

# > Annual Report 2017

Year Ended March 31, 2017





# A GLOBAL HOUSING AND BUILDING LEADER

LIXIL was formed in 2011 through the merger of five leading Japanese housing and building materials companies: TOSTEM, INAX, Shin Nikkei, SUN WAVE, and TOEX. We have since expanded globally by acquiring some of the most trusted names in our industry, including American Standard, GROHE, and the Permasteelisa Group. Today, LIXIL is the most comprehensive company in the global housing and building industry.

LIXIL is present in over 150 countries with more than 70,000 employees worldwide. From sanitary ware and bathroom fixtures to a full lineup of products and services for houses and buildings, we bring together our connected expertise and provide comprehensive living solutions that enhance our everyday lives.

VINTIA

VINTIA is a series of LIXIL's interior fittings, mixing modern and vintage styles.

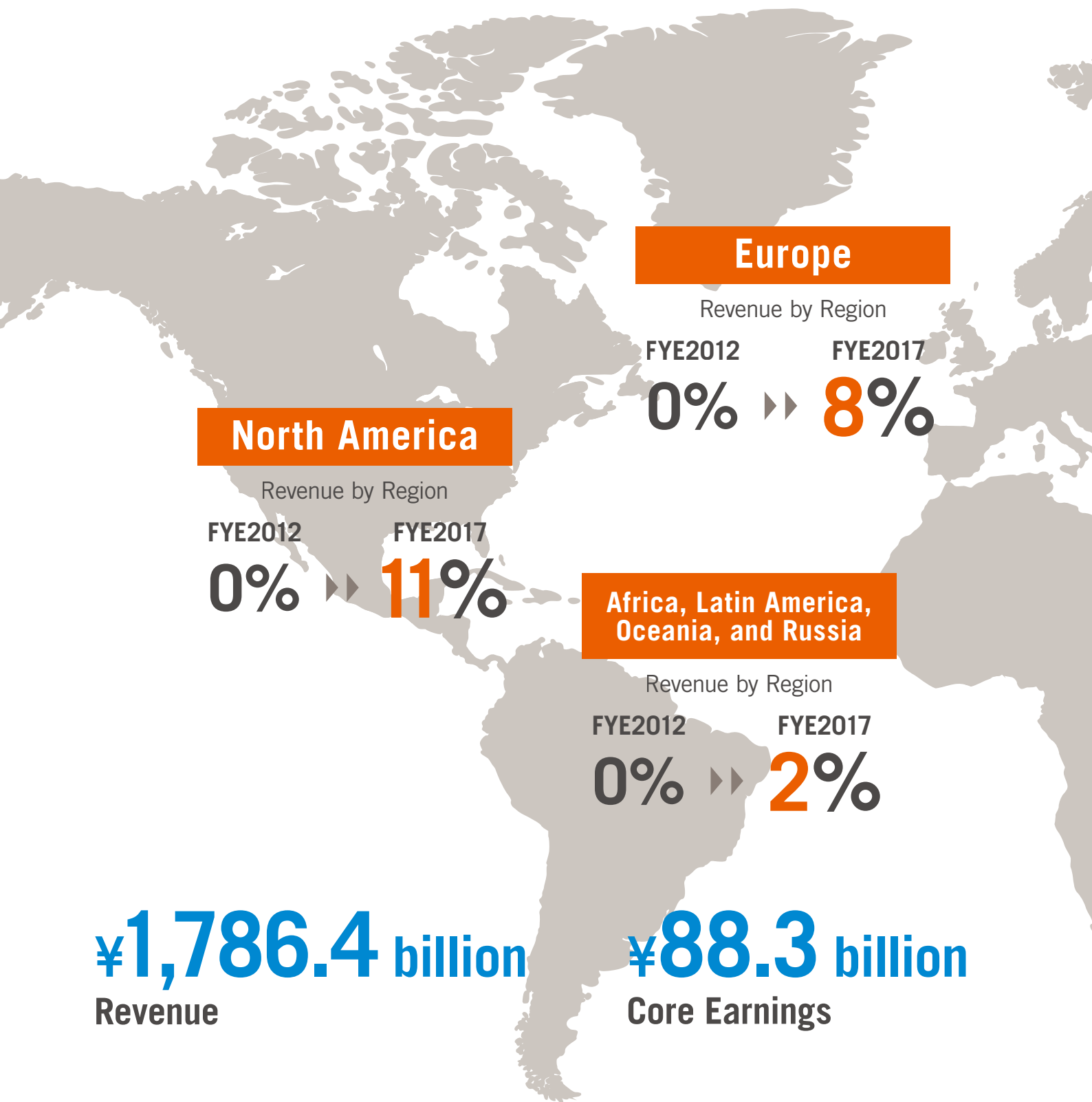




## › Link to Good Living ‹

LIXIL is committed to enhancing people's living spaces with innovative and superior products and services. Our ambition is to satisfy everyone's desire for "Good Living" through the creation of fulfilling, beautiful, and naturally comfortable living spaces. To develop better living solutions, we promote collaboration between internal and external experts, and integrate a socially and environmentally sustainable approach in everything we do. This is what makes LIXIL the "Link to Good Living."

## OUR GLOBAL PRESENCE

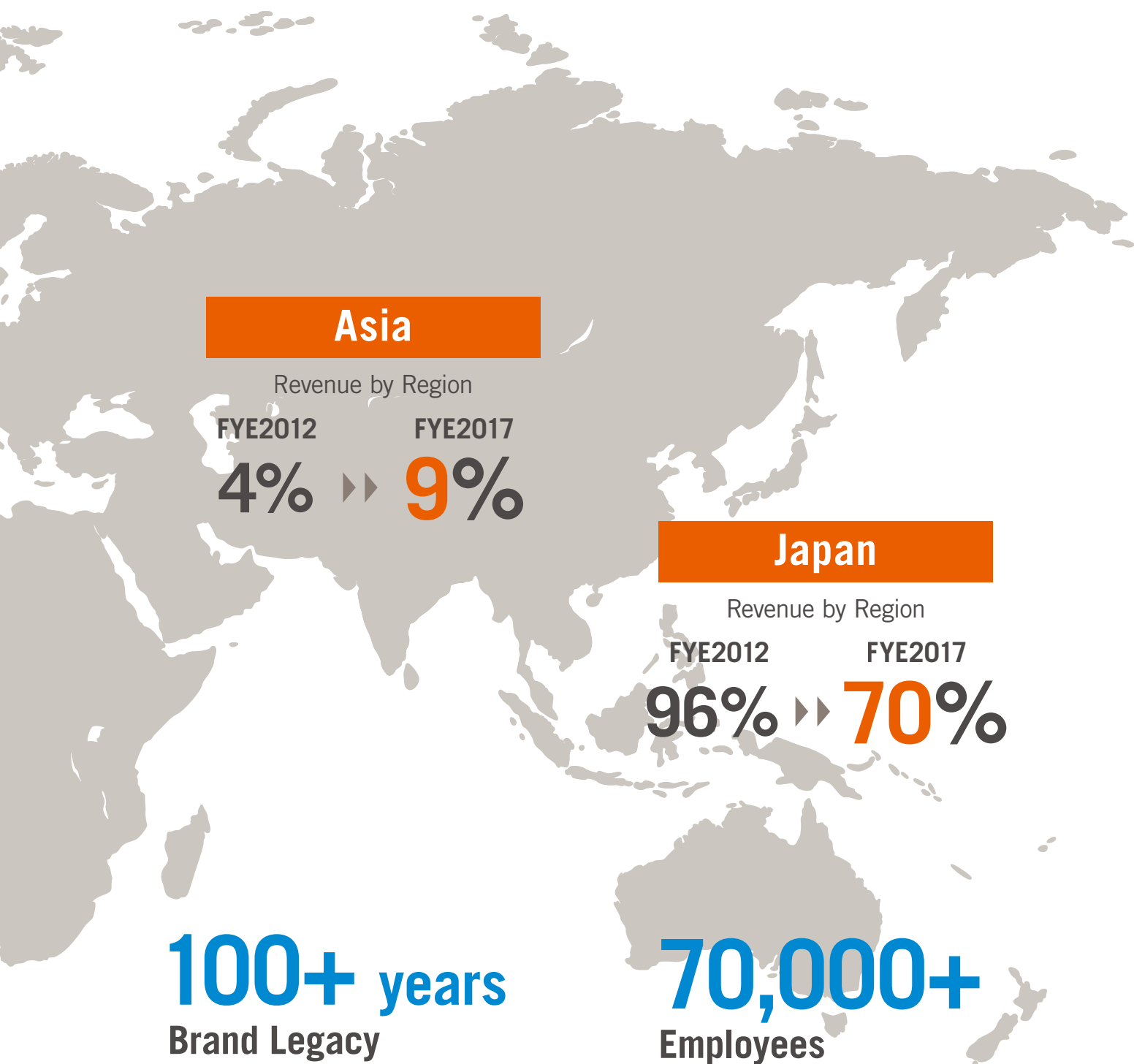


**¥1,786.4 billion**  
Revenue

**¥88.3 billion**  
Core Earnings

**150+** countries  
Global Presence





To see additional financial and non-financial information, please go to P9–P10 and P57.



## MARKET SHARE

The LIXIL Group has now established leading positions in key product categories and across major global markets with some of the most trusted brands in our industry. 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**





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**



Note: LIXIL Group estimates



# VALUE CREATION PROCESS

## Corporate Philosophy

The Group's Superior Products and Services Contribute to Improving People's Comfort and Lifestyles.

# > Link to Good Living <



# 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



#### “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



#### “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 lifecycle 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



#### “Inclusive for All”

**By 2020, establish the culture of diversity and inclusion within our organization and with all employees**

- Implement internal diversity initiatives around the world
- Promote the development of universal design products and services that are “Good for one, Good for all”

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

**Governance**

**Fair Business Practices**

**Human Rights**

**Labor Practices**

**Quality and Satisfaction**

**Supply Chain**

**Stakeholder Engagement**

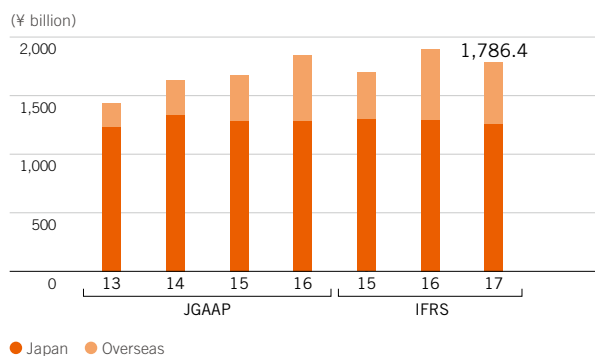


# FINANCIAL / NON-FINANCIAL HIGHLIGHTS

## FINANCIAL HIGHLIGHTS

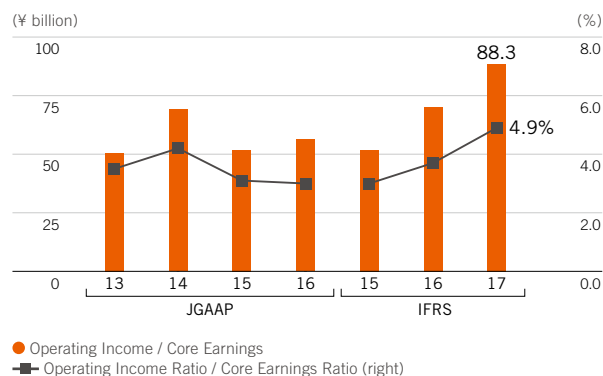
LIXIL Group Corporation and Consolidated Subsidiaries (Years ended March 31)

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



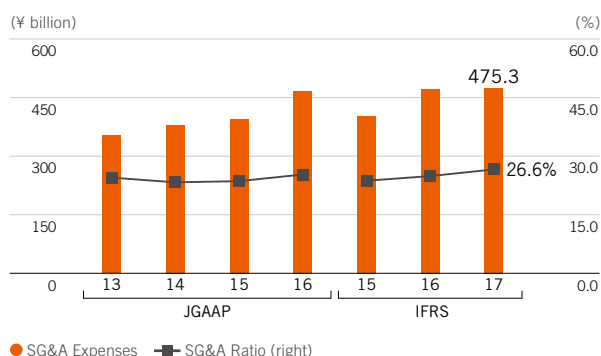
Revenue for the fiscal year ended March 31, 2017 declined by 5.5% year on year to ¥1,786.4 billion, reflecting the impact from deconsolidation of subsidiaries and lower demand in Japan due to a pull-back in demand following the end of the Eco-Point System for Housing, which was a governmental subsidy plan to promote new construction and renovation of environmentally friendly housing, in the previous year.

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



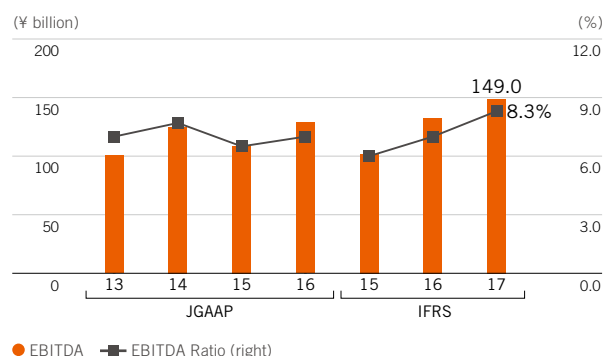
Core earnings for the fiscal year ended March 31, 2017 increased by 26.0% year on year to ¥88.3 billion, as the sales of products with high gross profit margins increased, sales prices improved and costs were reduced in Japan and overseas despite a slight increase in SG&A expenses.

### SG&A Expenses / SG&A Ratio



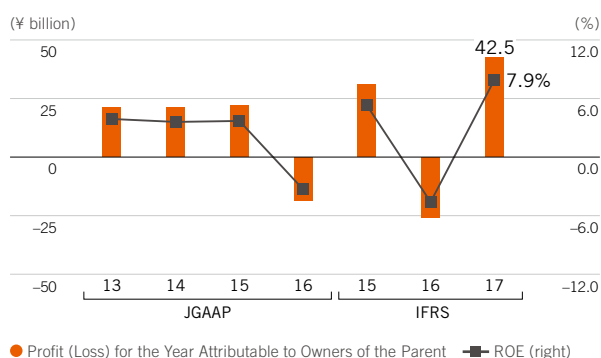
SG&A expenses increased by 0.8% year on year for the fiscal year ended March 31, 2017 and the SG&A ratio increased by 1.7 percentage points year on year to 26.6%, as a result of higher promotional expenses for commercials and related outlays, despite a decline due to the deconsolidation of subsidiaries.

### EBITDA / EBITDA Ratio



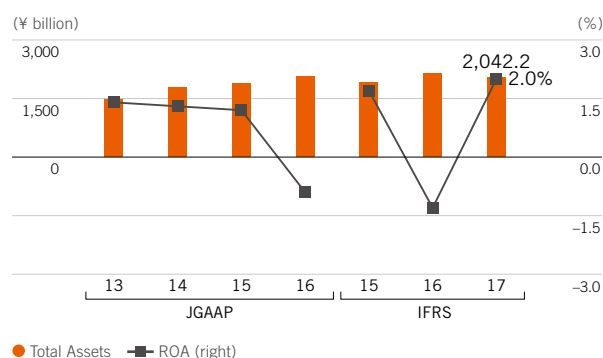
EBITDA for the fiscal year ended March 31, 2017 was ¥149.0 billion, as core earnings grew due to the sales promotion of products with high gross profit margins, such as those under the GROHE brand, cost reduction in Japan and overseas, and other measures.

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



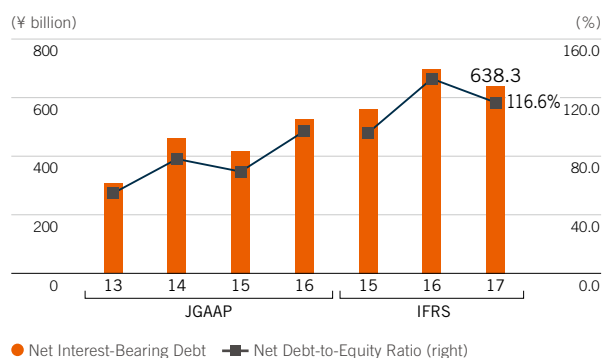
Profit for the year attributable to owners of the parent for the fiscal year ended March 31, 2017 was ¥42.5 billion, returning to profit after a loss in the previous fiscal year. This improvement was due to an increase of profit before tax, which was partly offset by an increase in income tax expenses and an improvement in loss attributable to non-controlling interests.

### Total Assets / ROA



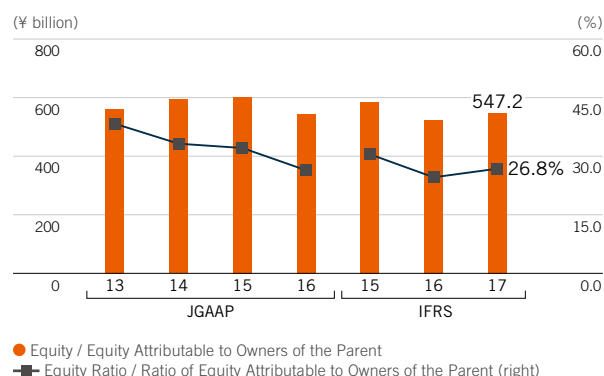
Total assets as of March 31, 2017 were ¥2,042.2 billion, down by 4.1% from the previous fiscal year-end, primarily as total current assets decreased and non-current assets also decreased due to the deconsolidation of subsidiaries.

### Net Interest-Bearing Debt / Net Debt-to-Equity Ratio



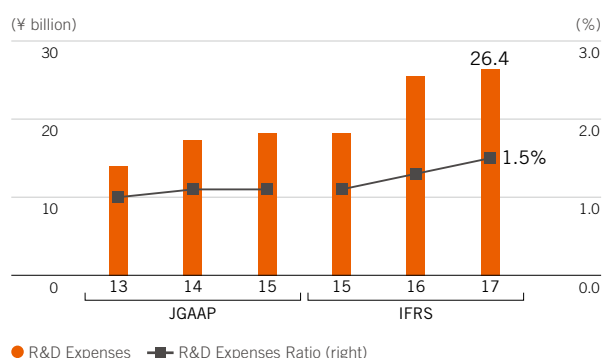
Net interest-bearing debt as of March 31, 2017 declined by ¥59.1 billion from the previous fiscal year-end due to the repayment of current liabilities and the payment of other financial liabilities (accrued interest). The net debt-to-equity ratio was 116.6%, down by 16.2 percentage points from the previous fiscal year-end.

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



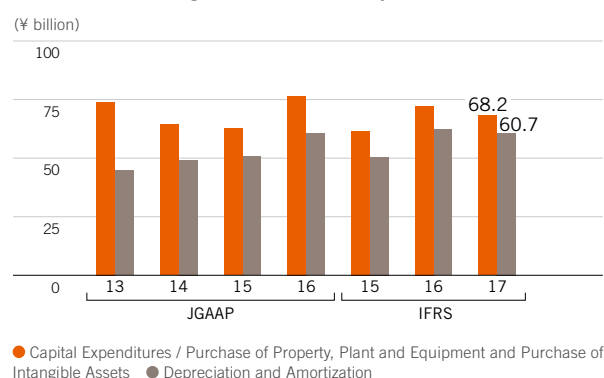
The ratio of equity attributable to owners of the parent as of March 31, 2017 was 26.8%, up by 2.2 percentage points year on year due primarily to the decline in net interest-bearing debt.

### R&D Expenses / R&D Expenses Ratio



The Company has been expanding its investment in R&D for developing globally competitive products based on its reliable quality and advanced technology.

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



Purchase of property, plant and equipment and purchase of intangible assets amounted to ¥68.2 billion for the fiscal year ended March 31, 2017 due to the renewal of core IT systems, investment in new products primarily with LIXIL Water Technology and LIXIL Housing Technology, and investments in streamlining, maintaining, and upgrading production facilities.

## NON-FINANCIAL HIGHLIGHTS

### Contributing to Global Sanitation & Hygiene

Accumulated shipment of SATO products

(As of March 31, 2017)

**1.2** million units

### Water Conservation & Environmental Sustainability

CO<sub>2</sub> emissions

(Fiscal year ended March 31, 2017)

**5.39** million t-CO<sub>2</sub>

Scope: Group-wide

### Diversity & Inclusion

Number and ratio of female managers\*

(As of March 31, 2017)

**684** people / **12.8**%

Scope: Group-wide

\* Directly hired employees only, collected based on the qualification system used at each operating company



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# LIXIL

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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.



## MESSAGE FROM THE CEO

### Kinya Seto

Director, Representative Executive Officer,  
President & Chief Executive Officer



# BUILDING SUSTAINABLE COMPETITIVENESS

**We set our sights on creating a more efficient LIXIL, fit for sustainable value-driven growth. We sought deeper synergies across our global business, reduced layers, and put measures in place to develop a more entrepreneurial, bottom-up culture. And we kept a consistent focus on getting closer to the consumer. This has been one of LIXIL's strongest years to date.**

## Overview of the Fiscal Year Ended March 31, 2017

Over the last fiscal year, we prioritized improving operational efficiency across the organization. The merger of five leading housing and building companies in Japan and our global growth through M&A since 2011 has made us the most comprehensive company in our industry. But it also created a top-heavy organization with areas of overlapping authority and a broad business portfolio. In response, we focused on our post-merger integration process, simplifying the organization and creating new opportunities through synergies and greater collaboration across our teams.

In Japan, we simplified our executive management structure to improve management efficiency and accelerate decision-making, reducing existing executive management roles from 114 to 53 individuals. I also assumed the roles of CEO of LIXIL Water Technology (LWT), our most global business unit, and CEO of LIXIL Housing Technology (LHT), the leading supplier of housing and building products in Japan. We have since created a more responsive, flatter organization in both businesses.

We continued to actively tighten our business portfolio. As part of this, we divested non-core businesses HIVIC and Wuxi moritec. LIXIL VIVA CORPORATION was also listed on the Tokyo Stock Exchange on April 12, 2017 to enable it to actively pursue growth.

We also achieved value-driven growth within key businesses. Starting with LWT, we initiated a platform

strategy to achieve deeper synergies and leverage our global scale, from product development to manufacturing and marketing. This included initiatives to improve the yield of our overseas ceramic factories, including in South Africa, Mexico, and Vietnam, by using best-in-class management processes from Japan. Similarly, we integrated our design and product development processes. Products such as *GROHE SmartControl* shower system and *GROHE Sensia Arena* shower toilet, which integrate core technology from Japan with European design, are among our top sellers today.

Reflecting our strategy, we reduced our top line but strengthened our bottom line. Revenue decreased by 6% year on year to ¥1.79 trillion while core earnings rose 26% year on year to ¥88.3 billion. On top of this, we achieved record net profit of ¥42.5 billion, an increase of ¥68.1 billion from the previous year, reflecting a reduction in one-off losses and improvements to the business. With an improved cash flow position and a stronger balance sheet, we have made LIXIL significantly more robust.

## Leaner, Faster, and Simpler

At the start of my tenure in January 2016, I said it would take at least two years to improve the integration of the company and its operating efficiency. Our initiatives last year set the pace and we are now building on that momentum across the organization.



## MESSAGE FROM THE CEO



› **We are simplifying the organization, and creating new opportunities through synergies and greater collaboration across our teams.**

In LWT, we have established newly integrated global departments to accelerate the rollout of key technologies and products, while also enhancing efficiencies in the supply chain and sourcing. The newly created Global Shower Toilet Business Department reflects our belief in the prospects for shower toilets globally, as well as a determination to bring greater innovation and meet local consumer needs. The Global Ceramics CoE (Center of Excellence) Department will establish global best practices in ceramics manufacturing and craftsmanship, leveraging LIXIL's heritage and leadership in Japanese ceramics manufacturing technologies. These are just two of the new departments in LWT that will enable us to achieve deeper synergies in the future.

We are also making headway in LHT, where we have abolished the “product businesses” structure, effectively removing a layer of management, and integrated all factories into the Production Division, creating a more robust manufacturing system. Furthermore, we have strengthened LHT's product development capabilities in line with the government's energy efficiency standards and increasing consumer needs for energy-saving improvements in homes. In the renovation market, this includes a newly expanded lineup of high-performance windows. And for new homes, we are providing high-performance building products and new services that support builders designing and constructing net-zero-energy homes.

### Getting Closer to the Consumer

As we focus on improving operational efficiency, we are also enhancing our efforts to get closer to the consumer, or end user. As a manufacturer of products for living

spaces, it is important to understand how consumer lifestyles are changing in the markets where we operate, how tastes and preferences are evolving, and how people are purchasing and interacting with our products. Only by doing this can we truly design and develop products and leverage the right channels to meet current and future consumer needs.

Our LIXIL PATTO Reform service in Japan, introduced by LIXIL Japan Company, is one of our core sales initiatives. One of the major advantages of renovation is that it enables consumers to tailor their homes to match their lifestyles. There is great potential in Japan, where a graying population and decline in new housing construction is changing the market. Growth in Japan's renovation market, however, remains largely flat. Costs, required time, and the process for renovation are often not transparent, leaving consumers feeling uncertain. In turn, this restrains market growth. LIXIL PATTO Reform was launched to create new demand by addressing these issues. The new service clarifies the cost of products and construction, making the entire process more transparent for consumers, and helps consumers connect to reliable agents.

