Internet Disclosure Accompanying the Notice of the Convocation of

The 56th Ordinary General Meeting of Shareholders

Pursuant to the relevant law and ordinance, and Article 16 of the Articles of Incorporation of SECOM CO., LTD., "Notes to Consolidated Financial Statements" and "Notes to Non-Consolidated Financial Statements" are made available on the Company's web site (https://www.secom.co.jp/english/ir/). The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise.

Notes to Consolidated Financial Statements

Notes to Significant Items for Preparation of Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 176

Names of major consolidated subsidiaries:
Secom Joshinetsu Co., Ltd., Asahi Security Co., Ltd., Nohmi Bosai Ltd., Nittan Co., Ltd., Secom Medical System Co., Ltd., Secom General Insurance Co., Ltd., Pasco Corporation, Secom Trust Systems Co., Ltd., At Tokyo Corporation, Secom Home Life Co., Ltd., The Westec Security Group, Inc., Secom Plc

(2) Descriptions of Non-Consolidated Subsidiaries:

Nohmi Facilities Co., Ltd., Nohmi Baoli (Beijing) Intelligent Fire Protection Co., Ltd., Eishin Denshi Co., Ltd. and 12 other companies

(The reason for exclusion from scope of consolidation)
All of these 15 non-consolidated subsidiaries are of a small size, so that the aggregate amounts of total assets, revenue, net income/loss (an amount prorated to ownership) and retained earnings (an amount prorated to ownership) and others do not have a significant effect on the consolidated financial statements.

(3) Names of other companies owing majority of voting rights not regarded as subsidiaries:

Global Sales Training, Inc., CLP Auto Interior Corp., US Water, LLC, CLP Consumer Products, LLC, Taymax Group Holdings, LLC, United Tactical System Holdings, LLC, CLP Legal Services, LLC

(The reason for not regarded as subsidiaries)
These companies were acquired by subsidiaries of The Westec Security Group, Inc. through normal course of business with the objective of investment, not with the objective of control.

2. Equity Method

(1) Number of equity method affiliates: 21

Names of major affiliates accounted for under the equity method:
S1 Corporation, Toyo Tec Co., Ltd., Taiwan Secom Co., Ltd.

(2) Number of non-equity method affiliates: 6

(The reason for not applying the equity method)
These 6 companies are not accounted for under the equity method because their effect on net income/loss (an amount prorated to ownership) and retained earnings (an amount prorated to ownership) is insignificant and immaterial as a whole.

3. Changes in Scope of Consolidation and Companies Accounted for under the Equity Method

Consolidation
Newly consolidated subsidiaries: 4
Scan Alarms Ltd. and 1 other company (Acquisition)
Jiangsu Secom Security Co., Ltd. and 1 other company (New establishment)
Excluded from consolidation: 4
Secom Data Protection Pte. Ltd. and 3 other companies (Liquidation)

Equity Method
New companies accounted for under the equity method: 1
Dynamic Map Planning Co., Ltd. (New establishment, etc.)
Excluded from affiliates accounted for under the equity method: 2
Transmart Inc. and 1 other company (Divesture)

4. Closing Dates of Consolidated Subsidiaries and Equity Method Affiliates

With respect to overseas consolidated subsidiaries, 7 U.S. subsidiaries such as The Westec Security Group Inc., 8 Australia and New Zealand subsidiaries such as Secom Australia Pty. Ltd., , 5 U.K. subsidiaries such as Secom Plc, 18 Chinese subsidiaries such as Secom (China) Co., Ltd., 5 Vietnam subsidiaries such as Secom Vietnam Security Service JSC, Secom (Singapore) Pte Ltd., Secom Medical System (Singapore) Pte Ltd., D'Garde Security Pte Ltd., Takshasila Hospitals Operating Pvt. Ltd., Takshasila Healthcare and Research Service Pvt. Ltd., PT. Nusantara Secom Infotech, PT. Secom Indonesia, Pasco Thailand Co., Ltd., Thai Secom Security Co., Ltd., Pasco Philippines Corp., FM-International Oy, Nohmi Taiwan Ltd., Pasco Do Brasil Consultoria Technica Ltda., Aerodata International Surveys BVBA, Pasco Europe B.V. and Pasco Laos Sole Co., Ltd. close their book as of December 31 each year, and the financial statements as of this date are used for preparation of the consolidated financial statements.

With respect to domestic consolidated subsidiaries, while 2 companies such as Zao Urbane Properties Co., Ltd. close their book as of December 31 each year, the financial statements prepared pursuant to the provisional closing of books conducted as of March 31 are used for preparation of the consolidated financial statements.

With respect to equity method affiliates, 9 companies such as S1 Corporation and Taiwan Secom Co., Ltd. close their book as of December 31 each year, and the financial statements as of this date are used for preparation of the consolidated financial statements. While Koatsu Co., Ltd. closes its book as of September 30 each year, the financial statements prepared pursuant to the provisional closing of books conducted as of March 31 are used for preparation of the consolidated financial statements.

The necessary adjustments related to the consolidation are made for any major transactions which arise between the consolidated closing dates. The closing dates of other consolidated subsidiaries and equity method affiliates are the same as the consolidated closing date.

