FINANCIAL SECTION

CONTENTS

Operating Results

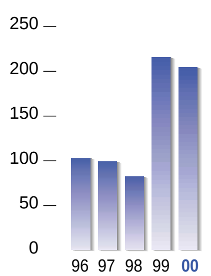
In the fiscal year ended March 31, 2000, SECOM continued to enhance its operations in security services, as well as in such fields as information systems, medical services, education, non-life insurance, GIS services and real estate development, and stepped up sales and product and system development activities. These efforts, together with the addition to its consolidated accounts of the revenues of new consolidated subsidiaries Pasco and Secom General Insurance, contributed to a 4.6% increase in revenue and other income, to ¥412.4 billion.

Services, which comprises revenues from centralized and other security services, generated ¥270.7 billion in revenue, a gain of 1.7% from the year ended March 31, 1999, and accounted for 65.7% of consolidated revenue and other income, compared to 67.6% in the previous period. Revenue from merchandise, software, medical and real estate operations climbed 20.5%, to ¥97.5 billion, and represented 23.6% of the total, up from 20.5%. Insurance services, which were accounted for as a separate segment for the first time, produced revenue of ¥30.0 billion, or 7.3% of consolidated revenue and other income, 6.4 times that of the previous period, when these services accounted for 1.2%. SECOM also posted a gain on sale of securities, net, of ¥5.5 billion, of which ¥4.3 billion resulted from the listing of subsidiary Secom Techno Service on the Second Section of the Tokyo Stock Exchange. Interest and other amounted to ¥8.8 billion.

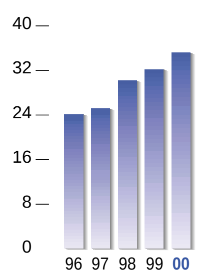
Costs and expenses were ¥339.6 billion, an increase of 9.0%, as costs in each segment rose in tandem with revenue. Cost of services edged up 1.5%, to ¥141.9 billion, or 52.4% of revenue from services, compared to 52.5% in fiscal 1999, as increases in security system subscriptions drove up personnel costs. Cost of merchandise, software, medical and real estate operations rose 13.5%, to ¥70.0 billion, equivalent to 71.8% of revenue in this segment, down from 76.2% in the previous period. Cost of insurance services totaled ¥18.9 billion, an increase of 4.7 times, and corresponded to 63.1% of revenue from insurance services, compared with 85.4% of this segment's revenue in the previous period. Selling, general and administrative (SGA) expenses advanced ¥2.3 billion, to ¥99.1 billion, equivalent to 24.0% of total revenue, compared with 24.6% in fiscal 1999. SGA expenses included ¥6.0 billion invested in research and development, up from ¥4.8 billion. Other expenses advanced 4.1%, to ¥8.4 billion.

Owing to a ¥30.2 billion decline in the gain on sale of securities, net, from the previous period—when a gain on the sale of shares in three subsidiaries, totaling ¥35.9 billion, was realized—income before income taxes fell 12.0%, to ¥72.8 billion. Income taxes fell ¥9.7 billion, to ¥22.7 billion (see Note 15). Nonetheless, net income for the period declined 5.0%, to ¥47.4 billion. Accordingly, return on revenue slipped to 11.5%, from 12.7%. Basic net income per share was ¥203.67, compared to ¥214.51 at fiscal 1999 year-end, while fully diluted net income per share was ¥203.52, down from ¥214.09 (see Note 2). Cash dividends of ¥40.00 per share were approved at the general shareholders' meeting on June 29, 2000.

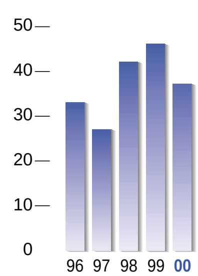
Basic Net Income per Share
(In yen)



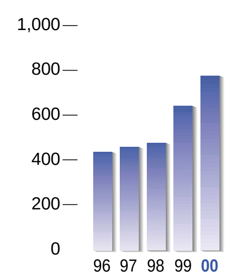
Cash Dividends Paid per Share
(In yen)



Capital Investment
(In billions of yen)



Total Assets
(In billions of yen)



Financial Position

Total assets of SECOM amounted to ¥779.5 billion as of March 31, 2000, an increase of 21.2% from a year earlier. Total current assets were ¥433.0 billion, up 19.6%. Cash and cash equivalents edged up 0.1%, to ¥131.3 billion, while time deposits decreased 8.8%, to ¥16.3 billion. As a consequence of the shift of time deposits with terms of more than three months from cash and cash equivalents to this category, cash flow statement figures for the prior year have been restated retroactively. Short-term investments rose 4.6%, to ¥91.6 billion. Notes and accounts receivable, trade, soared 172.0%, to ¥47.9 billion, owing to the inclusion of the receivables of newly consolidated subsidiary Pasco. Reflecting the addition of the real estate assets of subsidiary Secom Home Life, inventories jumped 123.9%, to ¥52.4 billion. The current ratio was 2.0 times, compared with 2.4 times in the preceding period.

Property, plant and equipment, less accumulated depreciation, totaled ¥170.7 billion, an increase of 9.6%. This gain is attributable to increases in buildings and improvements; control station signal equipment; signal equipment on subscribers' premises; and machinery, equipment and automobiles. Other assets rose 43.7%, to ¥16.3 billion, reflecting an increase in goodwill (see Note 5).

Current liabilities were ¥219.4 billion, up 45.1% from the previous fiscal year-end, owing primarily to the inclusion of the loans of subsidiary Pasco and an increase in loans to cover investment in condominium development by subsidiary Secom Home Life, which boosted bank loans 128.3%, to ¥74.7 billion. Long-term liabilities rose 5.3%, to ¥157.4 billion, reflecting a 32.3% increase in investment deposits by policyholders of subsidiary Secom General Insurance, to ¥76.1 billion.

Shareholders' equity rose 14.3%, to ¥373.9 billion, owing to a ¥38.4 billion increase in retained earnings and a ¥4.2 billion increase in the net unrealized gain in debt and equity securities. The equity ratio fell to 48.0%, from 50.8% in the previous fiscal year, owing to factors such as the consolidation of Pasco; the increase in bank loans to fund condominium development investment by subsidiary Secom Home Life; and the increase in investment deposits by policyholders of subsidiary Secom General Insurance, due to an increase in insurance subscriptions.

Cash Flows

SECOM maintains ample liquidity to ensure flexibility in its operations and guarantee a sound financial foundation. To this end, the Company finances forward-looking investments with cash generated by its operating activities.

During the period under review, net cash provided by operating activities amounted to ¥69.1 billion, ¥37.9 billion higher than in the previous period. This change primarily reflected an increase in payables and deferred revenue of ¥27.1 billion, up ¥25.8 billion from fiscal 1999, and an ¥18.6 billion increase in investment deposits by policyholders resulting from a rise in insurance subscriptions. Depreciation and amortization was ¥34.2 billion, an increase of ¥3.7 billion.

Net cash used in investing activities rose ¥80.4 billion, to ¥81.0 billion, mainly because of payments for purchases of property, plant and equipment amounting to ¥37.5 billion, an increase in short-term investments of ¥26.9 billion, and payments for long-term receivables amounting to ¥24.7 billion.

Net cash provided by financing activities was ¥12.7 billion, up ¥3.3 billion. This change was largely attributable to the shift of proceeds from minority shareholders to this category, from cash flows from operating activities. Proceeds from minority shareholders amounted to ¥5.4 billion, up ¥4.8 billion from fiscal 1999, and were the result of capital increases in their subsidiaries (see Note 22). A per-share dividend increase to ¥70.00, from ¥65.00 the previous year (not adjusted to reflect the impact of the stock split), resulted in a ¥592 million increase in dividends paid, to ¥8.1 billion.

As a consequence of SECOM's operating, investing and financing activities during the period under review, cash and cash equivalents at end of year amounted to ¥131.3 billion, an increase of ¥143 million from a year earlier.

