

# Notes to Consolidated Financial Statements

Brother Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

## 1. Basis of Presentation of 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 accordance 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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥94 to \$1, the approximate rate of exchange at March 31, 2013. 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 (88 in 2012) subsidiaries at March 31, 2013. The accompanying consolidated financial statements as of March 31, 2013, include the accounts of the Company and its significant 60 (55 in 2012) subsidiaries (together, the "Group"). The remaining 29 (33 in 2012) 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, 2013, are listed as follows:

	Equity ownership percentage at March 31, 2013		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.	99.9	—	¥ 7,122,649
Standard Corp.	—	100.0 %	¥ 90,000
Brother Sales, Ltd.	100.0	—	¥ 3,500,000
Bellezza Club Japan Inc.	100.0	—	¥ 90,250
Nissei Corporation	60.2	—	¥ 3,475,000
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\$ 125,926
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	EURO 9,000
Brother France SAS	—	100.0	EURO 12,000
Brother International GmbH (Germany)	—	100.0	EURO 25,000
Brother Italia S.p.A.	—	100.0	EURO 3,700
Brother Nordic A/S	—	100.0	DKr. 42,000
Brother Industries (U.K.) Ltd.	100.0	—	Stg.£ 9,700
Brother Finance (U.K.) Plc	100.0	—	Stg.£ 2,500
Brother Industries (Slovakia) s.r.o.	—	100.0	EURO 5,817
Taiwan Brother Industries, Ltd.	100.0	—	NT\$ 242,000
Zhuhai Brother Industries, Co., Ltd.	100.0	—	US\$ 7,000
Brother Corporation (Asia) Ltd.	100.0	—	US\$ 11,630
Brother Industries Technology (Malaysia) Sdn. Bhd.	100.0	—	MR 21,000
Brother International (Aust.) Pty. Ltd.	100.0	—	A\$ 2,500
Brother International Singapore Pte. Ltd.	—	100.0	US\$ 9,527
Brother Machinery Xian Co., Ltd.	100.0	—	US\$ 43,000
Brother Industries (Shenzhen), Ltd.	—	100.0	US\$ 27,000
Brother (China) Ltd.	100.0	—	US\$ 20,500
Brother Industries (Vietnam) Ltd.	100.0	—	US\$ 80,000
Brother Technology (Shenzhen) Ltd.	—	100.0	US\$ 15,000
Brother Machinery Shanghai Ltd.	—	100.0	CNY 50,000
Brother Industries Saigon, Ltd.	100.0	—	US\$ 28,000

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 estimated useful life reflecting the pattern of the future economic benefits, 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.

The fiscal year end of certain foreign consolidated subsidiaries is December 31. These subsidiaries are consolidated using their financial statements as of the parent fiscal year end, which are prepared solely for consolidation purposes.

#### **(2) Investments in Unconsolidated Subsidiaries and Associated Companies**

Investments in five associated companies (six in 2012 and two unconsolidated subsidiaries in 2012) are accounted for by the equity method.

Brother Logitec, Ltd. and Mie Brother Precision Industries, Ltd., which were unconsolidated subsidiaries and accounted for by the equity method until the fiscal year ended March 31, 2012, are included in consolidated subsidiaries due to an increase of materiality from the fiscal year ended March 31, 2013. Nissei Corporation, which was an associated company and accounted for by the equity method, is also included in consolidated subsidiaries through the acquisition of additional shares in January 2013.

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 intercompany 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." PITF No. 18 prescribes that 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

#### **(4) Unification of Accounting Policies Applied to Associated Companies for the Equity Method**

In March 2008, the ASBJ issued ASBJ Statement No. 16, "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 such 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 of America 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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

#### **(5) Business Combinations**

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

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 revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required R&D costs to be charged to income as incurred. Under the revised standard, in-process R&D costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. This revised standard was applicable to business combinations undertaken on or after April 1, 2010.

The Company acquired the shares of Nissei Corporation through a tender offer on January 30, 2013, and accounted for it by the purchase method of accounting. The related negative goodwill was immediately recognized in the consolidated statement of income as gain on negative goodwill (see Note 4).

#### **(6) 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 and investment trust, all of which mature or become due within three months of the date of acquisition.

#### **(7) Inventories**

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

#### **(8) Marketable and Investment Securities**

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

i) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) 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 in a separate component of equity.

Nonmarketable 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.

#### **(9) Property, Plant and Equipment**

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

Effective April 1, 2012, as a result of the revision of Japanese corporate tax law, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, to the method stipulated under the revised corporate tax law.

As a result, for the fiscal year ended March 31, 2013, consolidated depreciation decreased by ¥233 million (\$2,479 thousand), and both of operating income and income before income taxes and minority interests increased by ¥231 million (\$2,457 thousand).

The range of useful lives was principally from three to 50 years for buildings and structures, from four to 12 years for machinery and vehicles and from two 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.

### **(10) Long-lived Assets**

The Group reviews its 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 is 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.

### **(11) Other Investments and Assets**

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

### **(12) Allowance for Doubtful Accounts**

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

### **(13) Bonuses to Directors and Audit & Supervisory Board Members**

Bonuses to directors and Audit & Supervisory Board Members are accrued at the end of the year to which such bonuses are attributable.

### **(14) 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 ¥3,902 million (\$41,511 thousand) and ¥4,277 million at March 31, 2013 and 2012, respectively.

### **(15) Liability for Retirement Benefits**

#### **(i) Employees' Retirement Benefits**

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

The Company and certain consolidated subsidiaries account for the liability for retirement benefits based on projected benefit obligations and plan assets at the consolidated 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 consolidated balance sheet date.

The Company contributed certain available-for-sale securities to the employee retirement benefit trust for the Company's contributory pension plans. The securities held in this trust are qualified as plan assets. However, because it was expected that the fund status would remain in surplus, the Company cancelled a certain portion of the asset and transferred it in February 2006.

