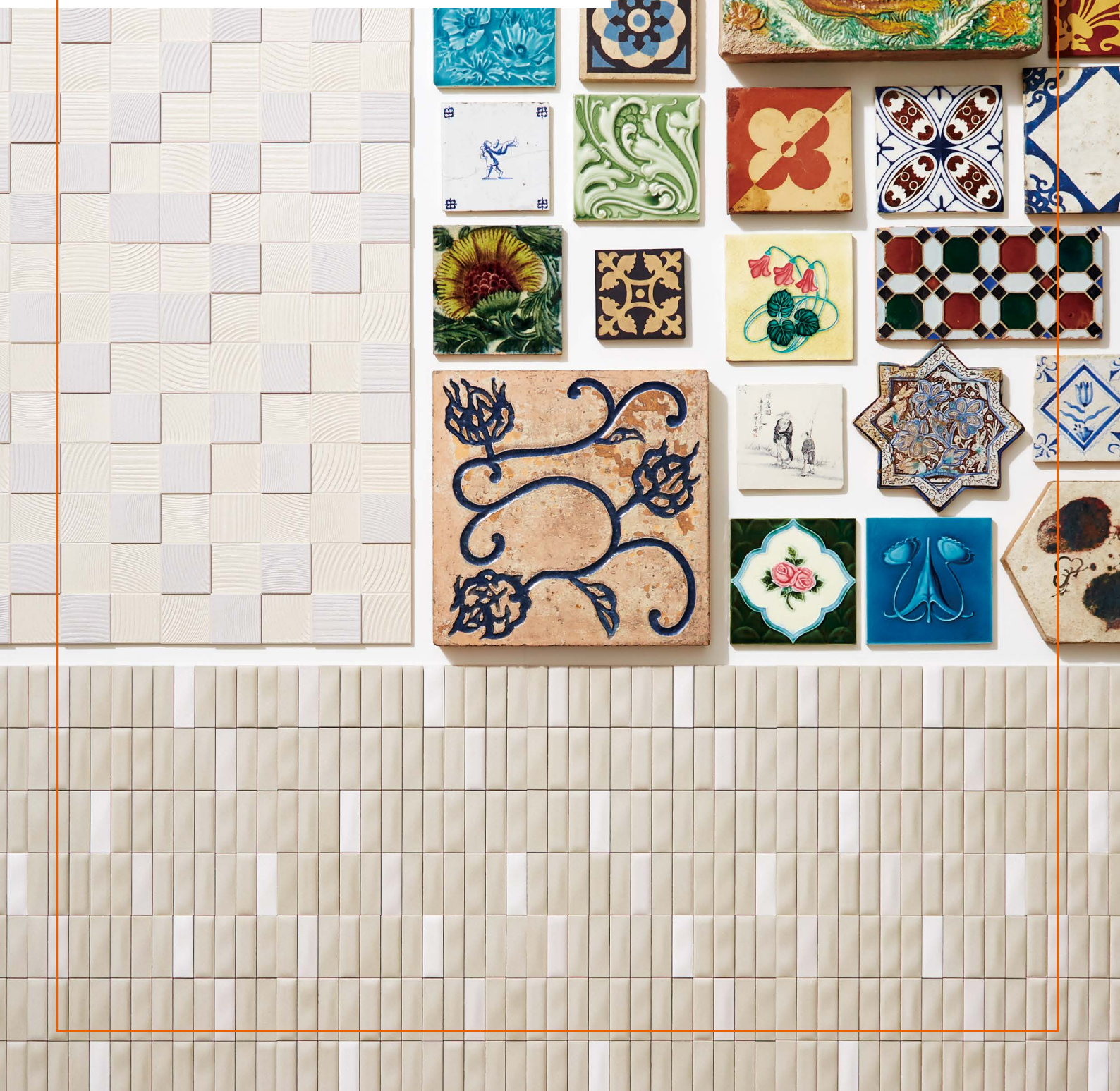


# > A NEW PATH FOR VALUE GROWTH

*Annual Report 2016*

*Year Ended March 31, 2016*







LIXIL's concept home at the HOUSE VISION 2016 TOKYO EXHIBITION, developed in partnership with internationally acclaimed architect Shigeru Ban, incorporates innovations for flexible and open living spaces.

# › WHY WE TAKE THESE INTANGIBLES SERIOUSLY ‹

“The LIXIL Group is present in over 150 countries with more than 80,000 employees worldwide. Our corporate philosophy and LIXIL Values create a unique and common bond that unites our diverse team around how we will achieve our goals. If we are aligned on ‘what’ we need to achieve, such as maximizing synergies and enhancing corporate value, our philosophy and values guide us on ‘how’ we will get there.”

**Kinya Seto**

Director, Representative Executive Officer,  
President & Chief Executive Officer



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## CORPORATE PHILOSOPHY

The Group's superior products and services contribute to improving people's comfort and lifestyles.

---

## LIXIL VALUES

LIXIL is united by a set of shared values:



### WORK WITH RESPECT

As a global company, we strive for open and honest communication with everyone, internally and externally. We value diversity and respect people from different backgrounds and treat everyone equally with meritocracy. We always act with unquestioned integrity.



### DELIVER ON COMMITMENT

We "act like owners" to create value for everyone that touches our business. We set ambitious targets, which we are committed to achieving. We are accountable for decisions, actions and results.



### EMBRACE QUALITY

We are committed to having our customers enjoy a positive experience in every aspect when interacting with us. We are committed to the highest quality products and solutions. We take a Kaizen approach to continuously improving our knowledge, products and processes.



### INSPIRE PASSION

We dare to dream big and seek to transform ourselves, our industry and customers' experiences. We push ourselves to stretch beyond our commitments to exceed expectations. We pursue excellence in everything we do and reward a "Can-do" attitude.



### PURSUE GROWTH

We strive for growth and innovation. We consistently invest in the growth of our leaders and their teams. We are willing to embrace change and risk with speed in a thoughtful, informed and appropriate way.

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- 6 Financial Highlights
- 8 To LIXIL Group Stakeholders



**“DELIVERING GREATER VALUE  
WITH A LEANER, FASTER,  
AND SIMPLER ORGANIZATION”**

**Kinya Seto**

Director, Representative Executive Officer,  
President & Chief Executive Officer

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Yoichiro Ushioda  
Chairman of the Board

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**LIXIL**

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.



# SNAPSHOT OF THE LIXIL GROUP

Year Ended March 31, 2016

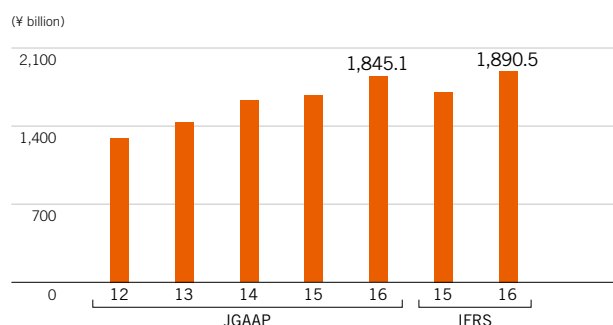
	Principal products and services	Revenue
<b>LIXIL Water Technology (LWT)</b> 	Sanitary ware, Spalets (bidet toilets), water faucets, washstands, bathtubs, unit bathrooms, washstand fixtures, washstand cabinet units, etc.	 <b>¥637.7 billion</b>
<b>LIXIL Housing Technology (LHT)</b> 	<p>Metal building materials      Housing window sashes, entrance doors, various types of shutters, gates, carports, banisters, high railings, tide barriers, smoke insulated screens, etc.</p> <p>Wooden interior furnishing materials      Window frames, wooden furnishing materials, interior decorative materials, etc.</p> <p>Other building materials      External tiles for houses and buildings (regrouped to LWT from July 2016), internal decorative tiles (regrouped to LWT from July 2016), siding, stone materials, roofing materials, precut products, etc.</p> <p>Interior fabrics      Curtains, etc.</p> <p>Other      Solar photovoltaic systems</p>	 <b>¥604.6 billion</b>
<b>LIXIL Building Technology (LBT)</b>  <small>©Wade Zimmerman</small>	Curtain walls, building sashes, and store facades	 <b>¥332.0 billion</b>
<b>LIXIL Kitchen Technology (LKT)</b> 	Kitchen systems	 <b>¥112.1 billion</b>
<b>Distribution &amp; Retail Business (D&amp;R)</b> 	Home centers	Household products, DIY products, building materials, etc.
		 <b>¥184.5 billion</b>
<b>Housing &amp; Services Business (H&amp;S)</b> 	<p>Housing solution businesses      Development of homebuilding franchise chains, construction on order, housing structural defects warranty liability insurance services, ground inspections and improvements, etc.</p> <p>Real estate      Land, buildings, real estate management services, support for development of real estate franchises, etc.</p> <p>Nursing home business      Nursing homes</p> <p>Financial services business      Housing loans</p>	 <b>¥63.7 billion</b>

Major Japanese and global brands of the LIXIL Group	Core earnings (loss)	Core earnings ratio
      	¥52.1 billion	8.2%
    	¥40.3 billion	6.7%
 	¥(5.6) billion	—
	¥1.8 billion	1.6%
	¥7.2 billion	3.9%
         	¥4.3 billion	6.7%

## FINANCIAL HIGHLIGHTS

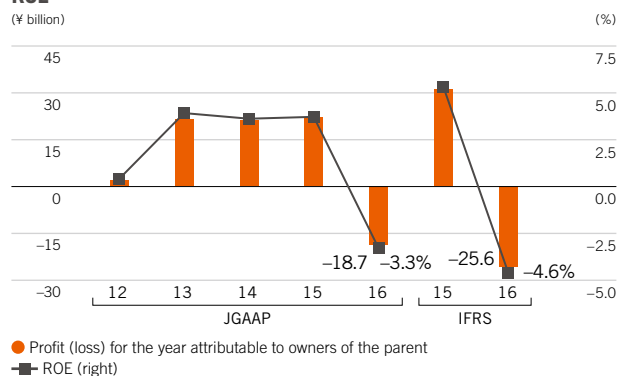
LIXIL Group Corporation and Consolidated Subsidiaries  
Years ended March 31

### Net Sales (JGAAP) / Revenue (IFRS)



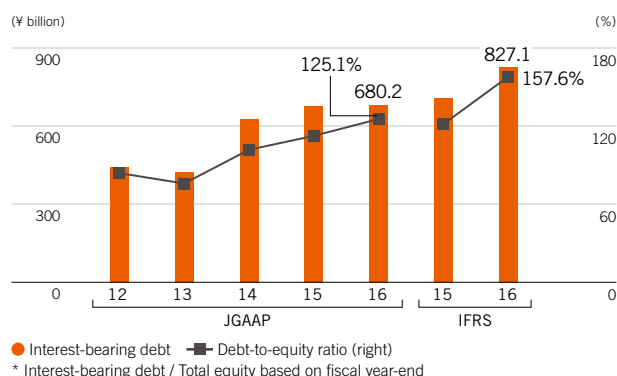
Revenue in the fiscal year ended March 31, 2016, amounted to ¥1,890.5 billion, an increase of 10.8% from the previous fiscal year, supported by good results from our existing overseas businesses, continued renovation demand in Japan, and the revenue contribution from the new consolidation of GROHE as a subsidiary in April 2015.

### Profit (Loss) for the Year Attributable to Owners of the Parent / ROE



The Company incurred a loss for the year attributable to owners of the parent of ¥25.6 billion for the year ended March 31, 2016, owing mainly to the one-time booking of loss on guarantees related to inappropriate accounting practices at Joyou, previously a subsidiary of GROHE.

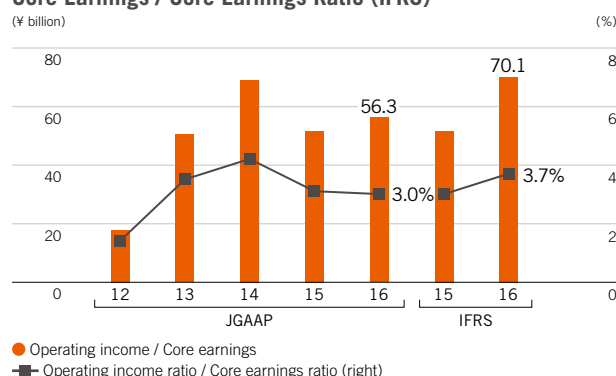
### Interest-Bearing Debt / Debt-to-Equity Ratio\*



\* Interest-bearing debt / Total equity based on fiscal year-end

Interest-bearing debt as of March 31, 2016, was up ¥119.4 billion from the previous fiscal year-end, the result of such factors as increases in current liabilities and long-term lease obligations. The debt-to-equity ratio rose 36.4 percentage points year on year, to 157.6%.

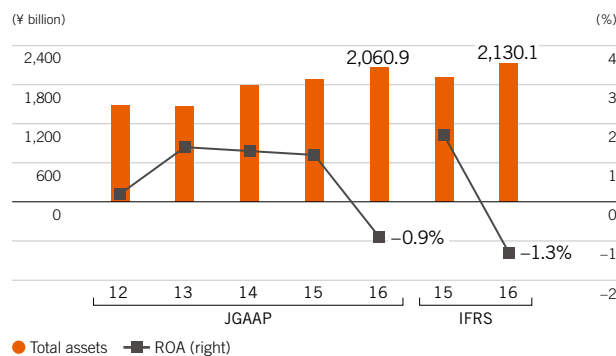
### Operating Income / Operating Income Ratio (JGAAP) Core Earnings / Core Earnings Ratio (IFRS)



Operating income / Core earnings  
Operating income ratio / Core earnings ratio (right)

Core earnings in the fiscal year ended March 31, 2016, increased 35.5% year on year, to ¥70.1 billion, supported by the consolidation of GROHE, despite higher cost of sales and SG&A expenses. The core earnings ratio rose 0.7 percentage points year on year, to 3.7%.

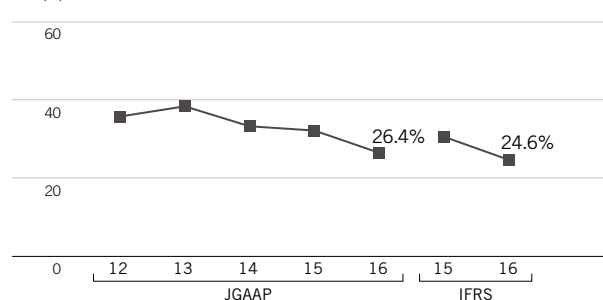
### Total Assets / ROA



Total assets ROA (right)

Total assets as of March 31, 2016, were ¥2,130.1 billion, up 11.2% from the previous fiscal year-end. Despite a decline in current assets, non-current assets rose principally on an increase in goodwill and other intangible assets accompanying the consolidation of GROHE.

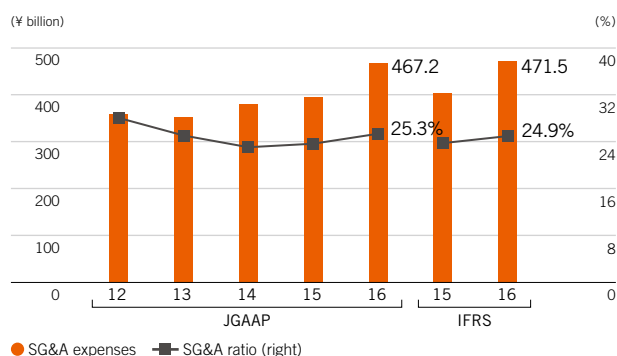
### Equity Ratio (JGAAP) / Ratio of Equity Attributable to Owners of the Parent (IFRS)



The ratio of equity attributable to owners of the parent as of March 31, 2016, was 24.6%, declining 5.9 percentage points year on year accompanying higher interest-bearing debt.

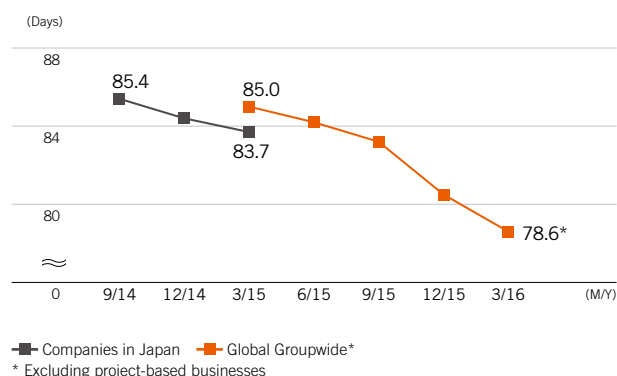


## SG&A Expenses / SG&A Ratio



SG&A expenses increased 16.9% in the fiscal year ended March 31, 2016, and the SG&A ratio rose 1.2 percentage points, to 24.9%, as a result of the higher SG&A ratio of the newly consolidated subsidiary as well as the booking of provisions for doubtful accounts and others at overseas subsidiaries.

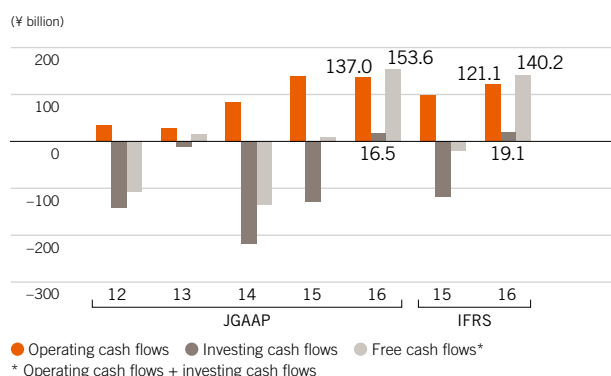
## Cash Conversion Cycle (CCC) (JGAAP)



■ Companies in Japan ■ Global Groupwide\*  
\* Excluding project-based businesses

As the result of accumulated benefits from expanding globally the Cash Conversion Cycle (CCC) Project promoted by Japanese Group companies, the Company has shortened the time required to convert materials purchased into cash through sales to 78.6 days as of March 31, 2016.

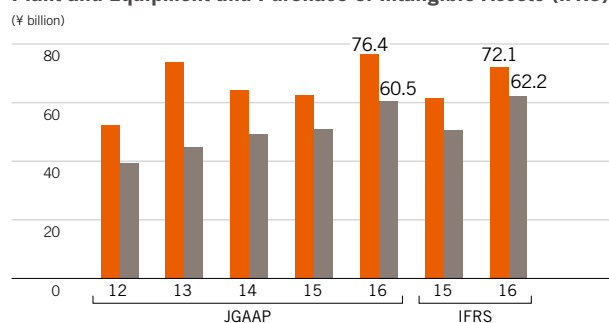
## Cash Flows



● Operating cash flows ● Investing cash flows ● Free cash flows\*  
\* Operating cash flows + investing cash flows

Free cash flow in the fiscal year ended March 31, 2016, rose ¥160.7 billion from the previous fiscal year due to an increase in net cash provided by operating activities, owing partly to the booking of non-cash items, and net cash provided by investing activities.

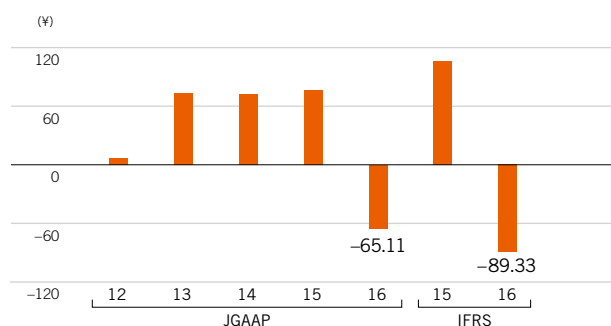
## Capital Expenditures (JGAAP) / Purchase of Property, Plant and Equipment and Purchase of Intangible Assets (IFRS)



● Capital expenditures / Purchase of property, plant and equipment and purchase of intangible assets  
● Depreciation and amortization

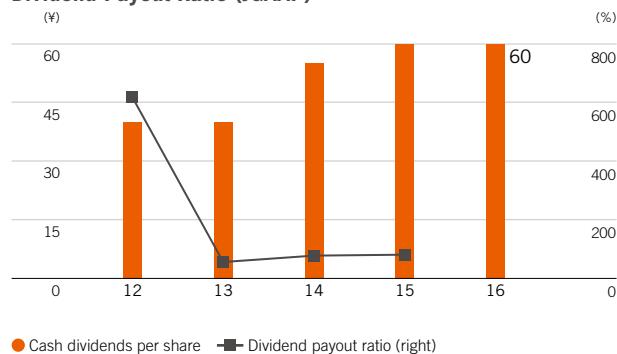
Purchase of property, plant and equipment and purchase of intangible assets amounted to ¥72.1 billion in the fiscal year ended March 31, 2016, as a result of investments in upgrading core IT systems, particularly in LIXIL Housing Technology and LIXIL Water Technology, and investments in expanding, consolidating, maintaining, and upgrading production facilities.

## Earnings per Share (EPS)



Earnings per share, the Company's criterion for determining dividend payments, amounted to loss per share of ¥89.33 in the fiscal year ended March 31, 2016.

## Cash Dividends per Share (JGAAP / IFRS) / Dividend Payout Ratio (JGAAP)



● Cash dividends per share ■ Dividend payout ratio (right)

The Company paid annual dividends of ¥60 per share for the fiscal year ended March 31, 2016, unchanged year on year. The Company's policy is to maintain a dividend payout ratio of at least 30%.

Note: LIXIL Group Corporation has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2016. Figures for the fiscal year ended March 31, 2015, have been restated based on IFRS for comparative purposes. All explanations under each item are with regard to the IFRS-based figures.

## TO LIXIL GROUP STAKEHOLDERS



**Kinya Seto**

Director, Representative Executive Officer,  
President & Chief Executive Officer

# DELIVERING GREATER VALUE WITH A LEANER, FASTER, AND SIMPLER ORGANIZATION

*LIXIL Group Corporation has undergone tremendous change over the past five years. Having been a deeply domestic company back in 2011, LIXIL's operations and corporate culture have since become more global, with a presence in over 150 countries and a diverse team of professionals driving innovation across the businesses.*

## > The LIXIL Group is shifting decisively to the next phase of its evolution with a focus on operational efficiency, enhanced governance, and a more dynamic ‘bottom-up’ culture that embraces entrepreneurial spirit. <

I initially assumed the positions of COO of LIXIL Group Corporation and President and CEO of LIXIL Corporation in January 2016 and subsequently I am honored to have been entrusted with the role of LIXIL Group Corporation President and CEO. I would like to reiterate my thanks to Mr. Fujimori for all of his considerable efforts over the past five years.

Let me share with you some of our efforts and key developments over the past year.

### Overview of the Fiscal Year Ended March 31, 2016

The fiscal year ended March 2016 started in challenging circumstances, as the LIXIL Group discovered accounting irregularities at Joyou, a sanitary ware subsidiary acquired as part of the GROHE transaction, immediately after the consolidation of GROHE. Having addressed the initial financial implications by June 2015, the Company then conducted a comprehensive investigation working with outside experts to identify the root causes of the issue, to determine appropriate legal actions, and to design and implement stringent remedial measures to prevent future occurrences of similar situations. The results of the investigation were made public in November, with remedial actions including measures to strengthen the management of overseas subsidiaries as well as to enhance M&A and post-merger integration processes. We take strengthening corporate governance extremely seriously, and I am pleased to say that key measures scheduled to be implemented within the fiscal year ended March 2016 have been completed as planned.

Leadership change creates an opportunity to reassess the progress of various businesses. The LIXIL Group has begun to shift to more active management of its business portfolio, as our efforts in this area were not sufficient during the period of rapid expansion. The carve-out of the professional-focused retail outlet, Ken Depot, where LIXIL Corporation will continue to hold a 34% shareholding, and the sale of the Shanghai Meite Curtain Wall System business are strategic decisions that will leave the LIXIL Group in a stronger position to move forward.

The focus on enhanced operational efficiency is also reflected in a number of steps the Company has taken to optimize its manufacturing base, such as closing an American Standard factory in Nevada and shifting its production to its factory in Mexico as well as consolidating production among certain factories in Japan. We will take more such steps to optimize our manufacturing footprint in the future as we focus on becoming a leaner, faster, and simpler organization.

It was this emphasis on becoming a leaner organization with stronger governance that prompted our move in March 2016 to simplify the organization structure of LIXIL Water Technology (LWT), our most global business unit and home to brands including GROHE and American Standard. The reorganization, which removed a layer of LWT management to enable more direct oversight of the business and greater regional accountability, is already producing positive outcomes in terms of faster issue response time and enhanced synergies.

For the full year ended March 2016, the LIXIL Group reported an 11% year-on-year growth in net sales under International Financial Reporting Standards (IFRS) at ¥1,890.5 billion, which was supported by factors including the full benefit of GROHE consolidation and recovery from the negative effects of the consumption tax increase implemented in the previous fiscal year. Our core earnings under IFRS grew 35% year on year, with a core earnings ratio of 4% because of the benefit of GROHE consolidation and other factors. However, our core earnings were also impacted by a number of one-off items, including losses related to guarantee obligations regarding Joyou and a shortfall for the LIXIL Building Technology (LBT) overseas business caused by a deterioration of market conditions in China and the Middle East. As a result, we reported a loss for the year attributable to owners of the parent of ¥25.6 billion.



## TO LIXIL GROUP STAKEHOLDERS

### Getting the Basics Right

To determine the right path to a successful future, it is essential that we first analyze in a frank and open manner where we are today, including admitting past mistakes and lessons we have learned from them.

If we assess where LIXIL currently stands regarding its strategy to integrate and build “One LIXIL” in Japan, I believe we see a mixed scorecard. Integration activities remain incomplete, with some duplicated functions still in place and, in some cases, new departments or functions have been created, generating bureaucracy and increased headquarters costs. The “total solutions” sales and marketing strategy is a strong proposition for end users, but overall the strategy has not been working as expected. One important achievement, however, is the clear shift employees have made to a “One LIXIL” corporate culture and internal mindset in Japan. This will provide us with an important foundation as we look to build for the future.

The success of our globalization strategy has been equally mixed. The acquisitions of the GROHE and American Standard businesses have enabled LIXIL to establish a strong global portfolio for water technology. Early examples of technology transfer—such as the *Smart Control* shower and *Sensia Arena* Spalet—underscore the significant potential for value creation. However, the speed of globalization activities, coupled with insufficient planning and effective post-merger integration (PMI) activities, has resulted in additional layers of control and unnecessary costs and losses.

Our ability to succeed and take full advantage of LIXIL's global assets will depend on our ability to succeed as a manufacturer, which is where our core competencies as a company lie. Innovation happens across many fields. But only the manufacturer can develop and truly make breakthrough product innovations that we know people around the world depend on for their comfort, convenience, and pleasure of their living spaces. We need to make sure we get the basics right, such as maximizing

synergies, strengthening compliance, and becoming a simpler, more nimble organization, to achieve the growth we are aiming for and deliver the long-term value our shareholders expect. I am confident that sustained value creation for LIXIL will only come by refocusing on the core of who we are as a manufacturer—from the right mindset to the right business strategies—and executing with operational excellence.

Ultimately, what I want to achieve at LIXIL is simple, which is to create an environment for the long term where our employees enjoy their work and feel proud about what we do as a company. If our employees can take great pride in their jobs and feel strongly motivated about their work, then other benefits and gains will very quickly follow. Employees who enjoy coming to work and who enjoy a culture of respect, trust, and friendship within LIXIL will naturally be in a stronger position to contribute to our customers, consumers, business partners, and the community.

### Starting with Japan

Japan is LIXIL's most important market, where we provide a wide range of housing equipment and building materials. In addition to the comprehensive business operations, our technologies and expertise accumulated in the Japanese market benefit the global business expansion and serve as the driver of innovation. We must clearly understand the needs of our customers and consumers and apply our expertise and capabilities as a manufacturer to better serve these needs. This cannot be truer than for our business in Japan, where LIXIL faces a number of unique but critical challenges, such as the aging population.

For example, by focusing too much on our core distributors as customers, we risk accelerated commoditization of our products. In addition to maintaining strong relationships with business customers, who remain a critical partner to LIXIL, we need to become more end user or consumer focused in our approach to the market. A lack of communication with Japanese consumers as well as with contractors and installers, who are

### Financial Results, Forecasts, and Targets

		(¥ billion)		
		2016 results	2017 forecasts	2018 targets
Revenue		1,890.5	1,880	2,000
Core earnings		70.1	73	>100
	Core earnings ratio (%)	3.7	4	>5
Operating profit		39.0	56	—
	Operating profit ratio (%)	2.1	3	—
Profit (Loss) before tax		(7.1)	51	—
Profit (Loss) for the year attributable to owners of the parent		(25.6)	28	—
EPS (¥)		(89.33)	98	200
EBITDA		132.3	138	—
	EBITDA ratio (%)	7.0	7	—
ROE (%)		(4.6)	5	>8
Ratio of equity attributable to owners of the parent (%)		24.6	25	—

key influencers of consumer purchasing decisions, means that we often fail to demonstrate the unique value of our products. Also, while LIXIL offers an impressive and most comprehensive range of products across its portfolio, our product categories have evolved in a way that is not always clearly aligned, which again results in a failure to demonstrate a strong value proposition to consumers.

To better leverage LIXIL's core strengths as a manufacturer, we must bring a more consistent focus to our activities. This begins with a full integration of the life cycle of the product—from research and development to manufacturing and through marketing and sales, while incorporating feedback regularly from customers and consumers back into the R&D process. To support these sales and marketing efforts, and to drive more engagement with consumers, we must also place a stronger emphasis on developing LIXIL equity in Japan as both a consumer and product brand.

