



ANNUAL REPORT 2014

YEAR ENDED MARCH 31, 2014

ICOM INCORPORATED

Financial Highlights

ICOM INCORPORATED AND SUBSIDIARIES

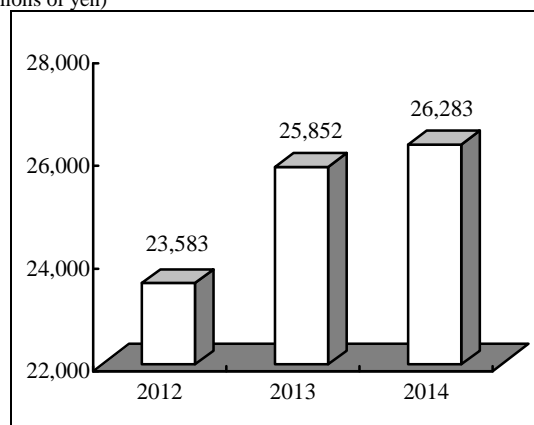
Years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	2014
Net sales	¥ 26,283	¥ 25,852	¥ 23,583	\$ 255,398
Operating income	2,205	2,178	1,307	21,426
Income before income taxes	3,369	3,211	1,510	32,737
Net income	2,238	2,228	1,096	21,747
Total assets	¥ 56,458	¥ 54,866	¥ 51,213	\$ 548,615
Amounts per share:		Yen		U.S. dollars
Net assets	¥ 3,468.01	¥ 3,313.79	¥ 3,128.22	\$ 33.70
Net income – basic	151.02	150.37	73.94	1.47
Net income – diluted	–	–	–	–
Cash dividends	30.00	30.00	20.00	0.29

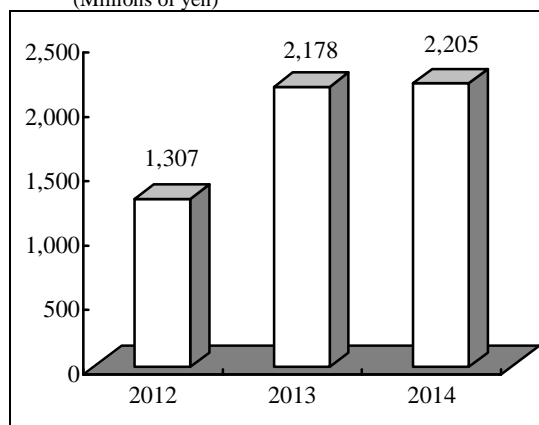
Notes:

1. All dollar amounts herein refer to U.S. dollars translated from Japanese yen at ¥102.91 = U.S.\$1.00, the exchange rate prevailing on March 31, 2014.
2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

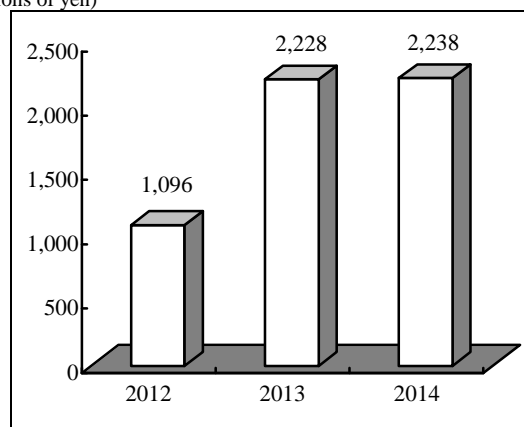
Net Sales
(Millions of yen)



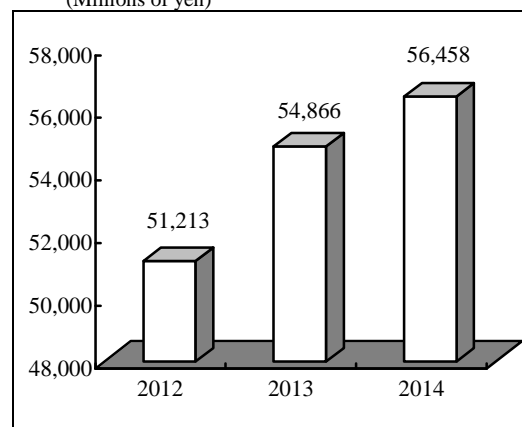
Operating Income
(Millions of yen)



Net Income
(Millions of yen)



Total Assets
(Millions of yen)



Operating Highlights

GEOGRAPHICAL SEGMENT INFORMATION

Years ended March 31, 2014 and 2013

	Millions of yen				Thousands of U.S. dollars	
	Net sales		Operating income (loss)		Net sales	Operating income (loss)
	2014	2013	2014	2013	2014	2014
Japan	¥ 22,699	¥ 22,534	¥ 2,191	¥ 1,963	\$ 220,571	\$ 21,290
North America	7,634	7,697	(69)	339	74,182	(670)
Europe	987	753	(54)	(51)	9,591	(525)
Asia & Oceania	1,715	1,717	126	163	16,665	1,224
Eliminations	(6,752)	(6,849)	11	(236)	(65,611)	107
Consolidated total	¥ 26,283	¥ 25,852	¥ 2,205	¥ 2,178	\$ 255,398	\$ 21,426

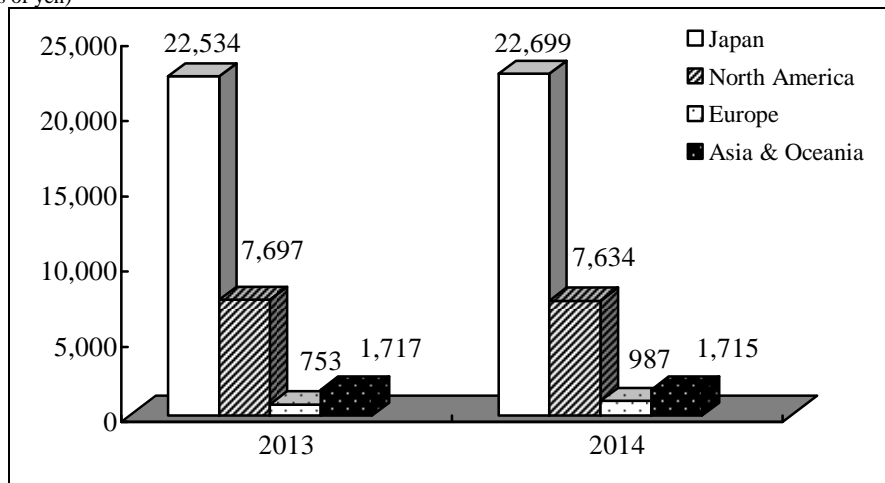
Notes:

1. All dollar amounts herein refer to U.S. dollars translated from Japanese yen at ¥102.91 = U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

