[This is an English translation of the original text written in Japanese]

October 22, 2018
LIXIL Group Corporation

Announcement Regarding Revision of the Forecast on Business Performance for the Fiscal Year Ending March 2019

LIXIL Group Corporation (hereinafter “LGC”) hereby announces that it has revised its business performance forecast for the first half of the fiscal year ending March 31, 2019, and the fiscal year ending March 31, 2019, both of which were announced on May 7, 2018. LGC has revised its forecasts due to the impact of recent business trends and a change in the accounting treatment and presentation of the financial reporting of Permasteelisa S.p.A. (headquarters: Italy, hereafter “Permasteelisa”, held by LIXIL Corporation, a consolidated subsidiary of LGC) following receipt of an official notification from the Committee on Foreign Investment in the United States (CFIUS) on the share transfer of Permasteelisa.

1. Revision of the consolidated forecast for the first half of the fiscal year ending March 31, 2019
(April 1, 2018 through September 30, 2018)

	Revenue	Core earnings	Operating profit	Profit before tax	Profit for H1	Profit for H1 attributable to owners of the parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Yen
Previous FYE2019 H1 forecast (A)	837,000	45,000	43,000	42,000	29,000	28,000	96.62
Revised FYE2019 H1 forecast (B)	888,000	13,500	14,500	13,500	△7,000	△9,000	△31.02
Change (B-A)	51,000	△31,500	△28,500	△28,500	△36,000	△37,000	△127.64
Change (%)	6.1	△70.0	△66.3	△67.9	-	-	-

Core earnings is calculated by deducting cost of sales and selling, general and administrative expenses from the revenue.

2. Revision of the consolidated forecast for the full year of the fiscal year ending March 31, 2019
(April 1, 2018 through 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
	Million yen	Million yen	Million yen	Million yen	Million yen	Million yen	Yen
Previous FYE2019 forecast (A)	1,710,000	85,000	78,000	75,000	52,000	50,000	172.54
Revised FYE2019 forecast (B)	1,845,000	45,000	40,000	34,000	4,500	1,500	5.17
Change (B-A)	135,000	△40,000	△38,000	△41,000	△47,500	△48,500	△167.37
Change (%)	7.9	△47.1	△48.7	△54.7	△91.3	△97.0	△97.0

Core earnings is calculated by deducting cost of sales and selling, general and administrative expenses from the revenue.

3. Reasons for the revision

LGC has revised its forecasts announced on May 7, 2018 because of the following two reasons affecting revenue, core earnings, and profits or losses following core earnings result.

(1) Recent trends in the business performance of continuing operations (excluding the impact from the changes in the situation relating to the share transfer of Permasteelisa listed below (2))

As for the business performance of the first half of the fiscal year ending March 31, 2019, LGC has not achieved its sales target in Japan due to the soft demand in new housing construction and delays in construction work for renovation, which were affected by natural disasters such as bad weather and earthquakes as well as those in overseas due to the sluggish of economy in South Africa, delayed product launch in Middle-East, and soft retail demand in Europe. Because of these trends and recent inflation in the U.S., LGC expects that gross margin and following profits will be lower than the original forecasted amount.

LGC has made efforts to compensate for all of the items listed above by reducing sales and administrative costs. However, saved costs have not reached the amount required to compensate for the majority of decreased profits in three months of the second quarter.

(2) Changes in the situation relating to the share transfer of Permasteelisa

As LGC announced today in “Progress update on the share transfer of Permasteelisa”, LGC received an official notification from the Committee on Foreign Investment in the United States (CFIUS) that it is unable to secure approval for the originally planned transfer of shares of Permasteelisa to Grandland Holdings Group Limited (Grandland).

As a result, the assets and liabilities held by Permasteelisa are no longer classified as assets and liabilities for sale. Similarly, profit and loss from Pemasteelisa’s operations will be included in the profit and loss from continuing operations from the second quarter of the fiscal year ending March 2019.

