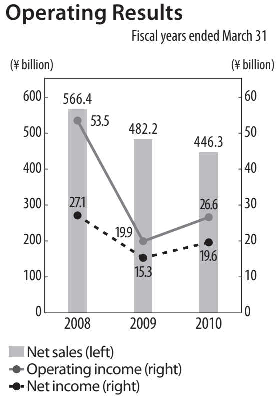
Management's Discussion and Analysis

● **Operating Results**



Business Overview

Looking back at the state of the economy during the period under review, the Brother Group continued to face a fluid operating environment, one that was aggravated by consumers' staunch intention to save and a stronger yen, despite signs of recovery in the second half of the fiscal year spurred by economic stimulus measures in various countries.

Given these conditions, as well as the negative effect of exchange rates owing to the stronger yen and the influence of the economic recession on consolidated operating performance, Brother Group net sales declined 7.5%, to ¥446,269 million in fiscal 2009, primarily because of lower sales in the Machinery and Solution business. Although affected by negative exchange rates and decreased sales in the Machinery and Solution business, operating income increased 33.8%, to ¥26,637 million, buoyed by the effect of improved profitability through cost reductions and other measures. Foreign exchange gain included in other income (expenses) on forward exchange contracts declined year-on-year, and while a loss on transfer to defined contribution pension plan was recorded, there was no write-down of investment securities. Income taxes decreased as a result of tax effect accounting, resulting in a 28.6% increase in net income, to ¥19,629 million.

Note: The operating results for fiscal 2009 are based on exchange rates of $1 = ¥93 and €1 = ¥131.

Performance by Business Segment (excluding inter-segment sales)

For business segment details, please see the Review of Operations on pages 6–7.

Performance by Area (including inter-segment sales)

Japan

Net sales: ¥320,770 million (down 11.1% YoY)

The negative effect of exchange rates owing to the stronger yen, a decline in communications and printing equipment sales and worsening machine tool market conditions in the first half resulted in lower net sales.

Operating income: ¥4,209 million (up 13.8% YoY)

Despite a decline in net sales and the negative effect of exchange rates owing to the stronger yen, we improved profitability by reducing costs and revising Printing and Solutions business sales composition, resulting in an overall increase in income.

The Americas

Net sales: ¥144,831 million (down 9.7% YoY)

Sales of communications and printing equipment and industrial sewing machines decreased and the impact of a stronger yen caused revenues to fall.

Operating income: ¥2,617 million (up 27.6% YoY)

Although affected by flagging sales, income grew mainly as a result of a decrease in selling, general and administrative expenses.

Europe

Net sales: ¥145,870 million (down 13.9% YoY)

Revenue fell on lower sales of communications and printing equipment and the negative effect of exchange rates.

Operating income: ¥11,543 million (up 45.0% YoY)

Despite the effect of lower sales, selling, general and administrative expenses decreased, resulting in an overall increase in income.

Asia and Others

Net sales: ¥206,933 million (down 11.3% YoY)

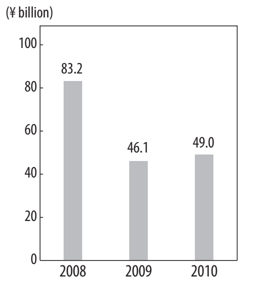
Net sales were lower due to sluggish sales of communications and printing equipment and the negative effect of exchange rates.

Operating income: ¥6,831 million (up 196.2% YoY)

The effect of improved profitability, including cost reductions at manufacturing facilities and fluctuations in sales composition contributed to increased income.

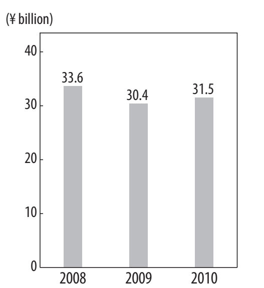
Cash and Cash Equivalents, End of Year

As of March 31



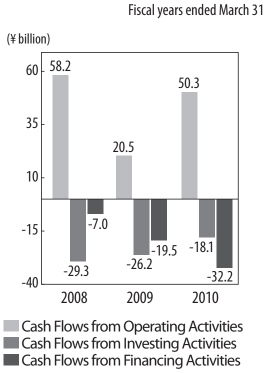
Interest-bearing Debt

As of March 31



Cash Flows

Fiscal years ended March 31



Fund Procurement, Liquidity and Cash Flows

The Brother Group's financial policies ensure flexible and efficient funding and maintain an appropriate level of liquidity for current and future operating activities. We have created a cash management system to optimize the groupwide use of cash held by individual companies. We also maintain open lines of credit with several banking institutions to complement existing liquidity on hand. Through these measures, we have been working to establish a system to correct the uneven distribution of funds and minimize the overall borrowing needs of the Group.

