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**Status of Implementation of Recurrence Prevention Measures
with respect to Joyou Issue**

As announced in “Results of Investigation On Accounting Irregularities of JOYOU” dated November 16, 2015 (hereinafter the “November Report”), LIXIL Group Corporation (hereinafter “LIXIL”) announced the results of an investigation regarding accounting irregularities at 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. Today, LIXIL announced the status of the implementation of recurrence prevention measures, which LIXIL has been performing since November 16, 2015, as well as the estimated period within which such measures will be completed. In addition, LIXIL announced a summary of the fact findings and cause analysis identified based on the results of the investigations by the JOYOU Issue Committee and the internal investigation committee, upon which LIXIL relied when it formulated the recurrence prevention measures.

I. Factual Background of Measures to Prevent Recurrence

The measures to prevent recurrence announced in the November Report were developed based on the results of the investigation that was conducted and the recommendation made by Joyou Issue Committee and Internal Investigation Committee. The following is a summary of the facts that LIXIL identified through the investigative results of both committees. Please see the annex for the chronological table.

1. Acquisition of Joyou by GROHE

GROHE (GROHE Group S.a.r.l. (“**Grohe Sarl**”) and its subsidiaries, except for Joyou AG and its subsidiaries (collectively, “**Joyou**”; hereinafter, the same) acquired Joyou in a phased manner during the period from October 2009 until March 2013. The initial investment by GROHE was made in October 2009, which was conducted before the shares in Joyou AG became publicly listed, and GROHE initial shareholding ratio at the time was 10% of the outstanding shares in Joyou’s intermediate holding company in Hong Kong (“**Joyou HK**”). Subsequently, Joyou AG, a holding company of the entire group, became listed on the Prime Standard of the Frankfurt Stock Exchange in March 2010 after having met the listing criteria.

By the end of 2011, GROHE acquired a majority of the shares in Joyou AG by way of a takeover bid conducted in March 2011 through its wholly owned subsidiary, and made it a consolidated subsidiary. Further, in March 2013, GROHE exchanged the shares in Grohe Sarl for the shares in Joyou AG and its parent company, both of which are controlled by Cai Jianshe, the founder and CEO of Joyou AG, and Cai Jilin, his son and COO of Joyou AG (collectively, the “**Cais**”), and increased its holding in Joyou AG to 72.3%. As a result of such share exchange, the Cais came to control 12.5% of the shares in Grohe Sarl. The remaining 87.5% of Grohe Sarl was, at the time, held jointly by TPG, an influential private equity (“**PE**”) fund, and a PE fund affiliated with Credit Suisse. Even after the Grohe Sarl’s shareholding in Joyou AG was increased, Joyou AG maintained its listing status on the Frankfurt Stock Exchange, and Grant Thornton, its auditor, issued an unqualified audit certificate each year.

2. Management of Joyou by GROHE

From the time of the initial investment in Joyou in 2009, GROHE management received information indicating a lack of adequate internal control, corporate governance policy, financial reporting procedures, cash and financial management system as a result of financial due diligence etc., conducted at the time.

During the due diligence conducted between the end of 2010 and early 2011 in connection with the additional investment in Joyou, due diligence did not proceed in a smooth manner because of the Cai’s resistance against information disclosure. Even after GROHE had made Joyou its consolidated subsidiary, GROHE management still had difficulty in accessing Joyou’s critical financial information. Also, there were

several occasions where Joyou borrowed funds without obtaining appropriate approval at the Supervisory Board of Joyou AG. Therefore, GROHE management reviewed Joyou's corporate governance and internal control procedures, and tried to gain adequate control over Joyou. For example, the CEO of GROHE assumed office as a member of the Supervisory Board of Joyou AG, and supervised Joyou's new borrowings, etc. that require the approval of the Supervisory Board of Joyou AG. Also, in addition to the meetings of Joyou's Supervisory Board and Grohe Sarl's Management Board, starting in March 2011 at the latest, Grohe began holding Joyou-Grohe Steering Committee meetings (on a non-regular basis), which included persons in charge at the working level. GROHE also sought to have financial information and budget reports disclosed, with the intention of discussing a cooperative relationship business.

Even after the consolidation of Joyou at the end of 2011, GROHE management faced resistance and delay by the Cais in obtaining critical financial information from Joyou. In addition, the absence of English-speaking executives at Joyou was another problematic barrier. The information obtained through due diligence conducted by GROHE with respect to Joyou at the time of their investment has not been shared with LIXIL in the course of the acquisition of GROHE by LIXIL.

GROHE management often requested, at Joyou AG Supervisory Board meetings and other opportunities, that the Cais adjust their uncooperative attitude. GROHE management sought, as a more direct remedial measure, a way to hire staff members who possessed practical experience and were bilingual in Chinese and English as well as knowledgeable in finance to be dispatched to Joyou, but it was not easy to find personnel willing to be posted to Nan'an City, which is a provincial town in Fujian Province. In May 2013, GROHE finally hired the right person to be in charge of finance, but he could not produce any result because Joyou refused to give him access to the financial information. In September 2014, at the strong urging of LIXIL, Joyou AG appointed a new executive officer and CFO, but Joyou AG did not give the new CFO access to the financial information, either.

GROHE management recognized the need to reform Joyou, and made attempts to implement reforms, as stated above. However, the Cais, as company founders, were very strongly independent in their management, and they had complete control over relations with employees, customers, suppliers and the local government. Also, GROHE management believed that there was a local way of doing business in China that may be different from the Western way of doing business. Thus, the GROHE management was concerned that there might be a serious negative impact on Joyou's

business if they did not have the cooperation of the Cais. As a result, GROHE, the parent company, was not able to employ what seemed to be the sole effective means of reforming Joyou –removing the Cais. Instead, a gradual approach was adopted, in which efforts were made to change Joyou’s management stance from being a company that was managed as a local industry in a regional Chinese city to becoming a modern corporation that meets global standards over time.

Further, although Joyou recorded a large amount of cash and deposits on its balance sheet, Joyou behaved in a contradictory manner, such as delaying payments or seeking approvals for additional borrowings under the facility agreement. So, GROHE management determined, in November 2014, to conduct a special audit for cash and deposits (mainly focused on confirming the amount deposited in the relevant bank accounts), and retained Ernst & Young (“EY”) for such special audit. In mid-February 2015, EY informed GROHE management, as the findings of their review of bank confirmations issued by Joyou’s banks in China, that they were facing difficulties obtaining necessary bank confirmations from certain banks. EY circulated the draft memorandum to them, in mid-March, reporting that “[n]o conclusion can be reached as the procedures performed are limited,” and EY finalized the memorandum in April.