### Renovation Remains an Important Priority

The renovation market in Japan is one area where efforts to build consumer brand equity and engage with consumers are especially important. A variety of factors including the aging population and a preference for aging-in-place, as well as improved awareness of energy efficiency in homes, indicate strong growth potential for the market for renovation products and home renovation in Japan. We are optimistic about the market's potential, while recognizing that structural obstacles to growth remain, including a shortage of skilled contractors and installers. In the fiscal year ended March 2016, sales of LIXIL renovation products in Japan rose 9% year on year to reach ¥304.3 billion.\* This now represents 35% of LIXIL Japan Company (LJC) sales, up from 32% in the previous fiscal year. This renovation sales increase is partly because a pullback in demand following the consumption tax increase in the previous fiscal year is easing. In order to accelerate growth, the LIXIL Group has been tackling structural issues in Japan, such as the lack of skilled contractors and installers.

Between April and July 2016, we held a series of major LIXIL Reform Fair events in major cities such as Tokyo, Osaka, and Nagoya. These events, which attracted an impressive number of visitors, well exceeding our target, enabled us to demonstrate the full range of home remodeling products to local consumers, including LIXIL's growing range of "One-Day Reform" products focused on easy installation, such as doors, windows, exteriors, and bathroom fittings. Broadening our lineup of products with a focus on quick and simple installation will be important to help facilitate further growth of the renovation market itself, as this will reduce the challenges posed by the supply shortage of installers in the market.

\* Figures are based on JGAAP.

### Driving Synergies to Maximize Value

In Japan and across the LIXIL Group globally, our focus will now be to enhance value from existing business assets by strengthening PMI and promoting synergies. There is significant additional value to be generated by improving manufacturing and operational efficiencies, establishing global platforms, and aligning more effectively in such areas as technology, research, and marketing. A Chief Integration Officer is now in place to play a key role in this process.

For example, at LWT, our key priorities for the fiscal year ending March 2017 include developing a strong supply chain to support the introduction of ceramics sales in Europe under the GROHE brand, leveraging LIXIL's expertise in Japan. The global rollout of Spalets also continues to gather pace, combining leading technology and know-how from LIXIL in Japan with local design, functionality, distribution, and marketing expertise under GROHE and DXV by American Standard in local markets in Europe and North America, respectively. In addition, we will develop and introduce new products to shore up our faucets business in the United States and Japan, building on existing expertise under the American Standard, GROHE, and LIXIL brands. The faucets segment is one where we have recently brought some breakthrough innovations to market, such as 3D printed faucets from DXV by American Standard. We must now bring more such new products to the market to strengthen our position in this important segment.

### A Leaner, Faster, and Simpler Organization

As we shift to a new stage of the LIXIL Group's evolution, an immediate goal—and one we are already implementing on—is to improve overall management efficiency, such as through reduced headquarters costs and tighter fiscal discipline. This in turn will create a platform for us to similarly improve operational efficiencies across the LIXIL Group.

By taking the types of measures that I have mentioned to create a leaner, faster, and simpler organization, we are ensuring that the LIXIL Group is in a stronger position to respond more quickly to changing consumer needs and emerging opportunities around the world. At the same time, we are creating an organization with improved management oversight and stronger compliance and governance, leaving us much more equipped to meet today's complex global regulatory and market environments. It is a LIXIL that is positioned to deliver value, in both the short term and the long term.

August 2016

瀬戸 欣哉

Kinya Seto

Director, Representative Executive Officer,  
President & Chief Executive Officer

## EXECUTIVE OFFICERS

(As of June 15, 2016)



(Back row, from left)  
Laurence William Bates, Sachio Matsumoto, Kinya Seto,  
Hwa Jin Song Montesano, Toshimasa Iue  
(Front row, from left)  
Haruo Shirai, Ryuichi Kawamoto, Yosuke Yagi



## Kinya Seto

Representative Executive Officer  
President & Chief Executive Officer

Kinya Seto has been serving as Director, Representative Executive Officer, President & Chief Executive Officer (CEO) of the Company since June 2016. He also has been serving as President and CEO of subsidiary, LIXIL Corporation, since January 2016 and as CEO of LIXIL Water Technology since March 2016. In addition, he serves as Chairman and Director of MonotaRO Co., Ltd. Prior to joining the Group, and apart from MonotaRO, his various roles included CEO of GWW UK Online Ltd (now Razor Occam, Ltd), Senior Vice President of W.W. Grainger, Inc., President of K-engine Corp., and Non-Executive Director of Zoro Tools, Inc. He began his career at Sumitomo Corporation in 1983.

## Ryuichi Kawamoto

Representative Executive Officer  
Executive Vice President

Ryuichi Kawamoto has been serving as Representative Executive Officer and Executive Vice President of the Company since June 2012, with responsibility for technology, quality, and manufacturing environment, and was appointed Director of the Company in June 2016. He is also serving as Director, Senior Executive Vice President, and Chief Technology Officer at subsidiary, LIXIL Corporation, and as Chief Manufacturing Optimization Officer of LIXIL Water Technology. He joined INAX Corporation (now LIXIL Corporation) in 1976. He holds 16 thousand shares of the Company.

## Yosuke Yagi

Executive Officer and Executive Vice President

Yosuke Yagi has been serving as Executive Vice President of the Company since April 2012, taking responsibility for human resources and general affairs in April 2014. He is also serving as Director, Executive Vice President, and Chief Human Resources Officer (CHRO) at subsidiary, LIXIL Corporation, and as CHRO of LIXIL Water Technology. 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 2002 and leading all General Electric Company (GE)'s 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. He holds 5 thousand shares of the Company.

## Sachio Matsumoto

Executive Officer and Executive Vice President

Sachio Matsumoto has been serving as Executive Vice President of the Company since April 2015, taking responsibility for finance, treasury, and M&A in June 2016, and as Chief Financial Officer (CFO) of the Company since June 2013. He is also serving as Director, Executive Vice President, and CFO at subsidiary, LIXIL Corporation, and as CFO of LIXIL Water Technology. Prior to joining the Group, he was Corporate Vice President and Head of Finance and Treasury in Fuji Xerox Co., Ltd. He holds 20 thousand shares of the Company.

## Toshimasa Iue

Executive Officer and Executive Vice President

Toshimasa Iue was appointed Executive Vice President of the Company in June 2016, with responsibility for the housing materials business. He is also serving as Director and Executive Vice President at subsidiary, LIXIL Corporation, and as CEO of LIXIL Housing Technology. Prior to joining the Group in 2009, he held senior positions in SANYO Electric Co., Ltd. He joined SANYO Electric in 1989 and was President from June 2005 until he became Director of SANYO Electric in April 2007. He holds 10 thousand shares of the Company.

## Haruo Shirai

Executive Officer and Executive Vice President

Haruo Shirai was appointed Executive Vice President of the Company in June 2016, with responsibility for domestic sales. He is also serving as Director, Executive Vice President, and Operating Officer at subsidiary, LIXIL Corporation, and as CEO of LIXIL Japan Company. He joined the Company in 1974.

## Laurence William Bates

Executive Officer and Senior Managing Director

Laurence William Bates has been serving as Executive Officer and Senior Managing Director of the Company since July 2014, with responsibility for legal functions. He is also serving as Director, Senior Managing Director and Operating Officer, and Chief Legal Officer (CLO) at subsidiary, LIXIL Corporation, and as CLO of LIXIL Water Technology. Prior to joining the Group, he worked for 22 years at General Electric Company (GE) in the United States. 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 and Paul, Weiss, Rifkind, Wharton & Garrison. He holds 6 hundred shares of the Company.

## Hwa Jin Song Montesano

Executive Officer and Senior Managing Director

Hwa Jin Song Montesano has been serving as Executive Officer and Senior Managing Director of the Company since November 2014, taking responsibility for public affairs, investor relations, external affairs, and corporate responsibility in June 2016. She is also serving as Director, Senior Managing Director and Operating Officer, and Chief Public Affairs Officer (CPAO) at subsidiary, LIXIL Corporation, and as CPAO of LIXIL Water Technology. Prior to joining the Group, she held various senior positions, including Vice President, Global Public Affairs in GSK Vaccines; Vice President, Corporate & Government Affairs, Asia Pacific in Kraft Foods; Vice President, Communications, Asia Region in GE Money; and Corporate & Government Affairs Director, Asia Pacific in GlaxoSmithKline plc.

## REPORT FROM THE CFO



› We have put in place the business foundations for growth. Now, we are aiming for sustainable corporate value creation through financial management across the entire Group with a clear focus on reinforcing earnings power. ‹

Sachio Matsumoto

Executive Officer and Executive Vice President  
Finance, Treasury, M&A and CFO

### Overview of the Fiscal Year Ended March 2016

LIXIL Group Corporation's consolidated revenue and core earnings\* increased in the fiscal year ended March 2016, with growth driven by increased sales in the renovation business in Japan as well as overseas business expansion underpinned by recovery at American Standard Brands and the contribution of GROHE Group S.à r.l., which became a consolidated subsidiary on April 1, 2015. Under International Financial Reporting Standards (IFRS), which we adopted from the fiscal year ended March 2016, revenue increased 10.8% year on year, gross profit increased 19.0%, and core earnings, which corresponds to operating income under accounting principles generally accepted in Japan (JGAAP), increased 35.5%, indicating a solid overall business performance.

However, operating profit under IFRS declined 18.8% year on year. This decrease was due mainly to the booking of one-time charges. Items booked as other expenses included impairment losses on fixed assets, loss on sales of shares in subsidiaries and associates, valuation losses on equity holdings, and costs incurred due to investigating the inappropriate accounting practices at Joyou AG, previously a subsidiary of GROHE.

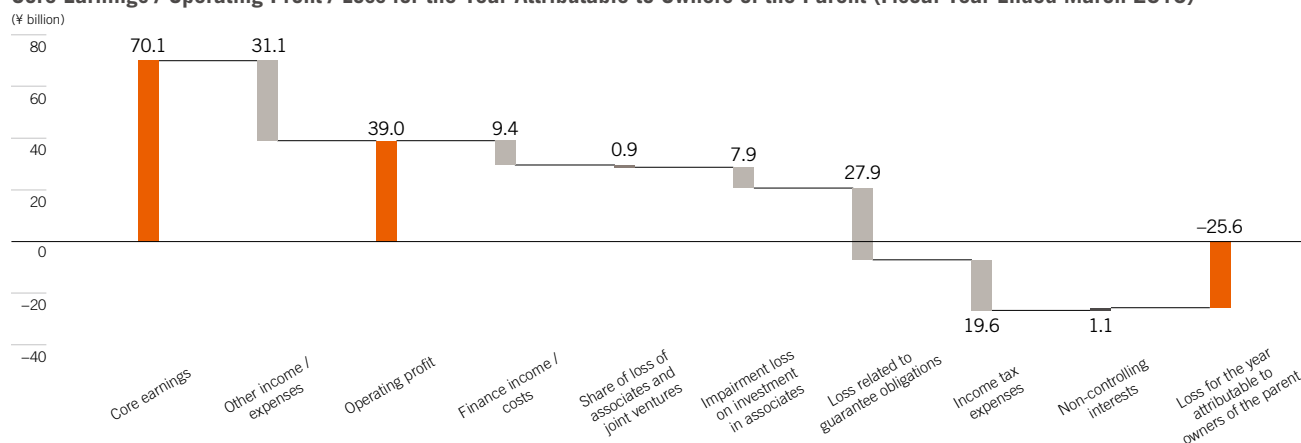
In addition, we booked allowances for losses (¥27.9 billion) on guarantees with respect to the liabilities of Joyou and asset impairment losses on investments in affiliated companies corresponding to the value of Joyou shares (¥7.9 billion) held indirectly by GROHE. As a result, LIXIL Group Corporation incurred a loss for the year attributable to owners of the parent of ¥25.6 billion.

\* Core earnings = Revenue – Cost of Sales – SG&A expenses

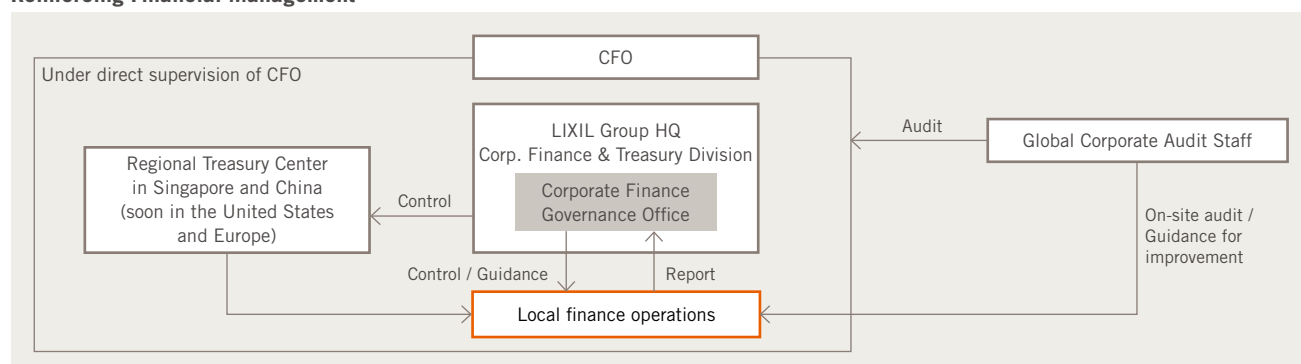
### Fiscal Year Ending March 2017: Preparing for Sustained Growth

Regretfully, having posted a loss for the year, we failed to meet the expectations of shareholders and other investors. However, we did what we needed to do to put the Joyou issue behind us in the fiscal year ended March 2016, and we have begun the fiscal year ending March 2017 free of concerns over incurring additional losses. With growth in our renovation business in Japan—a strategic priority—and in our overseas operations centering on LIXIL Water Technology beginning to show returns in hard numbers, I believe we have successfully laid the foundations for sustained growth and value creation from here on.

### Core Earnings / Operating Profit / Loss for the Year Attributable to Owners of the Parent (Fiscal Year Ended March 2016)



## Reinforcing Financial Management



Regarding our guidance for the fiscal year ending March 2017, some investors have suggested that our forecasts are conservative. I would emphasize, however, that we are confident in achieving growth—as evident in our staying with the targets for revenue and core earnings for the fiscal year ending March 2018 we set out in our Medium-Term Business Strategy announced in September 2015—and that the reason we have taken a slightly cautious stance on our guidance for the fiscal year ending March 2017 is because we believe we must prepare the ground to ensure growth over the medium term. For example, in raising the proportion of new products in our sales mix, which is one of the measures by which we seek to improve profitability, we aim to lower new product development costs and reduce development cycle times by building out the global platform we have already begun to put in place. We intend to make investments that are essential to enhancing our earnings power, maximizing synergies, and realizing sustainable growth.

### Recurrence Prevention Measures with Respect to the Joyou Issue

In light of the Joyou incident and losses on investments in affiliated companies, we not only addressed the issues at hand but have also implemented thorough organizational reforms to ensure the accuracy of the Group's financial statements. Specifically, we have established the Corporate Finance Governance Office under my direct supervision to oversee strengthened J-SOX compliance at all subsidiaries and the management of subsidiaries where there is evidence of deterioration in earnings, asset quality, or cash flow. Along with the Legal Department at headquarters, we have also been revising accounting and financial regulatory standards, and in cooperation with the newly established Global Corporate Audit Staff (see page 55), we have been conducting a greater number of on-site audits and providing specific guidance on improvements.

These measures to reinforce governance allow us to better manage risks through the appropriate audit of Group

companies. Moreover, I believe we have put in place a structure that enables financial management supporting a proactive approach to strengthening cash control and improving funding operational efficiency and, by extension, makes more efficient the management of the Group. The Regional Treasury Centers (RTC) we established as headquarters function in Singapore and China, also to be established in the United States and Europe, will play a leading role in optimizing the use of cash across the boundaries of the operating companies. This moves us toward more forex-neutral operations and optimization in cash usage across the Group as a whole.

### Building the Bedrock of Corporate Value Creation

LIXIL Group Corporation as it stands needs to significantly improve its financial stability and asset efficiency. My priority this fiscal year is to expand core earnings and generate cash flow through improved management efficiency.

In terms of improving profitability, we have already made progress toward optimizing production bases. With regard to improving management efficiency, we need to further streamline headquarters costs that have expanded with M&A transactions both in Japan and overseas, and now need to be reconciled. We took a major step to address this issue in July 2016 when we shifted to a new simplified and more performance-based executive management system that eliminated a large number of executive management positions and put remaining executives on annual contracts with renewal based on performance.

In optimizing production bases and streamlining headquarters operations, we are not aiming for short-term cost savings, but rather to build internal momentum to become a more efficient and effective organization that makes business decisions more quickly and accurately. While expanding revenue and core earnings, I am determined to do all I can to build the organization and structures to provide the bedrock for sustainable corporate value creation over the longer term.



## THE LIXIL GROUP: ESSENTIALS

# EVOLUTION INTO A GLOBAL GROUP

## STAGE 1

April 2011 to March 2013

### One LIXIL: Establishing a foundation for integration in Japan

LIXIL was born out of the merger of five companies in 2011. Through that integration, we established powerful management foundations by optimizing business synergies and opened the way to delivering a comprehensive product lineup covering all aspects of the living space.

2013

## STAGE 2

April 2013 to March 2015

### Establishing a foundation for global growth

Over the past five years, we have achieved rapid globalization across all our businesses. We have created brands recognized throughout the world. We have reinforced our sales network. We have brought together sophisticated design and leading-edge technology. And we have put in place a new operating model to create value from the assets we have acquired.

## Key M&A Deals

TOSTEM

INAX

Shin Nikkei

SUN WAVE

Toyo Exterior

**LIXIL**

LIXIL Corporation  
(2011)

*American  
Standard*

**American Standard Asia Pacific  
(ASAP) (2009)**

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



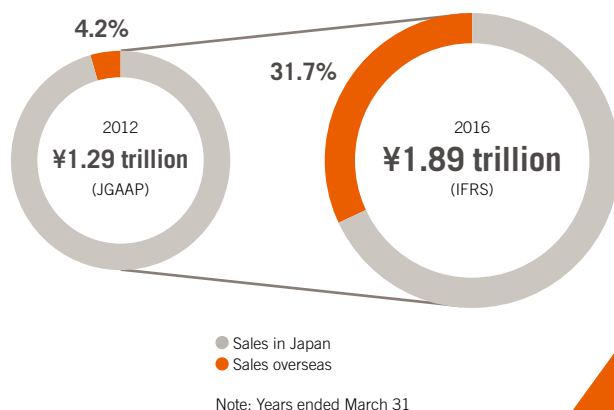
*The LIXIL Group is now the most comprehensive and connected company in the global housing and building industry. Our focus now is on recapturing the core of the manufacturer's mindset, which will be enabled by building a leaner, faster, and simpler organization.*

## STAGE 3

From April 2015

# Recapturing the core of the manufacturer's mindset

At LIXIL's core, we are a manufacturer. With leading global brands across all major markets, it is critical that we retain our focus on the skills that are core to the manufacturer's mindset to ensure we continue to deliver innovations and quality to meet consumer needs.



2014

2015

2016



### Permasteelisa (2011)

A global leader in the curtain wall and interior systems market, Permasteelisa has demonstrated cutting-edge engineering capabilities in many high-profile construction projects.



©Wade Zimmerman



### American Standard Brands (ASB) (2013)

ASB boasts unequalled brand recognition built over more than 140 years and a powerful marketing network.



### GROHE (2014)

Bringing together functionality and elegant designs, GROHE's sanitary fittings and showerheads have earned a peerless reputation in the premium market.



## THE LIXIL GROUP: ESSENTIALS



# A COMMANDING POSITION ACROSS GLOBAL MARKETS

LIXIL now operates as a truly global company, with leading global brands and an industry-leading operating footprint that enables us to design, develop, manufacture, and market products in local markets to meet unique local needs.

## Revenue and Core Earnings

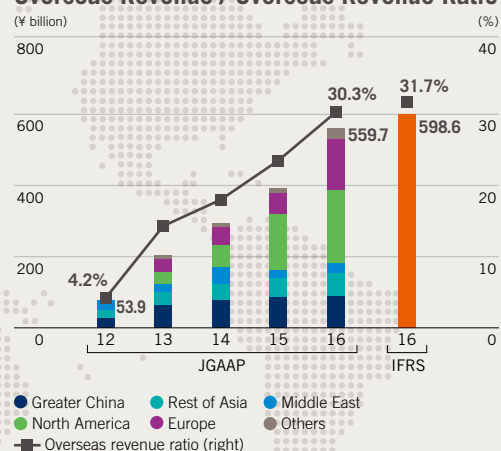
Revenue (Year ended March 2016)

¥1,890.5 billion\*1

Core Earnings (Year ended March 2016)

¥70.1 billion\*1

Overseas Revenue / Overseas Revenue Ratio



## Global Sales and Manufacturing Footprint\*2

Global Number of Sales Offices

150+

LIXIL

Countries with Manufacturing Footprint

16

LIXIL

Global Number of Plants

93

LIXIL

\*1 IFRS

\*2 Based on internal estimates and publicly available disclosed material from peers



Since the fiscal year ended March 2012, the ratio of the LIXIL Group's sales coming from outside Japan has grown from 4% to now over 30%. With some of the most trusted brands in our industry, including GROHE, American Standard, Permasteelisa, INAX, and LIXIL itself in Japan, we have now established leading positions in key product categories and across major global markets. With an industry-leading global footprint, we are now positioned to drive further efficiency, synergies, and innovation to further enhance value.

#### Plumbing-related products

**Global market**  
**No. 1**



#### Sanitary ware

**North American market**  
**No. 1**



#### Water faucets

**Global market**  
**No. 1**



#### Curtain walls

**Global market**  
**No. 1**



©Wade Zimmerman

#### Housing window sashes

**Japanese market**  
**No. 1**



#### Kitchen systems

**Japanese market**  
**No. 1**



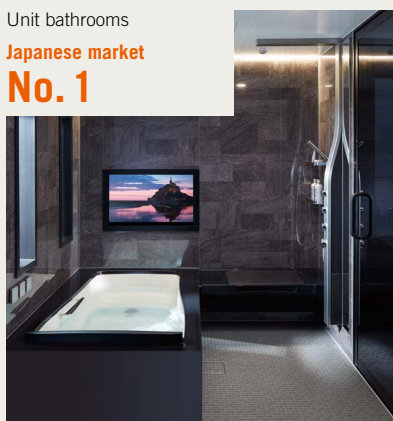
#### Entrance doors

**Japanese market**  
**No. 1**



#### Unit bathrooms

**Japanese market**  
**No. 1**



#### Exteriors

**Japanese market**  
**No. 1**



## THE LIXIL GROUP: ESSENTIALS



## EXPANDING THE JAPANESE HOME RENOVATION BUSINESS

*Japan remains the LIXIL Group's most important single market, accounting for approximately 70% of the Group's total sales in fiscal 2015. The home renovation business in Japan has been steadily expanding, with sales in fiscal 2015 rising 9% year on year. We are promoting further business expansion by broadening our lineup of products, with a focus on simple and quick installation, while also reinforcing sales and distribution structures.*

### Competitive Advantage with a Nationwide Distribution Network

In Japan, the total housing stock exceeds the total number of households\*<sup>1</sup> by more than 15%. Reflecting this situation, the main focus of the Japanese government's housing policy has shifted in recent years, from the construction of new homes to ensuring effective use of existing properties. The market is showing consistent levels of demand for home renovations to improve fundamental aspects of housing performance, such as durability, seismic resistance, and energy saving. In addition, demand for lifestyle-oriented renovation is growing, driven by changes to the family structure and the aging population.

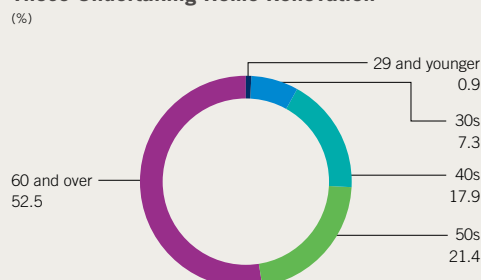
According to a survey conducted by Yano Research Institute, the Japanese home renovation market is expected to expand to approximately ¥7.4 trillion in 2025, up from ¥6.6 trillion in 2015.\*<sup>2</sup> With new housing starts settled into a long-term downward trend, various businesses have been entering the renovation market, from major real estate developers to local building contractors.

In this competitive landscape, LIXIL Japan Company (LJC) has a powerful competitive edge. According to Kazutoshi Taguchi, LJC's General Manager, Renovation Promotion Division, "We have an industry-leading, nationwide agency network, with a Reform Shop franchise chain of 480 outlets and a voluntary network of approximately 12,500 homebuilders\*<sup>3</sup> as well as extensive distribution channels to deliver products."

Why are LJC's distribution channels and networks so important? As Mr. Taguchi puts it, the contractors and installers in the middle are critical to the renovation business. As he says, "The key players in cultivating renovation demand are the contractors and renovation specialists with in-depth local knowledge who talk to customers individually to understand their needs."

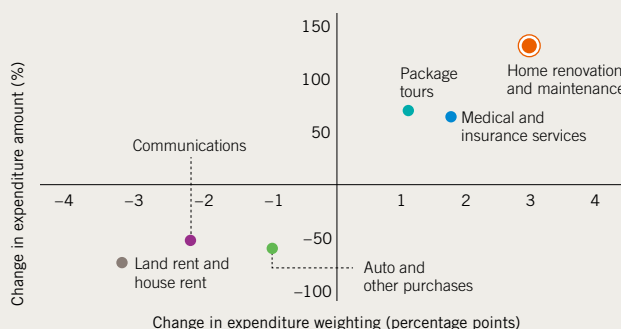
Mr. Taguchi further notes that dealers in housing construction materials at the wholesale level also play a vital role due to their strong relationships with local contractors and the dealers' role in delivering products to the work sites of those contractors. He points out that LIXIL is steadily strengthening its cooperation and ties with such local business partners as it targets the growing home renovation market.

### Age of Head of Household of Those Undertaking Home Renovation



Source: Ministry of Land, Infrastructure, Transport and Tourism, Report on Housing Market Trend Survey (2016)

### Change in Makeup of Spending by People Aged 60 and Over



Source: Prepared by UBS Securities Japan Co., Ltd., based on Annual Report on Survey of Household Economy 2010-2012, Statistics Bureau, Ministry of Internal Affairs and Communications

### Just-in-Time Delivery of Renovation Materials

business than with new-build construction, “With renovation, the work often takes place while owners are living in their homes, so schedules must be managed precisely and the work completed in the shortest possible time.” He says that it is also often not possible to secure sufficient space to keep construction materials until they are needed, meaning that fine-tuned distribution capabilities are required to supply

Mr. Taguchi emphasizes that distribution channels are even more crucial to the renovation

contractors with the materials they need when they need them, even down to a single nut or bolt. That, as he describes it, “Requires a completely different approach to distribution; one that is based on the efficient sale of large volumes of individual products. LJC aims to encourage dealers and distributors to look again at what contractors really need in their renovation work, and to offer the kind of just-in-time delivery that has become a hallmark of the auto industry through the networks they have built. Through these efforts, we are together leading the way in supply chain innovation.”



**“With dealers and distributors,  
we are leading the way  
in supply chain innovation.”**

### Comprehensive Strengths as a ‘Living Technology’ Company

LIXIL has taken a clear lead over rival manufacturers. Thanks to its ability to provide comprehensive and coordinated product solutions for the entire home, LIXIL is able to offer an extensive lineup of products that spans plumbing fixtures, including toilets, kitchens, and bathrooms, windows and doors, and materials for insulation and seismic resistance. We have achieved steady business growth by developing products for the renovation market and by consistently investing management resources to develop engagement with potential customers. These efforts include adding more sales staff and holding LIXIL Reform Fair events throughout leading cities in Japan to showcase renovation possibilities.

Mr. Taguchi says he hopes to see the reform business tap resources available within the Group even further. As he puts it,

LIXIL has taken a clear lead over rival manufacturers. Thanks to its ability to provide comprehensive and coordinated product solutions for the entire home, LIXIL is able to offer an extensive lineup of products that spans plumbing fixtures, including toilets, kitchens, and bathrooms, windows and doors, and materials for insulation and seismic resistance. We have achieved steady business growth by developing products for the renovation market and by consistently investing management resources to develop engagement with potential customers. These efforts include adding more sales staff and holding LIXIL Reform Fair events throughout leading cities in Japan to showcase renovation possibilities.

“We are establishing a business model able to achieve sustained earnings growth by applying our strengths as a one-stop shop for diverse housing-related services, including performance evaluation, finance, defects warranty liability insurance, and ground inspection. We are also differentiated by our ability to utilize the intellectual property within the Group for the development of innovative products and installation methods.”



Broadening contact points with end users is also a priority.

\*1 Ministry of Internal Affairs and Communications, *Housing and Land Survey 2013* (2015)

\*2 Yano Research Institute, *Home Renovation Market in Japan: Key Research Findings 2015*

\*3 As of March 2016



## THE LIXIL GROUP: ESSENTIALS



# STRENGTHENING SUPPLY CHAIN MANAGEMENT

*Through global M&A activities, the LIXIL Group acquired various businesses and supply chain assets in a short period of time. To maximize synergies following the integration of the acquired companies, along with the individual functions such as development, purchasing, production, logistics, and sales, we have examined our entire supply chain and made some fundamental revisions.*

### Focus on Generating Synergies *within* the Technology Businesses

The LIXIL Group's efforts to drive synergies are centered on the Group's four technology businesses. The most global of these businesses is LIXIL Water Technology (LWT), which holds leading positions in major markets in Asia, North America, and Europe, providing sanitary ware, bathrooms, water faucets, and a wide range of other bath and kitchen products through a multi-channel sales structure under well-known global brands, including GROHE, American Standard, and INAX. Because LWT has such extensive business operations, there is particularly large potential to realize synergies through effective supply chain management (SCM), which covers all processes from product development to procurement of parts and materials, production, transport, and sales. We are currently working to create a globally flexible manufacturing structure that takes into account various factors, including production capacity at factories worldwide, lead time required for commercialization, and material procurement, and considers which products are best made where.

