brother at your side

Annual Report
for the year ended March 31, 2013

2013

At your side.

Brother Earth

Working with you for a better environment
www.brotherearth.com

At your side.

Always placing its customers first everywhere, every time,
the Brother Group wishes to provide them with superior value
by quickly creating and delivering high-quality products and services.
"At your side." represents the wishes of the Brother Group.
The Brother Group always takes up challenges to
provide unique and original products and services,
and helps global customers achieve new lifestyles and work styles.

Brother Earth

Working with you for a better environment

Contents

Forward-Looking Statements

Any statements regarding our future business performances, plans and strategies in this annual report that are not historical facts are forward-looking statements based on information available to management at the time or on management's beliefs. Such forward-looking statements are not guarantees of future performance of the Company and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors.

Figures are rounded off to the nearest whole number.

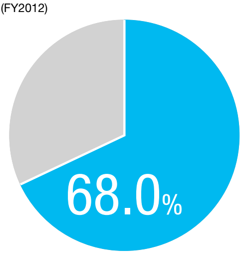
Business Outline	Main Products and Services

P&S

Printing & Solutions

Net Sales by Business Segment

(FY2012)



The Printing & Solutions (P&S) business proposes innovative work styles through the pursuit of laser and inkjet printer technologies. Brother's leading products include compact printers, All-in-Ones that combine printer, fax machine, copier and scanner into one unit, user-friendly labeling systems, and scanners. With these communications and printing technologies, Brother meets a wide range of customer needs from SOHO (Small Office Home Office) to business offices.

This segment includes Service & Solutions (S&S) business.

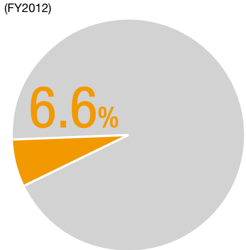
- Laser Printer/All-in-One
- Inkjet Printer/All-in-One
- Professional high-speed workgroup printer
- Fax Machine
- Electronic Stationery
- Typewriter
- Scanner (S&S)

P&H

Personal & Home

Net Sales by Business Segment

(FY2012)



The Personal & Home (P&H) business encompasses sewing products and services including home sewing machines and embroidery machines. Its mission is to offer customers Brother sewing and embroidery products that are fun, easy to use and can provide a myriad of ways to enhance their creativity.
The P&H product line offers a wide range of products from conventional home sewing machines to very advanced computer-internet-connected sewing machines, with extensive possibilities for creative sewing and embroidery.

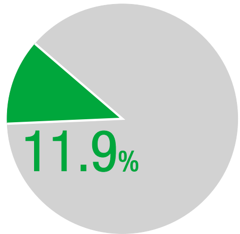
- Sewing Machine
- Sewing and Embroidery Machine
- Commercial Embroidery Machine

Business Outline

Main Products and Services

M&S
Machinery & Solution

Net Sales by Business Segment
(FY2012)

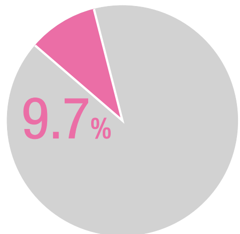


The Machinery & Solution (M&S) business offers customers energy-saving industrial sewing machines that provide ease of use and high-quality sewing capabilities, as well as machine tools which are effectively used for cutting small parts for automobiles, hard disk drives, and mobile phones. Along with their customer-oriented support, M&S helps customers improve productivity and create products with added value.

- Industrial Sewing Machine
- Garment Printer
- Machine Tool

N&C
Network & Contents

Net Sales by Business Segment
(FY2012)



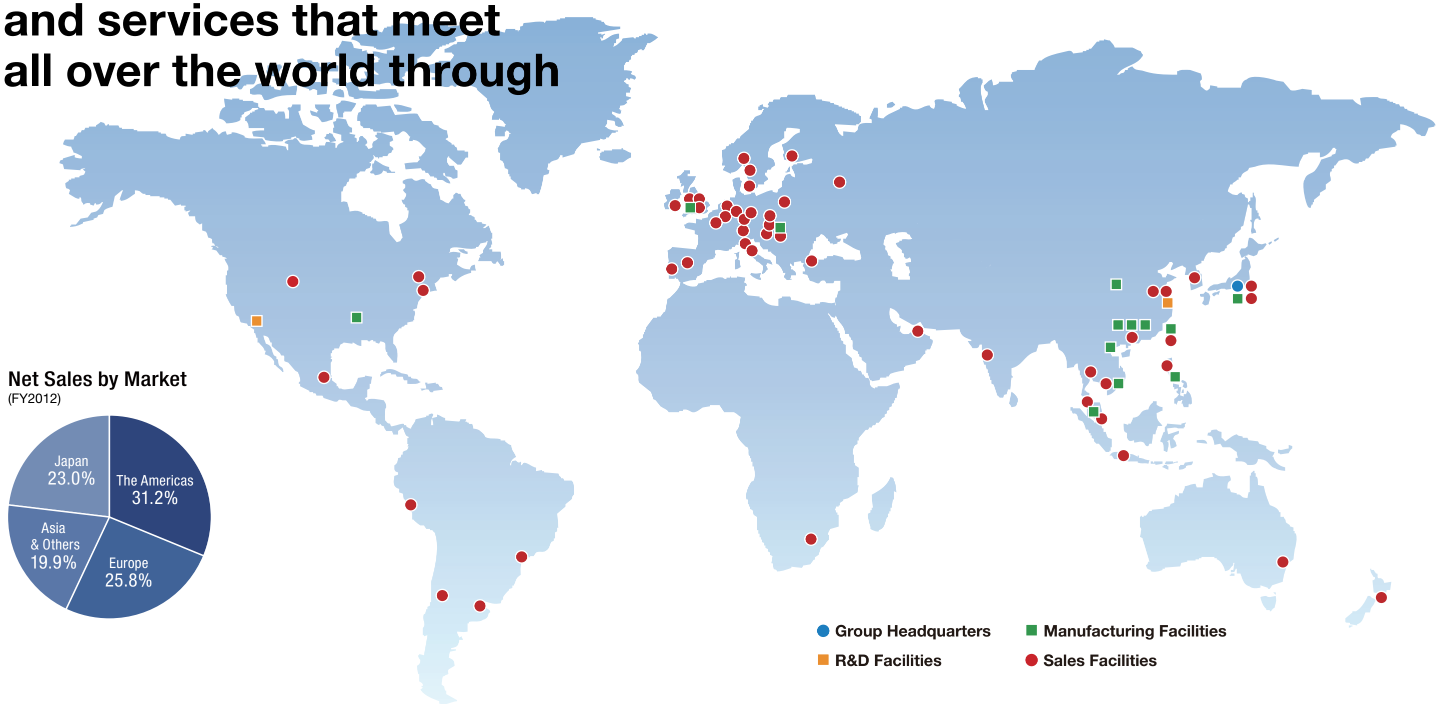
The Network & Contents (N&C) business provides online karaoke systems for business use. It also pursues new customer value by offering services and products suitable for various industries, including health and education, by leveraging the contents and distribution technologies developed for the online karaoke business.

- Online Karaoke System
- Fitness Lesson System for Fitness Studio
- Applications for Smartphones / Tablets

Brother offers products and services that meet the needs of customers all over the world through our global network

The Brother Group started in 1908 as the Yasui Sewing Machine Co., which operated a repair business for sewing machines. Brother Industries, Ltd. was established in 1934 as an enterprise to manufacture and distribute sewing machines.
Since establishing a sales company in the United States in 1954, the Brother Group has positively expanded business operations on a global basis. Today, we have 17 manufacturing facilities and 52 sales facilities in 44 countries and regions (as of July 2013).

Net Sales by Market
(FY2012)



Japan

● Group Headquarters

Group Administration (R&D, manufacturing, and sales)
BROTHER INDUSTRIES, LTD.

■ Manufacturing Facilities

MIE BROTHER PRECISION INDUSTRIES, LTD.

● Sales Facilities

BROTHER INTERNATIONAL CORPORATION
BROTHER SALES, LTD.