(ii) **Retirement Benefits for Directors and Audit & Supervisory Board members**

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

**(16) Asset Retirement Obligations**

In March 2008, the ASBJ published 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 the 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**(17) 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 measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheets, the 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.

**(18) R&D Costs**

R&D costs are charged to income as incurred.

**(19) 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. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

**(Lessee)**

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized by recognizing 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 were deemed to transfer ownership of the leased property to the lessee were 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 are deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that are not deemed 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 does not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

### **(20) Income Taxes**

The provision for current income taxes is computed based on the pretax income included in the consolidated statement 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.

### **(21) 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 consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

### **(22) 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" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

### **(23) Derivative and Hedging Activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rate. Foreign exchange forward contracts, interest rate swap 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 such 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 forward 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 transactions are completed.

### **(24) 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 statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

**(25) Accounting Changes and Error Corrections**

In December 2009, the 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—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.

**(26) Consolidated corporate tax system**

The Company applied a consolidated corporate tax system from the year ended March 31, 2013.

**(27) New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

**(a) Treatment in the balance sheet**

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

**(b) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases**

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (b) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company and domestic subsidiaries expect to apply the revised accounting standard for (a) above from the end of the annual period beginning on April 1, 2013, and for (b) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.



**3. Changes in Presentation Method****(Consolidated statement of income)**

Prior to April 1, 2012, the "Gain on valuation of derivatives" and "Gain on sales of investment securities" were included in the "Other - net" among the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income. Since the amounts increased significantly during this fiscal year ended March 31, 2013, such amounts are disclosed separately in the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income for the year ended March 31, 2013. The amounts included in the "OTHER INCOME (EXPENSES)" for the year ended March 31, 2012, were ¥137 million and ¥24 million, respectively.

**(Consolidated statement of cash flows)**

Prior to April 1, 2012, the "Gain on valuation of derivatives" and "Gain on sales of investment securities" were included in the "Other - net" among the "OPERATING ACTIVITIES" section of the consolidated statement of cash flows. Since the amounts increased significantly during this fiscal year ended March 31, 2013, such amounts are disclosed separately in the "OPERATING ACTIVITIES" section of the consolidated statement of cash flows for the year ended March 31, 2013. The amounts included in the "Other - net" for the year ended March 31, 2012, were ¥137 million (cash outflow) and ¥7 million (cash outflow), respectively.

**4. Business Combination**

On January 30, 2013, the Company acquired the additional shares of Nissei Corporation through a tender offer. Nissei Corporation is in the industrial part business mainly focusing on production and sales of reducers and gears. This acquisition was made to advance the strategy of expanding the industrial part business outside Japan through its global network and to strengthen the research and development of new business through the Company and Nissei Corporation's technology and knowledge. The results of operations for Nissei Corporation Business are included in the Company's consolidated statement of income from the deemed acquisition date, January 1, 2013.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥17,712 million (\$188,426 thousand) in cash through a tender offer. The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Gain on negative goodwill recognized in connection with the acquisition totaled ¥7,194 million (\$76,532 thousand).

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 15,686	\$ 166,872
Long-term assets	28,800	306,383
Total assets acquired	44,486	473,255
Current liabilities	1,760	18,724
Long-term liabilities	1,326	14,106
Total liabilities assumed	3,086	32,830
Net assets acquired	¥ 41,400	\$ 440,425

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If this business combination had been completed as of April 1, 2012, the beginning of the current fiscal year, the unaudited effect on the consolidated statement of income for the year ended March 31, 2013, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥ 10,000	\$ 106,383
Operating income	909	9,670
Income before income taxes and minority interests	857	9,117
Net income	259	2,755

## 5. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Current:			
Government and corporate bonds	¥ 5,318	¥ 475	\$ 56,574
Total	¥ 5,318	¥ 475	\$ 56,574
Non-current:			
Marketable equity securities	¥ 12,575	¥ 12,207	\$ 133,777
Government and corporate bonds	9,918	50	105,511
Other	1,239	153	13,180
Total	¥ 23,732	¥ 12,410	\$ 252,468

The costs and aggregate fair values of marketable and investment securities at March 31, 2013 and 2012, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2013</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 9,361	¥ 3,453	¥ (1,161)	¥ 11,653
Government and corporate bonds	10,005	89	(17)	10,077
Other	760	166	—	926
Held-to-maturity	5,159	131	(5)	5,285
<b>March 31, 2012</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,356	¥ 3,895	¥ (774)	¥ 11,477
Other	14	—	—	14
Held-to-maturity	525	2	—	527

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	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2013</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 99,585	\$ 36,734	\$ (12,351)	\$ 123,968
Government and corporate bonds	106,436	947	(181)	107,202
Other	8,085	1,766	—	9,851
Held-to-maturity	54,883	1,393	(53)	56,223

The information of the available-for-sale securities which were sold during the years ended March 31, 2013 and 2012, was as follows:

<b>March 31, 2013</b>	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 2,660	¥ 1,724	¥ (0)

<b>March 31, 2012</b>	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 130	¥ 21	¥ (17)
Other	127	3	—

<b>March 31, 2013</b>	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$ 28,298	\$ 18,340	\$ (0)

## 6. Inventories

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Merchandise and finished products	¥ 57,482	¥ 51,960	\$ 611,510
Work in process	10,117	7,937	107,628
Raw materials and supplies	20,080	16,587	213,617
Total	¥ 87,679	¥ 76,484	\$ 932,755

**7. Long-lived Assets**

The Group reviewed its long-lived assets for impairment. For the years ended March 31, 2013 and 2012, the Company and consolidated subsidiaries recorded impairment loss of ¥269 million (\$2,862 thousand) and ¥609 million, respectively, as other expense, for business assets, idle assets and rental assets. The carrying amounts of these assets were written down to the recoverable amount. The recoverable amount of business assets was measured at the value in use or the net selling price at disposition, while idle assets and rental assets were measured at the net selling price at disposition. The discount rates used for computation of the present value of future cash flows were 12.6% and 8.1% for the years ended March 31, 2013 and 2012, respectively.

