



April 18, 2019

LIXIL Group Corporation

Yoichiro Ushioda

Director, Representative Executive Officer,

Chairman and CEO (First Section of TSE/NSE, code 5938)

(Contact):

Kayo Hirano

Senior Manager, Investor Relations Office

**Announcement Regarding Revision of the Full-year Forecast on Business Performance for the Fiscal Year Ended March 2019 due to Recognizing Loss from an Overseas Subsidiary and Recording Extraordinary Loss from a Subsidiary in Japan**

LIXIL Group Corporation (hereinafter "LGC") hereby announces that it has revised its business performance forecast for the fiscal year ended March 31, 2019, which was announced on October 22, 2018 due to recognizing loss from LGC's consolidate subsidiary, Permasteelisa S.p.A. (Headquarter: Italy, hereinafter "Permasteelisa").

In addition, loss on the valuation of shares of an affiliate company was recorded for the shares of Permasteelisa held by LIXIL Corporation (hereinafter "LIXIL"), the parent company of Permasteelisa, for the fiscal year ended March 31, 2019 in LIXIL's stand-alone financial reporting under Japanese Accounting Standard (JGAAP) .

1. Revision of the forecast for the full year of the fiscal year ended March 31, 2019

	Revenue	Core earnings	Operating profit	Profit before tax	Profit for the year	Profit for the year attributable to owners of the parent	Basic earnings per share
Previous FYE2019 forecast (A)	Million yen 1,845,000	Million yen 45,000	Million yen 40,000	Million yen 34,000	Million yen 4,500	Million yen 1,500	Yen 5.17
<b>Revised FYE2019 forecast (B)</b>	<b>1,832,000</b>	<b>13,000</b>	<b>Δ15,000</b>	<b>Δ18,000</b>	<b>Δ50,000</b>	<b>Δ53,000</b>	<b>Δ182.76</b>
Change (B-A)	Δ13,000	Δ32,000	Δ55,000	Δ52,000	Δ54,500	Δ54,500	Δ187.93
Change (%)	Δ0.7	Δ71.1	-	-	-	-	-
(Reference) FYE2018 result	1,829,344	76,046	59,107	65,100	56,662	54,581	189.13

(Note) Core earnings are calculated by deducting the cost of sales and SG&A (selling, general and administrative) expenses from the revenue. Figures for (Reference) FYE 2018 results are figures which have restated profit (loss) from Permasteelisa S.p.A. as "continuing operations" from "discontinued operations" in Q2 FYE2019.

## 2. Reasons for the revision

As stated in the "Announcement on Termination of Share Transfer Agreement of Consolidated Subsidiary", which LGC announced on November 27, 2018, LGC decided to transfer 100% of shares of Permasteelisa to Grandland Holdings Group Limited (hereinafter "Grandland") on August 21, 2017. However, LGC received an official notification from the Committee on Foreign Investment in the United States ("CFIUS"), which made it clear that LGC was unable to secure approval for the originally planned transfer of shares of Permasteelisa to Grandland. Based on the receipt of this notification, LGC decided to terminate the share transfer agreement in November 2018.

Since the termination of the share transfer agreement, LGC has been working through all options to ensure that a robust plan is put in place that will strengthen Permasteelisa as well as LGC. As part of this, LGC has been conducting a comprehensive and detailed examination of all aspects of on-going projects, as well as working to develop a revitalization plan in order to recover the profitability of Permasteelisa.

Based on the result of the examination, LGC has deemed it necessary to increase accrual for expected future losses on construction projects because estimated construction costs required to complete projects are expected to increase significantly in the future, primarily for construction projects in North America. This is due to the increase in raw material prices, the increase in construction costs expected in the future from large increases in labor costs caused by the shortage of on-site workers and technicians, as well as the decline in project management ability caused by the resignation of skilled project managers for multiple projects. In addition, project owners of certain projects have changed because of their respective deteriorating business performance caused by global economic challenges. This has also resulted in requiring LGC to accrue allowances for doubtful accounts for receivables that LGC does not expect to be able to collect in the future.