CONSOLIDATED BALANCE SHEETS

SECOM CO., LTD. and Subsidiaries
March 31, 2000 and 1999

ASSETS	In millions of yen March 31 2000	In millions of yen March 31 1999	Translation into thousands of U.S. dollars (Note 3) March 31 2000
Current assets:			
Cash and cash equivalents (Notes 6 and 19)	¥ 131,329	¥ 131,186	$ 1,238,953
Time deposits (Note 19)	16,291	17,860	153,689
Cash deposits (Note 7 and 19)	37,492	43,703	353,698
Short-term investments (Note 8)	91,640	87,597	864,528
Notes and accounts receivable, trade (Note 19)	47,930	17,621	452,170
Due from subscribers (Note 19)	12,151	11,905	114,632
Inventories (Note 9)	52,400	23,403	494,339
Short-term receivables (Note 19)	29,714	20,559	280,321
Allowance for doubtful accounts	(974)	(1,590)	(9,189)
Deferred insurance acquisition cost (Note 12)	1,901	2,034	17,934
Deferred income taxes (Note 15)	4,383	986	41,349
Other current assets	8,733	6,860	82,387
Total current assets	432,990	362,124	4,084,811
Investments and long-term receivables:			
Investment securities (Note 8)	77,143	46,468	727,764
Investments in affiliated companies (Note 10)	24,635	23,631	232,406
Long-term receivables (Note 19)	42,813	27,546	403,896
Lease deposits	9,773	8,526	92,198
Other investments	10,857	9,657	102,424
Allowance for doubtful accounts	(5,637)	(1,620)	(53,179)
	159,584	114,208	1,505,509
Property, plant and equipment (Notes 11 and 18):			
Land	45,319	41,240	427,538
Buildings and improvements	60,768	54,276	573,283
Control station signal equipment	88,151	80,540	831,613
Signal equipment on subscribers' premises	141,908	124,981	1,338,755
Machinery, equipment and automobiles	45,025	34,450	424,764
Construction in progress	3,692	3,163	34,830
	384,863	338,650	3,630,783
Accumulated depreciation	(214,171)	(182,857)	(2,020,481)
	170,692	155,793	1,610,302
Other assets:			
Telephone and telegraph utility rights	3,881	4,514	36,613
Goodwill (Note 5)	5,813	321	54,840
Intangibles and other	6,588	6,494	62,151
	16,282	11,329	153,604
	¥ 779,548	¥ 643,454	$ 7,354,226

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen March 31 2000	 1999	Translation into thousands of U.S. dollars (Note 3) March 31 2000
Current liabilities:			
Bank loans (Notes 7, 11 and 19)	**¥ 74,660**	¥ 32,704	**$ 704,340**
Current portion of long-term debt (Notes 11, 18 and 19)	**5,715**	9,849	**53,915**
Notes and accounts payable, trade (Note 19)	**16,342**	9,692	**154,170**
Other payables	**35,803**	11,032	**337,764**
Deposits received (Note 19)	**20,549**	28,617	**193,858**
Deferred revenue	**26,087**	23,750	**246,104**
Accrued liabilities—			
Taxes on income	**13,647**	16,941	**128,745**
Payrolls (Note 19)	**11,915**	10,373	**112,406**
Other current liabilities	**14,698**	8,293	**138,660**
Total current liabilities	**219,416**	151,251	**2,069,962**
Long-term liabilities:			
Long-term debt (Notes 11, 18 and 19)	**23,599**	21,511	**222,632**
Guarantee deposits received from subscribers	**17,174**	17,325	**162,019**
Accrued pension and severance costs (Note 13)	**10,021**	21,238	**94,538**
Unearned premiums and other insurance liabilities (Note 12)	**25,884**	30,110	**244,188**
Investment deposits by policyholders (Note 12)	**76,103**	57,532	**717,953**
Deferred income taxes (Note 15)	**4,620**	1,828	**43,585**
	157,401	149,544	**1,484,915**
Minority shareholders' interest in subsidiaries	**28,819**	15,512	**271,877**
Shareholders' equity:			
Common stock, ¥50 par value (Notes 16 and 21)—			
Authorized—300,000,000 shares			
Issued—2000—233,075,442 shares	**66,097**	—	**623,557**
1999—116,392,109 shares	**—**	65,710	**—**
Additional paid-in capital (Notes 16 and 21)	**79,713**	79,318	**752,009**
Legal reserve (Note 16)	**7,587**	6,677	**71,576**
Retained earnings	**222,344**	183,968	**2,097,585**
Accumulated other comprehensive income—			
Net unrealized gain in debt and equity securities (Note 8)	**17,272**	13,068	**162,943**
Additional minimum pension liabilities adjustments (Note 13)	**(765)**	(8,819)	**(7,217)**
Cumulative foreign currency translation adjustments	**(18,294)**	(12,656)	**(172,585)**
	373,954	327,266	**3,527,868**
Less—Common stock in treasury, at cost; 4,840 shares in 2000 and 11,817 shares in 1999	**42**	119	**396**
	373,912	327,147	**3,527,472**
Commitments and contingent liabilities (Note 20)			
	¥779,548	¥643,454	**$7,354,226**

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, 2000

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Revenue and other income:				
Services	**¥270,741**	¥266,346	¥254,493	**$2,554,160**
Merchandise, software, medical and real estate	**97,465**	80,902	56,902	**919,481**
Insurance services	**29,985**	4,678	5,282	**282,877**
Gain on sale of securities, net (Note 22)	**5,454**	35,700	570	**51,453**
Interest and other (Note 14)	**8,752**	6,520	5,557	**82,566**
	412,397	394,146	322,804	**3,890,537**
Costs and expenses:				
Cost of services	**141,901**	139,764	131,633	**1,338,689**
Cost of merchandise, software, medical and real estate	**70,013**	61,682	39,105	**660,500**
Cost of insurance services	**18,908**	3,995	4,621	**178,377**
Selling, general and administrative (Note 17)	**99,108**	96,837	89,877	**934,981**
Interest	**1,229**	1,078	1,051	**11,594**
Other (Note 14)	**8,431**	8,097	4,654	**79,538**
	339,590	311,453	270,941	**3,203,679**
Income before income taxes	**72,807**	82,693	51,863	**686,858**
Income taxes (Note 15)**:**				
Current	**27,396**	34,946	31,533	**258,452**
Deferred	**(4,727)**	(2,573)	(683)	**(44,594)**
	22,669	32,373	30,850	**213,858**
Income before minority interest in subsidiaries	**50,138**	50,320	21,013	**473,000**
Minority interest in subsidiaries	**3,837**	1,241	1,676	**36,198**
Income from consolidated operations	**46,301**	49,079	19,337	**436,802**
Equity in net income/(losses) of affiliated companies	**1,131**	839	(347)	**10,670**
Net income	**¥ 47,432**	¥ 49,918	¥ 18,990	**$ 447,472**

	In exact yen			Translation into U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Per share data (Note 4)**:**				
Net income —Basic	**¥203.67**	¥214.51	¥81.70	**$1.92**
—Diluted	**¥203.52**	¥214.09	¥81.48	**$1.92**

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, 2000

In millions of yen

	Number of shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	Common stock in treasury stock, at cost	TOTAL
Balance, March 31, 1997	116,203,824	¥65,253	¥78,850	¥5,188	¥131,076	¥4,286	(¥ 19)	¥284,634
Comprehensive income—								
Net income	—	—	—	—	18,990	—	—	18,990
Other comprehensive income, net of tax (Note 16):								
Unrealized gain 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
Purchase of treasury stock	—	—	—	—	—	—	(1,945)	(1,945)
Reissuance of treasury stock	—	—	4	—	—	—	1,939	1,943
Balance, March 31, 1998	116,233,393	65,327	78,928	5,956	142,326	(8,672)	(25)	283,840
Comprehensive income—								
Net income	—	—	—	—	49,918	—	—	49,918
Other comprehensive income, net of tax (Note 16):								
Unrealized gain on securities—								
Unrealized holding gain arising during period	—	—	—	—	—	6,000	—	6,000
Less: Reclassification adjustment for gain 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
Purchase of treasury stock	—	—	—	—	—	—	(1,640)	(1,640)
Reissuance of treasury stock	—	—	7	—	—	—	1,546	1,553
Balance, March 31, 1999	116,392,109	65,710	79,318	6,677	183,968	(8,407)	(119)	327,147
Comprehensive income—								
Net income	—	—	—	—	47,432	—	—	47,432
Other comprehensive income, net of tax (Note 16):								
Unrealized gain on securities—								
Unrealized holding gain arising during period	—	—	—	—	—	4,879	—	4,879
Less: Reclassification adjustment for gain included in net income	—	—	—	—	—	(675)	—	(675)
Minimum pension liabilities adjustments	—	—	—	—	—	8,054	—	8,054
Translation adjustments	—	—	—	—	—	(5,638)	—	(5,638)
Total comprehensive income								54,052
Cash dividends	—	—	—	—	(8,146)	—	—	(8,146)
Transfer to legal reserve	—	—	—	910	(910)	—	—	—
Conversion of convertible bonds	273,686	387	387	—	—	—	—	774
Stock split (Note 16)	116,409,647	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	(4,945)	(4,945)
Reissuance of treasury stock	—	—	8	—	—	—	5,022	5,030
Balance, March 31, 2000	**233,075,442**	**¥66,097**	**¥79,713**	**¥7,587**	**¥222,344**	**(¥1,787)**	**(¥ 42)**	**¥373,912**

