Corporate Governance	
Corporate Governance	LIXIL Group Corporation
Last updated: June 24, 2016	
LIXIL Group Corporation	
Kinya Seto, President and CEO	
Contact: IR Office 03-6268-8806	
Securities code: 5938	
http://www.lixil.com/en/investor/	

The corporate governance system at LIXIL Group Corporation is described below.

I. Basic Philosophy Regarding Corporate Governance, and Other Basic Information Regarding Corporate Profile and Capital Structure

1. Basic Views

１．　Fundamental Philosophy

LIXIL constantly strives to build the best possible corporate governance system needed to realize its belief that publicizing and implementing its group management philosophy throughout LIXIL and all of its subsidiaries and affiliates (the "Group") will enable it to achieve the maximum sustainable improvement of corporate value.
LIXIL's Group Management Philosophy is as disclosed in the following website.
http://www.lixil.com/en/about/values.html

Under LIXIL, a pure holding company, the Group aims to optimize the whole by maintaining cooperation between each operating company. The Group has adopted the following fundamental framework and has undertaken initiatives to strengthen and enhance corporate governance in order to maintain the Group's standing as a corporate group that inspires confidence through the creation and provision of attractive value to its stakeholders.
(1)　Company with a Nominating Committee, etc.
LIXIL has adopted the governance format of a "company with a nominating committee, etc." with the aim of clearly separating its executive and supervisory functions, thereby enabling executive officers to make swift and decisive business decisions, and ensuring management transparency.
(2)　Enhancement of Functions by Through the Use of Optional Structures
In addition to the committees and structures which are legally required for a company with a nominating committee, etc., LIXIL has established an Executive Officers Meeting and other optional bodies.
(3)　Implementation of a Uniform Corporate Governance System Across the Entire Group
By setting forth the LIXIL Values (Shared Values) and the LIXIL Group Code of Conduct, and group-wide financial and accounting management policies, having the entire Group comply therewith, and putting in place a uniform compliance system across the Group, LIXIL strives to spread the core elements of its corporate governance system to the entire globalized corporate group.

[Reasons for Non-compliance with Certain Principles of the Corporate Governance Code]

At the December 2015 meeting of the Board of Directors, the Company approved LIXIL Group's Corporate

Governance Guidelines (the "Guidelines"), which outline the Company's basic approach to corporate governance. (Please note that these Corporate Governance Guidelines include certain provisions which have not yet taken effect, or for which implementation is incomplete. For details, please refer to the Supplementary Provisions of the Guidelines.) http://www.lixil.com/en/about/governance/policies.html

The Company has already implemented most of the principles of the Corporate Governance Code, but by recently creating and implementing the Guidelines, it plans to implement all of the principles of the Code, including some that have not yet been implemented. Because it cannot be said that the Corporate Governance Code principles that will be implemented due to the provision of new initiatives in the Guidelines have necessarily all been already been put into effect at this point in time, below we explain about the status of these provisions.

[Principle 1-7 Related Party Transactions]
With respect to the procedures and framework for related party transactions, so far the Company has not set separate criteria beyond what is required by law, but the Company will set forth specific details and comply therewith going forward (Article 10 of the Guidelines).

[Principle 3-1 (v) Disclosure of Information]

(v) Disclosure of Reasons for the Nomination of Directors and the Appointment of Executive Officers
The Company will expressly state in the convocation notice for meetings of shareholders the reasons for the nomination of each director candidate with regard to all director candidates, and also show that the Company has achieved a balance of knowledge, experience, and capabilities, etc. by listing the attributes of each director candidate (Article 22.3 of the Guidelines). In addition, the Company will disclose on its web site the reasons for the appointment of executive officers (Article 23.3 of the Guidelines).

[Supplementary Principle 4-11③ Self-Evaluation by the Board of Directors]
The Company has never carried out analysis and evaluation of the effectiveness of the Board of Directors as a whole, but going forward it will do so using the method set forth in the Guidelines, and will disclose a summary of the results of such analysis and evaluation (Article 31 of the Guidelines).

Furthermore, although the second sentence of Principle 1-4 states that the subject of verification is the "Board of Directors," in light of the fact that the Company is a company with a nominating committee, etc., we believe it is more appropriate for the subject of verification to be the "Executive Officers Meeting."

[Disclosure Based on the Principles of the Corporate Governance Code]

Because the Company's Guidelines contain provisions with regard to many of the disclosure items below, where relevant a note has been added referring to the related provision in the Guidelines. http://www.lixil.com/en/about/governance/policies.html

[Principle 1-4 Policy Regarding Cross-Shareholdings and Criteria Regarding the Exercise of Voting Rights for Such Shares]
The Company holds shares on a cross-shareholding basis in cases where it has been recognized to be necessary in order to facilitate sales or as part of an alliance necessary for its business activities. Article 8 of the Guidelines sets forth the policy regarding such holdings and procedures for the sale of such shares, and other such matters. When the Company exercises voting rights of such shares, it does so in a manner that contributes to the purpose of those cross-shareholdings, which is to increase the Company's corporate value by strengthening transaction relationships.

[Principle 1-7 Framework of Procedures Regarding Related Party Transactions]
With respect to the procedures and framework for related party transactions, so far the Company has not set separate criteria beyond what is required by law, but the Company is preparing to set forth specific details and comply therewith going forward (Article 10 of the Guidelines).
.

[Principle 3-1 Disclosure of Information]
Articles 34 and 35 stipulate disclosure methods and the Company's fundamental policy regarding information disclosure. (For the Company's Disclosure Policy please refer to the following page on the Company's web site:
http://www.lixil.com/en/investor/strategy/policy.html.

