Notes to Consolidated Financial Statements

Brother Industries, Ltd. and Consolidated Subsidiaries
For the Years ended March 31, 2010 and 2009

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 consolidated financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which BROTHER INDUSTRIES, LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93 to $1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(1) Consolidation

The Company has 89 (77 in 2009) subsidiaries at March 31, 2010. The accompanying consolidated financial statements as of March 31, 2010 include the accounts of the Company and its significant 56 (53 in 2009) subsidiaries (together, the "Group"). The remaining 33 unconsolidated subsidiaries' combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group.

Details of significant consolidated subsidiaries at March 31, 2010 are listed as follows:

	Equity ownership percentage at March 31, 2010		Capital in thousands of local currency
	Directly	Indirectly	
Brother International Corporation (Japan)	100.0 %	—	¥630,000
Brother Real Estate, Ltd.	100.0	—	¥300,000
Xing Inc.	89.0	—	¥2,122,649
BMB Corp.	—	100.0 %	¥11,638,484
Standard Corp.	—	100.0	¥90,000
Brother Sales, Ltd.	100.0	—	¥3,500,000
Bellezza Club Japan Inc.	100.0	—	¥90,250
Brother International Corporation (U.S.A.)	100.0	—	US$7,034
Brother International Corporation (Canada) Ltd.	—	100.0	C$11,592
Brother International De Mexico, S.A. De C.V.	—	100.0	MEX$75,260
Brother Industries (U.S.A.) Inc.	—	100.0	US$14,000
Brother International Corporation Do Brazil, Ltda.	—	100.0	R$49,645
Brother International De Chile, Ltda.	—	100.0	CH$2,801,966
Brother International Europe Ltd.	—	100.0	Stg.£26,500
Brother Holding (Europe) Ltd.	100.0	—	Stg.£87,013
Brother U.K. Ltd.	—	100.0	Stg.£17,400
Brother Internationale Industriemachinen GmbH	—	100.0	EURO9,000
Brother France SAS.	—	100.0	EURO12,000
Brother International GmbH (Germany)	—	100.0	EURO25,000
Brother Italia S.p.A.	—	100.0	EURO3,700
Brother International (Denmark) A/S	—	100.0	DKr.32,000
Brother Industries (U.K.) Ltd.	100.0	—	Stg.£9,700
Brother Finance (U.K.) Plc	100.0	—	Stg.£2,500
Taiwan Brother Industries, Ltd.	100.0	—	NT$242,000
Zhuhai Brother Industries, Co., Ltd.	100.0	—	US$7,000
Xian Brother Industries, Co., Ltd.	100.0	—	US$20,000
Brother Corporation (Asia) Ltd.	100.0	—	US$11,630
Brother Industries Technology (Malaysia) Sdn. Bhd.	100.0	—	MR21,000
Brother International (Aust.) Pty. Ltd.	100.0	—	A$2,500
Brother International Singapore Pte. Ltd.	—	100.0	US$9,527
Brother Sewing Machine Xian Co., Ltd.	100.0	—	US$11,000
Brother Industries (Shenzhen) Ltd.	—	100.0	US$27,000
Brother (China) Ltd.	100.0	—	US$20,500
Brother Industries (Vietnam) Ltd.	100.0	—	US$50,000
Brother Technology (Shenzhen) Ltd.	—	100.0	US$15,000

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over the recoverable period, unless deemed immaterial and charged to income.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(2) Investments in Unconsolidated Subsidiaries and Associated Companies

Investments in 2 unconsolidated subsidiaries (2 in 2009) and 6 associated companies (6 in 2009) are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If these companies had been consolidated or accounted for by the equity method, the effect on the consolidated financial statements would not have been material.

Accordingly, income from the unconsolidated subsidiaries and associated companies is recognized when the Group receives dividends. Unrealized inter-company profits, if any, have not been eliminated in the consolidated financial statements.

(3) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

On May 17, 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this accounting standard effective April 2008. The effect of the adoption was not material.

(4) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, and investment trust, all of which mature or become due within three months of the date of acquisition.

(5) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the average method by the Company and consolidated manufacturing subsidiaries. The consolidated sales subsidiaries determine cost by using the average method or the first-in, first-out method.

(6) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings,

ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost, and

iii) available-for-sale securities with market values, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving average method.

For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is mainly computed by the declining-balance method.

The range of useful lives was principally from 3 to 50 years for buildings and structures, from 4 to 12 years for machinery and vehicles and from 2 to 20 years for furniture and fixtures.

Depreciation of leased assets under finance leases is computed by the straight-line method over the lease period.

(8) Long-lived Assets

The Group reviews their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(9) Research and Development Costs

Research and development costs are charged to income as incurred.

(10) Other investments and assets

Intangible assets and goodwill are carried at cost less accumulated amortization, which is calculated by the straight-line method.

(11) Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

(Lessee)

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

(Lessor)

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as investments in lease.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

(12) Warranty Reserve

The Group provided a warranty reserve for repair service to cover all repair expenses based on the past warranty experience.

The warranty reserve was included in accrued expenses and amounted to ¥7,215 million ($77,581 thousand) and ¥4,848 million at March 31, 2010 and 2009, respectively.

(13) Income Taxes

The provision for current income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(14) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(15) Liability for Retirement Benefits

(i) **Employees' Retirement Benefits**

The Company has a contributory funded pension plan and a defined contribution pension plan covering substantially all of its employees. Certain consolidated subsidiaries have non-contributory funded pension plans or unfunded retirement benefit plans. Also, certain foreign subsidiaries have defined benefit pension plans and defined contribution pension plans.

