Internet Disclosure Accompanying

the Notice of the Convocation of

The 57th 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: 179

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, TMJ, Inc., Secom Home Life Co., Ltd., The Westec Security Group, Inc., Secom Plc

(2) Descriptions of Non-Consolidated Subsidiaries:

Eishin Denshi Co., Ltd., Kyoudou Setubi Ltd. and 10 other companies

(The reason for exclusion from scope of consolidation)
All of these 12 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, CLP Landscape Services, LLC, PF Holdco 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: 18

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: 9
  - TMJ, Inc. and 6 other companies (Acquisition)
  - PT. Secom Bhayangkara and 1 other company (Change from equity method affiliate)
- Excluded from consolidation: 6
  - TES Co., Ltd. and 4 other companies (Liquidation)
  - Kumagai Industries Co., Ltd. (Merger)

Equity Method
- Excluded from affiliates accounted for under the equity method: 3
  - PT. Secom Bhayangkara and 1 other company (Change to consolidated subsidiaries)
  - Dynamic Map Platform Co., Ltd. (Control Approach)

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, 20 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, PT. Secom Bhayangkara, Pasco Thailand Co., Ltd., Thai Secom Security Co., Ltd., Pasco Philippines Corp., Nohmi Taiwan Ltd., Pasco Do Brasil Consultoria Technica Ltda., Aerodata International Surveys BVBA, Pasco Europe B.V. and TMJP BPO Services, Inc. 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, 8 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 is 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 Presentation

(Notes to Consolidated Balance Sheet)
In order to ensure consistency with the consolidated financial statements prepared pursuant to the provisions of the Regulations Concerning Consolidated Financial Statements, the presentation methods have been changed as follows, starting from the current fiscal year.

In the previous fiscal year, “Merchandise and products”, “Work in process”, “Costs on uncompleted construction contracts” and “Raw materials and supplies”, all of which were collectively presented as “Inventories” of current assets, are separately presented from the current fiscal year. In the previous fiscal year, the amount of “Merchandise and products”, that of “Work in process”, that of “Costs on uncompleted construction contracts” and that of “Raw materials and supplies” were YEN 11,915 million, 4,913 YEN million, YEN 8,979 million, and YEN 8,385 million, respectively.

In the previous fiscal year, “Work in process for real estate inventories” and “Real estate inventories”, both of which were collectively presented as “Real estate inventories” of current assets, are separately presented from the current fiscal year. In the previous fiscal year, the amount of “Work in process for real estate inventories” and that of “Real estate inventories” were YEN 22,283 million and YEN 5,223 million, respectively.

In the previous fiscal year, “Machinery and equipment and automobiles”, “Tools, furniture and fixtures” and “Construction in progress”, all of which were collectively presented as “Other, net” of tangible fixed assets, are separately presented from the current fiscal year. In the previous fiscal year, the amount of “Machinery and equipment and automobiles”, that of “Tools, furniture and fixtures” and that of “Construction in progress” were YEN 9,208 million, YEN 23,519 million and YEN 7,157 million, respectively.

In the previous fiscal year, “Lease deposits” included in “Other” of investments and other assets is separately presented from the current fiscal year. The amount of “Lease deposits” in the previous fiscal year was YEN 13,023 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 219 million) and other (YEN 103 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 17,030 million connected with cash filling services, which is restricted in use by the Group. The short-term bank loan balance includes YEN 4,162 million financed for the cash filling services.

The balance of cash deposits for armored car services includes YEN 23,457 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 17,777 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 95,320 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 95,301 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)	1,436
Short-term loans receivables	21
Other - current assets (receivable - other)	701
Buildings and improvements	21,192
Land	21,190
Other - intangible assets (leasehold)	818
Investment securities	1,332
Long-term loans receivable	685
Total	47,378

(2) Collateral-related Liabilities

	(Millions of Yen)
Bank loans	3,193
Current portion of straight bonds	734
Straight bonds	4,638
Long-term loans	6,048
Total	14,615

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 487,750 million

5. Investment in Non-Consolidated Subsidiaries and Affiliates:

(Fixed assets)

Investment securities (stocks) YEN 57,537 million

6. Contingent Liabilities:

Guarantees of liabilities of entities and individuals

YEN 2,021 million

Notes to Consolidated Statement of Income

1. Write-down on Real Estate Inventories Included in Cost of Revenue (including write-down on work in process for real estate inventories) YEN 865 million

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	1,724	-	233,290,441
Treasury stocks				
Common stocks	15,028,470	2,137	34	15,030,573

(Outline of reasons for change)

The increase of 1,724 in the number of common stocks of issued shares is due to the issuance of shares with limited transfer.