(i) Company Philosophy, Management Strategy, and Management Plan
The Company's philosophy, management strategy, and management plan are set forth in Article 2 of the Guidelines. In addition, please refer to the following page on the Company's web site:
http://www.lixil.com/en/about/values.html.

(ii) Basic Philosophy and Policy with Respect to Corporate Governance
This is set forth in Articles 1 through 3 of the Guidelines, and in the section entitled "I -1. Basic Philosophy" of this report.

(iii) Procedures and Policies Regarding Determination of Compensation for Directors and Executive Officers
As a company with a nominating committee, etc., the Compensation Committee follows the policies set forth below in "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" in deciding the compensation of executive officer and directors (Article 24 of the Guidelines).

(iv) Procedures and Policies Regarding the Nomination of Director Candidates and the Appointment of Executive Officers.
As a company with a nominating committee, etc., in deciding upon the candidates for director seats, the Nomination Committee will apply the Company's own criteria (Articles 22 of the Guidelines) while considering not only the individual qualities of director candidates but also the appropriate composition of the Board of Directors. Procedures regarding the appointment of executive officers are set forth in Article 23 of the Guidelines. When independent outside director candidates are selected, the Company's own independence criteria will be used, as set forth in Article 27 of the Guidelines.

(v) Explanation of the Reasons for Each Nomination and Appointment
The reasons for the nomination of independent outside directors are as set forth below, and the reasons for the nomination of other directors are also disclosed in the convocation notice. The Company plans to disclose the reasons for appointing executive officers on its website. Articles 22.3 and Article 23.3 of the Guidelines apply to those disclosures, and those disclosures are carried out in accordance therewith.

[Supplementary Principle 4-1-① Outline of the Scope of Delegation from the Board of Directors to Executive Officers]
Based on the philosophy of a "company with a nominating committee, etc.", which is to separate supervisory functions from management execution functions, the Company has determined and summarized the scope of delegation in Article 18.2 of the Guidelines, and concrete matters to be decided by the Board of Directors and the Executive Officers Meeting, respectively, are specified in the "LIXIL Group Board of Directors Rules" and the "Rules for the Executive Officers Meeting of LIXIL Group".

[Principle 4-8 Policy Regarding the Number of Independent Outside Directors]
Currently, the Company has reported to the Tokyo Stock Exchange to identify five directors out of the current total of 12 directors who are independent outside directors. The Company's policy is that one-third or more of directors must be independent outside directors (Article 22 of the Guidelines).

[Principle 4-9 Independence Criteria]
The Company judges the independence of outside directors in accordance with the criteria set forth in Article 27 of the Guidelines.

[Supplementary Principle 4-11① Philosophy Regarding the Composition of the Board]
With respect to the composition of the Board of Directors, the Company stresses diversity, and this thinking is reflected in Article 19 of the Guidelines. Currently, there are two female directors, one of whom is a foreign national.

[Supplementary Principle 4-11② Status of Directors Serving Concurrently as Board Members at Other Companies]
The Company discloses the status of major concurrent board positions held by directors in convocation notices for General Meetings of Shareholders and in its annual report, in the section about the personal history of each director candidate.
http://www.lixil.com/en/investor/ir_event/meeting.html
Please see the Company's policy with respect to concurrent board positions held by directors in Article 30 of the Guidelines.

[Supplementary Principle 4-11③ Analysis of the Effectiveness of the Board of Directors as a Whole, and Disclosure of a Summary of the Results]
Pursuant to Article 31 of the Guidelines, the Company plans that in the future the Board of Directors will conduct a self-evaluation of its effectiveness.

[Supplementary Principle 4-14② Policy Regarding Director and Executive Officer Training]
The Company's organizational framework and initiatives for training and study by directors and executive officers are set forth in Article 32 of the Guidelines.

[Principle 5-1 Policy for Promoting Dialogue with Shareholders]
With regard to dialogue with shareholders, the Company believes that the goals of the Corporate Governance Code should be realized, and in Article 11 of the Guidelines it has set forth relevant provisions.

2. Capital Structure

Percentage of Foreign Shareholders	30% or more

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd.	9,154,900	2.92
The Nomura Trust and Banking Co., Ltd.	8,896,200	2.84
The Master Trust Bank of Japan, Ltd.	8,381,400	2.67
THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DR HOLDERS	7,063,846	2.25
LIXIL Employee Holdings	6,596,434	2.10
The Dai-ichi Life Insurance Company, Limited	6,561,858	2.09
STATE STREET BANK CLIENT OMNIBUS OM04	6,373,106	2.03
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,798,280	1.85
Sumitomo Mitsui Banking Corporation	5,543,055	1.77
STATE STREET BANK AND TRUST COMPANY 505001	5,300,392	1.69

Controlling Shareholder (except for Parent Company)	None
Parent Company	None

Supplementary Explanation

—

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section / NSE First Section
Fiscal Year-End	March
Type of Business	Metal products
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	¥1 trillion or more
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 100 to less than 300

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

---

5. Other Special Circumstances which may have Material Impact on Corporate Governance

LIXIL switched from a company with company auditors to a company with a nominating committee, etc. on June 23, 2011 by a resolution at the annual general shareholders' meeting.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with a nominating committee, etc.

