

Full Effort, Full Potential

Annual Report 2014

Year Ended March 31, 2014



Annual Report 2014 Full Effort, Full Potential

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The brand name LIXIL is derived from the combination of "LI" in two words that represent our business: "LIVING" and "LIFE."

Link to Good Living

Cautionary Statement with Respect to Forward-Looking Statements
Statements made in this annual report with respect to plans, strategies, and future performance that are not historical facts are forward-looking statements. LIXIL Group Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

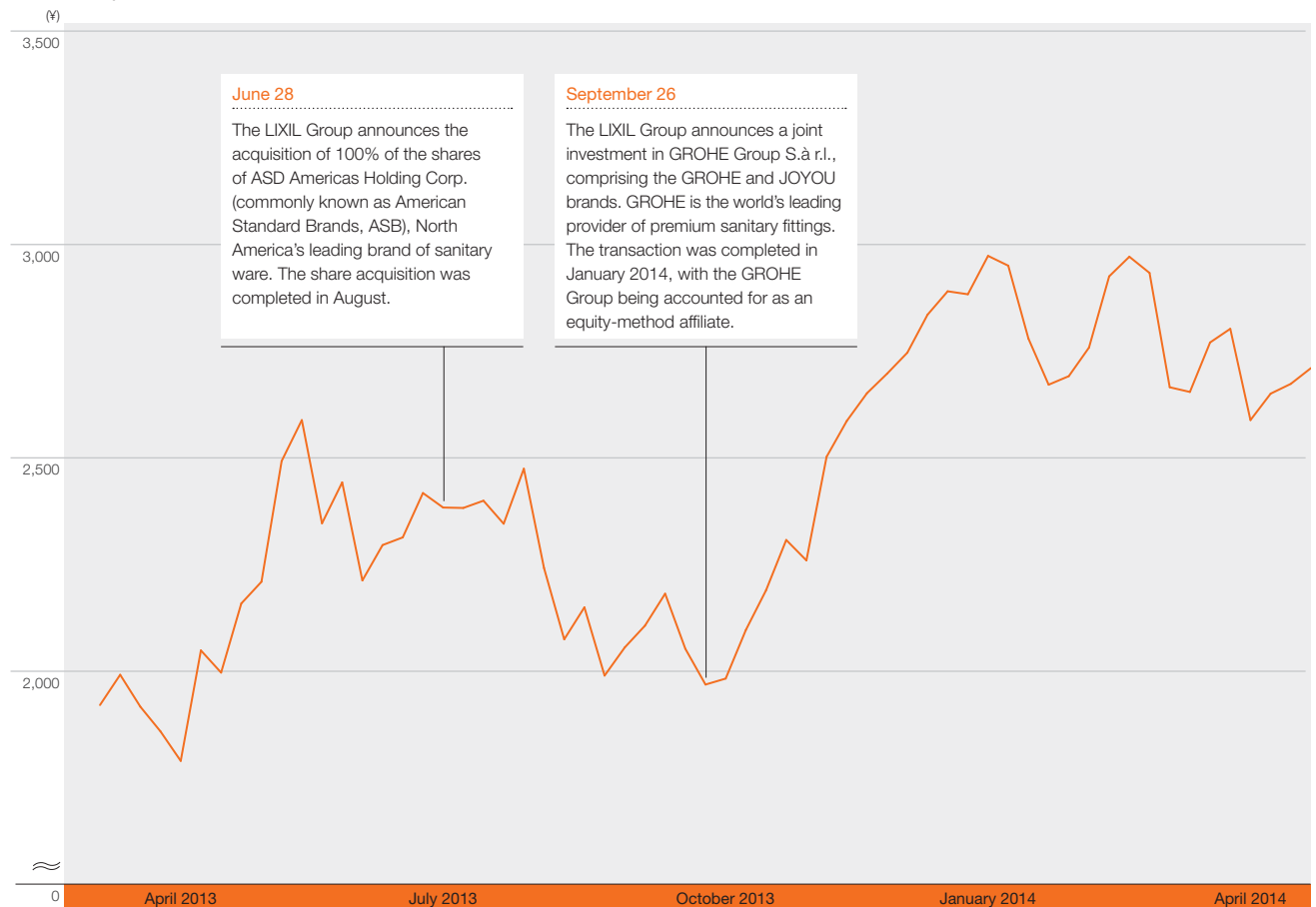
Lead Story:

Advantages Gained from Our M&A Deals

In the past year, we made a series of bold moves, taking calculated risks.

In the fiscal year ended March 2014, the LIXIL Group continued to make large-scale M&A deals overseas, significantly raising its global presence. Since 2009, the Group has brought a total of six overseas companies and groups under its wing, at a total acquisition cost of approximately ¥220.0 billion. In the following section, we report on what the LIXIL Group has gained through its series of M&A deals and how they are going to impact on corporate value and other aspects of the Group's businesses.

LIXIL Group's Stock Prices



They brought us

Based on this series of acquisitions, the LIXIL Group has achieved a quantum leap in overseas business expansion, one of the Group's core growth strategies. Product brands highly respected in their markets have been brought into the Group, and its production and sales networks have been extended to Asia, Europe, and North America.

The LIXIL Group has positioned its overseas business as one of its growth drivers, and, in the medium term, it is aiming to achieve ¥1 trillion in overseas sales. In the fiscal year ended March 2014, overseas sales totaled ¥293.9 billion. With a full year of sales contributions from ASB, the Group expects overseas sales to climb to ¥430.0 billion in the fiscal year ending March 2015, and overseas sales contribution to increase to 24.4%, up from 18.0% in the fiscal year ended March 2014. The Group also anticipates significant growth in operating income generated by its overseas business. In the fiscal year ending March 2015, overseas operating income is forecast to surge 111%, from ¥9.0 billion in the fiscal year ended March 2014, to ¥19.0 billion.

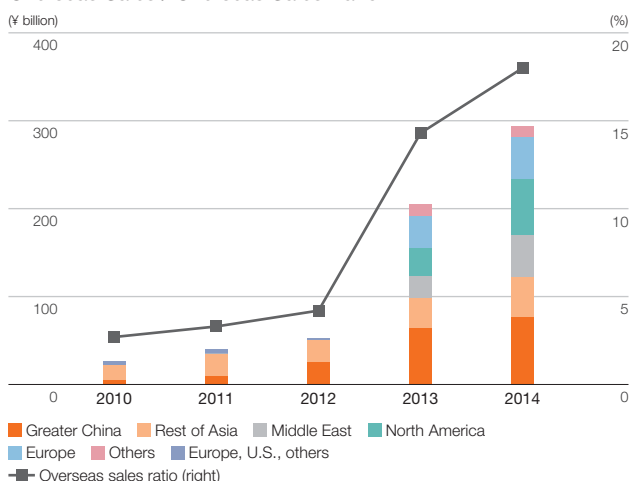
Earnings are not the only aspect of the Group's business expansion. The M&A deals have also yielded the products—in particular, many market-leading brands—that will be the source of those increased earnings. Permasteelisa S.p.A. (Permasteelisa) is a leader in the global curtain wall* market and a regular participant in competitions for world-class, large-scale construction projects. GROHE is well-known as

a manufacturer of premium sanitary fittings in more than 130 markets all over the world. ASB is the North American market leader in sanitary ware. American Standard Asia Pacific, formerly a member of the same group as ASB that joined the LIXIL Group in 2009, is a major manufacturer of plumbing fixtures in Asia. Finally, JOYOU, which is a listed company in which the GROHE Group has a 72.3% stake, manufactures and supplies sanitary ware products in China and boasts a sales network of more than 4,000 stores. Each of these companies has solidly positioned its brand in and is developing its market, and each is widely recognized for its quality not only by construction professionals but also by end users.

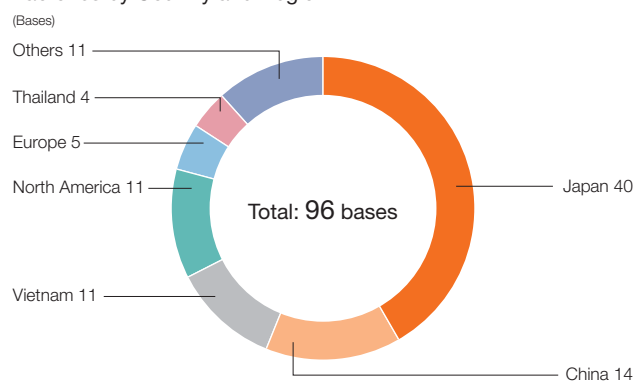
Also, the LIXIL Group's manufacturing bases and sales networks have spread and now extend to China and countries in Europe, North America, and Southeast Asia. At March 31, 2014, the Group had 40 manufacturing bases in Japan, 14 in China, 11 in Vietnam, 11 in North America, 5 in Europe, 4 in Thailand, and 11 in other countries and regions, for a total of 96 manufacturing bases.

* Exterior wall materials for high-rise buildings with surface materials, such as aluminum, other metals, stone, and various types of glass

Overseas Sales / Overseas Sales Ratio*



Factories by Country and Region



As of March 31, 2014

“speed.”



American Standard Brands (ASB)

North America's leading manufacturer of sanitary ware, ASB boasts strong brand recognition as well as a reputation for market-shaping innovation, quality and design in the United States, Canada, and Mexico.



GROHE

With their function and superior design, GROHE's sanitary fittings and showerheads have earned an overwhelming reputation in the premium goods market.



JOYOU

JOYOU is a leading player in China's bathroom fixtures and fittings market. The GROHE Group holds a 72.3% stake in the company. With more than 4,000 franchised retail stores in China, JOYOU is fast developing the premium and mass markets.



Ph.: ©Stephan Falk Baubild



Permasteelisa

As a leading company in the global curtain wall and interior systems market, Permasteelisa has close business ties with the world's top architectural firms and construction companies.

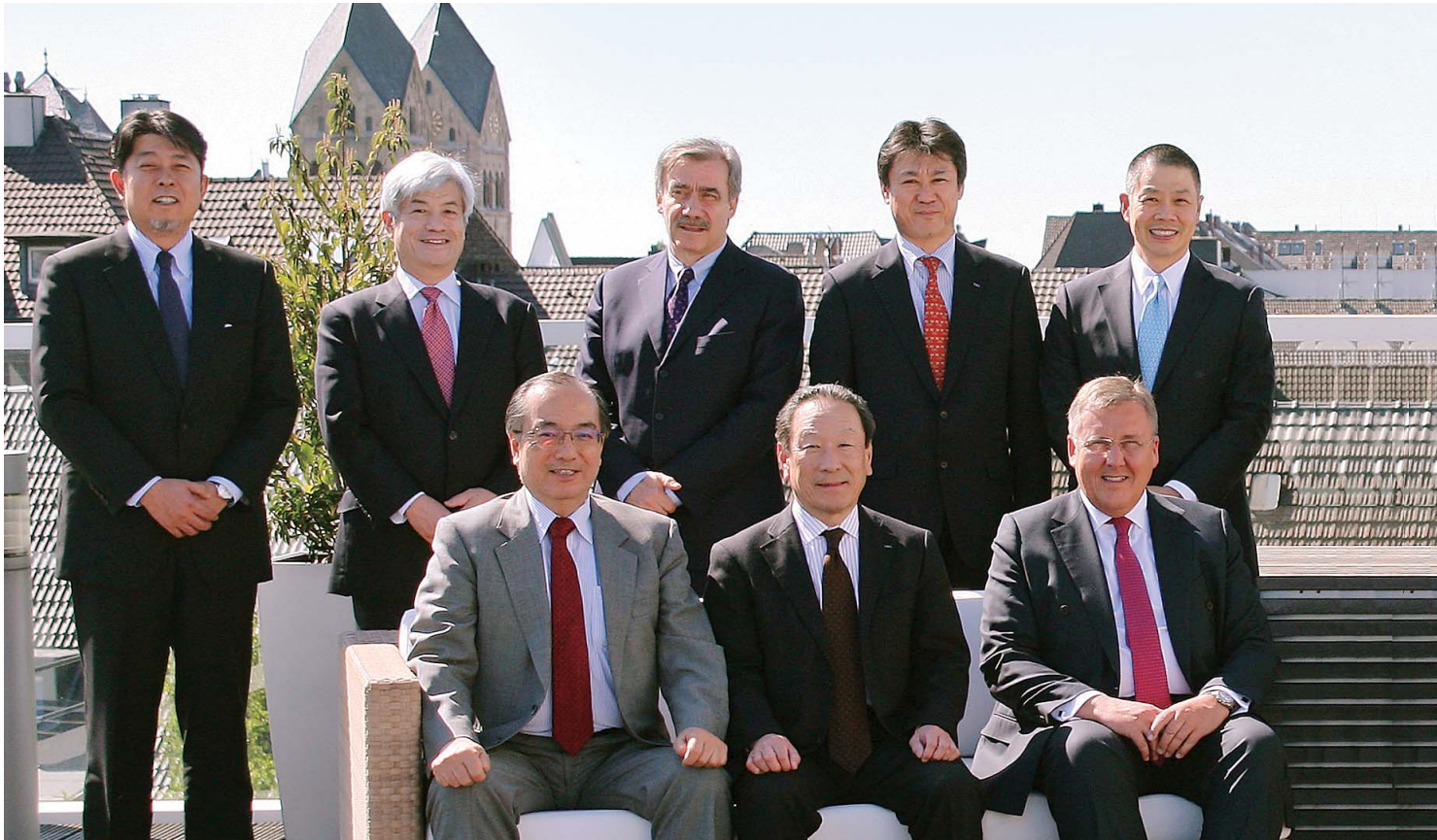


American Standard Asia Pacific

Manufacturing bath and kitchen products that match local needs in regional markets spanning China, South Korea, Southeast Asian countries, and Australia, American Standard Asia Pacific has earned the trust of its customers.

They brought us

On April 1, 2014, the Global Management Committee (GMC)* was formed as the highest management body of LIXIL. Participated in by the heads of the major Group companies from Japan and overseas and the Company's management team, the GMC has become the forum where global business strategies and directions are decided and given impetus and Group synergies achieved. * Please see page 19



(Standing, from left) Toshimasa Iue, Kenji Uenishi, Nicola Greco, Hiroyuki Kowase, Kenneth Ng, Yosuke Yagi, Haruo Shirai, Shinichi Tanzawa, Laurence W. Bates, Sachio Matsumoto, William Crichton
(Seated, from left) Takashi Tsutsui, Ryuichi Kawamoto, David Haines, Yoshiaki Fujimori, Jay Gould, Harumi Matsumura

Yoshiaki Fujimori
President and CEO

Haruo Shirai
President
LIXIL Japan Company

Kenneth Ng
President and CEO
LIXIL Greater China

David Haines
Chairman and CEO
GROHE Group S.à r.l.

Yosuke Yagi
Chief HR Officer

Sachio Matsumoto
Chief Financial Officer

Shinichi Tanzawa
Chief Business Transformation Officer

Harumi Matsumura
Chief Communication Officer

Kenji Uenishi
Chief Supply Chain Officer

“talent.”



Photograph taken at the GROHE headquarters in Düsseldorf, Germany, on April 16, 2014

William Crichton
President and CEO
LIXIL Asia Pacific

Ryuichi Kawamoto
Chief Technology Officer

Laurence W. Bates
Chief Legal Officer

Nicola Greco
CEO
Permasteelisa Group

Takashi Tsutsui
Chief External Relations Officer

Hiroyuki Kowase
Chief Information Officer

Jay Gould
President and CEO
American Standard Brands

Toshimasa Iue
Chief Marketing and Sales Officer

They brought us

Diversity is the energy source that drives dynamism in an organization. The level playing field of a global company—where people can freely discuss, trade, and argue beliefs, ideas, and know-how stemming from their myriad of backgrounds—encourages creativity and enthusiasm.

Dynamism enables people to break out of their shells and face the challenges of new possibilities. This quality is also driven by the diversity of human resources. Currently, an essential condition for responding quickly and flexibly to changes in the global market is being an organization where people can demonstrate their maximum capabilities regardless of nationality, gender, age, or position.

By aspiring to be truly global, the LIXIL Group's organization is also going through a rapid transformation. As a result of its M&A deals, at March 31, 2014, the LIXIL Group had a total of 51,419 employees* on a consolidated basis, of which 54.7% were employees of overseas Group companies.

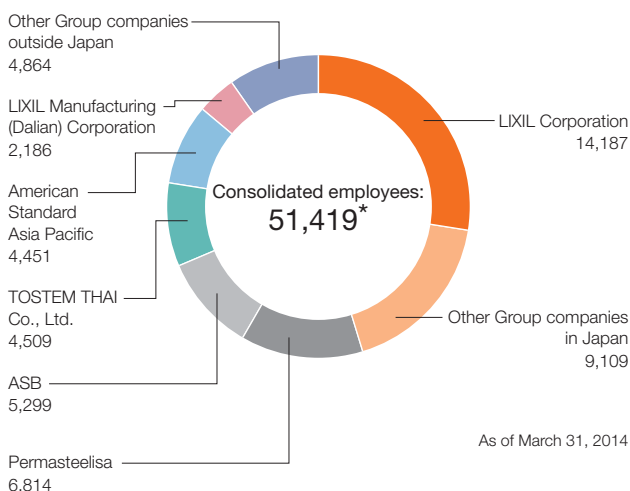
At the GMC meeting held in April 2014, senior executives from six major operating companies convened as "regional leaders," accurately reflecting the diversity of the LIXIL Group.

In inter-company committees called function groups, members increased their understanding of the innovations and customer bases of each of the Group companies and thoroughly debated Group strategies. While respectfully discussing their collective experiences, they gathered a wide range of opinions about the best way to achieve the LIXIL Group's strategies for manufacturing and marketing operations. Such a forum provides an origin for generating an equal level of energy to compete worldwide under the "One LIXIL" banner.

To prepare for future growth, the LIXIL Group is also emphasizing leadership training. By utilizing leadership training programs established over the past two years, the Group is bringing together the best and brightest personnel from all countries to foster their development into the personnel that will become the core of the LIXIL Group in the future.

Number of Employees by Major Group Company

(People)



* Figures referring to companies in Japan include only full-time regular staff, and figures referring to companies overseas include only directly hired employees. Figures do not include employees seconded to another Group company.



“dynamism.”



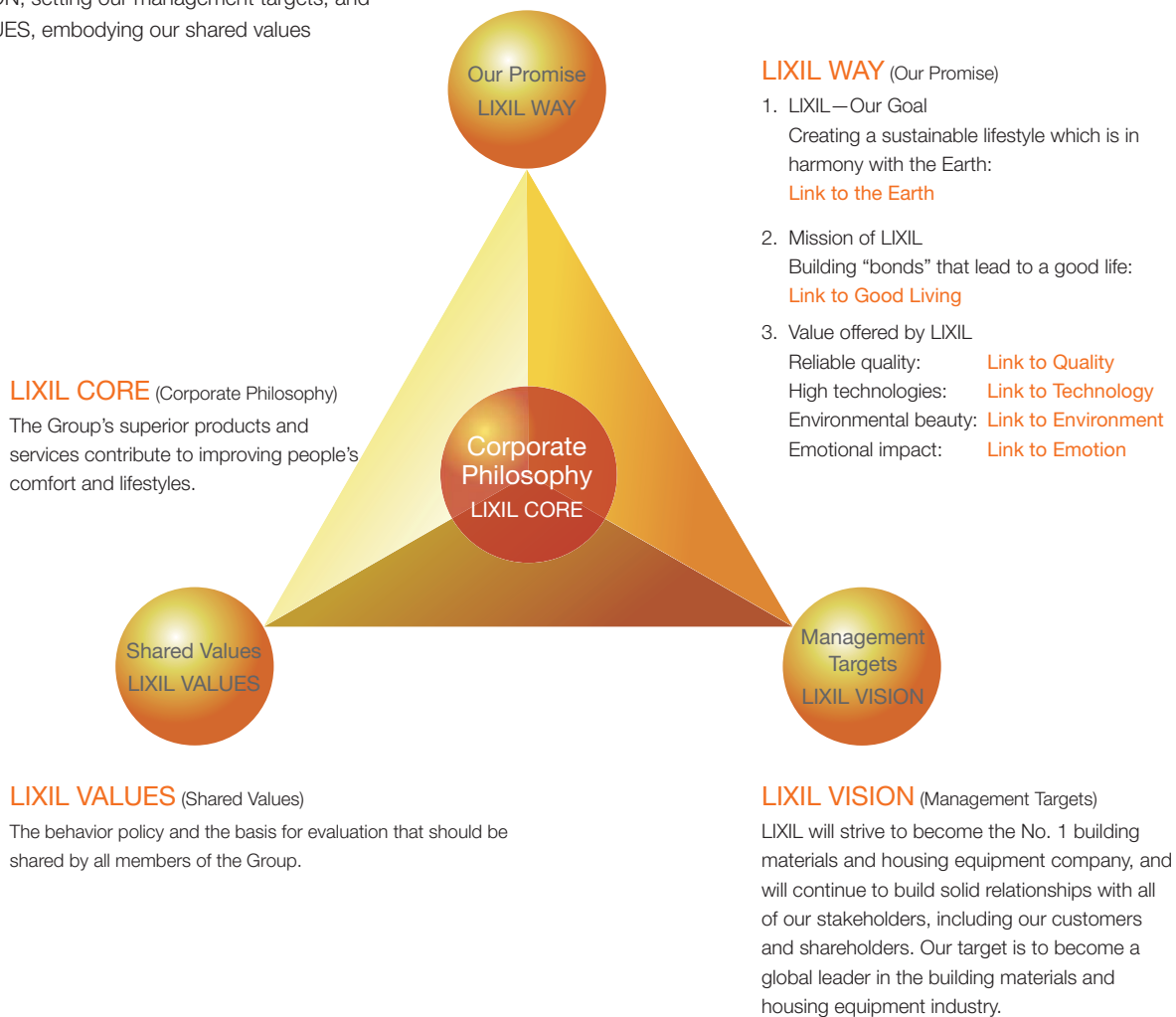
They brought us an opportunity to reaffirm our “value.”

The “One LIXIL” concept shared by the diverse and dynamic companies of the LIXIL Group and their employees springs from the Group’s management philosophy platform, LIXIL TETRA. Based on our corporate philosophy of “contribute to improving people’s comfort and lifestyles,” we will continue to develop and grow.

Group Management Philosophy LIXIL TETRA

LIXIL’s management philosophy consists of the following four elements:

- LIXIL CORE, defining the significance of our existence in society
- LIXIL WAY, laying out our promise to customers and shareholders
- LIXIL VISION, setting our management targets, and
- LIXIL VALUES, embodying our shared values



CSR Policy

Link to Good Living

The LIXIL Group is committed to building and expanding worldwide “bonds” that lead to a good living and good life. Aiming to improve people’s comfort and lifestyles, we endeavor to pursue innovation to develop better products and services, thereby contributing to the sustainable development of society. By facilitating stakeholder dialogue, we work to maintain integrity in conducting business activities.

Priority Themes

Innovation

1. Work to increase efficiency in the use of energy and water resources
2. Work to build a senior-friendly, cooperation-based society, focusing on healthy, safe, and secure living conditions

Sustainability

3. Contribute to conservation of the global environment and development of local communities
4. Ensure an appropriate work environment and resource allocation in supply chain operations

Integrity

5. Maximize customer satisfaction in cooperation with business partners
6. Develop a corporate culture characterized by superb leadership and diversity
7. Promote speedy and transparent disclosure and share social contribution visions with our stakeholders

LIXIL Diversity Declaration

The corporate culture of LIXIL is to become a company that utilizes energy and innovation generated by diversity for the business.

We also aim to create an environment where everyone should not be content with the present and will achieve better results by continuously clearing self-imposed hurdles.

Respect Diversity

We will welcome differences among genders, ages, races, cultures, nationalities, beliefs, and backgrounds. Energy and creativity generated by open and passionate discussion can be used as a source of competitiveness.

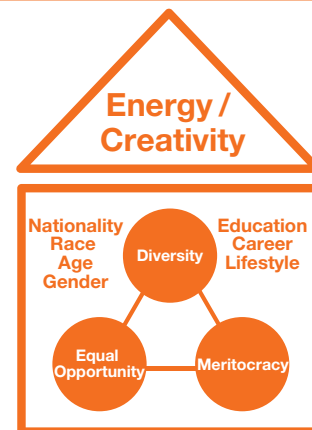
Provide Equal Opportunity

We will provide equal opportunities and occasions to anyone that tries to demonstrate a positive and proactive attitude regardless of background.

Implement Meritocracy

We will fairly evaluate how much one puts LIXIL VALUES into practice and how much one performs.

Strong LIXIL



In order to achieve this corporate culture, we will execute the following activities*1.

1. Implement Human Resources Measures

- (1) We will increase the ratio of talented diverse personnel among the newly promoted managers.
- (2) We will increase the ratio of talented diverse personnel among the newly hired employees.
- (3) We will establish teams and task forces with diversity in order to create the opportunity to develop their talents.

2. Accelerate Human Resources Development

- (4) The leadership development programs should include a higher ratio of talented diverse personnel.

3. Improve the Environment

- (5) To promote Work-Life-Flexibility*2 and performance by talented diverse personnel, we will establish programs such as child-care.

4. Promote Our Corporate Culture

- (6) LIXIL Women’s Network will be established.
- (7) The president and the management team will lead “Diversity Talks” to discuss diversity issues.

*1 Objectives of LIXIL Corporation in Japan

*2 Policy of aiming to be flexible about work to be able to achieve continuous high performance during a person’s life stages

































LIXIL Group in a Snapshot

Offering an Array of Products and Services for Living Environments, Lifestyles, and Surroundings

LIXIL is a comprehensive living and housing solutions company that contributes to improving people's comfort and lifestyles with its superior products and services under a brand name that combines the first two letters—as well as the concepts—of Living and Life.

Metal Building Material Business	Principal Products and Services	Net Sales Composition by Segment	Operating Income Composition by Segment**1
	Housing window sashes, building sashes, store facades, sashes for low-to-medium rise buildings, entrance doors, various types of shutters, curtain walls, gates, carports, banisters, high railings, tide barriers, smoke insulated screens, etc.		
Plumbing Fixtures Business 	Sanitary ware, bidet-equipped shower toilets, water faucets, washstands, bathtubs, unit bathrooms, kitchen systems, washstand fixtures, washstand cabinet units, etc.	44.6%	45.6%
Other Building Materials and Equipment Business 	<div> <div>Wooden interior furnishing materials</div> <div>Window frames, wooden furnishing materials, interior decorative materials, etc.</div> </div> <div> <div>Other building materials</div> <div>External tiles for houses and buildings, internal decorative tiles, siding, stone materials, roofing materials, precut products, etc.</div> </div> <div> <div>Interior fabrics</div> <div>Curtains, etc.</div> </div> <div> <div>Other</div> <div>Solar photovoltaic systems</div> </div>	26.8%	27.7%
Distribution and Retail Business 	<div> <div>Home centers</div> <div>Household products, DIY products, building materials, etc.</div> </div> <div> <div>Comprehensive building material stores</div> <div>Building materials, tools, hardware, etc.</div> </div>	12.8%	13.7%
Housing, Real Estate and Other Businesses 	<div> <div>Housing solution businesses</div> <div>Developing homebuilding franchise chains, construction on order, housing defect warranty liability insurance services, structural materials (structures), ground inspections and improvements, etc.</div> </div> <div> <div>Real estate</div> <div>Land, buildings, real estate management services, support for development of real estate franchises, etc.</div> </div> <div> <div>Nursing home business</div> <div>Nursing homes</div> </div>	11.9%	5.2%
		3.9%	7.8%

*1 Before adjustment

Y/Y Change in Net Sales	Y/Y Change in Operating Income	Number of Employees*2	Major Japanese and Overseas Brands of the LIXIL Group
+12.3%	+40.3%	22,180 people	     
+17.1%	+19.8%	19,685 people	      
+11.5%	+32.8%	6,063 people	     
+11.2%	14.0 times	1,907 people	  
+8.3%	+16.1%	1,451 people	         

*2 Excluding 133 people at the Head Office

LIXIL Group's Market Positions



Housing window sashes

Japanese market
No. 1
(50%)

Windows

LIXIL offers a selection of window sashes combining quality design with superior functions, such as ease of opening and closing, excellent visible light transmission, ease of installation, safety, and thermal insulation.



Building sashes

Japanese market
No. 1
(40%)

Building sashes

These products, created not only with thermal insulation and sound-proofing in mind but also with consideration to crime prevention and the principles of universal design, can be used to create pleasant spaces in various buildings, from offices to apartment blocks.



Entrance doors

Japanese market
No. 1
(55%)

Entrance doors

LIXIL develops doors with high thermal insulation and crime prevention properties as well as in a wide diversity of styles, from traditional Japanese to modern design.



Exteriors

Japanese market
No. 1
(55%)

Exteriors

By enabling uniform exterior design, from gates to the fence and approach from the carport as well as the balcony, LIXIL's products enhance the quality of a home.



Sanitary ware

Japanese market
No. 2
(40%)

Sanitary ware

We aim to supply leading-edge functionality and superior design in our sanitary ware, such as the world's most compact units and easy-to-clean models for the renovation market.



Washstand cabinet units

Japanese market
No. 1
(35%)

Washstand cabinet units

LIXIL offers a wide variation of product lines to suit individual lifestyles, such as easy-to-use washstand cabinet units with ample shelf space.



Unit bathrooms

Japanese market
No. 1
(30%)

Unit bathrooms

By improving materials and constantly innovating functions, LIXIL supports the creation of clean and fresh spaces for comfort and relaxation.



Kitchen systems

Japanese market
No. 1
(28%)

Kitchen systems

LIXIL has a full lineup of beautiful kitchen systems that make it easy to cook and clean up.



Wooden interior furnishing materials

Japanese market
No. 3
(10%)

Interior furnishing materials

Besides a rich selection of designs and colors, LIXIL has a diverse lineup of interior furnishing materials that take into account safety, environmental, and ease-of-installation issues.



Tiles

Japanese market
No. 1
(40%)

Tiles

Our wall and floor tiles, in various colors and textures characteristic of earthenware, feature superb humidity control and antibacterial properties.



Housing exterior wall materials

Japanese market
No. 3
(10%)

Housing exterior wall materials

These materials come in a variety of designs and colors that not only give character to homes but also increase their longevity by providing superb functionality in terms of fireproofing, weatherproofing, and seismic resistance.



Curtains

Japanese market
No. 1
(10%)

Interior fabrics

LIXIL can provide total interior coordination solutions, including windows, interior construction materials, and interior fabrics.



Ph.: Courtesy of SOCAR

Curtain walls

Global market
No. 1
Permasteelisa

Curtain walls

Exterior wall materials, or curtain walls, using aluminum and other metals, stone, and various types of glass, are utilized in notable buildings and skyscrapers around the world.



Sanitary ware

North American market
No. 1
(20%)
American Standard Brands (ASB)

Sanitary ware

Our strength is in offering a wide range of choices compatible with any requirement in terms of water pressure, water conservation, and design.



Water faucets

Global market
No. 1
(10%)
GROHE

Water faucets

We offer various styles of faucets and showerheads for bathrooms and kitchens using top-quality materials and cutting-edge technology.



Plumbing-related products

Global market
No. 1
LIXIL Group

Plumbing-related products

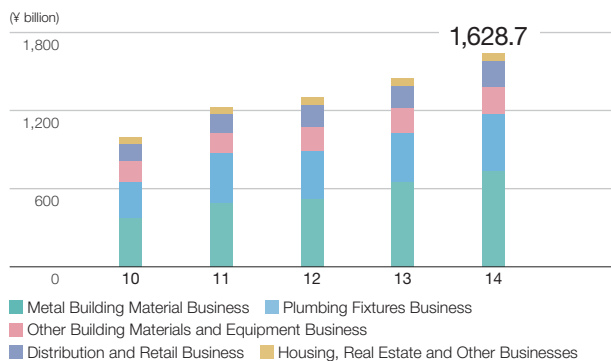
We offer a wide array of products, ranging from mass to premium market products, sold under various local brands in North America, Asia, Europe, and Japan.