Others

NISSEI CORPORATION　BROTHER LOGITEC LTD.
BROTHER REAL ESTATE. LTD.　BROTHER LIVING SERVICE CO., LTD.
BROTHER ENTERPRISE, LTD.　XING INC.　STANDARD CORP.
BETOP STAFF, LTD.　BROTHER FINANCE (JAPAN), LTD.

The Americas

■ R&D Facilities

NEFSIS CORPORATION

■ Manufacturing Facilities

BROTHER INDUSTRIES (U.S.A.) INC.

● Sales Facilities

BROTHER INTERNATIONAL CORPORATION (U.S.A.)
BROTHER INTERNATIONAL CORPORATION (CANADA) LTD.
BROTHER INTERNATIONAL DE MEXICO, S.A. DE C.V.
BROTHER INTERNATIONAL CORPORATION DO BRASIL, LTDA.
BROTHER INTERNATIONAL DE CHILE, LTDA.
BROTHER INTERNATIONAL CORPORATION DE ARGENTINA S.R.L.
BROTHER MOBILE SOLUTIONS, INC.
BROTHER INTERNATIONAL DEL PERU S.A.C.

Europe

■ Manufacturing Facilities

BROTHER INDUSTRIES (U.K.) LTD.
BROTHER INDUSTRIES (SLOVAKIA) s.r.o.

● Sales Facilities

BROTHER INTERNATIONAL EUROPE LTD.
BROTHER INTERNATIONAL GmbH
BROTHER INTERNATIONAL GmbH (Austrian Branch)
BROTHER FRANCE SAS
BROTHER U.K. LTD.
BROTHER INTERNATIONAL (NEDERLAND) B.V.
BROTHER NORDIC A/S
BROTHER NORWAY, branch of BROTHER NORDIC A/S
BROTHER SWEDEN, branch of BROTHER NORDIC A/S, Denmark
BROTHER FINLAND, BROTHER NORDIC A/S Denmark, branch in Finland
BROTHER CENTRAL AND EASTERN EUROPE GmbH
BROTHER INTERNATIONAL (BELGIUM) NV/SA
BROTHER INTERNATIONALE INDUSTRIEMASCHINEN GmbH
BROTHER INTERNATIONALE INDUSTRIEMASCHINEN GmbH (Italian Branch)
BROTHER (SCHWEIZ) AG
BROTHER INTERNATIONAL CORPORATION (IRELAND) LTD.
BROTHER ITALIA S.p.A.
BROTHER INTERNATIONAL CZ s.r.o.
BROTHER INTERNATIONAL HUNGARY KFT.
BROTHER IBERIA, S.L.U.
BROTHER IBERIA, S.L.U. (Lisbon Branch)
BROTHER LLC
BROTHER POLSKA Sp. z o.o.
BROTHER SEWING MACHINES EUROPE GmbH
BROTHER SEWING MACHINES EUROPE GmbH (U.K. Branch)

Others

BROTHER FINANCE (U.K.) PLC
BROTHER HOLDING (EUROPE) LTD.

Asia / Oceania / Middle East / Africa

■ R&D Facilities

BROTHER SYSTEM TECHNOLOGY DEVELOPMENT (HANGZHOU) LTD.

■ Manufacturing Facilities

TAIWAN BROTHER INDUSTRIES, LTD.
BROTHER INDUSTRIES TECHNOLOGY (M) SDN. BHD.
ZHUHAI BROTHER INDUSTRIES, CO., LTD.
BROTHER MACHINERY XIAN CO., LTD.
BROTHER INDUSTRIES (SHENZHEN), LTD.
BROTHER INDUSTRIES (VIETNAM) LTD.
BROTHER TECHNOLOGY (SHENZHEN) LTD.
BROTHER INDUSTRIES SAIGON, LTD.
BROTHER INDUSTRIES (PHILIPPINES), INC.

● Sales Facilities

BROTHER INTERNATIONAL S.A. (PTY) LTD.
BROTHER INTERNATIONAL (AUST.) PTY. LTD.
BROTHER INTERNATIONAL SINGAPORE PTE. LTD.
BROTHER INTERNATIONAL (NZ) LTD.
BROTHER INTERNATIONAL (GULF) FZE
BROTHER INTERNATIONAL (GULF) FZE (Turkey Branch)
BROTHER COMMERCIAL (THAILAND) LTD.
BROTHER INTERNATIONAL (HK) LTD.
BROTHER INTERNATIONAL (MALAYSIA) SDN. BHD.
BROTHER INTERNATIONAL PHILIPPINES CORPORATION
BROTHER (CHINA) LTD.
BROTHER INTERNATIONAL (INDIA) PRIVATE LTD.
PT BROTHER INTERNATIONAL SALES INDONESIA
BROTHER INTERNATIONAL TAIWAN LTD.
BROTHER INTERNATIONAL (VIETNAM) CO., LTD.
BROTHER INTERNATIONAL KOREA CO., LTD.
BROTHER MACHINERY SHANGHAI LTD.

Others

BROTHER CORPORATION (ASIA) LTD.

Financial Highlights

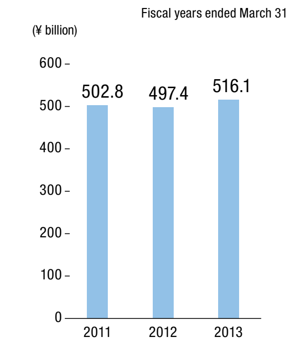
	Millions of Yen Fiscal years ended March 31					
	2008	2009	2010	2011	2012	**2013**
Results of Operations:						
Net sales	¥ 566,379	¥ 482,205	¥ 446,269	¥ 502,830	¥ 497,390	**¥ 516,067**
Operating income	53,503	19,901	26,637	36,092	34,183	**29,776**
Income before income taxes and minority interests	46,282	23,613	26,234	34,062	34,108	**27,946**
Net income	27,110	15,262	19,629	26,238	19,525	**17,826**
Depreciation	22,227	23,094	21,028	24,027	23,069	**24,477**
Capital expenditures	31,605	27,169	17,482	19,788	27,833	**30,237**
Research and development costs	34,117	36,859	34,779	36,253	39,232	**37,514**

Per Common Share (yen):						
Basic net income	¥ 98.46	¥ 56.79	¥ 73.34	¥ 98.03	¥ 72.95	**¥ 66.65**
Equity	785.13	735.26	792.95	822.43	863.01	**985.85**
Cash dividends	22.00	26.00*	18.00	24.00	24.00	**24.00**

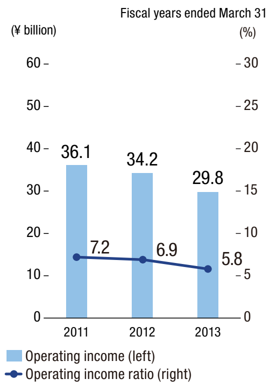
Financial Position at Year-End:						
Total equity	¥ 219,223	¥ 199,371	¥ 213,532	¥ 220,469	¥ 231,425	**¥ 278,771**
Total assets	392,259	337,667	365,991	372,646	370,906	**421,495**

* Includes commemorative dividends of ¥2 per share to mark the 100th anniversary of the Company's founding.