Liquidity Management

The Group's liquidity on hand consists of cash and cash equivalents and the unused portion of open commitment lines of credit. As of March 31, 2010, cash and cash equivalents totaled ¥49,031 million.

The Group maintains commitment lines of credit with several financial institutions. The entire amount of the Group's total ¥30,000 million in open lines of credit was unused, as of March 31, 2010. This total plus cash and cash equivalents was ¥79,031 million at fiscal year-end. Taking into consideration seasonal funding requirements, debt payable within one year and business environment risks, the Group believes it has sufficient liquidity on hand to support operations for one year.

Fund Procurement

As a rule, working capital and other short-term funding is debt payable within one year that is funded with local currency. The basic policy on long-term funding for manufacturing facilities is that funds should come from internal reserves, long-term fixed-rate debt and corporate bonds.

As of March 31, 2010, short-term borrowings were ¥6,337 million, primarily denominated in yen. Unsecured long-term debt totaled ¥5,107 million, with fixed-rate debt procured in yen. Corporate bonds totaled ¥15,500 million.

As of March 31, 2010, Rating and Investment Information, Inc., assigned the Group's long-term bonds and issuer credit "A" ratings and its commercial paper an "a-1" rating. We consider consistent ratings important in maintaining access to credit and capital markets.

The Brother Group believes that it has sufficient cash for working capital, capital investment and R&D investment to maintain growth through cash flows from operating activities; liquidity on hand, including open lines of credit; and a sound corporate financial structure.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥50,348 million, ¥29,828 million more than the ¥20,520 million provided in the previous year. This was primarily due to an increase in income before income taxes and minority interests, an increase in trade notes and accounts payable and a decrease in inventories.

Cash flows from investing activities

Net cash used in investing activities was ¥18,061 million, ¥8,157 million less than the ¥26,218 million used in the previous year, reflecting a decrease in disbursement for purchases of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities was ¥32,173 million, ¥12,651 million more than the ¥19,522 million used in the previous year. On the basis of cash flow, the total amount of decrease in short-term borrowings, net, and repayments of long-term debt resulted in ¥26,965 million in disbursements, ¥24,255 million more than in the previous year. Cash dividends paid used ¥5,375 million, ¥1,426 million less than one year earlier.

As a result of these activities, as well as the exchange rate fluctuations affecting the yen conversion value of cash and cash equivalents of overseas consolidated subsidiaries, cash and cash equivalents as of March 31, 2010, amounted to ¥49,031 million, up ¥2,903 million from one year earlier.

Outlook for Fiscal 2010

Despite some signs of recovery, in fiscal 2010 the Brother Group expects the overall operating environment to remain uncertain, as consumers continue to curtail spending and yen appreciation continues.

Exchange rate trends are likely to have a negative effect on Brother Group sales. Nevertheless, the Group expects net sales to increase year on year and anticipates higher sales from the online karaoke business as a result of the BMB Corp. acquisition, as well as stronger performance from the Machinery and Solution business, owing to a market recovery. Regardless of the negative effect of exchange rates and rising materials costs, the Group expects operating income to rise, thanks to higher revenue from the Machinery and Solution business. Meanwhile, in fiscal 2010 the Group does not expect foreign exchange gains to provide the same level of contribution to other income, nor does it expect to receive the same benefits to income taxes from tax-effect accounting as it enjoyed in fiscal 2009. Therefore, the Group forecasts a decrease in net income.

Note : The above forecast assumes exchange rates of $1 = ¥91 and €1 = ¥117.

Business and Other Risk

The following items may impact Group businesses, operating performance and financial conditions. Forward-looking statements reflect the Group's judgment as of March 31, 2010.

(1) Market Competition

In printing and other operations, the Brother Group cultivates business in many markets where it faces stiff competition. Competitors could allocate more management resources to their business than the Group does, new competitors could enter the market and competition could intensify as a result of alliances or collaboration among competitors. As a result, the Group may be unable to maintain its current market share, adversely affecting Group performance.

(2) Acquisition of Human Resources

The Brother Group places a special emphasis on research and development, aiming to differentiate its products from its competitors' through the accumulation of technology and expertise. However, competition for human resources is rising. In the event that ongoing recruitment and employment of skilled human resources becomes more difficult, the Group may become unable to deploy sufficient human resources in research and development, which could lower the competitiveness of its products, adversely affecting Group performance.

