

CONSOLIDATED FINANCIAL STATEMENTS
BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016



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

At
your
side.

CONTENTS

CONSOLIDATED BALANCE SHEET	01
CONSOLIDATED STATEMENT OF INCOME	03
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	04
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	05
CONSOLIDATED STATEMENT OF CASH FLOWS	06
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	08
INDEPENDENT AUDITORS' REPORT	42

CONSOLIDATED BALANCE SHEET

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 18)	¥ 66,690	¥ 104,733	\$ 590,178
Time deposits (Note 18)	2,981	3,217	26,384
Marketable securities (Notes 5 and 18)	9,737	2,916	86,171
Receivables (Notes 18 and 19):			
Trade notes and accounts	99,283	100,321	878,606
Unconsolidated subsidiaries and associated companies	747	920	6,613
Allowance for doubtful accounts	(2,557)	(1,813)	(22,627)
Total receivables	97,473	99,427	862,592
Inventories (Note 6)	126,871	122,426	1,122,755
Deferred tax assets (Note 14)	16,184	21,196	143,223
Other current assets (Notes 18 and 19)	20,237	17,817	179,087
Total current assets	340,174	371,731	3,010,391
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 7 and 8)	18,675	14,742	165,261
Buildings and structures (Notes 7 and 8)	107,024	104,283	947,116
Machinery and vehicles (Note 7)	60,864	56,276	538,623
Furniture and fixtures (Note 7)	111,626	105,404	987,838
Lease assets (Note 7)	9,178	8,207	81,217
Construction in progress	2,712	892	23,998
Total property, plant and equipment	310,078	289,804	2,744,053
Accumulated depreciation	(187,006)	(177,660)	(1,654,920)
Net property, plant and equipment	123,072	112,144	1,089,132
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 18)	21,921	38,182	193,987
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 18)	1,936	2,481	17,131
Goodwill (Note 7)	107,409	3,836	950,519
Deferred tax assets (Note 14)	3,566	4,640	31,553
Asset for retirement benefits (Notes 2 (15) and 10)	1,924	6,676	17,030
Other investments and assets (Notes 7 and 18)	67,810	27,541	600,090
Total investments and other assets	204,565	83,355	1,810,310
TOTAL	¥ 667,811	¥ 567,230	\$ 5,909,834

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Notes 9 and 18)	¥ 6,557	¥ 576	\$ 58,030
Current portion of long-term debt (Notes 9 and 18)	14,716	11,731	130,227
Payables (Note 18):			
Trade notes and accounts	37,010	43,278	327,521
Unconsolidated subsidiaries and associated companies	1,508	2,015	13,346
Other	16,193	19,239	143,305
Total payables	54,711	64,532	484,172
Income taxes payable (Note 18)	3,124	14,924	27,646
Accrued expenses (Note 2 (14))	50,594	48,971	447,738
Deferred tax liabilities (Note 14)	113	85	1,004
Other current liabilities (Notes 11 and 19)	8,701	12,571	77,004
Total current liabilities	138,518	153,390	1,225,821
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 18)	142,809	7,579	1,263,795
Liability for retirement benefits (Notes 2 (15) and 10)	16,278	18,593	144,057
Deferred tax liabilities (Note 14)	18,160	12,981	160,711
Other long-term liabilities (Note 11)	12,323	7,404	109,053
Total long-term liabilities	189,570	46,556	1,677,615
EQUITY (Note 12):			
Common stock, no par value:			
Authorized: 600,000,000 shares			
Issued: 277,535,866 shares in 2016 and 2015	19,210	19,210	169,999
Capital surplus	16,696	16,696	147,753
Stock acquisition rights (Note 13)	737	616	6,521
Retained earnings	337,331	314,893	2,985,229
Treasury stock, at cost			
2016 - 17,901,425 shares			
2015 - 17,903,643 shares	(24,226)	(24,225)	(214,388)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,923	7,100	34,715
Deferred loss on derivatives under hedge accounting (Note 19)	(193)	(448)	(1,704)
Foreign currency translation adjustments	(22,391)	24,022	(198,148)
Defined retirement benefit plans (Notes 2 (15) and 10)	(8,205)	(7,085)	(72,606)
Subtotal	322,883	350,779	2,857,372
Noncontrolling interests	16,840	16,506	149,026
Total equity	339,723	367,285	3,006,398
TOTAL	¥ 667,811	¥ 567,230	\$ 5,909,834

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES	¥ 745,888	¥ 707,238	\$ 6,600,781
COST OF SALES (Note 15):	400,329	389,831	3,542,731
Gross profit	345,560	317,406	3,058,050
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 15 and 16)	298,283	259,865	2,639,670
Operating income	47,277	57,542	418,380
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,324	1,533	11,721
Interest expense	(871)	(342)	(7,710)
Sales discount	(2,787)	(2,956)	(24,668)
Gain on sales and disposals of property, plant and equipment, net (Note 8)	1,343	15,744	11,883
Foreign exchange gain (loss)	5,049	(2,334)	44,680
Loss on impairment of long-lived assets (Notes 7 and 16)	(1,168)	(1,785)	(10,337)
Loss on valuation of derivatives (Note 19)	(1,127)	(2,342)	(9,974)
Gain on sales of investment securities (Note 5)	1,451	126	12,838
Other - net	(1,143)	213	(10,119)
Other income (expenses), net	2,069	7,858	18,314
INCOME BEFORE INCOME TAXES	49,346	65,399	436,694
INCOME TAXES (Note 14):			
Current	14,347	20,994	126,965
Deferred	3,554	(9,364)	31,450
Total income taxes	17,901	11,630	158,415
NET INCOME	31,446	53,769	278,280
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	428	(200)	3,789
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 31,017	¥ 53,970	\$ 274,490
PER SHARE OF COMMON STOCK (Note 21):			
Basic net income	¥ 119.47	¥ 206.68	\$ 1.06
Diluted net income	119.19	206.24	1.05
Cash dividends applicable to the year	36.00	30.00	0.32

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 31,446	¥ 53,769	\$ 278,280
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized (loss) gain on available-for-sale securities	(3,145)	2,935	(27,832)
Deferred gain on derivatives under hedge accounting	255	1,086	2,258
Foreign currency translation adjustments	(46,481)	18,847	(411,338)
Defined retirement benefit plans	(1,117)	(1,095)	(9,887)
Share of other comprehensive (loss) income in associates	(6)	5	(54)
Total other comprehensive (loss) income	(50,494)	21,779	(446,853)
COMPREHENSIVE (LOSS) INCOME (Note 20)	¥ (19,049)	¥ 75,548	\$ (168,573)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥ (19,437)	¥ 75,661	\$ (172,012)
Noncontrolling interests	389	(113)	3,438

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Thousands	Millions of Yen												
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Total	Noncontrolling Interests	Total Equity
							Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				
BALANCE, MARCH 31, 2014 (APRIL 1, 2014, as previously reported)	265,418	¥ 19,210	¥ 16,683	¥ 533	¥ 268,156	¥ (14,075)	¥ 4,209	¥ (1,534)	¥ 4,494	¥ (5,979)	¥ 291,698	¥ 16,613	¥ 308,311	
Cumulative effect of accounting change	—	—	—	—	(142)	—	—	—	—	—	(142)	(42)	(184)	
BALANCE, APRIL 1, 2014 (as restated)	265,418	19,210	16,683	533	268,014	(14,075)	4,209	(1,534)	4,494	(5,979)	291,556	16,571	308,127	
Adjustment of retained earnings due to change in scope of consolidation	—	—	—	—	(1)	—	—	—	—	—	(1)	—	(1)	
Net income attributable to owners of the parent	—	—	—	—	53,970	—	—	—	—	—	53,970	—	53,970	
Cash dividends, ¥27 per share	—	—	—	—	(7,090)	—	—	—	—	—	(7,090)	—	(7,090)	
Acquisition of treasury stock	(5,837)	—	—	—	—	(10,180)	—	—	—	—	(10,180)	—	(10,180)	
Sale of treasury stock	52	—	13	—	—	29	—	—	—	—	42	—	42	
Net change in the year	—	—	—	83	—	—	2,891	1,086	19,528	(1,106)	22,482	(66)	22,417	
BALANCE, MARCH 31, 2015	259,632	19,210	16,696	616	314,893	(24,225)	7,100	(448)	24,022	(7,085)	350,779	16,506	367,285	
Net income attributable to owners of the parent	—	—	—	—	31,017	—	—	—	—	—	31,017	—	31,017	
Cash dividends, ¥33 per share	—	—	—	—	(8,579)	—	—	—	—	—	(8,579)	—	(8,579)	
Acquisition of treasury stock	(6)	—	—	—	—	(8)	—	—	—	—	(8)	—	(8)	
Sale of treasury stock	8	—	1	—	—	8	—	—	—	—	8	—	8	
Net change in the year	—	—	—	121	—	—	(3,177)	255	(46,413)	(1,120)	(50,334)	334	(49,999)	
BALANCE, MARCH 31, 2016	259,634	¥ 19,210	¥ 16,696	¥ 737	¥ 337,331	¥ (24,226)	¥ 3,923	¥ (193)	¥ (22,391)	¥ (8,205)	¥ 322,883	¥ 16,840	¥ 339,723	