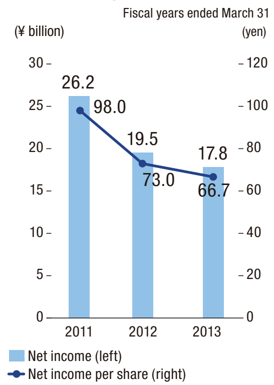
Net Sales



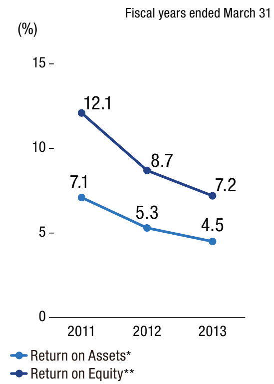
Operating Income
Operating Income Ratio



Net Income
Net Income per Share

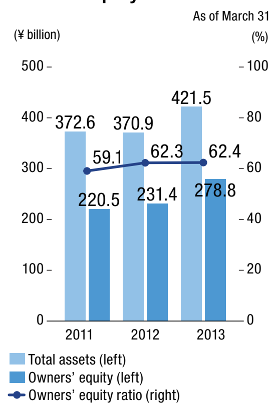


Return on Assets
Return on Equity

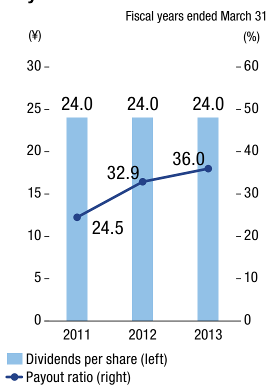


* Net income / Total assets (average of opening balance and ending balance)
**Net income / Owners' equity (average of opening balance and ending balance)

Total Assets & Owners' Equity
Owners' Equity Ratio



Dividends per Share
Payout Ratio



Message from the Management

During fiscal 2012, ended March 31, 2013, despite a level of growth in the American market, the Brother Group faced an adverse global economy which included the ongoing financial crisis in Europe, slowdown in emerging markets, and the drastic rise over the summer and autumn in the exchange rate for yen.

While the Machinery & Solution business was negatively impacted by this weak market, net sales in fiscal 2012 improved year-on-year, with items such as communications and printing equipment, home sewing machines and online karaoke machines remaining solid. We also experienced an increase due to exchange against the US dollar.
Operating income fell, however, due to negative factors such as the loss in the Machinery & Solution business and changes in the exchange rate. Despite factors such as extraordinary income related to acquisition of shares in an affiliated company, net income also fell year-on-year.

In fiscal 2013 we will forge ahead as a Group towards achievement of our mid-term business strategy “CS B2015” with a year of growth. I kindly ask for the continued understanding and support of our shareholders and other stakeholders.

Representative Director & President
Toshikazu Koike

Mid-term Business Strategy "CS B2015" Enters Third Year

The Brother Group has formulated a mid- to long-term corporate vision—Global Vision21—in which we define three objectives for the Group.

Global Vision 21

1. To become a leading global company with high profitability
2. To become a world-class manufacturer by developing outstanding proprietary technologies
3. To embody Brother's motto, "At your side," throughout our corporate culture

The Brother Group has been formulating mid-term business strategies as a roadmap for achieving Global Vision 21, and the mid-term business strategy "CS B2015" launched in April 2011 focuses on key growth strategies under the theme "Back to Growth." Although we have experienced many changes in our business environment since formulating this CS B2015, our fundamental objective to capitalize on growth strategies and expand our businesses remains unchanged. That is, we are responding to changes in our business environment, actively pushing forward with capital investments, research and development, M&As, and the strengthening of our sales structure, as well as expanding each of our businesses, including new businesses.

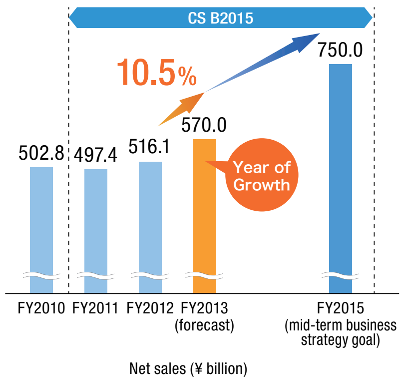
CS B2015 Goal

Net sales ¥750.0 billion

Operating income ¥58.0 billion

Operating income ratio 7.7%

*Premise exchange rates for CS B2015 goals:
1US$=¥100, 1EURO=¥100, 1CNY=¥20



Growth in all Businesses and Regions

- Cultivation and expansion of new businesses and products
- Expansion in emerging nations
- Promotion of global strategy
- Promotion of M&As and alliances

Initiatives Towards Growth in Each Business

Printing & Solutions Business
All-in-One | Printer | Electronic Stationery | Scanner

In fiscal 2012 we released high-end black-and-white laser models and a high-speed inkjet printer, strengthening our line-up of business-use products. Hereafter we plan to expand sales by strengthening marketing for business-use products and by introducing competitive black-and-white laser products specializing in the customer needs of emerging nations.

Additionally, we aim for growth in new fields such as the Service & Solutions business, document scanners and web conferencing systems by increasing product competitiveness and expanding service infrastructure.

Personal & Home Business
Home Sewing Machine

Sales in home sewing machines were further expanded with the introduction of mid- to high-end models such as home embroidery machine to feature a full range of the industry's first functions for advanced users. Further market development in emerging nations was also pursued. We will continue to expand our customer base by introducing products with new value for customers while further strengthening our production system through such improvements as increased cost competitiveness at the Vietnamese factory.

Machinery & Solution Business
Industrial Sewing Machine | Machine Tool

In fiscal 2012, we developed products to meet the demands of our customers in the sewing industry, such as the world's first bonding machine that applies glue and presses in just one process. By developing and introducing new and competitive products, strengthening sales in the Asian market and lowering costs, we will continue to pursue comprehensive improvement.

Network & Contents Business
Online Karaoke | Contents Service

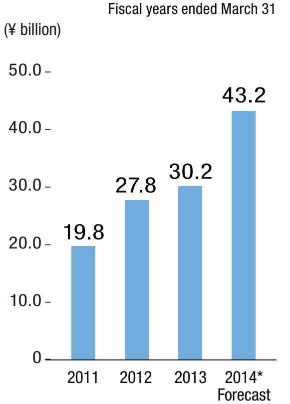
By introducing new online karaoke models, we were able to expand profits in fiscal 2012. As we continue to expand the line-up of online karaoke products and services, we are also working to improve business processes so as to ensure stable profits, and aim to cultivate new business in fields such as health services.

Strengthening Management Foundation

Following our CS B2015, we are pursuing optimal production systems in each business on a global scale. In addition to the Spring 2013 opening of the new Printing & Solutions factory in the Philippines and the Machinery & Solution factory in Xian, China, which concentrates several bases, preparations are also underway for the new Machinery & Solution factory in Vietnam to begin operations in fiscal 2014. As we strengthen the production system that supports growth, we will also continue to engage in capital investments which ensure optimal productions costs and provide against natural disasters and other such risks.

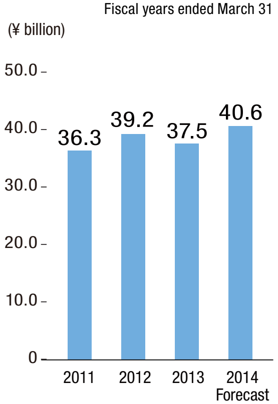
In order to create highly competitive products we are also pursuing proactive, growth-oriented investment in research and development. In fiscal 2013 we plan to commit record amounts to both capital investments and research and development.

Capital Expenditures

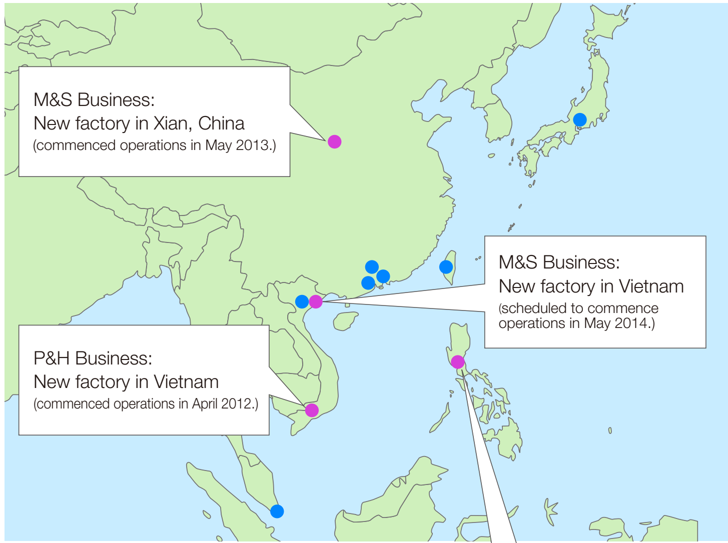


* The fiscal year ending March 31, 2014 includes investment in buildings and equipments at the new factory at Nissei Corporation.