As of October 1, 2009, the Company and certain consolidated subsidiaries switched part of their retirement benefit systems from a contributory funded pension plan to a defined contribution pension plan. In accordance with this conversion, the Company and certain subsidiaries have applied "Accounting for the Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, January 31, 2002). As a result of applying this accounting standard, the Group recorded a ¥2,985 million ($32,097 thousand) loss on revision of benefit plan under other expenses for the year ended March 31, 2010.

The Company and certain consolidated subsidiaries account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Certain small subsidiaries apply the simplified method to state the liability at the amount which would be paid if employees retired, less plan assets at the balance sheet date.

(ii) **Retirement Benefits for Directors and Corporate Auditors**

Certain domestic consolidated subsidiaries provide retirement allowances for directors and corporate auditors. Retirement allowances for directors and corporate auditors are recorded to state the liability which would be paid at the amount if they retired at each balance sheet date. The retirement benefits for directors and corporate auditors are paid upon the approval of the shareholders.

(16) Stock Options

The ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance are applicable to stock options granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

The Company applied this accounting standard for stock options to those granted on and after May 1, 2006.

(17) Construction Contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts."

Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. Under this new accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. The Group adopted the new accounting standard for construction for the year ended March 31, 2010. This standard is applicable to construction contracts and software development contracts, and effective for fiscal years beginning on or after April 1, 2009. Certain subsidiaries of the Company applied the new accounting standard effective April 1, 2009. There was no impact on the consolidated statements of income for the year ended March 31, 2010.

(18) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts.

(19) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of the equity and included in minority interests.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the year.

(20) Derivative and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and currency option contracts are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency contracts and currency option contracts employed to hedge foreign exchange exposures are measured at fair value and unrealized gains (losses) are recognized in income. Foreign currency forward contracts and currency option contracts applied for forecasted (or committed) transactions are also measured at fair value, but the unrealized gains (losses) are deferred until the underlying hedged transactions are completed.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(21) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(22) New Accounting Pronouncements

Business Combinations

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In December 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations

In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections

In December 2009, ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.
(2) Changes in Presentations
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Current:			
Government and corporate bonds	**¥ 300**	¥ 301	**$ 3,226**
Total	**¥ 300**	¥ 301	**$ 3,226**
Non-current:			
Marketable equity securities	**¥ 13,669**	¥ 9,147	**$ 146,978**
Government and corporate bonds	**525**	525	**5,645**
Other	**237**	238	**2,549**
Total	**¥ 14,431**	¥ 9,910	**$ 155,172**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 8,015**	**¥ 5,033**	**¥ (24)**	**¥ 13,024**
Other	**139**	**18**	**—**	**157**
Held-to-maturity	**825**	**6**	**—**	**831**

	Millions of Yen			
March 31, 2009	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 7,933	¥ 1,916	¥ (1,091)	¥ 8,758
Other	123	—	(20)	103
Held-to-maturity	826	2	(29)	799

	Thousands of U.S. Dollars			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 86,183**	**$ 54,118**	**$ (258)**	**$ 140,043**
Other	**1,495**	**193**	**—**	**1,688**
Held-to-maturity	**8,871**	**64**	**—**	**8,935**

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Available-for-sale:			
Equity securities	**¥ 645**	¥ 389	**$ 6,935**
Investments in limited liability partnerships	**80**	111	**861**
Other	**—**	24	**—**
Total	**¥ 725**	¥ 524	**$ 7,796**

The carrying values of debt securities and others by contractual maturity for securities classified as available-for-sale and held-to-maturity at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
March 31, 2010	Held to Maturity	Held to Maturity
Due in one year or less	¥ 300	$ 3,226
Due after one year through five years	525	5,645
Total	¥ 825	$ 8,871

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4. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Merchandise and Finished products	**¥ 46,327**	¥ 56,491	**$ 498,140**
Work in process	**6,224**	2,603	**66,924**
Raw materials and supplies	**12,189**	12,897	**131,065**
Total	**¥ 64,740**	¥ 71,991	**$ 696,129**

5. Long-lived Assets

The Group reviewed their long-lived assets for impairment. For the years ended March 31, 2010 and 2009, the Company and domestic consolidated subsidiaries recorded impairment loss of ¥315 million ($3,387 thousand) and ¥2,535 million, respectively, as other expense, for leased land and idle assets due to a decline in market prices, and goodwill due to a decline in value. The carrying amounts of these assets were written down to the recoverable amount. The recoverable amount of leased land and idle assets was measured at the net selling price at disposition. The recoverable amount of goodwill was measured at its value in use and the discount rate used for computation of the present value of future cash flows was 3.6% for the year ended March 31, 2009.

6. Investment Property

On November 28, 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures." This accounting standard and the guidance are applicable to investment property and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the new accounting standard and guidance effective March 31, 2010.

The Group holds some rental properties such as office buildings and land in Nagoya and other areas. Net of rental income and operating expenses for those rental properties was ¥1,234 million ($13,269 thousand) for the fiscal year ended March 31, 2010.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of Yen			
Carrying amount			Fair value
April 1, 2009	Increase/ Decrease	March 31, 2010	March 31, 2010
¥ 9,706	¥ 347	**¥ 10,053**	**¥ 19,028**

Thousands of U.S. Dollars			
Carrying amount			Fair value
April 1, 2009	Increase/ Decrease	March 31, 2010	March 31, 2010
$ 104,366	$ 3,731	**$ 108,097**	**$ 204,602**

Notes: 1) Carrying amount recognized in balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair value of properties as of March 31, 2010 is mainly measured by the Group in accordance with its Real-estate Appraisal Standard.

7. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Loans principally from banks with weighted average interest rates of 0.59% (1.28% in 2009)	**¥ 6,337**	¥ 9,858	**$ 68,140**

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Fourth unsecured 1.68% domestic bonds, due 2012 *1	**¥ 15,000**	¥ 15,000	**$ 161,290**
Fifth unsecured 1.97% domestic bonds, due 2011 *2	**500**	500	**5,376**
Loans principally from banks, due serially to 2015 with interest rates ranging from 1.06% to 2.80% (from 1.26% to 2.24% in 2009):			
Unsecured	**5,107**	5,044	**54,914**
Lease obligations	**4,530**	9	**48,710**
Total	**25,137**	20,553	**270,290**
Less: current portion	**(6,952)**	(49)	**(74,752)**
Long-term debt, less current portion	**¥ 18,185**	¥ 20,504	**$ 195,538**

*1 : Issued by the Company
*2 : Issued by Brother Real Estate, Ltd.

Annual maturities of long-term debt at March 31, 2010 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 6,952	$ 74,752
2012	2,049	22,033
2013	15,813	170,032
2014	275	2,957
2015	48	516
Total	¥ 25,137	$ 270,290

The carrying amounts of assets pledged as collateral for other current liabilities of ¥28 million ($301 thousand) and other long-term liabilities of ¥310 million ($3,333 thousand) at March 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings and structures, net of accumulated depreciation	¥ 243	$ 2,613
Land	123	1,323
Investment securities	46	494
Total	¥ 412	$ 4,430

8. Retirement and Pension Plans

The liability for retirement benefits in the accompanying consolidated balance sheets consisted of retirement allowances for directors and corporate auditors of ¥156 million ($1,677 thousand) and ¥285 million at March 31, 2010 and 2009, respectively, and employees' retirement benefits of ¥7,032 million ($75,613 thousand) and ¥5,860 million at March 31, 2010 and 2009, respectively.

Retirement Allowances for Directors and Corporate Auditors

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Companies Act of Japan.

Certain domestic consolidated subsidiaries recorded liabilities for their unfunded retirement allowance plan covering all of their directors and corporate auditors.

Employees' Retirement Benefits

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The Company and certain domestic subsidiaries had two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, applied by the Company and established under the Japanese Welfare Pension Insurance Law, covered a substitutional portion of the government and a corporate portion established at the discretion of the Company. The Company transferred the substitutional portion of the pension obligations and related assets to the government in March 2006. The Company and certain domestic subsidiaries implemented a defined contribution pension plan in fiscal 2005 and on October 1, 2009 by which a part of the former contributory and non-contributory defined benefit pension plans were terminated. The Company and certain domestic subsidiaries applied accounting treatments specified in the guidance as described in Note 2(15). Certain foreign subsidiaries have defined benefit pension plans and defined contribution pension plans.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Projected benefit obligation	**¥ (52,374)**	¥ (54,490)	**$ (563,161)**
Fair value of plan assets	**44,610**	40,552	**479,677**
Unrecognized actuarial loss	**14,395**	19,220	**154,784**
Unrecognized prior service benefit	**(257)**	(355)	**(2,763)**
Net asset	**6,374**	4,927	**68,537**
Prepaid pension cost	**13,406**	10,787	**144,150**
Liability for employees' retirement benefits	**¥ (7,032)**	¥ (5,860)	**$ (75,613)**

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Service cost	**¥ 1,993**	¥ 2,173	**$ 21,431**
Interest cost	**1,578**	1,710	**16,968**
Expected return on plan assets	**(1,448)**	(1,822)	**(15,570)**
Recognized actuarial loss	**1,941**	897	**20,871**
Amortization of prior service benefit	**43**	(78)	**462**
Additional retirement payments and others *	**164**	430	**1,763**
Loss on transfer to defined contribution pension plan	**2,985**	—	**32,097**
Contribution to defined contribution pension plans	**1,022**	774	**10,989**
Net periodic retirement benefits cost	**¥ 8,278**	¥ 4,084	**$ 89,011**

*Includes special termination benefits of ¥327 million paid by a certain consolidated subsidiary for the year ended March 31, 2009.

Assumptions used for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Periodic recognition of projected benefit obligation	**Straight-line method**	Straight-line method
Discount rate	**Principally from 1.5% to 2.0%**	Principally from 1.5% to 2.0%
Expected rate of return on plan assets	**Principally 3.0%**	Principally 3.0%
Recognition period of actuarial gain / loss	**Principally from 7 years to 17 years**	Principally from 7 years to 16 years
Amortization period of prior service benefit / cost	**Principally from 7 years to 16 years**	Principally from 7 years to 14 years

9. Equity

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of equity after dividends must be maintained at no less than ¥ 3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reserved without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. Stock Options

The stock options outstanding as of March 31, 2010 were as follows:

Stock Option	Persons Granted	Number of Options granted	Date of Grant	Exercise Price	Exercise Period
2007 Stock Option	6 directors	46,000 shares	Mar 19, 2007	¥ 1 ($0.011)	30 years starting on the following day of stock option grant date
2008 Stock Option	6 directors	65,100 shares	Mar 24, 2008	¥ 1 ($0.011)	Same as above
2009 Stock Option	5 directors	114,500 shares	Mar 23, 2009	¥ 1 ($0.011)	Same as above
2010 Stock Option	4 directors 14 executive officers	51,900 shares 49,600 shares	Mar 23, 2010	¥ 1 ($0.011)	Same as above

