

◆ Basic Approach to Corporate Governance

Our basic management principles call for the long-term enhancement of corporate value through the optimization of management resources and creation of customer value as well as proactive disclosure of corporate information to shareholders, thereby enhancing corporate transparency and establishing a long-term relationship of trust with shareholders. We also make it our norm to act with a law-abiding spirit and the highest integrity. We view the development of an organizational structure to realize these basic principles and conform to the norm as one of the important responsibilities for the Brother Group.

◆ Corporate Mechanism and Internal Control System

Brother Industries, Ltd., has a system of statutory auditors who oversee the executive operations of the Directors. In addition to the Board of Directors, the Board of Statutory Auditors and accounting auditors, the Company holds a Strategy Meeting, which is attended by executive officers, and maintains an internal audit division and various committees to enhance the internal control and risk management structure. The Company also has a corporate executive officer system.

As an important aspect of corporate governance, we value functions for the objective and neutral oversight of management by outside individuals. In addition to oversight of management by auditors working in a manner which does not defer to majority rule, we also consider the presence of a number of independent directors to be important in strengthening management oversight. Currently, nearly half of director positions are held by outside directors.

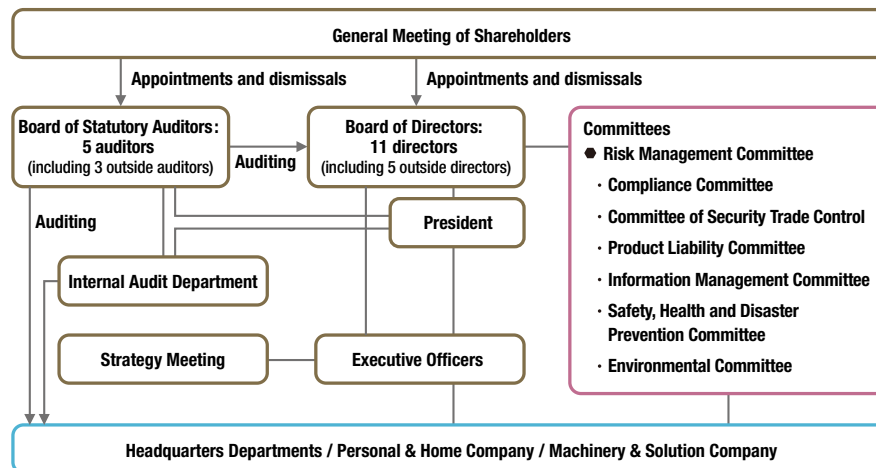
The Board of Directors comprises eleven members (including five outside directors) and meets regularly each month and in special situations as necessary to determine important management issues and to oversee executive operations.

Brother has established a corporate executive officer system that separates business operations and supervising in an attempt to strengthen governance and facilitate quick decision-making. Executive officers are selected by the Board of Directors from among directors and employees and are assigned posts in departments where they are responsible for business operations. The Strategy Meeting, attended by executive officers, meets twice per month and as necessary in special situations.

The representative director and president chairs this meeting, which plans strategies for the Group and deliberates matters related to the execution of business operations.

To prevent and resolve problems, lawyers within and outside of Japan provide advice as necessary.

Governance Structure (As of June 24, 2014)



* For details, please see Board of Directors, Statutory Auditors and Executive Officers on page 15.

◆ Risk Management Structure

As part of the Group's risk management structure, to identify, evaluate and appropriately respond to important risks affecting the Brother Group, the Risk Management Committee, with the representative director and president as the committee's chairman, acts as an independent management control organization that implements internal controls and crisis management.

Subordinate to the Risk Management Committee are six committees—the Compliance Committee; Committee of Security Trade Control; Product Liability Committee; Information Management Committee; Safety, Health and Disaster Prevention Committee; and Environmental Committee—that manage specific risks and link into the overall Group management structure.

Compliance Committee

The Compliance Committee conducts compliance education designed to inform employees about laws and regulations as well as enlighten them about business ethics.

The committee also acts as a channel for compliance consultation to prevent violations.

Committee of Security Trade Control

The Committee of Security Trade Control ensures that export trade is conducted in accordance with laws and regulations, overseeing appropriate export transactions and managing technological offerings. The committee convenes to deliberate legal revisions and other important items. The committee also conducts semiannual internal audits and provides direction and training for Group companies. Through such efforts, the committee works to sustain and improve the management level of the overall Brother Group.

Product Liability Committee

The Product Liability Committee strives to ensure the manufacturing of safe products, as well as to take swift and appropriate action in the event of product-related accidents.

The committee meets as necessary and disseminates product safety information to the Group.