As announced in the original first half and full-year forecasts for the fiscal year ending March 2019, any financial impacts from changes related to the share transfer of Permasteelisa were not included in financial

forecasts because LGC did not anticipate any material impact from the transaction on its operating results for the current year through the conclusion of the transaction.

As for the details of (1) and (2) described above, please refer to “Supplementary material regarding Announcement Regarding Revision of the Forecast on Business Performance for the Fiscal Year Ending March 2019 announced on October 22, 2018”, which was released at the same time as this announcement.

In addition, LGC announces it has accepted a proposal from officers to voluntarily take a cut in compensation, due to the unfavorable business performance, as described below. In addition, LGC accepted a voluntary return of compensation from members of the Board of Directors.

① Executive officers of LGC and board members of LIXIL Corporation
Details：Depending on levels of position, maximum 20% of reduction from monthly base payment
Period：From November 2018 and onward

② Board members of LGC
Details：maximum 10% of reduction from monthly base payment
Period：From November 2018 and onward

Personnel who are concurrently serving executive officer and board member of LGC, are included in ①.

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 FORECAST ON BUSINESS PERFORMANCE FOR THE FISCAL YEAR ENDING MARCH 2019" ANNOUNCED ON OCTOBER 22, 2018

LIXIL Group Corporation

(Code 5938, First Section of TSE/NSE)

Representative Executive Officer and
Executive Vice President, CFO
Sachio Matsumoto

LIXIL Link to Good Living

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This supplementary material includes the following information listed below for your reference purpose.

(1) Revised forecast for FYE2019

(2) Details of the major reasons for the revision of the forecast for the first half (H1) of FYE2019
- **(2.1) Reason for the revision 1:** Shortfall of the planned target of core earnings by JPY26.5 billion (continuing operations)
- **(2.2) Reason for the revision 2:** Changes in accounting treatment and presentation regarding Permasteelisa

(3) Future outlook for the second half (H2) of FYE2019

(4) (Reference materials) Impact on the forecast for FYE2019 by the changes in accounting treatment and presentation regarding Permasteelisa

