

## Corporate Governance

### Fundamental Ideas of Brother's Corporate Governance

Brother Industries, Ltd. ("BIL") has established the "Brother Group Global Charter" as the basis of all the Brother Group's activities conducted worldwide, and sets the enhancement of its corporate value over the long term by optimizing management resources and creating customer value, the development of long-term trustful relationships with its shareholders by enhancing corporate transparency through active provision of corporate information to shareholders, and so forth, as the fundamental ideas of BIL's corporate governance.



#### Corporate Governance Structure

BIL established the "Brother Group Basic Policies on Corporate Governance" (published on BIL's website) in November 2015, and since then has been striving to strengthen its governance in line with these basic policies.

##### < Statutory Auditor System and Executive Officer System >

BIL's board of directors consists of 11 directors (including five outside directors)\*. They decide important management matters and oversee executive operations. BIL also adopts a statutory auditor system (five auditors, including three outside auditors)\* as the basis of its corporate governance, and has an entrenched mechanism in which auditors audit directors' job execution. In addition, BIL has an executive officer system as an internal organization, whereby executive operations and supervision are separated in an effort to ensure swift decision-making and strengthen governance. Executive officers are elected by the board of directors, and are responsible for overseeing the operations of businesses, departments, and group subsidiaries under their supervision.

##### < Independent Outside Directors >

BIL appoints independent outside directors to ensure objective and neutral oversight of management from an external point of view, and thereby strengthens its management oversight function. BIL's independent outside directors provide management advice, decide important matters, and oversee executive operations based on their respective abundant experience, careers, and insights from perspectives independent of BIL's management.

##### < Nomination Committee and Compensation Committee >

In order to enhance the independence and objectivity of the board of directors' functionality concerning the appointment and remuneration of directors and executive officers, BIL has the Nomination Committee and the Compensation Committee as arbitrary advisory committees of the board of directors. Each of the committees consists of seven directors, including five outside directors and two internal directors\*, and appoints an outside director as its chairperson.

The Nomination Committee creates standards for the appointment of directors and executive officers, selects candidates, develops a CEO succession plan, and so forth, and reports them to the board of directors.

The Compensation Committee creates policies and a system of remuneration for directors and executive officers, reviews the remuneration standard and the remuneration amount of respective individuals, and reports them to the board of directors.

##### < To Enhance the Effectiveness of the Board of Directors >

At BIL, respective directors and auditors every year evaluate the effectiveness of the board of directors and report the results to the board of directors. Based on this evaluation, the board of directors analyzes and assesses the effectiveness of the entire board of directors and discloses an overview of the results in the "Corporate Governance Report." The board of directors will endeavor to further enhance its effectiveness based on opinions provided by respective directors and auditors.

\* As of June 26, 2018

## Remuneration of Officers

### < Policy on Officers' Remuneration >

BIL sets up an objective and transparent remuneration structure based on the clarification of the management responsibility of its officers, and follows a policy of paying an appropriate amount of remuneration with consideration of other companies' remuneration levels and employee treatment levels.

### < Composition of Officers' Remuneration >

The remuneration of directors shall be calculated in accordance with BIL's prescribed rules concerning the remuneration of directors, discussed and reported by the Compensation Committee, and approved by the board of directors.

The remuneration of directors consists of three parts. They are (1) "basic remuneration" provided to all directors, (2) "performance-based remuneration" given to directors who concurrently serve as executive officers as compensation reflecting their performance responsibilities in the group's yearly business performance, and (3) "stock options for a stock-linked compensation plan for directors (excluding outside directors)" offered to increase the incentive for the long-term improvement of corporate value. The remuneration amount for respective individuals is calculated by multiplying a certain base amount by a coefficient set for respective positions, according to BIL's prescribed rules concerning

the remuneration of directors. The performance-based remuneration is calculated for the performance during the previous fiscal year by adding and subtracting based on the method stipulated in the prescribed rules. The basic remuneration and the stock compensation-type stock options are calculated and provided within the limit of the remuneration amount approved at the general meeting of shareholders.