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	16
Term of Office Stipulated in the Articles of Incorporation	1 year

Chairperson of the Board	Chairperson
Number of Directors	12

[Outside Directors]

Number of Outside Directors	5
Number of Independent Directors	5

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Hidehiko Sato	Other											
Tsutomu Kawaguchi	From another company											
Main Koda	Other											
Barbara Judge	Other											
Hirokazu Yamanashi	From another company											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;
"▲"when a close relative of the director fell under the category in the past

a. Executive of a listed company or its subsidiaries
b. Non-executive director or executive of a parent company of a listed company
c. Executive of a fellow subsidiary company of a listed company
d. A party whose major client or supplier is a listed company or an executive thereof
e. Major client or supplier of a listed company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from a listed company besides compensation as a director
g. Major shareholder of a listed company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of a listed company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company, between which and a listed company outside directors are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from a listed company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Affiliated Committees			Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
	Nominating Committee	Compensation Committee	Audit Committee			

Hidehiko Sato	○		○	○	Assumed office June 2011	Mr. Sato was appointed on the basis of his wide-ranging knowledge and deep insight regarding compliance, and his extensive experience in law enforcement and government. As an outside director, he has been properly fulfilling his role in supervising decision-making on important management matters and business execution. Mr. Sato was also appointed as an independent director of LIXIL as he does not infringe either of the evaluation standards concerning independence of independent directors stipulated by the Tokyo Stock Exchange, and as he satisfies the independence criteria stipulated by LIXIL. Management therefore judged there was no risk of a conflict of interest with ordinary shareholders.
Tsutomu Kawaguchi			○	○	Assumed office in June 2011	Mr. Kawaguchi was appointed on the basis of his specialist knowledge and extensive experience in finance and accounting gained as a certified public accountant. As an outside director, he has been properly fulfilling his role in supervising decision-making on important management matters and business execution. Mr. Kawaguchi was also appointed as an independent director of LIXIL as he does not infringe either of the evaluation standards concerning independence of independent directors stipulated by the Tokyo Stock Exchange, and as he satisfies the independence criteria stipulated by LIXIL. Management therefore judged there was no risk of a conflict of interest with ordinary shareholders.
Main Kohda		○		○	Assumed office in June 2013	Ms. Kohda was appointed on the basis of her sophisticated knowledge of international finance, deep insight as a successful economic novelist, and her objective perspective. Her broad experience also includes serving as a member of advisory committees of the Ministry of Finance and the Ministry of Land, Infrastructure, Transport and Tourism. As an outside director, she has been properly fulfilling her role in supervising decision-making on important management matters and business execution. Ms. Kohda was also appointed as an independent director of LIXIL as she does not infringe either of the evaluation standards concerning independence of independent directors stipulated by the Tokyo Stock Exchange, and as she satisfies the independence criteria stipulated by LIXIL. Management therefore judged there was no risk of a conflict of interest with ordinary shareholders.
Barbara Judge		○		○	Assumed office in June 2015	Lady Judge was appointed as an outside director due to the management's judgment that she will reflect a global viewpoint on LIXIL's Board of Directors based on her extensive experience and insight gained from holding corporate and public positions over many years. As an outside director, she has been properly fulfilling her role in supervising decision-making on important management matters and business execution. Lady Judge was also appointed as an independent director of LIXIL as she does not infringe either of the evaluation standards concerning independence of independent directors stipulated by the Tokyo Stock Exchange, and as she satisfies the independence criteria stipulated by LIXIL. Management therefore judged there was no risk of a conflict of interest with ordinary shareholders.
Hirokazu Yamanashi	○	○		○	Assumed office in June 2016	Mr. Yamanashi was appointed on the basis of his specialist experience and knowledge gained through the management consulting business, and he will properly fulfill his role in supervising decision-making on important management matters and business execution for LIXIL as an outside director. Mr. Yamanashi was also appointed as an independent director of LIXIL as he does not infringe either of the evaluation standards concerning independence of independent directors stipulated by the Tokyo Stock Exchange, and as he satisfies the independence criteria stipulated by LIXIL. Management therefore judged there was no risk of a conflict of interest with ordinary shareholders.

[Committees]

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Nomination Committee	3	0	1	2	Outside Director
Compensation Committee	5	0	2	3	Outside Director
Audit Committee	3	1	1	2	Outside Director

[Executive Officers (Shikkoyaku)]

Number of Executive Officers (Shikkoyaku)	8

Status of Additional Duties

Name	Representative Authority	Additional Duties as Director			Additional Duties as Employee
			Nomination Committee Member	Compensation Committee Member	
Kinya Seto	Yes	Yes	No	No	No
Ryuichi Kawamoto	Yes	Yes	No	No	No
Yosuke Yagi	No	No	No	No	No
Sachio Matsumoto	No	No	No	No	No
Toshimasa Iue	No	Yes	No	No	No
Haruo Shirai	No	No	No	No	No
Laurence William Bates	No	No	No	No	No
Hwa Jin Song Montesano	No	No	No	No	No

[Auditing Structure]

Appointment of Directors and/or Staff to Support the Audit Committee	Appointed

Matters Related to the Independence of Such Directors and/or Staff from Executive Officers (Shikkoyaku)

LIXIL has decided to establish a Secretariat for the Audit Committee made up of one or more employees as an auxiliary body to exercise the authority of the Audit Committee or Audit Committee members as set forth in laws and ordinances or internal regulations and to audit the legality and validity of the execution of duties by directors and executive officers. LIXIL has decided that executive officers will not give orders or instructions with regard to directions from the Audit Committee or Audit Committee members to such employees required for auditing work.

Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

In performing audits, the Audit Committee and the Internal Audit Division are both committed to performing efficient auditing by regularly holding meetings, promoting the sharing of information and cooperating at all times. In addition, they are working in close cooperation with the accounting auditor to actively exchange

information. Further, the system linkage departments, accounting and finance departments, domestic internal control offices, and global internal control departments, which handle internal controls, are subject to internal audits by audit divisions, Audit Committee audits regarding business reporting, and accounting audits based on the Companies Act and the Financial Instruments and Exchange Act.
LIXIL has appointed Deloitte Touche Tohmatsu LLC as its accounting auditor, concluded an audit agreement with the same regarding accounting auditing under the Companies Act and the Financial Instruments and Exchange Act, and has received an explanation of the auditing plan. In addition to receiving audit reports, LIXIL conducts hearings about the status of audits being performed as necessary.