Research and Development Costs



Optimizing Our Manufacturing Facilities on a Global Basis

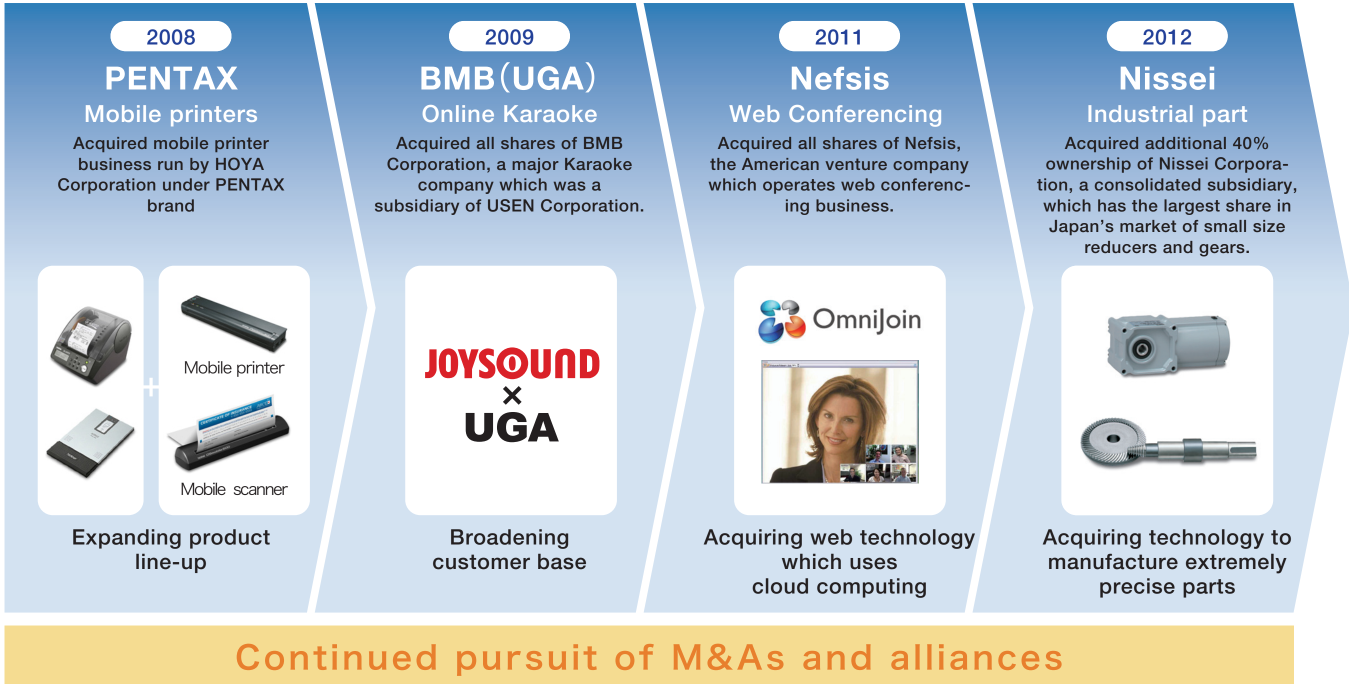


● New Manufacturing Facilities
● Existing Manufacturing Facilities

P&S Business:
New factory in the Philippines
(commenced operations in April 2013.)

Promotion of M&As and Alliances

In order to expand new businesses and develop new fields, Brother has executed M&As with such companies as an American venture start-up engaged in development of web conferencing, and a Japanese manufacturer of small size reducers and gears with a top-class share of the market in Japan. We will continue to pursue such M&As in order to realize further growth.



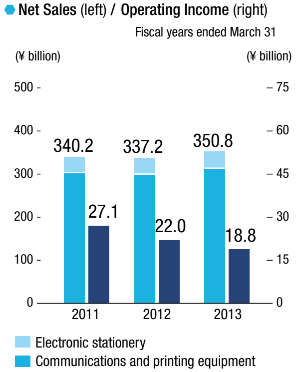
Industrial Part Business

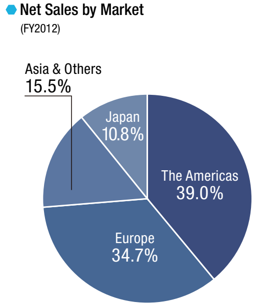
Aiming for Early Synergy in the Industrial Part Business

In fiscal 2012 Nissei Corporation became a consolidated subsidiary of Brother. Through advanced technology and quick delivery, Nissei Corporation maintains a high share of Japan's market for reducers and gears.
By utilizing Brother's global manufacturing and sales network Nissei will aim for continued growth through expansion of existing businesses overseas, while also combining Brother's existing mechanical, electrical and software technologies with Nissei's high precision parts processing technologies so as to accelerate the creation of new businesses.

Nissei Corporation

Printing & Solutions (P&S) Business





Net sales: ¥350,836 million

Communications and printing equipment

Despite sluggish demand in Europe and Asia due to economic downturn, net sales for both equipment and consumables remained solid in America. As a result, net sales rose by 4.5% year-on-year to ¥313,500 million.

Electronic stationery

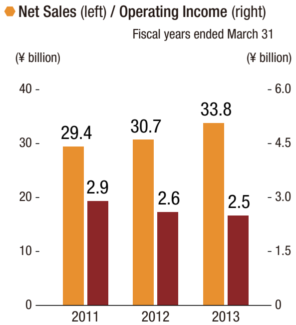
Despite the positive effect of exchange against the US dollar, due to factors such as economic downturn and change of segment for a portion of products, net sales rose by 0.6% year-on-year to ¥37,336 million.

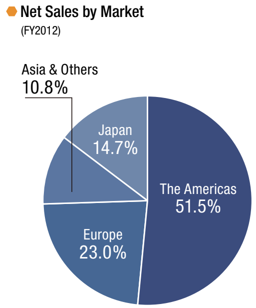
Operating income: ¥18,826 million

Due primarily to the negative effect of exchange against the euro, operating income fell by 14.3% year-on-year to ¥18,826 million.

*Includes Service & Solutions (S&S) business.

Personal & Home (P&H) Business





Net sales: ¥33,805 million

Due to solid sales in Europe and America, net sales rose by 10.1% year-on-year to ¥33,805 million.

Operating income: ¥2,488 million

Despite an increase in net sales, due to a concurrent increase in expenses from beginning operations at the new factory, operating income fell by 4.5% year-on-year to ¥2,488 million.

Line-up of products and services

Printing & Solutions

MFC-9970CDW
Color laser All-in-One

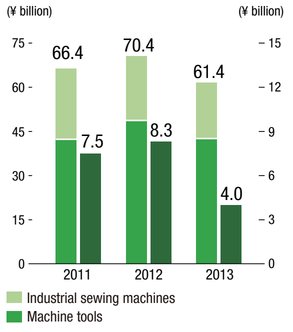
MFC-J4510DW
Inkjet All-in-One

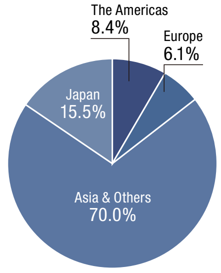
PT-2730
Labeling system

Personal & Home

Innov-is Ie*
Sewing and embroidery machine
*Europe model

Machinery & Solution (M&S) Business





Net sales: ¥61,416 million

Industrial sewing machines

Due to weak demand for capital investments in garment manufacturing industries in Chinese and Asian markets brought on by economic downturn, net sales fell by 13.1% year-on-year to ¥18,909 million.

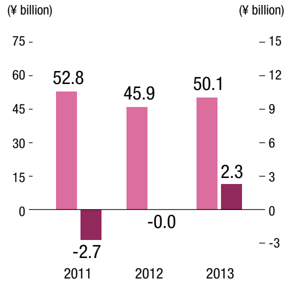
Machine tools

During the first half, demand in the IT industry was solid, however demand fell sharply in the second half. As a result, net sales fell by 12.7% year-on-year to ￥ 42,506 million.

Operating income: ¥4,006 million

Due to the decline in net sales, operating income fell by 52.0% year-on year to ¥4,006 million.