We are also driving product differentiation. Products such as *AQUA CERAMIC*, which is regarded as an unprecedented innovation in our industry, have the potential to change how people live. Other products such as *GROHE Sense* and *GROHE Sense Guard*, which detect water leaks and can automatically shut down water mains, are examples of the increasingly smart applications of our organization. Consumers are responding to these innovations, suggesting we are getting better at developing solutions they want.

## A Bigger Purpose

Our innovation, scale, and resources make us unique in what we can achieve. These strengths also enable us to play a leading role in tackling one of the world's greatest social challenges — improving sanitation and hygiene for the 2.4 billion people who do not have access to basic sanitation needs. Innovative solutions such as our SATO line of products have the ability to save lives. They block odors and disease-carrying insects. We have now installed over 1.2 million units in 14 countries, benefiting some 6 million people. We run SATO as a business to ensure that these efforts can be sustainable and to maximize the scope of impact, and are rapidly scaling-up operations to deliver better sanitation to 100 million people by 2020.

Our work in alleviating the sanitation crisis is important to all of us at LIXIL. It gives us a sense of pride and purpose, knowing that we can leverage our expertise and resources to improve people's lives worldwide.

## The Foundation for Our Medium-Term Business Plan

We will continue to pursue these initiatives over the course of 2017 and into 2018. They are the cornerstones on which we are creating a more integrated, efficient and connected LIXIL. They are also the foundation on which we will launch our upcoming medium-term business plan, which we plan to announce later this year.

I look forward to announcing the direction of the company and how we will create new value for consumers and shareholders alike.

August 2017

瀬戸 欣哉

**Kinya Seto**

Director, Representative Executive Officer,  
President & Chief Executive Officer

## A CULTURE OF ENTREPRENEURSHIP

Digital technologies are transforming the housing and building industry. Mobile platforms, artificial intelligence, and the Internet of Things are introducing new opportunities that have the potential to revolutionize how people live. But they are also enabling non-traditional competitors to enter the market, creating a more competitive and consumer-oriented market environment.

To stay ahead of the competition and lead innovation in the industry, LIXIL is transforming itself. One of its key objectives is to foster a culture of entrepreneurship among its employees. A strong culture of entrepreneurship will impact how employees communicate with one another, experiment and learn, make decisions, structure operations, and leverage differences. A more dynamic and bottom-up culture that embraces an entrepreneurial spirit will enable LIXIL to become a more agile company in a rapidly advancing industry, ensuring it is in a position to continue to innovate and lead.

To help facilitate this transformation, LIXIL is implementing new initiatives such as ACE@LIXIL— or Activating a Culture of Entrepreneurship. Through workshops taking place in Japan and around the

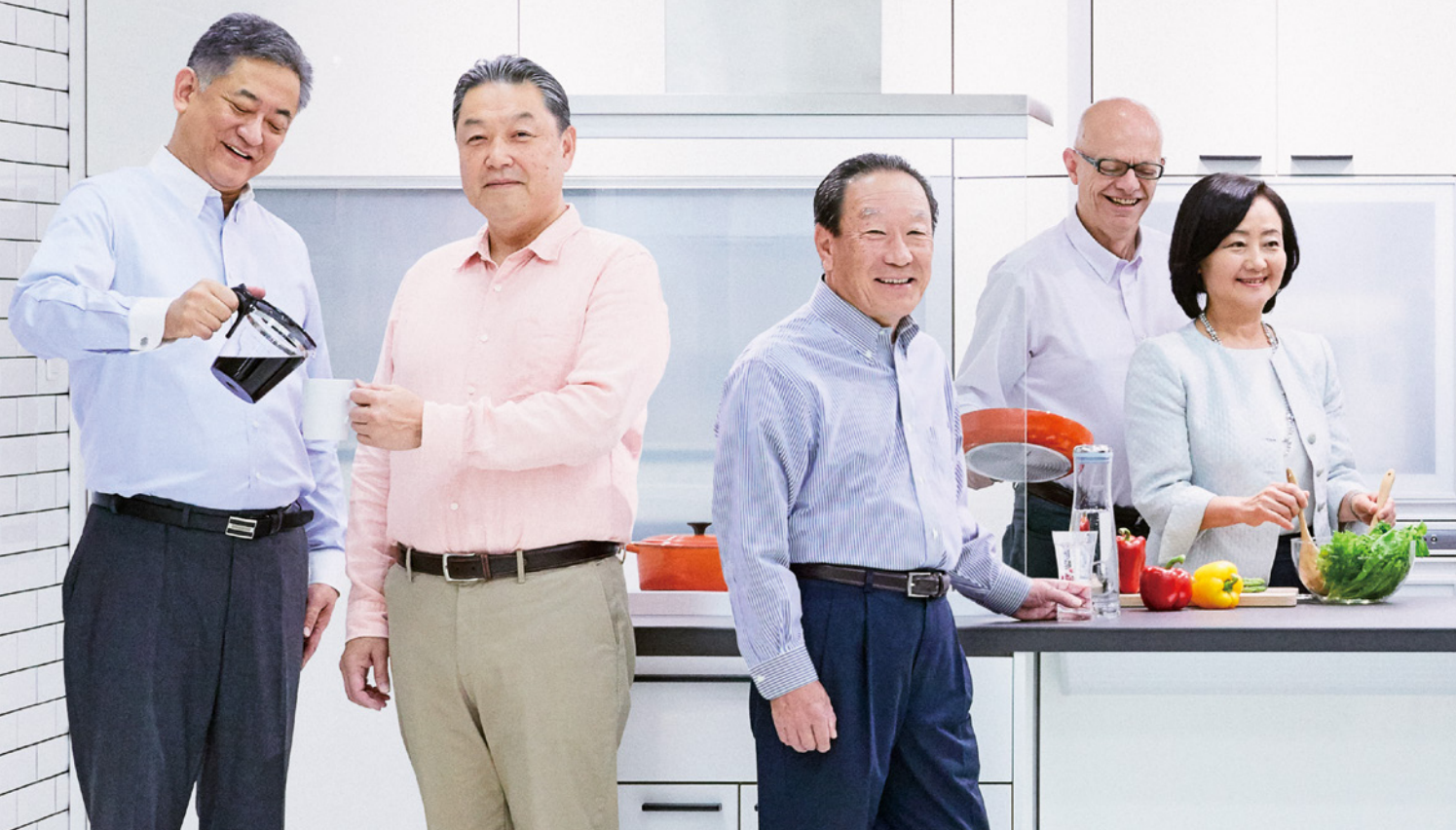
world, employees are exploring how to activate an entrepreneurial culture at LIXIL by enabling new behaviors in our workplaces. LIXIL is also changing its workstyle to reduce internal bureaucracy and foster more networked peer-to-peer communication, creating an environment for greater and faster exchange of ideas.

Creating a new culture takes time. But establishing a shared culture across LIXIL—one that is less hierarchical, more collaborative, and dynamically innovative—will provide the platform to allow the company to retain its leadership and serve customers over the long term.



# EXECUTIVE OFFICERS

(As of June 22, 2017)



## Sachio Matsumoto

Executive Officer and Executive Vice President, Finance, Treasury, and M&A and Chief Financial Officer, LIXIL Group Corporation

Sachio Matsumoto has served as Executive Officer and Executive Vice President of LIXIL Group Corporation since April 2015, and Chief Financial Officer of the Company since June 2013. He also serves as Director, Executive Vice President, and Chief Financial Officer of LIXIL Corporation.

Prior to joining the LIXIL Group, he was Corporate Vice President and Head of Finance and Treasury at Fuji Xerox Co., Ltd.

He holds 35,000 shares of the Company.

## Kazuhiko Ootsubo

Executive Officer and Executive Vice President, Domestic Sales, LIXIL Group Corporation

Kazuhiko Ootsubo has served as Executive Officer and Executive Vice President of LIXIL Group Corporation since June 2017 taking responsibility for domestic sales and serves as the Chief Executive Officer for LIXIL Japan Company. Ootsubo joined Tostem Corporation (now LIXIL Corporation) in April 1981 and has held a number of senior sales positions in his career.

He holds 2,200 shares of the Company.

## Ryuichi Kawamoto

Representative Executive Officer and Executive Vice President, Production Optimization, LIXIL Group Corporation

Ryuichi Kawamoto has served as Representative Executive Officer and Executive Vice President of LIXIL Group Corporation since June 2012. He is responsible for the optimization of LIXIL's global manufacturing and supply chain operation. Kawamoto also serves as Director, Executive Vice President and Chief Technology Officer at LIXIL Corporation, and Chief Manufacturing Optimization Officer for LIXIL Water Technology. He joined INAX Corporation (now LIXIL Corporation) in April 1976.

He holds 16,652 shares of the Company.

## Laurence William Bates

Executive Officer and Senior Managing Director, Legal Business, LIXIL Group Corporation

Laurence William Bates has served as Executive Officer and Senior Managing Director of LIXIL Group Corporation since July 2014, with responsibility for legal functions. He has also been serving as Director, Senior Managing Director and Chief Legal Officer at LIXIL Corporation since 2014, with responsibility for intellectual property, as well as Chief Legal Officer of LIXIL Water Technology.

Prior to joining the Group, Bates worked for 22 years at General Electric (GE) in Japan and Hong Kong, in successive roles as General Counsel from GE Medical Systems Asia, GE Capital Japan and GE Corporate Japan. Prior to GE, he worked with international law firms Morrison & Foerster, in Tokyo, and Paul, Weiss, Rifkind, Wharton & Garrison, in New York and Beijing. He also served as President of the American Chamber of Commerce in Japan, in 2013.

He holds 1,200 shares of the Company.

## Harumi Matsumura

Executive Officer and Senior Managing Director, Human Resources & General Affairs, LIXIL Group Corporation

Harumi Matsumura serves as Executive Officer and Senior Managing Director of LIXIL Group Corporation, taking responsibility for human resources and general affairs. She also serves as Director, Senior Managing Director, and Chief Human Resources Officer at LIXIL Corporation. She previously served as President and Representative Director at LIXIL Living Solution Corporation.

Prior to joining the Group, Matsumura was President and Representative Director of Henri Charpentier Co., Ltd. from 2004 to 2011. She also served as a manager at major retailer Seibu Department Stores, Ltd. (now Sogo & Seibu Co., Ltd.), which she originally joined in 1976.

She holds 9,543 shares of the Company.

From left: Sachio Matsumoto, Kazuhiko Ootsubo, Ryuichi Kawamoto, Laurence William Bates, Harumi Matsumura, Kinuya Seto, Yugo Kanazawa, Haruo Shirai, Jin Song Montesano, Ryo Nihei





### Kinya Seto

Director, Representative Executive Officer, President & Chief Executive Officer, LIXIL Group Corporation

Kinya Seto assumed the role of Director, Representative Executive Officer, President & Chief Executive Officer of LIXIL Group Corporation in June 2016. He also serves as President & CEO of LIXIL Corporation, CEO of LIXIL Water Technology, and CEO of LIXIL Housing Technology.

Seto began his career with Sumitomo Corporation, a major Japanese trading company, in 1983. After holding various key posts at Sumitomo Corporation, he established more than 10 companies in Japan and overseas, including MonotaRO Co., Ltd., a direct marketer of maintenance, repair and operating (MRO) supplies.

Seto served as President and Director of MonotaRO from 2006 and then became Chairman and Director in 2012. He also previously served as Non-Executive Director of Zoro Tools, Inc. (now Zoro Inc.) and President of K-engine Corp.

Seto's other global leadership roles include having led Asia Pacific operations for W.W. Grainger, Inc., a leading global MRO supplier, and heading its global online business operations based out of London.

He holds 99,000 shares of the Company.

### Yugo Kanazawa

Executive Officer and Senior Managing Director, Marketing and Digital, and Chief Digital Officer, LIXIL Group Corporation

Yugo Kanazawa serves as Executive Officer and Senior Managing Director at LIXIL Group Corporation, where he has been responsible for marketing and digital functions since 2016. He also serves as Director, Senior Manager, and Chief Digital Officer for LIXIL Corporation.

Prior to joining the LIXIL Group, Kanazawa developed his career at Sumitomo Corporation, one of the largest Japanese trading companies. He also served as Executive Officer at MonotaRO Co., Ltd., taking responsibility for its overseas business, and was also appointed as Vice President at W.W. Grainger, Inc.

### Haruo Shirai

Executive Officer and Executive Vice President, Domestic Subsidiaries, LIXIL Group Corporation

Haruo Shirai has served as Executive Officer and Executive Vice President of LIXIL Group Corporation since 2016. He also serves as Director and Executive Vice President of LIXIL Corporation. After serving as Senior Sales Director at Tostem Corporation before it was integrated into LIXIL, Shirai became Executive Vice President, responsible for overseeing domestic sales at LIXIL Corporation in 2011, before assuming the role of Chief Executive Officer of LIXIL Japan Company in 2015. He joined the Company in 1974.

### Jin Song Montesano

Executive Officer and Senior Managing Director, Public Affairs, Investor Relations, External Affairs, and Corporate Responsibility, LIXIL Group Corporation

Jin Song Montesano has served as Executive Officer and Senior Managing Director of LIXIL Group Corporation since November 2014, with responsibility for public affairs, investor relations, external affairs, and corporate responsibility. She also serves as Director, Senior Managing Director, and Chief Public Affairs Officer at LIXIL Corporation, as well as Chief Public Affairs Officer of LIXIL Water Technology.

Prior to joining the Group, Montesano held various senior positions, including Vice President, Global Public Affairs at GSK Vaccines; Vice President, Corporate & Government Affairs, Asia Pacific at Kraft Foods; Vice President, Communications, Asia Region at GE Money; and Corporate & Government Affairs Director, Asia Pacific at GlaxoSmithKline plc.

She holds 500 shares of the Company.

### Ryo Nihei

Executive Officer and Senior Managing Director, Technology, LIXIL Group Corporation

Ryo Nihei serves as Executive Officer and Senior Managing Director for LIXIL Group Corporation, taking responsibility for technology research. He is also Director and Senior Managing Director for LIXIL Corporation, and the Head of Technology Research.

Prior to joining the LIXIL Group in 2010, Nihei served as Director for FANUC CORPORATION.

He holds 14,500 shares of the Company.

## SPECIAL FEATURES

# ENHANCING BRAND VALUE THROUGH DESIGN

LIXIL's INAX, GROHE, and American Standard, three industry-leading global brands, are the key growth drivers of the LIXIL Water Technology (LWT) portfolio. By pursuing a unique design strategy for each, these consumer brands not only deliver aesthetically beautiful products, they also drive differentiation to meet ever-changing consumer tastes and needs.

### Global Design Team Synthesizing Future Trends

Across LWT's design studios in Nagoya, New York, Bangkok, and Düsseldorf, active discussions take place among members of the Global Design Team about future lifestyle trends. Each city focuses on a specific brand; for instance Düsseldorf is focused on the GROHE brand while Nagoya focuses more on the INAX line of products. Regardless of which brand each designer works on, members of the team attend exhibitions around the world and synthesize what they are seeing and hearing with each other. "I think this is definitely one of the many things that makes us unique and stand out," says Paul Flowers, award-winning Chief Design Officer of LWT. "Having in-house design

experts tracking trends around the globe is really powerful. Taking a uniform approach to plotting trends allows us to project a trend before it becomes reality and factor this into new products, so that we are continually providing products that are relevant to consumers when they reach the market."

### Generating Design Value

Over the last two years, Flowers and his team have been revisiting the core design values of the INAX, GROHE and American Standard brands. The core philosophy of the design team is that "each brand needs to be culturally rooted in the local culture." LIXIL has a group of brands that are culturally very diverse



Paul Flowers, Chief Design Officer (second from left), and LIXIL Design Team at LWT's Design Studio in Nagoya





**The core philosophy of the design team is that “each brand needs to be culturally rooted in the local culture.”**

and cover all of the main regions of the world. “That is something that puts LIXIL in an absolutely unique position, and my job is to ensure that our brands are unique and authentic in each of their base locations,” says Flowers.

Through extensive discussions to distill ideas of what the brands should strategically represent and what would be relevant to consumers in their respective home market, the LWT design team has now defined the design values and signature elements for each of the brands. Signature elements represent the visual DNA that subtly expresses the brands in unique ways, which consumers can start to recognize and value.

LWT has also put in place a structured Design Quality Review process, to ensure that each product’s design reflects the brand’s design values. Having had a head start in adopting the concept of design values and signature elements nine years ago, GROHE already has at least one signature element present in every single product. INAX, GROHE, and American Standard product designs will all now reflect their respective signature elements, providing consistency in the look and feel of the products.

### Driving Synergies and Value through Design

Design is a key factor in LWT’s ability to achieve global synergies. Design has helped configure global component technologies into new products that are relevant to each market, accelerating cross-selling. *GROHE Sensia Arena*, for example, uses INAX’s shower toilet technology but has a distinct European design, the popularity of which has spearheaded LIXIL’s sanitary ware business growth in Europe. Another example is *GROHE SmartControl* shower system, which integrates INAX’s push valve technology developed in Japan,

allowing the user to easily control and set all desired shower settings. Leveraging the product’s increasing popularity in Europe, GROHE recently introduced new models of *GROHE SmartControl* featuring concealed behind-the-wall installation and a flat, streamlined design. Additionally, the same underlying technology is offered by American Standard in Asia through the *EasySET* shower system, designed to meet Asian tastes at a more affordable price point.

The LWT design team’s excellence has received external recognition, both within the industry and the broader world of product design. *GROHE Sensia Arena* featured among the 6 Red Dot Awards and 10 iF DESIGN AWARDS won by LIXIL this year for design. “Brands need to have personas with set values that consumers choose to like,” says Flowers. “We will continue to pursue quality and consistency in our designs. Doing so ensures that the equity remains in each brand, which allows us to develop long-term relationships and a sense of loyalty with consumers.”



New model *GROHE SmartControl Concealed* featuring push-and-turn buttons and a simple, intuitive design



## SPECIAL FEATURES

# STRENGTHENING PRODUCT AND SUPPLY CHAIN SYNERGIES

LWT has been accelerating integration of global product development and supply chain processes, ensuring it develops and manufactures competitive products and brings them to market in the most efficient and effective way possible. Through shared platforms and greater collaboration between teams, LIXIL is succeeding in generating new demand for its sanitary ware products, and expanding its ceramic production capacity globally to meet that demand.

### Global Product Development Strategy

ISH, the world's foremost trade fair for bathroom products, drew crowds by the thousands to Frankfurt in March this year. Visitors to the GROHE booth witnessed a major shift in the brand's product strategy. The exhibit was the first time GROHE was positioned as a provider of complete bathroom solutions, featuring its new ceramic collections and the *GROHE Sensia Arena* shower toilet. GROHE's new lineup demonstrated the allure of perfectly coordinated bathrooms with stylish ceramics and matching faucets, and is the result of synergies achieved within LIXIL.

*GROHE Sensia Arena*, which combines LIXIL's shower toilet technology developed in Japan with a distinctly European design, was launched in September 2016. The product has achieved much buzz and solid sales performance, marking LIXIL's entry into the premium sanitary ware business in Europe and the Middle East. LIXIL's strategy for the region now is to expand GROHE's ceramics lineup, starting with adding two new ceramic collections this year.



LWT is strengthening its ceramic manufacturing capabilities in Asia

Similarly, LIXIL's stain-resistant ceramic technology *AQUA CERAMIC*, initially developed in Japan, has been integrated into mid and high-tier sanitary ware products in multiple regions, including in *GROHE Sensia Arena*. *AQUA CERAMIC* is a revolutionary technology that promises toilet bowls will keep their shine for 100 years, changing how people interact with ceramic products on a daily basis. "This technology will be a key differentiator across the INAX, GROHE, and American Standard brands," says LWT's Global New Product Development Vice President & Deputy Chief Technology Officer, Masataka Mizutani.

LWT has a broad global footprint and a unique portfolio of brands. Each brand traditionally employed a different product development strategy for each region. However, the recent successful cases of global rollout of key products and technologies demonstrate that LWT has developed the capabilities to address common global market needs while responding to the requirements of regional markets.

"Various teams across the regions have focused on building a strong foundation for a more streamlined global process, collaborating and helping each other understand market dynamics to effectively position and introduce our offerings," says Mizutani. Additionally, LWT has been implementing a global platform strategy to share the core product architecture and components across regions and segments, improving both efficiency and quality while allowing cost-effective tailoring of products to meet regional demands and tastes.

### Enhancing Production Capacity for Future Demand

To capture global growth opportunities, LWT is integrating its product development strategy with supply chain initiatives, as well as enhancing its operational efficiency and production flexibility. LWT currently



**LWT has developed the capabilities to address common global market needs while responding to the requirements of regional markets.**

produces approximately 17.5 million ceramic pieces a year, meeting strong demand in the US, Europe, Asia, and Japan. It is now strengthening its efforts to establish global best practices in ceramics manufacturing to improve productivity and, as a result of these activities, total production volume is expected to increase to 20 million ceramic pieces a year in the near future. Over the medium term, however, LWT also expects global ceramic demand to continue growing through to 2020. In anticipation of this growth, LWT has invested a further ¥6 billion to increase its total production capacity by yet another 20%.

“LWT employs a hybrid supply chain strategy, which utilizes both global hubs and regional production sites to not only achieve high production volume, but also reduce production cost and enhance supply flexibility. We are now developing our existing plants in Thailand and Vietnam, the most cost-effective sites in our manufacturing network, into global supply hubs and increasing their production capacity, while also strengthening our regional production sites in order to meet customer requirements that are specific to the various markets,” says Hirohisa Egashira, LWT Global Supply Chain Director & Deputy Chief Manufacturing Optimization Officer.

### **Benefiting from Synergies in Global Procurement**

To achieve cost and quality benefits by leveraging global scale, LWT has also integrated the sourcing of materials used in multiple regions. The initiative secured significant cost savings last year on materials that are procured across multiple regions. In April 2017, LWT also established the Global Strategic Sourcing Department which is tasked with managing global procurement. With the new team structure firmly in place, LWT aims to achieve further cost reductions through integration of sourcing.

We have established integrated global departments to achieve synergies in all processes of our supply chain,” says Egashira. “We have already started sharing global best practices and have delivered visible results in terms of ceramics production flexibility, operational efficiency and cost reduction. Our three leading global brands, INAX, GROHE, and American Standard, give us a unique and extensive global reach. We are excited to achieve a competitive advantage through supply chain management in order to capture future global growth opportunities in the ceramic sanitary ware business.”



LWT is globally expanding the range of models utilizing *AQUA CERAMIC*

## SPECIAL FEATURES

# DEVELOPING DIGITAL CONNECTIVITY

In 2016, LIXIL created the new role of Chief Digital Officer to spearhead the use of digital technology in its businesses. Since then, it has integrated the company's marketing and digital functions, and is now implementing a variety of digital initiatives to transform the way it interacts with consumers and tap into new opportunities globally.

### Getting Closer to Consumers

Consumer behavior has changed significantly in recent years with the expansion of social media, digital platforms, and mobile devices. Responding to this trend, LIXIL is currently developing Data Management Platforms, which store and manage large amounts of digital behavioral data, such as consumer browsing patterns on LIXIL's website, to more clearly understand interests and the journey consumers take when making purchasing decisions. LIXIL is also digitizing all of its product information on centralized platforms. Together, these platforms will be built and utilized around the world, enabling LIXIL teams to gain far more specific insights into users' interests and needs. Through this data-driven approach, LIXIL can then communicate with users in a much more targeted way and provide more relevant and detailed information.

"Digital itself is not the strategy but rather the best means for us to execute on our business strategy to get closer to our end users," says LIXIL's Chief Digital Officer, Yugo Kanazawa. "LIXIL has been strengthening

internal digital capabilities to maximize the use of digital technology across the organization. Digital can be integrated into everyday business operations, allowing us to build and strengthen our relationships with consumers."

### Digital Opening Doors to New Service Models

Digital is becoming a higher priority for LIXIL's product innovation pipeline as consumer needs and lifestyles change. For example, *GROHE Sense* and *GROHE Sense Guard*, smart home innovations launched this year in Europe, are examples of how LIXIL is using digital to provide additional value to consumers. Designed to monitor and recognize daily water usage, *GROHE Sense* detects water leakages in the home such as burst pipes and alerts homeowners, while *GROHE Sense Guard* automatically shuts off the water supply, protecting the home from water damage.

In May this year, LIXIL announced a new one-stop service model in China in collaboration with the Alibaba Group, China's largest online marketplace, which allows consumers to enjoy a simple shopping experience from purchase to installation with guaranteed quality and transparent pricing. To provide this service, LIXIL is training local plumbers, so that they can install INAX products to a certified quality level. Once sufficiently trained, the plumbers will receive business based on orders made via an INAX app. This business model is a test case for LIXIL to approach a new and dynamically growing market like China and transform the shopping and support experience.