On the other hand, Grant Thornton, the auditor of Joyou AG, concluded that there is “no evidence for [the] non-existence of cash balances accounted for at year-end” based on their confirmation of 65% of the balance of Joyou’s cash and deposits as at the end of December 2014. These results of the audit on the cash and deposits were not reported to LIXIL until the financial irregularity was revealed.

EY, the auditor of GROHE, issued unqualified opinions for GROHE’s consolidated accounts for the fiscal years between 2009 and 2013. Grant Thornton, the auditor of Joyou, issued unqualified opinions for Joyou’s consolidated accounts for the fiscal years of 2013 and 2014.

For the accounts for the end of March 2015, the auditor for LIXIL and GraceB S.a.r.l. was Deloitte Touche Tohmatsu, the auditor for GROHE was EY, and the auditor for Joyou was Grant Thornton. Grant Thornton outsourced its audit work to Zhonghua Public Certified Accountants LLP, which is a local accounting firm in China.

3. Acquisition of GROHE by LIXIL

In May 2011, LIXIL announced a mid-term management vision where LIXIL laid out a

goal of achieving an overseas sales amount of 1 trillion yen “as a global leader in housing life industry”. LIXIL also advocated that LIXIL will “achieve the M&A of a multi-national blue-chip company” and “strengthen managerial human resources from a global perspective,” in order to achieve such goal.

As LIXIL strived to further globalize its business as stated above, LIXIL highly valued GROHE, the luxury brand, and sought an opportunity to acquire it. The initial negotiation that took place in 2012 did not go well. In 2013, however, the PE funds adopted a dual-track strategy, proceeding in parallel with both a sale by auction to a specific purchaser and an IPO, and the process for the sale by auction began in June 2013. On June 22, the non-binding auction procedure (the first round bid) for the acquisition of GROHE was held, and the deadline for submission of the first bid was set on July 18. After the review of the initial set of materials, LIXIL submitted its first proposal on July 19 (July 18 in German time). LIXIL passed the first round bid, and proceeded to the legally binding auction procedure (the second round bid) which started on July 27. LIXIL started its due diligence on July 29, and submitted LIXIL’s final proposal on September 19. After negotiations, on September 26, a share transfer agreement for 87.5% of the shares in Grohe Sarl was concluded with the PE funds as the sellers. This acquisition was executed with the cooperation of a joint investor, with the purchase made through a Luxembourg corporation (GraceB S.a.r.l., “**GraceB**”), which is subsidiary of a joint venture (GraceA Co., Ltd.) in which LIXIL Corporation, a subsidiary of LIXIL (“**LC**”), and the joint investor held 50% of the voting rights each. After examinations regarding the competition laws in the relevant jurisdiction, the transaction was executed on January 21, 2014, and Grohe Sarl became a subsidiary of an equity method affiliate (i.e., GraceA Co., Ltd.) of LIXIL. In accordance with this, Joyou also became a subsidiary of an equity method affiliate of LIXIL.

The acquisition of GROHE by LIXIL was conducted in two stages: (a) the acquisition of 87.5% of the shares in Grohe Sarl jointly with the joint investor; and (b) the acquisition of the remaining 12.5% of the shares in Grohe Sarl by LC. In the first transaction, LIXIL did not consolidate Grohe Sarl but kept it as a subsidiary of an equity method affiliate. The main reason for this was to reduce the burden and risks of the transaction. Specifically because the acquisition amount for GROHE was large, and the financing and impact on the financial statements would be significant if LIXIL conducted the acquisition solely.

LIXIL conducted due diligence for approximately one and a half months from July 29, 2013 until early September. Due diligence efforts were conducted by an internal team

and outside experts, all of whom were highly evaluated by third-parties, such as a law firm, accounting firm, business consultant, and human resources consultant, etc., by means of (a) reviewing materials disclosed and Q&A process, (b) review of vender due diligence report, (c) management presentations, (d) expert sessions, and (e) site visits. Although there were limitations in obtaining information because it was an auction process, in the end, it was determined that there were no serious problems enough to warrant its cancellation, and a bid proposal was submitted.

During the period between July 16, 2013 and September 26, 2013 which is prior to the signing of the share transfer agreement, LIXIL held, in connection with this transaction, (a) 7 meetings for investment strategy committee where this type of transaction was reviewed, (b) 2 meetings for executive officers committee, and (c) 3 meetings for the board of directors. After the signing of the said agreement, LIXIL held 3 meetings for executive officers committee and 2 meetings for the board of directors until the closing of the transaction, January 21, 2014.

The share transfer agreement was signed by GraceB and Glaxier Luxembourg One, a shareholder of GROHE (the “**Seller**”), on September 26, 2013. As a result of the negotiation, the indemnification provision for GraceB in the case of breach of representations and warranties was agreed to be limited, but GraceB tried to cover the risk thereof by purchasing representations and warranties insurance policy (“**R&W Insurance**”). The premium for the R&W Insurance is approximately 4.48 million Euro, and the cap payment amount is 300 million Euro (with the initial 30 million Euro being deductible). The policy term starts from the closing date (January 21, 2014) and continues for 7 years for the breach of tax representations and fundamental representations, and 24 months for the rest of the representations.

In March 2014, LC retained EY for post-closing due diligence. However, as GROHE needed to deal with the potential legal limitation in relation to the information sharing, the commencement of EY’s work was delayed. Additionally, Cai Jilin insisted that the resolution by Joyou’s management board should be obtained for disclosure of Joyou’s information. As a result, actual due diligence work started on November 2014 when he signed the resolution by the management board. Although the post-closing due diligence for GROHE was completed around November, little progress was made for due diligence for Joyou, and in mid-December 2014, as tentative findings, EY reported “[l]iquidity risk could be a concern depending on expansion timing in relation to sustainable demand,” “[d]omestic business information is well-guarded by legacy Joyou staff,” “[c]ultural barrier exists,” “[w]orking capital practices need drastic improvement,”

“retail store diligence has never been conducted.”

On the other hand, LIXIL originally planned to consolidate GROHE in the fiscal year that ends in March 2017. However, as the business results of GROHE Group were good and their management was very efficient, in May 2014, LIXIL proposed the acquisition of 12.5% of the shares in Grohe Sarl held by Cai GmbH (“**Cai Company**”), an asset holding company of the Cais, so that LIXIL can integrate them and achieve sufficient synergy at an earlier stage. After several negotiations, the agreement was signed on December 10, 2014. The closing of this second transaction was made on April 1, 2015, and Grohe Sarl became LIXIL’s consolidated subsidiary. As a result, Joyou AG became LIXIL’s consolidated subsidiary, as well. In this second transaction, since LIXIL was in the process of integration of GROHE as a subsidiary of LIXIL’s equity method affiliate after the investment in GROHE, and also LIXIL conducted due diligence only one year before, no additional due diligence was conducted. Further, in addition to these reasons, for the purpose of persuading the Cais to sell their shares, in the agreement with the Cai Company for this second transaction, there were only minimal representations and warranties such as the ownership of the title to the shares by the Cai Company and no relationship with anti-social forces, etc., and LC did not purchase any R&W Insurance.

