Further, any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks. The Company has never been requested to submit such additional security.

Long-term debt at March 31, 1999 and 1998, was comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Loans, principally from banks due 1999 to 2015 with interest ranging from 1.0 to 4.40%:			
Secured	<b>¥ 9,401</b>	¥ 3,884	<b>\$ 77,694</b>
Unsecured	<b>1,015</b>	1,889	<b>8,389</b>
5.00% convertible U.S. dollar bonds (\$- thousand) due 1998, convertible currently at ¥1,939.4 (\$8.33 calculated at ¥232.80=\$1) for one common share, redeemable before due date	—	0	—
3.75% convertible U.S. dollar bonds (\$20 thousand) due 1999, convertible currently at ¥3,609.2 (\$14.93 calculated at ¥241.70=\$1) for one common share, redeemable before due date	<b>2</b>	3	<b>17</b>
1.60% convertible bonds due 2002, convertible currently at ¥5,335.6 (\$44.10) for one common share, redeemable before due date	<b>1,283</b>	1,405	<b>10,603</b>
1.60% convertible bonds due 2004, convertible currently at ¥4,744.7 (\$39.21) for one common share, redeemable before due date	<b>64</b>	314	<b>529</b>
1.50% convertible bonds due 1998, convertible currently at ¥4,744.7 (\$39.21) for one common share, redeemable before due date	—	393	—
1.85% floating rate notes due 2002	<b>5,000</b>	5,000	<b>41,322</b>
2.05% floating rate notes due 2003	<b>5,000</b>	5,000	<b>41,322</b>
Obligations under capital leases, due 1999 to 2026 (Note 18)	<b>9,595</b>	10,976	<b>79,298</b>
	<b>31,360</b>	28,864	<b>259,174</b>
Less—Portion due within one year	<b>9,849</b>	5,637	<b>81,397</b>
	<b>¥21,511</b>	¥23,227	<b>\$177,777</b>

Property, plant and equipment with a book value of ¥4,291 million (\$35,463 thousand) and inventories with a book value of ¥13,939 million (\$115,198 thousand) were pledged as collateral for short-term and long-term debt at March 31, 1999.

The Company has no compensating balance arrangements with any lending bank. However, as is the customary practice in Japan, the Company had time deposits aggregating ¥1,788 million (\$14,777 thousand) with such banks at March 31, 1999.



The convertible bonds can be converted into common stock at any time by the bondholders. Under the terms of each subscription and underwriting agreement for convertible bonds, the conversion price of convertible bonds is subject to adjustment in certain instances, such as for stock dividends, stock splits or free distributions of common stock, and an acceleration clause may be invoked if the Company experiences ordinary losses (as defined in each agreement) for three consecutive years.

Under the terms of the agreement for the 1.60 percent convertible bonds due 2002, the cumulative amount of cash dividends may not exceed ¥3,500 million (\$28,926 thousand) plus the aggregate amount of ordinary income after income taxes (as defined in the agreement) of the Company, beginning with the fiscal year ended November 30, 1987.

An acceleration clause and limitation of cash dividends will not be applied if the Company provides collateral which is accepted by the trustees.

Under the terms of the agreements for the 1.60 percent convertible bonds due 2002, a sinking fund payment is required.

The aggregate annual maturities and sinking fund requirements on long-term debt during the five years ending March 31, 2004, are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥9,849	\$81,397
2001	2,213	18,289
2002	6,610	54,628
2003	7,228	59,736
2004	412	3,405

## 12. Insurance-related operations

Secom Toyo maintains accounting records as noted in Note 2 in accordance with the accounting principles and practices prescribed by the Japanese Financial Supervisory Agency ("FSA"), which vary in some respects from accounting principles generally accepted in the United States of America. Those differences are mainly; that insurance acquisition costs are charged to income when incurred in Japan whereas in the U.S. those costs are deferred and amortized generally over the premium-paying period of the insurance policies; that liabilities estimated unpaid claims for the incurred but not reported claims are computed based on related regulations in Japan whereas in the U.S. those liabilities are computed based on past experience for unreported losses; and that unearned premiums are calculated based on the documents authorized by the supervisory authority in Japan whereas in the U.S. unearned premiums are reflected based on the lapse and surrender, assumed interest rate and certain other assumptions in the calculation formula.

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

The net equity of Secom Toyo as of March 31, 1999, was ¥15,506 million (\$128,149 thousand).

## 13. Pension and severance costs

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

The parent company and certain Japanese subsidiaries maintain a contributory defined benefit welfare pension plan, covering substantially all of their employees. The pension benefits thereunder are determined by reference to current basic rates of pay, length of service and conditions under which the termination occurs. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law.

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

Net pension and severance costs under Statement of Financial Accounting Standards 87 ("FAS 87"), "Employers' Accounting for Pensions" for the years ended March 31, 1999, 1998 and 1997, were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Net pension and severance cost (credit):				
Service cost	¥5,413	¥4,619	¥3,703	\$ 44,735
Interest cost	2,952	2,724	2,470	24,397
Expected return on plan assets	(2,463)	(2,214)	(2,010)	(20,355)
Amortization of transition assets	(46)	(46)	(46)	(380)
Amortization of prior service cost	105	105	105	868
Recognized actuarial loss	1,200	695	246	9,917
Net periodic benefit cost	¥7,161	¥5,883	¥4,468	\$ 59,182

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

	In millions of yen		In thousands of U.S. dollars
	Years ended March 31		Year ended March 31
	1999	1998	1999
Change in benefit obligation:			
Benefit obligation			
at beginning of year	¥ 84,343	¥ 68,110	\$ 697,050
Service cost	5,413	4,619	44,736
Interest cost	2,952	2,724	24,396
Plan participants' contributions	2,209	1,674	18,256
Actuarial (gain) loss	(2,292)	8,754	(18,942)
Benefits paid	(1,362)	(1,538)	(11,256)
Benefit obligation			
at end of year	91,263	84,343	754,240
Benefit obligation for Secom Toyo at end of year	3,113	—	25,727
Total benefit obligation at end of year	94,376	84,343	779,967
Change in plan assets:			
Fair value of plan assets			
at beginning of year	58,259	53,575	481,480
Actual return on plan assets	28	1,326	231
Employer contribution	4,474	3,131	36,975
Plan participants' contributions	2,209	1,674	18,256
Benefits paid	(1,338)	(1,447)	(11,058)
Fair value of plan assets			
at end of year	63,632	58,259	525,884
Fair value of plan assets for Secom Toyo at end of year	398	—	3,289
Total fair value of plan assets at end of year	64,030	58,259	529,173
Funds status	30,346	26,084	250,793
Unrecognized actuarial loss	(23,192)	(24,249)	(191,669)
Unrecognized transition assets	274	320	2,264
Unrecognized prior service cost	(852)	(957)	(7,041)
Net amount recognized	¥ 6,576	¥ 1,198	\$ 54,347
Amounts recognized in the statement of financial position consists of:			
Accrued pension and severance costs	¥ 22,608	¥ 17,263	\$ 186,843
Intangible asset	(852)	(957)	(7,041)
Accumulated other comprehensive income	(15,180)	(15,108)	(125,455)
Net pension liability recognized in the balance sheet	¥ 6,576	¥ 1,198	\$ 54,347

	Years ended March 31	
	1999	1998
Assumptions in determination of pension costs and obligations at March 31:		
Discount rate	3.5%	3.5%
Long-term rate of salary increase	2.5–2.8%	2.5–2.9%
Long-term rate of return on funded assets	4.0%	4.0%

As of March 31, 1999, approximately 44 percent of plan assets were invested in equity securities. The remainder was mainly invested in fixed income securities.