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

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	Common stock in treasury stock, at cost	TOTAL
Balance, April 1, 1999	$619,906	$748,283	$62,991	$1,735,547	($79,311)	($ 1,124)	$3,086,292
Comprehensive income—							
Net income	—	—	—	447,472	—	—	447,472
Other comprehensive income, net of tax (Note 16):							
Unrealized gain on securities—							
Unrealized holding gain arising during period	—	—	—	—	46,028	—	46,028
Less: Reclassification adjustment for gain included in net income	—	—	—	—	(6,368)	—	(6,368)
Minimum pension liabilities adjustments	—	—	—	—	75,981	—	75,981
Translation adjustments	—	—	—	—	(53,189)	—	(53,189)
Total comprehensive income							509,924
Cash dividends	—	—	—	(76,849)	—	—	(76,849)
Transfer to legal reserve	—	—	8,585	(8,585)	—	—	—
Conversion of convertible bonds	3,651	3,651	—	—	—	—	7,302
Stock split (Note 16)	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	(46,650)	(46,650)
Reissuance of treasury stock	—	75	—	—	—	47,378	47,453
Balance, March 31, 2000	**$623,557**	**$752,009**	**$71,576**	**$2,097,585**	**($16,859)**	**($ 396)**	**$3,527,472**

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, 2000

	In millions of yen			Translation into thousands of U.S. dollars (Note 3)
	Years ended March 31			Year ended March 31
	2000	1999	1998	2000
Cash flows from operating activities:				
Net income	¥ 47,432	¥ 49,918	¥ 18,990	$ 447,472
Adjustments to reconcile net income to net cash provided by operating activities—				
Depreciation and amortization	34,232	30,542	29,709	322,943
Pension and severance costs	525	1,733	2,229	4,953
Deferred income taxes	(4,727)	(2,573)	(683)	(44,594)
Net loss on sales and disposal of fixed assets and investment securities	2,616	1,988	1,627	24,679
Gain on sales of shares of Secom Techno Service Co., Ltd. (Note 22)	(4,291)	—	—	(40,481)
Gain on sales of shares of Tokyo Internet Corporation	—	(13,054)	—	—
Gain on sales of shares of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	—	(22,828)	—	—
Equity in undistributed net (income) losses of affiliated companies	(1,131)	(839)	347	(10,670)
Minority interest in subsidiaries	3,837	1,241	1,676	36,198
Changes in assets and liabilities, net of effects from acquisitions and disposals:				
(Increase) decrease in cash deposits (Note 7)	6,352	(10,673)	(5,935)	59,924
Increase in receivables and due from subscribers, net of allowances	(23,406)	(5,215)	(2,174)	(220,811)
(Increase) decrease in inventories	(26,350)	(7,203)	38	(248,585)
Increase in other current assets	(373)	(419)	(701)	(3,519)
Increase in payables and deferred revenue	27,115	1,284	2,690	255,802
Increase (decrease) in deposits received	(8,232)	9,529	1,526	(77,660)
Increase (decrease) in accrued taxes on income	(3,445)	(2,120)	2,211	(32,500)
Increase in guarantee deposits received	669	462	1,471	6,311
Increase (decrease) in other current liabilities	3,931	(343)	4,507	37,085
Decrease in unearned premiums and other insurance liabilities (Note 12)	(4,226)	—	—	(39,868)
Increase in investment deposits by policyholders (Note 12)	18,571	—	—	175,198
Other	(9)	(199)	(167)	(85)
Net cash provided by operating activities	69,090	31,231	57,361	651,792
Cash flows from investing activities:				
Increase (decrease) in time deposits	1,619	(2,117)	1,407	15,274
Proceeds from sales of property, plant and equipment	1,551	1,774	399	14,632
Payments for purchases of property, plant and equipment	(37,539)	(46,332)	(42,389)	(354,142)
Proceeds from sales of investment in securities	2,419	606	5,208	22,821
Payments for investments in securities	(2,733)	(13,214)	(12,589)	(25,783)
(Increase) decrease in short-term investments	(26,855)	3,993	4,017	(253,349)
Proceeds from sales of shares of Secom Techno Service Co., Ltd. (Note 22)	4,512	—	—	42,566
Proceeds from sales of shares of Tokyo Internet Corporation	—	11,757	—	—
Proceeds from sales of shares of Westec Residential Security, Inc. and Valley Burglar and Fire Alarm Co., Inc.	—	33,503	—	—
Acquisition of Pasco Corporation, net of cash acquired	(9,494)	—	—	(89,566)
Acquisition of Secom Toyo General Insurance Co., Ltd., net of cash acquired	—	12,365	—	—
Payments for acquisition of Eclairer Co., Ltd.	—	—	(2,003)	—
Payments for long-term receivables	(24,656)	(454)	(68)	(232,604)
Proceeds from long-term receivables	14,550	311	421	137,264
Increase in other assets	(3,406)	(4,866)	(5,494)	(32,132)
Other	(952)	2,056	2,405	(8,981)
Net cash used in investing activities	(80,984)	(618)	(48,686)	(764,000)
Cash flows from financing activities:				
Proceeds from long-term debt	2,614	7,445	10,351	24,660
Repayments of long-term debt	(4,480)	(5,016)	(8,210)	(42,264)
Increase (decrease) in bank loans	17,160	13,908	(11,488)	161,887
Proceeds from minority shareholders (Note 22)	5,443	660	61	51,349
Dividends paid	(8,147)	(7,555)	(6,972)	(76,858)
(Increase) decrease in treasury stock	77	(94)	(6)	726
Net cash provided by (used in) financing activities	12,667	9,348	(16,264)	119,500
Effect of exchange rate changes on cash and cash equivalents	(630)	(635)	(570)	(5,943)
Net increase (decrease) in cash and cash equivalents	143	39,326	(8,159)	1,349
Cash and cash equivalents at beginning of year	131,186	91,860	100,019	1,237,604
Cash and cash equivalents at end of year	¥131,329	¥131,186	¥ 91,860	$1,238,953

The accompanying notes are an integral part of these statements.

1. Nature of operations

The parent company and its subsidiaries ("the Company") are 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.

The Company is focusing on its "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 business. To grow the Social System Industry concept, the Company is diversifying its operations to cover information and communication services, including software development, system integration activities and cyber security services, aerial surveying and mapping services and Geographic Information System (GIS) services, on-line education services, and development and sale of real estate and related services. Furthermore, the Company also provides non-life insurance and home medical services and other medical 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 accounting principles generally accepted in the United States of America 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 the accounts of the parent company and those of its majority owned subsidiary companies. All intercompany transactions and accounts have been eliminated in consolidation.

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

The difference between the cost and 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.

On occasion, a subsidiary or affiliated company accounted for using the equity method may issue its shares to third parties as either in a public offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than the Company's average per share carrying value. With respect to such transactions, the resulting income or losses arising from the change in ownership interest are recorded in income for the year the transaction occurs.

(2) Foreign currency translation

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

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 as part of other comprehensive income, 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, consisting of security-related products, real estate, and information and other related products, are stated at lower of cost or net realizable value. Cost is determined, in the case of real estate, based on a specific identification method and, in the case of other inventories, using the moving-average method.

(6) Deferred insurance aquisition 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 assets are 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 using the declining-balance method at rates based on the estimated useful lives of the assets. Depreciation expense was ¥31,217 million ($294,500 thousand), ¥28,838 million and ¥27,054 million for the years ended March 31, 2000, 1999 and 1998, 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, 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 period. Other insurance liabilities consist principally of liabilities for unpaid claims and adjustment expenses which are estimates of payments to be made on reported claims and incurred but not reported claims which are computed based on past experience for unpaid losses.

(11) Income taxes

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

(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 earned ratably over the terms of 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 ratably over the covered service period.

(13) Research and development

Research and development costs are charged to expense as incurred.

(14) Interest rate swap agreement

The Company enters into interest rate 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 to provide higher interest income to the Company. 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. Basic and diluted EPS for the prior years are restated to reflect the stock split.

