



Medium-Term Business Plan

LIXIL G-15

(April 2013 - March 2016)

May 7, 2013

LIXIL Group Corporation

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in these materials 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.

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1. LIXIL G-15 Plan
 - Key Messages
 - LIXIL Transformation --- Backdrop
 - LIXIL G-15 Plan Overview
2. Market and Competitive Environment
3. Five Strategic Imperatives
4. Shareholder Return
5. Wrap Up

1. LIXIL G-15 Plan

Commitment to our vision...

Management Vision

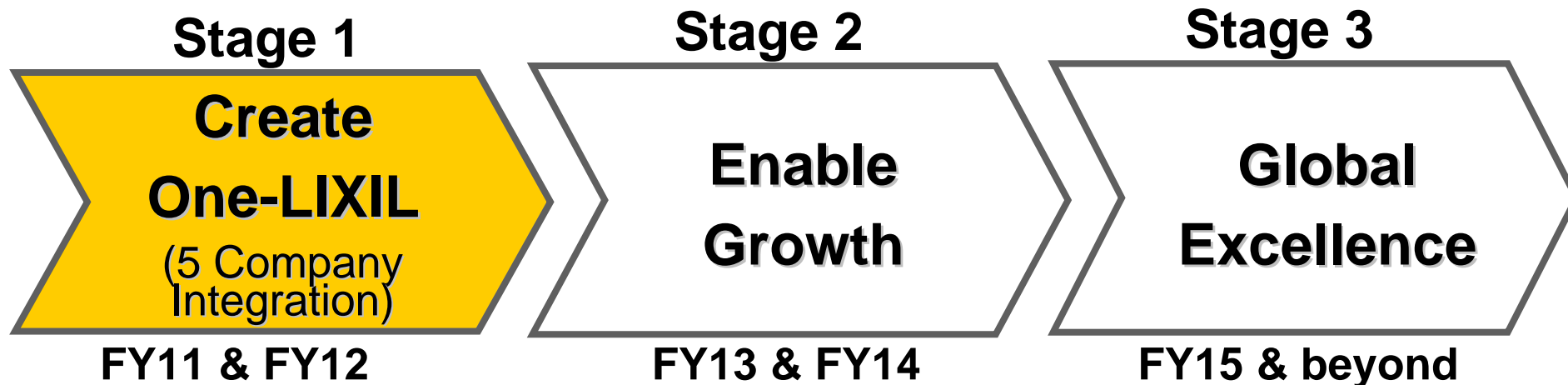
We will become a leading global company in the industry of housing and living environment

■ **Revenue: Y3 trillion** (Y2 trillion domestic, Y1 trillion overseas)

■ **OP Margin: 8%** (10% for the domestic existing businesses)

Delivered by “ONE” LIXIL Global Team

LIXIL Transformation --- Backdrop



Results of Stage1

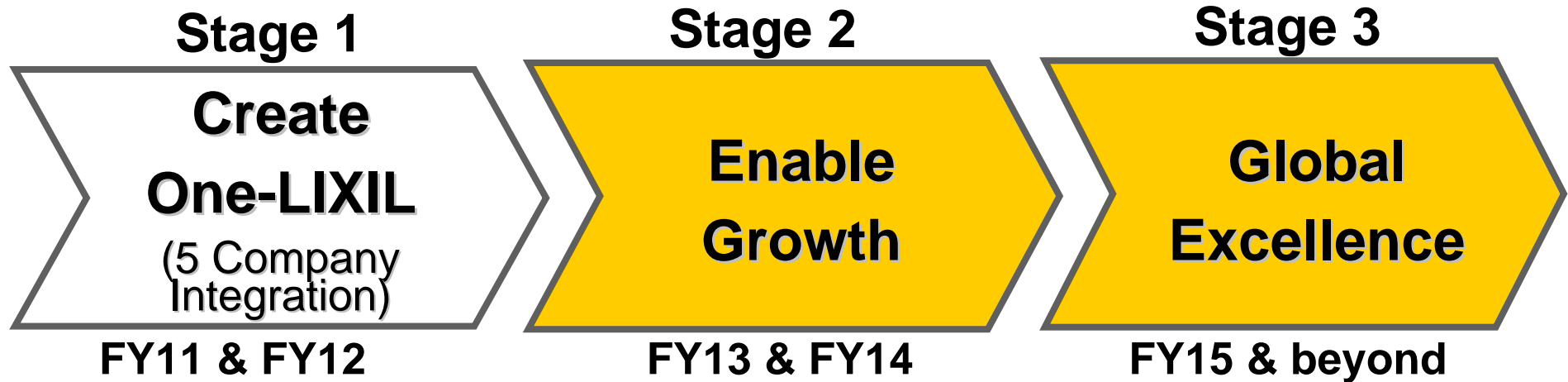
Y bn	FY11	FY12
Revenue	1,291	1,436
OP	18	50
OPM (%)	1.4%	3.5%
EBITDA*	60	101
Net income	2	21
ROE (%)	0.4%	3.9%
EPS (Yen)	6	73

*EBITDA = OP + Depreciation + Goodwill Amortization

Highlights

- C-30 cost reduction on schedule
- Cultural transformation: “ONE” LIXIL
- Expanded global footprint
- Introduced new organization and people
- LIXIL brand establishment
- Navigated “disaster” impacts of Japanese 3.11 Earthquake and Thai Floods

New LIXIL G-15 Plan



LIXIL G-15 Targets

Y bn	FY12	FY15
Revenue	1,436	1,750
OP	50	140
OPM (%)	3.5%	8%
EBITDA*1	101	200
Net income	21	81
ROE (%)*2	3.9%	over 10%
EPS (Yen)*2	73	270

*1. EBITDA = OP + Depreciation + Goodwill Amortization

*2. ROE and EPS are calculated based on the assumptions that 9.64mn shares for stock options will be fully executed.

Tailwinds & Headwinds

- + Positive global market outlooks
- + Leading market share positions
- + Remain the only “total solution provider”
- + Cultural transformation: “ONE” LIXIL
- Foreign exchange rate fluctuation
- China slowdown hurting global economy

2. Market and Competitive Environment

Japan

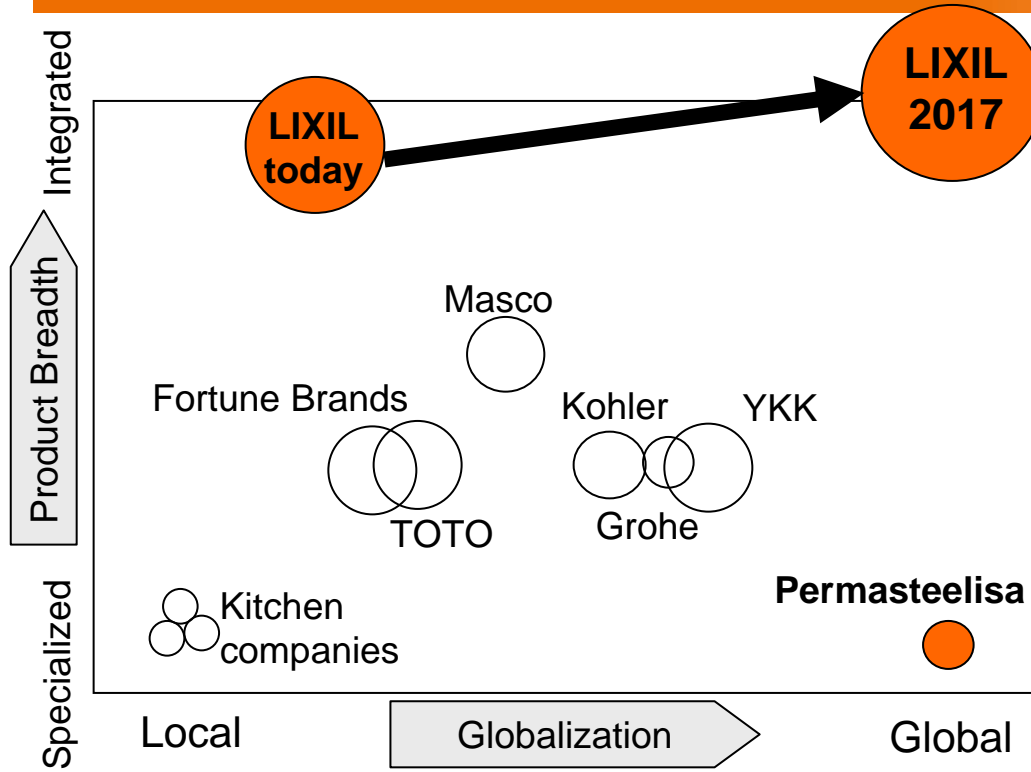
- New housing starts decline after 2013 peak
- Renovation market will grow double digit towards 2020
- Government regulations drive “passive and smart” homes and buildings
- Abenomics pros and cons
 - Economic growth vs. cost pressure
 - Inflation & price increase vs. competitive environment

Global

- China’s economic growth is slowing down but remains a huge market
- ASEAN is a big opportunity
- Europe’s slow recovery
- US housing rebound underway

Positioned for Growth

Competitive Landscape



Dynamics

- All players are trying to exploit Asian opportunity
- Asian markets are still fragmented
- Plumbing fixtures are more global products
- Curtain wall business is very global but highly specialized
- Windows have opportunity for global expansion
- LIXIL has broadest offering and widest reach

LIXIL Assessment

Products



Market Coverage



Brand



LIXIL Actions

- Use M&A for regional expansion
- Leverage Permasteelisa's global business
- Brand establishment investment

