

The following is an English translation of the Items for Disclosure via the Internet upon Notice of Convocation of the 74th Annual General Meeting of Shareholders of LIXIL Group Corporation (the “Company”) to be held on June 15, 2016. The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise. If there is any discrepancy between the Japanese version and the English translation, the Japanese version shall prevail.

To Our Shareholders

Items for Disclosure via the Internet upon Notice of Convocation of the 74th Annual General Meeting of Shareholders

- 1. Notes to consolidated financial statements**
 - 2. Notes to non-consolidated financial statements**
- for the 74th fiscal year (from April 1, 2015 to March 31, 2016)**

LIXIL Group Corporation

Pursuant to laws and regulations and the Company’s Articles of Incorporation, the above items are information regarded to be provided to shareholders by placing on the Company’s website (<http://www.lixil-group.co.jp/>) over the Internet.

Notes to the Consolidated Financial Statements

1. Significant matters constituting the basis for preparation of the consolidated financial statements

(1) Matters concerning the scope of consolidation

Number of consolidated subsidiaries:	182
Names of major consolidated subsidiaries:	LIXIL Corporation LIXIL VIVA CORPORATION LIXIL Total Hanbai Corporation LIXIL Group Finance Corporation Permasteelisa S.p.A. GROHE Group S.à r.l. ASD Holding Corp. TOSTEM THAI Co., Ltd. LIXIL Manufacturing (Dalian) Corporation A-S CHINA PLUMBING PRODUCTS Ltd. LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd. LIXIL INTERNATIONAL Pte. Ltd.

Starting from this consolidated fiscal year, due to LIXIL Corporation's acquisition of the stocks of GROHE Group S.à.r.l. and the amendments to the shareholders' agreement entered into between LIXIL Corporation and Development Bank of Japan Inc., GraceA Co. Ltd, GROHE Group S.à.r.l. and 54 other companies have become the Company's subsidiaries and as such, and they have been included in the scope of the consolidation. LIXIL Sales Okinawa Co. Ltd, and JHS Engineering CORPORATION and 1 other company have been included in the scope of the consolidation due to being newly established.

LIXIL Corporation merged by absorption with SUN WAVE CORPORATION. LIXIL Building Reform Hanbai Corporation merged by absorption with LIXIL Renewal Corporation and changed its name to LIXIL Renewal Corporation. INAX SUNWAVE Marketing Corporation is excluded from the scope of consolidation as it was liquidated. LIXIL Housing Research Institute, Ltd. merged by absorption with CLASSIS Corporation AMTRONIC Pte. Ltd. and its subsidiary, Shanghai Meite Curtain Wall System Co., Ltd., are excluded from the scope of consolidation as all the stocks of AMTRONIC Pte. Ltd. were transferred. LIXIL Building Materials Manufacturing (Shenyang) Corporation is excluded from the scope of consolidation as all its stocks were transferred.

LIXIL Maebashi manufacturing Co., Ltd. and other non-consolidated subsidiaries have been excluded from the consolidation because all of them are small in size and have no material impact due to their aggregate total assets, aggregate net sales, aggregate net profit or loss for the current year (equal to equity), aggregate earned surplus for the current year (equal to equity) and other items being insignificant compared to the total assets, net sales, net profit or loss, earned surplus and other items of the consolidated companies.

(2) Matters concerning application of the equity method

Number of affiliated companies accounted for by the equity method: 6

Name of major affiliated company accounted for by the equity method: Sanyo Homes Corporation
Fukui Computer Holdings Inc.
Ken Depot Corporation

As a result of LIXIL Corporation's acquisition of the stocks of GROHE Group S.à.r.l. and the amendments to the shareholders' agreement entered into between LIXIL Corporation and Development Bank of Japan Inc., GraceA Co. Ltd and Grohe Luxembourg Four S.A. are excluded from the scope of companies accounted for by the equity method and are included in the scope of consolidation, starting from this consolidated fiscal year.

As a result of GROHE Group S.à.r.l. becoming a consolidated subsidiary, Grome Marketing (Cyprus) Ltd. and 2 other companies which are affiliated companies of GROHE Group S.à.r.l. are included in the scope of companies accounted for by the equity method. Ken Depot Corporation has been included in the scope of companies accounted for by the equity method due to being newly

established.

LIXIL Maebashi manufacturing Co., Ltd. and other non-consolidated subsidiaries, as well as LIXIL Advanced Showroom Corporation and other affiliated companies which are companies not accounted for by the equity method application, have been excluded from the equity method application due to their net profits or losses (equal to equity) of this fiscal year and earned surplus (equal to equity), etc., having a small impact on the net profits or losses of this fiscal year and earned surplus, etc., of the consolidated companies, and due to these companies being insignificant as a whole.

(3) Matters concerning the fiscal years, etc. of consolidated subsidiaries

Of the consolidated subsidiaries, the last day of the accounting period of Permasteelisa S.p.A., GROHE Group S.à.r.l., LIXIL Manufacturing (Dalian) Corporation, A-S CHINA PLUMBING PRODUCTS Ltd., LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd., LIXIL INTERNATIONAL Pte. Ltd. and 118 other companies is the last day of December. Each company's financial statements as of the last day of its accounting period have been adopted and necessary adjustments have been made for the purposes of consolidation as to material transactions that have taken place between the last day of the accounting period of the relevant company and the last day of the accounting period of the consolidation.

Of the consolidated subsidiaries, TOSTEM THAI Co., Ltd., for which the last day of its accounting period was the last day of February, had been making necessary adjustments for the purposes of consolidation as to material transactions that have taken place between the last day of its accounting period and the last day of the accounting period of the consolidation by adopting the financial statements of the last day of its accounting period. However, as an aspect of more appropriate disclosures of the consolidated financial information and future responses to the IFRS (International Financial Reporting Standards), the last day of its accounting period has been changed to March 31 starting from this consolidated fiscal year. The profits and losses during the 1-month period from March 1, 2015 to March 31, 2015 arising from such change have been stated as increases and decreases of the earned surplus of this consolidated fiscal year.