	Thousands of U.S. Dollars (Note 1)												
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income					Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				
BALANCE, MARCH 31, 2015	\$ 169,999	\$ 147,748	\$ 5,451	\$ 2,786,661	\$ (214,380)	\$ 62,832	\$ (3,962)	\$ 212,583	\$ (62,695)	\$ 3,104,238	\$ 146,067	\$ 3,250,306	
Net income attributable to owners of the parent	—	—	—	274,490	—	—	—	—	—	274,490	—	274,490	
Cash dividends, \$0.29 per share	—	—	—	(75,922)	—	—	—	—	—	(75,922)	—	(75,922)	
Acquisition of treasury stock	—	—	—	—	(75)	—	—	—	—	(75)	—	(75)	
Sale of treasury stock	—	5	—	—	67	—	—	—	—	72	—	72	
Net change in the year	—	—	1,070	—	—	(28,117)	2,258	(410,731)	(9,911)	(445,432)	2,959	(442,473)	
BALANCE, MARCH 31, 2016	\$ 169,999	\$ 147,753	\$ 6,521	\$ 2,985,229	\$ (214,388)	\$ 34,715	\$ (1,704)	\$ (198,148)	\$ (72,606)	\$ 2,857,372	\$ 149,026	\$ 3,006,398	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 49,346	¥ 65,399	\$ 436,694
Adjustments for:			
Income taxes - paid	(27,876)	(9,947)	(246,692)
Depreciation and amortization	34,341	28,206	303,906
Loss on impairment of long-lived assets	1,168	1,785	10,337
Amortization of goodwill	6,781	1,318	60,010
Gain on sales and disposals of property, plant and equipment, net	(1,343)	(15,744)	(11,883)
Foreign exchange gain	(2,555)	(7,226)	(22,608)
Loss on valuation of derivatives	1,127	2,342	9,974
Gain on sales of investment securities	(1,451)	(125)	(12,838)
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	6,085	(6,294)	53,852
Increase in inventories	(8,095)	(6,451)	(71,638)
Decrease in trade notes and accounts payable	(7,833)	(1,154)	(69,314)
(Decrease) increase in accrued expenses	(2,297)	2,229	(20,329)
(Decrease) increase in liability for retirement benefits	(1,916)	4,785	(16,951)
Increase in allowance for doubtful accounts	1,153	1,027	10,207
(Decrease) increase in copyright fee reserve	(1,311)	234	(11,600)
Other - net	3,914	(2,362)	34,639
Total adjustments	(105)	(7,377)	(928)
Net cash provided by operating activities	49,242	58,022	435,766
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	3,452	17,964	30,550
Proceeds from sales and redemption of marketable securities	2,904	3,008	25,696
Proceeds from sales and redemption of investment securities	4,165	1,377	36,856
Purchases of property, plant and equipment	(32,025)	(23,784)	(283,410)
Purchases of intangible assets	(6,958)	(7,180)	(61,575)
Purchases of investment securities	(637)	(5,399)	(5,639)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(186,463)	—	(1,650,115)
Other - net	471	(1,313)	4,170
Net cash used in investing activities	(215,092)	(15,326)	(1,903,467)
FORWARD	¥ (165,850)	¥ 42,696	\$ (1,467,701)

CONSOLIDATED STATEMENT OF CASH FLOWS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
FORWARD	¥ (165,850)	¥ 42,696	\$ (1,467,701)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings, net	4,978	(876)	44,050
Proceeds from long-term debt	109,428	3,548	968,386
Proceeds from issuance of bonds	41,431	—	366,646
Repayments of long-term borrowings	(10,236)	(1,800)	(90,586)
Repayments of lease obligations	(1,994)	(1,544)	(17,642)
Cash dividends paid	(8,579)	(7,090)	(75,922)
Cash dividends paid to noncontrolling interests	(196)	(514)	(1,731)
Increase in treasury stock, net	(4)	(10,175)	(40)
Other - net	(510)	—	(4,512)
Net cash provided by (used in) financing activities	134,317	(18,451)	1,188,648
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(6,708)	8,554	(59,366)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38,241)	32,798	(338,419)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES	—	2,905	—
CASH AND CASH EQUIVALENTS INCREASED BY MERGER WITH UNCONSOLIDATED SUBSIDIARIES	199	95	1,757
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	104,733	68,935	926,839
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 66,690	¥ 104,733	\$ 590,178
Additional information:			
Assets acquired and liabilities assumed by acquisition (Note 4)			
Current assets	¥ 33,714	—	\$ 298,358
Long-term assets	62,072	—	549,310
Goodwill	126,734	—	1,121,540
Current liabilities	(17,060)	—	(150,977)
Long-term liabilities	(12,275)	—	(108,625)
Direct acquisition cost of additional shares of a newly consolidated subsidiary	193,186	—	1,709,607
Cash and cash equivalents held by a newly consolidated subsidiary	(6,912)	—	(61,165)
Acquisition of a newly consolidated subsidiary, net of cash acquired	¥ 186,274	—	\$ 1,648,442

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥113 to \$1, the approximate rate of exchange at March 31, 2016. 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. Amounts of less than one million yen and one thousand U.S. dollars have been rounded to the nearest million yen and one thousand U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The Company has 120 (82 in 2015) subsidiaries at March 31, 2016. The accompanying consolidated financial statements as of March 31, 2016 include the accounts of the Company and its significant 114 (74 in 2015) subsidiaries (together, the "Group"). The remaining six (eight in 2015) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

Details of significant consolidated subsidiaries at March 31, 2016, are as follows:

	Equity ownership percentage at March 31, 2016		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
Brother Sales, Ltd.	100.0	—	¥ 3,500,000
Teichiku Entertainment, Inc.	—	96.0%	¥ 124,000
Nissei Corporation	60.2	—	¥ 3,475,000
Standard Corp.	—	99.9	¥ 90,000
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 Sewing Machines Europe GmbH	—	100.0	EURO 25,000
Brother Nordic A/S	—	100.0	DKr. 42,000
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	—	100.0	EURO 25,000
Brother Italia S.p.A.	—	100.0	EURO 3,700
Domino Printing Sciences plc	100.0	—	Stg.£ 5,734
Domino UK Ltd.	—	100.0	Stg.£ 0.1
Domino Amjet, Inc.	—	100.0	US\$ 1
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	—	CNY 49,105
Brother International (HK) 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 (Asia) Ltd.	100.0	—	US\$ 37,000
Brother Machinery Xian Co., Ltd.	100.0	—	CNY 282,712
Brother Industries (Shenzhen), Ltd.	—	100.0	CNY 218,717
Brother (China) Ltd.	100.0	—	CNY 168,465
Brother Industries (Vietnam) Ltd.	100.0	—	US\$ 80,000
Brother Technology (Shenzhen) Ltd.	—	100.0	CNY 117,454
Brother Machinery Shanghai Ltd.	—	100.0	CNY 50,000
Brother Industries Saigon, Ltd.	100.0	—	US\$ 28,000
Brother Industries (Philippines), Inc.	100.0	—	US\$ 134,000
Nissei Gear Motor Mfg (Changzhou) Co., Ltd.	—	60.2	CNY 111,600
Brother Machinery Vietnam Co., Ltd.	100.0	—	US\$ 41,000

Under the control and influence concepts, 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.

Domino Printing Sciences plc and its 38 subsidiaries have been included in the scope of consolidation and its three associated companies have been included in the scope of the equity method from the year ended March 31, 2016, due to share acquisition. Also, two of the subsidiaries have been subsequently eliminated from the scope of consolidation due to liquidation.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is 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 October 31 or December 31. These subsidiaries are consolidated using their financial statements as of the parent's fiscal year end, which are prepared solely for consolidation purposes.

The fiscal year end of certain foreign consolidated subsidiaries is December 31. These subsidiaries are consolidated using their financial statements as of their latest fiscal year end, and significant transactions occurring between their fiscal year end and the Company's fiscal year end and the parent's fiscal year end are adjusted on consolidation.

(2) Investments in Unconsolidated Subsidiaries and Associated Companies

Investments in eight (five in 2015) associated companies are accounted for by the equity method.

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

Accordingly, income from the unconsolidated subsidiaries and associated companies is recognized when the Group receives dividends. Unrealized 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

In May 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" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. 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 generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that 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 recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(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" which was subsequently revised in line with the revisions to PITF No. 18 above. The 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 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 recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(5) 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."

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

- (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.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

- (a) Transactions with noncontrolling interest — A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- (b) Presentation of the consolidated balance sheet — In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.
- (c) Presentation of the consolidated statement of income — In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.
- (d) Provisional accounting treatments for a business combination—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
- (e) Acquisition-related costs — Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows for acquisition-related costs are presented under operating activities.