Due to this situation, LGC has been developing a business plan to revitalize Permasteelisa Group and to recover its profitability. The plan includes scaling down operations, including selective order taking within its capacity to execute construction projects and decreasing fixed costs by optimizing SG&A, and enhancing measures to drive more reliable cash flow management.

As a result, LGC is required to recognize impairment losses on intangible assets including goodwill due to the changes in the business environment, such as the scaling down of the operations, as a result of the impairment test under International Accounting Reporting Standard (IFRS).

In addition, the book value of shares of Permasteelisa S.p.A held by LIXIL, a wholly-owned subsidiary of LGC, was written down in the amount of 70 billion yen of loss on the valuation of shares of an affiliate company which was recorded as an extraordinary loss in LIXIL's stand-alone financial reporting under Japanese Accounting Standard (JGAAP). The impairment loss on affiliate shares was eliminated as a consolidation adjustment on the LIXIL Group's consolidated financial statements. As such, the recognized loss does not impact LGC's financial results.

Based on the examination mentioned above, estimated variance from the previous full-year forecast and the nature of those losses relating to Permasteelisa's business are as follows:

Nature of losses	Items	Amount (JPY million)
(1) (Revenue) Decrease in sales due to selective order intake in North America, where profitability deteriorated	Revenue	Δ22,500
(2) (Cost of sales) Deterioration in profits due to additional construction costs mainly in North America		Δ20,600
(3) (Cost of sales) Write down of receivables mainly for customers in the Middle East and Asia that is not expected to be able to collect in the future		Δ8,100
(4) (Cost of sales) Provisions for other allowances		Δ2,600
(5) (Sales and Administrative Expenses)		Δ1,700
	Core earnings	Δ33,000
(6) (Other income / expenses) Impairment loss on goodwill and intangible assets, others		Δ24,500
	Operating profit	Δ57,500
(7) (Tax expenses)		3,000
	Profit for the year	Δ54,500

Regarding businesses other than Permasteelisa, core earnings for businesses in Japan are expected to exceed the forecasted amount announced on October 22, 2018 due to recovery of demand in Japan, while core earnings for overseas business are expected to be lower. The aggregated amount of profits from Japan businesses and overseas businesses, except for Permasteelisa, is in line with the forecasted amount for core earnings, and is expected to exceed targets for operating profits and other profits below operating profits.

### 3. Future outlook

As for the future outlook of Permasteelisa's business, please refer to the "Supplementary Material regarding the 'Announcement Regarding Revision of the Full-year Forecast on Business Performance for the Fiscal Year Ended March 2019 due to Recognizing Loss from an Overseas Subsidiary and Recording Extraordinary Loss from a Subsidiary in Japan', announced on April 18, 2019." Based on a comprehensive and detailed examination of all aspects for all on-going projects of Permasteelisa, all possible deterioration factors for profit, including factors that will deteriorate in the future anticipated at present is reflected in the forecast for the fiscal year ended March 31, 2019 as well as the forecast for the fiscal year ending March 31, 2020 and onwards.

The financial results for LGC for the fiscal year ended March 31, 2019 will be announced on May 13, 2019, where an annual forecast for the fiscal year ending March 31, 2020 will be announced.

At this point, the restructuring costs related to the business restructuring of Permasteelisa and the profit and loss impact from low gross profit projects expected to be completed mostly in the next consolidated fiscal year will be included in the forecast for the fiscal year ending March 31, 2020.

The forecast of the dividends per share for the fiscal year ended March 31, 2019, which is currently 35 yen, has not been changed.