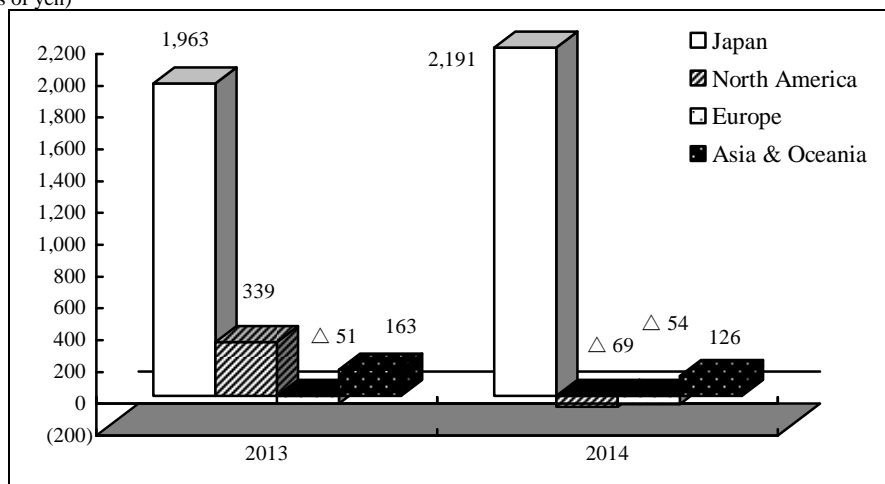
Net Sales

(Millions of yen)



Operating Income (Loss)

(Millions of yen)



Operating Highlights

OVERSEAS SALES

Years ended March 31, 2014 and 2013

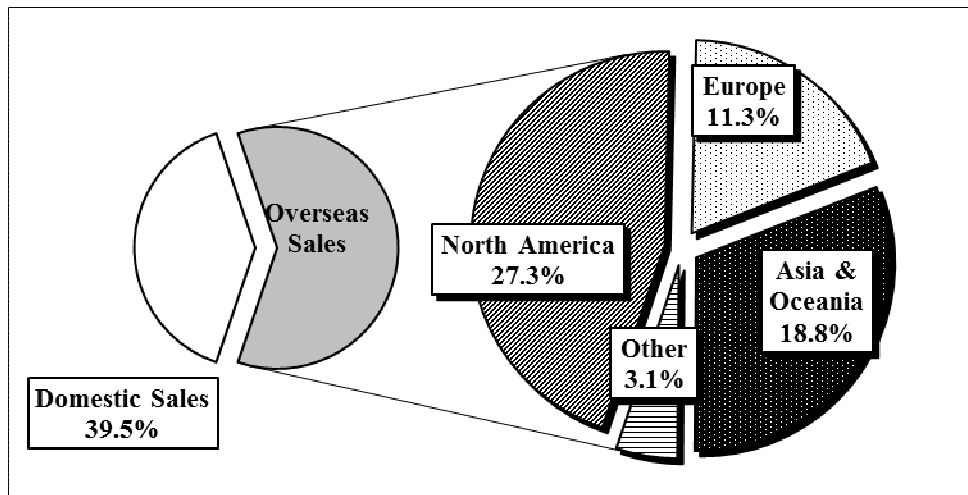
	Millions of yen				Thousands of U.S. dollars	
	2014 (Unaudited)		2013		2014 (Unaudited)	
North America	¥ 7,029	26.8%	¥ 7,069	27.3%	\$ 68,302	
Europe	3,477	13.2	2,918	11.3	33,787	
Asia & Oceania	6,768	25.7	4,862	18.8	65,766	
Other	732	2.8	792	3.1	7,113	
Overseas total	18,006	68.5	15,641	60.5	174,968	
Domestic total	8,277	31.5	10,211	39.5	80,430	
Consolidated total	¥ 26,283	100.0%	¥ 25,852	100.0%	\$ 255,398	

Notes:

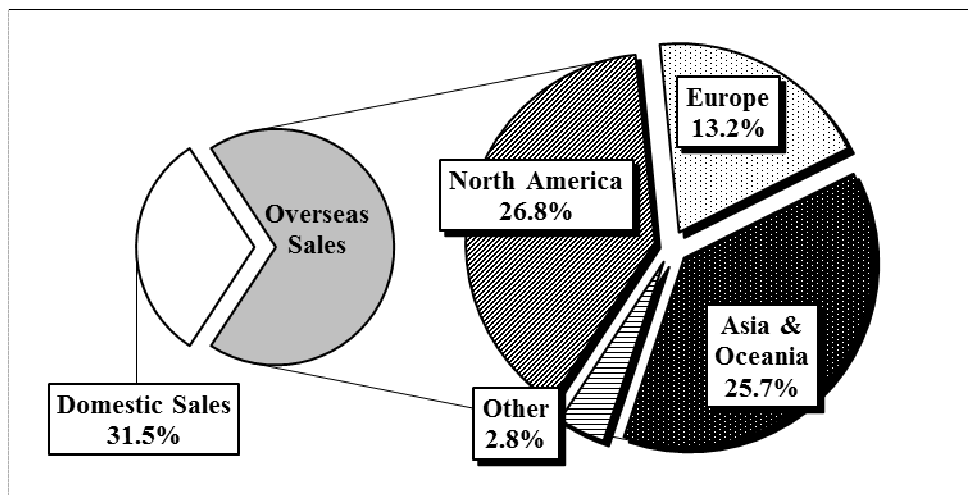
1. All dollar amounts herein refer to U.S. dollars translated from Japanese yen at ¥102.91 = U.S.\$1.00, the exchange rate prevailing on March 31, 2014.

2. Amounts shown in millions of yen and thousands of dollars are rounded off to the nearest million or thousand.

Net Sales 2013



Net Sales 2014



ICOM INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheet

March 31, 2014

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
Assets	2014	2013	2014
Current assets:			
Cash and deposits (<i>Notes 3 and 4</i>)	¥ 30,662	¥ 26,047	\$ 297,950
Notes and accounts receivable (<i>Note 4</i>)	4,312	6,893	41,901
Allowance for doubtful accounts	(33)	(27)	(321)
	4,279	6,866	41,580
Inventories (<i>Note 6</i>)	5,986	5,838	58,167
Deferred income taxes (<i>Note 8</i>)	553	591	5,374
Other current assets	1,461	2,334	14,197
Total current assets	42,941	41,676	417,268
 Property, plant and equipment:			
Land	4,137	4,119	40,200
Buildings and structures	6,712	6,390	65,222
Machinery and equipment	11,773	11,535	114,401
Vehicles and other	232	216	2,254
Construction in progress	50	33	486
Property, plant and equipment, at cost	22,904	22,293	222,563
Less accumulated depreciation	(14,984)	(14,629)	(145,603)
Property, plant and equipment, net (<i>Note 15</i>)	7,920	7,664	76,960
 Investments and other assets:			
Investments in securities (<i>Notes 4 and 5</i>)	2,380	1,966	23,127
Other investments	2,760	2,926	26,819
Deferred income taxes (<i>Note 8</i>)	468	588	4,548
Other assets	64	139	622
Allowance for doubtful accounts	(75)	(93)	(729)
Total investments and other assets	5,597	5,526	54,387
Total assets (<i>Note 15</i>)	¥ 56,458	¥ 54,866	\$ 548,615