4. Post-Merger Integration and Management Systems

Subsequent to the joint acquisition of Grohe Sarl on January 21, 2014 and until Grohe Sarl became a consolidated subsidiary on April 1, 2015, the post-merger integration of Grohe was conducted jointly with the joint investor, since both Grohe and Joyou were subsidiaries of LIXIL’s equity method affiliate. Therefore, LIXIL was not able to give instructions to Grohe independently, and as Joyou was a subsidiary of Grohe Sarl, management of Joyou was conducted through Grohe Sarl. Even within this framework, LIXIL, in addition to dispatching executive officers to Grohe Sarl as part-time officers, conducted monthly financial reviews jointly with the joint investor, and established a process in order to obtain financial information from Grohe and Joyou.

In addition, the Global Management Committee (GMC) system was introduced during the period from April 2014 to the end of March 2015. GMC was the ultimate management body of LC established by the organizational change effective on April 1, 2014. The GMC comprises of business leaders and function leaders of procurement, marketing, finance, legal affairs and personnel of each country or region and the role of the GMC is, among others, to determine, at a meeting, the strategy and direction of the

global management of LIXIL and thereby maximize the integration synergy. The objective of the GMC is to realize “One LIXIL” which strategically brought together the organizations within LIXIL, aiming at the evolution to the true global excellent company in the building materials and housing equipment industry, collaboration between the organizations, governance and organizational efficiency. Under the GMC system, it was expected that the function leaders communicated with each other. This practice was applied to Grohe with certain restrictions because Grohe was not a consolidated subsidiary at that time as stated above. The integration process was expected to be conducted based on the allocation that each function leader would be responsible for pursuing the synergy effects pursuant to the decisions made by the GMC and that the person in charge for the integration would be responsible for the monitoring, promotion, supporting and reporting of the integration. For example, the CFO of LIXIL and CFO of Grohe engaged in the sharing of information by frequently holding teleconferences.

Regarding the general concerns about Joyou (for example, delay in the information sharing, insufficiency of the information provided in light of its purposes, the strong independence of the Cais, the weakness of internal controls), LC and the joint investor requested improvements to Grohe through the above-mentioned multiple channels, and the GMC also resolved that the possible IT investment should be considered. It was pointed out in the GMC that Joyou should appoint the CFO with global standards. Through these efforts, though the quality of the information gradually improved, it was not possible to learn of any material facts which imply significant accounting irregularities. Meanwhile, most communications between LC and Joyou were made thorough Grohe management because the management for Grohe built a better relationship with Joyou and the Cais than LC since Joyou was a consolidated subsidiary of Grohe and, therefore, it was considered to be reasonable to entrust to Grohe.

In September 2012, LIXIL established the Global Internal Audit Department in the then LC Global Company as an audit department for overseas related companies in order to cope with the increasing number of major overseas subsidiaries. The Global Internal Audit Department determined the frequency of the audit in accordance with the risk approach method and the result of the audit was submitted as the audit report to the Board of Directors and the Audit Committee of LIXIL once every six months as well as to the board of directors of LC on a quarterly basis. In contrast with the number of overseas offices, there were, in effect, only three persons in the Global Internal Audit Department; thus, it was not possible for the audits to be conducted in a timely manner. According to the recommendation to enhance the internal audit

system for overseas subsidiaries at the opinion exchange meeting with the Audit Committee, LIXIL's management promised to be responsible for strengthening audit of overseas subsidiaries, including employing personnel from outside the company. At the same time, by separating the Global Internal Audit Department from the management level of LC Global Company to units under the CFO of LIXIL, the audit function was separated from the work executive lines so that audit units could maintain independency and neutrality, and suitable staff were being employed and assigned.

In January 2014, Grohe and Joyou became subsidiaries of LIXIL's equity-method affiliates and LIXIL began a discussion in order to comply with the J-SOX requirements at Grohe and Joyou since July 2014 and the internal audit department of Grohe carried it out with the assistance of the Global Internal Audit Department. Since there was a delay in the progress at Joyou, the person in charge of the internal audit division at Grohe visited Joyou in Nan'an in early February 2015 and, as a result, many issues which had been known up to that point were even more clearly identified. In addition to preparing an action plan to take care of Joyou's weakness with respect to J-SOX implementation, this person in charge recommended to the Joyou AG Executive Committee that the internal audit division of Grohe should conduct an internal audit of Joyou. This person in charge followed up with Joyou on this proposal multiple times, but Joyou did not respond to the proposal. The progress with respect to J-SOX implementation did not go forward since April 2015 and it was difficult to assess the internal system though it was required to finish by the end of such month. In such a situation the accounting irregularities were revealed.

5. Discovery of Accounting Irregularities and Subsequent Measures

On April 15, 2015, Representative Executive Officer and President of LIXIL and CEO and chairman of the management boards of Grohe Sarl received a letter from a bank with the branch office in China. The content of such letter was that a subsidiary in China of Joyou AG, which had become a consolidated subsidiary of LIXIL since April 1, 2015, had been provided with funds from the bank and that part of the liabilities of the commercial bill acceptance facility, which had been personally guaranteed by the Cais, had fallen into default. Such liability was not included in the published financial statements of Joyou AG. The Cais admitted that the financial statements of Joyou differed from the published financial statements.

On April 27, 2015, the Joyou Supervisory Board initiated a special investigation by way of entrusting accounting firms and law firms. At the same time, LIXIL organized a

special investigation team that would conduct an independent investigation and hired a separated law firm and conducted a separate investigation (“First Investigation”).

The First Investigation confirmed the fact that Joyou’s fraudulent accounting dated back to 2008. Specifically, the investigation revealed, among other things, that (a) Joyou’s financial statements were falsified in order to achieve goals; (b) loans existed that were not approved by the Supervisory Board of Joyou AG and were neither recognized nor recorded in the Joyou books, including personal loans borrowed at extremely high interest rates by Mr. Cai Jilin; and (c) false income amounts were stated on Joyou’s tax returns in order to minimize the taxes paid.

The loans which were not recorded in Joyou’s financial books were transferred through various individuals’ or dummy corporations’ bank accounts before being used for the repayment of Joyou’s bank loans. Joyou obtained bank loans and entrusted loans by using the illegal supply agreements with its suppliers. These loans were taken out under the direction of Cai Jilin. When Joyou was preparing to list in Germany, its financial statements were fraudulently adjusted in order to enhance its profitability. Specifically: (i) Joyou’s sales were fraudulently overstated; (ii) sales expenses borne were understated; and (iii) debts were understated by way of disguising such debts as off-the-book debts. The sales were overstated by way of falsifying the sales records in the system, and falsified purchase orders and invoices were issued in order to support such overstated figures. After 2011, as Joyou’s banks started to reduce their credit line, Joyou was compelled to use more personal loans to make repayments to the banks.