5. Significant Accounting Policies

(1) Valuation policies and methods for significant assets

1) Securities

a. Held-to-maturity debt securities are carried at amortized cost.

b. Available-for-sale
Securities with fair value
Stock and beneficiary securities: At fair value based on the average market price one month prior to the fiscal year-end
Others: At fair value based on market price at fiscal year-end

Net unrealized gains and losses of securities are primarily reported directly in net assets. The cost of securities sold is primarily calculated by the moving average method.

Securities with no fair value
At cost, principally based on the moving average method

2) Derivatives
Derivatives are stated at fair value.

3) Inventories
Inventories are principally stated at cost based on the moving average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

4) Real estate for sale
Stated at cost by the specific cost method (or at the NRV calculated by writing down the book value to reflect a decrease in the NRV).

(2) Depreciation and Amortization of Depreciable and Amortizable Fixed Assets

1) Tangible Assets (except for leased assets)

a. Security equipment and control stations
Security equipment and control stations are depreciated over their average estimated useful lives (5-8 years) by the declining-balance method.

b. Other tangible fixed assets
Other tangible fixed assets are depreciated by the straight-line method.
Their main useful lives are as follows:
Buildings and improvements: 22-50 years
Tools and equipment: 2-20 years

2) Intangible Assets (except for leased assets)
Intangible fixed assets are amortized by the straight-line method.
The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (5 years).

3) Leased Assets

a. Leased assets related to ownership-transfer finance lease transactions

Depreciated, using the same depreciation method applied to fixed assets in possession.

b. Leased assets related to non-ownership-transfer finance lease transactions

Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.
In addition, non-ownership-transfer finance leases entered into on or before March 31, 2008 are treated using the method applicable to operating lease transactions.

4) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized by the straight-line method. With respect to the installation costs related to security equipment at the customer premises, any portion exceeding the amount received from the customer is included in "long-term prepaid expenses" and amortized by the straight-line method over the contract period (5 years).

(3) Basis for Significant Allowances

1) Allowance for Doubtful Accounts

To prepare for losses from bad debts such as losses on trade receivables and loans, the allowance for doubtful accounts provides an estimated amount of uncollectables. It is determined based on the historical loss rate with respect to ordinary accounts, and an estimate of uncollectable amounts respectively determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.

2) Accrued Bonuses

The accrued bonuses are provided for the bonus payments to employees, at an amount incurred during the current fiscal year.

3) Provision for Loss on Construction Contracts

To prepare for future losses on construction contracts etc., an accrual is provided based on the estimated losses on construction contracts etc. that are undelivered at the end of the current fiscal year.

4) Accrued Retirement Benefits for Directors and Audit & Supervisory Board Members

To prepare for payment for retirement benefits of Directors and Audit & Supervisory Board Members of domestic consolidated subsidiaries, a necessary amount at the end of the current fiscal year is accrued based on the rules of the Directors and Audit & Supervisory Board Members' retirement benefits.

(4) Revenue and Cost Recognition Policies

1) Revenue Recognition Policies for Construction Contracts and Cost of Completed Work

Percentage-of-completion method is applied to construction contracts whose outcomes are deemed certain for progress until the end of the current fiscal year, and the completed-contract method is applied to other construction contracts. The percentage of costs incurred to the estimated total cost is used for estimating the percentage of completion.

2) Recognition Policies for Revenue and Costs of Finance Leases

Revenue and cost are recognized upon receipt of lease payments.

(5) Other Significant Items for Preparation of Consolidated Financial Statements

1) Accounting for Major Hedge

a. Hedge Accounting Policy

The Company principally applies deferred hedging accounting. The interest rate swaps that fulfill requirements for exceptional treatments permitted for interest rate swaps are accounted for using exceptional treatments.

b. Hedging Instruments and Hedged Items

Hedging instruments:	Hedged items:
Interest rate swap	Loans payable

c. Hedging Policy

The risks for forward interest rate fluctuations are to be hedged principally pursuant to the risk management policy of the Company.

d. Assessment of Hedge Effectiveness

Hedge effectiveness is assessed by comparing the cumulative totals of price fluctuations of the hedged items and hedging instruments from the beginning of hedging to the effective point of assessment, taking the changes of both the hedged items and hedging instruments into account. However, when an item is judged to fulfill requirements for exceptional treatments, the assessment of hedge effectiveness is omitted.

2) Accounting for Retirement Benefit

To prepare for the retirement benefits of employees, the Company and its domestic consolidated subsidiaries recognize a net defined benefit asset and a net defined benefit liability for the amount calculated by deducting plan assets from retirement benefit obligations, based on the estimated amount of these items at the end of the current fiscal year.

Prior service cost is recognized as profit or loss in the year of occurrence.

Actuarial gains and losses are amortized from the following fiscal year of occurrence, using the straight-line method over certain years within the average remaining service period (mainly 10 years).

Unrecognized actuarial gains and losses are included in the line item “Remeasurements of defined benefit plans, net of taxes” of accumulated other comprehensive income in the net assets section.

3) Amortization of Goodwill and Negative Goodwill

Goodwill, and negative goodwill incurred on or before March 31, 2010 are amortized by the straight-line method over 5-20 years.

4) Accounting for Consumption Tax etc.

Tax-exclusive method is adopted.