### Digital's Potential to Contribute to New Product Development

In Japan, LIXIL is also currently partnering with an IT venture to conduct data modeling based on when senior citizens trip and fall, to determine how such



Bijoy Mohan, CEO of LWT Asia, announced the new "Direct to Consumer" business model for the Chinese market at a press event





**Digital itself is not the strategy but rather the best means for us to execute on our business strategy to get closer to our end users.**

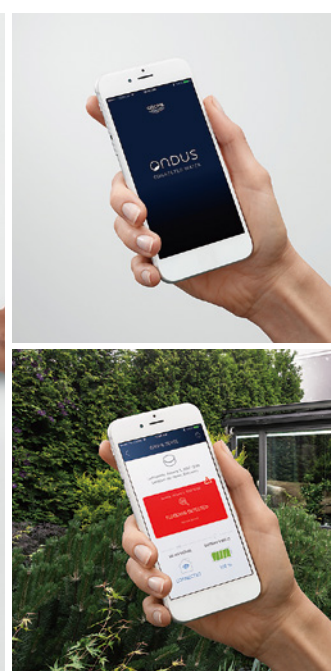
accidents can be prevented. The data is being collected in an elderly home managed by LIXIL Senior Life Company, with the permission of the occupants. Collection of the data will not only contribute to the safety of the occupants of the facility, but will be a valuable source of information in future product development to cater to Japan's rapidly graying society.

Digital techniques may also provide opportunities to broaden and accelerate the product development process. In the US and Japan, LIXIL is developing ways to more quickly gather customer feedback that can support new product development. For example, new product ideas can be tested using small-batch

production and feedback quickly obtained through digital to help determine next steps, which may include refinement, a larger-scale launch or cancellation.

"Opportunities to utilize IoT are immense and how we use digital will differ depending on the needs and available infrastructure of each market," says Kanazawa.

"Sharing test cases and digital experiences around our global offices will trigger new unique ideas suited for local markets. We are at the starting point of our exciting journey of digital experiences, in which we will enhance our capabilities to provide on-going services to consumers who have purchased our products."



GROHE Sense Guard (left) is a smart water controller that detects frost risk, microleakage, and pipe breaks. Users receive alerts through the GROHE Ondus app (right) when there is a water issue at home and can shut off their water supply with the app.

## SPECIAL FEATURES

# UNLOCKING DEMAND FOR HOME RENOVATION IN JAPAN

Japan's housing market is undergoing a transformation in the face of social changes such as an aging and shrinking population, the increase in single-person households, and a glut of empty houses. LIXIL is embracing these changes as an opportunity to move beyond the traditional industry approach and cultivate new demand for home renovation in Japan.

### Remodeling Japan's Housing Market

Japan's housing industry is highly affected by the country's graying population and existing housing stock already outnumbers households. The Japanese government has shifted the focus of its housing policy from building new homes to promoting use of existing housing stock. It revised its Basic Housing Plan in March 2016, aiming to grow the renovation market from an estimated ¥6 trillion to ¥12 trillion by 2025. There are already signs of growth, with the number of deals concluded for used houses and condominiums in the Tokyo metropolitan area marking a record high in 2016.\*<sup>1</sup>

But unlike the US and European markets, Japan's renovation market faces growing pains. Houses in Japan are commonly valued by how long they have been standing and home improvements through renovation

are not necessarily reflected in the property price. Despite government support, growth in the renovation market has been relatively flat over the past five years.

"To revitalize the renovation market, it is vital that we shift the traditional product-driven focus to a more consumer-centric approach. While consumer spending remains tepid, LIXIL is today going beyond the conventional business practices of a manufacturer to stimulate consumer demand and unlock future growth potential," says Kazutoshi Taguchi, General Manager of LIXIL Japan Company's Renovation Promotion Division.

### LIXIL PATTO Reform—A New Service to Generate New Demand

In October 2016, LIXIL launched its LIXIL PATTO Reform service, aiming to stimulate demand for renovation by providing a stress-free and simplified process. LIXIL PATTO Reform offers small-scale home reform solutions that can be completed in as little as a day, while providing transparent cost estimates upfront, including the product cost and installation fee. Transparency in fees is especially important because this lack of information makes consumers more hesitant about renovating their homes.

Sales and installation are handled by a network of approximately 3,500\*<sup>2</sup> LIXIL PATTO Reform Service Shops, registered across Japan. This network is set up to respond swiftly to consumers—from providing quotes to the actual installation—with a dedicated team handling online and phone inquiries.

"By first focusing on small-scale renovation needs such as doors and windows, and eliminating common consumer concerns such as cost transparency, LIXIL is helping potential consumers try out renovation for the first time," says Taguchi.

"Our data suggests that people who have undertaken renovation once tend to also repeat the experience. I



LIXIL PATTO Reform makes home renovation faster, simpler, and clearer



**To revitalize the renovation market, it is vital that we shift the traditional product-driven focus to a more consumer-centric approach.**

am confident that as a result the market will grow organically over time,” he adds.

To get the word out about its new service, LIXIL has launched two original mascot characters: TORI and KAERU.\*<sup>3</sup> It also launched a full-fledged promotional campaign across TV, online, and print media channels. Seven months into the campaign, more than 300,000 visitors per month are already visiting the LIXIL PATTO Reform website.

### **Reframe Replus—Energy-Saving Windows for Home Renovation**

In March 2017, LIXIL Housing Technology launched *Reframe Replus*, a new window product for wooden detached houses, as part of the LIXIL PATTO Reform lineup. With energy efficiency standards for new homes becoming mandatory from 2020, energy-saving measures are actively being introduced in newly built houses. However, there is no regulation requiring

energy saving in existing houses, and many windows in Japan are not yet insulated.

*Reframe Replus* consists of a hybrid plastic and aluminum frame specifically designed for easy replacement and high thermal insulation. It is structured so that the replacement can be completed in as little as 60 minutes per window, and does not impact the integrity of the wall either.

Currently, an estimated 14 million wooden houses could benefit from renovation in Japan. By replacing the conventional windows with products such as *Reframe Replus* in these houses, LIXIL estimates that approximately 25% of Japan’s overall heating and cooling energy could be reduced.\*<sup>4</sup>

### **Enhancing End User Experiences**

LIXIL is engaging in a series of new initiatives to enhance the end user’s experience. At LIXIL Renovation Fairs that are held in major cities across Japan, LIXIL changed how it presented the price of products so that visitors can easily grasp how much the renovation will cost, including installation. To meet consumers’ financial needs, from May this year LIXIL is also making special loans available for home improvements using specific LIXIL products. Under specified conditions, LIXIL covers the interest rates of the home renovation loan. Going forward, LIXIL also plans to build a digital platform to engage in targeted marketing tailored to the specific interests of end users.

“We believe it is LIXIL’s role to facilitate growth of the renovation market, and to lead through innovative approaches that help unlock demand for renovation in Japan,” Taguchi says.



Consumer interest in energy-efficient windows like *Reframe Replus* is increasing

\*<sup>1</sup> Real Estate Information Network for East Japan, “Secondary Housing Market Trends in the Tokyo Metropolitan Area (2016)”

\*<sup>2</sup> As of June 2017

\*<sup>3</sup> TORI and KAERU mean “bird” and “frog,” respectively, and the two words together, “torikaeru,” mean “replace” in Japanese.

\*<sup>4</sup> Reduction in the annual air-conditioning load by replacing single-plate glass windows with high-performance windows was calculated using the heat load calculation program “AE-Sim/Heat” (Architecture Environment Solutions) and in accordance with the “Guidelines for Calculating Window Energy Efficiency (2015)” established by the Japan Sash Manufacturers Association.



# FINANCIAL REVIEW FROM THE CFO

**Making continuous efforts to optimize our business portfolio, we will continue to pursue sustainable corporate value creation**



**Sachio Matsumoto**

Executive Officer and Executive Vice President, Finance, Treasury, and M&A and Chief Financial Officer

## Strengthening our Balance Sheet to Enhance Profitability for the Medium Term

LIXIL Group Corporation achieved record profits in FYE2017, benefiting from enhanced global synergies and improved profitability. We will aim to register record profits again in FYE2018, through continued focus on strengthening profitability and improving our balance sheet.

To strengthen profitability, we aim to increase EBITDA organically through both productivity improvement and enhanced gross profit by increasing high-value-added products in our sales mix. We will further reduce overhead costs through efficiency measures and make strategic investments in R&D and marketing that will lead to future revenue growth.

Meanwhile, we will continue our focus on leverage ratio (Net Debt/EBITDA) improvement. In FYE2017, the ratio reduced significantly to 4.3x from the previous year's 5.3x, due to improved EBITDA as well as repayment of debt.\*1 This fiscal year, we have already repaid roughly ¥50 billion of debt in April and will continue to improve our EBITDA and reduce our interest-bearing liabilities.

## Ensuring Solid Financial Management

We have also made improvements in our global financial management structure. Following the launch of the Regional Treasury Center (RTC) in Singapore, we set up RTCs in China and the United States last year, with Europe scheduled for August 2017. All RTCs report directly to the headquarters, allowing us to consolidate cash management of our overseas subsidiaries. Each RTC uses a web-based treasury management system, enabling the RTC to capture the end-of-day balances of most bank accounts in the region the following morning. Central management of cash

flows under the supervision of the headquarters has strengthened the Company both in governance and increased efficiency, as we can manage risks at an early stage, centrally manage currency exposures and thereby secure governance, and pool surplus cash and lend to subsidiaries through inter-company transactions.

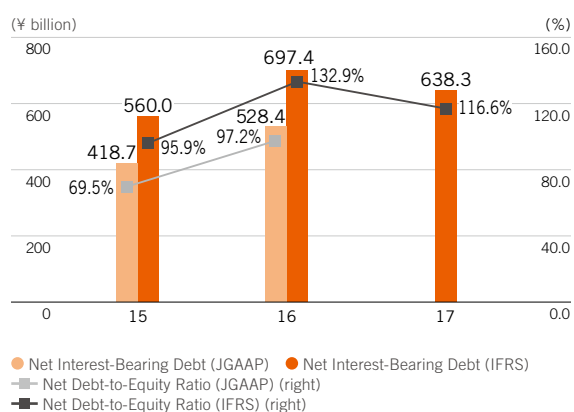
In addition, we have integrated the accounting operations of 14 Chinese subsidiaries into a shared service operation, which we have outsourced to an outside vendor. This allows us to eliminate arbitrary decisions and ensure standardized and streamlined year-end closing activities, as well as, for example, to use artificial intelligence to accurately detect and eliminate fraud in expense reimbursement, etc.

From April, we have standardized the payment terms for inter-company transactions globally, which will improve our cash conversion cycle, reduce the time spent on balance checks, and prevent fraud.

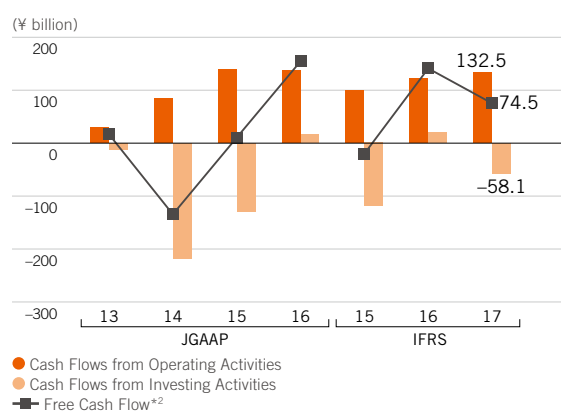
Furthermore, in May, we obtained 100% ownership of GROHE's sales subsidiary in the Middle East. Learning from the Joyou AG incident detected in April 2015, we will ensure thorough review by establishing multiple approval stages during the acquisition process and, once acquired, monitor subsidiaries with discipline and obtain full ownership as quickly as possible.

From 2016, we have been making efforts to review and divest businesses or companies that do not support sustainable value creation, such as Shanghai Meite. We continue to seek to refine our business portfolio so that we can optimize resources and deploy capital for sustained growth. As CFO, I am committed to making every effort in creating corporate value through appropriate allocation of resources and ensuring corporate governance.

## Net Interest-Bearing Debt / Net Debt-to-Equity Ratio



## Cash Flows



(Years ended March 31)

\*1 Liabilities increased due to a change from Japanese accounting standards (JGAAP) to the international financial reporting standards (IFRS). However, the Company is taking steps to improve its financial leverage.

\*2 Free Cash Flow is calculated as Cash Flows from Operating Activities + Cash Flows from Investing Activities.

# REVIEW OF OPERATIONS

## Group-Wide Operations

### Initiatives in the Fiscal Year Ended March 31, 2017 and Outlook for the Fiscal Year Ending March 31, 2018

In the fiscal year ended March 2017, we worked to boost sales in Japan and overseas. At the same time, we strove to enhance our earnings power mainly by creating synergies and withdrawing from low-margin businesses. We also improved our balance sheet by reducing interest-bearing debt, disposing idle assets, and taking steps to enhance cash flow.

Moreover, we continued to push ahead with organizational changes to facilitate leaner and faster operations. To this end, we reorganized and streamlined LHT Japan and LIXIL Corporation's Marketing Division. We also strove to strengthen the Distribution & Retail Business through the April 12, 2017 listing of LIXIL VIVA CORPORATION, which operates the retail home center business.

Furthermore, we expanded LIXIL PATTO Reform services to stimulate new demand in the home renovation market in Japan. In addition, we produced solid results in terms of enhancing our design capabilities, with six products winning Red Dot Design Awards in 2017.\*<sup>1</sup> In other areas, we launched the new "Toilets for All" initiative in Japan to further support our global efforts to improve sanitation conditions around the world.

For the fiscal year ending March 31, 2018, with the aim of delivering sustainable profit growth, we will continue working to simplify our organization, strengthen marketing and address other priorities. Additionally, we will focus on developing truly differentiated products such as *GROHE Sense*, an IoT-enabled water leak detector.

\*<sup>1</sup> An international design competition held by the Design Zentrum Nordrhein Westfalen in Germany

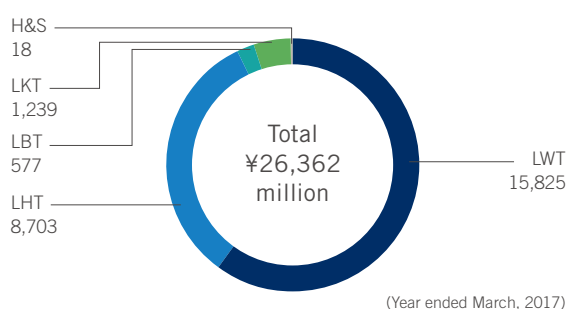
### Performance for the Fiscal Year Ended March 31, 2017 by Segment

	Revenue		Core earnings (loss)		
	Results	Y/Y (%)	Results	Core earnings ratio (%)	Y/Y (%)
LIXIL Water Technology (LWT)	662.4	-1.6	65.1	9.8	18.6
LIXIL Housing Technology (LHT)	544.1	-3.9	39.2	7.2	3.2
LIXIL Building Technology (LBT)	263.6	-20.6	3.8	1.4	Returned to profitability
LIXIL Kitchen Technology (LKT)	114.7	2.4	4.3	3.8	146.6
Distribution & Retail Business (D&R)	172.0	-6.8	7.3	4.2	1.8
Housing & Services Business (H&S)	64.4	8.2	4.4	6.9	16.8
Adjustment	-34.8	—	-35.9	—	—
Consolidated	1,786.4	-5.5	88.3	4.9	26.0

(¥ billion)

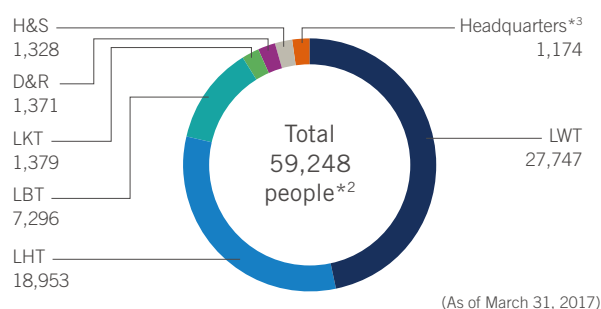
### Research and Development Expenses by Segment

(¥ million)



### Number of Employees by Segment

(People)









\*<sup>2</sup> Numbers are for directly employed full-time staff, on an IFRS basis. Figures do not include employees seconded to another Group company. The Company adopted IFRS from the fiscal year ended March 31, 2016.

\*<sup>3</sup> The number of headquarters staff consists of staff assigned to management units that cannot be classified under specific segments.

## REVIEW OF OPERATIONS

### OUR BUSINESSES

Business segment	Principal products and services	
<b>LIXIL Water Technology (LWT)</b> 	Plumbing fixtures  Other building materials	Sanitary ware, shower toilets, water faucets, washstands, bathtubs, unit bathrooms, shower heads, washstand fixtures, washstand cabinet units, etc.  External tiles for houses and buildings, internal decorative tiles, etc.
<b>LIXIL Housing Technology (LHT)</b> 	Metal building materials  Wooden interior furnishing materials Other building materials Interior fabrics Other	Housing shower toilets, entrance doors, various types of shutters, gates, carports, banisters, high railings, tide barriers, smoke insulated screens, etc.  Window frames, wooden furnishing materials, interior decorative materials, etc.  Siding, stone materials, roofing materials, etc.  Curtains, etc.  Solar photovoltaic systems, etc.
<b>LIXIL Building Technology (LBT)</b> 	Metal building materials Other	Curtain walls, building sashes, and store facades  Interiors for boutiques, airport lounges, cruise ships, etc.
<b>LIXIL Kitchen Technology (LKT)</b> 	Kitchen	Kitchen systems, etc.
<b>Distribution &amp; Retail Business (D&amp;R)</b> 	Home centers	Household products, DIY products, building materials, etc.
<b>Housing &amp; Services Business (H&amp;S)</b> 	Housing solution businesses  Real estate  Nursing home business Financial services business	Development of homebuilding franchise chains, construction on order, ground inspections and improvements, etc.  Land, buildings, real estate management services, support for development of real estate franchises, etc.  Elderly homes  Housing loans, etc.



Major brands and operating companies	Direct customers	Competitors	Market share*
      	<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> <li>• General consumers</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>	<p>Water faucets: No. 1 globally</p> <p>Sanitary ware: No. 1 in North America No. 2 in Japan</p> <p>Unit bathrooms: No. 1 in Japan</p> <p>Washstand cabinet units: No. 1 in Japan</p> <p>Tiles: No. 1 in Japan</p>
    	<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 Tateyama</li> </ul>	<p>Housing window sashes: No. 1 in Japan</p> <p>Exteriors: No. 1 in Japan</p> <p>Entrance doors: No. 1 in Japan</p>
 	<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>	<p>Curtain walls: No. 1 globally No. 1 in Japan</p>
	<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>	<p>Kitchen systems: No. 1 in Japan</p>
	<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>	
         	<p>[Housing franchise business] Homebuilding franchise members</p> <p>[Housing site ground inspection business] Construction companies, real estate transaction agents</p> <p>[Real estate brokerage franchise business] General consumers</p>		

\* LIXIL Group estimates

## REVIEW OF OPERATIONS

# LIXIL Water Technology (LWT)

LIXIL

GROHE

American  
Standard

INAX

American  
StandardGROHE • DAWN  
WATER TECHNOLOGY

Jaxson

### Highlights for the Fiscal Year Ended March 31, 2017

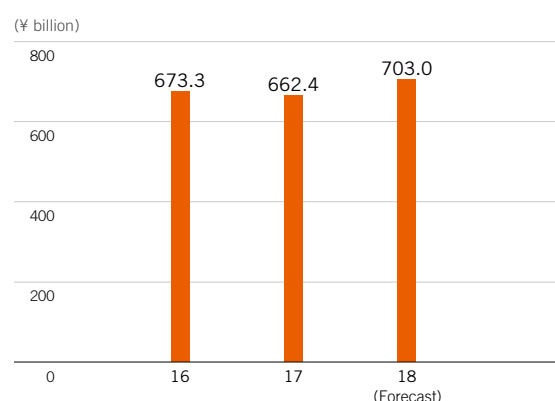
- Revenue decreased 2% to ¥662.4 billion, while core earnings were up 19% to ¥65.1 billion. The main reason for the decrease in revenue was the impact from foreign exchange influences. On a local currency basis, revenue increased 4%. The main reasons for the increase in core earnings were cost reductions generated by Group-wide synergies and improvements due to the product mix and other factors.
- Steady growth was achieved across all regions driven by sales expansion of products such as *SATIS* and *PREUS* shower toilets featuring *AQUA CERAMIC\** and the introduction of new products such as *GROHE Sensia Arena*, GROHE's first shower toilet model.

\* A new technology that keeps toilets clean for a century by preventing marks from waste and water stains from hard water.

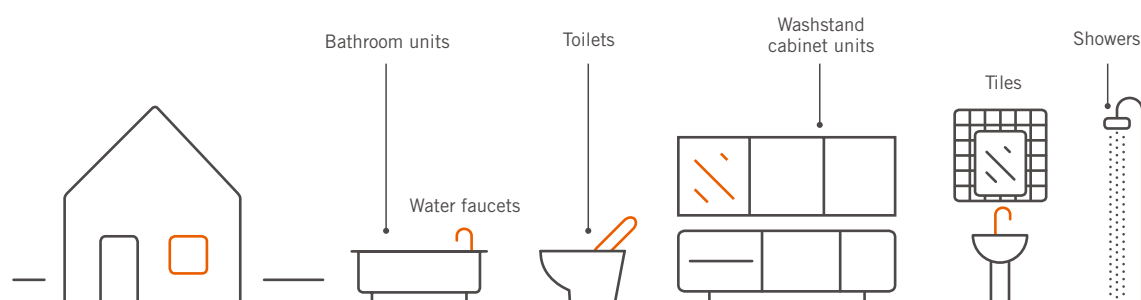
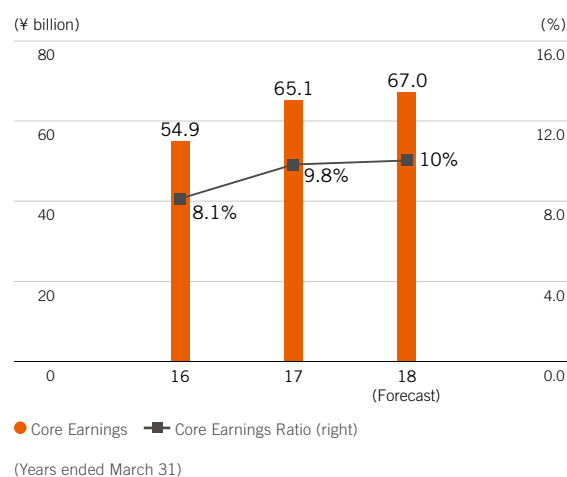
### Priorities for the Fiscal Year Ending March 31, 2018

- LIXIL will establish four new integrated global departments to enhance manufacturing and technological leadership across LIXIL's global operations.
- Globally roll out technologies, products, marketing capabilities and brand power in each region through overseas expansion of the platform strategy and shower toilets.
- Build an optimized global supply chain by utilizing manufacturing and distribution bases.
- Promote the optimization of production technology by driving overseas expansion of manufacturing and control technologies cultivated in Japan.

### Revenue



### Core Earnings / Core Earnings Ratio



# LIXIL Housing Technology (LHT)



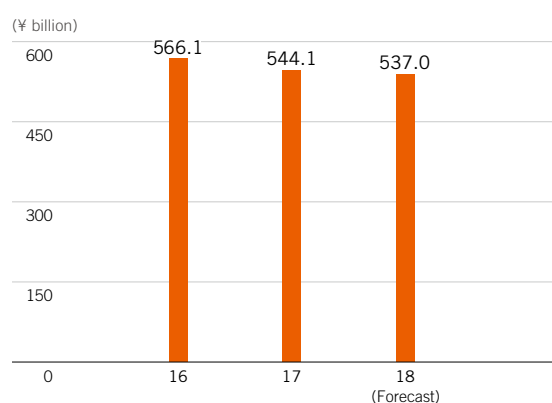
## Highlights for the Fiscal Year Ended March 31, 2017

- Revenue decreased 4% to ¥544.1 billion, while core earnings rose 3% to ¥39.2 billion. The decrease in revenue was due partly to the divestment of HIVIC CO., LTD., while efforts were made to expand sales of products such as *SAMOS L*, a hybrid window made with a combination of aluminum and plastic materials. Meanwhile, core earnings increased due to continued cost-cutting measures.
- We made organizational changes designed to simplify the organization. Changes were made to build a leaner, faster and simpler organization, including eliminating product businesses and merging the closely related Sash and Door Divisions into one.

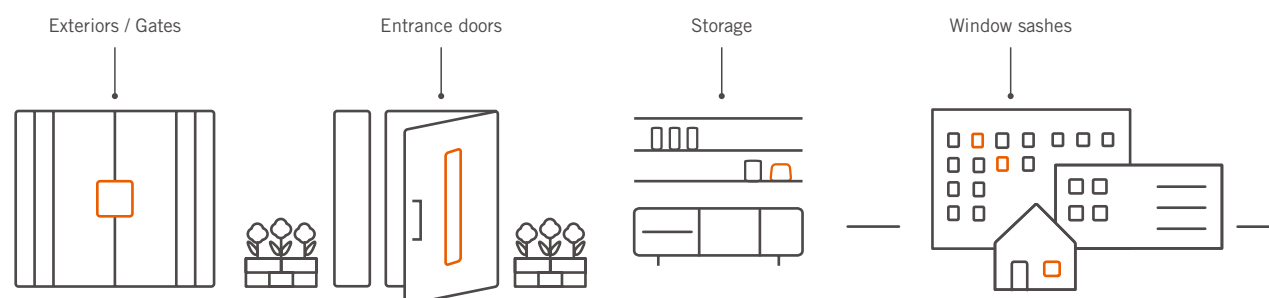
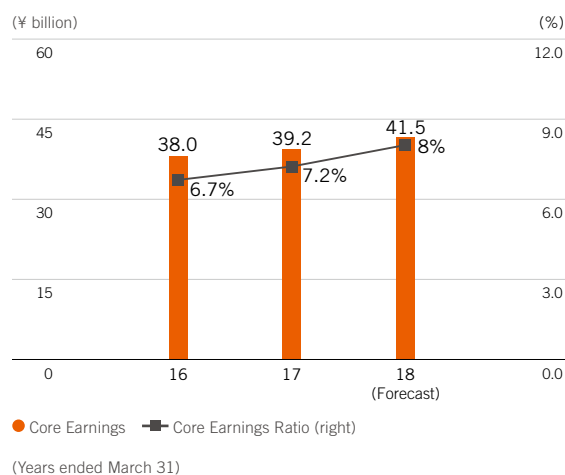
## Priorities for the Fiscal Year Ending March 31, 2018

- Optimally allocate resources mainly by increasing the priority of design and product development to realize further synergies.
- Strengthen marketing activities in tandem with advancing further optimization of product lineups.
- Strengthen development of new products for renovation focused on easy and fast installation, aiming to stimulate new demand in the renovation market.