(4) Matters concerning accounting standards

(i) Valuation standards and valuation method of material assets

a. Valuation standards and valuation method for securities

Held-to-maturity securities:	Stated at amortized cost (Straight-line method).
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Stocks of subsidiaries and affiliated companies:	Stated at cost determined by the moving-average method.
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Other securities

Marketable securities:	Stated at current value based on the market prices, etc., as of the last day of the accounting period (evaluation difference is reported in a separate component of equity; the cost of securities sold is determined by the moving-average method).
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Non-marketable securities:	Stated at cost determined by the moving-average method.
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b. Valuation standards for derivatives:	Stated at current value.
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c. Valuation standards and valuation methods for inventories:	Mainly stated at cost determined by the average method. Figures presented in the balance sheets were calculated by writing down the book value in accordance with the decreased profitability.
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(ii) Method of depreciation of material depreciable assets

a. Property, plant and equipment (excluding leased assets):	The declining-balance method is mainly used for domestic companies. However, the straight-line method is used for depreciation of buildings (excluding accompanying facilities) acquired on or after April 1, 1998. The straight-line method is also used for companies located overseas.
b. Intangible fixed assets (excluding leased assets): Goodwill	Evenly amortized over a period during which its effect remains. However, when the amount is de minimis, the amount is amortized in the year it is accrued.
Assets related to trademarks	Depreciated by the straight-line method. However, assets for which useful life cannot be ascertained have been stated as non-depreciable.
Other intangible fixed assets	Depreciated by the straight-line method.
c. Leased assets Leased assets related to finance lease transactions that do not transfer ownership	Depreciated by the straight-line method with the useful life being the lease period and with a residual value of zero. Of the finance lease transactions that do not transfer ownership, with respect to any finance lease transactions with the lease commencement date falling on or before March 31, 2008, the accounting treatment follows the method applicable to ordinary rental transactions.
(iii) Accounting standards for calculation of material allowances	
a. Allowance for doubtful accounts:	In order to prepare for losses due to any default on receivables, the Group examines the recoverability of general receivables based on historical default rates, and of specific receivables such as doubtful accounts on a case-by-case basis, and records the amount expected to be uncollectible as an allowance for doubtful accounts.
b. Allowance for bonuses:	In order to prepare for the payment of bonuses, etc., to employees, the Group appropriates this amount based on the expected payment amount.
c. Allowance for losses related to plant reorganizations	In order to prepare for losses on plant closures, etc., which were determined for the purpose of reorganizing the plants of the Group, the Group appropriates a reasonable estimated amount thereof.
(iv) Method of significant hedge accounting	
a. Method of hedge accounting	The deferral hedge accounting method is used. Foreign exchange forward contracts which meet the requirements for appropriation are accounted for by appropriation. Interest swaps which meet the requirements for special treatment are accounted for by special treatment. Interest rate and currency swaps which meet the requirements for integrated treatment (special treatment and appropriation) are accounted for by integrated treatment.
b. Hedging method and hedged items	
Hedging method:	Derivative transactions (foreign exchange forward contracts,

- interest rate swap transactions, interest rate and currency swap transactions and commodity swap transactions)
- Hedged items: Foreign currency transactions, interest rate transactions relating to financing and raw material procurement
- c. Hedging policies
The objective of a hedge is to manage risks arising from fluctuations in foreign exchange, interest rates and raw material prices.
- d. Assessment of hedge effectiveness
The effectiveness of a hedge is assessed through a case-by-case evaluation and determination of matters such as the claims and liability amounts and the terms for the hedging transactions concerning each applicable derivative transaction or hedged item.
- (v) Accounting standards for material revenues and costs
Accounting standards for the amounts and costs of completed construction
With respect to any construction for which there is certainty of outcome in relation to the work-in-progress part of the construction by the last day of the consolidated fiscal year, such construction is recognized by the percentage-of-completion method and any other construction is recognized by the completed contract method. In addition, the estimation of the progress of construction which is recognized by the percentage-of-completion method at the last day of the consolidated fiscal year is measured by the proportion of costs incurred to date to the estimated total costs.
- (vi) Accounting method of allowance for employees' retirement benefits
In order to prepare for the payment of retirement benefits to employees, the allowance for retirement benefits is recorded as the amount obtained by deducting pension assets from the liability for retirement benefits, based on the expected amount of liability for retirement benefits as of the last day of this consolidated fiscal year. Further, in calculating the liability for retirement benefits, the method of attributing the expected amount of retirement benefits to the period until the end of this consolidated fiscal year has been in accordance with the benefit formula standard.
Actuarial differences are accounted for as gains or losses upon accrual.
- (vii) Accounting of convertible bond-type bonds with stock acquisition rights
Accounting has been made according to the issuance of ordinary bonds without distinguishing the consideration portion of the bonds and the consideration portion of the stock acquisition rights.
- (viii) Accounting of consumption tax, etc.
Amounts are stated excluding consumption tax, etc.
- (ix) Additional information
(Revision of the amounts of deferred tax assets and deferred tax liabilities due to changes of tax rates of corporation taxes, etc.)
The "Act on Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted on March 29, 2016 by the Diet, and the lowering, etc., of corporation tax rates, etc., began from the fiscal years commencing on or from April 1, 2016. In connection with this, the effective statutory tax rate used in calculating deferred tax assets and deferred tax liabilities, which had previously been 32.1%, will become 30.0% for temporary differences that are expected to be resolved in the consolidated fiscal year commencing on April 1, 2016 and the consolidated fiscal year commencing on April 1, 2017, and 29.7% for temporary differences that are expected to be resolved in or from the consolidated fiscal year commencing on April 1, 2018.
Due to this tax rate change, the deferred tax assets and deferred hedge gains and losses decreased by ¥1,547 million (amount obtained by deducting the amount of deferred tax liabilities) and ¥2 million respectively, and income taxes – deferred and valuation difference on available-for-sale securities increased by ¥1,844 million and ¥299 million respectively.