6. Changes in the Accounting Policy
(Application of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”)
The Company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016 (hereinafter, “Guidance No.26”)) from the current fiscal year and revised certain accounting for recoverability of deferred income tax assets accordingly.
The Company and its domestic subsidiaries followed the provisional treatments in Article 49 (4) of Guidance No.26. The differences between deferred income tax assets and liabilities as of April 1, 2016 that were computed in accordance with (i) to (iii) of Article 49 (3) and those as of March 31, 2016, were adjusted to retained earnings as of April 1, 2016.
As a result, deferred income taxes (investments and others) increased by YEN 381 million, deferred income taxes (long-term liabilities) decreased by YEN 256 million, retained earnings increased by YEN 526 million, and noncontrolling interests increased by YEN 111 million as of April 1, 2016.
As a result of reflecting the effects of application of this guidance to net assets at the beginning of the current fiscal year, capital surplus balance at the beginning of the current period in consolidated statements of changes in net assets increased by YEN 526 million, and noncontrolling interests balance at the beginning of the current period in consolidated statements of changes in net assets increased by YEN 111 million.

7. Changes in the Presentation
(Notes to Consolidated Statement of Income)
In the previous fiscal year, "Allowance for price fluctuation" was included in "Other" in extraordinary losses in the consolidated statement of income. The item was reclassified to be presented independently from the current fiscal year owing to the amount being financially material.
"Allowance for price fluctuation" for the previous fiscal year was YEN 583 million.

Notes to Consolidated Balance Sheet

1. Cash on hand and in banks, and “Other” in Investments and others
Under certain provisions on sales agreements for investment securities that apply to certain consolidated subsidiaries, restrictions are imposed on the use of part of cash on hand and in banks (YEN 83 million) and other (YEN 156 million) in investments and others.

2. Cash Deposits for Armored Car Services and Short-term Bank Loans, and Deposits Received for Armored Car Services

For financial institutions, the Company and some of the domestic consolidated subsidiaries provide cash collection from and cash filling to cash dispensers located outside of financial institution facilities, and cash collection and delivery. The balance of cash deposits for armored car services includes cash on hand and cash in banks representing a total of YEN 18,110 million connected with cash filling services, which is restricted in use by the Group. The short-term bank loan balance includes YEN 4,346 million financed for the cash filling services.
The balance of cash deposits for armored car services includes YEN 21,777 million connected with cash collection administration services, which is also restricted in use by the Group. Also, the short-term bank loan balance includes YEN 18,356 million financed for the cash collection administration services.
The balance of cash deposits for armored car services includes cash on hand and cash in banks representing a total of YEN 90,731 million connected

with cash collection and delivery services, which is restricted in use by the Group and also the balance of deposits received for armored car services includes deposits received representing a total of YEN 90,713 million connected with cash collection and delivery services.

3. Assets Pledged as Collateral and Collateral-related Liabilities:

(1) Assets Pledged as Collateral

	(Millions of Yen)
Cash on hand and in banks (time deposit)	1,653
Short-term loans receivables	15
Other - current assets (receivable - other)	702
Buildings and improvements	23,372
Land	24,126
Other – tangible assets	
(Machinery and equipment and automobiles)	802
(Tools, furniture and fixtures)	
Other - intangible assets (leasehold)	818
Investment securities	1,320
Long-term loans receivable	706
Total	53,518

(2) Collateral-related Liabilities

	(Millions of Yen)
Bank loans	3,965
Current portion of straight bonds	1,360
Straight bonds	6,503
Long-term loans	7,767
Total	19,596

In addition to the above liabilities, short-term loans receivable, investment securities and long-term loans receivable are pledged as collateral for the debts of affiliates and other debts.

4. Accumulated Depreciation of Tangible Assets
YEN 461,790 million

5. Investment in Non-Consolidated Subsidiaries and Affiliates:
(Fixed assets)
Investment securities (stocks) YEN 51,905 million

6. Contingent Liabilities:
Guarantees of liabilities of entities and individuals
YEN 2,595 million

Notes to Consolidated Statement of Income

1. Write-down on Real Estate Inventories Included in Cost of Revenue
YEN 1,163 million

2. Impairment Loss
The Group recognized impairment losses on the following groups of assets for the current fiscal year (YEN 2,747 million).
The Company and its consolidated subsidiaries determine the grouping of assets in accordance with the categories used for managerial accounting purposes for operating assets and on the basis of individual assets for idle assets and rental property. Estimated future cash flows of certain operating

assets fell significantly during the current fiscal year and the Group wrote down the book value of those assets, idle assets and rental property to their recoverable amount.

Use	Type	Region	Impairment loss (Millions of Yen)
Operating assets	Buildings,software, etc.	Kanto 7 Other 5	2,547
Idle assets	Buildings and land	Other 2	81
Rental property	Buildings and land	Kanto 2	118

The net realized value of the asset groups is measured at net selling price or value in use. Net selling price is determined based on the disposal price or the appraisal value provided by real estate appraisers. Value in use is calculated based on discounted future cash flow by the rate of 5.0%.

Notes to Consolidated Statement of Changes in Net Assets

1. Items Related to Issued Shares and Treasury Stocks

(Unit : 1 share)

	Number of shares at the beginning of the fiscal year	Increase in the number of shares in the fiscal year	Decrease in the number of shares in the fiscal year	Number of shares at the end of the fiscal year
Issued shares				
Common stocks	233,288,717	-	-	233,288,717
Treasury stocks				
Common stocks	15,026,824	1,682	36	15,028,470

(Outline of reasons for change)

The increase of 1,682 in the number of common stocks is due to the purchase of shares constituting less than one unit.