(5) (Reference materials) Impact on reporting of previous quarters

(6) (Reference materials) Background on changes in the accounting treatment

(1) THE REVISED FORECAST FOR FYE2019

› H1 and full-year forecast for FYE2019 were revised as follows

Consolidated Statement of Profit or Loss (JPY: billion)	H1				H2				Full-year			
	Revised forecast (Oct 22)	Changes from Previously announced forecast on May 7	Variance from H1 of FYE2018 (after retroactive restatement)	%	Revised forecast (Oct 22)	Changes from Previously announced forecast on May 7	Variance from H2 of FYE2018 (after retroactive restatement)	%	Revised forecast (Oct 22)	Changes from Previously announced forecast on May 7	Variance from FYE2018 (after retroactive restatement)	%
Revenue	888.0	51.0	-2.4	0%	957.0	84.0	18.1	2%	1,845.0	135.0	15.7	1%
Continuing operations from the beginning of the year	810.5	-26.5	0.6	0%	869.0	-4.0	14.1	2%	1,679.5	-30.5	14.7	1%
Permasteelisa	77.5	77.5	-3.0	-4%	88.0	88.0	4.0	5%	165.5	165.5	1.0	1%
Core Earnings	13.5	-31.5	-27.2	-67%	31.5	-8.5	-3.8	-11%	45.0	-40.0	-31.0	-41%
Continuing operations from the beginning of the year	18.5	-26.5	-22.1	-54%	35.5	-4.5	0.8	2%	54.0	-31.0	-21.3	-28%
Permasteelisa	-5.0	-5.0	-5.1	-	-4.0	-4.0	-4.6	-	-9.0	-9.0	-9.7	-
Operating Profit	14.5	-28.5	-0.6	-4%	25.5	-9.5	-18.5	-42%	40.0	-38.0	-19.1	-32%
Continuing operations from the beginning of the year	17.0	-26.0	-20.8	-55%	29.5	-5.5	-13.7	-32%	46.5	-31.5	-34.5	-43%
Permasteelisa	-2.5	-2.5	20.2	-	-4.0	-4.0	-4.8	-	-6.5	-6.5	15.4	-
Profit before Tax	13.5	-28.5	1.1	9%	20.5	-12.5	-32.2	-61%	34.0	-41.0	-31.1	-48%
Continuing operations from the beginning of the year	16.0	-26.0	-20.6	-56%	26.5	-6.5	-26.9	-50%	42.5	-32.5	-47.5	-53%
Permasteelisa	-2.5	-2.5	21.7	-	-6.0	-6.0	-5.3	-	-8.5	-8.5	16.4	-
Tax expenses	-20.5	-7.5	-21.8	-	-9.0	1.0	0.7	-	-29.5	-6.5	-21.1	-
Continuing operations from the beginning of the year	-6.0	7.0	5.9	-	-8.5	1.5	0.2	-	-14.5	8.5	7.0	-
Permasteelisa	-14.5	-14.5	-27.7	-	-0.5	-0.5	0.5	-	-15.0	-15.0	-28.1	-
Non-controlling interests	2.0	1.0	1.1	0%	1.0	0.0	-0.3	0%	3.0	1.0	0.8	0%
Net profit (loss) attributable to the owners of the parent	-9.0	-37.0	-21.8	-	10.5	-11.5	-31.2	-75%	1.5	-48.5	-53.0	-97%
Continuing operations from the beginning of the year	8.0	-20.0	-15.8	-67%	17.0	-5.0	-25.4	-60%	25.0	-25.0	-41.2	-62%
Permasteelisa	-17.0	-17.0	-6.0	-	-6.5	-6.5	-5.8	-	-23.5	-23.5	-11.8	-

Under the line titled “Permasteelisa”, not only for the business performance but also all the adjustment relating to the changes in accounting treatment is included.

(2) DETAILS OF THE MAJOR REASONS FOR THE REVISION OF THE FORECAST FOR THE FIRST HALF (H1) OF FYE2019

› Major reasons for the revision of the forecast for H1 are as follows.

Reason for the revision 1

Shortfall in core earnings of JPY26.5 billion

Breakdown by Japan and overseas：

（Japan） Approximately JPY20.0 billion

（Overseas） Approximately JPY 6.5 billion

Reason for the revision 2

Due to the changes in accounting treatment and presentation because of the event explained in the release titled “Progress update on transfer of consolidated subsidiary (share transfer)” released today. The changes in accounting treatment and presentation will not affect the LIXIL Group’s cash flows.

(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.

REASON FOR THE REVISION 1:
SHORTFALL OF THE PLANNED TARGET OF CORE EARNINGS BY JPY26.5 BILLION (CONTINUING OPERATIONS)

(1) DETAILS OF THE MAJOR REASONS FOR THE REVISION OF THE FORECAST FOR THE FIRST HALF (H1) OF FYE2019

Reason for the revision 1 ：Recent trends in business performance（Shortfall in core earnings by JPY26.5 billion）

	Factors affecting forecast	Approximate amount of impact
Japan	Short fall in gross margin due to the shortfall of the sales target, which is due to soft demand in new housing construction as well as weak demand for renovation and delays in construction work, which were affected by natural disasters such as bad weather and earthquakes	JPY9.0 billion
	Decrease in gross margin due to deterioration of sales mix（including deterioration of profits due to an extension of transitional treatment (old price guarantee) for an implementation of new trading framework)	JPY6.0 billion
	Increase in SG&A due to implementation of the new trading framework and other	JPY5.0 billion
Overseas	Shortfall of the targeted gross margin due to slow economy in South Africa, delayed product launch in Middle East, shortfall of the retail sales target in Europe, and inflation deteriorating profits in Europe and the U.S.	JPY6.5 billion

LIXIL Group has made efforts to compensate for all of the items listed above by reducing sales and administrative costs. However, saved costs have not reached the amount required to compensate for the majority of decreased profits in three months of the second quarter.