The provisions of FAS 87 require recognition in the balance sheet of an additional minimum pension liability and related intangible asset for pension plans with an accumulated benefit obligation in excess of plan assets. The additional minimum pension liability which exceeded the unrecognized prior service cost was recorded as a component of accumulated other comprehensive income, net of tax, of ¥7,847 million (\$64,851 thousand) and ¥7,931 million as of March 31, 1999 and 1998, respectively.

Most subsidiaries outside Japan have various retirement plans covering substantially all of their employees, which are primarily defined contribution plans. The funding policy for the defined contribution plans is to annually contribute an amount equal to a certain percent of the participants' annual salaries. The contributions to the defined contribution pension plans for the years ended March 31, 1999, 1998 and 1997, were ¥19 million (\$157 thousand), ¥38 million and ¥28 million, respectively.

#### 14. Exchange gains and losses

Other expenses for the years ended March, 1999 and 1997, include net exchange losses of ¥178 million (\$1,471 thousand) and ¥29 million, respectively. Interest and other revenue for the year ended March 31, 1998, include net exchange gains of ¥609 million.

#### 15. Income taxes

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 51 percent for the years ended March 31, 1998 and 1997, and approximately 47.5 percent for the year ended March 31, 1999, respectively. Due to the changes in Japanese income tax regulations, a normal statutory tax rate in Japan was reduced to approximately 47.5 percent for the year beginning on April 1, 1998, and was further reduced to approximately 41.9 percent for the year beginning on April 1, 1999. The respective revised tax rates were used in the measurement of deferred tax assets and liabilities at March 31, 1998 and 1999.

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

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Income taxes computed at statutory tax rate of 47.5% in 1999, 51.0% in 1998 and 1997	<b>¥39,279</b>	¥26,450	¥27,688	<b>\$324,620</b>
Increase resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	<b>1,936</b>	4,603	2,149	<b>16,000</b>
Amortization of non-deductible goodwill	<b>1,213</b>	147	145	<b>10,024</b>
Utilization of tax loss carryforwards	<b>(8,713)</b>	(423)	(224)	<b>(72,008)</b>
Effect of change in normal statutory tax rate in Japan	<b>(4)</b>	203	—	<b>(33)</b>
Other	<b>(1,338)</b>	(130)	463	<b>(11,058)</b>
Consolidated income taxes	<b>¥32,373</b>	¥30,850	¥30,221	<b>\$267,545</b>

The significant components of deferred tax assets and liabilities at March 31, 1999 and 1998, were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	1999	1998	1999
Deferred tax assets:			
Loss carryforwards	<b>¥ 8,949</b>	¥ 14,681	<b>\$ 73,959</b>
Accrued pension and severance costs	<b>8,158</b>	7,462	<b>67,422</b>
Intercompany profit	<b>4,280</b>	4,731	<b>35,372</b>
Insurance reserve	<b>3,303</b>	—	<b>27,298</b>
Research and development expenses	<b>2,727</b>	3,164	<b>22,537</b>
Enterprise and state income taxes	<b>2,160</b>	1,994	<b>17,851</b>
Allowance for doubtful accounts	<b>2,212</b>	783	<b>18,281</b>
Vacation accrual	<b>680</b>	807	<b>5,620</b>
Accrued bonus	<b>513</b>	10	<b>4,240</b>
Inventory devaluation	<b>371</b>	653	<b>3,066</b>
Amortization of subsidiary's goodwill not yet deductible	<b>160</b>	363	<b>1,322</b>
Other	<b>3,420</b>	1,925	<b>28,264</b>
Gross deferred tax assets	<b>36,933</b>	36,573	<b>305,232</b>
Less: Valuation allowance	<b>(17,926)</b>	(17,405)	<b>(148,149)</b>
Total deferred tax assets	<b>19,007</b>	19,168	<b>157,083</b>
Deferred tax liabilities:			
Unrealized gain on securities	<b>(13,264)</b>	(6,661)	<b>(109,620)</b>
Unearned premiums and other insurance liabilities	<b>(3,777)</b>	—	<b>(31,215)</b>
Reversal of securities devaluation	<b>(1,569)</b>	(1,737)	<b>(12,967)</b>
Convertible bond issue expense	<b>(65)</b>	(104)	<b>(537)</b>
Other	<b>(1,174)</b>	(741)	<b>(9,702)</b>
Gross deferred tax liabilities	<b>(19,849)</b>	(9,243)	<b>(164,041)</b>
Net deferred tax assets / (liabilities)	<b>¥ (842)</b>	¥ 9,925	<b>\$ (6,958)</b>

The valuation allowance mainly relates to deferred tax assets of the subsidiaries with temporary differences and operating loss carryforwards for tax purposes that are not expected to be realized. A full valuation allowance has been provided for these subsidiaries. The net change in the total valuation allowance for the year ended March 31, 1999, was an increase of ¥521 million (\$4,306 thousand).

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totalling ¥1,467 million (\$12,124 thousand) at March 31, 1999, because they are not expected to be remitted in the foreseeable future.

At March 31, 1999, tax loss carryforwards of domestic subsidiaries amounted to ¥16,668 million (\$137,752 thousand) and are available for offset against future taxable earnings of such subsidiaries for up to five years, as follows:

Expires in the year ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥ 1,324	\$ 10,942
2001	1,853	15,314
2002	5,678	46,926
2003	2,284	18,876
2004	5,529	45,694
	¥16,668	\$137,752

The tax loss carryforwards of overseas subsidiaries at March 31, 1999, amounted to ¥9,367 million (\$77,413 thousand), a part of which will begin to expire in the year 2000.

## 16. Shareholders' equity

### Retained earnings

The Commercial Code of Japan provides that an amount equal to at least 10 percent of cash dividends and other distributions from retained earnings paid in cash by the parent company and its Japanese subsidiaries be appropriated as a legal reserve until such reserve equals 25 percent of the common stock account. The only changes in the legal reserve during the years ended March 31, 1999, 1998 and 1997, consisted of such appropriations made by the parent company and its Japanese subsidiaries.

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

Subsequent to March 31, 1999, the Company's Board of Directors declared an annual cash dividend of ¥8,147 million (\$67,331 thousand) to shareholders of record on March 31, 1999. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 29, 1999. Dividends are recorded in the period they are declared.

### Accumulated other comprehensive income/(loss)

An analysis of the changes in accumulated other comprehensive income/(loss) for the years ended March 31, 1997, 1998 and 1999, was as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 1997:			
Unrealized gains on securities—			
Unrealized holding losses arising during the period	¥ (6,501)	¥ 3,214	¥ (3,287)
Minimum pension liability adjustment	(8,070)	4,116	(3,954)
Foreign currency translation adjustments	3,172	—	3,172
Other comprehensive income	¥(11,399)	¥ 7,330	¥ (4,069)

For the year ended March 31, 1998:			
Unrealized gains on securities—			
Unrealized holding losses arising during the period	¥(19,546)	¥10,005	¥ (9,541)
Minimum pension liability adjustment	(7,037)	3,060	(3,977)
Foreign currency translation adjustments	560	—	560
Other comprehensive income	¥(26,023)	¥13,065	¥(12,958)

For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	¥ 11,381	¥ (5,381)	¥ 6,000
Less: Reclassification adjustment for gains included in net income	(29)	14	(15)
Minimum pension liability adjustment	(73)	(815)	(888)
Foreign currency translation adjustments	(4,832)	—	(4,832)
Other comprehensive income	¥ 6,447	¥ (6,182)	¥ 265

	Translation into thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 1999:			
Unrealized gains on securities—			
Unrealized holding gains arising during the period	\$94,058	\$(44,471)	\$49,587
Less: Reclassification adjustment for gains included in net income	(240)	116	(124)
Minimum pension liability adjustment	(603)	(6,736)	(7,339)
Foreign currency translation adjustments	(39,934)	—	(39,934)
Other comprehensive income	\$53,281	\$(51,091)	\$ 2,190



## 17. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 1999, 1998 and 1997, were ¥4,820 million (\$39,835 thousand), ¥5,405 million and ¥5,090 million, respectively.