Note: The market share data is LIXIL Group estimates.

Financial Highlights

LIXIL Group Corporation and Consolidated Subsidiaries
Years ended March 31

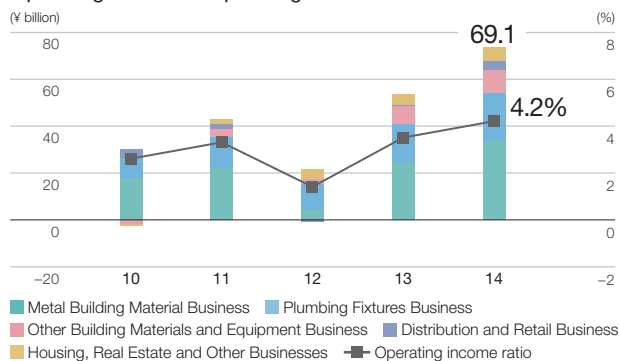
Net Sales*



* Net sales to outside customers

Net sales in the fiscal year ended March 31, 2014, amounted to ¥1,628.7 billion, up 13.4% from the previous fiscal year. Along with sales contributions from an overseas subsidiary acquired by the Group during the fiscal year under review, this increase also reflected robust performance in the Japanese market, notably higher sales of products for the renovation market.

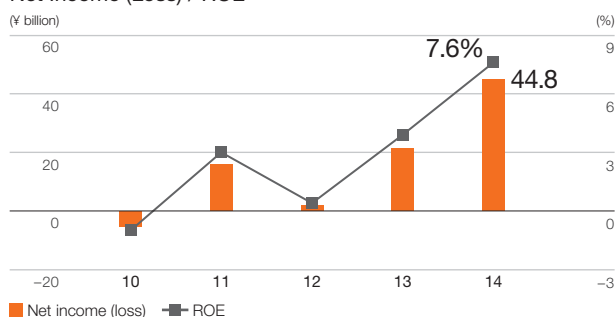
Operating Income* / Operating Income Ratio



* Graph data has not been adjusted for Group expenses allocations.

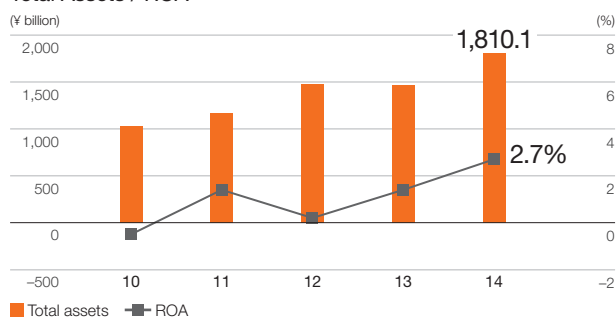
Operating income rose 36.8% year on year, to ¥69.1 billion, as increased sales and steady cost reductions offset negative factors that included the impact of exchange rate fluctuations and heavy snow in eastern Japan during the year. The operating income ratio was 4.2%.

Net Income (Loss) / ROE



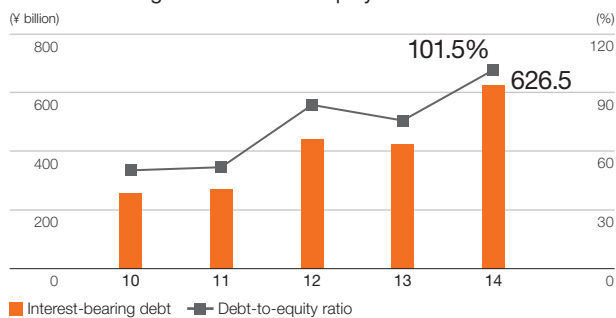
Net income rose to a record high of ¥44.8 billion, 2.1 times the previous fiscal year's figure. Consequently, ROE increased 3.7 points year on year, to 7.6%.

Total Assets / ROA



Total assets as of March 31, 2014, were up 23.5% from the previous fiscal year-end, reflecting increases in current assets and property, plant and equipment and intangible assets. ROA was up 1.3 points year on year, tracking higher profits.

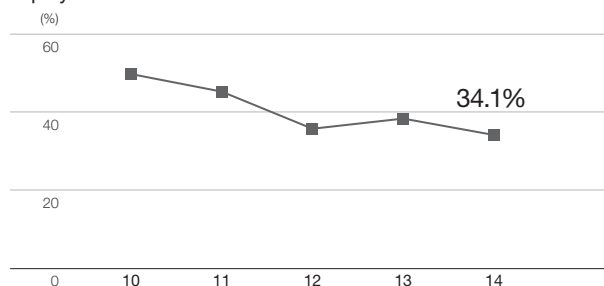
Interest-Bearing Debt / Debt-to-Equity Ratio*



* Debt-to-equity ratio: Interest-bearing debt / Total equity

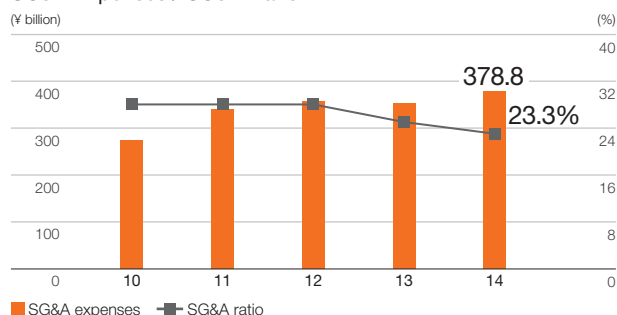
Interest-bearing debt as of March 31, 2014, was up ¥202.4 billion from the previous fiscal year-end, the result of large-scale acquisitions made to expand the Group's overseas business. The debt-to-equity ratio was 101.5%

Equity Ratio



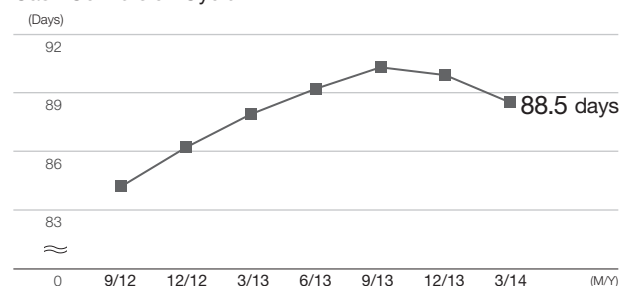
The equity ratio as of March 31, 2014, was 34.1%, declining only 4.2 points year on year despite borrowings and the procurement of funds via corporate bonds for the large-scale, back-to-back investments in ASB and GROHE.

SG&A Expenses / SG&A Ratio



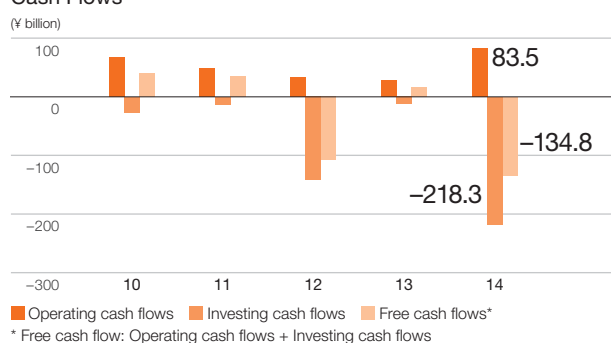
The SG&A ratio declined 1.3 points year on year, to 23.3%, as benefits from cost reductions and growth in the proportion of net sales from sales outside of Japan more than offset a 7.4% increase in SG&A expenses accompanying top-line growth.

Cash Conversion Cycle



In the six months since launching its Cash Conversion Cycle Project on September 30, 2013, the Company shortened the amount of time required to convert products into cash through sales by 1.8 days as of March 31, 2014.

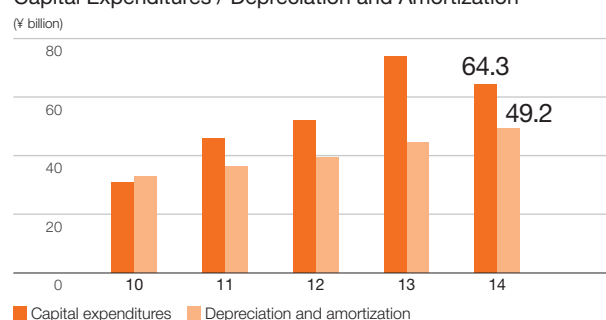
Cash Flows



* Free cash flow: Operating cash flows + Investing cash flows

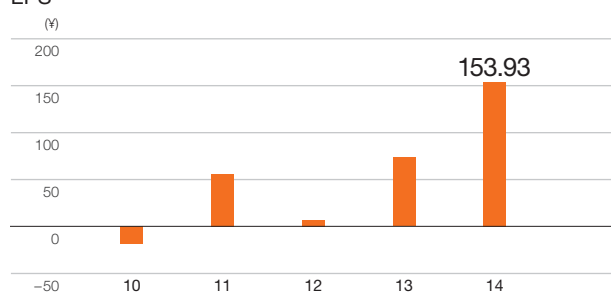
Free cash flow declined roughly ¥150.0 billion from the previous fiscal year, as increases in net cash used in investing activities for capital investment and acquisitions outweighed growth in net cash provided by operating activities.

Capital Expenditures / Depreciation and Amortization



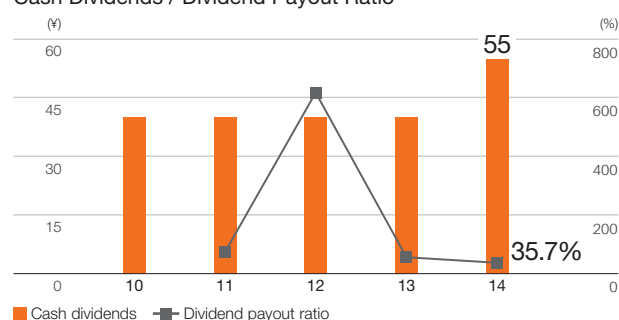
Capital expenditures stood at ¥64.3 billion. In addition to the establishment of a new production site in Vietnam, higher expenditures resulted from strategic investments in such areas as new product development and the opening of new home centers.

EPS



Net income per share was ¥153.93 in the fiscal year ended March 31, 2014. Excluding effects from the amortization of goodwill, net income per share—the Company's criterion for dividend payments—was ¥172.28.

Cash Dividends / Dividend Payout Ratio



The Company paid a year-end dividend of ¥30 per share, an increase of 50% year on year, for an annual dividend of ¥55 per share. The payout ratio was 35.7%.

To LIXIL Group Stakeholders



Yoshiaki Fujimori
President and CEO

LIXIL Makes Further Progress toward Becoming a Truly Global Company and a Global Leader in Comprehensive Living and Housing Solutions

I am excited to share with you great news; we generated all time record sales and profits in the fiscal year ended March 2014. While we fought fiercely for near-term sales and profits to achieve this result, we also made significant progress in restructuring, strengthening, and growing LIXIL toward the long-term goal of becoming a global leader in comprehensive living and housing solutions. In short, it was a terrific year as we met most of our near-term and long-term objectives.

Thanks to our employees' hard work and the support of other stakeholders, we have come a long way since 2011 when we began our transformation of a traditional Japanese company in a domestically oriented industry. The first year was a period of tremendous hardships with the Great East

Japan Earthquake and devastating Thai flooding. We also began a five company integration that was unprecedented in Japanese history. The integration was challenging but absolutely necessary to solidify our Japanese foundation as we tried to expand into new, more profitable areas, such as the Japanese renovation market and overseas markets, both organically and through M&As. The second year was much better as a V-shaped recovery began to emerge. This momentum carried into the fiscal year ended March 2014 with record sales and profits. Now, let me recap on the year ended and discuss our current strategies to elevate us to an even higher level over the next several years.

An upswing in the Japanese market and strong overseas business expansion supported sales growth and record-high operating income.

Strong Performance in Meeting Stakeholder Expectations

In the fiscal year ended March 2014, our net sales reached ¥1,628.7 billion, increasing 13.4% from a year earlier. Operating income rose 36.8%, to ¥69.1 billion. Net income more than doubled from ¥21.3 billion to ¥44.8 billion. To reflect an improved performance that exceeded original targets, we raised our year-end dividend to ¥30 per share, up 50% from a year earlier, for a total annual dividend of ¥55 per share. We adopted a dividend payout policy of at least 30% before the amortization of goodwill. As our business plan comes to fruition, we expect dividend payments to rise in the coming years in accordance with our payout policy of at least 30%.

Various factors supported robust markets in our Japanese operations. Markets benefited from positive business sentiment against the backdrop of the early-stage successes of “Abenomics” and Tokyo’s winning of the 2020 Summer Olympics and Paralympics. In combination with rush demand ahead of the April 2014 consumption tax hike, these conditions set the stage for 10.6% growth in new housing starts and strong growth in the renovation market. Our Japanese operations rode the upturn, making a positive contribution to sales and profits.

Outside Japan, our overseas sales benefited not only from solid expansion in existing operations but also from the substantial added sales resulting from the acquisition of ASD Americas Holding Corp. (American Standard Brands, ASB). A less-than-expected profit performance by Permasteelisa S.p.A. was a disappointment, but the company’s fundamental capabilities, including design and engineering, remain strong.

From an operational efficiency standpoint, the C-30 Project captured the benefits of economies of scale and other synergies available to our now comprehensive Japanese businesses and reduced costs by ¥34.6 billion. This figure brought its three-year cumulative total to ¥114.7 billion.

With the completion of an integration stage to strengthen our foundation, we are now establishing a growth structure to pave the way for our evolution into a global leader in comprehensive living and housing solutions.

Our Long-Term Strategies

In May 2013, we announced five strategic imperatives as part of the Medium-Term Business Plan LIXIL G-15:

- Establish a leading position in the Japanese market by expanding the renovation business
- Accelerate global business expansion
- Expand sales and profit of the distribution and retail business
- Develop and expand service businesses around housing
- Improve operational efficiency

The Renovation Business—An Emerging Market in a Mature Japanese Society

As our traditional market of new housing no longer provides a secular growth opportunity, we are determined to boldly seek new growth areas. In Japan, the greatest potential for our business growth lies in renovation. Numerous factors, including heightened energy conservation awareness, seismic standards, and the new housing requirements of an aging society, are driving the renovation market to be a profitable “emerging market” within a mature Japanese society.

Financial Results for the Fiscal Year Ended March 2014

(¥ billion)

Years ended March 31	2013 results	2014 forecasts*1	2014 results	Forecasts over / under		Y/Y increase / decrease	
					%		%
Net sales	1,436.4	1,600.0	1,628.7	28.7	1.8	192.3	13.4
Gross Profit	403.1		447.8			44.8	11.1
Gross profit margin (%)	28.1%		27.5%			—	−0.6P
SG&A	352.6		378.8			26.2	7.4
SG&A ratio (%)	24.5%		23.3%			—	−1.3P
Operating income	50.5	70.0	69.1	−0.9	−1.3	18.6	36.8
Opening income margin (%)	3.5%	4.4%	4.2%	—	−0.1P	—	+0.7P
Recurring income	53.1	71.5	74.9	3.4	4.8	21.9	41.2
Income before income taxes	32.5	—	72.9	—	—	40.3	124.0
Net income	21.3	44.5	44.8	0.3	0.6	23.4	109.7
Net income before amortization of goodwill	26.6	49.0	50.1	1.1	2.2	23.5	88.3
EPS before amortization of goodwill (¥)	91	169	172	3	—	81	88.4
EBITDA*2	100.6	—	123.6	—	—	23.0	22.8
EBITDA ratio	7.0%	—	7.6%	—	—	—	+0.6P

*1 Figures are from the revised forecasts announced on February 3, 2014.

*2 EBITDA figures are operating income before depreciation and amortization of goodwill.

We have taken actions to respond to the renovation market's growth. We have implemented measures and developed innovative products to strengthen the appeal of our products, services, and brands. Also, we have added significant new resources to the renovation business, including approximately 200 employees.

Through integrated efforts under "One LIXIL," we should achieve growth significantly higher than the overall renovation market. Our performance in the fiscal year ended March 2014 suggests that we are on the right track. Sales from our renovation business were up 15.1% year on year, while sales of products for the renovation market increased 14.0%. Profits also rose in both sales categories. This trend should continue for at least the next three-to-five years and most likely much longer.

Overseas Operations—A Powerful Driver for Growth

In March 2014, we made two important business investments to fuel overseas expansion. First, we acquired ASB, an iconic North American company with a 142-year history and the original parent company of American Standard Asia Pacific, which joined LIXIL in 2009. The acquisition gives us access to markets of the powerful global ASB for such plumbing-related products as toilets and baths and to its strong marketing networks in North America.

Second, we acquired a major stake in Germany's GROHE Group, a global leader in luxury bathroom and kitchen metal fittings. GROHE Group S.à r.l. also holds a 72.3% stake in Joyou AG, a dominant player in the Chinese fitting and sanitary ware industry. This acquisition extends our fitting and sanitary ware platform to Europe's premium segment and to a dynamic, emerging market in China, positioning us in the world's major economic regions of Asia, North America, and Europe. In making the investment, LIXIL Corporation formed a 50-50

partnership with the Development Bank of Japan through which we co-own the GROHE Group. This structure allowed us to maintain an appropriate level of leverage in the current environment. It also helped us avoid dilutive new equity issues.

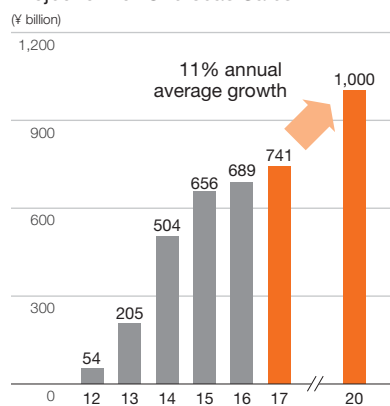
While we will continue to look for opportunities to expand our global footprints through M&As and reinforce our positions in local markets, we now have the platform to expand our overseas sales to ¥1 trillion by the year 2020. We are now proceeding with the mission of integration and synergy creation. We need the unified business practices and one global culture that will lay the groundwork for many products, services, and brands of LIXIL to be welcomed around the world.

We have adjusted our medium-term business plan to deal with recent changes and expect to continue expanding our Japanese renovation business and reap the benefits of globalization.

The Road Leading to the Medium-Term Business Plan LIXIL G-16

In May 2011, we announced the Medium-Term Management Vision to pave the way to becoming a global leader in comprehensive living and housing solutions. In May 2013, we announced our Medium-Term Business Plan LIXIL G-15 for executing the second stage of the vision to establish a growth structure based on the five strategic imperatives. We remain fully committed to the imperatives of the LIXIL G-15 plan. However, the addition of new companies, ASB and the GROHE Group in particular, and changes in the business environment, made it necessary to adjust our G-15 plan and unveil the renewed LIXIL G-16. The plan's overall performance targets for the fiscal year ending March 2017 are

Projection for Overseas Sales*



* Includes GROHE sales in 2014 and after
Note: Years ended / ending March 31

LIXIL G-16 Targets toward March 2017

(¥ billion) Years ended / ending March 31	2014	2017	2017 vs. 2014
Net sales	1,628.7	2,110	1.3x
Operating income	69.1	170	2.5x
Operating income margin (%)	4.2%	8%	+4P
EBITDA* ¹	123.6	235	1.9x
EBITDA (%)	7.6%	11%	+3P
CCC (days)* ²	88.5	55	-33.5
ROA (%)	2.7%	5%	+2P
ROE (%)	7.6%	13%	+5P
EPS (¥)* ³	172	344	2.0x

*¹ EBITDA = Operating income + Depreciation + Amortization of goodwill

*² Annual basis

*³ EPS is calculated using the average number of outstanding shares during the fiscal year ended March 2014 and is before amortization of goodwill. Amortization of goodwill is ¥9 billion as a provisional figure after March 2015.

net sales of ¥2,110.0 billion, an operating margin of 8%, and EPS of ¥344 before amortization of goodwill. The plan's goal for overseas operations is sales of ¥741.0 billion, or 35% of total Group sales. The fiscal year ending March 2017 assumes full consolidation of the GROHE Group.

Efficiency Initiatives to Transform LIXIL

Our efforts in Japan will focus on further expanding the renovation business while continuing with the implementation of operational efficiency action programs, with two focuses: Business Transformation 16 (BT-16) for cost reductions of approximately ¥100 billion and the Cash Conversion Cycle* (CCC) Project. The CCC Project is targeting a 35-day contraction in our cash conversion cycle. By reducing the time required to convert our products to cash from 90 days at the start of the project in September 2013 to 55 days by March 2017, we expect to improve our free cash flow by approximately ¥100 billion by March 2016.

* Please see page 71

By shifting to a truly global management structure, we will accelerate our transformation into a truly global company and capitalize on the strengths of the recent acquisitions.

Post-M&A Integration—Getting the Job Done as a Team

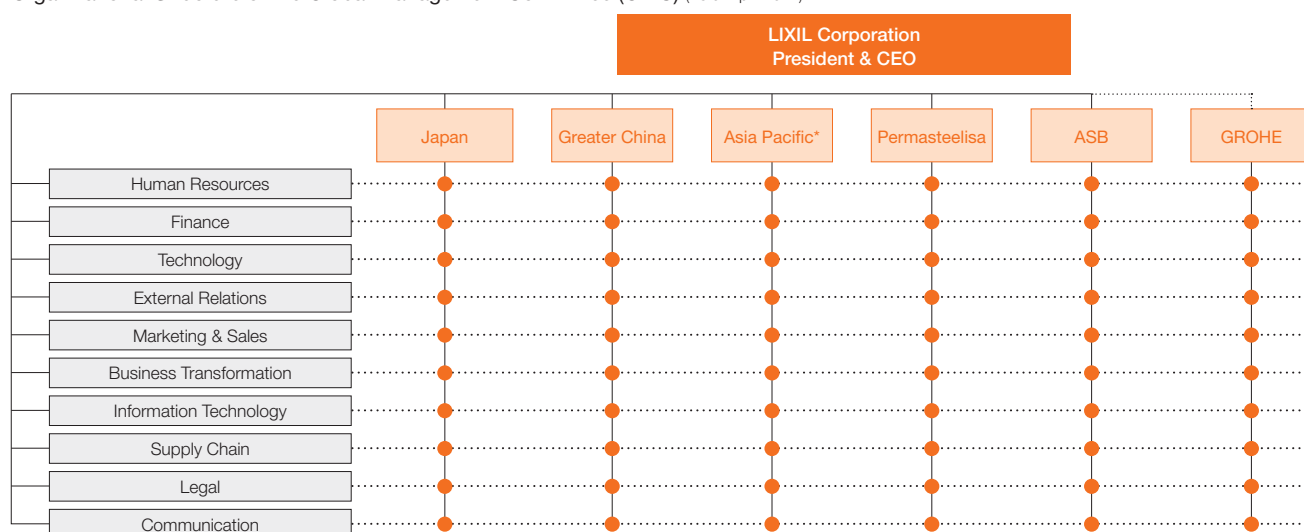
Having amassed a formidable stable of major overseas corporations to complement our Japanese foundation, we now have a global distribution network, a wide-range of quality brands in diverse markets, and a pool of multicultural and talented managers and employees. We can extract the full value of these acquisitions only by executing complete integration of these newcomers into the LIXIL Group.

In April this year, we took the first step toward realizing that goal through the creation of the Global Management Committee (GMC), which consists of the executives of both domestic and overseas operations. Our top management team needs to globalize first before we are able to ask our employees to change and effectively globalize our company. As a result, we transformed our management from all Japanese and Tokyo based to a team that comprises half non-Japanese executives based in the United States, Germany, Italy, China, and Singapore. We are proud to have created the most globalized and experienced top management team of any large company in Japanese history. More importantly, this will be our main driver to fully integrate LIXIL globally to maximize our synergy potential.

The GMC is a cross matrix organization of key functions and business / regional leaders to decide on strategy, deliver financial commitment, and achieve “One LIXIL” through functional consistency. Management has been reorganized so as to globalize and horizontally integrate its various corporate functions, allowing functional leaders to focus on efficiency and maximizing the effectiveness of their allotted tasks. Vertically, the heads of our major business platforms also sit on the committee and deliver on financial commitments. Our business platform heads have been given substantial powers to lead their businesses and delegate authority to ensure faster decision making.

The GMC will meet face to face in regions around the world throughout the current year while consistently discussing and deciding on crucial strategy and management directions on an ongoing basis. The inaugural GMC meeting held this April at the GROHE headquarters in Düsseldorf, Germany, was a resounding success in kicking off the next stage of our transformation. We plan to hold GMC meetings in Shanghai, New York, and Tokyo later this year.

Organizational Structure of the Global Management Committee (GMC) (As of April 2014)



* Asia Pacific includes South Korea and India

Under the GMC's governance, we will bring all the recent acquisitions into the fold and utilize our resources to make them even more efficient and productive than they already were as major players previously. Our global expansion is crucial because it allows us to use the power of globalization to consistently meet the expectations of stakeholders. We expect our Japanese operations' performance for new housing areas to be flat or slightly up in the current fiscal year because in the year under review the market was overheated. However, we also anticipate that our Japanese renovation business and overseas companies will be able to take up the slack, allowing us to post further gains in record sales and record profits.

Toward a Better World and Future

To support our globalization efforts, we formed a Strategic Partnership with the World Economic Forum. We became one of the 100 Strategic Partners, along with leading companies like GE, Goldman Sachs, and Nestlé, and one of the only four Japanese partner companies. The forum provides opportunities for leaders from government, academia, business, and other areas to discuss critical issues of the world today and tomorrow. Their activities often set future industry agendas that could affect our industry, economies, and interests. By gaining a seat at this table, we intend to collect invaluable intelligence and also voice opinions to shape our industry and economies' futures.

We also signed, in July 2013, the United Nations Global Compact (UNGC), an initiative proposed at the World Economic Forum's Davos meeting in 1999 by the then UN Secretary-General Kofi Annan. Accordingly, we have committed to promoting ten principles relating to human rights, labor, environment, and anti-corruption. In addition to advocating and implementing the ten principles, including workers' rights across the supply chain, the UNGC is also committed to pursuing the Millennium Development Goals (MDGs). In line with the MDGs, we will display leadership as a total housing and living environment solutions provider in improving the living environments of people in need and supporting the establishment of safe sanitation facilities. One example is our award winning Green Toilet System Project, which aims to dramatically expand the availability of safe sanitation facilities in developing countries.

A New Corporate Culture and Future Prospects

The Japanese Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange jointly selected LIXIL as a "Nadeshiko Brand" in March 2014, a recognition given to companies that create an excellent working environment for women, actively utilize their talents, and promote advancement. At LIXIL, we have been striving to create a corporate culture based on the three principles of respecting diversity, providing equal opportunity to everybody regardless of background, and implementing meritocracy. Since we began this effort in 2011, the number of female managers has increased by approximately 3.5 times to 76 in Japan. We have targeted

women and non-Japanese employees to represent 30% of all managers. To implement meritocracy, we are rapidly extending our performance-linked compensation system from top management down to all managers and employees. We are convinced that our new, more diversified and open culture will make us a much stronger company.

That completes my review of the fiscal year ended March 2014 and what is happening at LIXIL today. I hope you are just as excited as I am with the prospect of our improvement through March 2017 based on the execution of the LIXIL G-16 Plan. We will become a much stronger, more globalized company that is appreciated by our stakeholders. Although the journey to become one of the world's great companies will not end at that point, the transformation between 2011 and 2017 will be dramatic and rewarding for all of our stakeholders. In taking our next steps toward this goal, we need and look forward to your continued support.

August 2014



Yoshiaki Fujimori
President and CEO



Special Feature 1

Unleashing the Maximum Potential of Our M&A Deals

We are making the most of our new opportunities.

Guided by our Medium-Term Management Vision of becoming a global leader in comprehensive living and housing solutions, the LIXIL Group is using M&A as a portal to globalization. In the following section, we look at the Group's post-M&A integration efforts aimed at unleashing the maximum potential afforded the LIXIL Group through its M&A deals. In the report, the five function leaders of the GMC confronting this integration process express their determination to "do whatever has to be done" to get the job done.

STORY: *1/5* THEME: *Marketing & Sales*

Creating Value from a Customer Perspective

By clarifying “LIXIL solutions” for each of our businesses, we are building a function model that maximizes what could be called “LIXIL Value,” not only in our products but also in terms of the degree that our customers benefit from our brand.

Toshimasa Iue

Chief Marketing and Sales Officer



Toshimasa Iue (center)

Priority Issues of the Marketing & Sales Function

- Establish and share marketing platforms
- Form a global strategy for the entire LIXIL Group
- Maximize the positioning and presence of the LIXIL corporate brand in the market

Amalgamating the Marketing Resources of Each Group Company

The role of the Marketing & Sales Function is to strengthen marketing and sales strategies in each of our core markets and create opportunities for business growth based on enhancing value for our customers. To that end, the current focus of our efforts is to maximize and optimize Group resource synergies.

Through M&A, the LIXIL Group has added to its stable of top market share products in the housing and building materials and plumbing fixtures markets in Japan. First, there was American Standard Asia Pacific, with sales networks throughout Southeast Asia. Next came Permasteelisa S.p.A. (Permasteelisa), the leading company in the global curtain wall market with its close business ties with the world's top architectural firms and construction companies. Last year's deals brought ASD Americas Holding Corp. (American Standard Brands, ASB), a solidly positioned company in the North American market with a 142-year history, and yielded a relationship with GROHE Group S.à r.l. (GROHE), a company focused on making “killer product” sanitary ware, such as faucets and showerheads, and boasting a strong reputation as a premium brand, particularly in Europe. In pursuing their businesses, each of these Group companies has built its own prime customer and market bases along with marketing platforms to support them. Our first priority issue is to share the best practices of each of these platforms and instill them in each company of the LIXIL Group.

Our second priority issue is to more concretely clarify the Group's global strategy and flesh out the details. Under our Medium-Term Business Plan LIXIL G-16, the LIXIL Group's goal is to achieve overseas sales of ¥741.0 billion in the fiscal year ending March 2017, stepping up to ¥1 trillion in the fiscal year ending March 2020. The performance targets of the G-16 plan are founded on the individual performance goals of China and Asia excluding China as well as Permasteelisa, ASB, and GROHE. We want to ensure that the G-16 plan goals are met, however, by formulating a more in-depth strategy that centers on leveraging the Group's resources and the achievement of synergies.

Finally, we want to position the LIXIL brand and presence globally. The characteristics of markets around the world differ by country and region, as do the segments that the LIXIL Group can most effectively target in each market. Building our presence in each market by deciding how we should position



LIXIL, given our understanding of the market conditions, is also part of this priority issue.

Taking Measures to Optimize the LIXIL Business Portfolio and Combine Our Platforms

In consideration of the previously mentioned priority issues, we established three goals for the fiscal year ending March 2015. The first goal is the optimization of our business portfolio. During the first GMC meeting held in Düsseldorf, we worked up a list of the products, brands, customer bases, and marketing regions of the LIXIL Group companies and thoroughly discussed what sort of measures would create the maximum synergies. The Marketing & Sales Function plans not only to meet at GMC meetings but also to hold meetings regularly in each country that encompass all our different brands. During these meetings, we will define the measures needed to achieve the optimization of the LIXIL Group's business portfolio.

Our next goal is to complete our integrated marketing platform. No matter how wonderful individual marketing platforms may be, if multiple platforms are operated at the same time within the Group, synergies are not going to emerge. We recognize that establishing an integrated LIXIL Group marketing platform is an urgent task if we are to quickly unleash the maximum potential of our M&A deals. To begin with, we are working on integrating the market information of all our Group companies to create the database on which the integrated platform will be built.

Our third goal is to strengthen our customer account management and establish a unified system for the Group. There is no doubt that our customer bases are our greatest asset. By sharing our area customer account information or providing regional services for global customer accounts, we will proceed to maximize LIXIL value for our customers. For that purpose, we will build a state-of-the-art CRM system*.