## Revenue



## Core Earnings / Core Earnings Ratio





## REVIEW OF OPERATIONS

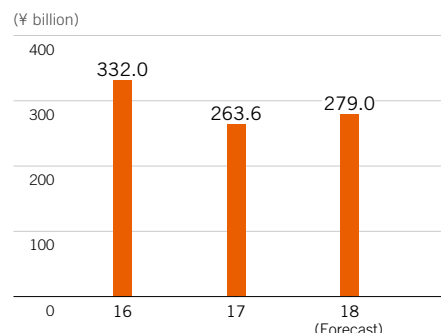
## LIXIL Building Technology (LBT)



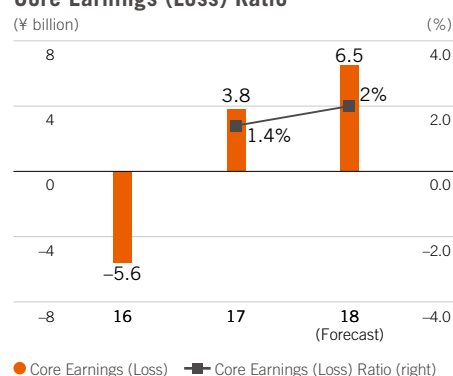
### Highlights for the Fiscal Year Ended March 31, 2017 and Priorities for the Fiscal Year Ending March 31, 2018

- In the fiscal year ended March 31, 2017, revenue decreased 21% to ¥263.6 billion, while core earnings were ¥3.8 billion. Revenue decreased due to the divestiture of Shanghai Meite Curtain Wall System Co., Ltd. in the previous fiscal year and a rigorous focus on the selective intake of orders. However, core earnings turned positive mainly due to an improved gross profit margin reflecting the selective intake of orders and cost reductions.
- In the fiscal year ending March 31, 2018, we will work to improve earnings through the selective intake of orders for high-margin projects primarily in major European and American cities, along with efforts to improve cash management.
- We will strengthen the interior business for luxury boutiques, airport lounges, cruise ships and other properties.
- In Japan, we will focus on capturing new demand through differentiation focused on energy saving and net-zero-energy building projects.

### Revenue



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



Core Earnings (Loss) (orange bars), Core Earnings (Loss) Ratio (right) (black line with squares)

(Years ended March 31)

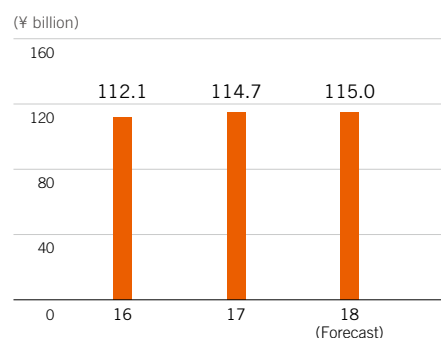
## LIXIL Kitchen Technology (LKT)



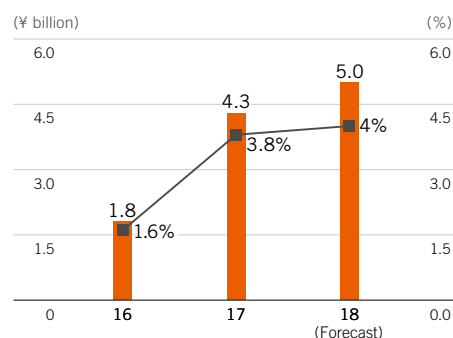
### Highlights for the Fiscal Year Ended March 31, 2017 and Priorities for the Fiscal Year Ending March 31, 2018

- In the fiscal year ended March 31, 2017, revenue increased 2% to ¥114.7 billion and core earnings rose 147% to ¥4.3 billion. Higher revenue and earnings were achieved mainly due to increased sales of mid- to high-end products, beginning with the *Richelle SI* kitchen system, popular for its ceramic countertops.
- In the fiscal year ending March 31, 2018, we will work to improve profitability by further enhancing the mid- to high-end product lineup.
- Cultivate new customers by integrating technology and marketing.
- Reinforce renovation capabilities by, for example, expanding the sales of *Pattorikun*, a replacement kitchen system for which renovation work can be completed in just one day.
- Strengthen proposals for integrated spaces with coordinated tiles and interior products, leveraging strengths as a comprehensive building materials manufacturer.

### Revenue



### Core Earnings / Core Earnings Ratio



Core Earnings (orange bars), Core Earnings Ratio (right) (black line with squares)

(Years ended March 31)

## Distribution & Retail Business (D&R)

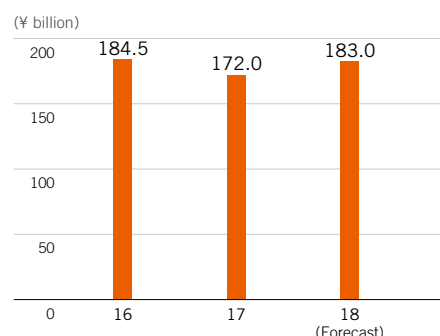


### Highlights for the Fiscal Year Ended March 31, 2017 and Priorities for the Fiscal Year Ending March 31, 2018

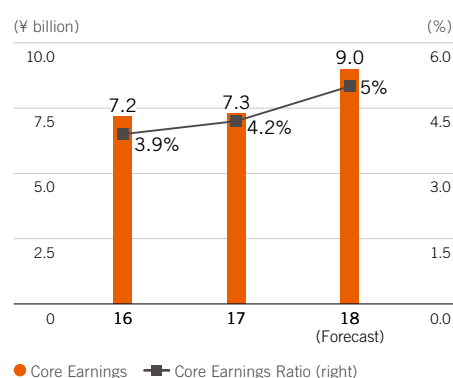
- In the fiscal year ended March 31, 2017, revenue decreased 7% to ¥172.0 billion, while core earnings rose 2% to ¥7.3 billion. Revenue declined as a result of the impact of the carve out of a certain business\* in the previous fiscal year.
- On April 12, 2017, LIXIL VIVA CORPORATION, which is engaged in the home center business, was listed on the First Section of the Tokyo Stock Exchange.
- In the fiscal year ending March 31, 2018, we will take the opportunity of this listing to proactively expand the store network. Three Super Viva Home outlets are expected to be newly opened.

\* On October 1, 2015, the Ken Depot membership-based wholesale building materials business was split off, thereby making Ken Depot Corporation an equity-method affiliate.

### Revenue



### Core Earnings / Core Earnings Ratio



(Years ended March 31)

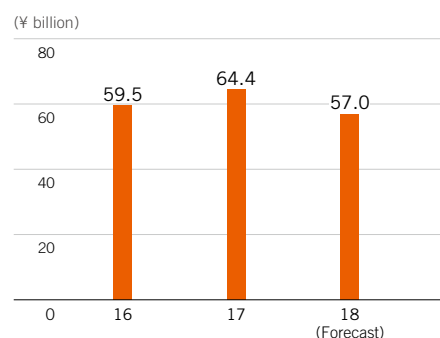
## Housing & Services Business (H&S)



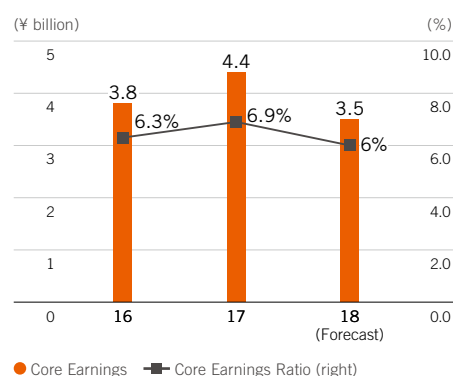
### Highlights for the Fiscal Year Ended March 31, 2017 and Priorities for the Fiscal Year Ending March 31, 2018

- In the fiscal year ended March 31, 2017, revenue rose 8% to ¥64.4 billion, and core earnings increased 17% to ¥4.4 billion. Higher revenue and earnings were achieved based on increased sales of highly airtight and insulated new homes, including *Cesibo EX-H Limited*, a zero-energy home series, and higher sales of *Shinchiku Mitai*, a renovated new home series.
- In the fiscal year ending March 31, 2018, we will continue working to expand our share of the market for new homes by focusing on zero-energy homes. Along with this, we will advance our strategies in growing fields other than new homes, thereby laying the groundwork for medium- and long-term business growth.
- We are forecasting lower revenue and earnings for the fiscal year ending March 31, 2018, primarily based on the impact of the deconsolidation of JIO Corporation.

### Revenue



### Core Earnings / Core Earnings Ratio



(Years ended March 31)

## CORPORATE GOVERNANCE



### STATEMENT FROM THE CHAIRMAN OF THE BOARD

Six years have passed since LIXIL Group Corporation adopted the corporate governance model of a “Company with Nomination Committee, etc.” For the first five of these years the Group was led by former CEO Fujimori. LIXIL Group aimed for growth based on long-term management strategies, not only in the domestic Japanese market where room for growth is limited due to the declining population, but also through the expansion of business operations overseas. This vision for growth was shared by the Board of Directors. As a result, the LIXIL Group expanded its overseas businesses, which previously represented only a few percent of revenue, to 30 percent.

The long-term vision is shared between the Board of Directors and executive officers, and the Board of Directors verifies if management decisions are appropriate. This is the concept of governance held by the LIXIL Group.

We strengthened our auditing function, having reflected on the fact that we could not prevent inappropriate accounting issues from occurring at Group companies in China. A system called “Speak Up!” has now been established, enabling employees overseas to directly report to Tokyo headquarters about any concerns in business operations. This allows us to grasp the details of problematic issues. In addition, we have unified our global crisis management processes to deal with issues that may arise.

CEO Seto’s management, which pays attention to detail, has shed light on various issues and those issues have been cleared one by one. Following the discovery of performance issues in South Africa, the business was improved and South Africa operations returned to profitability. In Europe, a shower toilet developed and launched under the



GROHE brand has made a positive start in the market. In the United States, American Standard recovered its momentum and has achieved solid results. In Asia, the LIXIL Group is expanding sales, taking advantage of the region's strong growth.

In Japan, we released the world's highest-performance heat insulating products for the windows business. We support construction companies with the expansion of ZEH (Net Zero Energy Housing) by designing and supporting ZEH construction with high-performance insulation and excellent earthquake-resistant products. In the kitchen business, sales of new ceramic countertops have grown rapidly, contributing to improved business performance. In addition, the ceramics business has also been performing well, supported by the introduction of sanitary ware products featuring ceramics that prevent stains.

With the aim of enhancing governance functions, we conducted an assessment of the effectiveness of the Board of Directors and ideas for improvement were discussed. As part of this initiative to improve supervision by the Board of Directors, the board resolved to limit the number of

people who concurrently serve as a member of the board and the Executive Officers Meeting, which resulted in the CEO being the only executive officer who remains as a member of the Board of Directors. In addition, Mr. Hidehiko Sato stepped down from the Board of Directors after five years of contribution and Mr. Hiroto Yoshimura has joined the board in his place. Mr. Hirokazu Yamanashi has been appointed as Chairperson of the Nomination Committee, succeeding Mr. Sato. Also, Lady Barbara Judge has been appointed as Chairperson of the Compensation Committee.

The Board of Directors will continue to enhance governance through deeper understanding of business operations, sharing issues through regular discussions among outside directors and by exchanging opinions with the Chief Executive Officer.

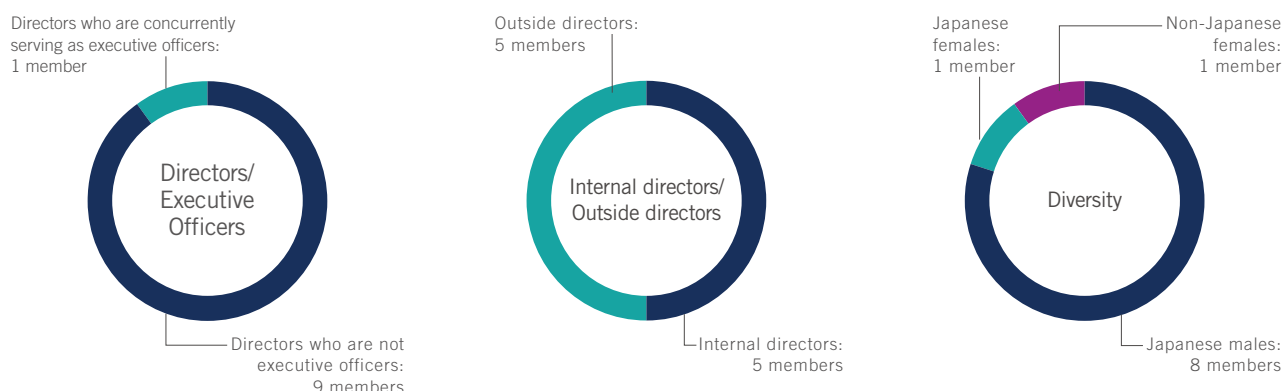
August 2017

潮田洋一郎

**Yoichiro Ushioda**

Chairman of the Board

### Composition of the Board of Directors (10 members)



### Composition of the Members of the Board of Directors (As of June 22, 2017)

	Name	Business Execution	Nomination Committee	Compensation Committee	Audit Committee
Internal Director	Yoichiro Ushioda		✓		
	Kinya Seto	✓			
	Yoshizumi Kanamori				✓
	Yoshinobu Kikuchi			✓	
	Keiichiro Ina			✓	
Outside Director	Tsutomu Kawaguchi				Chairperson
	Main Kohda			✓	
	Barbara Judge			Chairperson	
	Hirokazu Yamanashi		Chairperson	✓	
	Hiroto Yoshimura		✓		✓

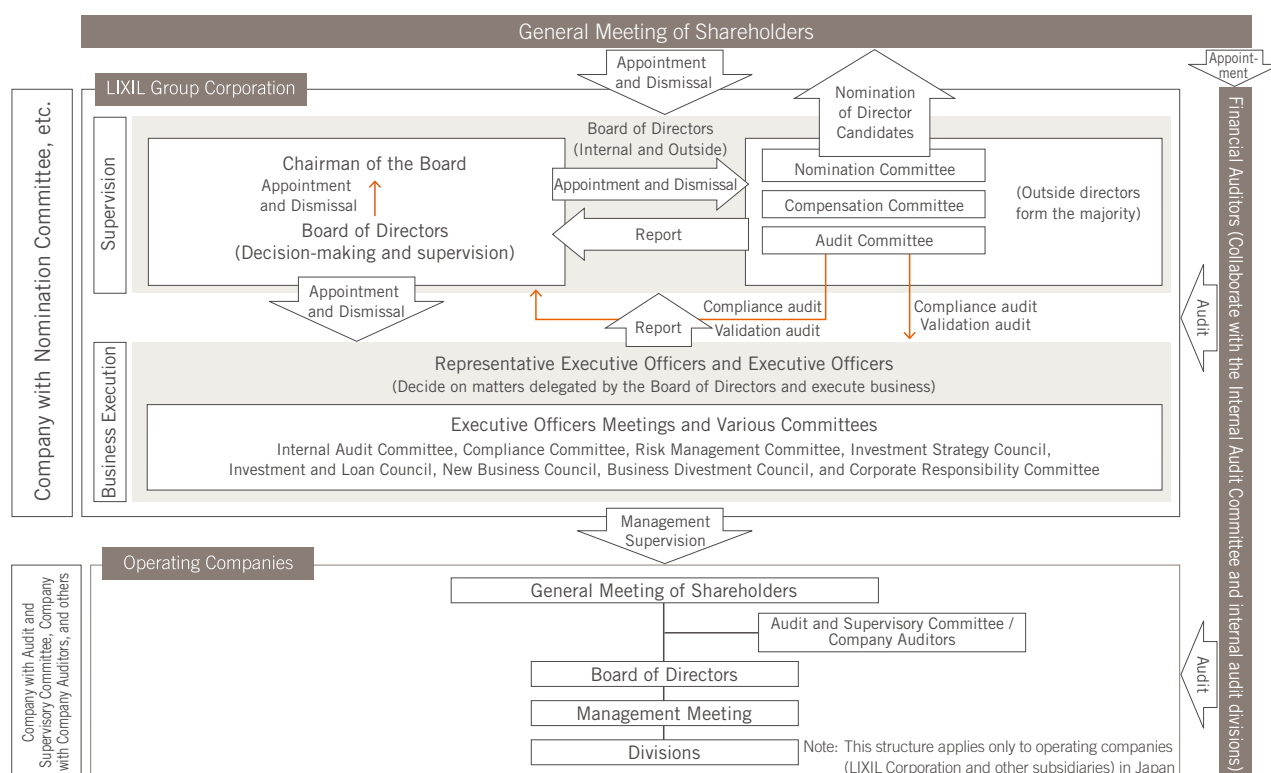
## CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE AT THE LIXIL GROUP

LIXIL Group Corporation has adopted the Company with Nomination Committee, etc., corporate governance model as provided for under Japan's Companies Act. Under this governance system, the Company clearly separates the conduct of management from the surveillance of management with the objectives of creating a system where the executive officers can make management decisions quickly and decisively while aiming to secure management transparency.

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

## Governance Structure (As of June 22, 2017)



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

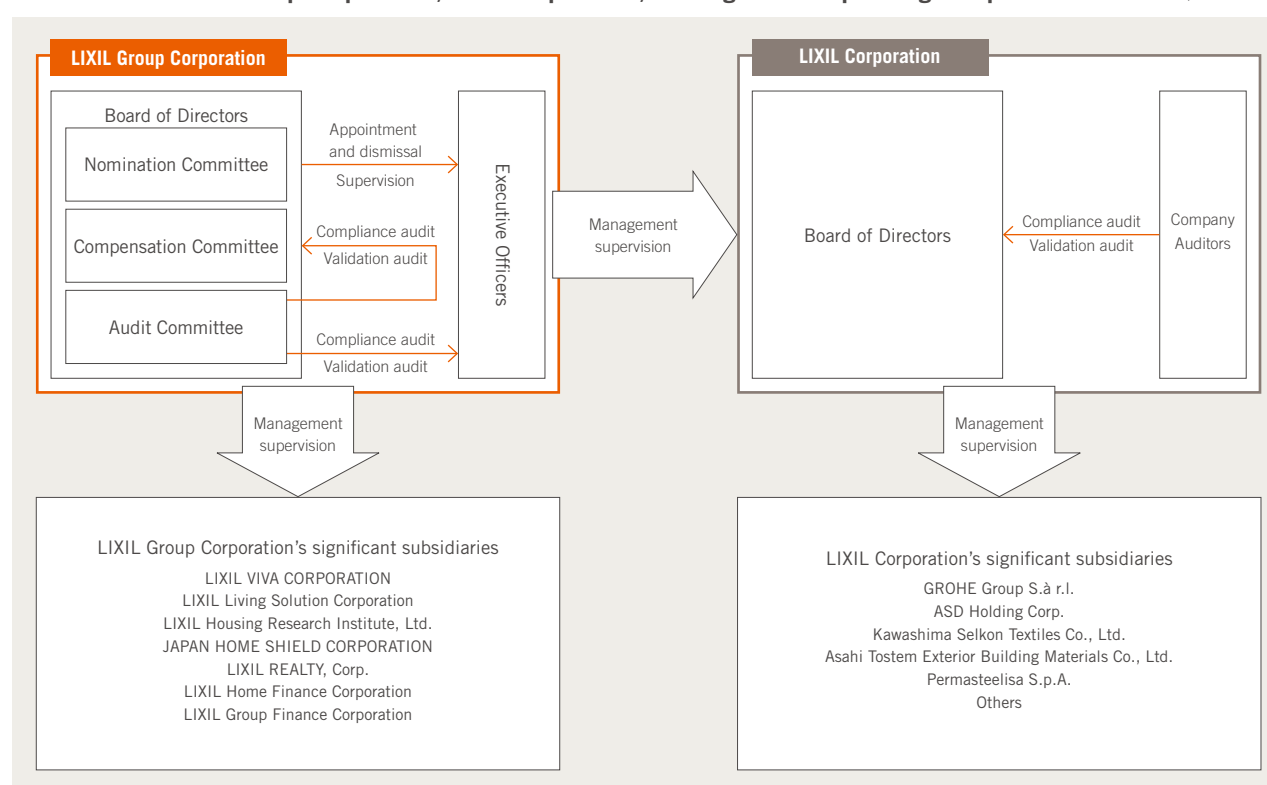
<http://www.lixil.com/en/about/governance/>

## Group Governance System

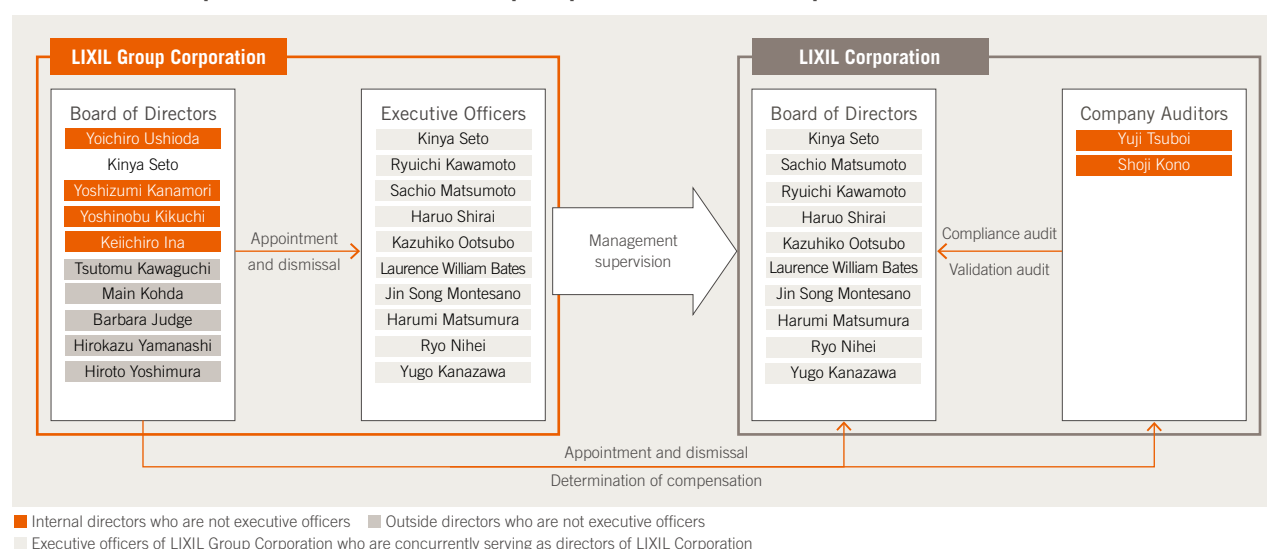
The Company, while respecting the independence of each Group company, including LIXIL Corporation, regarding its business management, receives periodic reports on the status of business and gives approval to important matters. Additionally, the Audit Committee of the Company periodically

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 22, 2017)



## Directors and Corporate Officers of LIXIL Group Corporation and LIXIL Corporation (As of June 22, 2017)





## CORPORATE GOVERNANCE

### Board of Directors (As of June 22, 2017)



#### Yoichiro Ushioda

Director, Chairman of the Board,  
LIXIL Group Corporation

Yoichiro Ushioda has served as Chairman of the Board of LIXIL Group Corporation since June 2012. He is also a member of the Nomination Committee. Previously, Ushioda 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) in the past. Ushioda originally joined the Company in 1977 and became Director and General Manager of the Sales Planning Department in 1980. He holds 9,376,220 shares of the Company.



#### Kinya Seto\*

Director, Representative Executive Officer,  
President & Chief Executive Officer,  
LIXIL Group Corporation

Kinya Seto assumed the role of Director, Representative Executive Officer, President & Chief Executive Officer of LIXIL Group Corporation in June 2016. He also serves as President & CEO of LIXIL Corporation, CEO of LIXIL Water Technology, and CEO of LIXIL Housing Technology.

Seto began his career with Sumitomo Corporation, a major Japanese trading company, in 1983. After holding various key posts at Sumitomo Corporation, he established more than 10 companies in Japan and overseas, including MonotaRO Co., Ltd., a direct marketer of maintenance, repair and operating (MRO) supplies. Seto served as President and Director of MonotaRO from 2006 and then became Chairman and Director in 2012. He also previously served as Non-Executive Director of Zoro Tools, Inc. (now Zoro Inc.) and President of K-engine Corp.