(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.

REASON FOR THE REVISION 2 :
CHANGES IN ACCOUNTING TREATMENT AND PRESENTATION REGARDING PERMASTEELISA

（2.2）MAJOR REASONS FOR THE REVISION OF THE FORECAST FOR H1 OF FYE2019

Reason for the revision 2:
Changes in accounting treatment and presentation regarding Permasteelisa

Reason of occurrence

- LIXIL Group announced on August 21, 2017, that it decided to transfer 100% of shares of Permasteelisa S.p.A. (held by LIXIL Corporation, a subsidiary of LIXIL Group) to Grandland Holdings Group Limited (China).

- Prior to its FYE2019 Q2 earnings announcement, LIXIL Group today announces that it has received official notification from the **Committee on Foreign Investment in the United States** ("CFIUS") that it is **unable to secure approval for the originally planned transfer of shares of Permasteelisa to Grandland.**

Impact (Summary)

- Based on receipt of the notification, the assets and liabilities held by Permasteelisa will no longer be classified as assets and liabilities for sale. Similarly, profit and loss from Pemasteelisa's operations will be included in profit and loss from continuing operation **from the second quarter of the fiscal year ending March 2019.**

（2.2）MAJOR REASONS FOR THE REVISION OF THE FORECAST FOR H1 OF FYE2019

Impact (Details)

1）Change to accounting treatment and presentation

- **Balance sheet (BS)**

  From the reported amount of Q2 FYE2019:

  "Assets and liabilities held for sale" → items to be presented by each account

- **Consolidated financial statement (PL)**

  From the reported amount of Q2 FYE2019 and comparison period:

  "Profit and loss for discontinued operations" after tax→ items to be presented as profit and loss from continuing operations by each account

2）No impact on the LIXIL Group's cash flows

3）Impact on LIXIL Group's Q2 FYE2019 financial reporting following (1)~(3)

1. Items of profit and losses from Permasteelisa's business operations to be presented by each account
2. Reversal of deferred tax asset, which was recognized in FYE2018
3. Reversal of accruals, which was reported based on an assumption that the share transfer will be made

*Please refer to the next slide for expected impact of (1)~(3)

（2.2）MAJOR REASONS FOR THE REVISION OF THE FORECAST FOR H1 OF FYE2019

› Expected impact on LIXIL Group's financial reporting: Q2 FYE2019 (6 months)

The impact on Q2 FYE2019 financial reporting from the change of accounting treatment and presentation, based on IFRS No. 5 ("Non-Current Assets Held for Sale and Discontinued Operations"), is as follows:

Consolidated financial statement （JPY billion）	① Profit and losses from Permasteelisa's business operations	② Reversal of deferred tax asset, which was recognized in FYE2018	③ Reversal of accruals, which was reported based on an assumption that the share transfer will be made	Total amount of impact
Revenue	77.5			77.5
Core earnings	△5.0			△5.0
Other income and losses	0		2.5	2.5
Operating profit	△5.0		2.5	△2.5
Financial income and losses	△1.0		1.0	0
Profit(loss) before tax	△6.0		3.5	△2.5
Tax expenses	△0.5	△14.0		△14.5
Net profit (loss) for the quarter attributable to the owners of the parent	△6.5	△14.0	3.5	△17.0

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(3) FUTURE OUTLOOK FOR THE SECOND HALF (H2) OF FYE2019

(3) OUTLOOK FOR THE SECOND HALF (H2) OF FYE2019

› H2 forecast was reviewed and revised by considering the following factors.