### Shared Best Practices Enhance Productivity

In the fiscal year ended March 2016, Global Supply Chain Director for LWT Hirohisa

Egashira asserted that, "We began our global SCM program from the standpoint of fostering on-site capabilities to enhance our competitive advantage globally, not just 'quick hits' for short-term benefit. In this regard, the sharing of technology and expertise is already producing visible results." One specific example is the Center of Excellence program, where the sharing of best practices across the network internationally has resulted in enhanced productivity.

At LIXIL's main Japanese factory for sanitary ware, processes are continually strengthened utilizing a bottom-up, product-oriented approach inspired by the Toyota production system, achieving significantly improved productivity compared to overseas factories. To enhance on-site capabilities at overseas plants, in September 2014 we sent an engineer to the American Standard Brands (ASB) factory in Mexico to provide technical guidance. "It's not as if productivity suddenly increased overnight just because we sent a single engineer. Our aim was to revise the way day-to-day operations were managed and change on-site thinking," says Mr. Egashira, explaining the significance. "For example, for management indicators we questioned the reasons and principles behind what each indicator purports to measure, and we modified them accordingly to refine process management." Because of the technical guidance from Japan and continuous process improvement, the primary yield<sup>\*\*4</sup> at ASB's Mexican factory was enhanced by about 25% from 2014 to 2016, generating approximately ¥300 million in cost reductions. There are many similar opportunities to realize synergies by utilizing knowledge and resources already present *within* the Group and multiple projects already under way with the potential to improve the profitability of LWT's overall business.



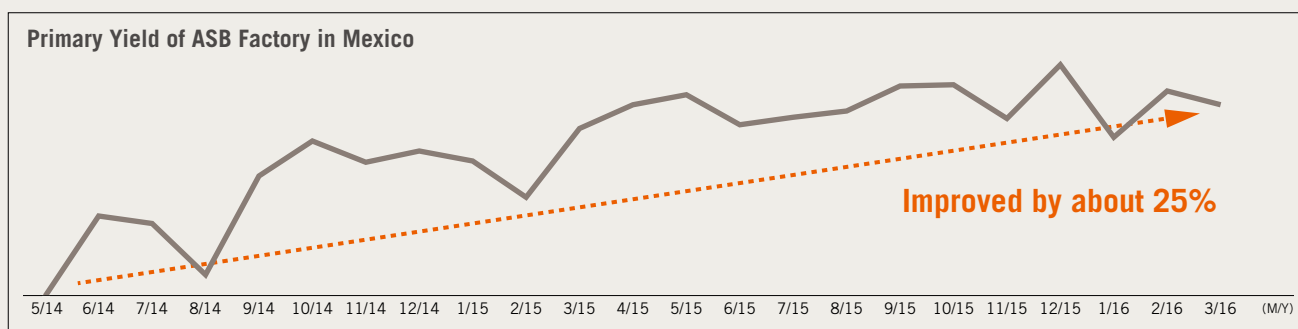
The adoption of best practices leads to enhanced productivity.





**“Sharing of technology and expertise is already producing visible results.”**

A Japanese engineer has been working closely with colleagues in Mexico.



### SCM Strategically Utilizing Business Scale and Assets

In April 2016, LIXIL Group Representative Executive Officer and Executive Vice President Ryuichi Kawamoto assumed the position of Chief Manufacturing Optimization Officer of LWT, accelerating the optimization of SCM by making strategic use of LWT's business scale and resources. "The challenge for us is how to effectively utilize global assets for product development, manufacturing, logistics, and sales acquired through M&A to maximize productivity," exerts Mr. Egashira.

There are a broad range of opportunities to generate synergies, including using common parts and materials, enhancing logistics efficiency by consolidating marine cargo from each business company, and using ITC to achieve more sophisticated SCM. Raising productivity utilizing existing assets is also an issue for LIXIL's housing, building, and kitchen businesses. LIXIL Group CFO Sachio Matsumoto asserts that by maximizing synergies within each of the technology businesses, the entire LIXIL Group should be able to achieve the majority of potential synergies.

\*4 The primary yield refers to the percentage of the products that meet quality standards in the ceramic firing process.

## THE LIXIL GROUP: ESSENTIALS



# GLOBAL BUSINESS DEVELOPMENT FOR SPALETS

*The first bidet toilet in Japan was developed and sold in 1967 by Ina Seito Co., Ltd., one of the legacy companies that formed the LIXIL Group. For nearly 50 years since, we have continued to pursue innovation in Spalets and the expansion of sales worldwide.*

### Cultivating the Human Assets to Support Local Production

Spalets and other types of warm water bidet toilet seats are used in more than 80% of Japanese homes.<sup>\*5</sup> Use of these toilets has also spread in South Korea in recent years, while in China, unit sales growth is estimated to be in the double digits, centered on major cities. Globally, the market is worth US\$3.2 billion and is growing at 8% annually driven by the increase in demand outside Japan. Takeshi Teramoto, General Manager in charge of supply chain management at LIXIL Water Technology (LWT), sees this as a huge opportunity for the LIXIL Group, which has a production plant for Spalets in China. “The Chinese factory was originally established to make exports for Japan, but it is now a supply center for highly cost-competitive products that allows us to compete in the local market,” he says.

Spalets and other types of warm water bidet toilet seats are used in more than 80% of Japanese homes.<sup>\*5</sup> Use

Manufacturing and selling high-quality products with advanced Japanese technology at a competitive price point in China requires more than just investment in facilities. Strengthening the structures for human resource development and other types of soft skills is also important. “In terms of both quality assurance and enhanced cost competitiveness, building relationships with local suppliers is key,” says Mr. Teramoto. “Choosing reliable suppliers and training local personnel able to accurately manage quality and cost negotiations and controls is the foundation for our business expansion in China.” In this way, LWT has put in place a structure to expand sales of Spalets and proactively launch new products that meet the needs in the Chinese market.

### Introducing Spalets to the European Market

Along with expanding sales in China, LWT has taken a bold next step with the launch of

Spalets in the European market. A new product designed to European specifications, *Sensia Arena*, was launched in 2016. *Sensia Arena* is the result of full-fledged joint development with GROHE, a product born from post-integration synergies. By combining the development and production technologies for Spalets established in Japan with GROHE’s refined design sense, in a short time frame we were able to successfully develop a high-quality, strategic product that meets the needs in the European market.

“The LIXIL Group’s competitive advantage in this case is that we are able to benefit from a well-known brand in Europe and, based on GROHE’s deep understanding of the local market, offer a product with new value,” says LWT’s Global New



The Spalet is becoming a “must have” item in urban China.



**“The challenge of innovation combined with fast-moving development became an opportunity to remodel LWT’s overall development process.”**



Product Development Director Masataka Mizutani. In developing the Spalet, the repeated discussions on design with the GROHE team members helped to strengthen LWT’s development capabilities. “Product development in Japan tends to prioritize functionality and the sales schedule rather than design, but the GROHE members were uncompromising about the excellence of the design, with high functionality as a matter of course. This stance provided a new incentive for the engineers as well. The challenge of innovation combined with fast-moving development became an opportunity to remodel LWT’s overall development process.”



### **“Local Production, Local Consumption” Approach Realized through M&A**

As global business development for Spalets moves forward simultaneously in the three areas of China, Europe, and North America, American Standard Brands is also working to expand its product lineup and sales channels in the North American market. LIXIL established a global foundation through M&A, with assets that include established local brands and sales channels as well as production facilities. This allows the effective utilization of existing local assets without the need for additional large-scale investment and the pursuit of a “local production, local consumption” approach to new market development that completely differentiates LIXIL from its competitors. Developing a global business for Spalets “requires the ability to develop products deeply rooted in local cultures and living habits, and a local sales network,” says Mr. Mizutani. By utilizing these strengths to the fullest, LIXIL aims to “secure the top global position for Spalets by 2025.”



The GROHE Press Summit for the launch of *Sensia Arena* attracted a large turnout.



American Standard has been expanding SpaLet™ sales in North America.

\*5 Cabinet Office, Government of Japan, *Consumer Confidence Survey “Ownership Rate of Major Durable Consumer Goods (two or more person households) as of March 2016”* (2016) <http://www.esri.cao.go.jp/jp/stat/shouhi/shouhi.html#chosakekka> (Accessed May 2016) (Available only in Japanese)



## THE LIXIL GROUP: ESSENTIALS



# CONTRIBUTING TO GLOBAL SANITATION AND HYGIENE

*A commitment to global sanitation and hygiene through innovative R&D and sustainable business initiatives is one of the three pillars of the LIXIL Group's Corporate Responsibility strategy.*

## Sanitation and Hygiene—An Urgent Global Health Issue

and hygienic toilet, resulting in a range of health, social, and economic related issues; 842,000 deaths from diarrheal diseases each year could be prevented by improved water, sanitation, and hygiene.<sup>\*6</sup> The economic losses that stem from this lack of access to proper sanitation were estimated at US\$223 billion annually according Oxford Economics.<sup>\*7</sup> As a result, the United Nations has adopted access to water and sanitation as one of its Sustainable Development Goals (SDGs).

## Solutions to Tackle the Sanitation and Hygiene Challenge

The first is the SaTo™ (“Safe Toilet”) brand of toilet products developed by American Standard Brands (ASB) of the LIXIL Group. The beauty of this innovative product line is in its simplicity and affordability, making it a sustainable alternative to unhygienic and

According to the World Health Organization (WHO), an estimated 2.4 billion people globally do not have access to a safe

The LIXIL Group is contributing to global sanitation and hygiene through multiple initiatives.

The first is the SaTo™ (“Safe

dangerous open-pit latrines. A simple trap door drops open to allow waste and water to fall below, and then it snaps shut to block odors and prevent the spread of pathogens by flying insects, which is characteristic of traditional open-pit latrines. The SaTo products require minimal water to flush, are easy to install, and available for an affordable price of less than US\$5, all underpinning their accessibility even in developing economies. SaTo products have won acclaim for their innovative features and, as of July 2016, more than one million are in use across more than 10 countries, including Kenya, Uganda, Bangladesh, the Philippines, Haiti, and India.

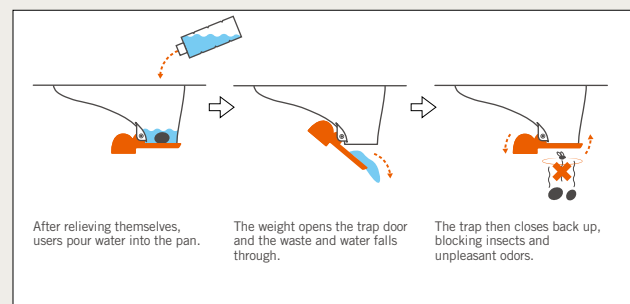
The SaTo business is led by Vice President and General Manager Jim McHale, who explains, “LIXIL’s target is to enable access to improved sanitation for 100 million people by the year 2020, making SaTo the first full-line brand of off-grid bathroom products for developing-country consumers.”

Beyond the SaTo business, LIXIL has other product solutions in development to address different limitations and needs. In Kenya, two innovative products are undergoing field trials: the “Micro Flush Toilet System” and the “Green Toilet System.” The “Micro Flush Toilet System” is an ultra-efficient,

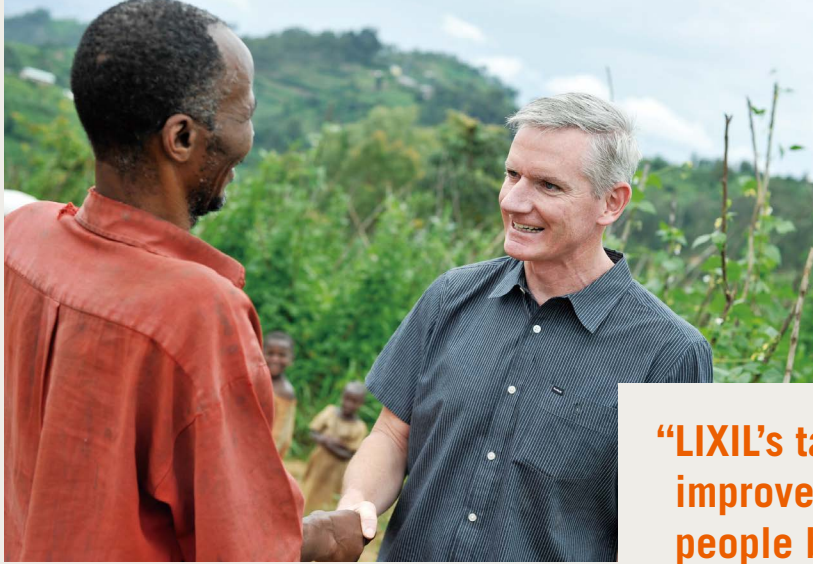
## Countries Where SaTo Is in Use



## How SaTo Works







**“LIXIL’s target is to enable access to improved sanitation for 100 million people by the year 2020.”**

water-saving system that uses only a liter of water to flush and is also designed to reuse waste water; it is expected to see wide uptake in regions where there are sewage infrastructures but water resources are limited. The “Green Toilet System” is designed to treat human waste safely by separating liquid and solid waste, and treating the latter to eliminate pathogens, allowing it to be used as soil conditioner for farming. The system is thus designed to enable the safe treatment of human waste even in environments without sewage infrastructure while also contributing to agriculture.

#### From Social Contribution to Sustainable Business

LIXIL Group Corporation CEO Kinya Seto has underlined the Group’s responsibilities in the sanitation and hygiene field, saying, “As the global leader in the sanitary ware industry, LIXIL has a strong track record of applying its expertise in ceramics and sanitary ware solutions to the needs of emerging markets. We believe, at a basic level, every person on the planet should have access to a safe and clean toilet. Through these activities, we have an opportunity to make a meaningful social contribution and to play a role as a problem-solver where our global network, expertise, and experience can make a meaningful difference.”

As Mr. Seto puts it, social enterprise activities reinforce the LIXIL Group’s long-term value creation. “As a global leader in living technology solutions, the LIXIL Group is in a unique position to create value as it helps alleviate the global sanitation crisis. Becoming a corporate group that earns the trust of communities and in which our employees feel a shared sense of pride is absolutely vital from the perspective of sustaining and enhancing corporate value.”

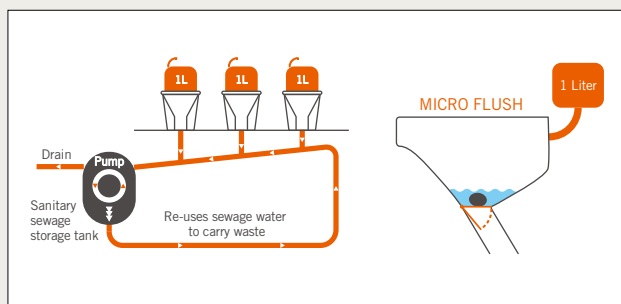
#### Cultivating a Huge Potential Market

The SaTo business along with the “Micro Flush Toilet System” and “Green Toilet System” solutions are taking the LIXIL Group into a potential market that it has never ventured into before. The addition of the three solutions to our existing lineup of sanitary ware—which spans all market segments, from the premium to the value-for-money ends of the spectrum—broadens our potential market by several hundreds of millions of people. According to Mr. Seto, “If the new business successfully spearheads the advance of LIXIL into this potential market and earns its trust, it would not only accelerate the expansion of the toilet market, but it could also create demand for other LIXIL products across the whole luxury-to-value spectrum handled by other Group brands.”

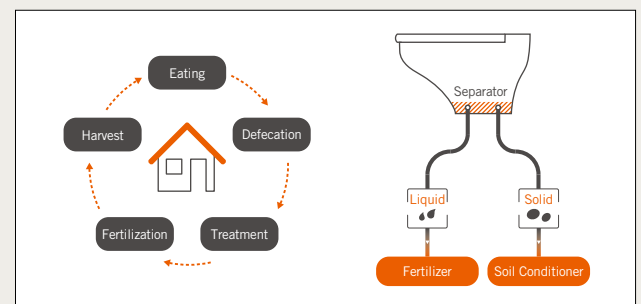
\*6 World Health Organization, Water sanitation hygiene: Key facts from JMP 2015 report, WHO website, 2015  
[http://www.who.int/water\\_sanitation\\_health/monitoring/jmp-2015-key-facts/en/](http://www.who.int/water_sanitation_health/monitoring/jmp-2015-key-facts/en/) (Accessed May 2016)

\*7 LIXIL/Oxford Economics report published in August 2016

#### How “Micro Flush Toilet System” Works



#### How “Green Toilet System” Works



## OUR OPERATIONS IN BRIEF: SIX BUSINESSES

	Market conditions	Factors affecting market conditions
<b>LIXIL Water Technology</b>  <p>➤ P.31</p>	<p>European and North American markets have been buoyant lately against a backdrop of monetary easing, while in Asia, Africa, and South America markets for widely used value products have been expanding rapidly.</p>	<ul style="list-style-type: none"> <li>• Fluctuation of prices for copper, stainless steel, plastics, steel plate, and other materials as demand grows</li> <li>• U.S. Federal Reserve and European Central Bank (ECB) interest-rate policies; Chinese government's economic policies</li> <li>• Economic trends in main markets and stability of financial systems</li> <li>• Risk of economic deterioration in Europe accompanying U.K.'s departure from European Union</li> </ul>
<b>LIXIL Housing Technology</b>  <p>➤ P.32</p>	<p>In the core market, Japan, new housing starts have been flat but there has been a growth trend in renovation-related demand for improved thermal insulation and seismic resistance. We also anticipate growth in renovation demand related to hotels and commercial facilities in the lead-up to the 2020 Tokyo Summer Olympics and Paralympics.</p>	<ul style="list-style-type: none"> <li>• Fluctuation of aluminum prices</li> <li>• Heightened interest in passive and smart functions among consumers</li> <li>• New statutory regulations for thermal insulation and seismic resistance</li> <li>• Japanese government taking further measures to invigorate stock and renovation market</li> <li>• Demand growth ahead of next consumption tax increase scheduled for October 2019</li> </ul>
<b>LIXIL Building Technology</b>  <p>©Wade Zimmerman ➤ P.33</p>	<p>Despite the clouded economic outlook in Europe and certain emerging economies, the construction market in the Asia-Pacific region, centering on Southeast Asia, remained stable and the U.S. market held firm.</p>	<ul style="list-style-type: none"> <li>• Fluctuation of aluminum prices</li> <li>• U.S. and European monetary policies</li> <li>• Economic trends in main markets and stability of financial systems</li> <li>• Risk of economic deterioration in Europe accompanying U.K.'s departure from European Union</li> </ul>
<b>LIXIL Kitchen Technology</b>  <p>➤ P.34</p>	<p>Kitchens, along with bathrooms and toilets, are a product area that holds the key to tapping into renovation demand in the core Japanese market. We expect steady growth in the renovation market leading up to the consumption tax increase scheduled for October 2019.</p>	<ul style="list-style-type: none"> <li>• Japanese government taking further measures to invigorate stock and renovation market</li> <li>• Demand growth ahead of next consumption tax increase scheduled for October 2019</li> </ul>
<b>Distribution &amp; Retail Business</b>  <p>➤ P.36</p>	<p>Demand is sluggish as a result of continuing moves by consumers to rein in spending against a backdrop of weak increase in real disposable incomes.</p>	<ul style="list-style-type: none"> <li>• General consumption trends</li> </ul>
<b>Housing &amp; Services Business</b>  <p>➤ P.37</p>	<p>Work related to new housing starts is expected to contract over the medium-to-long term as the number of housing starts declines due to the falling population and housing stock saturation. In contrast, there are growing business opportunities in fields relating to existing housing stock.</p>	<ul style="list-style-type: none"> <li>• Japanese government taking further measures to invigorate stock and renovation market</li> </ul>

Sales / Product strategies	Direct customers	Competitors	Market share*
<ul style="list-style-type: none"> <li>• Provide a comprehensive lineup of products with innovative designs and leading-edge functionality across multiple brands from the luxury to the value ends of the spectrum as a global leader in plumbing fixtures; fully leverage the Group's network of sales channels in the world's main markets</li> <li>• Meet region-specific needs through design centers located in key markets; enhance efficiency through the utilization of development platforms with local design</li> <li>• Introduce Spalets in the luxury segment</li> <li>• Shorten the development cycle and continuously launch new products</li> </ul>	<ul style="list-style-type: none"> <li>• Dealers</li> <li>• Sales agencies</li> <li>• Construction companies</li> <li>• Architectural firms</li> <li>• Developers</li> <li>• Wholesalers</li> <li>• Volume retailers</li> </ul>	<ul style="list-style-type: none"> <li>• Kohler</li> <li>• Roca</li> <li>• Hansgrohe</li> <li>• Masco (Delta)</li> <li>• Fortune Brands (Moen)</li> <li>• TOTO</li> <li>• Geberit</li> </ul>	Water faucets: <b>No. 1 globally</b> Sanitary ware: <b>No. 1 in North America</b> Sanitary ware: <b>No. 2 in Japan</b> Unit bathrooms: <b>No. 1 in Japan</b> Washstand cabinet units: <b>No. 1 in Japan</b> Tiles: <b>No. 1 in Japan</b>
<ul style="list-style-type: none"> <li>• Increase sales of <i>SAMOS L</i> high-thermal insulation performance windows</li> <li>• Seize growth opportunities in the Japanese market in such areas as renovation demand and construction demand ahead of the 2020 Tokyo Summer Olympics and Paralympics</li> <li>• Improve the efficiency of new product development and continuously introduce new products</li> <li>• Strengthen the structure of supply and sales to Asian markets, such as Vietnam and Thailand</li> </ul>	<ul style="list-style-type: none"> <li>• Dealers</li> <li>• Sales agencies</li> <li>• Building materials wholesalers</li> <li>• Homebuilders</li> <li>• House manufacturers</li> <li>• Construction companies</li> <li>• Architectural firms</li> <li>• Developers</li> </ul>	<ul style="list-style-type: none"> <li>• YKK AP</li> <li>• Sankyo</li> <li>• Tateyama</li> </ul>	Housing window sashes: <b>No. 1 in Japan</b> Exteriors: <b>No. 1 in Japan</b> Entrance doors: <b>No. 1 in Japan</b>
<ul style="list-style-type: none"> <li>• Strengthen overall curtain wall operations that utilize Permasteelisa's business platform</li> <li>• Be selective in accepting orders based on gross margins</li> <li>• Increase sales weighting of high gross margin and stable North American market</li> <li>• Expand interior business</li> </ul>	<ul style="list-style-type: none"> <li>• Construction companies</li> <li>• Architectural firms</li> </ul>	<ul style="list-style-type: none"> <li>• YKK AP</li> <li>• Yuanda</li> <li>• Local companies</li> </ul>	Curtain walls: <b>No. 1 globally</b> <b>No. 1 in Japan</b>
<ul style="list-style-type: none"> <li>• Capture renovation demand</li> <li>• Strengthen the mid-to-high-end product lineup</li> <li>• Create synergies with LWT's water faucets and other product lines</li> <li>• Expand business in China through the business alliance with leading Chinese home appliance manufacturer Haier, using Haier's distribution network and other resources</li> </ul>	<ul style="list-style-type: none"> <li>• Dealers</li> <li>• Sales agencies</li> <li>• Building materials trading companies</li> </ul>	<ul style="list-style-type: none"> <li>• Takara Standard</li> <li>• Cleanup</li> <li>• Panasonic</li> </ul>	Kitchen systems: <b>No. 1 in Japan</b>
<ul style="list-style-type: none"> <li>• Expand the target market by focusing on the renovation business, including broadening the scope of renovation services and renovation-related materials handled</li> </ul>	<ul style="list-style-type: none"> <li>• General consumers</li> <li>• Construction professionals</li> </ul>	<ul style="list-style-type: none"> <li>• DCM Japan Holdings</li> <li>• Cainz</li> <li>• Komeri</li> <li>• Kohnan Shoji</li> </ul>	
<ul style="list-style-type: none"> <li>• Establish housing stock management business</li> <li>• Expand living-related services for senior citizens</li> <li>• Utilize IT solutions and support business operators</li> </ul>	<p><b>[Housing franchise business]</b> Homebuilding franchise members</p> <p><b>[Housing structural defects warranty liability insurance business and housing site ground inspection business]</b> Construction companies, real estate transaction agents</p> <p><b>[Real estate brokerage franchise business]</b> General consumers</p>		

\* LIXIL Group estimates

## REVIEW OF OPERATIONS

# Groupwide Operations

### Performance for the Fiscal Year Ended March 2016 by Segment

(¥ billion)

Business	Revenue		Core earnings (loss)		
	2016 results	Y/Y (%)	2016 results	Core earnings ratio (%)	Y/Y (%)
LWT	637.7	53.8	52.1	8.2	99.9
LHT	604.6	(1.8)	40.3	6.7	16.1
LBT	332.0	(4.7)	(5.6)	—	Turned negative
LKT	112.1	(2.5)	1.8	1.6	Returned to profitability
D&R	184.5	(5.1)	7.2	3.9	10.1
H&S	63.7	2.3	4.3	6.7	(4.5)
Adjustment	(44.2)	—	(29.9)	—	—
Consolidated	1,890.5	10.8	70.1	3.7	35.5

### Initiatives in the Fiscal Year Ended March 31, 2016, and Outlook for the Fiscal Year Ending March 31, 2017

The LIXIL Group, based on the Medium-Term Business Strategy “Redefining the Future” announced in September 2015, is targeting total sales of ¥2 trillion by the fiscal year ending March 2018 and core earnings of more than ¥100 billion.

In the fiscal year ended March 2016, we worked to boost sales in Japan and overseas. By selling non-core and unprofitable businesses and restructuring our production setup, we strove to enhance profitability and raise efficiency. Specifically, we sold overseas subsidiaries where we judged improving profitability would be difficult. On the production side, we consolidated operations, closing or suspending operations at four factories in Japan and overseas and transferring their functions to other factories within the Group.

In addition, we extended our Cash Conversion Cycle (CCC) Project beyond its former focus mainly on Japan. On a global basis, the CCC Project has shortened the amount of time required to convert materials purchased into cash through sales from 85.0 days at the end of March 2015 to 78.6 days at the end of March 2016 (JGAAP). We have been moving steadily toward our target of generating approximately ¥120 billion in cash through the program by the end of March 2018.

For the fiscal year ending March 2017, we are targeting record-high core earnings even as we invest in establishing the foundations for growth and profitability improvements in such areas as marketing and IT. We expect to move back to posting profit for the year attributable to owners of the parent with the elimination of one-off charges booked in the fiscal year ended March 2016.

### Forecasts for the Fiscal Year Ending March 2017 by Segment

(¥ billion)

Business	Revenue		Core earnings (loss)		
	2017 forecasts	Y/Y (%)	2017 forecasts	Core earnings ratio (%)	Y/Y (%)
LWT	630.0	(1)	54.5	9	5
LHT	608.0	1	43.5	7	8
LBT	319.0	(4)	8.5	3	Return to profitability
LKT	114.0	2	2.0	2	11
D&R	173.0	(6)	7.5	4	4
H&S	68.0	7	5.5	8	28
Adjustment	(32.0)	—	(48.5)	—	—
Consolidated	1,880.0	(1)	73.0	4	4

# LIXIL Water Technology

LIXIL

LIXIL  
INAX

Jaxson

GROHE

American  
StandardAmerican  
StandardGROHE • DAWN  
WATER TECHNOLOGY

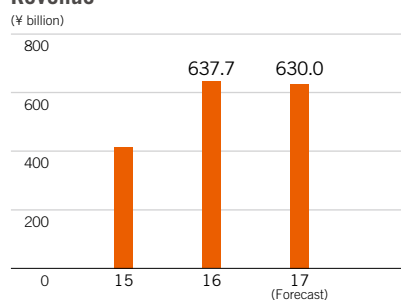
## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue increased 53.8%, to ¥637.7 billion, while core earnings were up 99.9%, to ¥52.1 billion. Earnings growth was underpinned by the contribution from the new consolidation of GROHE in April 2015 and strong sales overseas, particularly in the United States, supported by the introduction of new products.
- In March 2016, we reorganized LIXIL Water Technology to simplify the organizational structure. The changes are designed to enable faster and more thorough implementation of growth strategies and to enhance governance practices and internal control systems within the LIXIL Group.

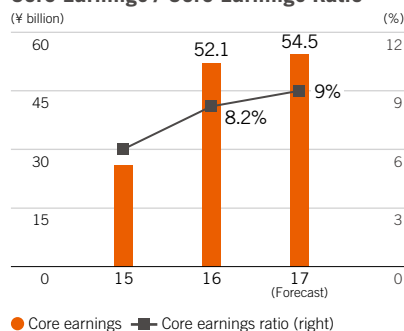
## Priority Issues for the Fiscal Year Ending March 31, 2017

- Ensure growth in the American Standard Brands business in its core North American market while introducing new products spearheaded by the *Edgewater* kitchen faucets collection, which received the Red Dot Design Award, Product Design 2016, and realize sustained improvements in productivity and product quality.
- In the European market, where the Group does not have a presence in the sanitary ware business, introduce GROHE ceramic products, establishing a supply chain with a view to full-scale sales growth.
- Accelerate the global development of the Spalet business. Integrate technologies developed in Japan, pursue design-based differentiation between brands, and strengthen performance-based appeal, thereby establishing top positions in the Asian, North American, and European markets.