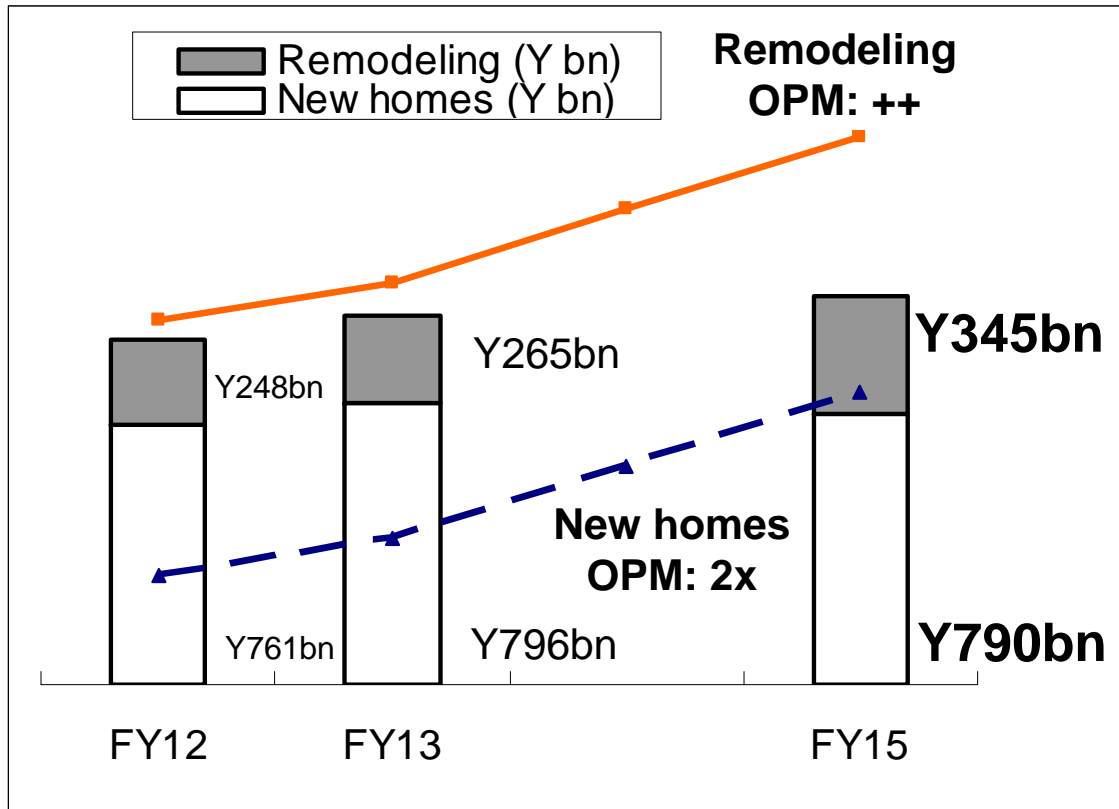
Strong Position

3. LIXIL G-15 Strategic Imperatives

- 1 Japan Core Business Shift** → **Remodeling**
- 2 Grow Globally** → **New Markets**
- 3 Leverage Distribution Scale** → **Portfolio Breadth**
- 4 Expand Core Adjacencies** → **Services**
- 5 Operational Excellence** → **Cost Synergies**

Profitable Growth Focus

Strategic Imperatives (1) Remix Japan Core



Key Drivers

- Robust product pipeline
 - Margin improvement
- Growing remodeling market
 - Positioned for 2x market growth
 - Invest in products and distribution
- Brand identity traction
 - Strengthen marketing
- Enhance distribution alliance
 - Direct and indirect
- Grow market share
 - New products and services

Y bn, %	FY12	FY15	Growth
Revenue*	1,009	1,135	New home flat
OP	46	113	2.5x
OPM(%)	5%	10%	+ 5P

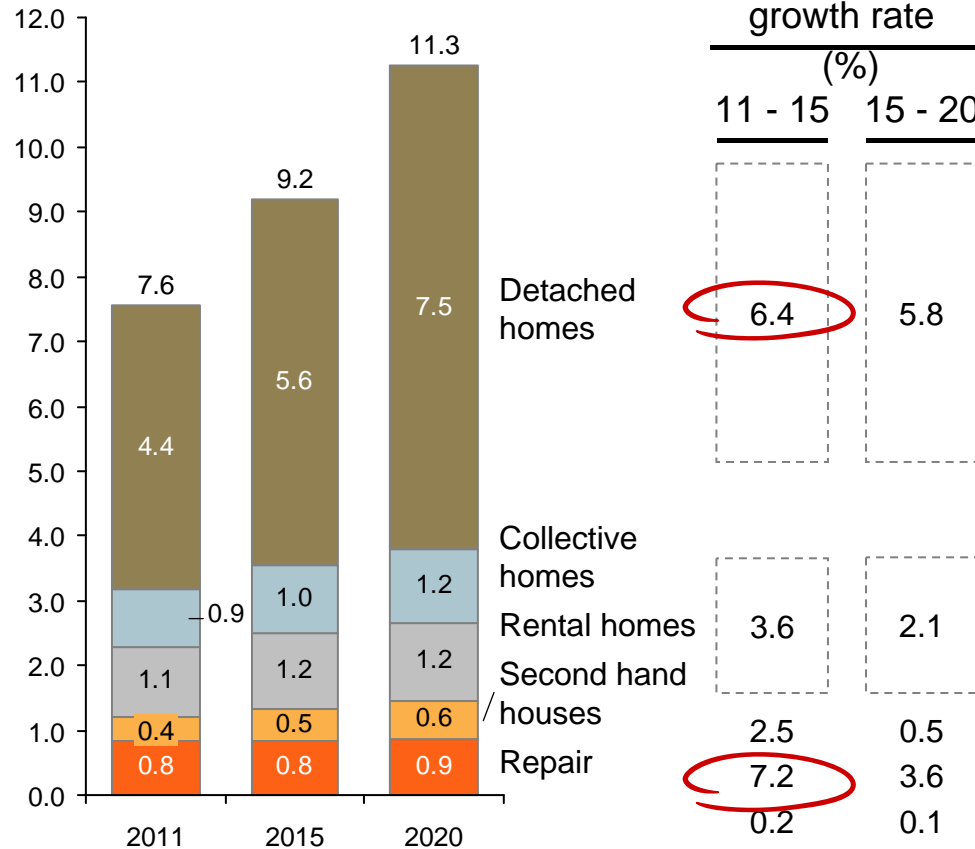
*Revenue for remodeling and new housing markets

Win in Our Biggest Market

(1)-1. Remodeling: Market Expansion Starts

Base scenario

Market size (Y trillion)



Key Drivers

- New laws and regulations
- “Top Runner” process
- Government incentives
- New energy supply and demand model
 - ...“Passive” and “Smart”
 - ...Zero-energy homes and buildings
- LIXIL technology investment (E.g. COMMA House)
- Sales resource shift to remodeling

Source: LIXIL estimates

LIXIL...2x Market Growth






(1)-1. Remodeling: LIXIL GAME BOARD...Full Coverage

Current market size of construction and materials is Y7.6 trillion, and Y6 trillion for non-residential.

		Types of renovation work		
End user		Large scale renovation	Renewal of equipment & interior	Repair/ maintenance
Residential market	Living in detached homes	Detached: large scale renovation Y800bn	Detached: small scale renovation Y3,600bn	Repair Y900bn
	Living in collective homes	Collective: Large scale renovation Y200bn	Collective: small scale organization Y700bn	
	Rental home owner (individual)	Individual rents		
	Rental home owner (corporate)	Corporate rents		
	Sellers and buyers of used houses	Renovation, defect insurance, inspection of used houses Y400bn		
Non residential		Renovation of non residential spaces Y6 trillion (Offices, stores, factories, schools, hospitals, common spaces of condos, hotels, transportation systems, etc.)		





Source: LIXIL estimates

(1)-2. Segment Strategy

Business Units		Financials (FY12 → FY15)		Initiatives
Sashes and Doors		Revenue growth	+	<ul style="list-style-type: none"> • SAMOS: A big game changer • Next generation product development meeting “Top Runner” standards • Leverage global manufacturing
		OPM growth	+3P	
		Market share	No.1: 50%+	
Exterior and Tiles		Revenue growth	+	<ul style="list-style-type: none"> • Tile and exterior integrated products • Integrated "electronics" products • New "remodeling" products
		OPM growth	+3P	
		Market share	No.1: 50%+	
Interior		Revenue growth	++	<ul style="list-style-type: none"> • Comprehensive supply chain reform • Comprehensive value proposition for interior remodeling
		OPM growth	+1P	
		Market share	No.3: ↑	
Skeleton and Exterior Walls		Revenue growth	++	<ul style="list-style-type: none"> • "Super-Wall" products offering better anti-earthquake and passive function • Create new added values in “housing skeleton business”
		OPM growth	+4P	
		Market share	No.3: ↑	
Curtain Wall		Revenue growth	++	<ul style="list-style-type: none"> • Leverage Permasteelisa's success • Generate further synergy benefits (Y10 bn)
		OPM growth	+3P	
		Market share	No.1: ↑	

Permasteelisa Group
photo: ©Sellar.