Business	
Businesses other than Permasteelisa	In the short term, we expect the decline in profit margins to continue due to price deterioration and product mix. These challenges will be addressed by implementing product price increases from October and beyond, and continuous cost controls.
	Major factors that resulted in the deterioration of profitability in H1 such as the introduction of a new trading framework and delays in construction work due to a series of natural disasters in Japan, have largely been eliminated by the end of H2.
	<u>Introduction of new trading framework</u> • An extension of the transition period (old price guarantees) and additional workload caused by the new system resulted in a decrease in core earnings in Q1. • These issues have been resolved in Q2, meaning that we are ready for product price increases from Q3. <u>Repeated natural disasters in Japan</u> • Because restoration after a series of natural disasters has been progressing, issues relating to installer shortages are expected to be gradually resolved in H2. • We have seen an increase in the number of visitors to our showrooms and contacts to our remodeling customer centers, which are leading indices of our sales. LIXIL Group expects that we can draw on this demand in H2.
Business of Permasteelisa	The profitability of construction projects undertaken by Permasteelisa is expected to suffer due to recent inflation in the U.S.

(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.

(3) OUTLOOK FOR THE SECOND HALF (H2) OF FYE2019

About the share transfer of Permasteelisa

- Based on receipt of the notification from CFIUS, LIXIL Group is now considering future options
- LIXIL will disclose key status updates in a timely manner

(4) (REFERENCE MATERIALS) IMPACT ON THE FORECAST FOR FYE2019 BY THE CHANGES IN ACCOUNTING TREATMENT AND PRESENTATION REGARDING PERMASTEELISA

(4) EXPECTING IMPACT ON FYE2019 FINANCIAL REPORTING

› Expecting impact on LIXIL Group's financial reporting (FYE2019 full-year results)

Impact on LIXIL Group's full-year forecast from the change in accounting treatment and presentation of Permasteelisa's operations in continuing operations are as follows:

Consolidated financial statement (JPY billion)	Full year Forecast (announced on May 7)	Impact on full-year forecast	[Unaudited] H1 FYE2019	[Outlook] H2 FYE2019
Revenue		165.5	77.5	88.0
Core earnings		△9.0	△5.0	△4.0
Operating profit		△6.5	△2.5	△4.0
Profit(loss) before tax		△8.5	△2.5	△6.0
Tax expenses		※ △15.0	※ △14.5	△0.5
Profit (loss) from discontinued operations	**0**	-	-	-
Net profit (loss) for the period attributable to the owners of the parent		※ **△23.5**	※ △17.0	△6.5

※ Out of which△14.0 billion is the cancellation of the decrease in tax expenses based on an assumption that the share transfer would be made in FYE2018

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(5) (REFERENCE MATERIALS) IMPACT ON REPORTING OF PREVIOUS QUARTERS

- Q2 (6 months) FYE2018
- Q3 (9 months) FYE2018
- FYE2018 full-year
- Q1 (3 months) FYE2019

(5) (REFERENCE) IMPACT ON PREVIOUS QUARTER REPORTING

› Q2 (6 months) of FYE2018

Consolidated financial statement （JPY million）	[Announced] LIXIL Group Q2 FYE2018 results (6 months)	[Unaudited] Impact from cease of accounting treatment and presentation based on IFRS No. 5	[After retroactive restatement] LIXIL Group Q2 FYE2018 results (6 months)
Revenue	809,912	80,494	890,406
Core earnings	40,657	79	40,736
Other income and losses	△2,906	△22,744	△25,650
Operating profit	37,751	△22,665	15,086
Financial income and losses/ Income and losses accounted for using the equity method	△1,187	△1,536	△2,723
Profit(loss) before tax	36,564	△24,201	12,363
Tax expenses	△11,853	13,159	1,306
Profit (loss) from discontinued operations	△11,042	11,042	-
Profit (loss) for the quarter attributable to non-controlling interests	△826	-	△826
Net profit (loss) for the quarter attributable to the owners of the parent	12,843	-	12,843