### Revenue



### Core Earnings / Core Earnings Ratio



Note: Years ended March 31



The AT200™ SpaLet™ is sold by American Standard Brands under the DXV brand.



## REVIEW OF OPERATIONS

# LIXIL Housing Technology



## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue decreased 1.8%, to ¥604.6 billion, while core earnings rose 16.1%, to ¥40.3 billion. Despite the impact of weak demand in the new-build home construction market, overall earnings expanded as improvements in the product mix and higher selling prices outweighed increased expenses attributable chiefly to rises in material costs.
- Targeting business efficiency gains, we halted production at the Tateno factory and consolidated its housing sash processing operations within the nearby Oyabe factory. In tandem, we upgraded the Oyabe factory to serve as a mother plant in the Hokuriku region for aluminum construction materials spanning material lines, such as casting, extrusion, and surface treatment, through to processing lines.

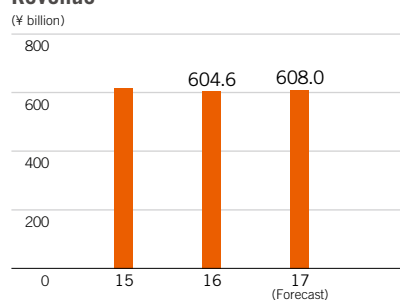
## Priority Issues for the Fiscal Year Ending March 31, 2017

- Develop new products for the renovation market, enabling easy and fast installation with a view to raising added value and differentiation from competitors.
- Focus on expanding sales of hybrid windows made with a combination of aluminum and plastic materials, such as *SAMOS L*, aiming to achieve a 50% share of the hybrid sash market over the medium term.

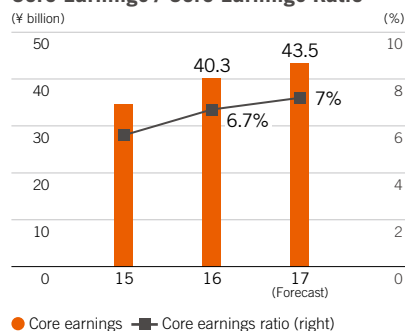
As strategic products to promote the adoption of high-performance windows in Japan, *SAMOS L* products are sold at similar prices to standard aluminum-sash, double-glazed windows.

- Improve the capacity utilization of manufacturing bases by such means as halting of operations of the materials division of the Hisai factory in March 2017 and transferring production to another factory.

### Revenue



### Core Earnings / Core Earnings Ratio



Note: Years ended March 31



LEGARIS spearheads LIXIL's innovation in windows offering superior thermal insulation performance.

# LIXIL Building Technology



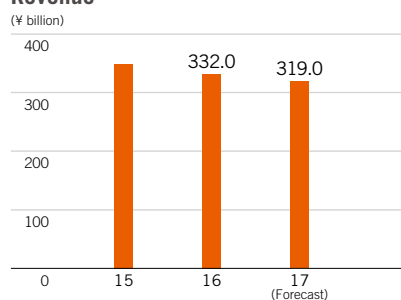
## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue decreased 4.7%, to ¥332.0 billion, while in terms of core earnings the business incurred a ¥5.6 billion loss compared with profit of ¥5.7 billion in the previous fiscal year. Both sales and profit declined as sales were hit by a slowdown of economic conditions in the Middle East and China, margins deteriorated on some projects, and the business booked provisions in relation to long-term contract work receivables deemed to be uncollectible.
- LIXIL Corporation sold 100% of its equity stake in Shanghai Meite Curtain Wall System Co., Ltd., which manufactures and sells curtain walls in China, having judged that it would be difficult to create synergies in the near term.

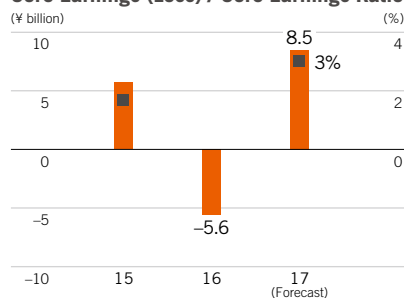
## Priority Issues for the Fiscal Year Ending March 31, 2017

- Strengthen the project and cash flow management of Permasteelisa by paying close attention to business and fund collection risks relating to developments in emerging economies.
- Focus on major cities in North America and Europe, taking a selective approach targeting appealing and highly profitable projects and markets, thereby raising project profit margins.
- In the Japanese market, prioritize securing orders for major redevelopment projects ahead of the 2020 Tokyo Summer Olympics and Paralympics.

### Revenue



### Core Earnings (Loss) / Core Earnings Ratio



Core earnings (loss) Core earnings ratio (right)



Permasteelisa's external facades have been used in London's landmark The Shard building.

©Sellar

Note: Years ended March 31

## REVIEW OF OPERATIONS

# LIXIL Kitchen Technology

**LIXIL**

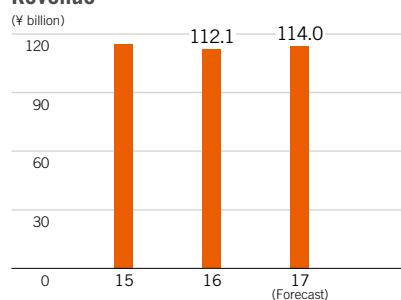
## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue declined 2.5%, to ¥112.1 billion. Core earnings moved into the black, to ¥1.8 billion, after a ¥1.5 billion loss was incurred in the previous fiscal year. The improvement in earnings was due to the booking in the previous fiscal year of expenses related to snow damage in February 2014 at the Fukaya factory in Saitama Prefecture.
- Richelle SI* system kitchens have been experiencing strong sales since their launch in April 2015. In particular, sales of ceramic countertops, with their distinctive textured designs, were about three times the level initially projected, as of February 2016.

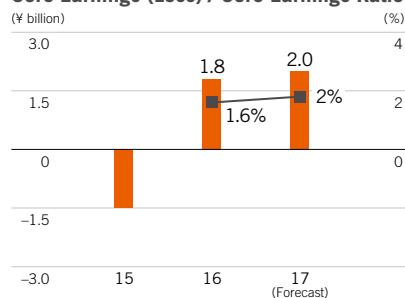
## Priority Issues for the Fiscal Year Ending March 31, 2017

- While launching additional lines in the *Richelle* series, focus marketing activities around the key concept of “living centering on the kitchen,” aiming to further expand the mid-to-high-end product lineup and improve profitability.
- Reinforce factory management with a view to improving productivity.
- Improve profitability by leveraging the joint venture with Haier in China and implement business model reforms.
- Reduce stock keeping units (SKUs).
- Capture renovation demand.

### Revenue



### Core Earnings (Loss) / Core Earnings Ratio



● Core earnings (loss)    ■ Core earnings ratio (right)

Note: Years ended March 31



Marketing activities for the *Richelle* series of kitchens are based on the concept of “living centering on the kitchen.”

# LIXIL Japan Company

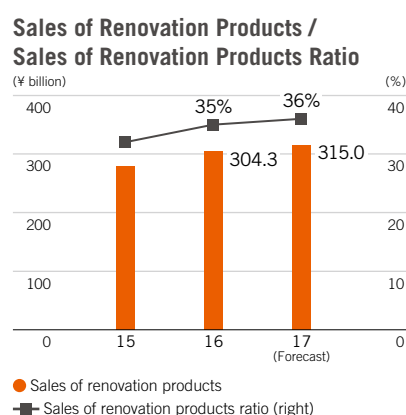


## Highlights for the Fiscal Year Ended March 31, 2016

- With conditions in Japan's new-build home construction market remaining flat, we sought to expand our business by targeting renovation demand.
- Benefiting from efforts to emphasize product development for the renovation market, sales of renovation-related merchandise and materials rose 9% year on year, to ¥304.3 billion, and the ratio of sales of renovation-related merchandise and materials rose 3 percentage points year on year, from 32% to 35%.

## Priority Issues for the Fiscal Year Ending March 31, 2017

- Broaden contact points with end users through holding various events focusing on renovation and upgrading showrooms.
- Target individual users throughout Japan through LIXIL Reform Fairs, showcasing our renovation-related products and recent additions to the lineup. We have already held events at 14 locations nationwide since January 2016, targeting professionals connected with housing construction.
- Offer end users and customers optimal "total solutions" by making full use of our business portfolio spanning our abundant product lineup and broad range of housing-related services.



Note: Years ended March 31



LIXIL's showroom in Tokyo

## Japanese Housing Market: Trends and Strategies

- › Japan's new housing market has been stable after recovering from a reactive decline that followed the spike in demand ahead of the April 2014 hike in the consumption tax rate. In fiscal year ended March 31, 2016, new housing starts rose 4.6% year on year, to about 920 thousand units. As of 2013, the total housing stock already exceeded by more than 15% the total number of households,\* and the market for buying and selling existing homes is on an expansionary trend.
- › In this environment, the LIXIL Group has been promoting outstanding quality and functionality of its products and services while, at the same time, looking to support sustainable growth in the renovation market itself. In this context, a common theme that runs through all our development, manufacturing, and sales activities is making installation easier and faster. In this way, we are applying our expertise as a manufacturer to raise product added value and differentiate ourselves from our competitors.

\* Source: Ministry of Internal Affairs and Communications, *Housing and Land Survey 2013* (2015)



## REVIEW OF OPERATIONS

# Distribution & Retail Business



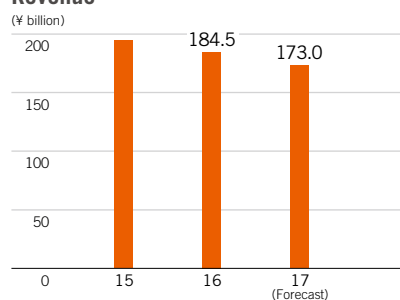
## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue decreased 5.1% year on year, to ¥184.5 billion, while core earnings rose 10.1% year on year, to ¥7.2 billion. Revenue declined as a result of splitting off our Ken Depot membership-based wholesale building materials business, turning Ken Depot Corporation into an equity-method affiliate, but profits rose supported by the opening of three Super Viva Home large-scale home centers.
- Excluding the Ken Depot business, revenue came in at ¥168.8 billion and core earnings at ¥7.3 billion, marking the 11th successive year of revenue growth and record-high core earnings. The core earnings ratio was the highest among home center operators in Japan.

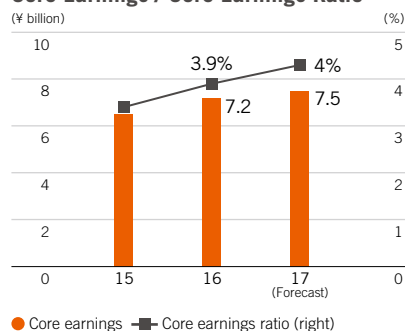
## Priority Issues for the Fiscal Year Ending March 31, 2017

- Expand our network by opening two Super Viva Home outlets and one New Viva Home outlet, particularly into areas not yet covered.
- Reinforce the remodeling side of the Super Viva Home large-scale home center business, aiming to differentiate ourselves from competitors with a lineup of distinctive products.
- Through supply chain management improvements, enhance customer service, achieve greater business efficiency, and reinforce earnings power.

### Revenue



### Core Earnings / Core Earnings Ratio



Note: Years ended March 31



Super Viva Home outlets offer a full range of construction materials and tools for housing and renovation solutions.



# Housing & Services Business



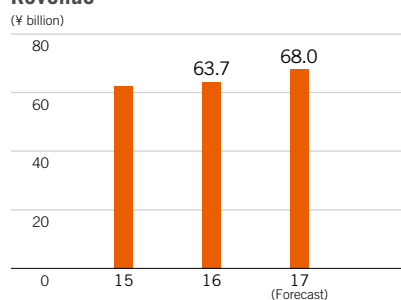
## Highlights for the Fiscal Year Ended March 31, 2016

- Revenue rose 2.3% year on year, to ¥63.7 billion, while core earnings declined 4.5% year on year, to ¥4.3 billion. Revenue increased on the back of stepped-up sales activities and JAPAN HOME SHIELD reaching a landmark in completing housing site ground inspection and analysis for more than 1.1 million homes.
- Under the theme of “next-generation resilience,” we unveiled jointly with Honda Motor a concept home, the first home in Japan to combine zero energy performance and “vehicle to home” functions with equipment that can supply power to the home from fuel-cell vehicles.

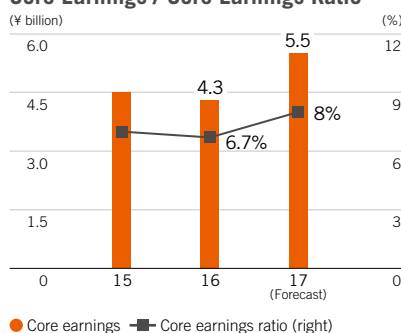
## Priority Issues for the Fiscal Year Ending March 31, 2017

- Align with government policies targeting growth in the market for buying and selling existing homes or housing stock.
- Expand housing stock management-related services centered on housing performance evaluation, maintenance, and services aimed at enhancing quality of life.
- In addition to B2B services, including housing structural defects warranty liability insurance services and housing site ground inspection and analysis, enhance such B2C services as real estate brokerage and home loans and expand contact points with end users.

### Revenue

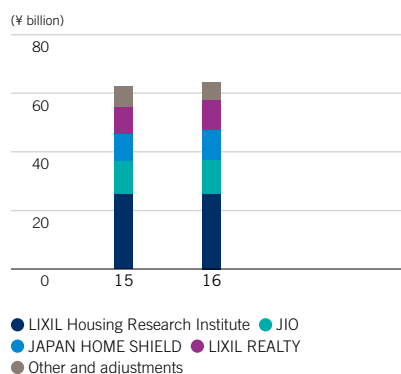


### Core Earnings / Core Earnings Ratio

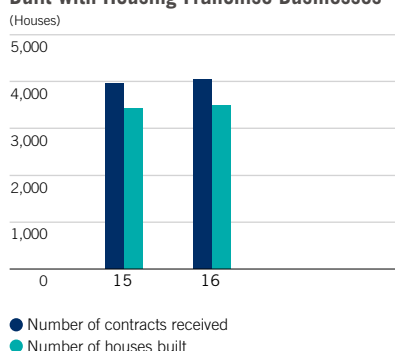


Next-Generation Resilience Home “House + X” Powered by Honda

### Sales by Company



### Number of Contracts Received and Houses Built with Housing Franchise Businesses



Housing site ground inspection by screwdriver sounding test

Note: Years ended March 31

## SUSTAINABLE VALUE CHAIN MANAGEMENT

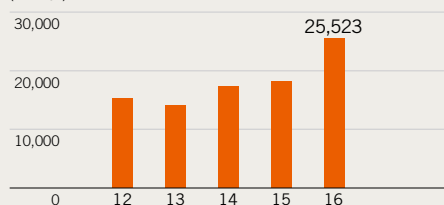
# Ensuring Sustainable Value Chain Management

### R&D Investment

The LIXIL Group is expanding investment in R&D to enhance the range of globally competitive products.

#### R&D Expenses

(¥ million)



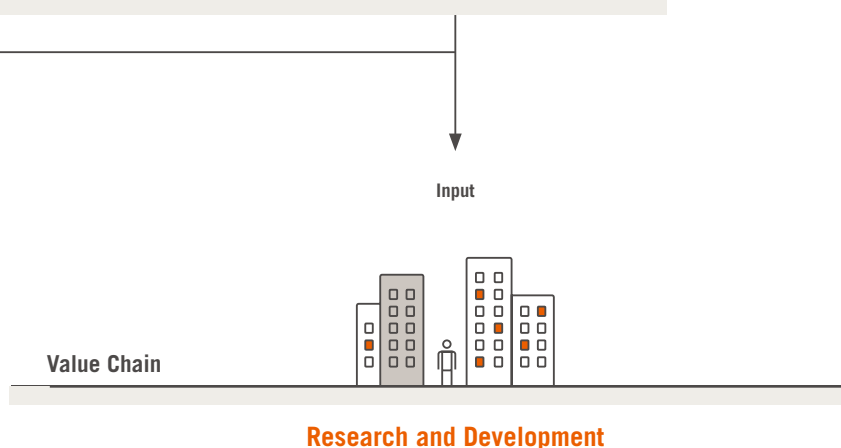
Note: Years ended March 31

### Innovation and Design

Our products are winning awards for outstanding performance and design.\*



As a product manufacturer, we are pursuing management efficiencies through sustainable value chain management. Through value chain innovation, we will earn the trust of customers and society as a responsible business, while developing our management and internal human resources to enhance our organizational creativity and prepare for further growth in the future.



#### \* Awards won in recent years

##### Red Dot Design Award, Product Design 2016:

LIXIL's *SATIS G* type tankless bidet toilet, American Standard Brand's *Edgewater* kitchen faucets collection, and GROHE's *Aquatunes* waterproof speakers and *Grotherm 800* thermostatically controlled shower

##### International Forum (IF) Design Award 2016:

LIXIL's electric water heater with automatic faucets and GROHE's *AquaSymphony* ceiling showers and *Essence New Collection* faucets

##### GOOD DESIGN Awards 2015 (U.S.):

GROHE's *Aquatunes* waterproof speakers and *Essence New Collection*, *Eurocube Joy Collection*, and *Eurosmart New Collection* faucets

##### Green Good Design Awards 2015 (U.S.):

GROHE's *Grohe Power Box* and *Eurosmart CE* faucets

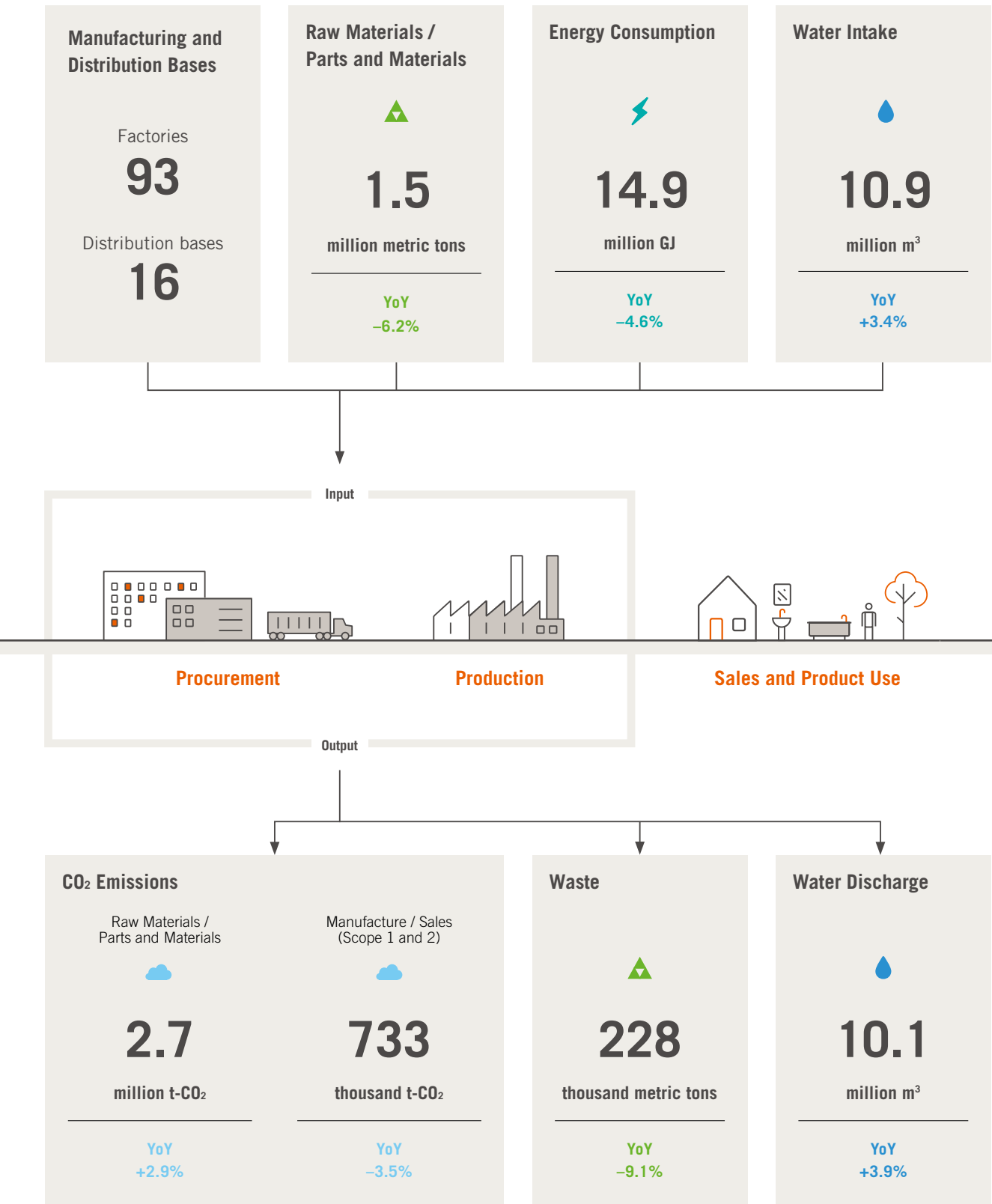
##### GOOD DESIGN AWARD 2015 (Japan):

LIXIL's *Bisai* exterior light, *SAMOS X* window, electric water heater with automatic faucets, *Cubia* single-lever basin mixer, *LF-WF340S* single-lever basin mixer, *Navish* kitchen filter faucet, *FS-WCH120* mono-type boiling water faucet, and *ARATECT* seismic-resistance renovation construction method

GROHE's *Eurodisc Joy Collection* faucets

##### 2015 Energy Conservation Award (Chairman's Prize, Energy Conservation Center, Japan):

LIXIL's *AIR MEISTER* hybrid ventilation system



Note: For further details regarding the Group's Corporate Responsibility activities and outcomes, please refer to the Sustainability section of our corporate website. The scope of the data differs from the scope of the consolidated financial data, and a portion of the data in the website has received the independent practitioner's assurance. For details, please refer to the following URL:

[http://www.lixil.com/en/sustainability/environment/ev\\_performance.html](http://www.lixil.com/en/sustainability/environment/ev_performance.html)

# Through Our Diverse Initiatives

## Expanding Use of Recycled Materials

At GROHE's faucet producing Hemer plant in central Germany, about 80% of 5,000 metric tons of brass used annually is now collected from internally and externally collected recycled material, making use of the plant's in-house alloy smelting blast furnace.



Recycled material usage ratio of  
**80%**



Procurement



Production



Estimated annual power generating capacity of roughly  
**6,000**<sub>MWh</sub>

## Generating Renewable Energy On-Site

LIXIL is actively utilizing unused land and building roofs by operating mega solar power plants. The LIXIL Chita solar power facility, which is one of five sites in Japan, began operations in April 2016. The facility can generate power of about 6,000MWh annually, sufficient to meet the power consumption needs of 1,200 households.

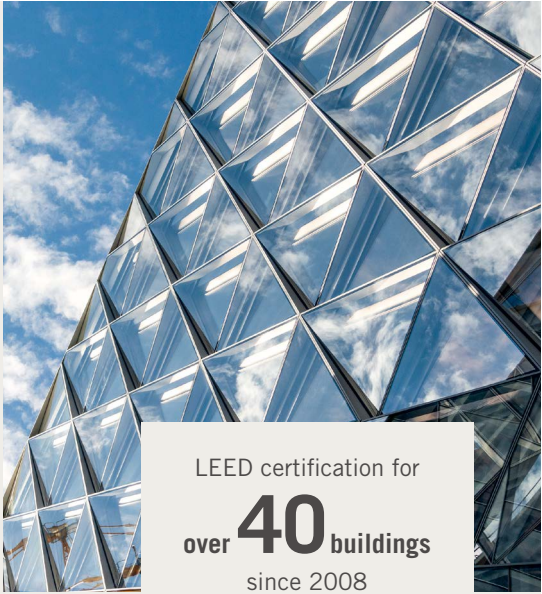


## Promoting Environmentally Conscious, Comfortable, and Elegant Buildings

Introduced by Permasteelisa, *mfree-S<sup>CCF</sup>* (*moisture free Sustainable Close Cavity Façade*) curtain walls feature double-skin glass walls with compressed-air internal cavity. The Permasteelisa Group's proprietary technology offers outstanding performance from the perspectives of energy efficiency, comfort, and aesthetic appeal. Buildings that have installed these curtain walls have benefited from these qualities, and many have received green building ratings, such as LEED\* and BREEAM.\*

\* Leadership in Energy & Environmental Design and Building Research Establishment Environmental Assessment Method, respectively

HILTI INNOVATION CENTER, SCHAAN | LIECHTENSTEIN  
©Bruno Klomfar Fotografie



LEED certification for  
**over 40** buildings  
since 2008



### Sales and Product Use

## Raising Home Thermal Insulation Performance

LIXIL, which has around 50% of the window sash market in Japan, is committed to raising the thermal efficiency of window sash and promoting the shift to higher-value-added products to curb household energy consumption in Japan. Introduced in January 2016, our *LEGARIS* sash windows provide superior thermal insulation performance.



Heat transmission  
coefficient of  
**0.55** W/m<sup>2</sup>·K

SUSTAINABLE VALUE CHAIN MANAGEMENT

# Environmental Vision 2030

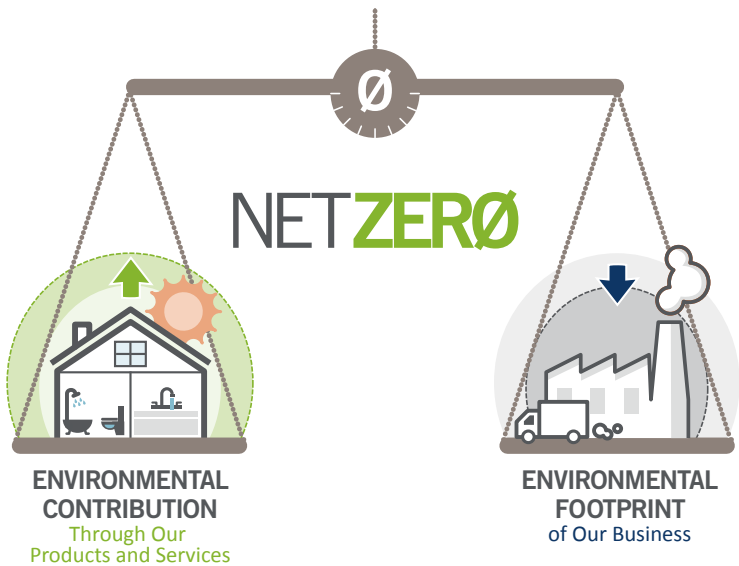
*Under our Corporate Responsibility (CR) strategy, we have established Environmental Vision 2030, which outlines our goal on the priority issue of Water Conservation & Environmental Sustainability. Guided by Environmental Vision 2030, we aim to achieve a Groupwide net zero environmental footprint whereby the positive environmental contribution from our products and services, in such areas as low-carbon and water-efficient technology, exceeds the environmental footprint of our business activities across the entire value chain, from the sourcing of materials through to the manufacture, use, and ultimate disposal of products.*

**Targeting Net Zero Environmental Footprint**

By setting a clear 2030 milestone to contribute to the long-term ambition of achieving a low-carbon society, we are promoting innovation in technologies, products, and services aimed at reducing greenhouse gas emissions, particularly from houses and buildings.

In order to mitigate and adapt to climate change, the Paris Agreement, adopted in December 2015, increases

international pressure for environmental protection toward achieving a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century. As a global ‘Living Technology’ company, we are committed to providing environmental solutions through our products and services while actively embracing new business opportunities presented in a changing society.



**Core Environmental Strategy Themes**

To achieve our Environmental Vision 2030, we are focused on three core areas, based on clearly defined targets and action plans.

- Climate change mitigation and adaptation
- Conservation of water resources
- Sustainable use of resources

## Group EHS Committee

With our Environmental Vision 2030, we are targeting a net zero balance between the environmental footprint of our business and the positive environmental contribution we make through our products and services. In April 2016, we established the Group EHS<sup>\*1</sup> Committee and distributed EHS Performance Data Reporting Guidelines throughout the Group, set medium-term targets, and drafted action plans. The Group EHS Committee consists of designated EHS Administrators and EHS Implementation Managers, who are appointed by each business unit<sup>\*2</sup> CEO and are tasked to incorporate initiatives into our day-to-day business activities to realize our Environmental Vision 2030.

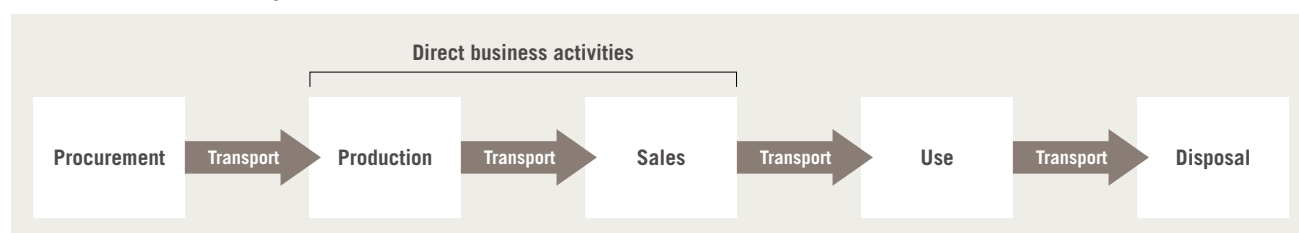
<sup>\*1</sup> EHS: Environment, Occupational Health and Safety

<sup>\*2</sup> LWT, LHT, LBT, LKT, LIXIL Japan Company, D&R, H&S, headquarters



Chairperson of the Group EHS Committee, Ryuichi Kawamoto, speaking at the kickoff meeting

## Product and Service Life Cycle



## Shifting from Japan-Focused to Global Environmental Initiatives

Over the five fiscal years from 2011 to 2016, we have diligently implemented measures to reduce our environmental footprint in Japan across the entire value chain, from the procurement of materials to product disposal. Now, as we challenge to achieve Environmental Vision 2030, we are applying the same efforts globally, drawing on the lessons we have learned in the past.