As a result, operating income and income before income taxes for the year ended March 31, 2016, decreased by ¥1,702 million (\$15,066 thousand). There was no impact on capital surplus from these accounting changes.

In addition, net assets per share, basic net income per share, and diluted net income per share for the year ended March 31, 2016, decreased by ¥6.6 (\$0.06), ¥6.6 (\$0.06), and ¥6.5 (\$0.06), respectively.

The Company acquired 100% of the shares of Domino Printing Sciences plc on June 11, 2015 and accounted for this acquisition by the purchase method of accounting (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 or net selling value. The company and consolidated manufacturing subsidiaries determine cost by the average method or the first-in, first-out method. The consolidated sales subsidiaries determine cost by using the moving average method (see Note 6).

(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, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and ii) available-for-sale securities, 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 of property, plant and equipment of the Company and its consolidated domestic subsidiaries is mainly computed by the declining-balance method, while the straight-line method is mainly applied to property, plant and equipment of consolidated foreign subsidiaries.

The range of useful lives is principally from three to 60 years for buildings and structures, from three to 20 years for machinery and vehicles and from one 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

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 provides a warranty reserve for repair services to cover all repair expenses based on its past warranty experience and on estimated repair expenses for specific products.

The warranty reserve was included in accrued expenses and amounted to ¥5,679 million (\$50,254 thousand) and ¥5,458 million at March 31, 2016 and 2015, respectively.

(15) Retirement and Pension Plans

(i) **Employees' Retirement and Pension Plans** — 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 funded and 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 qualify as plan assets. However, because it was expected that the fund status would remain in surplus, the Company cancelled a certain portion of the securities as plan assets and transferred them in February 2006.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis within the average remaining service period. Past service costs are amortized on a straight-line basis within the average remaining service period.

In May 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 were followed by partial amendments from time to time through 2009.

- (a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 20).
- (c) 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) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) 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 applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using different discount rates according to the estimated timing of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, asset for retirement benefits as of April 1, 2014, decreased by ¥669 million, liability for retirement benefits as of April 1, 2014, decreased by ¥209 million, and retained earnings as of April 1, 2014, decreased by ¥142 million. The effect on the consolidated statement of income, net assets per share and basic and diluted net income per share for the year ended March 31, 2015 was immaterial.

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

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly 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 non-employees based on the fair value of either the stock options or the goods or services received. In the consolidated balance sheet, stock options are presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

(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.

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 be capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

The Group applied the revised accounting standard effective April 1, 2008.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates 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) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps, currency option contracts and interest-rate and currency swaps 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 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 statement 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 for export sales and import purchase are measured at fair value and the unrealized gains/losses are recognized in income or expense. Foreign currency forward 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.

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

(24) Per Share Information

Basic net income per share is computed by dividing net income attributable 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 fiscal years, including dividends to be paid after the end of the year.

(25) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

(26) Consolidated Corporate Tax System

The Company and certain consolidated subsidiaries file a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

(27) New Accounting Pronouncements

Tax Effect Accounting — On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants.

While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company is not in the process of measuring the effects of applying the new guidance in future applicable periods because it will voluntarily adopt International Financial Reporting Standards from the beginning of the first quarter of the fiscal year ending March 31, 2017.

3 | CHANGES IN PRESENTATION METHOD

(Consolidated statement of income)

Prior to April 1, 2015, "Gain on sales of investment securities" was included in "Other - net" among the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income. Since the amount increased significantly during this fiscal year ended March 31, 2016, the amount is disclosed separately in the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income for the year ended March 31, 2016. The amount included in "Other - net" for the year ended March 31, 2015 was ¥126 million.

(Consolidated statement of cash flows)

Prior to April 1, 2015, "Gain on sales of investment securities" and "(Decrease) increase in copyright fee reserve" were included in "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, 2016, such amounts are disclosed separately in the "OPERATING ACTIVITIES" section of the consolidated statement of cash flows for the year ended March 31, 2016. The amounts included in "Other - net" for the year ended March 31, 2015 were ¥125 million (cash outflow) and ¥234 million (cash inflow), respectively.

4 | BUSINESS COMBINATIONS

Year Ended March 31, 2016

(Business Combination by Acquisition)

a. Outline of the business combination

(1) Name of acquired company and its business outline

Name of acquired company:	Domino Printing Sciences plc (Headquarters: Cambridge, United Kingdom)
Business outline:	Development, manufacture and sale of industrial printing equipment and related products

(2) Major reason for the business combination

- ✓ Strong value proposition in industrial printing
- ✓ Reinforced growth strategy in digital printing
- ✓ Value creation through sharing of best practices by Brother and Domino

(3) Date of business combination

June 11, 2015

(4) Legal form of business combination

Acquisition of shares

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

(5) Name of the company after the combination
Domino Printing Sciences plc (no change)

(6) Ratio of voting rights acquired
100%

(7) Basis for determining the acquirer
It is based on the fact that the Company acquired 100% of voting rights by means of share acquisition in consideration for cash.

b. The period for which the operations of the acquired company are included in the consolidated financial statements

The operations of the acquired company for the nine months from July 1, 2015 to March 31, 2016, were included in the consolidated statement of income for the year ended March 31, 2016.

c. Acquisition cost of the acquired company and related details of each class of consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition—Cash	¥ 193,186	\$ 1,709,607
Acquisition cost	¥ 193,186	\$ 1,709,607

d. Major acquisition-related costs

Advisory fees and commissions to the lawyers and financial institutions: ¥2,237 million (\$19,793 thousand)

e. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred
¥126,734 million (\$1,121,540 thousand)

(2) Reasons for the goodwill incurred
Goodwill is incurred from expected excess earnings power in the future arising from further business development.

(3) Method and period of amortization
The goodwill is amortized on a straight-line basis over 18 years.

f. The assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 33,714	\$ 298,358
Long-term assets	62,072	549,310
Total assets acquired	95,786	847,668
Current liabilities	17,060	150,977
Long-term liabilities	12,275	108,625
Total liabilities assumed	29,335	259,601
Net assets acquired	¥ 66,452	\$ 588,067

g. Pro forma information (unaudited)

If this business combination had been completed as of April 1, 2015, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2016, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥ 16,604	\$ 146,936
Operating income	(2,811)	(24,874)
Income before income taxes	(2,786)	(24,651)
Net income attributable to owners of the parent	(2,569)	(22,730)

	Yen	U.S. Dollars
Per share of common stock:		
Basic net income	¥ (9.89)	\$ (0.09)

Outline of the method of calculation for the effect above:

Pro forma information was calculated based on the difference in sales and profit information calculated as if the business combination had been completed at the beginning of the fiscal year and those included in the consolidated financial results.

The above information has not been audited.

5 | MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current:			
Government and corporate bonds	¥ 9,737	¥ 2,916	\$ 86,171
Total	¥ 9,737	¥ 2,916	\$ 86,171
Non-current:			
Marketable equity securities	¥ 14,778	¥ 20,885	\$ 130,780
Government and corporate bonds	5,468	16,403	48,393
Other	1,674	893	14,814
Total	¥ 21,921	¥ 38,182	\$ 193,987

The costs and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,193	¥ 5,718	¥ (241)	¥ 13,670
Government and corporate bonds	15,037	63	(0)	15,100
Held-to-maturity	100	0	—	100

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2015				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 9,768	¥ 9,612	¥ (67)	¥ 19,313
Government and corporate bonds	19,175	54	(11)	19,219
Other	16	—	—	16
Held-to-maturity	100	0	—	100

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 72,504	\$ 50,601	\$ (2,129)	\$ 120,976
Government and corporate bonds	133,070	560	(1)	133,629
Held-to-maturity	885	0	—	885

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

The information of investment securities which were sold during the years ended March 31, 2016 and 2015, was as follows:

March 31, 2016	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	¥ 2,965	¥ 1,451	¥ —

March 31, 2015	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	¥ 277	¥ 126	¥ (1)

March 31, 2016	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Securities classified as:			
Available-for-sale:			
Equity securities	\$ 26,235	\$ 12,838	\$ —

The impairment loss on available-for-sale equity securities for the year ended March 31, 2016 was ¥107 million (\$946 thousand) and included in the "Other - net" among the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income.

6 | INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise and finished products	¥ 86,735	¥ 80,552	\$ 767,563
Work in process	13,121	12,228	116,119
Raw materials and supplies	27,015	29,647	239,074
Total	¥ 126,871	¥ 122,426	\$ 1,122,755

7 | LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2016 and 2015.

As a result, the Group-recognized impairment loss for the year ended March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Business assets in China	—	¥ 1,173	—
Business assets in Japan	¥ 1,082	108	\$ 9,580
Assets to be disposed of	61	504	539
Idle assets	25	—	219
Goodwill	424	—	3,751
Total	¥ 1,592	¥ 1,785	\$ 14,089

The carrying amounts of these assets were written down to the estimated recoverable amount.