Seto's other global leadership roles include having led Asia Pacific operations for W.W. Grainger, Inc., a leading global MRO supplier, and heading its global online business operations based out of London. He holds 99,000 shares of the Company.



#### Yoshizumi Kanamori

Director, LIXIL Group Corporation

Yoshizumi Kanamori has served as Director of LIXIL Group Corporation since June 2007. He has also been a member of the Company's Audit Committee since 2016. Previously, he served as Executive Officer, Senior Managing Director, and Chief Financial Officer of LIXIL Group Corporation, and as Director, Senior Managing Director, and Chief Financial Officer at LIXIL Corporation. He joined the Company in 1977. He holds 8,000 shares of the Company.



#### Yoshinobu Kikuchi

Director, LIXIL Group Corporation

Yoshinobu Kikuchi has served as Director of LIXIL Group Corporation since June 2012 and is also a member of the Company's Compensation Committee. Previously, he also served as Executive Vice President of LIXIL Corporation. He joined the Company in 1969. He holds 21,100 shares of the Company.



#### Keiichiro Ina

Director, LIXIL Group Corporation

Keiichiro Ina has served as Director of Tostem Inax Holding Corporation (now LIXIL Group Corporation) since June 2001. He is a member of the Company's Compensation Committee. From 1998, he served as a Director at INAX Corporation (now LIXIL Corporation), responsible for Investor Relations, Public Relations, Finance and Taxation, and Corporate Responsibility. He originally joined the Company in 1974. He holds 318,500 shares of the Company.



### **Tsutomu Kawaguchi**

Outside Director,  
LIXIL Group Corporation

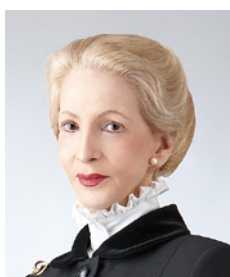
Tsutomu Kawaguchi has served as Outside Director of LIXIL Group Corporation since June 2011. He currently serves as the Chairperson of the Audit Committee. In addition, Kawaguchi currently serves as an auditor of FreeBit Co., Ltd., and as Director of VINX Corp. Kawaguchi has been a registered certified public accountant since March 1974 and used to serve as Representative Partner for Grant Thornton Taiyo ASG. He holds 7,100 shares of the Company.



### **Main Kohda**

Outside Director,  
LIXIL Group Corporation

Main Kohda has served as Outside Director of LIXIL Group Corporation since June 2013. She is also a member of the Company's Compensation Committee. Kohda has been a member of the NHK Management Committee since June 2010. She has also served as Outside Director of Japan Tobacco Inc. since June 2012, and Director of the Japan Exchange Group since 2016. She is a best-selling writer, and has served as a member of public advisory committees.



### **Barbara Judge**

Outside Director,  
LIXIL Group Corporation

Lady Barbara Judge CBE has served as Outside Director of LIXIL Group Corporation since June 2015. She is also a member of the Company's Compensation Committee and was appointed as its Chairperson from 2017. In addition, she serves as National Chairman of the UK's Institute of Directors, and is former Chairperson of the UK's Pension Protection Fund. Lady Judge currently holds positions as a Director of Magna International Inc. and Director of Portmeirion Group plc. In 2016, she also became the Non-Executive Chairperson of the LoopUp Group. Lady Judge served, among her other appointments, as a Non-Executive Director of the UK Atomic Energy Authority from 2002 to 2004, and subsequently as Chairperson from 2004 to 2010. She was a Commissioner of the United States Securities and Exchange Commission from 1980 to 1983. In June 2010, she was awarded Commander of the Order of the British Empire for services to the nuclear and financial services industries.



### **Hirokazu Yamanashi**

Outside Director,  
LIXIL Group Corporation

Hirokazu Yamanashi has served as an Outside Director of LIXIL Group Corporation since June 2016. He is also Chairperson of the Company's Nomination Committee and a member of the Compensation Committee. Yamanashi joined AEON Co., Ltd. in 2014 and was appointed Executive Vice President, Chief Corporate Planning Officer, and Chief E-Money Business Officer in 2015. He also previously served as Director (Senior Partner) of McKinsey & Company, Inc.



### **Hiroto Yoshimura**

Outside Director,  
LIXIL Group Corporation

Hiroto Yoshimura was appointed as Outside Director for LIXIL Group Corporation in June 2017. He also serves as a member of the Nomination Committee and the Audit Committee. Yoshimura started his career at the National Police Agency in Japan in 1971, and served as Director-General of the National Police Agency from August 2007 to June 2009, and Chief Director of the Police Mutual Aid Association from December 2010 to November 2016.

\* Indicates a director who serves as an executive officer

## 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\*1

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\*2

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

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**Hirokazu Yamanashi**

Chairperson of  
the Nomination Committee

The LIXIL Group has started to operate its business from the fiscal year ended March 31, 2017 under Mr. Seto, the CEO. The new management team promotes various reforms with the aim to recover and improve the LIXIL Group's operational performance through strengthening the management foundation and evolving the management ability. The Nomination Committee has continuously discussed the ideal form of the Board of Directors to support the long-term growth of the LIXIL Group. As a result of the discussions, the Nomination Committee decided that the membership of the Board of Directors should compose of 10 directors, which is made up of five independent directors having diverse knowledge and experience, four non-executive officers, and the CEO who is the only member concurrently serving as a director and executive officer, from the fiscal year ending March 31, 2018.

We are convinced that this new structure enables the LIXIL Group to enhance its governance and will help guide the LIXIL Group in the right direction for the future. This structure will lead to more comprehensive and diversified points of views and contribute to delivering sustainable corporate value for shareholders and other stakeholders. The Nomination Committee will continue to fulfill its responsibilities in order to achieve these goals.

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**Barbara Judge**

Chairperson of  
the Compensation Committee

The Compensation Committee has a fundamental role to play in setting the framework that enables the LIXIL Group to attract and retain the best employees. The Company's compensation system must be transparent, sustainable and considered fair from the perspective of various internal and external stakeholders, in particular in aligning the shareholders' interests with those of the employees. Reflecting LIXIL's position as a leading global company, we strive to use modern compensation techniques to ensure that the LIXIL Group is culturally sensitive to different payment structures around the world, and can attract and retain the right people regardless of geography.

The Compensation Committee is committed to ensuring that we strengthen these processes and provide clarity to support stronger governance and a stronger LIXIL for the future.

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**Tsutomu Kawaguchi**

Chairperson of  
the Audit Committee

As the LIXIL Group pursues further growth we operate a diverse range of businesses, which also comes with risks. Our task as the Audit Committee is to consider how we can minimize such risks. We do this through a focus on internal control systems to ensure an effective and functioning risk management structure is in place to help to drive growth.

Global business development is one of the LIXIL Group's fundamental policies, and as a result the significance of overseas subsidiaries is growing. Applying internal control systems under the Group's internal control policy at both the corporate as well as subsidiary level is critical. We have also strengthened supervision of internal control at overseas subsidiaries following the establishment of the Global Internal Controls, which focus specifically on overseas subsidiaries. The committee will continue to closely monitor these activities.

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## 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
Board of Directors	10	5	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, 2017

Board of Directors	16	Made decisions on matters specified by law, basic management policies, and important management matters as well as monitored the conduct of duties by the directors and executive officers
Nomination Committee	12	Made decisions on the content of proposals to be submitted to the General Meeting of Shareholders regarding the election and dismissal of directors
Compensation Committee	12	Discussed and made decisions regarding the content of compensation of individual directors and executive officers
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 financial auditors
Executive Officers Meeting	16	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
Internal Audit Committee	4	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
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
Risk Management Committee	10	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
Investment Strategy Council	4	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	12	Deliberated proposals made by the Company and the Group that are (1) 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	6	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
Business Divestment Council	12	Deliberated proposals made by the Company and the Group that are (1) plans regarding business continuity of subsidiaries suffering from unsatisfactory performance and (2) opportunities with respect to transfer of shares of subsidiaries to a third party
Corporate Responsibility Committee	2	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	In cooperation with the internal audit organizations set up in our principal Group companies in Japan and overseas (78 members throughout the Group as of the end of the fiscal year under review), the LIXIL Group conducts exhaustive internal audits. In addition to the conventional internal audits including accounting audits, operational audits, and internal control assessment, the Group promotes the minimization of risks and costs and the development of improvement plans and corrective actions, and so forth, striving to strengthen the governance structure and enhance internal control and human resource development 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, 2017 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)	201	190	—	11	—	4
Executive officers	1,393	682	452	63	196	13
Outside directors	81	77	—	4	—	6

Notes: 1. The total compensation shown above consists of both the compensation paid by the Company and the compensation paid by the Company's subsidiaries. The amount paid by the Company was ¥1,563 million (¥277 million for 10 directors and ¥1,286 million for 13 executive officers).

2. The total compensation paid to the three directors who also served as executive officers as of the end of the fiscal year under review, and the number of these executive officers, are included in the total amount of compensation paid to executive officers and the total number of executive officers. Furthermore, the total compensation corresponding to the period during which they assumed concurrent duties paid to the three directors who also served as executive officers during the fiscal year under review, and the number of these executive officers, are included in the total amount of compensation paid to executive officers and the number of the directors is added to the number of executive officers.

3. The performance-based compensation for executive officers includes single annual and medium- to long-term performance-based compensation of ¥452 million booked in the fiscal year under review (with respect to 12 executive officers).

4. The total number of directors and executive officers eligible to receive stock options is 18.

5. Two officers are 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 options	Other
Yoichiro Ushioda	Director	LIXIL Group Corporation	119	111	—	8	—
	Director	LIXIL INTERNATIONAL Pte. Ltd.	5	5	—	—	—
Yoshiaki Fujimori	Executive Officer	LIXIL Group Corporation	159	50	101	8	—
Kinya Seto	Executive Officer	LIXIL Group Corporation	526	185	160	31	150
Jin Song Montesano	Executive Officer	LIXIL Group Corporation	124	56	15	7	46

Notes: 1. Stock options are booked as expenses in the fiscal year under review with regard to the 7th, 8th, or 9th share acquisition rights, and differ from the amounts obtained from the actual execution and sale.

2. "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.



## 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, global 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, operates and evaluates 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.

## How the LIXIL Group Sees Internal Audit

The LIXIL Group’s internal audit, including assessment of internal controls, promotes the Group accomplishing its objectives by evaluating and improving the effectiveness of risk management, controls and governance processes considering integrity and efficiency of the organization as a whole. This is in line with the definition of internal audit (i.e., independent, objective assurance and consulting activity designed to add value and improve an organization’s operations) by the Institute of Internal Auditors, an international professional association.

## CAGO (Corporate Audit Group Officer) Units and Restructuring

The LIXIL Group expanded the scope of organizational responsibilities of the CAGO to improve comprehensiveness and efficiency of internal audit and internal control assessment.

### Internal Audit and Internal Control Assessment:

Domestic Internal Audit is now also under the CAGO, in addition to the Global Internal Controls (LCAS) in charge of internal audit and internal control assessment for overseas entities and the domestic Corporate Internal Control. While

not under CAGO, heads of internal audit and control units of significant overseas entities also report to CAGO. Closer liaison among the expanded units and reporting bodies will lead to further comprehensive governance and improvements.

### Establishment of ASB Internal Audit:

The Internal Audit Department was newly established within ASB and it also reports to the CAGO. ASB did not have such a department before the acquisition by LIXIL. This new establishment will lead to a deeper and broader scope of internal audit function.

### Reinforcement of the IT Audit Expert:

LCAS has strengthened its IT audit by increasing the workforce with IT expertise to cope with the ever-changing IT environment.

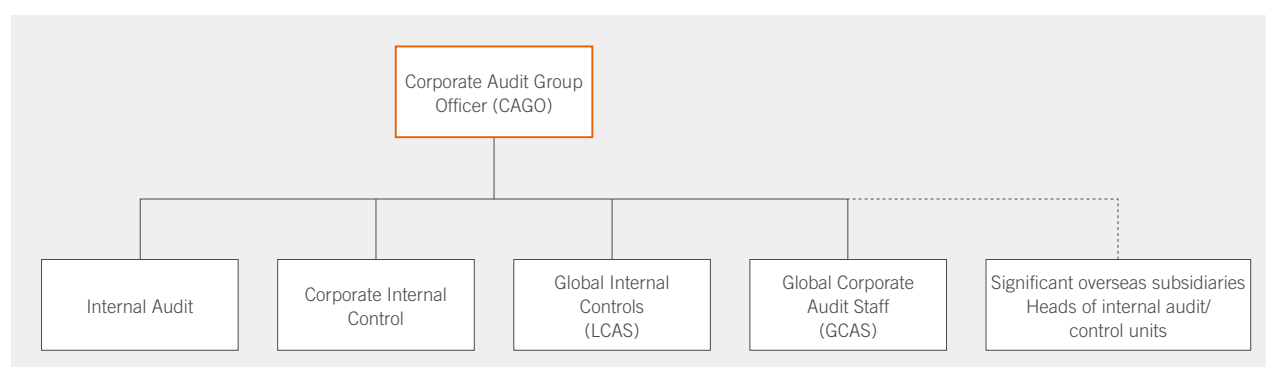
### Global Corporate Audit Staff (GCAS):

GCAS has advanced audit and consulting functions with two major objectives. The first is to minimize risks and costs and enhance internal controls and governance by proactive detection, resolution of problems, and improvement of processes through close communication with top management. The second is to develop human resources through auditing and consulting projects.

## Internal Audit Committee

The Company set up a voluntary internal audit committee. Periodic meetings with executive officers as members of the committee allow them to make decisions in a timely fashion by sharing and discussing the results and progress of the Group’s internal audit, internal control assessment, risk management, governance and improvements thereof.

## 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 whereby every year all Group company officers and employees are required to participate in training on the LIXIL Group Code of Conduct and acknowledge they 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)

To integrate and clarify the LIXIL Group Code of Conduct across the Group, we have been establishing Global Policies sequentially. By the end of May 2017, we had implemented eight policies including the Anti-Corruption Policy and Anti-Discrimination and Harassment Policy.

### Corporate Culture

The management of the Company is working 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, and by using communication tools within the Group.

### Application of the Internal Concern

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 introduced a 24-hour, multilingual concern-raising system “Speak Up!” for all subsidiaries overseas in October 2016 to strengthen the internal concern-raising system. We have also been striving to construct a standardized global process as the LIXIL Group.

### Compliance Committee

In addition to the compliance committees of the Group and subsidiaries in Japan, we have established compliance committees in each technology business unit. This is to strengthen compliance measures globally and to improve the reporting system of business units to the Group Compliance Committee.

### Education and Training Programs

The LIXIL Group has held education and training programs for new employees, new managers, and executives to develop its compliance culture. We will continue to further develop our education and training programs by planning suitable programs based on the risks of our business and our business areas. In addition, we publish newsletters both in Japan and overseas, and have been striving to increase and cultivate employees’ knowledge and awareness of compliance.



Chief Legal Officer Bates and Chief Compliance Officer Kimijima conduct compliance training with colleagues in Vietnam



# 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 Monthly Business Meeting and other meetings.

## Identification and Monitoring of Risks

The following business units that account for about 80% of the entire Group's sales conduct risk management activities in response to the characteristics of their business.

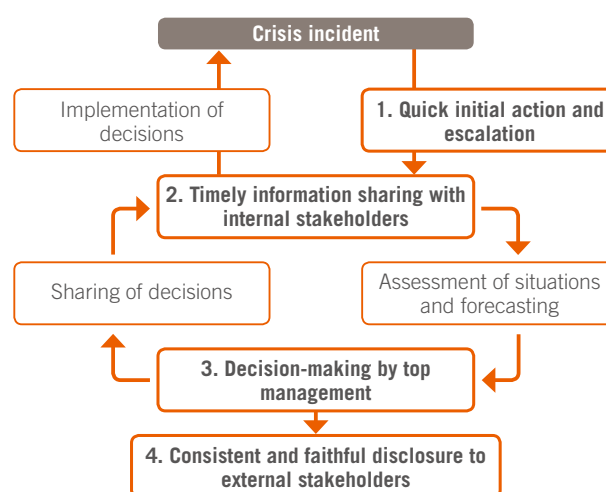
In Japan, LIXIL Corporation, sales of which exceed 50% of the Group's sales, has established 16 risk management subcommittees under the Risk Management Committee that cover different themes and examine and manage risks horizontally across the organization. Each risk management subcommittee is allocated a specific risk. As part of our risk management promotion activities, risks are identified on a yearly basis and assessments are carried out, including assessments of impact on the business performance, frequency, and any weaknesses in prevention and follow-up measures. Furthermore, based on these assessments, 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 monitoring the situation.

LIXIL Water Technology in Europe, the Middle East and Africa faces geostrategic and economic macro-risks, operational risks and other types of risk, and management takes a comprehensive view in identifying significant risks and devising measures and proposals to combat them. In addition, based on a quantitative

assessment of the likelihood and financial impact of a risk occurring, measures are proposed and implementation schedules are formulated by each factory, sales base, and functional headquarters. PDCA management is carried out on a quarterly basis with the aim of implementing the proposed measures, making assessments, and monitoring the situation.

LIXIL Building Technology's overseas businesses are unlike other businesses as it conducts business on a project basis. Due to this factor, the bidding process for projects is its most significant risk. Those businesses have set risk assessment procedures and implement risk management. Following those procedures, they evaluate risk relating to items such as contract conditions and financial states and others and complete the stipulated approval process before deciding whether to accept projects.

Moreover, in the event of a crisis, a crisis management framework has been established for the entire LIXIL Group. The Group has laid down its Crisis Management Basic Policy stipulating such matters as basic policies, definitions and frameworks related to crisis management, and made these regulations known thoroughly in Group companies inside and outside of Japan. In the event of an incident occurring that could possibly develop into a crisis, a Company-wide response framework is clarified and efforts are made to minimize damage through rapid first response and escalation, timely sharing of information among relevant departments, management decision-making and proper external disclosure with consistency and sincerity.



LIXIL Group Crisis Management Framework

## RISK MANAGEMENT

### Measures against Risks That May Influence Management Strategy

The Company endeavors to foresee possible risks and manages such risks in a swift and proper manner before executing management strategies. The Company takes measures as follows against major risks that may influence the progress of our ongoing management strategy.

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

LIXIL Group strategies	Main risks	Risk management measures
Improvement of management efficiency	Divergence between Group management strategies and the strategies of technology businesses	Ensure close communications between the Company's Board of Directors and executive officers and the business unit CEOs; align strategies among them Monitor progress of business plans at each technology business with a view to realizing the medium-term business strategy
	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
	Delay in operations decision-making due to bureaucratic organization with overlapping and/or unclear roles and responsibilities* <sup>1</sup>	Simplify and delay the organization structure
Driving synergies in globalized businesses	Inadequate synergies between technology businesses	Strengthen the Company's business and regional portfolio management Share marketing and project information across the entire Group Maintain Group-wide control through management with shared finance, human resources, and other functions across the whole Group
	Product development and procurement delays stemming from globalization of the value chain* <sup>2</sup>	Optimize the supply chain through consolidating production sites, integrating supply chain systems, integrating procurement, and reviewing the development and existing lineup of global strategic products
	Higher management costs accompanying value chain expansion* <sup>2</sup>	Establish platforms in each technology business for product development and the procurement of parts and materials Clarify decision-making processes in technology businesses and provide more authority and independence to them Ensure rigorous cost controls through such means as clear delegation of authority policies, supply chain management (SCM) and the Cash Conversion Cycle (CCC) Project
	Inadequate internal control systems and declining earnings at companies the Group has acquired or in which it has taken an equity stake	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 Undertake regular inspections by the Company of the status of technology businesses' and Group companies' internal control systems and financial management Ensure understanding of the Group's compliance policies 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 plants, equipment, inventory, and other assets and liabilities affected by 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 Group-wide foreign-exchange-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
Driving synergies in globalized businesses	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	Ensure implementation of the vendor and third party selection process
		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 Group-wide BCP
Utilizing new technologies in businesses	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 implement Group-wide new cultural change initiatives to connect employees more closely to business strategies; 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	Delay in responding to changes in consumer purchasing decisions <sup>*3</sup>	Develop differentiated products responding to consumer purchasing decisions through digital platforms and initiatives led by the newly appointed Chief Digital Officer
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 policies, increases in the consumption tax rate, and changes in government housing policies	Reinforce renovation-related services, such as renovation loans and other financial services, and business support systems for renovation contractors
	Lower profitability resulting from intensifying competition <sup>*4</sup>	Develop and provide products and renovation processes to enhance seismic resistance and thermal insulation efficiency
		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 67 and 68.

\*1 Our initiatives that the Group CEO, Mr. Seto, has driven since he joined the LIXIL Group to improve the integration of the company and its operating efficiency set the pace and we are now building on that momentum across the organization. For further discussion about the initiatives, please see pages 14 and 15.

\*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 21 and 22.

\*3 We appointed Mr. Yugo Kanazawa as Chief Digital Officer in August 2016 in order to analyze and respond to consumers' demands in circumstances where social media and big data are available to do so. For a discussion of digital connectivity development for new opportunities, please see pages 23 and 24.

\*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 25 and 26.



# CORPORATE RESPONSIBILITY

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



**Jin Song  
Montesano**

Executive Officer  
and Senior Managing  
Director, Public Affairs,  
Investor Relations,  
External Affairs, and  
Corporate Responsibility

Corporate Responsibility is core to our business philosophy. Given the environmental and social considerations facing our communities and our planet, we firmly believe that sustainable and responsible operating practices not only enhance our competitiveness for the short and long term, but such practices make LIXIL a more trusted contributor to the communities in which we work and live.

FYE2017 was a significant year for LIXIL's progress on Corporate Responsibility. It was the first year following the launch of both our global Corporate Responsibility strategy and, by coincidence, the UN's Sustainable Development Goals (SDGs). We welcome the collaborative approach outlined in the SDGs between government, business and civil society and our Corporate Responsibility strategy is well-aligned with these goals.

This year, we made steady progress against the three pillars outlined in our Corporate Responsibility strategy. On improving Global Sanitation & Hygiene, we see it as an age-old challenge whose time has come for some new thinking and new solutions. We launched a dedicated business unit within LIXIL to scale up and accelerate new product development for communities without access to safe sanitation, and expanded the SATO line of products, a range of simple and innovative toilet solutions for rural communities. We are also actively engaged in advocacy to

enhance awareness globally of the urgency to improve sanitation for the estimated 2.4 billion people today who lack a clean and safe toilet for daily living.

On Water Conservation and Environmental Sustainability, we developed a robust global EHS management system that keeps us on track toward our goal of being "Net Zero" by 2030. To increase our environmental contribution through products, we successfully launched a variety of innovative energy-saving products globally, such as ultra-high-efficiency toilets *H2Option* and *H2Optimum* in North America and *ERSTER S*, the top-level insulation resin window, available in Japan.

On Diversity and Inclusion, in addition to launching universal design products worldwide, we launched our first contract-based facility management business for serviced retirement homes, *Premio Kawaguchi*, reflecting the needs of the rapidly aging Japanese population.

One year after its launch, our Corporate Responsibility strategy influences the decisions we make and ensures that sustainable and responsible ways of operating are properly embedded within LIXIL. With a strong foundation built in FYE2017, LIXIL will accelerate our Corporate Responsibility initiatives in FYE2018.

### SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD





## PROGRESS REPORT FOR FISCAL YEAR ENDED MARCH 31, 2017

# Improving Global Sanitation & Hygiene

Connection to UN Sustainable Development Goals



Even today, about 2.4 billion people—one in every three globally—live without access to proper sanitation. Recognizing the magnitude of the challenge, in FYE2016, LIXIL pledged to provide better sanitation to 100 million people by 2020. Since then, we have been accelerating our efforts to deliver viable toilet solutions to areas lacking adequate sanitation.

### Delivering Products and Solutions

LIXIL is accelerating the global expansion of SATO products. SATO, a range of simple and innovative toilet products that reduce the transmission of disease and odors from traditional open pit latrines, was first launched in 2013 in Bangladesh with support from the Bill and Melinda Gates Foundation. In FYE2017, sales and manufacturing began in Kenya, a new and more water-efficient model was launched in Uganda, and operations began in India. We also clarified the SATO brand to more effectively support sales and marketing efforts, establishing SATO as the world's first full-range bathroom brand specifically focused on bringing affordable solutions to those who live without access to sanitation infrastructure. LIXIL will continue to expand SATO manufacturing capabilities in Asia, Africa, and Latin America to provide better sanitation to people around the world.

LIXIL's work on other sanitation solutions continues. In FYE2017, we established the Social Sanitation Initiatives Department. In addition to SATO, it is developing other initiatives such as the *Portable Toilet System*, an in-home sanitation solution designed for urban settlements. The system consists of a stand-alone toilet equipped with a removable waste-collecting cartridge and a collection station where the contents of the cartridge are deposited and the cartridge is

cleaned. The system is entering the final phase of field-testing to offer dense urban informal settlements an 'odorless,' in-home toilet that allows human waste to be collected and treated hygienically and efficiently.