On June 3, 2015, after the completion of the First Investigation, the Executive Committee of LIXIL decided to conduct a second investigation (“Second Investigation”) and the internal investigation committee was established. The Second Investigation was commissioned to confirm the facts relating to Joyou’s fraudulent accounting practices, which was uncovered in April of the same year, and, with the support of outside experts, to propose and implement measures that would prevent the recurrence of similar problems at LIXIL’s subsidiaries.

Although the Second Investigation was commenced based on the results of the First Investigation, LIXIL’s access to Joyou’s information and employees was significantly limited after Joyou applied for commencement of the insolvency proceedings. Nevertheless, as a result of the Second Investigation, it was found that (i) manipulation of Joyou financial documents (for example, among other things, multiple bank statements were fictitious), (ii) overstatement of the cash holdings, (iii) understatement

of the outstanding loan liabilities, (iv) potential fabrication of bank loan documentation (v) identification of suspicious Joyou transactions (for example, among other things, cash transfers through dummy companies) and (vi) Cais' receipt of Joyou funds through personal or Cai-controlled bank accounts. In addition, in order to monitor the investigation being conducted by the internal investigation committee and to appropriately supervise related actions by the executive officers, on June 8, 2015, LIXIL established the JOYOU Issue Committee and announced it on the same day. The objective of the Joyou Issue Committee was to monitor and oversee the review of the facts relating to the acquisition of JOYOU and the management of the subsidiaries following the acquisition, the assessment of the root causes of the JOYOU issue, and the development and implementation of remedial measures to prevent future recurrences.

At the end of July 2014, with a referral and support from LIXIL, Joyou entered into a credit facility agreement for \$300 million with three Japanese banks. Joyou borrowed \$270 million (approximately 33 billion yen) in total, as of April 2015, under the credit facility agreement. Due to the accounting irregularities which were revealed, Joyou breached covenants of the credit facility agreement, and, in April 2015, Joyou notified the banks of such breach pursuant to the credit facility agreement and requested a waiver from the banks.

Although LIXIL had not given any guarantee to the three Japanese banks under the credit facility agreement, with the increase of the possibility of the Joyou's insolvency, the banks repeatedly requested LIXIL to issue a guarantee with respect to the loans of Joyou based on the credit facility agreement. At first, LIXIL rejected the request by the banks because LIXIL was not obliged to issue a guarantee. However, after taking into consideration, among other things, the importance of LIXIL's loans from the three Japanese banks, the possibility of LIXIL not being able to raise funds from the capital market due to Joyou's irregularities and possible negative impact on any of LIXIL's transactions on a global basis since LIXIL received other services, such as derivative transactions and information, from the three Japanese banks, LIXIL, on May 18, 2015, finally agreed to issue a guarantee based on the deliberation and resolution of the Executive Officers Meeting.

With respect to the guarantee, a back-up guarantee for the payment obligation under LIXIL's guarantee had been provided by GraceA Co., Ltd. (which is an entity jointly controlled by LIXIL and the joint investor). However, as a result of discussion among the parties, LIXIL announced, on June 3, 2015, that LC issued a back-up guarantee and LIXIL is expected to post a loss of up to approximately JPY33 billion (negative impact of

JPY22 billion on net income after tax).

On May 21, 2015, in the course of the First Investigation, Joyou AG announced that it was in the state of insolvency and the supervisory board of Joyou resolved to apply for the commencement of insolvency proceedings, and, on May 22, Joyou filed an application for the commencement of insolvency proceedings with the competent local court of Hamburg in Germany and the court appointed the preliminary administrator, and LIXIL announced the application for the commencement of insolvency proceedings of Joyou. On June 8, 2015, LIXIL announced its financials, and, on June 29, 2015, filed the annual securities report for the fiscal year ended March 31, 2015.

On July 16, 2015, the local court of Hamburg in Germany decided the commencement of insolvency proceedings and LIXIL lost its control over Joyou, which, therefore, ceased to be a subsidiary of LIXIL.

II. Analysis of Causes

There are a number of points regarding LIXIL's inability to ascertain Joyou's fraudulent accounting during the 15-month period beginning in January 2014 (when Grohe came under the joint control of LIXIL and the joint investor) through April 2015 (when the outside banks notified LIXIL of the default of Joyou AG's Chinese subsidiary) upon which LIXIL must reflect. Having considered the results of verification by the Joyou Issue Committee and the internal investigation committee, LIXIL would broadly categorize those reflective points as follows: 1) issues concerning management of overseas subsidiaries; 2) issues concerning the method for moving forward with M&A involving companies in emerging countries; and 3) issues concerning the post-acquisition integration process. The measures to prevent recurrence as described in the November report have been proposed and implemented based on these points of reflection. These issues are discussed in detail below.

A. Management of Overseas Subsidiaries

1. The Overseas Subsidiary Management Structure did not Keep Pace with Rapid Globalization

LIXIL has been rapidly globalizing since 2011, conducting major cross-border acquisitions such as Permasteelisa S.p.A., ASD Americas Holding Corp., and Grohe Sarl in rapid succession. As a result, the business of managing these overseas subsidiaries and related companies (hereinafter, "overseas subsidiaries") has expanded rapidly, and

LIXIL reached a point where it lacked the manpower needed for appropriate management of LIXIL's overseas subsidiaries. With respect to the governance, in order to generate optimal synergistic effects, LIXIL has allowed, for the time being, that the management systems and codes of conduct at the major overseas subsidiaries LIXIL has acquired remain in place and that integration take place gradually. Nonetheless, it cannot be denied that ultimately, the following items should be considered:

(a) Inadequacy of LIXIL's Management Unit's System for Control and Monitoring of Overseas Subsidiaries in Terms of Assuming Accounting Fraud Risk

The evolution of the measures and structures necessary for the global optimization of accounting and finance functions (funding, settlement, foreign exchange) as well as legal and tax issues did not keep up with the speed of globalization of LIXIL's business. For example, the LIXIL Group Code of Conduct, which applies to each of the Group companies across the world, was formulated and initially promulgated on April 1, 2015. Also, while contact points for internal reporting (in place at the offices of outside legal counsel as well as within the company) existed, and these were well-known and utilized by employees at Group companies in Japan, they were lacking at LIXIL's overseas subsidiaries. Also, there were insufficiencies in the governance of accounting and financial affairs as well as in structural improvements in the area of institutional accounting at the operational level regarding the overseas subsidiaries, in that they did not assume the possibility of accounting fraud with malicious intent such as occurred at Joyou.