* CRM is an acronym for customer relations management. A CRM system focuses on building relationships with customers in order to heighten customer satisfaction.

Developing a New Customer Value Creation Model for the Japanese Market

Following the GMC meeting, I took a fresh look at Japan, both as a market and as an asset. Generally, it is thought that the major feature of the Japanese market is its consumers, with their extremely refined preferences and great diversity. Not surprisingly, the recent growth of the renovation market in Japan reflects a movement away from houses incorporating standardized construction products to a demand for personalized houses that reflect an individual's lifestyle and preferences. In a market like Japan with this type of customer sensibilities, we have high expectations of being able to stimulate new demand by introducing the rivalless products of ASB and GROHE. On the other side of the coin, we also intend to actively introduce Japan's technologies to the world.



Permasteelisa



American Standard Asia Pacific



ASB



GROHE

STORY: 2/5

THEME: *Business Transformation*

Boosting LIXIL Group Earning Power

Structural reforms are the driving force behind the two interrelated action programs of our Medium-Term Business Plan LIXIL G-16: BT-16*¹ and MI-16*². To those ends, we are pursuing structural reforms that transverse divisional business lines at all levels of the LIXIL Group's organization.

Shinichi Tanzawa

Chief Business Transformation Officer



Shinichi Tanzawa

Priority Issues of the Business Transformation Function

- As part of the BT-16 action program, implement structural reforms at all levels to achieve supply chain optimization, improve product development efficiency, increase gross profit, boost business efficiency, and reduce indirect costs
- Pursue improvement in the profitability of low-margin businesses and subsidiaries and innovations in their business models
- Achieve global implementation of the Six Sigma activities based on business process improvement and innovation

*1 Business Transformation 16, a program targeting operational efficiency

*2 Marketing & Innovation 16, a program targeting growth

Utilizing Structural Reform Successes as Management Resources

The companies of the LIXIL Group have advanced a wide range of know-how and implemented many successful structural reforms. Examples include the results of the C-30 Project*³ initiated at LIXIL Corporation after the merger of domestic companies in 2011; wide-ranging business reform under the BT-16 action program, currently under way within the Group with an emphasis on Japan; the Six Sigma*⁴ activities being run in Japan and in other countries in Asia; the action plan to improve the gross margin on sales being undertaken by GROHE; and Permasteelisa's efficient supply chain management method for large-scale projects. At the GMC meeting, we all shared the common view that LIXIL could further strengthen its earning power as a group by sharing and implementing globally the best practices of individual companies of the Group.

*3 Please see page 44

*4 Six Sigma is a quality control method. By reducing variability in business, development, production, and logistics processes, the method seeks to raise customer satisfaction and improve business efficiency.

Targeting a ¥100.0 billion Improvement in Profits based on BT-16

The LIXIL Group is implementing various strategies to improve the degree of customer satisfaction while also targeting sales growth and increased profits. The strategies are being implemented through numerous projects under the growth program MI-16 and the operational efficiency program BT-16. These are the two action programs of the Medium-Term Business Plan LIXIL G-16. By pursuing the goals of the medium-term business plan throughout the Group, we are targeting an increase of approximately ¥100.0 billion in profits over a three-year period based on these two growth and efficiency action programs. The Business Transformation Function is principally responsible for proposing and executing the various measures that fall under the BT-16 program.

To carry out this task, we are collaborating with the Supply Chain, Technology, Marketing & Sales, Information Technology, Finance, Human Resources, and other function groups to optimize the supply chain, increase the efficiency of product development, and improve gross profit by enhancing product competitiveness. Moreover, we will pursue cross-functional reforms and business model innovations to achieve various improvements. Those efforts will include upgrading the efficiency of quotations, orders reception, construction or



installation, and showroom operations as well as reductions in indirect costs aimed at Groupwide optimization and improvement and expansion of in-house and customer training systems. Furthermore, we will be looking at restructuring low-margin businesses or subsidiaries both in Japan and abroad. Our restructuring tools will include business portfolio revisions, business improvements or structural reforms, and even the divesting or liquidation of the businesses or companies. We have particularly high hopes of producing the quickest visible results for supply chain optimization and indirect cost reduction measures by leveraging economies of scale on a global basis.

To provide a support team for these activities, we will increase the number of Black Belts and Green Belts^{*5} responsible for Six Sigma activities. Through Six Sigma, we will consistently analyze and improve our business processes at the global level.

^{*5} The managers responsible for Six Sigma projects (Black Belts) and the managers or supervisors who are responsible for implementing the projects while also working on their own jobs (Green Belts)

Aiming for Increased Corporate Value through Structural Reform Results

Created through a merger of five Japanese companies, LIXIL Corporation is now going through another completely different organizational transformation as a result of some bold, mainly overseas, M&A deals. In that transformation, we are pursuing structural reforms that cover all aspects of our corporate activities, from sweeping reforms of business models to plain and simple improvements in business processes. We intend to establish optimum business processes and further strengthen our corporate structure, enabling the LIXIL Group to offer a wide range of products and services globally. In addition, these reforms will increase the degree of customer satisfaction as well as enhance our profitability, thereby contributing to long-term growth in corporate value.



STORY: **3/5** THEME: *Supply Chain*

Reinforcing Cost Management

We are building a world-class global supply chain management (SCM) system that optimizes all processes, including procurement, production, logistics, and even inventory management.

Kenji Uenishi
Chief Supply Chain Officer



Kenji Uenishi (left)

Priority Issues of the Supply Chain Function

- Optimize production with the emphasis on high quality, improve global procurement and logistics systems, and implement cost management founded on strict reduction of inventories
- Introduce Japan's innovative technology and other best practices for supply chain management throughout the Group globally

Building an SCM Model to Support Efficient Group Management

The LIXIL Group is targeting a global supply chain that can quickly deliver—to all corners of the earth—high-quality products and services that have been produced at optimum cost in different global regions. By achieving this, we will provide the highest degree of customer satisfaction, thereby enabling the Group to earn high levels of profits. The LIXIL Group has 96 production bases around the world as well as 55 logistics bases. The mission of the Supply Chain Function is to integrate the operations of these production and logistics bases. Through the development of a global SCM model, we will capture synergies through overall optimization of our supply chain that marries the strong brand power of our overseas companies with Japanese *monozukuri* production processes.

In the fiscal year ending March 2015, guided by the numerical targets set at the GMC meeting, we plan to begin by synchronizing the production flows—from raw materials and building materials to products—developed by each of our businesses and improving the visibility of these flows. At the same time, we will seek to create SCM synergies for each of the procurement, production, and distribution systems of our sanitary ware and sanitary fittings production lines as well as verify the construction of their global logistics chains. We aim to have established a direction for these procedures within a year. The creation of an SCM model for plumbing fixtures that encompasses various brands, diverse product groups, and broad regions represents an extreme challenge for us. However, we have high expectations that success will have a positive impact equal to the degree of difficulty of the challenge.



We are aiming for SCM optimization that will enable the delivery—of just the right amount at the necessary time and place—of a diverse range of raw materials, building materials, and products.



Achieving ¥55.0 billion in Cost Reductions over the LIXIL G-16 Term

Guided by our Medium-Term Business Plan LIXIL G-16, we are aiming to reduce costs by ¥55.0 billion based on unifying sales and construction and installation information, optimizing production and logistics bases, improving distribution systems, undertaking strategic procurement, and improving our cash conversion cycle (CCC). To reach this goal, we will need to carry out initiatives in our businesses throughout all points of the compass and in a speedy manner. Those initiatives will include collecting and sharing logistics information among the companies of the LIXIL Group to reduce our inventories of materials, products, and other supplies. The initiatives will also involve utilizing centralized purchasing to take advantage of economies of scale and building a system that can rapidly deliver supplies to all our production and sales bases.

In that sense, I was greatly encouraged that the function leaders and the business leaders that participated in the GMC meeting recognized the importance of post-M&A integration and were all on the same page. With all of the members of the

GMC meeting supporting us, I became convinced that we could reach our stretch goals no matter how ambitious. In actual fact, following the GMC meeting, each region shared their data and participants began to steadily establish a process for holding monthly meetings and systematically making decisions. Clearly, the level of exchange between Group companies is deepening.

Gathering Global Human Resources the Key to SCM

I believe that building an SCM model, in other words a foundation that will contribute to cost reductions and the maximization of profits going forward, means the establishment of a “center of excellence.” And the source of that excellence will be global human resources with a broad vision and a high degree of expertise. We need people who have a comprehensive grasp of the LIXIL Group’s overall business structure and who can also create flexible measures to deal with the great diversity of our products and markets. By gathering such highly skilled people from around the world, we are going to build the world’s best supply chain.



STORY: **4/5** THEME: *Technology*

Staying Ahead of the Competition through Innovation

We are leveraging the LIXIL Group's technology management resources to the maximum in pursuing R&D, technology development, and product development.

Ryuichi Kawamoto
Chief Technology Officer

Priority Issues of the Technology Function

- Establish a global product development structure
- Develop next-generation competitive global products

Setting Up an Organization That Efficiently Produces New Technology and Products

The source of the comprehensive strengths of the LIXIL Group is its on-site capabilities in technology and product development and manufacturing. We must establish a process whereby we can quickly develop highly competitive global products by harnessing each Group company's new technologies emerging from these capabilities to the greatest extent. This approach will demonstrate a core competence of the new LIXIL Group, both internally and to the outside world.

At the GMC meeting, the Technology Function had vigorous discussions with all function members on the topics of

global technology research, product development, and design. We held in-depth discussions on what type of decision-making process was needed for technology and product R&D programs being shared by Group companies, methods of fairly assessing technology and product R&D themes, and ways of managing R&D expenses. Following the completion of taking inventory of the technology and product R&D themes of each company after the GMC meeting, we have now begun selecting global technology and product R&D themes. Going forward, we will concentrate our efforts with the selected technology and product R&D themes on the Group companies with the highest competitive abilities. Under my management as Chief Technology Officer, we will begin working toward product commercialization.

By setting up an organization that efficiently produces innovative products, we will move quickly to capture synergies from the consolidation of our development platform by focusing mainly on sanitary ware, sharing parts, and centralizing our supplier and production bases.



Ryuichi Kawamoto (center right)



Yosuke Yagi (left)

STORY: **5/5** THEME: *HUMAN RESOURCES*

Creating a Dynamic Organization

We are striving to create an organization that demonstrates the highest degree of productivity and performance, where individual businesses and regions conduct independent strategies while maintaining strategic consistency under the “One LIXIL” banner.

Yosuke Yagi
Chief HR Officer

Priority Issues of the Human Resources Function

- Foster leaders on a global level
- Build a common global training and education system
- Establish a truly global organization

Maximizing the Dynamism of Our Human Resources to Win amid Global Competition

To stay ahead of the game in the global market, it is essential to develop highly skilled personnel that can lead our transformation. The task of the Human Resources Function is to, regardless of their backgrounds, discover, nurture, utilize, and retain the best available human resources. We will amass a world-class pool of intellectual capital, thereby contributing to the value creation of the LIXIL Group.

The first GMC meeting, where more than 80 of the Group's top officers gathered under one roof, represented the starting line in facing the challenge of fusing our global and local

operations. The Human Resources Function engaged in constructive discussions, particularly on people and organizational development. Within that process, we shared our best practices for energizing organizations. Moreover, in order to build a common human resources platform for the LIXIL Group, we began deliberations on how to secure strategic consistency under the “One LIXIL” banner in all our efforts. We considered how to advance LIXIL Value; create a database for our human resource pool; unify our personnel assessment, promotion, and compensation policies; and develop a curriculum for our global leadership training programs. We expect to achieve concrete results for all these undertakings by the end of 2014. In the medium term, we are aiming to initiate a personnel rotation system that goes beyond individual business lines. We also intend to implement personnel and organizational strategies that use our scale and reputation to hire on a global level and enable us to demonstrate our strengths as a corporate group expanding businesses globally.

LIXIL Group's Operations in Brief: Japan



Haruo Shirai
President
LIXIL Japan Company



Metal Building Material Business



Plumbing Fixtures Business

Manufacturing Business

Market Conditions

- Demand declines in reaction to the rush demand ahead of the April 2014 consumption tax increase
- Rising building materials prices and labor shortages lengthen construction periods
- Demand increases for housing and buildings with improved seismic resistance and thermal insulation functions against the backdrop of Japanese government administrative guidance

Demand for housing window sashes and doors has reflected new housing starts because these products deteriorate comparatively little due to aging. However, interest in improving thermal insulation through renovation has heightened among homeowners, and demand for home renovation is expected to grow.

Areas with plumbing fixtures, such as bathrooms, washstands, toilets, and kitchen systems, are a high priority for end users considering renovation. Solid renovation demand promises to support favorable growth in the plumbing fixtures market.

Factors Affecting Market Conditions

- New statutory regulations for thermal insulation and seismic resistance
- Government taking further measures to invigorate renovation market

- Reversal in demand-supply gap for aluminum ingots driving up prices
- Heightened interest in passive and smart functions among consumers

- Higher prices for copper, plastic, steel plate, and other materials as demand grows

Sales Strategies

- Increase sales of SAMOS II high-thermal insulation performance windows
- Capture construction demand arising from preparation for Tokyo 2020 Summer Olympics and Paralympics

- Develop and sell products that meet needs of renovation end users
- Start extended long-term guarantee services for plumbing fixtures

Direct Customers

Housing window sashes: Dealers, sales agencies, house manufacturers, housing developers, homebuilders

Exterior materials: Sales agencies

Building sashes and shutters: General construction contractors

Dealers (plumbing supplies stores), building materials trading companies

Competitors

YKK AP
Sankyo Tateyama

TOTO
Takara Standard

Panasonic
Cleanup



Other Building Materials
and Equipment Business



Distribution and Retail Business



Housing, Real Estate
and Other Businesses

- Government announces a policy of increasing the proportion of housing stock that meets national seismic standards set in 1981 to 95% by fiscal year ending March 2020
- Government also announces a policy to introduce step-up requirements to force new residential housing and other structures to comply with energy conservation standards by fiscal year ending March 2020
- Renovation market expands because large volumes of previously built housing stock are reaching maintenance periods

Because of government policy, growth in demand is anticipated for structures and exterior walls with improved seismic resistance and thermal insulation properties.

The home centers market has plateaued at approximately ¥4 trillion. A continued growth trend for about five years has raised the number of home centers to more than 4,500 for the first time, intensifying competition. Companies are differentiating themselves by developing specialty stores for professionals in such industries as construction and agriculture.

Although a decline in demand is expected in the fiscal year ending 2015 in reaction to the hike in the consumption tax, projections of further increases in interest rates and asset values should support demand.

- Demand expected to spike again ahead of October 2015 scheduled increase in consumption tax

- Higher wood prices due to weakened yen and other factors

- General consumption trends

- Construction delays and prolonged construction periods caused by labor shortages
- Increased demand for rental housing in reaction to decrease in basic deduction for inheritance taxes

- Develop and supply construction methods and products for efficiently retrofitting anti-seismic reinforcement and thermal insulation
- Expand solar photovoltaic systems business
- Develop housing construction material products incorporating electronic materials
- Expand and improve products and businesses related to Home Energy Management Systems (HEMSs) and energy storage

- Further specialization in building materials
- Reinforce renovation business
- Develop network of stores for professional users and expand business

- Expand financial services business for new homes and renovations
- Create synergies as comprehensive living and housing solutions company by packaging products made by manufacturing business with services provided from this segment

Dealers, sales agencies

Home center business: General consumers, construction professionals
Ken Depot business: Construction professionals, small and medium-sized homebuilders

Housing franchise business: Homebuilding franchise members
Housing structural defects liability insurance business and housing site ground inspection business: Construction companies, real estate transaction agents
Real estate brokerage franchise business: General consumers

Daiken
Nichiha

Panasonic
Danto

DCM Japan Holdings
Komeri

Cainz
Kohnan Shoji

LIXIL Group's Operations in Brief: Global



China

Kenneth Ng

President and CEO
LIXIL Greater China



Asia (excluding China)

William Crichton

President and CEO
LIXIL Asia Pacific

		
Market Conditions	<p>In addition to the slowdown in the economy, the real estate market is showing signs of a slump because of excess housing stock. Consequently, there is a growing sense of uncertainty in the market.</p>	<p>Average annual GDP growth up to 2018 is projected to be 4.5% in Southeast Asia and 5.9% in India. The expansion of the middle-income segment resulting from population and economic growth is expected to drive continued growth in real estate demand in the medium term.</p>
Factors Affecting Market Conditions	<ul style="list-style-type: none"> Chinese government's economic policies Stability of financial system 	<ul style="list-style-type: none"> Foreign exchange rate fluctuations Labor cost increases Higher prices for copper, plastic, steel plate, and other materials as demand grows
Sales Strategies	<ul style="list-style-type: none"> Focus sanitary ware marketing on major real estate developers Utilize distribution network of home electronics manufacturer Haier Group for kitchen systems based on business alliance and aim to be No. 1 in Chinese market Pursue synergies between JOYOU and GROHE 	<ul style="list-style-type: none"> Open design center in Southeast Asia and develop and market products accurately reflecting needs of local customers Leverage No. 1 position in toilet market in Vietnam to expand business Strengthen Vietnamese plant's system for supplying aluminum products to Asian markets
Direct Customers	<p>Plumbing systems: Dealers, sales agencies, construction companies, developers</p> <p>Kitchen systems: Haier stores</p>	<p>Metal building materials: Dealers, sales agencies</p> <p>Plumbing fixtures: Dealers, sales agencies</p>
Competitors	<p>YKK AP (metal building materials)</p> <p>Schüco (metal building materials)</p> <p>Yuanda (metal building materials)</p> <p>TOTO (plumbing fixtures)</p> <p>Kohler (plumbing fixtures)</p> <p>Roca (plumbing fixtures)</p> <p>Chinese local companies</p>	<p>YKK AP (metal building materials)</p> <p>TOTO (plumbing fixtures)</p> <p>Roca (plumbing fixtures)</p> <p>Kohler (plumbing fixtures)</p>



Permasteelisa

Nicola Greco

CEO
Permasteelisa Group



American Standard Brands (ASB)

Jay Gould

President and CEO
American Standard Brands



GROHE (Affiliated company by equity method)

David Haines

Chairman and CEO
GROHE Group S.p.A.



Ph.: ©Sellar



A mild recovery in European economies and a robust U.S. construction market coincided with stable demand conditions in emerging markets, particularly in Southeast Asia. As a result, the non-housing construction market, including hotels, office buildings, and commercial facilities, is forecast over the medium term to grow 37% in China, 21% in North America and the Middle East, and 3% in Europe.

Against the backdrop of economic recovery and low interest rates, conditions in the North American housing market are looking favorable. In March 2014, the U.S. Pending Home Sales Index rose sharply for the first time in three years. Although the reduction in quantitative easing gives some cause for concern, it is anticipated that gradual growth in demand will continue.

The mild recovery in European economies is expected to have a positive impact on demand for high-end housing equipment.

- Global economic trends
- Reversal in demand-supply gap for aluminum ingots driving up prices

- U.S. government's monetary policy
- Higher prices for copper, plastic, steel plate, and other materials as demand grows

- Economic trends in Europe
- Higher prices for copper, stainless steel, and other raw materials as demand grows

- Implement stricter management of Asian operations
- Be selective in accepting orders based on gross margins
- Increase sales proportion of high gross margin North American market
- Strengthen overall curtain wall operations that utilize Permasteelisa's business platform
- Expand interior business

- Accelerate development and distribution of luxury brand DXV
- Execute on agreed strategic partnership with Ferguson, North America's largest wholesaler of plumbing supplies and pipe
- Grow core business through commercialization of new products and vertical market expansion
- Build consumer awareness of spa-toilets

- Maintain position as market leader through innovative technology and design

Construction companies, architectural firms

Dealers, sales agencies, wholesalers, volume retailers

Dealers, sales agencies, construction companies, architectural firms

YKK AP
Yuanda
Local companies

Kohler
Masco (Delta)
Fortune Brands (Moen)
TOTO

Hansgrohe
Fortune Brands (Moen)
Geberit

Market Environment

Industry Trends in Japan

Trends in the Housing Market

New housing starts in Japan have continued to trend downward over the past 20 years, since peaking at 1.63 million units in fiscal 1996. With the size of Japan's population expected to decline further over the long term, housing starts will continue to fall modestly, with a figure of about 800 thousand units projected for fiscal 2016 onward. However, in fiscal 2013, housing starts rose 10.6% year on year, to 987 thousand units. This growth was the result of a surge in demand ahead of a tax rate change accompanying an increase in Japan's consumption tax from a previous rate of 5% to 8% in April 2014. Among new housing, the move toward rental housing is projected to gain momentum going forward, reflecting demographic changes in Japan, such as lower birthrates, an aging population, and growth in the number of single-person households, as well as greater lifestyle diversity among consumers.

Current Status of Housing Stock and Size of the Housing Renovation Market

In Japan, the total housing stock already exceeds the total number of households by more than 10%. Similarly, as of 2008, over 7 million units were vacant, and this number is expected to have risen. However, the market for buying and selling existing homes in Japan is much smaller than comparable markets in Europe, the United States, and other developed countries. Sales of existing houses as a percentage of total house sales—that is, the total of new house and existing house sales—is between 70% and 90% among Western countries but only about 13.5% in Japan.

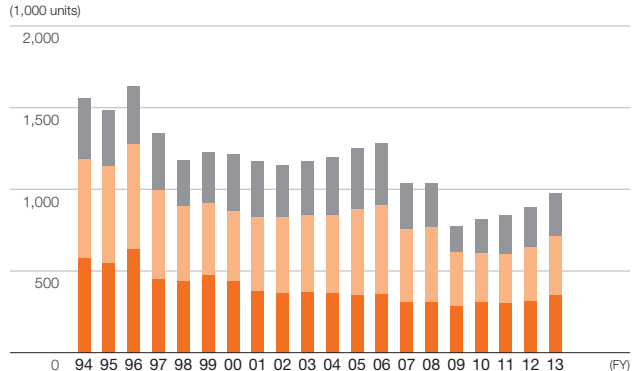
Since the mid-2000s, the Japanese government has backed housing policies that put emphasis on housing stock, with a stated goal of expanding the scale of Japan's existing housing and renovation markets to ¥20 trillion by the fiscal year ending March 2020. To reach this goal, steps are under way to increase the amount of quality housing stock usable beyond a single generation, coupled with efforts to put in place housing markets for circulating and renovating existing stock.

Trends in the Commercial Building Market

In Japan, total orders for building construction, including office, commercial, industrial, and residential construction, placed with the 50 biggest construction companies in fiscal 2013, rose 20.1% year on year. In addition to full-scale rebuilding following the March 2011 Great East Japan Earthquake, office building development, notably in central Tokyo, gained momentum from the beginning of 2014. Most real estate developers have announced plans for new development projects, spurred on by improved corporate performance and lower vacancy rates among large-scale office buildings in central Tokyo. Consequently, in a period of roughly five years from 2015, Tokyo's 23 wards will see a string of office buildings completed, offering an average of more than 1 million square meters in office space each year*.

* Mori Building Co., Ltd., *Market Trend Survey of Large-Scale Office Buildings in Tokyo's 23 Wards*, Press release dated October 2, 2013

Total New Housing Starts by Usage

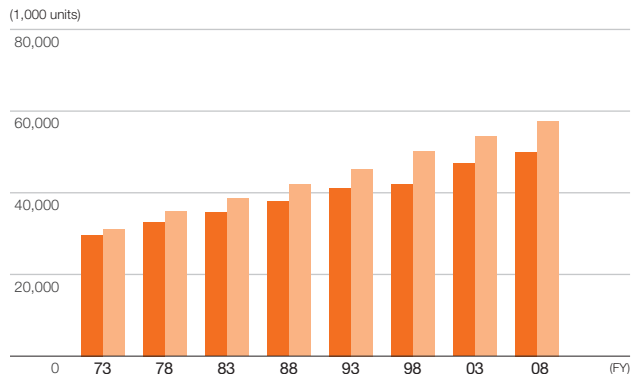


Legend: Owner-occupied (orange), Rental housing (light orange), Built-for-sale (grey)

Note: Company-provided housing is included in rental housing.

Source: Ministry of Land, Infrastructure, Transport and Tourism, *Survey on Dwelling Houses and Construction Started*

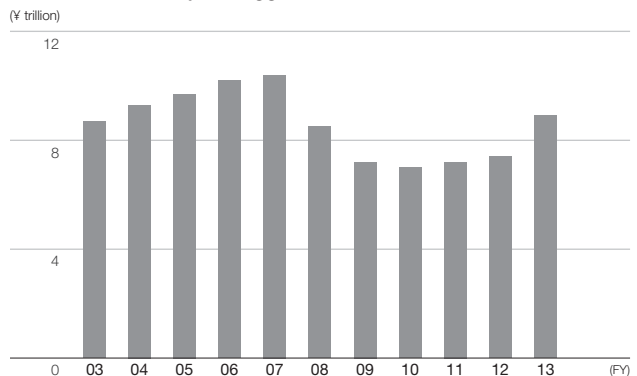
Total Numbers of Households and Housing Units



Legend: Number of households (orange), Number of housing units (light orange)

Source: Ministry of Internal Affairs and Communications, *Housing and Land Survey (2008)*

Orders Received by 50 Biggest Contractors



Note: Building construction only (includes offices, government buildings, accommodations, factories, residences, medical facilities, amusement facilities, etc.)

Source: Ministry of Land, Infrastructure, Transport and Tourism, *The Current Survey of Orders Received for Construction [Big 50 Contractors]*

Industry Trends Overseas

U.S. Housing Market

In the United States, housing demand remains firm, reflecting an improved climate surrounding employment and personal income. In the wake of economic stagnation triggered by the financial crisis, institutional investors have led the improvement in market conditions as economic recovery takes hold, followed by consumer-driven housing demand. While unexpected weather events and rising interest rates have caused momentary slowdowns, an improving supply-demand balance in housing stock and projected medium-to-long-term population growth will continue to sustain modest expansion in the housing market. If economic growth rates begin to show real strength, this could potentially accelerate the pace of investment in the housing sector.

Real Estate Markets in Europe

In Europe, economic recovery is emerging thanks to the success of low interest rate policies led by the European Central Bank (ECB), with a turn to positive real GDP growth rates projected for eurozone countries in 2014. Monetary easing will lead to an influx of capital into the real estate market. In addition to falling office vacancy rates in major European cities, the value of commercial-use real estate transactions is increasing. However, with only a limited number of new development projects slated, European economies still lack the strength to lift construction and facilities demand higher. By country, northern European countries, centered on Germany, are expected to be stable, while Italy, Spain, and other southern European countries will likely require more time to recover.

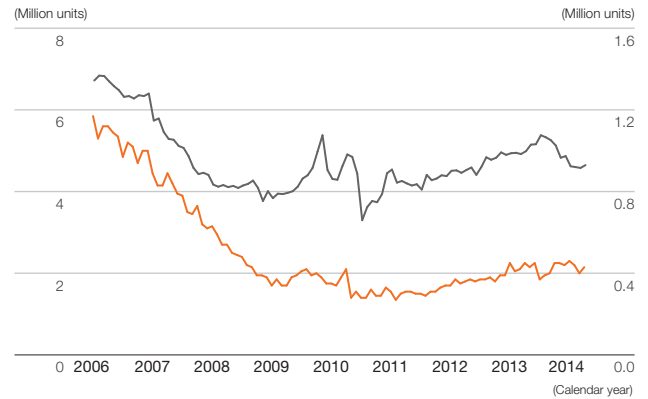
Real Estate Markets in Asia

As of 2011, the purchasing power of the middle-income segments of the 10 member countries* of the Association of Southeast Asian Nations (ASEAN) continue to grow, backed by a population of 598 million and GDP growth. Thanks to high growth rates in both the general and working-age populations, along with dynamic corporate activity across the region, medium-to-long-term growth in the housing and building and commercial facilities markets is anticipated.

In China, growth over the long term in urbanization and expansion of the affluent population is set to bring about expansion in the real estate market. However, housing prices are likely to trend lower, due to the projected slowdown of China's GDP growth rate in 2014 and the possibility that the Chinese government may strengthen policies to clamp down on the real estate market.

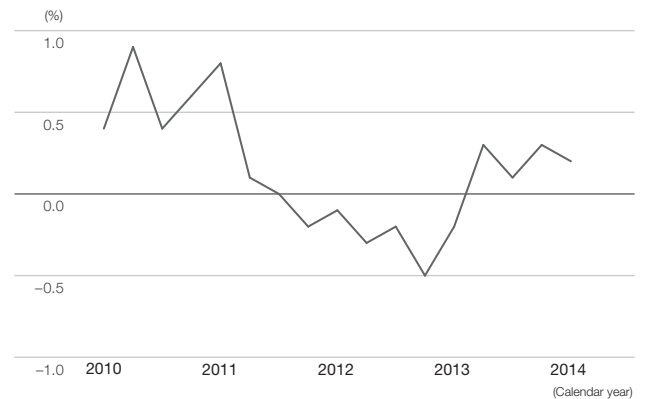
* ASEAN member countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Cambodia, Laos, and Myanmar

New Housing Starts and Number of Existing Home Sales in the United States

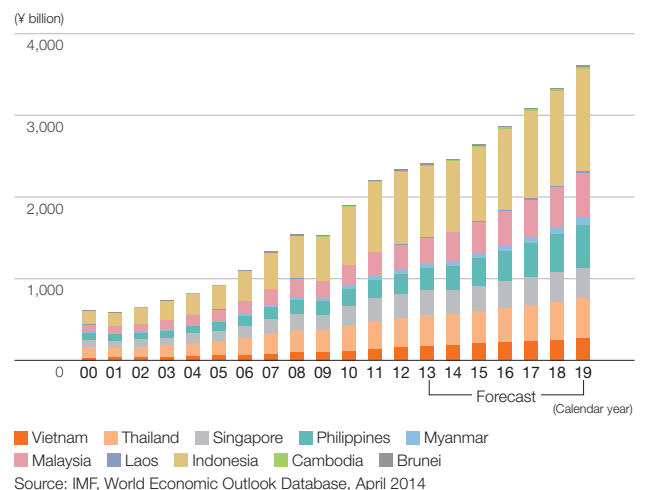


Source: Ministry of Economy, Trade and Industry, *White Paper on International Economy and Trade (2013)*; United States Department of Commerce; National Association of Realtors

Real GDP Growth Rates in Eurozone Countries



GDP Growth Forecast of 10 Member Countries of ASEAN



Review of Operations

Metal Building Material Business



Highlights for the Fiscal Year Ended March 31, 2014

Japan and Consolidated Performance

- Sales and profit growth was achieved, with net sales rising ¥80.0 billion, or 12.3%, year on year, to ¥731.8 billion, and operating income jumping ¥9.6 billion, or 40.3%, to ¥33.5 billion. The operating income ratio was 4.6%, returning to a level previous to the impact of the Great East Japan Earthquake in the fiscal year ended March 2012 and the impact of the 2011 flooding in Thailand that persisted until the fiscal year ended March 2013.
- In Japan, sales of *SAMOS II*, a standard class product despite having top-performance thermal insulation and design functions, and other types of housing sash were firm. The positive business environment can be attributed to several factors. Brand name recognition improved due to television commercials and other advertising and promotion campaigns. Moreover, there was a steady increase in interest in quality-thermal insulation housing and in improving thermal insulation through renovations among general users.
- Expansion of production capacity at the LIXIL plant in Oyabe, Toyama Prefecture, which began in June 2012, was completed. Full-scale production began in August 2013. The plant's aluminum production capacity has been increased from 700 metric tons per month to 2,500 metric tons per month. A comprehensive producer of aluminum building materials, from ingot casting to metal processing, the plant will contribute to stable supplies for the LIXIL Group.