**8. Investment Property**

In November 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."

The Group owns certain rental properties such as office buildings and land in Nagoya and other areas. The net of rental income and operating expenses for those rental properties was ¥1,153 million (\$12,266 thousand) and ¥1,053 million for the years ended March 31, 2013 and 2012, respectively.

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, 2012	Increase	March 31, 2013	March 31, 2013
¥ 7,862	¥ 1,509	¥ 9,371	¥ 18,376

  

Millions of Yen			
Carrying amount			Fair value
April 1, 2011	Decrease	March 31, 2012	March 31, 2012
¥ 8,797	¥ (935)	¥ 7,862	¥ 15,515

  

Thousands of U.S. Dollars			
Carrying amount			Fair value
April 1, 2012	Increase	March 31, 2013	March 31, 2013
\$ 83,638	\$ 16,053	\$ 99,691	\$ 195,489

Notes: 1) The carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.  
2) The fair value of properties as of March 31, 2013 is mainly measured by the Group in accordance with its Real-Estate Appraisal Standard.

**9. Short-term Borrowings and Long-term Debt**

Short-term borrowings at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Loans principally from banks with weighted-average interest rate of 0.74% (0.63% in 2012)	¥ 6,525	¥ 4,467	\$ 69,415

Long-term debt at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Fourth unsecured 1.68% domestic bonds, due 2012 *	—	¥ 15,000	—
Unsecured loans from a bank, due 2019 with interest rates ranging from 0.39 to 1.73% (1.73 and 1.61% in 2012)	¥ 12,700	500	\$ 135,106
Lease obligations	3,450	3,174	36,702
Total	16,150	18,674	171,808
Less current portion	(909)	(16,363)	(9,670)
Long-term debt, less current portion	¥ 15,241	¥ 2,311	\$ 162,138

\*Issued by the Company

Annual maturities of long-term debt at March 31, 2013 were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 909	\$ 9,670
2015	1,323	14,074
2016	12,618	134,234
2017	413	4,394
2018 and thereafter	887	9,436
Total	¥ 16,150	\$ 171,808

The carrying amounts of assets pledged as collateral for other long-term liabilities of ¥52 million (\$553 thousand) at March 31, 2013, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings and structures, net of accumulated depreciation	¥ 202	\$ 2,148
Land	123	1,309
Total	¥ 325	\$ 3,457

**10. Retirement and Pension Plans**

The liability for retirement benefits in the accompanying consolidated balance sheet consisted of retirement allowances for directors and Audit & Supervisory Board members of ¥407 million (\$4,330 thousand) and ¥105 million at March 31, 2013 and 2012, respectively, and employees' retirement benefits of ¥8,672 million (\$92,255 thousand) and ¥6,981 million at March 31, 2013 and 2012, respectively.

**Retirement Allowances for Directors and Audit & Supervisory Board members**

Retirement allowances for directors and Audit & Supervisory Board members are paid subject to approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act").

Certain domestic consolidated subsidiaries recorded liabilities for their unfunded retirement allowance plan covering all of their directors and Audit & Supervisory Board members.

**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 asset and liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ (61,717)	¥ (51,533)	\$ (656,564)
Fair value of plan assets	52,062	42,878	553,851
Unrecognized actuarial loss	11,871	11,875	126,288
Unrecognized prior service (cost) benefit	(38)	1,570	(404)
Net assets	2,178	4,790	23,171
Prepaid pension cost	10,850	11,771	115,426
Liability for employees' retirement benefits	¥ (8,672)	¥ (6,981)	\$ (92,255)

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 1,813	¥ 1,733	\$ 19,287
Interest cost	1,470	1,463	15,638
Expected return on plan assets	(1,517)	(1,531)	(16,138)
Recognized actuarial loss	1,814	1,618	19,298
Amortization of prior service benefit	(258)	(404)	(2,745)
Additional retirement payments and others	177	213	1,883
Contribution to defined contribution pension plans	1,725	1,569	18,351
Net periodic retirement benefits cost	¥ 5,224	¥ 4,661	\$ 55,574

Assumptions used for the years ended March 31, 2013 and 2012, were as follows:

	2013	2012
Periodic recognition of projected benefit obligation	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>Principally from 1.5% to 2.0%</b>	Principally from 1.5% to 2.0%
Expected rate of return on plan assets	<b>Principally 3.0%</b>	Principally 3.0%
Recognition period of actuarial gain / loss	<b>Principally from seven years to 17 years</b>	Principally from seven years to 17 years
Amortization period of prior service benefit / cost	<b>Principally from seven years to 16 years</b>	Principally from seven years to 16 years

## 11. Asset Retirement Obligations

### (a) Outline of Asset Retirement Obligations

The Group's asset retirement obligations are primarily the result of legal obligations for the removal of leasehold improvements, the restoration of premises to the original condition, and the removal of liquid crystal in the karaoke machines upon the termination of the lease of the karaoke house.

### (b) Method applied to computation of the asset retirement obligations

The estimated periods until the asset retirement obligations are settled are one to 33 years and one to 34 years for the years ended March 31, 2013 and 2012, respectively, from the acquisition. The discounted rates used for computation of the asset retirement obligations are 0.10% to 3.48% and 0.13% to 3.48% for the years ended March 31, 2013 and 2012, respectively.

The changes in asset retirement obligations for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Balance at beginning of year	¥ 973	¥ 1,022	\$ 10,351
Additional provisions associated with purchases of property, plant and equipment	127	78	1,351
Reconciliation associated with passage of time	14	15	149
Reduction associated with settlement of asset retirement obligations	(81)	(121)	(862)
Other	6	(21)	64
Balance at end of year	¥ 1,039	¥ 973	\$ 11,053

Asset retirement obligations above were included in both of the "Other current liabilities" among the "CURRENT LIABILITIES" section and the "Other long-term liabilities" among the "LONG-TERM LIABILITIES" section in the accompanying consolidated balance sheet.