In this ambitious effort, we are emphasizing two aspects: establishing a common environmental management system across the entire Group and promoting the design and sale of products and services that consider the entire life cycle, called Design for Environment approaches.

Specifically, each business unit is promptly setting targets to contribute to environmental improvement and reduce environmental loads while putting in place reporting lines to monitor progress. Additionally, we have introduced Design for Environment into all development design and engineering processes across the Group, and we aim to enhance our positive environmental contribution even further.

### Short- and Medium-Term Challenges toward Realizing Environmental Vision 2030

Establishing a common environmental management system across the entire Group

- Prepare internal operating rules and performance data collection guidelines to promote environmental management across the Group
- Draft and implement environmental policies, medium-term targets, and key performance indicators (KPIs) at each business organization
- Monitor progress and audit governance through the Group EHS Committee

Promoting the design and sale of products and services that consider the entire life cycle (Design for Environment approaches)

- Promote Design for Environment based product development by reinforcing cooperation between the EHS department, the R&D department, and the Product Development department.
- Set guidelines and reporting lines for assessing the environmental contribution of our products and services
- Roll out an environmental evaluation system that takes into account the entire life cycle of products and services across the Group

## REPORT ON GOVERNANCE FROM THE CHAIRMAN OF THE BOARD



The essence of the corporate governance structure is that it enables independent Board of Directors not involved in business execution to grasp management conditions objectively and to appoint as managers the people best suited to the tasks in hand. This structure also addresses the problem that managers are not good at taking an objective view of themselves.

I am happy to report that, after a rigorous search and interview process under this organizational structure, the LIXIL Group has in the current fiscal year welcomed Kinuya Seto as President and CEO. His predecessor Yoshiaki Fujimori dedicated himself to restoring the Company's power to grow. When Mr. Fujimori assumed office, the Group depended on Japan for almost all its sales and it faced the task of coping with the implications of Japan's declining population. Mr. Fujimori tackled the difficult challenge of bringing the various Japanese companies together while spearheading our shift to multinationalism and making the corporate culture more diverse and progressive. M&A was the linchpin of our multinational evolution. Through global M&As including the acquisitions of Permasteelisa, American Standard Brands, and GROHE, Mr. Fujimori established a global platform for growth and brought many talented people from outside the Company into key management positions.

The scope of our operations, spanning over 150 countries, offers significant growth opportunities for the future, but also brings new challenges. Based on the results of the investigation into inappropriate accounting practices at Joyou AG,

which the Company announced in November 2015, LIXIL Group has been actively implementing a number of measures to strengthen the management of overseas subsidiaries, M&A processes, and the post-acquisition integration process. The Company is making excellent progress on the implementation of these measures thus far.

Separately, in the second half of fiscal 2014, our Nomination Committee began considering succession planning as part of good business practices. With Mr. Fujimori's leadership approaching its five-year mark, the Committee began to deliberate on the right profile and leader to take LIXIL on the next stage of its journey. Committee members were looking specifically for someone capable of understanding all our multinational businesses and generating new synergies across them while minimizing risks, making full use of IoT technology to achieve digital innovation, and infusing a sense of entrepreneurship once again throughout the organization at every level.

The Nomination Committee interviewed several candidates from within and outside the Company. In the end, it came to the unanimous decision to select Mr. Seto, a person who has demonstrated extraordinary entrepreneurship and sharp business acumen. Mr. Seto has also built an impressive track record in effectively developing new business models, starting up companies and making them highly profitable, and successfully taking one such company through to public listing. I have no doubt his energetic and clear-sighted management approach will raise the LIXIL Group to another level.



The Board of Directors is committed to carrying out its governance responsibilities to enable the LIXIL Group to seize growth opportunities by diversifying the business portfolio while stabilizing business operations. Three former members of the Board of Directors—Fumio Sudo, Yoshiaki Fujimori, and Takashi Tsutsui—stepped down at the General Meeting of Shareholders in June 2016. Three new directors have joined the board in their place. Hirokazu Yamanashi has been appointed as an outside director and has abundant experience in management reforms through his work with McKinsey & Company. From within the Company, we have appointed Ryuichi Kawamoto, former President of INAX Corporation, and Toshimasa Iue, CEO of LIXIL Housing Technology. In upcoming board meetings, we will be looking to take our deliberations to

a deeper level as we draw on newly introduced regular meetings with outside directors and roundtable discussions with the CEO to shed greater light on all aspects of our business and together identify and address key priorities.

August 2016

潮田 洋一郎

Yoichiro Ushioda

Chairman of the Board

## Members of the Nomination, Compensation, and Audit Committees

### Nomination Committee

Hidehiko Sato (Chairperson)  
Yoichiro Ushioda  
Hirokazu Yamanashi

### Compensation Committee

Hirokazu Yamanashi (Chairperson)  
Yoshizumi Kanamori  
Yoshinobu Kikuchi  
Main Kohda  
Barbara Judge

### Audit Committee

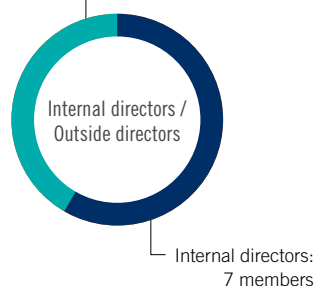
Tutomu Kawaguchi (Chairperson)  
Yoshizumi Kanamori  
Hidehiko Sato

## Composition of the Board of Directors (12 members)

Directors who are concurrently serving as executive officers: 3 members

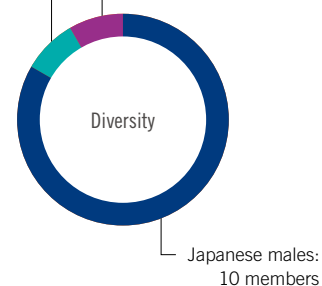


Outside directors: 5 members



Japanese females: 1 member

Non-Japanese females: 1 member



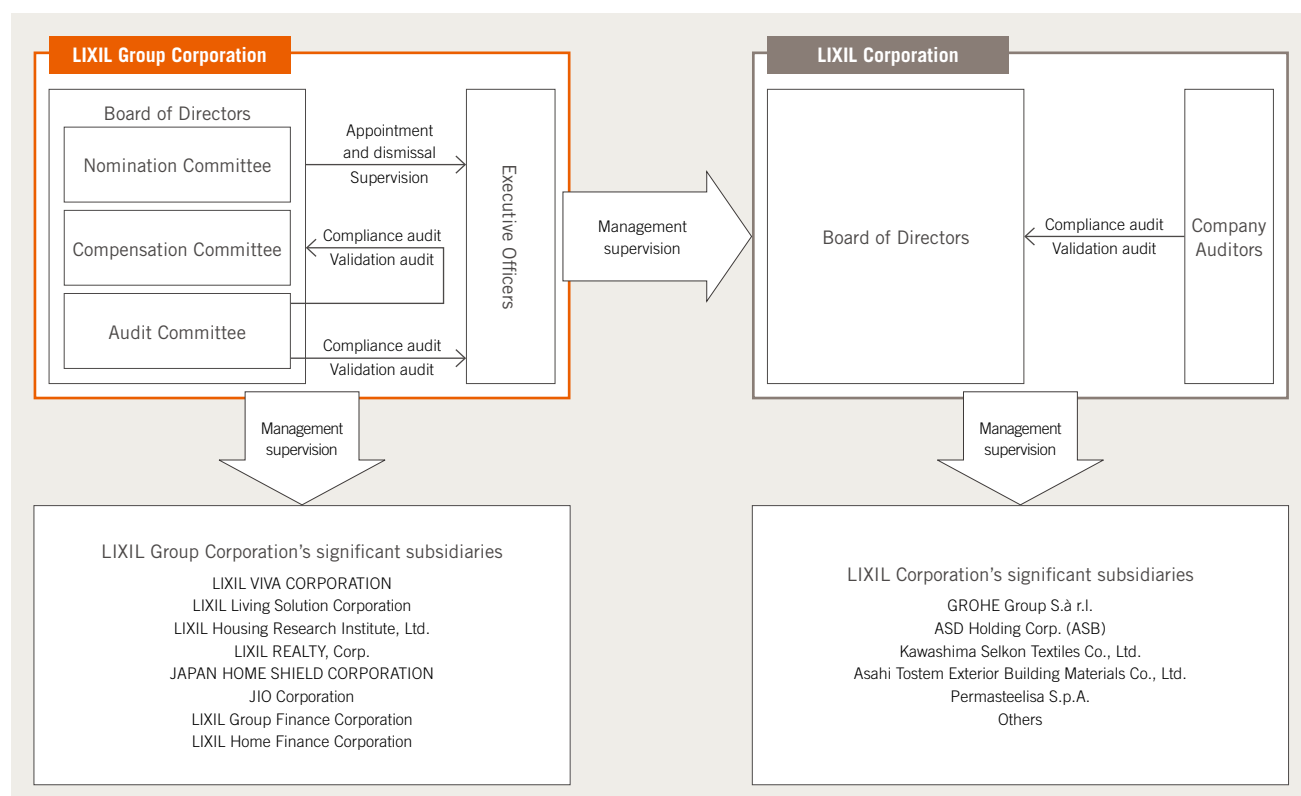


## Group Governance System

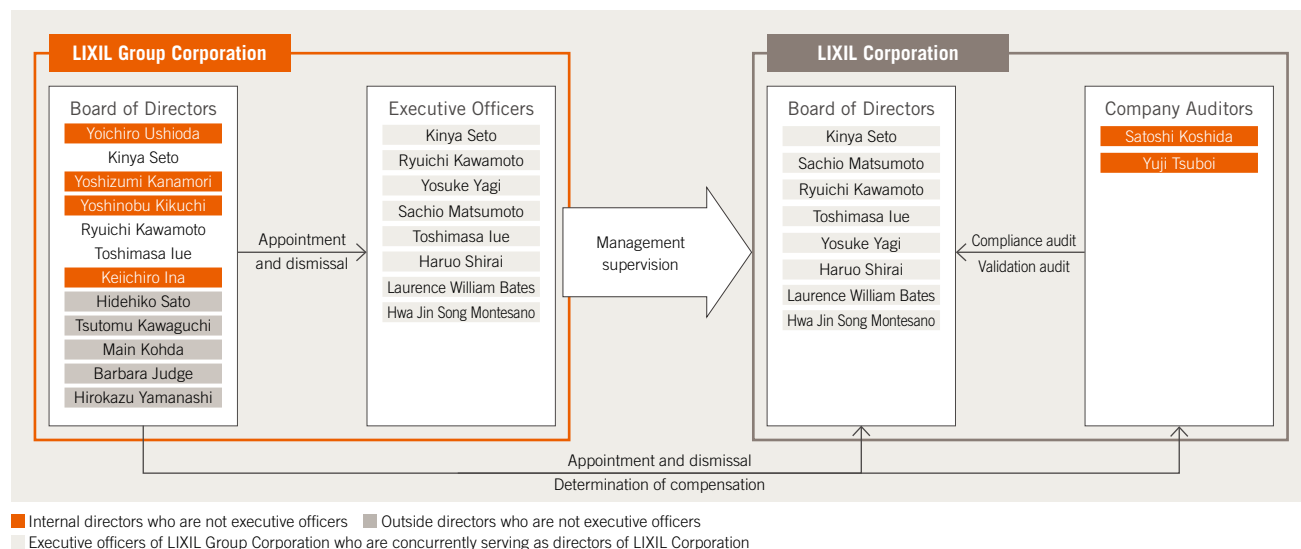
The Company, while respecting the independence of each Group company, including LIXIL Corporation, regarding its business management, receives periodic reports on the status of business and gives approval to important matters. Additionally, the Audit Committee of the Company periodically

receives reports on the details of audits by the Financial Auditors of the Company and the Company's internal audit divisions while, at the same time, strengthens the cooperation with the Company Auditors of each Group company by holding periodic Group Company Auditors' meetings.

## Governance of LIXIL Group Corporation, LIXIL Corporation, and Significant Operating Companies (As of June 2016)



## Directors and Corporate Officers of LIXIL Group Corporation and LIXIL Corporation (As of June 2016)



## STATUS OF CORPORATE GOVERNANCE

# Board of Directors

(As of June 15, 2016)


**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 of 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. He originally joined the Company in 1977 and became Director and General Manager of the Sales Planning Department in 1980. He holds 9,376 thousand shares of the Company.


**Kinya Seto\***
**Director, Representative Executive Officer,  
President & Chief Executive Officer**

Mr. Kinya Seto has been serving as Director, Representative Executive Officer, President & Chief Executive Officer (CEO) of the Company since June 2016. He also has been serving as President and CEO of subsidiary, LIXIL Corporation, since January 2016 and as CEO of LIXIL Water Technology since March 2016. In addition, he serves as Chairman and Director of MonotaRO Co., Ltd. Prior to joining the Group, and apart from MonotaRO, his various roles included CEO of GWW UK Online Ltd (now Razor Occam, Ltd), Senior Vice President of W.W. Grainger, Inc., President of K-engine Corp., and Non-Executive Director of Zoro Tools, Inc. He began his career at Sumitomo Corporation in 1983.


**Yoshizumi Kanamori**
**Director**

Mr. Yoshizumi Kanamori has been serving as Director of the Company since June 2007. He also served as Executive Officer and Senior Managing Director and Chief Financial Officer of the Company and as Director, Senior Managing Director and Director and Operating Officer at subsidiary, LIXIL Corporation. He joined the Company in 1977. He holds 8 thousand shares of the Company.


**Keiichiro Ina**
**Director**

Mr. Keiichiro Ina has been serving as Director of the Company since June 2001. From 1998, he served as Director of INAX Corporation (now LIXIL Corporation). He joined INAX in 1974. He holds 318 thousand shares of the Company.


**Hidehiko Sato**
**Director (Outside)**

Mr. Hidehiko Sato has been serving as Outside Director of the Company since June 2011. He serves as Director of Dainippon Sumitomo Pharma Co., Ltd., and Resona Holdings, Inc., and is registered as a lawyer. Previously, he was Commissioner General of the National Police Agency from 2002 to 2004, having held a variety of positions since joining the agency in 1968. He holds 6 thousand shares of the Company.


**Tsutomu Kawaguchi**
**Director (Outside)**

Mr. Tsutomu Kawaguchi has been serving as Outside Director of the Company since June 2011. He serves as an auditor of FreeBit Co., Ltd., and as Director of VINX Corp. and Cybernet Systems Corporation. He has been a registered certified public accountant since March 1974 and used to serve as Representative Partner for Grant Thornton Taiyo ASG.



\* Indicates a director who serves as an executive officer


**Yoshinobu Kikuchi**
**Director**

Mr. Yoshinobu Kikuchi has been serving as Director of the Company since June 2012. Previously, he also served as Executive Vice President at subsidiary, LIXIL Corporation. He joined the Company in 1969. He holds 21 thousand shares of the Company.


**Ryuichi Kawamoto\***
**Director, Representative Executive Officer and Executive Vice President**

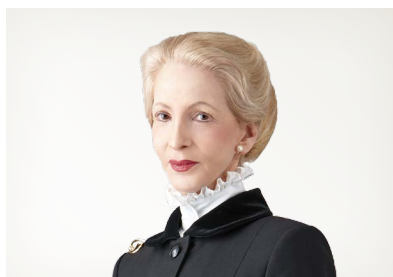
Mr. Ryuichi Kawamoto has been serving as Representative Executive Officer and Executive Vice President of the Company since June 2012, with responsibility for technology, quality, and manufacturing environment, and was appointed Director of the Company in June 2016. He is also serving as Director, Senior Executive Vice President, and Chief Technology Officer at subsidiary, LIXIL Corporation, and as Chief Manufacturing Optimization Officer of LIXIL Water Technology. He joined INAX Corporation (now LIXIL Corporation) in 1976. He holds 16 thousand shares of the Company.


**Toshimasa Iue\***
**Director, Executive Officer and Executive Vice President**

Mr. Toshimasa Iue was appointed Executive Vice President of the Company in June 2016, with responsibility for the housing materials business. He is also serving as Director and Executive Vice President at subsidiary, LIXIL Corporation, and as CEO of LIXIL Housing Technology. Prior to joining the Group in 2009, he held senior positions in SANYO Electric Co., Ltd. He joined SANYO Electric in 1989 and was President from June 2005 until he became Director of SANYO Electric in April 2007. He holds 10 thousand shares of the Company.


**Main Kohda**
**Director (Outside)**

Ms. Main Kohda has been serving as Outside Director of the Company since June 2013. She was a member of the NHK Management Committee from June 2010 and has been Outside Director of Japan Tobacco Inc. since June 2012. She is also a bestselling writer.


**Barbara Judge**
**Director (Outside)**

Lady Barbara Judge has been serving as Outside Director of the Company since June 2015. She serves as National Chairman of the UK's Institute of Directors and as Chairman of the UK's Pension Protection Fund. In addition, she currently holds positions as Director of Portmeirion Group plc, NV Bekaert SA, and Magna International Inc. She served, among her other appointments, as a Non-Executive Director of the UK Atomic Energy Authority from 2002 to 2004 and subsequently as Chairman from 2004 to 2010. She was a Commissioner of the United States Securities and Exchange Commission from 1980 to 1983.


**Hirokazu Yamanashi**
**Director (Outside)**

Mr. Hirokazu Yamanashi has been serving as Outside Director of the Company since June 2016. He joined AEON CO., LTD., in 2014 and assumed positions of Vice President, Chief Corporate Planning Officer, and Chief E-Money Business Officer. He previously served as Director (Senior Partner) of McKinsey & Company, Inc.

## STATUS OF CORPORATE GOVERNANCE

### Independence Criteria of Outside Directors

The Board of Directors shall monitor on an ongoing basis whether persons serving as outside directors continue to satisfy the following criteria.

#### Independence criteria\*<sup>1</sup>

The Company considers an outside director to be independent unless he or she is:

- (1) A shareholder, or an executive officer of such shareholder (an executive officer means an “executive officer” provided in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act; the same shall apply hereafter in this article), who holds 10% or more of the voting rights of the Company;
- (2) An executive officer of a company of which the Company holds 10% or more of the voting rights;
- (3) A business partner whose transactions with the Company exceed an amount of 2% or more of the consolidated gross revenue of either the Company or such business partner in a fiscal year, or an executive officer of such business partner;
- (4) A financial institution or other major creditor which is essential for the financing of the Group and on which such financing is irreplaceably dependent on, or an executive officer thereof;
- (5) A member, partner or employee of the audit firm or tax financial firm which is a financial auditor or financial advisor of the Group;
- (6) A person receiving a donation or subsidy of ¥10 million or more from the Group in a fiscal year, or if the person receiving the donation or subsidy is a corporation, partnership or other organization (the “Juridical Persons, etc.”), an executive officer of the Juridical Persons, etc. receiving a donation or subsidy of more than 2% of the consolidated gross revenues of such Juridical Persons, etc. from the Company in a fiscal year;
- (7) A person receiving monetary payments or other financial assets of ¥10 million or more from the Group as a lawyer, accountant, tax accountant, consultant or other professional advisor, besides the director compensation, or if a person receiving such financial assets is a juridical person, partnership or other organization (the “Juridical Persons etc.”) such as a legal professional corporation, law firm, audit corporation, tax accountant corporation or consulting firm (the “Law Firm, etc.”), a person belonging to the Law Firm, etc. receiving monetary payments or other financial assets of more than 2% of the Law Firm, etc.’s annual gross revenues from Group;
- (8) A person whose spouse, a relative within the second degree of kinship or a relative who lives with such person corresponds to any of aforementioned (1) through (7);

(9) A person who corresponded to any of aforementioned (1) through (8) in the past five years; or

- (10) An executive officer of a company to which an executive officer (meaning an executive director, executive officer, corporate officer, manager or other employees, notwithstanding aforementioned (1)) of the Group serves as an officer of such company.

\*1 LIXIL Group Corporate Governance Guideline Article 27.1

### Collection of Information by Directors and Support Systems\*<sup>2</sup>

The Company has provided the following support and opportunities to help ensure the active participation of the Board of Directors in management.

- The Company shall implement a system for the collection of information by all directors that allows them to obtain information from the support office(s) for officers’ meetings or directly from relevant business departments.
- In addition, the Company shall implement a system for the collection of information for audits by members of the Audit Committee that allows them to obtain information from audit departments or directly from relevant business departments.
- The Company shall provide opportunities for the exchange of opinions between outside directors and management in a casual atmosphere, such as in general holding monthly early morning breakfast meetings between the independent outside directors and officers such as the Chairman of the Board of Directors and the CEO.
- As necessary, directors may either through organizations such as support office(s) for officers’ meetings or audit departments or directly themselves obtain with respect to their duties the advice of outside experts such as lawyers or certified public accountants at the cost of the Company.

\*2 LIXIL Group Corporate Governance Guideline Article 29

### Corporate Governance Guidelines

LIXIL Group Corporation, in order to realize the Group corporate philosophy, has been striving to implement the best possible corporate governance system, one which enables it to achieve maximum sustainable improvement in corporate value.

Please see the following site, LIXIL Group Corporate Governance Guidelines, for details on the LIXIL Group’s corporate governance framework, relationships with shareholders, relationships with stakeholders other than shareholders, corporate governance system, and information disclosure.

 <http://www.lixil.com/en/about/governance/policies.html>

## Messages from Chairpersons of the Nomination, Compensation, and Audit Committees



**Hidehiko Sato**

Chairperson of the Nomination Committee

Five years have passed in the blink of an eye since LIXIL Group Corporation transitioned to a company with three committees governance structure in June 2011. Over that period, the Nomination Committee, under my predecessor, has taken decisions every year on the appointment of directors. The transition of management was also frequently and extensively deliberated, and a key theme of those discussions that culminated in the appointment of our new President and CEO was ensuring a smooth succession.

The Company has made good progress toward its aim of “becoming a global leader in the living and housing solutions industry” under the “One LIXIL” banner. But where do we go from here? What framework should we adopt to drive us forward? The three members of the Nomination Committee have been carefully considering these issues based on the deliberations of the Board of Directors.

The Nomination Committee has a vital role to play, particularly at a time when corporate governance is drawing much attention, and as members we are determined to fulfill our responsibilities to the best of our ability.



**Hirokazu Yamanashi**

Chairperson of the Compensation Committee

Compensation systems for Directors and Executive Officers need to support sustained corporate development and growth by promoting appropriate management decisions and actions and healthy risk taking based on the foundation of fair evaluation. The Company's compensation system aims to adhere to that principle and the Corporate Vision while also seeking support from all stakeholders by ensuring transparency and long-term sustainability. The Compensation Committee aims for a universal, cross-business and cross-regional compensation system that strikes a good balance between value creation as evident in earnings results and value creation in terms of building the foundations for future growth. In this way, we are playing our part in reinforcing the Company's corporate governance.

I believe that I can make a fresh contribution as an outside director of the board by drawing on my experience outside the Company to deepen understanding within it.



**Tsutomu Kawaguchi**

Chairperson of the Audit Committee

Shortcomings in our internal systems were thrown into sharp relief by inappropriate accounting practices uncovered at an overseas subsidiary last year. However, we quickly took steps to prevent a recurrence of any such issue in the future and we have undoubtedly made solid progress. The Audit Committee helped identify the root causes of the problem and develop preventive measures. We will continue to work to further enhance our internal systems and strengthen monitoring effectiveness.

The LIXIL Group is rightly committed to raising shareholder value through growth and attaining profit targets by steadily implementing its medium-term business strategy. I see a core responsibility of the Audit Committee as ensuring the health and soundness of that growth through its oversight role. Rapid growth brings risks. The Audit Committee is determined to support the drive for growth while rigorously controlling risk through its audit and other activities.

## STATUS OF CORPORATE GOVERNANCE

# Review of Corporate Governance

## Composition of the Board of Directors and Committees and Position of the Chairperson

	Number of members	Internal directors	Outside directors	Chairperson (of the committee)
Board of Directors	12	7	5 (all 5 are independent directors)	Internal Director
Nomination Committee	3	1	2	Outside Director
Compensation Committee	5	2	3	Outside Director
Audit Committee	3	1	2	Outside Director

## Number of Meetings Held during the Fiscal Year Ended March 31, 2016

Board of Directors	18	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	8	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	18	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 every two months or more, as necessary, in principle)
Executive Officers' Meetings	21	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	8	Discussed Group strategy (investments, funding, M&A, overseas strategy, etc.) and set directions with the objective of increasing the LIXIL Group's corporate value
Investment and Loan Council	13	Deliberated proposals made by the Company and the Group 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
New Business Council	1	Deliberated proposals made by the Company and the Group 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	4	In addition to forming a risk management committee in the Company, also monitored the formation of such committees for risk management in Group companies mainly in Japan 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
Internal Audit Committee	2	Undertook inspections and checks of legal compliance and appropriateness of corporate activity and of management conformity not only with legal requirements but also with standards as determined by the Company
CR Committee	3	Selected the material issues for the overall Group, formulated the Corporate Responsibility strategy, and provided oversight and guidance for the implementation of priority themes and activities



## Status of Auditing Activities

Internal Audit Divisions	The 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.
Financial Auditors	Deloitte Touche Tohmatsu LLC

## Corporate Officer Compensation

Compensation of the Company's corporate officers in the fiscal year ended March 31, 2016, was as per the following tables.

### 1. Total amount of compensation by corporate officer title, by type of compensation, and number of officers receiving

Corporate officer title	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)				Number of corporate officers eligible for compensation
		Basic compensation	Performance-based compensation	Stock option	Other	
Directors (excluding Outside Directors)	230	171	—	58	—	3
Executive Officers	1,485	721	582	144	37	11
Outside Directors	87	70	—	17	—	5

- The total compensation of corporate officers shown above includes the compensation of the Company and the Company's subsidiaries.
- The three Directors with concurrent Executive Officer positions at the end of the fiscal year are included in the total amount of compensation and the total number of corporate officers for Executive Officer positions.
- Executive Officer compensation based on earnings includes performance-based compensation reflecting earnings booked in the fiscal year ended March 31, 2016, of ¥16 million (with respect to 2 corporate officers) and transfers to reserves for earnings-based compensation reflecting earnings booked over the medium-to-long term (April 2015 to March 2018) of ¥566 million (with respect to 11 corporate officers).
- The total number of Directors and Executive Officers eligible to receive stock options is 17.
- One officer is eligible for "Other."

### 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	Other
Yoichiro Ushioda	Director	LIXIL Group Corporation	164	120	—	44	—
	Director	LIXIL INTERNATIONAL Pte. Ltd.	5	5	—	—	—
Yoshiaki Fujimori	Executive Officer	LIXIL Group Corporation	524	180	300	44	—
Kinya Seto	Executive Officer	LIXIL Group Corporation	125	50	75	—	—
Takashi Tsutsui	Executive Officer	LIXIL Group Corporation	120	69	36	15	—
Yosuke Yagi	Executive Officer	LIXIL Group Corporation	118	69	35	14	—
Sachio Matsumoto	Executive Officer	LIXIL Group Corporation	106	63	35	8	—
Hwa Jin Song Montesano	Executive Officer	LIXIL Group Corporation	112	53	12	10	37

- Regarding performance-based compensation reflecting earnings, transfers to reserves for earnings-based compensation reflecting earnings, booked over the medium-to-long term (April 2015 to March 2018) have not been made. In addition, no compensation reflecting short-term earnings in the fiscal year ended March 31, 2016, was paid.
- Stock options are booked as expenses in the fiscal year with regard to the 2013 stock options granted on May 9, 2013, the 2014 stock options granted on May 23, 2014, and the 2014 stock options granted on December 12, 2014, and differ from the amounts obtained from the actual execution and sale.
- "Other" consists of allowances made for disparities in compensation compared with previous positions and such factors as cost of living assistance and medical insurance associated with overseas postings.

## STATUS OF CORPORATE GOVERNANCE

### 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 management policy.

- Performance accountability of individuals and companies 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 attain the goals set.
- A stock option plan shall be provided to allow for the reflection of continual enhancement of corporate value, in addition to which a medium-to-long-term cash plan shall be adopted to provide incentives to executive officers, who are responsible for the execution of business operations, to attain medium-term business plan targets.
- The compensation system shall be performance-based compensation to allow for appropriate reflection of the Company's consolidated performance.
- In order to ensure the objectivity and transparency of corporate officers' compensation, 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.
- Compensation levels shall be set to be sufficient to retain, for the long term, competent, worldwide 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, 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 linked to a single fiscal year and medium-to-long-term earnings, and stock options. For personnel recruited to senior positions among overseas nationals, an expatriate package will be provided with tax equalization and other incidental conditions generally offered at global companies.

#### [Description of compensation by type]

- Basic compensation, as a fixed 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 achieving goals.
- Performance-based compensation shall be determined on the basis of corporate performance for a single fiscal year and over the medium-to-long term, reflecting the attainment of medium-term plan targets, to avoid compensation being based only on short-term performance.
- Performance-based compensation linked to a single fiscal year shall be allocated as an annual bonus reflecting earnings in the current fiscal period. Performance-based compensation based on corporate performance over the medium-to-long term is to be allocated after the end of a specified period conditional on the attainment of medium-term business plan targets within previously specified limits.
- Stock options, provided as a medium-to-long-term incentive in line with the interest of shareholders, shall be determined on the basis of corporate performance, the position of the relevant corporate officer, and other criteria.
- With personnel recruited to senior positions from overseas, an allowance may be made to make up for disparities in compensation compared with previous positions and such factors as cost of living assistance and medical insurance associated with overseas postings.