The decrease of 36 in the number of common stocks is due to requests to sell such number of shares as will constitute, together with the shares constituting less than one unit of shares already held, one full unit.

2. Items Related to Dividends

(1) Amount of Dividends Paid

Resolution	Classes of Shares	Total amount of cash dividend (Millions of Yen)	Cash dividend per share(Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 24, 2016	Common stock	15,278	70	March 31, 2016	June 27, 2016
Board of Directors Meeting on November 9, 2016	Common stock	15,278	70	September 30, 2016	December 7, 2016

(2) Of the dividends whose record date belongs to the current fiscal year, the following are those dividends whose effective date belongs to the next fiscal year.

The matters planned to be resolved on the general meeting of shareholders are as follows:

Resolution	Classes of Shares	Source of dividend	Total amount of cash dividend (Millions of Yen)	Cash dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 27, 2017	Common stock	Retained earnings	16,369	75	March 31, 2017	June 28, 2017

Notes to Financial Instruments

1. Items Related to Status of Financial Instruments

   The Group (excluding its insurance services segment) raises necessary funds, with the aim of establishing "Social System Industry," by means of procuring funds from markets and borrowing money from financial institutions. The Group also holds financial instruments for promoting its business and investment. Derivatives are primarily used for averting market risks associated with loans, etc., and it is the Group's policy not to perform speculative transactions.

   The Group's insurance services segment manages funds using financial instruments for the purpose of safely and carefully holding and managing insurance premiums received from policyholders for underwriting insurance policies as a source of funds for paying for future insurance claims. As the financial instruments in which the Group's insurance services segment invests are exposed to market risks including interest rate fluctuation risks, the Group's insurance services segment performs asset-liability management (ALM) to prevent any adverse impact of such risks from arising.

2. Items Related to Fair Values of Financial Instruments etc.

The amounts recognized on the consolidated balance sheet, fair values and corresponding differences as of March 31, 2017 are listed below. Items whose fair value has been deemed extremely difficult to identify are not included in the table below. (See Note 2)

(Millions of Yen)

	Amount recognized on the consolidated balance sheet	Fair value	Difference
(1)Cash on hand and in banks	302,364	302,364	-
(2)Cash deposits for armored car services	130,619	130,619	-
(3)Notes and accounts receivable, trade	119,801	119,801	-
(4)Due from subscribers	33,090	33,090	-
(5)Short-term investments and investment Securities			
(i) Held-to-maturity debt securities	13,079	14,461	1,382
(ii) Investment securities in affiliates	43,352	133,190	89,837
(iii) Available-for-sale securities	235,992	235,992	-
(6)Lease receivables and investment in leased assets	43,974	44,082	107
(7)Short-term loans receivable	4,942		
Allowance for doubtful accounts	-		
	4,942	4,942	-
(8)Long-term loans receivable	38,403		
Allowance for doubtful accounts (*1)	(14,968)		
	23,434	23,815	380
Total assets	950,654	1,042,361	91,707
(1)Notes and accounts payable, trade	44,635	44,635	-
(2)Bank loans	44,969	44,969	-
(3)Payables - other	37,469	37,469	-
(4)Accrued income taxes	27,557	27,557	-
(5)Deposits received for armored car services	107,878	107,878	-
(6)Straight bonds	8,463	8,468	4
(7)Long-term loans	14,123	14,149	26
(8)Guarantee deposits received	4,479	4,476	(3)
Total liabilities	289,577	289,604	27
Derivative transactions (*2)			
(i) Hedge accounting not applied	1	1	-
(ii) Hedge accounting applied	-	(55)	(55)
Total derivative transactions	1	(54)	(55)

*1 Allowance for doubtful accounts for loans receivable is deducted.

*2 Net claims and obligations arising from derivative transactions are shown as net values. Items for which the total is a net obligation are shown in parentheses.

(Note 1) Calculation method of fair value of financial instruments and matters concerning securities and derivative transactions

Assets:

(1) Cash on hand and in banks, (2) Cash deposits for armored car services, (3) Notes and accounts receivable, trade, (4) Due from subscribers and (7) Short-term loans receivable

These items are stated at their book value, as these items are mainly settled in a short period of time and their fair value approximates their book value.

(5) Short-term investments and investment securities
The fair value of stocks is based on the price quoted on the exchange whereas the fair value of straight bonds etc. is based on the price quoted on the exchange or the price presented by the corresponding financial institution.

(6) Lease receivables and investment in leased assets
These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar lease transaction is performed.

(8) Long-term loans receivable
These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar loan transaction is performed with respect to each category based on type, internal rating and period of the loans receivable. The fair value of doubtful accounts is approximately the same as the value on the balance sheet as of the fiscal year-end less the current estimated losses from loan, as the estimated losses from loan is calculated based on the discounted present value of estimated cash flow or the expected recoverable amount with collateral and guarantee etc.; therefore, the said value is stated as fair value. Certain consolidated subsidiaries calculate the present value of future cash flow by discounting the future cash flow at an interest rate equal to an appropriate index such as the yield of government bonds plus the credit spread according to the residual period.

Liabilities:

(1) Notes and accounts payable, trade, (2) Bank loans, (3) Payables – other,
(4) Accrued income taxes and (5) Deposits received for armored car services
These items are stated at their book value, as these items are mainly settled in a short period of time and their fair value approximates their book value.

(6) Straight bonds
These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when new similar straight bonds are issued, according to the residual period of the straight bonds.