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES
Consolidated Balance Sheet

March 31, 2014

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2014	2013	2014
Liabilities and net assets			
Current liabilities:			
Accounts payable – trade (Note 4)	¥ 1,188	¥ 1,076	\$ 11,544
Accounts payable – other	660	446	6,413
Accrued income taxes (Note 8)	424	912	4,120
Deferred income taxes	1	–	10
Accrued expenses	1,087	1,091	10,563
Warranty reserves	57	47	554
Other current liabilities	152	650	1,477
Total current liabilities	3,569	4,222	34,681
Long-term liabilities:			
Accrued retirement benefits for employees (Note 7)	–	876	–
Liability for retirement benefits (Note 7)	650	–	6,316
Deferred income taxes (Note 8)	192	22	1,866
Other long-term liabilities	657	641	6,384
Total long-term liabilities	1,499	1,539	14,566
Net assets:			
Shareholders' equity (Note 9):			
Common stock:			
Authorized – 34,000,000 shares;			
Issued – 14,850,000 shares in 2014 and 2013	7,081	7,081	68,808
Capital surplus	10,449	10,449	101,535
Retained earnings (Note 17)	33,360	31,641	324,167
Less treasury stock, at cost:			
31,607 shares in 2014 and 31,583 shares in 2013	(103)	(103)	(1,001)
Total shareholders' equity	50,787	49,068	493,509
Accumulated other comprehensive income (loss) (Note 12):			
Net unrealized holding loss on securities (Note 5)	(34)	(48)	(330)
Translation adjustments	433	85	4,207
Retirement benefit liability adjustments	204	–	1,982
Total accumulated other comprehensive income	603	37	5,859
Total net assets	51,390	49,105	499,368
Total liabilities and net assets	¥ 56,458	¥ 54,866	\$ 548,615

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES
Consolidated Statement of Income

Year ended March 31, 2014

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2014	2013	2014
Net sales (Note 15)	¥ 26,283	¥ 25,852	\$ 255,398
Cost of sales	14,761	15,134	143,436
Gross profit	11,522	10,718	111,962
 Selling, general and administrative expenses <i>(Notes 11 and 13)</i>	 9,317	 8,540	 90,536
Operating income <i>(Note 15)</i>	2,205	2,178	21,426
 Other income (expenses):			
Interest and dividend income	229	235	2,225
Gain on sales of securities, net <i>(Note 5)</i>	13	4	126
Foreign exchange gain, net	497	793	4,829
Gain on sales of property, plant and equipment	500	57	4,859
Sales discounts	(165)	(155)	(1,603)
Other, net	90	99	875
	1,164	1,033	11,311
Income before income taxes	3,369	3,211	32,737
 Income taxes (Note 8):			
Current	929	1,186	9,027
Deferred	202	(203)	1,963
	1,131	983	10,990
Net income	¥ 2,238	¥ 2,228	\$ 21,747

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES
**Consolidated Statement of
 Comprehensive Income**

Year ended March 31, 2014

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2014	2013	2014
Net income	¥ 2,238	¥ 2,228	\$ 21,747
Other comprehensive income (loss) (Note 12):			
Net unrealized holding gain (loss) on securities	14	(27)	136
Translation adjustments	348	845	3,382
Total other comprehensive income	362	818	3,518
Comprehensive income	¥ 2,600	¥ 3,046	\$ 25,265
Total comprehensive income attributable to:			
Shareholders of ICOM INCORPORATED	¥ 2,600	¥ 3,046	\$ 25,265

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES
**Consolidated Statement of
Changes in Net Assets**

Year ended March 31, 2014

Millions of yen

	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total net assets
Balance at April 1, 2012	14,850,000	¥ 7,081	¥ 10,449	¥ 29,709	¥ (102)	¥ (21)	¥ (760)	¥ –	¥ 46,356
Net income for the year	–	–	–	2,228	–	–	–	–	2,228
Cash dividends	–	–	–	(296)	–	–	–	–	(296)
Purchases of treasury stock	–	–	–	–	(1)	–	–	–	(1)
Other changes	–	–	–	–	–	(27)	845	–	818
Balance at April 1, 2013	14,850,000	¥ 7,081	¥ 10,449	¥ 31,641	¥ (103)	¥ (48)	¥ 85	¥ –	¥ 49,105
Net income for the year	–	–	–	2,238	–	–	–	–	2,238
Cash dividends	–	–	–	(519)	–	–	–	–	(519)
Purchases of treasury stock	–	–	–	–	(0)	–	–	–	(0)
Other changes	–	–	–	–	–	14	348	204	566
Balance at March 31, 2014	14,850,000	¥ 7,081	¥ 10,449	¥ 33,360	¥ (103)	¥ (34)	¥ 433	¥ 204	¥ 51,390

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Translation adjustments	Retirement benefit liability adjustments	Total net assets
Balance at April 1, 2013	\$ 68,808	\$ 101,535	\$ 307,463	\$ (1,001)	\$ (466)	\$ 826	\$ –	\$ 477,165
Net income for the year	–	–	21,747	–	–	–	–	21,747
Cash dividends	–	–	(5,043)	–	–	–	–	(5,043)
Purchases of treasury stock	–	–	–	(0)	–	–	–	(0)
Other changes	–	–	–	–	136	3,381	1,982	5,499
Balance at March 31, 2014	\$ 68,808	\$ 101,535	\$ 324,167	\$ (1,001)	\$ (330)	\$ 4,207	\$ 1,982	\$ 499,368