(1)-2. Segment Strategy

Business Units	Financials (FY12 → FY15)		Initiatives
Toilets and Washstand 	Revenue growth	++	<ul style="list-style-type: none"> • New <i>SATIS</i> a big hit • Enhance remodeling products (Toilets) • Launch multi-functional offerings (washstand cabinet)
	OPM growth	+5P	
	Market share	No.2: 40%+	
Kitchen Units 	Revenue growth	++	<ul style="list-style-type: none"> • More differentiated functionality • More customer driven functionality
	OPM growth	+5P	
	Market share	No.1: 30%+	
Bathroom Units 	Revenue growth	++	<ul style="list-style-type: none"> • New products that self-clean for middle to high-end segments • Develop remodeling products with energy-saving/ water-saving/ easier installation products
	OPM growth	+4P	
	Market share	No.1: 35%+	
Energy Generation 	Revenue growth	2x	<ul style="list-style-type: none"> • Solar business expansion • Development of smart homes • Big data (HEMS*) new businesses
	OPM growth	+8P	
	Market share	↑	

*HEMS=Home Energy Management System

Strategic Imperatives (2) Global Expansion

Balancing the Revenue of Gravity Center

Growth Drivers

Permasteelisa

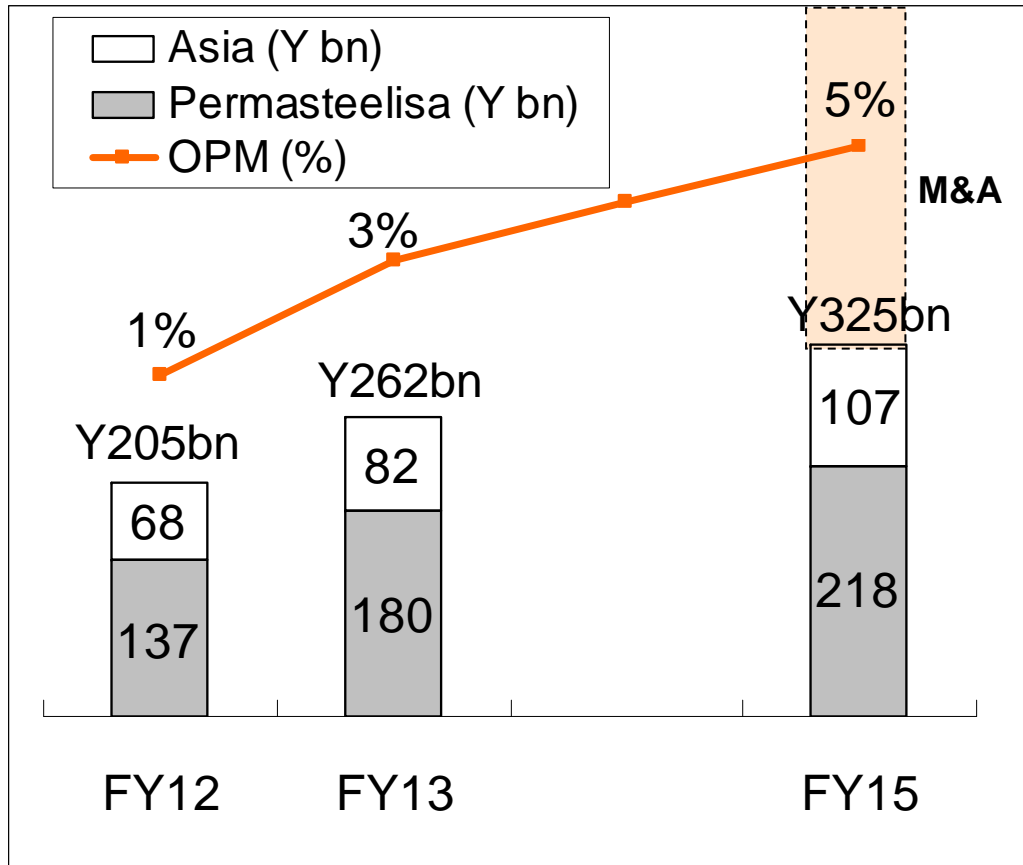
- Solid double digit growth
- Continuously improve EBITDA
- LIXIL synergy

Asia

- Continue to invest in product development
- Expand country coverage (e.g. India)
- Improve profitability in China

M&A

- US and Europe
- To become No.1 in window, sanitary ware and curtain wall businesses

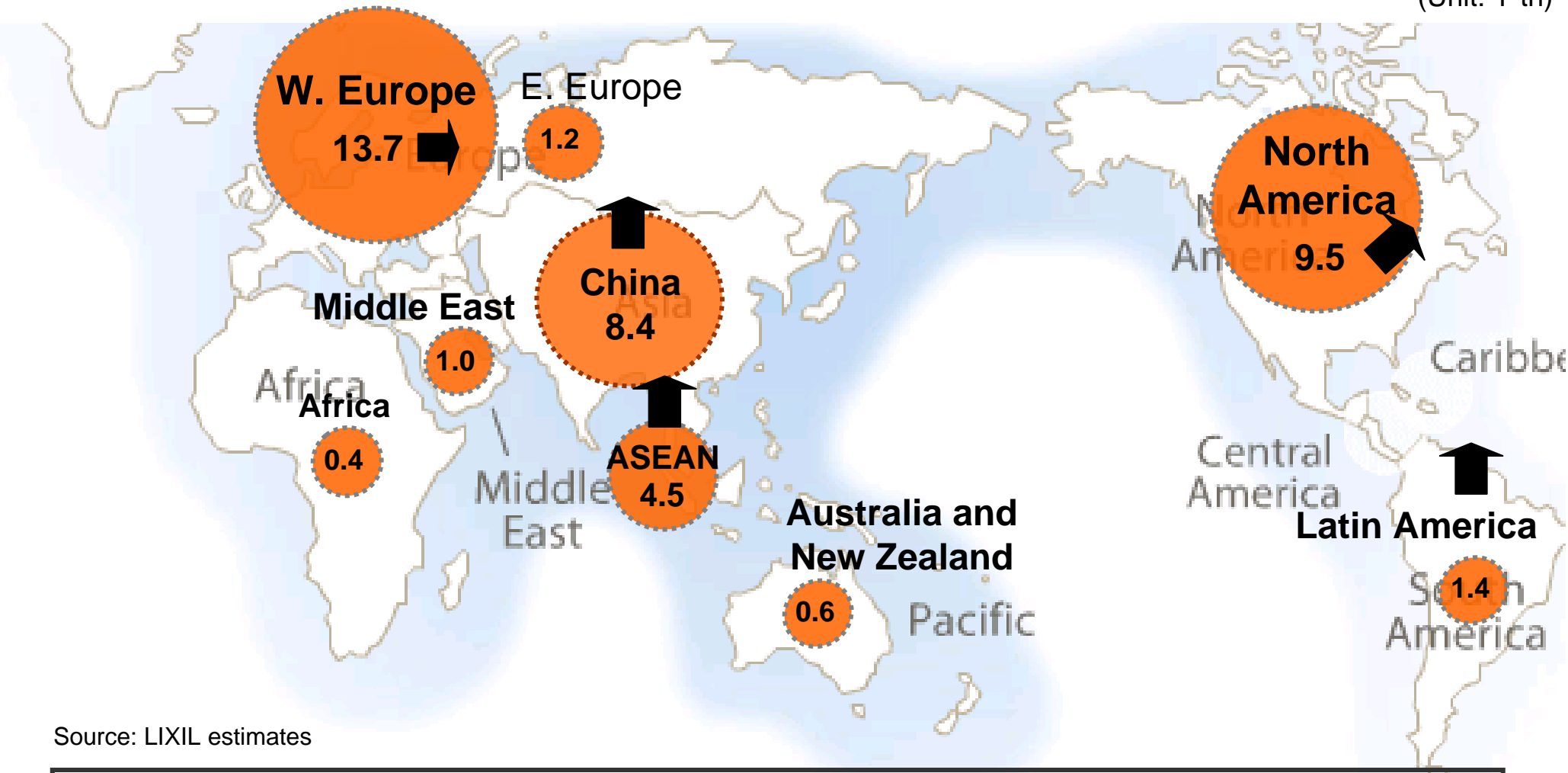


Y bn, %	FY12	FY15	Growth
Revenue	205	325	1.5x
OP	4	17	4x
OPM(%)	1%	5%	+4P

%	FY11	FY15	FY17
Japan	96%	81%	~70%
Overseas	4%	19%	~30%

PLAY BIGGER IN ASIA & NORTH AMERICA

(Unit: Y tn)



Source: LIXIL estimates

Global Market: Y40 trillion (2011) to Y60 trillion (2017)