Network & Contents (N&C) Business



* Quantitative sales data for each market has been omitted for the N&C Business because a majority of its sales originate from Japan's market.

Net sales: ¥50,083 million

New online karaoke models showed good performance, resulting in an increase in net sales of 9.1% year-on-year to ¥50,083 million.

Operating income: ¥2,314 million

Due to the increase in sales of online karaoke machines, profits improved dramatically (operating loss in previous year: ¥19 million).

Line-up of products and services

Machinery & Solution

S-7200C
Single needle direct drive straight lock stitcher with thread trimmer

SPEEDIO S500X1
Compact machining center

Network & Contents

JOYSOUND f1
Online karaoke system

JOYBEAT
Fitness lesson system for fitness studio

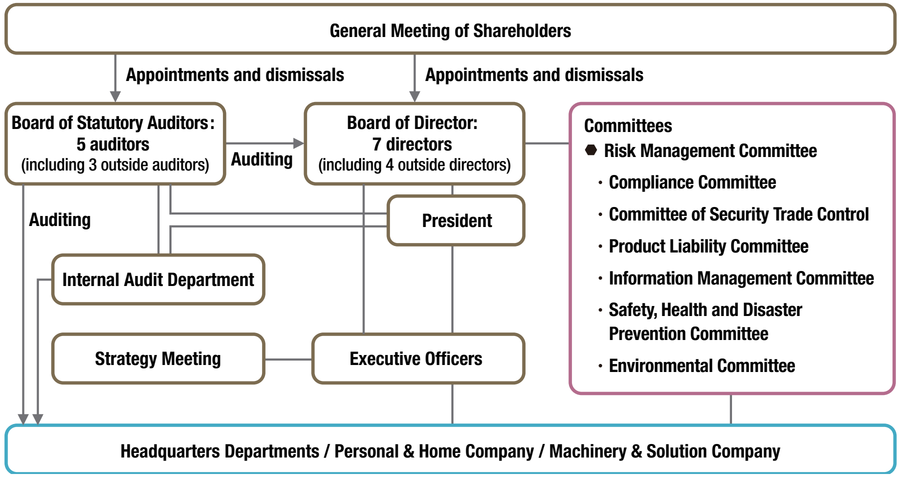
Basic Approach to Corporate Governance

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.

Governance Structure (As of June 25, 2013)



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

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, the majority of director positions are held by outside directors.

The Board of Directors comprises seven members (including four 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.

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 (seven 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 four outside directors. These four outside directors conduct their operations from a standpoint of independence from the Company's management cadre. The Company recognizes that these four 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, 2012 - March 31, 2013)

	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)	149 (31)	118 (31)	– (–)	31 (–)
Auditors (inc. outside auditors)	5 (4)	48 (23)	48 (23)	– (–)	– (–)
Total (inc. outside officers)	12 (8)	197 (54)	166 (54)	– (–)	31 (–)

Notes:
1. Allowance for director compensation does not include the employee salary of employee-directors.
2. 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).
3. 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).
4. Allowance includes the following:
 · Stock option compensation
 2 directors (exc. outside directors), ¥31 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.

Board of Directors, Statutory Auditors and Executive Officers (As of June 25, 2013)

Board of Directors

Those with *marks beside their names also serve as executive officers.

Toshikazu Koike*
Representative Director
& President

Shigeki Ishikawa*
Representative Director
& Senior Managing Executive Officer
[Responsibilities in the Company]
Responsible for: Quality Management Dept.,
Customer Satisfaction Dept.,
Development Management Dept.,
Intellectual Property Dept.,
Technology Development Dept.

Tomoyuki Hasegawa*
Director
& Managing Executive Officer
[Responsibilities in the Company]
Head of Industrial Part Business
Responsible for: MIS Dept.
<Concurrent office>
Outside Director of Nissei Corporation

Yukihisa Hirano
Outside Director
<Concurrent office>
Senior advisor of Central Japan International Airport Co., Ltd.
Outside Auditor of KDDI Corporation

Atsushi Nishijo
Outside Director
<Concurrent office>
Chairman of Japan Cable and Telecommunications Association
Advisor of Sumitomo Corporation

Shigehiko Hattori
Outside Director
<Concurrent office>
Chairman of the Board of Shimazu Corporation
Outside Director of Mitsubishi Tanabe Pharma Corporation
Outside Director of Sapporo Holdings Limited
Outside Director of Meiji Yasuda Life Insurance Company

Koichi Fukaya
Outside Director
<Concurrent office>
Advisor of DENSO Corporation
Corporate Auditor (Outside Auditor) of JTEKT Corporation

Statutory Auditors

Masato Narita
Standing Corporate Auditor

Masaki Takatsugi
Standing Corporate Auditor

Kunihiro Matsuo
Corporate Auditor (Outside auditor)
<Concurrent office>
Attorney at law
Outside Auditor of Toyota Motor Corporation
Outside Auditor of Mitsui & Co., Ltd.
Outside Corporate Auditor of Komatsu Ltd.
Outside Director of Japan Exchange Group, Inc.
Outside Auditor of Seven Bank, Ltd.
Outside Auditor of TV TOKYO Holdings Corporation

Takao Umino
Corporate Auditor (Outside auditor)
<Concurrent office>
Director & Senior Executive Vice President of T. Hasegawa Co., Ltd.

Hiroaki Maruyama
Corporate Auditor (Outside auditor)
<Concurrent office>
Certified Public Accountant
Tax Accountant
Representative of Attax Co., Ltd.
Representative of Attax Tax Accountant Corporation
Corporate Auditor (Outside Auditor) of Toyota Auto Body Co., Ltd.
Corporate Auditor (Outside Auditor) of Fuji Baking Group Co., Ltd.

Executive Officers

Managing Executive Officers

Jun Kamiya
Head of Network & Contents Business
Responsible for: Network System Development Dept.,
N&C Business Dept.
Representative Director & Chairman of Xing Inc.

Yoshitsugu Asai
Responsible for: Global CSR Promotion Dept.,
Corporate Communication Dept.,
Legal & General Affairs Dept.

Yumio Matsumoto
Head of Printing & Solutions Business (Laser, ES)
Responsible for: Development Planning Dept.,
Electronic System Development Dept.,
Mechanical System Development Dept.1,
Mechanical System Development Dept.2,
LE Development Dept.,
ES Development Dept.

Takafumi Kamenouchi
Responsible for: Sales & Marketing Dept.,
Product Planning Dept.,
Service & Solutions Business Dept.

Ichiro Sasaki
Head of Service & Solutions Business
Responsible for: Software Development Dept. 1,
Software Development Dept. 2,
Software Application Development Dept.

Executive Officers

Munetaka Fujii
Responsible for: Finance & Accounting Dept.

Tasuku Kawanabe
President of Machinery & Solution Company

Masahiko Suzuki
Head of Printing & Solutions Business (Ink)
Responsible for: IE Development Dept.,
IE Technology Dept.,
Design Dept.

Yuji Miwa
Responsible for: Production Planning Dept.,
Production Dept.,
Purchasing Dept.,
Environmental Management Dept.

Chikamasa Hattori
Responsible for: Production Technology Dept.,
Parts Engineering Dept.,
Electronic Technology Dept.,
Prototype Engineering Dept.

Hiroyuki Wakahara
Responsible for: Personnel Dept.

Mitsuyasu Kyuno
President of Personal & Home Company

Group Managing Executive Officers

Shunsuke Katayama
Representative Director & President of Brother Sales, Ltd.

Hiroshi Ishikawa
Chairman & CEO of Brother Technology (Shenzhen) Ltd.
Chairman & CEO of Brother Industries (Shenzhen), Ltd.

Tadashi Ishiguro
Director & President of Brother International Corporation (U.S.A.)

Group Executive Officer

Yuichi Tada
Managing Director of Brother Holding (Europe) Ltd.
Chairman & Managing Director of Brother International Europe Ltd.

Brother Industries, Ltd.