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2014	2013	2014
Operating activities:			
Income before income taxes	¥ 3,369	¥ 3,211	\$ 32,737
Adjustments for:			
Depreciation and amortization	882	973	8,571
Interest and dividend income	(229)	(235)	(2,225)
Foreign exchange gain, net	(74)	(124)	(719)
Decrease (increase) in notes and accounts receivable	2,738	(2,243)	26,606
Decrease (increase) in inventories	42	(176)	408
Decrease in accounts payable – trade	(10)	(573)	(97)
Other, net	(178)	(411)	(1,731)
Subtotal	6,540	422	63,550
Income taxes paid	(1,463)	(704)	(14,216)
Net cash provided by (used in) operating activities	5,077	(282)	49,334
Investing activities:			
Increase in time deposits with original maturities in excess of three months	(1,011)	(128)	(9,824)
Proceeds from sales of marketable securities	–	200	–
Purchases of property, plant and equipment	(815)	(1,586)	(7,920)
Purchases of other assets	(16)	(35)	(155)
Purchases of investments in securities	(310)	(823)	(3,012)
Proceeds from sales of investments in securities	22	209	214
Interest and dividend income received	227	234	2,206
Other, net	746	258	7,248
Net cash used in investing activities	(1,157)	(1,671)	(11,243)
Financing activities:			
Purchases of treasury stock	(0)	(1)	(0)
Cash dividends paid	(519)	(296)	(5,043)
Net cash used in financing activities	(519)	(297)	(5,043)
Effect of exchange rate changes on cash and cash equivalents	241	336	2,342
Net increase (decrease) in cash and cash equivalents	3,642	(1,914)	35,390
Cash and cash equivalents at beginning of year	23,778	25,692	231,056
Cash and cash equivalents at end of year (Note 3)	¥ 27,420	¥ 23,778	\$ 266,446

See accompanying notes to consolidated financial statements.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2014

1. Basis of Preparation

The accompanying consolidated financial statements of ICOM INCORPORATED (the “Company”) and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, as a matter of arithmetic computation only, and has been made at ¥102.91 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2014. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the companies which it controls directly or indirectly. Two companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized intercompany gains and losses among the Company and the subsidiaries have been entirely eliminated.

(b) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

(c) Foreign currency translation

The balance sheet accounts of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets are translated at their historical exchange rates. Adjustments resulting from translating accounts denominated in foreign currencies are not included in the determination of net income in the accompanying consolidated financial statements, but are reported as “Translation adjustments,” a component of net assets.

Revenue and expense accounts are translated at the average rates of exchange in effect during the year.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. Gain or loss on each translation is credited or charged to income.

(d) Marketable securities and investments in securities

In general, securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

Securities held by the Company and its subsidiaries including equity investments in an affiliate, which are not accounted for on an equity basis, are all classified as “other securities” and have been accounted for as outlined above.

(e) Inventories

Inventories are mainly stated at the lower of cost or net selling value, cost being determined by the moving average method, except for goods held by certain overseas subsidiaries which are valued at the lower of cost or market, cost being determined by the moving average method.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

(f) Property, plant and equipment (except for leased assets)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed principally by the declining-balance method over the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on April 1, 1998 and thereafter. Small assets owned by the Company and its domestic subsidiaries, which are valued at ¥100 thousand or more and less than ¥200 thousand, are depreciated by the straight-line method over a three-year period.

(g) Software development costs (except for leased assets)

Expenditures relating to the development of computer software intended for internal use are charged to income when incurred, except if it is anticipated that this software will contribute to the generation of income or to future cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over an estimated useful life of 3 years or 5 years. Small assets owned by the Company and its domestic subsidiaries, which are valued at ¥100 thousand or more and less than ¥200 thousand, are amortized by the straight-line method over a three-year period.

(h) Leased assets

Leased assets are depreciated by the straight-line method over respective lease periods with no residual value.

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical ratio of bad debts and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(j) Warranty reserves

Warranty reserves for certain overseas subsidiaries are calculated based on the historical ratio of the cost of repairs of the products against net sales.

(k) Liability for retirement benefits

Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation less the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Actuarial gain or loss and prior service cost are amortized over a period of ten years commencing the year following the year in which the gain or loss is recognized by the straight-line method. The amortization period is shorter than the average estimated remaining years of service of the eligible employees.

The net retirement benefit obligation at transition of ¥592 million is being amortized over fifteen years.

Prior service cost is being amortized by the straight-line method over ten years within the average remaining years of service at the time of occurrence.

Actuarial gain or loss is being amortized in the year following the year in which the gain or loss is recognized by the straight-line method over ten years, which is within the average remaining years of service of employees.

(l) Hedge accounting

Under the accounting standard for financial instruments, gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Derivatives such as forward foreign exchange contracts are utilized to manage foreign currency risk. Forward foreign exchange contracts which meet certain conditions are accounted for by a method under which foreign currency receivables or payables are translated at their corresponding forward foreign exchange contract rates.

(m) Distribution of retained earnings

Under the Corporation Law of Japan and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given fiscal year end is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The distribution of retained earnings with respect to interim financial periods is made by resolution of the Board of Directors. (Please refer to Note 17.)

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

(Change in Accounting Policies)

Accounting Standard for Retirement Benefits

Effective March 31, 2014, the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No.26 issued on May 17, 2012) and “Guidance on Accounting Standards for Retirement Benefits”(ASBJ Guidance No.25 issued on May 17, 2012) except provisions set forth in paragraph 35 of the ASBJ Statement No.26 and paragraph 67 of the ASBJ Guidance No.25.

In accordance with the adoption, the retirement benefit obligations after the fair value of the pension plan assets are deducted, actuarial gains and losses, past service costs, and net retirement benefit obligation at transition that have yet to be recognized in profit or loss are recorded as “Liability for retirement benefits”.

The adoption of these standards follows transitional provision set forth in paragraph 37 of the ASBJ Statement No.26, the effect of this change is included in accumulated other comprehensive income as “Retirement benefits liability adjustments”

As a result, “Liability for retirement benefits” was recorded in the amount of ¥649 million (\$6,306 thousand) and accumulated other comprehensive income increased ¥204 million (\$1,982 thousand) and net assets per share increased ¥13.78 (\$0.13) as of March 31, 2014 from the corresponding amounts which would have been recorded under the previous method.

(Standards Issued but Not Yet Effective)

Accounting standard for retirement benefits

On May 17, 2012, the Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No.26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No.25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the “Accounting Standard for Retirement Benefits” issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

In accordance with the revision of this accounting standard, actuarial gains and losses, past service costs, and net retirement benefit obligation at transition that have yet to be recognized in profit or loss shall be recognized within net assets after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. Actuarial gains and losses, past service cost, net retirement benefit obligation at transition that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains, losses, past service cost, net retirement benefit obligation at transition that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods between either the straight-line basis or the plan’s benefit formula basis. In addition, the method used to determine the discount rate was revised.

The Company has adopted the revised accounting standard effective March 31, 2014 as mentioned in “Change in Accounting Policies” above. However, the amendment of the calculation method for the present value of defined obligations and current service costs will be adopted effective the beginning of the fiscal year ending March 31, 2015.