## INTERNAL CONTROL SYSTEMS AND COMPLIANCE

### Internal Control Systems

LIXIL Group Corporation has established and operates internal control systems in accordance with the Internal Control Reporting System, or “J-SOX,” issued by the Financial Services Agency in Japan to ensure the appropriate and efficient business operations of the Company and each Group company as well as the accuracy and appropriateness of consolidated financial statements.

### Establishment of the Corporate Audit Group

The LIXIL Group has restructured its global audit functions, including internal auditing in major overseas subsidiaries. The Corporate Audit Group (CAG) was placed under the direct supervision of the President and CEO, and the Corporate Audit Group Officer (CAGO) was appointed as the head of the CAG.

Regarding the CAG and units under the CAG, we reinforced the audit functions of the group by clarifying roles and responsibilities.

#### Global Corporate Audit Staff:

The Global Corporate Audit Staff has advanced audit functions with two major objectives. The first is to minimize risks and costs by proactive detection, the resolution of problems, and the improvement of the processes through close communication

with top management in cooperation with the external auditors and internal auditors. The second is to develop human resources through projects.

#### Global Internal Control Department and Corporate Internal Control Department:

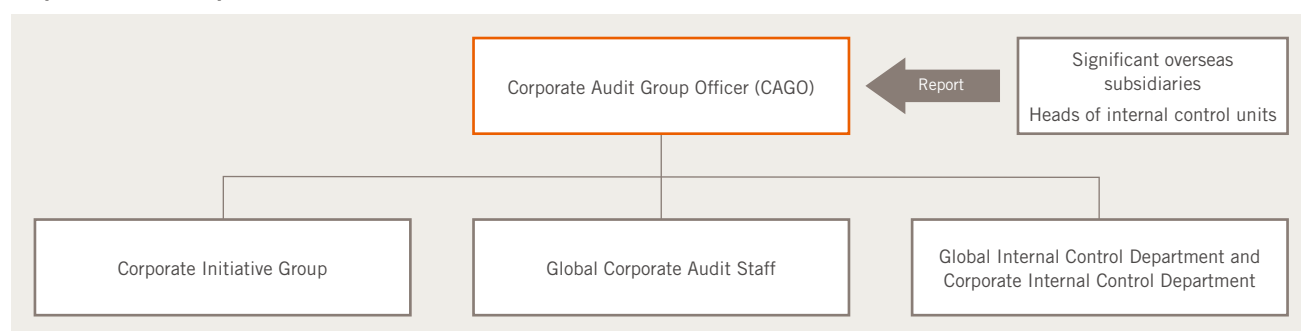
These departments are responsible for internal controls and audits of subsidiaries and affiliates within and outside Japan in cooperation with each audit in each subsidiary and affiliate and for unifying and strengthening existing units in charge of audits and internal controls.

#### Corporate Initiative Group:

The Corporate Initiative Group (CIG) is an internal management consulting unit that problem-solves issues on business processes and operations. Beyond providing recommendations to top management, the CIG initiates and manages related projects, in collaboration with relevant business and functional units, for its recommendations to realize tangible results. Its aim is to raise operational efficiency, and to minimize risks and costs of business, effectively done through its data-driven approach, project management, and close communication with top management.

In addition, the CAGO receives direct reports from the head of each internal control unit in major overseas subsidiaries.

### Corporate Audit Group Structure



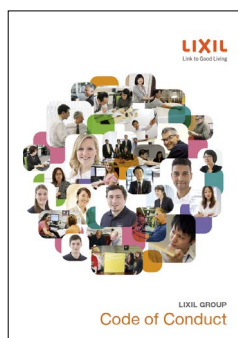
## INTERNAL CONTROL SYSTEMS AND COMPLIANCE

### Compliance

LIXIL Group Corporation has been strengthening compliance systems and raising compliance awareness throughout the Group, including overseas subsidiaries, through the following initiatives.

#### LIXIL Group Code of Conduct

The LIXIL Group has drawn up the LIXIL Group Code of Conduct as a set of rules to be adhered to by all LIXIL Group officers and employees worldwide with the aim of undertaking business activities appropriately and with a shared sense of values and ethics across the entire Group; it has been translated into 19 languages. We have introduced a system—implemented at all companies throughout the Group, including subsidiaries in Japan and overseas, by April 2016—whereby every year all Group company officers and employees are required to participate in training on the LIXIL Group Code of Conduct and acknowledge to comply with its terms.



For further details regarding the LIXIL Group Code of Conduct, please access the following URL:

[http://www.lixil.com/en/about/governance/pdf/LIXIL\\_CoC\\_en.pdf](http://www.lixil.com/en/about/governance/pdf/LIXIL_CoC_en.pdf)

#### Education and Training Programs

The management of the Company has been striving to raise compliance awareness and embed it within the Group culture by discussing compliance issues, making use of opportunities provided by all employee meetings and site visits.

By the end of April 2016, we had held training programs for officers of corporations in Japan and for headquarters executives at major overseas subsidiaries. The LIXIL Group will continue further developing its education and training programs to enhance the compliance culture of the Group.

#### Application of the Internal Concern-Raising System to Overseas Operations

The LIXIL Group has established an internal concern-raising system with the aim of gathering information on breaches of compliance, taking measures to prevent fraudulent and unlawful behavior, and responding quickly where action is required. We are making use of LIXIL Group Code of Conduct training workshops, acknowledgment procedures, compliance sessions, and other opportunities to raise awareness of the internal concern-raising system and publish information about points of contact to enhance understanding of the existing system and to realize improvements in its effectiveness.

To further strengthen the internal concern-raising system, the LIXIL Group is preparing to introduce a 24-hour, multi-language internal concern-raising system throughout the entire Group, corresponding to the number of languages into which the LIXIL Group Code of Conduct has been translated, by the end of December 2016.

#### Headquarters Compliance Organization

In the fiscal year ended March 2016, the Company revised the headquarters compliance organization and began to assign staff to Chief Compliance Officer (CCO) and other positions. In parallel, we have begun to recruit and deploy compliance experts in the LIXIL Group's four technology businesses and in regions deemed to be high risk. We have been promoting closer collaboration between the headquarters CCO and each compliance department and its head at major overseas subsidiaries.

#### Compliance Committee

In the fiscal year ended March 2016, the Company revised the membership of the Compliance Committee in order for it to fulfill a role more suited to the Group's globalized structure. As members of the committee, we added the head of the Corporate Audit Group, who has a more global perspective, experience, and responsibility, and the head of Public Affairs, who has an important role in the crisis management system.

We endeavor to enhance the value of the Compliance Committee by revising the committee's membership and agenda continuously to ensure that it is not just a place for formal reporting on cases reported through the internal concern-raising system or disciplinary cases but also a forum for practical discussions on the background and causes of respective cases, the appraisal of countermeasures, and debate and reporting toward building a compliance management system to be deployed throughout the entire Group.

The LIXIL Group is putting in place a structure with compliance committees for each of the technology businesses and establishing a system where the Group Compliance Committee can obtain timely reports from the compliance committee of each technology business.



## RISK MANAGEMENT

### Risk Management System

LIXIL Group Corporation, as a pure holding company, constantly and closely monitors the risks faced by Group companies, verifies how well they are hedging those risks, and offers guidance. As part of this endeavor, the holding company has made the establishment of Risk Management Committees mandatory in all Group companies. The Company regularly verifies the state of risk in each of the Group companies and studies the risk of Group companies through the Internal Audit Committee and the Risk Management Committee. When necessary, Group companies are requested to report before the committees. In addition, companies are required to report on risk at the regular quarterly results discussion meetings and other meetings.

### Identification and Monitoring of Risks

LIXIL Corporation, as the leading operating company in the Group, has established 17 risk management subcommittees under the Risk Management Committee that cover different themes and examine and manage risks horizontally across the organization. Each risk management subcommittee is allocated a specific risk. As part of our risk management promotion activities, risks are identified on a yearly basis and assessments are carried out, including evaluations of impact, frequency, and any weaknesses in prevention and follow-up measures. Further, targets are set, measures are proposed, and implementation schedules are formulated. PDCA (Plan, Do, Check, Act) management is carried out on a quarterly basis with the aim of implementing the proposed measures, making assessments, and providing feedback.



One way in which LIXIL manages global risks is through a strong compliance program. CLO Bates and Chief Compliance Officer Kimijima conduct compliance training with colleagues in Vietnam.

## RISK MANAGEMENT

### Groupwide Business Strategies and Risk Management

LIXIL Group Corporation seeks to anticipate risks that may emerge and adopt flexible and appropriate risk management in the awareness that risk profiles are constantly changing.

The Company is implementing the management measures set out below with respect to the main risks relating to business strategies currently being pursued.

### Main Risks and Risk Management Measures Related to Business Strategies

LIXIL Group strategies	Main risks	Risk management measures
Management based on the technology businesses by product field that run through the entire value chain	Divergence between Group management strategies and the strategies of technology businesses <a href="#">Note 1</a>	Ensure close communications between the Company's Board of Directors and Executive Officers and the technology business CEOs; align strategies between the two
		Monitor progress of business plans at each technology business with a view to realizing the medium-term business strategy
	Inadequate synergies between technology businesses	Strengthen the Company's business and regional portfolio management
		Share marketing and project information across the entire Group
		Maintain Groupwide control through management with shared finance, human resource, and other functions across the whole Group
	Higher management costs at technology businesses with two or more main Group companies	Clarify the management policies of each technology business and the decision-making process
		Delegate authority to technology businesses and Group companies
	Product development and procurement delays stemming from globalization of the value chain <a href="#">Note 2</a> Higher management costs accompanying value chain expansion <a href="#">Note 2</a>	Optimize the supply chain through consolidating production bases, sharing parts and materials, and reviewing the development and existing lineup of global strategic products
		Establish platforms in each technology business for product development and the procurement of parts and materials
		Clarify decision-making processes in technology businesses and transfer authority to them
		Ensure tight cost controls through such means as supply chain management (SCM) and the Cash Conversion Cycle (CCC) Project
Business globalization	Inadequate internal control systems and declining earnings at companies the Group has acquired or in which it has taken an equity stake <a href="#">Note 3</a>	Ensure careful selection of prime investment candidates
		Monitor integration process of companies the Group has acquired or in which it has taken an equity stake
		Maintain constant monitoring of technology business and Group company management information
		Retain top management of companies the Group has acquired
		Undertake regular inspections by the Company of the status of technology businesses' and Group companies' internal control systems and financial management
		Ensure compliance understanding and strict observance among employees
		Require Group employees to pledge to the LIXIL Group Code of Conduct and provide related training programs
	Major exchange rate and interest rate fluctuations owing to changes in currency and interest rate policies Effect on yen equivalents of plant, equipment, inventory, and other assets and liabilities of exchange rate and interest rate fluctuations	Maintain constant analysis of exchange rate and interest rate information by those responsible for financial affairs, centering on Chief Financial Officers of the Company, technology businesses, and main Group companies, and make shared responses
		Aim for Groupwide forex-neutral financial management
		At the individual Group company level, undertake hedging through such means as local currency-denominated procurement of materials and sales and forward exchange contracts

LIXIL Group strategies	Main risks	Risk management measures
Business globalization	International tax risks, such as transfer pricing legislation	Ensure constant monitoring of international tax systems by Company, technology business, and main Group company staff responsible for financial and legal matters, centering on Chief Financial Officers and Chief Legal Officers, and make shared responses
	Responses to different countries' legal and regulatory requirements and related cost increases	Ensure constant analysis of information on legal and regulatory matters by staff responsible for legal matters at the Company, technology businesses, and main Group companies, centering on Chief Legal Officers, and make shared responses
	Higher costs for human resource and business counterparty management accompanying value chain expansion	Select high-quality material suppliers and business partners
		Regularly review the status of personnel and labor management at suppliers and business partners
	Rapid market and demand changes triggered by such factors as financial system instability	Diversify sources of earnings across multiple main markets, centering on Europe, North America, China, Southeast Asia, and Japan
	Value chain disruption caused by changes in geopolitical risk resulting from international conflict and other developments and major natural disasters	Require each technology business and Group company to prepare and manage a business continuity plan (BCP), which is to be inspected periodically in light of the Groupwide BCP
	Diminished effectiveness in strategy implementation owing to divergence between management strategy and the views of employees	Promote understanding of business strategies through enhanced communications between management of the Company and technology businesses, the Board of Directors and executive officers of each Group company, and staff
		Promote understanding of LIXIL Values and diversity awareness; raise employees' satisfaction through fair evaluation/promotion systems
		Realign attitudes of staff through training programs to develop leaders able to excel in a global context
	Growth in Japanese business as a result of taking opportunities in the renovation market	Slowdown in renovation-related demand owing to changes in interest rate policy, increases in the consumption tax rate, and changes in government housing policies  Growth in demand for rental housing in tandem with reductions in the inheritance tax basic deduction
Develop and provide products and renovation processes to enhance seismic resistance and thermal insulation efficiency		
Lower profitability resulting from intensifying competition <a href="#">Note 4</a>		Develop and sell high-value-added products through pursuing product quality and design appeal; establish a differentiated product lineup by introducing the products of overseas Group companies to the Japanese market
		Reinforce service and technology quality through strengthening support services for renovation contractors

For detailed information on business risks, please see the Business Risks section of this report on pages 72 and 73.

#### Note 1

We reorganized LWT in March 2016, with LIXIL Group Corporation's CEO also assuming the post of LWT CEO. While speeding up the integration of business strategies at LWT with the management strategies of the Group as a whole, we have been working to tighten management control and minimize risks.

#### Note 2

We have been realizing procurement and distribution cost savings by increasing supply chain management (SCM) efficiency at each technology business. For further discussion about strengthening SCM and its progress, please see pages 22 and 23.

#### Note 3

In the fiscal year ended March 2016, we revised management measures, organizational structures, and business procedures relating to the business management of overseas subsidiaries.

#### Note 4

While focusing on product development to meet demand in the renovation market, we have also been devising sales approaches that allow us to display the Group's competitive leadership. For a discussion of growth in the renovation business, please see pages 20 and 21.

## CORPORATE RESPONSIBILITY



**Hwa Jin Song Montesano**  
Executive Officer and Senior Managing Director

### Message from the Chairperson of the Corporate Responsibility (CR) Committee

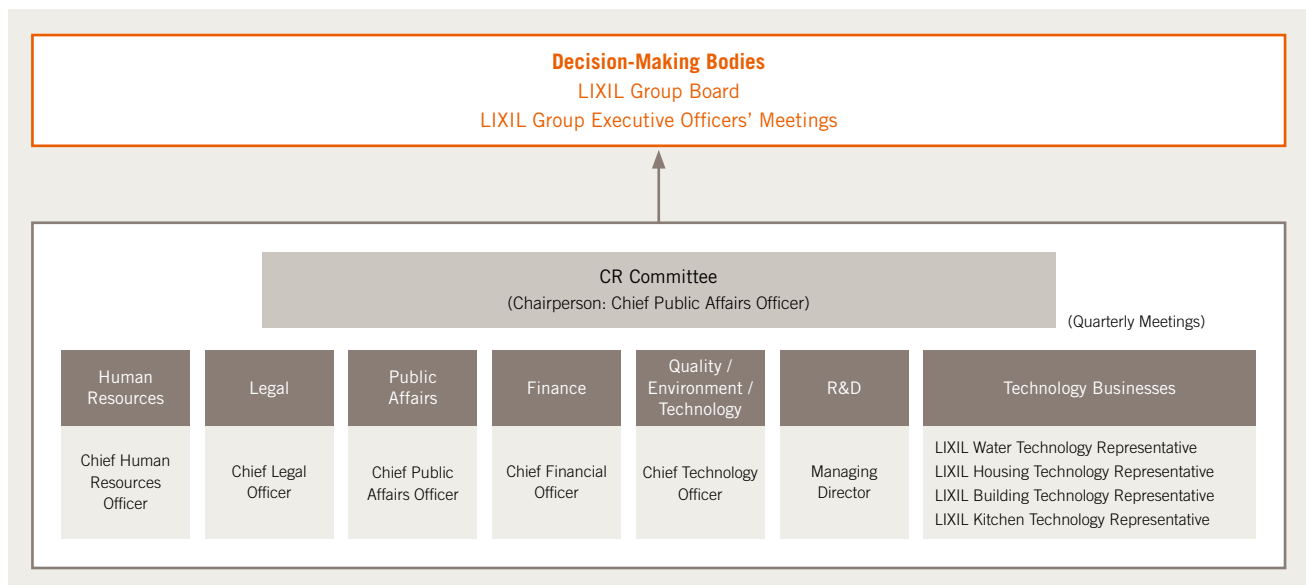
As a global citizen, we are more engaged on social and environmental issues today than ever before, and we are committed to creating a positive impact on society through our responsible business operations and sustainable innovations.

In the fiscal year ended March 2016, we updated our Corporate Responsibility (CR) strategy to ensure that it is truly global in scope, covers broader issues, and includes bolder commitments. The new strategy was developed and material CR issues were selected by evaluating current global needs and stakeholders' expectations and identifying the areas where those needs intersect with LIXIL's expertise and business strategy.

We believe that Corporate Responsibility is core to LIXIL's long-term success, and therefore our CR strategy must align with our business strategy. With this belief, our CR Committee structure has been renewed to reflect the operating model established in the previous fiscal year. Under the new structure, CR priority issues are owned by their respective executive leaders, which ensures swifter action and tighter integration of business and CR strategy.

As we strive to become the world's most valued, innovative and trusted 'Living Technology' company, there is still more that we can and must do to make positive, lasting contributions to the global community. Under our revamped CR strategy, we will demonstrate our long-term commitment to tackling global issues.

### Corporate Responsibility (CR) Promotion Framework

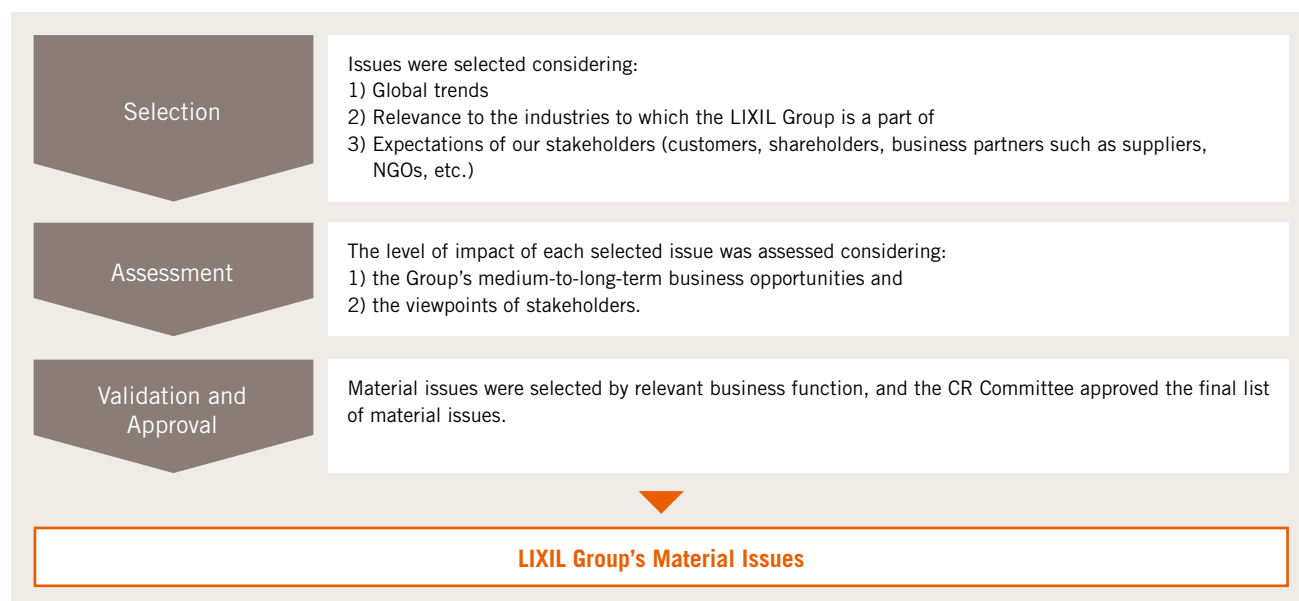




## Material Issues

The issues outlined in our Corporate Responsibility strategy and framework are based on a rigorous material issues selection process, as described below, which enables us to identify the issues that matter most to our stakeholders and the Group. Our medium-term CR action plan provides further focus on these material issues, with future progress and the results of related activities to be disclosed on our corporate website.

## Material Issues Selection Process

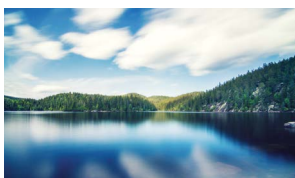


## Social Issues Relevant to the LIXIL Group's Businesses



### Global Sanitation & Hygiene

In the world today, about 2.4 billion people—one in every three people—are estimated to be living without access to proper sanitation and 950 million people still defecate in the open. Not only is it embarrassing for women and girls to defecate in the open, but having to find a place away from home increases the risk of assault. An estimated 800 children under five years of age die every day from diarrheal diseases caused by contaminated water and poor sanitation. As a global leader in sanitary ware, LIXIL is committed to promoting and enabling access to safe and hygienic sanitation practices.



### Water Conservation & Environmental Sustainability

Sustainable use of natural resources is ever more critical for our society, and, given the nature of LIXIL's business, there are multiple areas in which our actions can make a difference. By 2030, approximately 47% of the world's population is expected to be living in areas of high water stress. Additionally, LIXIL's business is strongly linked to buildings, which account for 32% (24% residential and 8% commercial) of total global final energy use, and, without action, energy use by buildings is estimated to more than double by 2050.



### Diversity & Inclusion

By 2050, more than one in every five people around the world are projected to be over the age of 60, with many living either alone or with their spouse only. Approximately 15% of the world's population today has some sort of disability, and this rate is increasing every year. In Japan, female participation in the workforce is still low compared with other countries, despite the fact that various research suggests that gender diversity correlates with less volatile and improved financial performance of corporations. Consistent with our strategy, we are committed to enhancing the quality of life and wellbeing of people through our products and services, as well as harnessing the intelligence and perspectives of our diverse workforce, as an engine for growth and innovation.

## CORPORATE RESPONSIBILITY

### Corporate Responsibility Strategy

In March 2016, we updated the Corporate Responsibility strategy aimed at realizing our Corporate Vision: To be the world's most valued, innovative and trusted 'Living Technology' company by 2020.

### Corporate Responsibility Framework

#### Our Corporate Responsibility Mission

**To be the most trusted company by enhancing living spaces through innovative, responsible engagements and initiatives around the world**

#### Global Sanitation & Hygiene



Promote and enable access to safe and hygienic sanitation practices, especially for women and girls, while preventing the harmful transmission of diseases for children

#### "100 Million People"

By 2020, improve the livelihood of 100 million people through sanitation and hygiene solutions

- Promote research and development of products that actively contribute to resolving sanitation issues
- Create a business that improves sanitation facilities in developing countries around the world

#### Water Conservation & Environmental Sustainability



Conserve water, energy, and other natural resources utilized in and by LIXIL products and services, including in the supply chain, production, distribution and during end use

#### "Net Zero"

By 2030, achieve a net zero balance between LIXIL's environmental footprint and the positive environmental contributions created through our products and services

- Design products and services with consideration to life cycle impacts and environmental efficiencies, and increase the sales share of this product portfolio
- Lower the environmental burden of the overall business process by improving energy and water efficiencies and resource recycling

#### Diversity & Inclusion



- Enhance quality of life and wellbeing for the elderly and the physically disabled through LIXIL products and services
- Harness the intelligence and perspectives of our diverse workforce as an engine for growth and innovation

#### "Embrace the Diversity of People in Society and within LIXIL"

- Create more inclusive products, particularly to support the elderly and people with disabilities
- Implement internal diversity initiatives around the world

### Our strategy stands upon a foundational commitment to ethical business practices

#### Governance

Enhance LIXIL's governance to maximize our corporate values

#### Fair Business Practices

Engage all employees and officers in our business operations with a high standard of corporate ethics

#### Human Rights

Advance human rights across the business to operate as a responsible corporate citizen

#### Labor Practices

Build a strong corporation and workplace where all employees can achieve their fullest potential

#### Quality and Satisfaction

Strengthen relationships with customers through our products and services

#### Supply Chain

Through responsible management of the overall supply chain, deliver a stable portfolio of products and fulfill stakeholder accountability

#### Stakeholder Engagement

Proactively engage with LIXIL's key stakeholders








As a global 'Living Technology' company, we aim to leverage our technologies and know-how from our core business to help tackle challenging global issues. Under our updated Corporate Responsibility strategy, we have, in particular, committed ourselves to helping tackle the three priority issues of Global Sanitation & Hygiene, Water Conservation & Environmental Sustainability, and Diversity & Inclusion.

With Global Sanitation & Hygiene, we have developed and begun to commercialize the SaTo™ ("Safe Toilet") series of affordable, easy-to-install products and field trial two other innovative toilet systems aimed at providing access to hygienic

toilets in developing countries. With Water Conservation & Environmental Sustainability, we aim to conserve water, energy, and other natural resources and, under our Environmental Vision 2030, achieve a net zero balance between the positive environmental contribution from our products and services and the environmental footprint of our entire business. With Diversity & Inclusion, we aim to provide products and services to meet the range of needs of our diverse groups of customers and, concurrently, pursue greater workforce diversity as an engine for growth and innovation.

## List of the LIXIL Group's Material Issues, Targets, and KPIs

The Group identified the following material issues under its Corporate Responsibility strategy and Corporate Responsibility framework. We have formulated our medium-term CR action plan and started implementing activities accordingly.

Material issues		Target	KPIs (fiscal 2017)
Governance	Corporate governance	Establish global-standard governance	<ul style="list-style-type: none"> <li>Set clear rules and procedures for business boards and other committee groups</li> <li>Ensure 100% coverage of improved governance rules and procedures</li> </ul>
	Compliance	Develop comprehensive and effective compliance structure across the Group	Groupwide: <ul style="list-style-type: none"> <li>Basic training and commitment to Group Code of Conduct: 100%</li> <li>Implementation of training by region and corporate position: 100%</li> </ul>
	Risk management	Establish and operate a Groupwide enterprise risk management system	Coverage of the risk management system across Group companies: 100%
Fair Business Practices	Anti-corruption	Develop an effective anti-corruption mechanism across the Group	Groupwide compliance-related education and training ratio: 100%
Human Rights	Human rights due diligence	Appropriately manage human rights considerations that fall within the scope of our operational influence across our entire value chain	Implementation of Human Rights Policy learning across the Group: 100%
Labor Practices	Diversity and equal opportunity 	Secure highly competent people by respecting diversity across the Group	<ul style="list-style-type: none"> <li>Percentage of women among regularly recruited new hires (Japan only): over 30%</li> <li>Percentage of women participating in leadership development programs (Japan only): over 20%</li> </ul>
	Occupational health and safety	Establish an Environment, Occupational Health and Safety (EHS) management system across the Group	Groupwide implementation of the EHS management system: 95%
	Working environment	Maintain a highly satisfied workforce across the Group	Implementation of action plans derived from the 2017 global employee awareness survey across the Group: 100%
	Talent development	Create a company that encourages individual employees to nurture their leadership skills	<ul style="list-style-type: none"> <li>Number of employees participating in leadership training: 210 employees</li> </ul>
Quality and Satisfaction	Product safety	Eradicate product accidents	<ul style="list-style-type: none"> <li>Number of serious product accidents across the Group: 0 cases</li> </ul>
Environment	Greenhouse gas reduction 	Promote reduction in greenhouse gas emissions across the Group	Groupwide: <ul style="list-style-type: none"> <li>Benefits from CO<sub>2</sub> emissions reduction achieved from products and services increased by 1.14 times (compared to fiscal 2015)</li> <li>Levels of CO<sub>2</sub> emissions across all operational processes reduced by 3.2% (compared to fiscal 2015)</li> </ul>
	Water conservation 	Promote efficient use of water resources across the Group	
	Sustainable use of raw materials 	Promote sustainable use of resources across the Group, from procurement of raw materials through disposal	
Supply Chain	Supply chain management	Identify suppliers' CR risk, and establish a mechanism to respond accordingly	Achieve supplier monitoring coverage ratio (based on purchased amount) of 80% in Japan and 60% outside Japan; ensure that 100% of suppliers satisfy CR management standards
Stakeholder Engagement	Contribution to global sanitation and hygiene 	Help improve global sanitation and hygiene through our business	Generate 10.9 million beneficiaries by the end of FY2017 in order to achieve our 2020 target of 100 million beneficiaries
	R&D for solving social problems 	Create products that contribute to the environment	Assessment of business plans for recycling timber waste
	R&D for solving social problems 	Create products that support the lives of elderly people and people with disabilities	Development of IoT-driven applications: 10 applications

For further details regarding the Group's material issues, and Corporate Responsibility activities and outcomes, please refer to the Sustainability section of our corporate website.

 <http://www.lixil.com/en/sustainability/>

## CORPORATE RESPONSIBILITY

# Environmental Resource Management

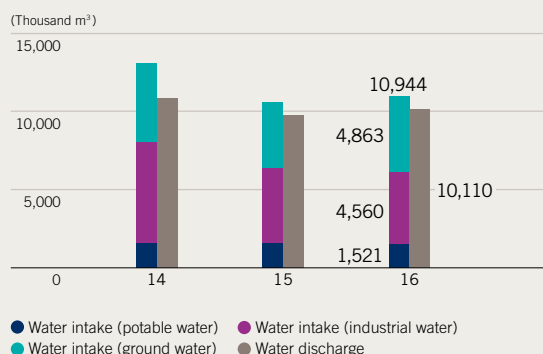
Years ended March 31

The LIXIL Group is committed to conserving water, energy, and other natural resources in every process of the business—from procurement, production, product use, and disposal—as it progresses toward the target set out in Environmental Vision 2030: to reach net zero balance between the positive environmental contribution from our products and services and the environmental footprint of our business. Recognizing the vital role our core products play in energy and water conservation, and seeking to ensure the sustainable management of environmental resources essential to our business activities, we have highlighted a list of key performance indicators (KPIs): reducing greenhouse gas emissions and energy usage, preserving water resources, promoting the sustainable use of raw materials, and building environmental management systems.