(16) Free distribution of common stock

A corporation in Japan may make free distributions of its common stock to shareholders at the discretion of its Board of Directors. Free share distributions are accounted for either by (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, the Financial Accounting Standards Board (“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. However, the Company does not expect the adoption of FAS 133 to have a significant impact on its consolidated results of operations and consolidated financial position.

(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 the yen 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, 2000, ¥106=US$1.

4. Reconciliation of the differences between basic and diluted net income per share (“EPS”)

Basic and diluted EPS as well as the number of shares in the following table are restated for prior years to reflect the two-for-one stock split that became effective on November 19, 1999.

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 1998, 1999 and 2000 is as follows:

	In millions of yen	Thousands of shares	Yen
	Net Income	Weighted-average shares	EPS
For the year ended March 31, 1998			
Basic EPS			
Net income available to common stockholders	¥18,990	232,437	¥ 81.70
Effect of dilutive securities			
Convertible bonds	16	828	
Diluted EPS			
Net income for computation	¥19,006	233,265	¥ 81.48
For the year ended March 31, 1999			
Basic EPS			
Net income available to common stockholders	¥49,918	232,700	¥214.51
Effect of dilutive securities			
Convertible bonds	9	510	
Diluted EPS			
Net income for computation	¥49,927	233,210	¥214.09

	In millions of yen	Thousands of shares	Yen	U.S. Dollars
	Net Income	Weighted-average shares	EPS	EPS
For the year ended March 31, 2000				
Basic EPS				
Net income available to common stockholders	**¥47,432**	**232,883**	**¥203.67**	**$1.92**
Effect of dilutive securities				
Convertible bonds	**9**	**220**		
Diluted EPS				
Net income for computation	**¥47,441**	**233,103**	**¥203.52**	**$1.92**

5. Acquisitions

In December 1997 and January 1998, the parent company subscribed, in two installments, to purchase new shares issued by Eclairer Co., Ltd. (“Eclairer”), a real estate development company in Japan, for an aggregate amount of ¥1,990 million ($18,774 thousand). As a result, the parent company now owns 99.9 percent of the outstanding shares of Eclairer.

In September 1998 and March 1999, the parent company subscribed, in two installments, to purchase new shares issued by Secom Toyo General Insurance Co., Ltd. (“Secom Toyo”), a non-life insurance company in Japan, for an aggregate amount of ¥9,029 million ($85,179 thousand). As a result, the parent company now owns 81.7 percent of the outstanding shares of Secom Toyo.

In August 1999, the parent company subscribed to purchase new shares issued by Pasco Corporation (“Pasco”), which operates an aerial surveying and mapping business and Geographic Information System in Japan, for an aggregate amount of ¥15,000 million ($141,509 thousand). As a result, the parent company now owns 67.5 percent of the outstanding shares of Pasco.

The acquisitions referred to above have been accounted for as purchases and the assets and liabilities of the acquired companies have been consolidated at their fair value. The results of their operations have been included in the consolidated statements of income since the date of acquisition of the majority of outstanding shares. The difference between the purchase price and the value assigned to the underlying net assets acquired is included in goodwill at March 31, 2000 and 1999 amounting to ¥5,768 million ($54,415 thousand) and ¥330 million, respectively. The goodwill is being amortized on a straight-line basis over periods not exceeding 10 years.

The consolidated pro forma information that would show the results of the Company's consolidated operations for the years ended March 31, 2000, 1999 and 1998 has not been disclosed because prior year comparative accounting figures for the acquired companies under accounting principles generally accepted in the United States of America are not available, and based on materiality considerations, the effort to provide comparative pro forma financial information would not be commensurate with the benefits derived from such information.

6. Cash and cash equivalents

Cash and cash equivalents as of March 31, 2000 and 1999 were comprised as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2000	1999	2000
Cash	¥ 67,902	¥ 65,673	$ 640,585
Time deposits	35,203	24,400	332,104
Call loan	11,000	—	103,774
Investment securities	17,224	41,113	162,490
	¥131,329	¥131,186	$1,238,953

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

7. Cash deposits

The Company operates cash collection and deposit services for banks relating to cash dispensers outside of bank facilities. Cash deposit balances, mostly in cash dispensers, of ¥37,492 million ($353,698 thousand) and ¥43,703 million as of March 31, 2000 and 1999, respectively, are segregated from cash and cash equivalents and are restricted as to use by the Company. The Company funds most of the necessary cash through bank overdraft facilities with the related banks. Bank loans include ¥23,454 million ($221,264 thousand) and ¥21,058 million as of March 31, 2000 and 1999, 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, and the related 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, 2000 and 1999 were as follows:

	In millions of yen			
	March 31, 2000			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available for sale:				
Equity securities	¥ 48,499	¥40,796	¥7,159	¥ 82,136
Debt securities	62,702	849	1,523	62,028
Total	¥111,201	¥41,645	¥8,682	¥144,164
Held to maturity:				
Debt securities	¥ 20,000	¥ 836	¥ —	¥ 20,836

	In thousands of U.S. dollars			
	March 31, 2000			
		Gross unrealized		
	Cost	Gains	Losses	Fair value
Available for sale:				
Equity securities	$ 457,538	$384,868	$67,538	$ 774,868
Debt securities	591,528	8,010	14,368	585,170
Total	$1,049,066	$392,878	$81,906	$1,360,038
Held to maturity:				
Debt securities	$ 188,679	$ 7,887	$ —	$ 196,566

	In millions of yen			
	March 31, 1999			
		Gross unrealized		
	Cost	Gains	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

At March 31, 2000, 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, 2000 are as follows:

	In millions of yen			
	March 31, 2000			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	¥22,293	¥22,285	¥ —	¥ —
Due after one year through five years	22,430	22,591	20,000	20,836
Due after five years through ten years	8,853	8,272	—	—
Due after ten years	9,126	8,880	—	—
	¥62,702	¥62,028	¥20,000	¥20,836

	In thousands of U.S. dollars			
	March 31, 2000			
	Available-for-sale		Held-to-maturity	
	Cost	Fair value	Cost	Fair value
Due within one year	$210,311	$210,236	$ —	$ —
Due after one year through five years	211,604	213,123	188,679	196,566
Due after five years through ten years	83,519	78,038	—	—
Due after ten years	86,094	83,773	—	—
	$591,528	$585,170	$188,679	$196,566

During the years ended March 31, 2000 and 1999, the net unrealized gain on "available-for-sale" securities included as part of other comprehensive income, net of applicable taxes, increased by ¥4,204 million ($39,660 thousand) and ¥5,985 million, respectively.

Proceeds from the sale of "available-for-sale" securities for the years ended March 31, 2000, 1999 and 1998 were ¥17,561 million ($165,670 thousand), ¥1,282 million and ¥2,584 million, respectively. On those sales, the gross realized gains and gross realized losses, using specifically identified moving-average cost basis, for the years ended March 31, 2000, 1999 and 1998 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Gross realized gains	**¥6,993**	¥350	¥791	**$65,972**
Gross realized losses	**239**	690	340	**2,255**

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 ¥4,619 million ($43,575 thousand) and ¥5,211 million at March 31, 2000 and 1999, 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
	2000	1999	**2000**
Security-related products	**¥ 6,390**	¥ 5,703	**$ 60,283**
Real estate	**40,459**	14,590	**381,688**
Information and other-related products	**5,551**	3,110	**52,368**
	¥52,400	¥23,403	**$494,339**

Work in process real estate inventories at March 31, 2000 and 1999, amounting to ¥34,848 million ($328,755 thousand) and ¥8,097 million, respectively, are included in real estate.

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 24.7 percent owned affiliate, which is listed on the Korea Stock Exchange; Japan Image Communications Co., Ltd., a 27.4 percent owned affiliate; and Musashino-Mitaka Cable Television Inc., a 39.0 percent owned affiliate.

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

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2000	1999	**2000**
Current assets	**¥ 81,472**	¥ 77,465	**$ 768,604**
Noncurrent assets	**99,435**	90,293	**938,066**
Total assets	**¥180,907**	¥167,758	**$1,706,670**
Current liabilities	**¥ 55,994**	¥ 50,463	**$ 528,245**
Noncurrent liabilities	**40,427**	39,724	**381,387**
Shareholders' equity	**84,486**	77,571	**797,038**
Total liabilities and shareholders' equity	**¥180,907**	¥167,758	**$1,706,670**

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Net sales	**¥163,882**	¥155,293	¥162,967	**$1,546,057**
Gross profit	**¥ 42,617**	¥ 38,722	¥ 37,938	**$ 402,047**
Net income	**¥ 5,641**	¥ 3,943	¥ 262	**$ 53,217**

Dividends received from affiliated companies for the years ended March 31, 2000, 1999 and 1998 were ¥726 million ($6,849 thousand), ¥562 million and ¥703 million, respectively.