(3) Intellectual Property Rights

Revenue derived from patent licenses and other intellectual property rights, as well as payments related to the use of patents, could cause fluctuations in Group performance. There are limits to the degree to which proprietary technology acquired through research and development can be protected, and the potential exists for third parties to violate intellectual property rights and manufacture and sell counterfeit products. Other companies may file lawsuits against the Group with regard to intellectual property rights, which could affect Group performance.

(4) Product Quality Control

To provide high-quality, attractive products, the Group has established a production management system with rigorous product quality control standards. However, not all products are free from defects, and there is no guarantee that no problems will arise as a result of product safety or quality issues. In the event that significant problems arise, substantial costs may be incurred, brand image and reputation may deteriorate, and customer willingness to purchase Group products may fall, adversely affecting Group performance.

(5) Exchange and Interest Rates

The Brother Group conducts a high percentage of its manufacturing and sales overseas, and exchange rate fluctuations could affect foreign currency transactions. To reduce this risk and improve the link between foreign currency transaction receipts and payments, the Group utilizes forward exchange contracts and other instruments to reduce short-term risk. However, currency appreciation in China, Southeast Asia or other regions where the Group operates major production facilities could cause procurement and production costs to rise, and medium- to long-term exchange rate fluctuations could affect its financial condition. To reduce interest rate fluctuation risk, the Group endeavors to raise funds at fixed interest rates, and employs interest rate swaps and other financial instruments. Nevertheless, higher market interest rates could raise fund procurement costs.

(6) Raw Materials Cost Increases

Higher prices on resins, steel plates and other raw materials push up the cost of manufacturing Group products. The Group may be unable to pass on such rises through higher product prices, or to fully absorb higher costs by reducing expenses or boosting efficiencies, all of which have the potential to impact future earnings.

(7) Statutory Regulations

The Group conducts its business according to the laws and regulations of each country in which it operates. In addition to strengthening the internal controls that ensure compliance throughout the Group, the Group has created a risk management system. If an event arises where the Group is unable to comply with regulations, Group business activities may be restricted, which may result in cost increases.

(8) Information Network

The Brother Group employs a network to manage information related to production and sales management, as well as financial matters. The Group expects its information storage and equipment maintenance systems to be fully effective. However, network disconnections and system stoppages may adversely affect business activities. Furthermore, although the Group takes ample precautions to prevent infections from computer viruses and hackers, in the event of infiltration or attacks from the outside, depending on the scale of the interruption, business activities may be adversely affected.

Reflecting its internal controls, while maintaining and enhancing the reliability of financial information, the Group is also involved in ongoing quality improvements in development, maintenance and operation from the perspective of overall IT controls. However, in the event that procedural guidelines are not followed, a situation may arise where the Group is unable to guarantee the reliability of its financial information.

(9) Information Security

The Brother Group, having established the Information Management Committee and defined regulations for the management of information, has created information security operation rules for ongoing information risk management activities. The Group makes a thorough effort to prevent the leakage of personal and confidential information through internal training based on these operational rules. It controls access to personal information and maintain an access log to avoid the mishandling of this information. However, if personal information is leaked nevertheless, the Group may lose the confidence of its customers and its brand image may suffer, which could adversely affect Group business activities and performance.

In addition, to provide comprehensive customer services, the Group established websites that provide customers with product information and support. It makes an effort to maintain an adequate level of security on this website, but in the event of an unforeseen attack from the outside, website content falsification or the addition of links to fraudulent websites may adversely affect its business activities.

(10) Future Business Developments and Forecasts

To expand its operations by growing existing businesses and developing new business, the Brother Group engages in research and development and strategic investment, including M&A.

The launch of new businesses may involve risk inherent to that particular business, which may adversely affect overall performance.

Also, M&A and other activity may entail unforeseen costs involved with the merging of operations that prevent the realization of initially forecasted returns on investment, which could adversely affect Group performance and financial conditions.

(11) Natural Disasters and Other Threats

The majority of Group production and sales facilities is located overseas. Its main production facilities are in China, Malaysia and Vietnam, and the Group continues to establish sales facilities in countries throughout the world. To mitigate damage from natural disasters at these facilities, the Group has formulated response procedures in the event of fire, earthquakes, typhoons and other disasters. However, unforeseen events (such as war, terrorism or outbreaks of infectious diseases) may cause social unrest that can damage production and sales, which could adversely affect Group performance. At Group headquarters in Japan, the Group has established a crisis management system assuming a major earthquake in the Tokai or Tonankai regions. However, there is a possibility of damage resulting from an earthquake that exceeds the anticipated severity of these predictions.