For the year ended March 31, 2016, the recoverable amount of business assets was measured at the value in use, and the discount rate used for computation of the present value of future cash flows was 6.8%. The recoverable amount of assets to be disposed of and idles assets was measured at the net selling price at disposition which was calculated as estimated selling price less cost to sell.

For the year ended March 31, 2015, the recoverable amount of business assets was measured at the value in use or the net selling price at

disposition. The discount rates used for computation of the present value of future cash flows were from 8.7% to 11.5%. The recoverable amount of assets to be disposed of was measured at the value in use which was recorded as zero, or the net selling price at disposition which was calculated as estimated selling price less cost to sell.

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 ¥892 million (\$7,895 thousand) and ¥889 million for the years ended March 31, 2016 and 2015, respectively. The gain on sales of those properties and loss on disposals of those properties for the year ended March 31, 2016 were ¥1,527 million (\$13,511 thousand) and ¥48 million (\$421 thousand), respectively, and included in "Gain on sales and disposals of property, plant and equipment, net" among the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income.

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, 2015	Decrease	March 31, 2016	March 31, 2016
¥ 7,580	¥ (335)	¥ 7,245	¥ 16,812

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2014	Decrease	March 31, 2015	March 31, 2015
¥ 9,198	¥ (1,619)	¥ 7,580	¥ 16,601

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2015	Decrease	March 31, 2016	March 31, 2016
\$ 67,077	\$ (2,963)	\$ 64,114	\$ 148,776

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 is mainly measured by the Group in accordance with the Real Estate Appraisal Standard.

9 | SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans principally from banks with weighted-average interest rate of 0.31% (2.85% in 2015)	¥ 6,557	¥ 576	\$ 58,030

Long-term debt at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Fifth unsecured 0.15% domestic bonds, due 2018*	¥ 20,000	—	\$ 176,991
Sixth unsecured 0.29% domestic bonds, due 2020*	20,000	—	176,991
Unsecured loan notes (unsecured domestic bonds, due 2020)*	1,114	—	9,861
Unsecured loans from banks, due 2015 to 2023 with interest rates ranging from 0.24 to 4.17% (from 0.39 to 1.90% in 2015)	110,769	¥ 14,905	980,254
Lease obligations	5,642	4,404	49,927
Total	157,525	19,309	1,394,023
Less current portion	(14,716)	(11,731)	(130,227)
Long-term debt, less current portion	¥ 142,809	¥ 7,579	\$ 1,263,795

*Issued by the Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

Annual maturities of long-term debt at March 31, 2016, were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 14,716	\$ 130,228
2018	20,908	185,029
2019	21,456	189,875
2020	21,369	189,106
2021	20,534	181,718
2022 and thereafter	58,542	518,067
Total	¥ 157,525	\$ 1,394,023

10 | RETIREMENT AND PENSION PLANS

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

Employees' Retirement and Pension Plans

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 liability for retirement benefits in the accompanying consolidated balance sheet consisted of retirement allowances for directors and Audit & Supervisory Board members of ¥706 million (\$6,250 thousand) and ¥557 million at March 31, 2016 and 2015, respectively, and employees' retirement benefits of ¥15,572 million (\$137,807 thousand) and ¥18,037 million at March 31, 2016 and 2015, respectively.

1. Defined Benefit Pension Plans

(1) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 75,561	¥ 67,577	\$ 668,681
Cumulative effect of accounting change	—	460	—
Balance at beginning of year (as restated)	75,561	68,037	668,681
Current service cost	2,983	2,755	26,403
Interest cost	1,164	1,360	10,303
Actuarial losses	1,825	6,359	16,149
Benefits paid	(2,626)	(2,780)	(23,243)
Past service cost	(85)	(51)	(751)
Increase due to business combinations	639	—	5,658
Decrease due to transfer to defined contribution retirement plan	(2,818)	—	(24,939)
Foreign currency translation adjustments	(1,908)	(259)	(16,885)
Others	55	140	485
Balance at end of year	¥ 74,790	¥ 75,561	\$ 661,860

Certain subsidiaries adopt a simplified method for calculating their retirement and pension plans.

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 64,200	¥ 58,498	\$ 568,144
Expected return on plan assets	1,658	1,910	14,676
Actuarial (losses) gains	(2,063)	4,077	(18,253)
Contributions from the employer	2,266	2,111	20,051
Benefits paid	(2,324)	(2,515)	(20,562)
Increase due to business combinations	1,001	—	8,863
Decrease due to transfer to defined contribution retirement plan	(2,417)	—	(21,391)
Foreign currency translation adjustments	(1,232)	47	(10,903)
Others	52	72	458
Balance at end of year	¥ 61,142	¥ 64,200	\$ 541,083

Certain subsidiaries adopt a simplified method for calculating their retirement and pension plans.

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 69,342	¥ 70,645	\$ 613,648
Plan assets	(61,142)	(64,200)	(541,083)
	8,200	6,445	72,565
Unfunded defined benefit obligation	5,448	4,916	48,212
Net liability arising from defined benefit obligation	¥ 13,648	¥ 11,361	\$ 120,777

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥ 15,572	¥ 18,037	\$ 137,807
Asset for retirement benefits	(1,924)	(6,676)	(17,030)
Net liability arising from defined benefit obligation	¥ 13,648	¥ 11,361	\$ 120,777

Certain subsidiaries adopt a simplified method for calculating their retirement and pension plans.

(4) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 2,983	¥ 2,755	\$ 26,403
Interest cost	1,164	1,360	10,303
Expected return on plan assets	(1,658)	(1,910)	(14,676)
Recognized actuarial losses	1,430	1,419	12,652
Amortization of prior service cost	(114)	(78)	(1,005)
Others	167	15	1,476
Net periodic benefit costs	¥ 3,972	¥ 3,561	\$ 35,153

Certain subsidiaries adopt a simplified method for calculating their retirement and pension plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost	¥ 29	¥ 27	\$ 254
Actuarial losses	2,065	863	18,273
Total	¥ 2,093	¥ 890	\$ 18,526

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 103	¥ 78	\$ 911
Unrecognized actuarial losses	11,127	9,311	98,472
Total	¥ 11,230	¥ 9,390	\$ 99,384

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	24%	26%
Equity investments	27	28
Cash and cash equivalents	3	3
General insurance funds	23	25
Alternatives	19	15
Others	3	3
Total	100%	100%

The employee' retirement benefit trusts consist of 5% and 5% of the plan assets as of both March 31, 2016 and 2015, respectively.

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	Principally from 0.4% to 3.6%	Principally from 0.7% to 3.3%
Expected rate of return on plan assets	Principally from 0.4% to 3.6%	Principally from 1.0% to 3.3%

2. Defined Contribution Pension Plans

Total contribution for defined contribution pension plans was ¥3,234 million (\$28,617 thousand) and ¥2,166 million for the years ended March 31, 2016 and 2015, respectively.

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 LCD monitors in karaoke machines upon the termination of the lease of karaoke houses.

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

The estimated periods until the asset retirement obligations are settled are four to 15 years from the acquisition date. The discount rates used for

computation of the asset retirement obligations are 0.02% to 1.36%.

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 1,474	¥ 1,048	\$ 13,045
Additional provisions associated with purchases of property, plant and equipment	189	446	1,671
Reconciliation associated with passage of time	16	16	145
Reduction associated with settlement of asset retirement obligations	(207)	(68)	(1,834)
Other	51	32	454
Balance at end of year	¥ 1,523	¥ 1,474	\$ 13,481

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

12 | EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (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 being prescribed as one year rather than the normal two year 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, and accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

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 reversed 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 within equity 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 a 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

13 | STOCK OPTIONS

The stock options outstanding as of March 31, 2016, are 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 day following the 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
2014 Stock Option	Three directors 16 executive officers	30,800 shares 49,600 shares	March 27, 2014	¥1 (\$ 0.01)	Same as above
2015 Stock Option	Six directors 13 executive officers	37,300 shares 28,800 shares	March 18, 2015	¥1 (\$ 0.01)	Same as above
2016 Stock Option	Five directors 18 executive officers	52,200 shares 66,000 shares	March 24, 2016	¥1 (\$ 0.01)	Same as above

The stock option activity is as follows:

	2016 Stock Option	2015 Stock Option	2014 Stock Option	2013 Stock Option	2012 Stock Option	2011 Stock Option	2010 Stock Option	2009 Stock Option	2008 Stock Option	2007 Stock Option
	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)	(shares)
Year ended March 31, 2015										
Non-vested										
April 1, 2014 – Outstanding	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Canceled	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
March 31, 2015 – Outstanding	—	—	—	—	—	—	—	—	—	—
Vested										
April 1, 2014 – Outstanding	—	—	80,400	106,100	103,100	79,500	93,500	67,200	26,400	12,000
Vested	—	66,100	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	19,000	12,200	—	—
Canceled	—	—	—	—	—	—	—	—	—	—
March 31, 2015 – Outstanding	—	66,100	80,400	106,100	103,100	79,500	74,500	55,000	26,400	12,000
Year ended March 31, 2016										
Non-vested										
April 1, 2015 – Outstanding	—	—	—	—	—	—	—	—	—	—
Granted	—	—	—	—	—	—	—	—	—	—
Canceled	—	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—	—
March 31, 2016 – Outstanding	—	—	—	—	—	—	—	—	—	—
Vested										
April 1, 2015 – Outstanding	—	66,100	80,400	106,100	103,100	79,500	74,500	55,000	26,400	12,000
Vested	118,200	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	7,100	700	—	—	—
Canceled	—	—	—	—	—	—	—	—	—	—
March 31, 2016 – Outstanding	118,200	66,100	80,400	106,100	103,100	72,400	73,800	55,000	26,400	12,000
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	— (—)	— (—)	— (—)	— (—)	— (—)	¥1,305 (\$11.55)	¥1,305 (\$11.55)	— (—)	— (—)	— (—)
Fair value price at grant date	¥1,089 (\$9.64)	¥1,615 (\$14.29)	¥1,169 (\$10.35)	¥850 (\$7.52)	¥929 (\$8.22)	¥1,018 (\$9.01)	¥899 (\$7.96)	¥642 (\$5.68)	¥915 (\$8.10)	¥1,350 (\$11.95)
Fair value price at grant date	¥1,089 (\$9.64)	¥1,655 (\$14.65)	¥1,157 (\$10.24)	¥880 (\$7.79)	¥957 (\$8.47)	¥1,034 (\$9.15)	¥912 (\$8.07)	— (—)	— (—)	— (—)

The Assumptions Used to Measure Fair Value of 2016 Stock Option (directors)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.95%
Estimated remaining outstanding period:	9 years
Estimated dividend rate:	1.98%
Risk free interest rate:	(0.15)%

The Assumptions Used to Measure Fair Value of 2016 Stock Option (executive officers)	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	41.95%
Estimated remaining outstanding period:	9 years
Estimated dividend rate:	1.98%
Risk free interest rate:	(0.15)%

14 | INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 32.83% and 35.33% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred Tax Assets:			
Inventories	¥ 11,475	¥ 12,593	\$ 101,550
Tax loss carryforwards	10,306	11,621	91,203
Depreciation	4,285	5,214	37,924
Liability for retirement benefits	2,898	4,266	25,643
Accrued bonuses	2,166	2,482	19,165
Accrued expenses	2,063	2,414	18,255
Warranty reserve	1,157	1,261	10,237
Allowance for doubtful accounts	671	1,153	5,936
Write-down of investment securities	521	3,527	4,608
Other	4,153	6,483	36,752
Less valuation allowance	(16,001)	(19,731)	(141,604)
Total deferred tax assets	23,693	31,283	209,669
Deferred Tax Liabilities:			
Asset identified resulting from business combinations	(8,197)	—	(72,544)
Undistributed earnings of foreign subsidiaries	(5,820)	(6,519)	(51,503)
Differences between book and tax bases of property, plant and equipment	(2,744)	(2,611)	(24,284)
Securities withdrawn from retirement benefit trust	(2,454)	(2,582)	(21,715)
Unrealized gain on available-for-sale securities	(1,590)	(2,810)	(14,068)
Asset for retirement benefits	(607)	(2,924)	(5,367)
Other	(805)	(1,067)	(7,126)
Total deferred tax liabilities	(22,217)	(18,514)	(196,607)
Net deferred tax assets	¥ 1,476	¥ 12,770	\$ 13,062

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, with the corresponding figures for 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	32.83 %	35.33 %
Lower income tax rates applicable to income in certain foreign countries	(6.60)	(4.80)
Net change in valuation allowance	4.67	(11.19)
Amortization of goodwill	4.32	0.58
Tax credit for R&D expenses	(2.55)	(5.64)
Expenses not deductible for income tax purposes	2.06	1.05
Withholding tax for dividends overseas	1.34	0.49
Temporary difference for investments in subsidiaries	1.18	0.25
Revenues not recognized for income tax purposes	(1.15)	(0.34)
Undistributed earnings of foreign subsidiaries	(0.98)	1.88
Effect of a change in statutory tax rate	(0.27)	(0.42)
Tax sparing credit	(0.19)	(0.43)
Other – net	1.73	1.04
Actual effective tax rate	36.38 %	17.78 %

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016 and 2017, to approximately 30.70% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.47%. The effect of these changes was to decrease current deferred tax assets, net of current deferred tax liabilities, by ¥191 million (\$1,693 thousand), non-current deferred tax liabilities, net of non-current deferred tax assets, by ¥352 million (\$3,111 thousand) and defined retirement benefit plan by ¥111 (\$980 thousand) and to increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥80 million (\$711 thousand) in the consolidated balance sheet as of March 31, 2016, and to decrease income taxes—deferred by ¥191 million (\$1,687 thousand) in the consolidated statement of income for the year then ended.

Also, the normal effective statutory tax rate in the United Kingdom was changed and the effect of this change was to decrease current deferred tax assets, net of current deferred tax liabilities, by ¥66 million (\$583 thousand), non-current deferred tax liabilities, net of non-current deferred tax assets, by ¥696 million (\$6,163 thousand) and defined retirement benefit plan by ¥49 million (\$432 thousand) in the consolidated balance sheet as of March 31, 2016, and to decrease income taxes—deferred by ¥706 million (\$6,244 thousand) in the consolidated statement of income for the year then ended.

15 | R&D COSTS

R&D costs charged to income were ¥46,017 million (\$407,234 thousand) and ¥42,524 million for the years ended March 31, 2016 and 2015, respectively.

16 | AMORTIZATION OF GOODWILL

Amortization of goodwill was ¥6,781 million (\$60,010 thousand) and ¥1,318 million for the years ended March 31, 2016 and 2015, respectively.

17 | LEASES

(As lessee)

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Operating leases:			
Due within one year	¥ 2,976	¥ 2,471	\$ 26,334
Due after one year	8,983	8,489	79,492
Total	¥ 11,958	¥ 10,960	\$ 105,826

18 | FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund 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 for investments and loans and to fund ongoing operations. Although most yen-denominated long-term bank loans are exposed to interest rate risks and most foreign currency-denominated long-term bank loans are exposed to foreign currency exchange and interest rate risks, they are hedged by using interest rate swaps and interest-rate and currency swaps, respectively.

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, interest rate swaps, which are used to manage interest rate risk from yen-denominated bank loans, and interest-rate and currency swaps, which are used to manage foreign currency exchange and interest rate risks from foreign currency-denominated bank loans. Please see Note 19 for further details about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Group manages its exposure to credit risk by limiting investments 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, 2016.

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. Please see Note 19 for information related to the fair value of derivatives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
March 31, 2016			
Cash and cash equivalents	¥ 66,690	¥ 66,690	—
Time deposits	2,981	2,981	—
Marketable securities	9,732	9,732	¥ 0
Receivables	97,473	97,473	—
Investment securities	19,139	19,139	—
Investments in and advances to unconsolidated subsidiaries and associated companies	396		
Other investments and assets (including current portion)	128		
Allowance for doubtful accounts	(325)		
Net investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	199	201	2
Total	¥ 196,214	¥ 196,216	¥ 2
<hr/>			
Short-term borrowings	¥ 6,557	¥ 6,557	—
Current portion of long-term debt	14,716	14,716	—
Payables	54,711	54,711	—
Income taxes payable	3,124	3,124	—
Long-term debt	142,809	141,543	¥ (1,265)
Total	¥ 221,917	¥ 220,652	¥ (1,265)
<hr/>			
	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain
March 31, 2015			
Cash and cash equivalents	¥ 104,733	¥ 104,733	—
Time deposits	3,217	3,217	—
Marketable securities	2,916	2,916	—
Receivables	99,427	99,427	—
Investment securities	35,732	35,732	¥ 0
Investments in and advances to unconsolidated subsidiaries and associated companies	749		
Other investments and assets (including current portion)	99		
Allowance for doubtful accounts	(502)		
Net investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	346	347	0
Total	¥ 246,371	¥ 246,371	¥ 0
<hr/>			
Short-term borrowings	¥ 576	¥ 576	—
Current portion of long-term debt	11,731	11,731	—
Payables	64,532	64,532	—
Income taxes payable	14,924	14,924	—
Long-term debt	7,579	7,600	¥ 21
Total	¥ 99,341	¥ 99,362	¥ 21

March 31, 2016	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	\$ 590,178	\$ 590,178	—
Time deposits	26,384	26,384	—
Marketable securities	86,121	86,122	\$ 0
Receivables	862,592	862,592	—
Investment securities	169,369	169,369	—
Investments in and advances to unconsolidated subsidiaries and associated companies	3,507		
Other investments and assets (including current portion)	1,133		
Allowance for doubtful accounts	(2,877)		
Net investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	1,763	1,779	17
Total	\$ 1,736,408	\$ 1,736,425	\$ 17
Short-term borrowings	\$ 58,030	\$ 58,030	—
Current portion of long-term debt	130,227	130,227	—
Payables	484,172	484,172	—
Income taxes payable	27,646	27,646	—
Long-term debt	1,263,795	1,252,596	\$ (11,199)
Total	\$ 1,963,870	\$ 1,952,671	\$ (11,199)

Cash and cash equivalents and time deposits

The carrying values of cash and cash equivalents and time deposits 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 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.