(b) The Structure of LIXIL's Overseas Subsidiary Auditing Unit was Insufficient

Rapid globalization of LIXIL's business resulted in a great increase in the number of overseas subsidiaries subject to internal auditing and J-SOX compliance by the Overseas Subsidiary Auditing Unit. Yet the manpower of that unit was short to meet the increase. For those overseas subsidiaries that had their own Accounting Units, internal auditing and J-SOX compliance work were basically left to be handled locally by the local executive officer (in the case of Grohe and Joyou, these were entrusted to Grohe Sarl). It is believed, however, that after an acquisition, and for a certain period of time, the company headquarters' Audit Unit can be more engaged at a deeper level, and that improvements can be made by allocating greater personnel resources capable of conducting multifaceted analyses on the results of the local audits. In addition, with respect to Joyou, since it was January 2014 when it became a subsidiary of an equity-method affiliate through the first stage of the transaction, it would have been

more appropriate to promptly verify whether the internal control system had been promptly established and operated.

2. The Guidance, Training, and Education Systems were Insufficient for Bringing Personnel of Diverse Backgrounds into LIXIL

The globalization of the corporate Group through the acquisition of overseas companies resulted in opportunities to appoint a variety of personnel of differing cultural backgrounds, especially accomplished foreign executives, to important posts. Nonetheless, LIXIL lacked the guidance, training, and education systems so that such personnel can perform their governance roles effectively. For example, David Haines, who had since 2004 served as the CEO of the GROHE Group, was appointed to the Board of Directors of LC in June 2014. However, he was not provided a sufficient explanation of the legal roles and duties of the director of a Japanese company or of the management methods of a Japanese board, at the time of his appointment. The same applied for the guidance and education of other officers. Another example of a lag in LIXIL's response to the globalization of LIXIL's Group, in terms of personnel guidance and training, was that the former LIXIL Group Code of Conduct before the amendment on April 1, 2015 was predicated on business operations in Japan, and moreover, was provided only in Japanese, English, and Chinese.

B. Method of Proceeding with M&A

1. Insufficient Acknowledgment of the Risks in M&A including those in Developing Countries

LIXIL's DD in the acquisition (first stage) of Grohe was a joint effort in which information was shared and exchanged between its own internal DD Team and numerous highly-regarded outside experts who were hired for this purpose. Given the limited time and information that was available, their work can be considered to have been a reasonable investigation. In the acquisition of Joyou, LIXIL had a general awareness from the start of the "China Risk," and LIXIL also recognized that the Cais took a highly independent approach to management and that Grohe was having difficulty controlling them. Nonetheless, LIXIL's focus was on the direct acquisition target, the globally renowned brand, Grohe, and its subsidiary, Joyou, was of relatively little interest to us. Although it has been reported that LIXIL had little information about Joyou, the outside experts provided no indication of the possible existence of massive accounting irregularities. Also, the lack of information on Joyou was viewed as relatively insignificant because LIXIL was able to rely on the fact that Joyou was

listed in the Prime Standard of the Frankfurt Stock Exchange in Germany, an advanced nation, and on the fact that audits had been performed over many years by a top-flight accounting firm.

In retrospect, there are some aspects that require improvements, such as that the matters which could not have been confirmed in the DD should have been confirmed promptly after the completion of the acquisition, that it was preferable to set the scope of the investigation in the DD based on the country risk and other risks, and that although, in retaining the accounting firm, LIXIL took appropriate measures to block out certain information because the accounting firm also served as the auditing firm of Grohe Sarl, another option ought to have been contemplated because conflicts of interest appeared to have been perceived.

2. The Two-Stage Acquisition Process and Making Grohe a Subsidiary of an Equity-Method Affiliate, or the Lack of Taking Creative Measures Based on the Premises of that Scheme

One reason LIXIL was unable to establish a strong management system for Grohe and Joyou was that through April 1, 2015, when the second-stage acquisition was finalized, LIXIL chose not to make Grohe Sarl a consolidated subsidiary. In consideration of the financial burden and risk of acquiring Grohe on its own, LIXIL adopted an approach that would enlist the cooperation of the joint investor and run Grohe Sarl jointly with them. Based upon that scheme, Grohe and its affiliates would not become subsidiaries, but rather Grohe would be treated as a subsidiary of an equity-method affiliate.

This, on the one hand, enabled LIXIL to limit its losses caused by Joyou's fraudulent accounting, but, on the other hand, Grohe Sarl's status as a subsidiary of an equity-method affiliated company ultimately made it difficult for LIXIL alone to strengthen the management of Grohe and Joyou. For example, after the first-stage acquisition was completed in January 2014, had Grohe Sarl become a subsidiary, it would have been subject to quarterly performance settlement reviews every three months, in which the amount of cash on the books would have been matched with cash in bank accounts, thereby possibly revealing the problems at an earlier stage. LIXIL cooperated with the joint investor in instituting measures such as the execution of monthly financial reviews, but in the context of the relatively limited information concerning Joyou provided during the due diligence, it cannot be denied that where a further push was needed, such steps were not adequately taken. Even though Grohe and Joyou were subsidiaries of an equity-method affiliate, there was room to consider

creative measures to reinforce more prompt gathering of information from Joyou, together with the joint investor.

C. Post-acquisition Integration Process

1. Existence of Various Lines of Reporting, and Lack of Clarity Concerning Responsibility

Communication among the Function Leaders of the Group companies has expanded greatly under the GMC System, and as such, LIXIL had hoped for prompt dissemination of information and decision-making for the Group as a whole. For example, the GMC System calls for smooth lines of communication between the CFO of LIXIL and the CFOs of the overseas subsidiaries, as well as communications among persons responsible for legal compliance.

However, although officers were dispatched on a part-time basis to promote the integration of Grohe, there was a lack of clarity concerning the roles and scope of authority of each of the Function Leaders under the GMC system where no rules existed to clarify duties, authority, responsibilities and reporting. Since GMC itself is a meeting body that meets quarterly, and is not a permanent executive body, it cannot constantly manage or supervise the Group companies. Also, as mentioned above, the Internal Audit Unit and its functions, which should play important roles, were insufficient in terms of structure and capacity. This resulted in the failure to formally report various items of information and ambiguity as to the allocation of roles, duties and responsibilities, which may have contributed to the insufficient functioning of the internal control.

2. Lack of Clarity of Process Making Acquired Company a Member of LIXIL Group

As stated above, various reporting lines and responsibilities were decentralized under the GMC system, and there was a lack of clarity concerning responsibilities in the ultimate integration process. If LIXIL had provided clear guidance regarding the process of integration with the acquired company, and had the steps needed for complete integration been clear, it is possible that LIXIL would have become aware of the various problems at Joyou—the problems about which Grohe was already aware—at an earlier stage.