[Independent Directors]

Number of Independent Directors	5

Matters relating to Independent Directors

All independent directors appointed by LIXIL are outside directors with independent director qualifications.Independent directors have sophisticated knowledge and extensive experience in fields such as corporate management, finance, financial accounting, or law, and they must be able to supervise business execution by the management team from an independent and objective perspective, as well as satisfy the Company's independence determination criteria. The Company's independence determination criteria stipulate that an outside director is independent if he or she does not fall under any of the following.

i. A shareholder, or an executive (hereinafter, meaning the "executive" stipulated in Article 2(3)(6) of the Companies Act Enforcement Ordinance) of another company, that holds 10% or more of voting rights in the Company;
ii. An executive of a company in which the Company holds 10% or more of the voting rights;
iii. A client or supplier, or the executive of another company, that has transactions with the Group in an amount equal to 2% or more of either's annual consolidated sales;
iv. A financial institution or other major creditor, or an executive thereof, that is indispensable to the Group's fundraising and on which the Group relies to an irreplaceable degree;
v. A member, partner, or employee of an audit company or tax accountant company that is the Group's accounting auditor or that participates in the Group's accounting;
vi. A party that receives donations or aid from the Group in an annual amount of 10,000,000 yen or more, or if such party is a corporation, organization, or other group (a "corporation, etc."), an executive of a corporation, etc. that annually receives donations or aid from the Group in excess of 2% of the corporation, etc.'s gross income;
vii. A party that annually obtains 10,000,000 yen or more of money or other profit in assets from the Group, other than as remuneration as an officer, as an attorney, certified public accountant, tax accountant, consultant, or other specialist advisor, or if the party that obtains such profit is a legal professional corporation, law firm, audit company, tax accountant company, or consulting firm or other corporation, organization, or other group (a "legal professional corporation, etc."), a party that belongs to a legal professional corporation, etc. that annually obtains money or other profit in assets from the Group in excess of 2% of the legal professional corporation, etc.'s gross income;
viii. A party whose spouse, relative within the second degree of kinship, or co-habiting relative of the director himself/herself falls under items i. through vii.;
ix. A party that falls under items i. through viii. above within the past five years;
x. The executive of a company where an executive of the Group (notwithstanding the provisions of item i. above, meaning an executive director or executive officers, or an executive, manager, or other employee) serves as an officer.

In terms of personal relationships, capital relationships or business relationships with LIXIL or any other conflicts of interest, Hidehiko Sato holds 6,000 shares in the company. Also, in this fiscal year, Hidehiko Sato has conducted transactions worth 5 million yen by exercising new stock acquisition rights.

—

[Incentives]

Incentive Policies for Directors and/or Executive Officers (Shikkoyaku)	Introduction of performance-based compensation system and introduction of a stock-option scheme.

Supplementary Explanation

For the compensation system for officers, different types of systems that reflect the difference in roles are applied to the compensation for directors, who have governance responsibilities, and executive officers, who have business execution responsibilities. Furthermore, if a director concurrently serves as an executive officer, then the compensation plan for executive officers is applicable.
LIXIL's system for director compensation consists of basic compensation and stock options. Stock options are determined based on company performance and position, etc. as a longer term incentive to view matters from a shareholder perspective.
LIXIL's system for executive officer compensation consists of basic compensation, performance based compensation reflecting a single fiscal year and medium-to-long term performance, and stock options. With regard to foreign headhunted personnel, LIXIL also utilizes incidental allowance, tax equalization and measures similar to those that are generally applied around the world in expatriate packages.

Recipients of Stock Options	Inside directors, outside directors, executive officers, employees, directors of subsidiaries and employees of subsidiaries.

Supplementary Explanation

To aim to increase incentives for officers and employees of LIXIL and its subsidiaries to improve performance from the perspective of shareholders, and to secure outstanding talent.

[Remuneration for Directors and Executive Officers (Shikkoyaku)]

Disclosure of Individual Directors' Remuneration	Selected Directors
Disclosure of Individual Executive Officers' (Shikkoyaku) Remuneration	Selected Directors

Supplementary Explanation

In addition to the director (excludes outside directors) and auditor (excludes outside auditors) categories, compensation is disclosed for executive officers and outside directors, and is classified into basic compensation and performance-based compensation. Compensation for the previous financial year was described as follows in its securities report submitted to the FSA.
- 171 million yen in basic compensation and 58 million yen in stock options to 3 directors (excludes outside directors)
- 721 million yen in basic compensation, 582 million yen in performance-based compensation, 144 million yen in stock options, and another 37 million yen to 11 executive officers
- 70 million yen in basic compensation and 17 million yen in stock options to 5 outside directors

(Actually disclosed in a table.)
For those whose total amount of consolidated compensation exceeds 100 million yen, we have individually disclosed the director and executive officer portions.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

・Basic Policy Regarding Compensation, etc.

For our officer compensation plan, it is our policy to adopt a fair compensation system that can motivate each of our officers in their duties in order to achieve a management policy that corresponds to our shareholder mandate.

(i) Performance accountability shall be clearly established at the company level as well as the individual level, and a system shall be devised that will reward officers with appropriate compensation upon the achievement of goals in order to motivate officers to achieve the goals set.
(ii) In addition to "stock price-related compensation such as stock options" that can reflect the results of increased company value in compensation, a "medium-to long-term cash plan" shall be utilized to incentivize the achievement of medium-term business plans by officers in charge of executing business.
(iii) The compensation system shall be performance-based to allow for appropriate reflection of the Group's consolidated performance.
(iv) The Compensation Committee shall assess the Company's compensation level by comparing it with objective external indicators and manage it to ensure that the level is commensurate with the relevant duties and performance in order to ensure objectivity and transparency in the compensation plan for officers.
(v) Compensation shall be set at a level sufficient to secure and attract for the long term the competent global human resources that are indispensable to the Company's sustainable growth.