2. Notes relating to changes in accounting policy

(Application of accounting standards, etc., in relation to business combination)

Accounting standards such as “Accounting Standard for Business Combinations” (Accounting Standard No. 21, September 13, 2013, “Accounting Standards for Business Combinations”), “Accounting Standard for Consolidated Financial Statements” (Accounting Standard No. 22, September 13, 2013, “Accounting Standards for Consolidation”), “Accounting Standard for Business Divestitures” (Accounting Standard No. 7, September 13, 2013, “Accounting Standard for Business Divestitures”) have been applied from this consolidated fiscal year and the accounting method is changed to accounting for any difference due to changes in the Company’s shareholding in a subsidiary for which the Company continues to have control will as capital surplus, and accounting for the acquisition-related costs as costs of the consolidated fiscal year in which they were incurred. Further, with respect to any business combination that carried out after the beginning of this consolidated fiscal year, the accounting method is changed to a method in which allocation of acquisition cost revised based on finalizing the tentative accounting treatment is reflected in the consolidated financial statements for the consolidated fiscal year in which the business combination took place. In addition, statement of net loss, etc., is amended and statement of minority interests is amended to non-controlling interests.

The application of the Accounting Standards for Business Combinations is in accordance with the transitional provisions under the Accounting Standards for Business Combinations No. 58 -Item 2(4), Accounting Standards for Consolidation No. 44 – Item 5(4) and Accounting Standard for Business Divestitures No. 57 – Item 4(4) and they are applied from the beginning of this consolidated fiscal year to the future.

As a result, the operating income, ordinary income and net income before taxes have decreased by ¥206 million respectively. The capital surplus at the end of this consolidated fiscal year has decreased by ¥120 million. The final balance of the capital surplus under the consolidated statement of changes in equity for this consolidated fiscal year has decreased by ¥120 million.

Further, the net asset value per stock for this consolidated fiscal year has decreased by ¥1.14 and the net losses per stock for this consolidated fiscal year have increased by ¥0.72.

3. Notes to changes in presentation methods

“Assets related to trademarks” (¥15,795 million in the previous consolidated fiscal year) under the intangible fixed assets had been included in the “other intangible assets” under the consolidated balance sheet, however, this is listed independently from this consolidated fiscal year as its importance has increased.

“Allowance for officer’s retirement benefits” (¥52 million in this consolidated fiscal year) of the fixed liabilities had been independently listed in the consolidated balance sheet, however, this is included in and presented as “Other long-term liabilities” from this consolidated fiscal year as its importance has decreased.

4. Notes to consolidated balance sheet

(1) Assets pledged as collateral

Notes and accounts receivable	¥2,036 million
Raw materials and supplies	¥41 million
Buildings and structures	¥118 million
Machinery and vehicles	¥461 million
Land	¥105 million
Other property, plant and equipment	¥10 million
Total	¥2,773 million

The above assets are pledged as collateral for short-term loans payable in the amount of ¥1,281 million and long-term loans payable in the amount of ¥396 million.

(2) Accumulated depreciation of property, plant and equipment

¥690,820 million

(3) Contingent liabilities

The Company guaranteed liabilities in the amount of ¥145,766 million in relation to the guarantee of agreement performance of financial institutions, etc., mainly in respect of the construction work, the order of which had been accepted by Permasteelisa S.p.A. and its subsidiaries, etc. Other contingent liabilities consist of the following items:

Repurchase obligations for liquidation of notes receivable	¥20,713 million
Business guarantees concerning client companies of the consolidated companies	¥5,307 million

5. Notes concerning consolidated statement of income

(1) Investigation cost

In relation to the fact that Joyou AG (“Joyou”) which was a subsidiary of GraceA Co., Ltd. was insolvent from the time when its stocks were acquired, the costs relating to fact finding investigation, etc., of Joyou incurred in this consolidated fiscal year are recorded as non-operating expenses.

(2) Loss on factory restructurings

The breakdown of the losses related to loss on factory restructurings is as follows. The loss on factory restructurings includes ¥1,934 million of provision of allowance for loss on factory restructurings.

Costs for dismantling / disposing of fixed assets	¥1,071 million
Penalty for termination	¥459 million
Special retirement benefit, etc.	¥338 million
Waste liquid disposal costs	¥310 million
Others	¥1,069 million
Total	¥3,249 million

(3) Loss on impairment on fixed assets

Loss on impairment of fixed assets have been appropriated for the following assets in this consolidated fiscal year

		Millions of Yen	
Use	Location	Type and amount	
Exterior building materials manufacturing facility	Kamisu-shi, Ibaraki and others	Buildings and structures	589
		Machinery and vehicles	2,340
		Others	295
		Total	3,224
Retail stores	Otaru-shi, Hokkaido and others	Buildings and structures	185
		Machinery and vehicles	0
		Others	41
		Total	227
Underutilized assets, etc.	Takaoka-shi, Toyama and others	Buildings and structures	251
		Machinery and vehicles	412
		Land	384
		Others	36
		Total	1,084
Others	-	Goodwill	1,125
		Total	1,125

(i) Grouping method of assets

The categories for the purposes of managerial accounting for which determinations of earnings and expenses are continuously made are taken into consideration with respect to assets for business and assets have been grouped by individual property with respect to underutilized assets, etc.

(ii) Developments leading up to recognition of impairment losses

Due to the results of the exterior building material manufacturing facility and retail stores being sluggish and their profitability significantly declining, and due mainly to the decision making on the sale of the underutilized assets, etc., the book values of such assets have been decreased to a recoverable amount and appropriated as special losses. Goodwill was appropriated when LIXIL-Haier Housing Products (Qingdao) Co., Ltd. was made a consolidated subsidiary, but impairment losses were accounted for in this consolidated fiscal year and recognized in special losses as the revenue that was anticipated at the time of the stock acquisition could no longer be expected.

(iii) Calculation of recoverable amount

The exterior building material manufacturing facility and retail stores have been measured according to the utility value and calculated by discounting future cash flow by 7.5%. The underutilized assets, etc., have been mainly measured according to their net sale value, and the intended sale price has been mainly used for their appraisals. Goodwill has been measured with the recoverable value being zero.