The stock option activity was as follows:

	2010 Stock Option (shares)	2009 Stock Option (shares)	2008 Stock Option (shares)	2007 Stock Option (shares)
For the year ended March 31, 2009				
Non-vested				
March 31, 2008 – Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2009 – Outstanding	—	—	—	—
Vested				
March 31, 2008 - Outstanding	—	—	65,100	46,000
Vested	—	114,500	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2009 – Outstanding	—	114,500	65,100	46,000
For the year ended March 31, 2010				
Non-vested				
March 31, 2009 – Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2010 – Outstanding	—	—	—	—
Vested				
March 31, 2009 - Outstanding	—	114,500	65,100	46,000
Vested	101,500	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2010 – Outstanding	101,500	114,500	65,100	46,000
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	($ 0.011)	($ 0.011)	($ 0.011)	($ 0.011)
Average stock price at exercise	¥ —	¥ —	¥ —	¥ —
	($ —)	($ —)	($ —)	($ —)
Fair value price at grant date	¥ 899	¥ 642	¥ 915	¥ 1,350
(directors)	($ 9.667)	($ 6.903)	($ 9.839)	($ 14.516)
Fair value price at grant date	¥ 912	¥ —	¥ —	¥ —
(executive officers)	($ 9.806)	($ —)	($ —)	($ —)

The assumptions used to measure fair value of 2010 Stock Option (directors)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	42.79%
Estimated remaining outstanding period:	11 years
Estimated dividend rate:	1.45%
Interest rate with risk free:	1.49%

The assumptions used to measure fair value of 2010 Stock Option (executive officers)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.9%
Estimated remaining outstanding period:	10 years
Estimated dividend rate:	1.45%
Interest rate with risk free:	1.36%

11. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 41% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Deferred Tax Assets:			
Inventory	**¥ 7,645**	¥ 7,407	**$ 82,205**
Accrued bonuses	**2,397**	1,902	**25,774**
Accrued expenses	**2,206**	2,385	**23,720**
Allowance for doubtful accounts	**10,461**	6,891	**112,484**
Warranty reserve	**1,553**	906	**16,699**
Employees' retirement benefits	**1,276**	1,121	**13,720**
Write-down of investment securities	**4,444**	3,703	**47,785**
Depreciation	**6,169**	4,178	**66,334**
Tax loss carryforwards	**7,375**	1,578	**79,301**
Other	**6,312**	3,870	**67,871**
Less valuation allowance	**(26,074)**	(12,540)	**(280,366)**
Total deferred tax assets	**¥ 23,764**	¥ 21,401	**$ 255,527**
Deferred Tax Liabilities:			
Securities withdrawn from retirement benefit trust	**¥ (3,262)**	¥ (3,261)	**$ (35,075)**
Prepaid pension cost	**(5,446)**	(4,354)	**(58,559)**
Differences between book and tax bases of property, plant and equipment	**(3,131)**	(2,955)	**(33,667)**
Undistributed earnings of foreign subsidiaries	**(2,912)**	(2,679)	**(31,312)**
Unrealized gain on available-for-sale securities	**(1,374)**	(247)	**(14,774)**
Deferred gain on derivatives under hedge accounting	**(739)**	(2,120)	**(7,946)**
Other	**(710)**	(837)	**(7,635)**
Total deferred tax liabilities	**¥ (17,574)**	¥ (16,453)	**$ (188,968)**
Net deferred tax assets	**¥ 6,190**	¥ 4,948	**$ 66,559**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Normal effective statutory tax rate	**40.50%**	40.50%
Expenses not deductible for income tax purposes	**1.93**	4.45
Revenues not recognized for income tax purposes	**(0.84)**	(1.06)
Lower income tax rates applicable to income in certain foreign countries	**(10.30)**	(6.48)
Tax credit for R&D expenses	**(0.91)**	(2.01)
Taxes on dividends from foreign subsidiaries	**(0.15)**	(1.20)
Net change in valuation allowance	**(3.90)**	19.19
Tax effect not recognized on retained earnings of foreign subsidiaries	**—**	(16.73)
Other – net	**(0.87)**	1.03
Actual effective tax rate	**25.46%**	37.69%

12. Research and Development Costs

Research and development costs charged to income were ¥34,779 million ($373,968 thousand) and ¥36,859 million for the years ended March 31, 2010 and 2009, respectively.

13. Leases

(As lessee)

The Group leases certain buildings and structures, furniture and fixtures, machinery and vehicles.

Total rental expense of finance leases, except for those cases in which the ownership of the leased assets is transferred to the lessee, amounted to ¥1,548 million ($16,645 thousand) and ¥79 million for the years ended March 31, 2010 and 2009, respectively. Sublease payments, in the amount of ¥503 million ($5,409 thousand) and ¥63 million, were included in the amounts for the years ended March 31, 2010 and 2009, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Group applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	March 31, 2010			
	Millions of Yen			
	Buildings and Structures	Furniture and Fixtures	Machinery and Vehicles	Total
Acquisition cost	**¥ 3,202**	**¥ 915**	**¥ 7,150**	**¥ 11,267**
Accumulated depreciation	**934**	**548**	**4,789**	**6,271**
Net leased property	**¥ 2,268**	**¥ 367**	**¥ 2,361**	**¥ 4,996**

	March 31, 2009		
	Millions of Yen		
	Furniture and Fixtures	Machinery and Vehicles	Total
Acquisition cost	¥ 1	¥ 144	¥ 145
Accumulated depreciation	1	138	139
Net leased property	¥ 0	¥ 6	¥ 6