・Compensation System

For the compensation system for officers, different types of systems that reflect the difference in roles are applied to the compensation for directors, who have governance responsibilities, and executive officers, who have business execution responsibilities. If a director concurrently serves as an executive officer, then the compensation plan for executive officers is applicable.

[Director and Executive Officer Compensation System]

(i) Director Compensation System
Compensation for directors shall consist of basic compensation and stock options.

(ii) Executive Officer Compensation System
Compensation for executive officers shall consist of basic compensation, performance-based compensation that reflects performance in a single fiscal year and in the medium- to long-term, and stock options.
In regards to foreign headhunted personnel, LIXIL also utilizes incidental allowances, tax equalization and measures that are similar to those that are generally applied around the world in expatriate packages.

[Details By Type of Compensation, Etc.]

(i) Basic compensation

LIXIL maintains a proper level of basic compensation for position-specific fixed compensation, according to a comparison with external objective targets. Basic compensation for executive officers varies depending on what level of performance is achieved by their division within a certain range.

(ii) Performance-based compensation

LIXIL's performance-based compensation uses short-term performance-based compensation that reflects performance for a single fiscal year and medium-to-long term performance-based compensation that

rewards achievement of the medium-term management plan, and therefore does not just use the short-term performance of each of its officers as a base. Single fiscal year performance-based compensation is distributed as a bonus once a year in connection with the performance for that year. Medium-to-long term performance-based compensation is distributed after the end of the subject period on the condition that the predetermined range of the medium-term management plan is achieved. (iii) Stock options Stock options are determined based on company performance and position as a medium-to-long term incentive from a shareholder perspective. (iv) Other Headhunted personnel are paid fringe benefits such as compensation for the difference compared to their previous compensation and a living subsidy and medical insurance subsidy, etc. as expatriates.
—

[Supporting System for Outside Directors]

LIXIL has a system in place whereby upon holding a meeting of Board of Directors, documents are distributed to outside directors in advance and the Secretariat for the Board of Directors and the Secretariat for the Audit Committee respond to each individual inquiry.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

(Board of Directors)

The Board of Directors is comprised of 12 directors (2 female directors), including 5 outside directors, and in addition to decision-making in relation to matters specified under the relevant laws and ordinances, basic management policy, and important management matters, it also supervises the execution of duties by directors and executive officers. In particular, LIXIL's outside directors perform a high-level supervisory function from an independent perspective, thereby realizing stronger, more effective corporate governance. In principle, meetings of the Board of Directors are held once a month.

(Nominating, Audit and Compensation Committees)

・The Nominating Committee is comprised of 3 directors (2 of whom are outside directors, and the chairperson of which is an outside director) and determines the contents of director appointment and dismissal proposals submitted to shareholder meetings. Nominating Committee meetings are held at least once a year as necessary.
・The Audit Committee is comprised of 3 directors (2 of whom are outside directors, and the chairperson of which is an outside director), and in addition to supervising the execution of duties by directors and executive officers, it also makes resolutions on the contents of audit policies and audit plans as well as accounting auditor appointment and dismissal proposals submitted to shareholder meetings. Audit Committee meetings are, in principle, held once every two months as necessary.
・The Compensation Committee is comprised of 5 directors (3 of whom are outside directors, and the chairperson of which is an outside director) and makes resolutions on the individual compensation, etc. to be received by directors and executive officers.

Compensation Committee meetings are held at least once a year as necessary.

(Executive Officers Meeting)

The Executive Officers Meeting is comprised of executive officers, and it performs important decision-making regarding LIXIL and the Group's execution of business as a decision-making body based on the basic policy decided by the Board of Directors. In principle, meetings of the Executive Officers Meeting are held once a month, and extraordinary meetings of the Executive Officers Meeting will be held as necessary.

(Internal Audits)

LIXIL's Internal Audit Division (Audit Division) is made up of five members. Internal Audit Divisions have also been established at the major Group companies, and internal audits are routinely conducted, including at each company's subsidiaries. LIXIL's Internal Audit Division routinely conducts audits of subsidiaries that do not have Internal Audit Divisions, and by doing so conducts audits of the overall group without omission. The audit situation is confirmed at internal audit manager meetings that are held routinely in an effort to share each company's information and the unified audit policies of the group.

(Audit Committee Audits)

LIXIL's Audit Committee conducts audits with the aim of increasing efficiency by staying in close contact with LIXIL, the Internal Audit Divisions of subsidiaries, and the auditors, etc. of subsidiaries. The Audit Committee routinely receives audit results reports from the Internal Audit Divisions and the auditors, etc. of the subsidiaries and gives instructions at suitable times. It meets with executive officers, etc., sits in on important internal meetings, and reads minutes or approval requests of important committees, and by doing so, it audits the creation of internal control systems and their state of operation at LIXIL and important subsidiaries, as well as the state of execution of duties by directors and executives.
Group audit committee meetings are also routinely held in an effort to share each company's information and the unified audit policies of the group.
The Audit Committee is made up of three audit committee members. Tsutomu Kawaguchi, the Audit Committee chairperson, has many years of experience in audit work as a certified public accountant, as well as substantial knowledge regarding finance and accounting.

(Accounting Audits)

LIXIL has entered into an audit agreement with Deloitte Touche Tohmatsu LLC regarding accounting auditing under the Companies Act and the Financial Instruments and Exchange Act. LIXIL's Audit Committee and the auditing company strive to mutually improve the quality of audits by having regular occasions for information sharing and exchanging information on various auditing policies and problems that have arisen during the fiscal year. LIXIL also holds auditing report meetings at the end of the fiscal year and exchanges information regarding specific balance sheet problems.
The name of the certified public accountants who performed the Company's auditing work this fiscal year, their number of years of service, and their structure of assistants for audit services are as follows.