3. The Creation of Two, Three, and Four Layers of Outside Auditors

Up until now, Ernst & Young has been Grohe Sarl's outside auditor, while Joyou AG's outside auditor was Grant Thornton. Since LIXIL's outside auditor is Deloitte, that company has become a third auditing layer since LIXIL's acquisition of Grohe Sarl in January 2014. The accounting office employed by Grant Thornton in China creates a fourth layer. Although it was difficult, in reality, to eliminate these multiple layers of outside auditing promptly after the acquisition, this resulted in the dependence of one auditor on another regarding opinions in audit reports of Grohe Sarl or its subordinated entities, and may have led to a lack of sufficient understanding as to the responsibilities of each outside auditor of Grohe Sarl and its subordinated entities.

III. Status of Implementation of Recurrence Prevention Measures

In the November Report, LIXIL announced the recurrence prevention measures for three areas: the management of overseas subsidiaries, M&A processes, and the post-acquisition integration process. LIXIL hereby reports the status of implementation of each recurrence prevention measure as well as the estimated period within which such measures will be completed.

1. Measures regarding Management of Overseas Subsidiaries

For the measures regarding the management of the overseas subsidiaries, LIXIL adopted four measures: a) strengthening of the systems for the management and monitoring of overseas subsidiaries by the management unit of the headquarters, b) improvement of internal auditing units premised upon a global structure, c) improvement of compliance awareness and reorganization and reinforcement of the compliance systems, including for overseas subsidiaries, and d) strengthening of officer training befitting a global enterprise. The status of implementation of these measures is as follows.

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

In the November Report, LIXIL announced that, in order to strengthen the daily management and monitoring of overseas subsidiaries by the headquarters management unit, it would 1) establish departments dedicated to the management of overseas subsidiaries; 2) increase the number of employees posted to overseas subsidiaries and redefine their roles; 3) strengthen the so-called "lateral functions" of the headquarters management unit by creating departments dedicated to handling the funding,

settlement, and foreign exchange functions, as well as the legal and compliance functions, of overseas subsidiaries; and 4) improve the reporting system for conveying information from overseas subsidiaries to the headquarters, and establish a system with clear rules to make sure that, if its employees suspect that the internal control system would not operate properly, they will promptly inform the management which will, in turn, conduct an investigation. LIXIL also announced that LIXIL will seek to enhance the sound corporate culture including, among other means, by ensuring that employees do not ignore suspicious facts. The status of implementation of these measures is as follows.

1) Establishing departments dedicated to the management of overseas subsidiaries:

Although overseas subsidiaries had been partially managed by the headquarters management unit, LIXIL established a Governance Promotion Office for each affiliate under the finance and accounting divisions on November 1, 2015, in order to strengthen the daily management and monitoring of overseas subsidiaries. The roles of the Governance Promotion Offices are the enhancement of financial governance and risk management. For example, the Governance Promotion Offices will supervise, from the headquarters, establishment of the financial and accounting policies and guidelines which should be complied with by LIXIL group employees and notification of these policies and guidelines to all staff in the financial division of LIXIL's consolidated subsidiaries and affiliate companies; enhancement of internal control by resolving the matters pointed out by the internal audit in each operating division; implementation of "balance sheet management"; human resources management in the accounting division (including personnel changes and personnel development on a global basis); and implementation of DD and post integration process from the accounting perspective.

2) Increasing the number of employees posted to overseas subsidiaries and redefining their roles:

With respect to increasing the number of employees posted to overseas subsidiaries, LIXIL will post employees to its major subsidiaries (Permasteleesa, GraceB (including Grohe Sarl), and American Standard Brands) ("Major Overseas Subsidiaries"), whose sales in total exceed 80% of LIXIL's overseas sales. At present, LIXIL determines which employees are to be posted to overseas subsidiaries and assigns some of such employees as board members of the subsidiaries. The internal system to convey information from overseas subsidiaries to the headquarters will be improved by dispatching these employees to the overseas subsidiaries and by clarification of the roles

of each employee posted to the overseas subsidiaries.

3) Strengthening the so-called “lateral functions” of the headquarters management unit:

In order to enhance the financial governance of the overseas subsidiaries and to make the funding and foreign exchange functions efficient, in addition to the financial management by each group company, the headquarters management unit will establish a local financial center in major regions so that the headquarters can grasp the flow of funds and settlements in a timely manner. LIXIL, in April 2015, established the Asia Local Financial Center in Singapore and LIXIL commenced, in July 2015, a project to establish a Financial Center of the LIXIL Building Technology Division in Europe. In addition, LIXIL commenced, in December 2015, a project to establish a Financial Center in the China area with the aim of completion by the end of March 2016. Recruiting activity in respect of employees to be posted to each Center is also being carried out. LIXIL began to consider establishing a Financial Center in the European area for business divisions other than the LIXIL Building Technology Division and a Financial Center for all business divisions in the North American area.

4) Enhancing a sound corporate culture:

As the basis for the systems described above, it is important to enhance the sound corporate culture, including strengthening the employees’ attitude that, if the employees suspect any indication that the internal control system would not operate properly, they will promptly inform the management and never leave it unsolved..

LIXIL has also worked on enhancing the sound corporate culture by trainings and meetings and these measures will be described in c) below.

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

In the November Report, LIXIL announced that 1) LIXIL will separate the units that audit overseas subsidiaries from the management units for the work execution lines, and ensure a sufficient budget and staff for such units; 2) through establishment of the internal rules and other systems for LIXIL’s Corporate Audit Group, which was placed under the direct supervision of the President and CEO on August 1, 2015, LIXIL will clarify the allocation of roles between the Global Corporate Audit Staff and the Global Internal Control Department; 3) each internal control unit of the overseas subsidiaries will directly report to the Chief Audit Group Officer, who is the head of the Corporate Audit Group; and iv) the Group Audit Committee will undergo functional improvements

so that it can sufficiently fulfill a role more suited for the globalized structure of LIXIL. The status of implementation of these measures is as follows.

The Global Corporate Audit Staff was established under the Corporate Audit Group for the following two objectives. Firstly, it will promote the strengthening of governance, internal control, strategy planning and human resource development over the entire LIXIL group. Secondly, through proper communication with the top management in cooperation with the outside auditors and corporate auditors, it can lead to minimizing risks and resolving problems through the process of early detection of such problems. The Chief Corporate Audit Group Officer (CAGO) will be established as the head of the Corporate Audit Group and groups with the following roles were established under the Corporate Audit Group. Set out below is a summary of the Corporate Audit Group.