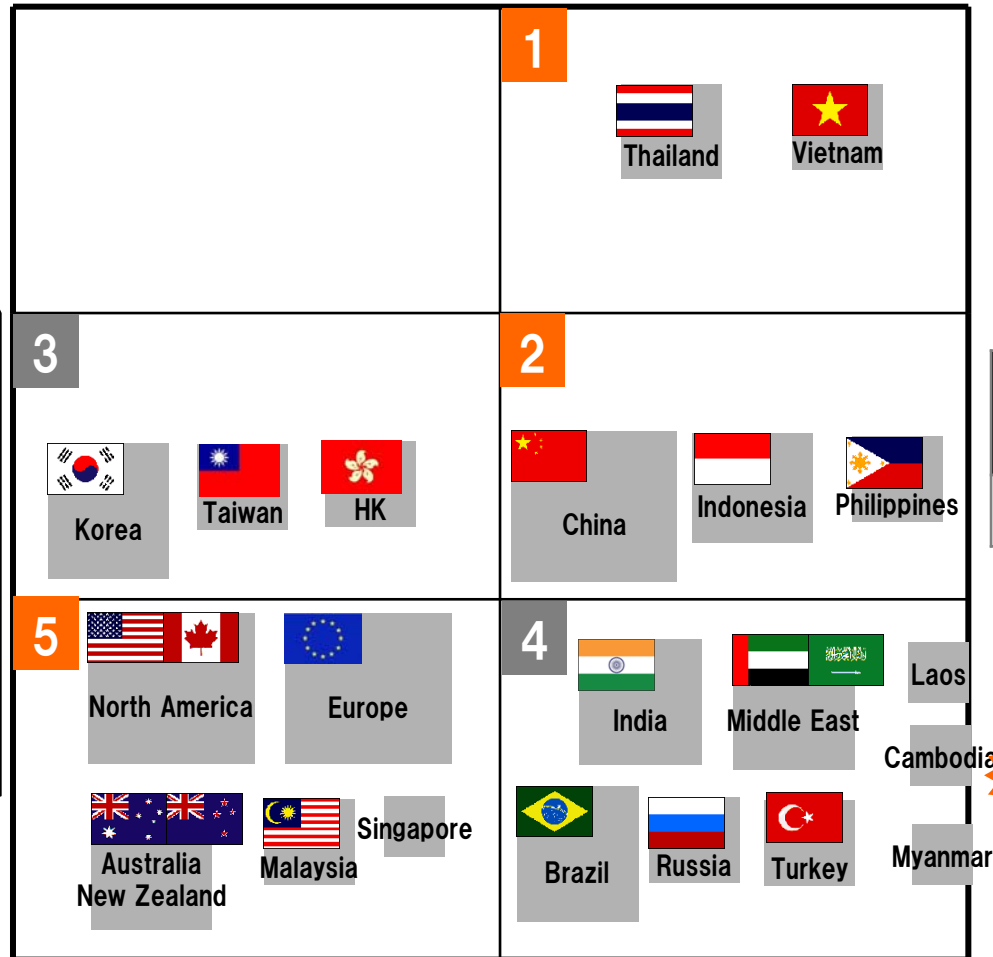
Strategic Imperatives (2) Country Strategy

Core Product Domain

High

Competitiveness of LIXIL
Share and profitability

Low



Market growth

High

Low

>400

>100

>50

<50

Current market size
(Unit: Y bn)

1 Expand product lineup

Vietnam/Thailand

3 Improve earnings

Korea/Taiwan/HK

2 Organic growth + M&A

China/Indonesia/Philippines

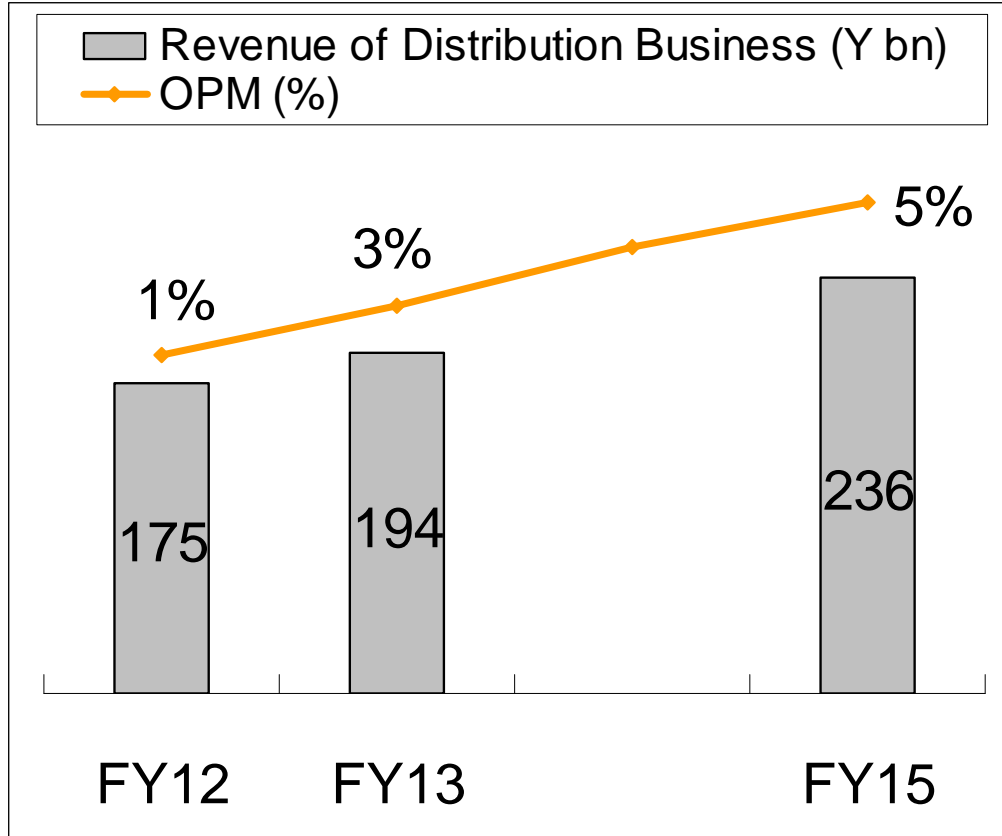
5 M&A of established companies

North America/Europe/Australia/New Zealand

4 New market entry

India/Middle East/Brazil/others

Strategic Imperatives (3) Distribution



[Home Centers]

Y bn, %	FY12	FY15	Growth
Revenue	155	180	15%+
OP	7	10	~1.5x
OPM(%)	5%	6%	+1P

Home Centers (B2C)

- New stores (Super Viva Home)
29 stores (FY12) → 39 stores (FY15)
- Improve profitability through private brand products
PB ratio 25% (FY12) → 31% (FY15)

Ken Depot

(B2B/ Convenience store model)

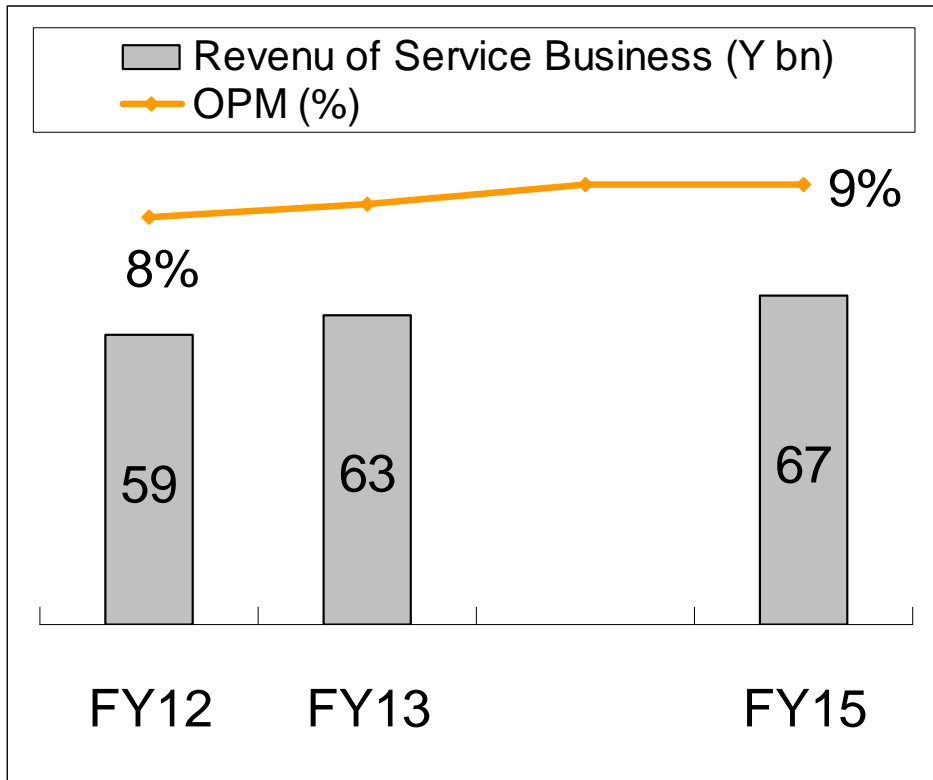
- New stores
62 stores (FY12) → 102 stores (FY15)
- Introduce franchise model
LIXIL supporting financing
- Break even in FY13 and grow profitability

[Ken Depot]

Y bn, %	FY12	FY15	Growth
Revenue	21	56	2.5x
OP	-5	2	++
OPM(%)	-23%	4%	++

Strategic Imperatives (4) Expand Core Adjacencies: Services

(Units: Y bn, %)



Y bn, %	FY12	FY15	Growth
Revenue	59	67	~15%
OP	5	6	20%+
OPM(%)	8%	9%	+1P

Business Units	Financial Targets for FY15		Initiatives
Home building franchise	Revenue	36	• Support 5,000 new homes
	OPM(%)	8%	
Japan Home Shield (JHS): Ground inspection business	Revenue	12	• Ground inspection technology (New homes/ remodeling)
	OPM (%)	10%	
JIO: Defect insurance	Revenue	11	• Evaluation, performance warranty • New homes/ remodeling
	OPM (%)	5%	
Real Estate Management	Revenue	6	• Leverage remodeling business
	OPM (%)	-	
Senior homes	Revenue	3	• Leverage remodeling business
	OPM (%)	10%	

**Expand to white space:
~Y100bn opportunities**

Strategic Imperatives (4) Expand Core Adjacencies

LIXIL does not limit its business within construction materials, equipments, construction and installation of those products but will also include providing solutions for stock houses with unique services as one of its cores

Flow Market

Stock Market

(For new construction)

(For renovation)