- Name of public certified accountants who performed the auditing work and their number of years of service.
  Specified members, managing members: Yasuyuki Onaka (5 years), Koji Inagaki (2 years), Junichi Yamanobe (7 years)
- Composition of assistants for accounting audit services
  18 certified public accountants and 9 assistant accountants

As a pure holding company, in order to enhance corporate governance at its group companies, LIXIL discusses management strategies, medium- and long-term policies and investment matters at appropriately held Internal Audit Committee meetings, Compliance Committee meetings, Risk Management Committee meetings, Investment Strategy Committee Meetings, Investment and Loan Council meetings, Committee for the Establishment of New Subsidiaries meetings, Business Withdrawal Committee, and CR committee, to strive to accelerate decision-making and enhance the effectiveness of its governance.

3. Reasons for Adoption of Current Corporate Governance System

LIXIL changed to a company with a nominating committee, etc. after obtaining approval at a shareholder meeting held on June 23, 2011, in order to separate its management execution and oversight functions to enable prompt decision-making by executive officers, and to secure business transparency.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company is working to publicize the notification of the general shareholders' meeting early by disclosing it in advance on its website.
Scheduling AGMs Avoiding the Peak Day	The Company avoids scheduling its general shareholders' meeting on the so-called peak day for general shareholders' meetings, and also holds its general shareholders' meeting early.
Allowing Electronic Exercise of Voting Rights	LIXIL has created an environment that enables the exercise of voting rights on a company-designated site from a personal computer, smart phone or mobile phone.
Participation in Electronic Voting Platform and Measures to Improve the Environment for Institutional Investors to Exercise Voting Rights	LIXIL participates in a platform for institutional investors to exercise voting rights that is operated by Investor Communications Japan.
Providing Convocation Notice (Summary) in English	LIXIL prepares an English version of its shareholders' meeting convocation notices and publishes them on its website.
Other	In regards to the results of voting on the shareholder meeting agenda, LIXIL has decided that provisional reports are to be submitted without delay after shareholders' meetings under the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, Etc. Resolution notices are posted on our company website.

2. IR Activities

	Supplementary Explanations	Explanation by representatives themselves
Preparation and Publication of Disclosure Policy	Information for investors is posted on our website.	—
Regular Investor Briefings for Individual Investors	It is our policy to actively hold briefings.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	LIXIL holds briefings at each settlement of accounts and at the time of announcing quarterly results, where it explains its financial results and the progress of management policies and measures. The company also holds a number of other individual meetings and group meetings on the same.	Yes
Regular Investor Briefings for Overseas Investors	In addition to telephone briefings at the time of announcing its financial results, LIXIL visits overseas investors 4 times a year or more to explain financial results and management policies, etc. The company also holds a number of other individual meetings and group meetings on the same.	Yes

Posting of IR Materials on Website	As well as posting IR material, including annual reports, on the company website, LIXIL also creates and posts pages specifically for individual investors. LIXIL also provides video explanations of management policies and audio downloads of results briefings and so on by the representative director. http://www.lixil.com/jp/investor/	—
Establishment of Department and/or Manager in Charge of IR	LIXIL has established specialized IR-related departments.	—

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	An explanation of the Group philosophy is posted on LIXIL's website.
Implementation of Environmental Activities, CSR Activities etc.	We have established a corporate responsibility (CR) strategy and posted it on our website.
Development of Policies on Information Provision to Stakeholders	We have established a disclosure policy and listed it on our website.
Other	Gender composition ratio of officers With regard to the gender composition of LIXIL's officers, among our 12 directors we have 2 female directors and among our 8 executive officers, we have 1 female executive officer. Specific target for the number of female manager appointments The Group promotes diversity in line with the LIXIL Diversity Declaration, and in addition to this has formulated a "We Do Action" plan for the purpose of accelerating women's activities, and is actively promoting the appointment of women to management positions and the hiring of new women graduates, as well as women's participation in the leadership training program.

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

The main details of LIXIL's internal controls and risk management system are as follows. The Board of Directors has made resolutions on such matters as a basic policy for the internal control system under the Companies Act.

In addition, as a pure holding company, LIXIL always closely watches the risks assumed by Group companies, and confirms and provides advice on their hedging against risk. Therefore, we made the creation of a Risk Management Committee, etc. at each company mandatory, and routinely confirm the risk circumstances at each company. We also study each Group company's risks at the Internal Audit Committee and Risk Management Committee, etc. held at suitable times, and we ask group companies to attend and provide reports as necessary. Furthermore, each company must provide a report on risks at the quarterly performance review meetings, etc. that are routinely held.

(i) System ensuring that the execution of duties by LIXIL executive officers and employees, and the directors and employees of LIXIL subsidiaries, conforms with laws and regulations and LIXIL's Articles of Incorporation

LIXIL and its subsidiaries (the “Group”) set forth a Code of Conduct as the Group’s code of ethics, and all employees, including officers, undergo training thereon once a year and pledge to comply with the Code. The Group is equipped with a whistleblower protection system under which its officers and employees can report directly to LIXIL’s legal department or outside counsel.
The Group does not tolerate antisocial forces and has no relation thereto. In order to prevent damage from antisocial forces, the Group adopts a resolute stance and deals with any intimidation by such forces on a group-wide level.

(ii) System for storage and management of information regarding the execution of duties by LIXIL's executive officers

LIXIL stores documents and the like pursuant to laws and ordinances and internal regulations. Directors and Audit Committee members are able to view such documents, etc. at all times.
The management of information is complies with the provisions of the Information Security Management Rules and the Personal Information Protection Policy.