## 12. Equity

Japanese companies have been subject to 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 a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, 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 (noncash 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 net assets 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 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 are 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.

**13. Stock Options**

The stock options outstanding as of March 31, 2013, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2007 Stock Option	Six directors	46,000 shares	March 19, 2007	¥ 1 (\$0.01)	30 years starting on the following day of stock option grant date
2008 Stock Option	Six directors	65,100 shares	March 24, 2008	¥ 1 (\$0.01)	Same as above
2009 Stock Option	Five directors	114,500 shares	March 23, 2009	¥ 1 (\$0.01)	Same as above
2010 Stock Option	Four directors 14 executive officers	51,900 shares 49,600 shares	March 23, 2010	¥ 1 (\$0.01)	Same as above
2011 Stock Option	Four directors 13 executive officers	43,200 shares 40,300 shares	March 23, 2011	¥ 1 (\$0.01)	Same as above
2012 Stock Option	Three directors 16 executive officers	44,600 shares 61,800 shares	March 23, 2012	¥ 1 (\$0.01)	Same as above
2013 Stock Option	Two directors 16 executive officers	36,600 shares 69,500 shares	March 21, 2013	¥ 1 (\$0.01)	Same as above



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The stock option activity was as follows:

	2013 Stock Option	2012 Stock Option	2011 Stock Option	2010 Stock Option	2009 Stock Option	2008 Stock Option	2007 Stock Option
	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)
For the year ended March 31, 2012							
Non-vested							
April 1, 2011 – Outstanding	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—
Canceled	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—
March 31, 2012 – Outstanding	—	—	—	—	—	—	—
Vested							
April 1, 2011 - Outstanding	—	—	83,500	98,300	114,500	51,600	32,000
Vested	—	106,400	—	—	—	—	—
Exercised	—	—	—	—	25,800	—	2,000
Canceled	—	—	—	—	—	—	—
March 31, 2012 – Outstanding	—	106,400	83,500	98,300	88,700	51,600	30,000
For the year ended March 31, 2013							
Non-vested							
April 1, 2012 – Outstanding	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—
Canceled	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—
March 31, 2013 – Outstanding	—	—	—	—	—	—	—
Vested							
April 1, 2012 - Outstanding	—	106,400	83,500	98,300	88,700	51,600	30,000
Vested	106,100	—	—	—	—	—	—
Exercised	—	—	4,000	4,800	2,400	17,600	18,000
Canceled	—	—	—	—	—	—	—
March 31, 2013 – Outstanding	106,100	106,400	79,500	93,500	86,300	34,000	12,000
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
	(\$ 0.01)	(\$ 0.01)	(\$ 0.01)	(\$ 0.01)	(\$ 0.01)	(\$ 0.01)	(\$ 0.01)
Average stock price at exercise	—	—	¥ 715	¥ 715	¥ 1,007	¥ 907	¥ 823
	(—)	(—)	(\$ 7.61)	(\$ 7.61)	(\$ 10.71)	(\$ 9.65)	(\$ 8.76)
Fair value price at grant date	¥ 850	¥ 929	¥ 1,018	¥ 899	¥ 642	¥ 915	¥ 1,350
(directors)	(\$ 9.04)	(\$ 9.88)	(\$ 10.83)	(\$ 9.56)	(\$ 6.83)	(\$ 9.73)	(\$ 14.36)
Fair value price at grant date	¥ 880	¥ 957	¥ 1,034	¥ 912	—	—	—
(executive officers)	(\$ 9.36)	(\$ 10.18)	(\$ 11.00)	(\$ 9.70)	(—)	(—)	(—)

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The assumptions used to measure fair value of 2013 Stock Option (directors)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	39.30%
Estimated remaining outstanding period:	11 years
Estimated dividend rate:	1.65%
Risk free interest rate:	0.68%

  

The assumptions used to measure fair value of 2013 Stock Option (executive officers)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.29%
Estimated remaining outstanding period:	8 years
Estimated dividend rate:	1.83%
Risk free interest rate:	0.39%

## 14. 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 rates of approximately 38% for the year ended March 31, 2013, and 40% for the year ended March 31, 2012.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred Tax Assets:			
Inventories	¥ 9,563	¥ 7,844	\$ 101,734
Accrued bonuses	2,227	2,301	23,691
Accrued expenses	1,880	1,498	20,000
Allowance for doubtful accounts	6,516	6,755	69,319
Warranty reserve	807	895	8,585
Employees' retirement benefits	1,235	942	13,138
Write-down of investment securities	4,171	3,039	44,372
Depreciation	2,991	2,862	31,819
Tax loss carryforwards	13,161	13,945	140,011
Other	4,925	4,836	52,394
Less valuation allowance	(26,350)	(24,148)	(280,319)
Total deferred tax assets	¥ 21,126	¥ 20,769	\$ 224,744
Deferred Tax Liabilities:			
Securities withdrawn from retirement benefit trust	¥ (2,845)	¥ (2,845)	\$ (30,266)
Prepaid pension cost	(3,852)	(4,215)	(40,979)
Differences between book and tax bases of property, plant and equipment	(1,750)	(1,909)	(18,617)
Undistributed earnings of foreign subsidiaries	(4,308)	(3,964)	(45,830)
Unrealized gain on available-for-sale securities	(1,517)	(758)	(16,138)
Other	(1,331)	(851)	(14,159)
Total deferred tax liabilities	¥ (15,603)	¥ (14,542)	\$ (165,989)
Net deferred tax assets	¥ 5,523	¥ 6,227	\$ 58,755

Brother Industries, Ltd. and Consolidated Subsidiaries  
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A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2012, was as follows:

	2012
Normal effective statutory tax rate	40.50%
Expenses not deductible for income tax purposes	2.56
Revenues not recognized for income tax purposes	(0.45)
Lower income tax rates applicable to income in certain foreign countries	(8.80)
Tax credit for R&D expenses	(1.26)
Tax sparing credit	(0.49)
Net change in valuation allowance	8.10
Undistributed earnings of foreign subsidiaries	2.30
Other – net	0.29
Actual effective tax rate	42.75%

Since the difference between the normal effective statutory tax rate and the actual effective tax rate was not significant, a reconciliation was not presented for the year ended March 31, 2013.

