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Results of Investigation on Accounting Irregularities of JOYOU

LIXIL Group Corporation (hereinafter “LIXIL”) today announced the results of the investigation by the special investigation committee regarding accounting irregularities of Joyou AG (headquarters: Germany; listed on the Frankfurt Stock Exchange; hereinafter “JOYOU”) which was a subsidiary of LIXIL from April 1, 2015 to July 16, 2015 and commenced insolvency proceedings with the competent local court of Hamburg in Germany on July 16, 2015. As announced in “Preliminary Results of Investigation on Accounting Irregularities of JOYOU AG” dated June 8, 2015, LIXIL set up an internal investigation committee on June 3, 2015, with the Representative Executive Officer and President being the chairman, and continued to identify the root causes for the current circumstances, with the assistance of outside experts, to consider appropriate legal actions that LIXIL should take based on the findings, and to design and implement remedial measures to prevent future occurrences of similar situations.

In addition, as announced, LIXIL board of directors had established a special investigation committee (hereinafter “JOYOU Issue Committee”) on June 8, 2015, composed of an outside director and outside experts in order to monitor the further investigation conducted by the executive officers and to supervise the related actions, such as remedial measures, to be taken by the executive officers. LIXIL today received the investigation report (“Investigation Report”) from JOYOU Issue Committee. The summary of the outcome of the investigations is described in 1 below.

LIXIL takes the proposals contained in the Investigation Report seriously and recognizes the necessity for improvement of its group management. LIXIL intends to use its best efforts to improve the group governance as further described in 2 to 4 below,

in accordance with the proposals. In addition, as described in 5 below, LIXIL decided to take disciplinary actions against relevant persons within LIXIL for their management responsibilities, and also continues to use its efforts to recover damages.

1. Summary of Outcome of Investigation

The investigations of the internal investigation committee concluded that, first and foremost, the primary blame for the accounting fraud at Joyou lies with the Cais, the founding family of Joyou group. The investigation confirmed the fact that Joyou's fraudulent accounting dated as far back as 2008. Specifically, the investigation revealed that Joyou's financial statements were falsified in order to achieve their goals. Moreover, loans existed that were not approved by the Supervisory Board of Joyou. In fact, these loans were neither recognized nor recorded in Joyou's accounting books. These included personal loans borrowed at extremely high interest rates by Mr. Cai Jilin, collateralized by assets of Joyou's Chinese subsidiaries. The Cais also stated false income amounts on Joyou's tax returns in order to minimize taxes paid.

Secondly, it was also concluded that throughout the entirety of these extensive investigations, no evidence of actual knowledge of, or intentional involvement in, fraud or willful misconduct on the part of GROHE or LIXIL management was found.

That said, the investigations found that GROHE's top executives did recognize that Joyou lacked adequate internal controls, corporate governance policies and financial reporting procedures. Though they attempted to implement reforms, because GROHE management held a number of general concerns about Joyou, and given the gravity of these issues, the investigations concluded that a specific report should have been made to LIXIL at an earlier timing.

Thirdly, the report of the Joyou Issue Committee identified three areas where LIXIL could further strengthen management practices, particularly in the areas relating to the management of overseas subsidiaries, M&A processes, and post-acquisition integration processes.

As a result of these findings, the Joyou Issue Committee proposed a set of recommendations to enhance group management's processes and governance going forward. LIXIL takes these proposals seriously and is confident these measures will prevent the recurrence of similar issues in the future.

2. Measures regarding Management of Overseas Subsidiaries

a) Strengthening of the Systems for Management of Overseas Subsidiaries and Monitoring at the Management Unit

LIXIL will seek to strengthen the daily management and monitoring of overseas subsidiaries by the headquarters management unit. In practical terms, this means establishing departments dedicated to the management of overseas subsidiaries; increasing the number of employees posted to the overseas subsidiaries and redefining their roles; and creating departments dedicated to handling the funding, settlement, and foreign exchange functions, as well as the legal and compliance functions, of overseas subsidiaries. In this way, LIXIL can strengthen the so-called “lateral functions” of the headquarters management unit. In addition, LIXIL will improve the reporting system of conveying information from overseas subsidiaries to the headquarters, and establish the system and clear rules to make sure that, if its employees suspect any indication that the internal control system would not operate properly, they will promptly inform the management which will, in turn, conduct an investigation. LIXIL will also seek to enhance a sound corporate culture including employees’ attitudes of never leaving suspicious facts.