## 18. Leased assets

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

On April 23, 1996, the Company entered into a long-term lease agreement for a building and land in Mitaka, Tokyo. The lease agreement extends for thirty years beginning May 1, 1996. For financial reporting purposes, the portion of the lease relating to the building has been classified as capital lease; accordingly, an asset of approximately ¥5,086 million (\$42,033 thousand) has been recorded in the building and improvements account. The portion of the lease relating to the land has been classified as operating lease. The future minimum lease payments for the site at March 31, 1999, were ¥8,867 million (\$73,281 thousand) payable equally over a thirty years period.

Total assets under capital leases at March 31, 1999 and 1998, amounted to ¥13,774 million (\$113,835 thousand) and ¥15,427 million; accumulated depreciation thereon amounted to ¥4,574 million (\$37,802 thousand) and ¥4,736 million, respectively. Depreciation expenses under capital leases for the years ended March 31, 1999, 1998 and 1997, were ¥2,426 million (\$20,050 thousand), ¥2,555 million and ¥2,536 million, respectively.

The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1999:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥ 2,280	\$ 18,843
2001	1,862	15,388
2002	1,358	11,223
2003	766	6,331
2004	437	3,612
Later years	7,866	65,008
Total minimum lease payments	14,569	120,405
Less—Amount representing interest	4,974	41,107
Present value of net minimum lease payments	9,595	79,298
Less—Current obligations	1,889	15,612
Long-term capital lease obligations	¥ 7,706	\$ 63,686

Rental expenses under operating leases for the years ended March 31, 1999, 1998 and 1997, were ¥10,458 million (\$86,430 thousand), ¥10,378 million and ¥10,364 million, respectively. A significant portion of such rentals relate to cancelable short-term leases for office space and employee residential facilities, many of which are renewed upon expiration.

## 19. Financial instruments

The Company has certain financial instruments including financial assets and liabilities and off-balance-sheet financial instruments incurred in the normal course of business. Although the Company may be exposed to losses in the event of nonperformance by counterparties, it does not anticipate significant losses due to the nature of its counterparties.

Following are explanatory notes regarding the financial assets and liabilities and off-balance-sheet financial instruments excluding debt and equity securities which are disclosed in Note 8.

### ***(1) Cash and cash equivalents, cash deposits, notes and accounts receivable, trade, due from subscribers, short-term receivables, long-term receivables, bank loans, notes and accounts payable, trade, deposits received and accrued payrolls***

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

### ***(2) Long-term debt including current portion***

The fair value of long-term debt including the current portion was estimated based on the discounted amounts of future cash flows using the Company's current incremental borrowing rates for similar liabilities. The estimated fair values of total long-term debt, including the current portion and excluding obligations under capital lease, at March 31, 1999 and 1998, were ¥23,290 million (\$192,479 thousand) and ¥19,197 million, respectively. As long-term interest rates have not fluctuated significantly in recent years in Japan, the carrying amounts of obligations under capital lease approximate estimated fair value.

### ***(3) Interest rate swap agreements***

An overseas subsidiary enters into interest rate swap agreements to manage interest rate exposures arising in the normal course of business. These agreements are designed to limit exposures to losses resulting from fluctuations in interest rates related to investment securities and floating rate notes debt. The notional value of interest rate swap agreements in effect at March 31, 1999 and 1998, totaled

¥10,000 million (\$82,645 thousand) and ¥10,000 million, respectively, of which ¥5,000 million will mature by 2002 and ¥5,000 million will mature by 2003. The amounts to be paid or received under the interest rate swap agreements are recognized over the terms of the agreements. The estimated fair values of such agreements, based on the discounted future cash flows of the differentials, were insignificant at March 31, 1999 and 1998, respectively.

## 20. Commitments and contingent liabilities

Commitments outstanding at March 31, 1999, for the purchase of property, plant and equipment approximated ¥1,236 million (\$10,215 thousand).

Contingent liabilities at March 31, 1999, for guarantees given in the ordinary course of business amounted to approximately ¥10,143 million (\$83,826 thousand).

On December 8, 1998, the Company entered into a lease agreement for land and a new building which will be completed in December 2000 in Harajuku, Tokyo. The lease agreement extends for twenty years beginning after delivery of the new building, expected in December 2000. Based on the agreement, annual lease payments for the site are expected to be approximately ¥1,339 million (\$11,066 thousand) over the twenty years period.

## 21. Free share distributions of less than 25 percent

The method of accounting for the Company's less than 25percent free share distributions is described in Note 2. Had the Company accounted for such free share distributions made during the period from 1974 to 1990 in the manner used by companies in the United States of America, ¥98,388 million (\$813,124 thousand) would have been transferred from retained earnings to the appropriate capital accounts. However, there would be no effect on totalshareholders' equity.

## 22. Sale of subsidiaries

On August 31, 1998, The Westec Security Group, Inc., a wholly owned subsidiary in the United States of America, sold all of the outstanding shares of Westec Residential Security, Inc., and all of the outstanding shares of Valley Burglar & Fire Alarm Company, Inc., to Edison Select for an aggregate sales price of ¥37,025 million (\$305,992 thousand) in cash. The sale resulted in a gain in the aggregate of ¥22,828 million (\$188,661 thousand). The sales price is subject to a final salesprice adjustment.

On October 1, 1998, the parent company sold all of the outstanding shares of Tokyo Internet Corporation, to PSINet Japan Inc. for ¥17,834 million (\$147,388 thousand). The sale resulted in a gain of ¥13,054 million (\$107,884 thousand). The sales price is subject to a final sales price adjustment.

## 23. 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
	1999	1998	1997	1999
Cash paid during the year:				
Interest	¥ 1,599	¥ 1,409	¥ 1,454	\$ 13,215
Income taxes	¥37,209	¥29,514	¥29,242	\$307,512
Noncash investing and financing activities:				
Conversion of long-term debt to common stock and additional paid-in capital	¥ 766	¥ 148	¥10,775	\$ 6,330
Addition to obligations under capital leases	¥ 2,032	¥ 2,489	¥10,132	\$ 16,793
Liabilities assumed in conjunction with acquisition	¥99,594	¥ 9,285	¥ —	\$823,091

## 24. Segment information

Effective for the year ended March 31, 1999, the Company adopted FAS 131, "Disclosures about Segments of an Enterprise and Related Information," which requires disclosure offinancial and descriptive information about the Company's reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and assessing performance.

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

The security services segment provides various types of security services by utilizing the Company's unique security systems and manufactures and sells security equipment. The information and communication related and other services segment represents the Company's network business which utilizes its proprietary computer network and develops and sells computer software and other products. The insurance services segment represents non-life insurance-related underwriting business in the Japanese market. The medical services segment provides intravenous solutions topatients at home, home-based nursing care services, andmedical data transmission services by utilizing the Company's network.

Revenues by segment include interest income and other revenue reasonably allocated to the segments. Corporate revenues include interest income, investment income and dividend income from companies unaffiliated with the parent company or The Westec Security Group, Inc., a wholly owned subsidiary in the United States of America. Corporate expenses include general and administrative expenses,

amortization of deferred assets and net exchange losses of these two companies.