The increase of 2,137 in the number of common stocks of treasury stocks is due to the purchase of shares constituting less than one unit.

The decrease of 34 in the number of common stocks of treasury 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 27, 2017	Common stock	16,369	75	March 31, 2017	June 28, 2017
Board of Directors Meeting on November 9, 2017	Common stock	16,369	75	September 30, 2017	December 7, 2017

(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 26, 2018	Common stock	Retained earnings	17,460	80	March 31, 2018	June 27, 2018

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, 2018 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	317,267	317,267	-
(2)Cash deposits for armored car services	135,808	135,808	-
(3)Notes and accounts receivable, trade	129,984	129,984	-
(4)Due from subscribers	35,272	35,272	-
(5)Short-term investments and investment Securities			
(i) Held-to-maturity debt securities	13,027	14,552	1,525
(ii) Investment securities in affiliates	48,801	141,738	92,936
(iii) Available-for-sale securities	216,970	216,970	-
(6)Lease receivables and investment in leased assets	45,544	45,618	74
(7)Short-term loans receivable	5,196		
Allowance for doubtful accounts	-		
	5,196	5,196	-
(8)Long-term loans receivable	35,284		
Allowance for doubtful accounts (*1)	(11,780)		
	23,504	23,868	364
(9)Lease deposits	14,286	14,184	(102)
Total assets	985,665	1,080,463	94,797
(1)Notes and accounts payable, trade	43,929	43,929	-
(2)Bank loans	41,558	41,558	-
(3)Payables - other	40,102	40,102	-
(4)Accrued income taxes	25,896	25,896	-
(5)Deposits received for armored car services	113,830	113,830	-
(6)Straight bonds	6,118	6,121	2
(7)Long-term loans	12,721	12,724	3
(8)Guarantee deposits received	4,114	4,112	(1)
Total liabilities	288,271	288,276	4
Derivative transactions (*2)			
(i) Hedge accounting not applied	-	-	-
(ii) Hedge accounting applied	0	<32>	(32)
Total derivative transactions	0	<32>	(32)

*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.

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

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)	3,640
Unlisted stock of affiliates (*1)	8,735
Investments in limited partnerships for investment, etc. (*1)	6,844
Deposit from business activities (*2)	29,066

*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	40,169	(3,934)	36,234	67,517
Medical facilities	57,857	(2,454)	55,402	58,939
Other	9,108	(97)	9,011	10,282
Total	107,135	(6,486)	100,648	136,740

(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, 2018 is as follows:

(Millions of Yen)

	Rental income	Rental expenses	Difference	Other (gains/losses on sale etc.)
Office buildings	3,347	1,441	1,905	338
Medical facilities	6,895	3,018	3,877	108
Other	425	176	249	(1)
Total	10,668	4,635	6,032	445

(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	11,608
Operating loss carry-forwards	6,866
Net defined benefit liability	6,716
Eliminations of unrealized gain	6,547
Impairment loss	6,103
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	5,486
Accrued bonuses	4,991
Allowance for doubtful accounts	4,715
Write-down on fixed assets	4,376
Write-down on work in process for real estate inventories	630
Other	12,364
Gross deferred income tax assets	70,408
Valuation allowance	(24,615)
Total deferred income tax assets	45,792

Deferred income tax liabilities:

Net defined benefit asset	(12,646)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (intangible assets)	(9,690)
Unrealized gains on securities	(8,793)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (land and buildings)	(5,438)
Adjustment of book value of fixed assets of subsidiaries at fair value at the date of consolidation (other fixed assets)	(1,003)
Other	(780)
Total deferred income tax liabilities	(38,352)
Net deferred income tax assets	7,440

