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Announcement of Material Defects Required to be Disclosed Regarding Internal Controls Over Financial Reporting

LIXIL Group Corporation (“LIXIL”) hereby announces that it has stated in the internal control report for the fiscal year ended March 2015, which LIXIL filed with the Kanto Local Finance Bureau today pursuant to Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act, that there are material defects which shall be required to be disclosed and the internal controls over financial reporting of LIXIL is not effective.

1. Details of the Material Defects which shall be Required to be Disclosed

LIXIL concluded that the defects in the internal control over financial reporting described below has a material impact on the financial reporting and shall fall under the material defects which shall be required to be disclosed. Therefore, it shall be concluded that, as at the end of this fiscal year, the internal control over financial reporting of LIXIL Group were not effective.

LIXIL Corporation, a LIXIL’s consolidated subsidiary, and the Development Bank of Japan (“DBJ”) have entered into a shareholders’ agreement as of September 26, 2013, and established GraceA, which is a special purpose company in which LIXIL and DBJ each own a 50% voting interest, and also established a wholly-owned subsidiary of GraceA. On the same date, the wholly-owned subsidiary of GraceA entered into a stock sale and purchase agreement (“SPA”) with the seller to acquire 87.5% of the issued shares of GROHE Group S.à r.l. (“GROHE”) through GraceA and its wholly-owned subsidiary. GraceA and its

wholly-owned subsidiary acquired the shares on January 21, 2014. As a result of this business combination, GraceA became LIXIL's affiliated company accounted for by the equity method. In addition, as Joyou AG (Headquarters: Germany; listed on the Frankfurt Stock Exchange; "JOYOU") is a subsidiary of GROHE, LIXIL held 31.62% of JOYOU's shares through GROHE.

After the receipt of the letter from financial institutions to claim payment of borrowings, the supervisory board of JOYOU came to suspect the accuracy of financial statements of JOYOU and thereby decided on April 27, 2015 to conduct a special audit by its auditors and legal counsel. Subsequently, on May 3, 2015, JOYOU announced that the preliminary investigation results showed that there were substantial deviations in revenue figures, the amount of indebtedness and the amount of available cash compared to the relevant amounts reported by JOYOU in its financial reports for 2014. The management board of JOYOU decided on May 21, 2015 to apply for the commencement of insolvency proceedings due to existing over-indebtedness of JOYOU, and filed an application for the commencement of insolvency proceedings on May 22.

In addition, based on LIXIL's own investigation, LIXIL found that JOYOU had a substantial amount of over-indebtedness at the time of the acquisition of JOYOU stock by LIXIL on January 21, 2014 and, therefore, LIXIL recognized that it is required to amend its financial results for past fiscal years.

Based on these circumstances, LIXIL amended its financial results for past fiscal years and also filed an amendment of the annual securities report for the fiscal year ended March 2014 and the quarterly reports for the first quarter ended June 2014, the second quarter ended September 2014 and the third quarter ended December 2014.

Necessary revisions specified due to material defects which shall be required to be disclosed in the consolidated financial statement for the current period have already been reflected.

In light of the foregoing, LIXIL acknowledges that one of the contributing factors was material defects in the group-wide internal control, in other words, the internal controls concerning its accounts/financial reporting process which are evaluated from an overall company perspective.

LIXIL fully recognizes the importance of internal controls over financial reporting. Although LIXIL has not completed its remedial actions in respect of

the above-mentioned defects at the time of the filing of the amendment, it will continue to thoroughly uncover the underlying facts and investigate the root causes of this case.

In addition to the above-mentioned investigation by the internal investigation committee, LIXIL's board of directors has established a special investigation committee that consists of an outside director and outside experts.

2. Reason that Correction Could Not be Made by the End of Consolidated Fiscal Year

Since the above-mentioned facts were found after commencement of an investigation upon receiving the letter from financial institutions to claim payment of borrowings after the end of the consolidated fiscal year, LIXIL was unable to correct such defects by the end of the consolidated fiscal year.

3. Correction Policy of Material Defects which shall be Required to be Disclosed

LIXIL recognizes the importance of organizing and managing the internal controls over financial reporting, and in order to correct the material defects which shall be required to be disclosed regarding the internal controls over financial reporting, based on the proposals to be made by the internal investigation committee and the special investigation committee, LIXIL will promptly consider fundamental measures to prevent recurrences from the perspectives stated below and will initiate its remedial measures to correct the material defects in the internal controls over financial reporting.

- (1) Securing strict global compliance awareness
- (2) Restructuring of internal controls that match risk profiles
- (3) Strengthening of internal audit and monitoring system
- (4) Strengthening LIXIL's management systems over overseas subsidiaries, etc.
- (5) Enhancing education of personnel of overseas subsidiaries, etc.

4. Impact on the Consolidated Financial Statements

Impact on the consolidated financial statements arising from the above-mentioned material defects which shall be required to be disclosed has been reflected in the the annual securities report for the fiscal year ended March 2015, and there would be no impact on the consolidated financial statements and financial statements.

5. Auditor's Opinion in Internal Control Report

It is an unqualified opinion.

6. Supplementary Matters

On December 10, 2014, LIXIL Corporation, a consolidated subsidiary of LIXIL, executed a share transfer agreement with Cai GmbH ("Cai"), a shareholder of GROHE, with respect to GROHE, which is indirectly owned by GraceA, a jointly controlled enterprise that is an equity method affiliated company of LIXIL, and LIXIL Corporation came to acquire the GROHE shares owned by Cai ("Acquisition of GROHE Shares"). In addition, on December 10, 2014, LIXIL Corporation and DBJ have agreed to amend the shareholders' agreement entered into between LIXIL Corporation and DBJ on September 26, 2013 (the "Shareholder' Agreement"). Furthermore, on April 1, 2015, GraceA and its subsidiary GraceB S.à r. l ("GraceB"), which directly owns GROHE shares, and GROHE, have become consolidated subsidiaries of the LIXIL as a result of the Acquisition of GROHE Shares and the amendment of the Shareholder' Agreement. As a result of the foregoing, there is a possibility of a material impact on the evaluation of effectiveness of the internal controls over financial reporting of LIXIL for the subsequent periods.

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