Material

Construction

Service

Homes

- Plumbing Fixtures
- Metal Building Materials
- Exteriors
- Other Equipment Business
- Replacement Parts (e.g. Water filter cartridge)

Non-residential

- Home electronics
- Daily necessities
- Others

Construction
&
Installation

- Warranty against housing defect
- Inspection, maintenance
- Finance (e.g. renovation mortgage)
- Retail (VIVA, Ken Depot)
- Life support service
- Others

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- Inspection, maintenance
- Finance (e.g. Renovation mortgage)
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- Others

- Real-estate brokerage

Ordinary renovation field defined by remodeling specialists

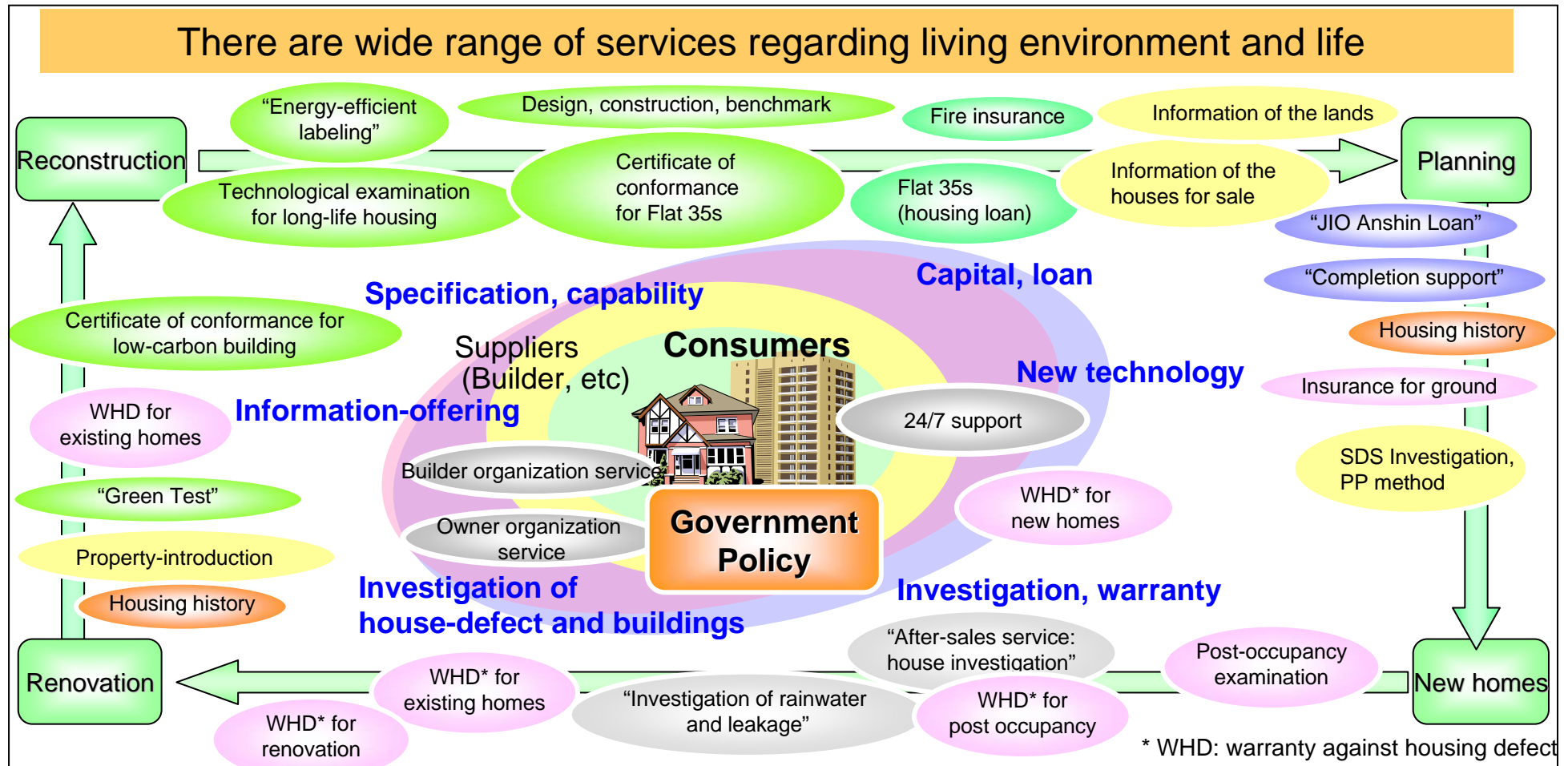
LIXIL's definition of stock housing market

Completion of construction and handover

Services that secure originality of LIXIL
Services that contribute to maintenance and better function of buildings

Differentiate by providing unique LIXIL services

Strategic Imperatives (4) Expand Core Adjacencies



A Huge Opportunity

Strategic Imperatives (5) Operational Excellence

Key Focus

- **Accountability**
 - Performance management
 - Pay for performance/ Stock options
 - 20+ P/Ls
- **People Development**
 - Leadership trainings (ELT, SLT, JLT)
 - 5% of working time for training
- **Lean Structure**
 - Delayering
 - Simplification
- **Process Improvement**
 - IT infrastructure
 - Six sigma deployment
 - 22BB*(FY12) → 230BB*(FY15) *BB=Black Belt
 - Y15bn+ cost impact
- **Cost Reduction**
 - SG&A ratio below 20% target
 - Drive C-30 plus projects

Focused Operating Mechanisms

- ① P/L Reviews by BU
 - Revenue, OP, Market Share
- ② NPI*1/ MGPD*2
 - Cost, Quality, Customer CTQ*3
- ③ Cost/ Price
 - Base, Variable, Mix
- ④ Commercial excellence improvement
 - Customer service
 - Showroom effectiveness
 - Backroom sales support
- ⑤ People & Culture
 - POD*4, LIXIL Values, Engagement