(iii) Rules and system regarding loss-risk management in the Group

In addition to setting forth and managing risk management rules and always closely monitoring the risks assumed by the group companies, the Group also confirms and provides advice on how to handle such situations through risk management meetings held by the Risk Management Division. In addition, LIXIL has the Group report on the status of its risks and also receives reports from those requested to attend quarterly performance review meetings and the like. Furthermore, the Group implements education and training based on the Business Continuity Plan (BCP) Guidelines.

(iv) Systems for ensuring that the execution of responsibilities by LIXIL officers and employees, and the directors and employees of LIXIL subsidiaries, is efficient

LIXIL’s Board of Directors determines a segregation of duties for its executive officers, clarifying the areas that each officer is in charge of. Executive Committee meetings that all executive officers attend are held and carry out decision-making on basic matters and important matters regarding the execution of business in a flexible manner.
Various committees under the Executive Committee review the management strategies and investment projects of the group as a whole in order to accelerate decision-making.
Also, a medium-term management plan and a short-term plan are developed to cover the Group as a whole. Such development work supports the decision-making of LIXIL subsidiaries while respecting the autonomous management decisions and independence thereof.

(v) Other systems for ensuring fair business practices in the Group

LIXIL receives regular reports on the business situation and gives approvals on important matters at group companies, while respecting their autonomous management.
In order to ensure the accuracy and adequacy of its consolidated financial statements, LIXIL has an internal control system in place which is properly operated.
(vi) Directors and employees who support LIXIL Audit Committee responsibilities

LIXIL can have 1 or more employees in the Audit Committee support office to support LIXIL Audit Committee duties. No Directors are appointed to support LIXIL’s Audit Committee.

(vii) Matters regarding the independence of the employees mentioned above from LIXIL's executive officers, and matters for ensuring the effectiveness of instructions given by the Audit Committee members to those employees

Audit Committee members and the head of the Human Resources Department will consult in advance regarding the appointment, transfer or evaluation of such employees.
In regards to instructions necessary for auditing work to such employees from the Audit Committee and Audit Committee members, each department will respond appropriately to ensure the effectiveness of such instructions

(viii) System requiring reports by LIXIL executive officers and employees to the audit committee, and system requiring other reports to the audit committee

If an executive officer finds any fact that may cause significant damage to LIXIL, he or she will report such fact to the Audit Committee immediately.
If an Audit Committee member receives any important report or opinion or documents from an executive officer, the accounting auditor or any party thereof, he or she reports to an Audit Committee meeting thereon.
Representative officers and Audit Committee members regularly exchange opinions on audit findings.
The Legal Department regularly reports to Audit Committee meetings on the status of internal reporting.
Audit Committee members attend the regular meetings of the Board of Directors and receive status reports on duties executed by executive officers regularly done by the Board of Directors.
Executive officers and employees report to Audit Committee members on the status of duties performed at hearings, etc. by Audit Committee members.

(ix) System requiring LIXIL subsidiary directors, auditors, employees who execute the business, individuals who carry out the duties stated in Article 598(1) of the Act, and individuals who receive reports from such individuals to report to the LIXIL Audit Committee

LIXIL regularly holds quarterly performance meetings that our Audit Committee members, and directors and auditors of our subsidiaries attend, and as well as striving to share important management information, we require our subsidiaries to attend and report to Audit Committee meetings from time to time if any important events occur at a LIXIL subsidiary.

(x) System for ensuring that the individuals who provided reports to the LIXIL audit committee are not treated unfairly for having done so

LIXIL's Whistleblower Protection System Operating Protocol provides that Group officers and employees can report directly to the Compliance Committee comprised of representatives of LIXIL's Audit Committee and everyone in the Group is informed of the method, etc. for such direct reporting. It also states that dismissal or unfair treatment due to such reporting or any other reporting to the Audit Committee itself is prohibited.

(xi) Matters regarding policies on prepayment or redemption procedures for expenses that arise in the execution of duties by the LIXIL Audit Committee and the handling of expenses and liabilities that arise in the execution of other responsibilities

If LIXIL is invoiced for the prepayment, etc. of costs under Article 404 of the Companies Act with respect to duties executed by the Audit Committee, LIXIL shall bear such costs after they have been deliberated by the relevant department. In addition, LIXIL provides a budget of a fixed amount each year in order to pay such costs.

(xii) Other systems for ensuring the effective execution of audits by the LIXIL Audit Committee

As well as receiving regular reports from LIXIL's accounting auditor and Internal Audit Division on the details of audits, the Audit Committee also regularly holds Group Audit Committee meetings to promote cooperation.

2. Basic Views on Eliminating Anti-Social Forces

・The Group prohibits contact with antisocial forces and has documented its fundamental policy, which states that "We will not recognize antisocial organizations, individuals (such as racketeers or organized crime

groups) whatsoever. Our organization has a firm stance on dealing with threats and compulsive behavior by antisocial forces and has a zero tolerance policy. The Group has absolutely no relationship with any antisocial forces."