Investments in and advances to unconsolidated subsidiaries and associated companies

The fair values of these investments are measured at the present value of their future cash flows classified by a term of a specified length and by risk category as per credit risk management, at a rate, which has the credit spread added to appropriate indices such as government bond yields.

Also, the fair values of the investments in certain consolidated subsidiaries are measured at the present value of the expected amounts of principal and interest reflecting their collectability, at a risk-free rate reflecting the remaining term of investment.

Short-term borrowings, current portion of long-term debt and long-term debt

The carrying values of short-term borrowings and current portion of long-term bank loans approximate fair value because of their short maturities.

The fair values of bonds with market prices are based on the market prices. The fair values of bonds without market prices and 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 bond and loan and the Group's credit risk.

The 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

Derivatives

Information related to the fair value of derivatives is included in Note 19.

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

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Equity securities that do not have a quoted market price in an active market	¥ 1,108	¥ 1,573	\$ 9,804
Investments in limited liability partnerships that do not have a quoted market price in an active market	1,674	877	14,814
Investments in and advances to unconsolidated subsidiaries and associated companies	1,540	1,732	13,624
Other	6	—	50
Total	¥ 4,327	¥ 4,182	\$ 38,292

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

	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
March 31, 2016				
Cash and cash equivalents	¥ 66,690	—	—	—
Time deposits	2,981	—	—	—
Marketable securities	9,737	—	—	—
Receivables	97,473	—	—	—
Investment securities:				
Available-for-sale securities with contractual maturities	—	¥ 5,468	—	—
Investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	22	54	¥ 17	¥ 430
Total	¥ 176,904	¥ 5,523	¥ 17	¥ 430

	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
March 31, 2015				
Cash and cash equivalents	¥ 104,733	—	—	—
Time deposits	3,217	—	—	—
Marketable securities	2,916	—	—	—
Receivables	99,427	—	—	—
Investment securities:				
Held-to-maturity securities	—	¥ 100	—	—
Available-for-sale securities with contractual maturities	—	14,007	¥ 2,120	¥ 177
Investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	18	47	14	769
Total	¥ 210,311	¥ 14,154	¥ 2,133	¥ 946

	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
March 31, 2016				
Cash and cash equivalents	\$ 590,178	—	—	—
Time deposits	26,384	—	—	—
Marketable securities	86,171	—	—	—
Receivables	862,592	—	—	—
Investment securities:				
Available-for-sale securities with contractual maturities	—	\$ 48,393	—	—
Investments in and advances to unconsolidated subsidiaries and associated companies and other investments and assets	198	481	\$ 153	\$ 3,807
Total	\$ 1,565,524	\$ 48,874	\$ 153	\$ 3,807

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

19 | 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 and interest-rate and currency swap contracts to manage its interest rate and currency 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, 2016 and 2015

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
At March 31, 2016				
Foreign currency forward contracts:				
Selling:				
U.S. Dollar	¥ 5,026	—	¥ 37	¥ 37
Euro	38,272	—	2,479	2,479
Yen	30,421	—	466	466
Mexican Peso	938	—	(11)	(11)
Korean Won	290	—	(14)	(14)
Indonesia Rupiah	104	—	(3)	(3)
Taiwan Dollar	597	—	(2)	(2)
India Rupee	330	—	(9)	(9)
Buying:				
U.S. Dollar	¥ 1,884	—	¥ (42)	¥ (42)
Philippine Peso	1	—	0	0
Currency option contracts:				
Selling:				
Call				
Euro	¥ 16,346	—	¥ 2	¥ (2)
(Option fee)	(—)	—		
Canadian Dollar	2,478	—	131	(131)
(Option fee)	(—)	—		
Buying:				
Call				
U.S. Dollar	¥ 1,239	—	¥ 8	¥ 8
(Option fee)	(—)	—		
Yen	16,346	—	(22)	(22)
(Option fee)	(—)	—		
Interest-rate and currency swap contracts:				
Floating rate receipt, fixed rate payment U.S. Dollar receipt, Yen payment	¥ 53,987	¥ 47,989	¥ (5,162)	¥ (5,162)

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) Certain option premiums are not received or paid because these currency option contracts are zero cost option contracts in which the premiums of the written options are the same as those paid for the options that are purchased.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
At March 31, 2015				
Foreign currency forward contracts:				
Selling:				
U.S. Dollar	¥ 13,642	—	¥ 1	¥ 1
Euro	5,035	—	412	412
Pound Sterling	578	—	(9)	(9)
Yen	24,651	—	(140)	(140)
Mexican Peso	669	—	6	6
Korean Won	323	—	(2)	(2)
Indonesia Rupiah	145	—	(1)	(1)
Taiwan Dollar	311	—	(6)	(6)
India Rupee	443	—	1	1
Buying:				
U.S. Dollar	¥ 2,484	—	¥ 27	¥ 27
Euro	53	—	(1)	(1)
Yen	25	—	(0)	(0)
Pound Sterling ^{*3)}	103,351	—	(2,828)	(2,828)
Currency option contracts:				
Selling:				
Call				
Euro	¥ 16,551	—	¥ 12	¥ (12)
(Option fee)	(—)	—		
Swiss Franc	248	—	37	(36)
(Option fee)	(1)	—		
Canadian Dollar	3,124	—	13	(13)
(Option fee)	(—)	—		
Buying:				
Call				
U.S. Dollar	¥ 1,562	—	¥ 40	¥ 40
(Option fee)	(—)	—		
Euro	111	—	—	(1)
(Option fee)	(1)	—		
Yen	16,551	—	3	3
(Option fee)	(—)	—		

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) Certain option premiums are not received or paid because these currency option contracts are zero cost option contracts in which the premiums of the written options are the same as those paid for the options that are purchased.

3) Hedge accounting is not applied to a certain portion of foreign currency forward contracts used for financing the acquisition of subsidiaries' shares which do not qualify for hedge accounting.

At March 31, 2016	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. Dollar	\$ 44,475	—	\$ 325	\$ 325
Euro	338,690	—	21,942	21,942
Yen	269,212	—	4,120	4,120
Mexican Peso	8,304	—	(94)	(94)
Korean Won	2,563	—	(120)	(120)
Indonesia Rupiah	919	—	(24)	(24)
Taiwan Dollar	5,281	—	(21)	(21)
India Rupee	2,923	—	(83)	(83)
Buying:				
U.S. Dollar	\$ 16,669	—	\$ (372)	\$ (372)
Philippine Peso	5	—	0	0
Currency option contracts:				
Selling:				
Call				
Euro	\$ 144,651	—	\$ 21	\$ (21)
(Option fee)	(—)	—		
Canadian Dollar	21,938	—	1,161	(1,161)
(Option fee)	(—)	—		
Buying:				
Call				
U.S. Dollar	\$ 10,969	—	\$ 73	\$ 73
(Option fee)	(—)	—		
Yen	144,651	—	(199)	(199)
(Option fee)	(—)	—		
Interest-rate and currency swap contracts:				
Floating rate receipt, fixed rate payment U.S. Dollar receipt, Yen payment	\$ 477,763	\$ 424,678	\$ (45,681)	\$ (45,681)

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) Certain option premiums are not received or paid because these currency option contracts are zero cost option contracts in which the premiums of the written options are the same as those paid for the options that are purchased.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

Derivative transactions to which hedge accounting is applied at March 31, 2016 and 2015

		Millions of Yen			
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2016					
Foreign currency forward contracts:					
Selling:					
U.S. Dollar	Receivables	¥	2,964	—	¥ (179)
Euro	Receivables		2,219	—	(67)
Canadian Dollar	Receivables		654	—	(44)
Chinese Yuan	Receivables		1,543	—	(85)
Buying:					
Swiss Franc	Payables	¥	2,247	—	¥ 119
Swedish Krona	Payables		758	—	55
Interest-rate and currency swap contracts:					
Floating rate receipt, fixed rate payment					
U.S. Dollar receipt, Yen payment	Long-term borrowings	¥	11,997	¥ 11,997	*2)
Interest rate swap contracts:					
Floating rate receipt, fixed rate payment					
	Long-term borrowings	¥	44,000	¥ 40,000	*2)

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) The interest-rate and currency swap contracts and interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are assigned to the associated long-term loans from banks and other financial institutions, recorded in the consolidated balance sheets at March 31, 2016, and included in the fair value of hedged items.