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35% afterwards.

## 15. R&D Costs

R&D costs charged to income were ¥37,514 million (\$399,085 thousand) and ¥39,232 million for the years ended March 31, 2013 and 2012, respectively.

## 16. Leases

(As lessee)

The minimum rental commitments under noncancellable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Operating leases:			
Due within one year	¥ 1,597	¥ 1,211	\$ 16,989
Due after one year	8,453	2,510	89,926
Total	¥ 10,050	¥ 3,721	\$ 106,915

**(As lessor)**

Expected revenues under noncancellable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Operating leases:			
Due within one year	¥ 8	¥ 8	\$ 85
Due after one year	42	30	447
Total	¥ 50	¥ 38	\$ 532

## 17. Financial Instruments and Related Disclosures

### (1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt including bank loans, 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 the Group's 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.

Bank loans are mainly used to fund ongoing operations. The long-term portion of bank loans is borrowed with fixed interest rates. Long-term bank loans were mainly used to fund the acquisition of shares of Nissei Corporation.

Derivatives mainly include forward foreign currency contracts and currency option contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, respectively. Please see Note 18 for more detail about derivatives.

### (3) Risk management for financial instruments

#### *Credit risk management*

Credit risk is the risk of economic loss arising from 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 at an early stage. With respect to held-to-maturity financial investments, the Group manages its exposure to credit risk by limiting investment to high credit rated bonds in accordance with its internal guidelines.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2013.

**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 of trade receivables is hedged principally by forward foreign currency contracts and currency option contracts. In addition, when foreign currency trade receivables and payables are expected to arise from forecasted transactions, forward foreign currency contracts and currency option contracts may be used to hedge foreign exchange risk resulting from forecasted transactions expected to occur within one year.

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 their 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 a quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 18 for the detail of fair value for derivatives.

## (a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
<b>March 31, 2013</b>			
Cash and cash equivalents	¥ 55,060	¥ 55,060	—
Marketable securities	5,318	5,319	¥ 1
Receivables	78,864	78,864	—
Investment securities	22,496	22,621	125
Total	¥ 161,738	¥ 161,864	¥ 126
Short-term borrowings	¥ 6,525	¥ 6,525	—
Current portion of long-term debt	909	909	—
Payables	45,039	45,039	—
Income taxes payable	2,998	2,998	—
Long-term debt	15,241	15,253	¥ (12)
Total	¥ 70,712	¥ 70,724	¥ (12)

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	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
<b>March 31, 2012</b>			
Cash and cash equivalents	¥ 58,732	¥ 58,732	—
Marketable securities	475	476	¥ 1
Receivables	64,186	64,186	—
Investment securities	11,541	11,542	1
Total	¥ 134,934	¥ 134,936	¥ 2
<hr/>			
Short-term borrowings	¥ 4,467	¥ 4,467	—
Current portion of long-term debt	16,363	16,435	¥ (72)
Payables	49,394	49,394	—
Income taxes payable	2,592	2,592	—
Long-term debt	2,311	2,315	(4)
Total	¥ 75,127	¥ 75,203	¥ (76)
<hr/>			
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
<b>March 31, 2013</b>			
Cash and cash equivalents	\$ 585,745	\$ 585,745	—
Marketable securities	56,574	56,585	\$ 11
Receivables	838,979	838,979	—
Investment securities	239,319	240,648	1,329
Total	\$ 1,720,617	\$ 1,721,957	\$ 1,340
<hr/>			
Short-term borrowings	\$ 69,415	\$ 69,415	—
Current portion of long-term debt	9,670	9,670	—
Payables	479,138	479,138	—
Income taxes payable	31,894	31,894	—
Long-term debt	162,138	162,266	\$ (128)
Total	\$ 752,255	\$ 752,383	\$ (128)

### 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 carrying values of investment trusts approximate fair value because of their short maturities.

The fair value information for the marketable and investment securities by classification is included in Note 5.

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Receivables and payables

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

Short-term borrowings and long-term debt

The carrying values of short-term borrowings approximate fair value because of their short maturities.

The fair values of long-term bank loans are determined by discounting the total balance of principal and interest at a rate which reflects the remaining term of the loan and the Group's credit risk.

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

Income taxes payable

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

Derivatives

The information of the fair value for derivatives is included in Note 18.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Equity securities that do not have a quoted market price in an active market	¥ 922	¥ 730	\$ 9,809
Investments in limited liability partnerships that do not have a quoted market price in an active market	313	139	3,329
Investments in and advances to unconsolidated subsidiaries and associated companies	17,767	20,148	189,011
Total	¥ 19,002	¥ 21,017	\$ 202,149

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

March 31, 2013	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 55,060	—	—	—
Marketable securities	5,318	—	—	—
Receivables	78,864	—	—	—
Investment securities:				
Held-to-maturity securities	—	¥ 5,114	¥ 3,589	¥ 1,215
Total	¥ 139,242	¥ 5,114	¥ 3,589	¥ 1,215

Brother Industries, Ltd. and Consolidated Subsidiaries  
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March 31, 2013	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	\$ 585,745	—	—	—
Marketable securities	56,574	—	—	—
Receivables	838,979	—	—	—
Investment securities:				
Held-to-maturity securities	—	\$ 54,404	\$ 38,181	\$ 12,926
<b>Total</b>	<b>\$ 1,481,298</b>	<b>\$ 54,404</b>	<b>\$ 38,181</b>	<b>\$ 12,926</b>

Please see Note 9 for annual maturities of long-term debt.

## 18. 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 to hedge 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.

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.