(4) Loss related to investment in associated companies

On May 18, 2015, LIXIL Corporation (“LIXIL”) which is a consolidated subsidiary of the Company granted a guarantee in favor of financial institutions in relation to the debts owed by Hong Kong Zhongyu Sanitary Technology Ltd. (“Joyou HK”), a subsidiary of Joyou. As performance of such guarantee, LIXIL repaid the debt in the amount of ¥33,017 million to the financial institutions on the same day.

On May 21 of the same year, Joyou decided at its management board meeting to file a petition for commencement of bankruptcy proceedings and filed for bankruptcy proceedings on May 22 of the same year. The bankruptcy proceedings commenced on July 16 in the same year.

As a result, LIXIL has recorded allowance for doubtful receivables as it was unable to calculate a reasonable estimate of the recoverable amount in relation to the unpaid amount of ¥27,937 million as at the end of this consolidated fiscal year. The same amount is recognized in special losses as loss related to investment in associated companies.

6. Notes concerning consolidated statements of changes in equity

(1) Class and total number of issued stocks and class and number of treasury stocks

	Class of stocks	Number of shares at beginning of the consolidated fiscal year (thousand)	Increase in the number of shares in the consolidated fiscal year (thousand)	Decrease in the number of shares in the consolidated fiscal year (thousand)	Number of shares at the end of the consolidated fiscal year (thousand)
Outstanding stocks	Common stocks	313,054	-	-	313,054
Treasury stocks	Common stocks	26,702	12	667	26,046

(Notes)

1. The increase in number of shares by 12 thousand shares of treasury stocks is due to the purchase of stocks of less than one unit.
2. The decrease in number of shares by 667 thousand shares of treasury stocks is due to a decrease of 666 thousand shares by the exercise of stock options and a decrease of 0 thousand shares due to an increased purchase of stocks less than one unit.

(2) Matters concerning dividends

(i) Payment of dividends

Resolution	Class of stocks	Total Amount of Dividends (Millions of Yen)	Dividends per stock (Yen)	Record date	Effective date
Board of Directors meeting held on June 8, 2015	Common stocks	8,590	30	March 31, 2015	June 29, 2015
Board of Directors meeting held on November 2, 2015	Common stocks	8,599	30	September 30, 2015	November 27, 2015
Total		17,190			

(ii) Dividends with a record date occurring in this consolidated fiscal year with the effective date of the dividends occurring in the next fiscal year

Resolution	Class of stocks	Total Amount of Dividends (Millions of Yen)	Dividend Resource	Dividends per stock (Yen)	Record Date	Effective Date
Board of Directors meeting held on May 17, 2016	Common stocks	8,610	Earned surplus	30	March 31, 2016	May 31, 2016

(3) Number of shares that will be the subject-matter of the stock acquisition rights (those for which the exercise period has arrived) as of the last day of this consolidated fiscal year

4th Stock Acquisition Rights by the resolution of the April 17, 2012 Board of Directors Meeting:

1,386,000 shares

5th Stock Acquisition Rights by the resolution of the April 15, 2013 Board of Directors Meeting:

4,495,000 shares

7. Notes concerning financial instruments

(1) Matters concerning positions of financial instruments

(i) Group policy for financial instruments

The Group procures the necessary funds, mainly bank loans and the issuance of corporate bonds, to achieve its fundamental management strategies of "New Business Model," "Globalization" and "Transformation." Temporary cash surpluses are invested in high safety financial assets. Derivative transactions are used, not for speculative purposes, but solely for financial risk hedging purposes.

(ii) Nature and extent of risks arising from financial instruments and risk management structure

Receivables such as trade notes and trade accounts are operating receivables arising from credit transactions with customers, and are exposed to customer credit risk up to the expiration date. To prepare for such risk, the Group makes efforts to be aware of any signs of credit deterioration based on day-to-day management of collection status, etc. and also evaluates its customers' credit risks on a regular basis, conducting, as necessary, matters such as the revision of trading conditions and protection of the Group's claims.

Loans receivable are mainly for the associated companies and the Group monitors the financial conditions, etc. of such associated companies on a regular basis.

Investment securities are mainly stocks of companies that have a business relationship with the Group and debt securities managing cash surpluses. Those traded on the stock market are exposed to the risk of market price fluctuations, and current value fluctuations are determined and

reported to officers of the Company on a regular basis. Those that are not traded on the stock market, which are mainly stocks of the associated companies, are exposed to the risk of reduction in real value and the Group verifies the financial conditions, etc. of such companies on a regular basis. Furthermore, pursuant to its fund management regulations, only debt securities of high safety are used in managing cash surpluses, and the credit risks are, therefore, limited.

Payment terms of operating payables, such as trade notes and trade accounts, as well as of corporate tax payables, etc. are, in most cases, less than one year.

Loans payable, corporate bonds and convertible bond-type bonds with stock acquisition rights are financing mainly in relation to business transactions, capital investments, other investments and loans. Although a part of such financing is based on variable interest rates and, as such, are exposed to interest rate fluctuation risks and foreign exchange risks, these risks are mitigated by using derivative transactions (interest rate swap transactions, interest rate and currency swap transactions) for hedging purposes.

Derivative transactions include forward foreign currency contracts, interest rate and currency swap transactions, interest rate swap transactions and commodity swap transactions. Derivative transactions are only traded between high credit rating financial institutions and financial and accounting divisions and the purchasing and distribution division of the Group. Important derivative transactions are decided upon and managed based on regulations concerning proposals to be submitted to the Board of Directors meeting regulations and the internal administration rules of each company. The transaction results are reported to the officers of the Company on a monthly basis.

- (iii) Supplementary descriptions concerning matters relating to current values, etc. of financial instruments

Current values of financial instruments include a value based on a market price. If a market price is not available, current values of financial instruments would include other reasonably calculated values. Such calculation involves changing factors and the current value may vary if different assumptions, etc. are used.

(2) Matters concerning current values, etc. of financial instruments

As of March 31, 2016, the amounts recorded as financial instruments on the consolidated balance sheet, the current values of financial instruments and the differences thereof were as shown below. The table below does not include any items, the current values of which are extremely difficult to be determined (Please see Note 2 below).