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

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

Information by business and geographic segments for the years ended March 31, 1999, 1998 and 1997, follows:

**(1) Business segment information**

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Revenue:				
Security services—				
Customers	¥293,104	¥282,066	¥266,209	\$2,422,347
Intersegment	975	877	896	8,058
Subtotal	294,079	282,943	267,105	2,430,405
Information and communication related and other services—				
Customers	55,367	30,910	29,301	457,579
Intersegment	2,989	1,337	1,311	24,702
Subtotal	58,356	32,247	30,612	482,281
Insurance services—				
Customers	4,775	5,365	4,633	39,463
Intersegment	2,099	2,156	1,985	17,347
Subtotal	6,874	7,521	6,618	56,810
Medical services—				
Customers	1,075	855	681	8,884
Intersegment	117	100	90	967
Subtotal	1,192	955	771	9,851
Total	360,501	323,666	305,106	2,979,347
Eliminations	(6,180)	(4,470)	(4,282)	(51,074)
Corporate items	39,825	3,608	2,972	329,132
Consolidated revenue	¥394,146	¥322,804	¥303,796	\$3,257,405
Income (loss) before income taxes:				
Security services	¥ 69,890	¥ 69,003	¥ 69,117	\$ 577,603
Information and communication related and other services	(978)	(3,517)	(3,130)	(8,083)
Insurance services	265	291	202	2,190
Medical services	(1,053)	(987)	(716)	(8,702)
Total	68,124	64,790	65,473	563,008
Corporate items	15,647	(11,876)	(9,987)	129,314
Interest expense	(1,078)	(1,051)	(1,195)	(8,909)
Consolidated income before income taxes	¥ 82,693	¥ 51,863	¥ 54,291	\$ 683,413

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Assets:				
Security services	¥311,339	¥299,774	¥261,932	\$2,573,050
Information and communication related and other services	51,396	37,637	30,007	424,760
Insurance services	113,210	1,773	1,717	935,620
Medical services	1,462	1,314	1,393	12,083
Total	477,407	340,498	295,049	3,945,513
Corporate items	141,037	117,059	143,252	1,165,595
Investments in and loans to affiliated companies	25,010	22,284	22,770	206,694
Total assets	¥643,454	¥479,841	¥461,071	\$5,317,802

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Depreciation and amortization:				
Security services	¥28,913	¥27,620	¥27,166	\$238,950
Information and communication related and other services	1,315	1,861	1,374	10,868
Insurance services	3	3	1	25
Medical services	69	56	159	570
Total	30,300	29,540	28,700	250,413
Corporate items	242	169	217	2,000
Total depreciation and amortization	¥30,542	¥29,709	¥28,917	\$252,413
Capital expenditures:				
Security services	¥42,758	¥45,770	¥38,410	\$353,372
Information and communication related and other services	1,119	1,526	2,836	9,248
Insurance services	—	—	10	—
Medical services	79	99	14	653
Total	43,956	47,395	41,270	363,273
Corporate items	1,542	535	128	12,744
Total capital expenditures	¥45,498	¥47,930	¥41,398	\$376,017

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

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

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Electronic security services:				
Commercial security and home security	<b>¥219,670</b>	¥209,855	¥199,498	<b>\$1,815,455</b>
Large-scale proprietary systems	<b>4,223</b>	4,264	3,980	<b>34,901</b>
Other security services:				
Static guard services	<b>30,178</b>	28,852	26,487	<b>249,405</b>
Armored car services	<b>12,275</b>	11,522	10,558	<b>101,446</b>
Merchandise and other	<b>26,758</b>	27,573	25,686	<b>221,140</b>
Total security services	<b>¥293,104</b>	¥282,066	¥266,209	<b>\$2,422,347</b>

## (2) Geographic segment information

Revenues which are attributed to countries based on location of customers and long-lived assets for the years ended March 31, 1999, 1998 and 1997, are as follows:

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	1999	1998	1997	1999
Revenue:				
Japan	<b>¥349,702</b>	¥300,459	¥285,988	<b>\$2,890,099</b>
United States	<b>33,580</b>	11,234	8,562	<b>277,521</b>
Others	<b>10,864</b>	11,111	9,246	<b>89,785</b>
Total	<b>¥394,146</b>	¥322,804	¥303,796	<b>\$3,257,405</b>
Long-lived assets:				
Japan	<b>¥169,737</b>	¥161,171	¥149,992	<b>\$1,402,785</b>
United States	<b>584</b>	8,231	4,780	<b>4,826</b>
Others	<b>6,627</b>	6,784	6,473	<b>54,769</b>
Total	<b>¥176,948</b>	¥176,186	¥161,245	<b>\$1,462,380</b>

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

## 25. Subsequent events

On August 11, 1999, the parent company purchased newly issued shares of Pasco Corporation ("Pasco") for ¥15,000 million (\$123,967 thousand), subsequent to approval by Pasco's general shareholders' meeting held on June 29, 1999. As a result, the parent company now owns 67.5 percent of the outstanding shares of Pasco. The acquisition will be accounted for as a purchase, and accordingly, the purchase price will be allocated to the underlying assets and liabilities based on their respective estimated fair values at the date of the acquisition. Pasco operates an aviation photograph measurement business and Geographic Information System in Japan, and has been listed on the first section of the Tokyo Stock Exchange. Total revenue of Pasco for the year ended March 31, 1999, was ¥52,984 million (\$437,884 thousand).



## REPORT OF INDEPENDENT ACCOUNTANTS

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*Price Waterhouse*



To the Shareholders and Board of Directors  
of Secom Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of cash flows, expressed in yen, present fairly, in all material respects, the financial position of Secom Co., Ltd. and its subsidiaries at March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Price Waterhouse*

May 14, 1999, except as to Note 25, which is as of August 11, 1999.