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	94,268
Service cost	5,707
Interest cost	373
Actuarial gains and losses incurred	(1,230)
Retirement benefits paid	(4,881)
Increment by recent consolidation	577
Ending balance of retirement benefit obligations	94,814

(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	110,180
Expected rate of return	3,221
Actuarial gains and losses incurred	6,070
Contributions from the employer	1,489
Retirement benefits paid	(3,724)
Increment by recent consolidation	388
Ending balance of plan assets	117,625

(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	3,058
Retirement benefit expenses	697
Retirement benefits paid	(323)
Contributions to the plan	(195)
Increment by recent consolidation	14
Ending balance of net defined benefit liability	3,251

(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	81,365
Plan assets	(120,051)
	(38,686)
Retirement benefit obligations of non-funded plans	19,126
Net amount of assets and liabilities recognized in the consolidated balance sheet	(19,560)

(Millions of Yen)

Net defined benefit liability	21,849
Net defined benefit asset	(41,409)
Net amount of assets and liabilities recognized in the consolidated balance sheet	(19,560)

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

(5) Retirement benefit expenses and their breakdown

(Millions of Yen)

Service cost	5,707
Interest cost	373
Expected rate of return	(3,221)
Amortization of actuarial gains and losses	769
Retirement benefit expenses calculated using the simplified method	697
Retirement benefit expenses pertaining to defined benefit plans	4,325

(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	(13,960)
Total	(13,960)

(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 1,851 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 Business Combination

Business Combination by Share Acquisition

1. Outline of Business Combination
(1) Name and Business Description of the Acquired Company
Name: TMJ Inc.
Business Description: Operation/temporary employee placement, design and analysis of contact centers, outsourcing services of contact center-related businesses and outsourcing services of back office.
(2) Purpose of Acquisition
TMJ was established as an in-house call center for the Benesse Group. Today, the company provides high-quality outsourcing services including operation of call centers to leading companies in a wide range of industries. SECOM is aiming to increase corporate value through generating various synergies including further improvements in quality of existing business and development and provision of new BPO (Business Process Outsourcing) services by taking full advantage of the collective strengths of SECOM and TMJ.
(3) Date of Business Combination
October 2, 2017
(4) Legal Form of Business Combination
Share acquisition
(5) Name of Company after Business Combination
TMJ, Inc.
(6) Percentage of Voting Rights Acquired
100%
(7) Principal Reason for Determining Acquiring Company
Since the Company delivered the consideration of the acquired shares which consisted of cash only, the Company is determined as the acquiring company.

2. Period Included in Consolidated Financial Statements
From October 1, 2017 to March 31, 2018

3. Acquisition Cost of Company Subject to Business Combination and Breakdown Thereof

(Millions of Yen)

Consideration for Acquisition:	Cash on hand and in banks	26,550
Acquisition Cost:		26,550

4. Details and amount of acquisition related costs
Advisory fees, etc. 273 million yen

5. Amount and Cause of Goodwill, Amortization Method and Period
(1) Amount of Goodwill
17,065 million yen
(2) Cause of Goodwill
Estimated future excess earning power being expected based on the future business operation.
(3) Amortization Method and Period
Amortization by the straight-line method over 15years

6. Amount of Assets Acquired and Liabilities Assumed on the Day of Business Combination

	(Millions of Yen)
Current asset	6,953
Fixed assets	9,583
Total assets	16,536
Current liabilities	4,458
Long-term liabilities	2,593
Total liabilities	7,051

7. Amount Allocated to Intangible Assets and Amortization Period Thereof

	[Amount]	[Amortization Period]
Customer Relationships	YEN 6,796 million	15 years

Notes to Per-Share Information

Net assets per share:	YEN 4,364.63
Net income per share:	YEN 398.58

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 Presentation

(Notes to Non-Consolidated Balance Sheet)

In order to ensure consistency with the financial statements prepared pursuant to the provisions of the Regulations Concerning Financial Statements, etc., “Investments in subsidiaries” and “Investments in affiliates”, both of which were collectively presented as “Investments in subsidiaries and affiliates” of “Investments and others” in the previous fiscal year, are separately presented, starting from the current fiscal year. In the previous fiscal year, the amount of “Investments in subsidiaries” and “Investments in affiliates” were YEN 323,993 million and YEN 2,098 million, respectively.