Corporate Audit Group (CAG)



Corporate Initiative Group: the role of this group as an internal consulting function within the company is to enhance the efficiency of the business process on a global basis and, thereby, assist to minimize risk and cost by focusing on various projects such as group-wide workouts.

Global Corporate Audit Staff: this new unit is to promote governance, internal control, strategy planning and, at the same time, to have the role of human resource development by training its staff members to be executives in the future. Different from the traditional post-facto audit, the Global Corporate Audit Staff will determine prioritized areas every year based on the audit results of the previous year and the risk environment in or outside the company, and conduct short intensive auditing whereby it will not only identify problems but also minimize risk and cost, plan improvement measures and implement a recurrence prevention plan.

Global Internal Control Department and (Corporate) Internal Control Department:

By unifying and strengthening existing units that were in charge of audit and internal control, these units are responsible for internal control and audit of the subsidiaries and affiliates in or outside Japan, in cooperation with each audit unit established in each subsidiary or affiliate.

The status of implementation of these measures is as follows.

1) Independence and neutrality of Global Internal Control Division and ensuring a sufficient budget and staff

There was the issue that audit units of overseas subsidiaries were placed under the accounting and finance department, which is the management unit pertaining to the work execution lines. This issue was solved through the establishment of the Corporate Audit Group under which the Global Internal Control Division was reorganized and established on August 1, 2015. The number of the staff in the Global Internal Control Division was three persons at the time of the establishment but has increased to five persons at the present by employing specialists from inside or outside LIXIL, and LIXIL aims to maintain about eight persons by the end of March 2016, aiming at an organization of about ten persons in the future.

2) Reorganizations including establishment of the Corporate Audit Group

On April 1, 2016, LIXIL will establish and implement internal rules, under which the Corporate Audit Group and units established under the Corporate Audit Group will be established. The Global Corporate Audit Staff, which is in charge of audit and internal control of the overseas subsidiaries, will retain about nine persons by the end of March 2016, aiming at an organization of about twenty persons in the future. LIXIL will employ specialists from inside or outside LIXIL for the Global Corporate Audit Staff, which supervises audit and internal control in the overseas subsidiaries, and will retain nine staff members by the end of March 2016, aiming at about 50 staff members (including members of the Global Internal Control Division and Corporate Initiative Group) in the future.

3) Reporting line for each internal control unit in the overseas subsidiaries

LIXIL will establish the policy that each internal control unit in the Major Overseas

Subsidiaries shall report to the head of the Corporate Audit Group, in the course of establishment of internal rules regarding the roles and systems of the organizations as described in 2) above.

4) Internal Audit Committee

The Group Audit Committee has been established and managed for the purpose of auditing and checking whether the business activities of LIXIL group are conducted legally and properly pursuant to the laws and standards set by LIXIL. It was focusing on domestic subsidiaries in the past, but, in order to fulfill the role more suited to the globalized structure of LIXIL, it will equally emphasize the risk management and internal control for overseas subsidiaries. A review including the change of members and agenda of the committee and collaboration with relevant departments of each technology business will be conducted toward the end of March this year.

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

In the November Report, LIXIL promised that it would reorganize and strengthen its compliance systems, including those of overseas subsidiaries in order both to prevent this kind of incident from recurring and to make it possible to discover and handle at an earlier point any misconduct that may be brewing. In particular, LIXIL was working on i) completion of the training and pledge procedures (including overseas) of the LIXIL Group Code of Conduct which are unified globally within LIXIL, ii) introduction of an improved education and training program consisting of rank-appropriate education, iii) enhancement of internal reporting systems within overseas subsidiaries, iv) strengthening and reevaluation of the compliance organization at the company's headquarters, and v) improvement of the Group Compliance Committee. The status of implementation of these measures is as follows.

i) Training and pledge procedures (including overseas) of the amended LIXIL Group Code of Conduct:

LIXIL applied the globally unified LIXIL Group Code of Conduct to all group companies as of April 1, 2015 and has been conducting online training for all employees. LIXIL introduced a system where employees must, after completing the online training, pledge they understand and will obey the Group Code of Conduct. LIXIL implemented this system last year in Japan and will likewise implement it in all group companies,

including overseas subsidiaries, this year. LIXIL aims to complete the training and the pledge procedures by the end of March of this year. LIXIL will establish a group-wide process of regular training and pledge.

ii) Introduction of improved education and training program:

With respect to the rank-appropriate education, LIXIL has been working on an officer training program at companies within Japan, with the aim of implementation by the end of March 2016. LIXIL will maximize opportunities for meetings for all employees and site visits from management-level persons of the company headquarters whereby the management directly speaks about compliance matters and proactively improves compliance awareness and cultivates a compliance culture. Also, LIXIL will prepare and revise in a timely manner material that can be used in education and training.

iii) Enhancement of internal reporting systems within overseas subsidiaries:

With respect to internal reporting (i.e., whistle-blowing), a campaign to heighten awareness will be carried out by March 2016 by maximizing opportunities for implementing the online training and pledge procedures. The contact information for internal reporting will be more clearly posted by utilizing the intranet for overseas subsidiaries. Furthermore, LIXIL will initiate preparations to introduce a standardized process for internal reporting on a group-wide basis that is available 24 hours a day and in multiple languages by the end of 2016.

iv) Strengthening and reevaluating the compliance department at the company's headquarters:

In order to conduct the plans described above, LIXIL started to work on strengthening and reevaluating the compliance department at the company's headquarters starting from November 2015. LIXIL will promote a reorganization of the compliance department, including the organizational change of the headquarters and assignment of persons who can deal with the compliance matters on a global basis. Compliance officers will be employed and assigned to each of the four technology businesses (i.e., an internal management organization for each core business) and high risk areas. LIXIL decided to employ one staff member for the compliance unit at the headquarters in January of this year and the Chief Compliance Officer has already been assigned to the water technology business, primarily GROHE and American Standard Brands.

v) Improvement of the Group Compliance Committee:

LIXIL will continue to improve the functions of the Group Compliance Committee in 2016 so that it will adequately perform a role suitable for the globalized structure of LIXIL. The members or agendas will be reconsidered and LIXIL will establish a system to properly obtain reports from the Compliance Committee of each technology business (internal management organization for each core business), and these committees have already been established or will be established.

d) Strengthening of officer training befitting a global enterprise.

In the November Report, LIXIL announced that in response to the placement of persons with diverse cultural backgrounds at important posts of LIXIL's group subsidiaries and affiliates so as to create enterprise value for LIXIL, education and training systems, including with respect to the duty of care of a prudent manager, for directors and officers will also be strengthened. As described in 1c) 2) above, LIXIL has started devising an officer training program at companies within Japan and has also started preparing for the implementation of a training program for board members and executive officers of the overseas subsidiaries and affiliates with the aim of implementation by the end of March 2016.