*1 NPI=New Product Introduction/

*2 MGPD=Multi Generation Product Development

*3 CTQ=Critical-to-Quality

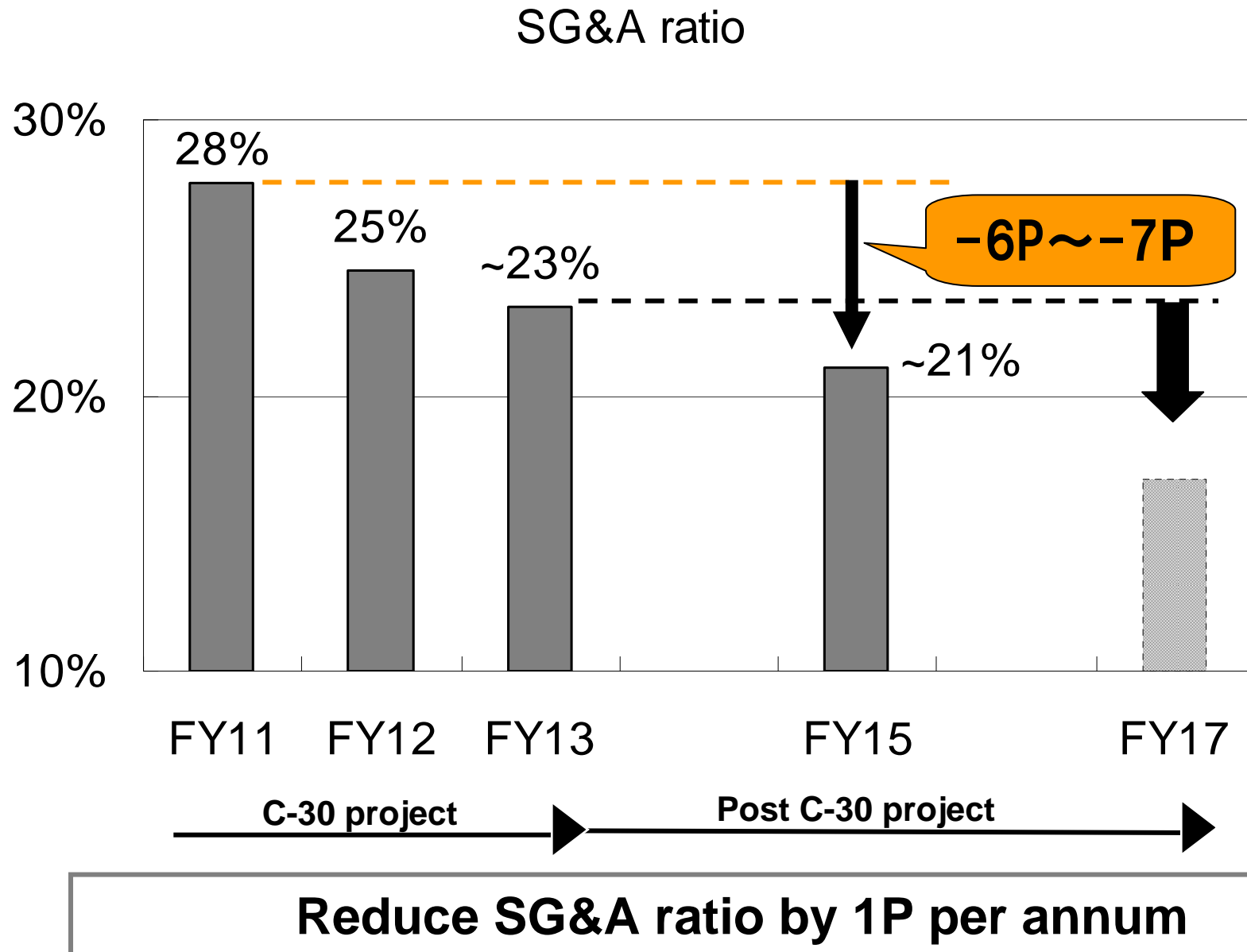
*4 POD=People & Organization Discussion

Aligned and Accountable

Strategic Imperatives (5) Operational Excellence: C30 & Beyond

Division	Major measures	Target	FY11 & FY12 progress	FY13 estimate	Potential measures for FY14 &FY15			Amount
Sales & marketing	<ul style="list-style-type: none">Integrate sales offices and showroomsIntegrate separated sales and marketing divisions as well as front and back office operations	Y40bn	21bn	Y9bn	Six sigma activities	IT advancement (Y30-40bn investment)	Improve efficiency of backroom support	Improve SG&A ratio by 1P per annum
Develop-ment & production	<ul style="list-style-type: none">Integrate products and decrease the number of productsReorganize and consolidate production sitesAutomate factories and increase internally manufactured products and decrease outsourcingExpand production overseasImprove product quality	Y30bn	Y25bn	Y6bn			Develop new products to improve product mix	
Purchas-ing & distribution	<ul style="list-style-type: none">Improve economy of scale by the integration of purchasingIncrease purchasing from overseasConsolidate logistics centers and integrate IT systems	Y20bn	Y25bn	Y6bn			Continue to reduce purchasing costs	
Other	<ul style="list-style-type: none">Integrate headquarter functionsIntegrate administrative IT systems	Y20bn	Y9bn	Y4bn				
Total	Y110bn		Y80bn	Y25bn				

Strategic Imperatives (5) Operational Excellence: SG&A Efficiency **LIXIL**



Target Financials FY12 → FY15

		FY12 (results)			FY15			Vs. FY12	
		Revenue	OP	OPM (%)	Revenue	OP	OPM (%)	OP	OPM (%)
	New housing starts	761	46	5	790	113	10	+ 67	+ 5P
	Remodeling	248			345				
	Distribution	175	2	1	236	12	5	+ 10	+ 4P
	Services	59	5	8	67	6	9	+ 1	+ 1P
	Global	205	4	2	325	17	5	+ 13	+ 3P
	Adjustment and goodwill	-12	-7	-	-13	-8	-	- 1	-
Total		1,436	51	4	1,750	140	8	+ 90	+ 4P
EBITDA *1		105			200			+ 95	
Net income		21			81			+ 60	
EPS (Yen) *2		73			270			+ 197	
ROE (%) *2		3.9%			over 10%			over 6P	
CAPEX		74			3 years accumulated total: Y150 bn				

*1. EBITDA = OP + Depreciation + Goodwill amortization

*2. EPS and ROE are calculated based on the assumptions that 9.64mn shares for stock options will be fully executed.

Profitable Growth

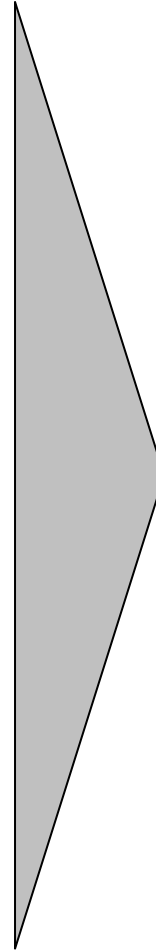
4. Shareholder Return

Generating Cash...

- Achieve 8% OPM
- Accelerate growth to 3 trillion yen sales
- Optimize tax structure
- Portfolio management (Disposition/ Acquisition)

With...

- Clear strategic imperatives
- One team aligned to win
- Operational excellence



Dividend

Minimum 30% payout ratio

Re-Investment

B/S Improvement Share buyback

5. Wrap Up

- **Remain focused and committed to Y3T revenue/ 8% OPM**
- **Performance management/ Accountability**
- **Significant Global Opportunities exist**
- **Strategic Imperatives clear and focused**
- **“ONE” LIXIL... Solidifying**

Exciting Future!

Appendix

HR Management: From Traditional Japanese to Global Architecture

We have implemented series of transformational measures in the last two years. In the next three years, we will deepen and broaden the transformation into the whole organization.

➤ Achievements in Stage 1 (FY11&FY12)

1. **Integrated HR systems:** Integrated five different HR systems into one unified one
2. **Recruited External Resources:**
 - Executive talents hired from outside:
Executive Officer 5(FY11)→6(FY12), Officer 8(FY11)→11(FY12)
3. **Promoted Diversity:** Aggressive promotion of non-Japanese & female talents
 - Local staff by replacing Japanese expatriates
 - Female managers increased in Japan: 22→47
 - Established “LIXIL Women’s Network”
4. **Launch of Leadership Development Programs:**
 - Launched: ELT (Executive), SLT (Senior), JLT (Junior) programs for three generations
 - New Global Executive Program: Tie up with IMD (Swiss Business school) with global participation
 - MBA Sponsorship: 10 high potentials selected and sent annually
5. **Implemented Stretch & Meritocracy:** Promotion of young high-potentials, rejuvenation of management, new compensation scheme reflecting company and individual performance
6. **Organizational changes:** Sales organization change and SBU establishment to realize totality of LIXIL and product expertise, two layer cut-down in sales organization
7. **Improved Engagement:** “LIXIL Yokushiru (better understanding of LIXIL)” Meeting, LIXIL Sunrise Survey, Look’n Talk, LIXIL Value Session
8. **Fundamentally Changed HR Philosophy from Traditional Japanese to Global Architecture:**
 - HR Ownership by line management from “HR by HRM” : Launch of POD (People & Organization Discussion)
 - Global HRM from Japan based HRM
 - HR Management through energy and energize from managing and controlling people



➤ HR Initiatives in Stage 2 and 3 (FY13 to FY15 & beyond)

- Thorough implementation of stretch and meritocracy
- Early development of next generation leaders: finding, developing and promoting young high potential talents
- Global integration of HR framework: Grading, C&B, Talent Management
- Development of *global* management: Fulfillment of global diversity

Changes in Environment

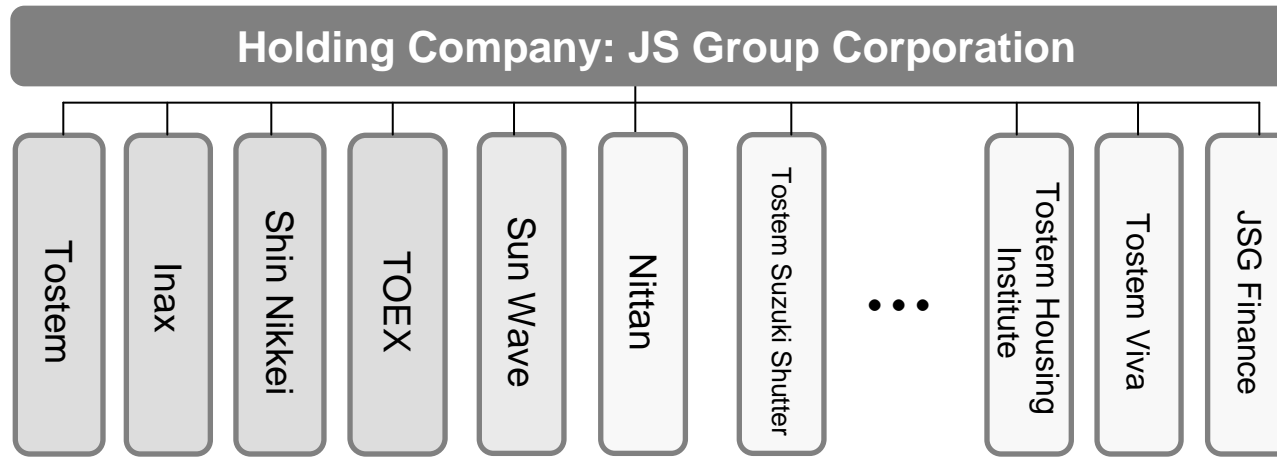
• Mar. 2011	The Great East Japan Earthquake and electricity power shortage
• Oct. 2011	The Thai Floods
• Dec. 2012	Sharp depreciation of the yen

Major Measures Implemented by LIXIL

• Apr. 2011	Integrated 5 major companies and new LIXIL Corporation established
• Jun. 2011	Transition of the holding company to a company with Committees governance model
• Aug. 2011	Yoshiaki Fujimori became the new president
• Dec. 2011	The employees came to Japan to backup the suspended factory operation in Thailand
• Dec. 2011	Permasteelisa joined the group
• Apr. 2012	Newly established LIXIL Asia.
• May 2012	Factory production completely normalized in Thailand
• Jul. 2012	Changed trade name of the holding company from JS GROUP CORPORATION to LIXIL Group Corporation
• Aug. 2012	Opened new flagship showroom in the Tokyo metropolitan area
• Aug. 2012	Introduction of composite logo and issuance of LIXIL group CSR policy
• Jan. 2013	Announced LIXIL Diversity Declaration.
• Feb. 2013	Launched numerous new LIXIL products.