**Derivative transactions to which hedge accounting is not applied at March 31, 2013 and 2012**

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
<b>At March 31, 2013</b>				
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
U.S. Dollars	¥ 1,770	—	¥ (2)	¥ (2)
Euro	9,263	—	(258)	(258)
Pound Sterling	311	—	(17)	(17)
Thailand Baht	348	—	(5)	(5)
Yen	36,398	—	(622)	(622)
Mexican Peso	319	—	(16)	(16)
Korean Won	231	—	(4)	(4)
Indonesia Rupiah	205	—	(0)	(0)
Taiwan Dollars	146	—	(1)	(1)
India Rupee	282	—	(1)	(1)
Philippine Peso	407	—	(1)	(1)
<b>Buying:</b>				
U.S. Dollars	¥ 1,912	—	¥ 2	¥ 2
Euro	85	—	(0)	(0)
<b>Currency option contracts:</b>				
<b>Selling:</b>				
Call				
Euro	¥ 53,616	—	¥ 4,883	¥ (4,058)
(Option fee)	(825)	—		
Pound Sterling	6,648	—	415	(290)
(Option fee)	(124)	—		
Swiss Franc	628	—	4	1
(Option fee)	(5)	—		
<b>Buying:</b>				
Call				
Euro	¥ 454	—	¥ 3	¥ (2)
(Option fee)	(5)	—		
Yen	40,045	—	335	(527)
(Option fee)	(862)	—		
<b>Interest rate swaps:</b>	¥ 250	¥ 250	¥ (5)	¥ (5)
(fixed rate payment, floating rate receipt)				

Brother Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
<b>At March 31, 2012</b>				
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
U.S. Dollars	¥ 1,761	—	¥ 4	¥ 4
Euro	3,009	—	(44)	(44)
Pound Sterling	311	—	(17)	(17)
Thailand Baht	329	—	1	1
Yen	20,742	—	(66)	(66)
Mexican Peso	685	—	(30)	(30)
Korean Won	160	—	(1)	(1)
Indonesia Rupiah	250	—	(5)	(5)
Taiwan Dollars	71	—	0	0
India Rupee	132	—	(1)	(1)
Philippine Peso	275	—	(1)	(1)
<b>Buying:</b>				
U.S. Dollars	¥ 1,856	—	¥ 24	¥ 24
Pound Sterling	22	—	(0)	(0)
<b>Currency option contracts:</b>				
<b>Selling:</b>				
Call				
Euro	¥ 55,587	¥ 3,382	¥ 1,334	¥ (432)
(Option fee)	(902)	(70)		
Pound Sterling	4,807	223	177	(122)
(Option fee)	(55)	(4)		
Swiss Franc	316	—	2	2
(Option fee)	(4)	—		
<b>Buying:</b>				
Call				
Euro	¥ 212	—	¥ 1	¥ (3)
(Option fee)	(4)	—		
Yen	38,921	¥ 3,417	1,184	218
(Option fee)	(966)	(74)		
<b>Interest rate swaps:</b>	¥ 1,250	¥ 250	¥ (16)	¥ (16)
(fixed rate payment, floating rate receipt)				

Brother Industries, Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2013

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
<b>At March 31, 2013</b>				
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
U.S. Dollars	\$ 18,830	—	\$ (21)	\$ (21)
Euro	98,543	—	(2,745)	(2,745)
Pound Sterling	3,309	—	(181)	(181)
Thailand Baht	3,702	—	(53)	(53)
Yen	387,213	—	(6,617)	(6,617)
Mexican Peso	3,394	—	(170)	(170)
Korean Won	2,457	—	(43)	(43)
Indonesia Rupiah	2,181	—	(0)	(0)
Taiwan Dollars	1,553	—	(11)	(11)
India Rupee	3,000	—	(11)	(11)
Philippine Peso	4,330	—	(11)	(11)
<b>Buying:</b>				
U.S. Dollars	\$ 20,340	—	\$ 21	\$ 21
Euro	904	—	(0)	(0)
<b>Currency option contracts:</b>				
<b>Selling:</b>				
Call				
Euro	\$ 570,383	—	\$ 51,947	\$ (43,170)
(option fee)	(8,777)	—		
Pound Sterling	70,723	—	4,415	(3,085)
(option fee)	(1,319)	—		
Swiss Franc	6,681	—	43	11
(option fee)	(53)	—		
<b>Buying:</b>				
Call				
Euro	\$ 4,830	—	\$ 32	\$ (21)
(option fee)	(53)	—		
Yen	426,011	—	3,564	(5,606)
(option fee)	(9,170)	—		
<b>Interest rate swaps:</b>	\$ 2,660	\$ 2,660	\$ (53)	\$ (53)
(fixed rate payment, floating rate receipt)				

**Derivative transactions to which hedge accounting is applied at March 31, 2013 and 2012**

Millions of Yen				
At March 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
Euro	Receivables	¥ 9,232	—	¥ (695)
Pound Sterling	Receivables	1,037	—	(23)
Yen	Receivables	364	—	(2)
Korean Won	Receivables	78	—	(2)
Indonesia Rupiah	Receivables	126	—	5
Taiwan Dollars	Receivables	49	—	(1)
India Rupee	Receivables	28	—	0
Philippine Peso	Receivables	133	—	1

Millions of Yen				
At March 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
Euro	Receivables	¥ 5,470	—	¥ (287)
Pound Sterling	Receivables	446	—	(16)
Yen	Receivables	236	—	12
Korean Won	Receivables	57	—	1
Indonesia Rupiah	Receivables	104	—	5
Taiwan Dollars	Receivables	70	—	1
India Rupee	Receivables	13	—	0
Philippine Peso	Receivables	130	—	1

Thousands of U.S. Dollars				
At March 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
<b>Foreign currency forward contracts:</b>				
<b>Selling:</b>				
Euro	Receivables	\$ 98,213	—	\$ (7,394)
Pound Sterling	Receivables	11,032	—	(245)
Yen	Receivables	3,872	—	(21)
Korean Won	Receivables	830	—	(21)
Indonesia Rupiah	Receivables	1,340	—	53
Taiwan Dollars	Receivables	521	—	(11)
India Rupee	Receivables	298	—	0
Philippine Peso	Receivables	1,415	—	11

The fair value of derivative transaction is measured at the quoted price obtained from the financial institution.