### Promoting Awareness

Alongside our efforts to provide technical solutions, LIXIL is actively engaged in advocacy work to drive awareness and debate around the global sanitation challenge. Collaborating with Oxford Economics and WaterAid, we issued a global report on the true economic cost of poor sanitation.\* To maximize the report's findings, it was launched to coincide with the Tokyo International Conference on African Development (TICAD) held in Nairobi in August 2016. At the World Economic Forum's (WEF) annual meeting in Davos, we worked with the WEF to initiate a multi-lateral working group—the WEF's first such meeting held on the topic of sanitation—with the aim of identifying opportunities for innovating, shaping, and scaling the delivery of water and sanitation services in developing countries. We continue to actively support the WEF to make this a regular topic for leaders when they convene to discuss themes of global importance to society. In addition, LIXIL is also an active founding member of the Toilet Board Coalition, a public-private partnership focused on improving global sanitation through entrepreneurial solutions and network support for social entrepreneurs.

As a global leader in sanitary ware, we are committed to applying our expertise to the global sanitation challenge and delivering safe, comfortable and sustainable products through responsible innovation.

\* "The True Cost Of Poor Sanitation"

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

**SATO**  
Smart, fresh toilets



All SATO toilets have a smooth and easy-to-clean surface and a door that closes quickly and automatically to eliminate odor from the pit. Left: The original SATO model first launched in 2013. Middle: SATO's low-flow model, which uses less than 200 ml of water per flush. Right: SATO's comfortable, seated toilet model.



## CORPORATE RESPONSIBILITY



## PROGRESS REPORT FOR FISCAL YEAR ENDED MARCH 31, 2017

## Improving Positive Environmental Contributions from Products and Services

Connection to UN Sustainable Development Goals



The LIXIL Group's Environmental Vision 2030 outlines the Group's medium- to long-term goals for water conservation and environmental sustainability. Under this vision, we are working to achieve a Net Zero Environmental Footprint by 2030.

Since product use represents about 80% of the overall environmental footprint of our entire value chain, efforts to enhance our products and services are key to achieving our Environmental Vision 2030.

In FYE2017, we made a Group-wide effort to evaluate and reduce our environmental footprint in our entire value chain around the world.

## Reducing Greenhouse Gas Emissions from Housing

Hot water and air conditioning represent more than 50% of total energy consumption in single-family homes in Japan.\*1 LIXIL's *Navish* hands-free faucets use automatic Eco Sensors to detect the presence of hands and other objects, enabling water to be dispensed and stopped without touching the faucet. Faucets equipped with the Eco Sensor function also separate hot and cold water, preventing unintended use of hot water and energy. Compared to conventional faucets, users can expect to see energy savings of about 52%, and water savings of about 31%.

To reduce energy consumption from air conditioning, it is important to improve the thermal insulation of openings in the home. These represent the greatest inflow and outflow of heat. Following the introduction of LIXIL's high-performance *SAMOS X* hybrid aluminum and resin windows, in FYE2017 LIXIL introduced *SAMOS L*, a strategic product designed to be more affordable while maintaining high thermal insulation. In addition, *ERSTER X*, a resin window aimed at providing the top-class level in thermal insulation performance, has been joined by *ERSTER S*, a resin window at a more affordable price point.

Meanwhile, GROHE developed smart connected products such as *GROHE Sense Guard*, which includes sensors that detect water leaks and is able to shut off water supply automatically or through a mobile app. American Standard launched two new ultra-high-efficiency toilets that achieve greater water savings with a choice of a dual flush *H2Option* tank or single flush *H2Optimum* style. These products have acquired MaP PREMIUM certification,\*2 and conserve nearly 20% more water than the specifications set by the US Environmental Protection Agency in its WaterSense program.

\*1 Breakdown of standard primary energy consumption under energy conservation standards for homes and buildings. (For a four-member household in a single-family home in Tokyo with a floor area of 120 square meters.)

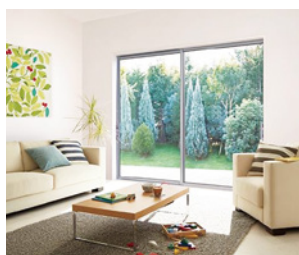
\*2 MaP PREMIUM testing performed by IAPMO R&T Lab. MaP report conducted by Veritec Consulting Inc. and Koeller and Company.

## Linking Products and Services to Promote ZEH

In FYE2017, LIXIL also worked to promote Net Zero Energy Housing (ZEH).\*3 In October 2016, we renamed the Exterior Business Department the ZEH Solutions Division to further our focus on promoting ZEH in Japan. In April 2017, we also began offering ZEH Design Support Services to assist builders in designing houses that meet ZEH criteria. By providing both building materials with high-performance thermal insulation and design services for builders, LIXIL is helping to promote the growth of ZEH in Japan.

As a top manufacturer of home building materials, LIXIL will continue to operate as an integrated and sustainable business.

\*3 A house that achieves net zero energy consumption through the use of improved thermal insulation, energy-saving technology, and renewable energy-generating equipment such as solar panels. The definition or criteria of a net zero energy house can vary by country.

LIXIL  
SAMOS LGROHE  
GROHE Sense GuardAmerican Standard  
H2Option



## PROGRESS REPORT FOR FISCAL YEAR ENDED MARCH 31, 2017

# Embracing the Diversity of People in Society and Within Our Organization

Connection to UN Sustainable Development Goals



The LIXIL Group is committed to enhancing quality of life and wellbeing for everyone in society, including the elderly and the physically disabled, through LIXIL products and services. In addition, we are harnessing the intelligence and perspectives of LIXIL's diverse workforce as an engine for growth and innovation.

### Developing Products and Services Incorporating Various Perspectives

In FYE2017, GROHE introduced *GROHE SmartControl Concealed*, which uses an innovative push-button technology to preset shower settings, and is intuitive and simple for every user. In the same year, American Standard added a slip-resistant surface to its *Studio* bathroom series which not only accommodates the needs of people with mobility issues but provides a safety feature for all individuals.

LIXIL Senior Life Company, which manages elderly homes, launched *Premio*, LIXIL Group's first contract-based facility management business for serviced retirement homes. *Premio Kawaguchi*, the first facility in the *Premio* series, opened in March 2017. By using LIXIL products at elderly homes, LIXIL can continuously assess how to improve its product development for the elderly.

LIXIL also displayed a lineup of products for the elderly at the 43rd International Home Care & Rehabilitation Exhibition, the largest international home care and rehabilitation exhibition in Asia, further demonstrating its commitment to inclusive designs.

### Building an Inclusive Environment Where Employees Can Achieve Their Fullest Potential

As one of its initiatives to support diversity, LIXIL is focusing on female empowerment. In April 2016, LIXIL launched an internal system for supporting working mothers. From pregnancy to returning from maternity leave, the system provides a clear roadmap of events and procedures for employees and their supervisors. Through such systems, LIXIL provides continuous career support to working mothers.

LIXIL also expanded its initiatives to cover differences in age, nationality, disabilities, and values. In FYE2017, LIXIL conducted a study session for the Human Resources Department on LGBT,\* and provided badges showing employees as "allies" of the LGBT community. LIXIL plans to expand the study session Company-wide.

With regard to the working environment for employees with disabilities, the LIXIL Group has developed inclusive working environments at various sites to enable people with disabilities to effectively work alongside those without disabilities. For example, the LIXIL Group operates *WING NIJI* in its Tokyo Office as a job support center for people with disabilities. *WING NIJI* provides work support, job aptitude assessments, and professional skills development services, and has been undertaking many initiatives to create more inclusive work environments. We have plans to further leverage this expertise to support people with disabilities.

We will continue to apply the knowledge gained through our wide range of diversity initiatives to the development of our products and services, leading to further value-driven business growth.

\* A commonly used acronym for "Lesbian, Gay, Bisexual and Transgender"



American Standard  
*Studio* bathroom series



GROHE  
*GROHE SmartControl Concealed*



LIXIL Senior Life Company  
*Premio Kawaguchi*



## CORPORATE RESPONSIBILITY

# Environmental Resource Management

(Years ended March 31)

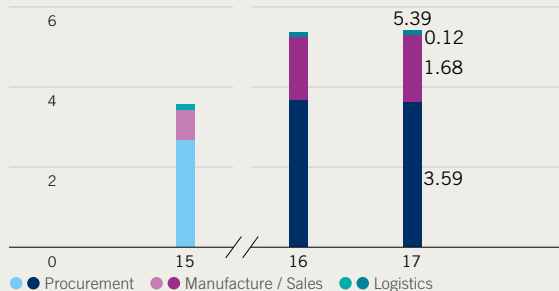
At the LIXIL Group, we are working to conserve water, energy, and other natural resources in all of our operational processes in order to achieve the goals set out in our Environmental Vision 2030. In April 2016, the Group EHS\*<sup>1</sup> Committee was established to govern the Group's environmental management system. In FYE2017, we expanded the scope of environmental resource monitoring, which had previously been conducted regionally, to cover the entire Group. Currently, we are sharing best practices between business organizations and regions regarding product development systems for environmentally efficient products. Going forward, we will promote efficient and effective activities to raise the level of environmental performance throughout the entire Group.

\*1 EHS: Environment, Occupational Health and Safety

Notes: Scope: Fiscal year ended March 31, 2015 covers operation in Japan and Asia, while fiscal years ended March 31, 2016 and 2017 covers the entire Group. 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 on 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)

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

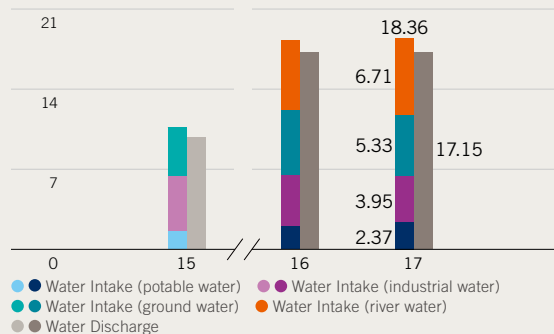
(Million t-CO<sub>2</sub>)

Scope: Refer to Notes

## Reducing Energy Consumption

The LIXIL Group's total CO<sub>2</sub> emissions increased 0.7% year on year to 5.39 million t-CO<sub>2</sub>. Total emissions from procurement-related activities decreased 1.6% year on year to 3.59 million t-CO<sub>2</sub>. However, due to strong sales activities and increased production, CO<sub>2</sub> emissions increased in total. We are implementing a number of initiatives to reduce energy consumption in all of our business processes, including switching to LED lighting in our offices and installing systems that encourage environmentally efficient use of commercial vehicles in Japan.

## Water Intake / Water Discharge

(Million m<sup>3</sup>)

Scope: Refer to Notes

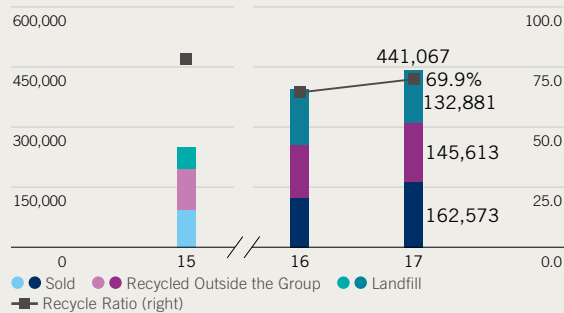
## Conserving Water Resources

In FYE2017, our total water intake volume increased 1.2% year on year to 18.36 million cubic meters, while our water discharge volume increased 0.3% year on year to 17.15 million cubic meters. The increase was primarily due to strong product sales worldwide, which resulted in an increase in production volume. As water is essential to our production processes, particularly for aluminum products, we are actively promoting more efficient water use and water conservation. In the fiscal year under review, we also conducted a correlation study between the location of the Group's factories and regions where water is scarce. Based on the results of this analysis, we will make further improvements from a global perspective.

## Waste / Recycle Ratio

(t)

(% )



Scope: Refer to Notes

## Effectively Using Resources and Recycling Waste

In an effort to reduce waste in its production processes, TOSTEM THAI Co., Ltd., a LIXIL subsidiary, implemented industrial waste recycling in collaboration with the Thai government. In addition, at the Ueno Midori Plant in Japan, we took steps to recycle and reuse the films used for press molding bathtubs. The total volume of waste for FYE2017 increased 12.2% year on year, and the recycling ratio\*<sup>2</sup> climbed by 5.4 percentage points. In FYE2018, we plan to introduce effective activities at our facilities in other countries as part of our Group-wide effort to increase recycling.

\*2 A measure of valuable waste sold and waste recycled externally as a proportion of total waste

## CASE 01

## High-Efficiency Combined Heat and Power (CHP) Unit\*<sup>3</sup> Meets 30% of All Electricity Demands at the GROHE Lahr Plant

In July 2016, the GROHE Lahr Plant in Germany introduced a new CHP unit, replacing two inefficient boilers. The new CHP unit is providing heat for two electroplating lines and can supply up to 30% of the plant's demand for electricity. In addition to better overall energy efficiency, it also enables the plant to reduce CO<sub>2</sub> emissions by 2,500 tons per year.

At the GROHE Hemer Plant, a CHP unit introduced in 2015 is reducing 15% of the plant's electricity consumption from the use of "recovered heat," generating a savings of 2,200 tons of CO<sub>2</sub> per year.

All GROHE plants and distribution centers around the world were successfully certified according to ISO 50001 Energy Management Systems by the end of 2016.

\*<sup>3</sup> A power generation system that uses a heat recovery unit to capture waste heat and turn it into thermal energy



## CASE 02

## Reverse Osmosis (RO)\*<sup>4</sup> Membrane Allows LIXIL Water Technology (LWT) Factory in China to Process and Recycle Wastewater

LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation is a factory in China that has made a notable reduction in its water use. In 2015, the factory installed a wastewater recycling system with an RO membrane filtration system, which can filter wastewater generated in production processes such as machining and plating. The treated water is reused in production and to flush toilets. This new system is currently one of the biggest contributors to water savings in the factory. For example, water consumption per unit weight of product was reduced by approximately 45% in FYE2017 compared to FYE2015 (pre-system installation). In FYE2017, fresh water usage and cost were reduced by 36,927 m<sup>3</sup> and US\$15,000, respectively.

Due to its success, similar projects are being rolled out in other LIXIL faucet factories in Asia. Along

with other water-saving projects, we are expecting to see even more benefits from reductions in fresh water use and related costs.

\*<sup>4</sup> A type of filtration membrane that enables water to flow through while blocking impurities such as ions and other molecules



## CORPORATE RESPONSIBILITY

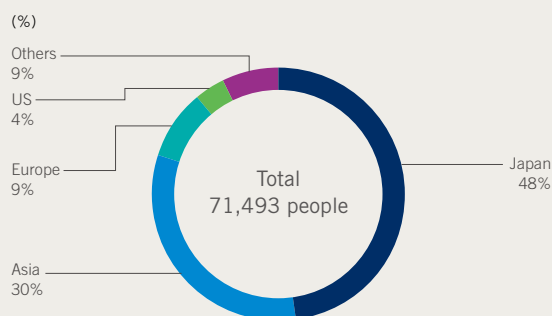
## Human Resource Management

(Years ended March 31)

The LIXIL Group is committed to enhancing the quality of life for people around the world through its products and services. With this in mind, we are working to create an environment which enhances the diversity of the Group's workforce and enables individual employees to demonstrate their full potential. In FYE2017, we focused on workstyle reforms, expanding programs to encourage employees to use paid leave and to support childcare and nursing care. We also established a number of new human resource programs to encourage employees to take the initiative in developing their own careers. The Job Posting Program, for example, is a system that enables departments and organizations to list job openings internally, to which employees are free to respond.

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 on the website has received the independent practitioner's assurance. For details, please refer to the following URL:

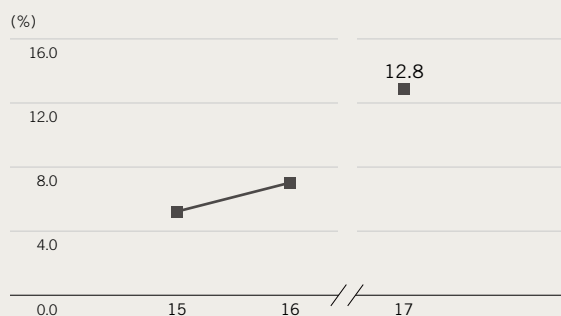
<http://www.lixil.com/en/sustainability/people/performance.html>

Percentage of Employees by Region\*<sup>1</sup>

\*1 Directly hired employees only, data collected according to location of employment or base region, as of March 31, 2017

## Diversified Global Employees

The LIXIL Group is a globally diverse company with approximately 52% of our employees working outside of Japan. By region, 21,411 employees work in Asia (not including Japan), 6,279 in Europe, 2,612 in the US, and 6,602 in other countries and regions.

Percentage of Female Managers\*<sup>2</sup>

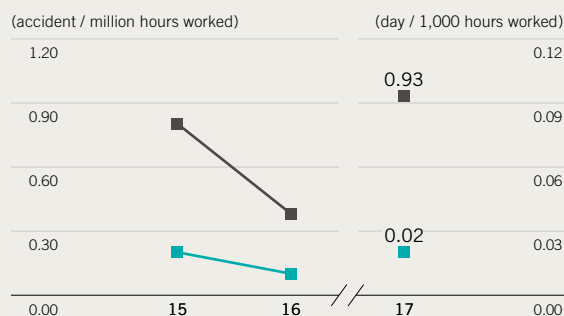
\*2 Directly hired employees only, data collected based on the qualification system used at each operating company, as of March 31 of each fiscal year  
Scope: Fiscal years ended March 31, 2015 and 2016 covers LIXIL Corporation in Japan, and fiscal year ended March 31, 2017 covers the entire Group

## Increase in the Ratio of Female Managers

Active female participation in the workforce is considered one of the key elements of diversification, and we are providing more opportunities and support to increase the ratio of female managers. As a result, the global ratio of female managers was 12.8% as of March 31, 2017.

We also continue to expand our recruitment of new female graduates. In April 2017, the ratio of female recruits was 28.5%. In Japan, we formalized a system to support the continuing career development of working mothers, and are taking steps to enable flexible workstyles.

## Lost Time Injuries Frequency Rate and Severity Rate



■ Lost Time Injuries Frequency Rate\*<sup>3</sup> (left) ■ Severity Rate\*<sup>4</sup> (right)

\*3 Lost Time Injuries Frequency Rate: Number of lost-day occupational injury cases / Total working hours × 1,000,000

\*4 Severity Rate: Total days lost due to occupational accidents / Total working hours × 1,000

Scope: Fiscal year ended March 31, 2015 covers directly employed staff at production bases in Japan. Fiscal year ended March 31, 2016 covers directly employed staff at production and non-production bases in Japan. Fiscal year ended March 31, 2017 covers directly and indirectly employed staff at production and non-production bases in Japan and a majority of overseas production bases

## Establishing a Group-wide Occupational Health and Safety Management System

Activities are underway throughout the Group to protect the health and safety of all of our employees. In February 2017, we established the LIXIL Group Occupational Health and Safety Principles, reinforcing our commitment to reduce work-related injuries and diseases to zero. We also share best practices by inviting employees based overseas to Japan for safety education, as well as sharing outstanding examples from overseas among our businesses in Japan.

## CASE 01

## Global Employee Survey Helps Each Business Unit Strengthen Their Employee Engagement

LIXIL conducts a biennial global employee survey called “LIXIL Heartbeat.” The goal of the survey is to understand employee engagement levels and create a better, more rewarding workplace. Based on the results of the survey made available in February 2016, individual business units have taken steps to improve operations.

At LWT Asia, for example, the survey revealed a lack of open communication between managers and their team members. This discovery led to the establishment of a training program specifically for newly appointed managers.

Meanwhile at LWT Americas, we identified the need to improve operational excellence and quality. As a result, the production management staff from three facilities in Mexico were sent to facilities in Japan

and Vietnam. They spent five weeks learning about the optimized management methods used at these factories, and are now working to improve operations at LWT Americas.



## CASE 02

## Expanding Human Resource Development Programs to Provide More Pathways for Growth

At LIXIL, we are committed to providing employees with more opportunities for professional development, including through educational programs to develop new skills and knowledge. In addition to training for junior, mid-level, and management employees, we offer a wide range of optional courses to cater to individuals. Education for new graduate employees involves comprehensive training over a period of three years, designed to prepare new recruits for a successful and fulfilling career.

Each technology business also offers specialized education for professional development and to acquire technical skills. One such initiative, trialed in the fiscal year ended March 31, 2017, was a workshop that brought together a cross-section of employees from R&D, manufacturing, and sales

divisions. Due to its success, the workshop has been held on a regular basis from the start of FYE2018.







## CORPORATE RESPONSIBILITY

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

The Group identified the following material issues under its Corporate Responsibility (CR) strategy and framework. We have formulated our medium-term action plan and started implementing activities accordingly during the fiscal year ended March 31, 2017. We have made notable progress towards achieving our targets for the fiscal year ending March 31, 2018.

Material issues		Target	
Governance	Corporate governance	Establish global-standard governance	
	Compliance	Develop a comprehensive and effective compliance structure across the Group	
	Risk management	Establish and operate a Group-wide enterprise risk management system	
Fair Business Practices	Anti-corruption	Develop an effective anti-corruption mechanism across the Group	
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	
Labor Practices	Diversity and equal opportunity 	Secure highly competent people by respecting diversity across the Group	
	Occupational health and safety	Establish an Environment, Occupational Health and Safety (EHS) management system across the Group	
	Working environment	Build a worker-friendly environment for all employees	
	Talent development	Promote more employee-driven human resource development to encourage bottom-up corporate culture	
Quality and Satisfaction	Product safety	Eradicate product accidents	
Environment	Greenhouse gas reduction 	Promote reduction in greenhouse gas emissions across the Group	
	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 through disposal of raw materials	
Supply Chain	Supply chain management	Identify suppliers' CR risks and establish mechanisms to respond accordingly	
Stakeholder Engagement	Contribution to global sanitation and hygiene 	Help improve global sanitation and hygiene through our business	
	R&D for solving social problems 	Create products that support the lives of elderly people and people with disabilities	

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/>

	Progress as of FYE2017		Target for FYE2018
	<ul style="list-style-type: none"> <li>Established standards within Corporate Governance Guidelines for dealings with related parties. Conducted Board of Directors self-appraisal</li> <li>Appointed independent outside directors as chairpersons of the Nomination, Compensation, and Audit Committees</li> </ul>	○	<ul style="list-style-type: none"> <li>Set clear rules and procedures for governing bodies</li> <li>Ensure 100% coverage of improved governance rules and procedures</li> </ul>
	<ul style="list-style-type: none"> <li>Established Group-wide basic training and acknowledgment mechanism under Group Code of Conduct. Achieved 99% acknowledgment rate in Japan and 94% overseas</li> <li>Implemented key basic training programs for all new graduate hires, new managers, and directors in Japan</li> <li>Introduced concern-raising system "Speak Up!" for overseas subsidiaries. Number of concerns raised roughly tripled year on year</li> </ul>	○	<ul style="list-style-type: none"> <li>Group-wide basic training and commitment to the Group Code of Conduct: 100%</li> <li>Group-wide implementation of training by region and corporate position: 100%</li> <li>Placement of compliance committees and officers in each business unit: 100%</li> <li>Combine Japan and overseas internal concern-raising systems</li> </ul>
	<ul style="list-style-type: none"> <li>Revised Crisis Management Basic Policy stipulating new basic policy, definition, and organizational structure</li> </ul>	○	<ul style="list-style-type: none"> <li>Coverage of the risk management system across Group companies: 100%</li> </ul>
	<ul style="list-style-type: none"> <li>Developed six global policies (concern-raising, anti-corruption, conflict of interest, fair competition, international trade controls, and anti-discrimination and harassment) and email investigation guidelines based on risk assessments attained through inspections of high-risk regions and analysis of internal reporting incidents</li> <li>As a subset of the Group Code of Conduct, established Policy on Third Party Compliance for Suppliers, Anti-Money Laundering Policy, and Global Gifts and Entertainment Guidelines</li> </ul>	○	<ul style="list-style-type: none"> <li>Group-wide compliance-related education and training ratio: 100%</li> <li>Adoption of global anti-corruption policy in all Group companies: 100%</li> </ul>
	<ul style="list-style-type: none"> <li>In Japan, LIXIL Corporation fully implemented a human rights policy education program in the form of quarterly interactive departmental meetings</li> </ul>	○	<ul style="list-style-type: none"> <li>Implementation of training in main LIXIL Corporation overseas subsidiaries: 100%</li> </ul>
	<ul style="list-style-type: none"> <li>Percentage of women among regularly recruited new hires in April 2017: 30.8%</li> <li>Percentage of women participating in leadership training*: 20.8%</li> </ul>	○	<ul style="list-style-type: none"> <li>Percentage of women among regularly recruited new hires (Japan only): over 30%</li> <li>Raise the percentage of women participating in Next-Generation Human Resource Promotion Program above 20%</li> </ul>
	<ul style="list-style-type: none"> <li>Built Group-wide EHS enhancement framework. Developed and implemented core rules such as the EHS manual and EHS internal audit guidelines. Tried EHS internal audit</li> <li>Determined Group Occupational Health and Safety Policy</li> </ul>	○	<ul style="list-style-type: none"> <li>Group-wide operational scope of occupational health and safety covered by the EHS management system: 98%</li> </ul>
	<ul style="list-style-type: none"> <li>Implemented actions in each organization based on the results of the Group-wide employee survey conducted during FYE2016</li> <li>Set up the LIXIL Engagement Committee and shared best practices Group-wide via the intranet</li> </ul>	○	<ul style="list-style-type: none"> <li>Implementation of action plans derived from the 2017 global employee awareness survey across the Group: 100%</li> </ul>
	<ul style="list-style-type: none"> <li>237 employees participated in leadership training*</li> <li>Expanded development programs to enable all employees to take part</li> </ul>	○	<ul style="list-style-type: none"> <li>Next-Generation Human Resource Promotion Program: hold 5 classes for 116 employees at LIXIL Corporation (Japan only)</li> </ul>
	<ul style="list-style-type: none"> <li>Four serious product accident across the Group. Held a product accident conference to share details of the experience and confirm countermeasures</li> </ul>	△	<ul style="list-style-type: none"> <li>Number of serious product accidents across the Group: 0 cases</li> </ul>
	<ul style="list-style-type: none"> <li>Contributions from CO<sub>2</sub> emissions reduction achieved from products and services increased by 1.08 times (compared to FYE2016). Created Guideline for Calculation of Environmental Contribution to clarify calculation method for individual products and services, and calculated results based on FYE2016 performance</li> <li>CO<sub>2</sub> emissions from operational processes increased by 5% (compared to FYE2016). Created Guideline for Calculation of CO<sub>2</sub> Emissions from Value Chain to clarify calculation method for all processes from procurement of raw materials through to product disposal</li> </ul>	△	<ul style="list-style-type: none"> <li>Group-wide benefits from CO<sub>2</sub> emissions reduction achieved from products and services increased by 1.16 times (compared to FYE2016)</li> <li>Group-wide levels of CO<sub>2</sub> emissions across all operational processes reduced by 3.2% (compared to FYE2016)</li> </ul>
	<ul style="list-style-type: none"> <li>Achieved supplier monitoring coverage ratio of 85% in Japan and 80% outside of Japan. Proportion of suppliers that meet CR management standards: 94% in Japan and 88% outside of Japan</li> </ul>	○	<ul style="list-style-type: none"> <li>Achieve supplier monitoring coverage ratio (based on purchased amount) of 90% in Japan and 60% outside Japan, 90% conformity rate, and 100% improvement rate</li> </ul>
	<ul style="list-style-type: none"> <li>Generated 6.24 million beneficiaries as of March 31, 2017</li> </ul>	○	<ul style="list-style-type: none"> <li>Generate 10.9 million beneficiaries by March 31, 2018 in order to achieve our 2020 target of 100 million beneficiaries</li> </ul>
	<ul style="list-style-type: none"> <li>Built latest IoT experimental housing facility on LIXIL property in July 2016 to demonstrate how IoT could be employed in living environments</li> <li>Conducted two surveys for IoT-driven applications</li> </ul>	△	<ul style="list-style-type: none"> <li>Development of IoT-driven applications: 10 applications</li> </ul>

\* Changed to the Next-Generation Human Resources Promotion Program from FYE2018

# MANAGEMENT'S DISCUSSION AND ANALYSIS

LIXIL Group Corporation and Consolidated Subsidiaries

## Business Environment

In the fiscal year ended March 31, 2017, the Japanese economy followed a gradual recovery path, mainly due to steady growth in overseas economies, led by the U.S., in addition to the Japanese government's economic measures and other policies. Housing investment saw a gradual slowdown on the whole, reflecting lower investment in properties such as condominiums, despite a continuation of low interest rate conditions for housing loans. That said, new housing starts increased by 5.8% year on year to about 974,137 units overall, as a result of double-digit growth in rental homes from the previous year.

