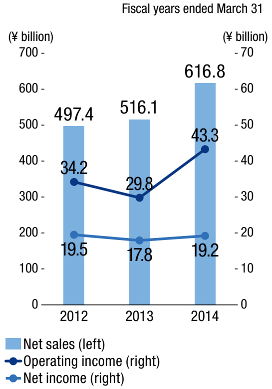
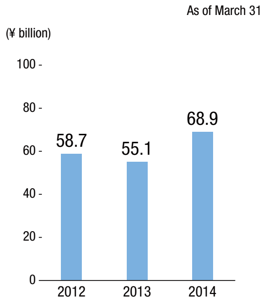
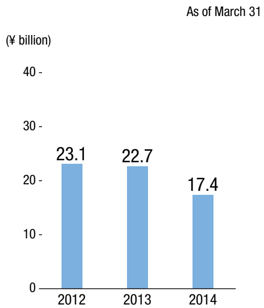
Operating Results



Cash and Cash Equivalents, End of Year



Interest-bearing Debt



Business Overview

In fiscal 2013, net sales for the Brother Group rose by 19.5% year on year to ¥616,835 million. In addition to positive exchange rate effects from the yen's depreciation, net sales were lifted by several operational factors in the Americas and Asia, including China, notably robust performance from communications and printing equipment, a recovery in industrial sewing machine demand, and beneficial effects from the consolidation of Nissei Corporation. Operating income increased by 45.4% year on year to ¥43,301 million, as positive exchange rate effects overcame lower earnings from the Network & Contents business. Net income increased by 7.8% year on year to ¥19,221 million reflecting the impact of tax effect accounting.

Performance by Business Segment

For details about performance by business segment, please see "Review of Operations," Pages 10-11.

Fund Procurement, Liquidity and Cash Flows

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

Liquidity Management

The Group's liquidity on hand consists of cash and cash equivalents and the unused portion of open commitment lines of credit. As of March 31, 2014, cash and cash equivalents totaled ¥68,935 million.

We maintain open commitment lines of credit with several financial institutions for a combined amount of ¥20,000 million. The amount in open commitment lines of credit that was unused as of March 31, 2014 was ¥88,934 million. Taking into consideration seasonal funding requirements, debt payable within one year and business environment risks, we believe that we have sufficient liquidity on hand to support our operations through a whole year.

Fund Procurement

As a basic rule, we procure working capital and other short-term funding in short-term borrowings within one year that is funded with local currency. The basic policy on long-term funding for manufacturing facilities is that funds should come from internal reserves, fixed-rate long-term debt and corporate bonds. As of March 31, 2014, short-term borrowings stood at ¥1,467 million, primarily denominated in yen. The balance of unsecured loans from a bank was ¥12,900 million, all procured in fixed-rate debt procured in yen.

We have obtained credit ratings from Rating and Investment Information, Inc. (R&I). As of March 31, 2014, R&I assigned the Group's long-term bonds and issuer credit "A" ratings and its commercial paper an "a-1" rating. We consider consistent ratings important in maintaining our access to credit and capital markets.

The Brother Group believes that its liquidity on hand, including open commitment lines of credit, and sound corporate finance structure, on top of its ability to generate cash flows from operating activities, make it possible to secure working capital as well as funds for capital investment and R&D investment to maintain the Group's growth.

Cash Flows

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥55,019 million, an increase of ¥22,285 million from ¥32,734 million in the previous year. In addition to an increase in income before income taxes and others from the previous year, this growth primarily reflected an increase in trade notes and accounts payable.

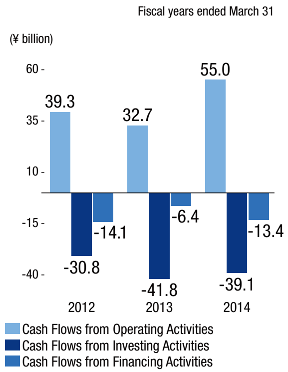
Cash flows from investing activities

Net cash used in investing activities amounted to ¥39,100 million, ¥2,672 million less than ¥41,772 million used in the previous year. The decline in net cash used reflected a decrease in disbursement for purchases of affiliates' shares accompanying changes in the scope of consolidation, and offset an increase in disbursement for purchases of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities totaled ¥13,433 million, ¥7,019 million more than ¥6,413 million used in the previous year. Interest-bearing debt totaled an expenditure of ¥6,736 million, compared to income of ¥32 million a year earlier. Cash dividends paid was ¥6,687 million, on a par with the previous year.

Cash Flows



As a result of these activities, as well as the exchange rate fluctuations affecting the yen conversion value of cash and cash equivalents of overseas consolidated subsidiaries, cash and cash equivalents as of March 31, 2014, amounted to ¥68,935 million, an increase of ¥13,875 million from the previous fiscal year-end.

Outlook for Fiscal 2014

Despite lingering concerns of an economic slowdown in China and other emerging nations, expectations are building that the economies of Japan and other developed nations will undergo modest growth in fiscal 2014.