		Millions of Yen			
		Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2015					
Foreign currency forward contracts:					
Selling:					
Euro	Receivables	¥	28,888	—	¥ 2,259
Pound Sterling	Receivables		7,141	—	50
Korean Won	Receivables		129	—	(2)
Taiwan Dollar	Receivables		122	—	2
India Rupee	Receivables		143	—	(2)
Buying:					
Pound Sterling *2)	Forecasted transactions for investments denominated in foreign currencies	¥	103,351	—	¥ (2,968)

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) Hedge accounting is applied to a certain portion of foreign currency forward contracts used for financing the acquisition of subsidiaries' shares which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items.

Thousands of U.S. Dollars				
At March 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling:				
U.S. Dollar	Receivables	\$ 26,229	—	\$ (1,586)
Euro	Receivables	19,641	—	(595)
Canadian Dollar	Receivables	5,785	—	(390)
Chinese Yuan	Receivables	13,653	—	(749)
Buying:				
Swiss Franc	Payables	\$ 19,887	—	\$ 1,049
Swedish Krona	Payables	6,707	—	486
Interest-rate and currency swap contracts:				
Floating rate receipt, fixed rate payment				
U.S. Dollar receipt, Yen payment	Long-term borrowings	\$ 106,169	\$ 106,169	*2)
Interest rate swap contracts:				
Floating rate receipt, fixed rate payment	Long-term borrowings	\$ 389,381	\$ 353,982	*2)

Notes: 1) The fair values of derivative transactions are measured at the quoted price obtained from the financial institution.

2) The interest-rate and currency swap contracts and interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are assigned to the associated long-term loans from banks and other financial institutions, recorded in the consolidated balance sheets at March 31, 2016, and included in the fair value of hedged items.

20 | OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (2,750)	¥ 4,466	\$ (24,335)
Reclassification adjustments to profit or loss	(1,583)	(238)	(14,007)
Amount before income tax effect	(4,333)	4,228	(38,342)
Income tax effect	1,188	(1,292)	10,510
Total	¥ (3,145)	¥ 2,935	\$ (27,832)
Deferred gain on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 2,410	¥ (693)	\$ 21,325
Reclassification adjustment to profit or loss	(1,936)	2,399	(17,131)
Amount before income tax effect	474	1,706	4,194
Income tax effect	(219)	(619)	(1,936)
Total	¥ 255	¥ 1,086	\$ 2,258
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (46,481)	¥ 18,847	\$ (411,338)
Total	¥ (46,481)	¥ 18,847	\$ (411,338)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (3,803)	¥ (2,230)	\$ (33,651)
Reclassification adjustments to profit or loss	1,709	1,341	15,125
Amount before income tax effect	(2,093)	(890)	(18,526)
Income tax effect	976	(205)	8,639
Total	¥ (1,117)	¥ (1,095)	\$ (9,887)
Share of other comprehensive (loss) income in associates:			
(Losses) gains arising during the year	¥ (6)	¥ 5	\$ (54)
Total	¥ (6)	¥ 5	\$ (54)
Total other comprehensive (loss) income	¥ (50,494)	¥ 21,779	\$ (446,853)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

21 | NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares		EPS
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	¥ 31,017	259,630	¥ 119.47	\$ 1.06
Effect of dilutive securities				
Stock acquisition rights		604		
Diluted EPS				
Net income for computation	¥ 31,017	260,234	¥ 119.19	\$ 1.05
For the year ended March 31, 2015				
Basic EPS				
Net income available to common shareholders	¥ 53,970	261,125	¥ 206.68	
Effect of dilutive securities				
Stock acquisition rights		559		
Diluted EPS				
Net income for computation	¥ 53,970	261,684	¥ 206.24	

As noted in Note 2 (5), the Company applied the revised accounting standard and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs, effective April 1, 2015, and (d) provisional accounting treatments for a business combination which occurred on or after April 1, 2015.

As a result, basic and diluted EPS for the year ended March 31, 2016, decreased by ¥6.56 (\$0.06) and ¥6.54 (\$0.06), respectively.

22 | SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group consists of six segments, "Printing & Solutions," "Personal & Home," "Machinery & Solution," "Network & Contents," "Industrial Part," and "Domino" in which the Group formulates and implements comprehensive strategies for 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 stationary products. "Personal & Home" consists of sales and production of home sewing machines. "Machinery & Solution" consists of sales and production of industrial sewing machines, garment printers and machine tools. "Network & Contents" consists of sales and production of online karaoke systems, and of content distribution services. "Industrial Part" consists of sales and production of reducers and gears. "Domino" consists of sales and production of industrial printing equipment.

In the fiscal year ended March 31, 2016, the Group acquired Domino Printing Sciences plc ("Domino"), included Domino and its subsidiaries in the scope of consolidation and established the reportable segment "Domino." Since the acquisition date of Domino was deemed as June 30, 2015, the Group's consolidated statement of income for the year ended March 31, 2016 included the financial performance of Domino and its subsidiaries for the period of July 1, 2015 to March 31, 2016.

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."

The Group applied the revised "Accounting Standard for Business Combinations," which was noted in 2 (5). As a result, segment loss of

“Network & Contents” increased by ¥9 million (\$81 thousand) and segment loss of “Domino” decreased by ¥75 million (\$661 thousand) for the year ended March 31, 2016.

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

	Millions of Yen									
	2016									
	Reportable segment							Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others				
Sales:										
Sales to external customers	¥ 476,767	¥ 52,797	¥ 81,408	¥ 53,697	¥ 18,315	¥ 48,312	¥ 14,592	¥ 745,888	—	¥ 745,888
Intersegment sales or transfers	—	—	—	—	—	—	13,822	13,822	¥ (13,822)	—
Total	¥ 476,767	¥ 52,797	¥ 81,408	¥ 53,697	¥ 18,315	¥ 48,312	¥ 28,414	¥ 759,710	¥ (13,822)	¥ 745,888
Segment profit (loss)	¥ 34,185	¥ 4,847	¥ 10,357	¥ (277)	¥ 880	¥ (2,025)	¥ 1,276	¥ 49,242	¥ (1,965)	¥ 47,277
Segment assets	288,767	34,019	69,401	35,996	47,107	185,980	72,229	733,498	(65,687)	667,811
Other:										
Depreciation	19,615	1,444	2,145	5,259	1,415	3,678	787	34,341	—	34,341
Amortization of goodwill	—	—	20	1,716	—	5,046	—	6,781	—	6,781
Investments in associated companies	65	—	526	—	—	28	822	1,441	—	1,441
Increase in property, plant and equipment and intangible assets	16,321	1,409	4,752	7,812	4,676	1,652	216	36,840	3,137	39,977

	Millions of Yen									
	2015									
	Reportable segment							Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Others	Others				
Sales:										
Sales to external customers	¥ 474,257	¥ 51,446	¥ 100,617	¥ 48,950	¥ 17,443	¥ 14,524	¥ 707,238	—	¥ 707,238	
Intersegment sales or transfers	—	—	—	—	—	13,343	13,343	¥ (13,343)	—	
Total	¥ 474,257	¥ 51,446	¥ 100,617	¥ 48,950	¥ 17,443	¥ 27,867	¥ 720,581	¥ (13,343)	¥ 707,238	
Segment profit (loss)	¥ 35,723	¥ 4,929	¥ 16,220	¥ (856)	¥ 287	¥ 1,422	¥ 57,724	¥ (182)	¥ 57,542	
Segment assets	338,147	36,110	74,281	36,855	47,020	76,919	609,332	(42,102)	567,230	
Other:										
Depreciation	18,336	1,198	1,660	4,617	1,457	939	28,206	—	28,206	
Amortization of goodwill	—	—	20	1,298	—	—	1,318	—	1,318	
Investments in associated companies	38	—	536	—	—	769	1,344	—	1,344	
Increase in property, plant and equipment and intangible assets	15,745	1,215	4,053	6,253	2,840	406	30,512	3,552	34,064	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

	Thousands of U.S. Dollars									
	2016									
	Reportable segment								Total	Reconciliations
Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others				
Sales:										
Sales to external customers	\$4,219,178	\$ 467,232	\$ 720,421	\$ 475,198	\$ 162,079	\$ 427,541	\$ 129,132	\$6,600,781	—	\$6,600,781
Intersegment sales or transfers	—	—	—	—	—	—	122,316	122,316	\$ (122,316)	—
Total	\$4,219,178	\$ 467,232	\$ 720,421	\$ 475,198	\$ 162,079	\$ 427,541	\$ 251,447	\$6,723,097	\$ (122,316)	\$6,600,781
Segment profit (loss)	\$ 302,519	\$ 42,892	\$ 91,653	\$ (2,453)	\$ 7,789	\$ (17,918)	\$ 11,290	\$ 435,772	\$ (17,392)	\$ 418,380
Segment assets	2,555,460	301,053	614,168	318,548	416,874	1,645,839	639,192	6,491,134	(581,301)	5,909,834
Other:										
Depreciation	173,582	12,775	18,979	46,536	12,522	32,546	6,965	303,906	—	303,906
Amortization of goodwill	—	—	176	15,182	—	44,652	—	60,010	—	60,010
Investments in associated companies	574	—	4,657	—	—	251	7,273	12,755	—	12,755
Increase in property, plant and equipment and intangible assets	144,437	12,471	42,057	69,134	41,384	14,621	1,911	326,015	27,763	353,779