・The Group sets forth a "LIXIL Code of Conduct" that includes the fundamental policy above and asks that all employees put into practice this message from senior management. In terms of operation, in addition to defining the main departments that are in charge, the Compliance Committee performs regular reviews and re-evaluations of implementation.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

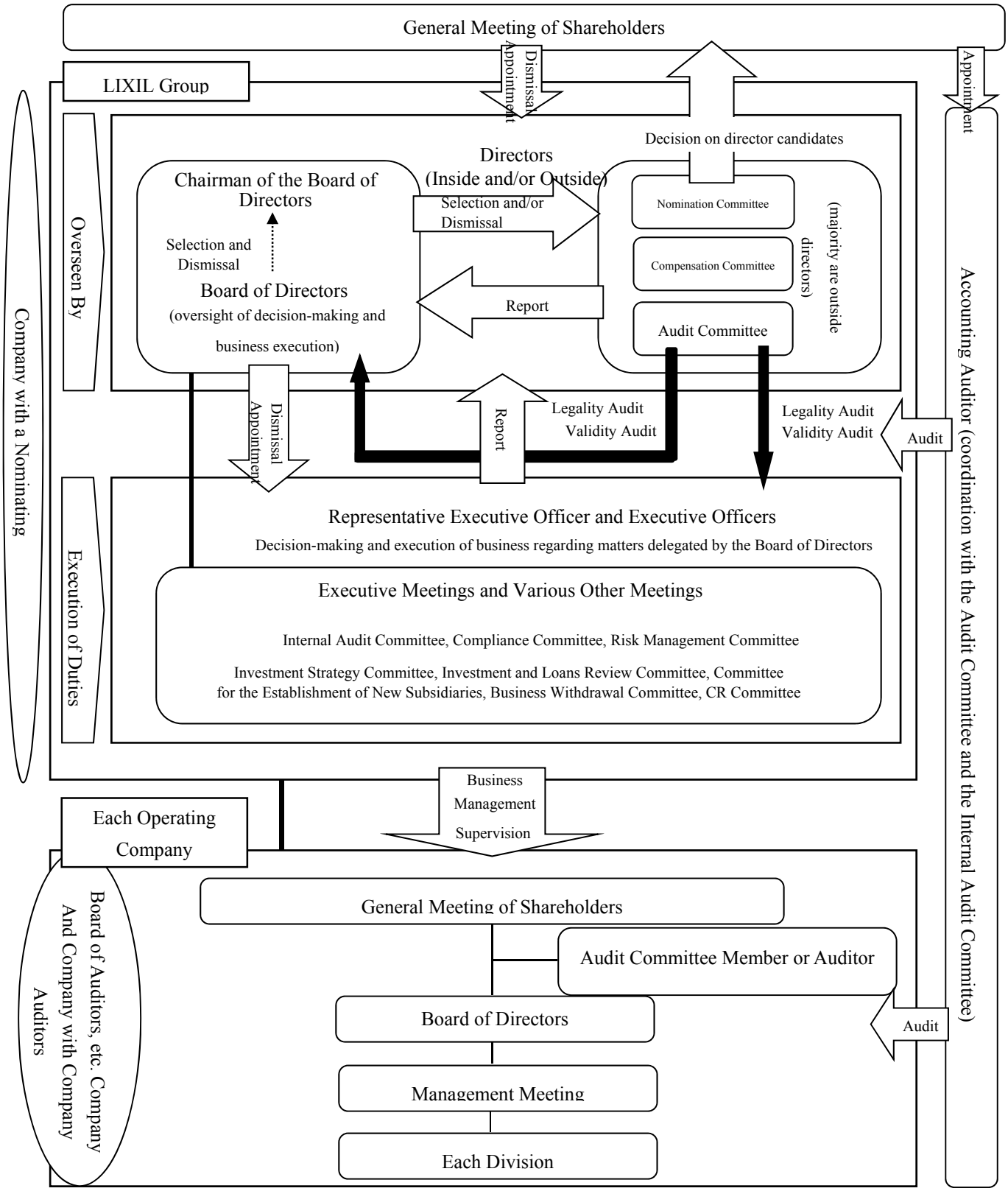
LIXIL prefers that shareholders hold its shares for the medium-to-long-term, and is executing measures to improve results, increase corporate value, and receive the shareholders' support. Therefore, no particular anti-hostile takeover measures have been established.

2. Other Matters Concerning to Corporate Governance System

LIXIL has the following internal systems to ensure that timely and appropriate disclosure of information is made following resolutions by the Board of Directors or approval from the Executive Committee.

Each department or subsidiary reports material company information directly to the Executive Officers Meeting pursuant to internal regulations such as "Job Function Regulations." Also, deliberations or reports on specific projects* by each committee are reported to the Executive Committee.
Matters to be discussed by the Executive Committee are reviewed in advance by the Executive Committee Secretariat, and the person in charge of handling information shall determine whether timely disclosure should be made with the relevant departments such as Accounting and IR.
(Refer to Schematic Diagram)

*Specific projects: Matters concerning (i) investment or loans, (ii) environmental strategy, (iii) consideration of reorganization, (iv) establishment of new subsidiaries, (v) withdrawals from businesses, (vi) disasters or accidents, etc., or (vii) other unforeseen facts arising suddenly, such as product liability or wrongful acts.


General Meeting of Shareholders
Dismissal
Appointment
Appointment
LIXIL Group
Company with a Nominating
Overseen By
Decision on director candidates
Directors
(Inside and/or Outside)
Chairman of the Board of Directors
Selection and Dismissal
Board of Directors
(oversight of decision-making and business execution)
Selection and/or Dismissal
Report
Nomination Committee
Compensation Committee
Audit Committee
(majority are outside directors)
Accounting Auditor (coordination with the Audit Committee and the Internal Audit Committee)
Dismissal
Appointment
Report
Legality Audit
Validity Audit
Legality Audit
Validity Audit
Audit
Execution of Duties
Representative Executive Officer and Executive Officers
Decision-making and execution of business regarding matters delegated by the Board of Directors
Executive Meetings and Various Other Meetings
Internal Audit Committee, Compliance Committee, Risk Management Committee
Investment Strategy Committee, Investment and Loans Review Committee, Committee for the Establishment of New Subsidiaries, Business Withdrawal Committee, CR Committee
Business Management Supervision
Each Operating Company
Board of Auditors, etc. Company And Company with Company Auditors
General Meeting of Shareholders
Audit Committee Member or Auditor
Board of Directors
Audit
Management Meeting
Each Division

Summary of Timely Disclosure System