(7) Long-term loans
These items are stated at present value calculated by discounting the sum of the principal and interest at the interest rate assumed when a new similar debt is taken on.

(8) Guarantee deposits received
Guarantee deposits received are stated at present value calculated by discounting the future cash flow at risk-free interest rate.

Derivative transactions:

Derivatives are stated at the price presented by the financial institution with which the Group has concluded an agreement.

(Note 2) Financial instruments whose fair value is deemed extremely difficult to identify

(Millions of Yen)

Item	Amount recognized on the consolidated balance sheet
Unlisted stock (*1)	3,192
Unlisted stock of affiliates (*1)	8,552
Investments in limited partnerships for investment, etc. (*1)	6,191
Deposit from business activities (*2)	29,427

*1 Not included in "(5) Short-term investments and investment securities" due to lack of market price and extreme difficulty in identifying fair value.

*2 Not included in "(8) Guarantee deposits received" because reasonable estimation of cash flow is deemed extremely difficult due to lack of market price and difficulty in calculating the effective depositing period.

Notes to Rental Property and Other Real Estate

The Company and some of its consolidated subsidiaries own rental office buildings and medical facilities such as hospitals, in addition to rental housing etc. mainly in Tokyo and other major cities across the country.

The amount recognized on the consolidated balance sheet, the amount of increase/decrease during the current fiscal year and the fair value of such rental properties are as follows:

(Millions of Yen)

	Amount recognized on the consolidated balance sheet			Fair value at the end of the fiscal year
	Balance at the beginning of the fiscal year	Increase/decrease during the fiscal year	Balance at the end of the fiscal year	
Office buildings	40,852	(682)	40,169	67,313
Medical facilities	56,492	1,364	57,857	61,193
Other	9,619	(510)	9,108	10,100
Total	106,964	171	107,135	138,608

(Note 1) The amount recognized on the consolidated balance sheet equals the acquisition cost less accumulated depreciation and accumulated impairment loss.

(Note 2) The fair value at the end of the current fiscal year is, in the case of major properties, the amount based on real-estate appraisal by an external real-estate appraiser, and in the case of other properties, the amount calculated in-house based on the Real Estate Appraisal Standard. However, if no significant fluctuations have occurred in a certain valuation or an index that is deemed to properly reflect the market price since the acquisition of the property from a third party or the most recent external valuation, the fair value is based on such valuation or the amount adjusted by using the index.

Profit or loss on rental properties and other real estate for the fiscal year ended March 31, 2017 is as follows:

(Millions of Yen)

	Rental income	Rental expenses	Difference	Other (gains/losses on sale etc.)
Office buildings	3,624	1,443	2,180	(22)
Medical facilities	6,647	2,998	3,649	(95)
Other	441	187	254	86
Total	10,713	4,629	6,084	(32)

(Note 1) The rental expenses include depreciation, repair costs, insurance premium, taxes and public imposts, etc.

(Note 2) Other includes gain on tangible assets recognized as extraordinary profit, impairment loss on fixed assets recognized as extraordinary losses, etc.

Notes to Deferred Income Tax Accounting

1. The Significant Components of Deferred Income Tax Assets and Deferred Income Tax Liabilities:

Deferred income tax assets:	(Millions of Yen)
Investment deposits by policyholders, unearned premiums and other insurance liabilities	10,230
Operating loss carry-forwards	7,342
Net defined benefit liability	6,919
Eliminations of unrealized gain	6,703
Impairment loss	6,571
Allowance for doubtful accounts	5,841
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	5,458
Accrued bonuses	4,848
Write-down on fixed assets	3,681
Write-down on real estate inventories	837
Other	10,329
Gross deferred income tax assets	68,763
Valuation allowance	(25,115)
Total deferred income tax assets	43,648

Deferred income tax liabilities:	
Net defined benefit asset	(10,820)
Unrealized gains on securities	(9,287)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (intangible assets)	(7,857)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	(5,541)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (other fixed assets)	(884)
Other	(7,604)
Total deferred income tax liabilities	(41,996)
Net deferred income tax assets	1,652

2. Summary of the Reconciliation between the Statutory Tax Rate and the Effective Tax Rate after the Application of Deferred Income Tax Accounting

In the current fiscal year, difference between the statutory tax rate and the effective tax rate after the application of deferred income tax accounting accounted for less than 5% to the statutory tax rate. Accordingly the note is omitted.

Notes to Retirement Benefits

1. Outline of the Retirement Benefit Plan Adopted:

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

The Company and its domestic consolidated subsidiaries with the same retirement benefit plan have adopted a severance indemnity plan and a defined contribution pension plan, and have also implemented a matching contribution plan since July 2012. The method of calculating the severance indemnity under the severance indemnity plan is to pay out to the employees an amount equal to a certain percentage of their annual income over their period of service, plus interest which is calculated as the 3-year average yield of applicants for 10-year government bonds. The defined contribution pension plan was established in April 2003, a portion equivalent to 20 % of the severance indemnity plan so far accumulated was transferred to the new plan, and a specified percentage of annual income is contributed thereto. The Company transferred an additional portion of the severance indemnity plan funds to the defined contribution pension plan in April 2005, and accordingly, the ratio of the accumulated amount in the severance indemnity plan and the amount of contributions to the defined contribution pension plan, including the past reserve, changed to 70 % and 30 %, respectively.