Headquarters
15-1, Naeshiro-cho, Mizuho-ku, Nagoya 467-8561, Japan
Telephone : +81-52-824-2075
Facsimile : +81-52-811-6826
URL : http://www.brother.com

Foundation
1908

Date of Incorporation
January 15, 1934

Paid-in Capital
¥19,209 million

Number of Shares Outstanding
277,535,866 shares

Number of Shareholders
17,553

Subsidiaries and Affiliated Companies
65

Number of Group Employees
31,694

Stock Exchange Listings
Tokyo, Nagoya

Transfer Agent
Mitsubishi UFJ Trust and Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan

Independent Accountants
Deloitte Touche Tohmatsu

(As of March 31, 2013)

Further information can be viewed online.

Corporate information top page
http://www.brother.com/en/corporate/

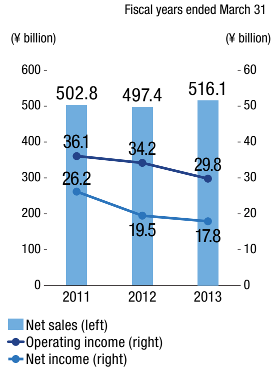
Investor information top page
http://www.brother.com/en/investor/

Brother's CSR top page
http://www.brother.com/en/csr/

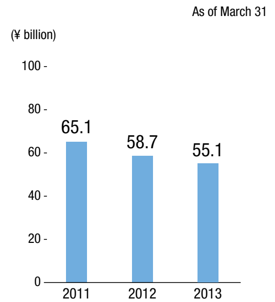
Special websites for Brother Earth
http://www.brotherearth.com/

Brother Earth
Working with you for a better environment

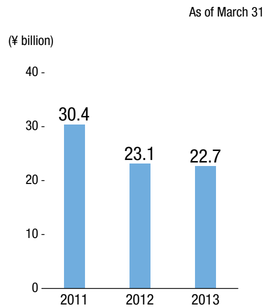
Operating Results



Cash and Cash Equivalents, End of Year



Interest-bearing Debt



Business Overview

In fiscal 2012, despite a decrease in Machinery & Solution business due to a weak market, demand for communications and printing equipment, home sewing machines and online karaoke machines remained solid. We also experienced an increase due to exchange primarily against the US dollar. As a result, net sales at Brother Group rose by 3.8% year-on-year to ¥516,067 million. However, despite significant improvements made in the online karaoke business in Network & Contents business due to a decrease in Machinery & Solution business as a well as a decrease caused by exchange primarily against the euro, operating income fell year-on-year by 12.9% to ¥29,776 million. Despite calculation of gain on negative goodwill related to acquisition of shares in Nissei Corporation, due to an increase in losses on valuation of derivatives accompanying sudden fluctuations in foreign exchange, net income fell by 8.7% year-on-year to ¥17,826.

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, 2013, cash and cash equivalents totaled ¥55,060 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, 2013 was ¥18,600 million. This total plus cash and cash equivalents was ¥73,659 million at fiscal year-end. 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, 2013, short-term borrowings stood at ¥6,525 million, primarily denominated in yen. The balance of unsecured loans from a bank was ¥12,700 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, 2013, 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 ¥32,734 million, ¥6,593 million less than ¥39,327 million in the previous year. This was primarily because of a decrease in income before income taxes and minority interests from the previous year.

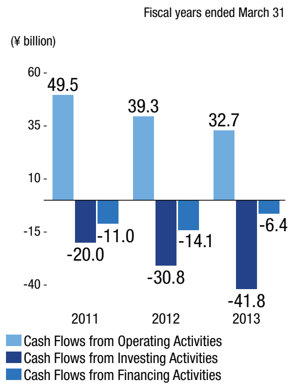
Cash flows from investing activities

Net cash used in investing activities amounted to ¥41,772 million, ¥11,014 million more than ¥30,758 million used in the previous year, reflecting increases in disbursement for purchases of property, plant and equipment and acquisition of a newly consolidated subsidiary, net of cash acquired.

Cash flows from financing activities

Net cash used in financing activities totaled ¥6,413 million, ¥7,705 million less than ¥14,118 million used in the previous year. Interest-bearing debt totaled an expenditure of ¥7,666 million in the previous year, but an income of ¥31 million in the current year. Cash dividends paid was ¥6,451 million, at the same level as 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, 2013, amounted to ¥55,060 million, a decrease of ¥3,672 million over a year earlier.

Outlook for Fiscal 2013

While expectations for recovery continue to grow in America and Japan, due to the ongoing effect of the debt crisis, fears remain that the sluggish economy in Europe will continue long-term.

Amidst these conditions, however, net sales are forecasted to rise over the previous year, with increases due to exchange against the cheaper yen, continued expectations of stable demand for Brother products, especially in Printing & Solutions business, the introduction of new products, and the new consolidation of Nissei Corporation. Despite decreases due to increased depreciation accompanying an increase in capital investments, with the increase from foreign exchange operating income is forecasted to rise. Net income is also forecasted to rise, due to an increase in operating income as well as improvements in loss (gain) on valuation of derivatives.

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, 2013.

(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. 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.

(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) 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 and Vietnam, and the Group continues to establish sales facilities in countries throughout the world. To mitigate damage from natural disasters at these facilities, the Group has formulated response procedures in the event of fire, earthquakes, typhoons and other disasters. However, unforeseen events (such as war, terrorism, 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.

Consolidated Balance Sheet

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	**2013**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	**¥ 55,060**	¥ 58,732	**$ 585,745**
Time deposits	**1,948**	1,211	**20,723**
Marketable securities (Notes 5 and 17)	**5,318**	475	**56,574**
Receivables (Note 17):			
Trade notes and accounts	**78,285**	63,921	**832,820**
Unconsolidated subsidiaries and associated companies	**2,134**	1,714	**22,702**
Allowance for doubtful accounts	**(1,555)**	(1,449)	**(16,543)**
Total receivables	**78,864**	64,186	**838,979**
Inventories (Note 6)	**87,679**	76,484	**932,755**
Deferred tax assets (Note 14)	**8,548**	9,420	**90,936**
Other current assets	**11,138**	15,540	**118,490**
Total current assets	**248,555**	226,048	**2,644,202**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 7, 8 and 9)	**14,079**	11,496	**149,777**
Buildings and structures (Notes 7, 8 and 9)	**87,452**	77,060	**930,340**
Machinery and vehicles (Note 7)	**44,732**	37,642	**475,872**
Furniture and fixtures (Note 7)	**94,373**	88,270	**1,003,968**
Lease assets (Note 7)	**4,890**	4,294	**52,021**
Construction in progress (Note 7)	**3,372**	1,016	**35,873**
Total property, plant and equipment	**248,898**	219,778	**2,647,851**
Accumulated depreciation	**(160,309)**	(149,833)	**(1,705,415)**
Net property, plant and equipment	**88,589**	69,945	**942,436**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 17)	**23,732**	12,410	**252,468**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 17)	**17,767**	20,148	**189,011**
Goodwill	**5,253**	6,398	**55,883**
Deferred tax assets (Note 14)	**1,880**	1,901	**20,000**
Prepaid pension cost (Note 10)	**10,850**	11,771	**115,426**
Other investments and assets (Note 7)	**33,554**	31,158	**356,957**
Allowance for doubtful accounts	**(8,685)**	(8,873)	**(92,394)**
Total investments and other assets	**84,351**	74,913	**897,351**
TOTAL	**¥ 421,495**	¥ 370,906	**$ 4,483,989**