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Cash and Cash Equivalents

In the preparation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in the consolidated balance sheets at March 31, 2014 and 2013 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Cash and deposits	¥ 30,662	¥ 26,047	\$ 297,950
Time deposits with original maturities in excess of three months	(3,242)	(2,269)	(31,504)
Cash and cash equivalents	¥ 27,420	¥ 23,778	\$ 266,446

4. Financial Instruments

(1) General information

i) Policy for financial instruments

In consideration of plans for capital investment, which is mainly centered on radio manufacturing and sales, the Group obtains necessary financing through its own funds. The Group manages surplus funds through financial assets that have high levels of liquidity. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

ii) Types of financial instruments and related risk

Notes and accounts receivable are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange rate fluctuation risk arising from receivables denominated in foreign currencies.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly corporate bonds in other securities and the shares of common stock of other companies with which it has business relationships. Fair values of those securities are periodically reviewed and reported to board of directors meetings.

Trade accounts payable have payment due dates within two months. The Group is exposed to foreign currency exchange rate fluctuation risk arising from those denominated in foreign currencies.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange rate fluctuation risk arising from cash and deposits denominated in foreign currencies. Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 10.

iii) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Group arising from receivables, the credit department monitors credit worthiness of main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Group is making efforts to identify and mitigate risks of bad debt from customers who have financial difficulties.

In accordance with the internal policies for security management, the Group only acquires corporate bonds or other securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Financial Instruments (continued)

(1) General information (continued)

iii) Risk management for financial instruments (continued)

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For cash and deposits denominated in foreign currencies arising from trade receivables denominated in foreign currencies, the Group identifies the foreign currency exchange risk by each currency and enters into forward foreign exchange contracts to hedge such risk.

For marketable securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities should be maintained taking into account their fair values and the relationships with the issuers.

For derivative transactions, the accounting department of the Company enters into and manages transactions, and a representative director, in advance, approves them within the limits reported at the Board of Directors meeting. Results of derivative transactions are reported at the monthly Board of Directors meetings. Subsidiaries do not enter into derivative transactions.

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)

Based on reports from each division, the accounting department of the Company prepares and updates its cash flow plans on a timely basis and maintains liquidity of assets for payment to manage liquidity risk. Subsidiaries monitor liquidity risk in the same manner.

iv) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values. In addition, the notional amounts of derivatives in Note 10 are not necessarily indicative of the actual market risk involved in derivative transactions.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Financial Instruments (continued)

(2) Estimated fair value of financial instruments

The carrying value, fair value and unrealized gains (losses) of the financial instruments on the consolidated balance sheets as of March 31, 2014 and 2013 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note ii below).

		<i>Millions of yen</i>					
		2014			2013		
		Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Assets							
(1)	Cash and deposits	¥ 30,662	¥ 30,662	¥ -	¥ 26,047	¥ 26,047	¥ -
(2)	Notes and accounts receivable	4,312	4,312	-	6,893	6,893	-
(3)	Marketable securities included in other current assets and investments in securities	2,181	2,181	-	1,861	1,861	-
	Total assets	¥ 37,155	¥ 37,155	¥ -	¥ 34,801	¥ 34,801	¥ -
Liabilities							
(1)	Accounts payable - trade	¥ 1,188	¥ 1,188	¥ -	¥ 1,076	¥ 1,076	¥ -
	Total liabilities	¥ 1,188	¥ 1,188	¥ -	¥ 1,076	¥ 1,076	¥ -

		<i>Thousands of U.S. dollars</i>		
		2014		
		Carrying value	Fair value	Unrealized gain (loss)
Assets				
(1)	Cash and deposits	\$ 297,950	\$ 297,950	\$ -
(2)	Notes and accounts receivable	41,901	41,901	-
(3)	Marketable securities included in other current assets and investments in securities	21,193	21,193	-
	Total assets	\$ 361,044	\$ 361,044	\$ -
Liabilities				
(1)	Accounts payable - trade	\$ 11,544	\$ 11,544	\$ -
	Total liabilities	\$ 11,544	\$ 11,544	\$ -

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Financial Instruments (continued)

(2) Estimated fair value of financial instruments (continued)

Notes:

- i) **Methods to determine the fair value of financial instruments and other matters related to marketable securities and derivative transactions are as follows:**

Assets

- (1) Cash and deposits, and (2) Notes and accounts receivable

Since these items are settled in a short period of time, their carrying value approximate the fair value.

- (3) Marketable securities and investments in securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions making markets for these securities. For information on securities classified by holding purpose, please refer to Note 5.

Liabilities

- (1) Accounts payable - trade

Since this item is settled in a short period of time, its carrying value approximates the fair value.

Derivative Transactions

Please refer to Note 10.

- ii) **Financial instruments for which it is extremely difficult to determine the fair value are as follows:**

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>	
	2014	2013	2014	
Unlisted equity securities	¥ 199	105	\$	1,934

Since there is no market price for unlisted equity securities and it is difficult to determine the fair value, they are not included in above (3) Marketable securities and investments in securities in the preceding table in “(2) Estimated fair value of financial instruments.”

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Financial Instruments (continued)

(3) Redemption schedule

The redemption schedule for financial instruments receivable and marketable securities and investments in securities with maturity dates is summarized as follows:

Millions of yen

	2014				2013			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 30,662	¥ -	¥ -	¥ -	¥ 26,047	¥ -	¥ -	¥ -
Notes and accounts receivable	4,312	-	-	-	6,893	-	-	-
Marketable securities and investments in securities:								
Other securities with maturity dates								
Corporate bonds	-	800	900	200	-	600	900	100
Other	-	100	-	-				
Total	¥ 34,974	¥ 900	¥ 900	¥ 200	¥ 32,940	¥ 600	¥ 900	¥ 100

Thousands of U.S. dollars

	2014			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 297,950	\$ -	\$ -	\$ -
Notes and accounts receivable	41,901	-	-	-
Marketable securities and investments in securities:				
Other securities with maturity dates				
Corporate bonds	-	7,774	8,746	1,943
Other	-	972	-	-
Total	\$ 339,851	\$ 8,746	\$ 8,746	\$ 1,943

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Marketable Securities and Investments in Securities

Marketable securities classified as other securities at March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>					
	2014			2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 48	¥ 11	¥ 37	¥ 32	¥ 11	¥ 21
Corporate bonds	1,722	1,700	22	1,413	1,400	13
Subtotal	1,770	1,711	59	1,445	1,411	34
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	209	319	(110)	214	319	(105)
Corporate bonds	202	202	(0)	202	203	(1)
Subtotal	411	521	(110)	416	522	(106)
Total	¥ 2,181	¥ 2,232	¥ (51)	¥ 1,861	¥ 1,933	¥ (72)

	<i>Thousands of U.S. dollars</i>		
	2014		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 466	\$ 107	\$ 359
Corporate bonds	16,733	16,519	214
Subtotal	17,199	16,626	573
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	2,031	3,100	(1,069)
Corporate bonds	1,963	1,963	(0)
Subtotal	3,994	5,063	(1,069)
Total	\$ 21,193	\$ 21,689	\$ (496)

Since there is no market price for unlisted equity securities and it is difficult to determine the fair value, unlisted equity securities of ¥199 million (\$1,934 thousand) and ¥105 million at March 31, 2013 and 2014, respectively, are not included in the above table.