	March 31, 2010			
	Thousands of U.S. Dollars			
	Buildings and Structures	Furniture and Fixtures	Machinery and Vehicles	Total
Acquisition cost	**$ 34,430**	**$ 9,839**	**$ 76,882**	**$ 121,151**
Accumulated depreciation	**10,043**	**5,893**	**51,495**	**67,431**
Net leased property	**$ 24,387**	**$ 3,946**	**$ 25,387**	**$ 53,720**

Obligations under finance leases and operating leases:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥ 4,816**	¥ 53	**$ 51,785**
Due after one year	**4,492**	20	**48,301**
Total	**¥ 9,308**	¥ 73	**$ 100,086**
Operating leases:			
Due within one year	**¥ 1,454**	¥ 1,237	**$ 15,634**
Due after one year	**4,226**	4,336	**45,441**
Total	**¥ 5,680**	¥ 5,573	**$ 61,075**

Sublease obligations included in the above table:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥ 2,624**	¥ 48	**$ 28,215**
Due after one year	**2,105**	19	**22,634**
Total	**¥ 4,729**	¥ 67	**$ 50,849**

Depreciation expense, which was computed by the straight-line method and not reflected in the accompanying consolidated statements of income, was ¥1,380 million ($14,839 thousand) and ¥16 million for the years ended March 31, 2010 and 2009, respectively.

The imputed interest expense portion for the year ended March 31, 2010 was ¥139 million ($1,495 thousand).

The amount of obligations under finance leases for the year ended March 31, 2009 included the imputed interest expense portion.

(As lessor)

As discussed in Note 2(11), the Group accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Expected revenues from such finance leases that existed at the transition date and were accounted for as operating leases at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥ 2,630**	¥ 55	**$ 28,280**
Due after one year	**2,105**	21	**22,634**
Total	**¥ 4,735**	¥ 76	**$ 50,914**
Operating leases:			
Due within one year	**¥ 97**	¥ 1	**$ 1,043**
Due after one year	**180**	0	**1,935**
Total	**¥ 277**	¥ 1	**$ 2,978**

Sublease revenues included in the above table at March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Finance leases:			
Due within one year	**¥ 2,630**	¥ 55	**$ 28,280**
Due after one year	**2,105**	21	**22,634**
Total	**¥ 4,735**	¥ 76	**$ 50,914**

14. Financial Instruments and Related Disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts and currency option contracts. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

Maturities of bank loans and bonds are less than five years after the balance sheet date. Although the long-term portion of bank loans is exposed to market risks from changes in variable interest rates, a part of those risks is mitigated by using derivatives of interest-rate swaps.

Derivatives mainly include forward foreign currency contracts, currency option contracts and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 15 for more detail about derivatives.

(3) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in the early stage. With respect to held-to-maturity financial investments, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with in its internal guidelines. Please see Note 15 for the detail about derivatives.
The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2010.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts and currency option contracts. In addition, when foreign currency trade receivables and payables are expected from a forecasted transaction, forward foreign currency contracts and currency option contracts may be used to hedge foreign exchange risk resulting from the forecasted transaction expected to occur within one year.

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

The executions and administration of derivatives have been approved by those who are granted authority based on the internal guidelines which prescribe the authority and the limit for each transaction.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk with adequate financial planning by each company.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 15 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen		
March 31, 2010	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥ 49,031**	**¥ 49,031**	**—**
Marketable securities	**300**	**300**	**—**
Receivables	**68,928**	**68,869**	**¥ (59)**
Investment securities	**13,705**	**13,710**	**5**
Total	**¥ 131,964**	**¥ 131,910**	**¥ (54)**
Short-term bank loans	**¥ 6,337**	**¥ 6,337**	**—**
Current portion of long-term debt	**6,952**	**6,952**	**—**
Income taxes payable	**4,368**	**4,368**	**—**
Payables	**47,903**	**47,903**	**—**
Long-term debt	**18,185**	**18,511**	**¥ 326**
Total	**¥ 83,745**	**¥ 84,071**	**¥ 326**

	Thousands of U.S. Dollars		
March 31, 2010	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**$ 527,215**	**$ 527,215**	**—**
Marketable securities	**3,226**	**3,226**	**—**
Receivables	**741,161**	**740,527**	**$ (634)**
Investment securities	**147,365**	**147,419**	**54**
Total	**$ 1,418,967**	**$ 1,418,387**	**$ (580)**
Short-term bank loans	**$ 68,140**	**$ 68,140**	**—**
Current portion of long-term debt	**74,752**	**74,752**	**—**
Income taxes payable	**46,968**	**46,968**	**—**
Payables	**515,086**	**515,086**	**—**
Long-term debt	**195,538**	**199,043**	**$ 3,505**
Total	**$ 900,484**	**$ 903,989**	**$ 3,505**

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 3.

Receivables and payables

The fair value of receivables is calculated as the total of the fair value of notes receivable and the fair value of accounts receivable.

The fair value of notes receivable is measured at the amount to be received at maturity, discounted at the Group's assumed corporate discount rate. On the other hand, the fair value of accounts receivable is the book value of accounts receivable minus allowance for doubtful accounts, since accounts receivable are settled in a short term period and doubtful accounts are estimated based on collectability.

The carrying values of payables approximate fair value because of their short maturities.

Short-term bank loans and long- term debt

The fair value of Company's bonds is measured at the quoted market price of the bond market. The fair value of bonds of certain subsidiaries is determined by the cash flows related to the bond at their assumed corporate borrowing rate.

Carrying amounts of bank loans approximate the fair value because their interest rates are adjustable rates, which reflect the market rate within short term, and also the Group's credibility has not changed significantly since the borrowing date.