Among the affiliated companies accounted for using the equity method, the stocks of three companies carried at equity of ¥18,729 million ($176,689 thousand) and ¥17,456 million at March 31, 2000 and 1999, respectively, had a quoted market value of ¥40,045 million ($377,783 thousand) and ¥40,005 million at March 31, 2000 and 1999, respectively.

The unamortized amounts of goodwill were included in the carrying amount of investments in affiliated companies under the equity method. The unamortized amount of goodwill, ¥136 million ($1,283 thousand) and ¥728 million at March 31, 2000 and 1999, respectively, is 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 using the equity method is presented below:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Sales	**¥1,748**	¥1,394	¥1,647	**$16,491**
Purchases	**¥6,984**	¥1,692	¥2,020	**$65,887**

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2000	1999	**2000**
Notes and accounts receivable, trade	**¥ 914**	¥ 520	**$ 8,623**
Loan receivables	**¥ 647**	¥1,528	**$ 6,104**
Notes and accounts payable	**¥ 2,883**	¥ 204	**$27,198**
Guarantees for bank loans	**¥10,499**	¥8,531	**$99,047**

11. Bank loans and long-term debt

Bank loans of ¥74,660 million ($704,340 thousand) at March 31, 2000 are represented generally by 90- to 365-day notes with interest rates ranging from 0.37 to 3.125 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, 2000 and 1999 comprised of the following:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2000	1999	**2000**
Loans, principally from banks due 2000 to 2016 with interest rates ranging from 0.00 to 6.60%:			
Secured	**¥ 3,962**	¥ 9,401	**$ 37,377**
Unsecured	**4,185**	1,015	**39,481**
3.75% convertible U.S. dollar bonds due 1999, convertible currently at ¥3,609.2 ($14.93 calculated at ¥241.70=$1) for one common share, redeemable before due date	**—**	2	**—**
1.60% convertible bonds due 2002, convertible currently at ¥2,667.8 ($25.17) for one common share, redeemable before due date	**521**	1,283	**4,915**
1.60% convertible bonds due 2004, convertible currently at ¥2,372.4 ($22.38) for one common share, redeemable before due date	**57**	64	**538**
1.85% notes due 2002	**5,000**	5,000	**47,170**
2.05% notes due 2003	**5,000**	5,000	**47,170**
Obligations under capital leases, due 2000 to 2026 (Note 18)	**10,589**	9,595	**99,896**
	29,314	31,360	**276,547**
Less—Portion due within one year	**5,715**	9,849	**53,915**
	¥23,599	¥21,511	**$222,632**

Property, plant and equipment with a book value of ¥6,369 million ($60,085 thousand), inventories with a book value of ¥9,154 million ($86,358 thousand) and investment securities with a book value of ¥783 million ($7,387 thousand) were pledged as collateral for short-term and long-term debt at March 31, 2000.

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 ¥1,579 million ($14,896 thousand) with such banks at March 31, 2000.

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 ($33,019 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 after March 31, 2000 are as follows:

Years ending March 31	In millions of yen	In thousands of U.S. dollars
2001	¥ 5,715	$ 53,915
2002	10,042	94,736
2003	7,225	68,160
2004	909	8,575
2005	551	5,198
Later years	4,872	45,963
	¥29,314	$276,547

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 Supervisory Authorities in Japan, which vary in some respects from accounting principles generally accepted in the United States of America. Those differences are mainly, (a) 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, (b) that liabilities related to 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 (c) that unearned premiums are calculated based on the documents authorized by the Supervisory Authorities in Japan whereas in the U.S. unearned premiums are reflected based on the lapse and surrender over the contract period.

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

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

The amounts of net equity of Secom Toyo as of March 31, 2000 and 1999 were ¥25,175 million ($237,500 thousand) and ¥15,506 million, respectively.

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, 2000, 1999 and 1998 were as follows:

	In millions of yen			In thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	2000
Net pension and severance costs (credit):				
Service cost	¥ 5,638	¥ 5,413	¥ 4,619	$ 53,189
Interest cost	3,390	2,952	2,724	31,981
Expected return on plan assets	(2,712)	(2,463)	(2,214)	(25,585)
Amortization of transition assets	(46)	(46)	(46)	(434)
Amortization of prior service cost	105	105	105	990
Recognized actuarial loss	804	1,200	695	7,585
Net periodic benefit cost	¥ 7,179	¥ 7,161	¥ 5,883	$ 67,726

The changes in benefit obligation and plan assets, funded status, composition of amount 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
	2000	1999	2000
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 94,376	¥ 84,343	$ 890,339
Benefit obligation for Pasco at the date of acquisition	5,839	—	55,085
Service cost	5,638	5,413	53,189
Interest cost	3,390	2,952	31,981
Plan participants’ contributions	2,087	2,209	19,689
Actuarial (gain) loss	582	(2,292)	5,490
Benefits paid	(2,383)	(1,362)	(22,481)
Benefit obligation at end of year	109,529	91,263	1,033,292
Benefit obligation for Secom Toyo at end of year	—	3,113	—
Total benefit obligation at end of year	109,529	94,376	1,033,292
Change in plan assets:			
Fair value of plan assets at beginning of year	64,030	58,259	604,056
Fair value of plan assets for Pasco at the date of acquisition	2,927	—	27,613
Actual return on plan assets	14,584	28	137,585
Employer contribution	5,403	4,474	50,972
Plan participants’ contributions	2,087	2,209	19,689
Benefits paid	(2,083)	(1,338)	(19,651)
Fair value of plan assets at end of year	86,948	63,632	820,264
Fair value of plan assets for Secom Toyo at end of year	—	398	—
Total fair value of plan assets at end of year	86,948	64,030	820,264
Funds status	22,581	30,346	213,028
Unrecognized actuarial loss	(11,085)	(23,192)	(104,575)
Unrecognized transition assets	227	274	2,142
Unrecognized prior service cost	(746)	(852)	(7,038)
Net amount recognized	¥ 10,977	¥ 6,576	$ 103,557
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥ 12,293	¥ 22,608	$ 115,972
Intangible asset	—	(852)	—
Accumulated other comprehensive income	(1,316)	(15,180)	(12,415)
Net pension liability recognized in the balance sheet	¥ 10,977	¥ 6,576	$ 103,557

	Years ended March 31	
	2000	1999
Assumptions in determination of pension costs and obligations at March 31:		
Discount rate	**3.5%**	3.5%
Long-term rate of salary increase	**2.7–2.8%**	2.5–2.8%
Long-term rate of return on funded assets	**5.0%**	4.0%

As of March 31, 2000, approximately 56 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 ¥765 million ($7,217 thousand) and ¥8,819 million as of March 31, 2000 and 1999, respectively.

Most subsidiaries outside Japan have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. 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, 2000, 1999 and 1998 were ¥25 million ($236 thousand), ¥19 million and ¥38 million, respectively.

14. Exchange gains and losses

Other expenses for the years ended March 31, 2000 and 1999 include net exchange losses of ¥631 million ($5,953 thousand) and ¥178 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 51.0 percent for the year ended March 31, 1998, approximately 47.5 percent for the year ended March 31, 1999, and approximately 41.9 percent for the year ended March 31, 2000. Due to the changes in Japanese income tax regulations, the normal statutory tax rate in Japan was reduced to approximately 41.9 percent for the year beginning on April 1, 1999. The revised tax rate was used in the measurement of deferred tax assets and liabilities at March 31, 1999 and 2000, respectively.