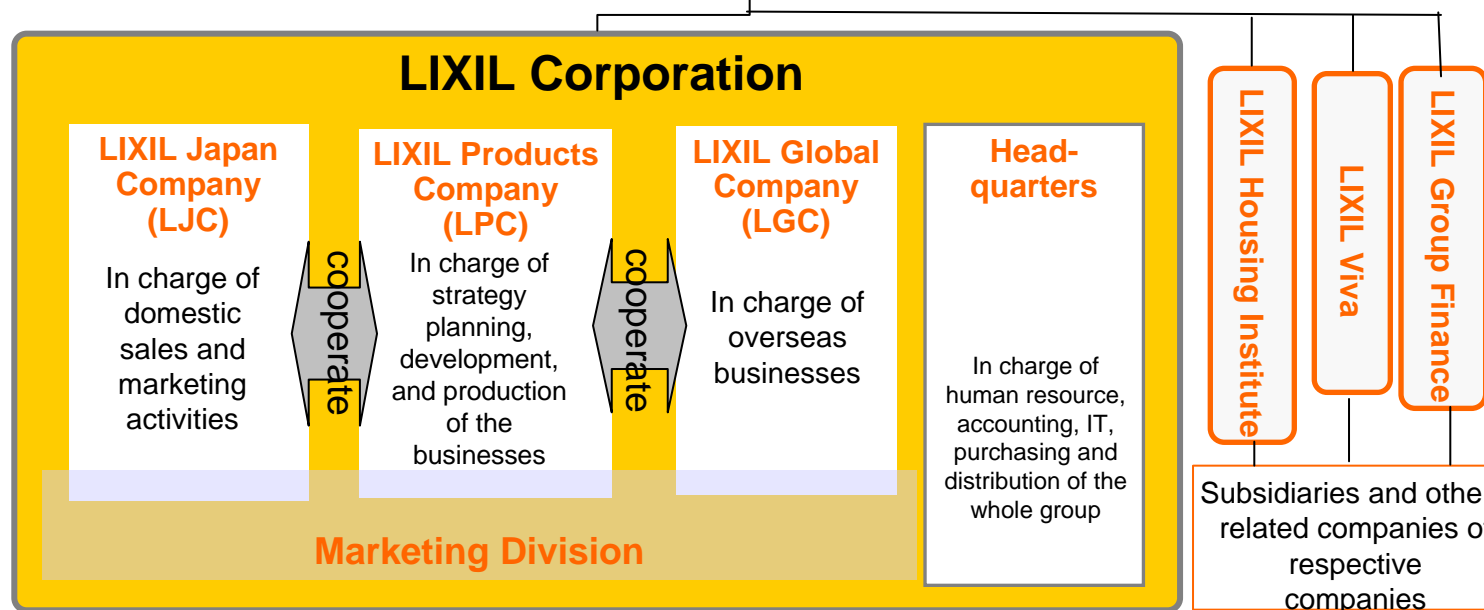
Improved Efficiency of Domestic Existing Businesses: Integration of 5 companies

Until March 31, 2011



Holding company: LIXIL Group Corporation from July 1, 2012

From April 1, 2011



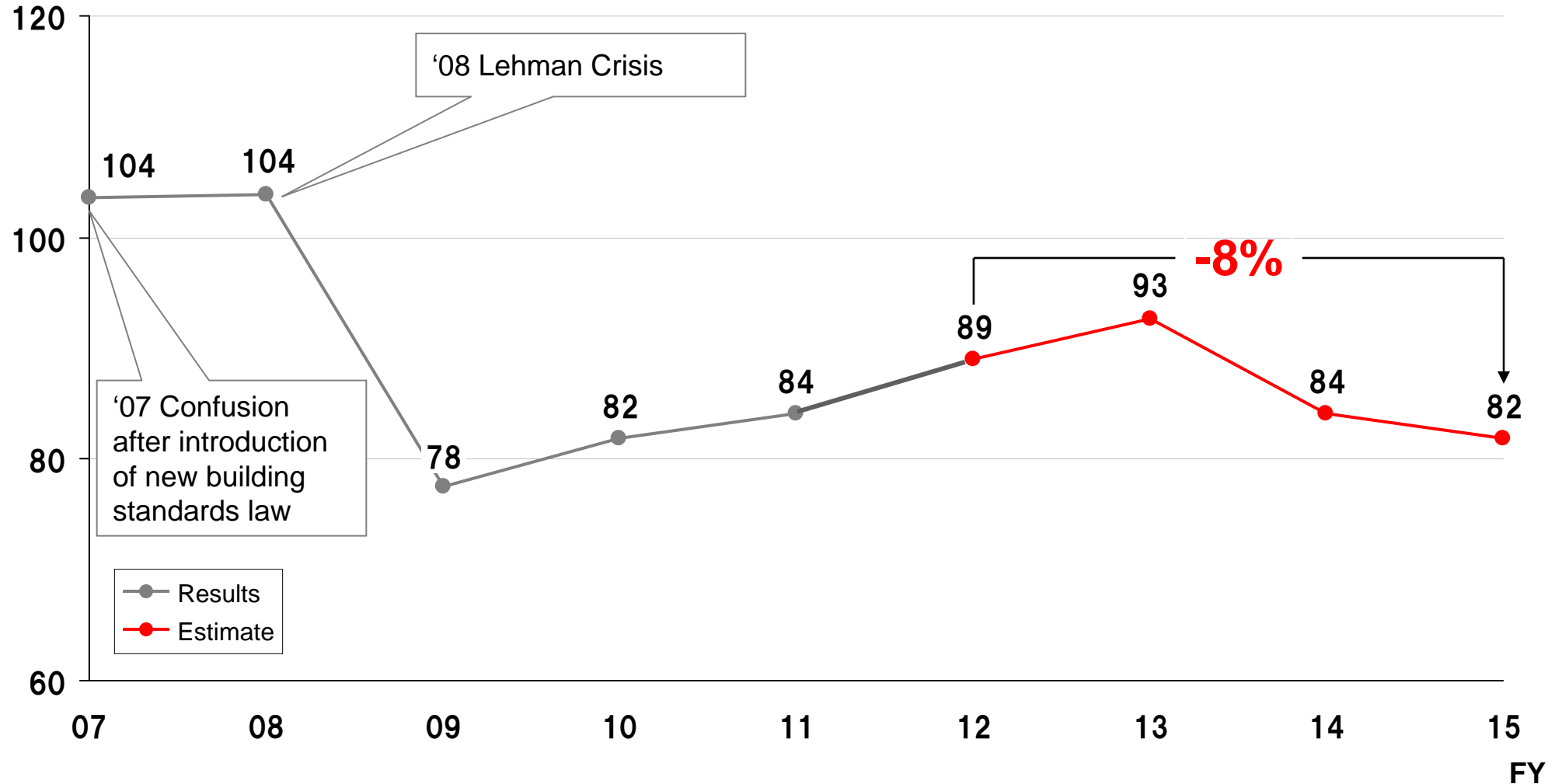
Objectives of the integration

- Eliminate overlapping functions and Increase efficiency by consolidating sales offices, showrooms, factories, and administrative divisions
- Enjoy economy of scale by integrating purchasing and others
- Speed up decision making
- Provide comprehensive housing solution that exceeds the realm of former companies and difference of products

Trend of New Housing Starts and Future Prospects

Logic behind FY12 to FY17 Housing Starts Estimate

(Ten thousand units)



Source: LIXIL estimates

Basic Act for Housing (Took effect from June 8, 2006)

This law enacts measures, basic policies, responsibility of the government, establishment of “Basic Program for Housing” and other fundamental components to ensure security and enhancement of housing and living environment in pursuit of an affluent housing and living environment for Japanese nationals.

Major shift of focus in housing environment: 1. Quantity to quality 2. New houses to stock houses

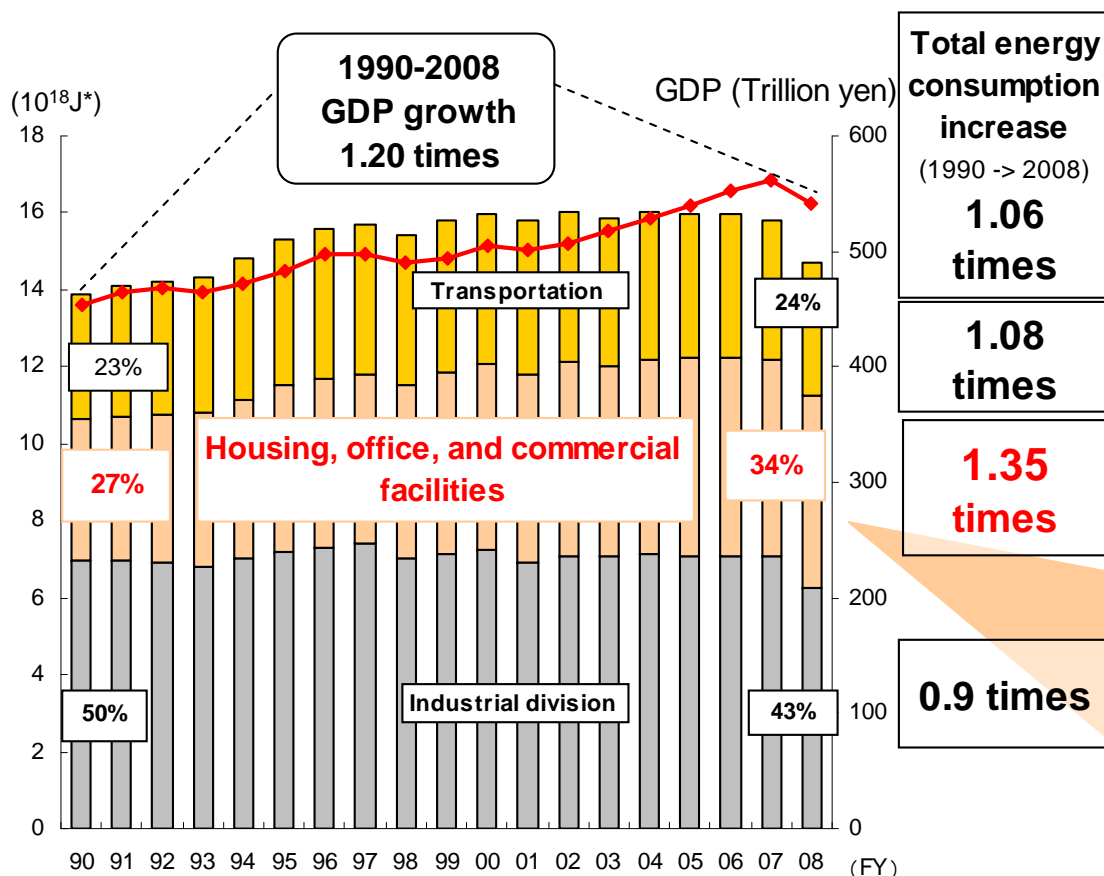
Major target figures in “Basic Program for Housing” Revised in March 2011