Carrying amounts of lease obligations approximate fair value, because neither the risk free rate nor the Group's credibility has changed significantly since the date of lease inception.

Income tax payable

The carrying values of income tax payable approximate fair value because of their short maturities.

Derivatives

The information of the fair value for derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying amount	
March 31, 2010	Millions of Yen	Thousands of U.S. Dollars
Equity securities that do not have a quoted market price in an active market	¥ 645	$ 6,935
Investments in limited liability partnerships that do not have a quoted market price in an active market	80	861
Investments in unconsolidated subsidiaries and associated companies	15,838	170,301
Total	¥ 16,563	$ 178,097

(5) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen			
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 49,031	—	—	—
Marketable securities	300	—	—	—
Receivables	68,543	¥ 385	—	—
Investment securities				
Held-to-maturity securities	—	525	—	—
Available-for-sale securities with contractual maturities	16	—	—	—
Total	¥ 117,890	¥ 910	—	—

	Thousands of U.S. Dollars			
March 31, 2010	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 527,215	—	—	—
Marketable securities	3,226	—	—	—
Receivables	737,021	$ 4,140	—	—
Investment securities				
Held-to-maturity securities	—	5,645	—	—
Available-for-sale securities with contractual maturities	172	—	—	—
Total	$ 1,267,634	$ 9,785	—	—

Please see Note 7 for annual maturities of long-term debt.

15. Derivatives

The Group enters into foreign currency forward contracts and currency option contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions with high credit ratings, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

As noted in Note 14, the Group applied ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	(Millions of Yen)			
At March 31, 2010	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling:				
U.S. Dollars	¥ 658	—	¥ 29	¥ 29
Euro	1,426	—	23	23
Pound Sterling	668	—	8	8
Thailand Baht	170	—	(4)	(4)
Yen	23,080	—	475	475
Mexican Peso	508	—	1	1
Korean Won	31	—	(0)	(0)
Indonesia Rupee	58	—	(2)	(2)
Taiwan Dollars	68	—	(0)	(0)
Buying:				
U.S. Dollars	¥ 2,142	—	¥ (14)	¥ (14)
Euro	1,456	—	(5)	(5)
Pound Sterling	1,107	—	7	7
Currency option contracts:				
Selling:				
Call				
Euro	¥ 14,553	¥ 625	¥ 140	¥ 244
(Option fee)	(384)	(15)		
Swiss Franc	1,499	—	51	(34)
(Option fee)	(17)	—		
Buying:				
Call				
Euro	¥ 993	—	¥ 3	¥ (14)
(Option fee)	(17)	—		
Yen	14,553	¥ 625	339	(45)
(Option fee)	(384)	(15)		
Interest rate swaps:	¥ 7,444	¥ 1	¥ (395)	¥ (395)
(fixed rate payment, floating rate receipt)				

	(Thousands of U.S. Dollars)			
At March 31, 2010	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling:				
U.S. Dollars	$ 7,075	—	$ 312	$ 312
Euro	15,333	—	247	247
Pound Sterling	7,183	—	86	86
Thailand Baht	1,823	—	(43)	(43)
Yen	248,172	—	5,108	5,108
Mexican Peso	5,462	—	11	11
Korean Won	333	—	(0)	(0)
Indonesia Rupee	624	—	(22)	(22)
Taiwan Dollars	731	—	(0)	(0)
Buying:				
U.S. Dollars	$ 23,032	—	$ (151)	$ (151)
Euro	15,656	—	(54)	(54)
Pound Sterling	11,903	—	75	75
Currency option contracts:				
Selling:				
Call				
Euro	$ 156,484	$ 6,720	$ 1,505	$ 2,624
(Option fee)	(4,129)	(161)		
Swiss Franc	16,118	—	548	(365)
(Option fee)	(183)	—		
Buying:				
Call				
Euro	$ 10,677	—	$ 32	$ (151)
(Option fee)	(183)	—		
Yen	156,484	$ 6,720	3,645	(441)
(Option fee)	(4,086)	(161)		
Interest rate swaps:	$ 80,043	$ 11	$ (4,247)	$ (4,247)
(fixed rate payment, floating rate receipt)				

Derivative transactions to which hedge accounting is applied at March 31, 2010

	(Millions of Yen)			
At March 31, 2010	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Selling:				
U.S. Dollars	Receivables	¥ **234**	—	¥ **1**
Euro	Receivables	**21,131**	—	**1,681**
Pound Sterling	Receivables	**2,411**	—	**161**
Korean Won	Receivables	**104**	—	**(2)**
Indonesia Rupee	Receivables	**114**	—	**(2)**
Taiwan Dollars	Receivables	**114**	—	**(1)**
Buying:				
Taiwan Dollars	Investment securities	¥ **88**	—	¥ **0**
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Current portion of long-term debt	¥ **5,000**	—	¥ —

	(Thousands of U.S. Dollars)			
At March 31, 2010	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Selling:				
U.S. Dollars	Receivables	$ **2,516**	—	$ **11**
Euro	Receivables	**227,215**	—	**18,075**
Pound Sterling	Receivables	**25,925**	—	**1,731**
Korean Won	Receivables	**1,118**	—	**(22)**
Indonesia Rupee	Receivables	**1,225**	—	**(22)**
Taiwan Dollars	Receivables	**1,226**	—	**(11)**
Buying:				
Taiwan Dollars	Investment securities	$ **946**	—	$ **0**
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Current portion of long-term debt	$ **53,763**	—	$ —

The following is the fair value information for foreign currency forward contracts to which hedge accounting is not applied at March 31, 2009. Foreign currency forward contracts which qualify for hedge accounting are excluded from the information below.