b) Improvement of Internal Auditing Units Premised upon a Global Structure

LIXIL can separate the units that audit overseas subsidiaries from the management units for the work execution lines, and still maintain a sufficient budget and staff. Starting on August 1, 2015 on, existing audit and internal control functions including the audit units of overseas subsidiaries underwent reorganization and LIXIL’s Corporate Audit Group was placed under the direct supervision of the President and CEO. The Global Corporate Audit Staff newly established under the Corporate Audit Group is an organization in charge of internal audit and internal control which promotes governance, internal control, strategy planning and human resource development over the entire LIXIL group. Through establishment of the internal rules and others, LIXIL will clarify the allocation of roles between the Global Corporate Audit Staff and the Global Internal Control Department, which is in charge of internal audit and control of foreign subsidiaries of LIXIL Corporation, a principal subsidiary of LIXIL, and each internal control unit of the overseas subsidiaries will directly report to Chief Audit Group Officer, the head of the Corporate Audit Group.

Additionally, the Group Audit Committee, at which risk management generally and lawful and proper operation of internal control are discussed, will undergo functional improvements so that it can sufficiently fulfill a role more suited for the globalized structure of LIXIL.

c) Improvement of Compliance Awareness and Reorganization and Reinforcement of the Compliance Systems, Including for Overseas Subsidiaries

LIXIL's compliance systems, including those of overseas subsidiaries, will be reorganized and strengthened to both prevent this kind of incident from recurring and also make it possible to discover and handle any misconduct that may be brewing at an earlier point.

In conjunction with the integration and implementation of the LIXIL Group Code of Conduct dated April 1 of this year, LIXIL is devising and implementing education and pledge procedures, which will also apply overseas. A second-stage education and training program consisting of rank-appropriate education will also be introduced. LIXIL will go beyond education and training programs by holding company-wide employee meetings and by maximizing opportunities for management-level employees at company headquarters to make local visits that will enable them to directly speak to compliance matters themselves. These efforts will foster an environment of heightened compliance awareness and cultural knowledge.

With respect to internal reporting, in April of this year, LIXIL established a point of contact for employees to access anonymously by e-mail to report any perceived problems. This supplements the system that already exists and has been functioning adequately within Japan. Further activities to heighten awareness will also be carried out, and LIXIL aims to introduce a standardized, effective process for reporting concerns on a group-wide basis.

In conjunction with these measures, the compliance organization at the company's headquarters will be strengthened and its functions reevaluated. In addition, a CCO (Chief Compliance Officer) and other talented human resources personnel who has experiences and capabilities regarding compliance will be proactively hired and assigned to each of four technology businesses (i.e., internal management organization for each core business) and region, and the Compliance Teams will be strengthened. Furthermore, steps will be taken to improve the function of the Group Compliance Committee so that it will adequately perform a role suitable to the globalized structure of LIXIL.

d) Strengthening of Officer Training Befitting a Global Enterprise

Measures will be taken for the placement of personnel with diverse cultural backgrounds at important posts at LIXIL's group subsidiaries and affiliate companies so

as to create enterprise value for LIXIL. Education and training systems including with respect to duty of care of a prudent manager, for directors and officers will also be strengthened.

3. Measures regarding Method for Proceeding with M&As and the Post-Acquisition Integration Process

a) Reevaluation of the M&A Process and Compliance Due Diligence

LIXIL will establish the guidelines to be relied upon when conducting M&As, which will be applied to all technology businesses. The guideline will define rules regarding retention of advisors and, in particular, items required to be examined in order to enable a thorough assessment of risks related to emerging countries and wrongdoings. LIXIL will further improve the effectiveness of ascertaining the risk magnitude through “staged gate approach” (at each phase of acquisition process). Moreover, LIXIL will carry out investigations by external experts focusing on backgrounds and personal reputation of the acquisition targets, and improve quality of evaluations and measures from a risk perspective based on the mid-term vision of a particular country and industry.