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
	2000	1999	1998	**2000**
Income taxes computed at statutory tax rate of 41.9% – 2000, 47.5% – 1999 and 51.0% – 1998	**¥30,506**	¥39,279	¥26,450	**$287,792**
Increase resulting from:				
Unrecognized tax benefits from subsidiaries in loss positions	**1,344**	1,936	4,603	**12,679**
Utilization of tax loss carryforwards	**(8,689)**	(8,713)	(423)	**(81,972)**
Amortization of non-deductible goodwill	**118**	1,213	147	**1,113**
Effect of change in normal statutory tax rate in Japan	**—**	(4)	203	**—**
Other	**(610)**	(1,338)	(130)	**(5,754)**
Consolidated income taxes	**¥22,669**	¥32,373	¥30,850	**$213,858**

The significant components of deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	In millions of yen		In thousands of U.S. dollars
	March 31		March 31
	2000	1999	2000
Deferred tax assets:			
Loss carryforwards	¥22,331	¥ 8,949	$210,670
Accrued pension and severance costs	2,752	8,158	25,962
Intercompany profit	4,560	4,280	43,019
Insurance reserve	3,244	3,303	30,604
Research and development expenses	1,707	2,727	16,104
Enterprise and state income taxes	1,273	2,160	12,009
Allowance for doubful accounts	1,823	2,212	17,198
Accrued bonus	1,070	513	10,094
Vacation accrual	882	680	8,321
Inventory devaluation	305	371	2,877
Other	2,894	3,580	27,302
Gross deferred tax assets	42,841	36,933	404,160
Less: Valuation allowance	(19,841)	(17,926)	(187,179)
Total deferred tax assets	23,000	19,007	216,981
Deferred tax liabilities:			
Unrealized gain on securities	(16,114)	(13,264)	(152,019)
Unearned premiums and other insurance liabilities	(3,917)	(3,777)	(36,953)
Reversal of securities devaluation	(1,659)	(1,569)	(15,651)
Other	(1,547)	(1,239)	(14,594)
Gross deferred tax liabilities	(23,237)	(19,849)	(219,217)
Net deferred tax liabilities	(¥ 237)	(¥ 842)	($ 2,236)

The valuation allowance mainly relates to deferred tax assets of the subsidiaries with operating loss carryforwards, for tax purposes, that are not expected to be realized. The net change in the total valuation allowance for the year ended March 31, 2000 was an increase of ¥1,915 million ($18,066 thousand).

No deferred income taxes have been provided on undistributed earnings of overseas subsidiaries totaling ¥1,731 million ($16,330 thousand) at March 31, 2000 because they are not expected to be remitted in the foreseeable future.

At March 31, 2000, tax loss carryforwards of domestic subsidiaries amounted to ¥48,075 million ($453,538 thousand) and are available for offset against future taxable earnings of such subsidiaries for up to five years, as follows:

Expires in the years ending March 31	In millions of yen	In thousands of U.S. dollars
2001	¥ 1,711	$ 16,142
2002	5,020	47,358
2003	2,419	22,821
2004	36,776	346,943
2005	2,149	20,274
	¥48,075	$453,538

The tax loss carryforwards of overseas subsidiaries at March 31, 2000 amounted to ¥6,400 million ($60,377 thousand), a part of which will begin to expire in the year 2001.

16. Shareholders' equity

(1) Stock split

On September 14, 1999, the Board of Directors approved a two-for-one stock split on the Company's common stock, which was distributed on November 19, 1999, to shareholders of record on September 30, 1999. The number of shares issued was 116,409,647. There was no increase in the common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code.

(2) 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, 2000, 1999 and 1998 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, 2000, the Company's Board of Directors declared an annual cash dividend of ¥9,323 million ($87,953 thousand) to shareholders of record on March 31, 2000. The dividend declared is subject to approval at the general shareholders' meeting scheduled for June 29, 2000. Dividends are recorded in the period they are declared.

(3) Accumulated other comprehensive income/(loss)

An analysis of the changes in accumulated other comprehensive income/(loss) for the years ended March 31, 1998, 1999 and 2000 is as follows:

	In millions of yen		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 1998:			
Unrealized gain on securities—			
Unrealized holding loss 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/(loss)	(¥26,023)	¥13,065	(¥12,958)
For the year ended March 31, 1999:			
Unrealized gain on securities—			
Unrealized holding gain arising during the period	¥11,381	(¥ 5,381)	¥ 6,000
Less: Reclassification adjustment for gain 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/(loss)	¥ 6,447	(¥ 6,182)	¥ 265
For the year ended March 31, 2000:			
Unrealized gain on securities—			
Unrealized holding gain arising during the period	**¥ 8,436**	**(¥ 3,557)**	**¥ 4,879**
Less: Reclassification adjustment for gain included in net income	**(1,162)**	**487**	**(675)**
Minimum pension liability adjustment	**13,863**	**(5,809)**	**8,054**
Foreign currency translation adjustments	**(5,638)**	**—**	**(5,638)**
Other comprehensive income/(loss)	**¥15,499**	**(¥ 8,879)**	**¥ 6,620**

	Translation into thousands of U.S. dollars		
	Pre-tax amount	Tax (expense) or benefit	Net-of-tax amount
For the year ended March 31, 2000:			
Unrealized gain on securities—			
Unrealized holding gain arising during the period	**$ 79,585**	**($33,557)**	**$46,028**
Less: Reclassification adjustment for gain included in net income	**(10,962)**	**4,594**	**(6,368)**
Minimum pension liability adjustment	**130,783**	**(54,802)**	**75,981**
Foreign currency translation adjustments	**(53,189)**	**—**	**(53,189)**
Other comprehensive income/(loss)	**$146,217**	**($83,765)**	**$62,452**

17. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2000, 1999 and 1998 were ¥5,970 million ($56,321 thousand), ¥4,820 million and ¥5,405 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 ($47,981 thousand) has been recorded in the building and improvements account. The portion of the lease relating to the land has been classified as an operating lease. The future minimum lease payments for the site at March 31, 2000 were ¥8,540 million ($80,566 thousand).

Total assets under capital leases at March 31, 2000 and 1999 amounted to ¥16,707 million ($157,613 thousand) and ¥13,774 million; accumulated depreciation thereon amounted to ¥6,632 million ($62,566 thousand) and ¥4,574 million, respectively. Depreciation expenses under capital leases for the years ended March 31, 2000, 1999 and 1998 were ¥2,527 million ($23,840 thousand), ¥2,426 million and ¥2,555 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, 2000:

Years ending March 31:	In millions of yen	In thousands of U.S. dollars
2001	¥ 2,892	$ 27,283
2002	2,215	20,896
2003	1,403	13,236
2004	807	7,613
2005	480	4,528
Later years	7,511	70,859
Total minimum lease payments	15,308	144,415
Less—Amount representing interest	4,719	44,519
Present value of net minimum lease payments	10,589	99,896
Less—Current obligations	2,489	23,481
Long-term capital lease obligations	¥ 8,100	$ 76,415

Rental expenses under operating leases for the years ended March 31, 2000, 1999 and 1998 were ¥12,534 million ($118,245 thousand), ¥10,458 million and ¥10,378 million, respectively. A significant portion of such rentals relates to cancelable short-term leases for office space and employee residential facilities, many of which are renewed upon expiration.

19. Financial instrument

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 non-performance by counter parties, it does not anticipate significant losses due to the nature of its counter parties.

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, time deposits, cash deposits, notes and accounts receivable, trade, due from subscribers, short-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 receivables

Long-term receivables include loans to real estate investment companies of ¥18,107 million ($170,821 thousand) as of March 31, 2000, which are primarily mortgage loans on land and commercial buildings. The mortgage loans are scheduled to mature over a period from two years to ten years with interest rates ranging from 6.0 to 7.0 percent. The fair values of long-term receivables would need to be calculated based on the present value of the future cash flows based on estimated maturity and estimated market discount rates. However, these estimated market discount rates are subjective in terms of each borrower's credit risks and involve uncertainties and matters of significant judgement. Therefore, it is not practicable to estimate the fair value of long-term receivables to the Company.

(3) Long-term debt including current portion

The fair value of long-term debt including the current portion was estimated based on the discounted amounts of future cash flows using the Company's current incremental borrowing rates for similar liabilities. The estimated fair values of total long-term debt, including the current portion and excluding obligations under capital lease, at March 31, 2000 and 1999 were ¥18,982 million ($179,075 thousand) and ¥23,290 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.

(4) 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, amounting to ¥10,000 million ($94,340 thousand), are designed to limit exposures to losses resulting from fluctuations in LIBOR-based interest rates related to investment securities and notes debt. These agreements are scheduled to mature in 2002 and 2003.

On December 22, 1999, the parent company and its two Japanese subsidiaries entered into interest rate swap agreements, amounting to ¥10,000 million ($94,340 thousand) related to LIBOR-based floating interest rate investment securities, whereby the parent company and its two Japanese subsidiaries pays a LIBOR-based floating rate of interest and receives a long-term based floating swap rate. The Company believes that the long-term based floating swap rate will provide higher interest income to the Company compared to the LIBOR-based floating rate. This swap agreement is designed to replace LIBOR-based interest income with long-term swap rate interest income for the investment securities. This agreement is scheduled to mature in 2004.