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

	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 9 and 17)	¥ 6,525	¥ 4,467	$ 69,415
Current portion of long-term debt (Notes 9 and 17)	909	16,363	9,670
Payables (Note 17):			
Trade notes and accounts	30,957	34,464	329,330
Unconsolidated subsidiaries and associated companies	1,691	2,354	17,989
Other	12,391	12,576	131,819
Total payables	45,039	49,394	479,138
Income taxes payable (Note 17)	2,998	2,592	31,894
Accrued expenses	38,557	38,734	410,181
Deferred tax liabilities (Note 14)	616	158	6,553
Other current liabilities (Note 11)	12,410	5,771	132,021
Total current liabilities	107,054	117,479	1,138,872
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 17)	15,241	2,311	162,138
Liability for retirement benefits (Note 10)	9,079	7,086	96,585
Deferred tax liabilities (Note 14)	4,289	4,936	45,628
Other long-term liabilities (Note 11)	7,061	7,669	75,117
Total long-term liabilities	35,670	22,002	379,468
CONTINGENT LIABILITIES (Note 19)			
EQUITY (Note 12):			
Common stock, no par value:			
Authorized: 600,000,000 shares			
Issued: 277,535,866 shares in 2013 and 2012	19,210	19,210	204,362
Capital surplus	16,464	16,151	175,149
Stock acquisition rights (Note 13)	459	420	4,883
Retained earnings (Note 21)	255,639	243,725	2,719,564
Treasury stock, at cost			
2013 - 10,925,903 shares			
2012 - 9,866,643 shares	(12,971)	(11,673)	(137,989)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,345	2,177	24,947
Deferred loss under hedge accounting	(443)	(185)	(4,713)
Foreign currency translation adjustments	(17,405)	(38,404)	(185,160)
Subtotal	263,298	231,421	2,801,043
Minority interests	15,473	4	164,606
Total equity	278,771	231,425	2,965,649
TOTAL	¥ 421,495	¥ 370,906	$ 4,483,989

See notes to consolidated financial statements.

Consolidated Statement of Income

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	**2013**
NET SALES	**¥ 516,067**	¥ 497,390	**$ 5,490,074**
COST OF SALES (Note 15)	**300,007**	280,689	**3,191,563**
Gross profit	**216,060**	216,701	**2,298,511**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	**186,284**	182,518	**1,981,745**
Operating income	**29,776**	34,183	**316,766**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**1,452**	1,175	**15,447**
Interest expense	**(451)**	(615)	**(4,798)**
Sales discount	**(2,086)**	(2,060)	**(22,191)**
Loss on sales and disposals of property, plant and equipment, net	**(170)**	(546)	**(1,809)**
Foreign exchange (loss) gain	**(1,614)**	828	**(17,170)**
Loss on impairment of long-lived assets (Notes 2(10) and 7)	**(269)**	(609)	**(2,862)**
(Loss) gain on valuation of derivatives	**(4,625)**	137	**(49,202)**
Gain on sales of investment securities	**1,724**	24	**18,340**
Gain on negative goodwill (Note 4)	**7,194**	—	**76,532**
Loss on step acquisitions	**(3,843)**	—	**(40,883)**
Other - net	**858**	1,591	**9,128**
Other expenses, net	**(1,830)**	(75)	**(19,468)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**27,946**	34,108	**297,298**
INCOME TAXES (Note 14):			
Current	**8,763**	8,858	**93,224**
Deferred	**1,326**	5,725	**14,106**
Total income taxes	**10,089**	14,583	**107,330**
NET INCOME BEFORE MINORITY INTERESTS	**17,857**	19,525	**189,968**
MINORITY INTERESTS IN NET INCOME	**31**	0	**330**
NET INCOME	**¥ 17,826**	¥ 19,525	**$ 189,638**
PER SHARE OF COMMON STOCK (Note 21):	Yen		U.S. Dollars
Basic net income	**¥ 66.65**	¥ 72.95	**$ 0.71**
Diluted net income	**66.54**	72.85	**0.71**
Cash dividends applicable to the year	**24.00**	24.00	**0.26**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	**2013**
NET INCOME BEFORE MINORITY INTERESTS	**¥ 17,857**	¥ 19,525	**$ 189,968**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized gain (loss) on available-for-sale securities	**168**	(308)	**1,787**
Deferred loss on derivatives under hedge accounting	**(259)**	(94)	**(2,755)**
Foreign currency translation adjustments	**20,862**	(2,143)	**221,936**
Share of other comprehensive income in associates	**40**	40	**426**
Total other comprehensive income (loss)	**20,811**	(2,505)	**221,394**
COMPREHENSIVE INCOME (Note 20)	**¥ 38,668**	¥ 17,020	**$ 411,362**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	**¥ 38,597**	¥ 17,020	**$ 410,607**
Minority interests	**71**	0	**755**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Thousands	Millions of Yen										
							Accumulated other comprehensive income (loss)					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Loss Under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2011	267,648	¥ 19,210	¥ 16,157	¥ 339	¥ 230,352	¥ (11,689)	¥ 2,445	¥ (91)	¥ (36,261)	¥ 220,462	¥ 7	¥ 220,469
Adjustment of retained earnings due to change in scope of consolidation	—	—	—	—	298	—	—	—	—	298	—	298
Net income	—	—	—	—	19,525	—	—	—	—	19,525	—	19,525
Cash dividends, ¥ 24 per share	—	—	—	—	(6,450)	—	—	—	—	(6,450)	—	(6,450)
Acquisition of treasury stock	(14)	—	—	—	—	(10)	—	—	—	(10)	—	(10)
Sale of treasury stock	35	—	(6)	—	—	26	—	—	—	20	—	20
Net change in the year	—	—	—	81	—	—	(268)	(94)	(2,143)	(2,424)	(3)	(2,427)
BALANCE, MARCH 31, 2012	267,669	19,210	16,151	420	243,725	(11,673)	2,177	(185)	(38,404)	231,421	4	231,425
Adjustment of retained earnings due to change in scope of consolidation	—	—	—	—	539	—	—	—	—	539	—	539
Net income	—	—	—	—	17,826	—	—	—	—	17,826	—	17,826
Cash dividends, ¥ 24 per share	—	—	—	—	(6,451)	—	—	—	—	(6,451)	—	(6,451)
Acquisition of treasury stock	(1,159)	—	—	—	—	(1,704)	—	—	—	(1,704)	—	(1,704)
Sale of treasury stock	100	—	313	—	—	406	—	—	—	719	—	719
Net change in the year	—	—	—	39	—	—	168	(258)	20,999	20,948	15,469	36,417
BALANCE, MARCH 31, 2013	266,610	¥ 19,210	¥ 16,464	¥ 459	¥ 255,639	¥ (12,971)	¥ 2,345	¥ (443)	¥ (17,405)	¥ 263,298	¥ 15,473	¥ 278,771

	Thousands of U.S. Dollars (Note 1)										
						Accumulated other comprehensive income (loss)					
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Deferred Loss Under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2012	$ 204,362	$ 171,819	$ 4,468	$ 2,592,819	$ (124,181)	$ 23,160	$ (1,968)	$ (408,553)	$ 2,461,926	$ 43	$ 2,461,969
Adjustment of retained earnings due to change in scope of consolidation	—	—	—	5,735	—	—	—	—	5,735	—	5,735
Net income	—	—	—	189,638	—	—	—	—	189,638	—	189,638
Cash dividends, $ 0.26 per share	—	—	—	(68,628)	—	—	—	—	(68,628)	—	(68,628)
Acquisition of treasury stock	—	—	—	—	(18,127)	—	—	—	(18,127)	—	(18,127)
Sale of treasury stock	—	3,330	—	—	4,319	—	—	—	7,649	—	7,649
Net change in the year	—	—	415	—	—	1,787	(2,745)	223,393	222,850	164,563	387,413
BALANCE, MARCH 31, 2013	$ 204,362	$ 175,149	$ 4,883	$ 2,719,564	$ (137,989)	$ 24,947	$ (4,713)	$ (185,160)	$ 2,801,043	$ 164,606	$ 2,965,649