## SUMMARY OF SELECTED FINANCIAL DATA

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

	In millions of yen					
	1999	1998	1997	1996	1995	1994
<b>Composition of consolidated revenue</b>						
Revenue:	<b>¥394,146</b>	¥322,804	¥303,796	¥281,547	¥258,947	¥245,264
Services:	<b>266,346</b>	254,493	240,523	223,019	210,606	202,560
<i>As a percent of revenue</i>	<b>67.6%</b>	78.8%	79.2%	79.2%	81.3%	82.6%
Electronic security services—						
Commercial security and home security	<b>219,670</b>	209,855	199,498	184,657	174,375	167,323
<i>As a percent of revenue</i>	<b>55.7</b>	65.0	65.7	65.6	67.3	68.2
Large-scale proprietary systems	<b>4,223</b>	4,264	3,980	4,028	3,935	3,864
<i>As a percent of revenue</i>	<b>1.1</b>	1.3	1.3	1.4	1.5	1.6
Subtotal	<b>223,893</b>	214,119	203,478	188,685	178,310	171,187
Other security services—						
Static guard services	<b>30,178</b>	28,852	26,487	24,768	23,755	23,327
<i>As a percent of revenue</i>	<b>7.7</b>	8.9	8.7	8.8	9.2	9.5
Armored car services	<b>12,275</b>	11,522	10,558	9,566	8,541	8,046
<i>As a percent of revenue</i>	<b>3.1</b>	3.6	3.5	3.4	3.3	3.3
Subtotal	<b>42,453</b>	40,374	37,045	34,334	32,296	31,373
Merchandise, software, medical and real estate development	<b>85,580</b>	62,184	57,459	46,722	40,982	37,953
<i>As a percent of revenue</i>	<b>21.7</b>	19.3	18.9	16.6	15.8	15.5
Gain on sale of investment in securities	<b>35,700</b>	570	732	7,074	2,989	617
<i>As a percent of revenue</i>	<b>9.1</b>	0.2	0.2	2.5	1.2	0.2
Interest and other	<b>6,520</b>	5,557	5,082	4,732	4,370	4,134
<i>As a percent of revenue</i>	<b>1.6</b>	1.7	1.7	1.7	1.7	1.7
<b>Net income, cash dividends and shareholders' equity</b>						
Net income	<b>¥ 49,918</b>	¥ 18,990	¥ 22,798	¥ 23,264	¥ 9,896	¥ 10,566
Cash dividends (paid) <sup>(1)</sup>	<b>7,555</b>	6,972	5,719	5,459	5,438	4,784
Shareholders' equity	<b>327,147</b>	283,840	284,634	260,854	238,239	213,717
<b>Consolidated financial ratios</b>						
Percent of working capital accounted for by:						
Debt:						
Bank loans	<b>8.4</b>	5.7	8.3	8.8	9.9	10.6
Current portion of long-term debt	<b>2.5</b>	1.7	2.3	5.2	0.8	4.4
Convertible bonds	<b>0.3</b>	0.6	0.7	0.9	6.8	7.3
Other long-term debt	<b>5.2</b>	6.4	3.7	3.4	3.5	3.6
Total debt	<b>16.4</b>	14.4	15.0	18.3	21.0	25.9
Shareholders' equity	<b>83.6</b>	85.6	85.0	81.7	79.0	74.1
Total capitalization	<b>100.0</b>	100.0	100.0	100.0	100.0	100.0
Return on total assets (percent) (a)	<b>7.8</b>	4.0	4.9	5.3	2.5	2.8
Return on equity (percent) (b)	<b>15.3</b>	6.7	8.0	8.9	4.2	4.9
Percent of revenue absorbed by:						
Depreciation and amortization	<b>7.8</b>	9.2	9.5	11.5	10.4	12.4
Rental expense	<b>2.7</b>	3.2	3.4	3.7	4.1	4.9
Ratio of accumulated depreciation to depreciable assets (percent)						
	<b>62.1</b>	61.7	60.8	60.6	61.2	59.5
Net property turnover (times)	<b>2.53</b>	2.15	2.27	2.22	2.17	2.27
Before-tax interest coverage (times) (c)	<b>77.7</b>	50.3	46.4	37.8	26.4	16.8
Before-tax interest and rental coverage (times) (d)	<b>19.1</b>	12.5	12.7	11.6	9.6	6.7

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

	1999	1998	1997	1996	1995	1994
<b>Number of shares outstanding</b>						
Issued	116,392,109	116,233,393	116,203,824	114,378,620	113,766,167	113,289,040
Owned by the Company	11,817	3,185	2,926	2,016	24,941	10,086
Balance	116,380,292	116,230,208	116,200,898	114,376,604	113,741,226	113,278,954
<b>Per share information</b>						
Basic net income per share (in yen) <sup>(2)</sup>	¥ 429.03	¥ 163.40	¥ 197.37	¥ 204.18	¥ 87.14	¥ 96.71
Cash dividends paid per share (in yen) <sup>(1)</sup>	65.00	60.00	50.00	48.00	48.00	45.00
Shareholders' equity per share (in yen) <sup>(3)</sup>	2,811.02	2,442.05	2,449.50	2,280.66	2,094.57	1,886.64
Cash flow per share (in yen) <sup>(2)</sup>	621.51	354.02	387.35	438.27	275.57	325.84
Price/Book value ratio	3.99	3.34	2.84	3.06	2.55	3.60
Price/Earnings ratio	26.15	49.88	35.21	34.23	61.40	70.31
Price/Cash flow ratio	18.05	23.02	17.94	15.95	19.41	20.87
Stock price at year-end (in yen)	11,220	8,150	6,950	6,990	5,350	6,800

Notes: (a) Net income/Total assets  
(b) Net income/Shareholders' equity  
(c) Years ended March 31, 1999, 1998, 1997 and 1996  
(Income before income taxes + Interest expense)/Interest expense  
Year ended March 31, 1995 and 1994  
(Income from continuing operations before income taxes + Interest expense)/Interest expense  
(d) Years ended March 31, 1999, 1998, 1997 and 1996  
(Income before income taxes + Interest expense + 1/3 Rental expense)/  
(Interest expense + 1/3 Rental expense)  
Year ended March 31, 1995 and 1994  
(Income from continuing operations before income taxes + Interest expense + 1/3 Rental expense)/(Interest expense + 1/3 Rental expense)

<sup>(1)</sup> Subsequent to March 31, 1999, cash dividends of ¥8,147 million (¥70 per share) were approved at the general shareholders' meeting on June 29, 1999, (see Note 16 of the accompanying Notes to Consolidated Financial Statements).

<sup>(2)</sup> Per share amounts are based on the average number of shares outstanding during each period.

<sup>(3)</sup> Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

## COMMON STOCK DATA

SECOM CO., LTD.  
Year ended March 31

### SHAREHOLDER INFORMATION

	1999	1998	1997	1996	1995	1994
Number of shareholders	9,458	9,911	10,849	11,223	11,696	11,771
Common shares held by:						
Financial institutions	45.71%	44.26%	42.57%	40.00%	45.10%	42.74%
Securities firms	0.90	0.98	1.31	1.35	1.25	1.16
Other corporations	13.67	13.73	14.05	14.49	15.02	14.73
Foreign investors	26.90	27.40	27.03	28.04	21.65	24.26
Individuals and others	12.82	13.63	15.04	16.12	16.98	17.11
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

## PRICE INFORMATION (TOKYO STOCK EXCHANGE)

		Price per share		Nikkei stock average	
		High	Low	High	Low
1997	April–June	¥ 8,640	¥6,850	¥20,681.07	¥17,485.75
	July–September	9,000	7,860	20,575.26	17,683.27
	October–December	8,870	7,130	17,842.16	14,775.22
1998	January–March	8,930	7,520	17,264.34	14,664.44
	April–June	8,490	7,700	16,536.66	14,715.38
	July–September	8,660	7,630	16,731.92	13,406.39
	October–December	9,450	7,930	15,207.77	12,879.97
1999	January–March	11,770	8,800	16,378.78	13,232.74

## COMMON STOCK ISSUES

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

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

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## NONCONSOLIDATED BALANCE SHEETS