## Business Performance

In the current environment, the LIXIL Group introduced various measures to drive further business growth and strengthen its businesses and worked to build an agile organization. These measures included expanding the Group's focus on the home renovation market, which is a growth business in Japan, along with stepping up efforts to increase operational efficiency in existing businesses in Japan. In the overseas business, we steadily maximized synergies across the Group.

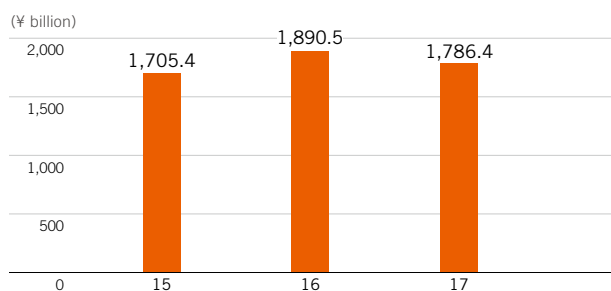
In the fiscal year ended March 31, 2017, the Company recorded consolidated revenue of ¥1,786.4 billion, down by ¥104.0 billion, or 5.5%, year on year. The decrease was mainly attributable to

lower demand in Japan reflecting a pull-back in demand following the end of the eco-point program for energy-efficient homes in the previous year, in addition to the foreign exchange influences and the deconsolidation of subsidiaries due to the divestiture of non-core businesses. However, excluding the abovementioned foreign exchange influences and the divestment of non-core businesses, consolidated revenue remained unchanged from the previous fiscal year. This was mainly due to the Company's unique initiatives, including its expanded focus on home renovation, as well as the positive impact of a strong performance trend in the overseas business.

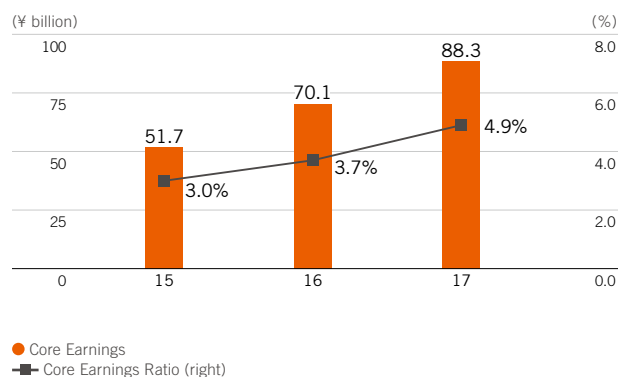
Gross profit grew by ¥22.0 billion, or 4.1%, to ¥563.6 billion, and the gross profit margin increased by 2.9 percentage points to 31.5%. The main contributing factors were an increase in profit due to sales growth at overseas subsidiaries with high gross profit margins and cost reductions worldwide, which outweighed the negative foreign exchange impact on profit.

Selling, general and administrative (SG&A) expenses rose by ¥3.7 billion, or 0.8%, to ¥475.3 billion, and the SG&A ratio increased by 1.7 percentage points to 26.6%. Although fixed expenses were reduced mainly due to continuous operational improvements and related measures, SG&A expenses increased slightly overall as a result of higher sales promotion expenses for commercials and related outlays. Consequently, core earnings increased by ¥18.2

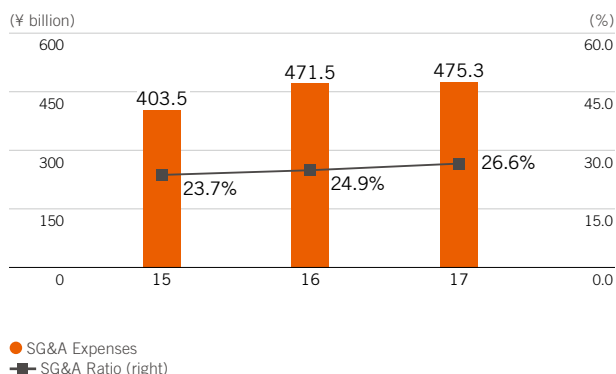
## Revenue



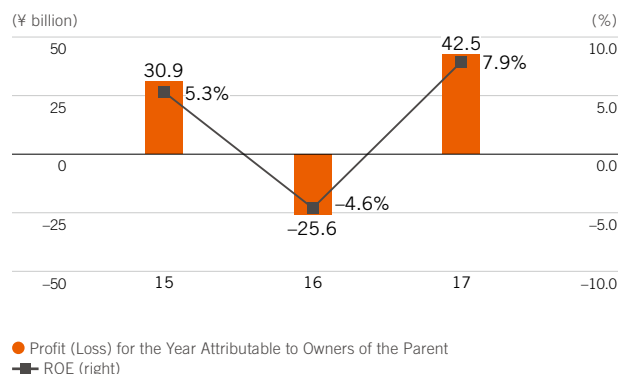
## Core Earnings / Core Earnings Ratio



## SG&A Expenses / SG&A Ratio



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



(Years ended March 31)

billion, or 26.0%, to ¥88.3 billion, and the core earnings ratio improved from 3.7% to 4.9%.

Other income (expenses) improved by ¥10.3 billion, mainly due to a decline in loss on sales of shares of subsidiaries and the absence of an investigation fee in relation to Joyou AG recorded in the previous fiscal year, in addition to the increase of ¥18.2 billion in core earnings. As a result, operating profit rose by ¥28.5 billion, or 73.1%, to ¥67.5 billion.

Profit for the year attributable to owners of the parent was ¥42.5 billion, improving by ¥68.1 billion from a loss of ¥25.6 billion in the previous fiscal year. This improvement was due to an increase of ¥73.1 billion in profit (loss) before tax, which was partly offset by an increase of ¥4.5 billion in income tax expenses and a decrease of ¥0.5 billion in non-controlling interests.

### Year-on-Year Comparison of Revenue for the Fiscal Year Ended March 31, 2017

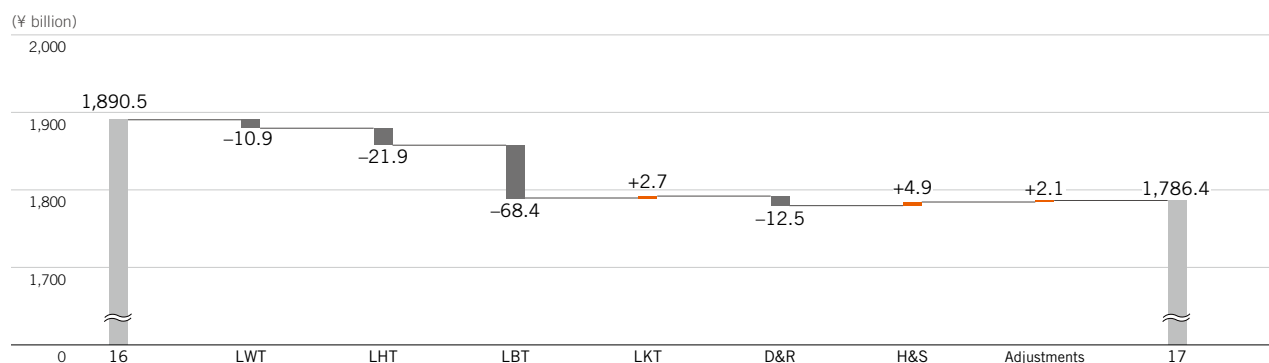
A breakdown of the change in revenue by business area is as follows: In conjunction with a reorganization on July 1, 2016, the reporting segment for the tile business was changed to LIXIL Water Technology (LWT). The tile business had previously been included in LIXIL Housing Technology (LHT). Accordingly, figures used in year-on-year comparisons have been reclassified based on the revised reporting segments (here and below).

In LWT, we saw growth in overseas markets including Asia, the US and Europe, and we introduced *GROHE Sensia Arena* as the GROHE brand's first sanitary ware product. In addition, we worked to expand sales of *SATIS* and *PREUS*, which are shower-integrated sanitary ware products featuring the new *AQUA CERAMIC* technologies. Despite these efforts, LWT posted a 1.6% year-on-year revenue decrease of ¥10.9 billion, due largely to foreign exchange influences.

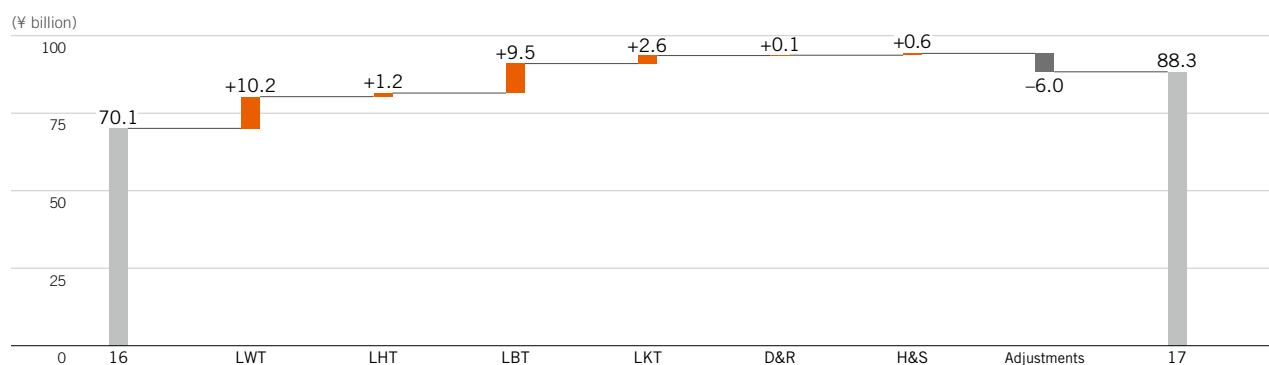
LHT recorded a revenue decrease of ¥21.9 billion, or 3.9%, partly due to the divestiture of HIVIC CO., LTD., in addition to changes in the structure of demand. Revenue was down by ¥68.4 billion, or 20.6%, for LIXIL Building Technology (LBT), as a result of rigorously selective order intakes in recent years, along with the divestiture of Shanghai Meite Curtain Wall System Co., Ltd. in the previous fiscal year. LIXIL Kitchen Technology (LKT) saw revenue increase by ¥2.7 billion, or 2.4%, mainly due to measures to expand sales of mid- and high-end products, including the airing of new commercials.

In the Distribution & Retail Business (D&R), we continued to open new stores such as the Super Viva Home Atsugi Minami Interchange store, based on a new model. However, revenue was down by ¥12.5 billion, or 6.8%, partly because we carved out Ken Depot Corporation in the previous fiscal year. Revenue was up by ¥4.9 billion, or 8.2%, in the Housing & Services Business (H&S),

### Revenue



### Core Earnings



(Years ended March 31)



## MANAGEMENT'S DISCUSSION AND ANALYSIS

as we focused on expanding sales of highly airtight and insulated new homes and *Shinchiku Mitai*, a renovated new home series.

### Year-on-Year Comparison of Core Earnings for the Fiscal Year Ended March 31, 2017

Changes in core earnings by business area are as follows: With regard to LWT, core earnings rose by ¥10.2 billion, or 18.6%, year on year. This increase was mainly due to cost reductions driven by synergies realized across the Group and an improved gross profit margin due to a better product mix. Core earnings for LHT rose by ¥1.2 billion, or 3.2%, year on year mainly owing to an improved gross profit margin due to further cost reductions and lower SG&A expenses. LBT returned to profitability, recording an increase in core earnings of ¥9.5 billion, up from a loss of ¥5.6 billion in the previous fiscal year. The improvement primarily reflected an improved gross profit margin due to selective order intakes and cost reductions. Core earnings rose by ¥2.6 billion (2.5 times the previous fiscal year) year on year for LKT, due in part to cost savings.

In the D&R, core earnings increased by ¥0.1 billion, or 1.8%, year on year, atop higher gross profit in the home center business. Core earnings increased by ¥0.6 billion, or 16.8%, year on year in H&S due to a focus on expanding sales of highly airtight and insulated new homes and *Shinchiku Mitai*, a renovated new home series.

### Financial Position

Total assets as of March 31, 2017 stood at ¥2,042.2 billion, down by ¥88.0 billion from the end of the previous fiscal year. Total current assets decreased by ¥35.4 billion to ¥849.8 billion, primarily due to decreases in other financial assets and in cash and

cash equivalents. Total non-current assets were down by ¥52.5 billion from the end of the previous fiscal year to ¥1,192.4 billion. This decrease was mainly attributable to a decline of ¥13.9 billion in other non-current assets, reflecting the deconsolidation of the subsidiaries, as well as the impact of foreign exchange translations.

Total equity amounted to ¥559.4 billion, compared with ¥537.3 billion at the end of the previous fiscal year, and the ratio of equity attributable to owners of the parent was 26.8%, compared with 24.6% a year earlier.

### Cash Flows

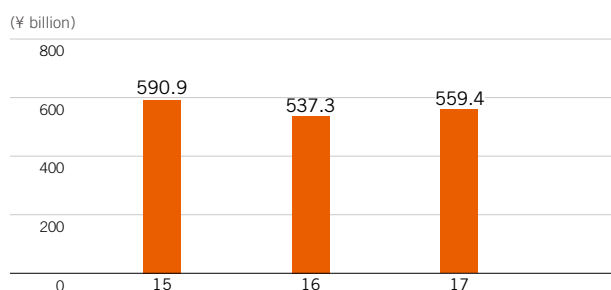
Net cash provided by operating activities increased by ¥11.4 billion year on year to ¥132.5 billion. This figure primarily reflected guarantee obligations paid in the previous fiscal year, a factor that outweighed reductions in cash due to changes in working capital, and a temporary increase in interest paid.

Net cash used in investing activities amounted to ¥58.1 billion, a change of ¥77.2 billion from net cash provided by investing activities of ¥19.1 billion in the previous fiscal year. The outcome was the result of purchases of property, plant and equipment and intangible assets, as well as payments for the sales of subsidiaries.

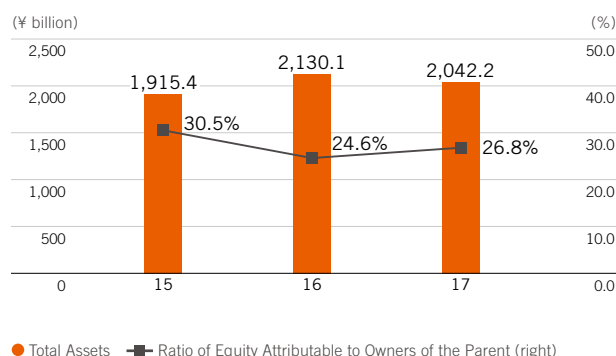
Net cash used in financing activities amounted to ¥79.9 billion, a decrease of ¥74.5 billion from ¥154.4 billion in the previous fiscal year. The outcome was mainly explained by cash dividends paid and procurements and repayments of interest-bearing debt.

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 ¥121.6 billion, down by ¥8.1 billion from the end of the previous fiscal year.

### Total Equity



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



(As of March 31)

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

	2015	2016	2017
Net interest-bearing debt divided by cash flow (times)* <sup>1</sup>	5.7	5.8	4.8
Net debt-to-equity ratio (times)* <sup>2</sup>	1.0	1.3	1.2
Interest coverage ratio (times)* <sup>3</sup>	16.2	16.7	7.7

(As of and years ended March 31)

\*1 Net interest-bearing debt divided by cash flow: (Interest-bearing debt – Cash and cash equivalents) / Cash Flows from Operating Activities

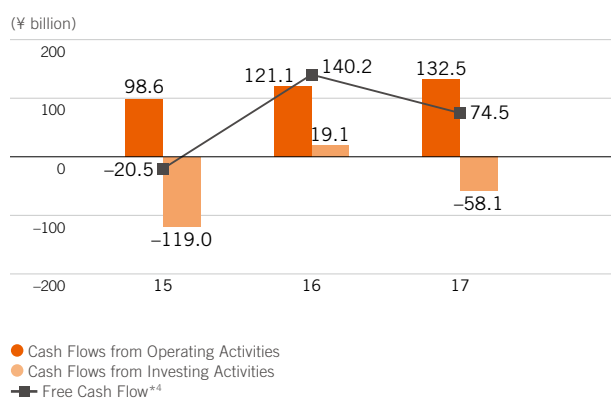
\*2 Net debt-to-equity ratio: (Interest-bearing debt – Cash and cash equivalents) / Equity attributable to owners of the parent

\*3 Interest coverage ratio: Cash Flows from Operating Activities / Interest payments

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

2. Interest-bearing debt is the value of all liabilities and convertible bonds with stock acquisition rights presented in the Consolidated Statement of Financial Position on which the Group pays interest. Cash and cash equivalents are the cash and cash equivalents presented in the Consolidated Statement of Financial Position. Cash Flows from Operating Activities are the net cash flows from operating activities presented in the Consolidated Statement of Cash Flows. Interest payments are interest paid, as presented in the Consolidated Statement of Cash Flows.

## Cash Flows



(Years ended March 31)

\*4 Free Cash Flow is calculated as Cash Flows from Operating Activities + Cash Flows from Investing Activities.

## Securing Liquidity

The LIXIL Group strives to generate Cash Flows from Operating Activities and employs a wide range of fundraising 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 receivables.

As of March 31, 2017, cash and cash equivalents totaled ¥121.6 billion, compared with ¥129.6 billion a year earlier. Net interest-bearing debt amounted to ¥638.3 billion, down by ¥59.1 billion from a year earlier.

## Outlook for the Fiscal Year Ending March 31, 2018

For the fiscal year ending March 31, 2018, the global economic outlook is expected to remain uncertain based partly on geopolitical uncertainties, along with risk factors such as the impact of the withdrawal of the UK from the European Union, concerns about the policies of the new US administration, and a slowdown in the Chinese economy. In addition, in the Japanese economy, although capital investment by companies is expected to trend firmly, there are concerns about the impacts of stagnant personal consumption, foreign exchange volatility, and a downturn in overseas economies, among other factors.

Based on this outlook, we will take action to create further corporate value by improving management efficiency, with a view to enhancing shareholder value.

Looking ahead, the Group will remain focused on building a leaner, faster, and simpler organization in order to drive further growth and strengthen its businesses. Mindful of changes in the external environment, the Group will push ahead with various initiatives to address new priorities.

# CONSOLIDATED NINE-YEAR SUMMARY

LIXIL Group Corporation and Consolidated Subsidiaries

Years ended March 31	JGAAP			
	2009	2010	2011	2012
<b>Results of Operations</b>				
Net sales (JGAAP) / Revenue (IFRS)	¥1,046,854	¥982,607	¥1,214,939	¥1,291,396
Operating income (JGAAP) / Core earnings (IFRS)	25,603	25,984	40,409	17,915
Operating income ratio (JGAAP) / Core earnings ratio (IFRS)	2.4%	2.6%	3.3%	1.4%
Operating profit (IFRS)				
Profit (loss) for the year attributable to owners of the parent* <sup>1</sup>	475	(5,332)	15,780	1,868
Research and development expenses	15,978	14,756	13,688	15,350
Capital expenditures	35,088	30,844	45,779	52,107
Depreciation	35,158	32,916	36,289	39,370
EBITDA* <sup>2</sup>	61,013	60,485	80,106	59,887
<b>Cash Flows</b>				
Cash flows from operating activities	63,927	68,074	48,680	33,979
Cash flows from investing activities	(63,082)	(27,334)	(13,543)	(142,067)
Cash flows from financing activities	21,914	(27,825)	(41,687)	138,348
Cash and cash equivalents, end of year	73,973	89,302	92,329	127,351
<b>Financial Position</b>				
Total assets	1,048,838	1,033,504	1,166,834	1,481,063
Total equity	533,073	516,322	536,408	538,776
Net interest-bearing debt	175,883	158,980	175,487	266,771
<b>Per Share Data</b>				
Earnings per share* <sup>1</sup> (EPS)	¥ 1.70	¥ (19.12)	¥ 55.50	¥ 6.49
Total equity per share (BPS)	1,903.69	1,842.78	1,850.34	1,817.34
Dividends per share	40	40	40	40
<b>Key Ratios</b>				
EBITDA ratio* <sup>2</sup>	5.8%	6.2%	6.6%	4.6%
ROE	0.1	(1.0)	3.0	0.4
ROA	0.04	(0.5)	1.4	0.1
Total assets turnover (times)	1.0	0.9	1.0	1.0
Equity ratio (JGAAP) / Ratio of equity attributable to owners of the parent (IFRS)	50.6	49.7	45.2	35.7
Dividend payout ratio	2,352.9	—	72.1	616.3
Net debt-to-equity ratio* <sup>3</sup>	33.1	30.9	33.3	50.5
Number of employees* <sup>4</sup>	32,700	35,976	41,090	48,163
<b>Stock Indicators</b>				
Stock price (closing), end of year (yen)	¥ 1,106	¥ 1,903	¥ 2,160	¥ 1,733
Market capitalization (millions of yen)	346,238	595,742	676,197	542,523
Price earnings ratio (times)	650.6	(99.5)	38.9	267.0
Price book-value ratio (times)	0.58	1.03	1.17	0.95

\*<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> The net debt-to-equity ratio is calculated as net interest-bearing debt / total equity based on the fiscal year-end.\*<sup>4</sup> The number of employees from 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=¥112.19, the rate on March 31, 2017.