Sales of other securities for the years ended March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
	¥	¥	\$
Sales	23	9	223
Aggregate gain	13	4	126
Aggregate loss	-	0	-

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Inventories

Inventories at March 31, 2014 and 2013 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Merchandise and finished products	¥ 3,104	¥ 3,303	\$ 30,162
Work in process	80	81	777
Raw materials and supplies	2,802	2,454	27,228
Total	¥ 5,986	¥ 5,838	\$ 58,167

7. Retirement Benefits Plans

(1) Outline of retirement benefit for employees

The Company and its domestic subsidiaries have employees' defined benefit pension plans, i.e., corporate pension plans and lump-sum payment plans.

The Company and its domestic subsidiaries pay additional retirement benefits to employees under certain circumstances.

(2) Liability for retirement benefits for the year ended March 31, 2014

i) The change in retirement benefit obligation is outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014		2014
Retirement benefit obligation at April 1, 2013	¥ 3,666		\$ 35,623
Service cost	164		1,594
Interest cost	73		709
Actuarial gain	(15)		(146)
Retirement benefits paid	(58)		(563)
Retirement benefit obligation at March 31, 2014	¥ 3,830		\$ 37,217

ii) The change in plan assets at fair value is outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014		2014
Plan assets at fair value at April 1, 2013	¥ 2,934		\$ 28,510
Expected return on plan assets	59		573
Actuarial gain	286		2,779
Contributions by the employer	212		2,060
Retirement benefits paid	(58)		(563)
Plan assets at fair value at March 31, 2014	¥ 3,433		\$ 33,359

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Retirement Benefits Plans (continued)

(2) Liability for retirement benefits for the year ended March 31, 2014 (continued)

iii) The change in retirement benefits liabilities calculated by simplified method is outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Retirement benefits liabilities at April 1, 2013	¥ 215	\$ 2,089
Retirement benefit expenses	42	408
Retirement benefits paid	(4)	(39)
Retirement benefits liabilities at March 31, 2014	¥ 253	\$ 2,458

iv) The balance of retirement benefit obligation and plan assets at fair value, liabilities and assets recognized in the consolidated balance sheet are outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Funded retirement benefit obligation	¥ 3,830	\$ 37,217
Plan assets at fair value	(3,433)	(33,359)
	397	3,858
Unfunded retirement benefit obligation	253	2,458
Net amount of liabilities and assets recognized in consolidated balance sheet	650	6,316
Liability for retirement benefits	650	6,316
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ 650	\$ 6,316

v) The components of retirement benefit expenses for the year ended March 31, 2014 are outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Service cost	¥ 206	\$ 2,002
Interest cost	73	709
Expected return on plan assets	(59)	(573)
Amortization:		
Actuarial loss	69	670
Past service cost	(2)	(19)
Net retirement benefit obligation at transition	20	194
Retirement benefit expenses	¥ 307	\$ 2,983

vi) The balance of actuarial loss and past service cost recognized in accumulated other comprehensive income before the deduction of the tax benefit is outlined as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	
Unrecognized actuarial loss	¥ 335	\$ 3,255
Unrecognized past service cost	2	19
Unrecognized net retirement benefit obligation at transition	(20)	(194)
Total	¥ 317	\$ 3,080

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Retirement Benefits Plans (continued)

(2) Liability for retirement benefits for the year ended March 31, 2014 (continued)

vii) The plan assets by major category consist of the following:

	<u>2014</u>
Bonds	48.0%
Equities	50.0%
Cash and deposits	2.0%
Total	<u>100.0%</u>

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation and long-term expected rate of return from multiple plan assets at present and in the future.

viii) The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	<u>2014</u>
Discount rate	2.0%
Expected long-term rate of return on plan assets	2.0%

(3) Accrued retirement benefits for employees for the year ended March 31, 2013

The funded and accrued status of the employees' defined benefit pension plans of the Company and its domestic subsidiaries and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 was summarized as follows:

	<u>Millions of yen</u>
	<u>2013</u>
Retirement benefit obligation at end of year	¥ (3,881)
Plan assets at fair value at end of year	<u>2,934</u>
Unfunded retirement benefit obligation	(947)
Unrecognized net retirement benefit obligation at transition	39
Unrecognized actuarial loss	36
Unrecognized prior service cost	(4)
Accrued retirement benefits for employees	<u>¥ (876)</u>

Certain domestic subsidiaries have applied simplified methods for calculating their retirement benefit obligation, which are permitted under the accounting standard for employees' retirement benefits.

The components of retirement benefit expenses for the year ended March 31, 2013 was outlined as follows:

	<u>Millions of yen</u>
	<u>2013</u>
Service cost	¥ 199
Interest cost	70
Expected return on plan assets	(49)
Amortization of prior service cost	(2)
Amortization of net retirement benefit obligation at transition	20
Amortization of actuarial loss	111
Retirement benefit expenses, net	<u>¥ 349</u>

Retirement benefit expenses of certain domestic subsidiaries, which have been calculated by simplified methods, are included in service cost in the above table.

The assumptions used in accounting for the above plans were a discount rate of 2.0% and an expected rate of return on plan assets of 2.0% for the year ended March 31, 2013.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% for the years ended March 31, 2014 and 2013. The overseas subsidiaries are subject to income taxes of the respective countries in which they operate.