Millions of Yen

	Carrying amount on the Consolidated Balance Sheet	Current value	Differences
(i) Cash and deposits	151,833	151,833	—
(ii) Notes and accounts receivable	412,780		
Allowance for doubtful receivables (*1)	Δ 3,256		
	409,524	409,524	—
(iii) Short-term loans receivable	6,125		
Allowance for doubtful receivables(*2)	Δ 7		
	6,117	6,117	—
(iv) Investment securities	45,526	48,934	3,408
(v) Long-term loans receivable(*3)	3,146		
Allowance for doubtful receivables (*4)	Δ 42		
	3,104	3,369	264
Total Assets	616,106	619,779	3,673
(i) Notes and accounts payable	234,240	234,240	—
(ii) Short-term loans payable	85,590	85,590	—
(iii) Income tax payable	18,063	18,063	—
(iv) Corporate bonds	70,000	70,490	490
(v) Convertible bond-type bonds with stock acquisition rights	120,000	119,070	Δ 930
(vi) Long-term loans payable (*5)	350,600	352,499	1,899
Total Liabilities	878,493	879,953	1,460
Derivative transactions (*6)	(3,750)	(3,750)	—

*1 Allowance for doubtful receivables concerning notes and accounts payable is deducted.

*2 Allowance for doubtful receivables concerning short-term loans receivable is deducted.

*3 Long-term loans receivable include those to be collected within a year.

*4 Allowance for doubtful receivables concerning long-term loans receivable is deducted.

*5 Long-term loans payable include those to be paid within a year.

*6 Claims and liabilities recorded due to the derivative transactions are as shown as net, and () denotes net liabilities.

Notes:

1. Matters concerning the method of computing current values of financial instruments and short-term investments and derivative transactions

Assets

(i) Cash and deposits;

Due to the short maturities of these items, the current values of these items approximate their book values and, therefore, such book values are used in respect of these items.

(ii) Notes and accounts receivable

Due to the short maturities of these items, the current values of these items approximate their book values after the deduction of the allowance for doubtful receivables and, therefore, such book values are used in respect of these items.

(iii) Short-term loans receivable

Due to the short maturities of these items and due to their current values approximating their book values, book values are used in respect of these items taking into account the credit risks involved.

(iv) Investment securities

These current values of stocks are based on the market prices of stock exchanges and the current values of debt securities are mainly based on prices offered by correspondent financial institutions.

(v) Long-term loans receivable

The current values of these items are calculated by discounting the total amount of principal and interest at the interest rates expected to apply in providing similar new loans and further taking into account the credit risks involved. However, as loans based on floating rates reflect market interest rates over a short period of time, the current values of these items approximate their book values, unless the credit standing of the debtor has changed significantly from the time of lending and, therefore, such book values are used in respect of these items.

Liabilities

(i) Notes and accounts payable; (ii) Short-term loans payable; (iii) Income tax payable

Due to the short maturities of these items, the current values of these items approximate their book values and, therefore, such book values are used in respect of these items.

(iv) Corporate bonds; (vi) Long-term loans payable

Current values of corporate bonds are calculated based on the market prices. The current values of long-term loans payable are calculated by discounting the total amount of principal and interest at interest rates expected to apply in obtaining similar new loans. However, as loans based on floating rates reflect market interest rates over a short period of time and the credit standing of the Company has not changed significantly from the time of the issuance or the borrowing, the current values of these items approximate their book values and, therefore, book values are used in respect of these items.

(v) Convertible bond-type bonds with stock acquisition rights

The market value thereof is in accordance with the value presented from the correspondent financial institutions.

Derivative transactions

Current values of derivatives are calculated based on the prices, etc. offered by correspondent financial institutions. Calculation of derivatives which are based on the special treatment of interest rate swaps, etc. are subject to integrated treatment with hedged long-term loans payable and, therefore, the current values of these items are included in the current values of such long-term loans payable.

2. Financial instruments, the current values of which are extremely difficult to be determined

Millions of Yen

Category	Carrying Amount on the Consolidated Balance Sheet
Unlisted stocks	27,259

The financial instruments above are not included in the “Assets (iv) Investment securities” because their market prices are not available and their current values are extremely difficult to be determined.

8. Notes concerning lease properties, etc.

Some of the consolidated subsidiaries own certain lease properties such as rental commercial facilities and underutilized real estate in Tokyo and other areas. The carrying amounts of these lease properties, etc. recognized in the consolidated balance sheet, the increase and decrease during the consolidated fiscal year and the fair values thereof are as shown below.

Carrying Amount on the Consolidated Balance Sheet			Millions of Yen
Balance at beginning of the consolidated fiscal year	Increase or decrease during the consolidated fiscal year	Balance at end of the consolidated fiscal year	Current value at the end of the consolidated fiscal year
31,623	△1,786	29,837	28,380

(Notes)

1. The carrying amount recognized in the consolidated balance sheet is the amount obtained by deducting accumulated depreciation and accumulated impairment losses from acquisition cost.
2. Of any increase or decrease during this consolidated fiscal year, a major amount of increase is new acquisition (¥3,317 million), and a major amount of decrease is sales (¥4,038 million) and depreciation expenses (¥988 million).
3. The current value of properties as of the end of the consolidated fiscal year is mainly real-estate appraiser's real estate appraisal value (including those adjusted by indicators, etc.).

Furthermore, gains and losses on lease properties, etc. during this consolidated fiscal year re as follows:

Carrying Amount on the Consolidated Statements of Income				Millions of Yen
Rental revenue	Rental expenses	Differences	Other gains and losses	
6,124	3,654	2,469	4,386	

(Note)

1. Rental revenue and rental expenses are comprised of rent income and corresponding expenses (depreciation expenses, repair expenses, insurance premiums, taxes and dues, etc.), each of which is recorded mainly under "non-operating revenues" and "non-operating costs."
2. Other gains and losses are mainly gain on sale of fixed assets, which is recorded under "extraordinary gains."