Note: Statements made above are forward-looking statements. LGC cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

End

SUPPLEMENTARY MATERIAL REGARDING

› **“ANNOUNCEMENT REGARDING REVISION OF THE FULL-YEAR FORECAST ON BUSINESS PERFORMANCE FOR THE FISCAL YEAR ENDED MARCH 2019 DUE TO RECOGNIZING LOSS FROM AN OVERSEAS SUBSIDIARY AND RECORDING EXTRAORDINARY LOSS FROM A SUBSIDIARY IN JAPAN ” ANNOUNCED ON APRIL 18, 2019**

**LIXIL Group Corporation**

(Code 5938, First Section of TSE/NSE)

Representative Executive Officer, President and COO

Hirokazu Yamanashi

Representative Executive Officer and Executive Vice President,  
Finance, Treasury, M&A and CFO

Sachio Matsumoto



Copyright © LIXIL Group Corporation. All rights reserved.

## CONTENTS

This supplementary material includes the following information for your reference.

**(1) Revised forecast for FYE2019 announced on April 18**

**(2) Details of the major reasons for the revision of the forecast for FYE2019**

**(2.1) Reason for the revision 1:** Development process of a revitalization plan, loss recognized from examination of orders received, and impairment on intangible assets including goodwill for Permasteelisa

**(2.2) Reason for the revision 2:** Others

**(3) Reasons for deterioration of business performance, revitalization plan, and future outlook for Permasteelisa**

**- Supplemental Financial Data for Permasteelisa (reference)**

(Notes)

- Statements made above are forward-looking statements. LIXIL Group cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.
- Forecast of the dividends per share for the fiscal year ended March 31, 2019, which is currently 35 yen, has not been changed.
- The financial results for the fiscal year ended March 31, 2019 will be announced on May 13, 2019.

## (1) THE REVISED FORECAST FOR FYE2019 ANNOUNCED ON APRIL 18

### › FYE2019 Full-year forecast will be revised as follows

Consolidated Statement of Profit or Loss (JPY: billion)	Full-year			Major reason for the revision of forecast	
	Revised forecast (Apr. 18, 2019)	Variance from FYE2018 (after retroactive restatement)	Changes from Previously announced forecast on Oct. 22, 2018	(Reason1) Operating results and recognition of impairment losses at Permasteelisa	(Reason2) Others
Revenue	<b>1,832.0</b>	<b>2.7</b>	<b>-13.0</b>	<b>-22.5</b>	<b>9.5</b>
Continuing operations from the beginning of the year	1,689.0	24.2	9.5	0.0	9.5
Permasteelisa	143.0	-21.5	-22.5	-22.5	0.0
Core Earnings	<b>13.0</b>	<b>-63.0</b>	<b>-32.0</b>	<b>-33.0</b>	<b>1.0</b>
Continuing operations from the beginning of the year	55.0	-20.3	1.0	0.0	1.0
Permasteelisa	-42.0	-42.7	-33.0	-33.0	0.0
Operating Profit	<b>-15.0</b>	<b>-74.1</b>	<b>-55.0</b>	<b>-57.5</b>	<b>2.5</b>
Continuing operations from the beginning of the year	49.0	-31.9	2.5	0.0	2.5
Permasteelisa	-64.0	-42.2	-57.5	-57.5	0.0
Profit before Tax	<b>-18.0</b>	<b>-83.1</b>	<b>-52.0</b>	<b>-57.5</b>	<b>5.5</b>
Continuing operations from the beginning of the year	48.0	-42.0	5.5	0.0	5.5
Permasteelisa	-66.0	-41.1	-57.5	-57.5	0.0
Tax expenses	<b>-32.0</b>	<b>-23.6</b>	<b>-2.5</b>	<b>3.0</b>	<b>-5.5</b>
Continuing operations from the beginning of the year	-20.0	1.5	-5.5	0.0	-5.5
Permasteelisa	-12.0	-25.1	3.0	3.0	0.0
Non-controlling interests	3.0	0.9	0.0	0.0	0.0
Net profit (loss) attributable to the owners of the parent	<b>-53.0</b>	<b>-107.6</b>	<b>-54.5</b>	<b>-54.5</b>	<b>0.0</b>
Continuing operations from the beginning of the year	25.0	-41.4	0.0	0.0	0.0
Permasteelisa	-78.0	-66.2	-54.5	-54.5	0.0