The total notional value of interest rate swap agreements in effect at March 31, 2000 and 1999 totaled ¥21,183 million ($199,840 thousand) and ¥10,000 million, respectively, of which ¥5,000 million ($47,170 thousand) will mature by 2002, ¥5,000 million ($47,170 thousand) will mature by 2003, ¥10,000 million ($94,340 thousand) will mature by 2004 and ¥1,183 million ($11,160 thousand) will mature by 2010. 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, 2000 and 1999, respectively.

20. Commitments and contingent liabilities

Commitments outstanding at March 31, 2000 for the purchase of property, plant and equipment approximated ¥1,438 million ($13,566 thousand).

Contingent liabilities at March 31, 2000 for guarantees given in the ordinary course of business amounted to approximately ¥17,815 million ($168,066 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, which is expected in December 2000. Based on the agreement, annual lease payments for the site will be approximately ¥1,339 million ($12,632 thousand) over a twenty-year period.

On May 23, 2000, The Japan Fair Trade Commission started an investigation of Pasco together with other companies in the same profession on suspicion of unfair competitive practices concerning the tender for aerial surveying and mapping services. The investigation is still in its early stages. Pasco considers this investigation as a serious matter and will soon conduct its own investigation. The Company management could not estimate the impact on the Company's future consolidated results of operations and consolidated financial position based on facts currently known to it, however, the Company management intends to rebuild and reinforce its organization to ensure that its business practices rigorously conform with commercial laws and regulations.

21. Free share distributions of less than 25 percent

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

22. Gain on sale of subsidiaries' shares

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 ($349,292 thousand) in cash. The sale resulted in a gain in the aggregate of ¥22,828 million ($215,358 thousand).

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 ($168,245 thousand). The sale resulted in a gain of ¥13,054 million ($123,151 thousand). The sales price is subject to a final sales price adjustment.

On October, 15, 1999, Secom Techno Service Co., Ltd. ("Secom Techno"), a 98.3 percent owned subsidiary, completed an initial public offering on the Second Section of the Tokyo Stock Exchange. In conjunction with the offering, the parent company sold 2,000,000 outstanding shares of Secom Techno for a sales price of ¥4,512 million ($42,566 thousand). Through a secondary offering, Secom Techno issued an additional 2,000,000 shares for total proceeds of ¥4,512 million ($42,566 thousand). As a result of these transactions, the parent company's ownership in Secom Techno declined to 67.8 percent. The resulting pre tax gains on the sale of subsidiary shares and new issuance of Secom Techno's shares of ¥2,313 million ($21,821 thousand) and ¥1,978 million ($18,660 thousand), respectively, are recognized in the consolidated statements of income for the year ended March 31, 2000. In the consolidated statement of cash flows for the year ended March 31, 2000, the gain on sale of subsidiary shares are excluded from cash flows from operating activities and the related cash proceeds are classified in the cash flows from investing activities. The cash proceeds from the new issuance by Secom Techno to minority shareholders are classified in the cash flows from financing activities.

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
	2000	1999	1998	**2000**
Cash paid during the year:				
Interest	**¥ 1,073**	¥ 1,599	¥ 1,409	**$ 10,123**
Income taxes	**¥30,841**	¥37,209	¥29,514	**$290,953**
Noncash investing and financing activities:				
Conversion of convertible bond to common stock and additional paid-in capital	**¥ 774**	¥ 766	¥ 148	**$ 7,302**
Additions to obligations under capital leases	**¥ 3,344**	¥ 2,032	¥ 2,489	**$ 31,547**
Liabilities assumed in conjunction with acquisition	**¥29,038**	¥99,594	¥ 9,285	**$273,943**

24. Segment information

Effective for the year ended March 31, 1999, the Company adopted Statement of Financial Accounting Standards 131, "Disclosures about Segments of an Enterprise and Related Information" which requires disclosure of financial and descriptive information about the Company's reportable operating segments. The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and 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, aerial surveying and mapping services, and GIS services as well as development and sale of real estate services. The Company develops real estate, mainly condominiums, for consumers, to promote a network of integrated communication systems to create synergies with home security services. These communication services are considered a subset or an integrated part of the real estate package. The insurance services segment represents non-life insurance-related underwriting business in the Japanese market. The medical services segment provides intravenous solutions to patients at home, home-based nursing care services, and medical 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, 2000, 1999 and 1998 follows:

(1) Business Segment Information

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Revenue and other income:				
Security services—				
Customers	**¥295,834**	¥293,104	¥282,066	**$2,790,887**
Intersegment	**3,305**	975	877	**31,179**
Subtotal	**299,139**	294,079	282,943	**2,822,066**
Information and communication related and other services—				
Customers	**72,684**	55,367	30,910	**685,698**
Intersegment	**1,821**	2,989	1,337	**17,179**
Subtotal	**74,505**	58,356	32,247	**702,877**
Insurance services—				
Customers	**30,435**	4,775	5,365	**287,123**
Intersegment	**2,250**	2,099	2,156	**21,226**
Subtotal	**32,685**	6,874	7,521	**308,349**
Medical services—				
Customers	**1,326**	1,075	855	**12,509**
Intersegment	**140**	117	100	**1,321**
Subtotal	**1,466**	1,192	955	**13,830**
Total	**407,795**	360,501	323,666	**3,847,122**
Eliminations	**(7,516)**	(6,180)	(4,470)	**(70,906)**
Corporate items	**12,118**	39,825	3,608	**114,321**
Consolidated revenue and other income	**¥412,397**	¥394,146	¥322,804	**$3,890,537**
Income (loss) before income taxes:				
Security services	**¥ 76,073**	¥ 69,890	¥ 69,003	**$ 717,670**
Information and communication related and other services	**2,137**	(978)	(3,517)	**20,160**
Insurance services	**4,455**	265	291	**42,029**
Medical services	**(566)**	(1,053)	(987)	**(5,340)**
Total	**82,099**	68,124	64,790	**774,519**
Corporate items	**(8,063)**	15,647	(11,876)	**(76,066)**
Interest expense	**(1,229)**	(1,078)	(1,051)	**(11,595)**
Consolidated income before income taxes	**¥ 72,807**	¥ 82,693	¥ 51,863	**$ 686,858**

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Assets:				
Security services	**¥322,681**	¥311,339	¥299,774	**$3,044,160**
Information and communication related and other services	**154,045**	51,396	37,637	**1,453,255**
Insurance services	**142,289**	113,210	1,773	**1,342,349**
Medical services	**2,061**	1,462	1,314	**19,444**
Total	**621,076**	477,407	340,498	**5,859,208**
Corporate items	**133,522**	141,037	117,059	**1,259,641**
Investments in and loans to affiliated companies	**24,950**	25,010	22,284	**235,377**
Total assets	**¥779,548**	¥643,454	¥479,841	**$7,354,226**

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Depreciation and amortization:				
Security services	**¥31,361**	¥28,913	¥27,620	**$295,858**
Information and communication related and other services	**3,234**	1,315	1,861	**30,509**
Insurance services	**(625)**	3	3	**(5,896)**
Medical services	**94**	69	56	**887**
Total	**34,064**	30,300	29,540	**321,358**
Corporate items	**168**	242	169	**1,585**
Total depreciation and amortization	**¥34,232**	¥30,542	¥29,709	**$322,943**
Capital expenditures:				
Security services	**¥36,459**	¥42,758	¥45,770	**$343,953**
Information and communication related and other services	**3,449**	1,119	1,526	**32,538**
Insurance services	**278**	—	—	**2,622**
Medical services	**132**	79	99	**1,245**
Total	**40,318**	43,956	47,395	**380,358**
Corporate items	**983**	1,542	535	**9,274**
Total capital expenditures	**¥41,301**	¥45,498	¥47,930	**$389,632**

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
	2000	1999	1998	**2000**
Electronic security services—				
Commercial security and home security	**¥221,765**	¥219,670	¥209,855	**$2,092,123**
Large-scale proprietary systems	**3,773**	4,223	4,264	**35,594**
Other security services—				
Static guard services	**31,663**	30,178	28,852	**298,708**
Armored car services	**13,540**	12,275	11,522	**127,736**
Merchandise and other	**25,093**	26,758	27,573	**236,726**
Total security services	**¥295,834**	¥293,104	¥282,066	**$2,790,887**

(2) Geographic Segment Information

Revenue and other income attributed to countries based on location of customers and long-lived assets for the years ended March 31, 2000, 1999 and 1998 was as follows:

	In millions of yen			Translation into thousands of U.S. dollars
	Years ended March 31			Year ended March 31
	2000	1999	1998	**2000**
Revenue and other income:				
Japan	**¥398,838**	¥349,702	¥300,459	**$3,762,622**
United States	**4,330**	33,580	11,234	**40,849**
Others	**9,229**	10,864	11,111	**87,066**
Total	**¥412,397**	¥394,146	¥322,804	**$3,890,537**
Long-lived assets:				
Japan	**¥191,628**	¥169,737	¥161,171	**$1,807,811**
United States	**536**	584	8,231	**5,057**
Others	**6,134**	6,627	6,784	**57,868**
Total	**¥198,298**	¥176,948	¥176,186	**$1,870,736**

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

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PRICEWATERHOUSECOOPERS

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, 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.