Reconciliations of the statutory tax rate and effective tax rates for the years ended March 31, 2014 and 2013 as a percentage of income before income taxes are as follows:

	<u>2014</u>	<u>2013</u>
Statutory tax rate	38.0%	38.0%
Permanently non-deductible expenses	0.5	0.3
Per capita portion of inhabitants' taxes	0.6	0.7
Tax credit for research and development costs	(6.9)	(7.8)
Differences in tax rates applicable to overseas subsidiaries	(1.0)	(0.5)
Effect of changes in corporate tax rates	0.4	-
Tax valuation allowance	0.9	-
Other	1.1	(0.1)
Effective tax rates	33.6%	30.6%

The significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Deferred tax assets:			
Accrued retirement benefits for employees	¥ -	¥ 310	\$ -
Liability for retirement benefits	229	-	2,225
Unrealized gain on inventories	283	282	2,750
Long-term accounts payable-other	181	182	1,759
Accrued bonuses	153	165	1,487
Deferred revenue	56	49	544
Accrued enterprise tax	42	85	408
Allowance for doubtful accounts	37	42	360
Write down of investments in securities	27	27	262
Accrued legal welfare expense on bonuses	23	23	223
Other	118	123	1,147
Gross deferred tax assets	1,149	1,288	11,165
Valuation allowance	(57)	(25)	(554)
Total deferred tax assets	1,092	1,263	10,611
Deferred tax liabilities:			
Gain on sales of fixed assets	(210)	-	(2,040)
Depreciation	(38)	(25)	(369)
Accrued interest	(10)	(10)	(97)
Reserve for special depreciation	(5)	(8)	(49)
Other	(1)	(63)	(10)
Total deferred tax liabilities	(264)	(106)	(2,565)
Net deferred tax assets	¥ 828	¥ 1,157	\$ 8,046

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. Income Taxes (continued)

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and domestic subsidiaries are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

In line with these revisions, the Company and domestic subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities from 38.0% to 35.6% for temporary differences expected to be realized after April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥14 million (\$136 thousand), and income taxes – deferred increased by ¥14 million (\$136 thousand) as of and for the year ended March 31, 2014, respectively.

9. Shareholders’ Equity

The Corporation Law of Japan (the “Law”) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company’s legal reserve included in retained earnings at March 31, 2014 and 2013 amounted to ¥293 million (\$2,847 thousand).

In addition, upon the issuance and sale of new shares of capital stock, the entire amount of the proceeds is required to be accounted for as capital stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

Movements in treasury stock for the years ended March 31, 2014 and 2013 are summarized as follows:

		Number of shares		
		2014		
	April 1, 2013	Increase	Decrease	March 31, 2014
Treasury stock	31,583	24	–	31,607
		Number of shares		
		2013		
	April 1, 2012	Increase	Decrease	March 31, 2013
Treasury stock	31,470	113	–	31,583

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company principally in order to manage certain risk arising from adverse fluctuation in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, and, under these rules, the Company enters into forward foreign exchange contracts which fall within the Company's foreign currency holding limits. Periodical evaluation of the effectiveness of the hedging activities is thus waived, taking into account that complete offsetting of any fluctuation in exchange rates or cash flows is made possible by these contracts. In addition, the Accounting Department of the Company is responsible for the execution and management of all derivatives positions. The executive director approves, in advance, all transactions within the limits reported at meetings of the Board of Directors, and the results of the executed transactions are reported at the monthly meetings of the Board of Directors. The Company does not hold or issue derivative financial instruments for speculative trading purposes.

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting at March 31, 2013 was summarized as follows:

Currency-related transactions

		<i>Millions of yen</i>			
		2013			
Method of hedge accounting	Transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount) over one year	Estimated fair value
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts Selling: USD	Deposits denominated in foreign currencies	¥ 945	¥ —	¥ 940
	Total		¥ 945	¥ —	¥ 940

The fair values of forward foreign exchange contracts are calculated using the prices offered by the transacting financial institutions and others.

There were no outstanding derivatives positions which qualify for deferral hedge accounting at March 31, 2014.

11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Research and development costs	¥ 3,234	¥ 2,977	\$ 31,426

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Other Comprehensive Income (Loss)

Reclassification adjustments and tax effects of other comprehensive income (loss) for the years ended March 31, 2014 and 2013 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Net unrealized holding gain (loss) on securities:			
Gain (Loss) arising during the year	¥ 34	¥ (39)	\$ 330
Reclassification adjustments	(13)	(4)	(126)
Before tax effects	21	(43)	204
Tax effects	7	(16)	68
Total	14	(27)	136
Translation adjustments:			
Amount arising during the year	348	845	3,382
Total other comprehensive income	¥ 362	¥ 818	\$ 3,518

13. Related Party Transactions

There were no related party transactions to be disclosed for the years ended March 31, 2014 and 2013.

14. Amounts per Share

Amounts per share at March 31, 2014 and 2013 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. dollars</i>
	2014	2013	2014
Net assets	¥ 3,468.01	¥ 3,313.79	\$ 33.70
Net income:			
Basic	151.02	150.37	1.47
Cash dividends	30.00	30.00	0.29

Net assets per share is computed based on the number of shares of common stock outstanding at the year end.

Basic net income per share is computed based on the weighted-average number of shares of common stock outstanding during each year. Cash dividends per share represent the cash dividends declared as applicable to the respective fiscal years.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Segment Information

i) Outline of segment information

The Company's reporting segments are divisions of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the board of directors meeting of the Company (the highest management decision making body) in order to allocate management resources and assess performance of operations.

The Company and its subsidiaries are primarily engaged in the manufacture and sale of telecommunications equipment. The subsidiaries are independent business units and formulate comprehensive strategies for products and operate business geographically.

Therefore, the group consists of four segments based on sales by region. The four segments are "Japan," "North America," which primarily includes the United States and Canada; "Europe," which primarily includes Germany and Spain; and "Asia and Oceania," which primarily includes Australia and Taiwan.

ii) Calculation methods used for sales, income or loss, assets and other items on each reporting segment

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. Segment performance is evaluated based on operating income or loss. Intersegment sales are recorded at the same prices applied in transactions with third parties.

iii) Information as to sales, income or loss, assets and other items on each reporting segment

Information by reporting segment for the years ended March 31, 2014 and 2013 were as follows:

	<i>Millions of yen</i>						
	2014						
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated
I. Net sales and operating income (loss)							
Sales to third parties	¥ 16,335	¥ 7,622	¥ 987	¥ 1,339	¥ 26,283	¥ -	¥ 26,283
Intersegment sales	6,364	12	0	376	6,752	(6,752)	-
Net sales	22,699	7,634	987	1,715	33,035	(6,752)	26,283
Operating expenses	20,508	7,703	1,041	1,589	30,841	(6,763)	24,078
Operating income (loss)	¥ 2,191	¥ (69)	¥ (54)	¥ 126	¥ 2,194	¥ 11	¥ 2,205
II. Total assets	¥ 48,327	¥ 5,437	¥ 833	¥ 3,187	¥ 57,784	¥ (1,326)	¥ 56,458
III. Other items							
Depreciation and amortization	¥ 798	¥ 68	¥ 6	¥ 10	¥ 882	¥ -	¥ 882
Investments in affiliated company	86	-	-	-	86	-	86
Increase in tangible / intangible fixed assets	615	364	7	5	991	-	991

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Segment Information (continued)

iii) Information as to sales, profit or loss, assets and other items on each reporting segment (continued)