	March 31, 2009		
	Millions of Yen		
	Contract or Notional Amount	Fair Value	Unrealized Gain/(Loss)
Forward exchange contracts:			
Selling:			
U.S. Dollars	¥ 773	¥ 778	¥ (5)
Euro	39,955	33,636	6,319
Pound Sterling	3,778	3,793	(15)
Thailand Baht	69	71	(2)
Yen	10,832	10,898	(66)
Mexican Peso	388	397	(9)
Buying:			
U.S. Dollars	¥ 539	¥ 539	¥ 0
Euro	6,443	6,333	(110)
Pound Sterling	2,554	2,528	(26)
Currency option contracts:			
Selling:			
Call			
Euro	¥ 30,383	¥ 1,458	¥ (524)
(Option fee)	(934)		
Swiss Franc	1,909	13	28
(Option fee)	(41)		
Buying:			
Call			
Euro	¥ 1,272	¥ 45	¥ 4
(Option fee)	(41)		
U.S. Dollars	48	1	(3)
(Option fee)	(4)		
Yen	30,383	678	(256)
(Option fee)	(934)		
Interest rate swaps:	¥ 14,368	¥ (584)	¥ (584)
(fixed rate payment, floating rate receipt)			

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to market risk.

16. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	**¥ 19,629**	**267,652**	**¥ 73.34**	**$ 0.789**
Effect of dilutive securities				
Stock acquisition rights		**228**		
Diluted EPS				
Net income for computation	**¥ 19,629**	**267,880**	**¥ 73.28**	**$ 0.788**

	Millions of Yen	Thousands of Shares	Yen
For the year ended March 31, 2009:			
Basic EPS			
Net income available to common shareholders	¥ 15,262	268,774	¥ 56.79
Effect of dilutive securities			
Stock acquisition rights		113	
Diluted EPS			
Net income for computation	¥ 15,262	268,887	¥ 56.76

17. Contingent Liabilities

At March 31, 2010, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for debt of customers	¥ 1,017	$ 10,935
Trade notes discounted	¥ 326	$ 3,505

18. Segment Information

The Group operates in the following business.

"Printing and Solutions" consists of sales and production of printers, multi-function printers, fax machines, electronic stationeries and typewriters.

"Personal and Home" consists of sales and production of home sewing machines.

"Machinery and Solution" consists of sales and production of industrial sewing machines and machine tools.

"Others" consists of online karaoke, information distribution services for cellular phones, real estate, leasing parts and other areas of business.

Information about business segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2010 and 2009 is as follows:

Notes to Consolidated Financial Statements

Brother Industries, Ltd. and Consolidated Subsidiaries
For the Years ended March 31, 2010 and 2009

(1) Business Segments

Information about business segments for the years ended March 31, 2010 and 2009 is summarized as follows:

(a) Sales, operating expenses and operating income (loss) :

	Millions of Yen					
	2010					
	Printing and Solutions	Personal and Home	Machinery and Solution	Others	Eliminations /Corporate	Consolidated
Sales to customers	**¥ 341,470**	**¥ 27,948**	**¥ 31,791**	**¥ 45,060**	**—**	**¥ 446,269**
Intersegment sales	**—**	**—**	**—**	**7,909**	**¥ (7,909)**	**—**
Total sales	**341,470**	**27,948**	**31,791**	**52,969**	**(7,909)**	**446,269**
Operating expenses	**315,042**	**26,151**	**34,464**	**51,884**	**(7,909)**	**419,632**
Operating income (loss)	**¥ 26,428**	**¥ 1,797**	**¥ (2,673)**	**¥ 1,085**	**—**	**¥ 26,637**

	Millions of Yen					
	2009					
	Printing and Solutions	Personal and Home	Machinery and Solution	Others	Eliminations /Corporate	Consolidated
Sales to customers	¥ 370,685	¥ 30,664	¥ 41,665	¥ 39,191	—	¥ 482,205
Intersegment sales	—	—	—	13,173	¥ (13,173)	—
Total sales	370,685	30,664	41,665	52,364	(13,173)	482,205
Operating expenses	352,536	28,899	42,510	51,532	(13,173)	462,304
Operating income (loss)	¥ 18,149	¥ 1,765	¥ (845)	¥ 832	—	¥ 19,901

	Thousands of U.S. Dollars					
	2010					
	Printing and Solutions	Personal and Home	Machinery and Solution	Others	Eliminations /Corporate	Consolidated
Sales to customers	**$ 3,671,720**	**$ 300,516**	**$ 341,839**	**$ 484,516**	**—**	**$ 4,798,591**
Intersegment sales	**—**	**—**	**—**	**85,043**	**$ (85,043)**	**—**
Total sales	**3,671,720**	**300,516**	**341,839**	**569,559**	**(85,043)**	**4,798,591**
Operating expenses	**3,387,548**	**281,194**	**370,581**	**557,892**	**(85,043)**	**4,512,172**
Operating income (loss)	**$ 284,172**	**$ 19,322**	**$ (28,742)**	**$ 11,667**	**—**	**$ 286,419**