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 14,901 million connected with cash filling services, which is restricted in use by the Company. The short-term bank loan balance includes YEN 4,162 million financed for the cash filling services.

The balance of cash deposits for armored car services includes YEN 23,445 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 17,777 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	21
Investment securities	1,087
Investment securities in subsidiaries and affiliates	45
Long-term loans receivable	685
Total	1,839

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 284,233 million

4. Contingent Liabilities

(1) Guarantees

Liabilities of the below entities and employees are guaranteed.

	(Millions of Yen)
Alive Medicare Co., Ltd.	1,331
Takshasila Hospitals Operating Pvt. Ltd.	623
Secom Fort West Co., Ltd.	415
Secom Home Life Co., Ltd.	300
Others	9
Employees	197
Purchaser of merchandises by leasing transactions etc.	73
Total	2,952

(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 183,698 million, including YEN 173,151 million of investment deposits by policyholders, unearned premiums and other insurance liabilities, and the total assets are YEN 220,344 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	34,590
Long-term receivables	142,770
Short-term payables	6,736
Long-term payables	1,225

Notes to Non-Consolidated Statement of Income

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

	(Millions of Yen)
Operating transactions (Revenue)	17,747
Operating transactions (Expense)	44,945
Non-operating transactions (Income)	13,933

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	15,028,470	2,137	34	15,030,573

(Outline of reasons for change)

The increase of 2,137 in the number of common stocks is due to the purchase of shares constituting less than one unit.

The decrease of 34 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:

Deferred income tax assets:	(Millions of Yen)
Loss on impairment of investment securities in subsidiaries and affiliates	4,992
Impairment loss	2,272
Accrued bonuses	1,921
Allowance for doubtful accounts	1,386
Write-down on fixed assets	1,188
Accrued pension and severance costs	660
Other	2,843
Gross deferred income tax assets	15,264
Valuation allowance	(9,583)
Total deferred income tax assets	5,681
Deferred income tax liabilities:	
Prepaid pension and severance costs	(6,332)
Other	(2,924)
Total deferred income tax liabilities	(9,257)
Net deferred income tax assets (liabilities)	(3,575)

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	(3.8)
Research and development tax credits	(0.5)
Per capita levy of corporate inhabitant tax	0.4
Decrease in valuation allowance	(0.3)
Permanently non-taxable expenses such as entertainment expenses	0.2
Other	0.2
Effective tax rate after the application of deferred income tax accounting	26.9 (%)

Notes to Fixed Assets under Leases

Besides the ones booked as fixed assets on the balance sheet of the Company, some of buildings 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)	46,710 (32,340) 77	Long-term loans receivable (Note 3)	32,540
Secom Credit Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	15,400 (16,000) 307	Short-term loans receivable	3,300
			Long-term loans receivable	22,900
Secom Medical System Co., Ltd.	Execution of loans (Collection of loans) Receipt of interests (Note 2)	11,534 (15,014) 577	Short-term loans receivable	7,107
			Long-term loans receivable	41,256
Pasco Corporation	Execution of loans (Collection of loans) Receipt of interests (Note 2)	15,000 (15,000) 14	Short-term loans receivable	15,000
Arai & Co., Ltd.	(Collection of loans) Receipt of interests (Note 2)	(400) 313	Short-term loans receivable	400
			Long-term loans receivable	20,137
At Tokyo Corporation	(Collection of loans) Receipt of interests (Note 2)	(7,000) 98	Long-term loans receivable	18,200

(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 3,629 million has been recorded as allowance for doubtful accounts for the loans receivable from Secom Home Life Co., Ltd. Also the amount of YEN 1,000 has been recorded as reversal of allowance for doubtful accounts for the current fiscal year.

Notes to Per-Share Information

Net assets per share: YEN 3,431.64

Net income per share: YEN 310.15