Global

- In calendar 2013, net sales of Permasteelisa amounted to ¥180.4 billion, expanding ¥39.5 billion, or 28.0%, primarily in the Middle East, and contributing to segment sales. However, because of a decline in the profitability of development projects in Asia, Permasteelisa's operating income declined ¥2.9 billion, or 41.0%.
- In October 2013, the LIXIL Group acquired a major capital stake in Star Alubuild Private Ltd., a building curtain wall manufacturer with its head office in the Delhi metropolitan area, India, at a cost of ¥700 million. The new subsidiary will provide the platform for the LIXIL Group's entrance into the Indian market.



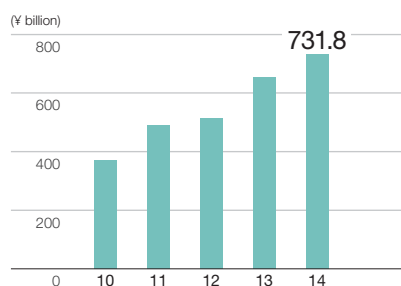
New plant completed in January 2014 in Vietnam for the manufacture of sashes, doors, and exterior products for residential and commercial buildings

SWOT Analysis

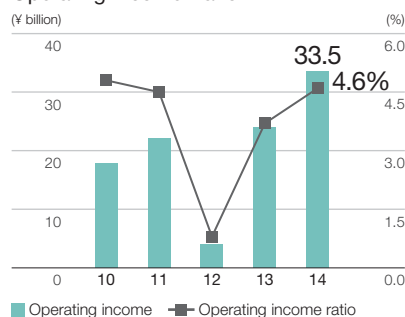
<ul style="list-style-type: none"> ■ Market leader in housing sash and exterior materials in Japan, holding large market share ■ Cost advantage from manufacturing at Thailand plant ■ Permasteelisa, leading company in the global curtain wall business ■ Including Shanghai Meite Curtain Wall System in China, business platforms well established in Japan and China as well as in Europe 	<ul style="list-style-type: none"> ■ Difficult to differentiate products in domestic market ■ Low profit margins for products for new homes and buildings in Japan
<p>Strengths</p> <ul style="list-style-type: none"> ■ Supply system for ASEAN market strengthened through completion of aluminum products plant in Vietnam following construction of plant in Thailand ■ Sales power and efficiency boosted through mutual sharing of supply chains and sales channels of Permasteelisa, American Standard Brands, and LIXIL Corporation ■ Heightened demands for improved thermal insulation and seismic resistance and for universal design layouts in renovation market in Japan 	<p>Weaknesses</p> <p>Opportunities</p> <p>Threats</p> <ul style="list-style-type: none"> ■ Contraction of Japanese housing market as new housing starts tapering off; concern for price competition ■ Deterioration in global and Japanese economies ■ Surge in material prices ■ Prolonged construction periods and construction slowdowns caused by labor shortages in Japanese construction industry ■ Declining advantage of overseas production due to yen depreciation



Net Sales

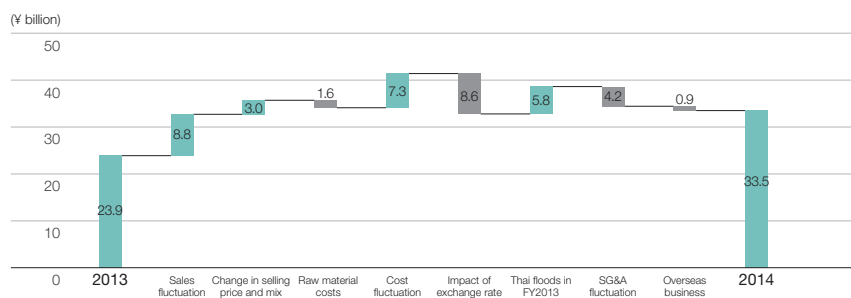


Operating Income / Operating Income Ratio

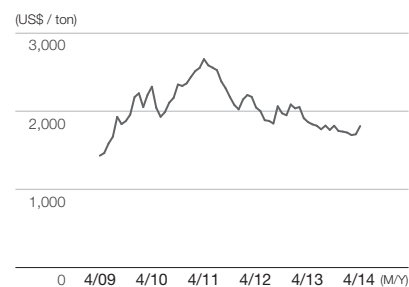


Window sash SAMOS II

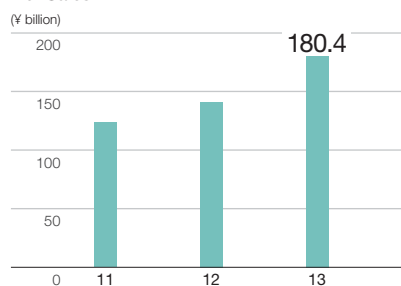
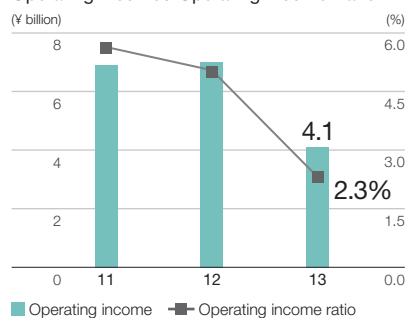
Increase / Decrease Breakdown of Operating Income



Aluminum Prices



Note: Data charted up from April 1, 2009 to April 1, 2014
Source: London Metal Exchange statistics

Permasteelisa
Net SalesPermasteelisa
Operating Income / Operating Income Ratio

Note: Years ended March 31; years ended December 31 for Permasteelisa



Example of installation of Permasteelisa's curtain walls

Plumbing Fixtures Business



Highlights for the Fiscal Year Ended March 31, 2014

Japan and Consolidated Performance

- Net sales climbed ¥64.2 billion, or 17.1%, from the previous fiscal year, to ¥438.5 billion. Operating income also increased, up ¥3.4 billion, or 19.8%, to ¥20.4 billion. At 4.6%, the segment's operating income ratio reached its highest level in five years.
- By utilizing the introduction of such new products as primers, revenue growth of 7.5% in sanitary ware and 8.9% in bathrooms was achieved. However, because of roof damage caused by heavy snowfall in February 2014 at the core kitchen system plant, the increase in kitchen system revenues was held to 5.5%.

Global

- In August 2013, ASD Americas Holding Corp., supplier of American Standard Brands (ASB), North America's leading brand of sanitary ware with a 142-year history, was acquired by LIXIL Corporation. By leveraging ASB's 13 manufacturing bases and 5 logistics centers in the United States, Canada, and Mexico, LIXIL will accelerate business expansion in North America.
- In January 2014, LIXIL Corporation acquired a major stake in GROHE Group S.à r.l. through a joint investment with the Development Bank of Japan, making it an affiliated company of LIXIL Corporation, accounted for by the equity method. GROHE is Europe's leading manufacturer and supplier of premium sanitary fittings. GROHE boasts high recognition as a premium brand used in luxury hotels and residences around the world.
- As part of the investment, LIXIL Corporation also acquired a stake in Joyou AG, a Frankfurt exchange-listed bathroom fixtures and fittings manufacturer in which the GROHE Group owns a 72.3% share. Joyou is also accounted for as an equity-method affiliate. Joyou sells a wide range of mass to premium market products in its home market of China and internationally. Its strengths are its leading market position, high profitability, and extensive production base.

SWOT Analysis

- | | |
|--|---|
| <ul style="list-style-type: none"> One of only two major players in Japanese market, controlling approximately 90% of market with its competitor TOTO Market leader in Japan, holding top market shares for kitchen systems, unit bathrooms, and washstand cabinets Heightened presence in global market with addition of ASB, North America's No. 1 sanitary ware manufacturer, and GROHE, world-leading manufacturer of premium sanitary fittings | <ul style="list-style-type: none"> Declining product prices in Japanese market because of intensifying competition |
| <ul style="list-style-type: none"> Expanding domestic renovation market and heightened plumbing renovation needs among end users Recovery in North American housing market Start of full-scale sales of shower toilets in North America GROHE's JOYOU brand to develop Chinese and international mass market | <ul style="list-style-type: none"> Contraction of Japan's housing market as new housing starts tapering off Prolonged construction periods and construction slowdowns caused by labor shortages in Japanese construction industry Rising management costs for procurement, manufacturing, and sales networks because of network expansion to include Japanese, other Asian, North American, and European markets |

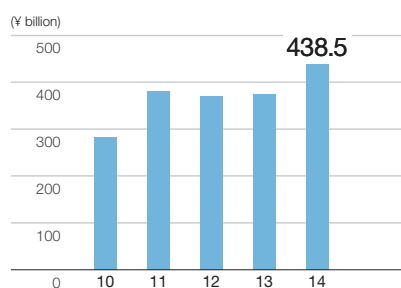


Kitchen system SUNVARIE RICHELLE

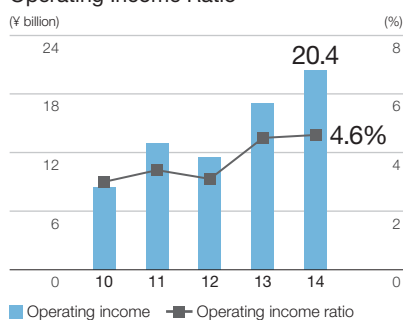


Washstand cabinet unit LUMISIS

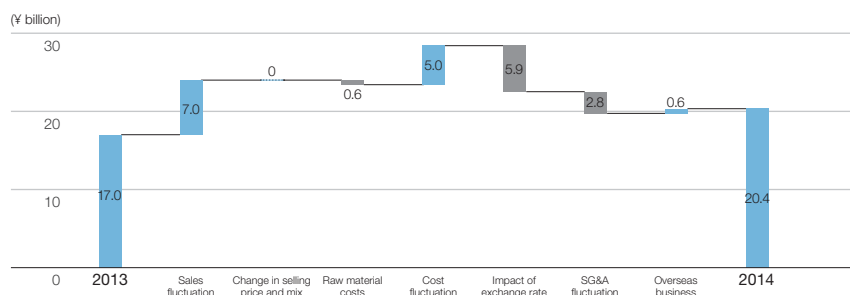
Net Sales



Operating Income / Operating Income Ratio



Increase / Decrease Breakdown of Operating Income



Note: Years ended March 31



In March 2014, ASB launched *DXV*, a new, full-range line of luxury plumbing products, including spa-toilets. The LIXIL Group currently sells *SATIS*, a tankless spa-toilet, in China and other countries in Asia as well as in its home market of Japan. After reengineering *SATIS* to U.S. specifications, the Group has begun full-scale sales of the product under the *DXV* brand using the name spa-toilet *AT 200*, with “AT” standing for advanced toilet.

The bidet, deodorizing, and toilet seat warming functions of the *AT 200* are still new to the North American market. The *AT 200* is featured in the new *DXV* showroom in New York City, where press, designers, and consumers are invited to come in and experience the *AT 200* advantages for themselves. The product will also be displayed in 300 showrooms in North America, including those of Ferguson Enterprises, North America’s largest plumbing wholesaler. In addition, more than 500 ASB employees will be installing the *AT 200* in their homes so they will have firsthand experience in using this advanced product and can become ambassadors for the benefits it provides.



Other Building Materials and Equipment Business



Highlights for the Fiscal Year Ended March 31, 2014

Japan and Consolidated Performance

- Net sales rose ¥21.7 billion, or 11.5%, from the previous fiscal year, to ¥209.7 billion. Operating income was up substantially, rising ¥2.5 billion, or 32.8%, to ¥10.1 billion. The operating income ratio also increased, to 4.8%.
- Wooden interior furnishing materials sales—including flooring, interior furnishing materials, and cabinets and other storage space furnishings—rose in particular, up 22.2%.
- In October 2013, the LIXIL Group concluded a new capital and business alliance with Sharp Corporation, investing approximately ¥5.0 billion to further strengthen the alliance.
- In October 2013, the LIXIL Group and JX Nippon Oil & Energy Corporation (JX Energy) formed a business alliance. Under the agreement, the two partners will share the sales channel of JX Energy's household-related energy products and the sales channel of the LIXIL Group's building materials and equipment to expand their product sales. Moreover, the Group, including metal building materials and plumbing fixtures businesses, will also develop new products by utilizing the high-performance materials of JX Energy.



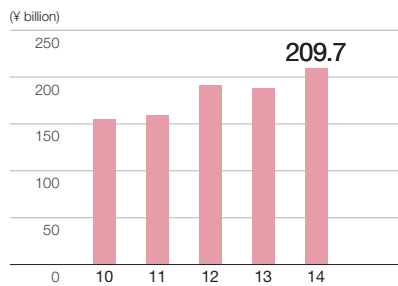
Wooden interior furnishing materials *FAMILY LINE*

SWOT Analysis

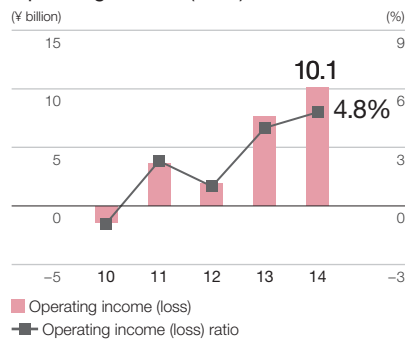
<ul style="list-style-type: none"> ■ Comprehensive renovation proposals that offer total coordination of housing interiors, from wooden furnishing, such as flooring and interior doors, to curtains and decorative wall tiles, made possible by a wide-ranging product lineup ■ Extensive lineups of home exterior products, such as housing sidings, and solar photovoltaic systems ■ Cost competitive because approximately half of building materials and floor tiles sold in Japan are manufactured at overseas plants 	<ul style="list-style-type: none"> ■ Delay in sales route expansion in Chinese market for wooden interior doors manufactured at plant in Dalian, China ■ Low operational profit ratio of the Chinese business
<ul style="list-style-type: none"> ■ Business alliances with Sharp, JX Energy, and others to develop and sell new products that fuse building materials with electronic materials, same as that with metal building materials and plumbing fixtures ■ Rising demands for improved thermal insulation and seismic resistance and for universal design layouts in Japan's renovation market 	<ul style="list-style-type: none"> ■ Rising prices of wood tied to yen depreciation ■ Declining advantage of overseas production due to yen depreciation



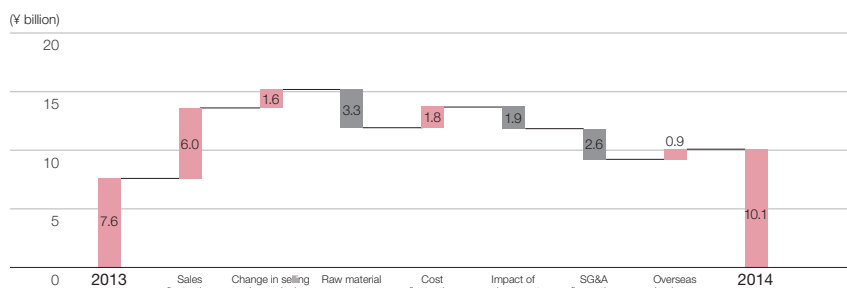
Net Sales



Operating Income (Loss) / Operating Income (Loss) Ratio



Increase / Decrease Breakdown of Operating Income



Note: Years ended March 31



The innovative thermal insulation renovation method **COCOECO** allows renovations of windows, walls, and floors one room at a time. The method entails the simple installation of only a 30-millimeter layer of ultrathin, high-performance, vacuum thermal insulation material to walls and a 15-millimeter layer to floors. Therefore, families can continue to live in their homes during the renovation process. In addition to the improved insulation of floors and walls, an extremely high degree of overall thermal insulation can be achieved by installing **IN-PLUS** inner windows, which are added to the interior side of existing windows.

WALL IN-PLUS, a new model introduced in June 2014, integrates the plasterboard and vacuum thermal insulation material and maintains the same level of thermal insulation performance and pricing. By using the new product, renovations that used to take at least three days can be done in as short as one day.



A house without COCOECO



Before
A/C temperature setting 24°C

Room temperature 27.3°C



After
A/C temperature setting 24°C

Room temperature 24.8°C

Introducing COCOECO improves the efficiency of air conditioners

Note: The data listed represents only a portion of the specifications and conditions under which the measurements were made. Data results could change according to the housing specifications, lifestyle, and location and measurement conditions.

Distribution and Retail Business



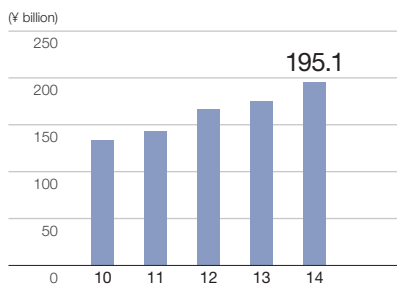
Highlights for the Fiscal Year Ended March 31, 2014

Japan and Consolidated Performance

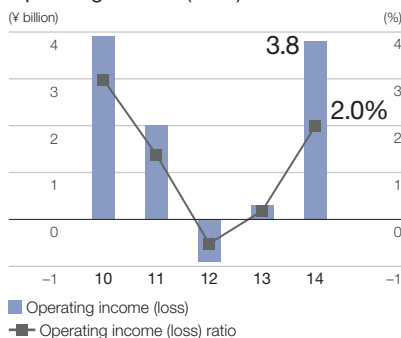
- Net sales advanced ¥19.6 billion, or 11.2%, from the previous fiscal year, increasing to ¥195.1 billion. Operating income soared 14 times, jumping ¥3.6 billion, to ¥3.8 billion.
- Four stores were opened in the large-scale home center business, Super Viva Home, and four stores were opened in the membership-based wholesale building materials business for professional users of housing-related materials, Ken Depot. The Super Viva Home business targets general consumers with its renovation services and renovation building materials for professional builders, while Ken Depot focuses on sales of renovation building materials for professional builders. The business segment uses this two-pronged strategy to differentiate its operations in and expand its share of the renovation market.
- Giving top priority to improving profitability, the home center business will increase the proportion of private-brand products and aim to reduce costs by increasing operating efficiency. Ken Depot will aim to turn a profit in the fiscal year ending March 31, 2015.



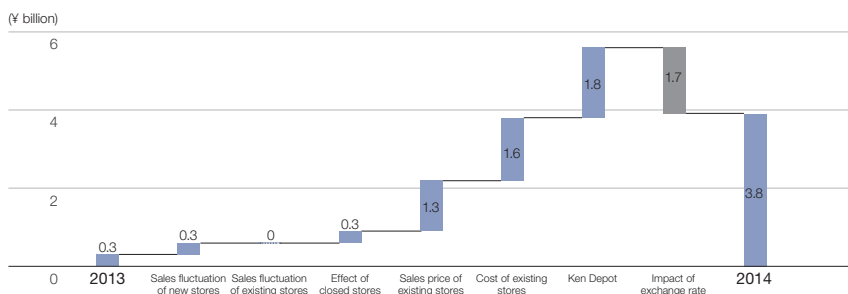
Net Sales



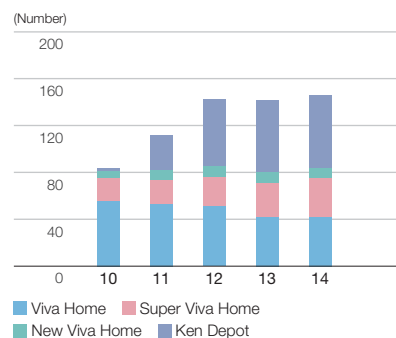
Operating Income (Loss) / Operating Income (Loss) Ratio



Increase / Decrease Breakdown of Operating Income



Number of Stores



Note: Years ended March 31

Housing, Real Estate and Other Businesses



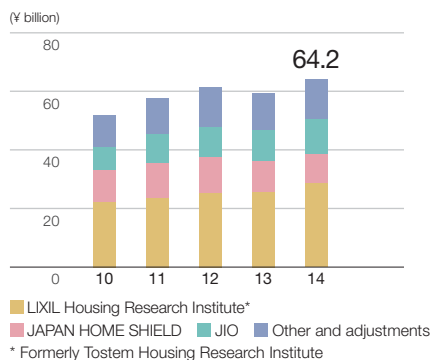
Highlights for the Fiscal Year Ended March 31, 2014

Japan and Consolidated Performance

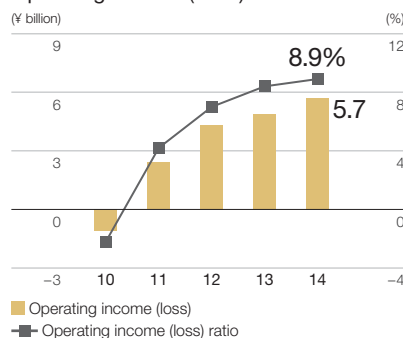
- Net sales amounted to ¥64.2 billion, increasing ¥4.9 billion, or 8.3%, year on year. Operating income grew ¥800 million, or 16.1%, to ¥5.7 billion. The operating income ratio was 8.9%.
- Against the backdrop of rush demand ahead of the scheduled consumption tax increase, the business segment introduced products that met market needs, centered on its Eyeful Home's core product *cesibo*. By concentrating its efforts on selling and winning orders for such products as *cesibo EX-H*, which features superior thermal insulation and airtightness, the business segment attained growth in sales and profits.
- In November 2013, the number of cumulative ground inspections and analyses done by JAPAN HOME SHIELD CORPORATION (JHS) exceeded 800,000. Demand for ground inspections has surged since the March 2011 Great East Japan Earthquake, with JHS completing 120,000 inspections during the one-year period from autumn 2012. JHS offers ground inspection and improvement services.



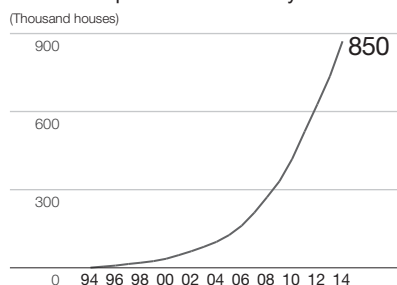
Sales by Company



Operating Income (Loss) / Operating Income (Loss) Ratio



Cumulative Number of Housing Site Ground Inspections and Analyses



Housing site ground inspection by screwdriver sounding test

Note: Years ended March 31

Topics for the Fiscal Year Ended March 31, 2014

C-30 Project Achieves Cost Reduction Target

Initiated in the fiscal year ended March 2012, the C-30 Project aimed to reduce costs by ¥110.0 billion over the three-year period ended March 2014. This goal was to be achieved by increasing the efficiency of existing domestic businesses.

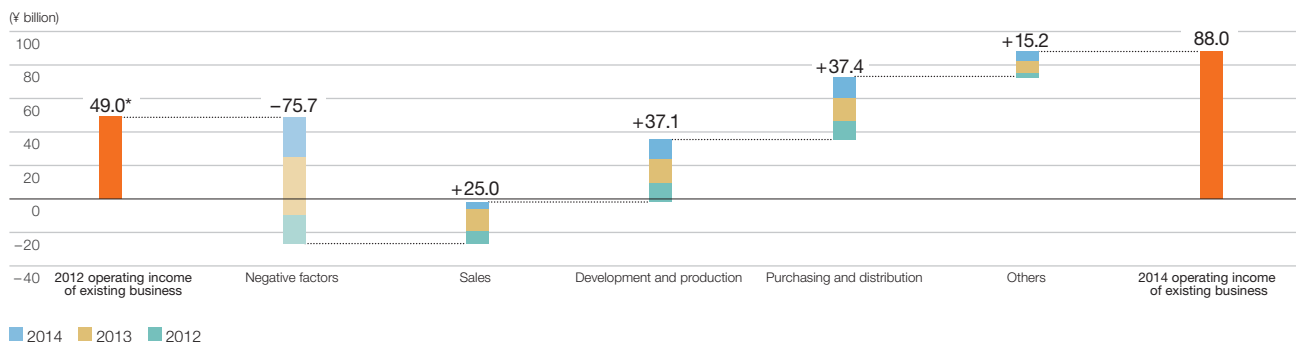
The project started with the two basic policies of reducing costs by 30% through the elimination of overlap following the LIXIL Corporation merger* and achieving Group optimization through efficiencies attained by “zero-based revisions” of all operations. These policies were then converted into concrete measures for implementation. Overall, the project achieved a cumulative total of ¥114.7 billion in cost reduction over the three-year period through March 2014, exceeding the original

target. As a result, the ¥49.0 billion in operating income of existing domestic businesses in the fiscal year ended March 2011 increased to ¥88.0 billion in the fiscal year ended March 2014—a gain of ¥39.0 billion in profits.

The operating income improvement goal of the C-30 Project is being worked toward under the new three-year Medium-Term Business Plan LIXIL G-16. Two new programs, Marketing & Innovation 16 (MI-16) and Business Transformation 16 (BT-16), are focused on realizing further gains in profitability on multiple fronts.

* In April 2011, TOSTEM Corporation, INAX Corporation, Shin Nikkei Company, Ltd., Sun Wave Corporation, and Toyo Exterior Co., Ltd., merged to form LIXIL Corporation.

Results of the C-30 Project



* Constitutional profit (excluding the impact of the Great East Japan Earthquake)

Note: Years ended March 31

LIXIL Group Forms Business and Capital Alliance with EDION Corporation, Plans to Expand Renovation Product Sales Channels

In August 2013, the LIXIL Group formed a business and capital alliance with major electric home appliance mass retailer EDION Corporation, and in September became its largest shareholder through the acquisition of a private placement. After entering the renovation business in 2008, EDION has steadily expanded its services to include even sales and installation of solar photovoltaic systems, with the goal of developing its renovation business into a core source of earnings. With the LIXIL Group working to develop renovation demand as its domestic growth strategy, EDION will be a strong business partner in terms of expanding renovation sales channels. Going forward, in addition to setting up large-scale renovation product sales floors in EDION stores, the two partners plan on achieving other synergies, such as joint development of products.



Renovation product sales floor in an EDION store

Flagship Showroom Opens in Osaka

Following up on the 2012 opening of a flagship showroom in Tokyo, the Group opened LIXIL Showroom Osaka in August 2013. Designed around the concept of “Enjoying Home Life,” the showroom has 1,890 square meters of floor space. The showroom features comprehensive exhibits of the LIXIL Group’s diverse product lineups, from plumbing fixtures to decorative tiles, interior building materials, window sashes, and exterior products. In addition, the exhibits support information gathering by visitors through access to additional information using their smartphones. With the showroom of LIXIL Group company Kawashima Selkon Textiles Co., Ltd., an interior fabric specialist, in the same building, a wealth of LIXIL ideas for home building and interior design are available.



Exhibit floor space in LIXIL Showroom Osaka





Corporate Governance

Creating a Highly Transparent and Objective System

The LIXIL Group clearly separates its business execution and oversight functions. In 2011, to enable rapid business decisions by executive officers and to ensure business transparency, the Group converted to the company with committees governance structure. Aiming to provide value to stakeholders and remain a highly reputable corporate group, we are constantly working to strengthen our corporate governance.

Message from the Chairman of the Board



Yoichiro Ushioda
Chairman of the Board

LIXIL Group Governance

—Where Are We Headed Next?—

Let me begin with a few words about governance at the LIXIL Group.

In my view, a board of directors has two key roles: to consider management in terms of the “big picture” and to self-correct. A company without these roles embedded cannot survive for long. The board of directors is a place for directors, along with a highly experienced team of outside directors, to examine management from a “big picture” perspective to determine whether corporate operations are on the right track. The decision to tackle issues in a small way or to go all out will transform management. When it comes to management strategy, we focus on large social trends, rather than economic conditions at hand.

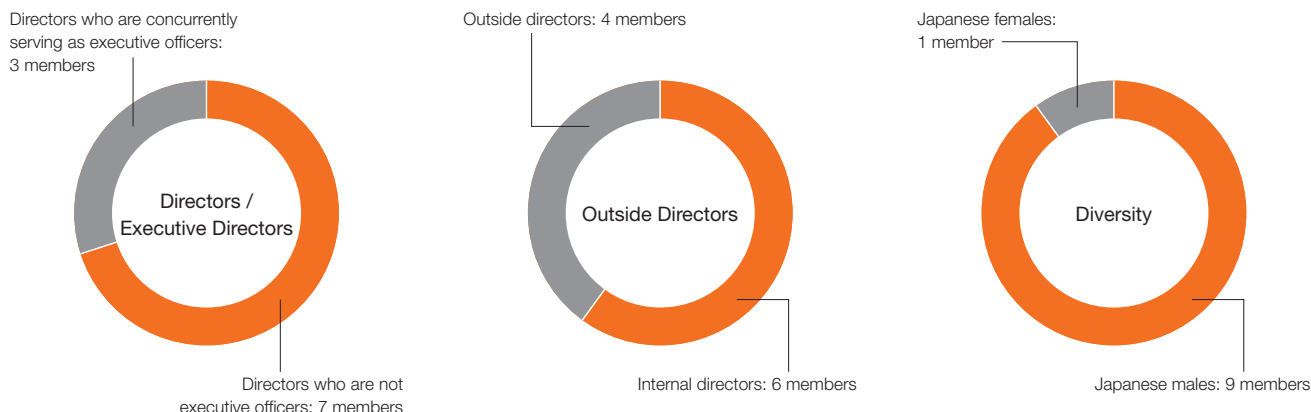
On boards where the CEO serves concurrently as chair, replacing the management team can be a challenge, which tends to leave the board’s ability to self-correct incomplete. And what that results in is management that is unable to create anything new, and that leaves customers disappointed, and

management that pours energy into the wrong fields. If that situation continues, damage to a company’s value is all but inevitable. At the LIXIL Group, scrutiny by the Audit Committee and the Nomination Committee ensures that our Board of Directors select the right management team. Good communication with the CEO is especially important.

At the Davos meeting of the World Economic Forum, which the LIXIL Group took part in as a Strategic Partner, there was a closed-door meeting of non-executive chairmen. In attendance were founders and former CEOs of global corporations now serving as board chairs. The tone of the meeting was relaxed, with those present swapping viewpoints on the election and dismissal of CEOs, the selection of board members, and other topics. In taking part, I was reminded again of just how much better the committee system is when it comes to governance.

Population decline is, in the long run, the biggest problem that Japanese companies face. As society shrinks, the prediction

Composition of the Board of Directors (10 members)



is that this trend, before long, will cause whole cities, towns, and villages to disappear. The countercurrent to such times is that, while many existing businesses will fade out, it will be an opportunity at the same time for new businesses to emerge. Consequently, the need for the LIXIL Group to transform its business model in Japan is also fast approaching.

The transformation of a business model requires an uncommon degree of effort. Nothing can be expected to come from a direction that breaks an organization down into tiny segments to eliminate risk. In all likelihood, we will need to tolerate failures by in-house entrepreneurs eager to face new challenges in order to give them many chances to shine. Seeking out a path different from past successes is a trial for management and can test patience, since it could mean holding onto businesses with no short-term prospects of profitability. From a governance position, I want us to take a step back from immediate profits to watch over the kinds of business start-up activity that this new society will need.

If we turn our attention for a moment overseas, we can identify any number of high-growth markets. While interest rates remain low and the yen retains its strength, we need to use M&A activity to expedite our efforts and quickly develop operations outside Japan. This step, however, is impossible for companies that lack management strength. The reason why is that making rational M&A decisions, pursuing synergies after acquisitions, and demonstrating the powerful leadership needed to motivate staff from different cultural backgrounds are all highly difficult tasks. Our Board of Directors has worked to reinforce management by inviting into the Company many talented human resources, including our current CEO.

The managers of overseas companies we acquire comprise another huge management asset for the LIXIL Group. In corporate groups that have organizational uniformity and are deeply tied to homogeneous customers, like most Japanese firms, I felt that major change would be overwhelming and that they would prove brittle and fall to pieces. Under the LIXIL Group's new corporate culture, we are striving for a climate in-house where excellent ideas can move to action by working side by side with people from diverse racial, linguistic, and career backgrounds.

At the Global Management Committee meeting the LIXIL Group hosted in Germany over several days in April 2014, we brought the leadership of our core operating companies from around the globe together to share objectives and values and to discuss and debate their own important issues. Everyone at the meeting recognized the enormous business opportunities that the new LIXIL Group presents, and I can happily report that the meeting ended with confidence that further growth lies ahead.