9. Notes concerning business combinations, etc.

- (1) Acquisition of GROHE Group S.à r.l. stocks by LIXIL Corporation and GROHE Group S.à r.l., etc. becoming consolidated subsidiaries

On December 10, 2014, LIXIL Corporation ("LIXIL"), a consolidated subsidiary of the Company, executed a stock transfer agreement with respect to GROHE Group S.à r.l. ("GROHE"), which is indirectly owned by GraceA Co., Ltd. ("GraceA"), a jointly controlled enterprise that is an equity method affiliated company, with Cai GmbH ("Cai"), a stockholder of GROHE, and LIXIL came to acquire the GROHE stocks owned by Cai ("Acquisition of GROHE Stocks"). In addition, on December 10, 2014, LIXIL and Development Bank of Japan Inc. ("DBJ") have agreed to amend the shareholders' agreement entered into between LIXIL and DBJ on September 26, 2013 ("Shareholders' Agreement"). Furthermore, on April 1, 2015, GraceA and its subsidiary GraceB S.à r.l. ("GraceB"), which directly owns GROHE stocks, and GROHE have become consolidated subsidiaries of the Company as a result of the Acquisition of GROHE Stocks and the amendment of the Shareholders' Agreement.

In the Shareholders' Agreement, DBJ has the right to demand that LIXIL, or a third party designated by LIXIL and consented by DBJ, purchase all of the preferred stocks of GraceA owned by DBJ during the period from September 26, 2016 to September 26, 2020 ("Put Option"). On the other hand, in such agreement, LIXIL has the right to demand the sale to LIXIL, or a third party designated

by LIXIL and consented by DBJ, of all of the preferred stocks of GraceA owned by DBJ during the same exercise period of the Put Option described above (“Call Option”). The value of the exercise of the right if DBJ exercises the Put Option is an amount calculated by a calculation method agreed in advance between DBJ and LIXIL, and the value of the exercise of the right if LIXIL exercises the Call Option is an amount calculated based on a calculation method agreed in advance that is separate from the exercise conditions of the Put Option. Furthermore, depending on the timing of the exercise of the options, there is a possibility that the purchase price at the time of exercise will be higher than GraceA’s estimated stock value and losses will occur.

(i) Overview of the business combination

a. Name of the acquired company and business content

Name of the acquired company: GraceA Co., Ltd.

Business content: The management and advice to the business activities of GROHE and any business incidental thereto.

b. Main reason for business combination

The Group is proactively planning the overseas expansion in aiming for the achievement “to become a global leader in the building materials and housing equipment industry,” which is the business goal, and in August 2013, LIXIL acquired 100% of the stocks of ASD Americas Holding Corp. (currently ASD Holdings Corp., “ASB”), which manufactures and sells sanitary wares and plumbing products such as bathtub under the brand of American Standard, etc. in the North American market, and acquired 87.5% of the outstanding stocks of GROHE through GraceA and GraceB, of which LIXIL and DBJ each has 50% of the voting rights, by a joint investment with DBJ.

Under such circumstances, where business was being operated by each group—in Japan centered around LIXIL, in the North America region centered around ASB, and in Europe and Asia, etc. centered around GROHE—the Group considered (1) globally grouping the business synergies as the Group as a whole, (2) having each business group hold responsibility for the earnings and expenses as an inner company of the Group, (3) increasing the expertise of each business by grouping each of the same businesses of the Group, (4) speeding up the decision-making by delegating authority to the heads of each business, and (5) as a result thereof, shifting to a new structure of the Group as a business model of the Group that pursues growth and high profitability as the Group, and on November 4, 2014, the Group decided to shift to a system, wherein the 4 technology companies that cross the group, (i) LIXIL Water Technology, (ii) LIXIL Building Technology, (iii) LIXIL Housing Technology and (iv) LIXIL Kitchen Technology, are established under LIXIL.

We believe that by grouping the businesses conducted in each region by technology business, the Group’s shift to a company system has the strategic intent of speeding up globalization, increasing the management efficiency to the fullest and maximizing use of global human resources by placing them to the right job and place.

Of these technology businesses, LIXIL Water Technology globally integrates the plumbing business that has been managed by each company and manages it as one business group, and although the GROHE group, which has a global sales network centered in Europe and Asia, is expected to have an important role in LIXIL Water Technology, if GROHE remains to be controlled as a jointly controlled enterprise, the decision-making to realize the new business model of LIXIL Water Technology requires time and there is a possibility that the effect of incorporating profits including synergy into the Group will be limited. There, the Company made GraceA and GROHE and the other companies consolidated subsidiaries by intending the speed up of the decision-making as LIXIL Water Technology and to maximize the effects of incorporating the profits in the Group, and for the integral operation of business with the GROHE group.

c. Date of business combination

April 1, 2015

d. Legal form of business combination and the name of the company after combination

Legal form of business combination: Becoming a subsidiary involved with the acquisition of stocks of GROHE by LIXIL and amendment of the Shareholders’ Agreement.

Name of the company after combination: GraceA Co., Ltd.