2. 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

In the November Report, LIXIL announced that it would establish guidelines to be relied upon when conducting M&As, which will be applied to all technology businesses; the guidelines 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; that LIXIL would further improve the effectiveness of ascertaining the risk magnitude through a "staged gate approach" (at each phase of the acquisition process); and moreover, that LIXIL would carry out investigations by external experts focusing on the background 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.

LIXIL commenced devising the guidelines in December 2015 and will prepare a final

draft by March 2016, and aims to implement the guidelines for all technology businesses on April 1.

b) Dispatch of Executives to Subsidiaries and Clarification of Roles

In the November Report, LIXIL announced that it would dispatch executives and employees from LIXIL to the important management units of major overseas subsidiaries such as the finance, accounting and legal units, where they would conduct first-hand and on-site monitoring from time to time; and that these executives would maintain close contact with the Group CFO and the Governance Promotion Offices of each affiliate as they sought to promote autonomous and self-directed improvements to governance for each technology business.

LIXIL decided that it would dispatch three persons, among whom two persons were already assigned, from LIXIL to the important management units of the existing Major Overseas Subsidiaries, and LIXIL will further improve governance for each technology business in cooperation with the Governance Promotion Offices of LIXIL's affiliates.

c) Revision of the Integration Process

In the November Report, LIXIL announced that integration guidelines to promote the integration of companies acquired through M&As would be established, and these guidelines would be applicable to all technology businesses; that, based on the basic policy to completely control and integrate business operations, after an acquisition, integration would be implemented by establishing clear rules on operational governance, standardizing the operational processes and accounting systems, and updating reporting lines; that an integration leader would be dispatched to the newly acquired company immediately after closing, and a person in charge of integration for each group control unit would be identified; that 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 would be clarified; and that in addition, items related to compliance and the controllership would be added to the checklist of items to be reported by each technology business and reviewed at the quarterly business reviews (i.e., management meeting for reporting operational results, strategy and measures and projects). For example, specific review items would include the update of the organizational structure of compliance-related departments and report of noteworthy incidents and activities, but would be further discussed in detail.

In December 2015, LIXIL commenced devising the integration guidelines and will prepare the final draft by March 2016 and aims to implement the guidelines for all technology businesses on April 1.

d) Integration of Outside Auditors

In the November Report, LIXIL announced that the use of a common outside audit firm would become a requirement for the post-integration. This will be set forth as one of the requirements in the integration guidelines described in c) above.

3. Other Measures

In the November Report, LIXIL announced that LIXIL's board of directors had implemented a reevaluation of the rules on authority with the aim of strengthening the governance function, and that LIXIL would continue to improve and enhance its governance through, among other things, revitalization and globalization of the board such as round-table discussions with outside directors, which are now being held in advance of the board of directors meetings as an informal forum in which lengthy and detailed updates on M&A transactions that are in progress are given.

As an example for the revision of the rules on authority, M&As in a significant amount are now required to be approved by the board of directors. With respect to the board of directors meetings, an additional outside director was appointed in June 2015, after which more lively discussions have become a feature of board of directors' meetings. In addition, further steps will be taken to continue the improvements, such that the board of directors' meetings will be held with sufficient time for deliberation and the report regarding the execution of business will be made adequately with the appropriate frequency.

IV. Conclusion

As described above, LIXIL has continued to seriously implement remedial measures resolved on by board of directors meetings and the Executive Officers Committee, through the cause analysis based on the fact findings as described above. LIXIL hereby announces the status of implementation of the previously announced remedial measures, and the estimated period for completion of the measures. The reason why LIXIL is announcing both the fact findings of this incident and the cause analysis, based upon which the remedial measures were decided, is that LIXIL should make a

commitment to implement such measures on a group-wide basis after investors and other stakeholders understand profoundly LIXIL's reformation of its systems and implementation of remedial measures. Learning from the lessons gained by this incident, LIXIL will increase the transparency of management and focus on the areas to be further strengthened, and thereby strive to be a global leader in the building materials and housing equipment industry.

Annex

	GROHE / Joyou	LIXIL
October 2009	Investment by GROHE in Joyou HK	
March 2010	Joyou AG listed its stock on the Frankfurt Stock Exchange.	
March 2011	A takeover bid by GROHE to acquire shares in Joyou The Joyou-Grohe Steering Committee was established.	
May 2011		The mid-term management vision was announced.
End of 2011	GROHE acquired a majority of shares in Joyou, making it a consolidated subsidiary.	
2012		The initial negotiation for the acquisition of GROHE
March 2013	The shareholding ratio of GROHE in Joyou AG increased to 72.3% by way of share exchange.	
May 2013	A bilingual person in charge of finance was dispatched to Joyou.	
June 2013		The auction procedure for the acquisition of 87.5% of shares in Grohe Sarl ("the First Transaction") was commenced.
July 2013		The proposal for the first round bid was submitted and it passed; and the due diligence was conducted.
September 2013		The final proposal was submitted and a share purchase agreement was concluded.
January 2014		The First Transaction closed.
April 2014		The GMC system was introduced.
May 2014		A proposal for the acquisition of 12.5% of shares in Grohe Sarl held by Cai GmbH ("the Second Transaction") was made.
July 2014	Joyou HK entered into a credit facility agreement with three Japanese banks.	A proposal was made to GROHE to resolve concerns with respect to Joyou. Discussion began in order to comply with the J-SOX requirements at GROHE and Joyou.
September 2014	A bilingual personnel was appointed as a member of Joyou AG's Management Board and CFO.	
November 2014	Retention of EY for a special audit with respect to cash and deposits of Joyou.	Due diligence after the closing began with respect to Joyou and GROHE.
December 2014		Conclusion of the share purchase agreement for the Second Transaction
February 2015	An interim report regarding the special audit was provided by EY to the GROHE management. The internal audit division of GROHE visited Joyou; and made a proposal to Joyou AG management board that an internal audit should be conducted by the GROHE internal audit division.	
March 2015	The draft memorandum regarding the special audit was provided to the GROHE management.	
April 2015	The final version of the memorandum regarding the special audit was provided to the GROHE management. The financial irregularity was revealed by a notice provided by a Chinese bank. Investigations were made by the the special audit team retained by Joyou Supervisory Board.	The Second Transaction closed, making Grohe Sarl and Joyou AG consolidated subsidiaries. The financial irregularity was revealed by a notice provided by a Chinese bank. The First Investigation was conducted
May 2015	Joyou AG announced its insolvency and applied for the commencement of insolvency proceedings.	LIXIL agreed to issue a guarantee to the three Japanese banks.
June 2015		The internal investigation committee and the special investigation committee (Joyou Issue Committee) were established. Announcement of an extraordinary loss being posted Filing of Annual securities report
July 2015	Commencement of insolvency proceedings against Joyou AG	