SECOM CO., LTD.  
As at March 31

	In millions of yen					
ASSETS	1999	1998	1997	1996	1995	1994
<b>Current assets:</b>						
Cash on hand and in banks	¥ 93,901	¥ 83,462	¥ 95,566	¥ 97,630	¥ 76,912	¥ 79,206
Notes receivable	459	392	481	436	497	413
Due from subscribers	5,564	5,218	5,034	4,111	4,018	3,253
Accounts receivable, trade	3,238	3,409	3,010	3,636	2,721	1,800
Receivables—other	1,243	1,003	1,512	1,603	1,650	1,437
Marketable securities	25,888	31,151	26,115	20,250	19,815	22,846
Common stock in treasury	119	25	19	13	142	70
Merchandise	4,805	3,642	3,972	2,939	2,744	2,621
Supplies	948	967	821	726	810	864
Prepaid expenses	1,241	1,084	1,221	570	658	607
Short-term loans	29,031	23,683	17,263	17,023	14,744	11,980
Other current assets	1,513	1,390	1,413	2,601	2,102	2,415
Allowance for doubtful accounts	(146)	(136)	(102)	(114)	(123)	(133)
Total current assets	167,804	155,290	156,325	151,424	126,690	127,379
<b>Fixed assets:</b>						
Tangible assets:						
Buildings and improvements	24,295	23,617	21,247	22,148	20,529	20,974
Automobiles	737	815	925	816	604	551
Signal equipment on subscribers' premises	44,244	36,579	32,637	30,974	27,871	26,384
Control station signal equipment	18,442	19,160	21,259	22,030	20,487	19,014
Machinery and equipment	1,509	1,535	1,584	1,121	1,168	1,172
Tools, furniture and fixtures	2,167	2,167	2,269	2,087	2,056	1,808
Land	34,997	34,525	27,297	27,343	27,258	26,569
Construction in progress	1,693	1,630	1,459	1,577	2,278	1,284
Other	19	11	12	14	22	34
Intangible assets:						
Telephone rights and other	4,533	4,458	4,141	3,891	1,118	1,526
Telephone and telegraph utility rights	1,976	2,957	4,047	5,220	7,081	7,558
Investments and other:						
Investment securities	12,519	5,535	5,674	5,655	5,253	4,197
Investments in subsidiaries and affiliated companies	112,714	105,145	99,603	91,223	86,726	84,047
Long-term loans receivable	3,112	2,951	3,238	896	924	2,205
Lease deposits	6,890	6,494	6,572	6,570	7,064	7,190
Long-term prepaid expenses	9,437	7,292	6,820	7,265	10,643	7,902
Other investments	6,671	4,177	4,232	3,854	3,447	2,522
Allowance for doubtful accounts	(14)	(30)	(33)	(6)	(9)	(22)
Total fixed assets	285,941	259,018	242,983	232,678	224,520	214,915
<b>Total assets</b>	<b>¥453,745</b>	<b>¥414,308</b>	<b>¥399,308</b>	<b>¥384,102</b>	<b>¥351,210</b>	<b>¥342,294</b>

In millions of yen

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	1999	1998	1997	1996	1995	1994
<b>Current liabilities:</b>						
Accounts payable	¥ 1,671	¥ 1,256	¥ 1,032	¥ 1,273	¥ 995	¥ 1,103
Bank loans	21,058	10,193	20,884	21,137	19,277	19,305
Current portion of long-term debt	5	394	—	14,296	—	9,996
Payables—other	6,707	5,640	5,018	4,029	4,091	4,428
Accrued expenses	5,356	6,248	5,621	5,545	5,305	5,163
Deposits received	25,440	17,548	16,081	17,165	4,723	1,321
Deferred revenue—service charges	18,735	18,087	16,640	15,530	14,580	14,639
Income taxes payable	13,771	14,808	13,918	13,331	11,813	12,096
Payables—construction	3,173	3,326	3,474	3,188	3,571	3,187
Other current liabilities	2,211	4,157	1,787	1,906	1,957	2,851
Total current liabilities	98,127	81,657	84,455	97,400	66,312	74,089
<b>Fixed liabilities:</b>						
Long-term debt	1,347	1,724	2,266	2,850	20,448	21,019
Guarantee deposits received	14,607	14,194	12,821	11,480	10,741	10,056
Accrued severance indemnities	378	397	409	424	436	436
Other fixed liabilities	557	—	—	—	—	—
Total fixed liabilities	16,889	16,315	15,496	14,754	31,625	31,511
Total liabilities	115,016	97,972	99,951	112,154	97,937	105,600
<b>Shareholders' equity:</b>						
Common stock	65,710	65,327	65,253	59,865	58,214	56,756
Statutory reserve:						
Additional paid-in capital	81,782	78,110	78,036	72,650	70,999	69,542
Legal reserve	6,294	5,521	4,805	4,216	3,651	3,088
Total statutory reserve	88,076	83,631	82,841	76,866	74,650	72,630
Voluntary reserve:						
Reserve for systems development	800	800	800	800	800	800
Reserve for tax deferral on assets replacement	56	58	60	62	65	67
General reserve	2,212	2,212	2,212	2,212	2,212	2,212
Total voluntary reserve	3,068	3,070	3,072	3,074	3,077	3,079
Unappropriated earned surplus	181,875	164,308	148,191	132,143	117,332	104,229
Total shareholders' equity	338,729	316,336	299,357	271,948	253,273	236,694
<b>Total liabilities and shareholders' equity</b>	<b>¥453,745</b>	<b>¥414,308</b>	<b>¥399,308</b>	<b>¥384,102</b>	<b>¥351,210</b>	<b>¥342,294</b>

## NONCONSOLIDATED STATEMENTS OF INCOME

SECOM CO., LTD.  
Years ended March 31

	In millions of yen, %					
	1999	1998	1997	1996	1995	1994
Revenue:	<b>¥231,505</b>	¥222,541	¥212,887	¥200,165	¥186,562	¥178,311
<i>Percent change from prior year</i>	<b>4.0%</b>	4.5%	6.4%	7.3%	4.6%	7.5%
Service charges	<b>210,239</b>	201,929	191,465	179,902	171,460	163,922
<i>Percent change from prior year</i>	<b>4.1</b>	5.5	6.4	4.9	4.6	6.7
Sales of merchandise	<b>21,266</b>	20,612	21,422	20,263	15,102	14,389
<i>Percent change from prior year</i>	<b>3.2</b>	(3.8)	5.7	34.2	4.9	17.1
Costs:	<b>123,180</b>	117,801	113,495	105,153	97,376	91,693
<i>As a percent of revenue</i>	<b>53.2</b>	52.9	53.3	52.5	52.2	51.4
Cost of service	<b>108,349</b>	103,887	98,381	91,157	86,574	82,378
<i>As a percent of service charges</i>	<b>51.5</b>	51.4	51.4	50.7	50.5	50.3
Cost of sales	<b>14,831</b>	13,914	15,114	13,996	10,802	9,315
<i>As a percent of merchandise sales</i>	<b>69.7</b>	67.5	70.6	69.1	71.5	64.7
Gross profit:	<b>108,325</b>	104,740	99,392	95,012	89,186	86,618
<i>As a percent of revenue</i>	<b>46.8</b>	47.1	46.7	47.5	47.8	48.6
Gross profit on service	<b>101,890</b>	98,042	93,084	88,745	84,886	81,544
<i>As a percent of service charges</i>	<b>48.5</b>	48.6	48.6	49.3	49.5	49.7
Gross profit on sales	<b>6,435</b>	6,698	6,308	6,267	4,300	5,074
<i>As a percent of merchandise sales</i>	<b>30.3</b>	32.5	29.4	30.9	28.5	35.3
Selling, general and administrative expenses	<b>58,186</b>	61,572	58,627	57,115	54,289	54,053
<i>As a percent of revenue</i>	<b>25.1</b>	27.7	27.6	28.6	29.1	30.3
Operating profit	<b>50,139</b>	43,168	40,765	37,897	34,897	32,565
<i>As a percent of revenue</i>	<b>21.7</b>	19.4	19.1	18.9	18.7	18.3
Other income (expenses):						
Interest, dividends and other income	<b>5,198</b>	4,230	3,731	3,653	4,426	4,539
Interest expense	<b>(18)</b>	(36)	(101)	(606)	(794)	(1,046)
Other expense	<b>(4,804)</b>	(3,887)	(3,091)	(2,215)	(2,850)	(2,999)
Ordinary profit	<b>50,515</b>	43,475	41,304	38,729	35,679	33,059
<i>As a percent of revenue</i>	<b>21.8</b>	19.5	19.4	19.3	19.1	18.6
Extraordinary profit	<b>12,073</b>	—	—	7,036	—	535
Extraordinary loss	<b>(12,168)</b>	—	—	(7,040)	—	(375)
Income before income taxes	<b>50,420</b>	43,475	41,304	38,725	35,679	33,219
<i>As a percent of revenue</i>	<b>21.8</b>	19.5	19.4	19.3	19.1	18.6
Provision for income taxes	<b>24,343</b>	19,491	18,773	17,710	16,386	15,758
<i>Effective tax rate</i>	<b>48.3</b>	44.8	45.5	45.7	45.9	47.4
Net income	<b>26,007</b>	23,984	22,531	21,015	19,293	17,461
<i>As a percent of revenue</i>	<b>11.3</b>	10.8	10.6	10.5	10.3	9.8
<i>Percent change from prior year</i>	<b>8.4</b>	6.4	7.2	8.9	10.5	13.2