The majority of the consolidated overseas subsidiaries have adopted a variety of pension plans that essentially cover all employees. Most of these plans are defined contribution pension plans.

In defined contribution pension plans and lump-sum severance indemnity plans for some consolidated subsidiaries, net defined benefit liabilities and retirement benefit expenses are calculated using the simplified method

2. Defined Benefit Plans

(1) Reconciliation of beginning and ending balances of retirement benefit obligations (excluding those pertaining to plans to which the simplified method is applied)

(Millions of Yen)

Beginning balance of retirement benefit obligations	94,411
Service cost	5,835
Interest cost	319
Actuarial gains and losses incurred	(1,781)
Retirement benefits paid	(4,516)
Ending balance of retirement benefit obligations	94,268

(2) Reconciliation of beginning and ending balances of plan assets (excluding those pertaining to plans to which the simplified method is applied)

(Millions of Yen)

Beginning balance of plan assets	105,252
Expected rate of return	3,079
Actuarial gains and losses incurred	3,630
Contributions from the employer	1,484
Retirement benefits paid	(3,266)
Ending balance of plan assets	110,180

(3) Reconciliation of beginning and ending balances of net defined benefit liability pertaining to plans to which the simplified method is applied

(Millions of Yen)

Beginning balance of net defined benefit liability	2,860
Retirement benefit expenses	561
Retirement benefits paid	(195)
Contributions to the plan	(167)
Ending balance of net defined benefit liability	3,058

(4) Reconciliation of ending balances of retirement benefit obligations and plan assets with net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheet

(Millions of Yen)

Retirement benefit obligations of funded plans	80,669
Plan assets	(112,455)
	(31,786)
Retirement benefit obligations of non-funded plans	18,932
Net amount of assets and liabilities recognized in the consolidated balance sheet	(12,853)

(Millions of Yen)

Net defined benefit liability	22,428
Net defined benefit asset	(35,282)
Net amount of assets and liabilities recognized in the consolidated balance sheet	(12,853)

(Note) Including plans to which the simplified method is applied.

(5) Retirement benefit expenses and their breakdown

(Millions of Yen)

Service cost	5,835
Interest cost	319
Expected rate of return	(3,079)
Amortization of actuarial gains and losses	1,306
Retirement benefit expenses calculated using the simplified method	561
Retirement benefit expenses pertaining to defined benefit plans	4,943

(6) Remeasurements of defined benefit plans
The breakdown of the amount recognized in remeasurements of defined benefit plans (before the tax effect) is as follows:

(Millions of Yen)

Unrecognized actuarial gains and losses	(5,891)
Total	(5,891)

(7) Matters concerning actuarial assumptions
Major actuarial assumptions applied at the end of the current fiscal year

Discount rate	Mainly 0.4%
Long-term expected rate of return	Mainly 3.0%

3. Defined contribution plans
The amount of contribution required for the Company and its consolidated subsidiaries is YEN 2,192 million in total.

Notes to Asset Retirement Obligation

1. Asset retirement obligations recognized in consolidated balance sheet
Footnote information of asset retirement obligations recognized in the consolidated balance sheet is omitted as they are immaterial.

2. Asset retirement obligations not recognized in consolidated balance sheet
A certain building of a consolidated subsidiary must be restored to its original state under the building lease agreement upon returning the building at the expiry of the lease. However, the Company does not plan to relocate from the building in its business strategies and it is assumed to be used until the building is demolished through the renewal of the agreement. In cases where the building is demolished, it is not expected to execute the contractual obligation to restore the building to its original state. For this reason, though the Company tried to establish best estimates, considering evidence available as at the closing date, asset retirement obligations have not been recognized with respect to such obligations, since it is impracticable to forecast the probability regarding the scope and the amount of asset retirement obligations.

Notes to Per-Share Information

Net assets per share:	YEN 4,086.87
Net income per share:	YEN 385.64

Notes to Non-Consolidated Financial Statements

Notes to Significant Accounting Policies

1. Valuation Policies and Methods for Assets

(1) Valuation Policies and Methods for Securities

1) Held-to-maturity debt securities
Amortized cost method

2) Investment Securities in Subsidiaries and Affiliates
At cost, based on the moving average method

3) Available-for-sale Securities
Securities with fair value
Stock and beneficiary securities: At fair value based on the average market price in one month prior to the fiscal year-end.
Others: At fair value based on market price at fiscal year-end

Net unrealized gains and losses of securities are reported directly in net assets. The cost of securities sold is calculated by the moving average method.

Securities with no fair value
At cost, based on the moving average method or amortized cost method.

(2) Valuation Policies and Methods for Inventories
Merchandise and supplies are stated at cost determined by the moving average method (or at the net realizable value (NRV) calculated by writing down the book value to reflect a decrease in the NRV).

2. Depreciation and Amortization of Depreciable and Amortizable Fixed Assets

(1) Tangible Assets: (except for leased assets)

1) Security equipment and control stations
Security equipment and control stations are depreciated over their average estimated useful lives (5-8 years) by the declining-balance method.

2) Other tangible fixed assets
Other tangible fixed assets are depreciated by the straight-line method.
Their main useful lives are as follows:
Buildings and improvements: 22-50 years

(2) Intangible Assets
Intangible fixed assets are amortized by the straight-line method.
The software used in the Company is amortized by the straight-line method based on the useful lives within the Company (5 years).