Note: For further details regarding the Group's Corporate Responsibility activities and outcomes, please refer to the Sustainability section of our corporate website. The scope of the data differs from the scope of the consolidated financial data, and a portion of the data in the website has received the independent practitioner's assurance. For details, please refer to the following URL:

[http://www.lixil.com/en/sustainability/environment/ev\\_performance.html](http://www.lixil.com/en/sustainability/environment/ev_performance.html)

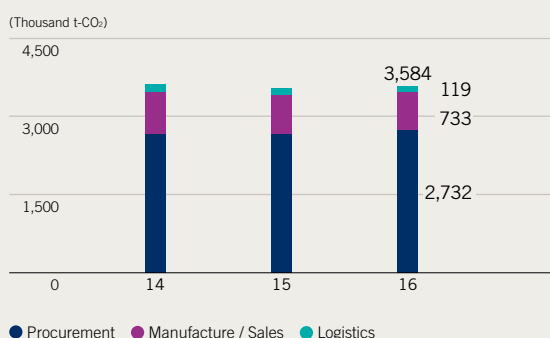
## Water Intake / Water Discharge



## Conserving Water Resources

In the fiscal year ended March 2016, our total water intake volume increased 3.4% year on year, to 10,944 thousand cubic meters, while our water discharge volume increased 3.9% year on year, to 10,110 thousand cubic meters. The changes are a result of extending the scope of the monitoring to include a new factory. As water is essential to our production processes, particularly with aluminum products, we are promoting more efficient water use by implementing water recycling systems as well as conserving water by improving production processes.

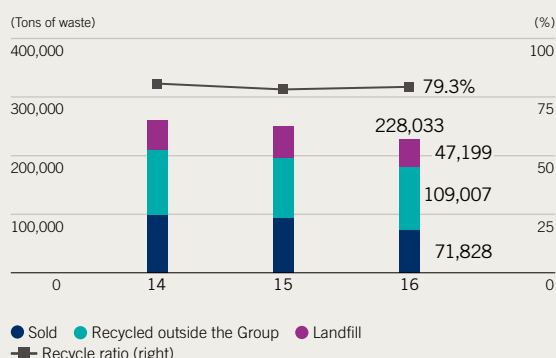
## CO<sub>2</sub> Emissions



## Reducing Energy Consumption

We have reduced the volume of CO<sub>2</sub> emissions throughout our production, sales, and distribution activities for two consecutive years by implementing supply chain management initiatives centered on enhancing logistics efficiency and optimizing operations at manufacturing sites to reduce energy consumption. However, due to increased production volumes as a result of strong sales, the volume of our CO<sub>2</sub> emissions related to procurement rose 2.9% during the fiscal year ended March 2016.

## Waste / Recycle Ratio



## Effectively Using Resources and Recycling Waste

As a result of increased recycling and sales of waste to external companies, the total volume of waste declined and the recycling ratio improved. Specifically, in the fiscal year ended March 2016, the total volume of waste declined 9.1% year on year, to 228,033 metric tons, and the recycle ratio, a measure of waste sold and recycled externally as a proportion of total waste, increased by 1.1 percentage points, to 79.3%. The LIXIL Group is committed to continue promoting recycling initiatives throughout its operations globally.

# Human Resource Management

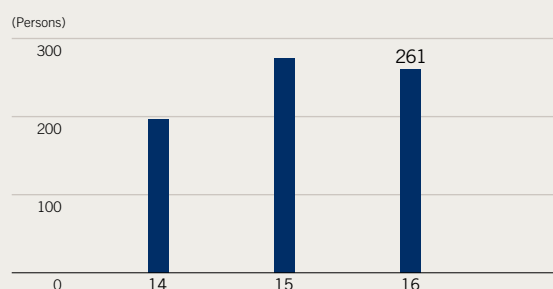
Years ended March 31

The LIXIL Group is committed to enhancing quality of life and wellbeing for the elderly and the disabled through LIXIL products and services. To achieve this, we believe it is vital to promote diversity within the Group and incorporate the various perspectives and inputs from our employees. The LIXIL Group's diverse workforce is a result of the globalization of our employees through overseas expansion and the increasingly active roles women are playing in the workplace in Japan. By enhancing the understanding of the LIXIL Values and creating a corporate culture that encourages employees to succeed, we are harnessing the intelligence and perspectives of our diverse workforce as an engine for growth and innovation.

Note: For further details regarding the Group's Corporate Responsibility activities and outcomes, please refer to the Sustainability section of our corporate website. The scope of the data differs from the scope of the consolidated financial data, and a portion of the data in the website has received the independent practitioner's assurance. For details, please refer to the following URL:

<http://www.lixil.com/en/sustainability/people/performance.html>

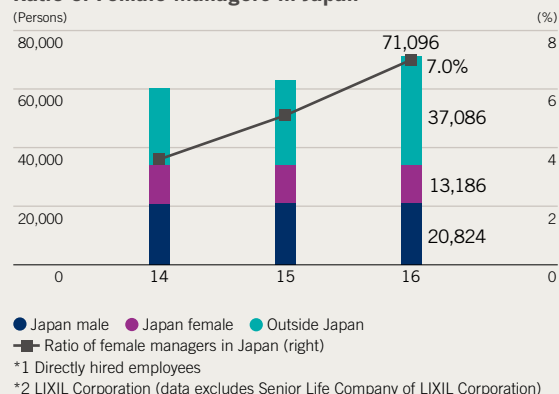
## Participants in Leadership Training



## Nurturing Future Business Leaders

To strengthen the leadership skills of potential future corporate leaders, there are training opportunities for Group employees, which include leadership training that runs for six months to a year. Additionally, in the fiscal year ended March 2016, an average of 15.7 hours were spent on training initiatives for each employee in Japan, which is an average of ¥66,718 invested per person.

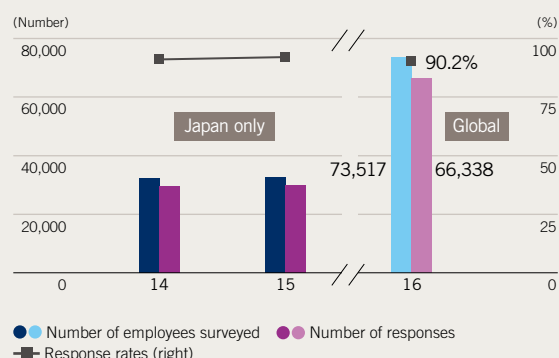
## Group Employees\*1 / Ratio of Female Managers in Japan\*2



## Promoting Human Resource Globalization and Active Roles for Women

The LIXIL Group is becoming increasingly global and diversified, with Group companies outside Japan now accounting for 52% of total Group employees. In Japan, active female participation in the workforce is considered one of the key elements of diversification, and we have identified raising the proportion of female managers as an important business strategy. As a result, the ratio of female managers has increased nearly eightfold over the past four years, to 7.0% as of March 31, 2016.

## Employee Surveys



## Committing to Job Satisfaction

To incorporate employees' voices into creating a better working environment, we conduct an employee opinion survey. In the past, we implemented surveys on an operating company basis, but in the fiscal year ended March 2016 we switched to an integrated approach covering all Group companies. Based on the analysis of the results, we are identifying challenges and implementing improvement measures at each business unit and function, which will lead to higher job satisfaction and encourage engagement throughout the Group.



# CONSOLIDATED NINE-YEAR SUMMARY

LIXIL Group Corporation and Consolidated Subsidiaries

Years ended March 31	JGAAP			
	2008	2009	2010	2011
<b>Results of Operations</b>				
Net sales (JGAAP) / Revenue (IFRS)	¥1,103,839	¥1,046,854	¥ 982,607	¥1,214,939
Operating income (JGAAP) / Core earnings (IFRS)	35,737	25,603	25,984	40,409
Operating income ratio (JGAAP) / Core earnings ratio (IFRS)	3.2%	2.4%	2.6%	3.3%
Operating profit (IFRS)				
Profit (loss) for the year attributable to owners of the parent* <sup>1</sup>	17,709	475	(5,332)	15,780
Research and development expenses	15,656	15,978	14,756	13,688
Capital expenditures	35,418	35,088	30,844	45,779
Depreciation	32,570	35,158	32,916	36,289
EBITDA* <sup>2</sup>	68,398	61,013	60,485	80,106
<b>Cash Flows</b>				
Cash flows from operating activities	60,177	63,927	68,074	48,680
Cash flows from investing activities	(47,480)	(63,082)	(27,334)	(13,543)
Cash flows from financing activities	(40,359)	21,914	(27,825)	(41,687)
Cash and cash equivalents, end of year	52,679	73,973	89,302	92,329
<b>Financial Position</b>				
Total assets	1,061,036	1,048,838	1,033,504	1,166,834
Total equity	556,118	533,073	516,322	536,408
Interest-bearing debt	229,575	263,770	257,484	272,516
<b>Per Share Data</b>				
Earnings per share* <sup>1</sup>	¥ 61.20	¥ 1.70	¥ (19.12)	¥ 55.50
Total equity per share	1,983.79	1,903.69	1,842.78	1,850.34
Dividends per share	40	40	40	40
<b>Key Ratios</b>				
EBITDA ratio* <sup>2</sup>	6.2%	5.8%	6.2%	6.6%
ROE	3.1	0.1	(1.0)	3.0
ROA	1.6	0.04	(0.5)	1.4
Total assets turnover (times)	1.0	1.0	0.9	1.0
Equity ratio (JGAAP) /				
Ratio of equity attributable to owners of the parent (IFRS)	52.1	50.6	49.7	45.2
Dividend payout ratio	65.4	2,352.9	—	72.1
Debt-to-equity ratio* <sup>3</sup>	41.5	49.7	50.1	51.7
Number of employees* <sup>4</sup>	31,838	32,700	35,976	41,090
<b>Stock Indicators</b>				
Stock price (closing), end of year (yen)	¥ 1,497	¥ 1,106	¥ 1,903	¥ 2,160
Market capitalization (millions of yen)	468,642	346,238	595,742	676,197
Price earnings ratio (times)	24.5	650.6	(99.5)	38.9
Price book-value ratio (times)	0.75	0.58	1.03	1.17

\*<sup>1</sup> Figures are after amortization of goodwill (JGAAP).\*<sup>2</sup> EBITDA is calculated under JGAAP as operating income + depreciation and amortization + goodwill amortization and under IFRS as core earnings + depreciation and amortization.\*<sup>3</sup> Debt-to-equity ratio is calculated by interest-bearing debt / total equity based on fiscal year-end.\*<sup>4</sup> The number of employees in 2016 is on an IFRS basis, the definition of which differs from the number under JGAAP.\*<sup>5</sup> U.S. dollar amounts have been converted at US\$1=¥112.68, the rate on March 31, 2016.

Note: Under JGAAP, figures of less than ¥1 million are truncated, while under IFRS figures of less than ¥1 million are rounded.

## Recent M&As (figures as of the acquisition)

July 2009		April 2010		April 2010		August 2011	
American Standard Asia Pacific (Group)		Shin Nikkei Company, Ltd.		SUN WAVE CORPORATION		Kawashima Selkon Textiles Co., Ltd.	
Sales	¥23.5 billion	Sales	¥110.0 billion	Sales	¥85.0 billion	Sales	¥34.3 billion*
Acquisition cost	¥17.6 billion	Acquisition cost	¥0.7 million	Acquisition cost	¥13.7 billion	Acquisition cost	¥2.2 billion and share exchange
Equity owned	100%	Equity owned	100%	Equity owned	100%*	Equity owned	100%
Goodwill	¥2.1 billion (net)	Goodwill	¥5.4 billion	Goodwill	¥6.1 billion (negative)	Goodwill	¥1.7 billion
Intellectual property	¥3.5 billion						

\* 80% at the time of the acquisition

\* Excludes interior fabric business for vehicles which the company separated from the main business

JGAAP					IFRS		
					Millions of yen		Millions of U.S. dollars*5
2012	2013	2014	2015	2016	2015	2016	2016
¥1,291,396	¥1,436,395	¥1,628,658	¥1,673,406	¥1,845,117	¥1,705,427	¥1,890,450	\$16,777
17,915	50,485	69,080	51,674	56,259	51,722	70,069	622
1.4%	3.5%	4.2%	3.1%	3.0%	3.0%	3.7%	
1,868	21,347	20,952	22,013	(18,664)	48,041	39,011	346
15,350	14,025	17,380	18,199	—	30,864	(25,605)	(227)
52,107	73,795	64,321	62,622	76,403	18,211	25,523	227
39,370	44,736	49,168	50,724	60,451	61,454	72,083	640
59,887	100,627	124,822	108,887	128,692	50,404	62,205	552
					102,126	132,274	1,174
33,979	28,432	83,533	138,931	137,012	98,563	121,085	1,075
(142,067)	(12,397)	(218,333)	(129,228)	16,547	(119,041)	19,122	170
138,348	(31,753)	153,144	10,010	(171,758)	46,618	(154,403)	(1,370)
127,351	114,662	139,039	160,378	138,801	147,708	129,646	1,151
1,481,063	1,465,689	1,786,294	1,875,249	2,060,873	1,915,427	2,130,120	18,904
538,776	566,312	601,795	613,651	637,517	590,855	537,308	4,768
441,874	424,035	626,475	676,008	680,219	707,679	827,059	7,340
					Yen		U.S. dollars*5
¥ 6.49	¥ 73.42	¥ 72.06	¥ 75.46	¥ (65.11)	¥ 105.80	¥ (89.33)	\$ (0.79)
1,817.34	1,930.02	2,041.34	2,104.27	1,894.55	2,038.56	1,828.84	16.23
40	40	55	60	60	60	60	0.53
							%
4.6%	7.0%	7.7%	6.5%	7.0%	6.0%	7.0%	
0.4	3.9	3.6	3.7	(3.3)	5.3	(4.6)	
0.1	1.4	1.3	1.2	(0.9)	1.7	(1.3)	
1.0	1.0	0.9	0.9	0.9	0.9	0.9	
35.7	38.3	33.2	32.1	26.4	30.5	24.6	
616.3	54.5	76.3	79.5	—	56.7	—	
83.6	75.6	105.6	112.2	125.1	121.2	157.6	
48,163	45,602	51,419	52,427	—	—	60,677	
¥ 1,733	¥ 1,858	¥ 2,846	¥ 2,847	¥ 2,295	¥ 2,847	¥ 2,295	
542,523	540,221	827,426	891,265	718,459	891,265	718,459	
267.0	25.3	39.5	37.73	—	26.9	—	
0.95	0.96	1.39	1.35	1.21	1.40	1.25	

**December 2011**  
 Permasteelisa S.p.A.

Sales	¥116.0 billion
Acquisition cost	¥60.8 billion
Equity owned	100%
Goodwill	¥34.3 billion
Intangible assets	¥35.0 billion

**August 2013**  
 ASD Americas Holding Corp. (ASB)

Sales	¥82.0 billion
Acquisition cost	¥30.5 billion
Equity owned	100%
Goodwill	¥14.7 billion
Intangible assets	¥21.7 billion

**January 2014**  
 GROHE Group S.à r.l.

Sales	¥157.5 billion
Acquisition cost	¥80.1 billion
Equity owned	44%*
Goodwill	¥157.3 billion
Intangible assets	¥209.3 billion

**October 2014**  
 GROHE DAWN WaterTech Holdings Pty Ltd

Sales	¥12.9 billion
Acquisition cost	¥8.6 billion
Equity owned	51%
Goodwill	¥1.2 billion
Intangible assets	¥7.8 billion

\* 56% as of April 1, 2015

# MANAGEMENT'S DISCUSSION AND ANALYSIS

LIXIL Group Corporation and Consolidated Subsidiaries

## Business Environment

In the fiscal year ended March 31, 2016, the Japanese economy benefited from improvements in the job market stemming from government economic and financial measures. However, overall growth was stifled by a rising sense of economic stagnancy due to the slow recovery seen in certain overseas economies coupled with the persistently low levels of consumer spending in Japan.

New housing starts increased 4.6% year on year, to about 920 thousand units. The impacts of the fall in demand in response to rush demand ahead of the consumption tax increase experienced in the previous fiscal year dissipated, but the level of owned-house construction starts remained low, making for a difficult operating environment.

## Business Performance

In this business environment, the LIXIL Group steadily advanced the various measures set out in the Medium-Term Business Strategy "Redefining the Future," launched in September 2015. In Japanese operations, we shifted management resources to capture renovation business, which is a growth segment in Japan. At the same time, LIXIL Corporation was reorganized to an operating model in which operations are managed around four technology businesses: LIXIL Water Technology, LIXIL Housing Technology, LIXIL Building Technology, and LIXIL Kitchen Technology.

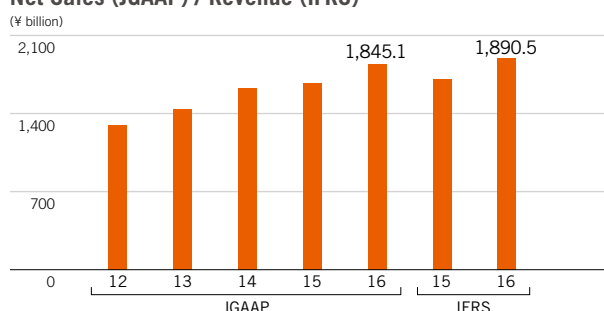
In the overseas business, new product launches and increased orders drove strong performance. In addition, we converted Europe-based GROHE Group S.à r.l. (GROHE), the world's leading provider of sanitary fittings, into a consolidated subsidiary.

In conjunction with the aforementioned transition to a technology business operating model, the previous nine domestic and overseas reporting segments were reorganized into six segments effective from the fiscal year ended March 31, 2016. Also beginning with this fiscal year, the Company adopted International Financial Reporting Standards (IFRS). Figures from the fiscal year ended March 31, 2015, used in year-on-year comparisons below have been restated to reflect the shift to IFRS.

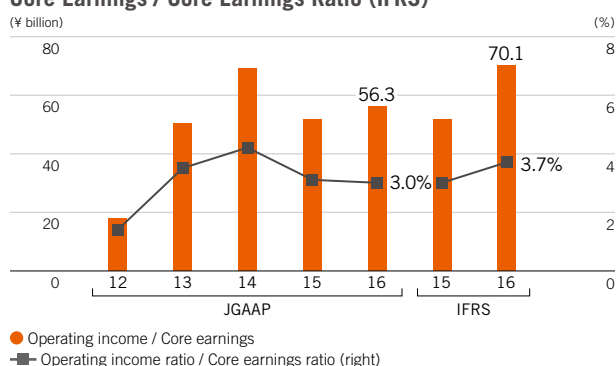
In the fiscal year ended March 31, 2016, the Company recorded consolidated revenue of ¥1,890.5 billion, up ¥185.0 billion, or 10.8%, year on year. This increase can be attributed to domestic renovation business growth as well as higher overseas sales for LIXIL Water Technology due to contributions from the newly consolidated GROHE and the recovered performance of American Standard Brands.

Gross profit grew ¥86.4 billion, or 19.0%, to ¥541.6 billion, and the gross margin increased 1.9 percentage points, to 28.6%. This profit growth was achieved by offsetting the rise in costs that resulted from foreign exchange influences and soaring material prices through improved selling prices and the consolidation of GROHE's high-margin business. Selling, general and administrative (SG&A) expenses rose ¥68.0 billion, or 16.9%, to ¥471.5 billion, and the SG&A ratio increased 1.2 percentage points, to 24.9%. The rise in SG&A expenses was primarily the result of the high SG&A ratio of GROHE as well as the recording of provision for

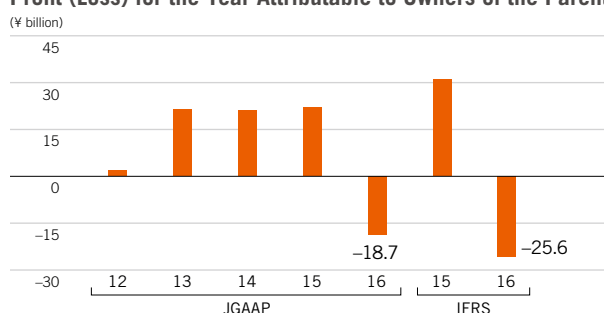
## Net Sales (JGAAP) / Revenue (IFRS)



## Operating Income / Operating Income Ratio (JGAAP) Core Earnings / Core Earnings Ratio (IFRS)



## Profit (Loss) for the Year Attributable to Owners of the Parent



Note: Years ended March 31

doubtful accounts by overseas subsidiaries. Consequently, core earnings grew ¥18.3 billion, or 35.5%, to ¥70.1 billion. Other expenses came in the form of impairment loss, loss on sales of shares of subsidiaries, and the recording of an investigation fee in relation to Joyou AG. As a result, operating profit decreased ¥9.0 billion, or 18.8%, to ¥39.0 billion, and the operating profit ratio declined from 2.8% to 2.1%.

Loss for the year attributable to owners of the parent of ¥25.6 billion was recorded, compared with profit for the year attributable to owners of the parent of ¥30.9 billion in the previous fiscal year, due to loss on guarantees with respect to liabilities recorded in relation to Joyou and a deterioration in the balance of finance income and finance costs that resulted from foreign exchange influences.

### Year-on-Year Comparison of Revenue in the Fiscal Year Ended March 31, 2016

A breakdown of the change in revenue by business area is as follows:

LIXIL Water Technology posted a 53.8% year-on-year revenue increase of ¥223.1 billion. This increase was a result of the benefits of the previously mentioned consolidation of GROHE, favorable sales in the United States and other overseas markets generated by the introduction of new products, and contributions from new additions to the lineup of *SPAGE* system bathrooms for condominium renovations. LIXIL Housing Technology recorded a revenue decrease of ¥11.4 billion, or 1.8%, as the impacts of sluggish demand for new housing starts were greater than the growth achieved through the sales promotions of high-performance plastic windows. Revenue was down ¥16.2 billion, or 4.7%, for LIXIL Building Technology due to economic slowdowns in the Middle East and China. The slowdown in China also affected LIXIL Kitchen Technology, which saw revenue decline ¥2.9 billion, or 2.5%, regardless of such measures as the launch of new kitchen system series.

In the Distribution & Retail Business, we continued to increase the number of large-scale home centers with store openings, including the Super Viva Home Nagoya Minami store, based on a new model. However, revenue was down ¥9.9 billion, or 5.1%, year on year due to the effects of carving out of the Ken Depot business to

an equity-method affiliate. Excluding the Ken Depot business, nonetheless, LIXIL VIVA CORPORATION delivered the 11th consecutive year of higher revenues. Revenue was up ¥1.5 billion, or 2.3%, in the Housing & Services Business as we focused on capturing orders and promoting sales by such means as the release of a new, high-performance house with thermal insulation that meets global standards.

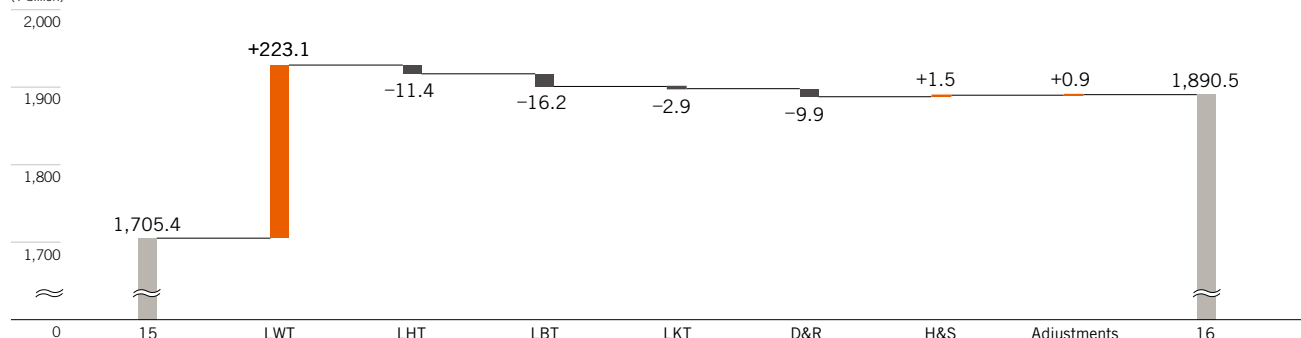
### Year-on-Year Comparison of Core Earnings\* in the Fiscal Year Ended March 31, 2016

Changes in core earnings by business area are as follows:

With regard to LIXIL Water Technology, core earnings rose ¥26.0 billion year on year. Of this increase, ¥9.4 billion was a result of income improvements in existing business while ¥16.6 billion came from the consolidation of GROHE. Core earnings for LIXIL Housing Technology rose ¥5.6 billion because such measures as higher selling prices offset the impacts of foreign exchange influences and soaring material prices. LIXIL Building Technology suffered a ¥11.4 billion decrease in core earnings due to a ¥1.9 billion decline in profits at Shanghai Meite Curtain Wall System Co., Ltd., as well as a ¥3.1 billion reduction stemming from the recording of provision for doubtful accounts in relation to long-term contract work receivables of Permasteelisa S.p.A., which were a result of economic slowdowns in China and the Middle East. In addition,

#### Revenue (IFRS)

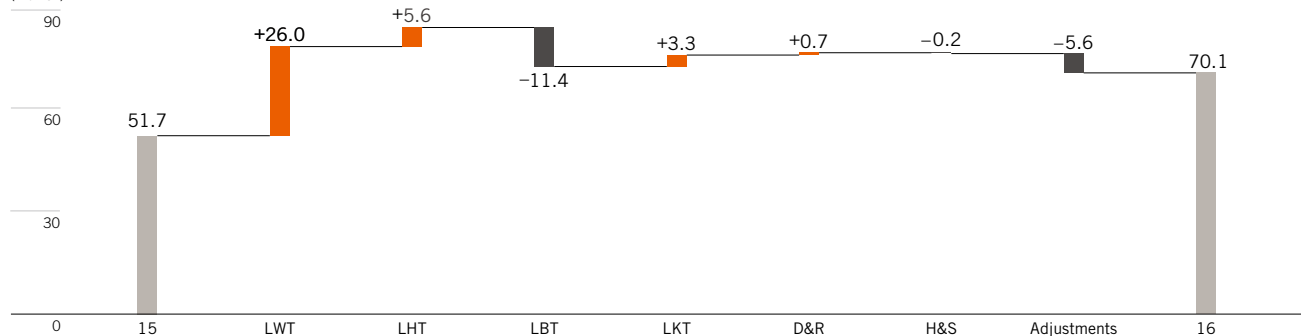
(¥ billion)



Note: Years ended March 31

#### Core Earnings (IFRS)

(¥ billion)



Note: Years ended March 31

## MANAGEMENT'S DISCUSSION AND ANALYSIS

LIXIL Corporation sold its entire stake in Shanghai Meite Curtain Wall System in March 2016. Core earnings rose ¥3.3 billion year on year for LIXIL Kitchen Technology. The business posted a ¥0.5 billion decline in overseas operations due to the economic slow-down in China, but this decrease was offset by a ¥2.8 billion increase in income from domestic operations mainly due to the absence of expenses incurred for responding to snow damage at a domestic plant in the previous fiscal year.

In the Distribution & Retail Business, a year-on-year increase of ¥0.7 billion was recorded in core earnings due to the carving out of the Ken Depot business. Conversely, core earnings decreased ¥0.2 billion in Housing & Services Business due to losses on valuation of real estate held for resale.

\* Core earnings = Revenues – Cost of Sales – SG&A expenses

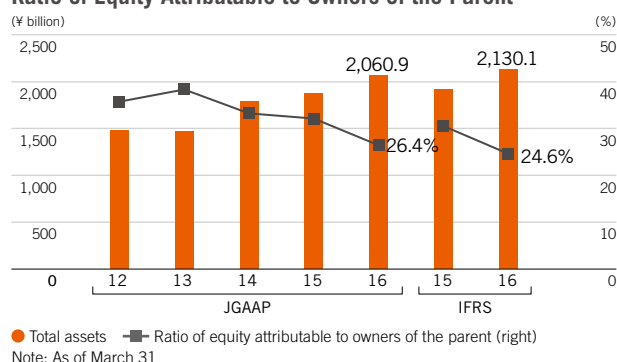
### Financial Position

Total assets as of March 31, 2016, stood at ¥2,130.1 billion, up ¥214.7 billion from the end of the previous fiscal year.

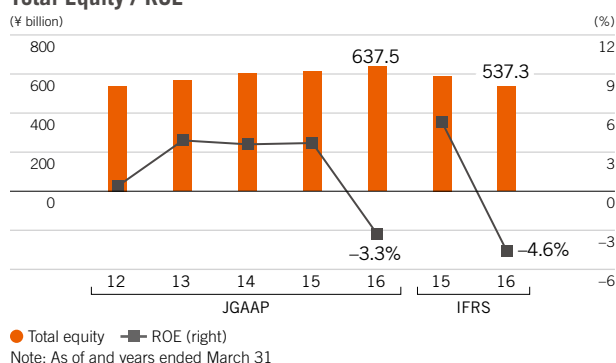
Total current assets decreased ¥118.0 billion, to ¥885.2 billion, due to decreases in other current financial assets and construction contract assets. Total non-current assets were up ¥332.7 billion from the end of the previous fiscal year, to ¥1,244.9 billion, as goodwill and other intangible assets increased as a result of the consolidation of GROHE.