In closing, I would like to thank you, our shareholders, for your continued warm support and guidance of the LIXIL Group.

August 2014

潮田洋一郎

Yoichiro Ushioda
Chairman of the Board

Board of Directors

(As of June 20, 2014)

Nomination Committee

Fumio Sudo (Head)

Yoichiro Ushioda

Hidehiko Sato

Compensation Committee

Takashi Tsutsui (Head)

Fumio Sudo

Main Kohda

Audit Committee

Yoshinobu Kikuchi (Head)

Tsutomu Kawaguchi

Hidehiko Sato



Yoichiro Ushioda

Director, Chairman of the Board

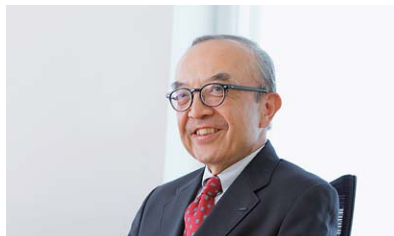
Mr. Yoichiro Ushioda has been serving as Chairman of the Board of the Company since June 2012. He previously served as Executive Vice President in the Company from 2001 and as Chairman, CEO, and Representative Director from 2006. He also served as Chairman and CEO of Tostem Corporation (now LIXIL Corporation) and LIXIL Corporation in the past. Mr. Ushioda originally joined the Company in 1977 and became Director and General Manager of the Sales Planning Department in 1980.



Yoshiaki Fujimori

Director*

Mr. Yoshiaki Fujimori has been serving as President and CEO of the Company as well as President and CEO of a subsidiary, LIXIL Corporation, since August 2011. He also serves as the Representative Director of GraceA Co., Ltd. Prior to joining the Group, Mr. Fujimori worked for 25 years at General Electric Company (GE), where he was Senior Vice President and a member of the Corporate Executive Council. He served as President and CEO of various business divisions, including Medical Systems Asia, GE Plastics, and GE Capital Asia, and as Chairman of GE Japan. Prior to joining GE, he worked for Nissho Iwai Corporation (now Sojitz Corporation) for 10 years. He has been Director in Tokyo Electric Power Company, Incorporated, since 2012.



Keiichiro Ina

Director

Mr. Keiichiro Ina has been serving as Director in the Company since June 2001. From 1998, he served as Director in INAX Corporation (now LIXIL Corporation), originally joining the company in 1974.



Fumio Sudo

Director (Outside)

Mr. Fumio Sudo has been serving as Outside Director in the Company since June 2010. He has also been Head of the Company's Nomination Committee since June 2012 and a member of the Company's Compensation Committee since June 2011. Mr. Sudo also serves as Chairman of Tokyo Electric Power Company, Incorporated, as an advisor of JFE Holdings, Inc., and as Director in Takeda Pharmaceutical Company Limited and Taisei Corporation. He was President and Representative Director of JFE Holdings from 2005 to 2010.



Takashi Tsutsui

Director*

Mr. Takashi Tsutsui has been serving as Executive Vice President and Director in the Company since June 2011. He is also Head of the Company's Compensation Committee and has been serving as Executive Vice President, Chief External Relations Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group in April 2009, Mr. Tsutsui served as President and CEO of Jasdac Securities Exchange, Inc., from 2005. Prior to joining Jasdac Securities Exchange, he worked for Nomura Securities Co., Ltd. (now Nomura Holdings, Inc.), joining the company in 1974 and becoming Director in 2002 and Executive Officer in 2003.



Yoshizumi Kanamori

Director*

Mr. Yoshizumi Kanamori has been serving as Senior Managing Executive Officer and Director in the Company since June 2011, taking responsibility for finance in April 2014. Previously, he also served as Chief Financial Officer in the Company and as Senior Managing Executive Officer and Director in a subsidiary, LIXIL Corporation. He joined the Company in 1977.



Yoshinobu Kikuchi

Director

Mr. Yoshinobu Kikuchi has been serving as Director in the Company since June 2012 and is also Head of the Company's Audit Committee. Previously, he also served as Executive Vice President in a subsidiary, LIXIL Corporation. He joined the Company in 1969.



Hidehiko Sato

Director (Outside)

Mr. Hidehiko Sato has been serving as Outside Director in the Company since June 2011. He is also a member of the Company's Audit Committee and Nomination Committee, serves as Director in Dainippon Sumitomo Pharma Co., Ltd., and is registered as a lawyer. Previously, Mr. Sato was the Commissioner General of the National Police Agency from 2002 to 2004, having held a variety of positions since joining the agency in 1968.



Tsutomu Kawaguchi

Director (Outside)

Mr. Tsutomu Kawaguchi has been serving as Outside Director in the Company since June 2011. He is also a member of the Company's Audit Committee and serves as an auditor of FreeBit Co., Ltd. Mr. Kawaguchi has been a registered certified public accountant since March 1974 and used to serve as Representative Partner for Grant Thornton Taiyo ASG.



Main Kohda

Director (Outside)

Ms. Main Kohda has been serving as Outside Director in the Company since June 2013. She is also a member of the Company's Compensation Committee. She has been a member of the NHK Management Committee since June 2010 and Outside Director in Japan Tobacco Inc. since June 2012. She is also a bestselling writer. Prior to joining the LIXIL Group, she worked for U.S. banks and securities companies and she has also served as a member of public advisory committees.

* Indicates a director who serves as an executive officer

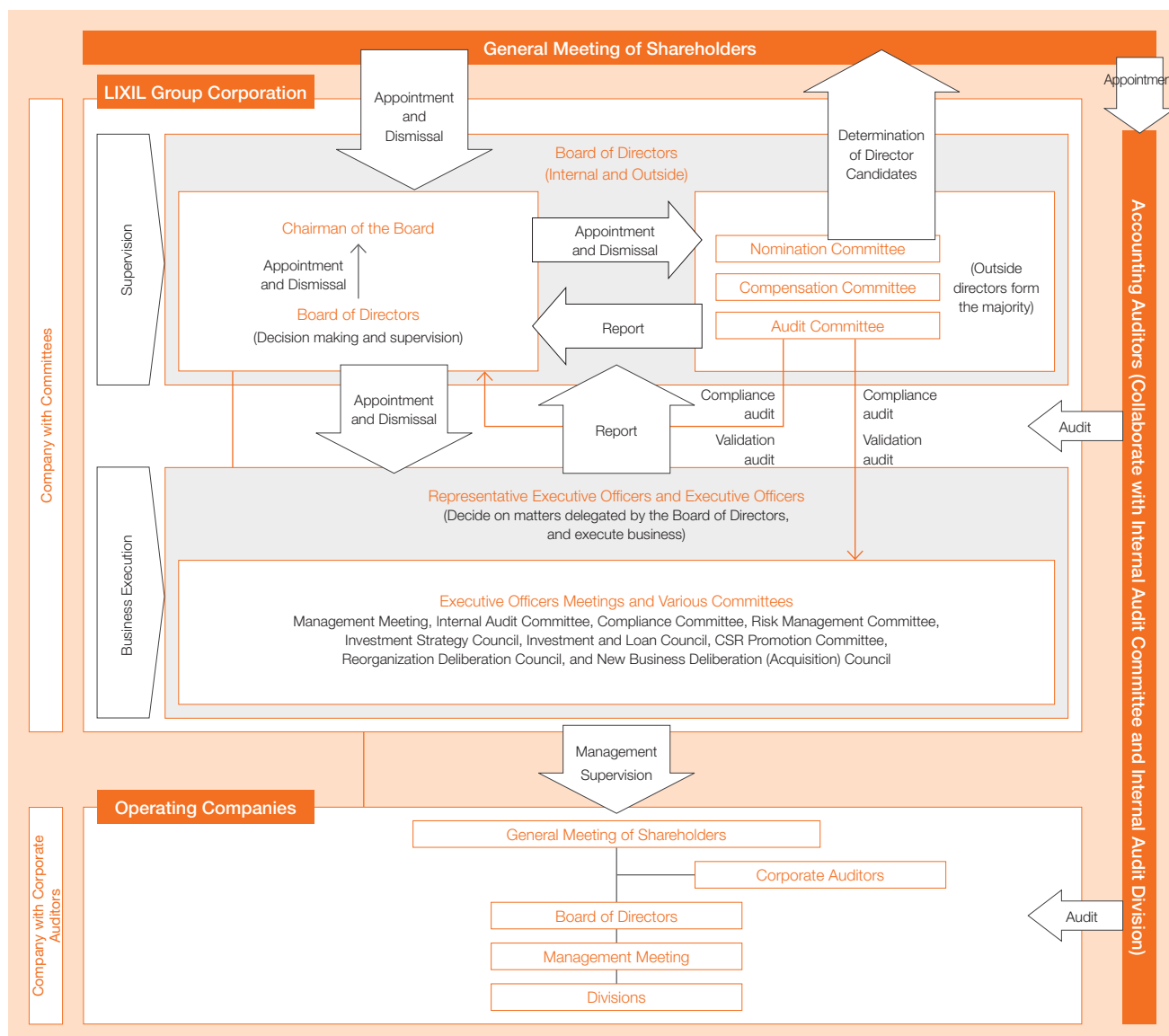
Status of Corporate Governance

Corporate Governance at the LIXIL Group

LIXIL Group Corporation has adopted the company with committees corporate governance model as provided for under Japan's Companies Act. Under this governance system, the Company separates the conduct of management from the surveillance of management with the objectives of creating a system where the executive officers can make management decisions quickly and efficiently while achieving and maintaining management transparency.

As a pure holding company, the Company has formed the following meetings, committees, and councils to strengthen governance over Group companies: Management Meeting, Internal Audit Committee, Compliance Committee, Risk Management Committee, Investment Strategy Council, Investment and Loan Council, CSR Promotion Committee, Reorganization Deliberation Council, and New Business Deliberation (Acquisition) Council. These committees discuss corporate strategy, consider medium-to-long-term policies, deliberate investments, and work to accelerate decision making while enhancing the effectiveness of governance.

Governance Structure (As of June 2014)



For further details regarding the Company's corporate governance system, internal control systems, and other related matters, please access the following URL:

<http://www.lixil-group.co.jp/e/about/governance/system.htm>

Messages from Outside Directors



Fumio Sudo

Head of the Nomination Committee and
Member of the Compensation Committee

I am conscious of being a representative of all stakeholders, and I will provide advice and recommendations that contribute to the creation of value.

The vitality of a business stems from the continuous creation of new value.

There is a need to encourage diversity. Reform and innovation are necessary for any business, and that involves risk. Over the past two to three years, LIXIL Group Corporation has created this type of environment for itself, and it is determined to find a way to thrive.

LIXIL Group Corporation is making concerted efforts to broaden its outlook for the future. While expressing my respect for these efforts, I am acutely aware that, particularly at times such as these, questions can arise over one's value as an outside director.

I strongly intend to contribute to LIXIL's efforts by providing advice and recommendations on oversight in terms of governance and management from a different perspective to that of the other directors and executive officers. My standpoint is clear. That is, I am a representative of all stakeholders, including shareholders, customers, and employees. I will carry out my responsibilities wholeheartedly.



Tsutomu Kawaguchi

Member of the Audit Committee

I will support LIXIL's business development as a global enterprise by contributing to the maintenance and improvement of the internal control system.

In May 2014, we announced the new Medium-Term Business Plan LIXIL G-16. The Group aims to be a top-level global enterprise, and it will strive to achieve this plan and to integrate as a global "One LIXIL."

However, to realize these goals, it is vital that our global corporate system of internal controls functions effectively. Since trying to grow too hastily without a firm foothold is risky, I would like to pay close attention to maintaining and improving the Group's foothold, that is, the Group's system of internal controls, and to push forward with G-16.

Additionally, we plan early adoption of International Financial Reporting Standards (IFRS) from the next fiscal year, and this is also part of our efforts to catch up with global standards as a global enterprise.

I would like to concentrate on thorough disclosure and to effect a smooth transition from the Japanese standards used up until now.



Hidehiko Sato

Member of the Nomination Committee
and the Audit Committee

An organization in which highly skilled and experienced personnel can flourish and a corporate culture that strives for reform and innovation form the bedrock of management.

The Group operates with the philosophy of contributing to people's comfort and lifestyles. Having accomplished business integration in Japan, the Group is progressing with overseas expansion based on careful planning, and it is growing steadily.

The roots of success lie in changing to an entity with a committee-based governance structure, choosing an efficient executive system, creating effective governance that clearly separates execution and oversight, and proactively hiring highly experienced personnel and making full use of their expertise. Furthermore, the creation of the Global Management Committee with the aim of becoming a truly global enterprise is putting to full use the abilities and experience of the management ranks.

During such times of change, it is essential that employees—each of whom are important stakeholders supporting the Group—hold LIXIL in affection and with pride and build a corporate culture that strives determinedly for reform and innovation.

I would like to focus on the organizational roots that provide a firm foundation for the Group and support its broad, flourishing development.



Main Kohda

Member of the Compensation Committee

Diversity in personnel generates flexible viewpoints and is a great asset for developing a business globally.

The past fiscal year was one in which we saw promising signs of the LIXIL Group trying to reinvent itself as a global enterprise.

It was also a year in which we were able to see the positive attitudes of every employee as they addressed themselves with sincerity to their work and careers, and we glimpsed some results of efforts aimed at the diversification of human resources within the Company.

Diversity in human resources generates flexible points of view in a company, and it provides a real boost to setting objectives and values. In today's global business environment, characterized as it is by high levels of uncertainty, diversity is a great asset for businesses that need to respond to constant change. I can also venture to say that it forms the basis of a business's competitive strength.

As an outside director, I intend to continue to provide support to everyone at LIXIL Group Corporation as they tackle various issues.

Composition of Committees and Position of the Chairman

	Number of Members	Internal Directors	Outside Directors	Chairman (of the Committee)
Board of Directors	10	6	4 (all 4 are independent directors)	Internal Director
Nomination Committee	3	1	2	Outside Director
Compensation Committee	3	1	2	Internal Director
Audit Committee	3	1	2	Internal Director

Number of Meetings Held during the Fiscal Year Ended March 31, 2014

Board of Directors	16	Made decisions on matters specified by law, basic management policies, and important management matters as well as monitored the conduct of duties by the directors and executive officers (Meets once a month in principle)
Nomination Committee	2	Made decisions on the content of proposals to be submitted to the General Meeting of Shareholders regarding the election and dismissal of directors (Meets one or more times a year, as necessary)
Compensation Committee	8	Discussed and made decisions regarding the content of compensation of individual directors and executive officers (Meets one or more times a year, as necessary)
Audit Committee	14	In addition to auditing the conduct of duties by the directors and executive officers, discussed and made decisions on auditing policy, auditing plans, and the content of proposals to be submitted to the General Meeting of Shareholders regarding the selection and dismissal of the independent accounting firm (Meets once a month or more, as necessary, in principle)
Executive Officers Meetings	22	As the decision-making body responsible for the execution of business activities in accordance with the basic policies approved by the board of directors, decided on important matters related to the execution of business in the Company and the Group as a whole (Meets once a month in principle; holds extraordinary meetings as necessary)
Investment Strategy Council	13	Discussed Group strategy (investments, funding, M&A, overseas strategy, etc.) and set directions with the objective of increasing the LIXIL Group corporate value
Investment and Loan Council	16	Deliberated proposals made by the holding company and the operating companies that (1) are investments that are closely involved with Group strategy, (2) investments that are related to more than one Group operating company, and (3) investments that exceed the approval authority of the president of the relevant operating company (e.g., opening of new LIXIL Viva stores)
CSR Promotion Committee	4	Formulated the CSR Policy for the overall LIXIL Group and provided oversight and guidance for the implementation of priority themes and activities based on that policy
Reorganization Deliberation Council	2	Implemented early identification of unprofitable businesses to strengthen competitiveness and deliberated restructuring policies with an eye to business structural reforms when appropriate
New Business Deliberation (Acquisition) Council	2	Deliberated proposals made by the holding company and the operating companies that are (1) investments that involve the establishment of a new company or are investments in an existing company and (2) investments for the acquisition, etc., of a business partner company of an operating company
Risk Management Committee	14	In addition to forming a risk management committee in the holding company, also monitored the formation of such committees for risk management in Group companies and confirmed the status of risk management
Compliance Committee	4	Provided guidance for structuring and operational management of compliance systems in Group companies and monitoring of the status of requiring compliance with laws and regulations

Status of Auditing Activities

Internal Audit Division	The holding company and principal Group companies have formed internal auditing departments that periodically conduct audits internally, including audits of subsidiaries. The Meeting of Persons Responsible for Internal Auditing in Group Companies has been formed to share information on Group companies as well as the uniform auditing policies of the Group. This meeting is held, in principle, once a year in Japan and once every two years overseas.
Accounting Auditors	Deloitte Touche Tohmatsu LLC

Corporate Officer Compensation

Compensation paid to the Company's corporate officers in the year ended March 31, 2014, was as per the tables below.

1. Total Amount of Compensation by Corporate Officer Title, by Type of Compensation, and Number of Officers Receiving

Corporate Officer Title	Total Compensation by Type (Millions of yen)	Total Compensation (Millions of yen)			Number of Corporate Officers Eligible for Compensation
		Basic Compensation	Performance-Based Compensation	Stock Option	
Directors (excluding Outside Directors)	329	168	—	160	3
Executive Officers	1,294	672	130	491	14
Outside Directors	101	51	—	50	6

2. Total Compensation of Officers Receiving ¥100 Million or More

Name	Corporate Officer Title	Company	Total Compensation (Millions of yen)	Total Compensation by Type (Millions of yen)		
				Basic Compensation	Performance-Based Compensation	Stock Option
Yoichiro Ushioda	Director	LIXIL Group Corporation	234	120	—	114
	Director	LIXIL INTERNATIONAL Pte. Ltd.	1	1	—	—
Yoshiaki Fujimori	Executive Officer	LIXIL Group Corporation	335	150	70	114
Ryuichi Kawamoto	Executive Officer	LIXIL Group Corporation	46	—	8	38
	Director	LIXIL Corporation	55	55	—	—

3. Policy for Determining the Amount and Method of Calculation of Corporate Officers' Compensation and Decision-Making Method

Basic policy on compensation, etc.

The Company's policy on the compensation plan for corporate officers is to implement a fair compensation structure that will motivate each corporate officer to execute his or her duties in order to meet shareholders' expectations and fulfill the Company's business policy.

- The compensation system shall be performance-based compensation to allow for appropriate reflection of the Group's consolidated performance.
- To ensure the concurrence of interests between shareholders and corporate officers, a stock option plan shall be adopted to allow for the reflection of continual medium-to-long-term enhancement of corporate value.
- Performance accountability shall be clearly established, and a system shall be devised that will reward corporate officers with appropriate compensation upon the achievement of a goal in order to motivate corporate officers to achieve the goals set.
- The Compensation Committee shall assess the Company's compensation level by comparing it with objective external indicators and manage it to ensure that the level is commensurate with the relevant duties and performance. At the same time, the level shall be set to be sufficient to retain for the long-term competent human resources who are indispensable to the Company's sustainable growth.

Compensation structure

Under the corporate officers' compensation structure, there shall be separate structures for directors, who are responsible for governance, and executive officers, who are responsible

for the execution of business operations, in order to reflect the differences in their roles. In the case of a director who is concurrently serving as an executive officer, the compensation plan for executive officers shall be applied.

[Compensation structures for directors and executive officers]

- A director's compensation shall consist of basic compensation and stock options.
- An executive officer's compensation shall consist of basic compensation, performance-based compensation, and stock options.

[Description of compensation by type]

- As fixed compensation, basic compensation shall be maintained at an appropriate level through comparison with objective external indicators. The basic compensation for executive officers shall be structured such that a certain percentage thereof fluctuates in accordance with the level of achievement of business targets set for the relevant department in order to reward executive officers for the achievement of goals.
- Performance-based compensation shall be determined in accordance with the position of the relevant executive officer based on the operating income margin for the current fiscal period and allocated as an annual bonus.
- Stock options, provided as a medium-to-long-term incentive in the interest of shareholders, shall be determined on the basis of corporate performance, the position of the relevant corporate officer, and other criteria.

Executive Officers

(As of June 20, 2014)



(Standing, from left)
Sachio Matsumoto, Yoshizumi Kanamori,
Shinichi Tanzawa, Yosuke Yagi, Takashi Tsutsui,
Toshimasa Iue, Tadashi Arishiro, Haruo Shirai,
Ryo Nihei, Katsuhiro Mamenari

(Seated, from left)
Ryuichi Kawamoto, Yoshiaki Fujimori, Harumi Matsumura

Yoshiaki Fujimori

President and CEO

Mr. Yoshiaki Fujimori has been serving as President and CEO of the Company as well as President and CEO of a subsidiary, LIXIL Corporation, since August 2011. He also serves as the Representative Director of GraceA Co., Ltd. Prior to joining the Group, Mr. Fujimori worked for 25 years at General Electric Company (GE), where he was Senior Vice President and a member of the Corporate Executive Council. He served as President and CEO of various business divisions, including Medical Systems Asia, GE Plastics, and GE Capital Asia, and as Chairman of GE Japan. Prior to joining GE, he worked for Nissho Iwai Corporation (now Sojitz Corporation) for 10 years. He has been Director in Tokyo Electric Power Company, Incorporated, since 2012.

Ryuichi Kawamoto

Representative Executive Officer
and Executive Vice President

Mr. Ryuichi Kawamoto has been serving as Representative Executive Officer and Vice President in the Company since June 2012, taking responsibility for product development in April 2014. He is also serving as Senior Executive Vice President, Chief Technology Officer, and Representative Director in a subsidiary, LIXIL Corporation. Mr. Kawamoto joined INAX Corporation (now LIXIL Corporation) in April 1976.

Takashi Tsutsui

Executive Officer and Executive Vice President

Mr. Takashi Tsutsui has been serving as Executive Vice President and Director in the Company since June 2011. He is also Head of the Company's Compensation Committee and has been serving as Executive Vice President, Chief External Relations Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group in April 2009, Mr. Tsutsui served as President and CEO of Jasdac Securities Exchange, Inc., from 2005. Prior to joining Jasdac Securities Exchange, he worked for Nomura Securities Co., Ltd. (now Nomura Holdings, Inc.), joining the company in 1974 and becoming Director in 2002 and Executive Officer in 2003.

Toshimasa Iue

Executive Officer and Executive Vice President

Mr. Toshimasa Iue has been serving as Executive Vice President in the Company since June 2011, taking responsibility for marketing in April 2014. He is also serving as Executive Vice President, Chief Marketing and Sales Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group, Mr. Iue held senior positions in SANYO Electric Co., Ltd. He joined SANYO Electric in 1989 and was President from June 2005 until he became Adviser in the company in April 2007.

Tadashi Arishiro

Executive Officer and Executive Vice President

Mr. Tadashi Arishiro has been serving as Executive Vice President in the Company since June 2011, taking responsibility for production in June 2013. He is also serving as Executive Vice President in a subsidiary, LIXIL Corporation. Mr. Arishiro joined INAX Corporation (now LIXIL Corporation) in April 1980.

Yosuke Yagi

Executive Officer and Executive Vice President

Mr. Yosuke Yagi has been serving as Executive Vice President in the Company since April 2012, taking responsibility for human resources and general affairs in April 2014. He is also serving as Executive Vice President, Chief Human Resources Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group, he worked for GE Yokogawa Medical Systems Limited (now GE Healthcare Japan) from 1999 to 2012, becoming Director in GE Japan from 2003 and leading all GE business in Japan and Asia as Senior HR Manager from 2002 to 2012. Prior to joining GE, he worked for Nippon Kokan for 19 years from 1980.

Haruo Shirai

Executive Officer and Executive Vice President

Mr. Haruo Shirai has been serving as Executive Vice President in the Company since June 2012, with responsibility for Japanese sales. He is also serving as Executive Vice President and Director in a subsidiary, LIXIL Corporation, as well as President of LIXIL Japan Company. He joined the Company in April 1974.

Yoshizumi Kanamori

Executive Officer and Senior Managing Director

Mr. Yoshizumi Kanamori has been serving as Senior Managing Executive Officer and Director in the Company since June 2011, taking responsibility for finance in April 2014. Previously, he also served as Chief Financial Officer in the Company and as Senior Managing Executive Officer and Director in a subsidiary, LIXIL Corporation. He joined the Company in 1977.

Shinichi Tanzawa

Executive Officer and Senior Managing Director

Mr. Shinichi Tanzawa has been serving as Senior Managing Executive Officer in the Company since June 2011, taking responsibility for business transformation in April 2014. He is also serving as Senior Managing Executive Officer, Chief Business Transformation Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group in 2010, Mr. Tanzawa served as Senior Executive Managing Director in FANUC Corporation, which he originally joined in 1983.

Ryo Nihei

Executive Officer and Senior Managing Director

Mr. Ryo Nihei has been serving as Senior Managing Executive Officer in the Company since June 2011, taking responsibility for R&D and production process improvement in April 2013. He is also serving as Senior Managing Executive Officer in a subsidiary, LIXIL Corporation. Mr. Nihei used to serve as Senior Managing Director in FANUC Corporation.

Harumi Matsumura

Executive Officer and Senior Managing Director

Ms. Harumi Matsumura has been serving as Senior Managing Executive Officer in the Company since July 2011, with responsibility for public relations, CSR, and environmental strategy and from June 2014 housing and service business. She is also serving as Senior Managing Executive Officer and Chief Communication Officer in a subsidiary, LIXIL Corporation. Prior to joining the Group, she was President and Representative Director of Henri Charpentier Co., Ltd., from 2004 to 2011. She also served as a manager at major retailer Seibu Department Stores, Ltd. (now Sogo & Seibu Co., Ltd.), which she originally joined in 1976.

Sachio Matsumoto

Executive Officer and Senior Managing Director

Mr. Sachio Matsumoto has been serving as Senior Managing Executive Officer in the Company since June 2013, taking responsibility for accounting in April 2014. He is also serving as Senior Managing Executive Officer, Chief Financial Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group, he was Corporate Vice President and Head of Finance and Treasury in Fuji Xerox Co., Ltd.

Katsuhiro Mamenari

Executive Officer

Mr. Katsuhiro Mamenari has been serving as Executive Officer in the Company since June 2011, with responsibility for home centers. He is also serving as President and Representative Director in a subsidiary, TOSTEM VIVA CORPORATION (now LIXIL VIVA CORPORATION), since 2000. Mr. Mamenari joined the Company in April 1973.

(As of July 26, 2014)

Kenji Uenishi

Executive Officer and Senior Managing Director

Mr. Uenishi has been serving as Senior Managing Executive Officer in the Company since July 2014, with responsibility for supply chain. He is also serving as Senior Managing Director, Chief Supply Chain Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining LIXIL Corporation, Mr. Uenishi spent 26 years with General Electric (GE). Beginning as an advanced R&D engineer for GE aircraft engines in the United States, he served in several senior executive roles, including President of GE Energy Asia-Pacific, with responsibility for its GE Power & Water, GE Energy Services, and GE Oil & Gas businesses, and CEO of GE Aviation-Japan. Mr. Uenishi also worked at the NASA-Langley Research Center in the United States.

Laurence W. Bates

Executive Officer and Senior Managing Director

Mr. Bates has been serving as Senior Managing Executive Officer in the Company since July 2014, with responsibility for legal. He is also serving as Senior Managing Director, Chief Legal Officer, and Director in a subsidiary, LIXIL Corporation. Prior to joining the Group, Mr. Bates worked for 22 years at General Electric (GE) in the United States, where he held positions of Senior Executive and on the Global Leadership Council for many years. He served most recently as General Counsel of GE Japan, from 1998 until his retirement at the end of 2013. Prior to GE, he worked with international law firms Morrison & Foerster, in Tokyo, and Paul, Weiss, Rifkind, Wharton & Garrison, in New York and Beijing.

Investor Relations

Basic Investor Relations Policy

LIXIL Group Corporation regards investor relations as facilitating communication with capital markets in Japan and overseas and thereby helping enhance corporate value. Accordingly, the Company's investor relations activities convey messages from senior management to markets while providing senior management with feedback from markets in an unflagging effort to boost corporate value.

Criteria for Disclosure

LIXIL Group Corporation is committed to developing business activities that not only comply with legal requirements but meet the highest ethical standards. It is also committed to transparent and timely disclosure to shareholders and other investors. Regarding the disclosure of important information, such as decisions, events, or information regarding accounts settlement, that affects investment judgments, the Company discloses the information based on the timely disclosure rules enacted by the Tokyo Stock Exchange. It is also the Company's policy to disclose information that does not fall under the timely disclosure rules, as positively and fairly as possible, in order to better meet investors' needs.

"Quiet Period"

In order to prevent the leakage of information regarding the data for the announcement of the account settlement and to ensure fairness, LIXIL Group Corporation has established an approximately three-week "Quiet Period" prior to the announcement of the quarterly accounts. During this period, the Company refrains from making comments on the accounts or responding to related questions. However, in the event that LIXIL Group Corporation finds a major discrepancy in relation to projections during the "Quiet Period," the Company will disclose the relevant information in accordance with the timely disclosure rules.



IR Team (from left):
Shizuka Fukushima
Daizo Motoyoshi (New York Representative)
Yukiyo Uto
Takashi Tsutsui (Executive Officer in charge
of M&A, Investor Relations, and External Affairs)
Keishi Saito (Head, Investor Relations Office)
Emiko Ukon
Yoriko Nakashima

Investor relations site

 <http://www.lixil-group.co.jp/e/ir/>

External Evaluations (From April 2013 to March 2014)

Institutional Investors:

"The 2014 All-Japan Executive Team"

- Best IR Companies ranking: 59th overall
- Best CEO: Construction, LIXIL Group Corp.,
Yoshiaki Fujimori: Buy Side, No. 1; Sell Side, No. 2
- Best CFO: Construction, LIXIL Group Corp.,
Yoshizumi Kanamori and Sachio Matsumoto: Buy Side, No. 2

LACP Vision Awards held by the League of American Communications Professionals LLC (LACP)

- Gold award in the 2012 publication and online annual report categories (July 2013)



Daiwa Investor Relations Co., Ltd.

- "Internet IR Commendation Award" 2013 (November 2013)



NIKKEI Annual Report Awards 2013

- Honorable Mention (January 2014)

New Index "JPX-Nikkei Index 400"

- Selected as one of the constituents of the new "JPX-Nikkei Index 400" launched in January 2014

METI and TSE Jointly Announce LIXIL

a "Nadeshiko Brand" Company for Fiscal 2013

In March 2014, the LIXIL Group was selected as one of the "Nadeshiko Brand" companies for the fiscal year ended March 2014.

The selection is undertaken as a joint project between the Ministry of Economy, Trade, and Industry (METI) and the Tokyo Stock Exchange (TSE) that is part of the Japan Economy Support Project. Companies are ranked first on their career support for women and second on their support of employees' work-life balance, with the top scoring companies in individual business fields meeting certain financial standards (ROE) being selected as "Nadeshiko Brand" companies.



Web page on awards:

 <http://www.lixil-group.co.jp/about/evaluation.htm>
(Japanese only)



LIXIL Design Contest 2013 Gold Award
"Villa Tomonoura" designed by Keisuke Maeda, UID; photo by Hiroshi Ueda

Special Feature 2

Sustainability and Competitiveness

We apply sustainable technology as a competitive advantage.

The corporate philosophy of the LIXIL Group aims to have its "superior products and services contribute to improving people's comfort and lifestyles." This section gives four examples of how our development of specific technology and systems reflects this corporate philosophy.

Also, we report on the progress of LIXIL's initiatives and Group companies' initiatives in CSR categories.

STORY: 1/4

THEME: Better Living through Renovation and Passive Design

Offering Living Styles We Are Uniquely Qualified to Facilitate

We have unveiled model homes that allow customers to experience reliable, comfortable living styles that use the forces of nature effectively. The manager of this LIXIL project explains the aim of these homes and the benefits that energy-saving technology brings to everyday life.