(3) Leased Assets

1) Leased assets related to ownership-transfer finance lease transactions
Depreciated, using the same depreciation method applied to fixed assets in possession.

2) Leased assets related to non-ownership-transfer finance lease transactions
Depreciated, using the straight-line method over a useful life equal to the lease period with a residual value of zero.

In addition, non-ownership-transfer finance leases entered into on or before March 31, 2008 are treated using the method applicable to operating lease transactions.

(4) Long-term Prepaid Expenses:
Long-term prepaid expenses are amortized by the straight-line method. With respect to the installation costs related to security equipment at the customer premises, any portion exceeding the amount received from the customer is included in "long-term prepaid expenses" and amortized by the straight-line method over the contract period (5 years).

3. Basis for Significant Allowances

(1) Allowance for Doubtful Accounts
To prepare for losses from bad debts such as losses on trade receivables and loans, the allowance for doubtful accounts provides an estimated amount of uncollectables. It is determined based on historical loss rate with respect to ordinary accounts, and an estimate of uncollectable amounts, respectively determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.

(2) Accrued Bonuses
Accrued bonuses are provided for the bonus payments to employees, at an amount incurred during the current fiscal year.

(3) Accrued Pension and Severance Costs
To prepare for the retirement benefits of employees, the Company provides an amount of accrued pension and severance costs and prepaid pension and severance costs at the end of the current fiscal year, based on the estimated amount of projected benefit obligation and plan assets as of the end of the current fiscal year.
In calculating retirement benefit liabilities, the benefit formula basis is adopted to attribute the estimate amount of retirement benefit to the current fiscal year end.
Prior service liability is recognized as profit or loss in the year of occurrence.
Actuarial gains and losses are amortized from the following fiscal year of occurrence, using the straight-line method over certain years within the average remaining service period (10 years).

4. Revenue and Cost Recognition Policies

Revenue Recognition Policies for Construction Contracts and Cost of Completed Work
Percentage-of-completion method is applied to construction contracts whose outcomes are deemed certain for progress until the end of the current fiscal year, and the completed-contract method is applied to other construction contracts. The percentage of costs incurred to the estimated total cost is used for estimating the percentage of completion.

5. Other Significant Accounting Policies

(1) Accounting for retirement benefits
The accounting for unrecognized actuarial gains and losses to retirement benefits is different from the accounting for those items in the consolidated financial statements.

(2) Accounting for Consumption Tax etc.
Tax-exclusive method is adopted.

6. Changes in the Accounting Policy
(Application of “Revised Implementation Guidance on Recoverability of Deferred Tax Assets”)
The Company adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016 (hereinafter, “Guidance No.26”)) from the current fiscal year and revised certain accounting for recoverability of deferred income tax assets accordingly.
The Company followed the provisional treatments in Article 49 (4) of Guidance No.26. The differences between deferred income tax assets and liabilities as of April 1, 2016 that were computed in accordance with (i) to (iii) of Article 49 (3) and those as of March 31, 2016, were adjusted to accumulated earnings carried forward as of April 1, 2016.
As a result, deferred income taxes (long-term liabilities) decreased by YEN 101 million, and accumulated earnings carried forward increased by YEN 101 million as of April 1, 2016.
As a result of reflecting the effects of application of this guidance to net assets at the beginning of the current fiscal year, accumulated earnings carried forward balance at the beginning of the current period in non-consolidated statements of changes in net assets increased by YEN 101 million.

Notes to the Non-Consolidated Balance Sheet

1. Cash Deposits for Armored Car Services and Short-term Bank Loans

For financial institutions, the Company provides cash filling to and cash collection from cash dispensers located outside of financial institution facilities.
The balance of cash deposits for armored car services includes cash on hand and cash in banks of representing a total of YEN 16,105 million connected with cash filling services, which is restricted in use by the Company. The short-term bank loan balance includes YEN 4,346 million financed for the cash filling services.
The balance of cash deposits for armored car services includes YEN 21,764 million connected with cash collection administration services, which is also restricted in use by the Company. Also, the short-term bank loan balance includes YEN 18,356 million financed for the cash collection administration services.

2. Assets Pledged as Collateral and Collateral-related Liabilities

Assets Pledged as Collateral

	(Millions of Yen)
Short-term loans receivable	15
Investment securities	1,087
Investment securities in subsidiaries and affiliates	45
Long-term loans receivable	706
Total	1,855

Collateral-related Liabilities -

Short-term loans receivables, investment securities, investment securities in subsidiaries and affiliates, and long-term loans receivable are pledged as collateral for the debts of subsidiaries and affiliates and other debts.

3. Accumulated Depreciation of Assets
Accumulated depreciation of tangible assets: YEN 273,274 million

4. Contingent Liabilities
(1) Guarantees

Liabilities of the below entities and employees are guaranteed.

	(Millions of Yen)
Alive Medicare Co., Ltd.	1,289
Takshasila Hospitals Operating Pvt. Ltd.	653
Secom Fort West Co., Ltd.	494
Secom Home Life Co., Ltd.	336
Prime Stage Co., Ltd.	50
Others	3
Employees	186
Purchaser of merchandises by leasing transactions etc.	167
Total	3,180

(2) Net Assets Maintaining Agreement
The Company entered into a net assets maintaining agreement with Secom General Insurance Co., Ltd., under which the Company is obligated to provide funds to Secom General Insurance Co., Ltd. if and when the net assets of Secom General Insurance Co., Ltd. become lower than the specified amount or its current assets necessary for the payment of its liabilities are insufficient. The total liabilities of Secom General Insurance Co., Ltd. at the end of the current fiscal year are YEN 178,083 million, including YEN 168,081 million of investment deposits by policyholders, unearned premiums and other insurance liabilities, and the total assets are YEN 217,006 million.
However, this agreement is not construed as the Company's guarantee with respect to payment obligations of Secom General Insurance Co., Ltd. Secom General Insurance Co., Ltd. maintained net assets above the required level, and its current assets were not insufficient at the end of the current fiscal year.