Total equity amounted to ¥537.3 billion, compared with ¥590.9 billion at the end of the previous fiscal year, and the ratio of total equity attributable to owners of the parent was 24.6%, compared with 30.5% a year earlier.

### Total Assets / Ratio of Equity Attributable to Owners of the Parent



### Total Equity / ROE



### Cash Flows

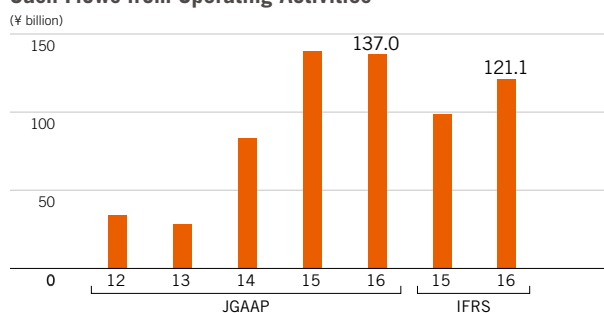
Net cash provided by operating activities increased ¥22.5 billion year on year, to ¥121.1 billion. This figure chiefly reflected increases in non-cash items and working capital as well as fluctuations in other assets and liabilities, factors that outweighed guarantee obligations paid.

Net cash provided by investing activities amounted to ¥19.1 billion, compared with net cash used in investing activities of ¥119.0 billion in the previous fiscal year. Investment outlays, including those for purchase of property, plant and equipment, purchase of intangible assets, and payments for acquisition of a subsidiary, were offset by increase from reversal of time deposits and proceeds from sales of property, plant, and equipment.

Net cash used in financing activities amounted to ¥154.4 billion, compared with net cash provided by financing activities of ¥46.6 billion in the previous fiscal year. This outcome was the result of cash dividends paid and the procurement and repayment of interest-bearing debt.

As a result, after taking into account the effect of exchange rate changes on cash flows, cash and cash equivalents at the end of the fiscal year stood at ¥129.6 billion, down ¥18.1 billion from the end of the previous fiscal year.

### Cash Flows from Operating Activities





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

As of and years ended March 31	2015	2016
Ratio of equity attributable to owners of the parent (%)*	30.5	24.6
Ratio of equity attributable to owners of the parent on a market value basis (%)**	42.6	30.9
Interest-bearing debt divided by cash flow (times)***	7.2	6.8
Interest coverage ratio (times)****	16.2	16.7

\* Ratio of equity attributable to owners of the parent: Equity attributable to owners of the parent / Total assets

\*\* Ratio of equity attributable to owners of the parent 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 and convertible bonds with stock acquisition rights 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*).

## Liquidity

The LIXIL Group strives to generate operating cash flows and employs 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 accounts of receivables.

As of March 31, 2016, cash and cash equivalents totaled ¥129.6 billion, compared with ¥147.7 billion a year earlier. Interest-bearing debt stood at ¥827.1 billion at fiscal year-end. Interest-bearing debt increased ¥119.4 billion while repayment of long-term borrowings amounted to ¥219.2 billion. In addition, ¥84.0 billion in funds was procured through long-term borrowings.

## Outlook for the Fiscal Year Ending March 31, 2017

For the fiscal year ending March 31, 2017, sluggish economic conditions are projected to continue due to the return to a state of normalcy with regard to financial policies in the United States, continued economic slowdowns in emerging markets, and uncertainty arising from geopolitical risks. Housing demand in Japan is anticipated to be supported by circumstances surrounding the impending housing loan interest rates, but the operating environment remains opaque with consumer real estate purchasing desire indicators persistently lingering around a consistent level.

Based on this outlook, we will push forward with concrete measures for accomplishing the goals of our Medium-Term Business Strategy "Redefining the Future."

For example, in the domestic market, which is currently core to the LIXIL Group's operations, we believe that the creation of superior products and the pursuit of higher levels of quality will enable us to realize further growth over the medium-to-long term. Overseas, we anticipate that more substantial growth opportunities will appear for the LIXIL Group to take advantage of by leveraging its extensive business portfolio and strong brand.

Looking ahead, the Group will continue to focus on exploring the renovation market in Japan and developing global operations as it works toward the realization of its Corporate Vision: To be the world's most valued, innovative and trusted 'Living Technology' company by 2020.

## 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 2016. 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 culture and management strategies. However, there is no guarantee that the anticipated returns and synergy benefits will be realized. In addition, while the LIXIL Group makes every endeavor to avoid risk in the execution of acquisitions by undertaking detailed prior assessments of the financial conditions, contractual relationships, and other matters relating to the company involved, it is possible that contingent liabilities and unrecognized financial obligations may be revealed following acquisitions. As a result, 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. If 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.

On May 22, 2015, Joyou AG (hereafter "Joyou"), which became a consolidated subsidiary on April 1, 2015, filed an application for the commencement of insolvency proceedings with the Hamburg Local Court in Germany, and those proceedings commenced on July 16, 2015. As a result, LIXIL Group Corporation forfeited its authority over Joyou and Joyou ceased to be a subsidiary of the LIXIL Group. The losses judged to require recognition have already been disclosed and reflected in the consolidated financial statements but it is possible that additional losses could be incurred if the insolvency of Joyou leads to lawsuits or other legal proceedings.

## 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 Sustainability Principles, 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 records the amount considered to be uncollectible as a provision for doubtful accounts. Should the actual default level significantly exceed assumptions, the provision for doubtful accounts could be insufficient. Moreover, as a result of reviewing 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 periodically calculates future cash flows relating to property, plant, and equipment, goodwill and other intangible assets, and other assets and estimates the impairment of those assets by applying asset impairment accounting. It is therefore possible that the Group's business performance and financial positions could be adversely affected if fixed asset impairment losses are shown in the accounts.

## 16. Defined Benefit Pension Plan Obligations

The employee defined benefit pension plan obligations and related service costs of the LIXIL Group are calculated based on discount ratios and other underlying ratios. Changes in these basic ratios could cause a significant impact on 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. Declines in discount ratios 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, 2016)

### Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Corporation	Koto-ku, Tokyo	34,600	100	LWT, LHT, LBT, LKT, D&R, H&S
LIXIL Total Service Corporation	Koto-ku, Tokyo	100	100	LWT
TM.S Corporation	Chiyoda-ku, Tokyo	60	100	LWT
GraceA Co., Ltd.* <sup>1</sup>	Koto-ku, Tokyo	103,893	50	LWT
GraceB S.à r.l.* <sup>1</sup>	Luxembourg	€1,453,013 thousand	50	LWT
GROHE Group S.à r.l.	Luxembourg	€57,143 thousand	56	LWT
53 affiliate companies of GROHE Group S.à r.l.	—	—	—	LWT
ASD Holding Corp.	New Jersey, USA	US\$300,932 thousand	100	LWT
17 affiliate companies of ASD Holding Corp.	—	—	—	LWT
A-S CHINA PLUMBING PRODUCTS Ltd.	Cayman Islands	US\$24,907 thousand	100	LWT
5 affiliate companies of A-S CHINA PLUMBING PRODUCTS Ltd.	—	—	—	LWT
LIXIL Vietnam Corporation	Hanoi, Vietnam	US\$38,100 thousand	100	LWT
LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION	Suzhou, Jiangsu, China	4,000	100	LWT
LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	Suzhou, Jiangsu, China	1,730	100	LWT
LIXIL (China) Investment Co., Ltd.	Shanghai, China	US\$34,500 thousand	100	LWT
LIXIL Total Hanbai Corporation	Koto-ku, Tokyo	75	100	LHT
Kawashima Selkon Textiles Co., Ltd.	Sakyo-ku, Kyoto, Kyoto	9,382	100	LHT
G TERIOR Corporation	Setagaya-ku, Tokyo	316	100	LHT
Asahi Tostem Exterior Building Materials Co., Ltd.	Koto-ku, Tokyo	2,000	80	LHT
HIVIC CO., LTD.	Oyama, Tochigi	551	100	LHT
LIXIL SUZUKI SHUTTER CORPORATION	Toshima-ku, Tokyo	1,989	100	LHT
LIXIL Toyo Sash Shoji Co., Ltd.	Chiyoda-ku, Tokyo	100	100	LHT
Dinaone Corporation	Tokoname, Aichi	90	100	LHT
Sonitech Corporation	Shinjuku-ku, Tokyo	66	100	LHT
Kuwata Co., Ltd.	Suma-ku, Kobe, Hyogo	30	100	LHT
Oita Tostem Co., Ltd.	Oita, Oita	50	100	LHT
Nishi Kyushu Tostem Co., Ltd.	Saga, Saga	30	100	LHT
LIXIL ENERGY CO., Ltd.	Koto-ku, Tokyo	100	100	LHT
LIXIL INTERNATIONAL Pte. Ltd.	Singapore	US\$211,185 thousand	100	LHT
TOSTEM THAI Co., Ltd.	Pathumthani, Thailand	Bt2,767 million	100	LHT
LIXIL Manufacturing (Dalian) Corporation	Dalian, Liaoning, China	US\$43,500 thousand	100	LHT
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	Dong Nai, Vietnam	US\$40,700 thousand	100	LHT
LG TOSTEM BM Co., Ltd.* <sup>1</sup>	Seoul, Korea	Won15,355 million	50	LHT
Taiwan Inax Corporation	Hsinchu, Taiwan	NT\$282,677 thousand	51	LHT
PT LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR42,772 million	75	LHT

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL RENEWAL Corporation	Koto-ku, Tokyo	100	100	LBT
Permasteelisa S.p.A.	Veneto, Italy	€6,900 thousand	100	LBT
38 affiliate companies of Permasteelisa S.p.A.	—	—	—	LBT
Star Alubuild Private Ltd.	Haryana, India	INR727,818 thousand	100	LBT
LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	Qingdao, Shandong, China	CNY194,082 thousand	51	LKT
LIXIL VIVA CORPORATION	Urawa-ku, Saitama, Saitama	20,000	100	D&R
LIXIL Living Solution Corporation* <sup>2</sup>	Koto-ku, Tokyo	450	100	H&S
LIXIL Housing Research Institute, Ltd.* <sup>3</sup>	Koto-ku, Tokyo	1,250	100	H&S
JIO Corporation	Chiyoda-ku, Tokyo	1,000	100	H&S
JAPAN HOME SHIELD CORPORATION	Sumida-ku, Tokyo	205	100	H&S
LIXIL REALTY, Corp.	Chuo-ku, Tokyo	160	100	H&S
GHS Corporation	Koto-ku, Tokyo	100	100	H&S
JHS Engineering Corporation	Sumida-ku, Tokyo	20	100	H&S
LIXIL Home Finance Corporation	Chiyoda-ku, Tokyo	500	100	H&S
LIXIL Group Finance Corporation	Koto-ku, Tokyo	3,475	100	(Financing services for Group companies)
LIXIL INFORMATION SYSTEMS CORPORATION	Koto-ku, Tokyo	100	100	(Development, opera- tion, and management of information systems)
103 other companies* <sup>4</sup>				

### Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
Ken Depot Corporation	Chiyoda-ku, Tokyo	100	34	D&R
Sanyo Homes Corporation* <sup>5</sup>	Nishi-ku, Osaka, Osaka	5,945	24	H&S
Fukui Computer Inc.* <sup>5</sup>	Fukui, Fukui	1,631	27	H&S
73 other companies				

\*1 The holdings of shares of these companies are less than 50%, but they are treated as subsidiaries because they are effectively controlled by the Group.

\*2 Tostem Management Systems Co., Ltd., changed its name to LIXIL Living Solution Corporation.

\*3 CLASSIS Corporation was acquired by and merged with LIXIL Housing Research Institute, Ltd.

\*4 INAX SUNWAVE Marketing Corporation was liquidated. All shares of AMTRONIC Pte. Ltd. were transferred, and AMTRONIC Pte. Ltd. and its subsidiary, Shanghai Meite Curtain Wall System Co., Ltd., are no longer subsidiaries of the Group. All shares of LIXIL Building Materials Manufacturing (Shenyang) Corporation were transferred, and the company is no longer a subsidiary of the Group.

\*5 The company submits financial reports.



# NUMBER OF EMPLOYEES; NUMBER OF MANUFACTURING AND SALES BASES

(As of March 31, 2016)

## Number of Employees by Segment (Consolidated)

LWT	LHT	LBT	LKT	D&R	H&S	Headquarters	Total
26,653	20,548	7,597	1,581	1,351	1,751	1,196	60,677

## Overseas Factories

		China / Hong Kong	Thailand	Vietnam	South Korea	Indonesia	India	Middle East	North America	Latin America	Europe	Total
LWT	American Standard	4	—	1	—	1	—	—	6	4	—	16
	GROHE Group	—	1	—	—	—	—	—	—	—	4	5
	LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	1	—	—	—	—	—	—	—	—	—	1
	LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION	1	—	—	—	—	—	—	—	—	—	1
	LIXIL Vietnam Corporation	—	—	5	—	—	—	—	—	—	—	5
	Branch of LIXIL Vietnam Corporation in Quang Nam	—	—	1	—	—	—	—	—	—	—	1
	LIXIL (Thailand) Public Co., Ltd.	—	2	—	—	—	—	—	—	—	—	2
	LIXIL Korea Inc.	—	—	—	1	—	—	—	—	—	—	1
LHT	WUXI MORITEC SPECIAL DOOR Co., Ltd	1	—	—	—	—	—	—	—	—	—	1
	PT LIXIL ALUMINIUM INDONESIA	—	—	—	—	1	—	—	—	—	—	1
	LIXIL SUZUKI (Hong Kong) Company, LTD.	1	—	—	—	—	—	—	—	—	—	1
	LIXIL SUZUKI Shutter Manufacturing (Shanghai) Corporation	1	—	—	—	—	—	—	—	—	—	1
	LG TOSTEM BM Co., Ltd.	—	—	—	1	—	—	—	—	—	—	1
	LIXIL Trading (Shanghai) Corporation	1	—	—	—	—	—	—	—	—	—	1
	LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	—	—	1	—	—	—	—	—	—	—	1
	TOSTEM THAI Co., Ltd.	—	1	—	—	—	—	—	—	—	—	1
	LIXIL Manufacturing (Dalian) Corporation	1	—	—	—	—	—	—	—	—	—	1
	Branch of LIXIL Vietnam Corporation in Ba Ria-Vung Tau	—	—	1	—	—	—	—	—	—	—	1
LBT	Permasteelisa S.p.A.	2	1	—	—	—	—	1	2	—	4	10
LKT	LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	1	—	—	—	—	—	—	—	—	—	1
	Total	14	5	9	2	2	0	1	8	4	8	53

Note: Excluding factories of unconsolidated subsidiaries

	Hokkaido	Tohoku	Kanto, Koshinetsu	Chubu, Hokuriku	Kansai	Chugoku, Shikoku	Kyushu, Okinawa	Total
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## Factories

LIXIL Corporation	1	2	13	14	2	2	4	38
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## Showrooms

LIXIL Corporation	6	7	34	13	13	10	12	95
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## Home Centers

Super Viva Home / New Viva Home / Viva Home	7	10	56	7	6	—	—	86
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## Homebuilding Franchise Members

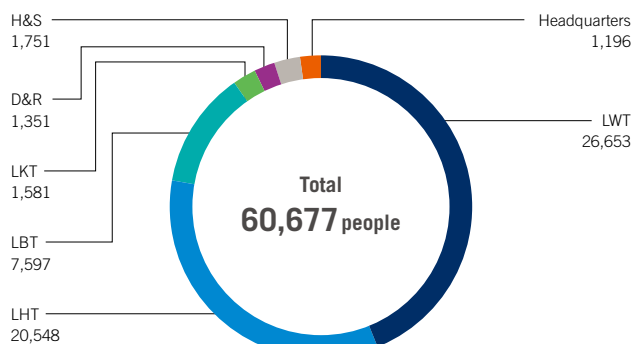
Eyeful Home Technology Inc.	3	36	44	37	13	26	9	168
FIACE HOME	—	3	2	8	4	4	—	21
GL Home	—	6	7	3	1	—	—	17
Total	3	45	53	48	18	30	9	206

## Renovation Network Members

	2012	2013	2014	2015	2016
LIXIL Reform Shop (Franchise)	414	377	376	424	480
LIXIL Reform Net (Voluntary chain)	8,896	9,356	10,203	11,708	12,492
Total	9,310	9,733	10,579	12,132	12,972

### Number of Employees by Segment

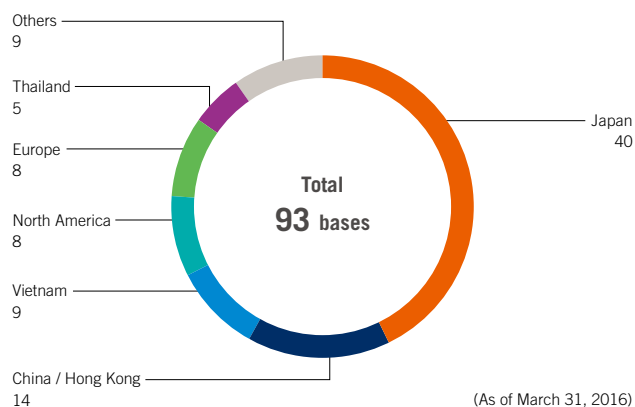
(People)



(As of March 31, 2016)

### Factories by Country and Region

(Bases)

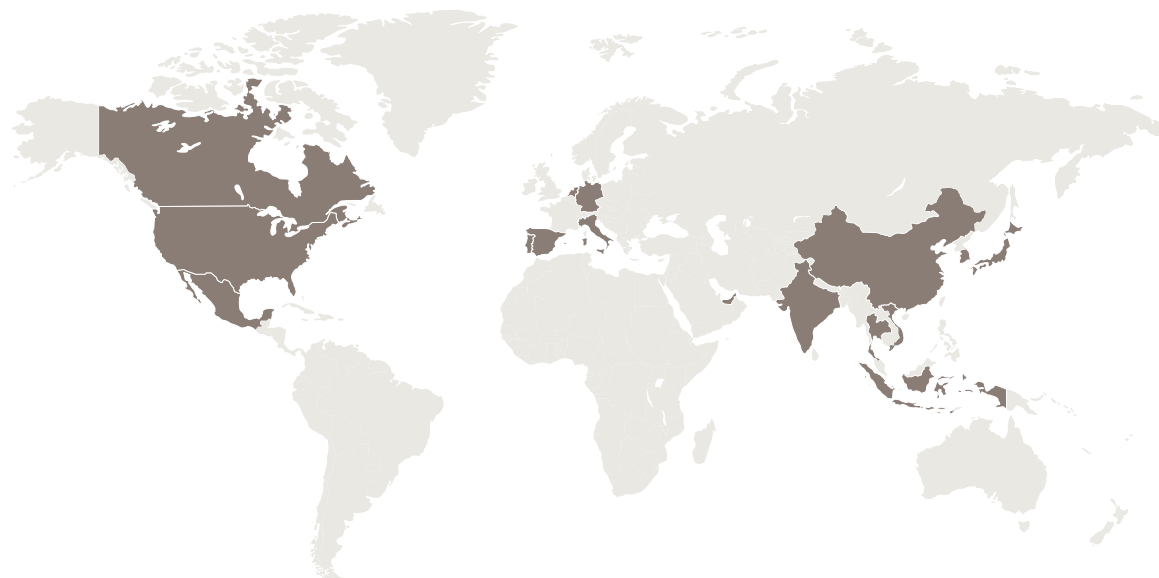


(As of March 31, 2016)

#### Notes:

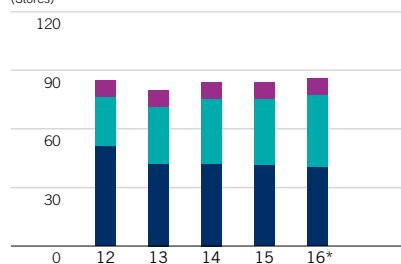
- Numbers are for directly employed full-time staff, on an IFRS basis. Figures do not include employees seconded to another Group company. The Company has adopted IFRS from the fiscal year ended March 31, 2016.
- The number of headquarters staff consists of staff attached to management units that cannot be classified under specific segments.
- Compared with the end of the fiscal year ended March 31, 2015, the number of employees at LIXIL Water Technology has increased by 8,029. This is mainly the result of the new consolidation of GROHE Group S.à r.l. and its subsidiaries. The decline in the number of employees in the Distribution & Retail Business of 621 is due to such factors as carving out the Ken Depot business and transferring it to a newly established LIXIL Group equity-method affiliate, Ken Depot Corporation.
- Of 40 factories in Japan, 38 factories belong to LIXIL Corporation.

### Countries Where the Group's Factories Are Located



### Number of Home Center Stores

(Stores)

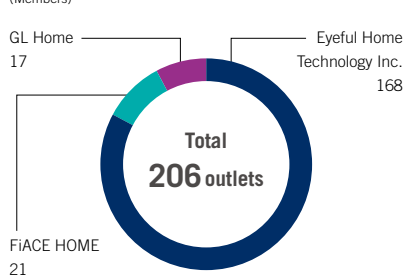


- Viva Home
- Super Viva Home
- New Viva Home

\* The Ken Depot business was carved out in October 2015, turning Ken Depot Corporation into an equity-method affiliate.

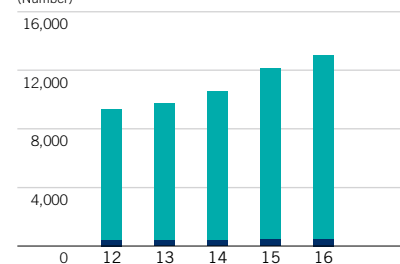
### Homebuilding Franchise Members

(Members)



### Renovation Network Members

(Number)



- LIXIL Reform Shop (Franchise)
- LIXIL Reform Net (Voluntary Chain)

## 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.

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.



IR Team (from left):  
Rina Narita, Emiko Ota, Marc Dobro (Singapore representative), Hwa Jin Song Montesano (Executive Officer in charge of Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility), Keishi Saito (Operating Officer, Investor Relations Office), Shizuka Fukushima, Yukiyo Uto

Investor relations site:  
 <http://www.lixil.com/en/investor/>

### External Evaluations (From April 2015 to April 2016)

LACP Vision Awards held by the League of American Communications Professionals LLC (LACP)  
Bronze award for the March 2014 fiscal year-end annual report category (July 2015)

### RobecoSAM CSR Rating

"Silver Class 2016" award in the CSR ratings by the Global SRI assessment company RobecoSAM (January 2016)



### Daiwa Investor Relations Co., Ltd.

"Internet IR Commendation Award" 2015 (November 2015)



### Third IR Good Visual Award

IR Good Visual Award presented by the IR Good Visual Award Executive Committee comprising representatives from The Japan Investor Relations Association and Value Create Inc. (April 2016)

Web page on awards:  
 <http://www.lixil.com/jp/about/evaluation.html>  
(Available only in Japanese)

# 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 bidet 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 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 Senior Life Company 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 Vietnam Corporation).		
2008	Inax Corporation* establishes Inax Vietnam Plumbing Fixtures Co., Ltd. (now LIXIL Vietnam Corporation), 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., an 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	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 subsidiaries. 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 Holding Corp., of the 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.) LIXIL Corporation acquires shares in GROHE DAWN WaterTech Holdings Pty Ltd, of South Africa.		
2015	LIXIL Corporation converts GROHE Group S.à r.l. into a consolidated subsidiary.		

\* Currently LIXIL Corporation

## SHAREHOLDER INFORMATION

(As of March 31, 2016)

### Number of Shares and Shareholders

Number of shares authorized	1,300,000,000
Number of shares outstanding	287,007,363 (excluding treasury stock of 26,046,892 shares)
Number of shareholders	44,890

### Major Shareholders

Name of shareholder	Number of shares held (thousand shares)	Percentage held
Japan Trustee Services Bank, Ltd. (Trust Account)	9,154*	3.19%
The Nomura Trust & Banking Co., Ltd. (Trust Account)	8,896*	3.10%
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,381*	2.92%
The Bank of New York Mellon as Depositary Bank for DR Holders (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	7,063	2.46%
LIXIL Employee Stock Ownership Plan	6,596	2.30%
The Dai-ichi Life Insurance Company, Limited	6,561	2.29%
State Street Bank Client Omnibus OM04 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	6,373	2.22%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,798	2.02%
Sumitomo Mitsui Banking Corporation	5,543	1.93%
State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement & Clearing Services Department)	5,300	1.85%

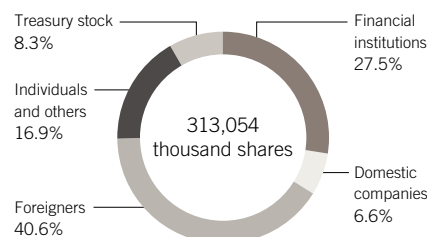
Notes: 1. In addition to the above, LIXIL Group Corporation holds 26,046 thousand shares of treasury stock.

Shareholding calculations exclude treasury stock.

2. \* indicates a trust service arrangement.

3. 8,896 thousand shares entrusted to The Nomura Trust &amp; Banking Co., Ltd., are the trust property of Mr. Yoichiro Ushioda, who has voting rights for these shares.

### Distribution of Ownership among Shareholders

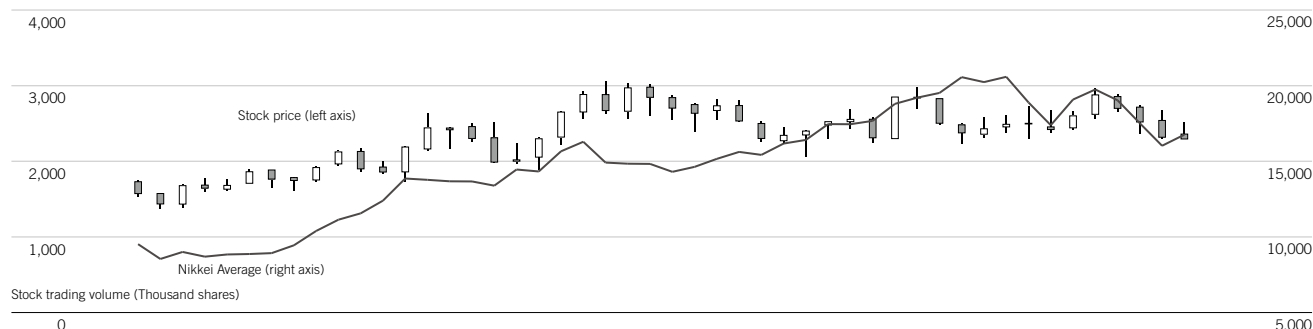


	Thousand shares
Financial institutions	86,075
Domestic companies	20,735
Foreigners	127,220
Individuals and others	52,975
Treasury stock	26,046
Total	313,054

### Monthly Stock Price Range (Tokyo Stock Exchange)

Stock price (¥)

Nikkei Average (¥)



For the years ended March 31	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016
High* (yen)	2,164	3,060	2,973	2,959
Low* (yen)	1,374	1,732	2,063	2,233

\* High and low share prices are from the First Section of the Tokyo Stock Exchange.



## CORPORATE DATA

(As of March 31, 2016)

### 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
Headquarters	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	58 (Consolidated Employees: 60,677)

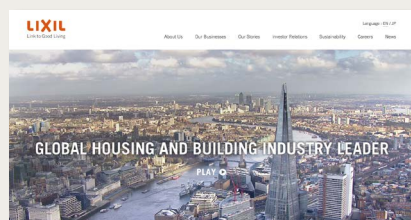
Overview of major businesses	The Company controls and manages domestic and overseas companies that operate housing-related businesses and urban environment related businesses through acquisition or holding of stocks.
Securities traded (Common stock)	Tokyo Stock Exchange Nagoya Stock Exchange
Transfer 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 sections covering recent business initiatives within the Group and insights from the Company's president.

 <http://www.lixil.com>



### Facebook page

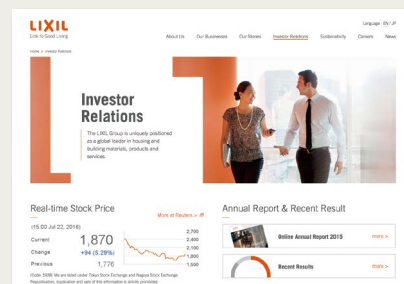
 <http://www.facebook.com/lixilcorporation/>  
(Available only in Japanese)



### 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 results briefings (only second-quarter and full-year briefings), and market data. A PDF version of the most recent annual report is also available on the site.

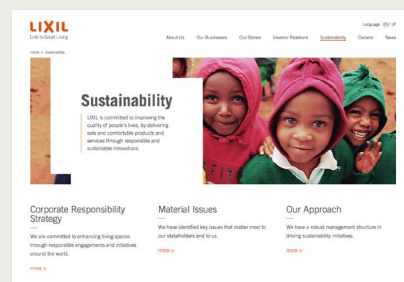
 <http://www.lixil.com/en/investor/>



### LIXIL Group Corporate Responsibility site

Our corporate website introduces the LIXIL Group's Corporate Responsibility commitment to and activities for enhancing living spaces through innovative responsible engagements and initiatives around the world.

 <http://www.lixil.com/en/sustainability/>



### Front Cover Image

Tiles from the INAX Tile Museum's collection in Tokoname, Japan, as well as LIXIL's *ECOCARAT* product line.



## LIXIL Group Corporation

36F, Kasumigaseki Building, 3-2-5 Kasumigaseki,  
Chiyoda-ku, Tokyo 100-6036, Japan  
<http://www.lixil.com/>



This annual report is printed with vegetable oil ink  
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