Tadashi Yoshida

Head, Housing Planning Office
LIXIL Japan Company
LIXIL Corporation

"I want people to experience firsthand the benefits of passive design, which can enable comfortable living styles without depending completely on solar photovoltaic power generation or air conditioners."



Katsuhiko Shia

Senior Expert, Housing Planning Office
LIXIL Japan Company
LIXIL Corporation

"The LIXIL Group drew on all of its expertise to build the model homes, incorporating structures that are still under development, airtight and thermal insulation technology, *Tsufu-Sofu* cross ventilation and wind generation technology, and universal design."

We are giving customers the opportunity to experience for themselves the energy-saving and comfortable living styles that *Passivefirst* design makes possible.

Toyota Ecoful Town is a cluster of facilities in the city of Toyota, Aichi Prefecture, that showcase eco-living concepts and the latest environmental technology. The private sector and the city of Toyota have collaborated to develop the town as a model area where visitors can experience leading-edge smart houses and transport systems that are kind to the environment. In the town, on April 25, 2014, we cut the tape on the *LIXIL Passivefirst Pavilion*, featuring a comprehensive array of our environmental technology and products for homes.

Tadashi Yoshida, head of the Housing Planning Office, explains, "The idea for these model houses grew out of discussions about how best to show our unique capabilities as a comprehensive living and housing solutions company." In the model houses, LIXIL displays its *Passivefirst* home solutions, which combine environmentally friendly and energy-saving features with advanced functionality. Yoshida continues, "Our approach is to make effective use of the forces of nature, such as wind and light, to support comfortable living."

The completed *LIXIL Passivefirst Pavilion* has two model houses—"Gallery" and "Re-form"—as well as "Midterior" and "Exterior" areas that connect the two homes. The first model house features the latest environmental technology for thermal

insulation, airtightness, and *Tsufu-Sofu* cross ventilation and wind generation; wooden products sourced mainly from the city of Toyota; and LIXIL products. Meanwhile, the second model house is an example of a renovated home. Katsuhiko Shia, who worked with Yoshida on the Toyota Ecoful Town project, recalls, "Creating the renovation display was particularly difficult. It was a process of trial and error." He explains, "After the construction work is completed, a renovated home looks brand new. So, to let visitors visualize the home before and after renovation, we arranged the walls to make seismic retrofitting and insulating material visible."

The LIXIL Group creates environments where the elderly can live healthily and comfortably.

Shia continues, "Initially, we considered a plan for an ideal home based on universal design. However, moving pillars when renovating traditional wooden homes is often difficult. So we decided to recreate slightly narrow hallways. As a result, a feature of the 'Re-form Pavilion' is that its design takes into account the problems and restrictions faced in reality." The design envisions a home occupied by a married couple whose children have grown up and moved out. "In many cases, people renovate to upgrade plumbing or replace other installations," says Shia. "However, quite a number of people mentioned that as they became older the coldness of winter was



The LIXIL Passivefirst Pavilion comprises a "Gallery Pavilion" model house (above) and a "Re-form Pavilion" model house (upper right) as well as "Midterior" and "Exterior" areas. Middle right: The "Gallery Pavilion" harmonizes the latest environmental technology, natural materials, and LIXIL products. Lower right: The "Re-form Pavilion" displays LIXIL's renovation technology.

tougher to endure." Excluding extremely cold regions, homes in Japan are generally poorly insulated. In particular, there tends to be a difference in temperature between living rooms and other areas in the home, leading to concern about the effect on health. Yoshida explains, "Improving thermal insulation does not only save energy but also reduces temperature differences in the home, making it a more comfortable, reassuring environment to live in."

Our aim is to combine comfort and energy-saving features while addressing end users' problems.

"Visitors to the LIXIL Passivefirst Pavilion remark that they are impressed by the pleasant sensation of a slight breeze blowing

through the home," says Yoshida with satisfaction. He explains further, "You can realize comfortable living without using large amounts of the energy. To achieve this, it is important to collaborate with a builder that is able to offer solutions based on rigorous analysis of local climate, natural resources, and users' way of life and is committed to solving end users' problems. LIXIL's strength is the ability as a comprehensive living and housing solutions company to reflect customer feedback by offering solutions that combine an array of products that contribute to comfortable and energy-saving living styles." He sums up, "LIXIL's mission is not to sell goods but to add value to everyday life."



"We offer solutions that make homes more comfortable by enhancing their basic functions and which use the forces of nature effectively to realize energy-saving living styles."

STORY: 2/4

THEME: Importance of Passive Design in an Aging Society

Providing Passive Design Benefits through Home Renovation

Companies that design and build homes that reflect each end user's preferences are important partners for LIXIL. An architectural designer explains that discussions with customers have helped her appreciate the value of passive design.

Ms. Yuriko Koyama

Manager, Designer Section
Design and Construction Department
OKUTA CORPORATION

"Being directly involved in the process of catering to detailed needs that only a resident understands makes our work as renovators fulfilling."



LOHAS studio stores customize homes to reflect residents' dilemmas and wishes.

Headquartered in Saitama Prefecture, OKUTA CORPORATION is an architectural company boasting an impressive track record; it has extended, reconstructed, or designed and built more than 105,000 homes. The company has a network of 13 LOHAS studio stores, covering downtown Tokyo, Saitama Prefecture, Chiba Prefecture, and Kanagawa Prefecture, and uses such natural materials as solid wood and kieselguhr to build homes with outstanding thermal insulation and seismic resistance. One of its architectural designers, Ms. Yuriko Koyama explains, "Renovation differs from building new homes because customers have a lot of problems and requests based on the experience of living in the homes." She adds, "Having been involved in a number of home renovations, I now realize that renovating a home in light of the experience of living in it truly makes it your own home."

Ms. Koyama points out that user attitudes to renovation have changed in recent years. "Previously, most customers preferred newbuilds. However, rather than a new home, the number of people opting for a living style tailored to their needs has been increasing. I think we are seeing a shift in values; more people want to renovate and continue living in homes they have lived in for many years. Our job is to create homes that enable the living styles of people who, for example, want to enjoy hobbies after retirement or want to

live in a three-generational household so that their elderly parents can live comfortably."

In addition to universal design, which has become a matter of course, passive design is ideal for the homes of the elderly.

As society ages, home renovation with a view to realizing everyday convenience and enjoyment has increased. However, universal design layouts incorporating ramps and handrails for ease of movement or toilets and bathrooms accessible by wheelchairs have become a given. In this context, Ms. Koyama emphasizes that passive design is the key to homes for the elderly. "Although many of the customers that visit us to discuss renovation admit that their homes are too cold, surprisingly few of them know about the importance of thermal insulation. Hearing about the large numbers of elderly people who die due to heat shock* in winter or due to suffering from heatstroke indoors in summer, spurs me to spread *passiv* design even more."

The *passiv* design concept—derived from *passiv*, the German word for passive—focuses on light and wind, thermal insulation energy-saving features, natural materials, and enjoyment, and guides LOHAS studios' home design efforts. In other words, LOHAS studios' design philosophy has a strong affinity with the LIXIL Group's *Passivefirst* concept. By taking a *passiv* design approach, LOHAS studios have independently developed

a renovation method that realizes outstanding thermal insulation. Ms. Koyama explains enthusiastically, “Customers who have renovated to improve thermal insulation are surprised that even on days when the temperature is below freezing they do not need heating. Therefore, I want to communicate the benefits of highly insulated homes to customers who still think being cold in winter is just something you have to put up with.”

* Significant physical stress resulting from rapid blood pressure fluctuation due to sudden changes in temperature

We serve as a home “doctor” searching for ways to enrich customers’ living styles.

“Following renovation, customers are generally happy because their homes look better. Rather than this reaction, however, I get encouragement from customers who after living in their renovated home for a time remark, ‘I am really glad we renovated.’,” says Ms. Koyama smiling. “We are a kind of home ‘doctor.’ In the process of talking to customers about their priorities and problems, vague concepts steadily become more concrete, and then we search for solutions that will enrich customers’ everyday lives.”



“*Passiv* design is the key to homes for the elderly. I want to tell customers who confess that they find their homes too cold about the benefits of good thermal insulation.”



Right: *Passiv* design features natural materials, liberal use of wood's warmth, and playfulness while realizing advanced thermal insulation and energy saving. Upper left: Wood fiber thermal insulation material manufactured using recycled newspapers. Lower left: A toilet and washstand featuring universal design for easy wheelchair access.



STORY: 3/4

THEME: Global Issue: Water Conservation

Saving Water while Enhancing Beauty and Comfort

LIXIL, American Standard Brands, and other companies of the LIXIL Group are differentiating products through water-saving technology. In this section, we provide a close-up on the latest initiatives of GROHE, a producer of sanitary fittings that have earned high acclaim in Europe's premium market.

Jan Peter Tewes

Senior Vice President
Global Marketing
GROHE AG

"Rio de Janeiro's Maracanã Stadium, a venue for FIFA World Cup 2014, includes more than 1,200 of our sanitary fittings."



Thorsten Meier

Vice President
Research & Development
GROHE AG

"At the development center, we are advancing water reuse. We have reduced the center's annual water usage from about 8,400m³ to 1,000m³."

GROHE's tradition of seeking premium quality is the seedbed growing an array of technologies that lower environmental burden.

In January 2014, LIXIL Corporation acquired a major stake in GROHE Group S.à r.l. (GROHE). GROHE's stylish products, featuring innovative technology, have established an enviable reputation among architects around the world. The group's Jan Peter Tewes puts this down to "an uncompromising pursuit of quality that has become part of GROHE's DNA." He explains, "Long-lasting products avoid wasting the resources used for raw materials and promote energy conservation in supply chains and manufacturing processes. A belief that long-lasting products lead to sustainability underpins our technology and products."

GROHE develops products that not only heighten comfort and convenience but conserve water and energy. A good example is GROHE EcoJoy™ technology, which the group has been incorporating in a range of products since 2007. This original technology adjusts water flow to save water while ensuring sufficient water pressure. For example, showerheads incorporating GROHE EcoJoy™ technology can reduce water consumption by approximately 40% compared with conventional products. A family of four using a GROHE EcoJoy™ showerhead saves roughly 30,000 liters of water a year, equivalent to a 260 euros reduction in their water bill.

Head of the group's research and development, Thorsten Meier explains with confidence, "If you think about the huge amount of energy needed to supply water to homes and workplaces, to provide hot water and keep it hot, and to process wastewater, water conservation technology does not simply save water; it clearly makes a major contribution to reducing energy consumption. Realizing sustainability without sacrificing performance testifies to our technology developmental capabilities. Nowadays, users in developed countries are sensitive to global environmental problems. That said, they are reluctant to give up the pleasure of an effective shower. GROHE EcoJoy™ technology meets such users' needs."

Our strengths are a comprehensive lineup of water-saving plumbing fixtures and solutions that enable companies to calculate cost-reduction benefits.

As Tewes points out, "A differentiating feature of GROHE is that, while other companies have water-saving products, we incorporate water-saving technology into all of our plumbing fixtures, including those for washstand cabinet units, bathrooms, kitchens, and toilets." He adds, "As part of marketing to corporate clients, we have been focusing on 'educating' them. Specifically, we offer a service in which we dispatch a specialist survey team to an office building or operating base to conduct a 'water and energy audit.' By analyzing water and energy



Left: While maintaining the performance of traditional equipment, this showerhead incorporating GROHE EcoJoy™ technology reduces water usage by up to 40%. Upper right: GROHE Blue® technology uses a filter to make delicious water. Lower right: GROHE's water-saving technology satisfies user needs and enriches everyday life.

use accurately, we can calculate how much energy our technology will save and, based on that, reductions in clients' utility bills. In other words, lowering environmental burden provides cost-reduction benefits for clients."

GROHE contributes to energy reduction by offering products that change lifestyles without compromising comfort.

GROHE Blue® is the latest example of the group's quest for sustainable, highly finished products. "Subject to extremely stringent quality standards, faucet water in Germany is controlled more strictly than mineral water. Despite this, people normally drink mineral water," says Meier. He believes that

"GROHE Blue® is a revolutionary technology that is challenging this status quo."

Because they include a filter, GROHE Blue® products enable customers to drink delicious water just by turning on the faucet. Moreover, top-of-the-range products can make cooled water and sparkling water. Meier concludes, "Being able to drink faucet water not only eliminates the inconvenience and labor of going to buy heavy bottles of mineral water; it also saves resources and energy consumption by reducing the use of plastic bottles and the transport of mineral water from its source to bottling plants and then to homes or workplaces."



"Realizing sustainability through reduced energy consumption and other benefits—without compromising performance—testifies to our technology developmental capabilities."

STORY: 4/4

THEME: Development of New “Waterless” Market

Popularizing Hygienic Sustainable Toilets in Regions Lacking Infrastructure

In LIXIL, one employee is working particularly hard to promote the installation of safe, comfortable toilet systems in regions with chronic water shortage problems. This report is from Kenya, where preparations are under way for the creation of a commercial business.

Yu Yamakami

Junior Expert
Faculty of Engineering
Multidisciplinary Research Institute
LIXIL Corporation

“People around the world praise the cleanliness of Japan’s toilets. I want to popularize the etiquette of using toilets cleanly out of consideration for others.”



We will create new products as part of systems that can be used comfortably even in regions without sewage facilities.

With a population of more than 3.3 million^{*1}, Kenya’s capital Nairobi is the largest city in the East African economic zone. Nevertheless, according to Yu Yamakami, “Even in the capital’s high-end residential areas feed tanks are essential items because of frequent water supply interruptions.” Pursuing R&D of toilets that do not require water or large-scale infrastructure, Yamakami adds, “Drought has become a particularly chronic problem in northern Kenya.”

Regions with limited water resources naturally cannot afford to spare water for toilets. However, Yamakami points out that a lack of excreta disposal infrastructure is leading to major problems. “Because only 30% of toilets in Kenya are connected to sewers or sewage treatment facilities, excreta is disposed of untreated or in ponds. This pollutes valuable water resources and affects people’s health seriously.”

Aiming to tackle this problem, Yamakami is taking on the challenge of popularizing recycle-type waterless toilets. “It looks like a normal toilet, but it does not have a water flush. Its main feature is a unit at the bottom of the toilet bowl that separates excreta and urine. Separation curbs odor and enables excreta storage.” Rather than as a stand-alone toilet, Yamakami aims to commercialize this waterless toilet as part of a system that includes excreta collection and composting.

“When we held a display and presentation event for the toilet, participants asked me a rapid succession of questions. Although some expressed reservations about composting excreta, others were encouraging and said they would like to work with me in taking on the challenge of building such a system.” If this initiative succeeds, as well as enabling the installation of hygienic, easy-to-use toilets in homes, it will enable affordable hygienic treatment of excreta even in regions without sewage treatment infrastructure.

^{*1} CIA, *The World Fact Book*, 2009 survey results

By creating products that cater to local needs, we intend to open up a new market centered on Kenya’s growing middle-income segment.

“Recent years have seen increasing numbers of people who lived in slums while working in construction or retail use their savings to buy homes and move to the suburbs,” says Yamakami. “We envision this growing middle-income segment as our target customers.” According to the African Development Bank, those who earn between US\$4 and US\$20 a day and comprise the middle-income segment accounted for 16.8% of Kenya’s population in 2010. This percentage is projected to rise to 44.9% by 2030^{*2}. In the context of the East African Community or the Common Market for Eastern and Southern Africa, Kenya is an extremely attractive gateway into East Africa, which has high GDP growth and a

middle-income segment that is expanding rapidly, centered on the working population.

“For this reason, we hope to open up the country’s market by focusing development efforts on creating products that are affordable, accessible, and appropriate. With this in mind, we intend to refine the toilet to suit the climate in Kenya and reflect the preferences of its people. Also, we have to take supply chains into consideration and ensure that the toilet can be transported along any road, no matter how rough the terrain.”

*2 CIA, The World Fact Book, 2011 estimate

Our plan is to make a unique contribution to Kenya’s economic development and increase our presence.

Travelling back and forth between Japan and Kenya to popularize the waterless toilet system, Yamakami embodies the LIXIL Group’s corporate philosophy of having “the Group’s superior products and services contribute to improving people’s comfort and lifestyles.” She says with pride, “I think LIXIL is the only sanitary equipment manufacturer attempting to address the problem of toilets in developing countries by creating a business. While contributing to Kenya’s economic development, I want to help enhance the value of the LIXIL brand.”



“My motivation increases when people say they want to work with me in taking up the new challenge of waterless toilets.”



Right: An installed recycle-type waterless toilet, which enables the hygienic disposal of excreta even in areas lacking infrastructure. Upper left: Gaining the understanding and cooperation of local residents as we proceed with installation work. Lower left: Providing local people with information about the waterless toilet system and its merits is another aspect of Yamakami’s work.



Voice from Nairobi County, Kenya

In the challenge with LIXIL for sustainable development



Mr. Tom Odongo
Nairobi County
Executive Committee Member
for Lands, Housing and Physical Planning



Nairobi County faces a serious challenge of water supply and access to improved sanitation. Our county is experiencing rapid growth and this has led to serious shortages of water and sanitation facilities. Our mandate in water and sewerage provision is to ensure that service delivery in the water and sanitation sector meets the efficiency intended to replicate other cities in the world. Our county is putting in place measures to guarantee enough water and improved sanitation through partnerships in service delivery.

The LIXIL Group's waterless toilet system and related sanitation technologies provide a solution to sanitation challenges in Nairobi. The waterless toilet is a great product and befits the sanitation needs of our county residents. Being a waterless toilet, the system will help Nairobi residents to save water for other household purposes. In addition, the component of separating generated sanitation waste and decomposing it for use as a fertilizer will help to promote our sustainable development vision. LIXIL's waterless toilet system is therefore a life changer to our people and leads to a turning point of the sanitation market in Kenya and in Africa.

With these clear innovative technologies, our residents will be excited by the new product, and its expected benefits. We however may experience some challenges in convincing our people to use the generated waste to produce fertilizer because our traditions and customs as well as our mindsets do not promote the use of human waste for agricultural production. This will change with time through creation of awareness and training.

Based on the above, LIXIL comes into the market as the pioneer of waterless toilet systems and has the opportunity to grow and control the market before the growth of competitors. As a new product, and having a target of poor households, product pricing will be a major challenge as most households would want to buy the product for the lowest price possible.

Nairobi County expects LIXIL to work with stakeholders to keep developing new products that meet the needs of our people and support Kenya's sustainable development as outlined in "Vision 2030.*"

* A national long-term development blueprint, formed in June 2008 to create a globally competitive and prosperous nation with a high quality of life by 2030, that aims to transform Kenya into a newly industrializing, middle-income country.

Group Companies' CSR Initiatives

Support for Philippine Typhoon Victims

In March 2014, LIXIL and American Standard Brands responded to a request from UNICEF Philippines to donate 10,000 *SaTo* toilet pans to provide a temporary sanitation solution for victims of Typhoon Haiyan. The rebuilding of a conventional sanitation infrastructure would take many months, so the spread of disease soon became a critical issue. The *SaTo*, an abbreviation of "Safe Toilet," includes a simple counterweighted trap door mechanism that seals pit latrines from passage of odors and flying insects, effectively blocking a major path of disease transmission and providing for a more pleasant user experience. The *SaTo* toilet is also proving effective in improving sanitation conditions in Bangladesh, where more than 150,000 of the toilets are already in use.



The simple pan-style *SaTo* toilet can be easily formed from a mold

ISIS 2018—A Key Project Supporting UNICEF's Global WASH Program

On World Toilet Day (November 19, 2013), LIXIL launched ISIS 2018, a multi-year commitment to provide improved sanitation facilities and hygiene education to 2,018,000 children by the end of 2018. LIXIL also signed a partnership agreement with UNICEF committing to support its Global WASH Program, which, in turn, supports the United Nations Millennium Development Goal to "Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation." In the fiscal year ended March 2014, LIXIL's projects covered more than 60,000 children in more than 60 schools in China, the Philippines, and Kenya. The project in Kenya is the most complex, incorporating the partial rebuilding of the schools to house the toilets and a complete composting infrastructure, including tanks, special educators, and maintenance staff.



In Kenya, new LIXIL toilets replace old toilets



Keeping hands clean



Toilets provided to Chinese schools

LIXIL VIVA Starts Community Disaster Readiness Initiatives

As part of CSR activities, LIXIL holds "Community Dialogue" meetings that bring community residents and employees together at LIXIL Group factories, showrooms, and stores. "Community Dialogue" provides an opportunity to ask residents what their expectations are across a wide range of areas, such as products, services, disaster readiness, schools and education, transportation, and relationships with local neighborhood associations, with the aim of contributing to the community.

LIXIL VIVA CORPORATION, the operator of Super Viva Home stores, has held "Community Dialogue" meetings at eight locations so far, including at its Itami and Teinetomioka stores. Initiatives being promoted by LIXIL VIVA for community disaster readiness include proposals for the opening of its stores as temporary evacuation sites in the event of disaster.



"Community Dialogue" held on February 28, 2014, at the Super Viva Home Itami store

CSR Management


The LIXIL Group's corporate social responsibility (CSR) initiatives are part of a process focused on realizing the Group's corporate philosophy, which aims to have "the Group's superior products and services contribute to improving people's comfort and lifestyles."

Based on this corporate philosophy, we have set out CSR policies under three priority themes: *innovation, sustainability, and integrity*.

We signed the United Nations Global Compact in July 2013. Aiming to respect the compact's ten principles in four areas, we have established "Exercising due diligence for human rights" and "Promoting procurement based on CSR" as themes for CSR initiatives that we will begin advancing proactively in the fiscal year ending March 31, 2015.

 <http://www.lixil-group.co.jp/e/sustainability/>

CSR Categories, Tasks, Targets, and Results

Category	Task	KPI	
Reduce global environmental burden Build recycling society Enhance environmental performance (LIXIL Group's medium-term environmental goal)	Improve environmental management system*1	Number of bases with newly acquired ISO 14001 certification	
	Unify evaluation methods for energy-saving products*2	Check accuracy of evaluation methods	
	Contribute to reduction of energy use in civilian sector in Japan by advancing performance of products and popularizing them*2	Energy reduction contribution (reduction of energy use for products versus 1990 level × sales volume)	
	Reduce total energy consumption in procurement, manufacturing, sales, and waste disposal*1	Total energy consumption	
	Reduce CO ₂ emissions at operating bases in Japan*2	CO ₂ emissions at operating bases in Japan	
	Reduce water use in manufacturing activities*1	Water use	
Supply chain management Build supply chain taking into consideration labor conditions and resource allocation	Establish common procurement policies and guidelines	Percentage of transaction amount Japan: Procurement by operating bases Overseas: Procurement by operating bases	
	Conduct questionnaire survey and follow-up activities	Percentage of priority surveyed items complied with	
Product safety Establish system for development of safe products and build product safety culture*2	To prevent occurrence or recurrence, reflect accident information and quality information in designs and conduct educational activities	Application percentage of product safety related regulations (accidents in which products are cause or suspected cause)	
	Hold discussions with experts and continue product safety initiatives and reform of systems	Hold discussions about product safety	
	Strengthen dissemination of information about maintenance, product safety, and accident prevention	Number of times information disseminated to customers	
Cultivate corporate culture (Empower personnel) Encourage performance of diverse personnel and develop platform to enable employees to perform to their full potential and advance*2	Identify, train, and promote diverse talented personnel	Percentage of women in managerial posts	
		Percentage of women among regularly recruited new hires	
		Percentage of women participating in leadership training	
	Promote understanding of diversity and create educational opportunities	Holding of meetings	
		Activities of LIXIL Women's Network	
	Expand and improve support systems to advance Work-Life-Flexibility	Development of systems and rules	
With local communities Promote communication with local communities	Hold dialogues with local communities	Number of dialogues held	
Tackle sanitation and hygiene problems globally ISIS 2018 project  http://isis2018.info	Provide children with hygienic environments Collaborate with UNICEF's Global WASH Program, which contributes to United Nations Millennium Development Goal (7)	Number of school toilets improved and children provided with educational support	

*1 Excluding companies that have been integrated for less than three years *2 LIXIL Corporation only

Establishing Promotional Systems and Identifying Materiality

In the fiscal year ended March 31, 2014, under the management of the CSR Promotion Committee, four groups responsible for four stakeholder groups—customers, suppliers, employees, and the environment—set targets and advanced initiatives accordingly.

In April 2014, to coincide with the launch of the Global Management Committee (GMC), at which all members of the senior management team convene, we reorganized systems for promoting CSR initiatives. We will manage the four above-mentioned groups based on global networks. Meanwhile, in the GMC, the senior management team will provide leadership

by deciding the Group's priority tasks.

As of July 2014, taking into account business areas and sizes and value chains, we are identifying priority tasks that reflect the opinions of external experts and preparing action plans. Going forward, we intend to clarify CSR initiatives for the Group; for each country and region, including Japan, China, other parts of Asia, North America, and Europe; and for each Group company. We will then disclose information appropriately on our website about the progress and achievements of these initiatives.

	FY2013 Targets	FY2013 Results	Our Evaluation	FY2014 Targets
	Overseas manufacturing subsidiaries: 5	5 subsidiaries China: 2 plants, Thailand: 2 plants, Vietnam: 1 plant	○	Increase acquisition of ISO 14001 certification among logistics divisions in Japan
	Have third-party evaluate contribution to reduction of GHG emissions from product use versus FY2012	Warranty completed	○	Extend environmental data covered by third-party warranty
	1.3 times versus FY2010 level (4,850,000 GJ)	1.34 times versus FY2010 level (5,030,000 GJ)	○	1.5 times versus FY2010 level (5,610,000 GJ)
	Reduce 9.0% versus FY2010 level (56,700,000 GJ)	Reduced 8.5% versus FY2010 level (57,000,000 GJ) Improved on intensity basis, did not reach target because production volume increased due to rise in new housing starts in Japan	×	Reduce 9.3% versus FY2010 level (56,600,000 GJ)
	Reduce 49.0% versus FY1990 level (411,000 tons)	Reduced 49.0% versus FY1990 level (411,000 tons)	○	Reduce 50.0% versus FY1990 level (403,000 tons)
	Reduce 1.0% versus FY2012 level (15,033,000 m³)	Reduced 17.8% versus FY2012 level (12,481,000 m³) Reduced significantly due to closure of Takaoka Plant	○	Reduce 1.0% versus FY2013 level (12,356,000 m³)
	Japan: 85% (Percentage of companies: 15%) Overseas: 60% (Percentage of companies: 15%)	Japan: 85% (Percentage of companies: 15%) Overseas: 62% (Percentage of companies: 16%)	○	Japan: 85% (Percentage of companies: 15%) Overseas: Being calculated (Percentage of companies: 15%)
	Japan: 100%, 10 priority surveyed items Overseas: 100%, 11 priority surveyed items	100% Paid follow-up visits to 50 companies in Japan and 16 companies overseas	○	Japan: 85%, all 48 items Overseas: 85%, all 66 items
	0 accidents	0 accidents	○	0 accidents
	Once a year	2 times Held discussions themed on consumer education and LIXIL product safety initiatives	○	Twice a year
	Twice a year	2 times Held product safety seminars and distributed safety pamphlets in Okinawa and Ehime	○	4 times Participate in product safety seminars, distribute maintenance information, etc.
	3%	3.3% (76 employees: up 29 versus previous year)	○	4%
	30%	32.5% (April 2014 new hires)	○	At least 30%
	15%	21.7% (percentage of women among employees dispatched for MBAs: 20%)	○	At least 15%
	12 times	13 times	○	At least 12 times a year
	Hold events	Nationwide conference: 1 time; area forums, etc.: 8 times	○	Hold events and expand network
	Have special committee consisting of employee representatives and management consider and develop systems	Introduced subsidy system for fees for extended childcare, extended applicable period of short working hours for child rearing, etc., increased and improved various measures	○	Entrench systems introduced and promote their use
	Hold at 30 plants, 12 sales bases, and 2 stores (revised during period due to change in number of bases)	Held at 24 plants, 7 sales bases, and 3 stores Held more than 69 preparatory meetings and held dialogues suited to sites	△	Hold at 13 plants, 18 sales bases, and 10 stores
	Targets not set because announced in November 2013 and begun in December 2013	More than 60 schools and more than 60,000 children in China, the Philippines, and Kenya	—	164,000 children 2018 target cumulative total: 2,018,000 children

Financial FAQ

(As of March 31, 2014)

QUESTION 1

Could you please discuss the allocation of voting rights and the acquisition scheme employed for the acquisition of GROHE?

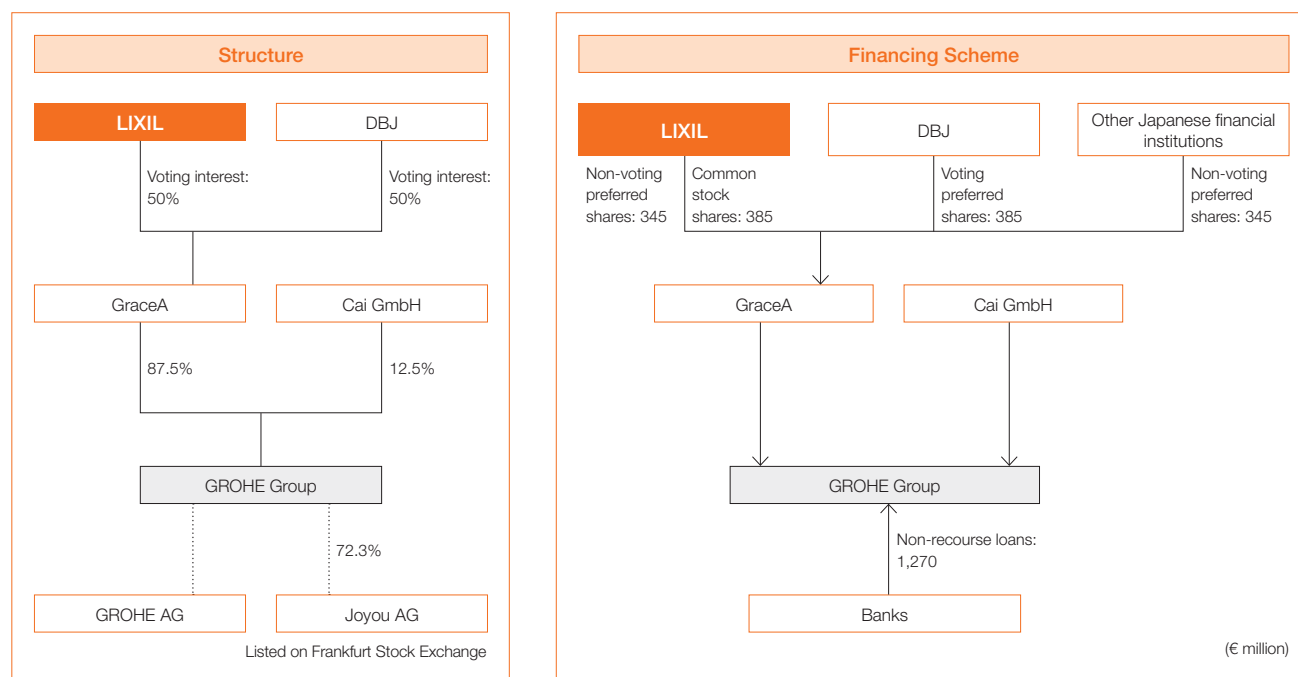
ANSWER 1

The shares of GROHE Group S.à r.l. (GROHE Group) were acquired by the LIXIL Group's principal operating company, LIXIL Corporation. This acquisition saw the establishment of a special-purpose corporation (SPC), GraceA Co., Ltd. The Development Bank of Japan (DBJ), a financial institution fully funded by the Japanese government, holds 50% of the voting rights in this SPC, with the remainder held by LIXIL Corporation. A wholly owned subsidiary of GraceA acquired 87.5% of GROHE Group shares. The remaining 12.5% continues to be held by Cai GmbH (Cai), a shareholder of the GROHE Group. Cai is a holding company owned by Jianshe Cai and Jilin Cai, the CEO and COO, respectively, of Frankfurt Stock Exchange-listed Joyou AG (Joyou). Joyou is a member of the GROHE Group, which holds 72.3% of voting rights of Joyou.