In this climate, we are projecting year on year growth in net sales. Along with continued brisk demand anticipated for Brother products, especially in the Printing & Solutions business, we will aggressively enact a range of sales expansion measures in each business and operational region.

Operating income is projected to grow for the year, with positive exchange rate effects likely to trump factors putting downward pressure on earnings, such as increased investment in sales and development for future growth, and higher depreciation expenses. Similarly, we are projecting significant growth in net income for the year, mainly from the posting of extraordinary income due to the sale of fixed asset, and a lower tax burden, reflecting the impact of tax effect accounting.

Business and Other Risk

The following items may impact the Group businesses, operating performance and financial conditions. Forward-looking statements reflect the Group's judgment as of March 31, 2014.

(1) Market Competition

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

(2) Acquisition of Human Resources

The Brother Group works to secure needed human resources for each function related to global expansion in projects, development, design, manufacturing, sales and services. However, competition for human resources is rising. In the event that ongoing recruitment and employment of skilled human resources becomes more difficult, the Group may become unable to invest sufficient resources in research and development, which could lead to lowered competitiveness and stable supply of products caused by a workforce shortage. These factors could in turn affect Group performance adversely.

(3) Intellectual Property Rights

We conduct business operations by concluding license agreements with other companies on patents and other intellectual property rights as necessary. The balance of royalty revenues and payments based on such license agreements could cause fluctuations in the Group's operating performance and also become constraints on business operations depending on the terms of such agreements. Furthermore, there are limits to the degree to which proprietary technology acquired through research and development can be protected, and the potential exists for third parties to infringe upon our intellectual property rights and manufacture and sell counterfeit products. Other companies may file lawsuits against the Group with regard to intellectual property rights, which could affect the Group's performance. The Group provides appropriate rewards to in-house inventors based on the Invention Incentive Scheme. Despite this, there is the possibility of litigation with inventors over compensation.

(4) Product Quality Control

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

(5) Exchange and Interest Rates

The Brother Group conducts a high percentage of its manufacturing and sales overseas, and exchange rate fluctuations could affect foreign currency transactions. To reduce this risk and improve the link between foreign currency transaction receipts and payments, the Group utilizes forward exchange contracts and other instruments to reduce short-term risk. However, currency appreciation in China, Southeast Asia or other regions where the Group operates major manufacturing facilities could cause procurement and production costs to rise, and mid- to long-term exchange rate fluctuations could affect its financial condition.

To reduce interest rate fluctuation risk, the Group endeavors to raise funds at fixed interest rates, and employs interest rate swaps and other financial instruments. Nevertheless, higher market interest rates could raise fund procurement costs.

(6) Raw Materials Cost Increases

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

(7) Statutory Regulations

The Group conducts its business according to the laws and regulations of each country in which it operates. In addition to strengthening the internal controls that ensure compliance throughout the Group, the Group has created a risk management system. If an event arises where the Group is unable to comply with regulations, Group business activities may be restricted, which may result in cost increases. Furthermore, unexpected changes in regulatory and tax regimes, particularly in emerging nations, including but not limited to regulations regarding imports and exports, investment and overseas remittances, and transfer price taxation could potentially impact Group business performance.

(8) Information Network

The Brother Group employs a network to manage information related to production and sales management, as well as financial matters. The Group expects its information storage and equipment maintenance systems to be fully effective. However, network disconnections and system stoppages may adversely affect business activities.

Furthermore, although the Group takes ample precautions to prevent infections from computer viruses and hackers, in the event of infiltration or attacks from the outside, depending on the scale of the interruption, business activities may be adversely affected.

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

(9) Information Security

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

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

(10) Future Business Developments and Forecasts

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

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

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

(11) Environmental Regulations

The Brother Group is subject to a variety of environmental regulations regarding wastes and atmospheric emissions generated during the course of its business activities. Actions by the Group to protect the environment include the development of products with reduced environmental impact, reduction of energy consumed by manufacturing and product usage processes, and the collection and recycling of post-consumer products. Nevertheless, Group business management could be affected by expenses required for regulatory conformance and environmental remediation related to future environmental problems.

(12) Natural Disasters and Other Threats

The majority of the Brother Group's manufacturing and sales facilities is located overseas. Our main manufacturing facilities are in China, Malaysia Vietnam and the Philippines, and the Group continues to establish sales facilities in countries throughout the world. To mitigate damage from natural disasters at these facilities, the Group has formulated response procedures in the event of fire, earthquakes, typhoons and other disasters. However, unforeseen events (such as war, terrorism, outbreaks of infectious diseases, strikes or other labor disputes, and natural disasters of unforeseeable scale) may cause social unrest that can damage production and sales, including parts procurement systems, which could adversely affect the Group's operating performance. At the Group's headquarters in Japan, the Group has established a crisis management system in the event of Nankai Trough earthquakes. However, there is a possibility that the damage resulting from an earthquake may exceed the anticipated severity.