<b>Headquarters:</b>	Shinjuku Nomura Building, 26-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 163-0555, Japan
<b>Independent accountants:</b>	Price Waterhouse
<b>Transfer agent:</b>	The Mitsubishi Trust and Banking Corporation, 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

## CONSOLIDATED SUBSIDIARIES

(As of July 31, 1999)

	Issued capital (million ¥)	Percentage of equity	Lines of business
Secom Joshinetsu Co., Ltd.	1,653	61.5	Security services
Secom Hokuriku Co., Ltd.	201	59.1	Security services
Secom Yamanashi Co., Ltd.	15	70.0	Security services
Secom Mie Co., Ltd.	50	51.0	Security services
Secom Sanin Co., Ltd.	45	57.3	Security services
Secom Hiroshima Co., Ltd.	48	100.0	Security services
Secom Miyazaki Co., Ltd.	30	68.3	Security services
Minami Nippon Security Patrol Co., Ltd.	10	100.0	Security services
Jastic Co., Ltd.	100	100.0	Security services
Jastic Joshinetsu Co., Ltd.	40	(100.0)	Security services
Secom Static Hokkaido Co., Ltd.	50	100.0	Security services
Secom Static Tohoku Co., Ltd.	50	100.0	Security services
Secom Static Nishi-Nihon Co., Ltd.	50	100.0	Security services
Secom Maintenance Joshinetsu Co., Ltd.	10	(100.0)	Maintenance of equipment
Secom Techno Service Co., Ltd.	658	98.3	Installation and maintenance of security equipment
Secom Industries Co., Ltd.	499	100.0	Manufacture of electronic detection products
Secom Equipment Sales Corporation	271	99.6	Sales of equipment
Secom Credit Co., Ltd.	400	100.0	Credit services
Secom Corporation	100	100.0	Printing services
Secom Insurance Service Co., Ltd.	50	100.0	Non-life insurance agency
Secom Information System Co., Ltd.	5,000	100.0	Integration of computer network systems and software development
Security World Co., Ltd.	10	(100.0)	Publication of magazines on security
Secom Home Medical System Co., Ltd.	1,800	100.0	Home health-care service
Secom HGS Co., Ltd.	100	100.0	Specialized security services
SIS Co., Ltd.	10	100.0	Non-life insurance agency
Laboratory for Innovators of Quality of Life	100	(94.5)	Research and planning social life
Secom High-Plant Co., Ltd.	400	(100.0)	Development and sale of high-technology agricultural products
Secom Auto Service Co., Ltd.	45	100.0	Car maintenance
President Channel Network Co., Ltd.	206	100.0	Development and sale of CATV systems
Jastic Minami Nippon Co., Ltd.	10	(100.0)	Security services
Wonder Dream Co., Ltd.	1,000	100.0	Employee welfare for SECOM group
Jastic Akita Co., Ltd.	10	100.0	Security services
Secomnet Co., Ltd.	540	63.0	Information and communication service
TES Co., Ltd.	20	(100.0)	Maintenance of equipment
ME Jastic Co., Ltd.	50	(100.0)	Maintenance of equipment
Next Wave Co., Ltd.	300	100.0	Management of entertainment facilities
La Pisara Co., Ltd.	100	80.0	Management of leisure facilities
Cosmo Keiso Co., Ltd.	60	(100.0)	Manufacture of automatic electronic control equipment
SP Alarm Sado Co., Ltd.	24	(51.1)	Security services
Secom Lines Co., Ltd.	1,398	90.0	Sales of home educational systems using a personal computer network

Parentheses ( ) indicate subsidiaries indirectly owned by SECOM Co., Ltd.

(continued)

**CONSOLIDATED SUBSIDIARIES**

(As of July 31, 1999)

	Issued capital (million ¥)	Percentage of equity	Lines of business
Secom Aqua Co., Ltd.	400	100.0	Sales of water-treatment equipment
Jastic Hokuriku Co., Ltd.	10	(100.0)	Security services
Secom Tech Sanin Co., Ltd.	23	(52.2)	Installation of security equipment
Masterpiece Co., Ltd.	21	(100.0)	Sales and development of software
Kansai Lines Co., Ltd.	50	(96.0)	Sales of home educational systems
Secom Care Service Co., Ltd.	80	100.0	Dispatch of personal-care staff
SIS Development Co., Ltd.	300	100.0	Software development
Secom FD Co., Ltd.	10	100.0	Security services
Chuo Bohan Co., Ltd.	308	82.5	Security services
Shizuoka Mobile Communication Service Co., Ltd.	10	(100.0)	Sales and maintenance of communication equipment
Chuo Bohan Act Service Co., Ltd.	10	(100.0)	Security services
ACM Enterprise Co., Ltd.	40	(72.5)	Management of soccer school
Secom Techno Miyazaki Co., Ltd.	20	(100.0)	Installation of security equipment
Secom Wintech Yamanashi Co., Ltd.	20	(100.0)	Internet provider
Secom Kampo System Co., Ltd.	200	100.0	Pharmacy management
Eclairer Co., Ltd.	3,500	99.9	Development of residential buildings
Dascom Japan Co., Ltd.	150	100.0	Development and sale of software
Nikkei Dengyo Co., Ltd.	20	(76.6)	Installation of security equipment
Jastic Kansai Co., Ltd.	100	100.0	Security services
JK. Siress Co., Ltd.	10	(100.0)	Security services
Secom Toyo General Insurance Co., Ltd.	5,611	80.1	Non-life insurance
Secom Toyo Claims Research Co., Ltd.	10	(100.0)	Claims research for non-life insurance
Secom Toyo Business Services Co., Ltd.	10	(100.0)	Administration of non-life insurance
Secom Pasec Co., Ltd.	100	55.0	Installation of fire equipment
Japan Safety Guard Co., Ltd.	100	60.0	Security services
Secominter Europe B.V.	DF10.5 million	100.0	Holding company
Secominter (Australia) Pty., Ltd.	A\$27.5 million	100.0	Holding company
Secom Australia Pty., Ltd.	A\$28.0 million	(100.0)	Security services
The Westec Security Group, Inc.	US\$0.3 thousand	100.0	Holding company
SA Oklahoma, Inc.	US\$0.01 thousand	(100.0)	Holding company
Westec Security, Inc.	US\$95 thousand	(100.0)	Security services
Westec Finance Company	—	(100.0)	Financing
Westec Business Security, Inc.	US\$4 thousand	(94.9)	Security services
Westec Interactive Security, Inc.	US\$9 thousand	(92.8)	Security services
Westec Franchising, Inc.	US\$100 thousand	(100.0)	Selling franchises with Westec trademark
SIS Insurance Pte Ltd.	S\$1,000 thousand	100.0	Non-life insurance agency
Secom Plc	£39,126 thousand	100.0	Security services
Carroll Security Group Ltd.	£7.7 thousand	(100.0)	Security services
Carroll Security Ltd.	£0.1 thousand	(100.0)	Security services
Secom (China) Co., Ltd.	Rmb278,406 thousand	100.0	Holding company
Dalian Secom Security Co., Ltd.	Rmb17,228 thousand	(80.0)	Security services
Hainan Secom Security Co., Ltd.	Rmb16,938 thousand	(80.0)	Security services
Shanghai Secom Security Co., Ltd.	Rmb29,122 thousand	(65.0)	Security services
Beijing Jingdun Secom Electronic Security Co., Ltd.	Rmb20,792 thousand	(80.0)	Security services
Qingdao Secom Security Co., Ltd.	Rmb8,298 thousand	(80.0)	Security services
Asia Pacific Business Link Ltd.	US\$8,470 thousand	68.1	Holding company
Shanghai Asia Pacific Property Co., Ltd.	US\$5,000 thousand	(100.0)	Housing related business
P.T. Secom Indoprata	US\$3,750 thousand	80.0	Security services
P.T. Nusantara Systems International	US\$10,649 thousand	(58.5)	Software development
Secom Trading (Hong Kong) Ltd.	HK\$3,500 thousand	100.0	Export-import
Thaisecom Pitakkij Co., Ltd.	THB180 million	91.1	Security services