Regarding funding for the acquisition, LIXIL provided a total of 730 million euros in funding to GraceA, consisting of 385 million euros for shares of common stock and 345 million euros for preferred shares without voting rights. DBJ provided funding of 385 million euros for preferred shares with voting rights. Other Japanese financial institutions and entities provided 345 million euros in funding for preferred shares without voting rights. Borrowings of 1.27 billion euros by the GROHE Group were converted into non-recourse loans arranged by Japanese financial institutions.

Through this funding, LIXIL acquired 43.75% of GROHE Group shares, making the GROHE Group and its publicly traded subsidiary Joyou equity-method affiliates of LIXIL. The total acquisition price for the purchase was 730 million euros.

GROHE Group Acquisition Scheme



QUESTION 2

The LIXIL Group announced that it will voluntarily adhere to International Financial Reporting Standards (IFRS). What is the schedule for adopting IFRS, and what changes, if any, will it cause?

ANSWER 2

The LIXIL Group decided to voluntarily apply IFRS from the fiscal year ending March 31, 2016. In 2009, the Group acquired American Standard Asia Pacific, followed by the acquisitions of Permasteelisa in 2011 and American Standard Brands in 2013. Furthermore, in 2014, the GROHE Group became an equity-method affiliate. As the LIXIL Group becomes increasingly global, with operations in Asia, Europe, and North America, the decision to voluntarily adhere to IFRS reflects a desire to improve the potential for international comparisons of financial

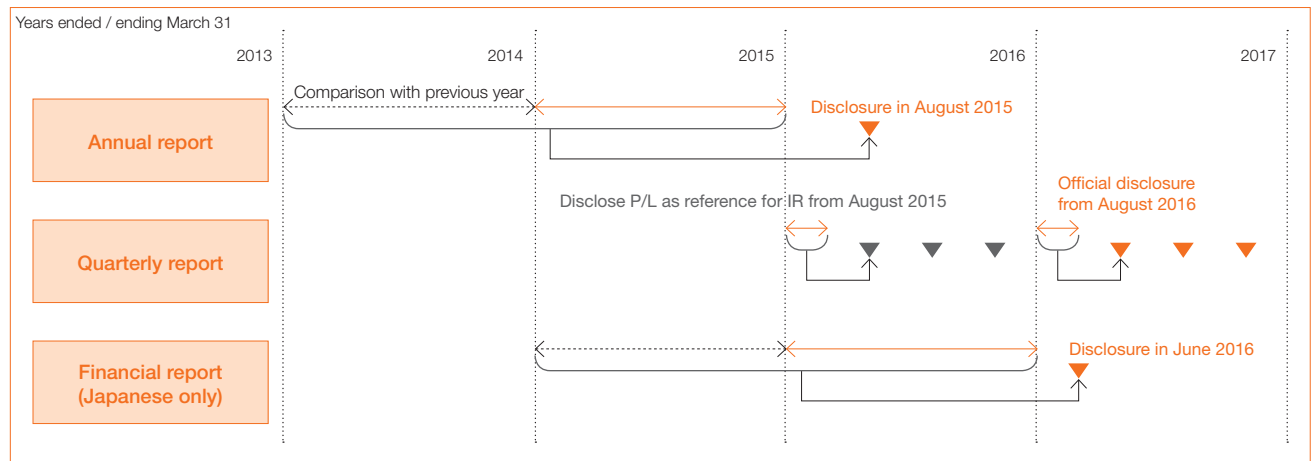
information in the capital markets.

In line with IFRS adoption, we plan to disclose financial and earnings information based on IFRS from the fiscal year ending March 31, 2015, in our annual report slated for publication in August 2015; the fiscal year ending March 31, 2016, in our financial report (Japanese only) to be disclosed in June 2016; and the first quarter of the fiscal year ending March 31, 2017, in our quarterly earnings report to be disclosed in August 2016.

Ahead of the transition to IFRS, the LIXIL Group has changed its basis for deciding cash dividends from the previous EPS to EPS before amortization of goodwill. The Company's policy regarding the return of profits to shareholders and other investors is to set a payout ratio of at least 30%

on a consolidated basis, excluding the impact of the amortization of goodwill. For the fiscal year ended March 31, 2014, EPS excluding the impact of the amortization of goodwill was ¥172 (¥91 in the previous fiscal year), and the payout ratio excluding the impact of the amortization of goodwill was 31.9%.

Schedule for the Adoption of International Financial Reporting Standards



QUESTION 3

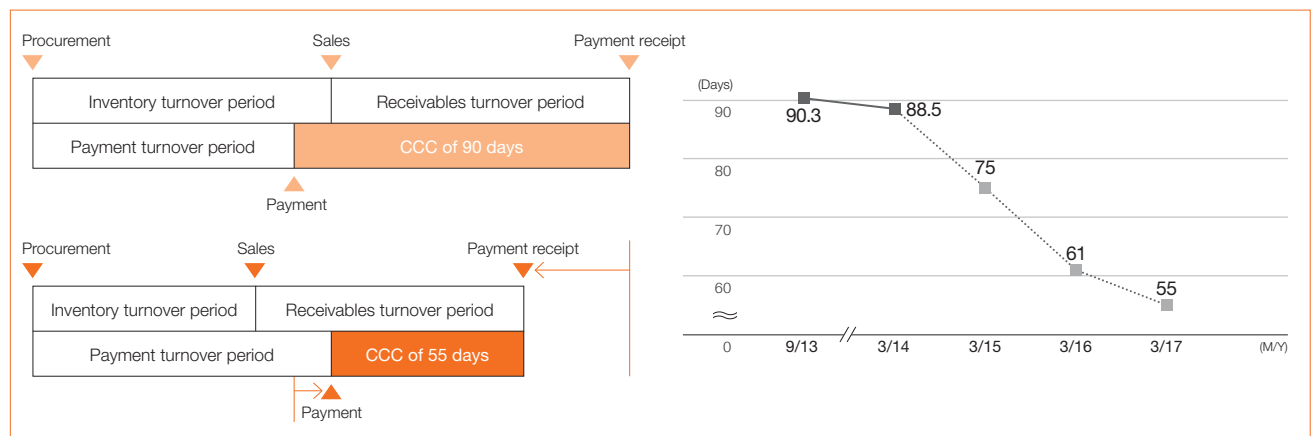
What are the Company's goals and progress regarding the cash conversion cycle (CCC)?

ANSWER 3

Due to effects from the merger of our five principal domestic companies in April 2011, as of September 30, 2013, the CCC for the LIXIL Group was 90 days. This figure is much higher than the estimated average of about 55 days for our industry in Japan and resulted in a drop in capital efficiency. In response, we have set a target CCC of 55 days to be reached by March 31, 2017, and we are aiming to generate roughly ¥100.0 billion in free cash flow by March 2016.

Presently, under the direction of the GMC's Business Transformation Function, and with the participation of the Supply Chain Function, we are pursuing a range of improvement measures. Specifically, we are reducing inventories through enhanced supply chain management and a more sophisticated supply-demand management system, and collecting receivables faster through receivables management system integration and innovation, among other initiatives. Success is already emerging, with the CCC down to 88.5 days (81.3 days on a quarterly basis) as of March 31, 2014.

Improving the Cash Conversion Cycle



Consolidated 11-Year Summary

LIXIL Group Corporation and Consolidated Subsidiaries

Years ended March 31

	2004	2005	2006	2007	2008
Results of Operations					
Net sales	¥967,494	¥ 986,214	¥1,057,699	¥1,124,078	¥1,103,839
Operating income	42,749	37,863	43,805	57,026	35,737
Operating income ratio	4.4%	3.8%	4.1%	5.1%	3.2%
Net income (loss)*1	32,617	30,624	22,124	35,199	17,709
Research and development expenses	14,457	13,928	16,181	15,438	15,656
Capital expenditures	32,907	56,459	41,747	37,521	35,418
Depreciation	31,693	30,876	33,000	31,773	32,570

Cash Flows

Cash flows from operating activities	49,801	43,970	31,357	61,710	60,177
Cash flows from investing activities	(34,721)	(71,473)	(36,519)	(37,682)	(47,480)
Cash flows from financing activities	(22,650)	17,375	15,397	(6,602)	(40,359)
Cash and cash equivalents, end of year	59,014	49,065	62,748	80,602	52,679

Financial Position

Total assets	967,930	1,013,774	1,086,015	1,149,660	1,061,036
Total equity*2	519,425	531,157	561,408	594,265	556,118
Interest-bearing debt	155,178	192,692	224,060	225,943	229,575

Per Share Data

Net income (loss) per share*1	¥ 108.76	¥ 104.92	¥ 75.80	¥ 119.64	¥ 61.20
Total equity per share*2	1,768.84	1,828.20	1,913.12	1,998.58	1,983.79
Dividends per share	40	40	40	40	40

Key Ratios

ROE*2	6.3%	5.8%	4.1%	6.1%	3.1%
ROA	3.4	3.1	2.1	3.1	1.6
Total assets turnover (times)	1.0	1.0	1.0	1.0	1.0
Equity ratio*2	53.7	52.4	51.7	51.4	52.1
Dividend payout ratio	36.8	38.1	52.8	33.4	65.4
Debt-to-equity ratio*3	30.0	36.3	39.9	38.2	41.5
Number of employees	29,050	29,682	30,252	31,212	31,838

Stock Indicators

Stock price (Closing), end of year (yen)	¥ 2,300	¥ 1,968	¥ 2,530	¥ 2,555	¥ 1,497
Market capitalization (millions of yen)	766,025	655,451	842,627	799,854	468,642
Price earnings ratio (times)	21.1	18.8	33.4	21.4	24.5
Price book-value ratio (times)	1.30	1.08	1.32	1.28	0.75

Market Data

Total new housing starts (thousands of units)	1,174	1,192	1,249	1,285	1,036
Orders received by 50 biggest contractors (Commercial building construction) (trillions of yen)	¥8.7	¥9.4	¥9.7	¥10.1	¥10.3

*1 Figures are after amortization of goodwill.

*2 "Total equity," "Total equity per share," and "Equity ratio" until March 31, 2006, are the figures for previous "Shareholders' equity," "Shareholders' equity per share," and "Shareholders' equity ratio." Figures for "ROE" until March 31, 2006, are the figures calculated based on the previous consolidated financial statement regulations.

*3 Debt-to-equity ratio is calculated by Interest-bearing debt / Total equity.

*4 U.S. dollar amounts have been converted at the rate on March 31, 2014.

Recent M&As (figures as of the acquisition)

July 2009		April 2010		April 2010		January 2011		August 2011	
American Standard Asia Pacific (Group)		Shin Nikkei Company, Ltd.		SUN WAVE CORPORATION		Shanghai Meite Curtain Wall System Co., Ltd.		Kawashima Selkon Textiles Co., Ltd.	
Sales	¥23.5 billion	Sales	¥110.0 billion	Sales	¥85.0 billion	Sales	¥12.0 billion	Sales	¥41.0 billion
Acquisition cost	¥17.6 billion	Acquisition cost	¥0.7 million	Acquisition cost	¥13.7 billion	Acquisition cost	¥3.2 billion	Acquisition cost	¥2.2 billion and share exchange
Equity owned	100%	Equity owned	100%	Equity owned	100%	Equity owned	75%	Equity owned	100%
Goodwill	¥2.1 billion (net) Intellectual property: ¥3.5 billion	Goodwill	¥5.4 billion	Goodwill	¥6.1 billion (negative)	Goodwill	¥0.5 billion	Goodwill	¥1.7 billion (net)

					Millions of yen	Millions of U.S. dollars*4
2009	2010	2011	2012	2013	2014	2014
¥1,046,854	¥982,607	¥1,214,939	¥1,291,396	¥1,436,395	¥1,628,658	\$15,825
25,603	25,984	40,409	17,915	50,485	69,080	671
2.4%	2.6%	3.3%	1.4%	3.5%	4.2%	
475	(5,332)	15,780	1,868	21,347	44,756	435
15,978	14,756	13,688	15,350	14,025	17,380	169
35,088	30,844	45,779	52,107	73,795	64,321	625
35,158	32,916	36,289	39,370	44,736	49,168	478
63,927	68,074	48,680	33,979	28,432	83,533	812
(63,082)	(27,334)	(13,543)	(142,067)	(12,397)	(218,333)	(2,121)
21,914	(27,825)	(41,687)	138,348	(31,753)	153,144	1,488
73,973	89,302	92,329	127,351	114,662	139,039	1,351
1,048,838	1,033,504	1,166,834	1,481,063	1,465,689	1,810,098	17,587
533,073	516,322	536,408	538,776	566,312	625,599	6,078
263,770	257,484	272,516	441,874	424,035	626,475	6,087
					Yen	U.S. dollars*4
¥ 1.70	¥ (19.12)	¥ 55.50	¥ 6.49	¥ 73.42	¥ 153.93	\$ 1.50
1,903.69	1,842.78	1,850.34	1,817.34	1,930.02	2,123.22	20.63
40	40	40	40	40	55	0.53
					%	
0.1%	(1.0)%	3.0%	0.4%	3.9%	7.6%	
0.04	(0.5)	1.4	0.1	1.4	2.7	
1.0	0.9	1.0	1.0	1.0	1.0	
50.6	49.7	45.2	35.7	38.3	34.1	
2,352.9	—	72.1	616.3	54.5	35.7	
49.7	50.1	51.7	83.6	75.6	101.49	
32,700	35,976	41,090	48,163	45,602	51,419	
¥ 1,106	¥ 1,903	¥ 2,160	¥ 1,733	¥ 1,858	¥ 2,846	
346,238	595,742	676,197	542,523	540,221	827,426	
650.6	(99.5)	38.9	267.0	25.3	18.5	
0.58	1.03	1.17	0.95	0.96	1.33	
1,039	775	819	841	893	987	
¥8.4	¥7.3	¥7.1	¥7.4	¥7.6	¥8.8	

October 2011
HIVIC CO., LTD.

Sales	¥24.4 billion
Acquisition cost	Share exchange
Equity owned	100%
Goodwill	¥1.4 billion

December 2011
Permasteelisa S.p.A.

Sales	¥116.0 billion
Acquisition cost	¥60.8 billion
Equity owned	100%
Goodwill	€264 million
	Intangible assets: €269 million

August 2013
ASD Americas Holding Corp. (ASB)

Sales	¥82.0 billion
Acquisition cost	¥30.5 billion
Equity owned	100%
Goodwill	US\$401 million* (tentative)

* Before allocation of goodwill and intangible assets

January 2014
GROHE Group S.à r.l.

Sales	¥180.0 billion
Acquisition cost	¥103.9 billion
Equity owned	43.8%
Goodwill	To be determined

Management's Discussion and Analysis

LIXIL Group Corporation and Consolidated Subsidiaries

Business Environment

In the fiscal year ended March 31, 2014, the Japanese economy experienced a gradual recovery as consumption levels and corporate confidence improved due to the benefits of government monetary and fiscal policies.

While growth in new housing starts slowed during the fourth quarter, starts for detached and rental housing rose strongly throughout much of the year, leading to an overall increase in new housing starts of 10.6% year on year, to 987 thousand units. Renovation demand

was also brisk throughout the year, and with growth strong especially in the fourth quarter, as a result of the demand rush that preceded the consumption tax hike, overall housing investment remained firm.

Business Performance

In response to this business environment, the LIXIL Group steadily advanced the various measures set out in its Medium-Term Business Plan LIXIL G-15, launched in May 2013, as it pursued profitable growth. In domestic operations, the sales structure was reoriented toward the renovation market, which is expected to continue experiencing strong growth into the future. Overseas, we proceeded with strategic investments. For example, LIXIL Corporation converted North American company ASD Americas Holding Corp. (American Standard Brands) into a consolidated subsidiary. Meanwhile, LIXIL Corporation acquired shares of Germany's GROHE Group S.à r.l. (GROHE), which boasts strengths in terms of business development in Europe as well as China.

As a result of these activities, in the fiscal year ended March 31, 2014, the Group recorded net sales of ¥1,628.7 billion, up ¥192.3 billion, or 13.4%, year on year. This increase was largely attributable to improved revenues in all business segments due to our ability to capture robust housing-related demand through the continuous introduction of new products. Looking at individual business segments, sales increased ¥80.0 billion, or 12.3%, in the Metal Building

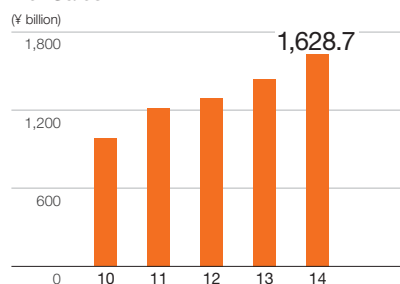
Material Business, which saw particularly strong growth overseas. The Plumbing Fixtures Business recorded sales growth of ¥64.2 billion, or 17.1%, due to contributions from newly consolidated subsidiaries. Sales were up ¥21.7 billion, or 11.5%, in the Other Building Materials and Equipment Business. In the Distribution and Retail Business, the expansion of the home center business and the Ken Depot business drove a rise in sales of ¥19.6 billion, or 11.2%. Meanwhile, the Housing, Real Estate and Other Businesses segment saw sales increase ¥4.9 billion, or 8.3%, due to sales contributions from the launch of *cesibo EX-H* energy-saving houses.

Gross profit increased ¥44.8 billion, or 11.1%, to ¥447.8 billion. The gross margin deteriorated 0.6 percentage points, to 27.5%, because foreign exchange influences fueled a rise in raw material prices and less profitable overseas sales constituted a greater percentage of total sales. While we successfully achieved the cost reduction targets of the C-30 Project, the benefits were not able to counteract these detractors. Selling, general and administrative (SG&A) expenses were up ¥26.2 billion, to ¥378.8 billion, but the ratio of SG&A expenses to net sales declined 1.3

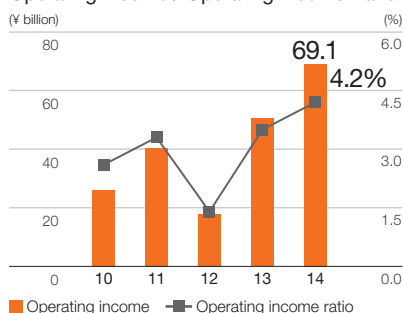
percentage points, to 23.3%. This decrease was due to a higher ratio of overseas sales and the benefits of the C-30 Project. Consequently, operating income rose ¥18.6 billion, or 36.8%, year on year, to ¥69.1 billion, and the operating income ratio increased from 3.5% to 4.2%.

Net income was up ¥23.4 billion, or 109.7%, to ¥44.8 billion. This increase reflected a ¥40.3 billion rise in income before income taxes and minority interests—resulting from the abovementioned rise in operating income and a ¥21.7 billion improvement in other income—which offset a ¥16.8 billion increase in income tax expenses. The improvement in other income primarily resulted from a rise of ¥2.0 billion in equity in earnings of associated companies, following improved performances by affiliates, as well as the absence of extraordinary factors, such as the ¥32.7 billion early retirement related loss recorded in the previous fiscal year. The increase in income tax expenses was a result of the increase in income before income taxes and minority interests and Company's effective tax rate rising to 38.6%, higher than the statutory income tax rate of 37.0%, due to the effects of disposal of idle land and reorganizations of subsidiaries.

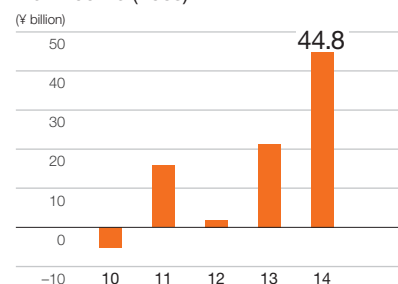
Net Sales



Operating Income / Operating Income Ratio



Net Income (Loss)



Year-on-Year Comparison of Net Sales in Fiscal Year Ended March 31, 2014

A breakdown of the change in net sales by business area is as follows.

LIXIL Corporation's domestic business recorded sales growth of ¥77.1 billion. One factor contributing to this growth was a 14% year-on-year increase in sales of renovation products, a result of the emphasis placed on the renovation market in management strategies and resource allocation in consideration of the medium-term business plan. Another contributing factor was a 5% rise in sales of

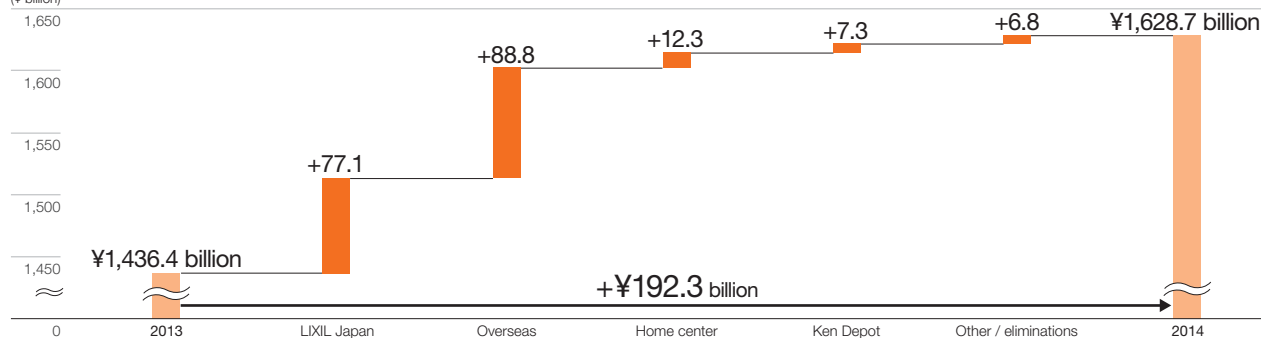
products relating to new homes, a success of our continual introduction of new products. Sales were also up in the home center business, where the ongoing establishment of large-scale home centers led to an increase in sales of ¥12.3 billion, or 8.0%. Meanwhile, the Ken Depot business grew sales ¥7.3 billion, or 35.1%, as membership continued to rise steadily. Sales for other businesses were up ¥6.8 billion, thanks to contributions from service businesses. As a result, overall sales in the

domestic market increased ¥103.5 billion, or 8.4% year on year.

Overseas, the sales contribution from Permasteelisa S.p.A. increased ¥39.5 billion, or 28.8%, year on year, and newly consolidated American Standard Brands made a sales contribution of ¥29.1 billion. Sales in Asia and other markets grew ¥20.2 billion, or 29.8%. As a result, total overseas sales were up ¥88.8 billion, or 43.3%.

Net Sales

(¥ billion)



Note: Years ended March 31

Year-on-Year Comparison of Operating Income in Fiscal Year Ended March 31, 2014

A breakdown of the change in operating income by business area is as follows.

In existing businesses, increased net sales had a positive effect on operating income of ¥22.6 billion, while the absence of expenses related to the severe flooding seen in Thailand during fall 2011 had a positive effect of ¥5.8 billion. Conversely, operating environment factors, such as foreign exchange influences and increased raw material and fuel prices, had a negative effect of

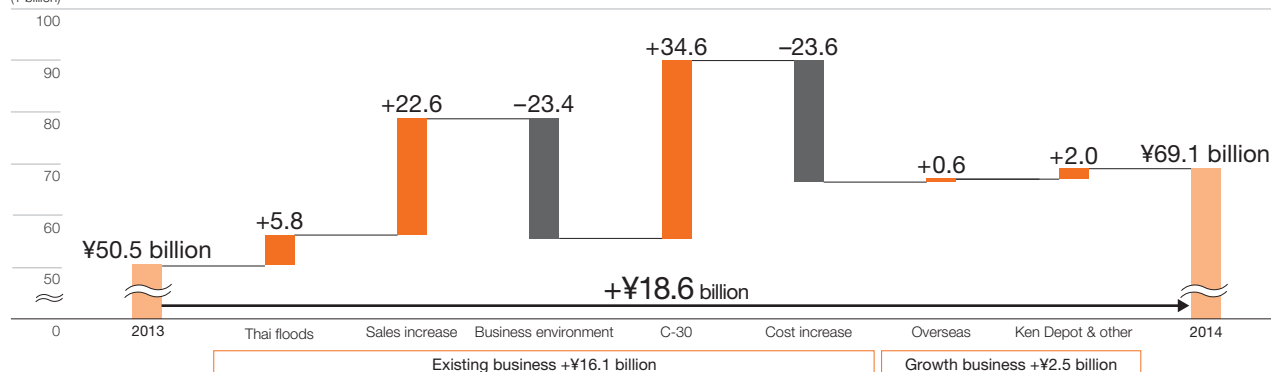
¥23.4 billion on operating income, while a rise in other expenses, which was a result of expenses for rebuilding factories in Japan damaged by heavy snowfall in early 2014 and higher wages, had a negative effect of ¥23.6 billion. However, the C-30 Project proceeded as planned, bringing benefits of ¥34.6 billion and resulting in an overall year-on-year increase of ¥16.1 billion in operating income for existing businesses.

In strategic growth businesses,

the consolidation of American Standard Brands during the fiscal year under review and the strong performance of the Asia business led global businesses to record a ¥0.6 billion year-on-year increase in operating income. Other businesses, including the Ken Depot business with its higher earnings in the domestic market, saw growth of ¥2.0 billion in operating income. As a result, the total rise in operating income for strategic growth businesses amounted to ¥2.5 billion.

Operating Income

(¥ billion)



Note: Years ended March 31

Financial Position

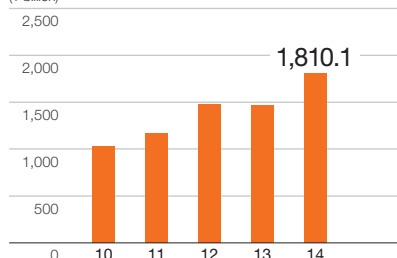
Total assets at March 31, 2014, stood at ¥1,810.1 billion, up ¥344.4 billion from the end of the previous fiscal year.

Current assets increased ¥156.9 billion from the previous fiscal year-end, to ¥942.5 billion, due to an increase in cash and deposits and trade notes and accounts receivable resulting from higher sales. Noncurrent assets were up ¥187.5 billion from the end of the previous fiscal year, to ¥867.6 billion, as a result of an increase in investment securities following strategic investments, a rise in goodwill associated with newly consolidated subsidiaries, and the effects of foreign exchange rates when translating values of foreign-currency denominated assets.

Total equity at the end of the fiscal year amounted to ¥625.6 billion, compared with ¥566.3 billion at the end of the previous fiscal year, and the equity ratio was 34.1%, compared with 38.3%, due to the impacts of acquisitions and other factors.

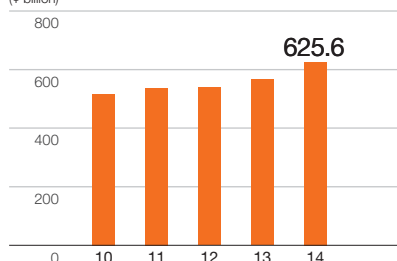
Total Assets

(¥ billion)



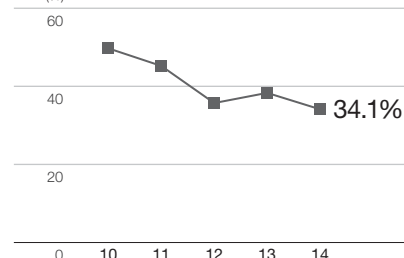
Total Equity

(¥ billion)



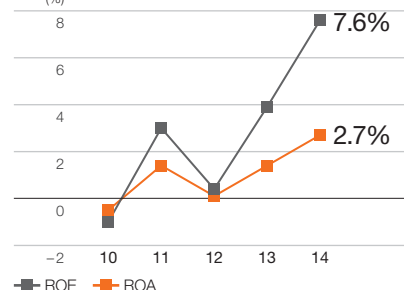
Equity Ratio

(%)



ROE / ROA

(%)



Cash Flows

Net cash provided by operating activities increased ¥55.1 billion, to ¥83.5 billion from the previous fiscal year. Working capital rose; however, this increase was offset by the ¥40.3 billion rise in income before income taxes and minority interests; the absence of the previous year's provision for loss on disaster, associated with the fall 2011 Thailand flooding; and outlays related to accepting applications for early retirement and changing pension plans.

Net cash used in investing activities amounted to ¥218.3 billion, an increase of ¥205.9 billion from the previous fiscal

year. Major outflows included purchase of property, plant and equipment and intangible assets of ¥65.3 billion, primarily for the construction of an aluminum products manufacturing base in Vietnam; purchase of investment securities of ¥115.3 billion, largely for strategic investments; and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥33.3 billion.

Net cash provided by financing activities amounted to ¥153.1 billion, compared with net cash used in financing activities of ¥31.8 billion in the previous fiscal year. This was a result of short-term

and long-term loans of ¥189.5 billion and fund-raising in the form of proceeds from issuance of bonds of ¥50.0 billion, which offset outlays including repayment of interest-bearing debt of ¥68.6 billion and cash dividends paid of ¥13.1 billion.

As a result, after taking into account the effect of exchange rate change on cash flows, cash and cash equivalents at the end of the fiscal year stood at ¥139.0 billion, up ¥24.4 billion from the end of the previous fiscal year.

Trends in the principal indicators of financial position are shown in the following table.

As of and years ended March 31	2010	2011	2012	2013	2014
Shareholders' equity ratio (%)*	49.7	45.2	35.7	38.3	34.1
Shareholders' equity ratio on a market value basis (%)**	51.4	52.7	34.0	36.9	45.7
Interest-bearing debt divided by cash flow (times)***	3.8	5.6	13.0	14.9	7.5
Interest coverage ratio (times)****	17.1	11.4	8.6	5.9	18.5

* Shareholders' equity ratio: Shareholders' equity / Total assets

** Shareholders' equity ratio on a market value basis: Market capitalization / Total assets

*** Interest-bearing debt divided by cash flow: Interest-bearing debt / Cash flow

**** Interest coverage ratio: Cash flow / Interest payments

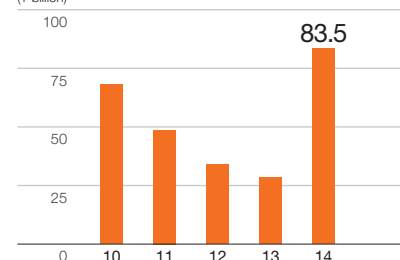
Notes: 1. All indicators are based on figures from the consolidated accounts.

2. Market capitalization is calculated by multiplying the closing stock price at the end of the period and the total number of shares outstanding at the end of the period (excluding treasury stock).

3. Cash flow is the cash flows from operating activities that is presented in the Consolidated Statements of Cash Flows. Interest-bearing debt is the value of all liabilities presented in the Consolidated Balance Sheets on which the Group pays interest. Interest payments are the figures presented in the item Interest payments in the notes to Consolidated Statements of Cash Flows in the Company's Financial Report (*Yuka Shoken Hokokusho*).

Cash Flows from Operating Activities

(¥ billion)



Liquidity

The LIXIL Group strives to generate operating cash flows and consider a wide range of fund-raising methods to procure a stable and flexible supply of funds necessary for its business activities while maintaining a sound financial position. Regarding cash on hand, the Group, in principle, maintains funds adequate to cover the settlement of its liabilities in an emergency. To ensure financial

flexibility, the Group works to diversify sources of funds, including bank borrowings and funds from other financial institutions, by arranging for a commercial paper issuance line, establishing commitment lines, and implementing initiatives for the securitization of trade notes and the factoring of receivables.

As of March 31, 2014, cash and deposits and marketable securities

totaled ¥165.0 billion. Despite repayment of long-term loans payable of ¥21.9 billion, interest-bearing debt stood at ¥626.5 billion at fiscal year-end, following an increase in short-term loans payable of ¥65.8 billion and procurement of ¥123.7 billion worth of funds through long-term borrowings.