**LIXIL** Increase/decrease amount for Vs. FYE2018 result are based on figures which have restated profit (loss) from Permasteelisa S.p.A. as "continuing operations" from "discontinued operations" in Q2 FYE2019

3

### › DETAILS OF THE MAJOR REASONS FOR THE REVISION OF THE FULL-YEAR FORECAST FOR FYE2019

## (2) DETAILS OF THE MAJOR REASONS FOR THE REVISION OF THE FULL-YEAR FORECAST FOR FYE2019

**Reason for the revision 1:** Development process of a revitalization plan, loss recognized from examination of orders received, and impairment on intangible assets including goodwill for Permasteelisa

#	Nature of losses	Items	Amount (JPY billion)
1	(Revenue) Decrease in sales due to selective order intake in North America, where profitability deteriorated	Revenue	-22.5
2	(Cost of sales) Deterioration in profits due to additional construction costs mainly in North America <sup>(1)</sup>		-20.6
3	(Cost of sales) Write down of receivables mainly for customers in the Middle East and Asia that is not expected to be able to collect in the future		-8.1
4	(Cost of sales) Provisions for other allowances		-2.6
5	(Sales and Administrative Expenses)		-1.7
		Core earnings	-33.0
6	(Other income / expenses) Impairment loss on goodwill and intangible assets, others <sup>(2)</sup>		-24.5
		Operating profit	-57.5
7	(Tax expenses)		3.0
		Profit for the year	-54.5

**Affected segment:** Building Technology (Overseas)

- (1) Construction loss expected to occur in the future (the amount of unprofitable construction costs) led by a decrease in gross profit due to a decrease in sales from selective order intake and based on strict screening and re-estimation of construction costs that will occur in the future
- (2) Total of Impairment loss of intangible assets including goodwill of -25.3 billion yen and others +0.8 billion



(Note) Statements made above are forward-looking statements. LIXIL Group cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. <sup>5</sup>

## (2) DETAILS OF THE MAJOR REASONS FOR THE REVISION OF THE FULL-YEAR FORECAST FOR FYE2019

**Reason for the revision 2:** Others

#	Nature of losses/gains	Items	Amount (JPY billion)
1	(Revenue) Increase from recovery of demand in Japan <sup>(1)</sup>	Revenue	9.5
2	(Cost of sales) Cost deterioration (due to lower production) mainly due to sales missing the target in overseas business and increase in raw material prices and other costs		-7.7
3	(Sales and Administrative Expenses) SG&A cost reduction effort		8.7
		Core earnings	1.0
4	(Other income / expenses) <sup>(2)</sup>		1.5
		Operating profit	2.5
4	(Finance income & loss) Primarily due to the difference in projected income and losses on derivatives relating to foreign currency exchange		3.0
5	(Tax expenses) Primarily due to the excess of finance income and the difference in the amount of projected deferred taxes		-5.5
		Profit for the year	0.0

- (1) Mainly Water Technology and Housing Technology

- (2) Impairment loss on tangible and intangible assets of 2.7 billion yen related to the development of the business revitalization plan for a consolidated subsidiary in South Africa, which is recognized in Q4 FYE2019



### › (3) REASONS FOR DETERIORATION OF BUSINESS PERFORMANCE, REVITALIZATION PLAN, AND FUTURE OUTLOOK FOR PERMASTEELISA

### (3) REASONS FOR DETERIORATION OF BUSINESS PERFORMANCE, REVITALIZATION PLAN, AND FUTURE OUTLOOK FOR PERMASTEELISA

#### › Major reasons for the deterioration of business performance and initiatives to revitalize Permasteelisa are as follows