Information Management Committee

The Information Management Committee works to curtail the risk of information leaks, developing appropriate policies to protect information retained by the Company on customers and other aspects of its business.

Safety, Health and Disaster Prevention Committee

The Safety, Health and Disaster Prevention Committee maintains the safety and health of employees and aims to prevent accidents and minimize injury from natural disasters.

The committee formulates an annual plan, decides various policies and conducts educational activities.

Environmental Committee

The Environmental Committee deliberates and determines measures related to environmental issues that must be dealt with by the Brother Group as a whole.

◆ Auditor Inspection and Internal Auditing

The Board of Statutory Auditors has five auditors, including three outside auditors. These auditors, following the auditing standards defined by the Board of Statutory Auditors, attend and provide opinions at Board of Directors and other important meetings. They exchange ideas with the Internal Audit Department and, with their three auditing staff members, investigate business affairs and financial conditions, and oversee the execution of duties by the managing director.

Having established the Internal Audit Department, the internal auditing staff (eight members) under the direction of the representative director and president, inspect risk-related conditions affecting the headquarters, internal and Group companies and report directly to the representative director and president as well as to the corporate auditors.

◆ Outside Directors and Auditors

The Company has appointed five outside directors. These five outside directors conduct their operations from a standpoint of independence from the Company's management cadre. The Company recognizes that these five outside directors have no interests that conflict with the interests of general shareholders.

The Company has appointed three outside auditors. These auditors operate from a position of independence from management, with no personal, financial, business or other ties, and are judged to have no risk of conflict of interest with the general shareholders.

Guidelines and policies governing the independence of outside directors and auditors and their appointment are not clearly defined. Rather, a nominee's professional history and relationship with Brother are reviewed on a case-by-case basis before appointment so as to ensure the necessary independence from management required for the execution of his or her duties.

◆ Coordination with Auditing and Relationship with Internal Controls Division

Outside directors oversee management from a neutral and independent position. When necessary for the execution of these duties, a system exists for mutual coordination with auditors, the Internal Audit Division, and accounting auditors. Additionally, outside directors also receive regular consolidated financial reports from the internal controls division via the Board of Directors, and can request other financial reports at any time necessary.

As outside auditors operate from a position of independence, when necessary for the execution of their duties, systems exist in the Company and Board of Statutory Auditors for mutual coordination with auditors, the Internal Audit Division, and accounting auditors. Additionally, outside auditors also receive regular consolidated financial reports from the internal controls division via the Board of Directors, and can request other financial reports at any time necessary.

◆ Officer Compensation, etc.

Breakdown of Compensation (April 1, 2013 - March 31, 2014)

	No. of personnel	Allowance (millions of yen)	Totals by category		
			Basic compensation (millions of yen)	Performance-based (millions of yen)	Stock options (millions of yen)
Directors (inc. outside directors)	7 (4)	205 (36)	134 (36)	35 (-)	36 (-)
Auditors (inc. outside auditors)	5 (3)	66 (23)	66 (23)	- (-)	- (-)
Total (inc. outside officers)	12 (7)	272 (59)	201 (59)	35 (-)	36 (-)

Notes:

- Allowance for director compensation does not include the employee salary of employee-directors.
- The limit on director compensation as passed by the general meeting of shareholders is ¥400 million/year in basic compensation and ¥130 million/year in stock options, for a total of ¥530 million (by resolution of the 114th annual general meeting of shareholders held on June 23, 2006).
- The limit on auditor compensation as passed by the general meeting of shareholders is ¥140 million/year (by resolution of the 114th annual general meeting of shareholders held on June 23, 2006).
- Allowance includes the following:
 - Stock option compensation
 - 3 directors (exc. outside directors), ¥36 million

◆ Policies and Methods for Determining Officer Compensation

Our policy is to employ an objective and transparent system for compensation based on the clear administrative duties of directors and auditors. Reasonable levels are decided in consideration of industry-standard compensation and fair employee treatment. Director compensation is determined by the representative director and president in accordance with rules determined by the Company.

Director compensation comprises “basic compensation,” which is awarded to all directors, “performance-based compensation,” which is awarded to directors other than outside directors in recognition of contributions to yearly fiscal results, and “stock options,” which align initiatives for long-term growth of corporate value with the vector of our stock price.

While basic compensation is calculated by multiplying from a fixed amount by a coefficient applied according to position, “performance-based compensation” is adjusted to reflect results from the previous fiscal year according to methods determined by the applicable rules.

Auditor compensation is determined by the Board of Statutory Auditors in accordance with rules determined by the Company for the calculation of “basic compensation.”

Annual limits on “basic compensation” for directors and auditors and “stock options” for directors, and pay-out of “performance-based compensation” for directors are approved by the general meeting of shareholders.