Present by each account

Match

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(5) (REFERENCE) IMPACT ON PREVIOUS QUARTER REPORTING

Q3 (9 months) of FYE2018

Consolidated financial statement （JPY million）	[Announced] LIXIL Group Q3 FYE2018 results (9 months)	[Unaudited] Impact from cease of accounting treatment and presentation based on IFRS No. 5	[After retroactive restatement] LIXIL Group Q3 FYE2018 results (9 months)
Revenue	1,250,485	119,896	1,370,381
Core earnings	68,638	△76	68,562
Other income and losses	932	△22,298	△21,366
Operating profit	69,570	△22,374	47,196
Financial income and losses/ Income and losses accounted for using the equity method	△1,354	△2,110	△3,464
Profit(loss) before tax	68,216	△24,484	43,732
Tax expenses	△16,550	13,188	△3,362
Profit (loss) from discontinued operations	△11,296	11,296	-
Profit (loss) for the quarter attributable to non-controlling interests	△1,733	-	△1,733
Net profit (loss) for the quarter attributable to the owners of the parent	38,637	-	38,637

Present by each account

Match

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(5) (REFERENCE) IMPACT ON PREVIOUS QUARTER REPORTING

› Q4 (full-year, 12 months) of FYE2018

Consolidated financial statement （JPY million）	[Announced] LIXIL Group FYE2018 results (full-year)	[Unaudited] Impact from cease of accounting treatment and presentation based on IFRS No. 5	[After retroactive restatement] LIXIL Group FYE2018 results (full-year)
Revenue	1,664,817	164,527	1,829,344
Core earnings	75,319	727	76,046
Other income and losses	5,630	△22,569	△16,939
Operating profit	80,949	△21,842	59,107
Financial income and losses/ Income and losses accounted for using the equity method	9,048	△3,055	5,993
Profit(loss) before tax	89,997	△24,897	65,100
Tax expenses	△21,547	13,109	△8,438
Profit (loss) from discontinued operations	△11,788	11,788	-
Profit (loss) for the year attributable to non-controlling interests	△2,081	-	△2,081
Net profit (loss) for the year attributable to the owners of the parent	54,581	-	54,581

Present by each account

Match

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(5) (REFERENCE) IMPACT ON PREVIOUS QUARTER REPORTING

Q1 of FYE2019

Consolidated financial statement （JPY million）	[Announced] LIXIL Group Q1 FYE2019 results (3 months)	[Unaudited] Impact from cease of accounting treatment and presentation based on IFRS No. 5	[After retroactive restatement] LIXIL Group Q1 FYE2019 results (3 months)
Revenue	397,135	38,829	435,964
Core earnings	6,560	△1,945	4,615
Other income and losses	△5	1,639	1,634
Operating profit	6,555	△306	6,249
Financial income and losses/ Income and losses accounted for using the equity method	0	△602	△602
Profit(loss) before tax	6,555	△908	5,647
Tax expenses	△2,249	618	△1,631
Profit (loss) from discontinued operations	△290	290	-
Profit (loss) for the quarter attributable to non-controlling interests	△951	-	△951
Net profit (loss) for the quarter attributable to the owners of the parent	3,065	-	3,065

Present by each account

Match

Earnings/revenue shown as positive amount, expenses/loss shown as negative amount

(6) (REFERENCE) BACKGROUND ON CHANGES IN THE ACCOUNTING TREATMENT

› IFRS No. 5 (“Non-Current Assets Held for Sale and Discontinued Operations”)

- **Under International Financial Reporting Standards (“IFRS”) adopted by LIXIL Group for financial reporting**, IFRS No. 5 (“Non-Current Assets Held for Sale and Discontinued Operations”) **allows companies to classify assets and liabilities as held for sale only in cases where those assets and liabilities are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and its sales.**

- Under IFRS No.5, assets and liabilities held by Permasteelisa have been classified as “assets and liabilities held for sale.” In addition, profit and loss after tax resulting from Permasteelisa’s operations have been changed in accounting treatment and listed separately as profit and loss for discontinued operations since Q2 FYE2018.

- **Based on receipt of the notification from CFIUS, Permasteelisa’s assets and liabilities is no longer regarded as “assets and liabilities held for immediate sale.**” Therefore, LIXIL Group decided to cease application of **IFRS No. 5** for the assets and liabilities held by Permasteelisa, as well as the accounting and presentation of all profit and loss related to Permasteelisa.


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