**19. Contingent Liabilities**

At March 31, 2013, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees for debt of customers	¥ 53	\$ 564

**20. Comprehensive Income**

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars
	2013	2012	2013
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 2,750	¥ (740)	\$ 29,255
Reclassification adjustments to profit or loss	(1,851)	(1)	(19,691)
Amount before income tax effect	899	(741)	9,564
Income tax effect	(731)	433	(7,777)
Total	¥ 168	¥ (308)	\$ 1,787
Deferred gain (loss) on derivatives under hedge accounting:			
(Losses) gains arising during the year	¥ (2,903)	¥ 2,774	\$ (30,883)
Reclassification adjustment to profit or loss	2,488	(2,917)	26,468
Amount before income tax effect	(415)	(143)	(4,415)
Income tax effect	156	49	1,660
Total	¥ (259)	¥ (94)	\$ (2,755)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 21,090	¥ (2,143)	\$ 224,362
Reclassification adjustments to profit or loss	(228)	—	(2,426)
Total	¥ 20,862	¥ (2,143)	\$ 221,936
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 40	¥ 40	\$ 426
Total	¥ 40	¥ 40	\$ 426
<b>Total other comprehensive income (loss)</b>	<b>¥ 20,811</b>	<b>¥ (2,505)</b>	<b>\$ 221,394</b>

**21. Net Income per Share**

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2012, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
<b>For the year ended March 31, 2013:</b>				
Basic EPS				
Net income available to common shareholders	¥ 17,826	267,473	¥ 66.65	\$ 0.71
Effect of dilutive securities				
Stock acquisition rights		435		
Diluted EPS				
Net income for computation	¥ 17,826	267,908	¥ 66.54	\$ 0.71
<b>For the year ended March 31, 2012:</b>				
Basic EPS				
Net income available to common shareholders	¥ 19,525	267,659	¥ 72.95	
Effect of dilutive securities				
Stock acquisition rights		364		
Diluted EPS				
Net income for computation	¥ 19,525	268,023	¥ 72.85	

**22. Subsequent Events****Appropriation of Retained Earnings**

The following appropriation of retained earnings at March 31, 2013, was approved at the Company's board of directors' meeting held on May 14, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends of ¥12 (\$0.13) per share	¥ 3,226	\$ 34,319

**23. Segment Information**

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

**1. Description of reportable segments**

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group consists of four segments "Printing & Solutions," "Personal & Home," "Machinery & Solution" and "Network & Contents," in which the Group formulates and implements comprehensive strategies of products and services. "Printing & Solutions" consists of sales and production of communication printing device such as printers and All-in-Ones, and of sales and production of electronic stationeries. "Personal & Home" consists of sales and production of home sewing machines. "Machinery & Solution" consists of sales and production of industrial sewing machines and machine tools. "Network & Contents" consists of sales and production of online karaoke system, and of contents distribution services.

**2. Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment**

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

Effective April 1, 2012, as a result of the revision of Japanese corporate tax law, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, to the method stipulated under the revised corporate tax law.

As a result, for the fiscal year ended March 31, 2013, segment profit increased in Printing & Solutions by ¥37 million (\$394 thousand), Personal & Home by ¥1 million (\$11 thousand), Machinery & Solution by ¥8 million (\$85 thousand), Network & Contents by ¥148 million (\$1,574 thousand) and Others by ¥38 million (\$404 thousand).

**3. Information about Sales, Profit (Loss), Assets and Other Items**

	Millions of Yen							
	2013							
	Reportable segment				Others	Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents					
Sales								
Sales to external customers	¥350,836	¥ 33,805	¥ 61,416	¥ 50,083	¥ 19,927	¥516,067	—	¥516,067
Intersegment sales or transfers	—	—	—	—	10,966	10,966	¥ (10,966)	—
Total	¥350,836	¥ 33,805	¥ 61,416	¥ 50,083	¥ 30,893	¥527,033	¥ (10,966)	¥516,067
Segment profit	¥ 18,826	¥ 2,488	¥ 4,006	¥ 2,314	¥ 2,252	¥ 29,886	¥ (110)	¥ 29,776
Segment assets	248,464	25,048	46,914	33,682	115,667	469,775	(48,280)	421,495
Other:								
Depreciation	¥ 16,725	¥ 982	¥ 1,350	¥ 4,106	¥ 1,314	¥ 24,477	—	¥ 24,477
Amortization of goodwill	84	—	20	1,315	—	1,419	—	1,419
Investments in associated companies	32	—	477	—	479	988	—	988
Increase in property, plant and equipment and intangible assets	15,132	1,106	2,822	5,770	1,118	25,948	¥ 4,290	30,238

## Notes to Consolidated Financial Statements

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	Millions of Yen							
	2012							
	Reportable segment				Others	Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents					
Sales								
Sales to external customers	¥ 337,226	¥ 30,706	¥ 70,423	¥ 45,924	¥ 13,111	¥ 497,390	—	¥ 497,390
Intersegment sales or transfers	—	—	—	—	7,556	7,556	¥ (7,556)	—
Total	¥ 337,226	¥ 30,706	¥ 70,423	¥ 45,924	¥ 20,667	¥ 504,946	¥ (7,556)	¥ 497,390
Segment profit/(loss)	¥ 21,978	¥ 2,604	¥ 8,345	¥ (19)	¥ 1,428	¥ 34,336	¥ (153)	¥ 34,183
Segment assets	218,486	21,489	55,274	31,869	58,199	385,317	(14,411)	370,906
Other:								
Depreciation	¥ 15,425	¥ 680	¥ 1,332	¥ 4,761	¥ 871	¥ 23,069	—	¥ 23,069
Amortization of goodwill	201	—	20	1,466	—	1,687	—	1,687
Investments in associated companies	425	46	9,772	1	1,416	11,660	—	11,660
Increase in property, plant and equipment and intangible assets	16,521	721	2,667	4,008	203	24,120	¥ 3,746	27,866