(b) Total assets, depreciation, impairment loss and capital expenditures:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Assets:			
Printing and Solutions	**¥ 211,709**	¥ 214,862	**$ 2,276,441**
Personal and Home	**17,509**	18,071	**188,269**
Machinery and Solution	**38,092**	35,967	**409,591**
Others	**109,429**	67,559	**1,176,656**
Subtotal	**376,739**	336,459	**4,050,957**
Elimination/Corporate	**(10,748)**	1,208	**(115,570)**
Total	**¥ 365,991**	¥ 337,667	**$ 3,935,387**
Depreciation:			
Printing and Solutions	**¥ 15,528**	¥ 14,127	**$ 166,968**
Personal and Home	**680**	881	**7,312**
Machinery and Solution	**1,293**	1,068	**13,903**
Others	**3,527**	7,018	**37,925**
Total	**¥ 21,028**	¥ 23,094	**$ 226,108**
Impairment:			
Printing and Solutions	**¥ 3**	¥ 41	**$ 32**
Personal and Home	**0**	—	**0**
Machinery and Solution	**0**	14	**0**
Others	**312**	2,480	**3,355**
Total	**¥ 315**	¥ 2,535	**$ 3,387**
Capital expenditures:			
Printing and Solutions	**¥ 8,641**	¥ 12,630	**$ 92,914**
Personal and Home	**532**	1,003	**5,720**
Machinery and Solution	**534**	2,485	**5,742**
Others	**3,299**	1,739	**35,473**
Subtotal	**13,006**	17,857	**139,849**
Elimination/Corporate	**4,476**	9,312	**48,129**
Total	**¥ 17,482**	¥ 27,169	**$ 187,978**

(Additional information)

Change in business segment classification for the depreciation of assets

As a result of the integration of Printing and Solutions and the headquarter function, the Group changed the business segment classification for the depreciation of assets for the year ended March 31, 2010. The depreciation of Printing and Solutions and Others for the year ended March 31, 2010 would be ¥11,656 million ($125,333 thousand) and ¥7,399 million ($79,559 thousand), respectively, if classified in the same manner adopted for the year ended March 31, 2009.

(2) Geographical Segments

Information about geographical segments for the years ended March 31, 2010 and 2009 is summarized as follows:

(a) Sales, operating expenses and operating income:

	Millions of Yen					
	2010					
	Japan	Americas	Europe	Asia and Others	Eliminations /Corporate	Consolidated
Sales to customers	**¥ 103,462**	**¥ 143,267**	**¥ 143,295**	**¥ 56,245**	**—**	**¥ 446,269**
Interarea sales	**217,308**	**1,564**	**2,575**	**150,688**	**¥ (372,135)**	**—**
Total sales	**320,770**	**144,831**	**145,870**	**206,933**	**(372,135)**	**446,269**
Operating expenses	**316,561**	**142,214**	**134,327**	**200,102**	**(373,572)**	**419,632**
Operating income	**¥ 4,209**	**¥ 2,617**	**¥ 11,543**	**¥ 6,831**	**¥ 1,437**	**¥ 26,637**

	Millions of Yen					
	2009					
	Japan	Americas	Europe	Asia and Others	Eliminations /Corporate	Consolidated
Sales to customers	¥ 105,191	¥ 158,900	¥ 166,008	¥ 52,106	—	¥ 482,205
Interarea sales	255,487	1,463	3,504	181,246	¥ (441,700)	—
Total sales	360,678	160,363	169,512	233,352	(441,700)	482,205
Operating expenses	356,980	158,312	161,553	231,046	(445,587)	462,304
Operating income	¥ 3,698	¥ 2,051	¥ 7,959	¥ 2,306	¥ 3,887	¥ 19,901

	Thousands of U.S. Dollars					
	2010					
	Japan	Americas	Europe	Asia and Others	Eliminations /Corporate	Consolidated
Sales to customers	**$ 1,112,495**	**$ 1,540,505**	**$ 1,540,806**	**$ 604,785**	**—**	**$ 4,798,591**
Interarea sales	**2,336,645**	**16,817**	**27,688**	**1,620,301**	**$ (4,001,451)**	**—**
Total sales	**3,449,140**	**1,557,322**	**1,568,494**	**2,225,086**	**(4,001,451)**	**4,798,591**
Operating expenses	**3,403,882**	**1,529,183**	**1,444,376**	**2,151,634**	**(4,016,903)**	**4,512,172**
Operating income	**$ 45,258**	**$ 28,139**	**$ 124,118**	**$ 73,452**	**$ 15,452**	**$ 286,419**

(b) Assets:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Japan	**¥ 152,170**	¥ 144,771	**$ 1,636,237**
Americas	**56,665**	59,251	**609,301**
Europe	**84,107**	92,381	**904,376**
Asia and Others	**81,370**	68,673	**874,946**
Subtotal	**374,312**	365,076	**4,024,860**
Corporate/Elimination	**(8,321)**	(27,409)	**(89,473)**
Total	**¥ 365,991**	¥ 337,667	**$ 3,935,387**

(3) Sales to Foreign Customers

The Group's sales to foreign customers consisted of export sales by the Company and its domestic consolidated subsidiaries and sales by overseas consolidated subsidiaries. After offsetting intercompany transactions, total sales to foreign customers amounted to ¥357,975 million ($3,849,194 thousand) and ¥400,556 million for the years ended March 31, 2010 and 2009, respectively.

The following is a breakdown of sales to foreign customers by region for the years ended March 31, 2010 and 2009:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Americas	**¥ 143,140**	¥ 160,244	**$ 1,539,140**
Europe	**144,792**	167,706	**1,556,903**
Asia and Others	**70,043**	72,606	**753,151**
Total	**¥ 357,975**	¥ 400,556	**$ 3,849,194**

19. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2010 was approved at the Company's board of directors' meeting held on May 14, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends of ¥10 ($0.108) per share	¥ 2,687	$ 28,892