b) Dispatch of Executives to Subsidiaries, and Clarification of Roles

LIXIL will dispatch executives and employees from LIXIL to the important management units of the major overseas subsidiaries such as the finance, accounting and legal units, where they will conduct successive first-hand, on-site monitoring. These executives will maintain close contact with the Group CFO and the Governance Promotion Offices of each affiliate as they seek to promote autonomous, self-directed improvements to governance for each technology business.

c) Revision of the Integration Process

Integration guidelines to promote the integration of companies acquired through M&As will be established, and these guidelines will be applicable to all technology businesses. Based on the basic policy to completely control and integrate business operations, after an acquisition, integration will be implemented by establishing clear rules on operational governance, standardizing the operational processes and accounting systems, and updating reporting lines. An integration leader will be dispatched to the newly acquired company immediately after closing, and a person in charge of integration for each group control unit will be identified. The functional chain of command and scope of transfer of authority of the head of the Group Management Unit

and technology business management units and specific items to be reported will be clarified. In addition, items related to compliance and the controllership will be added to the checklist that is used at the quarterly business reviews.

d) Integration of Outside Auditors

The use of a common outside audit firm will become a post-integration requirement. Moreover, Deloitte, LIXIL's outside auditor, has been appointed as the outside auditor for Grohe beginning this fiscal year.

4. Other Measures

At LIXIL, matters concerning M&As are reported at the LIXIL board of directors meetings, where outside directors also make comments proactively. In addition, the chairman of the Audit Committee attends not only the board of directors meetings but also the Executive Officers Committee and Investment Strategy Committee meetings in order to obtain information as well as make statements as needed.

This year, LIXIL board of directors implemented a reevaluation of the rules on authority with the aim of strengthening the governance function, and a change has been made where M&As involving a large amount of money now require the approval of the board of directors. In addition, round-table discussions are now being held in advance of the board of directors meetings as an informal forum in which information can be exchanged with outside directors. At these round-table discussions, LIXIL has also added opportunities for lengthy and detailed updates of M&A transactions that are in progress.

By promoting such an attitude of making improvements in a proactive manner, LIXIL will continue to strive to improve and strengthen its governance structure based on the proposals of the JOYOU Issue Committee, such as promotion of discussion in the board of directors meetings, globalization of executive officers and introduction of outside directors in major overseas subsidiaries.

5. Recovery of Damages and Disciplinary Actions

a) Recovery of Damages

LIXIL's wholly-owned subsidiary, LIXIL Corporation, received payments of approximately JPY 4.9 billion, with regards to the claims which it held against a subsidiary of JOYOU in Hong Kong, Hong Kong Zhongyu Sanitary Technology Ltd. As

a result, the losses with regard to this case decreased by the amount described above, as reported in “1H Results for the Fiscal Year Ending March 31, 2016” dated November 2, 2015. LIXIL will continue to use its efforts to recover damages through, among other measures, conducting lawsuits against relevant responsible parties in various countries.

b) Disciplinary Action Against Relevant Persons within LIXIL

Based on the investigation results, disciplinary actions against LIXIL group executives were reported to the board of directors meetings held today. In order to clarify the responsibility of the management and control for causing a big loss relating to the business in China, the board of directors has determined 50%-10% reductions for 3 months of compensations of the following LIXIL group executives.

Yoshiaki Fujimori, President and CEO, Ryuichi Kawamoto, Representative Executive Officer and Vice President, Takashi Tsutsui, Executive Officer and Executive Vice President of M&A, Yosuke Yagi, Executive Officer and Executive Vice President, Sachio Matsumoto, Executive Officer and Executive Vice President, CFO, Yoshizumi Kanamori, Executive Officer and Senior Managing Director, Financial Business, Toshimasa Iue, Executive Officer and Executive Vice President of LIXIL Corporation, Tadashi Arishiro, Executive Officer and Executive Vice President of LIXIL Corporation, Takashi Okuda, Managing Director and Operating Officer of LIXIL Corporation, David Haines, Director of LIXIL Corporation, and Gerry Mulvin, LWT Products & Services Officer of LIXIL Corporation