Outlook for Fiscal Year Ending March 31, 2015

For the fiscal year ending March 31, 2015, the outlook is uncertain. While ongoing recovery is expected in the domestic economy with the global economy also anticipated to pick up, the impacts of Japan's consumption tax hike are unclear and the escape from deflation is not assured.

Bearing this in mind, the LIXIL Group will advance the measures set out in its Medium-Term Business Plan LIXIL G-16, launched in May 2014, which include expanding sales, increasing

market shares, and drastically reducing costs and improving efficiency.

As for the medium-to-long-term outlook, Japan's housing stock market is expected to see increased liquidity and higher demand. Overseas, the Group is continuing to expand the range of markets in which it participates through M&A activities. Accordingly, we expect that the Group's diverse business portfolio will present substantial opportunities for growth.

In this environment, the LIXIL Group intends to focus on developing operations in the renovation market and expanding its business globally. The Group will pursue earnings growth accompanied by operational excellence as it works toward the realization of the LIXIL VISION management target of becoming a global leader in the building materials and housing equipment industry.

Business Risks

LIXIL Group Corporation and Consolidated Subsidiaries

This annual report contains information about business conditions, the financial situation, and other factors that may influence investor decisions. Forward-looking statements are based on the judgments of the LIXIL Group's management as of March 2014. Statements concerning the future and assumptions are subject to uncertainty and risks, and actual results may vary significantly.

1. Economic Risk

Operating revenues of most companies in the LIXIL Group are significantly affected by domestic demand in Japan. In particular, major fluctuations in new housing starts or the level of construction orders received could have a negative effect on business performance and financial positions of the LIXIL Group.

2. Competitive Risk

The LIXIL Group faces severe competition in most of the markets in which it operates. For this reason, it is difficult to always set prices at levels that are advantageous to the LIXIL Group. Although the Group takes pride in its superior products and services that contribute to improving people's comfort and lifestyles, there is no guarantee that it will enjoy a competitive advantage in terms of pricing. The LIXIL Group's products and services are exposed to intense price competition, which could have a negative effect on business performance and financial positions of the LIXIL Group.

3. New Product Development Risk

In its operations, the LIXIL Group is committed to providing exceptional products and services to satisfy its customers around the globe. The Group creates high-quality living spaces that are healthy, comfortable, and safe by continually developing attractive products based on an accurate understanding of available technology and consumer needs. However, the Group's business performance and financial positions could be adversely affected if a failure to respond appropriately to changes in market or industry needs

were to result in a decline in growth and earning potential.

4. Procurement Risk

The LIXIL Group procures materials, parts, services, and other supplies as required for its production activities. There is a possibility that the amounts paid for these supplies will rise because of increased industry demand or increasing raw material prices. There is also a possibility that the reliability or reputation of the LIXIL Group's products will be adversely affected by defects in or stock-outs of materials, parts, services, or other supplies. These factors could, in turn, adversely affect the Group's business performance and financial positions.

5. Overseas Market Risk

The LIXIL Group engages in production and sales activities overseas, in such countries as China and Thailand in Asia as well as countries in Europe and North America. The following latent risks exist in these countries.

- 1) Major exchange rate fluctuations caused by currency policies
- 2) Changes in export or import regulations
- 3) Dramatic increases in labor costs and prices, etc.
- 4) Interruption of production activities due to strikes, etc.
- 5) Unanticipated changes to legislation or financial regulation and international tax risks, such as transfer pricing legislation
- 6) Other economic, social, and political risks
- 7) Risks of the effects of natural disasters

These factors could have an adverse impact on the business performance and financial positions of the LIXIL Group.

6. Foreign Exchange Risk

Exchange rate fluctuations have the potential to affect the yen equivalents of assets and liabilities resulting from the foreign currency denominated transactions of the LIXIL Group. Where transactions are denominated in foreign

currencies, the prices of goods and amounts of sales could also be affected. These factors could have an adverse impact on the business performance and financial positions of the LIXIL Group.

7. Acquisition/Merger Risk

The LIXIL Group may plan to expand its business operations through investments, including corporate acquisitions and capital participation. To maximize the benefits of these acquisitions, the LIXIL Group seeks to integrate them into its corporate cultures and management strategies. However, there is no guarantee that the anticipated returns and synergy benefits will be realized. It is possible that the business performance and financial positions of the LIXIL Group will be adversely affected by these acquisitions and capital participation activities.

8. Business Restructuring Risk

In order to enhance management efficiency and competitiveness, the LIXIL Group may conduct business restructuring, including withdrawal from unprofitable businesses; the realignment of subsidiaries and affiliates, manufacturing bases, and sales and logistics networks; and the rightsizing of the workforce. These measures could have an adverse impact on the business performance and financial positions of the LIXIL Group.

9. Regulatory Risk

The LIXIL Group is subject to various official regulations, including the need to obtain approvals and permits from the government or official agencies for its business and investment activities, as well as patents and other intellectual property rights, environmental regulations, and other requirements. Such official regulations can be expected to change over time, possibly creating obstacles to business activities or imposing additional costs relating to compliance with new official regulations. These factors could have an adverse impact on the business performance and financial positions of the LIXIL Group.

10. Product Liability Risk

There is a risk that defects will occur in products and services supplied by the LIXIL Group, or that product recalls may be required. Major compensation claims or product recalls relating to manufacturers' liability issues could result in substantial payments and have a negative effect on the reliability and reputation of the LIXIL Group's products. Such situations could have an adverse impact on the business performance and financial positions of the LIXIL Group.

11. Risks of Lawsuits and Other Legal Proceedings

The LIXIL Group conducts its business activities in Japan and in countries overseas. Accordingly, there is a risk that it may face lawsuits and legal proceedings. When the LIXIL Group becomes the object of such legal action, there is a possibility that this may result in major payments for damages. These circumstances could have an adverse impact on the business performance and financial positions of the LIXIL Group.

12. Disaster and Accident Risk

Natural disasters, such as earthquakes and typhoons, could cause substantial damage to the LIXIL Group's production, distribution, sales, and information management facilities. Also, in the occurrence of major workplace disasters or equipment accidents, there is the possibility that business activities will be discontinued or restricted. The LIXIL Group conducts regular disaster prevention activities and facility inspections. However, there is no guarantee that it will be possible to prevent or alleviate the effects of natural disasters. In particular, many of the domestic production facilities for plumbing fixtures of LIXIL Corporation, a consolidated subsidiary, are located in the Tokai region of Japan, where a major earthquake could occur. While earthquake countermeasures have been implemented at these facilities, a major earthquake in the Tokai region could cause a suspension in production, delays in product deliveries, and other

problems. These factors could have an adverse impact on the business performance and financial positions of the LIXIL Group.

13. Environmental Preservation Risk

The LIXIL Group, based on the Group Environmental Basic Policy, engages in a wide range of activities aimed at global environmental preservation. However, the Group cannot guarantee that it will be able to completely prevent or mitigate any risk of environmental pollution. Should serious environmental pollution occur as a result of the Group's business activities, it could have an adverse impact on the Group's business performance and financial positions.

14. Risk of Default on Receivables

In order to prepare for losses due to default on receivables by business partners, the LIXIL Group examines the recoverability of general receivables based on historical default rates, and of specific doubtful accounts on a case-by-case basis, and records the amount considered to be uncollectible as an allowance for doubtful accounts. Should the actual default level significantly exceed these assumptions, the allowance for doubtful accounts could be insufficient. Moreover, as a result of reviewing these assumptions due to the worsening of overall economic conditions and uncertainty in the credit standing of business partners, the Group could make additional provisions to this allowance. These developments could have an adverse impact on the Group's business performance and financial positions.

15. Risk of Fixed Asset Value Reduction

The LIXIL Group has applied fixed asset impairment accounting. The Group will continue to calculate future cash flows relating to its assets and to recognize and estimate the impairment of those assets. It is therefore possible that the Group's business performance and financial positions will be adversely

affected if fixed asset impairment losses are shown in the accounts.

16. Retirement Benefit Risk

The employee retirement benefit obligations and costs of the LIXIL Group are calculated primarily using actuarial assumptions, such as discount ratios and expected rates of return on plan assets. These actuarial assumptions must be reviewed annually. Any changes in the ratios could cause fluctuation in business performance and financial positions. The Group has taken steps to minimize this effect, including the return to the government of the substitutional portion of the pension funds that it previously administered, and the adoption of defined contribution pension plans and cash balance pension plans. However, the potential effect cannot be entirely eliminated. Further declines in discount ratios or deteriorating investment returns could have a negative effect on the business performance and financial positions of the LIXIL Group.

17. Risk of Personal Information Leaks

The LIXIL Group handles a variety of personal information, including customer information, in the course of its business operations, and stringent information management is essential. Initiatives to strengthen personal information management include the establishment of an organizational unit dedicated to personal information management, the formulation of related rules and regulations, and the ongoing provision of appropriate training. However, the LIXIL Group could suffer damage to its public reputation and incur substantial financial costs if unforeseen circumstances result in the leakage of personal information. Such a situation could adversely affect the business performance and financial positions of the LIXIL Group.

Principal Group Companies

(As of March 31, 2014)

Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Operations
LIXIL Corporation	Koto-ku, Tokyo	34,600	100	Manufacture and sales of metal building materials, plumbing fixtures, other building materials, and housing structures
LIXIL VIVA CORPORATION	Ageo, Saitama	20,000	100	Sales of daily necessities and DIY and home improvement products
Kawashima Selkon Textiles Co., Ltd.	Sakyo-ku, Kyoto, Kyoto	9,381	100	Manufacture and sales of interior fabrics
LIXIL Housing Research Institute, Ltd.	Koto-ku, Tokyo	1,250	100	Strategic planning for homebuilding franchise chain businesses and operation of homebuilding franchise chains
HIVIC CO., LTD.	Oyama, Tochigi	551	100	Manufacture and sales of precut lumber
JIO Corporation	Chiyoda-ku, Tokyo	1,000	100	Insurance for warranty against housing defects
LIXIL REALTY, Corp.	Chuo-ku, Tokyo	160	100	Real estate business and agency of company housing
CLASSIS Corporation	Chuo-ku, Tokyo	100	100	Residential real estate brokerage and sales
LIXIL Group Finance Corporation	Koto-ku, Tokyo	3,475	100	Financing services
SUN WAVE CORPORATION	Fukaya, Saitama	90	100	Manufacture of plumbing fixtures
LIXIL Total Hanbai Corporation	Koto-ku, Tokyo	74	100	Sales of metal building materials, plumbing fixtures, other building materials and equipment, and housing structures
Asahi Tostem Exterior Building Materials Co., Ltd.	Koto-ku, Tokyo	2,000	80	Manufacture and sales of other building materials
G TERIOR Corporation	Setagaya-ku, Tokyo	315	100	Sales of exterior products
LIXIL SUZUKI SHUTTER CORPORATION	Toshima-ku, Tokyo	1,989	100	Manufacture and sales of shutters and related parts
JAPAN HOME SHIELD CORPORATION	Sumida-ku, Tokyo	205	100	Ground investigation for houses and improvement work for foundation of houses
LIXIL Toyo Sash Shoji Co., Ltd.	Chiyoda-ku, Tokyo	100	100	Sales of metal building materials, plumbing fixtures, and other building materials and equipment
Dinaone Corporation	Tokoname, Aichi	90	100	Sales of other building materials
TM.S Corporation	Chiyoda-ku, Tokyo	60	99	Sales of plumbing fixtures and other building materials
Kuwata Co., Ltd.	Suma-ku, Kobe, Hyogo	30	100	Sales of metal building materials, plumbing fixtures, and other building materials and equipment
SUN WAVE KITCHEN TECHNO CORPORATION*1	Shinjuku-ku, Tokyo	99	100	Sales of plumbing fixtures
LIXIL Building Remodeling Sales Co., Ltd	Koto-ku, Tokyo	100	100	Sales of metal building materials
Oita Tostem Co., Ltd.	Oita, Oita	50	100	Sales of metal building materials, plumbing fixtures, and other building materials and equipment
Nishi Kyushu Tostem Co., Ltd.	Saga, Saga	30	100	Sales of metal building materials, plumbing fixtures, and other building materials and equipment
LIXIL Online Corporation*2	Koto-ku, Tokyo	90	100	Sales of metal building materials and plumbing fixtures
Tostem Management Systems Co., Ltd.	Koto-ku, Tokyo	450	100	System and management support for sales agencies
LIXIL Total Service Corporation*2	Koto-ku, Tokyo	100	100	Installation, sales, and after-sales service of metal building materials, plumbing fixtures, and other building materials and equipment
LIXIL ENERGY Co., Ltd.	Koto-ku, Tokyo	100	100	Sales of solar photovoltaic systems
LIXIL RENEWAL Corporation	Koto-ku, Tokyo	50	80	After-sales services of residential homes, commercial buildings, etc.
LIXIL INFORMATION SYSTEMS CORPORATION	Koto-ku, Tokyo	100	100	Development, operation, and management of information systems
INAX SUNWAVE Marketing Corporation	Tokoname, Aichi	10	100	—
GHS Corporation	Koto-ku, Tokyo	100	100	Operation of homebuilding franchise chains
MYROOMKAN Real Estate Management Corporation	Mito, Ibaraki	10	100	Management of real estate
MYROOMKAN Real Estate Sales Corporation	Mito, Ibaraki	10	100	Sales of real estate
Limited private company SUPER VIVA ASSET and 3 other companies	Chuo-ku, Tokyo and other	—	100	Acquisition and management of beneficiary right for real-estate trusts
Permasteelisa S.p.A.	Veneto, Italy	€6,900 thousand	100	Manufacture and sales of curtain walls
41 affiliate companies of Permasteelisa S.p.A.	—	—	—	Manufacture and sales of curtain walls
TOSTEM THAI Co., Ltd.	Pathumthani, Thailand	Bt2,767 million	100	Manufacture of metal building materials
TOSTEM THAI MARKETING Co., Ltd.	Pathumthani, Thailand	Bt103 million	100	Sales of metal building materials
AMTRONIC Pte. Ltd.	Singapore	US\$19,115 thousand	100	Holding company of Chinese business of Shanghai Meite Curtain Wall System Co., Ltd.
Shanghai Meite Curtain Wall System Co., Ltd.	Shanghai, China	US\$21,310 thousand	75	Manufacture and sales of curtain walls
LIXIL Manufacturing (Dalian) Corporation	Dalian, Liaoning, China	US\$43,500 thousand	100	Manufacture of wooden interior furnishing materials

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Operations
A-S CHINA PLUMBING PRODUCTS Ltd.	Cayman Islands	US\$1,510 thousand	100	Holding company of Chinese business of American Standard Asia Pacific
5 affiliate companies of A-S CHINA PLUMBING PRODUCTS Ltd.	—	—	—	Manufacture and sales of plumbing fixtures
LIXIL INTERNATIONAL Pte. Ltd.	Singapore	US\$94,480 thousand	100	Holding company of Asian business of American Standard Asia Pacific
8 affiliate companies of LIXIL INTERNATIONAL Pte. Ltd.	—	—	—	Manufacture and sales of plumbing fixtures
Star Alubuild Private Ltd.	Haryana, India	INR22,817 thousand	70	Manufacture, installation, and sales of curtain walls
PT. LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR42,772 thousand	75	Manufacture and sales of metal building materials
ASD Americas Holding Corp.	New Jersey, U.S.A.	US\$300,000 thousand	100	Holding company of North American business of American Standard Brands
19 affiliate companies of ASD Americas Holding Corp.	—	—	—	Manufacture and sales of plumbing fixtures
LIXIL INAX VIETNAM Corporation	Hanoi, Vietnam	US\$38,100 thousand	100	Manufacture and sales of plumbing fixtures
LIXIL INAX DANANG Manufacturing Co., Ltd.	Quang Nam, Vietnam	US\$18,000 thousand	100	Manufacture of plumbing fixtures
LIXIL INAX SAIGON Manufacturing Co., Ltd.	Vung Tau, Vietnam	US\$12,000 thousand	100	Manufacture and sales of other building materials
LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	Qingdao, Shandong, China	CNY194,082 thousand	51	Manufacture of plumbing fixtures
LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION	Suzhou, Jiangsu, China	4,000	100	Manufacture of plumbing fixtures and other building materials
LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	Suzhou, Jiangsu, China	1,730	100	Manufacture of plumbing fixtures
LIXIL (China) Investment Co., Ltd.	Shanghai, China	US\$34,500 thousand	100	Sales of plumbing fixtures and other building materials
LG TOSTEM BM Co., Ltd.*3	Seoul, South Korea	Won15,355 million	50	Sales of metal building materials
LIXIL TAIWAN CORPORATION	Hsinchu, Taiwan	NT\$282,677 thousand	51	Manufacture and sales of other building materials
LIXIL Building Materials Manufacturing (Shenyang) Corporation	Shenyang, Liaoning, China	1,300	100	Manufacture of other building materials
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	Dong Nai, Vietnam	US\$40,700 thousand	100	Manufacture of metal building materials

Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Operations
Sanyo Homes Corporation*4	Osaka, Osaka	5,945	24	Designing and installation management of houses and apartments
Fukui Computer Inc.*4	Fukui, Fukui	1,631	27	Development and sales of designing systems
GraceA Co., Ltd.	Koto-ku, Tokyo	103,893	50	Management and operation of GROHE Group S.à r.l.
Permasteelisa Projects (Thailand) Ltd.	Chonburi, Thailand	Bt4million	48	Planning and management of building materials
Unifront B.V.	Gelderland, Netherlands	€143 thousand	26	Development of curtain wall systems

*1 As of May 30, 2014, LIXIL Corporation transferred all the shares of SUN WAVE KITCHEN TECHNO CORPORATION.

*2 As of April 1, 2014, LIXIL Online Corporation was acquired by and merged with LIXIL Total Service Corporation.

*3 The holding of shares in LG TOSTEM BM Co., Ltd., is less than 50%, but it is treated as a subsidiary because it is effectively controlled by the Group.

*4 The company submits financial reports.

Number of Sales and Manufacturing Bases

(As of March 31, 2014)

	Hokkaido	Tohoku	Kanto, Koshinetsu	Chubu, Hokuriku	Kansai	Chugoku, Shikoku	Kyushu, Okinawa	Total
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Sales Network

LIXIL Corporation	5	7	31	13	13	10	10	89
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Factories*

LIXIL Corporation	2	2	13	15	2	2	4	40
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* The factories in Mie Prefecture, grouped in Kansai in the annual report for fiscal year ended March 2013, are regrouped in Chubu, Hokuriku in the above data.

Showrooms

LIXIL Corporation	6	7	34	14	13	10	12	96
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Home Centers

Home centers (Super Viva Home, New Viva Home, Viva Home)	7	10	55	7	5	0	0	84
Ken Depot	3	5	37	4	3	3	7	62

Homebuilding Franchise Members

Eyeful Home Technology Inc.	3	32	43	36	13	26	9	162
FIACE HOME	0	2	3	7	4	3	1	20
GL Home	0	5	5	5	0	0	0	15
Total	3	39	51	48	17	29	10	197

Renovation Franchise Members / Voluntary Chains Members

	2012	2013	2014
LIXIL Reform Chain	414	377	376
LIXIL Reform Net	8,896	9,356	10,203
Total	9,310	9,733	10,579

Overseas Factories

	China	Thailand	Vietnam	South Korea	Indonesia	India	Middle East	North America	Latin America	Europe	Total
Shanghai Meite Curtain Wall System Co., Ltd	2										2
LIXIL Building Materials Manufacturing (Shenyang) Corporation	1										1
LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	2										2
LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	1										1
LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION	1										1
LIXIL Manufacturing (Dalian) Corporation	1										1
LIXIL INAX VIETNAM Corporation			7								7
LIXIL INAX SAIGON Manufacturing Co., Ltd.			1								1
LIXIL INAX DANANG Manufacturing Co., Ltd.			1								1
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.			1								1
PT. LIXIL ALUMINIUM INDONESIA					1						1
TOSTEM THAI Co., Ltd.		1									1
LG TOSTEM BM Co., Ltd.				1							1
Star Alubuild Private Ltd.						1					1
Permasteelisa Group	2	1				1	1	2		5	12
American Standard Asia Pacific	4	2	1	1	1						9
American Standard Brands								9	4		13
Total	14	4	11	2	2	2	1	11	4	5	56

Note: Excluding factories of unconsolidated subsidiaries

History

TOSTEM		INAX	
1923	The company is founded.	1924	Ina Seito Co., Ltd.* is established as a producer of tiles, ceramic pipe, and terra cotta.
1949	Nihon Tategu Kogyo Co., Ltd. (now LIXIL Group Corporation) is established.		
1966	Housing aluminum sash business commenced.	1945	Production of sanitary ware commenced.
1971	Toyo Sash Co., Ltd., is established after absorbing Toyo Door and four other companies.	1958	Production of Polybath commenced.
1974	Toyo Exterior Co., Ltd.* is established. Housing exterior business commenced.	1967	Production of first integrated-type Japanese shower toilet.
1977	Viva Home Corporation (later TOSTEM VIVA CORPORATION) is established. Home center business commenced.	1968	Production of unit bathrooms commenced.
1984	Eyeful Home Technology Inc. (now LIXIL Housing Research Institute, Ltd.) is established. Homebuilding franchise chain operation commenced.	1985	Company name is changed to Inax Corporation*.
1985	Dai-ichi Mokko Co., Ltd. (later Bright Home and now LIXIL Housing Research Institute, Ltd.), Mitsui Light Metal Processing Co., Ltd., Nittetsu Curtainwall Corporation, and Nittetsu Sash Sales Corporation join the Group.	1996	VINAX (now LIXIL INAX VIETNAM Corporation), manufacturing joint venture for sanitary ware in Vietnam, is established.
1987	TOSTEM THAI Co., Ltd., is established. Overseas production of sashes commenced.		Suzhou Inax Sanitary Fitting Co., Ltd. (now LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation), is established in China.
1990	American Home Shield Japan Co., Ltd. (now JAPAN HOME SHIELD CORPORATION), is established.	1998	Suzhou Inax Building Materials Co., Ltd. (now LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION), a tile manufacturing company in China, is established.
1992	Toyo Sash Co., Ltd., is renamed to Tostem Corporation. Tostem Foundation for Construction Materials Industry (now LIXIL JS Foundation) is established.		
1999	JIO Corporation is established.		
2000	Toyo Exterior Co., Ltd.*, Eyeful Home Technology Inc. (now LIXIL Housing Research Institute, Ltd.), and Suzuki Shutter Manufacturing Co., Ltd. (now LIXIL SUZUKI SHUTTER CORPORATION), become wholly owned subsidiaries.		
2001	Tostem Corporation is renamed to Tostem Inax Holding Corporation, becomes a pure holding company, and swaps stocks with Inax Corporation.* Tostem Corporation*, an operating company, is established through a corporate separation.		
2002	Jyu-Tsu Corporation (now LIXIL REALTY, Corp.) joins the Group. Inax Corporation* establishes the investment fund Inax (China) investment Co., Ltd. (now LIXIL (China) Investment Co., Ltd.), in China. Production of wooden interior furnishings commenced at subsidiary Tostem Housing Products (Dalian) Co., Ltd. (now LIXIL Manufacturing (Dalian) Corporation), in Dalian, China. Century 21 Housing Research Institute Ltd. (now LIXIL Housing Research Institute, Ltd., after becoming Tostem Housing Institute) is inaugurated.		
2004	Tostem Inax Holding Corporation is renamed to JS Group Corporation.		
2005	Asahi Tostem Exterior Building Materials Co., Ltd., is established as a result of integration of Tostem Corporation* and Asahi Glass Co., Ltd.		
2006	JS Group Senior Life Corporation (now a business of LIXIL Corporation) founded and enters fee-based senior citizens assisted-living home business.		
2007	Inax Corporation* establishes the overseas tile company Inax Vietnam Co., Ltd. (now LIXIL INAX SAIGON Manufacturing Co., Ltd.).		
2008	Inax Corporation* establishes Inax Vietnam Plumbing Fixtures Co., Ltd. (now LIXIL INAX DANANG Manufacturing Co., Ltd.), in Vietnam, which manufactures and sells water faucet fixtures. Jaxson S.P.I. Inc. becomes a subsidiary of Inax Corporation*.		
2009	Tostem Corporation* establishes LG-TOSTEM BM Co., Ltd., jointly with LG Chem, Ltd., a LG group company in South Korea. American Standard Asia Pacific becomes a subsidiary of Inax Corporation*. LIXIL ENERGY Co., Ltd., is established, and solar photovoltaic systems business commenced.		
2010	New Group brand "LIXIL" is introduced. SUN WAVE CORPORATION* and Shin Nikkei Company, Ltd.*, become subsidiaries. Business alliance is formed with the Haier Group, of China.		
2011	Shanghai Meite Curtain Wall System Co., Ltd., in China becomes a subsidiary of Tostem Corporation*. Tostem, Inax, Shin Nikkei, SUN WAVE (not including the production division), and Toyo Exterior are integrated and LIXIL Corporation is born. Kawashima Selkon Textiles Co., Ltd., and HIVIC CO., LTD., become a subsidiary. Permasteelisa S.p.A., of Italy, becomes a subsidiary of LIXIL Corporation.		
2012	JS Group Corporation renamed as LIXIL Group Corporation.		
2013	INAX ENGINEERING Corporation and six other companies merge. The company is renamed LIXIL Total Service Corporation. ASD Americas Holding Corp., of United States, and Star Alubuild Private Ltd., of India, become subsidiaries of LIXIL Corporation.		
2014	GROHE Group S.à r.l., of Europe, becomes an equity-method affiliated company of LIXIL Corporation. (The company acquires 87.5% of GROHE Group shares jointly with the Development Bank of Japan.)		

* Currently LIXIL Corporation

Shareholder Information

(As of March 31, 2014)

Number of Shares and Shareholders

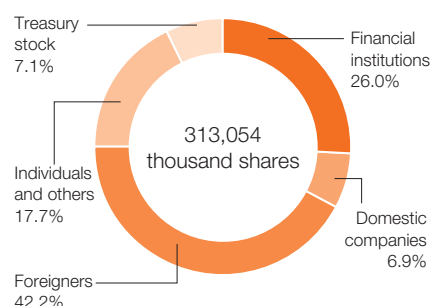
Number of shares authorized	1,300,000,000
Number of shares outstanding	290,733,127 (excluding treasury stock of 22,321,128 shares)
Number of shareholders	46,948

Major Shareholders

Name of shareholder	Number of shares held (thousand shares)	Percentage held
The Nomura Trust & Banking Co., Ltd. (Trust Account)	9,196*	3.16%
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,556*	2.94%
Japan Trustee Services Bank, Ltd. (Trust Account)	8,275*	2.85%
State Street Bank and Trust Company (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement & Clearing Services Department)	8,242	2.84%
Goldman Sachs & Co. (Regular Account)	8,041	2.77%
State Street Bank and Trust Company (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	7,562	2.60%
The Dai-ichi Life Insurance Company, Limited	6,561	2.26%
LIXIL Employee Stock Ownership Plan	6,493	2.23%
NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	5,931	2.04%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,798	1.99%

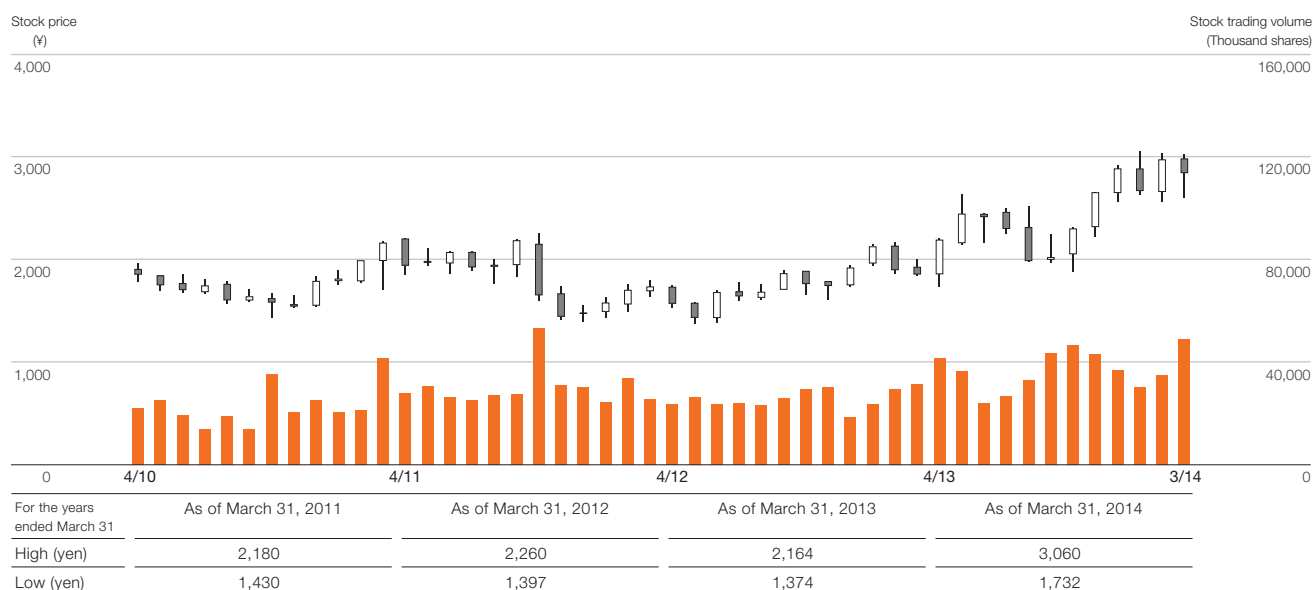
Notes: 1. In addition to the above, LIXIL Group Corporation holds 22,321 thousand shares of treasury stock. Shareholding calculations exclude treasury stock.
2. * indicates a trust service arrangement.
3. 9,196 thousand shares entrusted to The Nomura Trust & Banking Co., Ltd., are the trust property of Mr. Yoichiro Ushioda, who has voting rights for these shares.

Distribution of Ownership among Shareholders



	Thousand shares
Financial institutions	81,443
Domestic companies	21,525
Foreigners	132,219
Individuals and others	55,545
Treasury stock	22,321
Total	313,054

Monthly Stock Price Range (Tokyo Stock Exchange)



Note: High and low share prices are from the First Section of the Tokyo Stock Exchange.

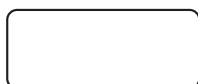
Corporate Data

(As of March 31, 2014)

Company Profile

Company Name	LIXIL Group Corporation (JS Group Corporation renamed as LIXIL Group Corporation on July 1, 2012.)
Established	September 19, 1949
Registered Office	2-1-1 Ojima, Koto-ku, Tokyo 136-8535, Japan
Head Office	36F, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo 100-6036, Japan
Paid-in Capital	¥68.1 billion
Fiscal Year Closing	March 31
Employees	108 (Consolidated Employees: 51,419)
Overview of Major Businesses	The Company controls and manages domestic and overseas companies that operate housing related businesses and urban environment related businesses through acquisition or holding of stocks.
Securities Traded (Common Stock)	Tokyo Stock Exchange Nagoya Stock Exchange
Transfer Agent and Special Management of Accounts	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Annual Meeting of Shareholders	Normally held in June in Tokyo, Japan


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LIXIL Group Online Information


In addition to a Group profile, CSR activities, and the latest news, the LIXIL Group's corporate website also contains such features as a Special Topics section covering recent business initiatives within the Group and an Executive Column in which the Group's president explains important Group business themes.

 <http://www.lixil-group.co.jp/e/>



Investor Relations (IR) Site

LIXIL Group Corporation's IR website offers enriched content for shareholders and other investors, including information regarding financial results, audio streaming of shareholder information meetings, and market data. A PDF version of the most recent annual report and an online version containing a video interview with the president are also available on the site.

 <http://www.lixil-group.co.jp/e/ir/>





LIXIL Group Corporation

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