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

American Standard Asia Pacific	
Sales	¥23.5 billion
Acquisition cost	¥17.6 billion
Equity owned	100%
Goodwill	¥2.1 billion (net)
Intellectual property	¥3.5 billion

### April 2010

Shin Nikkei Company, Ltd.	
Sales	¥110.0 billion
Acquisition cost	¥0.7 million
Equity owned	100%
Goodwill	¥5.4 billion

### April 2010

SUN WAVE CORPORATION	
Sales	¥85.0 billion
Acquisition cost	¥13.7 billion
Equity owned	100%* <sup>6</sup>
Goodwill	¥6.1 billion (negative)

\*<sup>6</sup> 80% at the time of the acquisition

### August 2011

Kawashima Selkon Textiles Co., Ltd.	
Sales	¥34.3 billion* <sup>7</sup>
Acquisition cost	¥2.2 billion and share exchange
Equity owned	100%
Goodwill	¥1.7 billion

\*<sup>7</sup> Excludes interior fabric business for vehicles which the Company separated from the main business

JGAAP				IFRS			
2013	2014	2015	2016	2015	2016	Millions of yen 2017	Millions of US dollars*5 2017
¥1,436,395	¥1,628,658	¥1,673,406	¥1,845,117	¥1,705,427	¥1,890,450	¥1,786,447	\$15,923
50,485	69,080	51,674	56,259	51,722	70,069	88,312	787
3.5%	4.2%	3.1%	3.0%	3.0%	3.7%	4.9%	
21,347	20,952	22,013	(18,664)	48,041	39,011	67,535	602
14,025	17,380	18,199	—	30,864	(25,605)	42,503	379
73,795	64,321	62,622	76,403	18,211	25,523	26,362	235
44,736	49,168	50,724	60,451	61,454	72,083	68,215	608
100,627	124,822	108,887	128,692	50,404	62,205	60,701	541
				102,126	132,274	149,013	1,328
28,432	83,533	138,931	137,012	98,563	121,085	132,531	1,181
(12,397)	(218,333)	(129,228)	16,547	(119,041)	19,122	(58,052)	(517)
(31,753)	153,144	10,010	(171,758)	46,618	(154,403)	(79,899)	(712)
114,662	139,039	160,378	138,801	147,708	129,646	121,563	1,084
1,465,689	1,786,294	1,875,249	2,060,873	1,915,427	2,130,120	2,042,165	18,203
566,312	601,795	613,651	637,517	590,855	537,308	559,431	4,986
307,089	463,479	418,720	528,386	559,971	697,413	638,345	5,690
						Yen	US dollars*5
¥ 73.42	¥ 72.06	¥ 75.46	¥ (65.11)	¥ 105.80	¥ (89.33)	¥ 148.01	\$ 1.32
1,930.02	2,041.34	2,104.27	1,894.55	2,038.56	1,828.84	1,902.18	16.95
40	55	60	60	60	60	60	0.53
						%	
7.0%	7.7%	6.5%	7.0%	6.0%	7.0%	8.3%	
3.9	3.6	3.7	(3.3)	5.3	(4.6)	7.9	
1.4	1.3	1.2	(0.9)	1.7	(1.3)	2.0	
1.0	0.9	0.9	0.9	0.9	0.9	0.9	
38.3	33.2	32.1	26.4	30.5	24.6	26.8	
54.5	76.3	79.5	—	56.7	—	40.5	
54.7	78.1	69.5	97.2	95.9	132.9	116.6	
45,602	51,419	52,427	—	—	60,677	59,248	
¥ 1,858	¥ 2,846	¥ 2,847	¥ 2,295	¥ 2,847	¥ 2,295	¥ 2,825	
540,221	827,426	891,265	718,459	891,265	718,459	884,378	
25.3	39.5	37.73	—	26.9	—	19.1	
0.96	1.39	1.35	1.21	1.40	1.25	1.49	

**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 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	100%*8
Goodwill	¥157.3 billion
Intangible assets	¥209.3 billion

\*8 44% at the time of initial acquisition

**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



# 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 2017. 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 stockouts 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) Risks of the effects of natural disasters
- 7) Other economic, social, and political risks

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

## 6. Foreign Currency and Interest Rate Risk

Exchange rate fluctuations have the potential to exert a substantial affect on 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 substantially affected.

The Group's fund procurement is primarily in the form of interest-bearing debt such as loans from financial institutions. If market interest rates were to increase substantially, it could have a material impact on the Group's business performance and financial position.

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.

## 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, and earthquake countermeasures have been implemented at these facilities. However, a major earthquake not only in the Tokai region but in any area 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 its promotion, 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, 2017)

## Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Corporation* <sup>1</sup>	Koto-ku, Tokyo	34,600	100	LWT, LHT, LBT, LKT, H&S
LIXIL Total Service Corporation	Koto-ku, Tokyo	100	100	LWT
Dinaone Corporation	Tokoname, Aichi	90	100	LWT
TM.S Corporation	Chiyoda-ku, Tokyo	60	100	LWT
GraceA Co., Ltd.	Koto-ku, Tokyo	103,893	100	LWT
GROHE Group S.à r.l.* <sup>2</sup>	Luxembourg	€ thousand 57,143	100	LWT
53 affiliate companies of GROHE Group S.à r.l.	—	—	—	LWT
ASD Holding Corp.	New Jersey, USA	US\$ thousand 300,931	100	LWT
17 affiliate companies of ASD Holding Corp.	—	—	—	LWT
A-S CHINA PLUMBING PRODUCTS Ltd.	Cayman Islands	US\$ thousand 24,907	100	LWT
LIXIL Vietnam Corporation	Hanoi, Vietnam	VND million 743,386	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
Taiwan Inax Corporation	Taipei, Taiwan	NT\$ thousand 282,677	51	LWT
LIXIL (China) Investment Co., Ltd.	Shanghai, China	US\$ thousand 34,500	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
LIXIL SUZUKI SHUTTER CORPORATION	Toshima-ku, Tokyo	1,989	100	LHT
LIXIL Toyo Sash Shoji Co., Ltd.	Chiyoda-ku, Tokyo	100	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\$ thousand 274,417	100	LHT
TOSTEM THAI Co., Ltd.	Pathumthani, Thailand	Bt million 2,767	100	LHT
LIXIL Manufacturing (Dalian) Corporation	Dalian, Liaoning, China	US\$ thousand 43,500	100	LHT
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	Dong Nai, Vietnam	US\$ thousand 40,700	100	LHT
LG-TOSTEM BM Co., Ltd.* <sup>3</sup>	Seoul, Korea	Won million 15,355	50	LHT
PT. LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR million 95,849	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	€ thousand 6,900	100	LBT
38 affiliate companies of Permasteelisa S.p.A.	—	—	—	LBT
Star Alubuild Private Ltd.	Haryana, India	INR thousand 727,818	100	LBT
LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	Qingdao, Shandong, China	CNY thousand 194,082	51	LKT
LIXIL VIVA CORPORATION*4, *6	Urawa-ku, Saitama, Saitama	20,000	100	D&R
LIXIL Living Solution Corporation	Koto-ku, Tokyo	450	100	H&S
LIXIL Housing Research Institute, Ltd.	Koto-ku, Tokyo	1,250	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*1	Koto-ku, Tokyo	100	100	(Development, opera- tion, and management of information systems)
63 other companies*5				

### Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
Sanyo Homes Corporation*6	Nishi-ku, Osaka, Osaka	5,945	24	H&S
Fukui Computer Inc.*6	Fukui, Fukui	1,631	27	H&S
Ken Depot Corporation	Chiyoda-ku, Tokyo	100	34	D&R
67 other companies				

\*1 LIXIL INFORMATION SYSTEMS CORPORATION was acquired by and merged with LIXIL Corporation on April 1, 2017.

\*2 GraceB S.à r.l. was acquired by and merged with GROHE Group S.à r.l.

\*3 The holding of shares of this company is less than 50%, but it is treated as a subsidiary because it is effectively controlled by the Group.

\*4 LIXIL VIVA CORPORATION was listed on the First Section of the Tokyo Stock Exchange on April 12, 2017.

\*5 Among the other companies, HIVIC CO., LTD. ceased to be a subsidiary of the Company due to the transfer of all of its shares. JIO Corporation changed from being a consolidated subsidiary to an equity-method affiliate due to the transfer of some of its shares.

\*6 The companies submit securities reports.



# NUMBER OF MANUFACTURING AND SALES SITES

(As of March 31, 2017)

## Overseas Factories

		China / Hong Kong	Thailand	Vietnam	South Korea	Indonesia	Middle East	North America	Latin America	Europe	Africa	Total	Segment total
LWT	American Standard	4		1		1		6	4			16	39
	GROHE Group		1							4		5	
	LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	1										1	
	LIXIL BUILDING MATERIALS MANUFACTURING (SUZHOU) CORPORATION	1										1	
	LIXIL Vietnam Corporation			7								7	
	Branch of LIXIL Vietnam Corporation in Quang Nam			1								1	
	Branch of LIXIL Vietnam Corporation in Ba Ria-Vung Tau			1								1	
	LIXIL (Thailand) Public Co., Ltd.		2									2	
	LIXIL Korea Inc.				1							1	
	GROHE DAWN WaterTech										4	4	
LHT	PT. LIXIL ALUMINIUM INDONESIA					1						1	7
	LIXIL SUZUKI (Hong Kong) Company, LTD.	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	
LBT	Permasteelisa S.p.A.	2	1				1	2		4		10	10
LKT	LIXIL-Haier Housing Products (Qingdao) Co., Ltd.	1										1	1
	Total	12	5	11	2	2	1	8	4	8	4	57	57

Note: Excluding factories of unconsolidated subsidiaries

## Manufacturing Sites and Group Sales Offices in Japan

	Hokkaido	Tohoku	Kanto / Koshinetsu	Chubu / Hokuriku	Kansai	Chugoku / Shikoku	Kyushu / Okinawa	Total	(As of March 31, 2016)
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### Factories

LIXIL Corporation	1	2	13	14	2	2	4	38	(38)
Kawashima Selkon Textiles Co., Ltd., other	0	0	2	0	2	0	0	4	
Total	1	2	15	14	4	2	4	42	

### Showrooms

LIXIL Corporation	6	7	32	13	13	9	12	92	(95)
Kawashima Selkon Textiles Co., Ltd., other	1	0	5	1	3	1	1	12	
Total	7	7	37	14	16	10	13	104	

### Home Centers

Super Viva Home / New Viva Home / Viva Home	7	9	59	7	6	0	0	88	(86)
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### Homebuilding Franchise Members

Eyeful Home Technology Inc.	3	36	44	37	12	26	10	168	(168)
FIACE HOME	0	4	3	8	4	4	0	23	(21)
GL Home	0	6	7	2	1	0	0	16	(17)
Total	3	46	54	47	17	30	10	207	(206)

### Renovation Network Members

	2013	2014	2015	2016	2017
LIXIL Reform Shop (Franchise)	377	376	424	480	519
LIXIL Reform Net (Voluntary chain)	9,356	10,203	11,708	12,492	13,227
Total	9,733	10,579	12,132	12,972	13,746

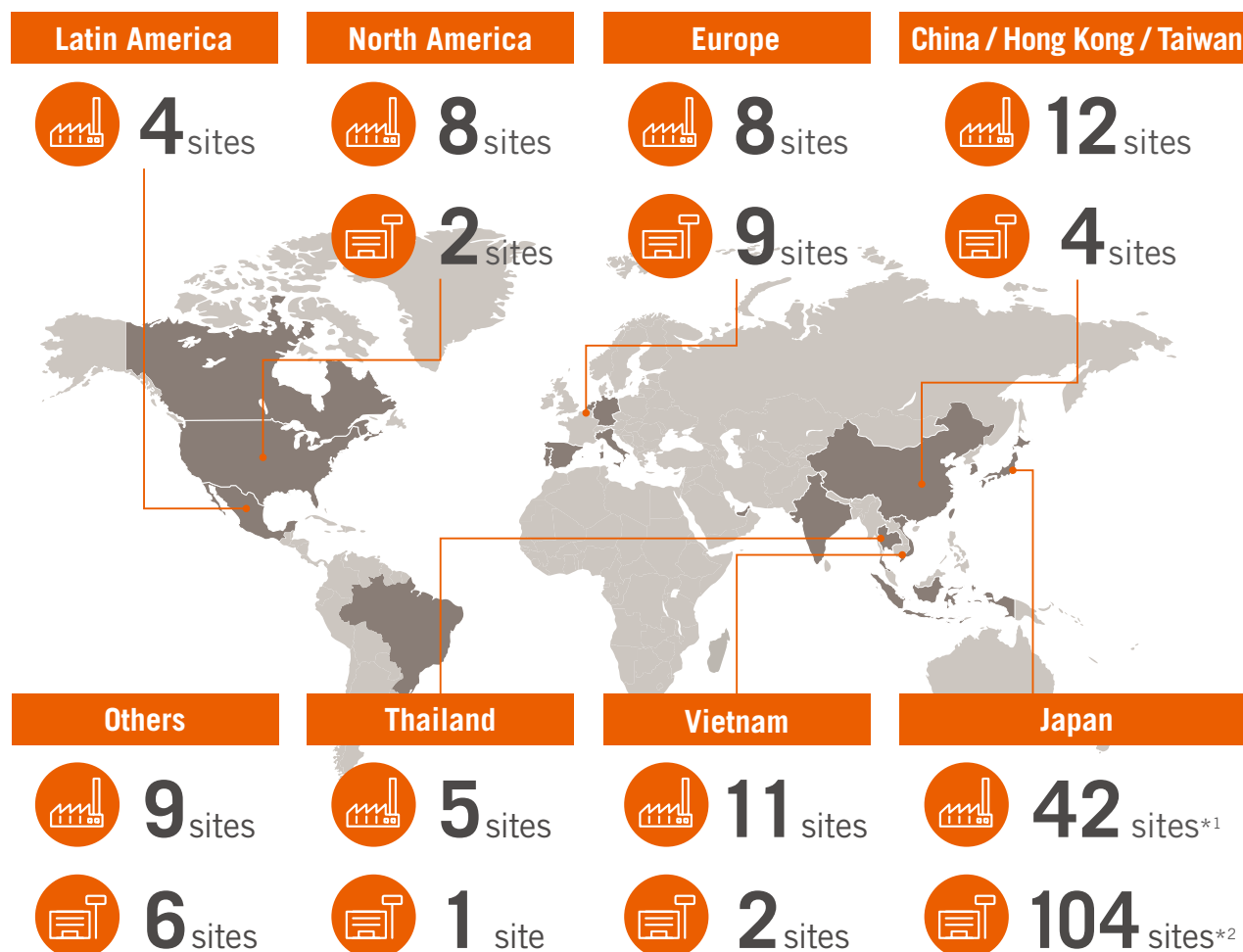
## Numbers of Factories and Showrooms by Country and Region



Factories

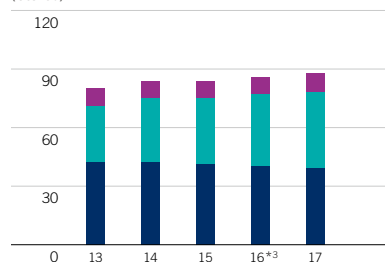
Total **99** sites

Showrooms

Total **128** sites\*<sup>1</sup> Of 42 factories in Japan, 38 factories belong to LIXIL Corporation.\*<sup>2</sup> Of 104 showrooms in Japan, 92 showrooms belong to LIXIL Corporation.

## Number of Home Center Stores

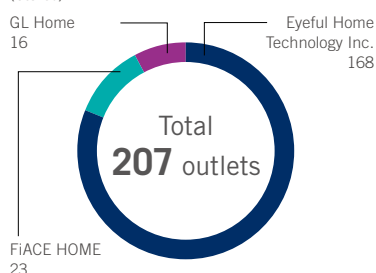
(Stores)



● Viva Home ● Super Viva Home  
● New Viva Home

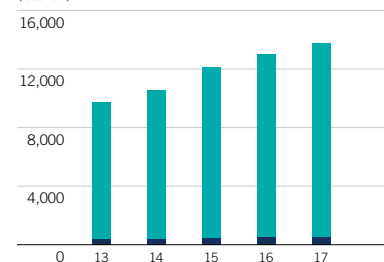
## Homebuilding Franchise Members

(Stores)



## Renovation Network Members

(Stores)



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

\*<sup>3</sup> The Ken Depot business was carved out in October 2015, turning Ken Depot Corporation into an equity-method affiliate.

# 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 unflinching 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.



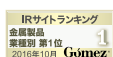
IR Team (from left):  
Marc Dobro, Shizuka Fukushima, Yukiyo Uto,  
Kayo Hirano (Senior Manager, Investor Relations Office),  
Jin Song Montesano (Executive Officer and Senior Managing  
Director, Public Affairs, Investor Relations, External Affairs, and  
Corporate Responsibility), Emiko Ota, and Tomoko Takemura

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

## External Recognition (From April 1, 2016 to July 31, 2017)

### Gomez IR Site Ranking 2016

Awarded silver prize in the overall IR site ranking and first place in the "Metal Products" industry category from Morningstar Japan K.K. (October 2016)



### Internet IR Commendation Award

Received "Internet IR Commendation Award" 2016 from Daiwa Investor Relations Co., Ltd. (November 2016)



### Morningstar Socially Responsible Investment Index (MS-SRI)

Selected as a constituent stock of the Morningstar Socially Responsible Investment Index (MS-SRI) (December 2016)



### RobecoSAM Sustainability Award 2017

Selected as "Bronze Class" in the RobecoSAM Sustainability Award 2017 (January 2017)



### Nikkei Annual Report Awards

Received the "Award for Excellence" for Annual Report 2016 at the 19th Nikkei Annual Report Awards, sponsored by Nikkei Inc. (January 2017)

### 2017 All-Japan Executive Team rankings

Ranked first for "Best CEO," second for "Best CFO," third for "Best IR," and second for "Best IR Website" in the construction sector of the 2017 All-Japan Executive Team rankings from Institutional Investor Magazine (May 2017)

### FTSE4Good Index Series

Became a constituent of the FTSE4Good Index Series, created by FTSE Russell (June 2017)



FTSE4Good

### MSCI Japan Empowering Women Index

Selected as a constituent of the MSCI Japan Empowering Women Index (WIN), created by MSCI Inc. (July 2017)



2017 Constituent  
MSCI Japan Empowering  
Women Index (WIN)

#### Disclaimer

THE INCLUSION OF LIXIL GROUP CORPORATION IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF LIXIL GROUP CORPORATION BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

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

# OUR 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 <b>Nihon Tategu Kogyo Co., Ltd. (now LIXIL Group Corporation) is established.</b>	
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 <i>Polybath</i> 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 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 <b>Tostem Corporation is renamed Tostem Inax Holding Corporation, becomes a pure holding company, and swaps stocks with Inax Corporation.*</b> 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 established.	
2004 <b>Tostem Inax Holding Corporation renamed JS Group Corporation.</b>	
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. became a subsidiary. Permasteelisa S.p.A. of Italy becomes a subsidiary of LIXIL Corporation.	
2012 <b>JS Group Corporation renamed LIXIL Group Corporation.</b>	
2013 INAX ENGINEERING Corporation and six other companies merge. The company is renamed LIXIL Total Service Corporation. ASD Holding Corp. (ASB) of the United States became a subsidiary of LIXIL Corporation.	
2014 GROHE Group S.à r.l. of Europe becomes an equity-method affiliate 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, 2017)

## Number of Shares and Shareholders

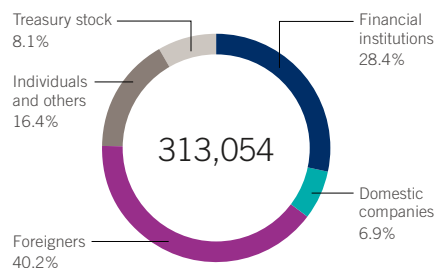
Number of shares authorized	1,300,000,000
Number of shares outstanding	287,738,493
	(excluding treasury stock of 25,315,762 shares)
Number of shareholders	42,844

## Major Shareholders

Name of shareholder	Number of shares held (thousand shares)	Percentage held
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,179* <sup>1</sup>	3.54%
Japan Trustee Services Bank, Ltd. (Trust Account)	9,840* <sup>1</sup>	3.42%
State Street Bank Client Omnibus OM04 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	9,779	3.40%
The Nomura Trust & Banking Co., Ltd. (Trust Account)	8,896* <sup>1</sup>	3.09%
LIXIL Employee Stock Ownership Plan	6,789	2.36%
The Dai-ichi Life Insurance Company, Limited (Standing proxy Trust & Custody Services Bank, Ltd.)	6,561	2.28%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,798	2.02%
MSCO CUSTOMER SECURITIES (Standing proxy Morgan Stanley MUFG Securities Co., Ltd.)	5,554	1.93%
Sumitomo Mitsui Banking Corporation	5,543	1.93%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	5,356* <sup>1</sup>	1.86%

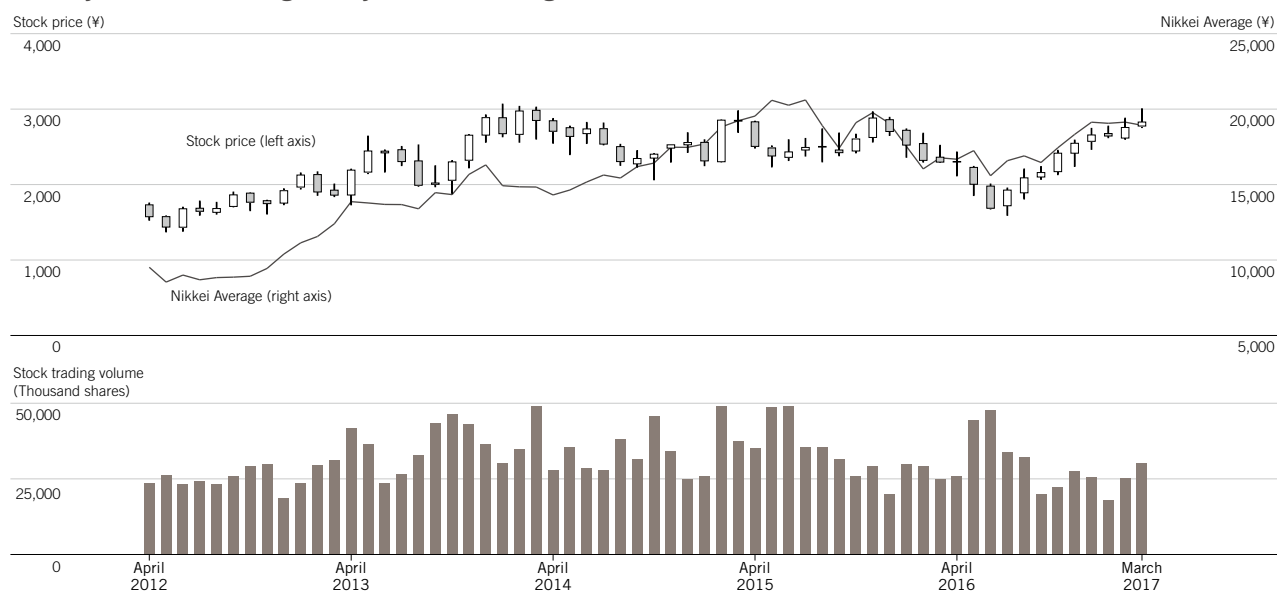
Notes: 1. In addition to the above, LIXIL Group Corporation holds 25,315 thousand shares of treasury stock. Shareholding calculations exclude treasury stock.  
 2. \*<sup>1</sup> indicates a trust service arrangement.  
 3. 8,896 thousand shares entrusted to The Nomura Trust & Banking Co., Ltd., are the trust property of Mr. Yoichiro Ushioda, who has voting rights for these shares.

## Distribution of Ownership among Shareholders (Thousand shares)



	Thousand shares
Financial institutions	88,813
Domestic companies	21,530
Foreigners	125,936
Individuals and others	51,457
Treasury stock	25,315
Total	313,054

## Monthly Stock Price Range (Tokyo Stock Exchange)



For the years ended March 31	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
High* <sup>2</sup> (yen)	2,164	3,060	2,973	2,959	2,999
Low* <sup>2</sup> (yen)	1,374	1,732	2,063	2,233	1,593

\*<sup>2</sup> High and low share prices are from the First Section of the Tokyo Stock Exchange.

# CORPORATE DATA

(As of March 31, 2017)

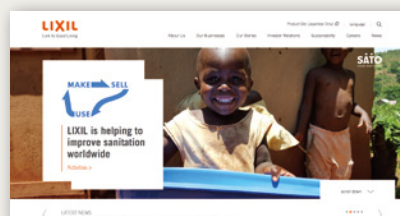
Company name	LIXIL Group Corporation (JS Group Corporation renamed LIXIL Group Corporation on July 1, 2012.)	Overview of major businesses	The Company controls and manages domestic and overseas companies that operate housing-related businesses and urban environment related businesses through acquisition or holding of stocks.
Established	September 19, 1949		
Registered office	2-1-1 Ojima, Koto-ku, Tokyo 136-8535, Japan	Securities traded (Common stock)	Tokyo Stock Exchange Nagoya Stock Exchange
Headquarters	36F, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo 100-6036, Japan	Transfer agent and special management of accounts	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Paid-in capital	¥68.1 billion		
Fiscal year closing	March 31	Annual Meeting of Shareholders	Normally held in June in Tokyo, Japan
Employees	54 (Consolidated employees: 59,248)		

## LIXIL GROUP ONLINE INFORMATION

### Corporate Website

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.

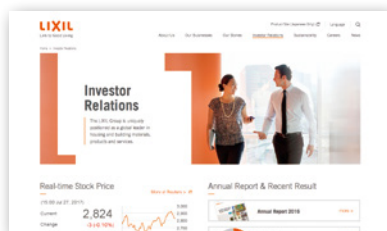
<http://www.lixil.com/>



### Financial Information

LIXIL Group Corporation's IR website offers enriched content for shareholders and other investors, including information regarding financial results, audio streaming of results briefings, and market data.

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



### Non-Financial Information

Our sustainability 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/>




### Annual Report

[http://www.lixil.com/en/investor/library/annual\\_reports.html](http://www.lixil.com/en/investor/library/annual_reports.html)



## 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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