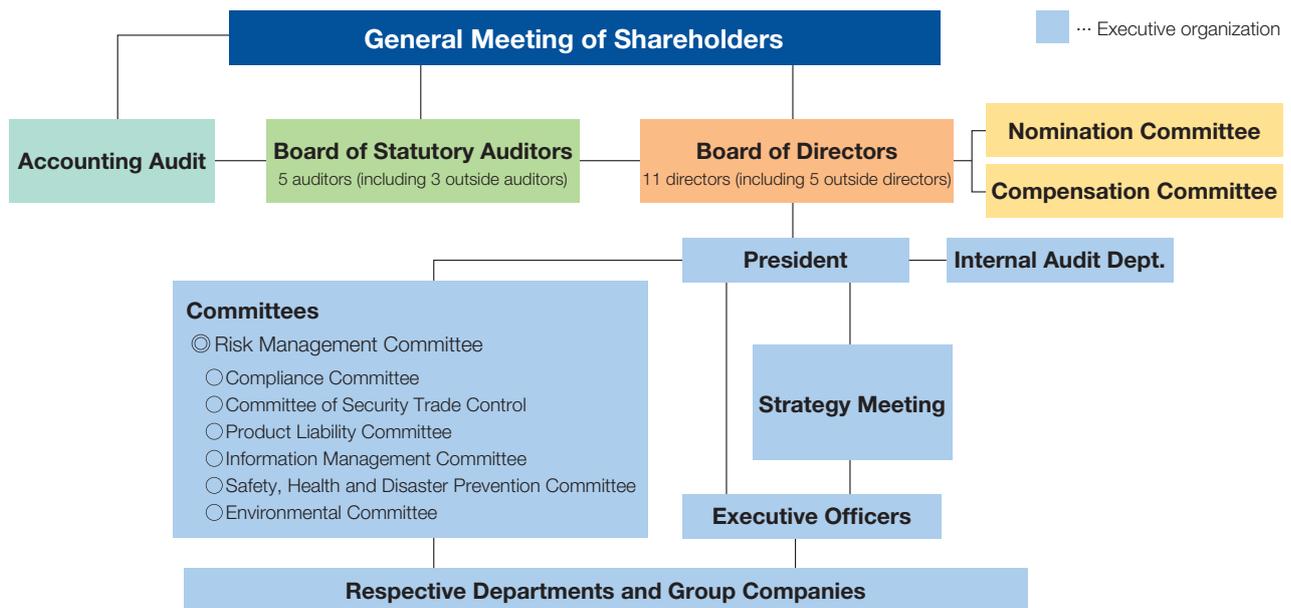
The remuneration of auditors is decided by the board of statutory auditors in accordance with BIL's prescribed rules concerning the remuneration of auditors and within the limit of the remuneration amount approved at the general meeting of shareholders.

Categories	Paid Individuals	Amount of Remuneration (million yen)	Total Amount of Remuneration, etc., by Category		
			Basic Remuneration (million yen)	Performance-based Remuneration (million yen)	Stock Compensation-type Stock Options (million yen)
Directors (Outside directors included)	14 (6)	415 (54)	238 (54)	120 (-)	57 (-)
Auditors (Outside auditors included)	5 (3)	72 (23)	72 (23)	- (-)	- (-)
Total (Outside directors/ auditors included)	19 (9)	488 (77)	310 (77)	120 (-)	57 (-)

(One year from April 1, 2017 to March 31, 2018)

Note: The amount paid to directors does not include the employee salary of the employees who also serve as directors.

### BIL Governance Structure (As of June 26, 2018)



### Risk Management System

BIL has the Risk Management Committee headed by the Representative Director & President, as an independent executive management organization, whereby the crucial risks of the whole Brother Group are identified and assessed, and proper actions for those risks are formulated. The committee promotes the upgrading of internal controls and risk management structures.

The Risk Management Committee manages the following risk subcommittees to control the critical risks of the group in a comprehensive and systematic fashion, overseeing activities of the subcommittees to respond to the respective risks. When the potential impact of a risk is assessed at the highest level, the Risk Management Committee switches into emergency response mode and gives priority to dealing with the situation.

#### < Compliance Committee >

The Compliance Committee makes the workforce aware of the importance of complying with laws and business ethics and prevents violations and their recurrence through education programs and activities.

#### < Committee of Security Trade Control >

The Committee of Security Trade Control ensures the proper management of export transactions and technological offerings based on laws and regulations. This committee is also working to maintain and improve the management level by staging meetings to discuss important matters every time laws are amended, implementing internal audits, and offering guidance and education to group companies.

#### < Product Liability Committee >

The Product Liability Committee is held periodically to ensure product safety in R&D, design and production, sale and use, repair and service, and disposal through coordinated efforts.

#### < Information Management Committee >

To cope with risks associated with information leaks, the Information Management Committee determines a suitable policy for managing information on customers and other aspects of the business retained by the company, and deploys it throughout the group.

#### < Safety, Health, and Disaster Prevention Committee >

The Safety, Health, and Disaster Prevention Committee discusses annual plans, devises and implements measures, and conducts awareness activities for the purpose of ensuring employee safety and health, preventing disasters, and minimizing the damage from such disasters.

#### < Environmental Committee >

The Environmental Committee is chaired by the environmental officer and includes executive officers and above who are in charge of development, technology, production, and general affairs fields. The committee regularly discusses and determines measures for environmental issues that must be dealt with by the whole Brother Group.

### Message from an Outside Director

Three years have already passed since I assumed the position of outside director.

My interaction with Brother started some 20 years ago at a fund-raising party for the geology museum of the State University of New Jersey.

In board meetings, I have sought to facilitate constructive discussion by presenting various questions or suggestions based on my many years of international business experience in the pharmaceutical industry. I hope my involvement in this manner helps Brother's managerial decision-making.

Brother's governance structure is securely managed by its board of directors, which is overseen by the board of statutory auditors and outside directors who are independent from the management team. Brother also has the Nomination Committee and the Compensation Committee as advisory committees to ensure the independence and objectivity of the board of directors' functionality.

International-minded engineers to support globalization and employees who are not afraid of working anywhere in the world are indispensable for enhancing Brother's corporate value. Therefore, I would like Brother to continue to develop young employees.

FY2018 is the final year of the mid-term business strategy "CS B2018." I expect Brother to steadily promote three transformations, which are business, operational, and talent transformations identified as its challenges, and to listen to customer opinions with the "At your side." spirit existing in Brother's DNA, and thereby remaining a company that continues to generate superior value.

Outside Director **Soichi Matsuno**