- e. Proportion of voting rights acquired
- | | |
|---|------|
| Proportion of voting rights of GraceA held immediately before the business combination | 50% |
| Proportion of voting rights of GraceA additionally acquired on the date of the business combination | -- % |
| Proportion of voting rights of GraceA after acquisition | 50% |
- Furthermore, the proportion of the voting rights of GROHE that LIXIL additionally acquired through the Acquisition of GROHE Stocks is 12.5%, and by combining with the proportion of voting rights owned by LIXIL through GraceA, the proportion of the voting rights of GROHE that the Company owns after the acquisition has become 56.25%.
- f. Main reason leading to the decision on the acquiring business
- LIXIL acquired GROHE Stocks and also came to control the decision-making institution of GraceA by the amendment of the Shareholders' Agreement.
- (ii) Period of the acquired business's performance included in the consolidated financial statements
- There is April 1, 2015 to March 31, 2016.
- Furthermore, the settlement date of GROHE, etc. which is a subsidiary of GraceA, is December 31, and since the difference with the consolidated settlement date does not exceed 3 months, the period of GROHE, etc.'s performance included in the consolidated financial statements is from April 1, 2015 to December 31, 2015.
- (iii) Acquisition cost and breakdown by type of consideration of the acquired business
- | | |
|---|-----------------|
| Market value as of the business combination date of the GraceA stocks held immediately prior to the business combination: | ¥67,482 million |
| Acquisition cost | ¥67,482 million |
- Furthermore, the consideration of the acquisition involving the Acquisition of GROHE Stocks is ¥21,150 million (205 million euro) cash, of which, with respect to the ¥7,869 million equivalent to the stock value of Joyou AG indirectly held by GROHE, the Company has recorded such amount in special losses as loss related to investment in associated companies in the previous consolidated fiscal year.
- (iv) Content and amount of the main acquisition-related expenses
- Advisory fees, etc.: ¥339 million
- (v) Difference in the acquisition cost of the acquired business and the total amount of acquisition cost by transaction leading up to the acquisition
- Loss on step acquisition: ¥6,306 million
- (vi) Amount of goodwill, cause of goodwill, amortization method and amortization period
- a. Amount of goodwill
- ¥157,254 million (1,220 million euro)
- b. Cause of goodwill
- Since the acquisition cost exceeded the net amount allocated to accepted assets and assumed liabilities, the Company records the excess amount as goodwill.
- c. Amortization method and amortization period
- Evenly amortized over 20 years
- (vii) Assets accepted on the business combination date and the amount of assumed liabilities and their major breakdowns
- | | |
|---------------------|------------------|
| Current Assets | ¥78,983 million |
| Fixed Assets | ¥392,652 million |
| Total Assets | ¥471,636 million |
| Current Liabilities | ¥195,733 million |
| Fixed Liabilities | ¥121,727 million |
| Total Liabilities | ¥317,461 million |

- (viii) Amount of acquisition costs allocated to intangible fixed assets other than goodwill and its breakdown by principal types and the weighted average amortization period by principal type

Breakdown by principal type	Amount	Weighted average amortization period
Trademark-related assets	¥177,928 million	Non-amortizable
Customer-related assets	¥22,349 million	13 years
Technology-related assets	¥9,006 million	6 years
Total	¥209,285 million	-

(2) Transfer of AMTRONIC Pte. Ltd.'s stocks

(i) Overview of the transfer

- a. Name the transferee company and business content

MEITE PROJECT PTE. LTD.

- b. Name of the transferred company and business content

Name of transferred company: AMTRONIC Pte.Ltd.

Business content: Holding company of Shanghai Meite Curtain Wall System Co., Ltd.

Furthermore, due to the stock transfer of AMTRONIC Pte.Ltd, its Chinese subsidiary Shanghai Meite Curtain Wall System Co., Ltd. is no longer a subsidiary of the Company.

- c. Main reason for transfer

The transfer was conducted based on the Company Group's strategy to establish an effective portfolio to secure higher profitability and growth potential.

- d. Stock transfer date

March 31, 2016

- e. Overview of transfer including legal form

Legal form: Stock transfer

Number of shares transferred: 93,188,140 shares

Transfer amount: 1 Singapore dollar

Equity ratio after transfer: -%

(ii) Overview of executed accounting process

The Company has recorded ¥6,018 million of loss on sales of stocks of associated companies as special losses, in this consolidated fiscal year, based on "Accounting Standards for Business Divestitures" (Accounting Standard No. 7, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance on Accounting Standards No. 10, September 13, 2013).

(iii) Estimated amount of profits and losses regarding the separated business that is recorded in the consolidated profit and loss statement of this consolidated fiscal year

Sales: ¥19,618 million

Operating loss: ¥5,984 million

Furthermore, these estimated amounts are the total amount of AMTRONIC Pte. Ltd. and Shanghai Meite Curtain Wall System Co., Ltd.

10. Notes concerning per stock information

- (1) Net asset per stock:

¥1,894.55

- (2) Net loss per stock:

¥65.11

11. Other notes

Amounts are stated rounding off any fraction under ¥1 million.

Notes to Non-Consolidated Financial Statements

1. Notes to significant accounting policies

(1) Valuation standards and valuation method for securities

(i) Stocks of subsidiaries and affiliated companies:	Stated at cost determined by the moving-average method.
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(ii) Other securities

Marketable securities:	Stated at current value based on the market prices, etc. as of the last day of the accounting period (evaluation difference is reported in a separate component of equity; the cost of securities sold is determined by the moving average method).
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Non-marketable securities:	Stated at cost determined by the moving-average method.
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(2) Method of depreciation of fixed assets

(i) Property, plant and Equipment (excluding leased assets):	Determined by the declining-balance method.
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(ii) Leased assets

Leased assets related to finance lease transactions that do not transfer ownership:	Depreciated by the straight-line method with the useful life being the lease period and with a residual value of zero.
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(3) Accounting standards for calculation of allowances

(i) Allowance for bonuses:	In order to prepare for the payment of bonuses, etc. to employees, the Company appropriates this amount based on the expected payment amount.
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(ii) Allowance for bonuses for directors and officers:	In order to prepare for the payment of bonuses, etc. to directors and officers, the Company appropriates this amount based on the expected payment amount.
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(4) Accounting of convertible bond-type bonds with stock acquisition rights

Recorded according to issuance of straight bond without differentiating the consideration portion of the stock acquisition right from the consideration portion of the corporate bond.

(5) Accounting of consumption tax, etc.

Amounts are stated excluding consumption tax, etc.