PricewaterhouseCoopers

May 15, 2000, except for the fourth paragraph of Note 20,
as to which is as of May 23, 2000.

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

In millions of yen

	2000	1999	1998	1997	1996	1995
Composition of consolidated revenue by segment						
Revenue:	**¥412,397**	¥394,146	¥322,804	¥303,796	¥281,547	¥258,947
Security services:	**295,834**	293,104	282,066	266,209	248,406	231,125
As a percent of revenue	***71.8%***	*74.4%*	*87.3%*	*87.7%*	*88.2%*	*89.3%*
Electronic security services—						
Commercial security and home security	**221,765**	219,670	209,855	199,498	184,657	174,375
As a percent of revenue	***53.8***	*55.7*	*65.0*	*65.7*	*65.6*	*67.4*
Large-scale proprietary systems	**3,773**	4,223	4,264	3,980	4,028	3,935
As a percent of revenue	***0.9***	*1.1*	*1.3*	*1.3*	*1.4*	*1.5*
Subtotal	**225,538**	223,893	214,119	203,478	188,685	178,310
Other security services—						
Static guard services	**31,663**	30,178	28,852	26,487	24,768	23,755
As a percent of revenue	***7.7***	*7.7*	*8.9*	*8.7*	*8.8*	*9.2*
Armored car services	**13,540**	12,275	11,522	10,558	9,566	8,541
As a percent of revenue	***3.3***	*3.1*	*3.6*	*3.5*	*3.4*	*3.3*
Subtotal	**45,203**	42,453	40,374	37,045	34,334	32,296
Merchandise	**25,093**	26,758	27,573	25,686	25,387	20,519
As a percent of revenue	***6.1***	*6.8*	*8.5*	*8.5*	*9.0*	*7.9*
Information and communication related and other services	**72,684**	55,367	30,910	29,301	19,353	19,677
As a percent of revenue	***17.6***	*14.0*	*9.6*	*9.7*	*6.9*	*7.6*
Insurance services	**30,435**	4,775	5,365	4,633	3,917	3,451
As a percent of revenue	***7.4***	*1.2*	*1.7*	*1.5*	*1.4*	*1.3*
Medical services	**1,326**	1,075	855	681	532	388
As a percent of revenue	***0.3***	*0.3*	*0.3*	*0.2*	*0.2*	*0.1*
Gain on sale of investment in securities	**5,454**	35,700	570	732	7,074	2,989
As a percent of revenue	***1.3***	*9.1*	*0.2*	*0.2*	*2.5*	*1.2*
Interest and other	**6,664**	4,125	3,038	2,240	2,265	1,317
As a percent of revenue	***1.6***	*1.0*	*0.9*	*0.7*	*0.8*	*0.5*
Net income, cash dividends and shareholders' equity						
Net income	**¥ 47,432**	¥ 49,918	¥ 18,990	¥ 22,798	¥ 23,264	¥ 9,896
Cash dividends (paid)(1)	**8,146**	7,555	6,972	5,719	5,459	5,438
Shareholders' equity	**373,912**	327,147	283,840	284,634	260,854	238,239
Consolidated financial ratios						
Percent of working capital accounted for by:						
Debt:						
Bank loans	**15.7**	8.4	5.7	8.3	8.8	9.9
Current portion of long-term debt	**1.2**	2.5	1.7	2.3	5.2	0.8
Convertible bonds	**0.1**	0.3	0.6	0.7	0.9	6.8
Other long-term debt	**4.8**	5.2	6.4	3.7	3.4	3.5
Total debt	**21.8**	16.4	14.4	15.0	18.3	21.0
Shareholders' equity	**78.2**	83.6	85.6	85.0	81.7	79.0
Total capitalization	**100.0**	100.0	100.0	100.0	100.0	100.0
Return on total assets (percent) (a)	**6.1**	7.8	4.0	4.9	5.3	2.5
Return on equity (percent) (b)	**12.7**	15.3	6.7	8.0	8.9	4.2
Percent of revenue absorbed by:						
Depreciation and amortization	**8.3**	7.8	9.2	9.5	11.5	10.4
Rental expense	**3.0**	2.7	3.2	3.4	3.7	4.1
Ratio of accumulated depreciation to depreciable assets (percent)	**63.8**	62.1	61.7	60.8	60.6	61.2
Net property turnover (times)	**2.42**	2.53	2.15	2.27	2.22	2.17
Before-tax interest coverage (times) (c)	**60.2**	77.7	50.3	46.4	37.8	26.4
Before-tax interest and rental coverage (times) (d)	**14.5**	19.1	12.5	12.7	11.6	9.6

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

	2000	1999	1998	1997	1996	1995
Number of shares outstanding[1]						
Issued	**233,075,442**	116,392,109	116,233,393	116,203,824	114,378,620	113,766,167
Owned by the Company	**4,840**	11,817	3,185	2,926	2,016	24,941
Balance	**233,070,602**	116,380,292	116,230,208	116,200,898	114,376,604	113,741,226
Per share information[1]						
Basic net income per share (in yen)[2]	**¥ 203.67**	¥ 214.51	¥ 81.70	¥ 98.69	¥ 102.09	¥ 43.57
Cash dividends paid per share (in yen)[3]	**35.00**	32.50	30.00	25.00	24.00	24.00
Shareholders' equity per share (in yen)[4]	**1,604.29**	1,405.51	1,221.03	1,224.75	1,140.33	1,047.29
Cash flow per share (in yen)[2]	**310.63**	310.76	177.01	193.68	219.14	137.78
Price/Book value ratio	**5.49**	3.99	3.34	2.84	3.06	2.55
Price/Earnings ratio	**43.21**	26.15	49.88	35.21	34.23	61.40
Price/Cash flow ratio	**28.33**	18.05	23.02	17.94	15.95	19.41
Stock price at year-end (in yen)	**8,800**	5,610	4,075	3,475	3,495	2,675

Notes: (a) Net income/Total assets
(b) Net income/Shareholders' equity
(c) Years ended March 31, 2000, 1999, 1998, 1997 and 1996
(Income before income taxes + Interest expense)/Interest expense
Year ended March 31, 1995
(Income from continuing operations before income taxes + Interest expense)/Interest expense
(d) Years ended March 31, 2000, 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
(Income from continuing operations before income taxes + Interest expense + 1/3 Rental expense)/(Interest expense + 1/3 Rental expense)

(1) Per share amounts have been adjusted to reflect the impact of a stock split on November 19, 1999.
The number of shares outstanding at the end of each year ended March 31, has not been adjusted to reflect this stock split.
(2) Per share amounts are based on the average number of shares outstanding during each period.
(3) Subsequent to March 31, 2000, cash dividends of ¥9,323 million (¥40 per share) were approved at the general shareholders' meeting on June 29, 2000 (see Note 16 of the accompanying Notes to Consolidated Financial Statements).
(4) Per share amounts are based on the number of shares outstanding at the end of each period, minus treasury stock.

COMMON STOCK DATA

SECOM CO., LTD.
Years ended March 31

SHAREHOLDER INFORMATION

	2000	1999	1998	1997	1996	1995
Number of shareholders	**15,019**	9,458	9,911	10,849	11,223	11,696
Common shares held by:						
Financial institutions	**42.74%**	45.71%	44.26%	42.57%	40.00%	45.10%
Securities firms	**2.66**	0.90	0.98	1.31	1.35	1.25
Other corporations	**13.86**	13.67	13.73	14.05	14.49	15.02
Foreign investors	**25.96**	26.90	27.40	27.03	28.04	21.65
Individuals and others	**14.78**	12.82	13.63	15.04	16.12	16.98
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
1998	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
	April–June	13,370	10,630	17,782.79	15,972.68
	July–September	22,150	12,700	18,532.58	16,821.06
	October–December	12,640	9,300	18,934.34	17,254.17
2000	January–March	11,490	7,650	20,706.65	18,168.27

Note: Price amounts have not been adjusted to reflect a two -for-one stock split, which was reflected in the market from September 27, 1999.

COMMON STOCK ISSUES

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

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