5. Financial Receivables/Payables to Subsidiaries and Affiliates (excluding those separately presented)

	(Millions of Yen)
Short-term receivables	32,871
Long-term receivables	139,223
Short-term payables	6,277
Long-term payables	1,215

Notes to Non-Consolidated Statement of Income

1. Operating Transactions and Non-operating Transactions with Subsidiaries and Affiliates

	(Millions of Yen)
Operating transactions (Revenue)	17,664
Operating transactions (Expense)	45,307
Non-operating transactions (Income)	12,527

Notes to Non-Consolidated Statements of Changes in Net Assets

Items Related to Classes and Total Number of Treasury Stocks

(Unit: 1 share)

Classes of shares	Number of shares at the beginning of the fiscal year	Increase in number of shares in the fiscal year	Decrease in number of shares in the fiscal year	Number of shares at the end of the fiscal year
Common stock	15,026,824	1,682	36	15,028,470

(Outline of reasons for change)

The increase of 1,682 in the number of common stocks is due to the purchase of shares constituting less than one unit.

The decrease of 36 in the number of common stocks is due to requests to sell such number of shares as will constitute, together with the shares constituting less than one unit of shares already held, one full unit.

Notes to Deferred Income Tax Accounting

1. The Significant Components of Deferred Income Tax Assets and Deferred Income Tax Liabilities:

	(Millions of Yen)
Deferred income tax assets:	
Loss on impairment of investment securities in subsidiaries and affiliates	4,896
Impairment loss	2,273
Accrued bonuses	1,927
Allowance for doubtful accounts	1,723
Write-down on fixed assets	1,226
Accrued pension and severance costs	764
Other	3,229
Gross deferred income tax assets	16,041
Valuation allowance	(9,823)
Total deferred income tax assets	6,217
Deferred income tax liabilities:	
Prepaid pension and severance costs	(6,601)
Other	(2,548)
Total deferred income tax liabilities	(9,149)
Net deferred income tax assets(liabilities)	(2,931)

2. Summary of the Reconciliation between the Statutory Tax Rate and the Effective Tax Rate after the Application of Deferred Income Tax Accounting:

Statutory tax rate	30.7 (%)
(Reconciliation)	
Permanently non-taxable income such as dividends income	(3.3)
Decrease in valuation allowance	(0.5)
Per capita levy of corporate inhabitant tax	0.5
Research and development tax credits	(0.3)
Permanently non-taxable expenses such as entertainment expenses	0.2
Other	0.1
Effective tax rate after the application of deferred income tax accounting	27.4 (%)

Notes to Fixed Assets under Leases

Besides the ones booked as fixed assets on the balance sheet of the Company, some of buildings and improvements, automobiles and tools, furniture and fixtures are used based on the finance lease contracts other than those deemed to transfer the ownership of the leased assets to the lessees.

Notes to Transactions with Related Parties

Type	Name of Company	Voting Rights Held by the Company (%)	Relationship with the Related Party
Subsidiary	Secom Home Life Co., Ltd.	99.9	Loan of funds Concurrent appointment of officers
Subsidiary	Secom Credit Co., Ltd.	100.0	Loan of funds Concurrent appointment of officers
Subsidiary	Secom Medical System Co., Ltd.	100.0	Loan of funds Concurrent appointment of officers
Subsidiary	Pasco Corporation	72.6	Loan of funds
Subsidiary	Arai & Co., Ltd.	92.5	Loan of funds Concurrent appointment of officers
Subsidiary	At Tokyo Corporation	50.8	Loan of funds Concurrent appointment of officers

Name of Company	Transactions	Amount of Transactions (Millions of Yen)	Account	Year-end Balance (Millions of Yen)
Secom Home Life Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	32,740 (39,370) 48	Long-term loans receivable (Note 3)	18,170
Secom Credit Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	6,400 (4,200) 354	Short-term loans receivable	3,300
			Long-term loans receivable	23,500
Secom Medical System Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	9,898 (8,935) 606	Short-term loans receivable	8,119
			Long-term loans receivable	43,724
Pasco Corporation	Execution of loans (Collection of loans) Receipt of interests (Note 2)	15,000 (13,100) 50	Short-term loans receivable	15,000
Arai & Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	1,000 (712) 305	Short-term loans receivable	400
			Long-term loans receivable	20,537
At Tokyo Corporation	(Collection of loans) Receipt of interests (Note 2)	(5,000) 126	Long-term loans receivable	25,200

(Notes)

1. Consumption taxes are not included in the amounts listed above.
2. The interest rates for the loans above are determined, referring to market interest rates etc.
3. The amount of YEN 4,629 million has been recorded as allowance for doubtful accounts for the loans receivable from Secom Home Life Co., Ltd.

Notes to Per-Share Information

Net assets per share: YEN 3,267.95

Net income per share: YEN 289.84