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 27,946**	¥ 34,108	**$ 297,298**
Adjustments for:			
Income taxes - paid	**(8,816)**	(15,972)	**(93,787)**
Depreciation and amortization	**24,477**	23,069	**260,394**
Loss on impairment of long-lived assets	**269**	609	**2,862**
Amortization of goodwill	**1,419**	1,687	**15,096**
Loss on sales and disposals of property, plant and equipment, net	**170**	546	**1,809**
Foreign exchange (gain) loss	**(2,421)**	797	**(25,755)**
Loss (gain) on valuation of derivatives	**4,625**	(137)	**49,202**
Gain on sales of investment securities	**(1,724)**	(7)	**(18,340)**
Gain on negative goodwill	**(7,194)**	—	**(76,532)**
Loss on step acquisitions	**3,843**	—	**40,883**
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	**(4,501)**	(3,149)	**(47,883)**
Decrease (increase) in inventories	**2,333**	(5,424)	**24,819**
(Decrease) increase in trade notes and accounts payable	**(6,673)**	2,327	**(70,990)**
(Decrease) increase in accrued expenses	**(1,729)**	1,487	**(18,394)**
Increase (decrease) in liability for retirement benefits	**430**	(491)	**4,574**
Increase in allowance for doubtful accounts	**1,443**	913	**15,351**
Increase (decrease) in liability for warranty reserve	**178**	(983)	**1,894**
Other - net	**(1,341)**	(53)	**(14,267)**
Total adjustments	**4,788**	5,219	**50,936**
Net cash provided by operating activities	**32,734**	39,327	**348,234**
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	**1,080**	1,113	**11,489**
Proceeds from sales of investment securities	**2,660**	257	**28,298**
Proceeds from collection of loans	**13**	10	**138**
Disbursement for purchases of property, plant and equipment	**(24,942)**	(21,130)	**(265,340)**
Disbursement for purchases of investment securities	**(2,170)**	(67)	**(23,085)**
Disbursement for purchases of intangible assets	**(5,723)**	(6,027)	**(60,883)**
Disbursement for purchases of affiliates' shares	**(6,617)**	(1,929)	**(70,394)**
Disbursement for purchases of investment in affiliates	**—**	(2,463)	**—**
Acquisition of a newly consolidated subsidiary, net of cash acquired	**(7,011)**	—	**(74,585)**
Other - net	**938**	(522)	**9,979**
Net cash used in investing activities	**(41,772)**	(30,758)	**(444,383)**
FORWARD	**¥ (9,038)**	¥ 8,569	**$ (96,149)**

Consolidated Statement of Cash Flows

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	**2013**
FORWARD	**¥ (9,038)**	¥ 8,569	**$ (96,149)**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings, net	**4,533**	(4,190)	**48,223**
Proceeds from long-term debt	**12,200**	250	**129,787**
Repayment of bonds	**(15,000)**	(500)	**(159,574)**
Repayments of lease obligations	**(1,701)**	(3,227)	**(18,095)**
Cash dividends paid	**(6,451)**	(6,450)	**(68,628)**
Decrease (increase) in treasury stock, net	**6**	(1)	**64**
Net cash used in financing activities	**(6,413)**	(14,118)	**(68,223)**
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**10,569**	(1,614)	**112,436**
DECREASE IN CASH AND CASH EQUIVALENTS	**(4,882)**	(7,163)	**(51,936)**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES	**1,210**	794	**12,872**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**58,732**	65,101	**624,809**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 55,060**	¥ 58,732	**$ 585,745**

Additional information:			
Assets acquired and liabilities assumed by acquisition (Note 4)			
Current assets	**¥ 15,686**	—	**$ 166,872**
Long-term assets	**28,800**	—	**306,383**
Current liabilities	**(1,760)**	—	**(18,724)**
Long-term liabilities	**(1,326)**	—	**(14,106)**
Minority Interests	**(16,493)**	—	**(175,457)**
Gain on negative goodwill	**(7,194)**	—	**(76,532)**
Loss on step acquisitions	**3,843**	—	**40,883**
The acquisition cost of shares held immediately prior to the business combination	**(10,236)**	—	**(108,893)**
The direct acquisition cost of additional shares of a newly consolidated subsidiary	**11,320**	—	**120,426**
Cash and cash equivalents held by a newly consolidated subsidiary	**(4,309)**	—	**(45,841)**
Acquisition of a newly consolidated subsidiary, net of cash acquired	**¥ (7,011)**	—	**$ (74,585)**

See 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.

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

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.

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(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

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			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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**

	Millions of Yen			
March 31, 2012	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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:

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

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

	Thousands of U.S. Dollars		
March 31, 2013	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**

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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.

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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**

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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	**Straight-line method**	Straight-line method
Discount rate	**Principally from 1.5% to 2.0%**	Principally from 1.5% to 2.0%
Expected rate of return on plan assets	**Principally 3.0%**	Principally 3.0%
Recognition period of actuarial gain / loss	**Principally from seven years to 17 years**	Principally from seven years to 17 years
Amortization period of prior service benefit / cost	**Principally from seven years to 16 years**	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:

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(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

The stock option activity was as follows:

	2013 Stock Option (shares)	2012 Stock Option (shares)	2011Stock Option (shares)	2010 Stock Option (shares)	2009 Stock Option (shares)	2008 Stock Option (shares)	2007 Stock Option (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)	(—)	(—)	(—)

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**

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**

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(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		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
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		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
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
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)

	Thousands of U.S. Dollars		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
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**
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.

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

	Millions of Yen			
March 31, 2013	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**

	Thousands of U.S. Dollars			
March 31, 2013	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**
Total	**$ 1,481,298**	**$ 54,404**	**$ 38,181**	**$ 12,926**

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			
At March 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling:				
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)
Buying:				
U.S. Dollars	¥ 1,912	—	¥ 2	¥ 2
Euro	85	—	(0)	(0)
Currency option contracts:				
Selling:				
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)	—		
Buying:				
Call				
Euro	¥ 454	—	¥ 3	¥ (2)
(Option fee)	(5)	—		
Yen	40,045	—	335	(527)
(Option fee)	(862)	—		
Interest rate swaps: (fixed rate payment, floating rate receipt)	¥ 250	¥ 250	¥ (5)	¥ (5)

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	Millions of Yen			
At March 31, 2012	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling:				
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)
Buying:				
U.S. Dollars	¥ 1,856	—	¥ 24	¥ 24
Pound Sterling	22	—	(0)	(0)
Currency option contracts:				
Selling:				
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)	—		
Buying:				
Call				
Euro	¥ 212	—	¥ 1	¥ (3)
(Option fee)	(4)	—		
Yen	38,921	¥ 3,417	1,184	218
(Option fee)	(966)	(74)		
Interest rate swaps: (fixed rate payment, floating rate receipt)	¥ 1,250	¥ 250	¥ (16)	¥ (16)

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At March 31, 2013	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling:				
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)
Buying:				
U.S. Dollars	$ 20,340	—	$ 21	$ 21
Euro	904	—	(0)	(0)
Currency option contracts:				
Selling:				
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)	—		
Buying:				
Call				
Euro	$ 4,830	—	$ 32	$ (21)
(Option fee)	(53)	—		
Yen	426,011	—	3,564	(5,606)
(Option fee)	(9,170)	—		
Interest rate swaps: (fixed rate payment, floating rate receipt)	$ 2,660	$ 2,660	$ (53)	$ (53)

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
Foreign currency forward contracts:				
Selling:				
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
Foreign currency forward contracts:				
Selling:				
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
Foreign currency forward contracts:				
Selling:				
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.

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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**
Total other comprehensive income (loss)	**¥ 20,811**	¥ (2,505)	**$ 221,394**

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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	
For the year ended March 31, 2013:				
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**
For the year ended March 31, 2012:				
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.

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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							
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total	Reconciliations	Consolidated
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

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Millions of Yen — 2012

	Reportable segment: Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total	Reconciliations	Consolidated
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: Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Others	Total	Reconciliations	Consolidated
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.

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4. Information about Geographical Areas
(a) Sales

Millions of Yen													
2013													
	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													
2013													
	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													
2013													
	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													
2013													
	Japan		China		Vietnam		Americas		Europe		Asia and others		Total
$	**589,021**	**$**	**127,479**	**$**	**98,330**	**$**	**64,628**	**$**	**41,500**	**$**	**21,478**	**$**	**942,436**

Brother Industries, Ltd. and Consolidated Subsidiaries
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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**

Brother Industries, Ltd. and Consolidated Subsidiaries
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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**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of BROTHER INDUSTRIES, LTD.:

We have audited the accompanying consolidated balance sheet of BROTHER INDUSTRIES, LTD. and consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of BROTHER INDUSTRIES, LTD. and consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2013

Member of
Deloitte Touche Tohmatsu Limited