##### Fundamental reason for deterioration in profitability

- In the past, under the “Expanding business” policy, Permasteelisa Group expanded both the geographic scope of business and types of businesses, leading to projects expanding beyond their execution and management capability
- Decline in quality of project execution, increase in unprofitable projects and adoption of some high-risk projects. *(Recent assessment of unprofitable projects identified the loss, including future loss)*
- Increase in fixed costs in each business and region due to the “Expanding business” policy resulted in further increases in order intake to compensate the increased fixed costs
- Decline in project management and execution capability due to the resignation of many skilled employees in 2015 resulted in significant under-capacity for project management

##### Major initiatives in the revitalization plan

- Establish dedicated team to execute new business plan to achieve profitability (Joint task force w/LIXIL)
- Concentrate on core businesses with stable profitability, withdraw from high risk businesses and regions, and pursue more selective order intake
- Implement strict screening to control new project order intakes to focus on profitability and cash flow
- Streamline the organization and dramatically reduce fixed costs
- Strengthen project management and execution capabilities

### (3) REASONS FOR DETERIORATION OF BUSINESS PERFORMANCE, REVITALIZATION PLAN, AND FUTURE OUTLOOK FOR PERMASTEELISA

#### › Future outlook

Unit Million Euros	FYE2020	FYE2021	FYE2022	FYE2023	FYE2024
Revenue	1,110	976	1,000	981	992
Cost of sales	1,102	869	883	864	871
Gross profit	7	107	117	117	121
Gross profit %	0.7%	11.0%	11.7%	12.0%	12.2%
SG&A	96	90	82	82	81
Core earnings	-89	17	35	35	40
Restructuring costs <sup>(1)</sup>	42	28	7	-	-
Order intake	930	940	952	964	968

- Based on a comprehensive and detailed examination of all aspects for all of the on-going projects of Permasteelisa, all possible deterioration factors for profit, including factors that will deteriorate in the future anticipated at present is reflected in the forecast for the fiscal year ended March 31, 2019 as well as forecast for the fiscal year ending March 31, 2020 and onwards
- At this point, the restructuring costs related to the business restructuring of Permasteelisa and the profit and loss impact from low gross profit projects expected to be completed in the next consolidated fiscal year are estimated as shown above, and it will be included in the forecast for the fiscal year ending March 31, 2020 to be announced on May 13, 2019



(1) Restructuring costs projected to be recognized under "Other expenses", which is presented below core earnings

9

### (REFERENCE) SUPPLEMENTAL FINANCIAL DATA FOR PERMASTEELISA

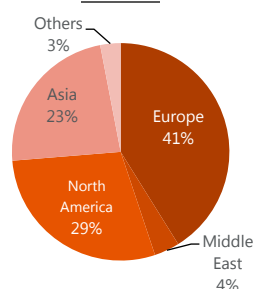
#### › Order intake, order backlog

(Unit: EUR million)

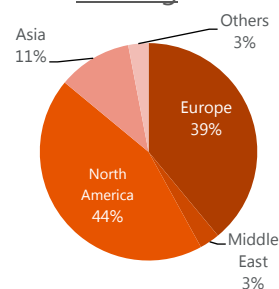
Accounting period	FYE2018	FYE2019
Order intake	1,322	959
Order backlog	2,098	1,951



#### FYE2019 Order intake



#### FYE2019 Order backlog



#### › Goodwill, intangible assets

(Unit: EUR million)

Accounting period	FYE2018 Results	FYE2019 (12 months)			
		Amortization	Impairment	Others <sup>(2)</sup>	Balance
Exchange rate (Current Rate for balance, Average Rate for amortization, impairment and others)	130.52	128.43	128.43	128.43	124.56
Goodwill	-	-	-75	75	0
Intangible assets	-	-8	-122	130	0

<sup>(1)</sup> From Q2 FYE2019, Permasteelisa business is restated as <Continuing operations> from <Discontinued operations>



10