2. Notes to the balance sheets

(1) Accumulated depreciation of property, plant and equipment:	¥15 million
(2) Guarantee obligations	
Transfer through liquidation of receivables and loans payable for the following associated company are guaranteed:	
LIXIL Group Finance Corporation	¥135,707 million
Deposits payable for the following associated company are guaranteed:	
LIXIL Corporation	¥514 million
Fulfillment of an agreement, etc. pertaining to construction orders for the following associated company is guaranteed:	
Josef Gartner GmbH	¥15,213 million
Accounts payable for the following associated company are guaranteed:	
Grohe AG	¥358 million
(3) Short-term monetary receivables and liabilities with associated companies	
Short-term monetary receivables with associated companies:	¥152,079 million
Short-term monetary liabilities with associated companies:	¥313 million

3. Notes to statements of income

Transaction volume with associated companies	
Volume of operating transactions	
Proceeds from dividends from associated companies:	¥11,995 million
Proceeds from management contributions from associated companies:	¥2,899 million
Other volume of operating transactions with associated companies:	¥1,492 million
Non-operating transactions with associated companies:	¥877 million

4. Notes to statement of changes in equity

Type and number of treasury stocks at the end of the fiscal year	
Common Stocks	26,046,892 shares

5. Notes to tax effect accounting

(1) Breakdown of deferred tax assets and deferred tax liabilities according to main reason of accrual

Deferred tax assets:

Unrealized gain/loss on stocks of associated companies	¥2,858 million
Denial of loss on valuation of investment securities	¥1,197 million
Deferred loss on assignment of stocks of associated companies	¥492 million
Other	¥509 million

Subtotal:	¥5,058 million
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Less valuation allowance:	△¥5,058 million
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Total deferred tax assets	¥--- million
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Deferred tax liabilities:

Other unrealized gain/loss on securities	△ ¥851 million
Deferred gain on assignment of stocks of associated companies	△ ¥961 million
Other	△ ¥0 million

Total deferred tax liabilities:	△¥1,813 million
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Net deferred tax liabilities:	△¥1,813 million
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(2) Revision of the amounts of deferred tax assets and deferred tax liabilities due to changes of tax rates of corporation taxes, etc.

The “Act for Partial Revision of the Income Tax Act, etc.” (2016 Act No. 15) and the “Act for Partial Revision of the Local Tax Act, etc.” (2016 Act No. 13) were enacted on March 29, 2016 at the Diet, and the lowering, etc. of corporation tax rates, etc. began to be made starting from the fiscal years commencing on or from April 1, 2016. In association therewith, the effective statutory tax rate used in calculating deferred tax assets and deferred tax liabilities, which had previously been 33.1%, will become 30.9% for temporary differences that are expected to be resolved in the fiscal year commencing on April 1, 2016 and the fiscal year commencing on April 1, 2017, and 30.6% for temporary differences that are expected to be resolved in or from the fiscal year commencing on April 1, 2018.

Due to this tax rate change, the amount of deferred tax liabilities decreased by 99 million yen, and income taxes-deferred decreased by 52 million yen. Valuation difference on available-for-sale securities increased by 46 million yen.

6. Notes to transactions with related parties

(1) Subsidiaries and Affiliated Companies, etc.

(Unit: millions of Yen)

Association	Company Name	Proportion of Voting Rights (or Ownership)	Relationship with Related Party	Transaction Content	Transaction Amount	Account Item	Balance at Fiscal Year-End
Subsidiary	LIXIL Corporation	Direct: 100%	Control and management through ownership of stocks, holding officer's posts concurrently	Acceptance of dispatched workers (Note 1)	646	Accrued expenses	44
				Receipt of management contributions (Note 2)	2,386	Accounts due	214
Subsidiary	LIXIL Group Finance Corporation	Direct: 100%	Control and management through ownership of stocks, holding officer's posts concurrently	Loaning of funds (Note 3)	151,666	Short term loans receivable	151,666
				Receipt of interest (Note 3)	674	Accounts due	57
				Guarantee for liabilities (Note 4)	135,707	—	—
				Receipt of guarantee charge (Note 4)	145	Accounts due	11
Subsidiary	Josef Gartner GmbH	Indirect: 100%	Control and management through ownership of stocks	Guarantee for liabilities (Notes 5)	15,213	—	—

Trade conditions and determination methods, etc.

(Note 1) The labor cost for dispatched workers paid by LIXIL Corporation was adjusted at actual cost.

(Note 2) The amount was charged based on the sales of the subsidiary and the number of people.

(Note 3) The loan rate was reasonably determined in light of the procurement interest rate. The transaction amount for the loaning of funds is shown by the loan balance at the end of the fiscal year.

(Note 4) The guarantee rate was reasonably determined in light of the market level and the degree of risk.

(Note 5) The said guarantee was a guarantee for fulfillment of an agreement, etc. pertaining to construction orders. Considering the degree of risk, guarantee charges are not charged.

(2) Officers and individual main shareholders etc.

(Unit: millions of Yen)

Class	Name of Company, etc. or Individual	Proportion of Voting Rights (or Ownership) (%)	Relationship with Related Party	Transaction Content	Transaction Amount	Account Item	Balance at Fiscal Year-End
Officer and his close relative	Takashi Tsutsui	(Ownership) Direct0.0	Director and Executive Officer of the Company	Execution of stock acquisition right (Note)	11	—	—
Officer and his close relative	Yoshinobu Kikuchi	(Ownership) Direct0.0	Director of the Company	Execution of stock acquisition right (Note)	11	—	—
Officer and his close relative	Keiichiro Ina	(Ownership) Direct0.1	Director of the Company	Execution of stock acquisition right (Note)	10	—	—
Officer and his close relative	Fumio Sudo	(Ownership) Direct0.0	Director of the Company	Execution of stock acquisition right (Note)	23	—	—
Officer and his close relative	Sachio Matsumoto	(Ownership) Direct0.0	Executive Officer of the Company	Execution of stock acquisition right (Note)	47	—	—
Officer of significant subsidiary and his close relative	Haruo Shirai	—	Director of the subsidiary of the Company	Execution of stock acquisition right (Note)	16	—	—
Officer of significant subsidiary and his close relative	Ryou Nihei	—	Director of the subsidiary of the Company	Execution of stock acquisition right (Note)	11	—	—

Trade conditions and determination methods, etc.

(Notes) Execution of stock acquisition right describes the exercise of the stock option for the current fiscal year granted by the resolution of the Board of Directors Meeting on April 17, 2012 and the resolution of the Board of Directors Meeting on April 15, 2013. The transaction amount is the stocks given under the exercise of the stock option for the current fiscal year multiplied by the amount paid.

7. Notes to per stock information

(1) Net asset per stock	1,705.00 yen
(2) Net income per stock	41.46 yen

8. Other notes

Amounts are stated rounding off any fraction under ¥1 million.