	Thousands of U.S. Dollars							
	2013							
	Reportable segment				Others	Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents					
Sales								
Sales to external customers	\$ 3,732,298	\$ 359,628	\$ 653,362	\$ 532,797	\$ 211,989	\$ 5,490,074	—	\$ 5,490,074
Intersegment sales or transfers	—	—	—	—	116,660	116,660	\$(116,660)	—
Total	\$ 3,732,298	\$ 359,628	\$ 653,362	\$ 532,797	\$ 328,649	\$ 5,606,734	\$(116,660)	\$ 5,490,074
Segment profit	\$ 200,277	\$ 26,468	\$ 42,617	\$ 24,617	\$ 23,957	\$ 317,936	\$ (1,170)	\$ 316,766
Segment assets	2,643,234	266,468	499,085	358,319	1,230,500	4,997,606	(513,617)	4,483,989
Other:								
Depreciation	\$ 177,926	\$ 10,447	\$ 14,362	\$ 43,681	\$ 13,978	\$ 260,394	—	\$ 260,394
Amortization of goodwill	894	—	213	13,989	—	15,096	—	15,096
Investments in associated companies	340	—	5,075	—	5,096	10,511	—	10,511
Increase in property, plant and equipment and intangible assets	160,979	11,766	30,021	61,383	11,894	276,043	\$ 45,638	321,681

Notes:

(1) "Others" consists of real estate, leasing parts and other areas of business.

(2) Reconciliation amount is as follows:

1) Reconciliation amount of ¥10,966 million (\$116,660 thousand) and ¥7,556 million for intersegment sales or transfers as of March 31, 2013 and 2012, respectively, is the elimination of intercompany transactions.

2) Reconciliation amount of ¥110 million (\$1,170 thousand) and ¥153 million for segment profit/(loss) as of March 31, 2013 and 2012, respectively, is the elimination of intercompany transactions.

3) Reconciliation amount of ¥48,280 million (\$513,617 thousand) and ¥14,411 million for segment assets as of March 31, 2013 and 2012, respectively, includes elimination of intercompany balances of ¥87,479 million (\$930,628 thousand) and ¥67,409 million respectively, and corporate assets of ¥39,199 million (\$417,011 thousand) and ¥52,998 million, respectively, which are not allocated to reportable segments.

4) Reconciliation amount of ¥4,290 million (\$45,638 thousand) and ¥3,746 million for increase in property, plant and equipment and intangible assets for the years ended March 31, 2013 and 2012, respectively, are corporate assets, which are not allocated to reportable segments.



**4. Information about Geographical Areas**

## (a) Sales

Millions of Yen							
<b>2013</b>							
Europe	U.S.A.	Japan	China	Asia and others	Americas and others	Total	
¥ 133,296	¥ 125,212	¥ 118,926	¥ 54,427	¥ 48,292	¥ 35,914	¥ 516,067	

  

Millions of Yen							
2012							
Europe	Japan	U.S.A.	China	Asia and others	Americas and others	Total	
¥ 137,501	¥ 114,374	¥ 111,062	¥ 55,837	¥ 46,791	¥ 31,825	¥ 497,390	

  

Thousands of U.S. Dollars							
<b>2013</b>							
Europe	U.S.A.	Japan	China	Asia and others	Americas and others	Total	
\$ 1,418,043	\$ 1,332,043	\$ 1,265,170	\$ 579,011	\$ 513,744	\$ 382,063	\$ 5,490,074	

Note: Sales are classified in countries or regions based on locations of customers.

## (b) Property, plant and equipment

Millions of Yen							
<b>2013</b>							
Japan	China	Vietnam	Americas	Europe	Asia and others	Total	
¥ 55,368	¥ 11,983	¥ 9,243	¥ 6,075	¥ 3,901	¥ 2,019	¥ 88,589	

  

Millions of Yen							
2012							
Japan	China	Asia and others	Americas	Europe	Total		
¥ 45,513	¥ 9,817	¥ 6,541	¥ 4,705	¥ 3,370	¥ 69,946		

  

Thousands of U.S. Dollars							
<b>2013</b>							
Japan	China	Vietnam	Americas	Europe	Asia and others	Total	
\$ 589,021	\$ 127,479	\$ 98,330	\$ 64,628	\$ 41,500	\$ 21,478	\$ 942,436	

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### 5. Information about Impairment Losses of Assets by Reportable Segment

Millions of Yen						
2013						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Impairment losses of assets	¥ 55	—	—	¥ 214	—	¥ 269

  

Millions of Yen						
2012						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Impairment losses of assets	¥ 78	—	—	¥ 531	—	¥ 609

  

Thousands of U.S. Dollars						
2013						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Impairment losses of assets	\$ 585	—	—	\$ 2,277	—	\$ 2,862

### 6. Information about Amount of Goodwill by Reportable Segment

Millions of Yen						
2013						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Goodwill at March 31, 2013	—	—	¥ 209	¥ 5,044	—	¥ 5,253

  

Millions of Yen						
2012						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Goodwill at March 31, 2012	¥ 84	—	¥ 228	¥ 6,086	—	¥ 6,398

  

Thousands of U.S. Dollars						
2013						
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total
Goodwill at March 31, 2013	—	—	\$ 2,223	\$ 53,660	—	\$ 55,883

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#### 7. Information about Gain on Negative Goodwill by Reportable Segment

Not applicable in the year ended March 31, 2012.

Gain on negative goodwill of ¥7,194 million (\$76,532 thousand) was recognized in "Others" for the year ended March 31, 2013. This arose from the acquisition of the shares of Nissei Corporation through a tender offer.

#### 24. Related Party Disclosures

Transactions of the Company with an unconsolidated subsidiary, Brother Industries (Philippines), Inc. for the year ended March 31, 2013 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Subscription for new shares of Brother Industries (Philippines), Inc.	¥ 6,441	\$ 68,521