Notes:

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

(2) Reconciliation amounts are as follows:

- 1) Reconciliation amounts of ¥13,822 million (\$122,316 thousand) and ¥13,343 million for intersegment sales or transfers as of March 31, 2016 and 2015, respectively, are for the elimination of intercompany transactions.
- 2) Reconciliation amounts of ¥1,965 million (\$17,392 thousand) and ¥182 million for segment profit as of March 31, 2016 and 2015, respectively, are for the elimination of intercompany transactions of ¥197 million (\$1,745 thousand) and ¥182 million, respectively, and costs for the acquisition of Domino of ¥1,768 million (\$15,646 thousand) as of March 31, 2016.
- 3) Reconciliation amounts of ¥65,687 million (\$581,301 thousand) and ¥42,102 million for segment assets as of March 31, 2016 and 2015, respectively, include elimination of intercompany balances of ¥98,369 million (\$870,526 thousand) and ¥78,381 million respectively, and corporate assets of ¥32,682 million (\$289,225 thousand) and ¥36,279 million, respectively, which are not allocated to reportable segments.
- 4) Reconciliation amounts of ¥3,137 million (\$27,763 thousand) and ¥3,552 million for increase in property, plant and equipment and intangible assets for the years ended March 31, 2016 and 2015, respectively, are for corporate assets that are not allocated to reportable segments.
- 5) Amortization of goodwill as of March 31, 2016 includes the impairment loss on goodwill of ¥424 million (\$3,751 thousand), which was included in "Other-net" among the "OTHER INCOME (EXPENSES)" section of the consolidated statement of income.

4. Information about Geographical Areas

(a) Sales

Millions of Yen							
2016							
Japan	U.S.A.	Americas and others	Europe	China	Asia and others	Total	
¥ 136,626	¥ 206,299	¥ 49,714	¥ 189,714	¥ 74,331	¥ 89,205	¥ 745,888	

Millions of Yen							
2015							
Japan	U.S.A.	Americas and others	Europe	China	Asia and others	Total	
¥ 127,874	¥ 184,152	¥ 48,679	¥ 174,492	¥ 97,387	¥ 74,653	¥ 707,238	

Thousands of U.S. Dollars							
2016							
Japan	U.S.A.	Americas and others	Europe	China	Asia and others	Total	
\$ 1,209,082	\$ 1,825,654	\$ 439,944	\$ 1,678,883	\$ 657,794	\$ 789,424	\$ 6,600,781	

Note: Sales are classified by country or region based on the locations of customers.

(b) Property, plant and equipment

Millions of Yen								
2016								
Japan	Americas	Europe	China	Vietnam	Philippines	Asia and others	Total	
¥ 61,091	¥ 8,536	¥ 11,099	¥ 14,344	¥ 13,225	¥ 12,624	¥ 2,154	¥ 123,072	

Millions of Yen								
2015								
Japan	Americas	Europe	China	Vietnam	Philippines	Asia and others	Total	
¥ 56,510	¥ 7,035	¥ 4,702	¥ 13,900	¥ 13,709	¥ 14,537	¥ 1,751	¥ 112,144	

Thousands of U.S. Dollars								
2016								
Japan	Americas	Europe	China	Vietnam	Philippines	Asia and others	Total	
\$ 540,631	\$ 75,535	\$ 98,222	\$ 126,935	\$ 117,032	\$ 111,716	\$ 19,061	\$ 1,089,132	

5. Impairment Losses of Assets by Reportable Segment

Millions of Yen									
2016									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others	Inter-segment eliminations	Total
Impairment losses of assets	—	—	—	¥ 1,143	—	—	—	¥ 25	¥ 1,168

Millions of Yen									
2015									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Others	Inter-segment eliminations	Total	
Impairment losses of assets	—	—	—	¥ 108	¥ 1,173	¥ 365	¥ 139	¥ 1,785	

Thousands of U.S. Dollars									
2016									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others	Inter-segment eliminations	Total
Impairment losses of assets	—	—	—	\$ 10,119	—	—	—	\$ 219	\$ 10,337

Note:

(1) Amounts of "Others" are related to real estate of business.

(2) Amounts of "Intersegment eliminations" are related to corporate assets that are not attributable to the reportable segments.

6. Amount of Goodwill by Reportable Segment

Millions of Yen									
2016									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others	Inter-segment eliminations	Total
Goodwill at March 31, 2016	—	—	¥ 149	¥ 2,738	—	¥ 104,522	—	—	¥ 107,409

Millions of Yen									
2015									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Others	Inter-segment eliminations	Total	
Goodwill at March 31, 2015	—	—	¥ 169	¥ 3,667	—	—	—	¥ 3,836	

Thousands of U.S. Dollars									
2016									
	Printing & Solutions	Personal & Home	Machinery & Solution	Network & Contents	Industrial Part	Domino	Others	Inter-segment eliminations	Total
Goodwill at March 31, 2016	—	—	\$ 1,319	\$ 24,227	—	\$ 924,973	—	—	\$ 950,519

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BROTHER INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
YEAR ENDED MARCH 31, 2016

23 | SUBSEQUENT EVENTS

(1) Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's Board of Directors' meeting held on May 16, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends of ¥18 (\$0.16) per share	¥ 4,680	\$ 41,413

(2) Reorganization of reportable segments

Effective April 1, 2016, the Group reorganized its reportable segments based on a new mid-term business strategy. The Group integrated "Machinery & Solution" segment and "Industrial Part" segment to establish a new segment named "Machinery".

The segment information for the year ended March 31, 2016, using the new operating segments, was as follows:

	Millions of Yen								
	2016								
	Reportable segment						Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others				
Sales:									
Sales to external customers	¥ 476,767	¥ 52,797	¥ 99,723	¥ 53,697	¥ 48,312	¥ 14,592	¥ 745,888	—	¥ 745,888
Intersegment sales or transfers	—	—	—	—	—	13,822	13,822	¥ (13,822)	—
Total	¥ 476,767	¥ 52,797	¥ 99,723	¥ 53,697	¥ 48,312	¥ 28,414	¥ 759,710	¥ (13,822)	¥ 745,888
Segment profit (loss)	¥ 34,185	¥ 4,847	¥ 11,237	¥ (277)	¥ (2,025)	¥ 1,276	¥ 49,242	¥ (1,965)	¥ 47,277

	Thousands of U.S. Dollars								
	2016								
	Reportable segment						Total	Reconciliations	Consolidated
Printing & Solutions	Personal & Home	Machinery	Network & Contents	Domino	Others				
Sales:									
Sales to external customers	\$ 4,219,178	\$ 467,232	\$ 882,500	\$ 475,198	\$ 427,541	\$ 129,132	\$ 6,600,781	—	\$ 6,600,781
Intersegment sales or transfers	—	—	—	—	—	122,316	122,316	\$ (122,316)	—
Total	\$ 4,219,178	\$ 467,232	\$ 882,500	\$ 475,198	\$ 427,541	\$ 251,447	\$ 6,723,097	\$ (122,316)	\$ 6,600,781
Segment profit (loss)	\$ 302,519	\$ 42,892	\$ 99,442	\$ (2,453)	\$ (17,918)	\$ 11,290	\$ 435,772	\$ (17,392)	\$ 418,380

- Note:
- (1) "Others" consists of real estate and other areas of business.
 - (2) Reconciliation amounts are as follows:
 - 1) The reconciliation amount of ¥13,822 million (\$122,316 thousand) for intersegment sales or transfers as of March 31, 2016 is for the elimination of intercompany transactions.
 - 2) The reconciliation amount of ¥1,965 million (\$17,392 thousand) for segment profit as of March 31, 2016 is for the elimination of intercompany transactions of ¥197 million (\$1,745 thousand) and costs for the acquisition of Domino of ¥1,768 million (\$15,646 thousand) as of March 31, 2016.



Deloitte Touche Tohmatsu LLC
JP TOWER NAGOYA
1-1-1 Meieki, Nakamura-ku
Nagoya, Aichi 450-8530
Japan
Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp/en

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 its consolidated subsidiaries as of March 31, 2016, 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 its consolidated subsidiaries as of March 31, 2016, 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.

Member of
Deloitte Touche Tohmatsu Limited

Deloitte.

Deloitte Touche Tohmatsu LLC
JP TOWER NAGOYA
1-1-1 Meieki, Nakamura-ku
Nagoya, Aichi 450-8530
Japan
Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp/en

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 24, 2016

Member of
Deloitte Touche Tohmatsu Limited

BROTHER INDUSTRIES, LTD.

15-1 Naeshiro-cho, Mizuho-ku, Nagoya 467-8561, Japan
URL: <http://www.brother.com/index.htm>

Published in August 2016