Target	Target assessment indicators	Current ratio	Target for 2020
To realize high quality stock houses that could be inherited by the next generation	Ratio of houses that meet new earthquake resistant standards	79% (Year 2008)	95%
	Ratio of homes for elderly people	0.9% (Year 2005)	3~5%
	Ratio of houses with energy saving measures (Ratio of houses with double glaze windows)	42% (Year 2008)	100%
	Ratio of collective houses that introduce universal design in common areas	16% (Year 2008)	28%
Appropriate management and rebuilding of houses	Ratio of renovated homes against total number of housing stock	3.5% (Average from year 2004 to 2008)	6%
To develop housing market environment that meets various living demands of Japanese nationals	Ratio of stock houses against total number of houses sold	14%(Year 2008)	25%
	Houses with insurance for warranty against housing defects purchased at time of renovation	0.2% (Apr. to Dec. 2010)	10%
	Durable year of houses (Average durable years of demolished houses)	Approx. 27 years (year 2008)	Approx. 40 years
	Ratio of new houses that introduced housing performance indication	19%(Year 2009)	50%
To ensure stable living environment for those who need special attention to secure their houses	Ratio of barrier-free houses of households with elderly people (Houses that are free of barrier to a certain degree)	37% (Year 2008)	75%

Energy Consumption Level

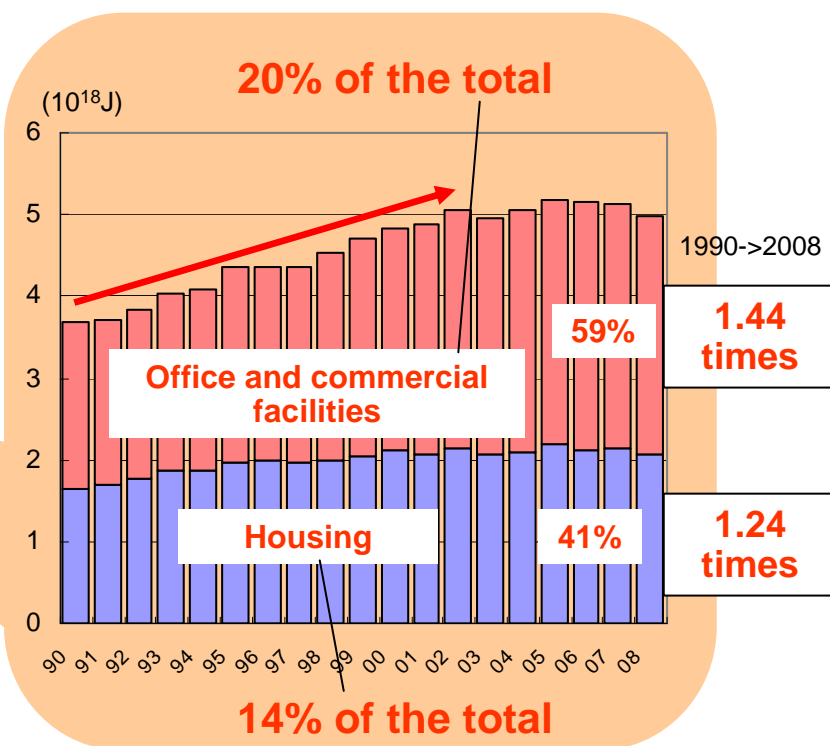
Overall, Japanese energy consumption level is increasing slightly. Energy in the industrial sector is well managed, however, not in the housing, office, and commercial facilities areas.

[Trend of Energy Consumption and Real Base GDP]



* J=Joule: one measure of the volume of energy used
1MJ=0.0258x10⁻³ crude oil conversion

[Breakdown of Energy Consumption in Housing, Office, and Commercial Facilities]



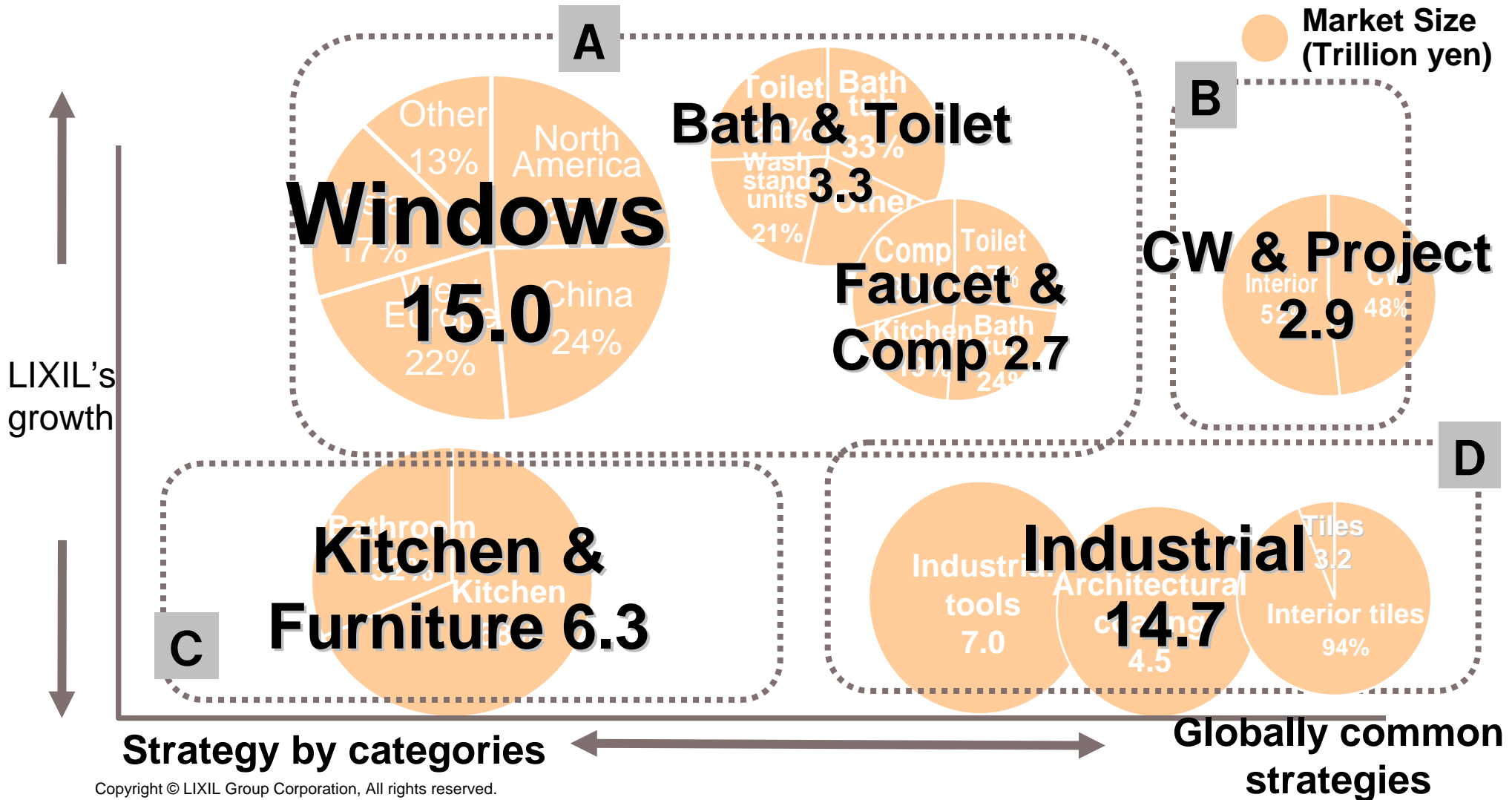
Business Environment Outlook (Assumptions)

FY		2012	2013	2014	2015	
						Vs. FY12
New housing starts (thousand)		890	930	840	820	-7.9%
Stock housing market (trillion yen)		7.6	—	—	9.2	+21.1%
Global GDP growth rate (%)						
	ASEAN	5.1	6.1	6.4	6.6	+20.3%
	Greater China	7.7	7.9	8.1	8.4	+26.4%
	North America	2.2	1.8	2.9	3.5	+8.4%
	Europe	-0.3	0.0	1.3	1.8	+3.1%
Exchange rate		US\$1= 95 yen				

Sources: Global GDP is from *IMF Economy Outlook, April 2013*; New housing starts and Stock housing market are our assumptions

Global Market Segment by Category

A zone has a big market size, and can show our strength. Through organic growth and M&A, we will establish No.1 position for each category. For B zone, we aggressively challenge to maximize our position to the limit.



(Reference) Long-Term Vision

(Trillion yen)