	<i>Millions of yen</i>						
	2013						
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated
I. Net sales and operating income (loss)							
Sales to third parties	¥ 16,032	¥ 7,687	¥ 753	¥ 1,380	¥ 25,852	¥ –	¥ 25,852
Intersegment sales	6,502	10	0	337	6,849	(6,849)	–
Net sales	22,534	7,697	753	1,717	32,701	(6,849)	25,852
Operating expenses	20,571	7,358	804	1,554	30,287	(6,613)	23,674
Operating income (loss)	¥ 1,963	¥ 339	¥ (51)	¥ 163	¥ 2,414	¥ (236)	¥ 2,178
II. Total assets	¥ 47,067	¥ 6,409	¥ 734	¥ 3,231	¥ 57,441	¥ (2,575)	¥ 54,866
III. Other Items							
Depreciation and amortization	¥ 902	¥ 58	¥ 3	¥ 10	¥ 973	¥ –	¥ 973
Investments in affiliated company	94	–	–	–	94	–	94
Increase in tangible / intangible fixed assets	865	862	8	4	1,739	–	1,739
	<i>Thousands of U.S. dollars</i>						
	2014						
	Japan	North America	Europe	Asia & Oceania	Subtotal	Eliminations	Consolidated
I. Net sales and operating income (loss)							
Sales to third parties	\$ 158,731	\$ 74,065	\$ 9,591	\$ 13,011	\$ 255,398	\$ –	\$ 255,398
Intersegment sales	61,840	117	0	3,654	65,611	(65,611)	–
Net sales	220,571	74,182	9,591	16,665	321,009	(65,611)	255,398
Operating expenses	199,281	74,852	10,116	15,441	299,690	(65,718)	233,972
Operating income (loss)	\$ 21,290	\$ (670)	\$ (525)	\$ 1,224	\$ 21,319	\$ 107	\$ 21,426
II. Total assets	\$ 469,604	\$ 52,833	\$ 8,094	\$ 30,969	\$ 561,500	\$ (12,885)	\$ 548,615
III. Other items							
Depreciation and amortization	\$ 7,755	\$ 661	\$ 58	\$ 97	\$ 8,571	\$ –	\$ 8,571
Investments in affiliated company	836	–	–	–	836	–	836
Increase in tangible / intangible fixed assets	5,976	3,537	68	49	9,630	–	9,630

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Segment Information (continued)

iv) Geographical information

(a) Sales

Sales categorized by country and region based on locations of customers by the Group for the years ended March 31, 2014 and 2013 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Japan	¥ 8,277	¥ 10,211	\$ 80,430
USA	5,633	5,720	54,737
North America (except USA)	1,396	1,349	13,565
Europe	3,477	2,918	33,787
Asia & Oceania	6,768	4,862	65,766
Other	732	792	7,113
Total	¥ 26,283	¥ 25,852	\$ 255,398

(b) Property, plant and equipment

Property, plant and equipment categorized by country and region as of March 31, 2014 and 2013 were summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2014	2013	2014
Japan	¥ 6,420	¥ 6,531	\$ 62,384
North America	1,276	901	12,399
Europe	18	14	175
Asia & Oceania	206	218	2,002
Total	¥ 7,920	¥ 7,664	\$ 76,960

(c) Information by major customer

Information by major customer for the year ended March 31, 2013 was as follows:

	<i>Net sales</i>	<i>Related segment name</i>
	<i>Millions of yen</i>	
Customer name	2013	
NEC Engineering, Ltd.	¥ 3,033	Japan

Disclosure of information by major customers for year ended March 31, 2014 has been omitted as sales to each customer were less than 10% of consolidated net sales.

ICOM INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

16. Significant Subsidiaries and Affiliates

The Company's subsidiaries and significant affiliates as of March 31, 2014 are presented as follows:

Name	Ownership Interest	Country of Incorporation	Subsidiaries/Affiliate
Icom America, Inc.	100.0%	United States of America	Consolidated subsidiary
ICOM CANADA HOLDINGS INC.	100.0%	Canada	Consolidated sub-subsidiary
Icom (Europe) GmbH	100.0%	Germany	Consolidated subsidiary
Icom (Australia) Pty., Ltd.	100.0%	Australia	Consolidated subsidiary
Icom Spain, S.L.	100.0%	Spain	Consolidated subsidiary
Asia Icom Inc.	100.0%	Taiwan	Consolidated subsidiary
Wakayama Icom Inc.	100.0%	Japan	Consolidated subsidiary
Icom Information Products Inc.	100.0%	Japan	Consolidated subsidiary
Icom America License Holding LLC	100.0%	United States of America	Consolidated sub-subsidiary
ICOM DO BRASIL RADIOCOMUNICACAO LTDA.	100.0%	Brazil	Consolidated sub-subsidiary
Comforce Inc.	49.0%	Japan	Affiliate accounted for by the equity method
Position Co., Ltd.	33.3%	Japan	Affiliate accounted for by the equity method

17. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014, was approved at the Company's general shareholders' meeting held on June 25, 2014:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
	2014	2014
Cash dividends (¥15 = U.S.\$0.15 per share)	¥ 222	\$ 2,157

Independent Auditor's Report

The Board of Directors
ICOM INCORPORATED

We have audited the accompanying consolidated financial statements of ICOM INCORPORATED and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ICOM INCORPORATED and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 25, 2014
Osaka, Japan

BOARD OF DIRECTORS AND AUDITORS

Tokuzo Inoue
Chairman and Representative Director

Tsutomu Fukui
President and Representative Director

Nobuo Ogawa
Executive Managing Director

Hiroshi Shimizu
Director

Kenichi Kojiyama
Director

Haruyuki Yoshizawa
Outside Director

Kenji Oono
Auditor

Hiroshi Umemoto
Outside Auditor

Katsunori Sugimoto
Outside Auditor

EXECUTIVE OFFICERS

Masataka Harima

Hiroshi Nakaoka

Takashi Tsujiuchi

Shinichi Matsuo

Shigeyoshi Tanabe

Yoshiteru Yano

DIRECTORY

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CORPORATE FACTS

(As of March 31, 2014)
Established: July 1964
Employees: 624
Paid-in capital: ¥7,081 million
Authorized shares: 34,000,000
Issued and outstanding shares:
14,850,000
Shareholders: 6,057
Stock listing: Tokyo Stock Exchange

(As of March 31, 2014)

Major shareholders	Thousands of shares
Tokuzo Inoue	1,868
State Street Bank and Trust Company	1,668
Gigapalace Inc.	1,472
The Icom Foundation	1,000
JPMorgan Chase & Co.	915
JVC KENWOOD Corporation	445
Japan Trustee Service Bank, Ltd.	353
Meiji Yasuda Life Insurance Company	326
The Master Trust Bank of Japan, Ltd.	289
Bank of Tokyo-Mitsubishi UFJ, Ltd.	243