Parentheses ( ) indicate subsidiaries indirectly owned by SECOM Co., Ltd.



## SECOM'S BASIC BUSINESS AREAS

SECOM offers a wide range of security systems and products that help provide peace of mind in today's rapidly changing society. The Company's centralized and localized systems meet the security-related needs of homes, businesses and public institutions. Centralized on-line systems initiate immediate response by highly trained professionals, while self-contained proprietary security and building management systems facilitate on-site automated monitoring.

SECOM and its subsidiaries manufacture key components and research, develop, install and maintain all systems to ensure that customers receive consistent, high-quality services. The accompanying diagram outlines SECOM's comprehensive products and top-notch services which are backed by the resources and skills of the entire SECOM Group.



### Merchandise

#### Access-Control Systems

##### SECURILOCK

SECURILOCK uses magnetic identification cards to control access to restricted areas.

##### SESAMO SERIES

SESAMO SERIES comprises access-control systems for use in corporate offices, factories, parking facilities and any other security-sensitive area. These systems employ such high-technology equipment as light-beam and microwave activated remote control, magnetic cards and fingerprint identification devices, as well as PC-operated access-control systems. These services include advanced electronic product-tagging systems that help store owners prevent shoplifting.

#### Fire Detection and Extinguishing Systems

##### TOMAHAWK III

TOMAHAWK III is a new high-speed fire-detection and-extinguishing system.

##### TOMAHAWK EX

TOMAHAWK EX is a compact, general-use system that automatically detects and extinguishes fire.

##### TOMAHAWK JET

TOMAHAWK JET, designed for use in restaurant kitchens and ductwork, is an automatic fire-detection and-extinguishing system.

##### TOMAHAWK MACH I/II

TOMAHAWK MACH I, designed for homes and smaller businesses, is a highly effective and convenient fire-extinguishing system based on a central canister and flexible hose. TOMAHAWK MACH II is a more compact home-use model.

#### Intrusion- and Fire-Detection Systems for Building Perimeters

##### FLAME CHECKER

FLAME CHECKER detects fire indoors and outdoors.

#### BORDER SERIES

BORDER SERIES uses infrared beams to detect intrusions into large sites and buildings.

#### Equipment for Safeguarding Cash and Valuables

##### PYTHAGORAS SERIES

PYTHAGORAS SERIES is a large security vault composed of individual panels for easy transport and on-site assembly.

##### HANKS-Σ

HANKS-Σ is an easily assembled, durable security booth for unattended cash dispensers and ATMs.

##### CD PROTECTOR

CD PROTECTOR is a specially constructed hard shell that makes cash dispensers and ATMs virtually invulnerable to break-ins.

#### Others

##### SECOM CCTV SYSTEM

SECOM CCTV SYSTEM is a sophisticated, cost-effective closed-circuit surveillance camera system designed for local security systems. The SUPER CCTV SYSTEM version detects attempts to interfere with the surveillance camera.

##### SECOM VIDEO IMAGE TRANSMISSION SYSTEM

This system makes it possible to transmit moving images to remote locations in real-time and full-color.

##### PICTURE RECORDER

PICTURE RECORDER is a system that detects an intruder and takes a series of high-resolution still images in conjunction with security sensors. This helps to establish the causes of any accident by providing visual data on the scene just prior to the warning signal.

Emergency Depot



Emergency Response

Companies  
Organizations

#### SECOM FOGGY PROTECTION SYSTEM

SECOM FOGGY PROTECTION SYSTEM deters would-be burglars by filling the room with a thick, harmless chemical mist.

#### SECURICASE SERIES

SECURICASE SERIES is an anti-theft showcase with a specially designed glass and cover to protect valuables.

### Local Systems

#### TOTAX-T

TOTAX-T is a self-contained, local control system for industrial and building complexes.

#### SECOM MUSEUM SYSTEM

SECOM MUSEUM SYSTEM provides full protection for museums and exhibition halls.

### Armored Car Services

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

### Static Guard Services

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

#### SECOM V-REX

SECOM V-REX is an integrated security package which offers high-grade security management system.

### Centralized Systems

#### Commercial Use

##### SECOM SX

SECOM SX meets the special needs of small commercial buildings and offices.

##### SECOM MX

SECOM MX is a comprehensive security package for medium-sized commercial establishments and schools.

##### SECOM TX

SECOM TX provides protection for commercial buildings with more than one tenant.

##### SECOM BX

SECOM BX meets the exacting security requirements of financial institutions.

##### HANKS SYSTEM

HANKS SYSTEM is designed to meet the security requirements of automated banking facilities.

##### SECOM CX

SECOM CX monitors and manages large building complexes around-the-clock, eliminating the need for costly on-site computers and large custodial staff.

##### SECOM AX

SECOM AX, a new-generation on-line security control system with an advanced visual and voice sensor, has redefined the concept of security.

##### SECOM IX

An on-line visual security system for commercial facilities offering around-the-clock service.

#### Residential Use

##### SECOM HOME SECURITY PLUS

SECOM HOME SECURITY PLUS is a residential security system featuring a wide variety of functions, including the detection of fires, gas leaks and intrusions, through telephone lines. An emergency medical alert system is also provided. This system is an innovative and advanced security system which will play a major role in integrating SECOM's wide variety of services in the residential market. In addition to information on SECOM's business, products and services as well as security literature, it further provides memory functions (hand-written and voice memos, as well as a dictionary) and lifestyle support services, called "Super Terminal." These services can be operated using a new Home Controller which has a touch-sensitive color LCD panel.

##### SECOM MS-1, SECOM MS-2 and MS-2S

SECOM MS-1 security system provides comprehensive building management functions for condominiums, while SECOM MS-2 and MS-2S security systems offer these capabilities plus total safety with a centralized security system for each unit in the building.

**Founder:**  
Makoto Iida

**Co-Founder:**  
Juichi Toda

**Executive Vice Chairman:**  
Masahiro Tsubakihara

**President and Representative Director:**  
Toshitaka Sugimachi

**Senior Executive Directors:**  
Shohei Kimura  
Nobuyuki Sasaki  
Kanemasa Haraguchi

**Executive Directors:**  
Hirohisa Masahata  
Saiji Miyauchi  
Mitsuo Kawaguchi  
Katsuhisa Kuwahara  
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Shinobu Iida

Shuji Maeda  
Tohru Fukumi  
Yushiro Ito

**Corporate Auditors:**  
Yoshihiro Nao  
Takeshi Motohashi  
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(As of June 29, 1999)



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